INTERIM REPORT

VECTOR LIMITED ››› 2010

Vector

HALF YEAR HIGHLIGHTS

$101m

NET PROFIT AFTER TAX (NPAT) FROM CONTINUING OPERATIONS

11.6%

NPAT INCREASE ON PRIOR PERIOD

1%

EBITDA DECLINE ON PRIOR PERIOD

$310m

EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION (EBITDA) FROM CONTINUING OPERATIONS

BBB+/STABLE

STANDARD & POOR'S RATING

Baa1 STABLE

MOODY'S RATING

FULLY IMPUTED DIVIDEND OF

6.5cents

PER SHARE, PAYABLE ON 14 APRIL 2010

CONTENTS

OPERATIONAL STATISTICS

	31 DEC 2009	31 DEC 2008
ELECTRICITY		
Customers	525,972	520,946
Volume distributed (GWh)[1,4]	4,223	4,225
Networks length (km)	17,614	17,503
GAS		
Distribution customers	150,827	148,566
Volume distributed (PJ)[4]	11.4	11.5
Distribution mains network length (km)	6,930	6,872
Transmission volume (PJ)[4]	49.6	47.1
Transmission system length owned (km)	2,288	2,286
Transmission system length operated/managed (km)	1,241	1,219
Natural gas sales (PJ)[2,4]	16.5	15.7
Gas liquids sales (tonnes)[3,4]	94,767	113,147
ENERGY METERING		
Electricity: smart meters	79,020	20,552
Electricity: simple meters[5]	649,937	702,893
Electricity: prepay meters	6,962	7,577
Electricity: time of use meters	11,074	10,993
Gas meters	76,419	74,836
Data management service connections – New Zealand and Australia	14,109	15,357

[1] Continuing operations basis, excludes Wellington operation sold July 2008.
[2] Natural gas sales volumes exclude gas sold as gas liquids as these sales are included within the gas liquids sales tonnage.
[3] Total of LPG production, retail/wholesale and tolling volumes of Liquigas Limited.
[4] For six months ended 31 December.
[5] ICPs.

FINANCIAL OVERVIEW

FINANCIAL PERFORMANCE[1]

$ MILLIONS	31 DEC 2009 6 MONTHS	31 DEC 2008 6 MONTHS	CHANGE	30 JUN 2009 12 MONTHS
Revenue	620.6	609.5	+1.8%	1,174.2
EBITDA	310.1	313.2	-1.0%	582.2
EBIT	234.1	243.0	-3.7%	436.8
NPAT	101.3	90.8	+11.6%	164.9

FINANCIAL POSITION

$ MILLIONS	31 DEC 2009	31 DEC 2008	CHANGE	30 JUN 2009
Total equity	2,091.9	1,991.6	+5.0%	2,058.9
Total assets	5,470.3	5,653.6	-3.2%	5,538.6
Net debt	2,315.5	2,513.2	-7.9%	2,485.7

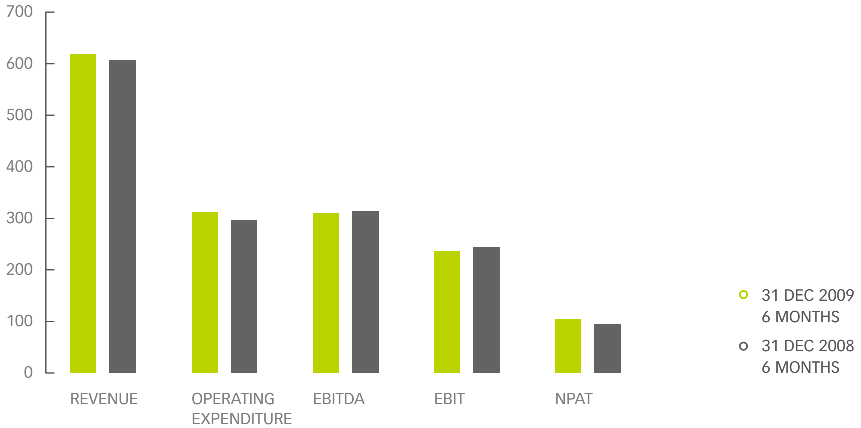
KEY FINANCIAL MEASURES[1]

	31 DEC 2009 6 MONTHS	31 DEC 2008 6 MONTHS	CHANGE	30 JUN 2009 12 MONTHS
EBITDA/revenue	50.0%	51.4%	-2.8%	49.6%
EBIT/revenue	37.7%	39.9%	-5.4%	37.2%
Equity/total assets	38.2%	35.2%	+8.6%	37.2%
Gearing (net debt/net debt + equity)	52.5%	55.8%	-5.8%	54.7%
Net interest cover (EBIT/net finance costs)	2.9 times	2.4 times	+19.3%	2.3 times
Earnings (NPAT) per share[2]	10.2 cents	9.1 cents	+11.9%	16.5 cents
Dividends per share (fully imputed)	6.5 cents	6.5 cents	–	13.75 cents[3]

[1] Continuing operations basis, excludes Wellington operation sold July 2008.
[2] Calculated using a weighted average number of shares of 995,755,077 (six months ended 31 December 2008: 998,564,107, year ended 30 June 2009: 997,221,099) due to treasury shares purchased during prior periods.
[3] Total dividends for the year ended 30 June 2009 include the final dividend of 7.25 cents per share paid on 15 September 2009.

