



# CREATING A NEW ENERGY FUTURE

**Financial and Operational Results**  
HALF YEAR ENDED 31 DECEMBER 2015

## Disclaimer

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This presentation contains forward-looking statements. Forward-looking statements often include words such as "anticipates", "estimates", "expects", "intends", "plans", "believes" and similar words in connection with discussions of future operating or financial performance. The forward-looking statements are based on management's and directors' current expectations and assumptions regarding Vector's businesses and performance, the economy and other future conditions, circumstances and results. As with any projection or forecast, forward-looking statements are inherently susceptible to uncertainty and changes in circumstances. Vector's actual results may vary materially from those expressed or implied in its forward-looking statements.

# Michael Stiassny

CHAIRMAN



# Agenda

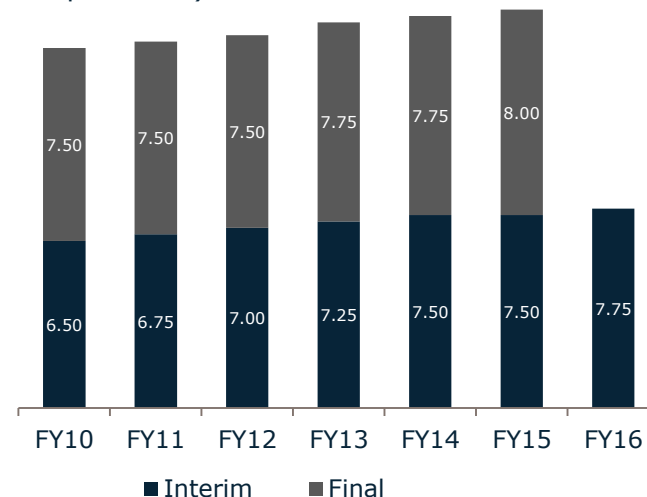
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- Dividend and Outlook
- H1 Highlights
- Operating Overview
- Q & A

## Continuing to deliver dividend growth

- 2016 fully-imputed interim dividend increases 0.25 cents to 7.75 cents per share
  - Record date: 31 March 2016
  - Payment date: 14 April 2016
- Increase reflects directors' confidence in Vector's financial strength post sale of Vector Gas
- Absent the sale, on track for August guidance of adjusted EBITDA<sup>(1)</sup> of \$550-565m
  - Actual result impacted by timing of sale
  - Sale now only conditional on OIO approval; targeting completion in March

**Declared Dividend**  
(cents per share)



(1) We have amended our definition of adjusted EBITDA to exclude capital contributions

# Simon Mackenzie

GROUP CHIEF EXECUTIVE



# FY2016 H1 Snapshot – realigning the portfolio



SUSTAINABLE  
GROWTH

- Agreed sale of Vector Gas for \$952.5m, realising full value for shareholders, allowing Vector to repay debt and recycle capital into higher growth opportunities
- NZ smart meter fleet now exceeds 1 million. Vector accredited to operate as metering service provider in Australia



CUSTOMER  
FOCUS

- Customers impacted by Penrose outage can claim service level payment (\$50 residential/\$200 business) online ([vector.co.nz](http://vector.co.nz)) or by calling 0508 4PENROSE



OPERATIONAL  
EXCELLENCE

- Smart metering installs of 14,400 per month over first half year
- Strong cost control across the regulated business



PARTNERSHIPS

- Membership of Energy Excelerator gives access to latest innovation in energy sector
- Constructive engagement with Commerce Commission on emerging technologies



SAFETY, PEOPLE  
AND CULTURE

- TRIFR now 41% below where it was two years ago
- Supreme award at Equal Employment Opportunities Trust 2015 Diversity Awards

