# 2008 annual result

Michael Stiassny, Chairman

Simon Mackenzie, Group Chief Executive Officer

Alex Ball, Chief Financial Officer

27 August 2008

Michael Stiassny

Chairman

# Vector 2008 result

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

# Group Summary

Simon Mackenzie

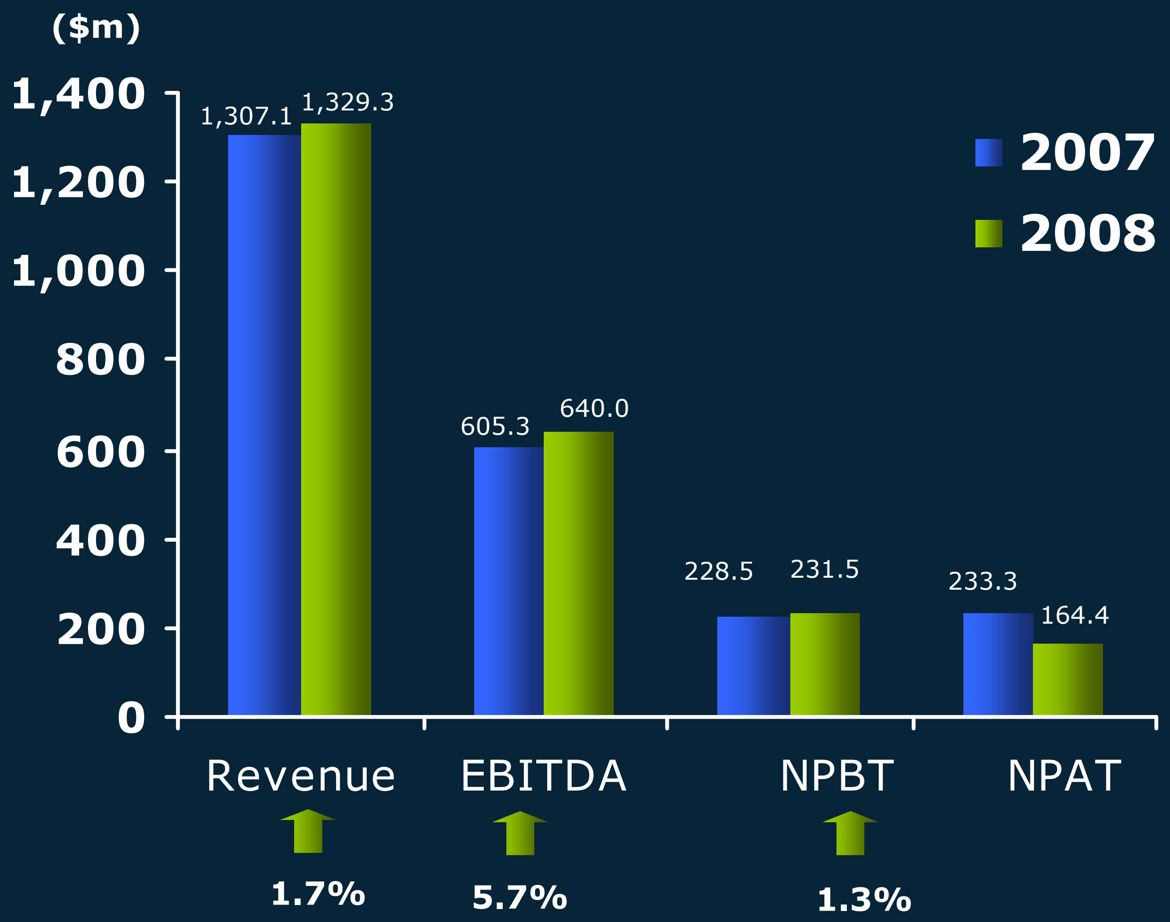
Group Chief Executive Officer

# Agenda

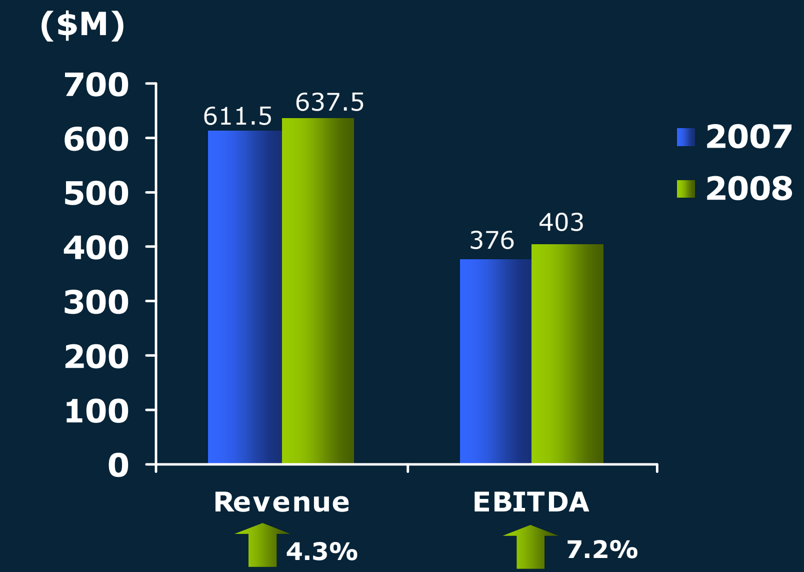
- Results Summary
- Electricity, Gas & Technology performance
- Progress to date
- CFO financial summary
- Looking ahead
- Questions

