VECTOR://

THE NEW ENERGY FUTURE IS NOW HERE

Vector

IR 2018

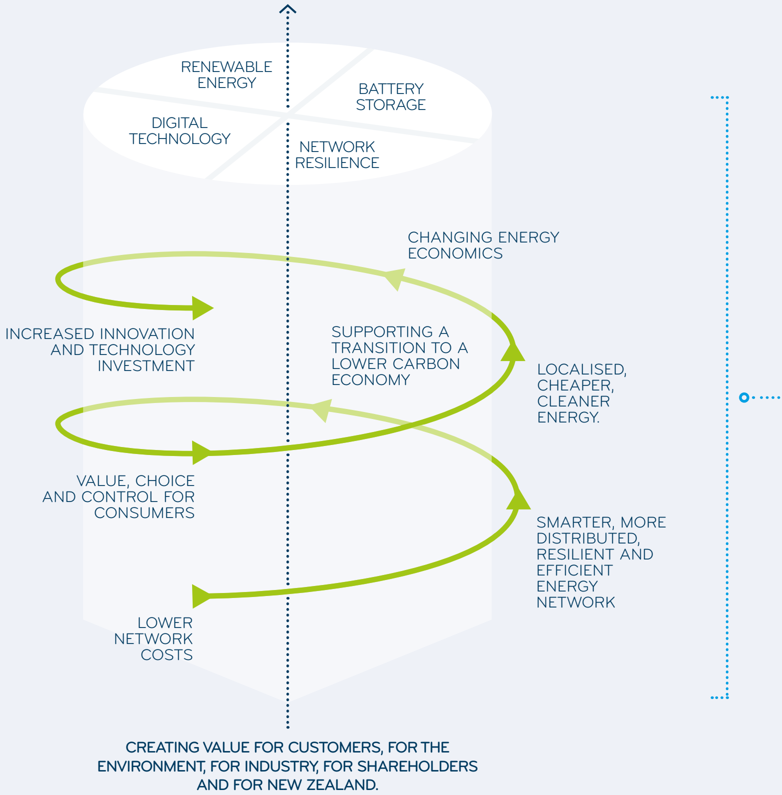

CREDIT: PHOTOGRAPH SUPPLIED BY CHRIS WEISSENBORN.

VECTOR LIGHTS. BRIDGING THE GAP BETWEEN WHAT'S POSSIBLE AND WHAT'S NOW ACCESSIBLE TO EVERYONE.

Vector is focused on leading the creation of a new energy future. A future where new energy technologies can help make energy more affordable, accessible, and sustainable for all communities, businesses, and households. And, ultimately, a future where Vector can deliver lasting value for customers, shareholders and for New Zealand. Vector Lights on Auckland's Harbour Bridge, a showcase for innovative and sustainable energy solutions, is powerful proof that this new energy future is now here.

VECTOR'S LIFE SPIRAL OF ENERGY

Vector Lights is evidence of a system of disruptive energy technologies that delivers more value and choice to consumers, makes energy supply more resilient, leads to more industry innovation, and supports a more sustainable future.



Nearly all the technologies sustainably powering Vector Lights are now available to households and businesses. As consumers embrace these new technologies this will fundamentally change the way our energy system works – benefiting everyone in the process.

Energy disruption that benefits all

Auckland	— Vector Lights demonstrates the new energy technologies that are now possible for all — The power needed for Vector Lights on the Harbour Bridge is matched by renewable energy from solar and battery storage arrays in Wynyard Quarter
New Zealand	— What is proven in Auckland shows what's possible elsewhere — Having more renewables, more choice, and a greater ability to smooth peaks delivers more value
Everyday consumers	— The disruptive technologies used by Vector Lights are scalable from projects to cities, right down to individual homes and businesses — Consumers can lower costs, choose an energy source, control their use and share what they generate. This is the democratisation and localisation of energy
The environment	— Increased localisation of generation, less reliance on major infrastructure, less carbon and reduced energy distribution requirements — Convergence with other sectors (e.g. transport and electric vehicles) enhances environmental impacts
Energy industry	— Localised energy sourcing and balanced demands reduces capital intensive infrastructure, increases network resilience and lowers costs
The technology sector	— More innovation and investment drives further research, idea generation and breakthrough new technologies
The world's cities	— These technologies and integrated systems are already being sought for implementation in other world cities
Investors	— These trends reinforce the growing importance of Vector's role in delivering the new energy future in a rapidly evolving sector. ■

DID YOU KNOW?

VECTOR FACTS://

Vector's size and scale

- Vector provides infrastructure for more than 1.5 million New Zealanders energy needs.
- On call 24/7 to keep power flowing.
- 18,607km of overhead and underground network.
- 4,382km of gas mains pipeline.
- More than 120,000 power poles.
- Provide smart meters to more than 1.3 million New Zealand homes and businesses.

Sustainability

- Transport is the highest contributor to Auckland's gross greenhouse gas emissions at 39.7%, followed by stationary energy at 29.5% and industrial processes and product use 21.1%.[1]
- Over 50,000 rapid electric vehicle charging sessions have occurred over the last calendar year at Vector's EV charging stations, providing 371MWh of electricity to electric vehicle users, with more than 401,843kg of CO_2e emissions avoided.
- Vector's corporate fleet of pool cars in Auckland is now 100% electric or hybrid.
- Vector has 18x 50kW rapid and 9x standard EV chargers across Auckland.
- Vector Lights – 90,000 solar powered LEDs, with 248 solar panels providing energy for the Auckland Harbour Bridge alongside 475kWh battery storage.

New technology

- Average household electricity consumption has reduced 11% in the last 10 years, with new technology enabling energy efficiency.
- On average, new homes use up to 30% less electricity per sqm than older homes.
- Vector is using acoustic testing technology as a way of identifying network defects before they affect customers.
- More than 16,000 homes are generating their own electricity across New Zealand as consumers make the most of disruptive technology.

Auckland growth and complexity of network

- Auckland is one of the fastest growing cities in the world, growing at over 3% each year.
- In a typical week, Auckland gains 825 new residents and 278 new houses.
- Vector connects on average approximately 1,000 new electricity customers, 300 new gas customers, and 70 new generation connections every month.
- Traffic accidents and falling trees account for approximately 23% of power outages.

Cost to consumers

- Average cost to Auckland households for Vector's role in keeping power delivered is $1.23 per day.
- Distribution makes up 26% of the average electricity bill in New Zealand.
- In 2017, Entrust distributed $350 to each beneficiary – and has distributed more than $1.2 billion to Aucklanders over the last decade. ■

1. Shanju Xie, Auckland's Greenhouse Gas Inventory to 2015, October 2017 Technical Report 2017/026, Research and Evaluation Unit (RIMU).

HALF YEAR SNAPSHOT

FINANCIAL SNAPSHOT:

$ 79.0 MILLION

Net profit

Group net profit for the six months to 31 December 2017 falls 26.2% to $79.0 million

$ 250.0 MILLION

Adjusted EBITDA

Adjusted EBITDA falls 2.7% to $250.0 million

5.7%

Capex

Capex rises 5.7% to $182.7 million

8.25 CPS

Interim dividend

Interim dividend increased 3.1%

OPERATIONAL SNAPSHOT:

mPrest internet of energy solution being implemented on our network

Now deploying smart meters for four leading Australian retailers under the Power of Choice reforms

Launched HRV Solar in Auckland, rest of NZ to follow

www.hrvsolar.co.nz

PowerSmart projects underway in Alice Springs and the South Pacific

Sustainable Business Network award achieved for Kupe St development

OnGas Papakura Bottle Swap plant commissioned

First New Zealand major hazard facility to have a Safety Case approved

First major corporate to be an accredited Living Wage employer

Vector Lights launched on Auckland Harbour Bridge

CONTINUED PROGRESS TOWARDS A NEW

The six months to 31 December 2017 saw continued progress towards Vector's ambition of creating a new and more sustainable energy future.

Vector's financial results for the half-year reflect our long-term investment in new energy future initiatives and the impact of Auckland growth on connections and capital expenditure.

