FROM HELPING POWER
A GROWING AUCKLAND /

VECTOR
INTERIM REPORT 2015

TO LAKESIDE BARBEQUES IN
WANAKA / **VECTOR DELIVERS**

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

Vector keeps the lights on, the gas flowing and provides many other essential services crucial to New Zealand's economic success. We are proudly New Zealand-owned, firm advocates for an effective infrastructure sector and are committed to being the country's best infrastructure company.

www.vector.co.nz

VECTOR INVESTOR RELATIONS VISIT:
www.vector.co.nz/investor-centre

CONTENTS

547,128
ELECTRICITY CUSTOMERS ▲ 1.0%

161,752
GAS DISTRIBUTION CUSTOMERS ▲ 2.2%

884,453
ELECTRICITY SMART METERS ▲ 48.0%

Adjusted EBITDA[1]

$313.4m

FALLS 1.4% ON PRIOR YEAR

Net profit

$87.3m

FALLS 16.5% ON PRIOR YEAR

Fully-imputed interim dividend

7.50 cents

Per share
UNCHANGED ON PRIOR YEAR

1. 'Adjusted EBITDA' is a non-GAAP profit measure. For a comprehensive definition and reconciliation to the GAAP measure of net profit refer to page 11 of this report.

OPERATIONAL STATISTICS

FOR THE SIX MONTHS ENDED 31 DECEMBER

	2014	2013
ELECTRICITY		
Customers[1,4]	547,128	541,444
New connections	3,780	3,003
Net movement in customers[2]	3,175	2,212
Volume distributed (GWh)	4,337	4,271
Networks length (km)[1]	18,093	17,927
SAIDI (minutes)[3]		
Normal operations	116.9	105.1
Extreme events	348.2	9.8
Total	465.1	114.9
GAS TRANSPORTATION		
Distribution customers[1,4]	161,752	158,315
New distribution connections	2,112	2,039
Net movement in distribution customers[2]	2,014	1,363
Distribution volume (PJ)	12.1	11.6
Distribution mains network length[1]	7,245	7,132
Transmission volume (PJ)[5]	58.0	59.3
Transmission system length owned (km)[1]	2,286	2,286
Transmission system length operated/managed (km)[1]	1,161	1,132
GAS WHOLESALE		
Natural gas sales (PJ)[6]	12.5	13.0
Gas liquids sales (tonnes)[7]	37,580	36,659
Liquigas LPG tolling (tonnes)[8]	99,628	84,528
TECHNOLOGY		
Electricity: smart meters[1]	884,453	597,596
Electricity: legacy meters[1]	188,267	232,939
Electricity: prepay meters[1]	6,873	4,533
Electricity: time of use meters[1]	11,440	11,192
Gas meters[1]	213,566	210,741
Data management services connections[1]	8,356	8,237

1. As at period end.
2. The net number of customers added during the period, includes disconnected, reconnected and decommissioned ICPs.
3. System Average Interruption Duration Index for the regulatory year 9 months to 31 December 2014.
4. Billable ICPs.
5. Based on billable volumes.
6. Excludes gas sold as gas liquids as these sales are included within the gas liquids sales tonnages.
7. Total of retail and wholesale LPG and natural gasoline.
8. Includes product tolled in Taranaki and further tolled in the South Island.

Revenue $M
31 DEC 2014 6 MONTHS

687.1

Operating cash flow $M
31 DEC 2014 6 MONTHS

203.3

FINANCIAL PERFORMANCE

$ MILLION	31 DEC 2014 6 MONTHS	31 DEC 2013 6 MONTHS	CHANGE	30 JUN 2014 12 MONTHS
Revenue	687.1	657.9	+4.4%	1,258.9
Adjusted EBITDA	313.4	317.8	-1.4%	580.7
Adjusted EBIT[1]	217.5	226.6	-4.0%	396.9
Net profit	87.3	104.6	-16.5%	171.3
Operating cash flow	203.3	225.9	-10.0%	366.6

FINANCIAL POSITION

$ MILLION	31 DEC 2014	31 DEC 2013	CHANGE	30 JUN 2014
Total equity	2,317.6	2,318.7	-0.0%	2,307.8
Total assets	5,937.5	5,734.5	+3.5%	5,839.1
Net debt	2,606.1	2,388.1	+9.1%	2,460.7

KEY FINANCIAL MEASURES

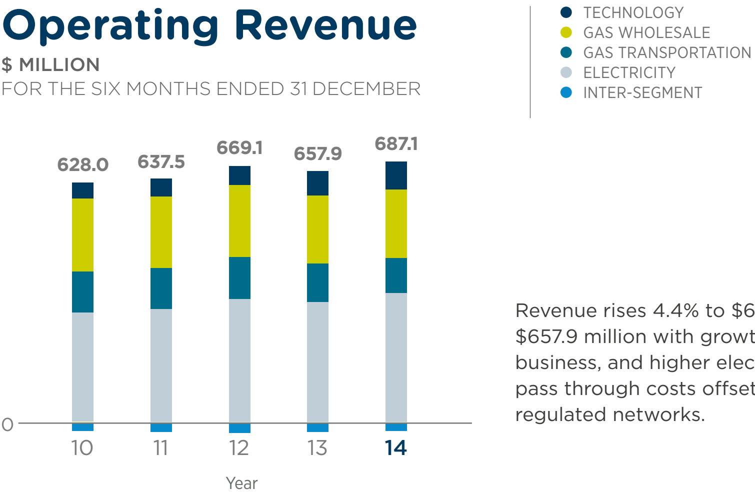
$ MILLION	31 DEC 2014 6 MONTHS	31 DEC 2013 6 MONTHS	CHANGE	30 JUN 2014 12 MONTHS
Adjusted EBITDA/revenue	45.6%	48.3%	-5.6%	46.1%
Adjusted EBIT/revenue	31.7%	34.4%	-7.8%	31.5%
Equity/total assets	39.0%	40.4%	-3.5%	39.5%
Gearing (net debt/ (net debt + equity))	52.9%	50.7%	+4.3%	51.6%
Net interest cover (adjusted EBIT/net finance costs) *times	2.4	2.7	-11.1%	2.3
Earnings (NPAT) per share *cents	8.6	10.4	-17.3%	16.9
Dividends per share (fully imputed) *cents	7.50	7.50	+0.0%	15.25

1. 'Adjusted EBIT' is a non-GAAP profit measure. For a comprehensive definition and reconciliation to the GAAP measure of net profit refer to page 11 of this report.

