



flexible energy  
solutions for tomorrow

# half year snapshot

## Our energy networks

**\$156.0 MILLION** 

Invested<sup>1</sup> to lift network<sup>2</sup> integrity and enable Auckland growth (\$6.0 million every week)

**8,488** 

New electricity and gas connections

**13.7%** 

Improvement in system average interruption duration index (SAIDI) minutes<sup>3</sup>

 **AWARD-WINNING**

Vector won two prestigious awards at the Enterprise, Digital and IT Architecture Excellence Awards held in New York

## Consumer empowerment and choice

**1,642,635**

Vector advanced meters in New Zealand and Australia

**1.7%** 

Lift in 9kg LPG bottle swaps

**120** 

Customers across Auckland participating in a smart electric vehicle charging trial

**737 kW** 

Solar energy system installed in Aitutaki (with 500kWh energy storage)



**8 VECTOR LIGHTS**  
events for the people of Auckland

## Clean energy



*Battery Industry Group* established to develop a product stewardship scheme for end of life batteries

# 755 TONNES

Of CO<sub>2</sub> emissions saved from entering the environment at Vector EV charging stations<sup>4</sup>



# 56,919

Free EV charging sessions provided at Vector's rapid charging stations

## Financial sustainability

# \$264.5 MILLION

Adjusted EBITDA<sup>5</sup>

INTERIM DIVIDEND

# 8.25 CENTS PER SHARE

10.5% imputed

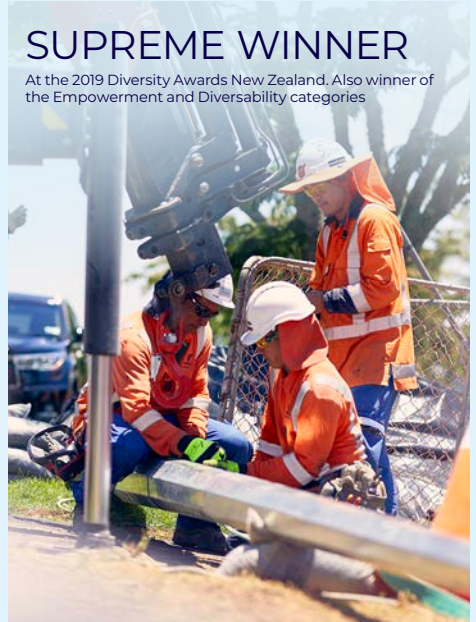
# \$80.5 MILLION

Group net profit after tax

## Empowered people

# SUPREME WINNER

At the 2019 Diversity Awards New Zealand. Also winner of the Empowerment and Diversability categories



1. Gross regulated capital expenditure
2. Vector's regulated electricity and gas networks
3. This figure includes SAIDI minutes resulting from Vector's changed health and safety practices
4. Compared with equivalent energy used by petrol powered vehicles
5. Earnings before interest, tax, depreciation and amortisation (EBITDA)



# Chair and Group Chief Executive report

*“Through ongoing investment in our networks and energy solutions, strengthening our partnerships with some of the world’s best energy innovators and problem solvers, and by providing greater choice and control to our customers, we are enabling the accelerating change around us.”*

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## Progress towards a new energy future

The six months to 31 December 2019 saw continued progress with Vector’s vision of creating a new energy future. The Group continued to rise to the key challenges of investment to support Auckland’s rapid growth, while also advancing new energy systems and solutions to meet customers’ ever-changing energy demands. Vector remains committed to its leadership role in preparing our customers, their communities and the wider industry for the future of energy.

Our customers continue to tell us that they want safe, reliable and affordable energy systems that empower them with choice and control. These expectations are set to strengthen further, as more people adopt electric vehicles, and more homes and businesses choose to harness the power of solar, batteries and other energy technologies. These trends show no signs of slowing down locally or globally, and we have a responsibility to ensure our energy systems remain stable and robust, yet flexible enough to evolve in concert with changing customer behaviours.

Vector’s focus is to continue executing on our strategy, which has two key elements. The first is to optimise our core electricity and gas distribution networks – the foundation of our business – by making them truly intelligent. Our traditional network assets will continue to play a key role, while becoming increasingly integrated with digital and consumer assets. This convergence allows us to more efficiently manage loads and smooth out demand curves, and adapt more quickly to changing network dynamics. It also means we can deliver for customers without investing so much in continuing to build more and more infrastructure that runs the risk of future redundancy, as advancing technology drives energy efficiency and alternatives beyond what’s possible today.

The second element of our strategy is to empower customers with energy solutions to better manage and use their energy. As this half-year result demonstrates, Vector is continuing to lead the way in advanced metering technology across New Zealand and Australia. We have continued to provide new energy solutions to a range of residential and business customers through our Vector PowerSmart business. Our gas business continues to provide customers with energy choice, and our Vector Fibre business remains a critical strategic asset for our energy networks while remaining well positioned to continue capitalising on emerging opportunities in the telecommunications industry.

The power of Vector's strategy lies in combining our many strengths, so we can overcome challenges and take advantage of the best opportunities to empower our customers. To this end, the Group's strategic portfolio of assets has been carefully constructed over time to reflect this positioning. As well as delivering for our customers, this strategy and approach continues to provide our shareholders with more options for sustainable returns.

In this half-year report, we are pleased to report solid progress towards our vision of creating a new energy future. More broadly, we can now share more detail on how landmark decisions, particularly our confirmed regulatory settings and the sale of the Kapuni Gas Treatment Plant to Todd Energy, have helped further refine our outlook, structure and direction.

Remaining constant throughout is the strong commitment from the Board, senior management and wider Vector team to continue at pace towards our vision of creating a new energy future. Through ongoing investment in our networks and energy solutions, strengthening our partnerships with some of the world's best energy innovators and problem solvers, and by providing greater choice and control to our customers, we are enabling the accelerating change around us.



## Regulatory settings confirmed

The six-month period has provided Vector's electricity business with long-awaited certainty regarding the next five-year regulatory period, commencing April 1, 2020. With this decision now finalised, the Commerce Commission has confirmed the maximum allowable revenue for Vector's electricity business, as well as set limits for network quality standards.

As we explained in our most recent Annual Report and Annual General Meeting, it is our firm view that current regulatory settings have failed to consider the negative impact that today's unprecedented low interest rates and continual forecast inaccuracies are having on our ability to invest to keep pace with Auckland's growth.

For the regulatory period 2013-19, Vector's under-recovery of actual revenue relative to allowable revenue was approximately \$270 million. While we acknowledge the 2020-25 regulatory settings have corrected growth forecast inaccuracies, it is disappointing that exposure to ongoing inflation forecast inaccuracies remains. Moreover, the default price-quality path (DPP3) reset has created a further \$189 million funding gap as the Commission has restricted the capital expenditure available to Vector over the next five years at a time when the need to maintain and upgrade Auckland's electricity network is at an all-time high.

Although this outcome will impede our ability to invest in Auckland to the level we believe is necessary over the next five years, we have increased total capital and operational expenditure and are committed to upgrading, extending and maintaining Auckland's electricity network to the best of our ability. In tandem, we continue to work openly and collaboratively with the Commission and other stakeholders to explore all options to address the investment short fall.

## Group-wide earnings performance

The Group delivered a steady earnings performance for the HY 2020 period, with adjusted EBITDA of \$264.5 million which was in line with last year's comparative result.

