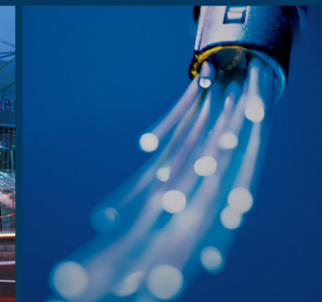
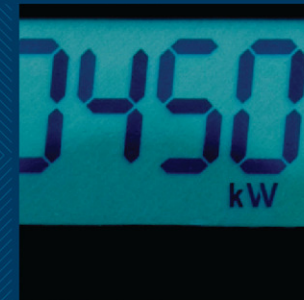




# Financial and Operational Results

Six months ended 31 December 2010

25 February 2011



# Disclaimer

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This financial and operational results presentation dated 25 February 2011 provides additional comment on the media 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 Stiasny, Chairman



# Agenda



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**Agenda and dividend** / Financial highlights / Financial results / Operating overview / Outlook and summary / Appendix

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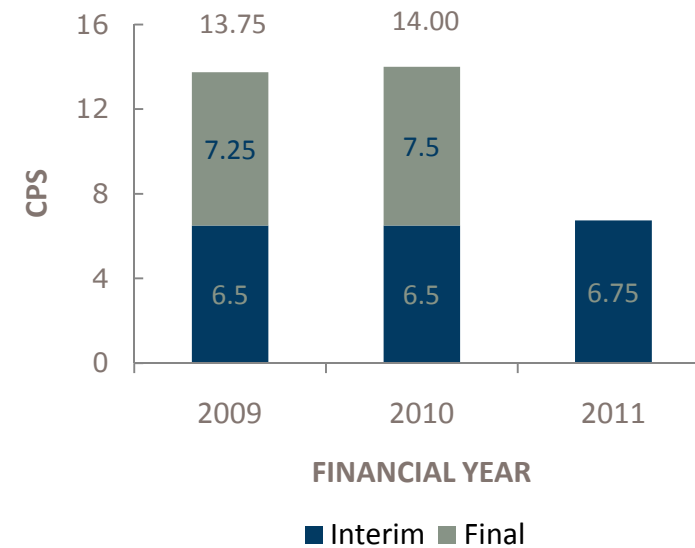
- Interim dividend
- Financial highlights
- Financial results
- Operating overview
- Outlook and summary

# Interim dividend



- All dividends fully imputed
- Record date 31 March 2011
- Payment date 14 April 2011

## Declared dividend





Simon Mackenzie, Group Chief Executive Officer



# Vector remains active



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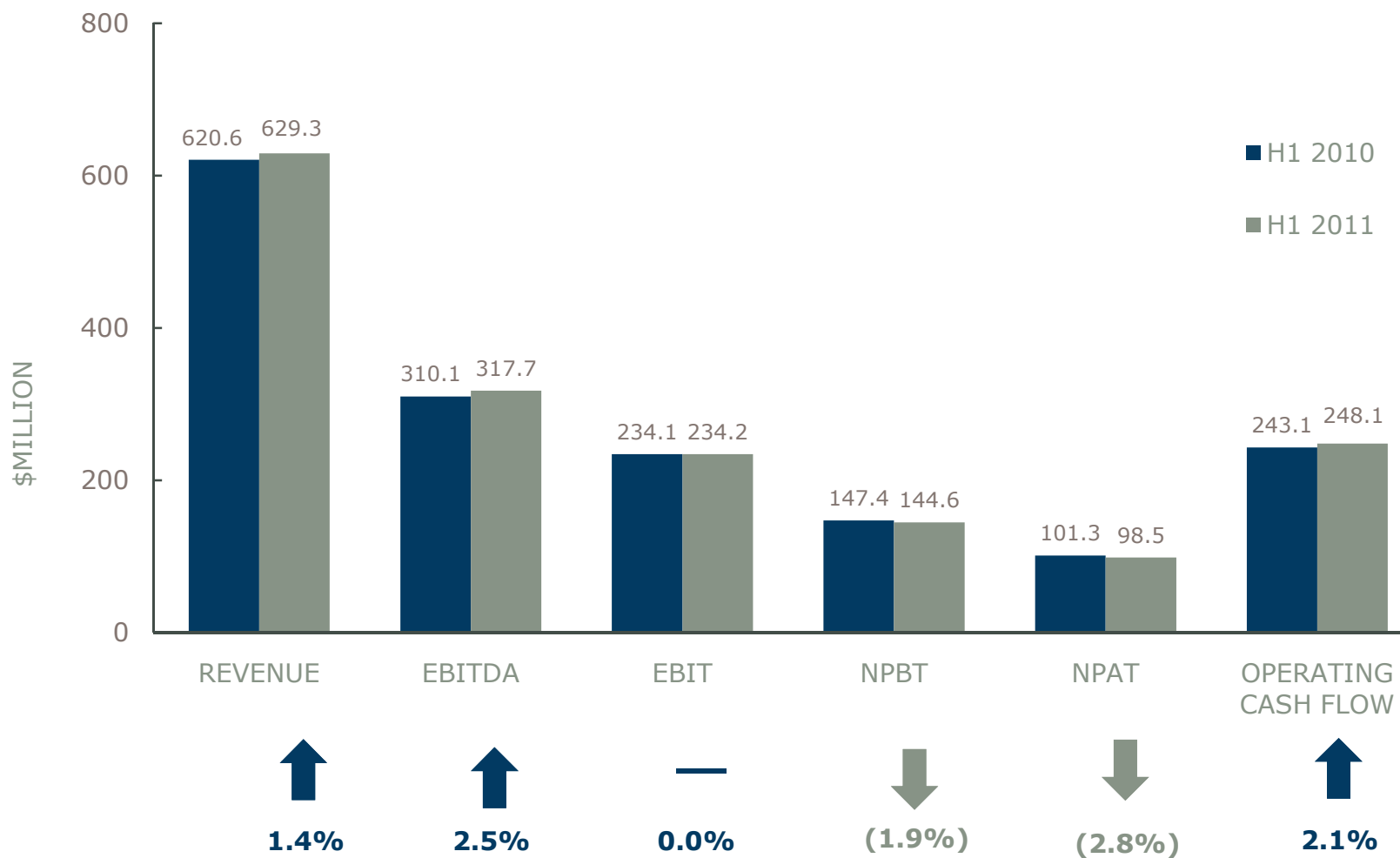
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- Good financial performance in core businesses
  - customer numbers continue to grow
  - volumes begin to grow for the first time in three years
  - continued growth in operating cash flow
  
