



Annual Report

Year Ended 30 June 2014

**AUCKLAND ENERGY CONSUMER TRUST
CHAIRMAN'S REPORT**

FOR THE YEAR ENDED 30 JUNE 2014



The 2014 year has been very busy for the AECT and we have achieved some important milestones. These impact not only our 316,000-plus beneficiaries but, in total, around a million people in the region.

As the majority shareholder in Vector, we are the community guardian of this critical infrastructure. We have a duty to protect our investment in the company, and in the energy sector; so this is an area where your Trustees put in considerable effort and time every year to protect the value of our investment.

Annual dividend

The most visible sign of our success each year is the annual dividend and this year it was increased to \$335 net, and paid to 316,320 people. This was an increase of \$5 per dividend over the previous year.

The Trust distribution goes to more people than any company or trust distribution in New Zealand. This year, through the annual dividend, the AECT has put \$106 million back into the Auckland economy.

While it is pleasing to have increased the annual dividend again this year, it must be noted that beneficiary numbers are also increasing. This will continue to put the rate of dividend under pressure and will require the AECT to be even wiser in terms of administration of funds.

AECT income and expenditure

For the year ended 30 June 2014, income was \$116.1 million.

AECT has total investments of \$1.98 billion.

The total expenditure incurred by the Trust for the year was \$3.5 million.

The AECT is managed efficiently with management costs being approximately only one sixth of one percent. This is considerably less than management costs charged by management companies administering Kiwisaver funds.

Karen Sherry QSM

On behalf of all Trustees and AECT beneficiaries, I would like to pay special honour to Karen Sherry for being awarded the Queen's Service Medal (QSM) in the 2014 Queen's Birthday Honours for services to the electricity industry. The AECT is pleased to congratulate Karen on being awarded the QSM in recognition of her considerable time, effort and expertise in the electricity industry over many years.

Key issues

As guardians of the nearly \$2 billion investment in Vector, the AECT has many interesting and challenging issues that arise in the course of every year.

Key matters arising over the past year are as follows:

Dividend

We operate in a very tough regulatory environment and unfortunately this is starting to become the new reality.

The effect it will have on Vector and the returns we are used to will also likely be impacted. It could be that the level of dividend that we have been used to might not always be sustainable.

Our challenge is to ensure we still receive an adequate return on investment because this is essential to the ongoing growth of the company.

Withholding tax

Withholding tax is a big issue for the Trust. Our long held view is that the withholding rate should be reduced, as was company tax. Currently we pay withholding tax at the rate of 33c, which amounts to \$8 million withholding tax paid by the AECT on behalf of beneficiaries.

We believe that most AECT beneficiaries will be on lower tax rates and are eligible for a refund of the tax we pay on their behalf.

We are presently addressing the issue with government officials and are hopeful the new Government will consider the inequity that has arisen for AECT beneficiaries.

Regulation

We believe our industry is drowning in too much regulation.

Ensuring our industry remains competitive and provides a good return on investment is one of the ways we can use our status as an independent trust to deliver more benefits to Auckland's electricity consumers.

The return on investment for Vector is necessary to maintain the infrastructure and overall efficiencies, and to continue to grow the company.

In the area of regulated prices, the AECT was highly disappointed that most customers did not benefit from Vector's reduction in electricity lines charges in May.

These reductions meant the weighted average residential electricity distribution prices were reduced by 9%, equating to an annual saving of around \$60 per year for average households. However only a handful of electricity retailers passed these savings onto customers.

The AECT strongly recommends that, when Vector reduces prices in the future, customers check your power bills and challenge your electricity retailer directly if those reductions are not passed on to you.

In addition, the AECT also acts at industry level, as a strong advocate for greater transparency of consumer billing, and has made representations to the industry regulators in this regard.

Vector growth opportunities

In order to ensure we continue to return the dividend and grow the value of the Trust, the Trust will support the company to explore as many new innovative approaches to growth as possible.

Being innovative and seeking new, creative ways to drive growth and revenue are essential in this new regulatory environment.

Some of the exciting things happening around the company's growth opportunities which will benefit the AECT include the company's investment in smart meters and solar panels.

Smart metering is a great example of innovation in the Vector business and by 2017 Vector will have rolled out over one million smart meters to New Zealand homes and businesses. That will position Vector as the largest provider of smart meters in New Zealand.

Streamlining distribution process

Considerable work was undertaken this year in completely reorganising the dividend distribution process, to streamline and reduce risk in the process. The opportunity to do this arose following the retirement of a key provider of data services and agreement on improved data exchange protocols between Vector and the electricity retailers.

The new process is more corporatised, using increased services from Vector and our registry office, Computershare. It also provides more up to date data when compiling the roll for the distribution of the AECT dividend. As a result we expect fewer people will need assistance with their dividend if they have moved or changed retailers in the weeks leading up to dividend day. Already we have seen fewer calls to the call centre than at the same time as last year.

Communication with beneficiaries

It is important that the AECT keeps people informed, not least because thousands of people in the Trust District move every year. This leads to around \$2 million in dividends being unclaimed every year. We want to keep this to an absolute minimum. So we need to make every effort to ensure all our beneficiaries know about the dividend at the very least.

This year, we have created a character, Kenny the kingfisher, to be used in our communications to tell the AECT story. Most recently we have put Kenny into a video to demonstrate what the AECT is all about. This can be found on our website at www.aect.co.nz

Appointment of auditors

At last year's Annual Meeting of Beneficiaries, Grant Thornton were appointed the AECT auditors. Being available for the 2014/15 audit the Trustees recommend the retention of Grant Thornton for the current financial year.

Remuneration of auditors

The audit fees for 2013/14 were \$45k.

In accordance with section 101(3) of the Electricity Act 2010, a motion will be put to the Annual Meeting of beneficiaries authorising the Trust to fix the fees and expenses of the auditors for the ensuing year.

William Cairns
Chairman
Auckland Energy Consumer Trust
21 October 2014

**AUCKLAND ENERGY
CONSUMER TRUST
2014**

FINANCIAL STATEMENTS

Financial Statements

for the year ended 30 June 2014

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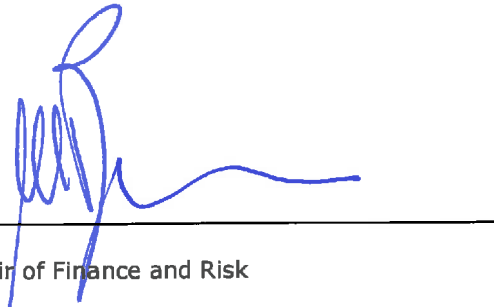
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2014 FINANCIAL STATEMENTS

These financial statements for the year ended 30 June 2014 are dated 22 August 2014, and signed on behalf of the Trustees by:



Chairman



Chair of Finance and Risk

Directory

Principal Business

To act as Trustees and distribute the income from the Trust Fund to the income beneficiaries under its Deed of Trust. The income beneficiaries are customers on the Vector electricity network within the boundaries defined in the Trust Deed. The Trust Fund comprises primarily the Trustees' shareholding in Vector Limited.

Date Settled

27 August 1993

Trustees

W A A Cairns (Chairman)
W J Kyd (Deputy Chairman)
J A Carmichael
M J Buczkowski
K A Sherry

Executive Officer

I R Ward

Termination Date

27 August 2073

Accountant

Staples Rodway Limited
P O Box 3899
Auckland

Auditor

Grant Thornton New Zealand Audit Partnership
P O Box 1961
Auckland

Legal Advisor

D Bigio
P O Box 4338
Auckland

Banker

ANZ Bank
P O Box 6334
Auckland

Independent Auditor's Report

Audit**Grant Thornton New Zealand Audit Partnership**

L4, Grant Thornton House
152 Fanshawe Street
PO Box 1961
Auckland 1140

T +64 (0)9 308 2570

F +64 (0)9 309 4892

www.grantthornton.co.nz

To the beneficiaries of Auckland Energy Consumer Trust**Report on the financial statements**

We have audited the consolidated financial statements of Auckland Energy Consumer Trust on pages 5 to 37, which comprise the balance sheet as at 30 June 2014, the statements of profit and loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Trustees' responsibilities

The Trustees are responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, and for such internal control as the Trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other than in our capacity as auditors, we have no relationship with or interests in, Auckland Energy Consumer Trust.

Opinion

In our opinion, the consolidated financial statements on pages 5 to 37:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the financial position of Auckland Energy Consumer Trust as at 30 June 2014 and its financial performance and its cash flows for the year ended on that date.

Report on other legal and regulatory matters

Per the Financial Reporting Act 1993:

- we have obtained all the information and explanations that we have required;
- in our opinion, proper accounting records have been kept by Auckland Energy Consumer Trust as far as appears from an examination of those records.



Grant Thornton New Zealand Audit Partnership
Auckland, New Zealand
22 August 2014

Profit or Loss

for the year ended 30 June

	NOTE	GROUP		PARENT	
		2014 \$000	2013 \$000	2014 \$000	2013 \$000
Revenue	4	1,258,884	1,279,170	114,548	110,793
Operating expenses	5	(681,719)	(652,263)	(3,495)	(3,579)
Depreciation and amortisation	6	(183,770)	(174,089)	(14)	(11)
Interest costs (net)	7	(167,235)	(162,770)	1,642	1,582
Fair value change on financial instruments	8	5,993	62	-	-
Associates (share of net profit/(loss))	12	1,727	1,291	-	-
Impairment of investment in associate	12	(1,241)	(3,570)	-	-
Profit/(loss) before income tax		232,639	287,831	112,681	108,785
Tax benefit/(expense)	9	(63,195)	(83,588)	-	-
Net profit/(loss) for the period		169,444	204,243	112,681	108,785
Net profit/(loss) for the period attributable to					
Non-controlling interests in subsidiaries		44,207	52,871	-	-
Beneficiaries of the Parent		125,237	151,372	112,681	108,785

Other Comprehensive Income

for the year ended 30 June

	NOTE	GROUP		PARENT	
		2014 \$000	2013 \$000	2014 \$000	2013 \$000
Net profit/(loss) for the period		169,444	204,243	112,681	108,785
Other comprehensive income net of tax					
Items that may be re-classified subsequently to profit or loss					
Net change in fair value of cash flow hedges		35,900	52,215	-	-
Share of other comprehensive income of associates	12	(1,194)	(50)	-	-
Translation of foreign operations		(23)	-	-	-
Other comprehensive income for the period net of tax		34,683	52,165	-	-
Total comprehensive income for the period net of tax		204,127	256,408	112,681	108,785
Total comprehensive income for the period attributable to					
Non-controlling interests in subsidiaries		52,732	65,693	-	-
Beneficiaries of the Parent		151,395	190,715	112,681	108,785