Group net profit after tax was \$80.5 million, down \$2.8 million (or 3.4%) on the prior year's result. This result was largely driven by higher depreciation and amortisation, partially offset by higher capital contributions and lower interest costs.

While our revenues continued to benefit from strong connection growth across our networks and the further expansion of the metering business in New Zealand and Australia, these gains were partially offset by increased maintenance to improve electricity network reliability. We have also invested significant capital expenditure to improve asset reliability, support growth in Auckland, as well as investment to support increasing deployment of advanced meters. Reflecting these priorities, total capital expenditure in the first six months has been \$240.0 million, an increase of \$38.9 million or 19.3% on the prior period.

Capital contributions grew by \$3.9m to \$45.1 million from \$41.2 million a year earlier, reflecting continued connection growth and significant infrastructure development taking place across Auckland.

With recent changes to Vector's regulatory settings further restricting our cashflow – which is now below the level of investment required each year to keep pace with Auckland's rapid population and infrastructure growth – we have changed some business policies to align capital expenditure.



## Dividend Policy Update

Shareholders will receive a partially imputed HY dividend of 8.25 cents per share.

When the Vector Board approved the current dividend policy in 2017 it was noted that the policy would be reviewed having regard to the impact on Vector's revenue of the Commerce Commission's DPP3 reset for Vector's electricity network. The DPP3 period comes into effect from 1 April 2020.

The Board has decided to move from a progressive dividend policy of increasing dividends by 0.25 cents per annum, to a policy of maintaining the current dividend of 16.5 cents per annum with the expectation of continuing to increase dividends in the future based on projected growth in Vector's businesses. Vector will attach imputation credits to dividends at a rate of 10.5%.

Vector will ensure that in considering the payment of any dividend, the company will;

- maintain its current BBB credit rating with Standard & Poor's, or equivalent;
- have the financial capacity to meet its medium-term investment and operating requirements, and;

- comply with all funding covenants and the solvency test in the Companies Act.

Dividends are made only at the discretion of the Board of Vector. The payment of dividends is not guaranteed and Vector's dividend policy may change.

## Strengthening network resilience

Vector remains committed to meeting its regulatory compliance targets. In the six-month period we increased efforts to combat outage restoration delays caused in part by increasing Auckland traffic. This included commissioning a new depot to make it more efficient for crews to access network equipment required to carry out certain types of repair work in the North and West areas of Auckland.

To further minimise community disruption caused by power outages, Vector has recently joined calls for changes to Land Transport rules to allow lines mechanics to use flashing lights on their response vehicles. As homes and businesses become increasingly dependent on a reliable supply of electricity, we believe response crews should be permitted to gain access to flashing lights to



move more quickly through traffic, thus allowing faster restoration times. The use of flashing lights would prove particularly beneficial in electrical and gas emergencies that require coordination with first responders.

During the period we introduced several initiatives to help reduce the frequency of outages caused by problem trees and other vegetation. This included onboarding arborist expertise and additional resources to increase cut and trim activity, introducing new data and analytics technology to better target problem areas and increasing our community engagement to ensure tree owners are aware of their responsibilities.

The period also saw the continued implementation of the Vector DERMS platform (distributed energy resource management system) which is critical to optimising our core network – the foundation of our business – by making it truly intelligent and ready to adapt to changing demand and customer behaviours.

In December we added new functionality to our online Outage Centre – which has been designed to give customers another source of up to date information about planned and unplanned outages affecting their address. The Outage Centre now includes an interactive map to show the extent of an outage on the surrounding area as well as other relevant information pertaining to a specific outage, such as the estimated restoration time.

As was reported in our most recent operational update, SAIDI minutes for the nine months ending 31 December 2019 were 13.7% lower than the comparable period, which reflects the significant investment being made to improve network resilience, as well as fewer extreme weather events.

### Financial performance – electricity and gas distribution

Adjusted EBITDA for electricity and gas distribution in the six months to 31 December 2019 was down \$9.5 million to \$189.2 million – a 4.8% decrease compared with the prior period. This result was largely driven by lower revenue and the phasing of electricity maintenance expenditure focused on improving network reliability and reducing outage minutes.

Further reflecting Auckland's growth, new electricity connections increased 28.4% to 6,625 from 5,160. New gas connections increased 11.6% to 1,863 from 1,669. Total electricity connections stood at 576,352, up 1.6% from 567,009 a year earlier, while total gas connections were 113,094, up 2.4% from 110,489 a year ago.

Volumes transported across the electricity network rose 0.1% to 4,396 GWh from 4,390 GWh a year earlier. Auckland gas distribution volumes were up 2.6% at 7.9 PJ from 7.7 PJ a year earlier.



## Strong metering performance

Our advanced metering business continues to lead from the front, helping retailers to better manage their business and respond to customers' evolving energy needs. In the six months to 31 December 2019 we installed 22,936 advanced meters in New Zealand and 61,408 advanced meters in Australia. Our advanced meter base grew 10.8% to 1.64 million from 1.48 million the year before. We have now deployed over 221,000 advanced meters in Australia and are on target to install between 130,000 and 140,000 meters in FY20.

The growth and innovation opportunities for metering in both New Zealand and Australia are significant. With continued investment and focus on customer service, Vector Metering is on track to deliver another solid performance in FY20.

Adjusted EBITDA for the Metering segment was \$76.1 million in the six months to 31 December 2019, up \$8.0 million or 11.7% from a year earlier. Metering capex invested in the first half-year increased by 8.9% to \$65.0 million, with most of this increase reflecting the acceleration of deployment of new advanced meters in Australia.

## Facilitating the convergence of energy and transport

With the Interim Climate Change Commission (ICCC) calling for the electrification of up to half of New Zealand's vehicle fleet by 2035, Vector remains focused on preparing for the impact this will have on our electricity network.

To date, this preparation has included investing in data and analytics capability and establishing Vector DERMS (and other digital platforms) to better manage the demand impact that rising EV uptake will have on Auckland's electricity network. Complementing this work, in October

2019, we recruited 120 Auckland residents to participate in a trial to test the effectiveness of smart demand-response technology. Through the trial, Vector has installed a 7kW smart EV charger at each participant's home to collect data on EV charging preferences and how this impacts network load profiles. The trial aims to assess how managed smart EV charging can meet customer expectations while also alleviating peak demands on the network. A key benefit of which could include avoiding the need to invest in expensive network infrastructure upgrades.

More recently, Vector announced we will be working with Auckland Transport to look at the impact a fully electric bus fleet would have on Auckland's transport system. This collaboration will enable the electrification of Auckland's bus fleet and help Auckland Transport think innovatively about new technologies and solutions that can be effective and sustainable without placing unnecessary cost burdens on customers.

## Improved performance by HRV

Vector PowerSmart's HRV business has continued its focus on customer excellence and improved business operations over the six month period. HRV's financial performance has improved and this is expected to continue in the second half.

## Furthering our fibre ambitions

Vector Fibre has made solid progress in the six month period with plans in place to increase market share in 2020 and deliver outstanding service for customers. We are excited to see how we will capitalise on the rapid changes in the world of telecommunications – specifically the chance for our fibre network to support the roll out of 5G technology against the backdrop of emerging local fibre company regulation opportunities.

