2020

Financial Statements

Entrust

Majority shareholder of Vector

Entrust Trustees Report

FOR THE YEAR ENDED 30 JUNE 2020

The year in review to 30 June 2020 had unique challenges as, like everyone, we operated under lockdown conditions for several months.

I am pleased to report that all our work continued successfully with pandemic planning being put in place to ensure that the 2020 dividend was not delayed, and all work around the dividend was completed without disruption.

INCOME AND EXPENDITURE

For the year ended 30 June 2020, income was $125.1 million. This sum was made up of $123.9 million from Vector in dividends and $1.2 million from interest on funds.

The total expenditure incurred by the Trust for the year was $3.3 million compared to $3.9 million last financial year due to tight management of costs. Entrust will continue to focus on reducing costs.

BALANCE SHEET

Entrust holds 751 million shares in Vector on behalf of beneficiaries. The value of these shares at 30 June 2020 was $2.7 billion.

ANNUAL DIVIDEND

The September 2019 dividend increased from $350 in 2018 to $360 in 2019, even though there was an increase in beneficiaries.

Though not in the period being reported on, the September 2020 dividend was $280 and was paid to 4,500 more beneficiaries, the biggest number of beneficiaries ever. The reduction in the latest dividend payment is primarily due to a decision made by Vector to reduce imputation credits on dividends from 28% to 10.5%.

This change means Entrust has to pay significantly more tax on the dividend it receives from Vector, resulting in a lower amount paid to Entrust beneficiaries than in previous years. The dividend Entrust receives is determined by Vector and may fluctuate both up and down. While this year's Vector dividend has remained the same as last year, the reduction in the Entrust dividend is primarily due to Vector's change in dividend policy.

The Entrust dividend is one of the largest dividend distributions in New Zealand and, in the year under review, it injected nearly $120 million into the Auckland economy.

From the feedback we receive, we know how important the dividend is to our beneficiaries. It is used for a wide variety of purposes, such as school uniforms, family gatherings, or just attending to household bills. This year, with the effects of the lockdown, it will be more important than ever.

To help ensure the dividend reaches everyone who is entitled to it, a limited advertising campaign is conducted twice a year.

The advertising lets everyone know when the dividend has been paid in late September and in July when the payment preference forms are sent out. In particular, it alerts the thousands of new consumers who are added to the dividend roll each year as well as everyone who has moved or switched retailers around roll time who may not receive their notification directly.

CHANGE IN DIVIDEND PROCESS FOR 2021

Wherever possible, we pay the dividend as a direct credit to a person's bank account. However, this is not possible if people have not provided us with their banking details or when people move or switch electricity retailers and we are unable to match payment details accurately. In those cases, to ensure we pay the correct person, the dividend is paid as a cheque.

This year one bank, Kiwibank, has stopped accepting cheques and other banks will follow next year. This will mean we will have to manage the dividend distribution differently in future. We will need to find and input the banking details of every beneficiary so we can pay the dividend to their bank account.

If beneficiaries don't provide us with their banking details, they will likely receive a credit to their power account instead. We know this is the least preferred dividend payment option, so it will be more important than ever that beneficiaries complete their payment preference form in July next year to advise their details.

There will be considerable additional cost to gather banking details, and this cost will be ongoing, as we can't store and re-use those details every year because around 40% of beneficiaries change address or change their details every year.

We are also exploring alternative processes including digital options for beneficiaries to update their banking details with us. We are still working through the options, but the end solution will continue to ensure that all rightful beneficiaries receive their dividend.

UNDERGROUNDING

As majority owner of Vector we have an agreement that requires Vector to spend $10.5 million every year on projects in the Entrust district via the Energy Solutions Programme.

In the year under review, all funds were spent on undergrounding, with a large-scale undergrounding project commencing in Mt Albert, in the Carrington and New North Road areas. This work is expected to be completed in early 2021.

In addition to the Mt Albert project, undergrounding was done in the following areas: Powell Street (Avondale), Ngahue Drive (Stonefields), Norwich Street (Eden Terrace), Bella Vista Road (Herne Bay), Ruskin Street (Parnell), Selwyn Street (Onehunga).

Vector has completed all the projects without any injury to field staff and has again received positive customer feedback on completion of the projects.

Mt Albert project, May 2020

Powell Street, Avondale, July 2020

Mt Albert project, July 2020

Mt Albert project, September 2020

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 2020/2021 financial year.

REMUNERATION OF AUDITORS

The audit fees for 2019/2020 were $48,205.00.

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 **13 October 2020**

Financial Statements
for the year ended 30 June 2020

CONTENTS

2020 FINANCIAL STATEMENTS

These financial statements for the year ended 30 June 2020 are dated 03 September 2020, and signed for and on behalf of the Trustees by:

William Cairns
Chairman

Paul Hutchison
Chairman of Finance and Risk Subcommittee

Michael Buczkowski
Deputy Chairman

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

Termination Date

27 August 2073

Accountant

Baker Tilly (formerly Staples Rodway Limited)
P O Box 3899
Auckland

Auditor

Grant Thornton New Zealand Audit Partnership
P O Box 1961
Auckland

Legal Advisor

Rachel Sussock
P O Box 5966
Auckland

Banker

ASB
P O Box 35
Auckland

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 ("Group") on pages 5 to 46 which comprise the consolidated statement of financial position as at 30 June 2020, 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 Group as at 30 June 2020 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)) issued by the New Zealand Auditing and Assurance Standards Board. 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 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* 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 Group in the area of special consultancy projects. The firm has no other interest in the Group.

Other Information

The Trustees are responsible for the other information. The other information comprises the Annual Report, but does not include the consolidated financial statements and our auditor's report thereon. The Annual Report is expected to be made available after the date of this auditor's report.

Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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 the 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/assurance-standards/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 Group and 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

Auckland, New Zealand

03 September 2020

Comprehensive Revenue and Expense

for the year ended 30 June

	NOTE	GROUP 2020 $M	GROUP 2019 $M	PARENT 2020 $M	PARENT 2019 $M
Revenue from exchange transactions	5	**1,294.0**	1,318.6	**123.9**	122.0
Operating expenses	6	**(731.0)**	(766.2)	**(3.3)**	(3.9)
Depreciation and amortisation		**(254.3)**	(239.5)	**-**	-
Interest costs (net)	7	**(123.4)**	(129.8)	**1.2**	1.5
Impairment	9	**(32.0)**	(46.6)	**-**	-
Associates (share of net surplus/(deficit))	12.1	**0.3**	0.6	**-**	-
Fair value change on financial instruments	21.2	**(3.4)**	(2.5)	**-**	-
Gain on sale of Kapuni gas interests	4	**0.5**	-	**-**	-
Surplus/(deficit) before income tax		**150.7**	134.6	**121.8**	119.6
Tax benefit/(expense)	13	**(55.7)**	(52.5)	**(0.5)**	-
Net surplus/(deficit) for the period		**95.0**	82.1	**121.3**	119.6
Net surplus/(deficit) for the period attributable to					
Non-controlling interests in subsidiaries		**24.3**	21.0	**-**	-
Beneficiaries of the Parent		**70.7**	61.1	**121.3**	119.6

Other Comprehensive Revenue and Expense

for the year ended 30 June

		GROUP		PARENT	
	NOTE	2020 $M	2019 $M	2020 $M	2019 $M
Net surplus/(deficit) for the period		**95.0**	82.1	**121.3**	119.6
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	21.3	**(20.6)**	(21.0)	-	-
Translation of foreign operations		**3.5**	(2.1)	-	-
Share of other comprehensive income of associate	12.1	**(0.1)**	-	-	-
Items that will not be re-classified to surplus or deficit:					
Fair value change on investment	12.2	**(2.8)**	0.6	-	-
Other comprehensive revenue and expense for the period net of tax		**(20.0)**	(22.5)	**-**	-
Total comprehensive revenue and expense for the period net of tax		**75.0**	59.6	**121.3**	119.6
Total comprehensive revenue and expense for the period attributable to					
Non-controlling interests in subsidiaries		**19.3**	15.4	-	-
Beneficiaries of the Parent		**55.7**	44.2	**121.3**	119.6

Financial Position

As at 30 June

	NOTE	GROUP 2020 $M	GROUP 2019 $M	PARENT 2020 $M	PARENT 2019 $M
CURRENT ASSETS					
Cash and cash equivalents		**105.8**	105.5	**77.5**	77.9
Trade and other receivables from exchange transactions	8	**89.0**	100.7	**0.4**	0.6
Contract assets		**92.7**	105.2	**-**	-
Inventories		**9.4**	8.4	**-**	-
Contingent consideration	4	**5.2**	-	**-**	-
Intangible assets		**2.4**	1.9	**-**	-
Income tax	13	**33.7**	52.2	**-**	-
Total current assets		**338.2**	373.9	**77.9**	78.5
NON-CURRENT ASSETS					
Receivables from exchange transactions	8	**1.7**	1.7	**-**	-
Derivatives	21	**220.4**	109.3	**-**	-
Contingent consideration	4	**79.5**		**-**	-
Investments in subsidiaries		**-**	-	**300.0**	300.0
Investments in associate and private equity	12	**21.7**	24.3	**-**	-
Intangibles	9	**1,283.4**	1,373.2	**-**	-
Property, plant and equipment (PPE)	10	**4,368.7**	4,167.1	**-**	-
Income tax	13	**109.8**	52.3	**-**	-
Deferred tax	14	**0.4**	0.2	**-**	-
Total non-current assets		**6,085.6**	5,728.1	**300.0**	300.0
Total assets		**6,423.8**	6,102.0	**377.9**	378.5

Financial Position (continued)

as at 30 June

	NOTE	GROUP 2020 $M	GROUP 2019 $M	PARENT 2020 $M	PARENT 2019 $M
CURRENT LIABILITIES					
Distributions payable	16	**64.7**	67.8	**64.7**	67.8
Trade and other payables from exchange transactions	15	**202.6**	201.0	**0.6**	0.5
Provisions	17	**27.0**	17.4	**-**	-
Provision for unclaimed distributions	18	**12.1**	10.2	**12.1**	10.2
Borrowings	20	**374.7**	481.3	**-**	-
Contract liabilities		**54.2**	49.2	**-**	-
Derivatives	21	**9.5**	4.9	**-**	-
Income tax	13	**0.6**	0.8	**0.5**	-
Total current liabilities		**745.4**	832.6	**77.9**	78.5
NON-CURRENT LIABILITIES					
Payables from exchange transactions	15	**0.6**	2.7	**-**	-
Provisions	17	**7.8**	27.4	**-**	-
Borrowings	20	**2,760.9**	2,279.7	**-**	-
Contract liabilities		**38.6**	43.9	-	-
Derivatives	21	**95.4**	78.2	-	-
Deferred tax	14	**514.2**	487.6	-	-
Total non-current liabilities		**3,417.5**	2,919.5	**-**	-
Total liabilities		**4,162.9**	3,752.1	**77.9**	78.5
NET ASSETS					
Net Assets attributable to beneficiaries of the Parent		**1,686.8**	1,752.4	**300.0**	300.0
Non-controlling interests in subsidiaries		**574.1**	597.5	**-**	-
Total net assets		**2,260.9**	2,349.9	**300.0**	300.0
Total net assets and liabilities		**6,423.8**	6,102.0	**377.9**	378.5

