

InterimReport



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**VECTOR:
SERVICING
MORE
THAN
700,000
CUSTOMERS
AROUND
NEW ZEALAND**



www.vector.co.nz



Vector's financial and operating picture
visit: [www.vector.co.nz/corporate/investor-relations/
financial-and-operating-picture](http://www.vector.co.nz/corporate/investor-relations/financial-and-operating-picture)

\$336.3m

EBITDA¹

3.9%

EBITDA INCREASE
ON PRIOR PERIOD

\$118.0m

NET PROFIT

10.8%

NET PROFIT INCREASE
ON PRIOR PERIOD

FULLY-IMPUTED INTERIM DIVIDEND

7.25 cents

PER SHARE, PAYABLE ON 15 APRIL 2013

**BBB+
STABLE**

STANDARD & POOR'S RATING

1. This non-Generally Accepted Accounting Practice (GAAP) profit measure is defined and reconciled to GAAP on page 11 of this report. All references to this measure throughout this report are consistent with that definition.

OPERATIONAL STATISTICS

FOR THE SIX MONTHS ENDED 31 DECEMBER

| | 2012 | 2011 |
|---|---------|---------|
| ELECTRICITY | | |
| Customers ^{1,4} | 537,268 | 534,305 |
| Net new customers ² | 2,040 | 1,698 |
| Volume distributed (GWh) | 4,321 | 4,359 |
| Networks length (km) ¹ | 17,826 | 17,768 |
| SAIDI minutes ³ | | |
| Normal operations | 72.3 | 69.4 |
| Extreme events | – | – |
| Total | 72.3 | 69.4 |
| GAS TRANSPORTATION | | |
| Distribution customers ^{1,4} | 155,863 | 153,576 |
| Net new distribution customers ² | 1,214 | 1,068 |
| Distribution volume (PJ) | 11.7 | 11.7 |
| Distribution mains network length (km) ¹ | 7,047 | 7,003 |
| Transmission volume (PJ) ⁵ | 58.8 | 65.0 |
| Transmission system length owned (km) ¹ | 2,286 | 2,287 |
| Transmission system length operated/managed (km) ¹ | 1,130 | 1,207 |
| GAS WHOLESALE | | |
| Natural gas sales (PJ) ⁶ | 13.9 | 14.3 |
| Gas liquids sales (tonnes) ⁷ | 39,000 | 41,850 |
| Liquigas LPG tolling (tonnes) ⁸ | 73,369 | 61,126 |
| TECHNOLOGY | | |
| Electricity smart meters ¹ | 438,419 | 316,531 |
| Electricity legacy meters ¹ | 314,019 | 396,304 |
| Electricity prepay meters ¹ | 5,067 | 5,563 |
| Electricity time of use meters ¹ | 10,926 | 10,854 |
| Gas meters ¹ | 82,304 | 81,017 |
| Data management service connections ¹ | 8,745 | 8,288 |

1. As at period end.

2. The net number of customers added during the six month period.

3. Regulatory year – 9 months to 31 December.

4. Billable ICPS.

5. Billable volume.

6. Excludes gas sold as gas liquids as these sales are included within the gas liquids sales tonnages.

7. Total of retail and wholesale LPG production and natural gasoline.

8. Includes product tolled in Taranaki and further tolled in the South Island.

FINANCIAL PERFORMANCE

| \$ MILLION | 31 DEC 2012 6 MONTHS | 31 DEC 2011 6 MONTHS | CHANGE | 30 JUN 2012 12 MONTHS |
|---------------------|-------------------------|-------------------------|--------|--------------------------|
| Total income | 669.4 | 637.6 | +5.0% | 1,252.6 |
| EBITDA | 336.3 | 323.6 | +3.9% | 627.4 |
| EBIT ¹ | 250.1 | 237.5 | +5.3% | 453.9 |
| Net profit | 118.0 | 106.5 | +10.8% | 201.7 |
| Operating cash flow | 267.7 | 242.4 | +10.4% | 392.3 |

FINANCIAL POSITION

| \$ MILLION | 31 DEC 2012 | 31 DEC 2011 | CHANGE | 30 JUN 2012 |
|-----------------------|-------------|-------------|--------|-------------|
| Total equity | 2,199.4 | 2,104.6 | +4.5% | 2,148.3 |
| Total assets | 5,652.3 | 5,625.5 | +0.5% | 5,616.6 |
| Net debt ² | 2,286.4 | 2,353.4 | -2.8% | 2,373.8 |

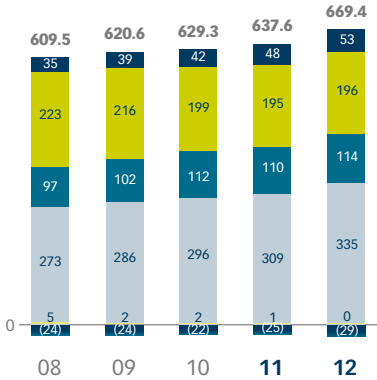
KEY FINANCIAL MEASURES

| | 31 DEC 2012 6 MONTHS | 31 DEC 2011 6 MONTHS | CHANGE | 30 JUN 2012 12 MONTHS |
|--|-------------------------|-------------------------|--------|--------------------------|
| EBITDA/total income | 50.2% | 50.8% | -1.2% | 50.1% |
| EBIT/total income | 37.4% | 37.2% | +0.5% | 36.2% |
| Equity/total assets ³ | 38.9% | 37.4% | +4.0% | 38.2% |
| Gearing (net debt/ net debt + equity) ³ | 51.0% | 52.8% | -3.4% | 52.5% |
| Net interest cover (EBIT/net finance costs) | 3.0 times | 2.8 times | +7.1% | 2.7 times |
| Earnings per share ⁴ | 11.7 cents | 10.6 cents | +10.4% | 20.0 cents |
| Dividends declared per share (fully imputed) | 7.25 cents | 7.00 cents | +3.6% | 14.50 cents |

1. This non-Generally Accepted Accounting Practice (GAAP) profit measure is defined and reconciled to GAAP on page 11 of this report. All references to this measure throughout this report are consistent with that definition.
2. Calculated as borrowings less cash and cash equivalents.
3. As at period end.
4. Calculated by dividing net profit attributable to owners of the parent by the weighted average number of shares.

