SUPPLEMENT TO



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# VECTOR LIMITED

# &

# NGC HOLDINGS LIMITED

## (A SUBSIDIARY OF VECTOR LIMITED)

## GAS ACTIVITIES 2007

## INFORMATION FOR DISCLOSURE

PURSUANT TO THE GAS (INFORMATION DISCLOSURE) REGULATIONS 1997

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KPMG

**CERTIFICATION BY AUDITOR IN RELATION TO FINANCIAL STATEMENTS**

We have examined the attached special purpose information disclosure statements of Vector Gas Distributions (Information Disclosure) Business and dated 14 November 2007 for the purposes of regulation 6 of the Gas (Information Disclosure) Regulation 1997.

We certify that, having made all reasonable enquiry, to the best of our knowledge, those financial statements have been prepared in accordance with the requirements of the Gas (Information Disclosure) Regulations 1997.

KPMG.

KPMG

21 November 2007

KPMG

## CERTIFICATION OF PERFORMANCE MEASURES BY AUDITOR

We have examined the attached information, being –

(a) Financial performance measures specified in clause 1 of Part 2 of Schedule 1 of the Gas (Information Disclosure) Regulations 1997; and

(b) Financial components of the efficiency performance measures specified in clause 2 of part 2 of the schedule,-

and having been prepared by Vector Gas Distributions (Information Disclosure) Business and dated 14 November 2007 for the purposes of regulations 15 and 16 of those regulations.

We certify that, having made all reasonable enquiry, to the best of our knowledge, that information has been prepared in accordance with the requirements of the Gas (Information Disclosure) Regulations 1997.

KPMG.

KPMG

21 November 2007

## CERTIFICATION OF FINANCIAL STATEMENTS, PERFORMANCE MEASURES, AND STATISTICS DISCLOSED BY PIPELINE OWNERS OTHER THAN THE CORPORATION

We, Bob Thomson and Alison Paterson, directors of Vector Limited, certify that, having made all reasonable enquiry, to the best of our knowledge, -

(a) the attached audited financial statements of the consolidated Vector Limited's and NGC Holdings Limited's gas distribution lines businesses, prepared for the purposes of regulation 6 of the Gas (Information Disclosure) Regulations 1997, comply with the requirements of that regulation; and

(b) the attached information, being the financial performance measures, efficiency performance measures, energy delivery performance measures and statistics, and reliability performance measures in relation to the consolidated Vector Limited's and NGC Holdings Limited's gas distribution lines businesses, and having been prepared for the purposes of regulations 15 to 19 of the Gas (Information Disclosure) Regulations 1997, complies with the requirements of those regulations.

Director

Date: 14 November 2007

Director

Date: 14 November 2007

## VECTOR LIMITED & SUBSIDIARIES
## GAS DISTRIBUTION ACTIVITIES

## STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2007

| | NOTE | 2007 $000 | 2006 $000 |
|---|---|---|---|
| Operating revenue | | **73,863** | 67,245 |
| Operating expenditure | | **(28,531)** | (25,474) |
| **Earnings before interest, income tax, depreciation and amortisation** | | **45,332** | 41,771 |
| Depreciation and amortisation | | **(28,209)** | (26,714) |
| **Operating surplus before interest and income tax** | 1 | **17,123** | 15,057 |
| Net interest expense | | **(29,951)** | (27,475) |
| **Operating deficit before income tax** | | **(12,828)** | (12,418) |
| Income tax benefit / (expense) | 2 | **4,543** | (791) |
| **Net deficit for the year** | | **(8,285)** | (13,209) |

# VECTOR LIMITED & SUBSIDIARIES
# GAS DISTRIBUTION ACTIVITIES

## STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2007

| | NOTE | 2007 $000 | 2006 $000 |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash | | **2** | - |
| Receivables and prepayments | 6 | **8,189** | 5,902 |
| Inventories | | **124** | 97 |
| Income tax | | **4,066** | 4,157 |
| Capitalised finance costs | | **532** | 603 |
| **Total current assets** | | **12,913** | 10,759 |
| **NON-CURRENT ASSETS** | | | |
| Receivables and prepayments | 6 | **125** | 188 |
| Property, plant and equipment | 7 | **391,974** | 392,456 |
| Goodwill | 8 | **261,392** | 277,617 |
| Capitalised finance costs | | **2,588** | 2,762 |
| **Total non-current assets** | | **656,079** | 673,023 |
| **Total assets** | | **668,992** | 683,782 |
| **CURRENT LIABILITIES** | | | |
| Payables and accruals | 10 | **14,878** | 12,707 |
| Borrowings | 12 | **20,879** | 30,642 |
| **Total current liabilities** | | **35,757** | 43,349 |
| **NON-CURRENT LIABILITIES** | | | |
| Payables and accruals | 10 | **841** | 93 |
| Borrowings | 12 | **380,065** | 380,065 |
| Deferred tax | 3 | **65,017** | 64,678 |
| **Total non-current liabilities** | | **445,923** | 444,836 |
| **Total liabilities** | | **481,680** | 488,185 |
| **EQUITY** | | | |
| Asset revaluation reserve | 5 | **20,123** | 20,123 |
| Notional reserves | 4 | **167,189** | 175,474 |
| **Total equity** | | **187,312** | 195,597 |
| **Total equity and liabilities** | | **668,992** | 683,782 |

# VECTOR LIMITED & SUBSIDIARIES
# GAS DISTRIBUTION ACTIVITIES

## STATEMENT OF ACCOUNTING POLICIES
FOR THE YEAR ENDED 30 JUNE 2007

### ENTITIES REPORTING

These consolidated financial information disclosure statements comprise the gas distribution business activities of Vector Limited and its subsidiaries. The gas distribution activities involve the ownership and supply of pipeline function services for the distribution of gas.

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. Vector Limited is yet to adopt New Zealand International Financial Reporting Standards, as such these consolidated financial information disclosure statements follow the same accounting policies as that of Vector Limited and comply with New Zealand Generally Accepted Accounting Practice. The accounting policies as they relate to the gas distribution business are detailed below.

These consolidated financial information disclosure statements for the gas distribution business activities of the Vector group are Special Purpose Financial Reports as defined in the New Zealand Institute of Chartered Accountants' "framework for differential reporting".

In accordance with the Gas (Information Disclosure) Regulation 1997, these consolidated financial information disclosure statements have been prepared on the basis that the initial acquisition of 67.21% of NGC gas distribution business occurred at 1st July 2004 and subsequent balance acquisition of 32.79% occurred at the beginning of the financial year 1st July 2005. The actual dates of initial and subsequent acquisition were 14th December 2004 and 10th August 2005 respectively.

### STATUTORY BASE

The consolidated financial information disclosure statements have been prepared in accordance with the requirements of the Gas (Information Disclosure) Regulations 1997.

### MEASUREMENT BASE

The consolidated financial information disclosure 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.

The Vector group has adopted a policy to apply the avoidable cost allocation methodology (ACAM) described in the Electricity Information Disclosure Handbook 31 March 2004, for the allocation of revenues, costs, assets and liabilities between the regulated businesses and other activities of the company. Under the Gas (Information Disclosure) Regulation 1997, there is no specific guidance provided on the cost allocation method to apply, thus Vector group has followed the Electricity Information Disclosure Handbook in allocating costs to the regulated business.

The NGC gas distribution business and the Vector gas distribution business are treated as separate regulated standalone businesses and then consolidated for presentation in these information disclosure statements. Vector group has adopted this approach as the Vector Auckland Gas Distribution business is subject to a provisional price control authorisation issued by the Commerce Commission (Commerce Act (Natural Gas Services) Provisional Authorisation 2005).

The costs have been allocated on the following basis:

- Direct allocation of all components of financial statement items which are directly attributable to the specific businesses.
- For any components of financial statement items that are not directly attributable to a specific business:
  - By assessing the proportions of those components which are avoidable and non-avoidable; and
  - Allocating those components amongst the businesses on the basis of those proportions using an appropriate cost allocator.

The two main allocators used are the number of employees and the book value of property, plant and equipment. Some costs like integration costs, IT costs and non-system asset depreciation are separately analysed and are allocated using allocators specific to those costs.

All costs not allocated to the standalone gas distribution business, are allocated to other businesses within the Vector group. Other businesses are not disclosed within these consolidated financial information disclosure statements.

Allocators are also utilised to allocate balance sheet assets and liabilities that are not directly attributable to the standalone business.

### GOING CONCERN

The financial statements have been prepared on a going concern basis which the directors believe is appropriate.

# VECTOR LIMITED & SUBSIDIARIES
# GAS DISTRIBUTION ACTIVITIES

## STATEMENT OF ACCOUNTING POLICIES (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2007

### SPECIFIC ACCOUNTING POLICIES

The following specific accounting policies that materially affect the measurement of financial performance and financial position 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.

**Comparatives**

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

**Acquisition or disposal during the year**

In accordance with the Gas (Information Disclosure) Regulations 1997, 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 ceased. When an entity is acquired all identifiable assets and liabilities are recognised at their fair value at acquisition date. The fair value does not take into consideration any future intentions by the group. Where an entity that is part of the group is disposed of, the gain or loss recognised in the statement of financial performance is calculated as the difference between the sale price and the carrying amount of the identifiable assets and liabilities and related goodwill of that entity.

**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.

Goodwill arising on acquisition of the gas distribution business of NGC Holdings Limited and United Networks Limited has been allocated from the total goodwill arising from each acquisition transaction on the basis of property, plant and equipment acquired.

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

### B) INCOME RECOGNITION

Income from the provision of gas distribution services is recognised as services are delivered. Income from customer contributions is recognised on a percentage of completion basis.

### C) GOODS AND SERVICES TAX (GST)

The statement of financial performance has 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.

### D) RECEIVABLES

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

### E) INVENTORIES

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

# VECTOR LIMITED & SUBSIDIARIES
# GAS DISTRIBUTION ACTIVITIES

## STATEMENT OF ACCOUNTING POLICIES (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2007

### F) INCOME TAX

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

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

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

### G) PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

### H) DEPRECIATION

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

| | USEFUL LIVES YEARS |
|---|---|
| Distribution systems | 15 - 100 |
| Plant, vehicles and equipment | 3 – 40 |

### I) LEASED ASSETS

**Operating leases**

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

# VECTOR LIMITED & SUBSIDIARIES
# GAS DISTRIBUTION ACTIVITIES

## STATEMENT OF ACCOUNTING POLICIES (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2007

**Leasehold improvements**

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

### J) PROVISIONS

**Employee entitlements**

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

**Other provisions**

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

### K) FINANCIAL INSTRUMENTS

Derivative financial instruments are used 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.

No speculative transactions are conducted nor are any derivative financial instruments held for trading purposes.

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

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

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

### L) FOREIGN CURRENCIES

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

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

### CHANGES IN ACCOUNTING POLICY

All accounting policies have been applied on a basis consistent with those applied for the year ended 30 June 2006.

