



CONNECTING WITH OUR

CUSTOMERS

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"Historically, distribution companies have been asset and engineering driven, but there is a clear need in the 21st century to see all daily operating issues and future initiatives from a customer perspective."

PATRICK STRANGE, CHIEF EXECUTIVE



FACTS ABOUT VECTOR

- VECTOR is an infrastructure operator, focused on its core business of electricity distribution. It also owns a fibre optic cabling network, providing connections to Auckland businesses
- VECTOR is the second largest electricity distribution business in New Zealand
- The company's service territory is the fastest growing of all network businesses in New Zealand
- The company has nearly 270,000 customers and over \$1 billion in assets
- VECTOR has a total of 8,711 kilometres of sub-transmission cables and distribution lines
- The company obtains its bulk supply of electricity from the national grid, Transpower, and is the only New Zealand network to use 110 kV high-voltage cable in its system
- One hundred per cent of its subtransmission and 63 per cent of the distribution system is underground, a relatively high proportion by national standards.



HIGHLIGHTS

- Net profit after tax of \$72 million
- Dividend of \$48 million
- 40 year overhead improvement and undergrounding programme established
- Record low customer disruption figures
- Further reduced operating cost per customer
- Completion of largest-ever capital works project
- Diversification to utilise fibre optic cabling network

"VECTOR operates with a conservative balance sheet and is in a very strong financial position."

Chairman's Report **The Power to Build**

VECTOR has successfully completed a year focused on a continued search for higher levels of reliability, quality of supply and customer service. Milestones included record low customer interruption figures, completion of our largest ever capital works programme culminating in living of the tunnel cables, and the start up of Tangent, our wholly owned high bandwidth telecommunication company using our fibre optic network.

While the company still has further to go to reach optimal results, it can now go forward from a much sounder base.

Financially, the past year has seen VECTOR advance significantly. The company achieved solid profitability off a very strong balance sheet.

This has been recognised by improved credit ratings from Standard & Poor's, which in December, 2000 re-rated the company's financial status long-term to AA- with stable outlook, a very satisfying improvement from the A+ rating of 1998.

OPERATING RESULT

VECTOR attained another solid result, recording a net profit after tax of \$72 million for the year ended 31 March, 2001. This is ahead of target, and although a 23 per cent decrease on the previous year, the change is due entirely to higher one-off, non-recurring items that year. The operating surplus before income tax was \$98 million, compared with \$112 million the previous year.

The core electricity lines business contribution to operating profit increased, as costs continued to reduce. This reduction has been achieved over a period in which the company's system reliability and service has been lifted, and prices have fallen in real terms.

One-off items continued to lift profits in 2001. Future net profit expectations are likely to be closer to \$50 million as a result.

Total revenue was \$229 million, an increase of \$9 million for the continuing lines business.

The growth in large part came from new connections. The previous year's revenue, \$313 million, included revenue from now divested generation assets.

FINANCIAL POSITION

VECTOR operates with a conservative balance sheet and is in a very strong financial position. The company is low-g geared compared to similar businesses with debt at 16 per cent. This is considered prudent as the company is not able to access capital markets in the same way that listed companies can.

Group total assets at the end of March 2001 stood at \$1,009 million, up from \$985 million at the end of the previous year. The valuation of the network has been updated and stands at \$881 million.

The company's revenue base remains well-diversified, with nearly 40 per cent of the energy distributed going to residential customers, and the remainder to a mix of commercial and industrial users. The company has one of the highest customer-density figures in New Zealand and the customer base is growing as Auckland expands. Network-wide, the average growth in new connections is 2 per cent: however, in some areas it is as high as 7 per cent, reflecting both urban infill and urban sprawl.

There will be ongoing capital requirements to meet this growth, and to reinforce and renew the existing network, elements of which are now over 70 years old. However, the company is very well positioned to deal with this.

THE NETWORK

VECTOR has now completed the Inner Auckland power supply upgrade programme. While the main focus of this project has been the Central Business District and surrounding inner suburbs, there will be wider benefits, through better

back-up and load-spreading. These benefits include support for northern North Island transmission grid security. The key Penrose to CBD supply tunnel was commissioned late in the year. This enables the last visible vestiges of the 1998 CBD power crisis, the temporary overhead link from the national grid, to be dismantled.

Inner Auckland now has a power supply that is equal to if not better than most major international cities.

This project is the largest element of a major capital reinvestment programme directed at the network's transmission and subtransmission system over the last three years. Coming over 20 years after the last significant investment, it places VECTOR in good stead for the new century.

CUSTOMER SERVICE

Our relationship to our customers is vital. VECTOR has been concerned that the interposed model adopted elsewhere, where all customer interface is via a number of electricity retailers, is not the most effective long-term arrangement for the customer. The extensive problems experienced with retail customer interface following the 1998 Electricity Industry Reform Act in New Zealand gives substance to this concern. VECTOR has thus set itself apart from most lines businesses by retaining contracts with and direct accountability for service to its nearly 270,000 customers. To enhance this, VECTOR is now implementing a system that will link all of its customer information and service activities, so that it can rapidly and efficiently respond to customer inquiries and needs.

The Board takes particular note of the dramatic improvement in VECTOR's reliability and health and safety performance in the last two years, and commends VECTOR and contractor frontline teams for this achievement. But there is still more to be done, and we will set strategies for continuous improvement.

COMPANY ADVANCEMENT

VECTOR last year established a subsidiary, Tangent, to create value for our shareholders and customers using our existing state of the art communication network. In recent years, VECTOR has installed ducting along with power cables. Fibre optic capacity is now being interconnected and incorporated into an augmented network providing for the next generation needs of customers. Tangent is leading New Zealand electricity distribution companies in this field, and has established itself as a telecommunications network provider in Auckland with an expanding base of high-use customers. The Board has also agreed with the shareholder, the Auckland Energy Consumer Trust (AECT), to establish a 40 year programme for our existing overhead distribution lines, a major part of which will be undergrounding. Approximately \$10 million will be allocated this year towards funding this programme.

DIVIDENDS

The company pays an annual dividend each year to the AECT, subject to operating and investment requirements. The Trust then decides how this will be distributed to customers. In line with this policy, a dividend of \$48 million will be paid to the Trust for the financial year ended March 2001.

GOVERNANCE

Following AECT elections late last year, a largely new trust is now in place. The board and senior management have conducted initial briefings with new trustees, and I am pleased to report that a sound rapport is developing. The company is monitoring the Government's response to last year's inquiry into the electricity industry. We do not expect to be adversely impacted financially by the consequent regulatory environment, but the Directors remain concerned that the gains companies such as VECTOR have achieved in customer service are not undermined.

Following the successful closure of outstanding legal actions over the past year, litigation involving the company is at its lowest level for a decade. This included settlement of a long-running dispute with Transpower, and the close co-operation which has emerged between the two companies is very pleasing.

THE COMMUNITY

The company completed a year with another clean record on environmental compliance, reflecting continued focus on proactive environmental management.

CONTRIBUTIONS

The Board wishes to thank VECTOR's senior management, staff and contractors for their achievements this year. In particular, congratulations are due for the successful commissioning of the Inner Auckland reinforcement project, which was of a size and complexity never before faced by a New Zealand distribution network.