# Dan Molloy

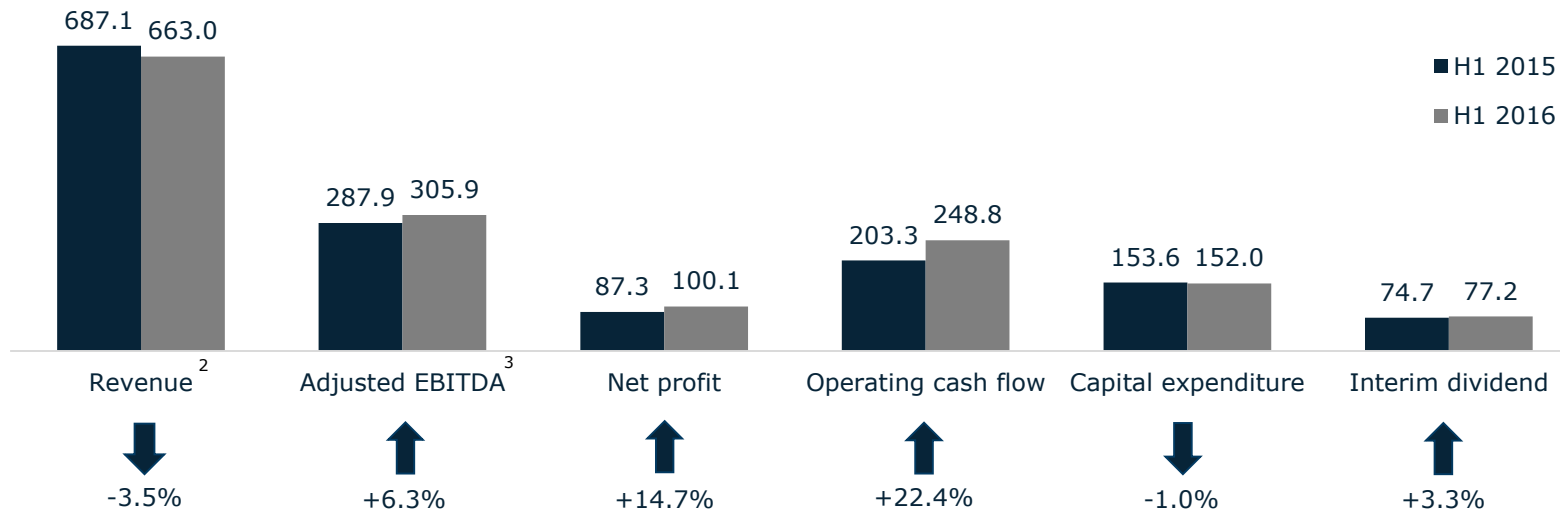
CHIEF FINANCIAL OFFICER





# H1 sees growth in adjusted EBITDA, Operating cash flow & Net Profit

## H1 2016 Financial Performance (\$m)<sup>1</sup>



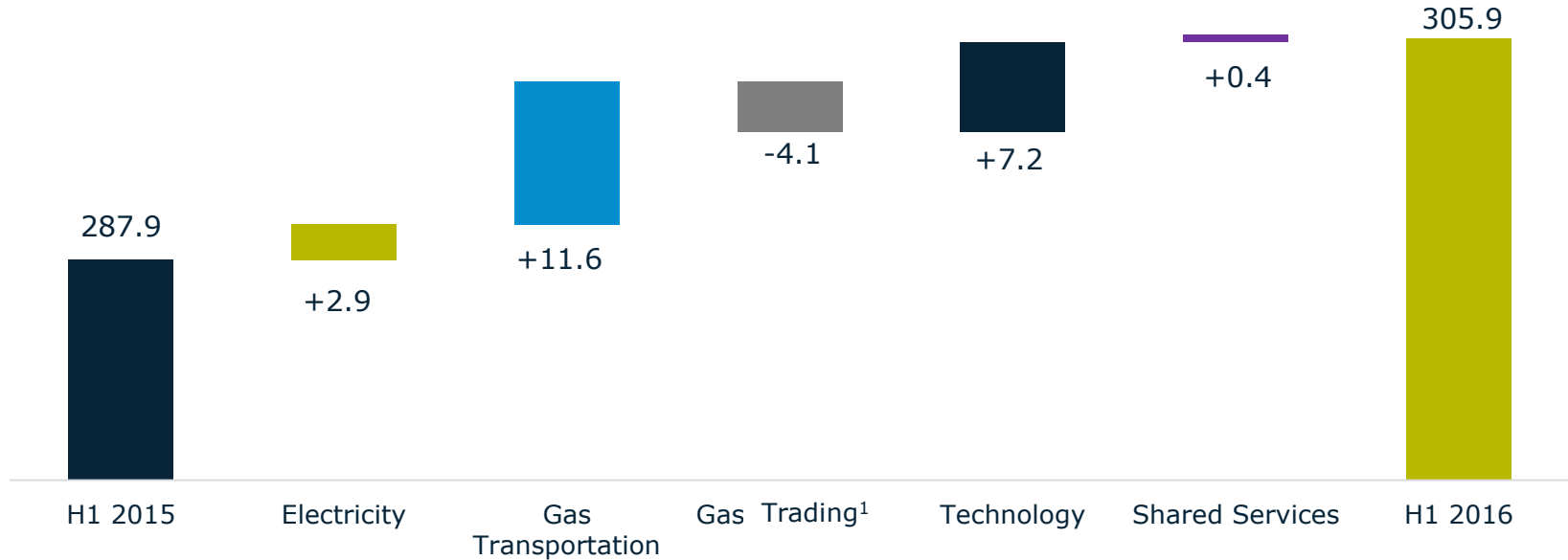
<sup>1</sup> The revenue and profit measures in this release represent both continuing and discontinued operations. For statutory reporting purposes, the Vector Gas businesses are presented separately in the profit and loss statement as discontinued operations. Please refer to our interim financial statements for a breakdown of continuing and discontinued operations.

