

**VECTOR**

**2012**

**INTERIM FINANCIAL STATEMENTS**

# Interim Financial Statements

for the six months ended 31 December 2011 (unaudited)

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## INTERIM FINANCIAL STATEMENTS

The directors are pleased to present the interim financial statements of the group for the six months ended 31 December 2011.

For and on behalf of directors



Director

23 February 2012



Director

23 February 2012

For and on behalf of management



Group Chief Executive Officer

23 February 2012



Acting Chief Financial Officer

23 February 2012



## Auditor's review report

### To the shareholders of Vector Limited

We have reviewed the attached interim financial statements in accordance with the Review Engagement Standards issued by the New Zealand Institute of Chartered Accountants. The financial statements provide information about the past financial performance of Vector Limited and its subsidiaries ("the Group") and its financial position as at 31 December 2011.

#### Directors' responsibilities

The Directors of Vector Limited are responsible for the preparation of interim financial statements which give a true and fair view of the consolidated financial position of the Group as at 31 December 2011 and the consolidated results of its operations and cash flows for the six months ended on that date.

#### Reviewer's responsibilities

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

#### Basis of opinion

A review is limited primarily to enquiries of Group personnel and analytical review procedures applied to the financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

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

#### Review opinion

Based on our review, nothing has come to our attention that causes us to believe that the attached interim financial statements do not give a true and fair view of the financial position of the Group as at 31 December 2011, the results of its operations and cash flows for the six months ended on that date in accordance with NZ IAS 34 *Interim Financial Reporting*.

Our review was completed on 23 February 2012 and our opinion is expressed as at that date.

A handwritten signature in blue ink that reads 'KPMG.' with a period at the end.

Auckland

# Condensed Consolidated Income Statement

for the six months ended 31 December 2011 (unaudited)

		31 DEC 2011	31 DEC 2010	30 JUN 2011
		6 MONTHS	6 MONTHS	12 MONTHS
	NOTE	\$000	\$000	\$000
Operating revenue		634,169	628,047	1,194,653
Other income		179	1,247	49,911
<b>Total income</b>		<b>634,348</b>	<b>629,294</b>	<b>1,244,564</b>
Electricity transmission expenses		(68,509)	(63,961)	(130,107)
Gas purchases and production expenses		(119,456)	(133,003)	(244,467)
Network and asset maintenance expenses		(43,315)	(37,083)	(79,524)
Personnel expenses		(34,946)	(34,257)	(67,816)
Other expenses		(44,547)	(43,291)	(86,100)
<b>Operating expenditure</b>		<b>(310,773)</b>	<b>(311,595)</b>	<b>(608,014)</b>
<b>Earnings before interest, income tax, depreciation and amortisation (EBITDA)</b>		<b>323,575</b>	<b>317,699</b>	<b>636,550</b>
Depreciation and amortisation		(86,089)	(83,462)	(170,194)
<b>Profit before interest and income tax</b>		<b>237,486</b>	<b>234,237</b>	<b>466,356</b>
Finance income		4,597	3,247	8,289
Finance costs		(88,719)	(93,323)	(186,518)
Share of net (loss)/profit from associates	2	(52)	440	970
Impairment of investment in associate	2	(3,938)	-	(2,330)
<b>Profit before income tax</b>		<b>149,374</b>	<b>144,601</b>	<b>286,767</b>
Income tax expense		(42,875)	(44,711)	(82,920)
<b>Net profit for the period</b>		<b>106,499</b>	<b>99,890</b>	<b>203,847</b>
<b>Net profit for the period attributable to:</b>				
Non-controlling interests in subsidiaries		1,177	1,404	2,481
Owners of the parent		105,322	98,486	201,366
<b>Basic and diluted earnings per share (cents)</b>	6	<b>10.6</b>	<b>9.9</b>	<b>20.2</b>



Condensed Consolidated  
Statement of Comprehensive Income  
for the six months ended 31 December 2011 (unaudited)