FINANCIAL REVIEW[1]

$ MILLIONS



DIVISIONAL RESULTS[1]

$ MILLIONS	ELECTRICITY	GAS TRANSPORTATION	GAS WHOLESALE	TECHNOLOGY	CORPORATE	INTER-SEGMENT	TOTAL
31 DEC 2009							
Revenue	286.0	102.5	215.7	38.6	2.0	(24.2)	620.6
Operating expenditure	(102.5)	(16.9)	(174.1)	(12.3)	(28.9)	24.2	(310.5)
EBITDA	183.5	85.6	41.6	26.3	(26.9)	–	310.1
EBITDA/revenue	64.2%	83.5%	19.3%	68.3%	n/a	n/a	50.0%
EBIT	148.0	72.5	36.0	12.4	(34.8)	–	234.1
31 DEC 2008							
Revenue	273.0	97.2	223.2	35.1	4.7	(23.7)	609.5
Operating expenditure	(96.2)	(15.9)	(167.8)	(13.9)	(26.2)	23.7	(296.3)
EBITDA	176.8	81.3	55.4	21.2	(21.5)	–	313.2
EBITDA/revenue	64.7%	83.6%	24.8%	60.5%	n/a	n/a	51.4%
EBIT	144.5	66.8	49.8	11.1	(29.2)	–	243.0

[1] Continuing operations basis, excludes Wellington operation sold July 2008.

FROM THE CHAIRMAN

UP TO THE CHALLENGE

MICHAEL STIASSNY, CHAIRMAN

Vector has again proven its ability to weather challenging economic conditions, reporting a sound interim financial performance for the six months to 31 December 2009 »

Whether measured by growth in revenue, net profit before tax or operating cashflow, Vector has delivered significant improvement on last year's interim result, and is continuing to deliver value to shareholders.

FINANCIAL PERFORMANCE AND CAPITAL STRUCTURE

Revenue from continuing operations improved by 1.8% or $11 million on the prior comparable period, to reach $621 million. For a significantly regulated company such as Vector, this is a very good outcome.

Earnings before interest, tax, depreciation and amortisation (EBITDA) declined by 1% or $3 million to reach $310 million.

With less debt than this time last year, lower interest rates and a one-off gain from the early repayment of a loan, we have trimmed $19 million from our net borrowing costs, with the result that net profit after tax (NPAT) was $101 million, an 11.6% improvement on the prior year's first half continuing operations performance.

Vector's capital structure has also improved over the past year. Borrowings have reduced by more than $200 million, and the company is well placed with respect of its borrowing, maturity profiles and interest cover. With headroom available in our debt facilities we have ready access to funding if required.

DIVIDEND

Your board has declared a fully imputed interim dividend of 6.5 cents per share, payable on 14 April 2010.

GOVERNMENT'S FIBRE INITIATIVE

We have the ambition, the track record and the know-how to be a major contributor to the Government's $1.5 billion ultra fast fibre initiative, and in January we put forward a competitive submission to deliver fibre optic network infrastructure to Auckland.

Vector wholeheartedly supports the Government's vision of a high speed fibre optic network to reach 75% of New Zealand households, but we'll only be involved if it

RESULTS FROM CONTINUING AND DISCONTINUED OPERATIONS

	31 DEC 2009 6 MONTHS			31 DEC 2008 6 MONTHS		
$ MILLIONS	CONTINUING	DISCONTINUED	TOTAL	CONTINUING	DISCONTINUED[2]	TOTAL
Revenue	620.6	–	620.6	609.5	10.3	619.8
EBITDA	310.1	–	310.1	313.2	6.7	319.9
EBIT	234.1	–	234.1	243.0	6.7	249.7
NPBT	147.4	–	147.4	135.6	3.8	139.4
NPAT	101.3	–	101.3	90.8	205.6[1]	296.4

[1] Includes the gain on sale of the Wellington network of $202.9 million.
[2] 23 days operating results for the Wellington operation prior to the sale on 24 July 2008.

makes commercial sense for our business.

It is really important that people engage in the fibre discussion, and fully understand the difference between a copper-based and a fibre-based solution. With our fibre credentials it will come as no surprise that Vector believes fibre is not only the best solution for New Zealand, it is the only solution. Anything short of a 100% fibre network will short change our country.

OUTLOOK

While the economic conditions have not worsened, they certainly haven't improved much either. During this first six months of the year we have seen some positive signs in respect of growth in connections to our networks, but it is too soon to say whether this is an early signal of recovery.

We are taking a relatively flat view going forward, with the main influences on Vector being the weather, regulation, economic conditions and continued strong performance from our business units.

Following Vector's interim profit announcement financial analysts revised upwards their expectations of our full year NPAT. Accordingly we now expect our 12 month result to fall towards the middle of the analysts' range.

On behalf of the board, my thanks go to the Vector team, and we look forward to presenting our full year result to you in September.

MICHAEL STIASSNY
CHAIRMAN

FROM THE GROUP CHIEF EXECUTIVE OFFICER

SHAPING OUR FUTURE

SIMON MACKENZIE,
GROUP CHIEF EXECUTIVE OFFICER

The strength of our regulated electricity, gas distribution and gas transmission businesses provide a solid platform from which to develop and grow our company further »

We have built up Vector Communications, our fibre optic infrastructure business over the past ten years, and more recently an advanced metering technology business, capable of delivering all of the 'smarts' required to allow consumers to better understand and manage their future energy use. From this vantage point we continue to investigate and explore additional growth options that are complementary to our operations and expertise.

With a clear and consistent focus over the last two and a half years on what really matters in our business, Vector has again delivered a quality financial result.

FINANCIAL PERFORMANCE

Revenue was $621 million, up from $610 million for the prior year's first half, due to growth in electricity, gas transportation and technology.

