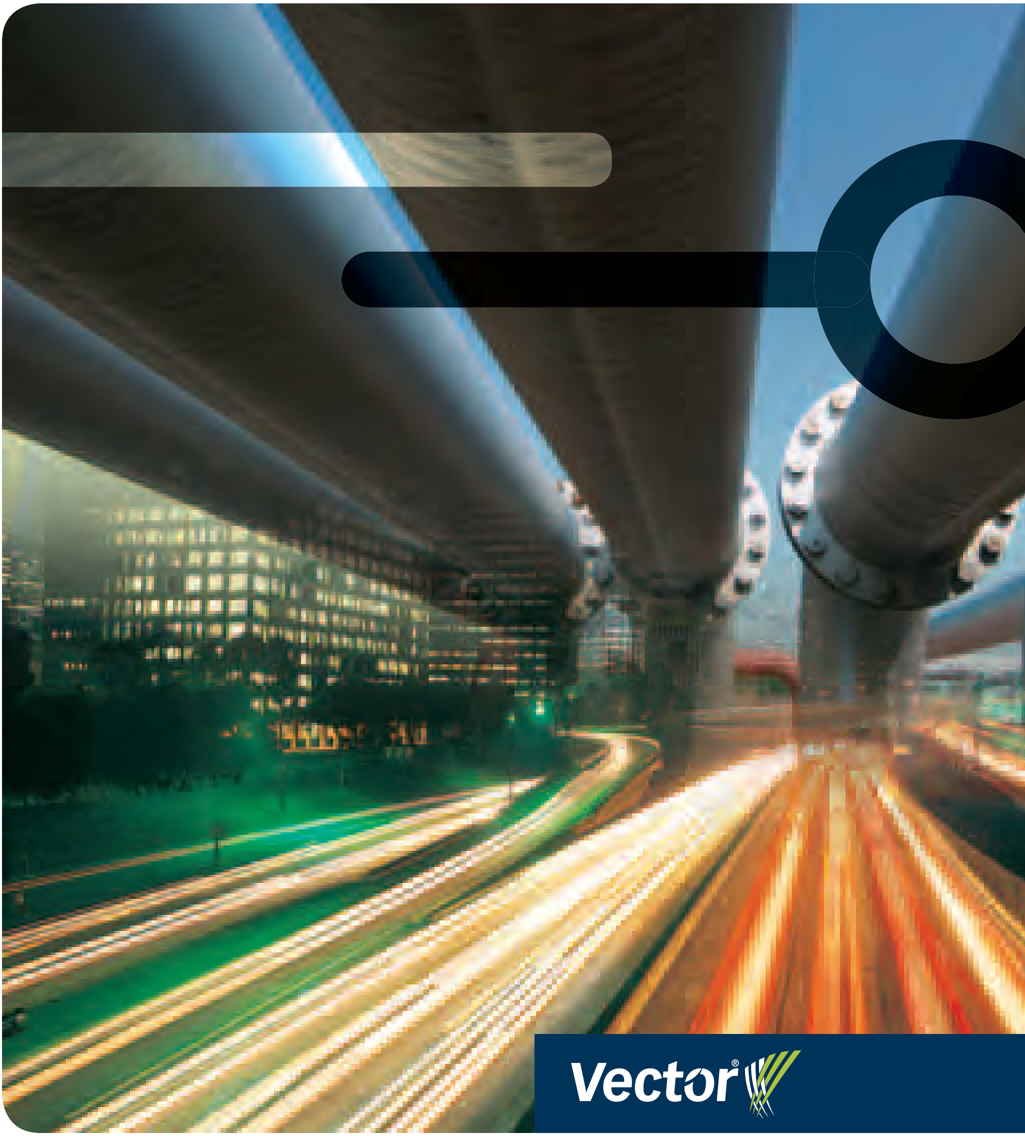
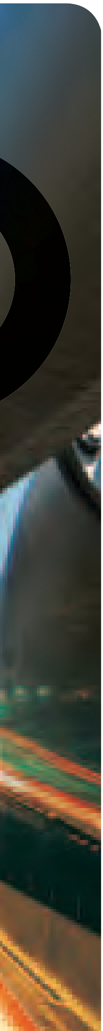
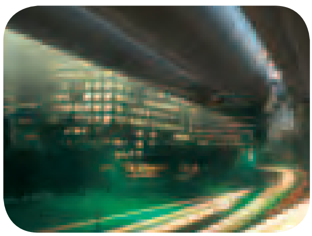


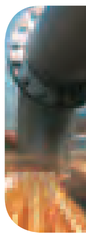
VECTOR LIMITED INTERIM REPORT 2007



HALF-YEAR HIGHLIGHTS

- Net earnings of $45.7 million, up 18.9%
- Colder weather and customer growth drive solid operating performance
- Natural gas sales volumes increase by 72%
- Operating cash flow of $230.4 million, up 3.3%
- Fully imputed interim dividend of 6.5 cents per share, up 8.3%
- Strategic operations focus on efficiency and emerging technologies
- Strengthened gas entitlements portfolio





FINANCIAL OVERVIEW

FINANCIAL PERFORMANCE

$ MILLIONS	31 DEC 2006 6 MONTHS	31 DEC 2005 6 MONTHS	% CHANGE	30 JUNE 2006 12 MONTHS
Operating 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 and 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)
Income tax expense	**(55.4)**	(38.8)	42.6	(81.3)
Minority interest	**(2.2)**	(5.8)	(61.7)	(7.8)
NPAT	**45.7**	38.4	18.9	45.1
NPAT excluding amortisation (NPATA)	**96.7**	86.0	12.5	143.7

FINANCIAL POSITION

$ MILLIONS	31 DEC 2006	31 DEC 2005	% CHANGE	30 JUNE 2006
Total equity	**1,911.2**	1,507.9	26.7	1,925.9
Total assets	**5,672.1**	5,186.8	9.4	5,718.6
Net debt	**3,042.3**	3,036.5	0.2	3,081.1

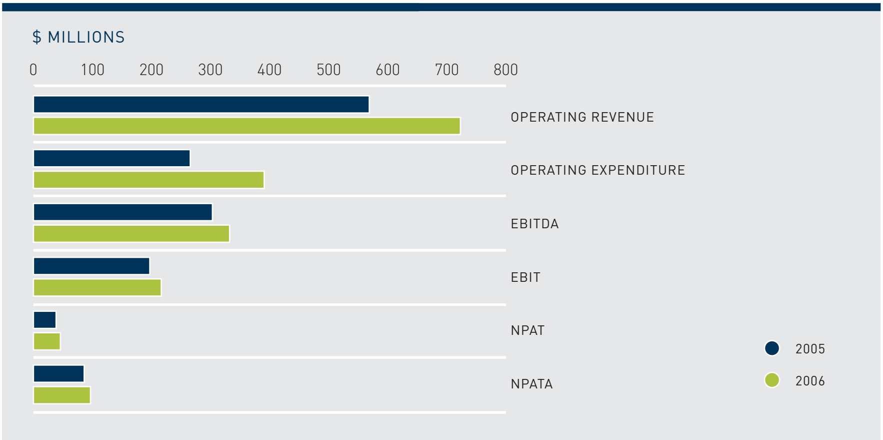
KEY FINANCIAL MEASURES

	31 DEC 2006 6 MONTHS	31 DEC 2005 6 MONTHS	30 JUNE 2006 12 MONTHS
NPATA per share[1] (cents)	**9.7**	8.6	14.4
Dividend per share[1] (cents)	**6.5**	6.0	[2]12.0
Return (NPAT) on equity (%)	**2.4**	2.5	2.3
Equity/total assets (%)	**33.7**	29.1	33.7
Gearing (net debt to net debt plus equity) (%)	**61.4**	66.8	61.5
Net interest cover (EBIT/net interest) (times)	**1.9**	1.7	1.6
EBITDA/operating revenue (%)	**46.0**	53.3	51.1
EBIT/operating revenue (%)	**29.9**	34.7	32.0
NPATA/operating revenue (%)	**13.4**	15.1	12.7
NPAT/operating revenue (%)	**6.3**	6.7	4.0

