

A blurred night photograph of a city street. The image shows a street with buildings on either side, illuminated by various lights. The motion blur gives a sense of activity and movement. The text "Smart management //" is overlaid on the left side of the image.

Smart management //

Focus on results //

Innovativethinking//



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a snapshot

of the fifteen months to 30 June 2003

- Acquisition and subsequent integration of UnitedNetworks Limited.
- Total assets increased from \$1.0 billion to \$3.1 billion.
- Total customer connections increased from 274,000 to 695,000.
- Financial performance exceeded forecasts.
- Earnings of \$305.8 million before interest, tax, depreciation and amortisation.
- Net surplus after tax of \$49.7 million.
- Dividend of \$32.2 million paid in August 2003 to the Auckland Energy Consumer Trust.
- A new organisation in place:
 - Restructure and restaffing
 - Systems rationalisation
 - Relocation of Auckland people and technology to one site



CHAIRMAN'S REVIEW

A totally different Vector

"In a fifteen-month timeframe, Vector has transformed itself from a regional electricity lines company to New Zealand's largest diversified infrastructure network owner and manager."

In this period, we have completed the merger of two major energy businesses into a single new organisation, delivered a very strong operating result, and a net surplus ahead of forecast. The board is delighted with the progress that the company has made to this point.

Vector now has a portfolio of substantial businesses, each with potential for future growth through expansion, new products and services, and greater productivity through the innovative use of technology.

The acquisition of UnitedNetworks trebled Vector's total assets from \$1.0 billion to \$3.1 billion, making it one of New Zealand's top 10 companies by total asset value. The significance of this achievement was recognised when Vector was awarded "The 2002 New Zealand Deal of the Year" at the prestigious Asiamoney Awards in Melbourne at the end of last year.

Delivering the goods

The fifteen-month reporting period is the result of a decision to move the company's financial year end to 30 June.

Vector's after-tax net surplus for the period to 30 June 2003 was \$49.7 million.

While this is less than the \$61.7 million net surplus for the twelve months to 31 March 2002, it includes significant financing and one-off integration expenditure, much of which should be viewed as an investment in positioning the company to deliver future value.

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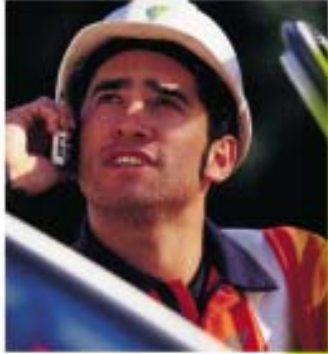


Michael Stiassny, Chairman

The fact that this result exceeded forecast expectations reflects the speed with which the company is now unlocking the benefits of its merger with the complex portfolio of UnitedNetworks' businesses.

In the fifteen-month period under review Vector's operating revenues were \$527.1 million. A strong building sector grew connection numbers in the greater Auckland and Wellington regions by 2.5%. However, this was partially offset in May and June 2003 by lower electricity revenues due to the Target 10% campaign, which resulted from early winter electricity shortages.

On the expenditure side, the result included several months of duplicated overheads incurred before and during integration, one-off integration costs, significantly higher interest costs, and amortisation of goodwill. Operating earnings (EBITDA) were \$305.8 million for the period.



Raising capital

In November 2002, Vector raised capital to the value of \$307.2 million in capital bonds. The bonds are listed on the New Zealand Exchange (NZX), with an initial term of four years, and an initial interest rate of 8.25% per annum. The interest rate consequently increased to 9.75% as the result of the company's decision not to proceed with a public offer of 24.9% of the company's shares. This decision was made by the Vector board in August 2003, on the basis that Vector has no current need to raise additional capital.

Dividend

On 29 August 2003 Vector paid a dividend of \$32.2 million to its sole shareholder, the Auckland Energy Consumer Trust (AECT). The Trust has the responsibility of distributing the dividend to its beneficiaries, Vector's customers in the Auckland, Manukau and Papakura regions. Over the last eight years the AECT has paid out over \$400 million in dividends back to the community.

Under new management

There were a number of changes to the Vector board and leadership during the period under

review. The new board has quickly developed into a strong cohesive unit, and is well represented with a wide range of capabilities. Similarly, new chief executive Mark Franklin joined the company in February this year, and has quickly and efficiently got on with putting together a high calibre team to move the company ahead. The board is very pleased with how quickly this has all come together under challenging circumstances.

