# vectorreview

2011 | VECTOR LIMITED SHAREHOLDER REVIEW


DELIVERING THE ENERGY AND COMMUNICATION SERVICES THAT OUR

# CUSTOMERS

RELY ON TO LIVE, WORK AND PLAY

## Powering ahead

Find out how we prepared for the Rugby World Cup and how we cater for growth in our region. Page 10

## New strengths

New business models and an increasing presence in the LPG bottle swap market are the success stories for Vector's gas businesses. Pages 12-15

## Smart moves

Read about the youngest and fastest growing segment of the Vector group. Page 16

# Contents



# CUSTOMER INFORMATION

For more information, visit www.vector.co.nz

## VECTOR CUSTOMERS

**Vector services more than 700,000 customers, not only in Auckland, but around the country. Our electricity networks span the Auckland region and we distribute natural gas to more than 30 towns and cities in the North Island. Our LPG business has depots as far south as Queenstown and in the far North. We're striving to service our customers better, streamlining our systems and processes.**

**What proportion of my electricity bill goes to Vector?** Across Vector's electricity networks residential lines distribution and transmission charges are approximately 40% of the average residential consumer's bill.

**What other services does Vector provide?** Our gas distribution network brings natural gas to homes and businesses in the North Island. OnGas, our LPG business delivers bottled gas to customers and bottle swap locations around New Zealand. We buy and sell natural gas on the wholesale market, transport gas around the North Island to feed our distribution network and service large industrial customers. We also provide advanced metering services and have a fibre optic communications network that supports cell phone network, internet and television companies.

**How is Vector looking after its customers?** We post information about upgrades and outages on our website, and we are working to improve the consistency of our customer service across all of our business units.

**How does Vector deal with faults?** If there is a problem with your electricity supply and you live on the North Shore, Waitakere or Rodney, call your electricity retailer and they will contact Vector. If you live south of the harbour bridge, in the old Auckland City district, Manukau or Papakura, you should call 0508 VECTOR (0508 832 867) and a serviceperson will be sent to your property as soon as possible. For more information visit www.vector.co.nz/electricity/faults-your-property. For gas faults call 0800 764 764.

**Do customers talk to real people?** Absolutely. Our customer contact centre for the electricity and gas networks is based in Auckland and staffed by a team familiar with our business and the region. The call centre for OnGas is based in Hamilton.

## AUCKLAND ENERGY CONSUMER TRUST

**Vector is majority owned by the Auckland Energy Consumer Trust (AECT or Trust). The Trust, a community organisation run by elected trustees, holds Vector shares on behalf of its beneficiaries; electricity customers in Auckland, Manukau and parts of Papakura.**

The Trust was formed to make sure Vector is locally owned. Every year, Vector's profit generates a dividend that is paid to all shareholders including the AECT. This in turn enables the Trust to pay a dividend to its beneficiaries. More than 308,000 household and business electricity customers each received $320 during 2010. For more information, visit www.aect.co.nz

**Who gets the AECT dividend?** The person named on the power bill.

**When is the AECT dividend paid?** Usually in either September or October.

**Who sets the dollar amount of the AECT dividend?** The amount is calculated by the Trust from the dividend it receives from Vector and other income the Trust earns. Other than administration costs, the rest is passed on by the AECT to its income beneficiaries.

**How much money has been paid to Trust beneficiaries over the years?** $998 million since 1993.

**How else does the AECT benefit the community?** By ensuring stable, local ownership of Vector.

**Who are the Trustees?** Warren Kyd (Chairman), Michael Buczkowski, William Cairns, James Carmichael, Karen Sherry.

**How many representatives does the Trust have on Vector's board?** Two – James Carmichael and Karen Sherry.

## AT A GLANCE

# SERVICE + DELIVERY

### OUR BUSINESS

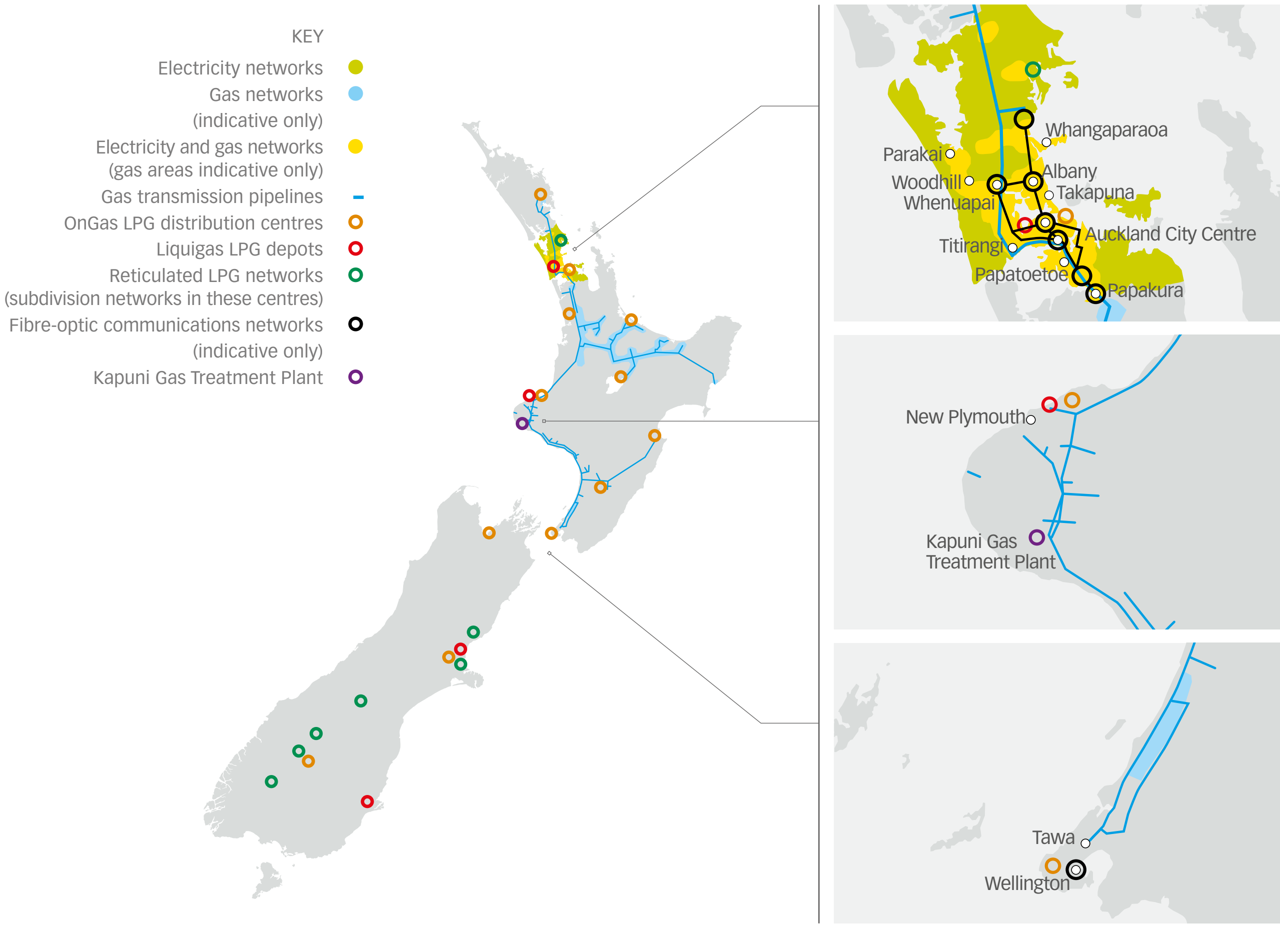
- Electricity networks servicing more than 532,000 customers in Auckland
- Natural gas distribution networks servicing 155,100 customers in more than 30 towns and cities in the North Island
- Natural gas transmission system transporting gas under high pressure throughout the North Island
- Gas treatment and conditioning plant in Taranaki
- Liquified petroleum gas (LPG) supply to more than 29,500 customers throughout New Zealand
- Electricity and gas metering services via approximately 806,000 meters at homes and businesses throughout New Zealand
- Fibre optic broadband communications networks in Auckland and Wellington
- 50% owner of a professional arboriculture and vegetation management company
- 60.25% of a bulk LPG tolling, storage and distribution company
- 22.11% of a wind generation electricity company
- 25% of an advanced metering and energy solutions company

### OPERATIONAL STATISTICS

| | 2011 | 2010 |
|---|---|---|
| **ELECTRICITY** | | |
| Customers[1] | 532,607 | 528,245 |
| Volume distributed (GWh) | 8,319 | 8,168 |
| Networks length (km)[1] | 17,737 | 17,661 |
| SAIDI (minutes)[2] | | |
| Normal operations | 113.8[3] | 66.8 |
| Extreme events | 9.4 | 0.0 |
| Total | 123.2 | 66.8 |
| **GAS TRANSPORTATION** | | |
| Distribution customers[1] | 155,100 | 152,267 |
| Distribution volume (PJ) | 20.8 | 21.1 |
| Distribution mains network length (km)[1] | 6,989 | 6,956 |
| Transmission volume (PJ)[4] | 120.1 | 109.7 |
| Transmission system length owned (km)[1] | 2,287 | 2,292 |
| Transmission system length operated/managed (km)[1] | 1,293 | 1,282 |
| **GAS WHOLESALE** | | |
| Natural gas sales (PJ)[5] | 26.1 | 31.7 |
| Gas liquid sales (tonnes)[6] | 79,015 | 73,436 |
| Liquigas LPG tolling (tonnes)[7] | 129,893 | 109,969 |
| **TECHNOLOGY** | | |
| Electricity: smart meters[1] | 245,477 | 114,272 |
| Electricity: legacy meters[1] | 463,812 | 624,535 |
| Electricity: prepay meters[1] | 5,991 | 6,384 |
| Electricity: time of use meters[1] | 10,853 | 11,132 |
| Gas meters[1] | 79,588 | 77,595 |
| Data management service connections[1] | 8,313 | 8,807 |

**Vector's financial and operating picture**
**visit: www.vector.co.nz/corporate/investor-relations/financial-and-operating-picture**

# WHERE WE ARE




532,607
ELECTRICITY CUSTOMERS

155,100
GAS DISTRIBUTION CUSTOMERS

726,133
ELECTRICITY METERS

8,319
ELECTRICITY VOLUME DISTRIBUTED (GWh)

17,737
ELECTRICITY NETWORKS LENGTH (km)

21
GAS DISTRIBUTION VOLUME (PJ)

26
NATURAL GAS SALES (PJ)

245,477
ELECTRICITY SMART METERS

1 As at 30 June
2 Regulatory year – 12 months to 31 March
3 Include minutes incurred in September 2010 when a major storm occurred
4 Based on billable volumes
5 Excludes gas sold as gas liquids as these sales are included within the gas liquids sales tonnages
6 Total of retail and wholesale LPG production and natural gasoline
7 Includes product tolled in Taranaki and further tolled in the South Island

# SOLID INVESTMENT

We're investing for future growth, taking action to achieve fairer and more balanced rules governing our regulated businesses and improving how we service our customers.

Our business is strong. An improved operational performance and a strategic deal with Transpower underpin this year's financial result. Strong operating cashflow means we can increase our dividend.

You may notice a change in this year's shareholder review. We have changed its style to make it more readable. Please tell us what you of think of it by emailing: info@vector.co.nz

Thanks must go to all of the people who continue to make Vector the successful company it is today – our valued customers, our fantastic team members, our suppliers, and our loyal shareholders. I look forward to updating shareholders at our annual meeting in October.

**How has Vector performed this year?** We've had a good year. Revenue increased by 4.8%, EBITDA by 10.1%, NPAT by 4.1% and operating cash flow by 1.9%. Our strategic deal with Transpower, generated $30.1 million NPAT.

**Why do the deal with Transpower?** It was an opportunity to leverage our infrastructure assets and in the process help to secure, strengthen and diversify Auckland and North Auckland's electricity supply.

**What effect has that had on the dividend?** The Transpower deal doesn't factor into the ordinary dividend calculation because the proceeds are treated as an investing cash inflow, which is outside our dividend policy. Because of the solid performance of our business we have been able to increase this year's dividend to 14.25 cents per share, an increase of 0.25 cents on 2010. For more information on the dividend policy see opposite.

> **"We're now dependent on the legal process to provide the certainty we've been lacking."**

**Is Vector's dividend sustainable?** The board sets the dividend in accordance with the dividend policy. When making its decision, the board considers both future profitability and the requirements of shareholders for a sustainable yield. This year's payout ratio of 56% recognises the current uncertain regulatory environment and the potential for a price reset over the next three years.

**What is Vector's dividend yield and how does it compare to last year?** The dividend yield expresses the dividends that Vector pays out each year as a percentage of the share price. This year's dividend yield, calculated using the 30 June 2011 share price of $2.54, is 7.9%. 2010's dividend yield was 9.3%. Over 2011 our share price increased by 38 cents or 17.6% which has meant that the dividend yield has declined slightly despite a 0.25 cents or 1.8% increase in dividend.

**Why is Vector challenging the Commerce Commission?** It is disappointing to have to resort to taking legal action, but the Commission has left us with no choice. Changes to the Commerce Act give us the right to challenge the Commission. We're now dependent on the legal process to provide the certainty we've been lacking for the past decade and to ensure that the Commission complies with Government policy statements and the requirements of the Act.

We must have regulatory certainty for our sector, for our investors and for the long term benefit of our customers. The current regulatory environment will not deliver long term benefits to consumers. It also imposes a significant cost burden on our business and is devoid of commercial reality.

**When will the outcome of these challenges be known?** It has been a long process so far. The first appeals process started recently and the merits review will start later next year.

**What is Vector's expectation of financial performance for 2012?** We expect EBITDA to be slightly above that of the current market consensus.

**MICHAEL STIASSNY**
**Chairman**

Check out Vector's dividend calculator:

www.vector.co.nz/corporate/investor-relations/dividends

## Solid financial performance

# $636.6m

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

# $201.4m

NET PROFIT AFTER TAX

## Balance sheet strength

# 52%

NET DEBT/NET DEBT + EQUITY

# BBB+/stable

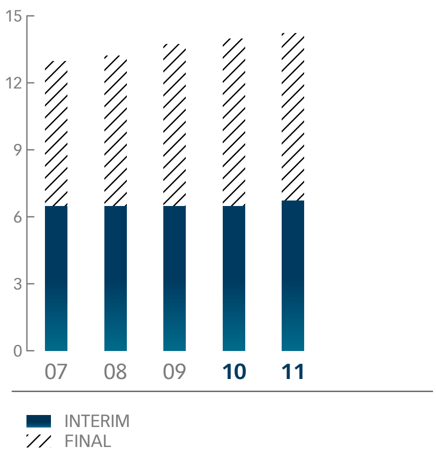
STANDARD & POOR'S RATING

## IMPROVED DIVIDEND

Vector's dividend policy is to target a dividend payout ratio of 60% of operating cash flow 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 2010 and represents a payout ratio of 56%. It reflects the board's view of the current regulatory environment and growth options available to the company.

## DIVIDENDS DECLARED

CENTS PER SHARE



**"Vector will be a big part of Auckland's future growth."**

Improved electricity and gas network volumes, a doubling of smart meter installations and more than 7,000 new customers are some of the highlights of our solid operational performance.

The strong foundations of our business generate revenue and cashflow which in turn enables us to invest; in our networks, in new businesses, in our people and in the community.

**The company's financial performance has improved. What were the key reasons?** Electricity volume increased for the first time in three years, smart meter installation rates more than doubled and the deal with Transpower were the main contributors. For further details read the business segment pages and the financial performance trends pages in this report.

**What are Vector's growth initiatives?** Across our business units, both regulated and unregulated we are investing to grow.

In electricity we are supporting Auckland's growth and security of supply by substantially upgrading two very important substations – in the CBD at Hobson Street and on the North Shore in Wairau Rd. Transpower is also installing equipment in those two locations as part of its NAaN project. These substations will connect to Transpower's new 37 km underground transmission link between Pakuranga and Albany that will reinforce supply across the region. We're also supporting two major public infrastructure projects, the Waterview Tunnel and the Victoria Park Tunnel, with electricity supply.

We invest for the long term and are planning for around $2.3 billion of capital expenditure and maintenance in our electricity business over the next decade, subject of course to where the regulatory debate ends up.

In our gas distribution business we continue to invest and renew our pipelines adding 33 km to our network in the past 12 months. In gas wholesale we made two acquisitions an LPG business in Hawkes Bay and Kwik-Swap, an LPG bottle swap operation.

In technology our smart meter installations continue at a very credible rate now that we own 100% of AMS and we are broadening the scope of our metering business and services.

**How is Vector preparing for increased demand for its services?** Our plans to extend our networks are developed over the long term. We take into account expected population growth and build new infrastructure based on those projections. We also renew and maintain existing infrastructure assets to make sure the networks operate to their maximum potential.

Auckland's population is expected to grow to two million over the next 20 years. There'll be new homes and businesses, and with that further demand for electricity, gas, new technology and fibre connections. Vector will be a big part of Auckland's future growth.

**Vector is challenging the Commerce Commission. How much is it costing?** It is expensive, but appropriate given the impact of the price decrease the Commission is suggesting. We have a duty to our shareholders to get the best possible regulatory outcome in respect of long term incentives to invest in critical infrastructure. This is also in the long term interest of consumers.

**Has Vector done everything possible to get a better regulatory outcome? And what if Vector loses?** We have invested a lot of money, many hours, engaged experts and taken every viable option available to get a better outcome. Unfortunately we now must revert to the courts to get a satisfactory outcome. If the court decision is negative, we will reassess our options.

**What is the latest on Vector's entitlement to natural gas from the Kapuni field?** The latest estimate of reserves shows substantially more gas than originally estimated. This is good news, as under our contract with the Kapuni Mining Companies we have rights to 50% of the gas above 1,010 PJ, the original estimate of recoverable gas reserves (ORGR). We still have to negotiate a price for this gas, but having rights to such a large quantity of additional gas will benefit our gas wholesale business.

We are also taking action against the Kapuni Mining Companies regarding our entitlement to 7.289 PJ of gas at the legacy price.

**What is happening to Vector's fibre business now that the UFBI contract for Auckland has been awarded to another company?** Our fibre network came from our technology convergence strategy. A decade on, our rationale for fibre is just as valid. There is still plenty of opportunity for our fibre business which has highly valuable assets and good long term contracts in place. We will continue to evolve this business to take advantage of developments in the communications sector in New Zealand.

> "We plan to invest approximately $2.3 billion over the next 10 years to meet the needs of our electricity customers."
>
> **SIMON MACKENZIE**
> **Group Chief Executive Officer**

Details of Vector's full year profit results
www.vector.co.nz/corporate/investor-relations/presentations

# SOLID PERFORMANCE

**What new community initiatives has the company been involved with this year?** We launched a new sustainability module for our schools education programme and worked with the local council to clean up a stream in New Plymouth near our Kapuni plant. We also arranged for 170 children from low decile schools to attend the Walking with Dinosaurs show at the Vector Arena earlier this year.

**How was Vector's business affected by the Christchurch earthquakes and how did the company respond?** While the majority of our business is North Island and Auckland based we do have people in Christchurch working for our gas wholesale and smart metering businesses. We have supported our employees in a number of ways including providing emergency funding, accommodation away from Christchurch, increased counselling support and time off as well as sending additional team members to Christchurch to help look after customers. We are proud of the way our people have responded to this natural disaster.

**How is Vector helping its people to be successful in their roles?** We are building the leadership skills of our managers and technical leaders. We also provide access to technical training and other courses so that professional qualifications can be maintained and our people can keep up to date with the latest technical and industry developments.

**SIMON MACKENZIE**
**Group Chief Executive Officer**

# FINANCIAL PERFORMANCE TRENDS

| YEAR ENDED 30 JUNE | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| **INCOME STATEMENT**[1] | | | | | |
| Total income | 1,244.6 | 1,187.4 | 1,174.2 | 1,182.0 | 1,145.8 |
| EBITDA | 636.6 | 578.1 | 582.2 | 547.9 | 501.2 |
| Depreciation and amortisation | (170.2) | (156.3) | (145.4) | (140.4) | (129.0) |
| EBIT | 466.4 | 421.8 | 436.8 | 407.6 | 372.1 |
| NPAT attributable to shareholders | 201.4 | 193.5 | 164.9 | 141.8 | 197.0 |
| Total NPAT attributable to shareholders including discontinued activities | 201.4 | 193.5 | 370.5 | 164.4 | 233.3 |
| **BALANCE SHEET** | | | | | |
| Total equity | 2,112.7 | 2,084.2 | 2,058.9 | 1,901.3 | 1,936.1 |
| Total assets | 5,579.0 | 5,550.9 | 5,538.6 | 5,979.4 | 5,867.4 |
| Net debt (net of cash and short term deposits) | 2,289.5 | 2,447.5 | 2,485.7 | 3,106.6 | 2,947.7 |
| **CASHFLOW** | | | | | |
| Operating cash flow | 374.6 | 367.5 | 330.3 | 324.5 | 358.0 |
| Capital expenditure | (251.6) | (220.4) | (237.1) | (226.2) | (262.6) |
| Dividends paid[3] | (143.7) | (140.9) | (136.7) | (136.9) | (128.8) |
| **KEY FINANCIAL MEASURES** | | | | | |
| EBITDA/total income | 51.1% | 48.7% | 49.6% | 46.4% | 43.7% |
| EBIT/total income | 37.5% | 35.5% | 37.2% | 34.5% | 32.5% |
| Equity/total assets | 37.9% | 37.5% | 37.2% | 31.8% | 33.0% |
| Return on assets (EBITDA/assets) | 11.4% | 10.4% | 10.5% | 9.2% | 8.5% |
| Gearing (net debt/net debt + equity) | 52.0% | 54.0% | 54.7% | 62.0% | 60.4% |
| Net interest cover (EBIT/net finance costs) | 2.6 | 2.5 | 2.3 | 2.0 | 2.0 |
| Earnings (NPAT) per share (cents)[2] | 20.2 | 19.4 | 16.5 | 14.2 | 19.7 |
| Total earnings (NPAT) per share (cents)[2] including discontinued activities | 20.2 | 19.4 | 37.1 | 16.4 | 23.3 |
| Dividends declared cents per share (fully imputed) | 14.25 | 14.0 | 13.75 | 13.25 | 13.0 |

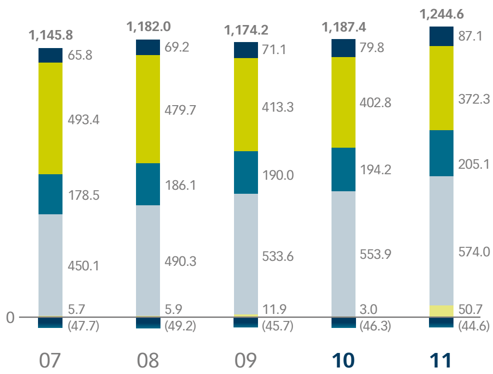
1 Prepared on a continuing operations basis excluding the Wellington electricity network in financial years 2008 to 2010 unless otherwise stated

2 Calculated using a weighted average number of shares due to treasury shares purchased

3 Includes dividends paid to non-controlling interests in subsidiaries

TOTAL
## INCOME
$ MILLION
FOR THE YEAR ENDED 30 JUNE

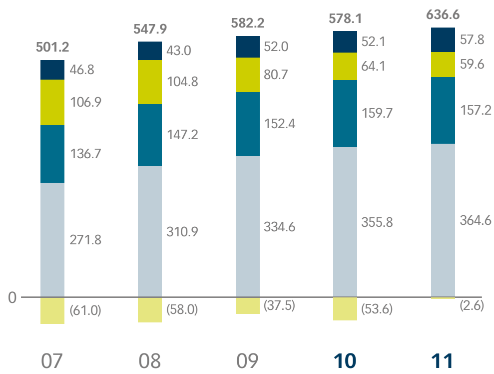
TECHNOLOGY
GAS WHOLESALE
GAS TRANSPORTATION
ELECTRICITY
SHARED SERVICES
INTER-SEGMENT




Total income increased 4.8% to $1,245 million despite a fall in gas wholesale which was more than offset by increases across all other segments and the Transpower tunnel deal. Electricity volume increased for the first time in three years and Technology benefited from a doubling of smart meter numbers.

