interim**report**

2012 | VECTOR LIMITED

HALF YEAR HIGHLIGHTS

$323.6m

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

1.9%

EBITDA INCREASE ON PRIOR PERIOD

$105.3m

NET PROFIT AFTER TAX ATTRIBUTABLE TO SHAREHOLDERS (NPAT)

6.9%

NPAT INCREASE ON PRIOR PERIOD

FULLY IMPUTED INTERIM DIVIDEND OF

7.0 cents

PER SHARE, PAYABLE ON 16 APRIL 2012

BBB+ /stable

STANDARD & POOR'S RATING

CONTENTS

COVER IMAGES: Vector crew prepare to lay new low pressure gas pipeline (main photo). Another smart meter installed (small photo).

OPERATIONAL STATISTICS

Six months ended 31 December

	2011	2010
ELECTRICITY		
Customers[1]	534,305	529,997
Volume distributed (GWh)	4,359	4,298
Networks length (km)[1]	17,768	17,705
SAIDI minutes[2]		
Normal operations	69.4	83.3
Extreme events	–	9.4
Total	69.4	92.7
GAS TRANSPORTATION		
Distribution customers[1, 3]	153,576	151,095
Distribution volume (PJ)	11.7	11.5
Distribution mains network length (km)[1]	7,003	6,976
Transmission volume (PJ)[4]	65.0	65.1
Transmission system length owned (km)[1]	2,287	2,287
Transmission system length owned/managed (km)[1]	1,207	1,293
GAS WHOLESALE		
Natural gas sales (PJ)[5]	14.3	14.1
Gas liquids sales (tonnes)[6]	41,850	42,535
Liquigas LPG tolling (tonnes)[7]	61,126	72,296
TECHNOLOGY		
Electricity smart meters[1]	316,531	179,494
Electricity legacy meters[1]	396,304	554,377
Electricity prepay meters[1]	5,563	6,551
Electricity time of use meters[1]	10,854	10,798
Gas meters[1]	81,017	78,890
Data management service connections[1]	8,288	8,948

1 As at period end.
2 Regulatory year – 9 months to 31 December.
3 Billable ICPs.
4 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 and natural gasoline sales.
7 Includes product tolled in Taranaki and further tolled in the South Island.

FINANCIAL OVERVIEW

FINANCIAL PERFORMANCE

$ MILLION	31 DEC 2011 6 MONTHS	31 DEC 2010 6 MONTHS	CHANGE	30 JUN 2011 12 MONTHS
Revenue	634.3	629.3	+0.8%	1,244.6
EBITDA	323.6	317.7	+1.9%	636.6
EBIT	237.5	234.2	+1.4%	466.4
NPAT	105.3	98.5	+6.9%	201.4
Operating cash flow	242.4	248.1	-2.3%	374.6

FINANCIAL POSITION

$ MILLION	31 DEC 2011	31 DEC 2010	CHANGE	30 JUN 2011
Total equity	2,104.6	2,101.0	+0.2%	2,112.7
Total assets	5,625.5	5,802.2	-3.0%	5,579.0
Net debt	2,353.4	2,291.2	+2.7%	2,289.5

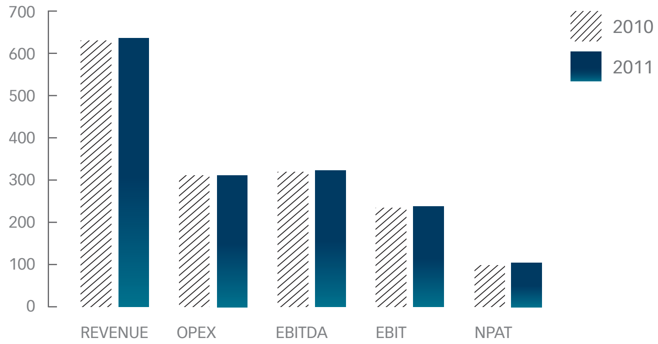
KEY FINANCIAL MEASURES

	31 DEC 2011 6 MONTHS	31 DEC 2010 6 MONTHS	CHANGE	30 JUN 2011 12 MONTHS
EBITDA/revenue	51.0%	50.5%	+1.0%	51.1%
EBIT/revenue	37.4%	37.2%	+0.5%	37.5%
Equity/total assets[1]	37.4%	36.2%	+3.3%	37.9%
Gearing (net debt/net debt + equity)[1]	52.8%	52.2%	+1.1%	52.0%
Net interest cover (EBIT/net finance costs)	2.8 times	2.6 times	+7.7%	2.6 times
Earnings (NPAT) per share[2]	10.6 cents	9.9 cents	+7.1%	20.2 cents
Dividends per share (fully imputed)	7.0 cents	6.75 cents	+3.7%	14.25 cents

