Vector 2012 Annual General Meeting
Thursday 18 October 2012
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 2012 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, **1,487** shareholders, holding a total of **801,818,367** shares, have appointed proxies, they are represented by 15 proxy holders.

In my capacity as Chairman of the meeting and in my own name I hold proxies for **1,364** shareholders, representing **49,540,156** shares. Included in the proxies are **751** million shares held by the Auckland Energy Consumer Trust, our majority shareholder. The Trust is represented in the audience today by William Cairns.

I welcome you all here, but I would remind the audience that today's meeting is about the affairs of the company. I would ask that you refrain from any commentary or questions pertaining to the trust elections, which close next week. Vector's AGM is not a campaign platform and any questions and discussion needs to be solely related to Vector's business.

Members of the news media are also here today and we welcome you. But, I would remind you, this is a shareholder meeting and recording is not permitted. 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 do have a cell phone, please switch it off. If we need to evacuate this room for any reason, there are exits behind me and also the entrance you came through. Thank you.

It's also my pleasure to introduce Vector's directors: Alison Paterson, AECT appointed director Karen Sherry; Hugh Fletcher; AECT appointed director James Carmichael, Peter Bird and Bob Thomson.

Also joining us on stage is our Group Chief Executive Simon Mackenzie and Diane Green our Company Secretary. We have members of our executive team here today and our external auditors KPMG and legal advisers in the room as well.

This meeting will follow a similar format to prior years. Before we get to general business and the formalities of voting, you will hear from Simon Mackenzie on the successes and challenges of the past year. We will then open the meeting for discussion on the annual report, including the financial statements and audit report. We will address each item of formal business and then it will be time to vote on the resolutions.

After that it is time for general business where you will be able to discuss other matters relevant to the company. Now, to the year in review.

Despite the tough economy Vector turned in a robust performance.

Group revenue for the 12 months to 30 June 2012 grew by 0.6% to $1.25 billion. Reported net profit after tax attributable to shareholders fell 1.3%.

However this was a great result as 2011 included the one-off, after tax gain of $30.1 million on the sale to Transpower of rights to use our Penrose to Hobson Street tunnel.

Adjusting last year's result for this contribution, net profit after tax rose 16.1% to $198.8 million.

Simon will talk later on how we achieved such a result. However from the board's perspective the results demonstrate a company prospering, even in the face of the significant headwinds, by drawing on its deep resources of expertise and innovation.

Vector's portfolio of businesses is performing well. Our unregulated gas wholesale, metering and telecommunications operations have grown strongly. All have developed strong and often market-leading positions, in their respective domains. They also offer attractive growth prospects.

Our technology division, for instance, has blazed an internationally-recognised trail with smart meters and is looking to apply what it has learned to extend the business to other utilities. Our gas wholesale business has staked out a position as New Zealand's leading gas intermediary.

Our regulated energy infrastructure businesses also continue to grow as new customers connect to our network and we deliver a high quality service to our existing customers.

We have achieved this robust result while still maintaining a conservative financial structure. At the end of June 2012, our gearing, or the ratio of our net debt to net debt plus equity, was 52.5%.

This point was reinforced by Standard & Poor's, which reaffirmed our BBB+/stable investment-grade credit rating in August 2012. Meanwhile, we benefited from strong re-investment demand in our capital bonds, reset this year for a further five year period.

Shareholders have benefited from this, receiving fully-imputed dividends of 14.5 cents per share for the year. This included the 7 cents per share interim dividend in March and a final dividend of 7.5 cents in September.

The broader community has also shared in these gains. Thanks to our major shareholder, the Auckland Energy Consumer Trust, over $100 million has been distributed directly into the pockets of the trust's more than 310,000 beneficiaries over the last year.

Meanwhile, capital investment, directed specifically at growth and maintaining our business was $261.8 million. Of this nearly $170 million was spent on the regulated energy infrastructure, including $134.2 million on the electricity networks, the majority of which is spent locally.

This investment is critical to the future of Auckland and New Zealand. It powers the businesses that drive the economy and the essential services that underpin the health and wellbeing of the region.

Our investment, into projects such as the major upgrades and development of substations at Hobson Street in Auckland City and in Wairau Road on the North Shore also provide the capacity for continued growth into the future.

I would now like to show you a video of the progress we have made at Hobson Street

I hope you found that interesting. I think it clearly demonstrates the point I made in this year's annual report that Vector is an enabler of national prosperity.

