



Financial and Operational Results

Year ended 30 June 2014

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22 August 2014

Disclaimer

This financial and operational results presentation dated 22 August 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
- Full Year (FY) 2014 summary
- Financial results
- Operating overview
- Outlook

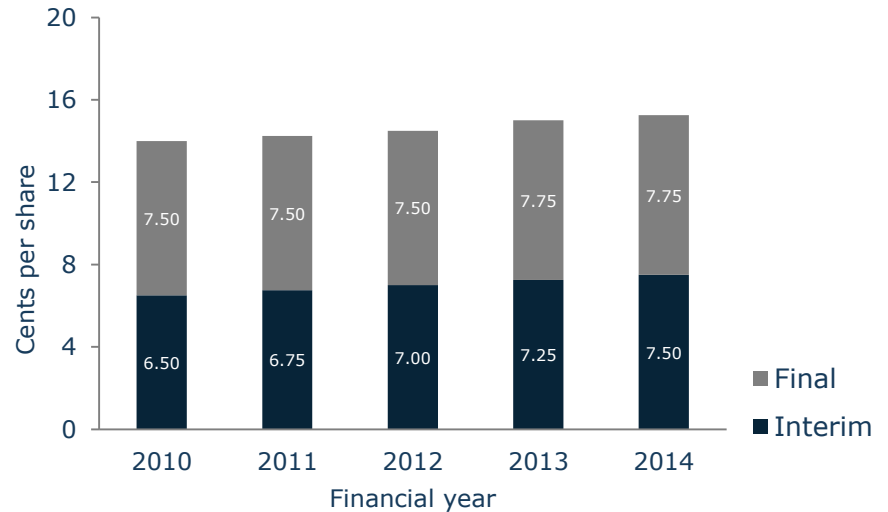
Vector's vision and goal

VISION: First choice for integrated infrastructure solutions

GOAL: Deliver sustainable dividend increases

- 2014 fully-imputed full year dividend rises 0.25 cents per share to 15.25 cents per share
- Record date: 8 September 2014
- Payment date: 15 September 2014

