Financial and Operational Results

HALF YEAR ENDED 31 DECEMBER 2014

VECTOR /

FROM HELPING POWER
A GROWING AUCKLAND /

TO LAKESIDE BARBEQUES IN
WANAKA / **VECTOR DELIVERS**

Disclaimer

This financial and operational results presentation dated 20 February 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.

Simon Mackenzie

GROUP CHIEF EXECUTIVE



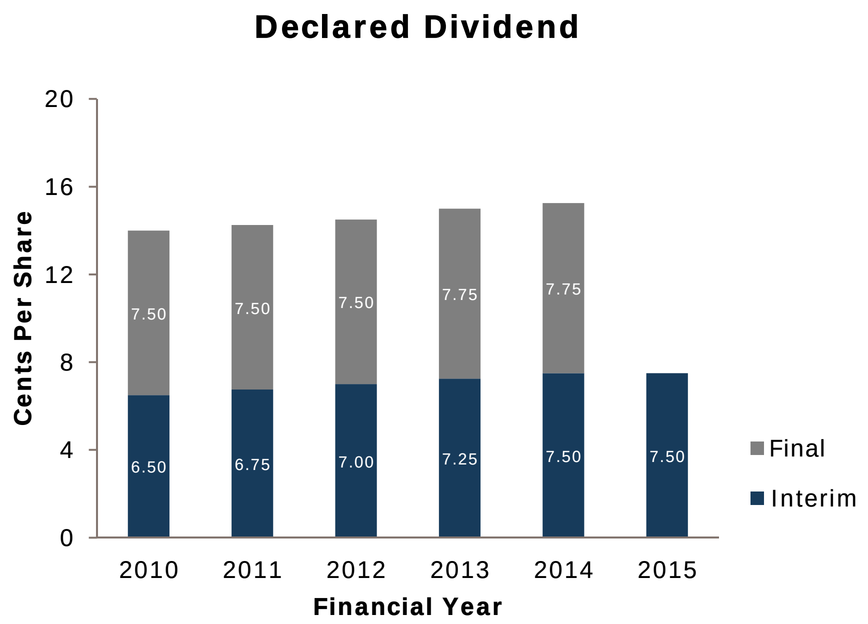


Agenda

- Dividend
- H1 Highlights
- Operating Overview
- Outlook
- Q & A

Delivering sustainable increases in dividends

- 2015 Interim Dividend of 7.50 cps fully-imputed
- Record date: 31 March 2015
- Payment date: 15 April 2015
- Remain committed to sustainable dividend increases



H1 2015 Snapshot

DISCIPLINED GROWTH

- Acquisition of Arc & contract for majority of Meridian's smart meters
- Despite regulated price cuts ~$24m, adjusted EBITDA down just $4.4m/1.4%

PEOPLE AND SAFETY

- Continued health & safety focus, particularly safety leadership training
- 28% reduction in TRIFR over period, from 13.5 to 9.7

CUSTOMER FOCUS

- Extended solar programme with mass market solar solution
- Major vegetation survey to prioritise work for best customer outcomes

OPERATIONAL EXCELLENCE

- Connection & volume growth in electricity & gas distribution
- Tough year for electricity with storms & Penrose driving likely SAIDI breach