- Continue to grow
  - acquired Kwik-Swap in February 2011
  - accelerated deployment of smart meters
  
- Named as a prioritised bidder for UFBI in February 2011
  - there is no fibre incumbent in this market
  - Vector brings a clean and unencumbered solution that benefits customers and shareholders
  
- Challenging the Commerce Commission to create customer and investor certainty
  
- Capital structure remains strong
  - placed \$250.5 million USPP in December 2010

# Solid operational performance



Agenda and dividend / **Financial highlights** / Financial results / Operating overview / Outlook and summary / Appendix





Alex Ball, Chief Financial Officer



# Income statement



Agenda and dividend / Financial highlights / **Financial results** / Operating overview / Outlook and summary / Appendix

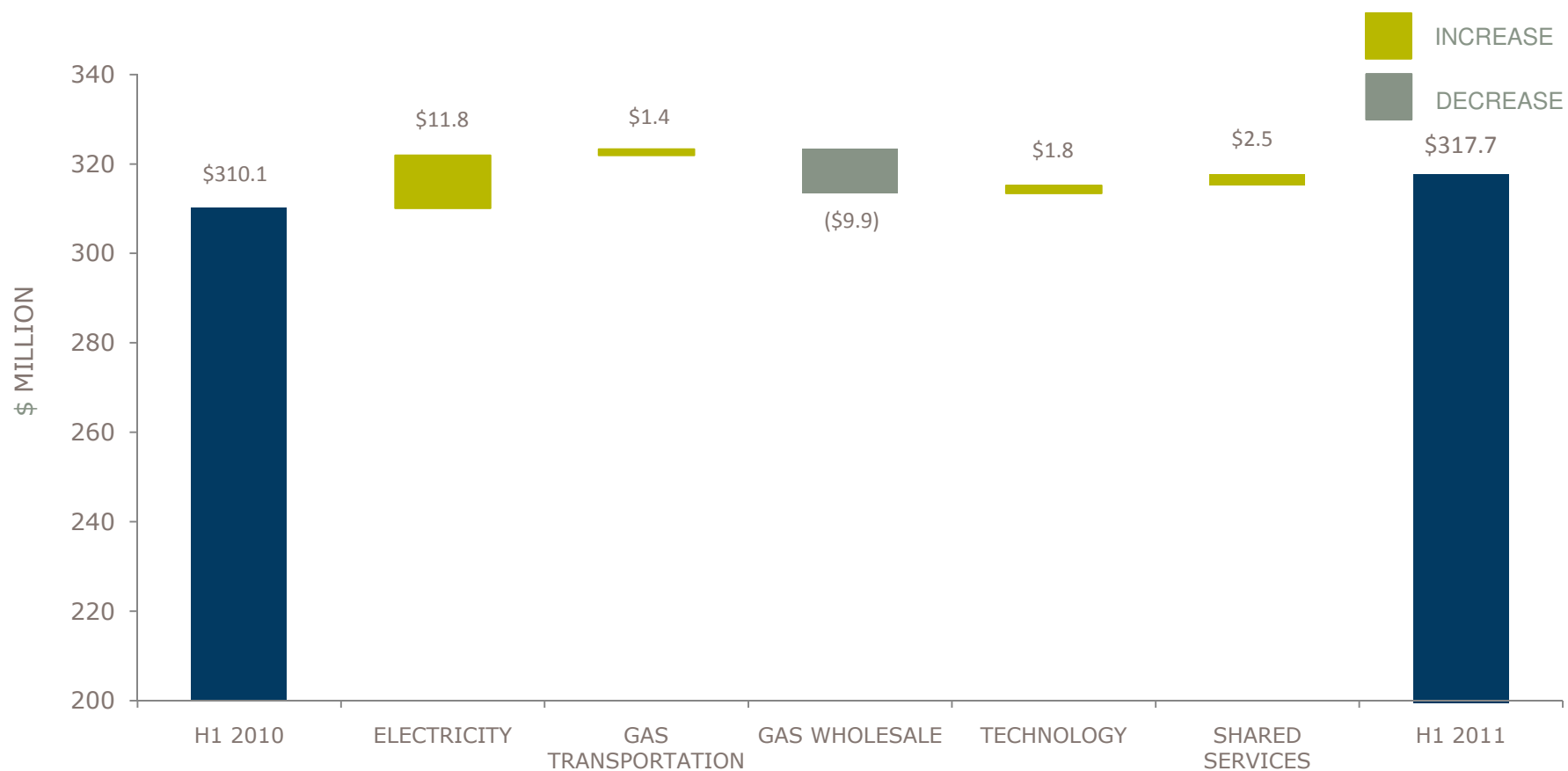
<b>SIX MONTHS ENDED 31 DECEMBER</b>	<b>2010 \$MILLION</b>	<b>2009 \$MILLION</b>	<b>% CHANGE</b>
Revenue	629.3	620.6	1.4%
Operating expenditure	(311.6)	(310.5)	(0.4%)
<b>EBITDA</b>	<b>317.7</b>	<b>310.1</b>	<b>2.5%</b>
Depreciation and amortisation	(83.5)	(76.0)	(9.9%)
<b>EBIT</b>	<b>234.2</b>	<b>234.1</b>	<b>0.0%</b>
Results of associates	0.5	(5.0)	n/a
Net borrowing costs	(90.1)	(81.7)	(10.3%)
<b>NPBT</b>	<b>144.6</b>	<b>147.4</b>	<b>(1.9%)</b>
Tax	(44.7)	(41.3)	(8.2%)
Minority interest	(1.4)	(4.8)	70.8%
<b>NPAT</b>	<b>98.5</b>	<b>101.3</b>	<b>(2.8%)</b>