## EBITDA
$ MILLION
FOR THE YEAR ENDED 30 JUNE

TECHNOLOGY
GAS WHOLESALE
GAS TRANSPORTATION
ELECTRICITY
SHARED SERVICES



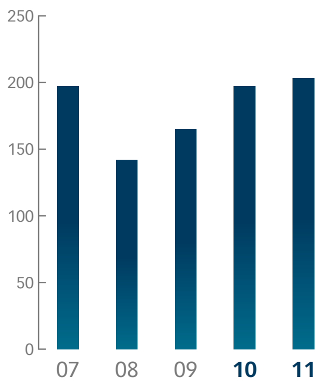

EBITDA improved by $59 million. Although $42 million of this is a one-off from the Transpower tunnel deal, encouragingly the remaining $17 million of this uplift reflects continued strong operating performance.



Commentary for all charts relates to the 2011 vs 2010 financial years.

NET
## PROFIT AFTER TAX
$ MILLION
FOR THE YEAR ENDED 30 JUNE

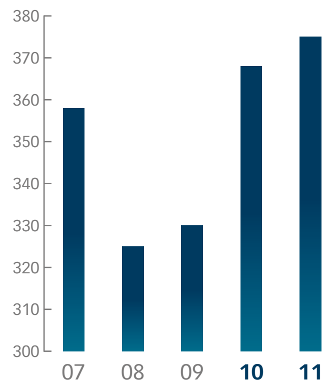
NPAT ATTRIBUTABLE TO SHAREHOLDERS (CONTINUING OPERATIONS)




NPAT increased 4.1%. This included some one-off items; the positive contribution from the Transpower deal in 2011 and the non-cash benefit from the changes in the tax regime in 2010. Excluding these, NPAT fell slightly, by 0.8%.

Depreciation and amortisation increased by $14 million due to a larger asset base and higher depreciation in Technology. Net borrowing costs increased by $11 million principally reflecting a one-off $6.6 million gain (in 2010) arising from the repurchase of $40 million of floating rates notes at a discount.

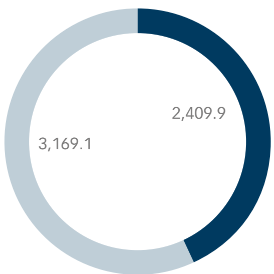
OPERATING
## CASH FLOW
$ MILLION
FOR THE YEAR ENDED 30 JUNE




Operating cash flow was strong, up 1.9% on 2010, reflecting the underlying growth in EBITDA. During 2011, we received the first $28.1 million dollar instalment relating to the Transpower tunnel deal. This is treated as an investing cash flow. We will receive the remaining $25 million in June 2012.

SOURCE OF
## FUNDING
$ MILLION
AS AT 30 JUNE 2011

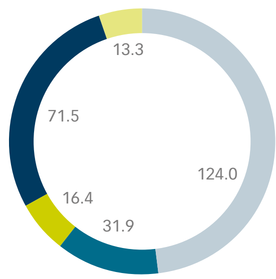
TOTAL DEBT
EQUITY AND OTHER LIABILITIES




Our capital structure remains strong with a gearing ratio of 52% and our interest cover remains comfortable at 2.6 times. In December 2010 we placed NZ$250.5 million of unsecured notes in a US private placement which matures in December 2022. It was used to repay the AUD Credit wrapped medium term notes that matured in April 2011.

CAPITAL
## EXPENDITURE
$ MILLION
FOR THE YEAR ENDED 30 JUNE 2011

TECHNOLOGY
GAS WHOLESALE
GAS TRANSPORTATION
ELECTRICITY
SHARED SERVICES




Capital expenditure ended the year at $257.1 million. Approximately 60% of this amount, $156 million, was spent on our regulated networks. This is the same amount of investment required to build a 100MW combined cycle gas turbine plant providing power to around 65,000 homes.

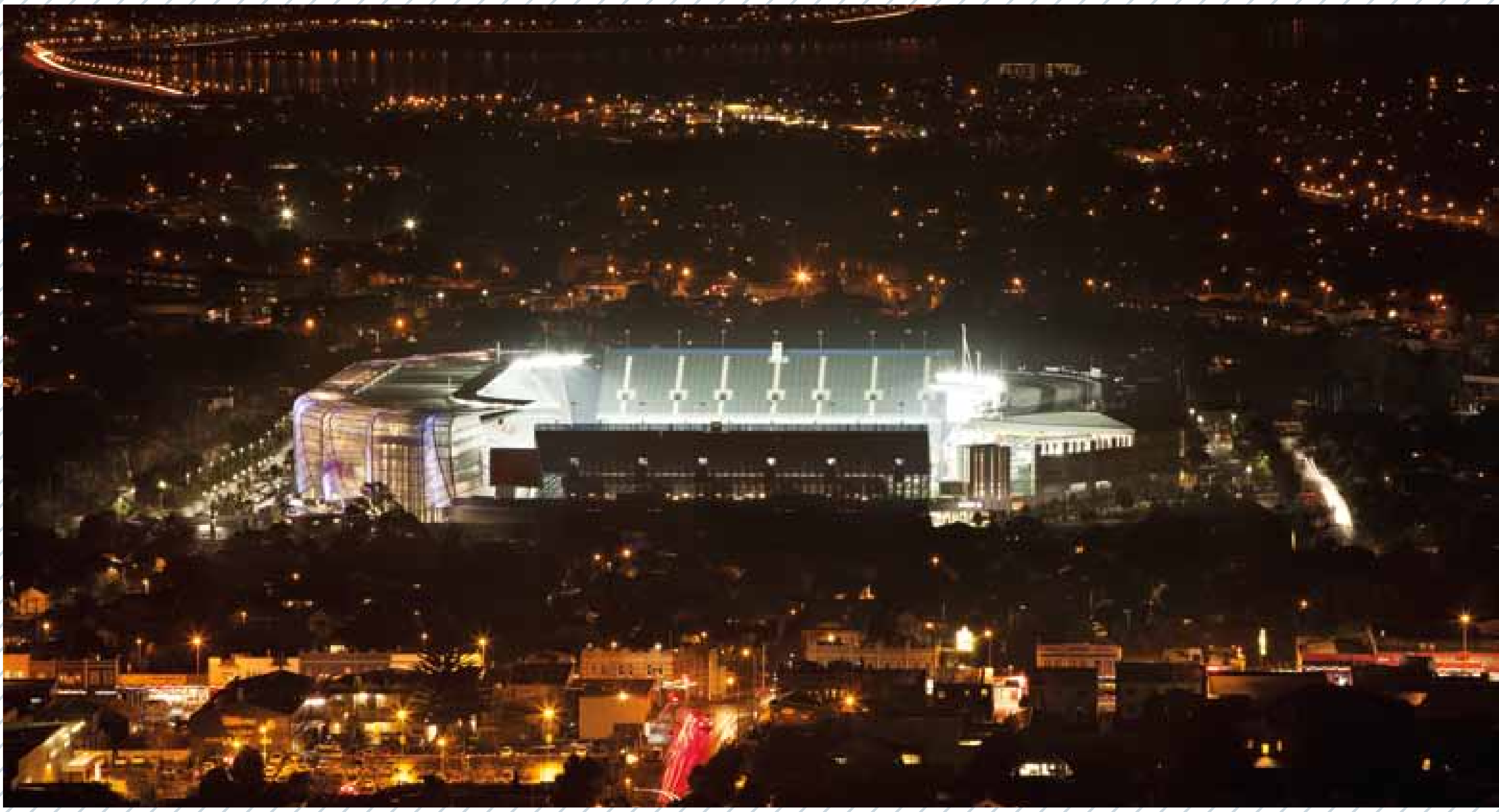


Commentary for all charts relates to the 2011 vs 2010 financial years.

## Electricity

# Powering ahead

**Providing a secure and stable electricity supply to Auckland is a big responsibility, and we're up to the task. We monitor our networks' performance 24/7 and mobilise our people within minutes to deal with any outages. By making smart investment decisions we're playing a big part in supporting the growth of our region, its people and businesses.**



We have played our part, helping to ready Auckland for the Rugby World Cup.

### FINANCIAL PERFORMANCE

Revenue improved 3.6% or $20.1 million to reach $574 million, and EBITDA increased by 2.5% or $8.8 million, ending the year at $364.6 million. Connections grew by 0.8%, with 4,362 new customers joining the network. The downturn in new apartment developments continued, impacting the number of new connections, down 10.1% on last year. Total connections stood at 532,607 at the end of June.

For the first time since 2008, electricity volume improved to 8,319 GWh, up 1.8% on 2010. Encouragingly, business volume grew 3.0% outstripping residential growth, which was broadly flat.

### BUILDING FOR THE FUTURE

Every year we spend many millions of dollars to extend and maintain our electricity networks. This investment caters for growth in Auckland by bringing electricity supply to new subdivisions and also strengthens supply to existing customers by introducing new technology that helps the networks to perform better.

In 2011, $124.0 million was invested in new and replacement electricity assets.

Preliminary work is underway on the Hobson Street (CBD) and Wairau Road (North Shore) substation redevelopments, Vector's largest capital expenditure projects in recent history.

Our spend of approximately $46 million over several years, across both sites, will benefit Auckland by helping to improve the security and diversity of supply into the CBD and North Shore by connecting to new national grid exit points being built at the sites by Transpower.

### DOING THINGS SMARTER

Making the most of technology, improving processes and becoming more efficient has enabled Vector to deliver more for less. This year our capital efficiency programmes have saved around $19 million. An example of an efficiency gain is our new contracting and procurement processes which saved $5 million and will deliver ongoing benefits in the years ahead.

Artist's impression of our Hobson Street substation in Auckland's CBD. We are redeveloping this substation to help improve Auckland's electricity supply.

Every year we spend millions of dollars to extend and maintain our electricity networks.

We have also installed a state of the art asset condition and maintenance information system. This will enhance our network operation and investment decision making by providing better information. According to international expert Sinclair Knight Merz of Brisbane, the asset management systems and practices we are introducing are among the best in Australasia.

**SUPPORT FOR MAJOR EVENTS**

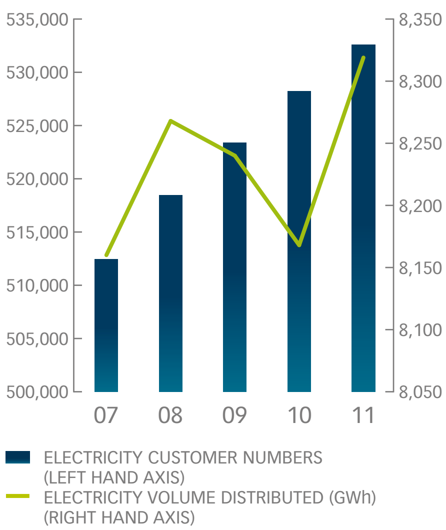
We are playing our part, helping to ready Auckland for the Rugby World Cup, the largest sporting event in our city since the 1990 Commonwealth Games.

Ensuring robust electricity supply to major venues and broadcasters has been a focus of our approach. We provided enhanced supply to Party Central at Queens Wharf, Eden Park and North Harbour Stadium and to broadcasters such as Sky Television.

Our contingency plans include back up generators, additional staffing, placing crews on standby near critical venues, alternative communication systems should cell phone networks be impacted and scenario testing in the lead up to the first game.

We are working closely with other infrastructure providers, local councils, emergency services, major customers and venues to make sure that games and the broadcasting of games are not disrupted. Our preparations for the Rugby World Cup have been underway for over a year. While we can't control traffic accidents and other outside events we are doing everything we can to minimise the risk of an electricity supply outage.

**ELECTRICITY CUSTOMERS AND VOLUME**




> **"This year our capital efficiency programmes have saved around $19 million."**

**Quick check**

**4,362**
NEW CONNECTIONS

**114,176**
POWER POLES

**23,014**
DISTRIBUTION SUBSTATIONS

## Gas transportation

# Time saving technology

**Our gas distribution network spans the North Island, bringing the responsive control of natural gas to homes and businesses in more than 30 towns and cities.**

From our gas control centre in New Plymouth, we monitor our high pressure transmission pipeline network around the clock as it delivers to our local distribution pipeline networks and large industrial consumers.

### FINANCIAL PERFORMANCE

Revenue increased by $10.9 million or 5.6% to reach $205.1 million and EBITDA declined by $2.4 million or 1.5% to end the year at $157.3 million. The trend of connections growth continued and we had more than 155,000 customers at the end of the year. Volume for the gas distribution network that serves mostly residential customers was down slightly to 20.8 PJ and transmission volume grew 9.5% to 120.1 PJ, reflecting a full year's operation of the Kupe field.

### GROWTH

New connections to our gas distribution network are tracking well, up 3.0% on 2010. Residential connections grew by 6% and business connections growth contracted compared to the year before. This year we invested $31.9 million in our gas transportation business; $10.6 million in new assets and $21.3 million in replacement assets.

### USING TECHNOLOGY

Keeping our gas transmission pipeline in top shape requires time, dedication and constant monitoring. We have invested in very smart technology, to help us do a better job of managing and maintaining the condition of our pipelines. State of the art software from Germany helps integrate geographic information and other operational pipeline data into one database.

The new system has done away with the time consuming manual analysis of pipeline data, and makes information available almost immediately after pipes have been surveyed. Now data from any section of pipeline can be viewed on screen, together with related historical information, enabling the condition of the pipeline to be analysed on a metre by metre basis. Any areas needing attention are identified quickly and with pinpoint accuracy.

Other benefits include being able to make more informed decisions about pipeline management and investment as well as helping to prepare the gas transmission business for increased regulatory reporting from 2012.

We own or manage thousands of kilometres of gas distribution mains or transmission system pipelines.


We work closely with local land owners to negotiate access for our gas pipelines.

New systems identify any areas needing attention on our gas pipelines with pinpoint accuracy.

## Quick check

**2,833**

NEW CUSTOMERS

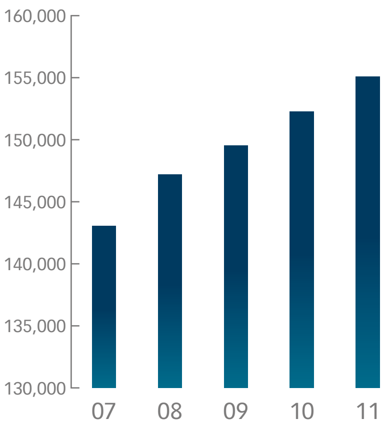
**$31.9M**

CAPITAL EXPENDITURE

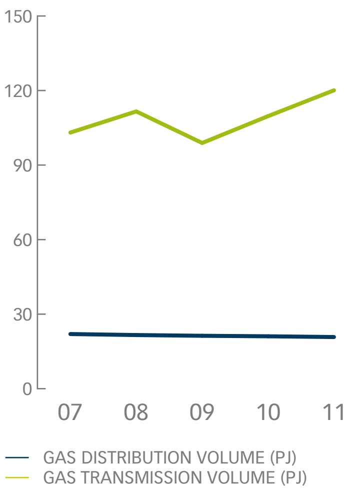
**140.9PJ**

VOLUME ON DISTRIBUTION AND TRANSMISSION NETWORKS

### GAS DISTRIBUTION CUSTOMERS




### GAS TRANSPORTATION VOLUMES



## Gas wholesale

# New strengths

**Our gas wholesale segment comprises four businesses; natural gas trading, LPG tolling company Liquigas, LPG distribution company OnGas and the Kapuni gas treatment plant.**

### FINANCIAL PERFORMANCE

As expected, as our legacy gas contracts continue to wind down, and Liquigas' new tolling model takes full effect, revenue declined 7.6% to $372.3 million and EBITDA declined 7.0% to $59.6 million. Capital expenditure was $16.4 million, up nearly $4 million on the year before.

In natural gas, changing customer demand and customer mix alongside increased competition in the industrial and commercial sector saw volume dip by 5.6 PJ. We continue to focus on maintaining profitability and our gas book remains in a good position.

We had a full year's activity under the new tolling model for Liquigas, and also stepped up our export activity in the final quarter.

Our LPG business, OnGas, continues to gain momentum, market share and customers. We acquired bottle swap competitor Kwik-Swap in January 2011 and are now in the process of rebranding that business as OnGas. Bottle swap is a growing trend in the market, offering consumers and outlets increased safety and convenience. We now have 580 bottle swap locations nationwide. At the end of June the OnGas customer count stood at 29,500, up 1,000 on the year before.

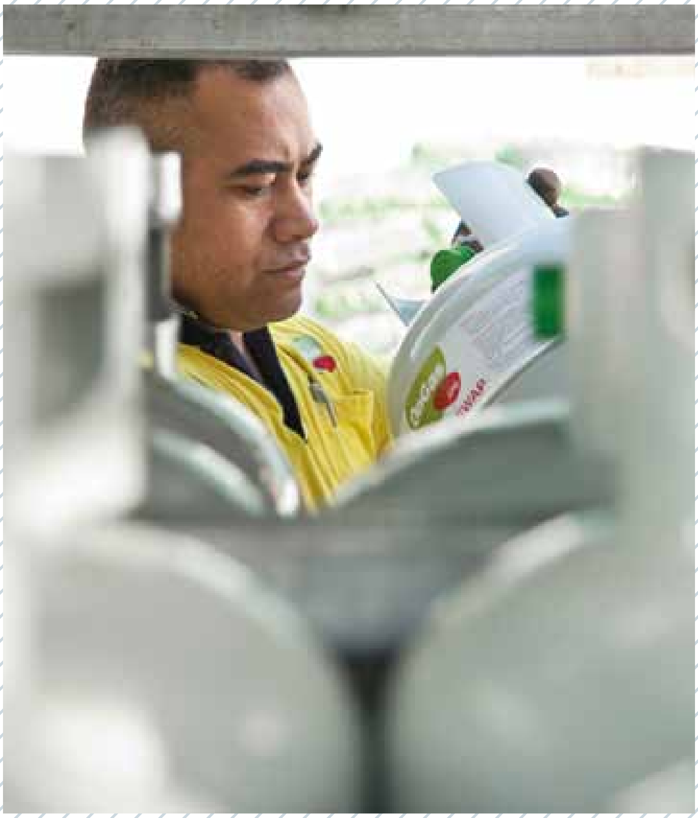
Kapuni Gas Treatment Plant benefited from higher prices for natural gasoline and LPG, and continues to be a solid performer.

### KAPUNI FIELD RESERVES

The issue of field reserves at Kapuni has turned in our favour with publicly disclosed reserves increasing considerably over the original recoverable gas reserves figure of 1,010 PJ that was agreed in 1997.

Our Kapuni Gas Treatment Plant recently celebrated its 40th year of operation. It is a major asset on the Kapuni field.

Our Kapuni Gas Treatment Plant continues to be a solid performer.



Bottle swap is a growing trend in the market offering convenience and improved safety.

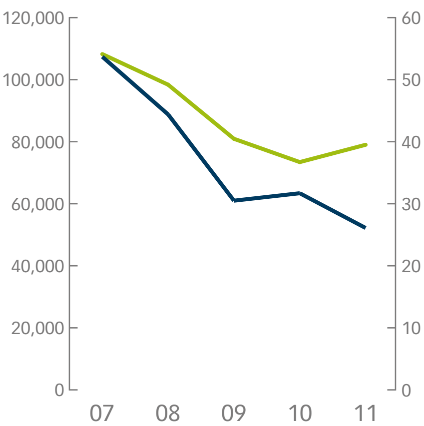
We have contractual rights to half the reserves above 1,010 PJ, and have begun to negotiate a price for this gas.

We are also taking action against the Kapuni Mining Companies regarding our remaining entitlement to gas under the original recoverable gas reserves figure of 1,010 PJ. The amount of gas involved is 7.289 PJ.

The complicated issue of Emissions Trading has been resolved and we are pleased to report that its impact on the segment is neutral, as expected.

**"Our LPG business OnGas continues to gain momentum."**

## GAS WHOLESALE SALES

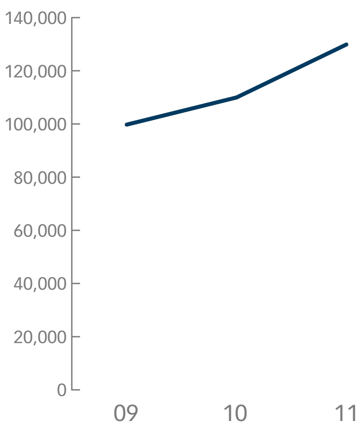



GAS LIQUIDS SALES (TONNES) (LEFT HAND AXIS)
NATURAL GAS SALES (PJ) (RIGHT HAND AXIS)

Gas liquids sales is the total of retail and wholesale LPG production and natural gasoline

Natural gas sales volumes exclude gas sold as gas liquids as these sales are included within the gas liquids sales tonnages

## LIQUIGAS LPG TOLLING (TONNES)




Tolling volumes include product tolled in Taranaki and further tolled in the South Island

## Quick check

**580**

ONGAS BOTTLE SWAP LOCATIONS

**29,500**

ONGAS CUSTOMERS

**18.1%**

INCREASE IN LIQUIGAS TOLLING VOLUME

## Technology

# Smart moves

**Our Technology segment is the youngest and fastest growing in our group. Over the past few years we have taken on the challenge of rolling out smart meters, extending our high speed fibre network and launching a credible challenge to provide ultra fast broadband to Auckland.**

We have excellent opportunities to extend and grow our metering business.

> **"Our smart metering business has gone from strength to strength."**

### FINANCIAL PERFORMANCE

Revenue improved 9.1% to $87.1 million and EBITDA 10.9% to $57.8 million due to strong growth in smart meters. Capital expenditure was $71.5 million as we continued to fulfil our smart meter contracts with Contact Energy and Genesis Energy.

### SMART METERS

Our smart metering business has gone from strength to strength since we assumed 100% ownership of AMS in January 2010. Installation rates dramatically improved and we have maintained this momentum with 115% growth in smart meter numbers this year.

We have excellent opportunities to extend and grow our metering business through new installations with electricity retailers, extending the use of smart meters to gas and water management and through the provision of data services to lines companies and other metering companies.