<sup>2</sup> Revenue includes the recovery of pass-through costs.

<sup>3</sup> We have amended our definition of adjusted EBITDA to exclude capital contributions. Adjusted EBITDA is not a GAAP measure of profit. For a reconciliation of adjusted EBITDA to EBITDA and net profit refer to page 25 of this presentation.

# Earnings growth across all divisions except Gas Trading

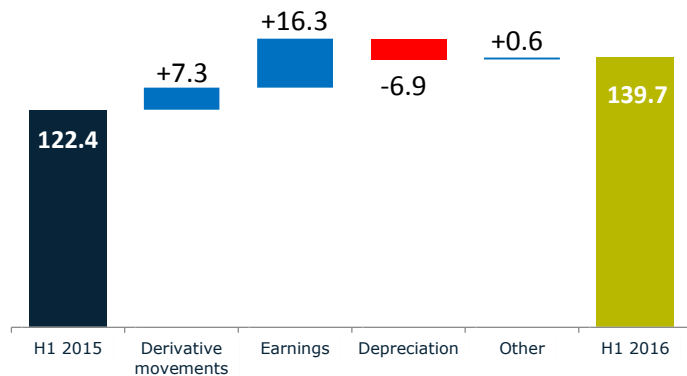
## H1 2016 Adjusted EBITDA (\$m)



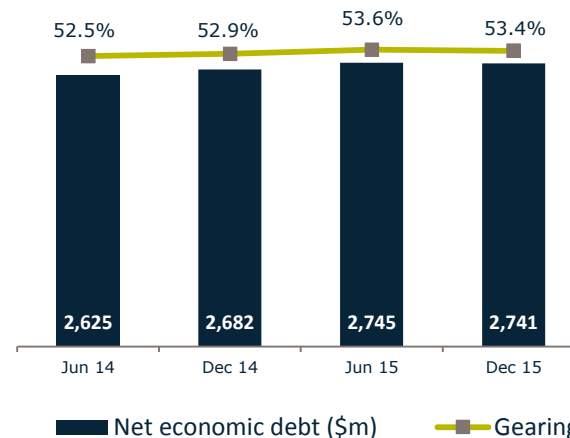
1. We have changed the name of the segment previously referred to as "Gas Wholesale" to "Gas Trading" to better reflect the businesses that contribute to this segment.

# Earnings growth & favourable derivative movements drive higher first half profit

### Movement in Net Profit Before Tax (\$m)



### Net Economic Debt & Gearing (\$m)



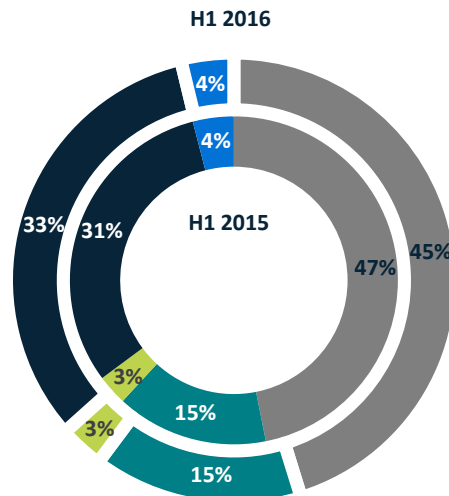
- Sale of Vector Gas will have significant impact on balance sheet
  - If transaction had occurred on 30 June 2015, gearing would decrease from 54% to 42%
  - NTA per share as at 31 December 2015 up 46% as result of sale