To you, our shareholders, this probably does not come as a surprise.

However, I say it because the role we play is clearly not well understood in the broader community. If it was, I doubt Vector would be facing the regulatory challenges that now confront us.

Bear with me because I know regulation does not set hearts racing. The Commerce Commission and Vector generally agree on the broad intent of regulation.
We agree a regulatory regime should strike the right balance between ensuring prices are sufficient to enable suppliers to invest and maintain their networks, while ensuring that consumers don't pay more than they should.

However, the Commission and Vector then part company. And the differences are so large that we are forced to the courts to protect shareholder value.

The issues we face are not clear cut, but we feel compelled to put our best foot forward. And we are not alone in appealing to the courts. Vector and seven other organisations ranging from airports through to energy infrastructure companies share the same view - the regime is fundamentally flawed.

However, we often leave the public behind. They largely focus on what they pay their retailer – a figure that includes the cost of energy as well as the cost of delivering energy to their homes and businesses. On this score they have reason to feel at least a little grumpy.

As this graph shows, the total cost of electricity in New Zealand has increased at an average rate of 5.5% per annum since 2001, compared with average inflation over the same period of 2.8% per annum.

However, it will come as a surprise to most that the country as a whole is paying slightly less in real terms than eleven years ago for the network, including transmission and distribution electricity prices.

The average increase in network charges was only 2.4% per annum - less than inflation.

In Auckland, on Vector's network, the pattern is repeated, with our weighted average lines charges rising less than the inflation rate.

Wages have gone up, fuel costs have gone up, but in real terms, New Zealand lines charges are cheaper than they were ten years ago.

Even those who care to dig a little bit deeper are dissuaded from engaging in the debate because regulation is so arcane.

We use terms like default and customised price quality path, starting-price adjustments and input methodologies - words and terms that are largely only understood by those who follow regulation closely.

So what are we left with?

We have a population that often mistakenly blames Vector for price increases. The tendency is such that this year we were forced to respond by taking out this advertisement in the New Zealand Herald to explain our pricing.

We also have a population feeling unable to engage meaningfully in the debate. Such an environment adds up to a predisposition to either ignore the debate or worse dismiss our claims for a fairer and more robust regulatory regime as pure self-interest.

However, such an attitude is to dismiss an argument every bit as valid and important as the debate over this country's systems of health, education, environment and law and order.

Vector has an excellent record of delivering on its regulatory obligations.

We have worked hard to remain responsive to customers and we have delivered a reliable and safe service at prices below the rate of inflation.

We have grown through merger and acquisition to gain scale and the principles of the regulatory regime are ingrained in our business culture and consumers have benefitted.

Yet still, we must work with a regulatory regime that:

- Fails to recognise our great achievements.
- Is narrowly focussed on what constitutes a fair return on our asset base at the expense of other important considerations such as incentives for productivity and energy efficiency.
- Applies a flawed methodology to determine a 'fair' return to our providers of capital, you our shareholders.
- Is imposing unreasonable demands on Vector and other lines companies to comply with this regime.

- Fails to recognise the disciplines imposed by Vector’s unique mixed-ownership structure; namely a majority shareholder elected by our customers and therefore highly sensitive to their concerns.

The result is a regulatory regime that has the potential, over the long-term, to degrade the infrastructure that, as I mentioned earlier, is a key enabler of national prosperity and is critical to the health and well-being of the Auckland region.

Simon will talk later about the consequences of this narrow focus. However, before I leave this topic I want to draw your attention to one of the fundamental weaknesses of the regime - the question of what is a fair return for shareholders. This in the board’s view provides a clear example of how the regulator’s position sometimes simply does not meet the test of good old-fashioned common sense.

A key determinant of the price we are allowed to charge customers for connecting them to our network and maintain that connection is our Weighted Average Cost of Capital, let’s just call it our cost of capital.

This cost of capital is essentially the cost of borrowing the funds from our lenders and our shareholders such as you. The most important factors in this calculation are interest rates and an assessment of risk in the New Zealand equity market.

The Commerce Commission determined in 2009 that Vector’s cost of capital on its electricity network should be 8.77% for the five years from March 2012. On the surface this sounds like a reasonable return to investors in Vector.

However, the flaw in this argument is evident when one looks to Australia where regulators there have set the cost of capital for energy infrastructure companies at much higher levels.

