Vector

NEW FUTURE

INTERIM REPORT 2017
VECTOR LIMITED

CREATING A NEW ENERGY FUTURE

Vector is challenging and reinventing the way communities and businesses are powered and connected so they can grow and thrive. We are embracing new technologies, disrupting traditional business models and working with like-minded companies to deliver customers the new energy solutions they demand.

WATCH our video online at https://vimeo.com/184272776
a glimpse into the new future of energy use in New Zealand

Adjusted EBITDA[1] from continuing operations[2]

$257.0m

RISES 1.4% ON THE PREVIOUS CORRESPONDING PERIOD

Net profit after tax from continuing operations[2]

$107.1m

RISES 64.5% ON THE PREVIOUS CORRESPONDING PERIOD

Fully-imputed interim dividend

8.0 cents

RISES 0.25 CENTS PER SHARE
ON THE 2016 INTERIM DIVIDEND

1. Adjusted EBITDA is a non-GAAP profit measure. For a comprehensive definition and reconciliation to the GAAP measure of net profit please refer to page 18 of this report.
2. For statutory reporting purposes, the Vector Gas businesses in the comparative period are presented separately in profit or loss as discontinued operations. Please refer to our interim financial statements for a breakdown of continued and discontinued operations.

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CREATING OPPORTUNITIES FOR GROWTH

In its recent reports to shareholders, Vector has focused on new energy technologies, and how we are using them to give customers greater choice and control over their energy use, to transform our traditional business, and to create new growth opportunities.

Our approach has received support from many quarters. Meanwhile, the Commerce Commission in its recent review of the rules governing investment and returns on our regulated networks, recognised the value such technologies can deliver to consumers and the disruptive changes they are driving within the energy sector.

Yet still we hear claims that we are distracted by new technology, and that Vector should "stick to its knitting" or "get back into its box".

This is something we unashamedly will not do.

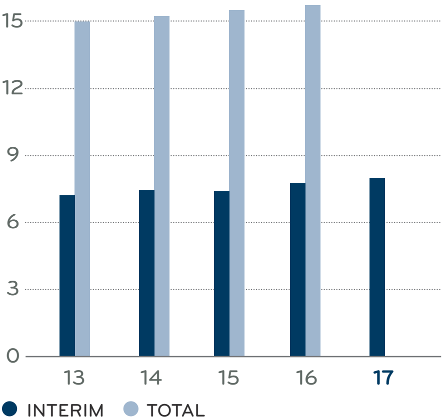
From a technology perspective, not much changed on electricity networks between the commissioning of the government's first commercial hydro-electric plant and transmission line in Rotorua in 1901 and the start of the 21st century.

But now our industry is contemplating the most significant disruption it has ever experienced.

Photo-voltaic technology enables power to be generated from the sun at a cost that is trending towards the generation costs of traditional technologies. Batteries enable electricity to be stored, at both the household and grid level. Smart meters, smart appliances, and new information technologies give customers far more data and control over their electricity usage. Electric vehicles are rapidly gaining in popularity.

Our industry is contemplating the most significant disruption it has ever experienced.

DIVIDENDS DECLARED CENTS PER SHARE



These technological developments are having a profound impact on the electricity sector.

Previously clear lines of demarcation between generation, transmission, distribution and electricity retailing are being blurred as new technologies and new players provide consumers with broader and more customer-centric choices to manage their energy needs.

Consumers who install batteries and solar panels are likely to remain connected to the grid, but they will use the grid less. These consumers could go off-grid in future if lines companies do not respond appropriately.

Smart appliances and home energy management devices will further reduce household power consumption. As a result, electricity companies will no longer be able to rely on demand growth to justify new investment. As distributed generation becomes ubiquitous, a range of sector assets could become surplus to requirements. Lines companies would be unwise to rely on the regulatory regime to protect such assets in the long term.

Faced with these challenges and opportunities, it is clear to us that "sticking to our knitting" is not an option. Lines companies that keep operating as they always have are likely to find themselves increasingly marginalised over time.

Vector, with the support of its majority shareholder Entrust, is therefore embracing the technological changes that are disrupting the energy sector. We are doing this to ensure the ongoing relevance of our energy networks, to create solutions for our customers, and to create new opportunities for growth.

We are investing in smart meters, solar systems, household and network batteries, home energy management solutions, electric vehicle infrastructure and peer-to-peer electricity trading.

At the same time, we are continuing to invest significant amounts in our Auckland energy networks, as we connect record numbers of new customers to meet the region's strong growth. We are however increasingly looking to use new technology alongside traditional network solutions to increase our flexibility and agility and reduce the risk of future redundancy.

And now, following the Commerce Commission's review of the regulatory framework that governs our energy networks, we are doing all of this in an environment of stable economic regulation that is supportive of the change. New Zealand is in the fortunate position of having a regulator that recognises it must keep pace with the change and technological disruption in energy markets.

We are investing to ensure the ongoing relevance of our energy networks, to create solutions for our customers, and to create new opportunities for growth.

FINANCIAL PERFORMANCE

Net profit after tax from continuing operations for the six months to 31 December 2016 rose 64.5% to $107.1 million, from $65.1 million in the same period last year.

The result was driven by growth in capital contributions – due to strong growth in Auckland – and lower finance costs as we repaid debt following the sale of Vector Gas in April 2016. It also included a $15.0 million one-off gain after the Court of Appeal ruled in Vector's favour over the tax treatment of the sale of rights to use our Penrose to Hobson Street tunnel in Auckland.

Group revenue from continuing operations rose 5.9% to $625.6 million, from $590.6 million in the prior period. Adjusted EBITDA from continuing operations was up 1.4% to $257.0 million from $253.5 million in the same period last year.

Adjusted EBITDA for the continuing regulated networks business decreased 0.4% to $195.7 million, from $196.4 million. A combined 19.0% increase in new electricity and gas connections was offset by the effects of warmer weather and the continuing decline in household power consumption.

Adjusted EBITDA in the unregulated businesses rose 2.3% to $84.1 million from $82.2 million last year, with continuing growth in the New Zealand metering business and a one-off insurance settlement[3] offsetting the costs associated with the expansion of metering into Australia, the commercialisation of new technologies and ongoing low hydrocarbon prices.

3. In respect of damage sustained to Liquigas facilities in Lyttelton during the 2011 earthquake.

FINANCIAL STRENGTH

Following the sale of Vector Gas, gearing[4] as at 31 December 2016 was 43.9% compared with 43.7% at the end of June 2016 and 53.4% at 31 December 2015. The proceeds from the sale of Vector Gas were applied to debt reduction. We are now redeploying this capital to support our new growth opportunities.

Vector has increased its dividend by at least 0.25 cents every year since it listed in 2005. The board has considered our growth prospects, the strength of our balance sheet following the sale of Vector Gas, and the stability in our regulatory regime through to 2025. We remain committed to increasing dividends in line with historical practice, contingent on the company maintaining an investment-grade (BBB) credit rating and continuing to meet its investment requirements.

We will review this approach following the next electricity reset in 2020. Our ability to maintain this approach beyond that point will be impacted by a range of factors, including the interest rates prevailing at the time of the next reset, and our success in re-investing the proceeds of the sale of Vector Gas.

Accordingly, the directors have declared an interim dividend of 8.0 cents per share, up 0.25 cents on the prior year's interim dividend of 7.75 cents per share. The record date for dividend entitlements is 30 March 2017 and the payment date is 13 April 2017.

OUTLOOK

Vector is excited by the opportunities that are emerging within the energy sector. We take comfort in the new maturity we are seeing in the regulation of our energy networks. We are looking forward to the remainder of this financial year with confidence and continue to target adjusted EBITDA broadly in line with last year's result, and towards the top end of guidance given in August of last year.

MICHAEL STIASSNY

Chairman

4. Gearing is defined as net economic debt to net economic debt plus equity. Economic debt means the amount payable upon maturity, including the impact of hedging.