Declared dividend



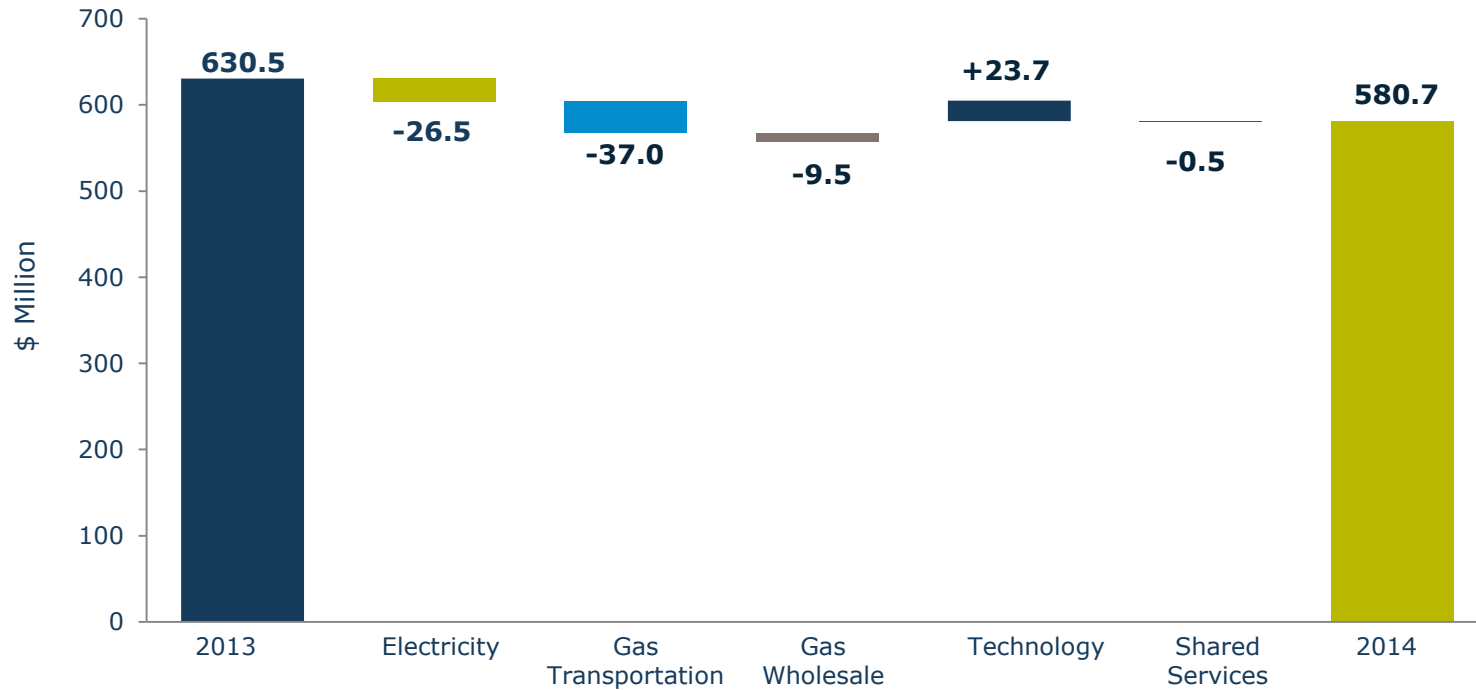
Simon Mackenzie

GROUP CHIEF EXECUTIVE



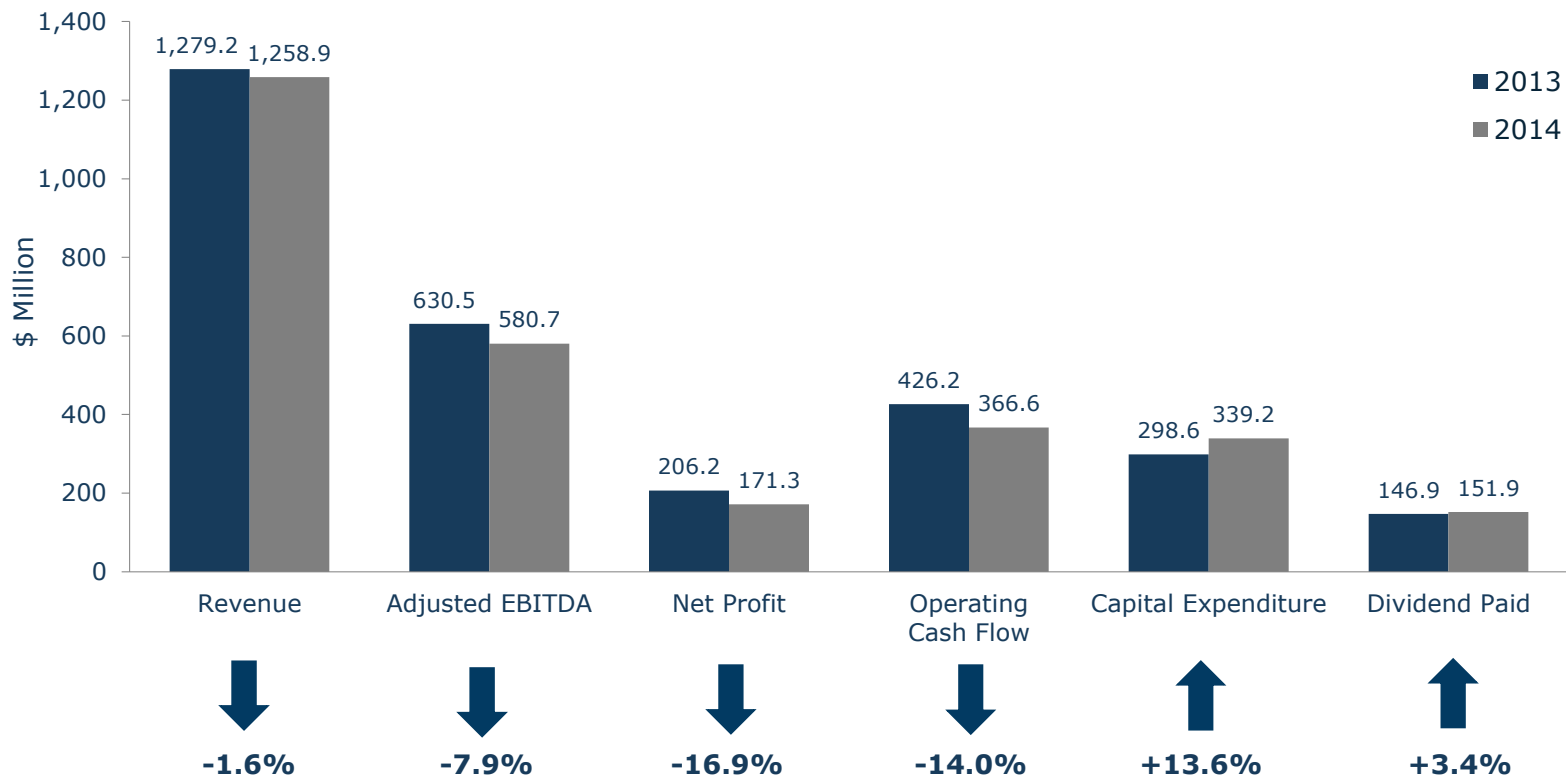
Vector's portfolio of businesses

2014 adjusted EBITDA*



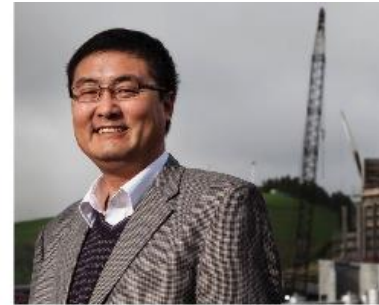
*In line with international best practice, Vector has replaced group 'EBITDA' with 'adjusted EBITDA' to better reflect the nature of this non-GAAP profit measure. Adjusted EBITDA reported this year remains comparable with EBITDA reported in the prior period. For a comprehensive definition and reconciliation of this measure to the GAAP measure of net profit refer to page 30 of this presentation.

2014 financial performance



Dan Molloy

CHIEF FINANCIAL OFFICER



Profit statement

YEAR ENDED 30 JUNE	2014 \$M	2013 \$M	CHANGE %
Revenue	1,258.9	1,279.2	-1.6
Operating expenses	(678.2)	(648.7)	-4.5
Adjusted EBITDA	580.7	630.5	-7.9
Depreciation and amortisation	(183.8)	(174.1)	-5.6
Net interest costs	(168.9)	(164.4)	-2.7
Fair value change on financial instruments	6.0	0.1	NA
Associates (share of net profit/(loss))	1.7	1.3	+30.8
Impairment of investments in associate	(1.2)	(3.6)	+66.7
Tax	(63.2)	(83.6)	+24.4
Net Profit	171.3	206.2	-16.9

- Revenue figure reflects:
 - Significant well-flagged price resets on regulated networks
 - Lower consumption due to warmer than average temperature
 - Offset by increased transmission cost recoveries and higher capital contributions
- Tariff cuts and the end of our entitlements to Kapuni gas at legacy prices weigh on adjusted EBITDA

Electricity

YEAR ENDED 30 JUNE	2014 \$M	2013 \$M	CHANGE %
Revenue	631.3	632.9	-0.3
Operating expenses	(285.3)	(260.4)	-9.6
EBITDA	346.0	372.5	-7.1
Depreciation and amortisation	(83.1)	(80.8)	-2.8
Segment profit	262.9	291.7	-9.9
<i>EBITDA/Revenue</i>	54.8%	58.9%	
Growth capital expenditure	80.2	69.2	+15.9
Replacement capital expenditure	82.1	81.0	+1.4
Total capital expenditure	162.3	150.2	+8.1