	31 DEC 2011	31 DEC 2010	30 JUN 2011
	6 MONTHS	6 MONTHS	12 MONTHS
	\$000	\$000	\$000
<b>Net profit for the period</b>	<b>106,499</b>	99,890	203,847
<b>Other comprehensive income net of tax</b>			
Net change in fair value of cash flow hedges	(37,875)	(7,576)	(31,629)
Share of other comprehensive income of associates	-	-	87
Translation of foreign operations	(63)	(22)	(84)
<b>Other comprehensive income for the period net of tax</b>	<b>(37,938)</b>	(7,598)	(31,626)
<b>Total comprehensive income for the period net of tax</b>	<b>68,561</b>	92,292	172,221
<b>Total comprehensive income for the period attributable to:</b>			
Non-controlling interests in subsidiaries	1,177	1,404	2,481
Owners of the parent	67,384	90,888	169,740



# Condensed Consolidated Statement of Financial Position

as at 31 December 2011 (unaudited)

	NOTE	31 DEC 2011 \$'000	31 DEC 2010 \$'000	30 JUN 2011 \$'000
<b>CURRENT ASSETS</b>				
Cash and cash equivalents		160,819	171,712	120,407
Short term deposits		-	250,000	-
Receivables and prepayments		175,244	155,945	189,604
Derivative financial instruments	8	-	15,752	-
Inventories		3,742	4,280	3,463
Income tax		-	-	14,225
Non-current asset held for sale	2	2,725	-	-
Intangible assets		1,828	2,600	438
<b>Total current assets</b>		<b>344,358</b>	<b>600,289</b>	<b>328,137</b>
<b>NON-CURRENT ASSETS</b>				
Receivables and prepayments		1,404	1,433	1,409
Derivative financial instruments	8	22,300	3,644	6,068
Deferred tax asset		2,445	2,700	2,335
Income tax		-	448	-
Investments in associates	2	16,361	24,989	23,076
Intangible assets	4	1,614,430	1,607,296	1,612,122
Property, plant and equipment	4	3,624,168	3,561,371	3,605,865
<b>Total non-current assets</b>		<b>5,281,108</b>	<b>5,201,881</b>	<b>5,250,875</b>
<b>Total assets</b>		<b>5,625,466</b>	<b>5,802,170</b>	<b>5,579,012</b>
<b>CURRENT LIABILITIES</b>				
Payables and accruals		178,061	187,680	198,369
Provisions		18,598	17,746	18,486
Derivative financial instruments	8	12,452	2,133	5,714
Borrowings		326,305	267,739	306,747
Income tax		4,933	2,795	-
<b>Total current liabilities</b>		<b>540,349</b>	<b>478,093</b>	<b>529,316</b>
<b>NON-CURRENT LIABILITIES</b>				
Payables and accruals		21,430	24,940	23,561
Provisions		5,923	4,000	5,000
Derivative financial instruments	8	298,758	268,498	339,288
Borrowings		2,187,923	2,445,188	2,103,200
Deferred tax liability		466,467	480,428	465,902
<b>Total non-current liabilities</b>		<b>2,980,501</b>	<b>3,223,054</b>	<b>2,936,951</b>
<b>Total liabilities</b>		<b>3,520,850</b>	<b>3,701,147</b>	<b>3,466,267</b>
<b>EQUITY</b>				
Equity attributable to owners of the parent		2,086,179	2,081,858	2,093,497
Non-controlling interests in subsidiaries		18,437	19,165	19,248
<b>Total equity</b>		<b>2,104,616</b>	<b>2,101,023</b>	<b>2,112,745</b>
<b>Total equity and liabilities</b>		<b>5,625,466</b>	<b>5,802,170</b>	<b>5,579,012</b>



# Condensed Consolidated Statement of Cash Flows

for the six months ended 31 December 2011 (unaudited)