PROVIDING CHOICE AND CONTROL

Vector has long understood that new energy technologies such as smart meters, batteries, solar panels, new software and energy management solutions and electric vehicles would disrupt and transform our industry. Rather than resist, we decided to embrace change for three key reasons.

Firstly, technology is providing alternative ways to enhance our network, and delivering tangible economic benefits. Secondly, technology is significantly augmenting our ability to deliver solutions that give customers the choice and control they want in the management of their energy needs. Finally, technology is facilitating Vector's drive to create a sustainable and environmentally responsible company.

Vector faces a challenging task. Auckland is growing strongly. The region is forecast to add as much as the equivalent population of Hamilton every five years. In the past six months alone new connections to our electricity and gas networks rose 19% to 6,490. We do not benefit from this growth in the short term due to the regulatory regime's weighting of returns towards the end of assets' lives.

Meanwhile, customers are using less power as building standards improve and they renovate and install energy-efficient appliances and lighting. Indeed, today the average household uses 11.0% less electricity per year than it did in 2005. These trends, coupled with the growing adoption of home batteries, solar panels and other energy management technologies, have the potential to reduce customers' use of Vector's networks.

We also shoulder an enormous responsibility.

Our Auckland energy networks require a projected $2.0 billion of capital investment to meet growth over the next 10 years. We are determined to meet this challenge, but we will not do so by relying on

Technology is significantly augmenting our ability to deliver solutions that give customers the choice and control they want.

old paradigms or beliefs that regulatory protection will pass on the costs of funding over-built infrastructure to consumers.

PROVIDING CHOICE AND CONTROL

We are determined to develop solutions that are right for Auckland and right for consumers, both now and in our new energy future. Our first installation of a utility-scale battery in Glen Innes is tangible evidence of this approach, but this thinking permeates all aspects of our business.

We are investing heavily in data analytics to ensure that we build smart networks and invest efficiently.

Our aim is to ensure we do not add unnecessary costs to customers and that network investment is anticipating the fast rate of change in technology and customers' demand for greater choice and control over their energy use.

Our home battery fleet has grown to 445, from 291 at the same time last year. The majority of these batteries are paired with solar panels, allowing customers to store power during the day for use in the evening when consumption and power prices generally peak.

Our electric vehicle charging network, with the support of our majority shareholder Entrust, has grown to 21 chargers from six chargers a year ago, comprising 13 rapid chargers and 8 standard chargers.

We are working closely with peer-to-peer (P2P) specialists to develop a New Zealand P2P electricity trading platform. Meanwhile, we are working with organisations such as Hawaii's Energy Excelerator to identify new solutions and opportunities.

Alongside Entrust, we continue to work for the interests of Auckland energy consumers. Together we have advocated for customers by taking a strong position against the Electricity Authority's latest Transmission Pricing Methodology proposals. The changes will mean a 33% per annum increase in Auckland's transmission grid charges. This will leave Auckland consumers bearing an even heavier burden in the future.

We are determined to develop solutions that are right for Auckland and right for consumers, both now and in our new energy future.

Vector and Entrust have also formed a partnership with Auckland Council to drive energy efficiency in the city. This is an extension of the already strong relationship we enjoy with the council.

A RECORD OF SUCCESS

We have a proud history of anticipating how changes in customer behaviour and advances in new technology would disrupt traditional business models and create opportunities to enhance the services we provide our customers.

Less than a decade ago our residential smart metering business did not exist. Yet, today it continues to make a strong contribution to Vector's financial performance. Over the six months to 31 December 2016 we added 77,224 meters, lifting our meter fleet to over 1.2 million, an increase of 15.2% on the prior period.

Leveraging our extensive experience and success in New Zealand, we are now looking to Australia to deliver the next phase of metering growth. We have signed metering services agreements with two major electricity retailers there and expect to have installed more than 10,000 meters as at the date of this report. We anticipate the rate of deployment to accelerate during 2017.

We remain confident of our prospects in the Australian market. Regulatory reforms require retailers to take responsibility for new and replacement metering installations from December 2017. This necessitates all retailers making arrangements with meter providers by this time to fulfil their obligations.

Our bottle swap business continues to grow as more customers turn to the convenience of pre-filled LPG bottles. Bottle swap volumes grew 5.8% to 319,685 bottles, up from 302,109 in the prior period. We expect that amount to increase over the coming year, helped in no small measure by our new South Auckland bottling plant, which is due for completion later this calendar year.

We also completed in September the transition of Vector Gas to its new owners.

SAFETY AND SERVICE QUALITY

Vector recognises we will only succeed in achieving these ambitious goals if we provide a safe workplace that values diversity and inclusion and develops skilled people who can lead our company into the future.

Reflecting this commitment, we have taken the industry-leading stance that network repair and maintenance work will be undertaken de-energised wherever possible. We regret that this will result in increased outages for customers, but we are confident they will agree that the safety of our field staff is a priority. This approach is aligned with international safety standards, and it is already gaining acceptance around New Zealand.

Coupled with changes in our operating environment, including increasing traffic congestion in Auckland, this new approach makes it challenging to meet the Commerce Commission's quality thresholds. We are having a constructive dialogue with the commission and WorkSafe New Zealand on these issues.

Vector has a great team motivated to achieve our goals for this year and beyond. We are excited by the challenges and opportunities we see amidst the significant disruption and transformation taking place in our sector and the considerable growth we are seeing in Auckland.

SIMON MACKENZIE

Group Chief Executive

A new model for network investment

GLEN INNES
AUCKLAND

Vector Chairman Michael Stiassny, (left) the then Energy Minister Simon Bridges and Vector Group Chief Executive Simon Mackenzie open the Glen Innes substation in October.

Our Glen Innes substation is providing a glimpse of the future. The network battery we have installed at the substation has a storage capacity of 2.3 MWh, enough to power 450 average homes for more than two hours. The new battery allows Vector to better match investment in its network with demand from the suburb.

It allows Vector to store power when demand on the network is low and discharge power to augment the network when demand is high. And when connection or consumption growth requires a conventional network upgrade, we can move the battery to other parts of the network where power demand is rising.

Compare the flexibility of this investment to the traditional practice of a substation upgrade. The cost of an upgrade would have been incurred immediately with an expectation of a return decades later – by which time changes in power use patterns in the suburb could have made the investment redundant.

Storage capacity of

2.3Mwh

enough to power

450

average homes for more than

2 hours

IT ALLOWS VECTOR TO STORE POWER WHEN DEMAND ON THE NETWORK IS LOW AND DISCHARGE POWER TO AUGMENT THE NETWORK WHEN DEMAND IS HIGH.

Regulated Networks

Revenue[5] from continuing operations (that is, excluding Vector Gas) for the half year was largely flat at $353.8 million compared to $353.6 million last year. An increase in transmission fees, which are passed through to customers with no margin, offset the impact of falling energy consumption.

Electricity volumes were down 0.6% to 4,340 GWh from 4,368 GWh in the prior year due to the effects of warmer weather, the partial closure of a large industrial customer and continuing falls in average household electricity consumption. This was despite strong growth in the number of new electricity connections, which rose 17.0% to 4,583 from 3,916. Indeed, today the average household on our network uses 11.0% less electricity per year than it did in 2005.

Total new electricity and gas connections rose 19% or 1,036 to 6,490.

Auckland gas distribution network volumes were flat at 7.6 PJ with weaker demand being offset by a 24.0% increase in new connections.

Adjusted EBITDA from continuing operations was $195.7 million compared with $196.4 million during the same period in the prior year, as tight cost control largely offset the impact of lower network throughput.

Capital contributions increased by 42.6% to $30.8 million, from $21.6 million in the prior year, due to continuing strong growth in Auckland.