- Customer contributions of \$14.8m (2009: \$12.9m)
- Six months ended 31 December 2009 one-offs:
  - \$4.1m NZ Windfarms impairment
  - \$6.6m gain on repurchase of floating rate debt
- Tax on customer contributions introduced May 2010

# EBITDA movement



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# Electricity



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<b>SIX MONTHS ENDED 31 DECEMBER</b>	<b>2010 \$MILLION</b>	<b>2009 \$MILLION</b>	<b>% CHANGE</b>
Revenue	296.4	286.0	3.6%
Operating expenditure	(101.1)	(102.5)	1.4%
<b>EBITDA</b>	<b>195.3</b>	<b>183.5</b>	<b>6.4%</b>
% Revenue	65.9%	64.2%	
<b>EBIT</b>	<b>157.1</b>	<b>148.0</b>	<b>6.1%</b>
Replacement capital expenditure	30.4	20.7	46.9%
Growth capital expenditure	22.8	21.5	6.0%
<b>Total capital expenditure</b>	<b>53.2</b>	<b>42.2</b>	<b>26.1%</b>

- Benefited from
  - volumes up 75GWh – up 1.8% period on period
  - increased capital contributions
  - regulatory price adjustments in April 2010
- Increased professional fees from regulatory process

# Gas Transportation



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<b>SIX MONTHS ENDED 31 DECEMBER</b>	<b>2010 \$MILLION</b>	<b>2009 \$MILLION</b>	<b>% CHANGE</b>
Revenue	111.5	102.5	8.8%
Operating expenditure	(24.5)	(16.9)	(45.0%)
<b>EBITDA</b>	<b>87.0</b>	<b>85.6</b>	<b>1.6%</b>
% Revenue	78.0%	83.5%	
<b>EBIT</b>	<b>75.8</b>	<b>72.5</b>	<b>4.6%</b>
Replacement capital expenditure	7.4	5.7	29.8%
Growth capital expenditure	5.6	4.4	27.3%
<b>Total capital expenditure</b>	<b>13.0</b>	<b>10.1</b>	<b>28.7%</b>

- Benefited from
  - regulatory price adjustment
  - release of a provision for contractual indemnity
  - Kupe operational from December 2009
  - increased capital contributions
- Increased professional fees from regulatory process

# Gas Wholesale



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<b>SIX MONTHS ENDED 31 DECEMBER</b>	<b>2010 \$MILLION</b>	<b>2009 \$MILLION</b>	<b>% CHANGE</b>
Revenue	199.3	215.7	(7.6%)
Operating expenditure	(167.6)	(174.1)	3.7%
<b>EBITDA</b>	<b>31.7</b>	<b>41.6</b>	<b>(23.8%)</b>
% Revenue	15.9%	19.3%	
<b>EBIT</b>	<b>25.8</b>	<b>36.0</b>	<b>(28.3%)</b>
Replacement capital expenditure	1.9	1.9	-
Growth capital expenditure	3.1	1.9	63.2%
<b>Total capital expenditure</b>	<b>5.0</b>	<b>3.8</b>	<b>31.6%</b>

- Impacted by:
  - Maui legacy contract ended 31 December 2009
  - lower natural gas volumes partly offset by higher margins
- Kapuni Gas Treatment Plant benefited from increased production and completion of legacy LPG contract
- LPG business benefited from improved cylinder sales

# Technology



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<b>SIX MONTHS ENDED 31 DECEMBER</b>	<b>2010 \$MILLION</b>	<b>2009 \$MILLION</b>	<b>% CHANGE</b>
Revenue	42.2	38.6	9.3%
Operating expenditure	(14.1)	(12.3)	(14.6%)
<b>EBITDA</b>	<b>28.1</b>	<b>26.3</b>	<b>6.8%</b>
% Revenue	66.6%	68.1%	
<b>EBIT</b>	<b>7.0</b>	<b>12.4</b>	<b>(43.5%)</b>
Replacement capital expenditure	3.5	2.8	25.0%
Growth capital expenditure	22.6	25.2	(10.3%)
<b>Total capital expenditure</b>	<b>26.1</b>	<b>28.0</b>	<b>(6.8%)</b>

