



*bringing it
all together*



Vector Limited • Interim Report 2006

Half-year highlights

- + *Vector lists as share issuer on the NZX and completes full acquisition of NGC Holdings Limited*
- + *Solid integration progress in the creation of a merged organisation*
- + *Broader business base delivers strong operating performance*
- + *Net earnings of \$38.4 million ahead of full year forecast*
- + *Interim dividend of 6.0 cents per share, fully imputed*
- + *Vector well positioned to meet its operational and financial targets*



Financial overview

Financial results in brief

\$ MILLIONS	31 DEC 2005 6 MONTHS	31 DEC 2004 6 MONTHS	% CHANGE	30 JUNE 2005 12 MONTHS
Operating revenue	568.7	345.8	64.4	870.9
Operating expenditure	(265.6)	(139.3)	90.6	(404.8)
EBITDA	303.1	206.5	46.8	466.1
Depreciation and amortisation	(106.0)	(57.5)	84.5	(158.9)
EBIT	197.1	149.0	32.3	307.2
Net interest expense	(114.1)	(74.7)	52.6	(193.4)
Income tax expense	(38.8)	(30.2)	28.8	(59.0)
Minority interest	(5.8)	(0.8)	605.4	(14.0)
NPAT	38.4	43.3	(11.4)	40.8
NPAT excluding amortisation (NPATA)	86.0	64.8	32.8	104.3

Financial position

\$ MILLIONS	31 DEC 2005	31 DEC 2004	% CHANGE	30 JUNE 2005
Total equity	1,507.9	1,030.7	46.3	1,045.6
Total assets	5,186.8	4,759.1	9.0	4,851.5
Net borrowings	3,036.5	3,117.6	(2.6)	3,147.6
Dividend per share (cents)	⁽¹⁾ 6.0	n/a	n/a	⁽²⁾ 7.1

(1) To be paid on 7 April 2006

(2) Paid 10 August 2005

Key financial measures

	31 DEC 2005 6 MONTHS	31 DEC 2004 6 MONTHS	30 JUNE 2005 12 MONTHS
NPATA per share	⁽³⁾ 8.6 cents	⁽⁴⁾ 8.6 cents	⁽⁵⁾ 13.9 cents
Dividend per share	⁽¹⁾ 6.0 cents	n/a	⁽²⁾ 7.1 cents
Return (NPAT) on equity	2.5%	4.2%	3.9%
Equity/total assets	29.1%	21.7%	21.6%
Gearing (net debt to net debt plus equity)	66.8%	75.2%	75.1%
Net interest cover (EBIT/net interest)	1.7 times	2.0 times	1.6 times

(3) Based on 1 billion shares on issue as at 31 December 2005

(4) Based on equivalent 751 million shares as at 31 December 2004

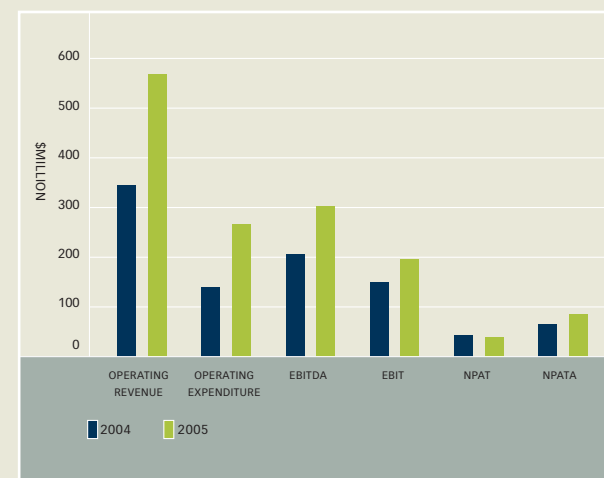
(5) Based on 751 million shares on issue as at 30 June 2005

Key measures vs prospectus

	31 DEC 2005 6 MONTHS	PROSPECTUS 30 JUNE 2006 12 MONTHS
EBITDA/operating revenue	53.3%	50.3%
EBIT/operating revenue	34.7%	31.1%
NPATA/operating revenue	15.1%	11.7%
NPAT/operating revenue	6.7%	3.2%

Financial result

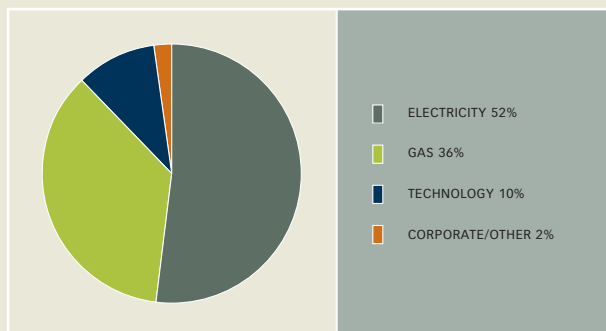
Six months ended 31 December



Financial overview (continued)

Total assets employed (\$5.2 billion)

As at 31 December 2005



Divisional results

Six months ended 31 December

\$ MILLIONS 2005	ELECTRICITY	GAS	TECHNOLOGY	CORPORATE/ OTHER	TOTAL
Operating revenue	292.4	242.6	30.5	3.2	568.7
Operating expenditure	(101.4)	(136.3)	(10.7)	(17.2)	(265.6)
EBITDA	191.0	106.3	19.8	(14.0)	303.1
EBITDA/operating revenue	65.3%	43.8%	64.9%	n/a	53.3%
EBIT	144.7	65.3	4.6	(17.5)	197.1
2004					
Operating revenue	293.5	42.3	7.0	3.0	345.8
Operating expenditure	(103.2)	(16.4)	(3.6)	(16.1)	(139.3)
EBITDA	190.3	25.9	3.4	(13.1)	206.5
EBITDA/operating revenue	64.8%	61.2%	47.6%	n/a	59.7%
EBIT	147.7	16.2	0.6	(15.5)	149.0

Note: Corporate/other reflects Vector's shared services business model in which centres of excellence support the business groups. These include Finance, IT, Organisational Development (including Human Resources) and Property. Utilitech is also included within Corporate/other.

from the Chairman



The directors are pleased to report on a period of significant accomplishment for Vector.

During the half-year ended 31 December 2005, our successful initial public offering (IPO) and subsequent listing on the New Zealand stock market as an equity issuer, together with our move to full ownership of NGC Holdings Limited have created a strong platform from which the company can build.

Having successfully achieved these primary objectives, we have since focused on getting the best out of our newly diversified operational base, while keeping our sights on the continued development of our existing core businesses.

Following the full acquisition of NGC we began a phased integration programme to bring the two companies together and this will continue throughout 2006. As part of this, we have already appointed an experienced executive management team.

Our ongoing strategic development will continue to gain further momentum as we complete this period of consolidation, enrich our understanding of the possibilities arising from the NGC acquisition, and fully implement the company structure necessary to underpin future initiatives.

Financial overview

It is particularly pleasing to report that, despite an adverse effect on revenues from an unseasonably warm winter, we have achieved all of our operating and financial targets in the half-year. At this stage, we are positioned well and expect to outperform our IPO prospectus forecasts for the full year.

It is important to note that the financial results for the six months ended 31 December 2005 are not directly comparable with those of the corresponding previous half-year as they include, for the first time, NGC's full revenues, earnings contributions and costs, as well as the increased debt associated with completing the full acquisition. They also reflect our earlier than expected move from majority to full ownership of NGC on 10 August 2005.

By contrast, the six months ended 31 December 2004 included only 18 days' contribution by NGC as a 66.05% owned subsidiary.

The benefits of the NGC acquisition are already evident in our significantly increased revenue, higher earnings before interest, tax, depreciation and amortisation, and operating cash flow growth.

Vector's net surplus after tax for the six months was \$38.4 million, already ahead of the IPO prospectus full year net surplus projection of \$36.5 million. This was due mainly to a \$5 million benefit in the minority interests deduction arising from the earlier settlement of the remaining 33% of NGC.

Although earnings are traditionally flat in the normally warmer second half of the year, the directors still expect full year net earnings to be in the range of \$38 million to \$43 million.

While ahead of our prospectus projections, the half-year period net surplus was below the \$43.3 million reported for the previous corresponding period due, in particular, to the increased borrowing costs of \$39.3 million and an additional \$26.2 million non-cash amortisation of intangible assets arising from the full acquisition of NGC.

Importantly, normalised profit comprising net surplus after tax and excluding intangible asset

from the Chairman (continued)



amortisation (NPATA) amounted to \$86 million, 33% higher than in the previous corresponding period. We now expect full year NPATA to be between \$138 million and \$143 million, against a prospectus forecast of \$134.8 million.