Earnings before interest, tax, depreciation and amortisation was $310 million, down from $313 million, due to margin loss in the wholesale gas business, costs associated with the fibre submission and regulation, increased ACC levies, and professional fees relating to the redetermination of the Kapuni gas field. In addition, included in last year's interim result is a one-time management fee paid to Vector by the purchasers of the Wellington electricity network.

Taking each of our business segments in turn:

Electricity distributed was almost flat year on year, declining just 2 GWh compared to a 42 GWh decline for the prior comparable period. Connections growth was slightly ahead, growing by half a percent.

Electricity revenue and EBITDA improved by 4.8% and 3.8% respectively to reach $286 million and $184 million.

In gas transportation, the segment that comprises gas distribution and gas transmission, distribution volumes were almost flat, declining 0.9%, with colder winter weather boosting transmission volumes by 5.3%. Accordingly, gas transportation revenue improved by 5.4% to reach $103 million and EBITDA by 5.3% to reach $86 million.

Margins were squeezed in our wholesale gas business as legacy contracts continued to wind down, and we also faced increased cost of gas and intense competition. As a result, revenue declined by $7 million or 3.3% to $216 million and EBITDA declined by 24.9%, from $55 million to $42 million. Nevertheless, we have grown market share in LPG, acquired additional LPG distribution businesses and subsidiary Liquigas is in the midst of securing improved revenue from its infrastructure operations.

Shell and Todd, the owners of the Kapuni gas field have called for a redetermination of field reserves. We don't agree with their assessment of 954 petajoules of reserves and have sought the advice of respected international petroleum reservoir experts MHA of Denver, Colorado. Our expert's conclusion after analysing the same data as Shell and Todd is that there is in excess of 1,150 petajoules of gas that can be physically recovered from the field. We believe that almost all of this gas is commercially recoverable.

At the time of writing this report we had been unable to reach agreement with Shell and Todd. The next step in the process is the appointment of an independent expert who will make a decision that binds both parties, or reach an alternative agreement.

Our technology business has delivered double digit growth in both revenue and EBITDA. Revenue improved $4 million to $39 million as more customers made use of our high speed fibre optic network, and our smart meter business continues to grow. EBITDA grew 24.3% on the prior comparable period to reach $26 million.

FIBRE INITIATIVE

This current financial year provides Vector with a good opportunity to significantly grow our communications business, with a chance to be part of the Government's $1.5 billion fibre initiative.

Our solution is 100% fibre to the door, and does not involve copper constraints, or any legacy copper network interests. In addition we have a build-cost advantage, an extensive contractor base and strong technology suppliers, all of which make Vector a very strong contender, but it has to stack up commercially for us.

The Government has called for an open access layer one build, otherwise known as 'dark fibre', which will encourage new retailers and solution providers into the market and deliver economic growth. This works for Vector as it plays to our core expertise of infrastructure ownership and management.

This is a fibre network that will provide a step change in performance and capacity that New Zealand needs to keep pace with the rest of the world.

REGULATORY UPDATE

Naturally the regulatory environment is a key focus for Vector, given that 60% of our revenues and more than 80% of our assets are subject to regulation. It is also one of the biggest factors considered in the rating of our stock by international credit agencies.

Regulation therefore is a major value driver for our business, but it must ensure balance between investment incentives, future security, reliability and customer choice.

It also imposes significant costs through critical processes such as the setting of input methodologies and this is where Vector's

"Vector has had a solid six months. Revenue is up along with profit, and our capital structure improved."

efforts have been directed, in the current round of workshops and submissions to determine future regulatory settings.

We welcome the decision to extend the setting of input methodologies until December 2010, and accordingly our new price path will take effect from mid 2012. An extensive amount of work will continue in the process to seek appropriate regulatory settings for electricity and gas businesses.

ELECTRICITY REVIEW AND SECURITY OF SUPPLY

The Government recently completed a review of the electricity sector, with the primary focus on generation and retailing. Lines businesses were not of concern. The key outputs of the review have been the decision to change the industry structure and the introduction of rules to seek greater performance and better customer outcomes. Accordingly, becoming a generator or retailer of electricity is a potential growth option for Vector, but not without a level playing field and equal access to the wholesale electricity market. This view forms the basis of our submission to the Ministry of Economic Development.

"Fibre to the door is the right solution for New Zealand."

We also closely monitor security of supply issues in relation to both generation and transmission, working with the industry where appropriate. We are hopeful that the new Electricity Authority takes a fresh approach, streamlining processes and focussing on the priorities in order for investment to occur.

SUMMARY

In conclusion, Vector has had a very solid six months. Revenue is up along with profit, and our capital structure improved. Volumes are holding up well, and overall connections are slightly ahead of where they were last year. We anticipate that connections growth won't change much over the short term and volumes will remain dependent on economic conditions and the weather.

We have real and substantial growth options on the table, including our fibre business, the Government's fibre initiative, and in smart metering where we have installed on average more than 1,000 meters each week since our last interim report.

In short, there's a lot to be pleased about due to in no small part to the continued effort and commitment of our staff. Over the balance of the year we will work towards the best possible regulatory outcome, a favourable result in the Kapuni redetermination, and running our business as efficiently as we possibly can.

SIMON MACKENZIE
GROUP CHIEF EXECUTIVE OFFICER

INTERIM
FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2009 (UNAUDITED)

CONTENTS

INTERIM FINANCIAL STATEMENTS

The directors are pleased to present the interim financial statements of the group for the six months ended 31 December 2009.

