

VECTOR LTD ANNUAL MEETING OF SHAREHOLDERS

SPEAKING NOTES

Chair, Dame Alison Paterson:

Good afternoon ladies and gentlemen.

My name is Dame Alison Paterson and I am Chair of Vector.

The video you just saw was just a small showcase of what Vector has been up to this year, including the installation of a renewable energy system in Niue, a spectacular Vector Lights show for World Energy Day - and the launch of a new-look corporate brand.

As we have a quorum and it's 2:00pm, I will now declare open the 2019 Annual Meeting of Vector Limited shareholders.

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

In addition to those attending in person today, 1,049 shareholders, holding a total of more than 807,489,252 shares, have appointed proxies.

In my capacity as Chair of the meeting and in my own name I hold proxies for 677 shareholders, representing 53,072,506 shares. Also included in the proxies are 751,000,000 shares held by Entrust, our majority shareholder. Entrust is represented in the audience today by Mr William Cairns and Dr Paul Hutchison.

We welcome any members of the media to our meeting today also. As this is a meeting for shareholders, Vector's Group Chief Executive Simon Mackenzie and I will be happy to talk to media after the meeting.

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

It's now my pleasure to introduce my fellow directors: Karen Sherry, Jonathan Mason, Bruce Turner, Dame Paula Rebstock, and Michael Buczkowski. Unfortunately, Director Tony Carter had a prior commitment before this meeting was scheduled and so has not been able to join us in person today. Bob Thompson is also unable to be here.

Bob Thomson and Karen Sherry retire from the Vector board at the end of the meeting. On behalf of my fellow directors and our shareholders, I would like to formally thank both Karen and Bob. You have made significant contributions to Vector and to Auckland over a number of years on the Board.

As noted in the notice for today's meeting, Entrust has nominated Entrust Trustee Alastair Bell to be a director in place of Karen Sherry.

Also joining us on stage today are our Group Chief Executive Simon Mackenzie and John Rodger our General Counsel and Company Secretary. We have members of our executive team in the audience today, as well as representatives from our external auditors KPMG and legal advisers Chapman Tripp.

So, to the structure for the day. We released our financial results on 23 August and all the details on this are extensively covered in our annual report, which I encourage you to read.

Rather than repeat that detail, I will instead provide a strategic overview of Vector's future as we see it before handing over to Simon to review some of the highlights for the year and the progress we are making against our strategy.

After that we will open the meeting for specific discussion on the annual report, including the financial statements and audit report, as well as matters raised in our respective addresses. We will then move to the formal business of the meeting.

Dame Alison Paterson's Address:

I think we can all agree it has been a year of tremendous change. And like the world around us, the pace of change at Vector is accelerating.

As a company, our work is at the heart of two key challenges facing us: investing to support Auckland's relentless growth, and providing energy solutions which can move us all towards an affordable low-carbon world.

Meanwhile, our customers continue to adopt new technologies in their homes, businesses and leisure activities - and increasingly - with the new electric vehicles that they drive.

Vector's customers continue to tell us that they value energy services that are safe and reliable. They also tell us they want greater choice and control of how, where and when they use energy.

Vector's focus is to continue leading the way in meeting these challenges for all our customers, and for New Zealand as a whole.

As we have signalled for many years, significant investment is required to ensure Vector is ready for the future. This readiness is not limited to our traditional energy networks - it includes advancing our digital capability and new energy solutions as well.

Many of you will be aware that April 2020 marks the start of the next five-year regulatory period - in which the Commerce Commission will reset limits for our electricity network revenues and network quality standards.

It is our primary responsibility to keep the lights on for Auckland and therefore it should go without saying that we remain committed to meeting our quality compliance targets.

But in addition to that, a key focus of our ongoing engagement with the Commerce Commission concerns today's record-low interest and inflation rates, and how these are on track to crystallise the economic challenges present in the existing regulatory model.

Here at Vector, we strongly believe that regulatory settings should not restrict our ability to deliver Auckland growth or invest in technology to future-proof our network for the people of Auckland.

Within the broader regulatory regime, we see avenues for Vector and the Commerce Commission to continue to work together to correct these anomalies, and better align cashflows with investment needs.

The Commission's final reset decision is due on 28 November 2019. As has been signalled previously, we will be revisiting our dividend policy and electricity business investment

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strategy, and providing guidance on FY20 earnings, once we have the Commission's decision.

For the past decade, our strategy has been to build a strategic asset portfolio to provide more options for sustainable returns. Alongside our regulated electricity and gas businesses, we have continued to grow our wider businesses, particularly Vector Advanced Metering Services (AMS) and Vector Communications, which, along with our Gas Trading business and Vector PowerSmart, define our company as an energy group with a growing domestic and international footprint.

