InterimReport

Vector

CONTENTS

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

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

Meeting customer demand

$317.8m

ADJUSTED EBITDA[1] ▼ **-5.5%** FALL ON PRIOR PERIOD

541,444

ELECTRICITY CUSTOMERS

$104.6m

NET PROFIT ▼ **-11.4%** FALL ON PRIOR PERIOD

158,315

GAS DISTRIBUTION CUSTOMERS

FULLY-IMPUTED INTERIM DIVIDEND

7.50 cents

PER SHARE ▲ **+3.4%** RISE ON PRIOR PERIOD. PAYABLE 15 APRIL 2014

846,260

ELECTRICITY METERS

1. In line with international best practice, Vector has replaced our use of 'EBITDA' with 'adjusted EBITDA' to better reflect the nature of this non-GAAP profit measure. Adjusted EBITDA reported this period remains comparable with EBITDA reported in the prior period. For a comprehensive definition and reconciliation of this measure to the GAAP measure of net profit refer to page 11 of this report.

OPERATIONAL STATISTICS

FOR THE SIX MONTHS ENDED 31 DECEMBER

	2013	2012
ELECTRICITY		
Customers[1,4]	541,444	537,268
Net movement in customers[2]	2,212	2,040
Volume distributed (GWh)	4,271	4,321
Networks length (km)[1]	17,927	17,826
SAIDI (minutes)[3]		
Normal operations	105.1	72.3
Extreme events	9.8	–
Total	114.9	72.3
GAS TRANSPORTATION		
Distribution customers[1,4]	158,315	155,863
Net movement in distribution customers[2]	1,363	1,214
Distribution volume (PJ)	11.6	11.7
Distribution mains network length[1]	7,132	7,047
Transmission volume (PJ)[5]	59.3	58.8
Transmission system length owned (km)[1]	2,286	2,286
Transmission system length operated/managed (km)[1]	1,132	1,130
GAS WHOLESALE		
Natural gas sales (PJ)[6]	13.0	13.9
Gas liquids sales (tonnes)[7]	36,659	39,000
Liquigas LPG tolling (tonnes)[8]	84,528	73,369
TECHNOLOGY		
Electricity: smart meters[1]	597,596	438,419
Electricity: legacy meters[1]	232,939	314,019
Electricity: prepay meters[1]	4,533	5,067
Electricity: time of use meters[1]	11,192	10,926
Gas meters[1]	210,741	82,304
Data management services connections[1]	8,237	8,745

1. As at period end
2. The net number of customers added during the period
3. System Average Interruption Duration Index for the regulatory year 9 months to 31 December 2013
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 production and natural gasoline
8. Includes product tolled in Taranaki and further tolled in the South Island

FINANCIAL PERFORMANCE

$ MILLION	31 DEC 2013 6 MONTHS	31 DEC 2012 6 MONTHS	CHANGE	30 JUN 2013 12 MONTHS
Revenue	657.9	669.1	-1.7%	1,279.2
Adjusted EBITDA	317.8	336.3	-5.5%	630.5
Adjusted EBIT[1]	226.6	250.0	-9.4%	456.4
Net profit	104.6	118.0	-11.4%	206.2
Operating cash flow	225.9	267.7	-15.6%	426.2

FINANCIAL POSITION

$ MILLION	31 DEC 2013	31 DEC 2012	CHANGE	30 JUN 2013
Total equity	2,318.7	2,199.4	+5.4%	2,258.5
Total assets	5,734.5	5,652.3	+1.5%	5,747.1
Net debt	2,388.1	2,286.4	+4.4%	2,364.3

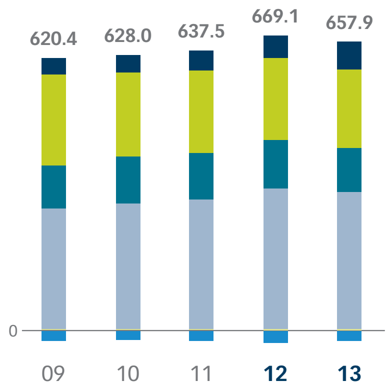
KEY FINANCIAL MEASURES

	31 DEC 2013 6 MONTHS	31 DEC 2012 6 MONTHS	CHANGE	30 JUN 2013 12 MONTHS
Adjusted EBITDA/revenue	48.3%	50.3%	-4.0%	49.3%
Adjusted EBIT/revenue	34.4%	37.4%	-8.0%	35.7%
Equity/total assets	40.4%	38.9%	+3.9%	39.3%
Gearing (net debt/ (net debt + equity))	50.7%	51.0%	-0.6%	51.1%
Net interest cover (adjusted EBIT/net finance costs) *times	2.7	3.0	-10.0%	2.8
Earnings (NPAT) per share *cents	10.4	11.7	-11.1%	20.4
Dividends per share (fully imputed) *cents	7.50	7.25	+3.4%	15.00

1. In line with international best practice, Vector has replaced our use of 'EBIT' with 'adjusted EBIT' to better reflect the nature of this non-GAAP profit measure. Adjusted EBIT reported this period remains comparable with EBIT reported in the prior period. For a comprehensive definition and reconciliation of this measure to the GAAP measure of net profit refer to page 11 of this report.

OPERATING
REVENUE
$ MILLION
FOR THE SIX MONTHS ENDED 31 DECEMBER

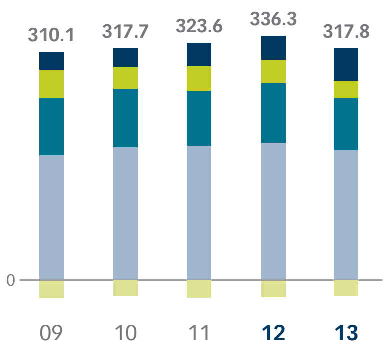
- TECHNOLOGY
- GAS WHOLESALE
- GAS TRANSPORTATION
- ELECTRICITY
- SHARED SERVICES
- INTER-SEGMENT



Operating revenue fell 1.7% to $657.9 million from $669.1 million due to well-signalled regulatory price resets to the regulated energy networks as well as warmer weather and lower production from the Kapuni oil and gas field.

