Financial and Operational Results

Year ended 30 June 2012

23 AUGUST 2012

Disclaimer

This financial and operational results presentation dated 23 August 2012 provides additional comment on the media release and 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

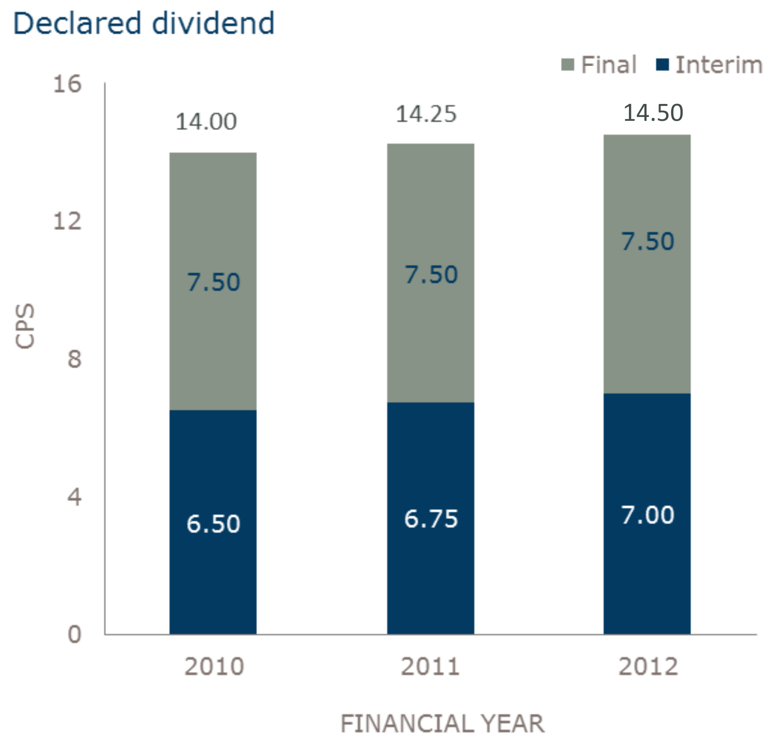
Agenda

- Dividend
- 2012 in summary
- Financial results
- Operating overview
- Outlook and summary

Dividend

- 2012 final dividend of 7.50 cents per share, bringing full-year dividend to 14.50 cents per share, which represents a payout ratio* of 53%.
- Dividend policy targets an average of 60% payout over time
- All dividends fully imputed
- Record date 10 September 2012
- Payment date 17 September 2012

Key ratios	2010	2011	2012
Payout ratio*	51%	56%	53%
Dividend yield (pre-tax)	9.3%	7.9%	7.5%
Share price (30 June)	$2.16	$2.54	$2.68



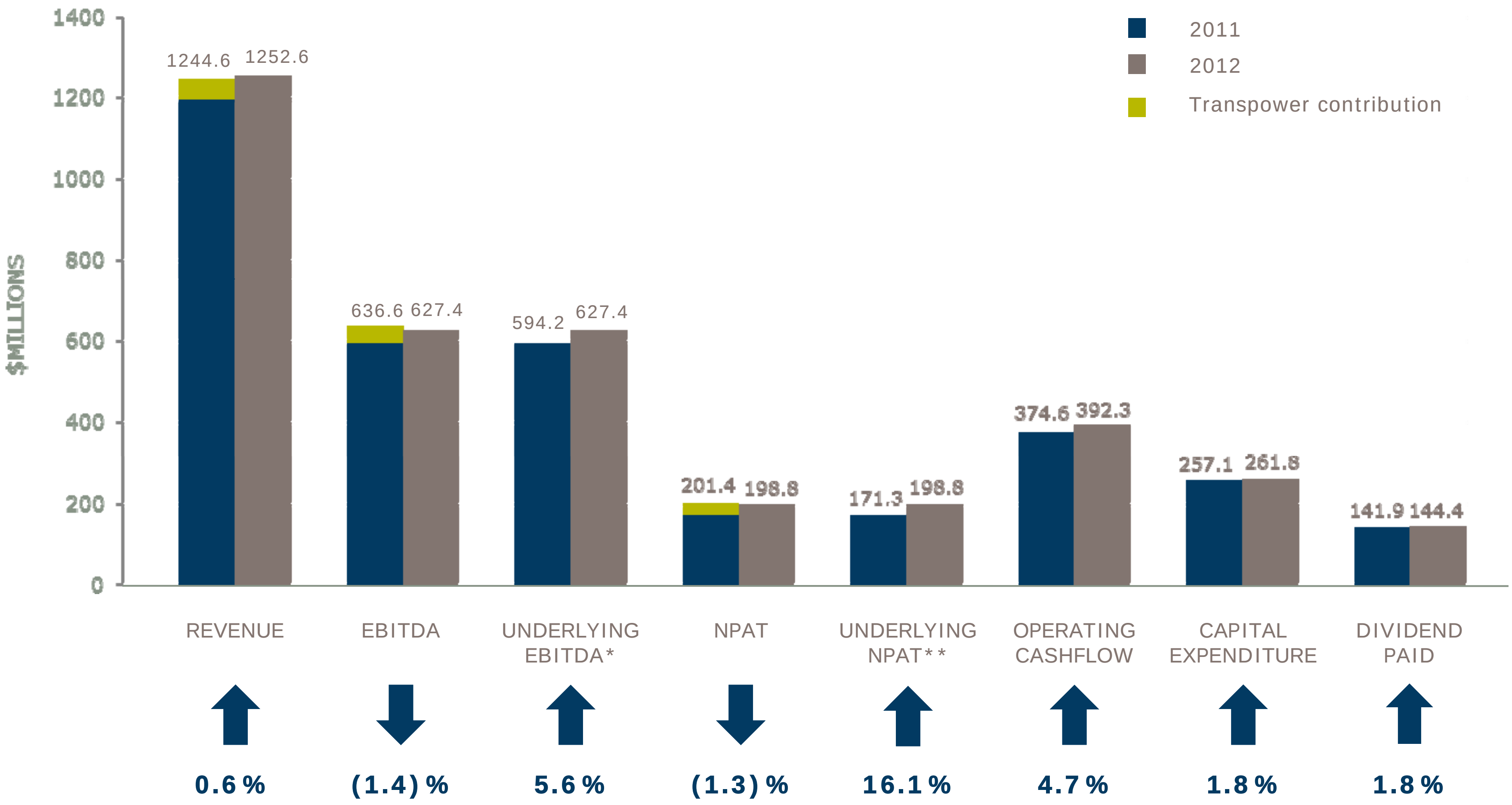
* Payout ratio of free cash flow after replacement capital expenditure