VECTOR has a well balanced board of experienced directors well suited to the needs of the company. Directors' skills cover the fields of electrical engineering, civil and telecommunication engineering, finance, law and infrastructure management.

I would like to acknowledge the contributions of John Wells (Bancorp Chairman), who chaired the Audit Committee, Doug Dell (a very experienced electrical engineer), who chaired the Risk Management Committee, and John Lindsay and Peter Drummond (both experienced infrastructure managers and directors), whose contributions complimented my own experience in civil engineering and business development.



WAYNE BROWN, CHAIRMAN



Operating Reliability





TAKING THE DRAMA OUT OF MIDDLEMORE

Talk about Middlemore Hospital today and more than likely images from the New Zealand reality television series of the same name are evoked.

Unlike the globally-viewed series "ER", Middlemore was real-life drama, filmed as it happened. The stars were ordinary doctors and nurses.

It opened New Zealanders' eyes to what really goes on in the emergency rooms and operating theatres as accident victims are wheeled in. It also highlighted the vital importance of avoiding delays and setbacks.

Power supply failure at critical moments is clearly a danger emergency room doctors don't need. In the first instance, they can usually rely on an emergency generator to cut in – but this is not fail-proof. So it is imperative that we can restore supply very fast.

Reliability



Now VECTOR has installed automated switchgear which will ensure that Middlemore is not left with generator-only supply for any length of time in the unlikely event of an outage.

Middlemore can now be supplied by either one of two VECTOR zone substations – Hans to the North, or Mangere Central to the south.

If power goes off due to a fault between the substation and Middlemore, VECTOR operators are immediately alerted by a computer screen at our 24-hour system control in Newmarket – automation then allows them to flick a remote control to switch the feed to the other substation. All other things being equal, this is all completed well within two minutes.

That's a dramatic improvement on waiting for a service vehicle to travel to the area to carry out a manual switchover.

Flicking a remote control may not be as dramatic as a service vehicle racing through a dark, wet night, but this is reality, not ER.

Immediate response times are also important to companies and their manufacturing processes. At Nesdale Avenue in Wiri – home to a string of businesses, including Nestle New Zealand, Kiwi Packaging and Polarland – two feeder lines converge at the top of the street. Now, if one feeder faults between Nesdale Avenue and a substation, smart switching gear automatically selects the feeder that is still transmitting – all within 10 seconds.

Premier service, no drama.

“VECTOR has an underlying ethos of reaching further and knows there is much to be done...”

Chief Executive's Review **Reaching Further**

VECTOR has made further progress in its second year as a pure distribution network company. The strong, ahead-of-target financial outcomes, covered in the Chairman's report, have been achieved with prices continuing to be held flat. Our residential rates remain the lowest of New Zealand's major centres.

To maintain this will demand superior asset management. The company's performance in these areas is starting to reflect the importance we have placed on it, particularly through innovative application of technology and automation.

However, VECTOR is much more than an asset manager – it is a service company which must provide customers with accessibility, accountability, responsiveness and clear information. Concentrated effort has gone into all of these areas and we have lifted our game considerably, as shown in the tangible measures summarised below.

However, VECTOR has an underlying ethos of reaching further and knows there is much to be done before we can claim to have reached our goal of being a premier infrastructure operator.

IMPROVING CUSTOMER SERVICE

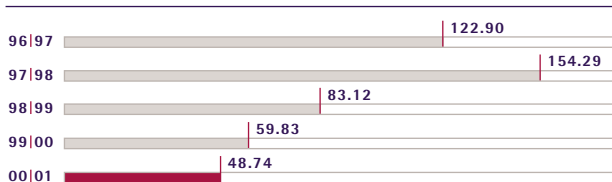
Historically, distribution companies have been asset and engineering-driven, but there is a clear need in the 21st century to see all daily operating issues and future initiatives from a customer perspective.

In this respect, it is pleasing to report that:

- Reliability has again improved, with the system average interruption duration index (SAIDI) brought below 50 minutes – a further improvement on last year's record low 59 minutes.
- For high voltage faults system-wide, we restored 98 per cent of customers' supply within three hours – and over 95 per cent within two hours – reflecting a switch in focus from the engineering approach (repair) to the customer approach (restore, then repair).
- Call-centre performance was excellent, with more than 82 per cent of calls answered within 20 seconds – VECTOR is distinctive in having a direct faults call-centre, and we believe our customers are receiving superior faults response as a result.
- Independent surveys show that customer satisfaction with our field staff has lifted further – VECTOR's service people are now clearly branded in the field, a 1999 initiative to improve accountability.
- A special health and safety programme has seen a dramatic reduction in lost time injury frequency rate (LTIFR) – the year was completed with five successive months with no lost time injuries.
- VECTOR moved quickly and smoothly to lead lines companies in offering a 90 percent variable charge to residential customers.

SAIDI*

minutes



*(System Average Interruption Duration Index – the industry network reliability measure)

Enhanced Infrastructure





UPGRADE PASSES WITH FLYING COLOURS

Switching over to the upgraded Inner Auckland power system has required all the preparation, precision and assuredness of a chess master at play against the time clock.

There was no “big bang” transformation from the old to the new. Switchover and testing of the cabling, substation equipment and state-of-the-art protection and control systems has been a long and exacting task. The step-by-step moves have had to be carried out with great care. Like chess, each step was irreversible and had to be accomplished correctly the first time round: there was no second chance.

And now that the new system has passed its tests, the line that has kept the central city in business since 1998, the temporary overhead link, is being taken away. In its place is a network that is very much stronger and more durable than ever before.

The multi-year project to replace the old with the new has cost nearly \$200 million and the end result is an enhanced electricity infrastructure that can support the new century's growth. It will not only cope with rising demand but provide more flexibility for both Inner Auckland and other suburbs, through enhanced interconnections, while upgrading northern North Island transmission security.

Futureproofing

While the best-known feature of the new system is the 3-metre diameter, 9.2-kilometre long tunnel running under the Southern Motorway and city streets from Transpower's national grid substation at Penrose to the CBD, the upgrade project comprised a number of vital components, including:

- The tunnel-carried supply, comprising two 110,000 volt circuits, each circuit consisting of three 110mm diameter cables
- A new 110,000 volt cable trench-laid from the national grid substation at Mt Roskill to the CBD
- New 22,000 volt links around the inner city area
- A new 33,000 volt link laid in the tunnel to reinforce supply to Newmarket
- New high-voltage substations at Hobson Street and Liverpool Street
- Other extensive substation upgrading, including modern, new transformers and latest technology switchgear.

The whole programme has been VECTOR's largest-ever capital works scheme.

The tunnel alone was huge. Construction began in May 1997, with a roadheader working south from the CBD waterfront and a specialist tunnel boring machine – twice the length of a rugby field – driving north from Penrose. Holethrough – when the two met, within millimetres of exact alignment – occurred 100 metres below Khyber Pass in January 2000.

After breakthrough, the earth and rock walls of the tunnel were lined with concrete and grouted, and tunnel ventilation, fire protection and communications equipment were installed. In addition, tracks were laid for the custom-built, rail-mounted vehicle that will carry maintenance teams along the tunnel.