# VECTOR LIMITED & SUBSIDIARIES
# GAS DISTRIBUTION ACTIVITIES

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

| 1. OPERATING SURPLUS BEFORE INTEREST AND INCOME TAX | NOTE | 2007 $000 | 2006 $000 |
|---|---|---|---|
| Operating surplus before interest and income tax includes: | | | |
| Bad debts written off | | 4 | - |
| Increase in provision for doubtful debts | | 110 | 28 |
| Rental and operating lease costs | | 573 | 735 |
| Donations | | - | 2 |
| Directors' fees | | 73 | 73 |
| Audit fees | | 91 | 81 |
| Depreciation | | 11,984 | 10,418 |
| Amortisation of goodwill | 8 | 16,225 | 16,296 |

| 2. INCOME TAX EXPENSE | | 2007 $000 | 2006 $000 |
|---|---|---|---|
| **Operating deficit before income tax** | | (12,828) | (12,418) |
| Prima facie tax at 33% | | (4,233) | (4,098) |
| Plus tax effect of permanent differences: | | | |
| Adjustment to deferred tax for change in company tax rate | | (5,751) | - |
| Other permanent differences | | 5,441 | 4,889 |
| **Income tax (benefit) / expense** | | (4,543) | 791 |
| The income tax (benefit) / expense is represented by: | | | |
| Current tax | | (4,882) | (4,157) |
| Deferred tax | 3 | 339 | 4,948 |
| **Total** | | (4,543) | 791 |

In May 2007, the Government changed the corporate tax rate to 30% effective from the 2008/2009 income year. In accordance with SSAP 12, the deferred tax liability has been restated, reflecting the change in corporate tax rate from 1 July 2008. As a result of the deferred tax restatement there is a reduction in the deferred tax liability of $5.7 million and a corresponding credit to income tax expense in the statement of financial performance.

| 3. DEFERRED TAX | 2007 $000 | 2006 $000 |
|---|---|---|
| Balance at beginning of the year | 64,678 | 50,100 |
| Prior period adjustment | - | (38) |
| On acquisition of NGC gas distribution business | - | (2,048) |
| Decrease relating to change in company tax rate | (5,751) | - |
| Increase on revaluation of assets | - | 11,716 |
| On net surplus for the year | 6,090 | 4,948 |
| **Balance at end of the year** | 65,017 | 64,678 |

The decrease in the gas distribution business's deferred tax liability of $5.7 million resulting from the change in the corporate tax rate to 30% effective from the 2008/2009 income year is explained in Note 2 above.

# VECTOR LIMITED & SUBSIDIARIES
# GAS DISTRIBUTION ACTIVITIES

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2007

| 4. NOTIONAL RESERVES | 2007<br>$000 | 2006<br>$000 |
|---|---|---|
| Balance at beginning of the year | **175,474** | 100,473 |
| Net deficit for the year | **(8,285)** | (13,209) |
| Reset of equity position | **-** | 88,210 |
| **Balance at end of the year** | **167,189** | 175,474 |

| 5. ASSET REVALUATION RESERVE | 2007<br>$000 | 2006<br>$000 |
|---|---|---|
| Balance at beginning of year | **20,123** | - |
| Movement on revaluation (net of deferred tax) | **-** | 20,123 |
| **Balance at end of year** | **20,123** | 20,123 |

| 6. RECEIVABLES AND PREPAYMENTS | 2007<br>$000 | 2006<br>$000 |
|---|---|---|
| **Current** | | |
| Prepayments and other receivables | **458** | 230 |
| Trade receivables | **7,855** | 5,686 |
| Provision for doubtful debts | **(124)** | (14) |
| **Total** | **8,189** | 5,902 |
| **Non-current** | | |
| Other receivables | **125** | 188 |
| **Total** | **125** | 188 |

| 7. PROPERTY, PLANT AND EQUIPMENT<br>2007 | COST / VALUATION<br>$000 | ACCUMULATED DEPRECIATION<br>$000 | NET BOOK VALUE<br>$000 |
|---|---|---|---|
| Freehold land | **30** | **-** | **30** |
| Distribution systems | **396,891** | **(23,807)** | **373,084** |
| Plant, vehicles and equipment | **21,792** | **(17,427)** | **4,365** |
| Capital work in progress | **14,495** | **-** | **14,495** |
| **Total** | **433,208** | **(41,234)** | **391,974** |

| 2006 | COST / VALUATION<br>$000 | ACCUMULATED DEPRECIATION<br>$000 | NET BOOK VALUE<br>$000 |
|---|---|---|---|
| Freehold land | 713 | - | 713 |
| Distribution systems | 381,762 | (14,022) | 367,740 |
| Plant, vehicles and equipment | 16,043 | (12,455) | 3,588 |
| Capital work in progress | 20,415 | - | 20,415 |
| **Total** | 418,933 | (26,477) | 392,456 |

# VECTOR LIMITED & SUBSIDIARIES
# GAS DISTRIBUTION ACTIVITIES

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2007

### 7. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The fair value of land and buildings is considered equal to or in excess of their net book value.

As stated in the statement of accounting policies, interest and other costs are capitalised to property, plant and equipment while under construction. During the year $0.2 million (2006: $0.3 million) of interest and other costs were capitalised.

The Auckland system fixed assets were revalued to $276.5 million as at 31 March 2006 consistent with the group's accounting policy to revalue property, plant and equipment at least every three years. The basis of this valuation is the lesser of depreciated replacement cost and the estimated amount from the future use of these distribution assets. This valuation was undertaken in conjunction with the following parties:

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

| **8. GOODWILL** | **2007 $000** | **2006 $000** |
|---|---|---|
| Balance at beginning of the year | **277,617** | 204,157 |
| Arising on acquisition of NGC gas distribution business | - | 58,014 |
| Prior period adjustment | - | 31,742 |
| Amortisation in the financial year | **(16,225)** | (16,296) |
| **Balance at end of the year** | **261,392** | 277,617 |

Goodwill is amortised over a period up to 20 years. Goodwill arising on acquisition of the gas distribution businesses of NGC Holdings Limited and United Networks Limited has been allocated on the basis of acquired property, plant and equipment. The prior period adjustment is in respect of the amendment to the goodwill allocation methodology.

### 9. ACQUISITION OF SUBSIDIARY

On 14 December 2004 Vector Limited acquired a controlling 66.05% interest in NGC Holdings Limited, a company providing utility services (including gas distribution) in New Zealand. On 10 August 2005, Vector Limited acquired the remaining shares in NGC Holdings Limited it did not already own. In compliance with the provisions of the Gas (Information Disclosure) Regulations 1997, the accounts have been prepared on the basis that the initial acquisition of NGC Holdings Limited's gas distribution activities occurred at the beginning of the 2004/2005 financial year (1 July 2004) and the subsequent acquisition at beginning of the 2005/2006 financial year (1 July 2005). Goodwill arising on acquisition of the gas distribution business of NGC Holdings Limited has been allocated on the basis of acquired property, plant and equipment as at acquisition date.

# VECTOR LIMITED & SUBSIDIARIES
# GAS DISTRIBUTION ACTIVITIES

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2007

### 10. PAYABLES AND ACCRUALS

| | NOTE | 2007 $000 | 2006 $000 |
|---|---|---|---|
| **Current** | | | |
| Trade payables and other creditors | | **10,618** | 8,572 |
| Interest payable | | **3,513** | 3,482 |
| Mark to market adjustment | | **-** | 121 |
| Provisions | 11 | **10** | - |
| Provision for employee entitlements | | **737** | 532 |
| **Total** | | **14,878** | 12,707 |
| **Non-current** | | | |
| Mark to market adjustment | | **30** | 39 |
| Other payables and accruals | | **811** | 54 |
| **Total** | | **841** | 93 |

### 11. PROVISIONS

| | 2007 $000 | 2006 $000 |
|---|---|---|
| Balance at beginning of the year | **-** | 1,069 |
| Arising on acquisition of NGC gas distribution business | **-** | - |
| Additions | **10** | - |
| Utilised | **-** | (1,069) |
| **Balance at end of the year** | **10** | - |

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

### 12. BORROWINGS

Borrowings are a notional apportionment of the Vector group debt facilities including bank loans, a working capital facility, medium term notes - floating rate A$, capital bonds, fixed interest rate bonds, private placement senior notes and NZ floating rate notes. All borrowings are unsecured with all bank loans and medium term notes being subject to negative pledge arrangements.

The interest cost on the borrowings has been calculated using a weighted average interest rate of 7.47% applicable to the Vector Group.

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

A detailed disclosure of the Vector group's borrowings is available under Note 29 of the Vector Group's annual report for the year ended 30 June 2007.

### 13. COMMITMENTS

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

| | 2007 $000 | 2006 $000 |
|---|---|---|
| **Capital expenditure commitments** | | |
| Estimated capital expenditure contracted for at balance date but not provided | **4,155** | 1,668 |
| **Operating lease commitments** | | |
| Within one year | **987** | 636 |
| One to two years | **849** | 531 |
| Two to five years | **1,443** | 1,211 |
| Beyond five years | **277** | 139 |
| **Total** | **3,556** | 2,517 |

# VECTOR LIMITED & SUBSIDIARIES
# GAS DISTRIBUTION ACTIVITIES

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2007

### 14. FINANCIAL INSTRUMENTS

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

A detailed disclosure of the Vector group's financial instruments is available under Note 30 of Vector group's annual report for the year ended 30 June 2007.

#### INTEREST RATE RISK

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

#### FOREIGN EXCHANGE RISK

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

There are outstanding forward exchange contracts. At balance date there is no significant exposure to foreign exchange risk.

#### CREDIT RISK

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

As part of these policies, exposures are limited 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 Vector board of directors and are monitored on a regular basis. In this respect, credit risk is minimised by spreading such exposures across a range of institutions. There is no anticipation of non-performance by any of these financial institutions.

There are some concentration of credit exposures with a few large energy retailers and large energy customers. To minimise this risk, credit evaluations on all energy retailers and large energy customers are undertaken and a requirement for a bond or other form of security where deemed necessary is placed.

Cash deposits with a small number of banking institutions are placed and limits are set for the amount deposited with each institution.

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

| | 2007 CARRYING AMOUNT $000 | 2006 CARRYING AMOUNT $000 |
|---|---|---|
| Cash and bank overdraft | **2** | - |
| Trade receivables | **7,730** | 5,672 |

#### LIQUIDITY RISK

Liquidity risk is the risk of encountering difficulty in raising funds at short notice to meet financial commitments as they fall due.
In order to reduce the exposure to liquidity risk, access to un-drawn committed lines of credit has been established.

