

FINANCIAL RESULTS FOR THE TWELVE MONTHS TO 30 JUNE 2017
**ADDRESSING CHALLENGES
TO SECURE THE FUTURE**

HIGHLIGHTS OF FY2017

- Adjusted EBITDA from continuing operations rises 0.3% to \$474.4 million
- Group net profit from continuing operations rose 186.8% to \$168.9 million from \$58.9 million. The uplift was due to the \$64 million impairment of the Gas Trading division in the prior year; growth in capital contributions; lower interest costs; and a one-off tax gain of \$15 million following the Court of Appeal ruling in Vector's favour over the tax treatment of the sale of rights to use our Penrose to Hobson Street tunnel. Overall group net profit of \$168.9 million was down 38.4% on the prior year result, which was boosted by the \$164 million gain on sale of Vector Gas, offset by the impairment to Gas Trading
- Lost Time Injury Frequency Rate decreased by 15%
- Received an Edison Electric Institute Asia-Oceania Index Award for superior and sustained financial performance
- Vector OnGas won the "WorkSafe New Zealand Best Initiative to Address a Work-Related Health Risk Award" at the New Zealand Workplace Health and Safety Awards
- Vector was shortlisted for an "Innovation and Industry Leadership" award at the Responsible Investor Awards Europe
- Entered into multimillion dollar partnership with Auckland Council to produce a series of Vector-funded projects, including the Energy Efficient Communities Project, with the support of Entrust and lighting up the Auckland Harbour Bridge
- Acquired E-Co Products Group (which trades as HRV and EES) and PowerSmart as part of delivering on our vision to create a new energy future
- Won the contract for a 5MW battery solution in Australia's Northern Territory
- Installed more than 24,200 smart meters in Australia and almost 145,000 in New Zealand
- Identified seven United Nations Sustainable Development Goals (SDGs) that we will actively pursue
- Launched Electric Vehicle (EV) app to make it easy to find EV chargers nationwide
- Full year dividend increases for the 11th consecutive year to 16.0 cents per share after fully-imputed final dividend of 8.0 cents per share is declared. The record date for entitlements is 8 September 2017 and the payment date is 15 September 2017
- Vector expects adjusted EBITDA for the year to 30 June 2018 to be at or around the FY17 result



Vector today reports adjusted EBITDA of \$474.4 million, at the top end of market guidance, as it continues to build its credentials as an innovative, technology-led and sustainability-focused organisation. As a result, for the 11th consecutive year, Vector is delivering dividend growth, reaching a full year dividend of 16.0 cents per share.

Vector has continued to acquire new businesses, adopt new technologies, expand into new markets, and embrace sustainability. In doing so, Vector is demonstrating its commitment to not simply achieving growth, but delivering it by offering customers choice and being unafraid to challenge traditional models.

Group net profit from continuing operations rose 186.8% to \$168.9 million from \$58.9 million. The uplift was due to the \$64 million impairment of the Gas Trading division in the prior year; growth in capital contributions; lower interest costs; and a one-off tax gain of \$15 million following the Court of Appeal ruling in Vector's favour over the tax treatment of the sale of rights to use our Penrose to Hobson Street tunnel. Overall group net profit of \$168.9 million was down 38.4% on the prior year result, which was boosted by the \$164 million gain on sale of Vector Gas, offset by the impairment to Gas Trading.

Vector's balance sheet remains strong, with gearing as at 30 June 2017 at 47.1%, up from 43.7% a year ago and 43.9% at 31 December 2016. The \$960 million proceeds from the sale of Vector Gas were initially applied to debt repayment, and are now being redeployed to support growth in our Auckland networks and across our unregulated portfolio.

Capital expenditure (capex) rose 13.9% to \$367.4 million from \$322.6 million, driven by growth in Auckland, metering and expenditure associated with the Bottle Swap plant in South Auckland. Net of contributions, capex rose 11.9% to \$305.2 million. Capex for the regulated business rose 4.8% to \$210.6 million from \$201.0 million. Capex for the unregulated businesses and corporate rose 28.9% to \$156.8 million from \$121.6 million.

Vector Chairman Michael Stiasny said that while the fundamentals of Vector's Auckland energy networks remain strong, the growth in Auckland's population is not expected to translate into growth in regulated earnings for the next two to three years. That means Vector has to continue to look to other sources to generate revenue to plug this gap.

"Vector is a business under pressure through a combination of consumer trends, a low interest rate environment and regulatory settings. The downward movements in our regulated networks' financial results may be small, but they are noticeable: electricity connections may be up, but throughput is down; gas volumes are up, but prices are about to be reset down.

Despite net investment of over \$700 million into our regulated networks over the past five years, our regulated adjusted EBITDA remains \$30 million below what it was four years ago.

