2008 annual result

Michael Stiassny, Chairman
Simon Mackenzie, Group Chief Executive Officer
Alex Ball, Chief Financial Officer

27 August 2008
Vector 2008 result

- NPAT $164.4 million
- Dividend 13.25cps (fully imputed)
Group Summary

Simon Mackenzie
Group Chief Executive Officer
Agenda

- Results Summary
- Electricity, Gas & Technology performance
- Progress to date
- CFO financial summary
- Looking ahead
- Questions
Results Summary
Year ended 30 June 2008

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue ($m)</th>
<th>EBITDA ($m)</th>
<th>NPBT ($m)</th>
<th>NPAT ($m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>1,307.1</td>
<td>605.3</td>
<td>228.5</td>
<td>233.3</td>
</tr>
<tr>
<td>2008</td>
<td>1,329.3</td>
<td>640.0</td>
<td>231.5</td>
<td>164.4</td>
</tr>
</tbody>
</table>

Revenue increase: 1.7%
EBITDA increase: 5.7%
NPBT increase: 1.3%
Electricity

- Revenue and EBITDA increases
- Strong volume growth in Auckland
- Wellington network divestment completed in July 2008

**Revenue and EBITDA**
- **Revenue**: 2007 ($611.5M) vs 2008 ($637.5M), increase of 4.3%
- **EBITDA**: 2007 ($376M) vs 2008 ($403M), increase of 7.2%

**Electricity distributed**
- **Wellington**: 2007 (2,435 GWh) vs 2008 (2,441 GWh), increase of 0.2%
- **Greater Auckland**: 2007 (8,160 GWh) vs 2008 (8,267 GWh), increase of 1.3%

**Overall**: 2007 (10,595 GWh) vs 2008 (10,708 GWh), increase of 1.1%
Contract position in Commercial and Industrial market remains strong

Competition increased due to gas supply

Gas distributed

- Distribution: 12.2%
- Transmission: 15.5%
- Gas distributed: 1.8%
Technology

- Vodafone contract announced
- 300 km network extension underway
- 41 Telecom exchanges to be connected
- Wholesale telecommunications channel growth
- Wellington fibre optic network not included in CKI sale
Progress

- Economic conditions and refinancing
  - EMTN successful
  - Wellington network divested
  - Vector rated BBB+ and Baa1 stable
  - Senior debt retired

- Regulation
  - Commerce Amendment Bill – key features retained
    - Electricity threshold reset 2010 or later
  - Acceptance of electricity administrative settlement
  - Discussion over gas control
  - Stability and consistency
Progress

- Capital and Operational expenditure efficiency
  - Total group overheads down $15m ($20m annualised)
  - Streamlining field contracting
  - Continued internal efficiency focus

- Operational excellence
  - Kapuni uptime increases to 99.87%
  - SAIDI regulatory target 85.5 mins
  - Vector normal interruptions 84.7 mins
  - Vector extreme events 114.7 mins
Progress

- Storm response
  - Improved liaison
  - Improved communication

- Re-organised executive team
  - Four new appointments
    - Allan Carvell – GGM Regulation and Pricing
    - David Worsnop – GGM Service Delivery
    - David Tompkins – GGM Asset Investment
    - Alex Ball - CFO
Financial Results

Alex Ball
Chief Financial Officer
Positioning the Financials

- First year of reporting under IFRS
  - 2007 comparatives adjusted

- Results include Wellington Electricity Network
  - Classified as “discontinuing operation held for sale”

- Higher cost of credit increased financing costs (+$24m)
  - Maintained BBB+ rating

- Cost containment programme
  - Delivered $15m in gross cost savings, excluding redundancies
  - Full benefits to be realised in 2009

- Accelerated depreciation applied to metering business
  - Increased depreciation by $5m
Core businesses in Electricity and Gas remain key underlying drivers of EBITDA growth.
Financial results (2)
Year ended 30 June 2008

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Revenue</td>
<td>1,307.1</td>
<td>1,329.3</td>
</tr>
<tr>
<td>EBITDA</td>
<td>605.3</td>
<td>640.0</td>
</tr>
<tr>
<td>EBIT</td>
<td>458.6</td>
<td>485.1</td>
</tr>
<tr>
<td>NPBT</td>
<td>228.5</td>
<td>231.5</td>
</tr>
<tr>
<td>NPAT</td>
<td>233.3</td>
<td>164.4</td>
</tr>
</tbody>
</table>
**Operating margins**

*Year ended 30 June 2008*

<table>
<thead>
<tr>
<th>Metric</th>
<th>2007 (%)</th>
<th>2008 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDA/Total Revenue</td>
<td>46.3</td>
<td>48.1</td>
</tr>
<tr>
<td>EBIT/Total Revenue</td>
<td>35.1</td>
<td>36.5</td>
</tr>
<tr>
<td>NPBT/Total Revenue</td>
<td>17.5</td>
<td>17.4</td>
</tr>
</tbody>
</table>
## Divisional results

