VECTOR LIMITED
2012

FINANCIAL STATEMENTS

Financial Statements
for the year ended 30 June 2012

CONTENTS

2012 FINANCIAL STATEMENTS

The directors are pleased to present the financial statements of the group for the year ended 30 June 2012.

For and on behalf of directors

Director 23 August 2012

Director 23 August 2012

For and on behalf of management

Group Chief Executive Officer 23 August 2012

Acting Chief Financial Officer 23 August 2012

KPMG

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 70. The financial statements comprise the statements of financial position as at 30 June 2012, 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 general accounting services. 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.

KPMG

Opinion

In our opinion the financial statements on pages 4 to 70:

- 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 2012 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.

KPMG.

23 August 2012
Auckland

Income Statement
for the year ended 30 June 2012

	NOTE	GROUP 2012 $000	GROUP 2011 $000	PARENT 2012 $000	PARENT 2011 $000
Operating revenue	2	**1,252,244**	1,194,653	**699,559**	661,838
Other income	2	**316**	49,911	**85**	44,520
Total income		**1,252,560**	1,244,564	**699,644**	706,358
Electricity transmission expenses		**(147,059)**	(130,107)	**(147,059)**	(130,107)
Gas purchases and production expenses		**(240,659)**	(244,467)	-	-
Network and asset maintenance expenses		**(83,315)**	(79,524)	**(49,946)**	(45,420)
Personnel expenses		**(71,843)**	(67,816)	**(72,216)**	(67,418)
Other expenses		**(82,331)**	(86,100)	**(26,620)**	(49,650)
Operating expenditure	3	**(625,207)**	(608,014)	**(295,841)**	(292,595)
Earnings before interest, income tax, depreciation and amortisation (EBITDA)		**627,353**	636,550	**403,803**	413,763
Depreciation and amortisation		**(173,442)**	(170,194)	**(100,116)**	(97,748)
Profit before interest and income tax		**453,911**	466,356	**303,687**	316,015
Finance income	4	**10,573**	8,289	**13,873**	11,109
Finance costs	4	**(176,771)**	(186,518)	**(178,304)**	(187,699)
Share of net (loss)/profit from associates	14	**(344)**	970	-	-
Impairment of investment in associate	14	**(4,071)**	(2,330)	-	(2,330)
Profit before income tax		**283,298**	286,767	**139,256**	137,095
Income tax expense	5	**(81,565)**	(82,920)	**(35,128)**	(41,927)
Net profit for the period		**201,733**	203,847	**104,128**	95,168
Net profit for the period attributable to:					
Non-controlling interests in subsidiaries		**2,966**	2,481	-	-
Owners of the parent		**198,767**	201,366	**104,128**	95,168

	NOTE	GROUP 2012	GROUP 2011
Basic and diluted earnings per share (cents)	10	**20.0**	20.2

Statement of Comprehensive Income
for the year ended 30 June 2012

		GROUP		PARENT	
	NOTE	2012 $000	2011 $000	2012 $000	2011 $000
Net profit for the period		**201,733**	203,847	**104,128**	95,168
Other comprehensive income net of tax					
Net change in fair value of cash flow hedges		**(16,111)**	(31,629)	**(16,111)**	(31,629)
Share of other comprehensive income of associates	14	**19**	87	**-**	-
Translation of foreign operations		**(80)**	(84)	**-**	-
Other comprehensive income for the period net of tax		**(16,172)**	(31,626)	**(16,111)**	(31,629)
Total comprehensive income for the period net of tax		**185,561**	172,221	**88,017**	63,539
Total comprehensive income for the period attributable to:					
Non-controlling interests in subsidiaries		**2,966**	2,481	**-**	-
Owners of the parent		**182,595**	169,740	**88,017**	63,539

Statement of Financial Position

as at 30 June 2012

	NOTE	GROUP 2012 $000	GROUP 2011 $000	PARENT 2012 $000	PARENT 2011 $000
CURRENT ASSETS					
Cash and cash equivalents		**81,593**	120,407	**71,727**	108,013
Receivables and prepayments	11	**176,111**	189,604	**109,733**	127,344
Derivative financial instruments	25	**13**	-	**13**	-
Inventories	12	**5,314**	3,463	**-**	-
Income tax	6	**11,811**	14,225	**12,858**	14,365
Non-current asset held for sale	14	**2,592**	-	**-**	-
Intangible assets	16	**492**	438	**492**	438
Advances to subsidiaries	28	**-**	-	**12,817**	810,655
Total current assets		**277,926**	328,137	**207,640**	1,060,815
NON-CURRENT ASSETS					
Receivables and prepayments	11	**1,392**	1,409	**1,392**	1,409
Derivative financial instruments	25	**23,322**	6,068	**23,322**	6,068
Deferred tax assets	7	**1,646**	2,335	**-**	-
Investments in subsidiaries	13	**-**	-	**1,407,346**	1,407,346
Investments in associates	14	**16,088**	23,076	**14,044**	14,044
Intangible assets	16	**1,616,800**	1,612,122	**557,962**	552,279
Property, plant and equipment	17	**3,679,438**	3,605,865	**2,665,817**	2,614,778
Total non-current assets		**5,338,686**	5,250,875	**4,669,883**	4,595,924
Total assets		**5,616,612**	5,579,012	**4,877,523**	5,656,739
CURRENT LIABILITIES					
Payables and accruals	18	**189,531**	198,369	**135,886**	129,274
Provisions	19	**18,025**	18,486	**5,375**	5,365
Derivative financial instruments	25	**11,555**	5,714	**11,555**	5,714
Borrowings	24	**18,385**	306,747	**18,385**	306,472
Advances from subsidiaries	28	**-**	-	**320,141**	1,061,134
Total current liabilities		**237,496**	529,316	**491,342**	1,507,959
NON-CURRENT LIABILITIES					
Payables and accruals	18	**20,721**	23,561	**929**	666
Provisions	19	**6,845**	5,000	**-**	-
Derivative financial instruments	25	**286,001**	339,288	**286,001**	339,288
Borrowings	24	**2,437,026**	2,103,200	**2,437,026**	2,103,200
Deferred tax	8	**480,181**	465,902	**358,040**	345,356
Total non-current liabilities		**3,230,774**	2,936,951	**3,081,996**	2,788,510
Total liabilities		**3,468,270**	3,466,267	**3,573,338**	4,296,469
EQUITY					
Equity attributable to owners of the parent		**2,131,705**	2,093,497	**1,304,185**	1,360,270
Non-controlling interests in subsidiaries		**16,637**	19,248	**-**	-
Total equity		**2,148,342**	2,112,745	**1,304,185**	1,360,270
Total equity and liabilities		**5,616,612**	5,579,012	**4,877,523**	5,656,739

Statement of Cash Flows
for the year ended 30 June 2012

	GROUP 2012 $000	GROUP 2011 $000	PARENT 2012 $000	PARENT 2011 $000
OPERATING ACTIVITIES				
Cash provided from:				
Receipts from customers	**1,238,748**	1,184,534	**650,907**	614,202
Interest portion of repayments on finance leases	**113**	115	**113**	115
Interest received	**9,070**	8,126	**8,726**	7,216
Income tax refunds	**5,237**	-	**5,233**	-
Dividends received from associates	**-**	1,176	**-**	1,000
	1,253,168	1,193,951	**664,979**	622,533
Cash applied to:				
Payments to suppliers and employees	**(620,725)**	(567,197)	**(314,658)**	(269,222)
Income tax paid	**(63,149)**	(61,638)	**(61,331)**	(58,944)
Interest paid on finance leases	**(248)**	(311)	**(29)**	(33)
Interest paid	**(176,754)**	(190,235)	**(176,664)**	(189,969)
	(860,876)	(819,381)	**(552,682)**	(518,168)
Net cash flows from operating activities	**392,292**	374,570	**112,297**	104,365
INVESTING ACTIVITIES				
Cash provided from:				
Advances from/repaid by subsidiaries	**-**	-	**334,860**	254,464
Proceeds from sale of property, plant and equipment and software intangibles	**25,764**	36,013	**25,117**	28,326
	25,764	36,013	**359,977**	282,790
Cash applied to:				
Advances to/repaid to subsidiaries	**-**	-	**(164,346)**	(76,041)
Purchase and construction of property, plant and equipment and software intangibles	**(259,989)**	(251,577)	**(154,630)**	(156,425)
Acquisition of gas businesses	**-**	(6,650)	**-**	-
	(259,989)	(258,227)	**(318,976)**	(232,466)
Net cash flows (used in)/from investing activities	**(234,225)**	(222,214)	**41,001**	50,324

Statement of Cash Flows (continued)

for the year ended 30 June 2012

	GROUP		PARENT	
	2012 $000	2011 $000	2012 $000	2011 $000
FINANCING ACTIVITIES				
Cash provided from:				
Proceeds from borrowings	-	250,516	-	250,516
Capital portion of receipts on finance leases	**17**	15	**17**	15
	17	250,531	**17**	250,531
Cash applied to:				
Debt raising costs incurred	**(572)**	(2,038)	**(572)**	(2,038)
Repayment of borrowings	**(44,829)**	(250,300)	**(44,554)**	(250,000)
Capital portion of payments on finance leases	**(1,246)**	(1,270)	**(86)**	(65)
Acquisition of non-controlling interest in subsidiary	**(2,500)**	-	**-**	-
Purchase of treasury shares	**(306)**	-	**(5)**	-
Dividends paid to owners of the parent	**(144,384)**	(141,895)	**(144,384)**	(141,895)
Dividends paid to non-controlling interests in subsidiaries	**(3,061)**	(1,789)	**-**	-
	(196,898)	(397,292)	**(189,601)**	(393,998)
Net cash flows used in financing activities	**(196,881)**	(146,761)	**(189,584)**	(143,467)
Net (decrease)/increase in cash and cash equivalents	**(38,814)**	5,595	**(36,286)**	11,222
Cash and cash equivalents at beginning of the period	**120,407**	114,812	**108,013**	96,791
Cash and cash equivalents at end of the period	**81,593**	120,407	**71,727**	108,013
Cash and cash equivalents comprises:				
Bank balances and on-call deposits	**12,593**	90,407	**2,727**	78,013
Short term deposits maturing within three months	**69,000**	30,000	**69,000**	30,000
	81,593	120,407	**71,727**	108,013

