VECTOR://

THE FUTURE

IS

ELECTRIFYING

IR 2019

Vector

WE'RE GOING ELECTRIC

Consumers are choosing how they use energy. At work, at play.

They are embracing more choice over how they get around, e-scooters, e-skateboards, e-bikes, electric vehicles (EVs), electric trains. You name it, choice is constantly accelerating.

The way we move around is electrifying right before our eyes.

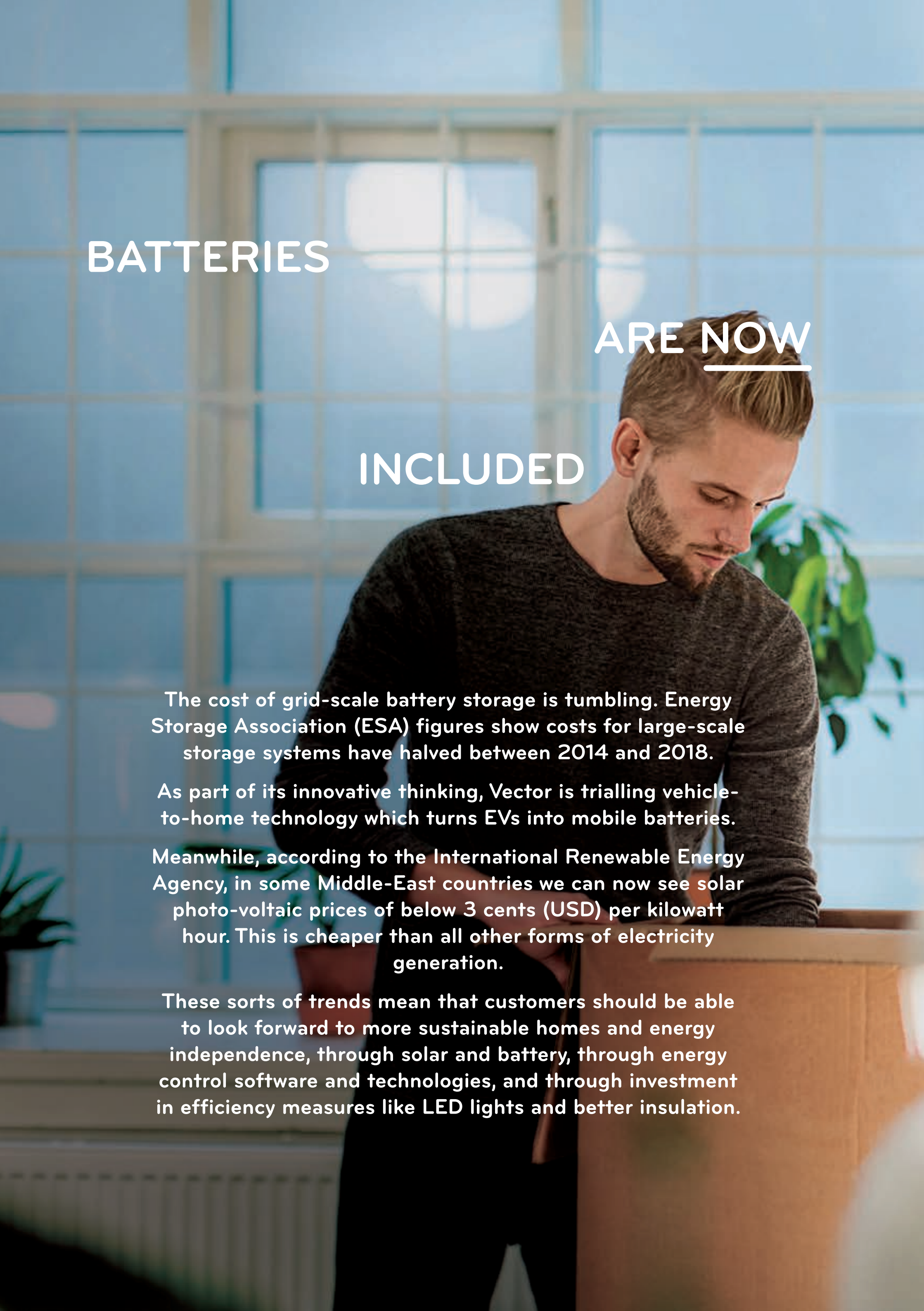

JAGUAR NEW ZEALAND
EV
JAGUAR.CO.NZ


BUT THE CLIMATE
IS ALSO
CHANGING

The electrification of transport is another significant example of an energy transition, driven by consumer preference and by the urgent need to decarbonise our economy and minimise the growing impact of climate change on New Zealand.

It means New Zealand must find a less carbon-intensive energy supply. It means consumers will insist on having more control and choice. It means long-term city and energy infrastructure planning must become more integrated. And it means new technologies and new market entrants will arrive, keen to disrupt the status quo on behalf of consumers by putting more power in their hands, just as they have done in other industries.

Change is already happening. The number of EVs has been roughly doubling every year. By June 2040, the Ministry of Transport estimates EVs will make up 40% of New Zealand's fleet. Now add in e-scooters, e-bikes, e-skateboards, and whatever the future will bring.



BATTERIES ARE NOW INCLUDED

The cost of grid-scale battery storage is tumbling. Energy Storage Association (ESA) figures show costs for large-scale storage systems have halved between 2014 and 2018.

As part of its innovative thinking, Vector is trialling vehicle-to-home technology which turns EVs into mobile batteries.

Meanwhile, according to the International Renewable Energy Agency, in some Middle-East countries we can now see solar photo-voltaic prices of below 3 cents (USD) per kilowatt hour. This is cheaper than all other forms of electricity generation.

These sorts of trends mean that customers should be able to look forward to more sustainable homes and energy independence, through solar and battery, through energy control software and technologies, and through investment in efficiency measures like LED lights and better insulation.

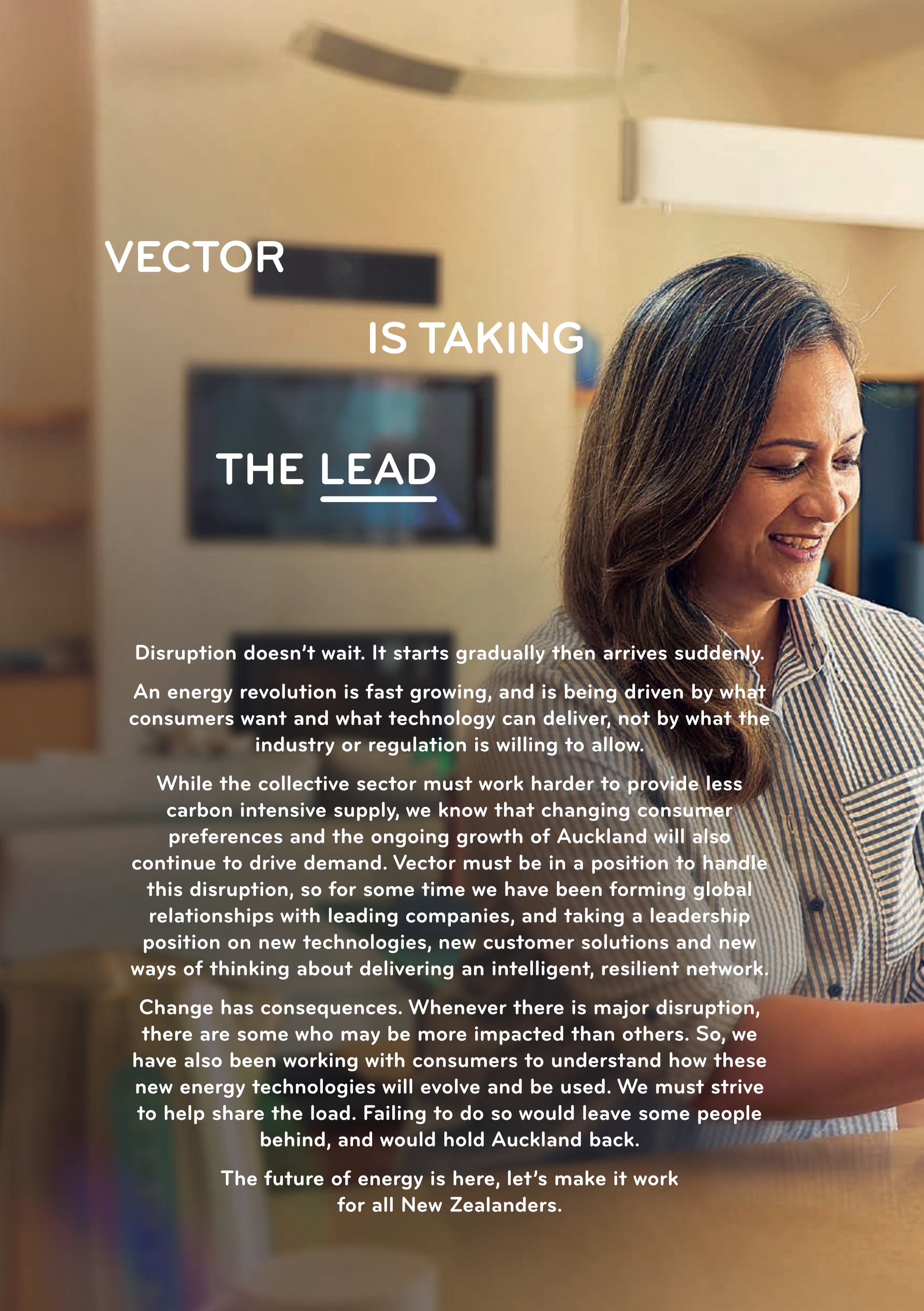
IT'S TIME FOR NEW RULES

As a diversified energy group and a leader in new energy solutions, as well as the custodians of the country's largest energy distribution platform that underpins this, our job is to enable the transition to a new energy future to meet the needs of future generations, whilst growing sustainably.