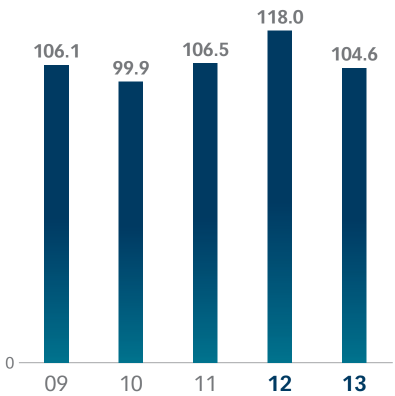
ADJUSTED
EBITDA
$ MILLION
FOR THE SIX MONTHS ENDED 31 DECEMBER

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



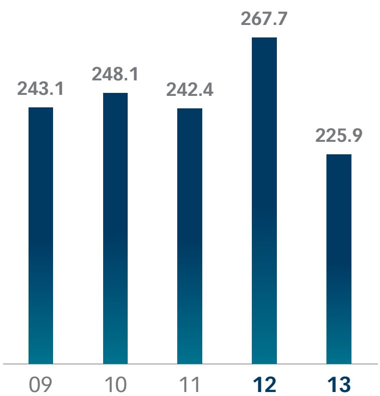
Adjusted EBITDA fell 5.5% to $317.8 million from $336.3 million due to weaker revenues and the end of our entitlements to Kapuni gas at legacy prices, but was supported by continued growth in the technology segment.

NET
PROFIT
$ MILLION
FOR THE SIX MONTHS ENDED 31 DECEMBER



Net profit fell 11.4% to $104.6 million from $118.0 million.

OPERATING
CASH FLOW
$ MILLION
FOR THE SIX MONTHS ENDED 31 DECEMBER



Operating cash flow fell 15.6% to $225.9 million.

Performing in the face of adversity

Vector's earnings in the six months to 31 December 2013 show a strong performance across our portfolio of operations in the face of well-signalled price reductions imposed by the regulator on our electricity and gas networks and a challenging market environment.

We have delivered a result in line with expectations and we are well placed to continue to grow over the long term, given the concentration of our assets in the Auckland region and the emergence of growth opportunities including those available to our technology businesses.

The Board has resolved to pay an interim dividend of 7.5 cents per share, up 0.25 cents on last year. We are acutely aware of the importance of our dividend to shareholders. We remain committed to our goal of delivering sustainable and growing distributions and delivering services attuned to our customers needs.

Regulation

The regulatory regime is far from optimal. It is clear the frequency of change to the core elements of the regime is adding significant cost to New Zealand infrastructure providers. Also, consumers do not appear to be benefiting from the price reductions Vector has made.

Debt rating agency Standard & Poor's recently downgraded Vector's credit rating one notch to the 'investment grade' BBB, from BBB+, due to what it saw as instability and greater risk in the New Zealand regulatory regime.

The share market's reaction to news the Commerce Commission is again considering a review of the allowable return on our regulated assets reinforces this point.

We were, meanwhile, disappointed the merits review of the regulatory regime brought by Vector and six other infrastructure companies did not redress the imbalances we see. The court said the alternative approaches proposed by Vector and others did not provide a 'materially better' outcome than the Commerce Commission's approach.

The way the 'materially better' standard has been defined by the High Court is unworkable. The decision gives the regulator wide discretion over the

We remain committed to our goal of delivering sustainable and growing distributions.

conduct of New Zealand's critical infrastructure, but it gives no guidance to how the test of 'materially better' can be assessed robustly. The country's infrastructure providers are therefore deprived of an effective process to challenge the regulator's determinations.

This is an issue that is critical to the future prosperity of New Zealand.

We are reviewing the implications of these issues. We had decided against appealing the decision. However, as the Major Electricity Users Group is appealing the decision we are now assessing whether to cross appeal. We welcome the Government's recent announcement to review regulatory arrangements under the Commerce Act as well as the Productivity Commission's investigation into making improvements to the design and operation of regulatory regimes in this country.

Financial performance

We delivered results in line with those we signalled at our full-year announcement in August 2013. Revenue for the six months to 31 December 2013 fell by 1.7% to $657.9 million, from $669.1 million in the same period last year. Net profit fell 11.4% to $104.6 million from $118.0 million. Adjusted EBITDA fell 5.5% to $317.8 million from $336.3 million.

Overall, it has been a challenging six months; however, Vector has performed well.

Our regulated energy businesses have shouldered the effects of lower energy volumes that have resulted from warmer weather and the continuing drive by consumers to spend less on energy.

The technology business' half-year EBITDA has risen 82.9% over the last five years. Meanwhile, our gas wholesale business has weathered the effects of lower production from the Kapuni field and the end of our entitlements to gas at legacy prices.

Outlook

Vector's balance sheet remains strong. We have a long-dated debt portfolio, and remain strongly investment grade. Vector is well positioned to deliver long-term growth, fuelled by our diversified portfolio of infrastructure activities, our fast-growing technology operations and the significant housing growth anticipated in Auckland over the next three to five years.

We continue to target adjusted EBITDA for the 12 months to 30 June 2014 in line with market expectations, assisted by our focus on growth in our technology business and continued tight cost control.

We will continue to innovate and to deliver services attuned to our customers; grow our portfolio of businesses and drive improvements in operational performance. We will also continue to seek better regulatory outcomes and to maintain and promote the health and safety of our employees and those who live and work on and around our networks.

MICHAEL STIASSNY

Chairman

PROACTIVE customer engagement

Vector's half-year results are testament to the benefits of our diversified portfolio of businesses.

Business performance

We have benefited from continued growth in our technology business, growth in LPG tolling volumes and continued cost control. Because we have shown we can drive significant operating efficiencies and due to economic factors such as lower interest rates, the regulator imposed price reductions on our energy networks, significantly diluting these gains.

ELECTRICITY PRICE REDUCTIONS
INTRODUCED FROM 1 APRIL 2013:

-10%

The Commerce Commission required Vector to reduce our prices on our electricity network by 10% from 1 April 2013. The regulator also set price reductions of 29% for our gas transmission network and 18% for our gas distribution network from 1 October 2013. Our resulting price reductions have complied with the revenues set by the regulator.

The electricity and gas segments also sustained the impact of subdued demand due to warmer than average weather and the continuing change we are seeing in customer usage patterns. Electricity volumes fell to 4,271 GWh from 4,321 GWh. Gas distribution volumes fell to 11.6 PJ from 11.7 PJ.

However, over the longer term our focus on the opportunities emerging from the convergence of infrastructure management technology and information technology will position us well for the future.