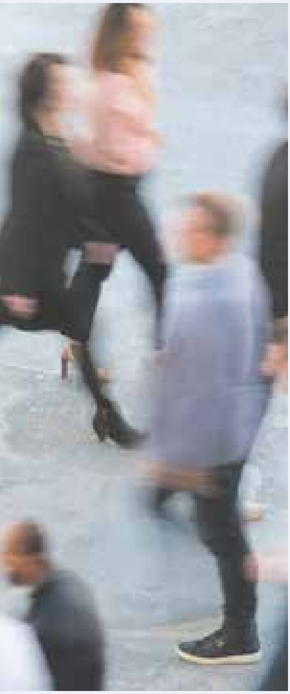
We believe the business is well positioned for the future. However, we were not satisfied with the slower than expected growth in our Technology part of the business. In particular, this was attributable to disappointing results in the E-Co Products Group's heat pump business, as well as the cost of establishing the new HRV Solar business ahead of its recent launch in Auckland. In metering, installations in Australia were lower than hoped for as the market waited for the Power of Choice reforms to take effect in December 2017. In addition, there was increased planned and unplanned maintenance costs in our Regulated Networks business to accommodate Auckland's continued rapid growth as well as the increased need to manage the vegetation risks to energy infrastructure.

All these areas will be a key focus for the second half of the financial year.

Revenue was up to $676.2 million from $625.6 million, due primarily to the acquisition of E-Co Products Group on 31 March. However, Group net profit was down to $79.0 million from $107.1 million in the prior period. This is largely because of one-off items totalling $18.8 million in the prior year[1], as well as a significant increase

1. These include a $5.3 million ($3.8 million post tax) insurance payment to Liquigas and a tax gain of $15.0 million following the Court of Appeal ruling over the tax treatment of the sale of rights to use our Penrose to Hobson Street tunnel.

ENERGY FUTURE



in depreciation and amortisation in this half.

Adjusted earnings before interest, tax, depreciation and amortisation (Adjusted EBITDA) were down to $250.0 million from $257.0 million in the prior period. Regulated Business earnings were down $3.0 million largely due to an increase in maintenance expenditure. Gas Trading earnings were down $5.3 million, because of a $5.3 million insurance settlement one-off in the prior year, with underlying earnings flat.

While earnings in the Technology segment grew $4.2 million and helped to offset the earnings decline in Regulated Networks and Gas Trading, growth was lower than expected for the reasons set out earlier, and also due to changes to the way we account for internal communications services.

Capital expenditure (capex) increased 5.7% to $182.7 million from $172.9 million in the prior period. This was driven by Auckland growth and by higher network replacement capital expenditure, which was partly offset by lower metering capital expenditure in line with the slow-down in New Zealand meter deployment rates.

Creating long-lasting, sustainable value

In a world being rapidly disrupted, we must maintain our focus on creating lasting and sustainable value for our customers, for shareholders and for New Zealand.

According to the International Renewable Energy Agency (IRENA), by 2020, all the renewable power generation technologies that are now in commercial use will fall within the fossil fuel-fired cost range, with most at the lower end or even undercutting the cost of fossil fuels.

Over the next decade, as the cost of solar and wind energy generation and battery storage inevitably falls and becomes competitive with traditional generation, we expect energy to be increasingly distributed, decentralised and democratised. Greater connectivity, artificial intelligence and data analytics will accelerate the adoption of the 'internet of energy', benefiting industries, communities, businesses, and individuals.

Auckland is now one of the fastest growing cities in the western world, so energy infrastructure must accommodate this growth intelligently, reliably, sustainably, and cost-effectively. Customer expectations are changing too – in today's world, we all expect continuous service and the ability to access what we want, when we want, and how we want.

These are the mega trends we have observed in New Zealand and globally that have been driving our thinking as a business. And as has occurred in all other industries impacted by technological disruption, we believe these trends will give consumers more control and choice over the services they use and the way they use them.

As a famous quote from writer William Gibson goes, "The future is already here, it's just not evenly distributed". We have a role to play in addressing that, and we are investing to facilitate this future in different ways. Through our network, using a mix of traditional infrastructure and emerging technologies to support Auckland's needs now and into the future. Through smart metering, to give consumers better information on their usage and enable retailers to innovate with new products and models. And through new energy technologies for residential and commercial customers via HRV and PowerSmart.

Already market leaders in delivering healthy homes, HRV's current offering includes ventilation, heat pumps, and water filtration. Over time we see significant opportunities for HRV to deliver residential solar solutions. At the beginning of 2018, HRV Solar launched in the Auckland market with a nationwide launch to follow.

In addition, our ambitions and presence are increasingly extending beyond New Zealand. Our smart meter business is well-positioned in Australia and will be deploying smart meters for at least four leading Australian electricity retailers in 2018. PowerSmart is delivering the 5MW battery to Territory Generation in Alice Springs in the Northern Territory, and has been selected for a similar project in Niue in the South Pacific. Treescape has built a significant business in Australia, and is providing vegetation management services to a number of Australian energy networks and councils.

As part of a wider multi-million-dollar energy efficient partnership with Auckland Council we launched Vector Lights in January 2018. It is a brilliant showcase for new energy solutions that is now lighting up Auckland's Harbour Bridge using a combination of solar, battery, LED, and peer-to-peer technology, and is living proof that the new energy future is now possible.

The new energy life spiral

A scenario is emerging where what is good for consumers is also good for our environment, for network resiliency, for Auckland and, ultimately, for New Zealand.

It's an elegant dynamic – the more energy generation becomes distributed, the more control shifts to the consumer, the more they can reduce their own costs, the more resilient the network system becomes and the more sustainable and less carbon intensive our energy supply becomes.

Over the next decade, we expect to see a lot more distributed energy resources such as solar, wind, battery, and electric vehicles on our network. Power generation will shift to a broader, more diverse generation sector as consumers can choose from a wider range of energy sources that are, quite literally, closer to home.

A more distributed energy network with a greater number of localised generation and storage sources will be far more resilient. It will

> **A scenario is emerging where what is good for consumers is also good for our environment, for network resiliency, for Auckland and, ultimately, for New Zealand.**

save money for consumers and put more power and control in their hands because they can generate, store and exchange their own energy. They can use smart technology to dynamically manage their energy use, consuming energy at more convenient or less expensive times to suit their individual preferences.

It will reduce the high peaks that network operators need to build capacity for because 'internet of energy' technology and improved access to data will enable consumer needs to be better understood, peaks to be smoothed, and energy consumption to be more evenly distributed, leading to greater network utilisation and efficiency. To use a transport analogy, it means avoiding the cost of building a six-lane motorway for the peak hour because traffic can be spread across the whole day.

It will help maintain existing network infrastructure more efficiently, because technology can be deployed to optimise maintenance programmes, identify and pre-empt problems before they occur, and restore power more seamlessly and quickly following any unexpected outages, such as the storm damage experienced in early January 2018.

Having a significantly greater number of renewable and localised electricity generation sources will also help address one of the most pressing issues we face as a nation. Increasingly, climate change is altering New Zealand weather patterns.

This means we must factor an increase in the number of '1 in 100 year' extreme weather events and an increase in the risk of drought, with the consequent impact on New Zealand's lake levels, so critical to our energy supply. Already, New Zealand has seen examples in 2017 of wholesale energy prices rising significantly due to the risks of a dry year.

This is why a system wide view of operating energy infrastructure more sustainably is a critical need for New Zealand, and this is why Vector has signed up to the United Nations Sustainable Development Goals. Electricity will play a key role in helping to shift New Zealand to a low carbon economy, and technology will be a critical enabler.

The electrification of transport is also an emerging factor. The number of electric vehicles (EV's) on our roads is roughly doubling year on year, and EV costs are coming down, so energy systems must have the resiliency to cope with a surge in localised demand from more EV's being charged and EV's with longer range being introduced.

Taking the lead

To achieve our objectives, we must continue to take the lead on innovation as new energy technologies emerge and evolve. We must trial and invest in ways to manage Auckland's future energy needs that reflect what customers will want tomorrow, not just today.

In terms of innovation, we invest significantly in energy research & development. We already collaborate with some of the most innovative companies in the world and we are constantly pioneering new energy technology solutions for customers. And we are very open to working with commercial partners and with Government as we believe the expertise and technology proven in Auckland can be applied elsewhere in the country.

