Annual Report
Year Ended 30 June 2015

Financial Statements
for the year ended 30 June 2015

CONTENTS

2015 FINANCIAL STATEMENTS

These financial statements for the year ended 30 June 2015 are dated 28 August 2015, and signed on behalf of the Trustees by:

Chairman

Chairman of the Finance and Risk Subcommittee

Directory

Principal Business

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

Date Settled

27 August 1993

Trustees

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

Executive Officer

I R Ward

Termination Date

27 August 2073

Accountant

Staples Rodway Limited
P O Box 3899
Auckland

Auditor

Grant Thornton New Zealand Audit Partnership
P O Box 1961
Auckland

Legal Advisor

D Bigio
P O Box 4338
Auckland

Banker

ANZ Bank
P O Box 6334
Auckland

AUCKLAND ENERGY CONSUMER TRUST
TRUSTEES REPORT

FOR THE YEAR ENDED 30 JUNE 2015

The 2015 year has been very busy for the AECT with distribution of our $345 dividend to a record number of beneficiaries and the introduction of some new communication initiatives to raise awareness of the dividend and AECT.

As the majority shareholder in Vector, we are the owner of this critical infrastructure. We have a duty to protect our investment in the company – this is an area where your Trustees have put in considerable effort and time again this year.

ANNUAL DIVIDEND INCREASES

The dividend increased to $345- this year, an increase of $10 over the previous year. The number of beneficiaries also increased this year to more than 319,000 beneficiaries, the biggest dividend distribution ever.

The Trust distribution goes to more people than any company or trust distribution in New Zealand. This year, through the annual dividend, the AECT has put more than $110 million into the Auckland economy.

AECT INCOME AND EXPENDITURE

For the year ended 30 June 2015, income was $116.4 million. This sum was made up of $114.5 million from Vector in dividends and $1.9 million from interest on funds. AECT has total investments of $2.5 billion.

The total expenditure incurred by the Trust for the year was $4 million. Expenditure has increased by $500,000 due to the use of advisors to counter attempts to wind up the Trust early and part of the cost of running the 2015 election process. Core operational costs have been contained at the 2014 level.

Our management costs are approximately one sixth of one percent of total assets. Those of you that are in Kiwisaver or in managed funds are often charged fees in the range of half to one per cent.

KEY PRIORITIES

As owners of a significant investment in Vector, the AECT has many interesting and challenging issues that arise in the course of every year.

Key matters arising over the past year are as follows:

Dividend

The most visible activity Trustees do each year is the payment of the annual dividend which is welcomed by Trust beneficiaries.

The dividend project team has developed a solid set of processes to ensure the dividend distribution goes smoothly, but it is important that these processes are tested periodically.

Deloitte conducted audits of the dividend process in 2010 and 2013 and again this year. They found an improvement in the dividend process since their last audit, and identified some areas for further improvement with data verification.

Regulation

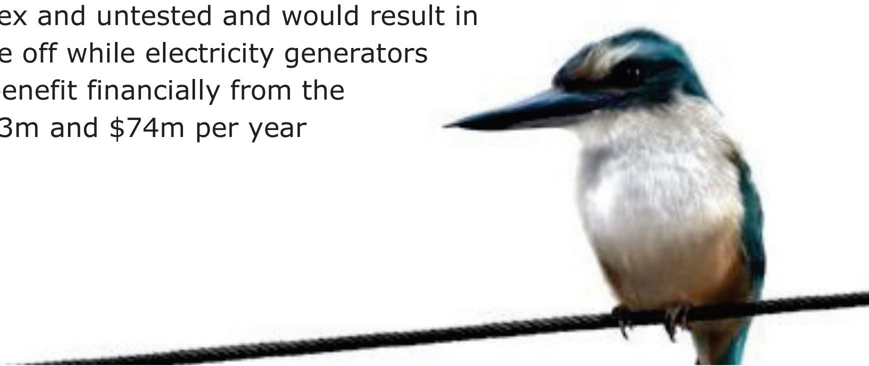
Regulation continues to be a key issue for Vector and therefore for the Trust. We continue to proactively monitor regulatory issues and participate in relevant regulatory consultation processes by making submissions.

We must take a long term view, as we are responsible for looking after our beneficiaries' interest in Vector over many generations, while the Commerce Commission deals in five year terms. The challenge is to ensure we still receive an adequate return on investment because this is what is needed to grow the company.

The key regulatory issue we have focused on this year is the Electricity Authority consultation regarding transmission pricing. We are concerned about the EA proposals which would see an increase in transmission prices of 59% or $192 per customer for customers on the Auckland network.

The Trust strongly believes the EA should remove an historic bias in transmission pricing which currently sees customers, rather than electricity generators, paying the majority of the cost to transmit electricity from often remote generation sites to cities and towns across the country.

We believe the EA proposals are complex and untested and would result in small consumers being financially worse off while electricity generators and large industrial consumers would benefit financially from the proposed EA changes to the tune of $23m and $74m per year respectively.



Undergrounding

As the majority shareholder of Vector we have an agreement that commits Vector to spend $10.5 million per year on projects in the AECT district.

The fund has historically been used for undergrounding projects in the AECT district and this year was extended to include new technology initiatives such as solar and battery.

The biggest undergrounding project undertaken this year was in Pakuranga, which commenced in January 2015 and will be completed in December and covers the areas between Pakuranga Road, Ti Rakau Drive and Gossamer Drive. This is one of the biggest projects undertaken in recent years, with a total of 436 power poles and 15 kilometres of overhead lines being removed by the time the project is completed. Feedback from local residents about the new look in their street has been positive.

Udys Road before the undergrounding and power pole removal.

AECT Chairman William Cairns and AECT Trustees Karen Sherry and James Carmichael with the newly improved Udys Road streetscape street in the background.

In addition to the large scale undergrounding project in Pakuranga, we completed twelve other undergrounding projects made up of six small scale projects, some of which were partially funded by owner contributions and six pole substation conversions.

The small scale undergrounding projects were in Arney Road in Remerua, Golf Road in Epsom, Seventh Avenue in Onetangi, Queens Drive in Oneroa, Waima Street in Newton and The Strand in Parnell.

‘Future of Energy’ solar initiative

We were also delighted to be involved in a new initiative this year. We stood alongside Vector as they launched a competition for those living in the AECT district called Future of Energy via which the use of 130 cutting edge Vector solar power and battery systems were made available to the public, community groups and state integrated schools for 10 years.

The uptake was strong with 298 entries in the individuals, families and community groups section and 79 entries in the schools section. The final winners will be announced in November 2015.

Communication with beneficiaries

It is important that the AECT keeps people informed, not least because we have considerable beneficiary churn each year with people moving in and out of the Trust district. This leads to around 2% of the total declared payout in dividends being unclaimed every year. We want to keep this to an absolute minimum. So we need to make every effort to ensure all our beneficiaries know about the dividend at the very least.

We communicate with beneficiaries through two campaigns every year. The first campaign mid way through the year reminds people to select the way they want to have their dividend paid. The second campaign at dividend time ensures people know the dividend is in their letterbox. This not only helps prevent mail theft – it also means that people who did not receive the dividend know about it and contact us to sort it out.

Market days

In addition to the main campaigns we are working hard to raise the AECT profile in other ways to create a stronger relationship between the Trust and beneficiaries.

This year we attended the Mangere and Otara market days in June to tell people about the dividend and remind them to send their paperwork back to us to tell us how they would like to receive their dividend. We also talked to customers on a pre-pay electricity system and reminded them to ensure they have their name on their power bill, so we can pay the dividend to them.

Discount card

We introduced a "Friends of the Trust" discount card this year, which was used as an incentive to encourage sign up to our e-newsletter. The discount card has been very popular and provides discounts at a number of businesses across Auckland. If you haven't signed up already, visit our website to sign up for your card.

APPOINTMENT OF AUDITORS

At last year's Annual Meeting of Beneficiaries, Grant Thornton were appointed the AECT auditors. Being available for the 2015/16 audit the Trustees recommend the retention of Grant Thornton for the current financial year.

REMUNERATION OF AUDITORS

The audit fees for 2014/15 were $47,500.

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

AECT Trustees **21 October 2015**

William Cairns, Chairman
Michael Buczkowski
James Carmichael
Warren Kyd
Karen Sherry

Independent Auditor's Report

Audit

Grant Thornton New Zealand Audit Partnership
L4, Grant Thornton House
152 Fanshawe Street
PO Box 1961
Auckland 1140

T +64 (0)9 308 2570
F +64 (0)9 309 4892
www.grantthornton.co.nz

To the beneficiaries of Auckland Energy Consumer Trust

Report on the financial statements

We have audited the consolidated financial statements of Auckland Energy Consumer Trust on pages 11 to 46, which comprise the balance sheet as at 30 June 2015, and the statement of profit or loss, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information

Trustees' responsibilities

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

Auditor's responsibilities

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

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

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

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

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

Opinion

In our opinion, the financial statements on pages 11 to 46 present fairly, in all material respects, the financial position of Auckland Energy Consumer Trust as at 30 June 2015, and its financial performance and its cash flows, for the year then ended in accordance with generally accepted accounting practice in New Zealand.

Grant Thornton

Grant Thornton New Zealand Audit Partnership
Auckland, New Zealand
28 August 2015

Profit or Loss

for the year ended 30 June

	NOTE	GROUP 2015 $000	GROUP 2014 $000	PARENT 2015 $000	PARENT 2014 $000
Revenue	4	**1,294,036**	1,258,884	**114,548**	114,548
Operating expenses	5	**(701,175)**	(681,719)	**(4,044)**	(3,495)
Depreciation and amortisation	6	**(195,196)**	(183,770)	**(43)**	(14)
Interest costs (net)	7	**(178,908)**	(167,235)	**1,893**	1,642
Fair value change on financial instruments	8	**(11,014)**	5,993	**-**	-
Associates (share of net profit/(loss))	12	**812**	1,727	**-**	-
Impairment of investment in associate	12	**-**	(1,241)	**-**	-
Profit/(loss) before income tax		**208,555**	232,639	**112,354**	112,681
Tax benefit/(expense)	9	**(61,336)**	(63,195)	**-**	-
Net profit/(loss) for the period		**147,219**	169,444	**112,354**	112,681
Net profit/(loss) for the period attributable to					
Non-controlling interests in subsidiaries		**39,198**	44,207	**-**	-
Beneficiaries of the Parent		**108,021**	125,237	**112,354**	112,681

Other Comprehensive Income

for the year ended 30 June

	NOTE	GROUP 2015 $000	GROUP 2014 $000	PARENT 2015 $000	PARENT 2014 $000
Net profit/(loss) for the period		**147,219**	169,444	**112,354**	112,681
Other comprehensive income net of tax		**-**	-	**-**	-
Items that may be re-classified subsequently to profit or loss:		**-**	-	**-**	-
Net change in fair value of hedge reserves		**(9,499)**	35,900	**-**	-
Share of other comprehensive income of associate	12	**(418)**	(1,194)	**-**	-
Translation of foreign operations		**25**	(23)	**-**	-
Other comprehensive income for the period net of tax		**(9,892)**	34,683	**-**	-
Total comprehensive income for the period net of tax		**137,327**	204,127	**112,354**	112,681
Total comprehensive income for the period attributable to					
Non-controlling interests in subsidiaries		**36,767**	52,732	**-**	-
Beneficiaries of the Parent		**100,560**	151,395	**112,354**	112,681

 The attached notes form part of and are to be read in conjunction with these financial statements.

