Vector

2006 annual results

supporting information

14 August 2006

Vector Group – financial highlights
Year ended 30 June

$m	2006	2005	% Change	2006 Prospectus
EBITDA	578.6	466.1	+24.1	578.8
EBIT	362.7	307.2	+18.1	358.3
NPATA	143.7	104.3	+37.8	134.8
NPAT	45.1	40.8	+10.5	36.5

Vector Group – financial highlights
Year ended 30 June

- NPATA per share 14.4 cents (1) (2005: 13.9 cents (2))
- Final dividend: 6.0 cps (fully imputed)

  Record date: 28 August 2006; Payment date: 31 August 2006
- Total dividend: 12.0 cps, fully imputed (prospectus 11.5 cps)
- Total Assets: $5,718.6m (2005: $4,851.5m)
- Operating cash flow: $353.1m (2005: $244.6m)

Business Unit Contributions

- Electricity EBITDA $364.5m (2005: $350.2m)
- Gas EBITDA $207.1m (2005: $129.8m)
- Technology EBITDA $41.9m (2005: $23.8m)

(1) *based on 1 billion shares on issue as at 30 June 2006*

(2) *based on equivalent 751 million shares as at 30 June 2005*

Vector Group – financial summary

Year ended 30 June

$ Millions	2006	2005	% change	Prospectus FY 2006
Revenue	1,132.9	870.9	+30.1	1,151.7
Operating expenditure	(554.3)	(404.8)	+36.9	(572.9)
EBITDA	578.6	466.1	+24.1	578.8
Depreciation & Amortisation	(215.9)	(158.9)	+35.9	(220.5)
EBIT	362.7	307.2	+18.1	358.3
Net interest expense	(228.5)	(193.4)	+18.1	(230.2)
Taxation	(81.3)	(59.0)	+37.9	(78.9)
Minority Interests	(7.8)	(14.0)	-44.3	(12.7)
NPAT	45.1	40.8	+10.5	36.5
NPATA	143.7	104.3	+37.8	134.8
NPATA per share (cents)	14.4	13.9	+3.5	13.5
Dividend per share (cents)	12.0	7.1	+68.1	11.5

Vector's earnings for the year ended 30 June 2006 have exceeded the IPO prospectus projections, and are comfortably within the updated NPAT and NPATA guidance ranges announced on 16 May 2006.

Net earnings after tax (NPAT) of $45.1 million were 10.5% higher than in the 2005 year, and compare with the prospectus forecast of $36.5 million. NPAT is in the mid level of the updated guidance range of $43 million to $47 million for the year.

The net surplus excluding amortisation (NPATA) increased by 37.8% to $143.7 million, and compares with the prospectus forecast of $134.8 million. Similarly, NPATA is at the mid level of the updated full-year projection of $142 million to $146 million.

Earnings before interest, tax, depreciation and amortisation (EBITDA) of $578.6 million reflect the company's expanded operations base. EBITDA is 24.1% higher than the previous year and, as foreshadowed in May, in line with the prospectus forecast of $578.8 million.

The broader operations of the company are also evident in total revenue, up from $870.9 million in 2004/05 to $1,132.9 million, and in operating cash flow generation, which increased from $244.6 million to $353.1 million.

In addition, high energy demand during a series of cold southerly fronts crossing the country had a positive effect on electricity and gas networks throughput during the last two months of the financial year. This, and increased customer connections to Vector's networks helped to counter the adverse effects of the warmer 2005 winter months.

Other, previously reported factors affecting the financial results for the year were:

- a full year's contribution from the former NGC businesses, compared with just over six months in 2004/05 year;
- the earlier than expected acquisition of the final 33% of NGC on 10 August 2005, leading to a reduced deduction of minority interests of approximately $5.0 million as compared with prospectus projections;
- higher borrowing costs arising from the NGC acquisition. However, interest cost management efficiencies in the second half of the year contributed to the higher than expected full-year earnings; and
- an additional $17.6 million of amortisation of goodwill (non–cash) as a result of the completion of the NGC acquisition in August 2005.

In general, therefore, the year-on-year results are not directly comparable, due to the inclusion of NGC's revenues and earnings contributions, its costs and the increased debt and goodwill amortisation arising from full acquisition.

Dividend

The Board has declared a final dividend of 6.0 cents per share (cps), fully imputed, bringing the total dividend for the year to 12.0 cps, equating to 83.5% of NPATA. The final dividend will be paid on 31 August 2006, to shareholders registered on 28 August 2006.

For the 2004/05 year, a final dividend of $53.6 million – the equivalent of 7.1 cps based on 751 million shares - was paid on 10 August 2005 to the then sole shareholder of the company.

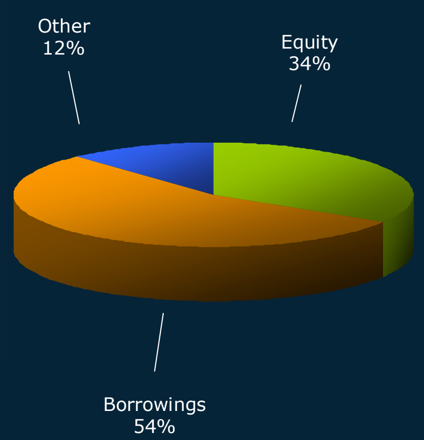
The NPATA and dividend per share calculations shown in the table (above) are based on:

- 751 million shares in 2004/05, being the number of shares on issue prior to Vector's initial public offering leading to the issuing of 249 million new shares; and
- 1 billion shares in 2005/06, being the total shares on issue as at 30 June 2006.

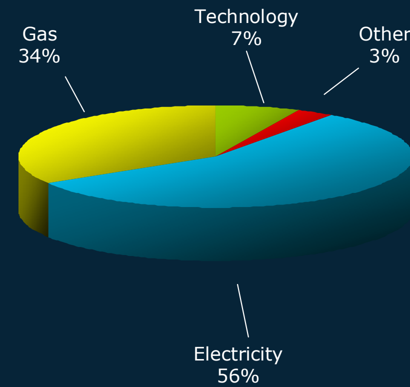
Vector Group – financial position ($5,718.6m)

as at 30 June 2006

Sources of Funds



Total Assets



Vector Group – key ratios

Year ended 30 June

	2006	2005
Net debt ($m)	3,081.1	3,147.6
Equity ($m)	1,925.9	1,045.6
Net debt/(net debt + equity) (%)	61.5	75.1
Net interest cover (x times)	1.6	1.6
EBITDA/operating revenue (%)	51.1	53.5
EBIT/operating revenue (%)	32.0	35.3

As previously reported, movements in key ratios between the 2006 and 2005 financial year primarily reflect the NGC acquisition.

In addition, a revaluation of Vector's electricity network assets, by $469.7 million, and the Auckland gas network, by $31.9 million, resulted in a $470.6 million (net of a deferred tax impact of $31.0 million) increase in the revaluation reserve and a consequent increase in equity as at 30 June 2006.

$ millions	**Fixed Asset Carrying Value Prior to Revaluation**	**Revaluation Impact**	**Fixed Asset Carrying Value Post Revaluation**
Electricity	1,976.6	469.7	2,446.3
Auckland Gas	244.6	31.9	276.5
Deferred Tax Impact		(31.0)	
	2,221.2	**470.6**	**2,722.8**

Vector's accounting policy for fixed assets requires distribution assets to be revalued every three years. The electricity and Auckland gas assets were last revalued in March 2003 and therefore were required to be revalued as at 31 March 2006. The valuations are required to be carried out in accordance with New Zealand Financial Reporting Standard No.3 – Accounting for Property Plant and Equipment (FRS3). The NGC distribution assets were not required to be revalued at this time as they were revalued to fair value on acquisition in December 2004.