Cash Flows
for the year ended 30 June

	NOTE	GROUP 2020 $M	GROUP 2019 $M	PARENT 2020 $M	PARENT 2019 $M
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		**1,312.9**	1,316.5	**-**	-
Interest received		**3.4**	2.6	**1.4**	1.5
Dividends received		**-**	-	**123.9**	122.0
Payments to suppliers and employees		**(720.3)**	(769.3)	**(3.1)**	(4.0)
Lease payments		**(10.6)**	(8.2)	**-**	-
Distribution to beneficiaries		**(114.3)**	(110.8)	**(114.3)**	(110.8)
Dividend withholding tax paid		**(8.3)**	(8.0)	**(8.3)**	(8.0)
Interest paid		**(132.3)**	(140.6)	**-**	-
Income tax paid		**(66.4)**	(61.6)	**-**	-
Net cash flows from/(used in) operating activities	23.1	**264.1**	220.6	**(0.4)**	0.7
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale PPE and software intangibles		**0.5**	0.6	**-**	-
Purchase and construction of PPE		**(436.7)**	(383.2)	**-**	-
Purchase and development of software intangibles		**(39.7)**	(35.2)	**-**	-
Acquisition of businesses		**-**	(8.0)	-	-
Other investments		**(0.3)**	(1.6)	**-**	-
Net cash flows from/(used in) investing activities		**(476.2)**	(427.4)	**-**	-
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from borrowings		**797.1**	535.0	**-**	-
Repayment of borrowings		**(541.6)**	(285.6)	**-**	-
Dividends paid		**(43.1)**	(42.1)	**-**	-
Other financing cash flows		**-**	(0.1)	**-**	-
Net cash flows from/(used in) financing activities		**212.4**	207.2	**-**	-
Net increase/(decrease) in cash and cash equivalents		**0.3**	0.4	**(0.4)**	0.7
Cash and cash equivalents at beginning of the period		**105.5**	105.1	**77.9**	77.2
Cash and cash equivalents at end of the period		**105.8**	105.5	**77.5**	77.9
Cash and cash equivalents comprise:					
Bank balances and on-call deposits		**23.4**	22.2	**0.2**	0.2
Short term deposits		**82.4**	83.3	**77.3**	77.7
	23.2	**105.8**	105.5	**77.5**	77.9

Changes in Net Assets

for the year ended 30 June

GROUP	NOTE	HEDGE RESERVE $M	OTHER RESERVES $M	RETAINED EARNINGS $M	NON-CONTROLLING INTERESTS $M	TOTAL NET ASSETS $M
Balance at 30 June 2018		(30.2)	(0.4)	1,858.3	624.2	2,451.9
Net surplus/(deficit) for the period		-	-	61.1	21.0	82.1
Other comprehensive revenue and expense		(15.8)	(1.1)	-	(5.6)	(22.5)
Total comprehensive revenue and expense		(15.8)	(1.1)	61.1	15.4	59.6
Dividends and distributions	3	-	-	(119.3)	(42.1)	(161.4)
Employee share purchase scheme transactions		-	0.1	-	-	0.1
Distribution payable		-	-	(0.3)	-	(0.3)
Total transactions with beneficiaries		-	0.1	(119.6)	(42.1)	(161.6)
Balance at 30 June 2019		**(46.0)**	**(1.4)**	**1,799.8**	**597.5**	**2,349.9**
Net surplus/(deficit) for the period		**-**	**-**	**70.7**	**24.3**	**95.0**
Other comprehensive revenue and expense		**(15.5)**	**0.5**	**-**	**(5.0)**	**(20.0)**
Total comprehensive revenue and expense		**(15.5)**	**0.5**	**70.7**	**19.3**	**75.0**
Dividends and distributions	3	**-**	**-**	**(118.3)**	**(42.7)**	**(161.0)**
Distribution payable		**-**	**-**	**(3.0)**	**-**	**(3.0)**
Total transactions with beneficiaries		**-**	**-**	**(121.3)**	**(42.7)**	**(164.0)**
Balance at 30 June 2020		**(61.5)**	**(0.9)**	**1,749.2**	**574.1**	**2,260.9**

PARENT	NOTE	TRUSTEE FUNDS $M	RETAINED EARNINGS $M	TOTAL NET ASSETS $M
Balance at 30 June 2018		300.0	-	300.0
Net surplus/(deficit) for the period		-	119.6	119.6
Other comprehensive revenue and expense		-	-	-
Total comprehensive revenue and expense		-	119.6	119.6
Dividends and distributions	24	-	(119.3)	(119.3)
Distribution payable		-	(0.3)	(0.3)
Total transactions with beneficiaries		-	-	(119.6)
Balance at 30 June 2019		**300.0**	**-**	**300.0**
Net surplus/(deficit) for the period		**-**	**121.3**	**121.3**
Other comprehensive revenue and expense		**-**	**-**	**-**
Total comprehensive revenue and expense		**-**	**121.3**	**121.3**
Dividends and distributions	24	**-**	**(118.3)**	**(118.3)**
Distribution payable		**-**	**(3.0)**	**(3.0)**
Total transactions with beneficiaries		**-**	**121.3**	**121.3**
Balance at 30 June 2020		**300.0**	**-**	**300.0**

Notes to the Financial Statements

1. TRUST INFORMATION

Reporting entity

Entrust (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 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 group financial statements have been prepared in accordance with New Zealand generally accepted accounting practice (NZ GAAP). They comply with Public Benefit Entity 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, subject to the adoption of NZ IFRS 16 *Leases* by the subsidiary, which has been eliminated from these consolidated financial statements, 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

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP) as appropriate to Tier 1 not-for-profit entities.

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 ($). All financial information has been rounded to the nearest 100,000, unless otherwise stated.

The statements of revenue and expense, other comprehensive revenue and expense, cash flows and changes in equity are stated exclusive of GST. All items in the balance sheet are stated exclusive of GST except for trade receivables and trade payables, which include GST.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting 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. The table below lists the key areas of judgements and estimates in preparing these financial statements:

Key areas	Judgements / Estimates	Note
Valuation of contingent consideration receivable	Estimates	4,19
Intangible assets: valuation of goodwill	Estimates	9
Property, plant and equipment: classification of costs	Judgements	10
Valuation of derivative financial instruments	Estimates	19, 21

New standard adopted early

PBE IFRS 9 Financial Instruments

PBE IFRS 9 replaces PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*. Being a Tier-1 not for profit public benefit entity that is not a crown entity or that forms a part of the New Zealand Government, PBE IFRS 9 is effective for the group for accounting periods beginning on or after 1 January 2022, with early adoption permitted if, and only if, the group's initial application date is before 1 January 2020.

The standard is based upon NZ IAS 39 *Financial Instruments: Recognition and Measurement* which has been replaced by NZ IFRS 9 *Financial Instruments*. Key changes introduced in PBE IFRS 9 include creating new classification and measurement requirements for financial assets, new hedging requirements and new impairment requirements of financial assets. All of the group's financial instruments are recognised in the subsidiary.

The group's subsidiary have earlier adopted NZ IFRS 9 *Financial Instruments* (2013) in the financial year ended 30 June 2015 (initial application 30 June 2014) and NZ IFRS 9 *Financial Instruments* (2014) in the financial year ended 30 June 2017 (initial application 30 June 2016). Transition to NZ IFRS 9 was therefore completed by 1 July 2018. In assessing the impact of PBE IFRS 9 the group have identified no applicable and material differences between NZ IFRS 9 and PBE IFRS 9 that would impact the group's Financial Position. For this reason, the group have deemed the adoption and transition into PBE IFRS 9 as complete at 1 July 2019.

For information and disclosures on the impact from adoption of NZ IFRS 9, refer to the group's published financial statements for the financial years ended 30 June 2015 and 30 June 2017.

New standard approved but not yet effective

PBE FRS 48 Service Performance Reporting

PBE FRS 48 comes into effect for accounting periods beginning on or after 1 January 2021.
PBE FRS 48 establishes principles and requirements for presenting service performance information that is useful for accountability and decision-making purposes. It establishes high-level disclosure requirements that provide the group with the means to report the efficiency and effectiveness of its operations.

The group have not assessed the extent of disclosures required. The standard is mandatory for the group's financial year ended 30 June 2022. There are no plans to early adopt.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

COVID-19 global pandemic

The New Zealand Government ("the Government") announced a State of National Emergency on 25 March 2020 in response to the World Health Organisation ("WHO") declaring COVID-19 as a global pandemic on 11 March 2020, signalling the beginning of a countrywide lockdown period (Alert Level 4) from midnight 25 March, which lasted until 28 April 2020. All non-essential services were suspended during this period, while a limited number of essential services were allowed to continue trading under guidelines from the Government.

While the pandemic has impacted parts of the group's businesses operationally, the financial impact in the current financial year has been limited.

The group's electricity and gas distribution, supply and distribution of natural gas and LPG, metering services and telecommunication services were considered essential businesses and continued to trade through Alert Level 4. The energy solutions business and meters deployment work in New Zealand were suspended in line with the Government's guidelines. As New Zealand moved out from Alert Level 4 and the subsequent Alert Level 3 periods in mid-May, all of the group's New Zealand businesses have resumed by 30 June 2020.

The group's Australia metering business, while also curtailed to some degree by differing pandemic response rules imposed by state governments in Australia, was able to operate under essential services capacity during the last quarter of the current financial year. The impact to the business was not material.

In respect of the balance sheet, the table below provides a summary of assessment by the Trustees on key areas impacted by COVID-19, based on information available at the time the financial statements are approved.

	Note	
Contingent consideration	4,19	Contingent consideration from the sale of Vector's Kapuni interests is recorded at fair value. Commodity prices used to calculate the initial fair value recorded at 31 March 2020 have reflected the impact of COVID-19, which was declared a global pandemic by the WHO on 11 March 2020.
Trade and other receivables from exchange transactions	8	The group has not seen a significant increase in doubtful debts throughout and after Alert Level 4 in New Zealand and similar restrictive period in Australia. Specific circumstances pertaining to individual customers are assessed and considered in the provision for doubtful debts, but the pandemic has not had a material impact on the group's assessment of expected credit losses at balance date.
Intangible assets	9	In respect of impairment testing, COVID-19 restrictions imposed by the Government have had an impact on the business performance of the E-Co Products CGU and have contributed, in part, to impairment recognised in the CGU in the current year.
Investment in private equity	12,19	Investment in private equity is recorded at fair value. The carrying amount reflects future cash flow forecasts of the investee at balance date, which have been impacted by COVID-19.
Deferred tax	14	The group recognised a reduction in deferred tax liability of $3.5 million as a result of the COVID-19 Response (Taxation and Social Assistance Urgent Measures) Act 2020 having reinstated Vector's ability to deduct non-residential building depreciation for tax purposes.