	NOTE	31 DEC 2011 \$000	31 DEC 2010 \$000	30 JUN 2011 \$000
<b>OPERATING ACTIVITIES</b>				
Cash provided from:				
Receipts from customers		652,878	646,926	1,184,534
Interest portion of repayments on finance leases		57	57	115
Interest received on deposits		3,441	1,972	8,126
Dividends received from associate	9	-	976	1,176
		656,376	649,931	1,193,951
Cash applied to:				
Payments to suppliers and employees		(315,924)	(306,541)	(567,197)
Income tax paid		(8,529)	(2,835)	(61,638)
Interest paid on finance leases		(131)	(155)	(311)
Interest paid		(89,414)	(92,315)	(190,235)
		(413,998)	(401,846)	(819,381)
<b>Net cash flows from operating activities</b>		<b>242,378</b>	<b>248,085</b>	<b>374,570</b>
<b>INVESTING ACTIVITIES</b>				
Cash provided from:				
Proceeds from sale of property, plant and equipment and software intangibles		140	2,013	36,013
		140	2,013	36,013
Cash applied to:				
Purchase and construction of property, plant and equipment and software intangibles		(124,156)	(115,643)	(251,577)
Acquisition of gas business		-	(650)	(6,650)
		(124,156)	(116,293)	(258,227)
<b>Net cash flows used in investing activities</b>		<b>(124,016)</b>	<b>(114,280)</b>	<b>(222,214)</b>



**Condensed Consolidated  
Statement of Cash Flows continued**  
for the six months ended 31 December 2011 (unaudited)

	NOTE	31 DEC 2011 \$000	31 DEC 2010 \$000	30 JUN 2011 \$000
<b>FINANCING ACTIVITIES</b>				
Cash provided from:				
Proceeds from borrowings		-	250,516	250,516
Capital portion of receipts under finance leases		8	8	15
		8	250,524	250,531
Cash applied to:				
Repayment of borrowings		(210)	-	(250,300)
Withdrawal of short term deposits		-	(250,000)	-
Debt raising costs incurred		(190)	(1,332)	(2,038)
Capital portion of payments under finance leases		(582)	(620)	(1,270)
Purchase of treasury shares	7	(306)	-	-
Dividends paid to owners of the parent		(74,682)	(74,682)	(141,895)
Dividends paid to non-controlling interests in subsidiaries		(1,988)	(795)	(1,789)
		(77,958)	(327,429)	(397,292)
<b>Net cash flows used in financing activities</b>		<b>(77,950)</b>	<b>(76,905)</b>	<b>(146,761)</b>
<b>Net increase in cash and cash equivalents</b>		<b>40,412</b>	<b>56,900</b>	<b>5,595</b>
Cash and cash equivalents at the beginning of the period		120,407	114,812	114,812
<b>Cash and cash equivalents at the end of the period</b>		<b>160,819</b>	<b>171,712</b>	<b>120,407</b>
Cash and cash equivalents comprises:				
Bank balances and on-call deposits		10,819	25,112	90,407
Short term deposits maturing within three months		150,000	146,600	30,000
		160,819	171,712	120,407
<b>RECONCILIATION OF NET PROFIT TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net profit for the period		106,499	99,890	203,847
<b>ITEMS CLASSIFIED AS INVESTING ACTIVITIES</b>				
Net loss/(gain) on disposal of property, plant and equipment and software intangibles		3,734	1,879	(43,548)
<b>NON-CASH ITEMS</b>				
Depreciation and amortisation		86,089	83,462	170,194
Impairment of investment in associate		3,938	-	2,330
Non-cash portion of finance costs		(350)	(484)	(310)
Increase in deferred tax liability		15,184	5,333	1,297
Increase in provisions		1,035	1,921	3,661
Share of net loss/(profit) from associates		52	(440)	(970)
		105,948	89,792	176,202
<b>CASH ITEMS NOT IMPACTING PROFIT</b>				
Dividends received from associates		-	976	1,176
<b>MOVEMENT IN WORKING CAPITAL</b>				
(Decrease)/increase in payables and accruals		(7,895)	11,255	16,575
(Increase)/decrease in inventories		(279)	(76)	1,625
Decrease/(increase) in receivables and prepayments		15,209	7,809	(1,295)
Decrease in net income tax assets		19,162	36,560	19,988
		26,197	55,548	36,893
<b>Net cash flows from operating activities</b>		<b>242,378</b>	<b>248,085</b>	<b>374,570</b>