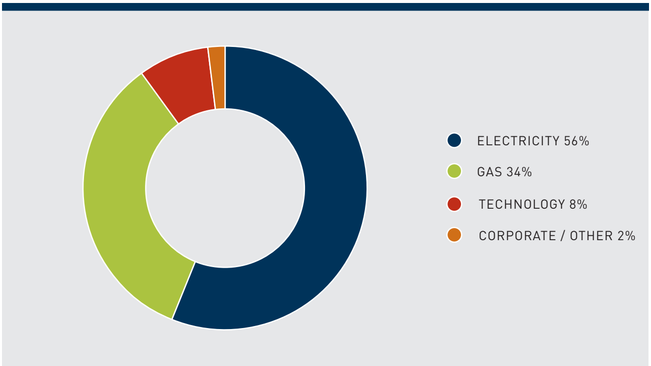
(1) Based on total of 1 billion shares

(2) Total dividends for the year ended 30 June 2006 also include a final dividend of 6 cents per share paid on 31 August 2006

FINANCIAL RESULT



TOTAL ASSETS EMPLOYED ($5.7 BILLION)



DIVISIONAL RESULTS

$ MILLIONS	ELECTRICITY	GAS	TECHNOLOGY	CORPORATE/ OTHER	TOTAL
31 DEC 2006 (6 MONTHS)					
Operating revenue	**324.0**	**363.4**	**31.4**	**4.2**	**723.0**
Operating expenditure	**(122.2)**	**(226.0)**	**(8.9)**	**(33.7)**	**(390.8)**
EBITDA	**201.8**	**137.4**	**22.5**	**(29.5)**	**332.2**
EBITDA/operating revenue	**62.3%**	**37.8%**	**71.6%**	**n/a**	**46.0%**
EBIT	**147.8**	**91.7**	**10.2**	**(33.2)**	**216.5**
31 DEC 2005 (6 MONTHS)					
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

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. Approximately $15 million of expenses in relation to these services were included in the electricity, gas and technology businesses in the six months ended 31 December 2005. Utilitech and Treescape are also included within corporate/other.

FROM THE CHAIRMAN

The board of directors is pleased to report a solid financial performance by Vector in an eventful six months ended 31 December 2006.

The return of normal winter weather, following the unusually warm conditions in 2005, new connections to our utility networks and significantly increased gas sales all contributed to an 18.9% increase in net earnings (NPAT) to $45.7 million.

We are also reporting 12.5% higher earnings after tax and before amortisation (NPATA) of $96.7 million for the latest period, which has enabled the directors to declare a higher interim dividend of 6.5 cents per share, fully imputed. This compares with a fully imputed dividend of 6 cents per share for the 2005/06 half-year, and will be paid on 10 April 2007 to shareholders registered on 30 March 2007.

The company reached a number of critical milestones during the period, including the successful rollover of our $307 million of capital bonds and the further strengthening of our natural gas entitlements portfolio.

At a regulatory level, we obtained the Commerce Commission's agreement in principle to our administrative settlement offer relating to price rebalancing on our electricity networks.

We are awaiting the Commission's final decision and anticipate finalising the settlement in the very near future. In the meantime, we have sufficient confidence in the outcome to now revisit elements of the investment strategy we deferred in August 2006 when the unexpected regulatory issues arose. In doing so, we are positioning the company to move forward immediately a final agreement is reached.

FINANCIAL PERFORMANCE

Vector has surpassed all of its targets for the half-year under review, again demonstrating the underlying strengths of our core businesses.

Our operating results, now directly comparable to the corresponding previous half-year period, continue to reflect the seasonality of our business, with energy consumption normally higher in the generally colder first quarter of the financial year.

The return to colder temperatures and a 72% lift in gas sales volumes were the main contributors to a 27.1% increase in revenues, to $723 million, and 3.3% higher operating cash flow of $230.4 million during the latest half-year.

Earnings before interest, tax, depreciation and amortisation (EBITDA) increased by a healthy 9.6% to $332.2 million, despite operating expenditure increasing by 47.1% due to additional gas purchases required to meet increased demand, higher electricity transmission costs and costs associated with regulatory compliance.

A reduced EBITDA to revenue ratio reflects both tighter margins in the wholesale gas business and higher Transpower charges for electricity transmission. We expect the effects of the transmission pass-through costs to normalise by year-end as we complete a cost recovery process discussed with the Commerce Commission.

The previously-reported revaluation of our electricity and Auckland gas networks contributed to a 9.2% increase in depreciation and amortisation, however net earnings benefited from our continuing tight management of interest costs and the significant reduction in the minority interest deduction following our move to 100% ownership of NGC.

FINANCIAL POSITION

There have been no significant changes in either our sources of funding or assets since 30 June 2006. The main difference relative to the position as at 31 December 2005 is a 26.7% increase in equity due to the effects of the 31 March 2006 electricity and Auckland gas network asset revaluations.

As a result, our gearing improved from 66.8% to 61.4%. At $3,042.3 million, funds drawn down are $38.8 million below the debt level as at 30 June 2006.

Our capital management programme remains active and is assisted by continuing favourable access to debt capital markets and a supportive group of New Zealand-based lenders.

Our capital bonds were successfully rolled over under modified terms on 15 December 2006. The bonds earn a competitive interest rate of 8.0% until the next election date of 15 June 2012 and proved attractive to existing holders, who accounted for 89% of total uptake, as well as to other market participants.

A $70 million working capital facility expiring on 19 October 2006 was extended for a year on similar terms, and we are preparing for the scheduled repayment of our NZ$200 million of medium term notes on 4 April 2007. It is intended these will be refinanced for a 10-year period as part of our ongoing funding programme.

On 30 October 2006, following a review of our business portfolio, we sold our 25.1% shareholding in Wanganui Gas Limited to Wanganui District Council Holdings Limited under confidential terms.

REGULATORY DEVELOPMENTS

We are managing wide-ranging regulatory and industry governance issues, and I am pleased to report we are doing so with an improved relationship with the Commerce Commission.

In addition to our administrative settlement offer currently before the Commission, there have been a number of important regulatory and energy policy developments during the period which are of significance to Vector.

These have included the Government's policy statement encouraging a regime supporting infrastructure investment and fair returns, the unveiling of the Government's draft national energy strategy and a Ministry of Economic Development initiative to review key regulatory sections of the Commerce Act, many of which are fundamental to how we operate our business.

We will participate fully in the consultation processes associated with these initiatives and will use the opportunities they present to contribute to the further development of New Zealand's energy strategy and the regulatory regime that will influence investment in vital infrastructure services.

The draft national energy strategy represents a critical framework for Vector as we plan our future. We broadly support its general thrust, in particular its attention to supply security, investment barriers and energy conservation, and are encouraged that our ongoing work in the areas of network efficiency, demand management and security of supply is consistent with its objectives.

OUTLOOK

We continue to build on the strong start to the financial year and expect to achieve full-year net earnings at the upper end of the range of expectations currently held by share market analysts.