For and on behalf of directors

Director — 26 February 2010

Director — 26 February 2010

For and on behalf of management

Group Chief Executive Officer — 26 February 2010

Chief Financial Officer — 26 February 2010

AUDITORS' REVIEW REPORT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

TO THE SHAREHOLDERS OF VECTOR LIMITED

We have reviewed the attached interim financial statements in accordance with the Review Engagement Standards issued by the Institute of Chartered Accountants of New Zealand. The financial statements provide information about the past financial performance of Vector Limited and its financial position as at 31 December 2009.

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 financial position of the company as at 31 December 2009 and the results of its operations and cash flows for the six months ended on that date.

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

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 Vector Limited as at 31 December 2009, 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 26 February 2010 and our opinion is expressed as at that date.

KPMG.

Auckland

CONDENSED CONSOLIDATED

INCOME STATEMENT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009 (UNAUDITED)

	NOTE	31 DEC 2009 6 MONTHS $000	31 DEC 2008 6 MONTHS $000	30 JUN 2009 12 MONTHS $000
In respect of continuing operations:				
Operating revenue		620,371	609,443	1,173,947
Other income		277	90	211
Total income		620,648	609,533	1,174,158
Electricity transmission expenses		(64,587)	(56,325)	(118,461)
Gas purchases and production expenses		(138,918)	(129,742)	(262,431)
Network and asset maintenance expenses		(37,921)	(42,370)	(80,179)
Personnel expenses		(30,324)	(28,369)	(54,225)
Other expenses		(38,812)	(39,565)	(76,684)
Operating expenditure		(310,562)	(296,371)	(591,980)
Earnings before interest, income tax, depreciation and amortisation (EBITDA)		310,086	313,162	582,178
Depreciation and amortisation		(76,005)	(70,192)	(145,362)
Operating surplus before interest and income tax		234,081	242,970	436,816
Finance income		3,404	10,777	16,144
Finance costs		(85,134)	(111,966)	(205,684)
Share of net (deficit)/surplus from associates	1	(818)	318	1,208
Impairment of investment in associate	1	(4,136)	(6,519)	(6,519)
Operating surplus before income tax		147,397	135,580	241,965
Income tax expense		(41,331)	(39,550)	(68,210)
Operating surplus attributable to continuing operations		106,066	96,030	173,755
Operating surplus attributable to discontinued operations (net of tax)		–	205,586	205,586
Operating surplus		106,066	301,616	379,341
Operating surplus attributable to:				
Non-controlling interests in subsidiaries		4,724	5,247	8,881
Shareholders of the parent	5	101,342	296,369	370,460
Basic and diluted earnings per share (cents)				
Continuing operations		10.2	9.1	16.5
Discontinued operations		–	20.6	20.6
Total	5	10.2	29.7	37.1

CONDENSED CONSOLIDATED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 31 DECEMBER 2009 (UNAUDITED)

	31 DEC 2009 6 MONTHS $000	31 DEC 2008 6 MONTHS $000	30 JUN 2009 12 MONTHS $000
Operating surplus	106,066	301,616	379,341
Other comprehensive income (net of tax)			
Transfer to equity on net change in fair value of cash flow hedges	2,380	(131,361)	(76,242)
Translation of overseas operations	(52)	101	81
Other comprehensive income for the period	2,328	(131,260)	(76,161)
Total comprehensive income for the period	108,394	170,356	303,180
Total comprehensive income attributable to:			
Non-controlling interests in subsidiaries	4,724	5,247	8,881
Shareholders of the parent	103,670	165,109	294,299

CONDENSED CONSOLIDATED

STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009 (UNAUDITED)

31 DEC 2009 6 MONTHS	ISSUED SHARE CAPITAL $000	TREASURY SHARES $000	HEDGE RESERVE $000	FOREIGN CURRENCY TRANSLATION RESERVE $000	RETAINED EARNINGS $000	NON-CONTROLLING INTERESTS $000	TOTAL EQUITY $000
Balance at beginning of the period	874,979	(8,934)	(78,011)	210	1,253,768	16,881	2,058,893
Comprehensive income							
Operating surplus for the period	–	–	–	–	101,342	4,724	106,066
Other comprehensive income							
Change in fair value of cash flow hedges	–	–	3,400	–	–	–	3,400
Translation of overseas operations	–	–	–	(52)	–	–	(52)
Income tax relating to components of other comprehensive income	–	–	(1,020)	–	–	–	(1,020)
Total comprehensive income	–	–	2,380	(52)	101,342	4,724	108,394
Transactions with owners							
Dividends	–	–	–	–	(72,192)	(3,180)	(75,372)
Total transactions with owners	–	–	–	–	(72,192)	(3,180)	(75,372)
Balance at end of the period	874,979	(8,934)	(75,631)	158	1,282,918	18,425	2,091,915

	NOTE	31 DEC 2009	31 DEC 2008	30 JUN 2009
Total and net tangible assets per share (cents)				
Total tangible assets per share	5	389.1	405.8	394.8
Net tangible assets per share	5	49.8	39.1	45.9

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONT.)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009 (UNAUDITED)