1 As at period end.
2 Calculated using a weighted average number of shares.

FINANCIAL REVIEW

$ MILLION
FOR THE SIX MONTHS ENDED 31 DECEMBER

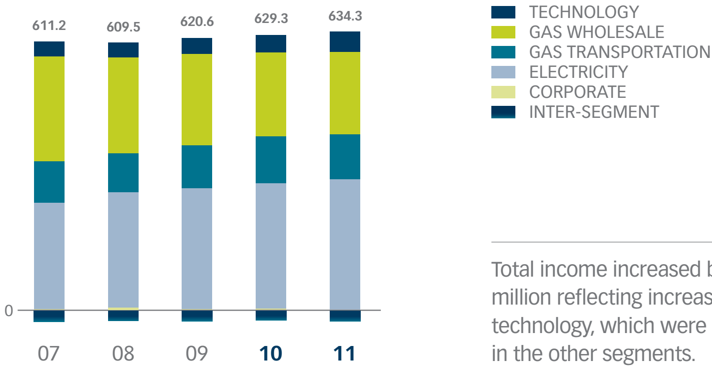


SEGMENTAL RESULTS

$ MILLION	ELECTRICITY	GAS TRANSPOR-TATION	GAS WHOLESALE	TECHNOLOGY	CORPORATE	INTER-SEGMENT	TOTAL
31 DEC 2011							
Revenue	308.5	107.1	195.3	48.1	0.5	(25.2)	634.3
OPEX	(110.9)	(25.5)	(158.9)	(13.5)	(27.1)	25.2	(310.7)
EBITDA	197.6	81.6	36.4	34.6	(26.6)	–	323.6
EBITDA/revenue	64.1%	76.2%	18.6%	71.9%	n/a	n/a	51.0%
EBIT	156.9	70.9	28.6	13.1	(32.0)	–	237.5
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

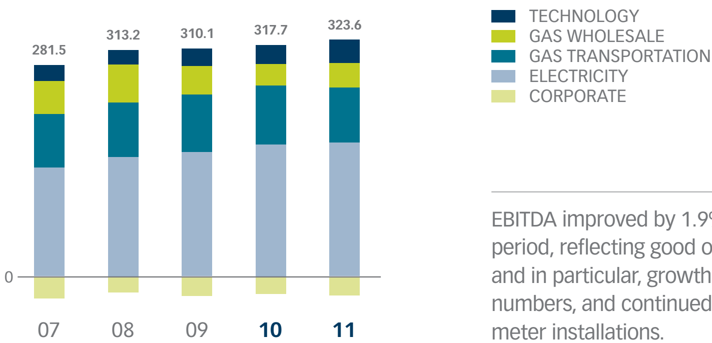
FINANCIAL PERFORMANCE TRENDS

TOTAL
INCOME
$ MILLION
FOR THE SIX MONTHS ENDED 31 DECEMBER



Total income increased by $5.0 million to $634.3 million reflecting increases in electricity and technology, which were offset by slight declines in the other segments.

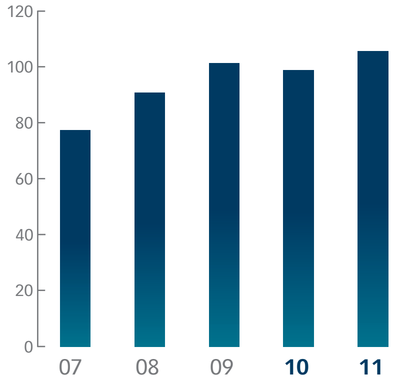
EBITDA
$ MILLION
FOR THE SIX MONTHS ENDED 31 DECEMBER



EBITDA improved by 1.9% to $323.6 million for the period, reflecting good operating performance, and in particular, growth in volume and customer numbers, and continued momentum in smart meter installations.