Balance Sheet

as at 30 June

	NOTE	GROUP 2015 $000	GROUP 2014 $000	PARENT 2015 $000	PARENT 2014 $000
CURRENT ASSETS					
Cash and cash equivalents		**79,067**	77,695	**70,845**	69,411
Trade and other receivables	11	**196,444**	169,682	**632**	519
Derivatives	21	**186**	598	**-**	-
Inventories		**5,130**	4,350	**-**	-
Income tax		**22,731**	11,366	**-**	-
Total current assets		**303,558**	263,691	**71,477**	69,930
NON-CURRENT ASSETS					
Receivables	11	**1,783**	1,851	**-**	-
Derivatives	21	**104,959**	-	**-**	-
Investments in subsidiary		**-**	-	**300,000**	300,000
Investments in associates	12	**11,475**	11,481	**-**	-
Intangible assets	13	**1,642,853**	1,632,450	**70**	20
Property, plant and equipment (PPE)	14	**4,129,883**	3,999,583	**7**	6
Total non-current assets		**5,890,953**	5,645,365	**300,077**	300,026
Total assets		**6,194,512**	5,909,056	**371,555**	369,956
CURRENT LIABILITIES					
Distributions payable	17	**65,474**	64,799	**65,474**	64,799
Trade and other payables	16	**247,350**	218,379	**684**	549
Provisions	18	**26,325**	9,554	**-**	-
Provision for unclaimed distributions	19	**5,397**	4,608	**5,397**	4,608
Borrowings	20	**249,903**	200,314	**-**	-
Derivatives	21	**6,557**	169	**-**	-
Income tax		**1,038**	702	**-**	-
Total current liabilities		**602,044**	498,525	**71,555**	69,956
NON-CURRENT LIABILITIES					
Payables	16	**17,725**	19,544	**-**	-
Provisions	18	**14,160**	17,628	**-**	-
Borrowings	20	**2,585,667**	2,268,674	**-**	-
Derivatives	21	**113,915**	244,961	**-**	-
Deferred tax	10	**562,369**	551,937	**-**	-
Total non-current liabilities		**3,293,836**	3,102,744	**-**	-
Total liabilities		**3,895,880**	3,601,269	**71,555**	69,956
EQUITY					
Equity attributable to beneficiaries of the Parent		**1,721,693**	1,728,379	**300,000**	300,000
Non-controlling interests in subsidiaries		**576,939**	579,408	**-**	-
Total equity		**2,298,632**	2,307,787	**300,000**	300,000
Total equity and liabilities		**6,194,512**	5,909,056	**371,555**	369,956

 The attached notes form part of and are to be read in conjunction with these financial statements.

Cash Flows

for the year ended 30 June

	NOTE	GROUP 2015 $000	GROUP 2014 $000	PARENT 2015 $000	PARENT 2014 $000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		**1,294,361**	1,284,414	**-**	-
Interest received		**3,100**	3,157	**1,789**	1,674
Income tax refunds		**-**	1,505	**-**	-
Miscellaneous income		**20**	20	**20**	20
Dividends received from associate		**400**	1,400	**114,528**	114,528
Payments to suppliers and employees		**(685,419)**	(693,136)	**(3,917)**	(3,518)
Distribution to beneficiaries		**(103,315)**	(101,280)	**(103,315)**	(101,280)
Dividend withholding tax paid		**(7,577)**	(7,446)	**(7,577)**	(7,446)
Interest paid		**(185,384)**	(173,926)	**-**	-
Income tax paid		**(59,994)**	(58,635)	**-**	-
Net cash flows from/(used in) operating activities	23	**256,192**	256,073	**1,528**	3,978
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of PPE and software intangibles		**383**	1,772	**-**	-
Purchase and construction of PPE and software intangibles		**(311,917)**	(327,456)	**(94)**	(28)
Proceeds from liquidation of associate		**7**	45	**-**	-
Acquisition of businesses	27	**(19,906)**	(60,060)	**-**	-
Other investing cash flows		**(750)**	-	-	-
Net cash flows from/(used in) investing activities		**(332,183)**	(385,699)	**(94)**	(28)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from borrowings		**320,000**	149,000	-	-
Repayment of borrowings		**(200,000)**	(20,000)	**-**	-
Dividends paid		**(40,902)**	(42,135)	**-**	-
Other financing cash flows		**(1,735)**	(1,169)	**-**	-
Net cash flows from/(used in) financing activities		**77,363**	85,696	**-**	-
Net increase/(decrease) in cash and cash equivalents		**1,372**	(43,930)	**1,434**	3,950
Cash and cash equivalents at beginning of the period		**77,695**	121,625	**69,411**	65,461
Cash and cash equivalents at end of the period		**79,067**	77,695	**70,845**	69,411
Cash and cash equivalents comprise:					
Bank balances and on-call deposits		**3,673**	3,939	**20**	255
Short term deposits maturing within three months		**75,394**	73,756	**70,825**	69,156
		79,067	77,695	**70,845**	69,411

The attached notes form part of and are to be read in conjunction with these financial statements.

Changes in Equity

GROUP	HEDGE RESERVE $000	OTHER RESERVES $000	RETAINED EARNINGS $000	NON-CONTROLLING INTERESTS $000	TOTAL EQUITY $000
Balance at 1 July 2013	(80,313)	41	1,769,923	568,811	2,258,462
Net profit/(loss) for the period	-	-	125,237	44,207	169,444
Other comprehensive income	27,076	(918)	-	8,525	34,683
Total comprehensive income	27,076	(918)	125,237	52,732	204,127
Dividends and distributions	-	-	(109,159)	(42,135)	(151,294)
Distribution payable	-	-	(3,522)	-	(3,522)
Employee share purchase scheme transactions	-	-	14	-	14
Total transactions with beneficiaries	-	-	(112,667)	(42,135)	(154,802)
Balance at 30 June 2014	**(53,237)**	**(877)**	**1,782,493**	**579,408**	**2,307,787**
Impact of adopting NZ IFRS 9	**4,896**		**214**	**1,666**	**6,776**
Restated Balance at 1 July 2014	**(48,341)**	**(877)**	**1,782,707**	**581,074**	**2,314,563**
Net profit/(loss) for the period	**-**	**-**	**108,021**	**39,198**	**147,219**
Other comprehensive income	**(7,165)**	**(296)**	**-**	**(2,431)**	**(9,892)**
Total comprehensive income	**(7,165)**	**(296)**	**108,021**	**36,767**	**137,327**
Dividends and distributions	**-**	**-**	**(111,679)**	**(40,902)**	**(152,581)**
Distribution payable	**-**	**-**	**(675)**	**-**	**(675)**
Employee share purchase scheme transactions	**-**	**-**	**(2)**	**-**	**(2)**
Total transactions with beneficiaries	**-**	**-**	**(112,356)**	**(40,902)**	**(153,258)**
Balance at 30 June 2015	**(55,506)**	**(1,173)**	**1,778,372**	**576,939**	**2,298,632**

PARENT	TRUSTEE FUNDS $000	RETAINED EARNINGS $000	TOTAL EQUITY $000
Balance at 1 July 2013	300,000	-	300,000
Net profit/(loss) for the period	-	112,681	112,681
Other comprehensive income	-	-	-
Total comprehensive income	-	112,681	112,681
Dividends and distributions	-	(109,159)	(109,159)
Distribution payable	-	(3,522)	(3,522)
Total transactions with beneficiaries	-	(112,681)	(112,681)
Balance at 30 June 2014	**300,000**	**-**	**300,000**
Net profit/(loss) for the period	**-**	**112,354**	**112,354**
Other comprehensive income	**-**	**-**	**-**
Total comprehensive income	**-**	**112,354**	**112,354**
Dividends and distributions	**-**	**(111,679)**	**(111,679)**
Distribution payable	**-**	**(675)**	**(675)**
Total transactions with beneficiaries	**-**	**(112,354)**	**(112,354)**
Balance at 30 June 2015	**300,000**	**-**	**300,000**

 The attached notes form part of and are to be read in conjunction with these financial statements.

Notes to the Financial Statements

Notes to the Financial Statements

1. TRUST INFORMATION

Reporting entity

Auckland Energy Consumer Trust (the "Trust" or "Parent") was settled on 27 August 1993 and is domiciled in New Zealand. The Trust is registered under the Trustee Act 1956. The Trust is a reporting entity for the purposes of the Financial Reporting Act 2013 and is considered a Public Benefit Entity. The financial statements of the Trust have been prepared in accordance with the Financial Reporting Act 2013.

Auckland Energy Consumer Trust is a Discretionary Trust under the Trustee Act 1956. It is in the business of acting as Trustees and distributing the income from the Trust Fund to the income beneficiaries under its Deed of Trust. The income beneficiaries are customers on the Vector electricity network within the boundaries defined in the Trust Deed.

The Trust Fund comprises primarily the Trustees' shareholding in Vector Limited.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand (NZ GAAP). They comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) as appropriate for public benefit entities.

The financial statements of the Trust must comply with the Financial Reporting Act 2013 and the Electricity Industry Act 2010. Pursuant to accounting standards prepared by the External Reporting Board under the Financial Reporting Act 2013 (in particular "External Reporting Board Standard A1 – Accounting Standards Framework") the trustees have determined that the Trust falls within the definition of "Public Benefit Entity" under that standard. The designation of "Public Benefit Entity" is one which exists only under accounting standards and for the purposes of compliance with the Financial Reporting Act 2013. That designation has no effect on the substance of the Trust Deed which provides that the income of the Trust is to be distributed to those people defined as income beneficiaries under the Trust Deed, and who are exclusively customers of Vector within the Trust district, being the old geographical district of the now defunct Auckland Electric Power Board.