Statement of Cash Flows (continued)

for the year ended 30 June 2012

	NOTE	GROUP 2012 $000	GROUP 2011 $000	PARENT 2012 $000	PARENT 2011 $000
RECONCILIATION OF NET PROFIT TO NET CASH FLOWS FROM OPERATING ACTIVITIES					
Net profit for the period		**201,733**	203,847	**104,128**	95,168
ITEMS CLASSIFIED AS INVESTING ACTIVITIES					
Net loss/(gain) on disposal of property, plant and equipment and software intangibles		**6,880**	(43,548)	**5,530**	(39,744)
NON-CASH ITEMS					
Depreciation and amortisation		**173,442**	170,194	**100,116**	97,748
Impairment of investment in associate	14	**4,071**	2,330	**-**	2,330
Management fee income	28	**-**	-	**(37,688)**	(37,064)
Non-cash portion of finance costs		**(605)**	(310)	**(2,098)**	(2,065)
Increase in deferred tax liabilities		**21,234**	1,297	**18,950**	9,762
Increase in provisions		**1,384**	3,661	**10**	317
Share of net loss/(profit) of associates	14	**344**	(970)	**-**	-
Other non-cash items		**-**	-	**(30,911)**	(13,483)
		199,870	176,202	**48,379**	57,545
CASH ITEMS NOT IMPACTING PROFIT					
Dividends received from associates		**-**	1,176	**-**	-
MOVEMENT IN WORKING CAPITAL					
(Decrease)/increase in payables and accruals		**(5,830)**	16,575	**1,368**	21,719
(Increase)/decrease in inventories		**(1,851)**	1,625	**-**	33
(Increase) in receivables and prepayments		**(10,928)**	(1,295)	**(7,188)**	(3,577)
Decrease/(increase) in net income tax assets		**2,418**	19,988	**(39,920)**	(26,779)
		(16,191)	36,893	**(45,740)**	(8,604)
Net cash flows from operating activities		392,292	374,570	**112,297**	104,365

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Statement of Changes in Equity
for the year ended 30 June 2012

GROUP 2012	NOTE	ISSUED SHARE CAPITAL $000	TREASURY SHARES $000	HEDGE RESERVE $000	FOREIGN CURRENCY TRANSLATION RESERVE $000	SHARE BASED PAYMENT RESERVE $000	RETAINED EARNINGS $000	NON-CONTROL-LING 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**
Comprehensive income									
Net profit for the period		-	-	-	-	-	**198,767**	**2,966**	**201,733**
Other comprehensive income									
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**
Total comprehensive income		-	-	**(16,111)**	**(80)**	-	**198,786**	**2,966**	**185,561**
Transactions with owners									
Acquisition of non-controlling interest in subsidiary		-	-	-	-	-	**16**	**(2,516)**	**(2,500)**
Acquisition of shares for employee share purchase scheme		-	**(306)**	-	-	-	-	-	**(306)**
Shares issued to employee share purchase scheme		-	-	-	-	**287**	-	-	**287**
Dividends	9	-	-	-	-	-	**(144,384)**	**(3,061)**	**(147,445)**
Total transactions with owners		-	**(306)**	-	-	**287**	**(144,368)**	**(5,577)**	**(149,964)**
Balance at end of the period		**874,979**	**(9,240)**	**(158,701)**	**84**	**287**	**1,424,296**	**16,637**	**2,148,342**

GROUP 2011	NOTE	ISSUED SHARE CAPITAL $000	TREASURY SHARES $000	HEDGE RESERVE $000	FOREIGN CURRENCY TRANSLATION RESERVE $000	RETAINED EARNINGS $000	NON-CONTROLLING INTERESTS $000	TOTAL EQUITY $000
Balance at beginning of the period		874,979	(8,934)	(110,961)	248	1,310,320	18,556	2,084,208
Comprehensive income								
Net profit for the period		-	-	-	-	201,366	2,481	203,847
Other comprehensive income								
Net change in fair value of cash flow hedges		-	-	(43,929)	-	-	-	(43,929)
Translation of foreign operations		-	-	-	(84)	-	-	(84)
Share of other comprehensive income of associate		-	-	-	-	87	-	87
Income tax relating to components of other comprehensive income	8	-	-	12,300	-	-	-	12,300
Total comprehensive income		-	-	(31,629)	(84)	201,453	2,481	172,221
Transactions with owners								
Dividends	9	-	-	-	-	(141,895)	(1,789)	(143,684)
Total transactions with owners		-	-	-	-	(141,895)	(1,789)	(143,684)
Balance at end of the period		874,979	(8,934)	(142,590)	164	1,369,878	19,248	2,112,745

	NOTE	2012	2011
Total tangible assets per share (cents)	10	**401.7**	398.3
Net tangible assets per share (cents)	10	**53.3**	50.2

Statement of Changes in Equity
for the year ended 30 June 2012

PARENT 2012	NOTE	ISSUED SHARE CAPITAL $000	TREASURY SHARES $000	HEDGE RESERVE $000	SHARE BASED PAYMENT RESERVE $000	RETAINED EARNINGS $000	TOTAL EQUITY $000
Balance at beginning of the period		**874,979**	**(8,934)**	**(142,590)**	**-**	**636,815**	**1,360,270**
Comprehensive income							
Net profit for the period		-	-	-	-	**104,128**	**104,128**
Other comprehensive income							
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**
Total comprehensive income		-	-	**(16,111)**	-	**104,128**	**88,017**
Transactions with owners							
Shares issued to employee share purchase scheme	9	-	**(5)**	-	**287**	**-**	**282**
Dividends		**-**	**-**	**-**	**-**	**(144,384)**	**(144,384)**
Total transactions with owners		**-**	**(5)**	**-**	**287**	**(144,384)**	**(144,102)**
Balance at end of the period		**874,979**	**(8,939)**	**(158,701)**	**287**	**596,559**	**1,304,185**

PARENT 2011	NOTE	ISSUED SHARE CAPITAL $000	TREASURY SHARES $000	HEDGE RESERVE $000	RETAINED EARNINGS $000	TOTAL EQUITY $000
Balance at beginning of the period		874,979	(8,934)	(110,961)	683,542	1,438,626
Comprehensive income						
Net profit for the period		-	-	-	95,168	95,168
Other comprehensive income						
Net change in fair value of cash flow hedges		-	-	(43,929)	-	(43,929)
Income tax relating to components of other comprehensive income	8	-	-	12,300	-	12,300
Total comprehensive income		-	-	(31,629)	95,168	63,539
Transactions with owners						
Dividends	9	-	-	-	(141,895)	(141,895)
Total transactions with owners		-	-	-	(141,895)	(141,895)
Balance at end of the period		874,979	(8,934)	(142,590)	636,815	1,360,270

Statement of Accounting Policies

for the year ended 30 June 2012

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 2012 and were authorised for issue by the directors on 23 August 2012.

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.

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

JUDGEMENTS USED IN APPLYING ACCOUNTING POLICIES (continued)

Classification of expenditure in relation to property, plant and equipment

On initial recognition of items of property, plant and equipment, 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*, 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. 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.

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 2012.

Valuation of goodwill and property, plant and equipment

At 30 June 2012, the carrying value of goodwill is $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 2012, the carrying value of property, plant and equipment is $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 next financial period 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 these financial statements.

Valuation of financial instruments

At 30 June 2012, the total carrying value of the group's borrowings measured at fair value and derivative financial instruments is a liability of $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 25 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 or 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.

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 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.

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, revenues 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.

Acquisition or disposal during the period

Where an entity becomes or ceases to be a part of the group during the period, the results of the entity are included in the consolidated results from the date that control or significant influence commenced or until the date that control or significant influence ceased. When an entity is acquired all identifiable assets, liabilities and contingent liabilities are recognised at their fair value at acquisition date. The fair value does not take into consideration any future intentions by the group. All equity and debt raising costs incurred in relation to the acquisition of a subsidiary or a group of assets are accounted for in accordance with the accounting policy for financial instruments. Where an entity or a group of assets within an entity is held for sale, that 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 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.

SIGNIFICANT ACCOUNTING POLICIES (continued)

A) BASIS OF CONSOLIDATION (continued)

Transactions eliminated on consolidation

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

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. All intra-group advances are eliminated on consolidation. Any interest income and interest expense incurred on these advances is eliminated in the income statement on consolidation.

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.

D) GOVERNMENT GRANTS

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

E) 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 or 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.

SIGNIFICANT ACCOUNTING POLICIES (continued)

F) *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 tax 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.

G) *FOREIGN CURRENCY TRANSLATION*

Transactions in foreign currencies are translated to the respective functional currencies of group entities at exchange rates at the dates of the transactions unless 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.

H) *EMPLOYEE BENEFITS*

Defined contribution plans

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

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.

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.

I) *EARNINGS PER SHARE*

The group presents earnings per share (EPS) data for its ordinary shares. EPS is calculated by dividing the net profit 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.

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SIGNIFICANT ACCOUNTING POLICIES (continued)

J) *SEGMENT REPORTING*

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

K) *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.

L) *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.

M) *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.

N) *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.

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SIGNIFICANT ACCOUNTING POLICIES (continued)

N) *PROPERTY, PLANT AND EQUIPMENT (continued)*

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.

O) *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.

P) *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.

Q) *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.

SIGNIFICANT ACCOUNTING POLICIES (continued)

Q) *IMPAIRMENT* (continued)

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.

R) *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.

S) *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 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.

SIGNIFICANT ACCOUNTING POLICIES (continued)

S) FINANCIAL INSTRUMENTS (continued)

Derivative 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 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.

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SIGNIFICANT ACCOUNTING POLICIES (continued)

S) *FINANCIAL INSTRUMENTS (continued)*

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.

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.

T) *BORROWING COSTS*

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

U) *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.

V) *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.

W) *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.

NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The following recently-published standards and interpretations which are considered relevant to the group but not yet effective for the year ended 30 June 2012 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.

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.

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 liabilities.

IFRS 13 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.

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.

APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 23 August 2012.

KPMG

Notes to the Financial Statements
for the year ended 30 June 2012

KPMG

1. SEGMENT INFORMATION

Vector's internal reporting to the Group CEO and board 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 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 26.

The segments reported in these financial statements are the same as those reported in Vector's Annual Report for the year ended 30 June 2011.