Total equity and the debt/equity ratio primarily reflect the equity increase during 2005/06 from the issuing of 249 million additional shares and the revaluation of the Group's electricity and Auckland gas network assets.

The lower EBITDA/Operating Revenue of 51.1% results largely from the dilutionary effect of the NGC acquisition and higher utilisation of more expensive non-Maui gas. EBITDA/Revenue in the gas business was 42.6%, compared with 47.9% in the 2005 year, which for approximately six months comprised Auckland-only gas networks activity. By contrast, the electricity business EBITDA/Revenue of 62.8% remained in line with that for 2005.

Capital Management

During the year Vector undertook three significant transactions that impacted on the capital management within the Vector balance sheet.

1. Acquisition of Remaining 32.8% of NGC

   On 10 August 2005 Vector completed the acquisition of the 32.8% of shares in NGC that it did not already own. Consideration for the shares totalled $493.6 million and was satisfied by way of a cash payment to NGC shareholders of $0.78 cents ($113.2 million) and the issue of 1.1 new shares in Vector worth $2.68 for every NGC share outstanding. The cash payment of $113.2 million was funded through short term acquisition facilities available to Vector and subsequently refinanced in October 2005;

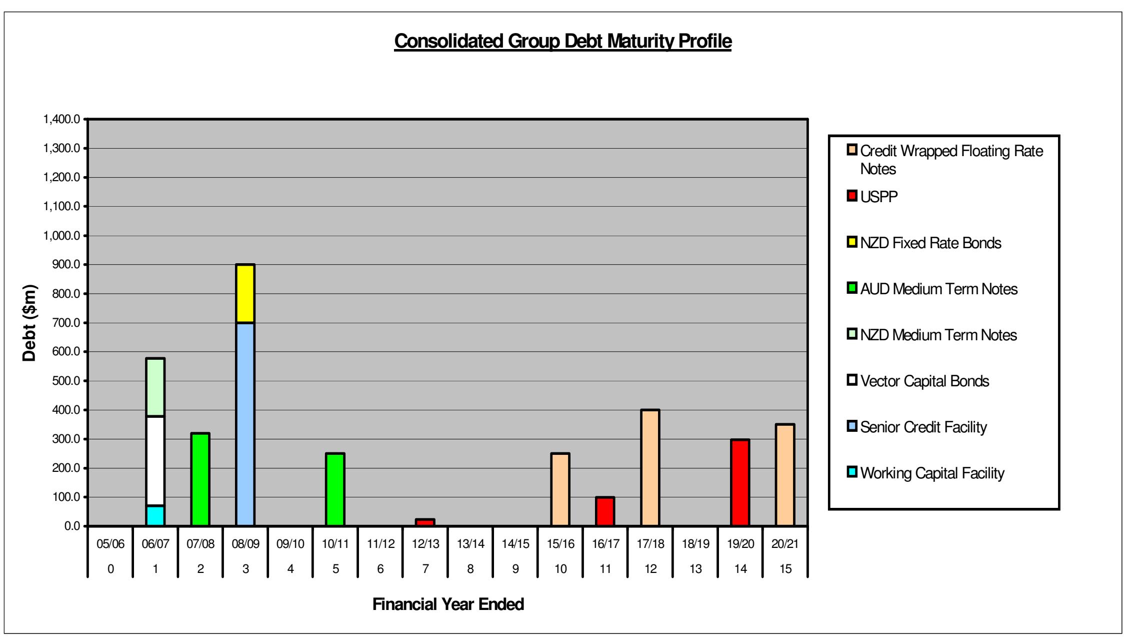
2. Initial Public Offering of shares in Vector

   On 15 August 2005 Vector listed on the New Zealand Stock Exchange after an IPO raised a total of $589.1 million. The $589.1 million raised consisted of $208.7 million in cash subscriptions from approximately 50,000 new shareholders and $380.4 million of shares issued as consideration for settlement of the NGC acquisition as outlined above. The proceeds of the IPO were used to repay the $354.4 million of PIPE's (pre-IPO equity securities) that were outstanding at 30 June 2005; and

3. Refinancing of NGC Acquisition facilities and NGC bank facilities

   In October 2005 Vector entered into arrangements to refinance $1 billion of NGC acquisition facilities and to refinance $240 million of NGC's then borrowing facilities.

   Vector issued 10, 12 and 15 year credit wrapped floating rate notes. This transaction significantly improved the average tenor of Vector's debt portfolio, and took advantage of attractive rates available in the (10 to 15 years) domestic debt markets at that time.



As at 30 June 2006 Vector's net Debt of $3,081.1 million (2005: $3,147.6 million) to Debt plus Equity (D/D+E) ratio stands at 61.5%. This is now at the low end of our stated preferred 65-70% range.

Vector – electricity business

Year ended 30 June

	2006	2005	% Change
Revenue ($m)	580.1	557.7	+4.0
EBITDA ($m)	364.5	350.2	+4.1
Volume distributed (GWh)			
- Greater Auckland (Auckland/Northern)	8,033	7,945	+1.1
- Wellington	2,367	2,363	+0.2
Total	**10,400**	**10,308**	**+0.9**
Total connections			
- Greater Auckland (Auckland/Northern)	504,145	495,305	+1.8
- Wellington	159,259	158,770	+0.3
Total	**663,404**	**654,075**	**+1.4**

Financial Result

During 2005/06 the Electricity Business has focused on consolidating management practices around a business model aimed at:

- enhancing core operations;
- cost efficiency;
- optimising asset utilisation; and
- improving service delivery.

We continue to apply significant effort to the core objectives of effectively managing our assets and improving network reliability and, therefore, our customers' experience – mindful of the need to obtain a commercial return on our investment.

The drive for improved efficiencies contributed to a sound result by the Electricity Business in challenging trading conditions, with a 4.1% EBITDA increase to $364.5 million arising from careful cost management and 4% higher revenues of $580.1 million.

Total electricity distributed through our networks increased by approximately 1% to 10,400 gigawatt hours (GWh). This was principally driven by the addition of 9,300 new customer connections, as lower electricity demand during the warmer spring and winter of 2005 was only partially offset by record demand during the cold spikes in the last two months of the financial year.

Revenues also reflect the previously announced average increase of 2.85% in our line charges from 1 April 2006 – below the forecast annual inflation rate and within the Commerce Commission's threshold regime for Vector - as well as higher charges by the national grid owner, Transpower. However, as the Transpower charges also represent a cost for Vector, the EBITDA improvement is due largely to cost containment.

Electricity Operations

Network Reliability

Vector is working with Transpower, the Ministry of Economic Development and the Electricity Commission to develop a shared view on issues surrounding security of supply into Auckland. The severe storm on 12 June 2006, which caused a major failure of Transpower's Otahuhu substation and led to a significant loss of supply, did much to increase awareness of these issues.

Although that failure was beyond Vector's control, it had major implications for our customers in the Auckland CBD and in areas of southern and eastern Auckland. Its impact, plus a number of localised faults on Vector's own Auckland network, was such that, in just one day, our networks suffered 1½ years normal SAIDI (System Average Interruption Duration Index), which measures network reliability.

This testing event, however, proved our response capabilities during extreme conditions and reinforced the quality of our contingency planning, processes and people. We moved proactively to keep customers and the general public informed of developments and to progressively restore power throughout all affected areas as quickly as possible once the Transpower substation fault was repaired.