The board is progressing its search for suitably qualified new directors, including appointments to casual vacancies arising from the resignations of Messrs Goulter, Gibbs and Muir late last year, and expects to make at least one appointment shortly.

We particularly look forward to reaching a regulatory accord that will enable us to reactivate our long-term investment strategy. Beyond that, we are encouraged by the broader national policy initiatives that will help direct our strategic focus and, we hope, will also provide an investment environment conducive to addressing the longer term infrastructure needs of consumers.

Michael Stiassny
Chairman

FROM THE CHIEF EXECUTIVE

While far-reaching development strategies for Vector have been held in abeyance as we seek settlement with the Commerce Commission, we have maintained operational momentum across the business with a focus on improved efficiencies and positioning the company for growth.

We have also remained alert to opportunities to enhance energy supply security for our customers, leading to the strengthening of our gas entitlements portfolio and engaging with Transpower on a plan to improve electricity delivery in the upper North Island.

During the half-year, we committed capital expenditure of $112.3 million, with most of this directed to the expansion, improvement and maintenance of our infrastructure assets. This compares with $97.8 million in the previous corresponding half-year and is consistent with our pledge to continue investment in the interests of security of supply, health and safety and regulatory, legal and contractual compliance.

Each of our core business activities made an improved earnings contribution during the period and, as we look ahead with greater confidence, we have a strong structural foundation from which to launch new growth initiatives.

Underlying our day-to-day operations is an active programme to monitor emerging technologies here and internationally, not only for the new business opportunities they offer but the role they can play in addressing environmental concerns, such as climate change. Our programme therefore includes monitoring developments in a number of alternative energy technologies.

We are very conscious of growing environmental concerns worldwide and have established within Vector a dedicated working group to look at climate change and related issues facing New Zealand. We have already engaged with industry participants in Australia to discuss their issues, views and actions in the belief it is important to gather all of the facts and to work co-operatively, both locally and globally, before arriving at a specific view.

OUR BUSINESS PERFORMANCE

ELECTRICITY

Financial result

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

Second half-year revenues will reflect changes to our electricity line charges effective from 1 April 2007. These changes will include the annual pass-through costs allowed under the Commerce Commission's price path threshold regime, as well as a rebalancing component, consistent with the voluntary rebalancing programme we commenced in 2005 and formalised in the administrative settlement offer accepted in principle by the Commission in October 2006. The rebalancing programme is revenue neutral for Vector and will be completed by 2009.

Depending on individual pricing plans, the adjustments will result in an increase of approximately $5 to $6 per month for the average residential customer on our Northern and Auckland networks, and a decrease of approximately $1 per month for an average residential customer on the Wellington network. Some commercial customers within Vector's Auckland network will experience price reductions and others price increases. All commercial customers on the Wellington network, and most of those on the Northern network will receive price reductions.

Network operations and development

Total electricity network throughput increased by 4.3% to 5,501 gigawatt hours. The throughput increase, however, is 1.4% when compared with the "normal" winter conditions experienced in the 2004 half-year.

Connections to our networks increased by 1.3% since 31 December 2005 to total 669,524 at the end of the current half-year.

We continue to reinforce and extend our electricity networks to meet present and anticipated future demand. Commitments entered into during the period include supply reinforcement in areas of greater Auckland.

Vector is successfully competing to distribute electricity in new subdivisions and will develop the electricity network in a major 100 hectare residential and commercial development in Mt Wellington, Auckland.

The company is also investing in intelligent network systems, including key internet protocol communication technology, and we are progressing planned automation projects that will enable further remote management of the network and improved event response.

Network reliability

Network reliability continues to be tested by bad weather and external third party interference. For the first nine months of the regulatory year, ending 31 March 2007, extreme conditions accounted for over a quarter of the average minutes our customers were without power. Overall, the trend is tracking outside our expectations and we are progressing our ongoing maintenance, improvement and construction programmes to achieve our network reliability targets.

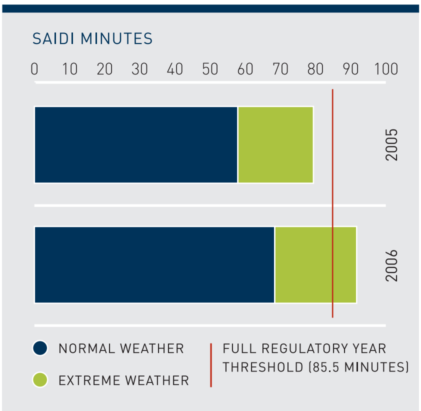
Vector accepts accountability for the reliability of its electricity networks, but we question the current regulatory threshold measurement methodology. Accordingly, we are discussing with the Commerce Commission the robustness of the SAIDI (system average interruption duration index) measure, with its natural volatility, and await the Commission's decision on how extreme events will be treated.

ELECTRICITY THROUGHPUT

SIX MONTHS ENDED 31 DECEMBER

NETWORK RELIABILITY

NINE MONTHS ENDED 31 DECEMBER



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

GAS

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.

The EBITDA to revenue ratio, however, declined to 37.8% from 43.8% primarily as a result of the additional gas purchases, including from more expensive gas sources, to meet customer requirements.

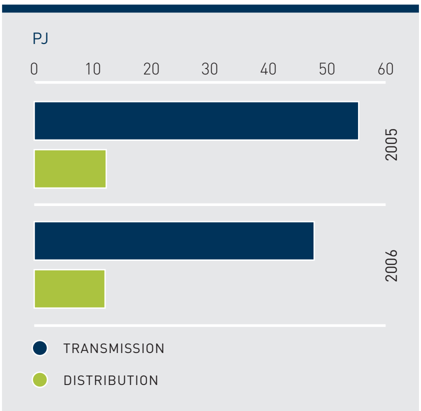
Revenues also reflect new transmission prices introduced at the commencement of the new contract year on 1 October 2006. Our transmission prices increased by an average of 6.7%, compared with a PPI increase of 8.1% and a CPI movement of 4%.

No changes were made to prices for distribution services on our non-Auckland gas networks, while pricing on the Auckland gas network remains subject to the Commerce Commission's Provisional Authorisation.

Accordingly, the Auckland gas network pricing 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. Submissions on the proposed final form of control closed in August last year, and were followed in September by a Commission conference. We are currently working with the Commission on information requests and ultimately the Commission will present a draft decision for further consultation prior to making a final authorisation.

GAS THROUGHPUT

SIX MONTHS ENDED 31 DECEMBER



Open access transportation
The specially-designed open access transmission information system software platform for administering open access for both the Maui and Vector gas transmission systems went live on 30 August 2006.

In response to a voluntary action request from the industry governance body, the Gas Industry Company, Vector has initiated industry consultation on a proposal to replace our current standard transmission services agreements with the Vector Transmission Code. As we have had common provisions in our transmission services agreements for a number of years we see merit in a code-based arrangement.

Systems operations and development
Gas transmission system throughput declined by about 8 petajoules (PJ) to 47.8 PJ due to the unusually high volumes transported for thermal power generation during constrained hydro resources in the drier 2005 winter. As this gas is transported under fixed price contract arrangements, the movement had little effect on revenues.

Distribution networks throughput was relatively unchanged at 12.1 PJ, with the loss of a large commercial customer offsetting connection 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, and we continue to see development in the horticultural sector where gas has 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 kilometres of new gas pipelines compared with 57 kilometres in the previous corresponding half-year.

