Financial and Operational Results

YEAR ENDED 30 JUNE 2015

CREATING A NEW ENERGY FUTURE

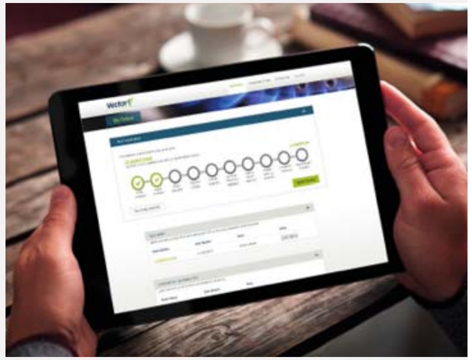
Disclaimer

This financial and operational results presentation dated 28 August 2015 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



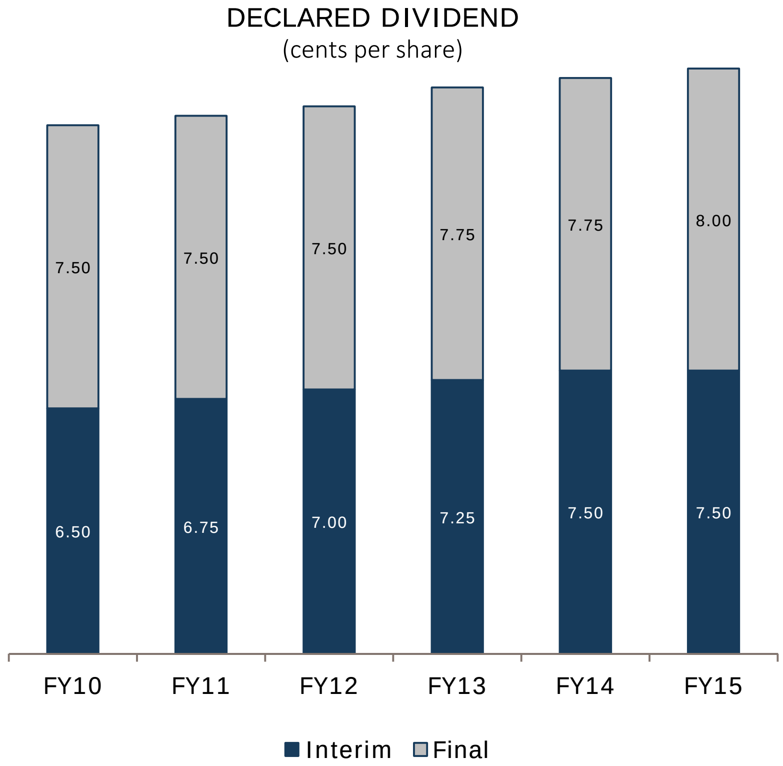


Agenda

- Dividend
- Result Highlights
- Operating Overview
- Outlook
- Q & A

Delivering sustainable increases in dividends

- 2015 fully-imputed full year dividend rises 0.25 cents per share to 15.50 cents per share
  - Record date: 14 September 2015
  - Payment date: 21 September 2015
- FY15 dividend represents 69% of operating cash flow less replacement capex
- Payout to remain above policy of 60% for next few years, following payout below policy over 4 years to FY13



Simon Mackenzie

GROUP CHIEF EXECUTIVE

FY 2015 Snapshot

SUSTAINABLE GROWTH

- New electricity connections up 26%
- Acquisition of Arc; smart meter contract with Meridian

CUSTOMER FOCUS

- Meeting customer demand for new technologies: batteries, solar, electric vehicles & home energy management
- Online tool cuts gas connection quote time from 5 days to seconds

OPERATIONAL EXCELLENCE

- Street Evaluating Laser Methane Assessment (SELMA) vehicle improves safety, reliability and cost across gas networks
- Tough year for electricity with storms & Penrose driving SAIDI breach

PARTNERSHIPS

- Relationship with Tesla Energy to bring affordable battery solutions to our customers
- Working to develop the charging infrastructure to support electric vehicles

