

Financial and Operational Results

Half year to 31 December 2012

21 February 2013



Disclaimer

This financial and operational results presentation dated 21 February 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

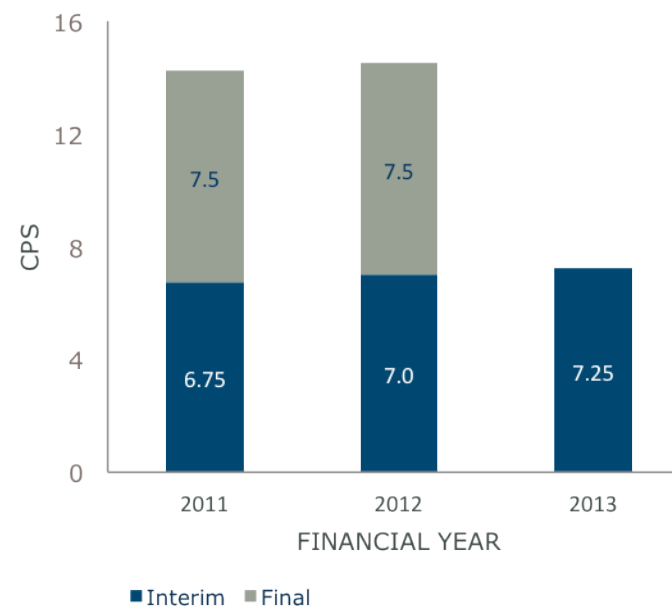


1. Dividend
2. Half Year (1H) 2013 summary
3. Financial results
4. Operating overview
5. Outlook and summary

1H 2013 – Dividend

- 2013 fully-imputed interim dividend rises 0.25 cents per share to 7.25 cents per share
- Record date: 25 March, 2013
Payment date: 15 April, 2013