Simon Mackenzie
Group Chief Executive Officer

2012 in summary

- Robust performance across our portfolio of businesses
- Technology delivers the standout performance
- Gas trading business has demonstrated its ability to grow
- Electricity and gas transmission and distribution operations grow customer numbers and volumes despite the muted economy
  - Reliability commitments met
- Regulation remains a focus critical for the country as well as Vector
  - Merits Review, before the courts later this year

Robust performance



* Excludes contribution of $42.4m from Transpower agreement in 2011
** Excludes contribution of $30.1m from Transpower agreement in 2011

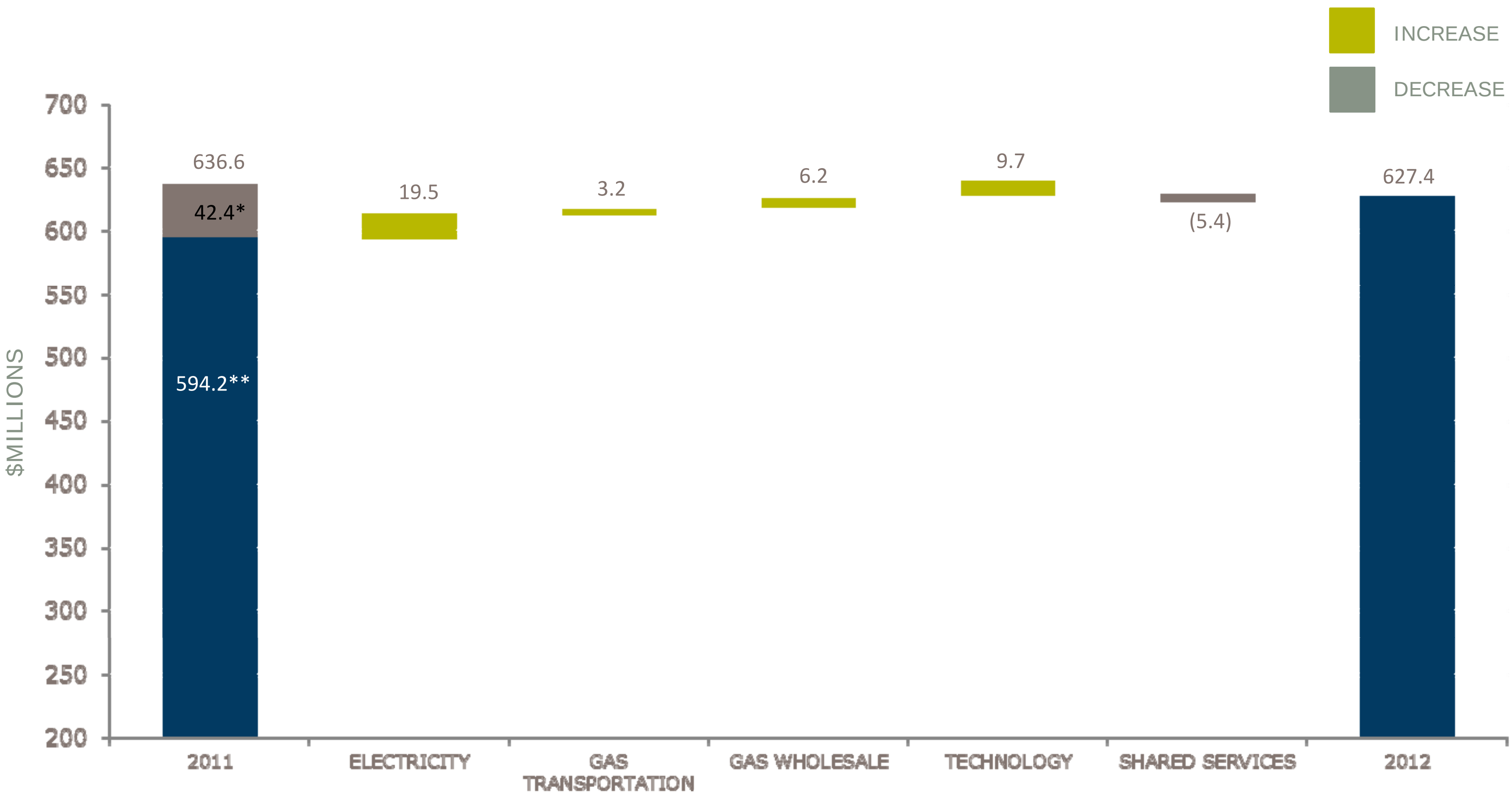
Shane Sampson
Acting Chief Financial Officer