Allowing for this and other extreme events (applying our proposed extreme event exemption methodology), we recorded an overall SAIDI figure of 80.2 minutes for the regulatory year ended 31 March 2006, to meet our regulatory thresholds, and 84.4 minutes for the financial year. SAIDI increased in the last quarter of the financial year due to poor weather and increased load demand. We have initiated a programme to address load-related issues.

This period is also the first quarter of the new regulatory year and, given the seasonal nature of SAIDI and the straight-line Commerce Commission threshold target, we have a reasonable expectation for a below-target outcome for the full year.

Overall, we maintain a strong focus on the ongoing reliability of our networks, through enhanced vegetation control, our capital development programme and improved asset data and diagnostic tools which have strengthened asset deployment, utilisation and network performance decisions. In particular, we have employed new operational technologies, including automated switches and remote control field switching using the cellphone network, that allow faster restoration of supply to customers following an outage.

Notwithstanding our proactive engagement with customers and the general communities we serve, the business noted slightly reduced customer satisfaction levels due to a number of factors, including the frequency and severity of extreme events during the year.

Ultrasound diagnostic technology has significantly improved the efficiency of monitoring the integrity of the 150,000 power poles on our networks.

Furthermore, Vector is the first electricity distribution company in Australasia with the capability to monitor substation performance using a multi-functional Internet Protocol (IP) platform. The progressive installation of this internet-based communications system in our substations will form the foundation for the ongoing development of intelligent distribution networks.

Vector

Vector – electricity business

Year ended 30 June

	2006	2005	% change
Assets employed ($m)	3,215.7	2,667.0	+20.6
CAPEX ($m)			
- Growth	68.8	51.8	+32.8
- Maintenance	67.9	51.6	+31.6
- OIP	9.6	25.8	-62.8
System length (km)			
- Greater Auckland (Auckland/Northern)	21,849	*21,561	
- Wellington	6,077	*6,169	
Total	**27,926**	***27,730**	

** 2005 lengths are approximations. 2006 lengths are from the 31 March 2006 valuation*

Network Development

The Electricity Business undertook a significantly larger capital expenditure programme during 2005/06. At $146.3 million, the programme was 13% higher than in the previous year, with approximately 46% directed at each of growth and maintenance, and the balance at improvement projects.

Connections to our electricity networks increased by 1.4% to 663,404 as at 30 June 2006. During the regulatory (April - March) year we installed 194km of new cables and lines over our three networks, and installed or replaced 731 transformers. Our delivery capability increased with the addition of 59MVA of transformer capacity on our networks. Delivery capacity on the Auckland/Northern networks was boosted by 46MVA, and the Wellington network by 13MVA.

A significant stage of our long-term project to upgrade the 11kV distribution network in the Auckland CBD to 22kV to cater for future growth is scheduled for completion in August 2006.

Work has been completed on the Bush Road and Te Atatu substations and planning and design has commenced on 11 new substations in the Auckland and Northern networks. We have recently completed 11kV and feeder upgrades in five Auckland areas, and commenced upgrades in three others.

During the year, we worked with Transpower to improve supply security at three grid exit points in Auckland and, together, we continue to appraise Auckland cross-isthmus transmission upgrade options.

Three major projects – at Glen Innes, Weymouth and Howick- were completed in the ongoing, AECT-supported network undergrounding programme in Auckland.

In Wellington, supply security has been enhanced with the completion of a $7.5 million, three-year upgrade of Transpower's Central Park substation. Vector, as Transpower's customer, had requested the upgrade, as part of our commitment to invest in the quality of key infrastructure. The upgrade nearly doubles the substation's peak demand capacity.

In addition, we completed additional transformer capacity at the Westfield substation, are currently adding a further 33kV cable to increase capacity at the University substation, and planning new or reinforced substation projects at potentially five locations in the wider Wellington region.

Continue enhancement of our call centre capabilities, in line with our network and customer base expansion, has opened new commercial opportunities which have included providing response services to Mighty River Power.

Electricity Demand

Urban spread and increased population density continues in Auckland. Planned new commercial centre developments, notably at Flat Bush, Albany City and Silverdale North, represent city-scale electricity connection and consumption requirements in their own right.

The 43 hectare office, retail and residential development at Albany will have an estimated 6,000 residents, and 15,000 employees are expected to live in, or commute to, the new city. Additional electricity requirements of between 9 and 15MVA are expected.

Flat Bush City will require its own zone substation, and the 24 hectare Sylvia Park office development is expected to create over 6,000 jobs and have a connected capacity of 12MVA.

In Auckland, we have been working with Watercare services on electricity supply to the Ardmore water facilities that provide about 60% of Auckland's water needs and, in Wellington, with the Capital Coast District Health Board to enhance electricity supply security for Wellington Hospital as part of the ongoing development of regional emergency response management.

The Electricity Business continues to develop relationships with major end users. Four new electricity retailers joined our networks during the year.

Emerging Energy Technologies

The Electricity Business continues to monitor and explore emerging generation options that have the potential to complement or supersede current technologies. We have developed national and international strategic relationships in our evaluation of distributed, customer-sited and embedded generation technologies.

We are developing a prudent and appropriate level of capability in these areas so we are in a position to move proactively if and when the timing is right to do so. This, in turn, will be influenced by the technology itself and the prevailing regulatory environment.

Treescape (50% owned)

Treescape is a professional tree and vegetation management company operating mainly in the North Island. Its services include tree trimming around electricity lines on Vector's networks, as well as other networks.

Treescape recorded revenue growth of 12% in a year of further expansion of its services. It commenced a five-year contract in Brisbane, Australia, in March 2006, was awarded a five-year contract for vegetation management of New Zealand's rail network, and has established a new division to convert cutover forested land to pasture.

The pasture conversion division assists large forest owners not replanting after harvesting trees to convert the cutover to pasture, mainly for dairy farming. It operates throughout New Zealand.

Treescape has further developed hand-held computers for use in the field to service local authority contracts. These allow Treescape to streamline client reporting, reduce costs, update council tree inventories and improve its own internal productivity reporting.

Treescape is also implementing a number of cost management and service delivery initiatives, including an information systems review covering contracting and plant systems, as well as an office and depot consolidation in Auckland to improve operational efficiencies and support expansion of its services.

Vector – gas business

Year ended 30 June

	2006	2005	% change
Revenue ($m)	486.1	271.2	+79.2
EBITDA ($m)	207.1	129.8	+59.5
Natural gas transported (PJ)			
Transmission	105.3	94.2	+11.8
Distribution	22.8	23.6	-3.4
Sales volumes			
Natural gas (PJ)	35.5	47.1	-24.6
Gas liquids (tonnes) (1)	100,743	99,617	+1.1
Liquigas (tonnes) (2)	111,785	110,577	+1.1
Gas entitlements (PJ)	186	216	-13.9

(1) *Includes On gas LPG sales and KGTP LPG & natural gasoline production/sales*
(2) *Includes domestic market wholesaling and domestic/export tolling*

The gas business comprises natural gas transportation (transmission and distribution), processing and sales, and gas liquids (LPG and natural gasoline production and sales, and the LPG wholesaling and tolling activities of our 60.25% owned subsidiary, Liquigas Limited).

Financial Result

The Gas Business results for the year ended 30 June 2006 aren't directly comparable to the 2005 year due to the addition of the significant natural gas transmission, distribution and sales, and LPG production and sales businesses from the NGC acquisition. Previously, our Gas Business comprised only the Auckland gas distribution network.

The demand pattern experienced by the Electricity Business Line is also evident in the Gas Business, with the cold snap in the latter months of the financial year partly offsetting reduced gas demand during the warmer 2005 winter.