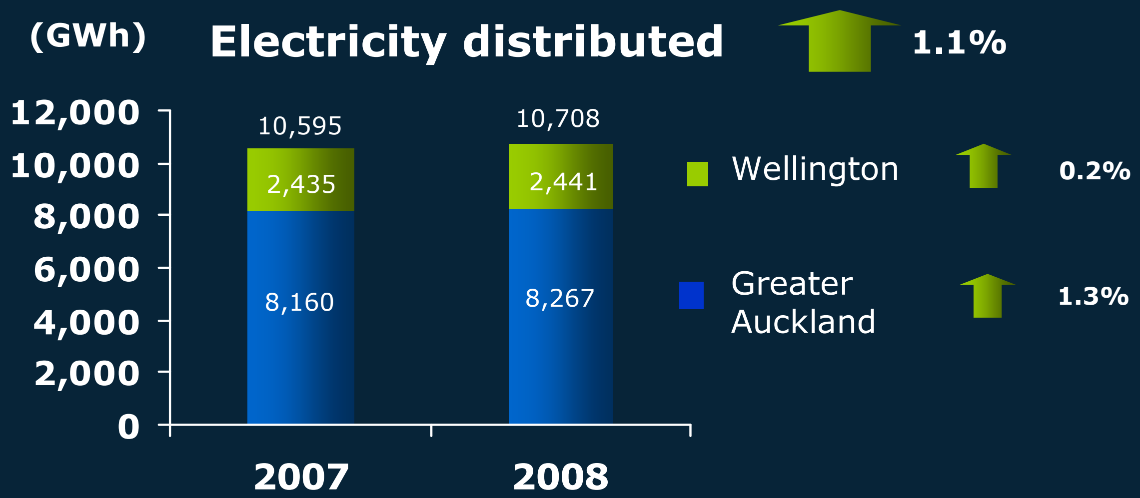
# Results Summary

Year ended 30 June 2008



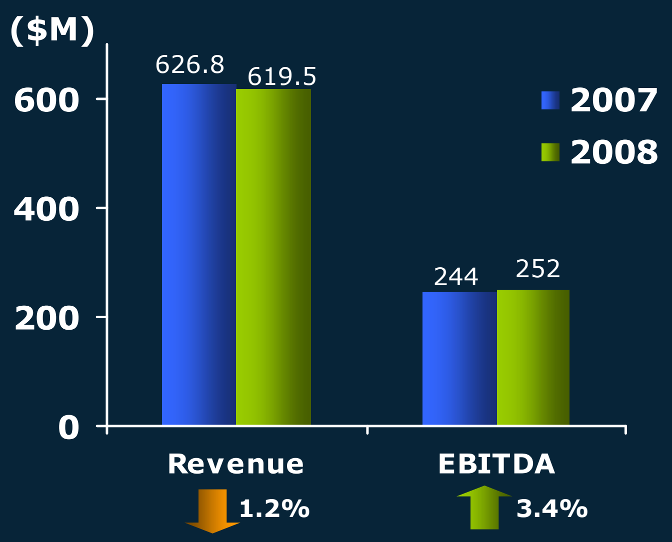
# Electricity



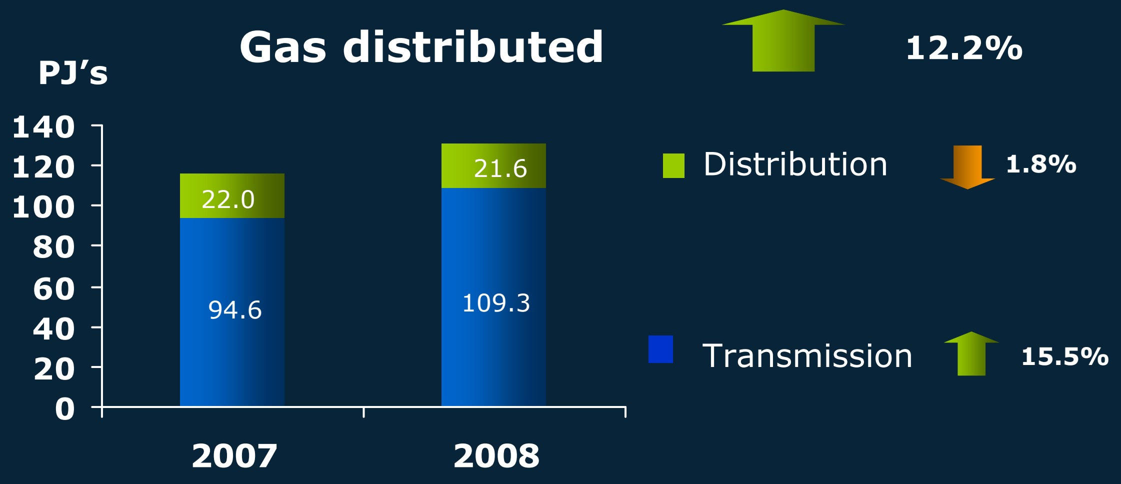

- Revenue and EBITDA increases
- Strong volume growth in Auckland
- Wellington network divestment completed in July 2008

