# Entrust

Majority shareholder of Vector

## 2017
## Financial Statements

# Financial Statements
for the year ended 30 June 2017

**CONTENTS**



**2017 FINANCIAL STATEMENTS**

These financial statements for the year ended 30 June 2017 are dated 24 August 2017, and signed on behalf of the Trustees by:

W A A Cairns
Chairman

C P T Hutchison
Chairman of the Finance and Risk Committee

# Directory

**Principal Business**

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

**Date Settled**

27 August 1993

**Trustees**

W A A Cairns (Chairman)
M J Buczkowski (Deputy Chairman)
C P T Hutchison
J A Carmichael
K A Sherry

**Termination Date**

27 August 2073

**Auditor**

Grant Thornton New Zealand Audit Partnership
P O Box 1961
Auckland

**Legal Advisor**

D Bigio
P O Box 4338
Auckland

**Banker**

ASB
P O Box 35
Auckland

# ENTRUST
# TRUSTEES REPORT

FOR THE YEAR ENDED 30 JUNE 2017

Entrust is a private trust. Our purpose is to look after our 75.4% ownership of Vector and pay trust beneficiaries an annual dividend from the returns on our investment.

We were set up to do that until 2073 and provide long-term, strong and stable ownership for Vector, which is one of New Zealand's largest companies.

## INCOME AND EXPENDITURE

For the year ended 30 June 2017, income was $121.5 million. This sum was made up of $120.1 million from Vector in dividends and $1.4 million from interest on funds.

The total expenditure incurred by the Trust for the year was $3.5 million compared to $4.2 million last financial year, a reduction of $700K. This is a significant reduction in costs, which is due to a strong focus from new management on reducing expenditure and costs. The cost savings have come from renegotiating contracts with existing suppliers, changing suppliers where better value can be gained and improving processes to gain efficiencies. This focus will continue this year, however the cost of the 2018 Entrust election will result in additional costs this financial year and next as election costs are spread across two financial years.

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

## ANNUAL DIVIDEND

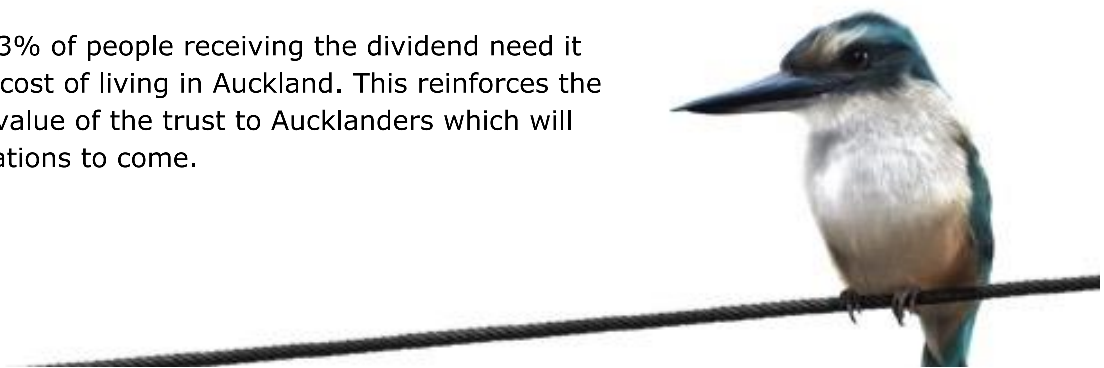
One of the most important activities Trustees do each year is the payment of the annual dividend which is eagerly anticipated by Trust beneficiaries.

The September 2016 dividend remained stable at $345 and though not in the period being reported on, increased to $350 for the September 2017 payment. This is despite beneficiary numbers increasing to 327,000, the biggest dividend distribution to date.

The Trust distribution is New Zealand's largest and is distributed to more people than any other company or trust distribution in New Zealand. This year, through the annual dividend, Entrust has put more than $112 million into the Auckland economy.

While local retailers benefit in the days following the dividend distribution, not all of the return to the community is used for discretionary spending.

Research has shown that 63% of people receiving the dividend need it to stay on top of the rising cost of living in Auckland. This reinforces the importance and long-term value of the trust to Aucklanders which will continue to grow for generations to come.



Given the importance of the dividend to our beneficiaries, we take great care to ensure every rightful beneficiary receives it and, where possible, that it is paid in their preferred payment method. It is a complex process as around 45% of our beneficiaries either change address or switch electricity retailers during the year, creating a high level of churn in our data.

To ensure we are as up to date as possible with every beneficiary, we conduct an update campaign a few months prior to the dividend payment as well communicating on dividend day itself.


## OUR KEY PRIORITIES

As owners of a significant and important investment in Vector, Entrust gets involved in many projects and initiatives each year. Key initiatives over the past year have included:

### Energy Solutions Programme:

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

Historically this fund has been used for undergrounding projects in the Entrust district, however from 2015 the parameters around the fund were changed and extended to include new technology initiatives such as solar and battery and EV chargers. The programme is now known as the Energy Solutions Programme.

A large component of the funding was spent on undergrounding again during the year, however going forward Chorus has advised they plan to reduce funding to underground their telephone lines and will only participate in undergrounding projects by exception.

This decision by Chorus means there is no consumer or visual benefit to continuing the undergrounding programme as telephone poles and wires would remain in place even if electricity lines were underground.

The projects that commenced in the 2016/17 financial year will be finished during 2017 and early 2018. We will monitor the situation with Chorus closely and will take advantage of any opportunities that arise to do further undergrounding projects.

## *Undergrounding*

Projects completed during the year were Burwood Crescent and Bell Road in Remuera and Glanville Terrace in Parnell. The projects have been delivered without a lost time injury and have resulted in positive feedback from customers upon completion.

Undergrounding work is still progressing on Franklin Road in Freemans Bay and a large undergrounding project has commenced in Massey Road in Mangere. The Massey Road project will be completed in late 2017 while the Franklin Road project will be completed in 2018.

The Franklin Road and Massey Road projects will result in a total of 112 power poles and 2.16 kilometres of overhead lines being removed.

## *Energy efficiency community programme*

Entrust, Vector and Auckland Council entered into a partnership during the financial year to deliver a community based energy efficiency project to the community and home owners in Papakura and Wattle Downs in South Auckland.

The project comprised of three key components – installing ten solar and battery systems at local schools and community groups, conducting home energy audits in residential homes and installing LED lighting and hot water control units to improve the energy efficiency of the homes.

The project is drawing to a close with analysis of the project yet to be completed, however anecdotal comments from participants is that they found the initiative beneficial and they have benefited from a warmer home over winter.

EECP project participant Michelle Amer, from Papakura with Energy Advisor Adrian Feasey.

### *Sustainable substations*

Another new initiative was introduced which involved the installation of solar panels and battery packs on some of Vector's zone substations to reduce the energy consumption from the grid. Installations at three substations in Glen Innes, Mt Roskill and Mt Wellington were completed in the financial year.

## APPOINTMENT OF AUDITORS

At last year's Annual Meeting of Beneficiaries, Grant Thornton were appointed the Entrust auditors. Trustees recommend the retention of Grant Thornton for the 2017/2018 financial year.

## REMUNERATION OF AUDITORS

The audit fees for 2016/17 were $39,500.

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

**Entrust Trustees** **17 October 2017**

William Cairns, Chairman
Michael Buczkowski, Deputy Chairman
James Carmichael
Paul Hutchison
Karen Sherry

Grant Thornton
An instinct for growth™

# Independent Auditor's Report

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**To the Beneficiaries of Entrust**

## Report on the Audit of the Consolidated Financial Statements

### Opinion

We have audited the consolidated financial statements of Entrust on pages 11 to 45 which comprise the consolidated statement of financial position as at 30 June 2017, and the consolidated statement of comprehensive revenue and expense, consolidated statement of changes in net assets and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Entrust as at 30 June 2017 and its financial performance and cash flows for the year then ended in accordance with Public Benefit Entity International Public Sector Accounting Standards (Not For Profit) issued by the New Zealand Accounting Standards Board.

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our firm carries out other assignments for Entrust in the area of other non-assurance services. The firm has no other interest in the Group.

Grant Thornton

**Other Information**
The Trustees are responsible for the other information. The other information comprises the Directory and Trustees Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Trustees' Responsibilities for the Consolidated Financial Statements**
The Trustees are responsible on behalf of Entrust for the preparation and fair presentation of these consolidated financial statements in accordance with Public Benefit Entity International Public Sector Accounting Standards (Not For Profit) issued by the New Zealand Accounting Standards Board, and for such internal control as those charged with governance determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, those charged with governance are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustees either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities for the Audit of the Consolidated Financial Statements**
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the External Reporting Board's website at: https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-7/

**Restriction on use of our report**

This report is made solely to the Beneficiaries, as a collective body. Our audit work has been undertaken so that we might state to the Beneficiaries, as a collective body those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Beneficiaries, as a collective body for our audit work, for this report or for the opinion we have formed.

**Grant Thornton New Zealand Audit Partnership**

Grant Thornton

**K Price**
Partner
**Auckland, New Zealand**

**24 August 2017**

# Comprehensive Revenue and Expense

for the year ended 30 June

| | | GROUP | | PARENT | |
|---|---|---|---|---|---|
| | NOTE | 2017 $000 | 2016 $000 | 2017 $000 | 2016 $000 |
| **Continuing operations** | | | | | |
| Revenue from exchange transactions | 4 | **1,226,641** | 1,144,623 | **120,166** | 118,303 |
| Operating expenses | 5 | **(693,481)** | (625,952) | **(3,531)** | (4,188) |
| Depreciation and amortisation | | **(199,612)** | (194,620) | **(46)** | (40) |
| Interest costs (net) | 6 | **(135,864)** | (167,262) | **1,407** | 1,543 |
| Fair value change on financial instruments | 7 | **1,571** | 2,344 | **-** | - |
| Associates (share of net surplus/(deficit)) | 13 | **1,568** | 2,809 | **-** | - |
| Impairment | 8 | **-** | (61,422) | - | - |
| **Surplus/(deficit) before income tax** | | **200,823** | 100,520 | **117,996** | 115,618 |
| Tax benefit/(expense) | 9 | **(34,116)** | (44,277) | **-** | - |
| **Net surplus/(deficit) for the period from continuing operations** | | **166,707** | 56,243 | **117,996** | 115,618 |
| Net surplus/(deficit) for the period from discontinued operations (net of tax) | | **-** | 215,494 | **-** | - |
| **Net surplus/(deficit) for the period** | | **166,707** | 271,737 | **117,996** | 115,618 |
| **Net surplus/(deficit) for the period attributable to** | | | | | |
| Non-controlling interests in subsidiaries | | **41,542** | 69,642 | **-** | - |
| Beneficiaries of the Parent - continuing operations | | **125,165** | 39,569 | **117,996** | 115,618 |
| Beneficiaries of the Parent - discontinued operations | | **-** | 162,526 | **-** | - |

# Other Comprehensive Revenue and Expense

for the year ended 30 June

| | | GROUP | | PARENT | |
|---|---|---|---|---|---|
| | NOTE | 2017 $000 | 2016 $000 | 2017 $000 | 2016 $000 |
| **Net surplus/(deficit) for the period** | | **166,707** | 271,737 | **117,996** | 115,618 |
| **Other comprehensive revenue and expense net of tax** | | | | | |
| Items that may be re-classified subsequently to surplus or deficit: | | | | | |
| Net change in fair value of hedge reserves | | **40,280** | (15,685) | - | - |
| Fair value change on financial asset | | **1,783** | - | - | - |
| Share of other comprehensive revenue and expense of associate | 13 | **(18)** | 250 | - | - |
| Translation of foreign operations | | **143** | (42) | - | - |
| **Other comprehensive revenue and expense for the period net of tax** | | **42,188** | (15,477) | **-** | - |
| **Total comprehensive revenue and expense for the period net of tax** | | **208,895** | 256,260 | **117,996** | 115,618 |
| **Total comprehensive revenue and expense for the period attributable to** | | | | | |
| Non-controlling interests in subsidiaries | | **51,921** | 65,838 | - | - |
| Beneficiaries of the Parent - continuing operations | | **156,974** | 27,896 | **117,996** | 115,618 |
| Beneficiaries of the Parent - discontinued operations | | **-** | 162,526 | **-** | - |