 Commentary for all charts relates to the 2012 and 2011 interim periods.

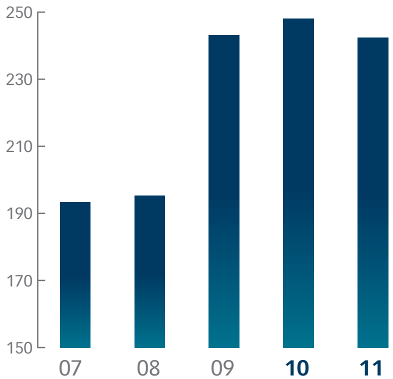
NET
PROFIT AFTER TAX
$ MILLION
FOR THE SIX MONTHS ENDED 31 DECEMBER



NPAT (CONTINUING OPERATIONS)

Net profit after tax attributable to shareholders increased by 6.9% to reach $105.3 million, due to good operating performance, lower borrowing costs and a lower corporate tax rate.

OPERATING
CASH FLOW
$ MILLION
FOR THE SIX MONTHS ENDED 31 DECEMBER



Operating cash flow fell slightly reflecting movements in working capital and the effect of tax payments. As scheduled the $25 million second instalment from the Transpower agreement is expected in June 2012.

STRONG FOUNDATIONS

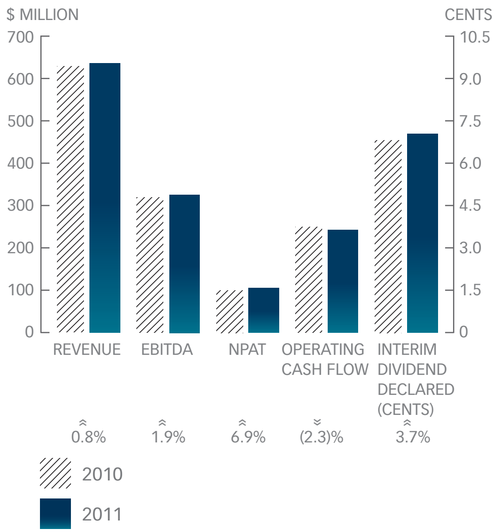
Growth in our unregulated gas and technology businesses, sustained improvement in our networks' operating performance, and lower borrowing costs has lifted our financial performance.

With the Rugby World Cup, legal action against the Commerce Commission and the Maui gas pipeline incident, it has been a busy six months for the team at Vector.

How has Vector performed in the last six months? Our financial performance has been pleasing, with improvements in revenue, up 0.8%, earnings before interest, tax, depreciation and amortisation (EBITDA) up 1.9%, and net profit after tax attributable to shareholders (NPAT), up 6.9%. Our business is sound and operational performance continues to be good. We are particularly pleased with the performance of our non-regulated businesses that operate in competitive markets.

How much is the interim dividend? The board has approved an increased interim dividend of 7.0 cents per share, up a quarter of a cent and payable on 16 April 2012 to all shareholders registered at 30 March 2012.

FINANCIAL AND OPERATING RESULTS
FOR THE SIX MONTHS ENDED 31 DECEMBER



"Our business is sound and operational performance continues to be good."

Does this mean that the final dividend will also increase? Our board considers both future profitability and the requirements of shareholders for a sustainable yield when coming to a decision on dividends. The board will make a decision about the full year dividend in August in line with the dividend policy which targets an average payout ratio of 60% of free cash flow.

International markets are still volatile and there is a lot of uncertainty. How has this impacted Vector's credit rating and ability to borrow? Despite market upheaval and uncertainty our Standard & Poor's investment grade credit rating of BBB+ stable was reaffirmed and we successfully established $150 million of senior credit facilities. We actively manage our debt portfolio, raising funds as required. Plans are well underway for the capital bonds that have an election date of June 2012.

Why are you challenging the Commerce Commission in the courts? We seriously considered the merits of taking legal action. It is important to Vector that we get the new regulatory framework and process right, by challenging it now, otherwise bad decisions could get locked in for a long period of time.

Is Vector on track to meet its expectations of financial performance for the full year? The business is performing well and we expect EBITDA to meet analyst expectations.

