MARKET RELEASE
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FINANCIAL RESULTS FOR THE YEAR TO 30 JUNE 2013

Vector lifts annual earnings and dividend

HIGHLIGHTS:

- Revenue rises 2.2% from $1,252.2 million to $1,279.2 million
- Net profit rises 2.2% from $201.7 million to $206.2 million
- EBITDA[1] rises 0.5% from $627.4 million to $630.5 million
- Final dividend rises to 7.75 cents per share taking the total dividend for the year to 15.0 cents per share.

New Zealand's leading integrated energy infrastructure company, Vector Limited (NZX: VCT) today reported improved financial results for the 12 months to 30 June 2013.

Vector Chairman Michael Stiassny said: "Vector, a critical provider of New Zealand's strategic energy infrastructure, has once again delivered on its commitment to the Auckland region, the national economy as well as our shareholders.

"We seek to deliver a sustainable and growing dividend to shareholders, grow our portfolio of businesses, drive operational excellence and deliver services attuned to our customers. In the 2013 financial year we met those objectives.

"The Board has resolved to pay a fully-imputed final dividend of 7.75 cents per share up from last year's 7.5 cents per share final dividend.

"Our balance sheet remains strong, with gearing as measured by net debt to net debt plus equity at 51.1%. And, we have continued to invest in the business. Notably, we were pleased to complete the $60 million acquisition of Contact Energy's gas metering operation. This business gives us another opportunity to leverage our internationally-recognised expertise in managing energy infrastructure."

Vector Group Chief Executive Simon Mackenzie said: "The results were lifted by growth in our smart metering business, the continuation of legacy pricing on our Kapuni gas entitlements and continued tight cost control.

"The convergence of information technology and infrastructure management technology has opened up new growth opportunities for Vector. These are now buoying our financial performance in the face of a new economic norm of patchy growth, reduced energy consumption and a challenging environment for value-enhancing acquisitions.

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[1] This non-Generally Accepted Accounting Practice (GAAP) profit measure is defined and reconciled to GAAP on page 8 of this release. All references to this measure throughout this release are consistent with this definition.

"Innovations such as photovoltaic cells combined with battery storage are offering a unique investment opportunity. They offer consumers real opportunities to reduce energy consumption and help us to more efficiently manage the network.

"We have made significant productivity gains through on-going operational and process changes across our business. We are one of the lowest cost providers of electricity distribution services on measures such as the cost of delivering power lines services to our customers and the average operating cost per customer.

"Unfortunately customers' wallets are yet to benefit from these initiatives as regulation intended. From April of this year we reduced prices on our residential electricity network by 9% or the equivalent of $60 per residential customer per year. However, only in the case of a small minority of energy retailers have we seen these savings passed on to customers.

"The goal of regulation is to incentivise efficiencies in our business and we expect the gains we make to flow through to customers as regulation intended."

FINANCIAL AND OPERATIONAL RESULTS:

Year ended 30 June	**2013 $M**	**2012 $M**	**Change (%)**
Revenue	1,279.2	1,252.2	+2.2%
EBITDA	630.5	627.4	+0.5%
EBIT[2]	456.4	453.9	+0.6%
Net profit	206.2	201.7	+2.2%
Operating cash flow	426.2	392.3	+8.6%
Dividend per share	15.0	14.5	+3.4%
Capital expenditure			
Growth	167.6	138.9	+20.7
Replacement	131.0	122.9	+6.6

Revenue for the 12 months to June increased 2.2% from $1,252.2 million to $1,279.2 million. Our unregulated technology operation has provided considerable support to the business demonstrating the strengths of Vector's diversified portfolio of businesses.

However revenue fell after stripping out price increases on our electricity network, price increases on our gas networks and increases in Transpower charges.

[2] This non-Generally Accepted Accounting Practice (GAAP) profit measure is defined and reconciled to GAAP on page 8 of this release. All references to this measure throughout this release are consistent with this definitions.

This reduction in revenue followed reduced Kapuni production, warmer weather and a trend by homes and businesses towards reduced energy consumption. Energy volumes transported across our electricity network fell 1.1% to 8,332 GWh, while gas distribution volumes fell 1.8% to 21.4 PJ. Gas transmission volumes fell 5.7% to 118.2 PJ due to reduced demand from power generators.

Electricity volumes will have less effect on our revenues going forward following changes to the electricity regulatory regime effective 1 April 2013. Vector, in response, is making changes to ensure tariffs reflect costs, which are predominantly fixed.