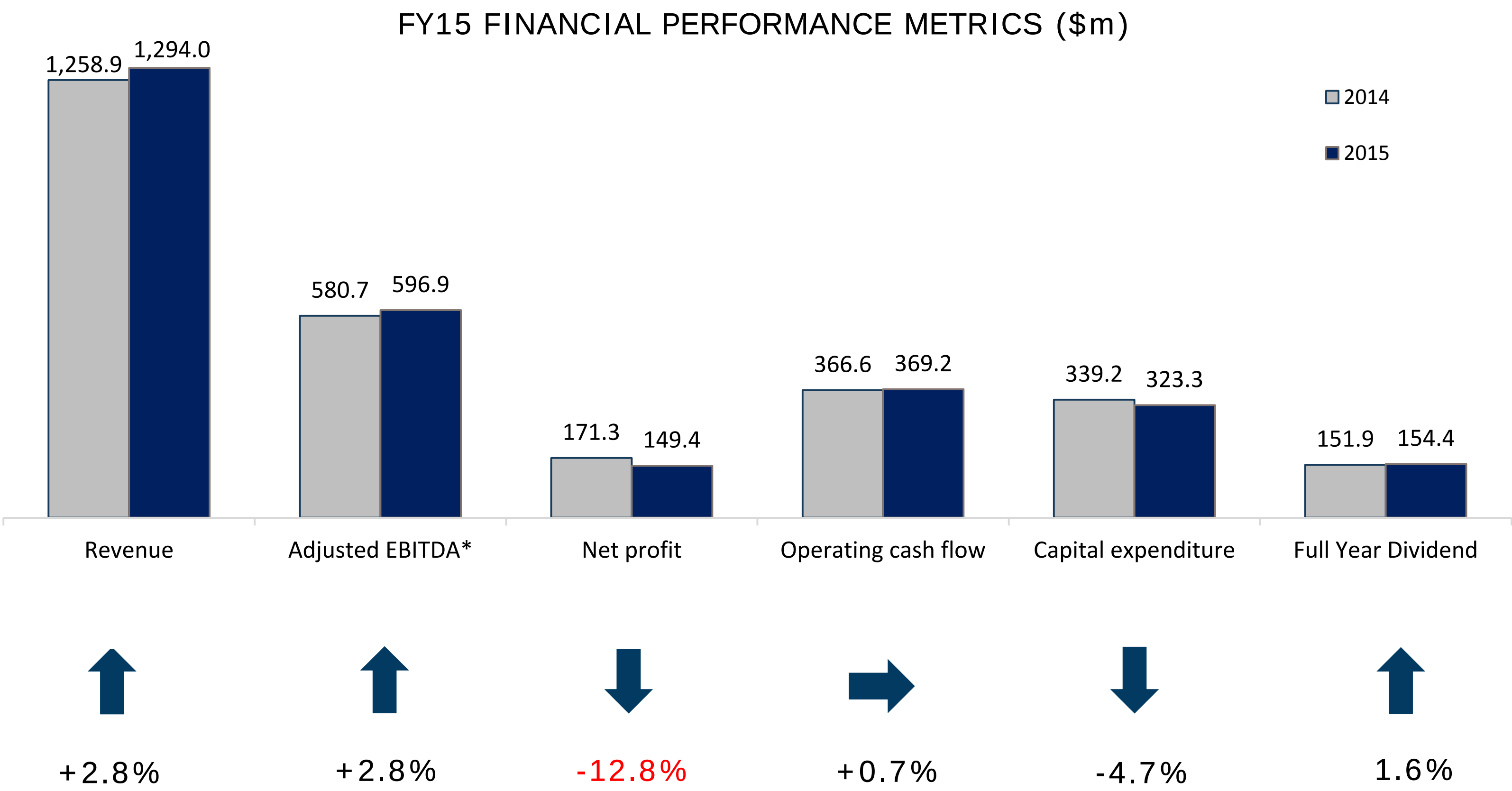
SAFETY, PEOPLE AND CULTURE

- Continued strong focus on injury prevention, cessation of most ‘live-line’ work
- 42.5% reduction in TRIFR over the period

Dan Molloy

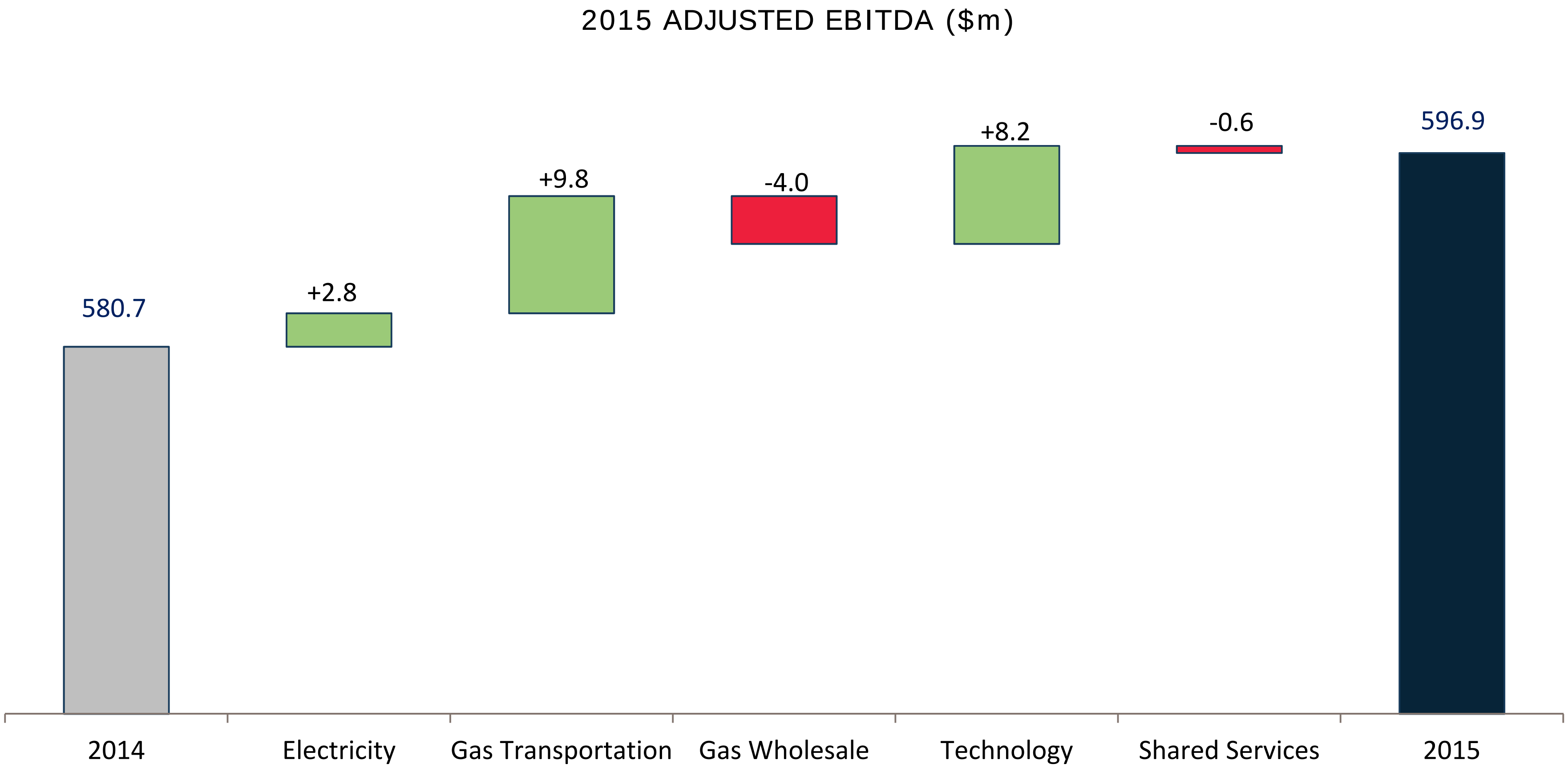
CHIEF FINANCIAL OFFICER

Financial performance overview



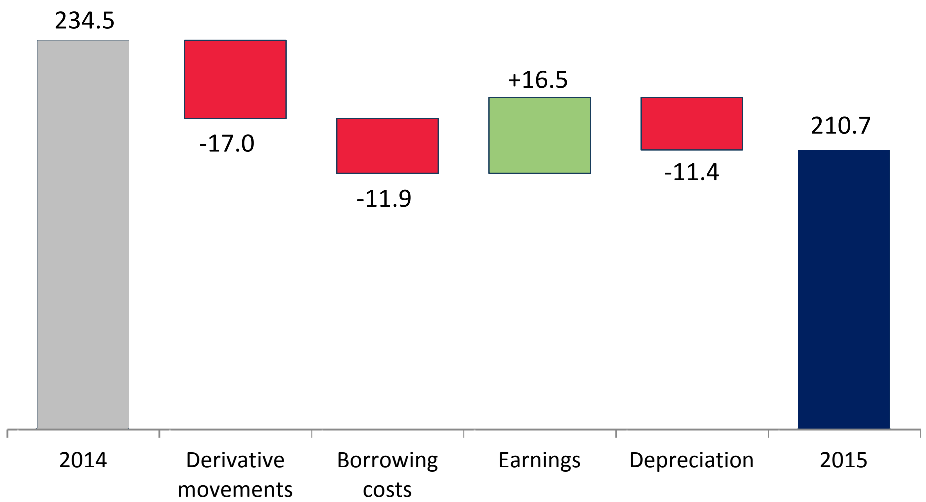
*Adjusted EBITDA is not a GAAP measure of profit. For a reconciliation of this measure to net profit refer to page 31 of this presentation.

