Financial and Operational Results

Year ended 30 June 2013

22 August 2013







Disclaimer

This financial and operational results presentation dated 22 August 2013 provides additional comment on the market release of the same date. As such, it should be read in conjunction with, and subject to, the explanations and views of future outlook on market conditions, earnings and activities given in that release.

Michael Stiassny

CHAIRMAN

Agenda

1. Dividend
2. Full Year (FY) 2013 summary
3. Financial results
4. Operating overview
5. Outlook and summary

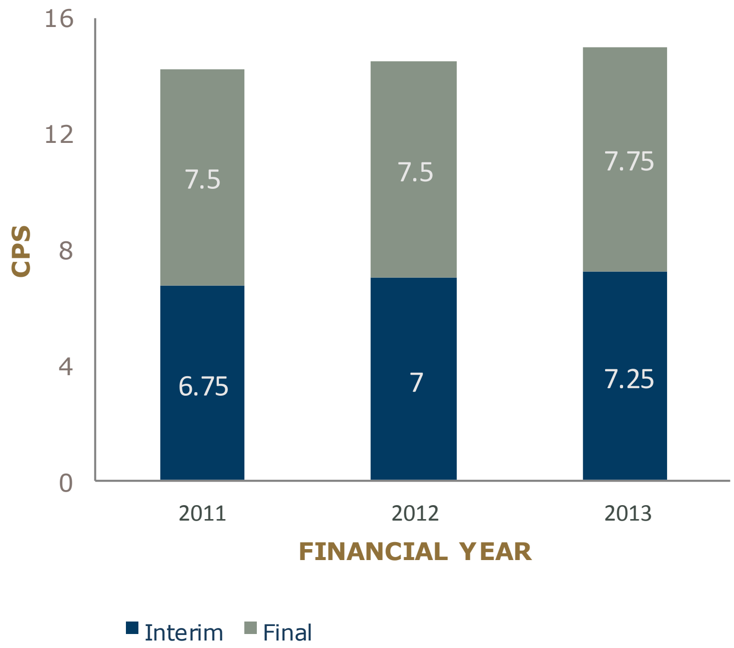
FY 2013 – Dividend

- 2013 fully-imputed full-year dividend rises 0.5 cents to 15.0 cents per share
- Record date: 6 September 2013
  Payment date: 13 September 2013
- All dividends fully imputed

Key ratios	2011	2012	2013
Pay-out ratio*	56%	53%	49%
Dividend yield (pre-tax)	7.9%	7.5%	7.8%
Share price (30 June)	$2.54	$2.68	$2.68

*Pay-out ratio of free cash flows, calculated as operating cash flows less replacement capital expenditure

