



2006/07 half year results

supporting information

9 February 2007

Vector Group – results summary

Six months ended 31 December



\$m	2006	2005	% Change	2005/06 Full Year
EBITDA	332.2	303.1	+9.6	578.6
EBIT	216.5	197.1	+9.8	362.7
NPATA	96.7	86.0	+12.5	143.7
NPAT	45.7	38.4	+18.9	45.1

Vector Group – financial highlights

Six months ended 31 December 2006



- NPATA per share ⁽¹⁾ 9.7 cents (1H 2005/06: 8.6 cents)
- Interim dividend: 6.5 cps fully imputed (1H 2005/06: 6.0 cps fully imputed)
Record date: 30 March 2007; Payment date: 10 April 2007
- Total Assets: \$5,672.1m (1H 2005/06: \$5,186.8m)
- Operating cash flow: \$230.4m (1H 2005/06: \$223.0m)

Business unit contributions

- Electricity EBITDA \$201.8m (1H 2005/06: \$191.0m)
- Gas EBITDA \$137.4m (1H 2005/06: \$106.3m)
- Technology EBITDA \$22.5m (1H 2005/06: \$19.8m)

⁽¹⁾ 1 billion shares

Vector Group – financial summary

Six months ended 31 December

\$ Millions	2006	2005	% change	2005/06 Full Year
Revenue	723.0	568.7	+27.1	1,132.9
Operating expenditure	(390.8)	(265.6)	+47.1	(554.3)
EBITDA	332.2	303.1	+9.6	578.6
Depreciation & Amortisation	(115.7)	(106.0)	+9.2	(215.9)
EBIT	216.5	197.1	+9.8	362.7
Net interest expense	(113.2)	(114.1)	-0.8	(228.5)
Taxation	(55.4)	(38.8)	+42.6	(81.3)
Minority Interests	(2.2)	(5.8)	-61.7	(7.8)
NPAT	45.7	38.4	+18.9	45.1
NPATA	96.7	86.0	+12.5	143.7
NPATA per share (cents)	9.7	8.6	+12.5	14.4
Interim dividend per share (cents)	6.5	6.0	+8.3	12.0

Financial Performance Discussion

Net earnings after tax (NPAT) for the six months ended 31 December 2006 were \$45.7 million, an increase of 18.9% over the previous corresponding half year ('pcp'). Net earnings after tax and excluding amortisation amounted to \$96.7 million, up 12.5%.

A return to more seasonable winter weather, following the warmer winter of 2005, and the resulting higher energy usage, continuing increased connections to our networks and significantly higher natural gas sales combined to improve operating revenues by 27.1% to \$723.0 million.

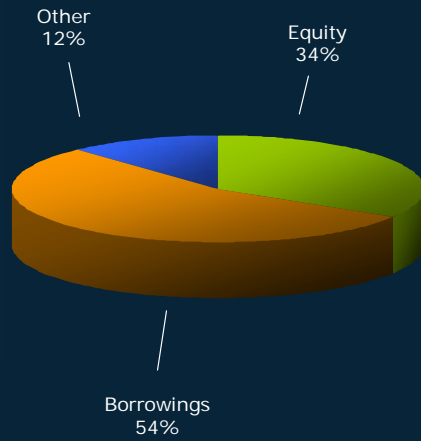
Higher operating expenditure (up 47.1%) arose from the additional gas purchases required to meet increased demand from new and existing gas customers, higher electricity transmission costs and costs associated with regulatory compliance.

Earnings before interest, tax, depreciation and amortisation (EBITDA) increased by 9.6% to \$332.2 million. A 9.2% increase, to \$115.7 million, in depreciation and amortisation primarily reflects higher asset depreciation from the previously-reported revaluation of our electricity networks and Auckland gas network, and a full half year of higher goodwill amortisation following our move to 100% ownership of NGC on 10 August 2005. Earnings before interest and tax (EBIT) were consequently up 9.8% to \$216.5 million.

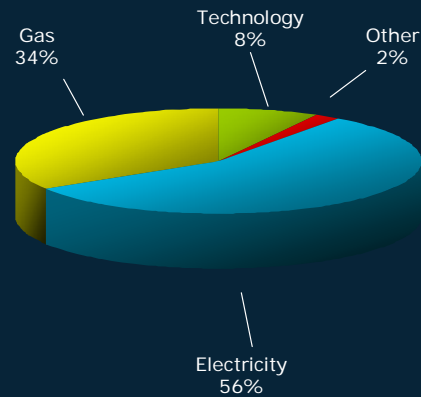
Finance costs were slightly lower than in the previous corresponding period and a 42.6% taxation increase to \$55.4 million is due to the higher pre-tax earnings.

Vector Group – financial position (\$5.7 billion) as at 31 December 2006

Source of Funds



Total Assets



There are no material changes in either the source of funds or total asset split relative to the group position as at 30 June 2006. Significant differences relative to the position as at 31 December 2005 include:

- Equity at 34% increased by 26.7% over the pcp due to the increase in the asset revaluation reserve at 30 June 2006;
- Borrowings at \$3,042 million are down from \$3,081 million as at 30 June 2006 and flat versus pcp.