31 DEC 2008 6 MONTHS	ISSUED SHARE CAPITAL $000	TREASURY SHARES $000	HEDGE RESERVE $000	FOREIGN CURRENCY TRANSLATION RESERVE $000	RETAINED EARNINGS $000	NON-CONTROLLING INTERESTS $000	TOTAL EQUITY $000
Balance at beginning of the period	874,979	–	(1,769)	129	1,015,513	12,472	1,901,324
Comprehensive income							
Operating surplus for the period	–	–	–	–	296,369	5,247	301,616
Other comprehensive income							
Change in fair value of cash flow hedges	–	–	(188,416)	–	–	–	(188,416)
Translation of overseas operations	–	–	–	101	–	–	101
Income tax relating to components of other comprehensive income	–	–	57,055	–	–	–	57,055
Total comprehensive income	–	–	(131,361)	101	296,369	5,247	170,356
Transactions with owners							
Treasury shares purchased	–	(8,112)	–	–	–	–	(8,112)
Dividends	–	–	–	–	(67,500)	(4,472)	(71,972)
Total transactions with owners	–	(8,112)	–	–	(67,500)	(4,472)	(80,084)
Balance at end of the period	874,979	(8,112)	(133,130)	230	1,244,382	13,247	1,991,596

30 JUN 2009 12 MONTHS	ISSUED SHARE CAPITAL $000	TREASURY SHARES $000	HEDGE RESERVE $000	FOREIGN CURRENCY TRANSLATION RESERVE $000	RETAINED EARNINGS $000	NON-CONTROLLING INTERESTS $000	TOTAL EQUITY $000
Balance at beginning of the period	874,979	–	(1,769)	129	1,015,513	12,472	1,901,324
Comprehensive income							
Operating surplus for the period	–	–	–	–	370,460	8,881	379,341
Other comprehensive income							
Change in fair value of cash flow hedges	–	–	(109,675)	–	–	–	(109,675)
Translation of overseas operations	–	–	–	81	–	–	81
Income tax relating to components of other comprehensive income	–	–	33,433	–	–	–	33,433
Total comprehensive income	–	–	(76,242)	81	370,460	8,881	303,180
Transactions with owners							
Treasury shares purchased	–	(8,934)	–	–	–	–	(8,934)
Dividends	–	–	–	–	(132,205)	(4,472)	(136,677)
Total transactions with owners	–	(8,934)	–	–	(132,205)	(4,472)	(145,611)
Balance at end of the period	874,979	(8,934)	(78,011)	210	1,253,768	16,881	2,058,893

CONDENSED CONSOLIDATED

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2009 (UNAUDITED)

	NOTE	31 DEC 2009 $000	31 DEC 2008 $000	30 JUN 2009 $000
CURRENT ASSETS				
Cash and cash equivalents		57,537	67,632	54,690
Short term deposits		135,000	200,000	100,000
Receivables and prepayments		169,774	169,726	190,633
Derivative financial instruments	7	–	2,529	208
Inventories		1,665	6,426	2,208
Income tax		2,650	11,397	43,606
Total current assets		366,626	457,710	391,345
NON-CURRENT ASSETS				
Receivables and prepayments		5,873	4,464	5,890
Derivative financial instruments	7	1,935	157,167	51,345
Deferred tax		1,137	907	1,137
Investments in associates	1	23,039	27,303	28,193
Intangible assets	3	1,596,083	1,601,536	1,601,095
Property, plant and equipment	3	3,475,560	3,404,548	3,459,587
Total non-current assets		5,103,627	5,195,925	5,147,247
Total assets		5,470,253	5,653,635	5,538,592
CURRENT LIABILITIES				
Payables and accruals		172,673	149,177	179,887
Provisions		17,345	24,058	17,384
Derivative financial instruments	7	7,382	162	2,099
Borrowings		575	200,496	575
Income tax		2,137	1,860	2,370
Total current liabilities		200,112	375,753	202,315
NON-CURRENT LIABILITIES				
Payables and accruals		26,023	23,640	27,137
Provisions		1,500	743	1,000
Derivative financial instruments	7	140,210	202,358	103,671
Borrowings		2,507,478	2,580,385	2,639,781
Deferred tax		503,015	479,160	505,795
Total non-current liabilities		3,178,226	3,286,286	3,277,384
Total liabilities		3,378,338	3,662,039	3,479,699
EQUITY				
Parent's shareholders' interests		2,073,490	1,978,349	2,042,012
Non-controlling interests in subsidiaries		18,425	13,247	16,881
Total equity		2,091,915	1,991,596	2,058,893
Total equity and liabilities		5,470,253	5,653,635	5,538,592

CONDENSED CONSOLIDATED
CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2009 (UNAUDITED)

	NOTE	31 DEC 2009 6 MONTHS $000	31 DEC 2008 6 MONTHS $000	30 JUN 2009 12 MONTHS $000
OPERATING ACTIVITIES				
Cash provided from:				
Receipts from customers		656,087	646,797	1,170,655
Interest portion of repayments on finance leases		58	58	117
Interest received on deposits		2,977	3,196	14,841
Income tax refund		–	19	19
		659,122	650,070	1,185,632
Cash applied to:				
Payments to suppliers and employees		(320,132)	(333,207)	(579,668)
Income tax paid		(4,117)	(4,095)	(62,424)
Interest paid on finance leases		(253)	(330)	(633)
Interest paid		(91,747)	(117,099)	(212,570)
		(416,249)	(454,731)	(855,295)
Net cash flows from operating activities		242,873	195,339	330,337
INVESTING ACTIVITIES				
Cash provided from:				
Proceeds from sale of property, plant and equipment and software		301	82	557
Dividend received from associate	8	200	–	–
Net proceeds from sale of discontinued activities		–	772,950	772,950
Capital portion of repayments on finance leases		7	7	13
		508	773,039	773,520
Cash applied to:				
Purchase and construction of property, plant and equipment and software		(94,933)	(110,335)	(237,107)
Loans to associates	8	(1,000)	(2,950)	(4,450)
		(95,933)	(113,285)	(241,557)
Net cash flows (used in)/from investing activities		(95,425)	659,754	531,963

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (CONT.)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009 (UNAUDITED)

