

# **VECTOR LIMITED**

## **2013**

### **FINANCIAL STATEMENTS**

# Financial Statements

for the year ended 30 June 2013

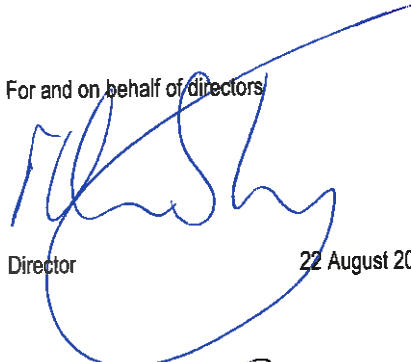
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## 2013 FINANCIAL STATEMENTS

The directors are pleased to present the financial statements of the group for the year ended 30 June 2013.

For and on behalf of directors



Director

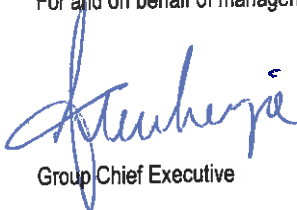
22 August 2013



Director

22 August 2013

For and on behalf of management



Group Chief Executive

22 August 2013



Acting Chief Financial Officer

22 August 2013



## Independent auditor's report

### To the shareholders of Vector Limited

#### Report on the Company and Group Financial Statements

We have audited the accompanying financial statements of Vector Limited ("the company") and the group, comprising the company and its subsidiaries, on pages 4 to 62. The financial statements comprise the statements of financial position as at 30 June 2013, the income statements and statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, for both the company and the group.

#### *Directors' Responsibility for the Company and Group Financial Statements*

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

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these company and group 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 company and group financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the company and group 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 company and group's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company and group'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.



Our firm has also provided other services to the company and group in relation to regulatory assurance. Partners and employees of our firm may also deal with the company and group on normal terms within the ordinary course of trading activities of the business of the company and group. These matters have not impaired our independence as auditors of the company and group. The firm has no other relationship with, or interest in, the company and group.

### ***Opinion***

In our opinion the financial statements on pages 4 to 62:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the financial position of the company and the group as at 30 June 2013 and of the financial performance and cash flows of the company and the group for the year then ended.

### **Report on Other Legal and Regulatory Requirements**

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, we report that:

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

22 August 2013

Auckland

# Income Statement

for the year ended 30 June 2013

		GROUP		PARENT	
	NOTE	2013 \$000	2012 \$000	2013 \$000	2012 \$000
Operating revenue	2	1,279,150	1,252,244	726,916	699,559
Other income	2	-	-	200	-
<b>Total income</b>		<b>1,279,150</b>	<b>1,252,244</b>	<b>727,116</b>	<b>699,559</b>
Electricity transmission expenses		(176,120)	(147,059)	(176,120)	(147,059)
Gas purchases and production expenses		(239,213)	(240,659)	-	-
Network and asset maintenance expenses		(82,770)	(83,315)	(54,802)	(49,946)
Employee benefit expenses		(70,639)	(71,843)	(78,198)	(72,216)
Other expenses		(79,942)	(82,015)	(26,319)	(26,535)
<b>Operating expenditure</b>	<b>3</b>	<b>(648,684)</b>	<b>(624,891)</b>	<b>(335,439)</b>	<b>(295,756)</b>
<b>Earnings before net finance costs, income tax, depreciation, amortisation, share of net profit/(loss) from associates and impairments (EBITDA)</b>		<b>630,466</b>	<b>627,353</b>	<b>391,677</b>	<b>403,803</b>
Depreciation and amortisation		(174,078)	(173,442)	(104,000)	(100,116)
<b>Earnings before net finance costs, income tax, share of net profit/(loss) from associates and impairments (EBIT)</b>		<b>456,388</b>	<b>453,911</b>	<b>287,677</b>	<b>303,687</b>
Finance income	4	4,428	10,573	4,423	13,873
Finance costs	4	(168,718)	(176,771)	(170,890)	(178,304)
Share of net profit/(loss) from associates	14	1,291	(344)	-	-
Impairment of investments in associates	14	(3,570)	(4,071)	(3,570)	-
<b>Profit/(loss) before income tax</b>		<b>289,819</b>	<b>283,298</b>	<b>117,640</b>	<b>139,256</b>
Income tax benefit/(expense)	5	(83,588)	(81,565)	(35,029)	(35,128)
<b>Net profit/(loss) for the period</b>		<b>206,231</b>	<b>201,733</b>	<b>82,611</b>	<b>104,128</b>
<b>Net profit/(loss) for the period attributable to:</b>					
Non-controlling interests in subsidiaries		2,890	2,966	-	-
Owners of the parent		203,341	198,767	82,611	104,128

		GROUP	
	NOTE	2013	2012
<b>Basic and diluted earnings per share (cents)</b>	<b>10</b>	<b>20.4</b>	<b>20.0</b>



# Statement of Comprehensive Income

for the year ended 30 June 2013

		GROUP		PARENT	
	NOTE	2013 \$000	2012 \$000	2013 \$000	2012 \$000
<b>Net profit/(loss) for the period</b>		<b>206,231</b>	<b>201,733</b>	<b>82,611</b>	<b>104,128</b>
<b>Other comprehensive income net of tax</b>					
Items that may be re-classified subsequently to profit/(loss):					
Net change in fair value of cash flow hedges		52,215	(16,111)	52,215	(16,111)
Share of other comprehensive income of associates	14	(20)	19	-	-
Translation of foreign operations		(30)	(80)	-	-
<b>Other comprehensive income for the period net of tax</b>		<b>52,165</b>	<b>(16,172)</b>	<b>52,215</b>	<b>(16,111)</b>
<b>Total comprehensive income for the period net of tax</b>		<b>258,396</b>	<b>185,561</b>	<b>134,826</b>	<b>88,017</b>
<b>Total comprehensive income for the period attributable to</b>					
Non-controlling interests in subsidiaries		2,890	2,966	-	-
Owners of the parent		255,506	182,595	134,826	88,017

# Statement of Financial Position

as at 30 June 2013

		GROUP		PARENT	
	NOTE	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>CURRENT ASSETS</b>					
Cash and cash equivalents		56,164	81,593	43,973	71,727
Receivables and prepayments	11	170,437	176,111	107,156	109,733
Derivative financial instruments	22	344	13	344	13
Inventories	12	5,513	5,314	-	-
Income tax	6	3,811	11,811	2,955	12,858
Non-current asset held for sale	14	-	2,592	-	-
Intangible assets	16	15	492	15	492
Advances to subsidiaries	26	-	-	20,588	12,817
<b>Total current assets</b>		<b>236,284</b>	<b>277,926</b>	<b>175,031</b>	<b>207,640</b>
<b>NON-CURRENT ASSETS</b>					
Receivables and prepayments	11	2,134	1,392	1,396	1,392
Derivative financial instruments	22	10,664	23,322	10,664	23,322
Deferred tax	7	1,646	1,646	-	-
Investments in subsidiaries	13	-	-	1,407,346	1,407,346
Investments in associates	14	13,589	16,088	10,474	14,044
Intangible assets	16	1,633,369	1,616,800	557,759	557,962
Property, plant and equipment	17	3,849,391	3,679,438	2,735,133	2,665,817
<b>Total non-current assets</b>		<b>5,510,793</b>	<b>5,338,686</b>	<b>4,722,772</b>	<b>4,669,883</b>
<b>Total assets</b>		<b>5,747,077</b>	<b>5,616,612</b>	<b>4,897,803</b>	<b>4,877,523</b>
<b>CURRENT LIABILITIES</b>					
Trade and other payables	18	273,187	193,704	147,440	139,761
Provisions	19	11,676	12,352	-	-
Derivative financial instruments	22	2,065	11,555	2,065	11,555
Borrowings	21	-	18,385	-	18,385
Income tax	6	586	-	-	-
Advances from subsidiaries	26	-	-	419,061	320,141
<b>Total current liabilities</b>		<b>287,514</b>	<b>235,996</b>	<b>568,566</b>	<b>489,842</b>
<b>NON-CURRENT LIABILITIES</b>					
Trade and other payables	18	20,136	22,221	2,241	2,429
Provisions	19	8,690	6,845	-	-
Derivative financial instruments	22	226,331	286,001	226,331	286,001
Borrowings	21	2,420,430	2,437,026	2,420,430	2,437,026
Deferred tax	8	525,514	480,181	388,070	358,040
<b>Total non-current liabilities</b>		<b>3,201,101</b>	<b>3,232,274</b>	<b>3,037,072</b>	<b>3,083,496</b>
<b>Total liabilities</b>		<b>3,488,615</b>	<b>3,468,270</b>	<b>3,605,638</b>	<b>3,573,338</b>
<b>EQUITY</b>					
Equity attributable to owners of the parent		2,240,326	2,131,705	1,292,165	1,304,185
Non-controlling interests in subsidiaries		18,136	16,637	-	-
<b>Total equity</b>		<b>2,258,462</b>	<b>2,148,342</b>	<b>1,292,165</b>	<b>1,304,185</b>
<b>Total equity and liabilities</b>		<b>5,747,077</b>	<b>5,616,612</b>	<b>4,897,803</b>	<b>4,877,523</b>

# Statement of Cash Flows

for the year ended 30 June 2013

	GROUP		PARENT	
	2013 \$000	2012 \$000	2013 \$000	2012 \$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	1,292,704	1,238,748	694,210	650,907
Interest received	4,486	9,183	4,012	8,839
Income tax refunds	-	5,237	-	5,233
Dividends received from associates	200	-	200	-
Payments to suppliers and employees	(643,065)	(620,725)	(357,462)	(314,658)
Interest paid	(170,739)	(177,002)	(170,526)	(176,693)
Income tax paid	(57,403)	(63,149)	(54,802)	(61,331)
<b>Net cash flows from/(used in) operating activities</b>	<b>426,183</b>	<b>392,292</b>	<b>115,632</b>	<b>112,297</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Advances from/repaid by subsidiaries	-	-	346,937	334,860
Proceeds from sale of property, plant and equipment and software intangibles	884	25,764	688	25,117
Advances to/repaid to subsidiaries	-	-	(156,465)	(164,346)
Purchase and construction of property, plant and equipment and software intangibles	(283,383)	(259,989)	(164,586)	(154,630)
Proceeds from liquidation of associate	2,757	-	-	-
<b>Net cash flows from/(used in) investing activities</b>	<b>(279,742)</b>	<b>(234,225)</b>	<b>26,574</b>	<b>41,001</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Debt raising costs incurred	(203)	(572)	(203)	(572)
Repayment of borrowings	(22,817)	(44,829)	(22,817)	(44,554)
Capital portion of payments on finance leases	(541)	(1,229)	(66)	(69)
Acquisition of non-controlling interest in subsidiary	-	(2,500)	-	-
Purchase of treasury shares	(44)	(306)	-	(5)
Dividends paid to owners of the parent	(146,874)	(144,384)	(146,874)	(144,384)
Dividends paid to non-controlling interests in subsidiaries	(1,391)	(3,061)	-	-
<b>Net cash flows from/(used in) financing activities</b>	<b>(171,870)</b>	<b>(196,881)</b>	<b>(169,960)</b>	<b>(189,584)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(25,429)</b>	<b>(38,814)</b>	<b>(27,754)</b>	<b>(36,286)</b>
Cash and cash equivalents at beginning of the period	81,593	120,407	71,727	108,013
<b>Cash and cash equivalents at end of the period</b>	<b>56,164</b>	<b>81,593</b>	<b>43,973</b>	<b>71,727</b>
<b>Cash and cash equivalents comprise:</b>				
Bank balances and on-call deposits	13,890	12,593	10,973	2,727
Short term deposits maturing within three months	42,274	69,000	33,000	69,000
	<b>56,164</b>	<b>81,593</b>	<b>43,973</b>	<b>71,727</b>





# Statement of Cash Flows (continued)

for the year ended 30 June 2013

		GROUP		PARENT	
	NOTE	2013 \$000	2012 \$000	2013 \$000	2012 \$000
<b>RECONCILIATION OF NET PROFIT/(LOSS) TO NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES</b>					
Net profit/(loss) for the period		206,231	201,733	82,611	104,128
<b>ITEMS CLASSIFIED AS INVESTING ACTIVITIES</b>					
Net loss/(gain) on disposal of property, plant and equipment and software intangibles	3	4,704	6,880	4,183	5,530
<b>NON-CASH ITEMS</b>					
Depreciation and amortisation		174,078	173,442	104,000	100,116
Impairment of investments in associates	14	3,570	4,071	3,570	-
Management fee income	26	-	-	(38,490)	(37,688)
Non-cash portion of finance costs		(1,552)	(605)	391	(2,098)
Increase/(decrease) in deferred tax		17,042	21,234	9,742	18,950
Increase/(decrease) in provisions		1,169	1,384	-	-
Share of net profit/(loss) of associates	14	(1,291)	344	-	-
Other non-cash items		-	-	(21,005)	(30,911)
		193,016	199,870	58,208	48,369
<b>CASH ITEMS NOT IMPACTING NET PROFIT/(LOSS)</b>					
Dividends received from associates		200	-	-	-
<b>MOVEMENT IN WORKING CAPITAL</b>					
Increase/(decrease) in trade and other payables		8,724	(5,830)	(2,407)	1,378
Decrease/(increase) in inventories		(199)	(1,851)	-	-
Decrease/(increase) in receivables and prepayments		4,922	(10,928)	2,552	(7,188)
Decrease/(increase) in net income tax assets		8,585	2,418	(29,515)	(39,920)
		22,032	(16,191)	(29,370)	(45,730)
<b>Net cash flows from/(used in) operating activities</b>		<b>426,183</b>	<b>392,292</b>	<b>115,632</b>	<b>112,297</b>



# Statement of Changes in Equity

for the year ended 30 June 2013

GROUP 2013	NOTE	ISSUED SHARE CAPITAL \$000	TREASURY SHARES \$000	HEDGE RESERVE \$000	OTHER RESERVES \$000	RETAINED EARNINGS \$000	NON- CONTROLLING INTERESTS \$000	TOTAL EQUITY \$000
Balance at beginning of the period		874,979	(9,240)	(158,701)	371	1,424,296	16,637	2,148,342
<b>Comprehensive income</b>								
Net profit/(loss) for the period		-	-	-	-	203,341	2,890	206,231
<b>Other comprehensive income</b>								
Net change in fair value of cash flow hedges		-	-	72,504	-	-	-	72,504
Translation of foreign operations		-	-	-	(30)	-	-	(30)
Share of other comprehensive income of associate		-	-	-	-	(20)	-	(20)
Income tax relating to components of other comprehensive income	8	-	-	(20,289)	-	-	-	(20,289)
<b>Total comprehensive income</b>		-	-	52,215	(30)	203,321	2,890	258,396
<b>Transactions with owners</b>								
Acquisition of shares for employee share purchase scheme	9	-	(44)	-	-	-	-	(44)
Shares issued to employee share purchase scheme	9	-	-	-	44	-	-	44
Shares vested or forfeited from employee share purchase scheme		-	5	-	(16)	-	-	(11)
Dividends	9	-	-	-	-	(146,874)	(1,391)	(148,265)
<b>Total of transactions with owners</b>		-	(39)	-	28	(146,874)	(1,391)	(148,276)
<b>Balance at end of the period</b>		874,979	(9,279)	(106,486)	369	1,480,743	18,136	2,258,462

GROUP 2012	NOTE	ISSUED SHARE CAPITAL \$000	TREASURY SHARES \$000	HEDGE RESERVE \$000	OTHER RESERVES \$000	RETAINED EARNINGS \$000	NON- CONTROLLING INTERESTS \$000	TOTAL EQUITY \$000
Balance at beginning of the period		874,979	(8,934)	(142,590)	164	1,369,878	19,248	2,112,745
<b>Comprehensive income</b>								
Net profit/(loss) for the period		-	-	-	-	198,767	2,966	201,733
<b>Other comprehensive income</b>								
Net change in fair value of cash flow hedges		-	-	(22,379)	-	-	-	(22,379)
Translation of foreign operations		-	-	-	(80)	-	-	(80)
Share of other comprehensive income of associate		-	-	-	-	19	-	19
Income tax relating to components of other comprehensive income	8	-	-	6,268	-	-	-	6,268
<b>Total comprehensive income</b>		-	-	(16,111)	(80)	198,786	2,966	185,561
<b>Transactions with owners</b>								
Acquisition of non-controlling interest in subsidiary		-	-	-	-	16	(2,516)	(2,500)
Acquisition of shares for employee share purchase scheme	9	-	(306)	-	-	-	-	(306)
Shares issued to employee share purchase scheme	9	-	-	-	287	-	-	287
Dividends	9	-	-	-	-	(144,384)	(3,061)	(147,445)
<b>Total of transactions with owners</b>		-	(306)	-	287	(144,368)	(5,577)	(149,964)
<b>Balance at end of the period</b>		874,979	(9,240)	(158,701)	371	1,424,296	16,637	2,148,342

GROUP

	NOTE	2013	2012
Total tangible assets per share (cents)	10	411.1	399.8
Net tangible assets per share (cents)	10	60.9	51.6



# Statement of Changes in Equity (continued)

for the year ended 30 June 2013

PARENT 2013	NOTE	ISSUED SHARE CAPITAL \$000	TREASURY SHARES \$000	HEDGE RESERVE \$000	OTHER RESERVES \$000	RETAINED EARNINGS \$000	TOTAL EQUITY \$000
Balance at beginning of the period		874,979	(8,939)	(158,701)	287	596,559	1,304,185
<b>Comprehensive income</b>							
Net profit/(loss) for the period		-	-	-	-	82,611	82,611
<b>Other comprehensive income</b>							
Net change in fair value of cash flow hedges		-	-	72,504	-	-	72,504
Income tax relating to components of other comprehensive income	8	-	-	(20,289)	-	-	(20,289)
<b>Total comprehensive income</b>		-	-	52,215	-	82,611	134,826
<b>Transactions with owners</b>							
Shares issued to employee share purchase scheme	9	-	-	-	44	-	44
Shares vested or forfeited from employee share purchase scheme		-	-	-	(16)	-	(16)
Dividends	9	-	-	-	-	(146,874)	(146,874)
<b>Total of transactions with owners</b>		-	-	-	28	(146,874)	(146,846)
<b>Balance at end of the period</b>		<b>874,979</b>	<b>(8,939)</b>	<b>(106,486)</b>	<b>315</b>	<b>532,296</b>	<b>1,292,165</b>

PARENT 2012	NOTE	ISSUED SHARE CAPITAL \$000	TREASURY SHARES \$000	HEDGE RESERVE \$000	OTHER RESERVES \$000	RETAINED EARNINGS \$000	TOTAL EQUITY \$000
Balance at beginning of the period		874,979	(8,934)	(142,590)	-	636,815	1,360,270
<b>Comprehensive income</b>							
Net profit/(loss) for the period		-	-	-	-	104,128	104,128
<b>Other comprehensive income</b>							
Net change in fair value of cash flow hedges		-	-	(22,379)	-	-	(22,379)
Income tax relating to components of other comprehensive income	8	-	-	6,268	-	-	6,268
<b>Total comprehensive income</b>		-	-	(16,111)	-	104,128	88,017
<b>Transactions with owners</b>							
Shares issued to employee share purchase scheme	9	-	(5)	-	287	-	282
Dividends	9	-	-	-	-	(144,384)	(144,384)
<b>Total of transactions with owners</b>		-	(5)	-	287	(144,384)	(144,102)
<b>Balance at end of the period</b>		<b>874,979</b>	<b>(8,939)</b>	<b>(158,701)</b>	<b>287</b>	<b>596,559</b>	<b>1,304,185</b>

# Statement of Accounting Policies

for the year ended 30 June 2013

## REPORTING ENTITY

Vector Limited is a company domiciled in New Zealand and registered under the Companies Act 1993 and is listed on the New Zealand Stock Exchange (NZX). The address of Vector Limited's registered office is 101 Carlton Gore Road, Newmarket, Auckland. Vector Limited is an issuer for the purposes of the Financial Reporting Act 1993 and its financial statements comply with that Act. The financial statements of the group and parent are for the year ended 30 June 2013 and were authorised for issue by the directors on 22 August 2013.

