FINANCIAL RESULTS FOR THE SIX MONTHS TO 31 DECEMBER 2016

CREATING GROWTH OPPORTUNITIES

Highlights:

- Net profit after tax from continuing operations[1] for the six months to 31 December 2016 rises 64.5% to $107.1 million
- Adjusted EBITDA[2] from continuing operations rises 1.4% to $257.0 million
- Group revenue from continuing operations rises 5.9% to $625.6 million
- New electricity and gas connections rise 19% to 6,490
- Smart meter fleet rises to 1.2 million. Deployment commences in Australia.
- Investments in new technology continue with the commissioning of a 2.3 MWh network battery in Glen Innes, the expansion of the home battery fleet to 445 from 291 and the expansion of the electric vehicle charging infrastructure to 21 chargers.
- The Commerce Commission's review of the Input Methodologies broadly positive – stability of approach, revenue cap, and supportive of investment in new technologies - providing regulatory certainty through to 2025.
- Interim dividend increases by 0.25 cents per share to 8 cents per share

New Zealand's leading energy infrastructure company Vector today announces improved earnings as it continues to deploy new technologies to give choice and control to its customers and create new opportunities for growth.

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

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

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

[1] That is, excluding Vector Gas, which was sold to First State Funds on 20 April 2016 for $952.5 million. Vector Gas owned gas transmission pipelines and gas distribution networks outside Auckland.
[2] Adjusted EBITDA is a non-GAAP profit measure. For a comprehensive definition and reconciliation to the GAAP measure of net profit refer to pages five of this release.

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

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

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

Key developments in the period included: the transition of Vector Gas to its new owners was completed in September; the commissioning of a 2.3 MWh network battery in Glen Innes; the continued expansion of our smart meter fleet, including our first deployment of meters in Australia (10,000 as at the date of this release); the expansion of the in-home battery fleet to 445 from 291 at the same time last year; and, with the support of our majority shareholder Entrust, the expansion of the electric vehicle charging infrastructure and the formation of a partnership with Auckland Council to drive energy efficiency in the city.

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

RESULTS SUMMARY

Six months ended 31 December	**2016 $M**	**2015 $M**	**Change (%)**
Revenue (continuing operations)	625.6	590.6	5.9
Adjusted EBITDA (continuing operations)	257.0	253.5	1.4
Net profit after tax (continuing operations)	107.1	65.1	64.5
Operating cash flow (inc. discontinued operations)	226.3	248.8	(9.0)
Dividend per share (cents)	8.0	7.75	3.2

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

FINANCIAL STRENGTH

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

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

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

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

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

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

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

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

OUTLOOK:

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

Further detail of the group financial performance, including the performance of the group business segments is contained in the company’s interim report, which was also released to the NZX today and is available at: www.vector.co.nz/investors/reports

About Vector
Vector is New Zealand’s leading multi-network infrastructure company which delivers energy and communication services to more than one million homes and businesses across the country. Vector is listed on the New Zealand Stock Exchange with ticker symbol VCT. Our majority shareholder, with voting rights of 75.1%, is Entrust (formerly Auckland Energy Consumer Trust). For further information, visit www.vector.co.nz

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NON-GAAP FINANCIAL INFORMATION

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 (vector.co.nz).

Non-GAAP profit measures are not prepared in accordance with NZ IFRS (New Zealand International Financial Reporting Standards) and are not uniformly defined, therefore the non-GAAP profit measures reported in this document may not be comparable with those that other companies report and should not be viewed in isolation from or considered as a substitute for measures reported by Vector in accordance with NZ IFRS.

DEFINITIONS

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

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

RECONCILIATION:

Group EBITDA and adjusted EBITDA from continuing operations

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

[1]Extracted from reviewed financial statements

Segment adjusted EBITDA

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