

FINANCIAL & OPERATIONAL RESULTS

HALF YEAR ENDED 31 DECEMBER 2018

26 February 2019



DISCLAIMER

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.

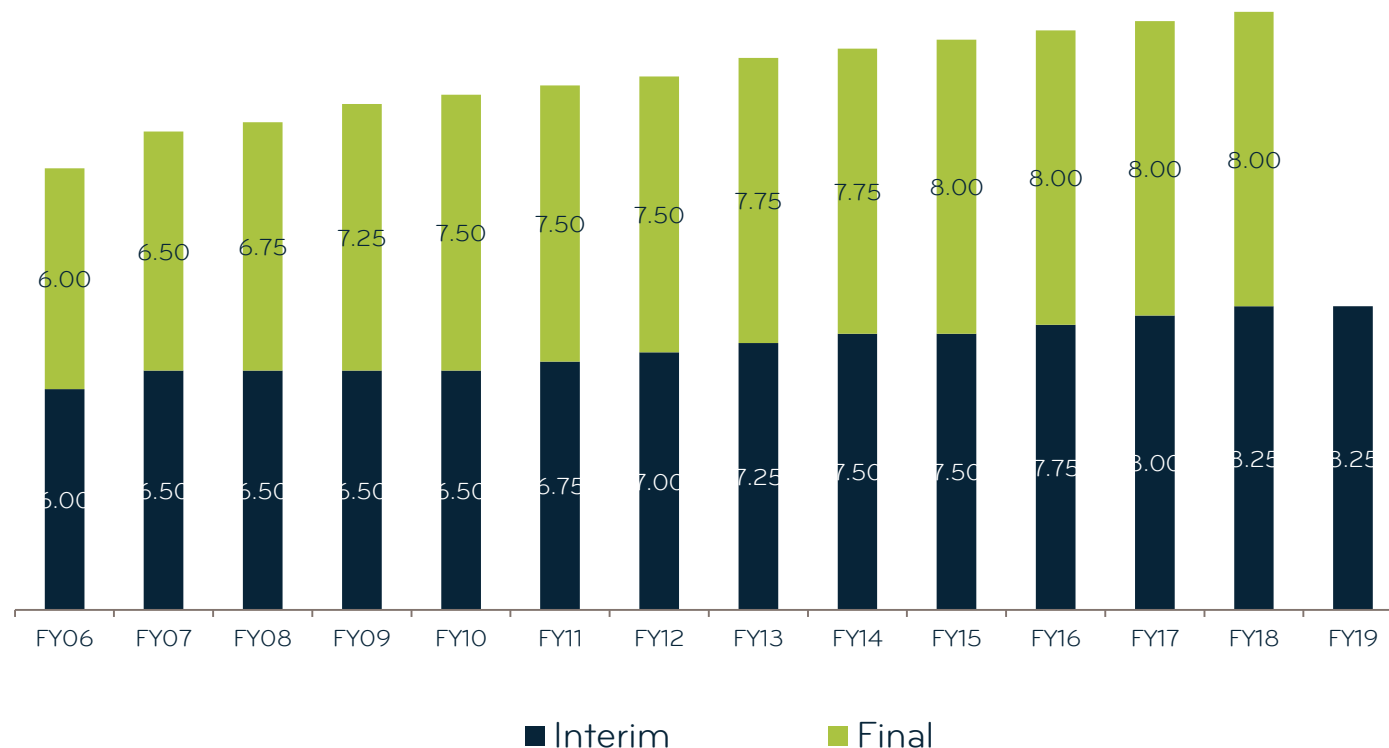
As with any projection or forecast, forward-looking statements are inherently susceptible to uncertainty and changes in circumstances. Vector's actual results may vary materially from those expressed or implied in its forward-looking statements.

DIVIDEND

HALF YEAR DIVIDEND OF 8.25 CENTS, FULLY IMPUTED

- Dividend policy to be reviewed once parameters for 2020 electricity reset are confirmed
- Electricity network revenues from 1 April 2020 to 31 March 2025 (DPP3) will be known by December 2019. Remaining key variables:
 - 5 year NZ Govt bond rate in June - August 2019. Used to set DPP3 regulatory WACC
 - Network expenditure allowance & quality targets for DPP3
 - Commission will announce draft decision on 31 May & final decision on 28 November

Dividend growth (cents per share)



H1 2019 BUSINESS HIGHLIGHTS

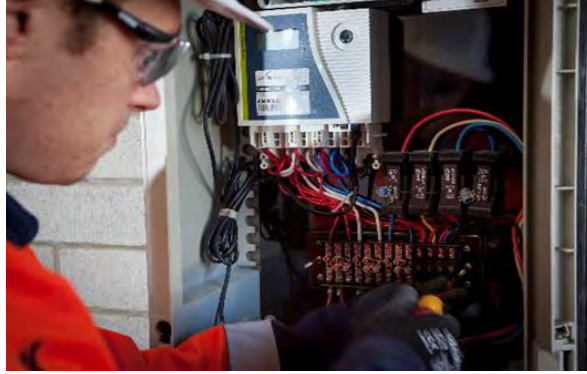
H1 2019 BUSINESS HIGHLIGHTS

Network growth



- 6,829 new electricity and gas connections, c50% higher than 5 years ago
- Electricity volumes up 0.9% to 4,390 GWh
- Regulated capex up 4.5% to \$125m driven by Auckland growth

Metering growth



- Deployed 29k advanced meters in NZ
- Deployed 45k advanced meters in Australia
- Acquisition of Vircom augments nationwide service capability in NZ

Strong H1 for Gas Trading



- New LPG 9kg Bottle Swap plant generating cost efficiencies
- Bottle Swap plant won Deloitte Energy Excellence Health & Safety award
- Kapuni field production up 14.6%
- Gas liquids sales are up 8.0%

New energy solutions



- Strong pipeline of large commercial solar and battery projects in NZ & Pacific
- Snells Beach & Warkworth grid-scale batteries operational

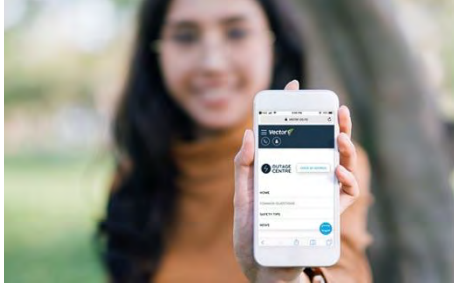
CONTINUED BUSINESS LEADERSHIP

Urban Forest launched



- Commitment to replace every tree removed from network with two native trees
- Launched September 2018 with more than 15,000 trees planted as part of launch

Outage Centre launched



- New Outage Centre launched as part of major overhaul of outage systems and processes
- Supported by new Security Operations Centre, developed via partnerships with global leaders in cyber security

Accessibility Tick



- First New Zealand corporate to receive Accessibility Tick, a public recognition of an organisation's ongoing commitment to becoming accessible and inclusive of people with disabilities