Operating Revenue

$ MILLION

FOR THE SIX MONTHS ENDED 31 DECEMBER

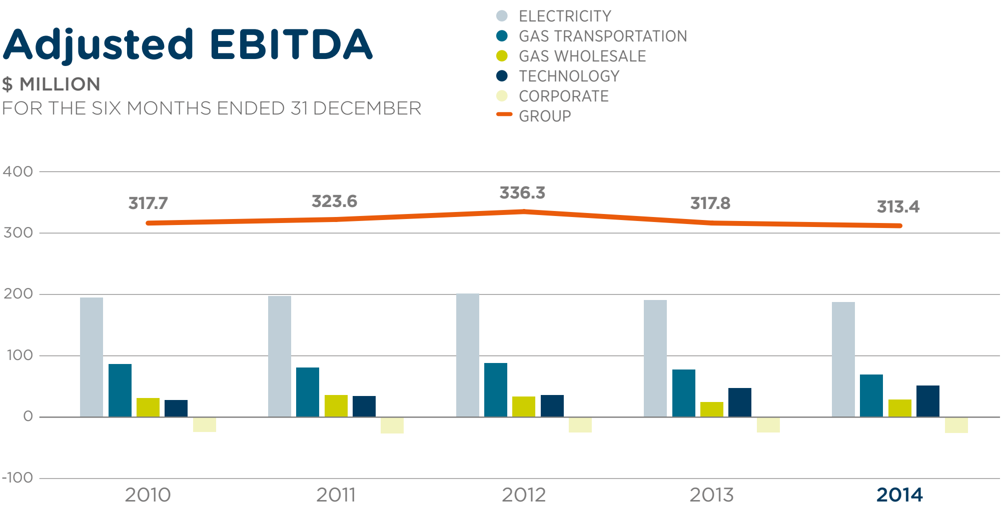


Revenue rises 4.4% to $687.1 million from $657.9 million with growth in the Technology business, and higher electricity volumes and pass through costs offsetting price cuts to regulated networks.

Adjusted EBITDA

$ MILLION

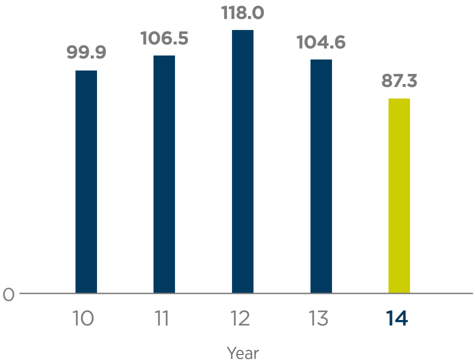
FOR THE SIX MONTHS ENDED 31 DECEMBER



Adjusted EBITDA of $313.4 million was slightly down on the prior period's $317.8 million, with good progress in the un-regulated operations diluting the impact of weaker earnings in the regulated businesses.

Net Profit

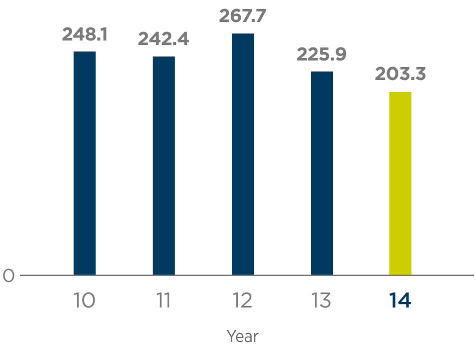
$ MILLION
FOR THE SIX MONTHS ENDED 31 DECEMBER



Net profit falls 16.5% to $87.3 million from $104.6 million. Over a third of this fall was due to non-cash mark-to-market losses on derivatives. Higher borrowing costs also contributed.

Operating Cash Flow

$ MILLION
FOR THE SIX MONTHS ENDED 31 DECEMBER



Operating cash flow fell 10.0% to $203.3 million due to the fall in adjusted EBITDA and the timing of cash flows following the alignment of our northern and southern electricity network agreements.

Success founded on diversity

"Nearly half our dividend is generated from investments outside our electricity network assets."

Vector's long-term record of success is founded on the diversity of its operations. These strengths are evident in the financial results for the six months to 31 December 2014.

Our unregulated Gas Wholesale and Technology operations, including the recently-acquired Arc Innovations smart metering venture, continue to bolster our financial performance in the face of well-signalled price cuts to our regulated energy networks.

Revenue rose 4.4% to $687.1 million from $657.9 million. Despite the tariff cuts, adjusted EBITDA for the six months to 31 December 2014 period was marginally down at $313.4 million from $317.8 million last year.

Unregulated EBITDA rose 10.7% to $81.0 million from $73.2 million due to continued growth in the Technology business and the Gas Wholesale business benefiting from higher Kapuni production, higher LPG tolling volumes and favourable gas purchasing arrangements.

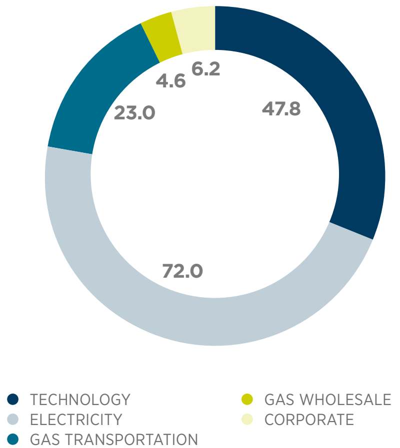
The success of our unregulated businesses demonstrates the benefits of our focus on customers and our strategy to diversify our earnings from regulated energy networks.

Regulated EBITDA fell 4.2% to $257.9 million from $269.3 million, reflecting significant price reductions imposed by the Commerce Commission, which weighed on earnings by around $24 million, and charges related to the July storms and the outage in Penrose. Increased energy volumes transported across our networks provided a partial offset.

Net profit fell to $87.3 million from $104.6 million. Over a third of this fall was due to non-cash mark-to-market losses on derivatives, principally reflecting a weakening of the New Zealand dollar.

Capital Expenditure

$ MILLION | FOR 6 MONTHS TO 31 DEC 2014



The Commerce Commission imposed significant tariff cuts on our electricity and gas networks in April 2013 and October 2013 respectively, followed by a further electricity clawback from April 2014. In October 2014 the Commerce Commission also announced changes to its long favoured methodology for determining the industry's cost of capital. The change will reduce our regulated EBITDA by a further $13 million a year. As a result we are investigating alternatives to fund network growth.