Balance Sheet

as at 30 June

	NOTE	GROUP		PARENT	
		2014 \$000	2013 \$000	2014 \$000	2013 \$000
CURRENT ASSETS					
Cash and cash equivalents		77,695	121,625	69,411	65,461
Trade and other receivables	11	169,682	171,002	519	560
Derivatives	21	598	344	-	-
Inventories		4,350	5,513	-	-
Income tax		11,366	3,811	-	-
Total current assets		263,691	302,295	69,930	66,021
NON-CURRENT ASSETS					
Receivables	11	1,851	2,134	-	-
Derivatives	21	-	10,664	-	-
Deferred tax	10	-	1,646	-	-
Investments in subsidiaries		-	-	300,000	300,000
Investments in associates	12	11,481	13,589	-	-
Intangible assets	13	1,632,450	1,633,375	20	6
Property, plant and equipment (PPE)	14	3,999,583	3,849,399	6	8
Total non-current assets		5,645,365	5,510,807	300,026	300,014
Total assets		5,909,056	5,813,102	369,956	366,035
CURRENT LIABILITIES					
Distributions payable	17	64,799	61,277	64,799	61,277
Trade and other payables	16	218,379	273,757	549	580
Provisions	18	9,554	11,676	-	-
Provisions for unclaimed distributions	19	4,608	4,178	4,608	4,178
Borrowings	20	200,314	-	-	-
Derivatives	21	169	2,065	-	-
Income tax		702	586	-	-
Total current liabilities		498,525	353,539	69,956	66,035
NON-CURRENT LIABILITIES					
Payables	16	19,544	20,136	-	-
Provisions	18	17,628	8,690	-	-
Borrowings	20	2,268,674	2,420,430	-	-
Derivatives	21	244,961	226,331	-	-
Deferred tax	10	551,937	525,514	-	-
Total non-current liabilities		3,102,744	3,201,101	-	-
Total liabilities		3,601,269	3,554,640	69,956	66,035
EQUITY					
Equity attributable to beneficiaries of the Parent		1,728,379	1,689,651	300,000	300,000
Non-controlling interests in subsidiaries		579,408	568,811	-	-
Total equity		2,307,787	2,258,462	300,000	300,000
Total equity and liabilities		5,909,056	5,813,102	369,956	366,035

Cash Flows

for the year ended 30 June

	NOTE	GROUP		PARENT	
		2014 \$000	2013 \$000	2014 \$000	2013 \$000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		1,284,414	1,292,704	-	-
Interest received		3,157	5,944	1,674	1,458
Income tax refunds		1,505	-	-	-
Miscellaneous income		20	20	20	20
Dividends received from associates		1,400	200	114,528	110,773
Payments to suppliers and employees		(693,136)	(646,791)	(3,518)	(3,726)
Distribution to beneficiaries		(101,280)	(97,928)	(101,280)	(97,928)
Dividend withholding tax paid		(7,446)	(7,251)	(7,446)	(7,251)
Interest paid		(173,926)	(170,739)	-	-
Income tax paid		(58,635)	(57,403)	-	-
Net cash flows from/(used in) operating activities	23	256,073	318,756	3,978	3,346
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of PPE and software intangibles		1,772	884	-	-
Purchase and construction of PPE and software intangibles		(327,456)	(283,393)	(28)	(10)
Proceeds from liquidation of associate		45	2,757	-	-
Acquisition of businesses		(60,060)	-	-	-
Net cash flows from/(used in) investing activities		(385,699)	(279,752)	(28)	(10)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from borrowings		149,000	-	-	-
Repayment of borrowings		(20,000)	(22,817)	-	-
Dividends paid		(42,135)	(37,492)	-	-
Other financing cash flows		(1,169)	(788)	-	-
Net cash flows from/(used in) financing activities		85,696	(61,097)	-	-
Net increase/(decrease) in cash and cash equivalents		(43,930)	(22,093)	3,950	3,336
Cash and cash equivalents at beginning of the period		121,625	143,718	65,461	62,125
Cash and cash equivalents at end of the period		77,695	121,625	69,411	65,461
Cash and cash equivalents comprise:					
Bank balances and on-call deposits		73,095	79,351	69,411	65,461
Short term deposits maturing within three months		4,600	42,274	-	-
		77,695	121,625	69,411	65,461

Changes in Equity

GROUP	HEDGE RESERVE \$000	OTHER RESERVES \$000	RETAINED EARNINGS \$000	NON- CONTROLLING INTERESTS \$000	TOTAL EQUITY \$000
Balance at 1 July 2012	(119,694)	64	1,727,362	540,610	2,148,342
Net profit/(loss) for the period	-	-	151,372	52,871	204,243
Other comprehensive income	39,381	(23)	(15)	12,822	52,165
Total comprehensive income	39,381	(23)	151,357	65,693	256,408
Dividends and distributions	-	-	(105,381)	(37,492)	(142,873)
Distribution payable	-	-	(3,404)	-	(3,404)
Employee share purchase scheme transactions	-	-	(11)	-	(11)
Total transactions with beneficiaries	-	-	(108,796)	(37,492)	(146,288)
Balance at 30 June 2013	(80,313)	41	1,769,923	568,811	2,258,462
Net profit/(loss) for the period	-	-	125,237	44,207	169,444
Other comprehensive income	27,076	(918)	-	8,525	34,683
Total comprehensive income	27,076	(918)	125,237	52,732	204,127
Dividends and distributions	-	-	(109,159)	(42,135)	(151,294)
Distribution payable	-	-	(3,522)	-	(3,522)
Employee share purchase scheme transactions	-	-	14	-	14
Total transactions with beneficiaries	-	-	(112,667)	(42,135)	(154,802)
Balance at 30 June 2014	(53,237)	(877)	1,782,493	579,408	2,307,787

PARENT	TRUSTEE FUNDS \$000	RETAINED EARNINGS \$000	TOTAL EQUITY \$000
Balance at 1 July 2012	300,000	-	300,000
Net profit/(loss) for the period	-	108,785	108,785
Other comprehensive income	-	-	-
Total comprehensive income	-	108,785	108,785
Dividends and distributions	-	(105,381)	(105,381)
Distribution payable	-	(3,404)	(3,404)
Total transactions with beneficiaries	-	(108,785)	(108,785)
Balance at 30 June 2013	300,000	-	300,000
Net profit/(loss) for the period	-	112,681	112,681
Other comprehensive income	-	-	-
Total comprehensive income	-	112,681	112,681
Dividends and distributions	-	(109,159)	(109,159)
Distribution payable	-	(3,522)	(3,522)
Total transactions with beneficiaries	-	(112,681)	(112,681)
Balance at 30 June 2014	300,000	-	300,000

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Notes to the Financial Statements

1. TRUST INFORMATION

Reporting entity	<p>Auckland Energy Consumer Trust (the "Trust" or "Parent") was settled on 27 August 1993 and is domiciled in New Zealand. The Trust is registered under the Trustee Act 1956. The Trust is a reporting entity for the purposes of the Financial Reporting Act 1993 and is considered a Public Benefit Entity. The financial statements of the Trust have been prepared in accordance with the Financial Reporting Act 1993.</p> <p>Auckland Energy Consumer Trust is a Discretionary Trust under the Trustee Act 1956. It is in the business of acting as Trustees and distributing the income from the Trust Fund to the income beneficiaries under its Deed of Trust. The income beneficiaries are customers on the Vector electricity network within the boundaries defined in the Trust Deed. The Trust Fund comprises primarily the Trustees' shareholding in Vector Limited.</p>
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance	<p>From 1 April 2014, the new Financial Reporting Act 2013 has come into force replacing the Financial Reporting Act 1993. This will be effective for the group's financial statements for the year ended 30 June 2015.</p>
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The financial statements of the Trust must comply with the Financial Reporting Act 2013 and the Electricity Industry Act 2010. Pursuant to accounting standards prepared by the External Reporting Board under the Financial Reporting Act 2013 (in particular "External Reporting Board Standard A1 – Accounting Standards Framework") the trustees have determined that the Trust falls within the definition of "Public Benefit Entity" under that standard. The designation of "Public Benefit Entity" is one which exists only under accounting standards and for the purposes of compliance with the Financial Reporting Act 2013. That designation has no effect on the substance of the Trust Deed which provides that the income of the Trust is to be distributed to those people defined as income beneficiaries under the Trust Deed, and who are exclusively customers on the Vector electricity network within the Trust district, being the old geographical district of the now defunct Auckland Electric Power Board.

Under the new XRB framework the subsidiary of the Trust will continue to apply NZ IFRS as applicable for Tier 1 for-profit entities when preparing its financial statements. The change in legislation is not expected to have any material impact on its obligation to prepare general purpose financial statements. In addition to the change in legislation, the External Reporting Board of New Zealand ("the XRB") has released a new accounting standards framework which establishes the financial standards to be applied to entities with statutory financial reporting obligations, which currently reports under New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS").

Basis of preparation	<p>The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP) as appropriate for public benefit entities.</p>
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The financial statements for the Parent and the consolidated financial statements are presented. The consolidated financial statements comprise the Trust and its subsidiaries (together the "Group") and the group's share of any interest in associates, partnerships and joint ventures.

They are prepared on the historical cost basis except for the following items, which are measured at fair value:

- the identifiable assets and liabilities acquired in a business combination; and
- certain financial instruments, as disclosed in the notes to the financial statements.

The presentation currency is New Zealand dollars (\$), which is also the Parent's functional currency. All financial information has been rounded to the nearest thousand, unless otherwise stated.

The statements of profit or loss, other comprehensive income, cash flows and changes in equity are stated exclusive of Good and Services Tax ("GST"). All items in the balance sheet are stated exclusive of GST with the exception of trade receivables and trade payables, which include GST.

Significant accounting policies, estimates and judgements	<p>The Group's management is required to make judgements, estimates, and apply assumptions that affect the amounts reported in the financial statements. They have based these on historical experience and other factors they believe to be reasonable. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in the future periods affected.</p>
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Accounting policies, and information about judgements, estimations and assumptions that have had a significant effect on the amounts recognised in the financial statements are disclosed in the relevant notes as follows:

- Revenue recognition; Note 4
- Consolidation basis and classification of investments; Note 12
- Impairment and valuation of goodwill; Note 13
- Property, plant and equipment: valuation and classification of expenditure; Note 14
- Borrowings: measurement bases; Note 20
- Valuation of derivatives; Note 21

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended accounting standards adopted

The Group have adopted the following accounting standards in the current period:

- **NZ IFRS 10, Consolidated Financial Statements** has not had any impact on the Group consolidation.
- **NZ IFRS 11, Joint Arrangements** has led to the Group's interest in the Kapuni Energy Joint Venture being classified as a joint operation. The operation continues to be consolidated using the proportionate method.
- **NZ IFRS 12, Disclosure of Interests in Other Entities** has not materially impacted the financial statements.
- **NZ IFRS 13, Fair Value Measurement** the impact on the statements of profit or loss and other comprehensive income on adoption of this standard was a non-cash gain of \$6.2 million and \$6.1 million respectively for the year ended 30 June 2014. The Group has applied this standard prospectively, and has not re-stated any comparative information.

New accounting standards and interpretations not yet adopted

The following standards and interpretations which are considered relevant to the Group but not yet effective for the year ended 30 June 2014 have not been applied in preparing these consolidated financial statements:

IFRS 9, Financial Instruments: Classification and Measurement.

IFRS 9 (2014) together will replace parts of IAS 39: *Financial Instruments: Recognition and Measurement*. The new standard:

- Simplifies the measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value; and
- Adds requirements related to the classification and measurement of financial liabilities, and de-recognition of financial assets and liabilities.

