AUCKLAND ENERGY CONSUMER TRUST

CHAIRMAN'S REPORT

FOR THE YEAR ENDED 30 JUNE 2008

Auckland Energy Consumer Trust

On behalf of the Trustees of the Auckland Energy Consumer Trust I am pleased to report on the activities of the Trust for the year ended 30 June 2008.

Activities of the Trust

In this year we have seen a solid result from our majority shareholding in Vector. The company reported that its underlying business performance continued to grow over the past financial year.

Of particular note, the Trust was active in considering and ultimately approving Vector's sale of its Wellington electricity network; and in monitoring and making submissions regarding the Commerce Commission's acceptance of the company's administrative settlement. The Trust was also active on behalf of its beneficiaries in making submissions on proposed regulations to the gas industry, which affects the company's business, and in making submissions to the Royal Commission of Inquiry on Auckland Governance and on the Commerce Amendment Bill.

Financial matters

The income of the Trust increased in line with a slightly higher return from the Trust's investment in Vector. Dividends received by the Trust for the year ended 30 June 2008 were $97.63 million. This is an increase of $3.75 million over the dividends received for the previous year.

Operating expenditure for the Trust increased from $3.5 million in the previous year to $4.8 million. This reflects costs of the implementation of producing accounts compliant with International Financial Reporting Standards (IFRS), distributing the dividend directly to beneficiaries; the continuation of the expanded communication programme which began last year; and costs incurred in regulatory and strategic matters.

Annual Dividend

The dividend distribution to income beneficiaries took place on 20 September 2007. The total amount distributed was $96 million, paid as a $320 dividend to 302,095 eligible income beneficiaries. The $320 dividend payment was a record amount for beneficiaries, and an increase on the 2006 dividend of $310.

Appointment of auditors

The Trustees are recommending that Grant Thornton be retained as auditors of the AECT for the coming year. Grant Thornton were first appointed as auditors for the Trust in 2005 and are available to continue their work for the Trust. A motion appointing Grant Thornton as auditors will be put to the Annual Meeting of beneficiaries.

Remuneration of auditors

In accordance with section 158C (3) of the Electricity Act 1992, 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.

Acknowledgements

This has been another strong year for the Trust, which is reflected in the sustained value of the annual dividend paid to income beneficiaries.

On behalf of the Trustees and the beneficiaries, I extend thanks to all those who have contributed to the Trust's success, not just for this year but for the long future of the Trust and our beneficiaries.

Warren Kyd
Chairman
19 September 2008

AUCKLAND ENERGY CONSUMER TRUST

2008

FINANCIAL STATEMENTS

Financial Statements
for the year ended 30 June 2008

CONTENTS

2008 FINANCIAL STATEMENTS

The Trustees are pleased to present the financial statements of the group for the year ended 30 June 2008.

For and on behalf of Trustees dated 19/9/08

Chairman

Deputy Chairman

Directory

Principal Business

Holding shares in Vector Limited for the benefit of Vector Limited's customers as income beneficiaries and the Auckland Territorial Local Authorities as residual capital beneficiaries. The Trust's purpose with regard to income beneficiaries is to receive dividends from Vector Limited and to distribute to consumers.

Date Settled

27 August 1993

Trustees

Warren J Kyd (Chairman)
Michael J Buczkowski (Deputy Chairman)
James A Carmichael
Shale Chambers
Karen A Sherry

Executive Officer

Ian R Ward

Termination Date

27 August 2073

Accountant

Staples Rodway Limited
P O Box 3899
Auckland

Auditor

Grant Thornton
P O Box 1961
Auckland

Legal Advisor

David Bigio
P O Box 4338
Auckland

Banker

ANZ National Bank of New Zealand Limited
P O Box 6334
Auckland

Grant Thornton

Auditors report

Grant Thornton House
152 Fanshawe Street
PO Box 1961
Auckland 1140
New Zealand

T +64 9 308 2570
F +64 9 309 4892
E service@gtak.co.nz
W www.grantthornton.co.nz

To the beneficiaries of Auckland Energy Consumer Trust

We have audited the financial statements on pages 6 to 63. The financial statements provide information about the past financial performance and cash flows of the trust and group for the year ended 30 June 2008 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 12 to 23.

Trustees' Responsibilities

The Trustees are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the trust and group as at 30 June 2008 and of their financial performance and cash flows for the year ended on that date.

Auditors' Responsibilities

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

Basis of Opinion

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

- the significant estimates and judgements made by the Trustees in the preparation of the financial statements; and

- whether the accounting policies used are appropriate to the trust's and group's circumstances, consistently applied and adequately disclosed.

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

Other than in our capacity as auditors, we have no relationship with or interests in the trust or its subsidiary.

Unqualified Opinion

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

In our opinion:

- proper accounting records have been kept by the trust as far as appears from our examination of those records; and

- the financial statements on pages 6 to 63:

  - comply with generally accepted accounting practice in New Zealand; and
  - give a true and fair view of the financial position of the trust and group as at 30 June 2008 and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 19 September 2008 and our unqualified opinion is expressed as at that date.

Grant Thornton

Grant Thornton
Auckland
New Zealand

Income Statement
for the year ended 30 June 2008

		GROUP		PARENT	
	NOTE	2008 $000	2007 $000	2008 $000	2007 $000
In respect of continuing operations:					
Operating revenue	3	1,180,497	1,143,416	-	-
Other income	3	1,530	2,382	97,645	93,890
Total income		1,182,027	1,145,798	97,645	93,890
Electricity transmission expenses		(104,764)	(91,026)	-	-
Gas purchases and production costs		(304,275)	(320,173)	-	-
Network and asset maintenance expenses		(82,106)	(83,433)	-	-
Indirect expenses		(147,740)	(153,530)	(4,795)	(3,552)
Operating expenditure	4	(638,885)	(648,162)	(4,795)	(3,552)
Earnings before interest, income tax, depreciation and amortisation (EBITDA)		543,142	497,636	92,850	90,338
Depreciation and amortisation	5	(140,369)	(129,055)	(8)	(10)
Operating surplus before interest and income tax		402,773	368,581	92,842	90,328
Finance income	6	6,384	6,296	2,716	2,352
Finance costs	6	(212,240)	(191,855)	-	-
Share of net surplus from associates	17	1,114	656	-	-
Operating surplus before income tax		198,031	183,678	95,558	92,680
Income tax (expense)/benefit	7	(50,404)	16,341	-	17
Operating surplus attributable to continuing activities		147,627	200,019	95,558	92,697
Operating surplus attributable to discontinued activities (net of tax)	1	22,635	36,311	-	-
Operating surplus		170,262	236,330	95,558	92,697
Operating surplus attributable to minority interests		(48,849)	(62,296)	-	-
Operating surplus attributable to the shareholders of the parent		121,413	174,034	95,558	92,697

Statement of Changes in Trustees Funds
for the year ended 30 June 2008

	NOTE	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
Transfer to equity on net change in fair value of cash flow hedges (net of tax)		**(70,413)**	63,796	-	-
Transfer to foreign currency translation reserve		**129**	-	-	-
Net (expense)/income recognised directly in equity		**(70,284)**	63,796	-	-
Operating surplus		**170,262**	236,330	**95,558**	92,697
Total recognised income and expenses		**99,978**	300,126	**95,558**	92,697
Distributions:					
Distributions to beneficiaries		**(96,685)**	(92,675)	**(96,685)**	(92,675)
Dividends available for distribution – B/fwd		**47,454**	44,730	**47,454**	44,730
Dividends available for distribution – C/fwd		**(47,373)**	(47,454)	**(47,373)**	(47,454)
Supplementary dividends		**(805)**	(662)	-	-
Foreign investor tax credits		**805**	662	-	-
Dividends to minorities		**(39,228)**	(34,901)	-	-
		(35,854)	169,826	**(1,046)**	(2,702)
Trustees Funds at beginning of the period		**1,939,966**	1,770,140	**303,835**	306,537
Trustees Funds at end of the period		**1,904,112**	1,939,966	**302,789**	303,835
Total recognised income and expenses attributable to:					
Trustee Funds		**66,661**	220,898	**95,558**	92,697
Minority interests		**33,317**	79,228	-	-
Total recognised income and expenses		**99,978**	300,126	**95,558**	92,697
Equity at end of the period represented by:					
Hedge reserve		**(1,329)**	51,552	-	-
Foreign currency translation reserve		**97**	-	-	-
Retained earnings		**1,422,548**	1,397,739	**302,789**	303,835
Trustees' funds		**1,421,316**	1,449,291	**302,789**	303,835
Minority interests		**482,796**	490,675	-	-
Trustees Funds at end of the period	11	**1,904,112**	1,939,966	**302,789**	303,835

Balance Sheet

as at 30 June 2008

	NOTE	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
CURRENT ASSETS					
Cash and cash equivalents		**107,318**	60,438	**53,737**	53,430
Receivables and prepayments	12	**182,209**	185,306	**1,671**	985
Derivative financial instruments	29	**1,304**	1,945	**-**	-
Operations held for sale	13	**634,948**	-	**-**	-
Inventories	15	**7,376**	9,062	**-**	-
Income tax	8	**44,694**	23,503	**-**	-
Intangible assets	19	**-**	2,639	**-**	-
Total current assets		**977,849**	282,893	**55,408**	54,415
NON-CURRENT ASSETS					
Receivables and prepayments	12	**1,469**	4,716	**-**	-
Derivative financial instruments	29	**40,294**	66,186	**-**	-
Deferred tax	9	**1,137**	1,137	**-**	-
Investments in subsidiaries	16	**-**	-	**300,000**	300,000
Investments in associates	17	**33,504**	28,259	**-**	-
Intangible assets	19	**1,593,566**	1,712,546	**-**	-
Property, plant and equipment	20	**3,386,322**	3,826,147	**6**	20
Total non-current assets		**5,056,292**	5,638,991	**300,006**	300,020
Total assets		**6,034,141**	5,921,884	**355,414**	354,435
CURRENT LIABILITIES					
Operations held for sale	13	**68,931**	-	**-**	-
Dividends received – available for distribution	24	**47,373**	47,454	**47,373**	47,454
Payables and accruals	21	**183,979**	219,611	**765**	495
Provisions	22	**34,947**	27,407	**4,487**	2,651
Derivative financial instruments	29	**3,441**	33,832	**-**	-
Borrowings	28	**758,578**	327,592	**-**	-
Total current liabilities		**1,097,249**	655,896	**52,625**	50,600
NON-CURRENT LIABILITIES					
Payables and accruals	21	**23,710**	7,502	**-**	-
Derivative financial instruments	29	**69,355**	110,906	**-**	-
Borrowings	28	**2,404,995**	2,627,136	**-**	-
Deferred tax	10	**534,720**	580,478	**-**	-
Total non-current liabilities		**3,032,780**	3,326,022	**-**	-
Total liabilities		**4,130,029**	3,981,918	**52,625**	50,600
EQUITY					
Trustees funds		**1,421,216**	1,449,291	**302,789**	303,835
Minority interests		**482,796**	490,675	**-**	-
Total equity	11	**1,904,112**	1,939,966	**302,789**	303,835
Total equity and liabilities		**6,034,141**	5,921,884	**354,779**	354,435

Cash Flow Statement

for the year ended 30 June 2008

	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
OPERATING ACTIVITIES				
Cash provided from:				
Receipts from customers	**1,325,858**	1,310,651	**-**	-
Interest portion of repayments on finance leases	**120**	120	**-**	-
Interest received on deposits	**6,209**	6,091	**2,661**	2,267
Income tax refund	**145**	5,212	**-**	169
Dividends received	**-**	263	**97,630**	93,875
Miscellaneous income	**15**	15	**15**	15
	1,332,347	1,322,352	**100,306**	96,326
Cash applied to:				
Payments to suppliers and employees	**(686,860)**	(674,644)	**(5,144)**	(3,225)
Distribution to beneficiaries	**(94,855)**	(90,171)	**(94,855)**	(90,170)
Income tax paid	**(68,082)**	(64,226)	**-**	-
Interest paid on finance leases	**(753)**	(682)	**-**	-
Interest paid	**(248,077)**	(225,605)	**-**	-
	(1,098,627)	(1,055,328)	**(99,999)**	(93,395)
Net cash flows from operating activities	**233,720**	267,024	**307**	2,931
INVESTING ACTIVITIES				
Cash provided from:				
Advances repaid by subsidiaries	**-**	-	**-**	-
Proceeds from sale of investments	**-**	8,000	**-**	-
Proceeds from sale of property, plant and equipment and software	**4,114**	4,362	**-**	(20)
Receipts from loans repaid	**263**	135	**-**	-
Refund of security deposits	**101**	-	**-**	-
Capital portion of repayments on finance leases	**12**	11	**-**	-
	4,490	12,508	**-**	(20)
Cash applied to:				
Advances to subsidiaries	**-**	-	**-**	-
Purchase and construction of property, plant and equipment and software	**(232,757)**	(262,596)	**-**	-
Purchase of investments in associates	**(4,131)**	(17,015)	**-**	-
Issue of security deposits	**(40)**	(101)	**-**	-
	(236,928)	(279,712)	**-**	-
Net cash flows (used in) investing activities	**(232,438)**	(267,204)	**-**	-

Cash Flow Statement (continued)

for the year ended 30 June 2008

	GROUP		PARENT	
	2008 $000	2007 $000	2008 $000	2007 $000
FINANCING ACTIVITIES				
Cash provided from/(applied to):				
Proceeds from borrowings	**925,610**	660,172	**-**	-
Repayment of borrowings	**(834,014)**	(615,000)	**-**	-
Debt raising costs incurred	**(4,814)**	(7,595)	**-**	-
Capital portion of payments under finance leases	**(1,956)**	(2,084)	**-**	-
Dividends paid to minority interests	**(39,228)**	(34,901)	**-**	-
Net cash flows used in financing activities	**45,598**	592	**-**	-
Net increase in cash and cash equivalents	**46,880**	412	**307**	2,911
Cash and cash equivalents at beginning of the period	**60,438**	60,026	**53,430**	50,519
Cash and cash equivalents at end of the period	**107,318**	60,438	**53,737**	53,430

Cash Flow Statement (continued)

for the year ended 30 June 2008

Cash and cash equivalents are represented entirely by bank balances.

	NOTE	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
RECONCILIATION OF OPERATING SURPLUS TO NET CASH FLOWS FROM OPERATING ACTIVITIES					
Operating surplus		**170,262**	236,330	**95,558**	92,697
Distribution to beneficiaries		**(96,685)**	(92,675)	**(96,685)**	(92,675)
Dividends received – available for distribution		**81**	(2,724)	**81**	(2,724)
Operating surplus		**73,658**	140,931	**(1,046)**	(2,702)
ITEMS CLASSIFIED AS INVESTING ACTIVITIES					
Net loss on write-off of property, plant and equipment and software		**8,707**	9,212	**6**	4
		8,707	9,212	**6**	4
NON-CASH ITEMS					
Depreciation and amortisation		**154,910**	146,635	**8**	10
Non-cash portion of interest expense		**7,292**	4,169	**-**	-
Increase/(decrease) in deferred tax liability		**11,665**	(48,541)	**-**	-
Increase/(decrease) in provisions		**5,792**	(18,823)	**-**	-
Equity earnings of associates	17	**(1,114)**	(656)	**-**	-
		178,545	82,784	**8**	10
MOVEMENT IN WORKING CAPITAL					
(Decrease)/increase in payables and accruals		**(4,295)**	33,932	**276**	251
Decrease in inventory		**1,686**	7,159	**-**	-
(Increase)/decrease in receivables and prepayments		**(6,939)**	656	**(686)**	(12)
Increase in dividends received – available for distribution		**(81)**	2,724	**(81)**	2,724
Increase in unclaimed dividends		**1,830**	2,505	**1,830**	2,505
Increase in income tax assets		**(19,391)**	(12,879)	**-**	151
		(27,190)	34,097	**1,339**	5,619
Net cash flows from operating activities		**233,720**	267,024	**307**	2,931

Statement of Accounting Policies

or the year ended 30 June 2008

BASIS OF PREPARATION

Auckland Energy Consumer Trust (the "Trust") 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. The financial statements of the Trust have been prepared in accordance with the Financial Reporting Act 1993.

Auckland Energy Consumer Trust is a Discretionary Trust under the Trustee Act 1956.

STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with NZ GAAP. They comply with New Zealand equivalents to IFRSs, and other applicable Financial Reporting Standards, as appropriate. Compliance with New Zealand equivalents to IFRSs ensures that the financial statements also comply with International Financial Reporting Standards. This also ensures compliance with the Electricity Act 1992 and Amendments that requires financial statements comply with NZ GAAP. The Trust is a non-profit orientated entity.

The accounting policies have been consistently applied by the Trust to all periods in these financial statements and in preparing the opening NZ IFRS balance sheet at 1 July 2006 for the purpose of transition to NZ IFRS. Comparatives for the year ended 30 June 2007 have been restated accordingly (note 34).

The financial statements for Auckland Energy Consumer Trust (the parent) and consolidated financial statements are presented. The consolidated financial statements comprise the Trust and its subsidiaries (the group) and the group's share of any interest in associates, partnerships and joint ventures.

MEASUREMENT BASE

The financial statements have been prepared on the historical cost basis except for the following items, which are measured at fair value:

- the identifiable assets, liabilities and contingent liabilities acquired in a business combination, explained further below; and
- financial instruments, explained further below.

FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements are presented in New Zealand dollars ($), which is the parent's functional currency. All financial information presented in New Zealand dollars has been rounded to the nearest thousand, unless otherwise stated.