EBITDA rose 0.5% from $627.4 million to $630.5 million. Net profit rose 2.2% from $201.7 million to $206.2 million as we benefited from continued access to Kapuni gas at legacy prices and successfully controlled costs. But reduced gas production and a highly competitive LPG market partially offset these gains.

Mr Mackenzie said: “We are pleased with the progress we have made with our technology business, particularly our internationally-recognised smart metering business, which continues to provide a rich source of revenue and earnings growth.

“We are contracted to install over 764,000 meters across New Zealand, allowing for customers moving between retailers, up from 670,000 a year earlier. We are continuing discussions with retailers to expand the fleet.

“New Zealand’s conversion to smart metering has proceeded smoothly. Overseas jurisdictions, which have not had the same experience, are increasingly looking at the New Zealand model and Vector is investigating the opportunities that this may create.”

Regulation:

The decisions on the Merit Appeals of the Commerce Commission’s Input Methodology decisions, brought by Vector along with six other large infrastructure companies, are due in the next month.

From April this year, Vector reduced its electricity lines charges in line with the Commerce Commission’s price-quality determination. The Commission also mandated price reductions for our gas transmission and distribution networks of 29% and 18% respectively. We will implement these with our normal price change from 1 October 2013 this year and will adjust the price reductions in order to align with the regulatory periods.

Outlook:

For the 2014 financial year we expect earnings and revenue to meet market consensus estimates. Tight cost control and continued growth in our technology businesses will underpin group revenue and earnings in the coming year.

We remain focused on growing our technology portfolio, especially in the metering business. We operate a highly-valued portfolio of assets that is coveted by international investors and we are very aware of the long-term value it can create for shareholders as well as Auckland and the national economy.

SEGMENT PERFORMANCE

Electricity **Year ended 30 June**	**2013** **$M**	**2012** **$M**	**Change** **(%)**
Revenue	632.9	609.0	3.9%
EBITDA	372.5	384.1	-3.0%

Electricity revenue rose 3.9% from $609.0 million to $632.9 million, while EBITDA fell 3.0% from $384.1 million to $372.5 million.

Revenue increased due to higher Transpower charges and regulated price increases in the first three quarters of the year. Stripping out the Transpower charges and the price increases, revenue fell.

Electricity customer numbers increased 0.7% from 535,228 to 539,232. Net movement in customers increased 52.8% from 2,621 to 4,004. The significant increase reflects the disconnection of inactive accounts in the prior financial year.

SAIDI, our measure of network reliability, rose over the fourth quarter from 15.9 minutes to 37.2 minutes over the same period last year, due to a higher number of storms and high wind events. The audited SAIDI value for the regulatory period to 31 March 2013 is unchanged at 95.8 minutes.

The revenue gains due to Transpower charges and price increases were offset by a 1.1% fall in power distributed from 8,424 GWh to 8,332 GWh across Vector's networks and the regulatory reset to our prices on 1 April 2013. The lower consumption was due mainly to warmer than average temperatures over the prior year, with heating degree days[3] falling from 1,262 to 1,150 in 2013.

Maintenance costs were steady, but inter-segment and external costs such as council rates increased.

[3] Heating degree days represent the cumulative difference over a year between the average temperature on any given day and a threshold value of 18 degrees, the assumed point at which consumers begin to turn on heaters.

Going forward we expect to see connection growth. But on a per user basis we expect to see flat to reducing volumes consistent with international trends.

Gas Transportation Year ended 30 June	**2013 $M**	**2012 $M**	**Change (%)**
Revenue	219.6	214.6	2.3%
EBITDA	170.4	160.5	6.2%

Revenue rose 2.3% from $214.6 million to $219.6 million, due to regulated price increases. EBITDA rose 6.2% from $160.5 million to $170.4 million.

Distribution customers rose 1.5% from 154,649 to 156,952.

Net movement in customers rose 7.6% from 2,141, to 2,303, due to the increase in subdivision activity as well as strong growth in the number of new small-to-medium sized business customers compared to the prior year.

However these gains were offset by a 1.8% fall in the volume of gas transported through the distribution network from 21.8 PJ to 21.4 PJ.

Volumes on our gas transmission network fell from 125.4 PJ to 118.2 PJ, primarily due to reduced demand from gas-fired power stations. But the fall had little impact on revenue as this is largely contracted capacity.