- Accelerated deployment of smart meters
- Full ownership of AMS in January 2010
- Increased customers and increased sales of higher value services to international carriers (Vector Communications)

# Shared Services



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<b>SIX MONTHS ENDED 31 DECEMBER</b>	<b>2010 \$MILLION</b>	<b>2009 \$MILLION</b>	<b>% CHANGE</b>
Revenue	2.3	1.9	21.1%
Operating expenditure	(26.7)	(28.9)	7.6%
<b>EBITDA</b>	<b>(24.4)</b>	<b>(27.0)</b>	<b>9.6%</b>

# Cash Flow



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	<b>2010</b> <b>\$MILLION</b>	<b>2009</b> <b>\$MILLION</b>
<b>Operating cash flow</b>	<b>248.1</b>	<b>243.1</b>
Replacement capex	(57.4)	(37.2)
Dividends paid	(75.5)	(75.4)
<b>Cash available for growth and debt repayment</b>	<b>115.2</b>	<b>130.5</b>
Growth capex	(58.3)	(57.7)
Other investment activities	1.4	(0.7)
<b>Pre debt financing cash inflow</b>	<b>58.3</b>	<b>72.1</b>
Investment in short term deposits	(250.0)	(35.0)
Increase/(reduction) in borrowings	250.5	(33.4)
Other financing activities	(1.9)	(0.8)
<b>Increase in cash</b>	<b>56.9</b>	<b>2.9</b>

# Asset backing and capital structure



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	<b>31 DECEMBER 2010</b>	<b>30 JUNE 2010</b>	<b>31 DECEMBER 2009</b>
Net debt	\$2,291m	\$2,447m	\$2,316m
Equity/total assets	36.2%	37.5%	38.2%
Net debt/net debt+equity	52.2%	54.0%	52.5%
Interest (net) cover	2.6x	2.5x	2.9x

- In December 2010 successfully placed US\$182 million (NZ\$250.5 million) US private placement
- Next scheduled refinancing - \$50 million senior credit facility in February 2012



Simon Mackenzie, Group Chief Executive Officer

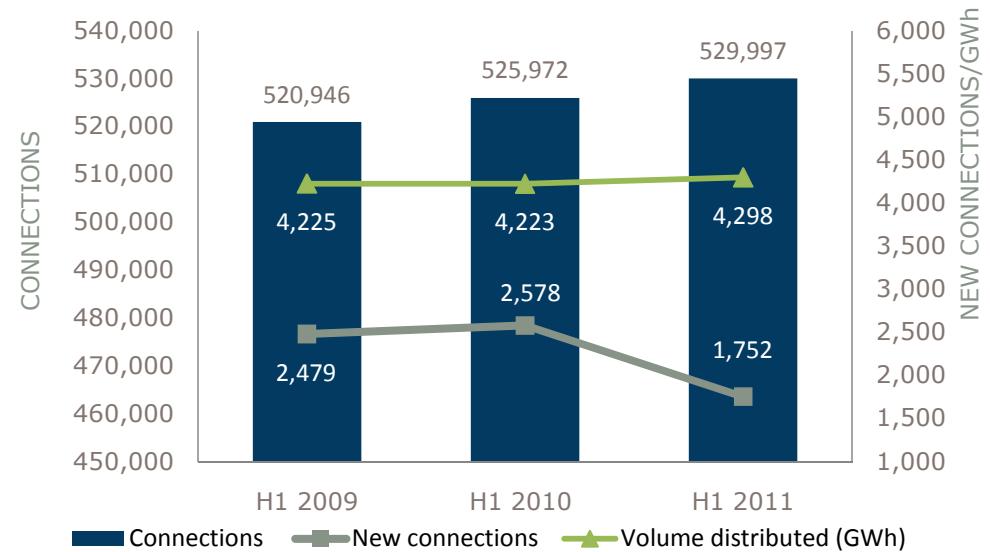


# Electricity



- Total customer numbers continues to grow
- Volumes up for first time in 3 years
- SAIDI
  - increased volatility in weather
  - 2011 planned outages H1 weighted
  - SAIDI target now 127.3