Income statement

YEAR ENDED 30 JUNE	2012 $MILLION	2011 $MILLION	% CHANGE
Revenue	1,252.6	1,244.6	0.6%
Operating expenditure	(625.2)	(608.0)	(2.8)%
EBITDA	**627.4**	**636.6**	**(1.4)%**
Depreciation and amortisation	(173.5)	(170.2)	(1.9)%
EBIT	**453.9**	**466.4**	**(2.7)%**
Results of associates	(4.4)	(1.4)	(214.3)%
Net borrowing costs	(166.2)	(178.2)	6.7%
NPBT	**283.3**	**286.8**	**(1.2)%**
Tax	(81.6)	(82.9)	1.6%
Minority interest	(2.9)	(2.5)	(16.0)%
NPAT	**198.8**	**201.4**	**(1.3)%**
Underlying NPAT	**198.8**	**171.3**	**16.1%**

- Customer contributions of $30.0m (2011: $31.1m)
- 2011 benefited from $42.4m EBITDA and $30.1m NPAT relating to the Transpower agreement

EBITDA movement



*EBITDA contribution from 2011 sale to Transpower of rights to use Vector's Penrose to Hobson Street tunnel
** 2011 EBITDA excluding Transpower sale contribution

Technology

YEAR ENDED 30 JUNE	2012 $MILLION	2011 $MILLION	% CHANGE
Revenue	97.1	87.1	11.5%
Operating expenditure	(29.6)	(29.3)	(1.0)%
EBITDA	**67.5**	**57.8**	**16.8%**
% Revenue	69.5%	66.4%	
EBIT	**23.7**	**12.4**	**91.1%**
Replacement capital expenditure	6.3	9.3	(32.3)%
Growth capital expenditure	62.3	62.2	0.2%
Total capital expenditure	**68.6**	**71.5**	**(4.1)%**

- Installed smart meter base rose 50.5% to 369,394 and currently adding more than 8,000 a month
- Revenue benefited from an increase in the number of smart meters deployed, higher capital contributions and increased gas meter revenue offset by the displacement of legacy meters
- Depreciation and amortisation fell reflecting reduced accelerated depreciation of legacy meters
- Fibre business benefited from sales of higher value services to corporate, IT clients and international carriers.

Gas Wholesale

YEAR ENDED 30 JUNE	2012 $MILLION	2011 $MILLION	% CHANGE
Revenue	381.0	372.3	2.3%
Operating expenditure	(315.2)	(312.7)	(0.8)%
EBITDA	**65.8**	**59.6**	**10.4%**
% Revenue	17.3%	16.0%	
EBIT	**50.2**	**47.2**	**6.4%**
Replacement capital expenditure	5.3	8.0	(33.8)%
Growth capital expenditure	5.5	8.4	(34.5)%
Total capital expenditure	**10.8**	**16.4**	**(34.1)%**

- High international prices for LPG and natural gasoline and better gas sales mix to industrial and commercial customers
- LPG business delivers strong underlying volume growth after 2011 one-off sale stripped out
- Lower volumes tolled in the South Island due to the earthquake
- Emission trading scheme costs and recoveries lower due to weak carbon prices

Electricity

YEAR ENDED 30 JUNE	2012 $MILLION	2011 $MILLION	% CHANGE
Revenue	609.1	574.0	6.1%
Operating expenditure	(225.0)	(209.4)	(7.4)%
EBITDA	**384.1**	**364.6**	**5.3%**
% Revenue	63.1%	63.5%	
EBIT	**303.6**	**286.4**	**6.0%**
Replacement capital expenditure	74.6	72.6	2.8%
Growth capital expenditure	59.6	51.4	16.0%
Total capital expenditure	**134.2**	**124.0**	**8.2%**

