



New Zealand Gazette

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VECTOR LIMITED

&

NGC HOLDINGS LIMITED

(A SUBSIDIARY OF VECTOR LIMITED)

GAS DISTRIBUTION ACTIVITIES

2006

INFORMATION FOR DISCLOSURE

PURSUANT TO THE GAS (INFORMATION
DISCLOSURE) REGULATIONS 1997



**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 9 November 2006 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 my knowledge, those financial statements have been prepared in accordance with the requirements of the Gas (Information Disclosure) Regulations 1997.

A handwritten signature in black ink, appearing to read 'KPMG'.

KPMG
KPMG Centre
PO Box 1584
Auckland



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 9 November 2006 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.

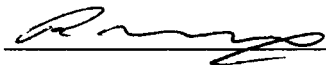
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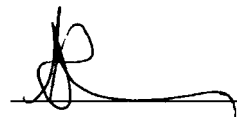
**CERTIFICATION OF FINANCIAL STATEMENTS, PERFORMANCE MEASURES,
AND STATISTICS DISCLOSED BY PIPELINE OWNERS OTHER THAN THE
CORPORATION**

We, *Robert Thomson* and *Shale Chambers*,
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: *9 November 2006*


Director

Date: *9 November 2006*

Vector Limited & Subsidiaries

Gas Distribution Activities

Statement of Financial Performance

For the year ended 30 June 2006

	Note	2006 \$000	2005 \$000
Operating revenue		67,245	74,190
Operating expenditure	2	(25,474)	(25,854)
Earnings before interest, income tax, depreciation and amortisation		41,771	48,336
Depreciation and amortisation	2	(26,714)	(25,899)
Earnings before interest and income tax		15,057	22,437
Net interest expense		(27,475)	(30,398)
Operating deficit before income tax		(12,418)	(7,961)
Income tax expense	3	(791)	(6,418)
Operating deficit		(13,209)	(14,379)
Minority interests	7	-	(1,743)
Net deficit for the year		(13,209)	(16,122)

Vector Limited & Subsidiaries **Gas Distribution Activities**

Statement of Financial Position

As at 30 June 2006

	Note	2006 \$000	2005 \$000
Current assets			
Cash		-	6
Receivables and prepayments	8	5,902	4,335
Inventories		97	83
Income tax		4,157	827
Capitalised finance costs		603	314
Total current assets		10,759	5,565
Non-current assets			
Receivables and prepayments	8	188	250
Property, plant and equipment	9	392,456	354,147
Goodwill	10	277,617	204,157
Future income tax benefit		-	10,149
Capitalised finance costs		2,762	810
Total non-current assets		673,023	569,513
Total assets		683,782	575,078
Current liabilities			
Payables and accruals	12	12,707	9,735
Borrowings	14	30,642	118,352
Total current liabilities		43,349	128,087
Non-current liabilities			
Payables and accruals	12	93	183
Borrowings	14	380,065	281,698
Deferred tax	4	64,678	50,100
Total non-current liabilities		444,836	331,981
Total liabilities		488,185	460,068
Equity			
Revaluation reserve	6	20,123	-
Notional equity	5	175,474	100,473
Minority shareholders' equity	7	-	14,537
Total equity		195,597	115,010
Total equity and liabilities		683,782	575,078

Vector Limited & Subsidiaries

Gas Distribution Activities

Statement of Accounting Policies

For the year ended 30 June 2006

Reporting entities

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

The gas distribution businesses form part of the Vector group and adhere to the accounting policies of the Vector group. Those policies as they relate to the gas distribution businesses are detailed below.

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.

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.

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 requirement to apply the ACAM methodology and ACAM is not specifically defined in respect of the gas distribution business, 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 (for instance accounts payable related to allocated cost items and goodwill). Debt and equity are allocated to the standalone business on the basis of the debt to equity ratio of the Vector group.

Vector group has undertaken a review of the application of the ACAM methodology in the current year and adjusted some allocators used to ensure that ACAM is applied across the group in a consistent manner. These changes have not had a material impact on the results of the gas distribution business.

Going concern

The financial statements have been prepared on a going concern basis which the directors believe is appropriate. All borrowings are an allocated portion of the Vector group's borrowings which the directors believe will be paid as they fall due.

Vector Limited & Subsidiaries

Gas Distribution Activities

Statement of Accounting Policies (continued)

For the year ended 30 June 2006

Specific accounting policies

The financial statements are prepared in accordance with the Gas (Information Disclosure) Regulations 1997. The following specific accounting policies that materially affect the measurement of financial performance and financial position have been applied.

a) 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.

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

b) 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.

c) Acquisitions and disposals of an entity or business

Acquisition or disposal during the year

In accordance with the Gas (Information Disclosure) Regulations 1997, where an entity becomes a part of the group during the period, the results of the entity are included in the consolidated results from the commencement of the disclosure period. When an entity is acquired all identifiable assets and liabilities are recognised at their fair value from the commencement date of the disclosure period. 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 results for that entity are recognised from the commencement of the disclosure period up until the date of disposal. The disposal 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 UnitedNetworks 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.

d) Income recognition

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

e) 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.

f) Receivables

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

g) Inventories

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

Vector Limited & Subsidiaries

Gas Distribution Activities

Statement of Accounting Policies (continued)

For the year ended 30 June 2006

h) 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.

i) Property, plant and equipment

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

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

Distribution systems are revalued by independent experts. Distribution systems are valued on the basis of depreciated replacement cost or a discounted cash flow methodology as appropriate. Other classes of property, plant and equipment are not revalued.

Revaluations of distribution systems and distribution land and buildings are carried out at least every three years.

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

Estimated recoverable amount is the greater of the estimated amount from the future use of the property, plant and equipment and its ultimate disposal, and its net market value. Annual impairment reviews are undertaken for all property, plant and equipment.

Assets acquired as part of a business acquisition are recognised at fair value at the commencement date of the disclosure period in which the acquisition occurred in accordance with the Gas (Information Disclosure) Regulations 1997.

j) Depreciation

Depreciation of property, plant and equipment, other than freehold land, is calculated on a straight line basis so as to expense the cost of the property, plant and equipment, 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.

Buildings	40 - 100 years
Distribution systems	15 - 100 years
Plant, vehicles and equipment	5 - 40 years

k) Leased 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.

Vector Limited & Subsidiaries

Gas Distribution Activities

Statement of Accounting Policies (continued)

For the year ended 30 June 2006

l) 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 for claims 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.

m) Financial instruments

Derivative financial instruments are used within predetermined policies and limits in order to manage the exposure to fluctuations in foreign currency exchange rates and interest rates.

Derivative financial instruments that are designated as hedges of specific items are recognised on the same basis as the underlying hedged items. The Vector group does not engage in speculative transactions or hold derivative financial instruments 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 capitalised to goodwill and the mark to market adjustment included in the statement of financial position. The component relating to goodwill is accounted for in accordance with the accounting policy for goodwill arising on acquisition. The mark to market adjustment is amortised to the statement of financial performance over the period of the underlying derivative.

The allocation of debt and equity items is in accordance with the principles and rules of ACAM. The debt and equity balances have been allocated based on the debt to equity ratio of the Vector group.

n) 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 statements of financial performance as operating items.

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

Changes in accounting policy

All accounting policies have been applied on a basis consistent with those applied for the year ended 30 June 2005.

Vector Limited & Subsidiaries

Gas Distribution Activities

Notes to the Financial Statements

For the year ended 30 June 2006

1. SEGMENT INFORMATION

The gas distribution activities operate within the gas distribution sector. All operations are carried out within New Zealand.

2. OPERATING EXPENDITURE	Note	2006 \$000	2005 \$000
Operating expenditure includes:			
Bad debts written off		-	-
Increase/(decrease) in provision for doubtful debts		28	(5)
Rental and operating lease costs		735	507
Loss on disposal of property, plant and equipment		-	25
Donations		2	1
Directors' fees		73	36
Audit fees paid to principal auditors		46	38
Audit fees paid to other auditors		35	30
Depreciation		10,418	14,413
Amortisation of goodwill	10	16,296	11,486

3. INCOME TAX	2006 \$000	2005 \$000
Operating deficit before income tax	(12,418)	(7,961)
Prima facie tax at 33%	(4,098)	(2,627)
Plus tax effect of permanent differences:		
Prior period adjustment	-	3,296
Other permanent differences	4,889	5,749
Income tax expense	791	6,418
The income tax expense is represented by:		
Current tax	(4,157)	(3,601)
Deferred tax	4,948	10,019
	791	6,418

4. DEFERRED TAX LIABILITY	2006 \$000	2005 \$000
Balance at beginning of the year	50,100	19,795
Prior period adjustment	(38)	2,272
On acquisition of NGC gas distribution business	(2,048)	20,286
Increase on revaluation of assets	11,716	-
On net surplus for the year	4,948	7,747
Balance at end of the year	64,678	50,100

Vector Limited & Subsidiaries

Gas Distribution Activities

Notes to the Financial Statements

For the year ended 30 June 2006

5. NOTIONAL EQUITY	2006 \$000	2005 \$000
Balance at beginning of the year	100,473	116,595
Movement during the year	75,001	(16,122)
Balance at end of the year	175,474	100,473

Notional equity is determined by adjusting debt and equity balances such that the debt to equity ratio is maintained the same as the Vector group.