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

# Financial Position

as at 30 June

| | NOTE | GROUP 2017 $000 | GROUP 2016 $000 | PARENT 2017 $000 | PARENT 2016 $000 |
|---|---|---|---|---|---|
| **CURRENT ASSETS** | | | | | |
| Cash and cash equivalents | 11 | **89,250** | 393,078 | **74,372** | 71,707 |
| Trade and other receivables from exchange transactions | 12 | **206,845** | 191,977 | **503** | 454 |
| Derivatives | 22 | **47** | - | **-** | - |
| Inventories | | **11,306** | 4,285 | **-** | - |
| Intangible assets | | **2,394** | 1,281 | **-** | - |
| Income tax | | **51,060** | 35,126 | **-** | - |
| **Total current assets** | | **360,902** | 625,747 | **74,875** | 72,161 |
| **NON-CURRENT ASSETS** | | | | | |
| Receivables from exchange transactions | 12 | **39** | 51 | **-** | - |
| Derivatives | 22 | **37,920** | 82,428 | **-** | - |
| Deferred tax | 10 | **104** | 715 | **-** | - |
| Investments in subsidiaries | 13 | **-** | - | **300,000** | 300,000 |
| Investments in associates | 13 | **9,566** | 15,612 | **-** | - |
| Other investments | 13 | **6,241** | - | **-** | - |
| Intangibles | 14 | **1,397,254** | 1,280,425 | **10** | 50 |
| Property, plant and equipment (PPE) | 15 | **3,837,466** | 3,670,195 | **11** | 4 |
| **Total non-current assets** | | **5,288,590** | 5,049,426 | **300,021** | 300,054 |
| **Total assets** | | **5,649,492** | 5,675,173 | **374,896** | 372,215 |
| **CURRENT LIABILITIES** | | | | | |
| Distributions payable | 18 | **67,048** | 65,438 | **67,048** | 65,438 |
| Trade and other payables from exchange transactions | 17 | **250,368** | 223,637 | **449** | 647 |
| Provisions | 19 | **4,780** | 6,232 | **-** | - |
| Provision for unclaimed distributions | 20 | **7,399** | 6,130 | **7,399** | 6,130 |
| Borrowings | 21 | **399,745** | 251,820 | **-** | - |
| Derivatives | 22 | **6,619** | 12,608 | **-** | - |
| Income tax | | **506** | 829 | **-** | - |
| **Total current liabilities** | | **736,465** | 566,694 | **74,896** | 72,215 |
| **NON-CURRENT LIABILITIES** | | | | | |
| Payables from exchange transactions | 17 | **41,411** | 43,793 | **-** | - |
| Provisions | 19 | **20,441** | 17,040 | **-** | - |
| Borrowings | 21 | **1,770,745** | 2,005,061 | **-** | - |
| Derivatives | 22 | **156,470** | 187,037 | **-** | - |
| Deferred tax | 10 | **475,621** | 457,213 | **-** | - |
| **Total non-current liabilities** | | **2,464,688** | 2,710,144 | **-** | - |
| **Total liabilities** | | **3,201,153** | 3,276,838 | **74,896** | 72,215 |
| **NET ASSETS** | | | | | |
| Net Assets attributable to beneficiaries of the Parent | | **1,835,441** | 1,796,490 | **300,000** | 300,000 |
| Non-controlling interests in subsidiaries | | **612,898** | 601,845 | **-** | - |
| **Total net assets** | | **2,448,339** | 2,398,335 | **300,000** | 300,000 |
| **Total net assets and liabilities** | | **5,649,492** | 5,675,173 | **374,896** | 372,215 |



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

# Cash Flows
for the year ended 30 June

| | NOTE | GROUP 2017 $000 | GROUP 2016 $000 | PARENT 2017 $000 | PARENT 2016 $000 |
|---|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | |
| Receipts from customers | | **1,224,169** | 1,263,179 | **-** | - |
| Interest received | | **10,348** | 2,148 | **1,355** | 1,710 |
| Miscellaneous revenue from exchange transactions | | **6** | 20 | **6** | 20 |
| Dividends received | | **2,000** | 1,500 | **120,160** | 118,283 |
| Payments to suppliers and employees | | **(690,265)** | (680,518) | **(3,726)** | (4,213) |
| Distribution to beneficiaries | | **(107,269)** | (107,094) | **(107,269)** | (107,094) |
| Dividend withholding tax paid | | **(7,848)** | (7,826) | **(7,848)** | (7,826) |
| Interest paid | | **(151,667)** | (175,232) | **-** | - |
| Income tax refunded | | **853** | - | **-** | - |
| Income tax paid | | **(62,094)** | (61,526) | **-** | - |
| **Net cash flows from/(used in) operating activities** | 24 | **218,233** | 234,651 | **2,678** | 880 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | |
| Proceeds from sale of PPE and software intangibles | | **351** | 223 | **-** | - |
| Purchase and construction of PPE and software intangibles | | **(354,190)** | (340,100) | **(13)** | (18) |
| (Post-completion payment) / Proceeds from sale of discontinued operations | | **(59)** | 960,000 | **-** | - |
| Acquisition of businesses | | **(90,985)** | - | **-** | - |
| Other investing cash flows | | **-** | (750) | **-** | - |
| **Net cash flows from/(used in) investing activities** | | **(444,883)** | 619,373 | **(13)** | (18) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | | |
| Proceeds from borrowings | | **284,557** | 310,000 | **-** | - |
| Repayment of borrowings | | **(318,173)** | (809,000) | **-** | - |
| Dividends paid | | **(40,868)** | (40,933) | **-** | - |
| Other financing cash flows | | **(2,694)** | (80) | **-** | - |
| **Net cash flows from/(used in) financing activities** | | **(77,178)** | (540,013) | **-** | - |
| **Net increase/(decrease) in cash and cash equivalents** | | **(303,828)** | 314,011 | **2,665** | 862 |
| Cash and cash equivalents at beginning of the period | 11 | **393,078** | 79,067 | **71,707** | 70,845 |
| **Cash and cash equivalents at end of the period** | | **89,250** | 393,078 | **74,372** | 71,707 |
| **Cash and cash equivalents comprise:** | | | | | |
| Bank balances and on-call deposits | 11 | **7,713** | 3,807 | **672** | 566 |
| Short term deposits maturing within three months | 11 | **81,537** | 389,271 | **73,700** | 71,141 |
| | | **89,250** | 393,078 | **74,372** | 71,707 |

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

# Changes in Net Assets

| GROUP | NOTE | HEDGE RESERVE $000 | OTHER RESERVES $000 | RETAINED EARNINGS $000 | NON-CONTROLLING INTERESTS $000 | TOTAL NET ASSETS $000 |
|---|---|---|---|---|---|---|
| **Balance at 30 June 2015** | | (55,506) | (1,173) | 1,778,372 | 576,939 | 2,298,632 |
| Net surplus/(deficit) for the period | | - | - | 202,095 | 69,642 | 271,737 |
| Other comprehensive revenue and expense | | (11,830) | 157 | - | (3,804) | (15,477) |
| **Total comprehensive revenue and expense** | | (11,830) | 157 | 202,095 | 65,838 | 256,260 |
| Dividends and distributions | 25 | - | - | (115,654) | (40,932) | (156,586) |
| Distribution payable | | - | - | 36 | - | 36 |
| Employee share purchase scheme transactions | | - | - | (7) | - | (7) |
| **Total transactions with beneficiaries** | | - | - | (115,625) | (40,932) | (156,557) |
| **Balance at 30 June 2016** | | **(67,336)** | **(1,016)** | **1,864,842** | **601,845** | **2,398,335** |
| Net surplus/(deficit) for the period | | **-** | **-** | **125,165** | **41,542** | **166,707** |
| Other comprehensive revenue and expense | | **30,371** | **1,439** | **-** | **10,378** | **42,188** |
| **Total comprehensive revenue and expense** | | **30,371** | **1,439** | **125,165** | **51,920** | **208,895** |
| Dividends and distributions | 25 | **-** | **-** | **(119,606)** | **(40,867)** | **(160,473)** |
| Distribution payable | | **-** | **-** | **1,610** | **-** | **1,610** |
| Employee share purchase scheme transactions | | **-** | **-** | **(28)** | **-** | **(28)** |
| **Total transactions with beneficiaries** | | | **-** | **(118,024)** | **(40,867)** | **(158,891)** |
| **Balance at 30 June 2017** | | **(36,965)** | **423** | **1,871,983** | **612,898** | **2,448,339** |

| PARENT | NOTE | TRUSTEE FUNDS $000 | RETAINED EARNINGS $000 | TOTAL NET ASSETS $000 |
|---|---|---|---|---|
| **Balance at 30 June 2015** | | 300,000 | - | 300,000 |
| Net surplus/(deficit) for the period | | - | 115,618 | 115,618 |
| Other comprehensive revenue and expense | | - | - | - |
| **Total comprehensive revenue and expense** | | - | 115,618 | 115,618 |
| Dividends and distributions | 25 | - | (115,654) | (115,654) |
| Distribution payable | | - | 36 | 36 |
| **Total transactions with beneficiaries** | | - | (115,618) | (115,618) |
| **Balance at 30 June 2016** | | **300,000** | **-** | **300,000** |
| Net surplus/(deficit) for the period | | **-** | **117,996** | **117,996** |
| Other comprehensive revenue and expense | | **-** | **-** | **-** |
| **Total comprehensive revenue and expense** | | **-** | **117,996** | **117,996** |
| Dividends and distributions | 25 | **-** | **(119,606)** | **(119,606)** |
| Distribution payable | | **-** | **1,610** | **1,610** |
| **Total transactions with beneficiaries** | | **-** | **(117,996)** | **(117,996)** |
| **Balance at 30 June 2017** | | **300,000** | **-** | **300,000** |


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

# Notes to the Financial Statements

# Notes to the Financial Statements

## 1. TRUST INFORMATION

**Reporting entity**

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

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Statement of compliance**

These financial statements have been prepared in accordance with New Zealand generally accepted accounting practice (NZ GAAP). They comply with Public Benefit Entity ("PBE") International Public Sector Accounting Standards ("PBE IPSAS") and other applicable Financial Reporting Standards as appropriate for Tier 1 not-for-profit public benefit entities.

The subsidiary accounts have been prepared under New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable Financial Reporting Standards, as appropriate for Tier 1 for-profit entities. We have determined that upon consolidation there are no significant changes when prepared under PBE IPSAS.