- Revenue benefited from increased volumes, higher usage per residential customer due to more normal weather and higher Transpower charges
- All customer segments show consumption gains
- Operating expenditure rises primarily due to an increases in transmission costs
- Depreciation and amortisation higher due to accelerated depreciation of cabling assets
- Growth capex increase reflects the Hobson and Wairau substation expenditure

Gas Transportation

YEAR ENDED 30 JUNE	2012 $MILLION	2011 $MILLION	% CHANGE
Revenue	214.6	205.1	4.6%
Operating expenditure	(54.1)	(47.8)	(13.2)%
EBITDA	**160.5**	**157.3**	**2.0%**
% Revenue	74.8%	76.7%	
EBIT	**138.8**	**135.7**	**2.3%**
Replacement capital expenditure	24.9	21.3	16.9%
Growth capital expenditure	10.6	10.6	0.0%
Total capital expenditure	**35.5**	**31.9**	**11.3%**

- Revenue benefited from an increase in volume and regulated price increases in line with the CPI
- EBITDA margin affected by regulatory cost increases and maintenance expenditure increases due to the timing of specific maintenance objectives

Shared Services

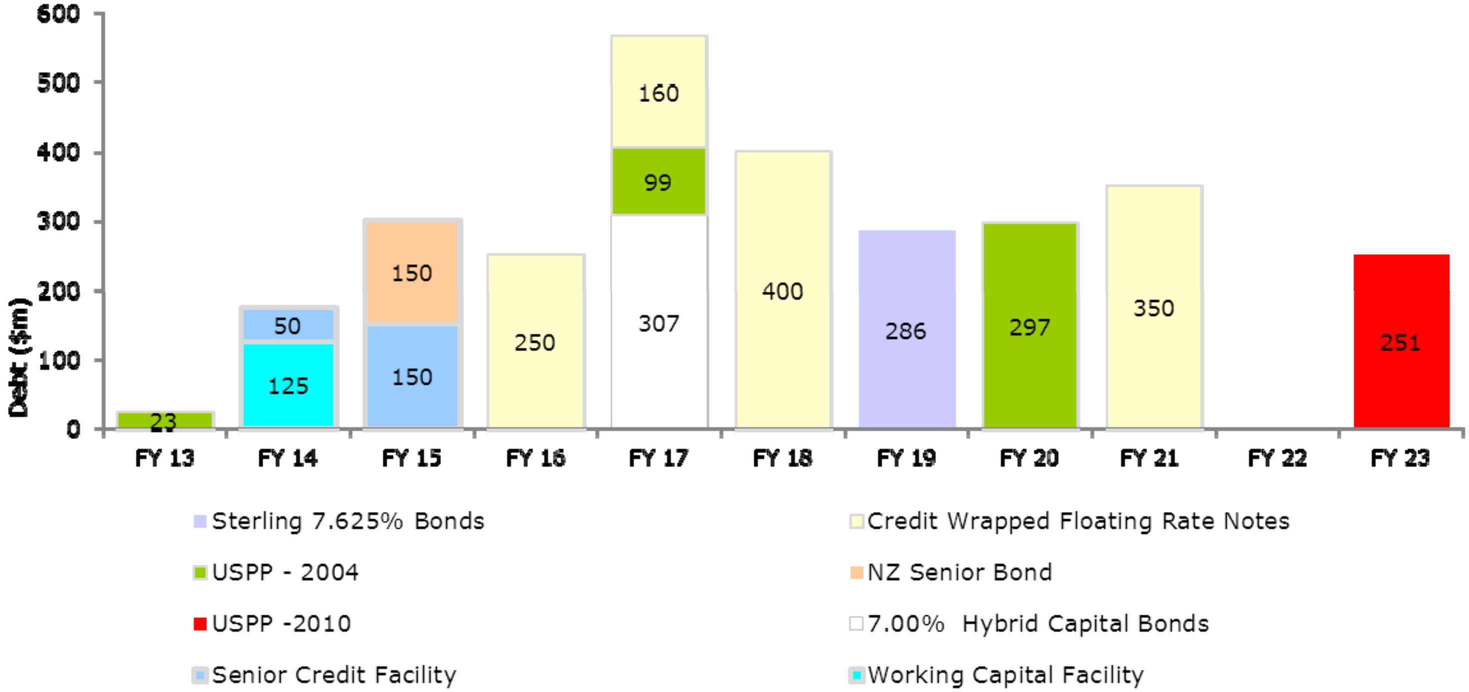
YEAR ENDED 30 JUNE	2012 $MILLION	2011 $MILLION	% CHANGE
Revenue	1.2	50.6	n/a
Operating expenditure	(51.8)	(53.3)	2.8%
EBITDA	**(50.6)**	**(2.7)**	**n/a**

- Comparative performance reflects prior year Transpower transaction, prior year gains on disposal of land and rising regulatory costs