Basis of preparation

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP) as appropriate for public benefit entities.

The financial statements for the Parent and the consolidated financial statements are presented. The consolidated financial statements comprise the Trust and its subsidiaries (together the "Group") and the group's share of any interest in associates, partnerships and joint ventures.

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

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

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

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

Significant accounting policies, estimates and judgements

The Group's management is required to make judgements, estimates, and apply assumptions that affect the amounts reported in the financial statements. They have based these on historical experience and other factors they believe to be reasonable. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in the future periods affected.

Accounting policies, and information about judgements, estimations and assumptions that have had a significant effect on the amounts recognised in the financial statements are disclosed in the relevant notes as follows:

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended accounting standards adopted

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

- **IFRS 9, *Financial Instruments: Classification and Measurement.*** The Group has adopted NZ IFRS 9 (2013) on 1 July 2014 and has elected not to restate comparative information. The impact of retrospective application of NZ IFRS 9 (2013) is therefore adjusted directly to the opening equity, increasing it by $6.8 million net of tax. This is to recognise the change in hedge accounting structure.
- **IFRIC 21, *Levies*** has not had any impact on the Group financial statements.

New accounting standards and interpretations not yet adopted

The following standards and interpretations which are considered relevant to the Group but not yet effective for the year ended 30 June 2015 have not been applied in preparing these group financial statements:

- **NZ IFRS 15, *Revenue from Contracts with Customers.*** This standard was issued in May 2014, and will replace all existing guidance for revenue recognition, including NZ IAS 11 *Construction Contracts* and NZ IAS 18 *Revenue*. The effective date is annual periods beginning on or after 1 January 2018. The Group has not yet fully evaluated the impact this standard will have on the Group financial statements.
- **NZ IFRS 9 (2014), *Financial Instruments.*** The latest version of this standard was issued in September 2014. The group has not yet assessed the full impact of NZ IFRS 9 (2014) as this standard does not apply mandatorily before 1 January 2018.

3. SEGMENT INFORMATION

Segments

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

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

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

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

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

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

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

Segment profit

Segment profit is reported to the subsidiary Vector Limited's ("Vector") chief executive and the board of directors is earnings before interest and tax.

Vector also reports earnings before interest, tax, depreciation and amortisation (EBITDA) at segment level to the Group chief executive and the board of directors.

Corporate activities

Corporate activities, comprising shared services and investments, earn revenues that are incidental to the Group's operations and do not meet the definition of an operating segment under NZ IFRS 8. The results for corporate activities are reported in the reconciliations of segment information to the Group's financial statements.

Interest costs (net), fair value change on financial instruments, associates (share of net profit/(loss)) and impairments are incurred within corporate activities and are not allocated to the segments.

Major customer

The Group with three major customers, each of which contribute greater than ten percent of the group's revenue. These customers are large energy retailers. For the year ended 30 June 2015, the customers contributed $205.2 million, $201.3 million and $182.5 million respectively which is reported across all segments (2014: one major customer which contributed $195.3 million). The increase in the number of major customers during 2015 is a result of the shift to an interposed billing model on Vector's electricity distribution network from 1 September 2014. Under the interposed billing model Vector holds a contractual relationship with the retailers only, rather than with individual customers.

Notes to the Financial Statements

3. SEGMENT INFORMATION (continued)

GROUP 2015	AECT $000	VECTOR $000	INTER-SEGMENT $000	TOTAL $000
External revenue				
Sales	**-**	**1,237,044**	**-**	**1,237,044**
Third party contributions	**-**	**56,522**	**-**	**56,522**
Other Income	**20**	**-**	**-**	**20**
Intersegment revenue	**114,528**	**-**	**(114,528)**	**-**
Segment revenue	**114,548**	**1,293,566**	**(114,528)**	**1,293,586**
External expenses				
Electricity transmission expenses	**-**	**(217,039)**	**-**	**(217,039)**
Gas purchases and production expenses	**-**	**(185,284)**	**-**	**(185,284)**
Asset maintenance expenses	**-**	**(95,198)**	**-**	**(95,198)**
Employee benefit expenses	**-**	**(52,882)**	**-**	**(52,882)**
Other expenses	**-**	**(96,096)**	**-**	**(96,096)**
Segment operating expenses	**-**	**(646,499)**	**-**	**(646,499)**
Segment EBITDA	**114,548**	**647,067**	**(114,528)**	**647,087**
Depreciation and amortisation	**-**	**(180,248)**	**-**	**(180,248)**
Segment profit	**114,548**	**466,819**	**(114,528)**	**466,839**
Segment capital expenditure	**-**	**307,810**	**-**	**307,810**

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

GROUP 2015	REVENUE $000	PROFIT/(LOSS) BEFORE INCOME TAX $000	CAPITAL EXPENDITURE $000
Reported in segment information	**1,293,586**	**466,839**	**307,810**
Amounts not allocated to segments (corporate activities)			
Revenue	**450**	**450**	**-**
Employee benefit expenses	**-**	**(26,586)**	**-**
Other operating expenses	**-**	**(28,090)**	**-**
Depreciation and amortisation	**-**	**(14,948)**	**-**
Interest costs (net)	**-**	**(178,908)**	**-**
Fair value change on financial instruments	**-**	**(11,014)**	**-**
Associates (share of net profit/(loss))	**-**	**812**	**-**
Capital expenditure	**-**	**-**	**15,562**
Reported in the Group financial statements	**1,294,036**	**208,555**	**323,372**

Notes to the Financial Statements

3. SEGMENT INFORMATION (continued)

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

3. SEGMENT INFORMATION (continued)

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

GROUP 2014	REVENUE $000	PROFIT/(LOSS) BEFORE INCOME TAX $000	CAPITAL EXPENDITURE $000
Reported in segment information	1,258,264	462,554	324,990
Amounts not allocated to segments (corporate activities)			
Revenue	620	620	-
Employee benefit expenses	-	(26,841)	-
Other operating expenses	-	(26,899)	-
Depreciation and amortisation	-	(16,039)	-
Interest costs (net)	-	(167,235)	-
Fair value change on financial instruments	-	5,993	-
Associates (share of net profit/(loss))	-	1,727	-
Impairment of investments in associates	-	(1,241)	-
Capital expenditure	-	-	14,171
Reported in the Group financial statements	1,258,884	232,639	339,161

4. REVENUE

	NOTE	GROUP 2015 $000	GROUP 2014 $000	PARENT 2015 $000	PARENT 2014 $000
Sales	3	**1,237,044**	1,214,518	**-**	-
Third party contributions	3	**56,522**	43,726	**-**	-
Other		**470**	640	**20**	20
Dividends received		**-**	-	**114,528**	114,528
Total		**1,294,036**	1,258,884	**114,548**	114,548

Policies

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

Revenue is recognised when:

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

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

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

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

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

Judgements

Vector's Management must apply judgement where:

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

5. OPERATING EXPENSES

		GROUP		PARENT	
		2015 $000	2014 $000	2015 $000	2014 $000
Electricity transmission	3	**217,039**	188,246	**-**	-
Gas purchases and production	3	**185,284**	224,389	**-**	-
Network and asset maintenance	3	**95,198**	93,270	**-**	-
Other direct expenses		**54,489**	41,981	**-**	-
Employee benefit expenses		**79,467**	70,796	**351**	344
Administration expenses		**17,118**	18,736	**1,185**	1,101
Distribution expenses		**1,149**	1,090	**1,149**	1,090
Trustee Remuneration	25	**343**	343	**343**	343
Professional fees		**17,285**	12,284	**387**	242
IT expenses		**14,461**	13,927	**-**	-
Loss/(gain) on disposal of PPE and software intangibles		**5,123**	3,030	**-**	1
Other indirect expenses		**14,219**	13,627	**629**	374
Total		**701,175**	681,719	**4,044**	3,495

Fees paid to auditors

	GROUP		PARENT	
	2015 $000	2014 $000	2015 $000	2014 $000
Audit or review of financial statements – Grant Thornton	**48**	45	**48**	45
Audit or review of financial statements – KPMG	**541**	515	**-**	-
Regulatory assurance – KPMG	**536**	511	**-**	-
Other audit fees - KPMG	**19**	19	**-**	-
Other services - KPMG	**185**	20	**-**	-
	1,329	1,110	**48**	45

Other audit fees

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

Other services

Other services in the current period comprised advisory services in relation to the strategic review of Vector's gas transmission and non-Auckland gas distribution businesses. The prior period costs include assurance services for a fraud gap analysis.

6. DEPRECIATION AND AMORTISATION

		GROUP		PARENT	
		2015 $000	2014 $000	2015 $000	2014 $000
Depreciation of property, plant and equipment					
Distribution systems		**111,231**	106,983	**-**	-
Electricity and gas meters		**32,779**	28,390	**-**	-
Land, building and improvements		**3,237**	3,056	**-**	-
Computer and telco equipment		**13,029**	12,288	**-**	-
Other plant and equipment		**9,430**	9,844	**3**	4
	14	**169,706**	160,561	**3**	4
Amortisation of intangible assets					
Customer contracts		**1,945**	2,431	**-**	-
Software		**23,545**	20,778	**40**	10
	13	**25,490**	23,209	**40**	10
Total		**195,196**	183,770	**43**	14

7. INTEREST COSTS (NET)

	GROUP 2015 $000	GROUP 2014 $000	PARENT 2015 $000	PARENT 2014 $000
Interest expense	**184,646**	174,063	**-**	-
Capitalised interest	**(6,277)**	(7,438)	**-**	-
Other	**3,743**	3,685	**-**	-
Interest income	**(3,204)**	(3,075)	**(1,893)**	(1,642)
Total	**178,908**	167,235	**(1,893)**	(1,642)

Policies

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

Capitalised interest

Vector has capitalised interest to PPE and software intangibles while under construction at an average rate of 6.8% per annum (2014: 6.6%).