Declared dividend



Simon Mackenzie

GROUP CHIEF EXECUTIVE



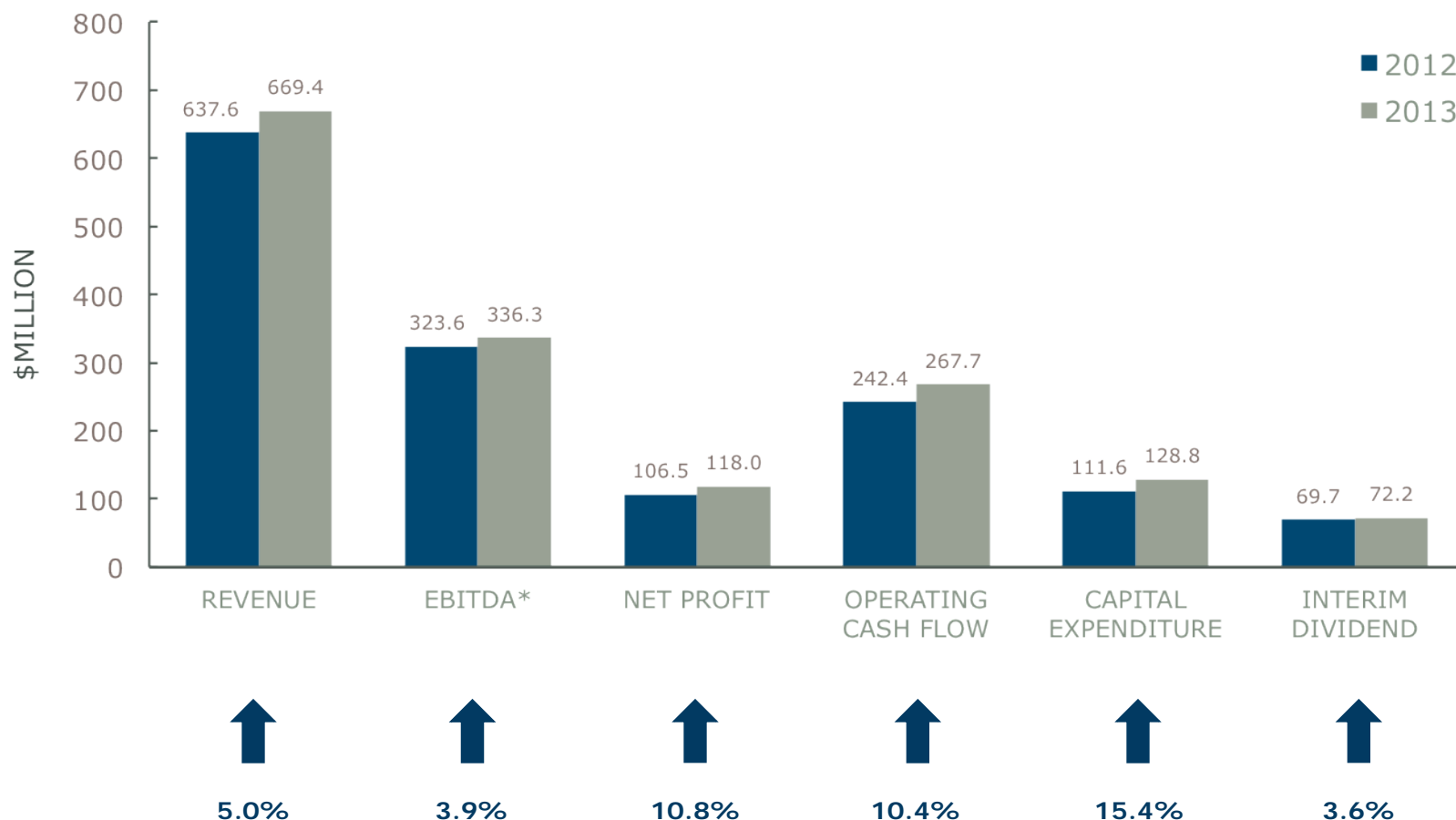
1H 2013 – Overview



- Vector faces a 'new economic norm'
 - Soft economic growth
 - Subdued customer demand
 - Acquisitions challenging
- Vector's progress tightly linked to these economic trends
- Warmer weather also reduced demand
- BUT earnings grow:
 - Costs controlled, risk profile low and growth continued
 - Earnings assisted by continuation of Kapuni gas at legacy prices
- Regulation – heading toward certainty
 - Merits Review process the focus of the next quarter
- Our assurances to customers on cost, service, and quality met



1H 2013 – Financial performance

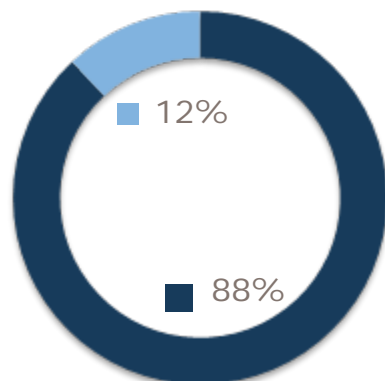


*EBITDA is a non-Generally Accepted Accounting Practice (GAAP) profit measure and is defined on page 32 and reconciled to GAAP on page 33 of this presentation. All references to this measure throughout this release are consistent with this definition.