JUDGEMENT USED IN APPLYING ACCOUNTING POLICIES AND SOURCES OF ESTIMATION UNCERTAINTY

The preparation of these financial statements in compliance with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions have been based on historical experience and other factors therefore believed to be reasonable. These estimated assumptions have formed the basis for making judgements on the carrying values of some assets and liabilities. 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 any future periods affected. In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have had a significant effect on the amounts recognised in the financial statements are described below.

Critical judgements and significant estimates and assumptions used in applying accounting policies:

Revenue recognition

The timing of customer payments for services does not always coincide with the timing of delivery of these services. For example, customers may pay for services some time after the services are delivered. Billing of customers may be based on estimated usage and differences washed up in subsequent periods. Customers may also prepay for services. Judgement is therefore required in estimating when revenue is to be recognised. Where the relationship between the payments and multiple services delivered under the related contract is not immediately clear, management must apply judgement in unbundling elements of the contract and allocating payments to the respective services before applying the revenue recognition accounting policy.

Accrual accounting

Management must make judgements when making estimates of accrued revenue and expenditure which relate to past transactions occurring within the current financial year but for which the actual revenue or expenditure incurred is not known at the time the financial statements are prepared. Management assesses the available information relating to the period, examines past trends and other external evidence to reach an estimate of the revenue or expenditure to accrue. Where the group's accounting policies require revenue to be accrued on a percentage of completion basis, management apply judgement to assess percentage of completion.

Statement of Accounting Policies

for the year ended 30 June 2008

JUDGEMENT USED IN APPLYING ACCOUNTING POLICIES AND SOURCES OF ESTIMATION UNCERTAINTY (continued)

Valuation of goodwill

The carrying value of goodwill is assessed at least annually to ensure that it is not impaired. Performing this assessment generally requires management to estimate future cash flows to be generated by cash generating units or groups of cash generating units to which goodwill has been allocated. Estimating future cash flows entails making judgements including 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. Note 19 of these financial statements provides more information surrounding the assumptions management have made in this area.

Accounting for property, plant and equipment and finite-lived intangible assets

On initial recognition of items of property, plant and equipment and finite-lived intangible assets, judgements must be made about whether costs incurred relate to bringing an asset to working condition for its intended use, and therefore are appropriate for capitalisation as part of the cost of the asset, or whether they should be expensed as incurred. Thereafter, judgement is required to assess whether subsequent expenditure increases the future economic benefits to be obtained from that asset and is therefore also appropriate for capitalisation or whether such expenditure should be treated as maintenance and expensed.

The determination of the appropriate useful life for a particular asset requires management to make judgements about, among other factors, the expected period of service potential of the asset, the likelihood of the asset becoming obsolete as a result of technological advances, and the likelihood of the group ceasing to use the asset in its business operations.

Assessing whether individual assets or a grouping of related assets (which generate cash flows co-dependently) are impaired may involve estimating the future cash flows that those assets are expected to generate. This will in turn involve assumptions, including rates of expected revenue growth or decline, expected future margins and the selection of an appropriate discount rate for discounting future cash flows.

Provisions and contingencies

Preparation of the financial statements requires management to make estimates in order to provide for potential liabilities. This involves making judgements about the likelihood of an amount becoming payable, estimation of the quantum of potential obligations based on available information and estimating when such obligations are likely to be settled. Where a variety of possible outcomes exist, management must apply judgement in assessing the probability that any given outcome may occur.

Valuation of financial instruments

The fair value of financial instruments is determined based on quoted market prices, where available, or on estimates using present values or other valuation techniques. Those techniques are affected by the assumptions used, including discount rates and estimates of future cash flows. Where market prices are not readily available, fair value is based either on estimates obtained from independent experts or quoted market prices of comparable instruments. In that regard, the derived fair value estimates cannot be substantiated by comparison with independent markets and, in many cases, could not be realised immediately.

Statement of Accounting Policies
for the year ended 30 June 2008

SIGNIFICANT ACCOUNTING POLICIES

The following specific accounting policies that materially affect the measurement of profit or loss, balance sheet items and cash flows have been applied consistently to all periods presented in the financial statements and consistently by group entities.

A) BASIS OF CONSOLIDATION

Subsidiaries

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

Associates

Associates are entities in which the group has significant influence but not control over the operating and financial policies. The group's share of the net surplus of associates is recognised in the income statement after adjusting for differences, if any, between the accounting policies of the group and the associates. The group's share of any other gains and losses of associates charged directly to equity is recognised as a component of total recognised revenues and expenses in the statement of changes in equity. Dividends received from associates are credited to the carrying amount of the investment in associates in the consolidated financial statements.

Joint ventures

Joint ventures are contractual arrangements with other parties which establish joint control for each of the parties over the related operations, assets or entity. The group is jointly and severally liable in respect of costs and liabilities, and shares in any resulting output. Where the joint venture is not itself a separate legal entity, the group's share of its assets, liabilities, revenues and expenses is incorporated in the separate financial statements of the subsidiary company which directly participates as a venturer in the jointly-controlled assets or operations. No further consolidation adjustments are then required.

Partnerships

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

Acquisition or disposal during the period

Where an entity becomes or ceases to be a part of the group during the period, the results of the entity are included in the consolidated results from the date that control or significant influence commenced or until the date that control or significant influence ceased. When an entity is acquired all identifiable assets, liabilities and contingent liabilities are recognised at their fair value at acquisition date. The fair value does not take into consideration any future intentions by the group. All equity and debt raising costs incurred in relation to the acquisition of a subsidiary or a group of assets are accounted for in accordance with the accounting policy for financial instruments. Where an entity or a group of assets within an entity is held for sale, that entity or group of assets is recognised at the lower of their current carrying amount and fair value less costs to sell, and when subsequently disposed of, the gain or loss recognised in the income statement is calculated as the difference between the sale price less costs to sell and the carrying amount of the entity or group of assets and related goodwill.

Goodwill arising on acquisition

As part of its transition to NZ IFRS, the group elected not to restate any business combinations that occurred prior to 1 July 2006. Accordingly, goodwill in respect of acquisitions prior to 1 July 2006 represents the amount recognised previously under NZ GAAP.

For acquisitions on or after 1 July 2006, goodwill arising on acquisition of a subsidiary or associate represents the excess of the purchase consideration over the fair value of the identifiable assets, liabilities and contingent liabilities acquired. Goodwill is measured at cost less accumulated impairment losses. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment.

Transactions eliminated on consolidation

The effects of intra-group transactions are eliminated in preparing the consolidated financial statements. In the separate financial statements of the parent, where dividends are received from subsidiaries or associates that exceed the parent's share of that investee's post-acquisition earnings on consolidation, that excess is netted off the parent's investment in that subsidiary or associate. This adjustment is eliminated on consolidation.

Intra-group advances to and from subsidiaries are recognised at fair value being amortised cost within current assets and current liabilities in the separate financial statements of the parent. Advances to subsidiaries from the parent are repayable on demand. All intra-group advances are eliminated on consolidation. Any interest income and interest expense incurred on these advances is eliminated in the income statement on consolidation.

SIGNIFICANT ACCOUNTING POLICIES (continued)

B) *DETERMINATION OF FAIR VALUES AS A RESULT OF A BUSINESS COMBINATION*

A number of the group's accounting policies and disclosures require the determination of fair value for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is established for distribution systems on the basis of depreciated replacement cost and for other property, plant and equipment on the basis of market value.

Gas entitlements

The fair value of gas entitlements recognised as a result of a business combination is based on the amount that gas purchase contracts could be exchanged between knowledgeable, willing parties in an arms' length transaction measured by comparison of the purchase price in the contract against market purchase prices at the date of the business combination.

C) *REVENUE*

Sale of goods

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances and excise and customs import duties. Revenue is recognised when the significant risks and rewards of ownership of the goods have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably and there is no continuing management involvement with the goods.

When the group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission made by the group.

Sale of services

Sales of services are recognised as the services are delivered or to reflect the percentage completion of the related services where delivered over time.

Capital contributions

Third party contributions towards the construction of property, plant and equipment are recognised in the income statement to reflect the percentage completion of construction of those related items of property, plant and equipment. Contributions received in excess of those recognised in the income statement are recognised as deferred income in the balance sheet.

Dividend income

Dividend income is recognised in other income on the date that the group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Interest Revenue

Interest revenue is recognised as it accrues.

D) *GOODS AND SERVICES TAX (GST)*

Although the parent is registered for GST, the financial statements of the parent have been prepared inclusive of GST, with the exception of ETNZ Secretary Fees and the Vector reimbursements for Project Expenses. Assets and liabilities are similarly stated inclusive of GST for the parent.

The group's income statement and statement of cash flows have been prepared so that all components, other than the Trust components (with the exception of ETNZ secretariat fees and the Vector reimbursements for the Project expenses), are stated exclusive of GST. All items in the group's balance sheet, other than the Trust components (with the exception of ETNZ secretariat fees and the Vector reimbursements for the Project expenses), are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

E) *GOVERNMENT GRANTS*

Government grants are recognised initially as deferred income when there are reasonable assurances that they will be received and that the group will comply with the conditions associated with the grant. Grants that compensate the group for expenses incurred are recognised in the income statement on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the group for the cost of items of property, plant and equipment are recognised in the income statement on a systematic basis through a reduction in depreciation over the useful life of the items.

F) *FINANCE INCOME AND EXPENSES*

Finance income comprises interest income on funds invested, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets through profit or loss, foreign currency gains and gains on hedging instruments that are recognised in profit or loss. Finance income is recognised as it accrues.

SIGNIFICANT ACCOUNTING POLICIES (continued)

FINANCE INCOME AND EXPENSES (continued)

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets (except for trade receivables), losses on the disposal of available-for-sale financial assets and losses on hedging instruments that are recognised in profit or loss. Borrowing costs other than those capitalised to qualifying property, plant and equipment are recognised in the income statement using the effective interest rate.

F) INCOME TAX

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Income tax assets and liabilities are the expected tax payable or receivable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance date, and any adjustment to tax payable or receivable in respect of previous years. During the financial period, the income tax liability or asset is estimated based on the forecast effective tax rate for that entire financial period.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit and differences relating to investments in subsidiaries, associates and joint ventures to the extent that the group is able to control the timing of reversal of the temporary differences and they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the balance date.

Deferred tax assets including unutilised tax losses are recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each balance date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

G) FOREIGN CURRENCY TRANSLATION

Transactions in foreign currencies are translated to the respective functional currencies of group entities at exchange rates at the dates of the transactions unless transactions are hedged by foreign currency derivative instruments. Foreign currency differences arising on translation are recognised in the income statement. At balance date foreign monetary assets and liabilities are translated at the functional currency closing rate, and exchange variations arising from these translations are included in the income statement.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at historic cost are not retranslated at balance date.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

The assets and liabilities of foreign operations, including fair value adjustments arising on acquisition, are translated to New Zealand dollars at exchange rates at the balance date with the difference taken to the foreign currency translation reserve. The income and expenses of foreign operations are translated to New Zealand dollars either at exchange rates at the dates of the transactions or at a period average exchange rate which approximates to the actual exchange rates during that period.

H) EMPLOYEE BENEFITS

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement when they are due.

Liabilities arising in respect of wages and salaries, annual leave, sick leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled.

Termination benefits

Termination benefits are recognised as an expense when the group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus plans if the group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

An accrual is recognised for accumulating benefits which remain unused at balance date.

Statement of Accounting Policies

for the year ended 30 June 2008

SIGNIFICANT ACCOUNTING POLICIES (continued)

I) *DISCONTINUED OPERATIONS*

A discontinued operation is a component of the group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. The criteria are met when the operation is available for immediate sale subject only to usual sale conditions for such operations and its sale is highly probable. When an operation is classified as a discontinued operation, the comparative income statement is restated as if the operation had been discontinued from the start of the comparative period.

J) *SEGMENT REPORTING*

An operating segment is a distinguishable component of the group whose operating results are regularly reviewed by the group's chief operating decision makers in order to assess performance and make decisions about resources to be allocated to the segment.

K) *INVENTORIES*

Inventories are assets held for sale in the ordinary course of business.

Inventories are measured at lower of cost or net realisable value. The cost of inventories is determined on a first-in-first-out or weighted average cost basis and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price less the estimated costs of completion and selling expenses.

Gas contracts and prepaid gas

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

Where volumes of gas are advanced under a swap agreement, the Vector group recognises an estimated liability for the future obligation to return gas at a later date. Fees associated with gas advances are amortised to the income statement over the expected life of the contract.

L) *IDENTIFIABLE INTANGIBLE ASSETS*

Goodwill

Goodwill is allocated to the group's cash-generating units (CGUs) or groups of CGUs, being the lowest level at which the goodwill is monitored for internal management purposes. Goodwill is then tested annually for impairment against the recoverable amount of the CGUs or groups of CGUs to which goodwill has been allocated.

Gas entitlements

Gas entitlements acquired as a result of a business combination are initially recognised at fair value and are amortised to the income statement on the basis of consumption of the gas to which they relate.

Software

Software that is not integral to the functionality of the related hardware is treated as an intangible asset. It is amortised on a straight line basis over its useful life, commencing on the date it is brought into use. Software assets which are integral to the operation of the related hardware are classified as computer equipment within property, plant and equipment. Software has a useful life of between 2 and 10 years.

M) *PROPERTY, PLANT AND EQUIPMENT*

Property, plant and equipment are tangible assets expected to be used during more than one financial period and include spares held for the servicing of other property, plant and equipment owned by the group.

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

The initial cost of self-constructed property, plant and equipment includes the cost of all materials used in construction, direct labour on the project, financing costs that are attributable to the project, costs of ultimately dismantling and removing the items and restoring the site on which they are located (where an obligation exists to do so) and an appropriate proportion of the other directly attributable overheads incurred in bringing the items to working condition for their intended use. Financing costs that would have been avoided if the expenditure on qualifying assets had not been made are capitalised while the construction activities are in progress. Costs cease to be capitalised as soon as the property, plant and equipment is ready for productive use and do not include any costs of abnormal waste.

Uninstalled property, plant and equipment are stated at the lower of cost and estimated recoverable amount. Estimated recoverable amount is the greater of the estimated amount from the future use of the property, plant and equipment and its ultimate disposal, and its fair value less costs to sell.

SIGNIFICANT ACCOUNTING POLICIES (continued)

PROPERTY, PLANT AND EQUIPMENT (continued)

Property, plant and equipment is subsequently measured at cost less, accumulated depreciation and impairment losses. The carrying amount of property, plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from those assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to present values in determining recoverable amounts.

The costs of distribution systems, distribution land and distribution buildings forming part of property, plant and equipment at 1 July 2006, the date of transition to NZ IFRSs, are measured on the basis of deemed historic cost in accordance with the exemption available on transition under NZ IFRS 1.

Subsequent expenditure relating to an item of property, plant and equipment is added to its gross carrying amount when such expenditure can be measured reliably and either increases the future economic benefits beyond its existing service potential, or is necessarily incurred to enable future economic benefits to be obtained, and that expenditure would have been included in the initial cost of the item had the expenditure been incurred at that time. The costs of day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

N) DEPRECIATION

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

Depreciation commences when the item of property, plant and equipment is brought into productive use, or when such items become available for use.

	Estimated useful lives Years
Buildings	40 – 100
Distribution systems	10 – 100
Motor vehicles and mobile equipment	3 – 20
Computer and telecommunication equipment	3 – 40
Electricity and gas meters	5 – 30
Generation assets (excluding gas turbines)	10 – 20
Other plant and equipment	5 – 20

Gas turbines disclosed within generation assets are depreciated on a units of production basis over a period of 20 years. All other generation assets are depreciated on a straight line basis over their useful life.

O) LEASED ASSETS

Finance leases

Property, plant and equipment under finance leases, where the group as lessee assumes substantially all the risks and rewards of ownership, are recognised as non-current assets in the balance sheet. Leased property, plant and equipment are recognised initially at the lower of the present value of the minimum lease payments or their fair value. A corresponding liability is established and each lease payment apportioned between the reduction of the outstanding liability and the finance expense. The finance expense is charged to the income statement in each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Leased property, plant and equipment are depreciated over the shorter of the lease term and the useful life of equivalent owned property, plant and equipment.

Operating leases

Payments made under operating leases, where the lessors effectively retain substantially all the risks and benefits of ownership of the leased property, plant and equipment are recognised in the income statement 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. Property, plant and equipment used by the group under operating leases are not recognised in the group's balance sheet.

Leasehold improvements

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

The carrying amounts of the group's assets are reviewed at each balance date to determine whether there is any evidence of impairment.

SIGNIFICANT ACCOUNTING POLICIES (continued)

P) IMPAIRMENT

Where assets are deemed to be impaired, the impairment loss is the amount that the carrying amount of an asset exceeds its recoverable amount.

Impairment of equity instruments

Available-for-sale equity instruments held by the group are deemed to be impaired whenever there is a significant or prolonged decline in fair value below the original purchase price.

Any subsequent recovery of an impairment loss in respect of an investment in an equity instrument classified as available for sale is not reversed through the income statement.

Impairment of receivables

The recoverable amount of the group's receivables is carried at amortised cost less impairment. Amortised cost is estimated as the present value of estimated future cash flows. Long term receivables are discounted to reflect the time value of money. An impairment loss is recognised if the carrying amount of a receivable or grouping of similar receivables exceeds its recoverable amount. Receivables with a short duration are not discounted.

For trade receivables which are not significant on an individual basis, collective impairment is assessed on a portfolio basis based on numbers of days overdue, and taking into account previous experience of doubtful or delayed collection of debts on portfolios with a similar amount of days overdue.