TOTAL INCOME

\$ MILLION
FOR THE SIX MONTHS ENDED 31 DECEMBER

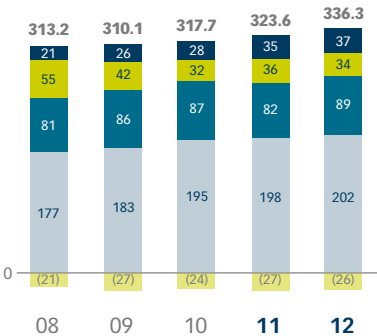


- TECHNOLOGY
- GAS WHOLESALE
- GAS TRANSPORTATION
- ELECTRICITY
- SHARED SERVICES
- INTER-SEGMENT

Total income rose 5.0% or \$31.8 million from \$637.6 million to \$669.4 million due to strong results from our unregulated technology operations, higher Transpower charges, which are passed through to customers, and price increases on our energy networks.

EBITDA

\$ MILLION
FOR THE SIX MONTHS ENDED 31 DECEMBER

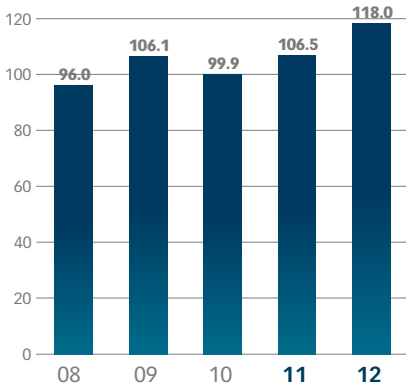


- TECHNOLOGY
- GAS WHOLESALE
- GAS TRANSPORTATION
- ELECTRICITY
- SHARED SERVICES

EBITDA rose 3.9% from \$323.6 million to \$336.3 million as we saw growth across most of our portfolio of businesses. The continuation of supply of Kapuni gas at legacy prices also assisted.

NET
PROFIT

\$ MILLION
FOR THE SIX MONTHS ENDED 31 DECEMBER

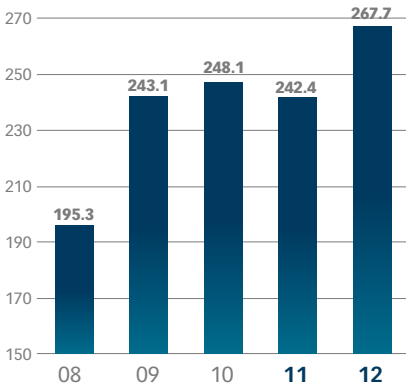


● NET PROFIT
(CONTINUING OPERATIONS)

Net profit rose 10.8% from \$106.5 million to \$118.0 million due to a strong operating performance combined with lower interest rates.

OPERATING
CASH FLOW

\$ MILLION
FOR THE SIX MONTHS ENDED 31 DECEMBER



Operating cash flow rose 10.4% from \$242.4 million to \$267.7 million and underpinned investment for future growth.

The new economic norm

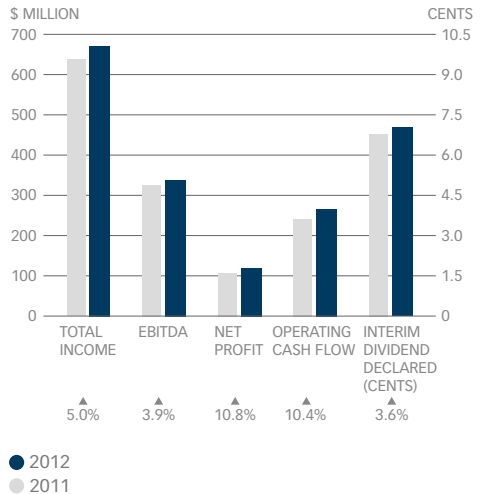
How has Vector performed over the last six months? Vector has performed well. Our progress is tightly linked to a shift we have seen in the New Zealand economy in the last few years to what we now call the 'new economic norm'. Broad economic growth is soft and our customers want to reduce energy consumption and expenditure. Finding value-enhancing acquisitions is challenging.

Still, in the six months to December, we have continued to make progress. Total income increased 5.0% to \$669.4 million, while EBITDA improved 3.9% to \$336.3 million. Net profit rose 10.8% to \$118.0 million.

How have you achieved these results?

We saw good progress across most businesses and continued to drive operational efficiencies. The continuation of supply of Kapuni gas at legacy prices following success in an arbitration to determine our entitlements also helped. This is now subject to an appeal, but we are confident of our position.

FINANCIAL AND OPERATING RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER





Our progress is tightly linked to a shift we have seen in the New Zealand economy, which we call the 'new economic norm'.

Are shareholders benefiting from this performance? Yes. Reflecting the Board's confidence in Vector's prospects, the Board has resolved to lift the fully-imputed interim dividend by 0.25 cents per share to 7.25 cents.

Are you making progress with the regulatory regime? As we have observed in more mature jurisdictions offshore, our regulatory regime continues its gradual transition to greater certainty and we welcome the progress. We are looking forward to the outcome of the Merits Review of the regime later this year. From April 2013, Vector will reduce its electricity lines charges in line with the Commerce Commission's determination last year.

Meanwhile, due mostly to a new determination of our gas networks' allowable returns and despite our excellent record of delivering a low-cost, high-quality service, we must reduce our gas transmission and gas distribution prices later this year. It is still too early to say what the Merits Review will mean for the future direction of our business.

How do you see the rest of the financial year? We expect EBITDA for the full year to 30 June 2013 to be in line with the result we achieved in the year to 30 June 2012. We expect our Technology and Gas Wholesale operations to continue to perform well. We continue to manage costs tightly and grow through investment in our core network business as the economy grows, albeit slowly. However, our entitlements to Kapuni gas at legacy prices will continue to reduce over the period and some of the gas purchased during the period at legacy prices is subject to appeal. Vector is in good shape. ■



MICHAEL STIASSNY
Chairman



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

Smart growth

How have Vector's operations performed over the last six months? Despite the new economic norm, Vector's shareholders have again benefited from the group's portfolio of assets delivering on our core energy infrastructure networks, developing innovative technology solutions and pursuing smart growth opportunities in our unregulated operations.

Our Electricity and Gas Transportation businesses grew EBITDA by 2.2% and 8.7% respectively, despite generally warmer weather during the period. Electricity volumes transported across the network fell 0.9% to 4,321 GWh. Electricity customer numbers grew 0.6% to 537,268.

Gas transmission volumes fell 9.5% to 58.8 PJ due to a slow-down in gas-fired electricity production. Gas distribution volumes were unchanged on the prior year at 11.7 PJ. Gas distribution customers rose 1.5% to 155,863.

Our Technology segment lifted EBITDA by 6.1% to \$36.7 million. The number of installed smart meters grew 38.5% to 438,419 meters. Lower production from the Kapuni gas field overshadowed the Gas Wholesale business' results. EBITDA fell 6.6% to \$34.0 million. But the result was underpinned by the continuation of supply of Kapuni gas at legacy prices.