8. FAIR VALUE CHANGE ON FINANCIAL INSTRUMENTS

	NOTE	GROUP 2015 $000	GROUP 2014 $000
Ineffective portion of cash flow hedges		**-**	(191)
Fair value movement on hedging instruments		**199,906**	(75,464)
Fair value movement on hedged items		**(210,920)**	81,648
Total gains/(losses)		**(11,014)**	5,993

9. INCOME TAX (BENEFIT)/EXPENSE

Reconciliation of income tax expense/(benefit)	GROUP 2015 $000	GROUP 2014 $000	PARENT 2015 $000	PARENT 2014 $000
Profit/(loss) before income tax	**208,555**	232,639	**112,354**	112,681
Tax at current rate	**58,287**	65,047	**37,077**	37,185
Current tax adjustments				
Non-deductible expenses	**1,168**	1,045	**678**	629
Relating to prior periods	**2,188**	2,157	**-**	-
Other	**251**	(1,185)	**(37,755)**	(37,814)
Deferred tax adjustments				
Impairment of investment in associate	**-**	348	**-**	-
Relating to prior periods	**(1,778)**	(2,984)	**-**	-
Other	**1,220**	(1,233)	**-**	-
Income tax expense/(benefit)	**61,336**	63,195	**-**	-
Comprising				
Current tax	**49,281**	51,569	**-**	-
Deferred tax	**12,055**	11,626	**-**	-

Policies

Income tax expense/(benefit) comprises current and deferred tax and is calculated using rates enacted or substantively enacted at balance date.

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

Imputation credits

Vector Limited has no imputation credits available for use as at 30 June 2015 (2014: nil), as the imputation account has a debit balance as of that date.

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

10. DEFERRED TAX

Deferred tax

GROUP	TAX LOSSES $000	PPE $000	PROVISIONS AND ACCRUALS $000	HEDGE RESERVES $000	OTHER $000	TOTAL $000
Balance at 1 July 2013	(818)	542,713	(8,209)	(41,431)	33,259	525,514
Recognised in profit or loss	-	12,160	316	-	(850)	11,626
Recognised in other comprehensive income	-	-	-	13,979	-	13,979
Transfer to current tax	818	-	-	-	-	818
Balance at 30 June 2014	**-**	**554,873**	**(7,893)**	**(27,452)**	**32,409**	**551,937**
Recognised in profit or loss	**-**	**32,320**	**(6,607)**	**-**	**(13,658)**	**12,055**
Recognised in other comprehensive income	**-**	**-**	**-**	**(357)**	**-**	**(357)**
Recognised from business combinations	**-**	**(1,266)**	**-**	**-**	**-**	**(1,266)**
Balance at 30 June 2015	**-**	**585,927**	**(14,500)**	**(27,809)**	**18,751**	**562,369**

Policies

Deferred tax is:

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

11. TRADE AND OTHER RECEIVABLES

Trade receivables

	GROUP 2015 $000	GROUP 2014 $000	PARENT 2015 $000	PARENT 2014 $000
Current				
Trade receivables	**170,383**	149,370	**-**	-
Less provision for doubtful debts	**(2,528)**	(2,602)	**-**	-
Balance at 30 June	**167,855**	146,768	**-**	-
Ageing of trade receivables				
Not past due	**157,521**	132,911	**-**	-
Past due 1-30 days	**5,392**	6,593	**-**	-
Past due 31-120 days	**1,603**	2,845	**-**	-
Past due more than 120 days	**5,867**	7,021	**-**	-
Balance at 30 June	**170,383**	149,370	**-**	-

Other receivables

	GROUP 2015 $000	GROUP 2014 $000	PARENT 2015 $000	PARENT 2014 $000
Current				
Interest receivable	**18,053**	14,142	**617**	513
Prepayments	**9,223**	8,668	**15**	6
Other	**1,313**	104	**-**	-
Balance at 30 June	**28,589**	22,914	**632**	519
Non-current				
Finance lease	**1,308**	1,332	**-**	-
Other	**475**	519	**-**	-
Balance at 30 June	**1,783**	1,851	**-**	-

Policies

Receivables are initially recognised at fair value. They are subsequently adjusted for impairment losses.

Discounting is not applied to receivables where collection is expected to occur within the next twelve months.

Impairment

Trade receivables past due by up to 120 days do not include any allowances for impairment (2014: nil).

Trade receivables past due by more than 120 days include allowances for impairment of $2.5 million (2014: $2.6 million).

A provision for impairment is recognised when there is objective evidence that the Group will be unable to collect amounts due. The amount provided is the difference between the receivable's carrying and expected recoverable amount.

12. INVESTMENTS

Judgements

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

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

12.1 Investments in subsidiaries

Trading subsidiaries	PRINCIPAL ACTIVITY	PERCENTAGE HELD 2015	2014
Vector Limited	Utility Network Provider	**75.4%**	75.4%
NGC Holdings Limited	Holding Company	**75.4%**	75.4%
- Vector Management Services Limited	Management services	**75.4%**	75.4%
- Vector Gas Limited	Natural gas sales, processing and transportation	**75.4%**	75.4%
- Vector Gas Contracts Limited	Natural gas sales	**75.4%**	75.4%
- Vector Gas Investments Limited	Holding Company	**75.4%**	75.4%
- Vector Kapuni Limited	Joint operator – cogeneration plant	**75.4%**	75.4%
- Liquigas Limited	Bulk LPG storage, distribution and management	**45.2%**	45.2%
- On Gas Limited	LPG sales and distribution	**75.4%**	75.4%
- Advanced Metering Assets Limited	Electricity and gas metering	**75.4%**	75.4%
- Vector Metering Data Services Limited	Holding company	**75.4%**	75.4%
- Vector Advanced Metering Services (Australia) Pty Limited	Metering	**75.4%**	75.4%
Vector Communications Limited	Telecommunications	**75.4%**	75.4%
Advanced Metering Services Limited	Metering services	**75.4%**	75.4%
Vector Solar Limited	Solar sales	**75.4%**	-
Arc Innovations Limited	Metering	**75.4%**	-
Non-trading subsidiaries			
Auckland Generation Limited	Holding company	**75.4%**	75.4%
- MEL Network Limited	Holding company	**75.4%**	75.4%
- Mercury Geotherm Limited	Dormant	**75.4%**	75.4%
- Poihipi Land Limited	Dormant	**75.4%**	75.4%
UnitedNetworks Limited	Dormant	**75.4%**	75.4%
Broadband Services Limited	Dormant	**75.4%**	75.4%
Vector ESPS Trustee Limited	Trustee Company	**75.4%**	75.4%
NGC Limited	Dormant	**75.4%**	75.4%

Policies

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

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

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

The Trust holds 751,000,000 ordinary shares in Vector Limited. At 30 June 2015, the market value of these shares was $2,470,790,000 (2014: $1,907,540,000). The cost of investment in Vector Limited is $300,000,000.

Balance dates

All subsidiaries have a reporting date of 30 June, apart from Mercury Geotherm Limited and Poihipi Land Limited which have a reporting date of 31 March.

Geography

All subsidiaries are incorporated in New Zealand, except Vector Advanced Metering Services (Australia) Pty Limited which is incorporated in Australia.

12. INVESTMENTS (continued)

12.2 Investment in associates

Associates	PRINCIPAL ACTIVITY	REPORTING DATE	COUNTRY OF INCORPORATION	PERCENTAGE HELD 2015	2014
Tree Scape Limited	Vegetation management	31 March	New Zealand	**37.7%**	37.7%
Total Metering 2012 Limited (in liquidation)	Non-trading	30 June	New Zealand	**18.9%**	18.9%
NZ Windfarms Limited	Power generation	30 June	New Zealand	**16.6%**	16.6%

Total Metering 2012 Limited (in liquidation) was removed from the Register of Companies on 17 July 2015.

	GROUP 2015 $000	2014 $000
Carrying amount of associates		
Balance at 1 July	**11,481**	13,589
Share of net profit/(loss) of associates	**812**	1,727
Share of other comprehensive income of associate	**(418)**	(1,194)
Dividends received	**(400)**	(1,400)
Impairment of investment	**-**	(1,241)
Balance at 30 June	**11,475**	11,481
Equity accounted earnings of associates		
Profit/(loss) before income tax	**1,128**	2,398
Income tax benefit/(expense)	**(316)**	(671)
Share of net profit/(loss) of associates	**812**	1,727
Total recognised revenues and expenses	**812**	1,727

Policies

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

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

Impairment

The Group has not recognised an impairment loss at group level in respect of the investment in its associate company, NZ Windfarms Limited (2014: $1.2 million).

The recoverable amount determined as at 30 June 2015 was estimated based on the investment's fair value less costs to sell by reference to the active market price on the New Zealand Stock Exchange.

The recoverable amount exceeds the current carrying value of the group's investment in NZ Windfarms Limited as the share price of NZ Windfarms Limited increased from $0.05 per share at 30 June 2014 to $0.06 per share at 30 June 2015.

12.3 Interest in joint operation

Joint operation	PRINCIPAL ACTIVITY	REPORTING DATE	INTEREST HELD 2015	2014
Kapuni Energy Joint Venture	Cogeneration plant operator	30 June	**37.7%**	37.7%

Policies

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

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

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

13. INTANGIBLE ASSETS

GROUP	CUSTOMER CONTRACTS $000	EASEMENTS $000	SOFTWARE $000	GOODWILL $000	TOTAL $000
Opening carrying amount 1 July 2013	**14,135**	**13,887**	**46,144**	**1,559,209**	**1,633,375**
Cost	16,202	13,887	186,012	1,559,209	1,775,405
Accumulated amortisation	(2,067)	-	(139,868)	-	(124,030)
Acquisition of business	262	-	-	307	569
Transfers from PPE	-	402	21,289	-	21,691
Additions	-	-	24	-	24
Amortisation for the period	(2,431)	-	(20,778)	-	(23,209)
Closing carrying amount 30 June 2014	**11,966**	**14,289**	**46,679**	**1,559,516**	**1,632,450**
Cost	16,464	14,289	189,420	1,559,516	1,779,689
Accumulated amortisation	(4,498)	-	(142,741)	-	(147,239)
Acquisition of business	**5,278**	**-**	**717**	**1,444**	**7,439**
Additions	**-**	**-**	**90**	**-**	**90**
Transfers from PPE	**-**	**462**	**27,902**	**-**	**28,364**
Amortisation for the period	**(1,945)**	**-**	**(23,545)**	**-**	**(25,490)**
Closing carrying amount 30 June 2015	**15,299**	**14,751**	**51,843**	**1,560,960**	**1,642,853**
Cost	**21,742**	**14,751**	**218,128**	**1,560,960**	**1,815,582**
Accumulated amortisation	**(6,443)**	**-**	**(166,285)**	**-**	**(172,729)**

PARENT	SOFTWARE $000	TOTAL $000
Opening carrying amount 1 July 2013	**6**	**6**
Cost	33	33
Accumulated amortisation	(27)	(27)
Additions	24	24
Amortisation for the period	(10)	(10)
Closing carrying amount 30 June 2014	**20**	**20**
Cost	57	57
Accumulated amortisation	(37)	(37)
Additions	**90**	**90**
Amortisation for the period	**(40)**	**(40)**
Closing carrying amount 30 June 2015	**70**	**70**
Cost	**147**	**147**
Accumulated amortisation	**(77)**	**(77)**

13.1 Goodwill

Goodwill by segment	GROUP 2015 $000	GROUP 2014 $000
Electricity	**852,219**	852,219
Gas transportation	**468,062**	468,062
Gas wholesale	**220,826**	220,826
Technology	**19,853**	18,409
Total	**1,560,960**	1,559,516

13. INTANGIBLE ASSETS (continued)

13.1 Goodwill (continued)

Policies

Goodwill represents the excess of the consideration transferred over the fair value of the Group's share of the net identifiable assets of an acquired subsidiary.