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 CEO and the board of directors is also prepared on this basis. Segment profit reported to the Group CEO and the board of directors is profit before interest and income tax. All financing costs and finance income are incorporated 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 total revenue. The customer contributed $198.4 million (2011: $189.6 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 2012

1. SEGMENT INFORMATION (continued)

GROUP 2012	ELECTRICITY $000	GAS TRANSPORTATION $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
Other income	61	24	79	128	-	292
Intersegment revenue	84	37,506	9,533	3,262	(50,385)	-
Segment revenue	609,058	214,612	381,009	97,079	(50,385)	1,251,373
External operating expenditure:						
Electricity transmission expenses	(147,059)	-	-	-	-	(147,059)
Gas purchases and production expenses	-	(7,334)	(233,325)	-	-	(240,659)
Network and asset maintenance expenses	(42,229)	(19,096)	(17,264)	(4,726)	-	(83,315)
Personnel expenses	(11,416)	(5,770)	(15,791)	(10,749)	-	(43,726)
Other expenses	(21,759)	(12,379)	(10,526)	(13,986)	-	(58,650)
Intersegment expenditure	(2,463)	(9,552)	(38,286)	(84)	50,385	-
Operating expenditure	(224,926)	(54,131)	(315,192)	(29,545)	50,385	(573,409)
EBITDA	384,132	160,481	65,817	67,534	-	677,964
Depreciation and amortisation	(80,512)	(21,711)	(15,568)	(43,809)	-	(161,600)
Segment profit before interest and income tax	303,620	138,770	50,249	23,725	-	516,364
Segment capital expenditure	134,173	35,473	10,843	68,600	-	249,089

1. SEGMENT INFORMATION (continued)

GROUP 2011	ELECTRICITY $000	GAS TRANSPORTATION $000	GAS WHOLESALE $000	TECHNOLOGY $000	INTERSEGMENT $000	TOTAL $000
External revenue:						
Operating revenue	573,703	169,061	366,252	83,968	-	1,192,984
Other income	143	555	85	144	-	927
Intersegment revenue	108	35,535	5,943	2,972	(44,558)	-
Segment revenue	573,954	205,151	372,280	87,084	(44,558)	1,193,911
External operating expenditure:						
Electricity transmission expenses	(130,107)	-	-	-	-	(130,107)
Gas purchases and production expenses	-	(7,367)	(237,100)	-	-	(244,467)
Network and asset maintenance expenses	(40,865)	(17,578)	(16,437)	(4,644)	-	(79,524)
Personnel expenses	(11,008)	(4,930)	(14,181)	(11,045)	-	(41,164)
Other expenses	(24,959)	(12,026)	(8,926)	(13,529)	-	(59,440)
Intersegment expenditure	(2,443)	(5,947)	(36,062)	(106)	44,558	-
Operating expenditure	(209,382)	(47,848)	(312,706)	(29,324)	44,558	(554,702)
EBITDA	364,572	157,303	59,574	57,760	-	639,209
Depreciation and amortisation	(78,133)	(21,579)	(12,364)	(45,385)	-	(157,461)
Segment profit before interest and income tax	286,439	135,724	47,210	12,375	-	481,748
Segment capital expenditure	124,012	31,924	16,373	71,454	-	243,763

1. SEGMENT INFORMATION (continued)

Reconciliation of segment revenue, segment profit before interest and income tax and segment capital expenditure to total income, profit before income tax and capital expenditure reported in the consolidated financial statements.

	GROUP 2012			GROUP 2011		
	TOTAL INCOME $000	PROFIT BEFORE INCOME TAX $000	CAPITAL EXPENDITURE $000	TOTAL INCOME $000	PROFIT BEFORE INCOME TAX $000	CAPITAL EXPENDITURE $000
Reported in segment information	**1,251,373**	**516,364**	**249,089**	1,193,911	481,748	243,763
Amounts not allocated to segments:						
Revenues from corporate activities	**1,187**	**1,187**	-	50,653	50,653	-
Corporate activities operating expenditure	-	**(51,798)**	-	-	(53,312)	-
Depreciation and amortisation of corporate property, plant and equipment and software intangibles	-	**(11,842)**	-	-	(12,733)	-
Finance income	-	**10,573**	-	-	8,289	-
Finance costs	-	**(176,771)**	-	-	(186,518)	-
Share of net (loss)/profit from associates	-	**(344)**	-	-	970	-
Impairment of investment in associate	-	**(4,071)**	-	-	(2,330)	-
Additions to corporate property, plant and equipment and software intangibles	-	-	**12,756**	-	-	13,333
Reported in consolidated financial statements	1,252,560	283,298	261,845	1,244,564	286,767	257,096

2. TOTAL INCOME

	NOTE	GROUP 2012 $000	GROUP 2011 $000	PARENT 2012 $000	PARENT 2011 $000
Operating revenue					
Trading revenue:					
Energy sales		**371,397**	366,252	**-**	-
Provision of utility services		**850,799**	797,346	**635,915**	595,529
Customer contributions		**30,048**	31,055	**25,956**	29,245
Management fees from related parties	28	**-**	-	**37,688**	37,064
		1,252,244	1,194,653	**699,559**	661,838
Other income					
Gain on disposal of property, plant and equipment and software intangibles		**316**	49,911	**85**	43,520
Dividends	28	**-**	-	**-**	1,000
		316	49,911	**85**	44,520
Total		**1,252,560**	1,244,564	**699,644**	706,358

In May 2011, an agreement between Vector and Transpower which granted Transpower access rights to some of Vector's infrastructure became unconditional. This resulted in a gain of $42.4 million on the derecognition of certain assets, which is disclosed in gain on disposal of property, plant and equipment and software intangibles in the prior year.

3. OPERATING EXPENDITURE

	NOTE	GROUP 2012 $000	GROUP 2011 $000	PARENT 2012 $000	PARENT 2011 $000
Operating expenditure includes:					
Rental and operating lease costs		**3,806**	3,307	**2,827**	1,830
Other administration expenses		**15,699**	14,016	**11,812**	10,917
Loss on disposal of property, plant and equipment and software		**7,196**	6,363	**5,615**	3,776
Bad debts written-off		**636**	3,531	**435**	2,191
Increase/(decrease) in provision for doubtful debts		**426**	(958)	**392**	(621)
Donations		**-**	27	**-**	27
Directors' fees	29	**1,096**	1,087	**1,008**	1,001
Contributions to KiwiSaver		**887**	838	**823**	754
Auditor's remuneration - KPMG					
Fees for the audit of full year and review of the interim financial statements		**647**	669	**585**	518
Fees for other audits		**1,033**	666	**773**	666
Fees for other assurance services		**-**	243	**-**	243

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

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4. NET FINANCE COSTS

	GROUP 2012 $000	GROUP 2011 $000	PARENT 2012 $000	PARENT 2011 $000
Finance costs				
Interest expense	**178,242**	187,268	**177,773**	186,656
(Profit)/loss on ineffective portion of cash flow hedges	**(145)**	39	**(145)**	39
(Profit)/loss on fair value movement on hedging instruments	**(86,942)**	155,311	**(86,942)**	155,311
Loss/(profit) on fair value movement on hedged items	**86,943**	(155,113)	**86,943**	(155,113)
Capitalised interest	**(4,547)**	(4,889)	**(2,476)**	(3,079)
Other net finance expenses/gains	**3,220**	3,902	**3,151**	3,885
	176,771	186,518	**178,304**	187,699
Finance income				
Interest income	**(10,573)**	(8,289)	**(13,873)**	(11,109)
	(10,573)	(8,289)	**(13,873)**	(11,109)
Net finance costs	**166,198**	178,229	**164,431**	176,590

Interest and other internal costs are capitalised to property, plant and equipment and software intangibles while under construction at an average rate of 6.9% per annum (2011: 7.2%).

During the year, $50.0 million (2011: $49.5 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.

5. INCOME TAX EXPENSE

	GROUP 2012 $000	GROUP 2011 $000	PARENT 2012 $000	PARENT 2011 $000
Current income tax				
Current income tax expense	**75,405**	87,602	**30,320**	35,709
Relating to losses transferred from subsidiaries	**-**	-	**(4,026)**	(1,214)
Prior period adjustments recognised in the current period	**(11,094)**	(3,889)	**(10,118)**	(2,330)
Deferred income tax				
Relating to property, plant and equipment	**1,257**	2,094	**1,970**	3,887
Relating to other items in the statement of financial position	**6,903**	5,107	**4,344**	4,717
Relating to losses	**(3,512)**	(2,673)	**-**	-
Relating to change in buildings depreciation rules	**-**	1,471	**-**	2,373
Relating to reduction in tax rate (from 30% to 28%)	**-**	(6,211)	**-**	(1,391)
Prior period adjustments recognised in the current period	**12,606**	(581)	**12,638**	176
Income tax expense	**81,565**	82,920	**35,128**	41,927
Reconciliation of income tax expense				
Profit before income tax	**283,298**	286,767	**139,256**	137,095
Tax at current rate of 28% (2011: 30%)	**79,323**	86,030	**38,992**	41,129
Reduction in tax rate impacting deferred tax (from 30% to 28%)	**-**	(6,211)	**-**	(1,391)
Future change in buildings depreciation rules impacting deferred tax	**-**	1,471	**-**	2,373
Non-taxable items:				
Non-deductible expenses	**288**	2,631	**828**	2,608
Impairment of investment in associate	**1,140**	699	**-**	699
Losses transferred from subsidiaries	**-**	-	**(4,026)**	(1,214)
Other	**814**	(1,700)	**(666)**	(2,277)
Income tax expense	**81,565**	82,920	**35,128**	41,927

In May 2010 the Government announced a reduction in the company tax rate to 28% and the removal of depreciation deductions for buildings. Both of these changes are effective from the 2011/2012 income year. In accordance with NZ IAS 12 Vector re-measured its deferred tax liability to reflect these changes resulting in a reduction in income tax expense for the period ended 30 June 2011 of $4.7 million.

6. INCOME TAX

	GROUP 2012 $000	GROUP 2011 $000	PARENT 2012 $000	PARENT 2011 $000
Current tax asset				
Prepaid tax	**11,811**	14,225	**12,858**	14,365
Total	**11,811**	14,225	**12,858**	14,365

	GROUP 2012 $000	GROUP 2011 $000	PARENT 2012 $000	PARENT 2011 $000
Imputation balances				
Balance at beginning of the period	**(24,058)**	(23,090)	-	-
Income tax payments during the period	**56,272**	58,621	-	-
Imputation credits attaching to dividends paid	**(53,329)**	(59,589)	-	-
Balance at end of the period	**(21,115)**	(24,058)	-	-
The imputation credits are available to shareholders of the parent:				
Through direct shareholding in the parent	**(25,117)**	(26,340)	-	-
Through indirect shareholding in subsidiary	**4,002**	2,282	-	-
Total	**(21,115)**	(24,058)	-	-

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 2012 $000	GROUP 2011 $000	PARENT 2012 $000	PARENT 2011 $000
Balance at beginning of the period	**2,335**	2,700	-	-
Transfer to current tax on utilisation of tax losses	**(387)**	(129)	-	-
Transfer to deferred tax liability	**(412)**	-	-	-
Prior period adjustments recognised in the current period	**110**	(260)	-	-
Impact of reduction in tax rate (from 30% to 28%)	-	24	-	-
Balance at end of the period	**1,646**	2,335	-	-

Deferred tax assets relate to the future income tax benefits of accumulated tax losses which are only available to Advanced Metering Services Limited, Vector Communications Limited and Vector Stream Limited, all subsidiaries of the parent.

