

Vector 2016 Annual General Meeting
2:00pm Thursday 29 September 2016
Ellerslie Function Centre

Good afternoon ladies and gentlemen.

My name is Michael Stiassny. I am Chairman of Vector. As we have a quorum and it's 2:00pm, I am very happy to declare open the 2016 Annual General Meeting of Vector Limited.

On behalf of my fellow Directors, a very warm welcome, and a special welcome to those shareholders who are following this meeting from our webcast.

In addition to those attending in person today, **1,121** shareholders, holding a total of more than **811,420,089** shares, have appointed proxies. They are represented by **16** proxy holders.

In my capacity as Chairman of the meeting and in my own name I hold proxies for **987** shareholders, representing **59,193,144** shares.

Included in the proxies are **751** million shares held by Entrust, our majority shareholder. Entrust is represented in the audience today by Chair William Cairns and deputy chair Michael Buczkowski.

Members of the news media are also here today and we welcome you. But, I would remind you this is a meeting for shareholders. Vector's Group Chief Executive Simon Mackenzie and I will be happy to talk to you after the meeting.

Before we move on to the agenda, I have a couple of housekeeping matters to discuss. If you have a cell phone, please turn it to silent. If we need to evacuate this room for any reason, there are exits behind me and there is also the entrance you came through.

Thank you.

It's also my pleasure to introduce my fellow directors: James Carmichael, Hugh Fletcher, Jonathan Mason, Dame Alison Paterson, Karen Sherry, Bob Thomson and Nick Astwick. Nick sits on the Vector board as a participant in the future directors programme, which aims to give talented people the opportunity to participate on a board for one year.

Lastly I would like to introduce you to Peter Bird, who - as detailed in your notice of meeting - retires from the Vector board today after nine years of service. On behalf of my fellow directors and our shareholders, I would like to formally thank Peter for his contribution

We have begun a search for a replacement and we will update the market as appropriate.

Also joining us on stage is our Group Chief Executive Simon Mackenzie and John Rodger our General Counsel and Company Secretary. We have members of our executive team here today, our external auditors KPMG and legal advisers Chapman Tripp.

We released our financial results at the end of August and they are well covered in our annual report, so we are not going to dwell on the detail.

Instead, I will provide a strategic overview before handing over to Simon to provide a review of the highlights for the year, the detail of our strategy and the progress we are making against it.

After that we will open the meeting for discussion on the annual report, including the financial statements and audit report as well as matters we have raised in our respective addresses to you.

We will then move to the formal business of the meeting.

Vector is leading change in the energy sector.

We are embracing technological advances such as smart meters, solar panels and batteries to give customers new choices and greater control over their energy use.

We are using these new technologies and changes in business practices to drive efficiencies in network investment, to create options for future growth and to ensure we are well ahead of the disruption new technologies are starting to cause to traditional business models in the sector.

We have expanded our smart metering fleet to 1.13 million meters, up nearly 18% on the prior year and we have begun rolling out smart meters in Australia, where we see strong potential for growth.

We have deployed the country's first-ever Tesla Powerpack network battery in Glen Innes and more than 100 Tesla Powerwall home energy systems across our network.

We have increased our fleet of Vector EV chargers to the point that many Aucklanders can now rely on an electric vehicle for the majority of their regular journeys.

We are using new data collection and analysis technologies to reduce costs and improve service quality and we are rolling out online tools to ensure we are responsive to customer demand.

Meanwhile, we continue to benefit from our position as a provider of essential energy infrastructure to Auckland. The city is growing and with this we are growing our networks. In the last financial year, we added 11,849 new connections to our Auckland energy networks, up 11% on the prior year.

At the heart of our success is our determination to continually evolve and develop our culture to ensure we are sustainable for the long term. For Vector this means prioritising safety, nurturing innovation and celebrating diversity.

We are creating a new energy future.

We would now like to show you a video that gives a glimpse of how we see the future and why we are driving and leading change.