Smart metering, network volumes & capital contributions drive growth

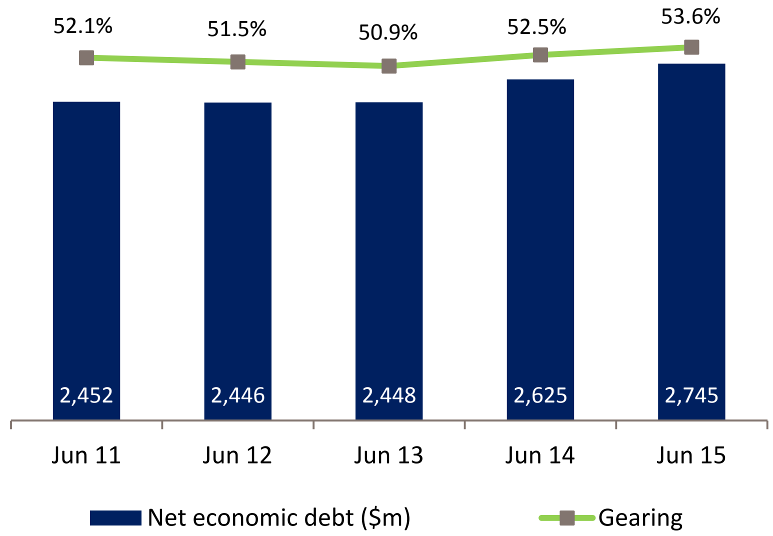


Derivative losses & borrowing costs impact profit

MOVEMENT IN NET PROFIT BEFORE TAX ($m)



NET ECONOMIC DEBT & GEARING ($m)

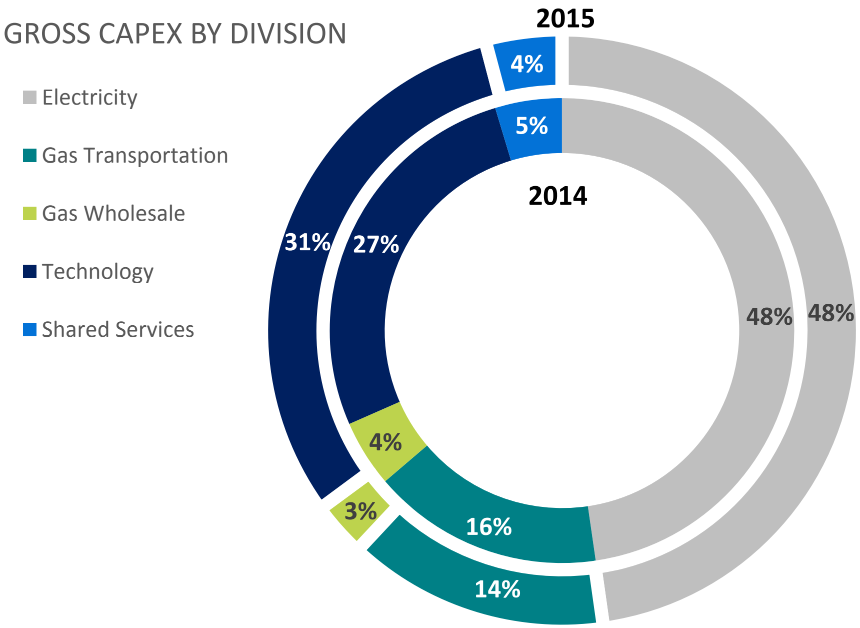


- Around 70% of fall in net profit before tax is due to non-cash mark-to-market movement on derivatives. This volatility over the term of the debt will net out to zero at maturity.
- We have updated our net debt and gearing metrics to include the impact of debt hedging. This better reflects the economic value of our debt book.

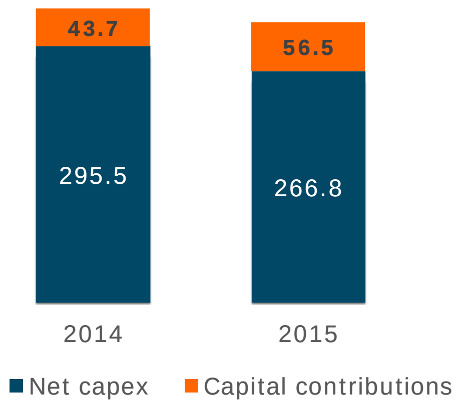
Net capex down 10% due to higher contributions & lower deployment of Vector owned smart meters

- Total capex down 4.7% to $323.3m
- Net capex (after contributions) down 9.7%
- Capital contributions up 29.3% on back of significant relocations in gas transmission and new subdivision growth across distribution networks
- Reduced smart meter deployment for owned meters drives reduction to Technology capex

GROSS CAPEX BY DIVISION



GROSS CAPEX SPLIT ($m)



Simon Mackenzie

GROUP CHIEF EXECUTIVE

Creating a new energy future

Technology

- Vector expects to bring two Tesla Energy Battery solutions to NZ
- Tesla Energy’s Powerwall Home Battery for residential/SME
  - 7 kWh daily use; store daytime solar energy for use in the peak evening period
  - 10 kWh weekly cycling; UPS & backup power
- Tesla Energy's Powerpack Commercial Battery system
  - 100 kWh – 10 MWh
  - New options for network investment
- Future of energy competition: over 130 winners will receive use of a Vector solar system with Tesla Energy’s Powerwall Home Battery