Our network must become even smarter, to cope with new types of generation, new capabilities of technology and the ever-changing preferences of customers. We must empower customers to control where and when they charge their e-scooter, their e-bike or their EV. We must keep everyone connected as stronger and more unpredictable weather challenges New Zealand's infrastructure. We must support the relentless growth of Auckland city.

The wider sector must become more responsive to all these forces also. As a country, we cannot continue to import coal to plug gaps between supply and demand. We cannot continue to remain so dependent on hydro storage when drought risk is increased by climate change.

It's time for bolder action, on all sides. The pending Interim Climate Change Commission report will help guide how New Zealand can make the transition to 100% renewable energy, while the current Government electricity sector review is a huge opportunity to put the right incentives in place to reshape the industry for the benefit of consumers and to set new rules for new times.



VECTOR IS TAKING THE LEAD

Disruption doesn't wait. It starts gradually then arrives suddenly.

An energy revolution is fast growing, and is being driven by what consumers want and what technology can deliver, not by what the industry or regulation is willing to allow.

While the collective sector must work harder to provide less carbon intensive supply, we know that changing consumer preferences and the ongoing growth of Auckland will also continue to drive demand. Vector must be in a position to handle this disruption, so for some time we have been forming global relationships with leading companies, and taking a leadership position on new technologies, new customer solutions and new ways of thinking about delivering an intelligent, resilient network.

Change has consequences. Whenever there is major disruption, there are some who may be more impacted than others. So, we have also been working with consumers to understand how these new energy technologies will evolve and be used. We must strive to help share the load. Failing to do so would leave some people behind, and would hold Auckland back.

The future of energy is here, let's make it work for all New Zealanders.

HALF YEAR SNAPSHOT

FINANCIAL HIGHLIGHTS

Net profit

$83.3M

Group net profit increases 5.4%

Adjusted EBITDA

$264.7M

Adjusted EBITDA increases 5.9%[1]

Capital expenditure

$201.1M

Capex increases 10.1%

Regulated Networks adjusted EBITDA

$198.7M

Up 3.1%[1]

Interim dividend

8.25 CENTS PER SHARE

Fully imputed

Gas Trading adjusted EBITDA

$20.7M

Up 12.5%[1]

Network connections

5,160
New electricity connections

1,669
New gas connections

Technology adjusted EBITDA

$72.9M

Up 12.7%[1]

1. Includes NZ IFRS 15 and 16 accounting changes. See page 21 for more details.

BUSINESS HIGHLIGHTS

Vector Urban Forest launched in September 2018, planting more than 15,000 trees

Deloitte Energy Excellence Award achieved for Health & Safety at OnGas Bottle Swap plant

On 31 December 2018, Vector Lights lit up the first major city in the world to welcome in the new year

New Outage Centre now in operation, supported by new Cyber Security Operations Centre

Commissioned new grid-scale batteries in Warkworth and Snells Beach

Continued smart meter growth in New Zealand and Australia

First New Zealand business to receive the Accessibility Tick

Safety Always:

TRIFR decreased by 17%

LTIFR decreased by 59%

CONTINUED PROGRESS TOWARDS A NEW ENERGY FUTURE

Simon Mackenzie
GROUP CHIEF EXECUTIVE

Dame Alison Paterson
CHAIR

Vector's financial results for the six-months to 31 December 2018 demonstrated growth across all business segments within the Group, with much of this growth fuelled by the continued expansion of Auckland's city and population.

The six-month period also saw ongoing change as the macro trends that Vector has long been anticipating, and in many cases leading, continued to play out. This is within an industry that, historically, has been slow to adapt to change and has significant vested interests and legacy assets to protect. Vector has stood apart from others and has been working hard to stay ahead of the curve and lead. As a result, we have been thinking about and investing in customer choice and new technology and associated trends in the energy sector for over a decade now.

The energy and transport sectors are rapidly converging.

The electricity and transport sectors are rapidly converging. Not only does New Zealand have more electric vehicles (EVs) on our roads by the day, but also the popularity of e-bikes is booming, and we have even seen the mass introduction of e-scooters in several cities as a further sign of potential transport disruption to come. To support the expected growth in EVs, Vector has released a how-to guide to make it easier for tenants and residents of business, commercial and apartment buildings. Vector's 'Connecting Electric Vehicle Chargers' guide offers best-practice advice for installing EV chargers – including making sure that chargers are compatible with a wide range of EVs now and into the future.

The showcasing of the possibilities of new and sustainable technology is important. This was one of the main reasons why Vector, in partnership with Auckland Council, delivered Vector Lights on Auckland Harbour Bridge to the city. It was pleasing to see international media coverage of Auckland's New Year's Eve celebration with Vector Lights providing a brilliant visual back-drop to the first major city in the world to welcome in 2019.

Through the internet of things, cities and infrastructure networks are becoming smarter and more connected to each other and to distributed devices and objects. More of this digital and infrastructure 'intelligence' will be needed to help manage the challenges of the volatile and unpredictable weather that climate change is now creating. This is one of the reasons why Vector has been investing in the co-development of an intelligent utility networking system of systems, known as DERMS (Distributed Energy Resource Management System), to help manage and optimise the inevitable growth in solar, battery, EVs and other distributed energy sources and network connected devices.

Auckland continues to grow relentlessly. Meanwhile new digital and energy technologies are disrupting sector economics and offering viable alternatives to the old-fashioned 40-year infrastructure assets that in previous decades would have been needed to accommodate Auckland's rapid growth. This will help reduce the potential burden on future generations created by unnecessary costs or obsolescent infrastructure.

And, most importantly, consumers are demanding more empowerment over how, where and when they use energy, and have ever-higher expectations around the service they receive and the contributions that companies make to critical issues. Vector has been taking the lead on sustainability for many years because it's the right thing to do, because it is becoming more and more urgent to address, and because increasingly, our customers expect us to. We also believe leadership in sustainability is good for business, providing us with better visibility of the potential role of the new and more sustainable energy technologies in driving commercial benefit and material value.

These are the macro trends that have underpinned our strategic thinking around diversification and investment, and these are the trends that contributed to our solid financial results for the six months to 31 December 2018.

Looking at the half-year 2019 financials, adjusted earnings before interest, tax, depreciation and amortisation (Adjusted EBITDA) for the six months to 31 December 2018 were $264.7 million, up $14.7 million (5.9%) on last year's result.

The headline adjusted EBITDA result includes an uplift due to certain accounting changes[1]. Excluding these accounting changes, comparable adjusted EBITDA was up $10.0 million (4.0%) on the previous corresponding period.

Each business segment recorded an uplift in adjusted EBITDA relative to the prior period. Regulated business earnings were up $6.0 million (3.1%) largely due to higher electricity volumes because of continued Auckland residential growth and a colder winter compared with the last year. Gas Trading earnings were up $2.3 million (12.5%) as a result of higher production levels at the Kapuni gas treatment plant and cost efficiencies from the new Bottle Swap plant in South Auckland.

Earnings in the Technology segment grew $8.2 million, or 12.7%, mainly because of continued growth in smart meter deployments in New Zealand and Australia. Within this segment, E-Co Group has experienced some market and operational headwinds, and as a result has underperformed against our expectations. To address this, a new CEO and new management team have been recruited,

1. As at 1 July 2018, Vector has adopted new standards for revenue from contracts and lease accounting (NZ IFRS 15, 16) and changed the way in which we account for gains/losses on disposal of fixed assets. For more information, and a breakdown of NZ IFRS changes by segment see page 21.

who have been repositioning the business to meet the growing demand for heating, ventilation and air-conditioning solutions.

Group net profit was up 5.4% to $83.3 million from $79.0 million in the prior period. This was largely due to higher earnings and an increase in capital contributions, partially offset by an increase in depreciation and amortisation as well as non-cash movements within costs of finance.

Capital expenditure increased 10.1% to $201.1 million from $182.7 million in the prior period. This was driven by an increase in Australian smart meter deployment and network capital expenditure to support the ongoing growth in Auckland.

As mentioned at the annual shareholder meeting in November 2018, since the major storm in April 2018, Vector has been upgrading the foundations of its outage management systems, processes and tools to improve the customer experience. In addition, we have been working closely with retailers and other key stakeholders, such as Civil Defence, to improve essential information access and data coordination. We have also increased our vegetation management efforts, and have continued to upgrade and maintain our existing network assets.

While this programme of work has (thankfully) yet to be tested with a weather event of similar magnitude to the one experienced in April last year, the painful lessons we have learnt have also seen a comprehensive overhaul of the underlying systems and processes that feed into customer tools. A new and improved Outage Centre customer tool is now in operation, supported by a new Cyber Security Operations Centre, and we expect to see continuous improvements to the way in which our customers can access information during outages.