Goodwill is carried at cost less accumulated impairment losses.

Allocation

Goodwill is monitored internally at Group level. However, is allocated to the operating segments for impairment testing purposes as this is the highest lever permissible under NZ IFRS.

Impairment testing

Goodwill is tested at least annually for impairment against the recoverable amount of the operating segments to which it has been allocated.

The recoverable amount of each segment to which goodwill is allocated exceeds the net assets plus goodwill allocated. Therefore the Group has determined that no impairment to goodwill has occurred during the period.

Judgements

To assess impairment, management must estimate the future cash flows of operating segments including the cash generating units that make up those segments. This entails making judgements including:

- the expected rate of growth of revenues;
- margins expected to be achieved;
- the level of future maintenance expenditure required to support these outcomes; and
- the appropriate discount rate to apply when discounting future cash flows.

Assumptions

The recoverable amounts attributed to the electricity, gas transportation and gas wholesale segments and the metering cash generating unit of the technology segment are calculated on the basis of value-in-use using discounted cash flow models. For the communications cash generating unit of the technology segment, both value in use and fair value less costs to sell are considered. Future cash flows are projected out based on actual results and business plans.

For the electricity and gas transportation segments and the metering cash generating unit a ten year period has been used due to the long-term nature of the group's capital investment in these businesses. A five year period has been used for all other cash generating units.

Key assumptions include the level of future EBITDA and maintenance expenditure for each segment. Terminal growth rates in a range of 1.0% to 2.0% (2014: 0.0% to 3.0%) and post-tax discount rates between 5.4% and 8.2% (2014: 6.5% and 8.9%) are applied. Rates vary for the specific segment being valued.

Projected cash flows for regulated businesses are sensitive to regulatory uncertainty. Estimated future regulated network revenues and the related supportable levels of capital expenditure are based on default price-quality path determinations issued by the Commerce Commission and are in line with estimates published in the asset management plans. For the electricity segment, the recoverable amount exceeds the carrying value based on the electricity distribution default price-quality path determination released in November 2014. In calculating the recoverable amount for the electricity segment, the Commerce Commission's decision on 30 October 2014 to amend the weighted average cost of capital (WACC) methodology and to adopt a P67 WACC has been considered. For the gas transportation segment, the recoverable amount exceeds the carrying value based on the initial default price-quality path for gas pipeline services applying from 1 July 2014 through to 30 September 2017.

13.2 Other intangible assets

Policies

Other intangible assets are initially measured at cost, and subsequently stated at cost less any accumulated amortisation and impairment losses.

Software and customer contracts have been assessed as having a finite life greater than 12 months, and are amortised from the date the asset is ready for use on a straight line basis over its estimated useful life. The estimated useful lives are: software 2 – 10 years; customer contracts 3 - 10 years.

Easements are not amortised, but are tested for impairment at least annually as part of the assessment of the carrying values of assets against the recoverable amounts of the operating segments to which they have been allocated.

Notes to the Financial Statements

14. PROPERTY, PLANT AND EQUIPMENT (PPE)

GROUP	DISTRIBUTION SYSTEMS $000	ELECTRICITY AND GAS METERS $000	LAND, BUILDINGS AND IMPROVEMENTS $000	COMPUTER AND TELCO EQUIPMENT $000	OTHER PLANT AND EQUIPMENT $000	CAPITAL WORK IN PROGRESS $000	TOTAL $000
Carrying amount 1 July 2013	**3,083,400**	**300,133**	**149,422**	**104,039**	**112,530**	**99,875**	**3,849,399**
Cost	3,780,306	466,529	168,289	163,463	172,287	99,875	4,850,749
Accumulated depreciation	(696,906)	(166,396)	(18,867)	(59,424)	(59,757)	-	(1,001,350)
Additions	-	-	-	-	556	338,605	339,161
Transfers - Intangible assets	-	-	-	-	-	(21,691)	(21,691)
Transfers - Other	198,963	77,495	10,369	7,126	10,841	(304,794)	-
Disposals	(4,863)	(254)	(181)	(9)	(1,418)	-	(6,725)
Depreciation for the period	(106,983)	(28,390)	(3,056)	(12,288)	(9,844)	-	(160,561)
Carrying amount 30 June 2014	**3,170,517**	**348,984**	**156,554**	**98,868**	**112,665**	**111,995**	**3,999,583**
Cost	3,968,590	543,624	178,432	170,310	181,245	111,995	5,154,196
Accumulated depreciation	(798,073)	(194,640)	(21,878)	(71,442)	(68,580)	-	(1,154,613)
Additions	**-**	**-**	**-**	**-**	**4**	**323,278**	**323,282**
Acquisition of business	**-**	**5,489**	**-**	**441**	**3,784**	**720**	**10,434**
Transfers - Intangible assets	**-**	**-**	**-**	**-**	**-**	**(28,364)**	**(28,364)**
Transfers - Other	**203,626**	**72,295**	**10,322**	**14,951**	**(848)**	**(300,346)**	**-**
Disposals	**(4,972)**	**(306)**	**(49)**	**-**	**(19)**	**-**	**(5,346)**
Depreciation for the period	**(111,231)**	**(32,779)**	**(3,237)**	**(13,029)**	**(9,430)**	**-**	**(169,706)**
Carrying amount 30 June 2015	**3,257,940**	**393,683**	**163,590**	**101,231**	**106,156**	**107,283**	**4,129,883**
Cost	**4,167,244**	**621,102**	**188,705**	**185,702**	**184,166**	**107,283**	**5,454,202**
Accumulated depreciation	**(909,304)**	**(227,419)**	**(25,115)**	**(84,471)**	**(78,010)**	**-**	**(1,324,319)**

PARENT	OTHER PPE $000	TOTAL $000
Carrying amount 1 July 2013	**8**	**8**
Cost	61	61
Accumulated depreciation	(53)	(53)
Additions	3	3
Disposals	(1)	(1)
Depreciation for the period	(4)	(4)
Carrying amount 30 June 2014	**6**	**6**
Cost	**63**	**63**
Accumulated depreciation	**(57)**	**(57)**
Additions	**4**	**4**
Disposals	-	-
Depreciation for the period	**(3)**	**(3)**
Carrying amount 30 June 2015	**7**	**7**
Cost	**67**	**67**
Accumulated depreciation	**(60)**	**(60)**

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

Policies

PPE is initially measured at cost, and subsequently stated at cost less depreciation and any impairment losses. Cost may include:

- Consideration paid on acquisition
- Costs to bring the asset to working condition
- Materials used in construction
- Direct labour attributable to the item
- Finance costs attributable to the item
- A proportion of directly attributable overheads incurred
- If there is a future obligation to dismantle and/or remove the item, the costs of doing so

Capitalisation of costs stops when the asset is ready for use.

Subsequent expenditure that increases the economic benefits derived from the asset is capitalised.

Uninstalled assets are stated at the lower of cost and estimated recoverable amount.

Depreciation commences when an item becomes available for use.

Depreciation of PPE, other than freehold land, is calculated on a straight line basis and expensed over the useful economic life of the asset.

Estimated useful lives (years) are as follows:

Buildings	40 – 100
Distribution systems	10 – 100
Electricity and gas meters	5 – 40
Other plant and equipment	3 – 55

Judgements

The Parent and Group's Management must apply judgement when evaluating:

- Whether costs relate to bringing the items to working condition
- The amount of overhead costs which can be reasonably directly attributed to the construction or acquisition of an asset
- Whether subsequent expenditure on the asset increases the future economic benefits to be obtained from that asset
- Whether any indicators of impairment have occurred which might require impairment testing of the current carrying values

Capital commitments

The estimated capital expenditure for PPE and software intangibles contracted for at reporting date but not provided is $56.4 million for the Group (2014: $52.0 million).

15. OPERATING LEASES

Aggregate minimum lease payments under non-cancellable operating leases where the Group is the lessee	GROUP 2015 $000	GROUP 2014 $000
Within one year	**4,768**	6,652
One to five years	**15,931**	11,637
Beyond five years	**5,898**	8,080
Total	**26,597**	26,369

Policies

Payments made under operating leases, where the lessors effectively retain the risks and benefits of ownership, are recognised in profit or loss on a straight-line basis over the lease term.

Lease incentives received are recognised as an integral part of the total lease expense over the term of the lease.

Lease of premises

The majority of the operating lease commitments relate to the Group's leases of premises. These, in the main, give the subsidiary Vector Limited the right to renew the lease at the end of the current lease term.

The parent has no operating leases.

16. TRADE AND OTHER PAYABLES

	GROUP 2015 $000	GROUP 2014 $000	PARENT 2015 $000	PARENT 2014 $000
Current				
Trade payables	**184,242**	160,479	**678**	541
Deferred consideration payable	**750**	1,500	**-**	-
Employee benefits	**8,710**	6,463	**6**	8
Deferred income	**7,787**	7,308	**-**	-
Finance leases	**623**	836	**-**	-
Interest payable	**45,238**	41,793	**-**	-
Balance at 30 June	**247,350**	218,379	**684**	549
Non-current				
Deferred income	**13,828**	15,867	**-**	-
Finance leases	**1,099**	875	**-**	-
Other non-current payables	**2,798**	2,802	**-**	-
Balance at 30 June	**17,725**	19,544	**-**	-

Other payables

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

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

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

17. DISTRIBUTIONS PAYABLE

	GROUP 2015 $000	GROUP 2014 $000	PARENT 2015 $000	PARENT 2014 $000
Current				
Distributions payable	**65,474**	64,799	**65,474**	64,799

Distribution payables

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

Net income from the current year.