# Gas

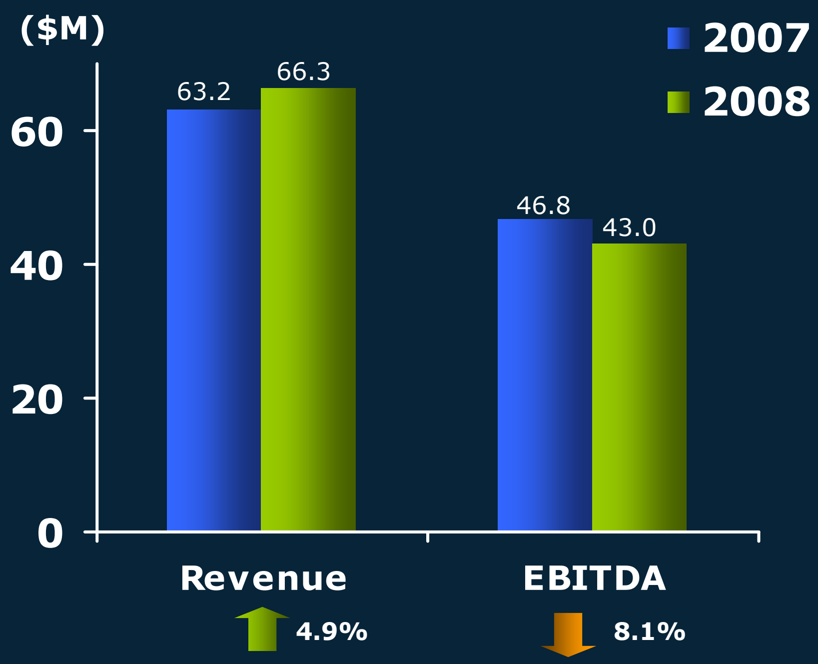



- Contract position in Commercial and Industrial market remains strong

- Competition increased due to gas supply

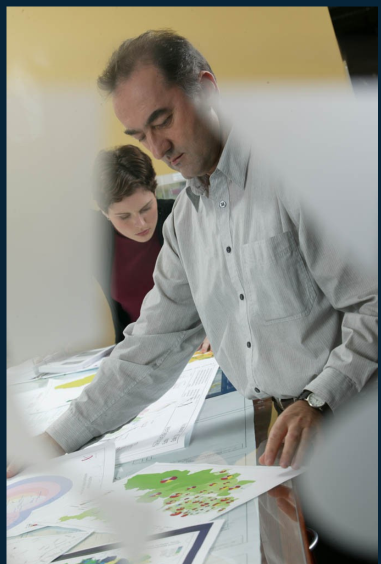


# Technology




- 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

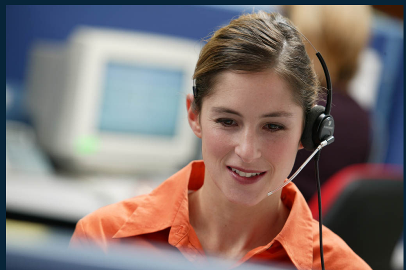
- Capital and Operational expenditure efficiency
  - Total group overheads down $15m ($20m annualised)
  - Streamlining field contracting
  - Continued internal efficiency focus
- Operational excellence
  - Kapuni uptime increases to 99.87%
  - SAIDI regulatory target 85.5 mins