Vector - a portfolio of businesses

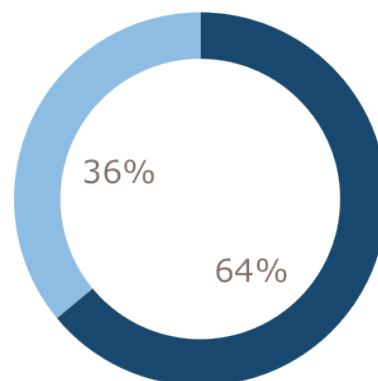
Assets*

As at 31 Dec 2012



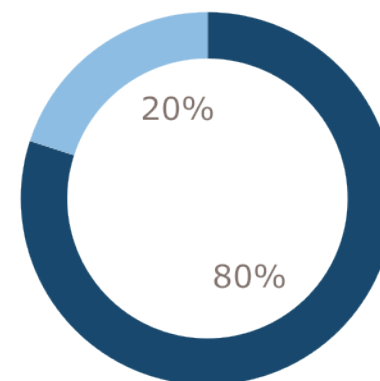
Revenue **

Six months ended 31 Dec 2012



EBITDA***

Six months ended 31 Dec 2012



■ Energy networks
■ Technology and Gas Wholesale

* Calculated as a percentage of total assets in the four operating segments

** Calculated as a percentage of total external operating revenues

*** Calculated as a percentage of the total EBITDA in the four operating segments

Shane Sampson

ACTING CHIEF FINANCIAL OFFICER



Income statement

SIX MONTHS ENDED 31 DECEMBER	2012 \$M	2011 \$M	CHANGE (%)
Revenue	669.4	637.6	+5.0
Operating expenditure	(333.1)	(314.0)	-6.1
EBITDA	336.3	323.6	+3.9
Depreciation and amortisation	(86.2)	(86.1)	-0.1
EBIT*	250.1	237.5	+5.3
Net financing costs	(83.0)	(84.1)	+1.3
Results of associates	(1.6)	(4.0)	+60.0
Tax	(47.5)	(42.9)	-10.7
Net Profit	118.0	106.5	+10.8

*EBIT is a non-GAAP profit measure and is defined on page 32 and reconciled to GAAP on page 33 of this presentation. All references to this measure throughout this release are consistent with this definition.

Electricity



SIX MONTHS ENDED 31 DECEMBER	2012 \$M	2011 \$M	CHANGE (%)
Revenue	334.8	308.5	+8.5
Operating expenditure	(132.8)	(110.9)	-19.7
EBITDA	202.0	197.6	+2.2
% Revenue	60.3%	64.1%	
EBIT	161.7	156.9	+3.1
Replacement capital expenditure	33.5	32.3	+3.7
Growth capital expenditure	27.9	23.7	+17.7
Total capital expenditure	61.4	56.0	+9.6

- Transpower charges mask soft trading environment
 - Warm weather and subdued economy hampers growth in customers and demand
- We are seeing a pick up in construction activity
- Costs controlled

Gas Transportation

SIX MONTHS ENDED 31 DECEMBER	2012 \$M	2011 \$M	CHANGE (%)
Revenue	114.4	110.4	+3.6
Operating expenditure	(25.7)	(28.8)	+10.8
EBITDA	88.7	81.6	+8.7
% Revenue	77.5%	73.9%	
EBIT	76.6	70.9	+8.0
Replacement capital expenditure	10.4	10.4	-
Growth capital expenditure	5.6	5.0	+12.0
Total capital expenditure	16.0	15.4	+3.9

- Revenue benefit from price increases
- Costs controlled
- Capital expenditure growth due to higher residential connection activity

Gas Wholesale

SIX MONTHS ENDED 31 DECEMBER	2012 \$M	2011 \$M	CHANGE (%)
Revenue	195.6	195.4	+0.1
Operating expenditure	(161.6)	(159.0)	-1.6
EBITDA	34.0	36.4	-6.6
% Revenue	17.4%	18.6%	
EBIT	25.9	28.6	-9.4
Replacement capital expenditure	2.0	2.9	-31.0
Growth capital expenditure	1.5	2.7	-44.4
Total capital expenditure	3.5	5.6	-37.5

- Continuation of Kapuni gas at legacy prices
- Growth in bottle swap and growth of Liquigas tolling volumes

Technology



SIX MONTHS ENDED 31 DECEMBER	2012 \$M	2011 \$M	CHANGE (%)
Revenue	52.8	48.1	+9.8
Operating expenditure	(16.1)	(13.5)	-19.3
EBITDA	36.7	34.6	+6.1
% Revenue	69.5%	71.9%	
EBIT	17.9	13.1	+36.6
Replacement capital expenditure	3.6	3.2	+12.5
Growth capital expenditure	40.1	27.1	+48.0
Total capital expenditure	43.7	30.3	+44.2

- Metering continues to benefit from roll out of smart meters
- Cost growth and capital expenditure aligned with meter growth

Shared services



SIX MONTHS ENDED 31 DECEMBER	2012 \$M	2011 \$M	CHANGE (%)
Revenue	0.4	0.5	-20.0
Operating expenditure	(25.5)	(27.1)	+5.9
EBITDA	(25.1)	(26.6)	+5.6