## Milestone Kapuni transaction

In early December, a key milestone for our Gas Trading business was reached with plans confirmed to transfer the Kapuni Gas Treatment Plant and associated assets to Todd Energy. The deal resets the relationship between Todd and Vector and creates strong alignment in terms of our shared interest in seeing the Kapuni field developed further. New natural gas and LPG supply agreements have been agreed as part of this deal to ensure Vector has long term access to gas products on behalf of our customers. The sale, which is due to be completed in the coming months, will not have a material impact on adjusted EBITDA for the Gas Trading business in FY20.

Gas Trading business's financial performance in the six months to 31 December saw adjusted EBITDA flat at \$20.8 million. This was a good result given very challenging market conditions.

## Leadership

Vector has entered the new decade with a refreshed Executive Leadership Team structure that will lead the Vector Group through this next stage of our journey. These changes mark a further point in our history, as 'how' we work evolves in line with the rapid pace of change in technology and the global challenges around decarbonisation and customer experience accelerate.

In October, Vector was proud to have been named the Supreme Winner at the 2019 Diversity Awards in recognition of our commitment to integrating an inclusive culture right across our business. Vector also won the Empowerment and Diversability categories, which recognise innovative responses to gender equity and positive employment opportunities for people with disabilities.

## Looking ahead


Acknowledging the challenges and opportunities ahead of us, we remain committed to our vision of a new energy future and are confident we have the strategy, plan and talent in place to deliver for our customers.

We acknowledge that due to our recently confirmed regulatory settings, we are limited in how much we can invest in growing and maintaining our networks to keep pace with Auckland's rapid growth while also addressing additional pressures driven by the electrification of transport and changing customer behaviours. We remain committed to working with our stakeholders to overcome these challenges, and to targeting investment as efficiently as we can at every turn.

We are pleased by our ongoing success in the New Zealand and Australian metering markets, and with progress being made in our Vector Fibre and Vector PowerSmart businesses. Our Gas businesses will continue to adapt and seek opportunities to perform well in today's challenging market conditions.



**Dame Alison Paterson**  
Chair



**Simon Mackenzie**  
Group Chief Executive

# financial overview

## Total revenue

**\$699.6** MILLION

Rises 1.6% on the previous corresponding period

## Operating cash flow

**\$254.0** MILLION

Rises 15.9% on the previous corresponding period

## FINANCIAL PERFORMANCE

\$M	31-DEC-19 6 MONTHS	31-DEC-18 6 MONTHS	CHANGE	30-JUN-19 12 MONTHS
Total revenue	<b>699.6</b>	688.6	1.6%	1,318.6
Adjusted EBITDA	<b>264.5</b>	264.7	(0.1%)	485.8
Adjusted EBIT	<b>133.1</b>	144.8	(8.1%)	239.0
Net profit	<b>80.5</b>	83.3	(3.4%)	84.0
Operating cash flow	<b>254.0</b>	219.1	15.9%	348.1

## FINANCIAL POSTION

\$M	31-DEC-19	31-DEC-18	CHANGE	30-JUN-19
Total equity	<b>2,355.5</b>	2,451.7	(3.9%)	2,349.4
Total assets	<b>6,158.1</b>	5,934.3	3.8%	6,061.0
Economic net debt (borrowings net of cash and short-term deposits)	<b>2,704.3</b>	2,449.3	10.4%	2,627.5

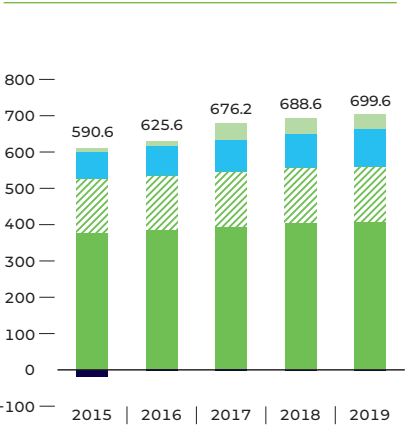
## KEY FINANCIAL MEASURES

	31-DEC-19 6 MONTHS	31-DEC-18 6 MONTHS	CHANGE	30-JUN-19 12 MONTHS
Adjusted EBITDA/ total revenue	<b>37.8%</b>	38.4%	(1.6%)	36.8%
Adjusted EBIT/ total revenue	<b>19.0%</b>	21.0%	(9.5%)	18.1%
Equity/total assets	<b>38.3%</b>	41.3%	(7.3%)	38.8%
Gearing <sup>1</sup>	<b>52.9%</b>	49.6%	6.7%	52.2%
Net interest cover - (adjusted EBIT/net interest costs) (times)	<b>2.1</b>	2.0	5.0%	1.8
Earnings (NPAT) per share (cents)	<b>8.0</b>	8.3	(3.6%)	8.3
Dividends declared, cents per share	<b>8.25</b>	8.25	0.0%	16.50

1. Gearing is defined as economic net debt to economic net debt plus adjusted equity. Adjusted equity means total equity adjusted for hedge reserves

TOTAL REVENUE

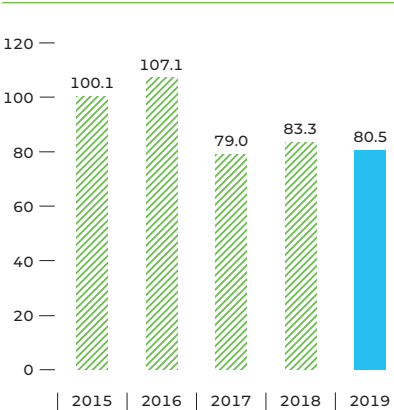
(continuing operations)  
for the six months ended 31 December  
\$ MILLION



● REGULATED NETWORKS    ● GAS TRADING  
● METERING    ● CORPORATE AND OTHER  
● INTER-SEGMENT

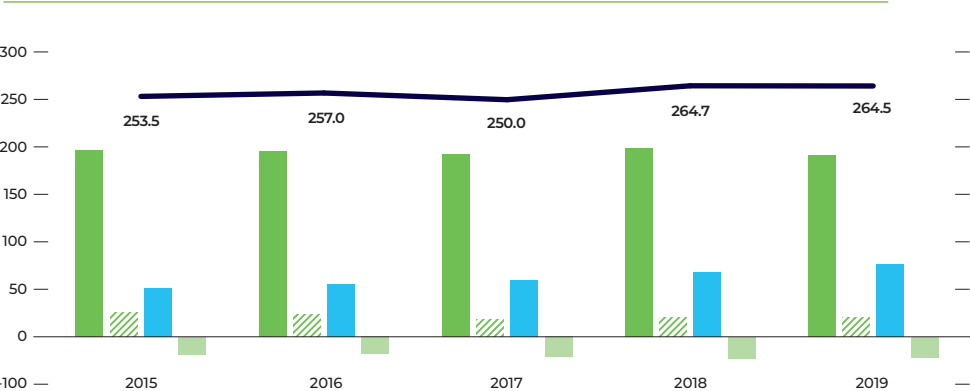
NET PROFIT

(including discontinued operations)  
for the six months ended 31 December  
\$ MILLION



