

2004 Financial Statements

for the year ended 30 June 2004

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2004 FINANCIAL STATEMENTS

The directors are pleased to present the financial statements of the group for the year ended 30 June 2004.

For and on behalf of directors



Director

24 August 2004



Director

24 August 2004

For and on behalf of management



Chief Executive Officer

24 August 2004



Chief Financial Officer

24 August 2004

Auditors Report

for the year ended 30 June 2004



TO THE SHAREHOLDER OF VECTOR LIMITED

We have audited the financial statements on pages 53 to 80. The financial statements provide information about the past financial performance and financial position of the company and group as at 30 June 2004. This information is stated in accordance with the accounting policies set out on pages 58 to 61.

DIRECTORS' RESPONSIBILITIES

The directors are responsible for the preparation of financial statements which give a true and fair view of the financial position of the company and group as at 30 June 2004 and the results of their operations and cash flows for the year ended on that date.

AUDITORS' RESPONSIBILITIES

It is our responsibility to express an independent opinion on the financial statements presented by the directors and report our opinion to you.

BASIS OF OPINION

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

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

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

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

UNQUALIFIED OPINION

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

In our opinion:

- proper accounting records have been kept by the company as far as appears from our examination of those records;
- the financial statements on pages 53 to 80:
 - comply with New Zealand generally accepted accounting practice;
 - give a true and fair view of the financial position of the company and group as at 30 June 2004 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 24 August 2004 and our unqualified opinion is expressed as at that date.

A handwritten signature of the KPMG firm, written in black ink. The signature is stylized and appears to be 'KPMG.' with a period at the end.

Auckland

Statement of Financial Performance

for the year ended 30 June 2004

	NOTES	GROUP		PARENT	
		2004 12 MONTHS \$000	2003 15 MONTHS \$000	2004 12 MONTHS \$000	2003 15 MONTHS \$000
Operating revenue	1	572,205	523,672	565,377	291,613
Operating expenditure	2	(231,154)	(217,863)	(229,092)	(134,000)
Earnings before interest, income tax, depreciation and amortisation		341,051	305,809	336,285	157,613
Depreciation and amortisation	3	(111,749)	(103,276)	(108,599)	(40,242)
Operating surplus before interest and income tax		229,302	202,533	227,686	117,371
Net interest expense	4	(141,033)	(121,039)	(140,043)	(105,541)
Operating surplus before income tax		88,269	81,494	87,643	11,830
Income tax expense	5	(30,907)	(31,923)	(31,763)	(2,379)
Operating surplus		57,362	49,571	55,880	9,451
Minority interest	12	473	115	–	–
Net surplus for the period		57,835	49,686	55,880	9,451

Statement of Movements in Equity

for the year ended 30 June 2004

	NOTES	GROUP		PARENT	
		2004 12 MONTHS \$000	2003 15 MONTHS \$000	2004 12 MONTHS \$000	2003 15 MONTHS \$000
RECOGNISED REVENUES AND EXPENSES					
Net surplus for the period:					
Group and parent		57,835	49,686	55,880	9,451
Minority interest	12	(473)	(115)	–	–
Movement in revaluation reserve	10	–	196,581	–	194,887
Total recognised revenues and expenses for the period		57,362	246,152	55,880	204,338
Amalgamation of subsidiaries	28	–	–	45,839	–
DISTRIBUTIONS TO OWNERS					
Dividends	9	(32,200)	(42,800)	(32,200)	(42,800)
Movements in equity for the period		25,162	203,352	69,519	161,538
Equity at beginning of the period		920,049	716,697	871,308	709,770
Equity at end of the period		945,211	920,049	940,827	871,308

Statement of Financial Position

as at 30 June 2004

	NOTES	GROUP		PARENT	
		2004 \$000	2003 \$000	2004 \$000	2003 \$000
CURRENT ASSETS					
Cash		3,435	1,298	2,432	984
Receivables and prepayments	13	79,608	73,164	72,383	39,200
Income tax		8,838	–	8,782	–
Capitalised finance costs	14	8,011	8,188	8,011	5,710
Investments	16	–	8,220	–	–
Advances to subsidiaries		–	–	20,440	19,380
Total current assets		99,892	90,870	112,048	65,274
NON-CURRENT ASSETS					
Receivables and prepayments	13	1,809	2,993	1,809	–
Income tax		31,220	21,080	29,217	11,797
Capitalised finance costs	14	11,281	19,274	11,281	10,076
Investments	16	2,750	2,284	18,284	1,529,297
Intangible assets	19	700,086	742,149	697,082	–
Property, plant and equipment	18	2,224,136	2,197,660	2,199,828	1,147,458
Total non-current assets		2,971,282	2,985,440	2,957,501	2,698,628
Total assets		3,071,174	3,076,310	3,069,549	2,763,902
CURRENT LIABILITIES					
Payables and accruals	20	88,962	97,241	82,102	43,438
Borrowings	25	39,549	7,830	38,000	7,000
Advances from subsidiaries		–	–	13,706	670,196
Total current liabilities		128,511	105,071	133,808	720,634
NON-CURRENT LIABILITIES					
Payables and accruals	20	4,127	7,158	3,727	–
Borrowings	25	1,747,804	1,836,889	1,745,441	1,067,205
Deferred tax	7	245,521	207,143	245,746	104,755
Total non-current liabilities		1,997,452	2,051,190	1,994,914	1,171,960
Total liabilities		2,125,963	2,156,261	2,128,722	1,892,594
EQUITY					
Share capital	8	300,000	300,000	300,000	300,000
Reserves	10	554,694	554,694	553,000	553,000
Retained earnings	11	90,096	64,461	87,827	18,308
Parent shareholders equity		944,790	919,155	940,827	871,308
Minority shareholders equity	12	421	894	–	–
Total equity		945,211	920,049	940,827	871,308
Total equity and liabilities		3,071,174	3,076,310	3,069,549	2,763,902

Statement of Cash Flows

for the year ended 30 June 2004

	GROUP		PARENT	
	2004 12 MONTHS \$000	2003 15 MONTHS \$000	2004 12 MONTHS \$000	2003 15 MONTHS \$000
OPERATING ACTIVITIES				
Cash provided from:				
Receipts from customers	565,744	531,972	560,279	283,851
Interest portion of repayments on finance leases	121	81	121	–
Interest received on deposits	716	3,414	348	2,849
Income tax refund received	1,382	–	1,382	–
Dividend received from associate	200	100	200	100
	568,163	535,567	562,330	286,800
Cash applied to:				
Payments to suppliers and employees	234,123	307,165	228,138	179,270
Income tax paid	11,200	21,275	11,200	4,165
Payments to acquire income tax losses	2,573	–	2,573	2,075
Interest portion of payments under finance leases	252	68	–	–
Interest paid on capital bonds	29,498	16,746	29,498	16,746
Interest paid on other borrowings	110,395	77,090	110,395	66,022
	388,041	422,344	381,804	268,278
Net cash from operating activities	180,122	113,223	180,526	18,522
INVESTING ACTIVITIES				
Cash provided from:				
Advances from subsidiaries	–	–	404	667,491
Proceeds from sale of Eastern and Central assets	–	998,814	–	–
Proceeds from sale of other property, plant and equipment	103	1,706	–	1,706
Proceeds from sale of investments	9,525	1,401	9,525	–
Receipts from loans repaid	1,712	–	212	–
Capital portion of repayments on finance leases	9	5	9	–
	11,349	1,001,926	10,150	669,197
Cash applied to:				
Investment in subsidiary	–	–	–	16,000
Acquisition of UnitedNetworks Limited	–	1,513,297	–	1,513,297
Bank overdraft acquired on acquisition of UnitedNetworks Limited	–	20,459	–	–
Purchase and construction of property, plant and equipment	99,470	95,410	97,602	43,815
Payments for security deposits	313	–	313	–
	99,783	1,629,166	97,915	1,573,112
Net cash used in investing activities	(88,434)	(627,240)	(87,765)	(903,915)

