VECTOR LIMITED SHAREHOLDER REVIEW 2008

HOW WE **CONNECT**

Vector connects New Zealanders. We are a multi-network infrastructure company which owns and operates a range of energy and technology businesses and assets.

FINANCIAL CALENDAR

2008	
Annual meeting	October
1st quarter operational update	October
2009	
Half year result	February
Half year report	March
Interim dividend*	April
3rd quarter operational update	May
Full year result	August
Final dividend*	September
Annual report	September

*Dividends are subject to board determination

	2008	2007
ELECTRICITY		
Customers	680,664	673,576
Volume distributed (GWh)	10,708	10,595
Networks length (km)	17,361[1]	21,886
GAS		
Distribution customers	147,198	143,047
Distribution volume (PJ)	22	22
Distribution mains network length (km)	6,840	6,708
Transmission volume (PJ)	109	95
Transmission system length owned (km)	2,286	2,286
Transmission system length operated/managed (km)	1,219	1,219
Natural gas sales (PJ)[2]	44	54
Gas liquids sales (tonnes)[3]	235,490	218,359
ENERGY METERING		
Electricity: simple meters	738,387	783,910
Electricity: prepay meters	7,962	8,507
Electricity: time of use meters	10,931	11,148
Gas meters	73,493	70,417
Data management services connections – New Zealand and Australia	14,852	15,214

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

CONTENTS

SOUND EFFORT, SOLID RESULTS

MICHAEL STIASSNY, CHAIRMAN

This past year has been one of substantial change and significant progress for Vector.

Externally, there has been a considerable tightening of domestic and international financial markets. Rising commodity prices have fuelled an increase in the cost of living and there has been a domestic economic slow-down.

Despite this, Vector's core markets of electricity, gas and technology remain strong and dynamic. Growth in new electricity connections has continued. LPG prices have firmed, gas transmission throughput has increased and our commercial and industrial gas contracts position remains strong. The demand for high-speed internet connectivity is unabated. In an election year, public debate and interest in the future development of critical national infrastructure in all three of our core business lines have increased.

Against this background, Vector has rolled up its sleeves and achieved a considerable amount.

After unsolicited approaches and a strategic review in August 2007, we agreed to divest the Wellington electricity network to Cheung Kong Infrastructure Holdings Limited, given the modest growth in new connections and lack of overlap with our other networks.

During a year when obtaining credit became increasingly challenging, Vector established a European Medium Term Note (EMTN) programme which was strongly endorsed by European Tier One investors. Following the year end we also retired a substantial portion of debt and refinanced our senior credit facility. The ratings agencies approved: we maintained our Standard & Poor's BBB+ investment grade rating and had our Moody's Baa1 rating outlook revised from developing to stable.

Vector's core markets of electricity, gas and telecommunications remain strong and dynamic.

Regulation remains an area of concern for us. If not pragmatically balanced, regulation, designed to protect consumers, can end up depriving a business like Vector of the economic returns and certainty it needs to make the long-term investments that will ensure desired future infrastructure growth for all New Zealanders.

Financial result

Vector's net profit after tax (NPAT), now reported under International Financial Reporting Standards (IFRS) for the year ending 30 June 2008 is $164.4 million. Although this is a decline on the previous period (also restated to IFRS), it should be noted that the 2007 NPAT was impacted by one-off tax adjustments. A more indicative figure to compare year-on-year performance is net profit before tax (NPBT) at $231.5 million, which shows a robust 1.3% increase from 2007.

Dividend

Given this annual result and the continuing underlying health of all of Vector's core businesses, the board has declared a final dividend of 6.75 cents per share for 2008 making total 2008 dividends 13.25 cents per share, up from 13 cents per share for 2007. The final dividend will be fully imputed at the corporate tax rate of 30 percent. In addition, the board has announced an on-market buy-back of up to 25 million ordinary shares, beginning 1 September 2008 and running until 27 August 2009.

The board thanks Vector's employees for their achievements and efforts throughout the past year.

It has been 12 months of sound effort, and solid results.

MICHAEL STIASSNY
CHAIRMAN

2008 ACHIEVEMENTS

NPAT
$164.4m

NPBT
$231.5m

UP 1.3% ON PRIOR PERIOD

EMTN PROGRAMME ESTABLISHED

REFINANCING COMPLETED

STANDARD & POOR'S BBB+ RATING RETAINED

SHARE BUY-BACK ANNOUNCED POST YEAR END

13.25c
2008 DIVIDENDS PER SHARE TO SHAREHOLDERS

Dividend 2008

Vector's dividend policy is to distribute to shareholders all funds surplus to the investment and operating requirements of the company as determined by the board. Our target dividend pay-out ratio in respect of each financial year is 60% of free cash flows. This year's dividend is a 1.9% increase on that of 2007 and represents 80.6% of NPAT.

DIVIDENDS CENTS PER SHARE

2008 final dividend fully imputed at 30c to shareholders at 11 September 2008, payable 18 September 2008.

SOLID PERFORMANCE IN AN UNCERTAIN ENVIRONMENT

SIMON MACKENZIE, GROUP CHIEF EXECUTIVE OFFICER

Vector has made considerable progress this year under some challenging circumstances.

We have reduced costs, refinanced, driven operating efficiencies, developed valuable future options for business growth and returned a solid result. In addition, we sold our Wellington electricity network to Cheung Kong Infrastructure Holdings Limited.

As noted in the Chairman's report, that decision was the result of an independent strategic review.

However, the single biggest issue we faced this year was regulation, and it will continue to be going forward.

Regulation

Vector has put a great deal of time and effort over the last 12 months into amendments to the Commerce Act.

The result is that the Government has introduced many of those amendments into law. We now have a framework under which regulation must be conducted, with clear guidelines on how key regulatory processes and decisions are determined.

Importantly, this includes the ability for regulatory decisions to be challenged through merits review, and alternative forms of regulatory design.

Ongoing, consistent balance in regulation is crucial, ensuring we can continue to develop the networks on which our customers depend. A stable regulatory environment lays the foundation for certainty, future investment and growth.

The passing of the Commerce Amendment Act pushes electricity price resets out to 2010, or beyond.

During the last year the Commerce Commission has accepted our proposed administrative settlement offer on price control of the electricity lines business.

We are disappointed the Commerce Commission recently rejected Vector's undertaking offer for the Auckland gas pipelines. We believe our offer was appropriate, given the history of this matter and the principle of forward-looking regulation. We believe it also struck the right balance between consumer interests and investment incentives.

We are examining the reason for this decision and will respond to the Commission in due course.

Our result

Underlying profitability in Vector's businesses this year continued to be sound.

Group earnings before interest, tax, depreciation and amortisation (EBITDA) increased by 5.7% to $640 million. Electricity business EBITDA has increased by 7.2% to $403 million, gas business EBITDA by 3.4% to $252 million, and revenue in the technology business has increased by 5.2% to $69 million.

Within Vector itself, a renewed focus on cost containment, standardising and streamlining of processes and overall operational excellence has seen a pleasing $12.6 million drop in operational expenditure during the year – annualised, that's a saving of $20 million.

Infrastructure networks like ours are capital-intensive businesses. Vector has achieved some significant savings in capital expenditure over the last year across all its business lines, totalling $30 million; that's a reduction of 11 percent.

'A Focus on Smart Thinking', on page 8, explains some of our efforts around operational and capital expenditure efficiency in the electricity business.

Refinancing

Vector has also retired a substantial portion of debt and refinanced its senior credit facility.

Vector believes it pays a premium on credit because of regulatory uncertainty here in New Zealand. Just complying with regulatory requirements costs us around $7 million each year.

We will continue our efforts to achieve the foundations for regulatory stability, so that we have the right incentives to invest, innovate, grow and deliver service to our customers.

Operational excellence

Vector has ended 2008 by coming in under the 85.5 minutes-a-year average per customer interruption regulatory target for electricity supply – with 84.7 minutes of interruptions averaged per customer during the period, excluding extreme weather events.

In our gas business, over 2008, our gas treatment operation at Kapuni has further increased its uptime from 99.5% to 99.9%, maintaining its world-class ranking in uptime reliability.

In telecommunications, this year we've moved our network operations centre in-house to help maintain its long-run 99.9% uptime rating.

Disciplined growth

Vector is now well positioned for disciplined growth in several areas.

Our Auckland fibre-optic network has grown further over the last year, following our signing of a major contract with Vodafone which will allow backhaul of cellphone calls and data from Vodafone's cell sites across our network.

Both major political parties have recently announced proposals for broadband infrastructure funds. They have specifically targeted the need for high-speed broadband to drive New Zealand's economic growth and productivity.

We have the scale, capability and opportunity to deliver fibre-optic broadband to New Zealand – if our usual risk and commercial criteria are satisfied. However, we will not invest unless we have the certainty and the returns we require.

We have also recently concluded a contract to supply 500,000 smart electricity meters to Genesis Energy over the next five years, through our Advanced Metering Services joint venture with Siemens.

> Underlying profitability in Vector's businesses this year continued to be sound.

Our roll-out of smart meters future-proofs a business that otherwise would have rapidly found itself with obsolete technology in a competitive market. We will now be able to deliver our retail partners access to next-generation metering products and services, in conjunction with our partner Siemens.

Climate change

Customer concern around climate change is increasing and Vector takes this seriously, as we explain later in this report. During the year, Vector continued research into renewable and low-carbon-emitting forms of electricity generation, such as thin film photo voltaic panels, solar hot water heating, micro wind turbines and wind farms. Although these technologies may not provide significant revenue streams in the short term, it is crucial that we understand their economic viability, and how they may impact demand for energy in the long run.

Security of supply

Vector has consistently spoken of the need for New Zealand to have secure, sustainable energy supplies, and this year we continued to advocate on this issue. Despite the fact that security of energy supply is an electricity generation and transmission issue and outside our control, we participated in the CEO forum to help manage the industry response to this winter's power crisis. We spend around $200 million every year maintaining and investing in our gas and electricity networks, but we cannot carry much-needed energy that simply isn't available.

We need a range of power-generating solutions to ensure future demand is met.

Leadership

To lead us forward and meet these challenges, this year we've put a new management team in place. Turn to page 26 to meet them. We've also made leadership within Vector a top priority. Our 'People' section explains what we mean.

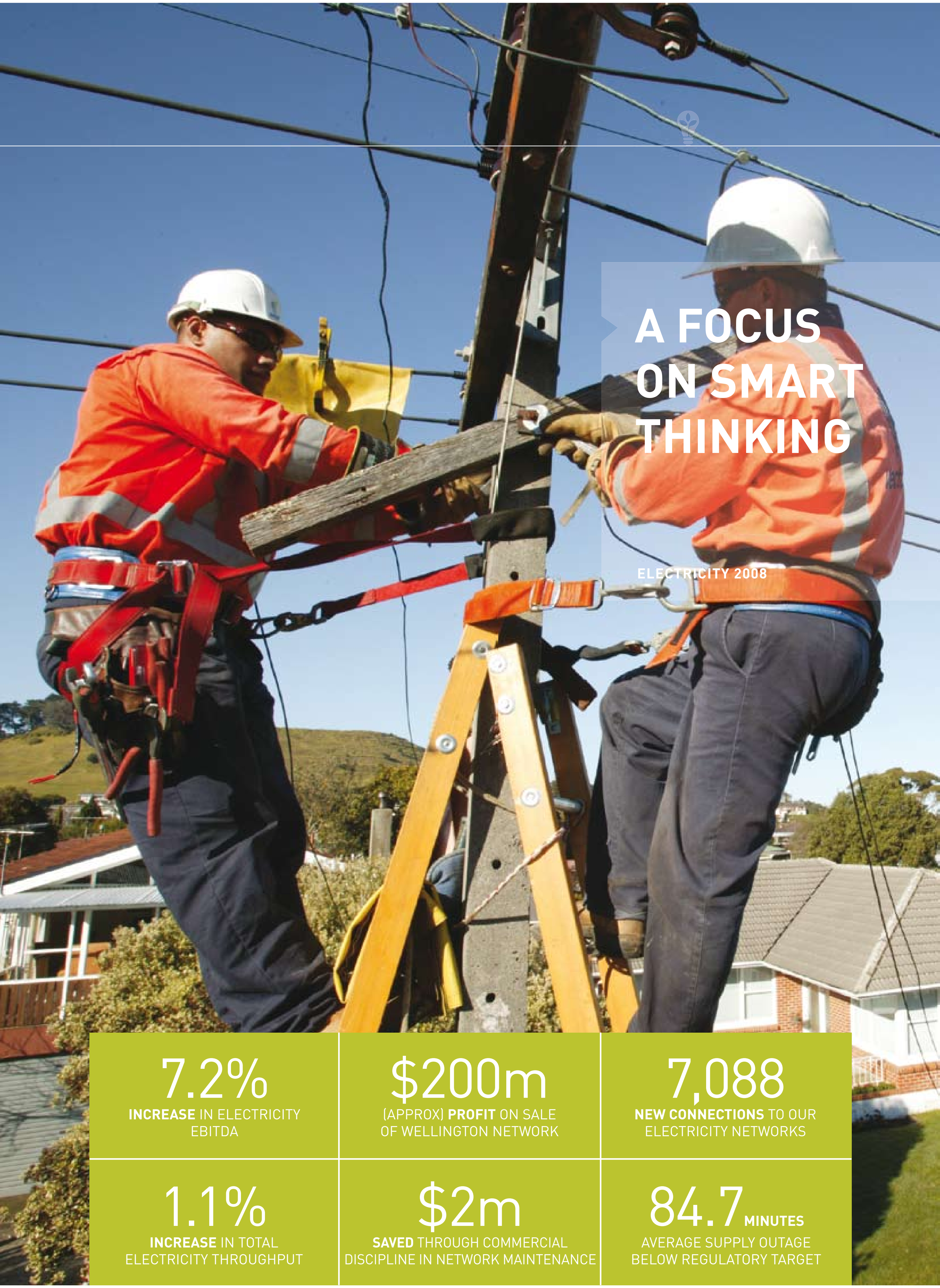
Outlook

There's little doubt that the next 12 months will continue to be very challenging. We will continue to work towards obtaining the regulatory stability our business needs to thrive. Externally, we're already seeing a downturn in housing development and building consents, and decreases in consumer spending and connections. However, after this year's effort, I believe Vector is much more strongly placed to manage these challenges.

Furthermore, we have a range of attractive growth options which we'll continue to develop and deploy, where our commercial objectives are met.

We still have work to do and improvements to make, but I'm proud of the team and what we've achieved over the last 12 months.

SIMON MACKENZIE
GROUP CHIEF EXECUTIVE OFFICER



A FOCUS ON SMART THINKING

ELECTRICITY 2008

7.2% **INCREASE** IN ELECTRICITY EBITDA	$200m (APPROX) **PROFIT** ON SALE OF WELLINGTON NETWORK	7,088 **NEW CONNECTIONS** TO OUR ELECTRICITY NETWORKS
1.1% **INCREASE** IN TOTAL ELECTRICITY THROUGHPUT	$2m **SAVED** THROUGH COMMERCIAL DISCIPLINE IN NETWORK MAINTENANCE	84.7 **MINUTES** AVERAGE SUPPLY OUTAGE BELOW REGULATORY TARGET

While the major development in electricity this year has been the sale of our Wellington network, we've also realised a number of projects that are focused on smarter thinking.

In 2009, we will continue our commitment to seeking smarter ways to realise value for our shareholders and increase service levels to all our customers.

Wellington network sale

In July, we successfully concluded the sale of our Wellington electricity network to Cheung Kong Infrastructure Holdings Limited (CKI). CKI is a global infrastructure owner and operator with assets and operations in Australia, as well as operations in the UK, Canada and China.

Following a strategic review initiated in August last year, the board and management settled on the sale of the network as the best outcome for shareholders. We're extremely pleased with the purchase price of $785 million, which represents approximately a $200 million profit on sale (subject to final transaction costs). While we'll initially apply the funds to retire debt, the sale puts us in an extremely favourable position to explore other infrastructure investment opportunities as they arise.

Streamlined substations

In 2007, a capital investment programme was initiated to build more than 10 new zone substations in the space of just three years – no small task given that the previous build rate was one zone substation per year.

This year, construction commenced on five new zone substations in the greater Auckland area (at Clendon, Greenhithe, Forrest Hill, Gulf Harbour and Oratia), and reinforcements are currently being planned for the Hillsborough and Ranui zone substations.

To ensure delivery, a team of procurement and asset specialists, solutions engineers and contract managers put their collective thinking hats on to improve the planning, procurement and building processes.

Standardisation of the substation design and streamlined procurement processes – including umbrella contracts with preferred suppliers – has led to improved pricing, greater certainty of supply and significantly reduced lead times.

Smarter spending

Each year we spend over $100 million maintaining our electricity networks. This year we've focused on finding smarter ways to deliver that spend.

Following a detailed review of our planned maintenance expenditure, we were able to reduce our overall maintenance spend by $2 million a year. We reviewed the scope and frequency of works without compromising reliability or increasing risk, and standardised work types across our regions.

Protection control technology

The past 12 months have seen us roll out our protection control technology to all new substations in the Auckland region.

The technology itself is world leading and, thanks to the unfailing efforts of a highly dedicated team, Vector has been credited as the first company in the world to get the technology successfully up and running to IEC 61850 standards.

In a nutshell, the technology allows the various devices within a substation to 'talk' to each other using standard communication protocols. Detailed information about the status of the network is then fed back to the control room. While our current focus is on day-to-day operations (locating faults), in the future we expect to be able to better monitor equipment condition and anticipate when maintenance is required.

Future-proofing

This year we embarked on an internal project aimed at streamlining our field contracting procedures to better align with our internal processes.

As we move towards becoming a fully integrated infrastructure company, we need to ensure that our contractors have the capability to work across our electricity, gas and communications networks, rather than specialising in one type of network. To that end, we have undertaken a review of our contracting model with a view to streamlining the delivery of our network services, optimising the core competencies of both Vector and our contractors while continuing to deliver a consistent, high-quality experience for all Vector customers.

At the same time, we've taken a close look at how work inside Vector flows from planning and engineering, through the contracting process, and back to Vector's network control functions. We've eliminated duplication, standardised processes and improved workflow.

We hope to have completed this review process towards the end of this year.

Operational excellence

In May, our central Auckland electricity network was audited by Siemens PTI of Germany. Siemens found our planning process to be 'comprehensive' and our asset management processes to be 'above industry standard'.

In the electricity business, SAIDI (system average interruption duration index) measures the average duration of outages experienced by customers during the year and, over this year, we kept outages under the target required by regulation.

The regulatory target is 85.5 minutes (excluding extreme weather events). Vector has beaten that target by achieving 84.7 minutes of normal outages.

A further 114.8 minutes of SAIDI were due to severe storms and other extreme events as defined under the Commerce Commission's extreme event assessment methodology.

A COMING OF AGE

GAS 2008

A LOWER HUTT AUTOMOTIVE SPRINGS MANUFACTURER USES NATURAL GAS TO HEAT METAL.

The gas business has experienced a solid 12 months, driven by strong demand for gas.

It's a sign of the capability in our business that we've been able to successfully make the transition from legacy contracts to current market-driven arrangements, all the while ensuring that we maintain profitability.

Looking ahead, we anticipate continued growth as gas emerges as a key solution to climate change issues.

Transmission

The year has seen strong earnings growth due to higher throughput and effective cost management.

We expect this growth to continue on the back of new thermal demand such as the Stratford power station and industrial cogeneration opportunities.

Distribution networks expand

Total connections to our natural gas networks increased by 2.9% over the period, with new connections across the North Island.

Wholesale portfolio healthy

As at 30 June, Vector held entitlements to an estimated 178 petajoules (PJ) of natural gas from New Zealand's largest producing fields, Maui (97PJ), Kapuni (61PJ) and Pohokura (20PJ).

Although our legacy Maui gas entitlements have now expired, we received confirmation during the year that a further 23.8PJ of contingent Maui right of first refusal supply had been confirmed as firm contracted entitlements. These are expected to be recovered with an 85% degree of certainty.

Vector's firm contracted Maui supply now extends out to early 2014, giving us a diverse and robust portfolio of entitlements that will continue to support the business and ensure the longevity of our retail position.

Successful LPG pricing transition

The past twelve months have seen the New Zealand LPG market complete the transition to international prices, as local producers align themselves to the Saudi Aramco (CP) index.

Vector has successfully transitioned, maintaining profits while appropriately managing the increased costs to our retail customers.

While service station sales were down 10% (mainly due to the warmer winter), total bulk and cylinder LPG sales increased by 3,000 tonnes, mainly to our bulk customers such as Carter Holt Harvey and Gull Petroleum.

Best-practice benefits Kapuni

Our Kapuni Gas Treatment Plant continues to benefit from our best-practice initiatives. Production losses from breakdowns reduced from 119TJ to 20TJ, while uptime increased from 99.5% to 99.9%, maintaining Kapuni's world-class ranking in reliability.

In addition, our safety performance was recognised with an award from the international Gas Processors Association.

On top of outages

Efficient, effective and safe emergency response remains a priority in the field. Two major outages during the year demonstrated our ability to restore service as safely and quickly as possible, while minimising disruption to affected parties.

In June, a fractured valve in central Auckland saw emergency services shut down Fort Street and a section of Queen Street. The complex nature of the network made repairs difficult, and a team of 24 worked for 30 solid hours to reinstate service. While three small businesses were evacuated for safety reasons during the operation, an effective containment plan meant that disruption to the wider CBD was kept to a minimum.

Damage to a gas main in the Waikato town of Otorohanga also in June saw 182 customers without supply. Our Hamilton-based operations team was dispatched to control the site, isolate and repair the leak, and reinstate supply. Customers and key stakeholders were kept informed throughout the operation, which took just 10 hours from the time of the first call, once again minimising disruption to the public, residents and businesses.

3.4% **INCREASE** IN GAS EBITDA	14.7% **INCREASE** IN GAS TRANSMISSION THROUGHPUT	2.9% **INCREASE** IN NATURAL GAS CONNECTIONS
3,000 **TONNE INCREASE** IN BULK AND CYLINDER LPG SALES	99.9% **UPTIME** AT KAPUNI	$5.1m **SAVINGS** DUE TO INCREASED KAPUNI RELIABILITY

SMART METERING GETTING SMARTER

TECHNOLOGY 2008

Vector has established Advanced Metering Services (AMS), a 50/50 joint venture with Siemens (NZ) that will deliver advanced metering technology and operational services to customers throughout New Zealand.

The partnership combines Siemens' global technological and operational expertise in metering services with our strong team and expertise in the local market.

VECTOR'S FIBRE-OPTIC NETWORK OPERATIONS CENTRE.

In January 2008, AMS contracted with Contact Energy to supply 55,000 smart meters for installation on Orion's Christchurch electricity network, beginning in July. In August 2008, AMS contracted a further significant tranche of advanced metering services, signing a contract with Genesis Energy for the roll-out of smart meters to 500,000 homes and businesses.

Advanced metering provides customers with a powerful new tool to manage their electricity consumption more efficiently. Over the next five years, Genesis will replace its current analogue meters with wireless digital meters, removing the need for both estimated billing and physical meter reading.

The contract meets the long-term metering policy requirements of the New Zealand Energy Strategy, which promotes demand-side response and the efficient use of energy.

Extending our reach

This year has seen us embark on considerable expansion of our fibre-optic network, underpinned by the signing on of Vodafone as a flagship customer.

Our high-capacity fibre is a pivotal enabler in providing the next generation of fixed and mobile services, and partnerships such as this – between infrastructure and service providers – are the most effective way for New Zealand to advance its telecommunications offerings to customers.

New network added

In the past 12 months, we've extended our state-of-the-art fibre-optic network by nearly 25%, adding over 100km of new network in Auckland and Wellington. The network now totals 640km and passes up to 10,000 businesses.

Work has also begun on a further 300km extension to our Auckland network. The extended network will connect to 41 of Telecom's exchanges, allowing telecommunications providers open access to Telecom's unbundled copper local loop, removing bandwidth constraints and enabling greater competition in that environment.