The laying of the cables themselves on stainless steel racks was a demanding task. Each cable has an aluminium conductor surrounded by cross-linked polyethylene insulation and an outer sheath of corrugated stainless steel, coated with a layer of high-density polyethylene for mechanical and corrosion protection. Not surprisingly, each 1300-metre drum of cable weighed a hefty 25 tonnes – not forgetting that there are two circuits, each comprising three cables.

Further protecting this major artery is a safety and security system that includes huge concrete lids weighing 25 tonnes at each access shaft, and special security doors.

The demanding testing and switching phase for the total reinforcement project took the best part of three months – a small wait given the new life the upgrade programme has brought to Auckland's infrastructure. And it was achieved without so much as a minute of customer interruption.

Finally, we have launched a dedicated Key Account Manager programme for our large customers, reflecting their special requirements as the country's major manufacturers and service companies. This is already lifting performance, particularly in understanding and responding to power quality issues. Not all our initiatives have started smoothly. The LineCare service introduced in mid-year has been a major success in streamlining fault response. However, we drew a negative response to its initial pricing, which we addressed.

NETWORK UPGRADING

Ultimately, the standard of service we can offer will be limited by the quality and condition of the network.

We have continued to focus on using smarts and technology to lift the performance and utilisation of our existing assets. The Onehunga and Kawakawa Bay automated switching solutions are now well-advanced: both use innovative approaches to avoid the need for the multi-million dollar capital programmes which traditional methodology would have dictated. Similarly, state-of-the-art programmes for real-time monitoring of assets, and probabilistic design techniques, are bearing fruit.

But with elements of the network being now over 70 years old, some capital reinvestment is necessary. As the Chairman notes, we are completing a major renewal and reinforcement of our transmission and subtransmission system, which will support the region's needs for years to come.

Our investigations show we also need to perform significant asset renewal in the low voltage system over the next three to five years, if we are to achieve the performance our customers require. This will include targeted replacement of underperforming equipment, which can number in the tens of thousands. A huge difficulty is that insufficient records were kept historically to either locate them or to analyse their performance: this we are overcoming.

Our first three major low voltage improvement programmes will start early in the new financial year.

THE WAY AHEAD

The network challenges ahead include:

- More investment in customer service areas, including linking the company's geographical information system (GIS) with the computerised customer management system and a new SCADA control and distribution management system.
- Continued refinement of our network and asset modeling and monitoring, to enhance performance and refine risk management.
- More automated switching to boost the company's ability to get the power back on more quickly and, with a focus on demand-side management and conservation, to lift our asset utilisation.
- Implementing differentiated services at differentiated pricing to meet the needs of individual customers.

To achieve this, we will continue to invest heavily in upskilling staff, including both training and participation in international distribution technology forums.

INDUSTRY ENVIRONMENT

The restructuring imposed on the electricity industry by the 1998 legislation has led to dislocations and difficulties, and set back customer service. The legislation now being mooted has been more considered, but we must ensure we do not revert to centrally mandated performance and pricing structures – a one size fits all approach.

This would be fundamentally flawed.

Any requirement that seeks to impose a uniform service standard misses the point that distribution businesses must provide levels of reliability, quality and response scaled to fit differing consumer needs at differing prices.

VECTOR is not against guaranteeing service levels – in fact, we lead in doing this – but it understands that one standard does not fit all needs.

We also believe the appropriate point of customer interface for service must be the distribution company and welcome the recognition this is beginning to get across the country. The distribution company has the

Safe Practice





BIG BENEFITS FROM SAFETY FOCUS

Our front-line VECTOR teams have a dangerous job. High voltage, trenches, working at night, at height, underground, in traffic and in all weather.

With these working conditions, it's essential that VECTOR places a huge emphasis on safety.

Not only for our staff, contractors and sub-contractors, but also for the community. By protecting ourselves and our equipment, we're also making the environment in which our customers work and live safer. But our focus goes beyond keeping people from harm. Safety is all about systems, training and worksite planning. Ultimately, these are the same disciplines that deliver quality, reliability and productivity, and the benefits flow-on to better pricing and service levels for our customers.

Responsibility



Over the past two years, VECTOR has made a major push toward transforming our safety record. It's been a gratifying success thus far, with the company now ranking with the best of the Australian network companies. And our performance has lifted with it.

As recently as 1996, our employees and contractors suffered 80 lost time injuries, at a rate of 6.6 per month. This means that for every one million hours worked, 80 accidents were severe enough to stop the worker from resuming duties within 24 hours. This compares to the final five months of 2001, when not one lost time injury was reported – proof of our markedly improved safety performance.

But we're not satisfied. We want to lift our performance to that attained by top manufacturing companies in the world.

Part of our strategy is about making our assets safer, with several multi-million dollar replacement programmes completed or planned. But more, it's about our people, their training and attitude.

We take a zero-tolerance attitude to accidents and Aucklanders can help. Next time you see one of our VECTOR crew working urgently on a wet city street to restore power to customers, they'll be wearing high visibility safety gear and being as careful as they can, but they're still vulnerable. So please slow down and watch out for them.

And while our customers aren't working with high-voltage equipment, there's still plenty to learn from our experience. On our website (www.vector-network.co.nz), we've got safety tips for work and home.

physical connection with customers and controls almost all the quality and service issues. And in times where customers frequently switch energy retailers, the electricity distribution company has a more permanent relationship with consumers.

DEVELOPMENT

We have been prudent to date, and will remain so, investing only where our competencies or systems allow us to create value. However, it is pleasing to note:

- Our successful launch during the year of Tangent, our next generation telecommunications network owner; and
- The pending incorporation of Stream Information Limited, a joint venture (in which VECTOR holds a 70 per cent interest) providing independent metering, measurement and information services to time-of-use customers nationally.

There are other opportunities opening for VECTOR, as the new industry structure emerges. Customers are seeking enhanced services which we are well-positioned to provide; also many of New Zealand's lines companies do not have the scale or the systems to provide the service which will be demanded of them, and this is an opportunity.

THE VECTOR TEAM

Our key to continued development is our people. I would like to record my congratulations to the wider VECTOR team – our staff and those of our contractors – on their achievements in the year under review.

We have significant challenges ahead, but I am confident they have the drive and competency to understand and meet the needs of the cosmopolitan customer base we serve.



PATRICK STRANGE, CHIEF EXECUTIVE



Board of Directors

WAYNE BROWN

Consulting engineer. Chairman of Northland Health Limited, Tairāwhiti Health Limited, and the Land Transport Safety Authority, and Director of Festival Films Limited, Ngāpuhi Fisheries Limited, and a number of private companies in the property, engineering and environmental fields.

DOUG DELL

Electrical engineer and a partner in an engineering consultancy. Has held a number of senior positions in ECNZ and its predecessor, the NZED. Advises various New Zealand lines companies.

JOHN WELLS

Merchant Banker. Chairman of Bancorp Holdings Limited and the recently formed Crown Agency for Recreation and Sport. Director of Alliance Group Holdings Pty Limited, Baycorp Holdings Limited, Fisher Funds Management Limited, and a number of other companies. Governor and Executive Board Member of New Zealand Sports Foundation.

PETER DRUMMOND

Chairman of Watercare Services Limited, Northern Disposal Systems Limited, Enviro Waste Services Limited, Appliance Connexion Limited and DF Mainland and Company Limited. Director of several other companies and Vice President of Variety Club International (New York). Extensive international management and marketing experience.

