Financial and Operational Results

Half year to 31 December 2013

21 February 2014

Disclaimer

This financial and operational results presentation dated 21 February 2014 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

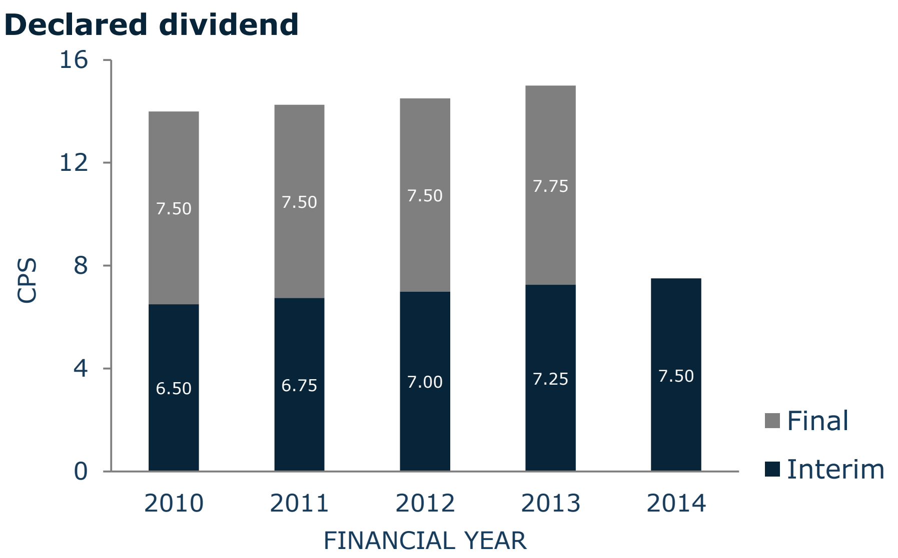
- Dividend
- Half Year (1H) 2014 summary
- Financial results
- Operating overview
- Outlook

Vector's vision and goal

VISION: First choice for integrated infrastructure solutions

GOAL: Deliver sustainable dividend increases

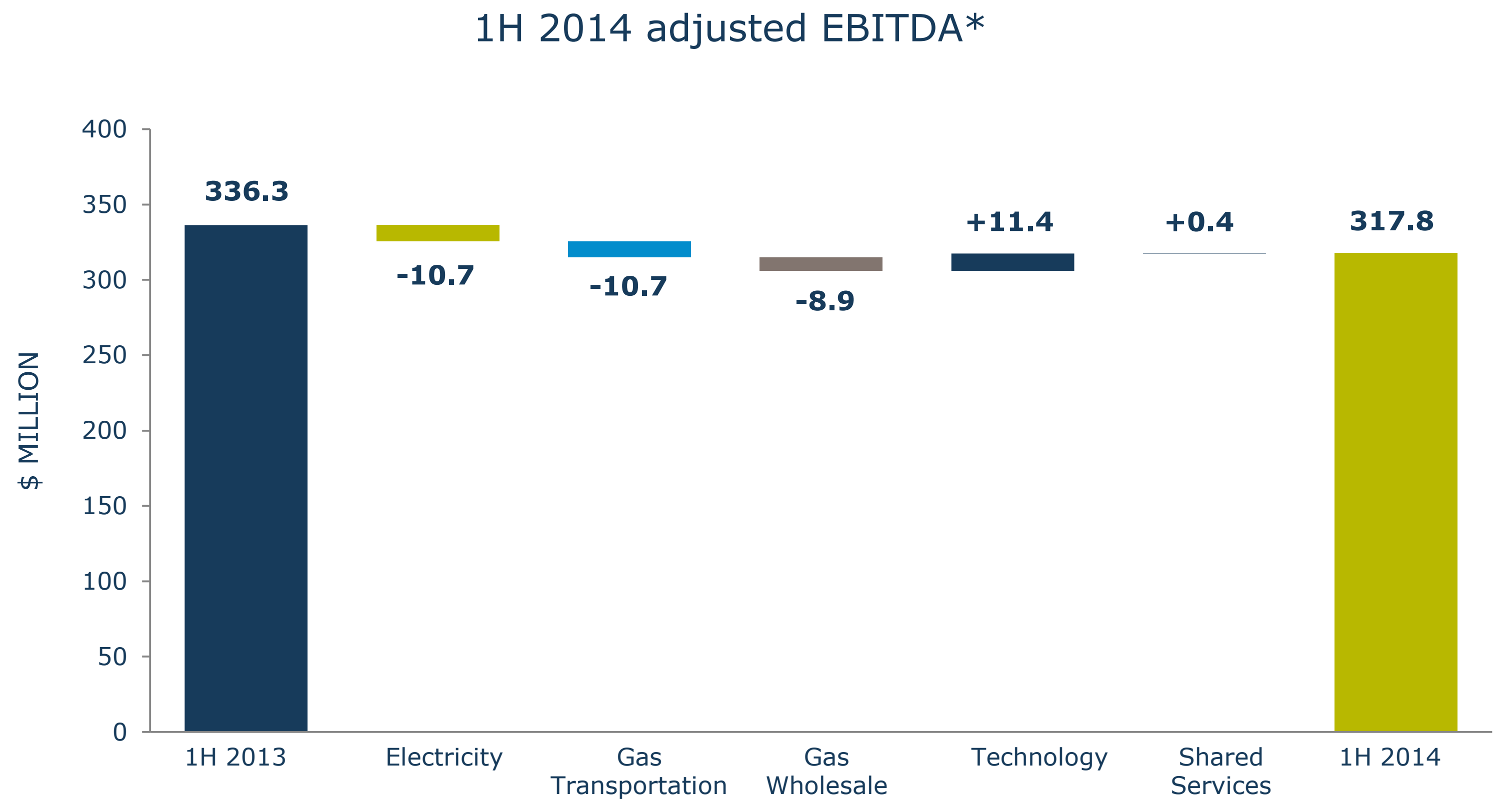
- 2014 fully-imputed interim dividend rises 0.25 cents per share to 7.5 cents per share
- Record date: 25 March 2014
- Payment date: 15 April 2014