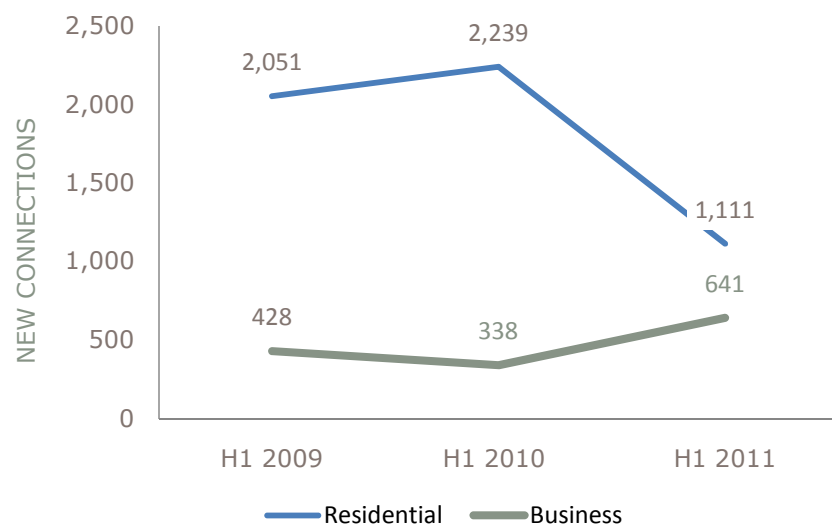
Electricity distribution



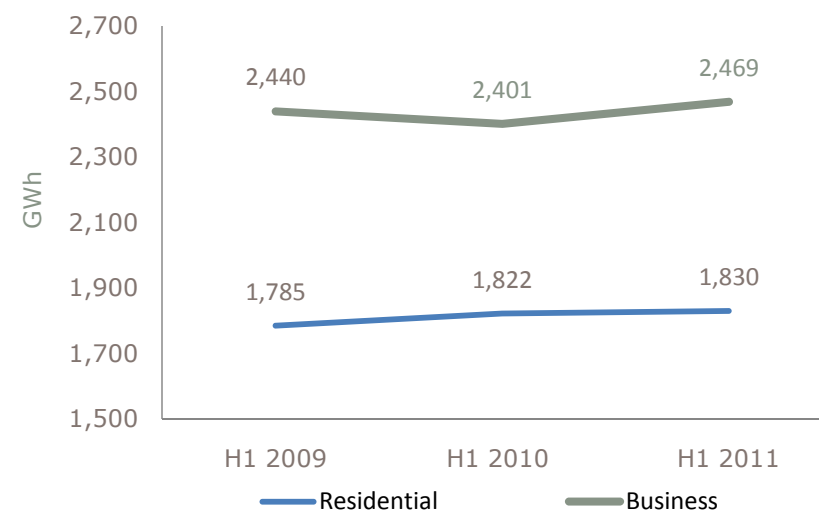
# Electricity by segment



### New connections by segment



### Volume by segment\*



- New connections fell reflecting less residential multi dwelling connections
- Business new connections almost doubled period on period

### Average temp (c)

July- Sept  
Oct- Dec

	H1 2009	H1 2010	H1 2011
July- Sept	11.68	12.22	15.89
Oct- Dec	16.16	12.20	17.11

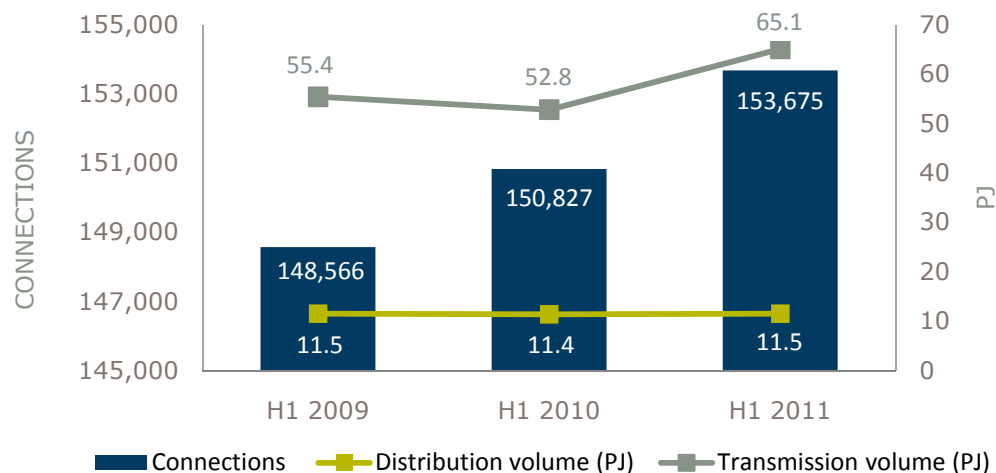
\* Estimated for last month of H1 2011

# Gas Transportation



- New gas connections up 7% reflecting growth in residential connections
- Gas transmission volumes up 23%
  - Kupe field came online December 2009
  - thermal generation demand
  - gas being transported to storage

### Gas Distribution and Transmission

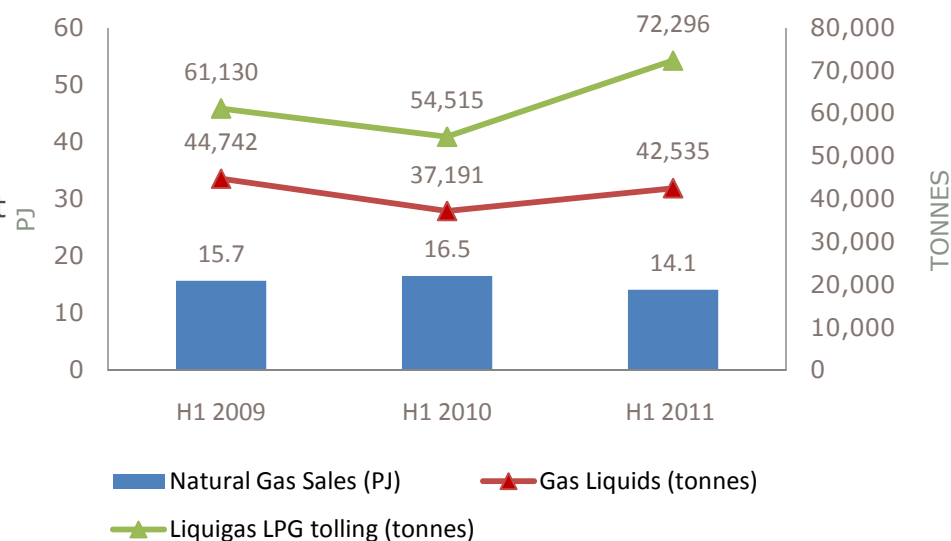


# Gas Wholesale



- Continuation of legacy contract wind down impact
- Liquigas moved to tolling business model
- Natural gas sales volumes down
  - expiry of major contract in December 2009
  - increased competition in I&C natural gas market
  - continued focus on retaining profitability in a highly competitive market
- Redetermination issue fundamentally over - discussions underway on price for gas above 1,010PJs

