Vector

FINANCIAL RESULTS FOR THE HALF YEAR TO 31 DECEMBER 2012

Vector performs despite soft economy

HIGHLIGHTS:

- Revenue rises 5.0% to reach $669.4 million; energy demand subdued.
- Net profit rises 10.8% to $118.0 million as costs contained and growth in technology operation continues.
- EBITDA[1] rises 3.9% to $336.3 million.
- Interim dividend rises 0.25 cents to 7.25 cents per share.

New Zealand's leading integrated energy infrastructure company, Vector Limited today announced an improved result for the six months to 31 December, despite the soft economy, as we benefited from growth across most of our businesses, continuation of legacy pricing on our Kapuni gas entitlements and a tight control on costs.

The Board has resolved to pay a fully-imputed interim dividend of 7.25 cents per share for the year, up from last year's 7.0 cents per share interim dividend.

Vector chairman Michael Stiassny said: "Vector and New Zealand is facing a new economic norm. Economic growth is soft; our customers want to reduce the amount they spend on energy and the amount they consume. Meanwhile, the environment for value-enhancing acquisitions is challenging.

"As a provider of critical national infrastructure, Vector's progress is tightly linked to these economic trends. Warmer weather across the Auckland region also reduced demand.

"However, this result demonstrates how we have continued to grow, in spite of the new economic environment. It also shows our success at optimising the group's portfolio of businesses, lowering our risk profile in response to the new environment and containing costs.

"Our balance sheet remains strong with gearing as measured by net debt to net debt plus equity at 51.0%. We continue to seek regulatory certainty, a fairer regulatory regime and our gas wholesale book is well balanced.

[1] This non-Generally Accepted Accounting Practice (GAAP) profit measure is defined and reconciled to GAAP on page 9 of this release. All references to these measures throughout this release are consistent with those definitions.

"Despite the challenges, our planned acquisition of the Contact Gas metering business shows we are prudently investing for growth in a way that will not only support the Auckland and national economies, but also deliver returns to our shareholders.

"Vector, overwhelmingly owned by New Zealanders in a successful example of the mixed-ownership model, has again delivered," he said.

FINANCIAL AND OPERATIONAL RESULTS:

Six months ended 31 December	**2012 $M**	**2011 $M**	**Change (%)**
Revenue	669.4	637.6	+5.0
EBITDA	336.3	323.6	+3.9
EBIT[2]	250.1	237.5	+5.3
Net profit	118.0	106.5	+10.8
Operating cash flow	267.7	242.4	+10.4
Dividend per share	7.25	7.00	+3.6
Capital expenditure			
Growth	75.8	58.8	+28.9
Replacement	53.0	52.8	+0.4

Revenue for the six months to 31 December 2012 increased 5.0% from $637.6 million to $669.4 million. The rise was due in part to regulated price increases on our energy networks, and an increase in Transpower transmission charges, which are passed through to customers. These increases masked the soft trading environment.

Due to the warmer temperatures, the soft economy and reduced customer demand electricity volume fell 0.9% from 4,359 GWh to 4,321 GWh. Gas transmission volume fell 9.5% from 65.0 PJ to 58.8 PJ, due to reduced gas-fired generation activity while gas distribution volumes were static.

Nevertheless, group EBITDA rose 3.9% from $323.6 million to $336.3 million, due to continued cost containment across the energy infrastructure networks and ongoing growth in our technology business. Net profit rose 10.8% from $106.5 million to $118.0 million. During the period Vector also benefited from the continuation of supply of Kapuni gas at legacy prices following success in an arbitration to determine our entitlements. This is now subject to an appeal, but we are confident of our position.

Vector Group Chief Executive Simon Mackenzie said: "Our focus remains on seeking growth opportunities, continuing to control costs, optimising our businesses for the new

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economic realities and continuing to provide quality service to our customers. We also continue to seek better regulatory outcomes for our energy networks.

"We are meeting these objectives. EBITDA of our electricity and gas transportation networks increased by 2.2% and 8.7% respectively and on measures such as the cost of delivering power to our customers and the average operating cost per customer, Vector's electricity networks remain among the best in the country.

"Vector's unregulated operations continue to perform well. Our technology segment made a strong contribution to earnings, increasing its EBITDA by 6.1% to $36.7 million. Our installed base of smart meters continues to grow rising 38.5% to 438,419 meters from 316,531.

"Vector's shareholders have again benefited from the group's portfolio of operations, delivering on our core energy infrastructure networks, developing innovative technology solutions and pursuing smart growth opportunities in our unregulated operations.

Investment for growth:
"Vector is investing to support this growth, having spent $128.8 million across our portfolio of businesses during the six month period. Of this investment, $77.4 million was spent on our energy networks and most of the remainder on our unregulated operations including investments in our smart meter operations as well as new technologies such as solar power to give our customers new choices," he said.

Mr Mackenzie said: "Solar panels, combined with highly-efficient batteries and smart control technology will allow our customers to manage demand and the cost of energy in the home. They represent the application of an exciting new technology for Vector. In the period we completed the first residential installation of a technology solution, which over the long term will lead to greater use of renewable resources, but also help us optimise our network investment.