38.5%  INCREASE IN
INSTALLED
SMART METERS

How is Vector configuring the business for the new economic norm? Our focus is on optimising the business for the new reality, reducing our risk profile and containing costs. Increases in operating expenditure during the period were largely linked to growth in demand. CONTINUES ON PAGE 10



We understand the crucial role we play as a provider of critical infrastructure and as an enabler of national prosperity.

Vector field teams rally to 'tornado' devastation

Vector's field services teams were put to the test in December when a severe windstorm, earlier described as a tornado, ripped through Hobsonville in Auckland leaving a trail of destruction. Our team passed with flying colours.

Tragically three people died in the storm, which also damaged about 150 houses. Our fault crews were on site as soon as police could escort them through the debris-littered roads. Poles were snapped in half, others were uprooted completely and lines were torn away.

All available resources were directed to the area. Our crews worked through the night and within 48 hours reconnected all viable



properties. Our crews achieved the result to the acclaim of the affected region, receiving dozens of emails congratulating them not only for their speed and efficiency in restoring power but also for their good humour and empathy. ■

//////
We maintain a strong balance sheet with gearing, as measured by net debt to net debt plus equity, at 51.0% and we operate tight financial controls. Vector continues to seek regulatory certainty and our Gas Wholesale book is balanced.

Will you continue to grow? We expect our energy networks to continue to grow, albeit slowly. Household consumption is largely weather dependent, but customers want to reduce energy bills and use more energy-efficient and environmentally-friendly solutions. It is for this reason we have been innovating and investing in technologies such as solar power.

Our metering business can grow by selling data management services, and extending metering opportunities into new applications. We are also awaiting the Commerce Commission's decision on our planned acquisition of Contact Energy's gas metering business.

How are you investing for growth? Supported by our strong operating cash flow, we invested \$128.8 million across our portfolio of businesses. Of this investment, \$77.4 million was spent on our energy networks.

//////
We are also making a significant investment in our people. We employ a diverse range of nationalities and ethnic groups and are making a lot of effort to recruit talented graduates and apprentices to help maintain the health of the industries in which we operate.

What are you doing for your customers?

We understand the crucial role we play as a provider of critical infrastructure and therefore as an enabler of national prosperity. We provide a high-quality service that ranks among the lowest cost in the country on measures such as the cost of delivering power to our customers and average operating cost per customer.

We are challenging the Electricity Authority's proposals to change transmission pricing, which we believe will have a detrimental impact on Auckland consumers. We continue to look at new ways to give our customers new choices and keep costs low. For instance, solar panels combined with highly-efficient batteries and smart control technology will allow our customers to manage their energy costs. ■



SIMON MACKENZIE
Group Chief Executive

RECONCILIATION OF NON-GAAP PROFIT INFORMATION

Vector's standard profit measure prepared under New Zealand GAAP is net profit. Vector has used non-GAAP profit measures when discussing financial performance in this document. The directors and management believe that these measures provide useful information as they are used internally to evaluate performance of business units, to establish operational goals and to allocate resources. For a more comprehensive discussion on the use of non-GAAP profit measures, please refer to the policy 'Reporting non-GAAP profit measures' available on our website (www.vector.co.nz).

Non-GAAP profit measures are not prepared in accordance with NZ IFRS (New Zealand International Financial Reporting Standards) and are not uniformly defined, therefore the non-GAAP profit measures reported in this document may not be comparable with those that other companies report and should not be viewed in isolation or considered as a substitute for measures reported by Vector in accordance with NZ IFRS.

Vector's definition of non-GAAP profit measures used in this document:

- EBITDA: Earnings before net finance costs, tax expense, depreciation, amortisation, share of net profit or loss from associates and impairments.
- EBIT: Earnings before net finance costs, tax expense, share of net profit or loss from associates and impairments.

GAAP TO NON-GAAP RECONCILIATION

| \$ MILLION | 31 DEC 2012 6 MONTHS | 31 DEC 2011 6 MONTHS | 30 JUN 2012 12 MONTHS |
|--|-------------------------|-------------------------|--------------------------|
| Net profit for the period (GAAP) | 118.0 | 106.5 | 201.7 |
| Add back: income tax expense ¹ | 47.5 | 42.9 | 81.6 |
| Add back: impairment of investment in associate ¹ | 2.3 | 3.9 | 4.1 |
| (Deduct)/add back: share of net (profit)/loss from associates ¹ | (0.7) | 0.1 | 0.3 |
| Add back: net finance costs ¹ | 83.0 | 84.1 | 166.2 |
| EBIT | 250.1 | 237.5 | 453.9 |
| Add back: depreciation and amortisation ¹ | 86.2 | 86.1 | 173.5 |
| EBITDA | 336.3 | 323.6 | 627.4 |

¹ Extracted from reviewed financial statements.

INTERIM

FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2012 (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 2012.

FOR AND ON BEHALF OF DIRECTORS



Director

21 February 2013



Director

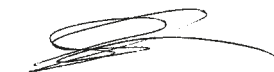
21 February 2013

FOR AND ON BEHALF OF MANAGEMENT



Group Chief Executive

21 February 2013



Acting Chief Financial Officer

21 February 2013

INDEPENDENT AUDITOR'S REVIEW REPORT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2012



TO THE SHAREHOLDERS OF VECTOR LIMITED

We have reviewed the attached interim financial statements on pages 14 to 32 in accordance with the Review Engagement Standard RS-1 issued by the External Reporting Board and the Review Engagement Guideline RG-1 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 2012.

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 2012 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 taxation and 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 on pages 14 to 32 do not give a true and fair view of the financial position of the Group as at 31 December 2012, and 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 21 February 2013 and our opinion is expressed as at that date.