Natural gas and gas liquids



# Technology



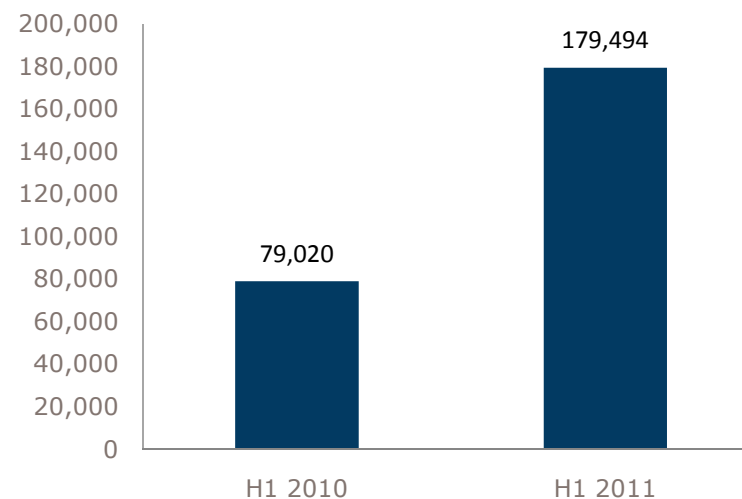
## Metering

- Acquired AMS in January 2010
- Continued smart meter growth
  - Approx 137,000 meters rolled out for Genesis contract
  - Approx 42,000 under Contact contract

## Communications

- Continued to grow customer numbers
- Selling higher value services to international carriers

## Smart Meters



# Time to test the regulatory regime



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- Under Commerce Act Vector is appealing Commerce Commissions decisions to seek regulatory certainty for investors and consumers
- Amendments to Commerce Act enacted in 2008 is a feature of a mature regulatory regime
- Many other companies are appealing the Commerce Commissions decisions including Transpower – where issues overlap, appeals are broadly consistent
- Error of Law will test key aspects:
  - RAB is retrospective and based on misinterpretation of purpose statement
  - efficiency gains from unregulated businesses should not be shared with regulated customers
  - regulatory regime and process
- Merits review will test key aspects:
  - cost of capital – not competitive
  - RAB – not fit for purpose
  - cost allocation – approach “unduly deters” investment in unregulated businesses
  - incremental rolling incentive scheme – extend to DPP
  - DPP – SPAs not currently an input methodology
- The High Court can overturn the Commerce Commissions decisions if alternatives are “materially better”

# Changes from draft determinations



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- Final consultation for Input Methodologies

  - RAB

    - capital contributions treated as a reduction to RAB and not included in income
    - value of multipliers have been increased and extended to include allowances for additional costs when working with loose rock or sandy conditions

  - WACC

    - increased debt issuance costs from 0.30% to 0.35%
    - personal tax rate from 30% to 28.2%
    - an allowance can be made in cash flows for term credit spread on borrowing portfolios over 5 years, plus hedging costs less adjustment for issuance costs spread over longer term