The Board has resolved to pay a fully-imputed interim dividend of 7.5 cents per share, unchanged on last year.

We continue to seek to deliver sustainable increases in dividends. We are proud to be one of the few companies in the NZX 50 Index to have steadily increased dividends over the past decade, a period that included the worst financial crisis in nearly a century.

Nearly half our dividend is generated from investments outside our electricity assets, while recent dividend growth has come from our unregulated assets across the country.

Our majority shareholder, the Auckland Energy Consumer Trust, has played a key role in this achievement. Its vision and long-term commitment to the business and the Auckland region has allowed Vector to look through economic cycles.

Our continuing focus on health and safety across the organisation has been rewarded over the period with a reduction in our rolling 12-month Total Recordable Injury Frequency Rate (TRIFR[2]) of 28% from 13.5 to 9.7.

We have also reviewed and enhanced our Health Safety and Environment management system in preparation for the enactment of the new Health and Safety Reform Bill.

We are looking ahead to the remainder of the year with confidence. We are benefiting from growth in Auckland, and our metering business has strong prospects. Vector expects to post a full year adjusted EBITDA of around $588 million, in line with guidance given in August 2014.

MICHAEL STIASSNY

Chairman

2. TRIFR is the number of recordable injuries per million hours worked, including contractors.

Ongoing customer commitment

"Vector is a high-performing utility with low expenditure and strong reliability."

Vector's commitment to customers is delivering for our shareholders, Auckland and the broader national economy.

We increased our growth with the $20 million acquisition of the Arc Innovations metering business, which adds more than 139,000 smart and more than 17,000 legacy meters to the Vector fleet, primarily in Canterbury and the Hawkes Bay.

Arc Innovations has also given Vector the opportunity to work with the vendor, Meridian Energy, in a new long-term metering services contract. Only a few years ago our Technology business made a small contribution to the group result. Today we are contracted to install well over one million smart meters across the country, up from 889,000 in June 2014. And, now the New Zealand market has stabilised until the next cycle of competition, we are exploring opportunities across the Tasman and other applications for our metering expertise.

Vector Communications, meanwhile, continues to grow its footprint as it gets closer to both its resellers and direct customers. We have similar aspirations for a number of emerging businesses within the group. Before Christmas we extended our solar programme with the launch of a mass-market solution.

The programme is a direct response to the change sweeping the industry. Energy distribution technology – largely unchanged for decades – now allows customers to switch suppliers, switch energy solutions and switch from the grid. Customers are meanwhile demanding choice and the highest standards of service from utility service providers and they are targeting energy consumption as an area for saving money.

Vector's solar solution meets these challenges. Solar has been around for a long time, but until recently it's only really worked for people able to finance or buy expensive systems outright, or those people practical enough to tinker and put together their own systems.

We also continue to work on numerous initiatives around distributed generation, battery storage, electricity and now gas smart metering, energy management technologies and electric vehicles.

Our regulated energy networks have faced a challenging year. The winter of 2014 was one of the stormiest on record. We saw the highest ever sustained wind speeds and these wind speeds lasted over considerably longer periods than we have seen in any other year. This weather, coupled with the October fire at Transpower's Penrose substation, has impacted SAIDI[4], our measure of network reliability, which stood at 116.9 minutes for the 9 month regulatory period from 1 April 2014, compared to 105.1 minutes in the prior regulatory year.

It now appears we will exceed the Commerce Commission's quality threshold for the 12 months to 31 March 2015 of 127 minutes. This will follow Vector exceeding the threshold in the previous regulatory year. As a result we are likely to breach the service quality requirement that we do not exceed the threshold two out of every three years. We are in discussion with the regulator over this likely breach.

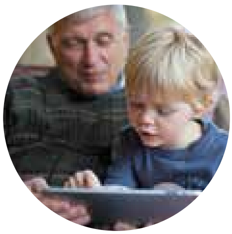
Our joint investigation with Transpower into the Penrose outage is progressing well and we hope to conclude this in the coming months. We meanwhile await the outcome of the Electricity Authority's investigation into the incident. We will obviously take the findings of these investigations into account in the management of our energy networks.

4. Based on normal operations; excludes extreme events.

ALWAYS INNOVATING

CUSTOMERS ARE DEMANDING CHOICE AND THE HIGHEST STANDARDS OF SERVICE FROM UTILITY SERVICE PROVIDERS AND THEY ARE TARGETING ENERGY CONSUMPTION AS AN AREA FOR SAVING MONEY.

TECHNOLOGY DRIVING GROWTH



TODAY WE ARE CONTRACTED TO INSTALL WELL OVER 1 MILLION SMART METERS ACROSS THE COUNTRY, UP FROM 889,000 IN JUNE 2014.

Numerous independent reviews have fully endorsed our management of the network. They have also provided some suggested areas for consideration, which we have addressed in each case. Indeed, a report by PA Consulting for our majority shareholder, the AECT, noted: 'PA considers Vector to be a high performing utility with low expenditure and strong reliability when compared to US utilities, Australian utilities and New Zealand electricity distribution businesses'.

Our energy distribution networks continue to benefit from growth in Auckland. Both saw increased energy volumes and connections and we believe these businesses will continue to underpin Vector's prospects well into the future. We have made good progress and we are well positioned for the year ahead.

SIMON MACKENZIE

Group Chief Executive

NEW TECHNOLOGY

Vector is trialling smart gas meters across the North Island as technological advances begin to offer gas retailers and their customers many of the benefits smart meters have already provided to the electricity sector.

Assuming a successful trial of this new technology, it is our intention to install smart gas meters whenever we establish a new connection or when an old mechanical meter reaches the end of its useful life. As a result, Vector's smart gas meter fleet could expand significantly over the next 12 months in a move that will begin to mirror the transformation of Vector's electricity metering fleet over the last few years.

210,000

VECTOR WILL CONSIDER A MORE EXTENSIVE UPGRADE OF ITS FLEET OF MORE THAN 210,000 GAS METERS

The new technology gives gas retailers and their customers more accurate information about daily consumption, allowing retailers to develop new products and services adapted to customer needs. The meters will also allow remote disconnection and meter reading, saving gas retailers time and money.