Simon Mackenzie

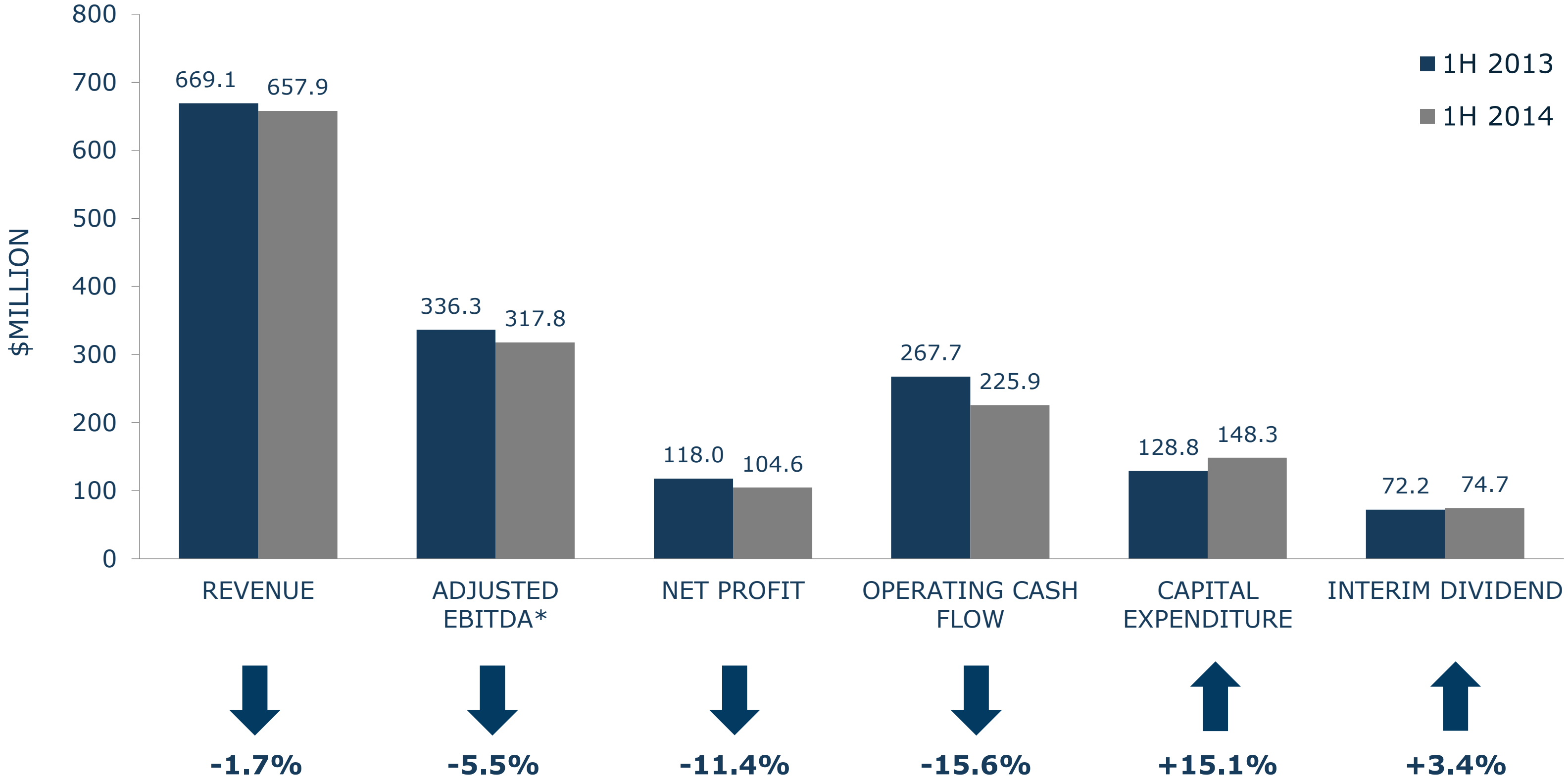
GROUP CHIEF EXECUTIVE

Vector’s portfolio of businesses



*In line with international best practice, Vector has replaced ‘EBITDA’ with ‘adjusted EBITDA’ to better reflect the nature of this non-GAAP profit measure. Adjusted EBITDA reported this year remains comparable with EBITDA reported in the prior period. For a comprehensive definition and reconciliation of this measure to the GAAP measure of net profit refer to pages 33 and 34 of this presentation.

1H 2014 financial performance



Dan Molloy

CHIEF FINANCIAL OFFICER

Statement of profit or loss

SIX MONTHS ENDED 31 DECEMBER	2013 $M	2012 $M	CHANGE %
Revenue	657.9	669.1	-1.7
Operating expenditure	(340.1)	(332.8)	-2.2
Adjusted EBITDA	**317.8**	**336.3**	**-5.5**
Depreciation and amortisation	(91.2)	(86.3)	-5.7
Interest costs (net)	(84.8)	(83.3)	-1.8
Fair value change on financial instruments	3.8	0.3	NA
Associates (share of net profit/(loss))	1.1	0.7	+57.1
Impairment of investments in associate	-	(2.2)	NA
Tax benefit/(expense)	(42.1)	(47.5)	+11.4
Net Profit	**104.6**	**118.0**	**-11.4**

- Revenue fall reflects well-flagged price resets, lower Kapuni production and falling electricity and gas consumption
- The end of our entitlements to Kapuni gas at legacy prices impacts adjusted EBITDA

Electricity

SIX MONTHS ENDED 31 DECEMBER	2013 $M	2012 $M	CHANGE %
Revenue	326.4	334.8	-2.5
Operating expenditure	(135.1)	(132.8)	-1.7
EBITDA	**191.3**	**202.0**	**-5.3**
Depreciation and amortisation	(41.1)	(40.3)	-2.0
Segment profit	**150.2**	**161.7**	**-7.1**
EBITDA/Revenue	58.6%	60.3%	
Replacement capital expenditure	36.0	33.5	+7.5
Growth capital expenditure	37.0	27.9	+32.6
Total capital expenditure	**73.0**	**61.4**	**+18.9**

- Regulatory price resets from 1 April 2013, warmer than average temperatures and continuing falls in consumption weigh on financial performance
- Operating expenditure inflated by higher pass through costs including Transpower charges
- Higher levels of subdivision and customer connection activity supportive of long term prospects