Among the many highlights this year, we were pleased with the continued growth of our metering business, both here and in Australia. We also celebrated the successful installation of a renewable energy system for the people of Niue. This system was delivered in partnership with the New Zealand and Niuean governments, and is dramatically reducing Niue's dependence on imported diesel.

Our network of EV charging stations across Auckland remains very popular with EV owners. In the past year these chargers provided more than 96,000 free charging sessions, saving well over one thousand tonnes of CO₂ emissions from entering the environment. As EV's become more prevalent, these charging stations are providing us with valuable insights for efficient network planning in future. So too, are the EECA-backed research trials we have underway with customers in Piha, and EV owners in other parts of Auckland.

In keeping with our commitment to sustainability, this year we were pleased to report a 17% reduction in our corporate carbon intensity.

Moving to our people highlights, towards the end of last year, Vector became the first New Zealand corporate to receive the Accessibility Tick - making our workplace more welcoming to people with disabilities and continuing our leadership on diversity and inclusion initiatives. In another example of this, just last month Vector was presented with the Supreme Award at the Diversity Works Awards for our commitment to building an inclusive and supportive workplace culture.

These accolades reinforce that Vector is a top performer. They show the high standards we aspire to, because we know that success in the energy sector is not an accident. It comes from being very clear about what we want and going all-out, with the best people, to get there.

We take our responsibilities seriously. Our responsibility to rise to challenges present in our environment. Our responsibility to our people and our customers; to Auckland and its continued growth. We take seriously our responsibilities to you, our investors, and to the environment and the country as a whole.

By investing in our people, the advancement of our networks and new energy solutions, and by providing greater choice and control to our customers - we are enabling the accelerating change around us.

Thank you. I shall now hand over to our Group Chief Executive, Simon Mackenzie.

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Group Chief Executive's Address:

Thank you, Alison,

At Vector, our ambition is to create a new energy future - not just for Auckland, but for all New Zealand and beyond.

As Alison has explained, meeting the changing needs of tomorrow takes foresight, capability and an environment that enables innovation, investment and momentum.

Vector is leading the way in creating intelligent and affordable energy systems that have the structural integrity to empower our customers now, and well into the future.

We are working alongside customers, industry, global technology companies and our regulators to ensure we can tackle the challenges and opportunities of our rapidly changing world - and create a new energy future together.

I would like to take a few moments to walk you through Vector's financial performance in FY 2019.

Our earnings were steady, with adjusted EBITDA of \$485.8 million, which was ahead of FY18 and in the mid-point of our guidance range.

Revenues continued to benefit from strong electricity and gas connection growth, and the further expansion of Vector AMS in New Zealand and Australia.

These gains were partially offset by increased expenditure to improve electricity network reliability, as well as the underperformance of E-Co Products Group - which trades as the household brand, HRV.

Group net profit after tax was \$84.0 million, and included a non-cash impairment of \$46.6 million in respect of E-Co Products Group.

The prior year's net profit of \$149.8 million included a one-off tax gain of \$16.7 million. If we exclude the non-cash impairment and one-off tax gain, Group net profit after tax was \$130.6 million, which was down only slightly on the prior year.

As a result of E-Co Products Group's performance, in September last year we made the decision to bring in a new management team and CEO to lead the business forward. We have also integrated E-Co into Vector, as opposed to running it as a standalone, separate business.

The new management team has since undertaken a strategic review, and is now focused on a new energy solutions approach as part of the Vector PowerSmart brand.

With these changes in place, we are expecting a return to profitability in FY20.

Shifting our focus to Vector's operational performance, Auckland's growing population has once again contributed to strong electricity and gas connection growth. We had 14,322 new electricity and gas connections over the past year, up slightly on the prior year and around 40% higher than five years ago.

A reasonably mild start to winter contributed to slightly lower electricity volumes, down 0.4% on last year to 8,410 GWh.

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To keep pace with Auckland's growth and enhance network integrity, this past year Vector invested \$260.9 million in our networks, which is an average of \$5 million every week.

As I have already mentioned, metering growth continued in both New Zealand and Australia this past year. We deployed 57,000 additional meters in New Zealand and 96,000 in Australia, bringing our total smart meter fleet to 1.56 million. The acquisition of Vircom in September last year complements our New Zealand metering business - augmenting our nationwide service capability.

Natural Gas faced a challenging year with multiple planned and unplanned outages of major gas fields. These outages led to significant supply disruption for some customers as well as considerable market volatility. On the supply side, South Auckland Bottle Swap plant continued to drive efficiencies and production at our Kapuni gas field was up 8.5%. In 2018 our Bottle Swap plant won the Deloitte's Energy Excellence Health & Safety award – and we're very proud of that achievement.