6. REVALUATION RESERVE	2006 \$000	2005 \$000
Asset revaluation		
Balance at beginning of year	-	-
Movement on revaluation (net of deferred tax)	20,123	-
Balance at end of year	20,123	-

7. MINORITY INTEREST	2006 \$000	2005 \$000
Balance at beginning of the year	14,537	-
Arising on acquisition of NGC gas distribution business	-	12,794
Movement for the year	(14,537)	1,743
Balance at end of the year	-	14,537

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. 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 business occurred at the beginning of the previous financial year (1 July 2004) and subsequent acquisition at beginning of the current financial year (1 July 2005).

8. RECEIVABLE AND PREPAYMENTS	2006 \$000	2005 \$000
Current		
Prepayments and other receivables	230	766
Trade receivables	5,686	3,580
Provision for doubtful debts	(14)	(11)
	5,902	4,335
Non-current		
Other receivables	188	250
	188	250

Vector Limited & Subsidiaries **Gas Distribution Activities**

Notes to the Financial Statements

For the year ended 30 June 2006

9. PROPERTY, PLANT AND EQUIPMENT

	Cost/ Valuation	Accumulated Depreciation	Net Book Value
	\$000	\$000	\$000
2006			
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
	418,933	(26,477)	392,456
	Cost/ Valuation	Accumulated Depreciation	Net Book Value
	\$000	\$000	\$000
2005			
Freehold land	653	-	653
Distribution systems	350,177	(15,135)	335,042
Plant, vehicles and equipment	36,442	(25,421)	11,021
Capital work in progress	7,431	-	7,431
	394,703	(40,556)	354,147

The directors consider that the fair value of the land and buildings is 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 \$0.3 million (2005: \$0.5 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

Vector Limited & Subsidiaries

Gas Distribution Activities

Notes to the Financial Statements

For the year ended 30 June 2006

10. GOODWILL	2006 \$000	2005 \$000
Balance at beginning of the year	204,157	140,443
Arising on acquisition of NGC gas distribution business	58,014	73,909
Arising on change of accounting policy	-	1,291
Prior period adjustment	31,742	-
Amortisation in the financial year	(16,296)	(11,486)
Balance at end of the year	277,617	204,157

Goodwill is amortised over a period up to 20 years in accordance with the Vector group's accounting policy. Goodwill arising on acquisition of the gas distribution business of NGC Holdings Limited and UnitedNetworks 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.

11. 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 business occurred at the beginning of the previous financial year (1 July 2004) and subsequent acquisition at beginning of the current 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

For the year ended 30 June 2006

12. PAYABLES AND ACCRUALS

	Note	2006 \$000	2005 \$000
Current			
Trade payables and other creditors		8,572	5,437
Interest payable		3,482	2,441
Mark to market adjustment		121	294
Provisions	13	-	1,069
Provision for employee entitlements		532	494
		12,707	9,735
Non-current			
Mark to market adjustment		39	183
Other payables and accruals		54	-
		93	183

13. PROVISIONS

	2006 \$000	2005 \$000
Balance at beginning of the year	1,069	-
Arising on acquisition of NGC gas distribution business	-	4,383
Additions	-	500
Utilised	(1,069)	(3,814)
Balance at end of the year	-	1,069

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

14. BORROWINGS

As at 30 June 2006

	Weighted average interest rate	Total \$000	Payable within 1 year \$000	Payable between 1 and 2 years \$000	Payable between 2 and 5 years \$000	Payable after 5 years \$000
Bank loans	7.77%	69,704	-	-	69,704	-
Working capital loan	7.50%	5,156	5,156	-	-	-
Medium term notes - fixed rate NZ\$	6.50%	25,486	25,486	-	-	-
Medium term notes - floating rate A\$	6.15%	72,691	-	40,754	31,937	-
Capital bonds	8.25%	39,245	-	39,245	-	-
Fixed interest rate bonds	6.81%	25,363	-	-	25,363	-
Private placement senior notes	5.65%	53,439	-	-	-	53,439
NZ floating rate notes	7.86%	119,623	-	-	-	119,623
		410,707	30,642	79,999	127,004	173,062

Vector Limited & Subsidiaries Gas Distribution Activities

Notes to the Financial Statements

For the year ended 30 June 2006

14. BORROWINGS (continued)

As at 30 June 2005	Weighted average interest rate	Total \$000	Payable within 1 year \$000	Payable between 1 and 2 years \$000	Payable between 2 and 5 years \$000	Payable after 5 years \$000
Bank loans	7.30%	132,676	67,202	32,898	32,576	-
Working capital loan	6.95%	5,876	5,876	-	-	-
Medium term notes - fixed rate NZ\$	6.50%	25,486	-	25,486	-	-
Medium term notes - floating rate A\$	6.24%	72,691	-	-	40,754	31,937
Capital bonds	9.75%	39,245	-	39,245	-	-
Fixed interest rate bonds	6.81%	25,363	-	-	25,363	-
Private placement senior notes	5.65%	53,439	-	-	-	53,439
Pre-IPO equity securities	8.51%	45,274	45,274	-	-	-
		400,050	118,352	97,629	98,693	85,376

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

Interest rates for all bank loans are floating based on the bank bill rate plus a margin. Bank loans are arranged through various facility agreements. Facilities with total committed amount of \$700 million will expire in October 2008. The working capital facility with total commitment of \$70 million is due to expire in October 2006.

Medium term notes - fixed rate NZ\$ mature April 2007 and are shown at the value of proceeds received after deducting the discount on issue of \$1.7 million and adjusting for the amount amortised to 30 June 2006 of \$1.5 million. The interest on NZ\$ medium term notes is fixed at 6.5% per annum and is paid semi-annually.

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

Capital bonds are subordinated debt and have a first election date of 15 December 2006. The interest is currently fixed at 8.25% per annum and is paid semi-annually. The board are currently considering options and intend to extend the term of the capital bonds beyond the first election date.

Fixed interest rate bonds have a coupon rate of 6.81%. On 23 December 2005, Vector was substituted for NGC Holdings Limited as the issuer of \$200 million of fixed interest rate bonds due to mature on 4 March 2009. As a result, Vector has now taken over all rights and obligations of these fixed interest rate bonds.

Private placement senior notes of US\$15 million, US\$65 million and US\$195 million, with maturity periods of 8, 12 and 15 years respectively were placed with US investors in September 2004 at a contract exchange rate of 0.6574 US\$ for every NZ\$.

Pre-IPO equity securities, which were subordinated debt, of \$354.4 million were prepaid in August 2005.

In October 2005, Vector completed the refinancing of \$1 billion worth of acquisition facilities and also completed the joining of NGC Holdings Limited to the Vector guaranteeing group. Vector issued NZ floating rate notes totalling \$1 billion in three tranches (\$250 million 10 year, \$400 million 12 year and \$350 million 15 year), which have been credit wrapped by MBIA Insurance Corporation (10 year and 15 year tranches) and AMBAC Assurance Corporation (12 year tranche) and have credit ratings of AAA from Standard and Poor's and Aaa from Moody's.

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 2005 and 30 June 2006.

Vector Limited & Subsidiaries

Gas Distribution Activities

Notes to the Financial Statements

For the year ended 30 June 2006

15. COMMITMENTS

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

	2006 \$000	2005 \$000
Capital expenditure commitments		
Estimated capital expenditure contracted for at balance date but not provided	1,668	4,167
Operating lease commitments		
Within one year	636	539
One to two years	531	472
Two to five years	1,211	847
Beyond five years	139	90
	2,517	1,948

16. FINANCIAL INSTRUMENTS

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

Interest rate risk

The Vector group actively manages interest rate exposures 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.

The weighted average rates of borrowings are as follows.

	2006 Weighted average interest rate	2006 Face value \$000	2005 Weighted average interest rate	2005 Face value \$000
Bank loans	7.77%	69,704	7.30%	132,676
Working capital loan	7.50%	5,156	6.95%	5,876
Medium term notes - fixed rate NZ\$	6.50%	25,486	6.50%	25,550
Medium term notes - floating rate A\$	6.15%	72,691	6.24%	72,691
Capital bonds	8.25%	39,245	9.75%	39,245
Fixed interest rate bonds	6.81%	25,363	6.81%	25,363
Private placement senior notes	5.65%	53,439	5.65%	53,439
NZ floating rate notes	7.86%	119,623	8.51%	45,274
		410,707		400,114

Vector Limited & Subsidiaries

Gas Distribution Activities

Notes to the Financial Statements

For the year ended 30 June 2006

16. FINANCIAL INSTRUMENTS (continued)

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

	2006 Weighted average interest rate	2006 Notional amount \$000	2005 Weighted average interest rate	2005 Notional amount \$000
Interest rate swaps floating to fixed				
Maturing in less than 1 year	7.22%	10,374	7.30%	27,410
Maturing between 1 and 2 years	7.13%	43,310	7.22%	12,775
Maturing between 2 and 5 years	6.79%	43,829	6.73%	51,006
Maturing after 5 years	6.85%	62,243	6.56%	46,535
		159,756		137,726
Interest rate swaps fixed to floating				
Maturing in less than 1 year	6.50%	25,486	6.50%	25,550
Maturing between 2 and 5 years	6.81%	25,363	7.46%	25,363
		50,849		50,913
Forward starting interest rate swaps				
Floating to fixed maturing between 2 and 5 years	6.70%	11,930	6.70%	31,891
Floating to fixed maturing after 5 years	6.45%	27,439	6.60%	33,215
		39,369		65,106
Cross currency swaps (pay leg)	7.69%	126,131	7.65%	126,131
Cross currency swaps (receive leg)	5.94%	126,131	5.99%	126,131

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

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

The NZ\$ medium term notes are fixed interest rate notes. These notes are hedged by the interest rate swaps (fixed to floating).