Gas Transportation

SIX MONTHS ENDED 31 DECEMBER	2013 $M	2012 $M	CHANGE %
Revenue	105.5	114.4	-7.8
Operating expenditure	(27.5)	(25.7)	-7.0
EBITDA	**78.0**	**88.7**	**-12.1**
Depreciation and amortisation	(11.0)	(12.1)	+9.1
Segment profit	**67.0**	**76.6**	**-12.5**
EBITDA/Revenue	73.9%	77.5%	
Replacement capital expenditure	10.3	10.4	-1.0
Growth capital expenditure	6.7	5.6	+19.6
Total capital expenditure	**17.0**	**16.0**	**+6.3**

- Revenue reflects the regulatory reset of our gas transmission and distribution prices from 1 October 2013
    - Price reductions set 29% lower for gas transmission and 18% lower for gas distribution

Gas Wholesale

SIX MONTHS ENDED 31 DECEMBER	2013 $M	2012 $M	CHANGE %
Revenue	184.7	195.5	-5.5
Operating expenditure	(159.6)	(161.5)	+1.2
EBITDA	**25.1**	**34.0**	**-26.2**
Depreciation and amortisation	(8.2)	(8.0)	-2.5
Segment profit	**16.9**	**26.0**	**-35.0**
EBITDA/Revenue	13.6%	17.4%	
Replacement capital expenditure	1.9	2.0	-5.0
Growth capital expenditure	1.6	1.5	+6.7
Total capital expenditure	**3.5**	**3.5**	**-**

- Results impacted by lower Kapuni production, lower demand from electricity generators and weaker industrial and commercial revenue due to lower prices
- Bottle swap business continues to grow and LPG tolling volumes increase

Technology

SIX MONTHS ENDED 31 DECEMBER	2013 $M	2012 $M	CHANGE %
Revenue	66.5	52.8	+25.9
Operating expenditure	(18.4)	(16.1)	-14.3
EBITDA	**48.1**	**36.7**	**+31.1**
Depreciation and amortisation	(23.0)	(18.8)	-22.3
Segment profit	**25.1**	**17.9**	**+40.2**
EBITDA/Revenue	72.3%	69.5%	
Replacement capital expenditure	4.3	3.6	+19.4
Growth capital expenditure	44.4	40.1	+10.7
Total capital expenditure	**48.7**	**43.7**	**+11.4**

- Results benefit from smart meter deployment and the acquisition of Contact Energy's gas metering business
- Technology depreciation reflects increased smart meter deployment and depreciation linked to the newly acquired Contact gas metering business

Shared Services

SIX MONTHS ENDED 31 DECEMBER	2013 $M	2012 $M	CHANGE %
Revenue	0.3	0.2	+50.0
Operating expenditure	(25.0)	(25.3)	+1.2
Adjusted EBITDA	**(24.7)**	**(25.1)**	**+1.6**

Cash flow

SIX MONTHS ENDED 31 DECEMBER	2013 $M	2012 $M
Operating cash flow	225.9	267.7
Replacement capex	(66.2)	(58.4)
Dividends paid	(79.0)	(74.7)
Cash available for growth and debt repayment	**80.7**	**134.6**
Growth capex	(88.0)	(68.5)
Acquisitions	(60.1)	-
Other investment activities	1.6	3.0
Pre debt financing cash inflow	**(65.8)**	**69.1**
Increase/(decrease) in borrowings	25.0	(22.8)
Other financing activities	(0.7)	(0.5)
Increase/(decrease) in cash	**(41.5)**	**45.8**

- Operating cash flow trend is consistent with the fall in operating revenue and higher tax payments
- Capital expenditure increased and continues to be driven by investment in the smart metering programme and investment in our network to accommodate growth

Asset backing and capital structure

	31 DECEMBER 2013	30 JUNE 2013	31 DECEMBER 2012
Net debt	2,388m	2,364m	2,286m
Equity/total assets	40.4%	39.3%	38.9%
Gearing (net debt/(net debt+equity))	50.7%	51.1%	51.0%
Interest cover (net)	2.7x	2.8x	3.0x