**Condensed Consolidated  
Statement of Changes in Equity**  
for the six months ended 31 December 2011 (unaudited)

		ISSUED			FOREIGN CURRENCY	SHARE BASED		NON-	
		SHARE	TREASURY	HEDGE	TRANSLATION	PAYMENT	RETAINED	CONTROLLING	TOTAL
31 DEC 2011		CAPITAL	SHARES	RESERVE	RESERVE	RESERVE	EARNINGS	INTERESTS	EQUITY
6 MONTHS	NOTE	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Balance at the beginning of the period		874,979	(8,934)	(142,590)	164	-	1,369,878	19,248	2,112,745
<b>Comprehensive income</b>									
Net profit for the period		-	-	-	-	-	105,322	1,177	106,499
<b>Other comprehensive income</b>									
Net change in fair value of cash flow hedges		-	-	(52,605)	-	-	-	-	(52,605)
Translation of foreign operations		-	-	-	(63)	-	-	-	(63)
Income tax relating to components of other comprehensive income		-	-	14,730	-	-	-	-	14,730
<b>Total comprehensive income</b>		-	-	(37,875)	(63)	-	105,322	1,177	68,561
<b>Transactions with owners</b>									
Purchase of shares for employee share scheme	7	-	(306)	-	-	-	-	-	(306)
Shares issued to employee share purchase scheme	7	-	-	-	-	286	-	-	286
Dividends		-	-	-	-	-	(74,682)	(1,988)	(76,670)
<b>Total transactions with owners</b>		-	(306)	-	-	286	(74,682)	(1,988)	(76,690)
<b>Balance at end of the period</b>		874,979	(9,240)	(180,465)	101	286	1,400,518	18,437	2,104,616

	NOTE	31 DEC 2011	31 DEC 2010	30 JUN 2011
Total tangible assets per share (cents)	6	402.7	421.0	398.3
Net tangible assets per share (cents)	6	49.0	49.3	50.2

		ISSUED			FOREIGN CURRENCY		NON-	
		SHARE	TREASURY	HEDGE	TRANSLATION	RETAINED	CONTROLLING	TOTAL
31 DEC 2010		CAPITAL	SHARES	RESERVE	RESERVE	EARNINGS	INTERESTS	EQUITY
6 MONTHS		\$000	\$000	\$000	\$000	\$000	\$000	\$000
Balance at the beginning of the period		874,979	(8,934)	(110,961)	248	1,310,320	18,556	2,084,208
<b>Comprehensive income</b>								
Net profit for the period		-	-	-	-	98,486	1,404	99,890
<b>Other comprehensive income</b>								
Net change in fair value of cash flow hedges		-	-	(10,498)	-	-	-	(10,498)
Translation of foreign operations		-	-	-	(22)	-	-	(22)
Income tax relating to components of other comprehensive income		-	-	2,922	-	-	-	2,922
<b>Total comprehensive income</b>		-	-	(7,576)	(22)	98,486	1,404	92,292
<b>Transactions with owners</b>								
Dividends		-	-	-	-	(74,682)	(795)	(75,477)
<b>Total transactions with owners</b>		-	-	-	-	(74,682)	(795)	(75,477)
<b>Balance at end of the period</b>		874,979	(8,934)	(118,537)	226	1,334,124	19,165	2,101,023

Condensed Consolidated  
Statement of Changes in Equity (continued)  
for the six months ended 31 December 2011 (unaudited)

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



# Notes to the Condensed Consolidated Financial Statements

for the six months ended 31 December 2011 (unaudited)

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Preparation

These condensed consolidated interim financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice as applicable to interim financial statements and as appropriate to profit oriented entities.