The effective date is annual periods beginning on or after 1 January 2018. The Group will choose to adopt the above standard for the period beginning 1 July 2014. It is not expected to have a material impact to the Group's financial statements.

NZ IFRS 15, Revenue from Contracts with Customers.

This standard was issued in May 2014, and will replace all existing guidance for revenue recognition, including NZ IAS 11: *Construction Contracts* and NZ IAS 18: *Revenue*. The effective date is annual periods beginning on or after 1 January 2017. The Group has not yet fully evaluated the impact this standard will have on the Group financial statements.

NZ IFRIC 21, Levies.

NZ IFRIC 21 is an interpretation of NZ IAS 37: *Provisions, Contingent Liabilities and Contingent Assets* and clarifies when an entity should recognise a liability to pay levies imposed by governments. The effective date is annual periods beginning on or after 1 January 2014. It is not expected to have a material impact on the Group financial statements.

3. SEGMENT INFORMATION

Segments

The Trust does not receive any internal management reports directly from Vector Limited. The only reporting information made available to the Trust is that which the subsidiary, Vector Limited has made publicly available through being listed on the New Zealand Stock Exchange.

Two operating segments for the Group have been reported in accordance with NZ IFRS 8 Operating Segments and they are:

1. **Auckland Energy Consumer Trust**
Receives dividends from Vector Limited and distributes these dividends to beneficiaries.

2. **Vector Limited**
Business activities undertaken in this sector include:

Electricity	Electricity distribution services.
Gas Transportation	Gas transmission and distribution services.
Gas Wholesale	Natural gas and LPG sales, storage and processing, and cogeneration.
Technology	Telecommunications and metering services.

Segment information is prepared and reported in accordance with the Group's accounting policies.

Intersegment transactions included in the segment revenues and segment operating expenses for each segment are on an arms' length basis.

Notes to the Financial Statements

3. SEGMENT INFORMATION (continued)

Segment profit	<p>Segment profit is reported to the subsidiary Vector Limited's ("Vector") chief executive and the board of directors is earnings before interest and tax.</p> <p>Vector also reports earnings before interest, tax, depreciation and amortisation (EBITDA) at segment level to the Group chief executive and the board of directors.</p>
Corporate activities	<p>Corporate activities, comprising shared services and investments, earn revenues that are incidental to the Group's operations and do not meet the definition of an operating segment under NZ IFRS 8. The results for corporate activities are reported in the reconciliations of segment information to the Group's financial statements.</p> <p>Interest costs (net), fair value change on financial instruments, associates (share of net profit/(loss)) and impairments are incurred within corporate activities and are not allocated to the segments.</p>
Major customer	<p>The Group engages with one major customer which contributes individually greater than ten percent of the Group's revenue. The customer contributed \$229.0 million (2013: \$209.0 million) which is reported across all segments.</p>

GROUP	AECT	VECTOR	INTER- SEGMENT	TOTAL
2014	\$000	\$000	\$000	\$000
External revenue				
Sales	-	1,214,518	-	1,214,518
Third party contributions	-	43,726	-	43,726
Other Income	20	-	-	20
Intersegment revenue	114,528	-	(114,528)	-
Segment revenue	114,548	1,258,244	(114,528)	1,258,264
External expenses				
Electricity transmission expenses	-	(188,246)	-	(188,246)
Gas purchases and production expenses	-	(224,389)	-	(224,389)
Asset maintenance expenses	-	(93,270)	-	(93,270)
Employee benefit expenses	-	(43,955)	-	(43,955)
Other expenses	-	(78,119)	-	(78,119)
Intersegment expenses	-	-	-	-
Segment operating expenses	-	(627,979)	-	(627,979)
Segment EBITDA	114,548	630,265	(114,528)	630,285
Depreciation and amortisation	-	(167,731)	-	(167,731)
Segment profit/(loss)	114,548	462,534	(114,528)	462,554
Segment capital expenditure	-	324,990	-	324,990

Notes to the Financial Statements

3. SEGMENT INFORMATION (continued)

Reconciliation of segment revenue, segment profit and segment capital expenditure to revenue, profit/(loss) before income tax and capital expenditure reported in the Group financial statements:

GROUP	REVENUE	PROFIT/(LOSS) BEFORE INCOME TAX	CAPITAL EXPENDITURE
2014	\$000	\$000	\$000
Reported in segment information	1,258,264	462,554	324,990
Amounts not allocated to segments (corporate activities)			
Revenue	620	620	-
Operating expenses	-	(53,740)	-
Depreciation and amortisation	-	(16,039)	-
Interest costs (net)	-	(167,235)	-
Fair value change on financial instruments	-	5,993	-
Associates (share of net profit/(loss))	-	1,727	-
Impairment of investment in associate	-	(1,241)	-
Capital expenditure	-	-	14,171
Reported in the Group financial statements	1,258,884	232,639	339,161

GROUP	AECT	VECTOR	INTER- SEGMENT	TOTAL
2013	\$000	\$000	\$000	\$000
External revenue				
Sales	-	1,245,941	-	1,245,941
Third party contributions	-	32,665	-	32,665
Other Income	20	-	-	20
Intersegment revenue	110,773	-	(110,773)	-
Segment revenue	110,793	1,278,606	(110,773)	1,278,626
External expenses				
Electricity transmission expenses	-	(176,120)	-	(176,120)
Gas purchases and production expenses	-	(228,535)	-	(228,535)
Asset maintenance expenses	-	(82,770)	-	(82,770)
Employee benefit expenses	-	(31,968)	-	(31,968)
Other expenses	-	(79,628)	-	(79,628)
Segment operating expenses	-	(599,021)	-	(599,021)
Segment EBITDA	110,793	679,585	(110,773)	679,605
Depreciation and amortisation	-	(159,835)	-	(159,835)
Segment profit/(loss)	110,793	519,750	(110,773)	519,770
Segment capital expenditure	-	284,876	-	284,876

Notes to the Financial Statements

3. SEGMENT INFORMATION (continued)

Reconciliation of segment revenue, segment profit and segment capital expenditure to revenue, profit/(loss) before income tax and capital expenditure reported in the Group financial statements:

GROUP 2013	REVENUE \$000	PROFIT/(LOSS) BEFORE INCOME TAX \$000	CAPITAL EXPENDITURE \$000
Reported in segment information	1,278,626	519,770	284,876
Amounts not allocated to segments (corporate activities)			
Revenue	544	544	-
Operating expenses	-	(53,242)	-
Depreciation and amortisation	-	(14,254)	-
Interest costs (net)	-	(162,770)	-
Fair value change on financial instruments	-	62	-
Associates (share of net profit/(loss))	-	1,291	-
Impairment of investments in associates	-	(3,570)	-
Capital expenditure	-	-	13,767
Reported in the Group financial statements	1,279,170	287,831	298,643

4. REVENUE

	NOTE	GROUP		PARENT	
		2014 \$000	2013 \$000	2014 \$000	2013 \$000
Sales	3	1,214,518	1,245,941	-	-
Third party contributions	3	43,726	32,665	-	-
Other		640	564	20	20
Dividends received		-	-	114,528	110,773
Total		1,258,884	1,279,170	114,548	110,793

Policies

Revenue is measured at the fair value of consideration received, or receivable.

Revenue is recognised when:

- The amount of the revenue and the costs in respect of the transaction can be measured reliably; and
- It is probable that the economic benefits of the transaction will flow to the Vector Group.

Sales of goods are recognised when the risks and rewards of the goods have been transferred to the buyer.

Sales of services are recognised as the services are delivered, or if applicable on a percentage of completion basis.

Third party contributions towards the construction of property, plant and equipment are recognised to reflect the percentage completion of the underlying construction activity.

The Parent receives dividends from its investment in Vector Limited. Dividend income is recognised in other income on the date that the right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Judgements

Vector's Management must apply judgement where:

- The timing of customer payments for services does not coincide with the timing of delivery of those services; and/or
- Multiple services are delivered under one contract.

Notes to the Financial Statements

5. OPERATING EXPENSES

		GROUP		PARENT	
		2014 \$000	2013 \$000	2014 \$000	2013 \$000
Electricity transmission	3	188,246	176,120	-	-
Gas purchases and production	3	224,389	228,535	-	-
Network and asset maintenance	3	93,270	82,770	-	-
Other direct expenses		41,981	31,968	-	-
Employee benefit expenses		70,796	70,958	344	319
Administration expenses		18,736	18,010	908	940
Distribution expenses		1,090	987	1,090	987
Trustee Remuneration	25	343	343	343	343
Professional fees		12,284	13,779	242	268
IT expenses		13,927	12,700	-	-
Loss/(gain) on disposal of PPE and software intangibles		3,030	4,704	1	-
Other indirect expenses		13,627	11,389	567	722
Total		681,719	652,263	3,495	3,579

Audit fees	GROUP		PARENT	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000
Audit or review of financial statements – Grant Thornton	45	44	45	44
Audit or review of financial statements – KPMG	515	607	-	-
Regulatory assurance – KPMG	511	503	-	-
Other audit fees - KPMG	19	20	-	-
Other services - KPMG	20	16	-	-
	1,110	1,190	45	44

Other audit fees Other audit fees are for the audit of guaranteeing group financial statements, share registry and bond registers.

Other services Other services in the current period comprised a fraud gap analysis. The prior period was for assurance services in relation to a cash flow impact for a proposed billing change.

Employee benefits Employee benefits are net of employee benefits recharged to subsidiaries as disclosed in Note 25.

6. DEPRECIATION AND AMORTISATION

		GROUP		PARENT	
		2014 \$000	2013 \$000	2014 \$000	2013 \$000
Depreciation of property, plant and equipment					
Distribution systems		106,983	105,973	-	-
Electricity and gas meters		28,390	24,195	-	-
Land, building and improvements		3,056	2,607	-	-
Computer and telco equipment		12,288	12,256	-	-
Other plant and equipment		9,844	10,762	4	6
	14	160,561	155,793	4	6
Amortisation of intangible assets					
Customer contracts		2,431	1,034	-	-
Software		20,778	17,262	10	5
	13	23,209	18,296	10	5
Total		183,770	174,089	14	11

Notes to the Financial Statements

7. INTEREST COSTS (NET)

	GROUP		PARENT	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000
Interest expense	174,063	170,790	-	-
Capitalised interest	(7,438)	(5,189)	-	-
Other	3,685	3,179	-	-
Interest income	(3,075)	(6,010)	(1,642)	(1,582)
Total	167,235	162,770	(1,642)	(1,582)

Policies Interest costs (net) include interest expense on borrowings and interest income on funds invested which are recognised using the effective interest rate method.

Capitalised interest Interest and other internal costs are capitalised to property, plant and equipment and software intangibles while under construction at an average rate of 6.6% per annum (2013: 6.8%).