Vector has a record of consistently looking across its portfolio and evaluating alternatives to drive improvements in returns.

The sale of Vector Gas which owns regulated gas transmission and gas distribution businesses outside Auckland, is the latest example of this drive and the most tangible evidence of it in the last financial year.

Vector Gas offered lower growth prospects than other businesses in our portfolio. We were also offered a very good price, reflecting the strong demand offshore for infrastructure assets. In the short term, Vector Gas was also exposed to a potential adverse regulatory reset in 2017.

The sale has further strengthened our balance sheet. We are applying the proceeds initially to debt reduction. Thereafter we will redeploy this capital across our portfolio to those areas that offer the strongest growth prospects or into new opportunities that can drive growth in the business.

As a result of the sale, gearing has fallen substantially to 43.7%. We retain a BBB investment-grade credit rating with a stable outlook.

Reflecting our financial strength, directors declared a fully-imputed final dividend of 8.0 cents per share, taking the total dividend to 15.75 cents per share, up 0.25 cents on the prior year.

It is the 10th straight year that we have increased our dividend pay-out; a stand out performance relative to our NZX peers. This year's dividend represents a pay-out of 75% of free cash flow, which is ahead of our policy to target a pay-out of 60%.

We are comfortable with the current level of pay-out and the board is reviewing whether a higher target is appropriate.

I would now like to hand you over to Simon to discuss how we are leading change in creating a new energy future and growing Vector.

Thank you Michael.

Vector is creating a new energy future by challenging and reinventing the way communities are powered and connected. At the heart of this effort is our focus on customers and always challenging ourselves to grow learn and embrace change.

In the last year we sold Vector Gas for \$952.5 million. We booked a gain on the sale of \$164.1 million.

Adjusted EBITDA for our continuing operations, Vector's key measure of financial performance, rose nearly 5% to \$473 million.

Growth in our regulated Networks and Technology businesses was diluted by the difficult business environment faced by our Gas Trading operation.

Group net profit after tax rose 84% to \$274.4 million as we benefited from the sale of Vector Gas as well as an improvement in earnings from continuing operations.

These gains however were offset by the well-signalled \$64 million write down in the Gas Trading Business. The write down reflects the realities faced by this business, including: weak international hydrocarbon prices, the steady decline in output from the Kapuni field and the diminishing prospects for further field development.

Our vision is supported by five strategic pillars:

- Safety people and culture
- Sustainable growth
- A focus on customers

- Partnerships
- Driving operational excellence

This year's annual report tracks the progress we have made this year against these strategic pillars. I will summarise these achievements in the next few slides.

Safety is always at the front of mind.

We understand we will only succeed if we create a culture that always fosters safety, nurtures innovation and new ideas and actively encourages diversity and inclusion.

We are proud of our achievements.

The new Health and Safety at Work Act came into force this year and requires Vector to take all practicable steps to protect the health and safety of our people.

We are well ahead of the curve.

We have, for example, ceased most live-line work as we decided that traditional live line maintenance practices didn't meet the standards we now set for safety.

Although this has impacted customers, it is the right thing to do to ensure staff are safe. We are proud to see that other businesses in the country are adopting our approach.

We navigated more than 900 potential legal requirements emerging out of more than 80 acts, regulations and standards before we started rolling out Tesla battery solutions.

Our 2016 total recordable injury frequency rate (or TRIFR) was slightly higher than last year. But this should be seen in the context of a 43% reduction in our TRIFR since 2013.

Providing a safe place to work is obviously critical, but culture is just as important. We are particularly proud this year of our Rainbow Tick certification, which is given to companies that can demonstrate that they understand, value and welcome sexual and gender diversity.

This, as well as our recognition in the 2015 Diversity Awards, gives us confidence that we are creating a culture that embraces and values different perspectives. This will give us an edge as we tackle the problems of today and the future.

Turning to our objective to deliver sustainable growth.