Creating a new energy future

Technology

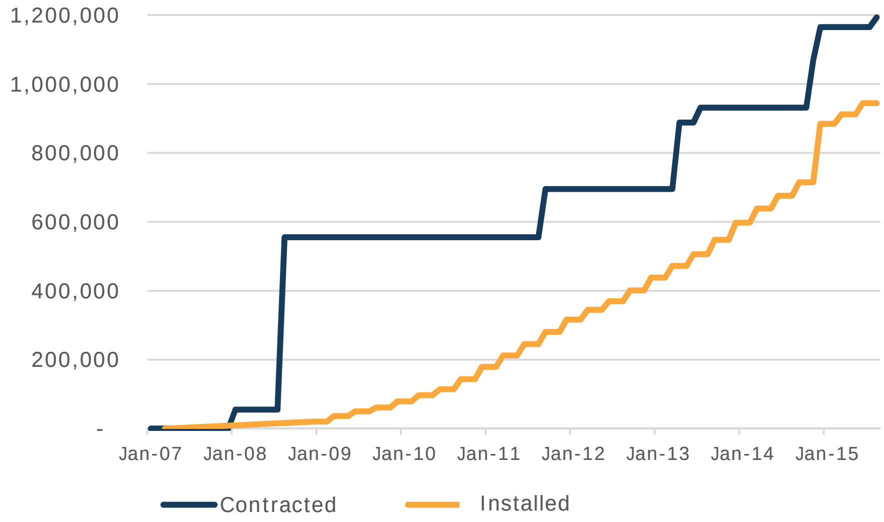
- Focussed on delivering choice to consumers
- Innovative solar solutions
  - Installed over 400 solar/storage systems
  - HomeSense home energy monitoring service offered with all new installations
- Electric vehicles gaining traction in NZ
  - Partnered with Auckland City BMW to install charging stations for BMW electric vehicles
  - Electric vehicle charging stations installed at Vector head office

Metering growth continues

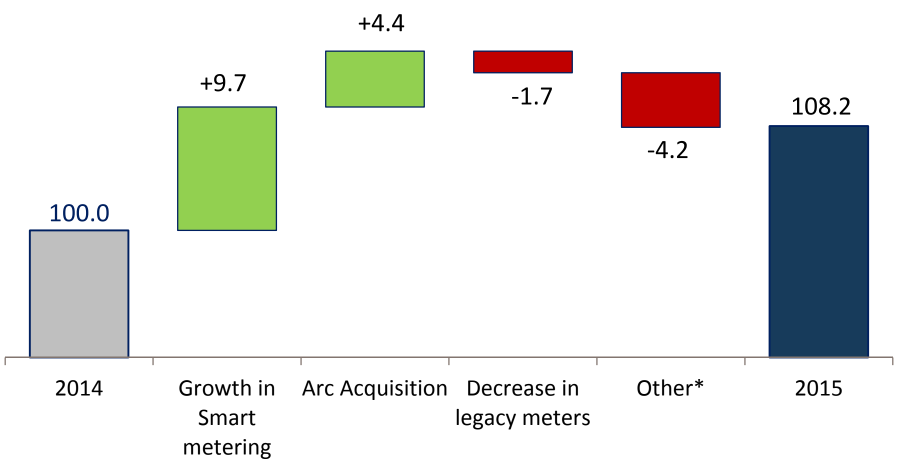
Technology

- EBITDA rise driven by smart meter installations, offset by costs associated with the Arc Innovations transaction and Australia
- Arc Innovations acquired for $20m Dec 2014
- Currently deploying smart meters for Meridian and SmartCo
- 1.2m smart meter installations by end of FY17

CONTRACTED & INSTALLED SMART METERS



TECHNOLOGY EBITDA MOVEMENT ($m)