8. FAIR VALUE CHANGE ON FINANCIAL INSTRUMENTS

	NOTE	GROUP	
		2014 \$000	2013 \$000
Ineffective portion of cash flow hedges		(191)	23
Fair value movement on hedging instruments		(75,464)	(15,648)
Fair value movement on hedged items		81,648	15,687
Total gains/(losses)		5,993	62

9. INCOME TAX (BENEFIT)/EXPENSE

	GROUP		PARENT	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000
Reconciliation of income tax expense/(benefit)				
Profit/(loss) before income tax	232,639	287,831	112,681	108,785
Tax at current rate	65,047	80,593	37,185	35,899
Current tax adjustments				
Non-deductible expenses	1,045	840	629	500
Relating to prior periods	2,157	(670)	-	-
Other	(1,185)	(90)	(37,814)	(36,399)
Deferred tax adjustments				
Impairment of investment in associate	348	1,000	-	-
Relating to prior periods	(2,984)	1,915	-	-
Other	(1,233)	-	-	-
Income tax expense/(benefit)	63,195	83,588	-	-
Comprising				
Current tax	51,569	70,473	-	-
Deferred tax	11,626	13,115	-	-

Policies Income tax expense/(benefit) comprises current and deferred tax.

The Group calculates income tax expense/(benefit) using rates enacted or substantively enacted at reporting date.

Current and deferred tax is recognised in profit or loss unless the tax relates to items in other comprehensive income, in which case the tax is recognised as an adjustment in other comprehensive income against the item to which it relates.

Imputation credits

Vector Limited has no imputation credits available for use as at 30 June 2014 (2013: nil), as the imputation account has a debit balance as of that date.

The Parent is not required to maintain an imputation credit account because it is a trust.

Notes to the Financial Statements

10. DEFERRED TAX

Deferred tax

GROUP	TAX		PROVISIONS	HEDGE	OTHER	TOTAL
	LOSSES	PPE	AND	RESERVE		
	\$000	\$000	ACCRUALS	\$000	\$000	\$000
Balance at 1 July 2012	(3,924)	538,487	(9,564)	(61,720)	16,902	480,181
Recognised in profit or loss	(820)	(3,777)	1,355	-	16,357	13,115
Recognised in other comprehensive income	-	-	-	20,289	-	20,289
Transfer to current tax	3,926	-	-	-	-	3,926
Recognised from business combinations	-	8,003	-	-	-	8,003
Balance at 30 June 2013	(818)	542,713	(8,209)	(41,431)	33,259	525,514
Recognised in profit or loss	-	12,160	316	-	(850)	11,626
Recognised in other comprehensive income	-	-	-	13,979	-	13,979
Transfer to current tax	818	-	-	-	-	818
Recognised from business combinations	-	-	-	-	-	-
Balance at 30 June 2014	-	554,873	(7,893)	(27,452)	32,409	551,937

Policies

Deferred tax is:

- Recognised on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.
- Not recognised for the initial recognition of goodwill.
- Measured at the tax rates that are expected to be applied to the temporary differences when they reverse.

Tax losses which are available to be utilised by the Vector Group are offset against deferred tax liabilities.

Deferred tax assets

During the reporting period, Advanced Metering Services Limited, a subsidiary of the Vector Group, utilised a deferred tax asset of \$1.6 million related to the future income tax benefit of accumulated tax losses. There are no further deferred tax assets available.

There is an unrecognised deferred tax asset of \$596,314 (2013: \$861,953) for the Parent and the Group.

The Parent has no deferred tax recorded.

Notes to the Financial Statements

11. TRADE AND OTHER RECEIVABLES

Trade receivables	GROUP		PARENT	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000
Current				
Trade receivables	149,370	152,163	-	-
Less provision for doubtful debts	(2,602)	(3,434)	-	-
Balance at 30 June	146,768	148,729	-	-
Ageing of trade receivables				
Not past due	132,911	139,567	-	-
Past due 1-30 days	6,593	3,140	-	-
Past due 31-120 days	2,845	2,057	-	-
Past due more than 120 days	7,021	7,399	-	-
Balance at 30 June	149,370	152,163	-	-
Other receivables				
Current				
Interest receivable	14,142	14,313	513	545
Prepayments	8,668	7,838	6	14
Other	104	122	-	1
Balance at 30 June	22,914	22,273	519	560
Non-current				
Finance lease	1,332	1,354	-	-
Other	519	780	-	-
Balance at 30 June	1,851	2,134	-	-

Policies Receivables are recognised initially at fair value. They are subsequently adjusted for impairment losses. Fair value is estimated as the present value of future cash flows. Long term receivables are discounted to reflect the time value of money. Discounting is not applied to receivables where collection is expected to occur within twelve months of each reporting date.

Impairment Trade receivables past due by up to 120 days do not include any allowances for impairment (2013: nil). Trade receivables past due by more than 120 days include allowances for impairment of \$2.6 million (2013: \$3.4 million). A provision for impairment is recognised when there is objective evidence that Vector will be unable to collect amounts due. The amount provided is the difference between the receivable's carrying and expected recoverable amount.

Notes to the Financial Statements

12. INVESTMENTS

Judgements Classifying investments as either subsidiaries, associates, or joint operations requires management to judge the degree of influence which the Group holds over the investee.

These judgements impact upon the basis of consolidation accounting which is used to recognise the Group's investments in the consolidated financial statements.

12.1 Investments in subsidiaries

Trading subsidiaries	PRINCIPAL ACTIVITY	PERCENTAGE HELD	
		2014	2013
Vector Limited	Utility Network Provider	75.4%	75.4%
NGC Holdings Limited	Holding Company	75.4%	75.4%
- Vector Management Services Limited	Management services	75.4%	75.4%
- Vector Gas Limited	Natural gas sales, processing and transportation	75.4%	75.4%
- Vector Gas Contracts Limited	Natural gas sales	75.4%	75.4%
- Vector Gas Investments Limited	Holding Company	75.4%	75.4%
- Vector Kapuni Limited	Joint operator – cogeneration plant	75.4%	75.4%
- Liquigas Limited	Bulk LPG storage, distribution and management	45.2%	45.2%
- On Gas Limited	LPG sales and distribution	75.4%	75.4%
- Advanced Metering Assets Limited	Electricity and gas metering	75.4%	75.4%
- Vector Metering Data Services Limited	Holding company	75.4%	75.4%
Vector Communications Limited	Telecommunications	75.4%	75.4%
Advanced Metering Services Limited	Metering services	75.4%	75.4%
Elect Data Services (Australia) Pty Limited	Metering services	74.4%	75.4%
Non-trading subsidiaries			
Auckland Generation Limited	Holding company	75.4%	75.4%
- MEL Network Limited	Holding company	75.4%	75.4%
- Mercury Geotherm Limited (in receivership)	Dormant	75.4%	75.4%
- Poihipi Land Limited (in receivership)	Dormant	75.4%	75.4%
UnitedNetworks Limited	Dormant	75.4%	75.4%
Broadband Services Limited	Dormant	75.4%	75.4%
Vector ESPS Trustee Limited	Trustee Company	75.4%	75.4%
NGC Limited	Dormant	75.4%	75.4%

Policies Subsidiaries are entities controlled directly or indirectly by the Parent or Vector Limited. The Group holds over 50% of the voting rights in all entities reported as subsidiaries. There are currently no indicators that the Group does not have control consistent with these voting rights.

The financial statements of subsidiaries are reported in the Group financial statements using the acquisition method of consolidation.

Intra-group balances and transactions between Group companies are eliminated on consolidation.

The Trust holds 751,000,000 ordinary shares in Vector Limited. At 30 June 2014, the market value of these shares was \$1,907,540,000 (2013: \$2,012,680,000). The cost of investment in Vector Limited is \$300,000,000.

Reporting dates All subsidiaries have a reporting date of 30 June, apart from Mercury Geotherm Limited (in receivership) and Poihipi Land Limited (in receivership) which have a reporting date of 31 March.

Geography All subsidiaries are incorporated in New Zealand, except Elect Data Services (Australia) Pty Limited which is incorporated in Australia.

Notes to the Financial Statements

12. INVESTMENTS (continued)

12.2 Investment in associates

Associates	PRINCIPAL ACTIVITY	REPORTING DATE	COUNTRY OF INCORPORATION	PERCENTAGE HELD	
				2014	2013
Tree Scape Limited	Vegetation management	31 March	New Zealand	37.7%	37.7%
Total Metering 2012 Limited (in liquidation)	Non-trading	30 June	New Zealand	18.9%	18.9%
NZ Windfarms Limited	Power generation	30 June	New Zealand	16.6%	16.6%

	GROUP	
	2014 \$000	2013 \$000
Carrying amount of associates		
Balance at 1 July	13,589	16,088
Share of net profit/(loss) of associates	1,727	1,291
Share of other comprehensive income of associates	(1,194)	(20)
Dividends received	(1,400)	(200)
Impairment of investment	(1,241)	(3,570)
Balance at 30 June	11,481	13,589
Equity accounted earnings of associates		
Profit/(loss) before income tax	2,398	1,793
Income tax benefit/(expense)	(671)	(502)
Share of net profit/(loss) of associates	1,727	1,291
Total recognised revenues and expenses	1,727	1,291

Policies

Associates are entities in which the Group has significant influence, but not control or joint control, over the operating and financial policies. The Group holds over 20%, but not more than half, of the voting rights in all entities reported as associates, and has assessed that there are currently no indicators that the Group does not have significant influence consistent with these voting rights. Where the Group has a 50% shareholding in an entity reported as an associate we have determined that this does not constitute joint control as this shareholding does not carry majority voting rights.

Investments in associates are reported in the Group financial statements using the equity method.

Impairment

The Group has recognised an impairment loss of \$1.2 million (2013: \$3.6 million) in respect of the investment in its associate company, NZ Windfarms Limited.

The recoverable amount determined as at 30 June 2014 was estimated based on the investment's fair value less costs to sell by reference to the active market price on the New Zealand Stock Exchange.

The share price of NZ Windfarms Limited declined from \$0.08 per share at 30 June 2013 to \$0.05 per share at 30 June 2014, and supports the current carrying value of the Group's investment in NZ Windfarms Limited.

12.3 Interest in joint operation

Joint operation	PRINCIPAL ACTIVITY	REPORTING DATE	INTEREST HELD	
			2014	2013
Kapuni Energy Joint Venture	Cogeneration plant operator	30 June	37.7%	37.7%

Policies

A joint operation is where the subsidiary, Vector Limited is a party to a joint arrangement, and has rights to the assets and obligations for the liabilities relating to the arrangement.

Vector Limited has assessed that the contractual arrangement governing the Kapuni Energy Joint Venture, of which Vector Kapuni Limited is a party, meets the criteria of a joint arrangement, and that the rights and obligations conferred by that contract meet the classification of a joint operation.

The interest in the joint operation is reported in the Group financial statements using the proportionate method.