Natural gas sales

New sales contracts with petrochemical producers and significantly higher sales to electricity generators resulted in a 72% increase in natural gas volume sales in the half-year.

While there were no sales for petrochemical production in the previous corresponding 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 previous corresponding period.

The introduction of additional gas supplies from new and existing fields is fuelling increased competition in the 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 half-year amounted to 10.6 PJ, an increase of 1.3%.

Gas liquids (LPG/natural gasoline)

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

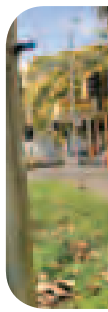
LPG delivered to the market by the bulk distributor, Liquigas Limited (60.25%-owned by Vector) increased by 29.3% to 73,200 tonnes, with additional LPG imports required to meet higher winter demand.

Our LPG infrastructure was further strengthened with the commissioning of a large new storage, filling and distribution centre at Wiri, Auckland.

Gas processing

The Kapuni gas treatment plant recorded an improved uptime of 98.7% during the half-year following the introduction of further best operating practice initiatives and an increased focus on plant reliability.

Reduced gas availability from the Kapuni field, however, constrained treated gas output, which was slightly lower at 9.4 PJ. LPG and natural gasoline production increased by 1.5% to 29,706 tonnes.



Liquid carbon dioxide production has increased significantly following the commissioning of expanded carbon dioxide purification and liquefication facilities in September 2005. The increase in production capability from 85 to 120 tonnes a day 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.

ENERGY SUPPLY SECURITY

Energy supply security is an industry issue requiring broad input and co-operation. We continue to engage in promoting supply security in both the electricity and gas sectors.

In electricity, we are involved in key industry issues being considered by the Electricity Commission through the submissions process, working group participation, analysis and information sharing.

The recent Electricity Commission draft announcement that it intends to approve a number of measures proposed by Transpower, including a new transmission line between Whakamaru and Pakuranga, is supported by Vector as a positive step in strengthening the national grid.

We are separately engaged 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 electricity transmission network security of supply into and across Auckland.

There is a healthy supply outlook for the gas sector, with the finalisation of long-term right of first refusal arrangements for Maui gas, the commencement of deliveries from the Pohokura field and other new gas coming into the market.

Vector's gas entitlements portfolio was substantially strengthened in October 2006 with agreements with Maui Development Limited for long term entitlements to an additional 105 PJ of Maui gas. They arose from an option we held to 38.37% of Maui gas under a pre-existing right of first refusal 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.

Aspects of the right of first refusal arrangements have been challenged by Todd Energy, however we remain confident in the appropriateness of our contracts and entitlements.

We have a strong and flexible gas entitlements portfolio of 269 PJ as at 31 December 2006 compared with 202 PJ as at 31 December 2005, and 186 PJ as at 30 June 2006.

With our existing entitlements to gas from the Maui, Kapuni and Pohokura fields we are able to optimise our supply/demand balance while having the flexibility to pursue future acquisitions as new discoveries occur. The portfolio underpins our gas sales beyond 2010 and represents a solid base for strengthening our position in the industrial and commercial segments of the market.

TECHNOLOGY AND SERVICES

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 telecommunications market dynamics.

Significant growth and technology programme milestones achieved during the half-year have demonstrated our capability to provide wholesale telecommunications infrastructure and services to an expanding customer base.

The achievements included a $4.6 million award to Vector Communications and the North Shore City Council from a successful joint bid under the Government's Broadband Challenge. Building of the 38 kilometres of fibre-optic network began in

January and will result in Auckland's North Shore becoming one of the most connected regions of the country.

Vector Communications also launched a converged video service for video and television production companies, expanded its synchronous digital hierarchy services to international telecommunications companies and introduced Netflex, a new high-speed corporate internet product for large businesses.

Vector Communications has been selected as the Auckland access point to the Government's advanced research network, 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.

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.

This trend is increasingly evident in New Zealand and has been given impetus by the importance placed by the draft national energy strategy 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 last year due to organic growth across most segments and completion of a smart prepay metering deployment project.

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 an international partnership with Siemens AG, we continue to explore options for deployment in New Zealand.

Stream completed a positive first half-year, with continued installation growth. Increasing current transformer sales 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 installations.

Stream offers multiple metering services direct to business customers as well as direct to retailers. Agreements with two major electricity retailers have been renewed and a data services

agreement with Auckland Airport has been extended for a further five years. Stream is also becoming increasingly involved in non half hour (mass market) metering due to the emergence of embedded networks – typically shopping malls and commercial premises with a gateway meter and metering for individual customers.

Utilitech

Revenue from our private training establishment, Utilitech, increased by 13%. The increase in electricity supply industry trainee numbers in 2006 to address a skills shortage has begun to plateau, however demand for ongoing competency refresher training and reassessment 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.

A requirement for certificates of competency is creating increasing training requirements in the reticulated gas and gas measurement sectors.

Treescape (50% owned)

Tree and vegetation management company, Treescape, continued to improve its operating efficiencies and has introduced new machinery in its contracts for New Zealand's rail network, and for converting cutover forestry blocks into pasture.

IN SUMMARY

We have completed a satisfactory half-year, recording a solid operational performance that has provided the platform for achieving full year earnings consistent with the upper expectations of market analysts. I look forward to reporting to you on our full year results.

The anticipated resolution of regulatory issues with the Commerce Commission in the near future will enable Vector to again consider its longer-term investment programme and we are positioning ourselves now to move ahead immediately a settlement is reached. Wider Government policy initiatives, particularly in the areas of New Zealand's energy future and a review of key Commerce Act provisions provide hope of leading to a more certain environment in which we can plan our future strategies and related investments.

Mark Franklin
Group Chief Executive Officer

INTERIM
FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2006

CONTENTS

INTERIM FINANCIAL STATEMENTS

The directors are pleased to present the interim financial statements of the group for the six months ended 31 December 2006.

For and on behalf of directors

Director 9 February 2007

Director 9 February 2007

For and on behalf of management

Group Chief Executive Officer 9 February 2007

Chief Financial Officer 9 February 2007

AUDITORS' REVIEW REPORT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2006

TO THE SHAREHOLDERS OF VECTOR LIMITED

We have completed a review of the financial statements on pages 17 to 34 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 2006.

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 2006 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 34 do not give a true and fair view of the financial position of the group as at 31 December 2006 and the results of its operations and cash flows for the six month period ended on that date.

Our review was completed on 9 February 2007 and our opinion is expressed as at that date.