MICHAEL STIASSNY
Chairman

Vector's dividend calculator visit: www.vector.co.nz/corporate/investor-relations/dividends

GROWING OUR BUSINESS

Despite fickle economic conditions Vector has again turned in a good financial performance and pleasing rates of growth.

Our gas wholesale business is stronger than it was a year ago, smart meter installations continue at a pleasing high rate and volume increased in both the electricity and gas distribution businesses.

The company's financial performance has improved – what were the key reasons? Our operational performance, the engine room of Vector, is in good shape. Aside from good growth in gas wholesale and technology, our unregulated competitive businesses, there has been modest growth in customer numbers and volume in both electricity and gas distribution. Lower tax rates and borrowing costs also had a positive impact on our bottom line.

How did the sectors perform? EBITDA increased in the electricity, gas wholesale and technology segments, and declined in gas transportation and corporate. Overall, EBITDA improved by $5.9 million and NPAT by $6.8 million.

How much did each sector grow by? At the EBITDA level our regulated businesses, electricity and gas transportation, grew by +1.2% and contracted by -6.2% respectively, unregulated gas wholesale grew by +14.8% and our competitive technology business by +23.1% over last year's interim result.

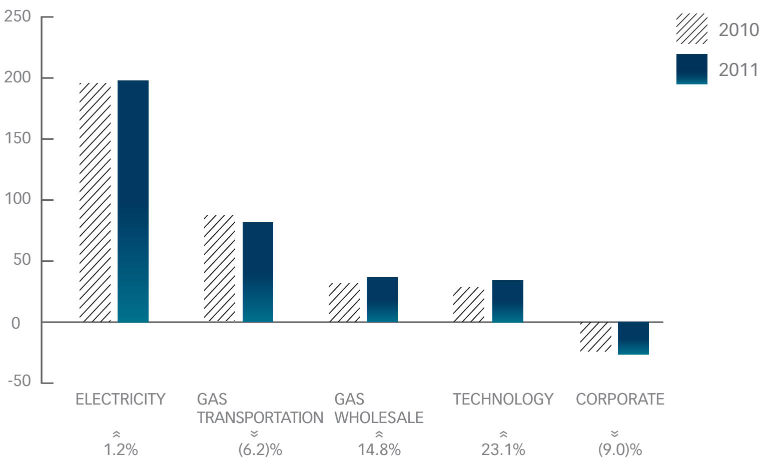
> **"Our operational performance, the engine room of Vector, is in good shape."**

How does Vector plan to grow? In our unregulated businesses we continue to look for growth opportunities in smart metering and to strengthen our gas wholesale business. And of course we continue to invest heavily in our core gas and electricity networks, building new infrastructure as Auckland grows. All of these investments provide a good balance between growth in unregulated and regulated assets totalling more than $200 million every year.

> **In our unregulated businesses we continue to look for growth opportunities."**

SEGMENTAL PERFORMANCE (EBITDA)

$ MILLION
FOR THE SIX MONTHS ENDED 31 DECEMBER



Details of Vector's half year profit results:
www.vector.co.nz/corporate/investor-relations/presentations

In smart metering we won new contracts, and are pursuing new opportunities to extend our business and are also proposing to purchase the remainder of metering business Stream. In communications we have successfully adapted to changes in the market, won new contracts and re-signed existing customers.

In gas wholesale the team secured new sources of gas, renewed contracts with long term customers, signed up new customers and continued to rapidly expand the number of LPG bottle swap sites.

In electricity work is progressing well on two major substation upgrades at Hobson Street in Auckland's central business district and at Wairau Road, on the North Shore. These projects are critical investments to improve security of electricity supply for Auckland.

What are the details of Vector's new smart meter contract? We will be installing a further 150,000 meters for Contact Energy commencing around May of this year. To date, we have won contracts to install approximately 700,000 smart meters.

How did the Maui pipeline issue impact Vector? As technical operator of the pipeline, our maintenance crew, in very difficult conditions, worked around the clock to repair the pipeline. The event has had an immaterial financial impact on our business. Vector was not responsible for the incident and has no legal liability.

What is the latest in the legal challenges against the Commerce Commission? We are part way through our legal actions against the Commerce Commission, with a long way still to go. We expect our main action, which takes the form of a merits review, to take place late in 2012 or early 2013.