Notes to the Financial Statements

13. INTANGIBLE ASSETS

GROUP	CUSTOMER CONTRACTS \$'000	EASEMENTS \$'000	SOFTWARE \$'000	GOODWILL \$'000	TOTAL \$'000
Opening carrying amount 1 July 2012	2,067	13,644	45,295	1,555,802	1,616,808
Cost	3,100	13,644	167,901	1,555,802	1,740,447
Accumulated amortisation	(1,033)	-	(122,606)	-	(123,639)
Acquisition of business	13,102	-	-	3,407	16,509
Transfers from PPE	-	243	18,108	-	18,351
Additions	-	-	3	-	3
Amortisation for the period	(1,034)	-	(17,262)	-	(18,296)
Closing carrying amount 30 June 2013	14,135	13,887	46,144	1,559,209	1,633,375
Cost	16,202	13,887	186,012	1,559,209	1,775,405
Accumulated amortisation	(2,067)	-	(139,868)	-	(124,030)
Additions	262	-	24	307	593
Transfers from PPE	-	402	21,289	-	21,691
Amortisation for the period	(2,431)	-	(20,778)	-	(23,209)
Closing carrying amount 30 June 2014	11,966	14,289	46,679	1,559,516	1,632,450
Cost	16,464	14,289	207,325	1,559,516	1,779,689
Accumulated amortisation	(4,498)	-	(160,646)	-	(147,239)

PARENT	SOFTWARE \$'000	TOTAL \$'000
Opening carrying amount 1 July 2012	8	8
Cost	30	30
Accumulated amortisation	(22)	(22)
Additions	3	3
Amortisation for the period	(5)	(5)
Closing carrying amount 30 June 2013	6	6
Cost	33	33
Accumulated amortisation	(27)	(27)
Additions	24	24
Amortisation for the period	(10)	(10)
Closing carrying amount 30 June 2014	20	20
Cost	57	57
Accumulated amortisation	(37)	(37)

13.1 Goodwill

Goodwill by segment	GROUP	
	2014 \$'000	2013 \$'000
Electricity	852,219	852,219
Gas transportation	468,062	468,062
Gas wholesale	220,826	220,764
Technology	18,409	18,164
Total	1,559,516	1,559,209

Notes to the Financial Statements

13. INTANGIBLE ASSETS (continued)

13.1 Goodwill (continued)

Policies	<p>Goodwill represents the excess of the consideration transferred over the fair value of the Group's share of the net identifiable assets of an acquired subsidiary.</p> <p>Goodwill is carried at cost less accumulated impairment losses.</p>
Allocation	<p>Goodwill is monitored internally at Group level. However, is allocated to the operating segments for impairment testing purposes as this is the highest lever permissible under NZ IFRS.</p>
Impairment testing	<p>Goodwill is tested at least annually for impairment against the recoverable amount of the operating segments to which it has been allocated.</p> <p>The recoverable amount of each segment to which goodwill is allocated exceeds the net assets plus goodwill allocated. Therefore the Group has determined that no impairment to goodwill has occurred during the period.</p>
Judgements	<p>To assess impairment, Vector's management must estimate the future cash flows of operating segments including the cash generating units that make up those segments. This entails making judgements including:</p> <ul style="list-style-type: none">• the expected rate of growth of revenues;• margins expected to be achieved;• the level of future maintenance expenditure required to support these outcomes; and• the appropriate discount rate to apply when discounting future cash flows.
Assumptions	<p>The recoverable amounts attributed to the electricity, gas transportation and gas wholesale segments and the metering cash generating unit of the technology segment are calculated on the basis of value-in-use using discounted cash flow models. Due to the long term nature of the of the electricity and gas transportation regulated businesses, it should be noted that the terminal value makes up a significant amount of the value-in-use calculated. For the communications cash generating unit of the technology segment both value in use and fair value less costs to sell are considered. Future cash flows are projected out based on actual results and business plans.</p> <p>For the electricity and gas transportation segments and the metering cash generating unit a ten year period has been used due to the long-term nature of the Group's capital investment in these businesses. A five year period has been used for the gas wholesale segment and the communications cash generating unit given the markets these businesses operate in.</p> <p>Key assumptions include the level of future EBITDA and maintenance expenditure for each segment. Terminal growth rates in a range of 0.0% to 3.0% (2013: 0.0% to 3.0%) and pre-tax discount rates between 6.5% and 8.9% (2013: 6.5% and 11.4%) are applied. Rates vary for the specific segment being valued.</p> <p>Projected cash flows for regulated businesses are sensitive to regulatory uncertainty. Estimated future regulated network revenues and the related supportable levels of capital expenditure are based on default price-quality path determinations issued by the Commerce Commission. For the electricity segment, the recoverable amount exceeds the carrying value based on the electricity distribution default price-quality path determination released in November 2012. In calculating the recoverable amount for the electricity segment, the potential impact of the Commerce Commission's draft decisions on 4 July 2014 on the default price-quality path from 1 April 2015, and the proposed amendment announced on 22 July 2014 to reduce the weighted average cost of capital (WACC) were considered. For the gas transportation segment, the recoverable amount exceeds the carrying value based on the initial default price-quality path for gas pipeline services applying from 1 July 2013 through to 30 September 2017.</p>

13.2 Other intangible assets

Policies	<p>Other intangible assets are initially measured at cost, and subsequently stated at cost less any accumulated amortisation and impairment losses.</p> <p>Software and customer contracts have been assessed as having a finite life greater than 12 months, and are amortised from the date the asset is ready for use on a straight line basis over its estimated useful life. The estimated useful lives are: software 2 – 10 years; customer contracts 3 – 10 years.</p> <p>Easements are not amortised, but are tested for impairment at least annually.</p>
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Notes to the Financial Statements

14. PROPERTY, PLANT AND EQUIPMENT (PPE)

GROUP	DISTRIBUTION SYSTEMS \$000	ELECTRICITY AND GAS METERS \$000	LAND, BUILDINGS AND IMPROVEMENTS \$000	COMPUTER AND TELCO EQUIPMENT \$000	OTHER PLANT AND EQUIPMENT \$000	CAPITAL WORK IN PROGRESS \$000	TOTAL \$000
Carrying amount 1 July 2012	3,045,136	200,677	129,145	104,169	108,495	91,823	3,679,445
Cost	3,640,700	342,878	145,658	159,658	160,942	91,823	4,541,659
Accumulated depreciation	(595,564)	(142,201)	(16,513)	(55,489)	(52,447)	-	(862,214)
Additions	-	-	-	-	11,653	286,990	298,643
Acquisition of business	-	50,512	-	-	-	-	50,512
Transfers - Intangible assets	-	-	-	-	-	(18,351)	(18,351)
Transfers - Other	146,883	73,139	23,098	12,420	5,047	(260,587)	-
Disposals	(2,646)	-	(214)	(294)	(1,903)	-	(5,057)
Depreciation for the period	(105,973)	(24,195)	(2,607)	(12,256)	(10,762)	-	(155,793)
Carrying amount 30 June 2013	3,083,400	300,133	149,422	104,039	112,530	99,875	3,849,399
Cost	3,780,306	466,529	168,289	163,463	172,293	99,875	4,850,755
Accumulated depreciation	(696,906)	(166,396)	(18,867)	(59,424)	(59,763)	-	(1,001,356)
Additions	-	-	-	-	556	338,605	339,161
Transfers - Intangible assets	-	-	-	-	-	(21,691)	(21,691)
Transfers - Other	198,963	77,495	10,369	7,126	10,841	(304,794)	-
Disposals	(4,863)	(254)	(181)	(9)	(1,418)	-	(6,725)
Depreciation for the period	(106,983)	(28,390)	(3,056)	(12,288)	(9,844)	-	(160,561)
Carrying amount 30 June 2014	3,170,517	348,984	156,554	98,868	112,665	111,995	3,999,583
Cost	3,968,590	543,624	178,432	170,310	181,244	111,995	5,154,195
Accumulated depreciation	(798,073)	(194,640)	(21,878)	(71,442)	(68,579)	-	(1,154,612)

PARENT	OTHER PPE \$000	TOTAL \$000
Carrying amount 1 July 2012	7	7
Cost	57	57
Accumulated depreciation	(50)	(50)
Additions	7	7
Disposals	-	-
Depreciation for the period	(6)	(6)
Carrying amount 30 June 2013	8	8
Cost	61	61
Accumulated depreciation	(53)	(53)
Additions	3	3
Disposals	(1)	(1)
Depreciation for the period	(4)	(4)
Carrying amount 30 June 2014	6	6
Cost	62	62
Accumulated depreciation	(56)	(56)

Notes to the Financial Statements

14. PROPERTY, PLANT AND EQUIPMENT (PPE) (continued)

Policies	<p>PPE is initially measured at cost, and subsequently stated at cost less depreciation and any impairment losses. Cost may include:</p> <ul style="list-style-type: none"> • Consideration paid on acquisition • Costs to bring the asset to working condition • Materials used in construction • Direct labour attributable to the item • Finance costs attributable to the item • A proportion of directly attributable overheads incurred • If there is a future obligation to dismantle and/or remove the item, the costs of doing so <p>Capitalisation of costs stops when the asset is ready for use. Subsequent expenditure that increases the economic benefits derived from the asset is capitalised. Uninstalled assets are stated at the lower of cost and estimated recoverable amount.</p> <p>Depreciation commences when an item becomes available for use. Depreciation of PPE, other than freehold land, is calculated on a straight line basis and expensed over the useful economic life of the asset. Estimated useful lives (years) are as follows:</p> <table style="margin-left: 20px;"> <tr> <td>Buildings</td> <td style="text-align: right;">40 – 100</td> </tr> <tr> <td>Distribution systems</td> <td style="text-align: right;">10 – 100</td> </tr> <tr> <td>Electricity and gas meters</td> <td style="text-align: right;">5 – 30</td> </tr> <tr> <td>Other plant and equipment</td> <td style="text-align: right;">3 – 40</td> </tr> </table>	Buildings	40 – 100	Distribution systems	10 – 100	Electricity and gas meters	5 – 30	Other plant and equipment	3 – 40
Buildings	40 – 100								
Distribution systems	10 – 100								
Electricity and gas meters	5 – 30								
Other plant and equipment	3 – 40								

Judgements	<p>The Parent and Group's Management must apply judgement when evaluating:</p> <ul style="list-style-type: none"> • Whether costs relate to bringing the items to working condition • The amount of overhead costs which can be reasonably directly attributed to the construction or acquisition of an asset • Whether subsequent expenditure on the asset increases the future economic benefits to be obtained from that asset • Whether any indicators of impairment have occurred which might require impairment testing of the current carrying values
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Capital commitments	<p>The estimated capital expenditure for PPE and software intangibles contracted for at reporting date but not provided is \$52.0 million for the Group (2013: \$75.1 million).</p>
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15. OPERATING LEASES

Aggregate minimum lease payments under non-cancellable operating leases where the Group is the lessee	GROUP	
	2014 \$000	2013 \$000
Within one year	6,652	6,853
One to five years	11,637	12,040
Beyond five years	8,080	10,695
Total	26,369	29,588

Policies	<p>Payments made under operating leases, where the lessors effectively retain the risks and benefits of ownership, are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integral part of the total lease expense over the term of the lease.</p>
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Lease of premises	<p>The majority of the operating lease commitments relate to the Vector Group's leases of premises. These, in the main, give the subsidiary Vector Limited the right to renew the lease at the end of the current lease term.</p> <p>The parent has no operating leases.</p>
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Notes to the Financial Statements

16. TRADE AND OTHER PAYABLES

	GROUP		PARENT	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000
Current				
Trade payables	160,479	155,465	541	575
Deferred consideration payable	1,500	-	-	-
Acquisition consideration payable	-	68,717	-	-
Employee benefits	6,463	6,144	8	5
Deferred income	7,308	1,660	-	-
Finance leases	836	751	-	-
Interest payable	41,793	41,020	-	-
Balance at 30 June	218,379	273,757	549	580
Non-current				
Deferred income	15,867	17,108	-	-
Deferred consideration payable	-	1,500	-	-
Finance leases	875	936	-	-
Other non-current payables	2,802	592	-	-
Balance at 30 June	19,544	20,136	-	-

Other payables

The acquisition consideration payable (GST inclusive) for 2013 is in respect of the purchase of the business and assets of Contact Energy Limited's gas metering business which was completed on 30 June 2013.