"Vector continues to seek value-enhancing acquisitions. We have been working with local and central government as well as private sector organisations to explore opportunities to manage and invest in critical national infrastructure and adjacent services by leveraging Vector's expertise and our strong balance sheet.

"We await the Commerce Commission decision on our proposed acquisition of Contact Energy's gas metering business as announced in October.

Regulation
"We are looking forward to the outcome of the Merits Review of the regulatory regime, brought by Vector along with six other parties representing the interests of New Zealand's largest infrastructure providers.

"Deliberations are drawing to a close and we expect a court judgement to be delivered in the second quarter of this calendar year.

"Meanwhile, from April this year, Vector will reduce its electricity lines charges in line with the Commerce Commission's determination released last November forecasting an average 10% reduction.

"A price determination for our gas transmission and distribution assets is due to be released later this month. In light of the pending Merits Review judgement, it is too soon to say whether the Commerce Commission's draft decision to reduce prices on our gas transmission and gas distribution networks by 25% and 16% respectively will stand.

"We note that these reductions are based on different assumptions in respect of operating and capital expenditure requirements over the next five years than those that the business relies upon," said Mr Mackenzie.

OUTLOOK

Vector has made a good start to the 2013 financial year as we have managed the business well.

The second-half however will present some headwinds. The regulator's mandated price reductions on our electricity networks from 1 April will weigh on second-half revenues, even if we receive a positive outcome from the Merits Review of the regulatory regime. And notwithstanding the signs of a recovery in the Auckland building and construction sector, the economy remains soft and customer energy demand remains subdued.

Meanwhile our entitlements to Kapuni Gas at the legacy prices will continue to reduce over the period and some gas already purchased during the period at legacy prices is subject to appeal.

Nevertheless, we are pleased with growth in our technology business. The gas wholesale operation continues to perform well and we continue to manage costs tightly. We also continue to grow through investment in our core network business as the economy grows, albeit slowly. In summary we are reaffirming our earlier guidance that we expect EBITDA for the full year to 30 June 2013 to be in line with the result we achieved in the year to 30 June 2012.

SEGMENTAL PERFORMANCE

Six months ended 31 December	2012 $M	2011 $M	Change (%)
Electricity			
Revenue	334.8	308.5	+8.5
EBITDA	202.0	197.6	+2.2
Gas Transportation			
Revenue	114.4	110.4	+3.6
EBITDA	88.7	81.6	+8.7
Gas Wholesale			
Revenue	195.6	195.4	+0.1
EBITDA	34.0	36.4	-6.6
Technology			
Revenue	52.8	48.1	+9.8
EBITDA	36.7	34.6	+6.1
Shared Services			
Revenue	0.4	0.5	-20.0
EBITDA	(25.1)	(26.6)	+5.6

Electricity

Electricity revenue increased 8.5% to $334.8 million from $308.5 million and EBITDA increased 2.2% from $197.6 million to $202.0 million. An increase in Transpower prices in the 2013 regulatory year lifted expenses by $19 million. These charges were passed through to customers.

The volume of electricity transported across the network fell 0.9% from 4,359 GWh to 4,321 GWh, reflecting subdued customer demand, the unusually warm weather in the second quarter of this financial year and the unusually cool weather in the first quarter of the prior year. Revenue also benefited from price increases.

Although household consumption is largely weather dependent, we have observed a reduction in average consumption per household over the last few years.

Vector's research shows the majority of customers are trying to reduce their usage, reflecting their desire to reduce their electricity bills and take advantage of more energy-efficient and environmentally-friendly solutions. It is for this reason we have been innovating and investing in technologies such as solar power.

Vector is actively participating in the Electricity Authority's consultation to revise Transpower's transmission pricing methodology. We are challenging the proposed methodology, as it is likely to result in higher prices for Auckland consumers.

This review is the third review by the Authority, and its predecessor the Electricity Commission, in recent years. These reviews have focused on shifting costs, such as those for the HVDC link from South Island generators to North Island consumers.

Commercial and industrial customers have also continued to slow their production and actively look to cut costs.

There was a step up in residential subdivisions. This growth supports other anecdotal evidence of a pickup in the building and construction sectors in Auckland.

Electricity customer numbers grew 0.6% from 534,305 to 537,268. Net customer additions grew 20.1% from 1,698 to 2,040. Over the last few years disconnections have been unusually high as inactive meters were disconnected. This had the effect of depressing reported net connection growth, but the market is now returning to equilibrium.

Apart from higher Transpower charges, direct and indirect costs were relatively stable as cost reductions offset higher professional fees related to regulatory appeals.

SAIDI increased 4.2% from 69.4 to 72.3 minutes, but we consider the increase was due entirely to the natural random variance from year to year.

Gas Transportation

Gas Transportation revenue rose from $110.4 million to $114.4 million.

EBITDA rose from $81.6 million to $88.7 million as the business continued to demonstrate tight cost control.