Declared dividend



Simon Mackenzie

GROUP CHIEF EXECUTIVE



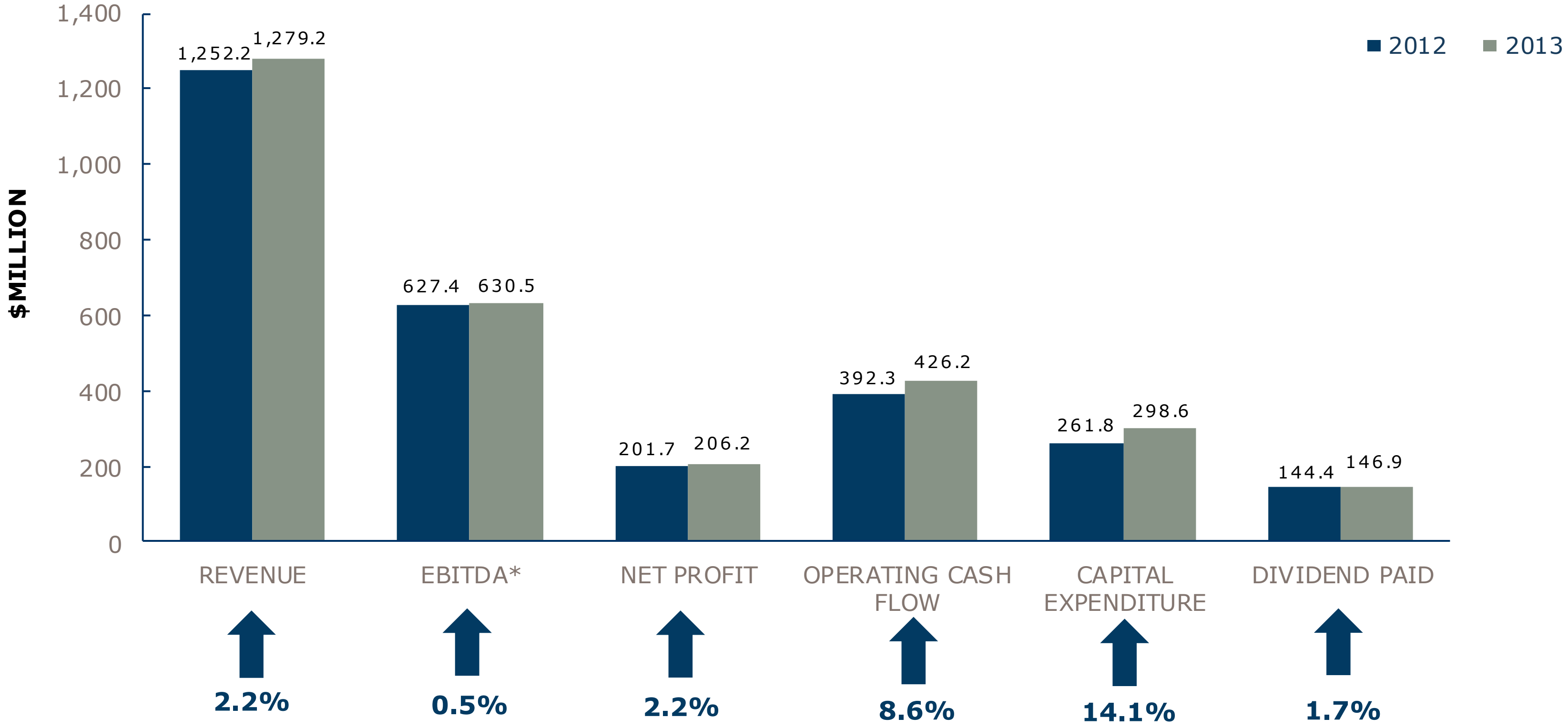




FY 2013 – Overview

- EBITDA above last year's result and ahead of guidance – despite warm summer and mild winter leading into the result
- Vector benefiting from the convergence of information and infrastructure management technologies
- Technology business was the standout performer among our portfolio
- New opportunities such as our photo voltaic cell solution show potential

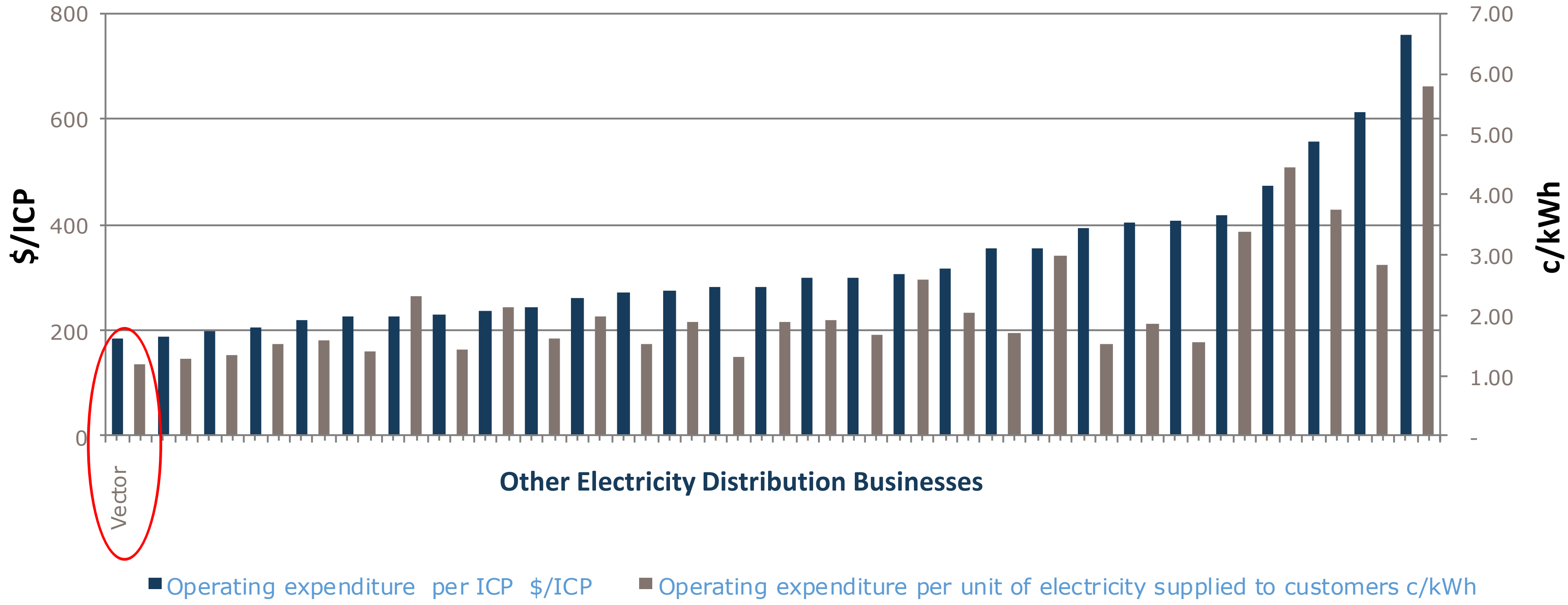
FY 2013 – Financial performance



*EBITDA is a non-Generally Accepted Accounting Practice (GAAP) profit measure and is defined on page 34 and reconciled to GAAP on page 35 of this presentation. All references to this measure throughout this release are consistent with this definition.