Statement of Cash Flows (continued)

for the year ended 30 June 2004

	NOTES	GROUP		PARENT	
		2004 12 MONTHS \$000	2003 15 MONTHS \$000	2004 12 MONTHS \$000	2003 15 MONTHS \$000
FINANCING ACTIVITIES					
Cash provided from/(applied to):					
Proceeds from borrowings		284,149	1,986,921	282,302	1,974,000
Repayment of borrowings		(341,000)	(1,741,748)	(341,000)	(1,356,810)
Proceeds from capital bonds issue		–	307,205	–	307,205
Capital portion of payments under finance leases		(500)	(391)	–	–
Dividends paid		(32,200)	(42,800)	(32,200)	(42,800)
Net cash from/(used in) financing activities		(89,551)	509,187	(90,898)	881,595
Net increase/(decrease) in cash balances		2,137	(4,830)	1,863	(3,798)
Cash balances at beginning of the period		1,298	6,128	984	4,782
Overdraft acquired on amalgamation	28	–	–	(415)	–
Cash balances at end of the period		3,435	1,298	2,432	984
RECONCILIATION OF NET SURPLUS TO NET CASH FROM OPERATING ACTIVITIES					
Net surplus for the period		57,835	49,686	55,880	9,451
Minority interest in deficit of partnership		(473)	(115)	–	–
		57,362	49,571	55,880	9,451
ITEMS CLASSIFIED AS INVESTING AND FINANCING ACTIVITIES					
Loss/(gain) on sale of property, plant and equipment		3,307	(229)	2,907	(1,144)
Gain on sale of investments		(1,143)	(1,401)	(1,143)	–
Capitalised costs		(4,055)	(2,213)	(4,055)	(2,213)
Other		(446)	(1,844)	(446)	–
		(2,337)	(5,687)	(2,737)	(3,357)
NON-CASH ITEMS					
Depreciation and amortisation		111,749	103,276	108,599	40,242
Amortisation of the mark to market adjustment		(4,428)	(3,090)	(4,428)	–
Amortisation of capitalised finance costs		8,170	18,744	8,170	17,044
Increase/(decrease) in deferred tax		38,378	(3,814)	38,616	14,306
Increase/(decrease) in provisions		3,302	(8,191)	6,350	(66)
Equity earnings		(666)	(414)	–	–
		156,505	106,511	157,307	71,526
MOVEMENT IN WORKING CAPITAL					
Increase in capitalised finance costs		–	(46,206)	–	(32,829)
Decrease in payables and accruals		(3,036)	(18,831)	(2,203)	(2,537)
Decrease/(increase) in receivables and prepayments		(7,233)	10,756	(7,169)	(5,435)
Decrease/(increase) in income tax assets		(21,139)	17,109	(20,552)	(18,297)
		(31,408)	(37,172)	(29,924)	(59,098)
Net cash from operating activities		180,122	113,223	180,526	18,522

Statement of Accounting Policies

for the year ended 30 June 2004

ENTITIES REPORTING

Vector Limited is a company registered under the Companies Act 1993. Vector Limited is an issuer for the purpose of the Financial Reporting Act 1993 and its financial statements comply with that Act.

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

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 items of property, plant and equipment as identified in specific accounting policies below.

Where a change in the presentational format of the financial statements has been made during the period, comparative figures have been restated accordingly.

SPECIFIC ACCOUNTING POLICIES

The financial statements are prepared in accordance with New Zealand generally accepted accounting practice. The following specific accounting policies that materially affect the measurement of financial performance, financial position and cash flows have been applied:

A) BASIS OF CONSOLIDATION

Subsidiaries

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

Associates

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

Partnerships

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

Acquisition or disposal during the period

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

Statement of Accounting Policies (continued)

for the year ended 30 June 2004

Intra-group amalgamations

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

Goodwill arising on acquisition

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

Transactions eliminated on consolidation

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

B) INCOME RECOGNITION

Income from the provision of services is recognised as services are delivered. Interest and rental income is accounted for as earned. Income from customer contributions is typically recognised on an as-invoiced or percentage of completion basis to match the conditions of the underlying contract.

C) PROPERTY, PLANT AND EQUIPMENT

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

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

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

Distribution systems and some land and buildings are revalued by independent experts on the basis of depreciated replacement cost, while land and buildings are valued by reference to market information.

Valuations are performed based on highest and best use in accordance with New Zealand Financial Reporting Standard No. 3. If the estimated recoverable amount of an asset is less than its carrying amount, the asset is written down to its estimated recoverable amount and an impairment loss is recognised in the statement of financial performance.

Estimated recoverable amount is the greater of the estimated amount from the future use of property, plant and equipment and its ultimate disposal, and its net market value. Annual impairment reviews are undertaken for all property, plant and equipment not subject to revaluations. Revaluations of distribution systems and distribution land and buildings are carried out at least every three years.

Statement of Accounting Policies (continued)

for the year ended 30 June 2004

D) DEPRECIATION

Depreciation of property, plant and equipment, other than freehold land, is calculated so as to expense the cost of the property, plant and equipment, or the revalued amounts, to their residual values over their useful lives as follows:

Buildings	50 – 100 years
Distribution systems	15 – 100 years
Motor vehicles and mobile equipment	3 – 20 years
Computer and telecommunication equipment	3 – 40 years
Other plant and equipment	5 – 20 years

E) RECEIVABLES

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

F) INCOME TAX

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

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

A deferred tax asset, or the effect of losses carried forward that exceed the deferred tax liability, is recognised in the financial statements only where there is 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.

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

Finance leases

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

Operating leases

Operating lease payments, where the lessors effectively retain substantially all the risks and benefits of ownership of the leased property, plant and equipment are included in the determination of the net surplus or deficit in equal instalments over the lease term.

Leasehold improvements

The cost of improvements to leasehold property are 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 in foreign currencies are translated at the New Zealand rate of exchange ruling at the date of the transaction. At balance date foreign monetary assets and liabilities not hedged by foreign currency derivative instruments are translated at the closing rate, and exchange variations arising from these translations are included in the statement of financial performance as operating items.

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

Statement of Accounting Policies (continued)

for the year ended 30 June 2004

K) FINANCIAL INSTRUMENTS

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

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

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

Fees and other costs incurred in raising debt finance are capitalised and amortised over the term of the debt instrument or debt facility.

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

Fair value adjustments on derivative transactions acquired are capitalised to goodwill and the mark to market adjustment included in payables and accruals. The component relating to goodwill is accounted for in accordance with the accounting policy for goodwill arising on acquisition. The mark to market adjustment is amortised over the period of the underlying derivative.

L) INVESTMENTS

Non-current investments are stated at cost.

M) PROVISIONS

Employee entitlements

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

Onerous contracts

Where the benefits expected to be derived from a contract are lower than the unavoidable costs of meeting the group's obligation under the contract, a provision is recognised. The provision is stated at the present value of the future net cash outflows expected to be incurred in respect of the contract.

Provision for claims

A provision for claims is recognised as a liability where the group considers that a constructive or legal obligation to settle items under litigation or dispute may exist in the foreseeable future. A provision for claims is recognised where the likelihood of a resultant liability is considered more probable than not. Other claims where the likelihood of a resultant liability is more than remote but insufficient to warrant a provision are disclosed as contingent liabilities.

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.

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.