Gas distribution volumes were unchanged on the prior year at 11.7 PJ. Gas transmission volumes fell from 65.0 PJ to 58.8 PJ primarily due to a slow-down in gas-fired electricity production. These lower volumes had only a marginal impact on revenue as the customers concerned were largely on fixed prices.

Distribution customers rose 1.5% from 153,576 to 155,863 and net customer additions rose 13.7% from 1,068 to 1,214. This was due to lower disconnections as a major gas retailer completed its programme of decommissioning unused gas ICPs.

Gas Wholesale

Despite lower volumes from the Kapuni field, Gas Wholesale revenue rose slightly from $195.4 million to $195.6 million. EBITDA fell from $36.4 million to $34.0 million. The

continuation of supply of Kapuni gas at legacy prices underpinned Gas Wholesale earnings.

Sales, excluding recoveries associated with the emission trading scheme (ETS), were lifted by growth in the LPG business and particularly the bottle swap operation as well as a 20.0% increase in tolling volumes to 73,369 tonnes through Liquigas.

Liquigas growth was largely due to growth in the South Island, reflecting the recovery in Christchurch following the earthquakes and an increase in exports.

Natural gas sales fell 2.8% from 14.3 PJ to 13.9 PJ. Meanwhile, gas liquid sales were down 6.8% from 41,850 tonnes to 39,000 tonnes. The gas wholesale book, however, remains well balanced.

The Gas Wholesale business continues to develop attractive opportunities. Our gas bottle swap operations posted six months of particularly strong growth, reinforcing the strategic benefit of the Kwik Swap acquisition in 2011.

Costs, excluding costs associated with the emissions trading scheme, fell at the Kapuni Gas Treatment Plant (KGTP) and at our natural gas operation in line with lower production volumes. However, these gains were partially offset by increased expenditure at Liquigas aligned with increased tolling volumes and expenditure to support the growth of the bottle swap operation. ETS recoveries and costs were $2 million lower than the prior year, due to lower emission unit prices.

Technology

Revenue rose from $48.1 million to $52.8 million due to a rise in revenue from both the metering and telecommunications businesses. Metering revenue reflected the increase in the number of smart meters replacing legacy meters, as well as additional recoveries from retailers for field services work.

The installed base of smart meters continues to grow, rising 38.5% to 438,419 meters from 316,531 at the same time last year. Vector is now two thirds of the way through our contracted installation of 670,000 smart meters and we deployed at a rate of 11,504 meters per month during the period. We expect to maintain a rate of 10,000 to 12,000 a month depending on installation conditions for the next 12 months.

The technology segment's EBITDA rose from $34.6 million to $36.7 million.

Cash flow and capital expenditure

Vector continues to invest in its network to maintain our high levels of service and performance. Supported by our strong operating cash flow, up 10.4% to $267.7 million, we invested $128.8 million across our portfolio of businesses. This investment represented a 15.4% increase on the prior year.

Of this sum $77.4 million was invested in our core electricity and gas networks to support growth and maintain the high level of service to which our customers are accustomed. The major growth projects are the continued development of the grid exit point at Hobson Street and investment to support increasing residential subdivision activity.

A further $43.7 million was invested in our technology segment to support its rapid growth, particularly in the metering business.

Capital Structure
Our balance sheet remains strong. Net debt fell from $2,373.8 million at 30 June 2012 to $2,286.4 million. Gearing as measured by net debt to net debt plus equity, fell to 51.0%, an improvement to the 52.5% recorded at 30 June 2012. Net finance costs are covered by EBIT 3.0 times compared with 2.7 times for the year ended 30 June 2012.

-Ends-

About Vector: (www.vector.co.nz)

Vector is New Zealand's leading multi-network infrastructure company which delivers energy and communication services to more than one million homes and businesses across the country. The company owns and manages a unique portfolio which consists of electricity distribution, gas transmission and distribution, electricity and gas metering installations and data management services, natural gas and LPG and fibre optic networks. Vector is listed on the New Zealand Stock Exchange with ticker symbol VCT. Our majority shareholder, with voting rights of 75.4%, is the Auckland Energy Consumer Trust (AECT).

APPENDIX:

Non-GAAP profit 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.

Vector's definition of non-GAAP profit measures used in this document:

EBITDA: Earnings before net finance costs, tax expense, depreciation, amortisation, share of net profit or loss from associates and impairments.

EBIT: Earnings before net finance costs, tax expense, share of net profit or loss from associates and impairments.

GAAP to non-GAAP reconciliation:

	2012 $M	**2011 $M**
Net profit for the period (GAAP)	118.0	106.5
Add back: income tax expense[1]	47.5	42.9
Add back: impairment of investment in associate[1]	2.3	3.9
(Deduct)/add back: share of net (profit)/loss from associates[1]	(0.7)	0.1
Add back: net finance costs[1]	83.0	84.1
EBIT	**250.1**	**237.5**
Add back: depreciation and amortisation[1]	86.2	86.1
EBITDA	**336.3**	**323.6**

[1] Extracted from reviewed financial statements.