Vodafone was signed as our flagship customer on this new network. Under the terms of the agreement, Vodafone will use part of our fibre-optic network as backhaul to enhance its mobile phone and broadband services.

Western Link complete

This year has also seen completion of the Western Link, a 25km cable that connects North Shore City back to Auckland City via West Auckland, providing an alternative to the existing fibre cable over the Auckland Harbour Bridge.

The new link also provides access to Southern Cross, New Zealand's main fibre-optic communications and internet gateway to the world, with landing stations at Takapuna and Whenuapai.

This dual pathway now provides greater robustness for corporate and international carriers.

Our joint venture with Siemens (NZ) will deliver advanced metering technology and operational services to customers throughout New Zealand.

5.2%
INCREASE IN TOTAL TECHNOLOGY REVENUE

500,000
SMART ELECTRICITY METERS TO BE INSTALLED UNDER GENESIS ENERGY CONTRACT

55,000
SMART ELECTRICITY METERS BEING INSTALLED UNDER CONTACT ENERGY CONTRACT

10,000
BUSINESSES WITH ACCESS TO OUR FIBRE-OPTIC NETWORK

100km
OF **NETWORK** ADDED IN AUCKLAND AND WELLINGTON

640km
TOTAL LENGTH OF FIBRE-OPTIC NETWORK

< MEMBERS OF NORTHPOWER EAST TAMAKI'S FAULT RESPONSE CREWS

WEATHERING THE STORM

They say every cloud has a silver lining, and the storm clouds that darkened our skies in July of last year were no exception. The extreme weather events of 2007 were the catalyst that led us to review our storm response strategies in time for the so-called 'ten-year storm' of July this year.

The 2007 storm eclipsed Cyclone Bola in severity, and knocked out power to over 150,000 customers, in some rural areas for up to a week.

While many customers expressed appreciation for the efforts of our field crews – who worked in often appalling conditions – there was also a high level of frustration due to a lack of available information.

In response, we set out to develop strategies that would improve our storm response and stakeholder communications in preparation for the next 'big one'.

The real test came in July 2008, when not one, but two, severe storms hit our network in the space of just four days.

With winds gusting up to 160km an hour, over 100,000 customers once again faced extended outages. This time we were able to set realistic expectations early on, thanks to improved communication strategies. These included:

Improved communication with our retailer call centres, so that they were able to set more realistic expectations for customers.

Improved communication with local councils saw us provide regular outage updates, meaning they had the latest information available for their Civil Defence personnel and call centres.

Improved message templates and scripting were utilised by our own inbound call centre staff. Messaging and scripting were tightened so that genuine emergency calls, such as lines down, could be quickly identified and prioritised.

Our outages website went online in July and has received much positive feedback from customers. During the peak of this year's bad weather it received over 1,000 hits a day.

Outbound calling to over 7,000 customers throughout the week of the storm kept them up to date with fault restoration progress. Customer feedback was extremely positive.

A team of 'service line spotters' was also deployed to identify customers with individual faults caused by service lines (the line between the house and the road) coming down. Many customers are not aware that this line is actually their responsibility. This allowed customers to instigate the repair process sooner, rather than to wait several days for contractors who were not able to fix the problem.

Damage surveillance by air was another lesson learnt from 2007. Three helicopters were deployed early on to determine the extent of the damage in outlying areas and to direct ground crews to those locations.

Once again, our thanks go out to our contractor field crews and staff, whose round-the-clock dedication in difficult conditions enabled us to reconnect all affected customers while keeping all stakeholders up to date with our progress.

ORAKEI OVERHAUL

April 2008 saw Vector's sixth large-scale undergrounding project supported by the Auckland Energy Consumer Trust (AECT) successfully completed in Orakei, Auckland.

The Orakei project is part of a $11-million-a-year long-term plan to replace the remaining overhead power lines in the urban areas of Auckland, Manukau and Papakura with new underground networks (over two-thirds of the lines in these areas are already underground).

The project saw more than 220 power poles removed, and 9.5km of overhead electricity lines replaced with underground cables. Covering 13 streets (or 6km), the project benefited approximately 800 homes and businesses in the area.

As well as an enhanced skyline, Orakei residents now also enjoy a total revitalisation of their neighbourhood, thanks to our 'Dig Once' strategy.

The approach involves working closely with the council and other utilities to upgrade services in the area at the same time. Work such as undergrounding and upgrading of telephone services, upgrading of gas and water services, provision for high-speed telecommunications networks, and general streetscape refurbishment can all be carried out simultaneously.

While such a strategy requires the cooperation and coordination of several organisations, it realises the benefits of sharing resources, delivering cost efficiencies to all parties, and minimising disruption to local business and residents.

For the Orakei project, we partnered with Telecom and Auckland City Council to replace overhead telephone wires with underground cables and install new street lights and footpaths.

Another key focus was keeping residents informed as much as possible throughout the works, with an on-site project ambassador available to deal with questions and concerns. Of residents surveyed, 92% thought our staff were friendly, helpful and professional.

To date, as well as the six large-scale projects, the AECT and Vector have also completed more than 120 smaller scale projects (typically a single street).

A section of the Auckland suburb of Sandringham is next on the list, with work already under way to replace the overhead lines in over 9km of streets. The project will benefit over 1,000 residential and business customers, and is expected to run until December 2009.

- > **800 homes and businesses** on project route
- > **13 streets** (6km) improved
- > **9.5km of overhead lines** replaced
- > **220 poles** removed
- > **7km of electricity cabling** installed underground
- > **180 customer service lines** (2.5km) undergrounded
- > **9 months** to complete

GAS IS GOOD

There are many misconceptions about natural gas from sustainability and environmental issues to health and safety concerns. That's why, together with the Gas Association of New Zealand, we're working to show that gas is a sustainable, healthy and environmentally friendly energy source.

When employed for domestic use (that is, for water and space heating, rather than for power generation), gas has many points in its favour:

Gas is plentiful: Perhaps the most common misconception is that gas supplies are running out. While the Maui gas field is slowly depleting, several new gas fields have recently been discovered. There remains a plentiful supply of gas in New Zealand for both residential and commercial needs for the foreseeable future.

Gas is green: Gas is energy efficient and environmentally friendly. Natural gas burns more cleanly than does either coal or oil, with fewer emissions and almost no ash particles. It's the most environmentally responsible choice of all the fossil fuels.

Gas is reliable: Gas is available whatever the weather, making it the practical partner for renewable energy sources such as solar, wind and hydro.

Gas protects electricity supplies: Using gas in the home reduces the demand for electricity, especially in the peak winter season, and helps reduce the risk of power cuts in dry years when hydro-lake levels are low.

Gas is healthy: A warm home is a healthy home. Gas can provide instant, adjustable heat, more quickly than electric appliances can, reducing the risk of asthma, colds and influenza.

Gas is ready when you are: Gas delivers heat the instant it's needed. It's fast, it allows precise temperature control, and it's not affected by power cuts. And only gas can provide a continuous hot water supply that never goes cold.

The case for gas has been further reinforced by a report released in July of this year.

Research commissioned by the Gas and LPG Associations, and carried out by the Centre for Advanced Engineering, indicates that direct use of gas and LPG instead of electricity for water and space heating could cut New Zealand's CO_2 output by over 1.5 million tonnes a year.

The research also finds that gas is among the most cost-effective energy sources for water heating and cooking.

DIG THIS

When Vector needed to access a high-pressure gas valve in Eric and Alison Brown's Whitby section, what started out as a 'one-metre hole' soon became two, and then a trench.

Fortunately, Vector's Land Management team managed to keep the Browns calm throughout, and even delivered a better garden at the end of the project.

Vector operates more than 3,500km of high-pressure gas transmission pipelines throughout the North Island, from Whangarei to Wellington. These feed the medium and low-pressure distribution pipeline networks that deliver natural gas to over 200,000 industrial, commercial and domestic gas customers in more than 30 towns and cities.

Ninety percent of this high-pressure network passes under private property and, while much of this land is rural, urban encroachment has meant that some sections of pipeline are now found in residential areas, as was the case in Whitby.

The Vector Land Management team, based at Bell Block, New Plymouth, is charged with managing the relationships with landowners and occupiers under whose properties our high-pressure pipelines run.

Maintaining good relationships with these groups is essential for the smooth operation and maintenance of the network. Our field operatives often require access to properties to carry out scheduled maintenance, for remedial work, to build new pipelines alongside existing lines, or to relocate sections of the network.

The latter was the case in January, when we needed to relocate a section of high-pressure gas pipeline in Whitby, north of Porirua. In order to tie in the new section of pipeline, we needed access to an underground valve – which just happened to be in the middle of Eric and Alison's shrubbery.

Kay Matthews, Leader, Land Management, was the first to make contact with the Browns. In fact, she spent four hours one evening knocking on every door in the street. Kay says it's all part of the team's approach to involve and inform not only landowners, but the wider community as well.

Kay then visited to show the Browns where the pipeline and valve were located, and where the hole (or holes) would go. Kay and members of the project team visited the couple on various occasions, to keep them abreast of progress and address any concerns.

It's the kind of effort that pays off, as not a single complaint was received from the Browns or their neighbours for the entirety of the project.

In fact, Eric gave us a 'ten out of ten' for the way we handled the project, the respect we showed for their property, and the way we kept him and Alison fully informed and involved throughout the project. He even says we were "quite nice people". Which we must be. It's not every day you get invited to share a beer with the person whose garden you've just dug up.

3,500km+ of high pressure network

4000 landowners/occupiers over the network

2008 IN REVIEW

OUR BUSINESS

STATEMENT OF FACTS

> Electricity networks servicing 680,000 consumers in Auckland and Wellington

> Natural gas distribution networks servicing more than 147,000 customers in over 30 towns and cities of the North Island

> Gas treatment and conditioning plants in Taranaki

> Liquefied petroleum gas (LPG) supply to almost 19,000 customers throughout New Zealand

> Electricity and gas metering services via approximately 830,000 meters at homes and businesses throughout New Zealand

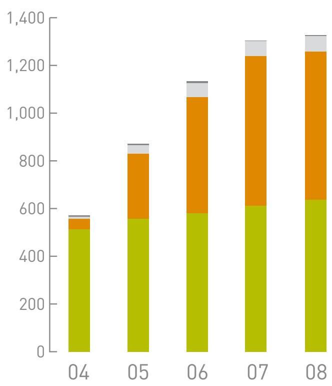
> The provision of metering data services to almost 15,000 customers in New Zealand and Australia

> Fibre-optic broadband communications networks in Auckland and Wellington

> A multi-utility training facility

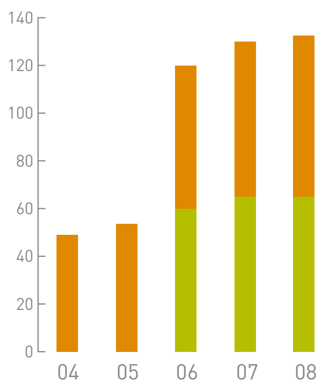
> Fifty percent ownership of a professional arboriculture and vegetation management organisation

OPERATING REVENUE[1]
$ MILLION



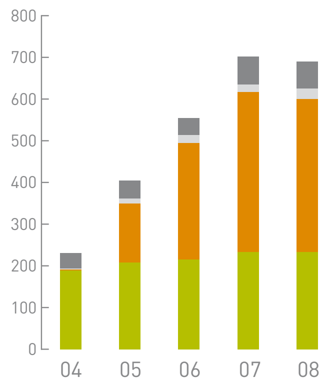
- ELECTRICITY
- GAS
- TECHNOLOGY
- OTHER

DIVIDENDS DECLARED
$ MILLION



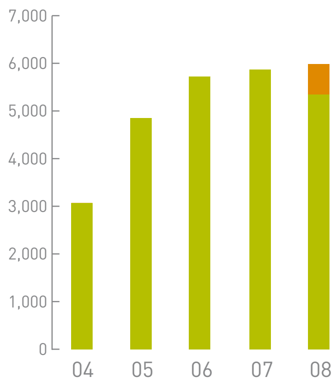
- INTERIM
- FINAL

OPERATING EXPENDITURE[1]
$ MILLION



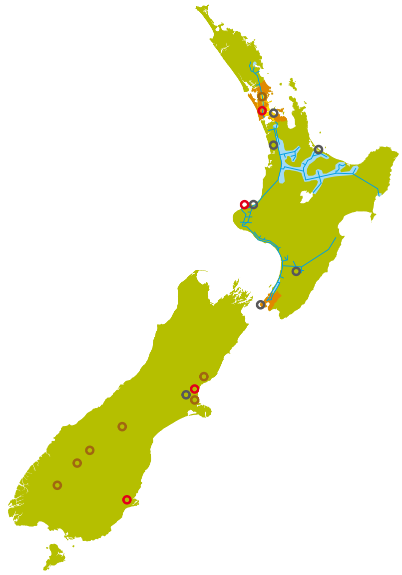
- ELECTRICITY
- GAS
- TECHNOLOGY
- OTHER

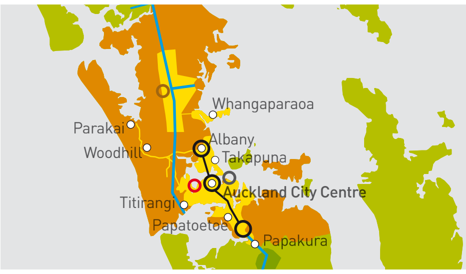
TOTAL ASSETS[1]
$ MILLION

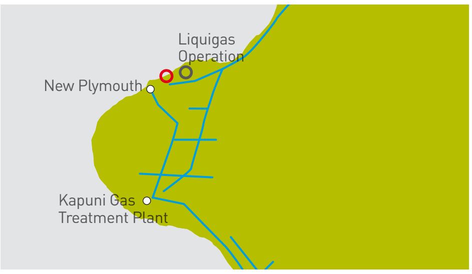


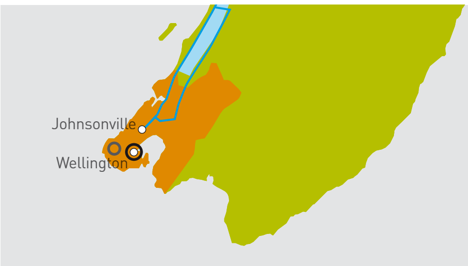
- CONTINUING OPERATIONS
- HELD FOR SALE

COVERAGE AREA





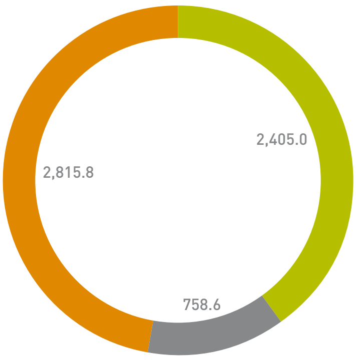




- Electricity networks
- Gas networks (indicative only)
- Electricity and gas networks (gas areas indicative only)
- Gas transmission pipelines
- OnGas LPG distribution centres
- Liquigas LPG depots
- Reticulated LPG networks (subdivision networks in these centres)
- Fibre-optic communications networks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

SOURCE OF FUNDING[1] $ MILLION

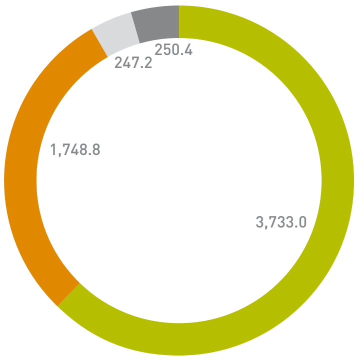
AS AT 30 JUNE 2008



- NON-CURRENT DEBT
- CURRENT DEBT
- EQUITY AND OTHER LIABILITIES

TOTAL ASSETS[1] $ MILLION

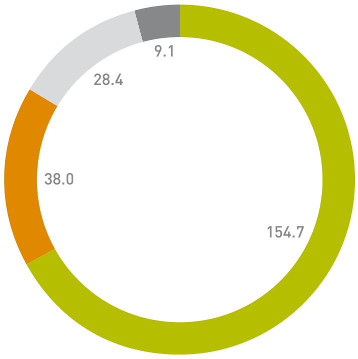
AS AT 30 JUNE 2008



- ELECTRICITY
- GAS
- TECHNOLOGY
- OTHER

CAPITAL EXPENDITURE[1] $ MILLION

FOR THE YEAR ENDED 30 JUNE 2008



- ELECTRICITY
- GAS
- TECHNOLOGY
- OTHER

FINANCIAL PICTURE ⟶

YEARS ENDING 30 JUNE	2008[1] $MILLION	2007[1] $MILLION	CHANGE %
Operating revenue	1,329.3	1,307.1	+1.7
EBITDA	640.0	605.3	+5.7
Depreciation and amortisation	(154.9)	(146.6)	+5.6
EBIT	485.1	458.7	+5.8
NPAT	164.4	233.3	-29.5
Total equity	1,901.3	1,936.1	-1.8
Total assets	5,979.4	5,867.4	+1.9
Net debt	3,110.0	2,947.7	+5.5
EBITDA/operating revenue	48.1%	46.3%	
EBIT/operating revenue	36.5%	35.1%	
Equity/total assets	31.8%	33.0%	
Net debt/net debt+equity	62.1%	60.4%	
Net interest cover (EBIT/net finance costs)	1.9 times	2.0 times	
Earnings per share	16.4 cents	23.3 cents	
Dividends per share (fully imputed)	13.25 cents	13.0 cents	

[1] Includes results of Wellington electricity network owned throughout the year but held for sale at 30 June 2008. Financial years 2008 and 2007 reported under NZ IFRS; earlier years reported under previous NZ GAAP.

AN INVESTMENT IN OUR PEOPLE

PEOPLE 2008

26	27	10
STAFF INVOLVED IN OUR LEADERSHIP PROGRAMME	DEVELOPING LEADERS IN OUR DISCOVERY GROUP	CURRENTLY ENROLLED IN OUR TEAM LEADER PROGRAMME

Vector has embarked on a journey to be the best it can be – now and in the future. As we move from a line-of-business to a functional model, leadership and the development of all our people are key.

A greater leadership capability and further development of high-quality leaders in our organisation will help us bridge the performance gap between our aspirations and attaining exceptional achievement.

A number of key initiatives are now in place to help us achieve truly inspirational leadership.

Developing future leaders

Launched in February this year, the Vector Leadership Programme is a major programme of personal and organisational development. It's a high-level programme, aimed at those with a demonstrated readiness to learn.

The 18-month programme has been developed in partnership with Excelerator, the New Zealand Leadership Institute at the University of Auckland. It comprises residential workshops, online learning, peer group learning, personal reflection, readings and individual action plans. In this, its first year, a total of 64 people applied for the 26 programme places.

The programme represents a significant investment in our people and an opportunity to build a sustainable collective leadership capacity to meet both our current and future business challenges.

Nurturing emerging leaders

For other aspiring leaders in our organisation, we've created the Discovery Group. This is a group of developing leaders who've been given individual, specialised development feedback, using a robust psychometric tool.

This feedback has been used by the group and their managers to create personalised development plans which focus on career and professional development options.

Supporting first-time leaders

Our Team Leader programme has been specifically developed for those who are new to supervising others.

The programme was launched in Taranaki in June, with a view to rolling it out to other centres over time.

We are making a significant investment in our people and an opportunity to build a sustainable collective leadership capacity.

The course builds personal and professional skills and applies these through a real-time business project. The NZQA-recognised programme also incorporates the National Certificate in First Line Management, Level 3.

High performance culture

Vector is dedicated to adopting a culture and climate where people can achieve high performance. A performance management framework provides the opportunity to align individual goals with the strategic goals of the organisation.

This ensures that every employee is focused on what is key to achieving strategic outcomes for the organisation. The framework also provides the opportunity for the assessment of individual behaviours against specific job competencies and behaviour-based values. This ensures we keep developing a culture for the achievement of high performance.

Looking after our people

Our success is not only shaped by the network of assets we own and operate, but also by the network of intelligence that sits behind it. That network of intelligence is, of course, our people.

We're committed to providing an environment that empowers our people to achieve professionally while at the same time maintaining a balance with other life commitments, including family, health, fitness and personal happiness. What's good for our people, is good for our business.

Some of the benefits we provide include:

> life insurance and income protection insurance for all permanent staff aged 65 or under, who work 15 or more hours a week

> a KiwiSaver 'salary sacrifice' offer, allowing staff to maximise the tax benefit offered by KiwiSaver

> a Grass Roots Rewards scheme, whereby team leaders are empowered to reward those people who 'go the extra mile'

> an arrangement with local gyms to offer reduced gym fees to staff

> the introduction of an opportunity to 'purchase' an additional week's leave.

SAFETY & A COMMITMENT TO OUR COMMUNITIES

When it comes to safety around our networks, we believe that education is the key. We run a number of safety programmes, targeted at both adults and children, in the communities in which we operate. These include:

Contractor Safety – a comprehensive programme promoting safe work practices to external contractors whose work brings them in close proximity to our networks. As well as protecting the contractors themselves, the programme aims to protect those in the communities in which they work and ensure an ongoing safe and reliable supply to our customers.

Our safety programmes focus on how to avoid risks and on what actions to take should an incident occur. All our programmes are regularly reviewed and enhanced to ensure they remain relevant.

We provide free services and resources to help contractors work safely around our networks, which include on-site mark outs and site supervision, safety guides and presentations. To ensure it's easy to get in touch with us we have dedicated free phone numbers for these third parties.

Switch on to Safety

Our public safety campaign which encourages people to 'think first' before working near electricity, gas and communications services and networks. A variety of integrated and targeted media – including press, web, email and radio – has been used to deliver key messages.

Stay Safe Around Electricity

Tracey Rayner has been asked some interesting questions in her time, from "Where does electricity come from?" to "Why don't birds get a shock when they're sitting on power lines?"

Fortunately she knows the answers to all of them and, in her role as Vector's Children's Safety Programme Coordinator, has been able to share the answers with over 48,000 primary school children from 170 schools in the Auckland region.

The Stay Safe programme has been running since 2004 and is dedicated to promoting electricity safety awareness to primary school children.

In May this year, Tracey (pictured above) made her 200th visit promoting our Stay Safe Around Electricity programme to Nga Iwi school in Mangere. The Stay Safe programme has been running since 2004 and is dedicated to promoting electricity safety awareness to primary school children. Tracey's in-school presentation is supported by a fun yet informative classroom workbook, discussion and activity guides for teachers, and our website – www.vectorsafety.co.nz The website hosts a range of interactive games, as well as further information and resources for both parents and teachers. All resources are available free of charge to primary schools on Vector's electricity networks. To follow up the presentation, a poster competition was also introduced last year. As well as raising awareness of the programme, it encourages children to think about the electricity safety messages they've learnt for some time after the presentation.

A special night for our youngest safety ambassadors

On 29 May, we were delighted to be able to host the children from three Auckland primary schools to Disney's High School Musical: The Ice Tour. It was our way of saying 'thanks' for their support of our Stay Safe Around Electricity programme.

The three schools, randomly selected from Auckland primary schools who took part in the programme, were Yendarra School, Waterview School and Leabank Primary School.

Sponsoring a world-class facility

As naming rights sponsor of Auckland's Vector Arena, we're naturally delighted with the sensational success of this unique venue. With over half a million tickets sold to 55 events in its first 18 months of operation, the Vector Arena has definitely changed the landscape of entertainment in New Zealand.

Earlier this year, it was nominated for the International Arena of the Year award in the 19th annual CIC Pollstar Awards, cementing its reputation as a truly world-class entertainment facility.

The only venue in the southern hemisphere to be nominated, the Vector Arena was short-listed alongside London's O2 Arena (the eventual winner) and the iconic Wembley Arena.