Fixed interest rate bonds are at fixed interest rates. These notes are hedged by the interest rate swaps (fixed to floating).

The US\$ privately placed senior notes are hedged through cross currency swaps (eliminating the foreign currency risk).

The forward starting interest rate swaps (fixed to floating) are to convert the fixed interest rate borrowings to floating rates.

The NZ floating rate notes are hedged through interest rate swaps which convert the floating rate into a fixed rate.

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

FOREIGN EXCHANGE RISK

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

At balance date the group has no significant exposure to foreign currency risk.

Vector Limited & Subsidiaries

Gas Distribution Activities

Notes to the Financial Statements

For the year ended 30 June 2006

16. FINANCIAL INSTRUMENTS (continued)

CREDIT RISK

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

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

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

The Vector group places its cash deposits with a small number of banking institutions and limits the amount deposited with each institution.

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

	Carrying amount 2006 \$000	Carrying amount 2005 \$000
Cash	-	6
Trade receivables	5,672	3,569
Interest rate swaps	67	-
Cross currency swaps	1,009	1,097

Vector Limited & Subsidiaries **Gas Distribution Activities**

Notes to the Financial Statements

For the year ended 30 June 2006

16. FINANCIAL INSTRUMENTS (continued)

FAIR VALUES	2006 Carrying amount \$000	2006 Fair value \$000	2005 Carrying amount \$000	2005 Fair value \$000
Financial assets				
Cash	-	-	6	6
Trade receivables	5,672	5,672	3,569	3,569
Financial liabilities				
Trade payables and other creditors	8,572	8,572	5,931	5,931
Bank loans	70,242	70,242	133,271	133,271
Working capital loan	5,157	5,157	5,878	5,878
Medium term notes - fixed rate NZ\$	25,884	25,707	25,950	25,877
Medium term notes - floating rate A\$	73,663	74,453	73,705	65,421
Capital bonds	39,387	39,375	39,415	40,708
Fixed interest rate bonds	25,490	25,319	25,478	25,527
Private placement senior notes	54,318	58,345	54,318	51,019
Pre-IPO equity securities	-	-	45,443	45,443
NZ floating rate notes	121,323	121,323	-	-
Financial derivative liabilities/(assets)				
Interest rate swaps	(67)	(103)	508	1,622
Cross currency swaps	(1,009)	(1,404)	(1,097)	9,805

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

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

The carrying amount of these items is equivalent to their fair value and includes the principal and interest accrued. Trade receivables are net of doubtful debts provided.

Medium term notes and floating rate notes

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

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

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

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

Capital bonds

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

The carrying amount includes the principal and interest accrued.

Fixed interest rate bonds

The fair value of fixed interest rate bonds is based on quoted market prices.

The carrying amount includes the principal and interest accrued.

Vector Limited & Subsidiaries Gas Distribution Activities

Notes to the Financial Statements

For the year ended 30 June 2006

16. FINANCIAL INSTRUMENTS (continued)

Private placement senior notes

The fair value of US\$ privately placed senior notes is based on quoted market prices.

The carrying amount for the US\$ privately placed senior notes includes the principal and interest accrued, converted at the contract rates.

Pre-IPO equity securities

The carrying amount of the pre-IPO equity securities is equivalent to their fair value and includes the principal and interest accrued.

NZ floating rate notes

The carrying amount of these notes is equivalent to their fair value and includes the principal and interest accrued.

Derivative instruments

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

The carrying amount includes the mark to market adjustments (net of amortisation) on derivative transactions acquired and interest accrued.

LIQUIDITY RISK

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

17. 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 (2005: nil).

18. TRANSACTIONS WITH RELATED PARTIES

The Vector gas distribution business sold \$3.9 million of distribution services to NGC New Zealand Limited in the year ended 30 June 2006.

The NGC gas distribution business sold \$3.3 million of distribution services to NGC New Zealand Limited.

The Vector gas distribution business has purchased telecommunications services of \$0.2 million from Vector Communications Limited.

Vector Limited & Subsidiaries Gas Distribution Activities

Financial and Efficiency Performance Measures

For the year ended 30 June 2006

	2006	¹ 2005	² 2004	³ 2003
1 Financial performance measures				
a (i) Accounting return on total assets (including current borrowings in working capital) ⁴	5.09%	7.84%	5.85%	5.68%
a (ii) Accounting return on total assets (excluding current borrowings in working capital) ⁴	4.07%	6.39%	5.71%	5.68%
b Accounting return on equity	(8.50%)	(13.25%)	(8.15%)	(8.79%)
c (i) Accounting rate of profit (including current borrowings in working capital) ⁴	⁵ 13.48%	2.51%	3.12%	38.09%
c (ii) Accounting rate of profit (excluding current borrowing from working capital) ⁴	⁶ 10.64%	2.05%	3.05%	38.09%
2 Efficiency performance measures				
a Direct line costs per kilometre	\$846	\$917	\$1,041	\$561
b Indirect line costs per gas customer	\$155	\$140	\$174	\$19

¹ Consolidation of Vector and NGC pipeline disclosure data. Prior period disclosures do not include NGC data.

² UnitedNetworks Limited was amalgamated with Vector Limited on 1 July 2004.

³ UnitedNetworks Limited disclosure for the 6 month period ended 30 June 2003.

⁴ 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.

⁵ Accounting rate of profit (including current borrowings in working capital) is 1.99% before revaluation.

⁶ 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 2006

	2006	⁷ 2005	⁸ 2004	⁹ 2003
3 Energy delivery efficiency performance measures				
Load factor	79.10%	79.99%	76.11%	41.78%
Unaccounted-for gas ratio	1.36%	1.29%	2.31%	0.53%
4 Statistics				
System length (km)	¹⁰ 9,358	¹⁰ 7,968	4,910	4,802
Maximum monthly amount of gas entering the systems (GJ)	2,425,448	2,481,916	1,310,442	1,064,206
Total annual amount of gas conveyed through the systems (GJ)	23,022,375	23,823,990	11,968,419	5,334,942
Total annual amount of gas conveyed through the systems for persons not in a prescribed business relationship (GJ)	9,983,381	15,324,017	11,953,148	5,328,742
Total (number of) customers	136,769	132,527	70,637	68,651

Reliability Performance Measures

For the year ended 30 June 2006

	2006	⁷ 2005	⁸ 2004	⁹ 2003
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)	0.0038	0.0013	0.0020	0.0007
Unplanned distribution system interruptions related to transmission system interruptions (hours/customer)	-	-	-	-

⁷ Consolidation of Vector and NGC pipeline disclosure data. Prior period disclosures do not include NGC data.

⁸ UnitedNetworks Limited was amalgamated with Vector Limited on 1 July 2004.

⁹ UnitedNetworks Limited disclosure for the 6 month period ended 30 June 2003.

¹⁰ NGC service pipeline length included in System Length (km) disclosure for 2006, but excluded from 2005 disclosure due to lack of data.



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Certification by Auditor in Relation to Financial Statements

NGC – Gas Retailing Activities

We have examined the attached financial statements prepared by NGC Holdings Limited in respect to NGC – Gas Retailing Activities dated 9 November 2006 for the purposes of Regulation 6 of the Gas (Information Disclosure) Regulations 1997.

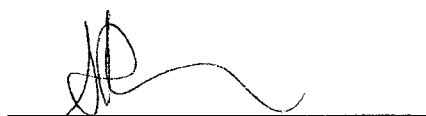
We certify that, having made all reasonable enquiry, to the best of our knowledge, those financial statements have been prepared in accordance with the requirements of the Gas (Information Disclosure) Regulations 1997.

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers', written in a cursive, flowing style.

