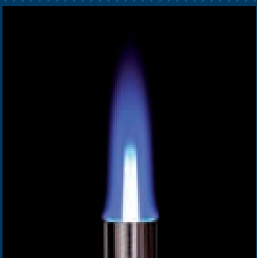
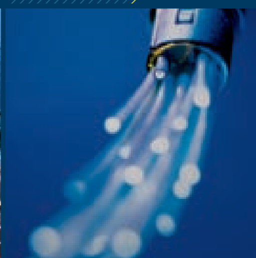
# Interim Report / 2011

VECTOR LIMITED







# Half year highlights /

$98.5m

NET PROFIT AFTER TAX (NPAT)

2.1%

INCREASE IN OPERATING CASH FLOW

$317.7m

EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION (EBITDA)

2.5%

EBITDA INCREASE ON PRIOR PERIOD

FULLY IMPUTED INTERIM DIVIDEND OF

6.75cents

PER SHARE, PAYABLE ON 14 APRIL 2011

BBB+/stable

STANDARD & POOR'S RATING

# Contents /

# Operational statistics /

| | SIX MONTHS ENDED 31 DECEMBER 2010 | 2009 |
|---|---|---|
| **ELECTRICITY** | | |
| Customers[1] | 529,997 | 525,972 |
| Volume distributed (GWh) | 4,298 | 4,223 |
| Networks length (km)[1] | 17,705 | 17,614 |
| SAIDI (minutes)[2] | | |
| Normal operations | 82.4[3] | 47.1 |
| Extreme events | 8.7 | – |
| Total | 91.1 | 47.1 |
| **GAS TRANSPORTATION** | | |
| Distribution customers[1] | 153,675 | 150,827 |
| Distribution volume (PJ) | 11.5 | 11.4 |
| Distribution mains network length (km)[1] | 6,976 | 6,930 |
| Transmission volume (PJ)[4] | 65.1 | 52.8 |
| Transmission system length owned (km)[1] | 2,287 | 2,288 |
| Transmission system length operated/managed (km)[1] | 1,293 | 1,241 |
| **GAS WHOLESALE** | | |
| Natural gas sales (PJ)[5] | 14.1 | 16.5 |
| Gas liquid sales (tonnes)[6] | 42,535 | 37,191 |
| Liquigas LPG tolling (tonnes)[7] | 72,296 | 54,515 |
| **TECHNOLOGY** | | |
| Electricity: smart meters[1] | 179,494 | 79,020 |
| Electricity: simple meters[1] | 554,377 | 649,937 |
| Electricity: prepay meters[1] | 6,551 | 6,962 |
| Electricity: time of use meters[1] | 10,798 | 11,074 |
| Gas meters[1] | 78,890 | 76,419 |
| Data management service connections – New Zealand and Australia[1] | 8,948 | 14,109 |

1. As at period end
2. Regulatory year – 9 months to 31 December
3. Includes 21.6 minutes incurred in September 2010
4. Based on billable volumes
5. Excludes gas sold as gas liquids as these sales are included within the gas liquids sales tonnages
6. Total of retail and wholesale LPG production and natural gasoline
7. Includes product tolled in Taranaki and further tolled in the South Island

# Financial overview /

## FINANCIAL PERFORMANCE

| $ MILLIONS | 31 DEC 2010 6 MONTHS | 31 DEC 2009 6 MONTHS | CHANGE | 30 JUN 2010 12 MONTHS |
|---|---|---|---|---|
| Revenue | 629.3 | 620.6 | +1.4% | 1,187.4 |
| EBITDA | 317.7 | 310.1 | +2.5% | 578.1 |
| EBIT | 234.2 | 234.1 | +0.0% | 421.8 |
| NPAT | 98.5 | 101.3 | -2.8% | 193.5 |
| Operating cash flow | 248.1 | 243.1 | +2.1% | 367.5 |

## FINANCIAL POSITION

| $ MILLIONS | 31 DEC 2010 | 31 DEC 2009 | CHANGE | 30 JUN 2010 |
|---|---|---|---|---|
| Total equity | 2,101.0 | 2,091.9 | +0.4% | 2,084.2 |
| Total assets | 5,802.2 | 5,470.3 | +6.1% | 5,550.9 |
| Net debt | 2,291.2 | 2,315.5 | -1.0% | 2,447.5 |

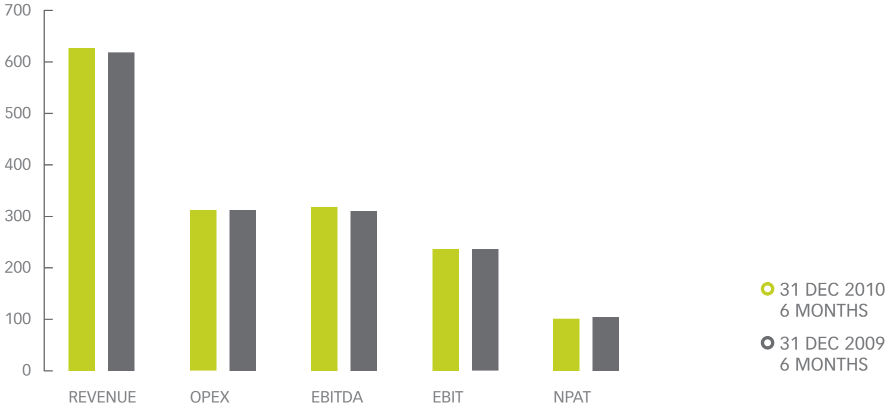
## KEY FINANCIAL MEASURES

| | 31 DEC 2010 6 MONTHS | 31 DEC 2009 6 MONTHS | CHANGE | 30 JUN 2010 12 MONTHS |
|---|---|---|---|---|
| EBITDA/revenue | 50.5% | 50.0% | +1.0% | 48.7% |
| EBIT/revenue | 37.2% | 37.7% | -1.3% | 35.5% |
| Equity/total assets | 36.2% | 38.2% | -5.2% | 37.5% |
| Gearing (net debt/ net debt + equity) | 52.2% | 52.5% | -0.6% | 54.0% |
| Net interest cover (EBIT/net finance costs) | 2.6 times | 2.9 times | -10.3% | 2.5 times |
| Earnings (NPAT) per share | 9.9 cents | 10.2 cents | -2.9% | 19.4 cents |
| Dividends per share (fully imputed) | 6.75 cents | 6.5 cents | +3.8% | 14.0 cents[1] |