Overall, the directors consider the results for the half-year to be very satisfactory, given the trying trading conditions during the period.

Dividend

Taking account of the stronger than anticipated result for the half-year period, the directors have declared an interim dividend of 6.0 cents per share, fully imputed. This represents 70% of NPATA and is a 5% increase over the prospectus forecast of 5.7 cents per share.

The dividend will be paid on 7 April 2006 to shareholders registered as at 31 March 2006. It is Vector's first dividend to shareholders since listing, and is payable on the one billion shares on issue.

No interim dividend was paid during the 2004/05 financial year. However, a final dividend of \$53.6 million, equating to 7.1 cents per share for the 751 million shares on issue prior to the issuing of 249 million new shares, was paid to the sole shareholder of the company, the Auckland Energy Consumer Trust, on 10 August 2005 for that full financial year.

Capital management

Following the acquisition of NGC, we have devoted considerable attention to restructuring our funding portfolio. Net debt as at 31 December 2004 amounted to \$3,117.6 million, and included approximately \$850 million for the initial acquisition of a majority shareholding in NGC, as well as all of NGC's debt of \$497 million.

The net debt level is largely unchanged, as the acquisition of the balance of NGC was funded primarily by the issue of shares.

Equity at period-end amounted to \$1,507.9 million and the gearing ratio of 66.8%, compared with 75.2% as at 31 December 2004, is within our target range of 65% to 68%. The directors are comfortable that this is an appropriate level for a company with Vector's utility and infrastructure characteristics.

During the half-year, Vector issued \$593 million in new equity as part of the acquisition consideration for NGC and for the repayment of the pre-IPO equity securities (PIPES) used in the purchase of the initial stake of NGC. We also issued \$1 billion of credit-wrapped medium term notes for durations of 10, 12 and 15 years to complete the refinancing of NGC acquisition facilities and NGC bank facilities.

NGC Holdings Limited and its subsidiaries have now been brought into the Vector borrowing group. Under a deed of substitution on 23 December 2005, Vector became the obligor for NGC's \$200 million fixed interest rate bonds, which mature on 4 March 2009.

Total assets have grown during the period to \$5.2 billion compared with \$4.8 billion the previous year, and are in line with expectations in the prospectus for our year-end position.

Regulatory developments

The main industries in which Vector operates are increasingly subject to regulatory attention. Vector's electricity and natural gas networks are currently subject to various regulatory regimes and we are working with the Commerce Commission regarding a proposed threshold for natural gas pipelines.

We are spending an increasing amount of our time and resources on regulatory issues which are of importance to Vector, together with policy development in wider areas of national interest, including climate change, energy supply and infrastructure.

As a provider of utility services, the company is not opposed to appropriate quality regulatory oversight. However, we believe strongly that good regulation should look beyond just cost-effective energy delivery. It also needs to create an environment that furthers consumer interests by encouraging high service standards and future supply security through ongoing infrastructure investment.

For these reasons, we have concerns over some aspects of recent regulatory developments. The Commerce Commission's current view on the level of returns on regulated infrastructure assets is of particular concern to Vector, as it must be for similar utility owners, because of its potential to act as a disincentive for investment at a time when the nation's growth is demanding significant infrastructure development across the economy.

We will continue to engage fully and positively with key regulators and policymakers in the development and design of regulations, and will seek to work with them on balancing competing objectives to achieve practical solutions for the overall long term benefit of consumers.

Having successfully achieved these primary objectives, we have since focused on getting the best out of our newly diversified operational base, while keeping our sights on the continued development of our existing core businesses.

Outlook

Vector is firmly on track to exceed our financial forecasts for the year ended 30 June 2006.

We expect our operations will continue to perform strongly, although, as previously, the performance of our key electricity and gas businesses will be influenced by the weather.

While maintaining close attention to the continued development of our existing core businesses, we are also working through a period of consolidation, of strengthening our understanding of the growth prospects arising from the NGC acquisition, and of cementing the organisational structure to best identify and pursue future initiatives.

We look forward to reporting further progress in the second half of the year.

Michael Stiasny
Chairman

from the Chief Executive

The full acquisition of NGC is providing Vector with significant benefits, particularly in the broader strategic options that are arising from the complementary business mix.

While Vector is still solidly grounded in infrastructure, our diversification into gas processing and sales and a growing capability in telecommunications and energy metering technologies is offering a greater range of growth prospects and improved investment flexibility.

At the same time we remain committed to preserving the integrity of our utility and infrastructure services and ensuring our customers receive secure and reliable energy supplies - now and in the future. This requires ongoing investment in the maintenance and expansion of our existing electricity and gas networks.

Accordingly, capital expenditure of \$97.8 million during the half-year ended 31 December 2005 was a blend of growth and replacement investment, with a ratio of around 50:50 in the electricity business.

Our operations performed solidly and efficiently during the half-year. Net operating cash flows increased by 44.1% to \$218.9 million, reflecting the additional cash generation strengths of the NGC businesses, while cost containment partially offset the effects of lower energy consumption, enabling us to achieve our targets for both EBITDA and EBIT.

The integration of Vector and NGC is progressing well. We already have our core operational and management structure in place to pursue the strategic aspirations of the merged company. Most executive and senior management roles are now confirmed and we have integrated the gas activities of the two companies into a single gas business. We are also making good progress in a wide range of integration initiatives, including metering and information systems consolidation, project governance, procurement arrangements, and risk management processes.

The full acquisition of NGC is providing Vector with significant benefits, particularly in the broader strategic options that are arising from the complementary business mix.

Operational performance

As part of our commitment to provide investors and stakeholders with an improved level of information about Vector, this section provides a more comprehensive and detailed level of information than previous reports. In providing this, we hope to provide our stakeholders with a greater, and more timely, understanding of Vector's performance and prospects throughout the year.

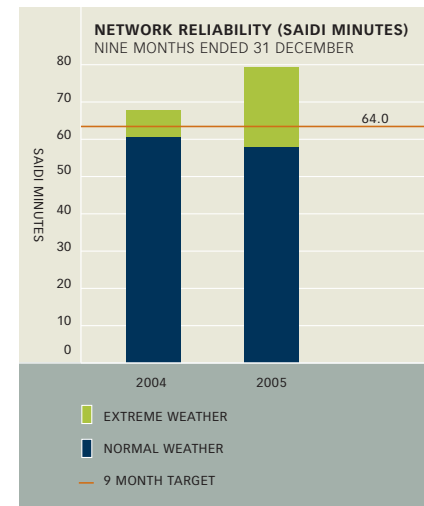
Electricity Financial result

The relatively warm 2005 winter saw an overall 1.5% reduction in electricity distribution through our networks during the period. The revenue effect of the volume reduction, however, was partly offset by higher than expected customer contributions and payments by third parties for line relocation.

Our electricity business revenues were consequently slightly lower than the previous corresponding period at \$292.4 million, although EBITDA improved from \$190.3 million to \$191.0 million due to improved operating efficiencies.

Shortly after period-end we announced an adjustment to our electricity line charges in Auckland and Wellington, effective from 1 April 2006. The line charge will increase by an average of 2.85%, which is below the forecast annual inflation rate and within the Commerce Commission's price threshold regime for Vector.

Our latest pricing review included a further move towards a single price structure for all network regions. This staged programme will ultimately ensure that we are able to apply consistent pricing methodology across all customer segments and regional networks.



from the Chief Executive (continued)



Connections

Connection growth during the period exceeded expectations across all three Vector electricity networks, with around 64% of our annual projected new connections achieved within the first half of the year. Connections to our electricity networks as at 31 December 2005 totalled 660,645, up 2% on total connections a year ago.

Network reliability

Our network SAIDI (System Average Interruption Duration Index), which measures the average time our customers are without power, was higher than the same period last year, primarily due to the large number of extreme weather events. We will continue to focus on providing our customers with a high standard of service and accordingly, will continue to analyse performance and develop further ways to enhance and future-proof our networks to achieve this.

Electricity supply security

We continue to monitor closely electricity supply security, particularly in the upper North Island, and believe it is important that the electricity industry generally takes a united approach to providing new supply capacity.

As electricity demand in this region increases, supply capacity headroom is shrinking. Although there has been no physical supply issue to date, we are concerned that the longer it takes to identify and implement solutions, the greater the risk of non-supply.

Vector is committed to working with industry participants to form a common view about security of supply and its associated risks, and we are working with the Electricity Commission and other parties to develop solutions.

A range of options is currently under review by the Electricity Commission. While many of the alternative solutions, including new generation plant construction and demand management measures, would enhance supply security, we do not believe they will replace the need for capacity reinforcement of the transmission system.