3. SIGNIFICANT TRANSACTIONS AND EVENTS

Significant transactions and events that have impacted the financial year ended 30 June 2020:

The Commerce Commission	**Over-recovery of electricity revenue** On 7 July 2017, Vector and the Commerce Commission ("the 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 was effected through a $15.2 million (including accumulated interest of $3.8 million) price adjustment for the regulatory years ending 31 March 2019 ($5.3 million) and 31 March 2020 ($9.9 million), impacting the group's reported revenues and interest costs for the financial years ended 30 June 2018 (3 months), 30 June 2019 (12 months) and 2020 (9 months). The impact in the current year ended 30 June 2020 is a $5.6 million (2019: $4.8 million) decrease in revenue and a $1.8 million (2019: $1.7 million) increase in interest costs.
Sale of the Kapuni gas interests	On 3 December 2019, Vector announced an agreement for the sale of the Kapuni Gas Treatment Plant and related assets including Vector's 50% interest in the Kapuni Energy Joint Venture (together "the Kapuni gas interests") to Todd Petroleum Mining Company Limited. The Kapuni gas interests were a part of the group's Gas Trading segment. Assets and liabilities associated with the Kapuni gas interests were $103.8 million and $21.5 million respectively at completion date. The sale transaction was completed on 31 March 2020 for a contingent consideration of $84.3 million, resulting in a gain on sale of $0.5 million after deducting total costs to sell of $1.5 million. Refer to note 4 for details on the sale.
Debt programme	On 16 September 2019, Vector repaid $296.6 million (USD $195.0 million) of USD senior notes. On 12 March 2020, a total of $797.0 million (USD $500.0 million) of USD senior notes were issued. $573.9 million (USD $360.0 million) matures in March 2032 and $223.1 million (USD $140.0 million) matures in March 2035. During the year ended 30 June 2020, Vector repaid a net $245.0 million (2019: $285.0 million draw down) from the bank facilities. Refer to note 20.
Dividends	Vector Limited's final dividend for the year ended 30 June 2019 of 8.25 cents per share was paid on 16 September 2019, with a supplementary dividend of 1.46 cents per non-resident share. The total dividend paid was $82.5 million. Vector Limited's interim dividend for the year ended 30 June 2020 of 8.25 cents per share was paid on 8 April 2020, with a supplementary dividend of 0.44 cents per non-resident share. The total dividend paid was $82.5 million. Liquigas Limited, a subsidiary of the group, paid an interim dividend in December 2019 of $0.8 million and a final dividend in June 2020 of $1.2 million to the company's non-controlling interests.

4. SALE OF KAPUNI GAS INTERESTS

The sale of Vector's Kapuni gas interests to Todd Petroleum Mining Company Limited was completed on 31 March 2020.

The Kapuni gas interests were classified as a disposal group held for sale from December 2019 and its assets and liabilities were presented as a disposal group held for sale at this date. Depreciation and amortisation on the property, plant and equipment ceased from December 2019 due to the held for sale classification.

	2020 $M
Carrying value of disposal group as at 31 March 2020:	
Trade and other receivables	**0.4**
Intangible assets (including goodwill)	**65.8**
Property, plant and equipment	**30.6**
Trade and other payables	**(0.4)**
Provisions	**(21.1)**
Deferred tax	**7.0**
Net assets sold	**82.3**
Contingent consideration	**84.3**
Costs to sell	**(1.5)**
Gain on sale	**0.5**

Goodwill

Where an operation within a group of cash generating units (CGUs) to which goodwill has been allocated is disposed of, goodwill attributable to the operation disposed of is included in the disposed assets.

Prior to the sale the disposal group consisted a part of the gas trading CGU, which had ceased to exist following completion of the sale (refer to note 9). The goodwill was apportioned by measuring it on the basis of relative values of the operation disposed of and the portion of the CGU retained. Management has determined that a relative valuation method based on each operation's valuation compared to its carrying value to be the most appropriate method for goodwill allocation purposes.

In Vector's interim financial statements for the six-months ended 31 December 2019, the disposal group included goodwill of $36.0 million. Information made available to Vector's management subsequent to 31 December 2019 but pertaining to 31 March 2020 changed the valuations of the disposal group and continuing businesses, thus also causing changes in the allocation of goodwill.

Key accounting estimate

The fair value of the contingent consideration was estimated by calculating the present value of the future expected cash flows payable by Todd to Vector. The future period of payment is not fixed by the contract but is dependent on the remaining useful life of the Kapuni gas treatment plant, which is directly correlated to the volume of gas available at the Kapuni gas field and the rate at which the gas is extracted. The values of future cash flows are highly dependent on the future sale prices of gas products (LPG and oil) in the market. Underpinning this all is the assumption that there is an active market for processed gas products in the future and government policy relating to the transition of New Zealand to a low carbon economy.

Vector management made the following estimates in calculating the fair value of the contingent consideration at 31 March 2020 completion:

- Future available raw gas volume at the Kapuni gas field to be approximately 210 PJ based on volume forecasts, as at 1 January 2020;
- Future LPG prices in the range of USD $280 per tonne to USD $520 per tonne;
- Future oil prices in the range of USD $25 per barrel to US $60 per barrel;
- Future FX rate of approximately 1.50 NZD/USD in the long-term;
- Discount rate of 8%.

Vector management have re-estimated the same unobservable inputs when calculating the fair value of the contingent consideration at balance date. Refer to note 19 for details and sensitivity analysis around significant unobservable inputs used in measuring fair values.

Consideration

At completion of the sale on 31 March 2020, the group recognised total consideration of $84.3 million represented entirely by the fair value of a contingent consideration at completion date. The contingent consideration was classified as a financial asset measured at fair value through profit or loss.

Net gains and losses recognised in the profit or loss and arising from the contingent consideration subsequent to completion comprises:

- Fair value movement, which represents changes in management estimates and assumptions used to determine fair value at each reporting date; and
- Interest income, which represents the unwinding of the discounting applied in calculating the fair value at each reporting.

At reporting date, the consideration was remeasured to $84.7 million. The gain this year reflects interest income recognised in the three months between completion date and balance date only. Refer to the table in the next page for a reconciliation between fair value calculated at completion and at balance date.

4. SALE OF KAPUNI GAS INTERESTS (continued)

	NOTE	2020 $M
Carrying value of contingent consideration		
At completion of sale at 31 March 2020		**84.3**
Unwinding of interest	7	**1.7**
Consideration due reclassified to receivables	8	**(1.0)**
Payments received		**(0.3)**
Balance at 30 June 2020		**84.7**
Comprising:		
Current		**5.2**
Non-current		**79.5**

5. REVENUE FROM EXCHANGE TRANSACTIONS

	GROUP		PARENT	
	2020 $M	2019 $M	2020 $M	2019 $M
Regulated networks – sale of distribution service	**672.5**	685.6	**-**	-
Regulated networks - third party contributions	**85.7**	79.0	**-**	-
Gas Trading sales	**256.4**	284.1	**-**	-
Metering services	**203.9**	186.9	**-**	-
Other	**75.5**	83.0	**-**	-
Dividends received	**-**	-	**123.9**	122.0
Total	**1,294.0**	1,318.6	**123.9**	122.0

Revenue streams	Satisfaction of performance obligation
Regulated networks – sale of distribution services	
The group receives revenue from business customers and energy retailers who sell energy to end customers for electricity and gas distribution services in Auckland.	Revenue from electricity and gas distribution services are measured at the value of consideration received, or receivable, to the extent that pricing is measured by the regulator within a defined revenue path. Revenue is recognised over time on a basis that corresponds with end consumers' pattern of electricity and gas consumption. Customers are billed monthly in arrears for distribution services, measured in units of electricity and gas distributed. Revenue from distribution services therefore includes an accrual for services provided but not billed at the end of the month. The accrual is determined based on the group's estimate of volume distributed in the month using the most recent data available. A large portion of the contract assets at balance date consists of this accrual.
Regulated networks – third party contributions	
The group receives contributions from residential and commercial customers towards the construction of distribution system assets in the Auckland electricity or gas distribution networks.	Third party contributions are recognised as revenue over time, reflecting the percentage completion of the underlying construction activity. The group recognises a contract liability to account for consideration received from the customer but where the agreed construction activity is not completed; and conversely a contract asset is recognised to account for activities completed not billed. The transaction price for third party contributions is netted against estimated rebates payable to commercial customers. A contract liability is recognised to account for payments received from customers for construction activities completed but who are eligible for rebates in the future based on completion of developments. In the event that a contract combines a contribution towards an agreed construction activity with sale of electricity or gas distribution services, the group unbundles the contract into two performance obligations and recognises revenue in accordance with each obligation's accounting policy.

5. REVENUE FROM EXCHANGE TRANSACTIONS (continued)

Gas trading sales

Gas trading sales comprises predominantly three revenue streams: sale of natural gas, and distribution and sale of LPG.

Sale of natural gas

The group receives revenue from business customers for providing a supply of natural gas over a contracted time period.

Revenue is recognised over time that corresponds with the customer's consumption of natural gas and measured at the transaction price of the contract.

The transaction price for a gas supply contract includes variable consideration in the form of indexed pricing, volume pricing, and take or pay arrangements. The group estimates the amount of variable consideration present in each contract using the expected value method. Customers are billed monthly. A contract asset is recognised to account for natural gas supplied but not billed to the customer at balance date.

Sale of LPG

Sale of LPG comprises bulk LPG sales to commercial customers and bottled LPG sales to both commercial and residential customers.

Revenue is recognised at a point in time when LPG is delivered to a customer's site.

Billing to a customer occurs after completion of deliveries and at the end of each month with payment terms ranging from 60 days to 90 days.

Distribution of LPG

The group provides services in the areas of bulk LPG storage, distribution and management.

Revenue is recognised over time in line with a customer's consumption of monthly tolling and storage volumes and measured at the transaction price of the contract. The transaction price for a monthly tolling and storage contract includes variable considerations in the form of volume pricing and take or pay arrangements. The group estimates the amount of variable consideration present in each contract using the expected value method.

Metering services

The group receives revenue from business customers for providing electricity and gas metering and data services.

Customer is predominantly an energy retailer who has multiple customers (end users) consuming electricity and gas. Metering and metering data services comprise collection and provision of half-hourly data, utilising the group's electricity and gas meter assets that are fitted at the premises of end users. Metering services are billed to the customer monthly, based on actual and validated metering and data services provided. Customers are billed monthly a number of days after the end of the month to allow for data validation to take place. A contract asset is recognised at the end of each month for services provided but unbilled.

Other revenue streams

Other revenue includes telecommunications revenue and revenue from providing energy solution services.

Telecommunications revenue from commercial customers comprise the sale of fibre services. Revenue is recognised at the point in time of supply and customer consumption.

Energy solutions services comprise predominantly the sale of home and commercial ventilation and solar services. Revenue is recognised as revenue over time, reflecting the percentage completion of each ventilation and solar system install.

6. OPERATING EXPENSES

	NOTE	GROUP 2020 $M	GROUP 2019 $M	PARENT 2020 $M	PARENT 2019 $M
Electricity transmission		**200.8**	209.6	**-**	-
Gas purchases and production		**153.2**	179.2	**-**	-
Metering cost of sales		**25.2**	22.8	**-**	-
Energy solutions cost of sales		**23.7**	25.7	**-**	-
Network and asset maintenance		**91.3**	88.7	**-**	-
Other direct expenses		**75.6**	65.0	**-**	-
Employee benefit expenses		**94.7**	99.4	**0.4**	0.4
Administration expenses		**18.5**	27.1	**1.0**	1.1
Distribution expenses		**1.0**	0.9	**1.0**	0.9
Trustee Remuneration	25	**0.3**	0.3	**0.3**	0.3
Trustee election expenses		**-**	0.4	**-**	0.4
Professional fees		**11.3**	13.6	**0.4**	0.6
IT expenses		**16.6**	16.0	-	-
Other indirect expenses		**18.8**	17.5	**0.2**	0.2
Total		**731.0**	766.2	**3.3**	3.9

Fees paid auditors of Entrust

Grant Thornton are the auditors of Entrust. Fees paid to Grant Thornton are as follows:

- audit of financial statements: $48,205 (2019: $47,000);
- other services: $20,000 (2019: $nil).

Other services provided by Grant Thornton in 2020 related to non-assurance services.

Fees paid to other auditors

Fees were paid to KPMG as follows:

- audit or review of financial statements: $562,000 (2019: $597,000);
- regulatory assurance: $663,000 (2019: $392,185);
- other assurance fees: $22,000 (2019: $74,485);
- non-audit fees: $125,000 (2019: $174,000).