“Don’t make the mistake of dismissing these as one-off anomalies; they are trends. Vector’s performance is – and will continue to be – impacted by changing energy consumption patterns. There is no room for complacency – the future is here.

“... So when Vector talks about embracing disruptive technologies or our commitment to the United Nations Sustainable Development Goals, we are not merely paying lip service to lofty ideals or indulging in green washing – these are essential to our very survival. Long-term dividend growth is untenable without a radically different business paradigm.

“Therefore, innovative, sustainable and customer-focused initiatives are at the heart of our strategy for one reason only, they make good business sense,” he said.

RESULTS SUMMARY

Twelve months ended 30 June	2017 \$m	2016 \$m	Change %
Revenue	1,226.7	1,144.6	7.2
Adjusted EBITDA	474.4	473.0	0.3
Net Profit from continuing operations	168.9	58.9	186.8
Group Net Profit	168.9	274.4	(38.4)
Operating cash flow*	335.7	352.1	(4.7)

* Prior year includes discontinued operations

Vector Group Chief Executive Simon Mackenzie said that Vector’s pleasing financial result is testimony to the hard work of all the teams across all businesses that make up Vector.

“Winning the Edison Electric Institute (EEI) award for best performing utility in Asia-Oceania shows that we are a top performer and I wish to take this opportunity to thank everyone at Vector for all you’ve done to make this win possible”.

“From the battery contract we won in Alice Springs to the successful installation of our smart meters in Australia, we’ve shown that our skills and solutions are not only internationally competitive but also timely as countries grapple with the challenges of rethinking their energy mix, decarbonising their economies and finding new ways to give consumers the control they now expect.



“Vector’s deliberate strategy to innovate with technology has seen us acquire businesses like PowerSmart with its proven ability to deliver innovative and economic commercial solar/battery solutions and E-Co Products Group which, through its HRV and EES brands, will help us deliver healthy and energy efficient solutions direct to consumers’ homes.” Vector is also partnering with mPrest and becoming a reseller of their revolutionary network management technology across Australasia.

Vector’s commitment to meet challenges head on has seen us work with world-class innovators like Tesla, LG Chem, and mPrest to take the most exciting global thinking we can find and apply it, in lateral ways, to propel us forward. It has motivated us to introduce changes, big and small, right across our business—from app improvements to our vehicle-to-grid (V2G) initiative to mobile batteries—that will improve the lives of our customers at work, at home and in between.

“The awards we’ve won this year are indicative of the high standards we hold ourselves to. Initiatives like working with lines that are not energised where possible, and the ingenious solution that our OnGas team introduced to make a repetitive task safer and remove the danger of strain injuries show that we are unafraid to step up if we believe there are better and safer ways for things to be done.

“We’re determined to enable customers to have energy choices, and that’s not something that others in the sector find easy. It also challenges regulators and policy makers because it requires rethinking parameters at the speed at which technology now moves. We have no problem with debate over ways forward, as long as the issues being raised are legitimate concerns.

“As a business, we are determined to put customers first and to strive to make best use of our capital over the longer term across both our regulated and unregulated businesses. The search for sustainable answers isn’t always easy, but when we get it right—and we have done that many times this year—it’s immensely satisfying,” he said.

SEGMENT RESULTS

Twelve months ended 30 June	2017 \$m	2016 \$m	Change %
Technology			
Revenue	214.0	180.1	18.8
Adjusted EBITDA	122.5	113.5	7.9
Gas Trading			
Revenue	281.8	277.1	1.7
Adjusted EBITDA	36.9	40.6	(9.1)
Regulated Networks			
Revenue	741.9	726.2	2.2
Adjusted EBITDA	361.2	368.5	(2.0)
Corporate			
Revenue	4.8	2.1	128.6
Adjusted EBITDA	(46.2)	(49.6)	6.9

Note: Revenue includes capital contributions

UNREGULATED BUSINESS

Technology

Technology division revenue rose 18.8% to \$214.0 million from \$180.1 million a year earlier, driven largely by increased deployment of smart meters in New Zealand and Australia and the contribution of E-Co Products Group and PowerSmart from 1 April 2017. Technology adjusted EBITDA rose 7.9% to \$122.5 million from \$113.5 million, with gains from the smart meter roll-out and acquisitions diluted by continued business development expenditure associated with establishing the new energy solutions and Australian metering operations.

During the period we installed almost 145,000 advanced meters in New Zealand and more than 24,200 advanced meters in Australia. Our smart meter base has now grown 13.7% to 1.28 million (including 102,808 meters which are managed, but not owned, by Vector) from 1.13 million the year before. 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 FY2018. After that, the focus in New Zealand will shift to managing the existing electricity meter fleet and installing new and replacement meters as required.