ADJUSTED EBITDA

(continuing operations)  
for the six months ended 31 December  
\$ MILLION

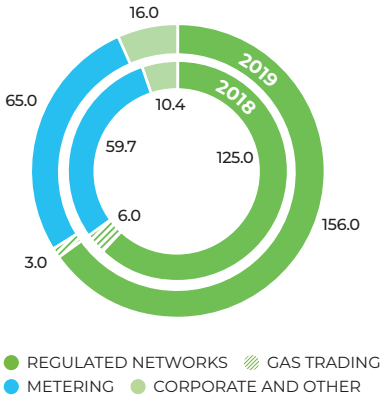


● REGULATED NETWORKS    ● GAS TRADING    ● METERING    ● CORPORATE AND OTHER    ● TOTAL GROUP



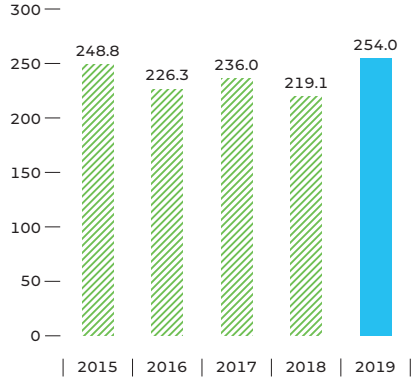
### CAPITAL EXPENDITURE

for the six months ended 31 December  
\$ MILLION



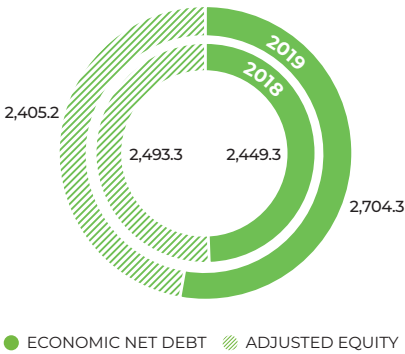
### OPERATING CASH FLOWS

(including discontinued operations)  
for the six months ended 31 December  
\$ MILLION



### SOURCE OF FUNDING – GEARING

as at 31 December  
\$ MILLION



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](http://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.

## GAAP TO NON-GAAP RECONCILIATION

	31-DEC-2019 6 MONTHS \$M	31-DEC-2018 6 MONTHS \$M
Group EBITDA and adjusted EBITDA		
<b>Reported net profit for the period (GAAP)<sup>1</sup></b>	<b>80.5</b>	83.3
Add back: net interest costs <sup>1</sup>	<b>64.0</b>	71.7
Add back: tax (benefit)/expense <sup>1</sup>	<b>33.3</b>	31.3
Add back: depreciation and amortisation <sup>1</sup>	<b>131.4</b>	119.9
<b>EBITDA</b>	<b>309.2</b>	306.2
<i>Adjusted for:</i>		
Associates (share of net (profit)/loss) <sup>1</sup>	<b>(0.1)</b>	(0.5)
Fair value change on financial instruments <sup>1</sup>	<b>0.5</b>	0.2
Capital contributions <sup>1</sup>	<b>(45.1)</b>	(41.2)
Impairment <sup>1</sup>	<b>-</b>	-
<b>Adjusted EBITDA</b>	<b>264.5</b>	264.7

1. Extracted from audited financial statements

	2019			2018		
Segment adjusted EBITDA						
SIX MONTHS ENDED 31 DECEMBER	REPORTED SEGMENT EBITDA	LESS CAPITAL CONTRIBUTIONS	SEGMENT ADJUSTED EBITDA	REPORTED SEGMENT EBITDA	LESS CAPITAL CONTRIBUTIONS	SEGMENT ADJUSTED EBITDA
Metering	<b>76.1</b>	-	<b>76.1</b>	68.1	-	68.1
Gas Trading	<b>20.8</b>	-	<b>20.8</b>	20.7	-	20.7
<b>Unregulated segments</b>	<b>96.9</b>	-	<b>96.9</b>	88.8	-	88.8
<b>Regulated segment</b>	<b>234.2</b>	<b>(45.0)</b>	<b>189.2</b>	239.9	(41.2)	198.7
<b>Corporate and other</b>	<b>(21.5)</b>	<b>(0.1)</b>	<b>(21.6)</b>	(22.8)	-	(22.8)
<b>TOTAL</b>	<b>309.6</b>	<b>(45.1)</b>	<b>264.5</b>	305.9	(41.2)	264.7

# GROUP CONDENSED INTERIM FINANCIAL STATEMENTS

for the six months ended 31 December 2019 (unaudited)

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## GROUP CONDENSED INTERIM FINANCIAL STATEMENTS

These group condensed interim financial statements for the six months ended 31 December 2019 are dated 24 February 2020, and signed for and on behalf of Vector Limited by:



Director



Director

And management of Vector Limited by:



Group Chief Executive



Chief Financial Officer



# Independent Review Report

To the shareholders of Vector Limited

## Report on the interim consolidated financial statements

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim consolidated financial statements on pages 16 to 32 do not:

- i. present fairly in all material respects the Group's financial position as at 31 December 2019 and its financial performance and cash flows for the 6 month period ended on that date; and
- ii. comply with NZ IAS 34 *Interim Financial Reporting*.

We have completed a review of the accompanying interim consolidated financial statements which comprise:

- the consolidated balance sheet as at 31 December 2019;
- the consolidated statements of profit and loss, other comprehensive income, changes in equity and cash flows for the 6 month period then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



### Basis for conclusion

A review of interim consolidated financial statements in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* ("NZ SRE 2410") is a limited assurance engagement. The auditor performs procedures, consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

As the auditor of Vector Limited, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

Our firm has also provided other services to the group in relation to regulatory, other assurance, IT forensic and other forensic 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 reviewer of the group. The firm has no other relationship with, or interest in, the group.



### Use of this Independent Review Report

This report is made solely to the shareholders as a body. Our review work has been undertaken so that we might state to the 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 shareholders as a body for our review work, this report, or any of the opinions we have formed.





## Responsibilities of the Directors for the interim consolidated financial statements

The Directors, on behalf of the group, are responsible for:

- the preparation and fair presentation of the interim consolidated financial statements in accordance with NZ IAS 34 *Interim Financial Reporting*;
- implementing necessary internal control to enable the preparation of a interim consolidated financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



## Auditor's Responsibilities for the review of the interim consolidated financial statements

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. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with NZ IAS 34 *Interim Financial Reporting*.

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 these interim consolidated financial statements.

This description forms part of our Independent Review Report.



KPMG  
Auckland

24 February 2020

## PROFIT OR LOSS

	NOTE	31 DEC 2019 6 MONTHS (UNAUDITED) \$M	31 DEC 2018 6 MONTHS (UNAUDITED) \$M	30 JUN 2019 12 MONTHS (AUDITED) \$M
Revenue	4	699.6	688.6	1,318.6
Operating expenses	4	(390.0)	(382.7)	(753.5)
Depreciation and amortisation		(131.4)	(119.9)	(246.8)
Interest costs (net)		(64.0)	(71.7)	(133.3)
Fair value change on financial instruments		(0.5)	(0.2)	(2.5)
Associates (share of net profit/(loss))		0.1	0.5	0.6
Impairment		–	–	(46.6)
<b>Profit/(loss) before income tax</b>		<b>113.8</b>	114.6	136.5
Income tax benefit/(expense)		(33.3)	(31.3)	(52.5)
<b>Net profit/(loss) for the period</b>		<b>80.5</b>	83.3	84.0
<b>Net profit/(loss) for the period attributable to</b>				
Non-controlling interests		0.8	0.7	1.1
Owners of the parent		79.7	82.6	82.9
<b>Basic and diluted earnings per share (cents)</b>	8	<b>8.0</b>	8.3	8.3