	NOTE	31 DEC 2009 6 MONTHS $000	31 DEC 2008 6 MONTHS $000	30 JUN 2009 12 MONTHS $000
FINANCING ACTIVITIES				
Cash provided from/(applied to):				
Proceeds from borrowings		54,000	51,378	245,000
Repayment of borrowings		(87,402)	(611,000)	(855,000)
Withdrawal of short term deposits		48,000	–	200,000
Short term deposits		(83,000)	(200,000)	(300,000)
Debt raising costs incurred		–	(135)	(3,763)
Capital portion of payments under finance leases		(827)	(1,201)	(1,817)
Dividends paid to shareholders of parent		(72,192)	(67,500)	(132,205)
Dividends paid to non-controlling interests in subsidiaries		(3,180)	(4,472)	(4,472)
Purchase of treasury shares		–	(8,112)	(8,934)
Net cash flows used in financing activities		(144,601)	(841,042)	(861,191)
Net increase in cash and cash equivalents		2,847	14,051	1,109
Cash and cash equivalents at beginning of the period		54,690	53,581	53,581
Cash and cash equivalents at end of the period		57,537	67,632	54,690
Cash and cash equivalents comprises:				
Bank balances		20,537	48,632	19,690
Short term deposits maturing within three months		37,000	19,000	35,000
		57,537	67,632	54,690
RECONCILIATION OF OPERATING SURPLUS TO NET CASH FLOWS FROM OPERATING ACTIVITIES				
Operating surplus		106,066	301,616	379,341
ITEMS CLASSIFIED AS INVESTING ACTIVITIES				
Net loss on write-off of property, plant and equipment and software		2,728	4,245	12,021
Gain on sale of discontinued activities		–	(202,902)	(202,902)
		2,728	(198,657)	(190,881)
NON-CASH ITEMS				
Depreciation and amortisation		76,005	70,192	145,362
Impairment of investment in associate	1	4,136	6,519	6,519
Discount on repayment of floating rate notes	6	(6,598)	–	–
Non-cash portion of interest expense		(1,739)	1,792	1,492
(Decrease)/increase in deferred tax		(2,780)	2,019	4,801
Increase/(decrease) in provisions		461	(5,642)	(11,060)
Equity earnings of associates		818	(318)	(1,208)
		70,303	74,562	145,906
MOVEMENT IN WORKING CAPITAL				
Increase/(decrease) in payables and accruals		770	(27,986)	5,560
Decrease in inventory		543	950	5,168
Decrease/(increase) in receivables and prepayments		21,740	10,055	(17,856)
Decrease in net income tax assets		40,723	34,799	3,099
		63,776	17,818	(4,029)
Net cash flows from operating activities		242,873	195,339	330,337

NOTES TO THE CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009 (UNAUDITED)

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 2009 (2009 Annual Report).

The financial statements for the six months ended 31 December 2009 and the six months ended 31 December 2008 are unaudited.

The financial statements are expressed in New Zealand dollars ($) rounded to thousands.

The accounting policies set out in the 2009 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 2009 Annual Report, except for the impact of adoption of the standards described below.

NZ IAS 1 (revised 2007) *Presentation of Financial Statements*

The revised standard has introduced a number of terminology changes (including revised titles for the condensed financial statements) and has resulted in a number of changes in presentation and disclosure. However, the revised standard has had no impact on the reported results or financial position of the group.

MEASUREMENT BASE

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

– the identifiable assets, liabilities and contingent liabilities acquired in a business combination; and

– financial instruments.

OPERATIONS IN THE INTERIM PERIOD

Seasonality

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 26 February 2010.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009 (UNAUDITED)

1. SHARE OF PROFIT FROM ASSOCIATES

	31 DEC 2009 6 MONTHS $000	31 DEC 2008 6 MONTHS $000	30 JUN 2009 12 MONTHS $000
Equity accounted earnings of associates			
Operating (deficit)/surplus before income tax	(1,168)	454	1,757
Income tax benefit/(expense)	350	(136)	(549)
Share of net (deficit)/surplus from associates	(818)	318	1,208

	PRINCIPAL ACTIVITY	PERCENTAGE HELD 31 DEC 2009	31 DEC 2008	30 JUN 2009
Tree Scape Limited	Vegetation management	50%	50%	50%
– Treescape Australasia Pty Limited	Vegetation management	50%	50%	50%
Energy Intellect Limited	Metering services	25%	25%	25%
NZ Windfarms Limited	Power generation	20%	20%	20%
Advanced Metering Services Limited	Metering services	50%	50%	50%

During the period, an impairment loss of $4.1 million (six months ended 31 December 2008: $6.5 million) has been recognised in respect of Vector's investment in its associate company, NZ Windfarms Limited.

The share price of NZ Windfarms Limited has further declined since 31 December 2008 from $0.70 per share to $0.42 per share as at 31 December 2009. The recoverable amount has been determined at the investment's fair value less costs to sell by reference to this active market price on the New Zealand Stock Exchange.

2. 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.

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 pages 24 and 25.

The segments reported in these financial statements are the same as those reported in Vector's Annual Report for the year ended 30 June 2009.

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 operating surplus before interest and income tax.