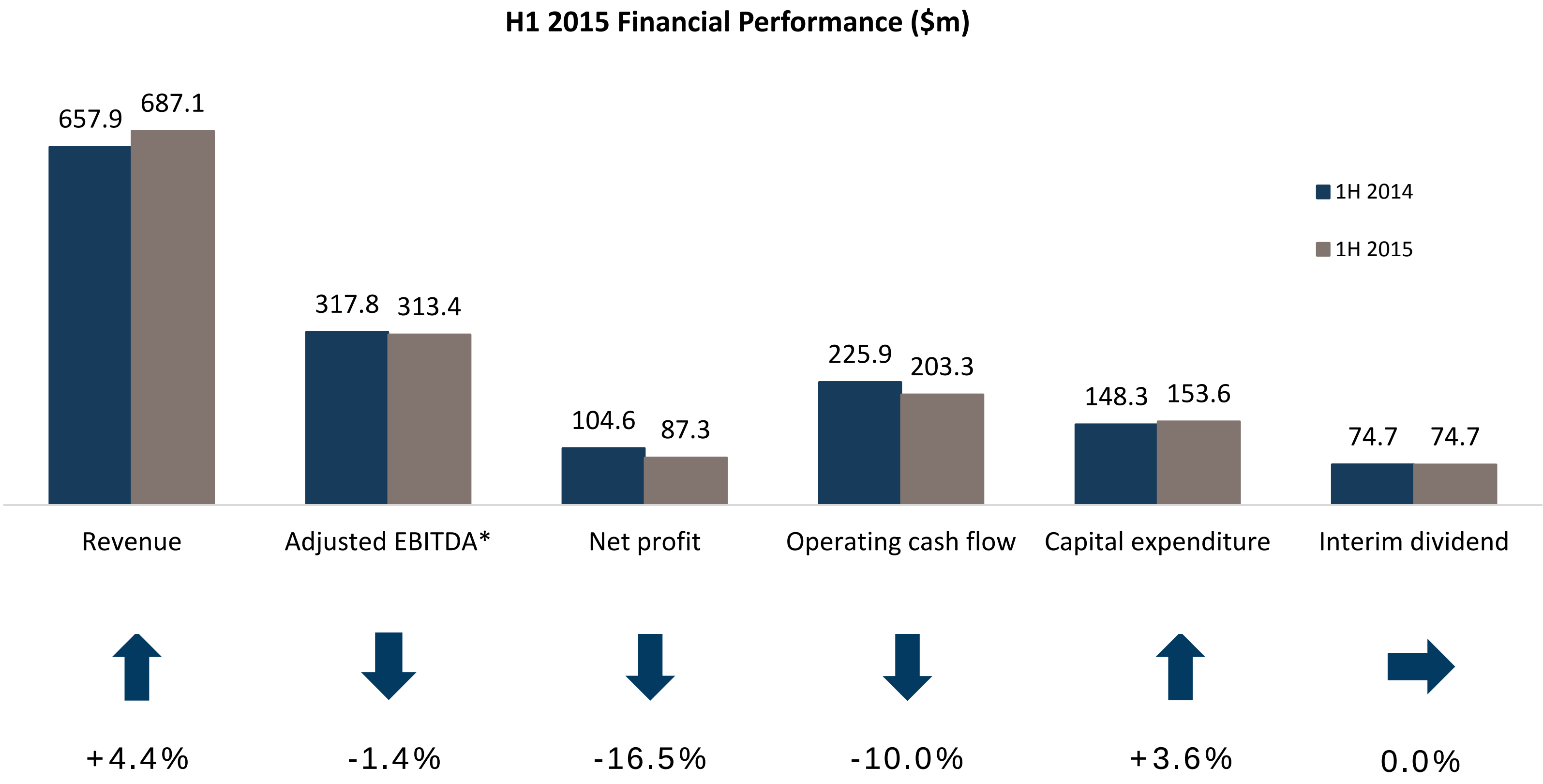
REGULATORY OUTCOMES

- Final electricity default price path better than draft, offset by move to P67 WACC
- Significant implications for our investment in regulated networks