That said, as an organisation that is increasingly focused on customer experience across our entire Group, we know we still have a great deal of work to do. Further, we see customer experience as an increasingly critical part of our investment thinking, and have developed deeper insights into what customers prefer and expect, and how they want to be able to engage with us across our products and services. We welcome the focus from the Electricity Pricing Review panel on ensuring wider access to network metering data on reasonable terms.

We have also invested in our people and our culture, to ensure we deliver on service expectations, and try to put ourselves in the shoes of our customers at all times. Our customer and staff research reveals that we are continuing to head in the right direction.

In governance matters, long-serving Chairman Michael Stiassny stepped down at November's annual shareholder meeting, David Bartholomew and Sibylle Krieger stepped down as independent directors in the same month, and Entrust trustee Mike Buczkowski joined the Board as a non-independent director, replacing outgoing Trustee James Carmichael. The Board remains committed to the long-term strategic direction of Vector, and has initiated an independent skills-based review and a new director search to ensure the right skills and composition of the Board are in place for Vector's future.

The six months has also seen the commencement of the signalled Government review of the electricity sector which, along with the pending Interim Climate Change Commission report, will help guide New Zealand's transition to 100% renewable energy. Given the macro trends at play, it is timely the Government has this once-in-a-decade opportunity to incentivise investment in the new energy technologies that will help empower customer choice, help solve big market challenges, and help promote more innovation and competition.

It can set new ground rules for the sector that will maximise benefits for the next generation of energy consumers, promote equitable outcomes, as well as help enable New Zealand's sustainability ambitions. We also believe it's an opportunity to recognise the infrastructure demands of high growth areas such as Auckland. We need the right policy settings and investment incentives to ensure high growth and evolving energy needs are met.

It won't be easy. While New Zealand has long prided itself on its electricity market, it's clear there are major challenges emerging. Today, our wholesale electricity market is extraordinarily volatile, which exposes retailers without generation capability to significant difficulties. We have limited hydro storage. There is coal being imported to plug the generation gap between supply and demand. We have seen gas production constraints. We have uncertain incentives around technology investment. We have relatively slow uptake of solar, battery and EVs compared with many other countries. And according to the Government, customers are paying more for their energy than ever amidst concerns over energy affordability.

That said, the Electricity Pricing Review Panel's Options Discussion paper published in late February this year is largely encouraging. It favours options that reflect the importance of new technology, greater resilience and improved customer choice, as well as options that improve market transparency and address practices that may stifle competition or unfairly penalise some consumers. As the review is finalised, we also hope to see an even greater focus on options that improve energy efficiency, and, most importantly, address problems experienced in the wholesale market.

The extraordinary wholesale electricity market volatility was especially noticeable late last year, when wholesale prices appeared to be significantly out of kilter with market conditions. In December, Vector joined an Undesirable Trading Situation submission by a group of independent retailers, asking the Electricity Authority (EA) to look more closely at the wholesale market. We did this because we believe it is not in the interests of consumers to see innovative new retailers being squeezed out of the market. We think that's an outcome which is bad for consumers, and bad for competition.

Just as importantly, we are nearing the next reset of regulated pricing and quality standards for the electricity distribution sector, scheduled to take place in 2020. What is increasingly clear is that, given the pace of change, the existing regime for quality control, last reset in 2015, no longer reflects the reality of the changed operating environment, particularly in relation to health and safety legislation and the impact of Auckland growth. Therefore, we will continue to work constructively with the Commerce Commission on the new quality standards scheduled to take effect on 1 April 2020, following the regulatory reset process.

The electricity sector is not alone in facing the need to have fit-for-purpose regulation that can meet the difficult challenges presented by rapid technological disruption, volume growth or changing consumer preferences. Many other sectors and their associated regulatory bodies, such as telecommunications, aviation, petrol and banking, are grappling with the same issues.

In other matters, Vector welcomed the High Court's decision in December on a judicial review of the long-standing Utilities Disputes Limited case. We pursued this because network infrastructure providers, and their customers, would have been potentially significantly impacted by the precedent created by the original decision of the Utilities Disputes Commissioner. This common-sense decision provides a framework for a more certain outcome in these sorts of scenarios, and ensures infrastructure providers can continue to focus their efforts on all their customers.

We also hope to see genuine progress this year on updating tree management regulation which is already significantly overdue. Updated regulation has been under consideration by the Ministry of Business, Innovation and Employment for several years now, and the April 2018 storm in Auckland provided a sharp reminder of the challenges created when trees near power lines are not adequately managed by owners.

To play our part, we increased the amount we allocate for vegetation management, and in September 2018 launched a new programme to raise awareness of the need to have the right trees in the right places, by planting thousands more. The Vector Urban Forest initiative means we will replace every tree we must cut down for network management or safety purposes, with two new natives, planted in areas that help with local ecological restoration schemes.

Looking ahead to the remainder of FY19, the guidance given in August for adjusted EBITDA remains appropriate. As noted at the time, this guidance did not include the impact of adopting NZ IFRS 15 and 16, which, together with other minor accounting changes, are expected to impact FY19 adjusted EBITDA by approximately $10 million. Our guidance range, adjusted for the impact of these accounting changes, is therefore $480 - $490 million. Our result in the first half of the year benefited particularly from strong electricity volumes. Should this continue in the second half of the year, we would expect the FY19 result to be towards the top end of our guidance range.

Looking further ahead, Vector's future earnings and ability to pay ongoing increasing dividends could be significantly influenced by the reset of our electricity network revenues for the period 1 April 2020 to 31 March 2025 which is known as the Default Price Path 3 (DPP3).

The Commerce Commission has now largely confirmed the methodology that will apply to this reset. The key remaining variables are the five-year New Zealand Government bond rate during June, July and August 2019 (which is used to set the regulated Weighted Average Cost of Capital for DPP3) and the network expenditure allowances and quality targets that will apply to DPP3. The Commerce Commission expects to announce its draft decision on 31 May 2019 with a final decision due on 28 November 2019. We will provide a further update when we release our full year results. In accordance with our dividend policy, we will review our dividend approach once the parameters for DPP3 have been confirmed.

Regardless, Vector will need to progress its transformation and continue to show leadership on technology, resilience and the provision of customer choice. We are certain that the industry will continue to be disrupted and the impacts of climate change will increasingly be felt. Vector will need to not only stay ahead of the curve, but also to continue to balance the needs of customers today with those of the next generation.

Our vision is for Vector to create a new energy future for New Zealand. A future where customers are fully empowered and have control and choice over where, when and how they use energy. A future where all consumers get the benefits of new energy technologies, not just the more advantaged. We want Vector to attract the best talent in New Zealand and contribute more than our fair share to a more sustainable, more equitable energy system. We want all our people and the public to remain safe around energy.

Dame Alison Paterson
Chair

Simon Mackenzie
Group Chief Executive

REGULATED NETWORKS

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HIGHER ELECTRICITY VOLUMES DRIVEN BY CONTINUED AUCKLAND RESIDENTIAL GROWTH AND A COLDER WINTER.

Regulated Network's adjusted EBITDA for the six months to 31 December 2018 was up \$6.0[2] million (3.1%) to \$198.7 million against the prior half-year. This adjusted EBITDA uplift was largely driven by higher electricity volumes because of continued Auckland residential growth and a colder winter compared to the prior year, partially offset by higher maintenance costs. The increase in maintenance costs was largely due to additional expenditure focused on improving network reliability and reducing SAIDI.

Revenue increased 2.6% to \$403.1 million, driven by the release of accumulated Loss Rental Rebates[3] and an increase in capital contributions, which were up 21.9% to \$41.2 million, this reflected continued connection growth and significant infrastructure development taking place across Auckland.

Underlying revenue (net of contributions, Loss Rental Rebates and pass-throughs) was up \$7.3 million with an increase in connections and a colder winter. This was partially offset by a decline in gas revenue of \$2.0 million, primarily because of the regulatory gas price reset from 1 October 2017.

New electricity connections fell 15.3% to 5,160 from 6,090, but remain elevated relative to historical levels. New gas connections increased 0.8% to 1,669 from 1,656. Total electricity connections stood at 567,009, up 1.3% from 559,777 the previous year. Total gas connections were 110,489, up 2.0% from 108,270 a year ago.

Volumes transported across the electricity network rose 0.9% to 4,390 GWh from 4,352 GWh in the prior year. Average household consumption on our network appears to have stabilised after more than a decade of decline. Auckland gas distribution volumes were flat at 7.7 PJ.

Regulated capital expenditure increased by 4.5% to \$125.0 million, with most of the increase in capital expenditure due to Auckland growth and infrastructure development. Net of capital contributions, regulated capital expenditure remained relatively flat. Notable projects completed during the period included two grid-scale batteries in Warkworth and Snells Beach, as well as additional generator purchases for supporting outage management.

During the period, Vector reached a settlement with the Commerce Commission concerning breaches to the electricity network quality standards that occurred in 2015 and 2016. ■

2. For the breakdown of NZ IFRS changes by segment see page 21.
3. This represents the accumulation for the six-month period ending 31 December 2018. These Transpower receipts have been released to Other income and a provision for payment is reflected in Other expenses.