Other assurance fees include fees for the audit of guaranteeing group financial statements, bond registers, and agreed upon procedures required by certain contractual arrangements. Non-audit fees include fees for compliance services for R&D tax credits (2019: fees for IT forensics and other forensic services).

Government wage subsidy

Vector applied for and was granted a total wage subsidy of $1.6 million from the New Zealand Government Wage Subsidy Scheme for one of the group's subsidiary companies. The lump sum payment was initially recognised as a deferred income and subsequently amortised to the profit or loss, as a reduction in employee benefit expense, over the 12-week subsidy period commencing April 2020.

7. INTEREST COSTS (NET)

	NOTE	GROUP 2020 $M	GROUP 2019 $M	PARENT 2020 $M	PARENT 2019 $M
Interest expense		**121.2**	125.9	**-**	-
Amortisation of finance costs		**7.9**	6.5	**-**	-
Capitalised interest		**(4.1)**	(5.4)	**-**	-
Interest income		**(3.4)**	(2.6)	**(1.2)**	(1.5)
Unwinding of contingent consideration	4	**(1.7)**	-	**-**	-
Unwinding of decommissioning provisions	17	**1.7**	2.0	**-**	-
Interest associated with Commerce Commission settlement	3	**1.8**	1.7	**-**	-
Other		**-**	1.7	**-**	-
Total		**123.4**	129.8	**(1.2)**	(1.5)

7. INTEREST COSTS (NET) (continued)

Policies	Interest costs (net) include interest expense on borrowings and interest income on funds invested which are recognised using the effective interest rate method.
Capitalised interest	The group has capitalised interest to PPE and software intangibles while under construction at an average rate of 4.3% per annum (2019: 5.3%).

8. TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS

		GROUP		PARENT	
Current	Note	2020 $M	2019 $M	2020 $M	2019 $M
Trade receivables from exchange transactions		**64.0**	76.3	**-**	-
Interest receivable		**11.4**	10.0	**0.4**	0.6
Prepayments		**9.0**	11.1	**-**	-
Consideration due from sale of Kapuni gas interests	4	**1.0**	-	**-**	-
Other taxes and duties receivable		**1.7**	1.9	**-**	-
Other		**1.9**	1.4	**-**	-
Balance at 30 June		**89.0**	100.7	**0.4**	0.6
Non-current					
Other		**1.7**	1.7	**-**	-
Balance at 30 June		**1.7**	1.7	**-**	-

At 30 June, the exposure to credit risk for trade and other receivables by type of counterparty was as follows.

	2020 $M		2019 $M	
GROUP	Not credit impaired	Credit impaired	Not credit impaired	Credit impaired
Business customers	**55.7**	**2.4**	62.4	2.8
Mass market customers	**4.4**	**0.3**	6.6	-
Third party asset damages	**-**	**4.6**	0.3	5.2
Residential and other	**2.1**	**1.5**	4.2	0.9
Total gross carrying amount	**62.2**	**8.8**	73.5	8.9
Loss allowance	**-**	**(5.3)**	(0.2)	(4.2)
	62.2	**3.5**	73.3	4.7

The following table provides information about the exposure to credit risk and expected credit losses for trade and other receivables as at 30 June.

	2020 $M		2019 $M	
	Carrying amount	Loss allowance	Carrying amount	Loss allowance
Not past due	**55.0**	**-**	65.9	-
Past due 1-30 days	**2.7**	**-**	7.1	-
Past due 31-120 days	**4.8**	**0.5**	2.9	0.2
Past due more than 120 days	**3.2**	**4.8**	2.1	4.2
Balance at 30 June	**65.7**	**5.3**	78.0	4.4

8. TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS (continued)

Policies

Trade receivables are predominantly billed receivables. Sales to business customers are billed monthly. Trade receivables from mass market, residential and other customers are recognised as they are originated.

Other receivables represent the amount of contractual cash flows that the group expect to collect from third parties but that did not arise from contracts with customers. Where contractual cash flows are expected or contracted to be received after 12 months, the balance is presented as non-current.

Expected credit losses

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

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.

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.

The group have assessed the impact COVID-19 had on the group's customers and determined the effect to be insignificant.

9. INTANGIBLE ASSETS

GROUP	NOTE	CUSTOMER INTANGIBLES $M	EASEMENTS $M	SOFTWARE $M	TRADE NAMES $M	GOODWILL $M	CAPITAL WORK IN PROGRESS $M	TOTAL $M
Carrying amount 30 June 2018		33.9	16.8	61.1	15.8	1,269.6	11.3	1,408.5
Cost		49.9	16.8	276.6	16.8	1,333.6	11.3	1,705.0
Accumulated amortisation		(16.0)	-	(215.5)	(1.0)	-	-	(232.5)
Accumulated impairment		-	-	-	-	(64.0)	-	(64.0)
Additions		-	-	-	-	-	38.1	38.1
Transfers		-	0.5	30.6	-	-	(31.1)	-
Acquisition of business		-	-	0.1	-	7.4	-	7.5
Impairment	9.1	(3.9)	-	-	-	(42.7)	-	(46.6)
Amortisation for the period		(5.9)	-	(26.6)	(1.8)	-	-	(34.3)
Carrying amount 30 June 2019		24.1	17.3	65.2	14.0	1,234.3	18.3	1,373.2
Cost		49.9	17.3	299.0	16.8	1,341.0	18.3	1,742.3
Accumulated amortisation		(21.9)	-	(233.8)	(2.8)	-	-	(258.5)
Accumulated impairment		(3.9)	-	-	-	(106.7)	-	(110.6)
Additions		**-**	**-**	**-**	**-**	**-**	**49.0**	**49.0**
Transfers		**-**	**0.5**	**45.3**	**-**	**-**	**(45.8)**	**-**
Sale of Kapuni gas interests		**-**	**-**	**-**	**-**	**(65.8)**	**-**	**(65.8)**
Disposals		**-**	**-**	**(0.2)**	**-**	**-**	**-**	**(0.2)**
Impairment	9.1	**(15.4)**	**-**	**-**	**(12.2)**	**(4.4)**	**-**	**(32.0)**
Amortisation for the period		**(4.5)**	**-**	**(34.5)**	**(1.8)**	**-**	**-**	**(40.8)**
Carrying amount 30 June 2020		**4.2**	**17.8**	**75.8**	**-**	**1,164.1**	**21.5**	**1,283.4**
Cost		**49.9**	**17.8**	**343.2**	**16.8**	**1,275.2**	**21.5**	**1,724.4**
Accumulated amortisation		**(26.4)**	**-**	**(267.4)**	**(4.6)**	**-**	**-**	**(298.4)**
Accumulated impairment		**(19.3)**	**-**	**-**	**(12.2)**	**(111.1)**	**-**	**(142.6)**

9. INTANGIBLE ASSETS (continued)

9.1 Goodwill

Goodwill by cash generating unit	GROUP 2020 $M	GROUP 2019 $M
Electricity	**881.0**	881.0
Gas Distribution	**169.2**	169.2
Gas Trading	**-**	156.8
Natural Gas	**10.3**	-
LPG	**40.2**	-
Liquigas	**40.5**	-
Metering	**22.9**	22.9
E-Co Products	**-**	4.4
Total	**1,164.1**	1,234.3

Policies

Goodwill represents the excess of the consideration transferred over the fair value of Vector'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 a group level. It is allocated to the group's cash generating units ("CGUs"), for impairment testing purposes.

Following the sale of its Kapuni gas interests on 31 March 2020, the group has reassessed its CGUs for impairment testing as at 30 June 2020. As a result of the sale, the group's gas trading CGU has ceased to exist, with the remaining natural gas, LPG and Liquigas businesses being deemed as individual CGUs respectively. As at 30 June 2020, CGUs within the group are: electricity, gas distribution, metering, natural gas, LPG, Liquigas, communications, and E-Co Products.

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

Impairment

As at 30 June 2020, the group has recognised an impairment loss of $32.0 million (2019: $46.6 million) in respect of goodwill and intangible assets allocated to the E-Co Products ("E-Co") CGU. The impairment reflects the post-acquisition performance of E-Co's heat pumps and filters businesses continuing to fall below expectations. E-Co's current year business performance has been affected by the impact of COVID-19 trading restrictions. COVID-19 has highlighted the challenging market conditions which E-Co faces, and as a result management have reassessed both the structure and the forecast financial performance for this business.

The recoverable amount of the E-Co CGU has been determined based on value in use. Post-tax discount rates of between 7.5% and 8.2% (2019: 7.6% and 8.3%) have been applied in determining the recoverable amount for the E-Co CGU.

Key accounting judgements

To assess impairment, management must estimate the future cash flows of operating segments including the 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 all of the group's CGUs are calculated on the basis of value-in-use using discounted cash flow models. On the basis that the recoverable amounts of these CGUs to which goodwill is allocated exceeds the net assets plus goodwill allocated, other than the impairment of E-Co Products the group has determined that no further impairment to goodwill has occurred during the period.

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 natural gas, Liquigas, LPG, E-Co and communications CGUs.

Terminal growth rates in a range of 0.0% to 2.0% (2019: 1.0% to 2.0%) and post-tax discount rates between 3.9% to 8.2% (2019: 4.7% and 8.9%) are applied. Rates vary for the specific CGU 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.

9. INTANGIBLE ASSETS (continued)

9.2 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	3 - 10
Customer intangibles	3 - 10
Trade names	10

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 CGUs to which they have been allocated.

10. PROPERTY, PLANT AND EQUIPMENT (PPE)

GROUP	DISTRIBUTION SYSTEMS $M	ELECTRICITY AND GAS METERS $M	LAND, BUILDINGS AND IMPROVEMENTS $M	COMPUTER AND TELCO EQUIPMENT $M	OTHER PLANT AND EQUIPMENT $M	CAPITAL WORK IN PROGRESS $M	TOTAL $M
Carrying amount 30 June 2018	2,962.3	478.6	170.7	99.9	156.5	116.4	3,984.4
Cost	4,028.1	829.2	206.6	206.6	265.6	116.4	5,652.5
Accumulated depreciation	(1,065.8)	(350.6)	(35.9)	(106.7)	(109.1)	-	(1,668.1)
Additions	-	-	-	-	1.3	386.5	387.8
Acquisition of business	-	-	-	0.1	0.3	-	0.4
Transfers	269.8	102.0	13.0	6.1	20.2	(411.1)	-
Disposals	(1.9)	(1.7)	(0.1)	-	(0.1)	-	(3.8)
Depreciation for the period	(120.0)	(53.4)	(3.4)	(11.7)	(13.2)	-	(201.7)
Carrying amount 30 June 2019	**3,110.2**	**525.5**	**180.2**	**94.4**	**165.0**	**91.8**	**4,167.1**
Cost	4,280.4	926.7	219.4	198.4	287.3	91.8	6,004.0
Accumulated depreciation	(1,170.2)	(401.2)	(39.2)	(104.0)	(122.3)	-	(1,836.9)
Additions	**-**	**-**	**-**	**-**	**5.8**	**439.7**	**445.5**
Transfers	**293.2**	**115.6**	**8.3**	**5.3**	**10.5**	**(432.9)**	**-**
Sale of Kapuni gas interests	**(17.3)**	**-**	**(2.1)**	**-**	**(11.2)**	**-**	**(30.6)**
Disposals	**(3.2)**	**-**	**(0.2)**	**(0.3)**	**(0.7)**	**-**	**(4.4)**
Depreciation for the period	**(124.2)**	**(59.2)**	**(3.5)**	**(9.9)**	**(12.1)**	**-**	**(208.9)**
Carrying amount 30 June 2020	**3,258.7**	**581.9**	**182.7**	**89.5**	**157.3**	**98.6**	**4,368.7**
Cost	**4,458.5**	**1,039.6**	**222.2**	**199.7**	**291.7**	**98.6**	**6,310.3**
Accumulated depreciation	**(1,199.8)**	**(457.7)**	**(39.5)**	**(110.2)**	**(134.4)**	**-**	**(1,941.6)**

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

Policies

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

- Consideration paid on acquisition
- Costs to bring the asset to working condition
- Materials used in construction
- Direct labour attributable to the item
- 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	5 – 100	Computer and telco equipment	2 – 50
Leasehold improvements	5 – 20	Other plant and equipment	3 – 55

Key accounting judgements

The group's property, plant and equipment, particularly the group's distribution assets, are critical to the running of the group's business. In assessing whether the costs incurred in a project on the group's assets are capital in nature, management must apply the following judgements:

- Whether the costs incurred are directly attributable to bringing an asset to the location and condition necessary for it to be capable of operating in the manner intended by management;
- Whether subsequent costs incurred represent an enhancement to existing assets or maintain the current operating capability of existing assets;
- Whether overhead costs can be reasonably allocated to the construction or acquisition of an asset.