We must continue to look after what matters – our people, our customers, and our environment. We have invested in skills and leadership development to attract, grow and retain new talent, and to upskill our people for the future of work. We have implemented a comprehensive diversity and inclusion programme to ensure that our business benefits from diversity of background and thought.

We have chosen to prioritise the health and safety of our people and customers with regards to live-line work and we have achieved certification to AS/NZS 4801 and ISO 14001 standard for our Health Safety and Environment Management System. The new gas bottling plant commissioned in Papakura can fill up to 6,000 gas bottles a day, and it is a world-class facility that sets a benchmark for safety. It is the first plant in New Zealand to have an approved Safety Case under the new upper tier major hazard facilities regulations.

Whilst we have seen an increase in our Total Recordable Injuries Frequency Rate (TRIFR) in the first half of the year (primarily from our contracted workforce), this has come from more comprehensive safety reporting by field service providers. As a consequence, while we do not anticipate meeting our TRIFR reduction targets for the financial year, we are satisfied we are continually lifting the bar and improving safety across our workforce and supply-chain.

We are proud to say that Vector has led the way on fair pay, in November 2017 becoming the first large corporate in New Zealand to qualify as an accredited Living Wage employer, and accelerating our work to deliver pay equity, with our efforts recognised with a nomination for the YMCA Equal Pay Award in November 2017.

We invest millions every year towards preventing problems for customers before they occur. We have teams in the field ready to navigate Auckland traffic and go out into storms to restore power for Aucklanders. The world-leading internet-of-energy capabilities of mPrest, the next big advancement in energy systems, allows us to manage energy systems in more sophisticated ways, using data analytics, machine learning and artificial intelligence to manage network systems more efficiently, dynamically shift demand and improve resilience - as well as put more power and control in the hands of consumers.

And we have worked closely with Auckland communities, through our work alongside Entrust, Ngāti Whātua and Auckland Council to deliver new and more democratic energy solutions for communities in Orakei, Glen Innes and South Auckland, and through growing the dividends we have been able to deliver for our shareholders. In December 2017, we won the Revolutionising Energy category at the Sustainable Business Network awards for our work with Ngāti Whātua on their Kāinga Tuatahi housing development in Kupe St, Ōrākei.

Looking ahead

In December 2017, the Government outlined the draft terms of reference for the forthcoming review of retail electricity pricing in New Zealand, a review that Vector believes is timely.

While the legacy generation and retail energy market framework has served New Zealand for some time, it may no longer be the best framework for a future where customers have more control over how, with whom, and when they use energy, where innovative companies may seek to enter the retail electricity market, where the impacts of climate change may impact the sector, and where technology can play a much greater role in enabling choice and control.

For Vector, while we are not entirely satisfied with our half-year financial results, we have maintained good operational momentum towards our longer-term goals. We've introduced a number of new innovations. We've diversified the Group even further and explored new opportunities. We have positioned ourselves well in a number of new and emerging markets.

Vector's balance sheet remains strong, with gearing as at 31 December 2017 at 47.3%, up from 43.9% at the prior half-year. We're proud of the fact that we have paid out almost $1.7 billion in dividends over the last 12 years and that we have added $2.2 billion in investments into electricity and gas networks over that same time.

As flagged last year, the Board has been reviewing the company's dividend policy and has now approved a new progressive policy. Vector will increase dividends by at least 0.25 cents per share annually provided the company has the financial capacity to do so. We will review this policy once the parameters for the 2020 electricity reset are established. Full details of the policy can be found at www.vector.co.nz/investors.

In line with this policy, the directors have declared an interim dividend of 8.25 cents per share, up 0.25 cents on the prior year's interim dividend of 8.0 cents per share. The record date for dividend entitlement is 28 March 2018 and the payment date is 11 April 2018.

Looking ahead, we reaffirm our guidance from August 2017 for adjusted EBITDA for the full-year to 30 June 2018 to be at or around last year's result.

It's a time of rapid change for the energy industry. We are committed to continuing to lead and to positively shaping the new energy future for the benefit of consumers, of Auckland, of New Zealand and beyond. ■

Michael Stiassny
Chairman

Simon Mackenzie
Group Chief Executive

TECHNOLOGY

Technology division revenue rose 36.1% to $133.9 million from $98.4 million at 31 December 2016, driven by smart meter installations and the contribution of E-Co Products Group and PowerSmart which were both acquired on 31 March 2017. Technology adjusted EBITDA rose 6.9% to $64.7 million from $60.5 million, with gains from acquisitions and the smart meter roll-out diluted by continued business development expenditure associated with establishing Australian metering operations and the new energy solutions business, and changes to how we structured the services provided by Vector Communications to Vector's electricity network.

During the six-month period, we installed 44,804 advanced meters in New Zealand and 7,515 advanced meters in Australia. Our smart meter base grew 10.8% to 1.33 million[1] from 1.20 million the year before. As communicated in August, Vector is now reaching the end of its smart meter roll-out in New Zealand, and we are targeting a reduced deployment of around 80,000 to 100,000 meters over FY18. After that, the focus in New Zealand will shift to managing the existing electricity meter fleet and installing new and replacement meters as required.

For the past three years, we have been targeting Australia to deliver the next phase of growth for the metering business. We are pleased with the progress made in Australia over the past six months. In particular, over this period we successfully completed the development of the system changes required to deliver the Power of Choice, the new Australian electricity industry reforms, and achieved full accreditation from the Australian Energy Market Operator (AEMO). The Power of Choice reforms went live in the first week of December 2017, so all new and replacement residential electricity meters[2] must now be advanced meters, to be installed by metering co-ordinators appointed by electricity retailers. Vector will be deploying advanced meters on behalf of at least four leading electricity retailers in 2018 across New South Wales, Queensland, South Australia and the ACT. Metering volumes across the industry are expected to rise as the demand that had been suppressed during the wait for Power of Choice to go live is met.

Late in FY17, Vector's electricity business entered into a lease with Vector Communications over the fibre used to provide SCADA connectivity across its network. The lease is accounted for as capital expenditure, which for the period reduced Vector

1. Including 118,961 meters which are managed, but not owned, by Vector.
2. Excluding Victoria.

> **We have been targeting Australia to deliver the next phase of growth for the metering business.**

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AUSTRALIAN SMART METERING BUSINESS READY FOR POWER OF CHOICE REFORMS, AND WITH DEPLOYMENT CONTRACTS IN PLACE WITH FOUR LEADING RETAILERS.

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HRV SOLAR LAUNCHES ACROSS AUCKLAND WITH A NATIONAL OFFERING TO FOLLOW.

Communications revenue and Regulated Networks operating expenditure by $3.3 million.

Our new energy solutions business was strengthened this year by the acquisition of E-Co Products Group and PowerSmart. The market for large scale solar and battery installations is strong across Australia and the Pacific. PowerSmart will deliver a large commercial battery system to Territory Generation in Alice Springs and will then shift focus to an exciting project in Niue, where it has been awarded the contract for another large solar array and battery storage system. PowerSmart is also contracted to deliver a number of solar/battery microgrid solutions in New Zealand. During the period, Vector acquired New Zealand's largest solar array, on the Yealands Winery in Marlborough, which was installed by PowerSmart. The output of this system has been sold under a long-term power purchase agreement. PowerSmart is actively targeting other such opportunities to deliver commercial solar to New Zealand businesses.

E-Co Products (trading as HRV) is Vector's channel to market for healthy and energy efficient home solutions. HRV's core ventilation and water filtration products have continued to trade well since acquisition. The heat pump business, which we believe offers significant opportunity across New Zealand, has not performed to expectations, and we ceased offering HRV's retrofit windows product early in 2018. During the period HRV has invested significantly in developing a residential solar offering, which was launched in Auckland at the beginning of 2018 as HRV Solar, with a nationwide offering to follow in due course. Visit www.hrvsolar.co.nz for details. ■

GAS TRADING

↑3.2%

Natural gas volumes up 3.2% to 9.6PJ.

Revenue for the Gas Trading division increased to $153.5 million from $150.2 million a year earlier, with volumes from the Kapuni field up 6.7% to 4.8PJ, natural gas volumes up 3.2% to 9.6PJ, improved Liquigas revenue and higher Bottle Swap volumes.