These condensed consolidated interim financial statements comply with NZ IAS 34 *Interim Financial Reporting*. As the condensed consolidated interim financial statements do not include all of the information required for full annual financial statements they should be read in conjunction with the consolidated financial statements and related notes included in Vector's Annual Report for the year ended 30 June 2011 (2011 Annual Report).

The financial statements for the six months ended 31 December 2011 and the six months ended 31 December 2010 are unaudited.

The financial statements are expressed in New Zealand dollars (\$) rounded to the nearest thousand, unless otherwise stated.

### Significant Accounting Policies

The accounting policies set out in the 2011 Annual Report have been applied consistently to all periods presented in these financial statements. There have been no changes in accounting policies from those applied in Vector's 2011 Annual Report.

### Measurement Base

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

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

### Seasonality of Operations in the Interim Period

Vector operates in the energy industry and its electricity and gas business activities are seasonally-affected by demand for energy which generally increases during periods of colder weather. Accordingly financial results for the first half of the financial year incorporated in these financial statements are expected to be more profitable than the latter half of the year yet to be reported.

### Approval of Financial Statements

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



# Notes to the Condensed Consolidated Financial Statements (continued)

for the six months ended 31 December 2011 (unaudited)

## 2. SHARE OF NET (LOSS)/PROFIT FROM ASSOCIATES

	31 DEC 2011 6 MONTHS \$000	31 DEC 2010 6 MONTHS \$000	30 JUN 2011 12 MONTHS \$000
<b>Equity accounted earnings of associates</b>			
(Loss)/profit before income tax	(72)	629	1,362
Income tax benefit/(expense)	20	(189)	(392)
<b>Share of net (loss)/profit from associates</b>	<b>(52)</b>	<b>440</b>	<b>970</b>

	PRINCIPAL ACTIVITY	PERCENTAGE HELD		
		31 DEC 2011	31 DEC 2010	30 JUN 2011
Tree Scape Limited	Vegetation management	50%	50%	50%
- Treescap Australasia Pty Limited	Vegetation management	50%	50%	50%
Energy Intellect Limited	Metering services	25%	25%	25%
NZ Windfarms Limited	Power generation	22%	22%	22%

The recoverable amount of the investment in NZ Windfarms Limited determined as at 31 December 2011 was estimated based on the investment's fair value less costs to sell by reference to its active market price on the New Zealand Stock Exchange. The share price of NZ Windfarms Limited at 31 December 2011 was \$0.15 per share which supports the current carrying value of the group's investment in NZ Windfarms Limited. Accordingly, no impairment loss has been recognised in respect of the group's investment in its associate company, NZ Windfarms Limited (six months ended 31 December 2010: nil, year ended 30 June 2011: \$2.3 million).

During the period, Energy Intellect Limited has received offers to purchase their assets and operations, including an offer from Vector to acquire the non controlling interest held by Energy Intellect Limited in Stream Information Partnership, a subsidiary of the group. These offers were presented to the shareholders of Energy Intellect Limited for approval. At 31 December 2011, the group considered the likelihood of shareholder approval to be highly probable and sale transactions to complete within one year. Accordingly, the group has reclassified its investment in its associate, Energy Intellect Limited, as a non-current asset held for sale.

At the time of reclassification to a non-current asset held for sale, the group recognised an impairment loss of \$3.9 million due to the re-measurement of the investment to fair value less costs to sell.

## 3. SEGMENT INFORMATION

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

### Electricity

Ownership and management of electricity distribution networks.

### Gas Transportation

Ownership and management of gas transmission and distribution networks.

### Gas Wholesale

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

### Technology

Telecommunications networks, electricity and gas metering.

Corporate activities comprising shared services and investments earn revenues that are only incidental to the operations of the group and do not meet the definition of an operating segment under NZ IFRS 8. The results attributable to these activities are presented under the reconciliations of segment information to the group's condensed consolidated financial statements on page 16.

The segments reported in these financial statements are the same as those reported in Vector's 2011 Annual Report.

