Auckland Energy Consumer Trust

ANNUAL REPORT

For the year ended 30 June 2010

AUCKLAND ENERGY CONSUMER TRUST

CHAIRMAN'S REPORT

FOR THE YEAR ENDED 30 JUNE 2010

Auckland Energy Consumer Trust

The year ended 30 June 2010 has been focused largely on regulatory matters. In particular the Trust has paid close attention to the Commerce Commission's engagement with the sector in respect of its determination of Input Methodologies to be used for the re-set of pricing.

The Trust's work in regard to regulatory matters is important because Vector operates in a highly regulated environment and this affects the value of our ownership in the company. It also affects our beneficiaries and consumers.

While we share Vector's commercial position in regard to regulatory matters, we also believe we are the strongest representative of consumer views when we go before the Commerce Commission.

In regard to Vector, the value of the Trust's shareholding in the company increased this year due to a higher share price which may reflect renewed interest in Vector as a contender for the government's fast fibre project. The Trust's shareholding in Vector is now 75.4% following a share buy-back by Vector in 2009.

The triennial elections took place during the year, and resulted in one change of Trustee. William Cairns was elected, replacing Shale Chambers. The Trust thanks Mr Chambers for his unwavering service to the Trust during the six years he was a Trustee.

Financial matters

During the year ended 30th June 2010 the Trust received a total of $103.3 million in dividends from Vector. The income included a slightly higher payment per share from Vector. However this was somewhat offset by the significant fall in interest income due to the lower rates of interest offered for funds on deposit during this time.

Total expenditure incurred by the Trust was $3.9 million. In general, the Trust's operational costs have remained consistent year to year. However, the triennial election occurred during this year and that adds unavoidable costs such as postage and returning officer fees to the expenditure.

Annual Dividend

The dividend distribution to income beneficiaries took place on 18 September 2009. The total amount distributed was $98.2 million, paid as a $320 dividend to 306,948 eligible income beneficiaries. The number of beneficiaries increased by 2,149 compared to the previous year.

Appointment of auditors

The Trustees are recommending that Grant Thornton be again appointed as auditors for the Trust. Grant Thornton fees for this year's work were $31,054.

Remuneration of auditors

In accordance with section 158C (3) of the Electricity Act 1992, a motion will be put to the Annual Meeting of beneficiaries authorising the Trust to fix the fees and expenses of the auditors for the ensuing year.

Warren Kyd
Chairman
Auckland Energy Consumer Trust
21 October 2010

AUCKLAND ENERGY CONSUMER TRUST
2010

FINANCIAL STATEMENTS

Financial Statements
for the year ended 30 June 2010

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2010 FINANCIAL STATEMENTS

The trustees are pleased to present the financial statements of the group for the year ended 30 June 2010.

For and on behalf of the Trustees, dated 27 August 2010

Chairman

Chair of Finance and Risk

Directory

Principal Business

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

Date Settled

27 August 1993

Trustees

W J Kyd (Chairman)
M J Buczkowski (Deputy Chairman)
W A A Cairns (elected October 2009)
J A Carmichael
K A Sherry
S Chambers (resigned October 2009)

Executive Officer

I R Ward

Termination Date

27 August 2073

Accountant

Staples Rodway Limited
P O Box 3899
Auckland

Auditor

Grant Thornton
P O Box 1961
Auckland

Legal Advisor

David Bigio
P O Box 4338
Auckland

Banker

ANZ National Bank Limited
P O Box 6334
Auckland

Grant Thornton

Audit Report

Audit

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To the beneficiaries of Auckland Energy Consumer Trust

We have audited the financial statements on pages 6 to 62. The financial statements provide information about the past financial performance and cash flows of the trust and group for the year ended 30 June 2010 and the financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 14 to 23.

Trustees' Responsibilities

The Trustees are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the trust as at 30 June 2010 and of the financial performance and cash flows for the year ended on that date.

Auditors' Responsibilities

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

Basis of Opinion

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

- the significant estimates and judgements made by the Trustees in the preparation of the financial statements; and
- whether the accounting policies used are appropriate to the trust's and group's circumstances, consistently applied and adequately disclosed.

Grant Thornton

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

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

Unqualified Opinion

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

In our opinion:

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

- the financial statements on pages 6 to 62 :

  - comply with generally accepted accounting practice in New Zealand; and
  - give a true and fair view of the financial position of the trust and group as at 30 June 2010 and the financial performance and cash flows for the year ended on that date.

Our audit was completed on 27 August 2010 and our unqualified opinion is expressed as at that date.

Grant Thornton

Grant Thornton New Zealand Audit Partnership
Auckland, New Zealand

Income Statement

for the year ended 30 June 2010

	NOTE	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
In respect of continuing operations:					
Operating revenue	3	**1,185,827**	1,173,947	-	-
Other income	3	**1,628**	226	**103,278**	99,523
Total income		**1,187,455**	1,174,173	**103,278**	99,523
Electricity transmission expenses		**(128,842)**	(118,461)	-	-
Gas purchases and production expenses		**(267,055)**	(262,431)	-	-
Network and asset maintenance expenses		**(73,716)**	(80,179)	-	-
Personnel expenses		**(62,881)**	(54,303)	**(73)**	(78)
Other expenses		**(80,707)**	(80,033)	**(3,831)**	(3,349)
Operating expenditure	4	**(613,201)**	(595,407)	**(3,904)**	(3,427)
Earnings before interest, income tax, depreciation and amortisation (EBITDA)		**574,254**	578,766	**99,374**	96,096
Depreciation and amortisation	5	**(156,326)**	(145,366)	**(7)**	(4)
Profit before interest and income tax		**417,928**	433,400	**99,367**	96,092
Finance income	6	**8,784**	18,135	**1,328**	1,991
Finance costs	6	**(174,429)**	(205,684)	-	-
Share of net (loss)/profit from associates	16	**(2,305)**	1,208	-	-
Impairment of investment in associate	16	**(4,136)**	(6,519)	-	-
Profit before income tax		**245,842**	240,540	**100,695**	98,083
Income tax expense	7	**(49,292)**	(68,210)	-	-
Profit after income tax from continuing operations		**196,550**	172,330	**100,695**	98,083
Profit after income tax from discontinued operations	1	-	205,586	-	-
Net profit for the period		**196,550**	377,916	**100,695**	98,083
Net profit for the period attributable to :					
Non-controlling interests in subsidiaries		**53,204**	100,014	-	-
Beneficiaries of the parent		**143,346**	277,902	**100,695**	98,083

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

Statement of Comprehensive Income

for the year ended 30 June 2010

	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
Net profit for the period	**196,550**	377,916	**100,695**	98,083
Other comprehensive income (net of tax)				
Change in fair value of cash flow hedges	**(32,950)**	(76,242)	-	-
Translation of foreign operations	**38**	81	-	-
Other comprehensive income for the period net of tax	**(32,912)**	(76,161)	-	-
Total comprehensive income for the period net of tax	**163,638**	301,755	**100,695**	98,083
Total comprehensive income for the period attributable to:				
Non-controlling interests in subsidiaries	**45,114**	81,278	-	-
Beneficiaries of the parent	**118,524**	220,477	**100,695**	98,083

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

Statement of Changes in Equity
for the year ended 30 June 2010

GROUP 2010	NOTE	HEDGE RESERVE $000	FOREIGN CURRENCY TRANSLATION RESERVE $000	RETAINED EARNINGS $000	NON-CONTROLLING INTERESTS $000	TOTAL EQUITY $000
Balance at beginning of the period		**(58,820)**	**158**	**1,598,338**	**519,216**	**2,058,892**
Comprehensive income						
Net profit for the period		-	-	**143,346**	**53,204**	**196,550**
Other comprehensive income						
Change in fair value of cash flow hedges		**(32,180)**	-	-	**(10,488)**	**(42,668)**
Translation of foreign operations		-	**29**	-	**9**	**38**
Income tax relating to components of other comprehensive income	10	**7,330**	-	-	**2,389**	**9,719**
Total comprehensive income		**(24,850)**	**29**	**143,346**	**45,114**	**163,639**
Transactions with owners						
Dividends and distributions		-	-	**(100,577)**	**(37,628)**	**(138,205)**
Distribution payable		-	-	**(118)**	-	**(118)**
Total transactions with owners		-	-	**(100,695)**	**(37,628)**	**(138,323)**
Prior period adjustment		**(16)**	-	**428**	**(412)**	-
alance at end of the period		**(83,686)**	**187**	**1,641,417**	**526,290**	**2,084,208**

GROUP 2009	NOTE	HEDGE RESERVE $000	FOREIGN CURRENCY TRANSLATION RESERVE $000	RETAINED EARNINGS $000	NON-CONTROLLING INTERESTS $000	TOTAL EQUITY $000
Balance at beginning of the period		(1,329)	97	1,422,548	482,796	1,904,112
Comprehensive income						
Net profit for the period		-	-	277,902	100,014	377,916
Other comprehensive income						
Change in fair value of cash flow hedges		(82,695)	-	-	(26,980)	(109,675)
Translation of foreign operations		-	61	-	20	81
Income tax relating to components of other comprehensive income	10	25,209	-	-	8,224	33,433
Total comprehensive income		(57,486)	61	277,902	81,278	301,755
Transactions with owners						
Treasury shares purchased	11	(5)	-	(1,240)	(7,689)	(8,934)
Dividends and distributions		-	-	(97,361)	(37,169)	(134,530)
Distribution payable		-	-	(3,511)	-	(3,511)
Total transactions with owners		(5)	-	(102,112)	(44,858)	(146,975)
Balance at end of the period		(58,820)	158	1,598,338	519,216	2,058,892

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

Statement of Changes in Equity (continued)

for the year ended 30 June 2010

PARENT 2010	TRUSTEES FUNDS $000	RETAINED EARNINGS $000	TOTAL EQUITY $000
Balance at beginning of the period	**300,000**	-	**300,000**
Comprehensive income			
Net profit for the period	-	**100,695**	**100,695**
Total comprehensive income	-	**100,695**	**100,695**
Transactions with owners			
Dividends and distributions	-	**(100,577)**	**(100,577)**
Distribution payable	-	**(118)**	**(118)**
Total transactions with owners	-	**(100,695)**	**(100,695)**
Balance at end of the period	300,000	-	**300,000**

PARENT 2009	TRUSTEES FUNDS $000	RETAINED EARNINGS $000	TOTAL FUNDS $000
Balance at beginning of the period	300,000	2,789	302,789
Comprehensive income			
Net profit for the period	-	98,083	98,083
Total comprehensive income	-	98,083	98,083
Transactions with owners			
Dividends and distributions	-	(97,361)	(97,361)
Distribution payable	-	(3,511)	(3,511)
Total transactions with owners	-	(100,872)	(100,872)
Balance at end of the period	300,000	-	300,000

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

Statement of Financial Position

as at 30 June 2010

	NOTE	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
CURRENT ASSETS					
Cash and cash equivalents		**169,325**	109,355	**54,513**	54,665
Short term deposits		**-**	100,000	**-**	-
Receivables and prepayments	12	**164,283**	191,131	**528**	531
Derivative financial instruments	29	11	208	**-**	-
Inventories	13	**4,204**	2,208	**-**	-
Income tax	8	**35,193**	43,606	**-**	-
Total current assets		**373,016**	446,508	**55,041**	55,196
NON-CURRENT ASSETS					
Receivables and prepayments	12	**1,428**	5,890	**-**	-
Derivative financial instruments	29	**50,344**	51,345	**-**	-
Deferred tax asset	9	**2,700**	1,137	**-**	-
Investments in subsidiaries	15	**-**	-	**300,000**	300,000
Income tax	8	**448**	-	**-**	-
Investments in associates	16	**25,525**	28,193	**-**	-
Intangible assets	18	**1,612,228**	1,601,095	**-**	-
Property, plant and equipment	19	**3,540,252**	3,459,590	**7**	3
Total non-current assets		**5,232,925**	5,147,250	**300,007**	300,003
Total assets		**5,605,941**	5,593,758	**355,048**	355,199
CURRENT LIABILITIES					
Distribution payable	21	**51,001**	50,884	**51,001**	50,884
Payables and accruals	20	**189,720**	180,319	**601**	464
Provisions	22	**20,271**	21,235	**3,446**	3,851
Derivative financial instruments	29	**8,362**	2,099	**-**	-
Borrowings	28	**249,654**	575	**-**	-
Income tax	8	**1,428**	2,370	**-**	-
Total current liabilities		**520,436**	257,482	**55,048**	55,199
NON-CURRENT LIABILITIES					
Payables and accruals	20	**25,821**	27,137	**-**	-
Provisions	22	**3,000**	1,000	**-**	-
Derivative financial instruments	29	**181,815**	103,671	**-**	-
Borrowings	28	**2,312,644**	2,639,781	**-**	-
Deferred tax liability	10	**478,017**	505,795	**-**	-
Total non-current liabilities		**3,001,297**	3,277,384	**-**	-
Total liabilities		**3,521,733**	3,534,866	**55,048**	55,199
EQUITY					
Equity attributable to beneficiaries of the parent		**1,557,918**	1,539,676	**300,000**	300,000
Non-controlling interests in subsidiaries		**526,290**	519,216	**-**	-
Total equity		**2,084,208**	2,058,892	**300,000**	300,000
Total equity and liabilities		**5,605,941**	5,593,758	**355,048**	355,199

