

**AUCKLAND ENERGY CONSUMER
TRUST
2007**

FINANCIAL STATEMENTS

Financial Statements

for the year ended 30 June 2007

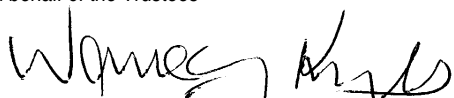
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2007 FINANCIAL STATEMENTS

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

For and on behalf of the Trustees


Chairman


Deputy Chairman.

Date: 17 September 2007.

Directory

Date Settled

27 August 1993

Trustees

Warren James Kyd (Chair)
Michael Joseph Buczkowski (Deputy Chair)
Shale Chambers
Karen Annette Sherry
James Carmichael (elected 30 October 2006)
John Gregory Collinge (ceased 30 October 2006)

Secretary and Executive Officer

Mark Bogle

Termination Date

27 August 2073

Accountant

Staples Rodway Limited
P O Box 3899
Auckland

Auditor

Grant Thornton
P O Box 1961
Auckland

Legal Advisor

David Bigio
P O Box 2133
Auckland

Banker

ANZ National Bank Limited
P O Box 788
Auckland

AUDITORS REPORT
TO THE TRUSTEES OF
AUCKLAND ENERGY CONSUMER TRUST

We have audited the financial statements on pages 5 to 41. The financial statements provide information about the past financial performance and cash flows of the trust and group for the year ended 30 June 2007 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 11 to 14.

Trustees' Responsibilities

The Trustees are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the trust and group as at 30 June 2007 and of their financial performance 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 Trustees 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 Trustees in the preparation of the financial statements; and
- whether the accounting policies used are appropriate to the trust'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.

Other than in our capacity as auditors, we have no relationship with or interests in the trust or its subsidiary.

Unqualified Opinion

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

In our opinion:

- proper accounting records have been kept by the trust as far as appears from our examination of those records; and
- the financial statements on pages 5 to 41:
 - comply with generally accepted accounting practice in New Zealand; and
 - give a true and fair view of the financial position of the trust and group as at 30 June 2007 and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 17 September 2007 and our unqualified opinion is expressed as at that date.



Grant Thornton
Auckland, New Zealand

Grant Thornton Building
PO Box 1961, 97-101 Hobson St
Auckland 1015, New Zealand
T 64 9 308 2570
F 64 9 309 4892
E service@gtak.co.nz
W www.granthornton.co.nz

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Statement of Financial Performance

for the year ended 30 June 2007

		GROUP		PARENT	
	NOTE	2007 \$000	2006 \$000	2007 \$000	2006 \$000
Operating revenue	2	1,352,921	1,132,987	93,890	98,674
Operating expenditure	3	(746,479)	(556,726)	(3,552)	(2,397)
Earnings before interest, income tax, depreciation and amortisation		606,442	576,261	90,338	96,277
Depreciation and amortisation	4	(241,017)	(215,902)	(10)	(12)
Operating surplus before interest and income tax		365,425	360,359	90,328	96,265
Net interest expense	5	(227,996)	(226,882)	2,352	1,639
Operating surplus before income tax		137,429	133,477	92,680	97,904
Income tax (expense)/benefit	6	(32,704)	(81,345)	17	-
Operating surplus		104,725	52,132	92,697	97,904
Gain arising from issue of shares to minority interests		-	217,526	-	-
Minority interests	12	(29,526)	(16,219)	-	-
Net surplus for the year		75,199	253,439	92,697	97,904

This statement is to be read in conjunction with the statement of accounting policies and notes to the financial statements.

Statement of Movements in Trustees Funds

for the year ended 30 June 2007

	NOTE	GROUP		PARENT	
		2007 \$000	2006 \$000	2007 \$000	2006 \$000
RECOGNISED REVENUES AND EXPENSES					
Net surplus for the year:					
Group and parent		75,199	253,439	92,697	97,904
Minority interests	12	29,526	16,219	-	-
Movement in revaluation reserve					
Group and parent	10	-	353,420	-	-
Minority interests	12	-	117,179	-	-
Total recognised revenues and expenses for the year		104,725	740,257	92,697	97,904
Decrease in minority interests on further acquisition of NGC	12	-	(109,313)	-	-
Minority interest on initial public offering of Vector Ltd		-	366,177	-	-
DISTRIBUTIONS					
Distribution to beneficiaries	9	(92,675)	(52,014)	(92,675)	(52,014)
Dividends received - available for distribution B/fwd	28	44,730	-	44,730	-
Dividends received - available for distribution C/fwd	28	(47,454)	(44,730)	(47,454)	(44,730)
Supplementary dividends		(662)	(321)	-	-
Foreign investor tax credits		662	321	-	-
Dividends to minorities	9	(34,901)	(18,875)	-	-
Movements in trustees funds for the year		(25,575)	881,502	(2,702)	1,160
Trustees funds at beginning of the year		1,932,451	1,050,949	306,537	305,377
Trustees funds at end of the year		1,906,876	1,932,451	303,835	306,537

This statement is to be read in conjunction with the statement of accounting policies and notes to the financial statements.

Statement of Financial Position

as at 30 June 2007

		GROUP		PARENT	
	NOTE	2007 \$000	2006 \$000	2007 \$000	2006 \$000
CURRENT ASSETS					
Cash and bank overdraft		7,133	9,600	125	93
Short term deposits		53,305	50,426	53,305	50,426
Receivables and prepayments	13	171,842	172,476	985	973
Prepaid gas	14	4,210	7,950	-	-
Inventories	15	10,019	7,998	-	-
Income tax		25,102	22,412	-	151
Capitalised finance costs	16	5,413	5,363	-	-
Intangible assets	21	2,639	3,793	-	-
Total current assets		279,663	280,018	54,415	51,643
NON-CURRENT ASSETS					
Receivables and prepayments	13	4,716	3,253	-	-
Prepaid gas	14	-	4,987	-	-
Income tax		1,137	-	-	-
Capitalised finance costs	16	26,322	24,567	-	-
Investments	18	28,259	17,814	300,000	300,000
Intangible assets	21	1,573,751	1,672,426	-	-
Property, plant and equipment	22	3,869,447	3,767,180	20	14
Total non-current assets		5,503,632	5,490,227	300,020	300,014
Total assets		5,783,295	5,770,245	354,435	351,657
CURRENT LIABILITIES					
Dividends received – available for distribution	28	47,454	44,730	47,454	44,730
Payables and accruals	23	229,048	211,563	3,146	390
Borrowings	30	361,025	535,830	-	-
Total current liabilities		637,527	792,123	50,600	45,120
NON-CURRENT LIABILITIES					
Payables and accruals	23	7,790	8,770	-	-
Borrowings	30	2,773,568	2,554,784	-	-
Deferred tax	8	457,534	482,117	-	-
Total non-current liabilities		3,238,892	3,045,671	-	-
Total liabilities		3,876,419	3,837,794	50,600	45,120
TRUSTEES FUNDS					
Trustees accumulations	11	523,638	543,838	303,835	306,537
Asset revaluation reserve	10	900,803	900,803	-	-
Attributable to trustees of the trust		1,424,441	1,444,641	303,835	306,537
Attributable to minority shareholders of the group	12	482,435	487,810	-	-
Total trustees funds		1,906,876	1,932,451	303,835	306,537
Total trustees funds and liabilities		5,783,295	5,770,245	354,435	351,657

This statement is to be read in conjunction with the statement of accounting policies and notes to the financial statements.