Impairment of non-financial assets

The carrying amounts of the group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each balance date to determine whether there is any indication of impairment. If any such indication exists then the asset's carrying amount is compared to its recoverable amount to determine the level of impairment if any. For goodwill, recoverable amount is determined annually for impairment.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each balance date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed to the income statement only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortisation, if no impairment loss had been recognised.

Q) PROVISIONS

Provisions are liabilities which arise where the group considers, as a result of a past event, that a constructive or legal obligation exists to settle items in the foreseeable future. A provision is recognised where the likelihood of a resultant liability is considered more probable than not and the amount required to settle the liability can be reliably estimated. Where the likelihood of a resultant liability is more than remote but insufficient to warrant a provision, such events are disclosed as contingent liabilities.

Provisions are estimated by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where a provision is currently expected to be utilised within one year, or where the future actions of a third party could cause the liability to be settled within one year, the provision is not discounted.

The amortisation or unwinding of any discount applied in establishing the net present value of provisions is charged to net finance costs in the income statement as the period of discounting diminishes.

Decommissioning of property, plant and equipment

A provision for decommissioning costs is recognised where on construction of certain items of property, plant and equipment, the group becomes committed to an unavoidable obligation to ultimately dismantle and remove those items and to restore the site on which they are located at the end of the items' productive life.

R) COMPARATIVE FIGURES

Where applicable, certain comparative numbers have been restated in order to comply with the current year presentation of the financial report.

SIGNIFICANT ACCOUNTING POLICIES (continued)

S) *FINANCIAL INSTRUMENTS*

Borrowings

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 net finance costs in the income statement over the period of the borrowing using the effective interest rate method.

Borrowing costs

Borrowing costs directly attributable to qualifying property, plant and equipment under construction are capitalised as part of the cost of those assets.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments, net of bank overdrafts. The investments in money market instruments are brought to account at the face value and interest is taken to the profit and loss when earned.

Derivative financial instruments

The Vector group of companies enter into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including interest rate swaps, cross currency swaps and foreign exchange contracts. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at each balance date. The resulting gain or loss is recognised in the income statement immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in the income statement depends on the nature of the designated hedge relationship. The Vector group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), or hedges of highly probable forecast transactions (cash flow hedges). At the inception of the transaction the Vector group documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Vector group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement immediately, together with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk. The gain or loss relating to both the effective and the ineffective portion of interest rate swaps hedging fixed rate borrowings is recognised in the income statement within net finance costs. Changes in the fair value of the hedged fixed rate borrowings attributable to interest rate risk are recognised in the income statement within net finance costs.

Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised through the income statement from that date.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is deferred in equity. The gain or loss relating to the ineffective portion, if any, is recognised immediately in the income statement within net finance costs.

Amounts accumulated in equity are recycled in net finance costs in the income statement in the periods when the hedged item is recognised in profit or loss. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within net finance costs, when the underlying transaction affects earnings.

However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss deferred in equity remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in the income statement.

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement within net finance costs.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not measured at fair value with changes in fair value recognised in the income statement.

SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets

Investments are initially measured at fair value, net of transaction costs.

Financial assets are classified into either available-for-sale financial assets or loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Available-for-sale financial assets

Certain shares held by the Vector group are classified as being available-for-sale and are stated at fair value less impairment. Gains and losses arising from changes in fair value are recognised directly in the available-for-sale revaluation reserve in equity, until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in the available-for-sale revaluation reserve is included in profit or loss for the period.

Loans and receivables

Trade receivables, loans, and other receivables including interest accrued are recorded at fair value which is amortised cost using the effective interest method and less impairment. Fair value is estimated as the present value of future cash flows, discounted at the market rate of interest at balance date. A provision for doubtful debts is recognised to allow for the reduction in fair value attributable to expected doubtful or delayed collection of receivables.

Financial instruments issued by the company

Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement. If there is no contractual obligation to deliver cash or another financial asset, then the instrument is classified as equity. All other instruments are classified as liabilities.

Transaction costs on the issue of equity instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

Interest and dividends

Interest paid and dividends paid are classified as expenses or as distributions of profit consistent with the balance sheet classification of the related debt or equity instruments.

T) FINANCIAL GUARANTEES

Financial guarantees are accounted for in accordance with NZ IFRS 4, *Insurance Contracts*, wherein a liability is recognised at the present value of expected future payments for claims incurred.

U) NON-CURRENT ASSETS HELD FOR SALE

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Thereafter, the assets or disposal group are measured at the lower of their carrying amount and fair value less cost to sell. Any resulting impairment loss on the assets or disposal group is first allocated to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets and deferred tax assets which continue to be measured in accordance with the group's accounting policies. Impairment losses on initial classification as held for sale and subsequent losses on any re-measurement of the assets or disposal group to fair value less cost to sell are recognised in full in the income statement. Subsequent gains on any re-measurement of the assets or disposal group are only recognised in the income statement up to the value of any previous cumulative impairment losses incurred on the assets or disposal group.

V) STATEMENT OF CASH FLOWS

The following are the definitions of the terms used in the statement of cash flows:

Operating activities include all transactions and other events that are not investing or financing activities.

Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment and other investments not included in cash equivalents.

Financing activities are those activities that result in changes in the size and composition of the capital structure. Distributions paid in relation to the capital structure are included in financing activities.

Cash and cash equivalents are cash on hand, and in current accounts in banks, net of bank overdrafts and highly liquid investments that are readily convertible to known amounts of cash which are subject to an insignificant risk of change in value.

Statement of Accounting Policies

for the year ended 30 June 2008

TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

The group elected to adopt 1 July 2006 as its transition date to the requirements of NZ IFRS in accordance with NZ IFRS 1, *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*. An explanation of how the transition to NZ IFRS has affected the reported financial position and financial performance of the group is provided in note 34. This note includes reconciliations of equity and operating surplus for comparative periods reported under previous NZ GAAP to those reported for those periods under NZ IFRS.

NEW STANDARDS EARLY-ADOPTED

NZ IFRS 8, *Operating Segments*

The group has chosen to early adopt NZ IFRS 8, *Operating Segments*. This requires identification of operating segments for which separate financial information is available and is evaluated regularly by the chief operating decision maker in assessing performance and allocating resources. Individual operating segments or groupings of operating segments are then applied as the basis of reporting segment information in these financial statements. This standard also requires additional disclosure requirements for the reporting of segment information.

NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The following recently-published standards and interpretations, which are not yet effective for the year ended 30 June 2008, have not been applied in preparing these consolidated financial statements.

NZ IAS 1, *Presentation of Financial Statements (revised)*

The revised NZ IAS 1 supersedes the 2003 version as amended in 2005. The revised standard introduces the term 'total comprehensive income' which equates to changes in equity during a period, other than those resulting from transactions with owners in their capacity as owners, with a corresponding statement of comprehensive income. The revised standard requires all non-owner changes in equity to be presented in either one statement of comprehensive income, or an income statement and a statement of comprehensive income. The revised standard also prohibits presenting components of comprehensive income in the statement of changes in equity. The revised NZ IAS 1, which becomes mandatory for the group's consolidated financial statements for the year ended 30 June 2010, is not expected to have any impact on either the separate financial statements of Auckland Energy Consumer Trust or the consolidated financial statements apart from the differing disclosure requirements.

NZ IFRS 2, *Share-based Payment – Vesting Conditions and Cancellations – Amendments*

The amendments to NZ IFRS 2 make minor alterations to definitions and clarify the treatment of share-based payment arrangements that include liability components. These amendments to NZ IFRS 2, which become mandatory for the group's consolidated financial statements for the year ended 30 June 2010, are not expected to have any impact on either the separate financial statements of Auckland Energy Consumer Trust or the consolidated financial statements.

NZ IFRS 3, *Business Combinations (revised)*

NZ IFRS 3 prescribes the information that an entity must provide in its financial statements about a business combination and its effects. The revisions to the standard, which become mandatory for the group's consolidated financial statements for the year ended 30 June 2010, are not expected to have any impact on either the separate financial statements of Auckland Energy Consumer Trust or the consolidated financial statements on initial adoption but could impact the treatment of any business combinations entered into post adoption should they eventuate.

NZ IFRS 4, *Insurance Contracts – Amendments*

The amendment to NZ IFRS 4 removes the partial exemption for qualifying entities. The scope of NZ IFRS 4 has also changed slightly from 'an entity which undertakes insurance or reinsurance activities' to 'an entity which issues insurance contracts'. These amendments to NZ IFRS 4, which become mandatory for the group's consolidated financial statements for the year ended 30 June 2010, are not expected to have any impact on either the separate financial statements of Auckland Energy Consumer Trust or the consolidated financial statements.

NZ IAS 23, *Borrowing Costs (revised)*

NZ IAS 23 prescribes the accounting treatment for borrowing costs and removes the option to expense borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The revised standard, which becomes mandatory for the group's consolidated financial statements for the year ended 30 June 2010, is not expected to have any impact on either the separate financial statements of Auckland Energy Consumer Trust or the consolidated financial statements.

NZ IAS 27, *Consolidated and Separate Financial Statements – Amendments*

The amendments to NZ IAS 27 primarily relate to accounting for non-controlling interests and the loss of control of a subsidiary. These amendments to NZ IAS 27, which become mandatory for the group's consolidated financial statements for the year ended 30 June 2010, are not expected to have any significant impact on either the separate financial statements of Auckland Energy Consumer Trust or the consolidated financial statements.

NZ IAS 32, *Financial Instruments: Presentation – Amendments (revised)*

The revised amendments to NZ IAS 32 require some puttable financial instruments and some financial instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity. The amendments also revised the definitions of a financial asset and a financial liability and added the definition of a puttable instrument. These amendments to NZ IAS 32, which become mandatory for the group's consolidated financial statements for the year ended 30 June 2010, are not expected to have any impact on either the separate financial statements of Auckland Energy Consumer Trust or the consolidated financial statements.

NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (continued)

NZ IFRIC 12, *Service Concession Arrangements*

NZ IFRIC 12 provides guidance on the accounting by operators for public-to-private concession arrangements, whereby a public sector entity grants a service arrangement to an operator to maintain infrastructure for public services for a contracted period of time. The scope of the interpretation applies only to service arrangements where at the end of the arrangement, the operator is obliged to hand back the infrastructure to the public sector entity for little or no consideration. NZ IFRIC 12, which becomes mandatory for the group's consolidated financial statements for the year ended 30 June 2009, is not expected to have any impact on either the separate financial statements of Auckland Energy Consumer Trust or the consolidated financial statements.

NZ IFRIC 13, *Customer Loyalty Programmes*

NZ IFRIC 13 provides guidance on the accounting for customer loyalty award credits that an entity grants to its customers as part of a sales transaction, allowing the customer to redeem the credits in the future for free or discounted goods or services. NZ IFRIC 13, which becomes mandatory for the group's consolidated financial statements for the year ended 30 June 2009, is not expected to have any impact on either the separate financial statements of Auckland Energy Consumer Trust or the consolidated financial statements.

NZ IFRIC 14, *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

NZ IFRIC 14 provides guidance on the accounting for post-employment defined benefits and other long-term employee defined benefits. NZ IFRIC 14, which becomes mandatory for the group's consolidated financial statements for the year ended 30 June 2009, is not expected to have any impact on either the separate financial statements of Auckland Energy Consumer Trust or the consolidated financial statements.

APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of trustees on 17 September 2008.

1. CONTINUING AND DISCONTINUED OPERATIONS

	GROUP 2008			GROUP 2007			PARENT 2008			PARENT 2007		
	CONTINUING OPERATIONS $000	DISCONTINUED OPERATIONS $000	TOTAL $000	CONTINUING OPERATIONS $000	DISCONTINUED OPERATIONS $000	TOTAL $000	CONTINUING OPERATIONS $000	DISCONTINUED OPERATIONS $000	TOTAL $000	CONTINUING OPERATIONS $000	DISCONTINUED OPERATIONS $000	TOTAL $000
Operating revenue	1,180,497	147,255	1,327,752	1,143,416	161,358	1,304,774	-	-	-	-	-	-
Other income	1,530	-	1,530	2,382	-	2,382	97,645	-	97,645	93,890	-	93,890
Total income	1,182,027	147,255	1,329,282	1,145,798	161,358	1,307,156	97,645	-	97,645	93,890	-	93,890
Operating expenditure	(638,885)	(55,166)	(694,051)	(648,162)	(57,263)	(705,425)	(4,795)	-	(4,795)	(3,552)	-	(3,552)
Earnings before interest, income tax, depreciation and amortisation (EBITDA)	543,142	92,089	635,231	497,636	104,095	601,731	92,850	-	92,850	90,338	-	90,338
Depreciation and amortisation	(140,369)	(14,541)	(154,910)	(129,055)	(17,580)	(146,635)	(8)	-	(8)	(10)	-	(10)
Operating surplus before interest and income tax	402,773	77,548	480,321	368,581	86,515	455,096	92,842	-	92,842	90,328	-	90,328
Finance income	6,384	-	6,384	6,296	-	6,296	2,716	-	2,716	2,352	-	2,352
Finance costs	(212,240)	(46,137)	(258,377)	(191,855)	(42,865)	(234,720)	-	-	-	-	-	-
Share of net surplus from associates	1,114	-	1,114	656	-	656	-	-	-	-	-	-
Operating surplus/(deficit) before income tax	198,031	31,411	229,442	183,678	43,650	227,328	95,558	-	95,558	92,680	-	92,680
Income tax (expense)/ benefit	(50,404)	(8,776)	(59,180)	16,341	(7,339)	9,002	-	-	-	17	-	17
Operating surplus/(deficit)	147,627	22,635	170,262	200,019	36,311	236,330	95,558	-	95,558	92,697	-	92,697
Operating surplus attributable to minority interests	(43,213)	(5,636)	(48,849)	(53,255)	(9,041)	(62,296)	-	-	-	-	-	-
Operating surplus/(deficit) attributable to the shareholders	104,414	16,999	121,413	146,764	27,270	174,034	95,558	-	95,558	92,697	-	92,697

2. SEGMENT INFORMATION

The group has adopted NZ IFRS 8: *Operating Segments* in advance of its effective date, with effect from 1 July 2006. NZ IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. The Vector group is presently organised on a business line basis with Electricity, Gas Wholesale, Gas Transportation and Technology business lines supported by shared services such as human resources, information technology, finance and legal services. The Vector group's internal reporting to Vector's CEO and his Executive Team is focused on these business lines which are the segments reported below in accordance with NZ IFRS 8:

Electricity
Ownership and management of electricity distribution networks.

Gas Transportation
Ownership and management of gas transmission and distribution networks.

Gas Wholesale
Natural gas acquisition, processing and retailing, LPG (distribution, storage and retailing) and electricity generation.

Technology
Telecommunications services, electricity and gas metering.

Corporate / other
Corporate activities, comprising shared services, investments and other energy and utility industry-related businesses.

The above segments reported in these financial statements are identical to those reported in Vector's Annual Report for the year ended 30 June 2007.

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

All segment information presented is prepared in accordance with the accounting policies. Monthly internal reporting to Vector Limited's Executive Team is also prepared on this basis.

The segment information excludes discontinued activities relating to the sale of the Wellington electricity network which was completed after balance date. The portion of operating surplus attributable to those discontinued activities is $22.6 million (2007: $36.3 million) and is disclosed in note 1 of these financial statements. Total assets attributable to discontinued operations are $634.9 million including $26.2 million additions to property, plant and equipment and software during the period and no investments in associates.

The Vector group engages with one major customer which contributes individually greater than ten percent of its total revenue. The customer contributed $245.7 million (2007: $262.4 million) which is reported in the Electricity and Gas Transportation segments below.