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

Cash Flow Statement

for the year ended 30 June 2010

	NOTE	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
OPERATING ACTIVITIES					
Cash provided from:					
Receipts from customers		**1,214,575**	1,170,655	-	-
Interest portion of repayments on finance leases		**108**	117	-	-
Interest received on deposits		**8,456**	17,305	**1,314**	2,464
Income tax refund		**9**	19	-	-
Dividends received		**200**	-	**103,263**	99,508
Dividend withholding tax refund		-	31	-	31
Miscellaneous income		**15**	15	**15**	15
		1,223,363	1,188,142	**104,592**	102,018
Cash applied to:					
Payments to suppliers and employees		**(615,636)**	(582,743)	**(3,796)**	(3,076)
Distribution to beneficiaries		**(96,662)**	(95,440)	**(96,662)**	(95,440)
Dividend withholding tax paid		**(4,273)**	(2,573)	**(4,273)**	(2,573)
Income tax paid		**(61,564)**	(62,424)	-	-
Interest paid on finance leases		**(422)**	(633)	-	-
Interest paid		**(180,670)**	(212,570)	-	-
		(959,227)	(956,383)	**(104,731)**	(101,089)
Net cash flows from/(used in) operating activities		**264,136**	231,759	**(139)**	929
INVESTING ACTIVITIES					
Cash provided from:					
Proceeds from sale of property, plant and equipment and software		**132**	557	-	-
Bank balances acquired on acquisition of Advanced Metering Services Limited		**990**	-	-	-
Net proceeds from sale of discontinued operations		-	772,950	-	-
		1,122	773,507	-	-
Cash applied to:					
Purchase and construction of property, plant and equipment and software		**(220,417)**	(237,108)	(13)	(1)
Acquisition of gas businesses		**(1,253)**	-	-	-
Repayment of loan from third party		**(3,500)**	-	-	-
Purchase of investment in associate		**(7,103)**	-	-	-
Loans to associates		**(6,500)**	(4,450)	-	-
Loan repaid by associate		**6,500**	-	-	-
		(232,273)	(241,558)	(13)	(1)
Net cash flows (used in)/ from investing activities		**(231,151)**	531,949	(13)	(1)

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

Cash Flow Statement (continued)

for the year ended 30 June 2010

		GROUP		PARENT	
	NOTE	2010 $000	2009 $000	2010 $000	2009 $000
FINANCING ACTIVITIES					
Cash provided from/(applied to):					
Proceeds from borrowings		**54,000**	245,000	-	-
Repayment of borrowings		**(87,402)**	(855,000)	-	-
Withdrawal of short term deposits		**100,000**	200,000	-	-
Short term deposits		**-**	(300,000)	-	-
Debt raising costs incurred		**-**	(3,763)	-	-
Capital portion of payments under finance leases		**(1,995)**	(1,818)	-	-
Capital portion of receipts on finance leases		**10**	13	-	-
Dividends paid to non-controlling interests in subsidiaries		**(37,628)**	(37,169)	-	-
Purchase of treasury shares		**-**	(8,934)	-	-
Net cash flows from/(used in) financing activities		**26,985**	(761,671)	-	-
Net increase/(decrease) in cash and cash equivalents		**59,970**	2,037	**(152)**	928
Cash and cash equivalents at beginning of the period		**109,355**	107,318	**54,665**	53,737
Cash and cash equivalents at end of the period		**169,325**	109,355	**54,513**	54,665
Cash and cash equivalents comprises:					
Bank balances		**109,325**	74,355	**54,513**	54,665
Short term deposits maturing within three months		**60,000**	35,000	**-**	-
		169,325	109,355	**54,513**	54,665

Cash Flow Statement (continued)

for the year ended 30 June 2010

	NOTE	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
RECONCILIATION OF NET PROFIT TO NET CASH FLOWS FROM OPERATING ACTIVITIES					
Net profit for the period		**196,550**	377,916	**100,695**	98,083
Distribution to beneficiaries		**(100,577)**	(97,361)	**(100,577)**	(97,361)
Distributions payable		**(118)**	(3,511)	**(118)**	(3,511)
		95,855	277,044	**-**	(2,789)
ITEMS CLASSIFIED AS INVESTING ACTIVITIES					
Net loss on write-off of property, plant and equipment and software		**4,678**	12,022	**2**	1
Gain on sale of discontinued operations		**-**	(202,902)	**-**	-
		4,678	(190,880)	**2**	1
NON-CASH ITEMS					
Depreciation and amortisation		**156,326**	145,366	**7**	4
Impairment of investment in associate	16	**4,136**	6,519	**-**	-
Non-cash portion of finance costs		**(7,828)**	1,492	**-**	-
(Decrease)/increase in deferred tax liability		**(20,882)**	4,801	**-**	-
Decrease in provisions		**(962)**	(11,060)	**-**	-
Share of net loss/(profit) of associates	16	**2,305**	(1,208)	**-**	-
		133,095	145,910	**7**	4
CASH ITEMS NOT IMPACTING PROFIT					
Dividend received from associate		**200**	-	**-**	-
		200	-	**-**	-
MOVEMENT IN WORKING CAPITAL					
(Decrease)/ increase in payables and accruals		**(3,174)**	5,243	**105**	(286)
(Increase)/decrease in inventory		**(1,996)**	5,168	**-**	-
Decrease/(increase) in receivables and prepayments		**27,128**	(16,716)	**15**	1,140
Decrease in net income tax assets		**8,618**	3,131	**-**	-
Increase in distributions payable		**118**	3,511	**118**	3,511
Decrease in unclaimed distributions		**(386)**	(652)	**(386)**	(652)
		30,308	(315)	**(148)**	3,713
Net cash flows from operating activities		**264,136**	231,759	**(139)**	929

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

Statement of Accounting Policies

for the year ended 30 June 2010

REPORTING ENTITY

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

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

BASIS OF PREPARATION

The financial statements have been prepared in accordance with Generally Accepted Accounting Practices in New Zealand (NZ GAAP). The financial statements for Auckland Energy Consumer Trust (the parent) and consolidated financial statements are presented. The consolidated financial statements comprise the Trust and its subsidiaries (the group) and the group's share of any interest in associates, partnerships and joint ventures.

The accounting policies have been consistently applied by the Trust to all periods in these financial statements.

The financial statements for Auckland Energy Consumer Trust (the parent) and consolidated financial statements are presented. The consolidated financial statements comprise of the Trust 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. The financial statements also comply with International Financial Reporting Standards. This also ensures compliance with the Electricity Act 1992 and Amendments that requires financial statements to comply with NZ GAAP. The Trust is a non-profit orientated entity.

MEASUREMENT BASE

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

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

PRESENTATION OF FINANCIAL STATEMENTS

In accordance with the revised IAS 1 Presentation of Financial Statements (2007), which became effective for financial periods commencing on or after 1 January 2009, movements in equity resulting from transactions other than those with the owners are presented in the statement of comprehensive income and movements in equity resulting from transactions with the owners are presented in the statement of changes in equity. Since this change in accounting policy only impacts presentation aspects, there are no impacts on the income statement, the statement of financial position or the cash flow statement. Comparative information has been re-presented so that it conforms with the revised standard.

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.

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 Vector Limited's 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 bases of consolidation is included in the following section on Significant Accounting Policies.

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.

Sources of estimation uncertainty

The following are sources of estimation uncertainty where management have assessed there is a significant risk that a material adjustment to the carrying amounts of the assets or liabilities involved could possibly occur within the year ended 30 June 2011.

Valuation of goodwill and property, plant and equipment

At 30 June 2010, the carrying value of goodwill is $1,554.3 million (2009: $1,553.4 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 18 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 2010, the carrying value of property, plant and equipment is $3,540.2 million (2009: $3,459.6 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 2010, the total carrying value of the group's borrowings and derivative financial instruments is a liability of $2,702.1 million. Management have estimated the fair value of the group's financial instruments based on valuation models that use observable market inputs. Note 29 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.

Statement of Accounting Policies

for the year ended 30 June 2010

SIGNIFICANT ACCOUNTING POLICIES

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

A) BASIS OF CONSOLIDATION

Subsidiaries

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

Associates

Associates are entities in which the group has significant influence but not control over the operating and financial policies. The group's share of the net 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 its 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 partnerships. Where the group has a controlling interest in a partnership, it is accounted for in the consolidated financial statements as a subsidiary. Where the group has significant influence but not control over the operating and financial policies of the partnership, it is accounted for in the consolidated financial statements as an associate.

Acquisition or disposal during the period

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

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. Advances to subsidiaries from the parent are repayable on demand. All intra-group advances are eliminated on consolidation. Any interest income and interest expense incurred on these advances is eliminated in the income statement on consolidation.

SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The group's accounting policies of property, plant and equipment 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 recognised as a liability 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.

Interest Revenue

Interest revenue is recognised as it accrues.

D) *GOODS AND SERVICES TAX (GST)*

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

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

E) *GOVERNMENT GRANTS*

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

F) *FINANCE INCOME AND 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 profit or loss. Borrowing costs other than those capitalised to qualifying property, plant and equipment are recognised in the income statement using the effective interest rate method.

SIGNIFICANT ACCOUNTING POLICIES (continued)

G) *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.

H) *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.

I) *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.

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

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

J) *DISCONTINUED OPERATIONS*

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

SIGNIFICANT ACCOUNTING POLICIES (continued)

K) 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.

L) INVENTORIES

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

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.

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.

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. The carrying amount of property, plant and equipment is reviewed annually by Trustees to ensure it is not in excess of the recoverable amount from those assets.

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

SIGNIFICANT ACCOUNTING POLICIES (continued)

O) *DEPRECIATION* (continued)

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.

Impairment of equity instruments

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

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

Impairment of receivables

The 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.

SIGNIFICANT ACCOUNTING POLICIES (continued)

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 items in the foreseeable future. A provision is recognised where the likelihood of a resultant liability is considered more probable than not and the amount required to settle the liability can be reliably estimated. Where the likelihood of a resultant liability is more than remote but insufficient to warrant a provision, such events are disclosed as contingent liabilities.

Provisions are estimated by discounting the expected future cash flows at a pre-tax 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 where on construction of certain items of property, plant and equipment, the group becomes committed to an unavoidable obligation to ultimately dismantle and remove those items and to restore the site on which they are located at the end of the items' productive life.

S) *FINANCIAL INSTRUMENTS*

Borrowings

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

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

Borrowing costs

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

Cash and cash equivalents

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

Derivative financial instruments

Vector and its subsidiaries ("Vector Limited") 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 remeasured to their fair value at each balance date. The resulting gain or loss is recognised in the income statement immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in the income statement depends on the nature of the designated hedge relationship. The Vector Limited designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), or hedges of highly probable forecast transactions (cash flow hedges). At the inception of the transaction the Vector Limited documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. Vector Limited also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Fair value hedge

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

SIGNIFICANT ACCOUNTING POLICIES (continued)

S) FINANCIAL INSTRUMENTS (continued)

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 profit or loss. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within 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 profit or loss when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was 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 the following categories:

Loans and receivables

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

Financial instruments issued by the group

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.