Vector is assessing the technology with the new installations over the coming year and will consider a more extensive upgrade of its fleet of more than 210,000 gas meters should the services they provide be required by our retail customers.

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

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

DEFINITIONS

EBITDA:	Earnings before interest, taxation, depreciation and amortisation.
Adjusted EBITDA:	EBITDA adjusted for fair value changes, associates, impairments and significant one-off gains, losses, revenues and/or expenses.
EBIT:	Earnings before interest and taxation.
Adjusted EBIT:	EBIT adjusted for fair value changes, associates, and impairments.

GAAP TO NON-GAAP PROFIT RECONCILIATION

EBITDA and adjusted EBITDA	31 DEC 2014 6 MONTHS $M	31 DEC 2013 6 MONTHS $M
Reported net profit for the period (GAAP)	87.3	104.6
Add back: net interest costs[1]	90.2	84.8
Add back: taxation[1]	35.1	42.1
Add back: depreciation and amortisation[1]	95.9	91.2
EBITDA	308.5	322.7
Adjusted for:		
Associates (share of net (profit)/loss)[1]	–	(1.1)
Fair value change on financial instruments[1]	4.9	(3.8)
Adjusted EBITDA	313.4	317.8

EBIT and adjusted EBIT	31 DEC 2014 6 MONTHS $M	31 DEC 2013 6 MONTHS $M
Reported net profit for the period (GAAP)	87.3	104.6
Add back: net interest costs[1]	90.2	84.8
Add back: taxation[1]	35.1	42.1
EBIT	212.6	231.5
Adjusted for:		
Associates (share of net (profit)/loss)[1]	–	(1.1)
Fair value change on financial instruments[1]	4.9	(3.8)
Adjusted EBIT	217.5	226.6

1. Extracted from reviewed financial statements.

CONTENTS

GROUP CONDENSED INTERIM **FINANCIAL STATEMENTS**

These group condensed interim financial statements for the six months ended 31 December 2014 are dated 20 February 2015, and signed on behalf of the board of directors by:

Director	20 February 2015
Director	20 February 2015

And for and on behalf of management by:

Group Chief Executive	20 February 2015
Chief Financial Officer	20 February 2015

KPMG

THE SHAREHOLDERS OF VECTOR LIMITED

We have completed a review of the attached interim financial statements of Vector Limited and its subsidiaries ('the Group') on pages 14 to 27 which comprise the balance sheet as at 31 December 2014, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six months ended on that date, and a summary of significant accounting policies and other explanatory information.

Directors' responsibilities

The directors of Vector Limited are responsible for the preparation and fair presentation of interim financial statements in accordance with NZ IAS 34 *Interim Financial Reporting* and for such internal control as the directors determine is necessary to enable the preparation and fair presentation of the interim financial statements that are free from material misstatement, whether due to fraud or error.

Our responsibilities

Our responsibility is to express a conclusion on the interim financial statements based on our review. We conducted our review in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity*. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements are not prepared, in all material respects, in accordance with NZ IAS 34 *Interim Financial Reporting*. As the auditor of the Group, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on those financial statements.

Our firm has also provided other services to the Group in relation to regulatory assurance services. Subject to certain restrictions, partners and employees of our firm may also deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group. These matters have not impaired our independence as assurance practitioners of the Group. The firm has no other relationship with, or interest in, the Group.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these interim financial statements of the Group do not present fairly, in all material respects, the financial position of the Group as at 31 December 2014, and of its financial performance and its cash flows for the six months ended on that date, in accordance with NZ IAS 34 *Interim Financial Reporting*.

KPMG

20 February 2015

KPMG

GROUP INTERIM **PROFIT OR LOSS**

(UNAUDITED)

	NOTE	31 DEC 2014 6 MONTHS $000	31 DEC 2013 6 MONTHS $000	30 JUN 2014 12 MONTHS $000
Revenue		687,066	657,925	1,258,864
Operating expenses	3	(373,652)	(340,091)	(678,224)
Depreciation and amortisation		(95,909)	(91,195)	(183,756)
Interest costs (net)		(90,142)	(84,800)	(168,877)
Fair value change on financial instruments		(4,937)	3,815	5,993
Associates (share of net profit/(loss))		3	1,062	1,727
Impairment of investment in associate	9	–	(49)	(1,241)
Profit/(loss) before income tax		122,429	146,667	234,486
Tax benefit/(expense)		(35,157)	(42,094)	(63,195)
Net profit/(loss) for the period		87,272	104,573	171,291
Net profit/(loss) for the period attributable to				
Non-controlling interests		1,629	1,271	2,789
Owners of the parent		85,643	103,302	168,502
Basic and diluted earnings per share (cents)	7	8.6	10.4	16.9

GROUP INTERIM **OTHER COMPREHENSIVE INCOME**

(UNAUDITED)

	31 DEC 2014 6 MONTHS $000	31 DEC 2013 6 MONTHS $000	30 JUN 2014 12 MONTHS $000
Net profit/(loss) for the period	87,272	104,573	171,291
Other comprehensive income net of tax			
Items that may be re-classified subsequently to profit/(loss):			
Net change in fair value of hedge reserves	(5,140)	34,689	35,900
Share of other comprehensive income of associates	–	–	(1,194)
Translation of foreign operations	65	(28)	(23)
Other comprehensive income for the period net of tax	(5,075)	34,661	34,683
Total comprehensive income for the period net of tax	82,197	139,234	205,974
Total comprehensive income for the period attributable to			
Non-controlling interests	1,629	1,271	2,789
Owners of the parent	80,568	137,963	203,185

GROUP INTERIM **BALANCE SHEET**

(UNAUDITED)