In terms of the rest of our Technology business segment, our commercial energy solutions business, PowerSmart, completed a substantial renewable energy project Niue this year, as we saw in the video that played at the start of the meeting.

You may have seen in the news that, just last month, Vector Powersmart announced a major renewable energy project with Watercare to build New Zealand's largest solar array in the heart of Auckland's North Shore. On the screen, you will see an artist's impression of what this will look like once complete.

Our continued investment in large-scale commercial solar and battery systems is proving well-timed, given the economic trends we are observing internationally. For example, some solar farms in Australia are currently producing energy at half the cost of wind-powered generation.

Such trends tell us that decarbonising the environment is no longer the only compelling reason to embrace solar and other renewable energy solutions. It's becoming a matter of pure economics. In fact, some analysts can now estimate that, for two-thirds of the world, renewables like solar cost less than a large proportion of carbon-intensive energy sources. Our Vector Fibre business has also delivered a steady performance over the year, and we see opportunities to grow as customer dependency on high-speed telecommunications services continues to increase across the board.

Many of you may be aware that telecommunications wholesale provider, Chorus, is also having its new regulatory settings determined over the next year or so. As part of this new regulation, the Commerce Commission will set wholesale access terms for Chorus's nationwide fibre network.

Vector Fibre is focused on ensuring these terms of access are fair to encourage competition and innovation at the wholesale level - and so there are opportunities for Vector Fibre to extend its services to a broader section of the market.

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Shifting our focus to our electricity business, in recent years, Vector has been open about the various challenges that are driving more disruptive power outages.

We remain committed to meeting our regulatory compliance requirements - and this past year we have further strengthened our focus on improving electricity network reliability.

Our challenge is primarily the time it takes to restore power following an outage. This is challenging on many fronts given growing environmental changes and the challenges associated with Auckland's traffic congestion.

You may have seen the report from the AA that estimates the average motorway commuter now loses 85 hours every year to traffic congestion. Our crews increasingly find themselves sitting in heavy traffic – which prevents them from arriving at fault sites in a timely matter. So, to reduce the travel time required to assess and repair faults, Vector has significantly strengthened both the number of fault crews and the amount of network equipment stored at strategic locations around the city.

Another example of our strengthened focus is the increased investment in standby mobile generation, which has already improved our ability to restore power quickly to customers while our crews work to repair the root cause of the fault.

For many years Vector has been growing its data and analytics capability - which is a core component of our new energy future strategy. By having the right information, at the right time and understanding it - we are turning data into powerful insights that let us make better decisions on behalf of our customers, and our shareholders.

A recent example of this is our recently adopted technology to help predict where power outages will likely occur during severe weather events. We will soon have the insights we need to proactively place crews in the right place ahead of time, reducing the outage impact for customers.

The technology is also helping us proactively identify vegetation trouble spots that might interfere with powerlines so we can better target cut and trim activity. These applications are the tip of the iceberg in terms of what's possible with data-driven insights and decision making.

Another example of Vector's commitment to improving reliability of the electricity network relates to the rapid convergence of energy and transport. In the past year, we've seen increasing Government policy focus on the accelerated electrification of the transport sector, to help New Zealand achieve its zero carbon goals.

Vector has embraced digital technology to help prepare Auckland for the impact that the rise of electric vehicles (EVs) will have on our energy systems. This is critical because some residential EV chargers can add the equivalent of 8.8 new houses to the electricity grid.

Over the past year Vector's 29 EV charging stations installed around the city provided more than 96,000 free charging sessions, giving us more valuable insights about customer charging behaviour for future network planning.

Earlier Alison mentioned the EECA-backed vehicle-to-home trial we have underway with customers in Piha. More recently we commenced a trial to understand specific drivers of EV charging behaviour - engaging more than 100 EV owners across Auckland's community to

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help us deepen these insights.

Equally important in the context of these examples, is that we have invested in digital platforms to connect, manage and optimise the integration of new energy solutions into our network environment. Ultimately this combination serves to enable better solutions for customers, as well as efficient investment.

As we continue to expand our digital capability, it becomes increasingly critical that we expand our cybersecurity expertise along with it. Vector is primarily focused on the protection of critical network assets, and to safeguard any customer data that is used for network management purposes.

Our Unified Security Operations Centre (SOC) - which has been developed over a number of years in response to the global increase in cybersecurity risk – continues to form the backbone of our risk management approach.

We also see considerable untapped value in taking a shared approach to strengthening the security of New Zealand's entire electricity infrastructure.

Over the coming year we will continue to engage proactively with the wider industry to promote this holistic approach to managing cyber security risks.

Many of you will be aware that the government will soon release its long-anticipated electricity price review report.