Vector Lights



- Global media coverage of Vector Lights and Sky Tower lighting up the first major city in world to welcome 2019

Safety Always

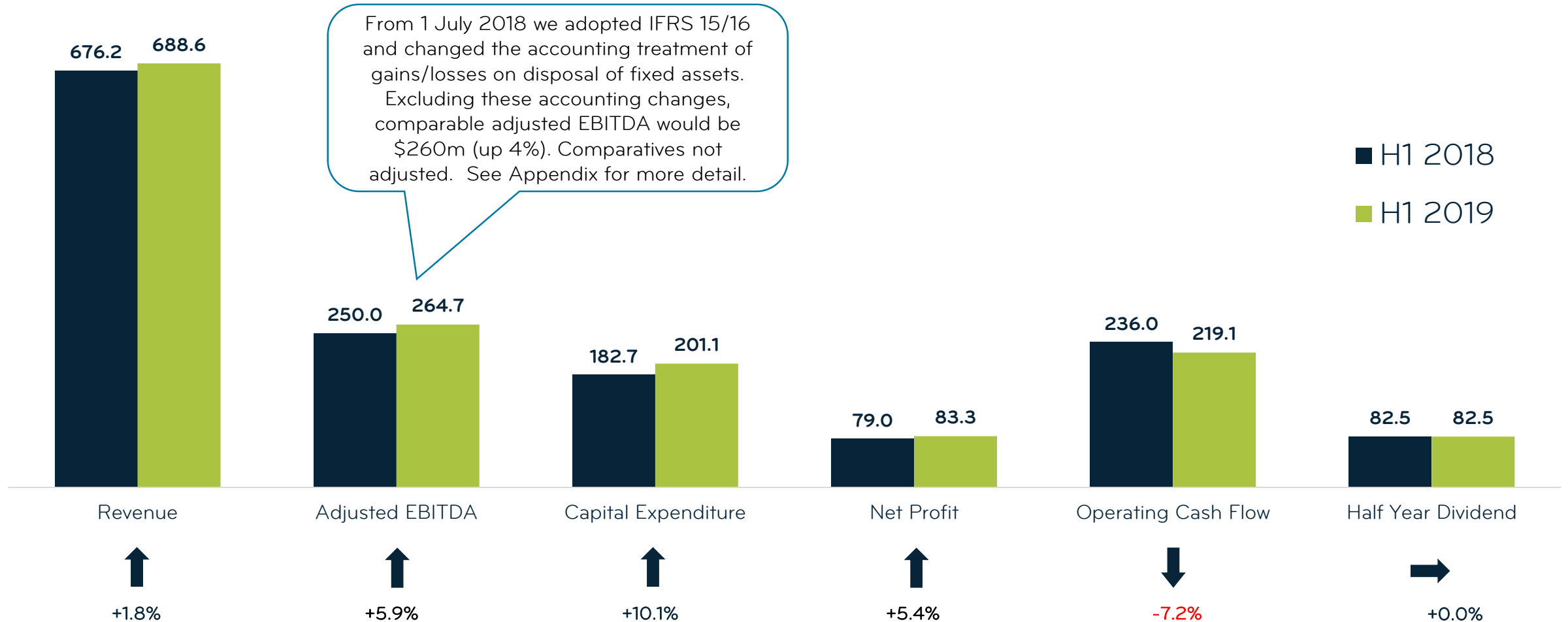


- During H1 TRIFR decreased by 17% and LTIFR decreased by 59%

FINANCIAL PERFORMANCE

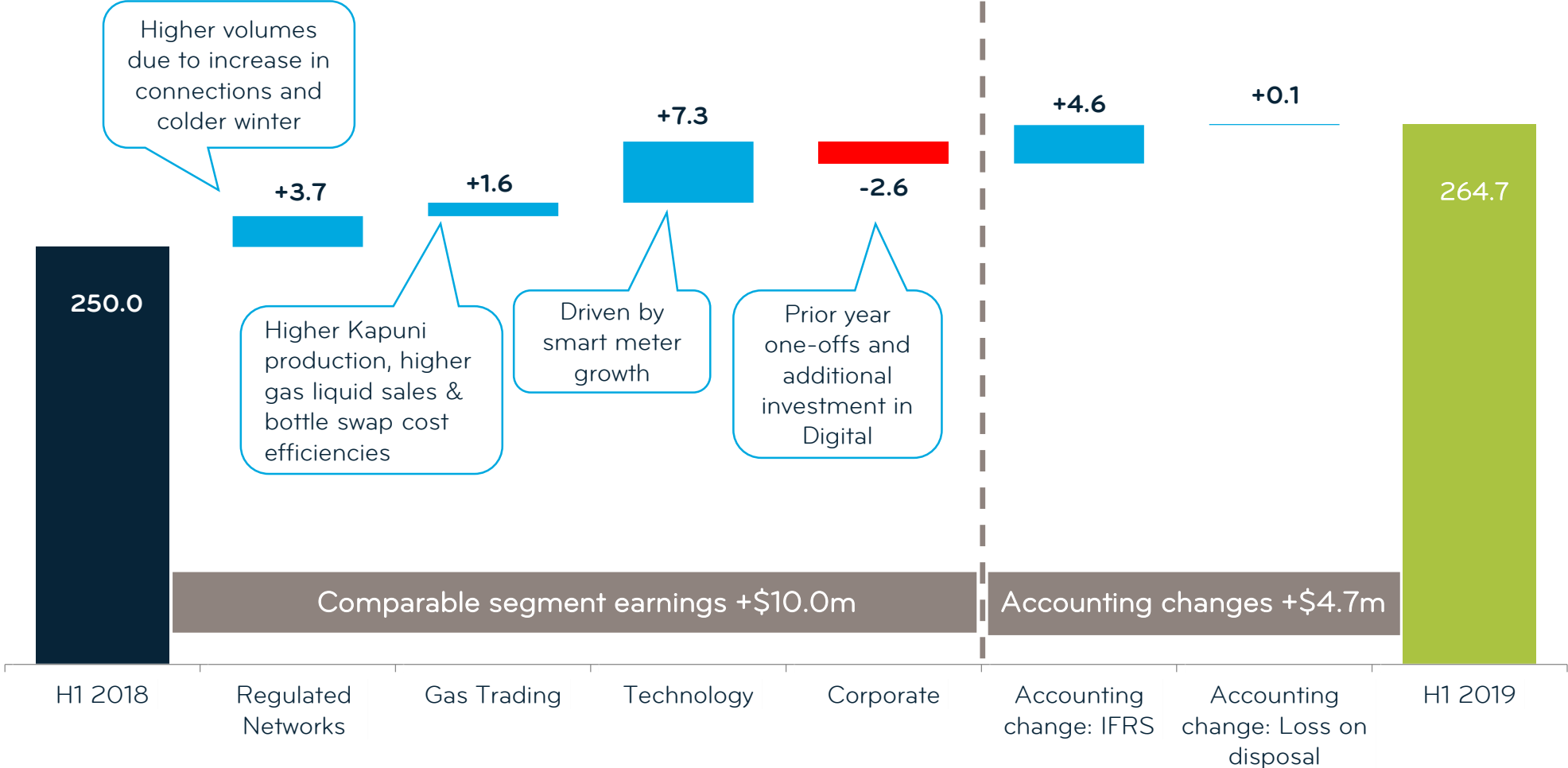
OVERVIEW OF FINANCIAL PERFORMANCE

H1 2019 FINANCIAL PERFORMANCE (\$M)