### FIBRE

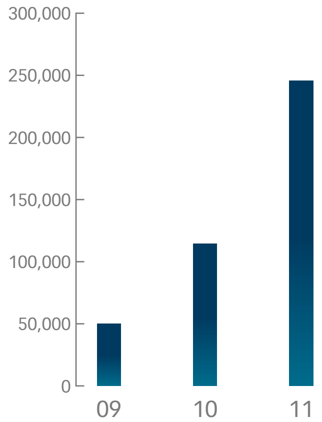
During the year we welcomed new customers to our fibre network and sold higher value services to our corporate, IT and international carrier customers. We commissioned and started migrating customers onto our internationally certified new generation Ethernet Transport Network (ETN). This is an investment to ensure our fibre network remains world leading for the benefit of our customers.

Despite putting forward our best commercial proposition we were unsuccessful in our bid to be part of the Government's ultra fast broadband initiative.

Our involvement in fibre networks came from our technology convergence strategy and has also provided significant support to our electricity and gas businesses. A decade on, our rationale for fibre is just as valid. There is intrinsic value in our fibre network, not only for us, but for many other parties. We will continue to evolve this business to take advantage of developments in the communications sector in New Zealand.

It is business as usual for our fibre team. We have customers that are relying on us, new products and services, good long term contracts in place and a leading open access fibre network.

## ELECTRICITY SMART METERS




A leading open access fibre network.

A high speed fibre connection helps teachers and students to access all the data they need online, creating the best environment for learning.

## Quick check

**245,477**

SMART METERS

**$71.5M**

CAPITAL EXPENDITURE

**10.9%**

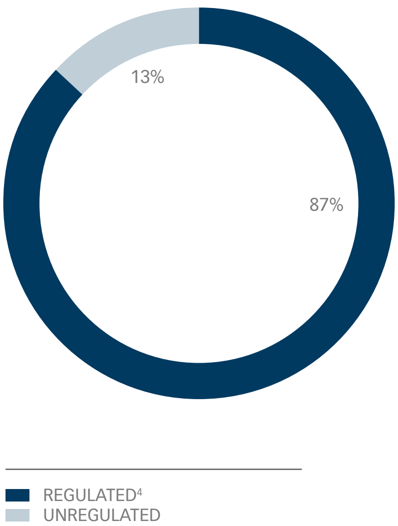
IMPROVEMENT IN EBITDA

## Regulation

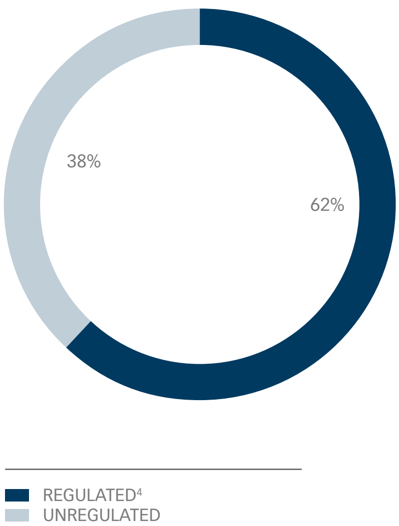
# Fighting for change

**A large portion of the Vector group is subject to regulation under the Commerce Act that determines our prices, quality objectives and influences profits and investment.**

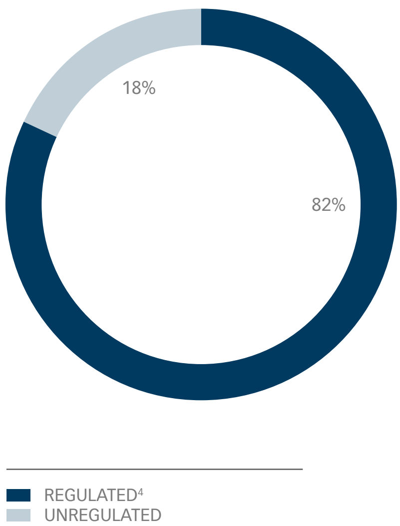
**ASSETS**[1]
AS AT 30 JUNE 2011




**REVENUE**[2]
YEAR ENDED 30 JUNE 2011




**EBITDA**[3]
YEAR ENDED 30 JUNE 2011




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.

While we understand the need for some regulation, and have been regulated for over a decade, the regulatory environment and reset process imposes a significant burden on our business in terms of direct cost and employee time.

We argued for changes to the rules that govern our regulated businesses. Now, under the new regime that we helped to create, we are challenging the Commerce Commission.

It is disappointing to have to resort to legal action, but we have been left with no choice.

We are taking legal action in three areas:

1. We believe the Commission has not provided a complete regulatory package, preventing us from reasonably assessing its proposals.
2. We believe actions taken by the Commission have been inconsistent with its disclosed process, and are a breach of natural justice.
3. We are also challenging the thinking behind the Commission's decisions and its interpretation of the Commerce Act.

### NOW IT'S UP TO THE COURTS

We're now dependent on the legal process to provide the certainty we've been lacking for the past decade and to ensure that the Commission complies with Government policy and the requirements of the Commerce Act.

The cost of these actions is considerable, but we strongly believe that better long term outcomes will be achieved for businesses like Vector, for our customers, and for New Zealand if an appropriate regulatory regime is in place.

Recently the Commission proposed that Vector decrease its electricity prices by an average of 8.5% from April next year. We struggle to understand how this can be an appropriate adjustment given that we have been under price and quality regulation by the Commission since 2001.

### WHY WE ARE TAKING ACTION

We must have regulatory certainty in our sector. The current environment will not deliver long term benefits to consumers and is devoid of commercial reality.

The Commission argues they are imposing the price decrease to benefit consumers, but, customers will only benefit if retailers are required to pass on the price decrease transparently.

There seems to be no recognition or understanding that New Zealand companies raise money from international markets, not just domestic and that international investors are faced with a myriad of investment choices all with differing returns, risk and certainty profiles for their capital.

In order to compete against other companies raising funds in international capital markets we must be able to offer a competitive rate of return and a stable environment. The current regulatory regime with its inherent uncertainty and low returns doesn't adequately support our sector and New Zealand. By comparison, Australia offers regulated lines businesses a higher rate of return.

**"We must have regulatory certainty in our sector."**

### SUPPORTING ECONOMIC GROWTH

There is a disconnect between the Government's rhetoric on the importance of the infrastructure sector as a driver of economic growth and the decisions coming from the Commission.

We are pursuing this action for a fairer outcome and more stable environment for our business, for appropriate incentives to invest in critical infrastructure, and for better long term customer outcomes.

This is the first time a regulatory reset has been conducted under the new Commerce Act amendments and it will be a long and drawn out process. We will keep you updated on our progress.

## People, safety & community

# Working together

**We strive to make our networks as safe as possible, to enrich our communities and to provide development opportunities for our leaders. We know that strong relationships make for a stronger Vector.**

Working with the South Taranaki District Council we helped to clean up the stream habitat at the Kapuni water supply intake, helping to improve the water quality for the people of South Taranaki.

**"It takes time, resources and determination to maintain our high safety standards."**

**SAFETY**

Our "safety first" mantra helps to keep our people and customers safe, in and around our networks. We won't compromise our safety standards – it's too important.

We constantly communicate our safety message. This year our campaigns targeted boaties, homeowners and contractors. Not all of our network can be seen. Much of it is underground. Out in Auckland's harbour and Hauraki Gulf we have underwater cables that can easily be snagged by anchor chains.

Our "Can of Worms" campaign warned of the dangers of underground gas pipelines and outlined three actions that must be followed before digging commences. Building awareness of the size and reach of our networks, reminding people of the dangers and how to stay safe as they work and play is part of our commitment to safety. It takes time, resources and determination to maintain our high safety standards, but it is well worth the investment to help ensure everyone stays safe.

The Christchurch earthquakes prompted a review of our safety procedures, with all Canterbury employees receiving basic first aid training and an earthquake pack.

For seven years, Auckland primary school children have learned how to Stay Safe Around Electricity, sharing their new found knowledge with friends and family. At last count more than 75,000 children had participated in our specially developed programme. A further 3,600 children learned about sustainability and solar power with our new module launched this year.

## PEOPLE

The welfare of our people in Christchurch is a top priority, particularly after the devastating February earthquake. We provided practical help in the form of emergency grants, as well as offering respite accommodation and time off work away from the earthquake zone so that families could regroup without the stress of countless aftershocks. Part of the services available to all Vector employees in times of work or personal stress is confidential counselling provided by EAP Services. We have made sure that all of our Christchurch team members are aware of the support systems available to them and we are closely monitoring for signs of stress.

Throughout this very difficult time our employees in Christchurch have been incredibly stoic and resilient. We are very proud of them and of the wider Vector team which has fundraised and rallied behind their Canterbury co-workers.

## COMMUNITY

Our electricity networks reach every community in Auckland, and our gas and technology businesses reach the rest of New Zealand. Our sponsorships support the community in infrastructure, in the workplace and in helping young people to develop life skills.

We have a long term relationship with Auckland's Vector Arena, the country's leading concert venue. Seating up to 12,200, the Arena is a key part of infrastructure for the Auckland region and host to a wide variety of concerts and shows including the renowned Walking with Dinosaurs show in 2011. Through our relationship with the Arena we were able to host 170 children from low decile schools, giving them the opportunity to enjoy the show.

Family and educational concerts by the Vector Wellington Orchestra give the community's youngest members an appreciation of classical music.

We hosted 170 school children at the Walking with Dinosaurs show.


Our schools programme, in its seventh year, now includes a sustainability module.

### Quick check

**11,000**

CHILDREN ATTENDED VECTOR'S SCHOOL EDUCATION PROGRAMMES THIS YEAR

**402,620**

PEOPLE ATTENDED AN EVENT AT THE VECTOR ARENA THIS YEAR

**66**

EMPLOYEES PARTICIPATING IN LEADERSHIP AND MANAGEMENT TRAINING PROGRAMMES

## BOARD OF DIRECTORS

**"Our experienced board leads and guides Vector on behalf of shareholders."**

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

**PETER BIRD**
**BA, MA, PhD**
**Independent director**

Peter Bird is an Executive Vice-Chairman of Rothschild's South East Asian global financial advisory business. 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 a Vector board member for four years and four months.

**JAMES MILLER**
**BCom, FCA, FMA**
**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 Stock Exchange Limited and Auckland International Airport Limited. James has been a Vector board member for two years and three months.

**ALISON PATERSON**
**CNZM, QSO, DCom(hc), FCA, ADistFInstD**
**Independent director**

Alison Paterson is chairman of BPAC New Zealand Limited, Abano Healthcare Limited, Farm iQ Limited, Stevenson Agriculture Limited, the Governing Board of the Centre of Research Excellence for Growth and Development (University of Auckland) and the Stakeholder Committee at Ambulance NZ. She is also a board member of Nga Pae o Te Maramatanga (Maori CoRE), deputy chair of Stevenson Group Limited, Pro-councillor of Massey University and a Fellow of the University of Auckland. Alison has been a Vector board member for four years and six months.

**JAMES CARMICHAEL**
**BE, FIPENZ**
**Non-independent director**

James Carmichael is a trustee of the Auckland Energy Consumer Trust and an executive of Energy Trusts of New Zealand Inc. 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 a Vector board member for two years and eleven months.

**TONY CARTER**
**BE (Hons), ME, MPhil**
**Independent director**

Antony (Tony) Carter has had a long career in the retail sector culminating in his role as Managing Director of Foodstuffs (New Zealand) Limited, New Zealand's largest retail organisation by revenue, a position he held for nine years. Following his resignation from Foodstuffs, Tony is now chairman of the New Zealand Institute and a director of Fletcher Building Limited, Air New Zealand Limited and Fisher and Paykel Healthcare Limited. Tony has been a Vector board member for four years and four months.

**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, a director of Fletcher Building Limited, Insurance Australia Group Limited and Rubicon Limited. He is also non-executive chairman of IAG New Zealand Limited and a member of L.E.K. Consulting Pty Limited's Australasian Advisory Board. Hugh has been a Vector board member for four years and four months.

**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 Inc, 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 a Vector board member for five years and two months.

**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 Inc since 2004. Prior to his appointment at Transpower he held a range of senior management and engineering positions in the New Zealand Electricity Department and Electricity Corporation of New Zealand Limited. 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 a Vector board member for six years and six months.

**Vector's governance policies**
**visit www.vector/corporate/investor-relations/governance**

## MANAGEMENT TEAM

**"Our skilled management team leads Vector as it delivers energy and communication services to homes and businesses across New Zealand."**

**SIMON MACKENZIE**
**Grad Dip BS (Dist), Dip Fin, NZCE**
**Group Chief Executive Officer**

Simon was appointed Group CEO in February 2008 and has been with Vector for 13 years. 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.

**ALLAN CARVELL**
**BCom, Dip Com (Econ), CA**
**Group General Manager Regulation and Pricing**

Allan's responsibilities include regulatory policy, 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.

**SHANE SAMPSON**
**BCA, LLB (Hons), CA**
**Acting Chief Financial Officer**

Shane leads the finance team and is responsible for financial and management reporting, risk management, corporate finance, investor relations, treasury, legal and tax. Shane started his career with KPMG and has spent the last 13 years in financial and commercial leadership roles in the utilities sector. Shane joined Vector from Telecom where he was general manager finance and commercial for the company's Gen-i division.

**DAVID THOMAS**
**BSC, BE (Chem) (Hons)**
**Group General Manager Gas Trading and Metering**

David leads Vector's gas wholesale, gas processing, LPG, and metering businesses. David has worked in nearly all parts of the energy sector over the last 25 years. Prior to joining Vector in 2008, he was general manager operations at Contact Energy, responsible for the company's power stations and generation development. He has also held roles at BP and Fletcher Challenge in New Zealand and overseas. David's tertiary qualifications include engineering, science and the Senior Executive Programme at the London Business School.

**DANIEL MCCARTHY**
**M Eng, MA (Hons)**
**Group General Manager Commercial**

Daniel leads commercial activity, customer relationships and marketing across the group's infrastructure businesses. Prior to joining the company, he was commercial director for Avis Rent a Car in the UK. He has also been a strategy consultant with L.E.K. Consulting and Marakon Associates in the USA, Europe and Asia Pacific and has held brand management roles at Procter & Gamble.

**PEGGY MOLYNEUX**
**MBA, BA, MIPM**
**Group General Manager Corporate Services**

Peggy leads Vector's IT, human resources, health and safety and property teams to ensure their services are integrated and support company strategy. Peggy has more than 10 years' experience in the NZ energy industry. In her last role she was general manager of corporate services at Genesis Energy and played a key role in shaping the company's business model and culture. Prior to that, she was a senior member of the HR team at Air New Zealand and has held executive roles internationally.

**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, asset management, asset performance and engineering. David has more than 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.

**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 more than 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 ordinary shares are quoted on NZX Limited's NZSX. The capital bonds and senior bonds of Vector are quoted on the NZDX. 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 adopt best practice in New Zealand.

### 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 ordinary shares, 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 2011, 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.

The board charter contemplates a need for the directors to seek independent professional advice in certain situations and there is a procedure

Note: Securities Commission has been superseded by the Financial Markets Authority.

**TABLE OF ATTENDANCE**

Attendance records of board and committee meetings for the year ended 30 June 2011 are provided in the table below:

| | Full Board | Audit Committee | Risk and Assurance Committee | Remuneration Committee | Regulatory Committee |
|---|---|---|---|---|---|
| Total Meetings | 14 | 6 | 4 | 1 | 4 |
| **Current Directors** | | | | | |
| M Stiassny (Chair) | 14 | 4 | 4 | 1 | 3 |
| P Bird | 14 | 4* | 2* | 1* | 4 |
| J Carmichael | 14 | 6 | 4 | 1* | 4 |
| T Carter | 14 | 4* | 4 | 1 | 3* |
| H Fletcher | 14 | 5 | 3* | 1* | 1* |
| J Miller | 14 | 5 | 3 | 1* | 4 |
| A Paterson | 14 | 6 | 4 | 1 | 1* |
| K Sherry | 13 | 5 | 4 | 1 | 3 |
| B Thomson | 13 | 6 | 3 | 1* | 4 |

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

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 2011 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 2011 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 2011 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 2011 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 2011, 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 2011 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 2011, 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 undergrounding 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 published 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 2011, 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. Material regulatory risks and risks regarding the security of Vector's networks are reviewed by the board.

## DIFFERENCES IN PRACTICE TO NZSX CODE

Vector's corporate governance practices meet the NZX Corporate Governance Best Practice Code 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.

# BROADER INTERESTS

**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 Limited, New Zealand's leading company for tolling, storage and distribution of bulk LPG.

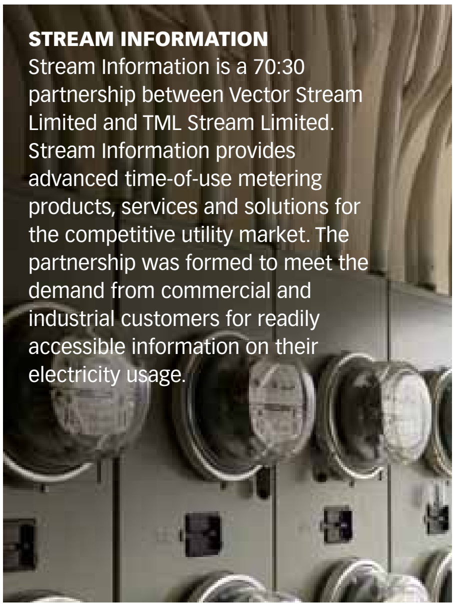
Liquigas has staff and depots in Auckland, New Plymouth, Christchurch and Dunedin.

### 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.

### 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.



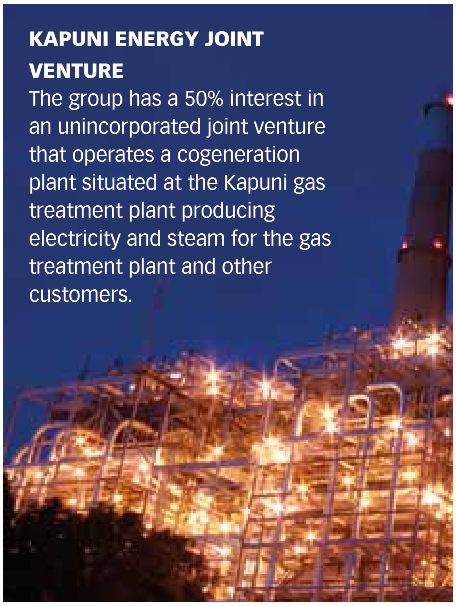
### TREESCAPE

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.



### ENERGY INTELLECT TECHNOLOGY

Vector has a 25% shareholding in Energy Intellect Limited, a company that develops advanced metering and energy development solutions.

# WHAT THINGS MEAN

**EBITDA**
Earnings before interest, income tax, depreciation and amortisation, net profit/(loss) from associates and impairment losses on investments in associates.

**EBIT**
Earnings before interest, income tax, net profit/(loss) from associates and impairment losses on investments in associates.

**GWh**
Gigawatt hours.

**NAaN**
North Auckland and Northland.

**NET DEBT**
Total borrowings less cash and cash equivalents and short term deposits.

**NET FINANCE COSTS**
Interest paid/payable less interest received/receivable.

**NPAT**
Net profit after tax.

**NZ IFRS**
New Zealand equivalents to International Financial Reporting Standards.

**OPERATING CASH FLOW**
Cash inflows and outflows from principal revenue-producing activities.

**ORGR**
Original recoverable gas reserves.

**PAYOUT RATIO**
The dividends declared for the year expressed as a percentage of operating cash flow less replacement capital expenditure.

**PJ**
Petajoules.

**SAIDI**
A measure in minutes that shows the average time a customer is without power during an outage.

**REVENUE**
Total income in the consolidated income statement.

**TOTAL INCOME**
All sources of revenue received, except interest income.

**UFBI**
Ultra Fast Broadband Initiative.

# GETTING IN TOUCH

## Registered office

Vector Limited
101 Carlton Gore Road
Newmarket
Auckland 1023
New Zealand
Telephone 64-9-978 7788
Facsimile 64-9-978 7799
www.vector.co.nz

## Postal address

PO Box 99882
Newmarket
Auckland 1149
New Zealand

## Investor enquiries

Telephone 64-9-978 7804
Email: investor@vector.co.nz

## To report a fault:

**Electricity**
On the Auckland, Manukau or Papakura network call 0508 VECTOR (0508 832 867)

On the North Shore, Waitakere or Rodney network call your electricity retailer

**Gas**
Call 0800 764 764

## Share registrar

Computershare Investor Services Limited
Level 2
159 Hurstmere Road
Takapuna
Private Bag 92119
Auckland 1142
New Zealand
Telephone 64-9-488 8777

## Auditors

KPMG
18 Viaduct Harbour Avenue
Auckland 1010
New Zealand

## Solicitors

Russell McVeagh
Vero Centre
48 Shortland Street
Auckland 1010
New Zealand

Chapman Tripp
23-29 Albert Street
Auckland 1010
New Zealand

# Financial review

| | 2011 $Million | 2010 $Million |
|---|---|---|
| **INCOME STATEMENT** | | |
| Total income | 1,244.6 | 1,187.4 |
| Operating expenditure | (608.0) | (609.3) |
| **EBITDA** | **636.6** | **578.1** |
| Depreciation and amortisation | (170.2) | (156.3) |
| **EBIT** | **466.4** | **421.8** |
| Net finance costs | (178.2) | (167.0) |
| Share of net profit/(loss) from associates | 0.9 | (2.3) |
| Impairment of investment in associate | (2.3) | (4.1) |
| **Profit before income tax** | **286.8** | **248.4** |
| Income tax expense | (82.9) | (49.3) |
| **Profit after income tax** | **203.9** | **199.1** |
| Profit attributable to non-controlling interests in subsidiaries | (2.5) | (5.6) |
| **Profit attributable to shareholders of the parent** | **201.4** | **193.5** |
| **ASSETS** | | |
| Other current assets | 327.6 | 318.0 |
| Intangible assets | 1,612.6 | 1,612.2 |
| Property, plant and equipment | 3,605.9 | 3,540.2 |
| Other non-current assets | 32.9 | 80.5 |
| | 5,579.0 | 5,550.9 |
| **EQUITY AND LIABILITIES** | | |
| Other current liabilities | 222.6 | 215.7 |
| Total borrowings | 2,409.9 | 2,562.3 |
| Deferred tax liability | 465.9 | 478.0 |
| Other non-current liabilities | 367.9 | 210.7 |
| Equity | 2,112.7 | 2,084.2 |
| | **5,579.0** | **5,550.9** |
| **CASH FLOW** | | |
| Net cash flows from operating activities | 374.6 | 367.5 |
| Dividends paid[1] | (143.7) | (140.9) |
| Capital expenditure payments | (251.6) | (220.4) |
| Acquisition of gas businesses | (6.6) | (1.3) |
| **Cash (outflow)/inflow before external funding and investments** | **(27.3)** | **4.9** |
| Net borrowings drawn down/(repaid) | 0.2 | (33.4) |
| Other financing activities | (3.3) | (2.0) |
| Short term deposits withdrawn | – | 100.0 |
| Investing activities excluding capital expenditure | 36.0 | (9.4) |
| **Increase in cash** | **5.6** | **60.1** |

[1] Includes dividends paid to non-controlling interests in subsidiaries

This Shareholder Review should be read in conjunction with the enclosed Vector Limited Annual Report 2011.