Cash flow

SIX MONTHS ENDED 31 DECEMBER	2012 \$M	2011 \$M
Operating cash flow	267.7	242.4
Replacement capex	(58.4)	(60.8)
Dividends paid	(74.7)	(76.7)
Cash available for growth and debt repayment	134.6	104.9
Growth capex	(68.5)	(63.3)
Other investment activities	3.0	0.1
Pre debt financing cash inflow	69.1	41.7
Decrease in borrowings	(22.8)	(0.2)
Other financing activities	(0.5)	(1.1)
Increase in cash	45.8	40.4

Asset backing and capital structure



	31 DECEMBER 2012	30 JUNE 2012	31 DECEMBER 2011
Net debt	\$2,286.4m	\$2,373.8m	\$2,353.4m
Equity/total assets	38.9%	38.2%	37.4%
Net debt/net debt+equity	51.0%	52.5%	52.8%
Interest (net) cover	3.0x	2.7x	2.8x

Simon Mackenzie

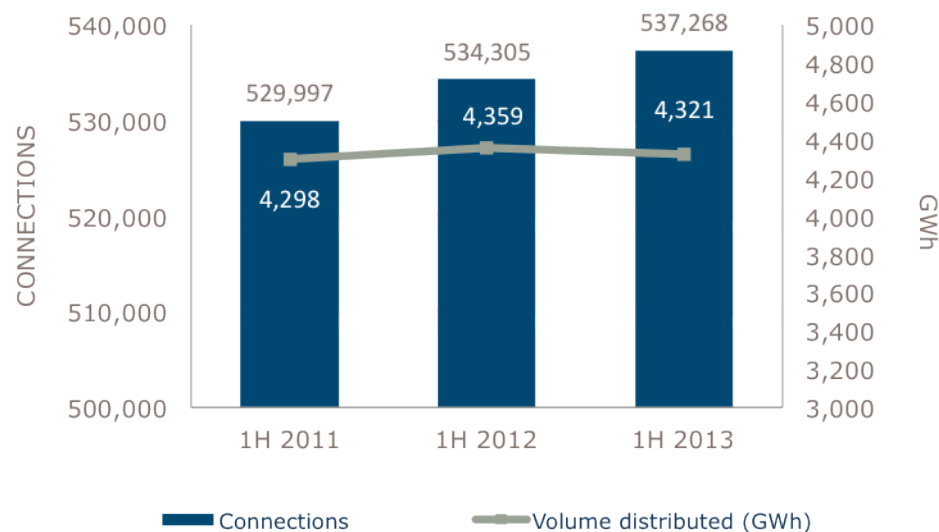
GROUP CHIEF EXECUTIVE



Electricity

- Customer growth modest due to soft economy
- Volume falls:
 - Warmer temperatures
 - Subdued demand
- Vector participates on consultation of transmission pricing
- Construction activity encouraging
- Quality thresholds met
 - SAIDI increases 4.2% to 72.3 minutes
- Lowest cost electricity supplier
- Growth capital expenditure increases 17.7% to \$27.9 million
- Excited about solar power