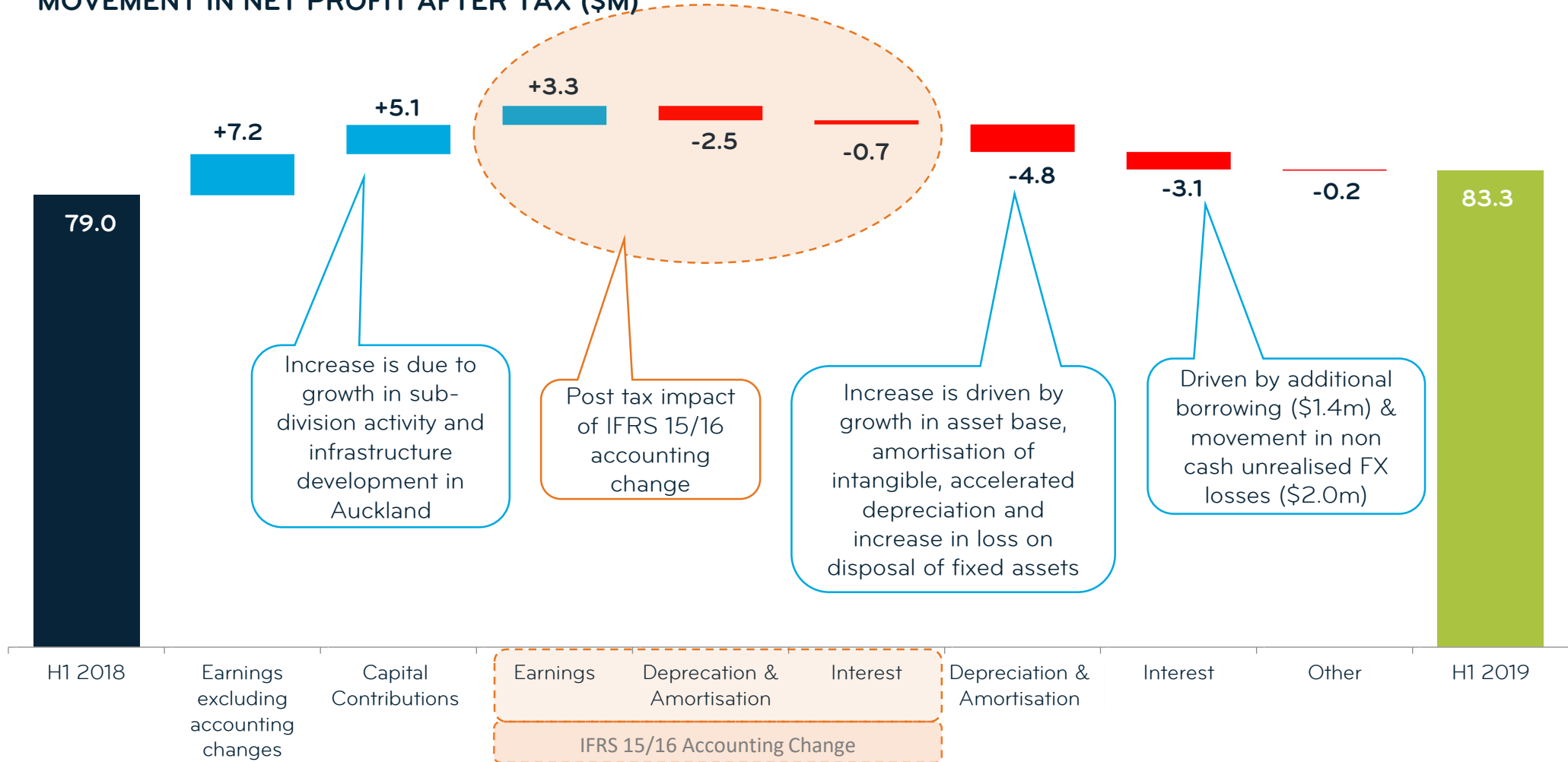
EARNINGS GROWTH ACROSS ALL BUSINESS SEGMENTS

H1 2019 ADJUSTED EBITDA MOVEMENT (\$M)



NPAT UP 5.4% WITH GROWTH IN EARNINGS & CAPITAL CONTRIBUTIONS OFFSET BY HIGHER DEPRECIATION & INTEREST

MOVEMENT IN NET PROFIT AFTER TAX (\$M)



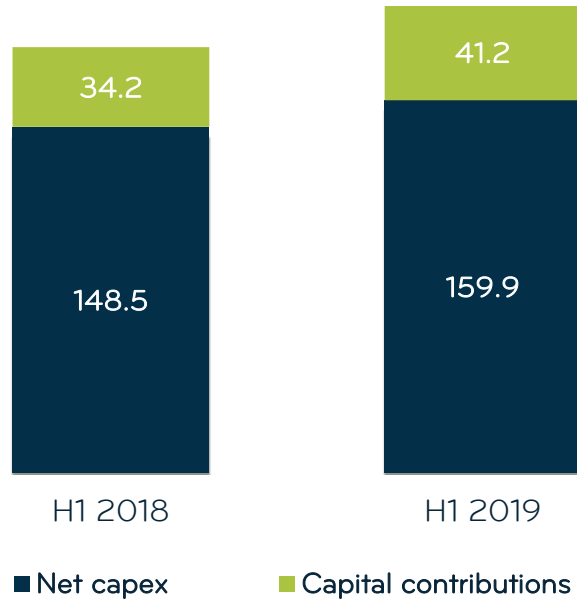
All items above are net of tax.