JOHN LINDSAY

Past Managing Director of Enerco New Zealand Limited. Director of Ports of Auckland Limited, Cerebos Greggs Limited, Milburn New Zealand Limited, and several other companies in New Zealand and Australia. Legal background, with extensive experience internationally in manufacturing, infrastructure and service companies.

SENIOR MANAGEMENT

Patrick Strange – Chief Executive

Peter Brown – General Manager Corporate Development

Maxine Elliott – General Manager Commercial

Mike Fajdiga – General Manager Service Delivery

Simon MacKenzie – General Manager Network Development

Warwick Russell – Chief Financial Officer



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Financial Statements

CONTENTS

12	Directors' Report
15	Statement of financial performance
16	Statement of movements in equity
17	Statement of financial position
18	Statement of cash flows
20	Notes to the financial statements
31	Auditor's Report

Directors' Report

Disclosures required by the Companies Act 1993:

PRINCIPAL ACTIVITIES

The Group's principal activity during the year was the operation of a lines network providing electricity to Auckland.

FINANCIAL PERFORMANCE

The Group reported a surplus after tax of \$72.3 million for the year ended 31 March 2001. The result represented a 23 per cent drop from the prior period as a result of Generation activities surpluses having been included in the prior period. Generation activities had been fully divested by 31 March 2000 as required by the Electricity Industry Reform Act 1998.

DIVIDENDS

The final dividend for the year ended 31 March 2000 of \$75.4 million was paid during the year.

The Directors have resolved to pay a final dividend for the year ended 31 March 2001 of \$48 million.

INTERESTS REGISTER

Each company in the Group is required to maintain an interests register in which the particulars of certain transactions and matters involving the Directors must be recorded. The interests registers for VECTOR Limited and its subsidiaries are available for inspection at its registered office.

Details of all matters that have been entered in the interests register by individual Directors are outlined in the Director information following.

Information used by Directors

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

Indemnification and Insurance of Directors and Officers

The Parent indemnifies all Directors named in this report and officers of the Group against all liabilities (other than to the Parent or member of the Group) which arise out of the performance of their normal duties as Directors or Officers, unless the liability relates to conduct involving lack of good faith. To manage this risk, the Group has indemnity insurance.

DIRECTORS

Directors holding office during the year and at the end of the year were:

Parent and Subsidiaries	Parent	Subsidiaries
W K Brown	D G Dell	P C Strange
M J Wells	J C Lindsay	W J Russell
	P S Drummond	

Directors' Remuneration and Benefits, VECTOR Limited

	Directors' Fees \$
W K Brown	70,000
D G Dell	34,000
M J Wells	34,000
J C Lindsay	34,000
P S Drummond	34,000

Directors' Remuneration and Benefits, VECTOR Limited Subsidiaries

	Directors' Fees \$
W K Brown	1,000
M J Wells	1,000

No employee of the VECTOR Limited Group appointed as a Director of a subsidiary company receives or retains any remuneration or benefits as a Director. The remuneration and benefits of such employees, received as employees, are included in the relevant bandings disclosed below, where the annual remuneration and benefits exceed \$100,000.

Matters Entered in the Interests Register by Directors

W K BROWN:

Chairman of Northland Health Limited, Tairāwhiti Health Limited, Land Transport Safety Authority; Owner/Chairman of Waahi Paraone Limited, Brown Properties; Director of Festival Films Limited, Ngāpuhi Fisheries Limited

D G DELL:

Informal Partner of Charter Consulting, Energy Advisory Services

M J WELLS:

Chairman of Bancorp Holdings Limited, Bancorp Property Fund No. 1 Limited, Taranaki Property Fund Limited, Strategic Asset Management Limited, Greenpark Holdings Limited; Director of Baycorp Holdings Limited, Alliance Group Holdings Limited, Fisher Funds Management Limited; Advisory Board Member of Marsh Limited; Governor and Executive Board Member of New Zealand Sports Foundation; Chairman of Trustees New Zealand High Performance Sports Centre Trust

J C LINDSAY:

Director of Ports of Auckland Limited, Cerebos Greggs Limited, Auckland Chamber of Commerce and Industry, Milburn New Zealand Limited, America's Cup Village Limited; Director and Shareholder of Jobal Actions Limited; Chairman of Rio Beverages Limited, MCK Holdings Pty Limited

P S DRUMMOND:

Chairman of Watercare Services Limited, Northern Disposal Systems Limited, Pikes Point Transfer Station Limited, Fish Pot New Zealand Group Limited, Enviro Waste Services Limited, Appliance Connexion Limited, DF Mainland and Company Limited; Director of Enable Limited, Mid Central Health Limited, Museum of Transport and Technology, TEI Works Limited; Board Member of Variety Club of New Zealand; Vice President of Variety Club International (New York)

The companies listed above against each Director may transact with VECTOR Limited and its subsidiaries in the normal course of business.

EMPLOYEES

The number of employees within the Group receiving remuneration and benefits above \$100,000 are included in the following table:


	Group		Parent	
	2001	2000	2001	2000
Current employees				
\$100,001 – \$110,000	3	2	3	2
\$110,001 – \$120,000	3	5	3	5
\$120,001 – \$130,000	2	4	2	4
\$130,001 – \$140,000	3	2	3	2
\$140,001 – \$150,000	1	3	–	3
\$150,001 – \$160,000	–	3	–	3
\$170,001 – \$180,000	–	1	–	1
\$180,001 – \$190,000	–	1	–	1
\$190,001 – \$200,000	1	–	1	–
\$210,001 – \$220,000	1	–	1	–
\$230,001 – \$240,000	1	1	1	1
\$260,001 – \$270,000	–	1	–	1
\$270,001 – \$280,000	–	1	–	1
\$300,001 – \$310,000	–	1	–	1
\$400,001 – \$410,000	1	–	1	–
\$420,001 – \$430,000	1	–	1	–
\$550,001 – \$560,000	–	1	–	1

Remuneration of employees no longer with the company, including any termination payments

\$100,001 – \$110,000	–	1	–	1
\$110,001 – \$120,000	–	5	–	5
\$120,001 – \$130,000	1	3	1	3
\$130,001 – \$140,000	2	2	2	2
\$140,001 – \$150,000	1	5	1	5
\$150,001 – \$160,000	–	3	–	3
\$180,001 – \$190,000	1	1	1	1
\$340,001 – \$350,000	–	1	–	1

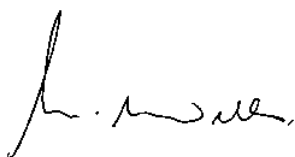
The above information for 2000 for both current employees and employees no longer with the company includes the payment of two incentive bonuses: one for the year ended 31 March 1999 and one for the year ended 31 March 2000.