We are targeting Australia to deliver the next phase of growth for the metering business. The Power of Choice reforms take effect from 1 December 2017, at which point metering will become competitive across New South Wales, Queensland and South Australia. Vector is currently involved in competitive procurement processes with major Australian retailers with a view to securing contracts for deployment from 1 December 2017.

Meanwhile, Vector Communications has delivered an improved result. The company continues to provide high-end telecommunications solutions to customers.

Our Technology division also includes Vector's nascent new energy solutions business. The business development expenditure we have committed in this area over the past two years is now starting to bear fruit, as evidenced by Vector winning a multimillion-dollar contract to supply the Northern Territory with a 5MW grid-tied battery storage solution. Vector will be responsible for the design, engineering, construction, and installation of the system and once commissioned, we will also be responsible for ongoing maintenance. Another example is our pioneering work with Dominion Salt where we integrated a Tesla Powerpack with its 660 kW wind turbine at Lake Grassmere to deliver around 75% of the site's energy needs.

Our new energy solutions business was strengthened this year by the acquisition of E-Co Products Group and PowerSmart. Together these businesses contributed \$0.9 million in EBITDA for the period 1 April to 30 June 2017.

Gas Trading

Revenue for the Gas Trading division increased 1.7 % to \$281.8 million from \$277.1 million a year earlier on the back of higher natural gas volumes, up 6.6% to 17.8 PJ from 16.7 PJ in the prior year. Volumes from the Kapuni field, however, continued to decline, down 23% to 8.4 PJ.

Despite an increase in volumes, our natural gas operations were impacted by lower margins as a result of strong competition in the market and by lower production and processing fees at the Kapuni Gas Treatment Plant.

Vector's LPG operations continue to occupy a strong market position. Bottle Swap nine kilogram volumes were up 9.9% to 604,391 bottles from 549,998 a year earlier. The new bottling facility in South Auckland is expected to be operational for our summer peak this year and will help drive efficiencies and enable further growth in our Bottle Swap operations. LPG tolling volumes were down 2.1% to 169,046 tonnes from 172,695 tonnes a year earlier driven by lower export volumes as lower international prices for LPG made exports less attractive.

Gas Trading adjusted EBITDA fell 9.1% to \$36.9 million from \$40.6 million a year earlier. This result includes a one-off insurance settlement of \$5.3m in relation to damage to the Liquigas facilities at Lyttelton in the 2012 earthquake.

Vector received an arbitral award in its favour regarding the price and terms for the next tranche of Kapuni gas which we have been taking since 2013. On 31 May 2017, Vector announced that the High Court had denied Todd and Shell a right to appeal this judgment. They have now applied to have aspects of the High Court's judgment recalled and, alternatively, sought leave to appeal this decision to the Court of Appeal. We will oppose this application.

During the year, Shell and Todd agreed a transaction that saw Todd assume 100% ownership and operation of the Kapuni field on 1 August 2017.

REGULATED BUSINESSES

Revenue for our Regulated Networks business increased 2.2% to \$741.9 million from \$726.2 million the year before. This was largely driven by an increase in capital contributions—up 25.2% to \$61.2 million—reflecting continued connection growth and significant infrastructure development taking place across Auckland.

Excluding capital contributions, revenue was effectively flat, with growth in connections and gas volumes largely offset by declining electricity consumption. New electricity connections rose 7.2% to 9,138 from 8,526. New gas connections rose 5.8% to 3,515 from 3,323. Total connections to the electricity network stood at 555,100 at year end, up 0.9% from 550,053 a year ago. Total gas connections were 106,670, up 2.3% from 104,322 a year ago.

Despite the increase in connections, volumes transported across the electricity network fell 0.5% to 8,332 GWh from 8,372 GWh due to ongoing declines in household electricity consumption and the partial closure of a large commercial customer. Auckland gas distribution network volumes were 14.3 PJ, up 2.9% from 13.9 PJ the previous year, due largely to connection growth.

Adjusted EBITDA (which excludes capital contributions) fell 2.0% on the prior year to \$361.2 million from \$368.5 million on the back of flat revenue, higher maintenance costs and one-off items.

Our Regulated Asset Base (RAB) now stands at \$3.3 billion. The electricity RAB amounts to \$2.9 billion and the Auckland gas distribution RAB is around \$390 million.

In May 2017, the Commerce Commission released its final decision on the default price-quality path for the gas distribution business. This decision is the primary reason average gas distribution prices will reduce by around 14% from 1 October 2017. The impact of this on next year's EBITDA result is expected to be around \$6 million. The main drivers of the decrease in our regulated revenue allowance set by the Commerce Commission were lower interest rates, lower operating expenditure allowances and tightening regulatory parameters, with a move to P67 WACC (from P75) and a lower asset beta.