**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.**

www.vector.co.nz

# annual**report**

2011 | VECTOR LIMITED

# FINANCIAL STATEMENTS

For the year ended 30 June 2011

## Contents



## 2011 FINANCIAL STATEMENTS

The directors are pleased to present the financial statements of the group for the year ended 30 June 2011.

For and on behalf of directors

Director 26 August 2011

Director 26 August 2011

For and on behalf of management

Group Chief Executive Officer 26 August 2011

Acting Chief Financial Officer 26 August 2011

For the year ended 30 June 2011

KPMG

**To the shareholders of Vector Limited**

## Report on the Company and Group Financial Statements

We have audited the accompanying financial statements of Vector Limited (''the company'') and the group, comprising the company and its subsidiaries, on pages 3 to 59. The financial statements comprise the statements of financial position as at 30 June 2011, the income statements and statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, for both the company and the group.

### Directors' Responsibility for the Company and Group Financial Statements

The directors are responsible for the preparation of company and group financial statements in accordance with generally accepted accounting practice in New Zealand that give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of company and group financial statements that are free from material misstatement whether due to fraud or error.

### Auditor's Responsibility

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

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

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

Our firm has also provided other services to the company and group 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 and group.

### Opinion

In our opinion the financial statements on pages 3 to 59:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the financial position of the company and the group as at 30 June 2011 and of the financial performance and cash flows of the company and the group for the year then ended.

## Report on Other Legal and Regulatory Requirements

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, we report that:

- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by Vector Limited and its subsidiaries as far as appears from our examination of those records.

KPMG

26 August 2011
Auckland

## INCOME STATEMENT

For the year ended 30 June 2011

| | | GROUP | | PARENT | |
|---|---|---|---|---|---|
| | NOTE | 2011 $000 | 2010 $000 | 2011 $000 | 2010 $000 |
| Operating revenue | 2 | 1,194,653 | 1,185,827 | 661,838 | 645,582 |
| Other income | 2 | 49,911 | 1,613 | 44,520 | 1,002 |
| Total income | | 1,244,564 | 1,187,440 | 706,358 | 646,584 |
| Electricity transmission expenses | | (130,107) | (128,842) | (130,107) | (128,842) |
| Gas purchases and production expenses | | (244,467) | (267,055) | – | – |
| Network and asset maintenance expenses | | (79,524) | (73,716) | (45,420) | (41,744) |
| Personnel expenses | | (67,816) | (62,808) | (67,418) | (59,727) |
| Other expenses | | (86,100) | (76,876) | (49,650) | (50,514) |
| Operating expenditure | 3 | (608,014) | (609,297) | (292,595) | (280,827) |
| Earnings before interest, income tax, depreciation and amortisation (EBITDA) | | 636,550 | 578,143 | 413,763 | 365,757 |
| Depreciation and amortisation | | (170,194) | (156,319) | (97,748) | (96,090) |
| Profit before interest and income tax | | 466,356 | 421,824 | 316,015 | 269,667 |
| Finance income | 4 | 8,289 | 7,456 | 11,109 | 9,310 |
| Finance costs | 4 | (186,518) | (174,429) | (187,699) | (176,479) |
| Share of net profit/(loss) from associates | 14 | 970 | (2,305) | – | – |
| Impairment of investment in associate | 14 | (2,330) | (4,136) | (2,330) | (4,136) |
| Profit before income tax | | 286,767 | 248,410 | 137,095 | 98,362 |
| Income tax expense | 5 | (82,920) | (49,292) | (41,927) | (5,413) |
| Net profit for the period | | 203,847 | 199,118 | 95,168 | 92,949 |
| Net profit for the period attributable to: | | | | | |
| Non-controlling interests in subsidiaries | | 2,481 | 5,650 | – | – |
| Owners of the parent | | 201,366 | 193,468 | 95,168 | 92,949 |

| | | GROUP | |
|---|---|---|---|
| | NOTE | 2011 | 2010 |
| Basic and diluted earnings per share (cents) | 10 | 20.2 | 19.4 |

## STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2011

| | | GROUP | | PARENT | |
|---|---|---|---|---|---|
| | NOTE | 2011<br>$000 | 2010<br>$000 | 2011<br>$000 | 2010<br>$000 |
| Net profit for the period | | 203,847 | 199,118 | 95,168 | 92,949 |
| Other comprehensive income net of tax | | | | | |
| Net change in fair value of cash flow hedges | | (31,629) | (32,950) | (31,629) | (32,950) |
| Share of other comprehensive income of associates | 14 | 87 | – | – | – |
| Translation of foreign operations | | (84) | 38 | – | – |
| Other comprehensive income for the period net of tax | | (31,626) | (32,912) | (31,629) | (32,950) |
| Total comprehensive income for the period net of tax | | 172,221 | 166,206 | 63,539 | 59,999 |
| Total comprehensive income for the period attributable to: | | | | | |
| Non-controlling interests in subsidiaries | | 2,481 | 5,650 | – | – |
| Owners of the parent | | 169,740 | 160,556 | 63,539 | 59,999 |

## STATEMENT OF FINANCIAL POSITION

As at 30 June 2011

| | | GROUP | | PARENT | |
|---|---|---|---|---|---|
| | NOTE | 2011 $000 | 2010 $000 | 2011 $000 | 2010 $000 |
| **CURRENT ASSETS** | | | | | |
| Cash and cash equivalents | | 120,407 | 114,812 | 108,013 | 96,791 |
| Receivables and prepayments | 11 | 189,604 | 163,767 | 127,344 | 98,966 |
| Derivative financial instruments | 25 | – | 11 | – | 11 |
| Inventories | 12 | 3,463 | 4,204 | – | 33 |
| Income tax | 6 | 14,225 | 35,193 | 14,365 | 34,838 |
| Intangible assets | 16 | 438 | – | 438 | – |
| Advances to subsidiaries | 27 | – | – | 810,655 | 637,868 |
| Total current assets | | 328,137 | 317,987 | 1,060,815 | 868,507 |
| **NON-CURRENT ASSETS** | | | | | |
| Receivables and prepayments | 11 | 1,409 | 1,428 | 1,409 | 1,428 |
| Derivative financial instruments | 25 | 6,068 | 50,344 | 6,068 | 50,344 |
| Deferred tax | 7 | 2,335 | 2,700 | – | – |
| Investments in subsidiaries | 13 | – | – | 1,407,346 | 1,407,346 |
| Income tax | 6 | – | 448 | – | – |
| Investments in associates | 14 | 23,076 | 25,525 | 14,044 | 16,374 |
| Intangible assets | 16 | 1,612,122 | 1,612,228 | 552,279 | 554,770 |
| Property, plant and equipment | 17 | 3,605,865 | 3,540,245 | 2,614,778 | 2,572,755 |
| Total non-current assets | | 5,250,875 | 5,232,918 | 4,595,924 | 4,603,017 |
| Total assets | | 5,579,012 | 5,550,905 | 5,656,739 | 5,471,524 |
| **CURRENT LIABILITIES** | | | | | |
| Payables and accruals | 18 | 198,369 | 189,131 | 129,274 | 129,464 |
| Provisions | 19 | 18,486 | 16,825 | 5,365 | 5,048 |
| Derivative financial instruments | 25 | 5,714 | 8,362 | 5,714 | 8,362 |
| Borrowings | 24 | 306,747 | 249,654 | 306,472 | 249,079 |
| Income tax | 6 | – | 1,428 | – | – |
| Advances from subsidiaries | 27 | – | – | 1,061,134 | 797,884 |
| Total current liabilities | | 529,316 | 465,400 | 1,507,959 | 1,189,837 |
| **NON-CURRENT LIABILITIES** | | | | | |
| Payables and accruals | 18 | 23,561 | 25,821 | 666 | 708 |
| Provisions | 19 | 5,000 | 3,000 | – | – |
| Derivative financial instruments | 25 | 339,288 | 181,815 | 339,288 | 181,815 |
| Borrowings | 24 | 2,103,200 | 2,312,644 | 2,103,200 | 2,312,644 |
| Deferred tax | 8 | 465,902 | 478,017 | 345,356 | 347,894 |
| Total non-current liabilities | | 2,936,951 | 3,001,297 | 2,788,510 | 2,843,061 |
| Total liabilities | | 3,466,267 | 3,466,697 | 4,296,469 | 4,032,898 |
| **EQUITY** | | | | | |
| Equity attributable to owners of the parent | | 2,093,497 | 2,065,652 | 1,360,270 | 1,438,626 |
| Non-controlling interests in subsidiaries | | 19,248 | 18,556 | – | – |
| Total equity | | 2,112,745 | 2,084,208 | 1,360,270 | 1,438,626 |
| Total equity and liabilities | | 5,579,012 | 5,550,905 | 5,656,739 | 5,471,524 |

## STATEMENT OF CASH FLOWS

For the year ended 30 June 2011

| | | GROUP | | PARENT | |
|---|---|---|---|---|---|
| | NOTE | 2011 $000 | 2010 $000 | 2011 $000 | 2010 $000 |
| **OPERATING ACTIVITIES** | | | | | |
| Cash provided from: | | | | | |
| Receipts from customers | | 1,184,534 | 1,214,575 | 614,202 | 612,042 |
| Interest portion of repayments on finance leases | | 115 | 108 | 115 | 108 |
| Interest received | | 8,126 | 7,142 | 7,216 | 6,096 |
| Income tax refunds | | – | 9 | – | 9 |
| Dividends received from associates | | 1,176 | 200 | 1,000 | 200 |
| | | 1,193,951 | 1,222,034 | 622,533 | 618,455 |
| Cash applied to: | | | | | |
| Payments to suppliers and employees | | (567,197) | (611,840) | (269,222) | (272,954) |
| Income tax paid | | (61,638) | (61,564) | (58,944) | (56,203) |
| Interest paid on finance leases | | (311) | (422) | (33) | (44) |
| Interest paid | | (190,235) | (180,670) | (189,969) | (180,529) |
| | | (819,381) | (854,496) | (518,168) | (509,730) |
| Net cash flows from operating activities | | 374,570 | 367,538 | 104,365 | 108,725 |
| **INVESTING ACTIVITIES** | | | | | |
| Cash provided from: | | | | | |
| Advances from/repaid by subsidiaries | | – | – | 254,464 | 371,428 |
| Proceeds from sale of property, plant and equipment and software | | 36,013 | 990 | 28,326 | 802 |
| Bank balances acquired on acquisition of Advanced Metering Services Limited | | – | 132 | – | – |
| | | 36,013 | 1,122 | 282,790 | 372,230 |
| Cash applied to: | | | | | |
| Advances to/repaid to subsidiaries | | – | – | (76,041) | (207,691) |
| Purchase and construction of property, plant and equipment and software | | (251,577) | (220,404) | (156,425) | (137,703) |
| Acquisition of gas businesses | | (6,650) | (1,253) | – | – |
| Repayment of loan from third party | | – | (3,500) | – | – |
| Purchase of investment in associate | 14 | – | (7,103) | – | (7,103) |
| Loans to associates | | – | (6,500) | – | (6,500) |
| Loan repaid by associate | | – | 6,500 | – | 6,500 |
| | | (258,227) | (232,260) | (232,466) | (352,497) |
| Net cash flows (used in)/from investing activities | | (222,214) | (231,138) | 50,324 | 19,733 |

| | | GROUP | | PARENT | |
|---|---|---|---|---|---|
| | NOTE | 2011 $000 | 2010 $000 | 2011 $000 | 2010 $000 |
| **FINANCING ACTIVITIES** | | | | | |
| Cash provided from/(applied to): | | | | | |
| Proceeds from borrowings | | 250,516 | 54,000 | 250,516 | 54,000 |
| Repayment of borrowings | | (250,300) | (87,402) | (250,000) | (87,402) |
| Withdrawal of short term deposits | | – | 100,000 | – | 100,000 |
| Debt raising costs incurred | | (2,038) | – | (2,038) | – |
| Capital portion of payments under finance leases | | (1,270) | (1,995) | (65) | (97) |
| Capital portion of receipts on finance leases | | 15 | 10 | 15 | 10 |
| Dividends paid to owners of the parent | | (141,895) | (136,916) | (141,895) | (136,916) |
| Dividends paid to non-controlling interests in subsidiaries | | (1,789) | (3,975) | – | – |
| Net cash flows used in financing activities | | (146,761) | (76,278) | (143,467) | (70,405) |
| Net increase in cash and cash equivalents | | 5,595 | 60,122 | 11,222 | 58,053 |
| Cash and cash equivalents at beginning of the period | | 114,812 | 54,690 | 96,791 | 38,738 |
| Cash and cash equivalents at end of the period | | 120,407 | 114,812 | 108,013 | 96,791 |
| Cash and cash equivalents comprises: | | | | | |
| Bank balances and on-call deposits | | 90,407 | 54,812 | 78,013 | 36,791 |
| Short term deposits maturing within three months | | 30,000 | 60,000 | 30,000 | 60,000 |
| | | 120,407 | 114,812 | 108,013 | 96,791 |
| **RECONCILIATION OF NET PROFIT TO NET CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | |
| Net profit for the period | | 203,847 | 199,118 | 95,168 | 92,949 |
| **ITEMS CLASSIFIED AS INVESTING ACTIVITIES** | | | | | |
| Net (gain)/loss on disposal of property, plant and equipment and software intangibles | | (43,548) | 4,676 | (39,744) | 2,910 |
| **NON-CASH ITEMS** | | | | | |
| Depreciation and amortisation | | 170,194 | 156,319 | 97,748 | 96,090 |
| Impairment of investment in associate | 14 | 2,330 | 4,136 | 2,330 | 4,136 |
| Management fee income | 27 | – | – | (37,064) | (41,548) |
| Non-cash portion of finance costs | | (310) | (7,828) | (2,065) | (8,276) |
| Decrease in profit from acquisition of Advanced Metering Services Limited | | – | – | – | 1,794 |
| Increase/(decrease) in deferred tax liabilities | | 1,297 | (20,882) | 9,762 | (16,403) |
| Increase/(decrease) in provisions | | 3,661 | (962) | 317 | (391) |
| Share of net (profit)/loss of associates | 14 | (970) | 2,305 | – | – |
| | | 176,202 | 133,088 | 71,028 | 35,402 |
| **CASH ITEMS NOT IMPACTING PROFIT** | | | | | |
| Dividends received from associates | | 1,176 | 200 | – | – |
| **MOVEMENT IN WORKING CAPITAL** | | | | | |
| Increase/(decrease) in payables and accruals | | 16,575 | (3,268) | (39,016) | 3,597 |
| Decrease/(increase) in inventories | | 1,625 | (1,996) | 33 | 25 |
| (Increase)/decrease in receivables and prepayments | | (1,295) | 27,102 | (3,577) | 8,220 |
| Decrease/(increase) in net income tax assets | | 19,988 | 8,618 | 20,473 | (34,378) |
| | | 36,893 | 30,456 | (22,087) | (22,536) |
| Net cash flows from operating activities | | 374,570 | 367,538 | 104,365 | 108,725 |

## STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2011

| | | GROUP 2011 | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 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) | (110,961) | 248 | 1,310,320 | 18,556 | 2,084,208 |
| Comprehensive income | | | | | | | | |
| Net profit for the period | | – | – | – | – | 201,366 | 2,481 | 203,847 |
| Other comprehensive income | | | | | | | | |
| Change in fair value of cash flow hedges | | – | – | (43,929) | – | – | – | (43,929) |
| Translation of foreign operations | | – | – | – | (84) | – | – | (84) |
| Share of other comprehensive income of associate | | – | – | – | – | 87 | – | 87 |
| Income tax relating to components of other comprehensive income | 8 | – | – | 12,300 | – | – | – | 12,300 |
| Total comprehensive income | | – | – | (31,629) | (84) | 201,453 | 2,481 | 172,221 |
| Transactions with owners | | | | | | | | |
| Dividends | 9 | – | – | – | – | (141,895) | (1,789) | (143,684) |
| Total transactions with owners | | – | – | – | – | (141,895) | (1,789) | (143,684) |
| Balance at end of the period | | 874,979 | (8,934) | (142,590) | 164 | 1,369,878 | 19,248 | 2,112,745 |

| | | 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 | 8 | – | – | 9,719 | – | – | – | 9,719 |
| Total comprehensive income | | – | – | (32,950) | 38 | 193,468 | 5,650 | 166,206 |
| Transactions with owners | | | | | | | | |
| Dividends | 9 | – | – | – | – | (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 | |
|---|---|---|---|
| | NOTE | 2011 | 2010 |
| Total tangible assets per share (cents) | 10 | 398.3 | 395.5 |
| Net tangible assets per share (cents) | 10 | 50.2 | 47.4 |

**PARENT 2011**

| | 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) | (110,961) | 683,542 | 1,438,626 |
| Comprehensive income | | | | | | |
| Net profit for the period | | – | – | – | 95,168 | 95,168 |
| Other comprehensive income | | | | | | |
| Change in fair value of cash flow hedges | | – | – | (43,929) | – | (43,929) |
| Income tax relating to components of other comprehensive income | 8 | – | – | 12,300 | – | 12,300 |
| Total comprehensive income | | – | – | (31,629) | 95,168 | 63,539 |
| Transactions with owners | | | | | | |
| Dividends | 9 | – | – | – | (141,895) | (141,895) |
| Total transactions with owners | | – | – | – | (141,895) | (141,895) |
| Balance at end of the period | | 874,979 | (8,934) | (142,590) | 636,815 | 1,360,270 |

**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 | 8 | – | – | 9,719 | – | 9,719 |
| Total comprehensive income | | – | – | (32,950) | 92,949 | 59,999 |
| Transactions with owners | | | | | | |
| Dividends | 9 | – | – | – | (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 |

For the year ended 30 June 2011

## 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). The address of Vector Limited's registered office is 101 Carlton Gore Road, Newmarket, Auckland. 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 and parent are for the year ended 30 June 2011 and were authorised for issue by the directors on 26 August 2011.

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
- certain financial instruments, also explained further below.

## FUNCTIONAL AND PRESENTATION CURRENCY

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

## JUDGEMENT USED IN APPLYING ACCOUNTING POLICIES AND SOURCES OF ESTIMATION UNCERTAINTY

The preparation of these financial statements in compliance with NZ IFRS requires management to make judgements, estimates and apply assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions have been based on historical experience and other factors and are believed to be reasonable. These estimations and assumptions have formed the basis for making judgements on the carrying values of some assets and liabilities. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in the future periods affected. In particular, information about the significant areas of estimation uncertainty and critical judgements in applying accounting policies that have had a significant effect on the amounts recognised in the financial statements are described below.

### 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 basis of consolidation is included in the following section on Significant Accounting Policies.

A) JUDGEMENT USED IN APPLYING ACCOUNTING POLICIES (CONT.)

### 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 risk that a material adjustment to the carrying amounts of the assets or liabilities involved could possibly occur within the year ended 30 June 2012.

### Valuation of goodwill and property, plant and equipment

At 30 June 2011, the carrying value of goodwill is $1,555.3 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 16 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 2011, the carrying value of property, plant and equipment is $3,605.9 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 2011, the total carrying value of the group's borrowings measured at fair value and derivative financial instruments is a liability of $1,294.0 million. Management have estimated the fair value of the group's financial instruments based on valuation models that use observable market inputs. Note 25 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. Investments in associates are accounted for using the equity method. 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 the joint venture's 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 partnership. 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.

**SIGNIFICANT ACCOUNTING POLICIES (CONT.) >>>**

A) BASIS OF CONSOLIDATION (CONT.)

### Acquisition or disposal during the period

Where an entity becomes or ceases to be a part of the group during the period, the results of the entity are included in the consolidated results from the date that control or significant influence commenced or until the date that control or significant influence ceased. When an entity is acquired all identifiable assets, liabilities and contingent liabilities are recognised at their fair value at acquisition date. The fair value does not take into consideration any future intentions by the group. All equity and debt raising costs incurred in relation to the acquisition of a subsidiary or a group of assets are accounted for in accordance with the accounting policy for financial instruments. Where an entity or a group of assets within an entity is held for sale, that 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 re-measured to fair value and the difference between the carrying amount and the re-measured fair value is recognised in the income statement. Goodwill is then calculated as the sum of the fair value of the consideration paid, the re-measured 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 re-measured 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. Subsidiaries advances from and to 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 the income statement. 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.

An accrual 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.

## SIGNIFICANT ACCOUNTING POLICIES (CONT.) »

### I) 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.

### J) 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.

### K) RECEIVABLES

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

### L) INVENTORIES

Inventories are assets held for sale in the ordinary course of business or held to be used as part of the selling process.

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.

#### Emissions Trading Scheme Units

Emissions Trading Scheme (ETS) units held are classified as intangible assets. Units receivable from customers are initially recognised at the current market price on the date of sale. Units purchased are recognised at cost. Units held are expected to be used within one year and are classified as current assets. No amortisation of units is recognised.

Where the recoverable amount of the units held is less than their carrying amount, they are re-measured to their recoverable amount and an impairment loss recognised. The recoverable amount is determined by reference to the market for emission units. Impairment losses are reported in the income statement.

If subsequent to recognising an impairment loss, the market price increases, the units are re-measured and the impairment loss or a portion of that impairment loss is reversed through the income statement. The impairment loss is only reversed to the extent that it does not increase the carrying value of the units above their value at initial measurement.

#### *Units payable*

Units are only held to meet ETS obligations to suppliers. The liability to suppliers is measured at the carrying value of units received or receivable. In the event of a shortfall of units to satisfy the liability to suppliers, the shortfall is measured at the market value for units at balance date, and re-measured at the market rate for each subsequent reporting period while the obligation remains unpaid. Any change in value due to re-measurement is reported in the income statement.

#### *Units receivable*

Units receivable from customers are recognised at the market value as at the date of sale. Units receivable are not re-valued but are tested for impairment as outlined above.

### 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.

**SIGNIFICANT ACCOUNTING POLICIES (CONT.) »»**

### Q) IMPAIRMENT (CONT.)

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 that obligation in the foreseeable future. A provision is recognised where the likelihood of a resultant liability is considered more probable than not and the amount required to settle the liability can be reliably estimated. Where the likelihood of a resultant liability is more than remote but insufficient to warrant a provision, such events are disclosed as contingent liabilities.

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

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

#### Decommissioning of property, plant and equipment

A provision for decommissioning costs is recognised in relation to certain items of property, plant and equipment, if the group is 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

#### 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 re-measured 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 the income statement. 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 the income statement when the forecast transaction is ultimately recognised in the income statement. 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, cash and cash equivalents and other receivables are initially recorded at fair value and subsequently measured at 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. Discounting is not undertaken when the receivable is expected to be collected within twelve months. 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 assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the group has a legal right to offset the amounts and intend either settle on a net basis or realise the asset and settle the liability simultaneously.

Cash and cash equivalents comprise cash on hand, cash in banks, short term deposits maturing within three months, net of bank overdrafts.

Financial liabilities

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.

Other financial liabilities comprise trade and other payables.

The group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the group has a legal right to offset the amounts and intend either settle on a net basis or realise the asset and settle the liability simultaneously.

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) BORROWING COSTS

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

### U) 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.

### V) GOODS AND SERVICES TAX (GST)

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

### W) STATEMENT OF CASH FLOWS

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

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 2011 have not been applied in preparing these consolidated financial statements.