2. SEGMENT INFORMATION (continued)

GROUP 2008	ELECTRICITY $000	GAS TRANSPORTATION $000	GAS WHOLESALE $000	TECHNOLOGY $000	CORPORATE /OTHER $000	INTERSEGMENT $000	TOTAL $000
External revenue:							
Operating revenue	490,260	143,974	475,565	65,494	5,204	-	1,180,497
Other income	-	-	73	795	662	-	1,530
Intersegment revenue	-	42,123	4,119	2,958	70	(49,270)	-
	490,260	186,097	479,757	69,247	5,936	(49,270)	1,182,027
External operating expenditure:							
Electricity transmission expenses	(104,764)	-	-	-	-	-	(104,764)
Gas purchases and production costs	-	(8,488)	(295,787)	-	-	-	(304,275)
Network and asset maintenance expenses	(47,255)	(13,643)	(16,489)	(4,719)	-	-	(82,106)
Indirect expenses	(25,929)	(12,693)	(18,987)	(21,417)	(68,714)	-	(147,740)
Intersegment expenditure	(1,381)	(4,119)	(43,700)	(70)	-	49,270	-
	(179,329)	(38,943)	(374,963)	(26,206)	(68,714)	49,270	(638,885)
EBITDA	310,931	147,154	104,794	43,041	(62,778)	-	543,142
Depreciation and amortisation	(61,333)	(29,921)	(13,930)	(21,323)	(13,862)	-	(140,369)
Operating surplus before interest and income tax	249,598	117,233	90,864	21,718	(76,640)	-	402,773
Finance income	-	-	-	-	6,384	-	6,384
Finance costs	-	-	-	-	(212,240)	-	(212,240)
Share of net surplus from associates	-	-	-	-	1,114	-	1,114
Operating surplus/(deficit) before income tax	249,598	117,233	90,864	21,718	(281,382)	-	198,031
Income tax expense							(50,404)
Operating surplus							147,627
Operating surplus attributable to minority interests							(43,213)
Operating surplus attributable to the shareholders of the parent							104,414
Investments in associates	-	-	-	10,869	22,635	-	33,504
Additions to property, plant and equipment and software	128,483	24,841	13,138	28,435	9,068	-	203,965
Total assets (excluding operations held for sale)	3,098,057	1,344,935	403,851	247,169	305,181	-	5,399,193

2. SEGMENT INFORMATION (continued)

GROUP 2007	ELECTRICITY $000	GAS TRANSPORTATION $000	GAS WHOLESALE $000	TECHNOLOGY $000	CORPORATE /OTHER $000	INTERSEGMENT $000	TOTAL $000
External revenue:							
Operating revenue	450,118	138,825	488,021	63,040	3,412	-	1,143,416
Other income	-	-	-	143	2,239	-	2,382
Intersegment revenue	-	39,681	5,385	2,634	70	(47,770)	-
	450,118	178,506	493,406	65,817	5,721	(47,770)	1,145,798
External operating expenditure:							
Electricity transmission expenses	(91,026)	-	-	-	-	-	(91,026)
Gas purchases and production costs	-	(9,196)	(310,977)	-	-	-	(320,173)
Network and asset maintenance expenses	(51,173)	(13,475)	(14,790)	(3,995)	-	-	(83,433)
Indirect expenses	(34,040)	(13,767)	(20,450)	(14,969)	(70,304)	-	(153,530)
Intersegment expenditure	(2,028)	(5,385)	(40,287)	(70)	-	47,770	-
	(178,267)	(41,823)	(386,504)	(19,034)	(70,304)	47,770	(648,162)
EBITDA	271,851	136,683	106,902	46,783	(64,583)	-	497,636
Depreciation and amortisation	(61,512)	(26,911)	(15,175)	(14,013)	(11,444)	-	(129,055)
Operating surplus before interest and income tax	210,339	109,772	91,727	32,770	(76,027)	-	368,581
Finance income	-	-	-	-	6,296	-	6,296
Finance costs	-	-	-	-	(191,855)	-	(191,855)
Share of net surplus from associates	-	-	-	-	656	-	656
Operating surplus/(deficit) before income tax	210,339	109,772	91,727	32,770	(260,930)	-	183,678
Income tax benefit							16,341
Operating surplus							200,019
Operating surplus attributable to minority interests							(53,255)
Operating surplus attributable to the shareholders of the parent							146,764
Investments in associates	-	-	-	6,648	21,611	-	28,259
Additions to property, plant and equipment and software	135,546	30,295	13,107	35,793	14,904	-	229,645
Total assets	3,657,628	1,362,229	414,051	238,614	249,362	-	5,921,884

3. OPERATING REVENUE AND OTHER INCOME

	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
Operating revenue				
Trading revenue:				
Energy sales	**479,050**	492,655	**-**	-
Provision of utility services	**674,396**	625,502	**-**	-
Capital contributions	**27,051**	25,259	**-**	-
	1,180,497	1,143,416	**-**	-
Other income				
Gain on disposal of property, plant and equipment and software intangibles	**1,515**	2,104	**-**	-
Miscellaneous Income	**15**	15	**15**	15
Dividends received	**-**	263	**97,630**	93,875
	1,530	2,382	**97,645**	93,890
Total	**1,182,027**	1,145,798	**97,645**	93,890

4. OPERATING EXPENDITURE

	Note	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
Operating expenditure includes:					
Bad debts written-off		**137**	60	**-**	-
Increase in provision for doubtful debts		**1,788**	1,015	**-**	-
Rental and operating lease costs		**4,575**	4,642	**17**	17
Loss on disposal of property, plant and equipment and software intangibles		**8,591**	10,293	**6**	4
Directors fees		**946**	759	**-**	-
Trustees Remuneration	31	**308**	257	**308**	257
Donations		**-**	5	**-**	-
Employee benefits		**80,506**	84,406	**165**	196
Administration expenses		**23,747**	27,163	**1,728**	1,371
Distribution Expenses		**1,089**	1,110	**1,089**	1,110
Project Expenses		**1,446**	560	**1,446**	560
Contributions to Kiwisaver		**309**	-	**-**	-
Auditors remuneration:					
Audit fees paid to principal auditors of parent – Grant Thornton		**32**	31	**32**	31
Audit fees paid to other auditors – KPMG		**816**	672	**-**	-
Fees paid for other assurance services provided – KPMG		**295**	358	**-**	-

Fees for other assurance services paid to auditors primarily relate to the special purpose audits of regulatory disclosures such as the electricity threshold compliance statements. For the year ended 30 June 2007, other assurance services fees also included services relating to the adoption of International Financial Reporting Standards.

5. DEPRECIATION AND AMORTISATION

	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
Depreciation of property, plant and equipment				
Distribution systems	**89,357**	88,862	-	-
Distribution buildings	**1,238**	1,214	-	-
Electricity and gas meters	**15,837**	10,440	-	-
Generation power stations	**1,522**	1,265	-	-
Computer and telecommunications equipment	**5,825**	4,667	**8**	10
Motor vehicles and mobile equipment	**1,437**	924	-	-
Other plant and equipment	**4,595**	4,425	-	-
Buildings	**262**	247	-	-
Leasehold improvements	**371**	497	-	-
	120,444	112,541	**8**	10
Amortisation of intangible assets				
Gas entitlement intangible assets	**2,639**	3,847	-	-
Software intangibles	**17,286**	12,667	-	-
	19,925	16,514	-	-
Total	**140,369**	129,055	**8**	10

6. NET FINANCE COSTS

	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
Finance income				
Interest income	**(6,384)**	(6,296)	**(2,716)**	(2,352)
	(6,384)	(6,296)	**(2,716)**	(2,352)
Finance costs				
Interest expense	**215,426**	200,203	-	-
Profit on ineffective portion of cash flow hedges	**(47)**	(36)	-	-
(Profit)/loss on fair value movement on hedging instruments	**(118,162)**	143,846	-	-
Loss/(profit) on fair value movement on hedged items	**117,756**	(143,999)	-	-
Loss/(profit) on financial instruments at fair value through profit or loss	**1,752**	(4,884)	-	-
Capitalised interest	**(6,532)**	(5,033)	-	-
Other finance expense	**2,047**	1,758	-	-
	212,240	191,855	-	-
Net finance costs	**205,856**	185,559	**(2,716)**	(2,352)

Interest is capitalised on property, plant and equipment while under construction at a rate of 8% per annum.

7. INCOME TAX EXPENSE

	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
Current income tax				
Current income tax expense	**46,512**	40,482	**-**	-
Prior period adjustments	**(7,773)**	1,594	**-**	(17)
Deferred income tax				
Relating to property, plant and equipment	**9,784**	9,046	**-**	-
Relating to other balance sheet items	**494**	(18,477)	**-**	-
Future reduction in tax rate	**(4,856)**	(47,420)	**-**	-
Prior period adjustments	**6,243**	(1,549)	**-**	-
Income tax expense/(benefit)	**50,404**	(16,324)	**-**	(17)
Reconciliation of income tax expense				
Operating surplus before income tax	**198,031**	183,678	**95,558**	92,680
Tax at current rate of 33%	**65,350**	60,614	**31,534**	30,584
Future reduction in tax rate impacting deferred tax	**(4,856)**	(47,420)	**-**	-
Non-taxable items:				
Capital contributions	**(8,927)**	(8,335)	**-**	-
Other	**(1,163)**	(21,200)	**(31,534)**	(30,601)
Income tax expense/(benefit)	**50,404**	(16,341)	**-**	(17)

8. INCOME TAX

	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
Current				
Prepaid tax	**44,694**	23,503	**-**	-
Total	**44,694**	23,503	**-**	-

	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
Imputation balances				
Balance at beginning of the period	**(27,520)**	(23,562)	**-**	-
Income tax payments during the period	**63,223**	58,929	**-**	-
Imputation credits attaching to dividends received	**-**	129	**48,086**	46,237
Imputation credits attaching to dividends and distribution paid	**(61,700)**	(58,583)	**(46,357)**	(44,122)
Imputation credits utilised on trustee income	**(798)**	(1,094)	**(798)**	(1,094)
Excess imputation credits converted to losses	**(931)**	(1,021)	**(931)**	(1,021)
Other	**-**	(2,318)	**-**	-
Balance at end of the period	**(27,726)**	(27,520)	**-**	-
The imputation credits are available to shareholders of the parent:				
Through direct shareholding in Vector Limited	**(29,042)**	(32,306)	**-**	-
Through indirect shareholding in subsidiaries in Vector Limited	**1,316**	4,786	**-**	-
Total	**(27,726)**	(27,520)	**-**	-

9. DEFERRED TAX ASSET

	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
Deferred tax asset				
Balance at beginning of the period	**1,137**	1,137	**-**	-
Balance at end of the period	**1,137**	1,137	**-**	-

The future income tax benefit of tax losses available only to Vector Communications, a subsidiary of the parent, are recognised in the balance sheet as deferred tax assets.

10. DEFERRED TAX LIABILITY

GROUP 2008	PROPERTY, PLANT & EQUIPMENT $000	PROVISIONS AND ACCRUALS $000	TAX LOSSES $000	OTHER $000	TOTAL $000
Deferred tax liability					
Balance at beginning of the period	**596,417**	**(20,031)**	**(793)**	**4,885**	**580,478**
Amounts recognised in the income statement:					
Relating to current period	**(3,945)**	**11,585**	**(266)**	**(1,952)**	**5,422**
Prior period adjustment	**3,020**	**3,177**	**793**	**(747)**	**6,243**
Transferred to operations held for sale	**(57,172)**	**(251)**	**-**	**-**	**(57,423)**
Balance at end of the period	**538,320**	**(5,520)**	**(266)**	**2,186**	**534,720**
Deferred tax assets	**-**	**(5,520)**	**(266)**	**-**	**(5,786)**
Deferred tax liabilities	**538,320**	**-**	**-**	**2,186**	**540,506**
Net deferred tax liability	**538,320**	**(5,520)**	**(266)**	**2,186**	**534,720**

GROUP 2007	PROPERTY, PLANT & EQUIPMENT $000	PROVISIONS AND ACCRUALS $000	TAX LOSSES $000	OTHER $000	TOTAL $000
Deferred tax liability					
Balance at beginning of the period	659,048	(24,381)	(10,652)	5,004	629,019
Amounts recognised in the income statement:					
Relating to current period	(62,713)	6,306	-	(444)	(56,851)
Transfer to current tax	-	-	9,859	-	9,859
Prior period adjustment	82	(1,956)	-	325	(1,549)
Balance at end of the period	596,417	(20,031)	(793)	4,885	580,478
Deferred tax assets	-	(20,031)	(793)	-	(20,824)
Deferred tax liabilities	596,417	-	-	4,885	601,302
Net deferred tax liability	596,417	(20,031)	(793)	4,885	580,478

Tax losses which are available to be utilised by the group are deferred tax assets offset against the deferred tax liability.

The parent has no deferred tax.

There is an unrecognised deferred tax asset of $931,242 for the parent and the group.

11. TRUSTEES FUNDS

GROUP 2008	HEDGE RESERVE $000	FOREIGN CURRENCY TRANSLATION RESERVE $000	RETAINED EARNINGS $000	MINORITY INTERESTS $000	TOTAL EQUITY $000
Balance at beginning of the period	**51,552**	**-**	**1,397,739**	**490,675**	**1,939,966**
Operating surplus for the period	**-**	**-**	**121,413**	**48,849**	**170,262**
Net change in fair value of cash flow hedges	**(52,881)**	**-**	**-**	**(17,532)**	**(70,413)**
Transfer to foreign currency translation reserve	**-**	**97**	**-**	**32**	**129**
Dividends and distributions	**-**	**-**	**(96,685)**	**(39,228)**	**(135,913)**
Dividends received – available for distribution	**-**	**-**	**81**	**-**	**81**
Balance at end of the period	**(1,329)**	**97**	**1,422,548**	**482,796**	**1,904,112**

GROUP 2007	HEDGE RESERVE $000	FOREIGN CURRENCY TRANSLATION RESERVE $000	RETAINED EARNINGS $000	MINORITY INTERESTS $000	TOTAL EQUITY $000
Balance at beginning of the period	3,641	-	1,319,104	447,394	1,770,139
Operating surplus for the period	-	-	174,034	62,296	236,330
Net change in fair value of cash flow hedges	47,911	-	-	15,886	63,797
Dividends and distributions	-	-	(92,675)	(34,901)	(127,576)
Dividends received – available for distribution	-	-	(2,724)	-	(2,724)
Balance at end of the period	51,552	-	1,397,739	490,675	1,939,966

The hedge reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. The foreign currency translation reserve arises on the translation of Vector Limited's subsidiary, Elect Data Services (Australia) Pty Limited, to NZ dollars which is the presentation currency for these consolidated financial statements.

PARENT 2008	RETAINED EARNINGS $000	TOTAL EQUITY $000
Balance at beginning of the period	**303,835**	**303,835**
Operating surplus for the period	**95,558**	**95,558**
Net change in fair value of cash flow hedges	**-**	**-**
Dividends and distributions	**(96,685)**	**(96,685)**
Dividends received – available for distribution	**81**	**81**
Balance at end of the period	**302,789**	**302,789**

PARENT 2007	RETAINED EARNINGS $000	TOTAL EQUITY $000
Balance at beginning of the period	306,537	306,537
Operating surplus for the period	92,697	92,697
Net change in fair value of cash flow hedges	-	-
Dividends and distributions	(92,675)	(92,675)
Dividends received – available for distribution	(2,724)	(2,724)
Balance at end of the period	303,835	303,835

12. RECEIVABLES AND PREPAYMENTS

	Note	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
Current					
Trade receivables		**157,508**	168,331	**-**	-
Provision for doubtful debts		**(5,448)**	(3,546)	**-**	-
		152,060	164,785	**-**	-
Prepayments		**13,147**	5,957	**-**	-
Interest receivables		**16,915**	14,497	**989**	932
Other receivables	31	**87**	67	**682**	53
Total		**182,209**	185,306	**1,671**	985
Non-current					
Trade receivables		**15**	2,898	**-**	-
Other receivables		**1,454**	1,818	**-**	-
Total		**1,469**	4,716	**-**	-

Prepayments include $0.4 million paid to the Vector group's auditors, KPMG in respect of the sale of the Wellington electricity network.

13. OPERATIONS HELD FOR SALE

	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
Current assets				
Receivables and prepayments	**12,943**	-	**-**	-
Intangible assets	**114,773**	-	**-**	-
Property, plant and equipment	**507,232**	-	**-**	-
	634,948	-	**-**	-
Current liabilities				
Income tax	**1,800**	-	**-**	-
Payables and accruals	**9,620**	-	**-**	-
Provisions	**88**	-	**-**	-
Deferred tax	**57,423**	-	**-**	-
	68,931	-	**-**	-
Net assets of operations held for sale	**566,017**	-	**-**	-

	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
Cash flows from discontinued operations				
Net cash from operating activities	**42,315**	45,570	**-**	-
Net cash used in investing activities	**(32,510)**	(36,939)	**-**	-
Net cash from financing activities	**(9,805)**	(8,631)	**-**	-
Net cash inflow/(outflow)	**-**	-	**-**	-

14. OPERATIONS HELD FOR SALE (continued)

The net assets of operations held for sale are recognised in the balance sheet at 30 June 2008 as current assets and current liabilities as they were realised within one year when the subsidiaries Vector Wellington Electricity Networks Limited and Vector Wellington Electricity Management Limited were sold for $785 million on 24 July 2008.

The gain on sale after deducting selling costs is around $200 million. More details around the financial effects of this transaction are presented in note 33.

15. INVENTORIES

	GROUP		PARENT	
	2008 $000	2007 $000	2008 $000	2007 $000
Prepaid gas	-	4,210	-	-
Natural gas and by-products	1,516	1,467	-	-
Trading stock	5,846	3,328	-	-
Consumable spares	14	57	-	-
Total	7,376	9,062	-	-

16. INVESTMENTS

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

	PRINCIPAL ACTIVITY	*PERCENTAGE HELD* 2008	2007
Subsidiaries			
Vector Limited	Utility Network Provider	75.1%	75.1%
NGC Holdings Limited	Investment	75.1%	75.1%
- Vector Management Services Limited	Management services	75.1%	75.1%
- Vector Gas Limited	Natural gas sales, processing and transportation	75.1%	75.1%
* Vector Gas Contracts Limited	Natural gas sales	75.1%	75.1%
* Vector Gas Investments Limited	Investment	75.1%	75.1%
- Vector Kapuni Limited	Investment	75.1%	75.1%
* Liquigas Limited	LPG sales and distribution	45.1%	45.1%
- On Gas Limited	LPG sales and distribution	75.1%	75.1%
- NGC Metering Limited	Metering services	75.1%	75.1%
- Vector Metering Data Services Limited	Investment and contracting metering data services	75.1%	75.1%
* Elect Data Services (Australia) Pty Limited	Energy metering data management	75.1%	75.1%
* Vector Wellington Electricity Networks Limited	Electricity distribution	75.1%	75.1%
* Vector Wellington Electricity Management Limited	Management services	75.1%	-
Vector Communications Limited	Telecommunications service provider	75.1%	75.1%
Vector Stream Limited	Investment	75.1%	75.1%
- Stream Information Limited	Agent for partnership	52.6%	52.6%
- Stream Information (partnership)	Metering services	52.6%	52.6%

During the year, Vector Metering Data Services (Australia) Limited changed its name to Vector Wellington Electricity Networks Limited.