    Vector normal interruptions 84.7 mins

    Vector extreme events 114.7 mins

Vector

# 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

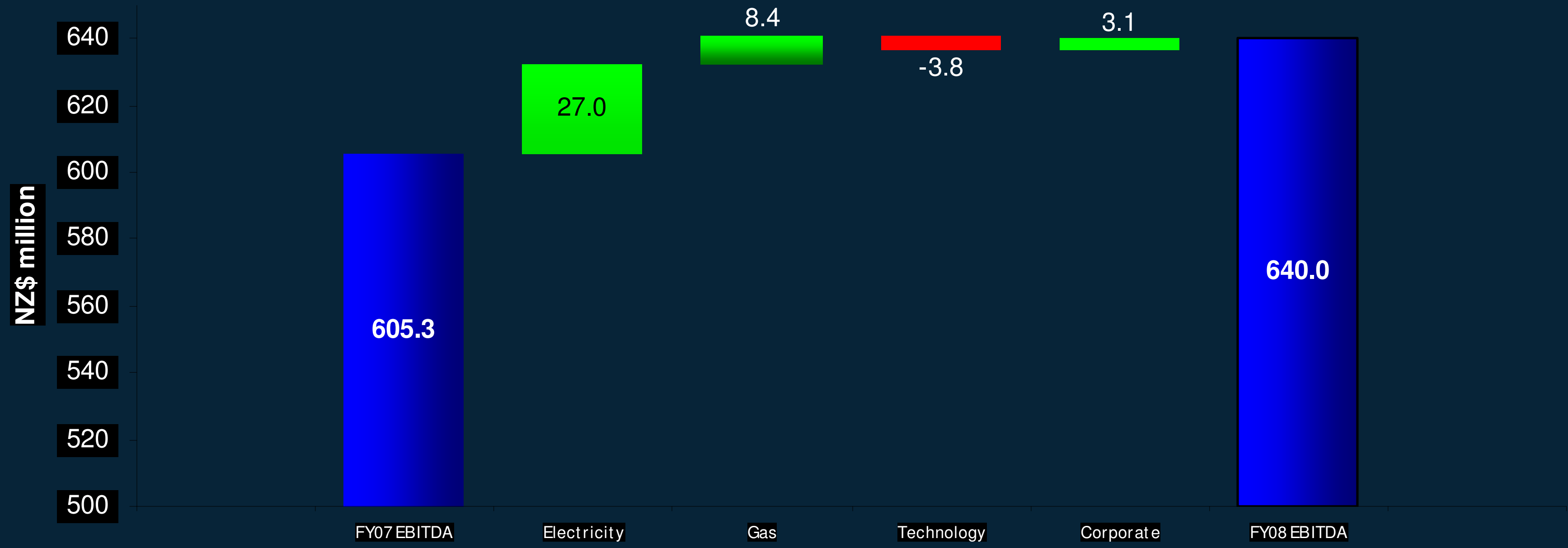
Alex Ball

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

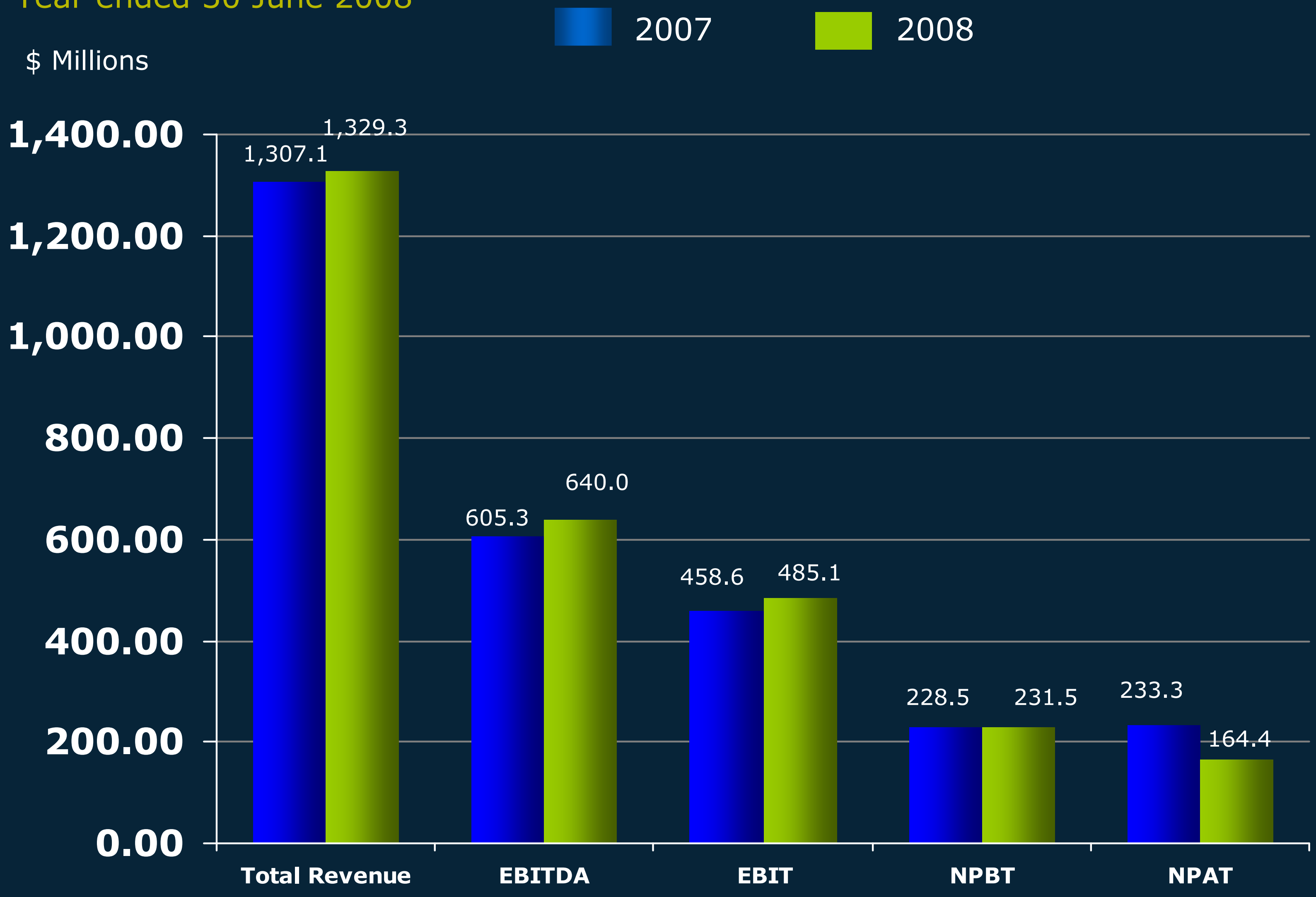
# Financial Result Summary
## Contributors to Group EBITDA growth




- Core businesses in Electricity and Gas remain key underlying drivers of EBITDA growth