- Regulatory price reduction: weighted average total of 10% since 1 April 2013
- Warmer than average temperatures and continuing falls in consumption per capita also weigh on financial performance
- Higher maintenance costs driven by corrective and storm-related work
- Auckland Council's housing initiatives flow through as net new connections up 17.9%
- Growth capital expenditure driven by increase in connections

Gas Transportation

YEAR ENDED 30 JUNE	2014 \$M	2013 \$M	CHANGE %
Revenue	187.0	219.6	-14.8
Operating expenses	(53.6)	(49.2)	-8.9
EBITDA	133.4	170.4	-21.7
Depreciation and amortisation	(22.8)	(23.9)	+4.6
Segment profit	110.6	146.5	-24.5
<i>EBITDA/Revenue</i>	71.3%	77.6%	
Growth capital expenditure	21.1	12.9	+63.6
Replacement capital expenditure	26.5	24.6	+7.7
Total capital expenditure	47.6	37.5	+26.9

- Revenue and earnings drop 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 distribution
- Operating expenses increase largely due to higher pass through costs
- Capital expenditure increase reflects growth in both residential and business connections, notably the Yashili dairy factory in Pokeno

Gas Wholesale

YEAR ENDED 30 JUNE	2014 \$M	2013 \$M	CHANGE %
Revenue	349.8	372.2	-6.0
Operating expenses	(298.9)	(311.8)	+4.1
EBITDA	50.9	60.4	-15.7
Depreciation and amortisation	(15.4)	(16.2)	+4.9
Segment profit	35.5	44.2	-19.7
<i>EBITDA/Revenue</i>	14.6%	16.2%	
Growth capital expenditure	3.8	3.3	+15.2
Replacement capital expenditure	6.3	5.0	+26.0
Total capital expenditure	10.1	8.3	+21.7

- Result impacted by the end of entitlement to Kapuni gas at legacy prices, lower demand from electricity generators and increased competition
- Pleasing growth in LPG business, as tolling volumes increase
- Our rights to approximately 7.3 PJ of Kapuni gas at legacy prices confirmed in the High Court
- Arbitration to resolve the price for the next tranche of Kapuni gas set to commence April 2015

Technology

YEAR ENDED 30 JUNE	2014 \$M	2013 \$M	CHANGE %
Revenue	137.0	109.1	+25.6
Operating expenses	(37.0)	(32.8)	-12.8
EBITDA	100.0	76.3	+31.1
Depreciation and amortisation	(46.5)	(38.9)	-19.5
Segment profit	53.5	37.4	+43.0
<i>EBITDA/Revenue</i>	73.0%	69.9%	
Growth capital expenditure	96.5	80.5	+19.9
Replacement capital expenditure	8.5	8.4	+1.2
Total capital expenditure	105.0	88.9	+18.1

- Standout result due to smart meter deployment and the integration 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
- Capex targeted at the meter rollout and IT investment program

Shared Services

YEAR ENDED 30 JUNE	2014 \$M	2013 \$M	CHANGE %
Revenue	0.6	0.6	-
Operating expenses	(50.2)	(49.7)	-1.0
Adjusted EBITDA	(49.6)	(49.1)	-1.0

Cash flow

YEAR ENDED 30 JUNE	2014 \$M	2013 \$M
Operating cash flow	366.6	426.2
Replacement capex	(135.1)	(123.3)
Dividends paid	(156.7)	(148.3)
Cash available for growth and debt repayment	74.8	154.6
Growth capex	(192.3)	(160.1)
Acquisitions	(60.1)	-
Other investment activities	1.8	3.7
Pre debt financing cash outflow	(175.8)	(1.8)
Increase/(decrease) in borrowings	129.0	(22.8)
Other financing activities	(1.1)	(0.8)
Decrease in cash	(47.9)	(25.4)

- Operating cash flow trend is consistent with the fall in EBITDA and increase in net interest, along with the timing of payments to some creditors
- Capital expenditure increased and continues to be driven by investment in the smart metering programme and investment in our networks to accommodate growth
- The 2013 Contact Energy gas metering acquisition settled in July 2013