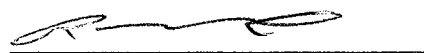
PricewaterhouseCoopers
9 November 2006

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

We, *Shale Chambers* and *Robert Thomson*,
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: *9 November 2006*

Director

Date: *9 November 2006*

NGC Gas Retailing Activities**Statement of Financial Performance****For the Year Ended 30 June 2006****For the purposes of the Gas (Information Disclosure) Regulations 1997**

\$Thousands			
	Note	2006	2005
Revenue		206,435	193,514
Expenses	1	(144,473)	(157,715)
Surplus Before Taxation		61,962	35,799
Income Tax Expense	2	(20,453)	(12,483)
Net Surplus for the Year		41,509	23,316

NGC Gas Retailing Activities**Statement of Financial Position****As at 30 June 2006****For the purposes of the Gas (Information Disclosure) Regulations 1997**

		\$Thousands	
	Note	2006	2005
Non Current Assets			
Property, Plant and Equipment	3	83	131
Deferred Taxation	2	522	177
Total Non Current Assets		605	308
Current Assets			
Notional Cash		1,554	-
Accounts Receivable	4	23,322	16,503
Current Tax	2	-	2,474
Total Current Assets		24,876	18,977
Total Assets		25,481	19,285
Equity			
Notional Reserves	5	100	14,894
Total Equity		100	14,894
Current Liabilities			
Bank Overdraft and Short Term Loans		1,264	648
Current Tax	2	20,798	-
Accounts Payable and Provisions	6	3,319	3,743
Total Current Liabilities		25,381	4,391
Total Liabilities and Equity		25,481	19,285

NGC Gas Retailing Activities**Statement of Accounting Policies****For the Year Ended 30 June 2006****For the purposes of the Gas (Information Disclosure) Regulations 1997****a) Accounting Entity**

The financial statements are presented for the NGC Gas Retailing Activities (NGC). Gas Retailing Activities involve the supply of gas to gas customers. These financial statements apply solely to the activities of NGC. The NGC group of companies are wholly owned subsidiaries of Vector Limited.

b) Special Purpose Financial Statements

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

c) Measurement Base

The financial statements are prepared on the basis of historical cost. For the purpose of cost allocation, NGC Gas Retailing Activities are treated as an incremental business. Businesses treated as incremental receive an allocation of the residual costs after costs have been allocated using the principles of Avoidable cost allocation methodology (ACAM) to businesses that are treated as standalone. ACAM is mandated for allocating revenues, costs, assets and liabilities between "lines" and "other" activities in the Electricity Information Disclosure Handbook 31 March 2004. Vector has chosen to apply ACAM to all of its standalone businesses. This approach was adopted for the first time for the 2006 financial period.

d) General Accounting Policies

The general accounting policies as recommended by the New Zealand Institute of Chartered Accountants for the measurement and reporting of financial performance and financial position, under the historical cost method, as modified by the revaluation of certain assets, have been followed in the preparation of these financial statements.

e) Specific Accounting Policies

The following particular accounting policies, which materially affect the measurement of financial performance and financial position have been adopted:

i) Property, Plant and Equipment

All property, plant and equipment are included at cost less accumulated depreciation.

Construction in progress is recorded at cost. For projects having a cost in excess of \$500,000 and a construction period of not less than three months, finance costs relating to that project are capitalised. The finance costs capitalised are based on the actual cost directly attributable to the construction of the asset. Where this is not clearly identifiable, the weighted average cost of debt is applied to allocate a portion of finance costs to the project.

Assets constructed are commissioned and transferred from construction in progress to property, plant and equipment as each facility or operating unit within a facility becomes operational and available for use.

ii) Current Assets

Accounts receivable and all other current assets are valued at their estimated realisable value.

NGC Gas Retailing Activities
Statement of Accounting Policies
For the Year Ended 30 June 2006

For the purposes of the Gas (Information Disclosure) Regulations 1997

e) Specific Accounting Policies (Continued)

iii) Depreciation

Non current assets are depreciated on a straight line basis.

The rates of depreciation vary according to the nature and economic lives of the assets and fall within the following range:

Plant, Equipment and Motor Vehicles	5 - 20 years
-------------------------------------	--------------

iv) Leased Assets

Certain plant, equipment, land and buildings are leased. Under operating leases, all the risks and benefits of ownership are effectively retained by the lessor. Operating lease payments are expensed in the period in which they are incurred.

v) Taxation

The income tax expense recognised for the period is based on the operating surplus before taxation, adjusted for permanent differences between accounting and tax rules. The impact of all timing differences between accounting and taxable income is recognised as a deferred tax liability or asset. This is the comprehensive basis for the calculation of deferred tax under the liability method. A deferred tax asset, or the effect of tax losses carried forward, is recognised in the financial statements only where there is virtual certainty that the benefit of the timing differences, or losses, will be utilised.

f) Comparatives

The presentation of certain comparatives has been restated to ensure consistency with the current year's disclosures.

g) Changes in Accounting Policies

There have been no changes in accounting policies. These policies have been applied on a consistent basis during the year.

NGC Gas Retailing Activities**Notes to the Financial Statements****For the Year Ended 30 June 2006****For the purposes of the Gas (Information Disclosure) Regulations 1997****1. Expenses**

	\$Thousands	
	2006	2005
Depreciation	48	47
Audit Fees	28	28
Operating Leasing Costs	29	28
Bad Debts Written Off	-	4
Movement in Provision for Doubtful Debts	375	(146)

2. Income Tax

	\$Thousands	
	2006	2005
a) The Income Tax Expense has been calculated as follows:		
Surplus before Taxation	61,962	35,799
Income Tax at 33%	20,448	11,814
Adjustments to Taxation for Non-deductible Items:		
Income Tax Over Provided in Previous Periods	1	666
Other Non-Deductible Items	4	3
Taxation Expense in Statement of Financial Performance	20,453	12,483
Income Tax Expense is Represented by:		
Tax Payable in Respect of the Current Year	20,798	10,756
Deferred Taxation (Refer Note 2b)	(345)	1,727
	20,453	12,483

NGC Gas Retailing Activities**Notes to the Financial Statements****For the Year Ended 30 June 2006****For the purposes of the Gas (Information Disclosure) Regulations 1997****2. Income Tax (Continued)**

	\$Thousands	
	2006	2005
b) Deferred Tax		
Balance as at 1 July	(177)	(1,904)
Movement for the Year	(345)	1,727
Balance as at 30 June	(522)	(177)

3. Property, Plant and Equipment

	\$Thousands 2006			
	Cost/ Valuation	Accumulated Depreciation	Net Book Value	Depreciation Charge
Plant and Equipment	176	158	18	32
Motor Vehicles	154	89	65	16
Construction in Progress	-	-	-	-
	330	247	83	48

	\$Thousands 2005			
	Cost/ Valuation	Accumulated Depreciation	Net Book Value	Depreciation Charge
Plant and Equipment	168	126	42	27
Motor Vehicles	154	73	81	20
Construction in Progress	8	-	8	-
	330	199	131	47

4. Accounts Receivable

	\$Thousands	
	2006	2005
Trade Debtors	23,322	16,503
	23,322	16,503

NGC Gas Retailing Activities**Notes to the Financial Statements****For the Year Ended 30 June 2006****For the purposes of the Gas (Information Disclosure) Regulations 1997****5. Notional Reserves**

	\$Thousands	
	2006	2005
Balance as at 1 July	14,894	770
Movement for the period	14,794	14,124
Balance as at 30 June	100	14,894

NGC's Gas Retailing Activities is not a company and therefore has no share capital. Notional reserves are determined on the basis that NGC Gas Retailing Activities is fully equity funded by the group. Notional reserves therefore represent all funding provided to NGC Gas Retailing Activities by the group. A notional dividend has been paid to the group during the current year.

6. Accounts Payable and Provisions

	\$Thousands	
	2006	2005
Accounts Payable	1,744	3,179
Accrued Expenses	375	42
Provisions	1,200	522
	3,319	3,743

The movement in provisions is shown below.

Provisions

	\$Thousands	
	2006	2005
Balance as at 1 July	522	5,470
Additional Provision Made	1,200	-
Amounts Utilised	-	(4,948)
Unused Provision Reversed	(522)	-
Balance as at 30 June	1,200	522

This balance includes provisions for various commercial matters expected to be settled in periods from now to two years, but could require settlement at any time.

NGC Gas Retailing Activities**Notes to the Financial Statements****For the Year Ended 30 June 2006****For the purposes of the Gas (Information Disclosure) Regulations 1997****7. Financial Instruments****Interest Rate Risk**

Interest rate risk is managed in accordance with the group treasury policy.

Credit Risk

Financial instruments which potentially are subject to credit risk consist principally of cash deposits and trade debtors.

Cash deposits are placed with a small number of banking institutions and the amounts deposited with each institution is limited. The credit limits are set in accordance with the group treasury policy.

Credit evaluations are completed on customers where necessary and a bond required when customers cannot demonstrate an adequate credit history.

There are no significant concentrations of credit risk.

Foreign Currency Risk

Transactions that are denominated in foreign currencies from time to time result in exposure to foreign currencies. These exposures are managed in accordance with treasury policy.

Fair Values

The carrying value of trade receivables and payables, cash and short term deposits, bank overdraft and short term loan is equivalent to their fair value.

8. Capital and Operating Lease Commitments

There is no capital expenditure committed but not recorded in these financial statements for the year ended 30 June 2006 (30 June 2005: nil).

	\$Thousands	
	2006	2005
Operating Lease Commitments		
Non cancellable operating lease rentals are payable as follows:		
Not later than one year	31	25
Between one and two years	25	14
Between two and five years	14	8
Later than five years	-	-
	70	47

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

NGC Gas Retailing Activities
Notes to the Financial Statements
For the Year Ended 30 June 2006

For the purposes of the Gas (Information Disclosure) Regulations 1997

9. Related Party Transactions

Goods or Services	Terms	\$ Thousands	
		2006	2005
Sale of gas	Gas Retailing Activities sold gas to Kapuni Energy Joint Venture based on standard terms and conditions	5,968	5,747
Sale of gas	Gas Retailing Activities sold fuel gas to Kapuni Gas Treatment Plant on standard terms and conditions	3,086	3,149
Sale of gas	Gas Retailing Activities sells gas to Gas Transmission for use in the compressors and line heaters on standard terms and conditions	3,279	3,757
Gas cost	Gas Retailing Activities bought gas from Gas Wholesaling Activities based on actual amounts billed and notional revenue charged to Gas Retailing Activities based on Gas Wholesales's cost of gas	101,087	123,400
Transmission fees	Gas Retailing Activities bought transmission services from Gas Transmission Activities based on actual revenue charged and notional revenue charged to Gas Retailing Activities	30,591	26,636
Processing fees	Gas Retailing Activities bought processing services from Kapuni Energy Joint Venture and Kapuni Gas Treatment Plant based on notional revenue charged to Gas Retailing Activities	182	627
Distribution fees	Gas Retailing Activities bought transmission services from Gas Distribution Activities based on standard terms and conditions	3,282	3,576
Metering fees	Gas Retailing Activities bought metering services from NGC Metering Limited based on standard terms and conditions	1,028	343
Distribution fees	Gas Retailing Activities bought transmission services from Vector Limited based on standard terms and conditions	3,842	3,777

10. Contingent Liabilities

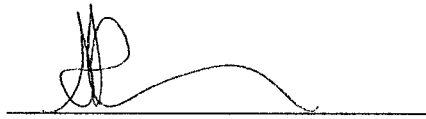
There are no contingent liabilities which would have a material adverse effect on these financial statements.