Equity instruments repurchased and held as treasury shares

Any equity instruments issued by the group 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) FINANCIAL GUARANTEES

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

U) COMPARATIVE FIGURES

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

SIGNIFICANT ACCOUNTING POLICIES (continued)

V) CASH FLOW STATEMENT

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 equivalents.

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

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

W) NON-CURRENT ASSETS HELD FOR SALE

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

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 2010 have not been applied in preparing these consolidated financial statements.

NZ IFRS 9, Financial Instruments: Classification and Measurement
The first phase of amendments to NZ IFRS 9 specifies how an entity should classify and measure financial assets, including some hybrid contracts. All financial assets are to be classified on the basis of the objectives of the entity's business model for managing the financial assets. Under NZ IFRS 9 financial assets are initially measured at fair value plus particular transaction costs and subsequently measured at amortised cost or fair value. These amendments result in a simplified approach to classifying financial assets by removing the held-to-maturity and available for sale financial asset categories which now exist in NZ IAS 39. These amendments which become mandatory for the financial statements for the year ended 30 June 2014 are not expected to have any material impact on the financial statements.

NZ IAS 24, Related Party Disclosures (revised 2009)
This standard has been revised to simplify and clarify the definition of a related party and to provide a partial exemption from the disclosure requirements for government-related entities. These amendments which become mandatory for the financial statements for the year ended 30 June 2012 are not expected to have any material impact on the financial statements.

APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the trustees on 27 August 2010.

Notes to the Financial Statements

for the year ended 30 June 2010

1. CONTINUING AND DISCONTINUED OPERATIONS

		GROUP 2010			GROUP 2009			PARENT 2010			PARENT 2009		
	NOTE	CONTINUING OPERATIONS $000	DISCONTINUED OPERATIONS $000	TOTAL $000	CONTINUING OPERATIONS $000	DISCONTINUED OPERATIONS $000	TOTAL $000	CONTINUING OPERATIONS $000	DISCONTINUED OPERATIONS $000	TOTAL $000	CONTINUING OPERATIONS $000	DISCONTINUED OPERATIONS $000	TOTAL $000
Operating revenue		**1,185,827**	-	**1,185,827**	1,173,947	10,286	1,184,233	-	-	-	-	-	-
Other income		**1,628**	-	**1,628**	226	-	226	**103,278**	-	**103,278**	99,523	-	99,523
Total income		**1,187,455**	-	**1,187,455**	1,174,173	10,286	1,184,459	**103,278**	-	**103,278**	99,523	-	99,523
Operating expenditure		**(613,201)**	-	**(613,201)**	(595,407)	(3,574)	(598,981)	**(3,904)**	-	**(3,904)**	(3,427)	-	(3,427)
Earnings before interest, income tax, depreciation and amortisation (EBITDA)		**574,254**	-	**574,254**	578,766	6,712	585,478	**99,374**	-	**99,374**	96,096	-	96,096
Depreciation and amortisation		**(156,326)**	-	**(156,326)**	(145,366)	-	(145,366)	**(7)**	-	**(7)**	(4)	-	(4)
Profit before interest and income tax		**417,928**	-	**417,928**	433,400	6,712	440,112	**99,367**	-	**99,367**	96,092	-	96,092
Finance income		**8,784**	-	**8,784**	18,135	-	18,135	**1,328**	-	**1,328**	1,991	-	1,991
Finance costs		**(174,429)**	-	**(174,429)**	(205,684)	(2,878)	(208,562)	-	-	-	-	-	-
Share of net (loss)/profit from associates	16	**(2,305)**	-	**(2,305)**	1,208	-	1,208	-	-	-	-	-	-
Impairment of investment in associate	16	**(4,136)**	-	**(4,136)**	(6,519)	-	(6,519)	-	-	-	-	-	-
Profit before income tax		**245,842**	-	**245,842**	240,540	3,834	244,374	**100,695**	-	**100,695**	98,083	-	98,083
Income tax expense		**(49,292)**	-	**(49,292)**	(68,210)	(1,150)	(69,360)	-	-	-	-	-	-
Profit after income tax and before gain on discontinued operations		**196,550**	-	**196,550**	172,330	2,684	175,014	**100,695**	-	**100,695**	98,083	-	98,083
Gain on sale of discontinued operations (net of tax of $nil)		-	-	-	-	202,902	202,902	-	-	-	-	-	-
Net profit for the period		**196,550**	-	**196,550**	172,330	205,586	377,916	**100,695**	-	**100,695**	98,083	-	98,083

2. SEGMENT INFORMATION

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

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

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

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

   Electricity
   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. The results attributable to these activities are presented under the reconciliations of segment information to the group's consolidated financial statements on page 27.

All financing costs and finance income are incorporated within Corporate activities and are not allocated to the segments.

The group engages with two major customers which contributes individually greater than ten percent of its total revenue. These customers contributed a total of $259.7 million (2009: $241.7 million) in revenue with $103.3 million (2009: $99.5 million) reported in the parent segment and $156.4 million (2009: $142.2 million) reported in the Vector Limited segment.

2. SEGMENT INFORMATION (continued)

	GROUP 2010				GROUP 2009			
	AECT $000	VECTOR LIMITED $000	INTERSEGMENT $000	TOTAL $000	AECT $000	VECTOR LIMITED $000	INTERSEGMENT $000	TOTAL $000
External revenue:								
Operating revenue	-	1,182,818	-	1,182,818	-	1,162,100	-	1,162,100
Other income	15	1,611	-	1,626	15	150	-	165
Intersegment revenue	103,263	-	(103,263)	-	99,508	-	(99,508)	-
Segment revenue	103,278	1,184,429	(103,263)	1,184,444	99,523	1,162,250	(99,508)	1,162,265
External operating expenditure:								
Electricity transmission expenses	-	(128,842)	-	(128,842)	-	(118,461)	-	(118,461)
Gas purchases and production costs	-	(267,055)	-	(267,055)	-	(262,431)	-	(262,431)
Network and asset maintenance expenses	-	(73,704)	-	(73,704)	-	(80,159)	-	(80,159)
Personnel expenses	-	(36,593)	-	(36,593)	-	(30,779)	-	(30,779)
Other expenses	-	(46,530)	-	(46,530)	-	(50,715)	-	(50,715)
Intersegment expenditure	-	-	-	-	-	-	-	-
Operating expenditure	-	(552,724)	-	(552,724)	-	(542,545)	-	(542,545)
EBITDA	103,278	631,705	(103,263)	631,720	99,523	619,705	(99,508)	619,720
Depreciation and amortisation	-	(140,713)	-	(140,713)	-	(128,263)	-	(128,263)
Segment profit before income tax	103,278	490,992	(103,263)	491,007	99,523	491,442	(99,508)	491,457
Segment capital expenditure	-	225,278	-	225,293	-	225,930	-	225,945

2. SEGMENT INFORMATION (continued)

Reconciliation of segment revenues, 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 2010			GROUP 2009		
	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	**1,184,444**	**491,007**	**225,278**	1,162,265	491,457	225,930
Amounts not allocated to segments:						
Revenues from other utility-related activities	**3,011**	**3,011**	-	11,908	11,908	-
Operating expenditure attributable to corporate activities	-	**(60,477)**	-	-	(52,862)	-
Depreciation and amortisation of corporate assets	-	**(15,613)**	-	-	(17,103)	-
Finance income	-	**8,784**	-	-	18,135	-
Finance costs	-	**(174,429)**	-	-	(205,684)	-
Share of net (loss)/profit from associates	-	**(2,305)**	-	-	1,208	-
Impairment of investment in associate	-	**(4,136)**	-	-	(6,519)	-
Additions to corporate assets	-	-	**11,866**	-	-	12,790
Reported in consolidated financial statements	**1,187,455**	245,842	237,144	1,174,173	240,540	238,720

3. TOTAL INCOME

	NOTE	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Operating revenue					
Trading revenue:					
Energy sales		**398,230**	408,852	**-**	-
Provision of utility services		**757,824**	742,242	**-**	-
Customer contributions		**29,773**	22,853	**-**	-
		1,185,827	1,173,947	**-**	-
Other income					
Gain on disposal of property, plant and equipment and software		**1,613**	211	**-**	-
Miscellaneous income		**15**	15	**15**	15
Dividends received	31	**-**	-	**103,263**	99,508
		1,628	226	**103,278**	99,523
Total		**1,187,455**	1,174,173	**103,278**	99,523

4. OPERATING EXPENDITURE

	NOTE	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Operating expenditure includes:					
Rental and operating lease costs		**4,104**	4,240	**17**	17
Other administration expenses		**14,770**	17,281	**1,698**	1,595
Distribution Expenses		**992**	1,069	**992**	1,069
Project Expenses		**746**	301	**746**	301
Loss on disposal of property, plant and equipment and software intangibles		**6,291**	12,213	**2**	1
Bad debts written-off		**2,737**	258	**-**	-
(Decrease)/increase in provision for doubtful debts		**(1,039)**	448	**-**	-
Donations		**4**	30	**-**	-
Directors fees		**987**	900	**-**	-
Trustee Remuneration	33	**344**	330	**344**	330
Contributions to KiwiSaver		**598**	478	**-**	-
Release of provision for contractual indemnity	25	**-**	(8,877)	**-**	-
Auditors remuneration:					
Audit fees paid to principal auditors – Grant Thornton		**31**	36	**31**	36
Audit fees paid to auditors – KPMG		**707**	816	**-**	-
Fees paid for other assurance services provided – KPMG		**592**	422	**-**	-

Fees for other assurance services paid to auditors primarily relate to the special purpose audits of regulatory disclosures such as the electricity threshold compliance statements.

5. DEPRECIATION AND AMORTISATION

	Note	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Depreciation of property, plant and equipment					
Distribution systems		**95,541**	94,688	-	-
Distribution buildings		**1,299**	1,258	-	-
Electricity and gas meters		**21,025**	16,950	-	-
Cogeneration plant		**1,915**	1,624	-	-
Computer and telecommunications equipment		**11,489**	7,575	-	-
Motor vehicles and mobile equipment		**969**	1,181	-	-
Other plant and equipment		**7,071**	3,542	**7**	4
Buildings		**75**	219	-	-
Leasehold improvements		**2,363**	1,643	-	-
	19	**141,747**	128,680	**7**	4
Amortisation of intangible assets					
Contractual agreements		**139**	-	-	-
Software		**14,440**	16,686	-	-
	18	**14,579**	16,686	-	-
Total		**156,326**	145,366	**7**	4

6. NET FINANCE COSTS

	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Finance income				
Interest income	**(8,784)**	(18,135)	**(1,328)**	(1,991)
	(8,784)	(18,135)	**(1,328)**	(1,991)
Finance costs				
Interest expense	**177,599**	207,618	-	-
Loss on ineffective portion of cash flow hedges	-	13	-	-
Profit/(loss) on fair value movement on hedging instruments	**42,976**	(88,949)	-	-
(Profit)/loss on fair value movement on hedged items	**(43,070)**	89,286	-	-
Loss on financial instruments at fair value through profit or loss	-	1,004	-	-
Capitalised interest	**(6,035)**	(6,025)	-	-
Other net finance expenses/gains	**2,959**	2,737	-	-
	174,429	205,684	-	-
Net finance costs	**165,645**	187,549	**(1,328)**	(1,991)

Interest is capitalised on property, plant and equipment while under construction at an average rate of 7.1% per annum (2009: 8.1%).

The loss on financial instruments at fair value through profit or loss mostly relates to interest rate caps. These were not designated as a hedging instrument in any hedge relationship.