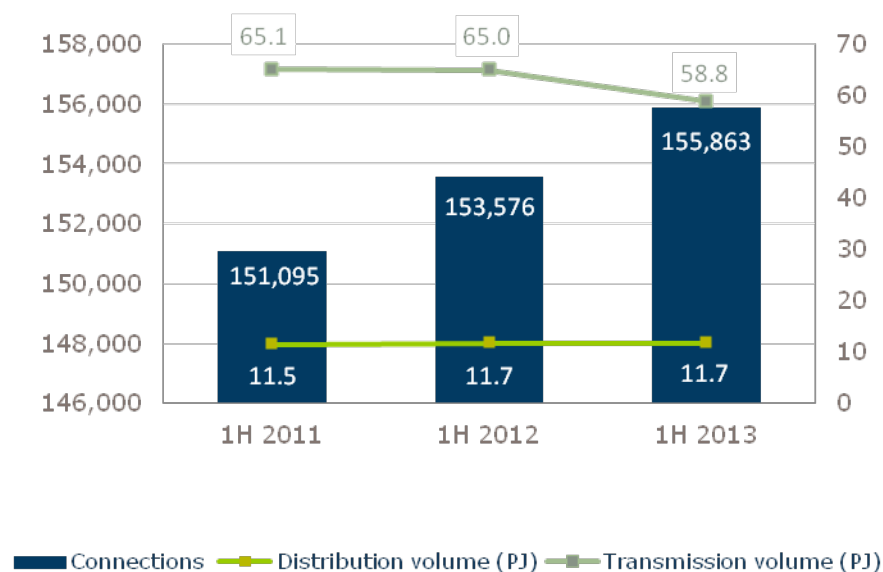
Electricity distribution



Gas Transportation

- Customer growth modest
- Volumes fall due to slow down in gas-fired electricity production
- Construction activity is an encouraging sign

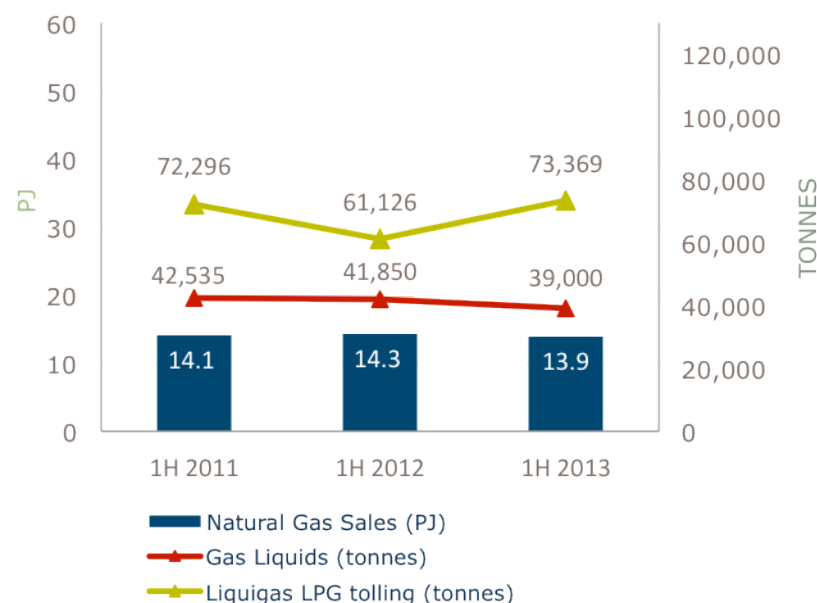
Gas Distribution and Transmission



Gas Wholesale

- Lower Kapuni production evident in results
 - Lower gas liquids sales and natural gas sales
- Bottle swap continues to grow strongly
 - Sales up 29% running at 45,000 per month in December
- Liquigas tolling rises due to exports and Christchurch recovery
- Gas book balanced

Natural gas and gas liquids

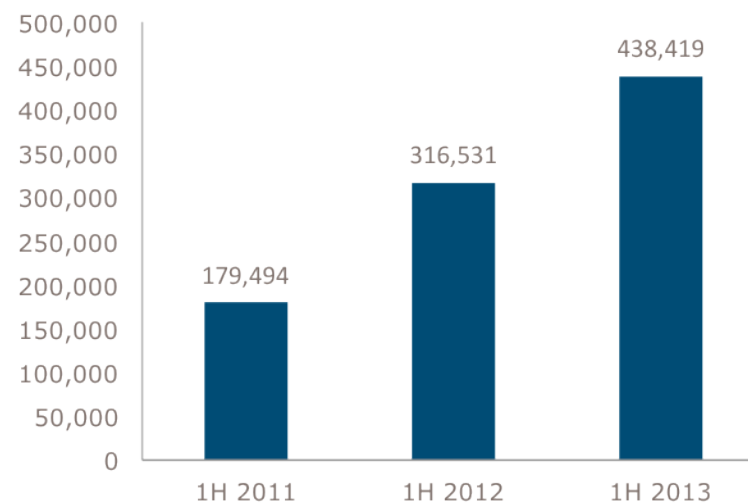


Technology



- Installed meter base continues to grow
- Two-thirds through contracted installation of 670,000 meters
 - Install rate of circa 10K – 12K for the next 12 months
- Awaiting Commerce Commission ruling on acquisition of Contact Energy's gas metering business