KPMG

Auckland

STATEMENT OF
CONSOLIDATED FINANCIAL PERFORMANCE

FOR THE SIX MONTHS ENDED 31 DECEMBER 2006

	NOTE	UNAUDITED 31 DEC 2006 6 MONTHS $000	UNAUDITED 31 DEC 2005 6 MONTHS $000	AUDITED 30 JUNE 2006 12 MONTHS $000
Operating revenue		**723,011**	568,692	1,132,990
Operating expenditure		**(390,771)**	(265,568)	(554,346)
Earnings before interest, income tax, depreciation and amortisation		**332,240**	303,124	578,644
Depreciation and amortisation		**(115,779)**	(106,019)	(215,890)
Operating surplus before interest and income tax		**216,461**	197,105	362,754
Net interest expense		**(113,167)**	(114,067)	(228,521)
Operating surplus before income tax	3	**103,294**	83,038	134,233
Income tax expense	4	**(55,422)**	(38,864)	(81,345)
Operating surplus		**47,872**	44,174	52,888
Minority interest		**(2,218)**	(5,791)	(7,820)
Net surplus for the period		**45,654**	38,383	45,068

STATEMENT OF
CONSOLIDATED MOVEMENTS IN EQUITY
FOR THE SIX MONTHS ENDED 31 DECEMBER 2006

	NOTE	UNAUDITED 31 DEC 2006 6 MONTHS $000	UNAUDITED 31 DEC 2005 6 MONTHS $000	AUDITED 30 JUNE 2006 12 MONTHS $000
RECOGNISED REVENUES AND EXPENSES				
Net surplus for the period:				
Group		**45,654**	38,383	45,068
Minority interest		**2,218**	5,791	7,820
Movement in revaluation reserve		**–**	–	470,599
Total recognised revenues and expenses for the period		**47,872**	44,174	523,487
Decrease in minority interests on completion of acquisition of NGC		**–**	(109,640)	(109,313)
Issue of shares (net of issue costs)		**–**	583,703	583,703
DISTRIBUTIONS TO OWNERS				
Dividends	6	**(60,000)**	(53,600)	(113,600)
Supplementary dividends		**(380)**	–	(321)
Foreign investor tax credits		**380**	–	321
Dividends to minorities	6	**(2,588)**	(2,344)	(3,935)
Movements in equity for the period		**(14,716)**	462,293	880,342
Equity at beginning of the period		**1,925,914**	1,045,572	1,045,572
Equity at end of the period		**1,911,198**	1,507,865	1,925,914

STATEMENT OF
CONSOLIDATED FINANCIAL POSITION

AS AT 31 DECEMBER 2006

	NOTE	UNAUDITED 31 DEC 2006 $000	UNAUDITED 31 DEC 2005 $000	AUDITED 30 JUNE 2006 $000
CURRENT ASSETS				
Cash		**5,247**	7,223	9,507
Receivables and prepayments		**156,972**	121,530	171,503
Prepaid gas	7	**2,383**	14,513	7,950
Inventories		**9,849**	10,415	7,998
Income tax		**–**	16,524	22,261
Capitalised finance costs		**5,854**	5,515	5,363
Intangible assets	8	**639**	8,919	3,793
Total current assets		**180,944**	184,639	228,375
NON-CURRENT ASSETS				
Receivables and prepayments		**3,440**	6,661	3,253
Prepaid gas	7	**2,881**	8,508	4,987
Income tax		**–**	14,078	–
Capitalised finance costs		**24,487**	26,981	24,567
Investments		**11,780**	17,368	17,814
Intangible assets	8	**1,624,548**	1,678,014	1,672,426
Property, plant and equipment	9	**3,824,067**	3,250,588	3,767,166
Total non-current assets		**5,491,203**	5,002,198	5,490,213
Total assets		**5,672,147**	5,186,837	5,718,588
CURRENT LIABILITIES				
Payables and accruals		**202,109**	145,584	211,173
Income tax		**13,314**	–	–
Borrowings	10	**204,908**	26,768	228,625
Total current liabilities		**420,331**	172,352	439,798
NON-CURRENT LIABILITIES				
Payables and accruals		**8,591**	21,117	8,770
Borrowings	10	**2,842,614**	3,016,911	2,861,989
Deferred tax		**489,413**	468,592	482,117
Total non-current liabilities		**3,340,618**	3,506,620	3,352,876
Total liabilities		**3,760,949**	3,678,972	3,792,674
EQUITY				
Share capital	5	**883,703**	883,703	883,703
Asset revaluation reserve		**1,017,982**	547,383	1,017,982
Retained earnings		**(1,112)**	66,514	13,234
Parent shareholders equity		**1,900,573**	1,497,600	1,914,919
Minority shareholders equity		**10,625**	10,265	10,995
Total equity		**1,911,198**	1,507,865	1,925,914
Total equity and liabilities		**5,672,147**	5,186,837	5,718,588

STATEMENT OF
CONSOLIDATED CASH FLOWS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2006

	NOTE	UNAUDITED 31 DEC 2006 6 MONTHS $000	UNAUDITED 31 DEC 2005 6 MONTHS $000	AUDITED 30 JUNE 2006 12 MONTHS $000
OPERATING ACTIVITIES				
Cash provided from:				
Receipts from customers		**738,450**	633,006	1,112,390
Interest portion of repayments on finance leases		**60**	60	120
Interest received on deposits		**2,766**	5,959	10,191
Income tax refund received		**–**	1,002	1,055
Dividends received		**226**	300	577
		741,502	640,327	1,124,333
Cash applied to:				
Payments to suppliers and employees		**(390,607)**	(310,287)	(524,963)
Income tax paid		**(10,851)**	–	(20,443)
Interest portion of payments under finance leases		**(249)**	(158)	(504)
Interest paid on subordinated debt		**(12,708)**	(14,128)	(32,158)
Interest paid on other borrowings		**(96,660)**	(92,748)	(193,116)
		(511,075)	(417,321)	(771,184)
Net cash from operating activities		**230,427**	223,006	353,149
INVESTING ACTIVITIES				
Cash provided from:				
Proceeds from sale of non-current assets		**9,267**	416	587
Receipts from loans repaid		**131**	131	137
Capital portion of repayments on finance leases		**6**	5	11
		9,404	552	735
Cash applied to:				
Acquisition of shares in NGC Holdings Limited		**–**	(122,212)	(122,178)
Purchase and construction of property, plant and equipment		**(134,872)**	(113,039)	(225,245)
Purchase of investments		**–**	–	(600)
		(134,872)	(235,251)	(348,023)
Net cash used in investing activities		**(125,468)**	(234,699)	(347,288)
FINANCING ACTIVITIES				
Cash provided from/(applied to):				
Issue of ordinary shares		**–**	208,715	208,715
Equity raising costs incurred		**–**	(5,393)	(5,393)
Proceeds from borrowings		**226,411**	1,678,283	1,863,761
Repayment of borrowings		**(269,647)**	(1,782,983)	(1,921,745)
Debt raising costs incurred		**(3,208)**	(24,373)	(24,506)
Capital portion of payments under finance leases		**(187)**	(548)	(810)
Dividends paid to shareholders of Vector Limited	6	**(60,000)**	(53,600)	(113,600)
Dividends paid to minority interests	6	**(2,588)**	(2,344)	(3,935)
Net cash from financing activities		**(109,219)**	17,757	2,487
Net (decrease)/increase in cash balances		**(4,260)**	6,064	8,348
Cash balances at beginning of the period		**9,507**	1,159	1,159
Cash balances at end of the period		**5,247**	7,223	9,507

	UNAUDITED 31 DEC 2006 6 MONTHS $000	UNAUDITED 31 DEC 2005 6 MONTHS $000	AUDITED 30 JUNE 2006 12 MONTHS $000
RECONCILIATION OF NET SURPLUS TO NET CASH FROM OPERATING ACTIVITIES			
Net surplus for the period	**45,654**	38,383	45,068
Minority interest	**2,218**	5,791	7,820
Operating surplus	**47,872**	44,174	52,888
ITEMS CLASSIFIED AS INVESTING AND FINANCING ACTIVITIES			
Net loss/(gain) on disposal of non-current assets	**1,238**	(657)	(1,167)
	1,238	(657)	(1,167)
NON-CASH ITEMS IMPACTING NET SURPLUS			
Depreciation and amortisation	**115,779**	106,019	215,890
Amortisation of the mark to market adjustment	**(1,715)**	(1,307)	(2,605)
Amortisation of prepaid gas	**7,673**	7,617	13,501
Amortisation of capitalised finance costs	**2,940**	2,488	5,088
Increase in deferred tax	**7,296**	7,506	22,345
(Decrease)/increase in provisions	**(2,584)**	(1,111)	773
Equity earnings (surplus)/deficit	**(470)**	208	365
	128,919	121,420	255,357
CASH ITEMS NOT IMPACTING NET SURPLUS			
Dividend from associate	**–**	200	200
	–	200	200
MOVEMENT IN WORKING CAPITAL			
Increase/(decrease) in payables and accruals	**4,467**	(1,326)	22,500
(Increase)/decrease in inventory	**(1,851)**	(1,615)	802
Decrease/(increase) in receivables and prepayments	**14,207**	30,181	(16,402)
Increase in income tax liabilities	**13,314**	–	–
Decrease in income tax assets	**22,261**	30,629	38,971
	52,398	57,869	45,871
Net cash from operating activities	**230,427**	223,006	353,149

1. STATEMENT OF ACCOUNTING POLICIES

The interim report should be read in conjunction with the annual report for the year ended 30 June 2006.