16. INVESTMENTS (continued)

	PRINCIPAL ACTIVITY	PERCENTAGE HELD 2008	2007
Non-trading subsidiaries			
Auckland Generation Limited	Holding company	**75.1%**	75.1%
- MEL Silverstream Limited	Dormant	**75.1%**	75.1%
- MEL Network Limited	Holding company	**75.1%**	75.1%
* Mercury Geotherm Limited (in receivership)	Investment	**75.1%**	48.9%
* Poihipi Land Limited (in receivership)	Investment	**75.1%**	48.9%
Vector Power Limited	Dormant	**75.1%**	75.1%
Auckland Network Limited	Dormant	**75.1%**	75.1%
Energy North Limited	Dormant	**75.1%**	75.1%
UnitedNetworks Limited	Dormant	**75.1%**	75.1%
Salamanca Holdings Limited	Investment	**56.3%**	56.3%
- Pacific Energy Limited	Dormant	**-**	46.6%
Broadband Services Limited	Dormant	**75.1%**	75.1%
UnitedNetworks Employee Share Schemes Trustee Limited	Trustee company	**75.1%**	75.1%
NGC Limited	Dormant	**75.1%**	75.1%
Associates			
Treescape Limited	Vegetation management	**37.6%**	37.6%
- Treescape Australasia Pty Limited	Vegetation management	**37.6%**	37.6%
Energy Intellect Limited	Metering services	**18.8%**	18.8%
NZ Windfarms Limited	Power generation	**15.0%**	15.0%
Advanced Metering Services Limited	Metering services	**37.6%**	-
Joint venture interests			
Kapuni Energy Joint Venture	Electricity generation	**37.6%**	37.6%

The Trust now holds 751,000,000 ordinary shares in Vector Limited. At 30 June 2008, the market value of these shares was $1,441,920,000.

The cost of investment in Vector Limited is $300,000,000.

In December 2007, Vector Limited acquired a 50% stake in Advanced Metering Services Limited for $4.1 million, including $0.6 million of fees paid to professional advisors. In May 2008, Pacific Energy Limited was wound up.

All entities have a balance date of 30 June, apart from Treescape Limited, Treescape Australasia Pty Limited, Salamanca Holdings Limited, Mercury Geotherm Limited (in receivership) and Poihipi Land Limited (in receivership) which all have a balance date of 31 March and Advanced Metering Services Limited which has a balance date of 30 September.

All entities are incorporated in New Zealand except Elect Data Services Pty (Australia) Limited and Treescape Australasia Pty Limited which are incorporated in Australia.

17. INVESTMENT IN ASSOCIATES

	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
Carrying amount of associates				
Balance at beginning of the period	**28,259**	10,588	-	-
Purchase of investment in NZ Windfarms Limited	**27**	17,015	-	-
Purchase of investment in Advanced Metering Services Limited	**4,104**	-	-	-
Equity accounted earnings of associates	**1,114**	656	-	-
Balance at end of the period	**33,504**	28,259	-	-
Equity accounted earnings of associates				
Operating surplus before income tax	**1,719**	979	-	-
Income tax expense	**(605)**	(323)	-	-
Net surplus	**1,114**	656	-	-
Total recognised revenues and expenses	**1,114**	656	-	-

The amount of goodwill included in the carrying amount of investments in associates is $15.8 million (2007: $15.8 million).

	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
Summarised financial information of associates (100%):				
Total assets	**122,123**	109,035	-	-
Total liabilities	**25,047**	17,841	-	-
Total revenue	**45,037**	42,601	-	-

18. INTEREST IN JOINT VENTURES

Kapuni Energy Joint Venture

The Vector group of companies have a 50% interest in an unincorporated joint venture that owns a cogeneration plant attached to the Kapuni gas treatment plant producing electricity and steam. The Vector group's 50% interest in the joint venture is included in the consolidated financial statements under the classifications shown below.

	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
Net assets employed in the joint venture				
Property, plant and equipment	**5,157**	6,609	-	-
Current assets	**1,734**	1,445	-	-
Current liabilities	**(1,132)**	(1,038)	-	-
Total	**5,759**	7,016	-	-
Net contribution to operating surplus before income tax				
Revenue	**11,253**	10,957	-	-
Expenditure	**(8,275)**	(8,786)	-	-
Operating surplus before tax	**2,978**	2,171	-	-

19. INTANGIBLE ASSETS

GROUP 2008	NOTE	GOODWILL $000	SOFTWARE $000	GAS ENTITLEMENTS $000	TOTAL $000
Cost					
Balance at beginning of the period		**1,668,134**	**90,830**	**18,000**	**1,776,964**
Disposals		**-**	**(5,014)**	**-**	**(5,014)**
Additions		**-**	**16,158**	**-**	**16,158**
Transfers to operations held for sale		**(114,743)**	**(233)**	**-**	**(114,976)**
Balance at end of the period		**1,553,391**	**101,741**	**18,000**	**1,673,132**
Accumulated amortisation					
Balance at beginning of the period		**-**	**(46,418)**	**(15,361)**	**(61,779)**
Amortisation for the year	5	**-**	**(17,286)**	**(2,639)**	**(19,925)**
Disposals		**-**	**1,935**	**-**	**1,935**
Transfers to operations held for sale		**-**	**203**	**-**	**203**
Balance at end of the period		**-**	**(61,566)**	**(18,000)**	**(79,566)**
Carrying amount at 30 June 2008		**1,553,391**	**40,175**	**-**	**1,593,566**

GROUP 2007	NOTE	GOODWILL $000	SOFTWARE $000	GAS ENTITLEMENTS $000	TOTAL $000
Cost					
Balance at beginning of the period		1,669,733	75,077	18,000	1,762,810
On acquisition of NGC Holdings Limited		(2,570)	-	-	(2,570)
On acquisition of other businesses		971	-	-	971
Additions		-	15,753	-	15,753
Balance at end of the period		1,668,134	90,830	18,000	1,776,964
Accumulated amortisation					
Balance at beginning of the period		-	(33,751)	(11,514)	(45,265)
Amortisation for the year	5	-	(12,667)	(3,847)	(16,514)
Balance at end of the period		-	(46,418)	(15,361)	(61,779)
Carrying amount at 30 June 2007		1,668,134	44,412	2,639	1,715,185

The Vector group completed its acquisition of NGC Holdings Limited on 10 August 2005. During the year ended 30 June 2007, the carrying value of the net assets acquired was adjusted to reflect their fair value as at 10 August 2005. The total impact on the carrying value of goodwill was $2.6 million, comprising a $1.5 million fair value adjustment to provisions ($1.0 million net of tax) and a $1.8 million fair value adjustment to deferred tax, offset by a $0.2 million fair value adjustment to property, plant and equipment.

Also during the year ended 30 June 2007, the Vector group purchased other businesses, The Gas Man Limited and Alpine Oil & Gas Limited, giving rise to additional goodwill of $1.0 million.

The parent has no intangible assets.

19. INTANGIBLE ASSETS (continued)

Amortisation charge

Software intangibles are amortised on a straight line basis over their useful life. Gas entitlements are amortised as the entitlements to the gas volumes are exercised. Both have finite useful lives.

Allocation of goodwill to cash-generating units

Goodwill is allocated to the group's cash-generating units (CGUs), being the lowest level at which the goodwill is monitored for internal management purposes which is the same level at which the group's segment information is presented in note 2. The aggregate carrying amounts of goodwill allocated to each unit are $967.0 million for Electricity, $468.1 million for Gas Transportation, $218.2 million for Gas Wholesale, and $14.8 million for Technology.

Impairment testing

The recoverable amount of the CGUs is calculated on the basis of value-in-use using a discounted cash flow model. Future cash flows are projected out ten years, based on actual results and Board-approved business plans with key assumptions determining future EBITDA and levels of maintenance expenditure for each CGU. Vector Limited's management believes that this forecast period is justified due to the long-term nature of the electricity, gas and technology businesses. Terminal growth rates of 0.0% - 3.5% are applied. Pre-tax discount rates of between 9.6% and 17.8% are utilised. The specific rates applied vary for the specific CGUs being valued. Projected cash flows for regulated businesses are sensitive to assumptions made on future regulatory outcomes.

The recoverable amount of each CGU exceeds the net assets plus goodwill allocated to that CGU. Therefore Vector Limited's management has determined that no impairment to goodwill has occurred during the period.

Accordingly, there are no accumulated impairment losses as at 30 June 2008 or 30 June 2007.

20. PROPERTY, PLANT AND EQUIPMENT

GROUP 2008	DISTRIBUTION SYSTEMS $000	DISTRIBUTION LAND $000	DISTRIBUTION BUILDINGS $000	ELECTRICITY AND GAS METERS $000	GENERATION POWER STATIONS $000	COMPUTER AND TELECO EQUIPMENT $000	MOTOR VEHICLES AND MOBILE EQUIPMENT $000	OTHER PLANT AND EQUIPMENT $000	FREEHOLD LAND $000	BUILDINGS $000	LEASEHOLD IMPROVE-MENTS $000	CAPITAL WORK IN PROGRESS $000	TOTAL $000
Cost													
Balance at beginning of the period	3,391,992	76,656	46,110	168,353	11,292	72,650	5,170	82,149	15,394	6,939	11,393	159,927	4,048,025
Additions	1,338	-	-	12,236	233	95	1,240	7,883	2,118	43	4	188,825	214,015
Transfers to:													
Operations held for sale	(506,444)	(13,954)	(7,872)	-	-	-	-	(550)	(386)	-	(21)	(14,712)	(543,939)
Other classes	175,388	2,816	4,343	(135)	-	2,326	30	4,872	1,092	699	295	(191,726)	-
Disposals	(8,405)	-	-	(2,923)	-	(1,951)	(154)	(957)	-	-	(1,506)	-	(15,896)
Balance at end of the period	3,053,869	65,518	42,581	177,531	11,525	73,120	6,286	93,397	18,218	7,681	10,165	142,314	3,702,205
Accumulated depreciation													
Balance at beginning of the period	(153,980)	-	(1,995)	(18,152)	(5,705)	(25,336)	(677)	(11,464)	-	(995)	(3,574)	-	(221,878)
Depreciation	(103,670)	-	(1,466)	(15,837)	(1,522)	(5,825)	(1,437)	(4,595)	-	(262)	(371)	-	(134,985)
Transfers to:													
Operation held for sale	35,901	-	756	-	-	-	-	40	-	-	10	-	36,707
Other classes	-	-	120	-	-	-	-	-	-	(120)	-	-	-
Disposals	1,314	-	-	772	-	1,225	59	434	-	-	469	-	4,273
Balance at end of the period	(220,435)	-	(2,585)	(33,217)	(7,227)	(29,936)	(2,055)	(15,585)	-	(1,377)	(3,466)	-	(315,883)
Net book value at 30 June 2008	2,833,434	65,518	39,996	144,314	4,298	43,184	4,231	77,812	18,218	6,304	6,699	142,314	3,386,322

20. PROPERTY, PLANT AND EQUIPMENT (continued)

GROUP 2007	DISTRIBUTION SYSTEMS $000	DISTRIBUTION LAND $000	DISTRIBUTION BUILDINGS $000	ELECTRICITY AND GAS METERS $000	GENERATION POWER STATIONS $000	COMPUTER AND TELECO EQUIPMENT $000	MOTOR VEHICLES AND MOBILE EQUIPMENT $000	OTHER PLANT AND EQUIPMENT $000	FREEHOLD LAND $000	BUILDINGS $000	LEASEHOLD IMPROVE-MENTS $000	CAPITAL WORK IN PROGRESS $000	TOTAL $000
Cost													
Balance at beginning of the period	3,262,286	76,291	42,324	152,419	11,456	32,087	5,459	67,504	19,149	6,917	8,165	147,793	3,831,850
Additions	-	-	-	16,247	1,702	351	3,365	13,955	195	-	24	208,539	244,368
Transfers to:													
Other classes	148,257	370	3,795	967	(1,866)	40,243	-	1,301	-	134	3,204	(196,405)	-
Disposals	(18,551)	(5)	(9)	(1,280)	-	(31)	(3,654)	(611)	(3,950)	(112)	-	-	(28,193)
Balance at end of the period	3,391,992	76,656	46,110	168,353	11,292	72,650	5,170	82,149	15,394	6,939	11,393	159,927	4,048,025
Accumulated depreciation													
Balance at beginning of the period	(54,213)	-	(572)	(8,603)	(4,440)	(20,680)	(1,880)	(7,062)	-	(754)	(3,077)	-	(101,288)
Depreciation	(106,233)	-	(1,423)	(10,440)	(1,265)	(4,667)	(924)	(4,425)	-	(247)	(497)	-	(130,121)
Disposals	6,466	-	-	891	-	18	2,127	23	-	6	-	-	9,531
Balance at end of the period	(153,980)	-	(1,995)	(18,152)	(5,705)	(25,336)	(677)	(11,464)	-	(995)	(3,574)	-	(221,878)
Net book value at 30 June 2007	3,238,012	76,656	44,115	150,201	5,587	47,314	4,493	70,685	15,394	5,944	7,819	159,927	3,826,147

20. PROPERTY, PLANT AND EQUIPMENT (continued)

PARENT 2008	COMPUTER AND TELECO EQUIPMENT $000	OTHER PLANT AND EQUIPMENT $000	TOTAL $000
Cost			
Balance at beginning of the period	**42**	**2**	**44**
Additions	**-**	**-**	**-**
Disposals	**(6)**	**-**	**(6)**
Balance at end of the period	**36**	**2**	**38**
Accumulated depreciation			
Balance at beginning of the period	**(22)**	**(2)**	**(24)**
Depreciation	**(8)**	**-**	**(8)**
Disposals	**-**	**-**	**-**
Balance at end of the period	**(30)**	**(2)**	**(32)**
Net book value at 30 June 2008	**6**	**-**	**6**

PARENT 2007	COMPUTER AND TELECO EQUIPMENT $000	OTHER PLANT AND EQUIPMENT $000	TOTAL $000
Cost			
Balance at beginning of the period	37	2	39
Additions	19	-	19
Disposals	(14)	-	(14)
Balance at end of the period	42	2	44
Accumulated depreciation			
Balance at beginning of the period	(23)	(2)	(25)
Depreciation	(10)	-	(10)
Disposals	11	-	11
Balance at end of the period	(22)	(2)	(24)
Net book value at 30 June 2007	20	-	20

20. PROPERTY, PLANT AND EQUIPMENT (continued)

Distribution systems assets acquired as a result of the acquisition of NGC Holdings Limited on 14 December 2004 were restated to reflect their fair value at that date. Distribution systems, distribution land and distribution buildings in Vector Limited were revalued in March 2006 to a total of $2,772.8 million in accordance with the Vector group's accounting policies at that time before transition to NZ IFRS. These fair values plus subsequent additions and disposals up to 30 June 2006 have been deemed the historic cost of those assets on transition to NZ IFRS on 1 July 2006. At that date, the total deemed cost for distribution systems, distribution land and distribution buildings was $3,262.3 million, $76.3 million and $42.3 million respectively. There were no changes to the total carrying amounts of those classes of property, plant and equipment from that reported under previous NZ GAAP on adoption of these deemed costs.

Interest and other internal costs are capitalised to property, plant and equipment while under construction. Interest is capitalised against property, plant and equipment at a capitalisation rate of 8% per annum. During the year $31.6 million (2007: $30.3 million) of interest and other costs were capitalised. Property, plant and equipment subject to finance lease arrangements are included in electricity meters, motor vehicles and mobile equipment and plant and equipment at net book values of $5.4 million, $2.4 million and $1.6 million (2007: $4.9 million, $0.3 million and $1.8 million) respectively. During the year ended 30 June 2007, Vector Communications Limited received $4.1 million of government grants which have been offset against capital work in progress above. The grants were for the construction of a fibre optic loop on the North Shore of Auckland and were awarded under the Government's Broadband Challenge Scheme. All conditions relating to the grants have been met and there are no contingencies attached to the grants.

Property, plant and equipment includes $5.4 million (2007: $4.9 million) of electricity meters which have been pledged as security for a working capital loan funding Stream Information Partnership, a subsidiary of the Group.

21. PAYABLES AND ACCRUALS

	GROUP		PARENT	
	2008 $000	2007 $000	2008 $000	2007 $000
Current				
Trade payables and other creditors	**129,135**	169,344	**765**	495
Deferred consideration payable	**1,006**	986	**-**	-
Interest payable	**53,838**	49,281	**-**	-
Total	**183,979**	219,611	**765**	495
Non-current				
Trade payables and other creditors	**16,123**	-	**-**	-
Deferred consideration payable	**3,052**	3,022	**-**	-
Finance leases	**3,820**	3,743	**-**	-
Other non-current payables	**715**	737	**-**	-
Total	**23,710**	7,502	**-**	-

The deferred consideration payable is in respect of Energy Intellect Limited, which is an associate company of the Vector group.

22. PROVISIONS

		GROUP		PARENT	
	NOTE	2008 $000	2007 $000	2008 $000	2007 $000
Current					
Provision for unclaimed distributions	23	**4,480**	2,651	**4,480**	2,651
Provision for employee entitlements	25	**5,552**	7,186	**7**	-
Other provisions	26	**24,915**	17,570	**-**	-
Total		**34,947**	27,407	**4,487**	2,651

Other provisions include a $8.9 million provision for a contractual indemnity and a $5.9 million provision for a customer billing dispute.