"Other" includes tax provision release, associates and fair value change on financial instruments

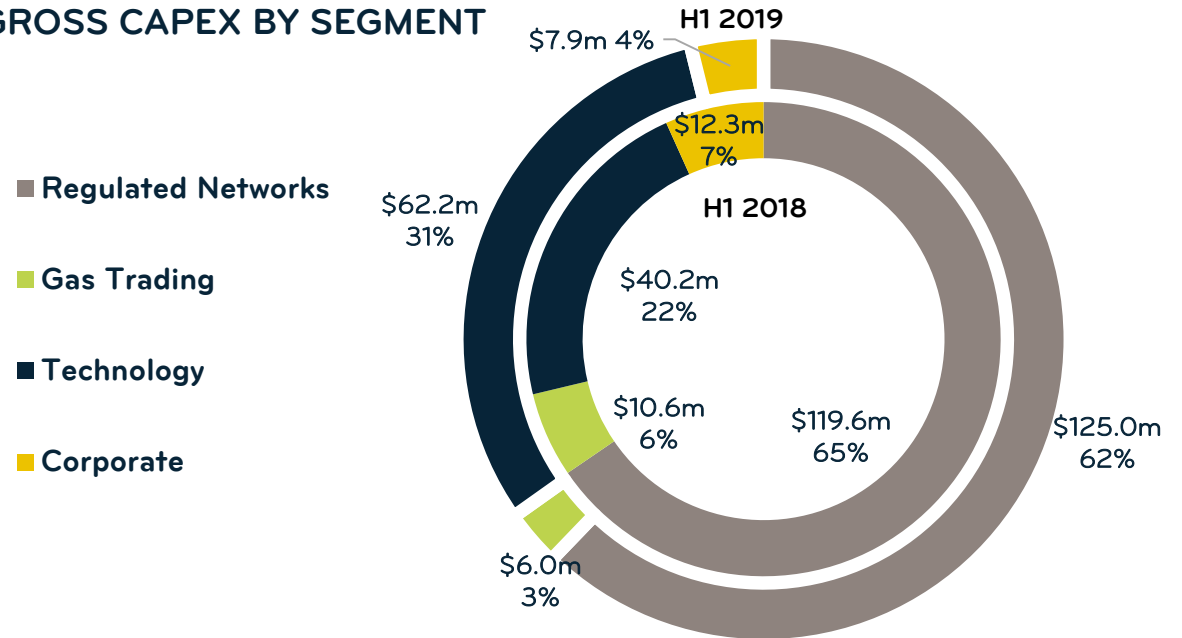
The impact of the IFRS 15/16 accounting change is shown in more detail on slide 26

CAPEX DRIVEN BY AUCKLAND GROWTH & METER DEPLOYMENT IN AUSTRALIA

GROSS CAPITAL EXPENDITURE (\$m)

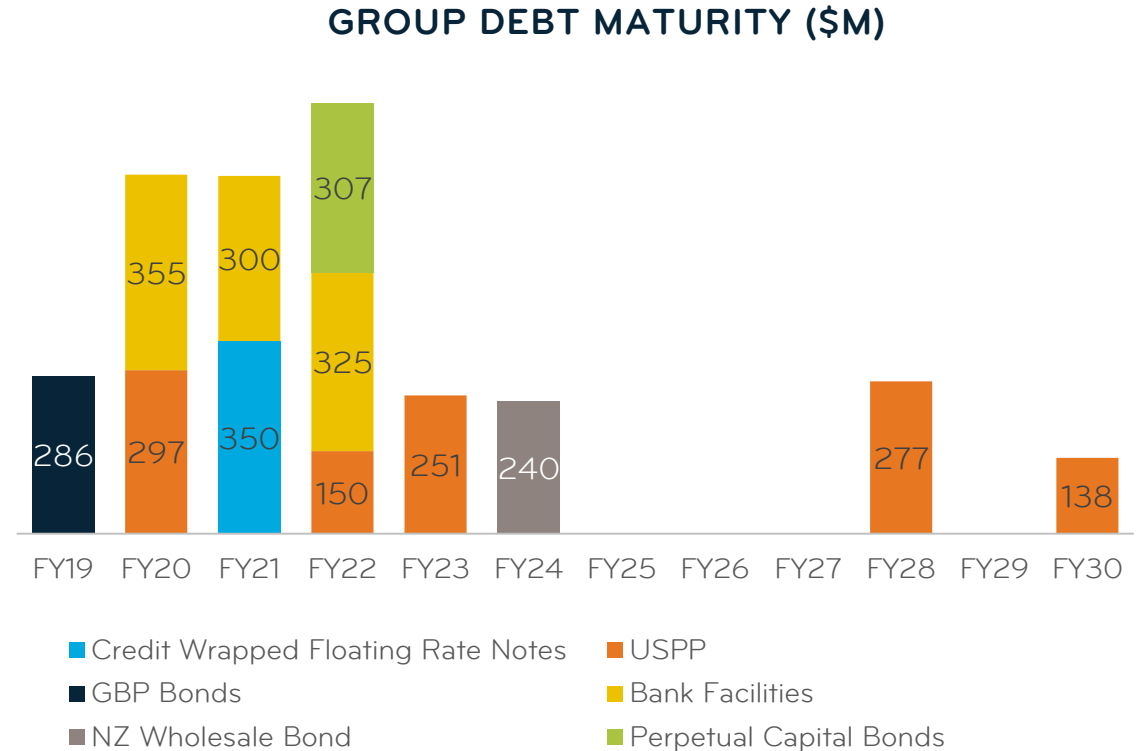
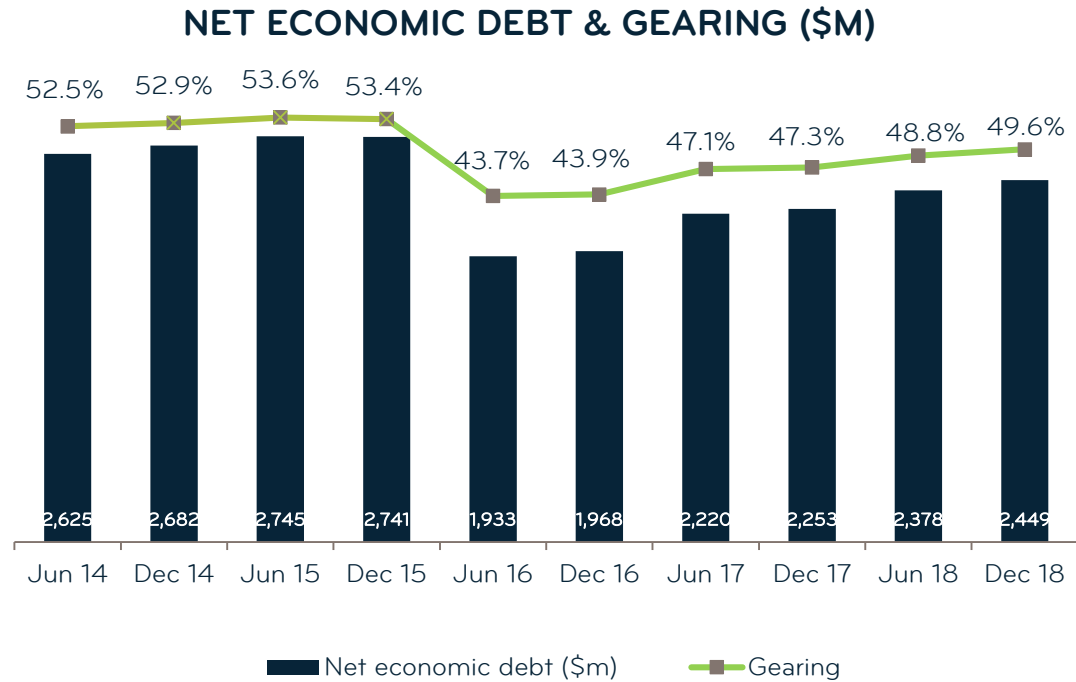