Revenue

$353.8m

FLAT ON THE PRIOR PERIOD'S $353.6 MILLION

Adjusted EBITDA

$195.7m

DECREASED FROM $196.4 MILLION

Electricity customers

552,948

INCREASED 1.0% OVER THE SAME PERIOD LAST YEAR

Electricity volumes

4,340GWh

DOWN 0.6% FROM 4,368 GWH

INCREASE IN NEW ELECTRICITY AND GAS CONNECTIONS

19.0%

ROSE TO 6,490

5. Excluding capital contributions.

Technology

Technology division revenue[6] rose 11.0% to $97.8 million, from $88.1 million a year earlier, driven largely by the increased deployment of smart meters.

Adjusted EBITDA rose 6.0% to $60.4 million from $57.0 million. Gains from the smart meter roll-out were diluted by expenditure associated with new energy technologies and the establishment of the Australian metering operation.

We installed 77,224 smart meters during the period. As we signalled in August, Vector is reaching the end of the New Zealand smart meter roll-out. We continue to target the deployment of 140,000 to 160,000 meters in New Zealand for the full year. Thereafter, the focus here will be on managing the existing meter fleet and installing new and replacement meters as required.

We continue to make progress in Australia and as at the date of this report we expect to have installed more than 10,000 meters there. We have faced challenges recruiting a skilled workforce to undertake smart meter installations, but we are working through these issues, and expect deployment velocity to increase in the second half of the financial year.

Vector Communications is performing well in a competitive market and has gained a number of significant customers over the period.

Revenue[6]

$97.8m

INCREASED 11.0% FROM $88.1 MILLION

Adjusted EBITDA

$60.4m

INCREASED 6.0% FROM $57.0 MILLION

INCREASE IN SMART METERS

15.2%

VECTOR INSTALLED 77,224 SMART METERS DURING THE PERIOD.

Electricity smart meters

1,203,482

INCREASED FROM 1,044,613 AT THE SAME TIME LAST YEAR

6. Excluding capital contributions.

Gas Trading

Revenue at the Gas Trading division fell 0.8% to $150.2 million from $151.4 million a year earlier as the division continues to face a challenging trading environment.

Adjusted EBITDA fell 6.0% to $23.7 million from $25.2 million.

The result for the half year has been impacted by a one-off insurance settlement in respect of damage caused to the Liquigas facilities in Lyttleton in the 2011 earthquake. Excluding the insurance proceeds, adjusted EBITDA was $18.4 million.

Vector's LPG operations occupy a strong market position and have delivered an improved contribution during the period. Swap volumes of 9 kg bottles rose 5.8% to 319,685 compared to the same period last year. Our new bottle filling facility in South Auckland is proceeding well and it will support continued growth within the bottle swap business.

Since the November 2016 earthquake brought rail transports of LPG to southern markets to a halt, Liquigas has made up for the shortfall in capacity to meet the South Island's energy needs.

Domestic LPG tolling volumes were down 1.0% to 72,239 tonnes from 72,934 tonnes in the same period of the prior year. Export tolling volumes fell 60.9% to 5,449 tonnes from 13,934 tonnes as lower international prices for LPG made exports less attractive.

Meanwhile, as indicated in August, the natural gas business continues to face a number of challenges. Volumes were slightly higher at 9.3 PJ compared with 9.1 PJ in the prior year but margins and prices were weaker due to tough competition for customers.

Additionally, continued weakness in the price for natural gas, lower production and lower processing fees at the Kapuni Gas Treatment Plant and lower hydrocarbon prices have impacted segment earnings.

Revenue

$150.2m

REVENUE FELL 0.8% FROM $151.4 MILLION

Adjusted EBITDA

$23.7m

ADJUSTED EBITDA FELL 6.0% FROM $25.2 MILLION

Bottle swap volumes

319,685

9 KG LPG BOTTLES

INCREASE IN 9 KG LPG BOTTLE SWAP VOLUMES

5.8%

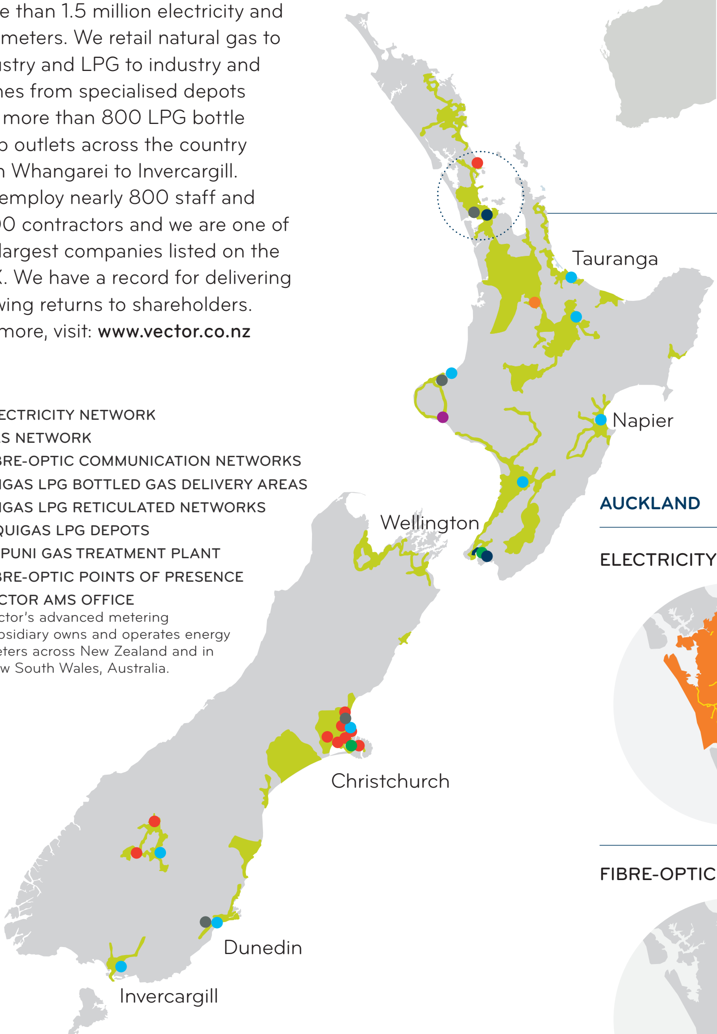
ROSE 5.8% FROM 302,109 IN THE SAME PERIOD A YEAR AGO.

WHERE WE ARE

Vector is the country's largest distributor of electricity and gas with our networks spanning the Auckland region. We maintain and operate more than 1.5 million electricity and gas meters. We retail natural gas to industry and LPG to industry and homes from specialised depots and more than 800 LPG bottle swap outlets across the country from Whangarei to Invercargill. We employ nearly 800 staff and 1,000 contractors and we are one of the largest companies listed on the NZX. We have a record for delivering growing returns to shareholders. For more, visit: **www.vector.co.nz**

KEY

- ELECTRICITY NETWORK
- GAS NETWORK
- FIBRE-OPTIC COMMUNICATION NETWORKS
- ONGAS LPG BOTTLED GAS DELIVERY AREAS
- ONGAS LPG RETICULATED NETWORKS
- LIQUIGAS LPG DEPOTS
- KAPUNI GAS TREATMENT PLANT
- FIBRE-OPTIC POINTS OF PRESENCE
- VECTOR AMS OFFICE
  Vector's advanced metering subsidiary owns and operates energy meters across New Zealand and in New South Wales, Australia.