## OTHER COMPREHENSIVE INCOME

	31 DEC 2019 6 MONTHS (UNAUDITED) \$M	31 DEC 2018 6 MONTHS (UNAUDITED) \$M	30 JUN 2019 12 MONTHS (AUDITED) \$M
<b>Net profit/(loss) for the period</b>	<b>80.5</b>	83.3	84.0
<b>Other comprehensive income net of tax</b>			
<i>Items that may be re-classified subsequently to profit or loss:</i>			
Net change in fair value of hedge reserves	<b>11.4</b>	(1.5)	(21.0)
Translation of foreign operations	<b>(0.9)</b>	(1.2)	(2.1)
<i>Items that will not be re-classified subsequently to profit or loss:</i>			
Fair value change on financial asset	<b>(1.5)</b>	–	0.6
<b>Other comprehensive income/(loss) for the period net of tax</b>	<b>9.0</b>	(2.7)	(22.5)
<b>Total comprehensive income/(loss) for the period net of tax</b>	<b>89.5</b>	80.6	61.5
<b>Total comprehensive income for the period attributable to</b>			
Non-controlling interests	<b>0.8</b>	0.7	1.1
Owners of the parent	<b>88.7</b>	79.9	60.4

## BALANCE SHEET

	NOTE	31 DEC 2019 (UNAUDITED) \$M	31 DEC 2018 (UNAUDITED) \$M	30 JUN 2019 (AUDITED) \$M
<b>CURRENT ASSETS</b>				
Cash and cash equivalents		29.2	26.5	27.6
Trade and other receivables		89.9	110.7	100.1
Contract assets		96.4	93.9	105.2
Inventories		8.0	10.7	8.4
Intangible assets		4.8	10.4	1.9
Income tax		52.3	41.4	52.4
Disposal group held for sale	3,5	79.2	–	–
<b>Total current assets</b>		<b>359.8</b>	<b>293.6</b>	<b>295.6</b>
<b>NON-CURRENT ASSETS</b>				
Receivables		2.0	0.2	1.7
Derivatives	3,7	112.2	75.5	109.3
Investment in associate		8.7	8.6	8.7
Other investments		14.1	15.0	15.6
Intangible assets	6	1,315.7	1,398.0	1,354.9
Property, plant and equipment (PPE)		4,274.9	4,080.4	4,184.6
Right of use assets (ROU)		36.4	38.9	38.1
Income tax		34.1	24.0	52.3
Deferred tax		0.2	0.1	0.2
<b>Total non-current assets</b>		<b>5,798.3</b>	<b>5,640.7</b>	<b>5,765.4</b>
<b>Total assets</b>		<b>6,158.1</b>	<b>5,934.3</b>	<b>6,061.0</b>
<b>CURRENT LIABILITIES</b>				
Trade and other payables		199.4	217.0	200.1
Provisions		18.9	13.1	17.4
Borrowings	3,7	629.3	513.0	481.3
Derivatives	3,7	19.2	69.3	4.9
Contract liabilities		50.5	43.5	48.4
Lease liabilities		7.9	8.9	7.2
Income tax		0.2	0.4	0.8
Disposal group held for sale	3,5	25.8	–	–
<b>Total current liabilities</b>		<b>951.2</b>	<b>865.2</b>	<b>760.1</b>



## BALANCE SHEET (CONTINUED)

	NOTE	31 DEC 2019 (UNAUDITED) \$M	31 DEC 2018 (UNAUDITED) \$M	30 JUN 2019 (AUDITED) \$M
<b>NON-CURRENT LIABILITIES</b>				
Payables		0.9	8.2	1.8
Provisions		8.1	23.6	27.4
Borrowings	3,7	2,213.6	1,966.8	2,279.7
Derivatives	3,7	47.8	54.9	78.2
Contract liabilities		36.8	37.4	43.9
Lease liabilities		30.5	31.3	32.7
Deferred tax		513.7	495.2	487.8
<b>Total non-current liabilities</b>		<b>2,851.4</b>	2,617.4	2,951.5
<b>Total liabilities</b>		<b>3,802.6</b>	3,482.6	3,711.6
<b>EQUITY</b>				
Equity attributable to owners of the parent		2,338.5	2,434.1	2,332.4
Non-controlling interests in subsidiaries		17.0	17.6	17.0
<b>Total equity</b>		<b>2,355.5</b>	2,451.7	2,349.4
<b>Total equity and liabilities</b>		<b>6,158.1</b>	5,934.3	6,061.0
Net tangible assets per share (cents)	8	101.8	102.5	97.8
Gearing ratio (%)	8	52.9	49.6	52.2

## CASH FLOWS

	NOTE	31 DEC 2019 6 MONTHS (UNAUDITED) \$M	31 DEC 2018 6 MONTHS (UNAUDITED) \$M	30 JUN 2019 12 MONTHS (AUDITED) \$M
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers		693.4	691.7	1,316.5
Interest received		0.4	0.5	1.1
Payments to suppliers and employees		(373.2)	(399.3)	(765.3)
Interest paid		(64.8)	(72.0)	(142.6)
Income tax paid		(1.8)	(1.8)	(61.6)
<b>Net cash flows from/(used in) operating activities</b>	9	<b>254.0</b>	219.1	348.1
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Proceeds from sale of PPE and software intangibles		0.3	0.2	0.6
Purchase and construction of PPE and software intangibles		(242.9)	(202.7)	(418.4)
Acquisition of businesses		–	–	(8.0)
Other investing cash flows		(0.7)	(3.5)	(1.6)
<b>Net cash flows from/(used in) investing activities</b>		<b>(243.3)</b>	(206.0)	(427.4)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds from borrowings	3,7	375.0	70.0	535.0
Repayment of borrowings	3,7	(296.6)	–	(285.6)
Dividends paid	3	(83.3)	(80.6)	(164.1)
Lease liabilities payments		(4.2)	(3.6)	(6.2)
Other financing cash flows		–	(0.3)	(0.1)
<b>Net cash flows from/(used in) financing activities</b>		<b>(9.1)</b>	(14.5)	79.0
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>1.6</b>	(1.4)	(0.3)
Cash and cash equivalents at beginning of the period		27.6	27.9	27.9
<b>Cash and cash equivalents at end of the period</b>		<b>29.2</b>	26.5	27.6
<b>Cash and cash equivalents comprise:</b>				
Bank balances and on-call deposits		24.1	18.2	22.0
Short term deposits		5.1	8.3	5.6
		<b>29.2</b>	26.5	27.6

# CHANGES IN EQUITY

(unaudited)