Between March 2010 and 2011, the Australian Energy Regulator set the cost of capital for comparable regulated electricity and gas distribution and transmission companies between 9.40% and 9.95%.

The contrast to New Zealand is particularly stark if you consider that interest rate changes since the 2009 decision mean the Commerce Commission would have set Vector’s cost of capital at 8.05% to 9.20% over the same period. This is approximately 1 to 1.5 percentage points **lower** than the Australian figures.

Vector’s cost of capital should be **higher** than comparable Australian companies, which face lower risks.

But the Commission dismisses our arguments.

In August, the Commerce Commission released its draft default price path for all electricity companies.

The decision proposed we reduce our electricity distribution prices by an average of 8% in 2013. Additionally, it suggested a further price adjustment to back date the change to 2012.

This decision was based on flawed methodologies, including its flawed determination of Vector's cost of capital.

Price cuts as the Commission is suggesting, if sustained over the long-term, threaten continued investment in our network and therefore the infrastructure to support growth in Auckland and the broader economy.

Vector must seek redress and we and seven other organisations including airports and energy network companies are challenging the Commission in court.

Hopefully, sense will prevail in the court and the decision will be revised.

Vector's position within the economy and the community imposes upon us a number of social and community responsibilities and we take these very seriously.

Simon will talk more on safety later, but I want to draw your attention to the actions Vector is taking to help lower socio-economic communities to enjoy some of the opportunities available to the better off.

Over the last three years we have organised for 417 children and parents to attend shows at the Vector Arena including the spectacular and wildly-popular How to Train Your Dragon show. We are sponsoring a further 120 children to take part in the Fast-Five netball competition, which gives these young and impressionable minds exposure to some of this country's greatest athletes including Silver Ferns.

We have also been active in defending your interests during the recent spate of low-ball share offers. Over the last two months, we have received two requests to provide our share register to third parties. The people seeking the registers have used it to make offers for Vector shares at prices well below their current market value.

The latest of these offers followed similar approaches to last year and came from an Australian based company, Stock and Share Trading. The offer was pitched at $1.00 per share, more than $1.80 below the market price.

These unprincipled individuals seek to take advantage of the vulnerable – those shareholders who might be baffled by legal documentation or those who do not regularly follow the share market and are unaware of their shares' true value.

We eagerly await the proposed amendments as announced by the Minister of Commerce, which will impose greater disclosure obligations on the person making the offer and stronger rights and remedies for shareholders.

Nevertheless, the best defence against predatory offers is a well-informed and engaged shareholding community and I am delighted to report Vector is achieving in this regard as well.

In 2011, we redesigned our annual report and were recognised by the Australasian Reporting Awards for the extent to which the report provided a balanced and clear picture of our economic, environmental, and social performance.

This approach has continued with the 2012 report, which you now have.
The best thing we can do to protect your interests is to ensure Vector has a strategy in place that is responsive to our customers. Shareholders should have no doubt this is a key focus of the business.

It is illustrated by the extent to which we are using technology. Our energy network businesses, for example, use the internet and social media to ensure customers are given timely information including information on critical network outages and how much it will cost to connect their home or business to our gas networks.

Our telecommunications business is using technology to help wholesale customers estimate how much it will cost to connect operations in disparate locations.

We also use the technology to help our customers understand our business. The best example of this is our pricing calculator, which makes the split between lines charges and electricity charges very clear.

Some of you may have had the chance to check out our pricing calculator in the display at the back of the room. If not, I urge you to do so after the meeting has closed.

However, across the group, Vector's results ultimately depend on a talented, dedicated and responsive staff and a company culture that rewards and promotes excellence. Our attributes in this respect are reflected in the composition of our workforce, which includes more than 24 different nationalities and 12 ethnic groups.

Women represent just under a third of the workforce and a fifth of senior management positions. For an industry that has historically attracted a male workforce, we think this is a good result.

This team is among the most highly efficient and responsive service providers in the country and it continues to deliver an outstanding result for shareholders

Finally I would like to end on a positive note:

Vector is in good health. Our operations are performing well, despite the regulatory challenges.

We expect continued revenue growth from our technology business and growth (due to connection growth) in the volume of electricity and gas transported across our regulated energy networks.

However, Vector faces a number of challenges that make it difficult to predict with certainty the outcome for the 2013 financial year.

These include the Commerce Commission's decision on starting prices on our regulated electricity network for the current regulatory period, the outcome of the Merits Review court action and negotiations about the price we pay for further gas from the Kapuni field.