Customers

The balance of power is shifting from utility service providers to consumers as they now have greater choice than ever before. Energy distribution technology – largely unchanged for decades – allows customers to switch suppliers; switch energy solutions and switch from the grid.

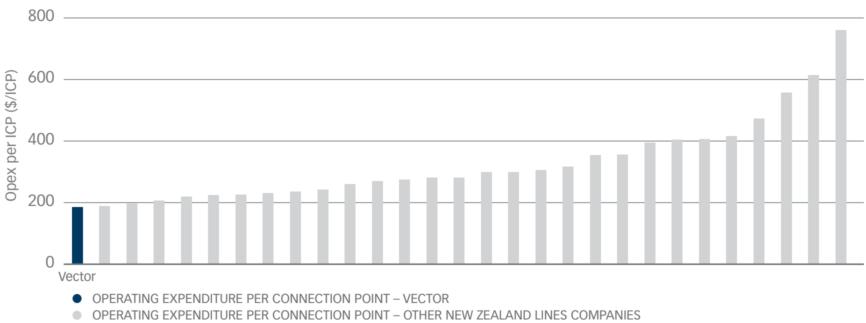
Customers are more technologically savvy and more aware of alternatives than ever before. They are looking for utility providers that are committed to the highest standards of service and those that can provide choice and do both at a low cost.

Vector remains among the lowest-cost energy infrastructure providers in the country.

Vector delivers electricity distribution services efficiently

Vector remains among the lowest-cost energy infrastructure providers in the country, while still meeting service quality requirements. On our electricity networks, for instance, measures such as the average operating expenditure per customer show Vector's networks are among the best performers in the country.

New Zealand electricity distribution business operating costs



Source: PwC Electricity Line Business Information Disclosure Compendium, April 2013

Meanwhile, customers say spending on utilities is a significant area of concern and they are targeting this as an area for saving money.

New technology has important implications for Vector's network investment plans.

If domestic solar plants, for example, are not moderated by battery storage, we will need to invest in capacity to manage their two-way and fluctuating power flows.

Vector is innovating to respond to customer demands early; setting the agenda and ensuring we are at the forefront of change. We continue to be an efficient provider of energy infrastructure services and we are embracing these new technologies to ensure they are accessible to the widest possible audience. We encourage customers to ensure they are on the appropriate electricity tariff and to examine the merits of low-user tariff options.

Productivity gains

We have made significant productivity gains and have passed these savings on to customers and we continue to advocate for their interests. For instance we are working with the industry to oppose the Electricity Authority's latest proposals for transmission pricing.

These proposals have the potential to unfairly disadvantage Auckland customers and those in other regions where there has been substantial growth or underinvestment in the national grid.

We are meanwhile working with Housing New Zealand to ensure its housing stock features the most up-to-date technology such as LED lighting. We installed solar panels on the Ngati Whatua Marae to assist understanding of the benefits of the technology among iwi.

Our customer engagement through the web and social media; our highly successful smartphone outage app and our internationally-recognised metering business, which allows us to monitor and proactively address energy demand trends, will also help.

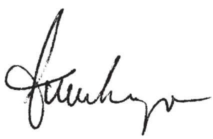
Over the long term these initiatives should help to future proof our business and ensure shareholders continue to benefit from sustainable and growing dividends.

Investment

Auckland continues to grow and we continue to invest in a way that is aligned with the needs of our customers and to raise the bar on safety and reliability standards. During the half year, we added a total of 3,575 connections to our gas and electricity networks.

Meanwhile, the Auckland Housing Accord provides for the construction of an additional 39,000 houses over the next three years. Vector welcomes and supports Auckland Council and the Government's growth aspirations.

We will continue to innovate and invest appropriately in solutions to service the needs of our customers. We expect continued growth in our metering business. We continue to explore opportunities to grow our metering business offshore, particularly in Australia. We also continue to invest in new technologies, such as photo-voltaic cells supported by battery storage as well as improved customer information services.



SIMON MACKENZIE

Group Chief Executive

NON-GAAP PROFIT MEASURES

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 RECONCILIATION:

EBITDA and Adjusted EBITDA	31 DEC 2013 6 MONTHS $M	31 DEC 2012 6 MONTHS $M
Reported net profit for the period (GAAP)	104.6	118.0
Add back: interest costs (net)[1]	84.8	83.3
Add back: tax (benefit)/expense[1]	42.1	47.5
Add back: depreciation and amortisation[1]	91.2	86.3
EBITDA	322.7	335.1
Adjusted for:		
Impairment of investments in associates[1]	–	2.2
Associates (share of net (profit)/loss)[1]	(1.1)	(0.7)
Fair value change on financial instruments[1]	(3.8)	(0.3)
Adjusted EBITDA	317.8	336.3

EBIT and Adjusted EBIT	31 DEC 2013 6 MONTHS $M	31 DEC 2012 6 MONTHS $M
Reported net profit for the period (GAAP)	104.6	118.0
Add back: interest costs (net)[1]	84.8	83.3
Add back: tax (benefit)/expense[1]	42.1	47.5
EBIT	231.5	248.8
Adjusted for:		
Impairment of investments in associates[1]	–	2.2
Associates (share of net (profit)/loss)[1]	(1.1)	(0.7)
Fair value change on financial instruments[1]	(3.8)	(0.3)
Adjusted EBIT	226.6	250.0

1. Extracted from reviewed financial statements.

CONTENTS

GROUP CONDENSED INTERIM FINANCIAL STATEMENTS

The directors are pleased to present the group condensed interim financial statements for the six months ended 31 December 2013.

FOR AND ON BEHALF OF DIRECTORS

Director	21 February 2014
Director	21 February 2014

FOR AND ON BEHALF OF MANAGEMENT

Group Chief Executive	21 February 2014
Chief Financial Officer	21 February 2014

TO THE SHAREHOLDERS OF VECTOR LIMITED

We have reviewed the attached interim financial statements on pages 14 to 31 in accordance with the Review Engagement Standard RS-1 issued by the External Reporting Board and the Review Engagement Guideline RG-1 issued by the New Zealand Institute of Chartered Accountants. The financial statements provide information about the past financial performance of Vector Limited and its subsidiaries ('the Group') and its financial position as at 31 December 2013.