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

**Basis of preparation**

These financial statements have been prepared in accordance with NZ GAAP as appropriate for Tier 1 not-for-profit public benefit entities

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

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

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

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

The statements of comprehensive revenue and expense, other comprehensive revenue and expense, cash flows and changes in net assets are stated exclusive of Good and Services Tax ("GST"). All items in the financial position are stated exclusive of GST with the exception of trade receivables from exchange transactions and trade payables from exchange transactions, which include GST.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Significant accounting policies, estimates and judgements**

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

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

- Revenue recognition (Note 4)
- Consolidation basis and classification of investments (Note 13)
- Impairment and valuation of goodwill (Note 14)
- Property, plant and equipment: valuation and classification of expenditure (Note 15)
- Provisions (Note 19)
- Borrowings: measurement bases (Note 21)
- Valuation of derivatives (Note 22)
- Financial risk management – impairment of financial assets (Note 23)
- Business combinations (Note 28)

**New and amended accounting standards adopted**

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

- ***NZ IFRS 9 (2014) Financial Instruments***

The Group has previously early adopted NZ IFRS 9 (2013) Financial Instruments with a date of initial application of 1 July 2014. The group has now adopted the final phase of NZ IFRS 9 (2014) with initial application date of 1 July 2016. This completes the early adoption of NZ IFRS 9 (2014) Financial Instruments. This phase of the standard introduces an 'expected credit loss' (ECL) model that replaces the existing 'incurred loss' model under IAS 39 Financial Instruments. Under NZ IFRS 9, ECLs are assessed on a forward-looking basis at the time of initial recognition, and measured on a 12-month or lifetime basis. The group have adopted the simplified approach for trade receivables, where lifetime expected losses are assessed at initial recognition and throughout the life of the asset, with an allowance recognised should the assessment indicate an ECL exists. The adoption of the final phase of NZ IFRS 9 (2014) does not have a material impact on the Group's financial results in the current year or in the comparative period. As a result, no retrospective adjustments have been made.

- ***Disclosure Initiative (Amendments to PBE IPSAS 1 (IAS 1))***

The group has early adopted the *Disclosure Initiative (Amendments to PBE IPSAS 1 (IAS 1))* issued in the year ended 30 June 2016, which is mandatory for the Group in the current period.

## 3. DISCONTINUED OPERATIONS

On 20 April 2016, Vector, a 75.4% owned subsidiary of the Group, completed the sale of 100% of the shares in its subsidiary Vector Gas Limited to First Gas Funds. Vector Gas Limited owned the gas transmission and non-Auckland gas distribution businesses.

The disposal group is presented as discontinued operations in the comparatives in this report.

## 4. REVENUE FROM EXCHANGE TRANSACTIONS

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2017 $000 | 2016 $000 | 2017 $000 | 2016 $000 |
| Sales | **1,159,581** | 1,092,648 | **-** | - |
| Third party contributions | **62,270** | 49,818 | **-** | - |
| Other | **4,790** | 2,157 | **6** | 20 |
| Dividends received | **-** | - | **120,160** | 118,283 |
| **Total** | **1,226,641** | 1,144,623 | **120,166** | 118,303 |

**Policies**

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

Revenue from exchange transactions is recognised when:

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

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

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

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

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

The group has no revenue from non-exchange transactions.

**Judgements**

The Group’s management must apply judgement where:

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

**New accounting standards not yet adopted**

**NZ IFRS 15 Revenue from Contracts with Customers (including subsequent amendment)**

NZ IFRS 15 applies to contracts to deliver goods and services to customers. Guiding principles in the standard will affect when, how, and how much revenue is recognised in an entity’s financial statements in any given reporting period. The standard and its subsequent amendment will replace all existing IFRS guidance for revenue recognition. The most relevant standards and amendments to the Group are: *NZ IAS 18 Revenue, NZ IAS 11 Construction Contracts, and NZ IFRIC 18 Transfers of Assets from Customers*. We expect the impact of NZ IFRS 15 on the Group will be in respect of the timing and amount of third party contributions recognised each year.

We are currently assessing contracts with customers against principles in NZ IFRS 15 to understand and quantify such impact. Revenue streams with a “use and pay” nature will likely continue to be accounted for as under current accounting practice. Examples include line revenues earned and natural gas sales made. NZ IFRS 15 is mandatory for the Group’s financial year ended 30 June 2019.

## 5. OPERATING EXPENSES

| | | GROUP | | PARENT | |
|---|---|---|---|---|---|
| | | 2017 $000 | 2016 $000 | 2017 $000 | 2016 $000 |
| Electricity transmission | | **212,620** | 209,740 | **-** | - |
| Gas purchases and production | | **181,744** | 154,969 | **-** | - |
| Technology cost of sales | | **35,662** | - | **-** | - |
| Network and asset maintenance | | **85,267** | 80,649 | **-** | - |
| Other direct expenses | | **30,331** | 42,357 | **-** | - |
| Employee benefit expenses | | **83,407** | 76,806 | **551** | 373 |
| Administration expenses | | **17,092** | 15,971 | **1,018** | 919 |
| Distribution expenses | | **1,115** | 1,181 | **1,115** | 1,181 |
| Trustee remuneration | 26 | **342** | 342 | **342** | 342 |
| Professional fees | | **14,705** | 11,821 | **267** | 597 |
| IT expenses | | **14,447** | 14,767 | **-** | - |
| Loss/(gain) on disposal of PPE and software intangibles | | **4,348** | 4,309 | **-** | - |
| Other indirect expenses | | **12,401** | 13,040 | **238** | 776 |
| **Total** | | **693,481** | 625,952 | **3,531** | 4,188 |

| | | GROUP | | PARENT | |
|---|---|---|---|---|---|
| | | 2017 $000 | 2016 $000 | 2017 $000 | 2016 $000 |
| **Fees paid to auditors** | Audit or review of financial statements – Grant Thornton | **57** | 43 | **57** | 43 |
| | Other services - Grant Thornton | **3** | 4 | **3** | - |
| | Audit or review of financial statements – KPMG | **530** | 539 | **-** | - |
| | Regulatory assurance – KPMG | **508** | 547 | **-** | - |
| | Other audit fees - KPMG | **24** | 24 | **-** | - |
| | Other services - KPMG | **16** | 4 | **-** | - |
| | | **1,138** | 1,161 | **60** | 43 |

**Other audit fees** Other audit fees are for the audit of guaranteeing group financial statements, share registry, bond registers and agreed upon procedures required by certain contractual arrangements.

**Other services** Other services provided by Grant Thornton in the current period relate to other non-assurance services.

## 6. INTEREST COSTS (NET)

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2017 $000 | 2016 $000 | 2017 $000 | 2016 $000 |
| Interest expense | **144,094** | 169,036 | **-** | - |
| Capitalised interest | **(4,784)** | (4,901) | **-** | - |
| Interest revenue | **(8,518)** | (3,864) | **(1,407)** | (1,543) |
| Other | **5,072** | 6,991 | **-** | - |
| **Total** | **135,864** | 167,262 | **(1,407)** | (1,543) |

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

**Capitalised interest** The Group has capitalised interest to PPE and software intangibles while under construction at an average rate of 6.5% per annum (2016: 6.3%).

## 7. FAIR VALUE CHANGE ON FINANCIAL INSTRUMENTS

| | NOTE | GROUP 2017 $000 | GROUP 2016 $000 |
|---|---|---|---|
| Fair value movement on hedging instruments | | **(53,577)** | (27,579) |
| Fair value movement on hedged items | | **56,285** | 29,923 |
| Reclassification of investment in associate to financial asset | 13 | **(1,137)** | - |
| **Total gains/(losses)** | | **1,571** | 2,344 |

## 8. IMPAIRMENT

| | NOTE | *GROUP* 2017 $000 | *GROUP* 2016 $000 |
|---|---|---|---|
| Impairment of goodwill | 14 | **-** | 64,000 |
| Reversal of impairment of investment in associate | 13 | **-** | (2,578) |
| **Total** | | **-** | 61,422 |

## 9. INCOME TAX EXPENSE/(BENEFIT)

| Reconciliation of income tax expense/(benefit) | GROUP 2017 $000 | GROUP 2016 $000 | PARENT 2017 $000 | PARENT 2016 $000 |
|---|---|---|---|---|
| Surplus/(deficit)before income tax | **200,823** | 100,520 | **117,996** | 115,618 |
| **Tax at current rate** | **56,122** | 28,013 | **38,939** | 38,154 |
| Current tax adjustments | | | | |
| Non-deductible expenses | **2,521** | 2,034 | **480** | 517 |
| Impairment | **-** | 17,198 | **-** | - |
| Relating to prior periods – change in depreciation method | **17,219** | - | - | - |
| Relating to prior periods - others | **(6,084)** | 1,836 | - | - |
| Relating to prior periods – tax dispute settlement | **(12,570)** | - | **-** | - |
| Other | **(2,951)** | (1,979) | **(39,419)** | (38,671) |
| Deferred tax adjustments | | | | |
| Relating to prior periods – change in depreciation method | **(17,219)** | - | - | - |
| Relating to prior periods - others | **(444)** | (2,114) | - | - |
| Relating to prior periods – tax dispute settlement | **(2,478)** | - | - | - |
| Other | **-** | (711) | - | - |
| **Income tax expense/(benefit)** | **34,116** | 44,277 | **-** | - |
| Comprising | | | | |
| Current tax | **43,200** | 21,702 | **-** | - |
| Deferred tax | **(9,084)** | 22,575 | **-** | - |

## 9. INCOME TAX EXPENSE/(BENEFIT) (continued)

**Current tax rates**

The Parent is a discretionary trust and its undistributed profit (if any) is taxed at a rate of 33%.

Vector is a 75.4% owned subsidiary of the Parent. Its profit is taxed at the current corporate tax rate for profit-oriented entities of 28%.

**Prior period adjustments**

Included in the adjustments related to prior periods are:

*Change in depreciation method*

During the year the group changed the tax depreciation method used for property, plant and equipment from the diminishing value method to the straight-line method.

As a result the group recognised a $17.2 million current income tax expense and an equivalent deferred income tax credit.

*Tax dispute settlement*

On 12 August 2016, the Court of Appeal released their judgment in respect of a tax dispute between Vector and the Inland Revenue Department. The dispute related to the tax treatment of monies received from Transpower for various rights including access to Vector's tunnel from Penrose to Hobson and the transmission corridor on the North Shore. The Court found in favour of Vector. Through the course of the dispute, Vector had taken a prudent approach and paid taxes in relation to the underlying transaction.

As a result of the judgment and subsequent confirmation that the Commissioner of Inland Revenue will not appeal the Court of Appeal decision, Vector and the Group have recognised a $15.0 million income tax benefit.

**Policies**

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

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

**Imputation credits**

The Group has no imputation credits available for use as at 30 June 2017 (2016: nil), as the imputation account has a debit balance as of that date.

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

## 10. DEFERRED TAX

### Deferred tax

| | NOTE | PPE $000 | PROVISIONS AND ACCRUALS $000 | HEDGE RESERVES $000 | OTHER $000 | TOTAL $000 |
|---|---|---|---|---|---|---|
| **Balance at 1 July 2015** | | 585,927 | (14,500) | (27,809) | 18,751 | 562,369 |
| Recognised in profit or loss | | 26,055 | 4,830 | - | (10,543) | 20,342 |
| Recognised in other comprehensive income | | - | - | (6,911) | - | (6,911) |
| Deferred tax associated with discontinued operations | | (118,791) | (511) | - | - | (119,302) |
| **Balance at 30 June 2016** | | 493,191 | (10,181) | (34,720) | 8,208 | 456,498 |
| Recognised in profit or loss | | **(13,240)** | **1,912** | **-** | **2,244** | **(9,084)** |
| Recognised in other comprehensive income | | **-** | **-** | **15,665** | **-** | **15,665** |
| Recognised from business combinations | 28 | **12,438** | **-** | **-** | **-** | **12,438** |
| **Balance at 30 June 2017** | | **492,389** | **(8,269)** | **(19,055)** | **10,452** | **475,517** |

The group's deferred tax position is presented in the balance sheet as follows:

| | 2017 $000 | 2016 $000 |
|---|---|---|
| Deferred tax asset | **(104)** | (715) |
| Deferred tax liability | **475,621** | 457,213 |
| **Total** | **475,517** | 456,498 |

**Policies**

Deferred tax is:

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

## 11. CASH AND CASH EQUIVALENTS

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2017 $000 | 2016 $000 | 2017 $000 | 2016 $000 |
| Cash and bank balances | **7,713** | 3,807 | **672** | 566 |
| Short-term deposits | **81,537** | 389,271 | **73,700** | 71,141 |
| | **89,250** | 393,078 | **74,372** | 71,707 |

**Policies**

Cash and cash equivalents includes deposits that are subject to insignificant risk of changes in their fair value.