O) DISCONTINUED OPERATIONS

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

CHANGES IN ACCOUNTING POLICIES

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

Notes to the Financial Statements

for the year ended 30 June 2004

	GROUP		PARENT	
	2004 12 MONTHS \$000	2003 15 MONTHS \$000	2004 12 MONTHS \$000	2003 15 MONTHS \$000
1. OPERATING REVENUE				
Trading revenue	544,113	502,511	537,694	281,584
Investment income:				
Dividend income	–	100	200	88
Equity accounted earnings of associate	666	414	–	–
Gain on disposal of property held for sale	1,143	–	1,143	–
Gain on disposal of non-current assets	115	1,902	90	1,414
Other revenue:				
Miscellaneous income	1,543	773	1,625	787
Customer contributions	24,625	17,972	24,625	7,740
Total	572,205	523,672	565,377	291,613
2. OPERATING EXPENDITURE				
Operating expenditure includes:				
Research costs	437	298	414	249
Bad debts written off	573	401	573	362
Increase/(decrease) in provision for doubtful debts	(728)	636	(783)	64
Rental and operating lease costs	1,842	1,959	1,842	1,579
Loss on disposal of property, plant and equipment	3,422	272	2,997	270
Donations	10	10	10	–
Directors fees	554	399	554	399
Subvention payments	–	–	737	124
Auditors remuneration:				
Audit fees paid to principal auditors – KPMG	237	133	237	133
Audit fees paid to other auditors – Ernst & Young	–	105	–	–
Fees paid for other assurance services provided – KPMG	180	–	180	–
Fees paid for other assurance services provided – PwC	–	120	–	120
Fees paid for other non-assurance services provided – KPMG	14	–	14	–
Fees paid for other non-assurance services provided – PwC	260	370	260	370
3. DEPRECIATION AND AMORTISATION				
Depreciation of property, plant and equipment				
Distribution systems	64,482	60,787	64,482	33,016
Buildings and leasehold improvements	489	1,156	489	945
Motor vehicles and mobile equipment	20	59	20	34
Computer and telecommunications equipment	7,278	10,910	4,978	5,998
Other plant and equipment	660	1,656	262	249
	72,929	74,568	70,231	40,242
Amortisation of goodwill	38,820	28,708	38,368	–
Total	111,749	103,276	108,599	40,242

Notes to the Financial Statements

for the year ended 30 June 2004

	NOTES	GROUP		PARENT	
		2004 12 MONTHS \$000	2003 15 MONTHS \$000	2004 12 MONTHS \$000	2003 15 MONTHS \$000
4. NET INTEREST EXPENSE					
Interest paid and accrued		139,662	109,530	139,410	92,077
Amortisation of capitalised finance costs		8,170	18,744	8,170	17,044
Amortisation of the mark to market adjustment		(4,428)	(3,090)	(4,428)	–
Interest revenue		(837)	(3,414)	(1,575)	(2,849)
Capitalised interest		(1,534)	(731)	(1,534)	(731)
Total		141,033	121,039	140,043	105,541
5. TAXATION					
Operating surplus before tax		88,269	81,494	87,643	11,830
Prima facie tax at 33%		29,129	26,893	28,922	3,904
Plus/(less) tax effect of permanent differences:					
Deferred tax asset not previously recognised		(13,976)	(4,368)	(13,976)	(4,368)
Prior period adjustment		(1,452)	92	(1,463)	128
Other permanent differences		17,206	9,306	18,280	2,715
Income tax expense		30,907	31,923	31,763	2,379
The income tax expense is represented by:					
Current tax		(7,471)	35,737	(6,853)	(11,927)
Deferred tax	7	38,378	(3,814)	38,616	14,306
Total		30,907	31,923	31,763	2,379
A deferred tax asset of \$14.0 million was not recognised as at 30 June 2003 as there was not virtual certainty of utilisation by the group. This tax benefit has been utilised in the year ended 30 June 2004.					
6. IMPUTATION BALANCES					
Balance at beginning of the period		5,036	17,687	3,752	17,687
Acquired on amalgamation		–	–	1,284	–
Purchase of subsidiary		–	(19,106)	–	–
Prior period adjustment		1,104	176	1,104	(413)
Income tax payments during the period		11,200	21,275	11,200	4,165
Imputation credits received		394	2,691	394	–
Income tax refunds during the period		(1,597)	–	(1,597)	–
Imputation credits attaching to dividends paid		(15,860)	(17,687)	(15,860)	(17,687)
Balance at end of the period		277	5,036	277	3,752
The imputation credits are available to shareholders of the parent:					
Through direct shareholding in the parent		277	3,752	277	3,752
Through indirect shareholding in subsidiaries		–	1,284	–	–
Total		277	5,036	277	3,752

Notes to the Financial Statements

for the year ended 30 June 2004

	NOTES	GROUP		PARENT	
		2004 12 MONTHS \$000	2003 15 MONTHS \$000	2004 12 MONTHS \$000	2003 15 MONTHS \$000
7. DEFERRED TAX LIABILITY					
Balance at beginning of the period		(207,143)	(90,232)	(104,755)	(90,449)
Acquired on amalgamation	28	–	–	(102,375)	–
On surplus for the period	5	(38,378)	3,814	(38,616)	(14,306)
Fair value of deferred tax liability acquired	15	–	(120,725)	–	–
Balance at end of the period		(245,521)	(207,143)	(245,746)	(104,755)
GROUP AND PARENT					
2004					
2003					
\$000					
8. SHARE CAPITAL					
Ordinary class A shares					
300,000,000 issued and fully paid shares				300,000	300,000
Total				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.					
9. DIVIDENDS					
Distributions relating to previous period					
Dividends paid on ordinary shares				32,200	42,800
Total				32,200	42,800
	NOTES	GROUP		PARENT	
		2004 12 MONTHS \$000	2003 15 MONTHS \$000	2004 12 MONTHS \$000	2003 15 MONTHS \$000
10. RESERVES					
Asset revaluation					
Balance at beginning of the period		554,694	358,113	553,000	358,113
Increase arising from:					
Revaluation of distribution system property, plant and equipment		–	194,887	–	194,887
Revaluation of telecommunications property, plant and equipment		–	1,694	–	–
Balance at end of the period		554,694	554,694	553,000	553,000
11. RETAINED EARNINGS					
Balance at beginning of the period		64,461	57,575	18,308	51,657
Acquired on amalgamation	28	–	–	45,839	–
Net surplus attributable to the shareholders of the parent		57,835	49,686	55,880	9,451
Dividends	9	(32,200)	(42,800)	(32,200)	(42,800)
Balance at end of the period		90,096	64,461	87,827	18,308

Notes to the Financial Statements

for the year ended 30 June 2004

	GROUP		PARENT	
	2004 12 MONTHS \$000	2003 15 MONTHS \$000	2004 12 MONTHS \$000	2003 15 MONTHS \$000
12. MINORITY INTEREST				
Balance at beginning of the period	894	1,009	–	–
Share of deficit in partnership	(473)	(115)	–	–
Balance at end of the period	421	894	–	–
	GROUP		PARENT	
	2004 \$000	2003 \$000	2004 \$000	2003 \$000
13. RECEIVABLES AND PREPAYMENTS				
Current				
Trade receivables	74,570	68,176	72,248	37,790
Provision for doubtful debts	(830)	(2,016)	(775)	(64)
	73,740	66,160	71,473	37,726
Other receivables	4,047	4,259	47	–
Prepayments	1,821	2,745	863	1,474
Total	79,608	73,164	72,383	39,200
Non-current				
Other receivables	1,809	2,993	1,809	–
Total	1,809	2,993	1,809	–
14. CAPITALISED FINANCE COSTS				
Total capitalised costs				
Capital bonds – cost	10,459	10,459	10,459	10,459
Capital bonds – amortisation	(4,214)	(1,706)	(4,214)	(1,706)
Other debt – cost	36,311	36,311	36,311	22,371
Other debt – amortisation	(23,264)	(17,602)	(23,264)	(15,338)
Total	19,292	27,462	19,292	15,786
Current				
Capital bonds	2,541	2,541	2,541	2,541
Other debt	5,470	5,647	5,470	3,169
Total	8,011	8,188	8,011	5,710
Non-current				
Capital bonds	3,704	6,212	3,704	6,212
Other debt	7,577	13,062	7,577	3,864
Total	11,281	19,274	11,281	10,076

Notes to the Financial Statements

for the year ended 30 June 2004

15. ACQUISITION OF SUBSIDIARY

On 11 October 2002 the group acquired a controlling interest in UnitedNetworks Limited, a company providing utility services in New Zealand. The acquisition of 100% of UnitedNetworks Limited was completed on 15 November 2002.

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

The acquisition had the following effect on the consolidated financial position at acquisition date.