Vector – meeting customers demand

New Zealand Electricity Distribution Business operating costs



- We seek to deliver a sustainable and growing dividend to shareholders, grow our portfolio of businesses, drive operational excellence and deliver services attuned to our customers.
- Customers want a utility they can trust, timely delivery of services, choice, flexibility and good value
- We have made significant productivity gains: we are one of the lowest cost providers of electricity
- Customers are yet to benefit from our price reductions on our electricity network equal to $60 per residential customer

Shane Sampson

ACTING CHIEF FINANCIAL OFFICER

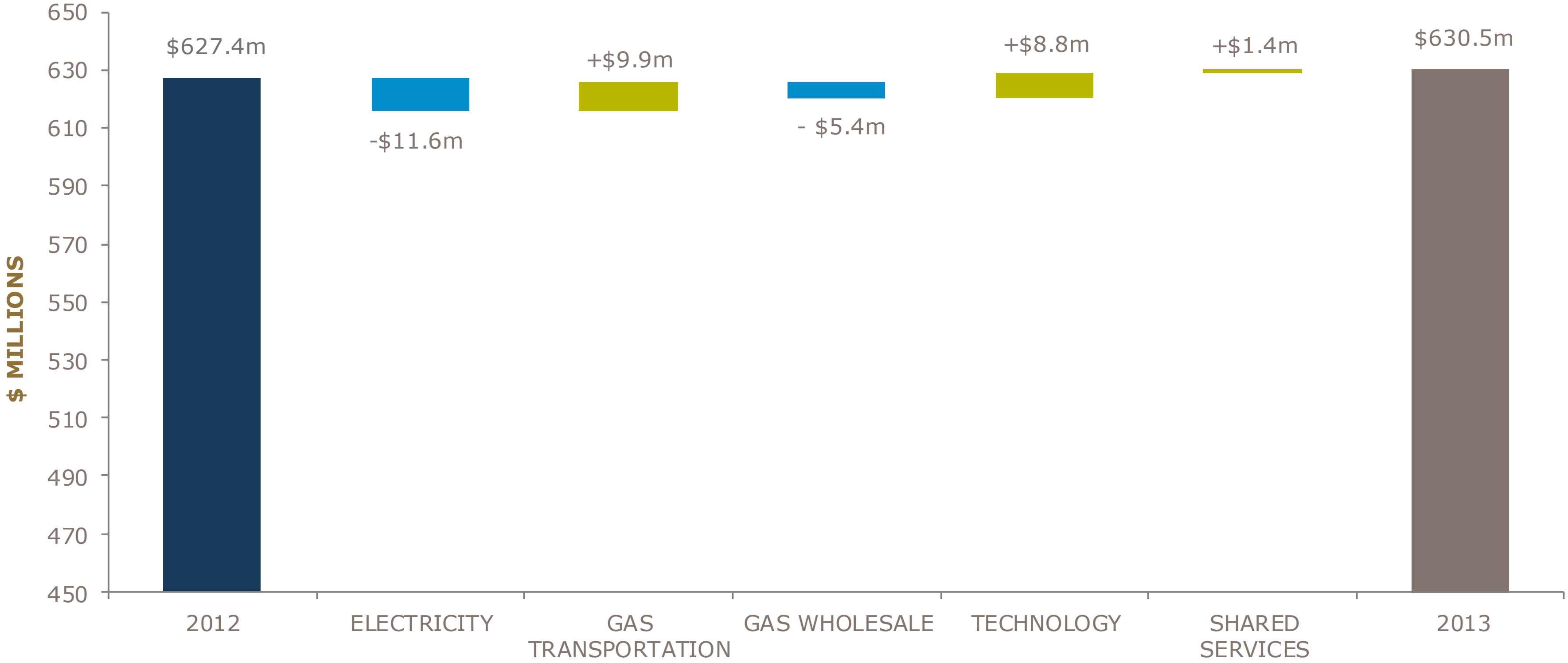
Income statement

YEAR ENDED 30 JUNE	2013 $M	2012 $M	CHANGE (%)
Revenue	1,279.2	1,252.2	+2.2
Operating expenditure	(648.7)	(624.8)	-3.8
EBITDA	**630.5**	**627.4**	+0.5
Depreciation and amortisation	(174.1)	(173.5)	-0.3
EBIT*	**456.4**	**453.9**	**+0.6**
Net financing costs	(164.3)	(166.2)	+1.1
Results of associates	(2.3)	(4.4)	+47.7
Tax	(83.6)	(81.6)	-2.5
Net Profit	**206.2**	**201.7**	**+2.2%**

*EBIT is a non-GAAP profit measure and is defined on page 34 and reconciled to GAAP on page 35 of this presentation. All references to this measure throughout this release are consistent with this definition.