[1] Total dividends for the year ended 30 June 2010 include the final dividend of 7.5 cents per share paid on 13 September 2010.

## FINANCIAL REVIEW

$ MILLIONS




## DIVISIONAL RESULTS

| $ MILLIONS | ELECTRICITY | GAS TRANSPORTATION | GAS WHOLESALE | TECHNOLOGY | CORPORATE | INTER-SEGMENT | TOTAL |
|---|---|---|---|---|---|---|---|
| **31 DEC 2010** | | | | | | | |
| Revenue | 296.4 | 111.5 | 199.3 | 42.2 | 2.3 | (22.4) | 629.3 |
| OPEX | (101.1) | (24.5) | (167.6) | (14.1) | (26.7) | 22.4 | (311.6) |
| EBITDA | 195.3 | 87.0 | 31.7 | 28.1 | (24.4) | – | 317.7 |
| EBITDA/revenue | 65.9% | 78.0% | 15.9% | 66.6% | n/a | n/a | 50.5% |
| EBIT | 157.1 | 75.8 | 25.8 | 7.0 | (31.5) | – | 234.2 |
| **31 DEC 2009** | | | | | | | |
| Revenue | 286.0 | 102.5 | 215.7 | 38.6 | 2.0 | (24.2) | 620.6 |
| OPEX | (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 |

**MICHAEL STIASSNY**
Chairman

# Solid operations

Vector's businesses have again delivered a solid six month financial result. Your company is performing well »

Increased customer numbers and improved volumes in electricity, gas distribution and gas transmission have resulted in growth in revenue, earnings before interest, tax, depreciation and amortisation (EBITDA) and operating cash flow.

## FINANCIAL PERFORMANCE AND DIVIDEND

Revenue was $629.3 million, up 1.4% on last year, a very good improvement considering the changes in our gas wholesale segment. EBITDA increased by 2.5% to reach $317.7 million, up $7.6 million on December 2009. The board is pleased to increase the interim dividend to 6.75 cents per share, payable on 14 April 2011.

## REGULATION

Vector has taken steps to challenge the Commerce Commission's decisions on input methodologies for regulated electricity and gas businesses.

In our opinion, the regime fails to strike the right balance between customer interests and commercial outcomes.

A stable regulatory environment is necessary for Vector to raise capital in both domestic and international markets, innovate, invest in our network and provide better customer outcomes. We have never argued against the need for regulation, but do believe that the regime could provide better incentives to invest and in doing so provide real benefits to New Zealand.

We have spent many months, thousands of hours, engaged international experts and submitted many pages of documents in making our case to the Commission for changes to the regime. We are pursuing our rights under Part 4 of the Commerce Act that allow for a review of the Commission's decisions.

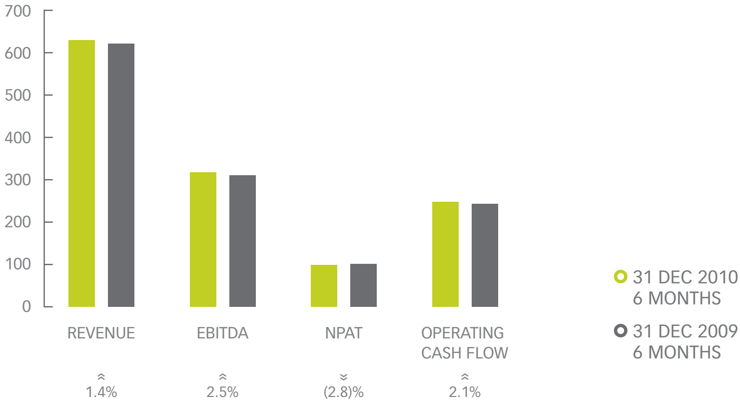
Because this is the first time the Commission's decisions have been challenged, we have no way of knowing how long this process will take. We will keep you updated on progress.

## FIBRE

In mid February Crown Fibre Holdings (CFH) announced that Vector had

## FINANCIAL AND OPERATING RESULTS

$ MILLIONS




been selected for priority negotiations for the Government's Ultra Fast Broadband Initiative. In the coming weeks and months we will continue our discussions regarding contractual terms and conditions for Vector to roll out fibre to Aucklanders. A key benefit of our proposal and what differentiates Vector from other fibre contenders is our local and community ownership. Under our proposal we can deliver fibre to the door of Auckland homes and businesses within eight years. Of course, we will only progress our proposal if we can agree terms with Crown Fibre Holdings that stack up commercially for our business.

## OUTLOOK

While there are encouraging signs of growth in some of our segments, New Zealand's economic recovery is far from certain, and cannot be taken for granted. What we can be certain of is that the board and the Vector team will continue to work hard to improve the business and pursue growth opportunities.

I look forward to sharing our full year performance with you later in the year.