GAS

Our gas operations have grown significantly and now comprise natural gas transportation (transmission and distribution), gas processing and sales, gas liquids (LPG and natural gasoline) production and sales, and the LPG wholesaling and tolling activities of our 60.25% owned subsidiary, Liquigas Limited.

Financial result

It is particularly difficult to compare the 2005 half-year results of the gas business with those for the six month period to 31 December 2004 due to the addition of NGC's gas-related activities.

The new contract year for gas transmission and distribution began on 1 October 2005, and this included several price movements. To reflect increased costs, particularly those associated with the new open access regime, an element of the transmission fee was increased, resulting in an average movement of 2.8%.

An adjustment in variable charges on the NGC distribution networks also resulted in an overall increase of 2.8%. Pricing for our Auckland reticulated network was reduced by 9.5% as at 1 October 2005 in line with the Commerce Commission's decision on regulatory control.

In gas sales, two new pass-through cost components were introduced into our pricing. These related to Maui open access transportation



which commenced on 1 October 2005, and the Gas Industry Company levy which was introduced during the half-year under review.

Open access transportation

Open access to the onshore Maui transmission pipeline began on 1 October 2005, allowing third party gas to be transported through that line for the first time. Vector is the system operator for the open access regime, which includes both the Maui pipeline and our own transmission pipeline. To support this, we will be commissioning a specially tailored software platform in August 2006.

Systems operations and development

Transmission network throughput increased by 16% to 55.4 petajoules (PJ) because of higher demand for gas-fired power generation during a period of reduced hydro availability. As most of the additional gas was transported under fixed contracts, it had little impact on our transmission revenues.

During the period under review, we received a pipeline route designation for a new transmission pipeline between our compressor station at Rotowaro (at the end of the Maui pipeline near Huntly) to east Tamaki in Auckland. All or part of this route will provide significant capability to expand our gas pipeline infrastructure, however the final outcome will depend on the number and size of future power station developments in or north of Auckland.

Our distribution networks continued to achieve strong customer growth, with 2,877 new connections through the period taking total connections to our gas networks to just over 137,000. However, despite our solid connections growth, total throughput on our distribution networks declined by 5.5% to 12.1PJ, mainly due to the warmer winter.

The expansion of our gas network continued with 56 kilometres of new gas mains laid during the period. Key development projects included a two kilometre strategic reinforcement of the Taupo network, improved deliverability into central Auckland and Auckland Hospital, plus ongoing work on a projected seven-year replacement programme for aging low pressure sections of the Auckland gas network.

from the Chief Executive (continued)

Natural gas sales

Lower demand from our electricity generation and petrochemical manufacturing customers during the period under review resulted in natural gas sales declining by 30.8% to 17.5PJ.

Unlike the previous corresponding period, there were no sales to petrochemical producers during the period under review. However, natural gas sales to large industrial and commercial customers increased by approximately 5% over the previous corresponding period. We also renewed an existing large supply contract for almost five years, and secured a major four-year contract in a competitive tender.

A re-profiling of gas supply with our electricity generation customers has also enabled us to more effectively manage our supply/demand position until we access our entitlements to the currently undeveloped Pohokura field.

Natural gas supplies

Vector has entitlements to approximately 200PJ of gas in a flexible portfolio that allows us to comfortably meet our current contract commitments with customers for the foreseeable future.

We are continually seeking new opportunities to build our entitlements. Overall, we believe the gas industry has a bright future and will continue to play an important role in New Zealand's

sustainable energy future. With Pohokura due to come on stream later this year, Kupe also due soon and the strong likelihood of additional Maui reserves being produced as a result of the current drilling programme, we are confident that supply in the short to medium term is sustainable.

LPG and natural gasoline

Underlying growth in consumer preference for LPG as an energy of choice continued during the period, with total LPG customers growing by over 6% to more than 14,500.

Buoyant demand for butane contributed to a 4% increase in On gas' bulk LPG market sales, although cylinder sales declined by about 4% due to the warmer winter. LPG bottle sales through the BP service station network were similarly affected.

Our ongoing programme to strengthen our presence in the forecourt market saw LPG storage facilities installed at six new BP service station outlets. We were also pleased to receive a resource consent for new cylinder filling and distribution facilities in Auckland which will enable us to better support future growth initiatives in this key region.

During the six month period, LPG delivered to market from our Kapuni gas treatment plant (KGTP) increased by 1%, while volumes of natural gasoline produced at the plant and sold as a refinery feedstock were 6% higher than a year ago.

Technology and services

Vector's technology division incorporates Vector Communications and energy metering – Stream Information (70% owned) and NGC Energy Services. We are in the process of consolidating our metering strategy around the activities of these businesses.

Vector Communications

We are continuing to experience significantly increased demand for our high performance fibre-optic broadband services, and this resulted in revenue and customer growth of 35% and 30% respectively in the half-year ended 31 December 2005, compared with the previous corresponding period.

Our high speed "Infinite" internet access product, launched in April 2005 to extend service availability to small and medium enterprises, is exceeding sales expectations.

Energy services

Revenue from energy services increased by 2%, reflecting growth in Australian data services, the deployment of our new "smart" prepay meters and additional gas meter installations. For the first time, revenues from smart meters include a component relating to vending services.

The increased revenue was somewhat offset by a reduction in mass market meters, partly as a result of competitive market activity, and also due to a project which involved the reconciliation and rationalisation of historical asset data held by the company and its customers.

Prepayment meter installations also declined due to an electricity retailer's decision to deploy its own



prepay technology. We are, however, confident that this is a short term decline which will be overcome by the progressive roll-out of our innovative smart meters in New Zealand and Australia with other retailers.

Almost half of the initial deployment of 10,000 smart meters is complete and planning is now underway for subsequent installations. Our testing of an advanced intelligent networked meter system continues in Wellington and Christchurch. In Auckland, this pilot has now been linked to Vector's fibre-optic infrastructure so that we can assess synergies.

In Australia, we have initiated a prepay solution with a major Australian energy retailer, with technology and vending services provided from New Zealand.

Stream Information

The initiative to expand Stream Information's product range to include current transformers, voltage transformers, power factor correctors, and customised advisory services is proving successful. Performance for the half-year was ahead of expectations, benefiting from higher sales and cost management. Stream Information has ended the period in a stronger market position as an integrated provider of assets around a metering or connection point.

Utilitech

With the continued pressure on the New Zealand job market, training remains a key component of our business. The six months in review saw steady growth for Utilitech, in both revenues and volumes of graduates across its courses. Utilitech, a stand-alone business within Vector, is a leading training

from the Chief Executive (continued)

organisation that develops the skill base for our own network operations and provides training for other utility sector employers.

In summary

The period under review has seen significant progress for our business and I am confident that it will be viewed as a milestone period in Vector's history – one in which we listed on the NZSX, effectively doubled in size, and completed a significant financial restructuring.

All these events have created a strong foundation for the next phase in Vector's evolution. Our focus is now on consolidation – to successfully merge the two former companies to create a high-performing new organisation, and to leverage off the growth opportunities that are arising from our diversified portfolio of businesses and enhanced financial strength.

The achievements outlined in my report also demonstrate the relentless focus on operational performance by all of our businesses, which met key financial and operating targets during a challenging period.

Finally and most importantly, I would like to acknowledge the huge contribution of the talented and newly-enlarged Vector team which has remained focused and committed throughout a period of massive corporate change.

I look forward to reporting on a solid second half of further consolidation.



Mark Franklin
Chief Executive Officer



Interim Financial Statements

For the six months ended 31 December 2005

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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 2005.

For and on behalf of directors



Director 23 February 2006



Director 23 February 2006

For and on behalf of management



Chief Executive Officer 23 February 2006



Chief Financial Officer 23 February 2006

Auditors' Review Report



For the six months ended 31 December 2005

To the shareholders of Vector Limited

We have completed a review of the financial statements on pages 17 to 36 in accordance with the Review Engagement Standards issued by the Institute of Chartered Accountants of New Zealand. The financial statements provide information about the past financial performance of Vector Limited and its financial position as at 31 December 2005.

Directors' responsibilities

The directors of Vector Limited are responsible for the preparation of financial statements which give a true and fair view of the financial position of the group as at 31 December 2005 and the results of its operations and cash flows for the six month period ended on that date.

Reviewers' responsibilities

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

Basis of opinion

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

Review opinion

Based on our review, nothing has come to our attention that causes us to believe that the financial statements on pages 17 to 36 do not give a true and fair view of the financial position of the group as at 31 December 2005 and the results of its operations and cash flows for the six month period ended on that date.

Our review was completed on 23 February 2006 and our opinion is expressed as at that date.