AUSTRALIA

AUCKLAND

ELECTRICITY AND GAS NETWORKS

FIBRE-OPTIC NETWORK AUCKLAND

For more, visit: www.vector.co.nz

OPERATING STATISTICS

FOR THE SIX MONTHS ENDED 31 DECEMBER

	2016	2015
ELECTRICITY		
Customers[1,6]	552,948	547,319
New connections	4,583	3,916
Net movement in customers[2]	2,890	2,806
Volume distributed (GWh)[3]	4,340	4,368
Network length (km)	18,377	18,240
SAIDI (minutes)[4] – 9 months to 31 December[5]		
Normal operations	119.8	78.3
Extreme events	2.4	0.0
Total	122.2	78.3
GAS DISTRIBUTION[7]		
Distribution customers[1,6]	105,918	102,908
New distribution connections	1,907	1,538
Net movement in distribution customers[2]	1,596	1,343
Distribution volume (PJ)	7.6	7.6
GAS TRADING		
Natural gas sales (PJ)[8]	9.3	9.1
Gas liquids sales (tonnes)[9]	38,557	41,120
9kg LPG bottles swapped[10]	319,685	302,109
Liquigas LPG tolling (tonnes)[11]	77,688	86,868
TECHNOLOGY[1]		
Electricity: smart meters[12]	1,203,482	1,044,613
Electricity: legacy meters	107,467	141,121
Electricity: prepay meters	4,596	6,179
Electricity: time-of-use meters	11,985	11,762
Gas meters	219,718	216,266
Data management services connections	8,760	8,547

1. As at 31 December.
2. Net number of customers added during the period, includes disconnected, reconnected and decommissioned ICPs.
3. Volumes were impacted by the partial closure of a significant industrial customer in October 2015.
4. The SAIDI audited value for normal operations for the regulatory year ended 31 March 2016 was 117.0 minutes.
5. SAIDI (minutes) for the 9 months ended 31 December 2016 is an unaudited value and subject to change.
6. Billable ICPs.
7. The group's gas transmission and non-Auckland gas distribution business (Vector Gas) was sold to First Gas on 20 April 2016. The operating statistics for the period to 31 December 2016 relate only to the Auckland network, and the prior period comparatives have been adjusted accordingly.
8. Excludes gas sold as gas liquids. These sales are included within the gas liquids sales tonnages.
9. Total of retail and wholesale LPG and natural gasoline.
10. Number of 9kg LPG bottles swapped and sold during the period.
11. Includes product tolled in Taranaki and further tolled in the South Island.
12. The number of smart meters deployed as at 31 December 2016 includes 78,037 meters managed but not owned by Vector (31 December 2015: 32,804).

Revenue $m

625.6

RISES 5.9% ON THE PREVIOUS CORRESPONDING PERIOD

Operating cash flow $m

226.3

FALLS 9.0% ON THE PREVIOUS CORRESPONDING PERIOD

FINANCIAL PERFORMANCE[1]

$ MILLION	31 DEC 2016 6 MONTHS	31 DEC 2015 6 MONTHS	CHANGE	30 JUN 2016 12 MONTHS
Revenue	625.6	590.6	5.9%	1,144.6
Adjusted EBITDA	257.0	253.5	1.4%	473.0
Adjusted EBIT	159.8	156.5	2.1%	278.4
Net profit from continuing operations	107.1	65.1	64.5%	58.9
Net profit from discontinued operations	0.0	35.0	-100.0%	215.5
Net profit – total	107.1	100.1	7.0%	274.4
Operating cash flow[2]	226.3	248.8	-9.0%	352.1

FINANCIAL POSITION

$ MILLION	31 DEC 2016	31 DEC 2015	CHANGE	30 JUN 2016
Total equity	2,467.1	2,323.1	6.2%	2,398.3
Total assets	5,511.3	6,134.0	-10.2%	5,603.0
Economic net debt	1,968.2	2,741.3	-28.2%	1,932.9

KEY FINANCIAL MEASURES

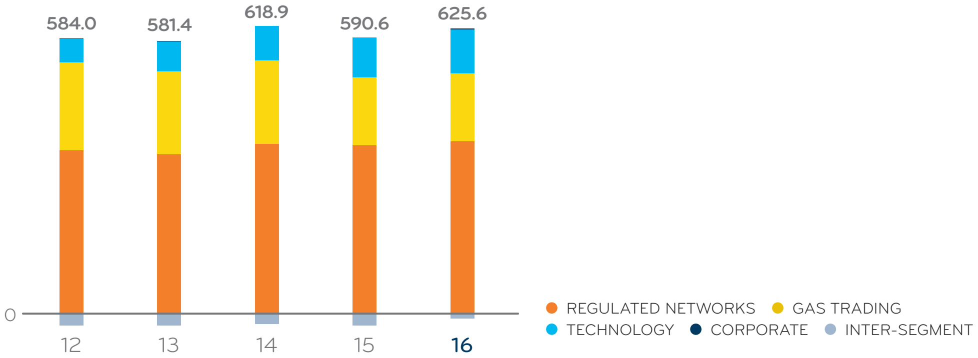
	31 DEC 2016 6 MONTHS	31 DEC 2015 6 MONTHS	CHANGE	30 JUN 2016 12 MONTHS
Adjusted EBITDA/revenue[1]	41.1%	42.9%	-4.2%	41.3%
Adjusted EBIT/revenue[1]	25.5%	26.5%	-3.4%	24.3%
Equity/total assets	44.8%	37.9%	18.2%	42.8%
Gearing	43.9%	53.4%	-17.8%	43.7%
Net interest cover[1]	2.3	1.7	35.3%	1.6
Earnings per share[2]	10.5	9.9	6.1%	27.2
Dividend (cps)	8.00	7.75	3.2%	15.75

1. Continuing operations only unless otherwise stated.
2. Includes both continuing and discontinued operations.

REVENUE (CONTINUING OPERATIONS)

$ MILLION

FOR THE SIX MONTHS ENDED 31 DECEMBER

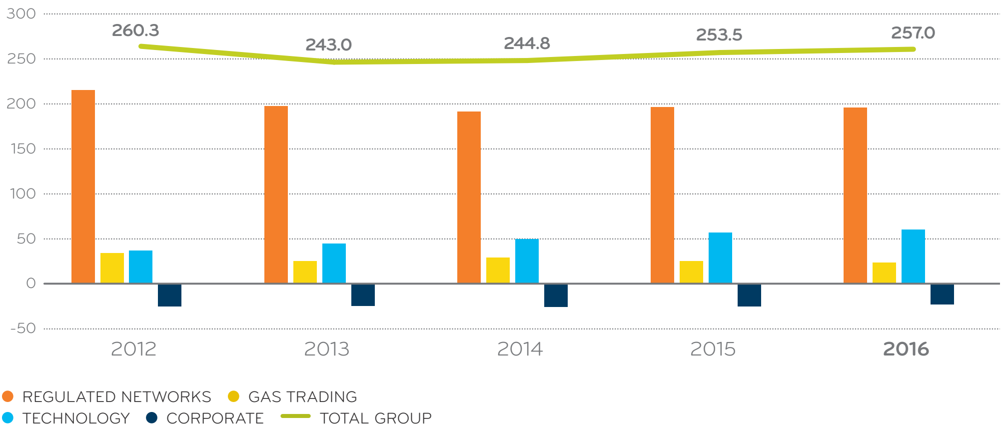


Group revenue from continuing operations increased due to continued growth in Technology, and a higher level of capital contributions in the Regulated Networks businesses driven by growth in Auckland.

ADJUSTED EBITDA (CONTINUING OPERATIONS)

$ MILLION

FOR THE SIX MONTHS ENDED 31 DECEMBER

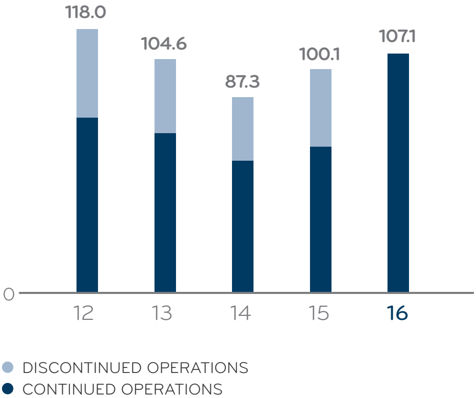


Adjusted EBITDA from continuing operations rose 1.4%, with growth in the Technology division offsetting weaker performance in Regulated Networks and Gas Trading.