Vector Group – key ratios

Six months ended 31 December

	2006	2005	% Change	2005/06 Full Year
Net debt (\$m)	3,042.3	3,036.5	+0.2	3,081.1
Equity (\$m)	1,911.2	1,507.9	+26.7	1,925.9
Net debt/(net debt + equity) (%)	61.4	66.8	-8.1	61.5
Net interest cover (x times)	1.9	1.7	+10.7	1.6
EBITDA/operating revenue (%)	46.0	53.3	-13.8	51.1
EBIT/operating revenue (%)	29.9	34.7	-13.6	32.0

Equity increased by 26.7% over the pcp due to the effects of the 30 June 2006 electricity and Auckland gas network asset revaluations.

As a result, net debt/debt plus equity improved from 66.8% to 61.4%, while actual funds drawn down at \$3,042.3 million were relatively unchanged from the \$3,036.5 million as at 31 December 2005 (i.e. up 0.2%).

EBITDA and EBIT to operating revenue percentages were diluted by increased levels of wholesale gas generating a 50% increase in gas revenues but with an EBITDA margin reduction from 43.8% to 37.8%.

Technology EBITDA was driven higher by increased revenues (up 2.8%) and control of cash, whilst the electricity business margin was impacted by higher maintenance opex due to colder temperatures.

Capital and Investment Management

Capital Bonds

Vector's \$307,205,000 Capital Bonds retained their appeal to a large majority of existing holders and to other market participants when the first election date occurred on 15 December 2006. Holders were sent election notices on 3 November 2006 outlining modified terms and conditions until the next election date of 15 June 2012.

Existing holders elected to retain \$250,137,000 of bonds and to acquire a further \$23,731,000 of bonds from a resale facility for bonds not taken up on the new terms. Together, these represented an uptake of 89% of total bonds by existing holders. There was strong demand from market participants for the remaining \$33,337,000 of bonds offered in the resale facility.

The bonds will earn an interest rate of 8.0% until the next election date (15 June 2012). Under the amended conditions of the bonds, the interest rate was set at the greater of 8.0% and the 5.5 year swap rate plus 0.90% at 3.00pm on 14 December 2006. The 5.5 year swap rate at that time was 7.09%.

Key terms of the reset bonds include:

- coupon 8% paid semi annually
- next election date 15 June 2012
- fully subordinated to all senior creditors

The bonds received a BBB- credit rating from Standard & Poor's, the subordinated nature of the bonds to Vectors senior debt reflecting their status of two notches below Vectors senior debt rating of BBB+. The capital bonds secured 50% equity credit acknowledgement from Standard & Poor's adding further quantitative support to Vector's BBB+ financial metrics.

Working Capital Facility

Our \$70 million working capital facility, due to expire on 19 October 2006, was extended for another year upon similar terms to the expiring facility.

NZD Medium Term Notes

\$200 million of NZD medium term notes are scheduled for repayment on 4 April 2007. It is intended these will be refinanced for a 10-year period as part of our ongoing funding programme.

Wanganui Gas

Vector's 25.1% shareholding in Wanganui Gas Limited was sold to Wanganui District Council Holdings Limited on 30 October 2006, following a review of our business portfolio. The terms of the sale remain confidential and the consideration received is immaterial in the context of Vector's balance sheet. Wanganui District Council Holdings already held the other 74.9% shareholding.

Vector – electricity business

Six months ended 31 December

	2006	2005	2004	% Change 2005/06	2005/06 Full Year
Revenue (\$m)	324.0	292.4	293.5	+10.8	580.1
EBITDA (\$m)	201.8	191.0	190.3	+5.7	364.5
Volume throughput (GWh)					
- Greater Auckland*	4,217	4,075	4,124	+3.5	8,033
- Wellington	1,284	1,200	1,231	+7.0	2,367
Total	5,501	5,275	5,355	+4.3	10,400
Total connections					
- Greater Auckland	509,091	501,204	490,144	+1.6	504,145
- Wellington	160,433	159,441	158,065	+0.6	159,259
Total	669,524	660,645	648,209	+1.3	663,404

* Greater Auckland comprises the Auckland and Northern networks

Highlights

- improved financial result due to a more typical winter weather pattern than in the previous year and growth in connections
- strategic focus on network efficiency and emerging technologies
- security of supply initiatives

The table above shows that whilst electricity volumes were some 4.3% up on 2005, a more normalised view is reflected by the comparison with 2004 (a 'normal' winter/spring period) with the comparative in 2006 up 1.4%.

Financial Result

New customer connections and higher usage during the colder winter led to a 10.8% revenue rise, over the much warmer pcp to 31 December 2005, to \$324 million and a consequent 5.7% higher EBITDA contribution of \$201.8 million from the electricity networks business.

Electricity Pricing

Vector is currently in the process of setting electricity prices that will be effective from 1 April 2007. As is usual, new pricing will be reflective of Vector's allowable regulatory price threshold and on-going price rebalancing programme.

Vector – electricity business

Six months ended 31 December

	2006	2005	% Change	2005/06 Full Year
Assets employed (\$m)	3,200.1 ¹	2,677.3	+19.5	3,213.0
CAPEX (\$m)				
- Growth	31.9	31.4	+1.6	68.8
- Maintenance	35.9	26.7	+34.5	67.9
- OIP	4.4	4.4	Nil	9.6
System length ² (km)				
- Auckland/Northern	17,093	16,948	+0.9	17,000
- Wellington	4,630	4,591	+0.8	4,605
Total	21,723	21,539	+0.9	21,605

¹ Includes network asset revaluation at 30 June 2006

² Consistent with our statutory disclosures, system lengths have been restated to exclude street lighting. This has no financial effect.