With new customer connections, however, we achieved increased sales to our ongoing core gas customer base and greater distribution network throughput. Transmission throughput was significantly higher due to increased volumes of gas transported for thermal power generation requirements.

Revenues of $486.1 million also include changes to our transmission and some of our distribution tariffs from the start of the new contract year on 1 October 2005.

Our posted transmission price increased by an average of 2.8%, in line with the CPI movement. The capacity reservation fee component of the overall transmission price was unchanged, while the throughput fee increased by 4c/gigajoule (GJ) to reflect increased costs. We are now discussing with the industry proposed transmission pricing in the new contract year, commencing 1 October 2006.

The variable component of posted prices on the former NGC distribution networks rose by just over 3%, leaving the fixed charge component unchanged. The Auckland gas network pricing was reduced by 9.5% from 1 October 2005 in line with the Commerce Commission's decision on regulatory control.

We are discussing with customers proposed distribution prices on the former NGC distribution networks from 1 October 2006. The current pricing on the Auckland gas networks will not change.

On Gas introduced unavoidable price increases from 20 June 2006 to cover increased costs of domestic and imported LPG. The New Zealand market now requires higher volumes of higher cost imported LPG, and this has been further impacted by the lower New Zealand dollar value.

Cost containment helped a slightly better than expected Gas Business EBITDA of $207.1 million.

Gas Transportation

Vector is the system operator for Maui Development Limited's (MDL) onshore pipeline and open access regime. Interim open access on the Maui pipeline, which allowed third parties' non-Maui gas to be transported for the time, began last year. Since then a spreadsheet-based system has been used to administer MDL's access regime.

Full Maui pipeline open access remains on track to commence in August this year using the specially designed Open Access Transmission Information System (OATIS) software platform. Commencement will follow comprehensive industry training for system users.

The OATIS platform will also be used for administering open access on our own transmission pipelines, including the provisions of our modified Transmission Services Agreements (TSAs) resulting from changes in transmission and interconnection arrangements on the Maui pipeline.

Vector always intended to consult with shippers during 2006/07 on further revisions to the TSA for the 2007/08 contract year to incorporate learnings from the practical operation of the new open access arrangements, particularly pipeline balancing. This process will be intertwined with a review of gas transmission access being conducted by the industry regulatory body, The Gas Industry Company (GIC). We are working with the GIC on ensuring outcomes are practical and efficient for all parties.

Vector – gas business

Year ended 30 June

	2006	2005	% change
Assets employed ($m)	1,970.0	1,634.2	+20.5
CAPEX ($m)			
- Growth	27.7	7.6	+264.5
- Maintenance	16.5	4.3	+283.7
System length (km)			
Transmission			
- owned/operated	2,286	2,286	n/c
- operated/managed for other owners	1,195	1,192	+0.3
Distribution	6,587	6,483	+1.6
Distribution network connections	139,007	134,770	+3.1

Systems Operations

Transmission

Transmission system throughput increased by 11.8% to 105.3PJ due to higher demand for gas-fired power generation during a period of reduced hydro availability and, towards the end of the financial year, record general demand for electricity. As most of the additional gas was transported under fixed contracts, it had little impact on transmission revenues.

During the year we received a pipeline route designation for a new pipeline between our compressor station at Rotowaro (at the end of the Maui pipeline near Huntly) to east Tamaki in Auckland. Any future transmission developments will reflect the number and size of future power station developments in or north of Auckland, and will depend on the regulatory environment.

Shortly after year-end we completed the replacement of a 1.2km section of the original transmission pipeline, built in 1970, which had become exposed to coastal erosion in north Taranaki. The new section was relocated inland using horizontal drilling techniques, rather than traditional trenching, as a superior engineering option in the rugged terrain, and to minimise environmental impact.

Transmission pipeline monitoring under the ongoing pipeline integrity management plan included the completion of follow-up activities associated with earlier electronic inspections of Vector pipelines using an intelligent inspection vehicle – "intelligent pig" – which travels through the pipe measuring pipewall thickness. The inspections confirmed the pipes to be in generally good condition. We have also conducted electronic inspections of the onshore Maui pipeline, for which we are the technical operator.

Vector continues to facilitate the delivery of new gas sources to the market. Developers of the Pohokura and Turangi fields in north Taranaki engaged our expertise to tie-in their respective field export gas lines to the onshore Maui pipeline. The tie-ins were effected using a hot-tap procedure, which allows new connections to be made to the "live" high pressure system without interrupting supply.

A further project completed during the year has enabled bi-directional gas flow on the pipeline from our Kapuni Gas Treatment Plant (KGTP) to the Frankley Road mixing station at New Plymouth to provide system flexibility for gas shippers. Previously, the 47km pipeline flowed in only one direction – south - to carry Maui gas to the KGTP to augment supply from that plant.

The pipeline is now capable of transporting gas in either direction, although it will predominantly transport gas north from southern Taranaki fields, which will include Kupe, to link into Maui pipeline for transportation north of Taranaki. Gas flows are measured using new, high technology ultrasonic meters.

The project required extensive reconfiguration of the Frankley Road station and upgrading of KGTP facilities.

Distribution

Distribution reporting aggregates the Auckland and former NGC networks. Total distribution throughput was 3.4% lower at 22.8PJ due to reduced demand during the warmer 2005 winter.

During the year we laid 104km of new gas mains and added 4,237 customers to our networks (2005: 6,022). The current year connections include over 400 new business customers, representing significant load, and take total connections to our networks to 139,007.

Mains laying and connection rates reflect reduced building activity and fewer manufacturing and tourism projects in areas served by our networks. However, there was evidence of increased subdivision consent applications towards the end of the financial year, particularly in Auckland and Waikato.

Vector is involved in several major gas network relocation projects in conjunction with Auckland roading upgrades. We expect this to continue for the foreseeable future as initiatives are made to relieve traffic congestion.

During the year we replaced a further 31km of ageing Auckland gas networks with polyethylene systems and installed higher-capacity equipment to improve gas deliverability into the Auckland CBD and to Auckland Hospital.

A proprietary electronic system to manage the work flow of all connections in Auckland has been in use for a year. It is proving beneficial to retailers and other parties in the supply chain, all of whom can access the same data online. A specialised Connections Team has been established to proactively coordinate all aspects of a gas connection and maintain regular communication with individual customers.

Natural Gas Sales

As previously reported, the reduction in natural gas sales arises from a reprofiling of our gas supplies to electricity generators and the absence for most of the year of supply to petrochemical manufacturing customers. From mid June 2006, however, we commenced a new 15-month supply contract with urea producer, Ballance Agri-Nutrients, equating to an annualised volume of approximately 7 petajoules (PJ).

As a consequence of these factors, and slightly lower sales to non-Vector Group gas retailers, natural gas sales to electricity, petrochemical and other retailer customers amounted to 10.3PJ, compared with 23.8PJ in the pcp.

Natural gas sales to our large industrial and commercial customers increased by approximately 12% to 20.8PJ, with new and recontracted load outweighing customer loss through either conversions to other fuels, or plant closures.

Sales growth was most evident in the horticultural sector, which is expanding by about 10% per annum and now accounts for over 1.3PJ of our natural gas sales. We successfully tendered for several new customers, including a major four-year supply contract with Bluescope New Zealand Steel, and renewed a contract with our largest customer, Carter Holt Harvey, for approximately five years.

While market prices for gas stabilised during the year, further adjustments are expected as new supply sources progressively replace lower-cost Maui gas. We have also introduced two new pass-through cost components into our pricing – Maui pipeline transmission charges under the new open access regime, and the GIC levy.