As evidenced by the sale of Vector Gas, we continue to transform our portfolio of operations to focus on those assets that will deliver the greatest growth.

We are applying the Vector Gas sale proceeds initially to debt reduction. Thereafter we will redeploy this capital into businesses that offer the strongest prospects including our metering operations and our Auckland networks as well as new opportunities.

Indeed, we are actively seeking new investment options both in New Zealand and offshore. We are building new businesses and exploring new opportunities to grow either with partners or through innovation.

We see limited opportunities for major acquisitions, given the strong international competition for infrastructure assets, particularly from offshore buyers that benefit from lower financing costs and acquisition structuring advantages.

Auckland provides a highly attractive platform for growth. The city is growing at a rapid pace, adding the population of Hamilton every five years. The level of new electricity and gas connections in the 2016 financial year reflects this growth.

As Michael mentioned, new connections to our Auckland energy networks were up 11% on the prior year. Total electricity connections were up 1% to more than 550,000, while total gas connections grew 2.7% to more than 104,000. Growth in network revenue and earnings, however, has been diluted by the continuing decline in electricity consumption per household.

Our New Zealand smart metering fleet increased by over 17% in the 2016 financial year, with a record 180,000 installations. We have now installed over 1.1 million smart meters. We expect to deploy a further 140,000 to 160,000 smart meters in New Zealand this year, at which point our New Zealand rollout will be largely complete.

We are now looking to Australia to deliver the next leg of growth in smart metering. In 2016 we received Australian Energy Market Operator accreditation and entered into an initial metering services agreement with a large Australian retailer.

We have already started to install meters in Australia. Our focus this year will be on expanding the field force capability in that country and ramping up our deployment velocity.

As I said earlier, customers are at the centre of our business. To remain relevant, we continually examine our business to ensure we are providing the solutions customers want and we commit to continually evolving with advances in technology, customer demands and broader business conditions.

We are proud of our record in the last financial year.

We have continued to expand the choices available to customers and embraced the disruption that is transforming the sector.

As at the middle of September we had 400 solar and battery systems installed, including more than 100 using Tesla Powerwall batteries.

We are facilitating EV uptake. With the support of our majority shareholder, Entrust, we have established a network of 21 electric vehicle charging stations. These units extend the range of an average EV to that of most daily commutes in the Auckland region, making EVs a realistic alternative for many Auckland motorists.

We are also delivering value for customers in other parts of our portfolio.

Our LPG business, OnGas, for instance, was named the Best Gas provider by its customers in the 2016 Roy Morgan Research Customer Satisfaction Awards.

We continue to develop a suite of self-serve online tools that build on the success of our outage app and our online gas connection estimator, which has streamlined the process for quoting new gas connections.

We are advocates for customers.

Vector will not thrive nor grow if we cling to historic practices that put the interests of the industry ahead of customers' demands for choice and greater control.

Our approach is entirely aligned with the perspective of our majority shareholder Entrust, which holds shares in Vector on behalf of approximately 322,000 Auckland electricity consumers.

We are, for example, strongly arguing against the Electricity Authority's proposals for Transpower's transmission grid charges. These proposals will see Aucklanders paying an extra \$78 million annually to meet their energy needs and major electricity generating companies sharing less of the burden.

This is not a matter of Auckland customers being pitted against those in the South Island. It is simply about ensuring those who benefit from using the electricity transmission system are paying their fair share.

As the EA's proposals currently stand, generators who use the grid to transport their product to market will only pay a fraction of the costs when compared to the costs borne by customers.

To achieve our vision we collaborate, partner and invest in relationships with like-minded companies and organisations that share our view of the future.

We have joined the board of Hawaii's Energy Excelsior, through which we are engaging with a range of innovative technology developers, who are providing access to new product and investment opportunities.

We are working closely with Tesla to bring its innovative battery products to New Zealand. We see opportunities to leverage our experience in integrating utility-scale batteries with traditional network technologies to deliver solutions to other networks around the country and large commercial customers.