	NOTE	31 DEC 2014 $000	31 DEC 2013 $000	30 JUN 2014 $000
CURRENT ASSETS				
Cash and cash equivalents		8,062	14,679	8,284
Trade and other receivables		190,588	158,788	169,163
Derivatives	6	148	2,213	598
Inventories		4,777	4,169	4,350
Income tax		–	–	11,366
Total current assets		203,575	179,849	193,761
NON-CURRENT ASSETS				
Receivables		1,710	2,100	1,851
Derivatives	6	18,758	2,397	–
Investments in associates		11,084	14,004	11,481
Intangible assets	5	1,636,476	1,634,865	1,632,430
Property, plant and equipment (PPE)	5	4,065,895	3,901,326	3,999,577
Total non-current assets		5,733,923	5,554,692	5,645,339
Total assets		5,937,498	5,734,541	5,839,100
CURRENT LIABILITIES				
Trade and other payables		216,856	203,294	217,830
Provisions		7,760	11,354	9,554
Borrowings	6	299,642	175,862	200,314
Derivatives	6	14,549	116	169
Income tax		4,009	14,254	702
Total current liabilities		542,816	404,880	428,569
NON-CURRENT LIABILITIES				
Payables		19,067	18,998	19,544
Provisions		22,133	9,612	17,628
Borrowings	6	2,314,526	2,226,887	2,268,674
Derivatives	6	164,562	213,804	244,961
Deferred tax		556,782	541,617	551,937
Total non-current liabilities		3,077,070	3,010,918	3,102,744
Total liabilities		3,619,886	3,415,798	3,531,313
EQUITY				
Equity attributable to owners of the parent		2,301,855	2,301,125	2,291,672
Non-controlling interests		15,757	17,618	16,115
Total equity		2,317,612	2,318,743	2,307,787
Total equity and liabilities		5,937,498	5,734,541	5,839,100

	NOTE	31 DEC 2014	31 DEC 2013	30 JUN 2014
Net tangible assets per share (cents)	7	66.8	66.9	66.2
Net debt to net debt plus equity ratio	7	52.9%	50.7%	51.6%

GROUP INTERIM **CASH FLOWS**

(UNAUDITED)

	NOTE	31 DEC 2014 6 MONTHS $000	31 DEC 2013 6 MONTHS $000	30 JUN 2014 12 MONTHS $000
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers		684,564	687,041	1,284,414
Interest received		649	621	1,483
Income tax refunds		–	627	1,505
Dividends received from associate	9	400	600	1,400
Payments to suppliers and employees		(375,377)	(355,244)	(689,618)
Interest paid		(91,759)	(86,264)	(173,926)
Income tax paid		(15,191)	(21,516)	(58,635)
Net cash flows from/(used in) operating activities	8	203,286	225,865	366,623
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale of PPE and software intangibles		201	1,589	1,772
Purchase and construction of PPE and software intangibles		(159,528)	(154,222)	(327,428)
Proceeds from liquidation of associate		7	45	45
Acquisition of businesses	4	(20,000)	(60,050)	(60,060)
Other investing cash flows		(750)	–	–
Net cash flows from/(used in) investing activities		(180,070)	(212,638)	(385,671)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from borrowings		207,000	45,000	149,000
Repayment of borrowings		(150,000)	(20,000)	(20,000)
Dividends paid		(79,158)	(78,960)	(156,663)
Other financing cash flows		(1,280)	(752)	(1,169)
Net cash flows from/(used in) financing activities		(23,438)	(54,712)	(28,832)
Net increase/(decrease) in cash and cash equivalents		(222)	(41,485)	(47,880)
Cash and cash equivalents at beginning of the period		8,284	56,164	56,164
Cash and cash equivalents at end of the period		8,062	14,679	8,284
Cash and cash equivalents comprise				
Bank balances and on-call deposits		3,540	7,312	3,684
Short term deposits maturing within three months		4,522	7,367	4,600
		8,062	14,679	8,284

GROUP INTERIM **CHANGES IN EQUITY**

(UNAUDITED)

	ISSUED SHARE CAPITAL $000	TREASURY SHARES $000	HEDGE RESERVES $000	OTHER RESERVES $000	RETAINED EARNINGS $000	NON-CONTROLLING INTERESTS $000	TOTAL EQUITY $000
Balance at 1 July 2013	874,979	(9,279)	(106,486)	369	1,480,743	18,136	2,258,462
Net profit/(loss) for the period	–	–	–	–	103,302	1,271	104,573
Other comprehensive income	–	–	34,689	(28)	–	–	34,661
Total comprehensive income	–	–	34,689	(28)	103,302	1,271	139,234
Dividends	–	–	–	–	(77,171)	(1,789)	(78,960)
Employee share purchase scheme transactions	–	(21)	–	28	–	–	7
Total transactions with owners	–	(21)	–	28	(77,171)	(1,789)	(78,953)
Balance at 31 December 2013	874,979	(9,300)	(71,797)	369	1,506,874	17,618	2,318,743
Net profit/(loss) for the period	–	–	–	–	65,200	1,518	66,718
Other comprehensive income	–	–	1,211	(1,189)	–	–	22
Total comprehensive income	–	–	1,211	(1,189)	65,200	1,518	66,740
Dividends	–	–	–	–	(74,682)	(3,021)	(77,703)
Employee share purchase scheme transactions	–	7	–	–	–	–	7
Total transactions with owners	–	7	–	–	(74,682)	(3,021)	(77,696)
Balance at 30 June 2014	874,979	(9,293)	(70,586)	(820)	1,497,392	16,115	2,307,787
Impact of adopting NZ IFRS 9 (2013) at 1 July 2014	–	–	6,492	–	284	–	6,776
Restated balance at 1 July 2014	874,979	(9,293)	(64,094)	(820)	1,497,676	16,115	2,314,563
Net profit/(loss) for the period	–	–	–	–	85,643	1,629	87,272
Other comprehensive income	–	–	(5,140)	65	–	–	(5,075)
Total comprehensive income	–	–	(5,140)	65	85,643	1,629	82,197
Dividends	–	–	–	–	(77,171)	(1,987)	(79,158)
Employee share purchase scheme transactions	–	13	–	(3)	–	–	10
Total transactions with owners	–	13	–	(3)	(77,171)	(1,987)	(79,148)
Balance at 31 December 2014	874,979	(9,280)	(69,234)	(758)	1,506,148	15,757	2,317,612

1. COMPANY INFORMATION

Reporting entity

Vector Limited is a company incorporated and domiciled in New Zealand, registered under the Companies Act 1993 and listed on the New Zealand Stock Exchange (NZX). The company is an FMC entity for the purposes of the Financial Reporting Act 2013 and the Financial Markets Conduct Act 2013. Both these acts have become effective for financial years beginning on or after 1 April 2014, and the Financial Reporting Act 1993 was repealed with effect from this date. Vector's condensed interim financial statements (the interim financial statements) comply with these Acts.