Auckland

INCOME STATEMENT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2012 (UNAUDITED)

| | NOTE | 31 DEC 2012 6 MONTHS \$000 | 31 DEC 2011 6 MONTHS \$000 | 30 JUN 2012 12 MONTHS \$000 |
|--|------|----------------------------------|----------------------------------|-----------------------------------|
| Operating revenue | | 669,132 | 637,463 | 1,252,244 |
| Other income | | 220 | 179 | 316 |
| Total income | | 669,352 | 637,642 | 1,252,560 |
| Electricity transmission expenses | | (87,470) | (68,509) | (147,059) |
| Gas purchases and production expenses | | (125,156) | (122,750) | (240,659) |
| Network and asset maintenance expenses | | (42,112) | (43,315) | (83,315) |
| Personnel expenses | | (35,425) | (34,946) | (71,843) |
| Other expenses | | (42,860) | (44,547) | (82,331) |
| Operating expenditure | | (333,023) | (314,067) | (625,207) |
| Earnings before net finance costs, income tax, depreciation, amortisation, share of net profit or loss from associates and impairments (EBITDA) | | 336,329 | 323,575 | 627,353 |
| Depreciation and amortisation | | (86,278) | (86,089) | (173,442) |
| Earnings before net finance costs, income tax, share of net profit or loss from associates and impairments (EBIT) | | 250,051 | 237,486 | 453,911 |
| Finance income | | 2,305 | 4,597 | 10,573 |
| Finance costs | | (85,311) | (88,719) | (176,771) |
| Share of net profit/(loss) from associates | 2 | 707 | (52) | (344) |
| Impairment of investment in associate | 2 | (2,278) | (3,938) | (4,071) |
| Profit before income tax | | 165,474 | 149,374 | 283,298 |
| Income tax expense | | (47,491) | (42,875) | (81,565) |
| Net profit for the period | | 117,983 | 106,499 | 201,733 |
| Net profit for the period attributable to: | | | | |
| Non-controlling interests in subsidiaries | | 1,328 | 1,177 | 2,966 |
| Owners of the parent | | 116,655 | 105,322 | 198,767 |
| Basic and diluted earnings per share (cents) | 6 | 11.7 | 10.6 | 20.0 |

STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 31 DECEMBER 2012 (UNAUDITED)

| | 31 DEC 2012 6 MONTHS \$000 | 31 DEC 2011 6 MONTHS \$000 | 30 JUN 2012 12 MONTHS \$000 |
|---|----------------------------------|----------------------------------|-----------------------------------|
| Net profit for the period | 117,983 | 106,499 | 201,733 |
| Other comprehensive income net of tax | | | |
| Items that may be re-classified subsequently to profit or loss: | | | |
| Net change in fair value of cash flow hedges | 7,791 | (37,875) | (16,111) |
| Share of other comprehensive income of associates | – | – | 19 |
| Translation of foreign operations | (3) | (63) | (80) |
| Other comprehensive income for the period net of tax | 7,788 | (37,938) | (16,172) |
| Total comprehensive income for the period net of tax | 125,771 | 68,561 | 185,561 |
| Total comprehensive income for the period attributable to: | | | |
| Non-controlling interests in subsidiaries | 1,328 | 1,177 | 2,966 |
| Owners of the parent | 124,443 | 67,384 | 182,595 |

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2012 (UNAUDITED)

| | NOTE | 31 DEC 2012 \$000 | 31 DEC 2011 \$000 | 30 JUN 2012 \$000 |
|---|------|----------------------|----------------------|----------------------|
| CURRENT ASSETS | | | | |
| Cash and cash equivalents | | 127,430 | 160,819 | 81,593 |
| Receivables and prepayments | | 153,942 | 175,244 | 176,111 |
| Derivative financial instruments | 8 | 36 | – | 13 |
| Inventories | | 4,449 | 3,742 | 5,314 |
| Income tax | | – | – | 11,811 |
| Non-current asset held for sale | 2 | – | 2,725 | 2,592 |
| Intangible assets | | 68 | 1,828 | 492 |
| Total current assets | | 285,925 | 344,358 | 277,926 |
| NON-CURRENT ASSETS | | | | |
| Receivables and prepayments | | 1,383 | 1,404 | 1,392 |
| Derivative financial instruments | 8 | 11,894 | 22,300 | 23,322 |
| Deferred tax | | 1,646 | 2,445 | 1,646 |
| Investments in associates | 2 | 14,318 | 16,361 | 16,088 |
| Intangible assets | 4 | 1,615,418 | 1,614,430 | 1,616,800 |
| Property, plant and equipment | 4 | 3,721,718 | 3,624,168 | 3,679,438 |
| Total non-current assets | | 5,366,377 | 5,281,108 | 5,338,686 |
| Total assets | | 5,652,302 | 5,625,466 | 5,616,612 |
| CURRENT LIABILITIES | | | | |
| Payables and accruals | | 186,127 | 178,061 | 189,531 |
| Provisions | | 18,688 | 18,598 | 18,025 |
| Derivative financial instruments | 8 | 3,652 | 12,452 | 11,555 |
| Borrowings | | – | 326,305 | 18,385 |
| Income tax | | 24,234 | 4,933 | – |
| Total current liabilities | | 232,701 | 540,349 | 237,496 |
| NON-CURRENT LIABILITIES | | | | |
| Payables and accruals | | 19,943 | 21,430 | 20,721 |
| Provisions | | 7,767 | 5,923 | 6,845 |
| Derivative financial instruments | 8 | 291,988 | 298,758 | 286,001 |
| Borrowings | | 2,413,783 | 2,187,923 | 2,437,026 |
| Deferred tax | | 486,694 | 466,467 | 480,181 |
| Total non-current liabilities | | 3,220,175 | 2,980,501 | 3,230,774 |
| Total liabilities | | 3,452,876 | 3,520,850 | 3,468,270 |
| EQUITY | | | | |
| Equity attributable to owners of the parent | | 2,181,461 | 2,086,179 | 2,131,705 |
| Non-controlling interests in subsidiaries | | 17,965 | 18,437 | 16,637 |
| Total equity | | 2,199,426 | 2,104,616 | 2,148,342 |
| Total equity and liabilities | | 5,652,302 | 5,625,466 | 5,616,612 |

STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2012 (UNAUDITED)

| | NOTE | 31 DEC 2012 6 MONTHS \$000 | 31 DEC 2011 6 MONTHS \$000 | 30 JUN 2012 12 MONTHS \$000 |
|--|------|----------------------------------|----------------------------------|-----------------------------------|
| OPERATING ACTIVITIES | | | | |
| Cash provided from: | | | | |
| Receipts from customers | | 704,849 | 652,878 | 1,238,748 |
| Interest portion of repayments on finance leases | | 56 | 57 | 113 |
| Interest received | | 2,062 | 3,441 | 9,070 |
| Income tax refunds | | – | – | 5,237 |
| Dividends received from associate | 9 | 200 | – | – |
| | | 707,167 | 656,376 | 1,253,168 |
| Cash applied to: | | | | |
| Payments to suppliers and employees | | (345,760) | (315,924) | (620,725) |
| Income tax paid | | (7,964) | (8,529) | (63,149) |
| Interest paid on finance leases | | (96) | (131) | (248) |
| Interest paid | | (85,640) | (89,414) | (176,754) |
| | | (439,460) | (413,998) | (860,876) |
| Net cash flows from operating activities | | 267,707 | 242,378 | 392,292 |
| INVESTING ACTIVITIES | | | | |
| Cash provided from: | | | | |
| Proceeds from sale of property, plant and equipment and software intangibles | | 207 | 140 | 25,764 |
| Proceeds from liquidation of associate | | 2,757 | – | – |
| | | 2,964 | 140 | 25,764 |
| Cash applied to: | | | | |
| Purchase and construction of property, plant and equipment and software intangibles | | (126,853) | (124,156) | (259,989) |
| Net cash flows used in investing activities | | (123,889) | (124,016) | (234,225) |

STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2012 (UNAUDITED)

| | NOTE | 31 DEC 2012 6 MONTHS \$000 | 31 DEC 2011 6 MONTHS \$000 | 30 JUN 2012 12 MONTHS \$000 |
|---|------|----------------------------------|----------------------------------|-----------------------------------|
| FINANCING ACTIVITIES | | | | |
| Cash provided from: | | | | |
| Capital portion of receipts on finance leases | | 9 | 8 | 17 |
| | | 9 | 8 | 17 |
| Cash applied to: | | | | |
| Debt raising costs incurred | | (203) | (190) | (572) |
| Repayment of borrowings | | (22,817) | (210) | (44,829) |
| Capital portion of payments on finance leases | | (245) | (582) | (1,246) |
| Acquisition of non-controlling interest in subsidiary | | – | – | (2,500) |
| Purchase of treasury shares | 7 | (44) | (306) | (306) |
| Dividends paid to owners of the parent | | (74,681) | (74,682) | (144,384) |
| Dividends paid to non-controlling interests in subsidiaries | | – | (1,988) | (3,061) |
| | | (97,990) | (77,958) | (196,898) |
| Net cash flows used in financing activities | | (97,981) | (77,950) | (196,881) |
| Net increase/(decrease) in cash and cash equivalents | | 45,837 | 40,412 | (38,814) |
| Cash and cash equivalents at the beginning of the period | | 81,593 | 120,407 | 120,407 |
| Cash and cash equivalents at the end of the period | | 127,430 | 160,819 | 81,593 |
| Cash and cash equivalents comprises: | | | | |
| Bank balances and on-call deposits | | 10,433 | 10,819 | 12,593 |
| Short term deposits maturing within three months | | 116,997 | 150,000 | 69,000 |
| | | 127,430 | 160,819 | 81,593 |

| | 31 DEC 2012 6 MONTHS \$000 | 31 DEC 2011 6 MONTHS \$000 | 30 JUN 2012 12 MONTHS \$000 |
|---|----------------------------------|----------------------------------|-----------------------------------|
| RECONCILIATION OF NET PROFIT TO NET CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net profit for the period | 117,983 | 106,499 | 201,733 |
| ITEMS CLASSIFIED AS INVESTING ACTIVITIES | | | |
| Net loss on disposal of property, plant and equipment and software intangibles | 1,426 | 3,734 | 6,880 |
| NON-CASH ITEMS | | | |
| Depreciation and amortisation | 86,278 | 86,089 | 173,442 |
| Impairment of investment in associate | 2,278 | 3,938 | 4,071 |
| Non-cash portion of finance costs | (605) | (350) | (605) |
| Increase in deferred tax liability | 3,482 | 15,184 | 21,234 |
| Increase in provisions | 1,585 | 1,035 | 1,384 |
| Share of net (profit)/loss from associates | (707) | 52 | 344 |
| | 92,311 | 105,948 | 199,870 |
| CASH ITEMS NOT IMPACTING PROFIT | | | |
| Dividends received from associates | 200 | – | – |
| MOVEMENT IN WORKING CAPITAL | | | |
| Decrease in payables and accruals | (3,295) | (7,895) | (5,830) |
| Decrease/(increase) in inventories | 865 | (279) | (1,851) |
| Decrease/(increase) in receivables and prepayments | 22,172 | 15,209 | (10,928) |
| Decrease in net income tax assets | 36,045 | 19,162 | 2,418 |
| | 55,787 | 26,197 | (16,191) |
| Net cash flows from operating activities | 267,707 | 242,378 | 392,292 |

STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 31 DECEMBER 2012 (UNAUDITED)

| 31 DEC 2012 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 | (9,240) | (158,701) | 84 | 287 | 1,424,296 | 16,637 | 2,148,342 |
| Comprehensive income | | | | | | | | | |
| Net profit for the period | | - | - | - | - | - | 116,655 | 1,328 | 117,983 |
| Other comprehensive income | | | | | | | | | |
| Net change in fair value of cash flow hedges | | - | - | 10,821 | - | - | - | - | 10,821 |
| Translation of foreign operations | | - | - | - | (3) | - | - | - | (3) |
| Income tax relating to components of other comprehensive income | | - | - | (3,030) | - | - | - | - | (3,030) |
| Total comprehensive income | | - | - | 7,791 | (3) | - | 116,655 | 1,328 | 125,771 |
| Transactions with owners | | | | | | | | | |
| Acquisition of shares for employee share purchase scheme | 7 | - | (44) | - | - | - | - | - | (44) |
| Shares issued to employee share purchase scheme | 7 | - | - | - | - | 38 | - | - | 38 |
| Dividends | | - | - | - | - | - | (74,681) | - | (74,681) |
| Total transactions with owners | | - | (44) | - | - | 38 | (74,681) | - | (74,687) |
| Balance at end of the period | | 874,979 | (9,284) | (150,910) | 81 | 325 | 1,466,270 | 17,965 | 2,199,426 |

| | NOTE | 31 DEC 2012 | 31 DEC 2011 | 30 JUN 2012 |
|---|------|-------------|-------------|-------------|
| Total tangible assets per share (cents) | 6 | 405.5 | 402.7 | 401.7 |
| Net tangible assets per share (cents) | 6 | 58.7 | 49.0 | 53.3 |

| 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 | | | | | | | | | |
| Acquisition of shares for employee share purchase 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 |