GROSS CAPEX BY SEGMENT



- Gross capex up 10.1% to \$201.1m. Net capex (after deducting contributions) up 7.7% to \$159.9m
- Growth capex up 13.4% to \$122.6m. Replacement capex up 5.2% to \$78.5m

BBB CREDIT RATING FURTHER SUPPORTED BY S&P's RE-ASSESSMENT OF NZ REGULATORY REGIME



- Economic gearing as at 31 December 2018 at 49.6%
- GBP bonds, issued during GFC, matured in January
- Following S&P's re-assessment of the Regulatory Framework score for NZ Regulated Utilities, we can now operate within a lower range of financial metrics for our current BBB rating

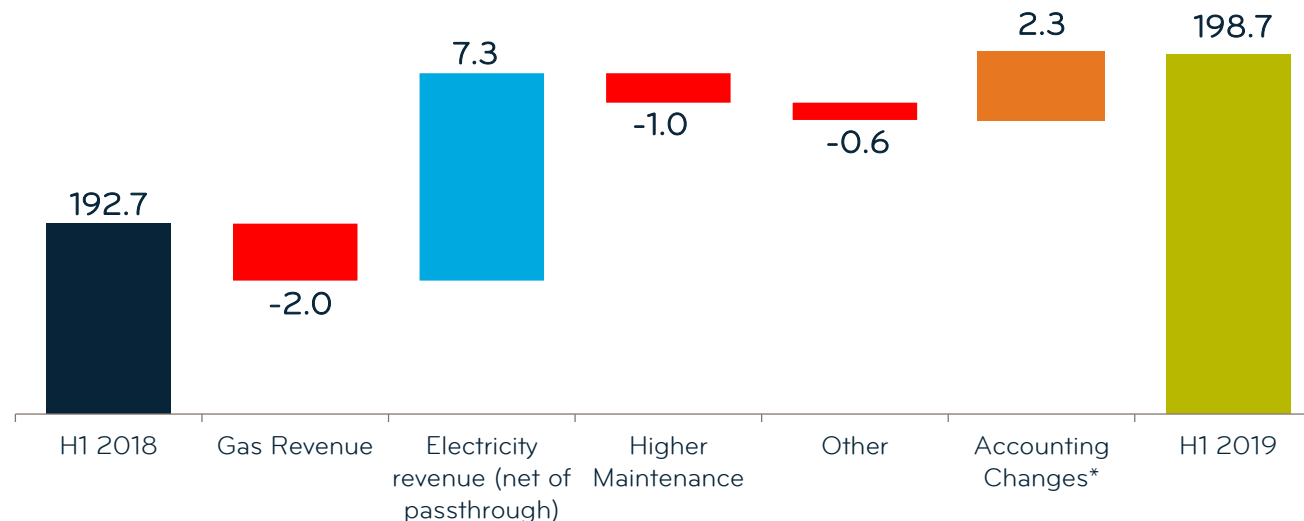
SEGMENT PERFORMANCE

NETWORK EARNINGS BENEFIT FROM HIGHER VOLUMES

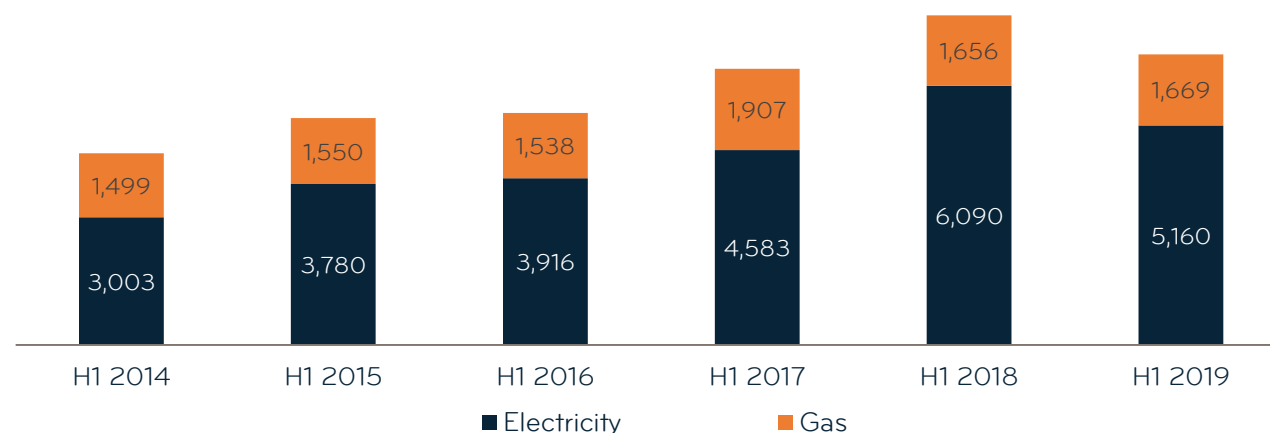
Regulated
Networks
Segment

- Earnings uplift largely driven by higher electricity volumes, up 0.9% to 4,390 GWh
 - Volume growth coming from residential
 - Driven by ongoing connection growth and average household consumption, which appears to have stabilised after a decade of decline
- New connections for H1 down 11.8% to 6,829
 - 567,009 electricity connections (up 1.3%)
 - 110,489 gas connections (up 2.0%)
 - H1 new connections remain circa 50% higher than 5 years ago
- Gas volumes flat at 7.7 PJ. Gas revenue impacted by regulatory price reset of -14% from 1 October 2017
- Increase in maintenance focused on improving network reliability and reducing SAIDI
- Capital contributions up 21.9% to \$41.2m driven by Auckland infrastructure development

ADJUSTED EBITDA MOVEMENT (\$M)