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

All segment information presented is prepared in accordance with Vector's accounting policies. Monthly internal reporting to the Group CEO and Board of Directors is also prepared on this basis. Segment profit reported to the Group CEO and the Board of Directors is profit before interest and income tax.



# Notes to the Condensed Consolidated Financial Statements (continued)

for the six months ended 31 December 2011 (unaudited)

## 3. SEGMENT INFORMATION (continued)

31 DEC 2011	ELECTRICITY	GAS TRANS- PORTATION	GAS WHOLESALE	TECHNOLOGY	INTERSEGMENT	TOTAL
6 MONTHS	\$000	\$000	\$000	\$000	\$000	\$000
External revenue:						
Operating revenue	308,401	88,219	190,632	46,416	-	633,668
Other income	31	-	40	108	-	179
Intersegment revenue	52	18,884	4,691	1,573	(25,200)	-
<b>Segment revenue</b>	<b>308,484</b>	<b>107,103</b>	<b>195,363</b>	<b>48,097</b>	<b>(25,200)</b>	<b>633,847</b>
External operating expenditure:						
Electricity transmission expenses	(68,509)	-	-	-	-	(68,509)
Gas purchases and production expenses	-	(532)	(118,924)	-	-	(119,456)
Network and asset maintenance expenses	(21,681)	(10,522)	(8,711)	(2,401)	-	(43,315)
Personnel expenses	(5,763)	(2,769)	(7,755)	(5,177)	-	(21,464)
Other expenses	(13,703)	(7,021)	(4,313)	(5,905)	-	(30,942)
Intersegment expenditure	(1,228)	(4,690)	(19,230)	(52)	25,200	-
<b>Operating expenditure</b>	<b>(110,884)</b>	<b>(25,534)</b>	<b>(158,933)</b>	<b>(13,535)</b>	<b>25,200</b>	<b>(283,686)</b>
<b>EBITDA</b>	<b>197,600</b>	<b>81,569</b>	<b>36,430</b>	<b>34,562</b>	<b>-</b>	<b>350,161</b>
Depreciation and amortisation	(40,697)	(10,636)	(7,798)	(21,437)	-	(80,568)
<b>Segment profit before interest and income tax</b>	<b>156,903</b>	<b>70,933</b>	<b>28,632</b>	<b>13,125</b>	<b>-</b>	<b>269,593</b>
<b>Segment capital expenditure</b>	<b>55,976</b>	<b>15,377</b>	<b>5,626</b>	<b>30,310</b>	<b>-</b>	<b>107,289</b>



# Notes to the Condensed Consolidated Financial Statements (continued)

for the six months ended 31 December 2011 (unaudited)

## 3. SEGMENT INFORMATION (continued)

31 DEC 2010	ELECTRICITY	GAS TRANS- PORTATION	GAS WHOLESALE	TECHNOLOGY	INTERSEGMENT	TOTAL
6 MONTHS	\$000	\$000	\$000	\$000	\$000	\$000
External revenue:						
Operating revenue	296,258	93,047	196,812	40,723	-	626,840
Other income	103	51	-	22	-	176
Intersegment revenue	52	18,381	2,515	1,485	(22,433)	-
<b>Segment revenue</b>	<b>296,413</b>	<b>111,479</b>	<b>199,327</b>	<b>42,230</b>	<b>(22,433)</b>	<b>627,016</b>
External operating expenditure:						
Electricity transmission expenses	(63,961)	-	-	-	-	(63,961)
Gas purchases and production expenses	-	(4,098)	(128,905)	-	-	(133,003)
Network and asset maintenance expenses	(18,559)	(8,068)	(8,001)	(2,437)	-	(37,065)
Personnel expenses	(5,588)	(2,634)	(7,102)	(5,542)	-	(20,866)
Other expenses	(11,810)	(7,208)	(4,942)	(6,081)	-	(30,041)
Intersegment expenditure	(1,210)	(2,517)	(18,654)	(52)	22,433	-
<b>Operating expenditure</b>	<b>(101,128)</b>	<b>(24,525)</b>	<b>(167,604)</b>	<b>(14,112)</b>	<b>22,433</b>	<b>(284,936)</b>
<b>EBITDA</b>	<b>195,285</b>	<b>86,954</b>	<b>31,723</b>	<b>28,118</b>	<b>-</b>	<b>342,080</b>
Depreciation and amortisation	(38,198)	(11,158)	(5,894)	(21,076)	-	(76,326)
<b>Segment profit before interest and</b>						
<b>income tax</b>	<b>157,087</b>	<b>75,796</b>	<b>25,829</b>	<b>7,042</b>	<b>-</b>	<b>265,754</b>
<b>Segment capital expenditure</b>	<b>53,156</b>	<b>12,981</b>	<b>5,041</b>	<b>26,056</b>	<b>-</b>	<b>97,234</b>