### 15. CONTINGENT LIABILITIES

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

# VECTOR LIMITED & SUBSIDIARIES
# GAS DISTRIBUTION ACTIVITIES

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2007

### 16. TRANSACTIONS WITH RELATED PARTIES

| NATURE OF THE TRANSACTION | RELATED PARTY | 2007 $000 | 2006 $000 |
|---|---|---|---|
| Vector gas distribution activities sold distribution services based on standard terms and conditions. | Gas retailing activities | **4,555** | 3,842 |
| NGC gas distribution activities sold distribution services based on standard terms and conditions. | Gas retailing activities | **3,640** | 3,282 |
| Vector gas distribution purchased telecommunication services based on standard terms and conditions. | Vector Communications Limited | - | 200 |

### 17. INTERNATIONAL FINANCIAL REPORTING STANDARDS

A detailed disclosure of the Vector group's New Zealand equivalents to International Financial Reporting standards (NZ IFRS) transition management, impacts on transition to NZ IFRS, significant changes in accounting policies on transition to NZ IFRS and exemptions taken on transition to NZ IFRS is available under Note 34 of the Vector group's annual report for the year ended 30 June 2007.

# VECTOR LIMITED & SUBSIDIARIES
# GAS DISTRIBUTION ACTIVITIES

## FINANCIAL AND EFFICIENCY PERFORMANCE MEASURES
FOR THE YEAR ENDED 30 JUNE 2007

| | **2007** | 2006 | [1]2005 | [2]2004 |
|---|---|---|---|---|
| **1 Financial performance measures** | | | | |
| a (i) Accounting return on total assets (including current borrowings in working capital)[3] | **4.70%** | 5.09% | 7.84% | 5.85% |
| a (ii) Accounting return on total assets (excluding current borrowings in working capital)[3] | **4.39%** | 4.07% | 6.39% | 5.71% |
| b Accounting return on equity | **(4.33%)** | (8.50%) | (13.25%) | (8.15%) |
| c (i) Accounting rate of profit (including current borrowings in working capital)[3] | **1.97%** | [4]13.48% | 2.51% | 3.12% |
| c (ii) Accounting rate of profit (excluding current borrowing from working capital)[3] | **1.84%** | [5]10.64% | 2.05% | 3.05% |
| **2 Efficiency performance measures** | | | | |
| a Direct line costs per kilometre | **$755** | $846 | $917 | $1,041 |
| b Indirect line costs per gas customer | **$134** | $155 | $140 | $174 |

[1] Consolidation of Vector and NGC pipeline disclosure data from 2005. Prior period disclosures do not include NGC data.
[2] UnitedNetworks Limited was amalgamated with Vector Limited on 1 July 2004.
[3] The regulations are silent on the treatment of amortisation. Earnings before interest and tax is calculated after amortisation. This treatment is consistent with NZ GAAP.
[4] Accounting rate of profit (including current borrowings in working capital) is 1.99% before revaluation.
[5] Accounting rate of profit (excluding current borrowings from working capital) is 1.59% before revaluation.

## VECTOR LIMITED & SUBSIDIARIES
## GAS DISTRIBUTION ACTIVITIES

## ENERGY DELIVERY EFFICIENCY PERFORMANCE MEASURES AND STATISTICS
FOR THE YEAR ENDED 30 JUNE 2007

| | | 2007 | 2006 | [6]2005 | [7]2004 |
|---|---|---|---|---|---|
| 3 | **Energy delivery efficiency performance measures** | | | | |
| | Load factor | **78.09%** | 79.10% | 79.99% | 76.11% |
| | Unaccounted-for gas ratio | **1.41%** | 1.36% | 1.29% | 2.31% |
| 4 | **Statistics** | | | | |
| | System length (km) | [8]**9,756** | [8]9,358 | [8]7,956 | 4,910 |
| | Maximum monthly amount of gas entering the systems (GJ) | **2,383,459** | 2,425,448 | 2,481,916 | 1,310,442 |
| | Total annual amount of gas conveyed through the systems (GJ) | **22,335,868** | 23,022,375 | 23,823,990 | 11,968,419 |
| | Total annual amount of gas conveyed through the systems for persons not in a prescribed business relationship (GJ) | **10,507,493** | 9,983,381 | 15,324,017 | 11,953,148 |
| | Total (number of) customers | **140,872** | 136,769 | 132,527 | 70,637 |

## RELIABILITY PERFORMANCE MEASURES
FOR THE YEAR ENDED 30 JUNE 2007

| | | 2007 | 2006 | [6]2005 | [7]2004 |
|---|---|---|---|---|---|
| 5 | **Reliability performance measures** | | | | |
| | Unplanned transmission system interruptions (hours) | **n.a** | n.a | n.a | n.a |
| | Unplanned distribution system interruptions not related to transmission system interruptions (hours/customer) | **0.0036** | 0.0038 | 0.0013 | 0.0020 |
| | Unplanned distribution system interruptions related to transmission system interruptions (hours/customer) | - | - | - | - |

[6] Consolidation of Vector and NGC pipeline disclosure data from 2005. Prior period disclosures do not include NGC data.
[7] UnitedNetworks Limited was amalgamated with Vector Limited on 1 July 2004.
[8] NGC service pipeline length included in System Length (km) disclosure for 2006 and 2007, but excluded from 2005 disclosure due to lack of data.

KPMG

**CERTIFICATION BY AUDITOR IN RELATION TO FINANCIAL STATEMENTS**

We have examined the attached special purpose information disclosure statements of NGC Holdings Limited Retail Gas (Information Disclosure) Business and dated 14 November 2007 for the purposes of regulation 6 of the Gas (Information Disclosure) Regulation 1997.

We certify that, having made all reasonable enquiry, to the best of our knowledge, those financial statements have been prepared in accordance with the requirements of the Gas (Information Disclosure) Regulations 1997.

KPMG.

KPMG

21 November 2007

**CERTIFICATION OF FINANCIAL STATEMENTS DISCLOSED BY DIRECTORS OF THE CORPORATION**

We, Bob Thomson and Alison Paterson,
directors of NGC Holdings Limited ("the Corporation"), certify that, having made all reasonable enquiry, to the best of our knowledge, the attached audited financial statements of the Corporation, prepared for the purposes of regulation 6 of the Gas (Information Disclosure) Regulations 1997, comply with the requirements of that regulation.

Director

Date: 14 November 2007

Director

Date: 14 November 2007

## NGC HOLDINGS LIMITED
## GAS RETAILING ACTIVITIES
## STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2007

| | NOTE | 2007<br>$000 | 2006<br>$000 |
|---|---|---|---|
| Operating revenue | | **352,012** | 206,435 |
| Operating expenditure | | **(328,842)** | (144,425) |
| **Earnings before interest, income tax, depreciation and amortisation** | | **23,170** | 62,010 |
| Depreciation and amortisation | | **(195)** | (48) |
| **Operating surplus before interest and income tax** | **1** | **22,975** | 61,962 |
| Net Interest expense | | **(78)** | - |
| **Operating surplus before income tax** | | **22,897** | 61,962 |
| Income tax expense | **2** | **(7,559)** | (20,453) |
| **Net surplus for the year** | | **15,338** | 41,509 |

# NGC HOLDINGS LIMITED
# GAS RETAILING ACTIVITIES
# STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2007

| | NOTE | 2007 $000 | 2006 $000 |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Notional cash | | - | 1,554 |
| Receivables and prepayments | 5 | **36,472** | 23,322 |
| **Total current assets** | | **36,472** | 24,876 |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 9 | **639** | 83 |
| Deferred tax | 3 | **16** | 522 |
| **Total non-current assets** | | **655** | 605 |
| **Total assets** | | **37,127** | 25,481 |
| **CURRENT LIABILITIES** | | | |
| Bank overdraft and short term loans | | **1,388** | 1,264 |
| Notional borrowings | 13 | **1,044** | - |
| Dividend payable | | **15,338** | - |
| Income tax | | **7,053** | 20,798 |
| Payables and accruals | 6 | **12,204** | 3,319 |
| **Total current liabilities** | | **37,027** | 25,381 |
| **Total liabilities** | | **37,027** | 25,381 |
| **EQUITY** | | | |
| Notional reserves | 4 | **100** | 100 |
| **Total equity** | | **100** | 100 |
| **Total equity and liabilities** | | **37,127** | 25,481 |

# NGC HOLDINGS LIMITED
# GAS RETAILING ACTIVITIES
# STATEMENT OF ACCOUNTING POLICIES
FOR THE YEAR ENDED 30 JUNE 2007

## REPORTING ENTITIES

These financial information disclosure statements comprise the gas retailing business activities of NGC Holdings Limited and its subsidiaries. The gas retailing activities involve the supply of gas to gas customers.

NGC Holdings Limited is a company registered under the Companies Act 1993. NGC Holdings Limited is a wholly owned subsidiary of Vector Limited. NGC Holdings Limited is yet to adopt New Zealand International Financial Reporting Standards, as such these financial information disclosure statements follow the same accounting policies as that of Vector Limited and comply with New Zealand Generally Accepted Accounting Practice. The accounting policies as they relate to the gas retailing business are detailed below.

These financial information disclosure statements for the gas retailing business activities of the Vector group are Special Purpose Financial Reports as defined in the New Zealand Institute of Chartered Accountants' "framework for differential reporting".

## STATUTORY BASE

The financial information disclosure statements have been prepared in accordance with the requirements of the Gas (Information Disclosure) Regulations 1997.

## MEASUREMENT BASE

The financial information disclosure statements are prepared on the basis of historical cost.

The Vector group has adopted a policy to apply the avoidable cost allocation methodology (ACAM) described in the Electricity Information Disclosure Handbook 31 March 2004, for the allocation of revenues, costs, assets and liabilities between the regulated businesses and other activities of the group. Under the Gas (Information Disclosure) Regulation 1997, there is no specific guidance provided on the cost allocation method to apply, thus the Vector group has followed the Electricity Information Disclosure Handbook in allocating costs.

The costs have been allocated on the following basis:

- Direct allocation of all components of financial statement items which are directly attributable to the specific businesses.
- For any components of financial statement items that are not directly attributable to a specific business:
  - By assessing the proportions of those components which are avoidable and non-avoidable; and
  - Allocating those components amongst the businesses on the basis of those proportions using an appropriate cost allocator.

The two main allocators used are the number of employees and the book value of property, plant and equipment. Some costs like integration costs, IT costs and non-system asset depreciation are separately analysed and are allocated using allocators specific to those costs.

In applying the principles of ACAM, businesses have been split into two categories – businesses potentially subject to limited or no competition and businesses that operate in a competitive market. ACAM is intended to show that no more than standalone costs have been allocated to the businesses in potentially non-competitive markets. The 'not directly attributable' costs are initially allocated to the businesses potentially subject to limited or no competition. Avoided costs are allocated to incremental businesses. The gas retailing activities are treated as an incremental business as this is a competitive market.

All costs not allocated to the gas retailing business, are allocated to other businesses within the Vector group. Other businesses are not disclosed within these financial information disclosure statements.

## GOING CONCERN

The financial statements have been prepared on a going concern basis which the directors believe is appropriate.