**MICHAEL STIASSNY**
Chairman

SIMON MACKENZIE
Group Chief Executive Officer

# Active on many fronts

Against the backdrop of good financial and operational performance in our core businesses we have been working to grow Vector on many fronts »

We have expanded our LPG business, made good progress in smart meters, commenced priority negotiations with Crown Fibre Holdings in the Ultra Fast Broadband Initiative and successfully raised debt finance in the United States. In challenging the Commerce Commission's decisions on input methodologies we are taking steps towards providing the regulatory certainty that we need to run our business and that our investors demand.

We have seen continued growth in total customer numbers, revenue and EBITDA. Volumes across core networks were up across the board.

## FINANCIAL PERFORMANCE

Revenue improved by $8.7 million to $629.3 million, due to strong growth in electricity, gas transportation and technology.

We saw a similar trend in the $7.6 million lift in earnings before interest, tax, depreciation and amortisation (EBITDA) to reach $317.7 million, with gas wholesale performance declining as legacy gas contracts continue to wind down and Liquigas moved to a new LPG tolling business model.

Net profit after tax (NPAT) at $98.5 million dipped slightly on the year before, due mainly to increased depreciation and increased taxation expense relating to customer contributions in the current year and a net one-off gain in financing costs in the prior year.

Looking more closely at our operating segments:

Electricity revenue improved 3.6% to $296.4 million, and EBITDA was $195.3 million, $11.8 million ahead of the prior year.

Business customer volume improved, while residential volume remained steady. Overall electricity volume for six months was 4,298 gigawatt hours, up 1.8% on the prior year (2009: 4,223 GWh), stemming a three year declining trend.

While overall customer numbers increased, new residential connections slowed due to reduced activity in the multi-dwelling apartment market. In contrast new connections for small to medium business and industrial/commercial customers nearly doubled.

Gas transportation revenue increased 8.8% to $111.5 million and EBITDA improved by $1.4 million to reach $87 million. Volume on the gas distribution network was relatively flat, increasing by 0.1 petajoules to reach 11.5 PJ. Gas transmission volume lifted 23.3% to 65.1 PJ, due mostly to a full six months of volume from the Kupe field, which commenced production in December 2009.

Actions taken in the past two years to manage the impact of legacy gas contracts expiring have been beneficial. While revenue and EBITDA declined to $199.3 million, and $31.7 million respectively, we have managed to reduce the drop in EBITDA. Natural gas volumes contracted by 14.5% to 14.1 PJ, reflecting heavy competition in the industrial and commercial market and the expiry of a major contract in December 2009.

Other gas wholesale metrics showed improvement, with gas liquid sales increasing by 14.4% due to increased production at the Kapuni gas treatment plant and Liquigas tolling volumes lifted by 32.6%.

Technology revenue was $42.2 million, up 9.3%, and EBITDA improved $1.8 million to $28.1 million, reflecting growth in both metering and communications. Smart meter deployment stood at 179,494 units compared to 79,020 a year ago.

## REGULATION

In February, we commenced legal proceedings to challenge the Commerce Commission's input methodologies decisions. Transpower and other lines companies are also appealing against the Commission. The appeals process, part of the 2008 Commerce Act amendments, is a common feature of mature international regulatory practice. We believe the Commission has failed to strike an appropriate balance between customer and investor outcomes. Like other companies we need a stable regulatory environment to attract capital and provide for improved long term customer outcomes.

> "Our local and community ownership make Vector the right choice to deliver fibre."

Regulation is one of the biggest factors influencing our business. We need regulatory certainty to run our business, to raise capital and to make critical decisions about how and when we invest in our network and in new technologies.

A balanced and stable regulatory regime is the foundation for stable investment, stable prices for customers and stable returns for shareholders. We are concerned that the Commission has not taken enough account of the need for investor confidence and a long term stable market. We also believe the Commission has lost sight of the intent of the legislation that governs Vector's regulated businesses – a key component of which is the requirement for companies to invest in order to provide a reliable and cost effective service to its customers.

## FIBRE UPDATE

Ultra fast broadband is a major initiative for New Zealand and the Auckland region. Over the past six months we have continued to negotiate with Crown Fibre Holdings to bring ultra fast broadband to Aucklanders. We are pleased to be selected for further priority negotiations.

Our local and community ownership make Vector the right choice to deliver fibre. It is time to dispel the myth that only one company is capable of bringing fibre to Aucklanders. New Zealand needs to move rapidly to the world of fibre to keep pace with its trading partners.

We can deliver fibre to the door of Auckland homes and businesses within eight years, ahead of the Government's timeline. We are ready to build a world class fibre network quickly, and can start as soon as negotiations are concluded. Vector's approach is neither complicated, nor dependent on lengthy and complex structural changes, processes and approvals. Our solution is clean and unencumbered by legacy assets and operating models. We have supported the Ultra Fast Broadband Initiative from the very beginning and will continue to participate for as long as it makes commercial sense for our business.

## TRANSPOWER DEAL

In May our agreement with Transpower for access to some of our electricity assets is expected to become unconditional. This contract will contribute revenue of $53 million.

## GROWTH OPPORTUNITIES

We continue to pursue growth opportunities. In the past six months we have expanded our LPG business with the purchase of Kwik-Swap, an LPG distribution company that sells and swaps 9 kg LPG cylinders from service stations, hardware stores and other locations nationwide.

We also expect that there will be changes in the smart meter sector as the meter compliance date of 2015 approaches. As a leading provider of smart meters Vector is well placed to take advantage of any rationalisation that occurs.

There is still plenty of growth potential in metering and we will continue to pursue commercial opportunities as well as new uses, such as gas and water, for our advanced metering technology.

## LOOKING AHEAD

With a solid six month performance behind us we face the balance of the year with confidence. There are some big issues on the table such as fibre and regulation, and while we will have to wait for the outcome, we are doing all that we can to ensure the best possible result for the company and its stakeholders. It is appropriate to thank the Vector team for all of their efforts as we drive our company forward.