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8. DEFERRED TAX LIABILITIES

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)
Balance at end of the period	538,487	(9,564)	(3,924)	(61,720)	16,902	480,181
Deferred tax assets	-	(9,564)	(3,924)	(61,720)	-	(75,208)
Deferred tax liabilities	538,487	-	-	-	16,902	555,389
Net deferred tax liabilities	538,487	(9,564)	(3,924)	(61,720)	16,902	480,181

GROUP 2011	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	528,858	(7,161)	(2,314)	(43,152)	1,786	478,017
Transfer to current tax on utilisation of tax losses	-	-	1,214	-	-	1,214
Amounts recognised in the income statement:						
Relating to the current period	2,094	(3,916)	(2,673)	-	9,023	4,528
Prior period adjustments recognised in the current period	(717)	(2,036)	301	-	1,611	(841)
Relating to change in buildings depreciation rules	1,471	-	-	-	-	1,471
Relating to reduction in tax rate	(5,723)	255	231	-	(950)	(6,187)
Amounts recognised directly in other comprehensive income	-	-	-	(13,178)	-	(13,178)
Amounts recognised directly in other comprehensive income relating to future reduction in tax rate (from 30% to 28%)	-	-	-	878	-	878
Balance at end of the period	525,983	(12,858)	(3,241)	(55,452)	11,470	465,902
Deferred tax assets	-	(12,858)	(3,241)	(55,452)	-	(71,551)
Deferred tax liabilities	525,983	-	-	-	11,470	537,453
Net deferred tax liabilities	525,983	(12,858)	(3,241)	(55,452)	11,470	465,902

8. DEFERRED TAX LIABILITIES (continued)

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)**
Balance at end of the period	**410,487**	**(5,298)**	**(61,720)**	**14,571**	**358,040**
Deferred tax assets	-	**(5,298)**	**(61,720)**	-	**(67,018)**
Deferred tax liabilities	**410,487**	-	-	**14,571**	**425,058**
Net deferred tax liabilities	**410,487**	**(5,298)**	**(61,720)**	**14,571**	**358,040**

PARENT 2011	PROPERTY, PLANT AND EQUIPMENT $000	PROVISIONS AND ACCRUALS $000	HEDGE RESERVE $000	OTHER $000	TOTAL $000
Balance at beginning of the period	393,309	(3,464)	(43,152)	1,201	347,894
Amounts recognised in the income statement:					
Relating to the current period	3,887	(3,181)	-	7,898	8,604
Prior period adjustments recognised in the current period	(79)	(294)	-	549	176
Relating to change in buildings depreciation rules	2,373	-	-	-	2,373
Relating to reduction in tax rate	(942)	88	-	(537)	(1,391)
Amounts recognised directly in other comprehensive income	-	-	(13,178)	-	(13,178)
Amounts recognised directly in other comprehensive income relating to future reduction in tax rate (from 30% to 28%)	-	-	878	-	878
Balance at end of the period	398,548	(6,851)	(55,452)	9,111	345,356
Deferred tax assets	-	(6,851)	(55,452)	-	(62,303)
Deferred tax liabilities	398,548	-	-	9,111	407,659
Net deferred tax liabilities	398,548	(6,851)	(55,452)	9,111	345,356

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 and are offset against deferred tax liabilities.

9. TRANSACTIONS WITH OWNERS

Vector Limited's final dividend for the year ended 30 June 2011 of 7.5 cents per share was paid on 19 September 2011 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 7.0 cents per share was paid on 16 April 2012 with a supplementary dividend of $0.4 million (equating to 1.24 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 (2011: 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, 4,364,526 shares (2011: 4,244,923) are held as treasury shares of which 119,603 (2011: nil) are allocated to the employee share purchase scheme.

In October 2011, the group granted rights over shares to employees participating in the employee share purchase scheme. The 119,603 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.

10. FINANCIAL RATIOS

Earnings per share

The calculation of basic earnings per share for the year ended 30 June 2012 is based on the net profit attributable to owners of the parent of $198.8 million (2011: $201.4 million) and the weighted average number of ordinary shares outstanding during the year ended 30 June 2012 of 995,670,358 (2011: 995,755,077). 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 2012 are based on the carrying amounts of the total assets of $5,616.6 million (2011: $5,579.0 million) and net assets of $2,148.3 million (2011: $2,112.7 million) less total intangible assets of $1,617.3 million (2011: $1,612.6 million) and 995,635,474 ordinary shares outstanding as at 30 June 2012 (2011: 995,755,077).

11. RECEIVABLES AND PREPAYMENTS

	GROUP		PARENT	
	2012 $000	2011 $000	2012 $000	2011 $000
Current				
Trade receivables	**157,775**	174,651	**93,573**	113,602
Provision for doubtful debts	**(4,325)**	(3,899)	**(3,604)**	(3,212)
	153,450	170,752	**89,969**	110,390
Prepayments	**8,496**	7,000	**5,605**	5,107
Interest receivable	**13,943**	11,807	**13,943**	11,807
Other receivables	**222**	45	**216**	40
Total	**176,111**	189,604	**109,733**	127,344
Non-current				
Other receivables	**1,392**	1,409	**1,392**	1,409
Total	**1,392**	1,409	**1,392**	1,409

12. INVENTORIES

	GROUP		PARENT	
	2012 $000	2011 $000	2012 $000	2011 $000
Natural gas	**1,935**	1,582	-	-
Trading stock	**3,379**	1,881	-	-
Total	**5,314**	3,463	-	-

13. INVESTMENTS

Investments in group entities comprise:

	PRINCIPAL ACTIVITY	PERCENTAGE HELD 2012	2011
Trading subsidiaries			
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%
- NGC Metering 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%**	100%
- Stream Information Limited	Agent for partnership	**100%**	70%
- Stream Information Partnership	Metering services	**100%**	70%
Advanced Metering Services Limited	Metering services	**100%**	100%

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13. INVESTMENTS (continued)

	PRINCIPAL ACTIVITY	PERCENTAGE HELD 2012	PERCENTAGE HELD 2011
Non-trading subsidiaries			
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%
Associates			
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%
Joint venture interests			
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 30 April 2012, NGC Metering Limited, a subsidiary of Vector Limited, acquired the non-controlling interest in the Stream Information Partnership and Stream Information Limited from Energy Intellect Limited, an associate of the group.

The group's investment in Energy Intellect Limited has been reclassified during the year to a non-current asset held for sale. On 3 May 2012, Energy Intellect Limited changed its name to Total Metering 2012 Limited. Total Metering 2012 Limited was put into liquidation by resolution of its board of directors on 25 May 2012.

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14. INVESTMENT IN ASSOCIATES

	GROUP 2012 $000	GROUP 2011 $000	PARENT 2012 $000	PARENT 2011 $000
Carrying amount of associates				
Balance at beginning of the period	**23,076**	25,525	**14,044**	16,374
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)**	-	-	-
Share of net (loss)/profit of associates	**(344)**	970	-	-
Share of other comprehensive income of associates	**19**	87	-	-
Impairment of investment in NZ Windfarms Limited	-	(2,330)	-	(2,330)
Dividends received from associate	-	(1,176)	-	-
Balance at end of the period	**16,088**	23,076	**14,044**	14,044
Equity accounted earnings of associates				
(Loss)/profit before income tax	**(478)**	1,362	-	-
Income tax benefit/(expense)	**134**	(392)	-	-
Share of net (loss)/profit of associates	**(344)**	970	-	-
Total recognised revenues and expenses	**(344)**	970	-	-

The amount of goodwill included in the carrying amount of investments in associates is $15.8 million (2011: $15.8 million).

The share price of NZ Windfarms Limited increased from $0.15 per share at 30 June 2011 to $0.16 per share at 30 June 2012. The share price at 30 June 2012 supports the current carrying value of the group's investment in NZ Windfarms Limited. Accordingly, no impairment loss has been recognised in respect of the group's investment in its associate company, NZ Windfarms Limited (2011: loss of $2.3 million).

Total Metering 2012 Limited (formerly Energy Intellect Limited) has sold all its remaining assets and operations to a third party, and is in the process of being wound up with proceeds to be returned to shareholders. Accordingly, the group has reclassified its investment in its associate, Total Metering 2012 Limited (in liquidation), as a non-current asset held for sale. At the time of reclassification to a non-current asset held for sale, the group recognised an impairment loss of $4.1 million due to the re-measurement of the investment to fair value less costs to sell.

	2012 $000	2011 $000
Summarised financial information of associates (100%):		
Total assets	**150,233**	151,538
Total liabilities	**40,145**	31,909
Total revenue	**59,194**	51,534
Total net (loss)/profit after income tax	**(1,958)**	1,559

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, revenues and expenses in its separate financial statements. On consolidation, these amounts are also carried through into the financial statements of the group.

16. INTANGIBLE ASSETS

	GROUP		PARENT	
	2012 $000	2011 $000	2012 $000	2011 $000
Current				
Emission trading scheme units	**492**	438	**492**	438
Total	**492**	438	**492**	438
Non-current				
Goodwill	**1,555,802**	1,555,288	**515,110**	515,110
Contracts	**2,067**	3,846	**-**	-
Easements	**13,644**	12,923	**13,118**	12,654
Software	**45,287**	40,065	**29,734**	24,515
Total	**1,616,800**	1,612,122	**557,962**	552,279

GROUP 2012	GOODWILL $000	CONTRACTS $000	EASEMENTS $000	SOFTWARE $000	TOTAL $000
Cost					
Balance at beginning of the period	1,555,288	3,846	12,923	148,646	1,720,703
Disposals	-	(232)	-	(166)	(398)
Transfers from property, plant and equipment	-	-	721	19,391	20,112
Transfers to other classes	514	(514)	-	-	-
Balance at end of the period	1,555,802	3,100	13,644	167,871	1,740,417
Accumulated amortisation					
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)
Carrying amount at 30 June 2012	1,555,802	2,067	13,644	45,287	1,616,800

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16. INTANGIBLE ASSETS (continued)

GROUP 2011	GOODWILL $000	CONTRACTS $000	EASEMENTS $000	SOFTWARE $000	TOTAL $000
Cost					
Balance at beginning of the period	1,554,335	2,147	12,900	139,951	1,709,333
Acquisition of businesses	953	2,929	-	(2,631)	1,251
Disposals	-	-	(725)	(2,902)	(3,627)
Transfers from property, plant and equipment	-	-	748	12,998	13,746
Transfers to other classes	-	(1,230)	-	1,230	-
Balance at end of the period	1,555,288	3,846	12,923	148,646	1,720,703
Accumulated amortisation					
Balance at beginning of the period	-	(139)	-	(96,966)	(97,105)
Amortisation for the period	-	(238)	-	(14,140)	(14,378)
Disposals	-	-	-	2,902	2,902
Transfers to other classes	-	377	-	(377)	-
Balance at end of the period	-	-	-	(108,581)	(108,581)
Carrying amount at 30 June 2011	1,555,288	3,846	12,923	40,065	1,612,122

PARENT 2012	GOODWILL $000	EASEMENTS $000	SOFTWARE $000	TOTAL $000
Cost				
Balance at beginning of the period	515,110	12,654	103,446	631,210
Disposals	-	-	(150)	(150)
Transfers from property, plant and equipment	-	464	13,519	13,983
Balance at end of the period	515,110	13,118	116,815	645,043
Accumulated amortisation				
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)
Carrying amount at 30 June 2012	515,110	13,118	29,734	557,962

16. INTANGIBLE ASSETS (continued)

PARENT 2011	GOODWILL $000	EASEMENTS $000	SOFTWARE $000	TOTAL $000
Cost				
Balance at beginning of the period	515,110	12,654	98,050	625,814
Disposals	-	(725)	(1,138)	(1,863)
Transfers from property, plant and equipment	-	725	6,534	7,259
Balance at end of the period	515,110	12,654	103,446	631,210
Accumulated amortisation				
Balance at beginning of the period	-	-	(71,044)	(71,044)
Amortisation for the period	-	-	(9,025)	(9,025)
Disposals	-	-	1,138	1,138
Balance at end of the period	-	-	(78,931)	(78,931)
Carrying amount at 30 June 2011	515,110	12,654	24,515	552,279

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 $14.8 million for Technology (2011: $852.2 million, $468.1 million, $220.2 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% are applied. Pre-tax discount rates between 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 current expectations of the outcome of uncertain price path resets. For the electricity segment we have considered the effective price path adjustment indicated by the Commerce Commission on 15 August 2011 and the recoverable amount exceeds the carrying value based on the use of that price path reset. For the gas transportation segment there is less clarity as to the expected price path as the Commerce Commission process is less advanced. Key assumptions include those set out above and in addition the regulatory asset base value, the regulatory WACC and the approach of the Commission to a number of inputs. The Commerce Commission issued a discussion paper on 22 August 2011 that did not provide any quantitative or illustrative information to establish the starting prices which will apply no later than 1 October 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.