During the period we commissioned the new 9kg LPG bottle-filling and refurbishment plant in Papakura, the first of its kind in New Zealand. This plant will strengthen Vector's LPG business and help drive efficiencies and enable further growth in our Bottle Swap operations. Bottle Swap 9kg volumes were up 10.1% over the period to 351,962 bottles from 319,685 in the first half of the year.

The prior period result included a one-off insurance settlement of $5.3 million in relation to damage to the Liquigas facilities at Lyttelton in the 2011 earthquake. Excluding this, adjusted EBITDA was flat year on year at $18.4 million. ■

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NEW ONGAS BOTTLE SWAP PLANT IN PAPAKURA OPENED BY WORKPLACE RELATIONS AND SAFETY MINISTER IAIN LEES-GALLOWAY.

REGULATED BUSINESSES

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CONNECTIONS CONTINUE TO RISE ACROSS OUR BUSINESS.

Revenue for our Regulated Networks business[1] increased 1.4% to $358.9 million from $353.8 million the year before, largely driven by higher connections and higher pass-through transmission costs.

New electricity connections rose 32.9% to 6,090 from 4,583. New gas connections fell 13.2% to 1,656 from 1,907, but remain significantly above long term average growth rates. Total connections to the electricity network stood at 559,777 as at 31 December 2017, up 1.2% from 552,948 a year ago. Total gas connections were 108,270, up 2.2% from 105,918 a year ago.

Despite the increase in connections, volumes transported across our electricity network increased only slightly to 4,352GWh from 4,340GWh a year earlier, with the growth in connections partially offset by declining electricity consumption per connection. Auckland gas distribution network volumes were 7.7 PJ, up 1.3% from 7.6PJ the previous year, due largely to connection growth.

Adjusted EBITDA fell 1.5% on the prior year to $192.7 million from $195.7 million on the back of higher maintenance costs offset by higher revenue which was driven by additional connections and a reduction in internal communications charges. The increase in maintenance costs ($6.5 million above the prior period) is driven by an increase in vegetation maintenance targeting the worst performing feeders and higher planned maintenance.

Capital contributions increased by 9.7% to $33.8 million, from $30.8 million in the prior year due to continued strong growth in Auckland. ■

↑32.9%

New electricity connections up.

↓13.2%

New gas connections down, but remain significantly above long term average.

1. Excluding capital contributions.

PEOPLE, SAFETY & RISK

—

VECTOR HAS A SAFETY ALWAYS PHILOSOPHY THAT DRIVES THE WAY WE WORK.

Vector has a necessarily holistic and comprehensive approach to looking after the things that matter, be it people, communities, assets, or the environment.

Our approach to people, safety and risk was reflected in our 2017 decision with regards to live-line work, and reflected more recently in our certification to AS/NZS 4801 and ISO 14001 standard for our Health Safety and Environment Management System. We are particularly pleased that the new gas bottling plant commissioned in Papakura is the first plant in New Zealand to have an approved Safety Case under the new upper tier major hazard facilities (UTMHF) regulations.

Our philosophy of 'safety always' means our customers are experiencing more planned outages. We are working closely with the Commerce Commission on the issue, as we firmly believe safety should not be a secondary consideration to service targets.

The last six months saw a renewed focus on more comprehensive safety reporting by our field service providers. As a consequence, we have unfortunately seen an increase in our Total Recordable Injuries Frequency Rate (TRIFR) in the first half of the year. As a result, we do not anticipate meeting our TRIFR reduction targets for the financial year but we are satisfied we are continuing to improve safety across our business and supply-chain.

In a country like New Zealand where the impact of climate change is already evident from increased storm activity and increased risk of drought, Vector, like all businesses, must play a role in transitioning to a low carbon economy. This, along with responding to issues of inequality, underpins our approach to sustainability.

We see sustainability as a key part of the new energy future that we are pioneering. That's why we joined other leading global businesses in making a clear commitment to the United Nations Sustainable Development Goals. Our initial focus is on seven key areas: Good health and well-being; Affordable and clean energy; Industry, innovation and infrastructure; Reduced inequalities;

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WORKING WITH COMMUNITIES TO CREATE A NEW ENERGY FUTURE.

Sustainable cities and communities; Climate action; and Partnership.

As part of our sustainability leadership we regularly bring thought-leaders from around the world to New Zealand to share their insights with the energy industry and with other stakeholders. In 2017 this included futurist Tony Seba and scientist Will Steffen, and this year we intend to bring Australian expert Simon Corbell to New Zealand.

In continuing our work on better understanding and reducing our carbon impact, we are incorporating newly acquired businesses into our carbon emissions reporting frameworks, as well as investing in lower carbon options for business, for example Vector's corporate fleet of light pool cars in Auckland is now 100% electric or hybrid.

Encouraging and embracing diversity and inclusion is important to Vector. Greater diversity of thought allows us to harness a broader and richer range of ideas, insights and perspectives to better understand and serve the needs of our customers and help design what the new energy future will be. It's why we sought and received a reaccreditation of our Rainbow Tick and it's why we launched both Women in Leadership and Pacifica development programmes.

In November 2017, Vector became the first corporate business to be accredited as a Living Wage employer. We support a living wage because it is the right thing to do. Fairness and equity have been a big part of our approach to remuneration for a number of years, and we're pleased to have this formally recognised through the Living Wage accreditation. We're now working with our partners and suppliers to encourage support for a living wage across our supply chain. In line with this, Vector has also begun taking steps to proactively find and address pay inequities. ■

	2017	2016
Electricity		
Customers[1,2]	559,777	552,948
New connections	6,090	4,583
Net movement in customers[3]	4,677	2,890
Volume distributed (GWh)	4,352	4,340
Network length (km)[1]	18,607	18,377
SAIDI (minutes)[4]		
Normal operations	168.0	121.0
Extreme events	0.0	2.4
Total	168.0	123.4
Gas Distribution		
Customers[1,2]	108,270	105,918
New connections	1,656	1,907
Net movement in customers[3]	1,600	1,596
Volume distributed (PJ)	7.7	7.6
Gas Trading		
Natural gas sales (PJ)[5]	9.6	9.3
Gas liquids sales (tonnes)[6]	40,752	38,557
9kg LPG bottles swapped[7]	351,962	319,685
Liquigas LPG tolling (tonnes)[8]	89,147	77,688
Technology		
Electricity: smart meters[1,9]	1,333,208	1,203,482
Electricity: legacy meters[1]	91,848	107,467
Electricity: prepay meters[1]	366	4,596
Electricity: time-of-use meters[1]	12,259	11,985
Gas meters[1]	223,368	219,718
Data Management and services connections[1]	8,811	8,760

1. As at period end.
2. Billable ICP's.
3. The net number of customers added during the period.
4. Regulatory year – 9 months to 31 December.
5. Excludes gas sold as gas liquids as these sales are included within the gas liquids sales tonnages.
6. Total of retail and wholesale LPG production and natural gasoline.
7. Number of 9kg LPG bottles swapped and sold during the year.
8. Includes product tolled in Taranaki and further tolled in the South Island.
9. The number of smart meters deployed at 31 December 2017 includes 118,961 meters managed but not owned by Vector (31 December 2016: 78,037).