**SIMON MACKENZIE**
Group Chief Executive Officer

# Interim financial statements

for the six months ended 31 December 2010 (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 2010.

For and on behalf of directors

Director 25 February 2011

Director 25 February 2011

For and on behalf of management

Group Chief Executive Officer 25 February 2011

Chief Financial Officer 25 February 2011

# Auditors' review report

for the six months ended 31 December 2010

KPMG

## 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 subsidiaries ("the Group") and its financial position as at 31 December 2010.

## 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 2010 and the consolidated 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 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 Vector Limited as at 31 December 2010, 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 25 February 2011 and our opinion is expressed as at that date.

KPMG

Auckland

Condensed consolidated

# Income statement

for the six months ended 31 December 2010 (unaudited)

| | NOTE | 31 DEC 2010 6 MONTHS $000 | 31 DEC 2009 6 MONTHS $000 | 30 JUN 2010 12 MONTHS $000 |
|---|---|---|---|---|
| Operating revenue | | 628,047 | 620,371 | 1,185,827 |
| Other income | | 1,247 | 277 | 1,613 |
| Total income | | 629,294 | 620,648 | 1,187,440 |
| Electricity transmission expenses | | (63,961) | (64,587) | (128,842) |
| Gas purchases and production expenses | | (133,003) | (138,918) | (267,055) |
| Network and asset maintenance expenses | | (37,083) | (37,921) | (73,716) |
| Personnel expenses | | (34,257) | (30,324) | (62,808) |
| Other expenses | | (43,291) | (38,812) | (76,876) |
| Operating expenditure | | (311,595) | (310,562) | (609,297) |
| Earnings before interest, income tax, depreciation and amortisation (EBITDA) | | 317,699 | 310,086 | 578,143 |
| Depreciation and amortisation | | (83,462) | (76,005) | (156,319) |
| Profit before interest and income tax | | 234,237 | 234,081 | 421,824 |
| Finance income | | 3,247 | 3,404 | 7,456 |
| Finance costs | | (93,323) | (85,134) | (174,429) |
| Share of net profit/(loss) from associates | 2 | 440 | (818) | (2,305) |
| Impairment of investment in associate | 2 | – | (4,136) | (4,136) |
| Profit before income tax | | 144,601 | 147,397 | 248,410 |
| Income tax expense | | (44,711) | (41,331) | (49,292) |
| Net profit for the period | | 99,890 | 106,066 | 199,118 |
| Net profit for the period attributable to: | | | | |
| Non-controlling interests in subsidiaries | | 1,404 | 4,724 | 5,650 |
| Shareholders of the parent | | 98,486 | 101,342 | 193,468 |
| Basic and diluted earnings per share (cents) | 6 | 9.9 | 10.2 | 19.4 |

Condensed consolidated

# Statement of comprehensive income

for the six months ended 31 December 2010 (unaudited)

| | 31 DEC 2010 6 MONTHS $000 | 31 DEC 2009 6 MONTHS $000 | 30 JUN 2010 12 MONTHS $000 |
|---|---|---|---|
| Net profit for the period | 99,890 | 106,066 | 199,118 |
| Other comprehensive income net of tax | | | |
| Change in fair value of cash flow hedges | (7,576) | 2,380 | (32,950) |
| Translation of foreign operations | (22) | (52) | 38 |
| Other comprehensive income for the period net of tax | (7,598) | 2,328 | (32,912) |
| Total comprehensive income for the period net of tax | 92,292 | 108,394 | 166,206 |
| | | | |
| Total comprehensive income for the period attributable to: | | | |
| Non-controlling interests in subsidiaries | 1,404 | 4,724 | 5,650 |
| Shareholders of the parent | 90,888 | 103,670 | 160,556 |

Condensed consolidated

# Statement of financial position

as at 31 December 2010 (unaudited)

| | NOTE | 31 DEC 2010 $000 | 31 DEC 2009 $000 | 30 JUN 2010 $000 |
|---|---|---|---|---|
| CURRENT ASSETS | | | | |
| Cash and cash equivalents | | 171,712 | 57,537 | 114,812 |
| Short term deposits | | 250,000 | 135,000 | – |
| Receivables and prepayments | | 155,945 | 169,774 | 163,767 |
| Derivative financial instruments | 8 | 15,752 | – | 11 |
| Inventories | | 4,280 | 1,665 | 4,204 |
| Income tax | | – | 2,650 | 35,193 |
| Intangible assets | | 2,600 | – | – |
| Total current assets | | 600,289 | 366,626 | 317,987 |
| NON-CURRENT ASSETS | | | | |
| Receivables and prepayments | | 1,433 | 5,873 | 1,428 |
| Derivative financial instruments | 8 | 3,644 | 1,935 | 50,344 |
| Deferred tax asset | | 2,700 | 1,137 | 2,700 |
| Income tax | | 448 | – | 448 |
| Investments in associates | 2 | 24,989 | 23,039 | 25,525 |
| Intangible assets | 4 | 1,607,296 | 1,596,083 | 1,612,228 |
| Property, plant and equipment | 4 | 3,561,371 | 3,475,560 | 3,540,245 |
| Total non-current assets | | 5,201,881 | 5,103,627 | 5,232,918 |
| Total assets | | 5,802,170 | 5,470,253 | 5,550,905 |
| CURRENT LIABILITIES | | | | |
| Payables and accruals | | 187,680 | 172,673 | 189,131 |
| Provisions | | 17,746 | 17,345 | 16,825 |
| Derivative financial instruments | 8 | 2,133 | 7,382 | 8,362 |
| Borrowings | | 267,739 | 575 | 249,654 |
| Income tax | | 2,795 | 2,137 | 1,428 |
| Total current liabilities | | 478,093 | 200,112 | 465,400 |
| NON-CURRENT LIABILITIES | | | | |
| Payables and accruals | | 24,940 | 26,023 | 25,821 |
| Provisions | | 4,000 | 1,500 | 3,000 |
| Derivative financial instruments | 8 | 268,498 | 140,210 | 181,815 |
| Borrowings | | 2,445,188 | 2,507,478 | 2,312,644 |
| Deferred tax liability | | 480,428 | 503,015 | 478,017 |
| Total non-current liabilities | | 3,223,054 | 3,178,226 | 3,001,297 |
| Total liabilities | | 3,701,147 | 3,378,338 | 3,466,697 |
| EQUITY | | | | |
| Equity attributable to shareholders of the parent | | 2,081,858 | 2,073,490 | 2,065,652 |
| Non-controlling interests in subsidiaries | | 19,165 | 18,425 | 18,556 |
| Total equity | | 2,101,023 | 2,091,915 | 2,084,208 |
| Total equity and liabilities | | 5,802,170 | 5,470,253 | 5,550,905 |