Asset backing and capital structure

	30 JUNE 2014	31 DECEMBER 2013	30 JUNE 2013
Net debt	2,461m	2,388m	2,364m
Equity/total assets	39.5%	40.4%	39.3%
Gearing (net debt/(net debt+equity))	51.6%	50.7%	51.1%
Interest cover (net)	2.3x	2.7x	2.8x

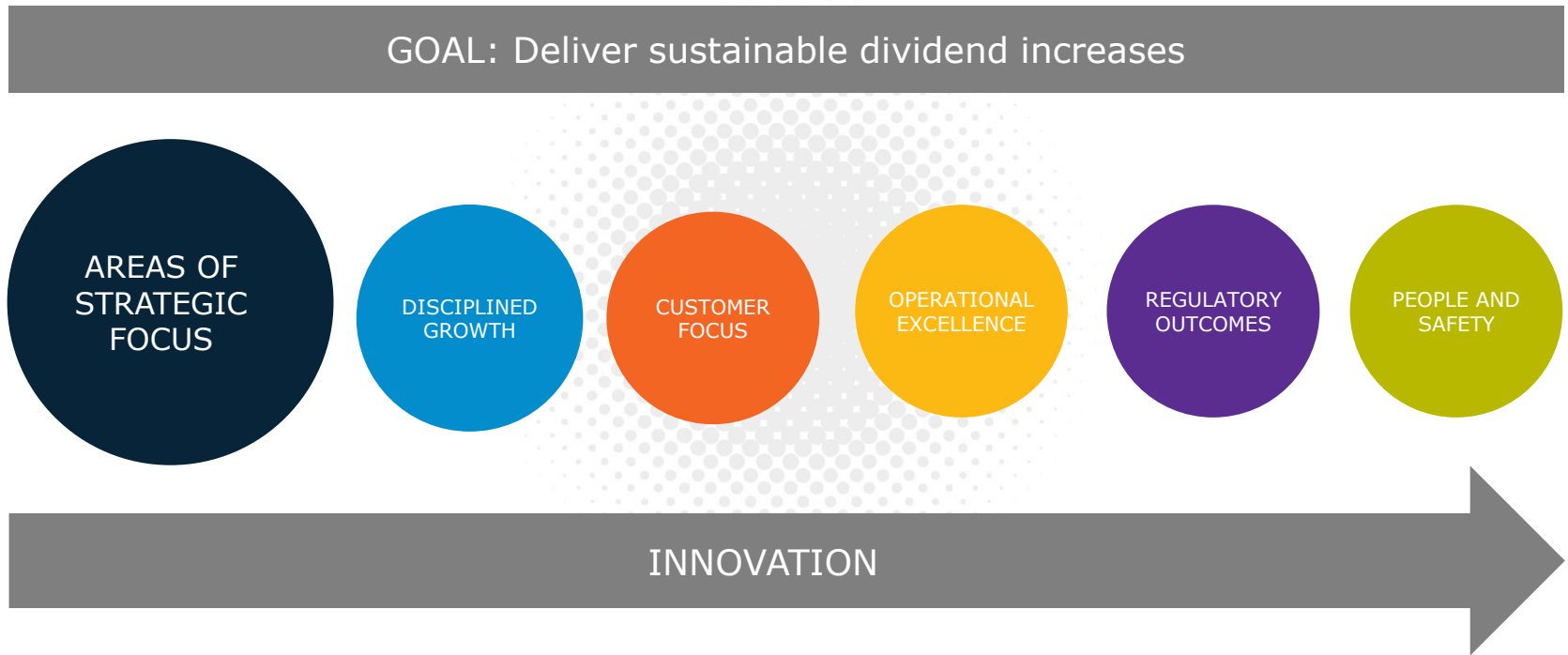
- Vector's balance sheet remains sound
- Standard & Poor's lowers Vector one notch to BBB, from BBB+
- We remain 'investment grade'
- Given the long dated duration of the company's debt portfolio the rating action will not have any immediate financial or customer impact