25,000
SAFETY GUIDES DISTRIBUTED ANNUALLY

1,700
TEMPORARY ELECTRICITY DISCONNECTIONS PER YEAR TO ENABLE SAFE HOME DIY

22,000
THIRD PARTY WORKSITES WERE PROVIDED ON-SITE SUPERVISION & GUIDANCE

TAKING THE INITIATIVE

CLIMATE CHANGE 2008

Climate change is here; it's real. It will impact on our business and it will be a key driver of our strategy in the future.

Growing awareness of climate change is driving a shift in consumers' energy preferences, as well as fuelling concerns about the environmental impact of the companies with whom they do business.

In addition, the Government has announced a range of regulatory and policy initiatives that will inevitably lead to major changes to the structure and regulation of the electricity market.

In response to these demands, we are already exploring ways of future-proofing and growing our core electricity, gas and technology businesses. Some of these initiatives are outlined below.

Operational efficiencies

While the emission of greenhouse gases is an inevitable part of the energy business, we recognise that any improvements we can make in our own efficiency will benefit both our business and the environment.

To that end, we closely monitor electricity equipment which contains greenhouse gases, and are currently investigating commercial uses for the carbon dioxide vented from our gas treatment plant at Kapuni.

We'll continue to work with suppliers to see how new and alternative technologies can help us become more efficient and reduce our environmental impact.

We are now developing systems that will allow us to report on our emissions profile within the coming year. We will set targets to manage our emissions and report our performance against those targets.

Energy metering technology is rapidly evolving from simple meters to advanced systems offering real-time information.

Renewable energy

We'll continue to focus on renewable energy solutions where there is a demonstrable benefit for both consumers and shareholders.

In addition to our 19.99% shareholding in NZ Windfarms Limited, we are currently investigating the performance of micro wind turbines in New Zealand conditions.

We are soon to become an accredited solar hot water installer, with a view to facilitating a large-scale roll-out of solar hot water systems in New Zealand.

Integrated solutions

By combining technology with infrastructure we aim to provide customers with integrated energy and communications solutions that deliver greater control and improved efficiency.

As the demand for distributed generation increases, we are talking with property developers to identify opportunities to deliver such solutions into new communities.

Smart metering

Energy metering technology is rapidly evolving from simple meters to advanced systems offering real-time information.

Our partnership with Siemens will strengthen our capabilities in this field, and allow us to provide smart metering technology that will help retail partners and their customers monitor and manage their energy use.

THREE DIFFERENT SOLAR ENERGY SOLUTIONS CURRENTLY BEING EVALUATED BY VECTOR

OUR MANAGEMENT TEAM

LEFT TO RIGHT ANDRIES VAN DER WESTHUIZEN, DAVID TOMPKINS, DAVID WORSNOP, ALEX BALL, ALLAN CARVELL, SYLVIA HUNT, SIMON MACKENZIE

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

Simon has been with Vector since 1998 in a range of operational, strategic and leadership roles, and was appointed Group Chief Executive Officer in February 2008, following a period as acting CEO.

With extensive experience in the energy sector, including strategy, regulation, network management, information technology and telecommunications, Simon also has had construction and consultancy experience in Europe and Australia.

He has tertiary qualifications in engineering, business studies and finance, and has completed the Advanced Management Programme at the Wharton School, University of Pennsylvania.

ALEX BALL BEng (Hons), ACGI, CA, SA Fin
Chief Financial Officer

Alex's role encompasses financial and management reporting, forecasting and financial modelling, risk management, treasury and corporate development, as well as legal, tax and property functions.

Alex joins the Vector management team from Ernst & Young, where he led its national financial services practice and was a partner in its assurance and advisory division, working with a range of New Zealand corporates.

He has broad experience in the areas of financial reporting and management, corporate finance, risk management and organisational development. Prior to his accounting career, he worked in the UK power generation industry and holds an engineering degree.

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

Allan is responsible for all aspects of regulatory policy, reporting and risk, and political and Government relations.

He joins Vector from Unison Networks Limited, where he was General Manager Finance and Corporate, then General Manager Finance and Commercial. Prior to that he held a variety of roles at Transpower, including General Manager Corporate Services, Chief Financial Officer and General Manager Low Voltage Assets.

As well as a background in finance and treasury management, legal, IT and HR, Allan also has significant experience in regulatory and pricing issues, particularly in the electricity sector.

He has completed an Advanced Development Programme at London Business School and is a member of the New Zealand Institute of Chartered Accountants and the Institute of Directors.

SYLVIA HUNT
BBS, GradDipBusStuds(HRM)
Group Manager Organisational Development

Sylvia's responsibilities include people and culture, health and safety, and

The members of our senior management have the combined skills and experience that will allow us to meet our organisational goals and achieve our vision.

information management, as well as Vector's NZQA-accredited private training institution, Utilitech.

She has a broad range of experience in different industries in senior Human Resource and Corporate Services roles, including financial services, dairy and forestry sectors.

Prior to joining Vector, she held the position of Group Manager Human Resources with the Crown Research Institute.

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

Group General Manager Asset Investment

David is responsible for electricity and gas network development and investment, asset performance and engineering.

He has been with Vector since 2002, during which time he has been responsible for electricity network development and investment, operations and maintenance, service delivery, and commercial and business development. He was also Divisional CEO Electricity from 2005 to 2008.

Prior to joining Vector, David managed a number of North American power developments, and has also held roles in New Zealand, Australia and South Africa in the energy and construction sectors.

ANDRIES VAN DER WESTHUIZEN

B.Comm (Law)

General Manager IT

Andries is responsible for all aspects of information technology within Vector, including strategy, governance and risk, portfolio management and project implementation, operations and services, and information security.

He has considerable experience in IT operations, project and contract management and negotiations in both New Zealand and South Africa.

Andries has been with Vector since 1997, during which time he has led projects to separate Mercury Energy and Vector information systems and to merge UnitedNetworks and NGC legacy systems.

DAVID WORSNOP

BE Hons

Group General Manager Service Delivery

David leads Vector's service delivery activities across both the gas and electricity distribution and gas transmission networks.

He has over 35 years' experience in the electricity industry, and a long involvement with power generation companies throughout the world.

Prior to his appointment, David was New Zealand CEO of Hastie Group, a multinational building services company. He also spent 10 years as Executive General Manager for Transfield Services, leading the electrical mechanical power services division in New Zealand.

BOARD OF DIRECTORS

LEFT TO RIGHT SHALE CHAMBERS, PETER BIRD, TONY CARTER, KAREN SHERRY, MICHAEL STIASSNY, HUGH FLETCHER, ALISON PATERSON, BOB THOMSON

MICHAEL STIASSNY Chairman
BCom, LLB, CA

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 an Auckland branch committee member for the Institute of Directors and a Fellow of the Institute of Directors.

PETER BIRD
BA MA PhD

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

TONY CARTER
BEng (Hons), ME, MPhil

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

SHALE CHAMBERS
LLB

Shale Chambers is a lawyer specialising in property, commercial and trust law and is managing partner of ChambersCraigJarvis in Auckland. He is a trustee and former deputy chair of Vector's majority shareholder, Auckland Energy Consumer Trust, and a director of State-Owned Enterprise, New Zealand Post Limited. He is also former deputy chair of Meteorological Service of New Zealand Limited, trustee of Auckland Healthy Houses Trust and a member of the Institute of Directors.

Our directors are all highly respected members of the New Zealand business community, bringing a sound mix of financial, legal and commercial experience to the board.

HUGH FLETCHER
BSc, MCom (Hons), MBA (Stanford)

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

ALISON PATERSON
FCA, ADistFInstD, QSO

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

KAREN SHERRY
MA(Hons), LLB(Hons)

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

BOB THOMSON
BEng (Electrical), DipBS

Bob Thomson was chief executive of Transpower Limited from 1993 until his retirement in 2003 and has been acting as an adviser to the Energy Trusts of New Zealand since 2004. He held a range of senior management and engineering positions in the New Zealand Electricity Department and Electricity Corporation of New Zealand Limited prior to his appointment with Transpower 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.

VECTOR GOVERNANCE

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

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

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

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

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

Board of directors

Vector's board is composed of a minimum of three and a maximum of nine directors, with at least two being ordinarily resident in New Zealand. As at 30 June 2008, the board comprised eight directors, all of whom are non-executive directors. Six are independent. Only independent directors are eligible to be the board chairperson.

The board usually meets monthly but, if required, can meet by telephone or videoconference.

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

Board committees

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

Audit Committee

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

The committee's members as at 30 June 2008 were Alison Paterson (chair), Shale Chambers, Hugh Fletcher, Michael Stiassny and Bob Thomson.

Risk and Assurance Committee

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

Risk and Assurance Committee members as at 30 June 2008 were Karen Sherry (chair), Tony Carter, Alison Paterson, Michael Stiassny and Bob Thomson.

Nominations Committee

The Nominations Committee establishes and reviews the criteria for evaluating director nominees, identifies and recommends candidate directors, as well as formally engaging and inducting new directors. While the Auckland Energy Consumer Trust (AECT) holds not less than 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 composition and duties is contained in the Nominations Committee charter.

Members of the Nominations Committee as at 30 June 2008 were Michael Stiassny (chair), Tony Carter, Hugh Fletcher and Alison Paterson.

	FULL BOARD	AUDIT COMMITTEE	RISK AND ASSURANCE COMMITTEE	REMUNERATION COMMITTEE
TOTAL MEETINGS	15	4	3	4
CURRENT DIRECTORS				
Michael Stiassny	15	4	3	4
Peter Bird	11	2*	–	1*
Tony Carter	14	2*	3	4
Shale Chambers	15	4	2*	4
Hugh Fletcher	15	3	–	–
Alison Paterson	13	3	2	2
Karen Sherry	13	2*	3	1*
Bob Thomson	15	4	3	4*

*Attending non-committee member

Remuneration Committee

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

Members of the Remuneration Committee as at 30 June 2008 were Shale Chambers (chair), Tony Carter, Alison Paterson and Michael Stiassny.

Table of attendance

Attendance records of board and committee meetings for the year ended 30 June 2008 are provided in the table above.

Stakeholder relations

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

Shareholders

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

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

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

Accessible information

Vector ensures that public information about the company is readily accessible to all stakeholders. The company maintains an up-to-date website containing a comprehensive range of information.

Vector issues quarterly reports on its operational performance and conducts detailed market briefings in conjunction with the release of its annual and interim reports.

Information presented at these briefings, and public announcements made at other times, are available on Vector's website following their public release in accordance with NZX listing rule requirements.

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

VECTOR PARTNERSHIPS 2008

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

1. ADVANCED METERING SERVICES

Advanced Metering Services (AMS) is Vector's 50% joint venture with Siemens (NZ), set up to deliver advanced metering technology and operational services to customers throughout New Zealand. Metering assets are owned by Vector, with the joint venture offering bundled, value-added services tailored to market and customer needs. These include providing meter assets and the ongoing collection, processing and management of energy consumption data. In January, AMS signed a contract with Contact Energy to provide 55,000 smart meters on the Orion network in Christchurch. It also recently concluded a contract with Genesis Energy to supply 500,000 smart meters over the next five years.

2. LIQUIGAS

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

The company also coordinates the importation of LPG, where necessary, to supplement New Zealand's domestic production. It's annual throughout of LPG is approximately 153,000 tonnes.

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

3. NZ WINDFARMS

Vector holds a cornerstone 19.99% shareholding in NZ Windfarms Limited, a power generation company that sells sustainably generated electricity from wind turbines. Over the past 12 months, NZ Windfarms has continued in its objective to develop a portfolio of wind farms in New Zealand, with a bias towards smaller sites.

4. STREAM INFORMATION

Stream Information is a partnership between Vector Stream Limited and Energy Intellect 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.

5. TREESCAPE

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

Storms have played a major role in Treescape's business in the past year, with consequent vegetation damage affecting key infrastructure such as power, rail and roads.

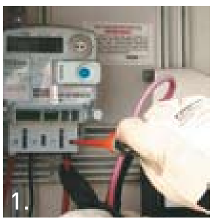
6. UTILITECH

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

A total of 207 trainees are currently enrolled in our two-year electricity line mechanic programme, with 92 completing the course this year. The number of overseas line mechanics retraining for New Zealand registration nearly doubled.

The number of gas trainees has increased, and our after-hours gasfitter upskilling courses have also proved popular.

Next year will see a range of new courses introduced, including solar hot water installation training, additional cable-jointer training, and the expansion of training expertise into offshore markets.


1.


2.


3.

4.


5.


6.

FINANCIAL REVIEW

YEAR ENDED 30 JUNE

	2008[2] $MILLION	2007[2] $MILLION
FINANCIAL PERFORMANCE[1]		
Total income	1,329.3	1,307.1
Operating expenditure	(689.3)	(701.8)
EBITDA	**640.0**	**605.3**
Depreciation and amortisation	(154.9)	(146.6)
EBIT	**485.1**	**458.7**
Net finance costs	(254.7)	(230.8)
Share of net surplus from associates	1.1	0.6
Operating surplus before income tax	**231.5**	**228.5**
Income tax (expense)/benefit	(59.2)	9.0
Operating surplus	**172.3**	**237.5**
Operating surplus attributable to minority interests	(7.9)	(4.2)
NPAT	**164.4**	**233.3**
ASSETS		
Operations held for sale	634.9	–
Other current assets	288.2	225.8
Intangible assets	1,593.6	1,715.2
Property, plant and equipment	3,386.3	3,826.1
Other non-current assets	76.4	100.3
	5,979.4	**5,867.4**
EQUITY AND LIABILITIES		
Operations held for sale	68.9	–
Current borrowings	758.6	327.6
Other current liabilities	217.8	277.7
Non-current borrowings	2,405.0	2,627.1
Deferred tax liability	534.7	580.5
Other non-current liabilities	93.1	118.4
Equity	1,901.3	1,936.1
	5,979.4	**5,867.4**
CASH FLOW[1]		
Net cash flows from operating activities	331.0	358.0
Dividends paid[3]	(136.9)	(128.8)
Capital expenditure payments	(232.8)	(262.6)
Cash flow before external funding and investments	**(38.7)**	**(33.4)**
Net borrowings drawn down/(repaid)	84.8	35.5
Investing activities excluding capital expenditure	0.5	(4.6)
Increase/(decrease) in cash	**46.6**	**(2.5)**

[1] Includes results of Wellington electricity network owned throughout the year but held for sale at 30 June 2008.
[2] All results are reported under NZIFRS.
[3] Includes dividends paid to minority interest shareholders.

This Shareholder Review should be read in conjunction with the enclosed Vector Limited Annual Report 2008.

INVESTOR INFORMATION

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

Insight Creative Limited. Auckland. Sydney. VEC020 09/08

DIRECTORY

REGISTERED OFFICE

Vector Limited
101 Carlton Gore Road
Newmarket
Auckland
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

SHARE REGISTRAR

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

AUDITORS

KPMG
18 Viaduct Harbour Avenue
Auckland
New Zealand

SOLICITORS

Russell McVeagh
Vero Centre
48 Shortland Street
Auckland
New Zealand

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

Vector

VECTOR LIMITED ANNUAL REPORT 2008

2008 ANNUAL REPORT

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

CONTENTS

2008 FINANCIAL STATEMENTS

The directors are pleased to present the financial statements of the group for the year ended 30 June 2008.

For and on behalf of directors

Director 27 August 2008

Director 27 August 2008

For and on behalf of management

Group Chief Executive Officer 27 August 2008

Chief Financial Officer 27 August 2008

AUDITOR REPORT
FOR THE YEAR ENDED 30 JUNE 2008

To the shareholders of Vector Limited
We have audited the financial statements on pages 3 to 67. The financial statements provide information about the past financial performance and financial position of the company and group as at 30 June 2008. This information is stated in accordance with the accounting policies set out on pages 8 to 19.

Directors' responsibilities
The Directors are responsible for the preparation of financial statements which give a true and fair view of the financial position of the company and group as at 30 June 2008 and the results of their operations and cash flows for the year ended on that date.

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

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

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

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

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

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

In our opinion:

- proper accounting records have been kept by the company as far as appears from our examination of those records;
- the financial statements on pages 3 to 67:
  - comply with New Zealand generally accepted accounting practice;
  - give a true and fair view of the financial position of the company and group as at 30 June 2008 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 27 August 2008 and our unqualified opinion is expressed as at that date.

KPMG

Auckland

INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2008

		GROUP		PARENT	
	NOTE	2008 $000	2007 $000	2008 $000	2007 $000
In respect of continuing operations:					
Operating revenue	3	1,180,497	1,143,416	540,407	496,213
Other income	3	1,515	2,367	614	317
Total income		1,182,012	1,145,783	541,021	496,530
Electricity transmission expenses		(104,764)	(91,026)	(104,764)	(91,026)
Gas purchases and production costs		(304,275)	(320,173)	(756)	(733)
Network and asset maintenance expenses		(82,106)	(83,433)	(53,478)	(55,927)
Indirect expenses		(142,945)	(149,978)	(123,886)	(121,891)
Operating expenditure	4	(634,090)	(644,610)	(282,884)	(269,577)
Earnings before interest, income tax, depreciation and amortisation (EBITDA)		547,922	501,173	258,137	226,953
Depreciation and amortisation	5	(140,361)	(129,045)	(80,501)	(77,507)
Operating surplus before interest and income tax		407,561	372,128	177,636	149,446
Finance income	6	3,668	3,944	8,480	31,298
Finance costs	6	(212,240)	(191,855)	(211,746)	(192,017)
Share of net surplus from associates	17	1,114	656	–	–
Operating surplus/(deficit) before income tax		200,103	184,873	(25,630)	(11,273)
Income tax (expense)/benefit	7	(50,404)	16,324	20,125	63,879
Operating surplus/(deficit) attributable to continuing activities		149,699	201,197	(5,505)	52,606
Operating surplus attributable to discontinued activities (net of tax)	1	22,635	36,311	16,823	36,311
Operating surplus		172,334	237,508	11,318	88,917
Operating surplus attributable to minority interests		(7,907)	(4,203)	–	–
Operating surplus attributable to the shareholders of the parent		164,427	233,305	11,318	88,917

		GROUP	
	NOTE	2008	2007
Number of fully paid ordinary shares on issue (000s)	11	1,000,000	1,000,000
Basic and diluted earnings per share (cents)			
Continuing operations	12	14.2	19.7
Discontinued operations	12	2.2	3.6
Total		16.4	23.3

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2008

	NOTE	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
Transfer to equity on net change in fair value of cash flow hedges (net of tax)		(70,413)	63,796	(70,413)	63,796
Transfer to foreign currency translation reserve		129	–	–	–
Net (expense)/income recognised directly in equity		(70,284)	63,796	(70,413)	63,796
Operating surplus		172,334	237,508	11,318	88,917
Total recognised income and expenses		102,050	301,304	(59,095)	152,713
Distributions to equity holders:					
Dividends		(130,000)	(125,000)	(130,000)	(125,000)
Supplementary dividends		(805)	(662)	(805)	(662)
Foreign investor tax credits		805	662	805	662
Dividends to minorities		(6,857)	(3,776)	–	–
		(34,807)	172,528	(189,095)	27,713
Equity at beginning of the period		1,936,131	1,763,603	1,868,638	1,840,925
Equity at end of the period		1,901,324	1,936,131	1,679,543	1,868,638
Total recognised income and expenses attributable to:					
Shareholders of the parent		94,143	297,101	(59,095)	152,713
Minority interests		7,907	4,203	–	–
Total recognised income and expenses		102,050	301,304	(59,095)	152,713
Equity at end of the period represented by:					
Issued share capital		874,979	874,979	874,979	874,979
Hedge reserve		(1,769)	68,644	(1,769)	68,644
Foreign currency translation reserve		129	–	–	–
Retained earnings		1,015,513	981,086	806,333	925,015
Shareholders' funds		1,888,852	1,924,709	1,679,543	1,868,638
Minority interests		12,472	11,422	–	–
Equity at end of the period	11	1,901,324	1,936,131	1,679,543	1,868,638

	NOTE	GROUP 2008	GROUP 2007
Total tangible assets per share (cents)	12	438.6	415.2
Net tangible assets per share (cents)	12	30.8	22.1

BALANCE SHEET

AS AT 30 JUNE 2008

	NOTE	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
CURRENT ASSETS					
Cash and cash equivalents		53,581	7,008	52,749	689
Receivables and prepayments	13	181,174	184,321	101,598	103,097
Derivative financial instruments	27	1,304	1,945	1,304	1,945
Operations held for sale	14	634,948	–	–	–
Inventories	15	7,376	9,062	14	57
Income tax	8	44,694	23,503	44,303	23,718
Intangible assets	19	–	2,639	–	–
Advances to subsidiaries	29	–	–	884,852	396,071
Total current assets		923,077	228,478	1,084,820	525,577
NON-CURRENT ASSETS					
Receivables and prepayments	13	1,469	4,716	1,469	1,693
Derivative financial instruments	27	40,294	66,186	40,294	66,186
Deferred tax	9	1,137	1,137	–	–
Investments in subsidiaries	16	–	–	1,403,536	1,403,536
Investments in associates	17	33,504	28,259	24,030	19,899
Intangible assets	19	1,593,566	1,712,546	545,628	656,125
Property, plant and equipment	20	3,386,316	3,826,127	2,482,168	2,921,970
Total non-current assets		5,056,286	5,638,971	4,497,125	5,069,409
Total assets		5,979,363	5,867,449	5,581,945	5,594,986
CURRENT LIABILITIES					
Operations held for sale	14	68,931	–	–	–
Payables and accruals	21	183,849	219,116	126,087	163,506
Provisions	22	30,460	24,756	5,262	6,279
Derivative financial instruments	27	3,441	33,832	3,441	33,832
Borrowings	26	758,578	327,592	756,722	325,492
Advances from subsidiaries	29	–	–	135,812	14,791
Total current liabilities		1,045,259	605,296	1,027,324	543,900
NON-CURRENT LIABILITIES					
Payables and accruals	21	23,710	7,502	1,291	835
Derivative financial instruments	27	69,355	110,906	69,355	110,906
Borrowings	26	2,404,995	2,627,136	2,402,846	2,624,181
Deferred tax	10	534,720	580,478	401,586	446,526
Total non-current liabilities		3,032,780	3,326,022	2,875,078	3,182,448
Total liabilities		4,078,039	3,931,318	3,902,402	3,726,348
EQUITY					
Shareholders' funds		1,888,852	1,924,709	1,679,543	1,868,638
Minority interests		12,472	11,422	–	–
Total equity	11	1,901,324	1,936,131	1,679,543	1,868,638
Total equity and liabilities		5,979,363	5,867,449	5,581,945	5,594,986

CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2008

	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
OPERATING ACTIVITIES				
Cash provided from:				
Receipts from customers	1,325,858	1,310,651	667,710	663,545
Interest portion of repayments on finance leases	120	120	120	120
Interest received on deposits	3,548	3,824	84	2,127
Income tax refund	145	5,043	–	5,000
Dividends received	–	263	–	–
	1,329,671	1,319,901	667,914	670,792
Cash applied to:				
Payments to suppliers and employees	(681,717)	(671,419)	(355,758)	(284,548)
Income tax paid	(68,082)	(64,226)	(56,279)	(58,984)
Interest paid on finance leases	(753)	(682)	(59)	(3)
Interest paid	(248,077)	(225,605)	(248,277)	(226,447)
	(998,629)	(961,932)	(660,373)	(569,982)
Net cash flows from operating activities	331,042	357,969	7,541	100,810
INVESTING ACTIVITIES				
Cash provided from:				
Advances repaid by subsidiaries	–	–	300,417	217,917
Proceeds from sale of investments	–	8,000	–	–
Proceeds from sale of property, plant and equipment and software	4,114	4,381	332	332
Receipts from loans repaid	263	135	139	73
Refund of security deposits	101	–	101	–
Capital portion of repayments on finance leases	12	11	12	11
	4,490	12,527	301,001	218,333
Cash applied to:				
Advances to subsidiaries	–	–	(35,960)	(17,316)
Purchase and construction of property, plant and equipment and software	(232,757)	(262,596)	(173,127)	(195,792)
Purchase of investments in associates	(4,131)	(17,015)	(4,131)	(17,015)
Issue of security deposits	(40)	(101)	(40)	(101)
	(236,928)	(279,712)	(213,258)	(230,224)
Net cash flows (used in)/from investing activities	(232,438)	(267,185)	87,743	(11,891)

CASH FLOW STATEMENT (continued)

FOR THE YEAR ENDED 30 JUNE 2008

	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
FINANCING ACTIVITIES				
Cash provided from/(applied to):				
Proceeds from borrowings	925,610	660,172	925,610	658,000
Repayment of borrowings	(834,014)	(615,000)	(834,014)	(615,000)
Debt raising costs incurred	(4,814)	(7,595)	(4,814)	(7,595)
Capital portion of payments under finance leases	(1,956)	(2,084)	(6)	(6)
Dividends paid to shareholders of the parent	(130,000)	(125,000)	(130,000)	(125,000)
Dividends paid to minority interests	(6,857)	(3,776)	–	–
Net cash flows used in financing activities	(52,031)	(93,283)	(43,224)	(89,601)
Net increase/(decrease) in cash and cash equivalents	46,573	(2,499)	52,060	(682)
Cash and cash equivalents at beginning of the period	7,008	9,507	689	1,371
Cash and cash equivalents at end of the period	53,581	7,008	52,749	689

Cash and cash equivalents are represented entirely by bank balances.