Electricity Operations

Total network throughput increased by 4.3% to 5,501 GWh, with 3.5% higher throughput on the greater Auckland networks, and a 7% increase on the Wellington network. Connections to our networks increased by 1.3% since 31 December 2005 to total 669,524 at the end of the current half-year.

Network reliability continued to be tested by bad weather and external third party interference. Extreme conditions accounted for over a quarter of the total 91.7 SAIDI minutes for the first nine months of the regulatory year (ending 31 March 2007) and including the significant outages following the 12 June 2006 severe weather storms and transmission grid failure into Auckland. Overall, the SAIDI trend is tracking above our expectations and we continue to progress our ongoing maintenance and construction programmes aimed at achieving our network reliability targets (excluding extreme weather events). We are discussing with the Commerce Commission the robustness of the SAIDI measure, its natural volatility and the appropriate treatment of extreme events.

Customer satisfaction levels have remained relatively constant, despite a large storm in Auckland in November and complaints carried over into this period associated with the Transpower-related outage on 12 June 2006.

We have maintained good levels of service in the field, and have a specific continuous improvement focus in this area. During the half year we introduced an enhanced competency framework for all field staff and associated training for field leaders. Our call centre function is now well established, performing to expectation and finding new opportunities to provide services for other parties.

Network Development

We continue to reinforce and extend our electricity networks to meet current and anticipated future demand. Commitments made through this period include the reinforcement of supply to the Albany basin to meet the growing commercial developments, and to a new substation in Hillsborough to meet load growth in that area.

The business continues to compete for the right to develop new networks in subdivisions. Vector has been successful in securing the right to develop the electricity network in the Mt Wellington Stonefields development. This 100 hectare site is being developed over five years to accommodate residential and commercial properties plus a school.

An on-going undergrounding programme across Auckland (Vector network) is progressing to plan, with current work on a large scale project in Howick as well as smaller projects in Western Springs and Herne Bay. Total investment in the undergrounding projects for the past full financial year, including operating expenditure, was \$10.5 million.

Vector continues to invest carefully in the development of intelligent network systems, including the key technology of Internet Protocol (IP) communication networks. This will enable the integration of our operational services, including SCADA, operational telephony, engineering, maintenance and security, as well as access to a range of asset management information direct from the field devices.

We also continue to monitor developments in utilities and technology providers overseas and to track trends in world best practice.

We are progressing planned automation projects that enable remote management of the network and improved event response. Additional equipment has been installed to reduce both the number of customers exposed to an event and the restoration time.

Electricity Demand

We continue to actively participate in all industry forums and processes to present our perspective and to offer our expertise.

For example, Vector participates in and leads ongoing industry and Electricity Commission processes to address security of supply issues in the Upper North Island, as well as the rest of the country. We believe additional capacity will be required as early as this year and have concerns over the timing of proposed transmission capacity enhancement in the Upper North Island. Accordingly, we have had significant involvement in industry-wide demand forecasting working groups to best capture future patterns of demand and to build a consensus on these.

The recent Electricity Commission draft announcement that it intends to approve a suite of measures proposed by Transpower, including a new transmission line between Whakamaru, near Tokoroa, and Pakuranga, is seen as a positive step in enhancing security into Auckland and is supported by Vector.


We are progressing our discussions with Transpower on the implementation of the Memorandum of Understanding signed in August last year for Transpower to use some of our Auckland electricity networks assets to assist in improving their transmission network security of supply across Auckland.

Emerging Energy Technologies

Vector continues to monitor emerging technologies in the context of new business opportunities and the need to address environmental concerns, such as climate change.

Gas Business Summary
Six months ended 31 December 2006

\$ Million	Gas Transportation	Gas Wholesale	Total
Revenue	73.5	289.9	363.4
EBITDA	71.4	66.0	137.4
% Revenue	97.1	22.8	37.8

Vector 				
Vector – gas business				
Six months ended 31 December				
	2006	2005	% Change	2005/06 Full Year
Revenue (\$m)	363.4	242.5	+49.9	486.1
EBITDA (\$m)	137.4	106.3	+29.2	207.1
Natural gas transported (PJ)				
Transmission	47.8	55.4	-13.7	105.3
Distribution	12.1	12.3	-1.6	22.8
Sales volumes				
Natural gas (PJ)	30.1	17.5	+72.0	35.5
Gas liquids (tonnes) ⁽¹⁾	57,225	54,939	+4.2	100,743
Liquigas (tonnes) ⁽²⁾	73,200	56,620	+29.3	111,785
Gas entitlements (PJ)	269	202	+33.2	186
<small>⁽¹⁾ Includes On gas LPG sales and KGTP LPG & natural gasoline production/sales ⁽²⁾ Includes domestic market wholesaling and domestic/export tolling</small>				

The gas business comprises natural gas transportation (transmission and distribution), processing and sales, and gas liquids (LPG and natural gasoline) production and sales, and the LPG wholesaling and tolling activities of our 60.25% owned subsidiary, Liquigas Limited.

Highlights

- Significantly increased natural gas and LPG sales
- Improved gas entitlements portfolio
- Successful commissioning of open access information platform

Financial Result

A significant improvement in the revenue and EBITDA contribution from the gas business is attributable to substantially higher natural gas and LPG sales arising from general demand growth and new supply contracts to large petrochemical producers. Revenue was 49.9% higher at \$363.4 million, and EBITDA increased by 29.2% to \$137.4 million.


EBITDA to revenue declined to 37.8% from 43.8% primarily as a result of higher gas purchase costs to meet customer requirements.