17. PROPERTY, PLANT AND EQUIPMENT

GROUP 2012	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 IMPROVEMENTS $000	CAPITAL WORK IN PROGRESS $000	TOTAL $000
Cost													
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)
Balance at end 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
Accumulated depreciation													
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:													
Intangible assets	-	-	-	-	-	-	-	-	-	-	-	-	-
Other classes	110	-	-	-	-	(110)	-	8	-	-	(8)	-	-
Disposals	2,633	-	-	511	-	265	428	66	-	-	2,172	-	6,075
Balance at end of the period	(595,564)	-	(8,300)	(142,201)	(10,039)	(55,489)	(3,679)	(38,679)	-	(739)	(7,474)	-	(862,164)
Carrying amount at 30 June 2012	3,045,136	69,057	50,525	200,677	716	104,169	3,766	104,006	3,675	2,402	3,486	91,823	3,679,438

17. PROPERTY, PLANT AND EQUIPMENT (continued)

GROUP 2011	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
Cost													
Balance at beginning of the period	3,355,552	67,931	46,616	239,093	11,574	131,852	6,402	128,577	6,037	2,974	10,443	103,076	4,110,127
Additions	11	-	-	1,308	1,592	2,107	1,432	4,440	-	-	-	246,206	257,096
Transfers:													
Intangible assets	-	-	-	-	-	-	-	-	-	-	-	(13,746)	(13,746)
Other classes	167,855	1,161	6,142	51,641	(892)	23,079	727	4,839	-	94	813	(255,459)	-
Disposals	(19,782)	(59)	-	(886)	(1,608)	(10,389)	(1,681)	(329)	(2,362)	-	(504)	(104)	(37,704)
Balance at end 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
Accumulated depreciation													
Balance at beginning of the period	(399,192)	-	(5,110)	(78,830)	(8,819)	(42,535)	(3,578)	(23,578)	-	(326)	(7,914)	-	(569,882)
Depreciation	(100,910)	-	(1,540)	(33,370)	(1,732)	(9,268)	(881)	(6,963)	-	(117)	(1,035)	-	(155,816)
Transfers:													
Other classes	-	-	-	(16)	813	-	-	(173)	-	(94)	(530)	-	-
Disposals	5,239	-	-	442	939	7,376	1,292	23	-	-	479	-	15,790
Balance at end of the period	(494,863)	-	(6,650)	(111,774)	(8,799)	(44,427)	(3,167)	(30,691)	-	(537)	(9,000)	-	(709,908)
Carrying amount at 30 June 2011	3,008,773	69,033	46,108	179,382	1,867	102,222	3,713	106,836	3,675	2,531	1,752	79,973	3,605,865

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
Cost											
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)
Balance at end 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
Accumulated depreciation											
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)
Transfers:											
Other classes	-	-	-	-	-	-	-	-	-	-	-
Disposals	2,322	-	-	-	117	28	-	-	1,802	-	4,269
Balance at end of the period	(456,542)	-	(8,285)	(14,582)	(483)	(3,194)	-	(258)	(6,569)	-	(489,913)
Carrying amount at 30 June 2012	2,457,796	69,015	50,521	8,196	318	9,114	70	794	2,646	67,347	2,665,817

17. PROPERTY, PLANT AND EQUIPMENT (continued)

PARENT 2011	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
Cost											
Balance at beginning of the period	2,670,447	67,889	46,597	14,014	882	12,892	420	972	8,915	72,399	2,895,427
Additions	4	-	-	-	85	699	-	-	-	153,186	153,974
Transfers:											
Intangible assets	-	-	-	-	-	-	-	-	-	(7,259)	(7,259)
Other classes	147,771	1,161	6,142	8,884	-	(437)	-	-	109	(163,630)	-
Disposals	(19,782)	(59)	-	(4,275)	(249)	-	(350)	-	(375)	-	(25,090)
Balance at end of the period	2,798,440	68,991	52,739	18,623	718	13,154	70	972	8,649	54,696	3,017,052
Accumulated depreciation											
Balance at beginning of the period	(296,381)	-	(5,097)	(10,389)	(518)	(2,692)	-	(216)	(7,379)	-	(322,672)
Depreciation	(81,697)	-	(1,540)	(4,186)	(102)	(314)	-	(21)	(863)	-	(88,723)
Disposals	5,239	-	-	3,366	141	-	-	-	375	-	9,121
Balance at end of the period	(372,839)	-	(6,637)	(11,209)	(479)	(3,006)	-	(237)	(7,867)	-	(402,274)
Carrying amount at 30 June 2011	2,425,601	68,991	46,102	7,414	239	10,148	70	735	782	54,696	2,614,778

17. PROPERTY, PLANT AND EQUIPMENT (continued)

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 6.9% per annum (2011: 7.2% per annum). During the year $18.4 million (2011: $18.1 million) of interest and other internal costs were capitalised. There are no electricity and gas meters subject to finance lease arrangements included within property, plant and equipment (2011: $2.8 million).

The carrying value of property, plant and equipment includes $2.0 million (2011: $1.4 million) of motor vehicles and mobile equipment for which ownership passes to the lessor in the event of default on the finance lease arrangement.

18. PAYABLES AND ACCRUALS

		GROUP		PARENT	
	NOTE	2012 $000	2011 $000	2012 $000	2011 $000
Current					
Trade payables and other creditors		**143,825**	151,180	**92,656**	86,746
Deferred income		**1,797**	4,022	**-**	1,491
Finance leases	23	**770**	1,279	**91**	216
Deferred consideration payable		**1,500**	2,567	**1,500**	1,500
Interest payable		**41,639**	39,321	**41,639**	39,321
Total		**189,531**	198,369	**135,886**	129,274
Non-current					
Deferred income		**18,770**	20,559	**-**	-
Deferred consideration payable		**-**	830	**-**	-
Finance leases	23	**1,359**	1,580	**337**	74
Other non-current payables		**592**	592	**592**	592
Total		**20,721**	23,561	**929**	666

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

	NOTE	GROUP 2012 $000	GROUP 2011 $000	PARENT 2012 $000	PARENT 2011 $000
Current					
Provision for employee entitlements	20	**5,673**	5,817	**5,375**	5,365
Provision for other obligations	21	**12,352**	12,669	-	-
Total		**18,025**	18,486	**5,375**	5,365
Non-current					
Decommissioning provision	22	**6,845**	5,000	-	-
Total		**6,845**	5,000	-	-

20. PROVISION FOR EMPLOYEE ENTITLEMENTS

	GROUP 2012 $000	GROUP 2011 $000	PARENT 2012 $000	PARENT 2011 $000
Balance at beginning of the period	**5,817**	5,481	**5,365**	5,048
(Utilised)/additions	**(144)**	336	**10**	317
Balance at end of the period	**5,673**	5,817	**5,375**	5,365

21. PROVISION FOR OTHER OBLIGATIONS

	GROUP 2012 $000	GROUP 2011 $000	PARENT 2012 $000	PARENT 2011 $000
Balance at beginning of the period	**12,669**	11,344	-	-
Additions	-	1,515	-	-
Reversed to the income statement	**(317)**	(190)	-	-
Balance at end of the period	**12,352**	12,669	-	-

These provisions 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.

22. DECOMMISSIONING PROVISION

	GROUP 2012 $000	GROUP 2011 $000	PARENT 2012 $000	PARENT 2011 $000
Balance at beginning of the period	**5,000**	3,000	-	-
Additions	**1,845**	2,000	-	-
Balance at end of the period	**6,845**	5,000	-	-

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

23. 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	
	2012 $000	2011 $000	2012 $000	2011 $000
Estimated capital expenditure contracted for at balance date but not provided	**118,592**	79,884	**64,661**	34,744

(b) Operating lease commitments

The majority of the operating lease commitments relate to premises leases. 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	
	2012 $000	2011 $000	2012 $000	2011 $000
Within one year	**5,567**	3,968	**2,786**	2,487
One to five years	**14,862**	12,483	**9,313**	8,598
Beyond five years	**12,748**	14,983	**6,142**	7,960
Total	**33,177**	31,434	**18,241**	19,045

(c) Finance lease commitments

Finance leases relate to motor vehicles with varying lease terms. Prior year comparatives included electricity meters and vehicles with varying lease terms. The following finance lease commitments are recorded in the financial statements:

	GROUP		PARENT	
	2012 $000	2011 $000	2012 $000	2011 $000
Minimum lease payments for finance lease liabilities				
Within one year	**919**	1,485	**113**	229
One to five years	**1,479**	1,762	**360**	82
Total	**2,398**	3,247	**473**	311
Less: future finance costs	**(269)**	(388)	**(45)**	(21)
Present value of minimum lease payments	**2,129**	2,859	**428**	290

		GROUP		PARENT	
	NOTE	2012 $000	2011 $000	2012 $000	2011 $000
Present value of finance lease liabilities					
Within one year	18	**770**	1,279	**91**	216
One to five years	18	**1,359**	1,580	**337**	74
Present value of minimum lease payments		**2,129**	2,859	**428**	290

24. BORROWINGS

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	FACE VALUE $000	UNAMORTISED COSTS $000	FAIR VALUE ADJUSTMENT ON HEDGED RISK $000	CARRYING VALUE $000
Bank loans	-	-	-	-	-	(299)	-	(299)
Working capital loans	-	-	-	-	-	(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	155,935
Senior notes – USD fixed rate	22,817	-	98,875	547,139	668,831	(2,374)	(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)	222,050
Total	22,817	-	921,526	1,582,753	2,527,096	(17,624)	(54,061)	2,455,411
Current borrowings	22,817	-	-	-	22,817	(481)	(3,951)	18,385
Non-current borrowings	-	-	921,526	1,582,753	2,504,279	(17,143)	(50,110)	2,437,026
Total	22,817	-	921,526	1,582,753	2,527,096	(17,624)	(54,061)	2,455,411