STATEMENT OF CHANGES IN EQUITY (CONTINUED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2012 (UNAUDITED)

| 30 JUN 2012 12 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 | | – | – | – | – | – | 198,767 | 2,966 | 201,733 |
| Other comprehensive income | | | | | | | | | |
| Net change in fair value of cash flow hedges | | – | – | (22,379) | – | – | – | – | (22,379) |
| Translation of foreign operations | | – | – | – | (80) | – | – | – | (80) |
| Share of other comprehensive income of associate | | – | – | – | – | – | 19 | – | 19 |
| Income tax relating to components of other comprehensive income | | – | – | 6,268 | – | – | – | – | 6,268 |
| Total comprehensive income | | – | – | (16,111) | (80) | – | 198,786 | 2,966 | 185,561 |
| Transactions with owners | | | | | | | | | |
| Acquisition of non- controlling interest in subsidiary | | – | – | – | – | – | 16 | (2,516) | (2,500) |
| Acquisition of shares for employee share purchase scheme | 7 | – | (306) | – | – | – | – | – | (306) |
| Shares issued to employee share purchase scheme | 7 | – | – | – | – | 287 | – | – | 287 |
| Dividends | | – | – | – | – | – | (144,384) | (3,061) | (147,445) |
| Total transactions with owners | | – | (306) | – | – | 287 | (144,368) | (5,577) | (149,964) |
| Balance at end of the period | | 874,979 | (9,240) | (158,701) | 84 | 287 | 1,424,296 | 16,637 | 2,148,342 |

FOR THE SIX MONTHS ENDED 31 DECEMBER 2012 (UNAUDITED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

Vector Limited is a company domiciled in New Zealand and registered under the Companies Act 1993 and is listed on the New Zealand Stock Exchange (NZX). The address of Vector Limited's registered office is 101 Carlton Gore Road, Newmarket, Auckland. Vector Limited is an issuer for the purposes of the Financial Reporting Act 1993 and its financial statements comply with that Act. The condensed consolidated financial statements of the group are for the six months ended 31 December 2012 and were authorised for issue by the directors on 21 February 2013.

Vector Limited is a profit-oriented entity involved in the infrastructure sector in New Zealand. Its primary operations include electricity distribution, gas transportation, natural gas and LPG sales, gas processing, metering and telecommunications. Vector Limited is a 75.1% owned subsidiary of the Auckland Energy Consumer Trust which is the ultimate parent entity for the group.

BASIS OF PREPARATION

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

These condensed consolidated financial statements comply with NZ IAS 34 *Interim Financial Reporting*. As the condensed consolidated 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 2012 (2012 Annual Report).

The condensed consolidated financial statements for the six months ended 31 December 2012 and the six months ended 31 December 2011 are unaudited.

The condensed consolidated 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 2012 Annual Report have been applied consistently to all periods presented in these condensed consolidated financial statements. There have been no changes in accounting policies from those applied in Vector's 2012 Annual Report.

MEASUREMENT BASE

The condensed consolidated 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.

FOR THE SIX MONTHS ENDED 31 DECEMBER 2012 (UNAUDITED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 condensed consolidated financial statements are expected to be more profitable than the latter half of the year yet to be reported.

APPROVAL OF THE FINANCIAL STATEMENTS

The condensed consolidated financial statements were approved by the board of directors on 21 February 2013.

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

| | 31 DEC 2012 6 MONTHS \$000 | 31 DEC 2011 6 MONTHS \$000 | 30 JUN 2012 12 MONTHS \$000 |
|--|----------------------------------|----------------------------------|-----------------------------------|
| Equity accounted earnings of associates | | | |
| Profit/(loss) before income tax | 982 | (72) | (478) |
| Income tax (expense)/ benefit | (275) | 20 | 134 |
| Share of net profit/(loss) from associates | 707 | (52) | (344) |

| | PRINCIPAL ACTIVITY | PERCENTAGE HELD | | |
|--|-----------------------|-----------------|-------------|-------------|
| | | 31 DEC 2012 | 31 DEC 2011 | 30 JUN 2012 |
| Tree Scape Limited | Vegetation management | 50% | 50% | 50% |
| – Treescap Australasia Pty Limited | Vegetation management | 50% | 50% | 50% |
| Total Metering 2012 Limited (in liquidation) | Metering services | 25% | 25% | 25% |
| NZ Windfarms Limited | Power generation | 22% | 22% | 22% |

The share price of NZ Windfarms Limited declined between 30 June 2012 and 31 December 2012 from \$0.16 per share to \$0.10 per share. The recoverable amount determined as at 31 December 2012 was estimated based on the investment's fair value less costs to sell by reference to this active market price on the New Zealand Stock Exchange. Accordingly, an impairment loss of \$2.3 million has been recognised in respect of the group's investment in its associate company, NZ Windfarms Limited (six months ended 31 December 2011: nil, year ended 30 June 2012: nil). This share price supports the current carrying value of the group's investment in NZ Windfarms Limited.

During the period, the group received \$2.8 million as a return of capital from Total Metering 2012 Limited (in liquidation) which is an associate of the group (six months ended 31 December 2011: nil, year ended 30 June 2012: nil). The investment in Total Metering 2012 Limited (in liquidation) was recognised in the period ended 30 June 2012 as a non-current asset held for sale.




3. SEGMENT INFORMATION

Vector's internal reporting to the Group Chief Executive 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 29 and 30.

The segments reported in these condensed consolidated financial statements are the same as those reported in Vector's 2012 Annual Report.

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

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

FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2012 (UNAUDITED)

3. SEGMENT INFORMATION (CONTINUED)

| 31 DEC 2012 6 MONTHS | ELECTRICITY \$000 | GAS TRANS- PORTATION \$000 | GAS WHOLESALE \$000 | TECHNOLOGY \$000 | INTER- SEGMENT \$000 | TOTAL \$000 |
|--|----------------------|-------------------------------------|---------------------------|---------------------|----------------------------|------------------|
| External revenue: | | | | | | |
| Operating revenue | 333,774 | 94,563 | 191,943 | 48,674 | – | 668,954 |
| Other income | 2 | 1 | – | 28 | – | 31 |
| Intersegment revenue | 980 | 19,789 | 3,608 | 4,133 | (28,510) | – |
| Segment revenue | 334,756 | 114,353 | 195,551 | 52,835 | (28,510) | 668,985 |
| External operating expenditure: | | | | | | |
| Electricity transmission expenses | (87,470) | – | – | – | – | (87,470) |
| Gas purchases and production expenses | – | (5,555) | (119,601) | – | – | (125,156) |
| Network and asset maintenance expenses | (22,479) | (8,584) | (8,820) | (2,229) | – | (42,112) |
| Personnel expenses | (5,756) | (2,707) | (8,129) | (4,356) | – | (20,948) |
| Other expenses | (13,361) | (5,225) | (4,782) | (8,564) | – | (31,932) |
| Intersegment expenditure | (3,724) | (3,623) | (20,183) | (980) | 28,510 | – |
| Operating expenditure | (132,790) | (25,694) | (161,515) | (16,129) | 28,510 | (307,618) |
| Segment EBITDA | 201,966 | 88,659 | 34,036 | 36,706 | – | 361,367 |
| Depreciation and amortisation | (40,239) | (12,074) | (8,099) | (18,768) | – | (79,180) |
| Segment EBIT | 161,727 | 76,585 | 25,937 | 17,938 | – | 282,187 |
| Segment capital expenditure | 61,427 | 15,984 | 3,529 | 43,750 | – | 124,690 |