Employee benefits which remain unused at reporting date, and amounts expected to be paid under short-term cash bonus plans are accrued for.

Deferred income includes third party contributions received in excess of those recognised in the profit and loss.

The deferred consideration payable is in respect of the purchase of Advanced Metering Services Limited in 2010, which is a subsidiary of the Group.

17. DISTRIBUTIONS PAYABLE

	GROUP		PARENT	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000
Current				
Distributions payable	64,799	61,277	64,799	61,277

Distribution payables

Distributions payable at reporting date is made up of the following:

Net income from the current year.

In accordance with the Trust Deed, the Trustees shall distribute the Trust's net income to beneficiaries listed on the distribution roll at the time the roll is prepared.

Trustee accumulations available for distribution.

In accordance with the Trust Deed, accumulations not distributed to beneficiaries at reporting date is held by the Trust for no more than one year. This includes unclaimed distributions that remain unclaimed after two years (as detailed above).

As at 30 June 2014 no distribution roll had been struck to determine the allocation of this income to the beneficiaries, therefore the funds are held as distributions payable.

Notes to the Financial Statements

18. PROVISIONS

GROUP 2014	TOTAL \$000
Balance 1 July 2013	20,366
Additions	8,939
Reversed to the income statement	(2,123)
Balance at 30 June 2014	27,182
Current	9,554
Non-current	17,628
Total	27,182

Policies A provision is recognised where the likelihood of a resultant liability is more probable than not, and the amount required to settle the liability can be reliably estimated.

Utilisation These provisions comprise amounts that may be required to be utilised within one year or a longer period dependent on future events which include ongoing negotiations with third parties.

19. PROVISION FOR UNCLAIMED DISTRIBUTIONS

	GROUP		PARENT	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000
Balance at beginning of the reporting period	4,178	3,975	4,178	3,975
Additions	21,607	26,173	21,607	26,173
Claimed	(21,177)	(25,970)	(21,177)	(25,970)
Balance at end of the reporting period	4,608	4,178	4,608	4,178

Policies Unclaimed distributions represent distributions made to beneficiaries that have not been claimed for payment. The amounts payable will remain a distribution payable up to two years after the distribution, where after it will be cancelled and written back to Accumulations in accordance with the Trust Deed.

Notes to the Financial Statements

20. BORROWINGS

2014	CURRENCY	MATURITY DATE	FACE VALUE \$000	UNAMORTISED COSTS \$000	GROUP FAIR VALUE ADJUSTMENT ON HEDGED RISK \$000	CARRYING VALUE \$000	FAIR VALUE \$000
Bank facilities – variable rate	NZD	Feb 2015- Dec 2016	129,000	(665)	-	128,335	128,335
Capital bonds – 7.05% fixed rate	NZD	-	262,651	(335)	-	262,316	265,654
Senior bonds – 7.8% fixed rate	NZD	Oct 2014	150,000	(173)	581	150,408	151,150
Senior notes – fixed rate	USD	Sep 2016- Sep 2022	646,014	(2,269)	(92,384)	551,361	531,077
Floating rate notes – variable rate	NZD	Oct 2015- Oct 2020	1,160,000	(5,586)	-	1,154,414	1,102,264
Medium term notes - 7.625% fixed rate	GBP	Jan 2019	285,614	(2,455)	(61,005)	222,154	258,318
Balance at 30 June			2,633,279	(11,483)	(152,808)	2,468,988	2,436,798

2013	CURRENCY	MATURITY DATE	FACE VALUE \$000	UNAMORTISED COSTS \$000	GROUP FAIR VALUE ADJUSTMENT ON HEDGED RISK \$000	CARRYING VALUE \$000	FAIR VALUE \$000
Bank facilities – variable rate	NZD	Dec 2013- Feb 2015	-	(426)	-	(426)	-
Capital bonds – 7.05% fixed rate	NZD	-	262,651	(434)	-	262,217	266,352
Senior bonds – 7.8% fixed rate	NZD	Oct 2014	150,000	(839)	4,054	153,215	155,672
Senior notes – fixed rate	USD	Sep 2016- Sep 2022	646,014	(2,132)	(14,210)	629,672	636,729
Floating rate notes – variable rate	NZD	Oct 2015- Oct 2020	1,160,000	(7,373)	-	1,152,627	1,161,721
Medium term notes - 7.625% fixed rate	GBP	Jan 2019	285,614	(2,897)	(59,592)	223,125	263,756
Balance at 30 June			2,504,279	(14,101)	(69,748)	2,420,430	2,484,230

Policies

Borrowings are recorded initially at fair value, net of transaction costs.

Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in finance costs in profit or loss over the period of the borrowing using the effective interest rate method.

The carrying value of borrowings includes the principle converted at contract rates, unamortised costs and a fair value adjustment for the component of the risk that is hedged. The fair value is calculated by discounting the future contractual cash flows at current market interest rates that are available for similar financial instruments. The fair value of all borrowings, calculated for disclosure purposes, are classified as level 2 on the fair value hierarchy, explained further in Note 21.

The Trust has no borrowings.

Capital bonds

Capital bonds of \$307.2 million are unsecured, subordinated bonds with the next election date set as 15 June 2017. The interest rate was fixed at 7% at the last election date. In June 2012, Vector repurchased \$44.6 million of its capital bonds at face value as part of the capital bonds election process and the repurchased bonds were derecognised from borrowings, leaving an outstanding balance of \$262.7 million.

Floating rate notes

The floating rate notes have been credit wrapped by MBIA Insurance Corporation and Ambac Assurance Corporation throughout their entire period of issue.

Senior notes- USD

USD Senior notes- fixed rate 130 million agreement has been entered into to replace the NZD 150 million Senior bonds- 7.8% fixed rate that mature in October 2014. The USD Senior notes will settle on 14 October 2014.

Covenants

All borrowings are unsecured and are subject to negative pledge arrangements and various lending covenants. These have all been met for the years ended 30 June 2014 and 30 June 2013.

Notes to the Financial Statements

21. DERIVATIVES AND HEDGE ACCOUNTING

	CASH FLOW HEDGES		GROUP FAIR VALUE HEDGES		TOTAL	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000	2014 \$000	2013 \$000
Derivative assets						
Cross currency swaps	-	6,305	-	273	-	6,578
Interest rate swaps	-	-	598	4,086	598	4,086
Forward exchange contracts	-	344	-	-	-	344
Total	-	6,649	598	4,359	598	11,008
Derivative liabilities						
Cross currency swaps	(87,448)	(87,380)	(86,085)	(14,381)	(173,533)	(101,761)
Interest rate swaps	(71,417)	(124,570)	-	-	(71,417)	(124,570)
Forward exchange contracts	(180)	(2,065)	-	-	(180)	(2,065)
Total	(159,045)	(214,015)	(86,085)	(14,381)	(245,130)	(228,396)

The carrying values presented in the above table are the fair values excluding any interest receivable or payable, which is separately presented in the balance sheet in other receivables or other payables.

Key observable market data for fair value measurement	GROUP	
	2014	2013
Foreign currency exchange (FX) rates as at 30 June		
NZD-GBP FX rate	0.51200	0.50880
NZD-USD FX rate	0.87580	0.77435
Interest rate swap rates		
NZD	3.43% to 4.90%	2.66% to 4.53%
USD	0.45% to 3.19%	0.28% to 3.29%
GBP	0.16% to 3.17%	0.54% to 3.19%
Credit margins		
Vector	1.29% to 2.21%	-
Counterparties	0.03% to 1.71%	-
Sensitivity to changes in market rates		
Impact on comprehensive income:		
Sensitivity to change in interest rates	2014 \$000	2013 \$000
-1% change in interest rates	(38,535)	(45,951)
+1% change in interest rates	36,999	43,714
Sensitivity to change in foreign exchange rates		
-10% change in foreign exchange rates	(7,015)	(9,664)
+10% change in foreign exchange rates	7,183	9,969
Sensitivity to change in credit margins		
-0.50% change in credit margins	(1,569)	-
+0.50% change in credit margins	1,542	-
Impact on profit or loss:		
Sensitivity to change in interest rates		
-1% change in interest rates	(3,539)	(1,462)
+1% change in interest rates	3,826	1,455
Sensitivity to change in foreign exchange rates		
-10% change in foreign exchange rates	6,654	-
+10% change in foreign exchange rates	(6,764)	-
Sensitivity to change in credit margins		
-0.50% change in credit margins	(1,336)	-
+0.50% change in credit margins	1,311	-

Notes to the Financial Statements

21. DERIVATIVES AND HEDGE ACCOUNTING (continued)

Policies

The subsidiary, Vector Limited ("Vector") initially recognises derivatives at fair value on the date the derivative contract is entered into, and subsequently they are re-measured to their fair value at each reporting date. All derivatives are classified as level 2 on the fair value hierarchy explained below.

Fair value is calculated as the present value of the estimated future cash flows based on observable interest yield curves or foreign exchange market prices, including interest accrued.

The resulting gain or loss on re-measurement is recognised in profit or loss immediately, unless the derivative is designated and effective as a hedging instrument, in which case the timing of recognition in profit or loss depends on the nature of the designated hedge relationship.

Vector designates certain derivatives as either:

- Fair value hedges (of the fair value of recognised assets or liabilities or firm commitments); or
- Cash flow hedges (of highly probable forecast transactions).

At inception each transaction is documented, detailing:

- The relationship between hedging instruments and hedged items;
- The risk management objectives and strategy for undertaking the hedge transaction; and
- The assessment (initially and on an ongoing basis) of whether the derivatives that are used in the hedging transaction are highly effective in offsetting changes in fair values or cash flows of hedged items.

Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting.

Fair value hedges

The subsidiary, Vector Limited has entered into interest rate swaps and cross currency interest rate swaps (the hedging instruments) to hedge the interest rate risk and foreign currency risk (the hedged risk) arising in relation to its NZD senior bonds, GBP medium term notes and USD senior notes (the hedged items). These transactions have been designated into fair value hedges.

The following are recognised in profit or loss:

- The change in fair value of the hedging instruments; and
- The change in fair value of the underlying hedged items attributable to the hedged risk.

Once hedging is discontinued, the fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised through profit or loss from that date through to maturity of the hedged item.

Cash flow hedges

The subsidiary, Vector Limited has entered into interest rate swaps and cross currency interest rate swaps (the hedging instruments) to hedge the variability in cash flows arising from interest rate and foreign currency exchange rate movements in relation to its NZD floating rate notes, USD senior notes and GBP medium term notes.