	NOTE	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
RECONCILIATION OF OPERATING SURPLUS TO NET CASH FLOWS FROM OPERATING ACTIVITIES					
Operating surplus		172,334	237,508	11,318	88,917
ITEMS CLASSIFIED AS INVESTING ACTIVITIES					
Net loss on write-off of property, plant and equipment and software		8,701	9,208	6,509	9,609
		8,701	9,208	6,509	9,609
NON-CASH ITEMS					
Depreciation and amortisation		154,902	146,625	95,042	95,087
Non-cash portion of interest expense		7,292	4,169	7,292	4,169
Increase/(decrease) in deferred tax liability		11,665	(48,541)	13,858	(43,021)
Increase/(decrease) in provisions		5,792	(18,823)	(929)	2,516
Equity earnings of associates	17	(1,114)	(656)	–	–
		178,537	82,774	115,263	58,751
MOVEMENT IN WORKING CAPITAL					
(Decrease)/increase in payables and accruals		(3,936)	33,682	(29,870)	7,563
Decrease in inventory		1,686	7,159	43	12
(Increase)/decrease in receivables and prepayments		(6,889)	668	(11,097)	4,122
Increase in income tax assets		(19,391)	(13,030)	(84,625)	(68,164)
		(28,530)	28,479	(125,549)	(56,467)
Net cash flows from operating activities		331,042	357,969	7,541	100,810

STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2008

BASIS OF PREPARATION

Vector Limited is a company domiciled in New Zealand and registered under the Companies Act 1993 and is listed on the New Zealand Stock Exchange (NZX). Vector Limited is an issuer for the purposes of the Financial Reporting Act 1993 and its financial statements comply with that Act. The financial statements of the company are for the year ended 30 June 2008 and were authorised for issue by the directors on 27 August 2008.

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

STATEMENT OF COMPLIANCE

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

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

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

MEASUREMENT BASE

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

- the identifiable assets, liabilities and contingent liabilities acquired in a business combination, explained further below; and
- financial instruments, 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 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 therefore believed to be reasonable. These estimated 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 any future periods affected. In particular, information about 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.

CRITICAL JUDGEMENTS AND SIGNIFICANT ESTIMATES AND ASSUMPTIONS USED IN APPLYING ACCOUNTING POLICIES

Revenue recognition

The timing of customer payments for services does not always coincide with the timing of delivery of these services. For example customers may pay for services some time after the services are delivered. Billing of customers may be based on estimated usage and differences washed up in subsequent periods. Customers may also prepay for services. Judgement is therefore required in estimating 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.

JUDGEMENT USED IN APPLYING ACCOUNTING POLICIES AND SOURCES OF ESTIMATION UNCERTAINTY (continued)

CRITICAL JUDGEMENTS AND SIGNIFICANT ESTIMATES AND ASSUMPTIONS USED IN APPLYING ACCOUNTING POLICIES (continued)

Accrual accounting

Management must make judgements when making estimates of accrued revenue and expenditure which relate to past transactions occurring within the current financial year but for which the actual revenue or expenditure incurred is not known at the time the financial statements are prepared. Management assesses the available information relating to the period, examines past trends and other external evidence to reach an estimate of the revenue or expenditure to accrue. Where the group's accounting policies require revenue to be accrued on a percentage of completion basis, management apply judgement to assess percentage of completion.

Valuation of goodwill

The carrying value of goodwill is assessed at least annually to ensure that it is not impaired. Performing this assessment generally requires management to estimate future cash flows to be generated by cash generating units or groups of cash generating units to which goodwill has been allocated. Estimating future cash flows entails making judgements including the expected rate of growth of revenues, margins expected to be achieved, the level of future maintenance expenditure required to support these outcomes and the appropriate discount rate to apply when discounting future cash flows. Note 19 of these financial statements provides more information surrounding the assumptions management have made in this area.

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

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

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

Assessing whether individual assets or a grouping of related assets (which generate cash flows codependently) are impaired may involve estimating the future cash flows that those assets are expected to generate. This will in turn involve assumptions, including rates of expected revenue growth or decline, expected future margins and the selection of an appropriate discount rate for discounting future cash flows.

Provisions and contingencies

Preparation of the financial statements requires management to make estimates in order to provide for potential liabilities. This involves making judgements about the likelihood of an amount becoming payable, estimation of the quantum of potential obligations based on available information and estimating when such obligations are likely to be settled. Where a variety of possible outcomes exist, management must apply judgement in assessing the probability that any given outcome may occur.

Valuation of financial instruments

The fair value of financial instruments is determined based on quoted market prices, where available, or on estimates using present values or other valuation techniques. Those techniques are affected by the assumptions used, including discount rates and estimates of future cash flows. Where market prices are not readily available, fair value is based either on estimates obtained from independent experts or quoted market prices of comparable instruments. In that regard, the derived fair value estimates cannot be substantiated by comparison with independent markets and, in many cases, could not be realised immediately.

STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2008

SIGNIFICANT ACCOUNTING POLICIES

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

A) BASIS OF CONSOLIDATION

Subsidiaries

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

Associates

Associates are entities in which the group has significant influence but not control over the operating and financial policies. The group's share of the net surplus of associates is recognised in the income statement after adjusting for differences, if any, between the accounting policies of the group and the associates. The group's share of any other gains and losses of associates charged directly to equity is recognised as a component of total recognised revenues and expenses in the statement of changes in equity. Dividends received from associates are credited to the carrying amount of the investment in associates in the consolidated financial statements.

Joint ventures

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

Partnerships

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

Acquisition or disposal during the period

Where an entity becomes or ceases to be a part of the group during the period, the results of the entity are included in the consolidated results from the date that control or significant influence commenced or until the date that control or significant influence ceased. When an entity is acquired all identifiable assets, liabilities and contingent liabilities are recognised at their fair value at acquisition date. The fair value does not take into consideration any future intentions by the group. All equity and debt raising costs incurred in relation to the acquisition of a subsidiary or a group of assets are accounted for in accordance with the accounting policy for financial instruments. Where an entity or a group of assets within an entity is held for sale, that entity or group of assets is recognised at the lower of their current carrying amount and fair value less costs to sell, and when subsequently disposed of, the gain or loss recognised in the income statement is calculated as the difference between the sale price less costs to sell and the carrying amount of the entity or group of assets and related goodwill.

Goodwill arising on acquisition

As part of its transition to NZ IFRS, the group elected not to restate any business combinations that occurred prior to 1 July 2006. Accordingly, goodwill in respect of acquisitions prior to 1 July 2006 represents the amount recognised previously under NZ GAAP.

For acquisitions on or after 1 July 2006, goodwill arising on acquisition of a subsidiary or associate represents the excess of the purchase consideration over the fair value of the identifiable assets, liabilities and contingent liabilities acquired. Goodwill is measured at cost less accumulated impairment losses. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment.

Transactions eliminated on consolidation

The effects of intra-group transactions are eliminated in preparing the consolidated financial statements. In the separate financial statements of the parent, where dividends are received from subsidiaries or associates that exceed the parent's share of that investee's post-acquisition earnings on consolidation, that excess is netted off the parent's investment in that subsidiary or associate. This adjustment is eliminated on consolidation.

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

SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Property, plant and equipment

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

Gas entitlements

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

C) REVENUE

Sale of goods

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

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

Sale of services

Sales of services are recognised as the services are delivered or to reflect the percentage completion of the related services where delivered over time.

Capital contributions

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

Dividend income

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

D) GOVERNMENT GRANTS

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

E) FINANCE INCOME AND EXPENSES

Finance income comprises interest income on funds invested, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets through profit or loss, foreign currency gains and gains on hedging instruments that are recognised in profit or loss. Finance income is recognised as it accrues.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency 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), losses on the disposal of available-for-sale financial assets and losses on hedging instruments that are recognised in profit or loss. Borrowing costs other than those capitalised to qualifying property, plant and equipment are recognised in the income statement using the effective interest rate.

SIGNIFICANT ACCOUNTING POLICIES (continued)

F) INCOME TAX

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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 the 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.

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. 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 by the 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 each balance date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional 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.

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 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.

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.

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

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

SIGNIFICANT ACCOUNTING POLICIES (continued)

I) DISCONTINUED OPERATIONS

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

J) EARNINGS PER SHARE

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

K) SEGMENT REPORTING

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

L) INVENTORIES

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

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

Gas contracts and prepaid gas

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

Where volumes of gas are advanced under a swap agreement, the group recognises an estimated liability for the future obligation to return gas at a later date. Fees associated with gas advances are amortised to the income statement over the expected life of the contract.

M) IDENTIFIABLE INTANGIBLE ASSETS

Goodwill

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

Gas entitlements

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

Software

Software that is not integral to the functionality of the related hardware is treated as an intangible asset. It is amortised on a straight line basis over its useful life, commencing on the date it is brought into 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.

SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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. The costs of distribution systems, distribution land and distribution buildings forming part of property, plant and equipment at 1 July 2006, the date of transition to NZ IFRSs, are measured on the basis of deemed historic cost in accordance with the exemption available on transition under NZ IFRS 1.

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
Generation assets (excluding gas turbines)	10 – 20
Other plant and equipment	5 – 20

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

SIGNIFICANT ACCOUNTING POLICIES (continued)

P) LEASED ASSETS

Finance leases

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

Operating leases

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

Leasehold improvements

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

Q) IMPAIRMENT

The carrying amounts of the group's assets are reviewed at each 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 equity instruments

Available-for-sale equity instruments held by the group are deemed to be impaired whenever there is a significant or prolonged decline in fair value below the original purchase price.

Any subsequent recovery of an impairment loss in respect of an investment in an equity instrument classified as available for sale is not reversed through the income statement.

Impairment of receivables

The recoverable amount of the group's receivables is carried at amortised cost less impairment. 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 annually for impairment.

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 units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.

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

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each balance date for any indications that the loss has decreased or no longer exists. An impairment loss is 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.

SIGNIFICANT ACCOUNTING POLICIES (continued)

R) PROVISIONS

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

Provisions are estimated by discounting the expected future cash flows at a pre-tax 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 net finance costs in the income statement as the period of discounting diminishes.

Decommissioning of property, plant and equipment

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

S) FINANCIAL INSTRUMENTS

Borrowings

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

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

Borrowing costs

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

Cash and cash equivalents

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

Derivative financial instruments

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

Fair value hedge

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

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

SIGNIFICANT ACCOUNTING POLICIES (continued)

S) FINANCIAL INSTRUMENTS (continued)

Cash flow hedge

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

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

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

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

Derivatives that do not qualify for hedge accounting

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

Embedded derivatives

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

Financial assets

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

Financial assets are classified into either available-for-sale financial assets or loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Available-for-sale financial assets

Certain shares held by the group are classified as being available-for-sale and are stated at fair value less impairment. Gains and losses arising from changes in fair value are recognised directly in the available-for-sale revaluation reserve in equity, until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in the available-for-sale revaluation reserve is included in profit or loss for the period.

Loans and receivables

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

Financial instruments issued by the company

Debt and equity instruments

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

Transaction costs on the issue of equity instruments

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

Interest and dividends

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

SIGNIFICANT ACCOUNTING POLICIES (continued)

T) FINANCIAL GUARANTEES

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

U) NON-CURRENT ASSETS HELD FOR SALE

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

V) STATEMENT OF CASH FLOWS

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

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

Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment, software and other investments not included in cash equivalents.

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

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

TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

The group elected to adopt 1 July 2006 as its transition date to the requirements of NZ IFRS in accordance with NZ IFRS 1, *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*. An explanation of how the transition to NZ IFRS has affected the reported financial position and financial performance of the group is provided in note 32. This note includes reconciliations of equity and operating surplus for comparative periods reported under previous NZ GAAP to those reported for those periods under NZ IFRS.

NEW STANDARDS EARLY-ADOPTED

NZ IFRS 8, *Operating Segments*

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

NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The following recently-published standards and interpretations, which are not yet effective for the year ended 30 June 2008, have not been applied in preparing these consolidated financial statements.

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

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

NZ IFRS 2, *Share-based Payment – Vesting Conditions and Cancellations – Amendments*

The amendments to NZ IFRS 2 make minor alterations to definitions and clarify the treatment of share-based payment arrangements that include liability components. These amendments to NZ IFRS 2, which become mandatory for the group's consolidated financial statements for the year ended 30 June 2010, are not expected to have any impact on either the separate financial statements of Vector Limited or the consolidated financial statements.

NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (continued)

NZ IFRS 3, *Business Combinations (revised)*

NZ IFRS 3 prescribes the information that an entity must provide in its financial statements about a business combination and its effects. The revisions to the standard, which become mandatory for the group's consolidated financial statements for the year ended 30 June 2010, are not expected to have any impact on either the separate financial statements of Vector Limited or the consolidated financial statements on initial adoption but could impact the treatment of any business combinations entered into post adoption should they eventuate.

NZ IFRS 4, *Insurance Contracts – Amendments*

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

NZ IAS 23, *Borrowing Costs (revised)*

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

NZ IAS 27, *Consolidated and Separate Financial Statements – Amendments*

The amendments to NZ IAS 27 primarily relate to accounting for non-controlling interests and the loss of control of a subsidiary. These amendments to NZ IAS 27, which become mandatory for the group's consolidated financial statements for the year ended 30 June 2010, are not expected to have any significant impact on either the separate financial statements of Vector Limited or the consolidated financial statements.

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

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

NZ IFRIC 12, *Service Concession Arrangements*

NZ IFRIC 12 provides guidance on the accounting by operators for public-to-private concession arrangements, whereby a public sector entity grants a service arrangement to an operator to maintain infrastructure for public services for a contracted period of time. The scope of the interpretation applies only to service arrangements where at the end of the arrangement, the operator is obliged to hand back the infrastructure to the public sector entity for little or no consideration. NZ IFRIC 12, which becomes mandatory for the group's consolidated financial statements for the year ended 30 June 2009, is not expected to have any impact on either the separate financial statements of Vector Limited or the consolidated financial statements.

NZ IFRIC 13, *Customer Loyalty Programmes*

NZ IFRIC 13 provides guidance on the accounting for customer loyalty award credits that an entity grants to its customers as part of a sales transaction, allowing the customer to redeem the credits in the future for free or discounted goods or services. NZ IFRIC 13, which becomes mandatory for the group's consolidated financial statements for the year ended 30 June 2009, is not expected to have any impact on either the separate financial statements of Vector Limited or the consolidated financial statements.

NZ IFRIC 14, *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

NZ IFRIC 14 provides guidance on the accounting for post-employment defined benefits and other long-term employee defined benefits. NZ IFRIC 14, which becomes mandatory for the group's consolidated financial statements for the year ended 30 June 2009, is not expected to have any impact on either the separate financial statements of Vector Limited or the consolidated financial statements.

APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 27 August 2008.

1. CONTINUING AND DISCONTINUED OPERATIONS

	GROUP 2008			GROUP 2007		
	CONTINUING OPERATIONS $000	DISCONTINUED OPERATIONS $000	TOTAL $000	CONTINUING OPERATIONS $000	DISCONTINUED OPERATIONS $000	TOTAL $000
Operating revenue	1,180,497	147,255	1,327,752	1,143,416	161,358	1,304,774
Other income	1,515	–	1,515	2,367	–	2,367
Total income	1,182,012	147,255	1,329,267	1,145,783	161,358	1,307,141
Operating expenditure	(634,090)	(55,166)	(689,256)	(644,610)	(57,263)	(701,873)
EBITDA	547,922	92,089	640,011	501,173	104,095	605,268
Depreciation and amortisation	(140,361)	(14,541)	(154,902)	(129,045)	(17,580)	(146,625)
Operating surplus before interest and income tax	407,561	77,548	485,109	372,128	86,515	458,643
Finance income	3,668	–	3,668	3,944	–	3,944
Finance costs	(212,240)	(46,137)	(258,377)	(191,855)	(42,865)	(234,720)
Share of net surplus from associates	1,114	–	1,114	656	–	656
Operating surplus before income tax	200,103	31,411	231,514	184,873	43,650	228,523
Income tax (expense)/benefit	(50,404)	(8,776)	(59,180)	16,324	(7,339)	8,985
Operating surplus	149,699	22,635	172,334	201,197	36,311	237,508
Operating surplus attributable to minority interests	(7,907)	–	(7,907)	(4,203)	–	(4,203)
Operating surplus attributable to the shareholders	141,792	22,635	164,427	196,994	36,311	233,305

1. CONTINUING AND DISCONTINUED OPERATIONS (continued)

	PARENT 2008			PARENT 2007		
	CONTINUING OPERATIONS $000	DISCONTINUED OPERATIONS $000	TOTAL $000	CONTINUING OPERATIONS $000	DISCONTINUED OPERATIONS $000	TOTAL $000
Operating revenue	540,407	133,268	673,675	496,213	161,358	657,571
Other income	614	–	614	317	–	317
Total income	541,021	133,268	674,289	496,530	161,358	657,888
Operating expenditure	(282,884)	(49,324)	(332,208)	(269,577)	(57,263)	(326,840)
EBITDA	258,137	83,944	342,081	226,953	104,095	331,048
Depreciation and amortisation	(80,501)	(14,541)	(95,042)	(77,507)	(17,580)	(95,087)
Operating surplus before interest and income tax	177,636	69,403	247,039	149,446	86,515	235,961
Finance income	8,480	–	8,480	31,298	–	31,298
Finance costs	(211,746)	(46,137)	(257,883)	(192,017)	(42,865)	(234,882)
Share of net surplus from associates	–	–	–	–	–	–
Operating (deficit)/surplus before income tax	(25,630)	23,266	(2,364)	(11,273)	43,650	32,377
Income tax benefit/(expense)	20,125	(6,443)	13,682	63,879	(7,339)	56,540
Operating (deficit)/surplus	(5,505)	16,823	11,318	52,606	36,311	88,917
Operating surplus attributable to minority interests	–	–	–	–	–	–
Operating (deficit)/surplus attributable to the shareholders	(5,505)	16,823	11,318	52,606	36,311	88,917

2. SEGMENT INFORMATION

The group has adopted NZ IFRS 8: *Operating Segments* in advance of its effective date, with effect from 1 July 2006. NZ IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. Vector is presently organised on a business line basis with Electricity, Gas Wholesale, Gas Transportation and Technology business lines supported by shared services such as human resources, information technology, finance and legal services. Vector's internal reporting to the Group CEO and his Executive Team is focused on these business lines which are the segments reported below in accordance with NZ IFRS 8.

Electricity
Ownership and management of electricity distribution networks.

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

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

Technology
Telecommunications services, electricity and gas metering.

Corporate / other
Corporate activities, comprising shared services, investments and other energy and utility industry-related businesses.

The above segments reported in these financial statements are identical to those reported in Vector's Annual Report for the year ended 30 June 2007.

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

All segment information presented is prepared in accordance with Vector's accounting policies. Monthly internal reporting to Vector's Executive Team is also prepared on this basis.

The segment information excludes discontinued activities relating to the sale of the Wellington electricity network which was completed after balance date. The portion of operating surplus attributable to those discontinued activities is $22.6 million (2007: $36.3 million) and is disclosed in note 1 of these financial statements. Total assets attributable to discontinued operations are $634.9 million including $26.2 million additions to property, plant and equipment and software during the period and no investments in associates.

The group engages with one major customer which contributes individually greater than ten percent of its total revenue. The customer contributed $245.7 million (2007: $262.4 million) which is reported in the Electricity and Gas Transportation segments below.

2. SEGMENT INFORMATION (continued)

	GROUP 2008						
	ELECTRICITY $000	GAS TRANS-PORTATION $000	GAS WHOLESALE $000	TECHNOLOGY $000	CORPORATE/ OTHER $000	INTER-SEGMENT $000	TOTAL $000
External revenue:							
Operating revenue	490,260	143,974	475,565	65,494	5,204	–	1,180,497
Other income	–	–	73	795	647	–	1,515
Intersegment revenue	–	42,123	4,119	2,958	70	(49,270)	–
	490,260	186,097	479,757	69,247	5,921	(49,270)	1,182,012
External operating expenditure:							
Electricity transmission expenses	(104,764)	–	–	–	–	–	(104,764)
Gas purchases and production costs	–	(8,488)	(295,787)	–	–	–	(304,275)
Network and asset maintenance expenses	(47,255)	(13,643)	(16,489)	(4,719)	–	–	(82,106)
Indirect expenses	(25,929)	(12,693)	(18,987)	(21,417)	(63,919)	–	(142,945)
Intersegment expenditure	(1,381)	(4,119)	(43,700)	(70)	–	49,270	–
	(179,329)	(38,943)	(374,963)	(26,206)	(63,919)	49,270	(634,090)
EBITDA	310,931	147,154	104,794	43,041	(57,998)	–	547,922
Depreciation and amortisation	(61,333)	(29,921)	(13,930)	(21,323)	(13,854)	–	(140,361)
Operating surplus/(deficit) before interest and income tax	249,598	117,233	90,864	21,718	(71,852)	–	407,561
Finance income	–	–	–	–	3,668	–	3,668
Finance costs	–	–	–	–	(212,240)	–	(212,240)
Share of net surplus from associates	–	–	–	–	1,114	–	1,114
Operating surplus/(deficit) before income tax	249,598	117,233	90,864	21,718	(279,310)	–	200,103
Income tax expense							(50,404)
Operating surplus							149,699
Operating surplus attributable to minority interests							(7,907)
Operating surplus attributable to the shareholders of the parent							141,792
Investments in associates	–	–	–	10,869	22,635	–	33,504
Additions to property, plant and equipment and software	128,483	24,841	13,138	28,435	9,068	–	203,965
Total assets (excluding operations held for sale)	3,098,057	1,344,935	403,851	247,169	250,403	–	5,344,415

2. SEGMENT INFORMATION (continued)

	GROUP 2007						
	ELECTRICITY $000	GAS TRANS-PORTATION $000	GAS WHOLESALE $000	TECHNOLOGY $000	CORPORATE/ OTHER $000	INTER-SEGMENT $000	TOTAL $000
External revenue:							
Operating revenue	450,118	138,825	488,021	63,040	3,412	–	1,143,416
Other income	–	–	–	143	2,224	–	2,367
Intersegment revenue	–	39,681	5,385	2,634	70	(47,770)	–
	450,118	178,506	493,406	65,817	5,706	(47,770)	1,145,783
External operating expenditure:							
Electricity transmission expenses	(91,026)	–	–	–	–	–	(91,026)
Gas purchases and production costs	–	(9,196)	(310,977)	–	–	–	(320,173)
Network and asset maintenance expenses	(51,173)	(13,475)	(14,790)	(3,995)	–	–	(83,433)
Indirect expenses	(34,040)	(13,767)	(20,450)	(14,969)	(66,752)	–	(149,978)
Intersegment expenditure	(2,028)	(5,385)	(40,287)	(70)	–	47,770	–
	(178,267)	(41,823)	(386,504)	(19,034)	(66,752)	47,770	(644,610)
EBITDA	271,851	136,683	106,902	46,783	(61,046)	–	501,173
Depreciation and amortisation	(61,512)	(26,911)	(15,175)	(14,013)	(11,434)	–	(129,045)
Operating surplus/(deficit) before interest and income tax	210,339	109,772	91,727	32,770	(72,480)	–	372,128
Finance income	–	–	–	–	3,944	–	3,944
Finance costs	–	–	–	–	(191,855)	–	(191,855)
Share of net surplus from associates	–	–	–	–	656	–	656
Operating surplus/(deficit) before income tax	210,339	109,772	91,727	32,770	(259,735)	–	184,873
Income tax benefit							16,324
Operating surplus							201,197
Operating surplus attributable to minority interests							(4,203)
Operating surplus attributable to the shareholders of the parent							196,994
Investments in associates	–	–	–	6,648	21,611	–	28,259
Additions to property, plant and equipment and software	135,546	30,295	13,107	35,793	14,885	–	229,626
Total assets	3,657,628	1,362,229	414,051	238,614	194,927	–	5,867,449

3. OPERATING REVENUE AND OTHER INCOME

	GROUP		PARENT	
	2008 $000	2007 $000	2008 $000	2007 $000
Operating revenue				
Trading revenue:				
Energy sales	479,050	492,655	–	–
Provision of utility services	674,396	625,502	518,055	474,193
Capital contributions	27,051	25,259	22,352	22,020
	1,180,497	1,143,416	540,407	496,213
Other income				
Gain on disposal of property, plant and equipment and software	1,515	2,104	614	317
Dividends received	–	263	–	–
	1,515	2,367	614	317
Total	1,182,012	1,145,783	541,021	496,530

4. OPERATING EXPENDITURE

	GROUP		PARENT	
	2008 $000	2007 $000	2008 $000	2007 $000
Operating expenditure includes:				
Bad debts written-off	137	60	22	36
Increase in provision for doubtful debts	1,788	1,015	675	750
Rental and operating lease costs	4,575	4,642	3,446	3,653
Loss on disposal of property, plant and equipment and software	8,585	10,289	5,492	8,903
Directors fees	946	759	866	680
Donations	–	5	–	5
Employee benefits	80,341	84,210	63,578	61,819
Administration expenses	22,019	25,792	17,957	16,860
Contributions to KiwiSaver	309	–	299	–
Auditors remuneration:				
Audit fees paid to auditors – KPMG	816	672	731	597
Fees paid for other assurance services provided – KPMG	295	358	295	358

Fees for other assurance services paid to auditors primarily relate to the special purpose audits of regulatory disclosures such as the electricity threshold compliance statements. For the year ended 30 June 2007, other assurance services fees also included services relating to the adoption of International Financial Reporting Standards.