The interim financial statements presented are for Vector Limited Group ("Vector" or "the group") as at, and for the six months ended 31 December 2014. The group comprises Vector Limited, its subsidiaries, and its investments in associates and joint arrangements.

Vector Limited is a 75.1% owned subsidiary of the Auckland Energy Consumer Trust (AECT) which is the ultimate parent entity for the group.

The primary operations of the group are electricity distribution, gas transportation, natural gas and LPG sales, gas processing, metering and telecommunications.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The interim financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP) as applicable to interim financial statements, and as appropriate to profit oriented entities. They comply with NZ IAS 34 *Interim Financial Reporting*.

These interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the group financial statements and related notes included in Vector's 2014 Annual Report. The interim financial statements for the six months ended 31 December 2014 and 31 December 2013 are unaudited.

All financial information has been rounded to the nearest thousand, unless otherwise stated.

Seasonality

Vector's electricity and gas businesses are affected by the seasonal demand for energy, which generally increases during periods of colder weather. Accordingly financial results for the first half of the financial year reported in the interim financial statements are expected to be more profitable than those of the second half of the year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Significant accounting policies

The accounting policies set out in Vector's 2014 Annual Report have been applied consistently to all periods presented in these interim financial statements.

New accounting standards adopted

The following accounting standard was adopted in the interim period:

NZ IFRS 9 (2013), *Financial Instruments* was adopted on 1 July 2014. An explanation of the impact on the interim financial statements is disclosed in Note 6.

3. SEGMENT INFORMATION

Segments

Vector reports on four operating segments in accordance with NZ IFRS 8 *Operating Segments*. The segments and related policies are unchanged from those reported in Vector's 2014 Annual Report. The segments are:

Electricity	Electricity distribution services.
Gas Transportation	Gas transmission and distribution services.
Gas Wholesale	Natural gas and LPG sales, storage and processing, and cogeneration.
Technology	Telecommunications and metering services.

3. SEGMENT INFORMATION (CONTINUED)

31 DEC 2014 6 MONTHS	ELECTRICITY $000	GAS TRANS-PORTATION $000	GAS WHOLESALE $000	TECHNOLOGY $000	INTER-SEGMENT $000	TOTAL $000
External revenue:						
Sales	332,434	77,742	182,189	68,929	–	661,294
Third party contributions	17,468	6,090	–	1,958	–	25,516
Intersegment revenue	866	12,245	3,722	5,138	(21,971)	–
Segment revenue	350,768	96,077	185,911	76,025	(21,971)	686,810
External expenses:						
Electricity transmission expenses	(110,697)	–	–	–	–	(110,697)
Gas purchases and production expenses	–	–	(118,294)	–	–	(118,294)
Asset maintenance expenses	(26,025)	(9,834)	(12,155)	(3,311)	–	(51,325)
Employee benefit expenses	(8,442)	(1,661)	(8,843)	(6,847)	–	(25,793)
Other operating expenses	(12,862)	(11,248)	(4,406)	(13,311)	–	(41,827)
Intersegment expenses	(4,451)	(3,738)	(12,916)	(866)	21,971	–
Segment operating expenses	(162,477)	(26,481)	(156,614)	(24,335)	21,971	(347,936)
Segment EBITDA	188,291	69,596	29,297	51,690	–	338,874
Depreciation and amortisation	(41,701)	(12,059)	(7,674)	(27,566)	–	(89,000)
Segment profit	146,590	57,537	21,623	24,124	–	249,874
Segment capital expenditure	71,981	22,940	4,565	47,842	–	147,328

Reconciliation of segment revenue, segment profit and segment capital expenditure to revenue, profit/(loss) before income tax and capital expenditure reported in the interim financial statements:

31 DEC 2014 6 MONTHS	REVENUE $000	PROFIT/(LOSS) BEFORE INCOME TAX $000	CAPITAL EXPENDITURE $000
Reported in segment information	686,810	249,874	147,328
Amounts not allocated to segments (corporate activities):			
Revenue	256	256	–
Employee benefit expenses		(13,334)	
Other operating expenses	–	(12,382)	–
Depreciation and amortisation	–	(6,909)	–
Interest costs (net)	–	(90,142)	–
Fair value change on financial instruments	–	(4,937)	–
Associates (share of net profit/(loss))	–	3	–
Impairment of investment in associate	–	–	–
Capital expenditure	–	–	6,239
Reported in the interim financial statements	687,066	122,429	153,567

3. SEGMENT INFORMATION (CONTINUED)

31 DEC 2013 6 MONTHS	ELECTRICITY $000	GAS TRANS-PORTATION $000	GAS WHOLESALE $000	TECHNOLOGY $000	INTER-SEGMENT $000	TOTAL $000
External revenue:						
Sales	309,548	86,378	181,718	58,234	–	635,878
Third party contributions	15,933	2,487	–	3,278	–	21,698
Intersegment revenue	892	16,637	3,016	4,942	(25,487)	–
Segment revenue	326,373	105,502	184,734	66,454	(25,487)	657,576
External expenses:						
Electricity transmission expenses	(89,976)	–	–	–	–	(89,976)
Gas purchases and production expenses	–	–	(119,936)	–	–	(119,936)
Asset maintenance expenses	(21,887)	(8,704)	(9,816)	(2,617)	–	(43,024)
Employee benefit expenses	(6,512)	(2,216)	(8,853)	(5,436)	–	(23,017)
Other operating expenses	(12,571)	(13,581)	(3,608)	(9,430)	–	(39,190)
Intersegment expenses	(4,132)	(3,025)	(17,438)	(892)	25,487	–
Segment operating expenses	(135,078)	(27,526)	(159,651)	(18,375)	25,487	(315,143)
Segment EBITDA	191,295	77,976	25,083	48,079	–	342,433
Depreciation and amortisation	(41,123)	(10,969)	(8,217)	(22,947)	–	(83,256)
Segment profit	150,172	67,007	16,866	25,132	–	259,177
Segment capital expenditure	72,998	17,003	3,531	48,685	–	142,217

Reconciliation of segment revenue, segment profit and segment capital expenditure to revenue, profit/(loss) before income tax and capital expenditure reported in the interim financial statements:

31 DEC 2013 6 MONTHS	REVENUE $000	PROFIT/(LOSS) BEFORE INCOME TAX $000	CAPITAL EXPENDITURE $000
Reported in segment information	657,576	259,177	142,217
Amounts not allocated to segments (corporate activities):			
Revenue	349	349	–
Employee benefit expenses	–	(12,766)	–
Other operating expenses	–	(12,182)	–
Depreciation and amortisation	–	(7,939)	–
Interest costs (net)	–	(84,800)	–
Fair value change on financial instruments	–	3,815	–
Associates (share of net profit/(loss))	–	1,062	–
Impairment of investments in associates	–	(49)	–
Capital expenditure	–	–	6,063
Reported in the interim financial statements	657,925	146,667	148,280

3. SEGMENT INFORMATION (CONTINUED)

30 JUN 2014 12 MONTHS	ELECTRICITY $000	GAS TRANS-PORTATION $000	GAS WHOLESALE $000	TECHNOLOGY $000	INTER-SEGMENT $000	TOTAL $000
External revenue:						
Sales	597,950	152,597	343,316	120,655	–	1,214,518
Third party contributions	31,559	6,206	–	5,961	–	43,726
Intersegment revenue	1,818	28,171	6,489	10,347	(46,825)	–
Segment revenue	631,327	186,974	349,805	136,963	(46,825)	1,258,244
External expenses:						
Electricity transmission expenses	(188,246)	–	–	–	–	(188,246)
Gas purchases and production expenses	–	–	(224,389)	–	–	(224,389)
Asset maintenance expenses	(50,363)	(18,158)	(19,826)	(4,923)	–	(93,270)
Employee benefit expenses	(13,497)	(2,743)	(17,099)	(10,616)	–	(43,955)
Other operating expenses	(24,385)	(26,140)	(7,958)	(19,636)	–	(78,119)
Intersegment expenses	(8,878)	(6,516)	(29,615)	(1,816)	46,825	–
Segment operating expenses	(285,369)	(53,557)	(298,887)	(36,991)	46,825	(627,979)
Segment EBITDA	345,958	133,417	50,918	99,972	–	630,265
Depreciation and amortisation	(83,064)	(22,770)	(15,431)	(46,466)	–	(167,731)
Segment profit	262,894	110,647	35,487	53,506	–	462,534
Segment capital expenditure	162,324	47,623	10,061	104,982	–	324,990

Reconciliation of segment revenue, segment profit and segment capital expenditure to revenue, profit/(loss) before income tax and capital expenditure reported in the interim financial statements:

30 JUN 2014 12 MONTHS	REVENUE $000	PROFIT/ (LOSS) BEFORE INCOME TAX $000	CAPITAL EXPENDITURE $000
Reported in segment information	1,258,244	462,534	324,990
Amounts not allocated to segments (corporate activities):			
Revenue	620	620	–
Employee benefit expenses	–	(26,497)	–
Other operating expenses	–	(23,748)	–
Depreciation and amortisation	–	(16,025)	–
Interest costs (net)	–	(168,877)	–
Fair value change on financial instruments	–	5,993	–
Associates (share of net profit/(loss))	–	1,727	–
Impairment of investments in associates	–	(1,241)	–
Capital expenditure	–	–	14,168
Reported in the interim financial statements	1,258,864	234,486	339,158

4. BUSINESS COMBINATIONS

Metering acquisition

On 1 December 2014, Vector Limited purchased Arc Innovations Limited (Arc), the electricity metering subsidiary of Meridian Energy Limited, for $20.0 million. This business will complement the group's existing metering business, and contribute to growth in the technology segment.

Advanced Metering Services Limited, a wholly owned subsidiary of the group, simultaneously entered into a transaction to provide metering services to Meridian Energy Limited. Some aspects of this contract have been included as part of the business combination.

The fair values of the assets and liabilities acquired have been determined on a provisional basis. The final determination of fair values will be finalised within 12 months of acquisition. The difference between the provisional fair value of assets and liabilities acquired and the purchase price has been recognised as goodwill.

From the date of acquisition, Arc has contributed $1.2 million of revenue and $0.3 million to the net profit of the group. If the acquisition had taken place at the beginning of the period, Arc's contribution to revenue and net profit for the group for the period would have been $7.6 million and $1.1 million respectively.

	31 DEC 2014 $000
Provisional fair value of net assets acquired at acquisition date	
Property, plant and equipment	13,637
Identifiable intangible assets	2,761
Trade and other receivables	1,692
Deferred tax asset	1,275
Trade and other payables	(1,094)
Goodwill	1,635
Net assets and liabilities acquired	19,906
Cash paid 1 December 2014	20,000
Post-acquisition adjustment	(94)
Total consideration	19,906

5. PPE AND SOFTWARE INTANGIBLES

	31 DEC 2014 6 MONTHS $000	31 DEC 2013 6 MONTHS $000	30 JUN 2014 12 MONTHS $000
Key movements during the period			
Capital expenditure	153,567	148,280	339,158
Disposals	2,741	3,125	6,724
Capital commitments			
Capital commitments at end of period	63,239	68,306	52,047

6. BORROWINGS AND DERIVATIVES

6.1 Borrowings and derivative movements

	NET DERIVATIVES $000	BORROWINGS $000
Balance at 30 June 2014	244,532	2,468,988
Impact of adopting NZ IFRS 9 (2013) at 1 July 2014	–	(9,410)
Restated balance at 1 July 2014	244,532	2,459,578
Fair value movements:		
Foreign exchange rates	(83,745)	83,745
Interest rates and other fair value changes	(582)	12,709
Drawdown	–	207,000
Repayment	–	(150,000)
Amortised costs	–	1,136
Balance at 31 December 2014	160,205	2,614,168
Fair value at 31 December 2014	160,205	2,594,958

Senior notes drawdown

On 14 October 2014, USD 130 million Senior notes maturing on 14 October 2021, were drawn down. The proceeds were used to repay the NZD 150 million, 7.8% fixed rate Senior bonds which matured on 15 October 2014.

6.2 Impact from adoption of NZ IFRS 9 (2013)

NZ IFRS 9 (2013) impact

Vector Limited has adopted NZ IFRS 9 (2013) on 1 July 2014 and has elected not to restate comparative information. The impact of retrospective application of NZ IFRS 9 (2013) is therefore adjusted directly to the opening equity, increasing it by $6.8 million net of tax. This is to recognise the change in hedge accounting structure.

7. EQUITY

7.1 Transactions with owners

Dividends

Vector Limited's final dividend for the year ended 30 June 2014 of 7.75 cents per share was paid on 15 September 2014, with a supplementary dividend of $0.4 million (equating to 1.37 cents per non-resident share).