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 2006. 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 infrastructure sectors in New Zealand. 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, processing and retailing, LPG (distribution, storage and retailing) and electricity generation.

Technology

Telecommunications services, electricity and gas metering.

Corporate/other

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

UNAUDITED 31 DEC 2006 6 MONTHS	ELECTRICITY $000	GAS TRANS-PORTATION $000	GAS WHOLESALE $000	TECHNOLOGY $000	CORPORATE /OTHER $000	TOTAL $000
Segment revenue	323,977	101,063	303,255	33,196	4,223	765,714
Less: Intersegment revenue	–	(27,592)	(13,308)	(1,803)	–	(42,703)
Operating revenue	323,977	73,471	289,947	31,393	4,223	723,011
Earnings before interest, income tax, depreciation and amortisation	201,781	71,374	66,027	22,478	(29,420)	332,240
Depreciation and amortisation	(54,030)	(30,401)	(15,349)	(12,304)	(3,695)	(115,779)
Operating surplus before interest and income tax	147,751	40,973	50,678	10,174	(33,115)	216,461
Net interest expense						(113,167)
Operating surplus before income tax						103,294
Income tax expense						(55,422)
Operating surplus						47,872
Minority interest						(2,218)
Net surplus for the period						45,654
Total assets	3,200,059	1,445,438	473,389	446,174	107,087	5,672,147

2. SEGMENT INFORMATION (CONTINUED)

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 revenue	–	(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

AUDITED 30 JUNE 2006 12 MONTHS	ELECTRICITY $000	GAS TRANS-PORTATION $000	GAS WHOLESALE $000	TECHNOLOGY $000	CORPORATE /OTHER $000	TOTAL $000
Segment revenue	580,148	164,393	361,066	61,213	6,491	1,173,311
Less: Intersegment revenue	–	(34,346)	(5,057)	(918)	–	(40,321)
Operating revenue	580,148	130,047	356,009	60,295	6,491	1,132,990
Earnings before interest, income tax, depreciation and amortisation	364,522	112,504	94,562	41,876	(34,820)	578,644
Depreciation and amortisation	(94,730)	(59,497)	(25,822)	(28,948)	(6,893)	(215,890)
Operating surplus before interest and income tax	269,792	53,007	68,740	12,928	(41,713)	362,754
Net interest expense						(228,521)
Operating surplus before income tax						134,233
Income tax expense						(81,345)
Operating surplus						52,888
Minority interest						(7,820)
Net surplus for the period						45,068
Total assets	3,213,027	1,449,479	500,637	438,693	116,752	5,718,588

3. OPERATING SURPLUS BEFORE INCOME TAX

	UNAUDITED 31 DEC 2006 6 MONTHS $000	UNAUDITED 31 DEC 2005 6 MONTHS $000	AUDITED 30 JUNE 2006 12 MONTHS $000
Operating surplus before income tax includes the following:			
Trading revenue	**705,917**	551,432	1,101,356
Equity accounted earnings of associates surplus/(deficit)	**470**	(208)	(365)
Dividend income	**226**	100	377
Gain on disposal of property, plant and equipment	**261**	657	1,167
Gain on disposal of investment	**1,456**	–	–
Customer contributions	**12,774**	13,760	26,229
Miscellaneous income	**1,907**	2,951	4,226
Operating revenue	**723,011**	568,692	1,132,990
Interest revenue	**2,826**	5,216	10,002
Total revenue	**725,837**	573,908	1,142,992
Interest paid and accrued	**(117,109)**	(119,700)	(239,758)
Amortisation of capitalised finance costs	**(2,940)**	(2,488)	(5,088)
Amortisation of the mark to market adjustment	**1,715**	1,307	2,605
Capitalised interest	**2,341**	1,598	3,718
Interest expense	**(115,993)**	(119,283)	(238,523)
Depreciation of property, plant and equipment	**(64,747)**	(58,389)	(117,240)
Amortisation of goodwill	**(47,624)**	(44,449)	(93,036)
Amortisation of gas entitlement intangible assets	**(3,408)**	(3,181)	(5,614)
Loss on disposal of property, plant and equipment	**(2,955)**	–	–

4. INCOME TAX EXPENSE

	UNAUDITED 31 DEC 2006 6 MONTHS $000	UNAUDITED 31 DEC 2005 6 MONTHS $000	AUDITED 30 JUNE 2006 12 MONTHS $000
Operating surplus before income tax	**103,294**	83,038	134,233
Prima facie tax at 33%	**34,087**	27,403	44,297
Plus/(less) tax effect of permanent differences:			
Prior period adjustment	**–**	–	436
Other permanent differences	**21,335**	11,461	36,612
Income tax expense	**55,422**	38,864	81,345
The income tax expense is represented by:			
Current tax	**48,126**	31,358	58,035
Deferred tax	**7,296**	7,506	23,310
Income tax expense	**55,422**	38,864	81,345

5. SHARE CAPITAL

	UNAUDITED 31 DEC 2006 $000	UNAUDITED 31 DEC 2005 $000	AUDITED 30 JUNE 2006 $000
Ordinary shares			
1,000,000,000 issued, fully paid shares	**883,703**	883,703	883,703
Total	**883,703**	883,703	883,703

All ordinary shares carry equal voting rights and equal rights to a surplus on the winding up of Vector Limited.

6. DIVIDENDS

	UNAUDITED 31 DEC 2006 6 MONTHS $000	UNAUDITED 31 DEC 2005 6 MONTHS $000	AUDITED 30 JUNE 2006 12 MONTHS $000
Distributions relating to previous period			
Dividends paid to shareholders of Vector Limited	**60,000**	53,600	113,600
Dividends paid to minority interests of Liquigas Limited	**2,588**	2,344	3,935
Total	**62,588**	55,944	117,535

On 9 February 2007, the directors declared an interim dividend of 6.5 cents per share, fully imputed.

7. PREPAID GAS

	UNAUDITED 31 DEC 2006 $000	UNAUDITED 31 DEC 2005 $000	AUDITED 30 JUNE 2006 $000
Current			
Maui prepaid gas	**2,383**	14,513	7,950
Total	**2,383**	14,513	7,950
Non-current			
Maui prepaid gas	**2,881**	8,508	4,987
Total	**2,881**	8,508	4,987

7. PREPAID GAS (CONTINUED)

Maui Gas

The group has 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 2006, Vector has 5.8PJ (31 December 2005: 18.1PJ, 30 June 2006: 12.7PJ) of remaining Maui gas entitlements. As part of these variations to the Maui gas contracts Vector is guaranteed delivery of 5.3PJ (31 December 2005: 16.5PJ, 30 June 2006: 11.6PJ) 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 0.5PJ (31 December 2005: 1.6PJ, 30 June 2006: 1.1PJ) can be uplifted by Vector at the previous contract prices. As part of the variations executed to the original agreement, Vector also has a right of first refusal (ROFR) at market price along with Contact Energy over any additional gas found beyond the redetermined amount after first reserving 40PJ for Methanex New Zealand Limited (Methanex). Vector has now entered into a series of ROFR contracts with Maui Development Limited for 105PJ, of which 60PJ is contingent on being confirmed as economically recoverable.