Condensed consolidated

# Statement of cash flows

for the six months ended 31 December 2010 (unaudited)

| | NOTE | 31 DEC 2010 6 MONTHS $000 | 31 DEC 2009 6 MONTHS $000 | 30 JUN 2010 12 MONTHS $000 |
|---|---|---|---|---|
| OPERATING ACTIVITIES | | | | |
| Cash provided from: | | | | |
| Receipts from customers | | 646,926 | 656,087 | 1,214,575 |
| Interest portion of repayments on finance leases | | 57 | 58 | 108 |
| Interest received on deposits | | 1,972 | 2,977 | 7,142 |
| Income tax refund | | – | – | 9 |
| Dividends received from associate | 9 | 976 | 200 | 200 |
| | | 649,931 | 659,322 | 1,222,034 |
| Cash applied to: | | | | |
| Payments to suppliers and employees | | (306,541) | (320,132) | (611,840) |
| Income tax paid | | (2,835) | (4,117) | (61,564) |
| Interest paid on finance leases | | (155) | (253) | (422) |
| Interest paid | | (92,315) | (91,747) | (180,670) |
| | | (401,846) | (416,249) | (854,496) |
| Net cash flows from operating activities | | 248,085 | 243,073 | 367,538 |
| INVESTING ACTIVITIES | | | | |
| Cash provided from: | | | | |
| Proceeds from sale of property, plant and equipment and software intangibles | | 2,013 | 301 | 990 |
| Bank balances acquired on acquisition of Advanced Metering Services Limited | | – | – | 132 |
| | | 2,013 | 301 | 1,122 |
| Cash applied to: | | | | |
| Purchase and construction of property, plant and equipment and software intangibles | | (115,643) | (94,933) | (220,404) |
| Acquisition of gas businesses | | (650) | – | (1,253) |
| Repayment of loan from third party | | – | – | (3,500) |
| Purchase of investment in associate | | – | – | (7,103) |
| Loans to associate | | – | (1,000) | (6,500) |
| Loans repaid by associate | | – | – | 6,500 |
| | | (116,293) | (95,933) | (232,260) |
| Net cash flows used in investing activities | | (114,280) | (95,632) | (231,138) |

| | NOTE | 31 DEC 2010 6 MONTHS $000 | 31 DEC 2009 6 MONTHS $000 | 30 JUN 2010 12 MONTHS $000 |
|---|---|---|---|---|
| FINANCING ACTIVITIES | | | | |
| Cash provided from/(applied to): | | | | |
| Proceeds from borrowings | | 250,516 | 54,000 | 54,000 |
| Repayment of borrowings | | – | (87,402) | (87,402) |
| Withdrawal of short term deposits | | – | 48,000 | 100,000 |
| Short term deposits | | (250,000) | (83,000) | – |
| Debt raising costs incurred | | (1,332) | – | – |
| Capital portion of payments under finance leases | | (620) | (827) | (1,995) |
| Capital portion of receipts under finance leases | | 8 | 7 | 10 |
| Dividends paid to shareholders of the parent | | (74,682) | (72,192) | (136,916) |
| Dividends paid to non-controlling interests in subsidiaries | | (795) | (3,180) | (3,975) |
| Net cash flows used in financing activities | | (76,905) | (144,594) | (76,278) |
| Net increase in cash and cash equivalents | | 56,900 | 2,847 | 60,122 |
| Cash and cash equivalents at beginning of the period | | 114,812 | 54,690 | 54,690 |
| Cash and cash equivalents at end of the period | | 171,712 | 57,537 | 114,812 |
| Cash and cash equivalents comprises: | | | | |
| Bank balances | | 25,112 | 20,537 | 54,812 |
| Short term deposits maturing within three months | | 146,600 | 37,000 | 60,000 |
| | | 171,712 | 57,537 | 114,812 |