DIRECTORS' RESPONSIBILITIES

The Directors of Vector Limited are responsible for the preparation of interim financial statements which give a true and fair view of the consolidated financial position of the Group as at 31 December 2013 and the consolidated results of its operations and cash flows for the six months ended on that date.

REVIEWER'S RESPONSIBILITIES

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

BASIS OF OPINION

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

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

REVIEW OPINION

Based on our review, nothing has come to our attention that causes us to believe that the attached interim financial statements on pages 14 to 31 do not give a true and fair view of the financial position of the Group as at 31 December 2013, and the results of its operations and cash flows for the six months ended on that date in accordance with NZ IAS 34 *Interim Financial Reporting*.

Our review was completed on 21 February 2014 and our opinion is expressed as at that date.

KPMG

Auckland

GROUP INTERIM

STATEMENT OF PROFIT OR LOSS

(UNAUDITED)

	NOTE	31 DEC 2013 6 MONTHS $000	31 DEC 2012 6 MONTHS $000	30 JUN 2013 12 MONTHS $000
Operating revenue		657,925	669,132	1,279,150
Operating expenditure	3	(340,091)	(332,803)	(648,684)
Depreciation and amortisation		(91,195)	(86,278)	(174,078)
Interest costs (net)		(84,800)	(83,294)	(164,352)
Fair value change on financial instruments		3,815	288	62
Associates (share of net profit/(loss))		1,062	707	1,291
Impairment of investments in associates	2	(49)	(2,278)	(3,570)
Profit/(loss) before income tax		146,667	165,474	289,819
Tax benefit/(expense)		(42,094)	(47,491)	(83,588)
Net profit/(loss) for the period		104,573	117,983	206,231
Net profit/(loss) for the period attributable to				
Non-controlling interests in subsidiaries		1,271	1,328	2,890
Owners of the parent		103,302	116,655	203,341
Basic and diluted earnings per share (cents)	6	10.4	11.7	20.4

GROUP INTERIM

STATEMENT OF OTHER COMPREHENSIVE INCOME

(UNAUDITED)

	31 DEC 2013 6 MONTHS $000	31 DEC 2012 6 MONTHS $000	30 JUN 2013 12 MONTHS $000
Net profit/(loss) for the period	104,573	117,983	206,231
Other comprehensive income net of tax			
Items that may be re-classified subsequently to profit/(loss)			
Net change in fair value of cash flow hedges	34,689	7,791	52,215
Share of other comprehensive income of associates	–	–	(20)
Translation of foreign operations	(28)	(3)	(30)
Other comprehensive income for the period net of tax	34,661	7,788	52,165
Total comprehensive income for the period net of tax	139,234	125,771	258,396
Total comprehensive income for the period attributable to			
Non-controlling interests in subsidiaries	1,271	1,328	2,890
Owners of the parent	137,963	124,443	255,506

STATEMENT OF FINANCIAL POSITION

(UNAUDITED)

	NOTE	31 DEC 2013 $000	31 DEC 2012 $000	30 JUN 2013 $000
CURRENT ASSETS				
Cash and cash equivalents		14,679	127,430	56,164
Receivables and prepayments		158,756	153,942	170,437
Derivative financial instruments	8	2,213	36	344
Inventories		4,169	4,449	5,513
Income tax		–	–	3,811
Intangible assets		32	68	15
Total current assets		179,849	285,925	236,284
NON-CURRENT ASSETS				
Receivables and prepayments		2,100	1,383	2,134
Derivative financial instruments	8	2,397	11,894	10,664
Deferred tax		–	1,646	1,646
Investments in associates	2	14,004	14,318	13,589
Intangible assets	4	1,634,865	1,615,418	1,633,369
Property, plant and equipment	4	3,901,326	3,721,718	3,849,391
Total non-current assets		5,554,692	5,366,377	5,510,793
Total assets		5,734,541	5,652,302	5,747,077
CURRENT LIABILITIES				
Trade and other payables		203,294	192,279	273,187
Provisions		11,354	12,536	11,676
Derivative financial instruments	8	116	3,652	2,065
Borrowings	9	175,862	–	–
Income tax		14,254	24,234	586
Total current liabilities		404,880	232,701	287,514
NON-CURRENT LIABILITIES				
Trade and other payables		18,998	19,943	20,136
Provisions		9,612	7,767	8,690
Derivative financial instruments	8	213,804	291,988	226,331
Borrowings	9	2,226,887	2,413,783	2,420,430
Deferred tax		541,617	486,694	525,514
Total non-current liabilities		3,010,918	3,220,175	3,201,101
Total liabilities		3,415,798	3,452,876	3,488,615
EQUITY				
Equity attributable to owners of the parent		2,301,125	2,181,461	2,240,326
Non-controlling interests in subsidiaries		17,618	17,965	18,136
Total equity		2,318,743	2,199,426	2,258,462
Total equity and liabilities		5,734,541	5,652,302	5,747,077

GROUP INTERIM
STATEMENT OF CASH FLOWS
(UNAUDITED)

	NOTE	31 DEC 2013 6 MONTHS $000	31 DEC 2012 6 MONTHS $000	30 JUN 2013 12 MONTHS $000
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers		687,041	704,849	1,292,704
Interest received		621	2,118	4,486
Income tax refunds		627	–	–
Dividends received from associates	10	600	200	200
Payments to suppliers and employees		(355,244)	(345,760)	(643,065)
Interest paid		(86,264)	(85,736)	(170,739)
Income tax paid		(21,516)	(7,964)	(57,403)
Net cash flows from/(used in) operating activities		225,865	267,707	426,183
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale of property, plant and equipment, and software intangibles		1,589	207	884
Proceeds from liquidation of associate		45	2,757	2,757
Purchase and construction of property, plant and equipment and software intangibles		(154,222)	(126,853)	(283,383)
Acquisition of businesses	13	(60,050)	–	–
Net cash flows from/(used in) investing activities		(212,638)	(123,889)	(279,742)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from borrowings		45,000	–	–
Repayment of borrowings		(20,000)	(22,817)	(22,817)
Debt raising costs incurred		(370)	(203)	(203)
Capital portion of payments on finance leases		(352)	(236)	(541)
Purchase of treasury shares	7	(30)	(44)	(44)
Dividends paid to owners of the parent		(77,171)	(74,681)	(146,874)
Dividends paid to non-controlling interests in subsidiaries		(1,789)	–	(1,391)
Net cash flows from/(used in) financing activities		(54,712)	(97,981)	(171,870)
Net increase/(decrease) in cash and cash equivalents		(41,485)	45,837	(25,429)
Cash and cash equivalents at beginning of the period		56,164	81,593	81,593
Cash and cash equivalents at end of the period		14,679	127,430	56,164
Cash and cash equivalents comprise				
Bank balances and on-call deposits		7,312	10,433	13,890
Short term deposits maturing within three months		7,367	116,997	42,274
		14,679	127,430	56,164