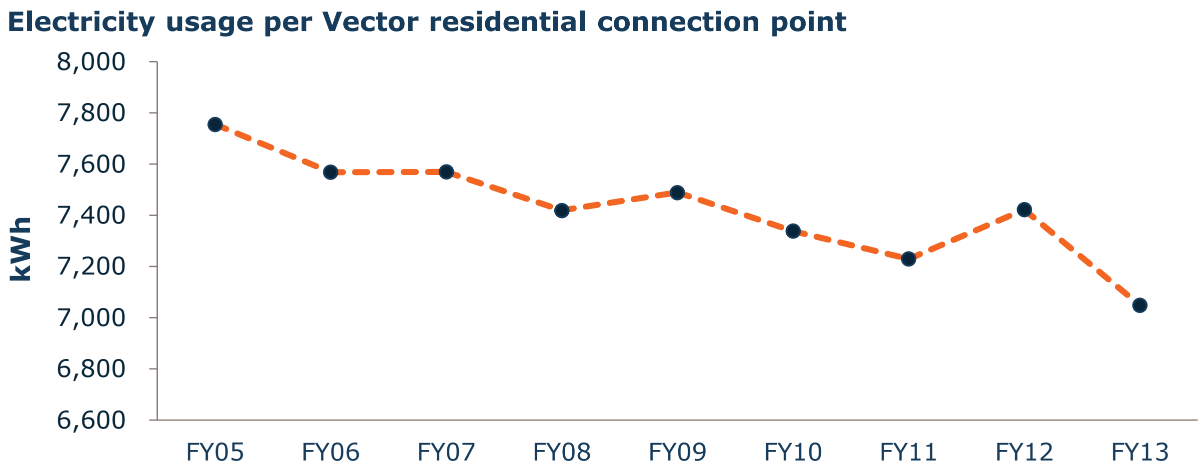
- Vector's balance sheet remains strong
- Standard & Poor's lowers Vector one notch to BBB, from BBB+
- We remain 'investment grade'
- The rating action will not have any immediate financial or customer impact given the long dated duration of the company's debt portfolio

Simon Mackenzie

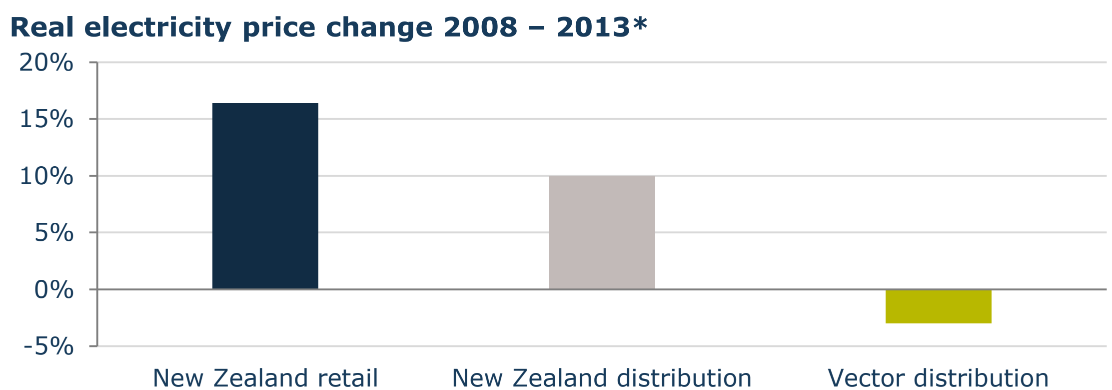
GROUP CHIEF EXECUTIVE

Strategic focus

Price is driving customer behaviour



Source: Vector



Derived from MBIE August 2013 data on consumers using an average 8000 kWh each year

Meeting the challenge

CUSTOMER FOCUS

Customers want:

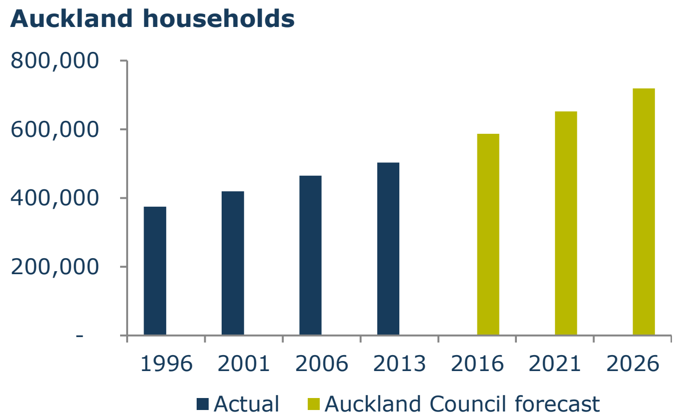
- A utility they can trust
  - Reliable, efficient infrastructure services
  - Timely delivery and online services
- Choice and flexibility over how they use energy
- Good value

How we are delivering:

- We are encouraging customers to ensure they are on the appropriate tariffs
- Metering technologies
- Outage app
- Solar solutions

INNOVATION

Well positioned to continue to grow



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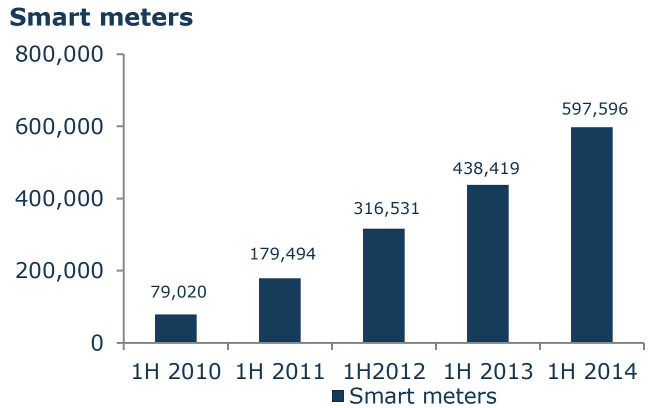
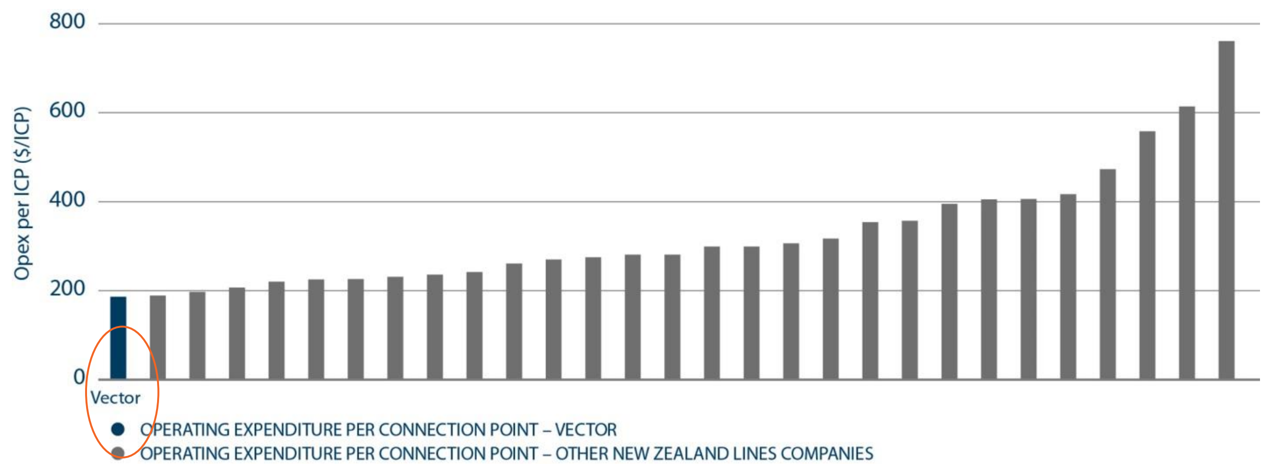


- Auckland offers strong growth opportunities
- 3,575 net new connections to our gas and electricity networks
- The leading supplier of energy metering services in New Zealand and further growth expected
- Bedding down our recent acquisition of Contact's gas meter business
- Continuing to explore opportunities to grow our metering business offshore

Continuous improvement

OPERATIONAL EXCELLENCE

New Zealand Electricity Distribution Business operating costs



Source: PwC Electricity Line Business Information Disclosure Compendium, April 2013