The changing supply and price environment is prompting some of our customers to contemplate their future energy options and, during the year, two moderate-sized customers converted to an alternative energy supply.

The balance of our gas sales represents own-use volumes for transmission system, KGTP and Kapuni cogeneration plant fuel.

Natural Gas Supplies

Our gas entitlements portfolio of 186PJ taps New Zealand's three largest fields – Maui, Kapuni and Pohokura. We expect to start taking Pohokura gas from late September this year and we are currently in negotiations with Maui Development Limited (MDL) on additional Maui gas for which we have a right of first refusal (ROFR).

The portfolio allows us to comfortably meet our contract commitments with customers for the next 4-5 years, although the more complex, multi-field supply environment requires careful management of the contracted purchase and downstream sales balance.

We continue to seek opportunities to further build our entitlements. In this we are encouraged by the current level of onshore exploration, the discovery of gas reserves in the Turangi field and confirmation of an investment commitment that will see the Taranaki offshore Kupe field developed and on-stream by mid-2009.

Vector has confidence there are significant quantities of undiscovered hydrocarbons in New Zealand, but would like to see increased drilling activity offshore, which holds a higher probability of a major new find.

As part of a prudent longer-term supply strategy, we continue to evaluate and monitor developments in liquefied natural gas (LNG) and compressed natural gas (CNG) importation. As either of these can supplement indigenous production we don't have a concern over gas availability.

There are a number of different scenarios for the future shape of the New Zealand gas industry, but ultimately it will be influenced by requirements for thermal power generation. We believe gas will continue as a key feature of the electricity generation mix for the foreseeable future and, as demand for electricity also grows, cost effective long term supply arrangements will be required.

Given the necessary planning, contracting and construction lead times for plant and related infrastructure, important decisions are likely to be needed in the next 2-3 years.

Gas Liquids (LPG/natural gasoline)

Vector's LPG customers increased by 1,763 to 15,489 (or 12.8%) during 2005/06. However sales volumes by our On gas retailing business remained static at 45,086 tonnes (2005:45,373 tonnes) due to the effects of the warmer 2005 winter, which were only partly offset by the colder conditions at the end of the financial year.

Bulk sales were approximately 2% below the pcp, primarily because of reduced demand for 9kg cylinder fills through service station forecourts during the warm period. Residential 45kg cylinder sales were similarly affected, although new customer connections contributed to a 2.6% increase in sales to this market segment.

The On gas LPG distribution infrastructure was further strengthened, with construction beginning on new filling facilities in Auckland to improve deliveries in the growing upper North Island market, additional delivery trucks and the commissioning of a bulk installation in Christchurch to service expanding reticulated systems at the Te Mara residential subdivision.

Indigenous LPG availability is declining in line with reduced Maui natural gas production and LPG importation, required in recent years only to supplement peak winter demand, is now a year-round feature of LPG supply into the New Zealand market.

LPG produced at our Kapuni gas treatment plant during the gas treatment process and sold into the New Zealand market increased by almost 3%. Production of natural gasoline, which is sold as a refinery feedstock, increased by 2%.

Gas Processing

The year saw increased focus on operational excellence and tactical objectives for the Kapuni Gas Treatment Plant (KGTP). Elements of the programme include the introduction of:

- a comprehensive Quality Management Plan, an ISO compliant quality map that covers all major business activities at the plant;
- a real time "Uptime" plant performance metric to enhance plant reliability, performance and cost efficiency. Plant availability of 97.1% and utilisation of 99.3% align with international benchmarks; and
- strengthened management capability.

Gas processing was constrained during the year by reduced gas availability from the Kapuni field. This affected treated gas output, which declined from 20.6PJ to 19.3PJ, and the volume of gas liquids produced during the treatment process.

The carbon dioxide purification and liquefication expansion project was completed during the year, and production capability has increased from 85 to 120 tonnes per day.

State-of-the-art analysers for moisture and hydrocarbon testing are being installed at the KGTP in response to the higher product quality control requirements of the Maui open access arrangements.

Gas Business Summary

$ Million	**Gas Transportation**	**Gas Wholesale**	**Total**
Revenue	130.1	356.0	486.1
EBITDA	112.5	94.6	207.1
% Revenue	86.5	26.6	42.6

Vector – technology & services

Year ended 30 June

	2006	2005	% change
Revenue ($m)	60.3	36.9	+63.6
EBITDA ($m)	41.9	23.8	+75.9
Assets Employed ($m)	416.2	426.0	-2.3
CAPEX ($m)			
- Communications	12.6	3.8	+231.6
- Energy Metering	14.3	1.5	+853.3

The Technology and Services Business Line incorporates Vector Communications and energy metering - NGC Energy Services and Stream Information (70% owned).

Vector Communications

Vector Communications, a provider of high performance fibre optic networks for the provision of broadband services, recorded revenue growth of 28% during the year.

During the year, our focus on major accounts resulted in a number of newly-signed corporate customers and our selection as a supplier to two new Government-sponsored national networks - one providing connectivity and communications services to government agencies, and the other similar services to universities and research institutions.

We extended our fibre optic network to Takapuna during the year and successfully commissioned a 35km fibre optic ring in Waitakere City to link key Vector electricity substations. Enhancement of fibre optic services on Auckland's North Shore has improved service reliability for customers in Albany.

Additional value-added services already provided to other Vector businesses, including managed IP (Internet Protocol) services between Vector's electricity substations and to the internet for Vector's IT service centre, are being offered to external customers.

More efficient installation processes are being employed. Agreement has been reached with another Auckland utility operator on the use of an open trench and the provision of ducting for fibre optic cable between Torbay and Silverdale, and we have introduced innovative air blown technology for fibre reticulation.

Vector Communications' sales remain strong, despite competition from higher profile, lower cost ADSL internet services. We continue to see a general demand shift from low bandwidth ethernet services, providing connectivity between ISP and small businesses, to the higher bandwidth, higher value services which make up the majority of our revenues.

Vector – technology & services

Year ended 30 June

	2006	2005	% change
Energy Meters			
Electricity:			
Mass market	786,046	793,246	-0.9
Pre-pay	7,105	8,530	-16.7
TOU	10,809	10,383	+4.1
Data Services (NZ)	8,757	8,410	+4.1
Data Services (Australia)	6,103	5,500	+11.0
Gas	65,300	61,300	+6.5

Energy Metering

Energy metering is entering an exciting phase, as the increasing cost of energy globally and the rapid growth in demand has reinvigorated focus on the opportunity for demand side management to significantly reduce the cost burden of energy on consumers and the national economy.

Vector is already delivering data which is used in demand side tariffs and customer connections in both New Zealand and Australia. Further work is being undertaken to develop, confirm and crystallise options which will enable the retailers to provide demand side products to consumers.

Vector believes any solution must be appealing to consumers whilst meeting the objectives of government and industry stakeholders. As such, Vector is seeking to engage with other participants to develop collective industry solutions.

Alongside developing an industry model, our focus remains on providing quality service to our customers as well as developing specific niches that provide opportunities to deliver additional value to energy retailers and end use consumers.

NGC Energy Services

Energy Services' revenue rose by 1.4%, driven by increased leasing of new technology "smart" prepay meter equipment, data management services growth in both New Zealand and Australia, and higher numbers of gas and large Time of Use electricity metering installations. Revenues now include a vending services component for the smart prepay meters.

The revenue growth was achieved despite a lower level of billable mass market and prepay electricity meters in the year. The reduction in mass market meters partially reflects the competitive metering market and partially reconciliation and rationalisation of historical asset data held by the company and its customers. However, this masks a steady level of new connections.