	31 DEC 2013 6 MONTHS $000	31 DEC 2012 6 MONTHS $000	30 JUN 2013 12 MONTHS $000
RECONCILIATION OF NET PROFIT/(LOSS) TO NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES			
Net profit/(loss) for the period	104,573	117,983	206,231
ITEMS CLASSIFIED AS INVESTING ACTIVITIES			
Net loss/(gain) on disposal of property, plant and equipment, and software intangibles	1,231	1,426	4,704
NON-CASH ITEMS			
Depreciation and amortisation	91,195	86,278	174,078
Non-cash portion of interest costs (net)	(1,214)	(317)	(1,490)
Fair value change on financial instruments	(3,815)	(288)	(62)
Associates (share of net profit/(loss))	(1,062)	(707)	(1,291)
Impairment of investments in associates	49	2,278	3,570
Increase/(decrease) in deferred tax	4,240	3,482	17,042
Increase/(decrease) in provisions	600	1,585	1,169
	89,993	92,311	193,016
CASH ITEMS NOT IMPACTING NET PROFIT/(LOSS)			
Dividends received from associates	600	200	200
MOVEMENT IN WORKING CAPITAL			
Increase/(decrease) in trade and other payables	(1,067)	(3,295)	8,724
Decrease/(increase) in inventories	1,344	865	(199)
Decrease/(increase) in receivables and prepayments	11,713	22,172	4,922
Decrease/(increase) in net income tax assets	17,478	36,045	8,585
	29,468	55,787	22,032
Net cash flows from/(used in) operating activities	225,865	267,707	426,183

STATEMENT OF CHANGES IN EQUITY

(UNAUDITED)

31 DEC 2013 6 MONTHS	NOTE	ISSUED SHARE CAPITAL $000	TREASURY SHARES $000	HEDGE RESERVE $000	OTHER RESERVES $000	RETAINED EARNINGS $000	NON-CONTROL-LING INTERESTS $000	TOTAL EQUITY $000
Balance at the beginning of the period		874,979	(9,279)	(106,486)	369	1,480,743	18,136	2,258,462
Comprehensive income								
Net profit/(loss) for the period		–	–	–	–	103,302	1,271	104,573
Other comprehensive income								
Net change in fair value of cash flow hedges		–	–	48,198	–	–	–	48,198
Other items of comprehensive income		–	–	–	(28)	–	–	(28)
Income tax relating to components of other comprehensive income		–	–	(13,509)	–	–	–	(13,509)
Total comprehensive income		–	–	34,689	(28)	103,302	1,271	139,234
Transactions with owners								
Dividends		–	–	–	–	(77,171)	(1,789)	(78,960)
Employee share purchase scheme transactions	7	–	(21)	–	28	–	–	7
Total transactions with owners		–	(21)	–	28	(77,171)	(1,789)	(78,953)
Balance at end of the period		874,979	(9,300)	(71,797)	369	1,506,874	17,618	2,318,743

	NOTE	31 DEC 2013	31 DEC 2012	30 JUN 2013
Net tangible assets per share (cents)	6	66.9	56.8	60.9

31 DEC 2012 6 MONTHS	NOTE	ISSUED SHARE CAPITAL $000	TREASURY SHARES $000	HEDGE RESERVE $000	OTHER RESERVES $000	RETAINED EARNINGS $000	NON-CONTROL-LING INTERESTS $000	TOTAL EQUITY $000
Balance at the beginning of the period		874,979	(9,240)	(158,701)	371	1,424,296	16,637	2,148,342
Comprehensive income								
Net profit/(loss) for the period		–	–	–	–	116,655	1,328	117,983
Other comprehensive income								
Net change in fair value of cash flow hedges		–	–	10,821	–	–	–	10,821
Other items of comprehensive income		–	–	–	(3)	–	–	(3)
Income tax relating to components of other comprehensive income		–	–	(3,030)	–	–	–	(3,030)
Total comprehensive income		–	–	7,791	(3)	116,655	1,328	125,771
Transactions with owners								
Dividends		–	–	–	–	(74,681)	–	(74,681)
Employee share purchase scheme transactions	7	–	(44)	–	38	–	–	(6)
Total transactions with owners		–	(44)	–	38	(74,681)	–	(74,687)
Balance at end of the period		874,979	(9,284)	(150,910)	406	1,466,270	17,965	2,199,426

GROUP INTERIM

STATEMENT OF CHANGES IN EQUITY (CONTINUED)

(UNAUDITED)

30 JUN 2013 12 MONTHS	NOTE	ISSUED SHARE CAPITAL $000	TREASURY SHARES $000	HEDGE RESERVE $000	OTHER RESERVES $000	RETAINED EARNINGS $000	NON-CONTROL-LING INTERESTS $000	TOTAL EQUITY $000
Balance at the beginning of the period		874,979	(9,240)	(158,701)	371	1,424,296	16,637	2,148,342
Comprehensive income								
Net profit/(loss) for the period		–	–	–	–	203,341	2,890	206,231
Other comprehensive income								
Net change in fair value of cash flow hedges		–	–	72,504	–	–	–	72,504
Other items of comprehensive income		–	–	–	(30)	(20)	–	(50)
Income tax relating to components of other comprehensive income		–	–	(20,289)	–	–	–	(20,289)
Total comprehensive income		–	–	52,215	(30)	203,321	2,890	258,396
Transactions with owners								
Dividends		–	–	–	–	(146,874)	(1,391)	(148,265)
Employee share purchase scheme transactions	7	–	(39)	–	28	–	–	(11)
Total transactions with owners		–	(39)	–	28	(146,874)	(1,391)	(148,276)
Balance at end of the period		874,979	(9,279)	(106,486)	369	1,480,743	18,136	2,258,462

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. The company is an issuer for the purposes of the Financial Reporting Act 1993, and the Group condensed interim financial statements (the interim financial statements) have been prepared in accordance with the requirements of that Act.