Pricing

The new contract year for both transmission and distribution began on 1 October 2006.

The capacity reservation fee component of the transmission price was again unchanged. The throughput fee component increased from \$0.65 to \$0.78 per gigajoule as a result of increasing operating costs and costs associated with open access information systems. This represented an average movement in our posted transmission prices of 6.7%, compared with a PPI increase of 8.1% and a CPI movement of 4%.

Pricing on the Auckland gas network remains subject to the Commerce Commission's Provisional Authorisation and is unchanged from the level established from 1 October 2005 when prices on that network were reduced by 9.5% in line with the Commission's decision on regulatory control. No changes were made to prices for distribution services on our non-Auckland gas networks.

				
Vector – gas business				
Six months ended 31 December				
	2006	2005	%	2006
			Change	Full Year
Assets employed (\$m)	1,918.8*	1,874.0	+2.4	1,950.1
CAPEX (\$m)				
- Growth	10.2	14.0	-27.1	27.7
- Maintenance	5.7	7.9	-27.8	16.5
System length (km)				
Transmission				
- owned/operated	2,286	2,286	--	2,286
- operated/managed (other owners)	1,195	1,194	--	1,195
Distribution	6,668	6,563	+1.5	6,587
Distribution network connections	140,999	137,006	+2.9	139,007

* Includes revaluation of Auckland gas distribution network as at 30 June 2006

Open Access Transportation

The specially-designed Open Access Transmission Information System (OATIS) software platform for administering open access for both the Maui and Vector gas transmission systems went live on 30 August 2006. Its initial release covered the Maui pipeline open access regime and included real time information for Vector customers ahead of the rollout in November 2006 covering the Vector open access regime.

The transitional systems used for administering the Maui open access arrangements prior to the commissioning of OATIS have now been decommissioned. The transition occurred without incident and the OATIS software has since been operating successfully.

Vector has initiated an industry consultation process on a proposal to replace our current standard Transmission Services Agreements (TSAs) with a Vector Transmission Code (VTC). The proposal is in response to a voluntary action request from the industry governance body, the Gas Industry Company (GIC), following a GIC review of the Vector and Maui transmission pipelines access regimes, for Vector to consider developing code-type arrangements for transmission services. We have had common provisions in our TSAs for a number of years and see merit in developing the VTC. The process envisages a code and associated contracts with a two-year term being established from 1 October 2007 (see also Regulation and Industry Governance section page 25).

It is intended that the code will be simple, robust and enforceable, foster gas industry growth, maintain non-discriminatory access and facilitate products and services that meet shippers' needs.

Systems Operations

Transmission

Lower gas transmission throughput of 47.8 PJ primarily reflects the unusually high volumes transported for thermal power generation at a time of constrained hydro resources during the drier 2004/05 winter. As this gas is transported under fixed price contract arrangements, the movement has little effect on revenues.

Long-term enhancement of gas transmission capacity to Auckland is likely to be resolved as part of the upgrades proposed to support new power generation in the region. Vector constantly reviews such upgrades and potential new generation capacity as part of our planning process.

We are working with the generators to secure consents to preserve our option of proceeding with transmission system enhancement and have issued construction notification notices to landowners on the designated pipeline route from Rotowaro (near Huntly) to East Tamaki to preserve our ability to construct pipelines over this route in 2008/09. Construction of the pipelines, however, remains subject to the investment environment and Vector's resolution of current electricity based issues with the Commerce Commission.

Distribution

Distribution throughput was relatively unchanged at 12.1 PJ, with the loss of wood processing plants offsetting customer and consumption growth.

Net customer gains of 1,992 during the current half year took total customers supplied by Vector's gas networks to 140,999 as at 31 December 2006. The new connections included 254 higher load commercial businesses, particularly hospitality, retail outlets and small processing operations, as well as a large bitumen plant in Hamilton. We continue to see development in the horticultural sector where gas has particular benefits in providing carbon dioxide enrichment.

Our networks continue to evolve to meet market demand growth and urban development. During the half year, we laid 81 km of new gas pipelines (pcp: 57 km).

In Auckland, we are involved in major network relocation projects. Several sections of the network have been relocated to enable construction of the northern busway and work on Greenlane Road and Glenfield Road requires the removal of our intermediate pressure steel pipelines and the laying of new lines in a different location.

We have continued our seven-year replacement programme in Auckland, with two major projects underway in Mt Albert and Otara. This programme will see the remaining older low pressure networks replaced with polyethylene systems operating at 400kPa.

Network upgrades will continue in the second half of the year, with two district regulator stations in Manurewa and Otara to be replaced to improve deliverability.

Work continues on our Upper Harbour Highway medium pressure pipeline project, which will reinforce the network supply and link the North Shore and West Harbour networks as the new Transit motorway gets constructed. This project will take several years to complete and will ensure Vector can supply future growth in that area of Auckland.

We are maintaining a steady rate of infill connections and subdivision developments are providing new opportunities to expand Vector's gas networks. Subdivision growth is occurring in Auckland, Waikato, Bay Of Plenty and Kapiti. Distribution pipework has now been laid into the first stage of the large Pyes Pa residential development in Tauranga.

Natural Gas Sales

New sales contracts with petrochemical producers and significantly higher sales for electricity generators were the major contributors to a 72% increase in natural gas sales in the 2006/07 half year.