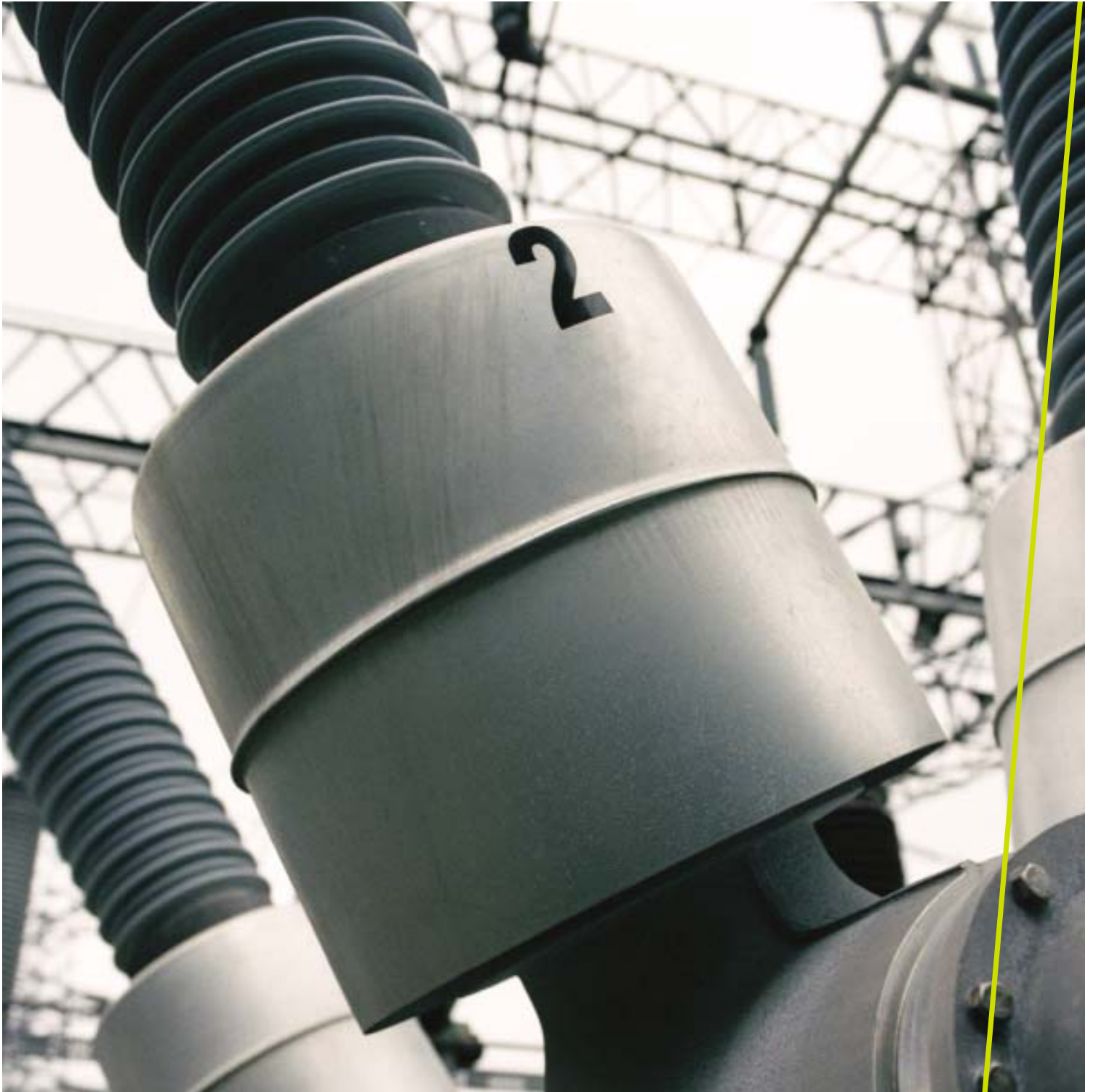
The board of directors would like to acknowledge the contribution of former directors and management.

Looking ahead

First up, Vector will be focusing on maximising the gains to be achieved from its merger with UnitedNetworks, and achieving its performance targets for the year. Strategically, the management team will be completing a planning framework which will assist it to identify and prepare the company for future growth opportunities in New Zealand and Australia. Vector's shareholder and investors can be justifiably excited about its future prospects.