The EPR process has highlighted the critical role that continued investment in technology and innovation will play in delivering better outcomes for energy consumers. This is especially important for ensuring energy affordability and facilitating the electrification of the transport sector.

Throughout the EPR process we have argued that consumers must always sit at the centre of decision making - and that this decision-making must be backed by data. We are among a chorus of voices calling for greater access to customers' smart meter data, while ensuring - of course - that appropriate safeguards are met.

Vector also supports the phasing out of low fixed charge tariff regulations and removal of prompt-payment discounts, as these are widely-acknowledged as not being of benefit to those most in need of affordability interventions.

I think it is important to point out that even while the panel was working through the review process, the wholesale price of electricity went up by 25% - a rise which will eventually find its way through to consumers. From our point of view, this demonstrates that fundamental problems within the wholesale electricity market remain, and that they ought to be addressed.

Given the criticality of energy affordability, the need to decarbonise our economy and other challenges involving the transport and heat processing sectors, Vector has been calling for a Ministry for Energy to be established.

A dedicated ministry could provide the coordination needed to solve complex issues such as these, and provide the certainty the industry needs to continue to make smart investment decisions.

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Moving to the topic of regulation. As Alison outlined in her address, the electricity regulatory reset on 1 April 2020 is a crucial event for Vector because it sets our electricity network revenues for the five years to 31 March 2025. We call this period DPP3.

Right now we are awaiting the Commerce Commission's final decision on our network expenditure allowance and quality targets for DPP3. This is expected in November this year.

Equally important in this process is the regulated WACC that will apply for the next five-year regulatory period. This is set based off the five-year government bond rate, between 1 June and 31 August this year. A key focus of Vector's engagement with the Commission throughout this reset process is how forecasting inaccuracies, low interest rates and asset indexation are crystallising challenges within the existing regulatory model.

To put these challenges into perspective, since 2013, significant regulatory forecasting inaccuracies alone have resulted in around \$270 million of lost revenue, which has a direct impact on profit.

We think the case to align regulatory settings with the investment needs of today has never been stronger. We continue to engage with the Commission on this issue, specifically, we are asking for two changes to the current regime that will allow for greater cashflow.

The first is a switch to non-indexing of assets, which has the positive impact of delivering cashflow to support investment for growth. Furthermore, non-indexing is NPV neutral, meaning customers would pay the same amount over the life of the assets, and is both a choice and option for other regulated entities.

The second change relates to today's current ultra-low interest rate environment, and the urgent need for the Commerce Commission to amend the way it derives the cost of debt in its Weighted Average Cost of Capital (WACC) calculations.

International regulatory practice typically calculates debt costs based on a 10-year (Australia) or 20-year (UK) trailing average, to better reflect efficient debt book management. Vector is advocating for New Zealand regulation to align with international practice.

Within the broader regulatory regime, there are avenues for Vector and the Commerce Commission to work together to correct these anomalies, and better align cashflows with investment needs.

We remain committed to working openly and collaboratively with the Commerce Commission – both within the reset process and beyond – to explore all options to address these two challenges.

Looking ahead, while acknowledging the key challenges ahead of us, we remain committed to Vector's vision to create a new energy future for New Zealanders. We remain confident in our plan to rise to the challenges of Auckland's growth and increasing electrification of transport. We will continue to target investment as efficiently as we can by supporting

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traditional network assets with digital and new energy solutions for the benefit of energy consumers.

However, as we have said already, changes to regulatory settings which enable this investment will be critical.

We are pleased by our ongoing success in the Australian metering market and look forward to continued growth in the coming year. Our revised approach for Vector Communications and the newly consolidated Vector PowerSmart business are already gaining traction, and we look forward to reporting on progress and improved profitability.

Our Gas Trading business will continue to adapt and seek new opportunities in the challenging market conditions.

Following the final Default Price Path 3 (DDP3) decision later this year, Vector will be revisiting our dividend policy and electricity business investment strategy, which may be affected by the reset of our future electricity revenues.

Looking even further ahead, to the next decade and beyond, Vector will need to continue its transformation and continue to show leadership on technology, sustainability and the provision of customer choice. It is certain that the industry will continue to be disrupted and the impacts of climate change will continue to be felt. Vector will need to not only stay ahead of the curve, but to continue to balance the needs of customers today with those of the next generation.

ENDS

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About Vector

Vector is New Zealand's leading network infrastructure company which runs a portfolio of businesses delivering energy and communication services to more than one million homes and commercial customers across the country. Vector is leading the country in creating a new energy future for customers and continues to grow and invest in the growth of Auckland, and in a wide range of activities and locations. Vector is listed on the New Zealand Stock Exchange with ticker symbol VCT. Our majority shareholder, with voting rights of 75.1%, is Entrust. For further information, visit www.vector.co.nz