Dan Molloy

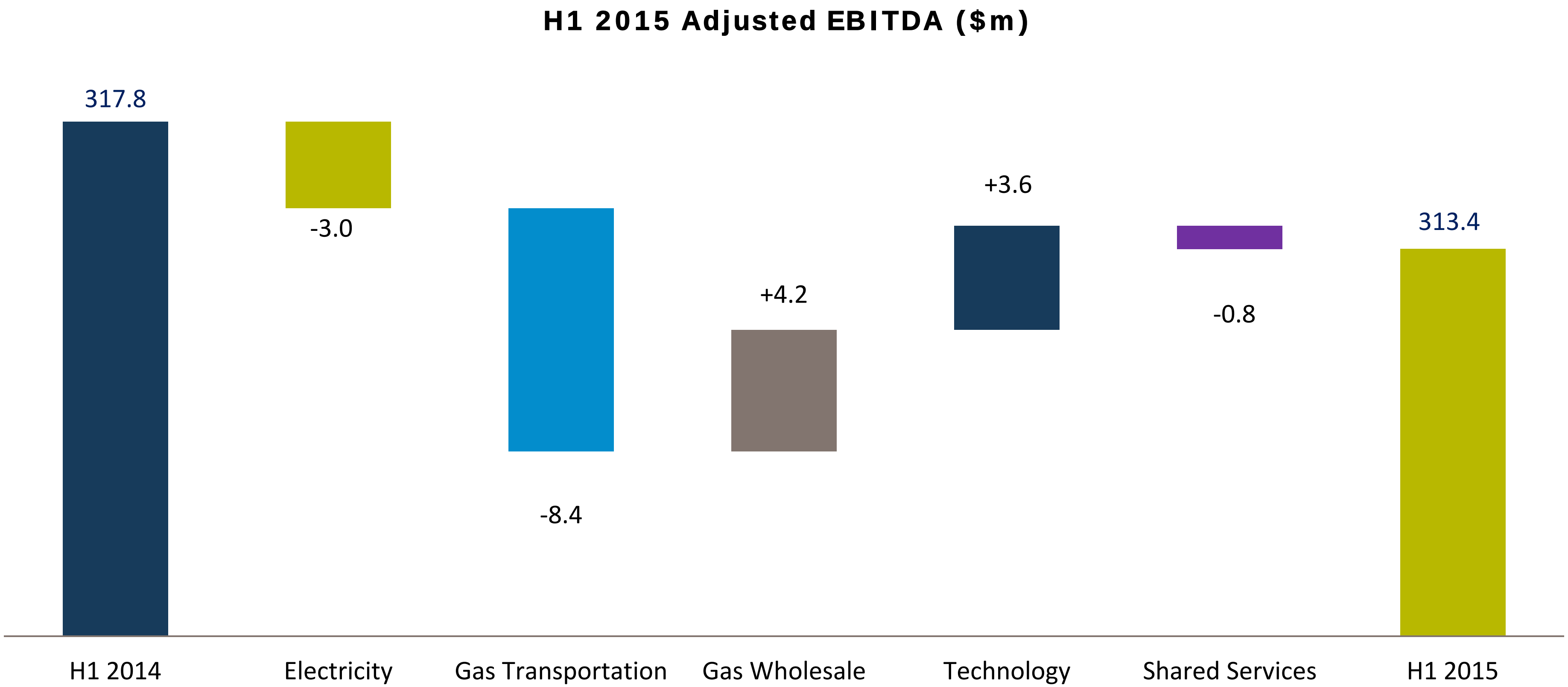
CHIEF FINANCIAL OFFICER

Regulated tariff reductions weigh on performance



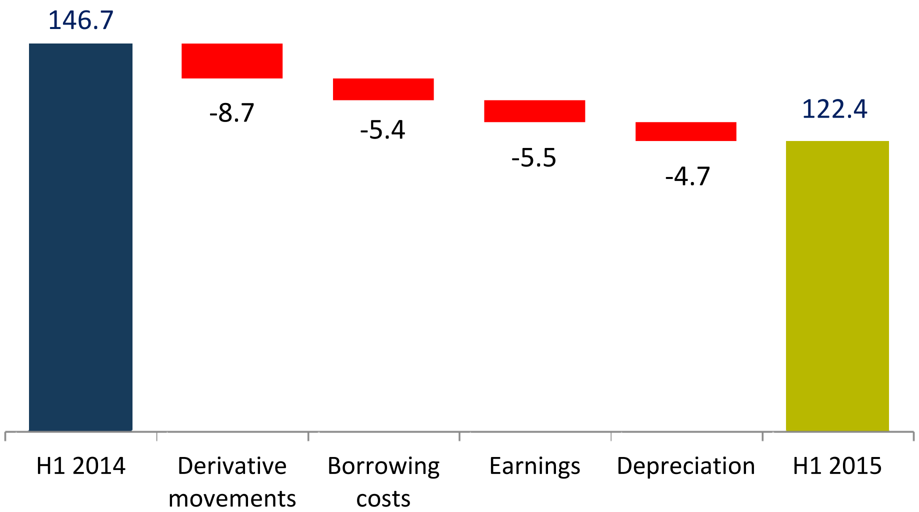
*Adjusted EBITDA is not a GAAP measure of profit. For a reconciliation of adjusted EBITDA to EBITDA and net profit refer to page 32 of this presentation.

Unregulated operations bolster adjusted EBITDA

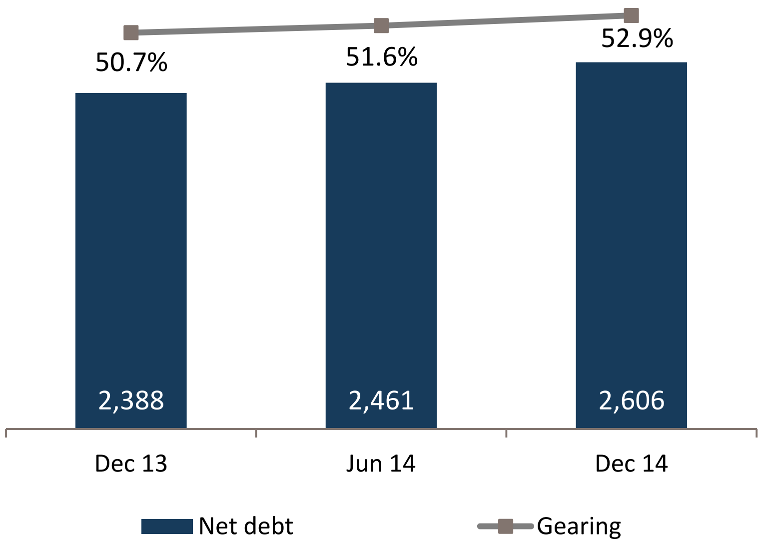


Derivative losses and borrowing costs impact profit

Movement in Net Profit Before Tax ($m)

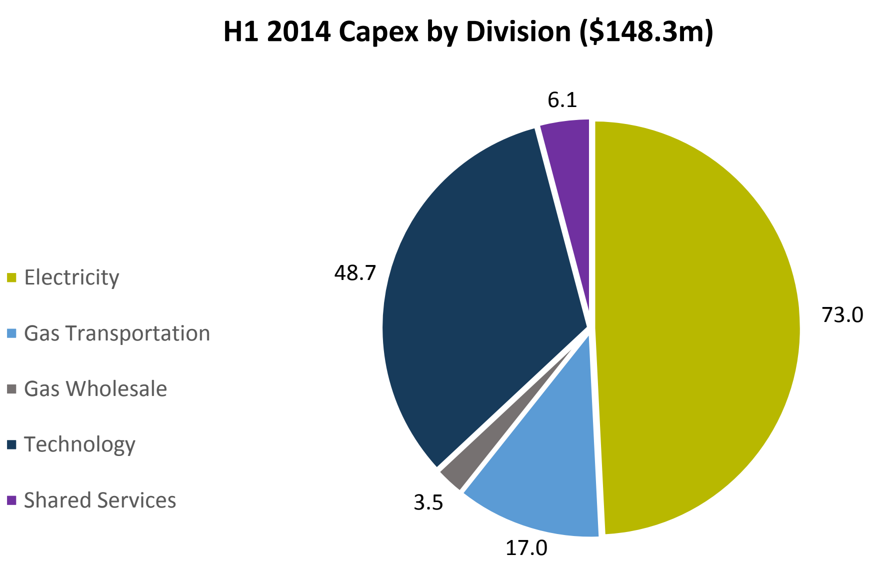


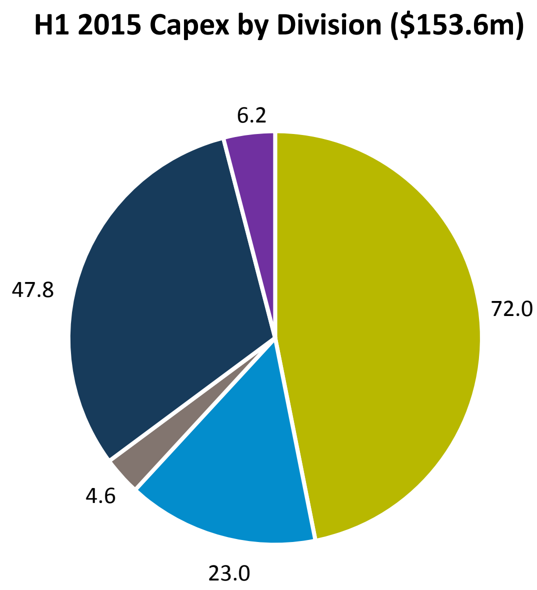
Net Debt & Gearing ($m)