$
676.2
MILLION

REVENUE

Rises 8.1% on the previous corresponding period

$
236.0
MILLION

OPERATING CASH FLOW

Rises 4.3% on the previous corresponding period

FINANCIAL PERFORMANCE[1]

$ MILLION	31 DEC 2017 6 MONTHS	31 DEC 2016 6 MONTHS	CHANGE	30 JUN 2017 12 MONTHS
Revenue	676.2	625.6	8.1%	1,226.7
Adjusted EBITDA	250.0	257.0	(2.7%)	474.4
Adjusted EBIT	140.4	159.8	(12.1%)	274.8
Net profit	79.0	107.1	(26.2%)	168.9
Operating cash flow	236.0	226.3	4.3%	335.7

FINANCIAL POSITION

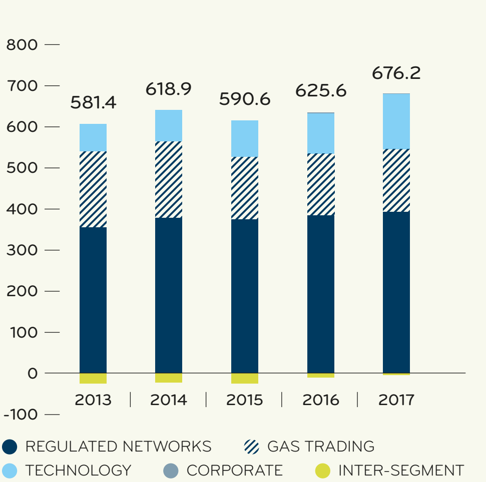
$ MILLION	31 DEC 2017	31 DEC 2016	CHANGE	30 JUN 2017
Total equity	2,468.1	2,467.0	0.0%	2,448.3
Total assets	5,668.3	5,511.3	2.8%	5,574.6
Economic net debt (borrowings net of cash and short-term deposits)	2,252.9	1,968.2	14.5%	2,220.1

KEY FINANCIAL MEASURES

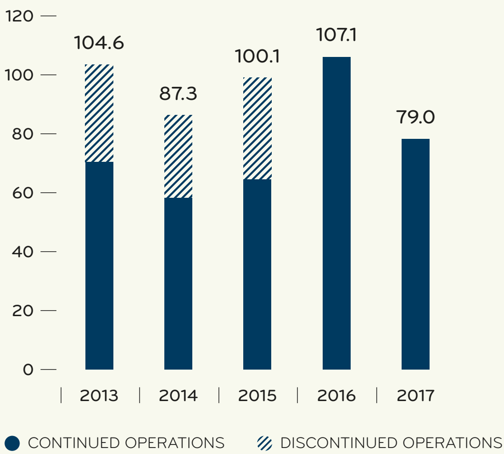
	31 DEC 2017 6 MONTHS	31 DEC 2016 6 MONTHS	CHANGE	30 JUN 2017 12 MONTHS
Adjusted EBITDA/revenue	37.0%	41.1%	(10.0%)	38.7%
Adjusted EBIT/revenue	20.8%	25.5%	(18.4%)	22.4%
Equity/total assets	43.5%	44.8%	(2.9%)	43.9%
Gearing[1]	47.3%	43.9%	7.7%	47.1%
Net interest cover – (adjusted EBIT/net interest costs) (times)	2.1	2.3	(8.7%)	2.0
Earnings (NPAT) per share (cents)	7.9	10.5	(24.8%)	16.7
Dividend declared, cents per share (fully imputed)	8.25	8.00	3.1%	16.00

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

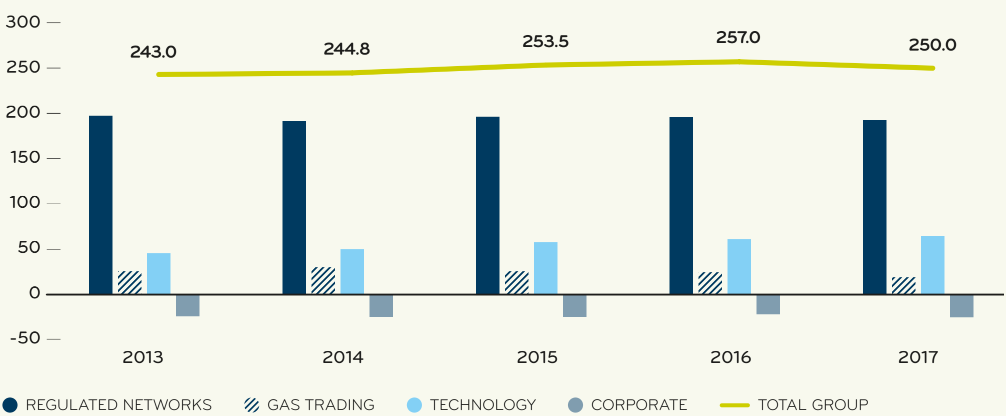
REVENUE (CONTINUING OPERATIONS)
FOR THE SIX MONTHS ENDED 31 DECEMBER
$ MILLION



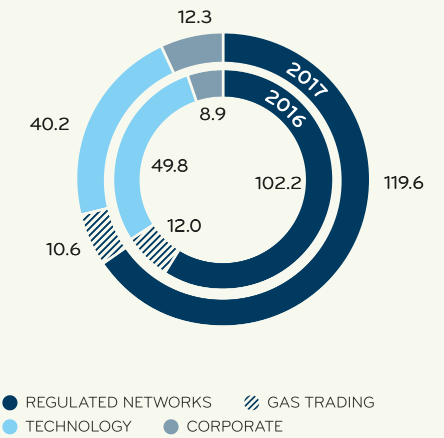
NET PROFIT (INCLUDING DISCONTINUED OPERATIONS)
FOR THE SIX MONTHS ENDED 31 DECEMBER
$ MILLION



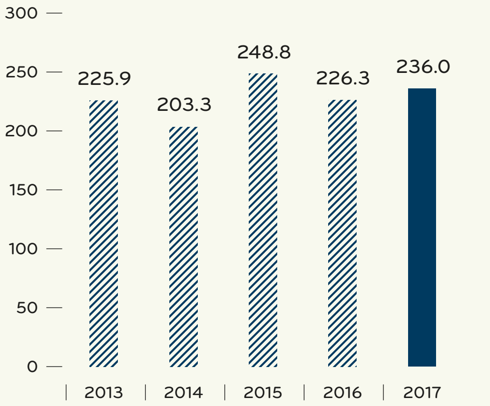
ADJUSTED EBITDA (CONTINUING OPERATIONS)
FOR THE SIX MONTHS ENDED 31 DECEMBER
$ MILLION



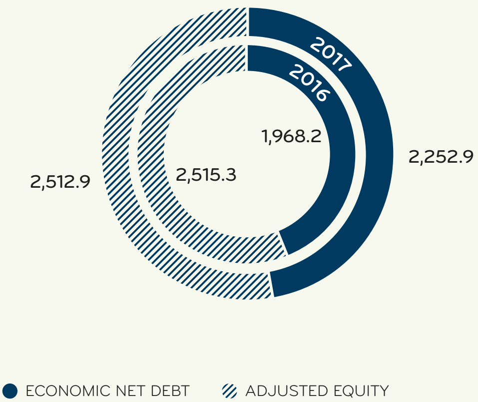
CAPITAL EXPENDITURE
FOR THE SIX MONTHS ENDED 31 DECEMBER
$ MILLION



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).

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	31 DEC 2017 6 MONTHS $M	31 DEC 2016 6 MONTHS $M
Reported net profit for the period (GAAP)[1]	**79.0**	107.1
Add back: net interest costs[1]	**66.4**	68.6
Add back: tax (benefit)/expense[1]	**31.9**	16.5
Add back: depreciation and amortisation[1]	**109.6**	97.2
EBITDA	**286.9**	289.4
Adjusted for:		
Associates (share of net (profit)/loss)[1]	**0.1**	(1.1)
Fair value change on financial instruments[1]	**(2.8)**	-
Capital contributions	**(34.2)**	(31.3)
Adjusted EBITDA	**250.0**	257.0

1. Extracted from reviewed financial statements.

SEGMENT ADJUSTED EBITDA

Six months ended 31 December	2017 REPORTED SEGMENT EBITDA	2017 LESS CAPITAL CONTRIBUTIONS	2017 SEGMENT ADJUSTED EBITDA	2016 REPORTED SEGMENT EBITDA	2016 LESS CAPITAL CONTRIBUTIONS	2016 SEGMENT ADJUSTED EBITDA
Technology	65.1	(0.4)	64.7	61.0	(0.5)	60.5
Gas Trading	18.4		18.4	23.7	–	23.7
Unregulated segments	83.5	(0.4)	83.1	84.7	(0.5)	84.2
Regulated segment	226.5	(33.8)	192.7	226.5	(30.8)	195.7
Corporate	(25.8)	–	(25.8)	(22.9)	–	(22.9)
TOTAL	284.2	(34.2)	250.0	288.3	(31.3)	257.0

CONTENTS

GROUP CONDENSED INTERIM **FINANCIAL STATEMENTS**

These group condensed interim financial statements for the six months ended 31 December 2017 are dated 27 February 2018, and signed for and on behalf of Vector Limited by:

Director — 27 February 2018

Director — 27 February 2018

And management of Vector Limited by:

Group Chief Executive — 27 February 2018

Chief Financial Officer — 27 February 2018

KPMG

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 26 to 39 do not:

i. present fairly in all material respects the Group's financial position as at 31 December 2017 and its financial performance and cash flows for the 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 2017;
- the consolidated profit or loss, statements of other comprehensive income, changes in equity and cash flows for the 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 and other assurance. 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 interim consolidated financial statements that are 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

KPMG
Auckland

27 February 2018

GROUP INTERIM **PROFIT OR LOSS**
(unaudited)

	NOTE	31 DEC 2017 6 MONTHS $M	31 DEC 2016 6 MONTHS $M	30 JUN 2017 12 MONTHS $M
Revenue	4	**676.2**	625.6	1,226.7
Operating expenses	4	**(392.0)**	(337.3)	(690.0)
Depreciation and amortisation		**(109.6)**	(97.2)	(199.6)
Interest costs (net)		**(66.4)**	(68.6)	(137.3)
Fair value change on financial instruments		**2.8**	–	1.6
Associates (share of net profit/(loss))		**(0.1)**	1.1	1.6
Profit/(loss) before income tax		**110.9**	123.6	203.0
Tax benefit/(expense)		**(31.9)**	(16.5)	(34.1)
Net profit/(loss) for the period		**79.0**	107.1	168.9
Net profit/(loss) for the period attributable to				
Non-controlling interests		**0.7**	2.7	3.1
Owners of the parent		**78.3**	104.4	165.8
Basic and diluted earnings per share (cents)	7	**7.9**	10.5	16.7

	31 DEC 2017 6 MONTHS $M	31 DEC 2016 6 MONTHS $M	30 JUN 2017 12 MONTHS $M
Net profit/(loss) for the period	**79.0**	107.1	168.9
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	**4.2**	41.0	40.3
Fair value change on financial asset	**3.1**	0.9	1.8
Translation of foreign operations	**(0.3)**	–	0.1
Other comprehensive income for the period net of tax	**7.0**	41.9	42.2
Total comprehensive income for the period net of tax	**86.0**	149.0	211.1
Total comprehensive income for the period attributable to			
Non-controlling interests	**0.7**	2.7	3.1
Owners of the parent	**85.3**	146.3	208.0

	NOTE	31 DEC 2017 $M	31 DEC 2016 $M	30 JUN 2017 $M
CURRENT ASSETS				
Cash and cash equivalents		17.9	187.2	14.9
Trade and other receivables		213.3	189.7	206.3
Derivatives	6	0.1	–	–
Inventories		12.9	5.3	11.3
Intangible assets		6.0	4.8	2.4
Income tax		32.7	7.4	51.1
Total current assets		282.9	394.4	286.0
NON-CURRENT ASSETS				
Derivatives	6	45.2	76.8	38.0
Investment in associate		9.5	9.6	9.6
Other investments		23.3	5.4	6.2
Intangible assets		1,393.8	1,284.1	1,397.2
Property, plant and equipment (PPE)		3,913.5	3,740.4	3,837.5
Deferred tax		0.1	0.6	0.1
Total non-current assets		5,385.4	5,116.9	5,288.6
Total assets		5,668.3	5,511.3	5,574.6
CURRENT LIABILITIES				
Trade and other payables		271.9	216.3	250.0
Provisions		4.8	6.5	4.8
Borrowings	6	–	559.6	399.7
Derivatives	6	–	17.6	6.6
Income tax		0.4	0.3	0.5
Total current liabilities		277.1	800.3	661.6
NON-CURRENT LIABILITIES				
Payables		45.0	47.9	41.5
Provisions		21.4	17.8	20.4
Borrowings	6	2,232.0	1,579.5	1,770.7
Derivatives	6	135.7	138.3	156.5
Deferred tax		489.0	460.5	475.6
Total non-current liabilities		2,923.1	2,244.0	2,464.7
Total liabilities		3,200.2	3,044.3	3,126.3
EQUITY				
Equity attributable to owners of the parent		2,450.3	2,448.6	2,430.6
Non-controlling interests in subsidiaries		17.8	18.4	17.7
Total equity		2,468.1	2,467.0	2,448.3
Total equity and liabilities		5,668.3	5,511.3	5,574.6
Net tangible assets per share (cents)	7	105.1	116.5	103.5
Gearing ratio (%)	7	47.3	43.9	47.1

	NOTE	31 DEC 2017 6 MONTHS $M	31 DEC 2016 6 MONTHS $M	30 JUN 2017 12 MONTHS $M
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers		**693.1**	638.3	1,224.2
Interest received		**0.4**	5.4	9.0
Dividends received	9	**0.5**	1.5	2.0
Payments to suppliers and employees		**(389.0)**	(343.7)	(686.6)
Interest paid		**(67.4)**	(73.5)	(151.7)
Income tax refunded		**–**	–	0.9
Income tax paid		**(1.6)**	(1.8)	(62.1)
Net cash flows from/(used in) operating activities	8	**236.0**	226.2	335.7
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceed from sale of PPE and software intangibles		**0.1**	0.1	0.4
Purchase and construction of PPE and software intangibles		**(184.9)**	(180.3)	(354.4)
Acquisition of businesses	3	**(1.7)**	–	(90.9)
Other investments	3	**(14.0)**	–	–
Net cash flows from/(used in) investing activities		**(200.5)**	(180.2)	(444.9)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from borrowings	6	**435.8**	–	284.6
Repayment of borrowings	6	**(400.0)**	(98.9)	(318.2)
Dividends paid		**(80.2)**	(80.2)	(161.0)
Sale of treasury shares		**14.0**	–	–
Other financing cash flows		**(2.1)**	(1.1)	(2.7)
Net cash flows from/(used in) financing activities		**(32.5)**	(180.2)	(197.3)
Net increase/(decrease) in cash and cash equivalents		**3.0**	(134.2)	(306.5)
Cash and cash equivalents at beginning of the period		**14.9**	321.4	321.4
Cash and cash equivalents at end of the period		**17.9**	187.2	14.9
Cash and cash equivalents comprise:				
Bank balances and on-call deposits		**9.5**	9.0	7.0
Short term deposits		**8.4**	178.2	7.9
		17.9	187.2	14.9

	ISSUED SHARE CAPITAL $M	TREASURY SHARES $M	HEDGE RESERVES $M	OTHER RESERVES $M	RETAINED EARNINGS $M	NON-CONTROLLING INTERESTS $M	TOTAL EQUITY $M
Balance at 1 July 2016	875.0	(9.2)	(89.3)	(1.1)	1,606.5	16.3	2,398.2
Net profit/(loss) for the period	–	–	–	–	104.4	2.7	107.1
Other comprehensive income	–	–	41.0	0.9	–	–	41.9
Total comprehensive income	–	–	41.0	0.9	104.4	2.7	149.0
Dividends	–	–	–	–	(79.6)	(0.6)	(80.2)
Total transactions with owners	–	–	–	–	(79.6)	(0.6)	(80.2)
Balance at 31 December 2016	875.0	(9.2)	(48.3)	(0.2)	1,631.3	18.4	2,467.0
Net profit/(loss) for the period	–	–	–	–	61.4	0.4	61.8
Other comprehensive income	–	–	(0.7)	1.0	–	–	0.3
Total comprehensive income	–	–	(0.7)	1.0	61.4	0.4	62.1
Dividends	–	–	–	–	(79.7)	(1.1)	(80.8)
Total transactions with owners	–	–	–	–	(79.7)	(1.1)	(80.8)
Balance at 30 June 2017	875.0	(9.2)	(49.0)	0.8	1,613.0	17.7	2,448.3
Net profit/(loss) for the period	–	–	–	–	78.3	0.7	79.0
Other comprehensive income	–	–	4.2	2.8	–	–	7.0
Total comprehensive income	–	–	4.2	2.8	78.3	0.7	86.0
Dividends	–	–	–	–	(79.6)	(0.6)	(80.2)
Sale of treasury shares	5.0	9.0	–	–	–	–	14.0
Total transactions with owners	5.0	9.0	–	–	(79.6)	(0.6)	(66.2)
Balance at 31 December 2017	880.0	(0.2)	(44.8)	3.6	1,611.7	17.8	2,468.1

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 2017. 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 2017 Annual Report. The interim financial statements for the six months ended 31 December 2017 and 31 December 2016 are unaudited.