	NOTES	GROUP 2003 15 MONTHS \$000
Fair value of assets and liabilities acquired		
Bank overdraft		(20,459)
Receivables and prepayments		82,364
Investments		3,665
Payables and accruals		(63,227)
Deferred tax liability		(120,725)
Property, plant and equipment:		
Eastern and Central assets		999,585
Retained assets		1,014,778
Surplus property	16	8,220
Borrowings		(1,157,854)
Net assets acquired		746,347
Goodwill arising on acquisition	19	752,899
Cash consideration paid		1,499,246
Costs incurred during acquisition	19	14,051
Bank overdraft acquired with subsidiary		20,459
Net cash impact of acquisition		1,533,756

In a separate transaction immediately subsequent to the acquisition of UnitedNetworks Limited, the Eastern region electricity and Central North Island gas assets were sold to Powerco Limited and Hawkes Bay Network Limited.

Notes to the Financial Statements

for the year ended 30 June 2004

	NOTES	GROUP		PARENT	
		2004 \$000	2003 \$000	2004 \$000	2003 \$000
16. INVESTMENTS					
Current					
Surplus property held for sale		–	8,220	–	–
Total		–	8,220	–	–
Non-current					
Investments in subsidiaries		–	–	16,000	1,529,297
Investments in associates	17	2,750	2,284	2,284	–
Total		2,750	2,284	18,284	1,529,297

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

	PERCENTAGE HELD		PRINCIPAL ACTIVITY
	2004	2003	
Significant subsidiaries			
UnitedNetworks Limited	–	100%	Utilities network provider
Auckland Generation Limited	100%	100%	Holding company
– MEL Silverstream Limited	100%	100%	Investment company
– MEL Network Limited	100%	100%	Holding company
– Mercury Geotherm Limited (in receivership)	65%	65%	Investment company
– Poihipi Land Limited (in receivership)	65%	65%	Investment company
Caduceus Equities No. 1 Limited	–	100%	Investment company
Vector Communications Limited (formerly Tangent Limited)	100%	100%	Telecommunication network provider
Vector Stream Limited	100%	100%	Holding company
– Stream Information Limited	70%	70%	Agent for partnership
– Stream Information	70%	70%	Partnership – meter services
Non-trading subsidiaries			
Vector Power Limited	100%	100%	Dormant
Auckland Network Limited	100%	100%	Dormant
Energy North Limited	100%	100%	Dormant
UnitedNetworks Limited	100%	–	Dormant
Salamanca Holdings Limited	75%	75%	Investment company
Broadband Services Limited	100%	100%	Telecommunication network provider
UnitedNetworks Employee Share Schemes Trustee Limited	100%	100%	Trustee company
Significant associates			
Treescape Limited	50%	50%	Vegetation management
Non-trading associates			
Pacific Energy Limited	37%	37%	Dormant

Effective from 1 July 2003, UnitedNetworks Limited and Caduceus Equities No. 1 Limited were amalgamated with the parent.

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

Notes to the Financial Statements

for the year ended 30 June 2004

	NOTES	GROUP		PARENT	
		2004 12 MONTHS \$000	2003 15 MONTHS \$000	2004 12 MONTHS \$000	2003 15 MONTHS \$000
17. INVESTMENT IN ASSOCIATES					
Carrying amount of associates					
Carrying amount at beginning of the period		2,284	–	–	–
Acquired on amalgamation	28	–	–	2,284	–
Acquisition of interest in associate		–	1,970	–	–
Equity accounted earnings of associates		666	414	–	–
Dividends from associates		(200)	(100)	–	–
Carrying amount at end of the period		2,750	2,284	2,284	–
Equity accounted earnings of associates					
Operating surplus before income tax		991	618	–	–
Income tax expense		(325)	(204)	–	–
Net surplus		666	414	–	–
Other gains and losses		–	–	–	–
Total recognised revenues and expenses		666	414	–	–

Notes to the Financial Statements

for the year ended 30 June 2004

	GROUP		PARENT	
	2004 \$000	2003 \$000	2004 \$000	2003 \$000
18. PROPERTY, PLANT AND EQUIPMENT				
Freehold land at valuation	11,156	10,818	9,156	1,219
Freehold building at valuation	747	747	747	–
Accumulated depreciation	(91)	(54)	(91)	–
Net book value	656	693	656	–
Leasehold improvements at cost	4,895	3,477	4,895	3,423
Accumulated depreciation	(2,161)	(1,672)	(2,161)	(1,656)
Net book value	2,734	1,805	2,734	1,767
Distribution systems at valuation	2,102,694	2,040,832	2,102,694	1,072,178
Distribution land at valuation	35,183	35,033	35,183	17,531
Distribution buildings at valuation	32,224	31,891	32,224	19,010
	2,170,101	2,107,756	2,170,101	1,108,719
Accumulated depreciation:				
Distribution systems	(65,186)	(15,911)	(65,186)	(6,970)
Distribution buildings	(1,856)	(320)	(1,856)	(193)
	(67,042)	(16,231)	(67,042)	(7,163)
Net book value	2,103,059	2,091,525	2,103,059	1,101,556
Plant and equipment:				
Motor vehicles and mobile equipment at cost	229	454	229	351
Computer and telecommunications equipment at cost	81,026	76,466	60,737	45,554
Computer and telecommunications equipment at valuation	1,181	1,181	–	–
Other plant and equipment at cost	11,463	7,674	5,903	2,691
	93,899	85,775	66,869	48,596
Accumulated depreciation:				
Motor vehicles and mobile equipment	(136)	(275)	(136)	(250)
Computer and telecommunications equipment	(35,831)	(28,042)	(31,198)	(18,718)
Other plant and equipment	(1,969)	(1,393)	(1,221)	(443)
	(37,936)	(29,710)	(32,555)	(19,411)
Net book value	55,963	56,065	34,314	29,185
Capital work in progress	50,568	36,754	49,909	13,731
Total	2,224,136	2,197,660	2,199,828	1,147,458

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

The distribution assets were revalued to \$2,090.5 million as at 31 March 2003. Subsequent additions are stated at cost. The basis of valuation was depreciated replacement cost. This valuation was undertaken in conjunction with Meritec Limited consulting engineers.

As indicated in the accounting policies interest and other costs are capitalised to property, plant and equipment while under construction. During the period \$4.1 million (2003: \$2.2 million) of interest and other costs were capitalised. Included in other plant and equipment are \$3.7 million (2003: \$2.1 million) of property, plant and equipment subject to finance lease arrangements.

Notes to the Financial Statements

for the year ended 30 June 2004

	NOTES	GROUP		PARENT	
		2004 12 MONTHS \$000	2003 15 MONTHS \$000	2004 12 MONTHS \$000	2003 15 MONTHS \$000
19. INTANGIBLE ASSETS					
Goodwill					
		742,149	3,568	-	-
Balance at beginning of the period		742,149	3,568	-	-
Acquired in the financial period:					
On amalgamation of subsidiaries	28	-	-	738,764	-
On acquisition of UnitedNetworks Limited		(3,314)	752,899	(3,314)	-
Other		71	339	-	-
Acquisition costs		-	14,051	-	-
Amortisation in the financial period		(38,820)	(28,708)	(38,368)	-
Balance at end of the period		700,086	742,149	697,082	-

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

	NOTES	GROUP		PARENT	
		2004 \$000	2003 \$000	2004 \$000	2003 \$000
20. PAYABLES AND ACCRUALS					
Current					
		63,081	57,528	56,350	21,502
Trade payables and other creditors		63,081	57,528	56,350	21,502
Provision for claims	21	2,176	15,179	2,176	10,079
Provision for employee entitlements	22	2,275	1,736	2,146	1,634
Provision for onerous contracts	23	408	-	408	-
Mark to market adjustment		3,134	4,427	3,134	-
Interest payable		17,888	18,371	17,888	10,223
Total		88,962	97,241	82,102	43,438
Non-current					
		400	296	-	-
Deferred gain		400	296	-	-
Mark to market adjustment		3,727	6,862	3,727	-
Total		4,127	7,158	3,727	-