NEW CONNECTIONS

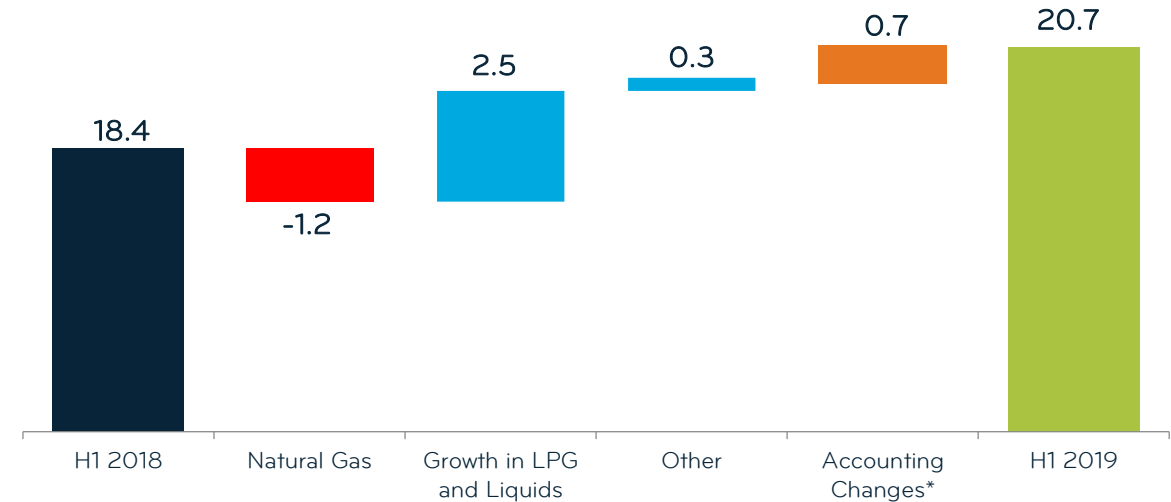


SOLID PERFORMANCE BY GAS TRADING IN A CHALLENGING MARKET

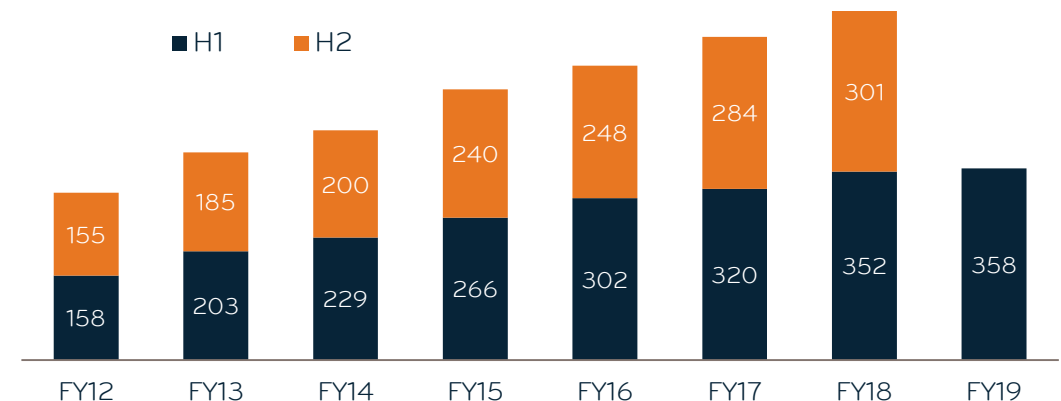
- Challenging market conditions for Natural Gas business
 - Natural gas volumes fell 9.4% to 8.7 PJ
 - Planned and unplanned gas field outages in H1 reduced supply
 - Some of our customers faced significant disruption as a result, and we worked hard to help them mitigate their exposure
- Strong performance in Liquids & LPG
 - Gas liquid sales up 8.0% to 44,020 tonnes
 - Bottle Swap growth slowing (volumes up 1.8% on prior period) but we are now benefitting from cost efficiencies at the new plant
- Growth in H1 will not carry into H2, due to loss of a large natural gas customer and rising natural gas costs

Gas Trading Segment

ADJUSTED EBITDA MOVEMENT (\$M)



BOTTLE SWAP VOLUMES ('000 cylinders)



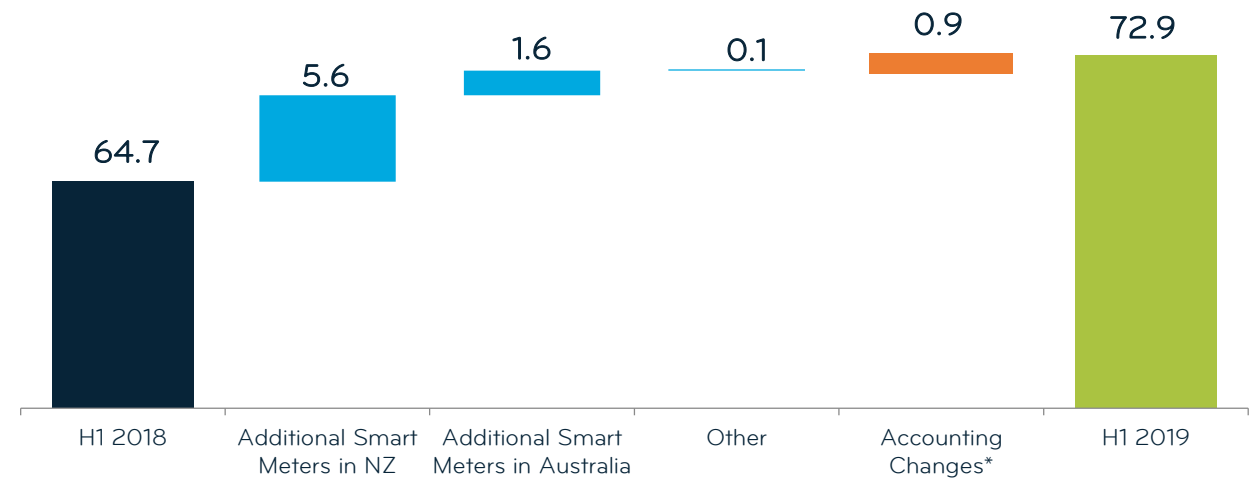
* Adoption of IFRS 15/16 from 1 July 2018. Impact for H1 is \$0.7m. In addition, the prior year included a loss on disposal of (\$0.1m) as part of operating expenses. In the current period, gains/losses on disposal of fixed assets have been classified to depreciation with a gain of \$0.1m recorded in the period. Comparatives for both changes have not been restated.