Cash and cash equivalents are carried at amortised cost in the financial position.

**New accounting standards not yet adopted**

· ***Disclosure Initiative (Amendments to IAS 7)***

The amendments were issued in January 2016. The amendments introduce a reconciliation between cash flows arising from financing activities as reported in the statement of cash flows to the corresponding liabilities in the opening and closing balance sheet. The amendments will be effective for the first time in the Group's financial year ended 30 June 2018.

## 12. TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS

| | GROUP | | PARENT | |
|---|---|---|---|---|
| **Current** | 2017 $000 | 2016 $000 | 2017 $000 | 2017 $000 |
| Trade receivables from exchange transactions | **77,425** | 71,780 | **-** | - |
| Accrued revenues | **101,896** | 92,378 | **-** | - |
| Interest receivable | **13,675** | 17,549 | **503** | 449 |
| Prepayments | **9,890** | 7,993 | **-** | 5 |
| Other | **3,959** | 2,277 | **-** | - |
| **Balance at 30 June** | **206,845** | 191,977 | **503** | 454 |
| **Non-current** | | | | |
| Other | **39** | 51 | **-** | - |
| **Balance at 30 June** | **39** | 51 | **-** | - |

At 30 June, the Group's exposure to credit risk for trade receivables from exchange transactions by type of counterparty was as follows.

| GROUP | 2017 $000 | | 2016 $000 | |
|---|---|---|---|---|
| | Not credit impaired | Credit impaired | Not credit impaired | Credit impaired |
| Business customers | **56,099** | **59** | 56,398 | 806 |
| Mass market customers | **11,179** | **96** | 8,936 | 47 |
| Third party asset damages | **2,156** | **2,957** | 3,153 | 2,115 |
| Residential and other | **7,650** | **289** | 3,099 | 294 |
| **Total gross carrying amount** | **77,084** | **3,401** | 71,586 | 3,262 |
| Loss allowance | **(186)** | **(2,874)** | (484) | (2,584) |
| | **76,898** | **527** | 71,102 | 678 |

The following table provides information about the Group's exposure to credit risk and expected credit losses for trade receivables from exchange transactions as at 30 June.

| GROUP | 2017 $000 | | 2016 $000 | |
|---|---|---|---|---|
| | Carrying amount | Loss allowance | Carrying amount | Loss allowance |
| Not past due | **60,783** | **111** | 55,217 | 3 |
| Past due 1-30 days | **6,022** | **42** | 8,441 | 38 |
| Past due 31-120 days | **3,616** | **284** | 2,558 | 136 |
| Past due more than 120 days | **7,004** | **2,623** | 5,564 | 2,890 |
| Balance at 30 June | **77,425** | **3,060** | 71,780 | 3,067 |

**Policies**

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

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

**Credit risk**

In assessing credit losses for trade receivables, the Group applies the simplified approach and records lifetime expected credit losses ("ECLs") on trade receivables.

Lifetime ECLs result from all possible default events over the expected life of a trade receivable. The group considers the probability of default upon initial recognition of the trade receivable, based on reasonable and available information on the Group's customers and groups of customers. The group's trade receivables are monitored in two groups: business customers, and mass market residential customers.

In assessing ECLs on trade receivables the Group considers both quantitative and qualitative inputs. Quantitative data includes past collection rates, industry statistics, ageing of receivables, and trading outlook. Qualitative inputs include past trading history with the Group.

The group's customer acceptance process includes a check on credit history, profitability, and the customer's external credit rating if available. Different levels of sale limits are also imposed on customer accounts by nature.

## 13. INVESTMENTS

**Judgements**

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

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

### 13.1 Investments in subsidiaries

**Trading subsidiaries**

Significant trading entities and holding companies in the Group are listed below.

| | Principal Activity | PERCENTAGE HELD 2017 | PERCENTAGE HELD 2016 |
|---|---|---|---|
| **Subsidiaries with 30 June balance date** | | | |
| NGC Holdings Limited | Holding company | **75.4%** | 75.4% |
| Vector Gas Trading Limited | Natural gas trading and processing | **75.4%** | 75.4% |
| Vector Kapuni Limited | Joint operator – cogeneration plant | **75.4%** | 75.4% |
| Liquigas Limited | Bulk LPG storage, distribution, and management | **45.2%** | 45.2% |
| On Gas Limited | LPG sales and distribution | **75.4%** | 75.4% |
| Vector Metering Data Services Limited | Holding company | **75.4%** | 75.4% |
| Advanced Metering Assets Limited | Metering services | **75.4%** | 75.4% |
| Advanced Metering Services Limited | Metering services | **75.4%** | 75.4% |
| Vector Advanced Metering Services (Australia) Pty Limited | Metering services | **75.4%** | 75.4% |
| Vector Advanced Metering Assets (Australia) Limited | Metering services | **75.4%** | 75.4% |
| Arc Innovations Limited | Metering services | **75.4%** | 75.4% |
| Vector Communications Limited | Telecommunications | **75.4%** | 75.4% |
| Vector Energy Solutions Limited (*formerly Vector Solar Limited*) | Holding company | **75.4%** | 75.4% |
| PowerSmart NZ Limited (*formerly Vector Contracting Services Limited*) | Energy solutions services | **75.4%** | 75.4% |
| Vector ESPS Trustee Limited | Trustee company | **75.4%** | 75.4% |
| Vector Energy Solutions (Australia) Pty Limited | Energy solutions services | **75.4%** | - |
| **Subsidiaries with 31 March balance date** | | | |
| E-Co Products Group Limited | Holding company | **75.4%** | - |
| Cristal Air International Limited | Ventilation systems assembler and brand franchisor | **75.4%** | - |
| HRV Home Solutions Limited | Ventilation systems, water systems and parts sales | **75.4%** | - |
| Ventilation Australia Pty Limited | Holding company | **75.4%** | |
| HRV Australia Pty Limited | Ventilation system and parts sales | **75.4%** | - |
| Energy Efficient Solutions NZ (2016) Limited | Home heating solutions sales | **75.4%** | - |
| HVAC Hero 2016 Limited | Wholesaler of systems and parts | **75.4%** | - |

## 13. INVESTMENTS (continued)

### 13.1 Investments in subsidiaries (continued)

**Policies**

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

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

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

**Balance date**

Subsidiaries which have a 31 March balance date are in the process of changing the balance dates to 30 June.

**Geography**

All subsidiaries are incorporated in New Zealand, except for the following which are incorporated in Australia:

- Vector Advanced Metering Services (Australia) Pty Limited;
- Vector Energy Solutions (Australia) Pty Limited;
- Ventilation Australia Pty Limited;
- HRV Australia Pty Limited.

**Removal**

During the year, two of the Group's subsidiaries, Poihipi Land Limited and Mercury Geotherm Limited were removed from the Register of Companies.

### 13.2 Investment in associates

| Associates | PRINCIPAL ACTIVITY | BALANCE DATE | COUNTRY OF INCORPORATION | PERCENTAGE HELD 2017 | PERCENTAGE HELD 2016 |
|---|---|---|---|---|---|
| Tree Scape Limited | Vegetation management | 31 March | New Zealand | **37.7%** | 37.7% |

| | NOTE | 2017 $000 | 2016 $000 |
|---|---|---|---|
| Carrying amount of associates | | | |
| Balance at 1 July | | **15,612** | 11,475 |
| Reclassification of investment in NZ Windfarms Limited to financial asset | | **(5,596)** | - |
| Share of net profit/(loss) of associates | | **1,568** | 2,809 |
| Share of other comprehensive income of associate | | **(18)** | 250 |
| Dividends received | | **(2,000)** | (1,500) |
| Reversal of impairment of investment in associate | | **-** | 2,578 |
| **Balance at 30 June** | | **9,566** | 15,612 |
| Equity accounted earnings of associates | | | |
| Profit/(loss) before income tax | | **2,178** | 3,901 |
| Income tax benefit/(expense) | | **(610)** | (1,092) |
| **Share of net profit/(loss) of associates** | | **1,568** | 2,809 |
| **Total recognised revenues and expenses** | | **1,568** | 2,809 |

**Policies**

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

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

## 13. INVESTMENTS (continued)

### 13.3 Interest in joint operation

| Joint operation | PRINCIPAL ACTIVITY | BALANCE DATE | INTEREST HELD 2017 | INTEREST HELD 2016 |
|---|---|---|---|---|
| Kapuni Energy Joint Venture | Cogeneration plant operator | 30 June | **37.7%** | 37.7% |

**Policies**

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

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

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

### 13.4 Other investments

**NZ Windfarms Limited**

During the year, the Group reclassified its investment in NZ Windfarms Limited as a financial asset, measured at fair value through other comprehensive income ("OCI"). The investment was previously treated as an associate. The fair value of the investment is determined by reference to its active market price on the New Zealand Stock Exchange. For disclosure purposes, it is classified as level 1 on the fair value hierarchy, explained further in Note 23. On initial measurement to fair value, a loss of $1.1 million was recognised in profit or loss, as shown in Note 7.

## 14. INTANGIBLE ASSETS

| GROUP | NOTE | CUSTOMER INTANGIBLE $000 | EASEMENTS $000 | SOFTWARE $000 | TRADE NAMES $000 | GOODWILL $000 | TOTAL $000 |
|---|---|---|---|---|---|---|---|
| **Closing carrying amount 30 June 2015** | | **15,299** | **14,751** | **51,843** | - | 1,560,960 | **1,642,853** |
| Cost | | 21,742 | 14,751 | 218,128 | - | 1,560,960 | 1,815,581 |
| Accumulated amortisation | | (6,443) | - | (166,285) | - | - | (172,728) |
| Additions | | - | - | 17 | - | - | 17 |
| Transfers from PPE | | - | 34,817 | 29,528 | - | - | 64,345 |
| Sale of discontinued operations | | - | (35,025) | (1,189) | - | (298,823) | (335,037) |
| Impairment | | - | - | - | - | (64,000) | (64,000) |
| Amortisation for the period | | (2,271) | - | (25,482) | - | - | (27,753) |
| **Closing carrying amount 30 June 2016** | | 13,028 | 14,543 | 54,717 | - | 1,198,137 | 1,280,425 |
| Cost | | 21,742 | 14,543 | 229,205 | - | 1,198,137 | 1,463,627 |
| Accumulated amortisation | | (8,714) | - | (174,488) | - | - | (183,202) |
| Transfers from PPE | | **-** | **1,763** | **24,849** | **-** | **-** | **26,612** |
| Acquisition of business | 28 | **28,200** | **-** | **2,123** | **16,800** | **67,868** | **114,991** |
| Disposals | | **-** | **-** | **(11)** | **-** | **-** | **(11)** |
| Transfers from PPE | | **(2,755)** | **-** | **(21,799)** | **(209)** | **-** | **(24,763)** |
| **Closing carrying amount 30 June 2017** | | **38,473** | **16,306** | **59,879** | **16,591** | **1,266,005** | **1,397,254** |
| Cost | | **49,942** | **16,306** | **252,680** | **16,800** | **1,266,005** | **1,601,733** |
| Accumulated amortisation | | **(11,469)** | **-** | **(192,801)** | **(209)** | **-** | **(204,479)** |

| PARENT | SOFTWARE $000 | TOTAL $000 |
|---|---|---|
| **Closing carrying amount 1 July 2015** | **70** | **70** |
| Cost | 146 | 146 |
| Accumulated amortisation | (77) | (77) |
| Additions | 18 | 18 |
| Amortisation for the period | (37) | (37) |
| **Closing carrying amount 30 June 2016** | **50** | **50** |
| Cost | 164 | 164 |
| Accumulated amortisation | (114) | (114) |
| Additions | **0** | **0** |
| Amortisation for the period | **(40)** | **(40)** |
| **Closing carrying amount 30 June 2017** | **10** | **10** |
| Cost | **164** | **164** |
| Accumulated amortisation | **(154)** | **(154)** |

## 14. INTANGIBLE ASSETS (continued)

### 14.1 Goodwill

| Goodwill by Vector operating segment | GROUP 2017 $000 | GROUP 2016 $000 |
|---|---|---|
| Regulated Networks | **1,021,458** | 1,021,458 |
| Gas wholesale | **156,826** | 156,826 |
| Technology | **87,721** | 19,853 |
| **Total** | **1,266,005** | 1,198,137 |

**Policies**

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

Goodwill is carried at cost less accumulated impairment losses.