The short term decline in prepay meters arises from one retailer's decision to deploy its own prepay technology, and is being offset by the progressive roll-out of our smart prepay meters to our largest retailer customer and potentially to other Australasian retailers.

We have continued the implementation and testing of new metering technology on several fronts:

- the initial deployment of smart prepay meters in conjunction with a major electricity retailer is complete and we have initiated a programme to offer this technology to new customers.
- piloting of the advanced intelligent networked meter system designed specifically for the needs of deregulated, competitive electricity markets been concluded, with testing at sites in Auckland, Wellington and Christchurch. In Auckland, it has been linked to Vector's fibre-optic infrastructure to assess optionality and synergies.
- With another major retailer, we have completed testing of remote read technology for dual fuel sites as a solution where site access is difficult. As an estimated 9% of Installation Control Points (ICPs) fall into this category, we view this as a growth opportunity.
- the commencement of operations using the data services platform of Energy Intellect Limited (25.05% owned) has allowed closer alignment of our New Zealand and Australian data services teams, and will provide a more reliable and scalable service.

Stream Information

Stream Information continues its growth of recent years, performing ahead of expectations and benefiting from improved sales in the second half of the year, and from a consolidation and cost management strategy.

New elements in Stream's product range - current transformer and voltage transformer sales, power factor correctors, and customised advisory services – have surpassed expectations and are positioning Stream as a provider of all assets around a metering/new connection point.

Our direct customer relationships remain strong and allow us to access new connection growth. During the year, we renewed our contract with a major electricity retailer. Another reaffirmed a desire to extend its current metering contract with us and, in June, we commenced supplying meter services to a new entrant retailer. Our services agreement with Auckland Airport has been extended for another five years and, in addition, we will now also manage its metering information.

The consolidation strategy is producing discernible benefits. For new connections, Stream now generally supplies all of the assets associated with a customer's connection point, and in some cases we have assumed ownership of existing current transformers at customer premises.

The Time of Use (ToU) – or interval - metering services market, to large customers requiring half hourly readings, maintains organic growth.

In addition, we are working closely with customers to provide a more complete set of metering services. This is taking us further into the non traditional area of mass market metering (or non ToU) metering. During the year we installed non-ToU metering in a large Auckland shopping mall and we have been selected by the same customer to provide similar metering at a new mall in Albany.
Stream will also own metering equipment at other malls where the owners are venturing into embedded networks, which allows individual retailers to select their own electricity provider.

We continue to test our power factor correction service for large customers. Under these arrangements, Stream will provide, own and maintain equipment to minimise the prospect of customers suffering penalties due to poor power factor. This service has considerable growth potential.

We have renewed a two-year reading contract with Energy Intellect and, shortly after balance date, we concluded an agreement to rollout approximately 2,800 smart electricity meters and wireless communications products, supplied by Energy Intellect, ahead of the decommissioning of Telecom's legacy analogue cellular network in March next year.

Vector – corporate

Year ended 30 June

$m	2006	2005	% change
Overheads	41.3	42.8	-3.5
Net interest expense	228.5	193.4	+18.1
Taxation	81.3	59.0	+37.9
Net short term debt	219.1	1,025.5	-78.6
Long term debt	2,862.0	2,122.1	+34.9
Equity	1,925.9	1,045.6	+84.2

Vector runs a shared services model in which centres of excellence in Finance, IT, Organisation Development (including HR) and Property, in particular, support the business groups.

The results for Utilitech, a stand-alone Private Training Establishment within Vector that provides skill training for our own network operations and other energy utility employers, are included within corporate.

Utilitech

Utilitech is significantly expanding its training facilities in response to unprecedented demand for skilled distribution technicians in the energy utility sector.

Utilitech recorded a revenue increase of more than 50%, resulting from an overall increased level of activity, as electricity and gas utilities and contracting companies address the skills shortage in the face of increasing capital replacement and maintenance requirements.

Utilitech has increased the range and quantity of its electricity and gas distribution training courses to meet the demand for industry recruits and the upskilling, assessment and refresher training of existing staff. Of the new courses introduced during the year, there has been an especially strong uptake of training towards national qualifications in electricity cable-jointing and gas network construction.

Utilitech is also redeveloping its main training facility in Auckland, opening a new fully-rigged training centre in Hamilton and increasing the number of specialist trainers. It also has a training facility in Wellington and regularly delivers training at facilities in Christchurch and Dunedin.

As well as courses directly associated with electricity and gas distribution network installation, maintenance and repair, Utilitech provides training in associated fields such as off-road driving, elevated work platform use, chainsaw operation, traffic management, CPR/first aid and use of fire extinguishers.

During the year, 76 electricity line mechanic trainees completed their two-year training programme, 19% more than in 2005. A further 36 overseas qualified line mechanics recruited by New Zealand companies were trained and assessed for New Zealand registration. Together, the 112 newly-qualified line mechanics represent a 58% increase over the previous year.

A further 21 qualified line mechanics were upskilled to “live line” certification, a 16% increase over 2005, and the number of electrical worker competency reassessment courses, of various durations and candidate numbers, increased by 42% to 143.

The launch of a Certificate of Competency regime by the reticulated gas (natural gas and LPG) and gas measurement sectors resulted in the awarding of 1,096 level 2 and 616 level 3 subjects, an overall increase of 10%. This growth is flowing into 2006/07 as trainees complete the programme.

Utilitech, holds both NZQA and Electrical Workers Registration Board accreditation for the training of electricity distribution personnel, was named as the 2005 Trainer Provider of the Year by the Electrical Supply Industry.

Regulation and Industry Governance

There have recently been a number of important regulatory developments affecting Vector directly, as well as the markets in which Vector has significant business interests. They include:

- Discussions with the Commerce Commission on an administrative settlement regarding historic threshold breaches by Vector, and a subsequent Commission decision to publish its intention to declare control of Vector's electricity distribution services;
- Commerce Commission proposals for a Final Authorisation under control of Vector's gas distribution services in Auckland;
- The introduction of telecommunications legislation to increase wholesale telecommunications competition, with a particular focus on broadband services; and
- The announcement of a Ministerial review of regulatory frameworks.

Electricity Network Administrative Settlement/Inquiry

We are discussing with the Commerce Commission an administrative settlement relating to previously disclosed electricity network price path and quality threshold breaches in 2003/04. These were a $76,000 price threshold breach (on revenue of $477 million) being the difference in the forecast and actual recovery of Transpower transmission charges, and a quality threshold breach caused by extreme weather.

This opened the way for the Commission to examine imbalances in Vector's charges to different consumer groups, which the Commission sees as a key issue. The Commission has previously publicly stated it is "fairly confident" an administrative settlement can be achieved.

It had been anticipated that, under an administrative settlement, the breaches would be cleared and Vector would commit to the completion of its current price rebalancing programme. The discussions had focussed on the rebalancing method and timeframes. More recently, the Commission raised the resulting overall returns from our electricity networks as a concern.

However, on 9 August 2006, the Commission announced its intention to declare control of Vector's electricity distribution services. The control process is ongoing and the Commission has initiated a public consultation process as part of that. The Commission will make a final decision at the end of the consultation process. In the meantime, Vector's electricity lines business is not under price control, although it is still subject to the Commission's thresholds regime under the Commerce Act.

We have previously disclosed the potential for such a post-breach inquiry and that an investigation can lead to price control processes if the Commission considers that is warranted.