Our objective, recognising these uncertainties, is to maintain EBITDA broadly in line with this year. Our long-term objective remains to deliver reliable and sustainable dividends to our shareholders, and drive growth across our portfolio of businesses while meeting our weighty public-interest responsibilities. As always we are dependant on the weather and consumer demand.

The results for the 2012 year are evidence that we are good for the challenge.

As is usual we are this year running a shareholder competition, offering chances to win tickets to Vector Arena shows. You may have been given an entry form as you came in the door – if not get one during afternoon tea.

Answer the two questions that relate to our displays and put your entry into the boxes provided. We will make the prize draw later this afternoon. It's now my pleasure to hand over to Vector's Group Chief Executive, Simon Mackenzie, who will discuss the key developments of the past year.

Thank you Michael and thank you ladies and gentlemen for your attendance today.

It is pleasing to stand before you to report Vector has delivered a robust result despite challenging market conditions and rising and unwarranted regulatory costs.

Group revenue was up even before adjusting for last year's sale to Transpower of rights to use our Penrose to Hobson Street tunnel.

Headline earnings before interest, tax, depreciation and amortisation and results from associates or EBITDA fell by 1.4% in the year and net profit after tax attributable to shareholders (NPAT) fell by 1.3%.

However, stripping out the Transpower gain, both earnings and profit showed very pleasing improvements. In these terms EBITDA grew by 5.6% and net profit after tax rose 16.1%. Operating cash flow was strong, up 4.7% to $392.3 million.

Vector is often cast **only** as a provider of energy infrastructure. Although the provision of regulated gas and electricity networks is a large part of our business, we do much more than this.

Shareholders benefit from a portfolio of businesses. And this year the stand-out performances came from the un-regulated operations which represent just 12% of total assets, but in the year to 30 June 2012 collectively generated 37% of revenue and 20% of EBITDA.

Our technology business grew revenue and EBITDA by 11.5% and 16.8% respectively. It is recognised internationally for being at the forefront of developing a business using smart meters.

We are just over halfway through our contracted roll-out of approximately 700,000 smart meters, each one of which delivers Vector revenue from the provision of metering and related information services to electricity retailers.

These meters also lay an important foundation for competition, customer services and smart networks.

The technology division also enjoyed a good contribution from our telecommunications business, Vector Communications. It is growing despite being excluded from the Government's ultrafast broadband initiative. It is succeeding as a provider of telecommunications logistics, helping blue-chip customers manage their data in the same way as Fedex or DHL manage parcels.

Our gas wholesale business grew EBITDA by 10.4% to $65.8 million. This is an outstanding result when compared to its 2.3% growth in revenue.

The business has clearly demonstrated the value it can add as a gas intermediary. Gas users are turning to Vector, recognising our willingness to configure gas supply to meet their specific needs. These customers also recognise our ability to offer greater price certainty and supply security thanks to our multiple contracts with diverse gas suppliers.

However, future earnings of the gas wholesale business are linked to production at the Kapuni field and the price we pay for that gas.

Access to gas at legacy pricing has drawn to a close. This, as previously advised, is expected to lead to a decline in gas wholesale EBITDA, with the timing of that decline dependent on the outcome of negotiations with signatories to the Kapuni Gas Contract.

We have contractual rights to half the reserves above 1,010 peta-joules and are negotiating a price for this gas. We are also pursuing a further 7.3 peta-joules of gas at the legacy price that we believe we are entitled to.

The success of these operations, particularly the extent to which they contribute to Vector's profit, is a testament to our ability to manage and pursue lucrative opportunities adjacent to Vector's core operations – our regulated energy networks.

Our regulated operations are meanwhile performing well. Revenue on our electricity network rose 6.1% to $609.1 million due to regulated inflation adjustments, increases in consumption and pass-through of higher Transpower transmission charges.

Electricity customer numbers grew 0.5% to 535,228, a good outcome given the difficult economic environment. EBITDA rose 5.3% to $384.1 million as the revenue gains were partially offset by an increase in transmission costs.

Our gas transportation business grew revenue 4.6% to $214.6 million due to a 4.4% increase in transmission volumes, while EBITDA rose 2.0% to $160.5 million. Meanwhile, consumption on the distribution network increased 4.8%.

The transmission team had a tough year. As we discussed at the annual meeting last year they performed an exemplary job, responding to the failure on the Maui Development Limited-owned Maui Pipeline.