Auckland

Statement of Consolidated Financial Performance

For the six months ended 31 December 2005

	NOTE	UNAUDITED 31 DEC 2005 6 MONTHS \$000	AUDITED 31 DEC 2004 6 MONTHS \$000	AUDITED 30 JUNE 2005 12 MONTHS \$000
Operating revenue		568,692	345,834	870,955
Operating expenditure		(265,568)	(139,334)	(404,821)
Earnings before interest, income tax, depreciation and amortisation		303,124	206,500	466,134
Depreciation and amortisation		(106,019)	(57,466)	(158,898)
Operating surplus before interest and income tax		197,105	149,034	307,236
Net interest expense		(114,067)	(74,728)	(193,432)
Operating surplus before income tax	4	83,038	74,306	113,804
Income tax expense	5	(38,864)	(30,164)	(58,984)
Operating surplus		44,174	44,142	54,820
Minority interest		(5,791)	(821)	(14,050)
Net surplus for the period		38,383	43,321	40,770

Statement of Consolidated Movements in Equity

For the six months ended 31 December 2005

NOTE	UNAUDITED 31 DEC 2005 6 MONTHS \$000	AUDITED 31 DEC 2004 6 MONTHS \$000	AUDITED 30 JUNE 2005 12 MONTHS \$000
RECOGNISED REVENUES AND EXPENSES			
Net surplus for the period:			
Group	38,383	43,321	40,770
Minority interest	5,791	821	14,050
Movement in revaluation reserve	–	(3,525)	(7,311)
Total recognised revenues and expenses for the period	44,174	40,617	47,509
Minority interest on initial acquisition of NGC	–	93,961	107,580
Decrease in minority interests on further acquisition of NGC	(109,640)	–	–
Issue of shares (net of issue costs)	583,703	–	–
DISTRIBUTIONS TO OWNERS			
Dividends	(55,944)	(49,100)	(54,728)
Movements in equity for the period	462,293	85,478	100,361
Equity at beginning of the period	1,045,572	945,211	945,211
Equity at end of the period	1,507,865	1,030,689	1,045,572

Statement of Consolidated Financial Position

As at 31 December 2005

NOTE	UNAUDITED 31 DEC 2005 \$000	AUDITED 31 DEC 2004 \$000	AUDITED 30 JUNE 2005 \$000
CURRENT ASSETS			
Cash	7,223	6,428	1,159
Receivables and prepayments	121,530	117,640	153,741
Prepaid gas	14,513	28,305	19,180
Inventories	10,415	9,321	8,800
Income tax	16,524	14,415	12,476
Capitalised finance costs	5,515	3,541	2,939
Intangible assets	8,919	–	9,500
Total current assets	184,639	179,650	207,795
NON-CURRENT ASSETS			
Receivables and prepayments	6,661	3,419	8,761
Prepaid gas	8,508	15,350	11,458
Income tax	14,078	22,739	48,756
Capitalised finance costs	26,981	8,280	7,671
Investments	17,368	10,157	17,776
Intangible assets	1,678,014	1,395,014	1,339,110
Property, plant and equipment	3,250,588	3,124,537	3,210,177
Total non-current assets	5,002,198	4,579,496	4,643,709
Total assets	5,186,837	4,759,146	4,851,504
CURRENT LIABILITIES			
Payables and accruals	145,584	137,693	169,393
Borrowings	26,768	910,194	1,026,665
Total current liabilities	172,352	1,047,887	1,196,058
NON-CURRENT LIABILITIES			
Payables and accruals	21,117	18,036	19,668
Borrowings	3,016,911	2,213,835	2,122,120
Deferred tax	468,592	448,699	468,086
Total non-current liabilities	3,506,620	2,680,570	2,609,874
Total liabilities	3,678,972	3,728,457	3,805,932
EQUITY			
Share capital	883,703	300,000	300,000
Asset revaluation reserve	547,383	551,169	547,383
Retained earnings	66,514	84,317	81,766
Parent shareholders equity	1,497,600	935,486	929,149
Minority shareholders equity	10,265	95,203	116,423
Total equity	1,507,865	1,030,689	1,045,572
Total equity and liabilities	5,186,837	4,759,146	4,851,504

Statement of Consolidated Cash Flows

For the six months ended 31 December 2005

	NOTE	UNAUDITED 31 DEC 2005 6 MONTHS \$000	AUDITED 31 DEC 2004 6 MONTHS \$000	AUDITED 30 JUNE 2005 12 MONTHS \$000
OPERATING ACTIVITIES				
Cash provided from:				
Receipts from customers		633,006	352,897	826,240
Interest portion of repayments on finance leases		60	60	120
Interest received on deposits		5,959	1,256	1,795
Income tax refund received		1,002	–	207
Dividends received		300	–	276
		640,327	354,213	828,638
Cash applied to:				
Payments to suppliers and employees		(312,789)	(128,654)	(357,883)
Income tax paid		–	–	(38,989)
Interest portion of payments under finance leases		(158)	(124)	(253)
Interest paid on subordinated debt		(14,128)	(15,041)	(46,252)
Interest paid on other borrowings		(94,345)	(58,521)	(145,786)
		(421,420)	(202,340)	(589,163)
Net cash from operating activities		218,907	151,873	239,475
INVESTING ACTIVITIES				
Cash provided from:				
Proceeds from sale of property, plant and equipment		416	91	1,781
Receipts from loans repaid		131	6	11
Capital portion of repayments on finance leases		5	5	10
Refund of security deposits		–	313	313
		552	415	2,115
Cash applied to:				
Acquisition of shares in NGC Holdings Limited	9	(122,212)	(873,766)	(885,090)
Bank overdraft acquired from NGC Holdings Limited	9	–	(8,667)	(8,667)
Purchase and construction of property, plant and equipment		(108,940)	(59,174)	(159,952)
Purchase of investments		–	–	(723)
Payments for loans issued		–	–	(500)
		(231,152)	(941,607)	(1,054,932)
Net cash used in investing activities		(230,600)	(941,192)	(1,052,817)

	NOTE	UNAUDITED 31 DEC 2005 6 MONTHS \$000	AUDITED 31 DEC 2004 6 MONTHS \$000	AUDITED 30 JUNE 2005 12 MONTHS \$000
FINANCING ACTIVITIES				
Cash provided from/(applied to):				
Issue of ordinary shares		208,715	–	–
Equity raising costs incurred		(5,393)	–	–
Proceeds from borrowings		1,678,283	1,902,634	2,048,936
Repayment of borrowings		(1,782,983)	(1,058,000)	(1,179,486)
Debt raising costs incurred		(24,373)	(2,858)	(3,224)
Capital portion of payments under finance leases		(548)	(364)	(432)
Dividends paid	7	(55,944)	(49,100)	(54,728)
Net cash from financing activities		17,757	792,312	811,066
Net increase/(decrease) in cash balances		6,064	2,993	(2,276)
Cash balances at beginning of the period		1,159	3,435	3,435
Cash balances at end of the period		7,223	6,428	1,159

Statement of Consolidated Cash Flows (continued)

For the six months ended 31 December 2005

	UNAUDITED 31 DEC 2005 6 MONTHS \$000	AUDITED 31 DEC 2004 6 MONTHS \$000	AUDITED 30 JUNE 2005 12 MONTHS \$000
RECONCILIATION OF NET SURPLUS TO NET CASH FROM OPERATING ACTIVITIES			
Net surplus for the period	38,383	43,321	40,770
Minority interest	5,791	821	14,050
Operating surplus	44,174	44,142	54,820
ITEMS CLASSIFIED AS INVESTING & FINANCING ACTIVITIES			
(Gain)/loss on sale of property, plant and equipment	(657)	1,624	4,042
Capitalised costs	(4,099)	(2,160)	(5,078)
	(4,756)	(536)	(1,036)
NON-CASH ITEMS IMPACTING NET SURPLUS			
Depreciation and amortisation	106,019	57,466	158,898
Amortisation of the mark to market adjustment	(1,307)	(1,681)	(3,393)
Amortisation of prepaid gas	7,617	1,198	14,136
Amortisation of capitalised finance costs	2,488	2,286	3,862
Increase in deferred tax	7,506	11,844	25,991
Increase/(decrease) in provisions	751	19,603	(3,409)
Equity earnings	208	(256)	(655)
	123,282	90,460	195,430
CASH ITEMS NOT IMPACTING NET SURPLUS			
Dividend from associate	200	–	–
	200	–	–
MOVEMENT IN WORKING CAPITAL			
(Decrease)/increase in payables and accruals	(3,188)	873	37,837
(Increase)/decrease in inventory	(1,615)	–	521
Decrease/(increase) in receivables and prepayments	30,181	(1,355)	(42,308)
Decrease/(increase) in income tax assets	30,629	18,289	(5,789)
	56,007	17,807	(9,739)
Net cash from operating activities	218,907	151,873	239,475

Notes to the Financial Statements

For the six months ended 31 December 2005

1. STATEMENT OF ACCOUNTING POLICIES

The interim report should be read in conjunction with the annual report for the year ended 30 June 2005.