Vector is continuing to discuss the possibility of an administrative settlement with the Commission. If Vector can reach agreement with the Commission on a mutually acceptable administrative settlement, the Commission will not declare control.

Auckland Gas Networks Final Authorisation

On 8 July the Commerce Commission released a decision not to amend the Provisional Authorisation for regulatory control over our gas networks in Auckland. These assets were placed under control on 25 August 2005 following the Gas Control Inquiry.

The decision means the nominal price freeze on gas distribution charges for our Auckland networks will remain in place until the Final Authorisation.

At the same time, the Commission released a discussion paper on the form of control for the Final Authorisation and, in doing so, indicated its preference for a weighted average price cap control approach for standard consumers, and a total revenue cap approach for non-standard customers and metering services.
The initial control period is proposed as five years from 25 August 2005, and the proposed Final Authorisation form of control will apply to Vector's Auckland gas network prices for three years from October 2007 to October 2010.

The current proposal is structured to include an initial price reduction and an ongoing CPI-X factor. Vector was subject to an initial reduction of 9.5% from 25 August last year. The Commission is proposing to allow pass-through of uncontrollable costs, such as regulatory and statutory levies, and proposes to link financial incentives to service quality.

Submissions on the proposed form of control are required by 7 August 2006 and a conference is planned for 5-6 September 2006. Draft decisions will be presented for further consultation in early 2007.

The former NGC gas networks and metering services are not included in this process.

Quality Regulation Review

Vector has welcomed the Government's announcement in May 2006 of a Ministerial review into regulatory frameworks. Most relevant for Vector are reviews of Parts 4 and 5 of the Commerce Act, and the implications that may have for Part 4A of the Act, which regulates Vector's electricity lines business.

We are now developing our input into the review, which will emphasise our belief in the need for an expanded right of merit appeal under the Commerce Act to strengthen transparency and confidence in regulatory processes.

The key pillars of a robust regulatory regime are the establishment of an objective framework, within which regulators and companies can operate with certainty, and appropriate rights of appeal.

Vector sees the review as an important means of addressing regulatory duplication and impediments to investment across the broader economy, as well as the specific electricity and gas infrastructure sectors in which we operate. All three are subject to greater, increasingly complex regulation at a time when they require large amounts of new investment.

In Vector's opinion, it is critical that the regulatory framework encourages this investment, while retaining appropriate consumer protection. This protection, in turn, must take account of consumers' longer term requirements for safe, secure and continuous utility services.

Telecommunications Legislation

We see potential opportunities arising from legislation introduced on 29 June 2006 to deliver improved broadband services by increasing competition between internet service providers for the home and business market.

The Telecommunications Amendment Bill will implement the Government's telecommunications implementation review and the pre-budget telecommunications stocktake package announced on 3 May 2006. It is seen by the Government as facilitating an improved performance by the New Zealand telecommunications sector and assisting it to catch up with leading OECD countries.

Specific objectives include establishing an effective telecommunications wholesale regime and increasing broadband uptake through the timely availability of cost-effective broadband services. The Bill's provisions include the unbundling of the local telephone loop, the extension of services subject to regulation and strengthened powers for the telecommunications Commissioner to implement services and to monitor and enforce compliance.

It is expected the Bill will be passed by the end of the year, following the Finance and Expenditure Committee receiving submissions and reporting on the Bill by early November.

Vector will participate in this legislative process.

Other Current Matters

1. Gas Industry Company

The transition to a post-Maui contract supply environment provides the opportunity for the industry to refresh its approach to a number of its arrangements. Vector is engaged closely in these processes.

Transmission Access Review

Vector has operated open access to its high pressure gas transmission system for more than 10 years. The GIC is reviewing how the newly-established open access regime interacts with Vector's arrangements.

Access to Gas Processing

In addition to its review of gas transmission access, the GIC has also consulted with industry groups on the issue of access to gas processing facilities, which include Vector's gas treatment plant at Kapuni (KGTP). As we seek to maximise utilisation of this asset, we already actively promote its availability to gas owners requiring processing services.

National Gas Outage Contingency Plans

Vector is assisting the GIC to establish clear and robust processes for dealing with major contingency events on the gas system, including measures to compensate parties who suffer costs in resolving them.

2. New Zealand Energy Strategy

The Government released the terms of reference for the development of the New Zealand Energy Strategy on 4 July 2006. It will identify priorities to achieve the Government's energy objectives of reliability and resilience, environmental responsibility, and fair and efficient pricing.

Vector is fully engaged in this process. A draft of the Energy Strategy is expected in September and submissions will be sought.

3. Climate Change

Also on 4 July 2006, the Government released a Cabinet paper and whole of Government work programme on climate change. This takes a long term view of climate change policy and notes the much focused-on Kyoto protocol response for 2008-2012, while remaining important, is only a subset of climate change.
The Government is considering options to replace the broad-based carbon tax proposal, which had a narrow focus on large energy users/emitters, with alternatives including agreed targets to improve performance to world best practice.

The National Energy Strategy and National Energy Efficiency and Conservation Strategy are seen by the Government as integral to the climate change work programme and will contribute substantially to this country's response to climate change.

We have been participating in climate change policy developments since the early 1990s and will take the opportunities presented by the climate change work programme to continue our engagement with Government on this matter.

Integration Update

We continue to make good progress with the integration of the Vector and former NGC businesses. The four-phase integration programme, which commenced in August 2005, is substantially completed although there remains an ongoing focus in such areas as staff development, company culture, and internal policy and systems implementation.

Early integration achievements have included the creation of a single gas business and implementing a one-company approach to project governance and regulatory affairs management.

We have since introduced single structures, and implemented Group-wide strategies in other important areas of our business, including:

1. IT

Our IT capabilities are crucial to the achievement of our technology-driven business strategies.

Vector now operates a single company-wide, customer centric IT service centre, with current priorities focused on IT infrastructure, software and financial management systems integration, and upgrading of the IT architecture.

2. Risk and Assurance

Business continuity planning is now managed under a company-wide framework to ensure all business, emergency and crisis plans are consistent and compatible with both the new organisation structure and our responsibilities as the owner of a number of lifeline businesses (electricity distribution, and gas transportation and sales). A committee led by the Company's executive team is overseeing the integration and testing of these plans, with a current focus on IT systems, disaster recovery and bird flu preparedness.

The insurance requirements of both companies are being consolidated into a single programme from 1 September 2006. Rather than simply construct a programme based on previous practice, we have taken the opportunity to conduct a full insurable risk assessment and tailor an insurance portfolio to the specific needs of the combined business. Our approach acknowledges that insurance is just part of a risk management regime that necessarily also includes good recruitment and training processes, high standard health and safety practices, and asset maintenance and management.

We have conducted a fresh appraisal of the risk profile across the business and are developing a single, consistent risk classification and evaluation process as part of our risk management system and practices going forward. The quality of risk management systems has taken on an important new dimension with Standard & Poor's now taking this into account in its credit rating assessments.

3. Corporate Governance

Following the listing of Vector's shares and the merger with NGC, we are conducting a full corporate governance review, taking into account existing Vector policies, the policies and practices developed by NGC during its 13 years as a listed company, international best practice, and the current business environment.

4 Property Management

The integrated Group Property team manages the considerably expanded portfolio of accommodation for Vector's operations. Prior to the NGC purchase, Vector had four operating sites (offices or training facilities) and NGC had 23 (offices, local service depots, gas filling and production sites). Subsequently two office sites - one in Auckland and one in Wellington - have been closed and the main Wellington office will be reduced from three floors to two. The Auckland offices are being increased by one floor.