Vector Limited is a profit-oriented entity involved in the infrastructure sector in New Zealand. Its primary operations include electricity distribution, gas transportation, natural gas and LPG sales, gas processing, metering and telecommunications. Vector Limited is a 75.1% owned subsidiary of the Auckland Energy Consumer Trust which is the ultimate parent entity for the group.

## BASIS OF PREPARATION

The financial statements have been prepared in accordance with NZ GAAP. The financial statements for Vector Limited (the parent) and consolidated financial statements are presented. The consolidated financial statements comprise the parent and its subsidiaries (the group) and the group's share of any interest in associates, partnerships and joint ventures.

## STATEMENT OF COMPLIANCE

The financial statements comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The financial statements comply with International Financial Reporting Standards.

## MEASUREMENT BASE

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

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

## FUNCTIONAL AND PRESENTATION CURRENCY

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

## JUDGEMENT USED IN APPLYING ACCOUNTING POLICIES AND SOURCES OF ESTIMATION UNCERTAINTY

The preparation of these financial statements in compliance with NZ IFRS requires management to make judgements, estimates and apply assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions have been based on historical experience and other factors and are believed to be reasonable. These estimations and assumptions have formed the basis for making judgements on the carrying values of some assets and liabilities. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in the future periods affected. In particular, information about the significant areas of estimation uncertainty and critical judgements in applying accounting policies that have had a significant effect on the amounts recognised in the financial statements are described below.

### A) JUDGEMENTS USED IN APPLYING ACCOUNTING POLICIES

#### Revenue recognition

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

#### Classification of investments

Classifying investments as either subsidiaries, associates, joint ventures or available-for-sale financial assets requires management to judge the degree of influence which the group holds over the investee. Management look at many factors in making these judgements, such as examining the constitutional documents that govern decision making, governance around current and future representation amongst the board of directors, and also other less formal arrangements which can lead to having influence on the operating and financial policies. These judgements impact upon the basis of consolidation accounting which is used to recognise the group's investments in the consolidated financial statements. Further information regarding the basis of consolidation is included in the following section on Significant Accounting Policies.

#### Classification of expenditure in relation to property, plant and equipment

On initial recognition of items of property, plant and equipment and software intangibles, judgements must be made about whether costs incurred relate to bringing the items to working condition for their intended use, and therefore are appropriate for capitalisation as part of the cost of the item, or whether they should be expensed as incurred. As required by NZ IAS 16, *Property, Plant and Equipment* and NZ IAS 38 *Intangible Assets*, management must exercise their judgement to assess the amount of overhead costs which can be reasonably directly attributed to the construction or acquisition of items of property, plant and equipment and software intangibles. For example, employee costs arising directly from such activities are capitalised within the initial cost of property, plant and equipment. Thereafter, judgement is also required to assess whether subsequent expenditure increases the future economic benefits to be obtained from that asset and is therefore also appropriate for capitalisation or whether such expenditure should be treated as maintenance and expensed.

# Statement of Accounting Policies

for the year ended 30 June 2013

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

### B) SOURCES OF ESTIMATION UNCERTAINTY

The following are sources of estimation uncertainty where management have assessed there is a risk that a material adjustment to the carrying amounts of the assets or liabilities involved could possibly occur within the year ended 30 June 2013.

#### Valuation of goodwill and property, plant and equipment

At 30 June 2013, the carrying value of goodwill is \$1,559.2 million (2012: \$1,555.8 million). The carrying value of goodwill is assessed at least annually to ensure that it is not impaired. Performing this assessment generally requires management to estimate future cash flows to be generated by operating segments to which goodwill has been allocated. Estimating future cash flows entails making judgements including the expected rate of growth of revenues, margins expected to be achieved, the level of future maintenance expenditure required to support these outcomes and the appropriate discount rate to apply when discounting future cash flows. Note 16 of these financial statements provides more information surrounding the assumptions management have made in this area.

Management must also consider whether any indicators of impairment have occurred which might require impairment testing of the current carrying values of property, plant and equipment. At 30 June 2013, the carrying value of property, plant and equipment is \$3,849.4 million (2012: \$3,679.4 million). Assessing whether individual assets or a grouping of related assets (which generate cash flows co-dependently) are impaired may involve estimating the future cash flows that those assets are expected to generate. This will in turn involve assumptions, including rates of expected revenue growth or decline, expected future margins and the selection of an appropriate discount rate for discounting future cash flows.

Outcomes in the future financial periods may be different to the assumptions made. It is impracticable to quantify the impact should assumptions be materially different to actual outcomes, which may result in material adjustments to the carrying amounts of goodwill and property, plant and equipment reported in the financial statements in future periods.

#### Valuation of financial instruments

At 30 June 2013, the total carrying value of that portion of the group's borrowings which are measured at fair value and derivative financial instruments is a liability of \$1,223.4 million (2012: \$1,317.5 million). Management have estimated the fair value of the group's financial instruments based on valuation models that use observable market inputs. Note 22 of these financial statements provides a list of the key observable inputs that management have applied in reaching their estimates of the fair values of financial instruments and also provides a sensitivity analysis detailing the potential future impacts of reasonably possible changes in those observable inputs over the next financial period.

## SIGNIFICANT ACCOUNTING POLICIES

The following specific accounting policies that materially affect the measurement of profit/(loss), comprehensive income, assets, liabilities, equity and cash flows have been applied consistently to all periods presented in the financial statements and consistently by group entities.

### A) BASIS OF CONSOLIDATION

#### Subsidiaries

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

Intra-group advances to and from subsidiaries are recognised at amortised cost within current assets and current liabilities in the separate financial statements of the parent. Subsidiaries advances from and to the parent are repayable on demand. Intra-group balances (including intra-group advances), income and expenses on transactions between group companies are eliminated on consolidation.

#### Associates

Associates are entities in which the group has significant influence but not control over the operating and financial policies. Investments in associates are accounted for using the equity method. The group's share of the net profit/(loss) of associates is recognised in the income statement after adjusting for differences, if any, between the accounting policies of the group and the associates. The group's share of any other gains and losses of associates charged directly to equity is recognised in other comprehensive income. Dividends received from associates are credited to the carrying amount of the investment in associates in the consolidated financial statements.

Profits and losses resulting from upstream and downstream transactions between the group and its associate are recognised in the group's financial statements only to the extent of unrelated investor's interests in the associate.

#### Joint ventures

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

#### Partnerships

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



# Statement of Accounting Policies

for the year ended 30 June 2013

## SIGNIFICANT ACCOUNTING POLICIES (continued)

### Acquisition or disposal during the period

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

### Goodwill arising on obtaining control of a subsidiary or an associate

Where an acquisition results in obtaining control of a subsidiary or an associate for the first time, the carrying amount of any previous non-controlling interest held by the group is first re-measured to fair value and the difference between the carrying amount and the re-measured fair value is recognised in the income statement. Goodwill is then calculated as the sum of the fair value of the consideration paid, the re-measured fair value of the non-controlling interest previously held by the acquirer and the recognised amount of any remaining non-controlling interest in the acquiree held by third parties less the fair value of the total identifiable assets and liabilities of the acquiree at the date of the acquisition.

If the fair value of the total identifiable assets and liabilities acquired exceeds the sum of the fair value of the consideration paid, the re-measured fair value of the non-controlling interest previously held by the acquirer and the recognised amount of any remaining non-controlling interest in the acquiree held by third parties then a gain representing a bargain purchase is recognised in the income statement.

### Goodwill arising on acquisition of an additional interest in an associate while retaining significant influence

Where an acquisition results in the group obtaining an additional non-controlling interest in an associate while retaining significant influence, goodwill is calculated as the difference between the fair value of the consideration paid and the amount of the group's acquired incremental share of the fair values of the total identifiable assets and liabilities of the acquiree at the date of the acquisition.

If the group's acquired incremental share of the fair values of the acquiree's total identifiable assets and liabilities exceeds the fair value of the consideration paid, the excess is included in the share of net profit/(loss) from associates in the income statement.

### Subsequent measurement of goodwill

Subsequent to initial recognition goodwill is tested annually for impairment. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment.

## B) DETERMINATION OF FAIR VALUES OF PROPERTY, PLANT AND EQUIPMENT AS A RESULT OF A BUSINESS COMBINATION

The group's accounting policies require the assessment of the fair value of the total identifiable assets and liabilities acquired when the group first obtains control of those assets and liabilities as a result of a business combination. In particular, a large proportion of the group's property, plant and equipment has been acquired in previous business combinations. The fair values of these acquired assets have been established for distribution systems on the basis of depreciated replacement cost and for other property, plant and equipment on the basis of market value. On adoption of International Financial Reporting Standards, the group opted to deem the historic cost of such property, plant and equipment to be equal to the assessed fair values. As a result, the group now reports property, plant and equipment on a historic cost basis and does not carry out regular revaluations of property, plant and equipment.

## C) REVENUE

### Sale of goods

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

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

### Sale of services

Sales of services are recognised at fair value of the consideration received or receivable as the services are delivered or to reflect the percentage completion of the related services where delivered over time.

### Customer contributions

Third party contributions towards the construction of property, plant and equipment are recognised in the income statement to reflect the percentage completion of construction of those related items of property, plant and equipment. Contributions received in excess of those recognised in the income statement are recognised as deferred income in the statement of financial position. Where a portion of the contribution is subject to rebates based on connection targets, the expected amount of future rebates is also recognised as deferred income in the statement of financial position.

### Dividend income

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



# Statement of Accounting Policies

for the year ended 30 June 2013

## SIGNIFICANT ACCOUNTING POLICIES (continued)

### D) FINANCE INCOME AND COSTS

Finance income comprises interest income on funds invested. Finance income is recognised as it accrues.

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

### E) INCOME TAX

Income tax expense comprises current and deferred tax.

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

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

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Movements in deferred tax assets and liabilities are recognised within income tax benefit or expense in the income statement unless the temporary difference initially arose in other comprehensive income in which case the movement is then also recognised as an adjustment in other comprehensive income against the item to which the temporary difference relates. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit and differences relating to investments in subsidiaries, associates and joint ventures to the extent that the group is able to control the timing of reversal of the temporary differences and they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at balance date.

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

### F) FOREIGN CURRENCY TRANSLATION

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

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

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined and are not retranslated at balance date.

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

### G) EMPLOYEE BENEFITS

#### Defined contribution plans

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

#### Termination benefits

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

#### Short-term benefits

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

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

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

#### Employee share purchase scheme

The employee share purchase scheme provides employees with the opportunity to acquire shares in Vector Limited. Interest free loans are provided to participants in the scheme to finance their share purchases. The fair value of the shares granted is recognised as an employee expense with a corresponding increase in the share-based payment reserve disclosed within equity. The fair value of the shares is measured at grant date and is recognised over the vesting period. The fair value of the shares granted has been assessed to be equal to the fair value of the interest free component of the loan provided to employees participating in the employee share purchase scheme and the fair value of any other benefits the employees may receive.

# Statement of Accounting Policies

for the year ended 30 June 2013

## SIGNIFICANT ACCOUNTING POLICIES (continued)

### Employee share purchase scheme (continued)

The loans provided to employees participating in the employee share purchase scheme are measured at fair value which takes account of the interest free component of the loan. An amount is recognised in finance income when the discount on the loan unwinds over the vesting period.

### H) EARNINGS PER SHARE

The group presents earnings per share (EPS) data for its ordinary shares. EPS is calculated by dividing the net profit/(loss) for the period attributable to ordinary shareholders of the parent by the weighted average number of ordinary shares held by shareholders of the parent during the period.

### I) SEGMENT REPORTING

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

### J) RECEIVABLES

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. A provision for impairment is recognised when there is objective evidence that the group will not be able to collect amounts due according to the contractual terms to which the receivable relates. The amount provided is the difference between the receivable's carrying amount and the present value of estimated cash flows, discounted at the effective interest rate. Discounting is not applied to receivables where collection is expected to occur within the next twelve months.

### K) INVENTORIES

Inventories are assets held for sale in the ordinary course of business or held to be used as part of the selling process.

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

### L) IDENTIFIABLE INTANGIBLE ASSETS

#### Goodwill

Goodwill is allocated to the group's operating segments, being the lowest level at which the goodwill is monitored for internal management purposes. Goodwill is tested at least annually for impairment against the recoverable amount of the operating segments to which goodwill has been allocated.

#### Easements

Easements are perpetual rights to use land owned by others for a stated purpose and are classified as intangible assets. Easements are not amortised.

#### Software

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

#### Emissions Trading Scheme Units

Emissions Trading Scheme (ETS) units held are classified as intangible assets. Units receivable from customers are initially recognised at the current market price on the date of sale. Units purchased are recognised at cost. Units held are expected to be used within one year and are classified as current assets. No amortisation of units is recognised.

Where the recoverable amount of the units held is less than their carrying amount, they are re-measured to their recoverable amount and an impairment loss recognised. The recoverable amount is determined by reference to the market for emission units. Impairment losses are reported in the income statement.

If subsequent to recognising an impairment loss, the market price increases, the units are re-measured and the impairment loss or a portion of that impairment loss is reversed through the income statement. The impairment loss is only reversed to the extent that it does not increase the carrying value of the units above their value at initial measurement.

#### Units payable

Units are only held to meet ETS obligations to suppliers. The liability to suppliers is measured at the carrying value of units received or receivable. In the event of a shortfall of units to satisfy the liability to suppliers, the shortfall is measured at the market value for units at balance date, and re-measured at the market rate for each subsequent reporting period while the obligation remains unpaid. Any change in value due to re-measurement is reported in the income statement.

#### Units receivable

Units receivable from customers are recognised at the market value as at the date of sale. Units receivable are not re-valued but are tested for impairment as outlined above.



# Statement of Accounting Policies

for the year ended 30 June 2013

## SIGNIFICANT ACCOUNTING POLICIES (continued)

### M) PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

Property, plant and equipment is subsequently measured at cost less accumulated depreciation and impairment losses.

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

### N) DEPRECIATION

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

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

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

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

### O) LEASED ASSETS

#### Finance leases

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

#### Operating leases

Payments made under operating leases, where the lessors effectively retain substantially all the risks and benefits of ownership of the leased property, plant and equipment are recognised in the income statement on a straight-line basis over the lease term. Lease incentives received are recognised as an integral part of the total lease expense over the term of the lease. Property, plant and equipment used by the group under operating leases are not recognised in the group's statement of financial position.

#### Leasehold improvements

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

# Statement of Accounting Policies

for the year ended 30 June 2013

## SIGNIFICANT ACCOUNTING POLICIES (continued)

### P) IMPAIRMENT

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

Where assets are deemed to be impaired, the impairment loss is the amount that the carrying amount of an asset exceeds its recoverable amount. Impairment losses directly reduce the carrying amount of assets and are recognised in the income statement.

#### Impairment of receivables

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

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

#### Impairment of non-financial assets

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

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

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

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

### Q) PROVISIONS

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

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

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

#### Decommissioning of property, plant and equipment

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

### R) FINANCIAL INSTRUMENTS

#### Derivative financial instruments

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

# Statement of Accounting Policies

for the year ended 30 June 2013

## SIGNIFICANT ACCOUNTING POLICIES (continued)

### R) FINANCIAL INSTRUMENTS (continued)

#### *Fair value hedge*

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

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

#### *Cash flow hedge*

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

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

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

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Thereafter, any cumulative gain or loss previously recognised in other comprehensive income is only recognised in the income statement when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was previously recognised in other comprehensive income is recognised immediately in the income statement.

#### *Derivatives that do not qualify for hedge accounting*

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

#### *Embedded derivatives*

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

#### **Financial assets**

Financial assets consist of loans and receivables.