TECHNOLOGY RESULT DRIVEN BY SMART METER ROLLOUT

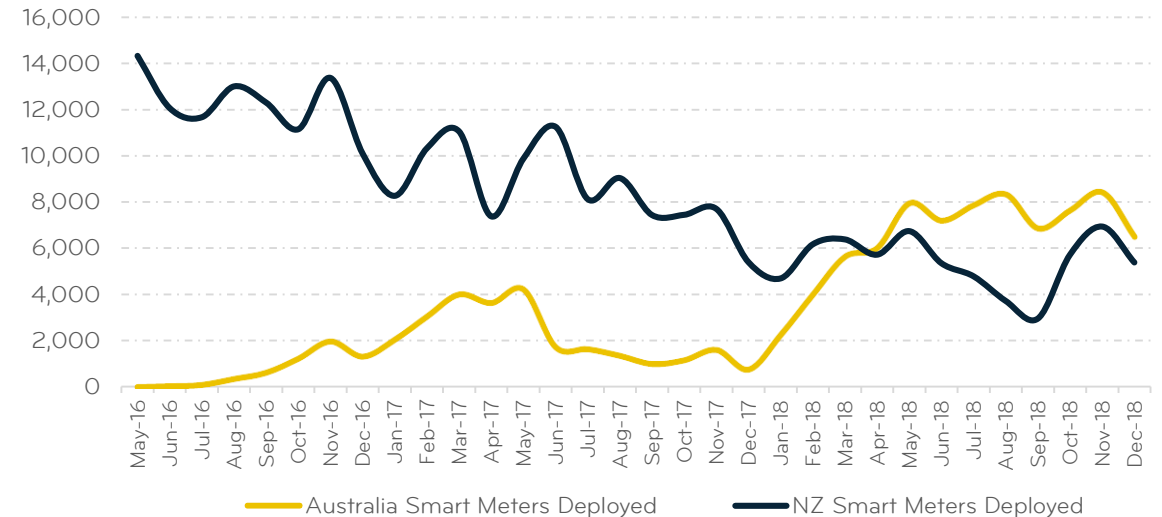
Technology Segment

- Smart meter fleet now 1.48 million (owned & managed)
 - Deployed 45,435 smart meters in Australia in H1. On track to install 90 - 100k meters in FY19
 - NZ smart meter base increased by 29,480 (net of replacements) over H1
 - Vircom acquired in September 2018. Integration well advanced.
- PowerSmart performing well with a strong pipeline of projects across NZ and the Pacific
- E-Co performance remains below expectations. New CEO and management team working to refocus & reposition the business to meet the growing demand for energy efficient HVAC solutions

ADJUSTED EBITDA MOVEMENT (\$M)



MONTHLY SMART METER DEPLOYMENT



* Adoption of IFRS 15/16 from 1 July 2018. Impact for H1 is \$2.0m. In addition, the prior year included a gain on disposal of \$1.1m as part of operating expenses. In the current period, gains/losses on disposal of fixed assets have been classified to depreciation with a loss of (\$0.5m) recorded in the period. Comparatives for both changes have not been restated.

OUTLOOK

- Auckland growth continues
 - Still targeting c11,000 new electricity connections in FY19 (YTD of 5,160)
 - Connections & infrastructure activity remain elevated, necessitating significant capital expenditure.
 - Indexation of the regulated asset base pushes the recovery of this investment to the back-end of the regulatory asset life
- Smart meter deployment on track to achieve the targets previously communicated
 - Targeting 70k smart meters in NZ & 90 - 100k smart meters in Australia in FY19
- August guidance for adjusted EBITDA remains appropriate
 - August guidance of \$470-\$480m did not include impact of accounting changes¹, which will increase FY19 adjusted EBITDA by c\$10m
 - Guidance range adjusted for impact of accounting changes therefore \$480-\$490m
 - H1 benefited from good electricity volumes. If this continues in H2, we would expect to be towards the top end of guidance
- Impact of 2020 electricity reset will be known by the end of November 2019
 - Regulatory WACC for DPP3 effectively known by 31 August 2019
 - Draft Network allowances and quality targets published on 31 May. Final decision on 28 November
 - Current interest rate forecasts result in a WACC for DPP3 of c5.3%

Q&A

ANY QUESTIONS?

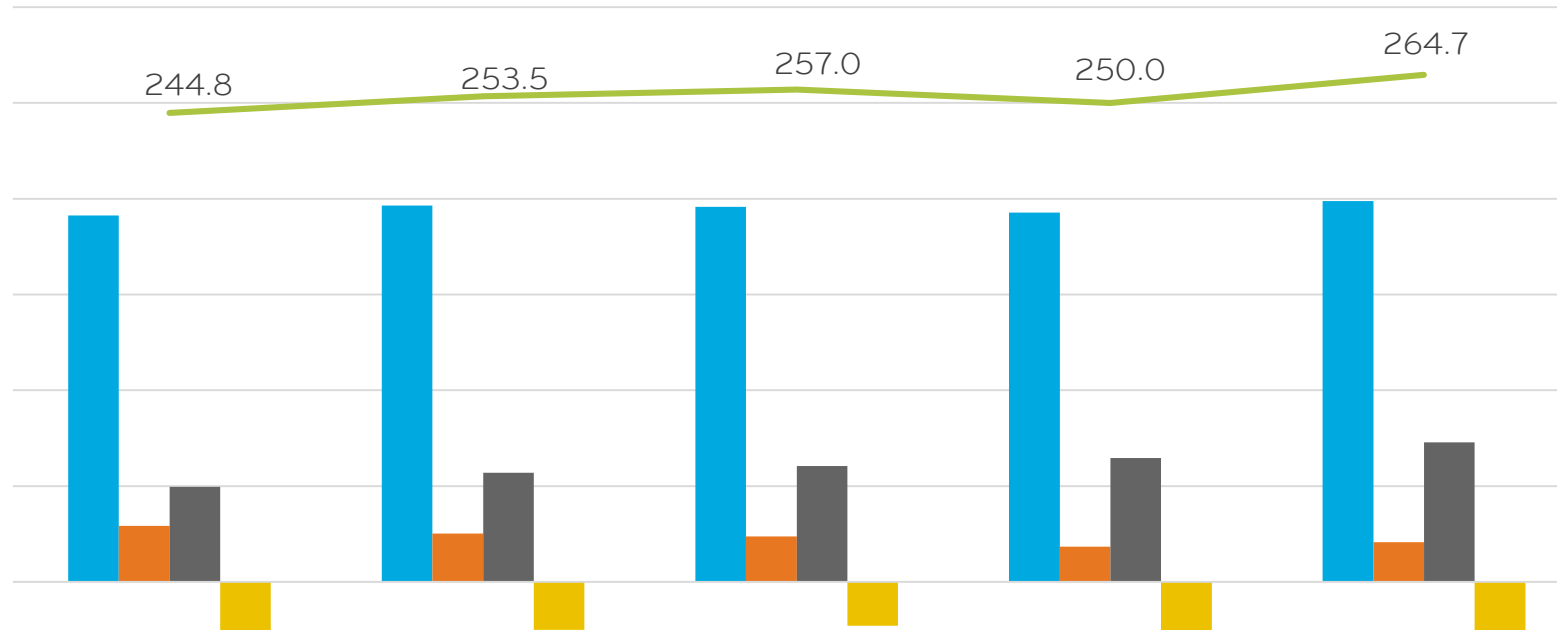
APPENDICES

5 YEAR ADJUSTED EBITDA PERFORMANCE BY SEGMENT

Adjusted EBITDA

\$million

For the half year ended 31 December



	H1 2015	H1 2016	H1 2017	H1 2018	H1 2019
Regulated Networks	191.3	196.4	195.7	192.7	198.7
Gas Trading	29.3	25.2	23.7	18.4	20.7
Technology	49.7	57.0	60.5	64.7	72.9
Corporate	-25.5	-25.1	-22.9	-25.8	-27.6
Total Group	244.8	253.5	257.0	250.0	264.7

GROUP PROFIT STATEMENT

HALF YEAR ENDED 31 DECEMBER (\$M)