Statement of Cash Flows

for the year ended 30 June 2007

	GROUP		PARENT	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
OPERATING ACTIVITIES				
Cash provided from:				
Receipts from customers	1,351,991	1,112,373	-	-
Interest portion of repayments on finance leases	120	120	-	-
Interest received on deposits	6,091	11,043	2,267	851
Dividend withholding tax refunded	-	31	-	31
Income tax refund received	169	1,217	169	162
Dividends received	263	577	93,875	98,660
Other income received	15	14	15	14
	1,358,649	1,125,375	96,326	99,718
Cash applied to:				
Payments to suppliers, trustees and employees	(715,984)	(527,295)	(3,225)	(2,348)
Income tax paid	(59,183)	(20,443)	-	-
Distribution to beneficiaries	(90,170)	(52,459)	(90,170)	(52,459)
Interest portion of payments under finance leases	(682)	(504)	-	-
Interest paid	(225,605)	(225,274)	-	-
	(1,091,624)	(825,975)	(93,395)	(54,807)
Net cash from operating activities	267,025	299,400	2,931	44,911
INVESTING ACTIVITIES				
Cash provided from:				
Proceeds from sale of investments	8,000	-	-	-
Proceeds from sale of property, plant and equipment	4,381	587	-	-
Receipts from loans repaid	135	137	-	-
Capital portion of repayments on finance leases	11	11	-	-
	12,527	735	-	-
Cash applied to:				
Acquisition of shares in NGC Holdings Limited	-	(122,178)	-	-
Purchase and construction of property, plant and equipment	(262,616)	(225,265)	(20)	(20)
Purchase of investment	(17,015)	(600)	-	-
Purchase of short term deposits	(2,879)	(44,919)	(2,879)	(44,919)
Issue of security deposits	(101)	-	-	-
	(282,611)	(392,962)	(2,899)	(44,939)
Net cash used in investing activities	(270,084)	(392,227)	(2,899)	(44,939)

This statement is to be read in conjunction with the statement of accounting policies and notes to the financial statements.

Statement of Cash Flows (continued)

for the year ended 30 June 2007

	NOTE	GROUP		PARENT	
		2007 \$000	2006 \$000	2007 \$000	2006 \$000
FINANCING ACTIVITIES					
Cash provided from/(applied to):					
Issue of ordinary shares		-	208,715	-	-
Equity raising costs incurred		-	(5,393)	-	-
Proceeds from borrowings		660,172	1,863,761	-	-
Repayment of borrowings		(615,000)	(1,921,745)	-	-
Debt raising costs incurred		(7,595)	(24,506)	-	-
Capital portion of payments under finance leases		(2,084)	(810)	-	-
Dividends paid to minority interests	9	(34,901)	(18,875)	-	-
Net cash from financing activities		592	101,147	-	-
Net (decrease)/increase in cash balances		(2,467)	8,320	32	(28)
Cash balances at beginning of the year		9,600	1,280	93	121
Cash balances at end of the year		7,133	9,600	125	93

This statement is to be read in conjunction with the statement of accounting policies and notes to the financial statements.

Statement of Cash Flows (continued)
for the year ended 30 June 2007

	GROUP		PARENT	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
RECONCILIATION OF NET SURPLUS TO NET CASH FROM OPERATING ACTIVITIES				
Net surplus for the year	75,199	253,439	92,697	97,904
Distribution to beneficiaries	(92,675)	(52,014)	(92,675)	(52,014)
Dividends received – available for distribution	(2,724)	(44,730)	(2,724)	(44,730)
Minority interests	29,526	16,219	-	-
Operating surplus	9,326	172,915	(2,702)	1,160
ITEMS CLASSIFIED AS INVESTING AND FINANCING ACTIVITIES				
Net loss/(gain) on disposal of non-current assets	9,212	(1,166)	4	1
	9,212	171,749	4	1,161
NON-CASH ITEMS IMPACTING NET SURPLUS				
Depreciation and amortisation	241,017	215,902	10	12
Amortisation of the mark to market adjustment	(2,816)	(2,605)	-	-
Amortisation of prepaid gas	8,672	13,501	-	-
Amortisation of capitalised finance costs	5,790	5,088	-	-
(Decrease)/increase in deferred tax	(23,231)	22,345	-	-
(Decrease)/increase in provisions	(8,664)	923	-	-
Equity earnings (surplus)/deficit	(656)	365	-	-
Gain arising from issue of share to minority interests	-	(217,526)	-	-
	220,112	37,993	10	12
CASH ITEMS NOT IMPACTING NET SURPLUS				
Dividend from associate	-	200	-	-
	-	38,193	-	12
MOVEMENT IN WORKING CAPITAL				
Increase/(decrease) in payables and accruals	29,686	22,398	251	49
(Increase)/decrease in inventory	(1,839)	802	-	-
Decrease/(increase) in dividend withholding tax	-	30	-	30
Decrease/(increase) in unclaimed distributions	2,505	(445)	2,505	(445)
(Increase)/decrease in receivables and prepayments	(874)	(17,190)	(12)	(788)
Increase in dividends received – available for distribution	2,724	44,730	2,724	44,730
(Increase)/decrease in income tax assets	(3,827)	39,133	151	162
	28,375	89,458	5,619	43,738
Net cash from operating activities	267,025	299,400	2,931	44,911

This statement is to be read in conjunction with the statement of accounting policies and notes to the financial statements.

Statement of Accounting Policies

for the year ended 30 June 2007

ENTITIES REPORTING

AUCKLAND ENERGY CONSUMER TRUST is a Discretionary Trust under the Trustee Act 1956.

Financial statements for AUCKLAND ENERGY CONSUMER TRUST (the "parent") and consolidated financial statements are presented. The consolidated financial statements comprise the Trust and its subsidiaries (the "group") and the group's interest in associates, partnerships and joint ventures.