NET PROFIT (INCLUDING DISCONTINUED OPERATIONS)

$ MILLION

FOR THE SIX MONTHS ENDED 31 DECEMBER

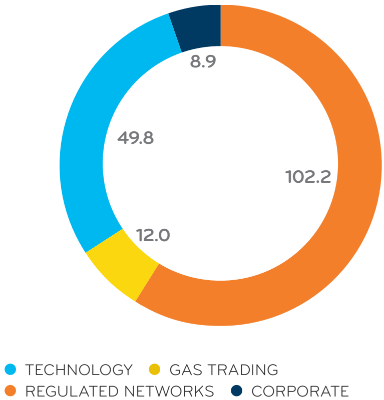


Net profit from continuing operations increased 64.5% due to higher capital contributions, lower interest costs, and the tunnel tax credit.

CAPITAL EXPENDITURE (CONTINUING OPERATIONS)

$ MILLION

FOR THE SIX MONTHS ENDED 31 DECEMBER

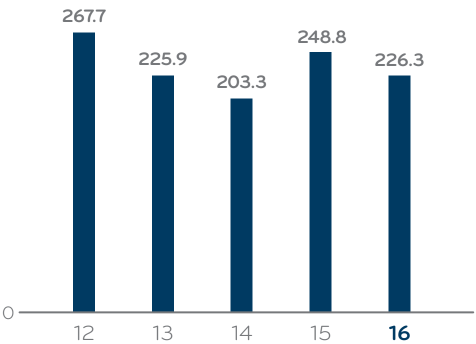


Total capital expenditure was $172.9 million, of which $111.6 million was directed at growth initiatives.

OPERATING CASH FLOWS (INCLUDING DISCONTINUED OPERATIONS)

$ MILLION

FOR THE SIX MONTHS ENDED 31 DECEMBER



Operating cash flows fell with the impact of the sale of Vector Gas partly offset by reduced interest costs.

Vector's standard profit measure prepared under New Zealand Generally Accepted Accounting Practice (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 (www.vector.co.nz).

Non-GAAP profit measures are not prepared in accordance with New Zealand International Financial Reporting Standards (NZ IFRS) 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 from or considered as a substitute for measures reported by Vector in accordance with NZ IFRS.

DEFINITIONS

EBITDA: Earnings before interest, taxation, depreciation and amortisation from continuing operations

Adjusted EBITDA: EBITDA from continuing operations adjusted for fair value changes, associates, impairments, capital contributions, and significant one-off gains, losses, revenues and/or expenses.

RECONCILIATION:

Group EBITDA and adjusted EBITDA from continuing operations	31 DEC 2016 6 MONTHS $M	31 DEC 2015 6 MONTHS $M
Reported net profit for the period (GAAP)[1]	**107.1**	65.1
Add back: net interest costs[1]	**68.6**	90.0
Add back: tax (benefit)/expense[1]	**16.5**	26.1
Add back: depreciation and amortisation[1]	**97.2**	97.0
EBITDA	**289.4**	278.2
Adjusted for:		
Associates (share of net (profit)/loss)[1]	**(1.1)**	(0.4)
Fair value change on financial instruments[1]	**0.0**	(2.4)
Capital contributions[1]	**(31.3)**	(21.9)
Adjusted EBITDA	**257.0**	253.5

1. Extracted from reviewed financial statements.

Segment adjusted EBITDA ($M)	2016			2015		
Six months ended 31 December	REPORTED SEGMENT EBITDA	LESS CAPITAL CONTRI-BUTIONS	SEGMENT ADJUSTED EBITDA	REPORTED SEGMENT EBITDA	LESS CAPITAL CONTRI-BUTIONS	SEGMENT ADJUSTED EBITDA
Technology	60.9	(0.5)	60.4	57.3	(0.3)	57.0
Gas Trading	23.7	–	23.7	25.2	–	25.2
Unregulated segments	84.6	(0.5)	84.1	82.5	(0.3)	82.2
Regulated Networks continuing	226.5	(30.8)	195.7	218.0	(21.6)	196.4
Regulated Networks discontinued	–	–	–	54.3	(1.9)	52.4
Regulated segments	226.5	(30.8)	195.7	272.3	(23.5)	248.8
Corporate	(22.8)	–	(22.8)	(25.1)	–	(25.1)
TOTAL	288.3	(31.3)	257.0	329.7	(23.8)	305.9
TOTAL continuing operations only	288.3	(31.3)	257.0	275.4	(21.9)	253.5

CONTENTS

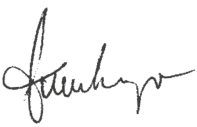
GROUP CONDENSED INTERIM **FINANCIAL STATEMENTS**

These group condensed interim financial statements for the six months ended 31 December 2016 are dated 23 February 2017, and signed for and on behalf of Vector Limited by:

Director 23 February 2017

Director 23 February 2017

And management of Vector Limited by:



Group Chief Executive 23 February 2017

Chief Financial Officer 23 February 2017

THE SHAREHOLDERS OF VECTOR LIMITED

We have completed a review of the interim financial statements of Vector Limited and its subsidiaries ('the Group') on pages 21 to 35 which comprise the balance sheet as at 31 December 2016, and the 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.

This report is made solely to the shareholders as a body. Our review work has been undertaken so that we might state to the Vector Limited shareholders those matters we are required to state to them in the independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Vector Limited shareholders as a body, for our review work, this report or any of the conclusions we have formed.

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 and other 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 auditors 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 2016, 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

23 February 2017
Auckland

	NOTE	31 DEC 2016 6 MONTHS $000	31 DEC 2015 6 MONTHS $000	30 JUN 2016 12 MONTHS $000
Continuing operations:				
Revenue	3	**625,579**	590,601	1,144,603
Operating expenses	3	**(337,308)**	(315,134)	(621,764)
Depreciation and amortisation		**(97,188)**	(97,035)	(194,580)
Interest costs (net)		**(68,582)**	(89,985)	(168,805)
Fair value change on financial instruments		**28**	2,387	2,344
Associates (share of net profit/(loss))		**1,123**	432	2,809
Impairment		**–**	–	(61,422)
Profit/(loss) before income tax		**123,652**	91,266	103,185
Tax benefit/(expense)	5	**(16,530)**	(26,142)	(44,277)
Net profit/(loss) for the period from continuing operations		**107,122**	65,124	58,908
Net profit/(loss) for the period from discontinued operations (net of tax)	4	**–**	34,977	215,494
Net profit/(loss) for the period		**107,122**	100,101	274,402
Net profit/(loss) for the period attributable to				
Non-controlling interests		**2,697**	1,455	2,909
Owners of the parent – continuing operations		**104,425**	63,669	55,999
Owners of the parent – discontinued operations		**–**	34,977	215,494
Basic and diluted earnings per share (cents)				
Owners of the parent – continuing operations	9	**10.5**	6.4	5.6
Owners of the parent – discontinued operations	9	**–**	3.5	21.6
Total		**10.5**	9.9	27.2

	NOTE	31 DEC 2016 6 MONTHS $000	31 DEC 2015 6 MONTHS $000	30 JUN 2016 12 MONTHS $000
Net profit/(loss) for the period		**107,122**	100,101	274,402
Other comprehensive income net of tax				
Items that may be re-classified subsequently to profit or loss:				
Net change in fair value of hedge reserves		**40,997**	5,182	(15,685)
Fair value change on financial asset	7	**955**	–	–
Share of other comprehensive income of associate		**–**	–	250
Translation of foreign operations		**(50)**	(19)	(42)
Other comprehensive income for the period net of tax		**41,902**	5,163	(15,477)
Total comprehensive income for the period net of tax		**149,024**	105,264	258,925
Total comprehensive income for the period attributable to				
Non-controlling interests		**2,697**	1,455	2,909
Owners of the parent – continuing operations		**146,327**	68,832	40,522
Owners of the parent – discontinued operations		**–**	34,977	215,494

GROUP INTERIM **BALANCE SHEET**

(UNAUDITED)