**Year ended 30 June 2008**

<table>
<thead>
<tr>
<th>2008 $ Millions</th>
<th>Electricity</th>
<th>Gas</th>
<th>Technology</th>
<th>Corporate/Other</th>
<th>Inter-segment</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Revenue</td>
<td>637.5</td>
<td>665.9</td>
<td>69.2</td>
<td>5.9</td>
<td>(49.2)</td>
<td>1,329.3</td>
</tr>
<tr>
<td>Operating Expenditure</td>
<td>(234.5)</td>
<td>(413.9)</td>
<td>(26.2)</td>
<td>(63.9)</td>
<td>49.2</td>
<td>(689.3)</td>
</tr>
<tr>
<td>EBITDA</td>
<td>403.0</td>
<td>251.9</td>
<td>43.0</td>
<td>(57.9)</td>
<td>-</td>
<td>640.0</td>
</tr>
<tr>
<td>% Revenue</td>
<td>63.2</td>
<td>37.8</td>
<td>62.1</td>
<td>n/a</td>
<td>-</td>
<td>48.1</td>
</tr>
<tr>
<td>EBIT</td>
<td>327.1</td>
<td>208.1</td>
<td>21.7</td>
<td>(71.9)</td>
<td>-</td>
<td>485.1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2007 $ Millions</th>
<th>Electricity</th>
<th>Gas</th>
<th>Technology</th>
<th>Corporate/Other</th>
<th>Inter-segment</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Revenue</td>
<td>611.5</td>
<td>671.9</td>
<td>65.8</td>
<td>5.7</td>
<td>(47.8)</td>
<td>1,307.1</td>
</tr>
<tr>
<td>Operating Expenditure</td>
<td>(235.5)</td>
<td>(428.3)</td>
<td>(19.0)</td>
<td>(66.8)</td>
<td>47.8</td>
<td>(701.9)</td>
</tr>
<tr>
<td>EBITDA</td>
<td>375.9</td>
<td>243.6</td>
<td>46.8</td>
<td>(61.0)</td>
<td>-</td>
<td>605.3</td>
</tr>
<tr>
<td>% Revenue</td>
<td>61.5</td>
<td>36.2</td>
<td>71.1</td>
<td>n/a</td>
<td>-</td>
<td>46.3</td>
</tr>
<tr>
<td>EBIT</td>
<td>296.8</td>
<td>201.5</td>
<td>32.8</td>
<td>(72.5)</td>
<td>-</td>
<td>458.6</td>
</tr>
</tbody>
</table>
Impact of the Wellington network sale

Income Statement

<table>
<thead>
<tr>
<th>$millions</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Continuing</td>
<td>Discontinuing</td>
</tr>
<tr>
<td>Revenue</td>
<td>1,182.0</td>
<td>147.3</td>
</tr>
<tr>
<td>EBITDA</td>
<td>547.9</td>
<td>92.1</td>
</tr>
<tr>
<td>EBIT</td>
<td>407.6</td>
<td>77.5</td>
</tr>
<tr>
<td>NPBT</td>
<td>200.1</td>
<td>31.4</td>
</tr>
<tr>
<td>NPAT</td>
<td>141.8</td>
<td>22.6</td>
</tr>
</tbody>
</table>

- Wellington Network sold post balance date so classified as a “discontinued business” under IFRS
- Group EBITDA and NPAT impacted in 2009 by less than 15%
- One off profit anticipated of approximately $200 million
All dividends fully imputed at 30c
Shareholders record date 11 September 2008
Payable 18 September 2008
# Capital expenditure

<table>
<thead>
<tr>
<th></th>
<th>Electricity</th>
<th>Gas</th>
<th>Technology</th>
<th>Corporate</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Replacement/Compliance</td>
<td>82.4</td>
<td>17.8</td>
<td>4.7</td>
<td>0.6</td>
<td>105.5</td>
</tr>
<tr>
<td>Growth</td>
<td>72.3</td>
<td>20.2</td>
<td>23.7</td>
<td>8.5</td>
<td>124.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>154.7</strong></td>
<td><strong>38.0</strong></td>
<td><strong>28.4</strong></td>
<td><strong>9.1</strong></td>
<td><strong>230.2</strong></td>
</tr>
<tr>
<td>% of Total Spend</td>
<td>67.2%</td>
<td>16.5%</td>
<td>12.3%</td>
<td>4.0%</td>
<td>100.0%</td>
</tr>
<tr>
<td>2007 total</td>
<td>166.0</td>
<td>43.4</td>
<td>35.8</td>
<td>14.9</td>
<td>260.1</td>
</tr>
</tbody>
</table>