31 DEC 2009 6 MONTHS	ELECTRICITY $000	GAS TRANS-PORTATION $000	GAS WHOLESALE $000	TECHNOLOGY $000	INTERSEGMENT $000	TOTAL $000
External revenue:						
Operating revenue	285,838	82,179	213,451	36,954	–	618,422
Other income	107	105	48	17	–	277
Intersegment revenue	64	20,240	2,247	1,608	(24,159)	–
Segment revenue	286,009	102,524	215,746	38,579	(24,159)	618,699
External operating expenditure:						
Electricity transmission expenses	(64,587)	–	–	–	–	(64,587)
Gas purchases and production expenses	–	(2,711)	(136,207)	–	–	(138,918)
Network and asset maintenance expenses	(21,381)	(7,151)	(7,306)	(2,072)	–	(37,910)
Personnel expenses	(5,032)	(1,693)	(5,296)	(3,419)	–	(15,440)
Other expenses	(10,194)	(3,103)	(4,810)	(6,678)	–	(24,785)
Intersegment expenditure	(1,292)	(2,254)	(20,549)	(64)	24,159	–
Operating expenditure	(102,486)	(16,912)	(174,168)	(12,233)	24,159	(281,640)
EBITDA	183,523	85,612	41,578	26,346	–	337,059
Depreciation and amortisation	(35,485)	(13,117)	(5,535)	(13,979)	–	(68,116)
Segment profit before interest and income tax	148,038	72,495	36,043	12,367	–	268,943
Segment capital expenditure	42,219	10,136	3,823	27,952	–	84,130

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009 (UNAUDITED)

2. SEGMENT INFORMATION (CONT.) »

31 DEC 2008 6 MONTHS	ELECTRICITY $000	GAS TRANS-PORTATION $000	GAS WHOLESALE $000	TECHNOLOGY $000	INTERSEGMENT $000	TOTAL $000
External revenue:						
Operating revenue	272,990	76,983	220,918	33,860	–	604,751
Other income	7	–	–	31	–	38
Intersegment revenue	11	20,243	2,281	1,167	(23,702)	–
Segment revenue	273,008	97,226	223,199	35,058	(23,702)	604,789
External operating expenditure:						
Electricity transmission expenses	(56,325)	–	–	–	–	(56,325)
Gas purchases and production expenses	–	(224)	(129,518)	–	–	(129,742)
Network and asset maintenance expenses	(24,240)	(7,940)	(7,448)	(2,742)	–	(42,370)
Personnel expenses	(4,266)	(1,342)	(5,733)	(2,915)	–	(14,256)
Other expenses	(10,652)	(4,153)	(4,455)	(8,186)	–	(27,446)
Intersegment expenditure	(754)	(2,281)	(20,656)	(11)	23,702	–
Operating expenditure	(96,237)	(15,940)	(167,810)	(13,854)	23,702	(270,139)
EBITDA	176,771	81,286	55,389	21,204	–	334,650
Depreciation and amortisation	(32,270)	(14,495)	(5,548)	(10,075)	–	(62,388)
Segment profit before interest and income tax	144,501	66,791	49,841	11,129	–	272,262
Segment capital expenditure	58,780	8,254	8,407	18,456	–	93,897

2. SEGMENT INFORMATION (CONT.) »»

30 JUN 2009 12 MONTHS	ELECTRICITY $000	GAS TRANS-PORTATION $000	GAS WHOLESALE $000	TECHNOLOGY $000	INTERSEGMENT $000	TOTAL $000
External revenue:						
Operating revenue	533,431	151,357	408,852	68,460	–	1,162,100
Other income	67	–	33	50	–	150
Intersegment revenue	94	38,677	4,398	2,526	(45,695)	–
Segment revenue	533,592	190,034	413,283	71,036	(45,695)	1,162,250
External operating expenditure:						
Electricity transmission expenses	(118,461)	–	–	–	–	(118,461)
Gas purchases and production expenses	–	(6,017)	(256,414)	–	–	(262,431)
Network and asset maintenance expenses	(44,993)	(15,354)	(14,932)	(4,880)	–	(80,159)
Personnel expenses	(8,505)	(3,844)	(12,473)	(5,957)	–	(30,779)
Other expenses	(25,114)	(8,030)	(9,516)	(8,055)	–	(50,715)
Intersegment expenditure	(1,933)	(4,398)	(39,270)	(94)	45,695	–
Operating expenditure	(199,006)	(37,643)	(332,605)	(18,986)	45,695	(542,545)
EBITDA	334,586	152,391	80,678	52,050	–	619,705
Depreciation and amortisation	(65,589)	(29,928)	(10,448)	(22,298)	–	(128,263)
Segment profit before interest and income tax	268,997	122,463	70,230	29,752	–	491,442
Segment capital expenditure	127,743	21,068	11,680	65,439	–	225,930

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009 (UNAUDITED)

2. SEGMENT INFORMATION (CONT.) »

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

	31 DEC 2009 6 MONTHS		
	TOTAL INCOME $000	OPERATING SURPLUS BEFORE INCOME TAX $000	CAPITAL EXPENDITURE $000
Reported in segment information	618,699	268,943	84,130
Amounts not allocated to segments:			
Revenues from other utility-related activities	1,949	1,949	–
Operating expenditures attributable to corporate activities	–	(28,922)	–
Depreciation and amortisation of corporate assets	–	(7,889)	–
Finance income	–	3,404	–
Finance costs	–	(85,134)	–
Share of net (deficit)/surplus from associates	–	(818)	–
Impairment of investment in associate	–	(4,136)	–
Additions to corporate assets	–	–	2,910
Reported in condensed consolidated financial statements	620,648	147,397	87,040