#### *Loans and receivables*

Trade receivables, loans, cash and cash equivalents and other receivables are initially recorded at fair value and subsequently measured at amortised cost less impairment. Fair value is estimated as the present value of future cash flows, discounted at the market rate of interest at the inception of the loan or receivable. Discounting is not undertaken when the receivable is expected to be collected within twelve months. A provision for doubtful debts is recognised to allow for the reduction in fair value attributable to expected doubtful or delayed collection of receivables.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the group has a legal right to offset the amounts and intend either settle on a net basis or realise the asset and settle the liability simultaneously.

Cash and cash equivalents comprise cash on hand, cash in banks, short term deposits maturing within three months, net of bank overdrafts.

#### **Financial liabilities**

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 the income statement over the period of the borrowing using the effective interest rate method.

Other financial liabilities comprise trade and other payables.

The group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the group has a legal right to offset the amounts and intend either settle on a net basis or realise the asset and settle the liability simultaneously.

#### **Financial instruments issued by the company**

#### *Debt and equity instruments*

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

#### *Transaction costs on the issue of equity instruments*

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

# Statement of Accounting Policies

for the year ended 30 June 2013

## SIGNIFICANT ACCOUNTING POLICIES (continued)

### R) FINANCIAL INSTRUMENTS (continued)

#### *Debt instruments repurchased*

Any debt instruments issued by the company and subsequently repurchased are derecognised from borrowings. A gain or loss on the repurchased debt instruments is recorded in the income statement depending on whether the repurchase price of the instruments is lower or higher than its carrying value after consideration of any related transaction costs.

#### *Equity instruments repurchased and held as treasury shares*

Any equity instruments issued by the company and subsequently repurchased are classified separately as treasury shares and are disclosed as a deduction within equity. The carrying value includes the consideration paid to repurchase the shares plus any related transaction costs.

#### *Interest and dividends*

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

### S) BORROWING COSTS

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

### T) FINANCIAL GUARANTEES

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

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

The income statement, statement of comprehensive income, statement of cash flows and the statement of changes in equity have been prepared so that all components are stated exclusive of GST. All items in the statement of financial position are stated net of GST with the exception of receivables and payables, which include GST.

### V) STATEMENT OF CASH FLOWS

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

Operating activities include the principal revenue-producing activities and all transactions and other events that are not investing or financing activities.

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

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

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

### W) NON-GAAP PROFIT REPORTING MEASURES

Non-GAAP reporting measures have been presented in the income statement or referenced to in the notes to the financial statements. The following non-GAAP measures are relevant to the understanding of the group financial performance:

EBITDA (a non-GAAP measure) represents earnings before net finance costs, income tax, depreciation, amortisation, share of net profit/(loss) from associates and impairments.

EBIT (a non-GAAP measure) represents earnings before net finance costs, income tax, and share of net profit/(loss) from associates and impairments.

### NEW AND AMENDED STANDARDS ADOPTED BY THE GROUP

There are no IFRS's or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 July 2012 that have had a material impact on the group.

### NEW 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 2013 have not been applied in preparing these consolidated financial statements.

#### **IFRS 9, *Financial Instruments: Classification and Measurement***

*Standard issued November 2009 (IFRS 9 (2009))*

IFRS 9 (2009) is the first standard issued as part of a wider project to replace IAS 39 *Financial Instruments: Recognition and Measurement*.

IFRS 9 (2009) retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply.



# Statement of Accounting Policies

for the year ended 30 June 2013

## NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (continued)

### IFRS 9, *Financial Instruments: Classification and Measurement* (continued)

*Standard issued October 2010 (IFRS 9 (2010))*

IFRS 9 (2010) adds the requirements related to the classification and measurement of financial liabilities, and derecognition of financial assets and liabilities to the version issued in November 2009 (above).

It also includes paragraphs from IAS 39 on how to measure fair value and account for derivatives embedded in a contract that contains a host that is not a financial asset, as well as the requirements of IFRIC 9 *Reassessment of Embedded Derivatives*.

In December 2011, amendments were made to remove the requirement to restate comparative periods on initial application of IFRS 9 and include additional disclosure requirements which are either permitted or required, on the basis of the entity's adoption date and whether the entity chooses to restate comparatives.

These amendments which become mandatory for the financial statements for the year ended 30 June 2016 are not expected to have any material impact on either the separate financial statements of Vector Limited or the consolidated financial statements.

### IFRS 10, *Consolidated Financial Statements*

IFRS 10 establishes the principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The new standard replaces the consolidation requirements in IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*.

IFRS 10 which becomes mandatory for the financial statements for the year ended 30 June 2014 is not expected to have any significant impact on the consolidated financial statements of Vector Limited.

### IFRS 11, *Joint Arrangements*

IFRS 11 makes changes in the accounting for joint ventures (joint arrangements) by focusing on the rights and obligations of the arrangement, rather than its legal form. The key change from the previous standard, IAS 31 *Joint Ventures*, is that there are two distinct types of joint arrangements; joint ventures and joint operations. A joint venture is now required to be accounted for differently to a joint operation. Joint operations are consolidated using the proportionate method whereas a joint venture where the parties do not have specified rights to the assets and liabilities is required to be accounted for by applying equity accounting. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures.

IFRS 11 which becomes mandatory for the financial statements for the year ended 30 June 2014 is not expected to have any significant impact on either the separate financial statements of Vector Limited or the consolidated financial statements.

### IFRS 12, *Disclosure of Interests in Other Entities*

IFRS 12 is a new standard on disclosure requirements for entities reporting under IFRS 10 and IFRS 11 covering all forms of interests in other entities including subsidiaries, joint arrangements, associates and unconsolidated structured entities. The new standard replaces the disclosure requirements currently found in IAS 28 *Investments in Associates*.

IFRS 12 which becomes mandatory for the financial statements for the year ended 30 June 2014 is not expected to have any significant impact on either the separate financial statements of Vector Limited or the consolidated financial statements.

### IFRS 13, *Fair Value Measurement*

IFRS 13 defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It also explains how to measure fair value when it is required by other IFRSs. IFRS 13 does not determine when an asset, a liability or an entity's own equity instrument is measured at fair value. The new standard includes enhanced disclosure requirements similar to those in IFRS 7 *Financial Instruments: Disclosures*, but which apply to all assets and liabilities measured at fair values, not just financial assets and financial liabilities.

IFRS 13 which becomes mandatory for the financial statements for the year ended 30 June 2014. The group has not yet completed its assessment of the impact of IFRS 13.

### IAS 19, *Employee Benefits (Revised 2011)*

IAS 19 prescribes the accounting and disclosure requirements for employee benefits. Amendments published in June 2011 introduce requirements to recognise actuarial gains and losses immediately in other comprehensive income and to calculate expected return on plan assets based on the rate used to discount the defined benefit obligation. IAS 19, which becomes mandatory for the financial statements for the year ended 30 June 2014 is not expected to have any significant impact on either the separate financial statements of Vector Limited or the consolidated financial statements.

### IFRIC 21 *Levies*

IFRIC 21 is an interpretation of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and clarifies when an entity should recognise a liability to pay levies imposed by governments. IFRIC 21 which becomes mandatory for the financial statements for the year ended 30 June 2015 is not expected to have any significant impact on either the separate financial statements of Vector Limited or the consolidated financial statements.

## APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 22 August 2013.



# Notes to the Financial Statements

for the year ended 30 June 2013

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# Notes to the Financial Statements

for the year ended 30 June 2013

## 1. SEGMENT INFORMATION

Vector's internal reporting to the Group Chief Executive and board of directors is focused on the following businesses which are the group's operating segments reported in accordance with NZ IFRS 8 *Operating Segments*.

### **Electricity**

Ownership and management of electricity distribution networks.

### **Gas Transportation**

Ownership and management of gas transmission and gas distribution networks.

### **Gas Wholesale**

Natural gas (acquisition, processing and retailing), LPG (distribution, storage and retailing) and cogeneration.

### **Technology**

Telecommunications networks, electricity and gas metering.

Corporate activities comprising shared services and investments earn revenues that are only incidental to the operations of the group and do not meet the definition of an operating segment. Under NZ IFRS 8, the results attributable to these activities are presented under the reconciliations of segment information to the group's consolidated financial statements on page 25.

The segments reported in these financial statements are the same as those reported in Vector's Annual Report for the year ended 30 June 2012.

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

All segment information presented is prepared in accordance with Vector's accounting policies. Monthly internal reporting to the Group Chief Executive and the board of directors is also prepared on this basis. Segment profit reported to the Group Chief Executive and the board of directors is earnings before net finance costs, income tax, share of net profit/(loss) from associates and impairments (EBIT). All finance costs and finance income are incurred within Corporate activities and are not allocated to the segments.

The group engages with one major customer which contributes individually greater than ten percent of the group's operating revenue. The customer contributed \$209.0 million (2012: \$198.4 million) which is reported in the Electricity, Gas Transportation, Gas Wholesale and Technology segments.

**Notes to the Financial Statements**  
for the year ended 30 June 2013

**1. SEGMENT INFORMATION (continued)**

GROUP 2013	ELECTRICITY \$'000	GAS TRANSPORTATION \$'000	GAS WHOLESALE \$'000	TECHNOLOGY \$'000	INTERSEGMENT \$'000	TOTAL \$'000
External revenue:						
Operating revenue	630,914	181,425	365,637	100,630	-	1,278,606
Intersegment revenue	1,960	38,210	6,610	8,437	(55,217)	-
<b>Segment revenue</b>	<b>632,874</b>	<b>219,635</b>	<b>372,247</b>	<b>109,067</b>	<b>(55,217)</b>	<b>1,278,606</b>
External operating expenditure:						
Electricity transmission expenses	(176,120)	-	-	-	-	(176,120)
Gas purchases and production expenses	-	(10,678)	(228,535)	-	-	(239,213)
Network and asset maintenance expenses	(42,661)	(17,206)	(18,383)	(4,520)	-	(82,770)
Employee benefit expenses	(12,396)	(4,229)	(16,260)	(9,210)	-	(42,095)
Other expenses	(21,523)	(10,489)	(9,686)	(17,125)	-	(58,823)
Intersegment expenditure	(7,637)	(6,641)	(38,979)	(1,960)	55,217	-
<b>Operating expenditure</b>	<b>(260,337)</b>	<b>(49,243)</b>	<b>(311,843)</b>	<b>(32,815)</b>	<b>55,217</b>	<b>(599,021)</b>
<b>Segment EBITDA</b>	<b>372,537</b>	<b>170,392</b>	<b>60,404</b>	<b>76,252</b>	<b>-</b>	<b>679,585</b>
Depreciation and amortisation	(80,814)	(23,915)	(16,252)	(38,854)	-	(159,835)
<b>Segment EBIT</b>	<b>291,723</b>	<b>146,477</b>	<b>44,152</b>	<b>37,398</b>	<b>-</b>	<b>519,750</b>
<b>Segment capital expenditure</b>	<b>150,164</b>	<b>37,515</b>	<b>8,325</b>	<b>88,872</b>	<b>-</b>	<b>284,876</b>





# Notes to the Financial Statements

for the year ended 30 June 2013

## 1. SEGMENT INFORMATION (continued)

GROUP 2012	ELECTRICITY \$'000	TRANSPORTATION \$'000	GAS \$'000	GAS WHOLESALE \$'000	TECHNOLOGY \$'000	INTERSEGMENT \$'000	TOTAL \$'000
External revenue:							
Operating revenue	608,913	177,082		371,397	93,689	-	1,251,081
Intersegment revenue	84	37,506		9,533	3,262	(50,385)	
<b>Segment revenue</b>	<b>608,997</b>	<b>214,588</b>		<b>380,930</b>	<b>96,951</b>	<b>(50,385)</b>	<b>1,251,081</b>
External operating expenditure:							
Electricity transmission expenses	(147,059)						(147,059)
Gas purchases and production expenses		(7,334)					(7,334)
Network and asset maintenance expenses	(42,229)	(19,096)		(233,325)	(4,726)		(240,659)
Employee benefit expenses	(11,416)	(5,770)		(15,791)	(10,749)		(83,315)
Other expenses	(21,698)	(12,355)		(10,447)	(13,858)		(43,726)
Intersegment expenditure	(2,463)	(9,552)		(38,286)	(84)	50,385	(58,358)
<b>Operating expenditure</b>	<b>(224,865)</b>	<b>(54,107)</b>		<b>(315,113)</b>	<b>(29,417)</b>	<b>50,385</b>	<b>(573,117)</b>
<b>Segment EBITDA</b>	<b>384,132</b>	<b>160,481</b>		<b>65,817</b>	<b>67,534</b>		<b>677,964</b>
Depreciation and amortisation	(80,512)	(21,711)		(15,568)	(43,809)		(161,600)
<b>Segment EBIT</b>	<b>303,620</b>	<b>138,770</b>		<b>50,249</b>	<b>23,725</b>		<b>516,364</b>
<b>Segment capital expenditure</b>	<b>134,173</b>	<b>35,473</b>		<b>10,843</b>	<b>68,600</b>		<b>249,089</b>



# Notes to the Financial Statements

for the year ended 30 June 2013

## 1. SEGMENT INFORMATION (continued)

Reconciliation of segment revenue, segment EBIT and segment capital expenditure to total income, profit/(loss) before income tax and capital expenditure reported in the consolidated financial statements.

	GROUP 2013			GROUP 2012		
	TOTAL INCOME \$'000	PROFIT/(LOSS) BEFORE INCOME TAX \$'000	CAPITAL EXPENDITURE \$'000	TOTAL INCOME \$'000	PROFIT/(LOSS) BEFORE INCOME TAX \$'000	CAPITAL EXPENDITURE \$'000
<b>Reported in segment information</b>	<b>1,278,606</b>	<b>519,750</b>	<b>284,876</b>	<b>1,251,081</b>	<b>516,364</b>	<b>249,089</b>
Amounts not allocated to segments:						
Revenues from corporate activities	544	544	-	1,163	1,163	-
Corporate activities operating expenditure	-	(49,663)	-	-	(51,774)	-
Depreciation and amortisation of corporate property, plant and equipment and software intangibles	-	(14,243)	-	-	(11,842)	-
Finance income	-	4,428	-	-	10,573	-
Finance costs	-	(168,718)	-	-	(176,771)	-
Share of net profit/(loss) from associates	-	1,291	-	-	(344)	-
Impairment of investments in associates	-	(3,570)	-	-	(4,071)	-
Additions to corporate property, plant and equipment and software intangibles	-	-	13,760	-	-	12,756
<b>Reported in consolidated financial statements</b>	<b>1,279,150</b>	<b>289,819</b>	<b>298,636</b>	<b>1,252,244</b>	<b>283,298</b>	<b>261,845</b>



## Notes to the Financial Statements

for the year ended 30 June 2013

### 2. TOTAL INCOME

		GROUP		PARENT	
	NOTE	2013 \$000	2012 \$000	2013 \$000	2012 \$000
<b>Operating revenue</b>					
Trading revenue:					
Energy sales		365,637	371,397	-	-
Provision of utility services		880,848	850,799	660,660	635,915
Customer contributions		32,665	30,048	27,766	25,956
Management fees from related parties	26	-	-	38,490	37,688
		1,279,150	1,252,244	726,916	699,559
<b>Other income</b>					
Dividends from associates	26	-	-	200	-
		-	-	200	-
<b>Total</b>		1,279,150	1,252,244	727,116	699,559

### 3. OPERATING EXPENDITURE

		GROUP		PARENT	
	NOTE	2013 \$000	2012 \$000	2013 \$000	2012 \$000
Operating expenditure includes:					
Rental and operating lease costs		3,954	3,806	3,135	2,827
Other administration expenses		15,544	12,373	11,610	9,983
Loss/(gain) on disposal of property, plant and equipment and software intangibles		4,704	6,880	4,183	5,530
Bad debts written-off		1,118	636	872	435
Increase/(decrease) in provision for doubtful debts		(891)	426	(770)	392
Donations		114	-	101	-
Directors' fees	27	856	1,002	773	914
Contributions to KiwiSaver		839	887	786	823
Auditor's remuneration - KPMG					
Fees for the audit of full year and review of the interim financial statements		607	647	516	585
Fees for other audits		523	1,033	247	773
Fees for other assurance services		16	-	16	-

Fees for other audits primarily relate to fees paid to KPMG in their role as auditor of regulatory disclosures.

# Notes to the Financial Statements

for the year ended 30 June 2013

## 4. NET FINANCE COSTS

	GROUP		PARENT	
	2013 \$000	2012 \$000	2013 \$000	2012 \$000
<b>Finance costs</b>				
Interest expense	170,790	178,242	170,622	177,773
Loss/(profit) on ineffective portion of cash flow hedges	(23)	(145)	(23)	(145)
Loss/(profit) on fair value movement on hedging instruments	15,653	(86,942)	15,653	(86,942)
Loss/(profit) on fair value movement on hedged items	(15,687)	86,943	(15,687)	86,943
Capitalised interest	(5,189)	(4,547)	(2,863)	(2,476)
Other net finance expenses/(gains)	3,174	3,220	3,188	3,151
	<b>168,718</b>	<b>176,771</b>	<b>170,890</b>	<b>178,304</b>
<b>Finance income</b>				
Interest income	(4,428)	(10,573)	(4,423)	(13,873)
	<b>(4,428)</b>	<b>(10,573)</b>	<b>(4,423)</b>	<b>(13,873)</b>
<b>Net finance costs</b>	<b>164,290</b>	<b>166,198</b>	<b>166,467</b>	<b>164,431</b>

Interest and other internal costs are capitalised to property, plant and equipment and software intangibles while under construction at an average rate of 6.8% per annum (2012: 6.9%).

During the year, \$52.2 million (2012: \$50.0 million) was transferred from the cash flow hedge reserve to interest expense. In accordance with the group's accounting policy any fair value movements relating to derivatives designated in a cash flow hedge relationship taken through other comprehensive income and accumulated in the cash flow hedge reserve are recycled in finance costs in the periods when hedged items are recognised in the income statement.

The group has entered into interest rate swaps and cross currency interest rate swaps to hedge the interest rate risk and foreign exchange risk of forecasted borrowings for the reporting periods 2013 to 2023. Any cash flow hedge fair value movements included within the cash flow hedge reserve in relation to those swaps will be recycled in finance costs in the period in which the hedged items are recognised in the income statement.