5. DEPRECIATION AND AMORTISATION

	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
Depreciation of property, plant and equipment				
Distribution systems	89,357	88,862	66,516	66,345
Distribution buildings	1,238	1,214	1,165	1,214
Electricity and gas meters	15,837	10,440	2	3
Generation power stations	1,522	1,265	–	–
Computer and telecommunications equipment	5,817	4,657	2,074	1,528
Motor vehicles and mobile equipment	1,437	924	126	35
Other plant and equipment	4,595	4,425	219	291
Buildings	262	247	29	6
Leasehold improvements	371	497	321	222
	120,436	112,531	70,452	69,644
Amortisation of intangible assets				
Gas entitlement intangible assets	2,639	3,847	–	–
Software intangibles	17,286	12,667	10,049	7,863
	19,925	16,514	10,049	7,863
Total	140,361	129,045	80,501	77,507

6. NET FINANCE COSTS

	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
Finance costs				
Interest expense	215,426	200,203	213,770	199,483
Profit on ineffective portion of cash flow hedges	(47)	(36)	(47)	(36)
(Profit)/loss on fair value movement on hedging instruments	(118,162)	143,846	(118,162)	143,846
Loss/(profit) on fair value movement on hedged items	117,756	(143,999)	117,756	(143,999)
Loss/(profit) on financial instruments at fair value through profit or loss	1,752	(4,884)	1,752	(4,884)
Capitalised interest	(6,532)	(5,033)	(5,190)	(4,083)
Other finance expense	2,047	1,758	1,867	1,690
	212,240	191,855	211,746	192,017
Finance income				
Interest income	(3,668)	(3,944)	(8,480)	(31,298)
	(3,668)	(3,944)	(8,480)	(31,298)
Net finance costs	208,572	187,911	203,266	160,719

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

7. INCOME TAX EXPENSE

	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
Current income tax				
Current income tax expense	46,512	40,482	(27,820)	(12,890)
Prior period adjustments	(7,773)	1,594	(6,163)	71
Deferred income tax				
Relating to property, plant and equipment	9,784	9,046	11,860	6,334
Relating to other balance sheet items	494	(18,477)	(1,157)	(22,021)
Future reduction in tax rate	(4,856)	(47,420)	(1,661)	(35,071)
Prior period adjustments	6,243	(1,549)	4,816	(302)
Income tax expense/(benefit)	50,404	(16,324)	(20,125)	(63,879)
Reconciliation of income tax expense				
Operating surplus/(deficit) before income tax	200,103	184,873	(25,630)	(11,273)
Tax at current rate of 33%	66,034	61,008	(8,458)	(3,720)
Future reduction in tax rate impacting deferred tax	(4,856)	(47,420)	(1,661)	(35,071)
Non-taxable items:				
Capital contributions	(8,927)	(8,335)	(7,376)	(7,267)
Other	(1,847)	(21,577)	(2,630)	(17,821)
Income tax expense/(benefit)	50,404	(16,324)	(20,125)	(63,879)

8. INCOME TAX

	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
Current				
Prepaid tax	44,694	23,503	44,303	23,718
Total	44,694	23,503	44,303	23,718
Imputation balances				
Balance at beginning of the period	(27,520)	(23,562)	–	–
Income tax payments during the period	63,223	58,929	–	–
Imputation credits attaching to dividends received	–	129	–	–
Imputation credits attaching to dividends paid	(63,429)	(60,698)	–	–
Other	–	(2,318)	–	–
Balance at end of the period	(27,726)	(27,520)	–	–
The imputation credits are available to shareholders of the parent:				
Through direct shareholding in the parent	(29,042)	(32,306)	–	–
Through indirect shareholding in subsidiaries	1,316	4,786	–	–
Total	(27,726)	(27,520)	–	–

Vector Limited is a member of the Vector group consolidated imputation credit account. Therefore its balance is reported only in the imputation account for that group.

9. DEFERRED TAX ASSET

	GROUP		PARENT	
	2008 $000	2007 $000	2008 $000	2007 $000
Balance at beginning of the period	1,137	1,137	–	–
Balance at end of the period	1,137	1,137	–	–

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

10. DEFERRED TAX LIABILITY

	GROUP 2008				
	PROPERTY, PLANT AND EQUIPMENT $000	PROVISIONS AND ACCRUALS $000	TAX LOSSES $000	OTHER $000	TOTAL $000
Balance at beginning of the period	596,417	(20,031)	(793)	4,885	580,478
Amounts recognised in the income statement:					
Relating to current period	(3,945)	11,585	(266)	(1,952)	5,422
Prior period adjustment	3,020	3,177	793	(747)	6,243
Transferred to operations held for sale	(57,172)	(251)	–	–	(57,423)
Balance at end of the period	538,320	(5,520)	(266)	2,186	534,720
Deferred tax assets	–	(5,520)	(266)	–	(5,786)
Deferred tax liabilities	538,320	–	–	2,186	540,506
Net deferred tax liability	538,320	(5,520)	(266)	2,186	534,720

	GROUP 2007				
	PROPERTY, PLANT AND EQUIPMENT $000	PROVISIONS AND ACCRUALS $000	TAX LOSSES $000	OTHER $000	TOTAL $000
Balance at beginning of the period	659,048	(24,381)	(10,652)	5,004	629,019
Amounts recognised in the income statement:					
Relating to current period	(62,713)	6,306	–	(444)	(56,851)
Transfer to current tax	–	–	9,859	–	9,859
Prior period adjustment	82	(1,956)	–	325	(1,549)
Balance at end of the period	596,417	(20,031)	(793)	4,885	580,478
Deferred tax assets	–	(20,031)	(793)	–	(20,824)
Deferred tax liabilities	596,417	–	–	4,885	601,302
Net deferred tax liability	596,417	(20,031)	(793)	4,885	580,478

Tax losses which are available to be utilised by the group are deferred tax assets offset against the deferred tax liability.

10. DEFERRED TAX LIABILITY (continued)

PARENT 2008	PROPERTY, PLANT AND EQUIPMENT $000	PROVISIONS AND ACCRUALS $000	TAX LOSSES $000	OTHER $000	TOTAL $000
Balance at beginning of the period	447,587	(5,634)	–	4,573	446,526
Amounts recognised in the income statement:					
Relating to current period	11,809	(632)	–	(2,135)	9,042
Prior period adjustment	3,994	1,865	–	(1,043)	4,816
Transferred to operations held for sale	(58,879)	81	–	–	(58,798)
Balance at end of the period	404,511	(4,320)	–	1,395	401,586
Deferred tax assets	–	(4,320)	–	–	(4,320)
Deferred tax liabilities	404,511	–	–	1,395	405,906
Net deferred tax liability	404,511	(4,320)	–	1,395	401,586

PARENT 2007	PROPERTY, PLANT AND EQUIPMENT $000	PROVISIONS AND ACCRUALS $000	TAX LOSSES $000	OTHER $000	TOTAL $000
Balance at beginning of the period	498,392	(3,435)	(8,038)	2,629	489,548
Amounts recognised in the income statement:					
Relating to current period	(50,789)	(2,074)	–	2,105	(50,758)
Transfer to current tax	–	–	8,038	–	8,038
Prior period adjustment	(16)	(125)	–	(161)	(302)
Balance at end of the period	447,587	(5,634)	–	4,573	446,526
Deferred tax assets	–	(5,634)	–	–	(5,634)
Deferred tax liabilities	447,587	–	–	4,573	452,160
Net deferred tax liability	447,587	(5,634)	–	4,573	446,526

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

11. EQUITY

GROUP 2008

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

GROUP 2007

	ISSUED SHARE CAPITAL $000	HEDGE RESERVE $000	FOREIGN CURRENCY TRANSLATION RESERVE $000	RETAINED EARNINGS $000	MINORITY INTERESTS $000	TOTAL EQUITY $000
Balance at beginning of the period	874,979	4,848	–	872,781	10,995	1,763,603
Operating surplus for the period	–	–	–	233,305	4,203	237,508
Net change in fair value of cash flow hedges	–	63,796	–	–	–	63,796
Dividends	–	–	–	(125,000)	(3,776)	(128,776)
Balance at end of the period	874,979	68,644	–	981,086	11,422	1,936,131

11. EQUITY (continued)

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

	PARENT 2007			
	ISSUED SHARE CAPITAL $000	HEDGE RESERVE $000	RETAINED EARNINGS $000	TOTAL EQUITY $000
Balance at beginning of the period	874,979	4,848	961,098	1,840,925
Operating surplus for the period	–	–	88,917	88,917
Net change in fair value of cash flow hedges	–	63,796	–	63,796
Dividends	–	–	(125,000)	(125,000)
Balance at end of the period	874,979	68,644	925,015	1,868,638

Vector Limited's final dividend for the year ended 30 June 2007 of 6.5 cents per share was paid on 4 September 2007 with a supplementary dividend of $0.4 million (equating to 0.04 cents per share). The interim dividend for the current year of 6.5 cents per share was paid on 10 April 2008 with a supplementary dividend of $0.4 million (equating to 0.04 cents per share). Both dividends gave rise to foreign investor tax credits equal to the amount of supplementary dividend paid. During the year $0.2 million (2007: $0.2 million) of refunds of overpaid supplementary dividends were received.

The total number of authorised and issued shares is 1,000,000,000 (2007: 1,000,000,000). All issued shares are fully paid and have no par value. All ordinary shares carry equal voting rights and equal rights to a surplus on winding up of the parent.

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

12. FINANCIAL RATIOS

Earnings per share

The calculation of basic earnings per share for the year ended 30 June 2008 is based on the operating surplus attributable to ordinary shareholders of the parent of $164.4 million (2007: $233.3 million), $22.6 million of which relates to discontinued operations (2007: $36.3 million), and a weighted average number of ordinary shares outstanding during the year ended 30 June 2008 of 1,000,000,000 (2007: 1,000,000,000). Diluted earnings per share is calculated on the same basis as basic earnings per share. The group currently has no financial instruments which have potential dilutionary effects on earnings per share.

Total and net tangible assets per share

The calculations of the total and net tangible assets per share for the year ended 30 June 2008 are based on the carrying amounts of the total assets of $5,979.4 million (2007: $5,867.4 million) and net assets of $1,901.3 million (2007: $1,936.1 million) less intangible assets of $1,593.6 million (2007: $1,715.2 million) and a weighted average number of ordinary shares as mentioned in the earnings per share note above.

13. RECEIVABLES AND PREPAYMENTS

	GROUP		PARENT	
	2008 $000	2007 $000	2008 $000	2007 $000
Current				
Trade receivables	157,508	168,331	75,440	85,708
Provision for doubtful debts	(5,448)	(3,546)	(1,689)	(900)
	152,060	164,785	73,751	84,808
Prepayments	13,147	5,957	11,880	4,710
Interest receivables	15,927	13,565	15,927	13,565
Other receivables	40	14	40	14
Total	181,174	184,321	101,598	103,097
Non-current				
Trade receivables	15	2,898	15	–
Other receivables	1,454	1,818	1,454	1,693
Total	1,469	4,716	1,469	1,693

Prepayments include $0.4 million paid to the group's auditors, KPMG in respect of the sale of the Wellington electricity network.

14. OPERATIONS HELD FOR SALE

	GROUP		PARENT	
	2008 $000	2007 $000	2008 $000	2007 $000
Current assets				
Receivables and prepayments	12,943	–	–	–
Intangible assets	114,773	–	–	–
Property, plant and equipment	507,232	–	–	–
	634,948	–	–	–
Current liabilities				
Income tax	1,800	–	–	–
Payables and accruals	9,620	–	–	–
Provisions	88	–	–	–
Deferred tax	57,423	–	–	–
	68,931	–	–	–
Net assets of operations held for sale	566,017	–	–	–
Cash flows from discontinued operations				
Net cash from operating activities	42,315	45,570	38,495	45,570
Net cash used in investing activities	(32,510)	(36,939)	(31,376)	(36,939)
Net cash from financing activities	(9,805)	(8,631)	(7,119)	(8,631)
Net cash inflow/(outflow)	–	–	–	–

The net assets of operations held for sale are recognised in the balance sheet at 30 June 2008 as current assets and current liabilities as they were realised within one year when the subsidiaries Vector Wellington Electricity Networks Limited and Vector Wellington Electricity Management Limited were sold for $785 million on 24 July 2008.

The gain on sale after deducting selling costs is around $200 million. More details around the financial effects of this transaction are presented in note 31.

15. INVENTORIES

	GROUP		PARENT	
	2008 $000	2007 $000	2008 $000	2007 $000
Prepaid gas	–	4,210	–	–
Natural gas and by-products	1,516	1,467	–	–
Trading stock	5,846	3,328	–	–
Consumable spares	14	57	14	57
Total	7,376	9,062	14	57

16. INVESTMENTS

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

	PRINCIPAL ACTIVITY	PERCENTAGE HELD	
		2008	2007
Subsidiaries			
NGC Holdings Limited	Investment	100%	100%
– Vector Management Services Limited	Management services	100%	100%
– Vector Gas Limited	Natural gas sales, processing and transportation	100%	100%
– Vector Gas Contracts Limited	Natural gas sales	100%	100%
– Vector Gas Investments Limited	Investment	100%	100%
– Vector Kapuni Limited	Investment	100%	100%
– Liquigas Limited	LPG sales and distribution	60%	60%
– On Gas Limited	LPG sales and distribution	100%	100%
– NGC Metering Limited	Metering services	100%	100%
– Vector Metering Data Services Limited	Investment and contracting metering data services	100%	100%
– Elect Data Services (Australia) Pty Limited	Energy metering data management	100%	100%
– Vector Wellington Electricity Networks Limited	Electricity distribution	100%	100%
– Vector Wellington Electricity Management Limited	Management services	100%	–
Vector Communications Limited	Telecommunications service provider	100%	100%
Vector Stream Limited	Investment	100%	100%
– Stream Information Limited	Agent for partnership	70%	70%
– Stream Information (partnership)	Metering services	70%	70%

During the year, Vector Metering Data Services (Australia) Limited changed its name to Vector Wellington Electricity Networks Limited.

16. INVESTMENTS (continued)

	PRINCIPAL ACTIVITY	PERCENTAGE HELD 2008	2007
Non-trading subsidiaries			
Auckland Generation Limited	Holding company	100%	100%
– MEL Silverstream Limited	Dormant	100%	100%
– MEL Network Limited	Holding company	100%	100%
– Mercury Geotherm Limited (in receivership)	Investment	100%	65%
– Poihipi Land Limited (in receivership)	Investment	100%	65%
Vector Power Limited	Dormant	100%	100%
Auckland Network Limited	Dormant	100%	100%
Energy North Limited	Dormant	100%	100%
UnitedNetworks Limited	Dormant	100%	100%
Salamanca Holdings Limited	Investment	75%	75%
– Pacific Energy Limited	Dormant	–	62%
Broadband Services Limited	Dormant	100%	100%
UnitedNetworks Employee Share Schemes Trustee Limited	Trustee company	100%	100%
NGC Limited	Dormant	100%	100%
Associates			
Treescape Limited	Vegetation management	50%	50%
– Treescape Australasia Pty Limited	Vegetation management	50%	50%
Energy Intellect Limited	Metering services	25%	25%
NZ Windfarms Limited	Power generation	20%	20%
Advanced Metering Services Limited	Metering services	50%	–
Joint venture interests			
Kapuni Energy Joint Venture	Electricity generation	50%	50%

In December 2007, Vector Limited acquired a 50% stake in Advanced Metering Services Limited for $4.1 million, including $0.6 million of fees paid to professional advisors. In May 2008, Pacific Energy Limited was wound up.

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

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

17. INVESTMENT IN ASSOCIATES

	GROUP		PARENT	
	2008 $000	2007 $000	2008 $000	2007 $000
Carrying amount of associates				
Balance at beginning of the period	28,259	10,588	19,899	2,884
Purchase of investment in NZ Windfarms Limited	27	17,015	27	17,015
Purchase of investment in Advanced Metering Services Limited	4,104	–	4,104	–
Equity accounted earnings of associates	1,114	656	–	–
Balance at end of the period	33,504	28,259	24,030	19,899
Equity accounted earnings of associates				
Operating surplus before income tax	1,719	979	–	–
Income tax expense	(605)	(323)	–	–
Net surplus	1,114	656	–	–
Total recognised revenues and expenses	1,114	656	–	–
Summarised financial information of associates (100%):				
Total assets	122,123	109,035	–	–
Total liabilities	25,047	17,841	–	–
Total revenue	45,037	42,601	–	–

The amount of goodwill included in the carrying amount of investments in associates is $15.8 million (2007: $15.8 million).

18. INTEREST IN JOINT VENTURES

Kapuni Energy Joint Venture

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

	GROUP		PARENT	
	2008 $000	2007 $000	2008 $000	2007 $000
Net assets employed in the joint venture				
Property, plant and equipment	5,157	6,609	–	–
Current assets	1,734	1,445	–	–
Current liabilities	(1,132)	(1,038)	–	–
Total	5,759	7,016	–	–
Net contribution to operating surplus before income tax				
Revenue	11,253	10,957	–	–
Expenditure	(8,275)	(8,786)	–	–
Operating surplus before tax	2,978	2,171	–	–

19. INTANGIBLE ASSETS

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

	NOTE	GROUP 2007			
		GOODWILL $000	SOFTWARE $000	GAS ENTITLEMENTS $000	TOTAL $000
Cost					
Balance at beginning of the period		1,669,733	75,077	18,000	1,762,810
On acquisition of NGC Holdings Limited		(2,570)	–	–	(2,570)
On acquisition of other businesses		971	–	–	971
Additions		–	15,753	–	15,753
Balance at end of the period		1,668,134	90,830	18,000	1,776,964
Accumulated amortisation					
Balance at beginning of the period		–	(33,751)	(11,514)	(45,265)
Amortisation for the year	5	–	(12,667)	(3,847)	(16,514)
Balance at end of the period		–	(46,418)	(15,361)	(61,779)
Carrying amount at 30 June 2007		1,668,134	44,412	2,639	1,715,185

The group completed its acquisition of NGC Holdings Limited on 10 August 2005. During the year ended 30 June 2007, the carrying value of the net assets acquired was adjusted to reflect their fair value at 10 August 2005. The total impact on the carrying value of goodwill was $2.6 million, comprising a $1.5 million fair value adjustment to provisions ($1.0 million net of tax) and a $1.8 million fair value adjustment to deferred tax, offset by a $0.2 million fair value adjustment to property, plant and equipment.

Also during the year ended 30 June 2007, the group purchased other businesses, The Gas Man Limited and Alpine Oil & Gas Limited, giving rise to additional goodwill of $1.0 million.

19. INTANGIBLE ASSETS (continued)

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

	NOTE	PARENT 2007 GOODWILL $000	SOFTWARE $000	GAS ENTITLEMENTS $000	TOTAL $000
Cost					
Balance at beginning of the period		629,853	57,035	–	686,888
Additions		–	12,524	–	12,524
Balance at end of the period		629,853	69,559	–	699,412
Accumulated amortisation					
Balance at beginning of the period		–	(35,424)	–	(35,424)
Amortisation for the year	5	–	(7,863)	–	(7,863)
Balance at end of the period		–	(43,287)	–	(43,287)
Carrying amount at 30 June 2007		629,853	26,272	–	656,125

Amortisation charge

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

Allocation of goodwill to cash-generating units

Goodwill is allocated to the group's cash-generating units (CGUs), being the lowest level at which the goodwill is monitored for internal management purposes which is the same level at which the group's segment information is presented in note 2. The aggregate carrying amounts of goodwill allocated to each unit are $967.0 million for Electricity, $468.1 million for Gas Transportation, $218.2 million for Gas Wholesale, and $14.8 million for Technology.

Impairment testing

The recoverable amount of the CGUs is calculated on the basis of value-in-use using a discounted cash flow model. Future cash flows are projected out ten years, based on actual results and board-approved business plans with key assumptions determining future EBITDA and levels of maintenance expenditure for each CGU. Management believes that this forecast period is justified due to the long-term nature of the electricity, gas and technology businesses. Terminal growth rates of 0.0% - 3.5% are applied. Pre-tax discount rates of between 9.6% and 17.8% are utilised. The specific rates applied vary for the specific CGUs being valued. Projected cash flows for regulated businesses are sensitive to assumptions made on future regulatory outcomes.

The recoverable amount of each CGU exceeds the net assets plus goodwill allocated to that CGU. Therefore management has determined that no impairment to goodwill has occurred during the period.

Accordingly, there are no accumulated impairment losses at 30 June 2008 or 30 June 2007.