- Operating expenditure rose, largely due to higher Transpower charges
- Depreciation and amortisation was steady
- Treescape earnings offset by NZ Windfarm impairment at the associates line

EBITDA


650
630
610
590
570
550
530
510
490
470
450
$ MILLIONS
$627.4m
-$11.6m
+$9.9m
- $5.4m
+$8.8m
+$1.4m
$630.5m
2012
ELECTRICITY
GAS TRANSPORTATION
GAS WHOLESALE
TECHNOLOGY
SHARED SERVICES
2013

Electricity

YEAR ENDED 30 JUNE	2013 $M	2012 $M	CHANGE (%)
Revenue	632.9	609.0	+3.9
Operating expenditure	(260.4)	(224.9)	-15.8
EBITDA	**372.5**	**384.1**	**-3.0**
% Revenue	58.9%	63.1%	
EBIT	**291.7**	**303.6**	**-3.9**
Replacement capital expenditure	81.0	74.6	+8.6
Growth capital expenditure	69.2	59.6	+16.1
Total capital expenditure	**150.2**	**134.2**	**+11.9**

- Regulated price increases in the first three quarters and higher Transpower charges lifted revenue
- Stripping out the Transpower charges, revenue fell due to soft power consumption and the regulatory reset to our prices effective 1 April 2013
- Capex increases related to roll-out of our solar solution, increased subdivision activity, increased undergrounding activity and the timing of expenditure on major projects including the Hobson Street and Wairau Road substations

Gas Transportation

YEAR ENDED 30 JUNE	2013 $M	2012 $M	CHANGE (%)
Revenue	219.6	214.6	+2.3
Operating expenditure	(49.2)	(54.1)	+9.1
EBITDA	**170.4**	**160.5**	**+6.2**
% Revenue	77.6%	74.8%	
EBIT	**146.5**	**138.8**	**+5.5**
Replacement capital expenditure	24.6	24.9	-1.2
Growth capital expenditure	12.9	10.6	+21.7
Total capital expenditure	**37.5**	**35.5**	**+5.6**

- Regulated price increase and more customers lift distribution network revenue and EBITDA
- Costs fell due to lower maintenance expenditure and other direct costs
- Savings were partially offset by increases in council rates
- Growth capital expenditure increases due to increased subdivision activity

Gas Wholesale

YEAR ENDED 30 JUNE	2013 $M	2012 $M	CHANGE (%)
Revenue	372.2	380.9	-2.3
Operating expenditure	(311.8)	(315.1)	+1.0
EBITDA	**60.4**	**65.8**	**-8.2**
% Revenue	16.2%	17.3%	
EBIT	**44.2**	**50.2**	**-12.0**
Replacement capital expenditure	5.0	5.3	-5.7
Growth capital expenditure	3.3	5.5	-40.0
Total capital expenditure	**8.3**	**10.8**	**-23.1**

- Result underpinned by Kapuni gas supply at legacy prices, higher LPG sales due to continued growth in bottle swap and LPG tolling volume increases
- Gains were diluted by lower Kapuni field production, lower natural gas sales volumes, higher LPG acquisition prices and higher maintenance and administration costs

Technology

YEAR ENDED 30 JUNE	2013 $M	2012 $M	CHANGE (%)
Revenue	109.1	97.0	+12.5
Operating expenditure	(32.8)	(29.5)	-11.2
EBITDA	**76.3**	**67.5**	**+13.0**
% Revenue	69.9%	69.6%	
EBIT	**37.4**	**23.7**	**+57.8**
Replacement capital expenditure	8.4	6.3	+33.3
Growth capital expenditure	80.5	62.3	+29.2
Total capital expenditure	**88.9**	**68.6**	**+29.6**

- Standout performer in portfolio
- Revenue increases driven by growth in installed smart meter base
- Vector Communications making an important contribution
- Cost increases linked to a larger fleet of meters
- Capex increases due to smart meter roll-out

Shared services

YEAR ENDED 30 JUNE	2013 $M	2012 $M	CHANGE (%)
Revenue	0.6	1.2	-50.0
Operating expenditure	(49.7)	(51.8)	+4.1
EBITDA	**(49.1)**	**(50.6)**	**+3.0**