Cash flow

YEAR ENDED 30 JUNE	2012 $MILLION	2011 $MILLION
Operating cash flow	**392.3**	**374.6**
Replacement capex	(120.3)	(119.2)
Dividends paid	(147.4)	(143.7)
Cash available for growth and debt repayment	**124.6**	**111.7**
Growth capex	(139.6)	(132.4)
Other investment activities	25.7	29.4
Pre debt financing cash inflow	**10.7**	**8.7**
(Decrease)/Increase in borrowings	(44.8)	0.2
Other financing activities	(4.7)	(3.3)
(Decrease) / increase in cash	**(38.8)**	**5.6**

Debt maturity profile



- Established $150 million of senior credit facilities maturing February 2015.
- In June 2012 we successfully rolled over at a lower interest rate the $307 million Capital Bonds with the next election date of 15 June 2017

Asset backing and capital structure

	30 JUNE 2012	31 DECEMBER 2011	30 JUNE 2011
Net debt	$2,374m	$2,353m	$2,290m
Equity/total assets	38.2%	37.4%	37.9%
Net debt/net debt+equity	52.5%	52.8%	52.0%
Interest (net) cover	2.7x	2.8x	2.6x

- Standard & Poor’s affirmed our BBB+/stable investment-grade credit rating in August 2012

Simon Mackenzie
Group Chief Executive Officer

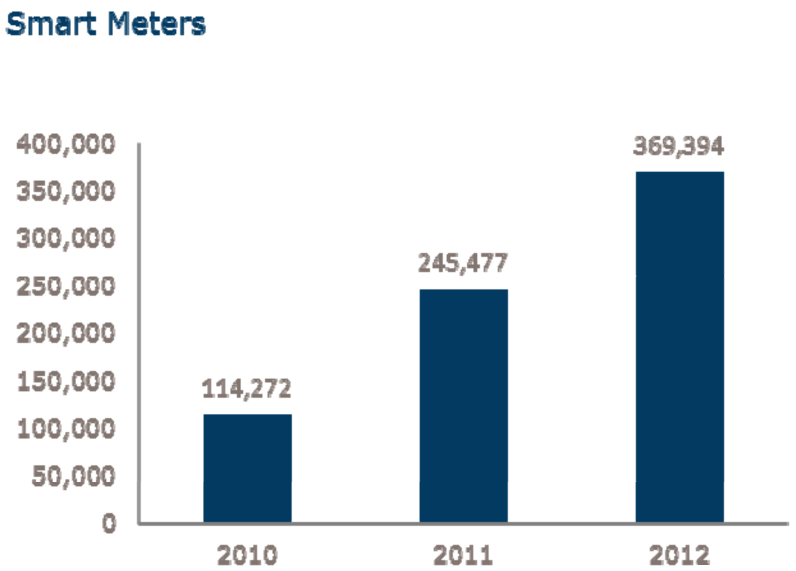
Technology

Metering

- Continued smart meter growth; halfway through contracted roll out
- Excellent opportunities to upgrade and grow smart metering business

Fibre

- Adapting well to new environment; a telecommunications logistics provider
- Blue chip customer base



Gas Wholesale

Natural Gas

- Reinforces position as New Zealand's leading and trusted gas intermediary

LPG

- Lower volumes due to last year's opportunistic sale

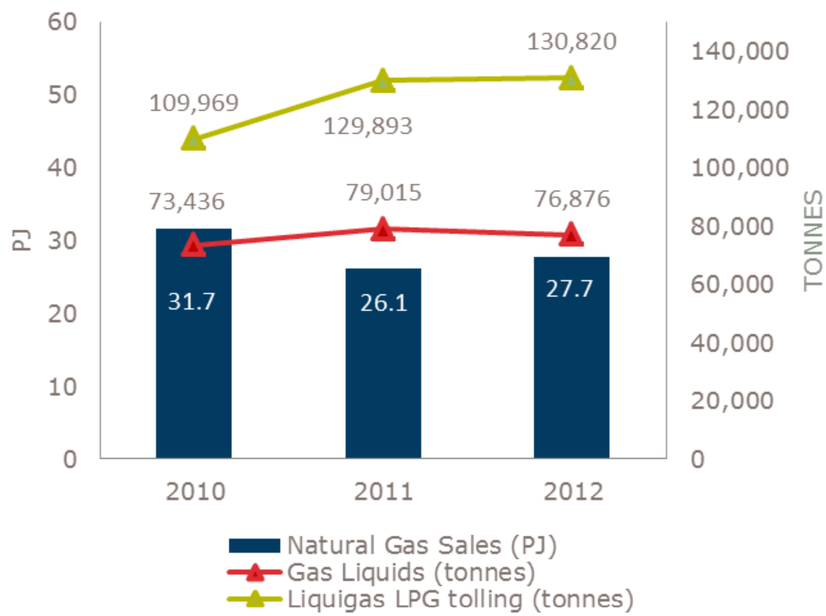
Kapuni Gas Treatment Plant

- Benefited from higher natural gasoline prices
- Throughput falls due to lower Kapuni production

Liquigas

- Tolling volumes increase due to rising exports but offset by weaker South Island demand

Natural gas and gas liquids



Gas Wholesale (cont.)