For and on behalf of the board



Director

21st May 2001



Director

21st May 2001

Statement of financial performance

for the year ended 31 March 2001

	Notes	Group		Parent	
		2001	2000	2001	2000
		\$000	\$000	\$000	\$000
Operating revenue	2	228,880	312,694	228,816	245,094
Operating expenses	3	(130,515)	(200,223)	(127,480)	(226,369)
Operating surplus before income tax	4	98,365	112,471	101,336	18,725
Income tax expense	5	(26,021)	(18,228)	(25,558)	(18,804)
Operating surplus/(deficit) after income tax		72,343	94,243	75,778	(79)
Operating surplus/(deficit)		72,343	94,243	75,778	(79)
Net surplus/(deficit)		72,343	94,243	75,778	(79)
Comprising					
Net surplus from continuing activities		72,311	51,576	75,778	51,576
Net surplus/(deficit) from discontinued activities		32	42,667	-	(51,655)
		72,343	94,243	75,778	(79)


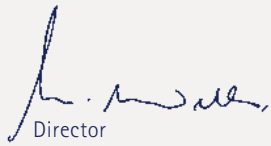
Statement of movements in equity

for the year ended 31 March 2001

	Notes	Group		Parent	
		2001	2000	2001	2000
		\$000	\$000	\$000	\$000
Equity at beginning of year		734,594	822,847	732,101	914,676
Net surplus/(deficit)		72,343	94,243	75,778	(79)
Movement in revaluation reserve	9	(28,510)	-	(28,510)	-
Total recognised revenues and expenses for the year		43,833	94,243	47,268	(79)
Distributions to owners	7	(48,000)	(182,496)	(48,000)	(182,496)
Equity at end of year		730,427	734,594	731,369	732,101

Statement of financial position

as at 31 March 2001

	Notes	Group		Parent	
		2001	2000	2001	2000
		\$000	\$000	\$000	\$000
Equity					
Share capital	8	300,000	300,000	300,000	300,000
Reserves	9	434,535	463,045	434,535	463,045
Retained earnings	10	(4,108)	(28,451)	(3,166)	(30,944)
Total equity		730,427	734,594	731,369	732,101
Non-current liabilities					
Term liabilities	11	104,810	104,810	104,810	104,810
Deferred tax	13	7,287	-	7,573	-
		112,097	104,810	112,383	104,810
Current liabilities					
Accounts payable and accruals	12	47,523	68,457	106,916	129,370
Proposed dividend	7	48,000	75,400	48,000	75,400
Income tax		10,628	1,695	10,628	6,095
Current portion of non-current liabilities	11	60,000	-	60,000	-
		166,151	145,552	225,544	210,865
Total equity and liabilities		1,008,675	984,956	1,069,296	1,047,776
Non-current assets					
Deferred tax	13	-	5,202	-	8,852
Fixed assets	14	963,622	936,026	954,019	934,026
		963,622	941,228	954,019	942,878
Current assets					
Cash		4,299	26,330	3,991	25,957
Receivables, prepayments and stores	16	40,754	17,398	36,563	12,543
Advances to subsidiaries		-	-	74,723	66,398
		45,053	43,728	115,277	104,898
Total assets		1,008,675	984,956	1,069,296	1,047,776
For and on behalf of the board					
					
Director					
21st May 2001					
					
Director					
21st May 2001					

Statement of cash flows

for the year ended 31 March 2001

	Notes	Group		Parent	
		2001	2000	2001	2000
		\$000	\$000	\$000	\$000
Cash flows from operating activities					
<i>Cash was provided from:</i>					
Receipts from customers		202,288	264,462	201,404	233,487
Income tax refund		–	12,589	–	12,130
Interest received		684	4,376	731	12,378
		202,972	281,427	202,135	257,995
<i>Cash was disbursed to:</i>					
Payments to suppliers and employees		122,608	152,102	119,753	130,421
Income tax paid		4,600	–	4,600	–
Interest paid		8,217	11,065	8,100	6,613
		135,425	163,167	132,453	137,034
Net cash inflows from operating activities		67,547	118,260	69,682	120,961
Cash flows from investing activities					
<i>Cash was provided from:</i>					
Proceeds from sale of investments		–	38,624	–	38,624
Proceeds from sale of retail assets		–	37,993	–	37,993
Proceeds from sale of subsidiaries		–	18,163	–	–
Proceeds from sale of fixed assets		482	82,161	482	32,751
Advances and loans from subsidiaries*		–	–	–	64,254
		482	176,941	482	173,622
<i>Cash was applied to:</i>					
Advance to subsidiaries		–	–	8,325	–
Purchase and construction of fixed assets		74,660	92,801	68,405	92,683
		74,660	92,801	76,730	92,683
Net cash inflows/(outflows) from investing activities		(74,178)	84,140	(76,248)	80,939
Cash flows from financing activities					
<i>Cash was (applied to)/provided from:</i>					
Net loan facilities*		60,000	(73,518)	60,000	(71,699)
Dividends paid		(75,400)	(107,096)	(75,400)	(107,096)
		(15,400)	(180,614)	(15,400)	(178,795)
Net cash outflows from financing activities		(15,400)	(180,614)	(15,400)	(178,795)
Net increase/(decrease) in cash held		(22,031)	21,786	(21,966)	23,105
Cash at beginning of year		26,330	4,544	25,957	2,852
Cash at end of year		4,299	26,330	3,991	25,957
* Cash inflows and cash outflows have been netted for ease of presentation					

Statement of cash flows (continued)

for the year ended 31 March 2001

	Notes	Group		Parent	
		2001	2000	2001	2000
		\$000	\$000	\$000	\$000
Reported surplus/(deficit) after tax		72,343	94,243	75,778	(79)
Add/(less) non-cash items					
Depreciation		27,167	33,905	27,068	26,304
Gain on sale of investments		-	(7,915)	-	(7,915)
Gain on sale of subsidiaries		-	(12,571)	-	-
Other non-cash items		-	1,263	-	1,263
Items classified as investing activities					
Loss/(gain) on sale of fixed assets		176	(28,175)	176	(1,148)
Capitalised costs		(802)	-	(802)	-
		26,541	(13,493)	26,442	18,504
Add/(less) movements in working capital					
Accounts payable and accruals		(27,928)	(3,057)	(28,605)	58,838
Receivables, prepayments and stores		(24,830)	9,750	(24,891)	12,764
Taxation		21,421	30,817	20,958	30,934
		(31,337)	37,510	(32,538)	102,536
Net cash inflows from operating activities		67,547	118,260	69,682	120,961

1. STATEMENT OF ACCOUNTING POLICIES**Entities Reporting**

VECTOR Limited is a company registered under the Companies Act 1993. The group consists of VECTOR Limited and its subsidiaries.

Statutory Base

The financial statements have been prepared in accordance with the requirements of the Companies Act 1993 and the Financial Reporting Act 1993.

Measurement Base

The financial statements are prepared on the basis of historical cost modified by the revaluation of certain fixed assets as identified in specific accounting policies below.

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) Group Financial Statements

The group financial statements consolidate the financial statements of subsidiaries, using the purchase method. Subsidiaries are entities that are controlled, either directly or indirectly, by the parent. All material transactions between subsidiaries or between the parent and subsidiaries are eliminated on consolidation. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of financial performance from the date of acquisition or up to the date of disposal.

b) Income Recognition

Income from the provision of Network services is recognised as services are delivered. Interest income is accounted for as earned.

c) Fixed Assets

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

The cost of self-constructed assets includes the cost of all materials used in construction, direct labour on the project, costs of obtaining Resource Management Act consents, financing costs that are directly attributable to the project and an appropriate proportion of the variable and fixed overheads. Costs cease to be capitalised as soon as the asset is ready for productive use and do not include any inefficiency costs.