# Capital expenditure consistent with prior corresponding period

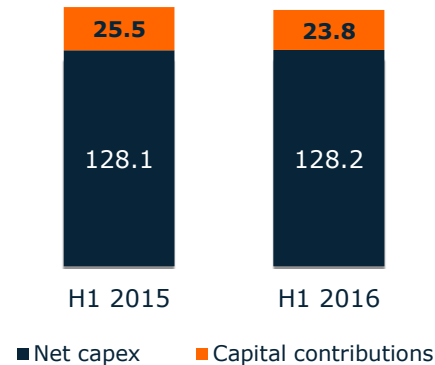
- H1 gross capex down 1.0% to \$152.0m. Net capex (after contributions) flat at \$128.2m
- Capital contributions down 6.7% primarily due to lower relocations in gas transmission

**Gross Capex by Division**

- Electricity
- Gas Transportation
- Gas Trading
- Technology
- Shared Services



**Gross Capex Split (\$m)**



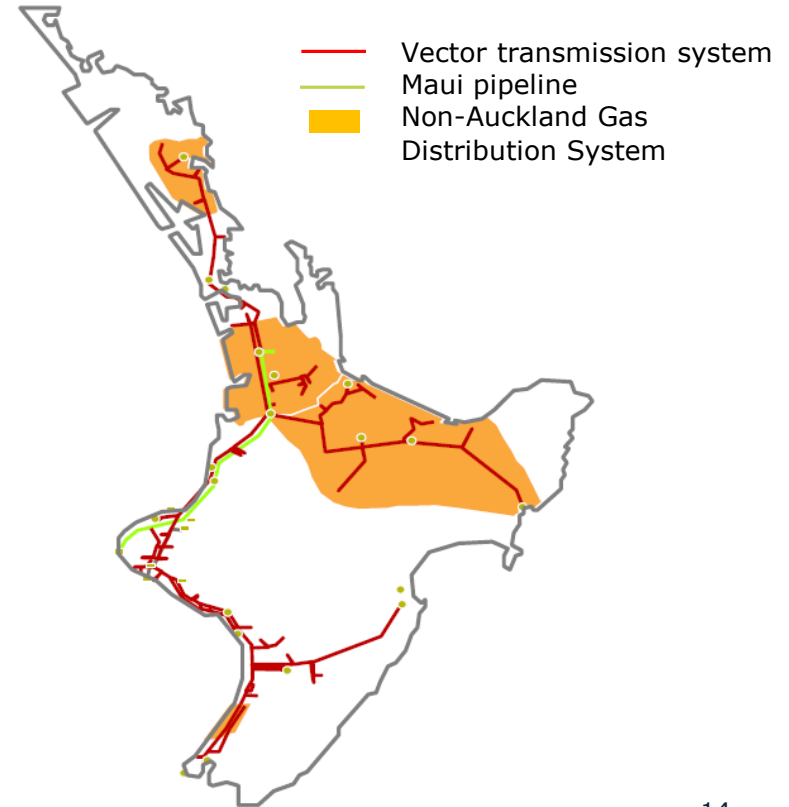
# Simon Mackenzie

GROUP CHIEF EXECUTIVE



# Sale of Vector Gas allows recycling of capital into higher growth opportunities

- Vector agreed in November to sell Vector Gas for \$952.5m to First State Funds
  - Vector shareholders approved sale in December. Now conditional only upon OIO approval
  - Targeting completion by end of March 2016
- Price realises full value and allows Vector to apply the proceeds to repay debt and recycle capital into higher growth opportunities
  - Initially c\$560m of floating debt to be repaid
  - Further debt repayment as facilities mature
- Sale will result in EPS dilution of ~10% over time relative to retention
  - Dilution will reverse as we recycle capital into new opportunities