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

Trustee accumulations available for distribution.

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

As at 30 June 2015 no distribution roll had been struck to determine the allocation of this income to the beneficiaries, therefore the funds are held as distributions payable.

18. PROVISIONS

2015	DECOMMISSIONING PROVISION $000	PROVISION FOR CONTRACTUAL DISPUTES $000	OTHER $000	TOTAL $000
Balance 1 July 2014	**10,535**	**7,093**	**9,554**	**27,182**
Additions	**3,625**	**6,072**	**5,400**	**15,097**
Reversed to the income statement	**-**	**-**	**(1,794)**	**(1,794)**
Balance at 30 June 2015	**14,160**	**13,165**	**13,160**	**40,485**
Current	**-**	**13,165**	**13,160**	**26,325**
Non-current	**14,160**	**-**	**-**	**14,160**
Total	**14,160**	**13,165**	**13,160**	**40,485**

Policies

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

Decommission-ing

The decommissioning provision is in respect of future expected costs for dismantling the group's gas treatment and cogeneration plants situated at Kapuni and depot assets situated at various regions in New Zealand.

Contractual disputes

The contractual disputes provision relates to matters which are the subject of arbitration proceedings. The amount of the obligations is uncertain as they are contingent on the outcome of arbitration. The amount recognised represents management's best estimate of the amount that will be required to settle the obligations. The outcome of the obligations is expected to be determined within the next year and therefore these are classified as current.

Other provisions

These provisions comprise amounts that may be required to be utilised within one year or a longer period dependent on ongoing negotiations with third parties involved. There are currently no foreseeable uncertainties which would be reasonably expected to lead to material changes in the amounts provided.

19. PROVISION FOR UNCLAIMED DISTRIBUTIONS

	GROUP		PARENT	
	2015 $000	2014 $000	2015 $000	2014 $000
Balance at beginning of the reporting period	**4,608**	4,178	**4,608**	4,178
Additions	**22,365**	21,607	**22,365**	21,607
Claimed	**(21,576)**	(21,177)	**(21,576)**	(21,177)
Balance at end of the reporting period	**5,397**	4,608	**5,397**	4,608

Policies

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

20. BORROWINGS

2015	CURRENCY	MATURITY DATE	FACE VALUE $000	UNAMORTISED COSTS $000	FAIR VALUE ADJUSTMENT ON HEDGED RISK $000	CARRYING VALUE $000	FAIR VALUE $000
Bank facilities – variable rate	NZD	Dec 2016-Feb 2018	**249,000**	**(752)**	**-**	**248,248**	**248,248**
Capital bonds – 7% fixed rate	NZD	-	**262,651**	**(229)**	**-**	**262,422**	**272,539**
Senior notes – fixed rate	USD	Sep 2016-Sep 2022	**796,014**	**(2,022)**	**109,706**	**903,698**	**872,763**
Floating rate notes – variable rate	NZD	Oct 2015-Oct 2020	**1,160,000**	**(3,920)**	**-**	**1,156,080**	**1,116,230**
Medium term notes - 7.625% fixed rate	GBP	Jan 2019	**285,614**	**(1,978)**	**(18,514)**	**265,122**	**304,127**
Balance at 30 June			**2,753,279**	**(8,901)**	**91,192**	**2,835,570**	**2,813,907**

2014	CURRENCY	MATURITY DATE	FACE VALUE $000	UNAMORTISED COSTS $000	FAIR VALUE ADJUSTMENT ON HEDGED RISK $000	CARRYING VALUE $000	FAIR VALUE $000
Bank facilities – variable rate	NZD	Feb 2015-Dec 2016	129,000	(665)	-	128,335	128,335
Capital bonds – 7% fixed rate	NZD	-	262,651	(335)	-	262,316	265,654
Senior bonds – 7.8% fixed rate	NZD	Oct 2014	150,000	(173)	581	150,408	151,150
Senior notes – fixed rate	USD	Sep 2016-Sep 2022	646,014	(2,269)	(92,384)	551,361	531,077
Floating rate notes – variable rate	NZD	Oct 2015-Oct 2020	1,160,000	(5,586)	-	1,154,414	1,102,264
Medium term notes - 7.625% fixed rate	GBP	Jan 2019	285,614	(2,455)	(61,005)	222,154	258,318
Balance at 30 June			2,633,279	(11,483)	(152,808)	2,468,988	2,436,798

Policies

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

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

The Trust has no borrowings.

Capital bonds

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

Floating rate notes

The $1.2 billion floating rate notes are credit wrapped by MBIA Insurance Corporation and Ambac Assurance Corporation.

Senior notes- USD

On 14 October 2014, USD 130 million Senior notes maturing on 14 October 2021, were drawn down. The proceeds were used to pay the NZD 150 million, 7.8% fixed rate Senior bonds which matured on 15 October 2014.

Covenants

All borrowings are unsecured and are subject to negative pledge arrangements and various lending covenants. These have all been met for the years ended 30 June 2015 and 30 June 2014.

21. DERIVATIVES AND HEDGE ACCOUNTING

	CASH FLOW HEDGES		FAIR VALUE HEDGES		COST OF HEDGING		TOTAL	
	2015 $000	2014 $000	2015 $000	2014 $000	2015 $000	2014 $000	2015 $000	2014 $000
Derivative assets								
Cross currency swaps	**-**	-	**105,403**	-	**(1,221)**	-	**104,182**	-
Interest rate swaps	**777**	-	**-**	598	**-**	-	**777**	598
Forward exchange contracts	**186**	-	**-**	-	**-**	-	**186**	-
Total	**963**	-	**105,403**	598	**(1,221)**	-	**105,145**	598
Derivative liabilities								
Cross currency swaps	**(31,558)**	(87,448)	**-**	(86,085)	**1,876**	-	**(29,682)**	(173,533)
Interest rate swaps	**(90,790)**	(71,417)	**-**	-	**-**	-	**(90,790)**	(71,417)
Forward exchange contracts	**-**	(180)	**-**	-	**-**	-	**-**	(180)
Total	**(122,348)**	(159,045)	**-**	(86,085)	**1,876**	-	**(120,472)**	(245,130)

The fair value of the derivative assets has increased as at 30 June 2015 largely due to the strengthening of the foreign currencies against the New Zealand dollar.

Key observable market data for fair value measurement	2015	2014
Foreign currency exchange (FX) rates as at 30 June		
NZD-GBP FX rate	**0.4306**	0.51200
NZD-USD FX rate	**0.6764**	0.87580
Interest rate swap rates		
NZD	**3.09% to 3.91%**	3.43% to 4.90%
USD	**0.28% to 2.96%**	0.16% to 3.17%
GBP	**0.58% to 2.27%**	0.45% to 3.19%
Credit margins		
Vector	**1.24% to 2.31%**	1.29% to 2.21%
Counterparties	**0.09% to 1.52%**	0.03% to 1.71%

Sensitivity to changes in market rates

Impact on comprehensive income: Sensitivity to change in interest rates	2015 $000	2014 $000
-1% change in interest rates	**(43,231)**	(38,535)
+1% change in interest rates	**41,230**	36,999
Sensitivity to change in foreign exchange rates		
-10% change in foreign exchange rates	**(3,392)**	(7,015)
+10% change in foreign exchange rates	**4,811**	7,183
Sensitivity to change in credit margins		
-0.50% change in credit margins	**(910)**	(1,569)
+0.50% change in credit margins	**891**	1,542
Impact on profit or loss: Sensitivity to change in interest rates		
-1% change in interest rates	**(2,411)**	(3,539)
+1% change in interest rates	**2,296**	3,826
Sensitivity to change in foreign exchange rates		
-10% change in foreign exchange rates	**2,843**	6,654
+10% change in foreign exchange rates	**(2,755)**	(6,764)
Sensitivity to change in credit margins		
-0.50% change in credit margins	**3,083**	(1,336)
+0.50% change in credit margins	**(3,014)**	1,311

21. DERIVATIVES AND HEDGE ACCOUNTING (continued)

Policies

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

Fair value is calculated as the present value of the estimated future cash flows based on observable interest yield curves and/or foreign exchange market prices. The carrying values of the financial instruments are the fair values excluding any interest receivable or payable, which is separately presented in the balance sheet in other receivables or other payables.

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

Vector designates certain derivatives as either:

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

At inception each transaction is documented, detailing:

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

The underlying risk of the derivative contracts is identical to the hedged risk component (i.e. the interest rate risk and the foreign exchange risk) therefore the group has established a one-to-one hedge ratio.

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

Fair value hedges

Vector has entered into interest rate swaps and cross currency interest rate swaps (the hedging instruments) to hedge the interest rate risk and foreign currency risk (the hedged risk) arising in relation to its NZD senior bonds (which matured in October 2014) and USD senior notes (the hedged items). These transactions have been designated into fair value hedges.