The accounting policies used in the preparation of the interim report are consistent with those used to prepare the financial statements contained in the annual report of Vector Limited for the year ended 30 June 2005. There have been no changes in accounting policies during the interim period.

The financial statements in the interim report have been prepared in accordance with Financial Reporting Standard No.24: Interim Financial Statements.

2. SEGMENT INFORMATION

The group operates in the following areas in the utilities sector in New Zealand. The areas represent the key business lines identified by management as a result of their review of operations following the acquisition of NGC Holdings Limited and its subsidiaries. Accordingly, segment information for the comparative periods has been restated to reflect the structure of the group operations going forward and to enable meaningful comparisons to the segment information for the six months ended 31 December 2005. Intersegment sales are on an arms length basis.

Electricity

Ownership and management of electricity distribution networks.

Gas transportation

Ownership and management of gas transmission lines and distribution networks.

Gas wholesale

Natural gas acquisition and processing, LPG distribution, storage and retailing.

Technology

Telecommunications services, electricity and gas metering.

Corporate/other

Corporate activities, investments and other energy and utility industry-related businesses.

UNAUDITED 31 DEC 2005 6 MONTHS	ELECTRICITY \$000	GAS TRANS- PORTATION \$000	GAS WHOLESALE \$000	TECHNOLOGY \$000	CORPORATE /OTHER \$000	TOTAL \$000
Segment revenue	292,430	89,290	172,359	31,057	3,216	588,352
Less: Intersegment	–	(16,914)	(2,218)	(528)	–	(19,660)
Operating revenue	292,430	72,376	170,141	30,529	3,216	568,692
Earnings before interest, income tax, depreciation and amortisation	190,962	64,498	41,843	19,804	(13,983)	303,124
Depreciation and amortisation	(46,301)	(28,599)	(12,417)	(15,148)	(3,554)	(106,019)
Operating surplus before interest and income tax	144,661	35,899	29,426	4,656	(17,537)	197,105
Net interest expense						(114,067)
Operating surplus before income tax						83,038
Income tax expense						(38,864)
Operating surplus						44,174
Minority interest						(5,791)
Net surplus for the period						38,383
Total assets	2,677,334	1,385,064	488,945	505,934	129,560	5,186,837

Notes to the Financial Statements

For the six months ended 31 December 2005

2. SEGMENT INFORMATION (continued)						
AUDITED 31 DEC 2004 6 MONTHS	ELECTRICITY \$000	GAS TRANS- PORTATION \$000	GAS WHOLESALE \$000	TECHNOLOGY \$000	CORPORATE /OTHER \$000	TOTAL \$000
Segment revenue	293,472	30,810	13,381	6,971	2,991	347,625
Less: Intersegment	–	(1,475)	(302)	(14)	–	(1,791)
Operating revenue	293,472	29,335	13,079	6,957	2,991	345,834
Earnings before interest, income tax, depreciation and amortisation	190,308	25,268	673	3,313	(13,062)	206,500
Depreciation and amortisation	(42,650)	(8,677)	(953)	(2,712)	(2,474)	(57,466)
Operating surplus before interest and income tax	147,658	16,591	(280)	601	(15,536)	149,034
Net interest expense						(74,728)
Operating surplus before income tax						74,306
Income tax expense						(30,164)
Operating surplus						44,142
Minority interest						(821)
Net surplus for the period						43,321
Total assets	2,632,673	1,192,703	405,911	423,805	104,054	4,759,146
AUDITED 30 JUNE 2005 12 MONTHS	ELECTRICITY \$000	GAS TRANS- PORTATION \$000	GAS WHOLESALE \$000	TECHNOLOGY \$000	CORPORATE /OTHER \$000	TOTAL \$000
Segment revenue	557,744	107,688	189,607	36,379	5,132	896,550
Less: Intersegment	–	(16,726)	(9,349)	480	–	(25,595)
Operating revenue	557,744	90,962	180,258	36,859	5,132	870,955
Earnings before interest, income tax, depreciation and amortisation	350,221	77,624	52,166	23,802	(37,679)	466,134
Depreciation and amortisation	(88,244)	(34,306)	(11,941)	(16,729)	(7,678)	(158,898)
Operating surplus before interest and income tax	261,977	43,318	40,225	7,073	(45,357)	307,236
Net interest expense						(193,432)
Operating surplus before income tax						113,804
Income tax expense						(58,984)
Operating surplus						54,820
Minority interest						(14,050)
Net surplus for the period						40,770
Total assets	2,667,015	1,213,298	420,891	425,974	124,326	4,851,504

3. EARNINGS PER SHARE			
	UNAUDITED 31 DEC 2005 6 MONTHS	AUDITED 31 DEC 2004 6 MONTHS	AUDITED 30 JUNE 2005 12 MONTHS
Net surplus for the period (\$000)	38,383	43,321	40,770
Fully paid shares on issue (000s)	1,000,000	751,000	751,000
Earnings per share (cents)	3.8	5.8	5.4
The number of fully paid shares on issue has been restated for the six months ended 31 December 2004 to reflect that Vector Limited performed a share split increasing 300 million shares to 751 million shares during the year ended 30 June 2005.			
4. OPERATING SURPLUS BEFORE INCOME TAX			
	UNAUDITED 31 DEC 2005 6 MONTHS \$000	AUDITED 31 DEC 2004 6 MONTHS \$000	AUDITED 30 JUNE 2005 12 MONTHS \$000
Operating surplus before income tax has been determined by debiting/(crediting) the following:			
Trading revenue	(551,432)	(319,111)	(833,371)
Equity accounted earnings of associates	208	(256)	(655)
Dividend income	(100)	–	(276)
Gain on disposal of property, plant and equipment	(657)	(97)	(260)
Customer contributions	(13,760)	(20,699)	(31,897)
Miscellaneous income	(2,951)	(5,671)	(4,496)
Operating revenue	(568,692)	(345,834)	(870,955)
Interest revenue	(5,216)	(1,316)	(1,915)
Total revenue	(573,908)	(347,150)	(872,870)
Interest paid and accrued	119,700	76,248	196,968
Amortisation of capitalised finance costs	2,488	2,286	3,862
Amortisation of the mark to market adjustment	(1,307)	(1,681)	(3,393)
Capitalised interest	(1,598)	(809)	(2,090)
Interest expense	119,283	76,044	195,347
Depreciation of property, plant and equipment	58,389	36,033	95,336
Amortisation of goodwill	44,449	21,433	57,662
Amortisation of gas entitlements intangible assets	3,181	–	5,900
Loss on disposal of property, plant and equipment	–	1,721	4,302

Notes to the Financial Statements

For the six months ended 31 December 2005

5. INCOME TAX EXPENSE	UNAUDITED 31 DEC 2005 6 MONTHS \$000	AUDITED 31 DEC 2004 6 MONTHS \$000	AUDITED 30 JUNE 2005 12 MONTHS \$000
Operating surplus before income tax	83,038	74,306	113,804
Prima facie tax at 33%	27,403	24,521	37,555
Plus/(less) tax effect of permanent differences:			
Prior period adjustment	–	–	(779)
Other permanent differences	11,461	5,643	22,208
Income tax expense	38,864	30,164	58,984
The income tax expense is represented by:			
Current tax	31,358	18,320	32,993
Deferred tax	7,506	11,844	25,991
Income tax expense	38,864	30,164	58,984
6. SHARE CAPITAL	UNAUDITED 31 DEC 2005 \$000	AUDITED 31 DEC 2004 \$000	AUDITED 30 JUNE 2005 \$000
Ordinary shares			
1,000,000,000 issued, fully paid shares (31 Dec 2004: 300,000,000; 30 June 2005: 751,000,000)	883,703	300,000	300,000
Total	883,703	300,000	300,000
All ordinary shares carry equal voting rights and equal rights to a surplus on the winding up of Vector Limited. During the year ended 30 June 2005, Vector Limited performed a share split to facilitate the offering of 24.9% of the total share capital of Vector Limited to persons other than the AECT via its initial public offer. In August 2005, 249,000,000 additional ordinary shares were issued pursuant to that initial public offer at \$2.38 per share. The total issue costs incurred in respect of the initial public offer were \$14.2 million, including \$0.6 million paid to the group's principal auditors, KPMG.			
7. DIVIDENDS	UNAUDITED 31 DEC 2005 6 MONTHS \$000	AUDITED 31 DEC 2004 6 MONTHS \$000	AUDITED 30 JUNE 2005 12 MONTHS \$000
Distributions relating to previous period			
Dividends paid on ordinary shares	53,600	49,100	49,100
Dividends paid to minority interests of:			
NGC Holdings Limited	–	–	4,355
Liquigas Limited	2,344	–	1,273
Total	55,944	49,100	54,728
On 23 February 2006, the directors declared an interim dividend of 6.0 cents per share, fully imputed.			