Costs fell due to lower fuel-gas costs reflecting the reduced volumes through the Vector network and lower maintenance expenditure. Legal fees mostly linked to the outage of the Maui pipeline also lifted expenses in the prior year, but are not repeated in the current year. However, the savings were partially offset by increases in rates.

Gas Wholesale Year ended 30 June	**2013 $M**	**2012 $M**	**Change (%)**
Revenue	372.2	380.9	-2.3%
EBITDA	60.4	65.8	-8.2%

Revenue fell 2.3% from $380.9 million to $372.2 million, while EBITDA fell 8.2% from $65.8 million to $60.4 million.

The results were underpinned by the continuation of supply of Kapuni gas at legacy prices following success in an arbitration to determine our entitlements. The matter is still subject to appeal but we are confident of our entitlements.

Gas Wholesale also benefited from higher LPG sales due to continued growth in our bottle swap business and an increase in LPG tolling volumes, which rose 15.8% from 130,820 tonnes to 151,544 tonnes due to the economic recovery in the South Island, with increased exports also assisting.

Nevertheless, these gains were diluted by lower production from the Kapuni field, lower natural gas sales volumes, which fell 4.3% from 27.7 PJ to 26.5 PJ, higher LPG purchase prices and higher maintenance and administration costs.

Gas liquid sales fell 6.7% from 76,876 tonnes to 71,757 tonnes reflecting lower raw gas production at Kapuni field production at an average 38.8 TJ/day compared to 45.0 TJ /day last year.

Technology **Year ended 30 June**	**2013** **$M**	**2012** **$M**	**Change** **(%)**
Revenue	109.1	97.0	12.5%
EBITDA	76.3	67.5	13.0%

Revenue rose 12.5% from $97.0 million to $109.1 million, while EBITDA rose 13.0% from $67.5 million to $76.3 million.

Revenue benefited from the 37.0% increase in the installed base of smart meters, which rose from 369,394 to 505,888 meters. Vector Communications continues to make an important contribution to the group.

Costs also increased, largely reflecting increased communication and platform charges due to the continued roll out of smart meters and success in contracting new customers.

We have extended our contract with Contact Energy to install a further 90,000 meters, and have a new contract to install 38,000 meters for Mighty River Power. Allowing for switching between retailers, this increases our total contracted installations to over 764,000, up from 670,000 at June 2012.

We expect to install 13,000 meters to 15,000 meters a month over the next twelve months.

Shared Services Year ended 30 June	2013 $M	2012 $M	Change (%)
Revenue	0.6	1.2	-50.0%
EBITDA	(49.1)	(50.6)	+3.0%

Shared services demonstrated continued progress on controlling costs.

Cash flow and capital expenditure

Vector continues to invest in its network to maintain our high levels of service and performance. This investment is the foundation of future earnings growth.

Operating cash flow rose 8.6% from $392.3 million to $426.2 million, although this figure was lifted by the timing of payments to certain creditors and we would expect this to reverse in the upcoming year.

Capital expenditure increased 14.1% from $261.8 million to $298.6 million. Of this $167.6 million has been directed at growth initiatives and a further $131.0 million to maintain the quality of our assets.

The increase was driven by investment in our smart meter programme and the timing of capital expenditure on projects including the nearly-completed $45 million development of our substation at Hobson Street in Auckland and the now-completed $10.2 million Wairau Road substation on the North Shore. The step up also reflected the increase in subdivision activity in the North and South of Auckland.

Capital Structure

Our balance sheet remains strong. Net debt fell from $2,373.8 million at 30 June 2012 to $2,364.3 million. Gearing, as measured by net debt to net debt plus equity, fell from 52.5% to 51.1%. Net finance costs are covered by EBIT 2.8 times compared with 2.7 times for the year ended 30 June 2012.

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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, income tax, depreciation, amortisation, share of net profit/(loss) from associates and impairments.

EBIT: Earnings before net finance costs, income tax, share of net profit/(loss) from associates and impairments.

GAAP to non-GAAP reconciliation **Year ended 30 June**	**2013** **$M**	**2012** **$M**
Net profit for the period (GAAP)	**206.2**	**201.7**
Add back: income tax expense[1]	83.6	81.6
Add back: impairment of investment in associates[1]	3.6	4.1
Deduct: share of net profit from associates[1]	(1.3)	0.3
Add back: net finance costs[1]	164.3	166.2
EBIT	**456.4**	**453.9**
Add back: depreciation and amortisation[1]	174.1	173.5
EBITDA	**630.5**	**627.4**

[1] Extracted from audited financial statements.