Condensed consolidated

# Statement of cash flows (continued)

for the six months ended 31 December 2010 (unaudited)

| | 31 DEC 2010 6 MONTHS $000 | 31 DEC 2009 6 MONTHS $000 | 30 JUN 2010 12 MONTHS $000 |
|---|---|---|---|
| RECONCILIATION OF NET PROFIT TO NET CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net profit for the period | 99,890 | 106,066 | 199,118 |
| ITEMS CLASSIFIED AS INVESTING ACTIVITIES | | | |
| Net loss on disposal of property, plant and equipment and software intangibles | 1,879 | 2,728 | 4,676 |
| | 1,879 | 2,728 | 4,676 |
| NON-CASH ITEMS | | | |
| Depreciation and amortisation | 83,462 | 76,005 | 156,319 |
| Impairment of investment in associate | – | 4,136 | 4,136 |
| Non-cash portion of finance costs | (484) | (8,337) | (7,828) |
| Increase/(decrease) in deferred tax liability | 5,333 | (2,780) | (20,882) |
| Increase/(decrease) in provisions | 1,921 | 461 | (962) |
| Share of net (profit) /loss from associates | (440) | 818 | 2,305 |
| | 89,792 | 70,303 | 133,088 |
| CASH ITEMS NOT IMPACTING PROFIT | | | |
| Dividend received from associates | 976 | 200 | 200 |
| MOVEMENT IN WORKING CAPITAL | | | |
| Increase/(decrease) in payables and accruals | 11,255 | 770 | (3,268) |
| (Increase)/decrease in inventories | (76) | 543 | (1,996) |
| Decrease in receivables and prepayments | 7,809 | 21,740 | 27,102 |
| Decrease in net income tax assets | 36,560 | 40,723 | 8,618 |
| | 55,548 | 63,776 | 30,456 |
| Net cash flows from operating activities | 248,085 | 243,073 | 367,538 |

Condensed consolidated

# Statement of changes in equity

for the six months ended 31 December 2010 (unaudited)

| 31 DEC 2010 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) | (110,961) | 248 | 1,310,320 | 18,556 | 2,084,208 |
| **Comprehensive income** | | | | | | | |
| Net profit for the period | – | – | – | – | 98,486 | 1,404 | 99,890 |
| **Other comprehensive income** | | | | | | | |
| 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 |
| **Total comprehensive income** | – | – | (7,576) | (22) | 98,486 | 1,404 | 92,292 |
| **Transactions with owners** | | | | | | | |
| Dividends | – | – | – | – | (74,682) | (795) | (75,477) |
| **Total transactions with owners** | – | – | – | – | (74,682) | (795) | (75,477) |
| **Balance at end of the period** | 874,979 | (8,934) | (118,537) | 226 | 1,334,124 | 19,165 | 2,101,023 |

| | NOTE | 31 DEC 2010 | 31 DEC 2009 | 30 JUN 2010 |
|---|---|---|---|---|
| Total tangible assets per share (cents) | 6 | 421.0 | 389.1 | 395.5 |
| Net tangible assets per share (cents) | 6 | 49.3 | 49.8 | 47.4 |

Condensed consolidated

# Statement of changes in equity (continued)

for the six months ended 31 December 2010 (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** | | | | | | | |
| Net profit 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 foreign 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 |

| 30 JUN 2010<br>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 | (8,934) | (78,011) | 210 | 1,253,768 | 16,881 | 2,058,893 |
| Comprehensive income | | | | | | | |
| Net profit for the period | – | – | – | – | 193,468 | 5,650 | 199,118 |
| Other comprehensive income | | | | | | | |
| Change in fair value of cash flow hedges | – | – | (42,669) | – | – | – | (42,669) |
| Translation of foreign operations | – | – | – | 38 | – | – | 38 |
| Income tax relating to components of other comprehensive income | – | – | 9,719 | – | – | – | 9,719 |
| Total comprehensive income | – | – | (32,950) | 38 | 193,468 | 5,650 | 166,206 |
| Transactions with owners | | | | | | | |
| Dividends | – | – | – | – | (136,916) | (3,975) | (140,891) |
| Total transactions with owners | – | – | – | – | (136,916) | (3,975) | (140,891) |
| Balance at end of the period | 874,979 | (8,934) | (110,961) | 248 | 1,310,320 | 18,556 | 2,084,208 |

# Notes to the condensed consolidated financial statements

for the six months ended 31 December 2010 (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 2010 (2010 Annual Report).

The financial statements for the six months ended 31 December 2010 and the six months ended 31 December 2009 are unaudited.

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

### Significant Accounting Policies

The accounting policies set out in the 2010 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 2010 Annual Report except for the addition of an accounting policy in relation to the accounting for Emissions Trading Scheme units as stated below:

*Emissions Trading Scheme Units*

Emissions Trading Scheme (ETS) units held are classified as intangible assets. Units received from customers are initially recognised at the current market price on the date of sale. Units purchased are recognised at cost. Units received are expected to be used within one year and are classified as current assets. No amortisation of units is recognised.

Where the recoverable amount of the units held is less than their carrying amount, they are re-measured to their recoverable amount and an impairment loss recognised. The recoverable amount is determined by reference to the market for emission units. Impairment losses are reported in the income statement.

If subsequent to recognising an impairment loss, the market price increases, the units are re-measured and the impairment loss or a portion of that impairment loss is reversed through the income statement. The impairment loss is only reversed to the extent that it does not increase the carrying value of the units above their value at initial measurement.

*Units payable*

Units are only held to meet ETS obligations to suppliers. The liability to suppliers is measured at the carrying value of units held. In the event of a shortfall of units to satisfy the liability, the shortfall is measured at the market value for units at balance date, and re-measured at the market rate for each subsequent reporting period while the obligation remains unpaid. Any change in value due to re-measurement is reported in the income statement.

*Units receivable*

Units receivable from customers are recognised at the market value as at the date of sale. Units receivable are not re-valued but are tested for impairment as outlined above.

### 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.

### 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 presented 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 25 February 2011.