- Capital expenditure lower across all business lines by $30m (-11%)
- Majority (67%) of Vector’s capex spend is on the electricity networks
- Technology’s lower capex due to minimal spend on legacy metering prior to rollout of smart metering
  - 2007 expenditure included $6m for the North Shore urban fibre network
- Corporate IT spend reduced by $6m on the prior year
## Cash flow

<table>
<thead>
<tr>
<th>$ Millions</th>
<th>2008</th>
<th>2007</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDA</td>
<td>640.0</td>
<td>605.3</td>
<td>34.7</td>
</tr>
<tr>
<td>Net interest paid</td>
<td>(244.5)</td>
<td>(221.8)</td>
<td>22.7</td>
</tr>
<tr>
<td>Tax paid</td>
<td>(67.9)</td>
<td>(59.2)</td>
<td>7.7</td>
</tr>
<tr>
<td>Non cash items</td>
<td>12.5</td>
<td>(7.8)</td>
<td>20.3</td>
</tr>
<tr>
<td>Change in operating working capital</td>
<td>(9.1)</td>
<td>41.5</td>
<td>50.6</td>
</tr>
<tr>
<td>Operating cash flow (OCF)</td>
<td>331.0</td>
<td>358.0</td>
<td>27.0</td>
</tr>
<tr>
<td>Replacement Capex</td>
<td>(106.1)</td>
<td>(127.6)</td>
<td>21.5</td>
</tr>
<tr>
<td>Dividends to Vector shareholders</td>
<td>(130.0)</td>
<td>(125.0)</td>
<td>5.0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>94.9</td>
<td>105.4</td>
<td>10.5</td>
</tr>
<tr>
<td>Growth Capex</td>
<td>(126.7)</td>
<td>(135.0)</td>
<td>8.3</td>
</tr>
<tr>
<td>Required to fund growth</td>
<td>(31.8)</td>
<td>(29.6)</td>
<td>2.2</td>
</tr>
</tbody>
</table>
## Asset backing & capital structure

as at 30 June 2008

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Debt</strong></td>
<td>$m</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity/Total assets</td>
<td>%</td>
<td>31.8</td>
<td>33.0</td>
</tr>
<tr>
<td>Debt (1)/Debt (1)+Equity</td>
<td>%</td>
<td>62.0</td>
<td>60.4</td>
</tr>
<tr>
<td>Interest (net) cover</td>
<td>X times</td>
<td>1.9</td>
<td>2.0</td>
</tr>
</tbody>
</table>

(1) Net Debt
Debt Facilities Maturity Profile (30 June 2008)

Consolidated Group Debt Maturity Profile

- **54.35%** 5+ years
- **16.76%** 2-5 years
- **28.89%** 1-2 years

Financial Year Ended

- Sterling 7.625% Bonds
- Credit Wrapped Floating Rate Notes
- USPP
- 6.81% Fixed Rate Notes
- Credit Wrapped AUD Medium Term Notes
- Credit Wrapped Floating Rate Notes
- 8.00% Capital Bonds
- Senior Credit Facility
- Working Capital Facility
Debt Facilities Maturity Profile – After Sale Wellington Network

1-2 years: 10.40%
2-5 years: 24.42%
5+ years: 65.18%
Looking ahead

Simon Mackenzie
Group Chief Executive Officer
Options for disciplined growth

- Telecommunications
  - Proven credentials in working with local and central government
  - Vector committed to open access networks
  - $1 billion cost to deploy fibre to wider Auckland
  - Commercially acceptable agreement via infrastructure fund
Options for disciplined growth

- Smart Metering

  - Future proofed legacy asset
  - Positioned for growth in other markets
Options for disciplined growth

- Renewables

  - Thin film PV panels
  - Swift micro-wind turbine
  - Hills evacuated tube solar hot water heater
Looking ahead

• Security of supply remains an issue

• Vector spends $200m per annum in Capex and Opex combined

• Concerned by thermal moratorium

• Range of energy solutions needed
Looking ahead

• Gas being developed globally

• NZ has healthy gas supplies – new fields being developed

• Base case demand will outstrip supply by 2011
Summary

- Multi utility infrastructure owner or manager
  - Operational Excellence
  - Capital and Operational Expenditure Efficiency
  - Regulatory and customer outcomes
  - Disciplined growth

- Growth
  - Organic
  - Leveraging existing positions and expertise
Summary

- Value drivers
  - Organic growth
  - Options for future growth
  - Network overlap
  - Population density
  - Capital expenditure requirements
  - Network age
  - Regulation

† Acquisitions considered if they arise
Summary

- Refinanced
- Regulation, work in progress
- Improved Capital, Operational Efficiency
- Improved Operational Excellence
- Improved Customer outcomes
- Strengthened Executive team
- New options for disciplined growth

- Ongoing continuous improvement