20. PROPERTY, PLANT AND EQUIPMENT

GROUP 2008 →

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

GROUP 2007 →

	DISTRIBUTION SYSTEMS $000	DISTRIBUTION LAND $000	DISTRIBUTION BUILDINGS $000	ELECTRICITY AND GAS METERS $000	GENERATION POWER STATIONS $000
Cost					
Balance at beginning of the period	3,262,286	76,291	42,324	152,419	11,456
Additions	–	–	–	16,247	1,702
Transfers to:					
Other classes	148,257	370	3,795	967	(1,866)
Disposals	(18,551)	(5)	(9)	(1,280)	–
Balance at end of the period	3,391,992	76,656	46,110	168,353	11,292
Accumulated depreciation					
Balance at beginning of the period	(54,213)	–	(572)	(8,603)	(4,440)
Depreciation	(106,233)	–	(1,423)	(10,440)	(1,265)
Disposals	6,466	–	–	891	–
Balance at end of the period	(153,980)	–	(1,995)	(18,152)	(5,705)
Net book value at 30 June 2007	3,238,012	76,656	44,115	150,201	5,587

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

COMPUTER AND TELECOMMUNICATIONS 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
32,050	5,459	67,502	19,149	6,917	8,165	147,793	3,831,811
332	3,365	13,955	195	–	24	208,539	244,359
40,243	–	1,301	–	134	3,204	(196,405)	–
(17)	(3,654)	(611)	(3,950)	(112)	–	–	(28,189)
72,608	5,170	82,147	15,394	6,939	11,393	159,927	4,047,981
(20,657)	(1,880)	(7,060)	–	(754)	(3,077)	–	(101,256)
(4,657)	(924)	(4,425)	–	(247)	(497)	–	(130,111)
–	2,127	23	–	6	–	–	9,513
(25,314)	(677)	(11,462)	–	(995)	(3,574)	–	(221,854)
47,294	4,493	70,685	15,394	5,944	7,819	159,927	3,826,127

20. PROPERTY, PLANT AND EQUIPMENT (continued)

PARENT 2008

	DISTRIBUTION SYSTEMS $000	DISTRIBUTION LAND $000	DISTRIBUTION BUILDINGS $000	ELECTRICITY AND GAS METERS $000	GENERATION POWER STATIONS $000
Cost					
Balance at beginning of the period	2,739,286	76,656	46,110	118	–
Additions	–	–	–	–	–
Transfers to:					
Operations held for sale	(506,444)	(13,954)	(7,872)	–	–
Other classes	166,000	2,812	4,343	(118)	–
Disposals	(7,857)	–	–	–	–
Balance at end of the period	2,390,985	65,514	42,581	–	–
Accumulated depreciation					
Balance at beginning of the period	(103,702)	–	(1,995)	(20)	–
Depreciation	(80,806)	–	(1,416)	(2)	–
Transfers to:					
Operations held for sale	35,901	–	756	–	–
Other classes	–	–	120	22	–
Disposals	1,730	–	–	–	–
Balance at end of the period	(146,877)	–	(2,535)	–	–
Net book value at 30 June 2008	2,244,108	65,514	40,046	–	–

PARENT 2007

	DISTRIBUTION SYSTEMS $000	DISTRIBUTION LAND $000	DISTRIBUTION BUILDINGS $000	ELECTRICITY AND GAS METERS $000	GENERATION POWER STATIONS $000
Cost					
Balance at beginning of the period	2,615,395	76,291	42,324	118	–
Additions	–	–	–	–	–
Transfers to:					
Other classes	140,983	370	3,795	–	–
Disposals	(17,092)	(5)	(9)	–	–
Balance at end of the period	2,739,286	76,656	46,110	118	–
Accumulated depreciation					
Balance at beginning of the period	(25,908)	–	(572)	(17)	–
Depreciation	(83,716)	–	(1,423)	(3)	–
Disposals	5,922	–	–	–	–
Balance at end of the period	(103,702)	–	(1,995)	(20)	–
Net book value at 30 June 2007	2,635,584	76,656	44,115	98	–

	COMPUTER AND TELECOMMUNICATIONS 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
	22,682	503	9,898	11,681	686	7,700	125,491	3,040,811
	20	501	–	–	–	–	159,401	159,922
	–	–	(550)	(386)	–	(21)	(14,712)	(543,939)
	(8,080)	–	719	1,092	699	676	(168,143)	–
	(36)	–	(957)	–	–	(430)	–	(9,280)
	14,586	1,004	9,110	12,387	1,385	7,925	102,037	2,647,514
	(7,589)	(202)	(2,006)	–	(442)	(2,885)	–	(118,841)
	(2,074)	(126)	(219)	–	(29)	(321)	–	(84,993)
	–	–	40	–	–	10	–	36,707
	–	–	(22)	–	(120)	–	–	–
	15	–	11	–	–	25	–	1,781
	(9,648)	(328)	(2,196)	–	(591)	(3,171)	–	(165,346)
	4,938	676	6,914	12,387	794	4,754	102,037	2,482,168

	COMPUTER AND TELECOMMUNICATIONS 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
	7,022	230	9,065	11,681	686	4,496	110,276	2,877,584
	–	273	523	–	–	–	179,584	180,380
	15,707	–	310	–	–	3,204	(164,369)	–
	(47)	–	–	–	–	–	–	(17,153)
	22,682	503	9,898	11,681	686	7,700	125,491	3,040,811
	(6,061)	(167)	(1,715)	–	(436)	(2,663)	–	(37,539)
	(1,528)	(35)	(291)	–	(6)	(222)	–	(87,224)
	–	–	–	–	–	–	–	5,922
	(7,589)	(202)	(2,006)	–	(442)	(2,885)	–	(118,841)
	15,093	301	7,892	11,681	244	4,815	125,491	2,921,970

20. PROPERTY, PLANT AND EQUIPMENT (continued)

Distribution systems assets acquired as a result of the acquisition of NGC Holdings Limited on 14 December 2004 were restated to reflect their fair value at that date. Distribution systems, distribution land and distribution buildings in the parent were revalued in March 2006 to a total of $2,772.8 million in accordance with the group's accounting policies at that time before transition to NZ IFRS. These fair values plus subsequent additions and disposals up to 30 June 2006 have been deemed the historic cost of those assets on transition to NZ IFRS on 1 July 2006. At that date, the total deemed cost for distribution systems, distribution land and distribution buildings was $3,262.3 million, $76.3 million and $42.3 million respectively. There were no changes to the total carrying amounts of those classes of property, plant and equipment from that reported under previous NZ GAAP on adoption of these deemed costs.

Interest and other internal costs are capitalised to property, plant and equipment while under construction. Interest is capitalised against property, plant and equipment at a capitalisation rate of 8% per annum. During the year $31.6 million (2007: $30.3 million) of interest and other costs were capitalised. Property, plant and equipment subject to finance lease arrangements are included in electricity meters, motor vehicles and mobile equipment and plant and equipment at net book values of $5.4 million, $2.4 million and $1.6 million (2007: $4.9 million, $0.3 million and $1.8 million) respectively. During the year ended 30 June 2007, Vector Communications Limited received $4.1 million of government grants which have been offset against capital work in progress above. The grants were for the construction of a fibre optic loop on the North Shore of Auckland and were awarded under the Government's Broadband Challenge Scheme. All conditions relating to the grants have been met and there are no contingencies attached to the grants.

Property, plant and equipment includes $5.4 million (2007: $4.9 million) of electricity meters which have been pledged as security for a loan funding Stream Information Partnership, a subsidiary of Vector Limited.

21. PAYABLES AND ACCRUALS

	GROUP		PARENT	
	2008 $000	2007 $000	2008 $000	2007 $000
Current				
Trade payables and other creditors	129,005	168,849	72,249	114,225
Deferred consideration payable	1,006	986	–	–
Interest payable	53,838	49,281	53,838	49,281
Total	183,849	219,116	126,087	163,506
Non-current				
Trade payables and other creditors	16,123	–	–	–
Deferred consideration payable	3,052	3,022	–	–
Finance leases	3,820	3,743	659	267
Other non-current payables	715	737	632	568
Total	23,710	7,502	1,291	835

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

22. PROVISIONS

		GROUP		PARENT	
	NOTE	2008 $000	2007 $000	2008 $000	2007 $000
Current					
Provision for employee entitlements	23	5,545	7,186	5,262	6,048
Other provisions	24	24,915	17,570	–	231
Total		30,460	24,756	5,262	6,279

Other provisions include a $8.9 million provision for a contractual indemnity and a $5.9 million provision for a customer billing dispute.

23. PROVISION FOR EMPLOYEE ENTITLEMENTS

	GROUP		PARENT	
	2008 $000	2007 $000	2008 $000	2007 $000
Balance at beginning of the period	7,186	8,371	6,048	2,945
(Utilised)/Additions	(1,641)	(1,185)	(786)	3,103
Balance at end of the period	5,545	7,186	5,262	6,048

24. OTHER PROVISIONS

	GROUP		PARENT	
	2008 $000	2007 $000	2008 $000	2007 $000
Balance at beginning of the period	17,570	32,883	231	231
On acquisition of NGC Holdings Limited	–	(1,467)	–	–
Additions	7,938	699	–	–
Utilised	(24)	(7,789)	–	–
Reversed to the income statement	(569)	(6,756)	(231)	–
Balance at end of the period	24,915	17,570	–	231

25. COMMITMENTS

(a) Capital commitments for the acquisition and construction of property, plant and equipment and software

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

	GROUP		PARENT	
	2008 $000	2007 $000	2008 $000	2007 $000
Estimated capital expenditure contracted for at balance date but not provided	53,295	48,421	37,286	43,512

(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.

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

	GROUP		PARENT	
	2008 $000	2007 $000	2008 $000	2007 $000
Within one year	4,355	4,314	2,833	3,757
One to five years	5,921	9,864	4,686	9,162
Beyond five years	3,739	1,756	8	1,206
Total	14,015	15,934	7,527	14,125

(c) Finance lease commitments

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

	GROUP		PARENT	
	2008 $000	2007 $000	2008 $000	2007 $000
Minimum lease payments for finance lease liabilities				
Within one year	2,916	3,306	181	77
One to five years	5,338	6,580	629	257
Beyond five years	–	1	–	–
Total	8,254	9,887	810	334
Less: future finance charges	(1,003)	(1,664)	(151)	(67)
Present value of minimum lease payments	7,251	8,223	659	267
Present value of finance lease liability				
Within one year	2,349	2,647	115	52
One to five years	4,902	5,575	544	215
Beyond five years	–	1	–	–
Present value of minimum lease payments	7,251	8,223	659	267

26. BORROWINGS

	GROUP 2008							
	PAYABLE WITHIN 1 YEAR $000	PAYABLE BETWEEN 1 AND 2 YEARS $000	PAYABLE BETWEEN 2 AND 5 YEARS $000	PAYABLE AFTER 5 YEARS $000	FACE VALUE $000	AMORTISED COST ADJUSTMENT $000	FAIR VALUE ADJUSTMENT ON HEDGED RISK $000	CARRYING VALUE $000
Bank loans	510,000	–	–	–	510,000	(127)	–	509,873
Working capital loan	50,000	–	–	–	50,000	(9)	–	49,991
Medium term notes								
– AUD floating rate	–	–	250,000	–	250,000	(1,493)	6,243	254,750
Capital bonds	–	–	307,205	–	307,205	(2,453)	–	304,752
Fixed interest rate bonds	200,000	–	–	–	200,000	(378)	(2,765)	196,857
Senior notes – USD fixed rate	–	–	22,817	395,498	418,315	(1,460)	(50,861)	365,994
Floating rate notes	–	–	–	1,200,000	1,200,000	(18,791)	–	1,181,209
Medium term notes – GBP fixed rate	–	–	–	285,614	285,614	(4,748)	15,276	296,142
Other	1,856	1,018	1,131	–	4,005	–	–	4,005
	761,856	1,018	581,153	1,881,112	3,225,139	(29,459)	(32,107)	3,163,573

	GROUP 2007							
	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	AMORTISED COST ADJUSTMENT $000	FAIR VALUE ADJUSTMENT ON HEDGED RISK $000	CARRYING VALUE $000
Bank loans	–	395,000	–	–	395,000	(219)	–	394,781
Working capital loan	40,000	–	–	–	40,000	–	–	40,000
Medium term notes								
– AUD floating rate	319,018	–	250,000	–	569,018	(2,723)	(58,928)	507,367
Capital bonds	–	–	307,205	–	307,205	(2,968)	–	304,237
Fixed interest rate bonds	–	200,000	–	–	200,000	(961)	(6,137)	192,902
Senior notes – USD fixed rate	–	–	–	418,315	418,315	(1,568)	(84,798)	331,949
Floating rate notes	–	–	–	1,200,000	1,200,000	(21,563)	–	1,178,437
Other	2,007	1,205	1,842	1	5,055	–	–	5,055
	361,025	596,205	559,047	1,618,316	3,134,593	(30,002)	(149,863)	2,954,728

26. BORROWINGS (continued)

PARENT 2008

	PAYABLE WITHIN 1 YEAR $000	PAYABLE BETWEEN 1 AND 2 YEARS $000	PAYABLE BETWEEN 2 AND 5 YEARS $000	PAYABLE AFTER 5 YEARS $000	FACE VALUE $000	AMORTISED COST ADJUSTMENT $000	FAIR VALUE ADJUSTMENT ON HEDGED RISK $000	CARRYING VALUE $000
Bank loans	510,000	–	–	–	510,000	(127)	–	509,873
Working capital loan	50,000	–	–	–	50,000	(9)	–	49,991
Medium term notes								
– AUD floating rate	–	–	250,000	–	250,000	(1,493)	6,243	254,750
Capital bonds	–	–	307,205	–	307,205	(2,453)	–	304,752
Fixed interest rate bonds	200,000	–	–	–	200,000	(378)	(2,765)	196,857
Senior notes – USD fixed rate	–	–	22,817	395,498	418,315	(1,460)	(50,861)	365,994
Floating rate notes	–	–	–	1,200,000	1,200,000	(18,791)	–	1,181,209
Medium term notes – GBP fixed rate	–	–	–	285,614	285,614	(4,748)	15,276	296,142
	760,000	–	580,022	1,881,112	3,221,134	(29,459)	(32,107)	3,159,568

PARENT 2007

	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	AMORTISED COST ADJUSTMENT $000	FAIR VALUE ADJUSTMENT ON HEDGED RISK $000	CARRYING VALUE $000
Bank loans	–	395,000	–	–	395,000	(219)	–	394,781
Working capital loan	40,000	–	–	–	40,000	–	–	40,000
Medium term notes								
– AUD floating rate	319,018	–	250,000	–	569,018	(2,723)	(58,928)	507,367
Capital bonds	–	–	307,205	–	307,205	(2,968)	–	304,237
Fixed interest rate bonds	–	200,000	–	–	200,000	(961)	(6,137)	192,902
Senior notes – USD fixed rate	–	–	–	418,315	418,315	(1,568)	(84,798)	331,949
Floating rate notes	–	–	–	1,200,000	1,200,000	(21,563)	–	1,178,437
	359,018	595,000	557,205	1,618,315	3,129,538	(30,002)	(149,863)	2,949,673

26. BORROWINGS (continued)

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.

Facilities with total committed amount of $700 million will expire in October 2008. The board intends to use proceeds from the sale of Vector Wellington Electricity Networks Limited to fund repayment of the drawn amount under this facility prior to its expiry.

The working capital loan facility with total commitment of $100 million is due to expire in December 2008.

Medium term notes – floating rate AUD 204 million mature April 2011. The interest on AUD medium term notes is paid quarterly, based on BBSW plus a margin. Medium term notes – floating rate AUD 260 million matured in April 2008 and were refinanced in the same month with GBP 115 million fixed rate notes due to mature in January 2019 at a contract exchange rate of GBP 0.4026 for every NZD.

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

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

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

The floating rate notes totalling $1.2 billion were issued in three tranches in October 2005 ($250 million 10 year, $400 million 12 year, and $350 million 15 year) and in one tranche in April 2007 ($200 million 10 year).

The $1.2 billion floating rate notes are credit wrapped by MBIA Insurance Corporation (10 year and 15 year tranches issued in October 2005) and Ambac Assurance Corporation (12 year tranche issued in October 2005 and 10 year tranche issued in April 2007).

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 2007 and 30 June 2008.

27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

FAIR VALUES

	GROUP 2008				GROUP 2007			
	CARRYING AMOUNT (EXCLUDING ACCRUALS) $000	CARRYING AMOUNT PAYABLES AND ACCRUALS $000	TOTAL CARRYING AMOUNT $000	FAIR VALUE $000	CARRYING AMOUNT (EXCLUDING ACCRUALS) $000	CARRYING AMOUNT PAYABLES AND ACCRUALS $000	TOTAL CARRYING AMOUNT $000	FAIR VALUE $000
Financial assets								
Cash and cash equivalents	53,581	–	53,581	53,581	7,008	–	7,008	7,008
Loans and receivables	198,263	–	198,263	198,263	193,018	–	193,018	193,018
Financial liabilities								
Trade payables and other creditors	149,901	–	149,901	149,901	173,594	–	173,594	173,594
Bank loans	509,873	4,208	514,081	514,208	394,781	3,417	398,198	398,417
Working capital loan	49,991	12	50,003	50,012	40,000	18	40,018	40,018
Medium term notes								
– AUD floating rate	254,750	4,892	259,642	264,870	507,367	8,605	515,972	523,104
Capital bonds	304,752	3,165	307,917	276,149	304,237	3,235	307,472	300,257
Fixed interest rate bonds	196,857	1,362	198,219	198,792	192,902	1,363	194,265	196,175
Senior notes – USD fixed rate	365,994	6,850	372,844	395,899	331,949	6,877	338,826	361,802
Floating rate notes	1,181,209	20,568	1,201,777	1,220,569	1,178,437	19,222	1,197,659	1,219,222
Medium term notes – GBP fixed rate	296,142	4,833	300,975	349,894	–	–	–	–
Other	4,005	24	4,029	4,449	5,055	–	5,055	5,101
Derivative financial instruments – liabilities/(assets)								
Interest rate swaps	(26,843)	(5,154)	(31,997)	(31,997)	(62,466)	(3,127)	(65,593)	(65,593)
Interest rate caps	(2,880)	(116)	(2,996)	(2,996)	(6,608)	(69)	(6,677)	(6,677)
Cross currency swaps	60,722	(2,154)	58,568	58,568	145,457	(1,732)	143,725	143,725
Forward exchange contracts	199	–	199	199	224	–	224	224

27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

FAIR VALUES (continued)

	PARENT 2008				PARENT 2007			
	CARRYING AMOUNT (EXCLUDING ACCRUALS) $000	CARRYING AMOUNT PAYABLES AND ACCRUALS $000	TOTAL CARRYING AMOUNT $000	FAIR VALUE $000	CARRYING AMOUNT (EXCLUDING ACCRUALS) $000	CARRYING AMOUNT PAYABLES AND ACCRUALS $000	TOTAL CARRYING AMOUNT $000	FAIR VALUE $000
Financial assets								
Cash and cash equivalents	52,749	–	52,749	52,749	689	–	689	689
Loans and receivables	1,004,415	–	1,004,415	1,004,415	506,304	–	506,304	506,304
Financial liabilities								
Trade payables and other creditors	208,693	–	208,693	208,693	129,584	–	129,584	129,584
Bank loans	509,873	4,208	514,081	514,208	394,781	3,417	398,198	398,417
Working capital loan	49,991	12	50,003	50,012	40,000	18	40,018	40,018
Medium term notes								
– AUD floating rate	254,750	4,892	259,642	264,870	507,367	8,605	515,972	523,104
Capital bonds	304,752	3,165	307,917	276,149	304,237	3,235	307,472	300,257
Fixed interest rate bonds	196,857	1,362	198,219	198,792	192,902	1,363	194,265	196,175
Senior notes – USD fixed rate	365,994	6,850	372,844	395,899	331,949	6,877	338,826	361,802
Floating rate notes	1,181,209	20,568	1,201,777	1,220,569	1,178,437	19,222	1,197,659	1,219,222
Medium term notes – GBP fixed rate	296,142	4,833	300,975	349,894	–	–	–	–
Derivative financial instruments								
– liabilities/(assets)								
Interest rate swaps	(26,843)	(5,154)	(31,997)	(31,997)	(62,466)	(3,127)	(65,593)	(65,593)
Interest rate caps	(2,880)	(116)	(2,996)	(2,996)	(6,608)	(69)	(6,677)	(6,677)
Cross currency swaps	60,722	(2,154)	58,568	58,568	145,457	(1,732)	143,725	143,725
Forward exchange contracts	199	–	199	199	224	–	224	224

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

Trade receivables and payables, cash and cash equivalents

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

Bank loans, working capital loans and floating rate notes

The fair value of bank loans, working capital loans and floating rate notes includes the principal and interest accrued. The total carrying amount includes the principal, interest accrued and unamortised finance costs. Interest accruals are included in the balance sheet within payables and accruals.

Medium term notes

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

Capital bonds

The fair value of capital bonds is based on quoted market prices. The total carrying amount includes the principal, interest accrued and unamortised finance costs. Interest accruals are included in the balance sheet within payables and accruals.

Fixed interest rate bonds

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

27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

FAIR VALUES (continued)

Senior notes – USD fixed rate

The fair value of USD privately placed senior notes is based on quoted market prices. The total carrying amount for the USD privately placed senior notes includes the principal converted at contract rates, interest accrued, unamortised finance costs and a fair value adjustment for the component of the risk that is hedged. Interest accruals are included in the balance sheet within payables and accruals.

Derivative instruments

The fair value of interest rate swaps, cross currency swaps and other derivative instruments is estimated based on the quoted market prices for these instruments. The total carrying amount of these derivative instruments is the same as the fair value and includes interest accruals. Interest accruals are included in the balance sheet within payables and accruals.

INTEREST RATE RISK

The group actively manages interest rate exposures in accordance with treasury policy. In this respect, at least forty percent of all debt must be at fixed interest rates or effectively fixed using interest rate swaps, forward rate agreements, options and other derivative instruments. The main objectives are to minimise the cost of total debt, control variations in the interest expense of the debt portfolio from year to year and to match where practicable the interest rate risk profile of debt with the risk profile of the group's assets. The treasury policy sets parameters for managing the interest rate maturity profile. The parameters depend upon the Standard & Poor's credit rating and the Reserve Bank of New Zealand continuing to implement monetary policy through adjustments to the official cash rate.

The weighted average interest rates of borrowings are as follows.