The board of directors would like to acknowledge the efforts of all Vector staff and service partners during what has been a period of significant change. Their teamwork and consistently high standards of professionalism are reflected in the strong result we are reporting here, and I congratulate them all for this success.

Michael Stiasny Chairman





CHIEF EXECUTIVE'S REVIEW

"Since joining Vector in February this year I have had the privilege to lead the company through its integration with UnitedNetworks - and to create and deliver a new organisation."

The beginning of an exciting journey

We have endeavoured to achieve this as quickly and efficiently as possible, while continuing to emphasise core business performance and meet our operating targets. We have also been developing a new organisational infrastructure - a strategic framework for future growth; core and aspirational values; and strategies for leadership and people development.



Mark Franklin, Chief Executive Officer

" An incredible amount has been achieved by a very dedicated team."

While such a load has challenged our resources at times, I am proud to report that Vector has achieved on all three fronts. We have realised a number of integration efficiencies earlier than anticipated, met or exceeded a large number of our core business targets, and made significant progress in developing a platform for growth in our new organisation.

A very long list...

An incredible amount has been achieved by a very dedicated team during the past fifteen months, and pages 12 to 14 highlight those of each of Vector's individual businesses during that period.

From a wider organisational perspective, key accomplishments included:

- The successful acquisition of New Zealand's largest energy infrastructure company - a major project within itself;
- Reorganisation of Vector's management and executive structure;

- Completion of a company-wide consultation and restructuring process, introduction of new employment contracts, a new remuneration structure and the relocation of all Auckland staff to Newmarket;
- Completion of the legal amalgamation of Vector Limited and UnitedNetworks Limited;
- Integration of financial systems, risk management systems, customer management systems and network control systems;
- Repositioning and re-branding of the corporate organisation, and the various consumer brands that form the Vector portfolio;
- Taking a leadership role in co-ordinating industry efforts to address regulatory and other energy issues;
- Recipient of the prestigious GITA Excellence Award 2002 for the best application of Geographical Information System (GIS) technology in the Australasian region;



Safety and excellent workmanship is critical on electrical networks and Utilitech, the Vector-owned training provider, not only provides the necessary training and skills, it is also an industry leader in promoting those qualities. At the 2003 Electricity Supply Industry Training Organisations' conference in Hamilton, Utilitech organised a nationwide competition between teams comprising three fully qualified linesmen and one trainee. After a theory test covering electrical standards, legislation and health and safety requirements, and various practical exercises, three finalists were left to compete in a typical exercise in the field: constructing a 400 volt extension line under a supposedly live high voltage network. Utilitech organisers were naturally delighted to see the winning team comprised of line mechanics who had been trained by none other than Utilitech.



At this very second,

vital information from the national grid owner, Transpower, is racing across downtown Auckland, up the Sky Tower and out to a substation in West Auckland. It's being transported along a highly specialised communications network created by Tangent, using a combination of Tangent's own fibre-optic network and wireless technology beamed from the tower. This is not the first made-to-order communications solution Tangent has created for clients. Although most clients simply use the company's existing broadband network, Tangent is fast developing a reputation for having the diversity and flexibility needed to create highly specialised solutions such as this.

■ Strong health and safety performance across all businesses and regions, with in particular, over one million man-hours worked without injury on the Auckland electricity network;

■ Increased support for regional enterprise and community development through sponsorship and key project funding across a wide range of activities, in greater Auckland and Wellington.

Leadership through challenging times

The energy sector is long-recognised as one which continues to present challenges and changes to its participants. This year has been no exception.

In the period under review we have seen winter power shortages, Maui gas depletion, Commerce

“ One of Vector's key principles is that the regulation must align with the government objectives for the economy of growth, investment and innovation.”

Commission regulation and a Commerce Select Committee review of electricity lines businesses, a Commerce Commission review of the gas sector, and the establishment of the Electricity Commission to

oversee the electricity sector.

Vector has taken a leadership role in these issues, because we strongly believe that the right balance must be struck between regulation and business sustainability. One of Vector's key principles is that the regulation must align with government objectives for the economy of growth, investment and innovation.