8. PREPAID GAS	UNAUDITED 31 DEC 2005 \$000	AUDITED 31 DEC 2004 \$000	AUDITED 30 JUNE 2005 \$000
Current			
Maui and other prepaid gas	14,513	28,305	19,180
Total	14,513	28,305	19,180
Non-current			
Maui and other prepaid gas	8,508	15,350	11,458
Total	8,508	15,350	11,458
NGC Holdings Limited (a wholly-owned subsidiary of Vector Limited) and its subsidiaries ("NGC") hold the following entitlements to gas:			
Maui Gas			
On 1 June 2004, NGC entered into variations to its Maui gas contracts which set the total amount of gas to be delivered under the contracts at the quantity determined by the independent expert on 7 February 2003. Under the variations the redetermined amount of gas would be delivered and there would be no further redeterminations. Further, if the Maui Mining Companies do not deliver this quantity they must supply 'make up' gas for any shortfall from another supply or pay liquidated damages for any undelivered gas.			
At 31 December 2005, NGC has 18.1PJ of remaining Maui gas entitlements. As part of these variations to the Maui gas contracts NGC is guaranteed delivery of 16.5PJ of its remaining Maui gas from its original Advance Paid and Prepaid gas entitlements. The Advance Paid and Prepaid gas entitlements require no further payment to the Crown when delivery is taken except for payment of the energy resource levy. The remaining 1.6PJ can be uplifted by NGC at the previous contract prices. As part of the variations executed on 1 June 2004, NGC also has a right of first refusal at market price along with Contact Energy (Contact) over any additional gas found beyond the redetermined amount after first reserving 40PJ for Methanex New Zealand Limited (Methanex).			
Kapuni Gas			
NGC currently has entitlement to 50% of the recoverable gas reserves of the Kapuni field as they were determined to be at 1 April 1997. As at 31 December 2005 this is estimated to be approximately 83PJ following a downward reserves reassessment in February 2005 of 26PJ (NGC share), of which, 63PJ is at current Kapuni gas contract prices while the balance is expected to be at market prices prevailing when the gas is delivered. NGC has reached an agreement with Shell (Petroleum Mining) Company Ltd (Shell) to purchase Shell's share of Kapuni gas, after Shell has met its pre-existing contract commitments, for the period from 1 January 2005 to 31 December 2013. Deliveries of this Kapuni gas will be dependent on the daily production from the field, but NGC expects that some 45PJ of gas will be delivered under this contract. The maximum total quantity of gas to be delivered under the contract is 70PJ less the amounts credited to this contract from its Pohokura Gas Contracts discussed overleaf.			

Notes to the Financial Statements

For the six months ended 31 December 2005

8. PREPAID GAS (continued)

Pohokura Gas

NGC has agreed with Shell to purchase a portion of Shell's entitlements to gas from Pohokura from 1 July 2006, once the Pohokura field is commissioned, until 30 September 2007. The rates of gas able to be purchased under this contract vary over the term of the contract and NGC may purchase a total amount of up to 35PJ of gas under this contract. The first 10PJ of gas purchased under this contract will be credited to NGC's entitlement to 70PJ of gas as described above under Kapuni Gas. NGC has also agreed with Shell to purchase a further portion of Shell's entitlements to gas from Pohokura from 1 January 2007 until 30 June 2010. Delivery of such gas is dependent on Shell's share of Pohokura's daily production, but NGC will have up to 30TJ/day available. NGC may purchase a total amount of up to 38PJ of gas under this contract. 50% of this gas will be credited to NGC's entitlement to 70PJ of Kapuni gas from Shell as described above.

IRM and Austral Pacific gas prepayments

NGC has agreed with the Kahili Joint Venture (Kahili JV) to purchase all the wet gas to be produced from the Kahili field. The Kahili JV comprises Austral Pacific Energy (NZ) Limited ("Austral"), International Resource Management Corporation (IRM) and Tap (New Zealand) Pty Limited (Tap). The volume expected is uncertain but unlikely to exceed 5PJ. The field is currently closed for the pending technical review.

NGC has a prepayment of \$1.8 million to Austral at 31 December 2005, which will be utilised for purchases of Austral's share of gas from Kahili. NGC also has a prepayment of \$2.4 million to IRM at 31 December 2005 which will be utilised for purchases of IRM's share of gas from Kahili, and for purchase of IRM's share of any gas produced from the Cheal discovery in the future.

9. ACQUISITION OF SUBSIDIARY

On 14 December 2004 Vector Limited acquired a controlling 66.05% interest in NGC Holdings Limited, a company providing utility services in New Zealand. Due to the proximity of the initial acquisition date and 31 December 2004, it was not practical at that time to establish the fair values of the identifiable assets and liabilities acquired. Subsequently, the carrying values of the assets and liabilities acquired were restated to their fair values prior to 30 June 2005.

On 10 August 2005, Vector Limited acquired the remaining shares in NGC Holdings Limited it did not already own. With the exception of a \$7 million adjustment to the fair value of the deferred tax liability acquired as shown below, further assessment of the fair values of the assets and liabilities acquired at this date concluded they were not materially different from their carrying values in the statement of consolidated financial position. Hence, only the \$7 million further fair value adjustment and the remaining minority shareholders' interests in the net assets of NGC Holdings Limited are deducted from consideration paid at 10 August 2005 to establish the goodwill applicable to that acquisition.

Each acquisition was accounted for using the purchase method with the resulting goodwill amortised in accordance with the group's accounting policy.

These acquisitions had the following effect on the consolidated statement of financial position at each acquisition date.

NOTE	UNAUDITED 31 DEC 2005 6 MONTHS \$'000	AUDITED 31 DEC 2004 6 MONTHS \$'000	AUDITED 30 JUNE 2005 12 MONTHS \$'000
9. ACQUISITION OF SUBSIDIARY (continued)			
Assets and liabilities acquired			
Bank overdraft	–	(8,667)	(8,667)
Receivables and prepayments	–	39,255	39,255
Capitalised finance costs	–	2,057	2,057
Income tax	–	15,386	15,386
Inventory	–	9,321	9,321
Investments	–	7,151	13,648
Property, plant and equipment	–	877,719	908,519
Payables, accruals, and provisions	–	(41,867)	(44,706)
Deferred tax liability	7,000	(191,334)	(196,574)
Prepaid gas	–	44,853	44,853
Gas entitlements (intangible asset)	–	–	18,000
Borrowings	–	(492,407)	(492,407)
Minority interest in Liquigas Limited	–	(9,465)	(9,465)
Net assets acquired	7,000	252,002	299,220
Minority interest arising on acquisition	–	(84,496)	(98,115)
Minority interest eliminated on further acquisition	109,640	–	–
Goodwill arising on acquisition	10 385,953	706,260	683,985
Consideration paid	502,593	873,766	885,090
Less: non-cash consideration (shares issued)	(380,381)	–	–
Cash consideration paid	122,212	873,766	885,090
Bank overdraft acquired with subsidiary	–	8,667	8,667
Net cash impact of acquisition	122,212	882,433	893,757
Cash consideration paid			
Cash paid for shares acquired	113,245	856,527	866,023
Professional fees incurred	38	9,188	10,884
Equity raising costs incurred	8,929	–	–
Debt raising costs incurred	–	8,051	8,183
Total	122,212	873,766	885,090

Professional fees incurred during the acquisition of NGC Holdings Limited in the six months ended 31 December 2004 include \$0.1 million paid to the group's principal auditors, KPMG, and \$0.1 million paid to other auditors, PwC.

Notes to the Financial Statements

For the six months ended 31 December 2005

10. INTANGIBLE ASSETS	UNAUDITED 31 DEC 2005 6 MONTHS \$000	AUDITED 31 DEC 2004 6 MONTHS \$000	AUDITED 30 JUNE 2005 12 MONTHS \$000
Goodwill			
Balance at beginning of the period	1,336,510	700,086	700,086
Arising in the financial period:			
On acquisition of NGC Holdings Limited	385,953	706,260	683,985
Arising on change of accounting policy	–	10,101	10,101
Amortisation in the financial period	(44,449)	(21,433)	(57,662)
Balance at end of the period	1,678,014	1,395,014	1,336,510
Gas entitlements			
Balance at beginning of the period	12,100	–	–
Arising in the financial period:			
On acquisition of NGC Holdings Limited	–	–	18,000
Amortisation in the financial period	(3,181)	–	(5,900)
Balance at end of the period	8,919	–	12,100
Total	1,686,933	1,395,014	1,348,610
Current			
Gas entitlements	8,919	–	9,500
Total	8,919	–	9,500
Non-current			
Goodwill	1,678,014	1,395,014	1,336,510
Gas entitlements	–	–	2,600
Total	1,678,014	1,395,014	1,339,110

Goodwill is amortised over a period of up to 20 years in accordance with the group's accounting policy.