What is the latest on the Kapuni field reserves? We are coming to the end of the Kapuni gas reserves at the legacy price and would expect this to start impacting Vector next financial year. However, we are pursuing through arbitration an additional 7.289 PJ of gas at the legacy price, and we are also in discussions with the Kapuni miners regarding the terms for purchase of our entitlements to 50% of gas reserves above 1,010 PJ.

What will Vector be focussing on for the rest of the year? Progressing our capital expenditure plan, operating our networks as efficiently as possible, improving customer service, continuing to focus on growth and taking further steps toward regulatory certainty.

SIMON MACKENZIE
Group Chief Executive Officer

INTERIM
FINANCIAL STATEMENTS

For the six months ended 31 December 2011 (unaudited)

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INTERIM FINANCIAL STATEMENTS

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

For and on behalf of directors

Director 23 February 2012

Director 23 February 2012

For and on behalf of management

Group Chief Executive Officer 23 February 2012

Acting Chief Financial Officer 23 February 2012

AUDITOR'S REVIEW REPORT

For the six months ended 31 December 2011

TO THE SHAREHOLDERS OF VECTOR LIMITED

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

Directors' responsibilities

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

Reviewer's responsibilities

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

Basis of opinion

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

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

Review opinion

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

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

KPMG.

Auckland

CONDENSED CONSOLIDATED **INCOME STATEMENT**

For the six months ended 31 December 2011 (unaudited)

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

CONDENSED CONSOLIDATED
STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December 2011 (unaudited)

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

CONDENSED CONSOLIDATED
STATEMENT OF FINANCIAL POSITION

As at 31 December 2011 (unaudited)

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

CONDENSED CONSOLIDATED
STATEMENT OF CASH FLOWS

For the six months ended 31 December 2011 (unaudited)

	NOTE	31 DEC 2011 6 MONTHS $000	31 DEC 2010 6 MONTHS $000	30 JUN 2011 12 MONTHS $000
OPERATING ACTIVITIES				
Cash provided from:				
Receipts from customers		652,878	646,926	1,184,534
Interest portion of repayments on finance leases		57	57	115
Interest received on deposits		3,441	1,972	8,126
Dividends received from associate	9	–	976	1,176
		656,376	649,931	1,193,951
Cash applied to:				
Payments to suppliers and employees		(315,924)	(306,541)	(567,197)
Income tax paid		(8,529)	(2,835)	(61,638)
Interest paid on finance leases		(131)	(155)	(311)
Interest paid		(89,414)	(92,315)	(190,235)
		(413,998)	(401,846)	(819,381)
Net cash flows from operating activities		242,378	248,085	374,570
INVESTING ACTIVITIES				
Cash provided from:				
Proceeds from sale of property, plant and equipment and software intangibles		140	2,013	36,013
		140	2,013	36,013
Cash applied to:				
Purchase and construction of property, plant and equipment and software intangibles		(124,156)	(115,643)	(251,577)
Acquisition of gas business		–	(650)	(6,650)
		(124,156)	(116,293)	(258,227)
Net cash flows used in investing activities		(124,016)	(114,280)	(222,214)

	NOTE	31 DEC 2011 6 MONTHS $000	31 DEC 2010 6 MONTHS $000	30 JUN 2011 12 MONTHS $000
FINANCING ACTIVITIES				
Cash provided from:				
Proceeds from borrowings		–	250,516	250,516
Capital portion of receipts under finance leases		8	8	15
		8	250,524	250,531
Cash applied to:				
Repayment of borrowings		(210)	–	(250,300)
Short term deposits		–	(250,000)	–
Debt raising costs incurred		(190)	(1,332)	(2,038)
Capital portion of payments under finance leases		(582)	(620)	(1,270)
Purchase of treasury shares	7	(306)	–	–
Dividends paid to owners of the parent		(74,682)	(74,682)	(141,895)
Dividends paid to non-controlling interests in subsidiaries		(1,988)	(795)	(1,789)
		(77,958)	(327,429)	(397,292)
Net cash flows used in financing activities		(77,950)	(76,905)	(146,761)
Net increase in cash and cash equivalents		40,412	56,900	5,595
Cash and cash equivalents at the beginning of the period		120,407	114,812	114,812
Cash and cash equivalents at the end of the period		160,819	171,712	120,407
Cash and cash equivalents comprises:				
Bank balances and on-call deposits		10,819	25,112	90,407
Short term deposits maturing within three months		150,000	146,600	30,000
		160,819	171,712	120,407