Policy design, regulatory design and industry governance arrangements need to be well considered, and more importantly well co-ordinated to ensure that both Vector and the wider sector can continue to deliver to consumers into the

future. In our view, the current co-ordination of policy, governance and regulation could be significantly improved, particularly through better consultation across the industry.

In the coming year we will be continuing to focus on:

■ Achieving an agreed five-year path for electricity lines business regulation that ensures long-term sustainability for our business and consumers;

■ Engagement with the Electricity Commission to achieve a transparent governance and decision making framework and one that is not unduly biased towards ownership or industry segment;

■ Elevation of industry debate on the need or otherwise for gas regulation, particularly in respect of the competitive nature of the business.

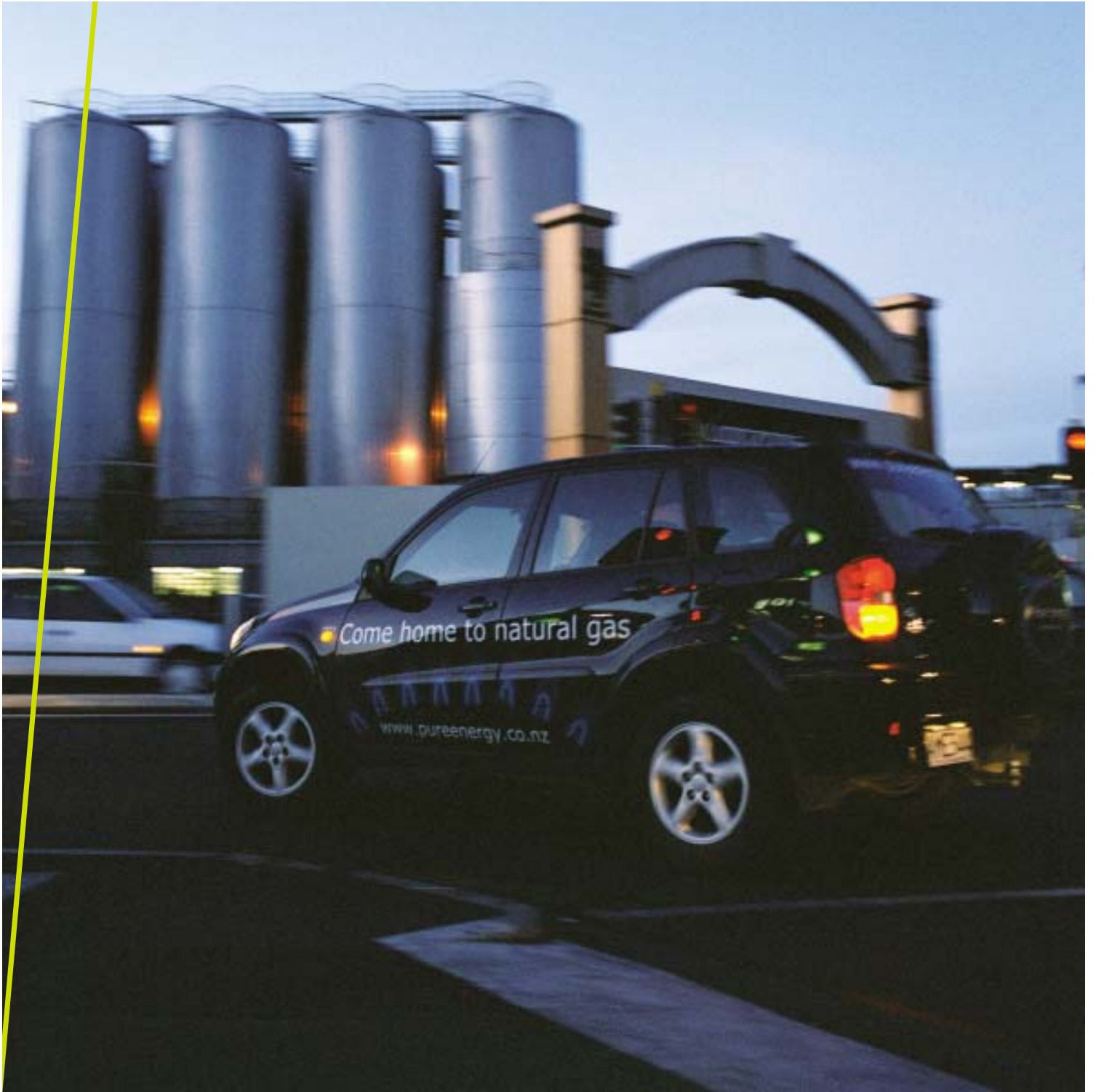
The journey ahead

Continuous improvement in the delivery of our core business remains a key performance theme in our company. By stretching the boundaries and expanding our core business capabilities, we will achieve a state of readiness and build the agility and skills to respond to new growth opportunities that fit within our strategic criteria. The vast majority of projects and priorities for the next year will contribute to the achievement of these goals.