All financial information has been presented in New Zealand dollars ($) and 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 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 2017 Annual Report have been applied consistently to all periods presented in these interim financial statements.

3. SIGNIFICANT TRANSACTIONS AND EVENTS

Significant transactions and events that have occurred during the six months to 31 December 2017:

Commerce Commission settlement

On 7 July 2017, Vector and the Commerce 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 will be effected through a price adjustment for the regulatory year ending 31 March 2019 and 31 March 2020. The total amount of the adjustment is approximately $13.9 million which will impact revenues reported for the financial years ending 30 June 2018 (3 months), 30 June 2019 (12 months), and 30 June 2020 (9 months).

As the settlement will be enacted through future pricing, no amount is recorded in the period ended 31 December 2017.

Investments

mPrest Systems (2003) Limited

On 4 October 2017, Vector invested $14.0 million (US $10.0 million) into mPrest Systems (2003) Limited for 7.8% of the company's total issued capital (7.1% diluted share capital). The investment is accounted for as a financial asset on the Balance Sheet. The mPrest technology allows companies to better monitor, analyse, and control energy networks and connect traditional infrastructure like electricity lines and substations with new technology like solar and battery energy solutions. Vector is in the process of rolling out the mPrest technology across its Auckland network.

SolPho Limited

Vector Energy Solutions Limited acquired 100% of the shares in SolPho Limited for cash consideration of $0.7 million on 1 November 2017. SolPho Limited owns one of the largest photovoltaic arrays in New Zealand, and the power is sold via a long-term offtake agreement. SolPho Limited owns one of the largest photovoltaic arrays in New Zealand, and the power is sold via a long-term offtake agreement.

Aircon Direct Limited

E-Co Products Group and its associated subsidiary acquired the business of Aircon Direct Limited for cash consideration of $1.0 million on 22 September 2017. Aircon Direct Limited is a provider of air conditioning and ventilation system services and represents a geographical expansion to E-Co Products Group's business.

Debt programme

On 25 October 2017, Vector issued a total of $415.8 million (US $300.0 million) of USD senior notes maturing on 25 October 2027 and 25 October 2029 respectively.

On 26 October 2017, the group repaid $400.0 million of Floating Rate Notes.

3. SIGNIFICANT TRANSACTIONS AND EVENTS (continued)

Dividends

Vector Limited's final dividend for the year ended 30 June 2017 of 8.00 cents per share was paid on 15 September 2017, with a supplementary dividend of 1.41 cents per non-resident share. The total dividend paid was $79.6 million.

Liquigas Limited, an associated company of the group, paid an interim dividend for the six months ended 31 December 2017 of $0.6 million to the company's non-controlling interests.

Sale of treasury shares

On 9 November 2017, the group sold 4,244,923 treasury shares to various investors for a total of $14.0 million, at $3.30 per share (a 2.9% discount to the closing price on 8 November 2017). This resulted in a gain of $5.0 million which has been recorded within issued share capital in equity.

4. 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 2017 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.

On 31 March 2017, the group acquired 100% of the voting shares in E-Co Products Group Limited and the business and net assets of PowerSmart NZ Limited. The financial results of both these entities is included within the Technology segment.

4. SEGMENT INFORMATION (continued)

31 DEC 2017 6 MONTHS	REGULATED NETWORKS $M	GAS TRADING $M	TECHNOLOGY $M	INTER-SEGMENT $M	TOTAL $M
External revenue:					
Sales	356.6	153.5	131.1	–	641.2
Third party contributions	33.8	–	0.4	–	34.2
Intersegment revenue	2.3	–	2.4	(4.7)	–
Segment revenue	392.7	153.5	133.9	(4.7)	675.4
External expenses:					
Electricity transmission expenses	(111.9)	–	–	–	(111.9)
Gas purchases and production expenses	–	(98.0)	–	–	(98.0)
Technology cost of sales	–	–	(35.6)	–	(35.6)
Asset maintenance expenses	(28.8)	(9.0)	(6.9)	–	(44.7)
Employee benefit expenses	(8.4)	(7.4)	(17.4)	–	(33.2)
Other expenses	(15.5)	(17.9)	(8.6)	–	(42.0)
Intersegment expenses	(1.6)	(2.8)	(0.3)	4.7	–
Segment operating expenses	(166.2)	(135.1)	(68.8)	4.7	(365.4)
Segment EBITDA	226.5	18.4	65.1	–	310.0
Depreciation and amortisation	(56.9)	(9.9)	(35.9)	–	(102.7)
Segment profit/(loss)	169.6	8.5	29.2	–	207.3
Segment capital expenditure	119.6	10.6	40.2	–	170.4

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

31 DEC 2017 6 MONTHS	REVENUE $M	PROFIT/(LOSS) BEFORE INCOME TAX $M	CAPITAL EXPENDITURE $M
Reported in segment information	675.4	207.3	170.4
Amounts not allocated to segments (corporate activities):			
Revenue	0.8	0.8	–
Employee benefit expenses	–	(14.7)	–
Other operating expenses	–	(11.9)	–
Depreciation and amortisation	–	(6.9)	–
Interest costs (net)	–	(66.4)	–
Fair value change on financial instruments	–	2.8	–
Associates (share of net profit/(loss))	–	(0.1)	–
Capital expenditure	–	–	12.3
Reported in the financial statements	676.2	110.9	182.7

4. SEGMENT INFORMATION (continued)

31 DEC 2016 6 MONTHS	REGULATED NETWORKS $M	GAS TRADING $M	TECHNOLOGY $M	INTER-SEGMENT $M	TOTAL $M
External revenue:					
Sales	350.4	150.2	91.5	–	592.1
Third party contributions	30.8	–	0.5	–	31.3
Intersegment revenue	3.4	–	6.4	(9.8)	–
Segment revenue	384.6	150.2	98.4	(9.8)	623.4
External expenses:					
Electricity transmission expenses	(106.8)	–	–	–	(106.8)
Gas purchases and production expenses	–	(94.5)	–	–	(94.5)
Technology cost of sales	–	–	(12.7)	–	(12.7)
Asset maintenance expenses	(22.2)	(10.0)	(7.5)	–	(39.7)
Employee benefit expenses	(7.7)	(7.4)	(11.3)	–	(26.4)
Other expenses	(15.9)	(11.1)	(5.1)	–	(32.1)
Intersegment expenses	(5.5)	(3.5)	(0.8)	9.8	–
Segment operating expenses	(158.1)	(126.5)	(37.4)	9.8	(312.2)
Segment EBITDA	226.5	23.7	61.0	–	311.2
Depreciation and amortisation	(50.3)	(8.1)	(32.9)	–	(91.3)
Segment profit/(loss)	176.2	15.6	28.1	–	219.9
Segment capital expenditure	102.2	12.0	49.8	–	164.0

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 $M	PROFIT/(LOSS) BEFORE INCOME TAX $M	CAPITAL EXPENDITURE $M
Reported in segment information	623.4	219.9	164.0
Amounts not allocated to segments (corporate activities):			
Revenue	2.2	2.2	–
Employee benefit expenses	–	(13.2)	–
Other operating expenses	–	(11.9)	–
Depreciation and amortisation	–	(5.9)	–
Interest costs (net)	–	(68.6)	–
Associates (share of net profit/(loss))	–	1.1	–
Capital expenditure	–	–	8.9
Reported in the financial statements	625.6	123.6	172.9