# NGC HOLDINGS LIMITED
# GAS RETAILING ACTIVITIES
# STATEMENT OF ACCOUNTING POLICIES (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2007

## SPECIFIC ACCOUNTING POLICIES

The following specific accounting policies that materially affect the measurement of financial performance and financial position have been applied.

### A) COMPARATIVES

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

### B) INCOME RECOGNITION

Income from the provision of gas retailing services is recognised as services are delivered.

### C) GOODS AND SERVICES TAX (GST)

The statement of financial performance has 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.

### D) RECEIVABLES

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

### E) INVENTORIES

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

### F) INCOME TAX

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

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

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

### G) 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.

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.

If the estimated recoverable amount of an asset is less than its carrying amount, the asset is written down to its estimated recoverable amount and an impairment loss is recognised in the statement of financial performance. Estimated recoverable amount is the greater of the estimated amount from the future use of property, plant and equipment and its ultimate disposal, and its net market value. Annual impairment reviews are undertaken for these classes of property, plant and equipment.

### H) DEPRECIATION

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

| | |
|---|---|
| Plant, vehicles and equipment | 3 – 40 years |

# NGC HOLDINGS LIMITED
# GAS RETAILING ACTIVITIES
# STATEMENT OF ACCOUNTING POLICIES (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2007

### I) LEASED ASSETS

**Operating leases**

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

### J) PROVISIONS

**Employee entitlements**

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

**Other provisions**

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

### K) FINANCIAL INSTRUMENTS

Derivative financial instruments are used 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.

No speculative transactions are conducted nor are any derivative financial instruments held for trading purposes.

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

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

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

### CHANGES IN ACCOUNTING POLICIES

All accounting policies have been applied on bases consistent with those applied for the year ended 30 June 2006.

# NGC HOLDINGS LIMITED
# GAS RETAILING ACTIVITIES
# NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

| 1. OPERATING SURPLUS BEFORE INTEREST AND INCOME TAX | NOTE | 2007 $000 | 2006 $000 |
|---|---|---|---|
| Operating surplus before interest and income tax includes: | | | |
| Depreciation – plant, vehicles and equipment | | **195** | 48 |
| Audit fees | | **28** | 28 |
| Interest expense | | **78** | - |
| Operating leasing costs | | **11** | 29 |
| Provision release | | **(1,200)** | (522) |
| Movement in provision for doubtful debts | | **(321)** | 375 |
| Loss on disposal of property, plant and equipment | | **3** | - |

| 2. INCOME TAX EXPENSE | | 2007 $000 | 2006 $000 |
|---|---|---|---|
| **Operating surplus before income tax** | | **22,897** | 61,962 |
| Prima facie tax at 33% | | **7,556** | 20,448 |
| Plus tax effect of permanent differences: | | | |
| Prior period adjustment | | **-** | 1 |
| Other permanent differences | | **3** | 4 |
| **Income tax expense** | | **7,559** | 20,453 |
| The income tax expense is represented by: | | | |
| Current tax | | **7,053** | 20,798 |
| Deferred tax | 3 | **506** | (345) |
| **Total** | | **7,559** | 20,453 |

| 3. DEFERRED TAX | 2007 $000 | 2006 $000 |
|---|---|---|
| Balance at the beginning of the year | **(522)** | (177) |
| On net surplus for the year | **506** | (345) |
| **Balance at the end of the year** | **(16)** | (522) |

| 4. NOTIONAL RESERVES | 2007 $000 | 2006 $000 |
|---|---|---|
| Balance at the beginning of the year | **100** | 14,894 |
| Net surplus for the year | **15,338** | 41,509 |
| Notional dividend declared | **(15,338)** | (41,509) |
| Reset of equity position | **-** | (14,794) |
| **Balance at the end of the year** | **100** | 100 |

The gas retailing activities is not a company and therefore has no share capital. A provision has been made for a notional dividend of $15.3 million payable for the current year.

# NGC HOLDINGS LIMITED
# GAS RETAILING ACTIVITIES
# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2007

| 5. RECEIVABLE AND PREPAYMENTS | NOTE | 2007 $000 | 2006 $000 |
|---|---|---|---|
| **Current** | | | |
| Trade receivables | | **36,472** | 23,322 |
| **Total** | | **36,472** | 23,322 |

| 6. PAYABLES AND ACCRUALS | | 2007 $000 | 2006 $000 |
|---|---|---|---|
| **Current** | | | |
| Trade payables and other creditors | | **12,204** | 2,119 |
| Provisions | 7 | **-** | 1,200 |
| **Total** | | **12,204** | 3,319 |

| 7. PROVISIONS | 2007 $000 | 2006 $000 |
|---|---|---|
| Balance at the beginning of the year | **1,200** | 522 |
| Additions | **-** | 1,200 |
| Reversed to the statement of financial performance | **(1,200)** | (522) |
| **Balance at the end of the year** | **-** | 1,200 |

## 8. COMMITMENTS

There is no capital expenditure committed but not recorded in these financial statements for the year ended 30 June 2007 (30 June 2006: Nil).

| Operating Lease Commitments | 2007 $000 | 2006 $000 |
|---|---|---|
| Non cancellable operating lease rentals are payable as follows: | | |
| Within one year | **6** | 31 |
| One to two years | **-** | 25 |
| Two to five years | **-** | 14 |
| Beyond five years | **-** | - |
| **Total** | **6** | 70 |

The majority of the operating lease commitments relate to premises leases.

# NGC HOLDINGS LIMITED
# GAS RETAILING ACTIVITIES
# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2007

## 9. PROPERTY, PLANT AND EQUIPMENT

| 2007 | COST / VALUATION $000 | ACCUMULATED DEPRECIATION $000 | NET BOOK VALUE $000 |
|---|---|---|---|
| Plant, vehicles, equipment | **1,869** | **(1,230)** | **639** |
| Total | **1,869** | **(1,230)** | **639** |

| 2006 | COST / VALUATION $000 | ACCUMULATED DEPRECIATION $000 | NET BOOK VALUE $000 |
|---|---|---|---|
| Plant, vehicles, equipment | 329 | (246) | 83 |
| Total | 329 | (246) | 83 |

The corporate non-system fixed assets have been allocated to the gas retailing activities in 2007. These assets were not allocated in 2006 but their use was charged to the business by way of a management fee.

## 10. FINANCIAL INSTRUMENTS

A comprehensive treasury policy approved by the Vector board of directors is used to manage the risks of financial instruments. The policy outlines the objectives and approach that are adopted in the treasury management processes. The policy covers, among other things, management of credit risk, interest rate risk, funding risk, liquidity risk, currency risk and operational risk.

A detailed disclosure of Vector group's financial instruments is available under Note 30 of the Vector group's annual report for the year ended 30 June 2007.

### INTEREST RATE RISK

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

### FOREIGN EXCHANGE RISK

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

There are outstanding forward exchange contracts. At balance date there is no significant exposure to foreign exchange risk.

# NGC HOLDINGS LIMITED
# GAS RETAILING ACTIVITIES
# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2007

## 10. FINANCIAL INSTRUMENTS (CONTINUED)

### CREDIT RISK

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

As part of these policies, exposures are limited 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 Vector board of directors and are monitored on a regular basis. In this respect, credit risk is minimised by spreading such exposures across a range of institutions. There is no anticipation of non-performance by any of these financial institutions.

There are some concentration of credit exposures with a few large energy retailers and large energy customers. To minimise this risk, credit evaluations on all energy retailers and large energy customers are undertaken and a requirement for a bond or other form of security where deemed necessary is placed.

Cash deposits with a small number of banking institutions are placed and limits are set for the amount deposited with each institution.

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

| | **2007 CARRYING AMOUNT $000** | **2006 CARRYING AMOUNT $000** |
|---|---|---|
| Cash | **-** | 1,554 |
| Trade receivables | **36,472** | 23,322 |

### LIQUIDITY RISK

Liquidity risk is the risk of encountering difficulty in raising funds at short notice to meet financial commitments as they fall due. In order to reduce the exposure to liquidity risk, access to un-drawn committed lines of credit has been established.

## 11. CONTINGENT LIABILITIES

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

## 12. RELATED PARTY BORROWINGS

Borrowings are a notional apportionment of the Vector group debt facilities including bank loans, a working capital facility, medium term notes - floating rate A$, capital bonds, fixed interest rate bonds, private placement senior notes and NZ floating rate notes. All borrowings are unsecured with all bank loans and medium term notes being subject to negative pledge arrangements.

Interest cost on the borrowings has been calculated using a weighted average interest rate of 7.47% applicable to the Vector Group.

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

A detailed disclosure of Vector group's borrowings is available under Note 29 of the Vector Group's annual report for the year ended 30 June 2007.

# NGC HOLDINGS LIMITED
# GAS RETAILING ACTIVITIES
# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2007

### 13. TRANSACTIONS WITH RELATED PARTIES

| NATURE OF THE TRANSACTION | RELATED PARTY | 2007 $000 | 2006 $000 |
|---|---|---|---|
| Sold gas based on standard terms and conditions. | Kapuni Energy Joint Venture | **6,381** | 5,968 |
| Sold fuel gas on standard terms and conditions. | Kapuni Gas Treatment Plant | **3,445** | 3,086 |
| Sold gas for use in the compressors and line heaters on standard terms and conditions. | Gas Transmission Activities | **3,456** | 3,279 |
| Purchased gas based on actual amounts billed and notional revenue charged to gas retailing activities based on gas wholesales's cost of gas. | Gas Wholesaling Activities | **277,157** | 101,087 |
| Purchased gas transmission services based on actual revenue charged and notional revenue charged to gas retailing activities. | Gas Transmission Activities | **30,885** | 30,591 |
| Purchased gas processing services based on notional revenue charged to gas retailing activities. | Kapuni Energy Joint Venture and Kapuni Gas Treatment Plant | **7,615** | 182 |
| Purchased distribution services based on standard terms and conditions. | Gas Distribution Activities | **3,640** | 3,282 |
| Purchased metering services based on standard terms and conditions. | NGC Metering Limited | **567** | 1,028 |
| Purchased distribution services based on standard terms and conditions. | Vector Limited | **4,555** | 3,842 |
| Loan advance | Vector Limited | **1,044** | - |

### 14. INTERNATIONAL FINANCIAL REPORTING STANDARDS

A detailed disclosure of the Vector group's New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) transition management, impacts on transition to NZ IFRS, significant changes in accounting policies on transition to NZ IFRS and exemptions taken on transition to NZ IFRS is available under Note 34 of the Vector group's annual report for the year ended 30 June 2007.

KPMG

## CERTIFICATION BY AUDITOR IN RELATION TO FINANCIAL STATEMENTS

We have examined the attached special purpose information disclosure statements of NGC Holdings Limited Gas Transmissions (Information Disclosure) Business and dated 14 November 2007 for the purposes of regulation 6 of the Gas (Information Disclosure) Regulation 1997.