Our priorities for the year to June 2004 include:

■ Completing the integration and locking in the resulting efficiencies and benefits;

■ Delivery of top results, by all measures, in all of our businesses;



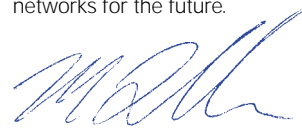


- Working with government, regulatory bodies and industry to develop and co-ordinate appropriate outcomes in key industry issue areas;
- Review of network operating models, with the aim of aligning network management strategy with our overall strategic positioning;
- Completing the organisation's "infrastructure" - strategic framework development, implementing our culture and values, and delivering personal development programmes for all team members.

We have set ourselves the challenge for Vector to be - and remain - an industry leader, and to be recognised as one of New Zealand's most dynamic and top-performing companies. Our leadership will not be confined to the energy sector, but will reflect our role as a provider of the critical infrastructure networks essential to New Zealand's future economic wealth.

" We have set ourselves the challenge for Vector to be recognised as one of New Zealand's most dynamic and top-performing companies."

Vector aims to continue on its growth path and correspondingly increase shareholder value. I have every confidence that my team is as determined as I am to achieve the goals we have set ourselves. I would like to congratulate them all for their work and energy in bringing the business to where it is today. We have put together a great team of talented and dynamic people, and there is a great level of excitement and anticipation about the opportunities ahead as we create intelligent networks for the future.



Mark Franklin Chief Executive Officer

Vector Electricity

Vector owns and manages the network of lines for distribution of electricity in Auckland City, Manukau City, and parts of Papakura. This network is operated under the Vector electricity brand.

ACHIEVEMENTS IN THE REPORTING PERIOD

- Reduced line charges for residential and small business customers in Auckland, Manukau City and Papakura.
- Invested \$4.2 million in projects to reinforce and upgrade power supply in areas including Wiri, Clevedon, St Lukes, Avondale, and Kawakawa Bay.
- Completed \$10 million undergrounding project, a 13 kilometre block in Papatoetoe which contained more than 2,000 homes, and started a second large block project in Avondale.
- Completed refurbishment of Freemans Bay substation, upgrading the voltage supply from 6.6kV to 11kV to meet future demand in the central Auckland area.
- Completed first stage of major power reinforcement project at Hugo Johnston Drive, Penrose to supply a major new industrial subdivision.
- Achieved one million man-hours worked without a lost time injury.

UnitedNetworks

Vector owns and manages the network of lines for distribution of electricity in North Shore City, the Rodney District, Waitakere City and in Wellington City, Lower Hutt City, Upper Hutt City and Porirua City. The networks in these areas are operated under the UnitedNetworks brand.

ACHIEVEMENTS IN THE REPORTING PERIOD

- Reached agreement with Transpower to start a \$7.5 million project to upgrade equipment and capacity at Central Park substation to improve the security of supply to the Wellington central business district.
- Over \$3.5 million of capital investment in Wellington to accommodate consumer growth. Installed 50 new transformers, connected nine new apartment blocks and 75 new subdivisions, and installed an 11kV cable to Shelly Bay in preparation for further development of the waterfront.
- Completed a new 24 MVA substation at Don McKinnon Drive, Albany, to transmit power to commercial and residential customers around the Albany Centre, Massey University and North Harbour Stadium to provide capacity for future growth in the area.
- Upgraded power supply in Albany, Glenfield, East Coast Bays regions with a \$2 million installation of fibre optic cables linking 10 zone substations, enabling improved power quality performance through the electronic detection and management of high voltage protection systems.
- Started urbanisation of power supply in the Silverdale region under agreement with Transpower to install a new grid exit point.
- With support of the UnitedNetworks Shareholders' Society, replaced 7.35 kilometres of overhead lines with underground lines in the Rodney District, North Shore City and Waitakere City.