24. BORROWINGS (continued)

GROUP 2011	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	FAIR VALUE ADJUSTMENT ON HEDGED RISK $000	CARRYING VALUE $000
Bank loans	-	-	-	-	-	(217)	-	(217)
Working capital loans	-	-	-	-	-	(418)	-	(418)
Capital bonds – fixed rate	307,205	-	-	-	307,205	(645)	-	306,560
Senior bonds – fixed rate	-	-	150,000	-	150,000	(2,019)	5,867	153,848
Senior notes – USD fixed rate	-	22,817	-	646,014	668,831	(2,614)	(83,802)	582,415
Floating rate notes	-	-	250,000	910,000	1,160,000	(11,343)	-	1,148,657
Medium term notes – GBP fixed rate	-	-	-	285,614	285,614	(3,718)	(63,069)	218,827
Other	275	-	-	-	275	-	-	275
Total	307,480	22,817	400,000	1,841,628	2,571,925	(20,974)	(141,004)	2,409,947
Current borrowings	307,480	-	-	-	307,480	(733)	-	306,747
Non-current borrowings	-	22,817	400,000	1,841,628	2,264,445	(20,241)	(141,004)	2,103,200
Total	307,480	22,817	400,000	1,841,628	2,571,925	(20,974)	(141,004)	2,409.947

24. BORROWINGS (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	FACE VALUE $000	UNAMORTISED COSTS $000	FAIR VALUE ADJUSTMENT ON HEDGED RISK $000	CARRYING VALUE $000
Bank loans	-	-	-	-	-	(299)	-	(299)
Working capital loans	-	-	-	-	-	(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	155,935
Senior notes – USD fixed rate	22,817	-	98,875	547,139	668,831	(2,374)	(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)	222,050
Total	22,817	-	921,526	1,582,753	2,527,096	(17,624)	(54,061)	2,455,411
Current borrowings	22,817	-	-	-	22,817	(481)	(3,951)	18,385
Non-current borrowings	-	-	921,526	1,582,753	2,504,279	(17,143)	(50,110)	2,437,026
Total	22,817	-	921,526	1,582,753	2,527,096	(17,624)	(54,061)	2,455,411

24. BORROWINGS (continued)

PARENT 2011	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	FAIR VALUE ADJUSTMENT ON HEDGED RISK $000	CARRYING VALUE $000
Bank loans	-	-	-	-	-	(217)	-	(217)
Working capital loans	-	-	-	-	-	(418)	-	(418)
Capital bonds – fixed rate	307,205	-	-	-	307,205	(645)	-	306,560
Senior bonds – fixed rate	-	-	150,000	-	150,000	(2,019)	5,867	153,848
Senior notes – USD fixed rate	-	22,817	-	646,014	668,831	(2,614)	(83,802)	582,415
Floating rate notes	-	-	250,000	910,000	1,160,000	(11,343)	-	1,148,657
Medium term notes – GBP fixed rate	-	-	-	285,614	285,614	(3,718)	(63,069)	218,827
Total	307,205	22,817	400,000	1,841,628	2,571,650	(20,974)	(141,004)	2,409,672
Current borrowings	307,205	-	-	-	307,205	(733)	-	306,472
Non-current borrowings	-	22,817	400,000	1,841,628	2,264,445	(20,241)	(141,004)	2,103,200
Total	307,205	22,817	400,000	1,841,628	2,571,650	(20,974)	(141,004)	2,409,672

24. 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 are due to mature in October 2014. The fixed interest rate is 7.8% per annum paid semi-annually.

Senior notes of USD 15 million, USD 65 million and USD 195 million, with original maturity periods of 8, 12 and 15 years respectively were placed privately with US investors in September 2004 using derivative contracts to fix an exchange rate of USD 0.6574 for every NZD. Interest is paid semi-annually.

In December 2010, USD 182 million of senior notes were issued in a private placement to US institutional investors, using derivative contracts to fix an exchange rate of USD 0.7265 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 a fourth tranche in April 2007 ($200 million 10 year). 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.

Fixed rate notes of GBP 115 million 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 2012 and 30 June 2011.

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25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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, among other things, management of credit risk, interest rate risk, funding risk, liquidity risk, currency risk and operational risk. Non-derivative financial assets are categorised as 'loans and receivables'. Non-derivative financial liabilities are categorised as 'amortised cost'. Derivative financial instruments are categorised as 'fair value through profit and loss' unless hedge accounting is applied. Hedge accounting is applied for all derivative financial instruments.

FAIR VALUES (FINANCIAL ASSETS)

	GROUP 2012				GROUP 2011			
	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
Current assets								
Loans and receivables:								
Cash and cash equivalents	**81,593**	**108**	**81,701**	**81,701**	120,407	206	120,613	120,613
Trade receivables (net of doubtful debts provision)	**153,450**	**-**	**153,450**	**153,450**	170,752	-	170,752	170,752
Other receivables	**222**	**-**	**222**	**222**	45	-	45	45
Total	**235,265**	**108**	**235,373**	**235,373**	291,204	206	291,410	291,410
Non-current assets								
Loans and receivables:								
Other receivables	**1,392**	**-**	**1,392**	**1,392**	1,409	-	1,409	1,409
Total	**1,392**	**-**	**1,392**	**1,392**	1,409	-	1,409	1,409

	PARENT 2012				PARENT 2011			
	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
Current assets								
Loans and receivables:								
Cash and cash equivalents	**71,727**	**108**	**71,835**	**71,835**	108,013	206	108,219	108,219
Advances to subsidiaries	**12,817**	**-**	**12,817**	**12,817**	810,655	-	810,655	810,655
Trade receivables (net of doubtful debts provision)	**89,969**	**-**	**89,969**	**89,969**	110,390	-	110,390	110,390
Other receivables	**216**	**-**	**216**	**216**	40	-	40	40
Total	**174,729**	**108**	**174,837**	**174,837**	1,029,098	206	1,029,304	1,029,304
Non-current assets								
Loans and receivables:								
Other receivables	**1,392**	**-**	**1,392**	**1,392**	1,409	-	1,409	1,409
Total	**1,392**	**-**	**1,392**	**1,392**	1,409	-	1,409	1,409

25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

FAIR VALUES (FINANCIAL LIABILITIES)

	GROUP 2012				GROUP 2011			
	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
Current liabilities								
Liabilities at amortised cost:								
Trade payables and other creditors	**143,825**	**-**	**143,825**	**143,825**	151,180	-	151,180	151,180
Deferred consideration payable	**1,500**	**-**	**1,500**	**1,500**	2,567	-	2,567	2,567
Bank loans	**(194)**	**-**	**(194)**	**-**	(88)	-	(88)	-
Working capital loans	**(285)**	**-**	**(285)**	**-**	-	-	-	-
Capital bonds – fixed rate	**-**	**-**	**-**	**-**	306,560	3,055	309,615	320,270
Senior notes – USD fixed rate	**18,864**	**275**	**19,139**	**19,110**	-	-	-	-
Other	**-**	**-**	**-**	**-**	275	-	275	275
Total	**163,710**	**275**	**163,985**	**164,435**	460,494	3,055	463,549	474,292
Non-current liabilities								
Liabilities at amortised cost:								
Deferred consideration payable	**-**	**-**	**-**	**-**	830	-	830	830
Other non-current payables	**592**	**-**	**592**	**592**	592	-	592	592
Bank loans	**(105)**	**-**	**(105)**	**-**	(129)	-	(129)	-
Working capital loans	**(43)**	**-**	**(43)**	**-**	(418)	-	(418)	-
Floating rate notes	**1,150,712**	**6,737**	**1,157,449**	**1,165,959**	1,148,657	6,562	1,155,219	1,205,880
Capital bonds – fixed rate	**262,076**	**2,785**	**264,861**	**273,361**	-	-	-	-
Senior bonds – fixed rate	**155,935**	**2,438**	**158,373**	**158,984**	153,848	2,461	156,309	157,463
Senior notes – USD fixed rate	**646,401**	**5,676**	**652,077**	**653,562**	582,415	5,731	588,146	589,838
Medium term notes – GBP fixed rate	**222,050**	**7,884**	**229,934**	**270,918**	218,827	7,810	226,637	246,296
Total	**2,437,618**	**25,520**	**2,463,138**	**2,523,376**	2,104,622	22,564	2,127,186	2,200,899

25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

FAIR VALUES (FINANCIAL LIABILITIES) (continued)

	PARENT 2012				PARENT 2011			
	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
Current liabilities								
Liabilities at amortised cost:								
Advances from subsidiaries	**320,141**	-	**320,141**	**320,141**	1,061,134	-	1,061,134	1,061,134
Trade payables and other creditors	**92,656**	-	**92,656**	**92,656**	86,746	-	86,746	86,746
Deferred consideration payable	**1,500**	-	**1,500**	**1,500**	1,500	-	1,500	1,500
Bank loans	**(194)**	-	**(194)**	-	(88)	-	(88)	-
Working capital loans	**(285)**	-	**(285)**	-	-	-	-	-
Capital bonds – fixed rate	-	-	-	-	306,560	3,055	309,615	320,270
Senior notes – USD fixed rate	**18,864**	**275**	**19,139**	**19,110**	-	-	-	-
Total	**432,682**	**275**	**432,957**	**433,407**	1,455,852	3,055	1,458,907	1,469,650
Non-current liabilities								
Liabilities at amortised cost:								
Other non-current payables	**592**	-	**592**	**592**	592	-	592	592
Bank loans	**(105)**	-	**(105)**	-	(129)	-	(129)	-
Working capital loans	**(43)**	-	**(43)**	-	(418)	-	(418)	-
Floating rate notes	**1,150,712**	**6,737**	**1,157,449**	**1,165,959**	-	-	-	-
Capital bonds – fixed rate	**262,076**	**2,785**	**264,861**	**273,361**	1,148,657	6,562	1,155,219	1,205,880
Senior bonds – fixed rate	**155,935**	**2,438**	**158,373**	**158,984**	153,848	2,461	156,309	157,463
Senior notes – USD fixed rate	**646,401**	**5,676**	**652,077**	**653,562**	582,415	5,731	588,146	589,838
Medium term notes – GBP fixed rate	**222,050**	**7,884**	**229,934**	**270,918**	218,827	7,810	226,637	246,296
Total	**2,437,618**	**25,520**	**2,463,138**	**2,523,376**	2,103,792	22,564	2,126,356	2,200,069

25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

FAIR VALUES (DERIVATIVE FINANCIAL INSTRUMENTS)