*includes expenditure on new technology & markets

Technology

Australian metering opportunity

Northern Territory
0.071m meters

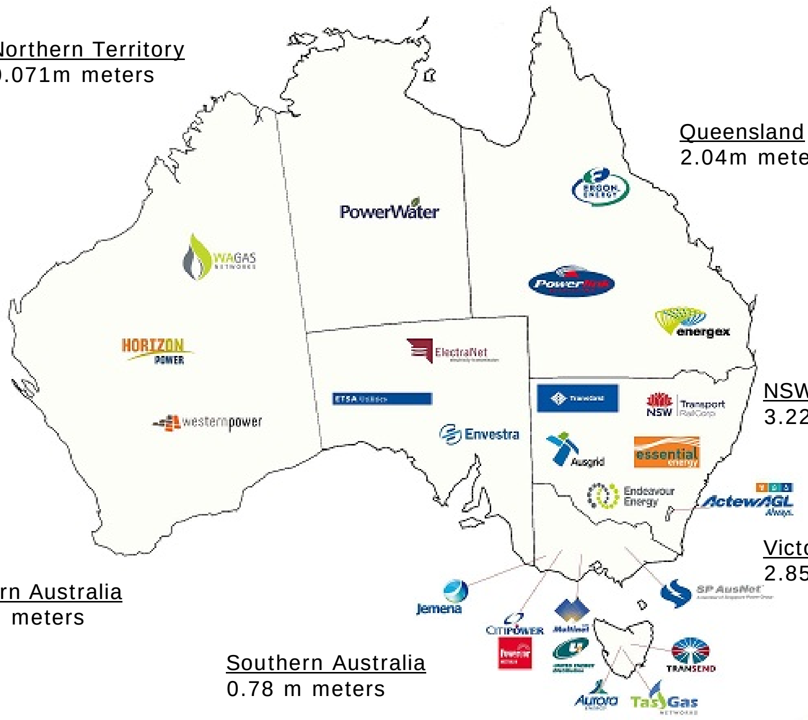
Queensland
2.04m meters

NSW
3.22m meters

Victoria
2.85m meters

Western Australia
1.02m meters

Southern Australia
0.78 m meters

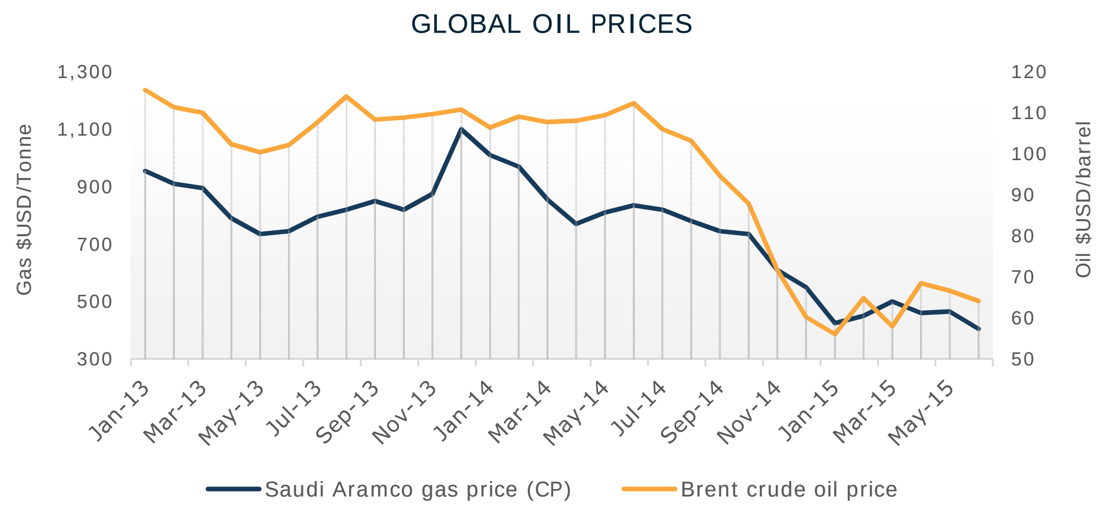


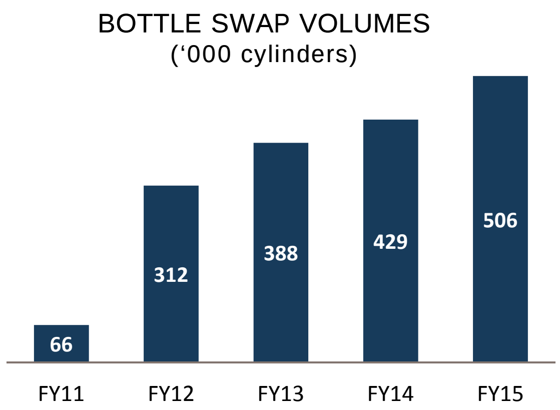
- Well advanced towards achieving accreditation
- Current focus on Queensland, NSW, South Australia and Tasmania; 6.3m residential meters available
- Metering unbundling implemented in NSW, pending in QLD & SA
- Retailers responsible for residential meters from H2 2017
  - Opens up market for estimated 400,000 new and replacement meters per year

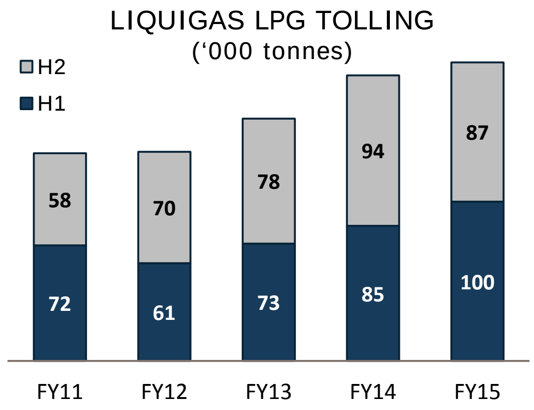
Gas Wholesale division facing headwinds

Gas Wholesale

- Natural gas sales down 20.4% due to contract expiries, changing gentailer needs & stiff competition
- Global oil & liquid prices have fallen significantly
- LPG performed strongly
  - ➢ Bottle swap movements up 17.9%
  - ➢ New dedicated filling facility in Auckland will double capacity
  - ➢ Liquigas tolling volumes up 4.5%
  - ➢ Liquigas medium term outlook challenging, as low LPG prices impact economics of export

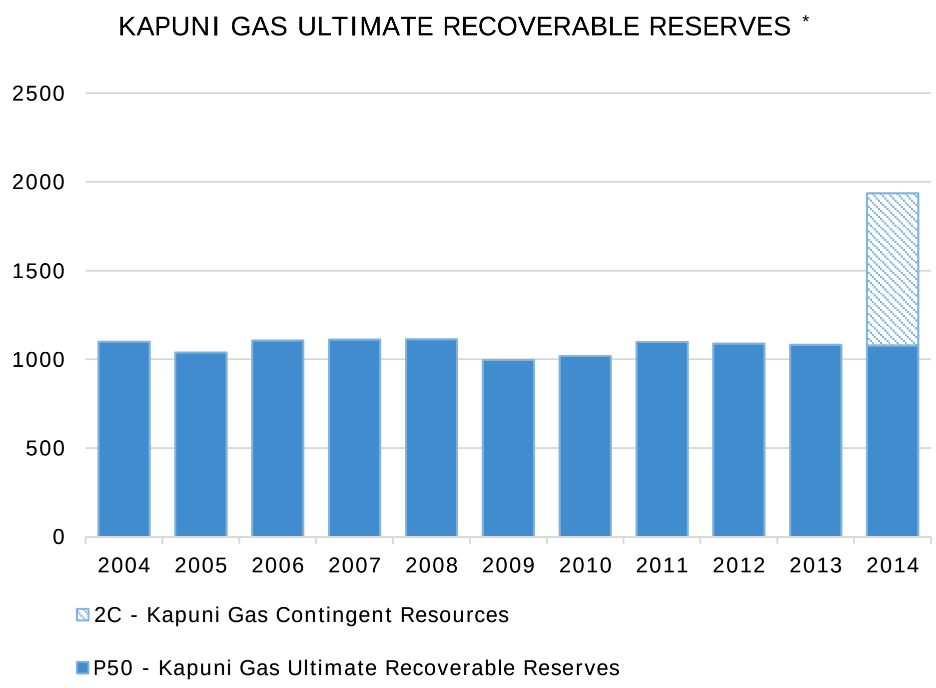






Gas Wholesale outlook will be impacted by outcome of current & pending litigation

Gas Wholesale



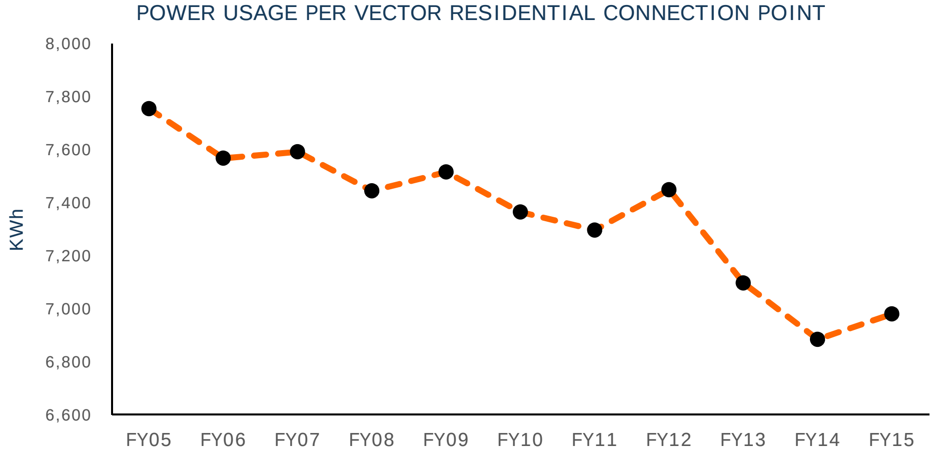
- Vector has rights to purchase 50% of the remaining reserves in the field from 1 April 1997
- Contractual process underway to re-determine remaining reserves in the Kapuni Field
- Awaiting an arbitral award in relation to the price for the next tranche of Kapuni gas
- KMCs have issued High Court proceedings in relation to the ongoing application of a 1999 arbitral award setting terms for the processing of the KMCs' share of Kapuni gas at Vector's Kapuni Gas Treament Plant