7. INCOME TAX EXPENSE

	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
Current income tax				
Current income tax expense	**68,059**	60,622	**-**	-
Prior period adjustments recognised in the current period	**162**	3,934	**-**	-
Deferred income tax				
Relating to property, plant and equipment	**13,497**	3,584	**-**	-
Relating to other items in the statement of financial position	**(9,617)**	3,218	**-**	-
Relating to future change in buildings depreciation rules	**9,232**	-	**-**	-
Relating to future reduction in tax rate	**(31,271)**	-	**-**	-
Prior period adjustments recognised in the current period	**(770)**	(3,148)	**-**	-
Income tax expense	**49,292**	68,210	**-**	-
Reconciliation of income tax expense				
Profit before income tax	**245,842**	240,540	**100,695**	98,083
Tax at current rate	**73,675**	72,119	**33,229**	32,367
Future reduction in tax rate impacting deferred tax	**(31,271)**	-	**-**	-
Future change in buildings depreciation rules impacting deferred tax	**9,232**	-	**-**	-
Non-taxable items:				
Customer contributions	**(7,865)**	(6,856)	**-**	-
Impairment of investment in associate	**1,241**	1,956	**-**	-
Other	**4,280**	991	**(33,229)**	(32,367)
Income tax expense	**49,292**	68,210	**-**	-

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 Limited has restated its deferred tax liability to reflect these changes resulting in a reduction in income tax expense for the period of $22.0 million. The Government also announced that customer contributions would be taxable for those contributions received on or after 21 May 2010. This had the impact of increasing group tax expense by $1.1 million for the 2010 period.

8. INCOME TAX

	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Current tax asset				
Prepaid tax	**35,193**	43,606	-	-
Total	**35,193**	43,606	-	-
Non current tax asset				
Research and development tax credit	**448**	-	-	-
Total	**448**	-	-	-
Current tax liability				
Income tax payable	**1,428**	2,370	-	-
Total	**1,428**	2,370	-	-

	GROUP 2010 $000	GROUP 2009 $000
Imputation balances		
Balance at beginning of the period	**(24,944)**	(27,726)
Income tax payments during the period	**59,828**	59,444
Imputation credits attached to dividends paid	**(57,974)**	(56,662)
Balance at end of the period	**(23,090)**	(24,944)
The imputation credits are available to beneficiaries of the Trust:		
Through direct shareholding in Vector Limited	**(25,264)**	(26,519)
Through indirect shareholding in subsidiaries in Vector Limited	**2,174**	1,575
Total	**(23,090)**	(24,944)

The parent is not required to maintain an imputation credit account.

9. DEFERRED TAX ASSET

	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Balance at beginning of the period	**1,137**	1,137	-	-
Transfer to current tax on utilisation of tax losses	**(8)**	-	-	-
Acquisition of subsidiary	**1,764**	-	-	-
Impact of future reduction in tax rate	**(193)**	-	-	-
Balance at end of the period	**2,700**	1,137	-	-

The deferred tax assets acquired relate to the future income tax benefits of accumulated tax losses attributable to Advanced Metering Services Limited and are only available to be utilised to offset future taxable profits of that subsidiary company. All other deferred tax assets relate to the future income tax benefits of accumulated tax losses which are only available to Vector Communications and Vector Stream, also subsidiaries of Vector Limited.

10. DEFERRED TAX LIABILITY

GROUP 2010	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	539,080	(1,403)	(1,063)	(33,433)	2,614	505,795
Transfer to current tax on utilisation of tax losses	-	-	1,063	-	-	1,063
Amounts recognised in the income statement:						
Relating to the current period	13,497	(6,607)	(2,314)	-	(696)	3,880
Prior period adjustments recognised in the current period	(1,104)	338	-	-	(4)	(770)
Relating to future change in buildings depreciation rules	9,232	-	-	-	-	9,232
Relating to future reduction in tax rate	(31,847)	511	-	-	(128)	(31,464)
	(10,222)	(5,758)	(2,314)	-	(828)	(19,122)
Amounts recognised directly in other comprehensive income						
Amounts recognised directly in other comprehensive income relating to future reduction in tax rate	-	-	-	3,082	-	3,082
Other amounts	-	-	-	(12,801)	-	(12,801)
	-	-	-	(9,719)	-	(9,719)
Balance at end of the period	528,858	(7,161)	(2,314)	(43,152)	1,786	478,017
Deferred tax assets	-	(7,161)	(2,314)	(43,152)	-	(52,627)
Deferred tax liabilities	528,858	-	-	-	1,786	530,644
Net deferred tax liability	528,858	(7,161)	(2,314)	(43,152)	1,786	478,017

GROUP 2009	PROPERTY, PLANT AND EQUIPMENT $000	PROVISIONS AND ACCRUALS $000	TAX LOSSES $000	HEDGE RESERVE $000	OTHER $000	TOTAL $000
Balance at beginning of the period	538,320	(5,520)	(266)	-	2,186	534,720
Transfer to current tax on utilisation of tax losses	-	-	266	-	588	854
Amounts recognised in the income statement:						
Relating to the current period	3,584	4,441	(1,063)	-	(160)	6,802
Prior period adjustments recognised in the current period	(2,824)	(324)	-	-	-	(3,148)
	760	4,117	(1,063)	-	(160)	3,654
Amounts recognised directly in other comprehensive income	-	-	-	(33,433)	-	(33,433)
Balance at end of the period	539,080	(1,403)	(1,063)	(33,433)	2,614	505,795
Deferred tax assets	-	(1,403)	(1,063)	(33,433)	-	(35,899)
Deferred tax liabilities	539,080	-	-	-	2,614	541,694
Net deferred tax liability	539,080	(1,403)	(1,063)	(33,433)	2,614	505,795

There is an unrecognised deferred tax asset of $1,172,834 (2009: $839,360) for the parent and 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.

The parent has no deferred tax recorded.

11. TRANSACTIONS WITH OWNERS

The Vector Limited board authorised an on-market buy back of Vector Limited's shares in August 2008 with purchases occurring between 1 September 2008 and 27 August 2009. At balance date 4,244,923 shares had been purchased and are held as treasury shares.

On 2 September 2009, the trust authorised a net distribution to beneficiaries to be paid on 18 September 2009 of $320 each (2009: $320).

12. RECEIVABLES AND PREPAYMENTS

	NOTE	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Current					
Trade receivables	29	**143,367**	170,229	-	-
Provision for doubtful debts	29	**(4,857)**	(5,896)	-	-
		138,510	164,333	-	-
Prepayments		**6,824**	6,463	-	-
Interest receivable		**18,921**	20,312	**528**	515
Other receivables	29	**28**	23	-	16
Total		**164,283**	191,131	**528**	531
Non-current					
Loan to associate	31	-	4,450	-	-
Other receivables		**1,428**	1,440	-	-
Total	29	**1,428**	5,890	-	-

13. INVENTORIES

	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Natural gas and by-products	**1,667**	1,552	-	-
Trading stock	**2,504**	598	-	-
Consumable spares	**33**	58	-	-
Total	**4,204**	2,208	-	-

14. DISCONTINUED OPERATIONS

Disposal of subsidiaries
On 24 July 2008, Vector Limited disposed of 100% of shares in its subsidiaries Vector Wellington Electricity Networks Limited and Vector Wellington Electricity Management Limited to Cheung Kong Infrastructure Holdings Limited. Details of the disposal are as follows:

	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
Cash flows from discontinued operations				
Net cash flows from operating activities	-	4,246	-	-
Net cash flows used in investing activities	-	(1,849)	-	-
Net cash flows from financing activities	-	9,653	-	-
Net cash inflow	-	12,050	-	-

	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
Book value of net assets sold:				
Current assets				
Cash and cash equivalents	-	12,050	-	-
Receivables and prepayments	-	14,027	-	-
Non-current assets				
Property, plant and equipment	-	507,669	-	-
Intangible assets	-	114,743	-	-
Current liabilities				
Payables and accruals	-	(14,281)	-	-
Provisions	-	(104)	-	-
Income tax	-	(1,441)	-	-
Non-current liabilities				
Deferred tax	-	(57,423)	-	-
Net assets disposed	-	575,240	-	-
Costs of disposal	-	8,158	-	-
Gain on disposal of discontinued operations	-	202,902	-	-
Total consideration received or accrued	-	786,300	-	-
Accrual for consideration receivable pending final completion	-	(1,300)	-	-
Consideration received in cash and cash equivalents	-	785,000	-	-

The consideration receivable at 30 June 2009 was subsequently received during the year ended 30 June 2010.

	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
Consideration received in cash and cash equivalents	-	785,000	-	-
Less: cash and cash equivalent balances disposed	-	(12,050)	-	-
Net cash and cash equivalents on disposal	-	772,950	-	-

15. INVESTMENTS

Investments in group companies comprise:

	PRINCIPAL ACTIVITY	PERCENTAGE HELD	
		2010	2009
Subsidiaries			
Vector Limited	Utility Network Provider	**75.4%**	75.4%
NGC Holdings Limited	Investment	**75.4%**	75.4%
- Vector Management Services Limited	Management services	**75.4%**	75.4%
- Vector Gas Limited	Natural gas sales, processing and transportation	**75.4%**	75.4%
- Vector Gas Contracts Limited	Natural gas sales	**75.4%**	75.4%
- Vector Gas Investments Limited	Investment	**75.4%**	75.4%
- Vector Kapuni Limited	Investment	**75.4%**	75.4%
- Liquigas Limited	LPG tolling sales	**45.2%**	45.2%
- On Gas Limited	LPG sales and distribution	**75.4%**	75.4%
- NGC Metering Limited	Electricity and gas metering	**75.4%**	75.4%
- Vector Metering Data Services Limited	Investment and metering data services	**75.4%**	75.4%
- Elect Data Services (Australia) Pty Limited	Energy metering data management	**75.4%**	75.4%
Vector Communications Limited	Telecommunications	**75.4%**	75.4%
Vector Stream Limited	Investment	**75.4%**	75.4%
- Stream Information Limited	Agent for partnership	**52.8%**	52.8%
- Stream Information Partnership	Metering services	**52.8%**	52.8%
Advanced Metering Services Limited	Metering services	**75.4%**	52.8%

15. INVESTMENTS (continued)

	PRINCIPAL ACTIVITY	*PERCENTAGE HELD* 2010	2009
Non-trading subsidiaries			
Auckland Generation Limited	Holding company	**75.4%**	75.4%
- MEL Network Limited	Holding company	**75.4%**	75.4%
- Mercury Geotherm Limited (in receivership)	Investment	**75.4%**	75.4%
- Poihipi Land Limited (in receivership)	Investment	**75.4%**	75.4%
UnitedNetworks Limited	Dormant	**75.4%**	75.4%
Salamanca Holdings Limited	Investment	**56.6%**	56.5%
Broadband Services Limited	Dormant	**75.4%**	75.4%
UnitedNetworks Employee Share Schemes Trustee Limited	Trustee company	**75.4%**	75.4%
NGC Limited	Dormant	**75.4%**	75.4%
Associates			
Tree Scape Limited	Vegetation management	**37.7%**	37.7%
- Treescape Australasia Pty Limited	Vegetation management	**37.7%**	37.7%
Energy Intellect Limited	Metering services	**18.9%**	18.9%
NZ Windfarms Limited	Power generation	**16.6%**	15.1%
Joint venture interests			
Kapuni Energy Joint Venture	Cogeneration	**37.7%**	37.7%

The Trust holds 751,000,000 ordinary shares in Vector Limited. At 30 June 2010, the market value of these shares was $1,622,160,000 (2009: $1,532,040,000). The cost of investment in Vector Limited is $300,000,000.

During April 2010, the group subscribed to a rights issue by NZ Windfarms Limited and also acquired shares which were not taken up in the rights issue in its capacity as underwriter of the issue. In total the group acquired 47,980,362 additional shares for $7.2 million at 15 cents per share increasing the group's shareholding from 15.1% to 16.6%.

Previously, in December 2009, an impairment loss of $4.1 million was recognised in respect of the group's investment in NZ Windfarms Limited.