## Leveraging our heritage & creating options



**6** standard & **4** rapid EV chargers installed with another **17** rapid chargers to come



**130** families, schools and community groups get free use of solar panels and Tesla battery units for 10 years

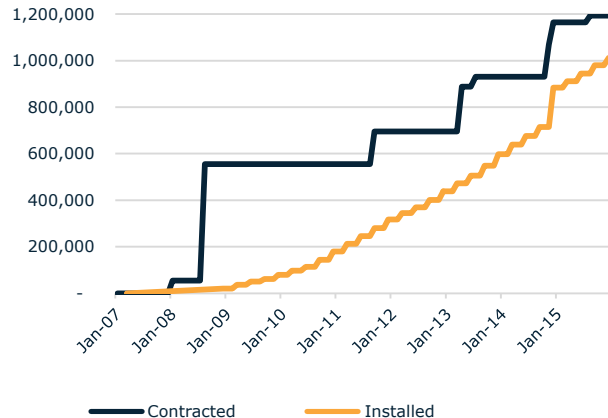


Our first utility scale battery arrives later this year. New technologies will form a crucial part of the **\$1.8b** of investment required to support Auckland's energy infrastructure over the next decade

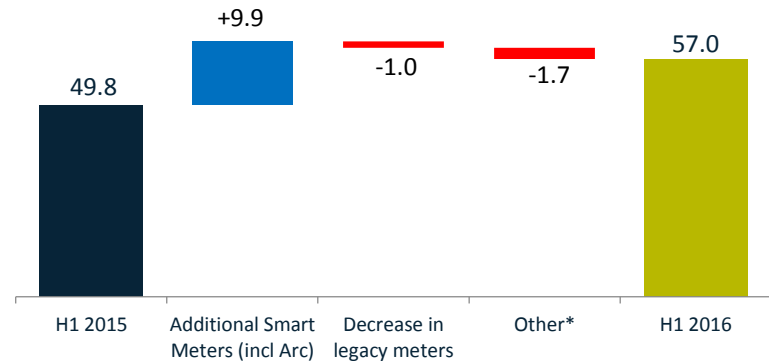
# Vector accredited as metering provider in Australia

- AEMO Accreditation required Vector to demonstrate full operating capability in Australia
- EBITDA growth driven by smart meter installations and Arc acquisition, offset by business development costs for Australian metering, solar and batteries
- Currently providing smart metering services to more than 20 retailers in New Zealand
- 1.2m smart meter installations by end of FY17

### Contracted & Installed Smart Meters



### Technology Adjusted EBITDA Movement (\$m)



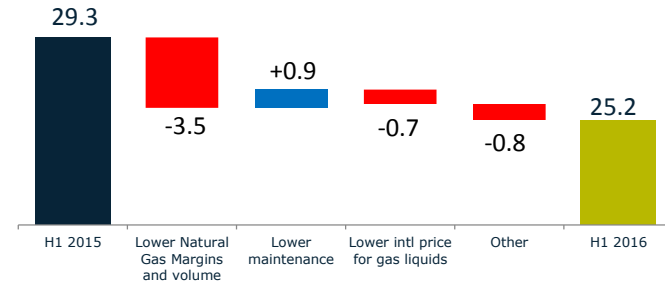
\*includes expenditure on new technology & markets



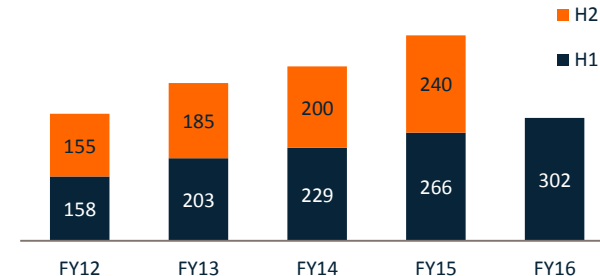
# Challenging conditions continue for Gas Trading

- As signalled in August, issues include:
  - Lower production & ongoing Kapuni uncertainty
  - Increased competition, tighter margins and lower prices for gas liquids
  - Weaker demand from electricity generators
- Ongoing proceedings with Kapuni Mining Companies
  - KMCs appealed Post 1010 PJ arbitral award which set price & terms for next tranche of Kapuni gas
  - Kapuni redetermination process & processing fee proceeding ongoing
  - Field operator recently completed extensive seismic survey of Kapuni field
- Increasing demand for Bottle Swap – South Auckland filling plant operational in FY17