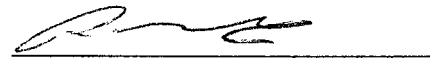
PricewaterhouseCoopers
9 November 2006

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

We, *Stale Chambers* and *Robert Thomson*,
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



Director

Date: *9 November 2006*Date: *9 November 2006*

NGC Gas Wholesaling Activities**Statement of Financial Performance****For the Year Ended 30 June 2006****For the purposes of the Gas (Information Disclosure) Regulations 1997**

		\$Thousands	
	Note	2006	2005
Revenue		138,454	154,217
Expenses	1	(143,946)	(150,239)
Operating (Deficit)/Surplus Before Income Tax		(5,492)	3,978
Income Tax Benefit/(Expense)	2	1,811	(1,477)
Net (Deficit)/Surplus for the Year		(3,681)	2,501

NGC Gas Wholesaling Activities**Statement of Financial Position****As at 30 June 2006****For the purposes of the Gas (Information Disclosure) Regulations 1997**

		\$Thousands	
	Note	2006	2005
Non Current Assets			
Prepaid Gas	3	4,932	11,458
Deferred Taxation	2	878	-
Accounts Receivable	4	1,400	6,774
Total Non Current Assets		7,210	18,232
Current Assets			
Notional Cash		3,564	-
Prepaid Gas	3	7,950	19,180
Accounts Receivable	4	6,272	9,297
Inventories		740	740
Current Tax		1,263	265
Total Current Assets		19,789	29,482
Total Assets		26,999	47,714
Equity			
Notional Reserves	5	100	18,635
Total Equity		100	18,635
Non Current Liabilities			
Gas Advance	6	-	15,525
Deferred Taxation	2	-	2,196
Total Non Current Liabilities		-	17,721
Current Liabilities			
Gas Advance	6	17,075	-
Accounts Payable and Provisions	7	9,824	11,358
Total Current Liabilities		26,899	11,358
Total Liabilities and Equity		26,999	47,714

NGC Gas Wholesaling Activities**Statement of Accounting Policies****For the Year Ended 30 June 2006****For the purposes of the Gas (Information Disclosure) Regulations 1997****a) Accounting Entity**

The financial statements are presented for the NGC Gas Wholesaling Activities. NGC Gas Wholesaling Activities involves the sale of gas to persons for the purpose of resupply by the other person (other than those wholesaling activities involving the supply of gas to refuellers). These financial statements apply solely to the activities of NGC New Zealand Limited. The NGC group of companies are wholly owned subsidiaries of Vector Limited (Vector).

b) Special Purpose Financial Statements

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

c) Measurement base

The financial statements are prepared on the basis of historical cost. For the purpose of cost allocation, NGC Gas Wholesaling Activities are treated as an incremental business. Businesses treated as incremental receive an allocation of the residual costs after costs have been allocated using the principles of Avoidable cost allocation methodology (ACAM) to businesses that are treated as standalone. ACAM is mandated for allocating revenues, costs, assets and liabilities between "lines" and "other" activities in the Electricity Information Disclosure Handbook 31 March 2004. Vector has chosen to apply ACAM to all of its standalone businesses. This approach was adopted for the first time for the 2006 financial period.

d) General Accounting Policies

The general accounting policies as recommended by the New Zealand Institute of Chartered Accountants for the measurement and reporting of financial performance and financial position, under the historical cost method, as modified by the revaluation of certain assets, have been followed in the preparation of these financial statements.

e) Specific Accounting Policies

The following specific accounting policies, which materially affect the measurement of financial performance and financial position have been adopted:

i) Current Assets

Inventories are valued at the lower of cost and net realisable value. Cost is determined on a First in First Out (FIFO) or weighted average cost basis. All other current assets are disclosed at their estimated realisable value.

ii) Gas contracts and prepaid gas

Under the terms of certain gas supply contracts, there may be a requirement to pay for a minimum quantity of gas in each contract year whether or not delivery has been made. From time to time gas may be prepaid and these payments may give entitlement to the delivery of gas in subsequent years without further payment. The prepayments are capitalised as an asset and are amortised to earnings as the prepaid gas is utilised. The amortisation rate per unit of gas is based on the amount of prepaid gas which is expected to be accessed over the term of the contract.

Contractually when a future obligation is recognised to provide gas at a later date, a liability is estimated and disclosed. Fees associated with gas advances are realised as a component of gas cost in the Statement of Financial Performance over the expected life of the contract.

NGC Gas Wholesaling Activities**Statement of Accounting Policies****For the Year Ended 30 June 2006****For the purposes of the Gas (Information Disclosure) Regulations 1997****e) Specific Accounting Policies (Continued)***iii) Taxation*

The income tax expense recognised for the period is based on the operating surplus before taxation, adjusted for permanent differences between accounting and tax rules. The impact of all timing differences between accounting and taxable income is recognised as a deferred tax liability or asset. This is the comprehensive basis for the calculation of deferred tax under the liability method. A deferred tax asset, or the effect of tax losses carried forward, is recognised in the financial statements only where there is virtual certainty that the benefit of the timing differences, or losses, will be utilised.

f) Comparatives

The presentation of certain comparatives has been restated to ensure consistency with the current year's disclosures.

g) Changes in Accounting Policies

There have been no changes in accounting policies. These policies have been applied on a consistent basis during the year.

NGC Gas Wholesaling Activities**Notes to the Financial Statements****For the Year Ended 30 June 2006****For the purposes of the Gas (Information Disclosure) Regulations 1997****1. Expenses**

	\$Thousands	
	2006	2005
Audit Fees	10	10

2. Income Tax

	\$Thousands	
	2006	2005
a) The Income Tax Expense has been calculated as follows:		
(Deficit)/Surplus before Taxation	(5,492)	3,978
Income Tax at 33%	(1,812)	1,313
Adjustments to Taxation for		
Non-deductible Items:		
Income Tax Over Provided in		
Previous Periods	(162)	1
Other Non-Deductible Items	163	163
Taxation (Benefit)/Expense in Statement of		
Financial Performance	(1,811)	1,477
Income Tax Expense is represented by:		
Tax Payable in Respect of the Current Year	1,263	2,843
Deferred Taxation (Refer Note 2b)	(3,074)	(1,366)
	(1,811)	1,477

NGC Gas Wholesaling Activities**Notes to the Financial Statements****For the Year Ended 30 June 2006****For the purposes of the Gas (Information Disclosure) Regulations 1997****2. Income Tax (Continued)**

	\$Thousands	
	2006	2005
b) Deferred Tax		
Balance as at 1 July	2,196	3,562
Movement for the Year	(3,074)	(1,366)
Balance as at 30 June	(878)	2,196

3. Prepaid Gas

	\$Thousands	
	2006	2005
Maui Prepaid Gas		
Balance expected to be realised:		
Later than one year	4,932	11,458
Within one year	7,950	19,180
	12,882	30,638

a) Maui Gas

NGC has entered into variations to its Maui gas contracts which set the total amount of gas to be delivered under the contracts at the quantity determined by the independent expert on 7 February 2003. Under the variations the redetermined amount of gas would be delivered and there would be no further redeterminations. Further, if the Maui Mining Companies do not deliver this quantity they must supply 'make up' gas for any shortfall from another supply or pay liquidated damages for any undelivered gas. At 30 June 2006, NGC has 12.7PJ (30 June 2005: 25.3PJ) of remaining Maui gas entitlements. As part of these variations to the Maui gas contracts NGC is guaranteed delivery of 11.6PJ (30 June 2005: 23.2PJ) of its remaining Maui gas from its original Advance Paid and Prepaid gas entitlements. The Advance Paid and Prepaid gas entitlements require no further payment to the Crown when delivery is taken except for payment of the energy resource levy. The remaining 1.1PJ (30 June 2005: 2.1PJ) can be uplifted by NGC at the previous contract prices. As part of the variations executed to the original agreement, NGC also has a right of first refusal at market price along with Contact Energy (Contact) over any additional gas found beyond the redetermined amount after first reserving 40PJ for Methanex New Zealand Limited (Methanex).