The following are recognised in profit or loss:

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

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

Cash flow hedges

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

The effective portion of changes in the fair value of the hedging instruments are recognised in other comprehensive income.
The following are recognised in profit or loss:

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

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

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

Fair value measure-ment hierarchy

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities; or

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices); or

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Market rate sensitivity

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

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

21. DERIVATIVES AND HEDGE ACCOUNTING (continued)

Rights to offset

The subsidiary, Vector Limited enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master agreements. The ISDA agreements do not meet the criteria for offsetting in the balance sheet. This is because Vector does not have any currently legally enforceable right to offset recognised amounts. Under the ISDA agreements the right to offset is enforceable only on the occurrence of future events such as a default on the bank loans or other credit events. The potential net impact of this offsetting is disclosed in column 'amount after applying rights of offset under ISDA agreements.' Vector does not hold and is not required to post collateral against its derivative positions

	2015 $000		2014 $000	
	DERIVATIVES POSITION AS PER BALANCE SHEET	AMOUNT AFTER APPLYING RIGHTS OF OFFSET UNDER ISDA AGREEMENTS	DERIVATIVES POSITION AS PER BALANCE SHEET	AMOUNT AFTER APPLYING RIGHTS OF OFFSET UNDER ISDA AGREEMENTS
Derivative assets	**105,145**	**42,497**	598	-
Derivative liabilities	**(120,472)**	**(57,824)**	(245,130)	(244,532)
Net amount	**(15,327)**	**(15,327)**	(244,532)	(244,532)

21.1 Effects of hedge accounting on the financial position and performance

The tables below demonstrate the impact of hedged items and the hedging instruments designated in hedging relationships:

	2015 $000					
	FACE VALUE	CARRYING AMOUNT ASSETS/ (LIABILITIES)	CHANGE IN FAIR VALUE USED FOR MEASURING INEFFECTIVENESS	HEDGING (GAIN) OR LOSS RECOGNISED IN CASH FLOW HEDGE RESERVE	HEDGE INEFFECTIVENESS RECOGNISED IN PROFIT OR LOSS	(GAIN) OR LOSS RECOGNISED IN COST OF HEDGING
Cash flow hedges						
Interest risk						
Hedged item: Floating rate notes	**(1,160,000)**	**-**	**(92,554)**	**-**	**-**	**-**
Hedging instrument: Interest rate swaps	**(1,810,000)**	**(90,013)**	**(90,013)**	**90,013**	**-**	**-**
Interest and exchange risk						
Hedged item: Medium term notes – 7.625% fixed rate	**(285,614)**	**-**	**(32,722)**	**-**	**-**	**-**
Hedging instrument: Cross currency swaps	**(285,614)**	**(29,682)**	**(31,558)**	**13,044**	**-**	**(1,876)**
				Total	**-**	

Cost of hedging is a new category of hedge reserves which has only applied following Vector's adoption of NZ IFRS 9 (2013) on 1 July 2014.

21. DERIVATIVES AND HEDGE ACCOUNTING (continued)

21.1 Effects of hedge accounting on the financial position and performance (continued)

2014 $000	FACE VALUE	CARRYING AMOUNT ASSETS/ (LIABILITIES)	CHANGE IN FAIR VALUE USED FOR MEASURING INEFFECTIVENESS	HEDGING (GAIN) OR LOSS RECOGNISED IN CASH FLOW HEDGE RESERVE	HEDGE INEFFECTIVENESS RECOGNISED IN PROFIT OR LOSS
Cash flow hedges					
Interest risk					
Hedged item: Floating rate notes	(1,160,000)	-	(73,499)	-	-
Hedging instrument: Interest rate swaps	(1,465,000)	(71,417)	(71,417)	71,417	(1)
Interest and exchange risk					
Hedged item: Senior notes – fixed rate	(646,014)	-	(12,257)	-	-
Hedging instrument: Cross currency swaps	(646,014)	(12,006)	(12,006)	12,006	192
Hedged item: Medium term notes – 7.625% fixed rate	(285,614)	-	(79,206)	-	-
Hedging instrument: Cross currency swaps	(285,614)	(75,442)	(75,442)	14,437	-
				Total	191

The interest rate swaps include $650 million of forward starting swaps (2014: $305 million).

2015 $000	FACE VALUE	ACCUMULATED FAIR VALUE HEDGE ADJUSTMENTS	CARRYING AMOUNT ASSETS/ (LIABILITIES)	CHANGE IN FAIR VALUE OF THE HEDGED ITEM	CHANGE IN FAIR VALUE OF THE HEDGING INSTRUMENT	CHANGE IN VALUE IN COST OF HEDGING
Fair value hedges						
Interest and exchange risk						
Hedged item: Senior notes – fixed rate	**(796,014)**	**(109,706)**	**(903,698)**	**(211,500)**	**-**	**-**
Hedging instrument: Cross currency swaps	**(796,014)**	**-**	**104,182**	**-**	**200,504**	**1,769**
Total			**Total**	**(211,500)**	**200,504**	

21. DERIVATIVES AND HEDGE ACCOUNTING (continued)

21.1 Effects of hedge accounting on the financial position and performance (continued)

2014
$000

	FACE VALUE	ACCUMULATED FAIR VALUE HEDGE ADJUSTMENTS	CARRYING AMOUNT ASSETS/ (LIABILITIES)	CHANGE IN FAIR VALUE OF THE HEDGED ITEM	CHANGE IN FAIR VALUE OF THE HEDGING INSTRUMENT
Fair value hedges					
Interest risk					
Hedged item: Senior bonds – 7.8% fixed rate	(150,000)	(581)	(150,408)	3,474	-
Hedging instrument: Interest rate swaps	(150,000)	-	598	-	(3,488)
Interest and exchange risk					
Hedged item: Senior notes – fixed rate	(646,014)	92,384	(551,361)	78,174	-
Hedging instrument: Cross currency swaps	(646,014)	-	(86,085)	-	(71,976)
			Total	81,648	(75,464)

Hedging instruments and hedged items are included in the line items "Derivatives" and "Borrowings" respectively in the balance sheet. Ineffectiveness is the sum of the change in fair value of the hedged item and the change in fair value of the hedging instrument. The source of ineffectiveness is largely due to counterparty credit risk on the derivative instruments.

21.2 Reconciliation of changes in hedge reserves

Hedge reserves **2015**	CASH FLOW HEDGE RESERVE $000	COST OF HEDGING $000	TOTAL $000
Opening balance	**70,586**	**-**	**70,586**
Impact of adoption of NZ IFRS 9 (2013) at 1 July 2014 net of tax	**(7,548)**	**1,056**	**(6,492)**
Restated balance at 1 July 2014	**63,038**	**1,056**	**64,094**
Hedging gains or losses recognised in OCI	**71,120**	**(2,122)**	**68,998**
Transferred to profit or loss	**(51,241)**	**-**	**(51,241)**
Recognised as basis adjustment to non-financial assets	**(4,565)**	**-**	**(4,565)**
Deferred tax on change in reserves	**(4,287)**	**594**	**(3,693)**
Closing balance	**74,065**	**(472)**	**73,593**

Hedge reserves **2014**	CASH FLOW HEDGE RESERVE $000
Opening balance	106,486
Hedging gains or losses recognised in OCI	32,750
Transferred to profit or loss	(63,181)
Recognised as basis adjustment to non-financial assets	(19,430)
Deferred tax on change in reserve	13,961
Closing balance	70,586

21.3 Impact from adoption of NZ IFRS 9 (2013)

The group has adopted NZ IFRS 9 (2013) on 1 July 2014 and has elected not to restate comparative information. The impact of retrospective application of NZ IFRS 9 (2013) is therefore adjusted directly to the opening equity, increasing it by $6.8 million net of tax. This recognises the change in hedge accounting structure.

22. FINANCIAL RISK MANAGEMENT

Policies

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

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

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

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

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

22.1 Interest rate risk

Interest rate exposure

2015	< 1 YEAR $000	1 - 2 YEARS $000	2 - 5 YEARS $000	> 5 YEARS $000	TOTAL $000
Interest rate exposure: borrowings	**1,409,000**	**361,526**	**582,237**	**400,516**	**2,753,279**
Derivative contracts:					
Interest rate swaps	**(1,160,000)**	**160,000**	**350,000**	**650,000**	**-**
Cross currency swaps	**796,014**	**(98,874)**	**(296,624)**	**(400,516)**	**-**
Net interest rate exposure	**1,045,014**	**422,652**	**635,613**	**650,000**	**2,753,279**

Interest rate exposure

2014	< 1 YEAR $000	1 - 2 YEARS $000	2 - 5 YEARS $000	> 5 YEARS $000	TOTAL $000
Interest rate exposure: borrowings	1,439,000	-	647,140	547,139	2,633,279
Interest rate exposure: committed borrowings	-	-	-	150,000	150,000
Derivative contracts:					
Interest rate swaps	(1,160,000)	295,000	560,000	305,000	-
Cross currency swaps	796,014	-	(98,875)	(697,139)	-
Net interest rate exposure	1,075,014	295,000	1,108,265	305,000	2,783,279

22.1 Interest rate risk

Policies

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

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

Vector Limited’s board of directors has set and actively monitors maximum and minimum limits for the net interest rate exposure profile

22.2 Credit risk

Maximum exposure to credit risk – fair value	GROUP 2015 $000	GROUP 2014 $000	PARENT 2015 $000	PARENT 2014 $000
Cash and cash equivalents	**79,067**	77,695	**70,845**	69,411
Trade receivables	**168,487**	147,287	**632**	519
Interest rate swaps	**777**	598	**-**	-
Cross currency swaps	**104,182**	-	**-**	-
Forward exchange contracts	**186**	-	**-**	-
Total credit risk exposure	**352,699**	225,580	**71,477**	69,930

Policies

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

The credit policies to manage this exposure include:

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

22.3 Liquidity risk

GROUP

Contractual cash flows maturity profile 2015	PAYABLE <1 YEAR $000	PAYABLE 1-2 YEARS $000	PAYABLE 2-5 YEARS $000	PAYABLE >5 YEARS $000	TOTAL CONTRACTUAL CASH FLOWS $000
Non-derivative financial liabilities					
Distributions payable	**65,474**	**-**	**-**	**-**	**65,474**
Trade payables	**184,242**	**-**	**-**	**-**	**184,242**
Unclaimed distributions	**2,371**	**3,026**	**-**	**-**	**5,397**
Deferred consideration payable	**750**	**-**	**-**	**-**	**750**
Borrowings: interest	**138,066**	**96,988**	**185,765**	**46,208**	**467,027**
Borrowings: principal	**250,000**	**597,748**	**1,125,391**	**811,266**	**2,784,405**
Derivative financial assets/(liabilities)					
Cross currency swaps: inflow	**(60,154)**	**(153,604)**	**(691,315)**	**(499,522)**	**(1,404,595)**
Cross currency swaps: outflow	**66,767**	**162,967**	**732,355**	**454,480**	**1,416,569**
Forward exchange contracts: inflow	**(2,948)**	**-**	**-**	**-**	**(2,948)**
Forward exchange contracts: outflow	**2,770**	**-**	**-**	**-**	**2,770**
Net settled derivatives					
Interest rate swaps	**36,875**	**33,598**	**32,450**	**1,505**	**104,428**
Group contractual cash flows	**684,213**	**740,723**	**1,384,646**	**813,937**	**3,623,519**

PARENT

Contractual cash flows maturity profile 2015	PAYABLE <1 YEAR $000	PAYABLE 1-2 YEARS $000	PAYABLE 2-5 YEARS $000	PAYABLE >5 YEARS $000	TOTAL CONTRACTUAL CASH FLOWS $000
Non-derivative financial liabilities					
Distributions payables	**65,474**	**-**	**-**	**-**	**65,474**
Trade payables and other creditors	**678**	**-**	**-**	**-**	**678**
Unclaimed distributions	**2,371**	**3,026**	**-**	**-**	**5,397**
Parent contractual cash flows	**68,523**	**3026**	**-**	**-**	**71,549**

22. FINANCIAL RISK MANAGEMENT (continued)

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

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

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

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

Policies

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

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

At reporting date the Group has access to undrawn funds of $396 million (2014: $396 million).