	NOTE	ISSUED SHARE CAPITAL \$M	TREASURY SHARES \$M	HEDGE RESERVES \$M	OTHER RESERVES \$M	RETAINED EARNINGS \$M	NON- CONTROLLING INTERESTS \$M	TOTAL EQUITY \$M
<b>Balance at 1 July 2018</b>		880.0	(0.2)	(40.1)	(0.3)	1,601.0	17.5	2,457.9
Impact of adopting NZ IFRS 15 at 1 July 2018		–	–	–	–	(6.0)	–	(6.0)
<b>Adjusted balance at 1 July 2018</b>		880.0	(0.2)	(40.1)	(0.3)	1,595.0	17.5	2,451.9
Net profit/(loss) for the period		–	–	–	–	82.6	0.7	83.3
Other comprehensive income		–	–	(1.5)	(1.2)	–	–	(2.7)
<b>Total comprehensive income</b>		–	–	(1.5)	(1.2)	82.6	0.7	80.6
Dividends		–	–	–	–	(80.0)	(0.6)	(80.6)
Employee share purchase scheme transactions		–	(0.2)	–	–	–	–	(0.2)
<b>Total transactions with owners</b>		–	(0.2)	–	–	(80.0)	(0.6)	(80.8)
<b>Balance at 31 December 2018</b>		880.0	(0.4)	(41.6)	(1.5)	1,597.6	17.6	2,451.7
Net profit/(loss) for the period		–	–	–	–	0.3	0.4	0.7
Other comprehensive income		–	–	(19.5)	(0.3)	–	–	(19.8)
<b>Total comprehensive income</b>		–	–	(19.5)	(0.3)	0.3	0.4	(19.1)
Dividends		–	–	–	–	(82.5)	(1.0)	(83.5)
Employee share purchase scheme transactions		–	–	–	0.3	–	–	0.3
<b>Total transactions with owners</b>		–	–	–	0.3	(82.5)	(1.0)	(83.2)
<b>Balance at 30 June 2019</b>		<b>880.0</b>	<b>(0.4)</b>	<b>(61.1)</b>	<b>(1.5)</b>	<b>1,515.4</b>	<b>17.0</b>	<b>2,349.4</b>
Net profit/(loss) for the period		–	–	–	–	79.7	0.8	80.5
Other comprehensive income		–	–	11.4	(2.4)	–	–	9.0
<b>Total comprehensive income</b>		–	–	11.4	(2.4)	79.7	0.8	89.5
Dividends	3	–	–	–	–	(82.5)	(0.8)	(83.3)
Employee share purchase scheme transactions		–	–	–	(0.1)	–	–	(0.1)
<b>Total transactions with owners</b>		–	–	–	(0.1)	(82.5)	(0.8)	(83.4)
<b>Balance at 31 December 2019</b>		<b>880.0</b>	<b>(0.4)</b>	<b>(49.7)</b>	<b>(4.0)</b>	<b>1,512.6</b>	<b>17.0</b>	<b>2,355.5</b>

# NOTES TO THE INTERIM FINANCIAL STATEMENTS

## 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 2019. 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 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.

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## 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 2019 Annual Report. The interim financial statements for the six months ended 31 December 2019 and 31 December 2018 are unaudited.

All financial information is presented in New Zealand dollars (\$) and has been rounded to the nearest 100,000, 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 generally more profitable than those of the second half of the year.

### Significant Accounting Policies

The accounting policies set out in Vector's 2019 Annual Report have been applied consistently to all periods presented in these interim financial statements.

# NOTES TO THE INTERIM FINANCIAL STATEMENTS

## 3. Significant transactions and events

Significant transactions and events that have occurred during the six months to 31 December 2019:

**Sale of the Kapuni gas interests** On 3 December 2019, Vector announced an agreement for the sale of the Kapuni Gas Treatment Plant and related assets including Vector's 50% interest in the Kapuni Energy Joint Venture (together "the Kapuni gas interests") to Todd Petroleum Mining Company Limited. Vector is targeting completion by June 2020.

The Kapuni gas interests are a part of Vector's Gas Trading segment. Assets and liabilities associated with the Kapuni gas interests (\$79.2 million and \$25.8 million respectively) are classified and presented in the interim financial statements as a disposal group held for sale from December 2019. Depreciation and amortisation on the assets have ceased from 31 December 2019 as a result. Refer to Note 5 for details on the disposal group held for sale.

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### The Commerce Commission

#### Over-recovery of electricity revenue

On 7 July 2017, Vector and the Commerce Commission ("the Commission") agreed the settlement of an over-recovery of electricity revenue by Vector during the regulatory years ended 31 March 2014 and 31 March 2015.

The settlement is effected through a \$13.9 million (including accumulated interest of \$3.8 million) price adjustment for the regulatory years ending 31 March 2019 and 31 March 2020, impacting the group's reported revenues and interest costs for the financial years ended 30 June 2018 (3 months), and financial years ending 30 June 2019 (12 months) and 2020 (9 months).

The estimated impact in the six months ended 31 December 2019 is a \$4.0 million decrease in revenue (six months ended 31 December 2018: \$2.1 million) and a \$1.2 million increase in interest cost (six months ended 31 December 2018: \$0.7 million).

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### Debt programme

On 16 September 2019, the group repaid \$296.6 million (USD \$195.0 million) of USD senior notes.

During the six months ended 31 December 2019, the group drew down a net of \$375.0 million (six months ended 31 December 2018: \$70.0 million) from bank facilities.

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### Dividends

Vector Limited's final dividend for the year ended 30 June 2019 of 8.25 cents per share was paid on 16 September 2019, with a supplementary dividend of 1.46 cents per non-resident share. The total dividend paid was \$82.5 million.

Liquigas Limited, an associated company of the group, paid an interim dividend for the six months ended 31 December 2019 of \$0.8 million to the company's non-controlling interests.

# NOTES TO THE INTERIM FINANCIAL STATEMENTS

## 4. Segment information

### Segments

Vector reports on three reportable segments in accordance with NZ IFRS 8 *Operating Segments*.

A review of the reportable segments in the current year resulted in the following changes from the 30 June 2019 reporting period:

- The Technology segment, which included the metering services, telecommunications and new energy solutions businesses is no longer a reportable segment;
- The Metering services business is disaggregated from the Technology segment to form a new and single reportable segment Metering;
- The telecommunications and new energy solutions businesses have been removed from segment reporting. These businesses do not satisfy the criteria to be reported as a reportable segment.

The current reportable segments are therefore:

<b>Regulated Networks</b>	Auckland electricity and gas distribution services.
<b>Gas Trading</b>	Natural gas and LPG sales, storage and processing, and cogeneration.
<b>Metering</b>	Metering services.

The processing and cogeneration businesses in Gas Trading will cease at completion of the sale of Vector's Kapuni gas interests (refer to Note 3).

Prior periods segment information have been restated to reflect the changes in the segments.

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# NOTES TO THE INTERIM FINANCIAL STATEMENTS

## 4. Segment information (continued)

31 DEC 2019 6 MONTHS (UNAUDITED)	REGULATED NETWORKS \$M	GAS TRADING \$M	METERING \$M	INTER- SEGMENT \$M	TOTAL \$M
External revenue:					
Sales	353.0	151.2	101.7	–	605.9
Third party contributions	45.0	–	–	–	45.0
Other	7.3	–	–	–	7.3
Intersegment revenue	1.5	–	0.7	(2.2)	–
<b>Segment revenue</b>	<b>406.8</b>	<b>151.2</b>	<b>102.4</b>	<b>(2.2)</b>	<b>658.2</b>
External expenses:					
Electricity transmission expenses	(104.0)	–	–	–	(104.0)
Gas purchases and production expenses	–	(92.1)	–	–	(92.1)
Metering services cost of sales	–	–	(12.7)	–	(12.7)
Network and asset maintenance	(35.0)	(7.3)	(5.0)	–	(47.3)
Employee benefit expenses	(9.5)	(7.4)	(4.3)	–	(21.2)
Other expenses	(24.1)	(21.4)	(4.3)	–	(49.8)
Intersegment expenses	–	(2.2)	–	2.2	–
<b>Segment operating expenses</b>	<b>(172.6)</b>	<b>(130.4)</b>	<b>(26.3)</b>	<b>2.2</b>	<b>(327.1)</b>
<b>Segment EBITDA</b>	<b>234.2</b>	<b>20.8</b>	<b>76.1</b>	<b>–</b>	<b>331.1</b>
Depreciation and amortisation	(64.8)	(8.8)	(39.4)	–	(113.0)
<b>Segment profit/(loss)</b>	<b>169.4</b>	<b>12.0</b>	<b>36.7</b>	<b>–</b>	<b>218.1</b>
<b>Segment capital expenditure</b>	<b>156.0</b>	<b>3.0</b>	<b>65.0</b>	<b>–</b>	<b>224.0</b>