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

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

16. INVESTMENT IN ASSOCIATES

		GROUP		PARENT	
	NOTE	2010 $000	2009 $000	2010 $000	2009 $000
Carrying amount of associates					
Balance at beginning of the period		**28,193**	33,504	-	-
Remeasurement and derecognition of non-controlling interest in Advanced Metering Services Limited		**(3,130)**	-	-	-
Impairment of investment in NZ Windfarms Limited	1	**(4,136)**	(6,519)	-	-
Acquisition of further investment in NZ Windfarms Limited		**7,103**	-	-	-
Share of net (loss)/profit of associates	1	**(2,305)**	1,208	-	-
Dividend received from associate		**(200)**	-	-	-
Balance at end of the period		**25,525**	28,193	-	-
Equity accounted earnings of associates					
(Loss)/profit before income tax		**(2,824)**	1,757	-	-
Income tax expense		**519**	(549)	-	-
Share of net (loss)/profit of associates		**(2,305)**	1,208	-	-
Total recognised revenues and expenses		**(2,305)**	1,208	-	-

The amount of goodwill included in the carrying amount of investments in associates is $15.8 million (2009: $15.8 million).

On 29 January 2010, Vector Limited purchased an additional 50% shareholding in Advanced Metering Services Limited (AMS) and now owns a 100% shareholding of the company.

As at 31 December 2009, an impairment loss of $4.1 million (2009: $6.5 million) was recognised in respect of Vector Limited's investment in its associate company, NZ Windfarms Limited. The share price of NZ Windfarms Limited declined between 31 December 2008 and 31 December 2009 from $0.70 per share to $0.42 per share. The recoverable amount determined at 31 December 2009 was estimated based on the investment's fair value less costs to sell by reference to this active market price on the New Zealand Stock Exchange.

In April 2010, Vector Limited acquired 47,980,362 additional shares issued by NZ Windfarms Limited at $0.15 per share pursuant to its 8 shares for 3 shares held rights issue.

The share price at 30 June 2010 of $0.21 per share supports the current carrying value of Vector Limited's investment in NZ Windfarms Limited at that date.

	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
Summarised financial information of associates (100%):				
Total assets	**142,131**	144,829	-	-
Total liabilities	**21,880**	41,164	-	-
Total revenue	**50,769**	56,358	-	-
Total profit after tax	**(5,019)**	3,263	-	-

17. INTEREST IN JOINT VENTURES

Kapuni Energy Joint Venture

Vector Limited 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. Each 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.

18. INTANGIBLE ASSETS

GROUP 2010	NOTE	GOODWILL $000	CONTRACTUAL COMMITMENTS $000	EASEMENTS $000	SOFTWARE $000	TOTAL $000
Cost						
Balance at beginning of the period		**1,553,391**	**-**	**12,491**	**115,963**	**1,681,845**
Acquisition of subsidiary		**-**	**2,147**	**-**	**8,803**	**10,950**
Additions		**944**	**-**	**-**	**3**	**947**
Transfers from property, plant and equipment		**-**	**-**	**409**	**15,182**	**15,591**
Balance at end of the period		**1,554,335**	**2,147**	**12,900**	**139,951**	**1,709,333**
Accumulated amortisation						
Balance at beginning of the period		**-**	**-**	**-**	**(80,750)**	**(80,750)**
Amortisation for the period	5	**-**	**(139)**	**-**	**(14,440)**	**(14,579)**
Transfers from property, plant and equipment		**-**	**-**	**-**	**(1,776)**	**(1,776)**
Balance at end of the period		**-**	**(139)**	**-**	**(96,966)**	**(97,105)**
Carrying amount at 30 June 2010		**1,554,335**	**2,008**	**12,900**	**42,985**	**1,612,228**

GROUP 2009	NOTE	GOODWILL $000	EASEMENTS $000	SOFTWARE $000	TOTAL $000
Cost					
Balance at beginning of the period		1,553,391	11,967	101,741	1,667,099
Additions		-	-	11,724	11,724
Disposals		-	-	(2,804)	(2,804)
Transfers from property, plant and equipment		-	524	5,302	5,826
Balance at end of the period		1,553,391	12,491	115,963	1,681,845
Accumulated amortisation					
Balance at beginning of the period		-	-	(61,566)	(61,566)
Amortisation for the period	5	-	-	(16,686)	(16,686)
Disposals		-	-	2,804	2,804
Transfers from property, plant and equipment		-	-	(5,302)	(5,302)
Balance at end of the period		-	-	(80,750)	(80,750)
Carrying amount at 30 June 2009		1,553,391	12,491	35,213	1,601,095

The parent has no intangible assets.

18. INTANGIBLE ASSETS (continued)

Amortisation charge

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

Allocation of goodwill to cash-generating units

Goodwill is allocated to operating segments, being the lowest level at which the goodwill is monitored for internal management purposes. The aggregate carrying amounts of goodwill allocated to each segment are $852.2 million for Electricity, $468.1 million for Gas Transportation, $219.2 million for Gas Wholesale, and $14.8 million for Technology (2009: $852.2 million, $468.1 million, $218.3 million, $14.8 million respectively).

Impairment testing

The recoverable amounts attributable to each segment are calculated on the basis of value-in-use using discounted cash flow models. Future cash flows are projected out ten years, based on actual results and Vector board-approved business plans. Key assumptions include the level of future EBITDA and levels of maintenance expenditure for each segment. Vector Limited's management believe that the ten year forecast period is justified due to the long-term nature of Vector Limited's capital investment in its electricity, gas and technology businesses. Terminal growth rates in a range of 0.0% to 3.5% are applied. Pre-tax discount rates between 8.9% and 18.7% 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. Two key drivers of the outcome of price path resets are the regulatory weighted average cost of capital ("WACC") and changes in the valuation of the regulatory asset base ("RAB"). For example increasing or decreasing our assumption as to the regulatory WACC by 0.1% would increase or decrease the valuation of the electricity segment by $68 million and the valuation of the gas transportation segment by $16 million. The government's ultra fast broadband initiative is taken in to account in determining the value of the technology segment.

The recoverable amount of each segment to which goodwill is allocated exceeds the net assets plus goodwill allocated. Therefore Vector Limited has determined that no impairment to goodwill has occurred during the period (2009: $Nil).

19. PROPERTY, PLANT AND EQUIPMENT

GROUP 2010	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	3,232,120	69,441	45,374	209,381	11,112	99,766	7,462	99,286	6,263	8,615	9,925	93,227	3,891,972
Acquisition of subsidiary	-	-	-	12	-	827	-	83	-	-	165	6,386	7,473
Additions	-	-	-	2,065	2,362	200	258	6,986	-	-	-	224,339	236,210
Transfers:													
Intangible assets	-	-	-	-	-	(1,929)	-	-	-	-	-	(13,662)	(15,591)
Other classes	129,480	(1,510)	1,242	28,508	(329)	32,988	(96)	22,445	(226)	(5,641)	353	(207,214)	-
Disposals	(6,048)	-	-	(873)	(1,571)	-	(1,222)	(208)	-	-	-	-	(9,922)
Balance at end of the period	3,355,552	67,931	46,616	239,093	11,574	131,852	6,402	128,592	6,037	2,974	10,443	103,076	4,110,142
Accumulated depreciation													
Balance at beginning of the period	(306,178)	-	(3,794)	(58,061)	(7,458)	(31,636)	(3,237)	(14,061)	-	(1,699)	(6,258)	-	(432,382)
Depreciation	(95,541)	-	(1,299)	(21,025)	(1,915)	(11,489)	(969)	(7,071)	-	(75)	(2,363)	-	(141,747)
Transfers:													
Intangible assets	-	-	-	-	-	1,776	-	-	-	-	-	-	1,776
Other classes	1,868	-	(17)	(132)	(280)	(1,186)	207	(2,615)	-	1,448	707	-	-
Disposals	659	-	-	388	834	-	421	161	-	-	-	-	2,463
Balance at end of the period	(399,192)	-	(5,110)	(78,830)	(8,819)	(42,535)	(3,578)	(23,586)	-	(326)	(7,914)	-	(569,890)
Carrying amount at 30 June 2010	2,956,360	67,931	41,506	160,263	2,755	89,317	2,824	105,006	6,037	2,648	2,529	103,076	3,540,252

19. PROPERTY, PLANT AND EQUIPMENT (continued)

GROUP 2009	DISTRIBUTION SYSTEMS $000	DISTRIBUTION LAND $000	DISTRIBUTION BUILDINGS $000	ELECTRICITY AND GAS METERS $000	COGEN PLANT $000	COMPUTER AND TELECO EQUIPMENT $000	MOTOR VEHICLES AND MOBILE EQUIPMENT $000	OTHER PLANT AND EQUIPMENT $000	FREEHOLD LAND $000	BUILDINGS $000	LEASEHOLD IMPROVE-MENTS $000	CAPITAL WORK IN PROGRESS $000	TOTAL $000
Cost													
Balance at beginning of the period	3,053,869	65,518	42,581	177,531	11,525	73,084	6,286	93,421	6,251	7,681	10,165	142,314	3,690,226
Additions	1,089	1,432	-	1,258	-	572	932	14,474	12	-	-	207,228	226,997
Transfers to:													
Intangible assets	-	-	-	-	-	(5,302)	-	-	-	-	-	(524)	(5,826)
Other classes	187,061	2,491	2,793	31,789	(413)	36,309	438	(8,145)	-	974	(237)	(253,060)	-
Disposals	(9,899)	-	-	(1,197)	-	(4,897)	(194)	(464)	-	(40)	(3)	(2,731)	(19,425)
Balance at end of the period	3,232,120	69,441	45,374	209,381	11,112	99,766	7,462	99,286	6,263	8,615	9,925	93,227	3,891,972
Accumulated depreciation													
Balance at beginning of the period	(220,435)	-	(2,585)	(33,217)	(7,227)	(29,906)	(2,055)	(15,603)	-	(1,377)	(3,466)	-	(315,871)
Depreciation	(94,688)	-	(1,258)	(16,950)	(1,624)	(7,575)	(1,181)	(3,542)	-	(219)	(1,643)	-	(128,680)
Transfers to:													
Intangible assets	-	-	-	-	-	5,302	-	-	-	-	-	-	5,302
Other classes	8,008	-	49	(8,615)	1,393	(4,351)	(31)	4,841	-	(143)	(1,151)	-	-
Disposals	937	-	-	721	-	4,894	30	243	-	40	2	-	6,867
Balance at end of the period	(306,178)	-	(3,794)	(58,061)	(7,458)	(31,636)	(3,237)	(14,061)	-	(1,699)	(6,258)	-	(432,382)
Carrying amount at 30 June 2009	2,925,942	69,441	41,580	151,320	3,654	68,130	4,225	85,225	6,263	6,916	3,667	93,227	3,459,590

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 7.1% per annum (2009: 8.1% per annum). During the year $17.7 million (2009: $17.9 million) of interest and other internal costs were capitalised. Property, plant and equipment subject to finance lease arrangements are included in electricity and gas meters at a net book value of $3.7 million and in motor vehicles and mobile equipment at a net book value of $1.7 million (2009: $5.2 million and $2.4 million respectively).

Property, plant and equipment includes $1.7 million (2009: $2.4 million) of motor vehicles and mobile equipment for which ownership passes to the lessor in the event of default on the finance lease arrangement.

19. PROPERTY, PLANT AND EQUIPMENT (continued)

PARENT 2010	OTHER PLANT AND EQUIPMENT $000	TOTAL $000
Cost		
Balance at beginning of the reporting period	27	27
Additions	13	13
Disposals	(25)	(25)
Balance at end of the reporting period	15	15
Accumulated depreciation		
Balance at beginning of the reporting period	(24)	(24)
Depreciation	(7)	(7)
Disposals	23	23
Balance at end of the reporting period	(8)	(8)
Carrying amount at 30 June 2010	7	7

PARENT 2009	OTHER PLANT AND EQUIPMENT $000	TOTAL $000
Cost		
Balance at beginning of the reporting period	26	26
Additions	1	1
Disposals	-	-
Balance at end of the reporting period	27	27
Accumulated depreciation		
Balance at beginning of the reporting period	(20)	(20)
Depreciation	(4)	(4)
Disposals	-	-
Balance at end of the reporting period	(24)	(24)
Carrying amount at 30 June 2009	3	3

20. PAYABLES AND ACCRUALS

		GROUP		PARENT	
		2010 $000	2009 $000	2010 $000	2009 $000
Current					
Trade payables and other creditors		**132,459**	123,238	**601**	464
Deferred income		**2,886**	3,161	-	-
Finance leases	27	**1,836**	2,356	-	-
Deferred consideration payable		**2,546**	1,026	-	-
Interest payable		**49,993**	50,538	-	-
Total		**189,720**	180,319	**601**	464
Non-current					
Deferred income		**22,126**	20,422	-	-
Deferred consideration payable		**1,655**	2,393	-	-
Finance leases	27	**1,448**	3,695	-	-
Other non-current payables		**592**	627	-	-
Total		**25,821**	27,137	-	-

The deferred consideration payable is in respect of Energy Intellect Limited, which is an associate company of Vector Limited and Advanced Metering Services Limited, which is a subsidiary of Vector Limited.