With effect from 1 July 2004, the board of directors elected to change the accounting policy with respect to capitalised debt raising costs where the debt raised is directly attributable to the acquisition of a subsidiary company. Such fees and other costs are now recognised as part of the cost of the acquisition within goodwill as allowed by NZ GAAP.

Consequently \$10.1 million of capitalised finance costs were reclassified to intangible assets on 1 July 2004.

11. PROPERTY, PLANT AND EQUIPMENT	COST / VALUATION \$000	ACCUMULATED DEPRECIATION \$000	NET BOOK VALUE \$000
UNAUDITED 31 DEC 2005			
Distribution systems	2,919,934	(196,947)	2,722,987
Distribution land	42,822	–	42,822
Distribution buildings	36,372	(2,902)	33,470
Electricity meters	182,142	(12,285)	169,857
Gas meters	16,886	(889)	15,997
Generation power stations and equipment	12,384	(1,036)	11,348
Computer and telecommunications equipment	99,284	(50,786)	48,498
Motor vehicles and mobile equipment	4,229	(958)	3,271
Other plant and equipment	61,966	(5,546)	56,420
Freehold land	16,909	–	16,909
Buildings	10,921	(568)	10,353
Leasehold improvements	5,161	(2,995)	2,166
Capital work in progress	116,490	–	116,490
Total	3,525,500	(274,912)	3,250,588

AUDITED 31 DEC 2004	COST / VALUATION \$000	ACCUMULATED DEPRECIATION \$000	NET BOOK VALUE \$000
Distribution systems	2,741,838	(113,548)	2,628,290
Distribution land	42,973	–	42,973
Distribution buildings	35,951	(1,969)	33,982
Electricity meters	173,662	(1,471)	172,191
Gas meters	15,381	(40)	15,341
Generation power stations and equipment	14,539	(27)	14,512
Computer and telecommunications equipment	90,698	(39,133)	51,565
Motor vehicles and mobile equipment	3,561	(182)	3,379
Other plant and equipment	57,420	(1,664)	55,756
Freehold land	12,611	–	12,611
Buildings	10,481	(132)	10,349
Leasehold improvements	4,924	(2,437)	2,487
Capital work in progress	81,101	–	81,101
Total	3,285,140	(160,603)	3,124,537

Notes to the Financial Statements

For the six months ended 31 December 2005

11. PROPERTY, PLANT AND EQUIPMENT (continued)			
AUDITED 30 JUNE 2005	COST/ VALUATION \$000	ACCUMULATED DEPRECIATION \$000	NET BOOK VALUE \$000
Distribution systems	2,852,973	(156,637)	2,696,336
Distribution land	42,822	–	42,822
Distribution buildings	35,086	(2,357)	32,729
Electricity meters	178,225	(6,520)	171,705
Gas meters	15,950	(467)	15,483
Generation power stations and equipment	11,853	(299)	11,554
Computer and telecommunications equipment	95,032	(46,159)	48,873
Motor vehicles and mobile equipment	4,060	(594)	3,466
Other plant and equipment	59,643	(3,393)	56,250
Freehold land	16,810	–	16,810
Buildings	10,820	(435)	10,385
Leasehold improvements	4,924	(2,714)	2,210
Capital work in progress	101,554	–	101,554
Total	3,429,752	(219,575)	3,210,177

The directors consider that the fair value of land and buildings is equal to or greater than their net book value.

The basis of valuation for distribution systems is depreciated replacement cost. Distribution systems assets acquired as a result of the acquisition of NGC Holdings Limited on 14 December 2004 were restated to reflect their fair value at that date. Distribution systems held prior to the acquisition of NGC Holdings Limited were revalued in March 2003. Subsequent additions are recorded at cost. Valuations are undertaken in conjunction with Maunsell Limited consulting engineers.

12. BORROWINGS

All borrowings are unsecured with all bank loans and medium term notes being subject to negative pledge arrangements.

Interest rates for all bank loans are floating based on the bank bill rate plus a margin. Bank loans are arranged through various facility agreements. Facilities with a total committed amount of \$700 million will expire in October 2008. The working capital facility with a total commitment of \$70 million is due to expire in October 2006.

Medium term notes – fixed rate NZ\$ mature April 2007 and are shown at the value of proceeds received after deducting the discount on issue of \$1.7 million and adjusting for the amount amortised to 31 December 2005 of \$1.3 million. The interest on NZ\$ medium term notes is fixed at 6.5% per annum and is paid semi-annually.

Medium term notes – floating rate A\$ mature April 2008 and April 2011. The interest on A\$ medium term notes is paid quarterly, based on BBSW plus a margin.

Capital bonds are unsecured, subordinated debt and have a first election date of 15 December 2006. The interest is fixed at 8.25% per annum and is paid semi-annually.

Fixed interest rate bonds are unsecured, unsubordinated debt with a coupon rate of 6.81%. On 23 December 2005, Vector was substituted for NGC Holdings Limited as the issuer of \$200 million of fixed interest rate bonds due to mature on 4 March 2009.

As a result, Vector has now taken over all rights and obligations as the issuer of those fixed interest rate bonds.

Private placement senior notes with a face value of US\$15 million, US\$65 million and US\$195 million, with maturity periods of 8, 12 and 15 years respectively were placed privately with US investors in September 2004 at a contract exchange rate of 0.6574 US\$ for every NZ\$.

12. BORROWINGS (continued)

In October 2005, Vector completed the refinancing of \$1 billion worth of acquisition facilities and also completed the joining of NGC Holdings Limited to the Vector guaranteeing group. Vector issued NZ floating rate notes totalling \$1 billion in three tranches (\$250 million 10 year, \$400 million 12 year and \$350 million 15 year), which have been credit wrapped by MBIA Insurance Corporation (10 year and 15 year tranches) and AMBAC Assurance Corporation (12 year tranche) and have credit ratings of AAA from Standard and Poor's and Aaa from Moody's.

Borrowings are classified between current and non-current dependent on expected repayment dates.

Borrowings are subject to various lending covenants. These have all been met for the six months ended 31 December 2005, the six months ended 31 December 2004 and the year ended 30 June 2005.

UNAUDITED 31 DEC 2005	WEIGHTED AVERAGE INTEREST RATE %	TOTAL \$000	PAYABLE WITHIN 1 YEAR \$000	PAYABLE BETWEEN 1 & 2 YEARS \$000	PAYABLE BETWEEN 2 & 5 YEARS \$000	PAYABLE AFTER 5 YEARS \$000
Bank loans	7.84	320,000	–	–	320,000	–
Working capital loans	7.61	25,000	25,000	–	–	–
Medium term notes – fixed rate NZ\$	6.50	199,644	–	199,644	–	–
Medium term notes – floating rate A\$	6.13	569,018	–	–	319,018	250,000
Capital bonds	8.25	307,205	–	–	307,205	–
Fixed interest rate bonds	6.81	200,000	–	–	200,000	–
Private placement senior notes	5.65	418,315	–	–	–	418,315
NZ floating rate notes	7.71	1,000,000	–	–	–	1,000,000
Other	6.74	4,497	1,768	1,104	1,624	1
		3,043,679	26,768	200,748	1,147,847	1,668,316
AUDITED 31 DEC 2004	WEIGHTED AVERAGE INTEREST RATE %	TOTAL \$000	PAYABLE WITHIN 1 YEAR \$000	PAYABLE BETWEEN 1 & 2 YEARS \$000	PAYABLE BETWEEN 2 & 5 YEARS \$000	PAYABLE AFTER 5 YEARS \$000
Bank loans	6.98	1,040,407	523,000	297,407	220,000	–
Working capital loans	6.81	33,000	33,000	–	–	–
Medium term notes – fixed rate NZ\$	6.50	199,360	–	–	199,360	–
Medium term notes – floating rate A\$	5.91	569,018	–	–	319,018	250,000
Capital bonds	9.75	307,205	–	307,205	–	–
Fixed interest rate bonds	6.81	200,000	–	–	200,000	–
Private placement senior notes	5.65	418,315	–	–	–	418,315
Pre-IPO equity securities	8.24	352,500	352,500	–	–	–
Other	6.31	4,224	1,694	928	1,601	1
		3,124,029	910,194	605,540	939,979	668,316