BASIS OF PREPARATION

The general accounting policies as recommended by the New Zealand Institute of Chartered Accountants for the measurement and reporting of results and financial position under the historical cost method modified by the revaluation of certain items of property, plant and equipment have been adopted in the preparation of these financial statements. This ensures compliance with the Electricity Act 1992 and Amendments that require financial statements to comply with New Zealand Generally Accepted Accounting Practice. The Trust Deed also stipulates that the financial statements of the trust present a true and fair view.

Reliance is placed on the fact that the trust is a going concern. These financial statements have been prepared on the basis that the trust will be able to meet its commitments and realise the carrying value of its assets in the normal course of business.

The group's principal activity during the year was the operation of networks providing utilities in New Zealand.

SPECIFIC ACCOUNTING POLICIES

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

A) BASIS OF CONSOLIDATION

Subsidiaries

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

Associates

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

Partnerships

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

Acquisition or Disposal During the Year

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

Intra-group Amalgamations

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

Joint Ventures

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

Statement of Accounting Policies (continued)

for the year ended 30 June 2007

A) BASIS OF CONSOLIDATION (CONTINUED)

Goodwill Arising on Acquisition

Goodwill arising on acquisition of a subsidiary or associate represents the excess of the purchase consideration over the fair value of the identifiable net assets acquired. Goodwill is amortised to the statement of financial performance on a straight line basis over the period during which benefits are expected to be derived up to a maximum of 20 years.

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

Transactions Eliminated on Consolidation

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

B) INCOME RECOGNITION

Income from the provision of goods and services is recognised as goods and services are delivered. Interest and rental income is accounted for as earned. Dividends received are recorded on an accrual basis and are shown net of imputation credits. Income from customer contributions is recognised on a percentage of completion basis.

C) GOODS AND SERVICES TAX (GST)

Although the parent is registered for GST, the financial statements of the parent have been prepared inclusive of GST, with the exception of ETNZ secretariat fees.

The group's statement of financial performance and statement of cash flows have been prepared so that all components, other than the Trust components (with the exception of ETNZ secretariat fees), are stated exclusive of GST. All items in the group's statement of financial position, other than the Trust components (with the exception of ETNZ secretariat fees), are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

D) RECEIVABLES

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

E) GAS CONTRACTS AND PREPAID GAS

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

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

F) INVENTORIES

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

G) INCOME TAX

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

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

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

H) IDENTIFIABLE INTANGIBLE ASSETS

Gas Entitlements

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

I) INVESTMENTS

Non-current investments are stated at cost.

Statement of Accounting Policies (continued)

for the year ended 30 June 2007

J) **PROPERTY, PLANT AND EQUIPMENT**

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

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

Subsequent expenditure relating to an item of property, plant and equipment is added to its gross carrying amount when such expenditure either increases the future economic benefits beyond its existing service potential, or is necessarily incurred to enable future economic benefits to be obtained, and that expenditure would have been included in the initial cost of the item had the expenditure been incurred at that time.

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

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

K) **DEPRECIATION**

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

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

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

L) **LEASED ASSETS**

Finance Leases

Property, plant and equipment under finance leases are recognised as non-current assets in the statement of financial position. Leased property, plant and equipment are recognised initially at the lower of the present value of the minimum lease payments or their fair value. A corresponding liability is established and each lease payment allocated between the liability and the interest expense. Leased property, plant and equipment are depreciated on the same basis as equivalent owned property, plant and equipment.

Operating Leases

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

Leasehold Improvements

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

Statement of Accounting Policies (continued)

for the year ended 30 June 2007

M) PROVISIONS

Employee Entitlements

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

Onerous Contracts

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

Other Provisions

A provision is recognised as a liability where the group considers that a constructive or legal obligation exists to settle items in the foreseeable future. A provision is recognised where the likelihood of a resultant liability is considered more probable than not. Where the likelihood of a resultant liability is more than remote but insufficient to warrant a provision, such events are disclosed as contingent liabilities.

Unclaimed Distributions

The Trust Deed requires that any distribution forwarded to a consumer which remains unclaimed for two years after having been dispatched is to be forfeited/cancelled. On cancellation, distributions are accounted for as a reduction in the distribution during the year in which they are cancelled. The full amount of unclaimed distributions is provided for in the financial statements until cancelled.

N) FINANCIAL INSTRUMENTS

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

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

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

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

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

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

O) FOREIGN CURRENCIES

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

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

P) STATEMENT OF CASH FLOWS

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

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

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

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

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

Q) DISCONTINUED OPERATIONS

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

CHANGES IN ACCOUNTING POLICIES

All policies have been applied on a basis consistent with those applied in the annual financial statements of the group and the parent for the year ended 30 June 2006.

Notes to the Financial Statements

for the year ended 30 June 2007

1. SEGMENT INFORMATION

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

Electricity

Ownership and management of electricity distribution networks.

Gas Transportation

Ownership and management of gas transmission lines and distribution networks.

Gas Wholesale

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

Technology

Telecommunications services, electricity and gas metering.

Corporate / Other

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

GROUP 2007	ELECTRICITY \$000	GAS TRANSPORTATION \$000	GAS WHOLESALE \$000	TECHNOLOGY \$000	CORPORATE/ OTHER \$000	TOTAL \$000
Segment revenue	611,476	173,954	534,763	67,558	6,290	1,394,041
Less: Intersegment revenue	-	(35,129)	(5,385)	(606)	-	(41,120)
Operating revenue	611,476	138,825	529,378	66,952	6,290	1,352,921
Earnings before interest, income tax, depreciation and amortisation	377,968	135,492	107,526	47,787	(62,331)	606,442
Depreciation and amortisation	(111,487)	(60,822)	(30,122)	(27,204)	(11,382)	(241,017)
Operating surplus before interest and income tax	266,481	74,670	77,404	20,583	(73,713)	365,425
Net interest expense						(227,996)
Operating surplus before income tax						137,429
Income tax expense						(32,704)
Operating surplus						104,725
Minority interests						(29,526)
Net surplus for the year						75,199
Total assets	3,224,254	1,442,238	461,086	455,410	200,307	5,783,295