# Notes to the Financial Statements

for the year ended 30 June 2013

## 5. INCOME TAX EXPENSE

	GROUP		PARENT	
	2013 \$000	2012 \$000	2013 \$000	2012 \$000
<b>Current income tax</b>				
Current income tax expense	71,143	75,405	27,227	30,320
Relating to losses transferred from subsidiaries	-	-	-	(4,026)
Prior period adjustments recognised in the current period	(670)	(11,094)	(1,939)	(10,118)
<b>Deferred income tax</b>				
Relating to property, plant and equipment	3,328	1,257	1,177	1,970
Relating to other items in the statement of financial position	8,690	6,903	5,813	4,344
Relating to tax losses	(818)	(3,512)	-	-
Prior period adjustments recognised in the current period	1,915	12,606	2,751	12,638
<b>Income tax expense/(benefit)</b>	<b>83,588</b>	<b>81,565</b>	<b>35,029</b>	<b>35,128</b>
<b>Reconciliation of income tax expense/(benefit)</b>				
Profit/(loss) before income tax	289,819	283,298	117,640	139,256
<b>Tax at current rate of 28%</b>	<b>81,149</b>	<b>79,323</b>	<b>32,939</b>	<b>38,992</b>
Non-taxable items:				
Non-deductible expenses	340	288	313	828
Impairment of investments in associates	1,000	1,140	1,000	-
Tax losses transferred from subsidiaries	-	-	-	(4,026)
Other	1,099	814	777	(666)
<b>Income tax expense/(benefit)</b>	<b>83,588</b>	<b>81,565</b>	<b>35,029</b>	<b>35,128</b>

# Notes to the Financial Statements

for the year ended 30 June 2013

## 6. INCOME TAX

	GROUP		PARENT	
	2013 \$000	2012 \$000	2013 \$000	2012 \$000
<b>Current tax asset</b>				
Prepaid tax	3,811	11,811	2,955	12,858
<b>Total</b>	<b>3,811</b>	<b>11,811</b>	<b>2,955</b>	<b>12,858</b>
<b>Current tax liability</b>				
Income tax payable	586	-	-	-
<b>Total</b>	<b>586</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Imputation balances</b>				
Balance at beginning of the period	(21,115)	(24,058)	-	-
Income tax payments during the period	57,610	56,272	-	-
Imputation credits attaching to dividends paid	(57,537)	(53,329)	-	-
<b>Balance at end of the period</b>	<b>(21,042)</b>	<b>(21,115)</b>	<b>-</b>	<b>-</b>
The imputation credits are available to shareholders of the parent:				
Through direct shareholding in the parent	(26,521)	(25,117)	-	-
Through indirect shareholding in subsidiary	5,479	4,002	-	-
<b>Total</b>	<b>(21,042)</b>	<b>(21,115)</b>	<b>-</b>	<b>-</b>

Vector Limited is a member of the Vector group consolidated imputation credit account. Therefore its balance is reported within the group imputation credit account.

## 7. DEFERRED TAX ASSETS

	GROUP		PARENT	
	2013 \$000	2012 \$000	2013 \$000	2012 \$000
Balance at beginning of the period	1,646	2,335	-	-
Transfer to current tax on utilisation of tax losses	-	(387)	-	-
Transfer to deferred tax liability	-	(412)	-	-
Prior period adjustments recognised in the current period	-	110	-	-
<b>Balance at end of the period</b>	<b>1,646</b>	<b>1,646</b>	<b>-</b>	<b>-</b>

Deferred tax assets relate to the future income tax benefits of accumulated tax losses which are only available to Advanced Metering Services Limited, a subsidiary of the parent.

# Notes to the Financial Statements

for the year ended 30 June 2013

## 8. DEFERRED TAX LIABILITIES

GROUP 2013	PROPERTY, PLANT AND EQUIPMENT \$000	PROVISIONS AND ACCRUALS \$000	TAX LOSSES \$000	HEDGE RESERVE \$000	OTHER \$000	TOTAL \$000
Balance at beginning of the period	538,487	(9,564)	(3,924)	(61,720)	16,902	480,181
Transfer to current tax on utilisation of tax losses	-	-	3,926	-	-	3,926
Amounts recognised in the income statement:						
Relating to the current period	3,328	761	(818)	-	7,929	11,200
Prior period adjustments recognised in the current period	(7,105)	594	(2)	-	8,428	1,915
Amounts recognised from business combinations	8,003	-	-	-	-	8,003
Amounts recognised directly in other comprehensive income	-	-	-	20,289	-	20,289
<b>Balance at end of the period</b>	<b>542,713</b>	<b>(8,209)</b>	<b>(818)</b>	<b>(41,431)</b>	<b>33,259</b>	<b>525,514</b>
Deferred tax assets	-	(8,209)	(818)	(41,431)	-	(50,458)
Deferred tax liabilities	542,713	-	-	-	33,259	575,972
<b>Net deferred tax liabilities</b>	<b>542,713</b>	<b>(8,209)</b>	<b>(818)</b>	<b>(41,431)</b>	<b>33,259</b>	<b>525,514</b>

GROUP 2012	PROPERTY, PLANT AND EQUIPMENT \$000	PROVISIONS AND ACCRUALS \$000	TAX LOSSES \$000	HEDGE RESERVE \$000	OTHER \$000	TOTAL \$000
Balance at beginning of the period	525,983	(12,858)	(3,241)	(55,452)	11,470	465,902
Transfer to current tax on utilisation of tax losses	-	-	3,595	-	-	3,595
Transfer from deferred tax asset	-	-	(412)	-	-	(412)
Amounts recognised in the income statement:						
Relating to the current period	1,257	993	(3,512)	-	5,910	4,648
Prior period adjustments recognised in the current period	11,247	2,301	(354)	-	(478)	12,716
Amounts recognised directly in other comprehensive income	-	-	-	(6,268)	-	(6,268)
<b>Balance at end of the period</b>	<b>538,487</b>	<b>(9,564)</b>	<b>(3,924)</b>	<b>(61,720)</b>	<b>16,902</b>	<b>480,181</b>
Deferred tax assets	-	(9,564)	(3,924)	(61,720)	-	(75,208)
Deferred tax liabilities	538,487	-	-	-	16,902	555,389
<b>Net deferred tax liabilities</b>	<b>538,487</b>	<b>(9,564)</b>	<b>(3,924)</b>	<b>(61,720)</b>	<b>16,902</b>	<b>480,181</b>

# Notes to the Financial Statements

for the year ended 30 June 2013

## 8. DEFERRED TAX LIABILITIES (continued)

PARENT 2013	PROPERTY, PLANT AND EQUIPMENT \$000	PROVISIONS AND ACCRUALS \$000	HEDGE RESERVE \$000	OTHER \$000	TOTAL \$000
Balance at beginning of the period	410,487	(5,298)	(61,720)	14,571	358,040
Amounts recognised in the income statement:					
Relating to the current period	1,177	400	-	5,413	6,990
Prior period adjustments recognised in the current period	(7,973)	1,842	-	8,882	2,751
Amounts recognised directly in other comprehensive income	-	-	20,289	-	20,289
<b>Balance at end of the period</b>	<b>403,691</b>	<b>(3,056)</b>	<b>(41,431)</b>	<b>28,866</b>	<b>388,070</b>
Deferred tax assets	-	(3,056)	(41,431)	-	(44,487)
Deferred tax liabilities	403,691	-	-	28,866	432,557
<b>Net deferred tax liabilities</b>	<b>403,691</b>	<b>(3,056)</b>	<b>(41,431)</b>	<b>28,866</b>	<b>388,070</b>

PARENT 2012	PROPERTY, PLANT AND EQUIPMENT \$000	PROVISIONS AND ACCRUALS \$000	HEDGE RESERVE \$000	OTHER \$000	TOTAL \$000
Balance at beginning of the period	398,548	(6,851)	(55,452)	9,111	345,356
Amounts recognised in the income statement:					
Relating to the current period	1,970	(1,246)	-	5,590	6,314
Prior period adjustments recognised in the current period	9,969	2,799	-	(130)	12,638
Amounts recognised directly in other comprehensive income	-	-	(6,268)	-	(6,268)
<b>Balance at end of the period</b>	<b>410,487</b>	<b>(5,298)</b>	<b>(61,720)</b>	<b>14,571</b>	<b>358,040</b>
Deferred tax assets	-	(5,298)	(61,720)	-	(67,018)
Deferred tax liabilities	410,487	-	-	14,571	425,058
<b>Net deferred tax liabilities</b>	<b>410,487</b>	<b>(5,298)</b>	<b>(61,720)</b>	<b>14,571</b>	<b>358,040</b>

There are no unrecognised deferred tax assets or liabilities for the parent or the group.

Tax losses which are available to be utilised by the group are disclosed as deferred tax assets in the above table and are offset against deferred tax liabilities.

## 9. TRANSACTIONS WITH OWNERS

Vector Limited's final dividend for the year ended 30 June 2012 of 7.5 cents per share was paid on 17 September 2012 with a supplementary dividend of \$0.4 million (equating to 1.32 cents per non-resident share). The interim dividend for the current year of 7.25 cents per share was paid on 15 April 2013 with a supplementary dividend of \$0.3 million (equating to 1.28 cents per non-resident share). Both dividends gave rise to foreign investor tax credits equal to the amount of supplementary dividend paid.

The total number of authorised and issued shares is 1,000,000,000 (2012: 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 balance date, 4,379,027 shares (2012: 4,364,526) are held as treasury shares of which 134,104 (2012: 119,603) are allocated to the employee share purchase scheme.

The group has granted rights over shares to employees participating in the employee share purchase scheme. The 134,104 shares allocated to the employee share purchase scheme were purchased on market at a cost of \$0.3 million and are held as treasury shares until the end of the scheme's vesting period.



# Notes to the Financial Statements

for the year ended 30 June 2013

## 10. FINANCIAL RATIOS

### Earnings per share

The calculation of basic earnings per share for the year ended 30 June 2013 is based on the group net profit attributable to owners of the parent of \$203.3 million (2012: \$198.8 million) and the weighted average number of ordinary shares outstanding during the year ended 30 June 2013 of 995,626,031 (2012: 995,670,358). Diluted earnings per share is calculated on the same basis as basic earnings per share. The group currently has no financial instruments which have potential dilutionary effects on earnings per share.

### Total and net tangible assets per share

The calculations of the total and net tangible assets per share for the year ended 30 June 2013 are based on the carrying amounts of the total assets of \$5,747.1 million (2012: \$5,616.6 million) and net assets of \$2,258.5 million (2012: \$2,148.3 million) less total intangible assets of \$1,633.4 million (2012: \$1,617.3 million), adjusted for the share of tangible and intangible assets attributable to non-controlling interests in subsidiaries and 995,620,973 ordinary shares outstanding as at 30 June 2013 (2012: 995,635,474).

## 11. RECEIVABLES AND PREPAYMENTS

	GROUP		PARENT	
	2013 \$000	2012 \$000	2013 \$000	2012 \$000
<b>Current</b>				
Trade receivables	152,163	157,775	90,651	93,573
Provision for doubtful debts	(3,434)	(4,325)	(2,834)	(3,604)
	148,729	153,450	87,817	89,969
Prepayments	7,838	8,496	5,474	5,605
Interest receivable	13,753	13,943	13,753	13,943
Other receivables	117	222	112	216
<b>Total</b>	<b>170,437</b>	<b>176,111</b>	<b>107,156</b>	<b>109,733</b>
<b>Non-current</b>				
Other receivables	2,134	1,392	1,396	1,392
<b>Total</b>	<b>2,134</b>	<b>1,392</b>	<b>1,396</b>	<b>1,392</b>

## 12. INVENTORIES

	GROUP		PARENT	
	2013 \$000	2012 \$000	2013 \$000	2012 \$000
Natural gas	1,825	1,935	-	-
LPG	3,688	3,370	-	-
Other trading stock	-	9	-	-
<b>Total</b>	<b>5,513</b>	<b>5,314</b>	<b>-</b>	<b>-</b>



# Notes to the Financial Statements

for the year ended 30 June 2013

## 13. INVESTMENTS

Investments in group entities comprise:

Investments in group entities comprise:

PRINCIPAL ACTIVITY		PERCENTAGE HELD	
		2013	2012
<b>Trading subsidiaries</b>			
NGC Holdings Limited	Investment	100%	100%
- Vector Management Services Limited	Management services	100%	100%
- Vector Gas Limited	Natural gas sales, processing and transportation	100%	100%
- Vector Gas Contracts Limited	Natural gas sales	100%	100%
- Vector Gas Investments Limited	Investment	100%	100%
- Vector Kapuni Limited	Investment	100%	100%
- Liquigas Limited	Bulk LPG storage, distribution and management	60%	60%
- On Gas Limited	LPG sales and distribution	100%	100%
- Advanced Metering Assets Limited	Electricity and gas metering	100%	100%
- Vector Metering Data Services Limited	Investment and metering data services	100%	100%
Vector Communications Limited	Telecommunications	100%	100%
Vector Stream Limited	Investment	-	100%
- Stream Information Limited	Agent for partnership	-	100%
- Stream Information Partnership	Metering services	-	100%
Advanced Metering Services Limited	Metering services	100%	100%
<b>Non-trading subsidiaries</b>			
Auckland Generation Limited	Holding company	100%	100%
- MEL Network Limited	Holding company	100%	100%
- Mercury Geotherm Limited (in receivership)	Investment	100%	100%
- Poihipi Land Limited (in receivership)	Investment	100%	100%
UnitedNetworks Limited	Dormant	100%	100%
Broadband Services Limited	Dormant	100%	100%
Vector ESPS Trustee Limited	Trustee company	100%	100%
Elect Data Services (Australia) Pty Limited	Dormant	100%	100%
NGC Limited	Dormant	100%	100%
<b>Associates</b>			
Tree Scape Limited	Vegetation management	50%	50%
- Treescape Australasia Pty Limited	Vegetation management	50%	50%
Total Metering 2012 Limited (in liquidation)	Metering services	25%	25%
NZ Windfarms Limited	Power generation	22%	22%
<b>Joint venture interests</b>			
Kapuni Energy Joint Venture (unincorporated)	Cogeneration	50%	50%

All entities have a balance date of 30 June, apart from Tree Scape Limited, Treescape Australasia Pty Limited, Mercury Geotherm Limited (in receivership) and Poihipi Land Limited (in receivership) which all have a balance date of 31 March.

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

On 1 July 2012, NGC Metering Limited amalgamated with Stream Information Limited and Vector Stream Limited. The Stream Information Partnership was dissolved by virtue of that amalgamation. The amalgamated entity, NGC Metering Limited, simultaneously changed its name to Advanced Metering Assets Limited.



# Notes to the Financial Statements

for the year ended 30 June 2013

## 14. INVESTMENT IN ASSOCIATES

	GROUP		PARENT	
	2013 \$000	2012 \$000	2013 \$000	2012 \$000
<b>Carrying amount of associates</b>				
Balance at beginning of the period	16,088	23,076	14,044	14,044
Share of net profit/(loss) of associates	1,291	(344)	-	-
Share of other comprehensive income of associates	(20)	19	-	-
Dividends received from associates	(200)	-	-	-
Impairment of investment in NZ Windfarms Limited	(3,570)	-	(3,570)	-
Impairment of investment in Total Metering 2012 Limited (formerly Energy Intellect Limited)	-	(4,071)	-	-
Reclassification of investment in Total Metering 2012 Limited as non-current asset held for sale	-	(2,592)	-	-
<b>Balance at end of the period</b>	<b>13,589</b>	<b>16,088</b>	<b>10,474</b>	<b>14,044</b>
<b>Equity accounted earnings of associates</b>				
Profit/(loss) before income tax	1,793	(478)	-	-
Income tax benefit/(expense)	(502)	134	-	-
<b>Share of net profit/(loss) of associates</b>	<b>1,291</b>	<b>(344)</b>	<b>-</b>	<b>-</b>
<b>Total recognised revenues and expenses</b>	<b>1,291</b>	<b>(344)</b>	<b>-</b>	<b>-</b>

The amount of goodwill included in the carrying amount of investments in associates is \$15.8 million (2012: \$15.8 million).

An impairment loss of \$3.6 million (2012: nil) was recognised in respect of the group's investment in its associate company, NZ Windfarms Limited. The share price of NZ Windfarms Limited declined from \$0.16 per share at 30 June 2012 to \$0.08 per share at 30 June 2013. The recoverable amount determined as at 30 June 2013 was estimated based on the investment's fair value less costs to sell by reference to this active market price on the New Zealand Stock Exchange. The share price at 30 June 2013 supports the current carrying value of the group's investment in NZ Windfarms Limited.

	2013 \$000	2012 \$000
<b>Summarised financial information of associates (100%):</b>		
Total assets	124,749	150,233
Total liabilities	37,214	40,145
Total revenue	66,915	59,194
Total net profit/(loss) after income tax	(108)	(1,958)

## 15. INTEREST IN JOINT VENTURE

The group has a 50% interest in an unincorporated joint venture that operates a cogeneration plant situated at the Kapuni gas treatment plant producing electricity and steam for the gas treatment plant and other customers. The joint venture is in the nature of jointly controlled assets. The joint venture partners jointly control the assets held by the joint venture and each bears an agreed share of the expenses incurred. Vector Kapuni Limited, the wholly owned subsidiary which directly participates as a joint venture partner recognises its share of the assets, liabilities, income and expenses in its separate financial statements. On consolidation, these amounts are also carried through into the consolidated financial statements of the group.