Shares

At the end of the period, 127,480 (31 December 2013: 142,188, 30 June 2014: 139,449) treasury shares were allocated to the employee share purchase scheme.

7.2 Financial ratios

	31 DEC 2014 $000	31 DEC 2013 $000	30 JUN 2014 $000
Earnings per share			
Net profit attributable to owners of the parent	85,643	103,302	168,502
Weighted average ordinary shares outstanding during the period (number of shares)	995,631,430	995,619,222	995,616,805
	8.6 cents	10.4 cents	16.9 cents
Net tangible assets per share			
Net assets attributable to owners of the parent	2,301,855	2,301,125	2,291,672
Less total intangible assets	(1,636,476)	(1,634,865)	(1,632,430)
Total net tangible assets	665,379	666,260	659,242
Ordinary shares outstanding (number of shares)	995,627,597	995,612,889	995,615,628
	66.8 cents	66.9 cents	66.2 cents
Net debt to net debt plus equity ratio			
Current borrowings	299,642	175,862	200,314
Non-current borrowings	2,314,526	2,226,887	2,268,674
Total borrowings	2,614,168	2,402,749	2,468,988
Less cash and cash equivalents	(8,062)	(14,679)	(8,284)
Net debt	2,606,106	2,388,070	2,460,704
Total equity	2,317,612	2,318,743	2,307,787
Net debt plus equity	4,923,718	4,706,813	4,768,491
	52.9%	50.7%	51.6%

8. CASH FLOWS

	31 DEC 2014 6 MONTHS $000	31 DEC 2013 6 MONTHS $000	30 JUN 2014 12 MONTHS $000
Reconciliation of net profit/(loss) to net cash flows from/(used in) operating activities			
Net profit/(loss) for the period	87,272	104,573	171,291
Items classified as investing activities			
Net loss/(gain) on disposal of PPE and software intangibles	2,061	1,231	3,029
Non-cash items			
Depreciation and amortisation	95,909	91,195	183,756
Non-cash portion of interest costs (net)	(1,553)	(1,214)	(4,473)
Fair value change on financial instruments	4,937	(3,815)	(5,993)
Associates (share of net (profit)/loss)	(3)	(1,062)	(1,727)
Impairment of investment in associate	–	49	1,241
Increase/(decrease) in deferred tax	5,594	4,240	14,090
Increase/(decrease) in provisions	2,711	600	6,816
	107,595	89,993	193,710
Cash items not impacting net profit/(loss)			
Dividends received from associate	400	600	1,400
Changes in assets and liabilities			
Trade and other payables	11,298	(1,067)	1,896
Inventories	(428)	1,344	1,163
Trade and other receivables	(19,187)	11,713	1,573
Income tax	14,275	17,478	(7,439)
	5,958	29,468	(2,807)
Net cash flows from/(used in) operating activities	203,286	225,865	366,623

9. RELATED PARTY TRANSACTIONS

Majority shareholder dividend

Vector Limited has paid its majority shareholder the AECT, dividends of $58.2 million during the period (six months ended December 2013: $58.2 million, 12 months ended 30 June 2014: $114.5 million).

Associate dividend

During the period, $0.4 million of dividends were received from Tree Scape Limited which is an associate of the group (six months ended 31 December 2013: $0.6 million, 12 months ended 30 June 2014: $1.4 million).

9. RELATED PARTY TRANSACTIONS (CONTINUED)

Associate investment impairment

Vector has not recognised any impairment losses in respect of the investment in its associate company, NZ Windfarms Limited (six months ended 31 December 2013: $49,000, 12 months ended 30 June 2014: $1.2 million).

As at 31 December 2014, the carrying value of the group's investment in NZ Windfarms Limited is supported by the recoverable amount based on the investment's fair value less costs to sell by reference to the active market price of NZ Windfarms Limited on the New Zealand Stock Exchange.

Outstanding balances

At 31 December 2014, there are no material outstanding balances due to or from related parties of the group.

10. CONTINGENT LIABILITIES

Disclosures

The directors are aware of claims that have been made against entities of the group and, where appropriate, have recognised provisions for these within the financial statements.

No material contingent liabilities have been identified.

11. EVENTS AFTER THE END OF THE PERIOD

Financial statements approval

The interim financial statements were approved by the board of directors on 20 February 2015.

Interim dividend

On 20 February 2015, the board declared an interim dividend for the year ended 30 June 2015 of 7.50 cents per share.

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

BOARD OF DIRECTORS AND MANAGEMENT TEAM

BOARD OF DIRECTORS

Michael Stiassny	Chairman
Peter Bird	
James Carmichael	
Hugh Fletcher	
Jonathan Mason	
Dame Alison Paterson	
Karen Sherry	
Bob Thomson	

MANAGEMENT TEAM

Simon Mackenzie	Group Chief Executive
Andre Botha	Chief Networks Officer
Kate Beddoe	Chief Risk Officer
Brian Ryan	Group General Manager Development
Dan Molloy	Chief Financial Officer
David Thomas	Group General Manager Gas Trading and Metering

ASSOCIATES AND JOINT VENTURES

	PRINCIPAL ACTIVITY	PERCENTAGE HELD		
		31 DEC 2014	31 DEC 2013	30 JUN 2014
Associates				
Tree Scape Limited	Vegetation management	50%	50%	50%
– Treescape Australasia Pty Limited	Vegetation management	50%	50%	50%
Total Metering 2012 Limited (in liquidation)	Metering services	25%	25%	25%
NZ Windfarms Limited	Power generation	22%	22%	22%
Joint Venture				
Kapuni Energy Joint Venture (unincorporated)	Cogeneration	50%	50%	50%

FINANCIAL CALENDAR

2015

Interim dividend*	April
3rd quarter operational statistics	April
4th quarter operational statistics	July
Full year result and annual report	August
Final dividend*	September
Annual general meeting	October

* Dividends are subject to board determination

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INVESTOR INFORMATION

Ordinary shares in Vector Limited are listed and quoted on the New Zealand Stock Market (NZSX) under the company code VCT. Vector also has senior retail and capital bonds listed and quoted on the New Zealand Debt Market (NZDX). Current information about Vector's trading performance for its shares and bonds can be obtained on the NZX website at www.nzx.com. Further information about Vector is available on our website www.vector.co.nz.

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