The effective portion of changes in the fair value of the hedging instruments are recognised in other comprehensive income.

The following are recognised in profit or loss:

- Any gain or loss relating to the ineffective portion of the hedging instrument; and
- Fair value changes in the hedging instrument previously accumulated in other comprehensive income, in the periods when the hedged item is recognised in profit or loss.

Once hedging is discontinued, any cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss either:

- At the same time as the forecast transaction; or
- Immediately if the transaction is no longer expected to occur.

Fair value measurement hierarchy

Financial instruments measured at fair value are classified according to the following levels:

- Level 1:** Quoted prices (unadjusted) in active markets for identical assets or liabilities; or
- Level 2:** Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices); or
- Level 3:** Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Market rate sensitivity

All derivatives are measured at fair value. A change in the market data used to determine fair value will have an impact on the Groups financial statements.

The table above shows the sensitivity of the financial statements to the reasonably possible changes in the market data at reporting date.

Notes to the Financial Statements

21. DERIVATIVES AND HEDGE ACCOUNTING (continued)

Rights to offset

The subsidiary, Vector Limited enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master agreements. The ISDA agreements do not meet the criteria for offsetting in the balance sheet. This is because Vector Limited does not have any currently legally enforceable right to offset recognised amounts, as the right to offset is enforceable only on the occurrence of future events such as a default on the bank loans or other credit events.

Net derivatives position under ISDA agreements

	GROUP AND PARENT CARRYING AMOUNT	
	2014 \$000	2013 \$000
Derivative assets	598	11,008
Derivative liabilities	(245,130)	(228,396)
Net amount	(244,532)	(217,388)

22. FINANCIAL RISK MANAGEMENT

Policies

The subsidiary, Vector Limited has a comprehensive treasury policy, approved by the board of directors, to manage financial risks arising from business activity. The policy outlines the objectives and approach that Vector Limited applies to manage:

- Interest rate risk;
- Credit risk;
- Liquidity risk;
- Foreign exchange risk; and
- Funding risk.

For each risk type, any position outside the policy limits requires the prior approval of the board of directors. Each risk is monitored on a regular basis and reported to the board.

The Parent has a treasury policy approved by the trustees to manage the risks of financial instruments. The policy outlines the objectives and approach that the Trust will adopt in the treasury management processes. The policy outlines the objective and approach that the Trust applies to manage:

- Credit risk;
- Liquidity; and
- Operational risk;

22.1 Interest rate risk

GROUP

Interest rate exposure	< 1 YEAR \$000	1 - 2 YEARS \$000	2 - 5 YEARS \$000	> 5 YEARS \$000	TOTAL \$000
2014					
Interest rate exposure: borrowings	1,439,000	-	647,140	547,139	2,633,279
Interest rate exposure: committed borrowings	-	-	-	150,000	150,000
Derivative contracts:					
Interest rate swaps	(1,160,000)	295,000	560,000	305,000	-
Cross currency swaps	796,014	-	(98,875)	(697,139)	-
Net interest rate exposure	1,075,014	295,000	1,108,265	305,000	2,783,279
2013					
Interest rate exposure: borrowings	1,160,000	150,000	361,527	832,752	2,504,279
Derivative contracts:					
Interest rate swaps	(1,010,000)	(150,000)	960,000	200,000	-
Cross currency swaps	646,014	-	(98,875)	(547,139)	-
Net interest rate exposure	796,014	-	1,222,652	485,613	2,504,279

Notes to the Financial Statements

22. FINANCIAL RISK MANAGEMENT (continued)

22.1 Interest rate risk (continued)

Policies The Group is exposed to interest rate risk through its subsidiary Vector Limited's borrowing activities. The Parent has no borrowings.

Interest rate exposures are managed primarily by entering into derivative contracts. The main objectives are to minimise the cost of total borrowings, control variations in the interest expense of the borrowings from year to year, and where practicable to match the interest rate risk profile of the borrowings with the risk profile of the Group's assets.

The board of directors has set maximum and minimum limits for the net interest rate exposure profile and these have been met throughout both reporting periods.

22.2 Credit risk

Maximum exposure to credit risk – fair value	GROUP		PARENT	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000
Cash and cash equivalents	77,695	121,625	69,411	65,461
Trade receivables	147,287	149,289	519	560
Interest rate swaps	598	4,086	-	-
Cross currency swaps	-	6,578	-	-
Forward exchange contracts	-	344	-	-
Total credit risk exposure	225,580	281,922	69,930	66,021

Policies The Group and Parent is exposed to credit risk, in the normal course of business, from financial institutions, energy retailers, and customers. The main objective is to minimise financial loss as a result of counter party default.

The credit policies to manage this exposure include:

- The Group must approve exposure to financial institutions with a credit rating less than AA- for the Parent and A+ for the Vector Group;
- The Group sets limits and monitors exposure to financial institutions; and
- Exposure is spread across a range of financial institutions. Where there is credit exposure to large energy retailers and customers, the Group minimise its risk by performing credit evaluations and/or requiring a bond or other form of security.

22.3 Liquidity risk

Contractual cash flows maturity profile	GROUP				TOTAL CONTRACTUAL CASH FLOWS \$000
	PAYABLE <1 YEAR \$000	PAYABLE 1-2 YEARS \$000	PAYABLE 2-5 YEARS \$000	PAYABLE >5 YEARS \$000	
2014					
Non-derivative financial liabilities					
Distributions payable	64,799	-	-	-	64,799
Trade payables	160,479	-	-	-	160,479
Unclaimed distributions	2,060	2,548	-	-	4,608
Deferred consideration payable	1,500	-	-	-	1,500
Borrowings: interest	119,246	116,970	245,493	78,714	560,423
Borrowings: principal	51,564	250,000	1,200,479	928,899	2,430,942
Derivative financial assets/(liabilities)					
Cross currency swaps: inflow	(45,332)	(47,856)	(432,171)	(628,684)	(1,154,043)
Cross currency swaps: outflow	68,736	77,359	603,358	791,486	1,540,939
Forward exchange contracts: inflow	(2,796)	(180)	-	-	(2,976)
Forward exchange contracts: outflow	3,000	203	-	-	3,203
Net settled derivatives					
Interest rate swaps	35,326	23,260	24,323	2,279	85,188
Group contractual cash flows	458,582	422,304	1,641,482	1,172,694	3,695,062

Notes to the Financial Statements

22. FINANCIAL RISK MANAGEMENT (continued)

22.3 Liquidity risk (continued)

PARENT

Contractual cash flows maturity profile 2014	PAYABLE <1 YEAR \$000	PAYABLE 1-2 YEARS \$000	PAYABLE 2-5 YEARS \$000	PAYABLE > 5 YEARS \$000	TOTAL CONTRACTUAL CASH FLOWS \$000
Non-derivative financial liabilities					
Distributions payables	64,799	-	-	-	64,799
Trade payables and other creditors	541	-	-	-	541
Unclaimed distributions	2,060	2,548	-	-	4,608
Parent contractual cash flows	67,400	2,548	-	-	69,948
The above cash flows include					
Net principal payments	67,400	2,548	-	-	69,948
Total	67,400	2,548	-	-	69,948

GROUP

Contractual cash flows maturity profile 2013	PAYABLE <1 YEAR \$000	PAYABLE 1-2 YEARS \$000	PAYABLE 2-5 YEARS \$000	PAYABLE > 5 YEARS \$000	TOTAL CONTRACTUAL CASH FLOWS \$000
Non-derivative financial liabilities					
Distributions payables	61,277	-	-	-	61,277
Trade payables	152,054	-	-	-	152,054
Acquisitions consideration payable	68,717	-	-	-	68,717
Unclaimed distributions	1,942	2,236	-	-	4,178
Deferred consideration payable	-	-	1,500	-	1,500
Borrowings: interest	112,270	114,440	269,636	11,833	508,179
Borrowings: principle	-	150,000	1,171,526	1,182,753	2,504,279
Derivative financial assets/(liabilities)					
Cross currency swaps: inflow	(46,229)	(46,284)	(215,793)	(796,575)	(1,104,881)
Cross currency swaps: outflow	57,583	62,567	294,596	961,908	1,376,654
Forward exchange contracts: inflow	(16,625)	-	-	-	(16,625)
Forward exchange contracts: outflow	16,625	-	-	-	16,625
Net settled derivatives					
Interest rate swaps	44,461	38,226	50,865	3,129	136,681
Group contractual cash flows	452,075	321,185	1,572,330	1,363,048	3,708,638

PARENT

Contractual cash flows maturity profile 2013	PAYABLE <1 YEAR \$000	PAYABLE 1-2 YEARS \$000	PAYABLE 2-5 YEARS \$000	PAYABLE > 5 YEARS \$000	TOTAL CONTRACTUAL CASH FLOWS \$000
Non-derivative financial liabilities					
Distributions payables	61,277	-	-	-	61,277
Trade payables and other creditors	574	-	-	-	574
Unclaimed distributions	1,942	2,236	-	-	4,178
Parent contractual cash flows	63,793	2,236	-	-	66,029
The above cash flows include					
Net principal payments	63,793	2,236	-	-	66,029
Total	63,793	2,236	-	-	66,029

The above tables show the timing of non-discounted cash flows for all financial instrument liabilities and derivatives.

The cash flows for capital bonds, included in borrowings, are disclosed as payable between 2 and 5 years as the next election date set for the capital bonds is 15 June 2017. The bonds have no contractual maturity date.

Notes to the Financial Statements

22. FINANCIAL RISK MANAGEMENT (continued)

22.3 Liquidity risk (continued)

Policies The Group and Parent are exposed to liquidity risk where there is a risk that the Group may encounter difficulty in meeting its day to day obligations due to the timing of cash receipts and payments.

The objective is to ensure that adequate liquid assets and funding sources are available at all times to meet both short term and long term commitments. The board has set a minimum headroom requirement for committed facilities over the subsidiary Vector Limited's anticipated 18 month peak borrowing requirement.

At reporting date the Group has access to undrawn funds of \$396 million (2013: \$325 million).

22.4 Foreign exchange risk

Policies The subsidiary, Vector is exposed to exchange risk through its offshore borrowing activities.

Foreign exchange exposure is primarily managed through entering into derivative contracts. The board of directors requires that all foreign currency borrowings are hedged into NZD at the time of commitment to drawdown. Hence at each reporting date there is no significant exposure to foreign currency risk.

22.5 Funding risk

Policies Funding risk is the risk that the subsidiary, Vector will have difficulty refinancing or raising new debt on comparable terms as existing facilities. The objective is to spread the concentration of risk so that if an event occurs the overall cost of funding is not unnecessarily increased. Details of borrowings are shown in Note 20.

The board of directors has set maximum and minimum limits for the maturity profile of the debt and for the amount of debt that may mature in any one financial year and these have been met.