GROUP 2006	ELECTRICITY \$000	GAS TRANSPORTATION \$000	GAS WHOLESALE \$000	TECHNOLOGY \$000	CORPORATE/ OTHER \$000	TOTAL \$000
Segment revenue	580,148	164,393	361,066	61,213	6,488	1,173,308
Less: Intersegment	-	(34,346)	(5,057)	(918)	-	(40,321)
Operating revenue	580,148	130,047	356,009	60,295	6,488	1,132,987
Earnings before interest, income tax, depreciation and amortisation	364,522	112,504	94,562	41,876	(37,203)	576,261
Depreciation and amortisation	(94,730)	(59,497)	(25,822)	(28,948)	(6,905)	(215,902)
Operating surplus before interest and income tax	269,792	53,007	68,740	12,928	(44,108)	360,359
Net interest expense						(226,882)
Operating surplus before income tax						133,477
Income tax expense						(81,345)
Operating surplus						52,132
Gain arising from issue of shares to minority interests						217,526
Minority interests						(16,219)
Net surplus for the year						253,439
Total assets	3,215,672	1,493,231	476,754	416,179	168,409	5,770,245

Notes to the Financial Statements

for the year ended 30 June 2007

2. OPERATING REVENUE

	NOTE	GROUP		PARENT	
		2007 \$000	2006 \$000	2007 \$000	2006 \$000
Trading revenue		1,313,247	1,101,356	-	-
Dividend income		263	377	93,875	98,660
Equity accounted earnings of associates surplus/(deficit)	19	656	(365)	-	-
Gain on disposal of property, plant and equipment		2,106	1,167	-	-
Customer contributions		32,909	26,229	-	-
Miscellaneous income		3,740	4,223	15	14
Total operating revenue		1,352,921	1,132,987	93,890	98,674
Interest revenue	5	6,296	11,641	2,352	1,639
Total revenue		1,359,217	1,144,628	96,242	100,313

3. OPERATING EXPENDITURE

	NOTE	GROUP		PARENT	
		2007 \$000	2006 \$000	2007 \$000	2006 \$000
Operating expenditure includes:					
Bad debts written-off		60	32	-	-
Increase/(decrease) in provision for doubtful debts		1,015	(182)	-	-
Rental and operating lease costs		4,642	4,572	17	17
Loss on disposal of property, plant and equipment		11,318	1	4	1
Donations		5	31	-	-
Directors fees	33	759	764	-	-
Trustees remuneration	33	257	291	257	272
Auditors remuneration:					
Audit fees paid to principal auditors of parent – Grant Thornton		31	29	31	29
Audit fees paid to other auditors – KPMG		672	338	-	-
Audit fees paid to other auditors – PwC		15	226	-	-
Fees paid for other assurance services provided – KPMG		358	190	-	-
Fees paid for other assurance services provided – PwC		26	-	-	-
Fees paid for other non-assurance services provided – PwC		504	142	-	-

Notes to the Financial Statements

for the year ended 30 June 2007

4. DEPRECIATION AND AMORTISATION

NOTE	GROUP		PARENT	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
Depreciation of property, plant and equipment				
Distribution systems	106,103	89,992	-	-
Distribution buildings	1,250	1,295	-	-
Electricity and gas meters	10,457	8,796	-	-
Generation power stations and equipment	1,337	1,449	-	-
Buildings	291	290	-	-
Leasehold improvements	512	386	-	-
Motor vehicles and mobile equipment	926	779	-	-
Computer and telecommunications equipment	17,160	9,501	-	-
Other plant and equipment	4,751	4,764	10	12
	142,787	117,252	10	12
Amortisation of intangible assets				
Amortisation of goodwill	21	94,383	-	-
Amortisation of gas entitlement intangible assets	21	3,847	-	-
	98,230	98,650	-	-
Total	241,017	215,902	10	12

5. NET INTEREST EXPENSE

	NOTE	GROUP		PARENT	
		2007 \$000	2006 \$000	2007 \$000	2006 \$000
Interest paid and accrued		236,351	239,758	-	-
Amortisation of capitalised finance costs		5,790	5,088	-	-
Amortisation of the mark to market adjustment		(2,816)	(2,605)	-	-
Total interest expense		239,325	242,241	-	-
Interest revenue:					
External	2	(6,296)	(11,641)	(2,352)	(1,639)
Total interest revenue		(6,296)	(11,641)	(2,352)	(1,639)
Capitalised interest		(5,033)	(3,718)	-	-
Total		227,996	226,882	(2,352)	(1,639)

Notes to the Financial Statements

for the year ended 30 June 2007

6. INCOME TAX EXPENSE / BENEFIT

	GROUP		PARENT	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
Operating surplus before income tax	137,429	133,477	92,680	97,904
Prima facie tax at 33%	45,352	44,047	30,585	32,308
Plus/(less) tax effect of permanent differences:				
Prior period adjustment	249	436	(17)	-
Other permanent differences	(12,897)	36,862	(30,585)	(32,308)
Income tax expense/(benefit)	32,704	81,345	(17)	-
The income tax expense/(benefit) is represented by:				
Current tax	52,623	58,035	(17)	-
Deferred tax	(19,919)	23,310	-	-
Total	32,704	81,345	(17)	-

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

The parent has taxation losses amounting to approximately \$2,912,230 (2006 - \$2,944,956) can be carried forward to reduce potential future taxable income.

7. IMPUTATION BALANCES

	GROUP		PARENT	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
Balance at beginning of the year	(23,562)	8,968	-	-
Prior period adjustment	(1,180)	1,888	-	-
Income tax payments during the year	58,929	19,396	-	-
Imputation credits attaching to dividends received	129	284	46,237	48,594
Imputation credits attaching to dividends and distributions paid	(58,583)	(55,647)	(44,122)	(48,610)
Imputation credits attaching to distributions reversed	-	43	-	43
Imputation credits utilised on trustee income	(1,094)	-	(1,094)	-
Excess imputation credits converted to losses	(1,021)	(27)	(1,021)	(27)
Other	(1,138)	1,533	-	-
Balance at end of the year	(27,520)	(23,562)	-	-
The imputation credits are available to shareholders of the parent:				
Through direct shareholding in Vector Limited	(32,306)	(25,233)	-	-
Through indirect shareholding in subsidiaries of Vector Limited	4,786	1,671	-	-
Total	(27,520)	(23,562)	-	-

Notes to the Financial Statements

for the year ended 30 June 2007

8. DEFERRED TAX

	NOTE	GROUP		PARENT	
		2007 \$000	2006 \$000	2007 \$000	2006 \$000
Balance at beginning of the year		482,117	468,086	-	-
On acquisition of NGC Holdings Limited	17	(2,176)	(39,287)	-	-
Increase on revaluation of property, plant and equipment		-	30,973	-	-
Prior period adjustment		1,493	2,096	-	-
Transfer to current tax		(2,488)	(965)	-	-
Decrease relating to change in company tax rate		(40,114)	-	-	-
On surplus for the year		18,702	21,214	-	-
Balance at end of the year		457,534	482,117	-	-