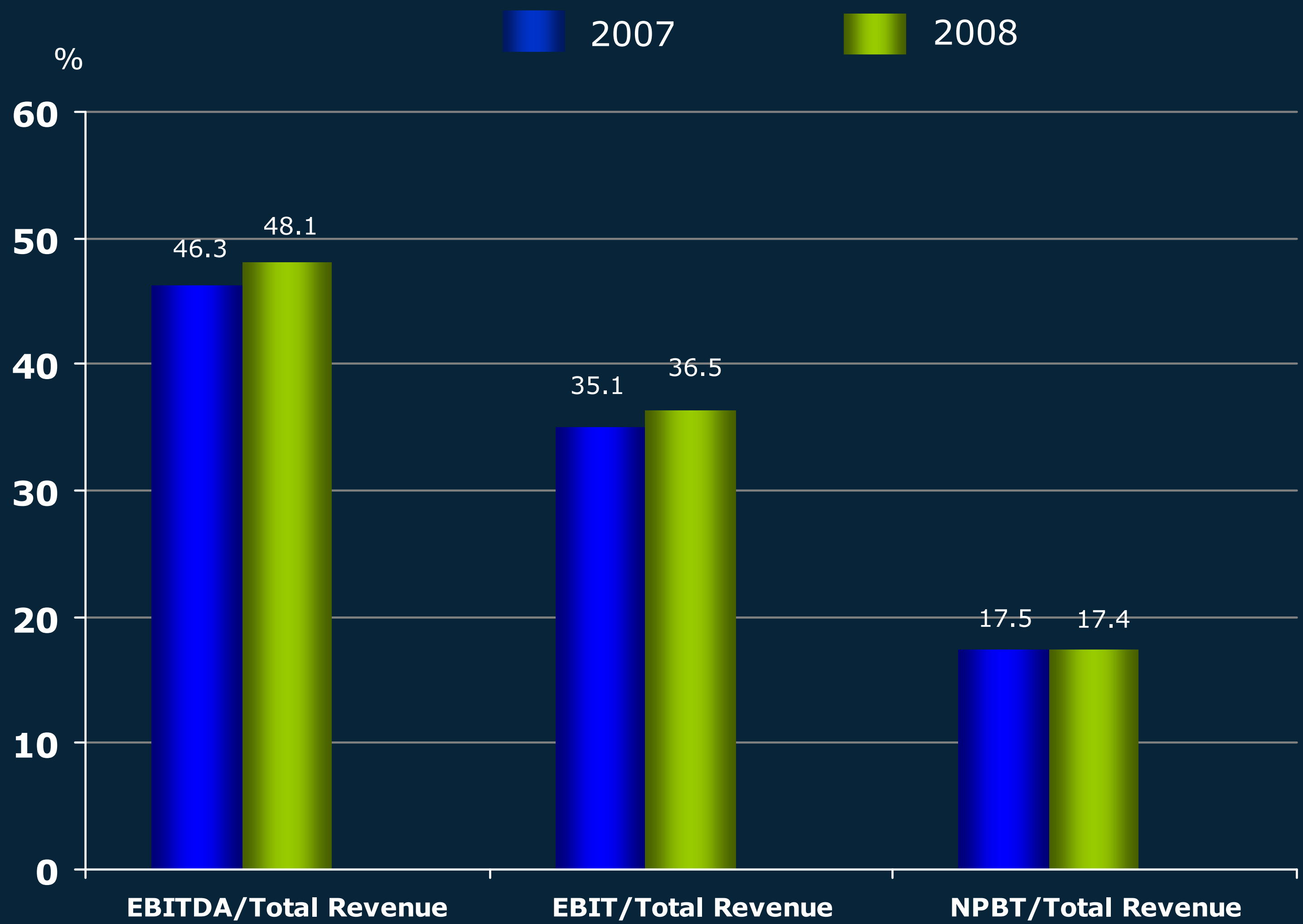
# Financial results (2)

Year ended 30 June 2008



# Operating margins

Year ended 30 June 2008



# Divisional results

Year ended 30 June 2008

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

| 2007 $ Millions | Electricity | Gas | Technology | Corporate/ Other | Inter-segment | Total |
|---|---|---|---|---|---|---|
| Total Revenue | 611.5 | 671.9 | 65.8 | 5.7 | (47.8) | 1,307.1 |
| Operating Expenditure | (235.5) | (428.3) | (19.0) | (66.8) | 47.8 | (701.9) |
| EBITDA | 375.9 | 243.6 | 46.8 | (61.0) | - | 605.3 |
| % Revenue | 61.5 | 36.2 | 71.1 | n/a | - | 46.3 |
| EBIT | 296.8 | 201.5 | 32.8 | (72.5) | - | 458.6 |