We certify that, having made all reasonable enquiry, to the best of our knowledge, those financial statements have been prepared in accordance with the requirements of the Gas (Information Disclosure) Regulations 1997.

KPMG.

KPMG

21 November 2007

KPMG

## CERTIFICATION OF PERFORMANCE MEASURES BY AUDITOR

We have examined the attached information, being –

(a) Financial performance measures specified in clause 1 of Part 2 of Schedule 1 of the Gas (Information Disclosure) Regulations 1997; and

(b) Financial components of the efficiency performance measures specified in clause 2 of part 2 of the schedule,-

and having been prepared by NGC Holdings Limited Gas Transmissions (Information Disclosure) Business and dated 14 November 2007 for the purposes of regulations 15 and 16 of those regulations.

We certify that, having made all reasonable enquiry, to the best of our knowledge, that information has been prepared in accordance with the requirements of the Gas (Information Disclosure) Regulations 1997.

KPMG.

KPMG

21 November 2007

**CERTIFICATION OF FINANCIAL STATEMENTS, PERFORMANCE MEASURES, AND STATISTICS DISCLOSED BY DIRECTORS OF THE CORPORATION**

We, Bob Thomson and Alison Paterson, directors of NGC Holdings Limited ("the Corporation"), certify that, having made all reasonable enquiry, to the best of our knowledge, -

(a) the attached audited financial statements of the Corporation, prepared for the purposes of regulation 6 of the Gas (Information Disclosure) Regulations 1997, comply with the requirements of that regulation; and

(b) the attached information, being the financial performance measures, efficiency performance measures, energy delivery performance measures and statistics, and reliability performance measures in relation to the Corporation, and having been prepared for the purposes of regulations 15 to 19 of the Gas (Information Disclosure) Regulations 1997, complies with the requirements of those regulations.

Director

Date: 14 November 2007

Director

Date: 14 November 2007

# NGC HOLDINGS LIMITED
# GAS TRANSMISSION ACTIVITIES

## STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2007

| | NOTE | 2007<br>$000 | 2006<br>$000 |
|---|---|---|---|
| Operating revenue | | **96,400** | 86,529 |
| Operating expenditure | | **(32,743)** | (35,662) |
| **Earnings before interest, income tax, depreciation and amortisation** | | **63,657** | 50,867 |
| Depreciation and amortisation | | **(16,527)** | (13,954) |
| **Operating surplus before interest and income tax** | 1 | **47,130** | 36,913 |
| Net interest expense | | **(16,007)** | (18,273) |
| **Operating surplus before income tax** | | **31,123** | 18,640 |
| Income tax expense | 2 | **(11,767)** | (7,114) |
| **Net surplus for the year** | | **19,356** | 11,526 |

# NGC HOLDINGS LIMITED
# GAS TRANSMISSION ACTIVITIES

## STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2007

| | NOTE | 2007 $000 | 2006 $000 |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Receivables and prepayments | 5 | **5,901** | 6,488 |
| Deferred expenditure | | **-** | 939 |
| Inventories | | **3,175** | 1,672 |
| **Total current assets** | | **9,076** | 9,099 |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 6 | **437,329** | 432,136 |
| **Total non-current assets** | | **437,329** | 432,136 |
| **Total assets** | | **446,405** | 441,235 |
| **CURRENT LIABILITIES** | | | |
| Bank overdraft and short term loans | | **3** | 547 |
| Payables and accruals | 7 | **3,911** | 11,229 |
| Income tax | | **9,559** | 10,732 |
| **Total current liabilities** | | **13,473** | 22,508 |
| **NON-CURRENT LIABILITIES** | | | |
| Finance lease | | **1,017** | - |
| Notional borrowings | 9 | **223,119** | 231,633 |
| Deferred tax | 3 | **71,380** | 76,878 |
| **Total non-current liabilities** | | **295,516** | 308,511 |
| **Total liabilities** | | **308,989** | 331,019 |
| **EQUITY** | | | |
| Notional reserves | 4 | **137,416** | 110,216 |
| **Total equity** | | **137,416** | 110,216 |
| **Total equity and liabilities** | | **446,405** | 441,235 |

# NGC HOLDINGS LIMITED
# GAS TRANSMISSION ACTIVITIES

## STATEMENT OF ACCOUNTING POLICIES
FOR THE YEAR ENDED 30 JUNE 2007

### ENTITIES REPORTING

These financial information disclosure statements comprise the gas transmission activities of NGC Holdings Limited and its subsidiaries. The gas transmission activities involve the ownership and supply of pipeline function services for the transmission of gas. Activities associated with third party services have been excluded.

NGC Holdings Limited is a company registered under the Companies Act 1993. NGC Holdings Limited is a wholly owned subsidiary of Vector Limited. NGC Holdings Limited is yet to adopt New Zealand International Financial Reporting Standards, as such these financial information disclosure statements follow the same accounting policies as that of Vector Limited and comply with New Zealand Generally Accepted Accounting Practice. The accounting policies as they relate to the gas transmission business are detailed below.

These financial information disclosure statements for the gas transmission business activities of the Vector Group are Special Purpose Financial Reports as defined in the New Zealand Institute of Chartered Accountants "framework for differential reporting".

### STATUTORY BASE

The financial information disclosure statements have been prepared in accordance with the requirements of the Gas (Information Disclosure) Regulations 1997.

### MEASUREMENT BASE

The financial information disclosure 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.
The Vector group has adopted a policy to apply the avoidable cost allocation methodology (ACAM) described in the Electricity Information Disclosure Handbook 31st March 2004, for the allocation of revenues, costs, assets and liabilities between the regulated businesses and other activities of the company. Under the Gas (Information Disclosure) Regulation 1997, there is no specific guidance provided on the cost allocation method to apply, thus Vector group has followed the Electricity Information Disclosure Handbook in allocating costs to the regulated business.

The costs have been allocated on the following basis:

- Direct allocation of all components of financial statement items which are directly attributable to the specific businesses.
- For any components of financial statement items that are not directly attributable to a specific business:
  - By assessing the proportions of those components which are avoidable and non-avoidable; and
  - Allocating those components amongst the businesses on the basis of those proportions using an appropriate cost allocator.

The two main allocators used are the number of employees and the book value of property, plant and equipment. Some costs like integration costs, IT costs and non-system asset depreciation are separately analysed and are allocated using allocators specific to those costs.

All costs not allocated to the standalone gas transmission business, are allocated to other businesses within the Vector group. Other businesses are not disclosed within these financial information disclosure statements.
Allocators are also utilised to allocate balance sheet assets and liabilities that are not directly attributable to the standalone business.

### GOING CONCERN

The financial statements have been prepared on a going concern basis which the directors believe is appropriate.

# NGC HOLDINGS LIMITED
# GAS TRANSMISSION ACTIVITIES

## STATEMENT OF ACCOUNTING POLICIES (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2007

### SPECIFIC ACCOUNTING POLICIES

The following specific accounting policies that materially affect the measurement of financial performance and financial position have been applied.

#### A) INCOME RECOGNITION

Income from the provision of gas transmission services is recognised as services are delivered. Interest income is accounted for as earned. Income from customer contributions is recognised on a percentage of completion basis.

#### B) GOODS AND SERVICES TAX (GST)

The statement of financial performance has 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.

#### C) RECEIVABLES

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

#### D) INVENTORIES

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

#### E) INCOME TAX

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

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

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

#### F) PROPERTY, PLANT AND EQUIPMENT

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

The cost of constructed property, plant and equipment includes the cost of all materials used in construction, direct labour on the project, costs of obtaining resource management consents, financing costs that are attributable to the project and an appropriate proportion of the variable and fixed overheads. Costs cease to be capitalised as soon as the item of 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.

Pipelines, compressors and gate stations are revalued by independent experts. Revalued assets are valued to fair value in accordance with Financial Reporting Standard No. 3, applying a depreciated replacement cost or a discounted cash flow methodology as appropriate. Revaluations of pipelines, compressors and gate stations are carried out at least every three years.

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

# NGC HOLDINGS LIMITED
# GAS TRANSMISSION ACTIVITIES

## STATEMENT OF ACCOUNTING POLICIES (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2007

### G) DEPRECIATION

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

| | USEFUL LIVES YEARS |
|---|---|
| Pipelines, compressors and gate stations | 35 - 65 |
| Other plant and equipment | 5 - 20 |
| Motor Vehicles | 3 - 20 |
| Buildings | 40 - 100 |

### H) LEASED ASSETS

**Finance leases**

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

**Operating leases**

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

**Leasehold improvements**

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

### I) PROVISIONS

**Employee entitlements**

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

**Other provisions**

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

# NGC HOLDINGS LIMITED
# GAS TRANSMISSION ACTIVITIES

## STATEMENT OF ACCOUNTING POLICIES (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2007

### J) FINANCIAL INSTRUMENTS

Derivative financial instruments are used 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.

No speculative transactions are conducted nor are any derivative financial instruments held for trading purposes.

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

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

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

### K) FOREIGN CURRENCIES

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

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

### CHANGES IN ACCOUNTING POLICY

All accounting policies have been applied on a basis consistent with those applied for the year ended 30 June 2006.

## NGC HOLDINGS LIMITED
## GAS TRANSMISSION ACTIVITIES

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

| 1. OPERATING SURPLUS BEFORE INTEREST AND INCOME TAX | 2007 $000 | 2006 $000 |
|---|---|---|
| Operating surplus before interest and income tax includes | | |
| Increase/(decrease) in provision for doubtful debts | **198** | (147) |
| Rental and operating lease costs | **96** | 108 |
| Loss/(gain) on disposal of property, plant and equipment | **725** | (72) |
| Directors' fees | **86** | 34 |
| Audit fees paid to principal auditors | **103** | 118 |
| Depreciation | **16,527** | 13,954 |
| Provision release | **(3,708)** | - |

| 2. INCOME TAX EXPENSE | NOTE | 2007 $000 | 2006 $000 |
|---|---|---|---|
| Operating surplus before income tax | | **31,123** | 18,640 |
| **Prima facie tax at 33%** | | **10,271** | 6,152 |
| Plus/(less) tax effect of permanent differences: | | | |
| Prior period adjustment | | **3** | (42) |
| Adjustment to deferred tax for change in company tax rate | | **1,534** | - |
| Non-taxable income | | **(862)** | (181) |
| Other non-deductible items | | **821** | 1,185 |
| **Income tax expense** | | **11,767** | 7,114 |
| The income tax expense is represented by: | | **-** | - |
| Current tax | | **9,562** | 10,691 |
| Deferred tax | 3 | **2,205** | (3,577) |
| **Total** | | **11,767** | 7,114 |

In May 2007 the Government changed the corporate tax rate to 30% effective from the 2008/2009 income year. In accordance with SSAP 12, the deferred tax liability has been restated, reflecting the change in corporate tax rate, which applies for Vector from 1 July 2008. As a result of the deferred tax restatement there is a reduction in the deferred tax liability of $6.3 million, an increase in equity of $7.8 milion and a $1.5 million increase in the income tax expense in the statement of financial performance.

| 3. DEFERRED TAX | 2007 $000 | 2006 $000 |
|---|---|---|
| Balance at beginning of the year | **76,878** | 80,448 |
| On surplus for the year | **671** | (3,577) |
| Prior period adjustment | **141** | 7 |
| Decrease relating to change in company tax rate | **(6,310)** | - |
| **Balance at end of the year** | **71,380** | 76,878 |

The decrease in the deferred tax liability of $6.3 million resulting from the change in the corporate tax rate to 30% effective from the 2008/2009 income year is explained in Note 2 above.