Proceedings relating to network outages brought against Vector by the Commerce Commission

Vector is aware of media reports regarding the proceedings that have been brought against it by the Commerce Commission under the Commerce Act, for breaches of its quality standards. Some reports suggested Vector's breaches were caused solely by its decision to change its health and safety practices to avoid work on 'live lines', and that the Commission had ignored this in deciding to bring proceedings. These reports are incorrect and the Commerce Commission has asked us to acknowledge that Vector would have breached its quality standard in the relevant years regardless of its changes to 'live line' practices. The Commerce Commission in December 2018 stated that its decision to pursue enforcement proceedings against Vector was not based on Vector's policies for de-energising of lines for safety reasons.

A penalty hearing in relation to these proceedings is scheduled for 6 March 2019.

GAS TRADING

Gas Trading's adjusted EBITDA was up strongly by 12.5% to $20.7[4] million from $18.4 million a year earlier, the result benefiting from higher production at the Kapuni Gas Treatment Plant, increased LPG sales and improved cost efficiencies at the new 9kg Bottle Swap processing plant.

That said, this growth is not expected to carry into the second half of the year, due to the loss of a large natural gas customer and rising gas costs.

The natural gas business experienced challenging market conditions during the period. While Kapuni field production was up 14.6% to 5.5PJ, natural gas volumes fell 9.4% to 8.7 PJ as a result of planned and unplanned gas field outages that reduced supply and provided for unprecedented market conditions. Consequently, some of our customers faced significant disruption, and we worked hard to help them mitigate their exposure.

The issues related to gas constraints have raised a number of unresolved questions regarding the transparency of the market.

Our LPG business performed strongly in the first half of the year. Gas liquid sales were up 8.0% to 44,020 tonnes. While Bottle Swap growth is now slowing (volumes up 1.8% on the prior period), we are now benefiting from cost efficiencies at the new plant. LPG tolling volumes were down 8.3% to 81,718 tonnes due to a lack of exports over the period. ■

BUSINESS REVIEW //

INCREASED CAPACITY AT ONGAS BOTTLE SWAP PLANT SUPPORTING SUMMER DEMAND FOR GAS.

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4. For the breakdown of NZ IFRS changes by segment see page 21.

TECHNOLOGY

The Technology segment's revenue increased 2.3% to $137.0 million from $133.9 million a year earlier driven largely by greater deployment of smart meters. This also contributed to the increase in adjusted EBITDA for the Technology segment, which rose 12.7% to $72.9[5] million.

Our smart meter fleet grew 11.3% to 1.48 million over the period, including nearly 110,000 smart meters in Australia. We installed more than 45,000 advanced meters in Australia over the first six months of the financial year, and our New Zealand smart meter fleet increased by almost 30,000 (net of replacements).

The metering business in New Zealand was augmented by the acquisition in September 2018 of Vircom, a nationwide provider of field services for commercial and residential smart meters. This business complements our existing metering capabilities and enables us to provide a full-service nationwide metering capability to our customers.

While Vector Communications delivered a steady result, our New Energy Solutions business has had a mixed performance in the first half.

PowerSmart is performing well, with a strong pipeline of projects across New Zealand and the Pacific.

However, E-Co Products (trading as HRV), Vector's channel to market for healthy and energy efficient home solutions, has faced headwinds. Over the last 12 months we have made several changes; these include closing the HRV retrofit windows business, launching a residential solar offering and more recently, appointing a new CEO, Colin Daly, who joined us in September 2018. While it has underperformed to expectation, we are optimistic that this business unit is well positioned to grow, especially given its strong product mix, the desire of consumers for choice and control and the Government's focus on healthy and energy efficient homes. ■

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INSTALLATION OF ONE OF POWERSMART'S PROJECTS, AT THE NEW ZESPRI HQ IN MOUNT MAUNGANUI.

5. For the breakdown of NZ IFRS changes by segment see page 21.

ACCOUNTING CHANGES

From 1 July 2018, Vector has adopted two new accounting standards (NZ IFRS 15 *Revenue from Contracts with Customers* and NZ IFRS 16 *Leases*[6]) and made a change to the way in which we account for the disposal of fixed assets.

Of the two accounting standards, NZ IFRS 16 poses the most significant financial impact in both the balance sheet and the profit and loss statement. NZ IFRS 16 requires that the value of the outstanding liability for leases is calculated using Vector's incremental borrowing rate at the date of transition[7]. The right of use asset is then recognised and measured at a value equalling the lease liability, adjusted for lease incentives recorded on the balance sheet. Under the modified retrospective approach, the H1 2018 comparatives are not restated.

Vector's right of use asset value is driven predominantly by property leases. This includes leases for offices, warehouses, data rooms, and buildings.

The key impact in the profit and loss statement is a reduction in the amount of operating expense reported, offset by an increase in interest and depreciation. The impact for the six months ending 31 December 2018 is a reduction to operating expenses of $4.0 million and an increase to depreciation of $3.5 million and interest cost of $1.0 million.

The impact of NZ IFRS 15 is an increase in revenue of $0.6 million.

In addition to the adoption of NZ IFRS 15 and 16, Vector has also reassessed the presentation of gains and losses on disposal of fixed assets within our statement of profit and loss.

Historically, disposal losses have been included within 'Operating Expenses'. Disposal losses are also included within the Group's non-GAAP profit measures of EBITDA and adjusted EBITDA.

From 1 July 2018, we have included disposal gains and losses with Depreciation and Amortisation. In the six months ending 31 December 2018, $1.4 million of disposal losses has been reclassified from Operating Expenses to Depreciation and Amortisation. The H1 2018 comparatives have not been restated[8]. ■

IMPACT OF NZ IFRS CHANGES ON H1 2019 ADJUSTED EBITDA $M

Segment	NZ IFRS 15	NZ IFRS 16	Total
Regulated Networks	0.6	0.6	1.2
Gas Trading	–	0.7	0.7
Technology	–	2.0	2.0
Corporate	–	0.7	0.7
Total	**0.6**	**4.0**	**4.6**

6. We have adopted the modified retrospective approach.
7. Both standards are effective from 1 July 2018.
8. Prior year comparative value was $0.1m.

PEOPLE, SAFETY & RISK

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VECTOR WON THE 2018 DELOITTE ENERGY EXCELLENCE HEALTH & SAFETY AWARD FOR THE PAPAKURA BOTTLE SWAP PLANT.

Vector takes a comprehensive, Group-wide and future-focused approach to fostering and protecting the things that are already of, or we believe can create, material value for the business, including people, communities, assets and the environment.

This means we strive to understand the macro forces in which we operate and the value drivers and enablers for our people, business, stakeholders and customers. And we believe Vector has a responsibility to lead, not follow, in acting and advocating for the things that matter.

The six months to 31 December 2018 saw continued business leadership. In October 2018, Vector was recognised as the first New Zealand business to receive the Accessibility Tick. The Accessibility Tick is a public recognition of an organisation's ongoing commitment to becoming accessible and inclusive of people with disabilities. We did this because we believe diverse, inclusive and accessible workplaces results in a more successful business and can help attract talent.

In October 2018, Vector also introduced new enhancements to our parental leave policy which aim to reduce the financial burden for new parents and provide extra time off for employees to support their partners. As part of this we are offering to top up the Government Primary Carers payments to support new parents.

Vector continues to work with young women to promote interest in Science, Technology, Engineering and Maths (STEM) careers. In the first half of the financial year we supported initiatives including ShadowTech, Rosie Revere Engineer and entered into a sponsorship agreement with GirlBoss New Zealand. The sponsorship involves funding ten workshops in secondary schools and introduces a sustainability award category to the GirlBoss New Zealand Awards which recognises the achievements of trailblazing young women.

Vector Urban Forest, an initiative to encourage planting away from power lines, was launched in September 2018 with the planting of over 15,000 trees at Puhinui Reserve in Auckland. As part of this programme, Vector has committed to planting two trees for every tree removed for network purposes.

To address the issue of end-of-life lithium ion batteries we have convened a Battery Leaders Group to identify circular solutions for large batteries. In November 2018, a workshop was held with stakeholders across the automotive, energy and waste industries to explore future scenarios for maximising the value of second-life batteries.

In safety, a continued focus over the six months saw Total Recordable Injury Frequency Rates (TRIFR) decrease by 17%. Lost Time Injury Frequency Rates (LTIFR) reduced by 59%.

In October 2018, Vector was successfully reaccredited to AS/NZS 7901, which is a standard that covers our health and safety processes and performance around public safety regarding our gas and electricity assets. Vector will reaccredit to AS/NZS 4801 for our health and safety systems and performance and to ISO 14001 for our environmental systems and performance.

We have also changed the way we record and collect information about injuries, even pre-existing ones. For example, OnGas deliveries involve a high degree of manual handling of gas bottles. We now have a far better insight into the nature and type of strains and sprains and have implemented a nationwide triage process to ensure treatment starts as early as possible.

In August 2018, Vector won the Deloitte Energy Excellence 2018 Health & Safety Initiative of the Year Award for the Papakura Bottle Swap plant – a greenfield development of a state of the art facility which was the first plant in New Zealand to be accepted as a major hazards facility under the safety case regime.