21. DISTRIBUTIONS PAYABLE

	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
Current				
Distributions payable	**51,001**	50,884	51,001	50,884

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

Net income from the current year.

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

Trustee accumulations available for distribution.

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

As at 30 June 2010 no distribution roll had been struck to determine the allocation of this income to the beneficiaries, therefore the funds are held as distributions payable.

22. PROVISIONS

		GROUP		PARENT	
	NOTE	2010 $000	2009 $000	2010 $000	2009 $000
Current					
Provision for unclaimed distributions	23	**3,443**	3,829	**3,443**	3,829
Provision for employee entitlements	24	**5,484**	5,847	**3**	22
Other provisions	25	**11,344**	11,559	-	-
Total		**20,271**	21,235	**3,446**	3,851
Non-current					
Decommissioning provision	26	**3,000**	1,000	-	-
Total		**3,000**	1,000	-	-

23. PROVISION FOR UNCLAIMED DISTRIBUTIONS

	NOTE	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Balance at beginning of the reporting period		**3,829**	4,480	**3,829**	4,480
Additions		**11,095**	10,069	**11,095**	10,069
Reversed		**(11,481)**	(10,720)	**(11,481)**	(10,720)
Balance at end of the reporting period	22	**3,443**	3,829	**3,443**	3,829

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

24. PROVISION FOR EMPLOYEE ENTITLEMENTS

	NOTE	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Balance at beginning of the period		**5,847**	5,552	**22**	7
Acquisition of subsidiary – Advanced Metering Services Limited		**382**	-	-	-
Additions/(utilised)		**(745)**	295	**(19)**	15
Balance at end of the period	22	**5,484**	5,847	**3**	22

25. OTHER PROVISIONS

	NOTE	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Balance at beginning of the period		**11,559**	24,915	-	-
Additions		**770**	2,665	-	-
Utilised		-	(4,058)	-	-
Reversed to the income statement		**(985)**	(11,963)	-	-
Balance at end of the period	22	**11,344**	11,559	-	-

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.

Vector Limited's provision for a contractual indemnity amounting to $nil (2009: $8.9 million) was reversed to the income statement during the year ended 30 June 2010.

26. DECOMMISSIONING PROVISION

	NOTE	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Balance at beginning of the period		**1,000**	-	-	-
Additions		**2,000**	1,000	-	-
Balance at end of the period	22	**3,000**	1,000	-	-

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

27. 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 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Estimated capital expenditure contracted for at balance date but not provided	**117,489**	133,091	-	-

(b) Operating lease commitments

The majority of the operating lease commitments relate to premises leases. These, in the main, give Vector Limited 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 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Within one year	**3,412**	4,436	-	-
One to five years	**2,930**	5,322	-	-
Beyond five years	**1,004**	621	-	-
Total	**7,346**	10,379	-	-

(c) Finance lease commitments

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

	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Minimum lease payments for finance lease liabilities				
Within one year	**2,056**	2,794	-	-
One to five years	**1,576**	4,009	-	-
Total	**3,632**	6,803	-	-
Less: future finance charges	**(348)**	(752)	-	-
Present value of minimum lease payments	**3,284**	6,051	-	-

	NOTE	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Present value of finance lease liabilities					
Within one year	20	**1,836**	2,356	-	-
One to five years	20	**1,448**	3,695	-	-
Present value of minimum lease payments		**3,284**	6,051	-	-

Notes to the Financial Statements
for the year ended 30 June 2010

28. BORROWINGS

GROUP 2010	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	-	-	-	-	-	(235)	-	(235)
Working capital loan	-	-	-	-	-	(224)	-	(224)
Medium term notes – AUD floating rate	250,000	-	-	-	250,000	(385)	(77)	249,538
Capital bonds – fixed rate	-	307,205	-	-	307,205	(1,297)	-	305,908
Senior bonds – fixed rate	-	-	150,000	-	150,000	(2,541)	2,688	150,147
Senior notes – USD fixed rate	-	-	22,817	395,498	418,315	(1,225)	46,075	463,165
Floating rate notes	-	-	-	1,160,000	1,160,000	(13,545)	-	1,146,455
Medium term notes – GBP fixed rate	-	-	-	285,614	285,614	(4,068)	(34,577)	246,969
Other	575	-	-	-	575	-	-	575
Total	250,575	307,205	172,817	1,841,112	2,571,709	(23,520)	14,109	2,562,298
Current borrowings	250,575	-	-	-	250,575	(844)	(77)	249,654
Non-current borrowings	-	307,205	172,817	1,841,112	2,321,134	(22,676)	14,186	2,312,644
Total	250,575	307,205	172,817	1,841,112	2,571,709	(23,520)	14,109	2,562,298

28. BORROWINGS (continued)

GROUP 2009	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	-	-	-	-	-	(383)	-	(383)
Working capital loan	-	-	-	-	-	(361)	-	(361)
Medium term notes – AUD floating rate	-	250,000	-	-	250,000	(922)	4,433	253,511
Capital bonds – fixed rate	-	-	307,205	-	307,205	(1,898)	-	305,307
Senior bonds – fixed rate	-	-	-	150,000	150,000	(3,022)	(2,400)	144,578
Senior notes – USD fixed rate	-	-	22,817	395,498	418,315	(1,346)	47,580	464,549
Floating rate notes	-	-	-	1,200,000	1,200,000	(16,207)	-	1,183,793
Medium term notes – GBP fixed rate	-	-	-	285,614	285,614	(4,393)	7,566	288,787
Other	575	-	-	-	575	-	-	575
Total	575	250,000	330,022	2,031,112	2,611,709	(28,532)	57,179	2,640,356
Current borrowings	575	-	-	-	575	-	-	575
Non-current borrowings	-	250,000	330,022	2,031,112	2,611,134	(28,532)	57,179	2,639,781
Total	575	250,000	330,022	2,031,112	2,611,709	(28,532)	57,179	2,640,356

28. BORROWINGS (continued)

The Trust has no borrowings. All Vector Limited 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.

Medium term notes – floating rate AUD 204 million mature April 2011. The interest on AUD medium term notes is paid quarterly, based on BBSW plus a margin.

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

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 at a contract exchange rate of USD 0.6574 for every NZD. Interest is paid semi-annually.

The floating rate notes totalling $1.2 billion were issued in three tranches in October 2005 ($250 million 10 year, $400 million 12 year, and $350 million 15 year) and in one tranche in April 2007 ($200 million 10 year). The $1.2 billion floating rate notes are credit wrapped by MBIA Insurance Corporation (10 year and 15 year tranches issued in October 2005) and Ambac Assurance Corporation (12 year tranche issued in October 2005 and 10 year tranche issued in April 2007). Interest is paid quarterly based on BKBM plus a margin.

In July 2009, Vector Limited repurchased $40 million of its floating rate notes from the $200 million 10 year tranche at a discount of $6.6 million. This discount is included as a gain within finance costs disclosed in the income statement. The floating rate notes repurchased were subsequently cancelled in August 2009.

GBP 115 million fixed rate notes due to mature in January 2019 were placed at a contract 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 2010 and 30 June 2009.

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

The parent has a treasury policy approved by the trustees to manage the risks of financial instruments. The policy outlines the objectives and approach that the trust will adopt in the treasury management processes. The policy covers, among other things, management of credit risk, liquidity risk and operational risk. Non-derivative financial assets are categorised as 'loans and receivables'.

FAIR VALUES (FINANCIAL ASSETS)

	GRDUP 2010				GRDUP 2009			
	CARRYING AMDUNT (EXCLUDING ACCRUALS) $000	CARRYING AMOUNT ACCRUALS $000	TDTAL CARRYING AMOUNT $000	FAIR VALUE $000	CARRYING AMOUNT (EXCLUDING ACCRUALS) $000	CARRYING AMOUNT ACCRUALS $000	TDTAL CARRYING AMDUNT $000	FAIR VALUE $000
Current assets								
Loans and receivables:								
Cash and cash equivalents	**169,325**	**143**	**169,468**	**169,468**	109,355	-	109,355	109,355
Short term deposits	-	-	-	-	100,000	348	100,348	100,348
Trade receivables	**138,510**	-	**138,510**	**138,510**	164,333	-	164,333	164,333
Other receivables	**28**	-	**28**	**28**	23	-	23	23
Total	**307,863**	**143**	**308,006**	**308,006**	373,711	348	374,059	374,059
Non-current assets								
Loans and receivables:								
Loan to associate	-	-	-	-	4,450	85	4,535	4,535
Other receivables	**1,428**	-	**1,428**	**1,428**	1,440	-	1,440	1,440
Total	**1,428**	-	**1,428**	**1,428**	5,890	85	5,975	5,975

	PARENT 2010				PARENT 2009			
	CARRYING AMDUNT (EXCLUDING ACCRUALS) $000	CARRYING AMOUNT ACCRUALS $000	TDTAL CARRYING AMOUNT $000	FAIR VALUE $000	CARRYING AMOUNT (EXCLUDING ACCRUALS) $000	CARRYING AMDUNT ACCRUALS $000	TOTAL CARRYING AMOUNT $000	FAIR VALUE $000
Current Assets								
Cash and cash equivalents	**54,513**	-	**54,513**	**54,513**	54,665	-	54,665	54,665
Other receivables	-	-	-	-	16	-	16	16
Total	**54,513**	-	**54,513**	**54,513**	54,681	-	54,681	54,681

29. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

FAIR VALUES (FINANCIAL LIABILITIES)

	GROUP 2010				GROUP 2009			
	CARRYING AMOUNT (EXCLUDING ACCRUALS) $000	CARRYING AMOUNT ACCRUALS $000	TOTAL CARRYING AMOUNT $000	FAIR VALUE $000	CARRYING AMOUNT (EXCLUDING ACCRUALS) $000	CARRYING AMOUNT ACCRUALS $000	TOTAL CARRYING AMOUNT $000	FAIR VALUE $000
Current liabilities								
Trade payables and other creditors	**132,459**	**-**	**132,459**	**132,459**	123,238	-	123,238	123,238
Finance leases	**1,836**	**-**	**1,836**	**1,836**	2,356	-	2,356	2,356
Deferred consideration payable	**2,546**	**-**	**2,546**	**2,546**	1,026	-	1,026	1,026
Bank loans	**(235)**	**-**	**(235)**	**-**	(383)	-	(383)	-
Working capital loan	**(224)**	**-**	**(224)**	**-**	(361)	-	(361)	-
Medium term notes – AUD floating rate	**249,538**	**2,967**	**252,505**	**252,522**	253,511	2,208	255,719	256,274
Other	**575**	**-**	**575**	**575**	575	-	575	575
Total	**386,495**	**2,967**	**389,462**	**389,938**	379,962	2,208	382,170	383,469
Non-current liabilities								
Deferred consideration payable	**1,655**	**-**	**1,655**	**1,655**	2,393	-	2,393	2,393
Finance leases	**1,448**	**-**	**1,448**	**1,448**	3,695	-	3,695	3,695
Other non-current payables	**592**	**-**	**592**	**592**	627	-	627	627
Capital bonds – fixed rate	**305,908**	**3,298**	**309,206**	**325,603**	305,307	3,321	308,628	329,667
Senior bonds – fixed rate	**150,147**	**2,461**	**152,608**	**154,284**	144,578	1,105	145,683	148,303
Senior notes – USD fixed rate	**463,165**	**6,602**	**469,767**	**470,058**	464,549	6,998	471,547	471,903
Floating rate notes	**1,146,455**	**6,644**	**1,153,099**	**1,205,846**	1,183,793	7,648	1,191,441	1,206,851
Medium term notes – GBP fixed rate	**246,969**	**8,810**	**255,779**	**279,295**	288,787	10,289	299,076	304,940
Total	**2,316,339**	**27,815**	**2,344,154**	**2,438,781**	2,393,729	29,361	2,423,090	2,468,379