## NGC HOLDINGS LIMITED
## GAS TRANSMISSION ACTIVITIES

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2007

| 4. NOTIONAL RESERVES | 2007 $000 | 2006 $000 |
|---|---|---|
| Balance at beginning of the year | **110,216** | 369,445 |
| Net surplus for the year | **19,356** | 11,526 |
| Deferred tax release | **7,844** | - |
| Reset of equity position | **-** | (270,755) |
| **Balance at end of the year** | **137,416** | 110,216 |

| 5. RECEIVABLES AND PREPAYMENTS | 2007 $000 | 2006 $000 |
|---|---|---|
| **Current** | | |
| Trade receivables | **6,149** | 6,538 |
| Provision for doubtful debts | **(248)** | (50) |
| **Total** | **5,901** | 6,488 |

| 6. PROPERTY, PLANT AND EQUIPMENT<br>2007 | COST / VALUATION $000 | ACCUMULATED DEPRECIATION $000 | NET BOOK VALUE $000 |
|---|---|---|---|
| Pipelines, compressors and gate stations | **446,890** | **35,044** | **411,846** |
| Other plant and equipment | **52,714** | **35,261** | **17,453** |
| Motor Vehicles | **1,822** | **471** | **1,351** |
| Freehold land | **431** | **-** | **431** |
| Buildings | **4,342** | **1,196** | **3,146** |
| Capital work in progress | **3,102** | **-** | **3,102** |
| **Total** | **509,301** | **71,972** | **437,329** |

| 2006 | COST / VALUATION $000 | ACCUMULATED DEPRECIATION $000 | NET BOOK VALUE $000 |
|---|---|---|---|
| Pipelines, compressors and gate stations | 438,676 | 23,267 | 415,409 |
| Other plant and equipment | 18,539 | 16,099 | 2,440 |
| Motor Vehicles | 2,286 | 1,184 | 1,102 |
| Freehold land | 366 | - | 366 |
| Buildings | 4,175 | 1,109 | 3,066 |
| Capital work in progress | 9,753 | - | 9,753 |
| **Total** | 473,795 | 41,659 | 432,136 |

The corporate non-system fixed assets have been allocated to the gas transmission activities in 2007. These assets were not allocated in 2006 but their use was charged to the business by way of a management fee.

# NGC HOLDINGS LIMITED
# GAS TRANSMISSION ACTIVITIES

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2007

| 7. PAYABLES AND ACCRUALS | NOTE | 2007 $000 | 2006 $000 |
|---|---|---|---|
| **Current** | | | |
| Trade payables and other creditors | | **493** | 462 |
| Other payable and accruals | | **1,356** | 3,876 |
| Provisions | 8 | **2,062** | 6,891 |
| **Total** | | **3,911** | 11,229 |

| 8. PROVISIONS | 2007 $000 | 2006 $000 |
|---|---|---|
| Balance at beginning of the year | **6,891** | 960 |
| Additions | **699** | 6,513 |
| Utilised | **(1,820)** | (582) |
| Reversed to the statement of financial of performance | **(3,708)** | - |
| **Balance at end of the year** | **2,062** | 6,891 |

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

### 9. RELATED PARTY BORROWINGS

Borrowings are a notional apportionment of the Vector group debt facilities including bank loans, a working capital facility, medium term notes - floating rate A$, capital bonds, fixed interest rate bonds, private placement senior notes and NZ floating rate notes. All borrowings are unsecured with all bank loans and medium term notes being subject to negative pledge arrangements.

Interest cost on the borrowings has been calculated using a weighted average interest rate of 7.47% applicable to the Vector Group.

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

A detailed disclosure of the Vector group's borrowings is available under Note 29 of the Vector Group's annual report for the year ended 30 June 2007.

| 10. COMMITMENTS | 2007 $000 | 2006 $000 |
|---|---|---|
| **Capital expenditure commitments** | | |
| Estimated capital expenditure contracted for at balance date but not provided | **903** | 2,100 |
| | | |
| **Operating lease commitments** | | |
| Within one year | **35** | 34 |
| One to two years | **-** | 33 |
| Two to five years | **-** | 77 |
| | **35** | 144 |

# NGC HOLDINGS LIMITED
# GAS TRANSMISSION ACTIVITIES

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2007

### 11. FINANCIAL INSTRUMENTS

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

A detailed disclosure of the Vector group's financial instruments is available under Note 30 of Vector group's annual report for the year ended 30 June 2007.

#### INTEREST RATE RISK

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

#### FOREIGN EXCHANGE RISK

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

There are outstanding forward exchange contracts. At balance date there is no significant exposure to foreign exchange risk.

#### CREDIT RISK

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

As part of these policies, exposures are limited 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 Vector board of directors and are monitored on a regular basis. In this respect, credit risk is minimised by spreading such exposures across a range of institutions. There is no anticipation of non-performance by any of these financial institutions.

There are some concentration of credit exposures with a few large energy retailers and large energy customers. To minimise this risk, credit evaluations on all energy retailers and large energy customers are undertaken and a requirement for a bond or other form of security where deemed necessary is placed.

Cash deposits with a small number of banking institutions are placed and limits are set for the amount deposited with each institution.

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

| | 2007 CARRYING AMOUNT $000 | 2006 CARRYING AMOUNT $000 |
|---|---|---|
| Cash and bank overdraft | **3** | - |
| Trade receivables | **5,901** | 6,488 |

#### LIQUIDITY RISK

Liquidity risk is the risk of encountering difficulty in raising funds at short notice to meet financial commitments as they fall due. In order to reduce the exposure to liquidity risk, access to un-drawn committed lines of credit has been established.

# NGC HOLDINGS LIMITED
# GAS TRANSMISSION ACTIVITIES

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2007

### 12. CONTINGENT LIABILITIES

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

### 13. RELATED PARTY TRANSACTIONS

| NATURE OF THE TRANSACTION | RELATED PARTY | 2007 $000 | 2006 $000 |
|---|---|---|---|
| Sale of transmission services based on actual revenue charged and notional revenue charged. | Gas Wholesaling Activities | **316** | 645 |
| Sale of transmission services based on actual revenue charged and notional revenue charged. | Gas Retailing Activities | **30,885** | 30,591 |
| Purchase of own use gas on standard terms and conditions. | Gas Retailing Activities | **3,456** | 3,279 |
| Operational gas swap arrangements. | Gas Wholesaling Activities | **198** | 768 |
| Purchase of mechanical services at market rates for the maintenance of export compressor based at Kapuni. | Kapuni Gas Treatment Plant | **715** | 1,010 |
| Debt funding | Vector Limited | **223,119** | 231,633 |

# NGC HOLDINGS LIMITED
# GAS TRANSMISSION ACTIVITIES

## FINANCIAL AND EFFICIENCY PERFORMANCE MEASURES
FOR THE YEAR ENDED 30 JUNE 2007

| | | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|
| **1. FINANCIAL PERFORMANCE MEASURES** | | | | | |
| a | Accounting return on total assets | **10.8%** | 8.4% | 10.1% | 9.1% |
| b | Accounting return on equity | **15.6%** | 4.8% | 7.8% | 7.2% |
| c | Accounting rate of profit * | **7.1%** | **7.0% | 6.4% | 8.1% |

* In 2004 the revaluation of the Vector transmission pipelines was increased by $9.4 million. Excluding the $9.4 million, the accounting rate of profit would be reduced from 8.1% to 6.0%

** Re-disclosed due to restated cash tax.

| | | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|
| **2. EFFICIENCY PERFORMANCE MEASURES** | | | | | |
| a | Direct line costs per kilometre | **$3,239** | $4,810 | $3,880 | $3,830 |
| b | Indirect line costs per gas customer | **$1,119,079** | $1,263,156 | $997,847 | $1,114,763 |

## ENERGY DELIVERY EFFICIENCY PERFORMANCE MEASURES AND STATISTICS
FOR THE YEAR ENDED 30 JUNE 2007

### 3. LOAD FACTOR

| System | 2007 | | | 2006 | | |
|---|---|---|---|---|---|---|
| | Gas Into System [a] (GJ p.a.) | Max. Monthly Quantity [b] (GJ/month) | Load Factor % a x 100 / 12 x b | Gas Into System [a] (GJ p.a.) | Max. Monthly Quantity [b] (GJ/month) | Load Factor % a x 100 / 12 x b |
| North & Central | **56,513,361** | **6,043,308** | **77.93** | 60,848,748 | 5,728,319 | 88.52 |
| Bay of Plenty | **10,212,588** | **1,072,961** | **79.32** | 11,386,661 | 1,134,147 | 83.67 |
| Frankley Rd – Kapuni | **17,253,226** | **2,161,470** | **66.52** | 22,405,091 | 2,290,168 | 81.53 |
| South | **10,909,282** | **1,242,523** | **73.17** | 11,067,829 | 1,289,209 | 71.54 |
| **Total** | **94,888,457** | | | **105,708,329** | | |

| System | 2005 | | | 2004 | | |
|---|---|---|---|---|---|---|
| | Gas Into System [a] (GJ p.a.) | Max. Monthly Quantity [b] (GJ/month) | Load Factor % a x 100 / 12 x b | Gas Into System [a] (GJ p.a.) | Max. Monthly Quantity [b] (GJ/month) | Load Factor % a x 100 / 12 x b |
| North & Central | 54,227,789 | 5,168,202 | 87.44 | 53,865,697 | 5,156,560 | 87.05 |
| Bay of Plenty | 12,346,173 | 1,232,461 | 83.48 | 12,339,539 | 1,217,125 | 84.49 |
| Frankley Rd – Kapuni | 16,282,358 | 2,123,607 | 63.89 | 16,365,424 | 1,944,392 | 70.14 |
| South | 11,333,608 | 1,277,991 | 73.90 | 12,107,703 | 1,265,331 | 79.74 |
| **Total** | **94,189,928** | | | **94,678,363** | | |

# NGC HOLDINGS LIMITED
# GAS TRANSMISSION ACTIVITIES

## ENERGY DELIVERY EFFICIENCY PERFORMANCE MEASURES AND STATISTICS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2007