- Over a third of the profit movement due to non-cash mark-to-market losses on derivatives - principally reflecting a weakening of the NZ$ against US$
- Standard & Poor's and Moody's recently confirmed credit rating at BBB & Baa1 respectively, both with stable outlook

Capex increase driven by Gas Transportation





- Total capex up 3.6% to $153.6m
- Net capex (after contributions) up 1.2%
- Gas Transportation capex up 35.3% due to Auckland connection growth & transmission relocations

Simon Mackenzie

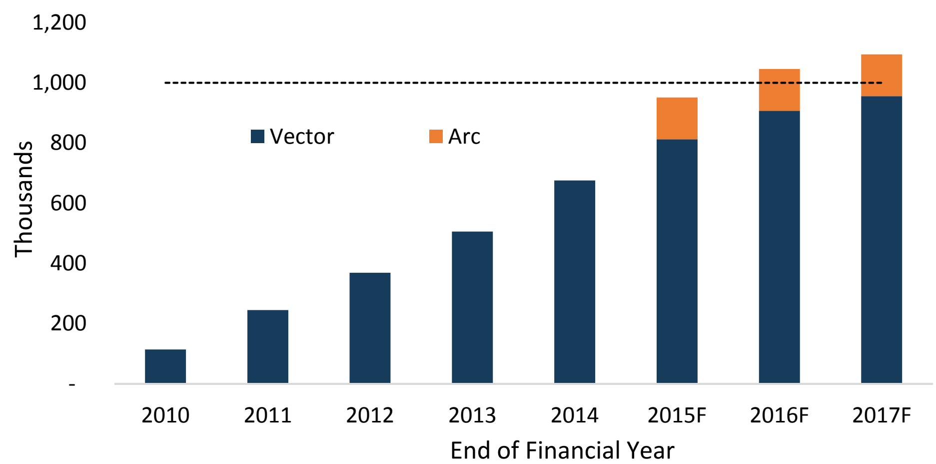
GROUP CHIEF EXECUTIVE

Technology growth continues

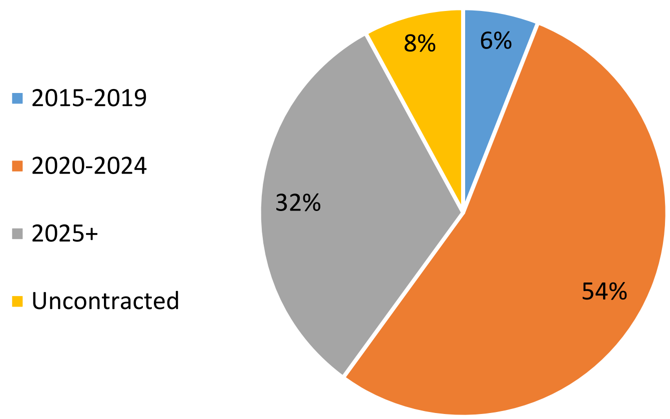
Technology

- EBITDA up 7.5% driven primarily by smart meter installations, offset by Arc transaction and Australian costs
- Arc acquired for $20m from 1 Dec. Adds over 139,000 smart meters, 17,000 legacy meters & 47 staff
- Contract to roll out smart meters to majority of Meridian customers
- Installed base of 884,000 smart meters. 85% under contract until at least 2020. Will increase to 1.1m smart meters by end of FY17