While there were no sales for petrochemical production in the 2005/06 half year, the 30.1 PJ total sales for the six months ended 31 December 2006 include 9.3 PJ to petrochemical customers. Sales for electricity generation amounted to 4.4 PJ, compared with 1.5 PJ in the pcp, and sales to other resellers increased slightly from 3.2 PJ to 3.4 PJ.

The introduction of additional gas supplies from new and existing fields is fuelling increased competition in our key industrial/commercial sector of the gas market. However, we are well positioned in this sector through our enhanced gas entitlements portfolio, and remain competitive in our offers to existing and new customers over the longer term. Sales volumes to our large industrial and commercial customers in the 2006/07 half year amounted to 10.6 PJ, a 1.3% increase on the pcp.

We continue to closely monitor the overall competitiveness of gas as generally increasing gas prices prompt some customers to look to alternative forms of energy.

Natural Gas Supplies

We significantly expanded our gas entitlements portfolio on 27 October 2006 with agreements with Maui Development Limited for long term entitlements to an additional 105 PJ of Maui gas. These entitlements arose from an option we held to 38.37% of Maui gas under a pre-existing right of first refusal (ROFR) process agreed as part of the Maui reserves redetermination settlement in 2004.

Of the 105 PJ entitlements, approximately 60 PJ is contingent on being confirmed as economically recoverable. The arrangements are scheduled to commence by April 2007 and to run until December 2014.

During the contract period, the Maui ROFR reserves will be monitored regularly, and revised as necessary as they are confirmed and converted to contract gas. The contracts therefore also provide an extension option if gas is still available at the end of the contract period.

The contracts contain annual take-or-pay obligations, which will be offset by our downstream supply arrangements with industrial and commercial customers, as well as significant new supply agreements we have reached with electricity generators Genesis and Mighty River Power.

Aspects of the ROFR arrangements have been challenged by Todd Energy which, on 24 November 2006, requested the Commerce Commission to seek a cease and desist order preventing the agreements from being effected. The Commission is investigating matters raised by Todd Energy, but decided on 5 December 2006 not to seek a desist order at that time.

We remain confident in the appropriateness of our ROFR contracts and entitlements.

The ROFR entitlements significantly improve the flexibility and longevity of our gas portfolio. With our existing entitlements to gas from the Maui, Kapuni and Pohokura fields, they allow us to optimise our supply/demand balance while having the flexibility to pursue potential future acquisitions as new discoveries occur.

Our total gas entitlements of 269 PJ as at 31 December 2006 underpin our gas sales beyond 2010 and represent a solid base for strengthening our position in the industrial and commercial segments of the market. Our entitlements stood at 202 PJ as at 31 December 2005, and 186 PJ as at 30 June 2006.

Our Pohokura post commissioning gas supply contract began on 30 September 2006. This was about a month later than expected and we sourced alternative supplies under short-term arrangements to meet customers' needs. We have since also started taking deliveries of Pohokura gas under longer-term arrangements. The gas is produced through wells drilled from an onshore location and we expect gas production from the first offshore well to begin in about a month.

Gas Liquids (LPG/natural gasoline)

The return to normal winter weather, combined with general market and customer growth, contributed to a 7.2% increase, to 27,519 tonnes, in bulk and cylinder LPG volumes sold through our On Gas business. LPG customer numbers increased by 12.7% to 16,350 as at 31 December 2006.

LPG delivered to market by the bulk distributor, Liquigas Limited (60.25%-owned by Vector) increased by 29.3% to 73,200 tonnes, and reflected additional LPG imports to meet higher winter demand.

We continued to strengthen our LPG infrastructure, with the commissioning of a large new storage, filling and distribution centre at Wiri, Auckland. The capacity of this facility is about 10 times greater than the previous Auckland depot it replaces and will service the market in the upper half of the North Island. We are also considering greater-capacity depots in New Plymouth, Palmerston North and Christchurch.

Marketing On Gas

Following the rebranding of our On Gas business, we are exploring market synergies in LPG and reticulated gas with which to grow the business.

Gas Processing

Best practice initiatives at our Kapuni gas treatment plant (KGTP) and the increased focus on plant reliability are both reflected in an improved uptime of 98.7% during the half year.

Reduced gas availability from the Kapuni field continued to constrain gas processing output. Treated gas production was slightly lower at 9.4 PJ (1H 2005: 9.7 PJ), although the plant's gas liquids production (LPG and natural gasoline) increased by 1.5% to 29,706 tonnes.

Liquid carbon dioxide production has increased significantly due to the commissioning in September 2005 of expanded CO₂ purification and liquefaction facilities, which have increased production capability from 85 to 120 tonnes a day. This has enabled us to broaden our customer base for liquid carbon dioxide in the New Zealand market and is reflected in a sales volume increase of 9% in the half year.

Product quality assurance has been improved with the commissioning of two state-of-the-art analysers. Product gas is now monitored by an online moisture analyser. A purpose built multi detector gas chromatograph installed in the Kapuni plant laboratory is the first of four to be commissioned in New Zealand, and places our laboratory at the forefront of natural gas specification testing.

Vector – technology business

Six months ended 31 December

	2006	2005	% Change	2006 Full Year
Revenue (\$m)	31.4	30.5	+2.8	60.3
EBITDA (\$m)	22.5	19.8	+13.5	41.9
Assets Employed (\$m)	446.2	505.9	-11.8	438.7
CAPEX (\$m)				
- Communications	6.5	5.3	+22.6	12.6
- Energy Metering	7.3	1.2	+508.3	14.3

The Technology business incorporates Vector Communications and energy metering - NGC Energy Services and Stream Information (70% owned). Revenue growth was achieved by all of these businesses which together provided a 13.5% higher EBITDA contribution of \$22.5 million.