### 4. UNACCOUNTED – FOR – GAS RATIO

| | 2007 | | | 2006 | | |
|---|---|---|---|---|---|---|
| System | Unaccounted For Gas [a] (GJ p.a.) | Gas Into System [b] (GJ p.a.) | UFG % a x 100 / b | Unaccounted For Gas [a] (GJ p.a.) | Gas Into System [b] (GJ p.a.) | UFG % a x 100 / b |
| North & Central | **307,339** | **56,513,361** | **0.54** | 257,346 | 60,848,748 | 0.42 |
| Bay of Plenty | **316** | **10,212,588** | **0.00** | (28,235) | 11,386,661 | (0.25) |
| Frankley Rd – Kapuni | **54,980** | **17,253,226** | **0.32** | (33,457) | 22,405,091 | (0.15) |
| South | **106,125** | **10,909,282** | **0.97** | 150,763 | 11,067,829 | 1.36 |
| **Total** | | **94,888,457** | | | **105,708,329** | |

| | 2005 | | | 2004 | | |
|---|---|---|---|---|---|---|
| System | Unaccounted For Gas [a] (GJ p.a.) | Gas Into System [b] (GJ p.a.) | UFG % a x 100 / b | Unaccounted For Gas [a] (GJ p.a.) | Gas Into System [b] (GJ p.a.) | UFG % a x 100 / b |
| North & Central | 188,530 | 54,227,789 | 0.35 | (219,855) | 53,865,697 | (0.41) |
| Bay of Plenty | (114,815) | 12,346,173 | (0.93) | (106,172) | 12,339,539 | (0.86) |
| Frankley Rd – Kapuni | (126,023) | 16,282,358 | (0.77) | (202,449) | 16,365,424 | (1.24) |
| South | (10,583) | 11,333,608 | (0.09) | (30,711) | 12,107,703 | (0.25) |
| **Total** | | **94,189,928** | | | **94,678,363** | |

### 5. STATISTICS

| | 2007 | | | | 2006 | | | |
|---|---|---|---|---|---|---|---|---|
| System | Length (km) | Max. Monthly Quantity Entering the System (GJ/month) | Total Gas Conveyed (GJ p.a.) | Gas Conveyed Other than for Vector (GJ p.a.) | Length (km) | Max. Monthly Quantity Entering the System (GJ/month) | Total Gas Conveyed (GJ p.a.) | Gas Conveyed Other than for Vector (GJ p.a.) |
| North & Central | **827.0** | **6,027,013** | **56,198,219** | | 827.0 | 5,728,319 | 60,584,831 | |
| Bay of Plenty | **612.2** | **1,063,913** | **10,215,074** | | 612.2 | 1,134,147 | 11,412,230 | |
| Frankley Rd – Kapuni | **82.9** | **2,173,418** | **17,340,118** | | 82.9 | 2,290,168 | 22,438,808 | |
| South | **696.5** | **1,207,543** | **10,799,716** | | 696.5 | 1,289,209 | 10,910,375 | |
| **Total** | **2,218.6** | | **94,553,127** | **69,721,189** | **2,218.6** | | **105,346,244** | **80,365,582** |

| | 2005 | | | | 2004 | | | |
|---|---|---|---|---|---|---|---|---|
| System | Length (km) | Max. Monthly Quantity Entering the System (GJ/month) | Total Gas Conveyed (GJ p.a.) | Gas Conveyed Other than for Vector (GJ p.a.) | Length (km) | Max. Monthly Quantity Entering the System (GJ/month) | Total Gas Conveyed (GJ p.a.) | Gas Conveyed Other than for Vector (GJ p.a.) |
| North & Central | 827.0 | 5,168,202 | 54,048,678 | | 827.0 | 5,156,560 | 54,085,232 | |
| Bay of Plenty | 612.2 | 1,232,461 | 12,463,630 | | 612.2 | 1,217,125 | 12,450,163 | |
| Frankley Rd – Kapuni | 82.9 | 2,123,607 | 16,409,024 | | 82.9 | 1,944,392 | 17,000,910 | |
| South | 696.5 | 1,277,991 | 11,353,330 | | 696.5 | 1,393,581 | 11,590,580 | |
| **Total** | **2,218.6** | | **94,274,662** | **80,328,113** | **2,218.6** | | **95,126,885** | **78,216,692** |

## NGC HOLDINGS LIMITED
## GAS TRANSMISSION ACTIVITIES

## ENERGY DELIVERY EFFICIENCY PERFORMANCE MEASURES AND STATISTICS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2007

### 5. STATISTICS (CONTINUED)

| | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|
| Number of Transmission Customers | 16 | 16 | 16 | 15 |

| | 2007 | | 2006 | | 2005 | | 2004 | |
|---|---|---|---|---|---|---|---|---|
| Number of unplanned interruptions in transmission systems | No. | Hrs | No. | Hrs. | No. | Hrs | No. | Hrs |
| | - | - | 1 | 1.0 | 1 | 2.5 | 1 | 6.0 |
| | | | 2 | 0.7 | | | 2 | 2.0 |
| | | | | | | | 3 | 3.5 |
| | | | | | | | 4 | 107.0 |
| | | | | | | | 5 | 48.0 |
| | | | | | | | 6 | 6.0 |
| | | | | | | | 7 | 3.0 |
| | | | | | | | 8 | 4.0 |
| Total Interruptions | - | - | 2 | 1.7 | 1 | 2.5 | 8 | 179.5 |

KPMG

**CERTIFICATION BY AUDITOR IN RELATION TO FINANCIAL STATEMENTS**

We have examined the attached special purpose information disclosure statements of NGC Holdings Limited Wholesale Gas (Information Disclosure) Business and dated 14 November 2007 for the purposes of regulation 6 of the Gas (Information Disclosure) Regulation 1997.

We certify that, having made all reasonable enquiry, to the best of our knowledge, those financial statements have been prepared in accordance with the requirements of the Gas (Information Disclosure) Regulations 1997.

KPMG.

KPMG

21 November 2007

## CERTIFICATION OF FINANCIAL STATEMENTS DISCLOSED BY DIRECTORS OF THE CORPORATION

We, Bob Thomson and Alison Paterson,
directors of NGC Holdings Limited ("the Corporation"), certify that, having made all reasonable enquiry, to the best of our knowledge, the attached audited financial statements of the Corporation, prepared for the purposes of regulation 6 of the Gas (Information Disclosure) Regulations 1997, comply with the requirements of that regulation.

Director

Date: 14 November 2007

Director

Date: 14 November 2007

# NGC HOLDINGS LIMITED
# GAS WHOLESALING ACTIVITIES
# STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2007

| | NOTE | 2007 $000 | 2006 $000 |
|---|---|---|---|
| Operating revenue | | **313,427** | 138,454 |
| Operating expenditure | | **(268,003)** | (143,946) |
| **Earnings before interest, income tax, depreciation and amortisation** | | **45,424** | (5,492) |
| Depreciation and amortisation | | **(138)** | - |
| **Operating surplus/(deficit) before income tax** | **1** | **45,286** | (5,492) |
| Income tax (expense) / benefit | **2** | **(15,277)** | 1,811 |
| **Net surplus/(deficit) for the year** | | **30,009** | (3,681) |

# NGC HOLDINGS LIMITED
# GAS WHOLESALING ACTIVITIES
# STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2007

| | NOTE | 2007 $000 | 2006 $000 |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Notional cash | | **48,134** | 3,564 |
| Prepaid gas | **4** | **4,210** | 7,950 |
| Receivables and prepayments | **6** | **17,844** | 6,272 |
| Inventories | | **38** | 740 |
| Income tax | | **-** | 1,263 |
| **Total current assets** | | **70,226** | 19,789 |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | **10** | **518** | - |
| Prepaid gas | **4** | **-** | 4,932 |
| Deferred tax | **3** | **881** | 878 |
| Receivables and prepayments | **6** | **-** | 1,400 |
| **Total non-current assets** | | **1,399** | 7,210 |
| **Total assets** | | **71,625** | 26,999 |
| **CURRENT LIABILITIES** | | | |
| Income tax | | **15,518** | - |
| Dividend payable | | **30,009** | - |
| Payables and accruals | **7** | **25,998** | 26,899 |
| **Total current liabilities** | | **71,525** | 26,899 |
| **Total liabilities** | | **71,525** | 26,899 |
| **EQUITY** | | | |
| Notional reserves | **5** | **100** | 100 |
| **Total equity** | | **100** | 100 |
| **Total equity and liabilities** | | **71,625** | 26,999 |

# NGC HOLDINGS LIMITED
# GAS WHOLESALING ACTIVITIES
# STATEMENT OF ACCOUNTING POLICIES
FOR THE YEAR ENDED 30 JUNE 2007

**ENTITIES REPORTING**

These financial information disclosure statements comprise the gas wholesaling business activities of NGC Holdings Limited and its subsidiaries. The gas wholesaling activities involves the sale of gas to persons for the purpose of resupply by the other persons (other than those wholesaling activities involving the supply of gas to refuellers).

NGC Holdings Limited is a company registered under the Companies Act 1993. NGC Holdings Limited is a wholly owned subsidiary of Vector Limited. NGC Holdings Limited is yet to adopt New Zealand International Financial Reporting Standards, as such these financial information disclosure statements apply the same accounting policies as that of Vector Limited and comply with New Zealand Generally Accepted Accounting Practice. The accounting policies as they relate to the gas wholesaling business are detailed below.

These financial information disclosure statements for the gas wholesaling business activities of the Vector group are Special Purpose Financial Reports as defined in the New Zealand Institute of Chartered Accountants' "framework for differential reporting".

**STATUTORY BASE**

The financial information disclosure statements have been prepared in accordance with the requirements of the Gas (Information Disclosure) Regulations 1997.

**MEASUREMENT BASE**

The financial information disclosure statements are prepared on the basis of historical cost.

The Vector group has adopted a policy to apply the avoidable cost allocation methodology (ACAM) described in the Electricity Information Disclosure Handbook 31 March 2004, for the allocation of revenues, costs, assets and liabilities between the regulated businesses and other activities of the group. Under the Gas (Information Disclosure) Regulation 1997, there is no specific guidance provided on the cost allocation method to apply, thus the Vector group has followed the Electricity Information Disclosure Handbook in allocating costs.

The costs have been allocated on the following basis:

- Direct allocation of all components of financial statement items which are directly attributable to the specific businesses.
- For any components of financial statement items that are not directly attributable to a specific business:
  - By assessing the proportions of those components which are avoidable and non-avoidable; and
  - Allocating those components amongst the businesses on the basis of those proportions using an appropriate cost allocator.

The two main allocators used are the number of employees and the book value of property, plant and equipment. Some costs like integration costs, IT costs and non-system asset depreciation are separately analysed and are allocated using allocators specific to those costs.

In applying the principles of ACAM, businesses have been split into two categories – businesses potentially subject to limited or no competition and businesses that operate in a competitive market. ACAM is intended to show that no more than standalone costs have been allocated to the businesses in potentially non-competitive markets. The 'not directly attributable' costs are initially allocated to the businesses potentially subject to limited or no competition. Avoided costs are allocated to incremental businesses. The gas wholesaling activities are treated as an incremental business as this is a competitive market.