| 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 | 91,513 | 190,632 | 46,416 | – | 636,962 |
| Other income | 31 | – | 40 | 108 | – | 179 |
| Intersegment revenue | 52 | 18,884 | 4,691 | 1,573 | (25,200) | – |
| Segment revenue | 308,484 | 110,397 | 195,363 | 48,097 | (25,200) | 637,141 |
| External operating expenditure: | | | | | | |
| Electricity transmission expenses | (68,509) | – | – | – | – | (68,509) |
| Gas purchases and production expenses | – | (3,826) | (118,924) | – | – | (122,750) |
| Network and asset maintenance expenses | (21,681) | (10,522) | (8,711) | (2,401) | – | (43,315) |
| Personnel expenses | (5,763) | (2,769) | (7,755) | (5,177) | – | (21,464) |
| Other expenses | (13,703) | (7,021) | (4,313) | (5,905) | – | (30,942) |
| Intersegment expenditure | (1,228) | (4,690) | (19,230) | (52) | 25,200 | – |
| Operating expenditure | (110,884) | (28,828) | (158,933) | (13,535) | 25,200 | (286,980) |
| Segment 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 EBIT | 156,903 | 70,933 | 28,632 | 13,125 | – | 269,593 |
| Segment capital expenditure | 55,976 | 15,377 | 5,626 | 30,310 | – | 107,289 |

FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2012 (UNAUDITED)

3. SEGMENT INFORMATION (CONTINUED)

| 30 JUN 2012 12 MONTHS | ELECTRICITY \$000 | GAS TRANS- PORTATION \$000 | GAS WHOLESALE \$000 | TECHNOLOGY \$000 | INTER- SEGMENT \$000 | TOTAL \$000 |
|--|----------------------|-------------------------------------|---------------------------|---------------------|----------------------------|------------------|
| External revenue: | | | | | | |
| Operating revenue | 608,913 | 177,082 | 371,397 | 93,689 | – | 1,251,081 |
| Other income | 61 | 24 | 79 | 128 | – | 292 |
| Intersegment revenue | 84 | 37,506 | 9,533 | 3,262 | (50,385) | – |
| Segment revenue | 609,058 | 214,612 | 381,009 | 97,079 | (50,385) | 1,251,373 |
| External operating expenditure: | | | | | | |
| Electricity transmission expenses | (147,059) | – | – | – | – | (147,059) |
| Gas purchases and production expenses | – | (7,334) | (233,325) | – | – | (240,659) |
| Network and asset maintenance expenses | (42,229) | (19,096) | (17,264) | (4,726) | – | (83,315) |
| Personnel expenses | (11,416) | (5,770) | (15,791) | (10,749) | – | (43,726) |
| Other expenses | (21,759) | (12,379) | (10,526) | (13,986) | – | (58,650) |
| Intersegment expenditure | (2,463) | (9,552) | (38,286) | (84) | 50,385 | – |
| Operating expenditure | (224,926) | (54,131) | (315,192) | (29,545) | 50,385 | (573,409) |
| Segment EBITDA | 384,132 | 160,481 | 65,817 | 67,534 | – | 677,964 |
| Depreciation and amortisation | (80,512) | (21,711) | (15,568) | (43,809) | – | (161,600) |
| Segment EBIT | 303,620 | 138,770 | 50,249 | 23,725 | – | 516,364 |
| Segment capital expenditure | 134,173 | 35,473 | 10,843 | 68,600 | – | 249,089 |

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

| 31 DEC 2012 6 MONTHS | TOTAL INCOME \$000 | PROFIT BEFORE INCOME TAX \$000 | CAPITAL EXPENDITURE \$000 |
|--|--------------------------|---|---------------------------------|
| Reported in segment information | 668,985 | 282,187 | 124,690 |
| Amounts not allocated to segments: | | | |
| Revenues from corporate activities | 367 | 367 | – |
| Corporate activities operating expenditure | – | (25,405) | – |
| Depreciation and amortisation of corporate property, plant and equipment and software intangibles | – | (7,098) | – |
| Finance income | – | 2,305 | – |
| Finance costs | – | (85,311) | – |
| Share of net profit/(loss) from associates | – | 707 | – |
| Impairment of investment in associate | – | (2,278) | – |
| Additions to corporate property, plant and equipment and software intangibles | – | – | 4,098 |
| Reported in the condensed consolidated financial statements | 669,352 | 165,474 | 128,788 |

| 31 DEC 2011 6 MONTHS | TOTAL INCOME \$000 | PROFIT BEFORE INCOME TAX \$000 | CAPITAL EXPENDITURE \$000 |
|--|--------------------------|---|---------------------------------|
| Reported in segment information | 637,141 | 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 profit/(loss) from associates | – | (52) | – |
| Impairment of investment in associate | – | (3,938) | – |
| Additions to corporate property, plant and equipment and software intangibles | – | – | 4,300 |
| Reported in the condensed consolidated financial statements | 637,642 | 149,374 | 111,589 |

NOTES TO THE CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2012 (UNAUDITED)

3. SEGMENT INFORMATION (CONTINUED)

| 30 JUN 2012 12 MONTHS | TOTAL INCOME \$000 | PROFIT BEFORE INCOME TAX \$000 | CAPITAL EXPENDITURE \$000 |
|--|--------------------------|---|---------------------------------|
| Reported in segment information | 1,251,373 | 516,364 | 249,089 |
| Amounts not allocated to segments: | | | |
| Revenues from corporate activities | 1,187 | 1,187 | – |
| Corporate activities operating expenditure | – | (51,798) | – |
| Depreciation and amortisation of corporate property, plant and equipment and software intangibles | – | (11,842) | – |
| Finance income | – | 10,573 | – |
| Finance costs | – | (176,771) | – |
| Share of net profit/(loss) from associates | – | (344) | – |
| Impairment of investment in associate | – | (4,071) | – |
| Additions to corporate property, plant and equipment and software intangibles | – | – | 12,756 |
| Reported in the condensed consolidated financial statements | 1,252,560 | 283,298 | 261,845 |

4. PROPERTY, PLANT AND EQUIPMENT AND SOFTWARE INTANGIBLE ASSETS

During the period, Vector invested \$128.8 million (six months ended 31 December 2011: \$111.6 million, year ended 30 June 2012: \$261.8 million) in new capital expenditure and retired \$3.0 million (six months ended 31 December 2011: \$3.7 million, year ended 30 June 2012: \$9.9 million) of property, plant and equipment and software intangible assets.