	NOTE	31 DEC 2016 $000	31 DEC 2015 $000	30 JUN 2016 $000
CURRENT ASSETS				
Cash and cash equivalents		**187,236**	5,981	321,371
Trade and other receivables		**189,718**	176,522	191,523
Inventories		**5,291**	3,514	4,285
Intangible assets	6	**4,803**	2,003	1,281
Income tax		**7,379**	2,769	35,126
Disposal group held for sale	4	**–**	910,295	–
Total current assets		**394,427**	1,101,084	553,586
NON-CURRENT ASSETS				
Receivables		**–**	–	51
Derivatives	8	**76,772**	98,650	82,428
Investments in associates		**9,640**	11,907	15,612
Other investments	7	**5,413**	–	–
Intangible assets	6	**1,284,051**	1,337,415	1,280,375
Property, plant and equipment (PPE)	6	**3,740,392**	3,584,866	3,670,191
Deferred tax		**570**	76	715
Total non-current assets		**5,116,838**	5,032,914	5,049,372
Total assets		**5,511,265**	6,133,998	5,602,958
CURRENT LIABILITIES				
Trade and other payables		**249,597**	225,913	251,383
Provisions		**6,529**	25,634	6,232
Borrowings	8	**559,629**	170,500	251,820
Derivatives	8	**17,600**	1,109	12,608
Income tax		**334**	310	829
Disposal group held for sale	4	**–**	139,022	–
Total current liabilities		**833,689**	562,488	522,872
NON-CURRENT LIABILITIES				
Payables		**14,501**	17,224	15,400
Provisions		**17,772**	15,153	17,040
Borrowings	8	**1,579,499**	2,631,467	2,005,061
Derivatives	8	**138,253**	131,993	187,037
Deferred tax		**460,456**	452,611	457,213
Total non-current liabilities		**2,210,481**	3,248,448	2,681,751
Total liabilities		**3,044,170**	3,810,936	3,204,623
EQUITY				
Equity attributable to owners of the parent		**2,448,647**	2,306,977	2,381,988
Non-controlling interests in subsidiaries		**18,448**	16,085	16,347
Total equity		**2,467,095**	2,323,062	2,398,335
Total equity and liabilities		**5,511,265**	6,133,998	5,602,958
Net tangible assets per share (cents)	9	**116.5**	97.2	110.5
Gearing ratio (%)	9	**43.9**	53.4	43.7

	NOTE	31 DEC 2016 6 MONTHS $000	31 DEC 2015 6 MONTHS $000	30 JUN 2016 12 MONTHS $000
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers		**638,357**	684,140	1,263,179
Interest received		**5,368**	221	438
Dividend received from associate	11	**1,500**	–	1,500
Payments to suppliers and employees		**(343,659)**	(340,746)	(676,305)
Interest paid		**(73,528)**	(92,104)	(175,232)
Income tax paid		**(1,758)**	(2,680)	(61,526)
Net cash flows from/(used in) operating activities	10	**226,280**	248,831	352,054
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale of PPE, and software intangibles		**167**	103	223
Purchase and construction of PPE and software intangibles		**(180,326)**	(163,121)	(340,082)
(Post-completion payment) / Proceeds from sale of discontinued operations		**(59)**	–	960,000
Other investing cash flows		**–**	(750)	(750)
Net cash flows from/(used in) investing activities		**(180,218)**	(163,768)	619,391
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from borrowings		**–**	250,000	310,000
Repayment of borrowings		**(98,874)**	(256,000)	(809,000)
Dividends paid		**(80,256)**	(80,852)	(159,215)
Other financing cash flows		**(1,067)**	(452)	(81)
Net cash flows from/(used in) financing activities		**(180,197)**	(87,304)	(658,296)
Net increase/(decrease) in cash and cash equivalents		**(134,135)**	(2,241)	313,149
Cash and cash equivalents at beginning of the period		**321,371**	8,222	8,222
Cash and cash equivalents at end of the period		**187,236**	5,981	321,371
Cash and cash equivalents comprise:				
Bank balances and on-call deposits		**9,051**	1,110	3,241
Short term deposits		**178,185**	4,871	318,130
		187,236	5,981	321,371

	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 2015	874,979	(9,278)	(73,593)	(1,230)	1,491,932	15,822	2,298,632
Net profit/(loss) for the period	–	–	–	–	98,646	1,455	100,101
Other comprehensive income	–	–	5,182	(19)	–	–	5,163
Total comprehensive income	–	–	5,182	(19)	98,646	1,455	105,264
Dividends	–	–	–	–	(79,660)	(1,192)	(80,852)
Employee share purchase scheme transactions	–	25	–	(7)	–	–	18
Total transactions with owners	–	25	–	(7)	(79,660)	(1,192)	(80,834)
Balance at 31 December 2015	874,979	(9,253)	(68,411)	(1,256)	1,510,918	16,085	2,323,062
Net profit/(loss) for the period	–	–	–	–	172,847	1,454	174,301
Other comprehensive income	–	–	(20,867)	227	–	–	(20,640)
Total comprehensive income	–	–	(20,867)	227	172,847	1,454	153,661
Dividends	–	–	–	–	(77,171)	(1,192)	(78,363)
Employee share purchase scheme transactions	–	54	–	(79)	–	–	(25)
Total transactions with owners	–	54	–	(79)	(77,171)	(1,192)	(78,388)
Balance at 30 June 2016	874,979	(9,199)	(89,278)	(1,108)	1,606,594	16,347	2,398,335
Net profit/(loss) for the period	–	–	–	–	104,425	2,697	107,122
Other comprehensive income	–	–	40,997	905	–	–	41,902
Total comprehensive income	–	–	40,997	905	104,425	2,697	149,024
Dividends	–	–	–	–	(79,660)	(596)	(80,256)
Employee share purchase scheme transactions	–	(50)	–	42	–	–	(8)
Total transactions with owners	–	(50)	–	42	(79,660)	(596)	(80,264)
Balance at 31 December 2016	874,979	(9,249)	(48,281)	(161)	1,631,359	18,448	2,467,095

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 NZX Main Board (NZX). The company is an FMC entity for the purposes of Part 7 of the Financial Markets Conduct Act 2013. Vector's condensed interim financial statements (the interim financial statements) comply with this Act.

The interim financial statements presented are for Vector Limited Group ("Vector" or "the group") as at, and for the six months ended 31 December 2016. The group comprises Vector Limited ("the parent"), its subsidiaries, and its investments in associates and joint arrangements.

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

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

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 2016 Annual Report. The interim financial statements for the six months ended 31 December 2016 and 31 December 2015 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.

Significant accounting policies

The accounting policies set out in Vector's 2016 Annual Report have been applied consistently to all periods presented in these interim financial statements.

3. SEGMENT INFORMATION

Segments

Vector reports on three reportable segments in accordance with NZ IFRS 8 *Operating Segments*. The segments and related policies remain unchanged from those reported in Vector's 2016 Annual Report.

The reported segments are:

Regulated Networks	Auckland electricity and gas distribution services.
Gas Trading	Natural gas and LPG sales, storage and processing, and cogeneration.
Technology	Metering services, telecommunications and new energy solutions.

The segment information for the interim period ended 31 December 2015 has been restated to reflect the above segments.

3. SEGMENT INFORMATION (continued)

31 DEC 2016 6 MONTHS	REGULATED NETWORKS $000	GAS TRADING $000	TECHNOLOGY $000	INTER-SEGMENT $000	TOTAL $000
External revenue:					
Sales	350,373	150,207	91,497	–	592,077
Third party contributions	30,812	–	532	–	31,344
Intersegment revenue	3,428	–	6,327	(9,755)	–
Segment revenue	384,613	150,207	98,356	(9,755)	623,421
External expenses:					
Electricity transmission expenses	(106,757)	–	–	–	(106,757)
Gas purchases and production expenses	–	(94,491)	–	–	(94,491)
Asset maintenance expenses	(22,350)	(10,027)	(7,525)	–	(39,902)
Employee benefit expenses	(7,657)	(7,433)	(11,267)	–	(26,357)
Other expenses	(15,882)	(11,092)	(17,826)	–	(44,800)
Intersegment expenses	(5,473)	(3,459)	(823)	9,755	–
Segment operating expenses	(158,119)	(126,502)	(37,441)	9,755	(312,307)
Segment EBITDA	226,494	23,705	60,915	–	311,114
Depreciation and amortisation	(50,286)	(8,105)	(32,881)	–	(91,272)
Segment profit/(loss)	176,208	15,600	28,034	–	219,842
Segment capital expenditure	102,157	11,991	49,817	–	163,965

During the period, the Technology segment procured and sold $0.7 million of battery assets to Regulated Networks at zero margin. The battery assets are included in the segment capital expenditure for Regulated Networks. The impact of the sale transaction is not reflected in the segment information presented for Technology.