4. SEGMENT INFORMATION (continued)

30 JUN 2017 12 MONTHS	REGULATED NETWORKS $M	GAS TRADING $M	TECHNOLOGY $M	INTER-SEGMENT $M	TOTAL $M
External revenue:					
Sales	674.8	281.8	202.9	–	1,159.5
Third party contributions	61.2	–	1.1	–	62.3
Intersegment revenue	5.9	–	10.0	(15.9)	–
Segment revenue	741.9	281.8	214.0	(15.9)	1,221.8
External expenses:					
Electricity transmission expenses	(212.6)	–	–	–	(212.6)
Gas purchases and production expenses	–	(181.7)	–	–	(181.7)
Technology cost of sales	–	–	(35.7)	–	(35.7)
Asset maintenance expenses	(50.9)	(20.0)	(14.4)	–	(85.3)
Employee benefit expenses	(16.0)	(15.0)	(26.0)	–	(57.0)
Other expenses	(31.7)	(21.9)	(13.0)	–	(66.6)
Intersegment expenses	(8.3)	(6.3)	(1.3)	15.9	–
Segment operating expenses	(319.5)	(244.9)	(90.4)	15.9	(638.9)
Segment EBITDA	422.4	36.9	123.6	–	582.9
Depreciation and amortisation	(103.5)	(15.1)	(68.9)	–	(187.5)
Segment profit/(loss)	318.9	21.8	54.7	–	395.4
Segment capital expenditure	210.6	32.7	104.3	–	347.6

In March 2017, the Technology segment granted an indefeasible right of use ("IRU") to the Regulated Networks segment for the exclusive use of a network of fibre and fibre-associated telecommunications assets. The agreement is recognised as a finance lease and replaces the previous telecommunications services agreement between the two segments. The impact is a reduction in intersegment sales for the Technology segment and an equivalent reduction in intersegment expenses for the Regulated Networks segment.

During the year, the Technology segment procured and sold $1.4 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 2017	REVENUE $M	PROFIT/ (LOSS) BEFORE INCOME TAX $M	CAPITAL EXPENDITURE $M
Reported in segment information	1,221.8	395.4	347.6
Amounts not allocated to segments (corporate activities):			
Revenue	4.9	4.9	–
Employee benefit expenses	–	(25.8)	–
Other operating expenses	–	(25.3)	–
Depreciation and amortisation	–	(12.1)	–
Interest costs (net)	–	(137.3)	–
Fair value change on financial instruments	–	1.6	–
Associates (share of net profit/(loss))	–	1.6	–
Capital expenditure	–	–	19.8
Reported in the financial statements	1,226.7	203.0	367.4

5. CAPITAL COMMITMENTS

	31 DEC 2017 6 MONTHS $M	31 DEC 2016 6 MONTHS $M	30 JUN 2017 12 MONTHS $M
Capital expenditure committed to but not provided for at balance date	75.1	77.8	52.6

6. BORROWINGS AND DERIVATIVES

	NET DERIVATIVES $M	BORROWINGS $M
Balance at 30 June 2017	(125.1)	(2,170.4)
Fair value movements:		
Foreign exchange rates	53.3	(53.3)
Interest rates and other fair value changes	(18.6)	27.0
Repayment	–	400.0
Drawdown	–	(435.8)
Amortised costs	–	0.5
Balance at 31 December 2017	(90.4)	(2,232.0)
Fair value at 31 December 2017	(90.4)	(2,251.7)

7. FINANCIAL RATIOS

	31 DEC 2017 6 MONTHS $M	31 DEC 2016 6 MONTHS $M	30 JUN 2017 12 MONTHS $M
Earnings per share			
Net profit attributable to owners of the parent	78.3	104.4	165.8
Net profit attributable to owners of the parent	78.3	104.4	165.8
Weighted average ordinary shares outstanding during the period (number of shares)	996,852,041	995,656,441	995,651,036
	7.9 cents	10.5 cents	16.7 cents
Net tangible assets per share			
Net assets attributable to owners of the parent	2,450.3	2,448.6	2,430.6
Less total intangible assets	(1,399.8)	(1,288.9)	(1,399.6)
Total net tangible assets	1,050.5	1,159.7	1,031.0
Ordinary shares outstanding (number of shares)	999,913,110	995,645,137	995,645,987
	105.1 cents	116.5 cents	103.5 cents

7. FINANCIAL RATIOS (continued)

	31 DEC 2017 $M	31 DEC 2016 $M	30 JUN 2017 $M
Economic net debt to economic net debt plus adjusted equity ratio ("gearing ratio")			
Face value of borrowings	2,270.8	2,155.4	2,235.0
Less cash and cash equivalents	(17.9)	(187.2)	(14.9)
Economic net debt	2,252.9	1,968.2	2,220.1
Total equity	2,468.1	2,467.0	2,448.3
Adjusted for hedge reserves	44.8	48.3	49.0
Adjusted equity	2,512.9	2,515.3	2,497.3
Economic net debt plus adjusted equity	4,765.8	4,483.5	4,717.4
	47.3%	43.9%	47.1%

8. CASH FLOWS

	31 DEC 2017 6 MONTHS $M	31 DEC 2016 6 MONTHS $M	30 JUN 2017 12 MONTHS $M
Reconciliation of net profit/(loss) to net cash flows from/(used in) operating activities			
Net profit/(loss) for the period	79.0	107.1	168.9
Items classified as investing activities			
Net loss/(gain) on disposal of PPE and software intangibles	1.3	1.8	4.3
Net loss/(gain) on sale of investments	(1.1)	–	–
	0.2	1.8	4.3
Non-cash items			
Depreciation and amortisation	109.6	97.2	199.6
Non-cash portion of interest costs (net)	(1.5)	(1.5)	(3.8)
Fair value change on financial instruments	(2.8)	–	(1.6)
Associates (share of net (profit)/loss)	0.1	(1.1)	(1.6)
Increase/(decrease) in deferred tax	11.8	(12.6)	(9.1)
Increase/(decrease) in provisions	1.0	1.0	(1.3)
	118.2	83.0	182.2
Cash items not impacting net profit/(loss)			
Dividend received from associate	–	1.5	2.0
Changes in assets and liabilities			
Trade and other payables	30.4	8.5	8.2
Inventories	(1.6)	(1.0)	(2.0)
Trade and other receivables	(8.5)	(2.0)	(11.2)
Income tax	18.3	27.3	(16.7)
	38.6	32.8	(21.7)
Net cash flows from/(used in) operating activities	236.0	226.2	335.7

9. 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 December 2016: $60.1 million, 12 months ended 30 June 2017: $120.2 million).

Associate dividend

During the period, no dividends were received from Tree Scape Limited which is an associate of the group (six months ended 31 December 2016: $1.5 million, 12 months ended 30 June 2017: $2.0 million).

Outstanding balances

At 31 December 2017, the group has no material outstanding balances due to or from related parties of the group (31 December 2016: nil, 30 June 2017: $0.2 million).

10. CONTINGENT LIABILITIES

Disclosures

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

No material contingent liabilities have been identified.

11. EVENTS AFTER THE END OF THE PERIOD

Sale of financial asset

On 23 February 2018, the group executed the unconditional sale of its 22.11% shareholding in NZ Windfarms Limited, an NZX listed entity. The sale transaction settled on 27 February 2018 for total consideration of $6.4 million.

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 27 February 2018.

Interim dividend

On 27 February 2018, the board declared an interim dividend for the year ended 30 June 2018 of 8.25 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
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 Emerging Technologies
Dan Molloy // Chief Financial Officer
Nikhil Ravishankar // Chief Digital Officer
Rod Snodgrass // Chief Customer Officer

ASSOCIATES AND JOINT VENTURES

	PRINCIPAL ACTIVITY	PROPORTION HELD		
		31 DEC 2017	31 DEC 2016	30 JUN 2017
Associates				
Tree Scape Limited	Vegetation management	50%	50%	50%
Joint Venture				
Kapuni Energy Joint Venture	Cogeneration	50%	50%	50%

FINANCIAL CALENDAR 2018

Record date for the interim dividend	28 March
Interim dividend paid	11 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

2018 //

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**

REGISTERED OFFICE

Vector Limited
101 Carlton Gore Road
Newmarket
Auckland 1023
New Zealand

Telephone 64-9-978 7788
Facsimile 64-9-978 7799
www.vector.co.nz

POSTAL ADDRESS

PO Box 99882
Newmarket
Auckland 1149
New Zealand

INVESTOR ENQUIRIES

Telephone 64-9-213 5179
Email: investor@vector.co.nz

SHARE REGISTRAR

Computershare Investor Services Limited
Level 2, 159 Hurstmere Road
Takapuna
Private Bag 92119
Auckland 1142
New Zealand
Telephone 64-9-488 8777

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