Distribution systems and some land and buildings are revalued by independent experts on the basis of depreciated replacement cost. Revaluation of distribution systems, distribution land and buildings are carried out at least every three years.

d) Depreciation

Depreciation is calculated so as to expense the cost of the assets, or the revalued amounts, to their residual values over their useful lives as follows:

Buildings	50 years
Distribution Systems	15 – 70 years
Generation Plant and Buildings	13 – 20 years
Motor Vehicles and Mobile Equipment	20% – 33% per annum diminishing value
Computer and Telecommunication Equipment	3 – 40 years
Other Plant and Equipment	4% – 60% per annum diminishing value

e) Accounts Receivable

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

f) Income Tax

The income tax expense recognised for the year is based on the accounting surplus, 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 losses carried forward that exceed the deferred tax liability, is recognised in the financial statements only where there is the virtual certainty that the benefit of the timing differences, or losses, will be utilised.

g) Inventories

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

h) Goods and Services Tax (GST)

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

i) Leased Assets

Operating leases

Operating lease payments, where the lessors effectively retain substantially all the risks and benefits of ownership of the leased assets, are included in the determination of the surplus/(deficit) in equal instalments over the lease term.

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

j) Foreign Currencies

Transactions denominated in a foreign currency are converted to New Zealand dollars at the exchange rates in effect at the date of the transaction, except when forward currency contracts have been taken out to cover short-term forward currency commitments.

Short-term transactions covered by forward exchange contracts are measured and reported at the forward rates specified in those contracts.

At balance date foreign currency monetary assets and liabilities are translated to New Zealand dollars at the balance date exchange rate and exchange variations arising from these translations are included in the statement of financial performance.

The exchange differences on hedging transactions undertaken to establish the price of particular sales or purchases, together with any costs associated with the hedge transactions, are deferred and included in the measurement of the purchase or sale transaction.

k) Financial Instruments

The group is party to financial instruments with off balance sheet risk to meet financing needs and to reduce exposure to fluctuations in foreign currency exchange rates. These financial instruments include foreign exchange forward contracts, currency rate swaps, forward rate agreements and swaps.

The group enters into foreign currency forward exchange contracts to hedge foreign currency transactions. Any exposure to gains or losses on these forward contracts is generally offset by a loss or gain on the item being hedged. Gains and losses on contracts which hedge specific short-term foreign currency denominated commitments are recognised as a component of the related transaction in the period in which the transaction is completed. The group is not involved in foreign exchange speculation.

The net differential paid or received on interest swaps is recognised as a component of interest expense over the period of the agreement.

l) Investments

Investments in subsidiaries are stated at the lower of cost or net assets backing in the statement of financial position of the parent.

Other investments are stated at the lower of cost or net realisable value.

m) Employee Entitlements

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

The liability for employee entitlements is carried at the present value of the estimated future cash outflows.

n) 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.

Notes to the financial statements (continued)

- Financing activities are those 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 considered to be cash on hand and current accounts in banks, net of bank overdrafts.

Changes in Accounting Policies

There has been no change in accounting policies and all policies have been applied on a basis consistent with those used in the prior year.

2. OPERATING REVENUE

Trading revenue

Sales

Generation revenue

Other trading revenue

Investment revenue

Interest revenue

Other revenue

Miscellaneous income

Non-recurring revenue

Gain on sale of fixed assets

Gain on sale of subsidiaries

Gain on sale of investments

	Group		Parent	
	2001	2000	2001	2000
	\$000	\$000	\$000	\$000
Trading revenue				
Sales	219,995	211,324	219,995	211,324
Generation revenue	-	35,725	-	-
Other trading revenue	111	-	-	-
Investment revenue				
Interest revenue	684	4,376	731	12,378
Other revenue				
Miscellaneous income	8,090	10,650	8,090	10,372
	228,880	262,075	228,816	234,074
Non-recurring revenue				
Gain on sale of fixed assets	-	30,133	-	3,105
Gain on sale of subsidiaries	-	12,571	-	-
Gain on sale of investments	-	7,915	-	7,915
	-	50,619	-	11,020
	228,880	312,694	228,816	245,094

3. OPERATING EXPENSES

Operating expenses include:

	Group		Parent	
	2001	2000	2001	2000
	\$000	\$000	\$000	\$000
Operating expenses				
Depreciation	27,167	33,905	27,068	26,304
Rental and operating lease costs	1,508	635	1,508	635
Loss on sale of fixed assets	176	1,958	176	1,958
Cost of borrowings				
Interest	7,668	14,913	7,668	10,460
Costs of offering credit				
Bad debts written off	674	1,358	674	1,358
Movement in provision for doubtful debts	(152)	(387)	(152)	(387)
Governance expenses				
Directors' fees	208	253	206	253
Retiring allowances	-	195	-	195
Auditors' fees				
Audit fees paid to principal auditors	59	57	59	57
Fees paid for other services provided by principal auditors	199	185	199	185
Audit fees paid to other auditors	-	15	-	15
Fees paid for other services provided by other auditors	-	216	-	216
Non-recurring expenses				
Reversal of CBD provision	(7,500)	-	(7,500)	-
Asset write downs	-	-	-	65,037

4. CONTINUING AND DISCONTINUED ACTIVITIES

	Group		Parent	
	2001	2000	2001	2000
	\$000	\$000	\$000	\$000
Continuing activities				
Revenue	228,738	229,019	228,816	229,019
Operating surplus before tax	98,333	67,688	101,336	67,688
Discontinued activities				
Revenue	142	83,675	-	16,075
Operating surplus before tax	32	(2,730)	-	(56,877)
Gain on sale	-	47,513	-	7,915
Totals				
Revenue	228,880	312,694	228,816	245,094
Operating surplus before tax	98,365	112,471	101,336	18,725

The Electricity Industry Reform Act 1998 required electricity companies to separate their distribution business from their generation and retail (sale and purchase of electricity) businesses and then divest one or other. In addition significant investments in other electricity companies could not be held.

In 1999 the directors, in agreement with the shareholders, divested the Company's retail business and some of its generation assets in accordance with the Electricity Industry Reform Act 1998. The remaining generation assets were fully divested as at 31 March 2000.

Notes to the financial statements (continued)

5. INCOME TAX

	Group		Parent	
	2001 \$000	2000 \$000	2001 \$000	2000 \$000
Operating surplus before tax	98,365	112,471	101,336	18,725
Prima facie tax at 33%	32,460	37,115	33,441	6,179
Plus/(less) tax effect of permanent differences:				
Non-deductible entertainment	20	15	19	15
Non-deductible legal and consulting	238	838	173	838
Capital gains and losses on divestment	-	(15,073)	-	(2,612)
Other permanent differences	6,319	3,447	5,655	3,907
Deferred tax asset not previously utilised	(14,012)	(3,785)	(13,976)	(3,785)
Provision for diminution in investments	-	-	-	21,462
Prior period adjustment	996	(7,200)	246	(7,200)
Losses unable to be utilised	-	2,871	-	-
Tax expense	26,021	18,228	25,558	18,804
The tax charge is represented by:				
Current tax	13,532	10,156	9,133	12,145
Deferred tax	12,489	8,072	16,425	6,659
	26,021	18,228	25,558	18,804

A deferred tax asset of \$21.8 million (2000: \$35.8 million) has not been recognised as at 31 March 2001 as there is not virtual certainty of the utilisation by the group.