### NZ IFRS 9, *FINANCIAL INSTRUMENTS: CLASSIFICATION AND MEASUREMENT*

Standard issued November 2009 (IFRS 9 (2009))

IFRS 9 (2009) is the first standard issued as part of a wider project to replace IAS 39.

### NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (CONT.) »»

#### NZ IFRS 9, *FINANCIAL INSTRUMENTS: CLASSIFICATION AND MEASUREMENT* (CONT.)

IFRS 9 (2009) retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets; amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply.

Standard issued October 2010 (IFRS 9 (2010))

IFRS 9 (2010) adds the requirements related to the classification and measurement of financial liabilities, and derecognition of financial assets and liabilities to the version issued in November 2009 (above).

It also includes paragraphs from IAS 39 on how to measure fair value and account for derivatives embedded in a contract that contains a host that is not a financial asset, as well as the requirements of IFRIC 9 *Reassessment of Embedded Derivatives*.

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 2010)*

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.

#### IFRS 10, *CONSOLIDATED FINANCIAL STATEMENTS*

IFRS 10 establishes the principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The new standard replaces the consolidation requirements in IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*.

IFRS 10 which becomes mandatory for the financial statements for the year ended 30 June 2014 is not expected to have any significant impact on the consolidated financial statements of Vector Limited.

#### IFRS 11, *JOINT ARRANGEMENTS*

IFRS 11 makes changes in the accounting for joint ventures (joint arrangements) by focusing on the rights and obligations of the arrangement, rather than its legal form. The key change from the previous standard, *IAS 31 Joint Ventures*, is that there are two distinct types of joint arrangements; joint ventures and joint operations. A joint venture is now required to be accounted for differently to a joint operation. Joint operations are consolidated using the proportionate method whereas a joint venture where the parties do not have specified rights to the assets and liabilities is required to be accounted for by applying equity accounting. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures.

IFRS 11 which becomes mandatory for the financial statements for the year ended 30 June 2014 is not expected to have any significant impact on either the separate financial statements of Vector Limited or the consolidated financial statements.

#### IFRS 12, *DISCLOSURE OF INTERESTS IN OTHER ENTITIES*

IFRS 12 is a new standard on disclosure requirements for entities reporting under IFRS 10 and IFRS 11 covering all forms of interests in other entities including subsidiaries, joint arrangements, associates and unconsolidated structured entities. The new standard replaces the disclosure requirements currently found in IAS 28 *Investments in Associates*.

IFRS 12 which becomes mandatory for the financial statements for the year ended 30 June 2014 is not expected to have any significant impact on either the separate financial statements of Vector Limited or the consolidated financial statements.

#### IFRS 13, *FAIR VALUE MEASUREMENT*

IFRS 13 defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It also explains how to measure fair value when it is required by other IFRSs. IFRS 13 does not determine when an asset, a liability or an entity's own equity instrument is measured at fair value. The new standard includes enhanced disclosure requirements similar to those in IFRS 7 *Financial Instruments: Disclosures*, but which apply to all assets and liabilities measured at fair values, not just financial assets and liabilities.

IFRS 13 which becomes mandatory for the financial statements for the year ended 30 June 2014 is not expected to have any significant impact on either the separate financial statements of Vector Limited or the consolidated financial statements.

#### FRS 44, *NEW ZEALAND ADDITIONAL DISCLOSURES*

FRS 44 sets out the New Zealand specific disclosures for entities that have adopted NZ IFRS. These disclosures have been relocated from NZ IFRSs into FRS 44 as separate disclosures required in addition to those within IFRSs. Entities preparing financial statements under NZ IFRSs must also apply FRS 44 as it forms part of NZ GAAP.

FRS 44 which becomes mandatory for the financial statements for the year ended 30 June 2012 is not expected to have any significant impact on either the separate financial statements of Vector Limited or the consolidated financial statements.

#### HARMONISATION AMENDMENTS

The Harmonisation Amendments set out the amendments to NZ IFRSs to harmonise New Zealand standards with source IFRSs and eliminate many of the differences between the standards relating to for-profit entities applying IFRSs as adopted in New Zealand. The Harmonisation Amendments are to be considered in conjunction with FRS 44 *New Zealand Additional Disclosures*.

The Harmonisation Amendments which become mandatory for the financial statements for the year ended 30 June 2012 are not expected to have any significant impact on either the separate financial statements of Vector Limited or the consolidated financial statements.

### APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 26 August 2011.

For the year ended 30 June 2011

## Notes

## 1. SEGMENT INFORMATION

Vector's internal reporting to the Group CEO and board is focused on the following businesses which are the group's operating segments reported in accordance with NZ IFRS 8 *Operating Segments*.

### Electricity
Ownership and management of electricity distribution networks.

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

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

### Technology
Telecommunications networks, electricity and gas metering.

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

The segments reported in these financial statements are the same as those reported in Vector's Annual Report for the year ended 30 June 2010.

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 interest and 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 the group's total revenue. The customer contributed $189.6 million (2010: 175.5 million) which is reported in the Electricity, Gas Transportation, Gas Wholesale and Technology segments.

## GROUP 2011

| | ELECTRICITY $000 | GAS TRANSPORTATION $000 | GAS WHOLESALE $000 | TECHNOLOGY $000 | INTERSEGMENT $000 | TOTAL $000 |
|---|---|---|---|---|---|---|
| External revenue: | | | | | | |
| Operating revenue | 573,703 | 169,061 | 366,252 | 83,968 | – | 1,192,984 |
| Other income | 143 | 555 | 85 | 144 | – | 927 |
| Intersegment revenue | 108 | 35,535 | 5,943 | 2,972 | (44,558) | – |
| **Segment revenue** | 573,954 | 205,151 | 372,280 | 87,084 | (44,558) | 1,193,911 |
| External operating expenditure: | | | | | | |
| Electricity transmission expenses | (130,107) | – | – | – | – | (130,107) |
| Gas purchases and production costs | – | (7,367) | (237,100) | – | – | (244,467) |
| Network and asset maintenance expenses | (40,865) | (17,578) | (16,437) | (4,644) | – | (79,524) |
| Personnel expenses | (11,008) | (4,930) | (14,181) | (11,045) | – | (41,164) |
| Other expenses | (24,959) | (12,026) | (8,926) | (13,529) | – | (59,440) |
| Intersegment expenditure | (2,443) | (5,947) | (36,062) | (106) | 44,558 | – |
| **Operating expenditure** | (209,382) | (47,848) | (312,706) | (29,324) | 44,558 | (554,702) |
| EBITDA | 364,572 | 157,303 | 59,574 | 57,760 | – | 639,209 |
| Depreciation and amortisation | (78,133) | (21,579) | (12,364) | (45,385) | – | (157,461) |
| **Segment profit before interest and income tax** | 286,439 | 135,724 | 47,210 | 12,375 | – | 481,748 |
| **Segment capital expenditure** | 124,012 | 31,924 | 16,373 | 71,454 | – | 243,763 |

## GROUP 2010

| | ELECTRICITY $000 | GAS TRANSPORTATION $000 | GAS WHOLESALE $000 | TECHNOLOGY $000 | INTERSEGMENT $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 interest and 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 |

### 1. SEGMENT INFORMATION (CONT.) ›››

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

| | GROUP 2011 | | | GROUP 2010 | | |
|---|---|---|---|---|---|---|
| | 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 | 1,193,911 | 481,748 | 243,763 | 1,184,429 | 490,992 | 225,278 |
| Amounts not allocated to segments: | | | | | | |
| Revenues from corporate activities | 50,653 | 50,653 | – | 3,011 | 3,011 | – |
| Corporate activities operating expenditure | – | (53,312) | – | – | (56,573) | – |
| Depreciation and amortisation of corporate property, plant and equipment and software intangibles | – | (12,733) | – | – | (15,606) | – |
| Finance income | – | 8,289 | – | – | 7,456 | – |
| Finance costs | – | (186,518) | – | – | (174,429) | – |
| Share of net profit/(loss) from associates | – | 970 | – | – | (2,305) | – |
| Impairment of investment in associate | – | (2,330) | – | – | (4,136) | – |
| Additions to corporate property, plant and equipment and software intangibles | – | – | 13,333 | – | – | 11,866 |
| Reported in consolidated financial statements | 1,244,564 | 286,767 | 257,096 | 1,187,440 | 248,410 | 237,144 |

## 2. TOTAL INCOME

| | NOTE | GROUP 2011 $000 | GROUP 2010 $000 | PARENT 2011 $000 | PARENT 2010 $000 |
|---|---|---|---|---|---|
| Operating revenue | | | | | |
| Trading revenue: | | | | | |
| Energy sales | | 366,252 | 398,230 | – | – |
| Provision of utility services | | 797,346 | 757,824 | 595,529 | 578,951 |
| Customer contributions | | 31,055 | 29,773 | 29,245 | 25,083 |
| Management fees from related parties | 27 | – | – | 37,064 | 41,548 |
| | | 1,194,653 | 1,185,827 | 661,838 | 645,582 |
| Other income | | | | | |
| Gain on disposal of property, plant and equipment and software | | 49,911 | 1,613 | 43,520 | 802 |
| Dividends | 27 | – | – | 1,000 | 200 |
| | | 49,911 | 1,613 | 44,520 | 1,002 |
| Total | | 1,244,564 | 1,187,440 | 706,358 | 646,584 |

In May 2011, an agreement between Vector and Transpower which granted Transpower access rights to some of Vector's infrastructure became unconditional. This resulted in a gain of $42.4 million on the derecognition of certain assets, which is disclosed in gain on disposal of property, plant and equipment and software.

## 3. OPERATING EXPENDITURE

| | NOTE | GROUP 2011 $000 | GROUP 2010 $000 | PARENT 2011 $000 | PARENT 2010 $000 |
|---|---|---|---|---|---|
| Operating expenditure includes: | | | | | |
| Rental and operating lease costs | | 3,307 | 4,104 | 1,830 | 2,639 |
| Other administration expenses | | 14,016 | 13,813 | 10,917 | 10,382 |
| Loss on disposal of property, plant and equipment and software | | 6,363 | 6,289 | 3,776 | 3,712 |
| Bad debts written-off | | 3,531 | 2,737 | 2,191 | 1,489 |
| (Decrease)/increase in provision for doubtful debts | | (958) | (1,039) | (621) | 857 |
| Donations | | 27 | 4 | 27 | 4 |
| Directors' fees | 28 | 1,087 | 987 | 1,001 | 900 |
| Contributions to KiwiSaver | | 838 | 598 | 754 | 529 |
| Auditor's remuneration: | | | | | |
| Audit fees paid to auditors – KPMG | | 673 | 707 | 522 | 561 |
| Fees paid for other assurance services provided – KPMG | | 905 | 592 | 905 | 592 |

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.

## 4. NET FINANCE COSTS

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2011 $000 | 2010 $000 | 2011 $000 | 2010 $000 |
| Finance costs | | | | |
| Interest expense | 187,268 | 177,599 | 186,656 | 177,043 |
| Loss on ineffective portion of cash flow hedges | 39 | – | 39 | – |
| Loss on fair value movement on hedging instruments | 155,311 | 42,976 | 155,311 | 42,976 |
| Profit on fair value movement on hedged items | (155,113) | (43,070) | (155,113) | (43,070) |
| Capitalised interest | (4,889) | (6,035) | (3,079) | (3,440) |
| Other net finance expenses | 3,902 | 2,959 | 3,885 | 2,970 |
| | 186,518 | 174,429 | 187,699 | 176,479 |
| Finance income | | | | |
| Interest income | (8,289) | (7,456) | (11,109) | (9,310) |
| | (8,289) | (7,456) | (11,109) | (9,310) |
| Net finance costs | 178,229 | 166,973 | 176,590 | 167,169 |

Interest is capitalised on property, plant and equipment and software while under construction at an average rate of 7.2% per annum (2010: 7.1%).

During the year, $49.5 million (2010: $53.9 million) was transferred from the cash flow hedge reserve to interest expense. In accordance with the group's accounting policy any fair value movements relating to derivatives designated in a cash flow hedge relationship taken through other comprehensive income and accumulated in the cash flow hedge reserve are recycled in finance costs in the periods when hedged items are recognised in the income statement.

The group has entered into interest rate swaps and cross currency interest rate swaps to hedge the interest rate risk and foreign exchange risk of forecasted borrowings for the reporting periods 2012 to 2021. Any cash flow hedge fair value movements included within the cash flow hedge reserve in relation to those swaps will be recycled in finance costs in the period in which the hedged items are recognised in the income statement.

## 5. INCOME TAX EXPENSE

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2011 $000 | 2010 $000 | 2011 $000 | 2010 $000 |
| **Current income tax** | | | | |
| Current income tax expense | 87,602 | 68,059 | 35,709 | 22,435 |
| Relating to losses transferred from subsidiaries | – | – | (1,214) | (847) |
| Prior period adjustments recognised in the current period | (3,889) | 162 | (2,330) | 228 |
| **Deferred income tax** | | | | |
| Relating to property, plant and equipment | 2,094 | 13,497 | 3,887 | 3,915 |
| Relating to other items in the statement of financial position | 5,107 | (7,303) | 4,717 | 433 |
| Relating to losses | (2,673) | (2,314) | – | – |
| Relating to future change in buildings depreciation rules | 1,471 | 9,232 | 2,373 | 7,939 |
| Relating to future reduction in tax rate | (6,211) | (31,271) | (1,391) | (27,365) |
| Prior period adjustments recognised in the current period | (581) | (770) | 176 | (1,325) |
| Income tax expense | 82,920 | 49,292 | 41,927 | 5,413 |
| **Reconciliation of income tax expense** | | | | |
| Profit before income tax | 286,767 | 248,410 | 137,095 | 98,362 |
| Tax at current rate of 30% | 86,030 | 74,523 | 41,129 | 29,509 |
| Future reduction in tax rate impacting deferred tax | (6,211) | (31,271) | (1,391) | (27,365) |
| Future change in buildings depreciation rules impacting deferred tax | 1,471 | 9,232 | 2,373 | 7,939 |
| Non-taxable items: | | | | |
| Customer contributions | – | (7,865) | – | (6,604) |
| Non-deductible expenses | 2,631 | – | 2,608 | – |
| Impairment of investment in associate | 699 | 1,241 | 699 | 1,241 |
| Re-measurement of non-controlling interest in Advanced Metering Services Limited | – | – | – | 537 |
| Losses transferred from subsidiaries | – | – | (1,214) | (847) |
| Other | (1,700) | 3,432 | (2,277) | 1,003 |
| Income tax expense | 82,920 | 49,292 | 41,927 | 5,413 |

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 re-measured its deferred tax liability to reflect these changes resulting in a reduction in income tax expense for the period ended 30 June 2011 of $4.7 million (2010: $22.0 million).

## 6. INCOME TAX

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2011 $000 | 2010 $000 | 2011 $000 | 2010 $000 |
| **Current tax asset** | | | | |
| Prepaid tax | 14,225 | 35,193 | 14,365 | 34,838 |
| Total | 14,225 | 35,193 | 14,365 | 34,838 |
| **Non-current tax asset** | | | | |
| Research and development tax credit | – | 448 | – | – |
| Total | – | 448 | – | – |
| **Current tax liability** | | | | |
| Income tax payable | – | 1,428 | – | – |
| Total | – | 1,428 | – | – |
| **Imputation balances** | | | | |
| Balance at beginning of the period | (23,090) | (24,944) | – | – |
| Income tax payments during the period | 58,621 | 59,828 | – | – |
| Imputation credits attaching to dividends paid | (59,589) | (57,974) | – | – |
| Balance at end of the period | (24,058) | (23,090) | – | – |
| The imputation credits are available to shareholders of the parent: | | | | |
| Through direct shareholding in the parent | (26,340) | (25,264) | – | – |
| Through indirect shareholding in subsidiary | 2,282 | 2,174 | – | – |
| Total | (24,058) | (23,090) | – | – |

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

## 7. DEFERRED TAX ASSETS

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2011 $000 | 2010 $000 | 2011 $000 | 2010 $000 |
| Balance at beginning of the period | 2,700 | 1,137 | – | – |
| Transfer to current tax on utilisation of tax losses | (129) | (8) | – | – |
| Acquisition of subsidiary | – | 1,764 | – | – |
| Prior period adjustments recognised in the current period | (260) | – | | |
| Impact of future reduction in tax rate | 24 | (193) | – | – |
| Balance at end of the period | 2,335 | 2,700 | – | – |

The deferred tax assets acquired in 2010 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.

## 8. DEFERRED TAX LIABILITIES

**GROUP 2011**

| | 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 | 528,858 | (7,161) | (2,314) | (43,152) | 1,786 | 478,017 |
| Transfer to current tax on utilisation of tax losses | – | – | 1,214 | – | – | 1,214 |
| Amounts recognised in the income statement: | | | | | | |
| Relating to the current period | 2,094 | (3,916) | (2,673) | – | 9,023 | 4,528 |
| Prior period adjustments recognised in the current period | (717) | (2,036) | 301 | – | 1,611 | (841) |
| Relating to future change in buildings depreciation rules | 1,471 | – | – | – | – | 1,471 |
| Relating to future reduction in tax rate | (5,723) | 255 | 231 | – | (950) | (6,187) |
| Amounts recognised directly in other comprehensive income | – | – | – | (13,178) | – | (13,178) |
| Amounts recognised directly in other comprehensive income relating to future reduction in tax rate | – | – | – | 878 | – | 878 |
| Balance at end of the period | 525,983 | (12,858) | (3,241) | (55,452) | 11,470 | 465,902 |
| Deferred tax assets | – | (12,858) | (3,241) | (55,452) | – | (71,551) |
| Deferred tax liabilities | 525,983 | – | – | – | 11,470 | 537,453 |
| Net deferred tax liabilities | 525,983 | (12,858) | (3,241) | (55,452) | 11,470 | 465,902 |

**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 liabilities | 528,858 | (7,161) | (2,314) | (43,152) | 1,786 | 478,017 |

### 8. DEFERRED TAX LIABILITIES (CONT.) ›››

PARENT 2011

| | PROPERTY, PLANT AND EQUIPMENT $000 | PROVISIONS AND ACCRUALS $000 | HEDGE RESERVE $000 | OTHER $000 | TOTAL $000 |
|---|---|---|---|---|---|
| Balance at beginning of the period | 393,309 | (3,464) | (43,152) | 1,201 | 347,894 |
| Amounts recognised in the income statement: | | | | | |
| Relating to the current period | 3,887 | (3,181) | – | 7,898 | 8,604 |
| Prior period adjustments recognised in the current period | (79) | (294) | – | 549 | 176 |
| Relating to future change in buildings depreciation rules | 2,373 | – | – | – | 2,373 |
| Relating to future reduction in tax rate | (942) | 88 | – | (537) | (1,391) |
| Amounts recognised directly in other comprehensive income | – | – | (13,178) | – | (13,178) |
| Amounts recognised directly in other comprehensive income relating to future reduction in tax rate | – | – | 878 | – | 878 |
| Balance at end of the period | 398,548 | (6,851) | (55,452) | 9,111 | 345,356 |
| Deferred tax assets | – | (6,851) | (55,452) | – | (62,303) |
| Deferred tax liabilities | 398,548 | – | – | 9,111 | 407,659 |
| Net deferred tax liabilities | 398,548 | (6,851) | (55,452) | 9,111 | 345,356 |

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 liabilities | 393,309 | (3,464) | (43,152) | 1,201 | 347,894 |

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.

## 9. TRANSACTIONS WITH OWNERS

Vector Limited's final dividend for the year ended 30 June 2010 of 7.5 cents per share was paid on 13 September 2010 with a supplementary dividend of $0.4 million (equating to 1.32 cents per non-resident share). The interim dividend for the current year of 6.75 cents per share was paid on 14 April 2011 with a supplementary dividend of $0.4 million (equating to 1.19 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 (2010: 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.

## 10. FINANCIAL RATIOS

### Earnings per share

The calculation of basic earnings per share for the year ended 30 June 2011 is based on the net profit attributable to owners of the parent of $201.4 million (2010: $193.5 million) and the number of ordinary shares outstanding during the year ended 30 June 2011 of 995,755,077 (2010: 995,755,077). 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 2011 are based on the carrying amounts of the total assets of $5,579.0 million (2010: $5,550.9 million) and net assets of $2,112.7 million (2010: $2,084.2 million) less total intangible assets of $1,612.6 million (2010: $1,612.2 million) and 995,755,077 ordinary shares outstanding as at 30 June 2011 (2010: 995,755,077).

## 11. RECEIVABLES AND PREPAYMENTS

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2011 $000 | 2010 $000 | 2011 $000 | 2010 $000 |
| Current | | | | |
| Trade receivables | 174,651 | 143,367 | 113,602 | 80,104 |
| Provision for doubtful debts | (3,899) | (4,857) | (3,212) | (3,833) |
| | 170,752 | 138,510 | 110,390 | 76,271 |
| Prepayments | 7,000 | 6,824 | 5,107 | 4,262 |
| Interest receivable | 11,807 | 18,393 | 11,807 | 18,393 |
| Other receivables | 45 | 40 | 40 | 40 |
| Total | 189,604 | 163,767 | 127,344 | 98,966 |
| Non-current | | | | |
| Other receivables | 1,409 | 1,428 | 1,409 | 1,428 |
| Total | 1,409 | 1,428 | 1,409 | 1,428 |

## 12. INVENTORIES

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2011 $000 | 2010 $000 | 2011 $000 | 2010 $000 |
| Natural gas | 1,582 | 1,667 | – | – |
| Trading stock | 1,881 | 2,504 | – | – |
| Consumable spares | – | 33 | – | 33 |
| Total | 3,463 | 4,204 | – | 33 |

## 13. INVESTMENTS

Investments in group companies comprise:

| | PRINCIPAL ACTIVITY | PERCENTAGE HELD 2011 | 2010 |
|---|---|---|---|
| **Trading 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 | 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% | 100% |
| **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% |
| Broadband Services Limited | Dormant | 100% | 100% |
| Vector ESPS 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% | 22% |
| **Joint venture interests** | | | |
| Kapuni Energy Joint Venture (unincorporated) | Cogeneration | 50% | 50% |

An impairment loss of $2.3 million has been recognised in respect of the group's investment in NZ Windfarms Limited during the year ended 30 June 2011 (2010: loss of $4.1 million).

All entities have a balance date of 30 June, apart from Tree Scape Limited, Treescape Australasia Pty 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.

Salamanca Holdings Limited was removed from the Companies Register on 15 February 2011.

UnitedNetworks Employee Share Schemes Trustee Limited changed its name to Vector ESPS Trustee Limited on 4 March 2011.

## 14. INVESTMENT IN ASSOCIATES

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2011 $000 | 2010 $000 | 2011 $000 | 2010 $000 |
| Carrying amount of associates | | | | |
| Balance at beginning of the period | 25,525 | 28,193 | 16,374 | 17,511 |
| Re-measurement and derecognition of non-controlling interest in Advanced Metering Services Limited | – | (3,130) | – | (4,104) |
| Impairment of investment in NZ Windfarms Limited | (2,330) | (4,136) | (2,330) | (4,136) |
| Acquisition of further investment in NZ Windfarms Limited | – | 7,103 | – | 7,103 |
| Share of net profit/(loss) of associates | 970 | (2,305) | – | – |
| Share of other comprehensive income of associates | 87 | – | – | – |
| Dividends received from associate | (1,176) | (200) | – | – |
| Balance at end of the period | 23,076 | 25,525 | 14,044 | 16,374 |
| Equity accounted earnings of associates | | | | |
| Profit/(loss) before income tax | 1,362 | (2,824) | – | – |
| Income tax (expense)/benefit | (392) | 519 | – | – |
| Share of net profit/(loss) of associates | 970 | (2,305) | – | – |
| Total recognised revenues and expenses | 970 | (2,305) | – | – |

The amount of goodwill included in the carrying amount of investments in associates is $15.8 million (2010: $15.8 million).