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

9. DIVIDENDS

	GROUP		PARENT	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
Distribution to beneficiaries	92,675	52,014	92,675	52,014
Dividends paid to minority interests of:				
Liquigas Limited	3,776	3,935	-	-
Vector Limited	31,125	14,940	-	-
Total	127,576	70,889	92,675	52,014

10. ASSET REVALUATION RESERVE

	GROUP		PARENT	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
Balance at beginning of the year	900,803	547,383	-	-
Revaluation of property, plant and equipment	-	470,599	-	-
Asset revaluation reserve	900,803	1,017,982	-	-
Revaluation reserve attributable to minority interests	-	(117,179)	-	-
Balance at end of the year	900,803	900,803	-	-

11. TRUSTEES ACCUMULATIONS

	NOTE	GROUP		PARENT	
		2007 \$000	2006 \$000	2007 \$000	2006 \$000
Balance at beginning of the year		543,838	387,143	306,537	305,377
Net surplus		75,199	253,439	92,697	97,904
Distributions to beneficiaries	9	(92,675)	(52,014)	(92,675)	(52,014)
Dividends received – available for distribution	28	(2,724)	(44,730)	(2,724)	(44,730)
Balance at end of the year		523,638	543,838	303,835	306,537

Notes to the Financial Statements

for the year ended 30 June 2007

12. MINORITY INTERESTS

	NOTE	GROUP		PARENT	
		2007 \$000	2006 \$000	2007 \$000	2006 \$000
Balance at beginning of the year		487,810	116,423	-	-
Minority interest on initial public offering of Vector Limited		-	366,177		
Decrease on completion of acquisition of NGC Holdings Limited	17	-	(109,313)	-	-
Share of operating surplus in subsidiary companies		29,342	16,043	-	-
Share of operating surplus in partnership		184	176	-	-
Share of movement in revaluation reserve		-	117,179		
Dividends paid to minority interests in subsidiary companies	9	(34,901)	(18,875)	-	-
Balance at end of the year		482,435	487,810	-	-

13. RECEIVABLES AND PREPAYMENTS

	GROUP		PARENT	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
Current				
Trade receivables	168,331	168,959	-	-
Provision for doubtful debts	(3,546)	(2,531)	-	-
	164,785	166,428	-	-
Prepayments	6,058	5,129	-	78
Other receivables	999	919	985	895
Total	171,842	172,476	985	973
Non-current				
Trade receivables	2,898	1,400	-	-
Other receivables	1,818	1,853	-	-
Total	4,716	3,253	-	-

14. GAS CONTRACTS AND PREPAID GAS

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

Maui Gas

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

Notes to the Financial Statements

for the year ended 30 June 2007

14. GAS CONTRACTS AND PREPAID GAS (CONTINUED)

Kapuni Gas

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

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

Pohokura Gas

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

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

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

Kahili Joint Venture

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

15. INVENTORIES

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

16. CAPITALISED FINANCE COSTS

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

Notes to the Financial Statements

for the year ended 30 June 2007

17. ACQUISITION OF SUBSIDIARY

On 14 December 2004 Vector Limited acquired a controlling 66.05% interest in NGC Holdings Limited, a company providing utility services in New Zealand and Australia. Subsequently, the carrying values of the assets and liabilities acquired were restated to provisional fair values prior to 30 June 2005.

On 10 August 2005, Vector Limited acquired the remaining shares in NGC Holdings Limited it did not already own. Vector has now completed a further assessment of the fair values of the assets and liabilities acquired, which has resulted in further adjustments being identified during the year ended 30 June 2006. Accordingly, the balance of goodwill and goodwill amortisation have been amended to reflect the impact of these fair value adjustments, applied at the original acquisition date of 14 December 2004.

Each acquisition was accounted for using the purchase method with the resulting goodwill amortised in accordance with the group's accounting policy.

The acquisitions had the following effect on the consolidated statement of financial position at each acquisition date.

	NOTE	GROUP 2007 \$000	GROUP 2006 \$000
Fair value of assets and liabilities acquired			
Property, plant and equipment		-	(55,948)
Payables, accruals and provisions		-	(12,152)
Deferred tax asset/(liability)	8	-	39,287
Prepaid gas		-	(4,200)
Net assets acquired			
Minority interest eliminated on further acquisition	12	-	109,313
Goodwill arising during the year	21	-	426,259
Consideration paid			
Less: non-cash consideration (shares issued)		-	(380,381)
Cash consideration paid			
Net cash impact of acquisition			
Cash consideration paid			
Cash paid for shares acquired		-	113,245
Professional fees incurred		-	189
Equity raising costs incurred		-	8,744
Total		-	122,178

Professional fees incurred during the initial acquisition of NGC Holdings Limited include \$0.1 million paid to the Vector Limited auditors, KPMG, and \$0.1 million paid to other auditors, PwC.

Notes to the Financial Statements

for the year ended 30 June 2007

18. INVESTMENTS

	NOTE	GROUP		PARENT	
		2007 \$000	2006 \$000	2007 \$000	2006 \$000
Non-current					
Investments in subsidiaries		-	-	300,000	300,000
Investments in associates	19	28,259	10,588	-	-
Other investments		-	7,226	-	-
Total		28,259	17,814	300,000	300,000

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

	PRINCIPAL ACTIVITY	PERCENTAGE HELD	
		2007	2006
Subsidiaries			
Vector Limited	Utility network provider	75.1%	75.1%
NGC Holdings Limited	Investment	75.1%	75.1%
- Vector Management Services Limited	Management services	75.1%	75.1%
- Vector Gas Limited	Natural gas sales, processing and transportation	75.1%	75.1%
- Vector Gas Contracts Limited	Natural gas sales	75.1%	75.1%
- Vector Gas Investments Limited	Investment	75.1%	75.1%
- Vector Kapuni Limited	Investment	75.1%	75.1%
- Liquigas Limited	LPG sales and distribution	45.1%	45.1%
- On Gas Limited	LPG purchases and sales	75.1%	75.1%
- NGC Metering Limited	Metering services	75.1%	75.1%
- Vector Metering Data Services Limited	Investment and contracting metering data services	75.1%	75.1%
- Vector Metering Data Services (Australia) Limited	Investment	75.1%	75.1%
- Elect Data Services (Australia) Pty Limited	Energy metering data management	75.1%	75.1%
Vector Communications Limited	Telecommunications network provider	75.1%	75.1%
Vector Stream Limited	Investment	75.1%	75.1%
- Stream Information Limited	Agent for partnership	52.6%	52.6%
- Stream Information (partnership)	Metering services	52.6%	52.6%

During the year, the following subsidiaries changed their name:

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

Notes to the Financial Statements

for the year ended 30 June 2007

18. INVESTMENTS (CONTINUED)

	PRINCIPAL ACTIVITY	PERCENTAGE HELD	
		2007	2006
Non-trading subsidiaries			
Auckland Generation Limited	Holding company	75.1%	75.1%
- MEL Silverstream Limited	Dormant	75.1%	75.1%
- MEL Network Limited	Holding company	75.1%	75.1%
- Mercury Geotherm Limited (in receivership)	Investment	75.1%	48.8%
- Poihipi Land Limited (in receivership)	Investment	75.1%	48.8%
Vector Power Limited	Dormant	75.1%	75.1%
Auckland Network Limited	Dormant	75.1%	75.1%
Energy North Limited	Dormant	75.1%	75.1%
UnitedNetworks Limited	Dormant	75.1%	75.1%
Salamanca Holdings Limited	Investment	56.3%	56.3%
- Pacific Energy Limited	Dormant	46.6%	46.6%
Broadband Services Limited	Dormant	75.1%	75.1%
UnitedNetworks Employee Share Schemes Trustee Limited	Trustee company	75.1%	75.1%
NGC Limited	Dormant	75.1%	75.1%
Associates			
Treescape Limited	Vegetation management	37.55%	37.6%
- Treescape Australasia Pty Limited	Vegetation management	37.55%	37.6%
Energy Intellect Limited	Metering services	18.8%	18.8%
NZ Windfarms Limited	Power generation	15%	-
Joint venture interests			
Kapuni Energy Joint Venture	Electricity generation	37.55%	37.6%
Other investments			
Wanganui Gas Limited	Gas distribution and retailing	-	18.8%

During the 2005 year, Vector Limited performed a share split to facilitate the offering of 24.9% of the total share capital of Vector Limited to persons other than the Auckland Energy Consumer Trust via its initial public offer. 249,000,000 additional ordinary shares were issued pursuant to that initial public offer.

The Trust now holds 751,000,000 ordinary shares in Vector Limited. At 30 June 2007, the market value of these shares was \$1,742,720,000.

The cost of investment in Vector Limited is \$300,000,000.

On 1 July 2005 NGC Limited was amalgamated into NGC Holdings Limited. On 10 August 2005, NGC Gas Networks Limited changed its name to NGC Limited.

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

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

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2007

19. INVESTMENT IN ASSOCIATES

	NOTE	GROUP		PARENT	
		2007 \$000	2006 \$000	2007 \$000	2006 \$000
Carrying amount of associates					
Carrying amount at beginning of the year		10,588	10,553	-	-
On further investment in existing associate		-	600	-	-
Purchase of investment in NZ Windfarms		17,015	-	-	-
Equity accounted earnings of associates	2	656	(365)	-	-
Dividends received from associates		-	(200)	-	-
Carrying amount at end of the year	18	28,259	10,588	-	-
Equity accounted earnings of associates					
Operating surplus/(loss) before income tax		979	(415)	-	-
Income tax (expense)/benefit		(323)	50	-	-
Net surplus/(deficit)		656	(365)	-	-
Total recognised revenues and expenses		656	(365)	-	-

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

20. INTEREST IN JOINT VENTURES

Kapuni Energy Joint Venture

The group has a 38% (30 June 2006: 38%) interest in a joint venture that owns a cogeneration plant producing electricity and steam in Kapuni, Taranaki. The group's interest in the joint venture is included in the consolidated financial statements under the classifications shown below.

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

Notes to the Financial Statements

for the year ended 30 June 2007

21. INTANGIBLE ASSETS

	NOTE	GROUP		PARENT	
		2007 \$000	2006 \$000	2007 \$000	2006 \$000
Goodwill					
Balance at beginning of the year		1,669,733	1,336,510	-	-
On acquisition of NGC Holdings Limited	17	(2,570)	426,259	-	-
On acquisition of other businesses		971	-	-	-
Amortisation in the financial year	4	(94,383)	(93,036)	-	-
Balance at end of the year		1,573,751	1,669,733	-	-
Gas entitlements					
Balance at beginning of the year		6,486	12,100	-	-
Amortisation in the financial year	4	(3,847)	(5,614)	-	-
Balance at end of the year		2,639	6,486	-	-
Total		1,576,390	1,676,219	-	-
Current					
Gas entitlements		2,639	3,793	-	-
Total		2,639	3,793	-	-
Non-current					
Goodwill		1,573,751	1,669,733	-	-
Gas entitlements		-	2,693	-	-
Total		1,573,751	1,672,426	-	-

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

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2007

22. PROPERTY, PLANT AND EQUIPMENT

GROUP 2007	COST / VALUATION \$000	ACCUMULATED DEPRECIATION \$000	NET BOOK VALUE \$000
Distribution systems	3,399,870	(161,651)	3,238,219
Distribution land	76,660	-	76,660
Distribution buildings	44,659	(1,659)	43,000
Electricity and gas meters	174,649	(25,602)	149,047
Generation power stations and equipment	10,334	(3,085)	7,249
Computer and telecommunications equipment	164,423	(72,718)	91,705
Motor vehicles and mobile equipment	6,818	(2,299)	4,519
Other plant and equipment	78,101	(12,926)	65,175
Freehold land	15,441	-	15,441
Buildings	7,889	(1,119)	6,770
Leasehold improvements	11,673	(3,611)	8,062
Capital work in progress	163,600	-	163,600
Total	4,154,117	(284,670)	3,869,447

GROUP 2006	COST / VALUATION \$000	ACCUMULATED DEPRECIATION \$000	NET BOOK VALUE \$000
Distribution systems	3,268,219	(56,345)	3,211,874
Distribution land	74,755	-	74,755
Distribution buildings	39,415	(444)	38,971
Electricity and gas meters	159,725	(16,038)	143,687
Generation power stations and equipment	8,950	(1,748)	7,202
Computer and telecommunications equipment	107,259	(55,645)	51,614
Motor vehicles and mobile equipment	4,954	(1,373)	3,581
Other plant and equipment	67,786	(8,167)	59,619
Freehold land	16,169	-	16,169
Buildings	11,650	(828)	10,822
Leasehold improvements	5,182	(3,099)	2,083
Capital work in progress	146,803	-	146,803
Total	3,910,867	(143,687)	3,767,180

PARENT 2007	COST / VALUATION \$000	ACCUMULATED DEPRECIATION \$000	NET BOOK VALUE \$000
Other plant and equipment	44	(24)	20
Total	44	(24)	20

Notes to the Financial Statements

for the year ended 30 June 2007

22. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

PARENT 2006	COST / VALUATION \$000	ACCUMULATED DEPRECIATION \$000	NET BOOK VALUE \$000
Other plant and equipment	39	(25)	14
Total	39	(25)	14