	GROUP 2008		GROUP 2007	
	WEIGHTED AVERAGE INTEREST RATE %	FACE VALUE $000	WEIGHTED AVERAGE INTEREST RATE %	FACE VALUE $000
Bank loans	9.01	510,000	8.52	395,000
Working capital loan	8.65	50,000	8.16	40,000
Medium term notes – AUD floating rate	8.40	250,000	7.02	569,018
Capital bonds	8.00	307,205	8.00	307,205
Fixed interest rate bonds	6.81	200,000	6.81	200,000
Senior notes – USD fixed rate	5.65	418,315	5.65	418,315
Floating rate notes	9.21	1,200,000	8.41	1,200,000
Medium term notes – GBP fixed rate	7.63	285,614	–	–
Other	7.24	4,005	6.36	5,055
		3,225,139		3,134,593

	PARENT 2008		PARENT 2007	
	WEIGHTED AVERAGE INTEREST RATE %	FACE VALUE $000	WEIGHTED AVERAGE INTEREST RATE %	FACE VALUE $000
Bank loans	9.01	510,000	8.52	395,000
Working capital loan	8.65	50,000	8.16	40,000
Medium term notes – AUD floating rate	8.40	250,000	7.02	569,018
Capital bonds	8.00	307,205	8.00	307,205
Fixed interest rate bonds	6.81	200,000	6.81	200,000
Senior notes – USD fixed rate	5.65	418,315	5.65	418,315
Floating rate notes	9.21	1,200,000	8.41	1,200,000
Medium term notes – GBP fixed rate	7.63	285,614	–	–
		3,221,134		3,129,538

27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

INTEREST RATE RISK (continued)

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

	GROUP AND PARENT 2008			GROUP AND PARENT 2007		
	WEIGHTED AVERAGE INTEREST RATE RECEIVE LEG %	WEIGHTED AVERAGE INTEREST RATE PAY LEG %	NOTIONAL AMOUNT $000	WEIGHTED AVERAGE INTEREST RATE RECEIVE LEG %	WEIGHTED AVERAGE INTEREST RATE PAY LEG %	NOTIONAL AMOUNT $000
Interest rate swaps (floating to fixed)						
Maturing in less than 1 year	8.91	6.66	70,000	7.98	7.20	310,000
Maturing between 1 and 2 years	8.86	7.46	420,000	8.02	6.66	70,000
Maturing between 2 and 5 years	8.85	6.83	860,000	8.04	6.85	930,000
Maturing after 5 years	8.86	7.12	400,000	8.08	6.77	400,000
			1,750,000			1,710,000
Interest rate swaps (fixed to floating)						
Maturing in less than 1 year	6.81	9.10	200,000	–	–	–
Maturing between 1 and 2 years	–	–	–	6.81	8.61	200,000
			200,000			200,000
Forward starting interest rate swaps						
Floating to fixed maturing after 5 years	N/A	6.73	800,000	N/A	6.25	350,000
			800,000			350,000
Interest rate cap						
Maturing between 1 and 2 years	8.65	7.95	400,000	–	–	–
Maturing between 2 and 5 years	–	–	–	8.34	7.95	400,000
			400,000			400,000

27 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

INTEREST RATE RISK (continued)

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

	GROUP AND PARENT 2008				GROUP AND PARENT 2007			
	WEIGHTED AVERAGE INTEREST RATE RECEIVE LEG %	PRINCIPAL AMOUNT '000	WEIGHTED AVERAGE INTEREST RATE PAY LEG %	$000	WEIGHTED AVERAGE INTEREST RATE RECEIVE LEG %	PRINCIPAL AMOUNT '000	WEIGHTED AVERAGE INTEREST RATE PAY LEG %	$000
Cross currency swaps								
AUD : NZD								
Maturing in less than 1 year	–	–	–	–	6.98	260,000	8.46	319,018
Maturing between 2 and 5 years	8.40	203,750	9.40	250,000	7.07	203,750	8.45	250,000
		203,750		250,000		463,750		569,018
USD : NZD								
Maturing between 2 and 5 years	5.04	15,000	9.23	22,817	–	–	–	–
Maturing after 5 years	5.69	260,000	9.43	395,498	5.65	275,000	9.11	418,315
		275,000		418,315		275,000		418,315
GBP : NZD								
Maturing after 5 years	7.63	115,000	10.84	285,614	–	–	–	–
		115,000		285,614		–		–

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

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

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

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

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

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

Interest rate caps are set at 7.95% and therefore no exchange of cash will take place if the interest rate on the receive leg goes below the set rate.

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

27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

FOREIGN EXCHANGE RISK

The group has conducted transactions in foreign currencies for the purpose of protecting the NZD value of capital expenditure. The group has outstanding forward exchange contracts. These are used to hedge forecasted foreign currency exposure arising out of the capital expenditure program. Hence at balance date the group has no significant exposure to foreign currency risk. All contracts in the following table are due to mature in less than one year.

	GROUP AND PARENT 2008				GROUP AND PARENT 2007			
CURRENCY	BUY $000	SPOT RATE	WEIGHTED AVERAGE EXCHANGE RATE	MARK TO MARKET GAIN/(LOSS) $000	BUY $000	SPOT RATE	WEIGHTED AVERAGE EXCHANGE RATE	MARK TO MARKET GAIN/(LOSS) $000
EUR	3,593	0.48	0.50	321	710	0.57	0.52	(129)
USD	13,194	0.76	0.72	(520)	57	0.77	0.68	(10)
GBP	–	–	–	–	312	0.38	0.35	(85)
				(199)				(224)

CREDIT RISK

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

The group has some concentration of credit exposures with a few large energy retailers and large energy customers. To minimise this risk, the group performs credit evaluations on all energy retailers and large energy customers and requires a bond or other form of security where deemed necessary. The group places its cash deposits with a small number of banking institutions and limits the amount deposited with each institution. The maximum exposure to credit risk is represented by the fair value of each financial instrument.

	GROUP		PARENT	
	2008 FAIR VALUE $000	2007 FAIR VALUE $000	2008 FAIR VALUE $000	2007 FAIR VALUE $000
Cash and cash equivalents	53,581	7,008	52,749	689
Loans and receivables	198,263	193,018	1,004,415	506,304
Interest rate swaps	31,997	65,593	31,997	65,593
Cross currency swaps AUD : NZD	5,918	–	5,918	–
Interest rate caps	2,996	6,677	2,996	6,677
Forward exchange contracts	321	–	321	–

The ageing of trade receivables at the balance date was:

	GROUP		PARENT	
	2008 CARRYING AMOUNT $000	2007 CARRYING AMOUNT $000	2008 CARRYING AMOUNT $000	2007 CARRYING AMOUNT $000
Not past due	133,093	149,911	65,656	78,978
Past due 1–30 days	7,818	5,259	1,028	1,079
Past due 31–120 days	7,107	3,560	2,895	1,282
Past due more than 120 days	9,490	9,601	5,861	4,369
Total	157,508	168,331	75,440	85,708

27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

LIQUIDITY RISK

Liquidity risk is the risk that the group may encounter difficulty in raising funds at short notice to meet its financial commitments as they fall due. In order to reduce the exposure to liquidity risk, the group has access to undrawn committed lines of credit. Cash flow reporting systems are maintained to monitor the forecast liquidity position over an outlook of five years.

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

The long term liquidity exposure is managed by ensuring estimated deficits in net cash flow are able to be met as determined by the yearly rolling five year cash flow forecast. Undrawn committed facilities of $240 million (2007: $335 million) are available.

The following contractual cash flows reflect principal only and do not include cash flows resulting from interest payments. Foreign currency financial instruments are converted into NZD using the spot rates at balance date.

	GROUP 2008				
	PAYABLE WITHIN 1 YEAR $000	PAYABLE BETWEEN 1 AND 2 YEARS $000	PAYABLE BETWEEN 2 AND 5 YEARS $000	PAYABLE AFTER 5 YEARS $000	TOTAL CONTRACTUAL CASH FLOWS $000
Non derivative financial liabilities					
Trade payables	129,005	16,123	–	–	145,128
Bank loans	510,000	–	–	–	510,000
Working capital loan	50,000	–	–	–	50,000
Medium term notes – AUD floating rate	–	–	257,325	–	257,325
Capital bonds	–	–	307,205	–	307,205
Fixed interest rate bonds	200,000	–	–	–	200,000
Senior notes – USD fixed rate	–	–	19,688	341,252	360,940
Floating rate notes	–	–	–	1,200,000	1,200,000
Medium term notes – GBP fixed rate	–	–	–	300,968	300,968
Other	1,856	1,018	1,131	–	4,005
Derivative financial (assets)/liabilities					
Cross currency swaps USD : NZD					
Inflow	–	–	(19,688)	(341,252)	(360,940)
Outflow	–	–	22,817	395,498	418,315
Cross currency swaps AUD : NZD					
Inflow	–	–	(257,325)	–	(257,325)
Outflow	–	–	250,000	–	250,000
Cross currency swaps GBP : NZD					
Inflow	–	–	–	(300,968)	(300,968)
Outflow	–	–	–	285,614	285,614
Forward exchange contracts					
Inflow	(25,394)	–	–	–	(25,394)
Outflow	25,394	–	–	–	25,394
	890,861	17,141	581,153	1,881,112	3,370,267

27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

LIQUIDITY RISK (continued)

	GROUP 2007				
	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	168,849	–	–	–	168,849
Bank loans	–	395,000	–	–	395,000
Working capital loan	40,000	–	–	–	40,000
Medium term notes – AUD floating rate	286,060	–	224,172	–	510,232
Capital bonds	–	–	307,205	–	307,205
Fixed interest rate bonds	–	200,000	–	–	200,000
Senior notes – USD fixed rate	–	–	–	357,328	357,328
Floating rate notes	–	–	–	1,200,000	1,200,000
Other	2,007	1,205	1,842	1	5,055
Derivative financial (assets)/liabilities					
Cross currency swaps USD : NZD					
Inflow	–	–	–	(357,328)	(357,328)
Outflow	–	–	–	418,315	418,315
Cross currency swaps AUD : NZD					
Inflow	(286,060)	–	(224,172)	–	(510,232)
Outflow	319,018	–	250,000	–	569,018
Forward exchange contracts					
Inflow	(2,359)	–	–	–	(2,359)
Outflow	2,359	–	–	–	2,359
	529,874	596,205	559,047	1,618,316	3,303,442

27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

LIQUIDITY RISK (continued)

	PARENT 2008				
	PAYABLE WITHIN 1 YEAR $000	PAYABLE BETWEEN 1 AND 2 YEARS $000	PAYABLE BETWEEN 2 AND 5 YEARS $000	PAYABLE AFTER 5 YEARS $000	TOTAL CONTRACTUAL CASH FLOWS $000
Non derivative financial liabilities					
Trade payables	72,249	–	–	–	72,249
Bank loans	510,000	–	–	–	510,000
Working capital loan	50,000	–	–	–	50,000
Medium term notes – AUD floating rate	–	–	257,325	–	257,325
Capital bonds	–	–	307,205	–	307,205
Fixed interest rate bonds	200,000	–	–	–	200,000
Senior notes – USD fixed rate	–	–	19,688	341,252	360,940
Floating rate notes	–	–	–	1,200,000	1,200,000
Medium term notes – GBP fixed rate	–	–	–	300,968	300,968
Derivative financial (assets)/liabilities					
Cross currency swaps USD : NZD					
Inflow	–	–	(19,688)	(341,252)	(360,940)
Outflow	–	–	22,817	395,498	418,315
Cross currency swaps AUD : NZD					
Inflow	–	–	(257,325)	–	(257,325)
Outflow	–	–	250,000	–	250,000
Cross currency swaps GBP : NZD					
Inflow	–	–	–	(300,968)	(300,968)
Outflow	–	–	–	285,614	285,614
Forward exchange contracts					
Inflow	(25,394)	–	–	–	(25,394)
Outflow	25,394	–	–	–	25,394
	832,249	–	580,022	1,881,112	3,293,383

27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

LIQUIDITY RISK (continued)

	PARENT 2007				
	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	114,225	–	–	–	114,225
Bank loans	–	395,000	–	–	395,000
Working capital loan	40,000	–	–	–	40,000
Medium term notes – AUD floating rate	286,060	–	224,172	–	510,232
Capital bonds	–	–	307,205	–	307,205
Fixed interest rate bonds	–	200,000	–	–	200,000
Senior notes – USD fixed rate	–	–	–	357,328	357,328
Floating rate notes	–	–	–	1,200,000	1,200,000
Derivative financial (assets)/liabilities					
Cross currency swaps USD : NZD					
Inflow	–	–	–	(357,328)	(357,328)
Outflow	–	–	–	418,315	418,315
Cross currency swaps AUD : NZD					
Inflow	(286,060)	–	(224,172)	–	(510,232)
Outflow	319,018	–	250,000	–	569,018
Forward exchange contracts					
Inflow	(2,359)	–	–	–	(2,359)
Outflow	2,359	–	–	–	2,359
	473,243	595,000	557,205	1,618,315	3,243,763

HEDGE ACCOUNTING AND SENSITIVITY ANALYSIS

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

Cash flow sensitivity analysis for variable rate instruments

Interest rate swaps hedging the floating rate debt are hedge accounted and treated as cash flow hedges and hence any changes in interest rate will have no material impact on profits as changes in the fair value of these swaps are taken through equity. A fall of 1% in interest rate will lower equity by $52.8 million (2007: $49.1 million) whereas an increase of 1% in interest rate will increase equity by $50.1 million (2007: $46.6 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 will have no material impact on profits as changes in the fair value of these swaps are taken through equity. The fall of 1% in interest rate will lower equity by $27.8 million (2007: $10.7 million) whereas an increase of 1% in interest rate will increase equity by $24.9 million (2007: $9.4 million).

Floating rate notes of $85 million (2007: $85 million) and bank loans of $100 million (2007: $25 million) have not been hedged and hence a fall in interest rate by 1% will increase the profit by $1.3 million (2007: $1.1 million) whereas an increase in interest rate by 1% will decrease the profit by $1.3 million (2007: $1.1 million). The interest expense movement is calculated for one year and proportionally allocated over the number of days, if maturity falls below one year.

27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

HEDGE ACCOUNTING AND SENSITIVITY ANALYSIS (continued)

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 will have no material impact on profits as the changes in fair value of the swaps will be offset by changes in the fair value of the underlying exposure, the NZ$200 million fixed interest rate bonds. Interest expense will be affected by changes in the interest rate. A fall in interest rate of 1% will increase the profit by $2.0 million (2007: $2.0 million) and an increase in interest rate of 1% will decrease the profit by $2.0 million (2007: $2.0 million).

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

Interest rate caps have not been designated as part of a hedge accounting relationship. Hence changes in fair values are realised in the income statement. A fall in interest rate by 1% will reduce the profit by $0.9 million (2007: $3.3 million) whereas an increase in interest rate by 1% will increase the profit by $2.7 million (2007: $6.2 million).

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

Cross currency swaps hedging the foreign currency denominated debt are hedge accounted and treated either as a cash flow hedge or a fair value hedge depending upon the risk being hedged. Any changes in fair value arising out of foreign exchange movements will have no impact on the profit as the receive leg of the cross currency swap exactly offsets the coupon payments of the underlying exposure. However, changes in the interest rate will impact the profit as shown in the table below. The impact on profit is calculated for one year and proportionally allocated over the number of days, if maturity falls below one year.

	GROUP AND PARENT 2008		GROUP AND PARENT 2007	
	–1% CHANGE IN INTEREST RATE $000	+1% CHANGE IN INTEREST RATE $000	–1% CHANGE IN INTEREST RATE $000	+1% CHANGE IN INTEREST RATE $000
Cross currency swaps				
AUD : NZD	250	(250)	2,776	(2,776)
USD : NZD	4,183	(4,183)	4,183	(4,183)
Total impact on profit increase/(decrease)	4,433	(4,433)	6,959	(6,959)

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

Forward exchange contracts hedging the forecasted foreign currency exposure arising out of the capital expenditure program are treated as cash flow hedges and hence any changes in foreign exchange rates will have no material impact on profits as changes in the fair value of these contracts are taken through equity. However, for the year ended 30 June 2007, forward exchange contracts were unhedged and designated as fair value through profit or loss and hence changes in fair values were realised in the income statement.

	GROUP AND PARENT 2008		GROUP AND PARENT 2007	
	–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	812	(490)	139	(113)
USD	1,902	(1,556)	8	(7)
GBP	–	–	90	(74)
Total impact on equity increase/(decrease)	2,714	(2,046)	–	–
Total impact on profit increase/(decrease)	–	–	237	(194)

27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

CAPITAL MANAGEMENT

The group's objectives when managing capital are:

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

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

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

The net debt to net debt plus equity ratios at 30 June 2008 and 30 June 2007 were as follows:

	GROUP	
	2008 $000	2007 $000
Current borrowings	758,578	327,592
Non-current borrowings	2,404,995	2,627,136
Total borrowings	3,163,573	2,954,728
Less: cash and cash equivalents	(53,581)	(7,008)
Net debt	3,109,992	2,947,720
Total equity	1,901,324	1,936,131
Net debt plus equity	5,011,316	4,883,851
Net debt to net debt plus equity ratio	0.62	0.60

FINANCIAL GUARANTEES

Vector Limited has provided guarantees on behalf of Vector Gas Limited for the sale and purchase of gas. These guarantees are regarded as insurance contracts. No claims have been made against the guarantee hence there is no impact on the balance sheet of the group and the parent and no further disclosure required.

28. CONTINGENT LIABILITIES

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

29. 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	
	2008 $000	2007 $000
Payment of dividend to the AECT	97,630	93,875

Note 16 identifies all entities including associates and partnerships in which the group has an interest. All of these entities are related parties of the parent. Other than the directors themselves, there are no additional related parties with whom material transactions have taken place.

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

	GROUP		PARENT	
	2008 $000	2007 $000	2008 $000	2007 $000
Cash advances to subsidiaries	–	–	35,960	17,316
Loans repaid by subsidiaries	–	–	300,417	217,917
Gross interest receivable from Vector Communications Limited and NGC Holdings Limited	–	–	8,276	29,050
Income from financial services provided to Stream Information Partnership	–	–	70	70
Purchase of gas distribution services from Vector Gas Limited	–	–	4,721	4,583
Purchase of telecommunications services from Vector Communications Limited	–	–	2,338	2,028
Purchase of vegetation management services from Treescape Limited	8,451	8,226	8,451	8,226
Purchase of electricity meters and metering services from Energy Intellect Limited	1,346	2,761	–	–
Income from sale of natural gas to Wanganui Gas Limited (to 30 October 2006)	–	4,526	–	–

In December 2007, NGC Metering Limited sold property, plant and equipment valued at $3.5 million to Advanced Metering Services Limited in return for a 50% shareholding in that newly-formed entity.

In May 2008, the parent transferred $628.6 million of assets and $68.7 million of liabilities attributable to its Wellington electricity network to Vector Metering Data Services Limited and its subsidiary, Vector Wellington Electricity Networks Limited. Consideration for the transfer was exactly equal to the carrying values of the net assets transferred such that no gain or loss has been recognised in the income statement of the parent. The amount of this consideration remains payable from those subsidiaries to the parent at balance date and is reflected in the amounts receivable by the parent from subsidiaries disclosed below.

29. TRANSACTIONS WITH RELATED PARTIES (continued)

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

	PARENT	
	2008 $000	2007 $000
Receivable by the parent from:		
NGC Holdings Limited	83,051	354,597
MEL Network Limited	67,220	67,820
Poihipi Land Limited	8	8
Vector Communications Limited	34,797	35,338
Broadband Services Limited	366	366
Vector Stream Limited	4,398	4,214
Vector Gas Contracts Limited	200,672	–
Elect Data Service (Australia) Pty Limited	363	–
Vector Management Services Limited	286	–
On Gas Limited	1,184	1,192
Vector Wellington Electricity Networks Limited	467,921	–
Vector Metering Data Services Limited	91,806	–
	952,072	463,535
Less: provision against advances to subsidiaries	(67,220)	(67,464)
Total advances to subsidiaries	884,852	396,071
Payable by the parent to:		
Vector Management Services Limited	–	(721)
NGC Metering Limited	(45,147)	–
Vector Gas Limited	(76,706)	–
Mercury Geotherm Limited	(245)	(356)
Auckland Generation Limited	(13,334)	(13,334)
MEL Silverstream Limited	(371)	(371)
Salamanca Holdings Limited	(9)	(9)
Total advances from subsidiaries	(135,812)	(14,791)

At 30 June 2008, there are no material outstanding balances due to/from associates and joint ventures which are related parties of Vector Limited.

The above advances to/from subsidiaries are non-interest bearing and repayable on demand, with the exception of the receivable balance from Vector Communications Limited which accrues interest at a rate of 9.7% per annum. Advances to subsidiaries are at arms' length.

A provision of $67.2 million (2007: $67.5 million) is held against Vector Limited's receivable from MEL Network Limited. No related party debts have been written off or forgiven during the period. Vector Limited has provided guarantees on behalf of Vector Gas Limited for the sale and purchase of gas. These guarantees are regarded as insurance contracts.

Vector has prepaid invoices of $0.6 million to Treescape Limited on 25 June 2008.

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

30. KEY MANAGEMENT PERSONNEL

This table includes remuneration of the group CEO and members of the executive team.

	GROUP		PARENT	
	2008 $000	2007 $000	2008 $000	2007 $000
Salary and other short-term employee benefits	4,732	5,120	3,646	4,050
Redundancy and termination benefits	1,932	151	1,767	151
Other long term benefits	86	150	29	52
Total	6,750	5,421	5,442	4,253

31. EVENTS AFTER BALANCE DATE

The group received $780 million and $5 million on the 24 July 2008 and 31 July 2008 respectively from Cheung Kong Infrastructure Holdings Limited (CKI) in consideration for sale of 100% of its shares in Vector Wellington Electricity Networks Limited, being Vector's subsidiary holding all the assets and liabilities attributable to the Wellington electricity network at that date. The gain on sale after deducting selling costs is around $200 million. The financial effect of this transaction is as follows:

- $634.9 million of current assets and $68.9 million of current liabilities recognised as operations held for sale in the balance sheet at 30 June 2008 will become derecognised as a result of the sale;
- the gain of around $200 million will be recognised in the income statement for the year ended 30 June 2009; and
- the income statement for the year ended 30 June 2009 will exclude income in relation to the discontinued activities. The income statements for the years ended 30 June 2008 and 30 June 2007 analysed between continuing and discontinued activities in note 1 are indicative of the revenues and expenditures that may be derived in future from continuing activities alone.

On 25 July 2008, subsequent to the sale of the shares of Vector Wellington Electricity Networks Limited to CKI, the board of directors of Vector Limited gave notice to the relevant banks of the cancellation of $500 million of the $700 million senior credit facility effective 4 August 2008.

On 26 August 2008, the board authorised management to proceed with the raising of a new $125 million senior credit facility. On that same day, the board of directors also formally authorised a share buyback of up to 25 million of Vector Limited ordinary shares (to commence from 1 September 2008).

On 27 August 2008, the board also declared a final dividend for the year ended 30 June 2008 of 6.75 cents per share.

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

32. EXPLANATION OF TRANSITION TO IFRSs

The figures and explanations contained in this note were disclosed as part of Vector's 31 December 2007 interim financial statements. Vector's discontinued operations were determined after this date and therefore the disclosures in this note do not distinguish between continuing and discontinued operations. Disclosure of the results of continuing and discontinued operations is presented in note 1.

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

In preparing these financial statements on a basis consistent with NZ IFRS for the first time, Vector has restated amounts previously reported under New Zealand accounting standards (previous NZ GAAP) applying accounting policies consistent with NZ IFRS. This required a restatement of opening balances as at 1 July 2006, with initial transitional adjustments recognised retrospectively against retained earnings within total equity at that date. Transactions occurring during the year ended 30 June 2007 are also restated in these financial statements. Detailed reconciliations of the income statements and balance sheets for these comparative periods as reported under NZ IFRS and previous NZ GAAP are presented below. The reconciliation of the income statement for the year end 30 June 2007 excludes the restatement for the impact of discontinued activities. The income statement for the comparative year is therefore reconciled to the total column in note 1. There were no impacts other than minor presentation changes on the consolidated cash flow statement in relation to adopting NZ IFRS. For further details of the financial impacts and exemptions taken on transition to NZ IFRS on 1 July 2006 in accordance with NZ IFRS 1, *First Time Adoption of New Zealand equivalents to International Financial Reporting Standards*, please refer to Vector's Annual Report for the year ended 30 June 2007.

32. EXPLANATION OF TRANSITION TO IFRSs (continued)

RESTATEMENT OF COMPARATIVE PERIOD FINANCIAL INFORMATION

The following notes explain the nature of each NZ IFRS adjustment and are cross-referenced to the reconciliations that immediately follow them. Reconciliations are for the year ended 30 June 2007 (headed 2007) and the date of transition to NZ IFRS, 1 July 2006 (headed 2006).

Presentational differences

(a) Vector obtains revenue from the temporary storage of imported LPG through its 60.25%-owned subsidiary Liquigas Limited. It has been determined that Vector acts as an agent in these transactions and therefore the revenue and related costs of sales previously reported gross under NZ GAAP are now reported only at the net margin in operating revenue representing Vector's commission for the service provided.

(b) Under NZ IFRS, Vector's share of profits from investments in associates is no longer included within operating revenue but is instead separately disclosed above operating surplus before income tax in the income statement.

(c) Certain interest receivable and interest payable amounts on cross currency interest rate swaps which were previously offset under NZ GAAP are presented gross on the balance sheet under NZ IFRS.