	GROUP & PARENT 2012				GROUP & PARENT 2011			
	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
Current assets								
Cross currency swaps	10	27	37	37	-	-	-	-
Forward exchange contracts	3	-	3	3	-	-	-	-
Total	13	27	40	40	-	-	-	-
Non-current assets								
Interest rate swaps	7,433	754	8,187	8,187	6,068	770	6,838	6,838
Cross currency swaps	15,889	3,865	19,754	19,754	-	-	-	-
Total	23,322	4,619	27,941	27,941	6,068	770	6,838	6,838
Current liabilities								
Interest rate swaps	1,866	1,108	2,974	2,974	5,584	1,881	7,465	7,465
Cross currency swaps	3,948	(222)	3,726	3,726	-	-	-	-
Forward exchange contracts	5,741	-	5,741	5,741	130	-	130	130
Total	11,555	886	12,441	12,441	5,714	1,881	7,595	7,595
Non-current liabilities								
Interest rate swaps	184,323	8,133	192,456	192,456	129,214	6,836	136,050	136,050
Cross currency swaps	101,414	(2,395)	99,019	99,019	204,962	(6,020)	198,942	198,942
Forward exchange contracts	264	-	264	264	5,112	-	5,112	5,112
Total	286,001	5,738	291,739	291,739	339,288	816	340,104	340,104

25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

FAIR VALUES **(continued)**

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

	GROUP & PARENT 2012	GROUP & PARENT 2011
Foreign currency exchange (FX) rates		
NZD-GBP FX rate	**0.51030**	0.51675
NZD-USD FX rate	**0.80165**	0.82930
Interest rate swap rates		
3 month cash rate	**2.68000**	2.67000
1 year semi-annual swap rate	**2.62000**	2.89000
2 year semi-annual swap rate	**2.72000**	3.34000
3 year semi-annual swap rate	**2.87500**	3.73500
5 year semi-annual swap rate	**3.20000**	4.34000
7 year semi-annual swap rate	**3.50500**	4.75300
10 year semi-annual swap rate	**3.78000**	5.12000

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 payables and accruals 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

The total carrying amount for the GBP medium term notes includes the principal converted at contract rates, interest accrued, unamortised costs and a fair value adjustment for the component of the risk that is hedged.

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.

Senior notes – USD fixed rate

The total carrying amount includes the principal converted at contract rates, interest accrued, unamortised costs and a fair value adjustment for the component of the risk that is hedged.

Derivative instruments

The total carrying amount of derivative instruments is the same as the fair value and includes interest accrued.

25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

INTEREST RATE RISK

The group actively 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.

The maturity profile of interest rate swaps were as follows.

	GROUP & PARENT	
	2012 NOTIONAL AMOUNT $000	2011 NOTIONAL AMOUNT $000
Interest rate swaps (floating to fixed)		
Maturing in less than 1 year	**150,000**	215,000
Maturing between 1 and 2 years	**-**	150,000
Maturing between 2 and 5 years	**760,000**	600,000
Maturing after 5 years	**250,000**	150,000
	1,160,000	1,115,000
Interest rate swaps (fixed to floating)		
Maturing between 2 and 5 years	**150,000**	150,000
	150,000	150,000
Forward starting interest rate swaps (floating to fixed)		
Maturing after 5 years	**350,000**	510,000
	350,000	510,000

25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

INTEREST RATE RISK (continued)

The maturity profile of cross currency swaps were as follows.

	GROUP & PARENT 2012		GROUP & PARENT 2011	
	USD/GBP PRINCIPAL AMOUNT '000	NZD $000	USD/GBP PRINCIPAL AMOUNT '000	NZD $000
Cross currency (USD : NZD)				
Maturing in less than 1 year	**15,000**	**22,817**	-	-
Maturing between 1 and 2 years	-	-	15,000	22,817
Maturing between 2 and 5 years	**65,000**	**98,875**	-	-
Maturing after 5 years	**377,000**	**547,139**	442,000	646,014
	457,000	**668,831**	457,000	668,831
Cross currency (GBP : NZD)				
Maturing after 5 years	**115,000**	**285,614**	115,000	285,614
	115,000	**285,614**	115,000	285,614

Bank loans, working capital loans and floating rate notes are at floating rates. A portion of the 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).

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

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

25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

FOREIGN EXCHANGE RISK

The group has conducted transactions in foreign currencies for the purpose of protecting the NZD cost of capital expenditure. The group has outstanding forward exchange contracts. These are used to hedge forecasted foreign currency exposure arising out of the capital expenditure programme. Hence at balance date there is no significant exposure to foreign currency risk.

Currency	GROUP & PARENT 2012 BUY '000	GROUP & PARENT 2012 MARK TO MARKET LOSS NZD $000	GROUP & PARENT 2011 BUY '000	GROUP & PARENT 2011 MARK TO MARKET LOSS NZD $000
EUR	**4,050**	**(813)**	1,064	(130)
USD	**14,945**	**(5,190)**	13,455	(5,112)
Total		**(6,003)**		(5,242)

The exposure the group has in foreign denominated borrowings has been appropriately managed through the cross currency interest rate swaps. Hence at balance date there is no significant exposure to foreign currency risk.

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). 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 2012 FAIR VALUE $000	GROUP 2011 FAIR VALUE $000	PARENT 2012 FAIR VALUE $000	PARENT 2011 FAIR VALUE $000
Loans and receivables	**236,765**	292,819	**176,229**	1,030,713
Interest rate swaps	**8,187**	6,838	**8,187**	6,838
Cross currency swaps	**19,791**	-	**19,791**	-
Forward exchange contracts	**3**	-	**3**	-

The ageing of trade receivables at balance date was:

	GROUP 2012 CARRYING AMOUNT $000	GROUP 2011 CARRYING AMOUNT $000	PARENT 2012 CARRYING AMOUNT $000	PARENT 2011 CARRYING AMOUNT $000
Not past due	**142,628**	156,825	**83,940**	104,288
Past due 1-30 days	**5,256**	6,667	**1,914**	1,773
Past due 31-120 days	**2,231**	1,577	**1,448**	806
Past due more than 120 days	**7,660**	9,582	**6,271**	6,735
Total	**157,775**	174,651	**93,573**	113,602

The group holds a provision for doubtful debts against the amounts disclosed above of $4.3 million (2011: $3.9 million). Trade receivables past due by between 31 and 120 days do not include any allowances for impairment (2011: nil). Trade receivables past due by more than 120 days include allowances for impairment of $4.3 million (2011: $3.9 million).

25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

Movement in the provision for doubtful debts:

	GROUP 2012 $000	GROUP 2011 $000	PARENT 2012 $000	PARENT 2011 $000
Provision for doubtful debts at the beginning of the period	**3,899**	4,857	**3,212**	3,833
Increase/(decrease) in the provision	**426**	(958)	**392**	(621)
Provision for doubtful debts at end of the period	**4,325**	3,899	**3,604**	3,212

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 2011: $225 million).

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 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
Non-derivative financial liabilities					
Trade payables and other creditors	**143,825**	**-**	**-**	**-**	**143,825**
Deferred consideration	**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**
Derivative financial (assets)/liabilities					
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**
Net settled derivatives					
Interest rate swaps	**41,494**	**50,883**	**93,055**	**15,146**	**200,578**
	336,296	**166,338**	**1,381,275**	**1,845,791**	**3,729,700**
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	**145,325**	**-**	**-**	**-**	**145,325**
	336,296	**166,338**	**1,381,275**	**1,845,791**	**3,729,700**

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.

25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

LIQUIDITY RISK (continued)

GROUP 2011	PAYABLE WITHIN 1 YEAR $000	PAYABLE BETWEEN 1 AND 2 YEARS $000	PAYABLE BETWEEN 2 AND 5 YEARS $000	PAYABLE AFTER 5 YEARS $000	TOTAL CONTRACTUAL CASH FLOWS $000
Non-derivative financial liabilities					
Trade payables and other creditors	151,180	-	-	-	151,180
Deferred consideration	2,567	830	-	-	3,397
Capital bonds – fixed rate	331,849	-	-	-	331,849
Senior bonds – fixed rate	11,733	11,668	167,550	-	190,951
Senior notes – USD fixed rate	28,034	45,767	81,268	642,802	797,871
Floating rate notes	37,306	44,619	429,048	1,058,812	1,569,785
Medium term notes – GBP fixed rate	17,059	16,878	50,905	273,453	358,295
Other	275	-	-	-	275
Derivative financial (assets)/liabilities					
Cross currency swaps (USD : NZD)					
Inflow	(28,034)	(45,767)	(81,268)	(642,802)	(797,871)
Outflow	28,127	55,859	124,210	846,399	1,054,595
Cross currency swaps (GBP : NZD)					
Inflow	(17,059)	(16,878)	(50,905)	(273,453)	(358,295)
Outflow	31,227	30,888	92,920	370,898	525,933
Forward exchange contracts					
Inflow	(1,995)	-	(22,193)	-	(24,188)
Outflow	1,995	-	22,193	-	24,188
Net settled derivatives					
Interest rate swaps	41,798	36,949	60,267	8,177	147,191
	636,062	180,813	873,995	2,284,286	3,975,156

The above cash flows include:					
Net principal payments	307,480	22,817	400,000	1,841,628	2,571,925
Net interest and derivatives payments	174,835	157,166	473,995	442,658	1,248,654
Other payments	153,747	830	-	-	154,577
	636,062	180,813	873,995	2,284,286	3,975,156

25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

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
Non-derivative financial liabilities					
Trade payables and other creditors	92,656	-	-	-	92,656
Deferred consideration	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
Derivative financial (assets)/liabilities					
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
Net settled derivatives					
Interest rate swaps	41,494	50,883	93,055	15,146	200,578
	285,127	166,338	1,381,275	1,845,791	3,678,531

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	94,156	-	-	-	94,156
	285,127	166,338	1,381,275	1,845,791	3,678,531

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.