Distribution systems assets acquired as a result of Vector Limited's acquisition of NGC Holdings Limited on 14 December 2004 were restated to reflect their fair value at that date. During 2006, the electricity and Auckland gas distribution assets were revalued as at 31 March 2006 to \$2,722.8 million consistent with the group's accounting policy to revalue property, plant and equipment at least every three years. The basis of this valuation is the lesser of depreciated replacement cost and the estimated amount from the future use of these distribution assets. This valuation was undertaken in conjunction with the following parties:

NAME	FIRM	QUALIFICATION
Eric Lucas	PricewaterhouseCoopers	CA; BA (Hons)
Lynne Taylor	PricewaterhouseCoopers	BSoc.Sci (Hons) Economics
Trevor Walker	Telfer Young Ltd	Dip Val; ANZIV; SNZPI; Registered Valuer
Jeffrey Wilson	Wilson Cook & Co Ltd	ME; BCom; CEng; FIEE; FIPENZ; MIEEE

As indicated in the accounting policies, interest and other costs are capitalised to property, plant and equipment while under construction. During the year \$30.3 million (year ended 30 June 2006: \$9.5 million) of interest and other costs were capitalised. Property, plant and equipment subject to finance lease arrangements are included in electricity meters, motor vehicles and mobile equipment and distribution systems at net book values of \$4.9 million (30 June 2006: \$4.5 million) and, \$0.3 million (30 June 2006: \$nil) and \$1.8 million (30 June 2006: \$1.9 million) respectively.

23. PAYABLES AND ACCRUALS

NOTE	GROUP		PARENT	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
Current				
Trade payables and other creditors	169,344	132,000	495	244
Gas advance	-	17,075	-	-
Deferred consideration payable	986	967	-	-
Provision for employee entitlements	24	7,186	-	-
Provision for onerous contracts	25	-	-	-
Other provisions	26	12,570	-	-
Mark to market adjustment		596	-	-
Interest payable		35,715	-	-
Provision for unclaimed distributions	27	2,651	2,651	146
Total	229,048	211,563	3,146	390
Non-current				
Deferred consideration payable	3,022	4,166	-	-
Mark to market adjustment	289	2,042	-	-
Other non-current payables	4,479	2,562	-	-
Total	7,790	8,770	-	-

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

Notes to the Financial Statements

for the year ended 30 June 2007

24. PROVISION FOR EMPLOYEE ENTITLEMENTS

	GROUP		PARENT	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
Balance at beginning of the year	8,371	8,418	-	-
(Utilised)/additions	(1,185)	(47)	-	-
Balance at end of the year	7,186	8,371	-	-

25. PROVISION FOR ONEROUS CONTRACTS

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

26. OTHER PROVISIONS

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

Other provisions include provisions for various commercial matters expected to be settled during the next two financial years but which could require settlement at any time.

The group acquisition of NGC Holdings Limited on 10 August 2005. During the year, the carrying value of provisions acquired has been adjusted to reflect their fair value at 10 August 2005. The total impact on the carrying value of other provisions is \$1.5 million (\$1.0 million net of tax).

27. PROVISION FOR UNCLAIMED DIVIDENDS

	GROUP		PARENT	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
Balance at beginning of the year	146	591	146	591
Additions	24,941	132	24,941	132
Reversed	(22,436)	(577)	(22,436)	(577)
Balance at end of the year	2,651	146	2,651	146

28. DIVIDEND RECEIVED – AVAILABLE FOR DISTRIBUTION

In accordance with the Trust Deed of the parent, dividends received from Vector Limited are to be distributed to beneficiaries after allowing for the costs of administering the parent. The distribution of this income can only be determined when the distribution roll is prepared, and it is this roll which identifies the beneficiaries to whom the income of the trust is to be distributed. As at the 30 June 2007 no distribution roll had been struck to determine the allocation of this income to the beneficiaries.

Notes to the Financial Statements

for the year ended 30 June 2007

29. COMMITMENTS

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

	GROUP		PARENT	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
Capital expenditure commitments				
Estimated capital expenditure contracted for at balance date but not provided	48,421	49,443	-	-
Operating lease commitments				
Within one year	4,314	4,528	-	-
One to two years	3,583	4,021	-	-
Two to five years	6,281	9,326	-	-
Beyond five years	1,756	3,578	-	-
Total	15,934	21,453	-	-

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

30. BORROWINGS

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

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

Notes to the Financial Statements

for the year ended 30 June 2007

30. BORROWINGS (CONTINUED)

The parent has no borrowings.

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

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

Medium term notes - fixed rate NZ\$ mature April 2007 and are shown at the value of proceeds received after deducting the discount on issue of \$1.7 million and adjusting for the amount amortised to 30 June 2006 of \$1.5 million. The interest on NZ\$ medium term notes is fixed at 6.5% per annum and is paid semi-annually.

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

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

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

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2007

31. FINANCIAL INSTRUMENTS

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

INTEREST RATE RISK

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

The weighted average interest rates of borrowings are as follows.

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

The parent has no borrowings.

Notes to the Financial Statements

for the year ended 30 June 2007

31. FINANCIAL INSTRUMENTS (CONTINUED)

INTEREST RATE RISK (CONTINUED)

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

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

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

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

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

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

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

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2007

31. FINANCIAL INSTRUMENTS (CONTINUED)

FOREIGN EXCHANGE RISK

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

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

The outstanding forward exchange contracts are as follows:

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

CREDIT RISK

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

As part of these policies, the Vector group of companies 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 of Vector Limited 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 Vector group of companies does not anticipate non-performance by any of these financial institutions.

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

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

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

	GROUP		PARENT	
	2007 CARRYING AMOUNT \$000	2006 CARRYING AMOUNT \$000	2007 CARRYING AMOUNT \$000	2006 CARRYING AMOUNT \$000
Cash and bank overdraft	7,133	9,600	125	93
Trade receivables	167,683	167,828	-	-
Interest rate swaps	2,644	643	-	-
Cross currency swaps	4,407	7,895	-	-
Short term deposits	53,305	50,426	53,305	50,426