CONDENSED CONSOLIDATED
STATEMENT OF CASH FLOWS (CONTINUED)

For the six months ended 31 December 2011 (unaudited)

	31 DEC 2011 6 MONTHS $000	31 DEC 2010 6 MONTHS $000	30 JUN 2011 12 MONTHS $000
RECONCILIATION OF NET PROFIT TO NET CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit for the period	106,499	99,890	203,847
ITEMS CLASSIFIED AS INVESTING ACTIVITIES			
Net loss/(gain) on disposal of property, plant and equipment and software intangibles	3,734	1,879	(43,548)
NON-CASH ITEMS			
Depreciation and amortisation	86,089	83,462	170,194
Impairment of investment in associate	3,938	–	2,330
Non-cash portion of finance costs	(350)	(484)	(310)
Increase in deferred tax liability	15,184	5,333	1,297
Increase in provisions	1,035	1,921	3,661
Share of net loss/(profit) from associates	52	(440)	(970)
	105,948	89,792	176,202
CASH ITEMS NOT IMPACTING PROFIT			
Dividends received from associates	–	976	1,176
MOVEMENT IN WORKING CAPITAL			
(Decrease)/increase in payables and accruals	(7,895)	11,255	16,575
(Increase)/decrease in inventories	(279)	(76)	1,625
Decrease/(increase) in receivables and prepayments	15,209	7,809	(1,295)
Decrease in net income tax assets	19,162	36,560	19,988
	26,197	55,548	36,893
Net cash flows from operating activities	242,378	248,085	374,570

CONDENSED CONSOLIDATED
STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2011 (unaudited)

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

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

CONDENSED CONSOLIDATED
STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 31 December 2011 (unaudited)

31 DEC 2010 6 MONTHS	ISSUED SHARE CAPITAL $000	TREASURY SHARES $000	HEDGE RESERVE $000	FOREIGN CURRENCY TRANS-LATION RESERVE $000	RETAINED EARNINGS $000	NON-CONTROL-LING INTERESTS $000	TOTAL EQUITY $000
Balance at the 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							
Net change in fair value of cash flow hedges	–	–	(10,498)	–	–	–	(10,498)
Translation of foreign operations	–	–	–	(22)	–	–	(22)
Income tax relating to components of other comprehensive income	–	–	2,922	–	–	–	2,922
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

30 JUN 2011 12 MONTHS	ISSUED SHARE CAPITAL $000	TREASURY SHARES $000	HEDGE RESERVE $000	FOREIGN CURRENCY TRANS-LATION RESERVE $000	RETAINED EARNINGS $000	NON-CONTROL-LING INTERESTS $000	TOTAL EQUITY $000
Balance at the 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	–	–	–	–	201,366	2,481	203,847
Other comprehensive income							
Net change in fair value of cash flow hedges	–	–	(43,929)	–	–	–	(43,929)
Translation of foreign operations	–	–	–	(84)	–	–	(84)
Share of other comprehensive income of associate	–	–	–	–	87	–	87
Income tax relating to components of other comprehensive income	–	–	12,300	–	–	–	12,300
Total comprehensive income	–	–	(31,629)	(84)	201,453	2,481	172,221
Transactions with owners							
Dividends	–	–	–	–	(141,895)	(1,789)	(143,684)
Total transactions with owners	–	–	–	–	(141,895)	(1,789)	(143,684)
Balance at end of the period	874,979	(8,934)	(142,590)	164	1,369,878	19,248	2,112,745

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION

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

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

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

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

SIGNIFICANT ACCOUNTING POLICIES

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

MEASUREMENT BASE

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

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

SEASONALITY OF OPERATIONS IN THE INTERIM PERIOD

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

APPROVAL OF FINANCIAL STATEMENTS

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

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

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

	PRINCIPAL ACTIVITY	PERCENTAGE HELD		
		31 DEC 2011	31 DEC 2010	30 JUN 2011
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%	22%	22%

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

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

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

3. SEGMENT INFORMATION

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

ELECTRICITY

Ownership and management of electricity distribution networks.