**Gas Trading Adjusted EBITDA Movement (\$m)**



**Bottle Swap Volumes ('000 cylinders)**

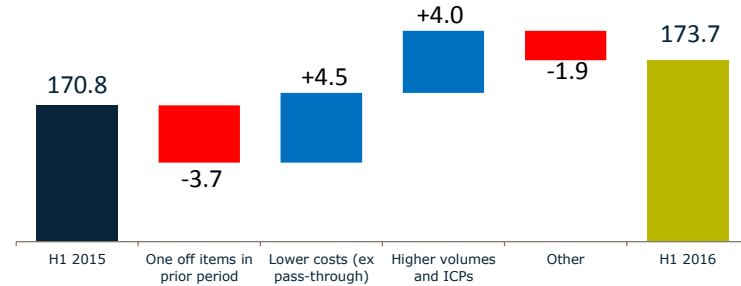


# Lower costs & higher volumes drive improved Electricity performance

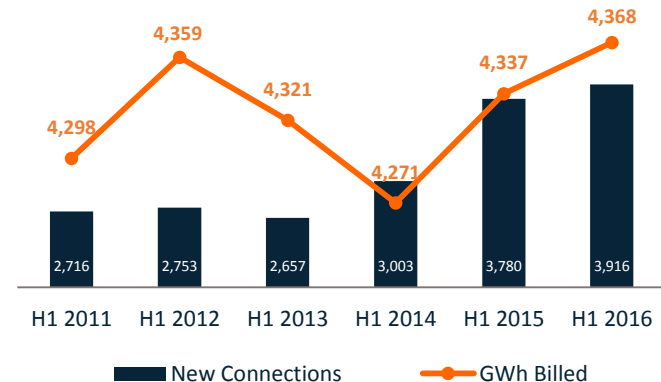
*Electricity*

- New connections remain elevated
  - FY16 H1 new connections up more than 40% on average over 2011-14
- Volumes up 0.7% due to connection growth and cooler winter temperatures
- Costs controlled during period
  - Expenditure (excl. pass-through costs) \$4.5m below pcp

**Electricity Adjusted EBITDA Movement (\$m)**



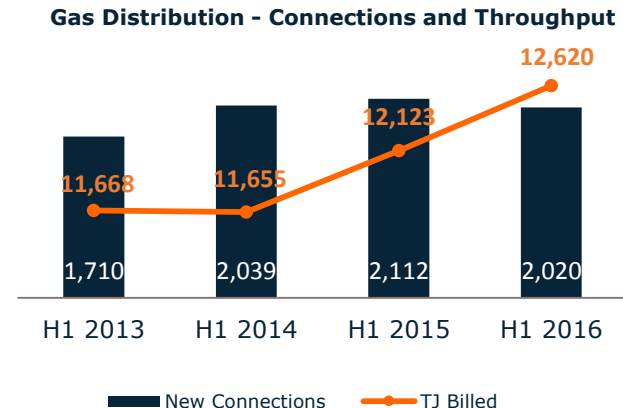
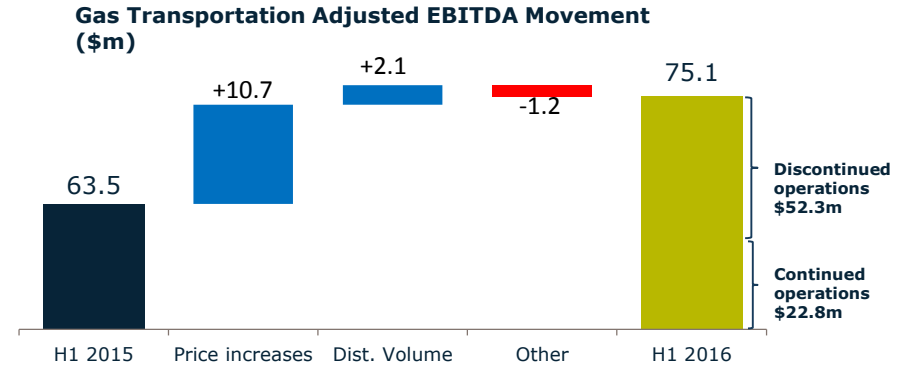
**Electricity Connections & Throughput**