Notes to the Financial Statements

for the year ended 30 June 2004

	GROUP		PARENT	
	2004 12 MONTHS \$000	2003 15 MONTHS \$000	2004 12 MONTHS \$000	2003 15 MONTHS \$000
21. PROVISION FOR CLAIMS				
Balance at beginning of the period	15,179	2,020	10,079	2,020
Acquired on amalgamation	–	–	5,000	–
Additions	1,216	13,555	1,316	8,455
Utilised	(10,448)	(396)	(10,448)	(396)
Reversed	(3,771)	–	(3,771)	–
Balance at end of the period	2,176	15,179	2,176	10,079
22. PROVISION FOR EMPLOYEE ENTITLEMENTS				
Balance at beginning of the period	1,736	1,323	1,634	1,243
Additions	539	413	512	391
Balance at end of the period	2,275	1,736	2,146	1,634
23. PROVISION FOR ONEROUS CONTRACTS				
Balance at beginning of the period	–	–	–	–
Additions	475	–	475	–
Utilised	(67)	–	(67)	–
Balance at end of the period	408	–	408	–
24. COMMITMENTS				
The following amounts have been committed to by the group and parent, but not recognised in the financial statements.				
Capital expenditure commitments				
Estimated capital expenditure contracted for at balance date but not provided	20,888	39,871	20,561	25,085
Operating lease commitments				
Within one year	2,891	3,329	2,619	1,412
One to two years	2,184	1,663	1,969	1,360
Two to five years	5,663	4,377	5,312	4,031
Beyond five years	1,405	3,864	1,332	1,458
Total	12,143	13,233	11,232	8,261

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.

Notes to the Financial Statements

for the year ended 30 June 2004

25. BORROWINGS	WEIGHTED AVERAGE INTEREST RATE %	TOTAL \$000	PAYABLE WITHIN 1 YEAR \$000	PAYABLE BETWEEN 1 AND 2 YEARS \$000	PAYABLE BETWEEN 2 AND 5 YEARS \$000	PAYABLE AFTER 5 YEARS \$000
GROUP 2004						
Bank loans	6.39	670,000	–	670,000	–	–
Working capital loan	6.10	38,000	38,000	–	–	–
Medium term notes:						
Fixed rate NZ\$	6.50	199,218	–	–	199,218	–
Floating rate A\$	6.05	569,018	–	–	319,018	250,000
Capital bonds	9.75	307,205	–	–	307,205	–
Other	6.15	3,912	1,549	778	1,582	3
	6.86	1,787,353	39,549	670,778	827,023	250,003
GROUP 2003						
Bank loans	5.95	760,000	–	–	760,000	–
Working capital loan	5.75	7,000	7,000	–	–	–
Medium term notes:						
Fixed rate NZ\$	6.50	198,933	–	–	198,933	–
Floating rate A\$	5.30	569,018	–	–	319,018	250,000
Capital bonds	9.75	307,205	–	–	307,205	–
Other	5.49	2,563	830	–	1,678	55
	6.44	1,844,719	7,830	–	1,586,834	250,055
PARENT 2004						
Bank loans	6.39	670,000	–	670,000	–	–
Working capital loan	6.10	38,000	38,000	–	–	–
Medium term notes:						
Fixed rate NZ\$	6.50	199,218	–	–	199,218	–
Floating rate A\$	6.05	569,018	–	–	319,018	250,000
Capital bonds	9.75	307,205	–	–	307,205	–
	6.87	1,783,441	38,000	670,000	825,441	250,000
PARENT 2003						
Bank loans	5.95	760,000	–	–	760,000	–
Working capital loan	5.75	7,000	7,000	–	–	–
Capital bonds	9.75	307,205	–	–	307,205	–
	7.04	1,074,205	7,000	–	1,067,205	–

Notes to the Financial Statements

for the year ended 30 June 2004

25. BORROWINGS (CONTINUED)

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

Interest rates for all bank loans are floating based on the bank bill rate plus a margin. The bank loans are arranged through a syndicated facility. The facility expires in September 2005. The working capital facility is due to expire in September 2004 and will be renewed.

Medium term notes – fixed rate NZ\$ mature April 2007 and are shown at the value of proceeds received after deducting the discount on issue of \$1.7 million and adjusted for the amount amortised to 30 June 2004 of \$0.9 million. The interest on NZ\$ medium term notes is fixed at 6.5% per annum and is paid semi-annually.

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

Capital bonds are subordinated debt and have a first election date of 15 December 2006. The interest is currently fixed at 9.75% per annum and is paid semi-annually.

Borrowings are classified between current and non-current dependent on repayment dates.

Bank loans are subject to covenants. These have all been met for the year ended 30 June 2004 and for the 15-month period ended 30 June 2003.

26. CAPITAL BONDS

On 5 November 2002 the parent issued 307,205,000 capital bonds for \$307,205,000. The capital bonds have an initial term of four years from the date of issue. The capital bonds are convertible into Vector Limited ordinary shares in limited circumstances and have a principal amount of NZ\$1.00 each.

The capital bonds are unsecured debt obligations of the parent, which are subordinated to all other creditors of the parent and are constituted by a trust deed entered into by the parent and The New Zealand Guardian Trust Company Limited as trustee, dated 25 September 2002.

Notes to the Financial Statements

for the year ended 30 June 2004

27. FINANCIAL INSTRUMENTS

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

INTEREST RATE RISK

The group has long term borrowings, which are used to fund ongoing activities. The group actively manages interest rate exposures in accordance with treasury policy. In this respect, at least 40% of all term debt must be at fixed interest rates or effectively fixed using interest rate swaps, forward rate agreements, options and other derivative instruments.

The weighted average interest rates of borrowings are as follows.

	GROUP 2004		GROUP 2003	
	WEIGHTED AVERAGE INTEREST RATE %	FACE VALUE \$000	WEIGHTED AVERAGE INTEREST RATE %	FACE VALUE \$000
Bank loans	6.39	670,000	5.95	760,000
Working capital loan	6.10	38,000	5.75	7,000
Medium term notes:				
Fixed rate NZ\$	6.50	200,000	6.50	200,000
Floating rate A\$	6.05	569,018	5.30	569,018
Capital bonds	9.75	307,205	9.75	307,205
Other	6.15	3,912	5.49	2,563
	6.86	1,788,135	6.44	1,845,786
	PARENT 2004		PARENT 2003	
	WEIGHTED AVERAGE INTEREST RATE %	FACE VALUE \$000	WEIGHTED AVERAGE INTEREST RATE %	FACE VALUE \$000
Bank loans	6.39	670,000	5.95	760,000
Working capital loan	6.10	38,000	5.75	7,000
Medium term notes:				
Fixed rate NZ\$	6.50	200,000	–	–
Floating rate A\$	6.05	569,018	–	–
Capital bonds	9.75	307,205	9.75	307,205
	6.87	1,784,223	7.04	1,074,205

Notes to the Financial Statements

for the year ended 30 June 2004

27. FINANCIAL INSTRUMENTS (CONTINUED)

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

	GROUP 2004		GROUP 2003	
	WEIGHTED AVERAGE INTEREST RATE %	NOTIONAL AMOUNT \$000	WEIGHTED AVERAGE INTEREST RATE %	NOTIONAL AMOUNT \$000
Interest rate swaps (floating to fixed)				
Maturing in less than 1 year	6.97	135,000	7.16	111,250
Maturing between 1 and 2 years	7.20	175,000	6.97	135,000
Maturing between 2 and 5 years	6.79	460,000	6.94	542,500
Maturing after 5 years	6.69	80,000	6.69	172,500
	6.89	850,000	6.92	961,250
Forward starting interest rate swaps				
Floating to fixed maturing after 5 years	6.70	200,000	–	–
Fixed to floating maturing between 2 and 5 years	6.50	200,000	–	–
Cross currency swaps (pay leg) – floating	6.38	569,018	5.90	569,018
Cross currency swaps (receive leg) – floating	6.05	569,018	5.30	569,018
	PARENT 2004		PARENT 2003	
	WEIGHTED AVERAGE INTEREST RATE %	NOTIONAL AMOUNT \$000	WEIGHTED AVERAGE INTEREST RATE %	NOTIONAL AMOUNT \$000
Interest rate swaps (floating to fixed)				
Maturing in less than 1 year	6.97	135,000	7.17	20,000
Maturing between 1 and 2 years	7.20	175,000	6.63	40,000
Maturing between 2 and 5 years	6.79	460,000	6.58	210,000
Maturing after 5 years	6.69	80,000	6.66	130,000
	6.89	850,000	6.64	400,000
Forward starting interest rate swaps				
Floating to fixed maturing after 5 years	6.70	200,000	–	–
Fixed to floating maturing between 2 and 5 years	6.50	200,000	–	–
Cross currency swaps (pay leg) – floating	6.38	569,018	–	–
Cross currency swaps (receive leg) – floating	6.05	569,018	–	–

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

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

The NZ\$ medium term notes are fixed notes.