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

31 DEC 2019 6 MONTHS	REVENUE \$M	PROFIT/ (LOSS) BEFORE INCOME TAX \$M	CAPITAL EXPENDITURE \$M
<b>Reported in segment information</b>	<b>658.2</b>	<b>218.1</b>	<b>224.0</b>
Amounts not allocated to segments:			
Revenue (including third party contributions)	41.4	41.4	–
Employee benefit expenses	–	(23.3)	–
Other operating expenses	–	(41.5)	–
Elimination of transactions with segments	–	1.9	–
Depreciation and amortisation	–	(18.4)	–
Interest costs (net)	–	(64.0)	–
Fair value change on financial instruments	–	(0.5)	–
Associates (share of net profit/(loss))	–	0.1	–
Capital expenditure	–	–	16.0
<b>Reported in the financial statements</b>	<b>699.6</b>	<b>113.8</b>	<b>240.0</b>

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

## 4. Segment information (continued)

31 DEC 2018 6 MONTHS (UNAUDITED)	REGULATED NETWORKS \$M	GAS TRADING \$M	METERING \$M	INTER- SEGMENT \$M	TOTAL \$M
<b>External revenue:</b>					
Sales	354.3	152.9	92.3	–	599.5
Third party contributions	41.2	–	–	–	41.2
Other	5.4	–	–	–	5.4
Intersegment revenue	1.7	–	0.8	(2.5)	–
<b>Segment revenue</b>	<b>402.6</b>	<b>152.9</b>	<b>93.1</b>	<b>(2.5)</b>	<b>646.1</b>
<b>External expenses:</b>					
Electricity transmission expenses	(105.0)	–	–	–	(105.0)
Gas purchases and production expenses	–	(95.1)	–	–	(95.1)
Metering services cost of sales	–	–	(11.0)	–	(11.0)
Network and asset maintenance	(29.8)	(8.2)	(4.4)	–	(42.4)
Employee benefit expenses	(8.1)	(6.8)	(5.2)	–	(20.1)
Other expenses	(19.8)	(19.6)	(4.4)	–	(43.8)
Intersegment expenses	–	(2.5)	–	2.5	–
<b>Segment operating expenses</b>	<b>(162.7)</b>	<b>(132.2)</b>	<b>(25.0)</b>	<b>2.5</b>	<b>(317.4)</b>
<b>Segment EBITDA</b>	<b>239.9</b>	<b>20.7</b>	<b>68.1</b>	<b>–</b>	<b>328.7</b>
Depreciation and amortisation	(60.0)	(7.7)	(34.9)	–	(102.6)
<b>Segment profit/(loss)</b>	<b>179.9</b>	<b>13.0</b>	<b>33.2</b>	<b>–</b>	<b>226.1</b>
<b>Segment capital expenditure</b>	<b>125.0</b>	<b>6.0</b>	<b>59.7</b>	<b>–</b>	<b>190.7</b>

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

31 DEC 2018 6 MONTHS (UNAUDITED)	REVENUE \$M	PROFIT/ (LOSS) BEFORE INCOME TAX \$M	CAPITAL EXPENDITURE \$M
<b>Reported in segment information</b>	646.1	226.1	190.7
Amounts not allocated to segments:			
Revenue (including third party contributions)	42.5	42.5	–
Employee benefit expenses	–	(25.8)	–
Other operating expenses	–	(41.2)	–
Elimination of transactions with segments	–	1.7	–
Depreciation and amortisation	–	(17.3)	–
Interest costs (net)	–	(71.7)	–
Fair value change on financial instruments	–	(0.2)	–
Associates (share of net profit/(loss))	–	0.5	–
Capital expenditure	–	–	10.4
<b>Reported in the financial statements</b>	<b>688.6</b>	<b>114.6</b>	<b>201.1</b>



# NOTES TO THE INTERIM FINANCIAL STATEMENTS

## 4. Segment information (continued)

30 JUN 2019 12 MONTHS (AUDITED)	REGULATED NETWORKS \$M	GAS TRADING \$M	METERING \$M	INTER- SEGMENT \$M	TOTAL \$M
External revenue:					
Sales	676.8	284.1	186.9	–	1,147.8
Third party contributions	79.0	–	–	–	79.0
Other	8.8	–	–	–	8.8
Intersegment revenue	3.0	–	1.5	(4.5)	–
<b>Segment revenue</b>	<b>767.6</b>	<b>284.1</b>	<b>188.4</b>	<b>(4.5)</b>	<b>1,235.6</b>
External expenses:					
Electricity transmission expenses	(209.6)	–	–	–	(209.6)
Gas purchases and production expenses	–	(179.2)	–	–	(179.2)
Metering services cost of sales	–	–	(22.8)	–	(22.8)
Network and asset maintenance	(60.6)	(17.1)	(9.0)	–	(86.7)
Employee benefit expenses	(16.3)	(13.6)	(9.5)	–	(39.4)
Other expenses	(35.1)	(38.4)	(8.4)	–	(81.9)
Intersegment expenses	–	(4.5)	–	4.5	–
<b>Segment operating expenses</b>	<b>(321.6)</b>	<b>(252.8)</b>	<b>(49.7)</b>	<b>4.5</b>	<b>(619.6)</b>
<b>Segment EBITDA</b>	<b>446.0</b>	<b>31.3</b>	<b>138.7</b>	<b>–</b>	<b>616.0</b>
Depreciation and amortisation	(122.4)	(15.6)	(72.0)	–	(210.0)
<b>Segment profit/(loss)</b>	<b>323.6</b>	<b>15.7</b>	<b>66.7</b>	<b>–</b>	<b>406.0</b>
<b>Segment capital expenditure</b>	<b>260.9</b>	<b>11.8</b>	<b>121.2</b>	<b>–</b>	<b>393.9</b>

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

30 JUN 2019 12 MONTHS (AUDITED)	REVENUE \$M	PROFIT/ (LOSS) BEFORE INCOME TAX \$M	CAPITAL EXPENDITURE \$M
<b>Reported in segment information</b>	1,235.6	406.0	393.9
Amounts not allocated to segments:			
Revenue (including third party contributions)	83.0	83.0	–
Impairment	–	(46.6)	–
Employee benefit expenses	–	(49.7)	–
Other operating expenses	–	(88.0)	–
Elimination of transactions with segments	–	3.8	–
Depreciation and amortisation	–	(36.8)	–
Interest costs (net)	–	(133.3)	–
Fair value change on financial instruments	–	(2.5)	–
Associates (share of net profit/(loss))	–	0.6	–
Capital expenditure	–	–	31.2
<b>Reported in the financial statements</b>	<b>1,318.6</b>	<b>136.5</b>	<b>425.1</b>

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

### 5. Disposal group held for sale

	31 DEC 2019 (UNAUDITED) \$M
<b>Assets</b>	
Trade and other receivables	6.0
Inventories	0.1
Intangible assets (including goodwill)	36.0
Property, plant & equipment	29.4
Deferred tax	7.7
	79.2
<b>Liabilities</b>	
Trade and other payables	5.1
Provisions	20.7
	25.8

#### Policies

Vector classifies a disposal group as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. The disposal group is measured at the lower of carrying amount and fair value less costs to sell.