# Notes to the Financial Statements

for the year ended 30 June 2013

## 16. INTANGIBLE ASSETS

	GROUP		PARENT	
	2013 \$000	2012 \$000	2013 \$000	2012 \$000
<b>Current</b>				
Emission trading scheme units	15	492	15	492
<b>Total</b>	15	492	15	492
<b>Non-current</b>				
Goodwill	1,559,209	1,555,802	515,112	515,112
Customer contracts	14,135	2,067	-	-
Easements	13,887	13,644	13,361	13,118
Software	46,138	45,287	29,286	29,732
<b>Total</b>	1,633,369	1,616,800	557,759	557,962

GROUP 2013	EMISSION TRADING SCHEME UNITS \$000	GOODWILL \$000	CUSTOMER CONTRACTS \$000	EASEMENTS \$000	SOFTWARE \$000	TOTAL \$000
<b>Cost</b>						
Balance at beginning of the period	492	1,555,802	3,100	13,644	167,871	1,740,909
Additions	2,451	-	-	-	-	2,451
Acquisition of business	-	3,407	13,102	-	-	16,509
Disposals	(2,191)	-	-	-	(17,905)	(20,096)
Net impairment	(737)	-	-	-	-	(737)
Transfers from property, plant and equipment	-	-	-	243	18,108	18,351
Balance at end of the period	15	1,559,209	16,202	13,887	168,074	1,757,387
<b>Accumulated amortisation</b>						
Balance at beginning of the period	-	-	(1,033)	-	(122,584)	(123,617)
Amortisation for the period	-	-	(1,034)	-	(17,257)	(18,291)
Disposals	-	-	-	-	17,905	17,905
Balance at end of the period	-	-	(2,067)	-	(121,936)	(124,003)
<b>Carrying amount</b>	15	1,559,209	14,135	13,887	46,138	1,633,384

GROUP 2012	EMISSION TRADING SCHEME UNITS \$000	GOODWILL \$000	CUSTOMER CONTRACTS \$000	EASEMENTS \$000	SOFTWARE \$000	TOTAL \$000
<b>Cost</b>						
Balance at beginning of the period	438	1,555,288	3,846	12,923	148,646	1,721,141
Additions	10,706	-	-	-	-	10,706
Disposals	(8,489)	-	(232)	-	(166)	(8,887)
Net impairment	(2,163)	-	-	-	-	(2,163)
Transfers from property, plant and equipment	-	-	-	721	19,391	20,112
Transfers to other classes	-	514	(514)	-	-	-
Balance at end of the period	492	1,555,802	3,100	13,644	167,871	1,740,909
<b>Accumulated amortisation</b>						
Balance at beginning of the period	-	-	-	-	(108,581)	(108,581)
Amortisation for the period	-	-	(1,033)	-	(14,078)	(15,111)
Disposals	-	-	-	-	75	75
Balance at end of the period	-	-	(1,033)	-	(122,584)	(123,617)
<b>Carrying amount</b>	492	1,555,802	2,067	13,644	45,287	1,617,292

Notes to the Financial Statements  
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16. INTANGIBLE ASSETS (continued)

PARENT 2013	EMISSION TRADING SCHEME UNITS \$000	GOODWILL \$000	EASEMENTS \$000	SOFTWARE \$000	TOTAL \$000
<b>Cost</b>					
Balance at beginning of the period	492	515,112	13,118	116,813	645,535
Additions	2,451	-	-	-	2,451
Disposals	(2,191)	-	-	(14,068)	(16,259)
Net impairment	(737)	-	-	-	(737)
Transfers from property, plant and equipment	-	-	243	9,717	9,960
Balance at end of the period	15	515,112	13,361	112,462	640,950
<b>Accumulated amortisation</b>					
Balance at beginning of the period	-	-	-	(87,081)	(87,081)
Amortisation for the period	-	-	-	(10,163)	(10,163)
Disposals	-	-	-	14,068	14,068
Balance at end of the period	-	-	-	(83,176)	(83,176)
<b>Carrying amount</b>	<b>15</b>	<b>515,112</b>	<b>13,361</b>	<b>29,286</b>	<b>557,774</b>

PARENT 2012	EMISSION TRADING SCHEME UNITS \$000	GOODWILL \$000	EASEMENTS \$000	SOFTWARE \$000	TOTAL \$000
<b>Cost</b>					
Balance at beginning of the period	438	515,112	12,654	103,444	631,648
Additions	10,706	-	-	-	10,706
Disposals	(8,489)	-	-	(150)	(8,639)
Net impairment	(2,163)	-	-	-	(2,163)
Transfers from property, plant and equipment	-	-	464	13,519	13,983
Balance at end of the period	492	515,112	13,118	116,813	645,535
<b>Accumulated amortisation</b>					
Balance at beginning of the period	-	-	-	(78,931)	(78,931)
Amortisation for the period	-	-	-	(8,208)	(8,208)
Disposals	-	-	-	58	58
Balance at end of the period	-	-	-	(87,081)	(87,081)
<b>Carrying amount</b>	<b>492</b>	<b>515,112</b>	<b>13,118</b>	<b>29,732</b>	<b>558,454</b>

## Notes to the Financial Statements

for the year ended 30 June 2013

### 16. INTANGIBLE ASSETS (continued)

#### Amortisation charge

Software intangibles are amortised on a straight line basis over their useful life.

#### Allocation of goodwill to cash-generating units

Goodwill is allocated to operating segments, being the lowest level at which the goodwill is monitored for internal management purposes. The aggregate carrying amounts of goodwill allocated to each segment are \$852.2 million for Electricity, \$468.1 million for Gas Transportation, \$220.7 million for Gas Wholesale, and \$18.2 million for Technology (2012: \$852.2 million, \$468.1 million, \$220.7 million, \$14.8 million respectively).

#### Impairment testing

The recoverable amounts attributable to the electricity, gas transportation and gas wholesale segments and the metering cash generating unit are calculated on the basis of value-in-use using discounted cash flow models. For the communications cash generating unit both value in use and fair value less costs to sell were 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 as management believes that a ten year forecast period is justified due to the long-term nature of the group's capital investment in these businesses. A five year period has been used for the gas wholesale segment and the communications cash generating unit given the markets these businesses operate in. Key assumptions include the level of future EBITDA and levels of maintenance expenditure for each segment. Terminal growth rates in a range of 0.0% to 3.0% (2012: 0.0% to 3.0%) are applied. Pre-tax discount rates between 7.7% and 21.4% (2012: 8.3% and 18.1%) are utilised. The specific rates applied vary for the specific segment being valued. Projected cash flows for regulated businesses are sensitive to assumptions made on uncertain future regulatory outcomes. Estimated future regulated network revenues and the related supportable levels of capital expenditure are based on default price-quality path determinations issued by the Commerce Commission. For the electricity segment, the recoverable amount exceeds the carrying value based on the electricity distribution default price-quality path determination released in November 2012. For the gas transportation segment, the recoverable amount exceeds the carrying value based on the initial default price-quality path for gas pipeline services released in February 2013. Vector disputes the Commerce Commission process and approach and is exercising its statutory rights through the courts to achieve certainty and an appropriate regulatory outcome.

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.

# Notes to the Financial Statements

for the year ended 30 June 2013

## 17. PROPERTY, PLANT AND EQUIPMENT

GROUP 2013	DISTRIBUTION SYSTEMS \$'000	DISTRIBUTION LAND \$'000	DISTRIBUTION BUILDINGS \$'000	ELECTRICITY AND GAS METERS \$'000	COGEN PLANT \$'000	COMPUTER AND TELCO EQUIPMENT \$'000	MOTOR VEHICLES AND MOBILE EQUIPMENT \$'000	OTHER PLANT AND EQUIPMENT \$'000	FREEHOLD LAND \$'000	BUILDINGS \$'000	LEASEHOLD IMPROVE- MENTS \$'000	CAPITAL WORK IN PROGRESS \$'000	TOTAL \$'000
<b>Cost</b>													
Balance at beginning of the period	3,640,700	69,057	58,825	342,878	10,755	159,658	7,445	142,685	3,675	3,141	10,960	91,823	4,541,602
Additions	-	-	-	-	1,080	-	555	10,011	-	-	-	286,990	298,636
Acquisition of business	-	-	-	50,512	-	-	-	-	-	-	-	-	50,512
Transfers:													
Intangible assets	-	-	-	-	-	-	-	-	-	-	-	(18,351)	(18,351)
Other classes	146,892	547	22,439	73,139	-	12,420	1,222	3,816	-	-	112	(260,587)	-
Disposals	(7,286)	(212)	-	-	-	(8,615)	(968)	(4,375)	-	(1)	(254)	-	(21,711)
Balance at end of the period	3,780,306	69,392	81,264	466,529	11,835	163,463	8,254	152,137	3,675	3,140	10,818	99,875	4,850,688
<b>Accumulated depreciation</b>													
Balance at beginning of the period	(595,564)	-	(8,300)	(142,201)	(10,039)	(55,489)	(3,679)	(38,679)	-	(739)	(7,474)	-	(862,164)
Depreciation	(105,973)	-	(1,749)	(24,195)	(1,429)	(12,256)	(1,139)	(8,188)	-	(204)	(654)	-	(155,787)
Transfers:													
Other classes	(9)	-	-	-	-	-	-	9	-	-	-	-	-
Disposals	4,640	-	-	-	-	8,321	670	2,770	-	-	253	-	16,654
Balance at end of the period	(696,906)	-	(10,049)	(166,396)	(11,468)	(59,424)	(4,148)	(44,088)	-	(943)	(7,875)	-	(1,001,297)
Carrying amount	3,083,400	69,392	71,215	300,133	367	104,039	4,106	108,049	3,675	2,197	2,943	99,875	3,849,391



# Notes to the Financial Statements

for the year ended 30 June 2013

## 17. PROPERTY, PLANT AND EQUIPMENT (continued)

GROUP	DISTRIBUTION SYSTEMS	DISTRIBUTION LAND	DISTRIBUTION BUILDINGS	ELECTRICITY AND GAS METERS	COGEN PLANT	COMPUTER AND TELCO EQUIPMENT	MOTOR VEHICLES AND MOBILE EQUIPMENT	OTHER PLANT AND EQUIPMENT	FREEHOLD LAND	BUILDINGS	LEASEHOLD IMPROVE- MENTS	CAPITAL WORK IN PROGRESS	TOTAL
2012	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Cost</b>													
Balance at beginning of the period	3,503,636	69,033	52,758	291,156	10,666	146,649	6,880	137,527	3,675	3,068	10,752	79,973	4,315,773
Additions	138	-	-	1,285	89	-	667	2,043	-	-	-	257,623	261,845
Transfers:													
Intangible assets	-	-	-	-	-	-	-	-	-	-	-	(20,112)	(20,112)
Other classes	145,863	24	6,067	52,521	-	13,378	497	4,858	-	73	2,380	(225,661)	-
Disposals	(8,937)	-	-	(2,084)	-	(369)	(599)	(1,743)	-	-	(2,172)	-	(15,904)
<b>Balance at end of the period</b>	<b>3,640,700</b>	<b>69,057</b>	<b>58,825</b>	<b>342,878</b>	<b>10,755</b>	<b>159,658</b>	<b>7,445</b>	<b>142,685</b>	<b>3,675</b>	<b>3,141</b>	<b>10,960</b>	<b>91,823</b>	<b>4,541,602</b>
<b>Accumulated depreciation</b>													
Balance at beginning of the period	(494,863)	-	(6,650)	(111,774)	(8,799)	(44,427)	(3,167)	(30,691)	-	(537)	(9,000)	-	(709,908)
Depreciation	(103,444)	-	(1,650)	(30,938)	(1,240)	(11,217)	(940)	(8,062)	-	(202)	(638)	-	(158,331)
Transfers:													
Other classes	110	-	-	-	-	(110)	-	8	-	-	(8)	-	-
Disposals	2,633	-	-	511	-	265	428	66	-	-	2,172	-	6,075
<b>Balance at end of the period</b>	<b>(595,564)</b>	<b>-</b>	<b>(8,300)</b>	<b>(142,201)</b>	<b>(10,039)</b>	<b>(55,489)</b>	<b>(3,679)</b>	<b>(38,679)</b>	<b>-</b>	<b>(739)</b>	<b>(7,474)</b>	<b>-</b>	<b>(862,164)</b>
<b>Carrying amount</b>	<b>3,045,136</b>	<b>69,057</b>	<b>50,525</b>	<b>200,677</b>	<b>716</b>	<b>104,169</b>	<b>3,766</b>	<b>104,006</b>	<b>3,675</b>	<b>2,402</b>	<b>3,486</b>	<b>91,823</b>	<b>3,679,438</b>



# Notes to the Financial Statements

for the year ended 30 June 2013

## 17. PROPERTY, PLANT AND EQUIPMENT (continued)

PARENT 2013	DISTRIBUTION SYSTEMS \$'000	DISTRIBUTION LAND \$'000	DISTRIBUTION BUILDINGS \$'000	COMPUTER AND TELCO EQUIPMENT \$'000	MOTOR VEHICLES AND MOBILE EQUIPMENT \$'000	OTHER PLANT AND EQUIPMENT \$'000	FREEHOLD LAND \$'000	BUILDINGS \$'000	LEASEHOLD IMPROVE- MENTS \$'000	CAPITAL WORK IN PROGRESS \$'000	TOTAL \$'000
<b>Cost</b>											
Balance at beginning of the period	2,914,338	69,015	58,806	22,778	801	12,308	70	1,052	9,215	67,347	3,155,730
Additions	-	-	-	-	45	1,622	-	-	-	176,324	177,991
Transfers:											
Intangible assets	-	-	-	-	-	-	-	-	-	(9,960)	(9,960)
Other classes	128,203	547	22,439	4,456	-	(2,025)	-	-	112	(153,732)	-
Disposals	(8,872)	(212)	-	(4,189)	(343)	(132)	-	(1)	(1)	-	(13,750)
<b>Balance at end of the period</b>	<b>3,033,669</b>	<b>69,350</b>	<b>81,245</b>	<b>23,045</b>	<b>503</b>	<b>11,773</b>	<b>70</b>	<b>1,051</b>	<b>9,326</b>	<b>79,979</b>	<b>3,310,011</b>
<b>Accumulated depreciation</b>											
Balance at beginning of the period	(456,542)	-	(8,285)	(14,582)	(483)	(3,194)	-	(258)	(6,569)	-	(489,913)
Depreciation	(87,162)	-	(1,747)	(4,079)	(128)	(131)	-	(23)	(567)	-	(93,837)
Transfers:											
Other classes	-	-	-	-	-	-	-	-	-	-	-
Disposals	4,287	-	-	4,188	323	74	-	-	-	-	8,872
<b>Balance at end of the period</b>	<b>(539,417)</b>	<b>-</b>	<b>(10,032)</b>	<b>(14,473)</b>	<b>(288)</b>	<b>(3,251)</b>	<b>-</b>	<b>(281)</b>	<b>(7,136)</b>	<b>-</b>	<b>(574,878)</b>
<b>Carrying amount</b>	<b>2,494,252</b>	<b>69,350</b>	<b>71,213</b>	<b>8,572</b>	<b>215</b>	<b>8,522</b>	<b>70</b>	<b>770</b>	<b>2,190</b>	<b>79,979</b>	<b>2,735,133</b>



# Notes to the Financial Statements

for the year ended 30 June 2013

## 17. PROPERTY, PLANT AND EQUIPMENT (continued)

PARENT 2012	DISTRIBUTION SYSTEMS \$'000	DISTRIBUTION LAND \$'000	DISTRIBUTION BUILDINGS \$'000	COMPUTER AND TELCO EQUIPMENT \$'000	MOTOR VEHICLES AND MOBILE EQUIPMENT \$'000	OTHER PLANT AND EQUIPMENT \$'000	FREEHOLD LAND \$'000	BUILDINGS \$'000	LEASEHOLD IMPROVE- MENTS \$'000	CAPITAL WORK IN PROGRESS \$'000	TOTAL \$'000
<b>Cost</b>											
Balance at beginning of the period	2,798,440	68,991	52,739	18,623	718	13,154	70	972	8,649	54,696	3,017,052
Additions	138	-	-	-	256	-	-	-	-	163,281	163,675
Transfers:											
Intangible assets	-	-	-	-	-	-	-	-	-	(13,983)	(13,983)
Other classes	123,889	24	6,067	4,167	-	52	-	80	2,368	(136,647)	-
Disposals	(8,129)	-	-	(12)	(173)	(898)	-	-	(1,802)	-	(11,014)
<b>Balance at end of the period</b>	<b>2,914,338</b>	<b>69,015</b>	<b>58,806</b>	<b>22,778</b>	<b>801</b>	<b>12,308</b>	<b>70</b>	<b>1,052</b>	<b>9,215</b>	<b>67,347</b>	<b>3,155,730</b>
<b>Accumulated depreciation</b>											
Balance at beginning of the period	(372,839)	-	(6,637)	(11,209)	(479)	(3,006)	-	(237)	(7,867)	-	(402,274)
Depreciation	(86,025)	-	(1,648)	(3,373)	(121)	(216)	-	(21)	(504)	-	(91,908)
Disposals	2,322	-	-	-	117	28	-	-	1,802	-	4,269
<b>Balance at end of the period</b>	<b>(456,542)</b>	<b>-</b>	<b>(8,285)</b>	<b>(14,582)</b>	<b>(483)</b>	<b>(3,194)</b>	<b>-</b>	<b>(258)</b>	<b>(6,569)</b>	<b>-</b>	<b>(489,913)</b>
<b>Carrying amount</b>	<b>2,457,796</b>	<b>69,015</b>	<b>50,521</b>	<b>8,196</b>	<b>318</b>	<b>9,114</b>	<b>70</b>	<b>794</b>	<b>2,646</b>	<b>67,347</b>	<b>2,665,817</b>

Interest and other internal costs are capitalised to property, plant and equipment while under construction. Interest is capitalised against property, plant and equipment at an average rate of 6.8% per annum (2012: 6.9% per annum). During the year \$23.8 million (2012: \$18.4 million) of interest and other internal costs were capitalised.

The carrying value of property, plant and equipment includes \$1.7 million (2012: \$2.0 million) of motor vehicles and mobile equipment for which ownership passes to the lessor in the event of default of the finance lease arrangement.