## 2. SHARE OF NET PROFIT FROM ASSOCIATES

| | 31 DEC 2010 6 MONTHS $000 | 31 DEC 2009 6 MONTHS $000 | 30 JUN 2010 12 MONTHS $000 |
|---|---|---|---|
| Equity accounted earnings of associates | | | |
| Profit/(loss) before income tax | 629 | (1,168) | (2,824) |
| Income tax (expense)/benefit | (189) | 350 | 519 |
| Share of net profit/(loss) from associates | 440 | (818) | (2,305) |

| | PRINCIPAL ACTIVITY | PERCENTAGE HELD 31 DEC 2010 | 31 DEC 2009 | 30 JUN 2010 |
|---|---|---|---|---|
| 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 | 22% | 20% | 22% |

# Notes to the condensed consolidated financial statements (continued)

for the six months ended 31 December 2010 (unaudited)

## 2. SHARE OF NET PROFIT FROM ASSOCIATES (CONTINUED)

Advanced Metering Services Limited an associate company as at 31 December 2009 was fully acquired by the group in January 2010.

The share price of NZ Windfarms Limited declined between 30 June 2010 and 31 December 2010 from $0.21 per share to $0.18 per share. The recoverable amount as at 31 December 2010 was determined on the investment's fair value less costs to sell by reference to the price on the New Zealand Stock Exchange on that date. This share price 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 2009: $4.1 million, year ended 30 June 2010: $4.1 million).

## 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.

### 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 26 and 27.

The segments reported in these financial statements are the same as those reported in Vector's Annual Report for the year ended 30 June 2010.

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.

| 31 DEC 2010<br>6 MONTHS | ELECTRICITY<br>$000 | GAS TRANS-<br>PORTATION<br>$000 | GAS<br>WHOLESALE<br>$000 | TECHNOLOGY<br>$000 | INTERSEGMENT<br>$000 | TOTAL<br>$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) | – |
| Segment revenue | 296,413 | 111,479 | 199,327 | 42,230 | (22,433) | 627,016 |
| 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 | – |
| Operating expenditure | (101,128) | (24,525) | (167,604) | (14,112) | 22,433 | (284,936) |
| EBITDA | 195,285 | 86,954 | 31,723 | 28,118 | – | 342,080 |
| Depreciation and amortisation | (38,198) | (11,158) | (5,894) | (21,076) | – | (76,326) |
| Segment profit before interest and income tax | 157,087 | 75,796 | 25,829 | 7,042 | – | 265,754 |
| Segment capital expenditure | 53,156 | 12,981 | 5,041 | 26,056 | – | 97,234 |

# Notes to the condensed consolidated financial statements (continued)

for the six months ended 31 December 2010 (unaudited)

## 3. SEGMENT INFORMATION (CONTINUED)

| 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 |

| 30 JUN 2010<br>6 MONTHS | ELECTRICITY<br>$000 | GAS TRANS-<br>PORTATION<br>$000 | GAS<br>WHOLESALE<br>$000 | TECHNOLOGY<br>$000 | INTERSEGMENT<br>$000 | TOTAL<br>$000 |
|---|---|---|---|---|---|---|
| External revenue: | | | | | | |
| Operating revenue | 552,942 | 154,590 | 398,230 | 77,056 | – | 1,182,818 |
| Other income | 801 | 283 | 494 | 33 | – | 1,611 |
| Intersegment revenue | 123 | 39,328 | 4,054 | 2,726 | (46,231) | – |
| Segment revenue | 553,866 | 194,201 | 402,778 | 79,815 | (46,231) | 1,184,429 |
| External operating expenditure: | | | | | | |
| Electricity transmission expenses | (128,842) | – | – | – | – | (128,842) |
| Gas purchases and production expenses | – | (5,234) | (261,821) | – | – | (267,055) |
| Network and asset maintenance expenses | (37,623) | (15,129) | (13,503) | (7,449) | – | (73,704) |
| Personnel expenses | (10,778) | (4,352) | (11,717) | (9,746) | – | (36,593) |
| Other expenses | (18,731) | (5,699) | (11,677) | (10,423) | – | (46,530) |
| Intersegment expenditure | (2,119) | (4,062) | (39,927) | (123) | 46,231 | – |
| Operating expenditure | (198,093) | (34,476) | (338,645) | (27,741) | 46,231 | (552,724) |
| EBITDA | 355,773 | 159,725 | 64,133 | 52,074 | – | 631,705 |
| Depreciation and amortisation | (74,615) | (24,543) | (11,699) | (29,856) | – | (140,713) |
| Segment profit before interest and income tax | 281,158 | 135,182 | 52,434 | 22,218 | – | 490,992 |
| Segment capital expenditure | 126,238 | 22,838 | 12,751 | 63,451 | – | 225,278 |

# Notes to the condensed consolidated financial statements (continued)

for the six months ended 31 December 2010 (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 2010<br>6 MONTHS | TOTAL INCOME<br>$000 | PROFIT BEFORE INCOME TAX<br>$000 | CAPITAL EXPENDITURE<br>$000 |
|---|---|---|---|
| Reported in segment information | 627,016 | 265,754 | 97,234 |
| Amounts not allocated to segments: | | | |
| Revenue from corporate activities | 2,278 | 2,278 | – |
| Corporate activities operating expenditure | – | (26,659) | – |
| Depreciation and amortisation of corporate property, plant and equipment and software intangibles | – | (7,136) | – |
| Finance income | – | 3,247 | – |
| Finance costs | – | (93,323) | – |
| Share of net profit/(loss) from associate | – | 440 | – |
| Impairment of investment in associate | – | – | – |
| Additions to corporate assets | – | – | 3,622 |
| Reported in condensed consolidated financial statements | 629,294 | 144,601 | 100,856 |

| 31 DEC 2009<br>6 MONTHS | TOTAL INCOME $000 | PROFIT BEFORE INCOME TAX $000 | CAPITAL EXPENDITURE $000 |
|---|---|---|---|
| Reported in segment information | 618,699 | 268,943 | 84,130 |
| Amounts not allocated to segments: | | | |
| Revenue from corporate activities | 1,949 | 1,949 | – |
| Corporate activities operating expenditure | – | (28,922) | – |
| Depreciation and amortisation of corporate property, plant and equipment and software intangibles | – | (7,889) | – |
| Finance income | | 3,404 | – |
| Finance costs | – | (85,134) | – |
| Share of net profit/(loss) from associate | – | (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 |