24

6. IMPUTATION BALANCES

	Group & Parent	
	2001 \$000	2000 \$000
Balance at beginning of year	768	65,015
Income tax payments during year	4,200	(12,029)
Imputation credits attaching to dividends received	-	531
Imputation credits attaching to dividends paid	(386)	(52,749)
Balance at end of year	4,582	768

At balance date the imputation credits available to the shareholders of the parent company were:

Through direct shareholding in the parent company	4,582	768
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7. DIVIDENDS

Distributions relating to previous year:

Dividends paid on ordinary shares

Special distributions:

Dividends paid on ordinary shares

Proposed distributions:

Proposed dividends on ordinary shares

Total distributions paid or payable in cash

Less proposed dividend in previous year

Total

Group & Parent	
2001	2000
\$000	\$000
75,400	25,500
–	81,596
48,000	75,400
123,400	182,496
75,400	–
48,000	182,496

The proposed dividend for 2001 will not be fully imputed. The dividend paid in 2001 was not fully imputed. The 2000 proposed dividends carried no imputation credits. Dividends paid in 2000 were fully imputed.

8. SHARE CAPITAL

Ordinary class A shares

300,000,000 issued and fully paid shares

Ordinary class C shares

6 issued and deemed fully paid shares

Group & Parent	
2001	2000
\$000	\$000
300,000	300,000
–	–
300,000	300,000

The ordinary class A shares can only be held by the Auckland Energy Consumer Trust and may only be dealt with pursuant to the Trust Deed.

The ordinary class A shares and the ordinary class C shares are voting securities.

The ordinary class A shares have 75% voting entitlement and ordinary class C shares have 25% voting entitlement.

9. RESERVES

Asset revaluation

Balance at beginning of year

Decrease arising from revaluation of distribution fixed assets

Balance at end of year

Group		Parent	
2001	2000	2001	2000
\$000	\$000	\$000	\$000
463,045	463,045	463,045	463,045
(28,510)	–	(28,510)	–
434,535	463,045	434,535	463,045

Notes to the financial statements (continued)

10. RETAINED EARNINGS

	Group		Parent	
	2001 \$000	2000 \$000	2001 \$000	2000 \$000
Balance at beginning of year	(28,451)	59,802	(30,944)	151,631
Net surplus/(deficit) attributable to the shareholders of the parent company	72,343	94,243	75,778	(79)
Dividends	(48,000)	(182,496)	(48,000)	(182,496)
Balance at end of year	(4,108)	(28,451)	(3,166)	(30,944)

11. TERM LIABILITIES

		Group		Parent	
		2001 \$000	2000 \$000	2001 \$000	2000 \$000
Repayable:	Interest rates				
Within one year	6.4% to 6.5%	60,000	-	60,000	-
One to two years	7.1%	104,810	-	104,810	-
Two to five years	7.1%	-	104,810	-	104,810
Total term liabilities		164,810	104,810	164,810	104,810
Less current portion of term liabilities		60,000	-	60,000	-
Total term liabilities		104,810	104,810	104,810	104,810

Debt issued of \$164.8 million (2000: \$104.8 million) is secured by way of negative pledge over the assets of the group.

12. ACCOUNTS PAYABLE AND ACCRUALS

	Group		Parent	
	2001 \$000	2000 \$000	2001 \$000	2000 \$000
Trade payables, other creditors and provisions	38,654	49,955	97,958	110,971
CBD network restoration costs	4,227	13,039	4,227	13,039
Interest payable	3,299	3,847	3,416	3,848
Employee entitlements	1,343	1,616	1,315	1,512
	47,523	68,457	106,916	129,370

13. DEFERRED TAX ASSET (LIABILITY)

	Group		Parent	
	2001 \$000	2000 \$000	2001 \$000	2000 \$000
Balance at beginning of year	5,202	13,274	8,852	15,511
On surplus for year	(12,489)	(8,072)	(16,425)	(6,659)
Balance at end of year	(7,287)	5,202	(7,573)	8,852

14. FIXED ASSETS

	Group		Parent	
	2001 \$000	2000 \$000	2001 \$000	2000 \$000
Freehold land at cost	2,597	2,597	597	597
Freehold buildings at cost	5,306	3,253	5,306	3,253
Accumulated depreciation	(631)	(524)	(631)	(524)
Net book value	4,675	2,729	4,675	2,729
Distribution systems at valuation	840,629	737,087	840,629	737,087
Distribution land at valuation	22,160	17,589	22,160	17,589
Distribution buildings at valuation	17,780	17,734	17,780	17,734
	880,569	772,410	880,569	772,410
Accumulated depreciation				
Distribution systems	-	(18,692)	-	(18,692)
Distribution buildings	-	(942)	-	(942)
	-	(19,634)	-	(19,634)
Net book value	880,569	752,776	880,569	752,776
Plant and equipment at cost				
Motor vehicles and mobile equipment	729	957	729	957
Computer and telecommunication equipment	59,728	54,164	56,212	54,164
Other plant and equipment	6,842	4,498	6,355	4,498
	67,299	59,619	63,296	59,619
Accumulated depreciation				
Motor vehicles and mobile equipment	(550)	(635)	(550)	(635)
Computer and telecommunication equipment	(23,538)	(20,907)	(23,453)	(20,907)
Other plant and equipment	(4,157)	(3,943)	(4,143)	(3,943)
	(28,245)	(25,485)	(28,146)	(25,485)
Net book value	39,054	34,134	35,150	34,134
Capital work in progress at cost	36,727	143,790	33,028	143,790
Total net book value	963,622	936,026	954,019	934,026

The directors consider that the fair value of land and buildings is equal to their book value.

The distribution assets were revalued to depreciated replacement cost (DRC) of \$880.6 million as at 31 March 2001. The revaluation resulted in a decrease in the asset value of \$28.5 million. This valuation was undertaken in conjunction with Meritec Limited consulting engineers. The prior valuation as at 31 March 1999 was carried out using optimised deprival value. As indicated in the accounting policies interest is capitalised to fixed assets while under construction. During the year \$4.6 million (2000: \$2.9 million) of interest was capitalised.

Notes to the financial statements (continued)

15. INVESTMENTS IN SUBSIDIARIES

The parent's investment in subsidiaries comprises shares at cost. Significant subsidiaries comprise:

	Percentages Held		Principal Activities
	2001	2000	
Significant subsidiaries			
Auckland Generation Limited	100%	100%	Holding Company
– MEL Silverstream Limited	100%	100%	Holding Company
– MEL Network Limited	100%	100%	Holding Company
– Mercury Geotherm Limited (in receivership)	65.12%	65.12%	Holding Company
– Poihipi Land Limited (in receivership)	65.12%	65.12%	Holding Company
Caduceus Equities No 1 Limited	100%	100%	Holding Company
Tangent Limited	100%	–	Telecommunication Network Provider
Non-trading subsidiaries			
VECTOR Power Limited	100%	100%	N/A
Auckland Network Limited	100%	100%	N/A
Energy North Limited	100%	100%	N/A

All entities have a balance date of 31 March. Tangent Limited was incorporated in July 2000.