Capital commitments

The estimated capital expenditure for PPE and software intangibles contracted for at balance date but not provided is $127.0 million for the group (2019: $83.4 million).

11. OPERATING LEASES

Aggregate minimum lease payments under non-cancellable operating leases where the Group is the lessee	GROUP 2020 $M	GROUP 2019 $M
Within one year	**9.9**	8.4
One to five years	**27.8**	22.2
Beyond five years	**23.9**	19.7
Total	**61.6**	50.3

Policies

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

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

Lease of premises

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

The Parent has no operating leases.

12. INVESTMENTS

	NOTE	2020 $M	2019 $M
Investment in associate	19	**8.9**	8.7
Investment in private equity	19	**12.8**	15.6
Balance at 30 June		**21.7**	24.3

12.1 Investment in associate

Associate	PRINCIPAL ACTIVITY	BALANCE DATE	COUNTRY OF INCORPORATION	PERCENTAGE HELD 2020	PERCENTAGE HELD 2019
Tree Scape Limited	Vegetation management	31 March	New Zealand	**37.6%**	37.6%

	2020 $M	2019 $M
Carrying amount of associate		
Balance at 1 July	**8.7**	8.1
Share of net profit/(loss) of associate	**0.3**	0.6
Share of other comprehensive income of associate	**(0.1)**	-
Balance at 30 June	**8.9**	8.7
Equity accounted earnings of associate		
Profit/(loss) before income tax	**0.4**	0.8
Income tax benefit/(expense)	**(0.1)**	(0.2)
Share of net profit/(loss) of associate	**0.3**	0.6
Total recognised revenues and expenses	**0.3**	0.6

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.

12.2 Investment in private equity

Investee	PRINCIPAL ACTIVITY	COUNTRY OF INCORPORATION	EQUITY INTEREST HELD 2020	2019
mPrest Systems (2003) Limited	Technology development	Israel	**6.1%**	6.1%

	2020 $M	2019 $M
Fair value of investment		
Balance at 1 July	**15.6**	15.0
Fair value movement recognised in OCI	**(2.8)**	0.6
Balance at 30 June	**12.8**	15.6

Policies

The investment is accounted for as a financial asset at fair value through other comprehensive income ("OCI") on the Balance Sheet.
Fair value of the investment is determined using the discounted cash flow method. Refer to note 19 for details on the significant unobservable inputs used in measuring the fair value and related sensitivity analysis.

12. INVESTMENTS (continued)

Significant entities and holding companies in the group are listed below.

	Principal Activity	PERCENTAGE HELD 2020	PERCENTAGE HELD 2019
Trading subsidiaries			
Vector Gas Trading Limited	Natural gas trading and processing	**75.1%**	75.1%
Liquigas Limited	Bulk LPG storage, distribution, and management	**45.1%**	45.1%
On Gas Limited	LPG sales and distribution	**75.1%**	75.1%
Vector Metering Data Services Limited	Holding company	**75.1%**	75.1%
Advanced Metering Assets Limited	Metering services	**75.1%**	75.1%
Advanced Metering Services Limited	Metering services	**75.1%**	75.1%
Arc Innovations Limited	Metering services	**75.1%**	75.1%
Vector Communications Limited	Telecommunications	**75.1%**	75.1%
Vector Energy Solutions Limited	Holding company	**75.1%**	75.1%
PowerSmart NZ Limited	Energy solutions services	**75.1%**	75.1%
Vector ESPS Trustee Limited	Trustee company	**75.1%**	75.1%
E-Co Products Group Limited	Holding company	**75.1%**	75.1%
Cristal Air International Limited	Ventilation, heating and water systems sales and assembly	**75.1%**	75.1%
Ventilation Australia Pty Limited	Holding company	**75.1%**	75.1%
HRV Australia Pty Limited	Ventilation systems and parts sales	**75.1%**	75.1%
Vector Advanced Metering Services (Australia) Pty Limited	Metering services	**75.1%**	75.1%
Vector Advanced Metering Assets (Australia) Limited	Metering services	**75.1%**	75.1%
Vector Energy Solutions (Australia) Pty Limited	Energy solutions services	**75.1%**	75.1%
Vector Technology Services Limited	Technology services	**75.1%**	-
Vector Auckland Property Limited	Assets holding company	**75.1%**	-
Vector Northern Property Limited	Assets holding company	**75.1%**	75.1%
Non-trading subsidiaries			
Vector Kapuni Limited (non-trading from 1 April 2020)	Joint operator – cogeneration plant	**75.1%**	**75.1%**

Policies	Subsidiaries are entities controlled directly or indirectly by the parent. 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.

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.

13. INCOME TAX EXPENSE/(BENEFIT)

Reconciliation of income tax expense/(benefit)	GROUP 2020 $M	GROUP 2019 $M	PARENT 2020 $M	PARENT 2019 $M
Surplus/(deficit)before income tax	**150.7**	134.6	**121.8**	119.6
Tax at current rate	**42.2**	37.7	**40.2**	39.5
Current tax adjustments				
Non-deductible expenses	**2.2**	3.7	**0.3**	0.4
Adjustment relating to sale of Kapuni gas interest	**9.3**	-	**-**	-
(Over)/under provisions in prior periods	**(0.9)**	0.8	-	-
Impairment	**9.0**	13.0	-	-
Other permanent differences	**(1.2)**	(0.9)	**(40.0)**	(39.9)
Deferred tax adjustments:				
Impact from tax legislation amendment	**(3.5)**	-	**-**	-
(Over)/under provisions in prior periods	**(1.4)**	(1.8)	-	-
Income tax expense/(benefit)	**55.7**	52.5	**0.5**	-
Comprising				
Current tax	**28.2**	41.2	**0.5**	-
Deferred tax	**27.5**	11.3	**-**	-

Current tax rates

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

Vector Limited is a 75.1% owned subsidiary of the Parent. Its profit is taxed at the current corporate tax rate of 28%.

Policies

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

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

Income tax asset

During the year ended 30 June 2020, Vector introduced a new dividend and imputation policy and moved away from its previous approach of fully imputing dividend payments to shareholders. The previous imputation policy has driven the recognition of a current income tax asset at 30 June 2020 of $33.7 million (2019: $52.2 million) and a non-current income tax asset of $109.8 million (2019: $52.3 million).

Imputation credits

There are no imputation credits available for use as at 30 June 2020 (2019: nil), as the imputation account has a debit balance as of that date.

14. DEFERRED TAX

Deferred tax liability/ (asset)

GROUP	NOTE	PPE AND INTANGIBLES $M	PROVISIONS AND ACCRUALS $M	HEDGE RESERVES $M	OTHER $M	TOTAL $M
Balance at 30 June 2018		514.8	(19.6)	(15.5)	6.9	486.6
Recognised in profit or loss		20.5	(5.9)	-	(3.3)	11.3
Recognised in other comprehensive income		-	-	(8.2)	-	(8.2)
Recognised from adoption of NZ IFRS 15		-	-	-	(2.3)	(2.3)
Balance at 30 June 2019		535.3	(25.5)	(23.7)	1.3	487.4
Recognised in profit or loss		**23.1**	**7.9**	**-**	**(0.1)**	**30.9**
Recognised in other comprehensive income		**-**	**-**	**(8.0)**	**-**	**(8.0)**
Deferred tax associated with sale of Kapuni gas interests	4	**1.0**	**6.0**	**-**	**-**	**7.0**
Impact from tax legislation amendment		**(3.5)**	**-**	**-**	**-**	**(3.5)**
Balance at 30 June 2020		**555.9**	**(11.6)**	**(31.7)**	**1.4**	**513.8**

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

GROUP	2020 $M	2019 $M
Deferred tax asset	**(0.4)**	(0.2)
Deferred tax liability	**514.2**	487.6
Total	**513.8**	487.4

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 tax rates that are expected to be applied to the temporary differences when they reverse.

Tax legislation amendment

On 26 March 2020, the COVID-19 Response (Taxation and Social Assistance Urgent Measures) Act 2020 received royal assent. The Act has reinstated the group's ability to deduct non-residential building depreciation for tax purposes.

The group has recognised a reduction in deferred tax liability of $3.5 million as a result.

15. TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS

	GROUP		PARENT	
	2020 $M	2019 $M	2020 $M	2019 $M
Current				
Trade payables from exchange transactions	**155.7**	155.1	**0.5**	0.5
Employee benefits	**17.9**	18.0	**0.1**	-
Finance leases	**0.4**	0.4	**-**	-
Interest payable	**28.6**	27.5	**-**	-
Balance at 30 June	**202.6**	201.0	**0.6**	0.5
Non-current				
Finance leases	**0.6**	0.9	**-**	-
Liability for asset acquisition	**-**	1.8	**-**	-
Balance at 30 June	**0.6**	2.7	**0.6**	-

Employee benefits

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

16. DISTRIBUTION PAYABLES

	GROUP 2020 $M	GROUP 2019 $M	PARENT 2020 $M	PARENT 2019 $M
Current				
Distributions payable	**64.7**	67.8	**64.7**	67.8

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 18).

As at 30 June 2020 no distribution roll had been struck to determine the allocation of this surplus to the beneficiaries, therefore the funds are held as distributions payable.

17. PROVISIONS

GROUP	NOTE	PROVISION FOR DISTRIBUTION TO CUSTOMERS $M	DECOMMISSIONING PROVISIONS $M	PRODUCT WARRANTY $M	OTHER $M	TOTAL $M
Balance at 30 June 2019		8.8	27.4	4.4	4.2	44.8
Additions		**15.2**	**-**	**-**	**4.0**	**19.2**
Unwinding of discount		**-**	**1.7**	**-**	**-**	**1.7**
Payments		**(8.5)**	**-**	**-**	**-**	**(8.5)**
Reversed to profit or loss		**-**	**-**	**(1.1)**	**-**	**(1.1)**
Decrease in decommissioning provision		**-**	**(0.2)**	**-**	**-**	**(0.2)**
Associated with sale of Kapuni gas interests	4	**-**	**(21.1)**	**-**	**-**	**(21.1)**
Balance at 30 June 2020		**15.5**	**7.8**	**3.3**	**8.2**	**34.8**
Comprising:						
Current		**15.5**	**-**	**3.3**	**8.2**	**27.0**
Non-current		**-**	**7.8**	**-**	**-**	**7.8**

Policies

The group recognises a provision when the group has a present obligation – legal or constructive – as a result of a past event, it is more likely than not that the resulting liability will be required to be settled, and the amount required to settle can be reliably estimated.