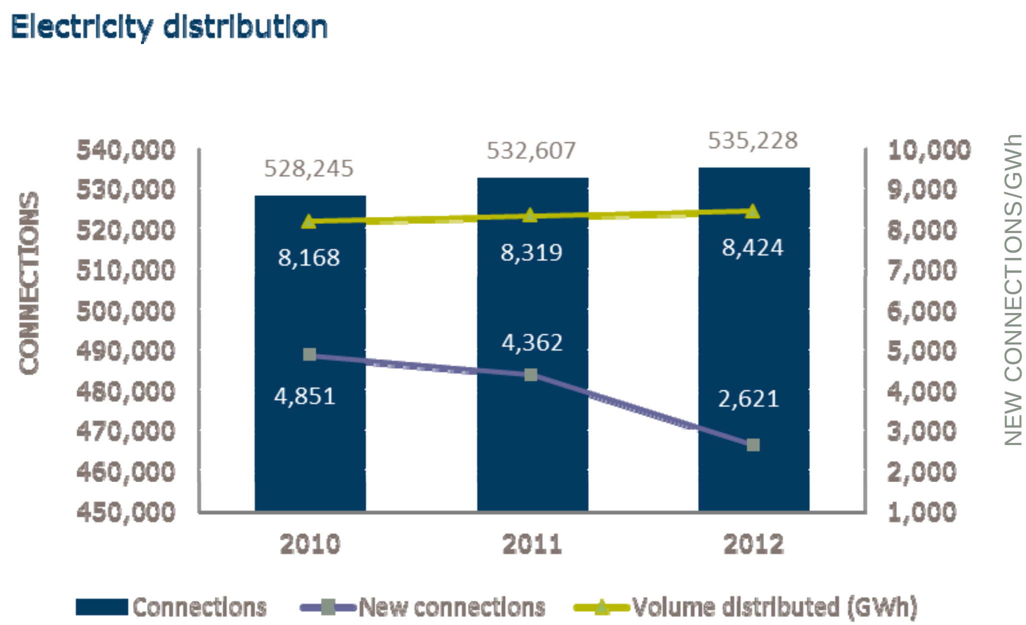
Emissions trading scheme costs and recoveries fall due to lower carbon prices

Kapuni gas determinations will have a bearing on Vector earnings although revenue expected to grow;

- Contractual rights to half of Kapuni reserves
- Negotiating a price for a further tranche of gas above 1,010 PJ (roughly 35PJ)
- Pursuing a further 7.3PJ at legacy price

Electricity

- Total customer numbers continue to grow despite tough economy
- New connections growth down year-on-year
  - Dormant account disconnections overshadow customer gains
  - Industrial and commercial connections grow 2.3%
- Volumes continue to rise
  - Weather returns to more normal patterns
- SAIDI of 95.7



Gas Transportation

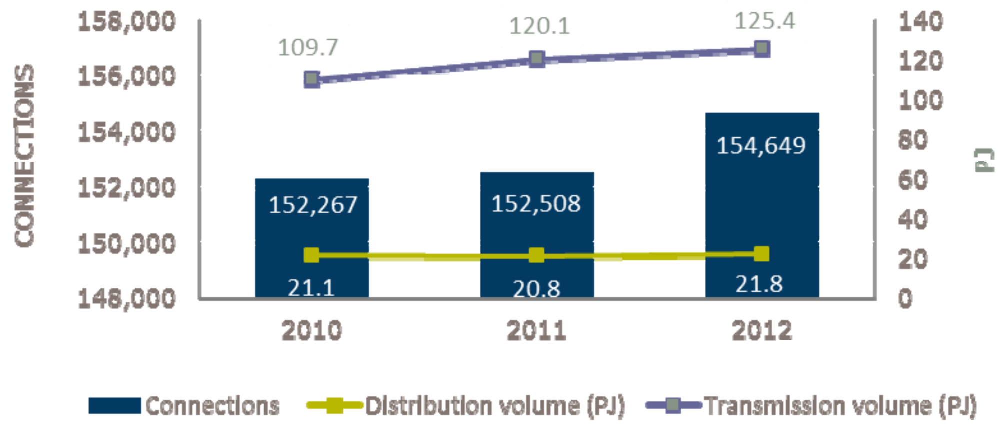
Gas Distribution

- Connections up 1.4% reflecting residential connections
- Net additions down due to dormant account disconnections
- Distribution volumes increase 4.8%

Gas Transmission

- Volumes up 4.4% due to higher usage of gas-fired electricity generation
- Excellent performance by the Vector team to resolve the Maui outage:
  - Optimised capacity on the smaller Vector network
  - Worked well with customers to manage their demand

Gas Distribution and Transmission



Regulation: seeking clarity

- New Zealand's lack of regulatory certainty is impinging on our international competitiveness
- Vector seeks a regime that balances:
  - The long-term national interest to incentivise international capital markets to fund the creation of safe and secure and cost-effective infrastructure;
  - Consumers' short-term desires for cheaper services.