23. PROVISION FOR UNCLAIMED DISTRIBUTIONS

	Note	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
Balance at beginning of the period		**2,651**	146	**2,651**	146
Additions		**18,740**	24,941	**18,740**	24,941
Reversed		**(16,911)**	(22,436)	**(16,911)**	(22,436)
Balance at end of the period	22	4,480	2,651	4,480	2,651

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

24. DIVIDEND RECEIVED – AVAILABLE FOR DISTRIBUTION

	NOTE	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
Current					
Provision for dividends available for distribution		**47,373**	47,454	**47,373**	47,454

In accordance with the Trust Deed of the parent, dividends received from Vector Limited are to be distributed to beneficiaries after allowing for the costs of administrating the parent. The distribution of this income can only be determined when the distribution roll is prepared, and it is this roll which identifies the beneficiaries to whom the income of the trust is to be distributed. As at the 30 June 2008 no distribution roll had been struck to determine the allocation of this income to the beneficiaries.

25. PROVISION FOR EMPLOYEE ENTITLEMENTS

	Note	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
Balance at beginning of the period		**7,186**	8,371	-	-
(Utilised)/Additions		**(1,634)**	(1,185)	7	-
Balance at end of the period	22	**5,552**	7,186	7	-

26. OTHER PROVISIONS

	Note	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
Balance at beginning of the period		**17,570**	32,883	-	-
On acquisition of NGC Holdings Limited		-	(1,467)	-	-
Additions		**7,938**	699	-	-
Utilised		**(24)**	(7,789)	-	-
Reversed to the income statement		**(569)**	(6,756)	-	-
Balance at end of the period	22	**24,915**	17,570	-	-

27. COMMITMENTS

(a) Capital commitments for the acquisition and construction of property, plant and equipment and software

Capital expenditure contracted for at balance date but not yet incurred is as follows:

	GROUP		PARENT	
	2008 $000	2007 $000	2008 $000	2007 $000
Estimated capital expenditure contracted for at balance date but not provided	**53,295**	48,421	-	-

(b) Operating lease commitments

The majority of the operating lease commitments relate to premises leases. These, in the main, give the Vector group the right to renew the lease.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	GROUP		PARENT	
	2008 $000	2007 $000	2008 $000	2007 $000
Within one year	**4,355**	4,314	-	-
One to five years	**5,921**	9,864	-	-
Beyond five years	**3,739**	1,756	-	-
Total	**14,015**	15,934	-	-

(c) Finance lease commitments

Finance leases relate to plant and equipment, electricity meters and motor vehicles with varying lease terms. The following finance lease commitments are recorded in the financial statements:

	GROUP		PARENT	
	2008 $000	2007 $000	2008 $000	2007 $000
Minimum lease payments for finance lease liabilities				
Within one year	**2,916**	3,306	-	-
One to five years	**5,338**	6,580	-	-
Beyond five years	**-**	1	-	-
Total	**8,254**	9,887	-	-
Less: future finance charges	**(1,003)**	(1,664)	-	-
Present value of minimum lease payments	**7,251**	8,223	-	-

	GROUP		PARENT	
	2008 $000	2007 $000	2008 $000	2007 $000
Present value of finance lease liability				
Within one year	**2,349**	2,647	-	-
One to five years	**4,902**	5,575	-	-
Beyond five years	**-**	1	-	-
Present value of minimum lease payments	**7,251**	8,223	-	-

28. BORROWINGS

GROUP 2008	PAYABLE WITHIN 1 YEAR $000	PAYABLE BETWEEN 1 AND 2 YEARS $000	PAYABLE BETWEEN 2 AND 5 YEARS $000	PAYABLE AFTER 5 YEARS $000	FACE VALUE $000	AMORTISED COST ADJUSTMENT $000	FAIR VALUE ADJUSTMENT ON HEDGED RISK $000	CARRYING VALUE $000
Bank loans	510,000	-	-	-	510,000	(127)	-	509,873
Working capital loan	50,000	-	-	-	50,000	(9)	-	49,991
Medium term notes – AUD floating rate	-	-	250,000	-	250,000	(1,493)	6,243	254,750
Capital bonds	-	-	307,205	-	307,205	(2,453)	-	304,752
Fixed interest rate bonds	200,000	-	-	-	200,000	(378)	(2,765)	196,857
Senior notes – USD fixed rate	-	-	22,817	395,498	418,315	(1,460)	(50,861)	365,994
Floating rate notes	-	-	-	1,200,000	1,200,000	(18,791)	-	1,181,209
Medium term notes – GBP fixed rate	-	-	-	285,614	285,614	(4,748)	15,276	296,142
Other	1,856	1,018	1,131	-	4,005	-	-	4,005
	761,856	1,018	581,153	1,881,112	3,225,139	(29,459)	(32,107)	3,163,573

GROUP 2007	PAYABLE WITHIN 1 YEAR $000	PAYABLE BETWEEN 1 AND 2 YEARS $000	PAYABLE BETWEEN 2 AND 5 YEARS $000	PAYABLE AFTER 5 YEARS $000	FACE VALUE $000	AMORTISED COST ADJUSTMENT $000	FAIR VALUE ADJUSTMENT ON HEDGED RISK $000	CARRYING VALUE $000
Bank loans	-	395,000	-	-	395,000	(219)	-	394,781
Working capital loan	40,000	-	-	-	40,000	-	-	40,000
Medium term notes – AUD floating rate	319,018	-	250,000	-	569,018	(2,723)	(58,928)	507,367
Capital bonds	-	-	307,205	-	307,205	(2,968)	-	304,237
Fixed interest rate bonds	-	200,000	-	-	200,000	(961)	(6,137)	192,902
Senior notes – USD fixed rate	-	-	-	418,315	418,315	(1,568)	(84,798)	331,949
Floating rate notes	-	-	-	1,200,000	1,200,000	(21,563)	-	1,178,437
Other	2,007	1,205	1,842	1	5,055	-	-	5,055
	361,025	596,205	559,047	1,618,316	3,134,593	(30,002)	(149,863)	2,954,728

28. BORROWINGS (continued)

The parent has no borrowings. All Vector group companies' borrowings are unsecured and are subject to negative pledge arrangements.

Interest rates for all bank loans are floating based on the bank bill rate plus a margin. Bank loans are arranged through various facility agreements.

Facilities with total committed amount of $700 million will expire in October 2008. Vector Limited's board intends to use proceeds from the sale of Vector Wellington Electricity Networks Limited to fund repayment of the drawn amount under this facility prior to its expiry.

The working capital loan facility with total commitment of $100 million is due to expire in December 2008.

Medium term notes – floating rate AUD 204 million mature April 2011. The interest on AUD medium term notes is paid quarterly, based on BBSW plus a margin. Medium term notes - floating rate AUD 260 million matured in April 2008 and were refinanced in the same month with GBP 115 million fixed rate notes due to mature in January 2019 at a contract exchange rate of GBP 0.4026 for every NZD.

Capital bonds are unsecured, subordinated bonds with the next election date set as 15 June 2012. The interest is currently fixed at 8.00% p.a and is paid semi-annually.

Fixed interest rate bonds have a coupon rate of 6.81% and are due to mature in March 2009.

Senior notes of USD 15 million, USD 65 million and USD 195 million, with original maturity periods of 8, 12 and 15 years respectively were placed privately with US investors in September 2004 at a contract exchange rate of USD 0.6574 for every NZD.

The floating rate notes totalling $1.2 billion were issued in three tranches in October 2005 ($250 million 10 year, $400 million 12 year, and $350 million 15 year) and in one tranche in April 2007 ($200 million 10 year).

The $1.2 billion floating rate notes are credit wrapped by MBIA Insurance Corporation (10 year and 15 year tranches issued in October 2005) and Ambac Assurance Corporation (12 year tranche issued in October 2005 and 10 year tranche issued in April 2007).

All borrowings are measured at amortised cost adjusted for fair value movements in respect of the hedged risk on borrowings designated in fair value hedge relationships and are classified between current and non-current dependent on contractual obligations. Borrowings are subject to various lending covenants. These have all been met for the years ended 30 June 2007 and 30 June 2008.

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

The parent has a treasury policy approved by the trustees.

FAIR VALUES	GROUP 2008				GROUP 2007			
	CARRYING AMOUNT (EXCLUDING ACCRUALS) $000	CARRYING AMOUNT PAYABLES AND ACCRUALS $000	TOTAL CARRYING AMOUNT $000	FAIR VALUE $000	CARRYING AMOUNT (EXCLUDING ACCRUALS) $000	CARRYING AMOUNT PAYABLES AND ACCRUALS $000	TOTAL CARRYING AMOUNT $000	FAIR VALUE $000
Financial assets								
Cash and cash equivalents	**107,318**	**-**	**107,318**	**107,318**	60,438	-	60,438	60,438
Loans and receivables	**199,298**	**-**	**199,298**	**199,298**	194,003	-	194,003	194,003
Financial liabilities								
Trade payables and other creditors	**150,031**	**-**	**150,031**	**150,031**	174,089	-	174,089	174,089
Bank loans	**509,873**	**4,208**	**514,081**	**514,208**	394,781	3,417	398,198	398,417
Working capital loan	**49,991**	**12**	**50,003**	**50,012**	40,000	18	40,018	40,018
Medium term notes – AUD floating rate	**254,750**	**4,892**	**259,642**	**264,870**	507,367	8,605	515,972	523,104
Capital bonds	**304,752**	**3,165**	**307,917**	**276,149**	304,237	3,235	307,472	300,257
Fixed interest rate bonds	**196,857**	**1,362**	**198,219**	**198,792**	192,902	1,363	194,265	196,175
Senior notes – USD fixed rate	**365,994**	**6,850**	**372,844**	**395,899**	331,949	6,877	338,826	361,802
Floating rate notes	**1,181,209**	**20,568**	**1,201,777**	**1,220,569**	1,178,437	19,222	1,197,659	1,219,222
Medium term notes – GBP fixed rate	**296,142**	**4,833**	**300,975**	**349,894**	-	-	-	-
Other	**4,005**	**24**	**4,029**	**4,449**	5,055	-	5,055	5,101

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

FAIR VALUES	GROUP 2008				GROUP 2007			
	CARRYING AMOUNT (EXCLUDING ACCRUALS) $000	CARRYING AMOUNT PAYABLES AND ACCRUALS $000	TOTAL CARRYING AMOUNT $000	FAIR VALUE $000	CARRYING AMOUNT (EXCLUDING ACCRUALS) $000	CARRYING AMOUNT PAYABLES AND ACCRUALS $000	TOTAL CARRYING AMOUNT $000	FAIR VALUE $000
Derivative financial instruments – liabilities/(assets)								
Interest rate swaps	**(26,843)**	**(5,154)**	**(31,997)**	**(31,997)**	(62,466)	(3,127)	(65,593)	(65,593)
Interest rate caps	**(2,880)**	**(116)**	**(2,996)**	**(2,996)**	(6,608)	(69)	(6,677)	(6,677)
Cross currency swaps	**60,722**	**(2,154)**	**58,568**	**58,568**	145,457	(1,732)	143,725	143,725
Forward exchange contracts	**199**	**-**	**199**	**199**	224	-	224	224

FAIR VALUES	PARENT 2008				PARENT 2007			
	CARRYING AMOUNT (EXCLUDING ACCRUALS) $000	CARRYING AMOUNT PAYABLES AND ACCRUALS $000	TOTAL CARRYING AMOUNT $000	FAIR VALUE $000	CARRYING AMOUNT (EXCLUDING ACCRUALS) $000	CARRYING AMOUNT PAYABLES AND ACCRUALS $000	TOTAL CARRYING AMOUNT $000	FAIR VALUE $000
Financial assets								
Cash and cash equivalents	**53,737**	**-**	**53,737**	**53,737**	53,430	-	53,430	53,430
Loans and receivables	**1,671**	**-**	**1,671**	**1,671**	985	-	985	985
Financial liabilities								
Trade payables and other creditors	765	-	765	765	495	-	495	495

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

Trade receivables and payables, cash and cash equivalents

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

Bank loans, working capital loans and floating rate notes

The fair value of bank loans, working capital loans and floating rate notes includes the principal and interest accrued. The carrying amount includes the principal, interest accrued and unamortised finance costs. Interest accruals are included in the balance sheet within payables and accruals.

Medium term notes

The fair value of AUD and GBP medium term notes is based on quoted market prices. The carrying amount for the AUD and the GBP medium term notes includes the principal converted at contract rates, interest accrued, unamortised finance costs and a fair value adjustment for the component of the risk that is hedged. Interest accruals are included in the balance sheet within payables and accruals.

Capital bonds

The fair value of capital bonds is based on quoted market prices. The carrying amount includes the principal, interest accrued and unamortised finance costs. Interest accruals are included in the balance sheet within payables and accruals.

Fixed interest rate bonds

The fair value of fixed interest rate bonds is based on quoted market prices. The carrying amount includes the principal, interest accrued, unamortised finance costs and a fair value adjustment for the component of the risk that is hedged. Interest accruals are included in the balance sheet within payables and accruals.

Senior notes – USD fixed rate

The fair value of USD privately placed senior notes is based on quoted market prices. The carrying amount for the USD privately placed senior notes includes the principal converted at contract rates, interest accrued, unamortised finance costs and a fair value adjustment for the component of the risk that is hedged. Interest accruals are included in the balance sheet within payables and accruals.

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

FAIR VALUES (continued)

Derivative instruments

The fair value of interest rate swaps, cross currency swaps and other derivative instruments is estimated based on the quoted market prices for these instruments. The carrying amount of these derivative instruments is the same as the fair value and includes interest accruals. Interest accruals are included in the balance sheet within payables and accruals.

INTEREST RATE RISK

The Vector group actively manages interest rate exposures in accordance with treasury policy. In this respect, at least forty percent of all debt must be at fixed interest rates or effectively fixed using interest rate swaps, forward rate agreements, options and other derivative instruments. The main objectives are to minimise the cost of total debt, control variations in the interest expense of the debt portfolio from year to year and to match where practicable the interest rate risk profile of debt with the risk profile of the Vector group's assets. The treasury policy sets parameters for managing the interest rate maturity profile. The parameters depend upon the Standard and Poor's credit rating and the Reserve Bank of New Zealand continuing to implement monetary policy through adjustments to the official cash rate.

The weighted average interest rates of borrowings are as follows.

	GROUP 2008 WEIGHTED AVERAGE INTEREST RATE %	FACE VALUE $000	GROUP 2007 WEIGHTED AVERAGE INTEREST RATE %	FACE VALUE $000
Bank loans	**9.01**	**510,000**	8.52	395,000
Working capital loan	**8.65**	**50,000**	8.16	40,000
Medium term notes – AUD floating rate	**8.40**	**250,000**	7.02	569,018
Capital bonds	**8.00**	**307,205**	8.00	307,205
Fixed interest rate bonds	**6.81**	**200,000**	6.81	200,000
Senior notes – USD fixed rate	**5.65**	**418,315**	5.65	418,315
Floating rate notes	**9.21**	**1,200,000**	8.41	1,200,000
Medium term notes – GBP fixed rate	**7.63**	**285,614**	-	-
Other	**7.24**	**4,005**	6.36	5,055
		3,225,139		3,134,593

The parent has no borrowings.

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

INTEREST RATE RISK (continued)

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

	GROUP 2008			GROUP 2007		
	WEIGHTED AVERAGE INTEREST RATE RECEIVE LEG %	WEIGHTED AVERAGE INTEREST RATE PAY LEG %	NOTIONAL AMOUNT $000	WEIGHTED AVERAGE INTEREST RATE RECEIVE LEG %	WEIGHTED AVERAGE INTEREST RATE PAY LEG %	NOTIONAL AMOUNT $000
Interest rate swaps (floating to fixed)						
Maturing in less than 1 year	**8.91**	**6.66**	**70,000**	7.98	7.20	310,000
Maturing between 1 and 2 years	**8.86**	**7.46**	**420,000**	8.02	6.66	70,000
Maturing between 2 and 5 years	**8.85**	**6.83**	**860,000**	8.04	6.85	930,000
Maturing after 5 years	**8.86**	**7.12**	**400,000**	8.08	6.77	400,000
			1,750,000			1,710,000
Interest rate swaps (fixed to floating)						
Maturing in less than 1 year	**6.81**	**9.10**	**200,000**	-	-	-
Maturing between 1 and 2 years	**-**	**-**	**-**	6.81	8.61	200,000
			200,000			200,000
Forward starting interest rate swaps						
Floating to fixed maturing after 5 years	**N/A**	**6.73**	**800,000**	N/A	6.25	350,000
			800,000			350,000
Interest rate cap						
Maturing between 1 and 2 years	**8.65**	**7.95**	**400,000**	-	-	-
Maturing between 2 and 5 years	**-**	**-**	**-**	8.34	7.95	400,000
			400,000			400,000

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

INTEREST RATE RISK (continued)

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

	GROUP 2008				GROUP 2007			
	WEIGHTED AVERAGE INTEREST RATE RECEIVE LEG %	PRINCIPAL AMOUNT '000	WEIGHTED AVERAGE INTEREST RATE PAY LEG %	$000	WEIGHTED AVERAGE INTEREST RATE RECEIVE LEG %	PRINCIPAL AMOUNT '000	WEIGHTED AVERAGE INTEREST RATE PAY LEG %	$000
Cross currency swaps								
AUD : NZD								
Maturing in less than 1 year	-	-	-	-	6.98	260,000	8.46	319,018
Maturing between 2 and 5 years	**8.40**	**203,750**	**9.40**	**250,000**	7.07	203,750	8.45	250,000
		203,750		**250,000**		463,750		569,018
USD : NZD								
Maturing between 2 and 5 years	**5.04**	**15,000**	**9.23**	**22,817**	-	-	-	-
Maturing after 5 years	**5.69**	**260,000**	**9.43**	**395,498**	5.65	275,000	9.11	418,315
		275,000		**418,315**		275,000		418,315
GBP : NZD								
Maturing after 5 years	**7.63**	**115,000**	**10.84**	**285,614**	-	-	-	-
		115,000		**285,614**		-		-

Bank loans, working capital loans, AUD medium term notes and floating rate notes are based on floating rates.