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

Notes to the Financial Statements

for the year ended 30 June 2004

27. FINANCIAL INSTRUMENTS (CONTINUED)

FOREIGN EXCHANGE RISK

The group has, in this reporting period, conducted transactions in foreign currencies for the purpose of protecting the NZ\$ value of capital expenditure. At balance date the group has no significant exposure to foreign currency risk.

CREDIT RISK

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

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

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

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

	GROUP		PARENT	
	2004 CARRYING AMOUNT \$000	2003 CARRYING AMOUNT \$000	2004 CARRYING AMOUNT \$000	2003 CARRYING AMOUNT \$000
Cash and bank overdraft	3,435	1,298	2,432	984
Trade receivables	73,740	66,160	71,473	37,726
Interest rate swaps	-	-	-	-
Cross currency swaps	3,612	2,828	3,612	-

Notes to the Financial Statements

for the year ended 30 June 2004

27. FINANCIAL INSTRUMENTS (CONTINUED)				
FAIR VALUES				
	GROUP 2004		GROUP 2003	
	CARRYING AMOUNT \$000	FAIR VALUE \$000	CARRYING AMOUNT \$000	FAIR VALUE \$000
Financial assets				
Cash and bank overdraft	3,435	3,435	1,298	1,298
Trade receivables	73,740	73,740	66,160	66,160
Financial liabilities				
Trade payables and other creditors	63,081	63,081	57,528	57,528
Bank loans	675,075	675,075	765,855	765,855
Working capital loan	38,167	38,167	7,001	7,001
Medium term notes:				
Fixed rate NZ\$	202,343	202,254	202,059	207,340
Floating rate A\$	576,714	514,641	576,539	539,100
Capital bonds	308,436	326,419	308,436	340,629
Other	3,932	3,145	2,576	2,576
Financial derivative liabilities/(assets)				
Interest rate swaps	7,991	5,570	12,938	45,481
Cross currency swaps	(3,612)	55,104	(2,828)	25,558
	PARENT 2004		PARENT 2003	
	CARRYING AMOUNT \$000	FAIR VALUE \$000	CARRYING AMOUNT \$000	FAIR VALUE \$000
Financial assets				
Cash and bank overdraft	2,432	2,432	984	984
Trade receivables	71,473	71,473	37,726	37,726
Financial liabilities				
Trade payables and other creditors	56,350	56,350	21,502	21,502
Bank loans	675,075	675,075	765,855	765,855
Working capital loan	38,167	38,167	7,001	7,001
Medium term notes:				
Fixed rate NZ\$	203,343	202,254	–	–
Floating rate A\$	576,714	514,641	–	–
Capital bonds	308,436	326,419	308,436	340,629
Financial derivative liabilities/(assets)				
Interest rate swaps	7,991	5,570	523	17,574
Cross currency swaps	(3,612)	55,104	–	–

Notes to the Financial Statements

for the year ended 30 June 2004

27. FINANCIAL INSTRUMENTS (CONTINUED)

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

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

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

Trade receivables are net of doubtful debts provided.

Medium term notes

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

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

The fair value of A\$ medium term notes is based on face value plus accruals converted at the exchange rate prevailing at balance date.

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

Capital bonds

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

The carrying amount includes the principal and interest accrued.

Derivative instruments

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

The carrying amount includes the fair value adjustments (net of amortisation) on derivative transactions acquired and interest accrued.

LIQUIDITY RISK

Liquidity risk is the risk that the group may encounter difficulty in raising funds at short notice to meet its financial commitments as they fall due. In order to reduce the exposure to liquidity risk, the group has access to undrawn committed lines of credit.

Notes to the Financial Statements

for the year ended 30 June 2004

28. AMALGAMATIONS

On 1 July 2003, UnitedNetworks Limited and Caduceus Equities No. 1 Limited were amalgamated into the parent. The amalgamations had the following effect on the parent's financial position.

	PARENT 2004 \$000
CURRENT ASSETS	
Receivables and prepayments	30,831
Capitalised finance costs	2,479
Investments	8,220
Advance to parent	656,346
Total current assets	697,876
NON-CURRENT ASSETS	
Receivables and prepayments	1,506
Income tax	7,810
Capitalised finance costs	9,198
Investments	2,284
Intangible assets	738,764
Property, plant and equipment	1,024,946
Total non-current assets	1,784,508
CURRENT LIABILITIES	
Bank overdraft	415
Payables and accruals	45,645
Total current liabilities	46,060
NON-CURRENT LIABILITIES	
Payables and accruals	6,862
Borrowings	767,951
Deferred tax	102,375
Total non-current liabilities	877,188
Net assets acquired on amalgamation	1,559,136
Cost of investment	(1,513,297)
Recognised in statement of movements in equity	45,839

Notes to the Financial Statements

for the year ended 30 June 2004

29. CONTINGENT LIABILITIES

The directors are aware of claims that have been made against the group and, where appropriate, have recognised provisions for these within the financial statements. No other material contingencies requiring disclosure have been identified (2003: nil).

30. TRANSACTIONS WITH RELATED PARTIES

During the period the parent had the following transactions with the Auckland Energy Consumer Trust (AECT), which is the sole shareholder of the parent:

Payment of dividend to AECT	\$32.2 million	(2003: \$42.8 million)
Payments received from AECT	\$nil	(2003: \$ 0.1 million)

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

During the period, the parent entered into the following transactions with subsidiaries:

Loan from UnitedNetworks Limited	\$nil	(2003: \$639.4 million)
Gross interest paid on loan from UnitedNetworks Limited	\$nil	(2003: \$16.9 million)
Other advances from subsidiaries	\$0.4 million	(2003: \$12.3 million)
Gross interest received on advances to subsidiaries	\$1.1 million	(2003: \$1.1 million)
Finance services income	\$0.1 million	(2003: \$0.1 million)
Purchase of telecommunications services	\$0.3 million	(2003: \$nil)
Purchase of technical audit services	\$0.1 million	(2003: \$nil)
Purchase of metering equipment	\$nil	(2003: \$0.1 million)

A provision of \$68.0 million (2003: \$65.0 million) has been provided against advances to subsidiaries. No related party debts have been written off or forgiven during the period. All transactions for subsidiary company Mercury Geotherm Limited, which is in receivership, are funded by the parent. Advances to subsidiaries are at arms length and subject to compounding interest at various rates.

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

31. SEGMENT INFORMATION

The group operates distribution networks providing utilities. All operations are carried out within New Zealand.

32. EVENTS AFTER BALANCE DATE

On 20 July 2004, Vector Limited raised US\$275.0 million (NZ\$418.0 million) from the issue of 8, 12 and 15 year senior, unsubordinated notes in a private placement to US institutional investors. The placement was part of the larger program designed to refinance the acquisition debt facility put in place in September 2002 to fund the acquisition of UnitedNetworks Limited.