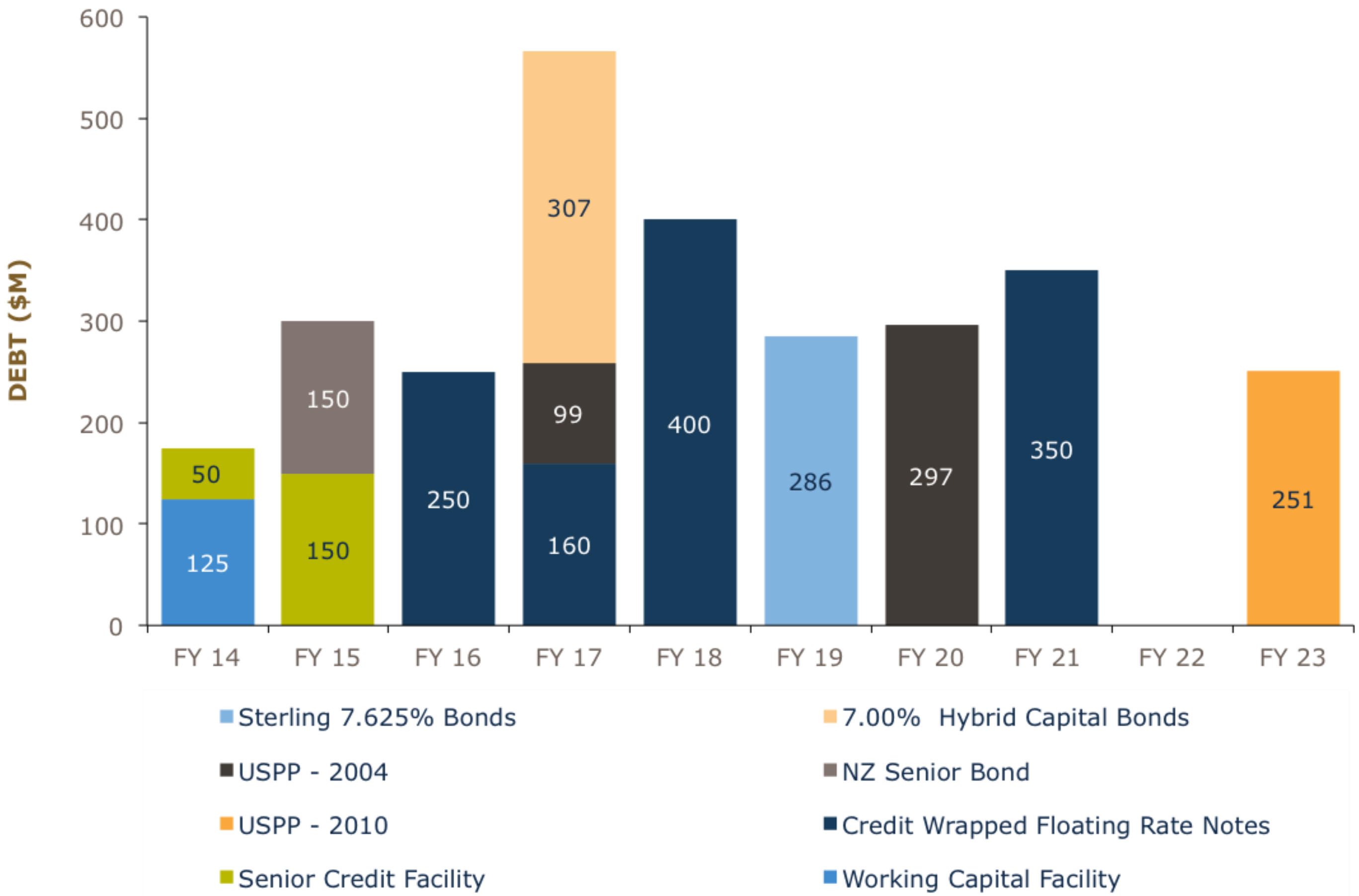
- Costs controlled

Cash flow

YEAR ENDED 30 JUNE	2013 $M	2012 $M
Operating cash flow	**426.2**	**392.3**
Replacement capex	(123.3)	(120.3)
Dividends paid*	(148.3)	(147.4)
Cash available for growth and debt repayment	**154.6**	**124.6**
Growth capex	(160.1)	(139.6)
Other investment activities	3.7	25.7
Pre debt financing cash inflow	**(1.8)**	**10.7**
Decrease in borrowings	(22.8)	(44.8)
Other financing activities	(0.8)	(4.7)
Decrease in cash	**(25.4)**	**(38.8)**

*Includes dividends paid to non-controlling interests in subsidiaries

Debt maturity profile



Asset backing and capital structure

	30 JUNE 2013	31 DECEMBER 2012	30 JUNE 2012
Net debt*	$2,364.3m	$2,286.4m	$2,373.8m
Equity/total assets	39.3%	38.9%	38.2%
Gearing (net debt/net debt+equity)	51.1%	51.0%	52.5%
Net interest cover (EBIT/net finance costs)	2.8x	3.0x	2.7x

- Balance sheet remains strong
- Net debt falls on prior year
- S&P rating BBB+/stable