	PARENT 2010				PARENT 2009			
	CARRYING AMOUNT (EXCLUDING ACCRUALS) $000	CARRYING AMOUNT ACCRUALS $000	TOTAL CARRYING AMOUNT $000	FAIR VALUE $000	CARRYING AMOUNT (EXCLUDING ACCRUALS) $000	CARRYING AMOUNT ACCRUALS $000	TOTAL CARRYING AMOUNT $000	FAIR VALUE $000
Financial liabilities								
Trade payables and other creditors	**601**	**-**	**601**	**601**	464	-	464	464
Total	**601**	**-**	**601**	**601**	464	-	464	464

Notes to the Financial Statements

for the year ended 30 June 2010

29. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

FAIR VALUES OF DERIVATIVE FINANCIAL INSTRUMENTS

	GROUP 2010				GROUP 2009			
	CARRYING AMOUNT (EXCLUDING ACCRUALS) $000	CARRYING AMOUNT ACCRUALS $000	TOTAL CARRYING AMOUNT $000	FAIR VALUE $000	CARRYING AMOUNT (EXCLUDING ACCRUALS) $000	CARRYING AMOUNT ACCRUALS $000	TOTAL CARRYING AMOUNT $000	FAIR VALUE $000
Current assets								
Cross currency swaps	11	6	17	17	-	-	-	-
Forward exchange contracts	-	-	-	-	208	-	208	208
Total	11	6	17	17	208	-	208	208
Non-current assets								
Interest rate swaps	2,739	767	3,506	3,506	-	-	-	-
Cross currency swaps	47,605	5,940	53,545	53,545	50,952	6,380	57,332	57,332
Forward exchange contracts	-	-	-	-	393	-	393	393
Total	50,344	6,707	57,051	57,051	51,345	6,380	57,725	57,725
Current liabilities								
Interest rate swaps	8,138	4,049	12,187	12,187	2,099	725	2,824	2,824
Cross currency swaps	70	(1,043)	(973)	(973)	-	-	-	-
Forward exchange contracts	154	-	154	154	-	-	-	-
Total	8,362	3,006	11,368	11,368	2,099	725	2,824	2,824
Non-current liabilities								
Interest rate swaps	117,092	6,750	123,842	123,842	91,448	8,926	100,374	100,374
Cross currency swaps	63,798	(2,224)	61,574	61,574	12,223	(3,687)	8,536	8,536
Forward exchange contracts	925	-	925	925	-	-	-	-
Total	181,815	4,526	186,341	186,341	103,671	5,239	108,910	108,910

The parent has no derivative financial instruments.

29. FINANCIAL INSTRUMENTS AND 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 only financial instruments held by the group which are measured at fair value are derivatives. Their valuations 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 2010	GROUP 2009
Foreign currency exchange rates		
NZD-GBP FX rate	**0.45810**	0.39225
NZD-USD FX rate	**0.68480**	0.64605
NZD-AUD FX rate	**0.81525**	0.80080
Interest rate swap rates		
3 month cash rate	**3.13000**	2.84333
1 year semi-annual swap rate	**3.71000**	2.99000
2 year semi-annual swap rate	**4.07500**	3.84000
3 year semi-annual swap rate	**4.35000**	4.58500
5 year semi-annual swap rate	**4.76000**	5.38000
7 year semi-annual swap rate	**5.06000**	5.72500
10 year semi-annual swap rate	**5.35000**	6.07500

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, 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 AUD and 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.

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

INTEREST RATE RISK

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

The weighted average interest rates of borrowings were as follows.

	GROUP 2010 WEIGHTED AVERAGE INTEREST RATE %	GROUP 2010 FACE VALUE $000	GROUP 2009 WEIGHTED AVERAGE INTEREST RATE %	GROUP 2009 FACE VALUE $000
Medium term notes – AUD floating rate	**5.04**	**250,000**	3.68	250,000
Capital bonds – fixed rate	**8.00**	**307,205**	8.00	307,205
Senior bonds – fixed rate	**7.80**	**150,000**	7.80	150,000
Senior notes – USD fixed rate	**5.65**	**418,315**	5.65	418,315
Floating rate notes	**3.05**	**1,160,000**	3.39	1,200,000
Medium term notes – GBP fixed rate	**7.63**	**285,614**	7.63	285,614
Other	**-**	**575**	-	575
		2,571,709		2,611,709

The parent has no borrowings.

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

	GROUP 2010 WEIGHTED AVERAGE INTEREST RATE RECEIVE LEG %	GROUP 2010 WEIGHTED AVERAGE INTEREST RATE PAY LEG %	GROUP 2010 NOTIONAL AMOUNT $000	GROUP 2009 WEIGHTED AVERAGE INTEREST RATE RECEIVE LEG %	GROUP 2009 WEIGHTED AVERAGE INTEREST RATE PAY LEG %	GROUP 2009 NOTIONAL AMOUNT $000
Interest rate swaps (floating to fixed)						
Maturing in less than 1 year	**2.85**	**6.86**	**475,000**	3.01	7.08	100,000
Maturing between 1 and 2 years	**3.11**	**6.81**	**215,000**	3.10	6.86	475,000
Maturing between 2 and 5 years	**3.01**	**6.80**	**150,000**	3.07	6.81	365,000
Maturing after 5 years	**3.01**	**6.95**	**500,000**	3.01	7.12	400,000
			1,340,000			1,340,000
Interest rate swaps (fixed to floating)						
Maturing between 2 and 5 years	**7.80**	**5.47**	**150,000**	-	-	-
Maturing after 5 years	**-**	**-**	**-**	7.80	5.47	150,000
			150,000			150,000
Forward starting interest rate swaps (floating to fixed)						
Maturing after 5 years	**N/A**	**6.78**	**660,000**	N/A	6.71	760,000
			660,000			760,000
Interest rate cap						
Maturing in less than 1 year	**-**	**-**	**-**	N/A	N/A	400,000
			-			400,000

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

INTEREST RATE RISK (continued)

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

	GROUP 2010				GROUP 2009			
	WEIGHTED AVERAGE INTEREST RATE RECEIVE LEG %	AUD/USD/GBP PRINCIPAL AMOUNT '000	WEIGHTED AVERAGE INTEREST RATE PAY LEG %	NZD $000	WEIGHTED AVERAGE INTEREST RATE RECEIVE LEG %	AUD/USD/GBP PRINCIPAL AMOUNT '000	WEIGHTED AVERAGE INTEREST RATE PAY LEG %	NZD $000
Cross currency (AUD : NZD)								
Maturing in less than 1 year	**5.04**	**203,750**	**3.24**	**250,000**	-	-	-	-
Maturing between 1 and 2 years	-	-	-	-	3.68	203,750	3.76	250,000
		203,750		**250,000**		203,750		250,000
Cross currency (USD : NZD)								
Maturing between 2 and 5 years	**4.04**	**15,000**	**3.10**	**22,817**	5.04	15,000	3.37	22,817
Maturing after 5 years	**4.50**	**260,000**	**3.10**	**395,498**	5.69	260,000	3.58	395,498
		275,000		**418,315**		275,000		418,315
Cross currency (GBP : NZD)								
Maturing after 5 years	**7.63**	**115,000**	**10.84**	**285,614**	7.63	115,000	10.84	285,614
		115,000		**285,614**		115,000		285,614

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

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 future floating rate debt.

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

FOREIGN EXCHANGE RISK

Vector Limited has conducted transactions in foreign currencies for the purpose of protecting the NZD value of capital expenditure. Vector Limited has outstanding forward exchange contracts. These are used to hedge forecasted foreign currency exposure arising out of the capital expenditure program. Hence at balance date there is no significant exposure to foreign currency risk. The spot rates shown in the table below are as at the balance date for each period disclosed.

	GROUP 2010				GROUP 2009			
CURRENCY	BUY '000	SPOT RATE	WEIGHTED AVERAGE EXCHANGE RATE	MARK TO MARKET GAIN/(LOSS) NZD $000	BUY '000	SPOT RATE	WEIGHTED AVERAGE EXCHANGE RATE	MARK TO MARKET GAIN/(LOSS) NZD $000
EUR	**716**	**0.56**	**0.50**	**(157)**	465	0.46	0.49	71
USD	**13,487**	**0.68**	**0.61**	**(923)**	15,431	0.65	0.61	524
AUD	-	-	-	-	78	0.80	0.85	6
Total				**(1,080)**				601

CREDIT RISK

In the normal course of business, the group is exposed to credit risks from energy retailers, financial institutions, customers, cash and cash equivalents as well as credit exposures with respect to outstanding receivables. The 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 having at least a credit rating of A- long term from Standard & Poor's (or equivalent rating). In addition, limits on exposures to financial institutions have been set by the Trustees and Vector's 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.

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

	GROUP		PARENT	
	2010 FAIR VALUE $000	2009 FAIR VALUE $000	2010 FAIR VALUE $000	2009 FAIR VALUE $000
Cash and cash equivalents	**169,468**	109,355	**54,513**	54,665
Short term deposits	-	100,348	-	-
Loans and receivables	**140,506**	170,845	**528**	531
Interest rate swaps	**3,506**	-	-	-
Cross currency swaps	**53,562**	57,332	-	-
Forward exchange contracts	-	601	-	-

The ageing of trade receivables at the balance date was:

		GROUP		PARENT	
	NOTE	2010 CARRYING AMOUNT $000	2009 CARRYING AMOUNT $000	2010 CARRYING AMOUNT $000	2009 CARRYING AMOUNT $000
Not past due		**120,367**	138,900	-	-
Past due 1-30 days		**9,308**	15,915	-	-
Past due 31-120 days		**4,114**	5,561	-	-
Past due more than 120 days		**9,578**	9,853	-	-
Total	12	**143,367**	170,229	-	-

Vector Limited holds a provision for doubtful debts against the amounts disclosed above of $4.9 million (2009: $5.9 million).