# Notes to the Condensed Consolidated Financial Statements (continued)

for the six months ended 31 December 2011 (unaudited)

## 3. SEGMENT INFORMATION (continued)

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



# Notes to the Condensed Consolidated Financial Statements (continued)

for the six months ended 31 December 2011 (unaudited)

## 3. SEGMENT INFORMATION (continued)

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

	31 DEC 2011			31 DEC 2010			30 JUN 2011		
	6 MONTHS			6 MONTHS			12 MONTHS		
	TOTAL INCOME	PROFIT BEFORE INCOME TAX	CAPITAL EXPENDITURE	TOTAL INCOME	PROFIT BEFORE INCOME TAX	CAPITAL EXPENDITURE	TOTAL INCOME	PROFIT BEFORE INCOME TAX	CAPITAL EXPENDITURE
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Reported in segment information</b>	<b>633,847</b>	<b>269,593</b>	<b>107,289</b>	<b>627,016</b>	<b>265,754</b>	<b>97,234</b>	<b>1,193,911</b>	<b>481,748</b>	<b>243,763</b>
Amounts not allocated to segments:									
Revenues from corporate activities	501	501	-	2,278	2,278	-	50,653	50,653	-
Corporate activities operating expenditure	-	(27,087)	-	-	(26,659)	-	-	(53,312)	-
Depreciation and amortisation of corporate property, plant and equipment and software intangibles	-	(5,521)	-	-	(7,136)	-	-	(12,733)	-
Finance income	-	4,597	-	-	3,247	-	-	8,289	-
Finance costs	-	(88,719)	-	-	(93,323)	-	-	(186,518)	-
Share of net profit/(loss) from associates	-	(52)	-	-	440	-	-	970	-
Impairment of investment in associate	-	(3,938)	-	-	-	-	-	(2,330)	-
Additions to corporate property, plant and equipment and software intangibles	-	-	4,300	-	-	3,622	-	-	13,333
<b>Reported in consolidated financial statements</b>	<b>634,348</b>	<b>149,374</b>	<b>111,589</b>	<b>629,294</b>	<b>144,601</b>	<b>100,856</b>	<b>1,244,564</b>	<b>286,767</b>	<b>257,096</b>



# Notes to the Condensed Consolidated Financial Statements (continued)

for the six months ended 31 December 2011 (unaudited)

## 4. PROPERTY, PLANT AND EQUIPMENT AND SOFTWARE INTANGIBLE ASSETS

During the period, Vector invested \$111.6 million (six months ended 31 December 2010: \$100.9 million, year ended 30 June 2011: \$257.1 million) in new capital expenditure and retired \$3.7 million (six months ended 31 December 2010: \$3.9 million, year ended 30 June 2011: \$22.6 million) of property, plant and equipment and software intangible assets.

## 5. CAPITAL COMMITMENTS

	31 DEC 2011 \$000	31 DEC 2010 \$000	30 JUN 2011 \$000
Estimated capital expenditure contracted for at balance date but not yet incurred	139,440	110,951	79,884

## 6. FINANCIAL RATIOS

### Earnings per share

The calculation of basic earnings per share for the six months ended 31 December 2011 is based on the net profit attributable to owners of the parent of \$105.3 million (six months ended 31 December 2010: \$98.5 million, year ended 30 June 2011: \$201.4 million) and the weighted average number of ordinary shares outstanding during the period of 995,705,242 (six months ended 31 December 2010: 995,755,077, year ended 30 June 2011: 995,755,077).