Provision for distribution to customers

The provision represents the group’s estimate of the total value of loss rental rebates to be distributed to customers on Vector’s electricity network. The group’s past practice of distributing all loss rental rebates received to customers gives rise to a constructive obligation.

Of the $8.5 million payments made, $5.0 million was paid to customers via Entrust.

Decommissioning

The decommissioning provisions represent the present value of the future expected costs for dismantling the 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.

Product warranty

The group provides for restatement costs and warranty claims on products sold or installed. Provisions are recognised when the product is sold or the service is provided to the customer. Initial recognition is based on historical experience and subsequently revisited at each reporting date.

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.

18. PROVISION FOR UNCLAIMED DISTRIBUTIONS

	GROUP		PARENT	
	2020 $M	2019 $M	2020 $M	2019 $M
Balance at beginning of the reporting period	**10.2**	9.1	**10.2**	9.1
Additions	**7.1**	5.5	**7.1**	5.5
Claimed and paid	**(0.5)**	(0.5)	**(0.5)**	(0.5)
Cancelled	**(4.7)**	(3.9)	**(4.7)**	(3.9)
Balance at end of the reporting period	**12.1**	10.2	**12.1**	10.2

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.

19. FAIR VALUES

GROUP	NOTE	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2 INPUTS) 2020 $M	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3 INPUTS) 2020 $M	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2 INPUTS) 2019 $M	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3 INPUTS) 2019 $M
Assets measured at fair value					
Derivative financial instruments	21	**220.4**	**-**	109.3	-
Investment in private equity	12.2	**-**	**12.8**	-	15.6
Contingent consideration	4	**-**	**84.7**	-	-
Balance at 30 June		**220.4**	**97.5**	109.3	15.6
Liabilities measured at fair value					
Derivative financial instruments	21	**104.9**	**-**	83.1	-
Balance at 30 June		**104.9**	**-**	83.1	-

Policies

The table above provides the fair value measurement hierarchy of the group's assets and liabilities that are measured at fair value.

The group estimates all fair values using the discounted cash flows method. All assets and liabilities for which fair value is measured and disclosed in the financial statements are categorised within the fair value hierarchy, described as follows:

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).

Derivative financial instruments

Fair value is calculated using the discounted cash flow method, estimated using 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.

Investment in private equity

Fair value is calculated using the discounted cash flow method. In estimating the fair value, the group made assumptions on unobservable inputs, including, amongst others, forecasted future cash flows, an appropriate discount rate and terminal growth rate.

The fair value considers the expected impact of COVID-19 within the forecasted future cash flows. The impact has not been significant.

Contingent consideration

Fair value is calculated using the discounted cash flow method. The group made assumptions on unobservable inputs including, amongst others, future raw gas volume from the Kapuni gas field, future LPG prices, future oil prices, foreign exchange rates, and an appropriate discount rate. Further details on the inputs are as follows:

- Future raw gas volume from the Kapuni gas field is based on published forecasts from the Ministry of Business, Innovation and Employment;
- Future LPG prices are based on an independent financial institution's commodity price forecasts;
- Future oil prices are based on S&P Capital IQ forecast data;
- Future foreign exchange rates are based on an independent financial institution's foreign exchange rate forecasts; and
- Discount rate of 8%, representing market discount rates as applicable to the remaining life of the Kapuni gas field.

The impact of COVID-19 was largely reflected in the commodity prices used in calculating the initial fair value at 31 March 2020. Movement since initial recognition reflects movements in market inputs as mentioned above and are not COVID-19 related.

19. FAIR VALUES (continued)

Description of significant unobservable inputs

The table below summarises the significant level 3 unobservable inputs used by the group in measuring fair values and related sensitivity analyses.

	SIGNIFICANT UNOBSERVABLE INPUTS	RANGE AND ESTIMATES	SENSITIVITY OF VALUATION TO CHANGES IN INPUTS			
			Low	Valuation impact (millions)	High	Valuation impact (millions)
Investment in private equity	Forecast cashflows	$-3.6 million to $13.8 million	-10.0%	-$1.2	10.0%	+$1.2
	Discount rate	9.8%	-1.0%	+$2.5	1.0%	-$1.9
	Terminal growth rate	2.0%	-1.0%	-$1.1	1.0%	+$1.4
Contingent consideration	Discount rate	8.0%	-1.0%	+$4.3	1.0%	-$4.0
	Future raw gas volume	210 PJ	- 2PJ per annum	-$10.3	+ 2PJ per annum	+$10.3
	LPG pricing	USD $520/tonne long-term	- USD $50/tonne	- $8.1	+ USD $50/tonne	+$8.1
	Oil pricing	USD $60/barrel long-term	- USD $6/barrel	- $3.0	+ USD $6/barrel	+ $3.0

20. BORROWINGS

2020 GROUP	CURRENCY	MATURITY DATE	FACE VALUE $M	UNAMORTISED COSTS $M	FAIR VALUE ADJUSTMENT ON HEDGED RISK $M	CARRYING VALUE $M	FAIR VALUE $M
Bank facilities – variable rate	NZD	Feb 2021 – Jan 2025	**150.0**	**(1.3)**	**-**	**148.7**	**150.3**
Capital bonds – 5.7% fixed rate	NZD	-	**307.2**	**(0.7)**	**-**	**306.5**	**337.7**
Wholesale bonds - 4.996% fixed rate	NZD	Mar 2024	**240.0**	**3.1**	**-**	**243.1**	**274.6**
Senior notes – fixed rate	USD	Oct 2021 – Mar 2035	**1,613.4**	**(4.6)**	**231.1**	**1,839.9**	**1,873.6**
Floating rate notes – variable rate	NZD	Oct 2020	**350.0**	**(0.1)**	**-**	**349.9**	**350.0**
Senior bonds – 3.45% fixed rate	NZD	May 2025	**250.0**	**(2.5)**	**-**	**247.5**	**276.6**
Balance at 30 June			**2,910.6**	**(6.1)**	**231.1**	**3,135.6**	**3,262.8**

2019 GROUP	CURRENCY	MATURITY DATE	FACE VALUE $M	UNAMORT-ISED COSTS $M	FAIR VALUE ADJUSTMENT ON HEDGED RISK $M	CARRYING VALUE $M	FAIR VALUE $M
Bank facilities – variable rate	NZD	Mar 2020 – Jul 2021	395.0	(1.2)	-	393.8	393.8
Capital bonds – 5.7% fixed rate	NZD	-	307.2	(1.0)	-	306.2	345.7
Wholesale bonds - 4.996% fixed rate	NZD	Mar 2024	240.0	3.9	-	243.9	278.7
Senior notes – fixed rate	USD	Sep 2019 – Sep 2029	1,112.9	(2.1)	109.7	1,220.5	1,291.6
Floating rate notes – variable rate	NZD	Oct 2020	350.0	(0.5)	-	349.5	351.8
Senior bonds – 3.45% fixed rate	NZD	May 2025	250.0	(2.9)	-	247.1	277.3
Balance at 30 June			2,655.1	(3.8)	109.7	2,761.0	2,938.9

Policies

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.

20. BORROWINGS (continued)

Bank facilities	New floating rate bank facilities were added as part of our debt management activities.
Capital bonds	Capital bonds of $307.2 million are 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.
Wholesale bonds	$240.0 million of fixed rate wholesale bonds were issued at a fixed rate of 4.996% maturing in March 2024.

Senior notes

Date issued	Amount issued NZD	Amount issued USD	Date of Maturity
March 2020	$797.1 million	USD $500.0 million	$573.9 million (USD $360.0 million) matures in Oct 2032 and $223.2 million (USD $140.0 million) matures in Oct 2035.
October 2017	$415.8 million	$300.0 million	$277.2 million (USD $200 million) matures in October 2027. $138.6 million (USD $100.0 million) matures in October 2029.
October 2014	$150.0 million	$130.0 million	$150.0 million (USD $130.0 million) matures in October 2021.
December 2010	$250.5 million	$182.0 million	$250.5 million (USD $182.0 million matures in December 2022.
September 2004	$296.6 million	$195.0 million	$296.6 million (USD $195 million) repaid in September 2019.

Floating rate notes	The $350.0 million floating rate notes are credit wrapped by MBIA Insurance Corporation. These will be refinanced as part of our ongoing debt management activities.
Senior bonds	In May 2019, the group issued $250.0 million of senior bonds at a fixed rate of 3.45% maturing in May 2025.
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 2020 and 30 June 2019.

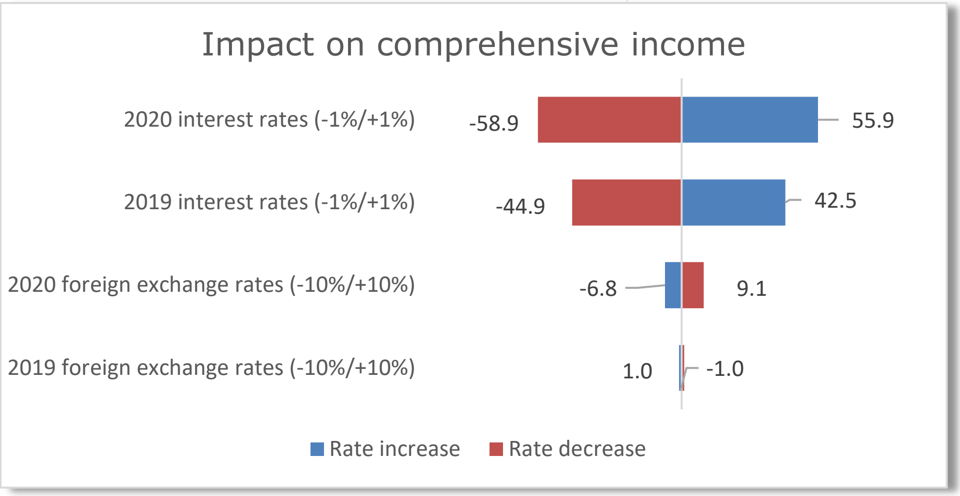
21. DERIVATIVES AND HEDGE ACCOUNTING

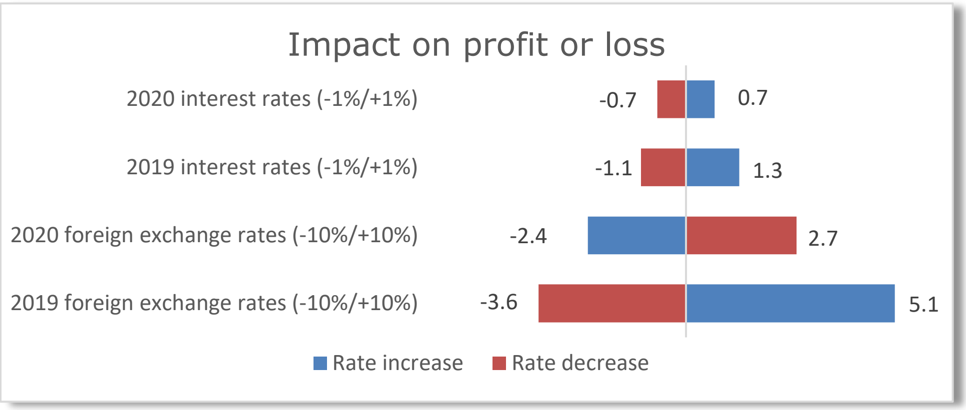
GROUP	CASH FLOW HEDGES 2020 $M	CASH FLOW HEDGES 2019 $M	FAIR VALUE HEDGES 2020 $M	FAIR VALUE HEDGES 2019 $M	COST OF HEDGING 2020 $M	COST OF HEDGING 2019 $M	TOTAL 2020 $M	TOTAL 2019 $M
Derivative assets								
Cross currency swaps	**(23.8)**	**-**	**251.5**	116.0	**(7.6)**	(6.7)	**220.1**	109.3
Interest rate swaps	-	**-**	-	-	-	-	-	-
Forward exchange contracts	**0.3**	**-**	-	-	-	-	**0.3**	-
Total	**(23.5)**	**-**	**251.5**	116.0	**(7.6)**	(6.7)	**220.4**	109.3
Derivative liabilities								
Cross currency swaps	**-**	-	-	(4.9)	**-**	0.1	**-**	(4.8)
Interest rate swaps	**(104.5)**	(78.2)	**-**	-	**-**	-	**(104.5)**	(78.2)
Forward exchange contracts	**(0.4)**	(0.1)	**-**	-	**-**	-	**(0.4)**	(0.1)
Total	**(104.9)**	(78.3)	**-**	(4.9)	**-**	0.1	**(104.9)**	(83.1)