# Regulated price increases underpin improvement in Gas Transportation result

*Gas Transportation*

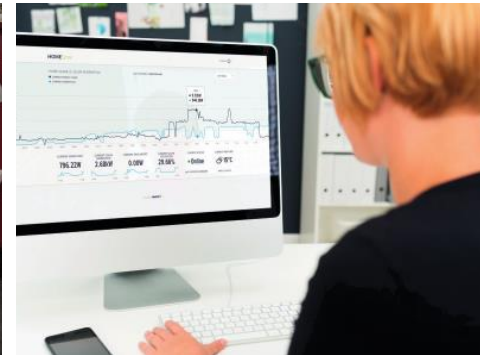
- Gas Transmission prices increased in accordance with regulated revenue cap
- Transmission volumes down 4.0% as thermal generation demand declines
- Distribution volumes up 4.1% due to cooler temperatures and connection growth
- Agreed sale of Vector Gas (which owns the Gas Transmission and Non-Auckland Gas Distribution networks) to First State Funds
- Auckland new gas connections up 13% on prior year to 1,538



# Q&A



# Appendix



# Group profit statement<sup>1</sup>

Six months ended 31 Dec (\$m)

<b>INCOME STATEMENT</b>	<b>2015 \$m</b>	<b>2014 \$m</b>	<b>Change %</b>
Revenue (excluding capital contributions)	639.2	661.6	-3.4
Operating expenditure	(333.3)	(373.7)	+10.8
<b>Adjusted EBITDA</b>	<b>305.9</b>	<b>287.9</b>	+6.3
Capital Contributions	23.8	25.5	-6.7
Depreciation and amortisation	(102.8)	(95.9)	-7.2
Net interest costs	(90.0)	(90.2)	+0.2
Fair value change on financial instruments	2.4	(4.9)	n/a
Associates (share of net profit/(loss))	0.4	-	+100.0
Tax	(39.6)	(35.1)	-12.8
<b>Net profit</b>	<b>100.1</b>	<b>87.3</b>	<b>+14.7</b>

1. The revenue and profit measures in this release represent both continuing and discontinued operations. For statutory reporting purposes, the businesses sold during the period are presented separately in the profit or loss statement as discontinued operations. Please refer to our interim financial statements for a breakdown of continuing and discontinued operations.

# Group cash flow

Six months ended 31 Dec (\$m)

<b>CASH FLOW</b>	<b>2015 \$m</b>	<b>2014 \$m</b>
Operating cash flow	248.8	203.3
Replacement capex	(71.5)	(67.8)
Dividends paid	(80.9)	(79.2)
<b>Cash available for growth and debt repayment</b>	<b>96.4</b>	<b>56.3</b>
Growth capex	(91.6)	(91.7)
Acquisitions	0.0	(20.0)
Other investment activities	(0.6)	(0.5)
<b>Pre debt financing cash inflow</b>	<b>4.2</b>	<b>(55.9)</b>
Increase/(decrease) in borrowings	(6.0)	57.0
Other financing activities	(0.4)	(1.3)
<b>Increase/(decrease) in cash</b>	<b>(2.2)</b>	<b>(0.2)</b>

# Segment results<sup>1</sup>

Six months ended 31 Dec (\$m)