**Allocation**

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

**Impairment testing**

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

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

As at 30 June 2016, the Group recognised an impairment loss of $64.0 million in respect of goodwill allocated to the gas trading segment.  The gas trading segment comprises the Group's natural gas, LPG, gas storage and processing, and cogeneration businesses.

***Judgements***

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

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

***Assumptions***

The recoverable amounts attributed to the electricity, gas distribution, metering and communications CGUs are calculated on the basis of value-in-use using discounted cash flow models. For the gas trading CGU, both value in use and fair value less costs to sell were considered. Future cash flows are forecast based on actual results and business plans.

For the electricity, gas distribution and metering CGUs, a ten year period has been used due to the long-term nature of the Group's capital investment in these businesses and the predictable nature of their cash flows. A five year period has been used for the gas trading and communications CGUs.

Terminal growth rates in a range of 1.0% to 2.0% (2016: 1.0% to 2.0%) and post-tax discount rates between 4.8% and 7.6% (2016: 5.3% and 8.1%) are applied. Rates vary for the specific segment being valued.

Projected cash flows for regulated businesses are sensitive to regulatory uncertainty. Estimated future regulated network revenues and the related supportable levels of capital expenditure are based on default price-quality path determinations issued by the Commerce Commission and are in line with estimates published in the asset management plans.

## 14. INTANGIBLE ASSETS (continued)

### 14.2 Other intangible assets

**Policies**

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

Software, customer intangibles, and trade names have been assessed as having a finite life greater than 12 months, and are amortised from the date the asset is ready for use on a straight line basis over its estimated useful life. The estimated useful lives (years) are as follows:

| | |
|---|---|
| Software | 2 - 36 |
| Customer intangibles | 3 - 12 |
| Trade names | 20 |

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

## 15. PROPERTY, PLANT AND EQUIPMENT (PPE)

| GROUP | DISTRIBUTION SYSTEMS $000 | ELECTRICITY AND GAS METERS $000 | LAND, BUILDINGS AND IMPROVEMENTS $000 | COMPUTER AND TELCO EQUIPMENT $000 | OTHER PLANT AND EQUIPMENT $000 | CAPITAL WORK IN PROGRESS $000 | TOTAL $000 |
|---|---|---|---|---|---|---|---|
| **Carrying amount 1 July 2015** | 3,257,940 | 393,683 | 163,590 | 101,231 | 106,156 | 107,283 | 4,129,883 |
| Cost | 4,167,244 | 621,102 | 188,705 | 185,702 | 184,166 | 107,283 | 5,454,202 |
| Accumulated depreciation | (909,304) | (227,419) | (25,115) | (84,471) | (78,010) | - | (1,324,319) |
| Additions | - | - | - | - | - | 342,272 | 342,272 |
| Transfers - Intangible assets | (34,292) | - | - | - | - | (30,053) | (64,345) |
| Transfers - Other | 185,267 | 66,685 | 7,455 | 12,818 | 22,138 | (294,363) | - |
| Disposals | (3,475) | (43) | - | (31) | (405) | - | (3,954) |
| Sale of discontinued operations | (543,603) | (199) | (431) | (111) | (6,568) | (10,084) | (560,996) |
| Depreciation for the period | (109,690) | (40,637) | (3,455) | (12,195) | (6,688) | - | (172,665) |
| **Carrying amount 30 June 2016** | 2,752,147 | 419,489 | 167,159 | 101,712 | 114,633 | 115,055 | 3,670,195 |
| Cost | 3,609,898 | 684,310 | 195,249 | 196,854 | 200,744 | 115,055 | 5,002,110 |
| Accumulated depreciation | (857,751) | (264,821) | (28,090) | (95,142) | (86,111) | - | (1,331,915) |
| Additions | **-** | **-** | **-** | **-** | **3,027** | **367,441** | **370,468** |
| Acquisition of business | **-** | **-** | **800** | **203** | **1,903** | **-** | **2,906** |
| Transfers - Intangible assets | **-** | **-** | **-** | **-** | **-** | **(26,612)** | **(26,612)** |
| Transfers - Other | **222,235** | **73,162** | **8,388** | **17,083** | **23,683** | **(344,551)** | **-** |
| Disposals | **(4,635)** | **-** | **(7)** | **-** | **-** | **-** | **(4,642)** |
| Depreciation for the period | **(108,085)** | **(43,644)** | **(3,856)** | **(11,211)** | **(8,053)** | **-** | **(174,849)** |
| **Carrying amount 30 June 2017** | **2,861,662** | **449,007** | **172,484** | **107,787** | **135,193** | **111,333** | **3,837,466** |
| Cost | **3,818,191** | **757,472** | **204,430** | **208,767** | **229,357** | **111,333** | **5,329,550** |
| Accumulated depreciation | **(956,529)** | **(308,465)** | **(31,946)** | **(100,980)** | **(94,164)** | **-** | **(1,492,084)** |

## 15. PROPERTY, PLANT AND EQUIPMENT (PPE) (continued)

| PARENT | OTHER PLANT AND EQUIPMENT $000 | TOTAL $000 |
|---|---|---|
| **Carrying amount 1 July 2015** | **7** | **7** |
| Cost | 67 | 67 |
| Accumulated depreciation | (60) | (60) |
| Additions | - | - |
| Disposals | - | - |
| Depreciation for the period | (3) | (3) |
| **Carrying amount 30 June 2016** | **4** | **4** |
| Cost | 62 | 62 |
| Accumulated depreciation | (58) | (58) |
| Additions | **13** | **13** |
| Disposals | - | - |
| Depreciation for the period | **(6)** | **(6)** |
| **Carrying amount 30 June 2017** | **11** | **11** |
| Cost | **75** | **75** |
| Accumulated depreciation | **(64)** | **(64)** |

**Policies**

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

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

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

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

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

Depreciation commences when an asset becomes available for use.

Depreciation of PPE, other than freehold land and capital work in progress, is calculated on a straight line basis and expensed over the useful life of the asset. Useful lives are reviewed regularly and adjusted as appropriate for the revised expectations.

Estimated useful lives (years) are as follows:

| | | | |
|---|---|---|---|
| Buildings | 40 – 100 | Meters and meter inspections | 2 – 40 |
| Distribution systems | 10 – 100 | Other plant and equipment | 3 – 55 |
| Leasehold improvements | 5 – 20 | | |

**Judgements**

Management must apply judgement when evaluating:

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

**Capital commitments**

The estimated capital expenditure for PPE and software intangibles contracted for at balance date but not provided is $52.6 million for the group (2016: $57.9 million).

## 16. OPERATING LEASES

| Aggregate minimum lease payments under non-cancellable operating leases where the Group is the lessee | GROUP 2017 $000 | GROUP 2016 $000 |
|---|---|---|
| Within one year | **5,732** | 5,018 |
| One to five years | **13,431** | 14,126 |
| Beyond five years | **5,205** | 5,219 |
| **Total** | **24,368** | 24,363 |

**Policies**

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

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

**Lease of premises**

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

The Parent has no operating leases.

**New accounting standards not yet adopted**

**NZ IFRS 16 *Leases***

NZ IFRS 16 will replace all existing guidance on leases, in particular NZ IAS 17 *Leases* and NZ IFRIC 4 *Determining Whether an Arrangement Contains a Lease.* Under NZ IFRS 16, an entity's right to control the use of an asset (analogous to an operating lease under NZ IAS 17 *Leases*) meets the definition of, and is recognised as, an asset on the balance sheet. A lease liability reflecting future lease payments is also recognised. Vector is a lessee in predominantly property and land leases. Total non-cancellable operating lease commitments total $24.4 million at 30 June 2017.

We expect to provide a more detailed update on our evaluation of the financial impact of NZ IFRS 16 in our 2018 interim financial statements. NZ IFRS 16 is mandatory for the Group's financial year ended 30 June 2020 with early adoption permitted if NZ IFRS 15 is also adopted.

## 17. TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2017 $000 | 2016 $000 | 2017 $000 | 2016 $000 |
| **Current** | | | | |
| Trade payables from exchange transactions | **164,438** | 134,949 | **405** | 629 |
| Deferred payables | **10,401** | 12,383 | **-** | - |
| Employee benefits | **15,978** | 14,506 | **44** | 18 |
| Deferred revenue | **25,452** | 22,618 | **-** | - |
| Finance leases | **434** | 238 | - | - |
| Interest payable | **33,665** | 38,943 | **-** | - |
| **Balance at 30 June** | **250,368** | 223,637 | **449** | 647 |
| **Non-current** | | | | |
| Deferred revenue | **10,548** | 12,188 | - | - |
| Deferred payables | **29,992** | 28,394 | - | - |
| Finance leases | **371** | 413 | - | - |
| Other non-current payables | **500** | 2,798 | **-** | - |
| **Balance at 30 June** | **41,411** | 43,793 | **-** | - |

**Other payables**

The Group accrues employee benefits which remain unused at balance date, and amounts expected to be paid under short-term cash bonus plans.

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

Deferred payables include third party rebates payable in excess of those paid in cash.

The Group does not have payables from non-exchange transactions.

## 18. DISTRIBUTIONS PAYABLE

| | GROUP 2017 $000 | GROUP 2016 $000 | PARENT 2017 $000 | PARENT 2016 $000 |
|---|---|---|---|---|
| **Current** | | | | |
| Distributions payable | **67,048** | 65,438 | **67,048** | 65,438 |

**Distribution payables**

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

*Net surplus from the current year.*

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

*Trustee accumulations available for distribution.*

In accordance with the Trust Deed, accumulations not distributed to beneficiaries at reporting date is held by the Trust for no more than one year. This includes unclaimed distributions that remain unclaimed after two years (per note 20).

As at 30 June 2016 no distribution roll had been struck to determine the allocation of this surplus to the beneficiaries, therefore the funds are held as distributions payable.

## 19. PROVISIONS

| | DECOMMISSIONING PROVISIONS $000 | OTHER $000 | TOTAL $000 |
|---|---|---|---|
| Balance 1 July 2016 | 17,040 | 6,232 | 23,272 |
| Additions | **1,946** | **-** | **1,946** |
| Reversed to the profit or loss | **-** | **(1,452)** | **(1,452)** |
| Unwinding of discount | **1,455** | **-** | **1,455** |
| **Balance at 30 June 2017** | **20,441** | **4,780** | **25,221** |
| Current | **-** | **4,780** | **4,780** |
| Non-current | **20,441** | **-** | **20,441** |
| **Total** | **20,441** | **4,780** | **25,221** |

**Policies**

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

**Decommission-ing**

The decommissioning provisions represent the present value of the future expected costs for dismantling the Group's gas treatment and cogeneration plants situated at Kapuni and depot assets situated at various regions in New Zealand. Timing of economic outflows represents management's best estimate of the end of the useful life of the plant and associated assets.