Notes to the Financial Statements

for the year ended 30 June 2007

31. FINANCIAL INSTRUMENTS (CONTINUED)

FAIR VALUES

	GROUP 2007		GROUP 2006	
	CARRYING AMOUNT \$000	FAIR VALUE \$000	CARRYING AMOUNT \$000	FAIR VALUE \$000
Financial assets				
Short term deposits	53,305	53,305	50,426	50,426
Cash and bank overdraft	7,133	7,133	9,600	9,600
Trade receivables	167,683	167,683	167,828	167,828
Financial liabilities				
Trade payables and other creditors	169,344	169,344	132,000	132,000
Bank loans	398,417	398,417	367,819	367,819
Working capital loan	40,018	40,018	27,006	27,006
Medium term notes – fixed rate NZ\$	-	-	202,910	201,731
Medium term notes – floating rate A\$	577,624	523,104	576,627	582,808
Capital bonds	310,439	300,257	308,313	308,222
Fixed interest rate bonds	201,364	196,175	200,999	199,657
Private placement senior notes	425,192	361,802	425,192	456,716
NZ floating rate notes	1,219,222	1,219,222	1,014,221	1,014,221
Other	4,577	5,101	4,316	3,195
Financial derivative liabilities/(assets)				
Interest rate swaps	(2,644)	(67,312)	3,059	2,731
Interest rate caps	2,112	(4,345)	-	-
Cross currency swaps	(1,730)	143,725	(7,895)	(10,991)
Forward exchange contracts	2,359	224	-	-
	PARENT 2007		PARENT 2006	
	CARRYING AMOUNT \$000	FAIR VALUE \$000	CARRYING AMOUNT \$000	FAIR VALUE \$000
Financial assets				
Cash and bank overdraft	125	125	93	93
Short term deposits	53,305	53,305	50,426	50,426
Financial liabilities				
Trade payables and other creditors	495	495	244	244

Notes to the Financial Statements

for the year ended 30 June 2007

31. FINANCIAL INSTRUMENTS (CONTINUED)

FAIR VALUES (CONTINUED)

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

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

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

Medium term notes and floating rate notes

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

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

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

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

Capital bonds

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

The carrying amount includes the principal and interest accrued.

Fixed interest rate bonds

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

The carrying amount includes the principal and interest accrued.

Private placement senior notes

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

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

NZ floating rate notes

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

Derivative instruments

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

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

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

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

LIQUIDITY RISK

Liquidity risk is the risk that the group and parent 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.

Notes to the Financial Statements

for the year ended 30 June 2007

32. CONTINGENT LIABILITIES

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

33. TRANSACTIONS WITH RELATED PARTIES

During the year the parent engaged in the following transactions with Vector Limited. The parent is the majority shareholder of Vector Limited.

	PARENT	
	2007 \$000	2006 \$000
Receipt of dividend from Vector Limited	93,875	98,660
Payment of office rent to Vector Limited	17	17

Note 17 identifies all group entities including associates and partnerships in which the group has an interest. All of these entities are related parties of the parent. Other than the directors themselves, there are no additional related parties with whom material transactions have taken place.

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

	GROUP		PARENT	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
Purchase of vegetation management services from Treescape Limited	8,226	8,414	-	-
Purchase of electricity meters and metering services from Energy Intellect Limited	2,761	297	-	-
Income from sale of natural gas to Wanganui Gas Limited (to 30 October 2006)	4,526	7,723	-	-

No related party debts have been written off or forgiven during the period. All transactions for subsidiary company Mercury Geotherm Limited, which is in receivership, are funded by the Vector Limited. Advances to subsidiaries are at arms length and may be subject to compounding interest at various rates.

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

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

The group has paid the following remuneration to the trustees and to the directors of Vector Limited during the period as follows:

	NOTE	GROUP		PARENT	
		2007 \$000	2006 \$000	2007 \$000	2006 \$000
Trustees and Directors Remuneration					
W Kyd	3	81	77	81	71
S Chambers *	3	122	68	38	62
M Buczkowski	3	58	43	58	43
J Collinge (part year)	3	15	42	15	42
K Sherry *	3	114	61	30	54
J Carmichael (part year)		35	-	35	-
Directors fees paid to non-trustee directors of Vector Limited	3	591	764	-	-
Total		1,016	1,055	257	272

* As of 25 July 2006, S Chambers and K Sherry have been directors of Vector Limited and trustees of Auckland Energy Consumer Trust. During the year, they received Directors fees from Vector Limited and return to Auckland Energy Consumer Trust an amount equal to 25% of their annual Directors fee. While it is reflected in the financial statements as a reduction in Trustees Remuneration, it is actually a return of the Directors fee.

34. EVENTS AFTER BALANCE DATE

On 15 August 2007, the board of directors of Vector Limited declared a final dividend for the year ended 30 June 2007 of 6.5 cents per share.

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

Notes to the Financial Statements

for the year ended 30 June 2007

35. INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

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

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

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

TRANSITION MANAGEMENT

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

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

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

IMPACTS ON TRANSITION TO NZ IFRS

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

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2007

35. INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

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

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

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

	REF	TOTAL EQUITY	GROUP 2006 \$000 TOTAL LIABILITIES	TOTAL ASSETS
Total reported under NZ GAAP		1,932,451	3,837,794	5,770,245
NZ IFRS adjustments:				
Balance sheet basis for deferred tax	1	(170,277)	160,597	(9,680)
Recognise fair value of derivative financial instruments	2	941	8,260	9,201
Restate financial instruments to amortised cost	3	2,535	(32,465)	(29,930)
Restate accruals for financial instruments	4	-	15,095	15,095
Reverse mark to market adjustment of the swap book	5	3,702	(3,702)	-
Adjust items not qualifying for hedge accounting	6	1,537	(1,537)	-
Total NZ IFRS adjustments on transition		(161,562)	146,248	(15,314)
Restated totals under NZ IFRS at 1 July 2006		1,770,899	3,984,042	5,754,931

SIGNIFICANT CHANGES IN ACCOUNTING POLICIES ON TRANSITION TO NZ IFRS

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

Deferred tax

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

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

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

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

Financial instruments

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

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

Notes to the Financial Statements

for the year ended 30 June 2007

35. INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Financial instruments (continued)

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

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

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

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

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

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

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

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

Goodwill

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

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

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

Property, plant and equipment

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

Other intangible assets

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

Notes to the Financial Statements

for the year ended 30 June 2007

35. INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

EXEMPTIONS TAKEN ON TRANSITION TO NZ IFRS

Property, plant and equipment

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

Remeasurement of business combinations

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

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

Designation of financial instruments

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

36. GUIDELINES OF ACCESS TO INFORMATION

We wish to advise that, pursuant to paragraph 10.2 of the Guidelines of Access to Information by Beneficiaries of Electricity Community and Consumer Trusts, two requests for information were received by the trust office during the reporting period.

No. of requests received	Costs incurred to process those requests and any recoveries made (includes external costs incurred and an allocation of internal costs based on Official Information Act guidelines)	No. of Trust decisions which were subject to review	Summary of outcome of those reviews and costs incurred in reviews
2	\$2,822	Nil	NA