- Installed base of smart meters reaches 597,596 and we are installing up to 15,000 smart meters a month over the next six months
- Installed 19,500 meters in November, a record for a month
- Our rights to approximately 7.3 PJ of Kapuni gas at legacy prices confirmed in the High Court

Regulation – merits review poses more questions

REGULATORY OUTCOMES

- Consumers do not appear to be benefiting from the price reductions Vector has made
- The frequency of change to the core elements of the regulatory regime is adding significant cost to New Zealand infrastructure providers
- All New Zealand regulated infrastructure providers affected the same way
- Merits review decision does not redress the imbalances we see and gives:
  - the regulator wide discretion over the conduct of New Zealand's critical infrastructure businesses
  - gives no guidance to how the test of 'materially better' can be assessed robustly
- We had decided against appealing the merits review decision and but reconsidering our position in light of the appeal by the Major Electricity Users Group

People & safety

PEOPLE & SAFETY

- We strive for a high performance culture that recognises health and safety as a core value
- We have developed a three year health, safety and environment strategy which requires commitment and proactive leadership from our board, senior leaders, employees and contractors alike

Outlook

- We continue to target adjusted EBITDA for the 12 months to 30 June 2014 to be in line with market consensus estimates
- In a complex and changing environment we are well positioned to deliver long term growth
- We will continue to innovate and be at the forefront of change in a way that is aligned with the advances in technology and changes in customer preferences

Q&A

Appendix

Operating statistics

	1H 2014	1H 2013	Change (%)
ELECTRICITY			
Customers[1,4]	541,444	537,268	+0.8
Net movement in customers[2]	2,212	2,040	+8.4
Volume distributed (GWh)	4,271	4,321	-1.2
Networks length (km)[1]	17,927	17,826	+0.6
SAIDI (minutes)[3]			
Normal operations	105.1	72.3	+45.4
Extreme events	9.8	-	NA
Total	114.9	72.3	+58.9

1. As at period end
2. The net number of customers added during the six month period
3. System Average Interruption Duration Index for the regulatory year, 9 months to 31 December
4. Billable ICPs

Operating statistics

	1H 2014	1H 2013	Change (%)
GAS TRANSPORTATION			
Distribution customers[1,3]	158,315	155,863	+1.6
Net movement in distribution customers[2]	1,363	1,214	+12.3
Distribution volume (PJ)	11.6	11.7	-0.9
Distribution mains network length (km)[1]	7,132	7,047	+1.2
Transmission volume (PJ)[4]	59.3	58.8	+0.9
Transmission system length owned (km)[1]	2,286	2,286	-
Transmission system length operated/managed (km)[1]	1,132	1,130	+0.2

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 2014	1H 2013	Change (%)
GAS WHOLESALE			
Natural gas sales (PJ)[1]	13.0	13.9	-6.5
Gas liquids sales (tonnes)[2]	36,659	39,000	-6.0
Liquigas LPG tolling (tonnes)[3]	84,528	73,369	+15.2

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 2014	1H 2013	Change (%)
TECHNOLOGY			
Electricity: smart meters[1]	597,596	438,419	+36.3
Electricity: legacy meters[1]	232,939	314,019	-25.8
Electricity: prepay meters[1]	4,533	5,067	-10.5
Electricity: time of use meters[1]	11,192	10,926	+2.4
Gas meters[1]	210,741	82,304	+156.1
Data management service connections[1]	8,237	8,745	-5.8

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.

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	31 DEC 2013 6 MONTHS $M	31 DEC 2012 6 MONTHS $M
Reported net profit for the period (GAAP)	104.6	118.0
Add back: interest costs (net)[1]	84.8	83.3
Add back: tax (benefit)/expense[1]	42.1	47.5
Add back: depreciation and amortisation[1]	91.2	86.3
EBITDA	322.7	335.1
Adjusted for:		
Impairment of investments in associates[1]	-	2.2
Associates (share of net (profit)/loss)[1]	(1.1)	(0.7)
Fair value change on financial instruments[1]	(3.8)	(0.3)
Adjusted EBITDA	317.8	336.3

1. Extracted from reviewed financial statements

www.vector.co.nz