**Other provisions**

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

## 20. PROVISION FOR UNCLAIMED DISTRIBUTIONS

| | GROUP 2017 $000 | GROUP 2016 $000 | PARENT 2017 $000 | PARENT 2016 $000 |
|---|---|---|---|---|
| Balance at beginning of the reporting period | **6,130** | 5,397 | **6,130** | 5,397 |
| Additions | **4,338** | 3,339 | **4,338** | 3,339 |
| Claimed and paid | **(295)** | (254) | **(295)** | (254) |
| Cancelled | **(2,774)** | (2,352) | **(2,774)** | (2,352) |
| **Balance at end of the reporting period** | **7,399** | 6,130 | **7,399** | 6,130 |

**Policies**

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

## 21. BORROWINGS

| 2017 | CURRENCY | MATURITY DATE | FACE VALUE $000 | UNAMORT-ISED COSTS $000 | FAIR VALUE ADJUSTMENT ON HEDGED RISK $000 | CARRYING VALUE $000 | FAIR VALUE $000 |
|---|---|---|---|---|---|---|---|
| Bank facilities – variable rate | NZD | Feb 2018 – Mar 2020 | **95,000** | **(940)** | **-** | **94,060** | **94,060** |
| Capital bonds – 5.7% fixed rate | NZD | - | **307,205** | **(1,553)** | **-** | **305,652** | **319,349** |
| Wholesale bonds - 4.996% fixed rate | NZD | Mar 2024 | **100,000** | **(301)** | **-** | **99,699** | **98,320** |
| Senior notes – fixed rate | USD | Sep 2019 – Sep 2022 | **697,139** | **(1,369)** | **23,498** | **719,268** | **711,341** |
| Floating rate notes – variable rate | NZD | Oct 2017 – Oct 2020 | **750,000** | **(1,579)** | **-** | **748,421** | **735,959** |
| Medium term notes - 7.625% fixed rate | GBP | Jan 2019 | **285,614** | **(909)** | **(81,315)** | **203,390** | **222,709** |
| **Balance at 30 June** | | | **2,234,958** | **(6,651)** | **(57,817)** | **2,170,490** | **2,181,738** |

| 2016 | CURRENCY | MATURITY DATE | FACE VALUE $000 | UNAMORT-ISED COSTS $000 | FAIR VALUE ADJUSTMENT ON HEDGED RISK $000 | CARRYING VALUE $000 | FAIR VALUE $000 |
|---|---|---|---|---|---|---|---|
| Bank facilities – variable rate (undrawn) | NZD | Feb 2018 | - | (229) | - | (229) | (229) |
| Capital bonds – 7% fixed rate | NZD | - | 262,651 | (116) | - | 262,535 | 270,026 |
| Senior notes – fixed rate | USD | Sep 2016 - Sep 2022 | 796,014 | (1,683) | 79,783 | 874,114 | 834,256 |
| Floating rate notes – variable rate | NZD | Apr 2017 - Oct 2020 | 910,000 | (2,647) | - | 907,353 | 872,269 |
| Medium term notes - 7.625% fixed rate | GBP | Jan 2019 | 285,614 | (1,464) | (71,042) | 213,108 | 241,074 |
| **Balance at 30 June** | | | 2,254,279 | (6,139) | 8,741 | 2,256,881 | 2,217,396 |

**Policies**

The Parent has no borrowings. All borrowings are held by Vector, a subsidiary of the Group.

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

The carrying value of borrowings includes the principal converted at contract rates (face value), unamortised costs and a fair value adjustment for the component of the risk that is hedged. The fair value is calculated by discounting the future contractual cash flows at current market interest rates that are available for similar financial instruments. The fair value of all borrowings, calculated for disclosure purposes, are classified as level 2 on the fair value hierarchy, explained further in Note 23.

**Capital bonds**

Capital bonds of $307.2 million are unsecured, subordinated bonds with the next election date set as 15 June 2022. The interest rate was fixed at 5.7% at the previous election date of 15 June 2017. On 15 June 2017, Vector also sold at face value $44.6 million of capital bonds that it had held as treasury stock since the 2012 election process.

**Wholesale bonds**

Wholesale bonds of $100.0 million were issued in March 2017, with the interest rate fixed at 4.996%.

**Senior notes**

In September 2016, $98.9 million (USD 65.0 million) of USD senior notes were repaid with cash from short term deposits.

**Floating rate notes**

The $750.0 million floating rate notes are credit wrapped by MBIA Insurance Corporation and Ambac Assurance Corporation. In April 2017, $160.0 million of floating rate notes matured and were repaid with cash from short term deposits. $400.0 million of floating rate notes are due to be repaid in October 2017 – a process to refinance these notes in the US private placement market is well advanced.

**Bank facilities**

Three new floating rate bank facilities were added to the existing facilities in March 2017, these mature in March 2020. The unamortised establishment fees unwind over the life of the facilities.

**Covenants**

All borrowings are unsecured and are subject to negative pledge arrangements and various lending covenants. These have all been met for the years ended 30 June 2017 and 30 June 2016.

## Notes to the Financial Statements

### 22. DERIVATIVES AND HEDGE ACCOUNTING

| | CASH FLOW HEDGES | | FAIR VALUE HEDGES | | COST OF HEDGING | | TOTAL | |
|---|---|---|---|---|---|---|---|---|
| | 2017 $000 | 2016 $000 | 2017 $000 | 2016 $000 | 2017 $000 | 2016 $000 | 2017 $000 | 2016 $000 |
| **Derivative assets** | | | | | | | | |
| Cross currency swaps | **-** | - | **35,812** | 84,758 | **(3,712)** | (2,330) | **32,100** | 82,428 |
| Interest rate swaps | **5,820** | - | **-** | - | **-** | - | **5,820** | - |
| Forward exchange contracts | **47** | - | **-** | - | **-** | - | **47** | - |
| **Total** | **5,867** | - | **35,812** | 84,758 | **(3,712)** | (2,330) | **37,967** | 82,428 |
| **Derivative liabilities** | | | | | | | | |
| Cross currency swaps | **(94,679)** | (87,964) | **(11,564)** | (6,933) | **1,153** | 1,781 | **(105,090)** | (93,116) |
| Interest rate swaps | **(57,695)** | (106,380) | **-** | - | **-** | - | **(57,695)** | (106,380) |
| Forward exchange contracts | **(304)** | (149) | **-** | - | **-** | - | **(304)** | (149) |
| **Total** | **(152,678)** | (194,493) | **(11,564)** | (6,933) | **1,153** | 1,781 | **(163,089)** | (199,645) |

The fair value of derivative assets has decreased as at 30 June 2017 largely due to the strengthening of the New Zealand dollar against foreign currencies. The fair value of derivative liabilities has increased as at 30 June 2017 largely due to the decrease in New Zealand floating rates, offset by the strengthening of the New Zealand dollar against foreign currencies.

| Key observable market data for fair value measurement | 2017 | 2016 |
|---|---|---|
| **Foreign currency exchange (FX) rates as at 30 June** | | |
| NZD-GBP FX rate | **0.5629** | 0.5360 |
| NZD-USD FX rate | **0.7334** | 0.7134 |
| **Interest rate swap rates** | | |
| NZD | **1.85% to 3.36%** | 2.24% to 2.67% |
| USD | **1.22% to 2.51%** | 0.47% to 1.73% |
| GBP | **0.25% to 1.62%** | 0.38% to 1.24% |
| **Credit margins** | | |
| Vector | **1.00% to 2.05%** | 1.59% to 2.69% |
| Counterparties | **0.03% to 1.18%** | 0.40% to 2.32% |

**Sensitivity to changes in market rates**

| **Impact on comprehensive income:** Sensitivity to change in interest rates | 2017 $000 | 2016 $000 |
|---|---|---|
| -1% change in interest rates | **(42,649)** | (48,695) |
| +1% change in interest rates | **39,008** | 42,798 |
| Sensitivity to change in foreign exchange rates | | |
| -10% change in foreign exchange rates | **(2,385)** | (6,082) |
| +10% change in foreign exchange rates | **3,001** | 6,341 |
| Sensitivity to change in credit margins | | |
| -0.50% change in credit margins | **(908)** | (1,845) |
| +0.50% change in credit margins | **909** | 1,803 |
| **Impact on profit or loss:** Sensitivity to change in interest rates | | |
| -1% change in interest rates | **(1,377)** | (2,418) |
| +1% change in interest rates | **1,200** | 2,392 |
| Sensitivity to change in foreign exchange rates | | |
| -10% change in foreign exchange rates | **2,806** | 4,452 |
| +10% change in foreign exchange rates | **(1,487)** | (3,843) |
| Sensitivity to change in credit margins | | |
| -0.50% change in credit margins | **633** | 2,008 |
| +0.50% change in credit margins | **(655)** | (1,949) |

## 22. DERIVATIVES AND HEDGE ACCOUNTING (continued)

**Policies**

The Parent does not hold any derivatives. All derivatives are held by Vector, a subsidiary of the Group.

Vector initially recognises derivatives at fair value on the date the derivative contract is entered into, and subsequently they are re-measured to their fair value at each balance date. All derivatives are classified as level 2 on the fair value hierarchy explained in Note 23.

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

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

Vector designates certain derivatives as either:

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

At inception each transaction is documented, detailing:

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

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

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

***Fair value hedges***

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

The following are recognised in profit or loss:

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

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

***Cash flow hedges***

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

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

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

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

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

***Market rate sensitivity***

All derivatives are measured at fair value. A change in the market data used to determine fair value will have an impact on Vector's financial statements.

The table on the previous page shows the sensitivity of the financial statements to a range of possible changes in the market data at balance date.