All costs not allocated to the gas wholesaling business, are allocated to other businesses within the Vector group. Other businesses are not disclosed within these financial information disclosure statements.

**GOING CONCERN**

The financial statements have been prepared on a going concern basis which the directors believe is appropriate.

# NGC HOLDINGS LIMITED
# GAS WHOLESALING ACTIVITIES
# STATEMENT OF ACCOUNTING POLICIES (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2007

## SPECIFIC ACCOUNTING POLICIES

The following specific accounting policies that materially affect the measurement of financial performance and financial position have been applied.

### A) COMPARATIVES

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

### B) INCOME RECOGNITION

Income from the provision of gas wholesaling services is recognised as services are delivered.

### C) GOODS AND SERVICES TAX (GST)

The statement of financial performance has 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.

### D) RECEIVABLES

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

### E) INVENTORIES

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

### F) GAS CONTRACTS AND PREPAID GAS

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

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

### G) INCOME TAX

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

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

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

### H) 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.

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.

If the estimated recoverable amount of an asset is less than its carrying amount, the asset is written down to its estimated recoverable amount and an impairment loss is recognised in the statement of financial performance. Estimated recoverable amount is the greater of the estimated amount from the future use of property, plant and equipment and its ultimate disposal, and its net market value. Annual impairment reviews are undertaken for these classes of property, plant and equipment.

# NGC HOLDINGS LIMITED
# GAS WHOLESALING ACTIVITIES
# STATEMENT OF ACCOUNTING POLICIES (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2007

### I) DEPRECIATION

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

| | |
|---|---|
| Plant, vehicles and equipment | 3 – 40 years |

### J) PROVISIONS

**Employee entitlements**

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

**Other provisions**

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

### K) FINANCIAL INSTRUMENTS

Derivative financial instruments are used 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.

No speculative transactions are conducted nor are any derivative financial instruments held for trading purposes.

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

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

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

### CHANGES IN ACCOUNTING POLICIES

All accounting policies have been applied on bases consistent with those applied for the year ended 30 June 2006.

# NGC HOLDINGS LIMITED
# GAS WHOLESALING ACTIVITIES
# NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

| 1. OPERATING SURPLUS / (DEFICIT) BEFORE INCOME TAX | NOTE | 2007 $000 | 2006 $000 |
|---|---|---|---|
| Operating surplus / (deficit) before income tax includes: | | | |
| Audit fees | | 10 | 10 |
| Depreciation – plant, vehicles and equipment | | 138 | - |
| Operating leasing costs | | 11 | - |
| Provision release | | - | (1,200) |

| 2. INCOME TAX EXPENSE | | 2007 $000 | 2006 $000 |
|---|---|---|---|
| **Operating surplus/(deficit) before income tax** | | **45,286** | (5,492) |
| Prima facie tax at 33% | | **14,944** | (1,812) |
| Plus/(less) tax effect of permanent differences: | | | |
| Prior period adjustment | | **162** | (162) |
| Adjustment to deferred tax for change in company tax rate | | **128** | - |
| Other permanent differences | | **43** | 163 |
| **Income tax expense/(benefit)** | | **15,277** | (1,811) |
| The income tax expense/(benefit) is represented by: | | | |
| Current tax | | **15,280** | 1,263 |
| Deferred tax | 3 | **(3)** | (3,074) |
| **Total** | | **15,277** | (1,811) |

In May 2007, the Government changed the corporate tax rate to 30% effective from the 2008/2009 income year. In accordance with SSAP 12, the deferred tax asset has been restated, reflecting the change in corporate tax rate, which applies from 1 July 2008. The impact of the deferred tax restatement is a reduction in the deferred tax asset of $128,000 and a corresponding debit to income tax expense in the statement of financial performance.

| 3. DEFERRED TAX | 2007 $000 | 2006 $000 |
|---|---|---|
| Balance at the beginning of the year | **878** | (2,196) |
| Decrease relating to change in company tax rate | **(128)** | - |
| On net surplus for the year | **131** | 3,074 |
| **Balance at the end of the year** | **881** | 878 |

The decrease in the deferred tax asset of $128,000 resulting from the charge in the corporate tax rate to 30% effective from the 2008/2009 income year is explained in Note 2 above.

| 4. GAS CONTRACTS AND PREPAID GAS | 2007 $000 | 2006 $000 |
|---|---|---|
| **Current** | | |
| Maui prepaid gas | **4,210** | 7,950 |
| **Total** | **4,210** | 7,950 |
| **Non-current** | | |
| Maui prepaid gas | - | 4,932 |
| **Total** | - | 4,932 |

# NGC HOLDINGS LIMITED
# GAS WHOLESALING ACTIVITIES
# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2007

**a ) Maui Gas**

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

**b) Kapuni Gas**

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

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

**c) Pohokura Gas**

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

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

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

**d) Kahili Joint Venture**

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

| **5. NOTIONAL RESERVES** | **2007**<br>**$000** | **2006**<br>**$000** |
|---|---|---|
| Balance at the beginning of the year | **100** | 18,635 |
| Net surplus / (deficit) for the year | **30,009** | (3,681) |
| Notional dividend declared | **(30,009)** | - |
| Reset of equity position | **-** | (14,854) |
| **Balance at the end of the year** | **100** | 100 |

The gas wholesaling activities is not a company and therefore has no share capital. A provision has been made for a notional dividend of $30 million payable for the current year.

# NGC HOLDINGS LIMITED
# GAS WHOLESALING ACTIVITIES
# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2007

| 6. RECEIVABLES AND PREPAYMENTS | NOTE | 2007 $000 | 2006 $000 |
|---|---|---|---|
| **Current** | | | |
| Prepayments and other receivables | | **1,072** | 1,072 |
| Trade receivables | | **16,772** | 5,200 |
| **Total** | | **17,844** | 6,272 |
| **Non-current** | | | |
| Other receivables | | - | 1,400 |
| **Total** | | - | 1,400 |

| 7. PAYABLES AND ACCRUALS | | 2007 $000 | 2006 $000 |
|---|---|---|---|
| **Current** | | | |
| Trade payables and other creditors | | **25,998** | 26,899 |
| Provisions | 8 | - | - |
| **Total** | | **25,998** | 26,899 |

| 8. PROVISIONS | 2007 $000 | 2006 $000 |
|---|---|---|
| Balance at the beginning of the year | - | 1,200 |
| Unused provision reversed to the statement of financial performance | - | (1,200) |
| **Balance at the end of the year** | - | - |

**9. COMMITMENTS**

There is no capital expenditure committed but not recorded in these financial statements for the year ended 30 June 2007 (30 June 2006: Nil).

| Operating Lease Commitments | 2007 $000 | 2006 $000 |
|---|---|---|
| Within one year | **17** | - |
| One to two years | **15** | - |
| Two to five years | **27** | - |
| Beyond five years | **6** | - |
| | **65** | - |

The majority of the operating lease commitments relate to premises leases.

# NGC HOLDINGS LIMITED
# GAS WHOLESALING ACTIVITIES
# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2007

## 10. PROPERTY, PLANT AND EQUIPMENT

| 2007 | COST / VALUATION $000 | ACCUMULATED DEPRECIATION $000 | NET BOOK VALUE $000 |
|---|---|---|---|
| Plant, vehicles, equipment | 1,409 | (915) | 494 |
| Capital work in progress | 24 | - | 24 |
| **Total** | 1,433 | (915) | 518 |

| 2006 | COST / VALUATION $000 | ACCUMULATED DEPRECIATION $000 | NET BOOK VALUE $000 |
|---|---|---|---|
| Plant, vehicles, equipment | - | - | - |
| Capital work in progress | - | - | - |
| **Total** | - | - | - |

The corporate non-system fixed assets have been allocated to the gas wholesaling activities in 2007. These assets were not allocated in 2006 but their use was charged to the business by way of a management fee.

## 11. FINANCIAL INSTRUMENTS

A comprehensive treasury policy approved by the Vector board of directors is used to manage the risks of financial instruments. The policy outlines the objectives and approach that are adopted in the treasury management processes. The policy covers, among other things, management of credit risk, interest rate risk, funding risk, liquidity risk, currency risk and operational risk.

A detailed disclosure of Vector group's financial instruments is available under Note 30 of the Vector group's annual report for the year ended 30 June 2007.

### INTEREST RATE RISK

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

### FOREIGN EXCHANGE RISK

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

There are outstanding forward exchange contracts. At balance date there is no significant exposure to foreign exchange risk.

### CREDIT RISK

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

As part of these policies, exposures are limited 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 Vector board of directors and are monitored on a regular basis. In this respect, credit risk is minimised by spreading such exposures across a range of institutions. There is no anticipation of non-performance by any of these financial institutions.

# NGC HOLDINGS LIMITED
# GAS WHOLESALING ACTIVITIES
# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2007

## 11. FINANCIAL INSTRUMENTS (continued)

There are some concentration of credit exposures with a few large energy retailers and large energy customers. To minimise this risk, credit evaluations on all energy retailers and large energy customers are undertaken and a requirement for a bond or other form of security where deemed necessary is placed.

Cash deposits with a small number of banking institutions are placed and limits are set for the amount deposited with each institution.

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

| | 2007 CARRYING AMOUNT $000 | 2006 CARRYING AMOUNT $000 |
|---|---|---|
| Cash | **48,134** | 3,564 |
| Trade receivables | **16,772** | 5,200 |

### LIQUIDITY RISK

Liquidity risk is the risk of encountering difficulty in raising funds at short notice to meet financial commitments as they fall due. In order to reduce the exposure to liquidity risk, access to un-drawn committed lines of credit has been established.

## 12. CONTINGENT LIABILITIES

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

## 13. TRANSACTIONS WITH RELATED PARTIES

| NATURE OF THE TRANSACTION | RELATED PARTY | 2007 $000 | 2006 $000 |
|---|---|---|---|
| Sale of gas based on actual amounts billed and notional revenue charged based on gas wholesale's cost of gas. | Gas Retailing Activities | **277,157** | 101,087 |
| Sale of gas by products based on standard terms and conditions. | Kapuni Gas Treatment Plant | **6,600** | 6,008 |
| Purchase of gas transmission services based on actual revenue charged and notional revenue charged to gas wholesaling activities. | Gas Transmission Activities | **316** | 645 |
| Received allocation of share of the processing fees costs. | Kapuni Gas Treatment Plant | **6,688** | 16,033 |
| Entered into operational gas swap arrangements. | Gas Transmission Activities | **198** | 768 |

## 14. INTERNATIONAL FINANCIAL REPORTING STANDARDS

A detailed disclosure of the Vector group's New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) transition management, impacts on transition to NZ IFRS, significant changes in accounting policies on transition to NZ IFRS and exemptions taken on transition to NZ IFRS is available under Note 34 of the Vector group's annual report for the year ended 30 June 2007.

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