Notes to the Financial Statements

For the six months ended 31 December 2005

12. BORROWINGS (continued)						
AUDITED 30 JUNE 2005	WEIGHTED AVERAGE INTEREST RATE	TOTAL \$000	PAYABLE WITHIN 1 YEAR \$000	PAYABLE BETWEEN 1 & 2 YEARS \$000	PAYABLE BETWEEN 2 & 5 YEARS \$000	PAYABLE AFTER 5 YEARS \$000
	%					
Bank loans	7.30	1,040,453	615,453	170,000	255,000	–
Working capital loans	6.96	55,040	55,040	–	–	–
Medium term notes – fixed rate NZ\$	6.50	199,501	–	199,501	–	–
Medium term notes – floating rate A\$	6.24	569,018	–	–	319,018	250,000
Capital bonds	9.75	307,205	–	307,205	–	–
Fixed interest rate bonds	6.81	200,000	–	–	200,000	–
Private placement senior notes	5.65	418,315	–	–	–	418,315
Pre-IPO equity securities	8.51	354,401	354,401	–	–	–
Other	6.65	4,852	1,771	1,150	1,930	1
		3,148,785	1,026,665	677,856	775,948	668,316

13. FINANCIAL INSTRUMENTS

The group has a comprehensive treasury policy approved by the board of directors to manage the risks of financial instruments. The policy outlines the objectives and approach that the group will adopt in its treasury management processes. The policy covers, among other things, management of credit risk, interest rate risk, funding risk, liquidity risk, currency risk and operational risk.

	UNAUDITED 31 DEC 2005		AUDITED 31 DEC 2004		AUDITED 30 JUNE 2005	
	CARRYING AMOUNT \$000	FAIR VALUE \$000	CARRYING AMOUNT \$000	FAIR VALUE \$000	CARRYING AMOUNT \$000	FAIR VALUE \$000
Financial assets						
Cash and bank overdraft	7,223	7,223	6,428	6,428	1,159	1,159
Trade receivables	117,374	117,374	102,170	102,170	147,087	147,087
Financial liabilities						
Trade payables and other creditors	90,307	90,307	91,864	91,864	123,520	123,520
Bank loans	322,426	322,426	1,045,692	1,045,692	1,045,128	1,045,128
Working capital loans	25,052	25,052	33,101	33,101	55,050	55,050
Medium term notes – fixed rate NZ\$	202,823	201,002	202,539	202,660	202,627	202,058
Medium term notes – floating rate A\$	576,904	504,752	576,622	510,202	576,954	512,108
Capital bonds	308,389	314,394	308,536	326,467	308,536	318,656
Fixed interest rate bonds	201,008	199,871	200,967	198,166	200,908	201,292
Private placement senior notes	425,306	410,326	425,306	389,193	425,192	399,373
Pre-IPO equity securities	–	–	353,849	353,849	355,723	355,723
NZ floating rate notes	1,014,161	1,014,161	–	–	–	–
Other	4,522	3,380	4,245	3,342	4,879	3,760
Financial derivative liabilities/(assets)						
Interest rate swaps	4,687	18,876	5,353	8,423	3,992	15,499
Cross currency swaps	(8,158)	68,509	(8,453)	104,537	(8,573)	76,751

13. FINANCIAL INSTRUMENTS (continued)

The following methods and assumptions were used to estimate the carrying amount and fair value of each class of financial instrument where it is practical to estimate that value:

Trade receivables and payables, cash and short term deposits, loans and working capital

The carrying amount of these items is equivalent to their fair value and includes the principal and interest accrued. Bank overdrafts are set off against cash balances pursuant to right of set off.

Trade receivables are net of doubtful debts provided.

Medium term notes

The fair value of NZ\$ medium term notes is based on quoted market prices.

The carrying amount for the NZ\$ medium term notes is based on face value less discount plus accruals.

The fair value of A\$ medium term notes is based on face value plus accruals converted at the exchange rate prevailing at balance date.

The carrying amount for the A\$ medium term notes includes the principal and interest accrued, converted at the contract rates.

Capital bonds

The fair value of capital bonds is based on quoted market prices.

The carrying amount includes the principal and interest accrued.

Fixed interest rate bonds

The fair value of fixed interest rate bonds is based on quoted market prices.

The carrying amount includes the principal and interest accrued.

Private placement senior notes

The fair value of US\$ private placement senior notes is based on face value plus accruals converted at the exchange rate prevailing at balance date.

The carrying amount for the US\$ private placement senior notes includes the principal and interest accrued, converted at the contract rates.

Pre-IPO equity securities

The carrying amount of the pre-IPO equity securities is equivalent to their fair value and includes the principal and interest accrued.

NZ floating rate notes

The carrying amount of these items is equivalent to their fair value and includes the principal and interest accrued.

Derivative instruments

The fair value of interest rate swaps, cross currency swaps, forward rate agreements and other derivative instruments is estimated based on the quoted market prices for these instruments.

The carrying amount includes the fair value adjustments (net of amortisation) on derivative transactions acquired and interest accrued.

14. CONTINGENT LIABILITIES

The directors are aware of claims that have been made against the group and, where appropriate, have recognised provisions for these within the financial statements. No other material contingencies requiring disclosure have been identified (31 December 2004: nil, 30 June 2005: nil).

15. EVENTS AFTER BALANCE DATE

No events have occurred subsequent to 31 December 2005 which would have a material effect on these financial statements.

Notes to the Financial Statements

For the six months ended 31 December 2005

16. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

In December 2002 the New Zealand Accounting Standards Review Board announced that New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) will apply to all New Zealand entities for financial periods commencing on or after 1 January 2007.

The group has allocated internal resources and engaged external consultants to assess the differences between accounting policies under NZ IFRS and current accounting policies, to identify key areas of the financial statements that will be impacted by the transition to NZ IFRS and to oversee adoption of NZ IFRS across the group. The group has yet to determine its transition date to NZ IFRS, however the group must publish its first set of annual financial statements prepared under NZ IFRS for the year ending 30 June 2008 at the latest.

An overview of the key areas where accounting policies are expected to change and have an impact on future financial statements of the group is set out below. It should not be regarded as a complete list of changes in accounting policies that will result from transition to NZ IFRS as some decisions have not been finalised where optional alternatives in accounting policies are available. The group has not yet completed an exercise to quantify the effects of the differences in accounting policies discussed below, and are therefore currently unable to reliably quantify impacts on the financial statements, which will arise from transitioning to NZ IFRS. It is possible that the actual impact of adopting NZ IFRS may vary from the information presented below, and the variation may be material. The group intends to provide further information on the impact of transitioning to NZ IFRS in the group's next annual financial statements for the year ending 30 June 2006.

Financial instruments

The group uses derivative financial instruments that are designated as hedges of specific items. The fair values of these derivative financial instruments are not currently recognised in the statement of financial position under NZ GAAP but are disclosed in note 13 on page 34.

Under NZ IFRS there is a requirement to recognise all derivative financial instruments in the statement of financial position at fair value. On the date of transition, the group will have to value all outstanding derivative financial instruments and recognise them in the statement of financial position.

Thereafter, if the derivative financial instrument does not meet the requirements for hedge accounting, then any mark to market revaluation will be recognised in the statement of financial performance. If, however, a derivative financial instrument meets the criteria set out in the standard to qualify for hedge accounting then depending upon the type of hedging relationship, either of the following shall apply:

- The gain or loss from remeasuring the hedging instrument shall be recognised in the statement of financial performance along with the gain or loss on the hedged item attributable to the hedged risk; or
- The portion of the gain or loss on the hedging instrument that is effective shall be recognised directly in equity and the ineffective portion shall be recognised in the statement of financial performance.

Income taxes

Under NZ IFRS, deferred tax will be calculated using the balance sheet liability approach rather than the tax effect income statement approach currently used. This new approach recognises deferred tax balances when there is a difference between the carrying value of an asset or liability and its tax base. This is likely to impact the levels of deferred tax assets and liabilities recorded by the group.

Goodwill

The group currently amortises goodwill arising on acquisition of subsidiary companies over a period not exceeding 20 years. Under NZ IFRS, goodwill will not be amortised but will be subject to an annual impairment test which may give rise to an impairment expense if the assessment of the fair value of the goodwill is lower than its carrying value.

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Group General Counsel

Peter Brown
Group General Manager Organisation Services

Michael Cummings
Acting Divisional Chief Executive Officer – Gas

Peter Fredricson
Chief Financial Officer

Andrew Knight
Group General Manager Strategy

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