(d) Prepaid gas previously classified separately on the NZ GAAP balance sheet is classified within inventory on the NZ IFRS balance sheet.

(e) Consumable spares used internally for servicing equipment which were previously classified as inventory under NZ GAAP are classified as property, plant and equipment under NZ IFRS. These spares are only depreciated when they are brought into use unless they become increasingly technologically obsolete during the period that they are in storage.

(f) Software assets which are not integral to the operation of related hardware are classified as intangible assets under NZ IFRS. Under previous NZ GAAP, such software assets were classified as property, plant and equipment.

Impacts on reported operating surplus

(g) Goodwill is no longer amortised under NZ IFRS leading to a reduction in the amortisation charge and increase in operating surplus. Goodwill is instead subjected to an annual impairment test, which could give rise to a future impairment expense if the assessment of the fair value of the goodwill is lower than its carrying value. Vector's carrying value of goodwill has been tested for impairment at 1 July 2006. No impairment was identified at 1 July 2006 and hence the carrying value of goodwill is unaltered on transition to NZ IFRS at that date.

(h) Debt raising costs previously capitalised in capitalised finance costs in the balance sheet under NZ GAAP are netted off borrowings under NZ IFRS. Also under NZ IFRS, the net financing costs recognised in the income statement are based on the amortised cost of each financial instrument calculated under the effective interest method. This method establishes the effective interest rate that exactly discounts expected future cash payments or receipts through the expected life of the financial instrument or, where appropriate a shorter period, to the net carrying amount of the financial asset or liability. Under previous NZ GAAP, net financing costs were calculated on a straight line or yield-to-maturity basis. The differing basis for calculating net financing costs gives rise to adjustments to carrying values of borrowings and interest accruals in the balance sheet and marginally increases net financing costs leading to a small decrease in net surplus.

(i) Under NZ IFRS, deferred tax is calculated using the balance sheet approach rather than the tax effect income statement approach previously applied under NZ GAAP. This new approach recognises deferred tax balances when there is a temporary difference between the carrying value of an asset or liability and its tax base. NZ IFRS recognises a deferred tax liability on revaluations of property, plant and equipment above tax cost whereas previous NZ GAAP does not. This is the primary reason for the significant increase in Vector's deferred tax liability. The differing basis for calculating deferred tax under previous NZ GAAP and NZ IFRS gives rise to differing movements in deferred tax balances, a consequent reduction in tax expense and increase in operating surplus.

(j) Vector uses derivative financial instruments within predetermined policies and limits in order to manage its exposure to fluctuations in foreign currency exchange rates and interest rates. Under previous NZ GAAP, the fair values of such derivative financial instruments were only required to be disclosed in the notes to the financial statements. Under NZ IFRS, Vector must value all outstanding derivative financial instruments and recognised them at their fair value in the balance sheet. Thereafter, if the derivative financial instrument does not meet the requirements for hedge accounting, any mark to market revaluation is recognised in the income statement. If, however, a derivative financial instrument meets the criteria to qualify for hedge accounting then depending upon the type of hedging relationship, either of the following is applied:

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

(k) Government grants that are for the specific purpose of constructing property, plant and equipment are netted off against the initial cost of that related property, plant and equipment when the conditions attached to that grant are met. Under previous NZ GAAP such grants could be recognised immediately as revenue when the conditions attached to that grant are met. This has resulted in a reduction in operating revenue and decrease in operating surplus for the year ended 30 June 2007.

32. EXPLANATION OF TRANSITION TO IFRSs (continued)

RESTATEMENT OF COMPARATIVE PERIOD INFORMATION (continued)

		GROUP 2007		
	NOTE	AS REPORTED UNDER PREVIOUS NZ GAAP $000	NZ IFRS ADJUSTMENTS $000	AS REPORTED UNDER NZ IFRS $000
Operating revenue	(a)(b)(k)	1,352,923	(45,782)	1,307,141
Operating expenditure	(a)	(742,944)	41,071	(701,873)
Earnings before interest, income tax, depreciation and amortisation (EBITDA)		609,979	(4,711)	605,268
Depreciation and amortisation	(g)	(241,007)	94,382	(146,625)
Operating surplus before interest and income tax		368,972	89,671	458,643
Net financing costs	(h)(j)	(230,348)	(428)	(230,776)
Share of net surplus from associates	(b)	–	656	656
Operating surplus before income tax		138,624	89,899	228,523
Income tax (expense)/benefit	(i)	(32,721)	41,706	8,985
Operating surplus		105,903	131,605	237,508
Operating surplus attributable to minority interests		(4,203)	–	(4,203)
Operating surplus attributable to the shareholders of the parent		101,700	131,605	233,305

		GROUP
	NOTE	2007 $000
Operating surplus under previous NZ GAAP		105,903
Cessation of amortisation of goodwill	(g)	94,382
Restate financial instruments to amortised cost	(h)	(2,330)
Balance sheet basis for deferred tax	(i)	41,706
Changes in fair value of financial instruments	(j)	5,072
Reverse mark to market adjustment of the swap book	(j)	(3,170)
Offset government grant income against qualifying assets	(k)	(4,055)
Operating surplus under NZ IFRS		237,508

32. EXPLANATION OF TRANSITION TO IFRSs (continued)

RESTATEMENT OF COMPARATIVE PERIOD INFORMATION (continued)

		GROUP 2007		
	NOTE	AS REPORTED UNDER PREVIOUS NZ GAAP $000	NZ IFRS ADJUSTMENTS $000	AS REPORTED UNDER NZ IFRS $000
CURRENT ASSETS				
Cash and cash equivalents		7,008	–	7,008
Receivables and prepayments	(c)	170,857	13,464	184,321
Derivative financial instruments	(j)	–	1,945	1,945
Prepaid gas	(d)	4,210	(4,210)	–
Inventories	(d)(e)	10,019	(957)	9,062
Income tax	(i)	25,102	(1,599)	23,503
Capitalised finance costs	(h)	5,413	(5,413)	–
Intangible assets		2,639	–	2,639
Total current assets		225,248	3,230	228,478
NON-CURRENT ASSETS				
Receivables and prepayments		4,716	–	4,716
Derivative financial instruments	(j)	–	66,186	66,186
Deferred tax		1,137	–	1,137
Capitalised finance costs	(h)	26,322	(26,322)	–
Investments		28,259	–	28,259
Intangible assets	(f)(g)	1,573,751	138,795	1,712,546
Property, plant and equipment	(e)(f)(k)	3,869,427	(43,300)	3,826,127
Total non-current assets		5,503,612	135,359	5,638,971
Total assets		5,728,860	138,589	5,867,449
CURRENT LIABILITIES				
Payables and accruals	(c)(j)	225,902	17,970	243,872
Derivative financial instruments	(j)	–	33,832	33,832
Borrowings	(h)	361,025	(33,433)	327,592
Total current liabilities		586,927	18,369	605,296
NON-CURRENT LIABILITIES				
Payables and accruals	(j)	7,790	(288)	7,502
Derivative financial instruments	(j)	–	110,906	110,906
Borrowings	(h)(j)	2,773,568	(146,432)	2,627,136
Deferred tax	(i)	457,534	122,944	580,478
Total non-current liabilities		3,238,892	87,130	3,326,022
Total liabilities		3,825,819	105,499	3,931,318
EQUITY				
Shareholders' funds		1,891,619	33,090	1,924,709
Minority interest		11,422	–	11,422
Total equity		1,903,041	33,090	1,936,131
Total equity and liabilities		5,728,860	138,589	5,867,449

32. EXPLANATION OF TRANSITION TO IFRSs (continued)

RESTATEMENT OF COMPARATIVE PERIOD INFORMATION (continued)

		GROUP 2006		
	NOTE	AS REPORTED UNDER PREVIOUS NZ GAAP $000	NZ IFRS ADJUSTMENTS $000	AS REPORTED UNDER NZ IFRS $000
CURRENT ASSETS				
Cash and cash equivalents		9,507	–	9,507
Receivables and prepayments	(c)	171,503	14,994	186,497
Prepaid gas	(d)	7,950	(7,950)	–
Inventories	(d)(e)	7,998	3,236	11,234
Income tax	(i)	21,010	(10,652)	10,358
Capitalised finance costs	(h)	5,363	(5,363)	–
Intangible assets		3,793	–	3,793
Total current assets		227,124	(5,735)	221,389
NON-CURRENT ASSETS				
Receivables and prepayments		3,253	–	3,253
Derivative financial instruments	(j)	–	10,117	10,117
Prepaid gas	(d)	4,987	(4,987)	–
Inventories	(d)	–	4,987	4,987
Deferred tax		1,251	–	1,251
Capitalised finance costs	(h)	24,567	(24,567)	–
Investments		17,814	–	17,814
Intangible assets	(f)	1,672,426	41,326	1,713,752
Property, plant and equipment	(e)(f)	3,767,166	(36,611)	3,730,555
Total non-current assets		5,491,464	(9,735)	5,481,729
Total assets		5,718,588	(15,470)	5,703,118
CURRENT LIABILITIES				
Payables and accruals	(c)(j)	211,173	27,131	238,304
Derivative financial instruments	(j)	–	1,823	1,823
Borrowings		535,830	–	535,830
Total current liabilities		747,003	28,954	775,957
NON-CURRENT LIABILITIES				
Payables and accruals	(j)	8,770	(2,040)	6,730
Derivative financial instruments	(j)	–	12,225	12,225
Borrowings	(h)(j)	2,554,784	(39,200)	2,515,584
Deferred tax	(i)	482,117	146,902	629,019
Total non-current liabilities		3,045,671	117,887	3,163,558
Total liabilities		3,792,674	146,841	3,939,515
EQUITY				
Shareholders' funds		1,914,919	(162,311)	1,752,608
Minority interest		10,995	–	10,995
Total equity		1,925,914	(162,311)	1,763,603
Total equity and liabilities		5,718,588	(15,470)	5,703,118

32. EXPLANATION OF TRANSITION TO IFRSs (continued)

RESTATEMENT OF COMPARATIVE PERIOD INFORMATION (continued)

	NOTE	GROUP 2007 $000	GROUP 2006 $000
Equity under previous NZ GAAP		1,903,041	1,925,914
Cessation of amortisation of goodwill	(g)	94,382	–
Restate financial instruments to amortised cost	(h)	429	2,759
Balance sheet basis for deferred tax	(i)	(129,544)	(171,250)
Changes in fair value of financial instruments	(j)	71,347	2,478
Reverse mark to market adjustment of the swap book	(j)	531	3,702
Offset government grant income against qualifying assets	(k)	(4,055)	–
Equity under NZ IFRS		1,936,131	1,763,603

STATUTORY INFORMATION

INTERESTS REGISTER

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

Particulars of entries in the interests register made during the year ended 30 June 2008 are set out in this Statutory Information section.

INFORMATION USED BY DIRECTORS

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

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

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

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

DONATIONS

No donations were made during the year.

CREDIT RATING

At 22 August 2008 Vector Limited had a Standard & Poor's credit rating of BBB+, and a Moody's credit rating of Baa1 stable.

WAIVERS AND NON STANDARD DESIGNATION

NZX has granted Vector Limited waivers from certain listing rules of NZSX which were still applicable as at 30 June 2008:

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

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

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

Listing rule 9.1.1: Vector Limited was granted a ruling that the requirement for shareholder approval did not apply to a transfer of its Wellington electricity network assets to an existing wholly owned subsidiary of Vector Limited.

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 2008, Vector Limited made payments to S Chambers and K Sherry, trustees of the Auckland Energy Consumer Trust (Vector Limited's majority shareholder) totalling $180,000 in respect of their attendance at meetings of the Vector Limited Board.

STATUTORY INFORMATION

DIRECTORS

The following directors of Vector Limited and current group companies held office as at 30 June 2008 or resigned (R) as a director during the year ended 30 June 2008. Directors marked (A) were appointed during the year.

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

All of the above directors in office at 30 June 2008 are independent directors, except for S Chambers and K Sherry who are trustees of the Auckland Energy Consumer Trust (Vector Limited's majority shareholder).

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

DIRECTORS (continued)

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

Directors' remuneration and value of other benefits from Vector Limited and current group companies for the year ended 30 June 2008:

DIRECTORS OF VECTOR LIMITED	PAID BY PARENT $	PAID BY SUBSIDIARIES $
P Bird	90,000	–
T Carter	90,000	–
S Chambers	90,000	–
H Fletcher	90,000	–
A Paterson	90,000	–
K Sherry	90,000	–
M Stiassny	180,000	–
R Thomson	90,000	–

DIRECTORS OF SUBSIDIARIES	PAID BY PARENT $	PAID BY SUBSIDIARIES $
T Barstead	–	5,930
S Bielby	–	2,500*
S Bullock	–	2,500*
J Cumming	–	5,000
M Cummings	–	2,500*
S Dale	–	4,167
P Harford	–	2,500*
C Hazledine	–	2,500*
M Karbanowicz	–	4,680
A Knight	–	2,500*
I Lindsay	–	34,000
S Mackenzie	–	2,500*
A Newnham	–	417
J Seymour	–	2,500*
A Smith	–	416
R Smith	–	1,890

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

STATUTORY INFORMATION

DIRECTORS (continued)

DIRECTORS OF VECTOR LIMITED

Entries in the interests register of Vector Limited up to 30 June 2008 that are not set out elsewhere in this annual report:

DIRECTOR	ENTITY	POSITION
P Bird	InfraCo Limited	Director
	N M Rothschild & Sons	Managing director
A Carter	Foodstuffs (Auckland) Limited	Managing director
	Foodstuffs Fresh (Auckland) Limited	Chairman
	Foodstuffs NZ Limited	Managing director
	James Gilmour & Co Limited	Director
	Metfood Pty Limited	Director
	National Trading Company Limited	Director
	The Bell Tea Company Limited	Chairman
S Chambers	Auckland Energy Consumer Trust	Trustee
	Auckland Healthy Houses Trust	Trustee
	ChambersCraigJarvis	Managing partner
	New Zealand Post Limited	Director
H Fletcher	Arrow Wrights Limited	Chairman and shareholder
	Dilworth Trust	Trustee
	Fletcher Brothers Limited	Chairman and shareholder
	Fletcher Building Limited	Director and shareholder
	IAG New Zealand Holdings Limited	Chairman
	Insurance Australia Group Limited	Director
	Lakes Station Partnership	Partner
	L.E.K. Consulting Limited	Member of New Zealand advisory board
	No 8 Ventures	Investor
	Reserve Bank of New Zealand	Director
	Rubicon Limited	Director and shareholder
	The University of Auckland	Chancellor
	The University of Auckland Foundation	Member
A Paterson	Abano Healthcare Limited	Chairman
	BPAC New Zealand Limited	Chairman
	Governing Board of The Centre of Research Excellence for Growth & Development (University of Auckland)	Chairman
	Massey University Council	Councillor
	Metrowater Limited	Board member
	Nga Pae o Te Maramatanga (Maori CoRE)	Board member
	Oversight Committee (Ambulance NZ)	Chairman
	Reserve Bank of New Zealand	Deputy chairman
K Sherry	Auckland Energy Consumer Trust	Trustee
	Auckland Healthy Houses Trust	Trustee
	Bell-Booth Sherry	Principal
	Energy Trusts of New Zealand	Deputy chairman
	Sasha & Otto Limited	Director and shareholder
M Stiassny	Atapo Corporation Limited	Director and shareholder
	Community Relocation Limited	Director and shareholder
	Auckland Hebrew Congregation Trust Board	Chairman
	Gadol Corporation Limited	Director and shareholder
	KordaMentha	Partner
	Grafton Investments Limited	Director
	NZ Racing Board	Chairman
	The Horticulture and Food Research Institute of New Zealand Limited	Director
	Triceps Holdings Limited	Director and shareholder
R Thomson	Calnan Holdings Limited	Director and shareholder
	Presbyterian Support Central	Board Member
	R & M Holdings Limited	Director and shareholder

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

STATUTORY INFORMATION

DIRECTORS (continued)

DIRECTORS OF SUBSIDIARIES

Entries in the interests register of subsidiaries up to 30 June 2008 that are not set out elsewhere in this annual report:

DIRECTOR	ENTITY	POSITION
M Franklin	Gas Industry Company Limited	Director
S Mackenzie	Gas Industry Company Limited	Director

EMPLOYEES

The number of employees of the parent and subsidiaries receiving remuneration and benefits above $100,000 in the year ended 30 June 2008 are set out in the following tables:

CURRENT EMPLOYEES	PARENT	SUBSIDIARIES
$100,001 – $110,000	43	2
$110,001 – $120,000	37	2
$120,001 – $130,000	23	2
$130,001 – $140,000	15	1
$140,001 – $150,000	8	1
$150,001 – $160,000	8	1
$160,001 – $170,000	6	5
$170,001 – $180,000	5	1
$180,001 – $190,000	6	–
$190,001 – $200,000	4	1
$200,001 – $210,000	2	1
$210,001 – $220,000	4	–
$220,001 – $230,000	2	1
$230,001 – $240,000	3	1
$240,001 – $250,000	2	–
$250,001 – $260,000	6	–
$260,001 – $270,000	2	–
$280,001 – $290,000	1	–
$300,001 – $310,000	–	1
$440,001 – $450,000	1	–
$520,001 – $530,000	1	–
$560,001 – $570,000	1	–
$1,200,001 – $1,210,000	1	–

EMPLOYEES (continued)

FORMER EMPLOYEES (INCLUDING ANY TERMINATION PAYMENTS)	PARENT	SUBSIDIARIES
$100,001 – $110,000	9	–
$110,001 – $120,000	2	–
$120,001 – $130,000	1	–
$130,001 – $140,000	2	1
$140,001 – $150,000	3	–
$150,001 – $160,000	2	1
$160,001 – $170,000	2	–
$170,001 – $180,000	1	–
$180,001 – $190,000	1	–
$230,001 – $240,000	1	–
$240,001 – $250,000	1	–
$250,001 – $260,000	2	–
$300,001 – $310,000	1	–
$460,001 – $470,000	1	–
$540,001 – $550,000	1	–
$630,001 – $640,000	1	–
$650,001 – $660,000	1	–
$1,950,001 – $1,960,000	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 22 August 2008:

8.00% CAPITAL BONDS

RANGE	NUMBER OF BONDHOLDERS	PERCENTAGE OF BONDHOLDERS	NUMBER OF SECURITIES HELD	PERCENTAGE OF SECURITIES HELD
1 – 4,999	3	0.05%	7,000	0.00%
5,000 – 9,999	1,206	19.50%	6,475,333	2.11%
10,000 – 49,999	3,764	60.88%	75,902,700	24.71%
50,000 – 99,999	768	12.42%	43,896,000	14.29%
100,000 – 499,999	393	6.36%	57,577,000	18.74%
500,000 – 999,999	25	0.40%	15,267,000	4.97%
1,000,000 plus	24	0.39%	108,079,967	35.18%
	6,183	100.00%	307,205,000	100.00%

The following current directors of the parent are holders (either beneficially or non-beneficially) of Vector Limited 8.00% capital bonds as at 22 August 2008:

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

STATUTORY INFORMATION

BONDHOLDER STATISTICS (continued)

6.81% FIXED INTEREST RATE BONDS

RANGE	NUMBER OF BONDHOLDERS	PERCENTAGE OF BONDHOLDERS	NUMBER OF SECURITIES HELD	PERCENTAGE OF SECURITIES HELD
1 – 4,999	221	7.38%	708,000	0.35%
5,000 – 9,999	486	16.22%	3,034,000	1.52%
10,000 – 49,999	1,783	59.51%	36,286,000	18.14%
50,000 – 99,999	314	10.48%	17,694,000	8.85%
100,000 – 499,999	159	5.31%	24,058,000	12.03%
500,000 – 999,999	10	0.33%	5,338,000	2.67%
1,000,000 plus	23	0.77%	112,882,000	56.44%
	2,996	100.00%	200,000,000	100.00%

SHAREHOLDER STATISTICS

Twenty largest registered shareholders of Vector Limited ordinary shares as at 22 August 2008:

SHAREHOLDER	ORDINARY SHARES HELD	PERCENTAGE OF ORDINARY SHARES HELD
Auckland Energy Consumer Trust	751,000,000	75.10%
HSBC Nominees (New Zealand) Limited	18,794,042	1.88%
National Nominees New Zealand Limited	14,011,784	1.40%
Citibank Nominees (New Zealand) Limited	8,926,493	0.89%
ANZ Nominees Limited	5,836,235	0.58%
Custodial Services Limited – A/C 3	5,660,118	0.57%
HSBC Nominees (New Zealand) Limited	4,753,746	0.48%
Accident Compensation Corporation	4,240,262	0.42%
New Zealand Superannuation Fund Nominees Limited	4,143,662	0.41%
FNZ Custodians Limited	3,810,498	0.38%
Investment Custodial Services – A/C C	3,570,783	0.36%
ABNED Nominees NZ Limited	2,700,010	0.27%
AMP Investments Strategic Equity Growth Fund	2,600,404	0.26%
Private Nominees Limited	2,381,125	0.24%
TEA Custodians Limited	2,375,223	0.24%
Custodial Services Limited – A/C 2	2,020,706	0.20%
NZGT Nominees Limited	1,854,567	0.19%
Asteron Life Limited	1,617,300	0.16%
Custody And Investment Nominees Limited	1,476,067	0.15%
Guardian Trust Investment Nominees (RWT) Limited	1,336,513	0.13%
	843,109,538	84.31%

Substantial security holders as at 22 August 2008:

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

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

As at 22 August 2008, voting securities issued by Vector Limited totalled 1,000,000,000 ordinary shares.

STATUTORY INFORMATION

SHAREHOLDER STATISTICS (continued)

Ordinary shares distribution as at 22 August 2008:

RANGE	NUMBER OF SHAREHOLDERS	PERCENTAGE OF SHAREHOLDERS	NUMBER OF SHARES HELD	PERCENTAGE OF SHARES HELD
1 – 499	8,001	19.67%	2,536,909	0.26%
500 – 999	4,222	10.38%	3,305,961	0.33%
1,000 – 4,999	22,069	54.27%	38,939,626	3.89%
5,000 – 9,999	3,097	7.62%	20,585,258	2.06%
10,000 – 49,999	2,964	7.29%	51,635,437	5.16%
50,000 – 99,999	179	0.44%	11,560,449	1.16%
100,000 plus	135	0.33%	871,436,360	87.14%
	40,667	100.00%	1,000,000,000	100.00%

Analysis of shareholders as at 22 August 2008:

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	1,403	3.45%	13,604,781	1.36%
Individual holders	25,635	63.04%	69,132,828	6.91%
Joint	12,105	29.77%	49,033,478	4.90%
Nominee companies	956	2.35%	112,541,600	11.25%
Other	567	1.39%	4,687,313	0.48%
	40,667	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 22 August 2008:

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

The following disclosures are made pursuant to section 148 of the Companies Act 1993, in relation to dealings during the year ended 30 June 2008 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:

Acquisition or disposal of relevant interests – Vector Limited ordinary shares

DIRECTOR	NATURE OF RELEVANT INTEREST	DATE OF ACQUISITION/ DISPOSAL	CONSIDERATION PAID/RECEIVED (PER SHARE)	NUMBER OF SHARES IN WHICH RELEVANT INTEREST ACQUIRED/ (DISPOSED)
A Carter	s146(1)(a)	16 August 2007	$2.52	10,000
S Chambers	s146(1)(f)	31 August 2007	nil	(30,000)*

*S Chambers resigned as a trustee of a beneficiary trust shareholder of Portfolio Custodians Limited on 31 August 2007 and ceased having a relevant interest.

FINANCIAL CALENDAR

2008	
Annual meeting	October
1st quarter operational update	October
2009	
Half year result	February
Half year report	March
Interim dividend*	April
3rd quarter operational update	May
Full year result	August
Final dividend*	September
Annual report	September

*Dividends are subject to board determination

INVESTOR INFORMATION

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

Insight Creative Limited. Auckland. Sydney. VEC020 09/08