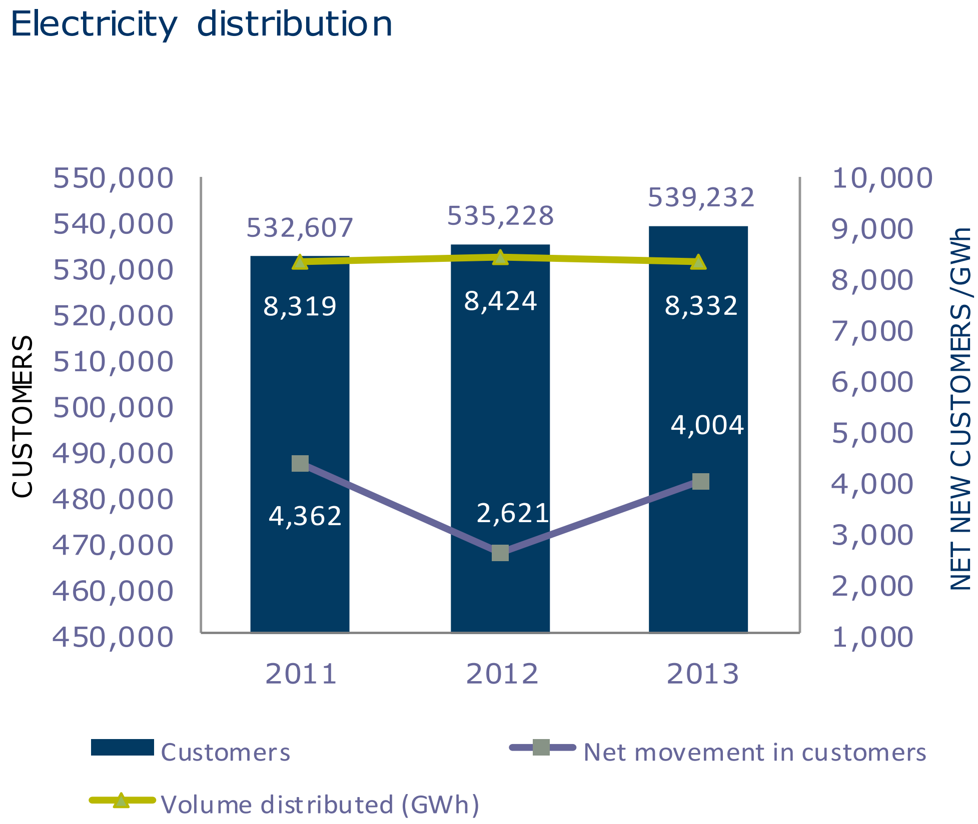
*Borrowings less cash and cash equivalents

Simon Mackenzie

GROUP CHIEF EXECUTIVE

Electricity

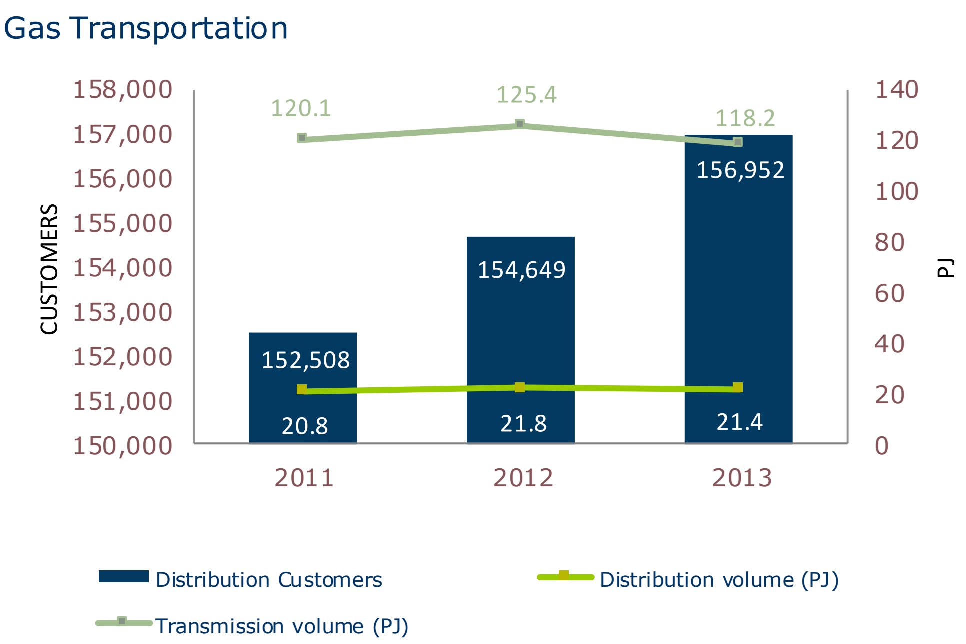
- Electricity customer numbers increased
- Growth in net new customers driven by disconnection of inactive accounts in prior year
- Volumes fall across Vector's networks due mainly to warmer than average temperatures over the prior year
  - Heating degree days falling from 1,262 to 1,150 in 2013*
- Going forward we expect to see connection growth, but on a per user basis we expect to see flat to reducing volumes, consistent with international trends
- Constantly looking to improve and meet demands of energy users:
  - Better information about network outages
  - New solutions – photovoltaic cells with battery storage



*Heating degree days represents the cumulative difference over the year between the average temperature on any given day and a threshold value of 18 degrees, the point at which the average consumer begins to turn on heaters.