Reconciliation to revenue, profit/(loss) before income tax and capital expenditure reported in the financial statements: 31 DEC 2016	REVENUE $000	PROFIT/ (LOSS) BEFORE INCOME TAX $000	CAPITAL EXPENDITURE $000
Reported in segment information	623,421	219,842	163,965
Amounts not allocated to segments (corporate activities):			
Revenue	2,158	2,158	–
Employee benefit expenses	–	(13,077)	–
Other operating expenses	–	(11,924)	–
Depreciation and amortisation	–	(5,916)	–
Interest costs (net)	–	(68,582)	–
Fair value change on financial instruments	–	28	–
Associates (share of net profit/(loss))	–	1,123	–
Capital expenditure	–	–	8,929
Reported in the financial statements	625,579	123,652	172,894

3. SEGMENT INFORMATION (continued)

31 DEC 2015 6 MONTHS	REGULATED NETWORKS $000	GAS TRADING $000	TECHNOLOGY $000	INTER-SEGMENT $000	TOTAL $000
External revenue:					
Sales	350,558	151,351	82,176	(15,683)	568,402
Third party contributions	21,612	–	334	–	21,946
Intersegment revenue	3,096	–	5,971	(9,067)	–
Segment revenue	375,266	151,351	88,481	(24,750)	590,348
External expenses:					
Electricity transmission expenses	(104,165)	–	–	–	(104,165)
Gas purchases and production expenses	–	(95,202)	–	14,916	(80,286)
Asset maintenance expenses	(24,101)	(10,516)	(6,260)	739	(40,138)
Employee benefit expenses	(8,800)	(7,160)	(8,098)	–	(24,058)
Other expenses	(14,917)	(10,472)	(15,767)	28	(41,128)
Intersegment expenses	(5,229)	(2,806)	(1,032)	9,067	–
Segment operating expenses	(157,212)	(126,156)	(31,157)	24,750	(289,775)
Segment EBITDA	218,054	25,195	57,324	–	300,573
Depreciation and amortisation	(51,020)	(7,122)	(32,159)	–	(90,301)
Segment profit/(loss)	167,034	18,073	25,165	–	210,272
Segment capital expenditure	79,848	4,798	50,019	–	134,665

The intersegment eliminations include $15.7 million of transactions between continuing and discontinued operations which have been eliminated on consolidation.

Reconciliation to revenue, profit/(loss) before income tax and capital expenditure reported in the financial statements: 31 DEC 2015	REVENUE $000	PROFIT/(LOSS) BEFORE INCOME TAX $000	CAPITAL EXPENDITURE $000
Reported in segment information	590,348	210,272	134,665
Amounts not allocated to segments (corporate activities):			
Revenue	253	253	–
Employee benefit expenses	–	(13,091)	–
Other operating expenses	–	(12,268)	–
Depreciation and amortisation	–	(6,734)	–
Interest costs (net)	–	(89,985)	–
Fair value change on financial instruments	–	2,387	–
Associates (share of net profit/(loss))	–	432	–
Capital expenditure	–	–	5,655
Reported in the financial statements	590,601	91,266	140,320

3. SEGMENT INFORMATION (continued)

30 JUN 2016 12 MONTHS	REGULATED NETWORKS $000	GAS TRADING $000	TECHNOLOGY $000	INTER-SEGMENT $000	TOTAL $000
External revenue:					
Sales	671,234	277,098	166,977	(22,661)	1,092,648
Third party contributions	48,903	–	915	–	49,818
Intersegment revenue	6,082	–	12,162	(18,244)	–
Segment revenue	726,219	277,098	180,054	(40,905)	1,142,466
External expenses:					
Electricity transmission expenses	(209,740)	–	–	–	(209,740)
Gas purchases and production expenses	–	(176,512)	–	21,543	(154,969)
Asset maintenance expenses	(47,880)	(21,120)	(12,737)	1,088	(80,649)
Employee benefit expenses	(17,963)	(13,954)	(18,016)	–	(49,933)
Other expenses	(22,562)	(19,297)	(32,901)	30	(74,730)
Intersegment expenses	(10,638)	(5,662)	(1,944)	18,244	–
Segment operating expenses	(308,783)	(236,545)	(65,598)	40,905	(570,021)
Segment EBITDA	417,436	40,553	114,456	–	572,445
Depreciation and amortisation	(100,837)	(12,480)	(66,642)	–	(179,959)
Impairment of goodwill and assets	–	(64,000)	–	–	(64,000)
Segment profit/(loss)	316,599	(35,927)	47,814	–	328,486
Segment capital expenditure	200,994	15,255	95,113	–	311,362

The intersegment eliminations include $22.7 million of transactions between continuing and discontinued operations which have been eliminated on consolidation.

During the year, the Technology segment procured and sold $11.9 million of battery assets to Regulated Networks at zero margin. The battery assets are included in the segment capital expenditure for Regulated Networks. The impact of the sale transaction is not reflected in the segment information presented for Technology.

Reconciliation to revenue, profit/(loss) before income tax and capital expenditure reported in the financial statements: 30 JUN 2016	REVENUE $000	PROFIT/ (LOSS) BEFORE INCOME TAX $000	CAPITAL EXPENDITURE $000
Reported in segment information	1,142,466	328,486	311,362
Amounts not allocated to segments (corporate activities):			
Revenue	2,137	2,137	–
Employee benefit expenses	–	(26,500)	–
Other operating expenses	–	(25,243)	–
Depreciation and amortisation	–	(14,621)	–
Interest costs (net)	–	(168,805)	–
Fair value change on financial instruments	–	2,344	–
Associates (share of net profit/(loss))	–	2,809	–
Reversal of impairment of investment in associate	–	2,578	–
Capital expenditure	–	–	11,259
Reported in the financial statements	1,144,603	103,185	322,621

4. DISCONTINUED OPERATIONS

On 20 April 2016, Vector completed the sale of 100% of the shares in its subsidiary Vector Gas Limited ("Vector Gas") to First State Funds. Vector Gas owned the gas transmission and non-Auckland gas distribution businesses.

The assets and liabilities were presented as a disposal group held for sale in the interim financial statements for the six months ended 31 December 2015.

The disposal group was presented as discontinued operations in the interim financial statements for the six months ended 31 December 2015 as well as in the 2016 Annual Report. The profit or loss shows these periods as comparatives.

5. INCOME TAX EXPENSE/ (BENEFIT)

On 12 August 2016, the Court of Appeal released their judgment in respect of a tax dispute between Vector and the Inland Revenue Department. The dispute related to the tax treatment of monies received from Transpower for various rights, including access to Vector's tunnel from Penrose to Hobson and the transmission corridor on the North Shore. The Court found in favour of Vector. Through the course of the dispute, Vector had taken a prudent approach and paid taxes in relation to the underlying transaction.

As a result of the judgment and subsequent confirmation that the Commissioner of Inland Revenue will not appeal the Court of Appeal decision, Vector has recognised a $15.0 million income tax benefit in the period ended 31 December 2016.