Vector remains one of a small number of businesses that is Living Wage accredited. We have also continued to proactively address pay equity, analysing average hourly pay rates across the company as well as across role types and role seniority. A small number of pay equity issues were identified and have now been addressed. ■

IN SEPTEMBER 2018, VECTOR PLANTED MORE THAN 15,000 NEW TREES TO LAUNCH ITS URBAN FOREST INITIATIVE.

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OPERATING STATISTICS
For the six months ended 31 December

	2018	2017
ELECTRICITY		
Customers[1, 5]	567,009	559,777
New connections	5,160	6,090
Net movement in customers[2]	3,933	54,677
Volume distributed (GWh)	4,390	4,352
Networks length (km)[1]	18,783	18,607
SAIDI (minutes)[3]		
Normal operations[4]	156.7	168.0
Extreme events	361.4	0.0
Total	518.1	124.8
GAS DISTRIBUTION		
Customers[1, 5]	110,489	108,270
New connections	1,669	1,656
Net movement in customers[2]	1,260	1,600
Volume distributed (PJ)	7.7	7.7
GAS TRADING		
Natural gas sales (PJ)[6]	8.7	9.6
Gas liquid sales (tonnes)[7]	44,020	40,752
9kg LPG bottles swapped[8]	358,208	351,962
Liquigas LPG tolling (tonnes)[9]	81,718	89,147
TECHNOLOGY		
Electricity: smart meters[1, 10]	1,480,851	1,333,208
Electricity: legacy meters[1]	81,170	91,848
Gas meters[1]	226,495	223,368

1. As at 31 December.
2. Net number of customers added during the period, includes disconnected, reconnected and decommissioned ICPs.
3. SAIDI (minutes) for the 9 months ended 31 December 2018 is an unaudited value and subject to change.
4. Normal operations SAIDI includes the impact of 7 Major Event Days at the cap of 3.37 SAIDI minutes for each event.
5. Billable ICPs.
6. Excludes gas sold as gas liquids as these sales are included within the gas liquids sales tonnages.
7. Total of retail and wholesale LPG and natural gasoline. Includes wholesale volumes from Kapuni and retail volumes via Ongas. Product sold from Kapuni to Ongas is counted twice for the purpose of this metric.
8. Number of 9kg LPG bottles swapped and sold during the year.
9. Product tolled in Taranaki and further tolled in the South Island is counted twice for the purposes of this metric.
10. The number of smart meters deployed as at 31 December 2018 includes 146,062 meters managed but not owned by Vector (31 December 2017: 118,961).

Total income

$688.6M

Rises 1.8% on the previous corresponding period

Operating cash flow

$219.1M

Falls 7.2% on the previous corresponding period

FINANCIAL PERFORMANCE

$ MILLION	31 DEC 2018 6 MONTHS	31 DEC 2017 6 MONTHS	CHANGE	30 JUN 2018 12 MONTHS
Total income	**688.6**	676.2	1.8%	1,328.4
Adjusted EBITDA	**264.7**	250.0	5.9%	470.1
Adjusted EBIT	**144.8**	140.4	3.1%	244.2
Net profit	**83.3**	79.0	5.4%	149.8
Operating cash flow	**219.1**	236.0	(7.2%)	389.9

FINANCIAL POSITION

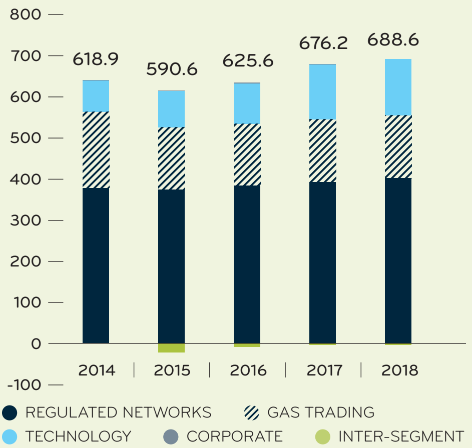
$ MILLION	31 DEC 2018	31 DEC 2017	CHANGE	30 JUN 2018
Total equity	**2,451.1**	2,468.1	(0.8%)	2,457.9
Total assets	**5,934.3**	5,668.3	4.7%	5,808.0
Economic net debt (borrowings net of cash and short-term deposits)	**2,449.3**	2,252.9	8.7%	2,337.8

KEY FINANCIAL MEASURES

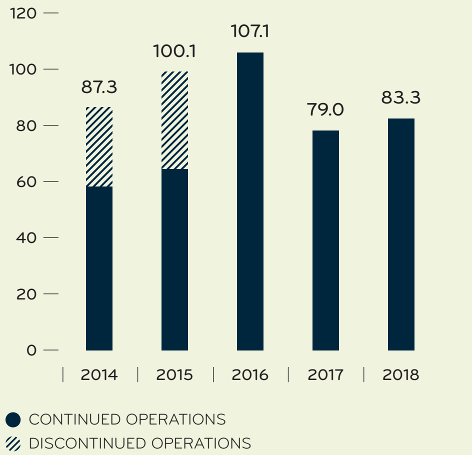
	31 DEC 2018 6 MONTHS	31 DEC 2017 6 MONTHS	CHANGE	30 JUN 2018 12 MONTHS
Adjusted EBITDA/total income	**38.4%**	37.0%	3.8%	35.4%
Adjusted EBIT/total income	**21.0%**	20.8%	1.0%	18.4%
Equity/total assets	**41.3%**	43.5%	(5.1%)	42.3%
Gearing[1]	**49.6%**	47.3%	4.9%	48.8%
Net interest cover - (adjusted EBIT/ net interest costs) (times)	**2.0**	2.1	(3.8%)	1.9
Earnings (NPAT) per share (cents)	**8.3**	7.9	5.1%	14.8
Dividends declared, cents per share (fully imputed)	**8.25**	8.25	0.0%	16.25

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

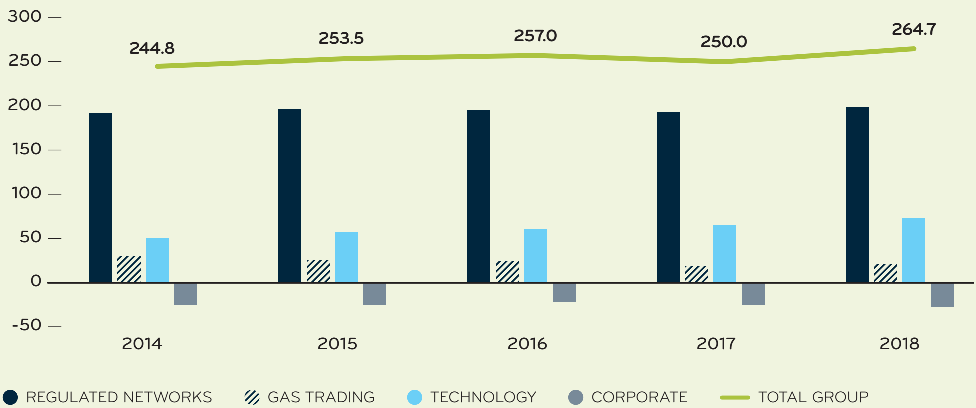
TOTAL INCOME (CONTINUING OPERATIONS)
FOR THE SIX MONTHS ENDED 31 DECEMBER
$ MILLION



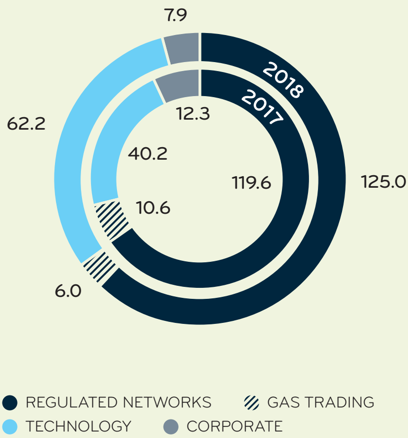
NET PROFIT (INCLUDING DISCONTINUED OPERATIONS)
FOR THE SIX MONTHS ENDED 31 DECEMBER
$ MILLION



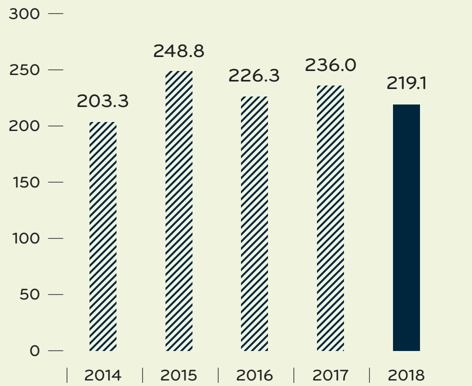
ADJUSTED EBITDA (CONTINUING OPERATIONS)
FOR THE SIX MONTHS ENDED 31 DECEMBER
$ MILLION