Key observable market data for fair value measurement	2020	2019
Foreign currency exchange (FX) rates as at 30 June		
NZD-USD FX rate	**0.6454**	0.6719
Interest rate swap rates		
NZD	**0.21% to 0.74%**	1.36% to 1.80%
USD	**0.16% to 0.88%**	1.74% to 2.40%

Sensitivity to changes in market rates

The graphs below illustrate the impact on derivative valuations of possible changes in interest rates and foreign exchange rates, assuming all other variables are held constant.





21. DERIVATIVES AND HEDGE ACCOUNTING (continued)

Policies

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 19.

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. Effectiveness is assessed by comparing the changes of the hedged items and hedging instruments.

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

21. DERIVATIVES AND HEDGE ACCOUNTING (continued)

GROUP	2020 $M DERIVATIVES POSITION AS PER BALANCE SHEET	2020 $M AMOUNT AFTER APPLYING RIGHTS OF OFFSET UNDER ISDA AGREEMENTS	2019 $M DERIVATIVES POSITION AS PER BALANCE SHEET	2019 $M AMOUNT AFTER APPLYING RIGHTS OF OFFSET UNDER ISDA AGREEMENTS
Derivative assets	**220.4**	**152.1**	109.3	60.0
Derivative liabilities	**(104.9)**	**(36.6)**	(83.1)	(33.8)
Net amount	**115.5**	**115.5**	26.2	26.2

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.

21.1 Effects of hedge accounting on the financial position and performance

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

GROUP Cash flow hedges 2020	FACE VALUE $M	WEIGHTED AVERAGE RATE	CARRYING AMOUNT ASSETS/(LIABILITIES) $M	CHANGE IN FAIR VALUE USED FOR MEASURING INEFFECTIVENESS $M	HEDGING (GAIN) OR LOSS RECOGNISED IN CASH FLOW HEDGE RESERVE $M	HEDGE INEFFECTIVENESS RECOGNISED IN PROFIT OR LOSS $M	(GAIN) OR LOSS RECOGNISED IN COST OF HEDGING $M
Interest risk							
Hedged item: NZD floating rate exposure on borrowings	**(1,280.0)**			**(106.2)**			
Hedging instrument: Interest rate swaps	**(1,780.0)**	**3.4%**	**(104.5)**	**(104.5)**	**104.5**	**-**	**-**
Interest and exchange risk							
Hedged item: USD fixed rate exposure on borrowings	**(797.1)**		**(810.5)**	**(31.8)**			
Hedging instrument: Cross currency swaps	**(797.1)**			**(26.1)**	**1.4**	**-**	**(2.3)**
					Total	**-**	

GROUP Cash flow hedges 2019	FACE VALUE $M	WEIGHTED AVERAGE RATE	CARRYING AMOUNT ASSETS/(LIABILITIES) $M	CHANGE IN FAIR VALUE USED FOR MEASURING INEFFECTIVENESS $M	HEDGING (GAIN) OR LOSS RECOGNISED IN CASH FLOW HEDGE RESERVE $M	HEDGE INEFFECTIVENESS RECOGNISED IN PROFIT OR LOSS $M	(GAIN) OR LOSS RECOGNISED IN COST OF HEDGING $M
Interest risk							
Hedged item: NZD floating rate exposure on borrowings	(1,070.0)			(80.1)			
Hedging instrument: Interest rate swaps	(1,450.0)	3.8%	(78.2)	(78.2)	78.2	-	-
					Total	**-**	

The NZD floating rate exposure includes $350.0 million from the floating rate notes (2019: $350.0 million) and $930.0 million arising from hedging the USD senior bonds (2019: $720.0 million), as allowable under NZ IFRS 9 *Financial Instruments and* NZ PBE IPSAS 29.

The interest rate swaps include $500.0 million of forward starting swaps (2019: $380.0 million).

21. DERIVATIVES AND HEDGE ACCOUNTING (continued)

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

GROUP Fair value hedges 2020	FACE VALUE $M	WEIGHTED AVERAGE RATE $M	ACCUMULATED FAIR VALUE HEDGE ADJUSTMENTS $M	CARRYING AMOUNT ASSETS/(LIABILITIES) $M	CHANGE IN FAIR VALUE OF THE HEDGED ITEM $M	CHANGE IN FAIR VALUE OF THE HEDGING INSTRUMENT $M	CHANGE IN VALUE IN COST OF HEDGING $M
Interest and exchange risk							
Hedged item: USD fixed rate exposure on borrowings	**(1,613.4)**		**(231.1)**	**(1,839.9)**	**(143.7)**		
Hedging instrument: Cross currency swaps	**(1,613.4)**	**floating**		**246.2**		**140.3**	**1.4**
				Total	**(143.7)**	**140.3**	

GROUP Fair value hedges 2019	FACE VALUE $M	WEIGHTED AVERAGE RATE $M	ACCUMULATED FAIR VALUE HEDGE ADJUSTMENTS $M	CARRYING AMOUNT ASSETS/(LIABILITIES) $M	CHANGE IN FAIR VALUE OF THE HEDGED ITEM $M	CHANGE IN FAIR VALUE OF THE HEDGING INSTRUMENT $M	CHANGE IN VALUE IN COST OF HEDGING $M
Interest and exchange risk							
Hedged item: USD fixed rate exposure on borrowings	(1,112.9)		(109.7)	(1,220.5)	(57.2)		
Hedging instrument: Cross currency swaps	(1,112.9)	floating		104.5		54.7	(5.1)
				Total	(57.2)	54.7	

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. In 2020, the total face value of the cross-currency swaps of $1.6 billion per the table above includes $797.1 million notional value that are designated under cash flow hedges.

21.2 Fair value changes on financial instruments

GROUP	2020 $M	2019 $M
Recognised in profit or loss		
Fair value movement on hedging instruments	**140.3**	54.7
Fair value movement on hedged items	**(143.7)**	(57.2)
Total gains/(losses)	**(3.4)**	(2.5)

21. DERIVATIVES AND HEDGE ACCOUNTING (continued)

21.3 Reconciliation of changes in hedge reserves

GROUP

Hedge reserves **2020**	CASHFLOW HEDGE RESERVE $M	COST OF HEDGING $M	TOTAL $M
Opening balance	**56.4**	**4.7**	**61.1**
Hedging gains or losses recognised in OCI	**58.4**	**1.0**	**59.4**
Transferred to profit or loss	**(31.2)**	**-**	**(31.2)**
Recognised as basis adjustment to non-financial assets	**0.4**	**-**	**0.4**
Deferred tax on change in reserves	**(7.7)**	**(0.3)**	**(8.0)**
Closing balance	**76.3**	**5.4**	**81.7**

GROUP

Hedge reserves **2019**	CASH FLOW HEDGE RESERVE $M	COST OF HEDGING $M	TOTAL $M
Opening balance	39.3	0.8	40.1
Hedging gains or losses recognised in OCI	52.2	5.4	57.6
Transferred to profit or loss	(28.4)	-	(28.4)
Deferred tax on change in reserves	(6.7)	(1.5)	(8.2)
Closing balance	56.4	4.7	61.1

22. FINANCIAL RISK MANAGEMENT

Risk management framework

Vector has a comprehensive treasury policy, approved by the Board, to manage financial risks arising from business activity. The policy outlines the objectives and approach that the group 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. Each risk is monitored on a regular basis and reported to the board.

22.1 Interest rate risk

GROUP

Interest rate exposure **2020**	< 1 YEAR $M	1 - 2 YEARS $M	2 - 5 YEARS $M	> 5 YEARS $M	TOTAL $M
Interest rate exposure: borrowings	**500.0**	**457.2**	**740.5**	**1,212.9**	**2,910.6**
Derivative contracts:					
Interest rate swaps	**(1,030.0)**	**-**	**480.0**	**550.0**	**-**
Cross currency swaps	**1,613.4**	**(150.0)**	**(250.5)**	**(1,212.9)**	**-**
Net interest rate exposure	**1,083.4**	**307.2**	**970.0**	**550.0**	**2,910.6**

GROUP

Interest rate exposure **2019**	< 1 YEAR $M	1 - 2 YEARS $M	2 - 5 YEARS $M	> 5 YEARS $M	TOTAL $M
Interest rate exposure: borrowings	1,041.6	-	947.7	665.8	2,655.1
Derivative contracts:					
Interest rate swaps	(1,150.0)	450.0	320.0	380.0	-
Cross currency swaps	816.3	-	(400.5)	(415.8)	-
Net interest rate exposure	707.9	450.0	867.2	630.0	2,655.1

Policies

The group is exposed to interest rate risk through its borrowing activities.

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.

The Trustees have set and actively monitors maximum and minimum limits for the net interest rate exposure profile.

22. FINANCIAL RISK MANAGEMENT (continued)

22.2 Credit risk

Policies

Credit risk represents the risk of cash flow losses arising from counterparty defaults. Vector is exposed to credit risk in the normal course of business from:

- Trade receivable transactions with business and mass market residential customers; and
- Financial instruments transactions with financial institutions.

The carrying amounts of financial assets represent the group'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 2020, 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.