GAS TRANSPORTATION

Ownership and management of gas transmission and distribution networks.

GAS WHOLESALE

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

TECHNOLOGY

Telecommunications networks, electricity and gas metering.

Corporate activities comprising shared services and investments earn revenues that are only incidental to the operations of the group and do not meet the definition of an operating segment under NZ IFRS 8. The results attributable to these activities are presented under the reconciliations of segment information to the group's condensed consolidated financial statements on pages 28 and 29.

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

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

3. SEGMENT INFORMATION (CONTINUED)

31 DEC 2010 6 MONTHS	ELECTRICITY $000	GAS TRANS-PORTATION $000	GAS WHOLESALE $000	TECHNOLOGY $000	INTER-SEGMENT $000	TOTAL $000
External revenue:						
Operating revenue	296,258	93,047	196,812	40,723	–	626,840
Other income	103	51	–	22	–	176
Inter-segment 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)
Inter-segment 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

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

3. SEGMENT INFORMATION (CONTINUED)

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

31 DEC 2011 6 MONTHS	TOTAL INCOME $000	PROFIT BEFORE INCOME TAX $000	CAPITAL EXPENDITURE $000
Reported in segment information	633,847	269,593	107,289
Amounts not allocated to segments:			
Revenues from corporate activities	501	501	–
Corporate activities operating expenditure	–	(27,087)	–
Depreciation and amortisation of corporate property, plant and equipment and software intangibles	–	(5,521)	–
Finance income	–	4,597	–
Finance costs	–	(88,719)	–
Share of net (loss)/profit from associates	–	(52)	–
Impairment of investment in associate	–	(3,938)	–
Additions to corporate property, plant and equipment and software intangibles	–	–	4,300
Reported in consolidated financial statements	634,348	149,374	111,589

31 DEC 2010 6 MONTHS	TOTAL INCOME $000	PROFIT BEFORE INCOME TAX $000	CAPITAL EXPENDITURE $000
Reported in segment information	627,016	265,754	97,234
Amounts not allocated to segments:			
Revenues 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 (loss)/profit from associates	–	440	–
Impairment of investment in associate	–	–	–
Additions to corporate property, plant and equipment and software intangibles	–	–	3,622
Reported in consolidated financial statements	629,294	144,601	100,856

30 JUN 2011 12 MONTHS	TOTAL INCOME $000	PROFIT BEFORE INCOME TAX $000	CAPITAL EXPENDITURE $000
Reported in segment information	1,193,911	481,748	243,763
Amounts not allocated to segments:			
Revenues from corporate activities	50,653	50,653	–
Corporate activities operating expenditure	–	(53,312)	–
Depreciation and amortisation of corporate property, plant and equipment and software intangibles	–	(12,733)	–
Finance income	–	8,289	–
Finance costs	–	(186,518)	–
Share of net (loss)/profit from associates	–	970	–
Impairment of investment in associate	–	(2,330)	–
Additions to corporate property, plant and equipment and software intangibles	–	–	13,333
Reported in consolidated financial statements	1,244,564	286,767	257,096

4. PROPERTY, PLANT AND EQUIPMENT AND SOFTWARE INTANGIBLE ASSETS

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

5. CAPITAL COMMITMENTS

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

6. FINANCIAL RATIOS

EARNINGS PER SHARE

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

TOTAL AND NET TANGIBLE ASSETS PER SHARE

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

7. FUNDING OF OPERATIONS

OWNERS' EQUITY

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

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

BORROWINGS

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

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

8. DERIVATIVE FINANCIAL INSTRUMENTS

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

9. RELATED PARTIES

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

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

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

10. EVENTS AFTER BALANCE DATE

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

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

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

BOARD OF DIRECTORS AND MANAGEMENT TEAM

BOARD OF DIRECTORS

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

MANAGEMENT TEAM

Simon Mackenzie	Group Chief Executive Officer
Allan Carvell	Group General Manager Regulation and Pricing
Daniel McCarthy	Group General Manager Commercial
Peggy Molyneux	Group General Manager Corporate Services
Shane Sampson	Acting Chief Financial Officer
David Thomas	Group General Manager Gas Trading and Metering
David Tompkins	Group General Manager Asset Investment
David Worsnop	Group General Manager Service Delivery

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