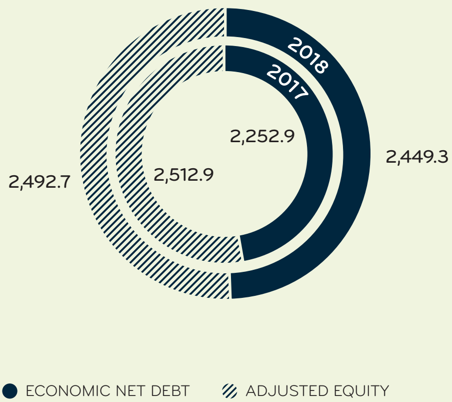
CAPITAL EXPENDITURE
FOR THE SIX MONTHS ENDED 31 DECEMBER
$ MILLION



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 2018 6 MONTHS $M	31 DEC 2017 6 MONTHS $M
Reported net profit for the period (GAAP)[1]	83.3	79.0
Add back: net interest costs[1]	71.7	66.4
Add back: tax (benefit)/expense[1]	31.3	31.9
Add back: depreciation and amortisation[1]	119.9	109.6
EBITDA	306.2	286.9
Adjusted for:		
Associates (share of net (profit)/loss)[1]	(0.5)	0.1
Fair value change on financial instruments[1]	0.2	(2.8)
Capital contributions[1]	(41.2)	(34.2)
Adjusted EBITDA	264.7	250.0

1. Extracted from reviewed financial statements.

Segment adjusted EBITDA	2018			2017		
Six months ended 31 December	REPORTED SEGMENT EBITDA	LESS CAPITAL CONTRI-BUTIONS	SEGMENT ADJUSTED EBITDA	REPORTED SEGMENT EBITDA	LESS CAPITAL CONTRI-BUTIONS	SEGMENT ADJUSTED EBITDA
Technology	72.9	–	72.9	65.1	(0.4)	64.7
Gas Trading	20.7	–	20.7	18.4	–	18.4
Unregulated segments	93.6	–	93.6	83.5	(0.4)	83.1
Regulated Networks segment	239.9	(41.2)	198.7	226.5	(33.8)	192.7
Corporate	(27.6)	–	(27.6)	(25.8)	–	(25.8)
TOTAL	305.9	(41.2)	264.7	284.2	(34.2)	250.0

CONTENTS

GROUP CONDENSED INTERIM **FINANCIAL STATEMENTS**

These group condensed interim financial statements for the six months ended 31 December 2018 are dated 25 February 2019, and signed for and on behalf of Vector Limited by:

Director 25 February 2019

Director 25 February 2019

And management of Vector Limited by:

Group Chief Executive 25 February 2019

Chief Financial Officer 25 February 2019

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 32 to 48 do not:

i. present fairly in all material respects the Group's financial position as at 31 December 2018 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 2018;
- 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.

KPMG

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

25 February 2019

	NOTE	31 DEC 2018 6 MONTHS $M	31 DEC 2017 6 MONTHS $M	30 JUN 2018 12 MONTHS $M
Revenue	4	**688.6**	676.2	1,328.4
Operating expenses	4	**(382.7)**	(392.0)	(786.8)
Depreciation and amortisation		**(119.9)**	(109.6)	(225.9)
Interest costs (net)		**(71.7)**	(66.4)	(130.7)
Fair value change on financial instruments		**(0.2)**	2.8	3.1
Associates (share of net profit/(loss))		**0.5**	(0.1)	(1.5)
Profit/(loss) before income tax		**114.6**	110.9	186.6
Tax benefit/(expense)		**(31.3)**	(31.9)	(36.8)
Net profit/(loss) for the period		**83.3**	79.0	149.8
Net profit/(loss) for the period attributable to				
Non-controlling interests		**0.7**	0.7	1.6
Owners of the parent		**82.6**	78.3	148.2
Basic and diluted earnings per share (cents)	7	**8.3**	7.9	14.8

	31 DEC 2018 6 MONTHS $M	31 DEC 2017 6 MONTHS $M	30 JUN 2018 12 MONTHS $M
Net profit/(loss) for the period	**83.3**	79.0	149.8
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	**(1.5)**	4.2	8.9
Translation of foreign operations	**(1.2)**	(0.3)	(0.3)
Items that will not be re-classified subsequently to profit or loss:			
Fair value change on financial asset	**–**	3.1	1.1
Other comprehensive income for the period net of tax	**(2.7)**	7.0	9.7
Total comprehensive income for the period net of tax	**80.6**	86.0	159.5
Total comprehensive income for the period attributable to			
Non-controlling interests	**0.7**	0.7	1.6
Owners of the parent	**79.9**	85.3	157.9

GROUP INTERIM **BALANCE SHEET**
(unaudited)

	NOTE	31 DEC 2018 $M	31 DEC 2017 $M	30 JUN 2018 $M
CURRENT ASSETS				
Cash and cash equivalents		**26.5**	17.9	27.9
Trade and other receivables		**204.6**	213.3	210.0
Derivatives	6	**–**	0.1	0.1
Inventories		**10.7**	12.9	11.6
Intangible assets		**10.4**	6.0	1.0
Income tax		**65.4**	32.7	84.7
Total current assets		**317.6**	282.9	335.3
NON-CURRENT ASSETS				
Receivables		**0.2**	–	0.1
Derivatives	6	**75.5**	45.2	56.5
Investment in associate		**8.6**	9.5	8.1
Other investments		**15.0**	23.3	15.0
Intangible assets		**1,398.0**	1,393.8	1,397.2
Property, plant and equipment (PPE)		**4,080.4**	3,913.5	3,995.7
Right of use assets (ROU)	9.1	**38.9**	–	–
Deferred tax		**0.1**	0.1	0.1
Total non-current assets		**5,616.7**	5,385.4	5,472.7
Total assets		**5,934.3**	5,668.3	5,808.0
CURRENT LIABILITIES				
Trade and other payables		**217.0**	234.1	219.1
Provisions		**13.1**	4.8	24.4
Borrowings	6, 12	**513.0**	–	224.2
Derivatives	6	**69.3**	–	65.8
Contract liabilities	2	**43.5**	37.8	39.4
Lease liabilities	9.2	**8.9**	–	–
Income tax		**0.4**	0.4	0.7
Total current liabilities		**865.2**	277.1	573.6
NON-CURRENT LIABILITIES				
Payables		**8.2**	9.9	9.1
Provisions		**23.6**	21.4	22.6
Borrowings	6	**1,966.8**	2,232.0	2,171.1
Derivatives	6	**54.9**	135.7	51.2
Contract liabilities	2	**38.0**	35.1	35.8
Lease liabilities	9.2	**31.3**	–	–
Deferred tax		**495.2**	489.0	486.7
Total non-current liabilities		**2,618.0**	2,923.1	2,776.5
Total liabilities		**3,483.2**	3,200.2	3,350.1
EQUITY				
Equity attributable to owners of the parent		**2,433.5**	2,450.3	2,440.4
Non-controlling interests in subsidiaries		**17.6**	17.8	17.5
Total equity		**2,451.1**	2,468.1	2,457.9
Total equity and liabilities		**5,934.3**	5,668.3	5,808.0
Net tangible assets per share (cents)	7	**102.5**	105.1	104.2
Gearing ratio (%)	7	**49.6**	47.3	48.8

	NOTE	31 DEC 2018 6 MONTHS $M	31 DEC 2017 6 MONTHS $M	30 JUN 2018 12 MONTHS $M
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers		691.7	693.1	1,312.2
Interest received		0.5	0.4	2.0
Dividends received		–	0.5	0.5
Payments to suppliers and employees		(399.3)	(389.0)	(736.5)
Interest paid		(72.0)	(67.4)	(127.0)
Income tax paid		(1.8)	(1.6)	(61.3)
Net cash flows from/(used in) operating activities	8	219.1	236.0	389.9
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceed from sale of PPE and software intangibles		0.2	0.1	0.4
Proceeds from sale of investments		–	–	7.8
Purchase and construction of PPE and software intangibles		(202.7)	(184.9)	(386.8)
Post-completion payment for acquisition of businesses		–	–	(1.4)
Other investments		(3.5)	(15.7)	(15.7)
Net cash flows from/(used in) investing activities		(206.0)	(200.5)	(395.7)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from borrowings	6	70.0	435.8	570.8
Repayment of borrowings	6	–	(400.0)	(400.0)
Dividends paid		(80.6)	(80.2)	(163.9)
Sale of treasury shares		–	14.0	14.0
Lease liabilities payments		(3.6)	–	–
Other financing cash flows		(0.3)	(2.1)	(2.1)
Net cash flows from/(used in) financing activities		(14.5)	(32.5)	18.8
Net increase/(decrease) in cash and cash equivalents		(1.4)	3.0	13.0
Cash and cash equivalents at beginning of the period		27.9	14.9	14.9
Cash and cash equivalents at end of the period		26.5	17.9	27.9
Cash and cash equivalents comprise:				
Bank balances and on-call deposits		18.2	9.5	19.6
Short term deposits		8.3	8.4	8.3
		26.5	17.9	27.9

	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 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
Net profit/(loss) for the period	–	–	–	–	69.9	0.9	70.8
Other comprehensive income	–	–	4.7	(2.0)	–	–	2.7
Total comprehensive income	–	–	4.7	(2.0)	69.9	0.9	73.5
Dividends	–	–	–	–	(82.5)	(1.2)	(83.7)
Total transactions with owners	–	–	–	–	(82.5)	(1.2)	(83.7)
Reclassification on sale of financial asset	–	–	–	(1.9)	1.9	–	–
Balance at 30 June 2018	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	–	–	–	–	(6.6)	–	(6.6)
Adjusted balance at 1 July 2018	880.0	(0.2)	(40.1)	(0.3)	1,594.4	17.5	2,451.3
Net profit/(loss) for the period	–	–	–	–	82.6	0.7	83.3
Other comprehensive income	–	–	(1.5)	(1.2)	–	–	(2.7)
Total comprehensive income	–	–	(1.5)	(1.2)	82.6	0.7	80.6
Dividends (refer Note 3)	–	–	–	–	(80.0)	(0.6)	(80.6)
Employee share purchase scheme transactions	–	(0.2)	–	–	–	–	(0.2)
Total transactions with owners	–	(0.2)	–	–	(80.0)	(0.6)	(80.8)
Balance at 31 December 2018	880.0	(0.4)	(41.6)	(1.5)	1,597.0	17.6	2,451.1

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 2018. 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.