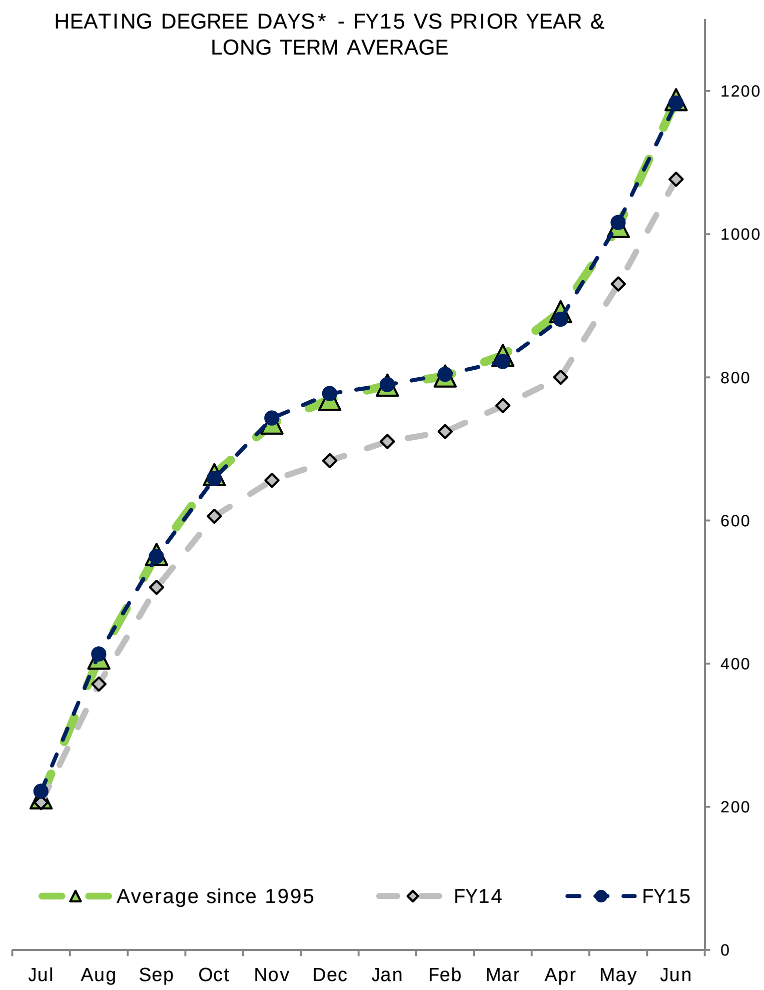
** Source: MBIE*

Weather impacts network performance

Electricity

- Cooler winter temperatures drove higher network volumes, up 2%
  - ➢ FY15 heating degree days up 10% on prior year and in line with long term average
- Long term average household consumption trend continues to decline
- Four major events impacted maintenance & SAIDI, which at 155 exceeded the Commerce Commission threshold of 127





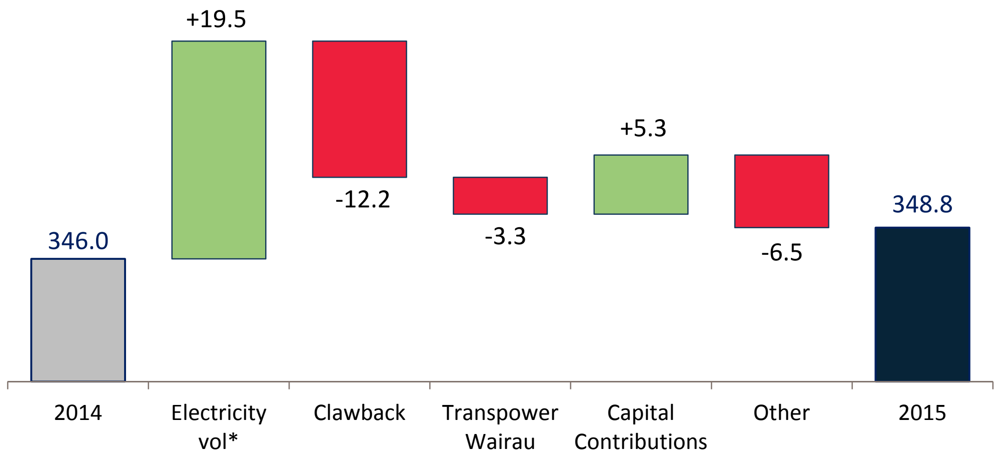
*Heating degree days represent the cumulative difference over a year between the average temperature on any given day and a threshold of 18 degrees, the assumed point at which consumers begin to turn on heating.

Auckland growth offsets tariff cuts

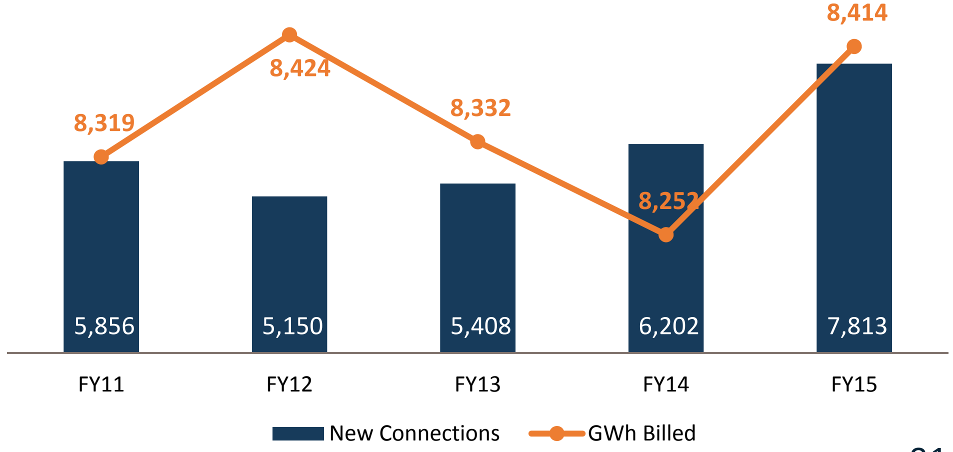
Electricity

- Clawback to prices of 4% from 1 April 2014
- High Court decision in Wairau Road case results in additional unrecoverable transmission costs of $3.3m
- New electricity connections up 26%