Simon Mackenzie

GROUP CHIEF EXECUTIVE



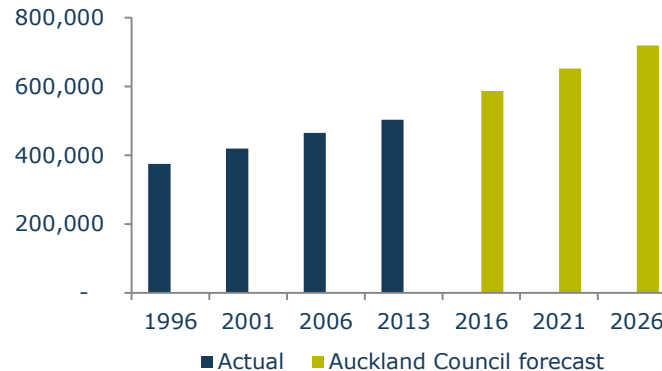
Strategic focus



Well positioned to grow

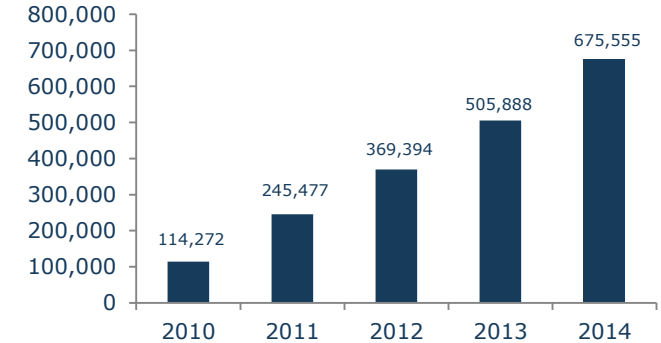


Auckland households



Source: Covec

Smart meters



- Auckland offers strong growth opportunities
- Net new connections to our gas and electricity networks up 19%
- Contracted to install over 889,000 meters
- Emerging businesses such as solar technology offer growth opportunities
- Commenced a project to achieve certification in the Australian market as a meter and data services provider

Meeting the challenge



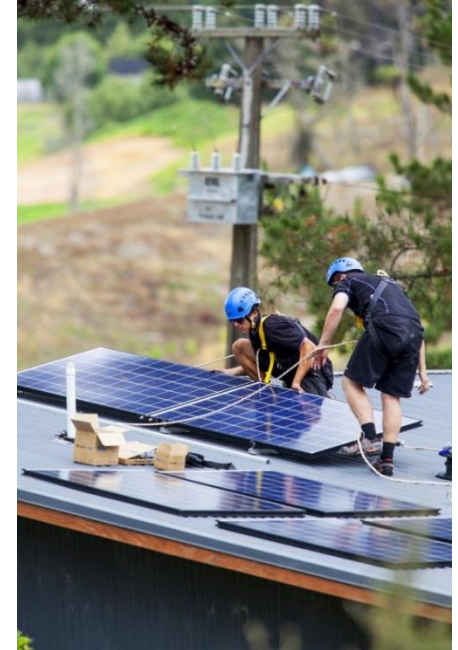
CUSTOMER
FOCUS

Customers want:

- Value
- Efficiency
- Reliability
- Choice and flexibility
- Minimal disruption

How we are delivering:

- Encouraging customers to ensure they are on the appropriate tariffs
- Driving efficiency by implementing a single contract across our electricity networks
- Enhancing communication via upgrades to our website and outage manager
- Leading development of a trading market for wholesale gas customers
- Pioneering solar solutions