- Changes in final determinations

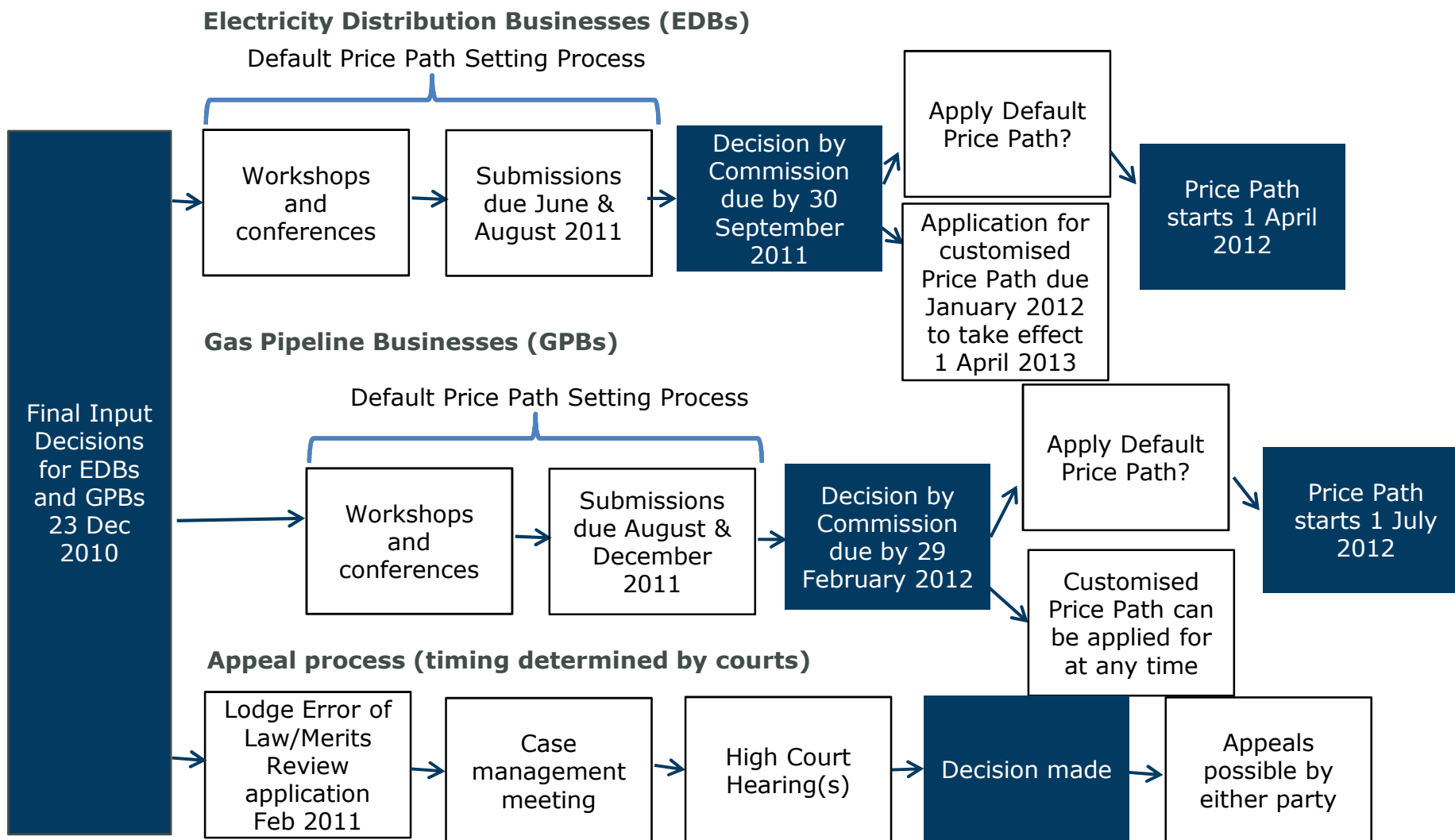
  - leverage from 40% to 44%
  - EDBs WACC estimated by Commission at 7.7%
  - GPBs WACC estimated by Commission at 8.0%\*

\* Estimated using September 2010 risk free rate. Final WACC will be set using September 2011 risk free rate

# Regulatory timeline – key milestones



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# Future opportunities



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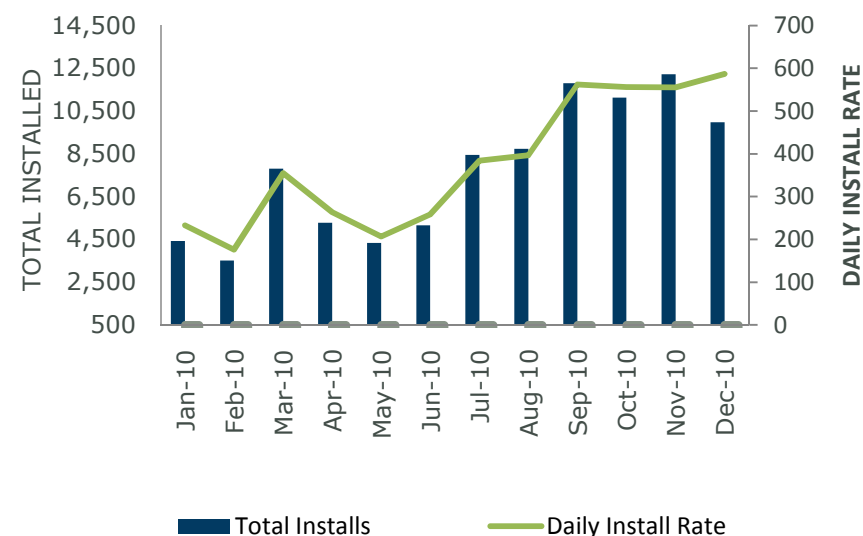
- Continued investment in our networks - greater Auckland population continues to grow
- Acquired Kwik-Swap in February 2011
  - Kwik-Swap swaps and sells full 9kg LPG cylinders
  - opportunity to leverage off success of Ongas and continue to grow successful cylinder business
- Smart meters
- Ultra Fast Broadband Initiative (UFBI)

# Smart meters



- Metering market is likely to go through a phase of rationalisation – across country roll-out is accelerating
- Deadline of 2015 for meter compliance – more efficient for meter owners to upgrade meters than recertify old meters
- Benefits to our network to customers, retailers and lines companies
  - accurate billing to customers
  - cost savings for retailers
  - enabling smart grid technology for lines companies
- Excellent opportunity for Vector to upgrade and grow the metering business via asset ownership and data services
  - additional contracts as retailers move to smart meters
  - ability to sell data management services
  - opportunities for acquisitions
- Near term gas metering opportunities
- Medium term water metering opportunities