# NOTES TO THE INTERIM FINANCIAL STATEMENTS

## 6. intangible assets

### Goodwill impairment assessments

Goodwill is tested at least annually for impairment against the recoverable amount of the cash generating units ("CGU") to which it has been allocated.

Management performed impairment assessments on the electricity, gas distribution, gas trading and metering CGUs at 31 December 2019 and found no impairment.

Other CGUs in the group were assessed for indicators of impairment at 31 December 2019 only. No indicators were found. Impairment assessments for these CGUs will be performed at 30 June 2020.

## 7. Borrowings and derivatives

	NET DERIVATIVES \$M	BORROWINGS \$M
<b>Balance at 30 June 2019 (audited)</b>	<b>26.2</b>	<b>(2,761.0)</b>
Fair value movements:		
Foreign exchange rates	2.3	(2.3)
Interest rates and other fair value changes	16.7	(1.4)
Repayment	–	296.6
Drawdown	–	(375.0)
Amortised costs	–	0.2
<b>Balance at 31 December 2019 (unaudited)</b>	<b>45.2</b>	<b>(2,842.9)</b>
<b>Fair value at 31 December 2019 (unaudited)</b>	<b>45.2</b>	<b>(3,002.7)</b>

# NOTES TO THE INTERIM FINANCIAL STATEMENTS

## 8. Financial ratios

	31 DEC 2019 6 MONTHS (UNAUDITED) \$M	31 DEC 2018 6 MONTHS (UNAUDITED) \$M	30 JUN 2019 12 MONTHS (AUDITED) \$M
<b>Earnings per share</b>			
Net profit attributable to owners of the parent	79.7	82.6	82.9
Weighted average ordinary shares outstanding during the period (number of shares)	999,870,623	999,911,394	999,889,595
<b>Total earnings per share</b>	<b>8.0 cents</b>	8.3 cents	8.3 cents
	31 DEC 2019 (UNAUDITED) \$M	31 DEC 2018 (UNAUDITED) \$M	30 JUN 2019 (AUDITED) \$M
<b>Net tangible assets per share</b>			
Net assets attributable to owners of the parent	2,338.5	2,434.1	2,332.4
Less total intangible assets	(1,320.5)	(1,408.4)	(1,354.9)
<b>Total net tangible assets</b>	<b>1,018.0</b>	1,025.7	977.5
Ordinary shares outstanding (number of shares)	999,882,348	999,867,208	999,867,965
	<b>101.8 cents</b>	102.5 cents	97.8 cents
	31 DEC 2019 (UNAUDITED) \$M	31 DEC 2018 (UNAUDITED) \$M	30 JUN 2019 (AUDITED) \$M
<b>Economic net debt to economic net debt plus adjusted equity ratio ("gearing ratio")</b>			
Face value of borrowings	2,733.5	2,475.8	2,655.1
Less cash and cash equivalents	(29.2)	(26.5)	(27.6)
<b>Economic net debt</b>	<b>2,704.3</b>	2,449.3	2,627.5
Total equity	2,355.5	2,451.7	2,349.4
Adjusted for hedge reserves	49.7	41.6	61.1
<b>Adjusted equity</b>	<b>2,405.2</b>	2,493.3	2,410.5
<b>Economic net debt plus adjusted equity</b>	<b>5,109.5</b>	4,942.6	5,038.0
	<b>52.9%</b>	49.6%	52.2%

# NOTES TO THE INTERIM FINANCIAL STATEMENTS

## 9. Cash flows

	31 DEC 2019 6 MONTHS (UNAUDITED) \$M	31 DEC 2018 6 MONTHS (UNAUDITED) \$M	30 JUN 2019 12 MONTHS (AUDITED) \$M
<b>Reconciliation of net profit/(loss) to net cash flows from/(used in) operating activities</b>			
Net profit/(loss) for the period	80.5	83.3	84.0
<b>Items classified as investing activities</b>			
Non-cash items classified as investing activities	0.4	(2.5)	(3.4)
Other items classified as investing activities	0.7	0.2	1.6
	1.1	(2.3)	(1.8)
<b>Items classified as financing activities</b>			
Items associated with lease liabilities	–	1.5	1.5
<b>Non-cash items</b>			
Depreciation and amortisation	131.4	119.9	246.8
Non-cash portion of interest costs (net)	(1.4)	(1.4)	(5.5)
Fair value change on financial instruments	0.5	0.2	2.5
Associates (share of net (profit)/loss)	(0.1)	(0.5)	(0.6)
Impairment	–	–	46.6
Increase/(decrease) in deferred tax	13.8	11.7	11.6
Increase/(decrease) in provisions	3.5	(11.3)	(4.2)
Other non-cash items	(4.3)	(1.3)	(1.6)
	143.4	117.3	295.6
<b>Changes in assets and liabilities</b>			
Trade and other payables	6.5	(3.0)	(12.4)
Contract liabilities	(5.0)	(2.9)	(5.2)
Contract assets	5.9	10.0	0.3
Inventories	0.4	0.9	3.2
Trade and other receivables	3.5	(4.7)	2.8
Income tax	17.7	19.0	(19.9)
	29.0	19.3	(31.2)
<b>Net cash flows from/(used in) operating activities</b>	<b>254.0</b>	<b>219.1</b>	<b>348.1</b>

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

### 10. Capital commitments

	31 DEC 2019 (UNAUDITED) \$M	31 DEC 2018 (UNAUDITED) \$M	30 JUN 2019 (AUDITED) \$M
Capital expenditure committed to but not provided for at balance date	122.6	70.8	83.4

### 11. Related party transactions

**Majority shareholder dividend** Vector Limited has paid its majority shareholder, Entrust, dividends of \$62.0 million during the period (six months ended December 2018: \$60.1 million, 12 months ended 30 June 2019: \$122.0 million).

**Outstanding balances** At 31 December 2019, the group has no material outstanding balances due to or from related parties of the group (31 December 2018 and 30 June 2019: not material).

### 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

**Interim dividend** On 24 February 2020, the board declared an interim dividend for the year ended 30 June 2020 of 8.25 cents per share.

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

**Financial statements approval** The interim financial statements were approved by the board of directors on 24 February 2020.

# CALENDAR AND DIRECTORY

## Financial calendar

### 2020

Record date for interim dividend	30 March
Interim dividend paid*	8 April
Third quarter operating statistics	April
Fourth quarter operating statistics	July
Full year result and annual report	August
Final dividend*	September
Annual 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 and unsubordinated fixed rate 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](http://www.nzx.com). Further information about Vector is available on our website [www.vector.co.nz](http://www.vector.co.nz).

## Directory

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