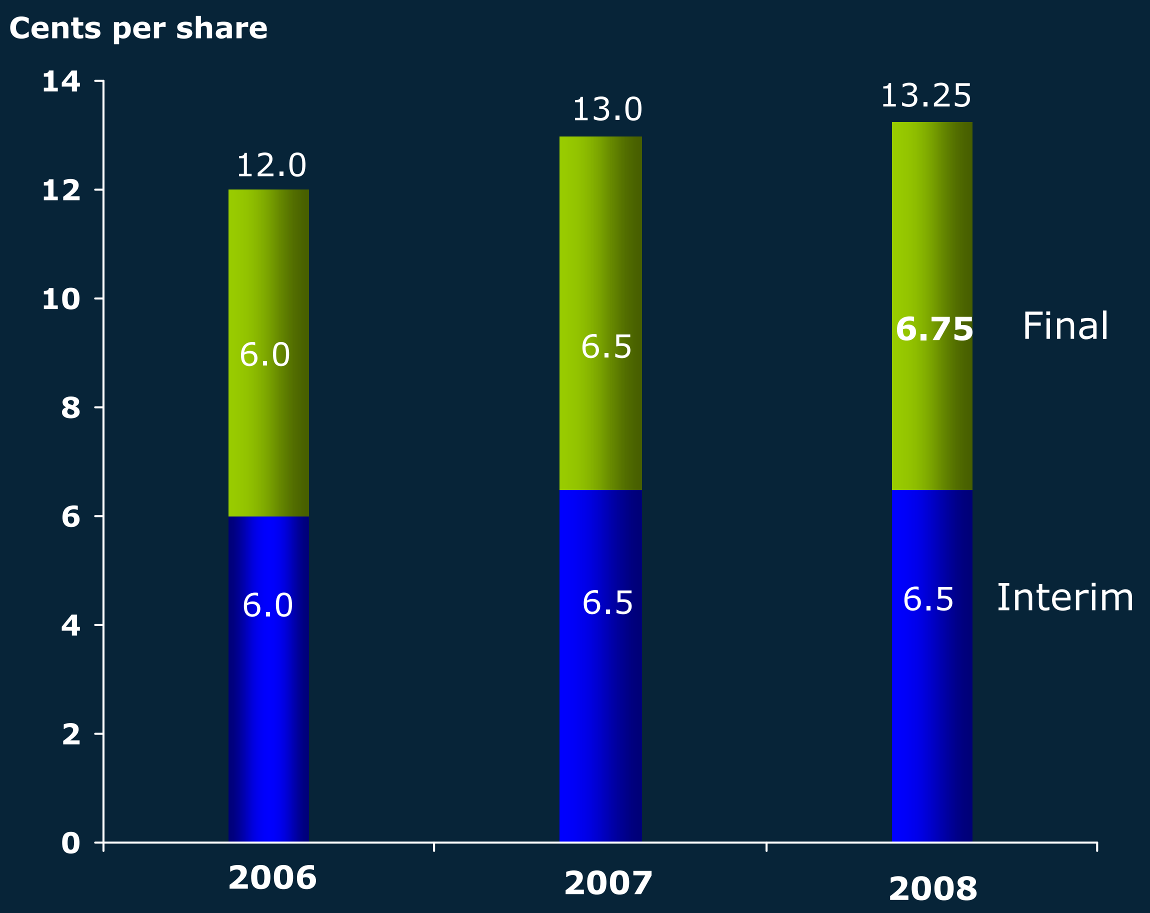
# Impact of the Wellington network sale

**Income Statement**

| $millions | 2008 | | | | 2007 | | |
|---|---|---|---|---|---|---|---|
| | Continuing | Discontinuing | Total | | Continuing | Discontinuing | Total |
| Revenue | 1,182.0 | 147.3 | 1,329.3 | | 1,145.8 | 161.3 | 1,307.1 |
| EBITDA | 547.9 | 92.1 | 640.0 | | 501.2 | 104.1 | 605.3 |
| EBIT | 407.6 | 77.5 | 485.1 | | 372.1 | 86.5 | 458.6 |
| NPBT | 200.1 | 31.4 | 231.5 | | 184.9 | 43.6 | 228.5 |
| NPAT | 141.8 | 22.6 | 164.4 | | 197.0 | 36.3 | 233.3 |

- 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

# Dividend




- All dividends fully imputed at 30c
- Shareholders record date 11 September 2008
- Payable 18 September 2008

# Capital expenditure

| $ Millions | Electricity | Gas | Technology | Corporate | Total |
|---|---|---|---|---|---|
| Replacement/ Compliance | 82.4 | 17.8 | 4.7 | 0.6 | 105.5 |
| Growth | 72.3 | 20.2 | 23.7 | 8.5 | 124.7 |
| **Total** | **154.7** | **38.0** | **28.4** | **9.1** | **230.2** |
| % of Total Spend | 67.2% | 16.5% | 12.3% | 4.0% | 100.0% |
| 2007 total | 166.0 | 43.4 | 35.8 | 14.9 | 260.1 |

- 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

| $ Millions | 2008 | 2007 | Change |
|---|---|---|---|
| EBITDA | 640.0 | 605.3 | 34.7 ↑ |
| Net interest paid | (244.5) | (221.8) | 22.7 ↑ |
| Tax paid | (67.9) | (59.2) | 7.7 ↑ |
| Non cash items | 12.5 | (7.8) | 20.3 ↑ |
| Change in operating working capital | (9.1) | 41.5 | 50.6 ↓ |
| Operating cash flow (OCF) | 331.0 | 358.0 | 27.0 ↓ |
| Replacement Capex | (106.1) | (127.6) | 21.5 ↓ |
| Dividends to Vector shareholders | (130.0) | (125.0) | 5.0 ↑ |
| | 94.9 | 105.4 | 10.5 ↓ |
| Growth Capex | (126.7) | (135.0) | 8.3 ↓ |
| Required to fund growth | (31.8) | (29.6) | 2.2 ↑ |