NGC Gas Wholesaling Activities**Notes to the Financial Statements****For the Year Ended 30 June 2006****For the purposes of the Gas (Information Disclosure) Regulations 1997****3. Prepaid Gas (Continued)****b) Kapuni Gas**

NGC currently has entitlement to 50% of the recoverable gas reserves of the Kapuni field as they were determined to be at 1 April 1997. As at 30 June 2006 this is estimated to be approximately 76.8PJ (30 June 2005: 91PJ) following a downward reserves reassessment in February 2005 of 26PJ (NGC's share), of which, 56.3PJ (30 June 2005: 69PJ) is at current Kapuni gas contract prices while the balance is expected to be at market prices prevailing when the gas is delivered.

NGC has reached an agreement 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 NGC expects that some 45PJ of gas will be delivered under this contract. The maximum total quantity of gas to be delivered under the contract is 70PJ less the amounts credited to this contract from its Pohokura Gas Contracts discussed below.

c) Pohokura Gas

NGC has agreed with Shell to purchase a portion of Shell's entitlements to gas from Pohokura from 1 July 2006, once the Pohokura field is commissioned, until 30 September 2007. The rates of gas able to be purchased under this contract vary over the term of the contract and NGC may purchase a total amount of up to 35PJ of gas under this contract. The first 10PJ of gas purchased under this contract will be credited to NGC's entitlement to 70PJ of gas as described above under Kapuni Gas.

NGC has also 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 NGC will have up to 30TJ/day available. NGC may purchase a total amount of up to 38PJ of gas under this contract. Fifty percent of this gas will be credited to NGC's entitlement to 70PJ of Kapuni gas from Shell as described above.

d) Kahili Joint Venture

NGC 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, Arrowhead Energy Limited and Tag Oil (NZ) Ltd (Tag). The field is currently closed pending a decision on re-drilling. The volume expected from any new well is uncertain.

NGC Gas Wholesaling Activities**Notes to the Financial Statements****For the Year Ended 30 June 2006****For the purposes of the Gas (Information Disclosure) Regulations 1997****4. Accounts Receivable**

	\$Thousands	
	2006	2005
Balance Expected to be Realised:		
Within One Year		
Trade Debtors	5,200	7,574
Prepayments and Sundry Receivables	1,072	1,723
	6,272	9,297
Later than One Year	1,400	6,774
Total Accounts Receivable	7,672	16,071

Receivables due later than one year consist of a refund for gas purchases relating to a gas supply contract with Maui Development Limited.

5. Notional Reserves

	\$Thousands	
	2006	2005
Balance as at 1 July	18,635	56,159
Movement for the period	(18,535)	(37,524)
Balance as at 30 June	100	18,635

NGC's Gas Wholesaling Activities is not a company and therefore has no share capital. Notional reserves are determined on the basis that NGC Gas Wholesaling Activities is fully equity funded by the NGC Group. Notional reserves therefore represent all funding provided to NGC Gas Wholesaling Activities by the group. A notional dividend has been paid to the group during the current year.

6. Gas Advance

The gas advance relates to the delivery by Contact Energy Limited of 2.5PJ of gas (sourced from Maui) under a swap arrangement during the year ended 30 June 2005. It is expected that the same amount of gas will be returned to Contact Energy Limited before 30 June 2007.

NGC Gas Wholesaling Activities**Notes to the Financial Statements****For the Year Ended 30 June 2006****For the purposes of the Gas (Information Disclosure) Regulations 1997****7. Accounts Payable and Provisions**

	\$Thousands	
	2006	2005
Accrued Expenses	9,824	10,158
Provisions	-	1,200
	9,824	11,358

The movement in provisions is shown below.

Provisions

	\$Thousands	
	2006	2005
Balance as at 1 July	1,200	1,200
Additional Provision Made	-	-
Amounts Utilised	-	-
Unused Provision Reversed	(1,200)	-
Balance as at 30 June	-	1,200

8. Financial Instruments**Interest Rate Risk**

Interest rate risk is managed in accordance with the group treasury policy.

Credit Risk

Financial instruments which are potentially subject to credit risk consist principally of cash deposits and trade debtors.

Cash deposits are with a small number of banking institutions and the amounts deposited with each institution is limited. The credit limits are set in accordance with the group treasury policy.

Credit evaluations are completed on customers where necessary and a bond required when customers cannot demonstrate an adequate credit history.

There is no significant concentration of credit risk.

NGC Gas Wholesaling Activities**Notes to the Financial Statements****For the Year Ended 30 June 2006****For the purposes of the Gas (Information Disclosure) Regulations 1997****8. Financial Instruments (Continued)****Foreign Currency Risk**

Transactions that are denominated in foreign currencies from time to time result in exposure to foreign currencies. These exposures are managed in accordance with treasury policy.

Fair Values

The carrying value of trade receivables and payables, cash and short term deposits is equivalent to their fair value.

9. Capital and Operating Lease Commitments

There are no operating lease commitments and capital expenditure committed but not recorded in these financial statements for the year ended 30 June 2006 (30 June 2005: Nil).

10. Related Party Transactions

Goods or Services	Terms	\$ Thousands	
		2006	2005
Sale of gas	Gas Wholesaling Activities sells gas to Gas Retailing Activities based on actual amounts billed and notional revenue charged to Gas Retailing Activities based on Gas Wholesale's cost of gas	101,087	123,400
Sale of gas	Gas Wholesaling Activities sells gas by-products to Kapuni Gas Treatment Plant based on standard terms and conditions	6,008	5,731
Transmission fees	Gas Wholesaling Activities bought transmission services from Gas Transmission Activities based on notional revenue charged to Gas Wholesaling Activities	645	244
Processing fees	Gas Wholesaling Activities have been allocated a share of the costs of the Kapuni Gas Treatment Plant	16,033	13,330
Gas Swap fees	Gas Wholesaling Activities entered into Operational Gas Swap arrangements with Gas Transmission Activities	768	709

11. Contingent Liabilities

There are no contingent liabilities which would have a material adverse effect on these financial statements.



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Certification by Auditor in Relation to Financial Statements

NGC – Gas Transmission Activities

We have examined the attached financial statements prepared by NGC Holdings Limited in respect to NGC - Gas Transmission Activities dated 9 November 2006 for the purposes of Regulation 6 of the Gas (Information Disclosure) Regulations 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.

A large, stylized handwritten signature in black ink that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers
9 November 2006



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NGC – Gas Transmission Activities

Certification of Performance Measures by Auditor

We have examined the attached information, being:

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

financial components of the efficiency performance measures specified in clause 2 of Part 2 of that Schedule;

and having been prepared by NGC Holdings Limited in respect to NGC – Gas Transmission Activities dated 9 November 2006 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.

A large, stylized handwritten signature in black ink, which appears to be a cursive representation of the PricewaterhouseCoopers name.

PricewaterhouseCoopers
9 November 2006


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

We, *Robert Thomson* and *Shale Chambers*,
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



Director

Date: *9 November 2006*

Date: *9 November 2006*

NGC Gas Transmission Activities**Statement of Financial Performance****For the Year Ended 30 June 2006****For the purposes of the Gas (Information Disclosure) Regulations 1997**

	Note	\$Thousands	
		2006	2005
Revenue		86,529	88,164
Expenses	1	(67,889)	(42,996)
Surplus Before Taxation		18,640	45,168
Income Tax Expense	2	(7,114)	(16,238)
Net Surplus for the Year		11,526	28,930

NGC Gas Transmission Activities**Statement of Financial Position****As at 30 June 2006****For the purposes of the Gas (Information Disclosure) Regulations 1997**

		\$Thousands	
	Note	2006	2005
Non Current Assets			
Property, Plant and Equipment	3	432,136	440,180
Deferred Expenditure	4	-	939
Total Non Current Assets		432,136	441,119
Current Assets			
Accounts Receivable	5	6,488	5,773
Inventories		1,672	1,697
Deferred Expenditure	4	939	1,086
Current Tax	2	-	3,481
Total Current Assets		9,099	12,037
Total Assets		441,235	453,156
Equity			
Notional Reserves	8	110,216	369,445
Total Equity		110,216	369,445
Non Current Liabilities			
Deferred Taxation	2	76,878	80,448
Notional Borrowings	7	231,633	-
Total Non Current Liabilities		308,511	80,448
Current Liabilities			
Bank Overdraft and Short Term Loans		547	19
Accounts Payable and Provisions	6	11,229	3,244
Current Tax	2	10,732	-
Total Current Liabilities		22,508	3,263
Total Liabilities and Equity		441,235	453,156

NGC Gas Transmission Activities**Statement of Accounting Policies****For the Year Ended 30 June 2006****For the purposes of the Gas (Information Disclosure) Regulations 1997****a) Accounting Entity**

The financial statements are presented for the NGC Gas Transmission Activities. NGC Gas Transmission Activities involves the ownership and the supply of line function services for the transportation of gas. Activities associated with third party services have been excluded from 2004 onwards. The NGC group of companies are wholly owned subsidiaries of Vector Limited.

b) Special Purpose Financial Statements

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

c) 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.

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 requirement to apply the ACAM methodology and ACAM is not specifically defined in respect of the gas transmission business, thus Vector group has followed the Electricity Information Disclosure Handbook in allocating costs to the regulated business.

The NGC gas transmission business is treated as separate regulated standalone 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.

Debt and equity are allocated to the standalone business on the basis of the debt to equity ratio of the Vector group.

Vector group has undertaken a review of the application of the ACAM methodology in the current year and adjusted some allocators used to ensure that ACAM is applied across the group in a consistent manner.