25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

LIQUIDITY RISK (continued)

PARENT 2011	PAYABLE WITHIN 1 YEAR $000	PAYABLE BETWEEN 1 AND 2 YEARS $000	PAYABLE BETWEEN 2 AND 5 YEARS $000	PAYABLE AFTER 5 YEARS $000	TOTAL CONTRACTUAL CASH FLOWS $000
Non-derivative financial liabilities					
Trade payables and other creditors	86,746	-	-	-	86,746
Deferred consideration	1,500	-	-	-	1,500
Capital bonds – fixed rate	331,849	-	-	-	331,849
Senior bonds – fixed rate	11,733	11,668	167,550	-	190,951
Senior notes – USD fixed rate	28,034	45,767	81,268	642,802	797,871
Floating rate notes	37,306	44,619	429,048	1,058,812	1,569,785
Medium term notes – GBP fixed rate	17,059	16,878	50,905	273,453	358,295
Derivative financial (assets)/liabilities					
Cross currency swaps (USD : NZD)					
Inflow	(28,034)	(45,767)	(81,268)	(642,802)	(797,871)
Outflow	28,127	55,859	124,210	846,399	1,054,595
Cross currency swaps (GBP : NZD)					
Inflow	(17,059)	(16,878)	(50,905)	(273,453)	(358,295)
Outflow	31,227	30,888	92,920	370,898	525,933
Forward exchange contracts					
Inflow	(1,995)	-	(22,193)	-	(24,188)
Outflow	1,995	-	22,193	-	24,188
Net settled derivatives					
Interest rate swaps	41,798	36,949	60,267	8,177	147,191
	570,286	179,983	873,995	2,284,286	3,908,550
The above cash flows include:					
Net principal payments	307,205	22,817	400,000	1,841,628	2,571,650
Net interest and derivatives payments	174,835	157,166	473,995	442,658	1,248,654
Other payments	88,246	-	-	-	88,246
	570,286	179,983	873,995	2,284,286	3,908,550

25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

HEDGE ACCOUNTING AND SENSITIVITY ANALYSIS

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

CASH FLOW SENSITIVITY ANALYSIS FOR VARIABLE RATE INSTRUMENTS

Interest rate swaps hedging the floating rate debt are hedge accounted and treated as cash flow hedges and hence any changes in interest rates would have no material impact on profits as changes in the fair value of these swaps are taken through other comprehensive income where the hedge is an effective hedge. The fair value of these interest rate swaps is a $162.7 million loss (2011: $109.7 million loss). A fall of 1% in interest rates would result in a loss in other comprehensive income of $42.1 million (2011: $37.7 million) whereas an increase of 1% in interest rates would result in a gain in other comprehensive income of $40.2 million (2011: $35.9 million).

Forward starting interest rate swaps hedging the forecasted floating rate debt are also hedge accounted and treated as cash flow hedges and hence any changes in interest rates would have no material impact on profits as changes in the fair value of these swaps are taken through comprehensive income where the hedge is an effective hedge. The fair value of these interest rate swaps is a $32.7 million loss (2011: $33.7 million loss). A fall of 1% in interest rates would result in a loss in other comprehensive income of $17.2 million (2011: $24.2 million) whereas an increase of 1% in interest rates would result in a gain in other comprehensive income of $15.7 million (2011: $22.3 million).

FAIR VALUE SENSITIVITY ANALYSIS FOR FIXED RATE INSTRUMENTS

Interest rate swaps hedging the fixed interest rate bonds are hedge accounted and treated as fair value hedges and hence any changes in interest rates would have no material impact on profits arising from changes in fair value as the changes in fair value of the swaps would be offset by changes in the fair value of the underlying exposure for the NZ$150 million senior bonds (2011: NZ$150 million senior bonds) as the hedge is an effective hedge. The fair value of these interest rate swaps is an $8.2 million profit (2011: $6.7 million profit). However, since the interest rate is converted to floating, a fall of 1% in interest rate would increase profit by $1.5 million (2011: $1.5 million) and an increase of 1% in interest rate would decrease profit by $1.5 million (2011: $1.5 million). The movement is calculated for one year and proportionally allocated over the number of days, if maturity occurs within the period.

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

Cross currency swaps hedging the foreign currency denominated debt are hedge accounted and treated either as a cash flow hedge or a fair value hedge depending upon the risk being hedged. Hence, any changes in the foreign exchange rates would have no material impact upon profits. The fair value of these cross currency swaps is a $83.0 million loss (2011: $198.9 million loss). However, changes in the interest rate would impact profit as shown in the table below. The impact is calculated for one year and proportionally allocated over the number of days, if maturity occurs within the period.

	GROUP & PARENT 2012 -1% CHANGE IN INTEREST RATE $000	GROUP & PARENT 2012 +1% CHANGE IN INTEREST RATE $000	GROUP & PARENT 2011 -1% CHANGE IN INTEREST RATE $000	GROUP & PARENT 2011 +1% CHANGE IN INTEREST RATE $000
Cross currency swaps				
USD : NZD	**6,688**	**(6,688)**	6,688	(6,688)
Total impact on profit increase/(decrease)	**6,688**	**(6,688)**	6,688	(6,688)

Any changes in the interest rate would have no impact on profits in relation to the GBP: NZD cross currency swaps as the NZD payment leg is at a fixed interest rate.

25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

HEDGE ACCOUNTING AND SENSITIVITY ANALYSIS (continued)

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

Forward exchange contracts hedging the forecasted foreign currency exposure arising out of the capital expenditure programme are treated as cash flow hedges and hence any changes in foreign exchange rates would have no material impact on profits as changes in the fair value of these contracts are taken through other comprehensive income where the hedge is an effective hedge. The fair value of these forward exchange contracts is a $6.0 million loss (2011: $5.2 million loss).

	GROUP & PARENT 2012		GROUP & PARENT 2011	
	-10% CHANGE IN FX RATE $000	+10% CHANGE IN FX RATE $000	-10% CHANGE IN FX RATE $000	+10% CHANGE IN FX RATE $000
Forward exchange contracts				
EUR	**709**	**(580)**	206	(167)
USD	**2,027**	**(1,689)**	1,790	(1,465)
Total impact on other comprehensive income increase/(decrease)	**2,736**	**(2,269)**	1,996	(1,632)

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 entities within the group's ability 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 2012 and 30 June 2011 were as follows:

	GROUP 2012 $000	GROUP 2011 $000
Current borrowings	**18,385**	306,747
Non-current borrowings	**2,437,026**	2,103,200
Total borrowings	**2,455,411**	2,409,947
Less: cash and cash equivalents	**(81,593)**	(120,407)
Net debt	**2,373,818**	2,289,540
Total equity	**2,148,342**	2,112,745
Net debt plus equity	**4,522,160**	4,402,285
Net debt to net debt plus equity ratio	**52.5%**	52.0%

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 NGC Metering Limited and Advanced Metering Services Limited for metering services. In addition, Vector Limited has provided guarantees for Vector Communications Limited for a commercial services agreement. 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.

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26. 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.

SHARE BASED PAYMENTS 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 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 REVALUATION RESERVE

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

27. CONTINGENT LIABILITIES

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 material contingent liabilities requiring disclosure have been identified.

28. 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	
	2012 $000	2011 $000
Payment of dividend to the AECT	**108,895**	107,018

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	
	2012 $000	2011 $000	2012 $000	2011 $000
Cash advances to subsidiaries	-	-	**164,346**	76,041
Loans to parent/repaid by subsidiaries	-	-	**334,860**	254,464
Employee costs recharged to subsidiaries	-	-	**20,002**	13,475
Management fees payable by subsidiaries	-	-	**37,688**	37,064
Income from financial services provided to Stream Information Partnership	-	-	**70**	70
Sale of gas distribution services to Vector Gas Limited	-	-	**4,074**	3,904
Metering services provided by Stream Information Partnership	-	-	**13**	6
Interest charged to Vector Communications Limited	-	-	**3,645**	3,572
Purchase of telecommunications services from Vector Communications Limited	-	-	**2,953**	2,993
Access services charged to Vector Communications Limited	-	-	**3**	-
Income from call centre services provided to Vector Communications Limited	-	-	**88**	106
Electricity services provided to NZ Windfarms Limted	-	-	**120**	127
Dividends received from Tree Scape Limited	-	-	-	1,000
Dividends received from Energy Intellect Limited	-	-	-	176
Directors' fees from NZ Windfarms Limited	-	-	**30**	30
Directors' fees from Energy Intellect Limited	-	-	**50**	33
Directors' fees from Liquigas Limited	-	-	**12**	13
Purchase of vegetation management services from Tree Scape Limited	**5,316**	4,933	**5,316**	4,933
Purchase of electricity meters and metering services from Energy Intellect Limited	**1,874**	1,647	-	-
Sales of operations and maintenance services to Kapuni Energy Joint Venture	**1,632**	1,690	-	-
Purchases of electricity and steam from Kapuni Energy Joint Venture	**13,929**	14,161	-	-
Administrative and other services provided to Kapuni Energy Joint Venture	**68**	65	-	-
Working capital loan repayment to TML Stream Limited	**275**	300	-	-
Acquisition of non-controlling interest in Stream Information Partnership from TML Stream Limited	**2,500**	-	-	-

Tax losses totalling $13.0 million with a tax effect of $3.9 million (2011: $4.0 million with a tax effect of $1.2 million) have been transferred during the period from Vector Communications Limited, Vector Metering Data Services Limited, Vector Management Services Limited and Advanced Metering Services Limited for utilisation by Vector Limited to partially offset against its 2011 taxable profits.

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28. TRANSACTIONS WITH RELATED PARTIES (continued)

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

	PARENT 2012 $000	PARENT 2011 $000
Receivable by the parent from:		
MEL Network Limited	**50,693**	66,987
Mercury Geotherm Limited (in receivership)	**9,574**	-
Vector Communications Limited	**1,022**	74,606
Broadband Services Limited	**366**	366
Vector Stream Limited	**5,302**	5,396
Vector Gas Contracts Limited	**-**	689,570
Advanced Metering Services Limited	**3,094**	40,717
Vector ESPS Trustee Limited	**301**	-
	70,352	877,642
Less: provision against advances to subsidiaries	**(57,535)**	(66,987)
Total advances to subsidiaries	**12,817**	810,655
Payable by the parent to:		
NGC Holdings Limited	**(90,831)**	(259,196)
Vector Gas Investments Limited	**(6,113)**	(3,062)
Vector Kapuni Limited	**(47,450)**	(32,270)
Vector Management Services Limited	**(5,070)**	(4,908)
NGC Metering Limited	**(1,523)**	(20,324)
Vector Gas Limited	**(15,129)**	(466,787)
Mercury Geotherm Limited (in receivership)	**-**	(5,774)
On Gas Limited	**(6,350)**	(37,343)
Elect Data Services (Australia) Pty Limited	**(2,241)**	(2,246)
Auckland Generation Limited	**(13,334)**	(13,334)
Vector Metering Data Services Limited	**(129,521)**	(214,087)
Poihipi Land Limited (in receivership)	**(2,579)**	(1,803)
Total advances from subsidiaries	**(320,141)**	(1,061,134)

At 30 June 2012, 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, with the exception of the receivable balance from Vector Communications Limited for which interest is accrued at the BKBM rate plus 2% per annum.

A provision of $57.5 million (2011: $67.0 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. These guarantees are regarded as insurance contracts. Vector Limited has also provided guarantees for NGC Metering Limited and Advanced Metering Services Limited for metering services. These guarantees are regarded as insurance contracts.

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

29. KEY MANAGEMENT PERSONNEL

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

	GROUP		PARENT	
	2012 $000	2011 $000	2012 $000	2011 $000
Directors' fees	**1,096**	1,087	**1,008**	1,001
Salary and other short-term employee benefits	**5,419**	4,904	**5,419**	4,904
Redundancy and termination benefits	**-**	303	**-**	303
Total	**6,515**	6,294	**6,427**	6,208

30. EVENTS AFTER BALANCE DATE

On 21 August 2012, the Commerce Commission issued a further draft determination in relation to the electricity business. We do not consider this materially alters the position from 15 August 2011.

On 23 August 2012, the board declared a final dividend for the year ended 30 June 2012 of 7.5 cents per share.

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