16. RECEIVABLES, PREPAYMENTS AND STORES

	Group		Parent	
	2001	2000	2001	2000
	\$000	\$000	\$000	\$000
Trade receivables	33,792	9,808	33,792	9,808
Provision for doubtful debts	(120)	(273)	(120)	(273)
	33,672	9,535	33,672	9,535
Other receivables	4,087	5,172	–	317
Prepayments	1,772	1,653	1,775	1,653
Stores	1,223	1,038	1,116	1,038
	40,754	17,398	36,563	12,543

17. FINANCIAL INSTRUMENTS

The group is subject to financial risk as a result of its debt portfolio.

To manage and limit the effects of those financial risks, the Board of Directors has approved policy guidelines and authorised the use of various financial instruments. The policies approved, and financial instruments being utilised at balance date, are outlined below.

Credit risk

Financial instruments that potentially subject the group to credit risk principally consist of bank balances, money market deposits, accounts receivable and advances to subsidiaries.

The group monitors the credit quality of the major financial institutions that are counterparties to its off-balance sheet financial instruments and does not anticipate any non-performance by the counterparties.

Maximum exposures to credit risk as at balance date are:

	Group		Parent	
	2001 \$000	2000 \$000	2001 \$000	2000 \$000
Bank balances	4,299	4,330	3,991	3,957
Term deposits	–	22,000	–	22,000
Accounts receivable	37,759	14,707	33,672	9,852
Advances to subsidiaries	–	–	74,723	66,398
The above maximum exposures are net of any recognised provision for losses on these financial instruments.				
Concentrations of credit risk				
Bank balances	4,299	4,330	3,991	3,957
Term deposits	–	22,000	–	22,000
	4,299	26,330	3,991	25,957

The group is not exposed to any other concentrations of credit risk.

Interest rate risk

Interest rates on debt issued in the current year are generally fixed for periods of between one and three months at rates from 6.4% to 6.9% (2000: 4.1% to 7.8%). The interest rates are based on the BkBM rate plus a margin.

Interest rate swaps are used to manage the proportion of fixed rate debt to total debt. Interest rate swaps and forward rate agreements open as at 31 March 2001 have a principal of \$194.0 million (2000: \$209.8 million) with a cash benefit of \$33.3 million (2000: \$27.4 million). The company pays a weighted average interest rate on open interest rate swaps and forward rate agreements of 7.1% (2000: 7.2%).

The company values interest rate swaps by determining the net present value of future cash flows using current interest rates. The company continuously monitors the credit quality of the major international institutions that are counterparties to its off-balance sheet financial instruments and does not anticipate non-performance by any of the counterparties.

Currency risk

In 1997 the group issued a bond in Swiss Francs. As a result of this transaction exposures to fluctuations in foreign currency exchange rates arise.

The group has hedged all these borrowings in foreign currency by currency swap. Currency swaps open at balance date have a principal of \$104.8 million (2000: \$104.8 million). The cash benefit of the currency swaps is incorporated in the interest rate swaps. The currency swap was taken with an interest rate swap as one transaction. Valuation cannot be obtained to distinguish the two components.

Notes to the financial statements (continued)

18. COMMITMENTS

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

	Group		Parent	
	2001	2000	2001	2000
	\$000	\$000	\$000	\$000
Capital expenditure commitments				
Estimated capital expenditure contracted for at balance date but not provided for:				
CBD reinforcement tunnel	100	36,500	100	36,500
Other commitments	7,313	8,239	7,313	8,239
	7,413	44,739	7,413	44,739
Operating lease commitments				
Within one year	1,445	2,792	1,445	2,792
One to two years	1,316	1,284	1,316	1,284
Two to five years	3,598	3,765	3,598	3,765
Beyond five years	180	1,256	180	1,256
	6,539	9,097	6,539	9,097

The majority of the operating lease commitments relate to premises leases. Operating leases held over properties give the group the right to renew the lease.

19. CONTINGENT LIABILITIES

No significant contingent liabilities exist as at 31 March 2001.

20. TRANSACTIONS WITH RELATED PARTIES

During the year VECTOR Limited had the following transactions with the Auckland Energy Consumer Trust (AECT), which is the majority shareholder of VECTOR Limited:

Payment of Dividends	\$75.4 million	(2000: \$107.1 million)
Payments to AECT	Nil	(2000: \$0.6 million)

During the year VECTOR Limited entered into the following transactions with subsidiaries:

Purchase of electricity	Nil	(2000: \$29.9 million)
Gross interest received	\$0.2 million	(2000: \$8.2 million)
Advances to and from subsidiaries	\$8.3 million	(2000: \$53.7 million)

A provision of \$65.0 million (2000: \$65.0 million) has been provided against advances to subsidiaries. No related party debts have been written off or forgiven during the year. All transactions for subsidiary company Mercury Geotherm Limited are funded by VECTOR Limited. Advances to subsidiaries are at arms length and subject to compounding interest at various rates.

21. SEGMENT INFORMATION

The company operates largely within the electricity sector. All operations are carried out within New Zealand.

Auditor's Report to the Shareholders of **VECTOR Limited**

We have audited the financial statements on pages 15 to 30. The financial statements provide information about the past financial performance and cash flows of the Company and Group for the year ended 31 March 2001 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 20 to 22.

DIRECTORS' RESPONSIBILITIES

The Company's Directors are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the Company and Group as at 31 March 2001 and their financial performance and cash flows for the year ended on that date.

AUDITOR'S RESPONSIBILITIES

We are responsible for expressing an independent opinion on the financial statements presented by the Directors and reporting 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:

- (a) the significant estimates and judgements made by the Directors in the preparation of the financial statements; and
- (b) whether the accounting policies are appropriate to the circumstances of the Company and Group, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary to provide us with sufficient evidence to give 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.

We have no relationship with or interests in the Company or any of its subsidiaries other than in our capacities as auditors, consultants and tax advisors.

UNQUALIFIED OPINION

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

In our opinion:

- (a) proper accounting records have been kept by the Company as far as appears from our examination of those records; and
- (b) the financial statements on pages 15 to 30:
 - (i) comply with generally accepted accounting practice in New Zealand; and
 - (ii) give a true and fair view of the financial position of the Company and Group as at 31 March 2001 and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 21 May 2001 and our unqualified opinion is expressed as at that date.



Chartered Accountants

Auckland

DIRECTORY

Registered Office

VECTOR Limited
101 Carlton Gore Road
Newmarket
Auckland
New Zealand
Telephone (64 9) 978 7788
Facsimile (64 9) 978 7799
www.vector-network.co.nz

Postal Address

PO Box 99882
Newmarket
Auckland
New Zealand

Auditors

PricewaterhouseCoopers
23-29 Albert Street
Auckland

Solicitors

Buddle Findlay
The Shortland Centre
51-53 Shortland Street
Auckland

Russell McVeagh
Royal & SunAlliance Centre
48 Shortland Street
Auckland

Shareholder

Auckland Energy Consumer Trust
PO Box 109626
Newmarket
Auckland
Telephone: (64 9) 978 7674
Facsimile: (64 9) 978 7516
www.aect.co.nz



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www.vector-network.co.nz