Installed & Contracted Smart Meters



Smart Meter Contract Duration



Solar programme extended

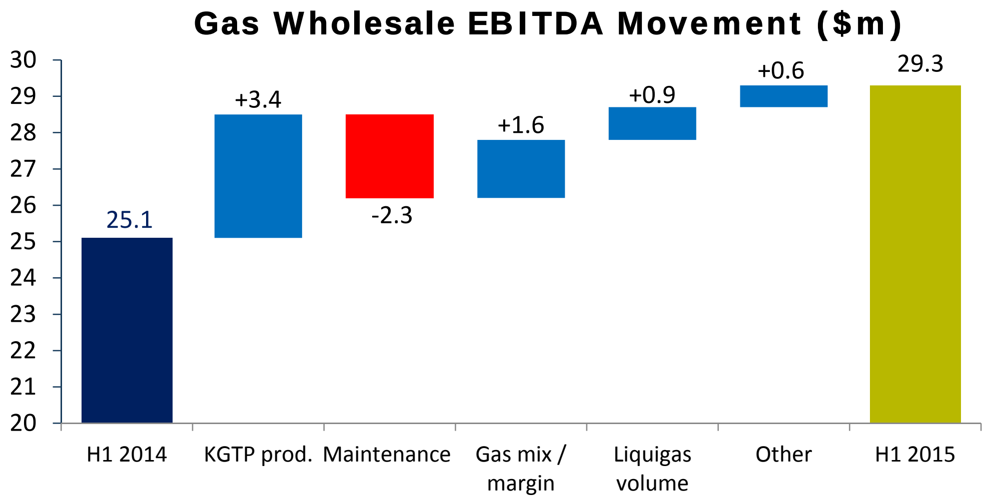
Technology

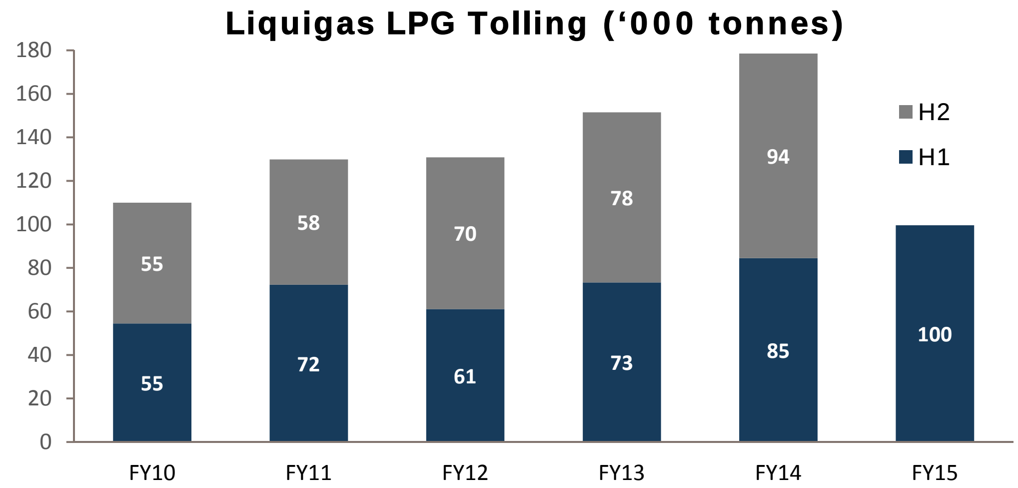
- Mass market solution launched before Christmas
- Designed with everyday New Zealand families in mind
- Affordable solutions
- Easy to use technology
- Buyback rate topped up for one year to 16c / kWh
- Partnered with BMW to install charging stations for BMW electric vehicles

Gas Wholesale performed well in H1

Gas Wholesale

- Higher production at Kapuni - field operator achieving better tight gas performance
- Ongoing proceedings with Kapuni Mining Companies – price of next tranche of gas, redetermination & obligation to process
- MBIE's published contingent reserves suggest long potential field life
- Increasing demand for Bottle Swap – construction of dedicated filling facility in Auckland

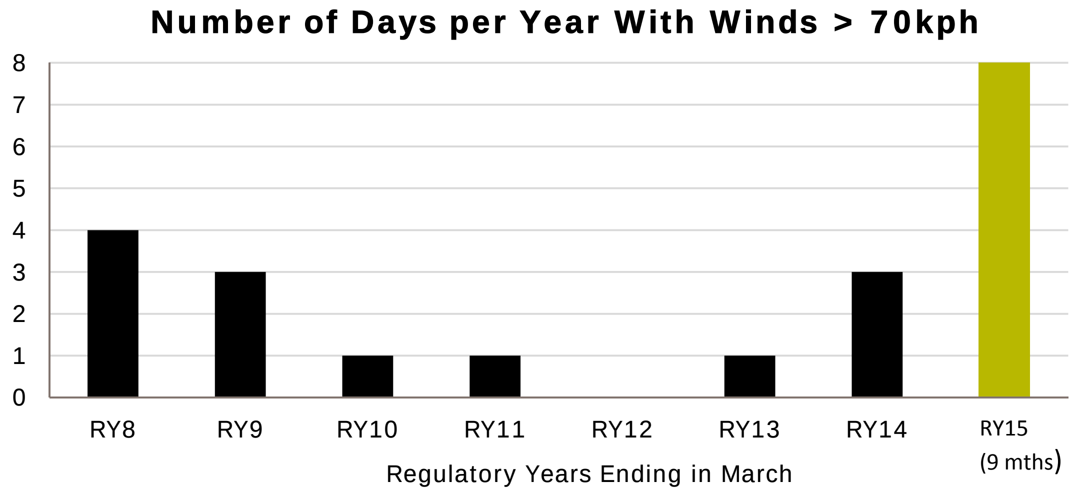


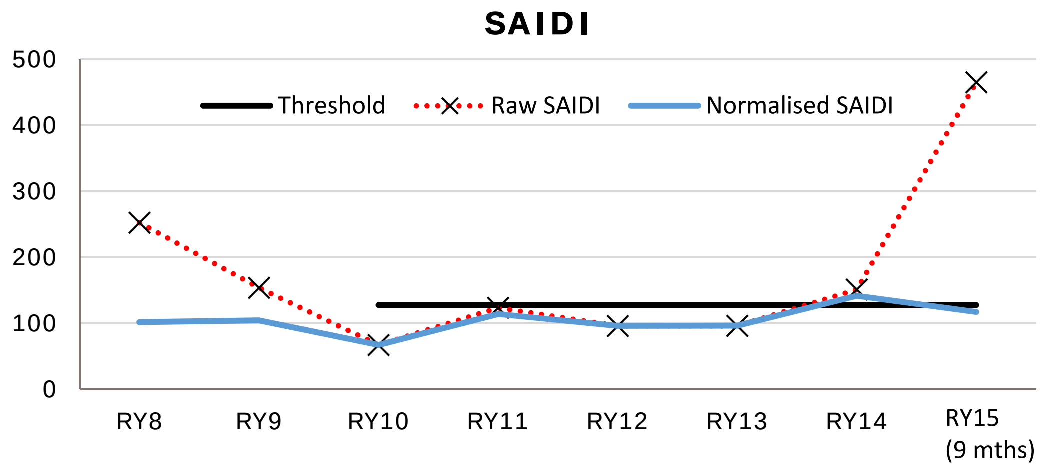


Electricity network faced challenges

Electricity

- Severe storms hit our network in June and July. Wind speeds higher, and sustained longer, than Vector has ever recorded
- Penrose still under investigation
- Raw unadjusted SAIDI rose to 465 minutes for the 9 month regulatory period to 31 Dec 2014
- Likely to breach Commission target for year to 31 March 2015