A portion of the bank loans and floating rate notes are hedged through interest rate swaps which convert the floating rate into a fixed rate.

The AUD medium term notes are fully hedged through cross currency swaps (eliminating the foreign currency risk). The majority of the ensuing floating exposure is hedged through interest rate swaps (floating to fixed).

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

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

The GBP medium term notes are at fixed interest rates and are hedged by cross currency swaps (eliminating the foreign currency risk). The pay leg of the cross currency swaps is in NZD and is fixed eliminating the interest rate risk.

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

Interest rate caps are set at 7.95% and therefore no exchange of cash will take place if the interest rate on the receive leg goes below the set rate.

Capital bonds are at a fixed interest rate and are not hedged.

CAPITAL RISK MANAGEMENT

The Trust's objectives when managing capital are to safeguard the Trust's ability to continue as a going concern in order to provide benefits to the beneficiaries.

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

FOREIGN EXCHANGE RISK

The Vector group has conducted transactions in foreign currencies for the purpose of protecting the NZD value of capital expenditure. The Vector group has outstanding forward exchange contracts. These are used to hedge forecasted foreign currency exposure arising out of the capital expenditure program. Hence at balance date the Vector group has no significant exposure to foreign currency risk. All contracts in the following table are due to mature in less than one year.

	GROUP 2008				GROUP 2007			
CURRENCY	BUY $000	SPOT RATE	WEIGHTED AVERAGE EXCHANGE RATE	MARK TO MARKET GAIN/(LOSS) $000	BUY $000	SPOT RATE	WEIGHTED AVERAGE EXCHANGE RATE	MARK TO MARKET GAIN/(LOSS) $000
EUR	**3,593**	**0.48**	**0.50**	**321**	710	0.57	0.52	(129)
USD	**13,194**	**0.76**	**0.72**	**(520)**	57	0.77	0.68	(10)
GBP	-	-	-	-	312	0.38	0.35	(85)
				(199)				(224)

CREDIT RISK

In the normal course of business, the group is exposed to credit risks from energy retailers, financial institutions, customers, cash and cash equivalents as well as credit exposures with respect to outstanding receivables. The Vector group has credit policies, which are used to manage the exposure to credit risks. As part of these policies, the Vector group can only have exposures to financial institutions having at least a credit rating of A+ long term from Standard & Poor's (or equivalent rating). In addition, limits on exposures to financial institutions have been set by the board of directors and are monitored on a regular basis. In this respect, the Vector group minimises its credit risk by spreading such exposures across a range of institutions. The Vector group does not anticipate non-performance by any of these financial institutions.

The Vector group has some concentration of credit exposures with a few large energy retailers and large energy customers. To minimise this risk, the Vector group performs credit evaluations on all energy retailers and large energy customers and requires a bond or other form of security where deemed necessary. The Vector group places its cash deposits with a small number of banking institutions and limits the amount deposited with each institution. The maximum exposure to credit risk is represented by the fair value of each financial instrument.

	GROUP		PARENT	
	2008 FAIR VALUE $000	2007 FAIR VALUE $000	2008 FAIR VALUE $000	2007 FAIR VALUE $000
Cash and cash equivalents	**107,318**	60,438	**53,737**	53,430
Loans and receivables	**199,298**	194,003	**1,671**	985
Interest rate swaps	**31,997**	65,593	-	-
Cross currency swaps AUD : NZD	**5,918**	-	-	-
Interest rate caps	**2,996**	6,677	-	-
Forward exchange contracts	**321**	-	-	-

The aging of trade receivables at the balance date was:

	GROUP		PARENT	
	2008 CARRYING AMOUNT $000	2007 CARRYING AMOUNT $000	2008 CARRYING AMOUNT $000	2007 CARRYING AMOUNT $000
Not past due	**133,093**	149,911	-	-
Past due 1-30 days	**7,818**	5,259	-	-
Past due 31-120 days	**7,107**	3,560	-	-
Past due more than 120 days	**9,490**	9,601	-	-
Total	**157,508**	168,331	-	-

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

LIQUIDITY RISK

Liquidity risk is the risk that the Vector group may encounter difficulty in raising funds at short notice to meet its financial commitments as they fall due. In order to reduce the exposure to liquidity risk, the Vector group has access to undrawn committed lines of credit. Cash flow reporting systems are maintained to monitor the forecast liquidity position over an outlook of five years.

The day-to-day liquidity exposure is managed by ensuring that sufficient levels of liquid assets and committed facilities are maintained for the next four to five weeks based on daily rolling operational cash flow forecasts. Short term liquidity crisis management is managed by ensuring sufficient borrowing capacity and liquid assets are available as determined from a monthly rolling 18 month cash flow forecast.

The long term liquidity exposure is managed by ensuring estimated deficits in net cash flow are able to be met as determined by the yearly rolling five year cash flow forecast. Undrawn committed facilities of $240 million (2007: $335 million) are available.

The following contractual cash flows reflect principal only and do not include cash flows resulting from interest payments. Foreign currency financial instruments are converted into NZD using the spot rates at balance date.

GROUP 2008	PAYABLE WITHIN 1 YEAR $000	PAYABLE BETWEEN 1 AND 2 YEARS $000	PAYABLE BETWEEN 2 AND 5 YEARS $000	PAYABLE AFTER 5 YEARS $000	TOTAL CONTRACTUAL CASH FLOWS $000
Non derivative financial liabilities					
Trade payables	129,135	16,123	-	-	145,258
Bank loans	510,000	-	-	-	510,000
Working capital loan	50,000	-	-	-	50,000
Medium term notes – AUD floating rate	-	-	257,325	-	257,325
Capital bonds	-	-	307,205	-	307,205
Fixed interest rate bonds	200,000	-	-	-	200,000
Senior notes – USD fixed rate	-	-	19,688	341,252	360,940
Floating rate notes	-	-	-	1,200,000	1,200,000
Medium term notes – GBP fixed rate	-	-	-	300,968	300,968
Other	1,856	1,018	1,131	-	4,005
Derivative financial (assets) / liabilities					
Cross currency swaps USD : NZD					
Inflow	-	-	(19,688)	(341,252)	(360,940)
Outflow	-	-	22,817	395,498	418,315
Cross currency swaps AUD : NZD					
Inflow	-	-	(257,325)	-	(257,325)
Outflow	-	-	250,000	-	250,000
Cross currency swaps GBP : NZD					
Inflow	-	-	-	(300,968)	(300,968)
Outflow	-	-	-	285,614	285,614
Forward exchange contracts					
Inflow	(25,394)	-	-	-	(25,394)
Outflow	25,394	-	-	-	25,394
	890,991	17,141	581,153	1,881,112	3,370,397

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

LIQUIDITY RISK (continued)

GROUP 2007	PAYABLE WITHIN 1 YEAR $000	PAYABLE BETWEEN 1 AND 2 YEARS $000	PAYABLE BETWEEN 2 AND 5 YEARS $000	PAYABLE AFTER 5 YEARS $000	TOTAL CONTRACTUAL CASH FLOWS $000
Non derivative financial liabilities					
Trade payables	169,344	-	-	-	169,344
Bank loans	-	395,000	-	-	395,000
Working capital loan	40,000	-	-	-	40,000
Medium term notes – AUD floating rate	286,060	-	224,172	-	510,232
Capital bonds	-	-	307,205	-	307,205
Fixed interest rate bonds	-	200,000	-	-	200,000
Senior notes – USD fixed rate	-	-	-	357,328	357,328
Floating rate notes	-	-	-	1,200,000	1,200,000
Other	2,007	1,205	1,842	1	5,055
Derivative financial (assets) / liabilities					
Cross currency swaps USD : NZD					
Inflow	-	-	-	(357,328)	(357,328)
Outflow	-	-	-	418,315	418,315
Cross currency swaps AUD : NZD					
Inflow	(286,060)	-	(224,172)	-	(510,232)
Outflow	319,018	-	250,000	-	569,018
Forward exchange contracts					
Inflow	(2,359)	-	-	-	(2,359)
Outflow	2,359	-	-	-	2,359
	530,369	596,205	559,047	1,618,316	3,303,937

PARENT 2008	PAYABLE WITHIN 1 YEAR $000	PAYABLE BETWEEN 1 AND 2 YEARS $000	PAYABLE BETWEEN 2 AND 5 YEARS $000	PAYABLE AFTER 5 YEARS $000	TOTAL CONTRACTUAL CASH FLOWS $000
Non derivative financial liabilities					
Trade payables	765	-	-	-	765
	765	-	-	-	765

PARENT 2007	PAYABLE WITHIN 1 YEAR $000	PAYABLE BETWEEN 1 AND 2 YEARS $000	PAYABLE BETWEEN 2 AND 5 YEARS $000	PAYABLE AFTER 5 YEARS $000	TOTAL CONTRACTUAL CASH FLOWS $000
Non derivative financial liabilities					
Trade payables	495	-	-	-	495
	495	-	-	-	495

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

HEDGE ACCOUNTING AND SENSITIVITY ANALYSIS

The sensitivity analysis has been determined based on the exposure to interest rates and foreign exchange rates for both derivatives and non-derivative instruments at the balance date. It is assumed that the amount of the liability at the balance date was outstanding for the whole year. A ten percent and a one percent increase or decrease is used for foreign exchange rates and interest rates respectively and these changes represent management's assessment of the reasonably possible change over a year.

CASH FLOW SENSITIVITY ANALYSIS FOR VARIABLE RATE INSTRUMENTS

Interest rate swaps hedging the floating rate debt are hedge accounted and treated as cash flow hedges and hence any changes in interest rate will have no material impact on profits as changes in the fair value of these swaps are taken through equity. A fall of 1% in interest rate will lower equity by $52.8 million (2007: $49.1 million) whereas an increase of 1% in interest rate will increase equity by $50.1 million (2007: $46.6 million).

Forward starting interest rate swaps hedging the forecasted floating rate debt are also hedge accounted and treated as cash flow hedges and hence any changes in interest rate will have no material impact on profits as changes in the fair value of these swaps are taken through equity. The fall of 1% in interest rate will lower equity by $27.8 million (2007: $10.7 million) whereas an increase of 1% in interest rate will increase equity by $24.9 million (2007: $9.4 million).

Floating rate notes of $85 million (2007: $85 million) and bank loans of $100 million (2007: $25 million) have not been hedged and hence a fall in interest rate by 1% will increase the profit by $1.3 million (2007: $1.1 million) whereas an increase in interest rate by 1% will decrease the profit by $1.3 million (2007: $1.1 million). The interest expense movement is calculated for one year and proportionally allocated over the number of days, if maturity falls below one year.

FAIR VALUE SENSITIVITY ANALYSIS FOR FIXED RATE INSTRUMENTS

Interest rate swaps hedging the fixed interest rate bonds are hedge accounted and treated as fair value hedges and hence any changes in interest rates will have no material impact on profits as the changes in fair value of the swaps will be offset by changes in the fair value of the underlying exposure, the NZ$200 million fixed interest rate bonds. Interest expense will be affected by changes in the interest rate. A fall in interest rate of 1% will increase the profit by $2.0 million (2007: $2.0 million) and an increase in interest rate of 1% will decrease the profit by $2.0 million (2007: $2.0 million).

FAIR VALUE SENSITIVITY ANALYSIS FOR UNHEDGED DERIVATIVES (FAIR VALUE THROUGH PROFIT AND LOSS)

Interest rate caps have not been designated as part of a hedge accounting relationship. Hence changes in fair values are realised in the income statement. A fall in interest rate by 1% will reduce the profit by $0.9 million (2007: $3.3 million) whereas an increase in interest rate by 1% will increase the profit by $2.7 million (2007: $6.2 million).

FAIR VALUE SENSITIVITY ANALYSIS FOR CROSS CURRENCY SWAPS (CASH FLOW HEDGE / FAIR VALUE HEDGE)

Cross currency swaps hedging the foreign currency denominated debt are hedge accounted and treated either as a cash flow hedge or a fair value hedge depending upon the risk being hedged. Any changes in fair value arising out of foreign exchange movements will have no impact on the profit as the receive leg of the cross currency swap exactly offsets the coupon payments of the underlying exposure. However, changes in the interest rate will impact the profit as shown in the table below. The impact on profit is calculated for one year and proportionally allocated over the number of days, if maturity falls below one year.

	GROUP 2008		GROUP 2007	
	-1% CHANGE IN INTEREST RATE $000	+1% CHANGE IN INTEREST RATE $000	-1% CHANGE IN INTEREST RATE $000	+1% CHANGE IN INTEREST RATE $000
Cross currency swaps				
AUD : NZD	**250**	**(250)**	2,776	(2,776)
USD : NZD	**4,183**	**(4,183)**	4,183	(4,183)
Total impact on profit increase / (decrease)	**4,433**	**(4,433)**	6,959	(6,959)

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

HEDGE ACCOUNTING AND SENSITIVITY ANALYSIS (continued)

FAIR VALUE SENSITIVITY ANALYSIS FOR FORWARD EXCHANGE CONTRACTS (CASH FLOW HEDGES)

Forward exchange contracts hedging the forecasted foreign currency exposure arising out of the capital expenditure program are treated as cash flow hedges and hence any changes in foreign exchange rates will have no material impact on profits as changes in the fair value of these contracts are taken through equity. However, for the year ended 30 June 2007, forward exchange contracts were unhedged and designated as fair value through profit or loss and hence changes in fair values were realised in the income statement.

	GROUP 2008		GROUP 2007	
	-10% CHANGE IN FX RATE $000	+10% CHANGE IN FX RATE $000	-10% CHANGE IN FX RATE $000	+10% CHANGE IN FX RATE $000
Forward exchange contracts				
EUR	**812**	**(490)**	139	(113)
USD	**1,902**	**(1,556)**	8	(7)
GBP	**-**	**-**	90	(74)
Total impact on equity increase / (decrease)	**2,714**	**(2,046)**	-	-
Total impact on profit increase / (decrease)	**-**	**-**	237	(194)

CAPITAL MANAGEMENT

The Vector group's objectives when managing capital are:

- to safeguard the entity's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing products and services commensurate with the level of risk.

The Vector group manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Vector group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The Vector group monitors capital on the basis of the net debt to net debt plus equity ratio. This ratio is calculated as net debt divided by net debt plus equity, where net debt is calculated as total debt less cash and cash equivalents.

The net debt to net debt plus equity ratios at 30 June 2008 and 30 June 2007 were as follows:

	Note	GROUP 2008 $000	GROUP 2007 $000
Current borrowings		**758,578**	327,592
Non-current borrowings		**2,404,995**	2,627,136
Total borrowings		**3,163,573**	2,954,728
Less: cash and cash equivalents		**(53,581)**	(7,008)
Net debt		**3,109,992**	2,947,720
Total equity	11	**1,901,324**	1,936,131
Net debt plus equity		**5,011,316**	4,883,851
Net debt to net debt plus equity ratio		**0.62**	0.60

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

HEDGE ACCOUNTING AND SENSITIVITY ANALYSIS (continued)

FINANCIAL GUARANTEES

Vector Limited has provided guarantees on behalf of Vector Gas Limited for the sale and purchase of gas. These guarantees are regarded as insurance contracts. No claims have been made against the guarantee hence there is no impact on the balance sheet of the group and no further disclosure required.

30. CONTINGENT LIABILITIES

The board of directors of Vector Limited are aware of claims that have been made against Vector and, where appropriate, have recognised provisions for these within note 22 of these financial statements. No other material contingencies requiring disclosure have been identified.

31. TRANSACTIONS WITH RELATED PARTIES

During the year the parent engaged in the following transactions with Vector Limited. The parent is the majority shareholder of Vector Limited.

	PARENT	
	2008 $000	2007 $000
Receipt of dividend from Vector Limited	**97,630**	93,875
Reimbursement of Wellington expenses from Vector Limited	**636**	-
Payment of office rent to Vector Limited	**17**	17

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

The reimbursement of Wellington expenses from Vector Limited remains outstanding as at 30 June 2008.

The group and parent entered into the following transactions with subsidiaries, associates and other related companies.

	GROUP		PARENT	
	2008 $000	2007 $000	2008 $000	2007 $000
Purchase of vegetation management services from Treescape Limited	**8,451**	8,226	**-**	-
Purchase of electricity meters and metering services from Energy Intellect Limited	**1,346**	2,761	**-**	-
Income from sale of natural gas to Wanganui Gas Limited (to 30 October 2006)	**-**	4,526	**-**	-

In December 2007, NGC Metering Limited sold property, plant and equipment valued at $3.5 million to Advanced Metering Services Limited in return for a 50% shareholding in that newly-formed entity.

In May 2008, Vector Limited transferred $628.6 million of assets and $68.7 million of liabilities attributable to its Wellington electricity network to Vector Metering Data Services Limited and its subsidiary, Vector Wellington Electricity Networks Limited. Consideration for the transfer was exactly equal to the carrying values of the net assets transferred such that no gain or loss has been recognised in the income statement of the group.

31. TRANSACTIONS WITH RELATED PARTIES (continued)

At 30 June 2008, there are no material outstanding balances due to/from associates and joint ventures which are related parties of the group.

The above advances to/from subsidiaries are non-interest bearing and repayable on demand, with the exception of the receivable balance from Vector Communications Limited which accrues interest at a rate of 9.7% per annum. Advances to subsidiaries are at arms' length.