***Rights to offset***

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

## 22. DERIVATIVES AND HEDGE ACCOUNTING (continued)

| | 2017 $000 DERIVATIVES POSITION AS PER BALANCE SHEET | 2017 $000 AMOUNT AFTER APPLYING RIGHTS OF OFFSET UNDER ISDA AGREEMENTS | 2016 $000 DERIVATIVES POSITION AS PER BALANCE SHEET | 2016 $000 AMOUNT AFTER APPLYING RIGHTS OF OFFSET UNDER ISDA AGREEMENTS |
|---|---|---|---|---|
| Derivative assets | **37,967** | **-** | 82,428 | 7,986 |
| Derivative liabilities | **(163,089)** | **(125,122)** | (199,645) | (125,203) |
| **Net amount** | **(125,122)** | **(125,122)** | (117,217) | (117,217) |

### 22.1 Effects of hedge accounting on the financial position and performance

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

| Cash flow hedges 2017 | FACE VALUE $000 | WEIGHTED AVERAGE RATE | CARRYING AMOUNT ASSETS/(LIABILITIES) $000 | CHANGE IN FAIR VALUE USED FOR MEASURING INEFFECTIVENESS $000 | HEDGING (GAIN) OR LOSS RECOGNISED IN CASH FLOW HEDGE RESERVE $000 | HEDGE INEFFECTIVENESS RECOGNISED IN PROFIT OR LOSS $000 | (GAIN) OR LOSS RECOGNISED IN COST OF HEDGING $000 |
|---|---|---|---|---|---|---|---|
| **Interest risk** | | | | | | | |
| Hedged item: NZD floating rate exposure on borrowings | **(1,000,000)** | **-** | **-** | **(52,842)** | **-** | **-** | **-** |
| Hedging instrument: Interest rate swaps | **(1,420,000)** | **5.0%** | **(51,875)** | **(51,875)** | **51,875** | **-** | **-** |
| **Interest and exchange risk** | | | | | | | |
| Hedged item: GBP fixed rate exposure on borrowings | **(285,614)** | **-** | **-** | **(96,315)** | **-** | **-** | **-** |
| Hedging instrument: Cross currency swaps | **(285,614)** | **10.8%** | **(93,954)** | **(94,679)** | **13,364** | **-** | **(725)** |
| | | | | | **Total** | **-** | |

| Cash flow hedges 2016 | FACE VALUE $000 | WEIGHTED AVERAGE RATE | CARRYING AMOUNT ASSETS/(LIABILITIES) $000 | CHANGE IN FAIR VALUE USED FOR MEASURING INEFFECTIVENESS $000 | HEDGING (GAIN) OR LOSS RECOGNISED IN CASH FLOW HEDGE RESERVE $000 | HEDGE INEFFECTIVENESS RECOGNISED IN PROFIT OR LOSS $000 | (GAIN) OR LOSS RECOGNISED IN COST OF HEDGING $000 |
|---|---|---|---|---|---|---|---|
| **Interest risk** | | | | | | | |
| Hedged item: NZD floating rate exposure on borrowings | (1,160,000) | - | - | (110,817) | - | - | - |
| Hedging instrument: Interest rate swaps | (1,430,000) | 5.5% | (106,380) | (106,380) | 106,380 | - | - |
| **Interest and exchange risk** | | | | | | | |
| Hedged item: GBP fixed rate exposure on borrowings | (285,614) | - | - | (92,161) | - | - | - |
| Hedging instrument: Cross currency swaps | (285,614) | 10.8% | (86,198) | (87,964) | 16,923 | - | (1,766) |
| | | | | | **Total** | **-** | |

The NZD floating rate exposure includes $750.0 million from the floating rate notes (2016: $910.0 million) and $250.0 million arising from hedging the USD senior bonds (2016: $250.0 million), as allowable under NZ IFRS 9 (2013).

The interest rate swaps include $420.0 million of forward starting swaps (2016: $270.0 million).

## 22. DERIVATIVES AND HEDGE ACCOUNTING (continued)

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

| Fair value hedges<br>2017 | FACE VALUE<br>$000 | WEIGHTED AVERAGE RATE | ACCUMULATED FAIR VALUE HEDGE ADJUSTMENTS<br>$000 | CARRYING AMOUNT ASSETS/(LIABILITIES)<br>$000 | CHANGE IN FAIR VALUE OF THE HEDGED ITEM<br>$000 | CHANGE IN FAIR VALUE OF THE HEDGING INSTRUMENT<br>$000 | CHANGE IN VALUE IN COST OF HEDGING<br>$000 |
|---|---|---|---|---|---|---|---|
| **Interest and exchange risk** | | | | | | | |
| Hedged item: USD fixed rate exposure on borrowings | **(697,139)** | **-** | **(23,498)** | **(719,268)** | **56,285** | **-** | **-** |
| Hedging instrument: Cross currency swaps | **(697,139)** | **floating** | **-** | **20,964** | **-** | **(53,577)** | **(970)** |
| | | | | **Total** | **56,285** | **(53,577)** | |

| Fair value hedges<br>2016 | FACE VALUE<br>$000 | WEIGHTED AVERAGE RATE | ACCUMULATED FAIR VALUE HEDGE ADJUSTMENTS<br>$000 | CARRYING AMOUNT ASSETS/(LIABILITIES)<br>$000 | CHANGE IN FAIR VALUE OF THE HEDGED ITEM<br>$000 | CHANGE IN FAIR VALUE OF THE HEDGING INSTRUMENT<br>$000 | CHANGE IN VALUE IN COST OF HEDGING<br>$000 |
|---|---|---|---|---|---|---|---|
| **Interest and exchange risk** | | | | | | | |
| Hedged item: USD fixed rate exposure on borrowings | (796,014) | - | (79,783) | (874,114) | 29,923 | - | - |
| Hedging instrument: Cross currency swaps | (796,014) | floating | - | 75,511 | - | (27,579) | (1,094) |
| | | | | **Total** | 29,923 | (27,579) | |

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

### 22.2 Reconciliation of changes in hedge reserves

| Hedge reserves<br>2017 | CASHFLOW HEDGE RESERVE<br>$000 | COST OF HEDGING<br>$000 | TOTAL<br>$000 |
|---|---|---|---|
| **Opening balance** | **88,883** | **395** | **89,278** |
| Hedging gains or losses recognised in OCI | **1,640** | **2,011** | **3,651** |
| Transferred to profit or loss | **(59,469)** | **-** | **(59,469)** |
| Recognised as basis adjustment to non-financial assets | **(127)** | **-** | **(127)** |
| Deferred tax on change in reserves | **16,228** | **(563)** | **15,665** |
| **Closing balance** | **47,155** | **1,843** | **48,998** |

| Hedge reserves<br>2016 | CASH FLOW HEDGE RESERVE<br>$000 | COST OF HEDGING<br>$000 | TOTAL<br>$000 |
|---|---|---|---|
| **Opening balance** | 74,065 | (472) | 73,593 |
| Hedging gains or losses recognised in OCI | 71,708 | 1,204 | 72,912 |
| Transferred to profit or loss | (50,194) | - | (50,194) |
| Recognised as basis adjustment to non-financial assets | (934) | - | (934) |
| Deferred tax on change in reserves | (5,762) | (337) | (6,099) |
| **Closing balance** | 88,883 | 395 | 89,278 |

## 23. FINANCIAL RISK MANAGEMENT

**Policies**

***Fair value measurement hierarchy***

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

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

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

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

***Risk management framework***

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

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

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

The Parent is exposed to credit risk and liquidity risk that are managed by the board of trustees.

## 23.1 Interest rate risk

| Interest rate exposure **2017** | < 1 YEAR $000 | 1 - 2 YEARS $000 | 2 - 5 YEARS $000 | > 5 YEARS $000 | TOTAL $000 |
|---|---|---|---|---|---|
| Interest rate exposure: borrowings | **845,000** | **285,614** | **753,828** | **350,516** | **2,234,958** |
| Derivative contracts: | | | | | |
| Interest rate swaps | **(790,000)** | **(230,000)** | **600,000** | **420,000** | **-** |
| Cross currency swaps | **697,139** | **-** | **(446,623)** | **(250,516)** | **-** |
| **Net interest rate exposure** | **752,139** | **55,614** | **907,205** | **520,000** | **2,234,958** |

| Interest rate exposure **2016** | < 1 YEAR $000 | 1 - 2 YEARS $000 | 2 - 5 YEARS $000 | > 5 YEARS $000 | TOTAL $000 |
|---|---|---|---|---|---|
| Interest rate exposure: borrowings | 1,271,526 | - | 582,237 | 400,516 | 2,254,279 |
| Derivative contracts: | | | | | |
| Interest rate swaps | (1,000,000) | 210,000 | 520,000 | 270,000 | - |
| Cross currency swaps | 697,139 | - | (296,623) | (400,516) | - |
| **Net interest rate exposure** | 968,665 | 210,000 | 805,614 | 270,000 | 2,254,279 |

**Policies**

The Group is exposed to interest rate risk through Vector's borrowing activities. The Parent has no borrowings.

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

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

## 23. FINANCIAL RISK MANAGEMENT (continued)

### 23.2 Credit risk

**Policies**

Credit risk represents the risk of cash flow losses arising from counterparty defaults. The Group and Parent are exposed to credit risk in the normal course of business as illustrated by the table below:

| Risks | Items | Group | Parent |
|---|---|---|---|
| Financial instruments transactions with financial institutions | Cash and cash equivalents<br><br>Interest receivable<br><br>Derivative financial instruments | ✓ | ✓ |
| Trade receivable transactions with business and mass market residential customers | Trade receivables | ✓ | |

The carrying amounts of financial assets represent the Group's and Parent's maximum exposure to credit risk.

The Group has credit policies in place to minimise the impact of exposure to credit risk and associated financial losses:

- Vector's board of directors must approve placement of cash, short-term cash deposits or derivatives with financial institutions whose credit rating is less than A+. As at 30 June 2017, all financial instruments are held with financial institutions with credit rating above A+;
- Vector's board of directors sets limits and monitors exposure to financial institutions; and
- Exposure is spread across a range of financial institutions. Where we deem there is credit exposure to energy retailers and customers, the Group minimises its risk by performing credit evaluations and/or requiring a bond or other form of security.

The Parent adopts similar credit policies as the Group, and the policies are governed by the Trustees.

### 23.3 Liquidity risk

Contractual cash flows maturity profile

| 2017 | PAYABLE <1 YEAR $000 | PAYABLE 1-2 YEARS $000 | PAYABLE 2-5 YEARS $000 | PAYABLE >5 YEARS $000 | TOTAL CONTRACTUAL CASH FLOWS $000 |
|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | |
| Distributions payable | **67,048** | **-** | **-** | **-** | **67,048** |
| Trade payables from exchange transactions and deferred payables | **174,840** | **8,025** | **21,874** | **93** | **204,832** |
| Unclaimed distributions | **7,399** | **-** | **-** | **-** | **7,399** |
| Borrowings: interest | **87,724** | **84,026** | **142,138** | **15,252** | **329,140** |
| Borrowings: principal | **400,000** | **204,299** | **1,195,377** | **348,176** | **2,147,852** |
| **Derivative financial (assets)/liabilities** | | | | | |
| Cross currency swaps: inflow | **(47,392)** | **(251,691)** | **(497,378)** | **(253,425)** | **(1,049,886)** |
| Cross currency swaps: outflow | **55,518** | **336,758** | **508,127** | **257,944** | **1,158,347** |
| Forward exchange contracts: inflow | **(23,523)** | **-** | **-** | **-** | **(23,523)** |
| Forward exchange contracts: outflow | **23,787** | **-** | **-** | **-** | **23,787** |
| **Net settled derivatives** | | | | | |
| Interest rate swaps | **29,173** | **17,503** | **17,816** | **(3,389)** | **61,103** |
| **Group contractual cash flows** | **774,574** | **398,920** | **1,387,954** | **364,651** | **2,926,099** |

## Notes to the Financial Statements

### 23.3 Liquidity risk (continued)

| Contractual cash flows maturity profile<br>**2016** | PAYABLE <1 YEAR $000 | PAYABLE 1-2 YEARS $000 | PAYABLE 2-5 YEARS $000 | PAYABLE >5 YEARS $000 | TOTAL CONTRACTUAL CASH FLOWS $000 |
|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | |
| Distributions payable | 65,438 | - | - | - | 65,438 |
| Trade payables from exchange transactions and deferred payables | 147,332 | 10,306 | 18,006 | 82 | 175,726 |
| Unclaimed distributions | 2,791 | 3,339 | - | - | 6,130 |
| Borrowings: interest | 95,285 | 63,246 | 114,794 | 19,285 | 292,610 |
| Borrowings: principal | 513,764 | 400,000 | 837,911 | 437,342 | 2,189,017 |
| **Derivative financial (assets)/liabilities** | | | | | |
| Cross currency swaps: inflow | (142,688) | (49,065) | (578,809) | (456,627) | (1,227,189) |
| Cross currency swaps: outflow | 157,016 | 56,198 | 668,730 | 422,476 | 1,304,420 |
| Forward exchange contracts: inflow | (3,301) | - | - | - | (3,301) |
| Forward exchange contracts: outflow | 3,460 | - | - | - | 3,460 |
| **Net settled derivatives** | | | | | |
| Interest rate swaps | 42,348 | 28,305 | 49,247 | 4,279 | 124,179 |
| **Group contractual cash flows** | 881,445 | 512,329 | 1,109,879 | 426,837 | 2,930,490 |

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

The cash flows for capital bonds, included in borrowings, are disclosed as payable within 2 – 5 years as the next election date set for the capital bonds is 15 June 2022 and the bonds have no contractual maturity date.