# Notes to the Financial Statements

for the year ended 30 June 2013

## 18. TRADE AND OTHER PAYABLES

		GROUP		PARENT	
	NOTE	2013 \$000	2012 \$000	2013 \$000	2012 \$000
<b>Current</b>					
Trade payables		154,900	143,825	100,491	92,656
Acquisition consideration payable		68,717	-	-	-
Employee benefits		6,139	5,673	5,838	5,375
Deferred income		1,660	1,797	-	-
Finance leases	20	751	770	91	91
Interest payable		41,020	41,639	41,020	41,639
<b>Total</b>		<b>273,187</b>	<b>193,704</b>	<b>147,440</b>	<b>139,761</b>
<b>Non-current</b>					
Deferred income		17,108	18,770	-	-
Deferred consideration payable		1,500	1,500	1,500	1,500
Finance leases	20	936	1,359	149	337
Other non-current payables		592	592	592	592
<b>Total</b>		<b>20,136</b>	<b>22,221</b>	<b>2,241</b>	<b>2,429</b>

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

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

## 19. PROVISIONS

GROUP 2013	DECOMMISSIONING \$000	OTHER \$000	TOTAL \$000
Balance at beginning of the period	6,845	12,352	19,197
Additions	1,845	-	1,845
Reversed to the income statement	-	(676)	(676)
<b>Balance at end of the period</b>	<b>8,690</b>	<b>11,676</b>	<b>20,366</b>
Current	-	11,676	11,676
Non-current	8,690	-	8,690
<b>Total</b>	<b>8,690</b>	<b>11,676</b>	<b>20,366</b>

### Decommissioning

The decommissioning provision is in respect of future expected costs for dismantling the group's gas treatment and cogeneration plants situated at Kapuni, Taranaki.

### 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 the third parties involved. There are currently no foreseeable uncertainties which would be reasonably expected to lead to material changes in the amounts provided.



# Notes to the Financial Statements

for the year ended 30 June 2013

## 20. COMMITMENTS

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

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

	GROUP		PARENT	
	2013 \$000	2012 \$000	2013 \$000	2012 \$000
Estimated capital expenditure contracted for at balance date but not provided	75,057	118,592	29,336	64,661

### (b) Operating lease commitments

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

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

	GROUP		PARENT	
	2013 \$000	2012 \$000	2013 \$000	2012 \$000
Within one year	6,853	5,567	3,312	2,786
One to five years	12,040	14,862	8,843	9,313
Beyond five years	10,695	12,748	4,591	6,142
<b>Total</b>	<b>29,588</b>	<b>33,177</b>	<b>16,746</b>	<b>18,241</b>

### (c) Finance lease commitments

Finance leases relate to motor vehicles with varying lease terms. The following finance lease commitments are recorded in the financial statements:

	GROUP		PARENT	
	2013 \$000	2012 \$000	2013 \$000	2012 \$000
<b>Minimum lease payments for finance lease liabilities</b>				
Within one year	877	919	110	113
One to five years	997	1,479	159	360
<b>Total</b>	<b>1,874</b>	<b>2,398</b>	<b>269</b>	<b>473</b>
Less: future finance costs	(187)	(269)	(29)	(45)
<b>Present value of minimum lease payments</b>	<b>1,687</b>	<b>2,129</b>	<b>240</b>	<b>428</b>

		GROUP		PARENT	
	NOTE	2013 \$000	2012 \$000	2013 \$000	2012 \$000
<b>Present value of finance lease liabilities</b>					
Within one year	18	751	770	91	91
One to five years	18	936	1,359	149	337
<b>Present value of minimum lease payments</b>		<b>1,687</b>	<b>2,129</b>	<b>240</b>	<b>428</b>

# Notes to the Financial Statements

for the year ended 30 June 2013

## 21. BORROWINGS

GROUP & PARENT 2013	PAYABLE WITHIN 1 YEAR \$'000	PAYABLE BETWEEN 1 AND 2 YEARS \$'000	PAYABLE BETWEEN 2 AND 5 YEARS \$'000	PAYABLE AFTER 5 YEARS \$'000	FACE VALUE \$'000	UNAMORTISED COSTS \$'000	ADJUSTMENT ON HEDGED RISK \$'000	FAIR VALUE \$'000	CARRYING VALUE \$'000
Bank loans (undrawn)	-	-	-	-	-	(187)	-	-	(187)
Working capital loans (undrawn)	-	-	-	-	-	(239)	-	-	(239)
Capital bonds – fixed rate	-	-	262,651	-	262,651	(434)	-	-	262,217
Senior bonds – fixed rate	-	150,000	-	-	150,000	(839)	4,054	4,054	153,215
Senior notes – USD fixed rate	-	-	98,875	547,139	646,014	(2,132)	(14,210)	(14,210)	629,672
Floating rate notes	-	-	810,000	350,000	1,160,000	(7,373)	-	-	1,152,627
Medium term notes – GBP fixed rate	-	-	-	285,614	285,614	(2,897)	(59,592)	(59,592)	223,125
<b>Total</b>	-	150,000	1,171,526	1,182,753	2,504,279	(14,101)	(69,748)	(69,748)	2,420,430
Current borrowings	-	-	-	-	-	-	-	-	-
Non-current borrowings	-	150,000	1,171,526	1,182,753	2,504,279	(14,101)	(69,748)	(69,748)	2,420,430
<b>Total</b>	-	150,000	1,171,526	1,182,753	2,504,279	(14,101)	(69,748)	(69,748)	2,420,430

GROUP & PARENT 2012	PAYABLE WITHIN 1 YEAR \$'000	PAYABLE BETWEEN 1 AND 2 YEARS \$'000	PAYABLE BETWEEN 2 AND 5 YEARS \$'000	PAYABLE AFTER 5 YEARS \$'000	FACE VALUE \$'000	UNAMORTISED COSTS \$'000	ADJUSTMENT ON HEDGED RISK \$'000	FAIR VALUE \$'000	CARRYING VALUE \$'000
Bank loans (undrawn)	-	-	-	-	-	(259)	-	-	(259)
Working capital loans (undrawn)	-	-	-	-	-	(328)	-	-	(328)
Capital bonds – fixed rate	-	-	262,651	-	262,651	(575)	-	-	262,076
Senior bonds – fixed rate	-	-	150,000	-	150,000	(1,453)	7,388	7,388	155,935
Senior notes – USD fixed rate	22,817	-	98,875	547,139	668,831	(2,374)	(1,192)	(1,192)	665,265
Floating rate notes	-	-	410,000	750,000	1,160,000	(9,288)	-	-	1,150,712
Medium term notes – GBP fixed rate	-	-	-	285,614	285,614	(3,307)	(60,257)	(60,257)	222,050
<b>Total</b>	22,817	-	921,526	1,582,753	2,527,096	(17,624)	(54,061)	(54,061)	2,455,411
Current borrowings	22,817	-	-	-	22,817	(481)	(3,951)	(3,951)	18,385
Non-current borrowings	-	-	921,526	1,582,753	2,504,279	(17,143)	(50,110)	(50,110)	2,437,026
<b>Total</b>	22,817	-	921,526	1,582,753	2,527,096	(17,624)	(54,061)	(54,061)	2,455,411



## Notes to the Financial Statements

for the year ended 30 June 2013

### 21. BORROWINGS (continued)

All borrowings are unsecured and are subject to negative pledge arrangements.

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

Capital bonds of \$307.2 million are unsecured, subordinated bonds with the next election date set as 15 June 2017. The interest rate is currently fixed at 7% per annum and is paid semi-annually. In June 2012, the group 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.

Senior bonds - fixed rate \$150 million due to mature in October 2014 were issued at a fixed interest rate of 7.8% per annum paid semi-annually.

Senior notes of USD 15 million, USD 65 million and USD 195 million, were placed privately with US investors in September 2004 using derivative contracts to fix an exchange rate of USD 0.6574 for every NZD. The USD 15 million tranche was repaid in September 2012, whereas the USD 65 million and USD 195 million tranches are due to mature in September 2016 and September 2019 respectively. Interest is paid semi-annually. Senior notes of USD 182 million due to mature in December 2022 were placed privately with US investors in December 2010, using derivative contracts to fix an exchange rate of USD 0.7285 for every NZD. Interest is paid semi-annually.

The floating rate notes of \$1.2 billion were issued in three tranches in October 2005 (\$250 million 10 year, \$400 million 12 year, and \$350 million 15 year) and are due to mature in October 2015, October 2017 and October 2020 respectively. A fourth tranche was issued in April 2007 (\$200 million 10 year) and is due to mature in April 2017. In July 2009, the group repurchased \$40 million of its floating rate notes from the \$200 million tranche at a discount of \$6.6 million. The \$1.2 billion floating rate notes are credit wrapped by MBIA Insurance Corporation (10 year and 15 year tranches issued in October 2005) and Ambac Assurance Corporation (12 year tranche issued in October 2005 and 10 year tranche issued in April 2007). Interest is paid quarterly based on BKBM plus a margin.

Medium term notes - GBP fixed rate of GBP 115 million are due to mature in January 2019 were placed using derivative contracts to fix an exchange rate of GBP 0.4026 for every NZD. The fixed interest rate is 7.625% per annum. Interest is paid annually.

All borrowings are measured at amortised cost adjusted for fair value movements in respect of the hedged risk on borrowings designated in fair value hedge relationships and are classified between current and non-current dependent on contractual obligations. Borrowings are subject to various lending covenants. These have all been met for the years ended 30 June 2013 and 30 June 2012.

# Notes to the Financial Statements

for the year ended 30 June 2013

## 22. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The group has a comprehensive treasury policy approved by the board of directors to manage the risks of financial instruments. The policy outlines the objectives and approach that the group applies in its treasury management processes. The policy covers management of interest rate risk, foreign exchange risk, credit risk and liquidity risk.

### A) INTEREST RATE RISK

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

Maturity profile of interest rate swaps	GROUP & PARENT	
	2013 NOTIONAL AMOUNT \$'000	2012 NOTIONAL AMOUNT \$'000
<b>Interest rate swaps (floating to fixed)</b>		
Maturing in less than 1 year	-	150,000
Maturing between 2 and 5 years	1,160,000	760,000
Maturing after 5 years	-	250,000
	<b>1,160,000</b>	<b>1,160,000</b>
<b>Interest rate swaps (fixed to floating)</b>		
Maturing between 1 and 2 years	150,000	-
Maturing between 2 and 5 years	-	150,000
	<b>150,000</b>	<b>150,000</b>
<b>Forward starting interest rate swaps (floating to fixed)</b>		
Maturing after 5 years	200,000	350,000
	<b>200,000</b>	<b>350,000</b>

Maturity profile of cross currency interest rate swaps	GROUP & PARENT 2013		GROUP & PARENT 2012	
	USD/GBP PRINCIPAL AMOUNT '000	NZD \$'000	USD/GBP PRINCIPAL AMOUNT '000	NZD \$'000
<b>Cross currency (USD : NZD)</b>				
Maturing in less than 1 year	-	-	15,000	22,817
Maturing between 2 and 5 years	65,000	98,875	65,000	98,875
Maturing after 5 years	377,000	547,139	377,000	547,139
	<b>442,000</b>	<b>646,014</b>	<b>457,000</b>	<b>668,831</b>
<b>Cross currency (GBP : NZD)</b>				
Maturing after 5 years	115,000	285,614	115,000	285,614
	<b>115,000</b>	<b>285,614</b>	<b>115,000</b>	<b>285,614</b>



# Notes to the Financial Statements

for the year ended 30 June 2013

## 22. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

### A) INTEREST RATE RISK (continued)

Bank loans, working capital loans and floating rate notes are at floating rates. All floating rate notes are hedged through interest rate swaps which convert the floating rate into a fixed rate.

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

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

Senior notes – USD fixed rate are hedged through cross currency swaps (eliminating the foreign currency risk) which convert the interest rate to a NZD floating rate. The ensuing floating interest rate exposure is not hedged.

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

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

#### Cash flow sensitivity analysis

Interest rate swaps hedging the floating rate debt are hedge accounted and treated as cash flow hedges and hence any changes in interest rates would have no material impact on net profit/(loss) as changes in the fair value of these swaps are taken through other comprehensive income where the hedge is an effective hedge.

Forward starting interest rate swaps hedging the forecasted floating rate debt are also hedge accounted and treated as cash flow hedges and hence any changes in interest rates would have no material impact on net profit/(loss) as changes in the fair value of these swaps are taken through comprehensive income where the hedge is an effective hedge.

A one percent increase or decrease in interest rates is used for the interest rate sensitivity analysis. This represents management's current assessment of the reasonably possible change in interests over a year. It is assumed that the amount of the liability at balance date was outstanding for the whole year. The impacts on comprehensive income of these changes in interest rates are shown in the table below.

	GROUP & PARENT 2013		GROUP & PARENT 2012	
	-1% CHANGE IN INTEREST RATE \$000	+1% CHANGE IN INTEREST RATE \$000	-1% CHANGE IN INTEREST RATE \$000	+1% CHANGE IN INTEREST RATE \$000
Interest rate swaps	(36,830)	35,432	(42,092)	40,232
Forward starting interest rate swaps	(9,121)	8,282	(17,181)	15,719
<b>Impact on comprehensive income - gain/(loss)</b>	<b>(45,951)</b>	<b>43,714</b>	<b>(59,273)</b>	<b>55,951</b>

#### Fair value sensitivity analysis

Interest rate swaps hedging the senior bonds fixed rate bonds are hedge accounted and treated as fair value hedges and hence any changes in interest rates would have no material impact on net profit/(loss) arising from changes in fair value as the hedge is an effective hedge. The changes in fair value of the swaps would be offset by changes in the fair value of the underlying exposure.

A one percent increase or decrease in interest rates is used for the interest rate sensitivity analysis. This represents management's current assessment of the reasonably possible change over a year. It is assumed that the amount of the liability at balance date was outstanding for the whole year. The impacts on net profit/(loss) of these changes in the interest rates are shown in the table below.

	GROUP & PARENT 2013		GROUP & PARENT 2012	
	-1% CHANGE IN INTEREST RATE \$000	+1% CHANGE IN INTEREST RATE \$000	-1% CHANGE IN INTEREST RATE \$000	+1% CHANGE IN INTEREST RATE \$000
Interest rate swaps	1,500	(1,500)	1,500	(1,500)
<b>Impact on net profit - gain/(loss)</b>	<b>1,500</b>	<b>(1,500)</b>	<b>1,500</b>	<b>(1,500)</b>



# Notes to the Financial Statements

for the year ended 30 June 2013

## 22. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

### A) INTEREST RATE RISK (continued)

Cross currency swaps hedging the foreign currency denominated debt are hedge accounted and treated either as a cash flow hedge or a fair value hedge depending upon the risk being hedged.

A one percent increase or decrease in interest rate is used for the interest rate sensitivity analysis. This represents management's current assessment of the reasonably possible change in interest rates over a year. The impact is calculated for one year and proportionally allocated over the number of days, if maturity occurs within the period. The impacts on net profit/(loss) of these changes are shown in the table below.

	GROUP & PARENT 2013		GROUP & PARENT 2012	
	-1% CHANGE IN INTEREST RATE \$000	+1% CHANGE IN INTEREST RATE \$000	-1% CHANGE IN INTEREST RATE \$000	+1% CHANGE IN INTEREST RATE \$000
<b>Cross currency swaps</b>				
USD : NZD	6,509	(6,509)	6,688	(6,688)
<b>Impact on net profit - gain/(loss)</b>	<b>6,509</b>	<b>(6,509)</b>	<b>6,688</b>	<b>(6,688)</b>

Any change in the interest rates would have no impact on net profit/(loss) in relation to the GBP: NZD cross currency swaps as the NZD payment leg is at a fixed interest rate.

### B) FOREIGN EXCHANGE RISK

The group manages exposure in forecasted foreign currency exposure arising out of the capital expenditure programme in accordance with treasury policy. In this respect, the group has hedged the forecasted foreign currency exposure arising out of the capital expenditure programme through forward exchange contracts. As a result at balance date there is no significant exposure to foreign currency risk. The group has outstanding forward exchange contracts:

Currency	GROUP & PARENT 2013		GROUP & PARENT 2012	
	BUY '000	MARK TO MARKET GAIN/(LOSS) NZD \$000	BUY '000	MARK TO MARKET GAIN/(LOSS) NZD \$000
EUR	1,585	111	4,050	(813)
USD	9,628	(1,832)	14,945	(5,190)
<b>Total</b>		<b>(1,721)</b>		<b>(6,003)</b>

#### Foreign exchange sensitivity analysis

Forward exchange contracts hedging the forecasted foreign currency exposure arising out of the capital expenditure programme are treated as cash flow hedges, hence any changes in foreign exchange rates would have no material impact on net profit/(loss) as changes in the fair value of these forward exchange contracts are taken through other comprehensive income where the hedge is an effective hedge.

A ten percent increase or decrease in foreign exchange rates is used for the foreign exchange rate sensitivity analysis. This represents management's current assessment of the reasonably possible change over a year. The impacts on comprehensive income of these changes in the foreign exchange rates are shown in the table below.

	GROUP & PARENT 2013		GROUP & PARENT 2012	
	-10% WEAKENING OF THE NZD \$000	+10% STRENGTHENING OF THE NZD \$000	-10% WEAKENING OF THE NZD \$000	+10% STRENGTHENING OF THE NZD \$000
<b>Forward exchange contracts</b>				
EUR	296	(242)	709	(580)
USD	1,380	(1,129)	2,027	(1,689)
<b>Impact on comprehensive income – gain/(loss)</b>	<b>1,676</b>	<b>(1,371)</b>	<b>2,736</b>	<b>(2,269)</b>

The exposure the group has in foreign denominated borrowings has been appropriately managed through the cross currency interest rate swaps. Any changes in exchange rates for foreign denominated borrowings, is offset by an equal and opposite movement in the value and cash flows applicable to the hedge. Hence at balance date there is no significant exposure to foreign currency risk.



# Notes to the Financial Statements

for the year ended 30 June 2013

## 22. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

### C) CREDIT RISK

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

The group places its cash deposits with a small number of banking institutions and limits the amount deposited with each institution. The maximum exposure to credit risk is represented by the fair value of each financial instrument.