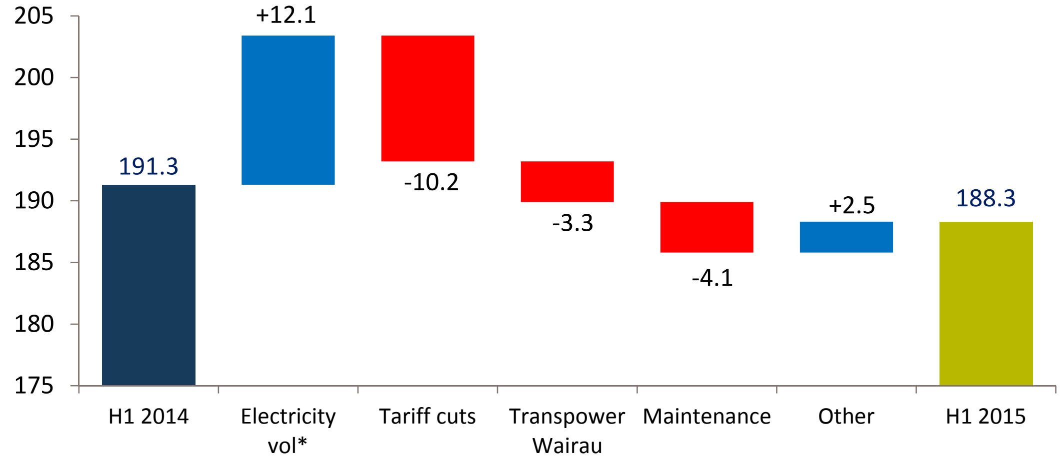


Tariff cuts, increased maintenance & transmission costs offset volume growth

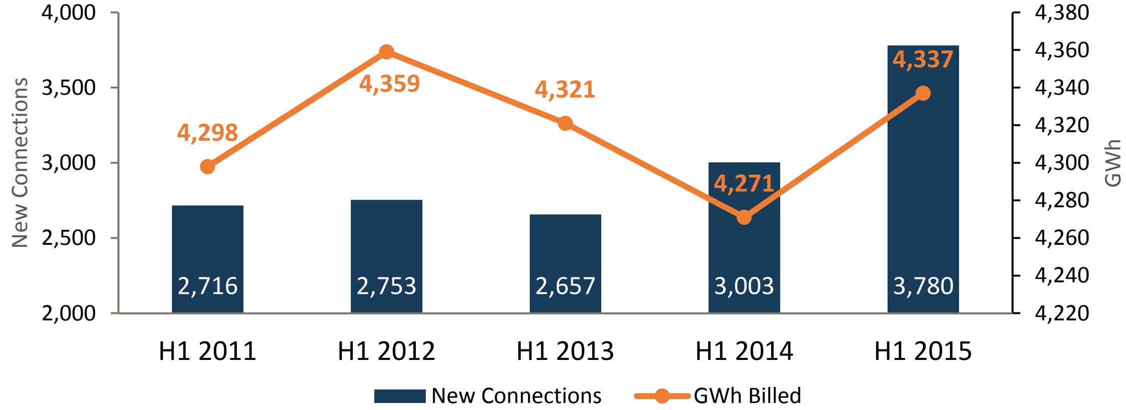
Electricity

- New electricity connections up 26%
- Volumes up 1.5% due to connection growth and cooler winter temperatures
- Maintenance up $4.1m due primarily to Penrose & storms
- High Court decision in Wairau Road case results in additional unrecoverable transmission costs of $3.3m

Electricity EBITDA Movement ($m)