Gas Transportation

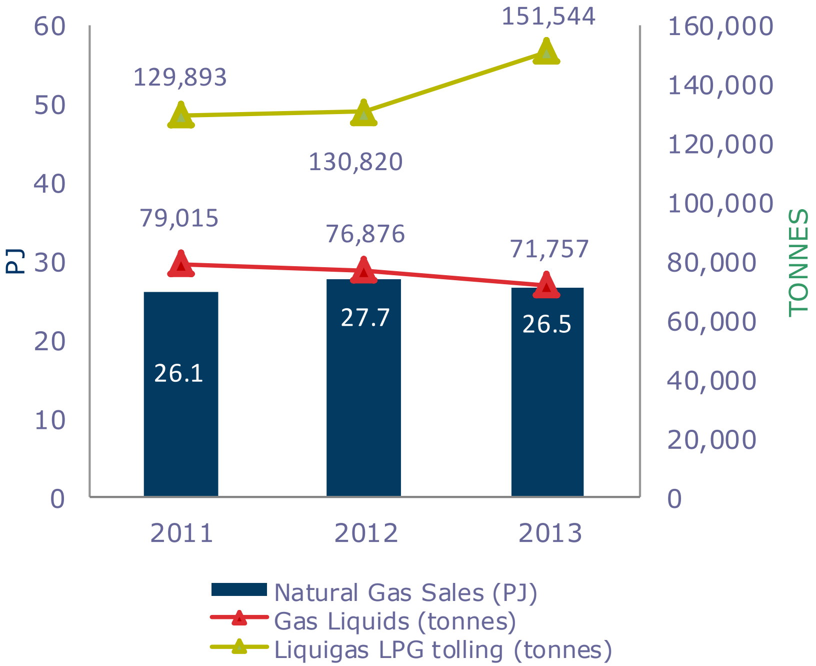
- Increase in subdivisions and growth in small-to-medium sized businesses drives customer growth
- Distribution volumes fall due mainly to warmer weather
- Transmission volumes fall due to reduced gas-fired power station demand
- Growth in net customers from 2,141 to 2,303



Gas Wholesale

- Kapuni
  - Gas supply at legacy prices underpins gas wholesale performance
  - The matter is still subject to appeal but we are confident of our entitlements
- Bottle swap continues to grow
- LPG tolling volumes rise as the South Island recovers
- Lower production from the Kapuni field

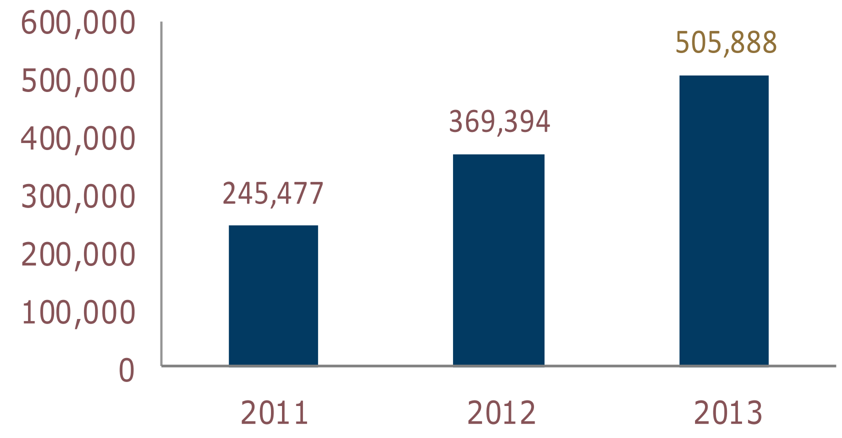
Natural gas and gas liquids



Technology

- Internationally-recognised smart metering programme
- Installed more than 500,000 smart meters
- Contracted to install over 764,000 smart meters up from 670,000 in 2012 after allowing for customer movement between retailers
  - Extended our contract with Contact Energy by 90,000 smart meters
  - Agreed to install 38,000 smart meters for Mighty River Power
  - Will install around 13,000 meters to 15,000 meters a month
  - Investigating opportunities in Australia and application of smart meter technology to gas metering
- Vector Communications is making an important contribution to the group

Smart Meters



Regulation – energy consumer focus

- The Merit Appeals of the Commerce Commission's Input Methodology decisions are due in the next month
  - Brought by Vector along with six of New Zealand's largest infrastructure companies
- From April this year, Vector reduced its electricity lines charges in line with the Commerce Commission's price-quality determination.
- The Commission also mandated price reductions for our gas transmission and distribution networks of 29% and 18% respectively
- We will implement these with our normal price change from 1 October this year

Outlook

- EBITDA to meet market consensus estimates for the 2014 financial year
- Tight cost control and continued growth in our technology businesses will underpin group revenue and earnings
- Remain focused on growing our technology portfolio
- Operate a highly-valued portfolio of assets that is coveted by international investors