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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 parent regularly monitors the liquidity position of the trust and Vector Limited has access to undrawn committed lines of credit of $325 million (30 June 2009: $325 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 crisis management is monitored 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 2010	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	132,459	-	-	-	132,459
Distributions payable	51,001	-	-	-	51,001
Unclaimed distributions	1,658	1,785	-	-	3,443
Finance leases	2,056	996	580	-	3,632
Medium term notes – AUD floating rate	263,540	-	-	-	263,540
Capital bonds – fixed rate	24,576	331,849	-	-	356,425
Senior bonds – fixed rate	15,739	15,739	189,347	-	220,825
Senior notes – USD fixed rate	22,707	22,707	87,266	461,198	593,878
Floating rate notes	49,222	56,535	206,451	1,386,744	1,698,952
Medium term notes – GBP fixed rate	19,142	19,140	57,427	327,603	423,312
Other	575	-	-	-	575
Derivative financial (assets) / liabilities					
Cross currency swaps (USD : NZD)					
Inflow	(22,707)	(22,707)	(87,266)	(461,198)	(593,878)
Outflow	18,508	21,575	94,636	490,099	624,818
Cross currency swaps (AUD : NZD)					
Inflow	(263,540)	-	-	-	(263,540)
Outflow	260,147	-	-	-	260,147
Cross currency swaps (GBP : NZD)					
Inflow	(19,142)	(19,140)	(57,427)	(327,603)	(423,312)
Outflow	30,973	31,058	92,920	401,955	556,906
Forward exchange contracts					
Inflow	(1,482)	-	(22,193)	-	(23,675)
Outflow	1,482	-	22,193	-	23,675
Net settled derivatives					
Interest rate swaps	41,686	29,140	57,431	17,387	145,644
	628,600	488,677	641,365	2,296,185	4,054,827

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

LIQUIDITY RISK (continued)

GROUP 2009	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 creditor	123,238	-	-	-	123,238
Distributions payable	50,884	-	-	-	50,884
Unclaimed distributions	2,034	1,795	-	-	3,829
Finance leases	2,794	2,313	1,696	-	6,803
Medium term notes – AUD floating rate	12,064	267,474	-	-	279,538
Capital bonds – fixed rate	24,576	24,576	331,849	-	381,001
Senior bonds – fixed rate	10,335	11,700	35,100	155,850	212,985
Senior notes – USD fixed rate	24,069	24,069	93,671	511,760	653,569
Floating rate notes	85,236	54,261	251,115	1,502,695	1,893,307
Medium term notes – GBP fixed rate	22,355	22,355	67,065	404,955	516,730
Other	575	-	-	-	575
Derivative financial (assets) / liabilities					
Cross currency swaps USD : NZD					
Inflow	(24,069)	(24,069)	(93,671)	(511,760)	(653,569)
Outflow	15,736	22,280	111,452	533,263	682,731
Cross currency swaps AUD : NZD					
Inflow	(12,064)	(267,474)	-	-	(279,538)
Outflow	10,814	262,274	-	-	273,088
Cross currency swaps GBP : NZD					
Inflow	(22,355)	(22,355)	(67,065)	(404,955)	(516,730)
Outflow	30,973	30,972	93,005	432,929	587,879
Forward exchange contracts					
Inflow	(4,244)	-	(21,882)	-	(26,126)
Outflow	4,244	-	21,882	-	26,126
Net settled derivatives					
Interest rate swaps and interest rate caps	48,345	38,179	18,387	3,812	108,723
	405,540	448,350	842,604	2,628,549	4,325,043

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

LIQUIDITY RISK (continued)

PARENT 2010	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					
Distributions payable	**51,001**	-	-	-	**51,001**
Trade payables and other creditors	**601**	-	-	-	**601**
Unclaimed distributions	**1,658**	**1,785**	-	-	**3,443**
	53,260	**1,785**	-	-	**55,045**

PARENT 2009	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					
Distributions payable	50,884	-	-	-	50,884
Trade payables and other creditors	464	-	-	-	464
Unclaimed distributions	2,034	1,795	-	-	3,829
	53,382	1,795	-	-	55,177

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 rate 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 $92.8 million loss (2009: $94.4 million loss). A fall of 1% in interest rate would result in a loss in other comprehensive income of $36.7 million (2009: $42.9 million) whereas an increase of 1% in interest rate would result in a gain in other comprehensive income of $34.9 million (2009: $40.7 million).

Forward starting interest rate swaps hedging the forecasted floating rate debt are also hedge accounted and treated as cash flow hedges and hence any changes in interest rate would have no material impact on profits as changes in the fair value of these swaps are taken through equity where the hedge is an effective hedge. The fair value of these interest rate swaps is a $43.2 million loss (2009: $6.7 million loss). A fall of 1% in interest rate would result in a loss in other comprehensive income of $30.8 million (2009: $32.8 million) whereas an increase of 1% in interest rate would result in a gain in other comprehensive income of $28.5 million (2009: $29.9 million).

Floating rate notes of $45 million (2009: $85 million) have not been hedged and hence a fall of 1% in interest rate would increase profit by $0.5 million (2009: $0.9 million) whereas an increase of 1% in interest rate would decrease profit by $0.5 million (2009: $0.9 million). The interest expense 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 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 (2009: NZ$150 million senior bonds) as the hedge is an effective hedge. The fair value of these interest rate swaps is a $3.5 million profit (2009: $2.1 million loss). However, since the interest rate is converted to floating, a fall of 1% in interest rate would increase profit by $1.5 million (2009: $1.5 million) and an increase of 1% in interest rate would decrease profit by $1.5 million (2009: $1.5 million). The interest expense movement is calculated for one year and proportionally allocated over the number of days, if maturity occurs within the period.

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

HEDGE ACCOUNTING AND SENSITIVITY ANALYSIS (continued)

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

Cross currency swaps hedging the foreign currency denominated debt are hedge accounted and treated either as a cash flow hedge or a fair value hedge depending upon the risk being hedged. Any changes in fair value arising out of foreign exchange movements would have no impact on profit as the receive leg of the cross currency swap exactly offsets the interest payments of the underlying exposure. The fair value of these cross currency swaps is a $7.0 million loss (2009: $48.8 million gain). However, changes in the interest rate would impact profit as shown in the table below. The impact on profit is calculated for one year and proportionally allocated over the number of days, if maturity occurs within the period. 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.

	GROUP 2010		GROUP 2009	
	-1% CHANGE IN INTEREST RATE $000	+1% CHANGE IN INTEREST RATE $000	-1% CHANGE IN INTEREST RATE $000	+1% CHANGE IN INTEREST RATE $000
Cross currency swaps				
AUD : NZD	**190**	**(190)**	250	(250)
USD : NZD	**4,183**	**(4,183)**	4,183	(4,183)
Total impact on profit increase / (decrease)	**4,373**	**(4,373)**	4,433	(4,433)

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 $1.1 million loss (2009: $0.6 million gain).

	GROUP 2010		GROUP 2009	
	-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	**142**	**(116)**	112	(92)
USD	**2,181**	**(1,739)**	2,469	(2,020)
AUD	**-**	**-**	11	(9)
Total impact on other comprehensive income increase/(decrease)	**2,323**	**(1,855)**	2,592	(2,121)

CAPITAL MANAGEMENT

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

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

The 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 debt less cash and cash equivalents and short term deposits.

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

HEDGE ACCOUNTING AND SENSITIVITY ANALYSIS (continued)

CAPITAL MANAGEMENT (continued)

The net debt to net debt plus equity ratios at 30 June 2010 and 30 June 2009 were as follows:

	GROUP	
	2010 $000	2009 $000
Current borrowings	**249,654**	575
Non-current borrowings	**2,312,644**	2,639,781
Total borrowings	**2,562,298**	2,640,356
Less: cash and cash equivalents	**(169,325)**	(109,355)
Less: short term deposits	**-**	(100,000)
Net debt	**2,392,973**	2,431,001
Total equity	**2,084,208**	2,058,892
Net debt plus equity	**4,477,181**	4,489,893
Net debt to net debt plus equity ratio	**53.4%**	54.1%

FINANCIAL GUARANTEES

Vector Limited has provided guarantees on behalf of Vector Gas Limited for the sale and purchase of gas. These guarantees are regarded as insurance contracts. No claims have been made against the guarantees hence there is no impact on the statement of financial position of the group.

30. CONTINGENT LIABILITIES

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

The parent has no material commitments or contingencies at balance date (2009: nil).

31. TRANSACTIONS WITH RELATED PARTIES

The Trust is the majority shareholder of Vector Limited. The Trust has engaged in the following transactions with Vector Limited.

	NOTE	PARENT	
		2010 $000	2009 $000
Receipt of dividend from Vector Limited	3	**103,263**	99,508
Payment of office rent to Vector Limited	4	**17**	17
Total transactions with Vector Limited		**103,280**	99,525

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

31. TRANSACTIONS WITH RELATED PARTIES (continued)

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

	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Purchase of vegetation management services from Tree Scape Limited	**4,892**	3,545	-	-
Purchase of electricity meters and metering services from Energy Intellect Limited	**1,683**	1,474	-	-
Loan to and interest receivable from Advanced Metering Services Limited	-	4,535	-	-
Purchase of management services from Advanced Metering Services Limited	**5,929**	10,311	-	-
Administrative and other services provided to Advanced Metering Services Limited	**251**	1,320	-	-
Sales of operations and maintenance services to Kapuni Energy Joint Venture	**1,167**	1,097	-	-
Purchases of electricity and steam from Kapuni Energy Joint Venture	**12,972**	11,330	-	-
Administrative and other services provided to Kapuni Energy Joint Venture	**66**	62	-	-

Gas sales to Kapuni Energy Joint Venture are transacted directly with Vector Kapuni Limited, a subsidiary of the group which is the 50% joint venture partner in Kapuni Energy Joint Venture. Accordingly, such sales are now fully eliminated on consolidation in the group financial statements.

Tax losses of $2.6 million (with a tax effect of $0.8m) have been transferred during the period from Vector Communications Limited for utilisation by Vector Limited to partially offset against its taxable profits for the period.

During January 2010, Vector Limited acquired a further 50% shareholding in Advanced Metering Services Limited for deferred consideration of $1.5 million. The deferred consideration is payable contingent upon Advanced Metering Services Limited achieving a target for the number of smart meters installed in New Zealand.

During April 2010, Vector Limited subscribed to a rights issue by NZ Windfarms Limited and also acquired shares which were not taken up in the rights issue in its capacity as underwriter of the issue. In total Vector Limited acquired 47,980,362 additional shares for $7,197,054, at 15 cents per share increasing the group's shareholding from 15.1% to 16.6%. Also during the year, Vector Limited granted NZ Windfarms Limited a loan of $6.5 million on commercial terms which was repaid in full in May 2010.

At 30 June 2010, there are no material outstanding balances due to or from associates and joint ventures which are related parties of Vector Limited or the parent.

A provision of $67.2 million (2009: $67.2 million) is held against Vector Limited's receivable from MEL Network Limited. No related party debts have been written off or forgiven during the period. Vector Limited has provided guarantees on behalf of Vector Gas Limited for the sale and purchase of gas. These guarantees are regarded as insurance contracts.

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

There are no balances outstanding with related parties at year end (2009: nil).

32. KEY MANAGEMENT PERSONNEL

This table includes Vector Limited directors fees and remuneration of Vector Limited's Group CEO and the members of his Executive Team during the periods presented as well as the remuneration of the parent's trustees and executive officer.

	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Directors fees	**987**	900	-	-
Trustees remuneration	**344**	330	**344**	330
Executive officer consulting fees	**232**	262	**232**	262
Salary and other short-term employee benefits	**5,106**	3,336	-	-
Post employment benefits	**3**	49	-	-
Redundancy and termination benefits	**447**	374	-	-
Total	**7,119**	5,251	**576**	592

32. KEY MANAGEMENT PERSONNEL (continued)

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

		GROUP		PARENT	
	NOTE	2010 $000	2009 $000	2010 $000	2009 $000
Trustees and Directors Remuneration					
W J Kyd (Chairman)		**90**	90	**90**	90
M J Buczkowski (Deputy Chairman)		**65**	65	**65**	65
W A A Cairns (elected October 2009)		**42**	-	**42**	-
J A Carmichael – Trustee remuneration		**62**	63	**62**	63
J A Carmichael – Director remuneration		**91**	62	-	-
S Chambers (resigned October 2009) – Trustee remuneration		**22**	53	**22**	53
S Chambers (resigned October 2009) – Director remuneration		-	30	-	-
K A Sherry – Trustee remuneration		**63**	59	**63**	59
K A Sherry – Director remuneration		**90**	90	-	-
Directors fees paid to non-trustee directors of Vector Limited		**806**	718	-	-
Total	4	**1,331**	1,230	**344**	330

33. EVENTS AFTER BALANCE DATE

In July 2010, the group established a new $50 million senior credit facility and a new $125 million working capital facility. These facilities will expire in August 2013 and December 2013 respectively. The facilities replace the existing $125 million senior credit facilities and $150 million working capital facility that were due to expire in August 2010 and December 2010 respectively.

On 21 July 2010, the trustees committed to a contract for the implementation of an Electronic Data Management System for approximately $28,500.

On 27 August 2010, Vector Limited's board declared a final dividend for the year ended 30 June 2010 of 7.5 cents per share paid on 13 September 2010.

On 27 August 2010, the trustees resolved to make a net distribution to beneficiaries of $320 (2009: $320) per beneficiary.

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

34. GUIDELINES OF ACCESS TO INFORMATION

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

Year	No. of Requests Received	Costs incurred to process those requests and any recoveries made (includes external costs incurred and an allocation of internal costs based on Official Information Act guidelines)	No. of Trust decisions which were subject to review	Summary of outcome of those reviews and costs incurred in reviews
2010	Nil	Nil	Nil	N/A
2009	Nil	Nil	Nil	N/A