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 2018 Annual Report. The interim financial statements for the six months ended 31 December 2018 and 31 December 2017 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards adopted

On 1 July 2018 the following accounting standards were adopted:

i) NZ IFRS 15: *Revenue from Contracts with Customers*

ii) NZ IFRS 16: *Leases*

NZ IFRS 15: *Revenue from Contracts with Customers*

The group has adopted NZ IFRS 15 *Revenue from Contracts with Customers*, effective from 1 July 2018, using the cumulative retrospective approach. The cumulative effect from adoption (if any) is recognised at the date of transition, which is 1 July 2018.

NZ IFRS 15 provides an entity with guiding principles on when, how, and how much revenue to recognise in an entity's financial statements in any given reporting period. The standard and its subsequent amendment replace all existing IFRS guidance for revenue recognition. The application and adoption of NZ IFRS 15 to the group's revenue streams has not had a significant impact on the group's financial performance or financial position. The group did not apply any practical expedients available in NZ IFRS 15.

Details of the new significant accounting policies under NZ IFRS 15 in relation to the group's key revenue streams are set out below.

Key revenue streams	Significant accounting policies	Impact from NZ IFRS 15 adoption
Electricity and gas distribution services	Electricity and gas distribution services are measured at fair value, to the extent that pricing is determined by the regulator in accordance with a matrix of determinations. Revenue is recognised over time using an output method. The right to payment corresponds directly with the customers' pattern of electricity and gas consumption.	None
Third party contributions	Third party contributions towards the construction of property, plant and equipment are recognised over time, reflecting the percentage completion of the underlying construction activity or the performance obligation if the activity is bundled with other distinct goods or services. A contract liability is presented on the balance sheet representing that portion of consideration received from the customer on acceptance of a contract but that the performance obligation associated with the contract is not yet satisfied. This liability was previously disclosed as a part of trade and other payables.	The timing of revenue recognition has changed for some construction contracts. The cumulative effect of $6.6 million (net of tax) from initially applying IFRS 15 is adjusted to opening retained earnings. The impact on the profit or loss is a $0.6 million increase in revenue.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Key revenue streams	Significant accounting policies	Impact from NZ IFRS 15 adoption
Sale of natural gas	The group receives revenues from customers for the provision of a continuous supply of natural gas over a time period. Revenue is recognised over time in line with the customer's consumption of natural gas and measured at the transaction price of the contract. The transaction price for a gas supply contract includes variable consideration in the form of indexed pricing, volume pricing, and take or pay arrangements. The group estimates the amount of variable considerations present in each contract using the expected value method, which is the sum of probability-weighted amounts in a range of possible consideration amounts.	None
Metering revenue	Metering revenue earned from the provision of metering services is recognised over time as the customer simultaneously receives and consumes the benefits from operations of the group's network of smart meters.	None

New standards adopted

NZ IFRS 16: *Leases*

The group has elected to early adopt NZ IFRS 16 *Leases*, effective from 1 July 2018. The group applied NZ IFRS 16 using the modified retrospective transition approach. Comparative information and opening equity are therefore not restated and continue to be reported under NZ IAS 17 *Leases* and IFRIC 4 *Determining whether an Arrangement contains a Lease*. Refer to note 9 for details of accounting policies and impact from adoption of NZ IFRS 16.

New standard effective and previously adopted

NZ IFRS 9: *Financial Instruments*

NZ IFRS 9 *Financial Instruments* is mandatory for the group effective from 1 July 2018.

The group has previously completed the adoption of NZ IFRS 9 by electing to early adopt NZ IFRS 9 (2013) *Financial Instruments* in the year ended 30 June 2015 (initial application 1 July 2014) and NZ IFRS 9 (2014) *Financial Instruments* in the year ended 30 June 2017 (initial application 1 July 2016).

3. SIGNIFICANT TRANSACTIONS AND EVENTS

Significant transactions and events that have occurred during the six months to 31 December 2018:

Commerce Commission settlement

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 current year ended 30 June 2019 is a $4.3 million decrease in revenue and a $1.5 million increase in interest costs.

Dividends

Vector Limited's final dividend for the year ended 30 June 2018 of 8.00 cents per share was paid on 14 September 2018, with a supplementary dividend of 1.41 cents per non-resident share. The total dividend paid was $80.0 million.

Liquigas Limited, a subsidiary company of the group, paid an interim dividend for the six months ended 31 December 2018 of $0.6 million to the company's non-controlling interests.

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 2018 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.

4. SEGMENT INFORMATION (continued)

31 DEC 2018 6 MONTHS	REGULATED NETWORKS $M	GAS TRADING $M	TECHNOLOGY $M	INTER-SEGMENT $M	TOTAL $M
External revenue:					
Sales	354.3	152.9	134.5	–	641.7
Third party contributions	41.2	–	–	–	41.2
Other	5.5	–	–	–	5.5
Intersegment revenue	2.1	–	2.5	(4.6)	–
Segment revenue	403.1	152.9	137.0	(4.6)	688.4
External expenses:					
Electricity transmission expenses	(105.0)	–	–	–	(105.0)
Gas purchases and production expenses	–	(95.1)	–	–	(95.1)
Technology cost of sales	–	–	(34.7)	–	(34.7)
Asset maintenance expenses	(29.8)	(8.2)	(5.7)	–	(43.7)
Employee benefit expenses	(8.1)	(6.8)	(15.0)	–	(29.9)
Other expenses	(18.7)	(19.6)	(8.2)	–	(46.5)
Intersegment expenses	(1.6)	(2.5)	(0.5)	4.6	–
Segment operating expenses	(163.2)	(132.2)	(64.1)	4.6	(354.9)
Segment EBITDA	239.9	20.7	72.9	–	333.5
Depreciation and amortisation	(60.0)	(7.7)	(44.4)	–	(112.1)
Segment profit/(loss)	179.9	13.0	28.5	–	221.4
Segment capital expenditure	125.0	6.0	62.2	–	193.2

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

31 DEC 2018 6 MONTHS	REVENUE $M	PROFIT/ (LOSS) BEFORE INCOME TAX $M	CAPITAL EXPENDITURE $M
Reported in segment information	688.4	221.4	193.2
Amounts not allocated to segments (corporate activities):			
Revenue	0.2	0.2	–
Employee benefit expenses	–	(16.0)	–
Other operating expenses	–	(11.8)	–
Depreciation and amortisation	–	(7.8)	–
Interest costs (net)	–	(71.7)	–
Fair value change on financial instruments	–	(0.2)	–
Associates (share of net profit/(loss))	–	0.5	–
Capital expenditure	–	–	7.9
Reported in the financial statements	688.6	114.6	201.1

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	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)

30 JUN 2018 12 MONTHS	REGULATED NETWORKS $M	GAS TRADING $M	TECHNOLOGY $M	INTER-SEGMENT $M	TOTAL $M
External revenue:					
Sales	684.6	290.3	263.9	–	1,238.8
Third party contributions	70.2	–	1.3	–	71.5
Other	17.2	–	–	–	17.2
Intersegment revenue	4.2	–	8.4	(12.6)	–
Segment revenue	776.2	290.3	273.6	(12.6)	1,327.5
External expenses:					
Electricity transmission expenses	(220.6)	–	–	–	(220.6)
Gas purchases and production expenses	–	(187.1)	–	–	(187.1)
Technology cost of sales	–	–	(78.5)	–	(78.5)
Network and asset maintenance expenses	(58.4)	(16.9)	(12.4)	–	(87.7)
Employee benefit expenses	(15.1)	(13.4)	(31.4)	–	(59.9)
Other expenses	(46.5)	(33.5)	(18.7)	–	(98.7)
Intersegment expenses	(6.8)	(5.0)	(0.8)	12.6	–
Segment operating expenses	(347.4)	(255.9)	(141.8)	12.6	(732.5)
Segment EBITDA	428.8	34.4	131.8	–	595.0
Depreciation and amortisation	(115.0)	(20.7)	(76.2)	–	(211.9)
Segment profit/(loss)	313.8	13.7	55.6	–	383.1
Segment capital expenditure	245.8	17.1	93.7	–	356.6

During the year, the Technology segment delivered technology related network projects for Regulated Networks at a margin of $0.7m. The assets are included in the segment capital expenditure for Regulated Networks. The $0.7m margin is included in the segment information presented for Technology and has been eliminated in the reconciliation below.