Vector Communications

Vector Communications recorded pleasing revenue growth, taking advantage of new opportunities arising from changing market dynamics.

A number of significant growth and technology programme milestones were achieved during the half year. These included:

- **Urban Fibre Network**

A \$4.6 million award to Vector Communications and the North Shore City Council from their successful joint bid under the Government's Broadband Challenge.

Building of the urban fibre network began in January, with the first schools expected to be connected by March. The network, spanning from Browns Bay to Devonport and from Birkdale to Takapuna, involves the rollout of 38 km of fibre optic cable. Vector will own, manage and maintain the network, which will operate under open access principles.

It will make Auckland's North Shore one of the most connected cities in the country. Once the network is completed, 45 schools, six libraries and other council facilities will have access to high quality broadband services, through a fibre-optic network, providing speeds of up to 1 Gigabit/second (or 1,000 Megabits/second). A number of North Shore businesses will also be able to take advantage of the open access broadband network.

- ***Converged Video Service (CVS)***

The launching of Vector Communications' Converged Video Service (CVS) developed for video and television production companies. CVS enables media companies to transport and deliver broadcast quality video between television companies and their production houses at the speed of light.

There is high interest in the product from broadcasters and video content providers.

- ***Synchronous Digital Hierarchy (SDH) services***

The further expansion of Vector Communications' services to the Southern Cross cable station, which is now providing SDH services to international telecommunications companies. These services are an essential link between local telecommunications companies and their international partners, and provide many of the key telephone, internet and computer connections between New Zealand and the rest of the world.

- ***Netflex***

The launching of Netflex, a new high speed corporate internet product designed for large businesses wanting more from their internet connection. Netflex enables customers to tailor their required national and international bandwidths from their internet connection.

- ***"KAREN"***

The selection of Vector Communications as the Auckland access point to the Government's Advanced Research Network. Also known as the Kiwi Advanced Research and Education Network ("KAREN"), it is a next generation telecommunications link for New Zealand educators, researchers and innovators. It provides high capacity, ultra high-speed connectivity between New Zealand's tertiary institutions, research organisations, libraries, schools and museums, and the rest of the world.

Each of the above initiatives highlight the capability of Vector Communications to provide wholesale telecommunications infrastructure and services to an ever widening customer base in the telecommunications sector.

Vector – technology business

Six months ended 31 December

	2006	2005	% Change	2006 Full Year
Energy Meters				
Electricity:				
Mass market	786,977	787,347	--	786,046
Pre-pay	8,072	5,300	+52.3	7,105
TOU	11,239	10,485	+7.2	10,809
Data Services (NZ)	9,131	8,435	+8.3	8,757
Data Services (Australia)	6,396	5,800	+10.3	6,103
Gas	67,800	63,900	+6.1	65,300

*Meter and data management figures consolidate NGC Energy Services and Stream.
2005 mass market figure restated to reflect data base reconciliation*

Energy Metering

Internationally, the energy metering industry continues its evolution towards advanced technology applications for improved industry efficiency and enhanced consumer control over energy usage. The trend is increasingly evident in New Zealand and has been given momentum by the Government's draft energy policy and the importance it places on demand management. For the last three years, we have been at the forefront of facilitating smart metering in New Zealand and we continue our active engagement with other industry participants to further progress its introduction here.

NGC Energy Services

Revenue rose slightly on the same period for last year, due to organic growth across most segments and completion of the smart prepay metering deployment, for Genesis Energy.

This deployment is evident in the 52.3% increase in prepayment meter installations and follows a short period of reduced prepay installations arising from a decision by one of our other retailer customers to use its own prepay technology.

A slight period-on-period reduction in mass market meters reflects the competitive energy metering environment as retailers evaluate smart technology options for these consumers.

We have continued to build on the knowledge and experience we have gained over the last three years in advanced energy metering technologies and, through further international assessment, we continue to explore options for deployment.

Stream Information (70% owned)

Stream's first half year has been very positive, with continued new installation growth. Organic current transformer sales growth has further consolidated Stream's position as a provider of all metering assets at a connection point. In addition, in November Stream concluded the purchase of all current and voltage transformers at a major retailer's Time of Use (HHR) installations.

Stream offers multiple metering services direct to business customers as well as direct to retailers. Agreements with Meridian and Contact have been renewed and a data services agreement with Auckland Airport has been extended for a further five years.

Stream is increasingly involved in non half hour (mass market) metering due to the emergence of embedded networks. These are typically premises, like shopping malls and commercial buildings, which have a gateway meter and metering for individual customers, who in turn are a mix of non half hour and half-hour users. Stream is providing much of the metering for these networks, including the new Albany mall, and further growth is expected.

Vector – corporate

Six months ended 31 December

\$m	2006	2005	% Change	2005/06 Full Year
EBITDA	(29.4)	(14.0)	+110.4	(34.8)
Net interest expense	(113.2)	(114.1)	-0.8	(228.5)
Taxation	(55.4)	(38.8)	+42.6	(81.3)
Net short term debt	199.7	19.5	+921.5	219.1
Long term debt	2,842.6	3,016.9	-5.8	2,862.0
Equity	1,911.2	1,507.9	+26.7	1,925.9

Vector runs a shared services model in which centres of excellence in Finance, IT, Organisation Development (including HR) and Property, in particular, support the business groups.