**Policies**

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

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

At balance date, in addition to short-term deposits, Vector has access to undrawn funds of $530.0 million (2016: $315.0 million).

### 23.4 Foreign exchange risk

**Policies**

The Group is exposed to foreign exchange risk through Vector's borrowing activities, foreign currency denominated expenditure, and through Vector's and the Group's Australian subsidiaries.

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

### 23.5 Funding risk

**Policies**

Funding risk is the risk that Vector will have difficulty refinancing or raising new debt on comparable terms to existing facilities. The objective is to spread the concentration of risk so that if an event occurs the overall cost of funding is not unnecessarily increased. Details of borrowings are shown in Note 21.

Vector's board of directors has set the maximum amount of debt that may mature in any one financial year.

## 24. CASH FLOWS

| Reconciliation of net surplus/(deficit) to net cash flows from/(used in) operating activities | NOTE | GROUP 2017 $000 | GROUP 2016 $000 | PARENT 2017 $000 | PARENT 2016 $000 |
|---|---|---|---|---|---|
| Net surplus/(deficit)for the period | | **166,707** | 271,737 | **117,996** | 115,618 |
| Distribution to beneficiaries | | **(119,606)** | (115,654) | **(119,606)** | (115,654) |
| Distributions payable | | **1,610** | 36 | **1,610** | 36 |
| | | **48,711** | 156,119 | **-** | - |
| **Items associated with sale of discontinued operations** | | | | | |
| Gain on sale of discontinued operations classified as investing activities | | **-** | (166,206) | **-** | - |
| Costs of sale of discontinued operations classified as operating activities | | **-** | (6,892) | **-** | - |
| **Items classified as investing activities** | | | | | |
| Net loss/(gain) on disposal of PPE and software intangibles | 5 | **4,348** | 4,312 | **-** | - |
| **Non-cash items** | | | | | |
| Depreciation and amortisation | | **199,612** | 200,418 | **46** | 40 |
| Non-cash portion of interest costs (net) | | **(3,824)** | (1,102) | **-** | - |
| Fair value change on financial instruments | | **(1,571)** | (2,344) | **-** | - |
| Associates (share of net surplus/(deficit)) | 13 | **(1,568)** | (2,809) | **-** | - |
| Impairment | 8 | **-** | 61,422 | **-** | - |
| Increase/(decrease) in deferred tax | | **(9,084)** | 20,529 | **-** | - |
| Increase/(decrease) in provisions | | **(1,312)** | (4,505) | **-** | - |
| | | **182,253** | 271,609 | **46** | 40 |
| **Cash items not impacting net surplus/(deficit)** | | | | | |
| Payments of amounts in provisions | | **-** | (13,331) | **-** | - |
| Dividends received from associate | 13 | **2,000** | 1,500 | **-** | - |
| **Changes in assets and liabilities** | | | | | |
| Trade and other payables from exchange transactions | | **7,988** | 24,527 | **(198)** | (37) |
| Inventories | | **(2,049)** | 845 | **-** | - |
| Trade and other receivables from exchange transactions | | **(11,231)** | (24,931) | **(49)** | 178 |
| Income tax | | **(16,666)** | (13,600) | **-** | - |
| Distributions payable | | **1,610** | (36) | **1,610** | (36) |
| Unclaimed distributions | | **1,269** | 735 | **1,269** | 735 |
| | | **(19,079)** | (12,460) | **2,632** | 840 |
| **Net cash flows from/(used in) operating activities** | | **218,233** | 234,651 | **2,678** | 880 |

## 25. EQUITY

### 25.1 Transactions with beneficiaries

**Trust Distributions**

The Trust's net distribution of $350 per beneficiary will be paid in September 2017 (2016: $345).

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

**Shares**

Vector Limited's total number of authorised and issued shares is 1,000,000,000 (2016: 1,000,000,000).

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

At balance date 4,354,013 shares (2016: 4,340,052) are held as treasury shares of which 109,090 (2016: 95,129) are allocated to the employee share purchase scheme.

## 25. EQUITY (continued)

### 25.2 Capital Management

**Policies**

The Parent's objectives in managing capital are:

- To safeguard the ability of the Trust to continue as a going concern; and
- To provide an adequate level of distribution to the Trust's income beneficiaries commensurate with the level of risk.

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

The Group's objectives in managing capital are:

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

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

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

The subsidiary, Vector Limited primarily monitors capital on the basis of the gearing ratio.

### 25.3 Reserves

**Hedge reserve**

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

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

The gain or loss relating to the ineffective portion is recorded in comprehensive revenue and expense within interest costs (net).

During the year, $59.5 million (2016: $50.2 million) was transferred from the cash flow hedge reserve to interest expense.

Cost of hedging records the change in the fair value of the cost to convert foreign currency into New Zealand dollars.

**Other reserves**

Other reserves comprise:

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

## 26. RELATED PARTY TRANSACTIONS

| | PARENT 2017 $000 | PARENT 2016 $000 |
|---|---|---|
| **Transactions with Vector Limited** | | |
| Receipt of dividend | **120,160** | 118,283 |
| Office rental paid | **15** | 15 |
| Telecommunication services paid | **2** | 3 |

| **Transactions with associates and other joint operations.** | GROUP 2017 $000 | GROUP 2016 $000 | PARENT 2017 $000 | PARENT 2016 $000 |
|---|---|---|---|---|
| Purchases of electricity and steam from Kapuni Energy Joint Venture (KEJV) | **7,818** | 9,070 | **-** | - |
| Purchase of vegetation management services from Tree Scape Limited | **6,778** | 5,655 | **-** | - |
| Sale of gas to KEJV | **8,254** | 8,987 | **-** | - |
| Sales of operations and maintenance services to KEJV | **1,859** | 2,081 | **-** | - |
| Administration and other services provided to KEJV | **89** | 87 | **-** | - |
| Dividends received from Tree Scape Limited | **2,000** | 1,500 | **-** | - |
| Electricity services provided to NZ Windfarms Limited | **120** | 120 | **-** | - |
| Directors' fees from NZ Windfarms Limited | **-** | 30 | **-** | - |
| Directors' fees from Tree Scape Limited | **94** | 94 | **-** | - |
| **Transactions with key management personnel** | | | | |
| Directors' fees paid to Entrust trustees. | **202** | 202 | **-** | - |
| Directors' fees paid to non-trustee directors of Vector Limited | **743** | 801 | **-** | - |
| Trustees remuneration | **342** | 342 | **342** | 342 |
| Salary and other short-term employee benefits (Entrust) | **551** | 266 | **551** | 266 |
| Salary and other short-term employee benefits (Vector Limited) | **5,518** | 4,795 | **-** | - |

**Related parties**

The Trust is the majority shareholder of the subsidiary Vector Limited. Note 13 identifies all entities including associates, partnerships and joint ventures in which the Group has an interest. All of these entities are related parties of the subsidiary Vector Limited. Other than Vector Limited's directors themselves, there are no additional related parties with whom material transactions have taken place.

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

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

**Other**

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

**Other receivables/ Payables**

| | 2017 $000 | 2016 $000 |
|---|---|---|
| NZ Windfarms Limited | **(17)** | 3 |
| Tree Scape Limited | **(724)** | - |
| KEJV | **534** | 141 |

## 27. CONTINGENT LIABILITIES

**Disclosures**

The subsidiary, Vector Limited's directors are aware of claims that have been made against entities of the Group and, where appropriate, have recognised provisions for these within note 19 of these financial statements.

The board of Trustees is not aware of claims that have been made against the Parent.

No material contingent liabilities have been identified.

## 28. BUSINESS COMBINATIONS

On 31 March 2017, Vector Energy Solutions Limited (formerly known as Vector Solar Limited) and its subsidiary, Vector Contracting Services Limited acquired 100% of the voting shares in E-Co Products Group Limited ("E-Co Products") and the business and net assets of PowerSmart NZ Limited ("PowerSmart") respectively for total cash consideration of $91.0 million.

Vector Contracting Services Limited simultaneously changed its name to PowerSmart NZ Limited on 31 March 2017. Both Vector Energy Solutions Limited and PowerSmart NZ Limited are wholly owned subsidiaries of Vector.

All said Vector companies are 75.4% owned subsidiaries of the Parent, and are fully consolidated in the Group.

E-Co Products is a provider of healthy home solution products. E-Co Products operates primarily in New Zealand with some small scale operations in Australia. PowerSmart is a provider of solar power solutions, primarily to the commercial and industrial sectors.

The acquired businesses will provide Vector and the Group with complementary channels to deliver healthy and energy efficient solutions directly to customers. Goodwill is attributable to the synergies that these channels are expected to deliver to the Group, as well as the knowledge and skillset of the staff retained. None of the goodwill recognised is expected to be deductible for tax purposes.

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

| | **GROUP**<br>2017<br>$000 |
|---|---|
| **Provisional fair value of net assets acquired at acquisition date** | |
| Net working capital | **956** |
| Property, plant and equipment (including software) | **5,029** |
| Identifiable intangible assets | **45,000** |
| Deferred tax liability | **(12,438)** |
| Bank debt and other liabilities subsequently repaid | **(15,430)** |
| Goodwill | **67,868** |
| **Net assets and liabilities acquired** | **90,985** |
| | |
| Cash paid 31 March 2017 | **92,006** |
| Post-acquisition adjustment | **(1,021)** |
| **Total consideration** | **90,985** |

On the date of acquisition, Vector repaid $15.4 million of E-Co Products' liabilities. The repayment was treated as a separate transaction.

From the date of acquisition, E-Co Products and PowerSmart have contributed a combined $17.5 million of revenue and $0.5 million of profit before tax to the Group.

If the acquisitions had taken place at the beginning of the period, the combined contribution to revenue and net profit before tax for the Group would have been $68.9 million and $8.7 million respectively.

## 29. EVENTS AFTER BALANCE DATE

**Approval**

The financial statements were approved by the Trustees on 24 August 2017.

**Final dividend**

On 23 August 2017, the Vector board declared a final and fully imputed dividend for the year ended 30 June 2017 of 8.0 cents per share.

On 24 August 2017, the Trustees resolved to make a net distribution to beneficiaries of $350 (2016: $345) per beneficiary.

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

**Commerce Commission settlement**

On 7 July 2017, Vector and the Commerce Commission agreed the settlement of an over-recovery of electricity revenue by Vector during the regulatory years ended 31 March 2014 and 31 March 2015.

The settlement will be effected through a price adjustment for the regulatory year to 31 March 2019 and 31 March 2020. The total amount of the adjustment is approximately $13.9 million which will impact revenues reported for the financial years ending 30 June 2018 (3 months), 30 June 2019 (12 months), and 30 June 2020 (9 months).

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

## 30. GUIDELINES OF ACCESS TO INFORMATION

**Disclosure**

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

| Year | No. of Requests Received | Costs incurred to process those requests and any recoveries made (includes external costs incurred and an allocation of internal costs based on Official Information Act guidelines) | No. of Trust decisions which were subject to review | Summary of outcome of those reviews and costs incurred in reviews |
|---|---|---|---|---|
| 2017 | Nil | $Nil | Nil | N/A |
| 2016 | Nil | $Nil | Nil | N/A |