The Property Team's responsibilities include property acquisition and disposal, lease management, and the provision of services such as repairs and maintenance.

5. Procurement

We are implementing the findings of a Group-wide review of procurement processes, which identified opportunities to reduce capital and operating costs through strategic procurement, process rationalisation, supply chain restructuring and skills development.

6. Marketing

Current priorities for the Group Marketing team include brand integration and development, targeted programmes for Vector's various goods and services, and strategic partnership development.

At a corporate level, branding has been consolidated into "Vector" and we are well advanced with consolidating the multiple Vector and former NGC market-facing products into a single brand to strengthen market presence and deliver cost efficiencies.

A number of promotional campaigns have been delivered across our networks to build Vector's presence and support customer growth initiatives. A channel programme review has improved customer connection processes, and we have developed a strategic marketing relationship to provide a presence in show homes, technical centres and building trade training centres. The latter has led to significant new lead generation across our gas networks.

The Marketing team has also established an internal product development initiative that encourages creative ideas for new products and business improvement programmes, and provides a process for these to be assessed, developed and launched.

ADDITIONAL CAPITAL MANAGEMENT INFORMATION

Vector

Financing strategy

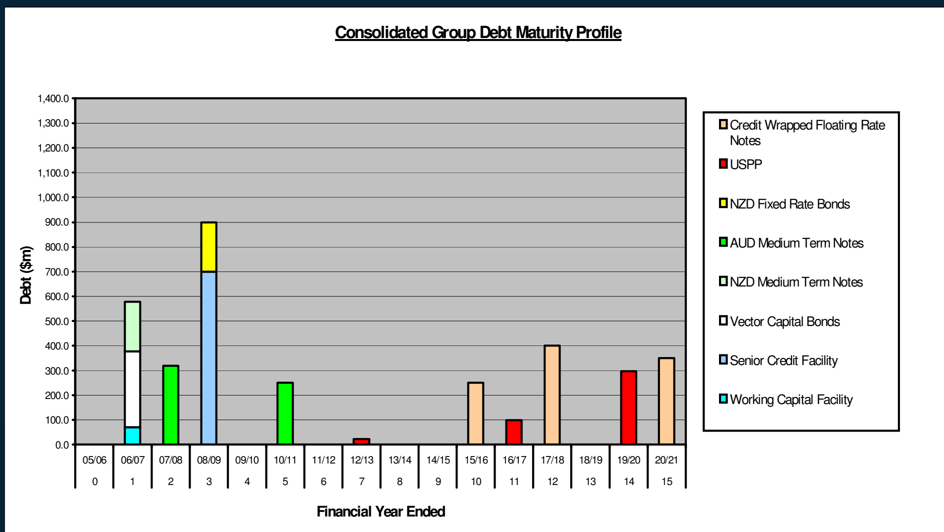
- Geared towards a balanced and diversified portfolio
- Use of overseas and local markets as appropriate.
- Continuing to build on existing good relationships in local and overseas debt markets.
- Maintain 65% to 70% debt/debt + equity ratio
- Managed within Board approved Treasury Policy
- Maintenance of BBB+/Baa1 ratings remains primary focus and commitment.

Vector

Vector Group debt profile

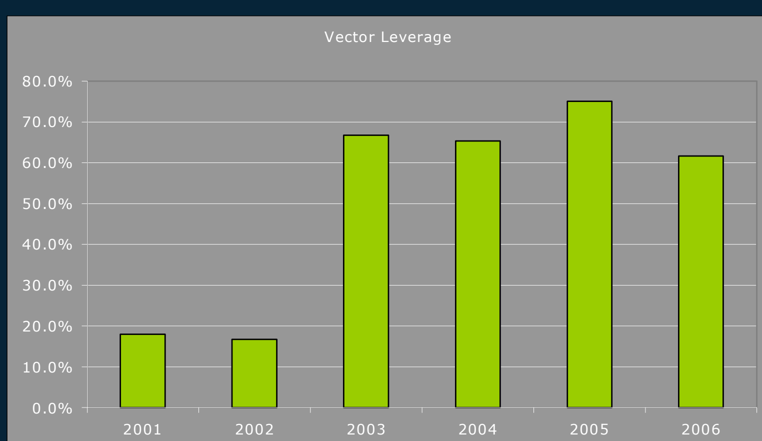
Facility	Maturity	Facility Amount (NZ $m)	Drawn as at 30 Jun '06 (NZ $m)
Working Capital Facility	19-Oct-06	70.0	27.0
Capital Bonds	15-Dec-06	307.2	307.2
NZD Medium Term Notes	04-Apr-07	200.0	200.0
AUD Medium Term Notes	14-Apr-08	319.0	319.0
Senior Credit Facility	21-Oct-08	700.0	365.0
NZD Fixed Rate Bonds	04-Mar-09	200.0	200.0
AUD Medium Term Notes	06-Apr-11	250.0	250.0
US Private Placement	16-Sep-12	22.8	22.8
Floating Rate Notes	26-Oct-15	250.0	250.0
US Private Placement	16-Sep-16	98.9	98.9
Floating Rate Notes	26-Oct-17	400.0	400.0
US Private Placement	16-Sep-19	296.6	296.6
Floating Rate Notes	26-Oct-20	350.0	350.0
		3,464.5	**3,086.0**

Debt facilities profile



Leverage levels

- Current leverage level is seen as appropriate and capital efficient

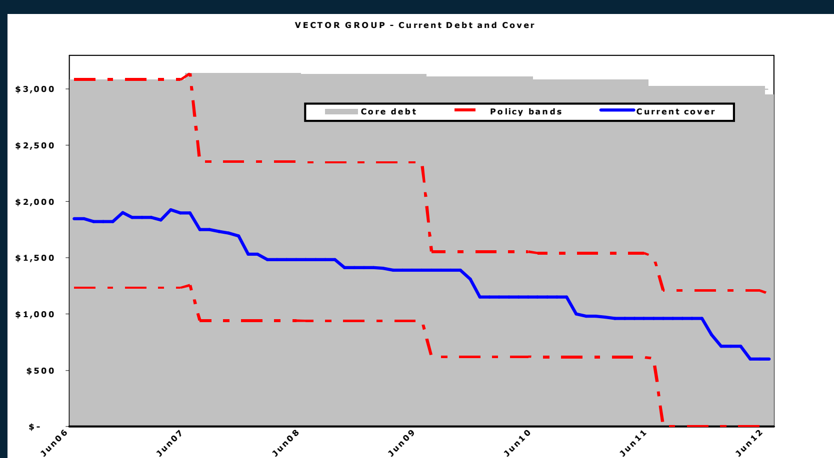


Core treasury policies

- Interest rate risk management
  - minimise the cost of total debt
  - control variations in interest expense for the debt portfolio from year to year
- Currency risk management
- Funding risk management
  - ensure appropriate level of funding available to meet overall business objectives, in the short, medium and long term
  - debt/lender diversification

Interest rate risk management

- Total debt and fixed rate cover - actual versus policy



Refinancing of existing debt

- October 2006: $70 million Working Capital Facility
- December 2006: $307.2 million Capital Bonds
- April 2007: $200 million Medium Term Notes

Vector capital bonds

The Capital Bonds reset process is as follows:

- Reset due 15 December 2006;
- Vector can opt to convert any amount of Bonds into equity @ 97.5% of 20 day VWAP prior to reset date; for any Bonds not converted then,
- Vector can reset the terms and offer back to all holders;
- Any Bonds not taken up on the new terms by holders are returned to Vector who must offer them into the market through a resale facility; then
- Any reset Bonds not sold through the resale facility must be redeemed by Vector.