In 2014-2015 the assumptions we made around customers being placed by their electricity retailer on the most suitable lines charge plan did not eventuate. As a result, we unintentionally earned more than allowed by the Commerce Commission. We've been working extensively with the Commerce Commission to find the best solution for consumers, and we will return \$13.9 million to Auckland consumers by reducing the amount of revenue we recover over two regulatory years starting in April 2018. In FY18, Vector's electricity revenues (and EBITDA) will be \$0.9 million lower than they would otherwise have been, with the remainder of the reductions in revenues and EBITDA to be spread across FY19 and FY20. The \$13.9 million to be returned to consumers includes accumulated interest of \$3.8 million.

Meanwhile assumptions made by the Commerce Commission in setting our regulated revenues also continue to prove challenging. In particular, errors in the Commerce Commission's electricity growth forecasts have contributed to Vector under-recovering by more than \$60 million over the past 5 years. Furthermore, the regulator's persistent over forecasting of revaluation rates has resulted in Vector missing out on additional revenue of more than \$130 million over the same period.

CAPITAL EXPENDITURE

Capital expenditure (capex) rose 13.9% to \$367.4 million from \$322.6 million. Net of contributions, capex rose 11.9% to \$305.2 million. The increase in capex was driven by growth in Auckland, metering and expenditure associated with the bottle swap plant in South Auckland. Capex for the regulated business rose 4.8% to \$210.6 million from \$201.0 million. Capex for the unregulated businesses and corporate rose 28.9% to \$156.8 million from \$121.6 million.

Twelve months ended 30 June	2017 \$m	2016 \$m	Change %
Technology			
Growth	92.5	82.5	12.1
Replacement	11.8	12.6	(6.3)
	104.3	95.1	9.7
Gas Trading			
Growth	26.3	6.9	281.2
Replacement	6.4	8.3	(22.9)
	32.7	15.2	115.1
Regulated Networks			
Growth	108.0	96.3	12.1
Replacement	102.6	104.7	(2.0)
	210.6	201.0	4.8
Corporate			
Growth	1.5	0.0	n/a
Replacement	18.3	11.3	61.9
	19.8	11.3	75.2
Total Group			
Growth	228.3	185.6	23.0
Replacement	139.1	137.0	1.5
	367.4	322.6	13.9
Capital Contributions			
Regulated Networks	61.2	48.9	25.2
Technology	1.1	0.9	2.2
	62.3	49.8	25.1
Total Group Capex (net of capital contributions)	305.2	272.8	11.9

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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 75.4%, is Entrust (formerly Auckland Energy Consumer Trust). For further information, visit www.vector.co.nz

APPENDIX: NON-GAAP PROFIT REPORTING MEASURES

Vector's standard profit measure prepared under New Zealand 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 or considered as a substitute for measures reported by Vector in accordance with NZ IFRS.

Definitions

EBITDA	Earnings before interest, taxation, depreciation and amortisation.
Adjusted EBITDA	EBITDA adjusted for fair value changes, capital contributions, associates impairments and significant one-off gains, losses, revenues and/or expenses.

Reconciliation:

Group EBITDA and adjusted EBITDA from continuing operations

Year ended 30 June	2017 \$M	2016 \$M
Reported net profit for the period (GAAP)	168.9	58.9
Add back: net interest costs ¹	137.3	168.8
Add back: tax (benefit)/expense ¹	34.1	44.3
Add back: depreciation and amortisation ¹	199.6	194.6
EBITDA	539.9	466.6
<i>Adjusted for:</i>		
Associates (share of net (profit)/loss) ¹	(1.6)	(2.8)
Fair value change on financial instruments ¹	(1.6)	(2.3)
Impairment	-	61.4
Capital Contributions	(62.3)	(49.8)
Adjusted EBITDA	474.4	473.0

¹ Extracted from audited financial statements

SEGMENT ADJUSTED EBITDA (\$m)	2017			2016		
	Reported segment EBITDA	less capital contributions	Segment adjusted EBITDA	Reported segment EBITDA	less capital contributions	Segment adjusted EBITDA
Year ended 30 June						
Technology	123.6	(1.1)	122.5	114.4	(0.9)	113.5
Gas Trading	36.9	0.0	36.9	40.6	0.0	40.6
Unregulated Segments	160.5	(1.1)	159.4	155.0	(0.9)	154.1
Regulated Networks Continuing	422.4	(61.2)	361.2	417.4	(48.9)	368.5
Regulated Networks Discontinued	0.0	0.0	0.0	79.1	(3.8)	75.3
Regulated Segments	422.4	(61.2)	361.2	496.5	(52.7)	443.8
Corporate	(46.2)	0.0	(46.2)	(49.6)	0.0	(49.6)
TOTAL	536.7	(62.3)	474.4	601.9	(53.6)	548.3
TOTAL - Continuing Operations Only	536.7	(62.3)	474.4	522.8	(49.8)	473.0