5. CAPITAL COMMITMENTS

| | 31 DEC 2012 \$000 | 31 DEC 2011 \$000 | 30 JUN 2012 \$000 |
|--|----------------------|----------------------|----------------------|
| Estimated capital expenditure contracted for at balance date but not yet incurred | 81,165 | 139,440 | 118,592 |

6. FINANCIAL RATIOS

EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 31 December 2012 is based on the net profit attributable to owners of the parent of \$116.7 million (six months ended 31 December 2011: \$105.3 million, year ended 30 June 2012: \$198.8 million) and the weighted average number of ordinary shares outstanding during the period of 995,632,109 (six months ended 31 December 2011: 995,705,242, year ended 30 June 2012: 995,670,358).




TOTAL AND NET TANGIBLE ASSETS PER SHARE

The calculations of the total and net tangible assets per share for the period ended 31 December 2012 are based on the carrying amounts of the total assets of \$5,652.3 million (31 December 2011: \$5,625.5 million, 30 June 2012: \$5,616.6 million) and net assets of \$2,199.4 million (31 December 2011: \$2,104.6 million, 30 June 2012: \$2,148.3 million) less total intangible assets of \$1,615.5 million (31 December 2011: \$1,616.3 million, 30 June 2012: \$1,617.3 million) and the number of ordinary shares of 995,619,181 outstanding as at 31 December 2012 (31 December 2011: 995,705,242, 30 June 2012: 995,635,474).

7. FUNDING OF OPERATIONS

TRANSACTIONS WITH OWNERS

Issued capital as at 31 December 2012 was \$875 million (31 December 2011: \$875 million, 30 June 2012: \$875 million). During the period, a final dividend of 7.5 cents per share in respect of the year ended 30 June 2012 was paid to the shareholders on 17 September 2012 (six months ended 31 December 2011: 7.5 cents per share in respect of the year ended 30 June 2011, paid on 19 September 2011).

During the period, the group granted rights to 27,249 shares at \$2.65 each to employees participating in the employee share purchase scheme (six months ended 31 December 2011: 119,603 shares at \$2.52 each; year ended 30 June 2012: 119,603 shares at \$2.52 each). In granting the rights to these shares the group acquired 16,293 shares on market at a cost of \$2.65 each (six months ended 31 December 2011: 119,603 shares at \$2.56 each; year ended 30 June 2012: 119,603 shares at \$2.56 each). Shares allocated to the employee share purchase scheme 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 decrease in borrowings since 30 June 2012 of \$41.6 million is the result of \$20.7 million of fair value movements and the \$22.8 million repayment of the senior USD fixed rate notes in September 2012 offset by a \$1.9 million reduction in unamortised costs.

8. DERIVATIVE FINANCIAL INSTRUMENTS

The net amount of derivative financial instruments disclosed in the statement of financial position at 31 December 2012 is a liability of \$283.7 million (31 December 2011: \$288.9 million, 30 June 2012: \$274.2 million). The increase in the net liability since 30 June 2012 of \$9.5 million reflects the increase in the aggregate mark to market loss during the period. This increase was caused by the appreciation of the New Zealand dollar, resulting in an increase in the mark to market loss of the cross currency interest rate swaps, offset by a favourable movement in the fair value of New Zealand dollar interest rate swaps due to cash payments made during the period.

FOR THE SIX MONTHS ENDED 31 DECEMBER 2012 (UNAUDITED)

9. RELATED PARTIES

MAJORITY SHAREHOLDER

The group has paid the Auckland Energy Consumer Trust (AECT) dividends of \$56.3 million during the period (six months ended 31 December 2011: \$56.3 million, year ended 30 June 2012: \$108.9 million). The AECT is the majority shareholder of Vector Limited.

ASSOCIATES

During the period, a \$0.2 million dividend was received from Tree Scape Limited which is an associate of the group (six months ended 31 December 2011: nil, year ended 30 June 2012: nil).

At 31 December 2012, there are no material outstanding balances due to or from associates and joint ventures which are related parties of the Vector group.

10. ELECTRICITY REGULATORY CLAW BACK

On 30 November 2012, the Commerce Commission announced the reset of the default price-quality paths for 16 electricity distributors, one of which is the Vector electricity distribution business. The Commerce Commission's announcement was made after electricity distributors had set their electricity prices for the period 1 April 2012 to 31 March 2013 and therefore Vector can only apply the electricity price reduction from 1 April 2013. As a result the Commerce Commission has stated it will apply claw back for any under or over recovery of electricity revenue by Vector in the electricity regulatory year to 31 March 2013. Subject to the outcome of the merits review of the Commerce Commission's input methodologies currently before the High Court, the claw back will be effected through a price adjustment in the electricity regulatory year to 31 March 2015. Therefore if claw back is applied it will impact Vector's electricity revenues from 1 April 2014 to 31 March 2015. The claw back has no impact on the reported electricity revenues in these interim financial statements or in Vector's annual financial statements for 2012 and 2013.

11. CONTINGENT LIABILITY

Subsequent to the period, the supplier of Kapuni gas to Vector's gas wholesale business has filed an appeal of an award granted in favour of Vector during the period concerning Vector's entitlements to Kapuni gas at the legacy price under a pre-existing contract. Vector is of the opinion that the appeal is unlikely to be successful and therefore has included purchases of 3.8 petajoules of Kapuni gas at the legacy price in these interim financial statements. No further disclosure is being made in regard to this matter as it is Vector's view that further disclosure would prejudice its commercial position.

12. EVENTS AFTER BALANCE DATE

On 21 February 2013, the board of directors declared an interim dividend for the year ended 30 June 2013 of 7.25 cents per share.

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

BOARD OF DIRECTORS AND MANAGEMENT TEAM

BOARD OF DIRECTORS

Michael Stiasny Chairman
Peter Bird
James Carmichael
Hugh Fletcher
Alison Paterson
Karen Sherry
Bob Thomson

MANAGEMENT TEAM

Simon Mackenzie Group Chief Executive
Kate Beddoe Chief Risk Officer
Allan Carvell Group General Manager Regulation and Pricing
Minoru Frederiksens Acting Group General Manager Service Delivery
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

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or Papakura network call
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On the North Shore,
Waitakere or Rodney
network call your
electricity retailer

Gas
Call 0800 764 764