NGC Gas Transmission Activities**Statement of Accounting Policies****For the Year Ended 30 June 2006****For the purposes of the Gas (Information Disclosure) Regulations 1997****d) General Accounting Policies**

The general accounting policies as recommended by the New Zealand Institute of Chartered Accountants for the measurement and reporting of financial performance and financial position, under the historical cost method, as modified by the revaluation of certain assets, have been followed in the preparation of these financial statements.

e) Specific Accounting Policies

The following specific accounting policies, which materially affect the measurement of financial performance and financial position, have been adopted:

i) Property, Plant and Equipment

Pipelines, compressors and gate stations are recorded at the most recent valuation, adjusted by subsequent additions, disposals and depreciation. Valuations are carried out every three years and reviewed by independent experts, using the optimised deprival valuation methodology.

All property, plant and equipment other than pipelines, compressors and gate stations are disclosed at cost less accumulated depreciation.

Under the modified historical cost method, the revaluation, reflecting the difference between the net carrying value of the assets and the valuation (net of deferred tax), is recorded in the asset revaluation reserve. In arriving at the net carrying value any accumulated depreciation is written back against the asset cost.

Construction in progress is recorded at cost. For projects having a cost in excess of \$500,000 and a construction period of not less than three months, finance costs relating to that project are capitalised. Finance costs capitalised are based on the actual cost directly attributable to the construction of the asset. Where this is not clearly identifiable, the weighted average cost of debt is used to apportion finance costs to the project.

Assets constructed by NGC are commissioned and transferred from construction in progress to property, plant and equipment as each facility or operating unit within a facility becomes operational and available for use.

ii) Current Assets

Inventories are valued at the lower of cost and net realisable value. Cost is determined on a weighted average cost basis. All other current assets are valued at their estimated realisable value.

iii) Depreciation

Non current assets are depreciated on a straight line basis.

The rates of depreciation vary according to the nature and economic lives of the assets and fall within the following ranges:

High Pressure Pipelines	65 years
Compressors and Gate Stations	35 - 45 years
Plant, Equipment and Motor Vehicles	5 - 20 years
Buildings	40 - 100 years
Capital Spares	5 - 20 years

Depreciation of pipelines commences when the pipeline is physically complete and is being used to transport gas.

NGC Gas Transmission Activities**Statement of Accounting Policies****For the Year Ended 30 June 2006****For the purposes of the Gas (Information Disclosure) Regulations 1997****e) Specific Accounting Policies (Continued)***iv) Leased Assets*

Certain plant, equipment, land and buildings is leased. Under operating leases, all the risks and benefits of ownership are effectively retained by the lessor. Operating lease payments are expensed in the period in which they are incurred.

v) Taxation

The income tax expense recognised for the period is based on the operating surplus before taxation, adjusted for permanent differences between accounting and tax rules. The impact of all timing differences between accounting and taxable income is recognised as a deferred tax liability or asset. This is the comprehensive basis for the calculation of deferred tax under the liability method. A deferred tax asset, or the effect of tax losses carried forward, is recognised in the financial statements only where there is virtual certainty that the benefit of the timing differences, or losses, will be utilised.

vi) Deferred Expenditure

Deferred expenditure is expenditure which provides benefits beyond the current accounting period. These expenditures include the connection of new customers to the gas transportation system and other payments for which future benefits are gained and are amortised to the statement of financial performance over periods up to 10 years.

f) Comparatives

The presentation of certain comparatives has been restated to ensure consistency with the current year's disclosures.

g) Changes in Accounting Policies

There have been no changes in accounting policies. These policies have been applied on a consistent basis during the year.

NGC Gas Transmission Activities**Notes to the Financial Statements****For the Year Ended 30 June 2006****For the purposes of the Gas (Information Disclosure) Regulations 1997****1. Expenses**

	\$Thousands	
	2006	2005
Depreciation	12,867	13,336
Audit Fees	118	118
Leasing Costs	108	55
Movement in Provision for Doubtful Debts	(147)	-
Interest Expense	18,273	-

2. Income Tax

	\$Thousands	
	2006	2005
a) The Income Tax Expense has been calculated as follows:		
Surplus before Taxation	18,640	45,168
Income Tax at 33%	6,152	14,905
Adjustments to Taxation for Non-deductible Items:		
Income Tax (Under)/Over Provided in Previous Periods	(42)	150
Non Taxable Income	(181)	-
Other Non-Deductible Items	1,185	1,183
Taxation Expense in Statement of Financial Performance	7,114	16,238
Income Tax Expense is Represented by:		
Tax Payable in Respect of the Current Year	10,691	17,201
Deferred Taxation (Refer Note 2b)	(3,577)	(963)
	7,114	16,238

NGC Gas Transmission Activities**Notes to the Financial Statements****For the Year Ended 30 June 2006****For the purposes of the Gas (Information Disclosure) Regulations 1997****2. Income Tax (Continued)**

	\$Thousands	
	2006	2005
b) Deferred Tax		
Balance as at 1 July	80,448	81,262
Movement for the Year (Refer Note 2a)	(3,577)	(963)
Prior Period Adjustments and Other Movements	7	149
Balance as at 30 June	76,878	80,448

3. Property, Plant and Equipment

	\$Thousands			
	2006			
	Cost/ Valuation	Accumulated Depreciation	Net Book Value	Depreciation Charge
Pipelines, Compressors and Gate Stations	438,676	23,267	415,409	11,889
Other Plant and Equipment	18,539	16,099	2,440	669
Motor Vehicles	2,286	1,184	1,102	222
Freehold Land	366	-	366	-
Buildings	4,175	1,109	3,066	87
Construction in Progress	9,753	-	9,753	-
	473,795	41,659	432,136	12,867

	\$Thousands			
	2005			
	Cost/ Valuation	Accumulated Depreciation	Net Book Value	Depreciation Charge
Pipelines, Compressors and Gate Stations	440,751	15,015	425,736	11,756
Other Plant and Equipment	18,299	15,461	2,838	1,274
Motor Vehicles	2,115	1,096	1,019	222
Freehold Land	366	-	366	-
Buildings	4,075	1,021	3,054	84
Construction in Progress	7,167	-	7,167	-
	472,773	32,593	440,180	13,336

NGC Gas Transmission Activities**Notes to the Financial Statements****For the Year Ended 30 June 2006****For the purposes of the Gas (Information Disclosure) Regulations 1997****4. Deferred Expenditure**

	\$Thousands	
	2006	2005
Balance as at 1 July	2,025	3,111
Less: Amortisation	(1,086)	(1,086)
Balance as at 30 June	939	2,025

Current portion of deferred expenditure was \$0.9 million (30 June 2005: \$1.1 million). Non-current portion of deferred expenditure was nil (30 June 2005: \$0.9 million).

5. Accounts Receivable

	\$Thousands	
	2006	2005
Trade Debtors	6,291	5,631
Prepayments and Sundry Receivables	197	142
	6,488	5,773

6. Accounts Payable and Provisions

	\$Thousands	
	2006	2005
Accounts Payable	462	791
Accrued Expenses	3,876	1,493
Provisions	6,891	960
	11,229	3,244

NGC Gas Transmission Activities**Notes to the Financial Statements****For the Year Ended 30 June 2006****For the purposes of the Gas (Information Disclosure) Regulations 1997****6. Accounts Payable and Provisions (Continued)**

The movement in provisions is shown below.

Provisions

	\$Thousands	
	2006	2005
Balance as at 1 July	960	850
Additional Provisions Made	6,513	210
Amounts Utilised	(582)	(100)
Balance as at 30 June	6,891	960

This balance includes provisions for various commercial matters expected to be settled in the following year.

7. Notional Borrowings

2006	Weighted average interest rates	Total \$000	Payable within 1 year \$000	Payable between 1 and 2 years \$000	Payable between 2 and 5 years \$000	Payable after 5 years \$000
Loans	7.60%	231,633	-	231,633	-	-

2005	Weighted average interest rates	Total \$000	Payable within 1 year \$000	Payable between 1 and 2 years \$000	Payable between 2 and 5 years \$000	Payable after 5 years \$000
Loans	-	-	-	-	-	-

8. Notional Reserves

Notional reserves is determined for the current year by adjusting notionally debt and equity balances such that the debt to equity ratio is maintained the same as the Vector group.

For the comparative year notional reserves were determined on the basis that NGC Gas Transmission was fully equity funded by the NGC group. Notional reserves therefore in the comparative year represent all funding provided to NGC Gas Transmission Activities by the NGC group.

NGC Gas Transmission Activities**Notes to the Financial Statements****For the Year Ended 30 June 2006****For the purposes of the Gas (Information Disclosure) Regulations 1997****9. Financial Instruments****Interest Rate Risk**

Interest rate risk is managed in accordance with the group treasury policy.

Credit Risk

Financial instruments which are potentially subject to credit risk consist principally of cash deposits and trade debtors.

Cash deposits are placed with a small number of banking institutions and the amounts deposited with each institution is limited. The credit limits are set in accordance with the group treasury policy.

Credit evaluations are completed on customers where necessary and a bond required when customers cannot demonstrate an adequate credit history.

There is no significant concentration of credit risk.

Foreign Currency Risk

Transactions that are denominated in foreign currencies from time to time result in exposure to foreign currencies. These exposures are managed in accordance with treasury policy.