Earlier this month we agreed with Australian block chain energy company Power Ledger to bring peer-to-peer energy exchange technology to New Zealand.

Closer to home we have a positive relationship with Auckland Council. We are collaborating with the council to better understand the challenges facing the region and how we may work together to resolve them.

Another key area where we are changing and adapting is the management and investment in our energy networks.

We are determined to embrace new technologies and practices on these networks to drive down costs and ensure we are in the best possible position to move ahead of changes in this complex and challenging environment.

We are trialling drones equipped with Light Detection and Ranging (or LIDAR) scanning technology to produce 3D models of our network. The photo on the right of this slide is a rendition of Dominion Road by a vehicle mounted unit. This scanning technology has the potential to help us better target preventative maintenance and drive efficiencies in network spending.

Our installation of New Zealand's first Tesla utility scale battery in Glen Innes will allow Vector to continue to provide a secure power supply and defer or avoid the significant investment required for a new substation, while we assess the effects of trends in the area such as declining household consumption, infill housing and the take up of electric vehicles.

In short, batteries provide a valuable option to help to reduce the risk of over investment in our regulated electricity network by ensuring it is flexible enough to adapt and move with the rapid and unpredictable technological and customer change we face.

With our Auckland energy networks requiring \$2.0 billion of capital investment over the next decade, the right regulatory and policy settings are vital. These settings need to evolve with technological change; promote the rapid innovation taking place in the sector and deliver customer choice and value, while still allowing companies to earn a fair return.

The Commerce Commission is reviewing the input methodologies that govern the regulation of our networks. The process is due to conclude at the end of this year. The outcome will have a significant influence over the future returns of the regulated businesses.

We continue to be encouraged by the dialogue we are having with the Commission, especially around the impact of new technology. We believe these discussions have been reflected in the Commission's preliminary views on the input methodologies, which include initiatives such as a revenue cap and the opportunity for networks to claim accelerated depreciation in recognition of the rapid and unpredictable technology changes occurring in the sector.

We are focussed on meeting the Commission's service quality standards. All three of our networks are available close to 100% of the time and we have consistently met the SAIFI standard, which measure the number of times customers are impacted by an outage. However, in each of the last three regulatory years SAIDI, the average duration of interruptions, has exceeded the regulators threshold.

SAIDI has been impacted, among other things, by increased traffic in Auckland, the cessation of most live-line work and the outage at the Penrose substation.

Moving to the outlook for the business; our electricity revenues are effectively set through to April 2020.

Whilst the Commission's draft IM review is suggesting a negative gas network reset from October 2017, the sale of Vector Gas has significantly reduced our exposure to the reset.

If the current low interest rate environment persists, there is a risk of an adverse regulatory reset for electricity in 2020. The risks of such an outcome will however be mitigated to some extent by lower debt servicing costs, with the last of our pre-GFC legacy debt positions maturing within 6 months of the 2020 reset.

Gas and interest rate impacts aside, the Commission's draft IM review is pointing to regulatory stability through to 2025, whilst also suggesting a reduced volume risk and allowance for accelerating returns on traditional investments.

Such regulatory stability combined with our strong balance sheet will support the significant re-investment required for the growth of our Auckland energy networks.

We are looking to the future confidently. We are driving energy industry transformation by providing choice for customers and working with leading innovators offshore and in New Zealand that are embracing the new opportunities emerging in the sector.

We do not expect to make large scale acquisitions given the strong international competition for infrastructure assets and the cost of capital advantages enjoyed by offshore buyers.

Our focus is on organic growth. Our Auckland energy networks offer strong growth prospects. We see significant opportunities emerging from new technologies, which offer attractive options for our regulated networks and new unregulated revenue streams.

We are also looking to Australia, where we have begun to roll out smart meters.

The company benefits from a diverse and talented team committed to our vision to give our customers greater choice and control over their energy use.

We are creating a new energy future and we are excited about the opportunities we see ahead of us.

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