EBITDA is not truly comparative with the pcp as the shared services model was only implemented as part of the integration of NGC throughout the period following acquisition of 100% of NGC on 10 August 2005.

The results for Utilitech, a stand-alone Private Training Establishment within Vector that provides skill training for our own and other network operations, are included within corporate.

Utilitech

Utilitech recorded a revenue increase of 13%. The increase in electricity supply industry trainee numbers last year to address the skills shortage at a time of increasing capital replacement and maintenance requirements has begun to plateau. However, demand for on-going competency refresher training and re-assessment courses for electrical workers is increasing.

Courses have commenced at Utilitech's new, fully equipped training facility in Hamilton. Given its commutable proximity, electrical contracting companies in the Waikato and King Country regions are showing interest in having their staff trained at this facility.

During the half year, 52 electricity line mechanic trainees completed their two-year training programme, 33% more than in the previous corresponding period. A further 13 overseas-qualified line mechanics recruited by New Zealand companies were trained and assessed for New Zealand registration. Together, the 65 newly-qualified line mechanics represent a 25% increase over the 2005/06 half year.

Demand for upskilling of line mechanics to “live line” certification has eased as the shortfall continues to lessen and alternative non-live work practices are evaluated by the electrical industry. The number of electrical worker competency reassessment courses, of various durations and candidate numbers, remained steady at 137.

The requirement for those in the reticulated gas (natural gas and LPG) and gas measurement sectors to achieve a Certificate of Competency resulted in the awarding of 529 NZQA level 2 and 533 NZQA level 3 subjects, an overall increase of 42%.

Treescape (50% owned)

Treescape has continued to improve its operating efficiencies in New Zealand and has been successful in introducing new machinery to assist in the conversion process for turning cut over forestry blocks into pasture. The Energex contract in Australia is achieving satisfactory progress and is being used to test a fleet GPS system. Treescape has recently commissioned the largest Hi Rail excavator in New Zealand for its 10 year contract with Ontrack Infrastructure, owner of New Zealand’s rail network.

Outlook

Currently a total of seven sell side research analysts publish regular and widely distributed research on Vector. As at 31 December 2006 those analysts had published a relatively broad range of expectations for Vector’s annual results in the period to 30 June 2007.

Generally Vector is comfortable that its EBITDA, NPAT and NPATA (adjusted profit) will fall in the range of analysts expectations. Most recent published estimates for Vector’s results to June 2007 are as follows:

Revenue	\$1.19 billion to \$1.3 billion
EBITDA	\$568 million to \$606 million
NPAT	\$42 million to \$65 million
NPATA	\$142 million to \$159 million

Vector’s forecasts for each line above fall within the range stated and Vector remains comfortable at being able to achieve results to 30 June 2007 at the upper end of the range shown.

Regulation and Industry Governance

There have been a number of recent regulatory and energy market policy and governance developments of significance to Vector. These are:

- The Commerce Commission's acceptance in principle of our administrative settlement offer relating to price rebalancing on our electricity networks.
- MED to review Parts 4, 4A and 5 of the Commerce Act
- The Government's policy statement released in August encouraging a regime supportive of investment and fair returns
- The Government's draft energy strategy and associated climate change discussion papers
- A number of voluntary action requests from the GIC

Electricity Network Administrative Settlement

On 13 October the Commerce Commission accepted in principle Vector's administrative settlement offer relating to the rebalancing of historic return differentials between customer classes and regions across the company's electricity networks.

We now await the Commission's Reasons Paper, which will explain the Commission's rationale for accepting Vector's settlement offer over price control. This will then be subject to public consultation prior to the Commission making a final decision on our offer.

Our offer formalises the four year price rebalancing programme entered into voluntarily by the company in 2005. It also sees Vector commit to investing in its electricity network. If the offer is formally accepted, the inadvertent price and quality breaches by Vector in 2003/04 will be cleared and the Commission's process to impose price control over Vector's electricity networks will be discontinued. The price path threshold regime will continue to govern Vector's overall prices.

In December 2006, the Court of Appeal of New Zealand issued a decision in relation to Unison Networks Limited declaring the interim price path regime put in place by the Commerce Commission between 1 April 2003 and 30 March 2004 was unlawful.

While this decision may potentially affect the Commission's ability to enter into a settlement, as it relates to Vector's breach of the interim threshold, Vector proactively and voluntarily undertook a process of rebalancing its prices over a four-year period beginning in 2005 and we will continue to implement our price rebalancing process in line with the timetable expected under the administrative settlement process.

Commerce Act Review

The Ministry of Economic Development is reviewing parts 4, 4A and 5 of the Commerce Act, the regulatory provisions of the Commerce Act. A draft discussion paper on proposed reforms is due for release in February 2007, with submissions due in May. Vector regards this review as a key regulatory event in 2007 as it encompasses the fundamental regulatory governance framework and decision-making processes with outcomes that could influence Vector.

Draft New Zealand Energy Strategy

We are developing our position for submitting on the Government's draft energy strategy unveiled on 11 December 2006. The draft strategy culminates a range of Government work-streams and focuses on sustainability and signals a future of increased renewable energy generation, energy efficiency and reduced emissions.

We are also developing our position on two complementary discussion papers released with the draft strategy – "Measures to Reduce Greenhouse Gas Emissions in New Zealand Post 2012" and "Transitional Measures: Options to move towards low emissions electricity and stationary energy supply and to facilitate a transition to greenhouse gas pricing in the future." In these, the Government has indicated support for moving to price-based measures, such as emissions trading.