23. CASH FLOWS

Reconciliation of net profit/(loss) to net cash flows from/(used in) operating activities	NOTE	GROUP		PARENT	
		2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Net profit/(loss) for the period		169,444	204,243	112,681	108,785
Distribution to beneficiaries		(109,159)	(105,381)	(109,159)	(105,381)
Distributions payable		(3,522)	(3,404)	(3,522)	(3,404)
		56,763	95,458	-	-
Items classified as Investing activities					
Net loss/(gain) on disposal of PPE and software intangibles	5	3,030	4,704	1	-
Non-cash items					
Depreciation and amortisation		183,770	174,089	14	11
Non-cash portion of interest costs (net)		(4,473)	(1,495)	-	-
Fair value change on financial instruments		(5,993)	(57)	-	-
Associates (share of net profit/(loss))	12	(1,727)	(1,291)	-	-
Impairment of investment in associate	12	1,241	3,570	-	-
Increase/(decrease) in deferred tax		14,090	17,042	-	-
Increase/(decrease) in provisions		6,816	1,169	-	-
		193,724	193,027	14	11
Cash items not impacting net profit/(loss)					
Dividends received from associate		1,400	200	-	-
Changes in assets and liabilities					
Trade and other payables		1,864	8,581	(32)	(133)
Inventories		1,163	(199)	-	-
Trade and other receivables		1,616	4,793	43	(139)
Income tax		(7,439)	8,585	-	-
Distributions payable		3,522	3,404	3,522	3,404
Unclaimed distributions		430	203	430	203
		1,156	25,367	3,963	3,335
Net cash flows from/(used in) operating activities		256,073	318,756	3,978	3,346

Notes to the Financial Statements

24. EQUITY

24.1 Transactions with beneficiaries

Trust Distributions	The Trust's net distribution of \$335 per beneficiary will be paid on 24th September 2014 (2013: \$330). The Group recognises distributions as a payable in the financial statements on the date the dividend is declared.
Shares	Vector Limited's total number of authorised and issued shares is 1,000,000,000 (2013: 1,000,000,000). All ordinary issued shares are fully paid, have no par value and carry equal voting rights and equal rights to a surplus on winding up of the parent. At the reporting date, 4,384,372 shares (2013: 4,379,027) are held as treasury shares of which 139,449 (2013: 134,104) are allocated to the employee share purchase scheme.

24.2 Capital Management

Policies	The Group's objectives in managing capital are: <ul style="list-style-type: none">• To safeguard the ability of entities within the Group to continue as a going concern;• To provide an adequate return to shareholders by pricing products and services commensurate with the level of risk; and• Maintain an investment grade credit rating
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The Trust has taken Trustee's liability insurance as part of the Trust's risk management policy.

The subsidiary, Vector Limited manages and may adjust its capital structure in light of changes in economic conditions and for the risk characteristics of the underlying assets. To achieve this Vector Limited may:

- Adjust its dividend policy;
- Return capital to shareholders;
- Issue new shares; or
- Sell assets to reduce debt.

The subsidiary, Vector Limited primarily monitors capital on the basis of the net debt to net debt plus equity ratio.

The Group is not subject to any other externally imposed capital or financial covenant requirements.

24.3 Financial ratios

The net debt to net debt plus equity ratios at 30 June 2014 and 30 June 2013 were as follows:

Net debt to net debt plus equity ratio	GROUP	
	2014 \$000	2013 \$000
Current borrowings	200,314	-
Non-current borrowings	2,268,674	2,420,430
Total borrowings	2,468,988	2,420,430
Less cash and cash equivalents	(77,695)	(121,625)
Net debt	2,391,293	2,298,805
Total equity	2,307,787	2,258,462
Net debt plus equity	4,699,080	4,557,267
	50.9%	50.4%

Notes to the Financial Statements

24. EQUITY (continued)

24.4 Reserves

Hedge reserve

The cash flow hedge reserve records the effective portion of changes in the fair value of interest rate swaps that are designated as cash flow hedges.

The gain or loss relating to the ineffective portion is recorded in profit or loss within interest costs (net).

During the reporting period, \$63.2 million (2013: \$52.2 million) was transferred from the cash flow hedge reserve to interest expense.

Other reserves

Other reserves comprise:

- A share-based payment reserve relating to the employee share purchase scheme. When shares are vested to the employee, the related reserve is transferred to retained earnings.
- A foreign currency translation reserve to record exchange differences arising from the translation of foreign subsidiaries.
- A reserve recording the Group's share of its associates other comprehensive income.

25. RELATED PARTY TRANSACTIONS

			PARENT	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
Transactions with Vector Limited				
Receipt of dividend from Vector Limited			114,528	110,773
Payment of office rent to Vector Limited			19	17
Payment of call centre costs to Vector Limited			31	129
Payment of administration and other costs to Vector Limited			-	82
Transactions with subsidiaries, associates and other related companies.				
	GROUP		PARENT	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
Capital distribution received from Total Metering 2012 Limited (in liquidation)	45	2,757	-	-
Purchase of vegetation management services from Tree Scape Limited	3,911	4,482	-	-
Sales of operations and maintenance services to Kapuni Energy Joint Venture	1,659	1,869	-	-
Purchases of electricity and steam from Kapuni Energy Joint Venture	12,787	12,710	-	-
Administrative and other services provided to Kapuni Energy Joint Venture	70	70	-	-
Transactions with key management personnel				
Directors fees	981	856	-	-
Trustees remuneration	343	343	343	343
Executive officer remuneration	239	240	239	240
Salary and other short-term employee benefits (Vector Limited)	6,052	5,858	-	-
Redundancy and termination benefits	123	372	-	-
Trustees and Director's Remuneration				
W A A Cairns (Chairman)	90	90	90	90
W J Kyd (Deputy Chairman)	64	64	64	64
J A Carmichael – Trustee remuneration	63	63	63	63
J A Carmichael – Director remuneration	99	95	-	-
M J Buczkowski – Trustee remuneration	63	63	63	63
K A Sherry – Trustee remuneration	63	63	63	63
K A Sherry – Director remuneration	99	95	-	-
Directors fees paid to non-trustee directors of Vector Limited	783	666	-	-

Notes to the Financial Statements

25. RELATED PARTY TRANSACTIONS (continued)

Related parties	<p>The Trust is the majority shareholder of the subsidiary Vector Limited. Note 12 identifies all entities including associates, partnerships and joint ventures in which the Group has an interest. All of these entities are related parties of the subsidiary Vector Limited. Other than Vector Limited's directors themselves, there are no additional related parties with whom material transactions have taken place.</p> <p>Key management personnel includes Vector Limited directors' fees and remuneration of Vector Limited's Group CEO and the members of his Executive Team during the periods presented as well as the remuneration of the Parent's trustees and executive officer.</p> <p>The Group has paid remuneration to the trustees and to the directors of the subsidiary, Vector Limited during the reporting period as disclosed above.</p>
Tax losses	<p>Tax losses totalling \$1.0 million with a tax effect of \$0.3 million (2013: \$10.4 million with a tax effect of \$2.9 million) have been transferred during the period from various subsidiaries for utilisation by Vector Limited to partially offset against its 2013 taxable profits.</p> <p>The subsidiary Vector Limited made payments totalling \$0.3 million (2013: \$2.9 million) for the transfer of these losses.</p> <p>At reporting date the Parent owed the subsidiary Vector Limited \$Nil (2013: \$10,000).</p>
Guarantees	<p>The subsidiary, Vector Limited has provided guarantees on behalf of Vector Gas Limited and Vector Gas Contracts Limited for the sale and purchase of gas.</p> <p>Vector Limited has also provided guarantees for Advanced Metering Assets Limited and Advanced Metering Services Limited for metering services.</p> <p>Fees are payable for these guarantees based on market rates. The guarantees are all accounted for in accordance with NZ IFRS 4, <i>Insurance Contracts</i>, where a liability is recognised, if any, at the present value of expected future payments for claims incurred.</p>
Other	<p>The Group may transact on an arms' length basis with companies in which directors have a disclosed interest.</p> <p>All related party transactions during the period were made on normal commercial terms and no amounts owed by related parties have been written off or forgiven (2013: Nil).</p>

26. CONTINGENT LIABILITIES

Disclosures	<p>The subsidiary, Vector Limited's directors are aware of claims that have been made against entities of the Group and, where appropriate, have recognised provisions for these within note 17 of these financial statements.</p> <p>No material contingent liabilities have been identified (2013: Nil).</p>
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27. BUSINESS COMBINATIONS

Metering acquisition	<p>In the prior period, Advanced Metering Assets Limited, a wholly owned subsidiary of the Group, acquired the business and assets of the Contact Energy Limited gas metering systems business.</p> <p>The fair value of the assets and liabilities acquired have now been finalised, and there is no change to the provisional values reported in the 2013 Annual Report.</p> <p>A payment of \$59.8 million exclusive of GST was made in the current period in respect of this acquisition.</p>
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28. SUBSEQUENT EVENTS

Approval	<p>The financial statements were approved by the trustees on 22 August 2014.</p>
Final dividend	<p>On 22 August 2014, the Vector board declared a final dividend for the year ended 30 June 2014 of 7.75 cents per share (2013: 7.75 cents per share).</p> <p>On 22 August 2014, the trustees resolved to make a net distribution to beneficiaries of \$335 (2013: \$330) per beneficiary.</p> <p>No adjustment is required to these financial statements in respect of this event.</p>
Regulatory announcements	<p>In July 2014 the Commerce Commission released its draft price-quality paths for electricity distributors. The draft default price-quality paths cover the period 2015-2020, and will take effect from 1 April 2015. Also in July 2014 the Commerce Commission released its draft decision on the Weighted Average Cost of Capital (WACC) input methodology to be used for regulation of electricity lines and gas pipeline services. The draft decision proposes using the 67th percentile of the WACC range rather than the current 75th percentile.</p> <p>No adjustment is required to these financial statements in respect of these events.</p>

Notes to the Financial Statements

29. ADDITIONAL DISCLOSURES

Electricity regulation claw back

On 30 November 2012, the Commerce Commission announced the reset of the default price-quality paths for 16 electricity distributors, one of which is the Vector electricity distribution business.

The new default price-quality paths took effect from 1 April 2013 and required an average reduction of 10% in Vector's electricity distribution prices in the regulatory year ended 31 March 2014. The Commerce Commission applied claw back for the over recovery of revenue for the regulatory year ended 31 March 2013 given that prices had already been set for that period prior to the Commerce Commission's 30 November 2012 reset announcement.

The claw back has been effected through a price adjustment for the regulatory year to 31 March 2015. The amount of the claw back is estimated to be \$15 million which will impact revenues reported for the financial period ended 30 June 2014 (3 months) and 30 June 2015 (9 months).

30. COMPARATIVE INFORMATION

Disclosure Certain comparative information has been reclassified to conform with the current year's presentation.

31. GUIDELINES OF ACCESS TO INFORMATION

Disclosure We wish to advise that, pursuant to paragraph 10.2 of the Guidelines of Access to Information by Beneficiaries of Electricity Community and Consumer Trusts, no requests for information were received by the trust office during the reporting period.

Year	No. of Requests Received	Costs incurred to process those requests and any recoveries made (includes external costs incurred and an allocation of internal costs based on Official Information Act guidelines)	No. of Trust decisions which were subject to review	Summary of outcome of those reviews and costs incurred in reviews
2014	Nil	\$Nil	Nil	N/A
2013	2	\$20,000	Nil	N/A