| 30 JUN 2010<br>12 MONTHS | TOTAL INCOME $000 | PROFIT BEFORE INCOME TAX $000 | CAPITAL EXPENDITURE $000 |
|---|---|---|---|
| Reported in segment information | 1,184,429 | 490,992 | 225,278 |
| Amounts not allocated to segments: | | | |
| Revenue from corporate activities | 3,011 | 3,011 | – |
| Corporate activities operating expenditure | – | (56,573) | – |
| Depreciation and amortisation of corporate property, plant and equipment and software intangibles | – | (15,606) | – |
| Finance income | – | 7,456 | – |
| Finance costs | – | (174,429) | – |
| Share of net profit/(loss) from associate | – | (2,305) | – |
| Impairment of investment in associate | – | (4,136) | – |
| Additions to corporate assets | – | – | 11,866 |
| Reported in condensed consolidated financial statements | 1,187,440 | 248,410 | 237,144 |

# Notes to the condensed consolidated financial statements (continued)

for the six months ended 31 December 2010 (unaudited)

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

During the period, Vector invested $100.9 million (six months ended 31 December 2009: $87 million, year ended 30 June 2010: $237.1 million) in new capital expenditure and retired $3.9 million (six months ended 31 December 2009: $3.0 million, year ended 30 June 2010: $7.5 million) of property, plant and equipment and software intangible assets.

## 5. CAPITAL COMMITMENTS

| | 31 DEC 2010 $000 | 31 DEC 2009 $000 | 30 JUN 2010 $000 |
|---|---|---|---|
| Estimated capital expenditure contracted for at balance date but not yet incurred | 110,951 | 128,351 | 117,489 |

## 6. FINANCIAL RATIOS

The calculation of basic earnings per share for the six months ended 31 December 2010 is based on the profit attributable to shareholders of the parent of $98.5 million (six months ended 31 December 2009: $101.3 million, year ended 30 June 2010: $193.5 million) and ordinary shares outstanding during the period of 995,755,077 (six months ended 31 December 2009: 995,755,077, year ended 30 June 2010: 995,755,077).

The calculations of the total and net tangible assets per share at 31 December 2010 are based on the carrying amounts of the total assets of $5,802.2 million (31 December 2009: $5,470.3 million, 30 June 2010: $5,550.9 million) and net assets of $2,101.0 million (31 December 2009: $2,091.9 million, 30 June 2010: $2,084.2 million) less total intangible assets of $1,609.9 million (31 December 2009: $1,596.1 million, 30 June 2010: $1,612.2 million) and 995,755,077 ordinary shares outstanding as at 31 December 2010 ( 31 December 2009: 995,755,077, 30 June 2010: 995,755,077).

## 7. FUNDING OF OPERATIONS

### Owners' equity

Issued capital as at 31 December 2010 was $875 million (31 December 2009: $875 million, 30 June 2010: $875 million). During the period, a final dividend of 7.5 cents per share in respect of the year ended 30 June 2010 was paid to the shareholders on 13 September 2010 (six months ended 31 December 2009: 7.25 cents per share in respect of the year ended 30 June 2009, paid on 15 September 2009).

### Borrowings

In December 2010, the group issued USD 182 million (NZD 250.5 million) of unsecured senior notes in a private placement to US institutional investors. The notes will mature in December 2022. The proceeds from the issue will be used to repay the AUD 204 million (NZD 250 million) credit wrapped medium term notes that mature in April 2011.

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 increase in borrowings since 30 June 2010 of $150.6 million is the result of the $250.5 million notes issue referred to above and $0.9 million of movement in unamortised costs offset by $100.8 million of fair value movements.

## 8. DERIVATIVE FINANCIAL INSTRUMENTS

The net amount of derivative financial instruments disclosed on the statement of financial position at 31 December 2010 is a liability of $251.2 million (31 December 2009: $145.7 million, 30 June 2010: $139.8 million). The increase in the net liability since 30 June 2010 of $111.4 million reflects the net increase in the aggregate mark to market losses during the period. This increase is mainly caused by a stronger New Zealand dollar at 31 December 2010 in contrast to comparative periods.

## 9. RELATED PARTIES

During the period, a $0.8 million (six months ended 31 December 2009: $0.2 million) dividend was received from Tree Scape Limited and a $0.2 million (six months ended 31 December 2009: nil) dividend was received from Energy Intellect Limited which are associate companies of the group.

## 10. EVENTS AFTER BALANCE DATE

On 25 February 2011, the board of directors declared an interim dividend for the year ended 30 June 2011 of 6.75 cents per share.

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

Insight Creative Limited. Auckland/Wellington/Sydney. VEC053 3/11

# Board of Directors and Management /

## BOARD OF DIRECTORS

Michael Stiassny, Chairman
Peter Bird
James Carmichael
Tony Carter
Hugh Fletcher
James Miller
Alison Paterson
Karen Sherry
Bob Thomson

## EXECUTIVE MANAGEMENT

| | |
|---|---|
| Simon Mackenzie | Group Chief Executive Officer |
| Alex Ball | Chief Financial Officer |
| Allan Carvell | Group General Manager Regulation and Pricing |
| Daniel McCarthy | Group General Manager Commercial |
| David Thomas | Group General Manager Gas Trading and Metering |
| David Tompkins | Group General Manager Asset Investment |
| David Worsnop | Group General Manager Service Delivery |

# Directory /

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www.vector.co.nz

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New Zealand
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## SOLICITORS

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Chapman Tripp
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New Zealand