22.3 Liquidity risk

GROUP

Contractual cash flows maturity profile

2020	PAYABLE <1 YEAR $M	PAYABLE 1-2 YEARS $M	PAYABLE 2-5 YEARS $M	PAYABLE >5 YEARS $M	TOTAL CONTRACTUAL CASH FLOWS $M
Non-derivative financial liabilities					
Distributions payable	**64.7**	-	-	-	**64.7**
Trade payables from exchange transactions and deferred payables	**155.7**	**-**	**-**	**-**	**155.7**
Unclaimed distributions	**5.0**	**7.1**	**-**	**-**	**12.1**
Contract liabilities	**10.9**	**9.9**	**16.8**	**1.8**	**39.4**
Borrowings: interest	**96.3**	**90.5**	**167.0**	**214.6**	**568.4**
Borrowings: principal	**499.1**	**507.7**	**775.2**	**1,239.5**	**3,021.5**
Derivative financial (assets)/liabilities					
Cross currency swaps: inflow	**(55.8)**	**(253.8)**	**(399.1)**	**(1,454.1)**	**(2,162.8)**
Cross currency swaps: outflow	**35.7**	**182.6**	**341.0**	**1,448.5**	**2,007.8**
Forward exchange contracts: inflow	**(33.1)**	**(2.3)**	-	-	**(35.4)**
Forward exchange contracts: outflow	**33.0**	**2.4**	-	-	**35.4**
Net settled derivatives					
Interest rate swaps	**33.8**	**24.0**	**47.6**	**9.3**	**114.7**
Group contractual cash flows	**845.3**	**568.1**	**948.5**	**1,459.6**	**3,821.5**

22. FINANCIAL RISK MANAGEMENT (continued)

22.3 Liquidity risk (continued)

GROUP
Contractual cash flows maturity profile

2019	PAYABLE <1 YEAR $M	PAYABLE 1-2 YEARS $M	PAYABLE 2-5 YEARS $M	PAYABLE >5 YEARS $M	TOTAL CONTRACTUAL CASH FLOWS $M
Non-derivative financial liabilities					
Distributions payable	67.8	-	-	-	67.8
Trade payables from exchange transactions and deferred payables	155.1	-	-	-	155.1
Unclaimed distributions	4.7	5.5	-	-	10.2
Contract liabilities	9.7	9.6	19.0	2.2	40.5
Borrowings: interest	89.4	74.8	147.0	74.4	385.6
Borrowings: principal	685.2	350.0	1,011.6	696.5	2,743.3
Derivative financial (assets)/liabilities					
Cross currency swaps: inflow	(332.3)	(33.8)	(532.0)	(512.2)	(1,410.3)
Cross currency swaps: outflow	326.1	25.8	458.1	484.2	1,294.2
Forward exchange contracts: inflow	(13.0)	-	-	-	(13.0)
Forward exchange contracts: outflow	13.1	-	-	-	13.1
Net settled derivatives					
Interest rate swaps	29.7	22.6	28.8	6.2	87.3
Group contractual cash flows	1,035.5	454.5	1,132.5	751.3	3,373.8

Contractual cash flows

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

The cash flows for bank facilities, included in borrowings, are disclosed on the basis of their contractual repayment terms for the individual drawdowns.

The cash flows for capital bonds, included in borrowings, are disclosed as payable within 1 – 2 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 and Vector 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 of directors 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 $955.0 million (2019: $585.0 million).

22.4 Foreign exchange risk

Policies

The group and Vector is exposed to foreign exchange risk through its borrowing activities, foreign currency denominated expenditure, and through our Australian subsidiaries.

Foreign exchange exposure is primarily managed through entering into derivative contracts. Vector's 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 is highly probable. Hence, at balance date there is no significant exposure to foreign currency risk.

22.5 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 20.

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

23. CASH FLOWS

23.1 Reconciliation of net profit/(loss) to net cash flows from/(used in) operating activities

Reconciliation of net surplus/(deficit) to net cash flows from/(used in) operating activities	GROUP 2020 $M	GROUP 2019 $M	PARENT 2020 $M	PARENT 2019 $M
Net surplus/(deficit)for the period	**95.0**	82.1	**121.3**	119.6
Transactions with beneficiaries				
Distribution to beneficiaries	**(118.3)**	(119.3)	**(118.3)**	(119.3)
Distributions payable	**(3.0)**	(0.3)	**(3.0)**	(0.3)
	(121.3)	(119.6)	**(121.3)**	(119.6)
Items classified as investing activities				
Items associated with investing activities	**(10.0)**	(1.8)	**-**	-
Non-cash items				
Depreciation and amortisation	**254.3**	239.5	**-**	-
Non-cash portion of interest costs (net)	**(9.2)**	(5.5)	**-**	-
Fair value change on financial instruments	**3.4**	2.5	**-**	-
Associates (share of net surplus/(deficit))	**(0.3)**	(0.6)	**-**	-
Impairment	**32.0**	46.6	**-**	-
Increase/(decrease) in deferred tax	**27.2**	11.4	**-**	-
Increase/(decrease) in provisions	**11.2**	(4.2)	**-**	-
Gain on sale of Kapuni gas interests	**(0.5)**	-	**-**	-
Other non-cash items	**0.8**	(1.6)	**-**	-
	318.9	288.1	**-**	-
Changes in assets and liabilities				
Trade and other payables from exchange transactions	**2.7**	(11.2)	**0.1**	(0.1)
Contract liabilities	**0.5**	(4.4)	**-**	-
Contract assets	**12.7**	0.3	**-**	-
Inventories	**(1.0)**	3.2	**-**	-
Trade and other receivables from exchange transactions	**7.1**	2.8	**0.2**	-
Income tax	**(39.3)**	(19.7)	**0.5**	-
Distributions payable	**(3.1)**	(0.3)	**(3.1)**	(0.3)
Provision for unclaimed distributions	**1.9**	1.1	**1.9**	1.1
	(18.5)	(28.2)	**(0.4)**	0.7
Net cash flows from/(used in) operating activities	**264.1**	220.6	**(0.4)**	0.7

23.2 Reconciliation of movement of liabilities to cash flows arising from financing activities

Reconciliation of movement of liabilities to cash flows arising from financing activities	GROUP BORROWINGS	GROUP DERIVATIVES	GROUP TOTAL
Balance at 1 July 2019	2,761.0	(26.2)	2,734.8
Net draw downs	**255.5**	**-**	**255.5**
Other financing cash flows	**-**	**-**	**-**
Financing cash flows	**255.5**	**-**	**255.5**
Cost of debt raising	**(3.6)**	**-**	**(3.6)**
Fair value changes	**121.4**	**(89.3)**	**32.1**
Borrowing fees paid	**(5.7)**	**-**	**(5.7)**
Amortisation of debt raising costs	**7.9**	**-**	**7.9**
Premium released	**(0.9)**	**-**	**(0.9)**
As at 30 June 2020	**3,135.6**	**(115.5)**	**3,020.1**

Policies Cash and cash equivalents are carried at amortised cost. Cash and cash equivalents include deposits that are on call.

24. EQUITY

24.1 Share Capital

Trust Distributions

The Trust's net distribution of $280 per beneficiary will be paid in September 2020 (2019: $360).

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 (2019: 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 116,948 shares (2019: 132,035) are allocated to the employee share purchase scheme.

24.2 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 group 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 the group may:

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

24.3 Reserves

Hedge reserves

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 derivatives that are designated as cash flow hedges.

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

During the year, $31.2 million (2019: $28.4 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 as required under NZ IFRS 9 and NZ PBE IPSAS 29.

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 reserve is offset with a reduction in treasury shares.
- A foreign currency translation reserve to record exchange differences arising from the translation of the group's foreign operations.
- A reserve recording the group's share of its associate's other comprehensive income.
- A reserve to record the fair value movements in the group's investments in financial assets.

25. RELATED PARTY TRANSACTIONS

	NOTE	2020 $M	2019 $M
Transactions with Vector Limited			
Dividends received		**123.9**	122.0
Distribution to customers	17	**5.0**	9.9

	GROUP		PARENT	
Transactions with associates and other joint operations.	2020 $M	2019 $M	2020 $M	2019 $M
Purchases of electricity and steam from Kapuni Energy Joint Venture (KEJV)	**7.3**	8.0	-	-
Purchase of vegetation management services from Tree Scape Limited	**9.9**	9.3	-	-
Sale of gas to KEJV	**8.2**	9.8	-	-
Sales of operations and maintenance services to KEJV	**1.5**	1.9	-	-
Sale of administration and other services provided to KEJV	**0.1**	0.1	-	-
Directors' fees from Tree Scape Limited	**0.1**	0.1	-	-
Transactions with directors of Vector Limited				
Directors' fees paid to Entrust trustee directors of Vector Limited	**0.2**	0.2	-	-
Directors' fees paid to non-trustee directors of Vector Limited	**0.7**	0.7	-	-
Transactions with key management personnel				
Salary and other short-term employee benefits (Entrust)	**0.4**	0.4	**0.4**	0.4
Salary and other short-term employee benefits (Vector Limited)	**7.1**	5.1	-	-

Trustees' remuneration:

Trustees	2020 $	2019 $
W Cairns	**90,000**	90,000
M Buczkowski	**65,000**	65,000
C Hutchison	**62,500**	62,500
A Bell	**62,500**	41,667
K Sherry	**55,000**	58,750
J Carmichael (resigned 31 October 2018)	-	20,833
	335,000	338,750

Trustees' fees are paid by the Parent.

Related parties

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

Key management personnel include 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 Kapuni Energy Joint Venture was a joint operation to which the group was a party with 50% interest. The interest was sold on 31 March 2020 as a part of the sale of Vector's Kapuni gas interests to Todd Petroleum Mining Company Limited (refer to note 4).

Receivables/ (Payables)

	2020 $M	2019 $M
Tree Scape Limited	-	(0.4)
KEJV	-	0.3

26. CONTINGENT LIABILITIES

Disclosures

The directors are aware of claims that have been made against entities of the group and, where appropriate, have recognised provisions for these within note 17.

No material contingent liabilities have been identified.

27. EVENTS AFTER BALANCE DATE

Loss rental rebates

On 26 August 2020, Vector's board of directors resolved that, in a change from previous practice, it would not be distributing loss rental rebates to customers in September 2020. Under the new regulatory regime that came into effect on 1 April, any under recovery of the allowed regulated revenue can be recovered from customers in subsequent periods. Vector will retain loss rental rebates with a view to offsetting the impact of any electricity volume reductions on revenue and mitigating potential future prices increases for consumers under the new revenue cap regulatory regime. This change will not disadvantage customers and any excess loss rental rebate not required to mitigate revenue shortfalls will be returned to customers at a later date. As at 30 June 2020, Vector has recognised a provision of $15.5 million for distribution of loss rental rebates to customers.

COVID-19 pandemic

Auckland, New Zealand

On 12 August 2020 the New Zealand Government announced the city of Auckland would return to Alert Level 3 (and the rest of New Zealand to Alert Level 2) in response to signs of community transmission of the virus in the city. Further announcements by the New Zealand Government have extended Alert Level 3 for Auckland until 11:59pm 30 August 2020, with the rest of New Zealand including Auckland remaining at Alert Level 2 thereafter until at least 6 September 2020. Vector's businesses have continued to operate as essential services in the past two weeks except for the energy solutions business and the metering segment has seen a slight drop in work volumes within the Auckland region. Work volumes have remained at a consistent level for the rest of New Zealand. The financial impact from these events therefore has not been significant.

Victoria, Australia

On 30 June 2020, the State Government of Victoria ("Victorian Government") announced a number of areas in the state of Victoria would return to Stage 3 restrictions from Wednesday 1 July 2020 in response to a resurgence of COVID-19 in the country, centred from Victoria. In the weeks that followed, the Victorian Government made further related announcements, extending the restrictions to further areas in Victoria and extended the State of Emergency to Sunday 16 August 2020. Vector's metering business is managed out of Melbourne. Since metering services have been allowed to operate under essential services, disruption to the business has not been significant. Meters deployment work, which take place predominantly in the state of New South Wales and managed from the Sydney office, have also continued without significant disruptions. Overall these recent events in Australia have not had a material impact on the financial statements.

Approval

The financial statements were approved by the Trustees on 03 September 2020.

Final dividend

On 26 August 2020, the Vector Board declared a final dividend for the year ended 30 June 2020 of 8.25 cents per share.

On 28 August 2020, the Trustees resolved to make a net distribution to beneficiaries of $280 (2019: $360) per beneficiary.

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

28. 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
2020	Nil	$Nil	Nil	N/A
2019	Nil	$Nil	Nil	N/A