A provision of $67.2 million (2007: $67.5 million) is held against Vector Limited's receivable from MEL Network Limited. No related party debts have been written off or forgiven during the period. Vector Limited has provided guarantees on behalf of Vector Gas Limited for the sale and purchase of gas. These guarantees are regarded as insurance contracts.

Vector has prepaid invoices of $0.6 million to Treescape Limited on 25 June 2008.

The Vector group may transact on an arms' length basis with companies in which Vector's directors have a disclosed interest.

32. KEY MANAGEMENT PERSONNEL

This table includes remuneration of the Vector group's CEO and members of the Vector group's executive team.

	GROUP		PARENT	
	2008 $000	2007 $000	2008 $000	2007 $000
Salary and other short-term employee benefits	**4,732**	5,120	-	-
Redundancy and termination benefits	**1,932**	151	-	-
Other long term benefits	**86**	150	-	-
Total	**6,750**	5,421	-	-

The group has paid the following remuneration to the trustees and to the directors of Vector Limited during the period as follows:

	GROUP		PARENT	
	2008 $000	2007 $000	2008 $000	2007 $000
Trustees and Directors Remuneration				
W J Kyd (Chairman)	91	81	91	81
M J Buczkowski (Deputy Chairman)	66	58	66	58
J A Carmichael	63	35	63	35
S Chambers *	129	122	39	38
K A Sherry *	139	114	49	30
J G Collinge	-	15	-	15
Directors fees paid to non-trustee directors of Vector Limited	766	591	-	-
Total	1,254	1,016	308	257

* As Trustee Directors, S Chambers and K Sherry received Directors fees from Vector Limited and returned to Auckland Energy Consumer Trust an amount equal to 10% of their annual Directors fee. While it is reflected in the financial statements as a reduction in Trustees Remuneration, it is actually a return of the Directors fee.

33. EVENTS AFTER BALANCE DATE

The Vector group of companies received $780 million and $5 million on the 24 July 2008 and 31 July 2008 respectively from Cheung Kong Infrastructure Holdings Limited (CKI) in consideration for sale of 100% of its shares in Vector Wellington Electricity Networks Limited, being Vector's subsidiary holding all the assets and liabilities attributable to the Wellington electricity network at that date. The gain on sale after deducting selling costs is around $200 million. The financial effect of this transaction is as follows:

- $634.9 million of current assets and $68.9 million of current liabilities recognised as operations held for sale in the balance sheet at 30 June 2008 will become derecognised as a result of the sale;
- the gain of around $200 million will be recognised in the income statement for the year ended 30 June 2009; and
- the income statement for the year ended 30 June 2009 will exclude income in relation to the discontinued activities. The income statements for the years ended 30 June 2008 and 30 June 2007 analysed between continuing and discontinued activities in note 1 are indicative of the revenues and expenditures that may be derived in future from continuing activities alone.

On 25 July 2008, subsequent to the sale of the shares of Vector Wellington Electricity Network Limited to CKI, the board of directors of Vector Limited gave notice to the relevant banks of the cancellation of $500 million of the $700 million senior credit facility effective 4 August 2008.

On 26 August 2008, the Vector board authorised management to proceed with the raising of a new $125 million senior credit facility. On that same day, Vector's board of directors also formally authorised a share buyback of up to $25 million of Vector Limited ordinary shares (to commence from 1 September 2008). The impact of this on the parent will be to raise the trust's shareholding in Vector Limited from 75.1% to approximately 77%

On 27 August 2008, the board of directors of Vector Limited declared a final dividend for the year ended 30 June 2008 of 6.75 cents per share to be paid on 18 September 2008.

On 27 August 2008, the trustees resolved to make a net distribution to beneficiaries to be paid on 19 September 2008 of $320 each (2007: $320).

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

34. GUIDELINES OF ACCESS TO INFORMATION

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.

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
Nil	Nil	Nil	N/A

35. EXPLANATION OF TRANSITION TO IFRSs

The figures and explanations contained in this note were disclosed as part of Vector's 31 December 2007 interim financial statements. Vector's discontinued operations were determined after this date and therefore the disclosures in this note do not distinguish between continuing and discontinued operations. Disclosure of the results of continuing and discontinued operations is presented in note 1.

In December 2002 the New Zealand Accounting Standards Review Board announced that New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) will apply to all New Zealand reporting entities for financial periods commencing on or after 1 January 2007.

In preparing these financial statements on a basis consistent with NZ IFRS for the first time, the Trust has restated amounts previously-reported under New Zealand accounting standards (NZ GAAP) applying accounting policies consistent with NZ IFRS. This required a restatement of opening balances as at 1 July 2006, with initial transitional adjustments recognised retrospectively against retained earnings within total equity at that date. Transactions occurring during the year ended 30 June 2007 are also restated in these financial statements. Detailed reconciliations of the income statements and balance sheets for these comparative periods as reported under NZ IFRS and NZ GAAP are presented below. The reconciliation of the income statement for the year end 30 June 2007 excludes the restatement for the impact of discontinued activities. The income statement for the comparative year is therefore reconciled to the total column in note 1. There were no impacts other than minor presentation changes on the consolidated cash flow statement in relation to adopting NZ IFRS. For further details of the financial impacts and exemptions taken on transition to NZ IFRS on 1 July 2006 in accordance with NZ IFRS 1, *First Time Adoption of New Zealand equivalents to International Financial Reporting Standards*, please refer to Auckland Energy Consumer Trust's Annual Report for the year ended 30 June 2007.

RESTATEMENT OF COMPARATIVE PERIOD FINANCIAL INFORMATION

The following notes explain the nature of each NZ IFRS adjustment and are cross-referenced to the reconciliations that immediately follow them. Reconciliations are for the year ended 30 June 2007 (headed 2007) and the date of transition to NZ IFRS, 1 July 2006 (headed 2006).

Presentational differences

(a) The Vector group of companies obtains revenue from the temporary storage of imported LPG through its 60.25% owned subsidiary Liquigas Limited. It has been determined that Vector acts as an agent in these transactions and therefore the revenue and related costs of sales previously reported gross under NZ GAAP are now reported only at the net margin in operating revenue representing Vector's commission for the service provided.

(b) Under NZ IFRS, the Vector group's share of profits from investments in associates is no longer included within operating revenue but is instead separately disclosed above operating surplus before income tax in the income statement.

(c) Certain interest receivable and interest payable amounts on cross currency interest rate swaps which were previously offset under NZ GAAP are presented gross on the balance sheet under NZ IFRS.

(d) Prepaid gas classified separately on the NZ GAAP balance sheet is classified within inventory on the NZ IFRS balance sheet.

(e) Consumable spares used internally for servicing equipment which were classified as inventory under NZ GAAP are classified as property, plant and equipment under NZ IFRS. These spares are only depreciated when they are brought into use unless they become increasingly technologically obsolete during the period that they are in storage.

(f) Software assets which are not integral to the operation of related hardware are classified as intangible assets under NZ IFRS. Under NZ GAAP, such software assets were classified as property, plant and equipment.

Impacts on reported operating surplus

(g) Goodwill is no longer amortised under NZ IFRS leading to a reduction in the amortisation charge and increase in operating surplus. Goodwill is instead subjected to an annual impairment test, which could give rise to a future impairment expense if the assessment of the fair value of the goodwill is lower than its carrying value. Vector's carrying value of goodwill has been tested for impairment at 1 July 2006. No impairment was identified at 1 July 2006 and hence the carrying value of goodwill is unaltered on transition to NZ IFRS at that date.

(h) Debt raising costs previously capitalised in capitalised finance costs in the balance sheet under NZ GAAP are netted off borrowings under NZ IFRS. Also under NZ IFRS, the net financing costs recognised in the income statement are based on the amortised cost of each financial instrument calculated under the effective interest method. This method establishes the effective interest rate that exactly discounts expected future cash payments or receipts through the expected life of the financial instrument or, where appropriate a shorter period, to the net carrying amount of the financial asset or liability. Under NZ GAAP, net financing costs were calculated on a straight line or yield-to-maturity basis. The differing basis for calculating net financing costs gives rise to adjustments to carrying values of borrowings and interest accruals in the balance sheet and marginally increases net financing costs leading to a small decrease in net surplus.

(i) Under NZ IFRS, deferred tax is calculated using the balance sheet approach rather than the tax effect income statement approach applied under NZ GAAP. This new approach recognises deferred tax balances when there is a temporary difference between the carrying value of an asset or liability and its tax base. NZ IFRS recognises a deferred tax liability on revaluations of property, plant and equipment above tax cost whereas NZ GAAP does not. This is the primary reason for the significant increase in the Vector group's deferred tax liability. The differing basis for calculating deferred tax under NZ GAAP and NZ IFRS gives rise to differing movements in deferred tax balances, a consequent reduction in tax expense and increase in operating surplus.

35 EXPLANATION OF TRANSITION TO IFRSs (continued)

RESTATEMENT OF COMPARATIVE PERIOD INFORMATION (continued)

(j) The Vector group uses derivative financial instruments within predetermined policies and limits in order to manage its exposure to fluctuations in foreign currency exchange rates and interest rates. Under NZ GAAP, the fair values of such derivative financial instruments were only required to be disclosed in the notes to the financial statements. Under NZ IFRS, The Vector group must value all outstanding derivative financial instruments and recognise them at their fair value in the balance sheet. Thereafter, if the derivative financial instrument does not meet the requirements for hedge accounting, any mark to market revaluation is recognised in the income statement. If, however, a derivative financial instrument meets the criteria to qualify for hedge accounting then depending upon the type of hedging relationship, either of the following is applied:

- The gain or loss from re-measuring the hedging instrument is recognised in the income statement along with the gain or loss on the hedged item attributable to the hedged risk; or

- The portion of the gain or loss from revaluation of the hedging instrument that is effective is recognised directly in equity and the ineffective portion is recognised in the income statement.

(k) Government grants that are for the specific purpose of constructing property, plant and equipment are netted off against the initial cost of that related property, plant and equipment when the conditions attached to that grant are met. Under NZ GAAP such grants could be recognised immediately as revenue when the conditions attached to that grant are met. This has resulted in a reduction in operating revenue and decrease in operating surplus for the year ended 30 June 2007.

GROUP 2007	NOTE	AS REPORTED UNDER PREVIOUS NZ GAAP $000	NZ IFRS ADJUSTMENTS $000	AS REPORTED UNDER NZ IFRS $000
Operating revenue	(a)(b)(k)	1,352,921	(45,782)	1,307,139
Operating expenditure	(a)	(746,479)	41,071	(705,408)
Earnings before interest, income tax, depreciation and amortisation (EBITDA)		606,442	(4,711)	601,731
Depreciation and amortisation	(g)	(241,017)	94,382	(146,635)
Operating surplus before interest and income tax		365,425	89,671	455,096
Net financing costs	(h)(j)	(227,996)	(428)	(228,424)
Share of net surplus from associates	(b)	-	656	656
Operating surplus before income tax		137,429	89,899	227,328
Income tax (expense)/benefit	(i)	(32,704)	41,706	9,002
Operating surplus		104,725	131,605	236,330
Operating surplus attributable to minority interests		(29,526)	(32,770)	(62,296)
Operating surplus attributable to the shareholders of the parent		75,199	98,835	174,034

	NOTE	GROUP 2007 $000
Operating surplus under previous NZ GAAP		104,725
Cessation of amortisation of goodwill	(g)	94,382
Restate financial instruments to amortised cost	(h)	(2,330)
Balance sheet basis for deferred tax	(i)	41,706
Changes in fair value of financial instruments	(j)	5,072
Reverse mark to market adjustment of the swap book	(j)	(3,170)
Offset government grant income against qualifying assets	(k)	(4,055)
Operating surplus under NZ IFRS		236,330

35. EXPLANATION OF TRANSITION TO IFRSs (continued)

RESTATEMENT OF COMPARATIVE PERIOD INFORMATION (continued)

GROUP 2007	NOTE	AS REPORTED UNDER PREVIOUS NZ GAAP $000	NZ IFRS ADJUSTMENTS $000	AS REPORTED UNDER NZ IFRS $000
CURRENT ASSETS				
Cash and cash equivalents		60,438	-	60,438
Receivables and prepayments	(c)	171,842	13,464	185,306
Derivative financial instruments	(j)	-	1,945	1,945
Prepaid gas	(d)	4,210	(4,210)	-
Inventories	(d)(e)	10,019	(957)	9,062
Income tax	(i)	25,102	(1,599)	23,503
Capitalised finance costs	(h)	5,413	(5,413)	-
Intangible assets		2,639	-	2,639
Total current assets		279,663	3,230	282,893
NON-CURRENT ASSETS				
Receivables and prepayments		4,716	-	4,716
Derivative financial instruments	(j)	-	66,186	66,186
Deferred tax		1,137	-	1,137
Capitalised finance costs	(h)	26,322	(26,322)	-
Investments		28,259	-	28,259
Intangible assets	(f)(g)	1,573,751	138,795	1,712,546
Property, plant and equipment	(e)(f)(k)	3,869,447	(43,300)	3,826,147
Total non-current assets		5,503,632	135,359	5,638,991
Total assets		5,783,295	138,589	5,921,884
CURRENT LIABILITIES				
Dividends received – available for distribution		47,454	-	47,454
Payables, accruals and provisions	(c)(j)	229,048	17,970	247,018
Derivative financial instruments	(j)	-	33,832	33,832
Borrowings	(h)	361,025	(33,433)	327,592
Total current liabilities		637,527	18,369	655,896
NON-CURRENT LIABILITIES				
Payables and accruals	(j)	7,790	(288)	7,502
Derivative financial instruments	(j)	-	110,906	110,906
Borrowings	(h)(j)	2,773,568	(146,432)	2,627,136
Deferred tax	(i)	457,534	122,944	580,478
Total non-current liabilities		3,238,892	87,130	3,326,022
Total liabilities		3,876,419	105,499	3,981,918

35. EXPLANATION OF TRANSITION TO IFRSs (continued)

RESTATEMENT OF COMPARATIVE PERIOD INFORMATION (continued)

GROUP 2007	NOTE	AS REPORTED UNDER PREVIOUS NZ GAAP $000	NZ IFRS ADJUSTMENTS $000	AS REPORTED UNDER NZ IFRS $000
EQUITY				
Trustees funds		1,424,441	24,850	1,449,291
Minority interest		482,435	8,240	490,675
Total equity		1,906,876	33,090	1,939,966
Total equity and liabilities		5,783,295	138,589	5,921,884

GROUP 2006	NOTE	AS REPORTED UNDER PREVIOUS NZ GAAP $000	NZ IFRS ADJUSTMENTS $000	AS REPORTED UNDER NZ IFRS $000
CURRENT ASSETS				
Cash and cash equivalents		60,026	-	60,026
Receivables and prepayments	(c)	172,476	14,994	187,470
Prepaid gas	(d)	7,950	(7,950)	-
Inventories	(d)(e)	7,998	3,236	11,234
Income tax	(i)	22,412	(10,652)	11,760
Capitalised finance costs	(h)	5,363	(5,363)	-
Intangible assets		3,793	-	3,793
Total current assets		280,018	(5,735)	274,283
NON-CURRENT ASSETS				
Receivables and prepayments		3,253	-	3,253
Derivative financial instruments	(j)	-	10,117	10,117
Prepaid gas	(d)	4,987	(4,987)	-
Inventories	(d)	-	4,987	4,987
Capitalised finance costs	(h)	24,567	(24,567)	-
Investments		17,814	-	17,814
Intangible assets	(f)	1,672,426	41,326	1,713,752
Property, plant and equipment	(e)(f)	3,767,180	(36,611)	3,730,569
Total non-current assets		5,490,227	(9,735)	5,480,492
Total assets		5,770,245	(15,470)	5,754,775

35. EXPLANATION OF TRANSITION TO IFRSs (continued)

RESTATEMENT OF COMPARATIVE PERIOD INFORMATION (continued)

GROUP 2006	NOTE	AS REPORTED UNDER PREVIOUS NZ GAAP $000	NZ IFRS ADJUSTMENTS $000	AS REPORTED UNDER NZ IFRS $000
CURRENT LIABILITIES				
Dividends received – available for distribution		44,730	-	44,730
Payables, accruals and provisions	(c)(j)	211,563	27,131	238,694
Derivative financial instruments	(j)	-	1,823	1,823
Borrowings		535,830	-	535,830
Total current liabilities		792,123	28,954	821,077
NON-CURRENT LIABILITIES				
Payables and accruals	(j)	8,770	(2,040)	6,730
Derivative financial instruments	(j)	-	12,225	12,225
Borrowings	(h)(j)	2,554,784	(39,200)	2,515,584
Deferred tax	(i)	482,117	146,902	629,019
Total non-current liabilities		3,045,671	117,887	3,163,558
Total liabilities		3,837,794	146,841	3,984,635
EQUITY				
Trustee funds		1,444,641	(121,895)	1,322,746
Minority interest		487,810	(40,416)	447,394
Total equity		1,932,451	(162,311)	1,770,140
Total equity and liabilities		5,770,245	(15,470)	5,754,775

	NOTE	GROUP 2007 $000	GROUP 2006 $000
Equity under previous NZ GAAP		1,906,876	1,932,451
Cessation of amortisation of goodwill	(g)	94,382	-
Restate financial instruments to amortised cost	(h)	429	2,759
Balance sheet basis for deferred tax	(i)	(129,544)	(171,250)
Changes in fair value of financial instruments	(j)	71,347	2,478
Reverse mark to market adjustment of the swap book	(j)	531	3,702
Offset government grant income against qualifying assets	(k)	(4,055)	-
Equity under NZ IFRS		1,939,966	1,770,140