The share price of NZ Windfarms Limited declined between 30 June 2010 and 30 June 2011 from $0.21 per share to $0.15 per share. The recoverable amount determined as at 30 June 2011 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. Accordingly, an impairment loss of $2.3 million has been recognised in respect of the group's investment in its associate company, NZ Windfarms Limited (2010: loss of $4.1 million). This share price supports the current carrying value of the group's investment in NZ Windfarms Limited.

| | 2011 $000 | 2010 $000 |
|---|---|---|
| Summarised financial information of associates (100%) | | |
| Total assets | 151,538 | 142,131 |
| Total liabilities | 31,909 | 21,880 |
| Total revenue | 51,534 | 50,769 |
| Total net profit/(loss) after tax | 1,559 | (5,019) |

## 15. INTEREST IN 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. Vector Kapuni Limited, the wholly owned subsidiary which directly participates as a 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.

## 16. INTANGIBLE ASSETS

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2011 $000 | 2010 $000 | 2011 $000 | 2010 $000 |
| **Current** | | | | |
| Emission trading scheme units | 438 | – | 438 | – |
| Total | 438 | – | 438 | – |
| **Non-current** | | | | |
| Goodwill | 1,555,288 | 1,554,335 | 515,110 | 515,110 |
| Contractual commitments | 3,846 | 2,008 | – | – |
| Easements | 12,923 | 12,900 | 12,654 | 12,654 |
| Software | 40,065 | 42,985 | 24,515 | 27,006 |
| Total | 1,612,122 | 1,612,228 | 552,279 | 554,770 |

| | GROUP 2011 | | | | |
|---|---|---|---|---|---|
| | GOODWILL $000 | CONTRACTS $000 | EASEMENTS $000 | SOFTWARE $000 | TOTAL $000 |
| **Cost** | | | | | |
| Balance at beginning of the period | 1,554,335 | 2,147 | 12,900 | 139,951 | 1,709,333 |
| Acquisition of businesses | 953 | 2,929 | – | (2,631) | 1,251 |
| Disposals | – | – | (725) | (2,902) | (3,627) |
| Transfers from property, plant and equipment | – | – | 748 | 12,998 | 13,746 |
| Transfers to other classes | – | (1,230) | – | 1,230 | – |
| Balance at end of the period | 1,555,288 | 3,846 | 12,923 | 148,646 | 1,720,703 |
| **Accumulated amortisation** | | | | | |
| Balance at beginning of the period | – | (139) | – | (96,966) | (97,105) |
| Amortisation for the period | – | (238) | – | (14,140) | (14,378) |
| Disposals | – | – | – | 2,902 | 2,902 |
| Transfers to other classes | – | 377 | – | (377) | – |
| Balance at end of the period | – | – | – | (108,581) | (108,581) |
| Carrying amount at 30 June 2011 | 1,555,288 | 3,846 | 12,923 | 40,065 | 1,612,122 |

| | GROUP 2010 | | | | |
|---|---|---|---|---|---|
| | GOODWILL $000 | CONTRACTS $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 | – | (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 |

| | PARENT 2011 | | | |
|---|---|---|---|---|
| | GOODWILL $000 | EASEMENTS $000 | SOFTWARE $000 | TOTAL $000 |
| Cost | | | | |
| Balance at beginning of the period | 515,110 | 12,654 | 98,050 | 625,814 |
| Disposals | – | (725) | (1,138) | (1,863) |
| Transfers from property, plant and equipment | – | 725 | 6,534 | 7,259 |
| Balance at end of the period | 515,110 | 12,654 | 103,446 | 631,210 |
| Accumulated amortisation | | | | |
| Balance at beginning of the period | – | – | (71,044) | (71,044) |
| Amortisation for the period | – | – | (9,025) | (9,025) |
| Disposals | – | – | 1,138 | 1,138 |
| Balance at end of the period | – | – | (78,931) | (78,931) |
| Carrying amount at 30 June 2011 | 515,110 | 12,654 | 24,515 | 552,279 |

| | PARENT 2010 | | | |
|---|---|---|---|---|
| | 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 | – | – | (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 |

## 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, $220.2 million for Gas Wholesale, and $14.8 million for Technology (2010: $852.2 million, $468.1 million, $219.2 million, $14.8 million respectively).

### Impairment testing

The recoverable amounts attributable to the electricity, gas transportation and gas wholesale segments and the metering cash generating unit are calculated on the basis of value-in-use using discounted cash flow models. For the communications cash generating unit both value-in-use and fair value less costs to sell were considered. Future cash flows are projected out based on actual results and board-approved business plans. For the electricity and gas transportation segments and the metering cash generating unit a ten year period has been used as management believes that a ten year forecast period is justified due to the long-term nature of the group's capital investment in these businesses. A five year period has been used for the gas wholesale segment and the communications cash generating unit given the markets these businesses operate in. Key assumptions include the level of future EBITDA and levels of maintenance expenditure for each segment. Terminal growth rates in a range of 0.0% to 3.0% are applied. Pre-tax discount rates between 8.6% and 16.6% 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. For the electricity segment we have considered the effective price path adjustment indicated by the Commerce Commission on 15 August 2011 and the recoverable amount exceeds the carrying value based on the use of that price path reset. For the gas transportation segment there is less clarity as to the expected price path as the Commerce Commission process is less advanced. Key assumptions include those set out above and in addition the regulatory asset base value, the regulatory WACC and the approach of the Commission to a number of inputs. The Commerce Commission issued a discussion paper on 22 August 2011 that did not provide any quantitative or illustrative information to establish the starting prices which will apply from July 2012. Vector disputes the Commerce Commission process and approach and is exercising its statutory rights through the courts to achieve certainty and an appropriate regulatory outcome. The recoverable amount exceeds the carrying value, however, it is not possible at present to ascertain reasonably possible changes in key assumptions which would result in the recoverable amount and the carrying amount being equal.

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.

## 17. PROPERTY, PLANT AND EQUIPMENT

GROUP 2011

| | DISTRIBUTION SYSTEMS $000 | DISTRIBUTION LAND $000 | DISTRIBUTION BUILDINGS $000 | ELECTRICITY AND GAS METERS $000 | COGEN PLANT $000 |
|---|---|---|---|---|---|
| Cost | | | | | |
| Balance at beginning of the period | 3,355,552 | 67,931 | 46,616 | 239,093 | 11,574 |
| Additions | 11 | – | – | 1,308 | 1,592 |
| Transfers: | | | | | |
| Intangible assets | – | – | – | – | – |
| Other classes | 167,855 | 1,161 | 6,142 | 51,641 | (892) |
| Disposals | (19,782) | (59) | – | (886) | (1,608) |
| Balance at end of the period | 3,503,636 | 69,033 | 52,758 | 291,156 | 10,666 |
| Accumulated depreciation | | | | | |
| Balance at beginning of the period | (399,192) | – | (5,110) | (78,830) | (8,819) |
| Depreciation | (100,910) | – | (1,540) | (33,370) | (1,732) |
| Transfers: | | | | | |
| Intangible assets | – | – | – | – | – |
| Other classes | – | – | – | (16) | 813 |
| Disposals | 5,239 | – | – | 442 | 939 |
| Balance at end of the period | (494,863) | – | (6,650) | (111,774) | (8,799) |
| Carrying amount at 30 June 2011 | 3,008,773 | 69,033 | 46,108 | 179,382 | 1,867 |

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 2011

| COMPUTER AND TELCO EQUIPMENT $000 | MOTOR VEHICLES AND MOBILE EQUIPMENT $000 | OTHER PLANT AND EQUIPMENT $000 | FREEHOLD LAND $000 | BUILDINGS $000 | LEASEHOLD IMPROVEMENTS $000 | CAPITAL WORK IN PROGRESS $000 | TOTAL $000 |
|---|---|---|---|---|---|---|---|
| 131,852 | 6,402 | 128,577 | 6,037 | 2,974 | 10,443 | 103,076 | 4,110,127 |
| 2,107 | 1,432 | 4,440 | – | – | – | 246,206 | 257,096 |
| – | – | – | – | – | – | (13,746) | (13,746) |
| 23,079 | 727 | 4,839 | – | 94 | 813 | (255,459) | – |
| (10,389) | (1,681) | (329) | (2,362) | – | (504) | (104) | (37,704) |
| 146,649 | 6,880 | 137,527 | 3,675 | 3,068 | 10,752 | 79,973 | 4,315,773 |
| (42,535) | (3,578) | (23,578) | – | (326) | (7,914) | – | (569,882) |
| (9,268) | (881) | (6,963) | – | (117) | (1,035) | – | (155,816) |
| – | – | – | – | – | – | – | – |
| – | – | (173) | – | (94) | (530) | – | – |
| 7,376 | 1,292 | 23 | – | – | 479 | – | 15,790 |
| (44,427) | (3,167) | (30,691) | – | (537) | (9,000) | – | (709,908) |
| 102,222 | 3,713 | 106,836 | 3,675 | 2,531 | 1,752 | 79,973 | 3,605,865 |

## GROUP 2010

| COMPUTER AND TELCO EQUIPMENT $000 | MOTOR VEHICLES AND MOBILE EQUIPMENT $000 | OTHER PLANT AND EQUIPMENT $000 | FREEHOLD LAND $000 | BUILDINGS $000 | LEASEHOLD IMPROVEMENTS $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 |

### 17. PROPERTY, PLANT AND EQUIPMENT (CONT.) »»

**PARENT 2011**

| | DISTRIBUTION SYSTEMS $000 | DISTRIBUTION LAND $000 | DISTRIBUTION BUILDINGS $000 |
|---|---|---|---|
| Cost | | | |
| Balance at beginning of the period | 2,670,447 | 67,889 | 46,597 |
| Additions | 4 | – | – |
| Transfers: | | | |
| Intangible assets | – | – | – |
| Other classes | 147,771 | 1,161 | 6,142 |
| Disposals | (19,782) | (59) | – |
| Balance at end of the period | 2,798,440 | 68,991 | 52,739 |
| Accumulated depreciation | | | |
| Balance at beginning of the period | (296,381) | – | (5,097) |
| Depreciation | (81,697) | – | (1,540) |
| Transfers: | | | |
| Other classes | – | – | – |
| Disposals | 5,239 | – | – |
| Balance at end of the period | (372,839) | – | (6,637) |
| Carrying amount at 30 June 2011 | 2,425,601 | 68,991 | 46,102 |

**PARENT 2010**

| | DISTRIBUTION SYSTEMS $000 | DISTRIBUTION LAND $000 | DISTRIBUTION BUILDINGS $000 |
|---|---|---|---|
| Cost | | | |
| Balance at beginning of the period | 2,548,741 | 69,394 | 45,358 |
| Additions | – | – | – |
| Transfers: | | | |
| Intangible assets | – | – | – |
| Other classes | 127,754 | (1,505) | 1,239 |
| Disposals | (6,048) | – | – |
| Balance at end of the period | 2,670,447 | 67,889 | 46,597 |
| Accumulated depreciation | | | |
| Balance at beginning of the period | (216,789) | – | (3,793) |
| Depreciation | (79,985) | – | (1,299) |
| Transfers: | | | |
| Other classes | (266) | – | (5) |
| Disposals | 659 | – | – |
| Balance at end of the period | (296,381) | – | (5,097) |
| Carrying amount at 30 June 2010 | 2,374,066 | 67,889 | 41,500 |

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 7.2% per annum (2010: 7.1% per annum). During the year $18.1 million (2010: $17.7 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 $2.8 million and in motor vehicles and mobile equipment at a net book value of $1.4 million (2010: $3.7 million and $1.7 million respectively).

Property, plant and equipment includes $1.4 million (2010: $1.7 million) of motor vehicles and mobile equipment for which ownership passes to the lessor in the event of default on the finance lease arrangement.

## PARENT 2011

| COMPUTER AND TELCO EQUIPMENT $000 | MOTOR VEHICLES AND MOBILE EQUIPMENT $000 | OTHER PLANT AND EQUIPMENT $000 | FREEHOLD LAND $000 | BUILDINGS $000 | LEASEHOLD IMPROVEMENTS $000 | CAPITAL WORK IN PROGRESS $000 | TOTAL $000 |
|---|---|---|---|---|---|---|---|
| 14,014 | 882 | 12,892 | 420 | 972 | 8,915 | 72,399 | 2,895,427 |
| – | 85 | 699 | – | – | – | 153,186 | 153,974 |
| – | – | – | – | – | – | (7,259) | (7,259) |
| 8,884 | – | (437) | – | – | 109 | (163,630) | – |
| (4,275) | (249) | – | (350) | – | (375) | – | (25,090) |
| 18,623 | 718 | 13,154 | 70 | 972 | 8,649 | 54,696 | 3,017,052 |
| (10,389) | (518) | (2,692) | – | (216) | (7,379) | – | (322,672) |
| (4,186) | (102) | (314) | – | (21) | (863) | – | (88,723) |
| – | – | – | – | – | – | – | – |
| 3,366 | 141 | – | – | – | 375 | – | 9,121 |
| (11,209) | (479) | (3,006) | – | (237) | (7,867) | – | (402,274) |
| 7,414 | 239 | 10,148 | 70 | 735 | 782 | 54,696 | 2,614,778 |

## PARENT 2010

| COMPUTER AND TELCO EQUIPMENT $000 | MOTOR VEHICLES AND MOBILE EQUIPMENT $000 | OTHER PLANT AND EQUIPMENT $000 | FREEHOLD LAND $000 | BUILDINGS $000 | LEASEHOLD IMPROVEMENTS $000 | CAPITAL WORK IN PROGRESS $000 | TOTAL $000 |
|---|---|---|---|---|---|---|---|
| 12,634 | 894 | 12,157 | 420 | 1,347 | 8,240 | 61,636 | 2,760,821 |
| – | – | 845 | – | – | – | 146,599 | 147,444 |
| – | – | – | – | – | – | (6,778) | (6,778) |
| 1,380 | – | (110) | – | (375) | 675 | (129,058) | – |
| – | (12) | – | – | – | – | – | (6,060) |
| 14,014 | 882 | 12,892 | 420 | 972 | 8,915 | 72,399 | 2,895,427 |
| (8,318) | (418) | (2,442) | – | (571) | (4,768) | – | (237,099) |
| (2,344) | (112) | (249) | – | (20) | (2,235) | – | (86,244) |
| 273 | – | (1) | – | 375 | (376) | – | – |
| – | 12 | – | – | – | – | – | 671 |
| (10,389) | (518) | (2,692) | – | (216) | (7,379) | – | (322,672) |
| 3,625 | 364 | 10,200 | 420 | 756 | 1,536 | 72,399 | 2,572,755 |

## 18. PAYABLES AND ACCRUALS

| | | GROUP | | PARENT | |
|---|---|---|---|---|---|
| | NOTE | 2011 $000 | 2010 $000 | 2011 $000 | 2010 $000 |
| Current | | | | | |
| Trade payables and other creditors | | 151,180 | 131,870 | 86,746 | 77,715 |
| Deferred income | | 4,022 | 2,886 | 1,491 | – |
| Finance leases | 23 | 1,279 | 1,836 | 216 | 256 |
| Deferred consideration payable | | 2,567 | 2,546 | 1,500 | 1,500 |
| Interest payable | | 39,321 | 49,993 | 39,321 | 49,993 |
| Total | | 198,369 | 189,131 | 129,274 | 129,464 |
| Non-current | | | | | |
| Deferred income | | 20,559 | 22,126 | – | – |
| Deferred consideration payable | | 830 | 1,655 | – | – |
| Finance leases | 23 | 1,580 | 1,448 | 74 | 116 |
| Other non-current payables | | 592 | 592 | 592 | 592 |
| Total | | 23,561 | 25,821 | 666 | 708 |

The deferred consideration payable is in respect of the investment in Energy Intellect Limited, which is an associate company of the group and the purchase of Advanced Metering Services Limited in 2010, which is a subsidiary of the group.

## 19. PROVISIONS

| | NOTE | GROUP 2011 $000 | GROUP 2010 $000 | PARENT 2011 $000 | PARENT 2010 $000 |
|---|---|---|---|---|---|
| Current | | | | | |
| Provision for employee entitlements | 20 | 5,817 | 5,481 | 5,365 | 5,048 |
| Provision for other contractual obligations | 21 | 12,669 | 11,344 | – | – |
| Total | | 18,486 | 16,825 | 5,365 | 5,048 |
| Non-current | | | | | |
| Decommissioning provision | 22 | 5,000 | 3,000 | – | – |
| Total | | 5,000 | 3,000 | – | – |

## 20. PROVISION FOR EMPLOYEE ENTITLEMENTS

| | GROUP 2011 $000 | GROUP 2010 $000 | PARENT 2011 $000 | PARENT 2010 $000 |
|---|---|---|---|---|
| Balance at beginning of the period | 5,481 | 5,825 | 5,048 | 5,439 |
| Acquisition of subsidiary | – | 382 | – | – |
| Additions/(utilised) | 336 | (726) | 317 | (391) |
| Balance at end of the period | 5,817 | 5,481 | 5,365 | 5,048 |

## 21. PROVISION FOR OTHER CONTRACTUAL OBLIGATIONS

| | GROUP 2011 $000 | GROUP 2010 $000 | PARENT 2011 $000 | PARENT 2010 $000 |
|---|---|---|---|---|
| Balance at beginning of the period | 11,344 | 11,559 | – | – |
| Additions | 1,515 | 770 | – | – |
| Utilised | – | – | – | – |
| Reversed to the income statement | (190) | (985) | – | – |
| Balance at end of the period | 12,669 | 11,344 | – | – |

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.

## 22. DECOMMISSIONING PROVISION

| | GROUP 2011 $000 | GROUP 2010 $000 | PARENT 2011 $000 | PARENT 2010 $000 |
|---|---|---|---|---|
| Balance at beginning of the period | 3,000 | 1,000 | – | – |
| Additions | 2,000 | 2,000 | – | – |
| Balance at end of the period | 5,000 | 3,000 | – | – |

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

## 23. 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 | |
|---|---|---|---|---|
| | 2011 $000 | 2010 $000 | 2011 $000 | 2010 $000 |
| Estimated capital expenditure contracted for at balance date but not provided | 79,884 | 117,489 | 34,744 | 25,720 |

### 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 | |
|---|---|---|---|---|
| | 2011 $000 | 2010 $000 | 2011 $000 | 2010 $000 |
| Within one year | 3,455 | 3,412 | 2,487 | 2,315 |
| One to five years | 10,588 | 2,930 | 8,598 | 992 |
| Beyond five years | 8,540 | 1,004 | 7,960 | 108 |
| Total | 22,583 | 7,346 | 19,045 | 3,415 |

### 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 | |
|---|---|---|---|---|
| | 2011 $000 | 2010 $000 | 2011 $000 | 2010 $000 |
| Minimum lease payments for finance lease liabilities | | | | |
| Within one year | 1,485 | 2,056 | 229 | 278 |
| One to five years | 1,762 | 1,576 | 82 | 121 |
| Total | 3,247 | 3,632 | 311 | 399 |
| Less: future finance costs | (388) | (348) | (21) | (27) |
| Present value of minimum lease payments | 2,859 | 3,284 | 290 | 372 |

| | | GROUP | | PARENT | |
|---|---|---|---|---|---|
| | NOTE | 2011 $000 | 2010 $000 | 2011 $000 | 2010 $000 |
| Present value of finance lease liabilities | | | | | |
| Within one year | 18 | 1,279 | 1,836 | 216 | 256 |
| One to five years | 18 | 1,580 | 1,448 | 74 | 116 |
| Present value of minimum lease payments | | 2,859 | 3,284 | 290 | 372 |

## 24. BORROWINGS

| GROUP 2011 | 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 | UNAMORTISED COSTS $000 | FAIR VALUE ADJUSTMENT ON HEDGED RISK $000 | CARRYING VALUE $000 |
|---|---|---|---|---|---|---|---|---|
| Bank loans | – | – | – | – | – | (217) | – | (217) |
| Working capital loans | – | – | – | – | – | (418) | – | (418) |
| Capital bonds – fixed rate | 307,205 | – | – | – | 307,205 | (645) | – | 306,560 |
| Senior bonds – fixed rate | – | – | 150,000 | – | 150,000 | (2,019) | 5,867 | 153,848 |
| Senior notes – USD fixed rate | – | 22,817 | – | 646,014 | 668,831 | (2,614) | (83,802) | 582,415 |
| Floating rate notes | – | – | 250,000 | 910,000 | 1,160,000 | (11,343) | – | 1,148,657 |
| Medium term notes – GBP fixed rate | – | – | – | 285,614 | 285,614 | (3,718) | (63,069) | 218,827 |
| Other | 275 | – | – | – | 275 | – | – | 275 |
| Total | 307,480 | 22,817 | 400,000 | 1,841,628 | 2,571,925 | (20,974) | (141,004) | 2,409,947 |
| Current borrowings | 307,480 | – | – | – | 307,480 | (733) | – | 306,747 |
| Non-current borrowings | – | 22,817 | 400,000 | 1,841,628 | 2,264,445 | (20,241) | (141,004) | 2,103,200 |
| Total | 307,480 | 22,817 | 400,000 | 1,841,628 | 2,571,925 | (20,974) | (141,004) | 2,409,947 |

| 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 | UNAMORTISED COSTS $000 | FAIR VALUE ADJUSTMENT ON HEDGED RISK $000 | CARRYING VALUE $000 |
|---|---|---|---|---|---|---|---|---|
| Bank loans | – | – | – | – | – | (235) | – | (235) |
| Working capital loans | – | – | – | – | – | (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 |

### 24. BORROWINGS (CONT.)

**PARENT 2011**

| | 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 | UNAMORTISED COSTS $000 | FAIR VALUE ADJUSTMENT ON HEDGED RISK $000 | CARRYING VALUE $000 |
|---|---|---|---|---|---|---|---|---|
| Bank loans | – | – | – | – | – | (217) | – | (217) |
| Working capital loans | – | – | – | – | – | (418) | – | (418) |
| Capital bonds – fixed rate | 307,205 | – | – | – | 307,205 | (645) | – | 306,560 |
| Senior bonds – fixed rate | – | – | 150,000 | – | 150,000 | (2,019) | 5,867 | 153,848 |
| Senior notes – USD fixed rate | – | 22,817 | – | 646,014 | 668,831 | (2,614) | (83,802) | 582,415 |
| Floating rate notes | – | – | 250,000 | 910,000 | 1,160,000 | (11,343) | – | 1,148,657 |
| Medium term notes | | | | | | | | |
| – GBP fixed rate | – | – | – | 285,614 | 285,614 | (3,718) | (63,069) | 218,827 |
| Total | 307,205 | 22,817 | 400,000 | 1,841,628 | 2,571,650 | (20,974) | (141,004) | 2,409,672 |
| Current borrowings | 307,205 | – | – | – | 307,205 | (733) | – | 306,472 |
| Non-current borrowings | – | 22,817 | 400,000 | 1,841,628 | 2,264,445 | (20,241) | (141,004) | 2,103,200 |
| Total | 307,205 | 22,817 | 400,000 | 1,841,628 | 2,571,650 | (20,974) | (141,004) | 2,409,672 |

**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 | UNAMORTISED COSTS $000 | FAIR VALUE ADJUSTMENT ON HEDGED RISK $000 | CARRYING VALUE $000 |
|---|---|---|---|---|---|---|---|---|
| Bank loans | – | – | – | – | – | (235) | – | (235) |
| Working capital loans | – | – | – | – | – | (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 |

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 – AUD 250 million floating rate with an interest rate of BBSW plus a margin were repaid on maturity in April 2011.