Regulation: seeking clarity

- Half-time in the regulatory process:
  - Merits review resumes later this year: the Commerce Commission has not provided a complete regulatory package
  - The Commerce Commission draft decision – to reduce our electricity distribution prices by an average of eight percent in 2013 and the back dating of that change to 2012 – reinforces Vector's position
  - We will only arrive at the balance and stability the country needs if Vector and others test this still immature regime through the courts
- Starting price adjustment judicial review appealed to the Supreme Court
- Process judicial review failed but provided clarity over future engagement with the industry
- Treasury has also highlighted issues over the Commission's lack of predictability

Investing for growth

Capital investment will accelerate in 2013 and beyond

Electricity

- Wairau Road and Hobson Street Substations
- Plan significant capex and maintenance over the next decade
- Exploring new technologies such as solar cells

Gas Transportation

- Pipeline rejuvenation in Auckland and Hamilton
- Extended distribution network by 29km

Technology

- Smart meter rollout
- Additional smart meter contracts as retailers move to smart meters
- Number of options for fibre business

Gas Wholesale

- New Zealand’s leading gas intermediary

Outlook and summary

- A robust year with strong operational performance and confident we can continue to deliver:
- Looking forward to 2013 a number of uncertainties:
  - the Commerce Commission's decision on the starting prices on our regulated electricity network for the current regulatory period
  - the outcome of the Merits Review court action on the regulatory regime
  - negotiations over our rights to gas at the Kapuni field and the price we pay for that gas
- Our objective is to maintain EBITDA broadly in line with this year and market consensus, recognising these uncertainties

Q&A

Appendix

Operating statistics

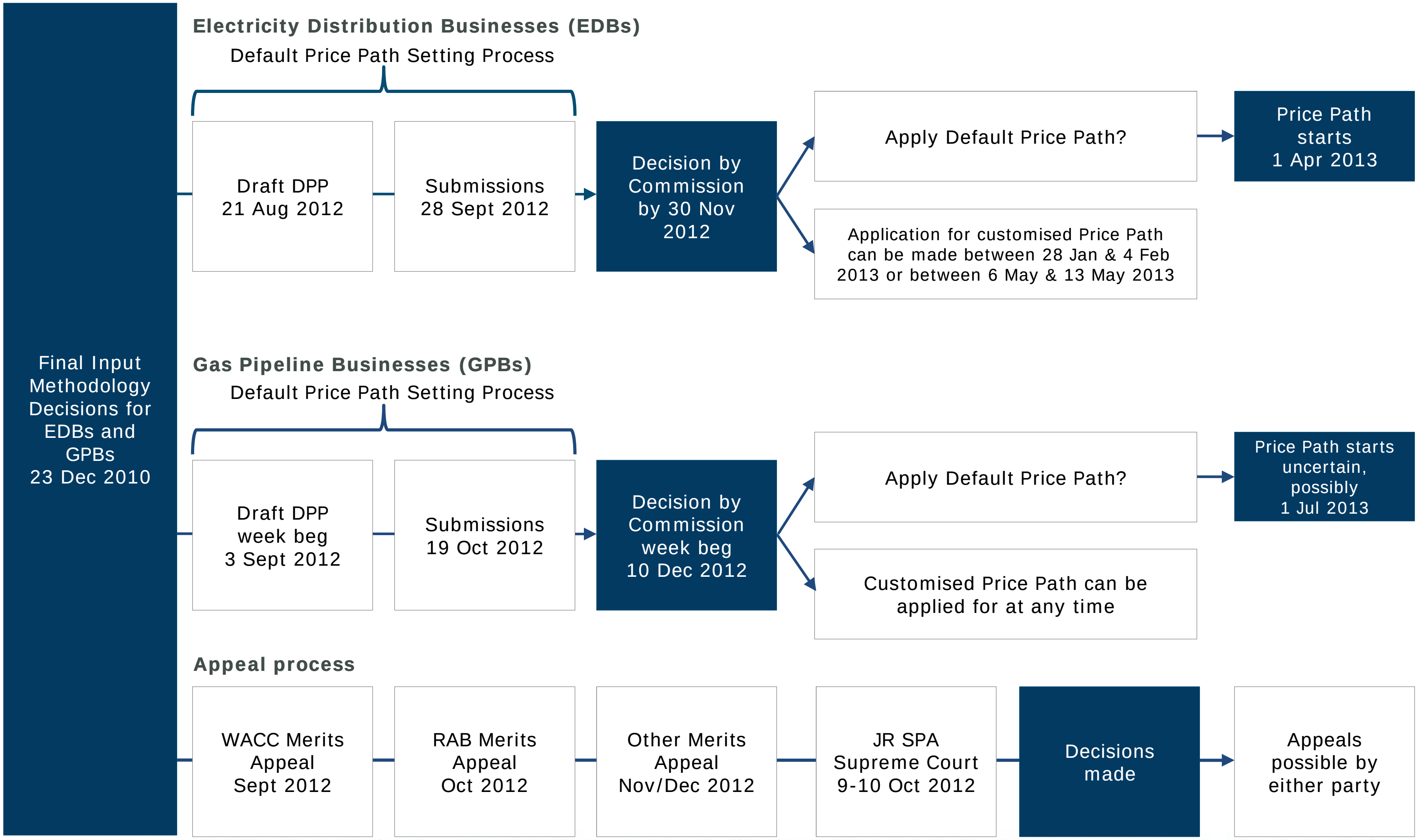
	FY2012	FY2011	% CHANGE
ELECTRICITY			
Customers[1]	535,228	532,607	0.5%
Net movement in customers[2]	2,621	4,362	(39.9)%
Volume distributed (GWh)	8,424	8,319	1.3%
Networks length (km)	17,780	17,737	0.2%
SAIDI[3]			
Normal operations (minutes)	95.7	114.4	(16.3)%
Extreme events (minutes)	0.0	8.8	n/a
Total	95.7	123.2	(22.3)%
GAS TRANSPORTATION			
Distribution customers[1]	154,649	152,508	1.4%
Net movement in customers[2]	2,141	2,833	(24.4)%
Distribution volume (PJ)	21.8	20.8	4.8%
Distribution mains network length (km)	7,018	6,989	0.4%
Transmission volume (PJ)[4]	125.4	120.1	4.4%
Transmission system length owned (km)	2,286	2,287	(0.0)%
Transmission system length operated/managed (km)	1,219	1,293	(5.7)%