Kapuni Gas

Vector 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 2006 this is estimated to be approximately 70PJ (31 December 2005: 83PJ, 30 June 2006: 76.8PJ) following a downward reserves reassessment in February 2005 of 26PJ (Vector's share), of which, 56.3PJ (31 December 2005: 63PJ, 30 June 2006: 56.3PJ) is at current Kapuni gas contract prices while the balance is expected to be at market prices prevailing when the gas is delivered.
Vector 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 Vector 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 below.

Pohokura Gas

Vector 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 Vector 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 Vector's entitlement to 70PJ of gas as described above under Kapuni Gas.
Vector 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 Vector will have up to 30TJ/day available. Vector may purchase a total amount of up to 38PJ of gas under this contract. Fifty percent of this gas will be credited to Vector's entitlement to 70PJ of Kapuni gas from Shell as described above.

Kahili Joint Venture

Vector agreed with the Kahili Joint Venture (Kahili JV) in 2004 to purchase all the wet gas produced from the Kahili field. The Kahili JV comprises Austral Pacific Energy (NZ) Limited and Tag Oil (NZ) Ltd. The field is currently closed pending a re-drilling in 2007. The volume expected from the new well is uncertain but estimated to be 5PJ.

8. INTANGIBLE ASSETS

	UNAUDITED 31 DEC 2006 6 MONTHS $000	UNAUDITED 31 DEC 2005 6 MONTHS $000	AUDITED 30 JUNE 2006 12 MONTHS $000
Goodwill			
Balance at beginning of the period	**1,669,733**	1,336,510	1,336,510
Arising in the financial period:			
On acquisition of NGC Holdings Limited	**–**	385,953	426,259
Amortisation in the financial period	**(47,624)**	(44,449)	(93,036)
Balance at end of the period	**1,622,109**	1,678,014	1,669,733
Gas entitlements			
Balance at beginning of the period	**6,486**	12,100	12,100
Amortisation in the financial period	**(3,408)**	(3,181)	(5,614)
Balance at end of the period	**3,078**	8,919	6,486
Total	**1,625,187**	1,686,933	1,676,219
Current			
Gas entitlements	**639**	8,919	3,793
Total	**639**	8,919	3,793
Non-current			
Goodwill	**1,622,109**	1,678,014	1,669,733
Gas entitlements	**2,439**	–	2,693
Total	**1,624,548**	1,678,014	1,672,426

Goodwill is amortised over a period of up to 20 years in accordance with the group's accounting policy.
Gas entitlements are amortised as the entitlements to the gas volumes are exercised.

9. PROPERTY, PLANT AND EQUIPMENT

UNAUDITED 31 DEC 2006	COST / VALUATION $000	ACCUMULATED DEPRECIATION $000	NET BOOK VALUE $000
Distribution systems	3,329,586	(106,455)	3,223,131
Distribution land	74,717	–	74,717
Distribution buildings	40,715	(1,099)	39,616
Electricity meters	150,192	(18,255)	131,937
Gas meters	18,661	(1,779)	16,882
Generation power stations and equipment	10,188	(2,334)	7,854
Computer and telecommunications equipment	141,273	(60,189)	81,084
Motor vehicles and mobile equipment	5,454	(1,762)	3,692
Other plant and equipment	71,607	(10,097)	61,510
Freehold land	19,391	–	19,391
Buildings	7,497	(815)	6,682
Leasehold improvements	9,270	(3,149)	6,121
Capital work in progress	151,450	–	151,450
Total	4,030,001	(205,934)	3,824,067

9. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

UNAUDITED 31 DEC 2005	COST / VALUATION $000	ACCUMULATED DEPRECIATION $000	NET BOOK VALUE $000
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 30 JUNE 2006	COST / VALUATION $000	ACCUMULATED DEPRECIATION $000	NET BOOK VALUE $000
Distribution systems	3,268,219	(56,345)	3,211,874
Distribution land	74,755	–	74,755
Distribution buildings	39,415	(444)	38,971
Electricity meters	141,929	(14,719)	127,210
Gas meters	17,796	(1,319)	16,477
Generation power stations and equipment	8,950	(1,748)	7,202
Computer and telecommunications equipment	107,259	(55,645)	51,614
Motor vehicles and mobile equipment	4,954	(1,373)	3,581
Other plant and equipment	67,747	(8,142)	59,605
Freehold land	16,169	–	16,169
Buildings	11,650	(828)	10,822
Leasehold improvements	5,182	(3,099)	2,083
Capital work in progress	146,803	–	146,803
Total	3,910,828	(143,662)	3,767,166

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 2006 to $2,772.8 million consistent with the group's accounting policy to revalue property, plant and equipment at least every three years. The basis of valuation is the lesser of depreciated replacement cost and the estimated amount from the future use of these distribution assets. This valuation was undertaken in conjunction with PricewaterhouseCoopers, Telfer Young Limited, and Wilson Cook & Co Limited. Subsequent additions are recorded at cost.

10. 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 was extended in October 2006 and is now due to expire in October 2007.

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 2006 of $1.6 million. The interest on NZ$ 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 bonds and had a first election date of 15 December 2006. In advance of the first election date, and in accordance with the existing conditions, election notices were sent to the bond holders to either sell some or all of their bonds and/or to retain some or all of the bonds subject to new conditions. Under the new conditions the interest rate was set at 8% p.a. and the next election date set as 15 June 2012. The outcome of the election notice process was $250 million bonds were retained by existing holders, $24 million bonds were sold to existing holders and the remaining $33 million bonds were allotted to market participants.

Fixed interest rate bonds have a coupon rate of 6.81% and are due to mature on 4 March 2009.

Private placement senior notes 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$.

Floating rate notes – NZ$250 million, NZ$400 million and NZ$350 million with a maturity period of 10, 12 and 15 years respectively. The interest on these notes is paid quarterly based on BKBM plus a margin.

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 2006, the six months ended 31 December 2005 and the year ended 30 June 2006.