Reconciliation to revenue, profit/(loss) before income tax and capital expenditure reported in the financial statements: 30 JUN 2018	REVENUE $M	PROFIT/(LOSS) BEFORE INCOME TAX $M	CAPITAL EXPENDITURE $M
Reported in segment information	1,327.5	383.1	356.6
Amounts not allocated to segments (corporate activities):			
Revenue	0.9	0.9	–
Employee benefit expenses	–	(28.6)	–
Other operating expenses	–	(25.0)	–
Elimination of margin on inter-segment transaction	–	(0.7)	–
Depreciation and amortisation	–	(14.0)	–
Interest costs (net)	–	(130.7)	–
Fair value change on financial instruments	–	3.1	–
Associates (share of net profit/(loss))	–	(1.5)	–
Capital expenditure	–	–	24.6
Reported in the financial statements	1,328.4	186.6	381.2

5. CAPITAL COMMITMENTS

	31 DEC 2018 $M	31 DEC 2017 $M	30 JUN 2018 $M
Capital expenditure committed to but not provided for at balance date	70.8	75.1	68.0

6. BORROWINGS AND DERIVATIVES

	NET DERIVATIVES $M	BORROWINGS $M
Balance at 30 June 2018	(60.4)	(2,395.3)
Fair value movements:		
Foreign exchange rates	2.1	(2.2)
Interest rates and other fair value changes	9.6	(11.8)
Drawdown	–	(70.0)
Amortised costs	–	(0.5)
Balance at 31 December 2018	(48.7)	(2,479.8)
Fair value at 31 December 2018	(48.7)	(2,626.9)

7. FINANCIAL RATIOS

	31 DEC 2018 6 MONTHS $M	31 DEC 2017 6 MONTHS $M	30 JUN 2018 12 MONTHS $M
Earnings per share			
Net profit attributable to owners of the parent	82.6	78.3	148.2
Weighted average ordinary shares outstanding during the period (number of shares)	999,911,394	996,852,041	998,370,185
	8.3 cents	7.9 cents	14.8 cents
Net tangible assets per share			
Net assets attributable to owners of the parent	2,433.5	2,450.3	2,440.4
Less total intangible assets	(1,408.4)	(1,399.8)	(1,398.2)
Total net tangible assets	1,025.1	1,050.5	1,042.2
Ordinary shares outstanding (number of shares)	999,867,208	999,913,110	999,913,852
	102.5 cents	105.1 cents	104.2 cents

	31 DEC 2018 $M	31 DEC 2017 $M	30 JUN 2018 $M
Economic net debt to economic net debt plus adjusted equity ratio ("gearing ratio")			
Face value of borrowings	2,475.8	2,270.8	2,405.7
Less cash and cash equivalents	(26.5)	(17.9)	(27.9)
Economic net debt	2,449.3	2,252.9	2,377.8
Total equity	2,451.1	2,468.1	2,457.9
Adjusted for hedge reserves	41.6	44.8	40.1
Adjusted equity	2,492.7	2,512.9	2,498.0
Economic net debt plus adjusted equity	4,942.0	4,765.8	4,875.8
	49.6%	47.3%	48.8%

8. CASH FLOWS

	31 DEC 2018 6 MONTHS $M	31 DEC 2017 6 MONTHS $M	30 JUN 2018 12 MONTHS $M
Reconciliation of net profit/(loss) to net cash flows from/(used in) operating activities			
Net profit/(loss) for the period	83.3	79.0	149.8
Items classified as investing activities			
Non-cash items classified as investing activities	(2.5)	3.1	12.2
Other items classified as investing activities	0.2	–	–
Net loss/(gain) on sale of investments	–	(1.1)	(1.1)
	(2.3)	2.0	11.1
Items classified as financing activities			
Items associated with lease liabilities	1.5	–	–
Non-cash items			
Depreciation and amortisation	119.9	109.6	225.9
Non-cash portion of interest costs (net)	(1.4)	(1.5)	1.7
Fair value change on financial instruments	0.2	(2.8)	(3.1)
Associates (share of net (profit)/loss)	(0.5)	0.1	1.5
Increase/(decrease) in deferred tax	11.7	11.8	8.6
Increase/(decrease) in provisions	(11.3)	1.0	21.4
Other non-cash items	(1.3)	–	0.4
	117.3	118.2	256.4
Changes in assets and liabilities			
Trade and other payables	(3.0)	15.6	1.0
Contract liabilities	(2.9)	10.3	12.6
Inventories	0.9	(1.6)	(1.2)
Trade and other receivables	5.3	(5.8)	(6.6)
Income tax	19.0	18.3	(33.2)
	19.3	36.8	(27.4)
Net cash flows from/(used in) operating activities	219.1	236.0	389.9

9. LEASES

9.1 Right of use assets

	LAND, BUILDINGS AND IMPROVEMENTS $M	OTHER PLANT AND EQUIPMENT $M	TOTAL $M
Opening net book value 1 July 2018	–	–	–
Movements on transition	39.4	0.7	40.1
Additions	0.8	1.5	2.3
Depreciation for the period	(3.2)	(0.3)	(3.5)
Carrying amount 31 December 2018	37.0	1.9	38.9
Cost	40.2	2.2	42.4
Accumulated depreciation	(3.2)	(0.3)	(3.5)

9.2 Lease liabilities maturity analysis

	MINIMUM LEASE PAYMENTS $M	INTEREST $M	PRESENT VALUE $M
Within one year	8.4	(1.8)	6.6
One to five years	23.0	(4.8)	18.2
Beyond five years	21.4	(6.0)	15.4
Total	52.8	(12.6)	40.2

Current portion	8.9
Non-current portion	31.3
Total	40.2

9.3 Lease expenses included in profit or loss

	31 DEC 2018 6 MONTHS $M
Short-term leases	0.3
Interest on leases	1.0

9.4 Lease cashflows included in cashflow statement

	31 DEC 2018 6 MONTHS $M
Total cash outflow in relation to leases	4.6

9. LEASES (continued)

9.5 Transition to NZ IFRS 16

	01 JUL 2018 $M
Operating lease commitment at 30 June 2018 as disclosed in the Group's financial statements	40.2
Discounted using the incremental borrowing rate at 1 July 2018	30.2
Finance lease liabilities as at 1 July 2018	0.5
Recognition exemption for:	
Short-term leases	(0.5)
Extension options reasonably certain to be exercised	13.0
Net changes in leases	(2.3)
Lease liabilities recognised at 1 July 2018	40.9

Transition

The group applied NZ IFRS 16 from 1 July 2018 using the modified retrospective approach.

Leases entered into and identified by the group include property leases, building access rights, and vehicle leases.

In assessing whether an arrangement is, or contains a lease, the group considers whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the group assesses whether:

- The contract involves the use of an identified asset;
- The group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- The group has the right to direct the use of the asset.

On transition, the group applied the practical expedient to not recognise right-of-use assets and liabilities for short-term leases with lease terms ending within 12 months. The costs related to these leases are recognised in the profit or loss.

Policies

Lease liabilities are measured at the present value of remaining lease payments, discounted at the group's incremental borrowing rate as at 1 July 2018. The weighted-average rate applied is 4.55%.

Right of use (ROU) assets are initially recognised at cost, comprising the initial amount of the lease liability less any unamortised lease incentives. ROU assets are subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In considering the lease term, the group applies judgment in determining whether it is reasonably certain that an extension or termination option will be exercised. The majority of the group's leases are property leases. These, in the main, give the group the right to renew the leases at the end of their lease terms.

10. 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 2017: $60.1 million, 12 months ended 30 June 2018: $122.0 million).

Outstanding balances

At 31 December 2018, the group has no material outstanding balances due to or from related parties of the group (31 December 2017 and 30 June 2018: not material).

11. 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.

12. EVENTS AFTER THE END OF THE PERIOD

Repayment of borrowings

On 14 January 2019, the group repaid $285.6 million (GBP 115.0 million) of medium term notes using existing facilities.

Interim dividend

On 25 February 2019, the board declared an interim dividend for the year ended 30 June 2019 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 25 February 2019.

BOARD OF DIRECTORS

Dame Alison Paterson // Chair
Jonathan Mason // Deputy Chair
Karen Sherry
Bob Thomson
Mike Buczkowski

MANAGEMENT TEAM

Simon Mackenzie // Group Chief Executive
Dan Molloy // Chief Financial Officer
Andre Botha // Chief Networks Officer
Kate Beddoe // Chief Risk Officer
Nikhil Ravishankar // Chief Digital Officer

ASSOCIATES AND JOINT VENTURES

	PRINCIPAL ACTIVITY	PROPORTION HELD		
		31 DEC 2018	31 DEC 2017	30 JUN 2018
Associates				
Tree Scape Limited	Vegetation management	50%	50%	50%
Joint Venture				
Kapuni Energy Joint Venture	Cogeneration	50%	50%	50%

FINANCIAL CALENDAR 2019

Record date for the interim dividend	29 March
Interim dividend paid	11 April
Third quarter operational statistics	April
Fourth quarter operational statistics	July
Full year result and annual report	August
Annual General Meeting	September

* Dividends are subject to board determination

2019 //

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 at **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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