The interim financial statements presented are for Vector Limited Group (the "Group") as at, and for the six months ended 31 December 2013. The Group comprises Vector Limited, its subsidiaries, and its investments in associates and joint arrangements.

Vector Limited is a 75.4% owned subsidiary of the Auckland Energy Consumer Trust which is the ultimate parent entity for the Group.

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

BASIS OF PREPARATION

The interim financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (GAAP) as applicable to interim financial statements and as appropriate to profit-oriented entities. They comply with NZ IAS 34 *Interim Financial Reporting*. They 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 Annual Report for the 12 months ended 30 June 2013 (2013 Annual Report).

The interim financial statements for the six months ended 31 December 2013 and the six months ended 31 December 2012 are unaudited.

The interim financial statements are expressed in New Zealand dollars ($) rounded to the nearest thousand, unless otherwise stated.

SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out in the 2013 Annual Report have been applied consistently to all periods presented in these interim financial statements. The following changes to accounting standards have been adopted in the interim period.

APPLICATION OF NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the interim period, the Group has applied for the first time NZ IFRS 10 *Consolidated Financial Statements,* NZ IFRS 11 *Joint Arrangements,* NZ IFRS 12 *Disclosure of Interests in Other Entities and* NZ IFRS 13 *Fair Value Measurement*.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NZ IFRS 10 establishes the principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. NZ IFRS 10 has replaced the consolidation requirements in NZ IAS 27 *Consolidated and Separate Financial Statements and* NZ SIC-12 *Consolidation – Special Purpose Entities*. The application of NZ IFRS 10 has not had any impact on the group consolidation.

NZ IFRS 11 makes changes in the accounting for joint ventures (joint arrangements) by focusing on the rights and obligations of the arrangements rather than its legal form. The key change from the previous standard, NZ IAS 31 *Joint Ventures* is that a joint venture is now required to be accounted for differently to a joint operation. Joint operations are consolidated using the proportionate method whereas a joint venture where the parties do not have specified rights to the assets and liabilities is required to be accounted for by applying equity accounting. The application of NZ IFRS 11 has led to the group's interest in the Kapuni Energy Joint Venture being classified as a joint operation and as a result this continues to be consolidated using the proportionate method.

NZ IFRS 12 is a standard on disclosure requirements for entities reporting under NZ IFRS 10 and NZ IFRS 11 covering all forms of interests in other entities including subsidiaries, joint arrangements, associates and unconsolidated structured entities. NZ IFRS 12 has replaced the disclosure requirements of NZ IAS 28 *Investment in Associates*. NZ IFRS 12 will result in additional disclosures in the Group financial statements for the year ended 30 June 2014.

NZ IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other IFRSs. It unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It replaces and expands the disclosure requirements about fair value measurements in other IFRSs including NZ IFRS 7 *Financial Instruments: Disclosures*. As a result, the Group has included additional disclosures in this regard in accordance with the transitional provisions of NZ IFRS 13. The Group has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of the Group's assets and liabilities.

MEASUREMENT BASE

The interim financial statements have been prepared on an historical cost basis except for the following items, which are measured at fair value:

- the identifiable assets, liabilities and contingent liabilities acquired in a business combination; and
- certain financial instruments.

SEASONALITY OF OPERATIONS IN THE INTERIM PERIOD

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.

APPROVAL OF THE FINANCIAL STATEMENTS

The interim financial statements were approved by the board of directors on 21 February 2014.

2. INVESTMENT IN ASSOCIATES

	PRINCIPAL ACTIVITY	PERCENTAGE HELD		
		31 DEC 2013	31 DEC 2012	30 JUN 2013
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%

An impairment loss of $49,000 has been recognised in respect of the Group's investment in its associate company, NZ Windfarms Limited (six months ended 31 December 2012: $2.3 million, 12 months ended 30 June 2013: $3.6 million). The share price of NZ Windfarms Limited declined between 30 June 2013 and 31 December 2013 from $0.078 per share to $0.075 per share. The recoverable amount determined as at 31 December 2013 was estimated based on the investment's fair value less costs to sell by reference to this active market price on the New Zealand Stock Exchange. The share price supports the current carrying value of the group's investment in NZ Windfarms Limited.

3. SEGMENT INFORMATION

Vector reports on the following four operating segments in accordance with NZ IFRS 8 *Operating Segments*. These segments are the focus of internal reporting to the group chief executive and the board of directors.

ELECTRICITY

Electricity distribution networks.

GAS TRANSPORTATION

Gas transmission and distribution networks.

GAS WHOLESALE

Natural gas (acquisition, processing and retailing), LPG (distribution, storage and retailing) and cogeneration.

TECHNOLOGY

Telecommunications networks and metering (electricity and gas).

Corporate activities, comprising shared services and investments, earn revenues that are incidental to the operations of the Group and do not meet the definition of an operating segment under NZ IFRS 8. The results for corporate activities are reported in the reconciliations of segment information to the Group's interim financial statements.

The segments reported in the interim financial statements are the same as those reported in Vector's 2013 Annual Report.

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

Segment information is prepared in accordance with Vector's accounting policies. Monthly internal reporting to the group chief executive and board of directors is also prepared on this basis. Segment profit reported to the group chief executive and the board of directors is earnings before interest and tax. Net interest costs, fair value change on financial instruments, associates (share of net profit/(loss)) and impairments are incurred within corporate activities and are not allocated to the segments. Earnings before interest, tax, depreciation and amortisation (EBITDA) is also reported at segment level to the group chief executive and the board of directors.