### Total and net tangible assets per share

The calculations of the total and net tangible assets per share for the period ended 31 December 2011 are based on the carrying amounts of the total assets of \$5,625.5 million (31 December 2010: \$5,802.2 million, 30 June 2011: \$5,579.0 million) and net assets of \$2,104.6 million (31 December 2010: \$2,101.0 million, 30 June 2011: \$2,112.7 million) less total intangible assets of \$1,616.3 million (31 December 2010: \$1,609.9 million, 30 June 2011: \$1,612.6 million) and the weighted average number of ordinary shares of 995,705,242 outstanding as at 31 December 2011 (31 December 2010: 995,755,077, 30 June 2011: 995,755,077).

## 7. FUNDING OF OPERATIONS

### Owners' equity

Issued capital as at 31 December 2011 was \$875 million (31 December 2010: \$875 million, 30 June 2011: \$875 million). During the period, a final dividend of 7.5 cents per share in respect of the year ended 30 June 2011 was paid to the shareholders on 19 September 2011 (six months ended 31 December 2010: 7.5 cents per share in respect of the year ended 30 June 2010, paid on 13 September 2010).

In October 2011, the group granted rights over shares to employees participating in the employee share purchase scheme. The 119,603 shares allocated to the employee share purchase scheme were purchased on market at a cost of \$0.3 million and are held as treasury shares until the end of the scheme's vesting period.

### Borrowings

All borrowings are measured at amortised cost adjusted for fair value movements in respect of the hedged risk on those borrowings designated in their fair value hedge relationships. Borrowings are classified as current and non-current depending on contractual obligations. The net increase in borrowings since 30 June 2011 of \$104.3 million is the result of a \$1.9 million reduction in unamortised costs and \$102.6 million of fair value movements offset by a \$0.2 million repayment of the working capital loan.

In December 2011, the group successfully established NZ\$150 million of new senior credit facilities which will expire in February 2015. These facilities replace the existing NZ\$50 million senior credit facility which is due to expire in February 2012. This facility is undrawn as at 31 December 2011.



## Notes to the Condensed Consolidated Financial Statements (continued)

for the six months ended 31 December 2011 (unaudited)

### 8. DERIVATIVE FINANCIAL INSTRUMENTS

The net amount of derivative financial instruments disclosed in the statement of financial position at 31 December 2011 is a liability of \$288.9 million (31 December 2010: \$251.2 million, 30 June 2011: \$338.9 million). The decrease in the net liability since 30 June 2011 of \$50.0 million reflects the reduction in the aggregate mark to market loss during the period. This reduction was caused by a weaker New Zealand dollar and lower forecasted foreign floating interest rates, offset by lower forecasted New Zealand floating interest rates compared to 30 June 2011.

### 9. RELATED PARTIES

The group has paid the Auckland Energy Consumer Trust (AECT) dividends of \$56.3 million (six months ended December 2010: \$56.3 million, year ended 30 June 2011: \$107.0 million). The AECT is the majority shareholder of Vector Limited.

During the period, no dividends were received from associates (six months ended December 2010: \$1.0 million, year ended 30 June 2011: \$1.2 million).

During the period, the group made loan repayments of \$0.2 million to TML Stream Limited, a wholly owned subsidiary of Energy Intellect Limited, an associate of the group (six months ended December 2010: nil, year ended 30 June 2011: \$0.3 million).

### 10. EVENTS AFTER BALANCE DATE

Subsequent to balance date, the shareholders in Energy Intellect Limited voted in favour of accepting the offers referred to in Note 2 above. The transactions are subject to finalisation of sale and purchase agreements.

On 23 February 2012, the board of directors declared an interim dividend for the year ended 30 June 2012 of 7.0 cents per share.

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