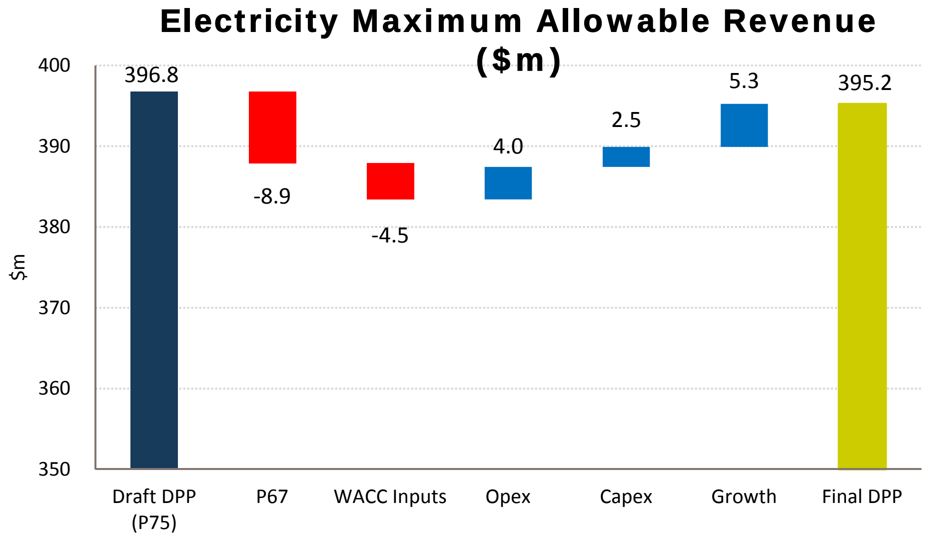
Electricity Connections & Throughput

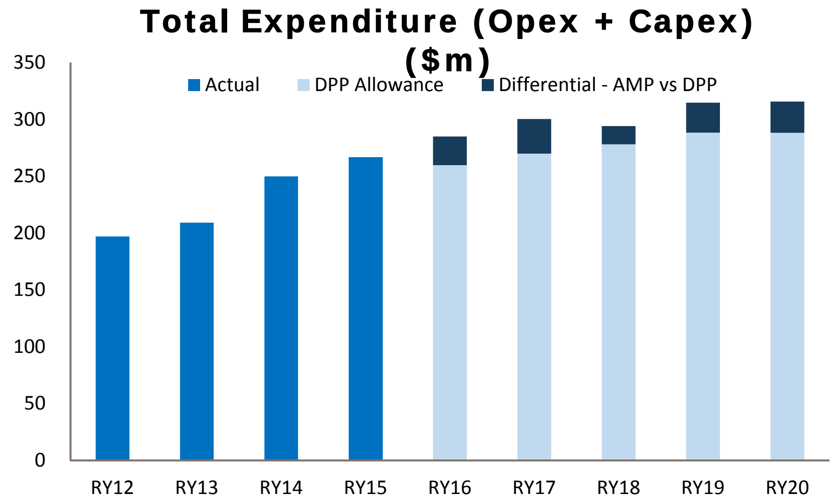


* *Includes the impact of prior period adjustments*

Electricity

Implications of regulatory action



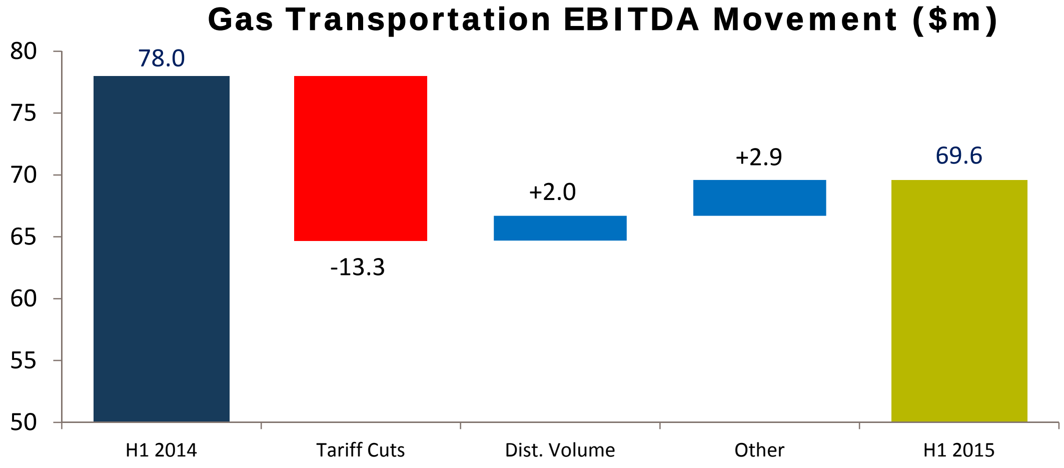


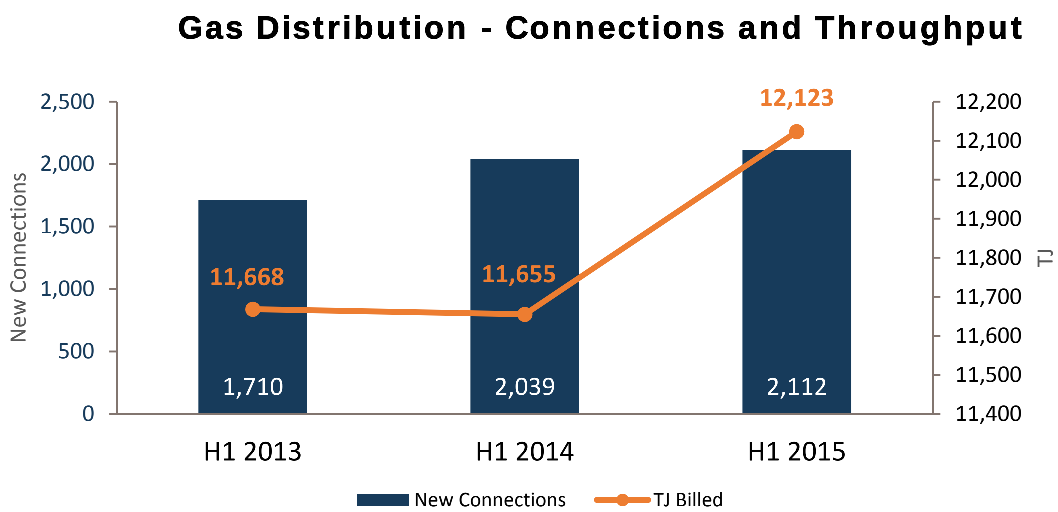
- Final DPP outcome better than draft, but offset by move to P67 WACC
- Regulatory parameters for electricity now set through to 31 March 2020
- 2nd DPP will result in average price increase of ~0.4% on 1 April 2015
- Electricity revenue would have been $9m pa higher under P75 WACC
- Expenditure forecasts (opex + capex) that Commission used to set 2nd DPP were an average of $25m p.a. (8.3%) below our 2014 AMP forecasts

Tariff cuts again dominate the Gas Transportation result

Gas Transportation

- Tariff cuts (24% distribution & 34% transmission) imposed in Oct 13 included element of clawback
- Prices increased significantly in Oct 14 (9% distribution & 20% for transmission) as clawback expired
- Transmission volumes down 2.2% on back of lower thermal generation
- Distribution volumes up 4.3% due to more connections and a colder winter