INCOME STATEMENT	H1 2019 \$m	H1 2018 \$m	Change %
Revenue (excluding capital contributions)	647.4	642.0	+0.8
Operating expenditure	(382.7)	(392.0)	+2.4
Adjusted EBITDA	264.7	250.0	+5.9
Capital Contributions	41.2	34.2	+20.5
Depreciation and amortisation	(119.9)	(109.6)	-9.4
Net interest costs	(71.7)	(66.4)	-8.0
Fair value change on financial instruments	(0.2)	2.8	n/a
Associates (share of net profit/(loss))	0.5	(0.1)	n/a
Tax	(31.3)	(31.9)	+1.9
Net profit for the period	83.3	79.0	+5.4

GROUP CASH FLOW

HALF YEAR ENDED 31 DECEMBER (\$M)

CASH FLOW	H1 2019 \$m	H1 2018 \$m
Operating cash flow	219.1	236.0
Replacement capex	(81.5)	(75.2)
Dividends paid	(80.6)	(80.3)
Cash available for growth and debt repayment	57.0	80.5
Growth capex	(121.2)	(109.6)
Other investment activities	(3.3)	(15.7)
Pre debt financing cash inflow	(67.5)	(44.8)
Proceeds from borrowings	70.0	435.8
Repayment of borrowings	0.0	(400.0)
Other financing activities	(3.9)	12.0
Increase/(decrease) in cash	(1.4)	3.0

SEGMENT RESULTS

HALF YEAR ENDED 31 DECEMBER (\$M)

	REGULATED NETWORKS			TECHNOLOGY			GAS TRADING			CORPORATE		
	H1 2019	H1 2018	Change %	H1 2019	H1 2018	Change %	H1 2019	H1 2018	Change %	H1 2019	H1 2018	Change %
Revenue excluding Capital Contributions	361.9	358.9	+0.8	137.0	133.5	+2.6	152.9	153.5	-0.4	0.2	0.8	-75.0
Operating expenditure	(163.2)	(166.2)	+1.8	(64.1)	(68.8)	+6.8	(132.2)	(135.1)	+2.1	(27.8)	(26.6)	-4.5
Segment Adjusted EBITDA	198.7	192.7	+3.1	72.9	64.7	+12.7	20.7	18.4	+12.5	(27.6)	(25.8)	-7.0
CAPEX												
Replacement	63.4	63.7	-0.5	6.9	4.3	+60.5	3.6	2.8	+28.6	4.6	3.8	+21.1
Growth	61.6	55.9	+10.2	55.3	35.9	+54.0	2.4	7.8	-69.2	3.3	8.5	-61.2
Total capex	125.0	119.6	+4.5	62.2	40.2	+54.7	6.0	10.6	-43.4	7.9	12.3	-35.8

SEGMENT ADJUSTED EBITDA

SEGMENT ADJUSTED EBITDA (\$m)	H1 2019			H1 2018		
	Reported segment EBITDA	less capital contributions	Segment adjusted EBITDA	Reported segment EBITDA	less capital contributions	Segment adjusted EBITDA
Half year ended 31 December						
Technology	72.9	-	72.9	65.1	(0.4)	64.7
Gas Trading	20.7	-	20.7	18.4	-	18.4
Unregulated Segments	93.6	-	93.6	83.5	(0.4)	83.1
Regulated Networks	239.9	(41.2)	198.7	226.5	(33.8)	192.7
Corporate	(27.6)	-	(27.6)	(25.8)	-	(25.8)
TOTAL	305.9	(41.2)	264.7	284.2	(34.2)	250.0

IMPACT OF ACCOUNTING CHANGES IN H1 2019

Segment	(A) Prior year reported H1 2018 Segment Adjusted EBITDA	(B) Change 1: Impact of adoption of IFRS 15/16	(C) Change 2: H1 2018 gain/(loss) on disposal of fixed assets	(D)= (B) + (C) Total Impact of changes on comparables	(E) H1 2019 Segment adjusted EBITDA post accounting changes	(F) = (E) – (D) Comparable ¹ Segment adjusted EBITDA H1 2019	<i>Note: Re- Classification of H1 2019 gains/losses on disposal to Depreciation</i>
Regulated Networks	192.7	1.2	1.2	2.3	198.7	196.3	0.9
Gas Trading	18.4	0.7	0.1	0.7	20.7	20.0	(0.1)
Technology	64.7	2.0	(1.1)	0.9	72.9	72.0	0.5
Corporate	(25.8)	0.7	0.0	0.7	(27.6)	(28.3)	0.0
Adjusted EBITDA	250.0	4.6	0.1	4.7	264.7	260.0	1.4
Depreciation and Amortisation		(3.5)					(1.4)
Finance Cost		(1.0)					

Change 1: From 1 July 2018, Vector has adopted two new accounting standards (IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases). Of the two accounting standards, IFRS 16 poses the most significant financial impact in both the balance sheet and the profit and loss. IFRS 16 requires that the present value of the outstanding liability for leases is calculated using Vector's incremental borrowing rate at the date of transition. The right of use asset is then recognised and measured at a value equalling the lease liability, adjusted for lease incentives recorded on the balance sheet. Under the modified retrospective approach, the H1 2018 comparatives are not restated. The impact on the profit and loss statement is a reduction in the amount of operating expense reported, offset by an increase in depreciation and interest. The impact for the six months ending 31 December 2018 is a reduction to operating expense of \$4.0m and an increase to depreciation of \$3.5m and interest cost of \$1.0m. The impact of IFRS 15 is an increase to revenue of \$0.6m

Change 2: Vector has also reassessed the presentation of gains and losses on disposal of fixed assets within our statement of profit and loss. Historically, disposal gains and losses have been included within 'Operating Expenses'. Disposal gains/losses are also included within the group's non-GAAP profit measures of EBITDA and adjusted EBITDA. From 1 July 2018 we have included disposal gains and losses with depreciation and amortisation. In the six months ending 31 December 2018, \$1.4 million has been reclassified from Operating Expenses to Depreciation and Amortisation. The H1 2018 comparatives are not restated. Prior year comparative value was \$0.1m.

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 from continuing operations.

Adjusted EBITDA

EBITDA from continuing operations adjusted for fair value changes, capital contributions, associates, impairments and significant one-off gains, losses, revenues and/or expenses.

GAAP to Non-GAAP reconciliation EBITDA and Adjusted EBITDA

Half year ended 31 December	H1 2019 \$M	H1 2018 \$M
Reported net profit for the period (GAAP)	83.3	79.0
Add back: net interest costs ¹	71.7	66.4
Add back: tax (benefit)/expense ¹	31.3	31.9
Add back: depreciation and amortisation ¹	119.9	109.6
EBITDA	306.2	286.9
<i>Adjusted for:</i>		
Associates (share of net (profit)/loss) ¹	(0.5)	0.1
Fair value change on financial instruments ¹	0.2	(2.8)
Capital Contributions ¹	(41.2)	(34.2)
Adjusted EBITDA	264.7	250.0

¹ Extracted from audited financial statements