31 DEC 2013 6 MONTHS	ELECTRICITY $000	GAS TRANS-PORTATION $000	GAS WHOLESALE $000	TECHNOLOGY $000	INTER-SEGMENT $000	TOTAL $000
External revenue						
Operating revenue	325,481	88,865	181,718	61,512	–	657,576
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 operating expenditure						
Electricity transmission expenses	(89,976)	–	–	–	–	(89,976)
Gas purchases and production expenses	–	–	(119,936)	–	–	(119,936)
Network and 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 expenses	(12,571)	(13,581)	(3,608)	(9,430)	–	(39,190)
Intersegment expenditure	(4,132)	(3,025)	(17,438)	(892)	25,487	–
Operating expenditure	(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 operating revenue, profit/(loss) before income tax and capital expenditure reported in the interim financial statements:

31 DEC 2013 6 MONTHS	OPERATING 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)			
Revenues	349	349	–
Employee benefit expenses	–	(12,766)	–
Other 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)

31 DEC 2012 6 MONTHS	ELECTRICITY $000	GAS TRANS-PORTATION $000	GAS WHOLESALE $000	TECHNOLOGY $000	INTER-SEGMENT $000	TOTAL $000
External revenue						
Operating revenue	333,774	94,563	191,943	48,674	–	668,954
Intersegment revenue	980	19,789	3,608	4,133	(28,510)	–
Segment revenue	334,754	114,352	195,551	52,807	(28,510)	668,954
External operating expenditure						
Electricity transmission expenses	(87,470)	–	–	–	–	(87,470)
Gas purchases and production expenses	–	–	(119,601)	–	–	(119,601)
Network and asset maintenance expenses	(22,479)	(8,584)	(8,820)	(2,229)	–	(42,112)
Employee benefit expenses	(5,756)	(2,707)	(8,129)	(4,356)	–	(20,948)
Other expenses	(13,359)	(10,779)	(4,782)	(8,536)	–	(37,456)
Intersegment expenditure	(3,724)	(3,623)	(20,183)	(980)	28,510	–
Operating expenditure	(132,788)	(25,693)	(161,515)	(16,101)	28,510	(307,587)
Segment EBITDA	201,966	88,659	34,036	36,706	–	361,367
Depreciation and amortisation	(40,239)	(12,074)	(8,099)	(18,768)	–	(79,180)
Segment profit	161,727	76,585	25,937	17,938	–	282,187
Segment capital expenditure	61,427	15,984	3,529	43,750	–	124,690

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

31 DEC 2012 6 MONTHS	OPERATING REVENUE $000	PROFIT/(LOSS) BEFORE INCOME TAX $000	CAPITAL EXPENDITURE $000
Reported in segment information	668,954	282,187	124,690
Amounts not allocated to segments (corporate activities)			
Revenues	178	178	–
Employee benefit expenses	–	(14,477)	–
Other expenses	–	(10,739)	–
Depreciation and amortisation	–	(7,098)	–
Interest costs (net)	–	(83,294)	–
Fair value change on financial instruments	–	288	–
Associates (share of net profit/(loss))	–	707	–
Impairment of investments in associates	–	(2,278)	–
Capital expenditure	–	–	4,098
Reported in the interim financial statements	669,132	165,474	128,788

30 JUN 2013 12 MONTHS	ELECTRICITY $000	GAS TRANS-PORTATION $000	GAS WHOLESALE $000	TECHNOLOGY $000	INTER-SEGMENT $000	TOTAL $000
External revenue						
Operating revenue	630,914	181,425	365,637	100,630	–	1,278,606
Intersegment revenue	1,960	38,210	6,610	8,437	(55,217)	–
Segment revenue	632,874	219,635	372,247	109,067	(55,217)	1,278,606
External operating expenditure						
Electricity transmission expenses	(176,120)	–	–	–	–	(176,120)
Gas purchases and production expenses	–	–	(228,535)	–	–	(228,535)
Network and asset maintenance expenses	(42,661)	(17,206)	(18,383)	(4,520)	–	(82,770)
Employee benefit expenses	(12,396)	(4,229)	(16,260)	(9,210)	–	(42,095)
Other expenses	(21,523)	(21,167)	(9,686)	(17,125)	–	(69,501)
Intersegment expenditure	(7,637)	(6,641)	(38,979)	(1,960)	55,217	–
Operating expenditure	(260,337)	(49,243)	(311,843)	(32,815)	55,217	(599,021)
Segment EBITDA	372,537	170,392	60,404	76,252	–	679,585
Depreciation and amortisation	(80,814)	(23,915)	(16,252)	(38,854)	–	(159,835)
Segment profit	291,723	146,477	44,152	37,398	–	519,750
Segment capital expenditure	150,164	37,515	8,325	88,872	–	284,876

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

30 JUN 2013 12 MONTHS	OPERATING REVENUE $000	PROFIT/(LOSS) BEFORE INCOME TAX $000	CAPITAL EXPENDITURE $000
Reported in segment information	1,278,606	519,750	284,876
Amounts not allocated to segments (corporate activities)			
Revenues	544	544	–
Employee benefit expenses	–	(28,544)	–
Other expenses	–	(21,119)	–
Depreciation and amortisation	–	(14,243)	–
Interest costs (net)	–	(164,352)	–
Fair value of change on financial instruments	–	62	–
Associates (share of net profit/(loss))	–	1,291	–
Impairment of investments in associates	–	(3,570)	–
Capital expenditure	–	–	13,760
Reported in the interim financial statements	1,279,150	289,819	298,636

4. PROPERTY, PLANT AND EQUIPMENT AND SOFTWARE INTANGIBLE ASSETS

During the period, Vector invested $148.3 million (six months ended 31 December 2012: $128.8 million, 12 months ended 30 June 2013: $298.6 million) in capital expenditure and retired $3.1 million (six months ended 31 December 2012: $3.0 million, 12 months ended 30 June 2013: $5.1 million) of property, plant and equipment and software intangible assets.

5. CAPITAL COMMITMENTS

	31 DEC 2013 $000	31 DEC 2012 $000	30 JUN 2013 $000
Estimated capital expenditure contracted for at balance date but not yet incurred	68,306	81,165	75,057

6. FINANCIAL RATIOS

EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 31 December 2013 is based on the net profit/(loss) attributable to owners of the parent of $103.3 million (six months ended 31 December 2012: $116.7 million, 12 months ended 30 June 2013: $203.3 million) and the weighted average number of ordinary shares outstanding during the period of 995,619,222 (six months ended 31 December 2012: 995,632,109, 12 months ended 30 June 2013: 995,626,031).

NET TANGIBLE ASSETS PER SHARE

The calculation of net tangible assets per share for the period ended 31 December 2013 is based on net assets attributable to owners of the parent of $2,301.1 million (31 December 2012: $2,181.5 million, 30 June 2013: $2,240.3 million) less total intangible assets of $1,634.9 million (31 December 2012: $1,615.5 million, 30 June 2013: $1,633.4 million) and 995,612,889 ordinary shares outstanding as at 31 December 2013 (31 December 2012: 995,619,181, 30 June 2013: 995,620,973).