31 DEC 2008 6 MONTHS			30 JUN 2009 12 MONTHS		
TOTAL INCOME $000	OPERATING SURPLUS BEFORE INCOME TAX $000	CAPITAL EXPENDITURE $000	TOTAL INCOME $000	OPERATING SURPLUS BEFORE INCOME TAX $000	CAPITAL EXPENDITURE $000
604,789	272,262	93,897	1,162,250	491,442	225,930
4,744	4,744	–	11,908	11,908	–
–	(26,232)	–	–	(49,435)	–
–	(7,804)	–	–	(17,099)	–
–	10,777	–	–	16,144	–
–	(111,966)	–	–	(205,684)	–
–	318	–	–	1,208	–
–	(6,519)	–	–	(6,519)	–
–	–	4,569	–	–	12,790
609,533	135,580	98,466	1,174,158	241,965	238,720

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009 (UNAUDITED)

3. PROPERTY, PLANT AND EQUIPMENT AND SOFTWARE INTANGIBLE ASSETS

During the period, Vector invested $87.0 million (six months ended 31 December 2008: $98.5 million) in new capital expenditure and retired $3.0 million (six months ended 31 December 2008: $4.4 million) of property, plant and equipment.

4. CAPITAL COMMITMENTS

	31 DEC 2009 $000	31 DEC 2008 $000	30 JUN 2009 $000
Estimated capital expenditure contracted for at balance date but not yet incurred	39,118	27,494	34,531

5. FINANCIAL RATIOS

The calculation of basic earnings per share for the six months ended 31 December 2009 is based on the profit attributable to ordinary shareholders of $101.3 million (six months ended 31 December 2008: $296.4 million, year ended 30 June 2009: $370.5 million) and a weighted average number of ordinary shares outstanding during the period of 995,755,077 (six months ended 31 December 2008: 998,564,107, year ended 30 June 2009: 997,221,099).

The calculations of the total and net tangible assets per share at 31 December 2009 are based on the carrying amounts of the total assets of $5,470.3 million (31 December 2008: $5,653.6 million, 30 June 2009: $5,538.6 million) and net assets of $2,091.9 million (31 December 2008: $1,991.6 million, 30 June 2009: $2,058.9 million) less total intangible assets of $1,596.1 million (31 December 2008: $1,601.5 million, 30 June 2009: $1,601.1 million) and a weighted average number of ordinary shares outstanding during the period as described above.

6. FUNDING OF OPERATIONS

Issued capital

Issued capital as at 31 December 2009 was $875 million (31 December 2008: $875 million, 30 June 2009: $875 million). During the period, a final dividend of 7.25 cents per share in respect of the year ended 30 June 2009 was paid to the shareholders on 15 September 2009 (six months ended 31 December 2008: 6.75 cents per share in respect of the year ended 30 June 2008, paid on 18 September 2008).

Borrowings

All borrowings are measured at amortised cost adjusted for fair value movements in respect of the hedged risk on those borrowings as designated in their fair value hedge relationships. Borrowings are classified between current and non-current depending on contractual obligations. The net decrease in borrowings since 30 June 2009 of $132.3 million is the result of $95 million of fair value movements and the repurchase of $40 million of floating rate notes offset by $2.7 million of amortised cost adjustments.

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

7. DERIVATIVE FINANCIAL INSTRUMENTS

The net amount of derivative financial instruments disclosed on the balance sheet at 31 December 2009 is a liability of $145.7 million (31 December 2008: $42.8 million, 30 June 2009: $54.2 million). The increase in the net liability since 30 June 2009 of $91.5 million reflects the net increase in the aggregate mark to market losses during the period. This increase is mainly caused by a combination of lower mark to market losses due to the higher New Zealand floating interest rate curve and higher mark to market losses due to the stronger New Zealand dollar at 31 December 2009 in contrast to comparative periods.

8. RELATED PARTIES

During the period, the group granted a loan facility of $6.5 million to its associate NZ Windfarms Limited. Interest is charged at 15% per annum. An arrangement fee of 1% and an ongoing line fee of 2% per annum of the facility amount apply. Interest and line fees are payable quarterly in arrears. The loan facility is for a period up to 31 May 2010 and is secured by way of a charge over all the assets of NZ Windfarms Limited and its subsidiary NZWL-TRH Limited. At 31 December 2009 an amount of $0.9 million, net of facility fees received, is outstanding from NZ Windfarms Limited. Also during the period, a $0.2 million dividend was received from Tree Scape Limited, which is another associate company of the group.

9. EVENTS AFTER BALANCE DATE

On 29 January 2010, the group purchased Siemens' 50% shareholding in Advanced Metering Services Limited (AMS) and now owns a 100% shareholding in AMS.

On 26 February 2010, the board of directors declared an interim dividend for the year ended 30 June 2010 of 6.5 cents per share.

During February 2010, the group won a Supreme Court appeal against Bay of Plenty Energy (BOPE) regarding a historical billing dispute and, as a consequence gross proceeds of $4.6 million, plus interest and costs, were awarded to the group.

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

GLOSSARY

EBITDA	means earnings before interest, income tax, depreciation and amortisation.
EBIT	means earnings before interest, income tax, net (deficit)/surplus from associates and impairment losses on investments in associates.
GWh	means gigawatt hour.
NZ IFRS	means New Zealand equivalents to International Financial Reporting Standards.
Net debt	means total borrowings less cash and cash equivalents and short term deposits.
PJ	means petajoules.
Revenue	means total income in the condensed consolidated income statement.

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Alex Ball	Chief Financial Officer
Allan Carvell	Group General Manager Regulation and Pricing
Sylvia Hunt	Group Manager Organisational Development
Daniel McCarthy	Group General Manager Commercial
David Thomas	Group General Manager Gas Trading and Metering
David Tompkins	Group General Manager Asset Investment
Andries van der Westhuizen	General Manager Information Technology
David Worsnop	Group General Manager Service Delivery

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