Fair Values

The carrying value of trade receivables and payables, cash and short term deposits, loans is equivalent to their fair value.

10. Capital and Operating Lease Commitments

Capital expenditure committed but not recorded in these financial statements totals \$0.9 million (30 June 2005: \$2.1 million).

	\$Thousands	
	2006	2005
Operating Lease Commitments		
Non cancellable operating lease rentals are payable as follows:		
Not later than one year	34	28
Between one and two years	33	6
Between two and five years	77	5
Later than five years	-	-
	144	39

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

NGC Gas Transmission Activities**Notes to the Financial Statements****For the Year Ended 30 June 2006****For the purposes of the Gas (Information Disclosure) Regulations 1997****11. Related Party Transactions**

Goods or Services	Terms	\$ Thousands	
		2006	2005
Transmission fees	Gas Transmission Activities sold transmission services to Gas Wholesaling Activities based on actual revenue charged and notional revenue charged to Gas Wholesaling Activities.	645	244
Transmission fees	Gas Transmission Activities sold transmission services to Gas Retailing Activities based on actual revenue charged and notional revenue charged to Gas Retailing Activities.	30,591	26,636
Fuel gas	Gas Transmission Activities bought fuel gas from gas Retailing Activities for use in compressors and line heaters on standard terms and conditions.	3,279	3,757
Gas swap fees	Gas Transmission Activities entered into Operational Gas Swap arrangements with Gas Wholesaling Activities	768	709
Mechanical services	Gas Transmission Activities bought mechanical services at market rates from Kapuni Gas Treatment Plant for the maintenance of its export compressor based at Kapuni.	1,010	890

12. Contingent Liabilities

There are no contingent liabilities which would have a material adverse effect on these financial statements (30 June 2005: Nil).

NGC Gas Transmission Activities

Statement of Performance Measures

For the Year Ended 30 June 2006

For the purposes of the Gas (Information Disclosure) Regulations 1997

1. Financial Performance Measures

	2006	2005	2004	2003
Accounting Return on Total Assets	8.4%	10.1%	9.1%	11.3%
Accounting Return on Equity	4.8%	7.8%	7.2%	8.7%
Accounting Rate of Profit *	3.2%	6.4%	8.1%	25.9%
<p>* The accounting rate of profit for 2003 includes a revaluation increase of \$87.87 million in respect of the NGC transmission system. Excluding this amount, the accounting rate of profit would be reduced from 25.9% to 7.6%. An additional \$9.4 million was included in the revaluation increase following a further review of the ODV valuation report in the 2004 year. Excluding the \$9.4 million, the accounting rate of profit would be reduced from 8.1% to 6.1%.</p>				

2. Efficiency Performance Measures

	2006	2005	2004	2003
Direct Line Costs per Kilometre	\$4,810	\$3,880	\$3,830	\$2,855
Indirect Line Costs per Gas Customer	\$1,263,156	\$997,847	\$1,114,733	\$843,800

NB: Direct Line Costs per kilometre represent the direct costs associated with maintaining the NGC Transmission system.

3. Other Performance Measures and Statistics

3.1 Load factor

System	2006			2005		
	Gas Into System, a (GJ p.a.)	Max. Monthly Quantity, b (GJ/month)	Load Factor, $\frac{a \times 100}{12 \times b}$	Gas Into System, a (GJ p.a.)	Max. Monthly Quantity, b (GJ/month)	Load Factor, $\frac{a \times 100}{12 \times b}$
North & Central	60,848,748	5,728,319	88.52	54,227,789	5,168,202	87.44
Bay of Plenty	11,386,661	1,134,147	83.67	12,346,173	1,232,461	83.48
Frankley Rd – Kapuni	22,405,091	2,290,168	81.53	16,282,358	2,123,607	63.89
South	11,067,829	1,289,209	71.54	11,333,608	1,277,991	73.90
Total	105,708,329			94,189,928		

NB: Gas entering the North System includes some of the gas into Central System.
Gas entering the Central System includes some of the gas into the Bay of Plenty System.
Gas entering the Frankley Rd – Kapuni System includes some of the gas into the South System.

NGC Gas Transmission Activities

Statement of Performance Measures

For the Year Ended 30 June 2006

For the purposes of the Gas (Information Disclosure) Regulations 1997

3.1 Load factor (Continued)

System	2004			2003		
	Gas Into System, a (GJ p.a.)	Max. Monthly Quantity, b (GJ/month)	Load Factor, $\frac{a \times 100}{12 \times b}$	Gas Into System, a (GJ p.a.)	Max. Monthly Quantity, b (GJ/month)	Load Factor, $\frac{a \times 100}{12 \times b}$
North & Central	53,865,697	5,156,560	87.05	46,935,414	4,990,690	78.37
Bay of Plenty	12,339,539	1,217,125	84.48	11,573,320	1,216,901	79.25
Frankley Rd – Kapuni	16,365,424	1,944,392	70.14	20,964,571	2,206,343	79.18
South	12,107,703	1,265,331	79.74	11,288,942	1,235,979	76.11
Total	94,678,363			90,762,247		

3.2 Unaccounted-for gas ratio

System	2006			2005		
	Unaccounted For Gas a (GJ p.a.)	Gas Into System b (GJ p.a.)	UFG % $\frac{a \times 100}{b}$	Unaccounted For Gas a (GJ p.a.)	Gas Into System b (GJ p.a.)	UFG % $\frac{a \times 100}{b}$
North & Central	257,346	60,848,748	0.42	188,530	54,227,789	0.35
Bay of Plenty	(28,235)	11,386,661	(0.25)	(114,815)	12,346,173	(0.93)
Frankley Rd – Kapuni	(33,457)	22,405,091	(0.15)	(126,023)	16,282,358	(0.77)
South	150,763	11,067,829	1.36	(10,583)	11,333,608	(0.09)
Total		105,708,329			94,189,928	

System	2004			2003		
	Unaccounted For Gas a (GJ p.a.)	Gas Into System b (GJ p.a.)	UFG % $\frac{a \times 100}{b}$	Unaccounted For Gas a (GJ p.a.)	Gas Into System b (GJ p.a.)	UFG % $\frac{a \times 100}{b}$
North & Central	(219,855)	53,865,697	(0.41)	(635,346)	46,935,414	(1.35)
Bay of Plenty	(106,172)	12,339,539	(0.86)	145,795	11,573,320	1.26
Frankley Rd – Kapuni	(202,449)	16,365,424	(1.24)	(129,173)	20,964,571	(0.62)
South	(30,711)	12,107,703	(0.25)	89,044	11,288,942	0.79
Total		94,678,363			90,762,247	

NB: UFG = Receipts + (Initial Linepack - Final Linepack) - Deliveries - Gas Used in Transmission.
Positive UFG represents a "loss", negative UFG a "gain".

NGC Gas Transmission Activities
Statement of Performance Measures
For the Year Ended 30 June 2006

For the purposes of the Gas (Information Disclosure) Regulations 1997

3.3 Statistics

System	2006				2005			
	Length (km)	Max. Monthly Quantity Entering the System (GJ/month)	Total Gas Conveyed (GJ p.a)	Gas Conveyed Other than For NGC (GJ p.a.)	Length (km)	Max. Monthly Quantity Entering the System (GJ/month)	Total Gas Conveyed (GJ p.a)	Gas Conveyed Other than For NGC (GJ p.a.)
North & Central	827.0	5,728,319	60,584,831		827.0	5,168,202	54,048,678	
Bay of Plenty	612.2	1,134,147	11,412,230		612.2	1,232,461	12,463,630	
Frankley Rd – Kapuni	82.9	2,290,168	22,438,808		82.9	2,123,607	16,409,024	
South	696.5	1,289,209	10,910,375		696.5	1,277,991	11,353,330	
Total	2,218.6		105,346,244	80,365,582	2,218.6		94,274,662	80,328,113

System	2004				2003			
	Length (km)	Max. Monthly Quantity Entering the System (GJ/month)	Total Gas Conveyed (GJ p.a)	Gas Conveyed Other than For NGC (GJ p.a.)	Length (km)	Max. Monthly Quantity Entering the System (GJ/month)	Total Gas Conveyed (GJ p.a)	Gas Conveyed Other than For NGC (GJ p.a.)
North & Central	827.0	5,156,560	54,085,232		827.0	4,990,690	47,350,811	
Bay of Plenty	612.2	1,217,125	12,450,163		612.2	1,216,901	11,423,813	
Frankley Rd – Kapuni	82.9	1,944,392	17,000,910		82.9	2,206,343	21,092,803	
South	696.5	1,393,581	11,590,580		696.5	1,235,979	11,208,825	
Total	2,218.6		95,126,885	78,216,692	2,218.6		91,076,252	68,521,832

	2006	2005	2004	2003
Number of Transmission Customers	16	16	15	15

NGC Gas Transmission Activities**Statement of Performance Measures****For the Year Ended 30 June 2006****For the purposes of the Gas (Information Disclosure) Regulations 1997****3.3 Statistics (Continued)**

	2006		2005		2004		2003	
Number of unplanned interruptions in transmission systems	No	hrs	No.	hrs	No.	hrs	No.	hrs
	1	1	1	2.5	1	6.0	1	3.0
	2	0.7			2	2.0	2	72.0
					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	2	75.0

NB: Some prior year performance measures have changed due to new information available.