22.4 Foreign exchange risk

Policies

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

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

22. FINANCIAL RISK MANAGEMENT (continued)

22.5 Funding risk

Policies

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

The board of directors has set the amount of debt that may mature in any one financial year.

23. CASH FLOWS

Reconciliation of net profit/(loss) to net cash flows from/(used in) operating activities	NOTE	GROUP 2015 $000	GROUP 2014 $000	PARENT 2015 $000	PARENT 2014 $000
Net profit/(loss) for the period		**147,219**	169,444	**112,354**	112,681
Distribution to beneficiaries		**(111,679)**	(109,159)	**(111,679)**	(109,159)
Distributions payable		**(675)**	(3,522)	**(675)**	(3,522)
		34,865	56,763	**-**	-
Items classified as investing activities					
Net loss/(gain) on disposal of PPE and software intangibles	5	**5,123**	3,030	**-**	1
Non-cash items					
Depreciation and amortisation		**195,196**	183,770	**43**	14
Non-cash portion of interest costs (net)		**(2,952)**	(4,473)	**-**	-
Fair value change on financial instruments		**11,014**	(5,993)	**-**	-
Associates (share of net profit/(loss))	12	**(812)**	(1,727)	**-**	-
Impairment of investment in associate	12	**-**	1,241	**-**	-
Increase/(decrease) in deferred tax		**12,484**	14,090	**-**	-
Increase/(decrease) in provisions		**13,303**	6,816	**-**	-
		228,233	193,724	**43**	14
Cash items not impacting net profit/(loss)					
Dividends received from associate		**400**	1,400	**-**	-
Changes in assets and liabilities					
Trade and other payables		**20,332**	1,864	**136**	(32)
Inventories		**(780)**	1,163	**-**	-
Trade and other receivables		**(22,306)**	1,616	**(115)**	43
Income tax		**(11,139)**	(7,439)	**-**	-
Distributions payable		**675**	3,522	**675**	3,522
Unclaimed distributions		**789**	430	**789**	430
		(12,429)	1,156	**1,485**	3,963
Net cash flows from/(used in) operating activities		**256,192**	256,073	**1,528**	3,978

24. EQUITY

24.1 Transactions with beneficiaries

Trust Distributions

The Trust's net distribution of $345 per beneficiary will be paid in September 2015 (2014: $335).

The Group recognises distributions as a payable in the financial statements on the date the dividend is declared.

Shares

Vector Limited's total number of authorised and issued shares is 1,000,000,000 (2014: 1,000,000,000).

All ordinary issued shares are fully paid, have no par value and carry equal voting rights and equal rights to a surplus on winding up of the parent.

At the balance date, 4,371,524 shares (2014: 4,384,372) are held as treasury shares of which 126,601 (2014: 139,449) are allocated to the employee share purchase scheme.

24. EQUITY (continued)

24.2 Capital Management

Policies

The Group's objectives in managing capital are:

- To safeguard the ability of entities within the Group to continue as a going concern;
- To provide an adequate return to shareholders by pricing products and services commensurate with the level of risk; and
- Maintain an investment grade credit rating.

The Trust has taken Trustee's liability insurance as part of the Trust's risk management policy.

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

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

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

24.3 Financial ratios

The net debt to net debt plus equity ratios at 30 June 2015 and 30 June 2014 were as follows:

	GROUP	
Net debt to net debt plus equity ratio	2015 $000	2014 $000
Current borrowings	**249,903**	200,314
Non-current borrowings	**2,585,667**	2,268,674
Total borrowings	**2,835,570**	2,468,988
Less cash and cash equivalents	**(79,067)**	(77,695)
Net debt	**2,756,503**	2,391,293
Total equity	**2,298,632**	2,307,787
Net debt plus equity	**5,055,135**	4,699,080
	54.5%	50.9%

24.4 Reserves

Hedge reserve

Hedge reserves comprise the cash flow hedge reserve and cost of hedging.

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

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

During the year, $51.2 million (2014: $63.2 million) was transferred from the cash flow hedge reserve to interest expense.

Cost of hedging records the change in the fair value of the cost to convert foreign currency into New Zealand dollars. This was previously reported as part of the cash flow hedge reserve and has been reclassified to its own reserve as required under NZ IFRS 9 (2013).

Other reserves

Other reserves comprise:

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

25. RELATED PARTY TRANSACTIONS

	PARENT 2015 $000	PARENT 2014 $000
Transactions with Vector Limited		
Receipt of dividend from Vector Limited	**114,528**	114,528
Payment of office rent to Vector Limited	**16**	19
Payment of call centre costs to Vector Limited	**-**	31

Transactions with associates and other joint operations.	GROUP 2015 $000	GROUP 2014 $000	PARENT 2015 $000	PARENT 2015 $000
Capital distribution received from Total Metering 2012 Limited (in liquidation)	**7**	45	**-**	-
Purchase of vegetation management services from Tree Scape Limited	**3,702**	3,911	**-**	-
Sales of operations and maintenance services to Kapuni Energy Joint Venture	**1,602**	1,659	**-**	-
Sales of gas to Kapuni Energy Joint Venture	**11,788**	-	**-**	-
Purchases of electricity and steam from Kapuni Energy Joint Venture	**12,819**	12,787	**-**	-
Administrative and other services provided to Kapuni Energy Joint Venture	**71**	70	**-**	-
Dividends received from Tree Scape Limited	**400**	1,400	**-**	-
Electricity services provided to NZ Windfarms Limited	**120**	120	**-**	-
Directors' fees from NZ Windfarms Limited	**30**	30	**-**	-
Directors' fees from Tree Scape Limited	**94**	94	**-**	-
Transactions with key management personnel				
Directors fees	**1,001**	981	**-**	-
Trustees remuneration	**343**	343	**343**	343
Executive officer remuneration	**263**	252	**263**	252
Salary and other short-term employee benefits (Vector Limited)	**5,495**	6,052	**-**	-
Redundancy and termination benefits	**250**	123	**-**	-
Trustees and Director's Remuneration				
W A A Cairns (Chairman)	**90**	90	**90**	90
W J Kyd (Deputy Chairman)	**65**	65	**65**	65
J A Carmichael – Trustee remuneration	**63**	63	**63**	63
J A Carmichael – Director remuneration	**101**	99	**-**	-
M J Buczkowski – Trustee remuneration	**63**	63	**63**	63
K A Sherry – Trustee remuneration	**63**	63	**63**	63
K A Sherry – Director remuneration	**101**	99	**-**	-
Directors fees paid to non-trustee directors of Vector Limited	**799**	783	**-**	-

Related parties

The Trust is the majority shareholder of the subsidiary Vector Limited. Note 12 identifies all entities including associates, partnerships and joint ventures in which the Group has an interest. All of these entities are related parties of the subsidiary Vector Limited. Other than Vector Limited's directors themselves, there are no additional related parties with whom material transactions have taken place.

Key management personnel includes Vector Limited directors' fees and remuneration of Vector Limited's Group CEO and the members of his Executive Team during the periods presented as well as the remuneration of the Parent's trustees and executive officer.

The Group has paid remuneration to the trustees and to the directors of the subsidiary, Vector Limited during the reporting period as disclosed above.

Other

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

Other receivables

	2015 $000	2014 $000
Vector Limited	**1**	1
NZ Windfarms Limited	**12**	18
Tree Scape Limited	**7**	6
KEJV	**212**	212

26. CONTINGENT LIABILITIES

Disclosures

The subsidiary, Vector Limited's directors are aware of claims that have been made against entities of the Group and, where appropriate, have recognised provisions for these within note 18 of these financial statements.

No material contingent liabilities have been identified.

27. BUSINESS COMBINATIONS

Metering acquisition

On 1 December 2014, Vector Limited purchased Arc Innovations Limited (Arc), the electricity metering subsidiary of Meridian Energy Limited, for $20.0 million. This business will complement the group's existing metering business, and contribute to growth in the technology segment.

Advanced Metering Services Limited, a wholly owned subsidiary of the group, simultaneously entered into a transaction to provide metering services to Meridian Energy Limited. Some aspects of this contract have been included as part of the business combination.

The difference between the fair value of assets and liabilities acquired and the purchase price has been recognised as goodwill.

The goodwill is attributable mainly to the synergies expected to be achieved from integrating the company into the group's existing metering business.

From the date of acquisition, Arc has contributed $8.2 million of revenue and $3.5 million to the net profit of the group. If the acquisition had taken place at the beginning of the period, Arc's contribution to revenue and net profit for the group for the period would have been $14.6 million and $4.3 million respectively.

	$000
Fair value of net assets acquired at acquisition date	
Property, plant and equipment	**10,434**
Identifiable intangible assets	**5,995**
Trade and other receivables	**1,692**
Deferred tax asset	**1,266**
Trade and other payables	**(803)**
Goodwill	**1,322**
Net assets and liabilities acquired	**19,906**
Cash paid 1 December 2014	**20,000**
Post-acquisition adjustment	**(94)**
Total consideration	**19,906**

28. SUBSEQUENT EVENTS

Approval

The financial statements were approved by the trustees on 28 August 2015.

Final dividend

On 28 August 2015, the Vector board declared a final dividend for the year ended 30 June 2015 of 8.00 cents per share (2014: 7.75 cents per share).

On 28 August 2015, the trustees resolved to make a net distribution to beneficiaries of $345 (2014: $335) per beneficiary.

No adjustment is required to these financial statements in respect of this event.

29. GUIDELINES OF ACCESS TO INFORMATION

Disclosure

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

Year	No. of Requests Received	Costs incurred to process those requests and any recoveries made (includes external costs incurred and an allocation of internal costs based on Official Information Act guidelines)	No. of Trust decisions which were subject to review	Summary of outcome of those reviews and costs incurred in reviews
2015	Nil	$Nil	Nil	N/A
2014	Nil	$Nil	Nil	N/A