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

Statutory Information

PRINCIPAL ACTIVITY

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

FINANCIAL PERFORMANCE

The consolidated financial statements have been prepared for Vector Limited (the "parent") and its subsidiary companies ("subsidiaries") which together form the Vector Limited group (the "group"). They also include the group's share of any interest in associates and partnerships.

These financial statements are prepared for the year ended 30 June 2004. Comparatives for 2003 are for the 15-month period ended 30 June 2003 due to the change in the group's statutory reporting balance date from 31 March to 30 June during the 2003 fiscal year.

Former subsidiaries UnitedNetworks Limited and Caduceus Equities No. 1 Limited were amalgamated with the parent effective 1 July 2003.

On amalgamation, the financial results of these former subsidiaries were included in the parent financial statements for the year ended 30 June 2004 while comparatives for the 15-month period ended 30 June 2003 exclude the financial results of these former subsidiaries.

The group reported a surplus after tax of \$57.8 million for the year ended 30 June 2004 (15-month period ended 30 June 2003: \$49.7 million).

DIVIDENDS

The final dividend for the 15-month period ended 30 June 2003 of \$32.2 million was provided for and paid during the year. A final dividend for the year ended 30 June 2004 of \$49.1 million was recommended by the directors on 30 August 2004, and has not been provided for in the financial statements.

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 a director 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 another member of the group), which arise out of the performance of their normal duties as director or officers, unless the liability relates to conduct involving lack of good faith. To manage this risk, the group has indemnity insurance.

Statutory Information

DIRECTORS

The directors of Vector Limited and current group companies as at 30 June 2004 are:

Director	Appointments during the period	Parent
M Buchanan-Oliver		Vector Limited
B Leyland		Vector Limited
D McLaren ONZM		Vector Limited
B Plimmer		Vector Limited
M Stiassny		Vector Limited

All of the above directors are independent directors.

Director	Appointments during the period	Subsidiary
M Buchanan-Oliver		Vector Communications Limited
W Falconer		Stream Information Limited
M Franklin		Auckland Generation Limited
		Auckland Network Limited
		Energy North Limited
		MEL Network Limited
		MEL Silverstream Limited
		Mercury Geotherm Limited (in receivership)
		Poihipi Land Limited (in receivership)
		Salamanca Holdings Limited
		Stream Information Limited
		UnitedNetworks Limited
		UnitedNetworks Employee Share Schemes Trustee Limited
		Vector Power Limited
		Vector Stream Limited
		Stream Information Limited
		Vector Communications Limited
		Stream Information Limited
		Mercury Geotherm Limited (in receivership)
		Poihipi Land Limited (in receivership)
		Mercury Geotherm Limited (in receivership)
		Vector Communications Limited
		Auckland Generation Limited
		Auckland Network Limited
		Energy North Limited
		MEL Network Limited
		MEL Silverstream Limited
		UnitedNetworks Limited
		UnitedNetworks Employee Share Schemes Trustee Limited
		Vector Power Limited
		Vector Stream Limited
D Houldsworth	Appointed 01 October 2003	
B Leyland		
S Mackenzie		
A McLachlan		
C McLachlan (deceased)		
D McLaren ONZM		
K Nickels	Appointed 17 September 2003	
	Appointed 17 September 2003	
	Appointed 17 September 2003	
	Appointed 17 September 2003	
	Appointed 17 September 2003	
	Appointed 01 October 2003	
	Appointed 17 September 2003	
	Appointed 17 September 2003	

Statutory Information

DIRECTORS (CONTINUED)

The directors of Vector Limited and current group companies as at 30 June 2004 are (continued):

Director	Appointments during the period	Subsidiary
B Plimmer D Ross		Vector Communications Limited Mercury Geotherm Limited (in receivership) Poihipi Land Limited (in receivership)
M Stiassny		Broadband Services Limited
M Underhill		Vector Communications Limited Salamanca Holdings Limited
Director	Appointments during the period	Associate
S Bielby E Chignell B Dodds M Franklin	Appointed 29 July 2003	Pacific Energy Limited Treescape Limited Pacific Energy Limited Pacific Energy Limited
R Stoddard D Tompkins M Underhill B Whiddett	Appointed 29 July 2003	Treescape Limited Treescape Limited Treescape Limited Pacific Energy Limited Treescape Limited

Director retirements from Vector Limited and current group companies during the year ended 30 June 2004:

Director	Retirement date	Parent
W Boyd	08 June 2004	Vector Limited
J Collinge	23 June 2004	Vector Limited
Director	Retirement date	Subsidiary
W Boyd	08 June 2004	Broadband Services Limited
	08 June 2004	Vector Communications Limited
J Collinge	30 June 2004	Vector Communications Limited
Director	Retirement date	Associate
I Hadwin	29 July 2003	Treescape Limited
S Whyte	29 July 2003	Treescape Limited

Directors' remuneration from Vector Limited and current group companies for the year ended 30 June 2004:

Director	Parent	Subsidiaries
	\$	\$
W Boyd	51,694	–
M Buchanan-Oliver	70,750	–
J Collinge	98,250	–
B Leyland	55,000	–
D McLaren ONZM	70,750	–
B Plimmer	70,750	–
M Stiassny	110,000	–

Statutory Information

DIRECTORS (CONTINUED)

Entries in the interests register up to 30 June 2004:

Director	Entity	Position
W Boyd	Auckland International Airport Limited	Chairman
	Forsyth Barr Group Limited	Director
	Freightways Limited	Chairman
	Tru-Test Limited	Director
	Vulcan Steel Limited	Director
M Buchanan-Oliver	Enterprise Waitakere	Trustee
	Hope Foundation	Trustee
	Metra Information Limited	Director
	Meteorological Service of New Zealand Limited	Deputy chair
J Collinge	Partners NZ (Waitakere)	Trustee
	Auckland Energy Consumer Trust	Deputy chairman and trustee
	John Collinge	Principal, barrister and solicitor
	Thesaurus Investments Limited	Managing director
B Leyland	Thesaurus Trustees Limited	Managing director
	Arapito Family Trust	Trustee
	Heathcote Limited	Director
	LCL Limited (trading as Bryan Leyland Consulting Engineer)	Director
	Onekaka Energy Limited	Director and shareholder
D McLaren ONZM	Sinclair Knight Merz Limited	Principal (on contract)
	BOMAC Industries Limited	Chairman
	BOMAC Laboratories Limited	Chairman
	BOMAC Research Limited	Chairman
	D G & R B McLaren Limited	Owner
	D G McLaren No.1 & No.2 Trust	Trustee
	McLaren Family Investment Trust	Trustee
B Plimmer	B K Plimmer Limited	Director
	Canada-NZ Business Association	Executive member
	EPOC Systems Limited	Director
	Kenrae Trust	Trustee
	Rural Couriers Society Limited	General manager

Statutory Information

DIRECTORS (CONTINUED)

Entries in the interests register up to 30 June 2004 (continued):

Director	Entity	Position
M Stiassny	Ashley Holdings Limited	Director
	Atapo Corporation Limited	Director and shareholder
	Axtens Holdings Limited	Director
	Ferrier Hodgson & Company	Partner
	Grafton Investments Limited	Director
	Metlifecare Limited	Director
	Metrowater Limited	Chairman
	Michael Spencer Limited	Director
	Primary Industry Consulting Limited	Director and shareholder
	Quay Management Services Limited	Director and shareholder
	Quay Street Management Services Limited	Director and shareholder
	Spectrum Resources Limited	Shareholder
	Ted Kingsway Limited	Director and shareholder
	The Horticulture and Food Research Institute of New Zealand Limited	Director
	The Ronaki Trust	Trustee
	Triceps Holdings Limited	Director and shareholder
	Twin Palms Trust	Trustee
	Waratah Receivables Corporation NZ Limited	Director
Zeacom Group Limited	Trustee of shareholder	

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

The following directors of the parent are holders of Vector Limited capital bonds as at 30 June 2004:

Director	Nature of interest	Number of bonds
B Plimmer	Beneficial	10,000
B Leyland	Beneficial	40,000
D McLaren ONZM	Non-beneficial	100,000
M Stiassny	Non-beneficial	150,000