Outlook

- Finally seeing some growth in electricity and gas distribution volumes, after several periods of decline
- We are benefiting from growth in Auckland, where electricity and gas connections and volumes are up
- Our metering business is positioned to grow strongly:
    - Contracted to grow to well over one million smart meters
    - Focus on Australia
    - Emerging applications for our metering expertise
- We are increasingly seeking to allocate capital into our unregulated activities. We are also reviewing how we fund network growth
- We remain comfortable with our original FY15 guidance for adjusted EBITDA of $588m

Q&A

Appendices

Regulatory history under the default price path (DPP) regime

Electricity

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

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%

Gas Transportation

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

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

Income statement

SIX MONTHS ENDED 31 DECEMBER	2014 $m	2013 $m	CHANGE %
Revenue	687.1	657.9	+4.4
Operating expenditure	(373.7)	(340.1)	-9.9
Adjusted EBITDA	**313.4**	**317.8**	**-1.4**
Depreciation and amortisation	(95.9)	(91.2)	-5.2
Net interest costs	(90.2)	(84.8)	-6.4
Fair value change on financial instruments	(4.9)	3.8	NA
Associates (share of net profit/(loss))	-	1.1	NA
Tax	(35.1)	(42.1)	+16.6
Net profit	**87.3**	**104.6**	**-16.5**

Technology

SIX MONTHS ENDED 31 DECEMBER	2014 $m	2013 $m	CHANGE %
Revenue	76.0	66.5	+14.3
Operating expenditure	(24.3)	(18.4)	-32.1
EBITDA	**51.7**	**48.1**	**+7.5**
Depreciation and amortisation	(27.6)	(23.0)	-20.0
Segment profit	**24.1**	**25.1**	**-4.0**
EBITDA/Revenue	68.0%	72.3%	
Replacement capital expenditure	5.0	4.3	+16.3
Growth capital expenditure	42.8	44.4	-3.6
Total capital expenditure	**47.8**	**48.7**	**-1.8**

Gas Wholesale

SIX MONTHS ENDED 31 DECEMBER	2014 $m	2013 $m	CHANGE %
Revenue	185.9	184.7	+0.6
Operating expenditure	(156.6)	(159.6)	+1.9
EBITDA	**29.3**	**25.1**	**+16.7**
Depreciation and amortisation	(7.7)	(8.2)	+6.1
Segment profit	**21.6**	**16.9**	**+27.8**
EBITDA/Revenue	15.8%	13.6%	
Replacement capital expenditure	3.0	1.9	+57.9
Growth capital expenditure	1.6	1.6	-
Total capital expenditure	**4.6**	**3.5**	**+31.4**

Electricity

SIX MONTHS ENDED 31 DECEMBER	2014 $m	2013 $m	CHANGE %
Revenue	350.8	326.4	+7.5
Operating expenditure	(162.5)	(135.1)	-20.3
EBITDA	**188.3**	**191.3**	**-1.6**
Depreciation and amortisation	(41.7)	(41.1)	-1.5
Segment profit	**146.6**	**150.2**	**-2.4**
EBITDA/Revenue	53.7%	58.6%	
Replacement capital expenditure	36.9	36.0	+2.5
Growth capital expenditure	35.1	37.0	-5.1
Total capital expenditure	**72.0**	**73.0**	**-1.4**

Gas Transportation

SIX MONTHS ENDED 31 DECEMBER	2014 $m	2013 $m	CHANGE %
Revenue	96.1	105.5	-8.9
Operating expenditure	(26.5)	(27.5)	+3.6
EBITDA	**69.6**	**78.0**	**-10.8**
Depreciation and amortisation	(12.1)	(11.0)	-10.0
Segment profit	**57.5**	**67.0**	**-14.2**
EBITDA/Revenue	72.4%	73.9%	
Replacement capital expenditure	11.2	10.3	+8.7
Growth capital expenditure	11.8	6.7	+76.1
Total capital expenditure	**23.0**	**17.0**	**+35.3**

Corporate

SIX MONTHS ENDED 31 DECEMBER	2014 $M	2013 $M	CHANGE %
Revenue	0.3	0.3	-
Operating expenditure	(25.8)	(25.0)	-3.2
Adjusted EBITDA	**(25.5)**	**(24.7)**	**-3.2**

Cash flow

SIX MONTHS ENDED 31 DECEMBER	2014 $m	2013 $m
Operating cash flow	203.3	225.9
Replacement capex	(67.8)	(66.2)
Dividends paid	(79.2)	(79.0)
Cash available for growth and debt repayment	**56.3**	**80.7**
Growth capex	(91.7)	(88.0)
Acquisitions	(20.0)	(60.1)
Other investment activities	(0.5)	1.6
Pre debt financing cash inflow	**(55.9)**	**(65.8)**
Increase/(decrease) in borrowings	57.0	25.0
Other financing activities	(1.3)	(0.7)
Increase/(decrease) in cash	**(0.2)**	**(41.5)**

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.

GAAP TO Non-GAAP reconciliation

EBITDA and Adjusted EBITDA

	2014	2013
Six months ended 31 December	$M	$M
Reported net profit for the period (GAAP)	87.3	104.6
Add back: net interest costs[1]	90.2	84.8
Add back: tax (benefit)/expense[1]	35.1	42.1
Add back: depreciation and amortisation[1]	95.9	91.2
EBITDA	308.5	322.7
Adjusted for:		
Associates (share of net (profit)/loss)[1]	-	(1.1)
Fair value change on financial instruments[1]	4.9	(3.8)
Adjusted EBITDA	313.4	317.8

1. Extracted from reviewed financial statements