10. BORROWINGS (CONTINUED)

UNAUDITED 31 DEC 2006	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 $000
Bank loans	7.95	345,000	–	345,000	–	–
Working capital loans	7.45	3,000	3,000	–	–	–
Medium term notes – fixed rate NZ$	6.50	199,928	199,928	–	–	–
Medium term notes – floating rate A$	6.74	569,018	–	319,018	250,000	–
Capital bonds	8.00	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	7.90	1,000,000	–	–	–	1,000,000
Other	8.02	5,056	1,980	1,226	1,842	8
		3,047,522	204,908	665,244	451,842	1,725,528

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 30 JUNE 2006	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 $000
Bank loans	7.77	365,000	–	–	365,000	–
Working capital loans	7.50	27,000	27,000	–	–	–
Medium term notes – fixed rate NZ$	6.50	199,785	199,785	–	–	–
Medium term notes – floating rate A$	6.15	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	7.86	1,000,000	–	–	–	1,000,000
Other	6.74	4,291	1,840	1,057	1,393	1
		3,090,614	228,625	627,280	816,393	1,418,316

11. 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 2006		UNAUDITED 31 DEC 2005		AUDITED 30 JUNE 2006	
	CARRYING AMOUNT $000	FAIR VALUE $000	CARRYING AMOUNT $000	FAIR VALUE $000	CARRYING AMOUNT $000	FAIR VALUE $000
Financial assets						
Cash and bank overdraft	**5,247**	**5,247**	7,223	7,223	9,507	9,507
Trade receivables	**151,931**	**151,931**	117,374	117,374	167,828	167,828
Financial liabilities						
Trade payables and other creditors	**131,505**	**131,505**	90,307	90,307	131,756	131,756
Bank loans	**347,771**	**347,771**	322,426	322,426	367,819	367,819
Working capital loans	**3,006**	**3,006**	25,052	25,052	27,006	27,006
Medium term notes – fixed rate NZ$	**203,106**	**202,448**	202,823	201,002	202,910	201,731
Medium term notes – floating rate A$	**577,571**	**533,728**	576,904	504,752	576,627	582,808
Capital bonds	**308,350**	**308,222**	308,389	314,394	308,313	308,222
Fixed interest rate bonds	**201,419**	**197,702**	201,008	199,871	200,999	199,657
Private placement senior notes	**425,306**	**412,087**	425,306	410,326	425,192	456,716
NZ floating rate notes	**1,014,500**	**1,014,500**	1,014,161	1,014,161	1,014,221	1,014,221
Other	**5,090**	**5,701**	4,522	3,380	4,316	3,195
Financial derivative liabilities/(assets)						
Interest rate swaps	**975**	**(16,835)**	4,687	18,876	3,059	2,731
Cross currency swaps	**(3,839)**	**85,322**	(8,158)	68,509	(7,895)	(10,991)

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, bank loans and working capital loans

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 quoted market prices.

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.

11. FINANCIAL INSTRUMENTS (CONTINUED)

Private placement senior notes

The fair value of US$ privately placed senior notes is based on quoted market prices.

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

NZ floating rate notes

The carrying amount of these notes 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 mark-to-market adjustments (net of amortisation) on derivative transactions acquired and interest accrued.

12. 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 2005: nil, 30 June 2006: nil).

13. EVENTS AFTER BALANCE DATE

No events have occurred subsequent to 31 December 2006 which would have a material effect on these financial statements.

14. INTERNATIONAL FINANCIAL REPORTING STANDARDS

In December 2002 the New Zealand Accounting Standards Review Board (ASRB) announced that International Financial Reporting Standards (IFRS) will apply to all New Zealand entities for financial periods commencing on or after 1 January 2007. In adopting IFRS for issue as New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) certain adaptations have been made to reflect New Zealand circumstances.

On 24 November 2004, the ASRB approved the stable platform of New Zealand equivalents to International Accounting Standards. In complying with NZ IFRS, the group will also be in compliance with IFRS.

Upon adoption of NZ IFRS, entities are required to restate comparative financial statements to reflect the application of NZ IFRS to that comparable period. In addition an opening position for the comparative period must also be determined as if NZ IFRS had always been in place, subject to some exemptions provided under NZ IFRS 1: First Time Adoption of New Zealand Equivalents to International Financial Reporting Standards that recognise the practical difficulties of retrospective application.

The group has commenced reviewing its accounting policies and financial reporting to comply with NZ IFRS. The group has allocated internal resources and engaged external consultants to conduct impact assessments to isolate key areas that will be impacted by the transition to NZ IFRS and to oversee adoption of NZ IFRS across the group. The group will publish its first set of annual financial statements prepared under NZ IFRS for the year ending 30 June 2008.

The group has yet to finalise its accounting policies under NZ IFRS and as a consequence is yet to quantify with any degree of certainty the adjustments that will be required in the consolidated statement of financial position on adoption of NZ IFRS and the impact on the statement of financial performance thereafter. The actual impact of adopting NZ IFRS may vary from the information presented below, and the variation may be material.

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.

14. INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

Financial instruments

The group uses derivative financial instruments within predetermined policies and limits in order to manage its exposure to fluctuations in foreign currency exchange rates and interest rates. Under current accounting policies, derivative financial instruments that are designated as hedges of specific items are recognised on the same basis as the underlying hedged item. Fair value adjustments on interest rate derivatives acquired are capitalised and the mark to market adjustment is amortised over the period of the underlying derivative. The fair values of other derivative financial instruments are disclosed in the notes to the financial statements.

Under NZ IFRS, on the date of transition the group will value all outstanding derivative financial instruments and recognise them at their fair value 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 and other intangible assets

The group currently amortises goodwill arising on acquisition of subsidiary companies over a period not exceeding 20 years. Under NZ IFRS, on acquisition of such companies giving rise to a business combination, the group is required, where possible, to separate the components of goodwill into separately identifiable intangible assets. Any identifiable intangible assets will be recognised on the group's balance sheet and amortised over their assessed useful economic life. The remaining balance of goodwill will not be subject to amortisation under NZ IFRS, 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.

15. FINANCIAL RATIOS

The following financial ratios are required to be disclosed as part of the group's Results for Announcement to the Market under the New Zealand Stock Exchange Listing Rules.

	UNAUDITED 31 DEC 2006 6 MONTHS	UNAUDITED 31 DEC 2005 6 MONTHS	AUDITED 30 JUNE 2006 12 MONTHS
Ordinary shares (000s)			
Fully paid shares on issue up to 10 August 2005	**–**	751,000	751,000
Fully paid shares on issue from 10 August 2005	**1,000,000**	1,000,000	1,000,000
Weighted average for the period	**1,000,000**	944,516	972,030
Earnings per share (cents)	**4.6**	4.1	4.6
Total tangible assets per share (cents)	**404.7**	370.5	415.9
Net tangible assets per share (cents)	**28.6**	(19.0)	25.7

DIRECTORY

REGISTERED OFFICE

Vector Limited
101 Carlton Gore Road
Newmarket
Auckland
New Zealand

Telephone: 64-9-978 7788
Facsimile: 64-9-978 7799

www.vector.co.nz

POSTAL ADDRESS

PO Box 99882
Newmarket
Auckland
New Zealand

BOARD OF DIRECTORS

Michael Stiassny, Chairman
Shale Chambers
Karen Sherry
Bob Thomson

EXECUTIVE MANAGEMENT

Mark Franklin, Group Chief Executive Officer

Steve Bielby, Group General Counsel

Michael Cummings, Divisional Chief Executive Officer – Gas

Peter Fredricson, Chief Financial Officer

Andrew Knight, Metering Business General Manager

Simon Mackenzie, Group General Manager Strategy, Regulation & Performance

Hanno Schupp, Chief Information Officer

David Tompkins, Divisional Chief Executive Officer – Electricity

SHARE REGISTRAR

Computershare Investor Services Limited
Level 2
159 Hurstmere Road
Takapuna
Private Bag 92119
Auckland 1020
New Zealand

AUDITORS

KPMG
18 Viaduct Harbour Avenue
Auckland
New Zealand

SOLICITORS

Russell McVeagh
Vero Centre
48 Shortland Street
Auckland
New Zealand

Chapman Tripp Sheffield Young
23-29 Albert Street
Auckland
New Zealand

IMPORTANT INFORMATION

To receive this report and future annual reports and corporate information electronically see the information sheet accompanying this report. These publications are available on our website www.vector.co.nz