6. PPE AND INTANGIBLES

	31 DEC 2016 6 MONTHS $000	31 DEC 2015 6 MONTHS $000	30 JUN 2016 12 MONTHS $000
Key movements during the period			
Capital expenditure	**172,894**	152,042	342,272
Disposals	**2,334**	3,016	3,954
PPE transferred to disposal group held for sale	**–**	558,911	–
Intangibles (including goodwill) transferred to disposal group held for sale	**–**	335,065	–
Sale of discontinued operations – PPE	**–**	–	560,996
Sale of discontinued operations – intangibles (including goodwill)	**–**	–	335,037
Impairment of goodwill	**–**	–	64,000
Capital commitments			
Capital commitments at end of period	**77,803**	70,971	57,940

7. OTHER INVESTMENTS

During the period, the group reclassified its investment in NZ Windfarms Limited as a financial asset, measured at fair value through other comprehensive income ("OCI"). The investment was previously treated as an associate. The fair value of the investment is determined by reference to its active market price on the New Zealand Stock Exchange. On initial measurement to fair value, a loss of $1.1 million was recognised in profit or loss.

8. BORROWINGS AND DERIVATIVES

	NET DERIVATIVES $000	BORROWINGS $000
Balance at 30 June 2016	(117,217)	(2,256,881)
Fair value movements:		
Foreign exchange rates	16,582	(16,582)
Interest rates and other fair value changes	21,554	36,551
Repayment	–	98,874
Amortised costs	–	(1,090)
Balance at 31 December 2016	(79,081)	(2,139,128)
Fair value at 31 December 2016	(79,081)	(2,117,085)

Senior notes repayment

On 16 September 2016, $98.9 million (USD 65.0 million) of USD senior notes were repaid with cash from short-term deposits.

9. EQUITY

9.1 Transactions with owners

Dividends

Vector Limited's final dividend for the year ended 30 June 2016 of 8.00 cents per share was paid on 15 September 2016, with a supplementary dividend of $0.5 million (equating to 1.41 cents per non-resident share).

Shares

At the end of the period, 109,940 treasury shares were allocated to the employee share purchase scheme (31 December 2015: 114,851, 30 June 2016: 95,129).

9. EQUITY (continued)

9.2 Financial ratios

	31 DEC 2016 6 MONTHS $000	31 DEC 2015 6 MONTHS $000	30 JUN 2016 12 MONTHS $000
Earnings per share			
Net profit from continuing operations attributable to owners of the parent	**104,425**	63,669	55,999
Net profit from discontinued operations attributable to owners of the parent	**–**	34,977	215,494
Net profit attributable to owners of the parent	**104,425**	98,646	271,493
Weighted average ordinary shares outstanding during the period (number of shares)	**995,656,441**	995,636,306	995,642,121
Earnings per share from continuing operations	**10.5 cents**	6.4 cents	5.6 cents
Earnings per share from discontinued operations	**–**	3.5 cents	21.6 cents
Total earnings per share	**10.5 cents**	9.9 cents	27.2 cents

	31 DEC 2016 $000	31 DEC 2015 $000	30 JUN 2016 $000
Net tangible assets per share			
Net assets attributable to owners of the parent	**2,448,647**	2,306,977	2,381,988
Less total intangible assets	**(1,288,854)**	(1,339,418)	(1,281,656)
Total net tangible assets	**1,159,793**	967,559	1,100,332
Ordinary shares outstanding (number of shares)	**995,645,137**	995,640,226	995,659,948
	116.5 cents	97.2 cents	110.5 cents

	31 DEC 2016 $000	31 DEC 2015 $000	30 JUN 2016 $000
Economic net debt to economic net debt plus adjusted equity ratio ("gearing ratio")			
Face value of borrowings	**2,155,405**	2,747,279	2,254,279
Less cash and cash equivalents	**(187,236)**	(5,981)	(321,371)
Economic net debt	**1,968,169**	2,741,298	1,932,908
Total equity	**2,467,095**	2,323,062	2,398,335
Adjusted for hedge reserves	**48,281**	68,411	89,278
Adjusted equity	**2,515,376**	2,391,473	2,487,613
Economic net debt plus adjusted equity	**4,483,545**	5,132,771	4,420,521
	43.9%	53.4%	43.7%

In the prior periods, all of the above ratios were impacted by the sale of shares in Vector Gas.

10. CASH FLOWS

	31 DEC 2016 6 MONTHS $000	31 DEC 2015 6 MONTHS $000	30 JUN 2016 12 MONTHS $000
Reconciliation of net profit/(loss) to net cash flows from/(used in) operating activities			
Net profit/(loss) for the period	107,122	100,101	274,402
Items associated with sale of discontinued operations			
Gain on sale of discontinued operations classified as investing activities	–	–	(166,206)
Costs of sale of discontinued operations classified as operating activities	–	–	(6,892)
Items classified as investing activities			
Net loss/(gain) on disposal of PPE and software intangibles	1,752	2,730	4,312
Non-cash items			
Depreciation and amortisation	97,188	102,893	200,378
Non-cash portion of interest costs (net)	(1,466)	(574)	(1,102)
Fair value change on financial instruments	(28)	(2,387)	(2,344)
Associates (share of net (profit)/loss)	(1,123)	(432)	(2,809)
Impairment	–	–	61,422
Increase/(decrease) in deferred tax	(12,556)	7,005	20,529
Increase/(decrease) in provisions	1,029	686	(4,505)
	83,044	107,191	271,569
Cash items not impacting net profit/(loss)			
Payments of amounts in provisions	–	(155)	(13,331)
Dividend received from associate	1,500	–	1,500
Changes in assets and liabilities			
Trade and other payables	8,605	11,854	24,564
Inventories	(1,006)	45	845
Trade and other receivables	(1,990)	(2,805)	(25,109)
Income tax	27,253	29,870	(13,600)
	32,862	38,964	(13,300)
Net cash flows from/(used in) operating activities	226,280	248,831	352,054

11. RELATED PARTY TRANSACTIONS

Majority shareholder dividend

Vector Limited has paid its majority shareholder, Entrust, dividends of $60.1 million during the period (six months ended 31 December 2015: $60.1 million, 12 months ended 30 June 2016: $118.3 million).

Associate dividend

During the period, $1.5 million of dividends were received from Tree Scape Limited which is an associate of the group (six months ended 31 December 2015: nil, 12 months ended 30 June 2016: $1.5 million).

Outstanding balances

At 31 December 2016, there are no material outstanding balances due to or from related parties of the group.

12. 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.

13. EVENTS AFTER THE END OF THE PERIOD

Financial statements approval

The interim financial statements were approved by the board of directors on 23 February 2017.

Interim dividend

On 23 February 2017, the board declared an interim dividend for the year ended 30 June 2017 of 8.00 cents per share.

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

BOARD OF DIRECTORS

Michael Stiassny – Chairman
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
Nikhil Ravishankar – Chief Digital Officer
Dan Molloy – Chief Financial Officer
David Thomas – Group General Manager Gas Trading and Metering

ASSOCIATES AND JOINT VENTURES

	PRINCIPAL ACTIVITY	PROPORTION HELD		
		31 DEC 2016	31 DEC 2015	30 JUN 2016
Associates				
Tree Scape	Vegetation management	50%	50%	50%
NZ Windfarms	Power generation	22%*	22%	22%
Joint Venture				
Kapuni Energy Joint Venture	Cogeneration	50%	50%	50%

* NZ Windfarms ceased to be treated as an associate during the period.

FINANCIAL CALENDAR 2017

Record date for the interim dividend	30 March
Interim dividend paid	13 April
Third quarter operational statistics	April
Fourth quarter operational statistics	July
Full year result and annual report	August
Final dividend*	September
Annual General Meeting	September

* Dividends are subject to board determination

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 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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TO REPORT A FAULT
0508 VECTOR (0508 832 867)

SEE OUR OUTAGE CENTRE FOR MORE INFORMATION ABOUT WHAT CAUSES OUTAGES, HOW TO BE PREPARED FOR AN OUTAGE. YOU CAN ALSO OBTAIN OUTAGE INFORMATION ON THE GO WITH OUR OUTAGE APP.

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