ELECTRICITY EBITDA MOVEMENT ($m)



ELECTRICITY CONNECTIONS & THROUGHPUT



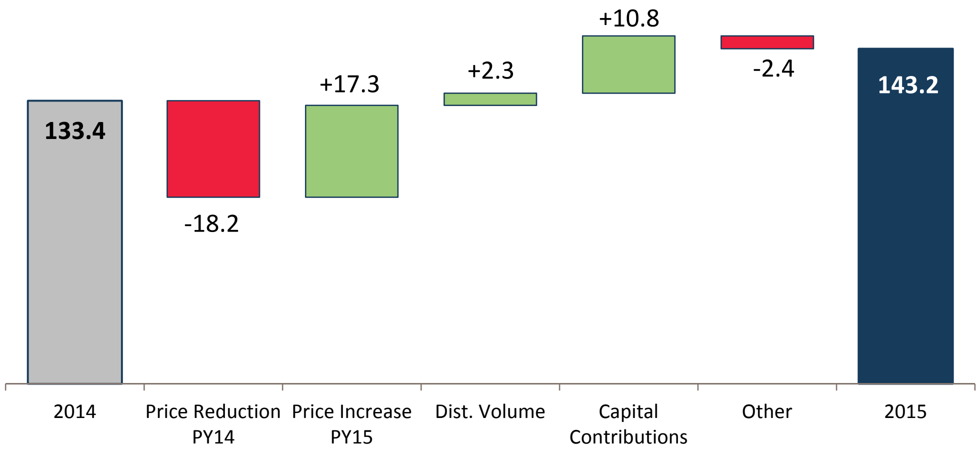
* *Includes the impact of prior period adjustments*

Gas Transportation benefits from capital contributions

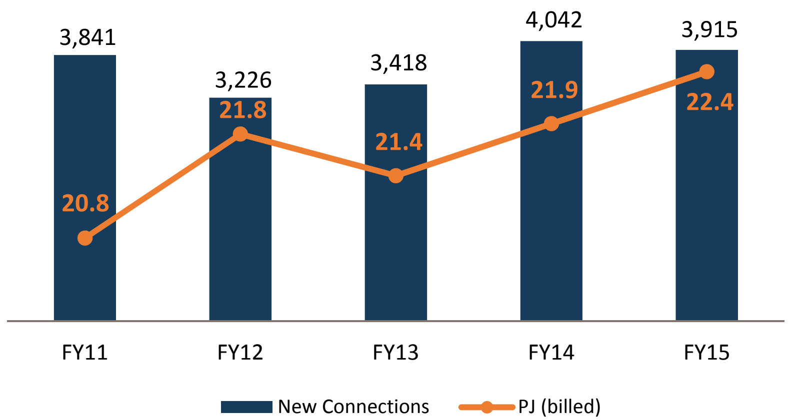
Gas Transportation

- Strategic review of gas transmission & non-Auckland gas distribution
  - ~ 70% of Gas Transportation EBITDA
- Price increases as permitted by regulatory framework
- Higher capital contributions driven by relocations – notably Waikanae expressway project
- Transmission volumes up 2.8% - increased transportation in Taranaki region and dairy sector
- Distribution volumes up 2.3% due to connection growth & colder winter temperatures

GAS TRANSPORTATION EBITDA MOVEMENT ($m)



GAS DISTRIBUTION - CONNECTIONS AND THROUGHPUT

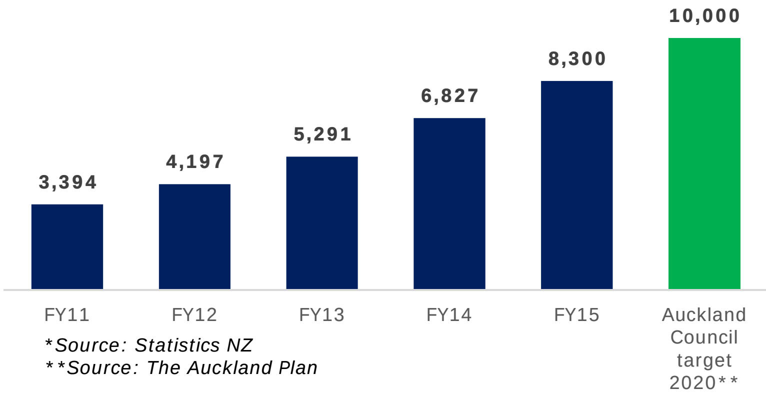


Auckland: a special case

Regulated Networks

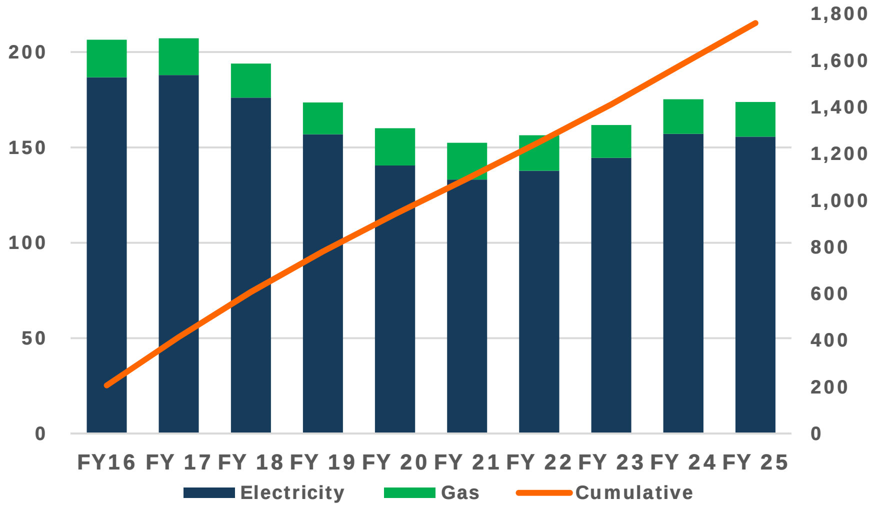
- Capital investment of $1.8b is required for Auckland over next ten years
- This investment critical given Auckland's significance to broader economy
- Current regulatory regime not incentivising this investment
  - ➢ Technology risk not addressed
  - ➢ Vector earned 170bp below regulatory WACC over 1st DPP
  - ➢ Under-recovery due to CPI & growth consistently below Commission forecasts
- Vector proposes 'special undertakings' such as used in the UK and Australia to incentivise investment
- Advocating for Auckland consumers who face average $192 pa increase in transmission price under EA base proposal