	Electricity			Gas Transportation			Technology			Gas Trading			Shared services		
	2015	2014	Change %	2015	2014	Change %	2015	2014	Change %	2015	2014	Change %	2015	2014	Change %
Revenue	344.3	350.8	-1.9	103.4	96.1	+7.6	88.5	76.0	+16.4	151.4	185.9	-18.6	0.3	0.3	0.0
Operating expenditure	(151.4)	(162.5)	+6.8	(24.0)	(26.5)	-9.4	(31.2)	(24.3)	-28.4	(126.2)	(156.6)	+19.4	(25.4)	(25.8)	+1.6
<b>Segment EBITDA</b>	<b>192.9</b>	<b>188.3</b>	<b>+2.4</b>	<b>79.4</b>	<b>69.6</b>	<b>+14.1</b>	<b>57.3</b>	<b>51.7</b>	<b>+10.8</b>	<b>25.2</b>	<b>29.3</b>	<b>-14.0</b>	<b>(24.9)</b>	<b>(25.5)</b>	<b>+2.4</b>
Depreciation & amortisation	(46.6)	(41.7)	-11.8	(10.3)	(12.1)	+14.9	(32.2)	(27.6)	-16.7	(7.1)	(7.7)	+7.8	(6.7)	(6.9)	+2.9
<b>Segment profit</b>	<b>146.3</b>	<b>146.6</b>	<b>-0.2</b>	<b>69.1</b>	<b>57.5</b>	<b>+20.2</b>	<b>25.2</b>	<b>24.1</b>	<b>+4.6</b>	<b>18.1</b>	<b>21.6</b>	<b>-16.2</b>	<b>(31.6)</b>	<b>(32.4)</b>	<b>+2.5</b>
<i>EBITDA/Revenue</i>	56.0%	53.7%		76.8%	72.4%		64.7%	68.0%		16.6%	15.8%				
<b>CAPEX</b>															
Replacement	40.5	36.9	+9.8	8.6	11.2	-23.2	5.4	5.0	+8.0	3.3	3.0	+10.0	5.6	5.9	-5.1
Growth	28.4	35.1	-19.1	14.1	11.8	+19.5	44.6	42.8	+4.2	1.5	1.6	-6.3	0.0	0.3	-100.0
<b>Total capex</b>	<b>68.9</b>	<b>72.0</b>	<b>-4.3</b>	<b>22.7</b>	<b>23.0</b>	<b>-1.3</b>	<b>50.0</b>	<b>47.8</b>	<b>+4.6</b>	<b>4.8</b>	<b>4.6</b>	<b>+4.3</b>	<b>5.6</b>	<b>6.2</b>	<b>-9.7</b>

1. Revenue includes capital contributions



# 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.

In this period we have amended our definition of Adjusted EBITDA to exclude capital contributions.

## Definitions:

**EBITDA:** Earnings before interest, taxation, depreciation and amortisation.

**Adjusted EBITDA:** EBITDA adjusted for fair value changes, capital contributions, associates, impairments and significant one-off gains, losses, revenues and/or expenses.

Segment adjusted EBITDA	Unregulated segments				Regulated Segments			
	Technology		Gas Trading		Electricity		Gas Transportation	
\$M	2015	2014	2015	2014	2015	2014	2015	2014
Six months ended 31 December	2015	2014	2015	2014	2015	2014	2015	2014
Reported segment EBITDA <sup>1</sup>	57.3	51.7	25.2	29.3	192.9	188.3	79.4	69.6
less capital contributions <sup>2</sup>	(0.3)	(1.9)	-	-	(19.2)	(17.5)	(4.3)	(6.1)
<b>Segment adjusted EBITDA</b>	<b>57.0</b>	<b>49.8</b>	<b>25.2</b>	<b>29.3</b>	<b>173.7</b>	<b>170.8</b>	<b>75.1</b>	<b>63.5</b>
Segment adjusted EBITDA subtotals	<i>Unregulated</i>		<b>82.2</b>	<b>79.1</b>	<i>Regulated</i>		<b>248.8</b>	<b>234.3</b>

## GAAP TO Non-GAAP reconciliation

EBITDA and Adjusted EBITDA	2015	2014
Six months ended 31 December	\$M	\$M
Reported net profit for the period (GAAP)	100.1	87.3
Add back: net interest costs <sup>1</sup>	90.0	90.2
Add back: tax (benefit)/expense <sup>1</sup>	39.6	35.1
Add back: depreciation and amortisation <sup>1</sup>	102.8	95.9
<b>EBITDA</b>	<b>332.5</b>	<b>308.5</b>
<i>Adjusted for:</i>		
Associates (share of net (profit)/loss) <sup>1</sup>	(0.4)	-
Fair value change on financial instruments <sup>1</sup>	(2.4)	4.9
Capital Contributions	(23.8)	(25.5)
<b>Adjusted EBITDA</b>	<b>305.9</b>	<b>287.9</b>

1. Extracted from reviewed financial statements



[WWW.VECTOR.CO.NZ](http://WWW.VECTOR.CO.NZ)