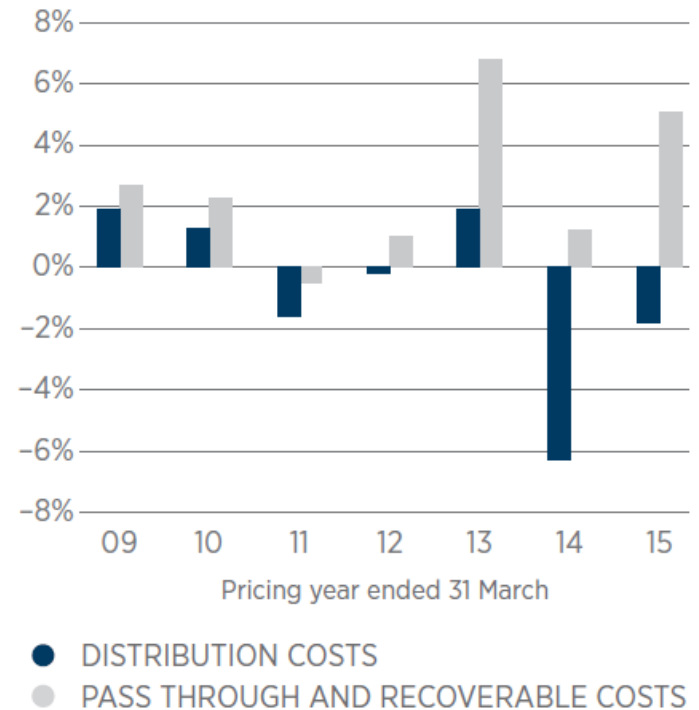
INNOVATION

Vector delivers real value to customers



- Vector’s electricity distribution prices have dropped two years in a row
- After stripping out inflation our electricity charges have fallen over recent years
- Over the same period other line charge costs have increased
 - Transpower transmission charges have increased 17.2% on the 2014 pricing year ended 31 March

Real contribution of distribution costs to line charge increases

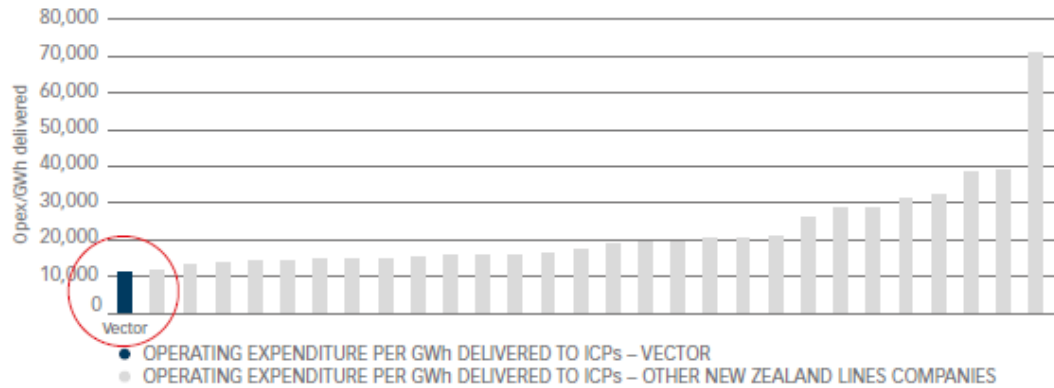


Source: Vector compliance modelling

Continuous improvement



New Zealand 2013 electricity distribution business operating costs



Source: PwC Electricity Line Business 2013 Information Disclosure Compendium, February 2014

- Efficient operations means Vector remains among the lowest cost providers in the country
- New products across the metering network:
 - Ability for consumers to export solar power back to the grid
 - Technology to control energy consumption via pre-pay
- Using geographic information services and cutting edge new sound technology to proactively address maintenance issues
- Completed upgrade of more than 140 kms of Auckland gas pipes from cast iron to hardy polyethylene

Regulation – the quest for an equitable regime



REGULATORY
OUTCOMES

- Vector remains concerned the regulatory regime is not keeping pace with technological change and global trends
 - Regulated cash flow profiles do not recognise technological change
 - Allowable rates of return not achieved due to differences between actual asset revaluation rates and those forecast by the Commerce Commission
 - Recent proposals to change allowable returns run contrary to a position the Commerce Commission has held for a considerable period of time
 - The Commerce Commission does not recognise the trend we are seeing in declining consumption per household
 - Regulatory uncertainty impacts on our credit rating which translates as a cost to the consumer in the long term
- Over the long term this could discourage investment in regulated energy networks, and put at risk the security of the energy supply