Operating statistics

	FY2012	FY2011	% CHANGE
GAS WHOLESALE			
Natural gas sales (PJ)[5]	27.7	26.1	6.1%
Gas liquid sales (tonnes)[6]	76,876	79,015	(2.7)%
Liquigas LPG tolling (tonnes)[7]	130,820	129,893	0.7%
TECHNOLOGY			
Electricity: smart meters[1]	369,394	245,477	50.5%
Electricity: simple meters[1]	355,801	463,812	(23.3)%
Electricity: prepay meters[1]	5,291	5,991	(11.7)%
Electricity: time of use meters[1]	10,901	10,853	0.4%
Gas meters[1]	81,600	79,588	2.5%
Data management service connections[1]			
– New Zealand and Australia	8,500	8,313	2.2%

1. As at period end
2. The net number of customers added during the 12 month period
3. Regulatory year – 12 months to 31 March. The SAIDI audited value for the regulatory year ended 31 March 2012 was revised in June to 95.7 from 95.3.
4. Volumes based on billable volumes
5. Natural gas sales volumes exclude gas sold as gas liquids as these sales are included within the gas liquids sales tonnages
6. Total of retail and wholesale LPG production and natural gasoline
7. Tolling volumes include product tolled in Taranaki and further tolled in the South Island

Regulatory timeline – key milestones



Regulatory timeline – last 11 months

	Electricity Distribution Businesses (EDB)	Gas Pipeline Businesses (GPB)	Appeals
September 11			**Judicial Review (SPA) judgment *in favour of Vector*** Starting Price Adjustment to be included in Input Methodologies
October 11	**Default Price Path suspended until April 13**		**Commission appeal Judicial Review (SPA)**
November 11		**Draft Decisions** Interim Price Adjustment in Oct 2012. Transmission and uncontrolled distribution prices to remove inflation since 2010	
December 11			**Judicial Review judgment in favour of Commission** Cross sector information to be included in merits review
January 12		**WACC published** Vanilla WACC (P75) of 7.85% – risk free rate set at 3.45% (1 Dec 11)	
February 12		**Commencement of Regulatory period delayed** No interim price adjustment, no clawback, implication that WACC will be reset	
March 12			**Judicial Review (SPA) Court of Appeal hearing**
June 12	**Commission consultation on additional IMs for electricity and gas**		**1 June: Judicial Review (SPA) Court of Appeal judgment in favour of Commission**

Regulatory timeline – upcoming milestones

	Electricity Distribution Businesses (EDB)	Gas Pipeline Businesses (GPB)	Appeals
August	Draft decisions: Default Price-Quality Path Price Reset		
September	New Default Price-Quality Path Input Methodologies decisions published (if no extension applied for)		WACC Merits Review Appeal
		Draft decisions: Default Price-Quality Path Price Reset	
October			9-10 October: Judicial Review (SPA) Appeal held in Supreme Court Mid October: Asset Valuation Merits Review
November	Final decision on Default Price-Quality Path		Other Merits Review and error of law appeals
December		Final decision on Default Price-Quality Path	
1 April 13	Default Price-Quality Path commences		
July 13		Default Price-Quality Path commences (most likely date)	

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