Capital bonds of $307.2 million 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 using a derivative contract to fix an exchange rate of USD 0.6574 for every NZD. Interest is paid semi-annually.

In December 2010, USD 182 million of senior notes were issued in a private placement to US institutional investors, using a derivative contract to fix an exchange rate of USD 0.7265 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 a fourth tranche in April 2007 ($200 million 10 year). In July 2009, the group repurchased $40 million of its floating rate notes from the $200 million tranche at a discount of $6.6 million. 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.

Fixed rate notes of GBP 115 million due to mature in January 2019 were placed using a derivative contract to fix an 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 2011 and 30 June 2010.

### 25. 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.

FAIR VALUES (FINANCIAL ASSETS)

| | GROUP 2011 | | | | GROUP 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | | | | | | | | |
| Loans and receivables: | | | | | | | | |
| Cash and cash equivalents | 120,407 | 206 | 120,613 | 120,613 | 114,812 | 143 | 114,955 | 114,955 |
| Trade receivables (net of doubtful debts provision) | 170,752 | – | 170,752 | 170,752 | 138,510 | – | 138,510 | 138,510 |
| Other receivables | 45 | – | 45 | 45 | 40 | – | 40 | 40 |
| Total | 291,204 | 206 | 291,410 | 291,410 | 253,362 | 143 | 253,505 | 253,505 |
| Non-current assets | | | | | | | | |
| Loans and receivables: | | | | | | | | |
| Other receivables | 1,409 | – | 1,409 | 1,409 | 1,428 | – | 1,428 | 1,428 |
| Total | 1,409 | – | 1,409 | 1,409 | 1,428 | – | 1,428 | 1,428 |

| | PARENT 2011 | | | | PARENT 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | | | | | | | | |
| Loans and receivables: | | | | | | | | |
| Cash and cash equivalents | 108,013 | 206 | 108,219 | 108,219 | 96,791 | 143 | 96,934 | 96,934 |
| Advance to subsidiaries | 810,655 | – | 810,655 | 810,655 | 637,868 | – | 637,868 | 637,868 |
| Trade receivables (net of doubtful debts provision) | 110,390 | – | 110,390 | 110,390 | 76,271 | – | 76,271 | 76,271 |
| Other receivables | 40 | – | 40 | 40 | 40 | – | 40 | 40 |
| Total | 1,029,098 | 206 | 1,029,304 | 1,029,304 | 810,970 | 143 | 811,113 | 811,113 |
| Non-current assets | | | | | | | | |
| Loans and receivables: | | | | | | | | |
| Other receivables | 1,409 | – | 1,409 | 1,409 | 1,428 | – | 1,428 | 1,428 |
| Total | 1,409 | – | 1,409 | 1,409 | 1,428 | – | 1,428 | 1,428 |

FAIR VALUES (FINANCIAL LIABILITIES)

| | GROUP 2011 | | | | GROUP 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | | | | | | | | |
| Liabilities at amortised cost: | | | | | | | | |
| Trade payables and other creditors | 151,180 | – | 151,180 | 151,180 | 131,870 | – | 131,870 | 131,870 |
| Deferred consideration payable | 2,567 | – | 2,567 | 2,567 | 2,546 | – | 2,546 | 2,546 |
| Bank loans | (88) | – | (88) | – | (235) | – | (235) | – |
| Working capital loans | – | – | – | – | (224) | – | (224) | – |
| Capital bonds – fixed rate | 306,560 | 3,055 | 309,615 | 320,270 | – | – | – | – |
| Medium term notes – AUD floating rate | – | – | – | – | 249,538 | 2,967 | 252,505 | 252,522 |
| Other | 275 | – | 275 | 275 | 575 | – | 575 | 575 |
| Total | 460,494 | 3,055 | 463,549 | 474,292 | 384,070 | 2,967 | 387,037 | 387,513 |
| Non-current liabilities | | | | | | | | |
| Liabilities at amortised cost: | | | | | | | | |
| Deferred consideration payable | 830 | – | 830 | 830 | 1,655 | – | 1,655 | 1,655 |
| Other non-current payables | 592 | – | 592 | 592 | 592 | – | 592 | 592 |
| Bank loans | (129) | – | (129) | – | – | – | – | – |
| Working capital loans | (418) | – | (418) | – | – | – | – | – |
| Floating rate notes | 1,148,657 | 6,562 | 1,155,219 | 1,205,880 | 1,146,455 | 6,644 | 1,153,099 | 1,205,846 |
| Capital bonds – fixed rate | – | – | – | – | 305,908 | 3,298 | 309,206 | 325,603 |
| Senior bonds – fixed rate | 153,848 | 2,461 | 156,309 | 157,463 | 150,147 | 2,461 | 152,608 | 154,284 |
| Senior notes – USD fixed rate | 582,415 | 5,731 | 588,146 | 589,838 | 463,165 | 6,602 | 469,767 | 470,058 |
| Medium term notes – GBP fixed rate | 218,827 | 7,810 | 226,637 | 246,296 | 246,969 | 8,810 | 255,779 | 279,295 |
| Total | 2,104,622 | 22,564 | 2,127,186 | 2,200,899 | 2,314,891 | 27,815 | 2,342,706 | 2,437,333 |

### 25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONT.)

FAIR VALUES (FINANCIAL LIABILITIES) (CONT.)

| | PARENT 2011 | | | | PARENT 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | | | | | | | | |
| Liabilities at amortised cost: | | | | | | | | |
| Advances from subsidiaries | 1,061,134 | – | 1,061,134 | 1,061,134 | 797,884 | – | 797,884 | 797,884 |
| Trade payables and other creditors | 86,746 | – | 86,746 | 86,746 | 77,715 | – | 77,715 | 77,715 |
| Deferred consideration payable | 1,500 | – | 1,500 | 1,500 | 1,500 | – | 1,500 | 1,500 |
| Bank loans | (88) | – | (88) | – | (235) | – | (235) | – |
| Working capital loans | – | – | – | – | (224) | – | (224) | – |
| Capital bonds – fixed rate | 306,560 | 3,055 | 309,615 | 320,270 | – | – | – | – |
| Medium term notes – AUD floating rate | – | – | – | – | 249,538 | 2,967 | 252,505 | 252,522 |
| Total | 1,455,852 | 3,055 | 1,458,907 | 1,469,650 | 1,126,178 | 2,967 | 1,129,145 | 1,129,621 |
| Non-current liabilities | | | | | | | | |
| Liabilities at amortised cost: | | | | | | | | |
| Other non-current payables | 592 | – | 592 | 592 | 592 | – | 592 | 592 |
| Bank loans | (129) | – | (129) | – | – | – | – | – |
| Working capital loans | (418) | – | (418) | – | – | – | – | – |
| Capital bonds – fixed rate | – | – | – | – | 305,908 | 3,298 | 309,206 | 325,603 |
| Floating rate notes | 1,148,657 | 6,562 | 1,155,219 | 1,205,880 | 1,146,455 | 6,644 | 1,153,099 | 1,205,846 |
| Senior bonds – fixed rate | 153,848 | 2,461 | 156,309 | 157,463 | 150,147 | 2,461 | 152,608 | 154,284 |
| Senior notes – USD fixed rate | 582,415 | 5,731 | 588,146 | 589,838 | 463,165 | 6,602 | 469,767 | 470,058 |
| Medium term notes – GBP fixed rate | 218,827 | 7,810 | 226,637 | 246,296 | 246,969 | 8,810 | 255,779 | 279,295 |
| Total | 2,103,792 | 22,564 | 2,126,356 | 2,200,069 | 2,313,236 | 27,815 | 2,341,051 | 2,435,678 |

FAIR VALUES (DERIVATIVE FINANCIAL INSTRUMENTS)

| | GROUP & PARENT 2011 | | | | GROUP & PARENT 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 |
| Total | – | – | – | – | 11 | 6 | 17 | 17 |
| **Non-current assets** | | | | | | | | |
| Interest rate swaps | 6,068 | 770 | 6,838 | 6,838 | 2,739 | 767 | 3,506 | 3,506 |
| Cross currency swaps | – | – | – | – | 47,605 | 5,940 | 53,545 | 53,545 |
| Total | 6,068 | 770 | 6,838 | 6,838 | 50,344 | 6,707 | 57,051 | 57,051 |
| **Current liabilities** | | | | | | | | |
| Interest rate swaps | 5,584 | 1,881 | 7,465 | 7,465 | 8,138 | 4,049 | 12,187 | 12,187 |
| Cross currency swaps | – | – | – | – | 70 | (1,043) | (973) | (973) |
| Forward exchange contracts | 130 | – | 130 | 130 | 154 | – | 154 | 154 |
| Total | 5,714 | 1,881 | 7,595 | 7,595 | 8,362 | 3,006 | 11,368 | 11,368 |
| **Non-current liabilities** | | | | | | | | |
| Interest rate swaps | 129,214 | 6,836 | 136,050 | 136,050 | 117,092 | 6,750 | 123,842 | 123,842 |
| Cross currency swaps | 204,962 | (6,020) | 198,942 | 198,942 | 63,798 | (2,224) | 61,574 | 61,574 |
| Forward exchange contracts | 5,112 | – | 5,112 | 5,112 | 925 | – | 925 | 925 |
| Total | 339,288 | 816 | 340,104 | 340,104 | 181,815 | 4,526 | 186,341 | 186,341 |

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 valuation of the derivatives 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 2011 | GROUP & PARENT 2010 |
|---|---|---|
| **Foreign currency exchange (FX) rates** | | |
| NZD-GBP FX rate | 0.51675 | 0.45810 |
| NZD-USD FX rate | 0.82930 | 0.68480 |
| NZD-AUD FX rate | 0.77335 | 0.81525 |
| **Interest rate swap rates** | | |
| 3 month cash rate | 2.67000 | 3.13000 |
| 1 year semi-annual swap rate | 2.89000 | 3.71000 |
| 2 year semi-annual swap rate | 3.34000 | 4.07500 |
| 3 year semi-annual swap rate | 3.73500 | 4.35000 |
| 5 year semi-annual swap rate | 4.34000 | 4.76000 |
| 7 year semi-annual swap rate | 4.75300 | 5.06000 |
| 10 year semi-annual swap rate | 5.12000 | 5.35000 |

## 25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONT.) »»

### FAIR VALUES (CONT.)

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 and 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 fifty 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 maturity profile of interest rate swaps were as follows.

| | GROUP & PARENT 2011 | GROUP & PARENT 2010 |
|---|---|---|
| | NOTIONAL AMOUNT $000 | NOTIONAL AMOUNT $000 |
| Interest rate swaps (floating to fixed) | | |
| Maturing in less than 1 year | 215,000 | 475,000 |
| Maturing between 1 and 2 years | 150,000 | 215,000 |
| Maturing between 2 and 5 years | 600,000 | 150,000 |
| Maturing after 5 years | 150,000 | 500,000 |
| | 1,115,000 | 1,340,000 |
| Interest rate swaps (fixed to floating) | | |
| Maturing between 2 and 5 years | 150,000 | 150,000 |
| | 150,000 | 150,000 |
| Forward starting interest rate swaps (floating to fixed) | | |
| Maturing after 5 years | 510,000 | 660,000 |
| | 510,000 | 660,000 |

The maturity profile of cross currency swaps were as follows.

| | GROUP & PARENT 2011 | | GROUP & PARENT 2010 | |
|---|---|---|---|---|
| | USD/GBP PRINCIPAL AMOUNT '000 | NZD $000 | AUD/USD/GBP PRINCIPAL AMOUNT '000 | NZD $000 |
| Cross currency (AUD : NZD) | | | | |
| Maturing in less than 1 year | – | – | 203,750 | 250,000 |
| | | | 203,750 | 250,000 |
| Cross currency (USD : NZD) | | | | |
| Maturing between 1 and 2 years | 15,000 | 22,817 | – | – |
| Maturing between 2 and 5 years | – | – | 15,000 | 22,817 |
| Maturing after 5 years | 442,000 | 646,014 | 260,000 | 395,498 |
| | 457,000 | 668,831 | 275,000 | 418,315 |
| Cross currency (GBP : NZD) | | | | |
| Maturing after 5 years | 115,000 | 285,614 | 115,000 | 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 were fully hedged through cross currency swaps (eliminating the foreign currency risk). The majority of the ensuing floating exposure was 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 cash flows relating to 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.

| | GROUP & PARENT 2011 | | GROUP & PARENT 2010 | |
|---|---|---|---|---|
| CURRENCY | BUY '000 | MARK TO MARKET LOSS NZD $000 | BUY '000 | MARK TO MARKET LOSS NZD $000 |
| EUR | 1,064 | (130) | 716 | (157) |
| USD | 13,455 | (5,112) | 13,487 | (923) |
| Total | | (5,242) | | (1,080) |

The exposure the group has in foreign denominated borrowings has been appropriately managed through the cross currency interest rate swaps. Hence at balance date there is no significant exposure to foreign currency risk.

## 25. 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 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.

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 requires a bond or other form of security where deemed necessary.

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2011 FAIR VALUE $000 | 2010 FAIR VALUE $000 | 2011 FAIR VALUE $000 | 2010 FAIR VALUE $000 |
| Loans and receivables | 292,819 | 254,933 | 1,030,713 | 812,541 |
| Interest rate swaps | 6,838 | 3,506 | 6,838 | 3,506 |
| Cross currency swaps | – | 53,562 | – | 53,562 |

The ageing of trade receivables at balance date was:

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2011 CARRYING AMOUNT $000 | 2010 CARRYING AMOUNT $000 | 2011 CARRYING AMOUNT $000 | 2010 CARRYING AMOUNT $000 |
| Not past due | 156,825 | 120,367 | 104,288 | 70,142 |
| Past due 1-30 days | 6,667 | 9,308 | 1,773 | 1,533 |
| Past due 31-120 days | 1,577 | 4,114 | 806 | 1,440 |
| Past due more than 120 days | 9,582 | 9,578 | 6,735 | 6,989 |
| Total | 174,651 | 143,367 | 113,602 | 80,104 |

The group holds a provision for doubtful debts against the amounts disclosed above of $3.9 million (2010: $4.9 million).

Movements in the provision for doubtful debts were as follows:

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2011 $000 | 2010 $000 | 2011 $000 | 2010 $000 |
| Provision for doubtful debts at the beginning of the period | 4,857 | 5,896 | 3,833 | 2,976 |
| (Decrease)/increase in the provision | (958) | (1,039) | (621) | 857 |
| Provision for doubtful debts at end of the period | 3,899 | 4,857 | 3,212 | 3,833 |

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 $225 million (30 June 2010: $325 million).

There is a process in place for rolling and/or replacing the $307.2 million capital bonds prior to the upcoming election date of 15 June 2012.

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 2011 | | | | |
|---|---|---|---|---|---|
| | 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 | 151,180 | – | – | – | 151,180 |
| Deferred consideration | 2,567 | 830 | – | – | 3,397 |
| Capital bonds – fixed rate | 331,849 | – | – | – | 331,849 |
| Senior bonds – fixed rate | 11,733 | 11,668 | 167,550 | – | 190,951 |
| Senior notes – USD fixed rate | 28,034 | 45,767 | 81,268 | 642,802 | 797,871 |
| Floating rate notes | 37,306 | 44,619 | 429,048 | 1,058,812 | 1,569,785 |
| Medium term notes – GBP fixed rate | 17,059 | 16,878 | 50,905 | 273,453 | 358,295 |
| Other | 275 | – | – | – | 275 |
| Derivative financial (assets)/liabilities | | | | | |
| Cross currency swaps (USD : NZD) | | | | | |
| Inflow | (28,034) | (45,767) | (81,268) | (642,802) | (797,871) |
| Outflow | 28,127 | 55,859 | 124,210 | 846,399 | 1,054,595 |
| Cross currency swaps (GBP : NZD) | | | | | |
| Inflow | (17,059) | (16,878) | (50,905) | (273,453) | (358,295) |
| Outflow | 31,227 | 30,888 | 92,920 | 370,898 | 525,933 |
| Forward exchange contracts | | | | | |
| Inflow | (1,995) | – | (22,193) | – | (24,188) |
| Outflow | 1,995 | – | 22,193 | – | 24,188 |
| Net settled derivatives | | | | | |
| Interest rate swaps | 41,798 | 36,949 | 60,267 | 8,177 | 147,191 |
| | 636,062 | 180,813 | 873,995 | 2,284,286 | 3,975,156 |
| The above cash flows include: | | | | | |
| Net principal payments | 307,480 | 22,817 | 400,000 | 1,841,628 | 2,571,925 |
| Net interest and derivatives payments | 174,835 | 157,166 | 473,995 | 442,658 | 1,248,654 |
| Other payments | 153,747 | 830 | – | – | 154,577 |
| | 636,062 | 180,813 | 873,995 | 2,284,286 | 3,975,156 |

### 25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONT.) >>>

LIQUIDITY RISK (CONT.)

| | 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 CONTRACTUAL CASH FLOWS $000 |
| Non-derivative financial liabilities | | | | | |
| Trade payables and other creditors | 131,870 | – | – | – | 131,870 |
| Deferred consideration | 2,546 | 825 | 830 | – | 4,201 |
| 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 |
| | 575,842 | 486,721 | 641,615 | 2,296,185 | 4,000,363 |
| The above cash flows include: | | | | | |
| Net principal payments | 250,575 | 307,205 | 172,817 | 1,841,112 | 2,571,709 |
| Net interest and derivatives payments | 190,851 | 178,691 | 467,968 | 455,073 | 1,292,583 |
| Other payments | 134,416 | 825 | 830 | – | 136,071 |
| | 575,842 | 486,721 | 641,615 | 2,296,185 | 4,000,363 |

| | PARENT 2011 | | | | |
|---|---|---|---|---|---|
| | 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 | 86,746 | – | – | – | 86,746 |
| Deferred consideration | 1,500 | – | – | – | 1,500 |
| Capital bonds – fixed rate | 331,849 | – | – | – | 331,849 |
| Senior bonds – fixed rate | 11,733 | 11,668 | 167,550 | – | 190,951 |
| Senior notes – USD fixed rate | 28,034 | 45,767 | 81,268 | 642,802 | 797,871 |
| Floating rate notes | 37,306 | 44,619 | 429,048 | 1,058,812 | 1,569,785 |
| Medium term notes – GBP fixed rate | 17,059 | 16,878 | 50,905 | 273,453 | 358,295 |
| Derivative financial (assets)/liabilities | | | | | |
| Cross currency swaps (USD : NZD) | | | | | |
| Inflow | (28,034) | (45,767) | (81,268) | (642,802) | (797,871) |
| Outflow | 28,127 | 55,859 | 124,210 | 846,399 | 1,054,595 |
| Cross currency swaps (GBP : NZD) | | | | | |
| Inflow | (17,059) | (16,878) | (50,905) | (273,453) | (358,295) |
| Outflow | 31,227 | 30,888 | 92,920 | 370,898 | 525,933 |
| Forward exchange contracts | | | | | |
| Inflow | (1,995) | – | (22,193) | – | (24,188) |
| Outflow | 1,995 | – | 22,193 | – | 24,188 |
| Net settled derivatives | | | | | |
| Interest rate swaps | 41,798 | 36,949 | 60,267 | 8,177 | 147,191 |
| | 570,286 | 179,983 | 873,995 | 2,284,286 | 3,908,550 |
| The above cash flows include: | | | | | |
| Net principal payments | 307,205 | 22,817 | 400,000 | 1,841,628 | 2,571,650 |
| Net interest and derivatives payments | 174,835 | 157,166 | 473,995 | 442,658 | 1,248,654 |
| Other payments | 88,246 | – | – | – | 88,246 |
| | 570,286 | 179,983 | 873,995 | 2,284,286 | 3,908,550 |

### 25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONT.) >>>

LIQUIDITY RISK (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 | TOTAL CONTRACTUAL CASH FLOWS $000 |
| Non-derivative financial liabilities | | | | | |
| Trade payables and other creditors | 77,715 | – | – | – | 77,715 |
| Deferred consideration | 1,500 | – | – | – | 1,500 |
| 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 |
| | 520,066 | 485,896 | 640,785 | 2,296,185 | 3,942,932 |
| The above cash flows include: | | | | | |
| Net principal payments | 250,000 | 307,205 | 172,817 | 1,841,112 | 2,571,134 |
| Net interest and derivatives payments | 190,851 | 178,691 | 467,968 | 455,073 | 1,292,583 |
| Other payments | 79,215 | – | – | – | 79,215 |
| | 520,066 | 485,896 | 640,785 | 2,296,185 | 3,942,932 |

## 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 $109.7 million loss (2010: $92.8 million loss). A fall of 1% in interest rate would result in a loss in other comprehensive income of $37.7 million (2010: $36.7 million) whereas an increase of 1% in interest rate would result in a gain in other comprehensive income of $35.9 million (2010: $34.9 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 comprehensive income where the hedge is an effective hedge. The fair value of these interest rate swaps is a $33.7 million loss (2010: $43.2 million loss). A fall of 1% in interest rate would result in a loss in other comprehensive income of $24.2 million (2010: $30.8 million) whereas an increase of 1% in interest rate would result in a gain in other comprehensive income of $22.3 million (2010: $28.5 million).

Floating rate notes of $45 million (2010: $45 million) have not been hedged and hence a fall of 1% in interest rate would increase profit by $0.5 million (2010: $0.5 million), whereas an increase of 1% in interest rate would decrease profit by $0.5 million (2010: $0.5 million). The 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 (2010: NZ$150 million senior bonds) as the hedge is an effective hedge. The fair value of these interest rate swaps is a $6.7 million profit (2010: $3.5 million profit). However, since the interest rate is converted to floating, a fall of 1% in interest rate would increase profit by $1.5 million (2010: $1.5 million) and an increase of 1% in interest rate would decrease profit by $1.5 million (2010: $1.5 million). The 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. Hence, any changes in the foreign exchange rates would have no material impact upon profits. The fair value of these cross currency swaps is a $198.9 million loss (2010: $7.1 million loss). However, changes in the interest rate would impact profit as shown in the table below. The impact is calculated for one year and proportionally allocated over the number of days, if maturity occurs within the period.

| | GROUP & PARENT 2011 | | GROUP & PARENT 2010 | |
|---|---|---|---|---|
| | –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) |
| USD : NZD | 6,688 | (6,688) | 4,183 | (4,183) |
| Total impact on profit increase/(decrease) | 6,688 | (6,688) | 4,373 | (4,373) |

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.