People & safety: setting the standard



- 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
- Launch of our diversity policy
- Joined the 25 percent Group of NZ Corporates
- Investing in apprenticeships in the gas business

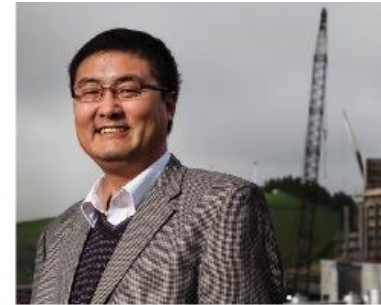
Outlook

- A challenging year ahead, with regulatory pricing adjustments relating to prior periods and declining demand for electricity per capita
- We remain focused on customer solutions, the demands of our gas customers and delivering on the potential of our technology operations
- In a complex and changing environment we are well positioned to deliver long term growth - assuming commercial rationality in the regulation of our energy networks
- At this stage we are comfortable with consensus estimates for adjusted EBITDA of \$588 million in 2015, subject to finalisation of regulatory parameters in November 2014, Auckland growth, and energy demand

Q&A



Appendix



Operating statistics

	2014	2013	Change	%		2014	2013	Change	%
ELECTRICITY					GAS TRANSPORTATION				
Customers ^{1,5}	543,953	539,232	+0.9		Distribution customers ^{1,5}	159,738	156,952	+1.8	
Net movement in customers ²	4,721	4,004	+17.9		Net movement in distribution customers ²	2,786	2,303	+21.0	
Volume distributed (GWh)	8,252	8,332	-1.0		Distribution volume (PJ)	21.9	21.4	+2.3	
Networks length (km) ¹	18,021	17,865	+0.9		Distribution mains network length (km) ¹	7,179	7,089	+1.3	
SAIDI (minutes) ^{3,4}					Transmission volume (PJ) ⁶	111.3	118.2	-5.8	
Normal operations	141.3	95.8	+47.5		Transmission system length owned (km) ¹	2,286	2,286	-	
Extreme events	9.6	-	NA		Transmission system length operated/managed (km) ¹	1,161	1,132	+2.6	
Total SAIDI	150.9	95.8	+57.5						
GAS WHOLESALE					TECHNOLOGY				
Natural gas sales (PJ) ⁷	24.5	26.5	-7.5		Electricity: smart meters ¹	675,555	505,888	+33.5	
Gas liquids sales (tonnes) ⁸	71,000	71,757	-1.1		Electricity: legacy meters ¹	202,561	269,289	-24.8	
Liquigas LPG tolling (tonnes) ⁹	178,510	151,544	+17.8		Electricity: prepay meters ¹	4,527	4,851	-6.7	
					Electricity: time of use meters ¹	11,276	11,039	+2.1	
					Gas meters ¹	211,741	215,948	-1.9	
					Data management service connections ¹	8,227	8,123	+1.3	

1. As at period end
2. The net number of customers added during the year
3. System Average Interruption Duration Index
4. Regulatory year, 12 months to 31 March (audited)
5. Billable ICPs
6. Based on billable volumes
7. Excludes gas sold as gas liquids as these sales are included within the gas liquids sales tonnages
8. Total of retail and wholesale LPG and natural gasoline
9. Includes product tolled in Taranaki and further tolled in the South Island

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	2014	2013
Year ended 30 June	\$M	\$M
Reported net profit for the period (GAAP)	171.3	206.2
Add back: net interest costs ¹	168.9	164.4
Add back: tax (benefit)/expense ¹	63.2	83.6
Add back: depreciation and amortisation ¹	183.8	174.1
EBITDA	587.2	628.3
<i>Adjusted for:</i>		
Impairment of investments in associates ¹	1.2	3.6
Associates (share of net (profit)/loss) ¹	(1.7)	(1.3)
Fair value change on financial instruments ¹	(6.0)	(0.1)
Adjusted EBITDA	580.7	630.5

1. Extracted from audited financial statements



vector.co.nz