AUCKLAND NEW DWELLING CONSENTS*



**Source: Statistics NZ*
***Source: The Auckland Plan*

AUCKLAND NETWORK CAPEX FORECAST* $m



**source: Vector asset management plan*

Outlook for FY 2016

- Auckland growth will drive need for increased capex on our electricity network
- Continue to focus on customer solutions and new technology
- Metering business is positioned to grow strongly: Expect to install a further 140,000 smart meters in NZ, and an initial deployment in Australia
- Gas Wholesale division facing headwinds
  - Uncertainty over Kapuni, increased competition, tighter margins due to weaker global oil & gas prices, weaker demand from electricity generators
- Comfortable with analyst expectations for FY16 adjusted EBITDA which range from $605 to $620 million
  - Excluding capital contributions, expect FY16 adjusted EBITDA to be in the range of $550 to $565 million

Q&A


Vector
AECT
RE
CHARGE
HERE
Electric Vehicle Charging Station
POWERED BY VECTOR

Appendices

Regulatory history under the default price path (DPP) regime

ELECTRICITY

1 Apr 2012
- 1st regulatory period begins (3 yrs)

1 Apr 2013
- 1st price reset
- Vector lines charges reduced by 7.6%

1 Apr 2014
- Vector lines charges reduced by 4% to clawback revenue earned above the DPP allowable revenue for the year to 31 March 2013

1 Apr 2015
- 2nd regulatory period begins (5 yrs)
- Vector lines charges increase by 0.4% relative to prior year
- Lines charges in RY15 will be 0.8% higher than they would have been in the absence of a reset

GAS TRANSPORTATION

1 Jul 2013
- 1st regulatory period begins (4 yrs 3 mths)

1 Oct 2013
- 1st price reset
- Vector network charges reduced by 34% for transmission and 24% for distribution
- 15 mths revenue reduction applied over 12 mths

1 Oct 2014
- Vector network charges increase by 20% for transmission, and 9% for distribution

Group profit statement

Year ended 30 Jun ($m)

INCOME STATEMENT	2015 $m	2014 $m	Change %
Revenue	1,294.0	1,258.9	+2.8
Operating expenditure	(697.1)	(678.2)	-2.8
Adjusted EBITDA	**596.9**	**580.7**	**+2.8**
Depreciation and amortisation	(195.2)	(183.8)	-6.2
Net interest costs	(180.8)	(168.9)	-7.0
Fair value change on financial instruments	(11.0)	6.0	NA
Associates (share of net profit/(loss))	0.8	1.7	-52.9
Impairment of investment in associate	-	(1.2)	NA
Tax	(61.3)	(63.2)	+3.0
Net profit	**149.4**	**171.3**	**-12.8**

Group cash flow

Year ended 30 Jun ($m)

CASH FLOW	2015 $m	2014 $m
Operating cash flow	369.2	366.6
Replacement capex	(146.4)	(135.1)
Dividends paid	(155.4)	(156.7)
Cash available for growth and debt repayment	**67.4**	**74.8**
Growth capex	(165.4)	(192.3)
Acquisitions	(19.9)	(60.1)
Other investment activities	(0.5)	1.8
Pre debt financing cash inflow	**(118.4)**	**(175.8)**
Increase/(decrease) in borrowings	120.0	129.0
Other financing activities	(1.7)	(1.1)
Increase / (decrease) in cash	**(0.1)**	**(47.9)**

Segment results

Year ended 30 Jun ($m)

	Electricity			Gas Transportation			Technology			Gas Wholesale			Shared services		
	2015	**2014**	**Change %**	**2015**	**2014**	**Change %**	**2015**	**2014**	**Change %**	**2015**	**2014**	**Change %**	**2015**	**2014**	**Change %**
Revenue	670.8	631.3	+6.3	193.4	187.0	+3.4	158.4	137.0	+15.6	314.2	349.8	-10.2	0.4	0.6	-33.3
Operating expenditure	(322.0)	(285.3)	-12.9	(50.2)	(53.6)	+6.3	(50.2)	(37.0)	-35.7	(267.3)	(298.9)	+10.6	(50.6)	(50.2)	-0.8
EBITDA	**348.8**	**346.0**	**+0.8**	**143.2**	**133.4**	**+7.3**	**108.2**	**100.0**	**+8.2**	**46.9**	**50.9**	**-7.9**	**(50.2)**	**(49.6)**	**-1.2**
Depreciation & amortisation	(84.6)	(83.1)	-1.8	(24.4)	(22.8)	-7.0	(57.0)	(46.5)	-22.6	(14.3)	(15.4)	+7.1			
Segment profit	**264.2**	**262.9**	**+0.5**	**118.8**	**110.6**	**+7.4**	**51.2**	**53.5**	**-4.3**	**32.6**	**35.5**	**-8.2**			
EBITDA/Revenue	52.0%	54.8%		74.0%	71.3%		68.3%	73.0%		14.9%	14.6%				
CAPEX															
Replacement	83.2	82.1	+1.3	29.5	26.5	+11.3	13.3	8.5	+56.5	8.8	6.3	+39.7	15.1	13.2	+14.4
Growth	71.2	80.2	-11.2	22.3	21.1	+5.7	73.4	96.5	-23.9	6.1	3.8	+60.5	0.4	1.0	-60.0
Total capex	**154.4**	**162.3**	**-4.9**	**51.8**	**47.6**	**+8.8**	**86.7**	**105.0**	**-17.4**	**14.9**	**10.1**	**+47.5**	**15.5**	**14.2**	**+9.2**

GAAP to non-GAAP reconciliation

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, associates, impairments and significant one-off gains, losses, revenues and/or expenses.

EBITDA and adjusted EBITDA	**Year ended 30 Jun**	
	2015	2014
	$M	$M
Reported net profit for the period (GAAP)	149.4	171.3
Add back: net interest costs[1]	180.8	168.9
Add back: tax (benefit)/expense[1]	61.3	63.2
Add back: depreciation and amortisation[1]	195.2	183.8
EBITDA	**586.7**	**587.2**
Adjusted for:		
Impairment of investment in associate[1]	0	1.2
Associates (share of net (profit)/loss)[1]	(0.8)	(1.7)
Fair value change on financial instruments[1]	11.0	(6.0)
Adjusted EBITDA	**596.9**	**580.7**

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