7. FUNDING OF OPERATIONS

TRANSACTIONS WITH OWNERS

During the period, a final dividend of 7.75 cents per share in respect of the 12 months ended 30 June 2013 was paid to the shareholders on 13 September 2013 (six months ended 31 December 2012: 7.5 cents per share in respect of the 12 months ended 30 June 2012, paid on 17 September 2012).

During the period, the group granted rights to 16,308 shares at $2.58 each to employees participating in the employee share purchase scheme (six months ended 31 December 2012: 27,249 shares at $2.65 each; 12 months ended 30 June 2013: 27,249 shares at $2.65 each). In granting the rights to these shares the group acquired 11,736 shares on market at a cost of $2.58 each (six months ended 31 December 2012: 16,293 shares at $2.65 each; 12 months ended 30 June 2013: 16,293 shares at $2.65 each). Shares allocated to the employee share purchase scheme are held as treasury shares until the end of the scheme's vesting period.

BORROWINGS

All borrowings are measured at amortised cost adjusted for fair value movements in respect of the hedged risk on those borrowings designated in their fair value hedge relationships. Borrowings are classified as current or non-current depending on contractual obligations. The net decrease in borrowings since 30 June 2013 of $17.7 million is the result of a decrease of $44.0 million of fair value movements offset by the $25.0 million drawdown of the Senior Credit Facility and a $1.3 million reduction in unamortised costs.

8. DERIVATIVE FINANCIAL INSTRUMENTS

The net amount of derivative financial instruments disclosed in the statement of financial position at 31 December 2013 is a liability of $209.3 million (31 December 2012: $283.7 million, 30 June 2013: $217.4 million). The decrease in the net liability since 30 June 2013 of $8.1 million reflects the decrease in the aggregate mark to market loss during the period. This decrease was the result of a favourable movement in the fair value of New Zealand dollar interest rate swaps due to cash payments made during the period and higher New Zealand dollar market interest rates. Also contributing to the decrease is a reduction in the mark to market loss on the NZD:GBP cross currency interest rate swaps due to a depreciation of the New Zealand dollar against the GBP and a decrease in GBP market interest rates. Offsetting these decreases is an increase in the mark to market loss on the NZD:USD cross currency interest rate swaps due to a strengthening of the New Zealand dollar against the USD and higher USD market interest rates.

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities; or

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices); or

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The fair values for all financial instruments have been classified as level 2 based on the inputs to the valuation technique. The fair values have been calculated as the present value of the estimated future cash flows based on current market interest rates and foreign exchange rates. Unless otherwise disclosed below the carrying value of the Group's financial instruments is equivalent to their fair value.

	CARRYING AMOUNT (EXCLUDING ACCRUALS) $000	CARRYING AMOUNT OF ACCRUALS $000	TOTAL CARRYING AMOUNT $000	TOTAL FAIR VALUE $000
Borrowings	2,402,749	32,461	2,435,210	2,379,919

10. RELATED PARTIES

MAJORITY SHAREHOLDER

Vector Limited has paid the Auckland Energy Consumer Trust (AECT) dividends of $58.2 million during the period (six months ended 31 December 2012: $56.3 million, 12 months ended 30 June 2013: $110.8 million). The AECT is the majority shareholder of Vector Limited.

ASSOCIATES

During the period, $0.6 million of dividends were received from Tree Scape Limited which is an associate of the group (six months ended 31 December 2012: $0.2 million, 12 months ended 30 June 2013: $0.2 million).

At 31 December 2013, there are no material outstanding balances due to or from associates and joint arrangements which are related parties of the Vector Group.

11. ELECTRICITY REGULATORY CLAW BACK

On 30 November 2012, the Commerce Commission announced the reset of the default price-quality paths for 16 electricity distributors, one of which is the Vector electricity distribution business. The new default price-quality paths took effect from 1 April 2013 and require an average reduction of 10% in Vector's electricity distribution prices commencing in the regulatory year ended 31 March 2014. The Commerce Commission has stated it will apply claw back for any under or over recovery of revenue for the regulatory year ended 31 March 2013 given that prices had already been set by electricity distributors for that period prior to the Commerce Commission's 30 November 2012 reset announcement. The claw back will be effected through a further price adjustment in the regulatory year to 31 March 2015. The amount of the claw back is estimated to be $15 million which will impact revenues reported for the financial year ending 30 June 2014 and 30 June 2015. The claw back has no impact on the reported electricity revenues in the interim financial statements.

12. CONTINGENT LIABILITIES

The High Court has dismissed an appeal by the suppliers of Kapuni gas against an award granted in favour of Vector during the prior period. The award concerned Vector's entitlements to 7.3 PJs of Kapuni gas at the legacy price under a pre-existing contract. The suppliers have until 3 March 2014 to seek leave to appeal further to the Court of Appeal. Vector is of the opinion that any appeal to the Court of Appeal is unlikely to be successful and therefore has included purchases of 1.1 PJs of Kapuni gas at the legacy price in the interim financial statements. Vector believes that any further disclosure on this matter would prejudice its commercial position.

13. BUSINESS COMBINATIONS

On 30 June 2013, Vector acquired the business and assets of the Contact Energy Limited gas metering systems business. During the six months ended 31 December 2013, $59.8 million was paid in consideration of this acquisition. The fair value of the assets and liabilities acquired were disclosed in Vector's 2013 Annual Report on a provisional basis. There has been no change to those reported values. Determination of fair values will be finalised within 12 months from the date of acquisition.

14. EVENTS AFTER BALANCE DATE

On 21 February 2014, the board of directors declared an interim dividend for the 12 months ended 30 June 2014 of 7.50 cents per share.

No adjustment is required to the 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
Kate Beddoe	Chief Risk Officer
Allan Carvell	Group General Manager Commercial and Regulatory Affairs
Minoru Frederiksens	Group General Manager Service Delivery
Dan Molloy	Chief Financial Officer
David Thomas	Group General Manager Gas Trading and Metering
Ryno Verster	Acting Group General Manager Asset Investment
Shelley Watson	Group General Manager External Relations

DIRECTORY

REGISTERED OFFICE

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New Zealand

TO REPORT A FAULT

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On the Auckland, Manukau
or Papakura network call
0508 VECTOR (0508 832 867)

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

Gas
Call 0800 764 764

www.vector.co.nz