The draft strategy is wide-ranging and offers opportunities for Vector to feed into the further development of the country's energy strategy and to contribute to solutions. Submissions are required by 30 March 2007.

We broadly support the general thrust of the draft strategy, particularly its attention to the need to maintain supply security, mitigating barriers to investment, and demand-side solutions to improve energy efficiency.

Although provisional with much development and detailed work required to achieve its objectives, the strategy supports work we are already doing to develop commercial and technical solutions for improved energy efficiency, demand-side management and improved supply security.

These include:

- Our progressive implementation of intelligent network technologies to improve energy delivery efficiency
- Our ongoing deployment of advanced energy metering technology to provide market participants – retailers, network operators and consumers – greater ability to monitor and manage energy usage
- The development of strategic relationships nationally and internationally to evaluate emerging electricity generation options and other technologies. Our plan to formally partner with Siemens to deliver smart metering services in New Zealand will draw on Siemens' global capabilities and reinforces our belief that such partnerships are important to our future business and the provision of world class infrastructure services to New Zealand consumers
- Our work with other industry players to develop electricity supply security solutions. The Memorandum of Understanding with Transpower for use of our assets is an illustration of this broader co-operation.

We will be taking a particularly close look at the implications arising from the draft energy strategy's move away from thermal power generation, but are encouraged by the Government's recognition of the continuing key role for gas in New Zealand's future energy supply mix.

Similarly, we will be looking at the strategy's intention to relax the currently tight requirements around lines companies' participation in generation and retailing and what, practically, that may mean for companies like Vector.

Gas Industry Company (GIC)

The GIC has requested Vector to undertake several 'action requests' to encourage voluntary initiatives as part of its transmission access review including:

- the modification of the structure of our transmission contracts to provide for a code covering common elements, supported by shipper-specific contracts;
- helping to educate the industry on the operation of new balancing arrangements; and
- clarification of our interruptible capacity service

The requests provide us with an opportunity to update our arrangements and to consider new services which may be more suitable for the post-Maui supply environment. We have engaged closely with GIC on its action requests and have commenced a two-phase approach to address them.

In the first phase we have initiated an industry consultation process on replacing our standard Transmission Services Agreements with a code, and will hold regular meetings with shippers who are invited to provide feedback (see also Open Access Transportation, page 13). We are conducting two consultations in parallel with the code development process – one on capacity-related issues and interruptible services, and the other involving a review of the operation of our access regime in the new full open access environment. This review follows an industry forum on balancing, in which we presented our balancing arrangements.

The second phase will focus on any requirements for substantive changes to our access regime in 2009 after the expiry of legacy arrangements on the Maui pipeline. Vector's objective for the resulting systems is to ensure the long-term sustainability of the industry.

Auckland Gas Networks Final Authorisation

The process towards a Final Authorisation by the Commerce Commission relating to our Auckland gas networks continues.

On 8 July 2006 the Commission decided not to amend the Provisional Authorisation, which continues to apply to the Auckland gas network pending the Final Authorisation. Submissions on the proposed form of control closed on 7 August and were followed by a Commission conference in September. It was anticipated the Commission would present a draft decision for further consultation in early 2007. This is awaited as we continue to work with the Commission on information requests and valuation issues.

As previously reported, at the time of its decision not to amend the Provisional Authorisation, the Commission released a discussion paper on the form of control for the Final Authorisation. In it, the Commission indicated a preference for a weighted average price cap control approach for standard consumers, and a total revenue cap approach for non-standard customers and metering services.

The proposed form of control is structured to include an initial price reduction and an ongoing CPI-X factor. The Auckland network was subject to an initial reduction of 9.5% from 25 August 2005.

The Commission has proposed that the initial control period would cover pricing for the five years from 25 August 2005 but be implemented from October 2007.

Electricity Commission (EC)

Vector has extensive involvement in the key industry issues being considered by the Electricity Commission, including approval of transmission upgrades, transmission pricing methodology and related contractual agreements, as well as development of hedge market agreements. Our involvement includes submissions, working group participation and analysis and information sharing.

We also look forward to the EC increasing its involvement in improving demand side management innovations as indicated by the Minister in the draft New Zealand energy strategy.

Electricity & Gas Complaints Commission (EGCC)

Objectives included in Government Policy Statements for electricity and gas are requirements for all retailers and distribution companies to have appropriate consumer complaints arrangements in place, or be regulated.

Requirements of the EGCC were further expanded in October 2006 to include landowner/occupier complaints. This provision applies to all of our electricity and gas distribution and transmission assets and requires information to be provided on the website on how landowners and occupiers may lodge complaints. Other requirements require an efficient procedure for receiving, managing and resolving complaints, and a nominated point of contact. An equivalent of the original EGCC requirement for information to be posted on the process for electricity consumer complaints was introduced for gas consumer complaints in 2005.

We have processes in place to ensure compliance with these requirements.

The EC are now reviewing consumer complaints arrangements including the EGCC, the scheme to which Vector is signed up. A recommendation for formal approval of this scheme is expected in the near future.

Telecommunications Amendment Bill

Vector was an active participant in this review and welcomes many of the changes as critical to the further development of telecommunications services. The creation of an environment that encourages investment and enables New Zealand to fully benefit from broadband solutions is an aim we fully support.

In summary, Vector welcomes the increasing recognition of a more holistic approach to infrastructure regulation as witnessed by the Telecommunications Amendment Act, Government Policy Statement and Commerce Act Review.