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

	GROUP		PARENT	
	2013 FAIR VALUE \$000	2012 FAIR VALUE \$000	2013 FAIR VALUE \$000	2012 FAIR VALUE \$000
Loans and receivables	207,194	236,765	153,936	176,229
Interest rate swaps	4,877	8,187	4,877	8,187
Cross currency swaps	10,479	19,791	10,479	19,791
Forward exchange contracts	344	3	344	3
	GROUP		PARENT	
	2013 CARRYING AMOUNT \$000	2012 CARRYING AMOUNT \$000	2013 CARRYING AMOUNT \$000	2012 CARRYING AMOUNT \$000
<b>Ageing of trade receivables</b>				
Not past due	139,567	142,628	82,350	83,940
Past due 1-30 days	3,140	5,256	1,403	1,914
Past due 31-120 days	2,057	2,231	537	1,448
Past due more than 120 days	7,399	7,660	6,361	6,271
<b>Total</b>	<b>152,163</b>	<b>157,775</b>	<b>90,651</b>	<b>93,573</b>

The group holds a provision for doubtful debts against the amounts disclosed above of \$3.4 million (2012: \$4.3 million). Trade receivables past due by up to 120 days do not include any allowances for impairment (2012: nil). Trade receivables past due by more than 120 days include allowances for impairment of \$3.4 million (2012: \$4.3 million).

	GROUP		PARENT	
	2013 \$000	2012 \$000	2013 \$000	2012 \$000
<b>Movement in the provision for doubtful debts</b>				
Provision for doubtful debts at the beginning of the period	4,325	3,899	3,604	3,212
Increase/(decrease) in the provision	(891)	426	(770)	392
<b>Provision for doubtful debts at end of the period</b>	<b>3,434</b>	<b>4,325</b>	<b>2,834</b>	<b>3,604</b>

# Notes to the Financial Statements

for the year ended 30 June 2013

## 22. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

### D) LIQUIDITY RISK

Liquidity risk is the risk that the group may encounter difficulty in raising funds at short notice to meet its financial commitments as they fall due. In order to reduce the exposure to liquidity risk, the group has access to undrawn committed lines of credit of \$325 million (30 June 2012: \$325 million). Undrawn committed lines of credit of \$50 million expired in July 2013.

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

GROUP 2013	PAYABLE WITHIN 1 YEAR \$000	PAYABLE BETWEEN 1 AND 2 YEARS \$000	PAYABLE BETWEEN 2 AND 5 YEARS \$000	PAYABLE AFTER 5 YEARS \$000	TOTAL CONTRACTUAL CASH FLOWS \$000
<b>Non-derivative financial liabilities</b>					
Trade payables	154,900	-	-	-	154,900
Employee benefits	6,139	-	-	-	6,139
Acquisition consideration payable	68,717	-	-	-	68,717
Deferred consideration payable	-	-	1,500	-	1,500
Capital bonds – fixed rate	18,386	18,386	299,423	-	336,195
Senior bonds – fixed rate	11,700	155,850	-	-	167,550
Senior notes – USD fixed rate	28,994	29,049	164,090	553,319	775,452
Floating rate notes	35,955	43,920	925,946	398,011	1,403,832
Medium term notes – GBP fixed rate	17,235	17,235	51,703	243,256	329,429
<b>Derivative financial assets/(liabilities)</b>					
Cross currency swaps (USD : NZD)					
Inflow	(28,994)	(29,049)	(164,090)	(553,319)	(775,452)
Outflow	26,695	31,594	201,421	653,128	912,838
Cross currency swaps (GBP : NZD)					
Inflow	(17,235)	(17,235)	(51,703)	(243,256)	(329,429)
Outflow	30,888	30,973	93,175	308,780	463,816
Forward exchange contracts					
Inflow	(16,625)	-	-	-	(16,625)
Outflow	16,625	-	-	-	16,625
<b>Net settled derivatives</b>					
Interest rate swaps	44,461	38,226	50,865	3,129	136,681
	<b>397,841</b>	<b>318,949</b>	<b>1,572,330</b>	<b>1,363,048</b>	<b>3,652,168</b>
The above cash flows include:					
Net principal payments	-	150,000	1,171,526	1,182,753	2,504,279
Net interest and derivatives payments	168,085	168,949	399,304	180,295	916,633
Other payments	229,756	-	1,500	-	231,256
	<b>397,841</b>	<b>318,949</b>	<b>1,572,330</b>	<b>1,363,048</b>	<b>3,652,168</b>

The above cash flow for the capital bonds disclosed as payable between 2 and 5 years includes \$262.7 million of principal which has been included as the next election date set for the capital bonds is 15 June 2017.



# Notes to the Financial Statements

for the year ended 30 June 2013

## 22. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

### D) LIQUIDITY RISK (continued)

GROUP 2012	PAYABLE WITHIN 1 YEAR \$'000	PAYABLE BETWEEN 1 AND 2 YEARS \$'000	PAYABLE BETWEEN 2 AND 5 YEARS \$'000	PAYABLE AFTER 5 YEARS \$'000	TOTAL CONTRACTUAL CASH FLOWS \$'000
<b>Non-derivative financial liabilities</b>					
Trade payables	143,825	-	-	-	143,825
Employee benefits	5,673	-	-	-	5,673
Deferred consideration payable	-	-	1,500	-	1,500
Capital bonds – fixed rate	18,386	18,386	317,808	-	354,580
Senior bonds – fixed rate	11,700	11,700	155,850	-	179,250
Senior notes – USD fixed rate	47,346	28,007	162,971	558,066	796,390
Floating rate notes	39,525	28,456	530,856	817,598	1,416,435
Medium term notes – GBP fixed rate	17,183	17,183	51,551	259,725	345,642
<b>Derivative financial assets/(liabilities)</b>					
Cross currency swaps (USD : NZD)					
Inflow	(47,346)	(28,007)	(162,971)	(558,066)	(796,390)
Outflow	48,978	26,025	190,361	673,464	938,828
Cross currency swaps (GBP : NZD)					
Inflow	(17,183)	(17,183)	(51,551)	(259,725)	(345,642)
Outflow	30,888	30,888	93,345	339,583	494,704
Forward exchange contracts					
Inflow	(30,113)	(1,145)	-	-	(31,258)
Outflow	30,113	1,145	-	-	31,258
<b>Net settled derivatives</b>					
Interest rate swaps	41,494	50,883	93,055	15,146	200,578
	340,469	166,338	1,382,775	1,845,791	3,735,373
The above cash flows include:					
Net principal payments	22,817	-	921,526	1,582,753	2,527,096
Net interest and derivatives payments	168,154	166,338	459,749	263,038	1,057,279
Other payments	149,498	-	1,500	-	150,998
	340,469	166,338	1,382,775	1,845,791	3,735,373

The above cash flow for the capital bonds disclosed as payable between 2 and 5 years includes \$262.7 million of principal which has been included as the next election date set for the capital bonds is 15 June 2017.

# Notes to the Financial Statements

for the year ended 30 June 2013

## 22. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

### D) LIQUIDITY RISK (continued)

PARENT 2013	PAYABLE WITHIN 1 YEAR \$000	PAYABLE BETWEEN 1 AND 2 YEARS \$000	PAYABLE BETWEEN 2 AND 5 YEARS \$000	PAYABLE AFTER 5 YEARS \$000	TOTAL CONTRACTUAL CASH FLOWS \$000
<b>Non-derivative financial liabilities</b>					
Trade payables	100,491	-	-	-	100,491
Employee benefits	5,838	-	-	-	5,838
Deferred consideration payable	-	-	1,500	-	1,500
Capital bonds – fixed rate	18,386	18,386	299,423	-	336,195
Senior bonds – fixed rate	11,700	155,850	-	-	167,550
Senior notes – USD fixed rate	28,994	29,049	164,090	553,319	775,452
Floating rate notes	35,955	43,920	925,946	398,011	1,403,832
Medium term notes – GBP fixed rate	17,235	17,235	51,703	243,256	329,429
<b>Derivative financial assets/(liabilities)</b>					
Cross currency swaps (USD : NZD)					
Inflow	(28,994)	(29,049)	(164,090)	(553,319)	(775,452)
Outflow	26,695	31,594	201,421	653,128	912,838
Cross currency swaps (GBP : NZD)					
Inflow	(17,235)	(17,235)	(51,703)	(243,256)	(329,429)
Outflow	30,888	30,973	93,175	308,780	463,816
Forward exchange contracts					
Inflow	(16,625)	-	-	-	(16,625)
Outflow	16,625	-	-	-	16,625
<b>Net settled derivatives</b>					
Interest rate swaps	44,461	38,226	50,865	3,129	136,681
	274,414	318,949	1,572,330	1,363,048	3,528,741
The above cash flows include:					
Net principal payments	-	150,000	1,171,526	1,182,753	2,504,279
Net interest and derivatives payments	168,085	168,949	399,304	180,295	916,633
Other payments	106,329	-	1,500	-	107,829
	274,414	318,949	1,572,330	1,363,048	3,528,741

The above cash flow for the capital bonds disclosed as payable between 2 and 5 years includes \$262.7 million of principal which has been included as the next election date set for the capital bonds is 15 June 2017.

# Notes to the Financial Statements

for the year ended 30 June 2013

## 22. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

### D) LIQUIDITY RISK (continued)

PARENT 2012	PAYABLE WITHIN 1 YEAR \$000	PAYABLE BETWEEN 1 AND 2 YEARS \$000	PAYABLE BETWEEN 2 AND 5 YEARS \$000	PAYABLE AFTER 5 YEARS \$000	TOTAL CONTRACTUAL CASH FLOWS \$000
<b>Non-derivative financial liabilities</b>					
Trade payables	92,656	-	-	-	92,656
Employee benefits	5,375	-	-	-	5,375
Deferred consideration payable	-	-	1,500	-	1,500
Capital bonds – fixed rate	18,386	18,386	317,808	-	354,580
Senior bonds – fixed rate	11,700	11,700	155,850	-	179,250
Senior notes – USD fixed rate	47,346	28,007	162,971	558,066	796,390
Floating rate notes	39,525	28,456	530,856	817,598	1,416,435
Medium term notes – GBP fixed rate	17,183	17,183	51,551	259,725	345,642
<b>Derivative financial assets/(liabilities)</b>					
Cross currency swaps (USD : NZD)					
Inflow	(47,346)	(28,007)	(162,971)	(558,066)	(796,390)
Outflow	48,978	26,025	190,361	673,464	938,828
Cross currency swaps (GBP : NZD)					
Inflow	(17,183)	(17,183)	(51,551)	(259,725)	(345,642)
Outflow	30,888	30,888	93,345	339,583	494,704
Forward exchange contracts					
Inflow	(30,113)	(1,145)	-	-	(31,258)
Outflow	30,113	1,145	-	-	31,258
<b>Net settled derivatives</b>					
Interest rate swaps	41,494	50,883	93,055	15,146	200,578
	289,002	166,338	1,382,775	1,845,791	3,683,906

The above cash flows include:

Net principal payments	22,817	-	921,526	1,582,753	2,527,096
Net interest and derivatives payments	168,154	166,338	459,749	263,038	1,057,279
Other payments	98,031	-	1,500	-	99,531
	289,002	166,338	1,382,775	1,845,791	3,683,906

The above cash flow for fixed rate capital bonds disclosed as payable between 2 and 5 years includes \$262.7 million of principal which has been included as the next election date set for the capital bonds is 15 June 2017.

## Notes to the Financial Statements

for the year ended 30 June 2013

### 22. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

#### E) FINANCIAL INSTRUMENT FAIR VALUES

The group's non-derivative financial assets are categorised as 'loans and receivables'. Non-derivative financial liabilities are categorised as 'amortised cost'. All derivative financial instruments have been designated in cash flow hedge or fair value hedge relationships.

Non-derivative financial assets	GROUP 2013				GROUP 2012			
	CARRYING AMOUNT (EXCLUDING ACCRUALS) \$000	CARRYING AMOUNT OF ACCRUALS \$000	TOTAL CARRYING AMOUNT \$000	FAIR VALUE \$000	CARRYING AMOUNT (EXCLUDING ACCRUALS) \$000	CARRYING AMOUNT OF ACCRUALS \$000	TOTAL CARRYING AMOUNT \$000	FAIR VALUE \$000
<b>Current assets</b>								
Loans and receivables:								
Cash and cash equivalents	56,164	50	56,214	56,214	81,593	108	81,701	81,701
Trade receivables (net of doubtful debts provision)	148,729	-	148,729	148,729	153,450	-	153,450	153,450
Other receivables	117	-	117	117	222	-	222	222
<b>Total</b>	<b>205,010</b>	<b>50</b>	<b>205,060</b>	<b>205,060</b>	<b>235,265</b>	<b>108</b>	<b>235,373</b>	<b>235,373</b>

#### Non-current assets

Loans and receivables:

Other receivables	2,134	-	2,134	2,134	1,392	-	1,392	1,392
<b>Total</b>	<b>2,134</b>	<b>-</b>	<b>2,134</b>	<b>2,134</b>	<b>1,392</b>	<b>-</b>	<b>1,392</b>	<b>1,392</b>

Non-derivative financial assets	PARENT 2013				PARENT 2012			
	CARRYING AMOUNT (EX CLUDING ACCRUALS) \$000	CARRYING AMOUNT OF ACCRUALS \$000	TOTAL CARRYING AMOUNT \$000	FAIR VALUE \$000	CARRYING AMOUNT (EXCLUDING ACCRUALS) \$000	CARRYING AMOUNT OF ACCRUALS \$000	TOTAL CARRYING AMOUNT \$000	FAIR VALUE \$000
<b>Current assets</b>								
Loans and receivables:								
Cash and cash equivalents	43,973	50	44,023	44,023	71,727	108	71,835	71,835
Advances to subsidiaries	20,588	-	20,588	20,588	12,817	-	12,817	12,817
Trade receivables (net of doubtful debts provision)	87,817	-	87,817	87,817	89,969	-	89,969	89,969
Other receivables	112	-	112	112	216	-	216	216
<b>Total</b>	<b>152,490</b>	<b>50</b>	<b>152,540</b>	<b>152,540</b>	<b>174,729</b>	<b>108</b>	<b>174,837</b>	<b>174,837</b>

#### Non-current assets

Loans and receivables:

Other receivables	1,396	-	1,396	1,396	1,392	-	1,392	1,392
<b>Total</b>	<b>1,396</b>	<b>-</b>	<b>1,396</b>	<b>1,396</b>	<b>1,392</b>	<b>-</b>	<b>1,392</b>	<b>1,392</b>

# Notes to the Financial Statements

for the year ended 30 June 2013

## 22. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

### E) FINANCIAL INSTRUMENT FAIR VALUES (continued)

Non-derivative financial liabilities	GROUP 2013				GROUP 2012			
	CARRYING AMOUNT (EXCLUDING ACCRUALS) \$000	CARRYING AMOUNT OF ACCRUALS \$000	TOTAL CARRYING AMOUNT \$000	FAIR VALUE \$000	CARRYING AMOUNT (EXCLUDING ACCRUALS) \$000	CARRYING AMOUNT OF ACCRUALS \$000	TOTAL CARRYING AMOUNT \$000	FAIR VALUE \$000
<b>Current liabilities</b>								
Liabilities at amortised cost:								
Trade payables	154,900	-	154,900	154,900	143,825	-	143,825	143,825
Employee benefits	6,139	-	6,139	6,139	5,673	-	5,673	5,673
Acquisition consideration payable	68,717	-	68,717	68,717	-	-	-	-
Bank loans (undrawn)	-	-	-	-	(194)	-	(194)	-
Working capital loans (undrawn)	-	-	-	-	(285)	-	(285)	-
Senior notes – USD fixed rate	-	-	-	-	18,864	275	19,139	19,110
<b>Total</b>	<b>229,756</b>	<b>-</b>	<b>229,756</b>	<b>229,756</b>	<b>167,883</b>	<b>275</b>	<b>168,158</b>	<b>168,608</b>
<b>Non-current liabilities</b>								
Liabilities at amortised cost:								
Other non-current payables	592	-	592	592	592	-	592	592
Deferred consideration payable	1,500	-	1,500	1,500	1,500	-	1,500	1,500
Bank loans (undrawn)	(187)	-	(187)	-	(105)	-	(105)	-
Working capital loans (undrawn)	(239)	-	(239)	-	(43)	-	(43)	-
Floating rate notes	1,152,627	6,588	1,159,215	1,165,721	1,150,712	6,737	1,157,449	1,165,959
Capital bonds – fixed rate	262,217	2,398	264,615	266,352	262,076	2,785	264,861	273,361
Senior bonds – fixed rate	153,215	2,470	155,685	155,672	155,935	2,438	158,373	158,984
Senior notes – USD fixed rate	629,672	5,770	635,442	636,729	646,401	5,676	652,077	653,562
Medium term notes – GBP fixed rate	223,125	7,932	231,057	263,756	222,050	7,884	229,934	270,918
<b>Total</b>	<b>2,422,522</b>	<b>25,158</b>	<b>2,447,680</b>	<b>2,490,322</b>	<b>2,439,118</b>	<b>25,520</b>	<b>2,464,638</b>	<b>2,524,876</b>