### 25. 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 $5.2 million loss (2010: $1.1 million loss).

| | GROUP & PARENT 2011 | | GROUP & PARENT 2010 | |
|---|---|---|---|---|
| | –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 | 206 | (167) | 142 | (116) |
| USD | 1,790 | (1,465) | 2,181 | (1,739) |
| Total impact on other comprehensive income increase/(decrease) | 1,996 | (1,632) | 2,323 | (1,855) |

#### 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 entities within the group's ability to continue as a going concern so that they 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 net interest bearing debt less cash and cash equivalents and short term deposits.

The net debt to net debt plus equity ratios at 30 June 2011 and 30 June 2010 were as follows:

| | GROUP | |
|---|---|---|
| | 2011 $000 | 2010 $000 |
| Current borrowings | 306,747 | 249,654 |
| Non-current borrowings | 2,103,200 | 2,312,644 |
| Total borrowings | 2,409,947 | 2,562,298 |
| Less: cash and cash equivalents | (120,407) | (114,812) |
| Net debt | 2,289,540 | 2,447,486 |
| Total equity | 2,112,745 | 2,084,208 |
| Net debt plus equity | 4,402,285 | 4,531,694 |
| Net debt to net debt plus equity ratio | 52.0% | 54.0% |

FINANCIAL GUARANTEES

Vector Limited has provided guarantees on behalf of Vector Gas Limited for the sale and purchase of gas. Vector Limited has also provided guarantees for NGC Metering Limited and Advanced Metering Services Limited for metering services. 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.

## 26. CONTINGENT LIABILITIES

The directors are aware of claims that have been made against entities of the group and, where appropriate, have recognised provisions for these within note 19 of these financial statements. No material contingent liabilities requiring disclosure have been identified.

## 27. 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 | |
|---|---|---|
| | 2011 $000 | 2010 $000 |
| Payment of dividend to the AECT | 107,018 | 103,263 |

Note 13 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 | |
|---|---|---|---|---|
| | 2011 $000 | 2010 $000 | 2011 $000 | 2010 $000 |
| Cash advances to subsidiaries | – | – | 76,041 | 207,691 |
| Loans to parent/repaid by subsidiaries | – | – | 254,464 | 371,428 |
| Employee costs recharged to subsidiaries | – | – | 13,475 | 13,533 |
| Management fees payable by subsidiaries | – | – | 37,064 | 41,548 |
| Income from financial services provided to Stream Information Partnership | – | – | 70 | 70 |
| Sale of gas distribution services to Vector Gas Limited | – | – | 3,904 | 4,346 |
| Metering services provided by Stream Information Partnership | – | – | 6 | – |
| Interest charged to Vector Communications Limited | – | – | 3,572 | 2,900 |
| Purchase of telecommunications services from Vector Communications Limited | – | – | 2,993 | 2,680 |
| Income from call centre services provided to Vector Communications Limited | – | – | 106 | 123 |
| Dividends received from Tree Scape Limited | – | – | 1,000 | 200 |
| Dividends received from Energy Intellect Limited | – | – | 176 | – |
| Directors' fees from NZ Windfarms Limited | – | – | 30 | – |
| Directors' fees from Energy Intellect Limited | – | – | 33 | – |
| Purchase of vegetation management services from Tree Scape Limited | 4,933 | 4,892 | 4,933 | 4,892 |
| Purchase of electricity meters and metering services from Energy Intellect Limited | 1,647 | 1,683 | – | – |
| Purchase of management services from Advanced Metering Services Limited | – | 5,929 | – | – |
| Administrative and other services provided to Advanced Metering Services Limited | – | 251 | – | 372 |
| Sales of operations and maintenance services to Kapuni Energy Joint Venture | 1,690 | 1,167 | – | – |
| Purchases of electricity and steam from Kapuni Energy Joint Venture | 14,161 | 12,972 | – | – |
| Administrative and other services provided to Kapuni Energy Joint Venture | 65 | 66 | – | – |
| Working capital loan repayment to TML Stream Limited | 300 | – | – | – |

Tax losses totalling $4.0 million with a tax effect of $1.2 million (2010: $2.6 million with a tax effect of $0.8 million) have been transferred during the period from Vector Communications Limited and Vector Gas Contracts Limited for utilisation by Vector Limited to partially offset against its 2010 taxable profits.

### 27. TRANSACTIONS WITH RELATED PARTIES (CONT.) »»

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

| | PARENT 2011 $000 | PARENT 2010 $000 |
|---|---|---|
| Receivable by the parent from: | | |
| MEL Network Limited | 66,987 | 67,220 |
| Poihipi Land Limited (in receivership) | – | 8 |
| Vector Communications Limited | 74,606 | 67,663 |
| Broadband Services Limited | 366 | 366 |
| Vector Stream Limited | 5,396 | 5,621 |
| Vector Gas Contracts Limited | 689,570 | 546,079 |
| Advanced Metering Services Limited | 40,717 | 18,131 |
| | 877,642 | 705,088 |
| Less: provision against advances to subsidiaries | (66,987) | (67,220) |
| Total advances to subsidiaries | 810,655 | 637,868 |
| Payable by the parent to: | | |
| NGC Holdings Limited | (259,196) | (251,311) |
| Vector Gas Investments Limited | (3,062) | (3,062) |
| Vector Kapuni Limited | (32,270) | (18,998) |
| Vector Management Services Limited | (4,908) | (4,822) |
| NGC Metering Limited | (20,324) | (22,422) |
| Vector Gas Limited | (466,787) | (264,375) |
| Mercury Geotherm Limited (in receivership) | (5,774) | (1,527) |
| On Gas Limited | (37,343) | (1,047) |
| Elect Data Services (Australia) Pty Limited | (2,246) | (2,186) |
| Auckland Generation Limited | (13,334) | (13,334) |
| MEL Silverstream Limited | – | (371) |
| Salamanca Holdings Limited | – | (9) |
| Vector Metering Data Services Limited | (214,087) | (214,420) |
| Poihipi Land Limited (in receivership) | (1,803) | – |
| Total advances from subsidiaries | (1,061,134) | (797,884) |

At 30 June 2011, 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 and from subsidiaries are at arms' length.

A provision of $67.0 million (2010: $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. Vector Limited has also provided guarantees for NGC Metering Limited and Advanced Metering Services Limited for metering services. 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.

## 28. 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 | |
|---|---|---|---|---|
| | 2011 $000 | 2010 $000 | 2011 $000 | 2010 $000 |
| Directors' fees | 1,087 | 987 | 1,001 | 900 |
| Salary and other short-term employee benefits | 4,904 | 5,106 | 4,904 | 5,106 |
| Post employment benefits | – | 3 | – | 3 |
| Redundancy and termination benefits | 303 | 447 | 303 | 447 |
| Total | 6,294 | 6,543 | 6,208 | 6,456 |

## 29. EVENTS AFTER BALANCE DATE

On 26 August 2011, the board declared a final dividend for the year ended 30 June 2011 of 7.5 cents per share.

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

## 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 2011 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 $26,822 during the year ended 30 June 2011. No donations were made by Vector's subsidiary companies.

## CREDIT RATING

At 31 July 2011 Vector Limited had a Standard & Poor's credit rating of BBB+/stable, and a Moody's credit rating of Baa1/stable.

## WAIVERS AND NON STANDARD DESIGNATION

NZX has granted Vector Limited waivers from certain listing rules of NZSX which were still applicable as at 31 July 2011:

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 (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 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 2011, Vector Limited made payments to J Carmichael and K Sherry, trustees of the AECT (Vector Limited's majority shareholder) totalling $187,425 in respect of their attendance at meetings of the Vector Limited Board.

## DIRECTORS

The following directors of Vector Limited and current group companies held office as at 30 June 2011 or resigned (R) as a director during the year ended 30 June 2011. 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 2011 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 | P Gardner (A), S Mackenzie (R), D McCarthy, M Stiassny (R), D Thomas (A) |
| Auckland Generation Limited | S Mackenzie, G Wilson |
| Broadband Services Limited | M Stiassny |
| Elect Data Services (Australia) Pty Limited | S Mackenzie, I McClelland |
| Liquigas Limited | M Armstrong, S Armstrong (A), A Ball, T Barstead, D Devers, A Gilbert, E Kelly, I Lindsay, S Mackenzie (R), I Maloney, J Seymour (R), A Smith, D Thomas, D Wilson (R), G Wilson (R) |
| MEL Network Limited | S Mackenzie, G Wilson |
| Mercury Geotherm Limited (in receivership) | A Ball (A), M Franklin (R), A McLachlan, D Ross |
| NGC Limited | A Ball, G Wilson |
| 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 |
| On Gas Limited | A Ball, G Wilson |
| Poihipi Land Limited (in receivership) | M Franklin (R), A McLachlan, D Ross |
| Stream Information Limited | A Ball, W Falconer, N MacCulloch, D McCarthy |
| UnitedNetworks Limited | S Mackenzie, G Wilson |
| Vector Communications Limited | P Bird, J Carmichael, A Carter, H Fletcher, J Miller, A Paterson, K Sherry, M Stiassny, R Thomson |
| Vector ESPS Trustee Limited | S Mackenzie, G Wilson |
| Vector Gas Limited | A Ball, G Wilson |
| Vector Gas Contracts Limited | A Ball, G Wilson |
| Vector Gas Investments Limited | A Ball, G Wilson |
| Vector Kapuni Limited | A Ball, G Wilson |
| Vector Management Services Limited | A Ball, G Wilson |
| Vector Metering Data Services Limited | P Bird, J Carmichael, A Carter, H Fletcher, J Miller, A Paterson, K Sherry, M Stiassny, R Thomson |
| Vector Stream Limited | S Mackenzie, G Wilson |

| ASSOCIATES | DIRECTORS |
|---|---|
| Energy Intellect Limited | W Falconer, P Gardner (A), M Fairey (A) (R), B Leighs, R Longuet, N MacCulloch, S Mackenzie (R), M Stiassny (R), D Thomas |
| NZ Windfarms Limited | M Allen (A), V Buck, W Creech, S Mackenzie, M Stiassny, D Walker |
| Tree Scape Limited | A Ball, E Chignell, S Mackenzie (R), P Smithies, D Tompkins (A), B Whiddett |
| Treescape Australasia Pty Limited | E Chignell, P Tate, B Whiddett |

Note: Subsequent to 30 June 2011, A Ball resigned as a director of the subsidiaries and associate noted above.

### DIRECTORS (CONT.)

Directors' remuneration and value of other benefits from Vector Limited and current group companies for the year ended 30 June 2011:

| DIRECTORS OF VECTOR LIMITED | PAID BY PARENT $ | PAID BY SUBSIDIARIES $ |
|---|---|---|
| P Bird | 93,713 | – |
| J Carmichael | 93,713 | – |
| A Carter | 93,713 | – |
| H Fletcher | 93,713 | – |
| J Miller | 93,713 | – |
| A Paterson | 93,713 | – |
| K Sherry | 93,713 | – |
| M Stiassny | 187,425 | – |
| R Thomson | 93,713 | – |

| DIRECTORS OF SUBSIDIARIES | PAID BY PARENT $ | PAID BY SUBSIDIARIES $ |
|---|---|---|
| A Ball | – | 7,500* |
| T Barstead | – | 5,000 |
| A Gilbert | – | 5,000 |
| E Kelly (A) | – | 5,000 |
| I Lindsay | – | 37,823 |
| S Mackenzie (R) | – | 1,984* |
| I Maloney (A) | – | 5,000 |
| J Seymour (R) | – | 1,984* |
| D Thomas | – | 5,000* |
| D Wilson (R) | – | 1,984* |

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

## DIRECTORS OF VECTOR LIMITED

Entries in the interests register of Vector Limited up to 30 June 2011 that are not set out elsewhere in this annual report:

| DIRECTOR | ENTITY | POSITION |
|---|---|---|
| P Bird | InfraCo Limited | Director |
| | InfraCo Asia Development Pte Limited | Director |
| | Rothschild Global Financial Advisory | Executive vice–chairman |
| J Carmichael | Aku Investments Limited | Director |
| | Auckland Energy Consumer Trust | Trustee |
| | Energy Trusts of New Zealand | Executive member |
| A Carter | Air New Zealand Limited | Director |
| | Fisher & Paykel Healthcare Corporation Limited | Director |
| | Fletcher Building Limited | Director |
| | Fletcher Building Finance Limited | Director |
| | Loughborough Investments Limited | Director and shareholder |
| | Maurice Carter Charitable Trust | Trustee |
| | New Zealand Institute | Chairman |
| | Tony & Frances Carter Family 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 Australian and 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 Foundation | Trustee |
| J Miller | Auckland International Airport Limited | Director |
| | Barramundi International Limited | Chairman |
| | Contact Energy Limited | Shareholder |
| | Financial Markets Authority | Director |
| | Kingfish Limited | Chairman |
| | Marlin Global Limited | Chairman |
| | NZ Windfarms Limited | Shareholder |
| | NZX Limited | Director |

**DIRECTORS (CONT.) »»**

## DIRECTORS OF VECTOR LIMITED (continued)

Entries in the interests register of Vector Limited up to 30 June 2011 that are not set out elsewhere in this annual report (continued):

| DIRECTOR | ENTITY | POSITION |
|---|---|---|
| A Paterson | Abano Healthcare Limited | Chairman |
| | BPAC New Zealand Limited | Chairman |
| | Farm IQ Systems Limited | Chairman |
| | Governing Board of The Centre of Research Excellence for Growth and Development (University of Auckland) | Chairman |
| | Massey University Council | Pro Councillor |
| | Nga Pae o Te Maramatanga (Maori CoRE) | Board member |
| | NZ Markets Disciplinary Tribunal | Member |
| | Stakeholders 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 |
| M Stiassny | Astron Plastics Limited | Director |
| | 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 |

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 2011 that are not set out elsewhere in this annual report:

| DIRECTOR | ENTITY | POSITION |
|---|---|---|
| S Mackenzie (R) | Gas Industry Company Limited | Director |
| D McCarthy (R) | Gas Industry Company Limited | Director |

## EMPLOYEES

The number of current employees of the parent and subsidiaries receiving remuneration and benefits above $100,000 in the year ended 30 June 2011 are set out in the table below:

| CURRENT EMPLOYEES | PARENT | SUBSIDIARIES |
|---|---|---|
| $100,001 – $110,000 | 46 | 9 |
| $110,001 – $120,000 | 45 | 4 |
| $120,001 – $130,000 | 38 | 6 |
| $130,001 – $140,000 | 25 | 4 |
| $140,001 – $150,000 | 7 | 1 |
| $150,001 – $160,000 | 10 | 4 |
| $160,001 – $170,000 | 4 | 1 |
| $170,001 – $180,000 | 18 | 2 |
| $180,001 – $190,000 | 8 | – |
| $190,001 – $200,000 | 2 | – |
| $200,001 – $210,000 | 4 | 1 |
| $210,001 – $220,000 | 5 | 1 |
| $220,001 – $230,000 | 2 | 2 |
| $230,001 – $240,000 | 3 | – |
| $240,001 – $250,000 | 1 | – |
| $250,001 – $260,000 | 4 | – |
| $260,001 – $270,000 | 3 | – |
| $270,001 – $280,000 | 1 | 1 |
| $280,001 – $290,000 | 2 | – |
| $290,001 – $300,000 | 1 | – |
| $300,001 – $310,000 | 3 | – |
| $320,001 – $330,000 | – | 1 |
| $460,001 – $470,000 | 1 | – |
| $470,001 – $480,000 | 1 | – |
| $540,001 – $550,000 | 1 | – |
| $580,001 – $590,000 | 1 | – |
| $590,001 – $600,000 | 1 | – |
| $650,001 – $660,000 | 1 | – |
| $1,310,001 – $1,320,000 | 1 | – |

**EMPLOYEES (CONT.) »»**

The number of former employees of the parent and subsidiaries receiving remuneration and benefits above $100,000 in the year ended 30 June 2011 are set out in the table below:

| FORMER EMPLOYEES (INCLUDING ANY TERMINATION PAYMENTS) | PARENT | SUBSIDIARIES |
|---|---|---|
| $100,001 – $110,000 | 5 | – |
| $110,001 – $120,000 | 5 | – |
| $120,001 – $130,000 | 2 | – |
| $130,001 – $140,000 | 2 | 1 |
| $160,001 – $170,000 | 2 | 1 |
| $190,001 – $200,000 | – | 2 |
| $220,001 – $230,000 | 2 | – |
| $250,001 – $260,000 | 1 | – |
| $400,001 – $410,000 | 1 | – |

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

## BONDHOLDER STATISTICS

NZDX debt securities distribution as at 31 July 2011:

### 8.00% CAPITAL BONDS

| RANGE | NUMBER OF BONDHOLDERS | PERCENTAGE OF BONDHOLDERS | NUMBER OF SECURITIES HELD | PERCENTAGE OF SECURITIES HELD |
|---|---|---|---|---|
| 2,000 – 4,999 | 3 | 0.05% | 6,666 | 0.00% |
| 5,000 – 9,999 | 1,109 | 18.48% | 5,979,667 | 1.95% |
| 10,000 – 49,999 | 3,730 | 62.15% | 74,783,700 | 24.34% |
| 50,000 – 99,999 | 745 | 12.41% | 42,878,000 | 13.96% |
| 100,000 – 499,999 | 368 | 6.13% | 53,372,000 | 17.37% |
| 500,000 – 999,999 | 23 | 0.38% | 13,681,967 | 4.45% |
| 1,000,000 plus | 24 | 0.40% | 116,503,000 | 37.93% |
| | 6,002 | 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 31 July 2011:

| 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 | 279 | 12.43% | 1,604,000 | 1.07% |
| 10,000 – 49,999 | 1,476 | 65.75% | 27,879,000 | 18.59% |
| 50,000 – 99,999 | 296 | 13.18% | 16,173,000 | 10.78% |
| 100,000 – 499,999 | 163 | 7.26% | 25,574,000 | 17.05% |
| 500,000 – 999,999 | 13 | 0.58% | 7,671,000 | 5.11% |
| 1,000,000 plus | 18 | 0.80% | 71,099,000 | 47.40% |
| | 2,245 | 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 31 July 2011:

| DIRECTOR | NUMBER OF BONDS |
|---|---|
| A Carter | 10,000 |

## SHAREHOLDER STATISTICS

Twenty largest registered shareholders as at 31 July 2011:

| 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] | 52,427,015 | 5.24% |
| Custodial Services Limited <A/C 3> | 7,787,647 | 0.78% |
| FNZ Custodians Limited | 5,954,907 | 0.60% |
| Vector Limited | 4,244,923 | 0.42% |
| Custodial Services Limited <A/C 2> | 3,694,529 | 0.37% |
| Investment Custodial Services Limited <A/C C> | 2,848,525 | 0.28% |
| Custodial Services Limited <A/C 18> | 2,815,392 | 0.28% |
| Custodial Services Limited <A/C 1> | 2,342,724 | 0.23% |
| Custodial Services Limited <A/C 4> | 2,267,615 | 0.23% |
| Private Nominees Limited <residents A/C> | 2,173,223 | 0.22% |
| Investment Custodial Services Limited <A/C R> | 1,622,365 | 0.16% |
| New Zealand Depository Nominee Limited <A/C 1> | 1,546,597 | 0.16% |
| Forsyth Barr Custodians Limited <1–33> | 1,479,957 | 0.15% |
| JB Were (NZ) Nominees Limited <A/C 45230> | 830,000 | 0.08% |
| Custodial Services Limited <A/C 16> | 788,843 | 0.08% |
| M A Janssen Limited | 619,200 | 0.06% |
| Anthony Ian Gibbs & Valerie Jane Gibbs & Joseph Michael Windmeyer <RubyCove (1990) A/C> | 552,460 | 0.06% |
| Ronald Victor Bowler | 500,000 | 0.05% |
| Kershaw Investments Limited | 475,000 | 0.05% |
| | 845,970,922 | 84.60% |

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

### SHAREHOLDER STATISTICS (CONT.) »»

As at 31 July 2011, the 10 largest shareholdings in Vector Limited held through NZCSD were:

| SHAREHOLDER | ORDINARY SHARES HELD | PERCENTAGE OF ORDINARY SHARES HELD |
|---|---|---|
| National Nominees New Zealand Limited | 12,448,702 | 1.24% |
| Accident Compensation Corporation | 10,994,518 | 1.10% |
| HSBC Nominees (New Zealand) Limited A/C State Street | 9,477,694 | 0.95% |
| Citibank Nominees (New Zealand) Limited | 8,360,864 | 0.84% |
| New Zealand Superannuation Fund Nominees Limited | 3,458,255 | 0.34% |
| HSBC Nominees (New Zealand) Limited | 3,131,412 | 0.31% |
| TEA Custodians Limited | 1,613,185 | 0.16% |
| Guardian Trust Investment Nominees (RWT) Limited | 1,347,581 | 0.13% |
| New Zealand Equity Nominee Pool | 563,785 | 0.06% |
| NZ Guardian Trust Investment Nominees Limited | 536,451 | 0.05% |

Substantial security holders as at 31 July 2011:

| 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 31 July 2011, 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 31 July 2011:

| RANGE | NUMBER OF SHAREHOLDERS | PERCENTAGE OF SHAREHOLDERS | NUMBER OF SHARES HELD | PERCENTAGE OF SHARES HELD |
|---|---|---|---|---|
| 1 – 499 | 7,381 | 19.30% | 2,337,775 | 0.23% |
| 500 – 999 | 3,826 | 10.00% | 2,988,844 | 0.30% |
| 1,000 – 4,999 | 20,135 | 52.64% | 36,204,280 | 3.62% |
| 5,000 – 9,999 | 3,243 | 8.48% | 21,596,201 | 2.16% |
| 10,000 – 49,999 | 3,302 | 8.63% | 58,277,392 | 5.83% |
| 50,000 – 99,999 | 222 | 0.58% | 14,015,386 | 1.40% |
| 100,000 plus | 144 | 0.37% | 864,580,122 | 86.46% |
| | 38,253 | 100.00% | 1,000,000,000 | 100.00% |

Analysis of shareholders as at 31 July 2011:

| 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 | 1,250 | 3.27% | 12,649,740 | 1.26% |
| Individual Holders | 23,749 | 62.09% | 70,542,299 | 7.06% |
| Joint | 11,585 | 30.28% | 53,234,792 | 5.32% |
| Nominee Companies | 959 | 2.51% | 103,155,582 | 10.32% |
| Vector Limited | 1 | 0.00% | 4,244,923 | 0.42% |
| Other | 708 | 1.85% | 5,172,664 | 0.52% |
| | 38,253 | 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 31 July 2011:

| DIRECTOR | NUMBER OF SHARES |
|---|---|
| P Bird | 20,000 |
| J Carmichael | 1,322 |
| A Carter | 51,322 |
| H Fletcher | 12,344 |
| J Miller | 420 |
| 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 2011 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 |
|---|---|---|---|---|
| P Bird | Beneficial | 27 October 2010 | $2.42 | 10,000 |
| H Fletcher | Beneficial | 30 November 2010 | $2.45 | 11,022 |

## FINANCIAL CALENDAR

| **2011** | |
|---|---|
| Annual meeting | October |
| 1st quarter operational statistics | October |

| **2012** | |
|---|---|
| 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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# DIRECTORY 2011

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