Smart Meters



Regulation – Merits Review

Current status:

- Merits review of regulatory regime
 - Action brought by Vector and six others
 - Verdict in the second quarter of 2013
- Disappointed by Supreme Court verdict on starting prices

Upcoming regulatory milestones:

- Vector will reduce electricity lines prices in April ~ 10%
- Final price determination for gas transmission and gas distribution assets to be released later in February
- Commerce Commission's draft decision sets reduction of 25% on gas transmission network and 16% on gas distribution network
- Merits Review could have a bearing on all milestones

Outlook



- Vector has made a good start to the 2013 financial year:
 - Managed our business well in the face of the 'new economic norm'
 - Unregulated operations growing
- The second-half however will present some challenges
 - Entitlements to Kapuni Gas at the legacy price reduce and some gas purchased during first half subject to appeal
 - Regulatory price reductions from 1 April 2013
 - The economy remains soft and customer energy demand remains subdued
- Continue to seek value-enhancing acquisitions
- Growth in technology businesses to continue
- EBITDA for the full year to 30 June 2013 expected to be in line with the year to 30 June 2012

Q&A



Appendix



Operating statistics

	1H 2013	1H 2012	Change (%)
ELECTRICITY			
Customers ^{1,4.}	537,268	534,305	+0.6
Net new electricity customers ²	2,040	1,698	+20.1
Volume distributed (GWh)	4,321	4,359	-0.9
Networks length (km) ¹	17,826	17,768	+0.3
SAIDI (minutes) ³			
Normal operations	72.3	69.4	+4.2
Extreme events	0.0	0.0	n/a
Total	72.3	69.4	+4.2

1. As at period end

2. The net number of customers added during the six month period

3. Regulatory year, 9 months to 31 December

4. Billable ICPs

Operating statistics

	1H 2013	1H 2012	Change (%)
GAS TRANSPORTATION			
Distribution customers ^{1,3}	155,863	153,576	+1.5
Net new distribution customers ²	1,214	1,068	+13.7
Distribution volume (PJ)	11.7	11.7	-
Distribution mains network length (km) ¹	7,047	7,003	+0.6
Transmission volume (PJ) ⁴	58.8	65.0	-9.5
Transmission system length owned (km) ¹	2,286	2,287	-
Transmission system length operated/managed (km) ¹	1,130	1,207	-6.4

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

Operating statistics

	1H 2013	1H 2012	Change (%)
GAS WHOLESALE			
Natural gas sales (PJ) ¹	13.9	14.3	-2.8
Gas liquids sales (tonnes) ²	39,000	41,850	-6.8
Liquigas LPG tolling (tonnes) ³	73,369	61,126	+20.0

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



	1H 2013	1H 2012	Change (%)
TECHNOLOGY			
Electricity: smart meters ¹	438,419	316,531	+38.5
Electricity: legacy meters ¹	314,019	396,304	-20.8
Electricity: prepay meters ¹	5,067	5,563	-8.9
Electricity: time of use meters ¹	10,926	10,854	+0.7
Gas meters ¹	82,304	81,017	+1.6
Data management service connections ¹			
– New Zealand and Australia	8,745	8,288	+5.5

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, tax expense, depreciation, amortisation, share of net profit or loss from associates and impairments.
- **EBIT:** Earnings before net finance costs, tax expense, share of net profit or loss from associates and impairments.

GAAP to non-GAAP reconciliation

SIX MONTHS ENDED 31 DECEMBER	2012 \$M	2011 \$M
Net profit for the period (GAAP)	118.0	106.5
Add back: income tax expense ¹	47.5	42.9
Add back: impairment of investment in associate ¹	2.3	3.9
(Deduct)/add back: share of net (profit)/loss from associates ¹	(0.7)	0.1
Add back: net finance costs ¹	83.0	84.1
EBIT	250.1	237.5
Add back: depreciation and amortisation ¹	86.2	86.1
EBITDA	336.3	323.6

1. Extracted from reviewed financial statements