# Notes to the Financial Statements

for the year ended 30 June 2013

## 22. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

### E) FINANCIAL INSTRUMENT FAIR VALUES (continued)

Non-derivative financial liabilities	PARENT 2013				PARENT 2012			
	CARRYING AMOUNT (EXCLUDING ACCRUALS) \$000	CARRYING AMOUNT OF ACCRUALS \$000	TOTAL CARRYING AMOUNT \$000	FAIR VALUE \$000	CARRYING AMOUNT (EXCLUDING ACCRUALS) \$000	CARRYING AMOUNT OF ACCRUALS \$000	TOTAL CARRYING AMOUNT \$000	FAIR VALUE \$000
<b>Current liabilities</b>								
Liabilities at amortised cost:								
Advances from subsidiaries	419,061	-	419,061	419,061	320,141	-	320,141	320,141
Trade payables	100,491	-	100,491	100,491	92,656	-	92,656	92,656
Employee benefits	5,838	-	5,838	5,838	5,375	-	5,375	5,375
Bank loans (undrawn)	-	-	-	-	(194)	-	(194)	-
Working capital loans (undrawn)	-	-	-	-	(285)	-	(285)	-
Senior notes – USD fixed rate	-	-	-	-	18,864	275	19,139	19,110
<b>Total</b>	<b>525,390</b>	<b>-</b>	<b>525,390</b>	<b>525,390</b>	<b>436,557</b>	<b>275</b>	<b>436,832</b>	<b>437,282</b>
<b>Non-current liabilities</b>								
Liabilities at amortised cost:								
Other non-current payables	592	-	592	592	592	-	592	592
Deferred consideration payable	1,500	-	1,500	1,500	1,500	-	1,500	1,500
Bank loans (undrawn)	(187)	-	(187)	-	(105)	-	(105)	-
Working capital loans (undrawn)	(239)	-	(239)	-	(43)	-	(43)	-
Floating rate notes	1,152,627	6,588	1,159,215	1,165,721	1,150,712	6,737	1,157,449	1,165,959
Capital bonds – fixed rate	262,217	2,398	264,615	266,352	262,076	2,785	264,861	273,361
Senior bonds – fixed rate	153,215	2,470	155,685	155,672	155,935	2,438	158,373	158,984
Senior notes – USD fixed rate	629,672	5,770	635,442	636,729	646,401	5,676	652,077	653,562
Medium term notes – GBP fixed rate	223,125	7,932	231,057	263,756	222,050	7,884	229,934	270,918
<b>Total</b>	<b>2,422,522</b>	<b>25,158</b>	<b>2,447,680</b>	<b>2,490,322</b>	<b>2,439,118</b>	<b>25,520</b>	<b>2,464,638</b>	<b>2,524,876</b>

# Notes to the Financial Statements

for the year ended 30 June 2013

## 22. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

### E) FINANCIAL INSTRUMENT FAIR VALUES (continued)

Derivative financial instruments	GROUP & PARENT 2013				GROUP & PARENT 2012			
	CARRYING AMOUNT (EXCLUDING ACCRUALS) \$000	CARRYING AMOUNT OF ACCRUALS \$000	TOTAL CARRYING AMOUNT \$000	FAIR VALUE \$000	CARRYING AMOUNT (EXCLUDING ACCRUALS) \$000	CARRYING AMOUNT OF ACCRUALS \$000	TOTAL CARRYING AMOUNT \$000	FAIR VALUE \$000
<b>Current assets</b>								
Cross currency swaps – cash flow hedge	-	-	-	-	10	27	37	37
Forward exchange contracts – cash flow hedge	344	-	344	344	3	-	3	3
<b>Total</b>	<b>344</b>	<b>-</b>	<b>344</b>	<b>344</b>	<b>13</b>	<b>27</b>	<b>40</b>	<b>40</b>
<b>Non-current assets</b>								
Interest rate swaps – fair value hedge	4,086	791	4,877	4,877	7,433	754	8,187	8,187
Cross currency swaps – fair value hedge	273	3,270	3,543	3,543	7,255	3,237	10,492	10,492
Cross currency swaps – cash flow hedge	6,305	631	6,936	6,936	8,634	628	9,262	9,262
<b>Total</b>	<b>10,664</b>	<b>4,692</b>	<b>15,356</b>	<b>15,356</b>	<b>23,322</b>	<b>4,619</b>	<b>27,941</b>	<b>27,941</b>
<b>Current liabilities</b>								
Interest rate swaps – cash flow hedge	-	-	-	-	1,866	1,108	2,974	2,974
Cross currency swaps – fair value hedge	-	-	-	-	3,948	(222)	3,726	3,726
Forward exchange contracts – cash flow hedge	2,065	-	2,065	2,065	5,741	-	5,741	5,741
<b>Total</b>	<b>2,065</b>	<b>-</b>	<b>2,065</b>	<b>2,065</b>	<b>11,555</b>	<b>886</b>	<b>12,441</b>	<b>12,441</b>
<b>Non-current liabilities</b>								
Interest rate swaps – cash flow hedge	124,570	9,236	133,806	133,806	184,323	8,133	192,456	192,456
Cross currency swaps – fair value hedge	14,381	(1,060)	13,321	13,321	4,451	(1,038)	3,413	3,413
Cross currency swaps – cash flow hedge	87,380	(1,324)	86,056	86,056	96,963	(1,357)	95,606	95,606
Forward exchange contracts – cash flow hedge	-	-	-	-	264	-	264	264
<b>Total</b>	<b>226,331</b>	<b>6,852</b>	<b>233,183</b>	<b>233,183</b>	<b>286,001</b>	<b>5,738</b>	<b>291,739</b>	<b>291,739</b>

The following methods and assumptions were used to estimate the carrying amount and fair value of each class of financial instrument carried at fair value. Where financial instruments are measured at fair value they have been 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).

The valuation of the derivative financial instruments are based on the level 2 fair value hierarchy, and were calculated using valuation models applying observable market data as explained below. Some of the key observable market data used is presented below.

	GROUP & PARENT 2013	GROUP & PARENT 2012
<b>Foreign currency exchange (FX) rates</b>		
NZD-GBP FX rate	0.50880	0.51030
NZD-USD FX rate	0.77435	0.80165
<b>Interest rate swap rates</b>		
NZD	2.66% to 4.53%	2.68% to 3.78%
USD	0.28% to 3.29%	0.56% to 2.33%
GBP	0.54% to 3.19%	0.87% to 2.78%

# Notes to the Financial Statements

for the year ended 30 June 2013

## 22. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

### E) FINANCIAL INSTRUMENT FAIR VALUES (continued)

The calculation of fair value for each financial instrument for either measurement or disclosure purposes are explained below. In each case, interest accrued is included separately in the statement of financial position either in receivables and prepayments for interest receivable or in trade and other payables for interest payable.

#### Loans and receivables, trade payables and other creditors, cash and cash equivalents and short term deposits

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

#### Bank loans, working capital loans and floating rate notes

The total carrying amount includes the principal, interest accrued and unamortised costs.

#### Medium term notes - GBP fixed rate, senior notes – USD fixed rate

The total carrying amounts for the GBP medium term notes and the USD senior notes include the principal converted at contract rates, interest accrued, 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.

#### Capital bonds – fixed rate

The total carrying amount includes the principal, interest accrued and unamortised costs.

#### Senior bonds – fixed rate

The total carrying amount includes the principal, interest accrued, 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.

#### Derivative instruments

The total carrying amount of derivative instruments is the same as their fair value and includes interest accrued. The fair value of interest rate swaps, cross-currency interest rate swaps and forward foreign currency contracts are calculated as the present value of the estimated future cash flows based on observable interest yield curves or foreign exchange market prices.

### F) CAPITAL MANAGEMENT

The capital management policies are formulated and applied to the Vector group as a whole. The group's objectives when managing capital are:

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

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

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

The net debt to net debt plus equity ratios at 30 June 2013 and 30 June 2012 were as follows:

	GROUP	
	2013 \$000	2012 \$000
Current borrowings		18,385
Non-current borrowings	2,420,430	2,437,026
<b>Total borrowings</b>	<b>2,420,430</b>	<b>2,455,411</b>
Less: cash and cash equivalents	(56,164)	(81,593)
<b>Net debt</b>	<b>2,364,266</b>	<b>2,373,818</b>
Total equity	2,258,462	2,148,342
<b>Net debt plus equity</b>	<b>4,622,728</b>	<b>4,522,160</b>
 <b>Net debt to net debt plus equity ratio</b>	 <b>51.1%</b>	 <b>52.5%</b>

### FINANCIAL GUARANTEES

Vector Limited has provided guarantees on behalf of Vector Gas Limited and Vector Gas Contracts Limited for the purchase of gas. Vector Limited has also provided guarantees for Advanced Metering Assets Limited and Advanced Metering Services Limited for metering services. These guarantees are regarded as insurance contracts. No claims have been made against the guarantees hence there is no impact on the statement of financial position of the group and the parent.

# Notes to the Financial Statements

for the year ended 30 June 2013

## 23. RESERVES

### CASH FLOW HEDGE RESERVE

The cash flow hedge reserve records the effective portion of changes in the fair value of interest rate swaps that are designated as cash flow hedges. The gain or loss relating to the ineffective portion is recorded in the income statement within finance costs.

### OTHER RESERVES

#### Share-based Payment Reserve

The share-based payment reserve records the accumulated value of share-based payments provided to employees through the employee share purchase scheme.

When an employee's share purchase scheme loan is fully repaid and the associated shares vest to the employee the balance of the reserve relating to the employee share purchase scheme is transferred to retained earnings.

#### Foreign Currency Translation Reserve

This reserve records exchange differences arising from the translation of the financial statements of foreign subsidiaries.

## 24. CONTINGENT LIABILITIES

The supplier of Kapuni gas to Vector's gas wholesale business has filed an appeal of an award granted in favour of Vector during the period concerning Vector's entitlements to Kapuni gas at the legacy price under a pre-existing contract. Vector is of the opinion that the appeal is unlikely to be successful and therefore has included purchases of 6.2 petajoules of Kapuni gas at the legacy price in these financial statements. No further disclosure is being made in regard to this matter as it is Vector's view that further disclosure would prejudice its commercial position.

The directors are aware of claims that have been made against entities of the group and, where appropriate, have recognised provisions for these within note 19 of these financial statements.

No other material contingent liabilities requiring disclosure have been identified.

## 25. BUSINESS COMBINATIONS

On 30 June 2013, Advanced Metering Assets Limited, a wholly owned subsidiary of the group, acquired the business and assets of the Contact Energy Limited gas metering systems business for \$59.9 million. Payment was made on 1 July 2013. This acquired business has been integrated into Advanced Metering Assets Limited and is expected to complement the group's existing gas metering business and contribute to continuing growth in the metering sector.

In a separate transaction, Advanced Metering Assets Limited simultaneously entered into a contract to provide Contact Energy Limited with gas metering services. This contract has been included as part of the business combination.

The fair value of the assets and liabilities acquired have been determined on a provisional basis. The final determination of fair values will be finalised within 12 months from the date of acquisition. The difference between the provisional fair value of assets and liabilities acquired and the purchase price has been recognised as goodwill.

	GROUP 2013 \$000
<b>Provisional fair value of net assets acquired at acquisition date</b>	
Property, plant and equipment	50,512
Identifiable intangible assets – customer contracts / relationships	13,102
Deferred tax liability	(8,003)
Goodwill	3,407
<b>Net assets and liabilities acquired</b>	<b>59,018</b>
Cash paid 1 July 2013	59,900
Post-acquisition adjustment	(146)
Contingent consideration	(736)
<b>Total consideration</b>	<b>59,018</b>

The acquisition did not contribute to group net profit for the year end 30 June 2013.

# Notes to the Financial Statements

for the year ended 30 June 2013

## 26. TRANSACTIONS WITH RELATED PARTIES

The group has engaged in the following transactions with the Auckland Energy Consumer Trust (AECT) which is the majority shareholder of Vector Limited.

	PARENT	
	2013 \$'000	2012 \$'000
Dividend paid to the AECT	110,773	108,895
Rental income received from AECT	15	15
Call centre costs recovered from AECT	183	215

At balance date AECT owed Vector Limited \$10,000 (2012: \$2,000).

Note 13 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 parent. Other than the directors themselves, there are no additional related parties with whom material transactions have taken place. The group and parent entered into the following transactions with subsidiaries, associates and other related companies.

	GROUP		PARENT	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>Transactions with subsidiaries</b>				
Cash advances to subsidiaries	-	-	156,465	164,346
Loans to parent/repaid by subsidiaries	-	-	347,198	334,860
Employee costs recharged to subsidiaries	-	-	25,754	20,002
Income from financial services provided to subsidiaries	-	-	411	-
Property and administration services provided by Vector Management Services Limited	-	-	6	-
Management fees payable by subsidiaries	-	-	38,490	37,688
Income from financial services provided to Stream Information Partnership	-	-	-	70
Sale of gas distribution services to Vector Gas Limited	-	-	3,918	4,074
Metering services provided by Stream Information Partnership	-	-	-	13
Interest charged to Vector Communications Limited	-	-	-	3,645
Purchase of telecommunications services from Vector Communications Limited	-	-	8,279	2,953
Income from services provided to Vector Communications Limited	-	-	1,960	91
Administration and management services provided to Liquegas Limited	-	-	108	-
Directors' fees from Liquegas Limited	-	-	15	12
<b>Transactions with associates and joint ventures</b>				
Electricity services provided to NZ Windfarms Limited	-	-	120	120
Dividends received from Tree Scape Limited	-	-	200	-
Directors' fees from NZ Windfarms Limited	-	-	30	30
Directors' fees from Energy Intellect Limited	-	-	-	50
Capital distribution received from Total Metering 2012 Limited (in liquidation)	2,757	-	-	-
Purchase of vegetation management services from Tree Scape Limited	4,482	5,316	4,482	5,316
Purchase of electricity meters and metering services from Energy Intellect Limited	-	1,874	-	-
Sales of operations and maintenance services to Kapuni Energy Joint Venture	1,869	1,632	-	-
Purchases of electricity and steam from Kapuni Energy Joint Venture	12,710	13,929	-	-
Administrative and other services provided to Kapuni Energy Joint Venture	70	68	-	-
<b>Transactions with other related parties</b>				
Working capital loan repayment to TML Stream Limited	-	275	-	-
Acquisition of non-controlling interest in Stream Information Partnership from TML Stream Limited	-	2,500	-	-

## Notes to the Financial Statements

for the year ended 30 June 2013

### 26. TRANSACTIONS WITH RELATED PARTIES (continued)

Tax losses totalling \$10.4 million with a tax effect of \$2.9 million (2012: \$13.0 million with a tax effect of \$3.9 million) have been transferred during the period from Vector Communications Limited, Vector Metering Data Services Limited, Vector Gas Contracts Limited, Advanced Metering Services Limited and Mercury Geotherm Limited (in receivership) for utilisation by Vector Limited to partially offset against its 2012 taxable profits. Vector Limited made payments totalling \$2.9 million (2012: nil) for the transfer of these losses.

The following amounts were receivable by/(payable by) the parent from/(to) subsidiaries at balance date:

	PARENT	
	2013 \$000	2012 \$000
<b>Receivable by the parent from</b>		
MEL Network Limited	48,119	50,693
Mercury Geotherm Limited (in receivership)	9,547	9,574
Vector Communications Limited	-	1,022
Broadband Services Limited	366	366
Vector Stream Limited	-	5,302
Vector Management Services Limited	7,970	-
Advanced Metering Services Limited	11,852	3,094
Vector ESPS Trustee Limited	340	301
NGC Holdings Limited	60	-
	<b>78,254</b>	<b>70,352</b>
Less: provision against advances to subsidiaries	(57,666)	(57,535)
<b>Total advances to subsidiaries</b>	<b>20,588</b>	<b>12,817</b>
<b>Payable by the parent to</b>		
NGC Holdings Limited	-	(90,831)
Vector Communications Limited	(4,133)	-
Vector Gas Investments Limited	(9,703)	(6,113)
Vector Kapuni Limited	(58,224)	(47,450)
Vector Management Services Limited	-	(5,070)
Advanced Metering Assets Limited	(24,216)	(1,523)
Vector Gas Limited	(144,944)	(15,129)
On Gas Limited	(33,648)	(6,350)
Elect Data Services (Australia) Pty Limited	(2,232)	(2,241)
Auckland Generation Limited	(13,323)	(13,334)
Vector Metering Data Services Limited	(128,638)	(129,521)
Poihipi Land Limited (in receivership)	-	(2,579)
<b>Total advances from subsidiaries</b>	<b>(419,061)</b>	<b>(320,141)</b>

At 30 June 2013, there are no material outstanding balances due to or from associates and joint ventures which are related parties of Vector Limited.

The above advances to or from subsidiaries are non-interest bearing and repayable on demand.

A provision of \$57.7 million (2012: \$57.5 million) is held against Vector Limited's receivable from MEL Network Limited and Mercury Geotherm Limited (in receivership). No related party debts have been written off or forgiven during the period. Vector Limited has provided guarantees on behalf of Vector Gas Limited and Vector Gas Contracts Limited for the sale and purchase of gas. Vector Limited has also provided guarantees for Advanced Metering Assets Limited and Advanced Metering Services Limited for metering services. These guarantees are all regarded as insurance contracts.

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

## Notes to the Financial Statements

for the year ended 30 June 2013

### 27. KEY MANAGEMENT PERSONNEL

This table includes directors' fees and remuneration of the Group Chief Executive and the members of his executive team during the periods presented.

	GROUP		PARENT	
	2013 \$000	2012 \$000	2013 \$000	2012 \$000
Directors' fees	856	1,002	773	914
Salary and other short-term employee benefits	5,858	5,419	5,826	5,419
Redundancy and termination benefits	372		372	
<b>Total</b>	<b>7,086</b>	<b>6,421</b>	<b>6,971</b>	<b>6,333</b>

### 28. ELECTRICITY REGULATORY CLAW BACK

On 30 November 2012, the Commerce Commission announced the reset of the default price-quality paths for 16 electricity distributors, one of which is the Vector electricity distribution business. The new default price-quality paths took effect from 1 April 2013 and require an average reduction of 10% in Vector's electricity distribution prices commencing in the regulatory year ended 31 March 2014. The Commerce Commission has stated it will apply claw back for any under or over recovery of revenue for the regulatory year ended 31 March 2013 given that prices had already been set by electricity distributors for that period prior to the Commerce Commission's 30 November 2012 reset announcement. Subject to the outcome of the merits review of the Commerce Commission input methodologies currently before the High Court, the claw back will be effected through a further price adjustment in the regulatory year to 31 March 2015. The amount of the claw back is estimated to be \$15 million which will impact revenues reported for the financial year ending 30 June 2014 and 30 June 2015. The claw back does not impact Vector's recognition of electricity distribution revenue as disclosed in these financial statements.

### 29. EVENTS AFTER BALANCE DATE

On 22 August 2013, the board declared a final dividend for the year ended 30 June 2013 of 7.75 cents per share.

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