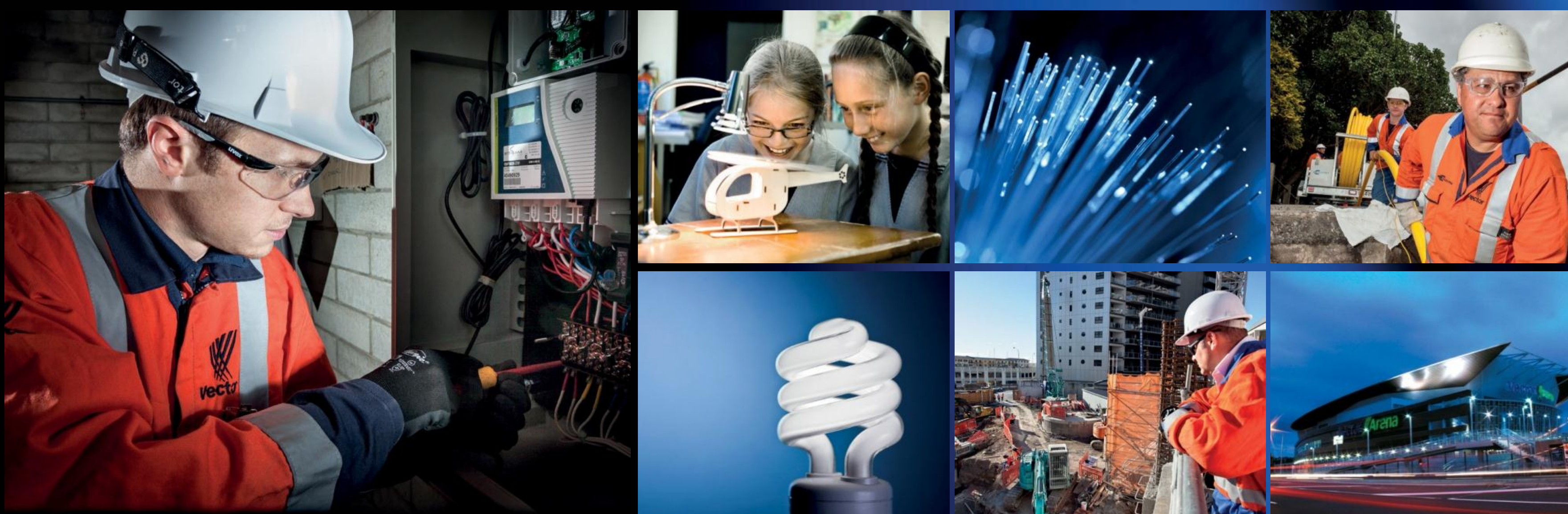
Q&A







Appendix



Operating statistics

	FY 2013	FY 2012	Change (%)
ELECTRICITY			
Customers[1,4]	539,232	535,228	+0.7
Net movement in electricity customers[2]	4,004	2,621	+52.8
Volume distributed (GWh)	8,332	8,424	-1.1
Networks length (km)[1]	17,865	17,780	+0.5
SAIDI (minutes)[3]			
Normal operations	95.8	95.7	+0.1
Extreme events	0.0	0.0	-
Total	95.8	95.7	+0.1

1. As at period end
2. The net number of customers added during the year
3. Regulatory year, 12 months to 31 March 2013 (audited)
4. Billable ICPs

Operating statistics

	FY 2013	FY 2012	Change (%)
GAS TRANSPORTATION			
Distribution customers[1,3]	156,952	154,649	+1.5
Net movement in distribution customers[2]	2,303	2,141	+7.6
Distribution volume (PJ)	21.4	21.8	-1.8
Distribution mains network length (km)[1]	7,089	7,018	+1.0
Transmission volume (PJ)[4]	118.2	125.4	-5.7
Transmission system length owned (km)[1]	2,286	2,286	-
Transmission system length operated/managed (km)[1]	1,132	1,219	-7.1

1. As at period end
2. The net number of customers added during the year
3. Billable ICPs
4. Based on billable volumes

Operating statistics

	FY 2013	FY 2012	Change (%)
GAS WHOLESALE			
Natural gas sales (PJ)[1]	26.5	27.7	-4.3
Gas liquids sales (tonnes)[2]	71,757	76,876	-6.7
Liquigas LPG tolling (tonnes)[3]	151,544	130,820	+15.8

1. Excludes gas sold as gas liquids as these sales are included within the gas liquids sales tonnages
2. Total of retail and wholesale LPG production and natural gasoline
3. Includes product tolled in Taranaki and further tolled in the South Island

Operating statistics

	FY 2013	FY 2012	Change (%)
TECHNOLOGY			
Electricity: smart meters[1]	505,888	369,394	+37.0
Electricity: legacy meters[1]	269,289	355,801	-24.3
Electricity: prepay meters[1]	4,851	5,291	-8.3
Electricity: time of use meters[1]	11,039	10,901	+1.3
Gas meters[1]	215,948	81,600	+164.6
Data management service connections[1]			
– New Zealand and Australia	8,123	8,500	-4.4

1. As at period end

Non-GAAP 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.

***Vector's definition of non-GAAP profit measures used in this document:*:**

- **EBITDA**: Earnings before net finance costs, income tax, depreciation, amortisation, share of net profit/(loss) from associates and impairments.
- **EBIT:** Earnings before net finance costs, income tax, share of net profit/(loss) from associates and impairments.

GAAP to non-GAAP reconciliation

YEAR ENDED 30 JUNE	2013 $M	2012 $M
Net profit for the period (GAAP)	**206.2**	**201.7**
Add back: income tax expense[1]	83.6	81.6
Add back: impairment of investment in associates[1]	3.6	4.1
Deduct: share of net profit from associates[1]	(1.3)	0.3
Add back: net finance costs[1]	164.3	166.2
EBIT	**456.4**	**453.9**
Add back: depreciation and amortisation[1]	174.1	173.5
EBITDA	**630.5**	**627.4**

1. Extracted from audited financial statements

www.**vector**.co.nz