Statutory Information

EMPLOYEES

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

	GROUP		PARENT	
	2004 12 MONTHS	2003 15 MONTHS	2004 12 MONTHS	2003 15 MONTHS
Current employees:				
\$100,001 – \$110,000	22	5	19	–
\$110,001 – \$120,000	6	3	6	–
\$120,001 – \$130,000	8	9	6	6
\$130,001 – \$140,000	6	7	6	4
\$140,001 – \$150,000	5	7	4	4
\$150,001 – \$160,000	3	–	3	–
\$160,001 – \$170,000	6	2	5	1
\$170,001 – \$180,000	3	2	3	2
\$180,001 – \$190,000	1	2	–	2
\$190,001 – \$200,000	1	2	–	2
\$200,001 – \$210,000	1	4	1	4
\$210,001 – \$220,000	–	2	–	1
\$220,001 – \$230,000	2	–	1	–
\$230,001 – \$240,000	–	1	–	1
\$240,001 – \$250,000	–	1	–	–
\$250,001 – \$260,000	2	–	2	–
\$270,001 – \$280,000	–	1	–	–
\$290,001 – \$300,000	1	1	1	1
\$320,001 – \$330,000	1	1	1	1
\$330,001 – \$340,000	1	–	1	–
\$360,001 – \$370,000	–	1	–	–
\$370,001 – \$380,000	–	1	–	1
\$390,001 – \$400,000	–	1	–	–
\$400,001 – \$410,000	–	1	–	1
\$560,001 – \$570,000	1	–	1	–

Statutory Information

EMPLOYEES

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

	GROUP		PARENT	
	2004 12 MONTHS	2003 15 MONTHS	2004 12 MONTHS	2003 15 MONTHS
Employees no longer with the group (including any termination payments):				
\$100,001 – \$110,000	-	10	-	1
\$110,001 – \$120,000	-	6	-	1
\$120,001 – \$130,000	1	6	-	-
\$130,001 – \$140,000	-	4	-	-
\$140,001 – \$150,000	-	1	-	-
\$150,001 – \$160,000	-	3	-	-
\$170,001 – \$180,000	-	1	-	-
\$190,001 – \$200,000	1	1	-	-
\$200,001 – \$210,000	-	1	-	-
\$220,001 – \$230,000	1	2	1	-
\$410,001 – \$420,000	-	1	-	-
\$470,001 – \$480,000	-	1	-	-
\$790,001 – \$800,000	-	1	-	1
\$830,001 – \$840,000	-	1	-	1

No employee of the group appointed as a director of a subsidiary or associate company receives or retains any remuneration or benefits as a director. The remuneration and benefits of such employees, received as employees, are included in the relevant bandings disclosed above, where the annual remuneration and benefits exceed \$100,000.

Statutory Information

DISTRIBUTION OF DEBT SECURITIES

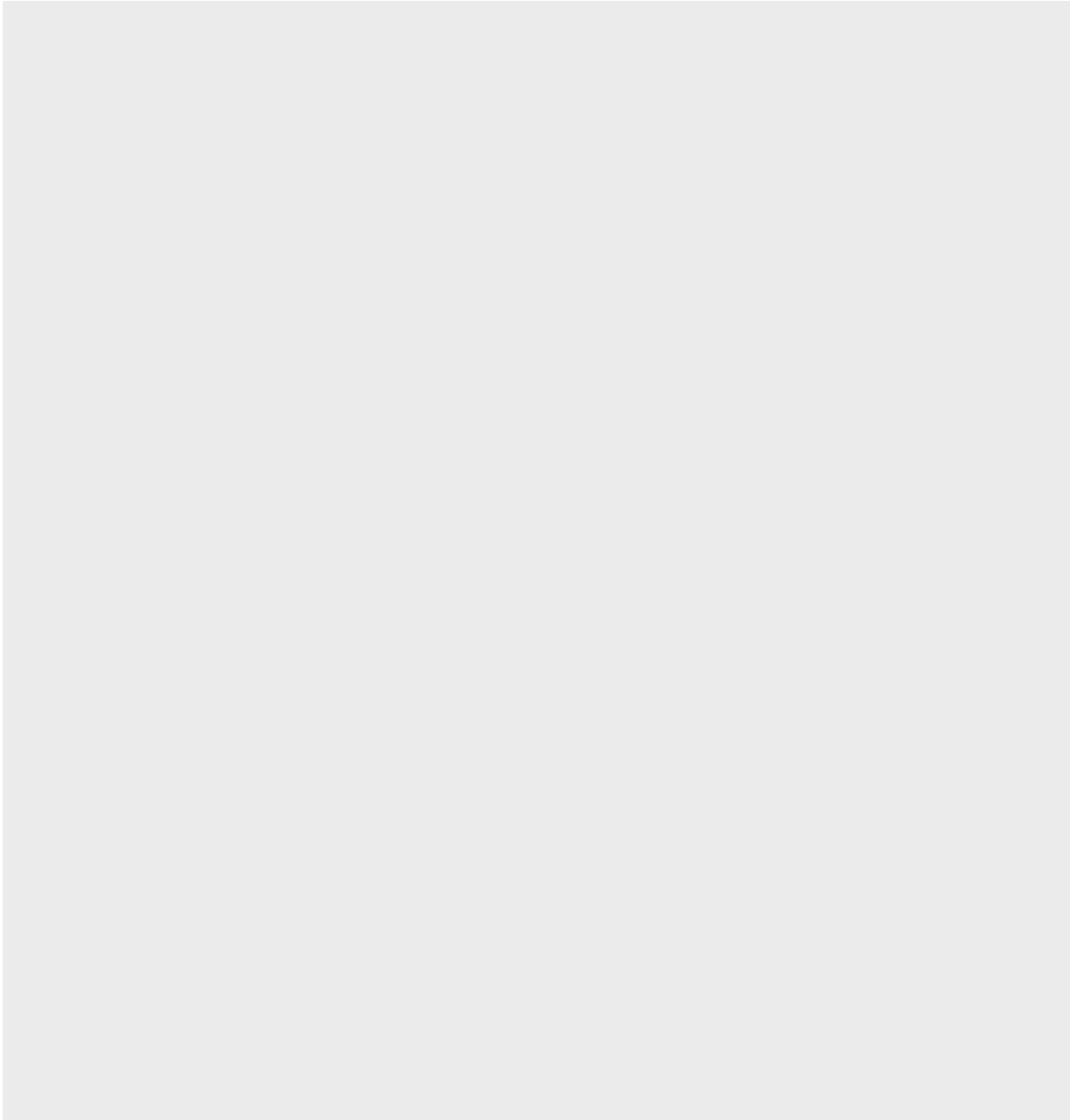
The information in the disclosures below has been taken from the group's registers at 30 June 2004.

RANGE OF SECURITY HOLDINGS	NUMBER OF HOLDERS	NUMBER OF SECURITIES HELD	PERCENTAGE OF ISSUED SECURITIES
1 – 4,999	5	15,000	0.00
5,000 – 9,999	2,410	12,595,000	4.10
10,000 – 49,999	5,483	103,377,000	33.65
50,000 – 99,999	818	45,401,000	14.78
100,000 – 499,999	406	58,580,000	19.07
500,000 – 999,999	22	12,860,000	4.19
1,000,000 plus	28	74,377,000	24.21
Total	9,172	307,205,000	100.00

CREDIT RATING

As at 30 June 2004 Vector Limited had a Standard & Poor's credit rating of BBB+ / Stable / A-2.

Notes



Directory

REGISTERED OFFICE

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SHAREHOLDER

Auckland Energy Consumer Trust
PO Box 109626
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Telephone 64-9-978 7674
Facsimile 64-9-978 7516
www.aect.co.nz

AUDITORS

KPMG
18 Viaduct Harbour Avenue
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New Zealand

SOLICITORS

Russell McVeagh
Vero Centre
48 Shortland Street
Auckland
New Zealand

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

Buddle Findlay
PricewaterhouseCoopers Tower
188 Quay Street
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New Zealand