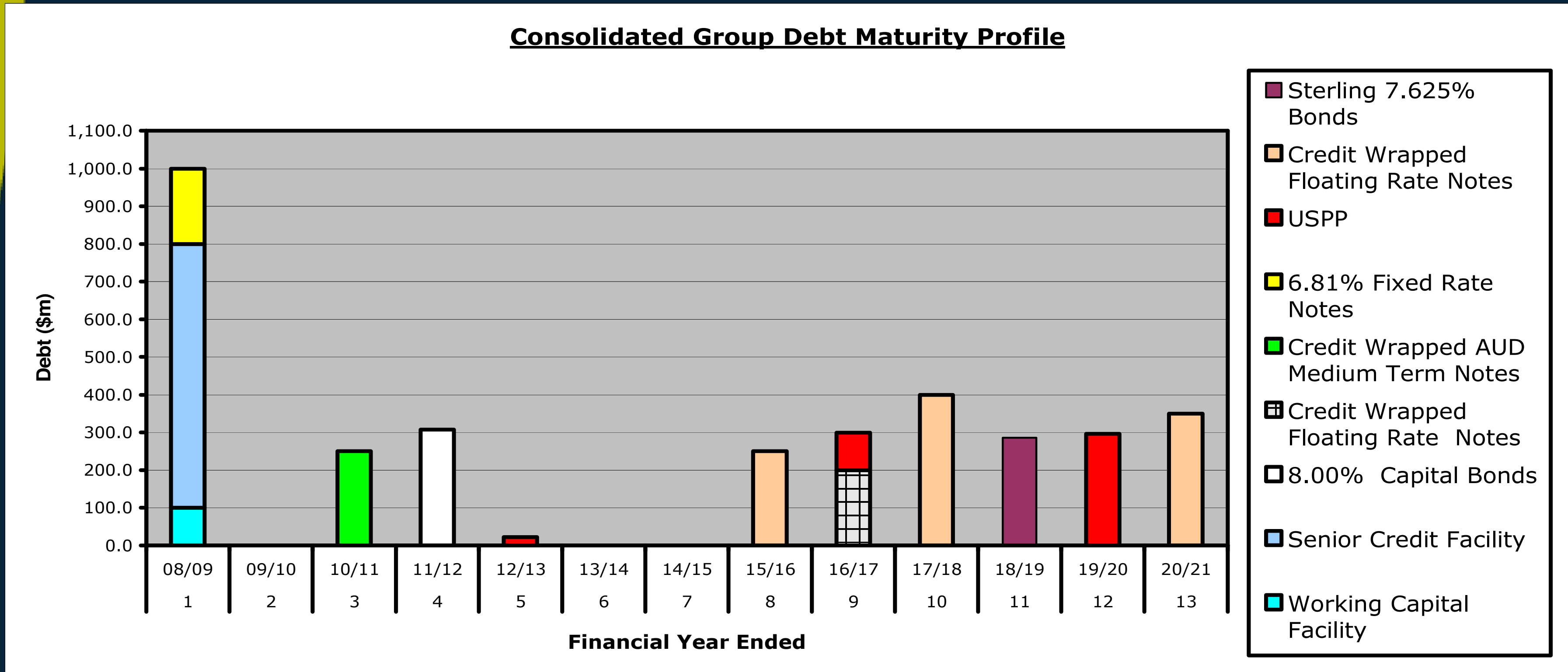
# Asset backing & capital structure

as at 30 June 2008

| | | 2008 | 2007 | 2006 |
|---|---|---|---|---|
| Net Debt | $m | 3,110.0 | 2,947.7 | 3,081.1 |
| Equity/Total assets | % | 31.8 | 33.0 | 33.7 |
| Debt [1]/Debt [1]+Equity | % | 62.0 | 60.4 | 61.5 |
| Interest (net) cover | X times | 1.9 | 2.0 | 1.6 |