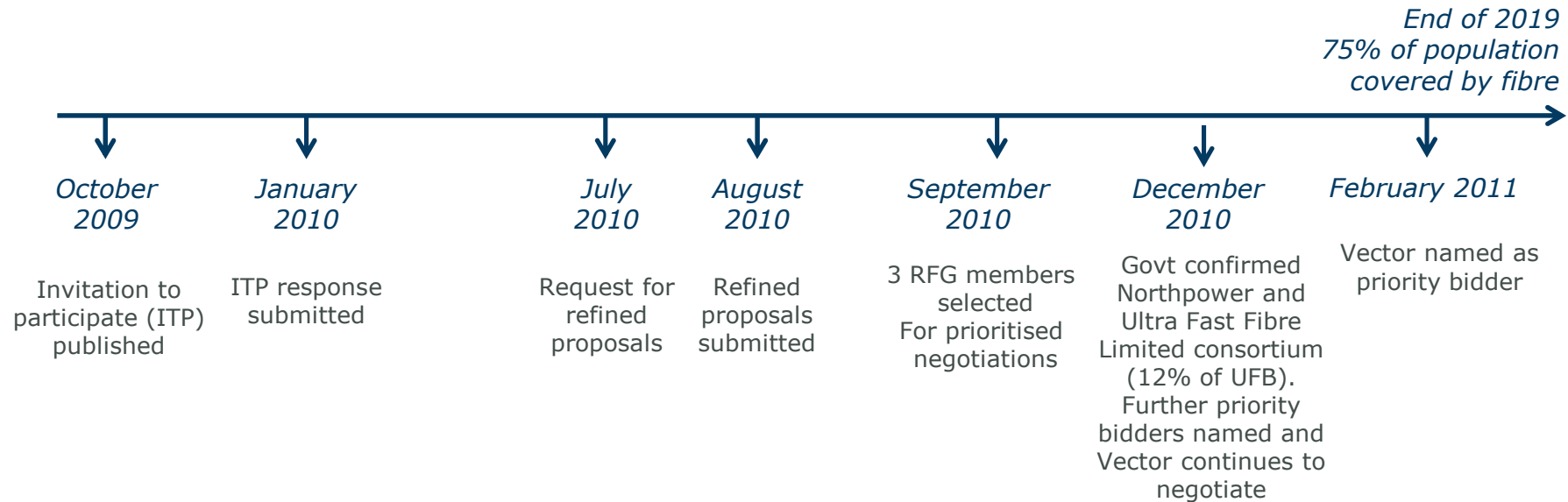
### Smart meter install rate



# UFBI update



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- Vector will not participate unless it makes commercial sense
- Vector has remained in the game and has continued to negotiate with Crown Fibre Holdings
- We look forward to continuing to work in good faith with Crown Fibre Holdings on contractual terms and conditions in this competitive process
- There is no fibre incumbent in this market
- Vector brings a clean and unencumbered solution that benefits customers and shareholders

# Outlook and summary



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- Solid operational performance backed by continued growth in operating cash flows
- Growth opportunities continue
- Strong capital structure
- Overall performance in line with expectations
- We are comfortable with the range of analyst expectations for the full year
  - Transpower deal expected to become unconditional May 2011





## Appendix



# Operating statistics



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	<b>H1 2011</b>	<b>H1 2010</b>	<b>% change</b>	<b>FY2010</b>
<b>ELECTRICITY</b>				
Customers <sup>1</sup>	529,997	525,972	0.8%	528,245
New electricity customers <sup>2</sup>	1,752	2,578	(32.0%)	4,851
Volume distributed (GWh)	4,298	4,223	1.8%	8,168
Networks length (km)	17,705	17,614	0.5%	17,661
<b>SAIDI</b>				
Normal operations (minutes)	82.4 <sup>4</sup>	47.1	74.9%	66.8
Extreme events (minutes)	8.7	0.0	n/a	0.0
Total	91.1	47.1	93.4%	66.8 <sup>5</sup>
<b>GAS TRANSPORTATION</b>				
Distribution customers <sup>1</sup>	153,675	150,827	1.9%	152,267
New distribution customers <sup>2</sup>	1,408	1,311	7.4%	2,751
Distribution volume (PJ)	11.5	11.4	0.9%	21.1
Distribution mains network length (km)	6,976	6,930	0.7%	6,956
Transmission volume (PJ) <sup>6</sup>	65.1	52.8	23.3%	109.7
Transmission system length owned (km)	2,287	2,288	(0.0%)	2,292
Transmission system length operated/managed (km)	1,293	1,241	4.2%	1,282

# Operating statistics

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	H1 2011	H1 2010	% change	FY2010
<b>GAS WHOLESALE</b>				
Natural gas sales (PJ) <sup>7</sup>	14.1	16.5	(14.5%)	31.7
Gas liquid sales (tonnes) <sup>8</sup>	42,535	37,191	14.4%	73,436
Liquigas LPG tolling (tonnes) <sup>9</sup>	72,296	54,515	32.6%	109,969
<b>TECHNOLOGY</b>				
Electricity: smart meters	179,494	79,020	127.2%	114,272
Electricity: simple meters	554,377	649,937	(14.7%)	624,535
Electricity: prepay meters	6,551	6,962	(5.9%)	6,384
Electricity: time of use meters	10,798	11,074	(2.5%)	11,132
Gas meters	78,890	76,419	3.2%	77,595
Data management service connections				
– New Zealand and Australia	8,948	14,109	(36.6%)	8,807

1. As at period end
2. The number of customers added during the six month period
3. Regulatory year – 9 months to 31 December
4. Includes 21.6 minutes incurred in September 2010
5. Regulatory year – 12 months to 31 March 2010
6. Volumes based on billable volumes
7. Natural gas sales volumes exclude gas sold as gas liquids as these sales are included within the gas liquids sales tonnages
8. Total of retail and wholesale LPG production and natural gasoline
9. Tolling volumes include product tolled in Taranaki and further tolled in the South Island