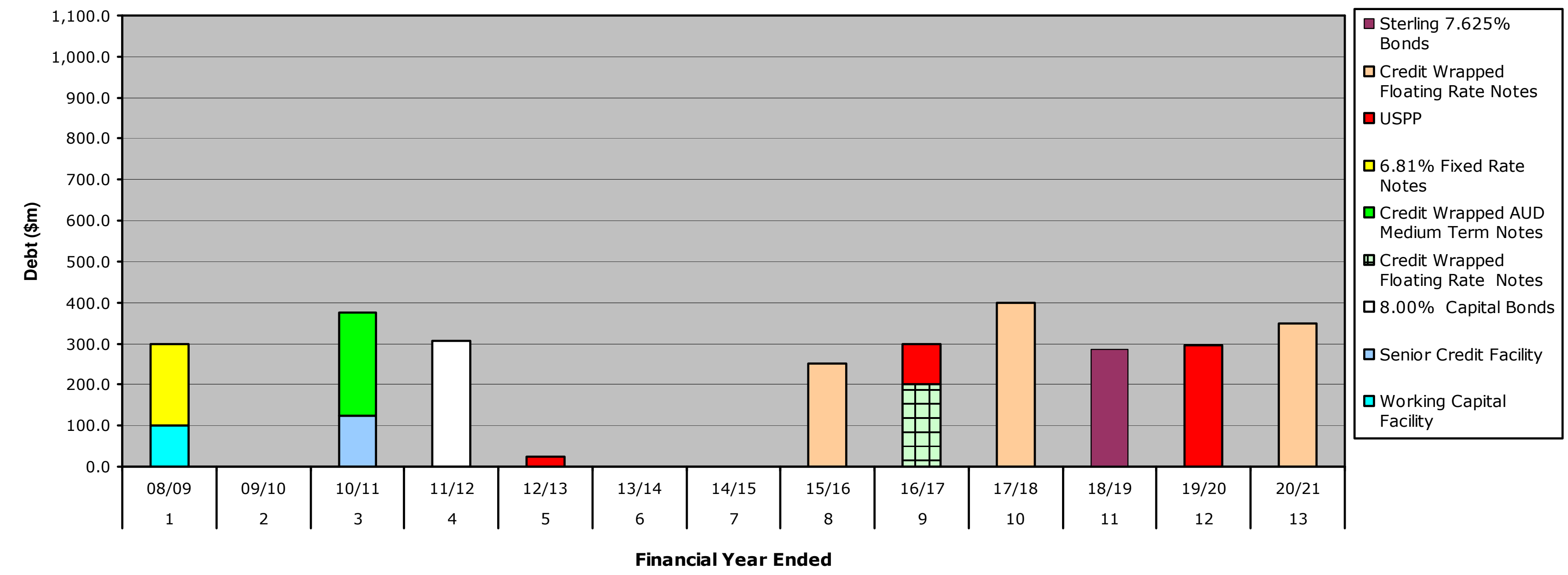
(1) Net Debt

# Debt Facilities Maturity Profile (30 June 2008)




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

# Debt Facilities Maturity Profile – After Sale Wellington Network




| | |
|---|---|
| 1-2 years | 10.40% |
| 2-5 years | 24.42% |
| 5+ years | 65.18% |

# Looking ahead

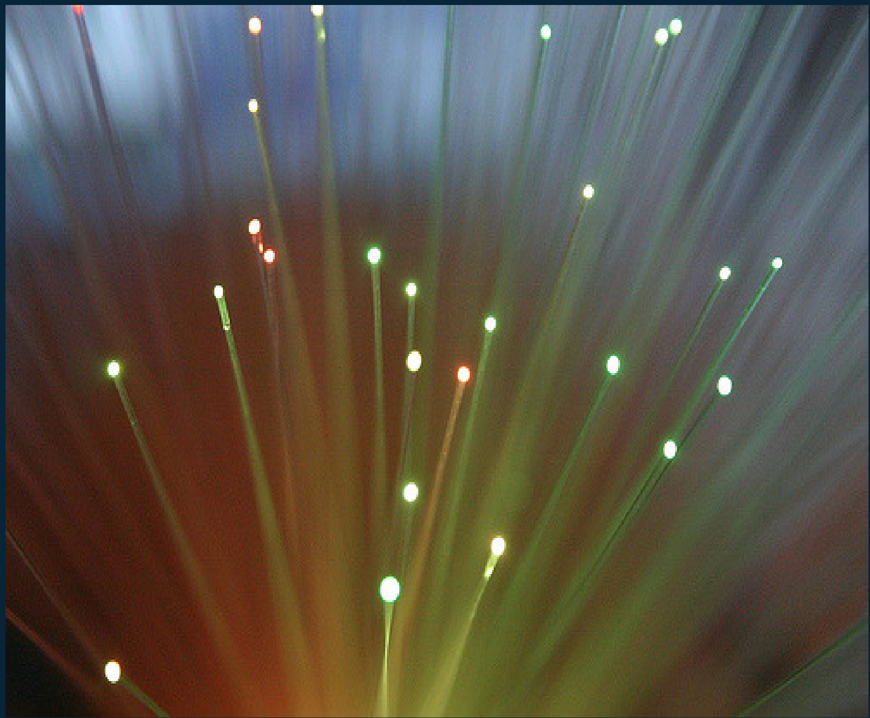
Simon Mackenzie

Group Chief Executive Officer

Vector

# 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

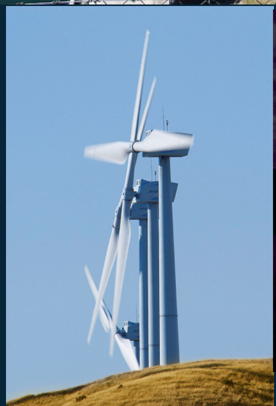
- Renewables

Thin film PV panels

Swift micro-wind turbine

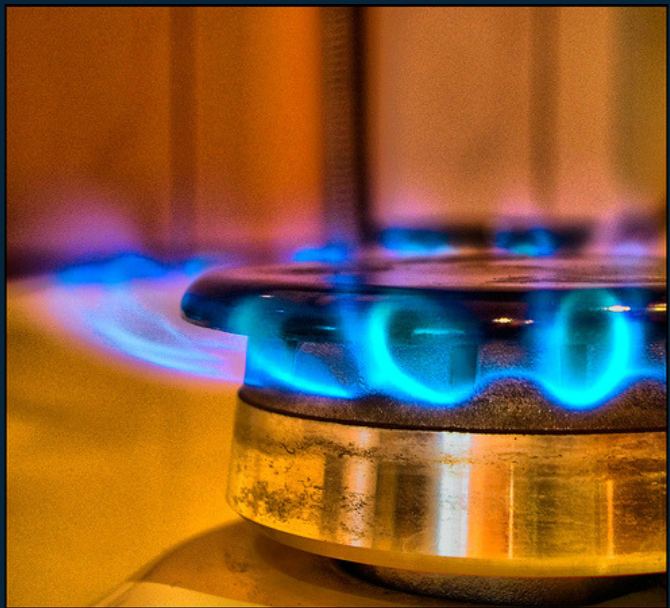
Hills evacuated tube
solar hot water heater

# 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