Although we do not own the pipeline, as critical contingency and pipeline operator, our teams' involvement was critical. Within five days we restored the service and during the outage helped customers manage their demand. This was a great result and a testament to the dedication and expertise of the Vector team.

The team also connected TAG Oil's Sidewinder gas field to our gas transmission network. It is a connection that will play a role in ensuring the security of the nation's gas supply and it was connected on time and on budget.

These last two examples are typical of Vector's sharp focus on delivering for our customers and making it easier for them to get the energy they need to operate their businesses and be comfortable in their homes.

The chairman discussed how we are working to be responsive to customer needs. But I also want to mention how we are fighting for our customers.

One of the elements of network charges that are beyond our control is transmission charges. These are the charges levied to pay for the use of Transpower's network, which enables electricity to be delivered from generators, some of which are as far away as the bottom of the South Island.

Consumers have covered the majority of these costs, the notable exception has been the cost of sending electricity between the South Island to the North Island over the Cook Strait HVDC link. These costs are largely covered by the South Island generators.

The Electricity Authority released a draft proposal this month, which proposed a radical overhaul of the transmission pricing methodology. The proposals would see generators and retailers, as beneficiaries of the transmission grid, carrying a greater share of transmission costs including the costs of new transmission investment.

But we have a number of concerns. We believe a key responsibility of the Electricity Authority is to promote measures that will benefit consumers. But in this case it is unclear whether it has delivered on this objective as it has not worked out how the proposed changes will be reflected in prices.

The Authority simply does not know if consumers will be better or worse off financially under its proposals.
We are concerned these changes could to lead to higher prices. At present it is not clear by how much. The amount will depend on the extent of competition in the wholesale electricity market.

If competition is not strong enough, generators may simply pass these costs on to consumers in the form of higher prices instead of paying their share. There may also be scope for electricity generators to "game" the new regime in order to avoid some of their share of transmission costs.

Rather than dispatching cheaper sources, for example, they could use more expensive generation on older parts of the network where they will not be charged on a user-pays basis.

Vector has historically passed transmission costs through to consumers. We are always concerned about the effect of these charges on the total amount our customers pay for electricity.

We will be considering the draft proposals carefully and will be doing all we can to ensure the regime is supportive of the economic and social well-being of the Auckland region.

The chairman earlier mentioned the extent to which our role as a provider of the lines connecting our customers with electricity generators is misunderstood.

There are retailers who wilfully seek to turn this to their advantage. In recent times a retailer has claimed its power price rises were attributable to higher line charges.

This was clearly inaccurate and misleading as increases in generation costs, Transpower charges and the retailer's margins played a very significant role.

This claim was misleading and damaging to Vector consumers and the national interest.

Consumers who make a decision to switch electricity providers on the basis of this claim may end up paying more for their power which concerns us.

Vector puts safety first – making sure we keep the public, our people, customers and suppliers safe around our networks. We also take this message to the community and this year, we were recognised by the Electricity Engineers' Association for the contribution we make to public safety.

The E.E.A. awarded Vector's "Stay Safe around Electricity" schools programme, with its prestigious Public Safety Award.

Our programme, in conjunction with our "Be Sustainable with Energy" programme has been running in Years three to six in schools covered by our electricity network.

Since 2005, our educators have visited 423 schools in Auckland, delivering the safety message to more than 87,000 children. This year a programme was also rolled out to Taranaki where our gas transmission operations are based.

Communicating safety messages through schools allows Vector to engage with children in a way that leaves a lasting impression and imparts knowledge that is likely to be taken into adulthood.

Meanwhile, in March this year, Vector was one of the first companies in New Zealand to be able to make a statutory declaration to the Ministry of Economic Development, confirming we had an audited Safety Management system that was accredited against the new "Safety Management System for Public Safety" standard. We are very proud of this achievement.

I mentioned at the start of my remarks, the rising regulatory burden we face. In 2011, we estimated the annual cost of complying with the regulatory regime was $17 million.

This is illustrated by considering the growth in our disclosure obligations. In 2004 the Information Disclosure Requirements were 116 pages long but since then the Commission has extended them to 518 pages and has demanded what Vector regards as a raft of irrelevant data.

The intent of the 2008 legislation governing our regulated energy networks was the introduction of a regulatory regime that as close as possible mimicked a competitive market. It also presupposed a regulator that understood the commercial realities we face.

Time and again, however, the regulator demonstrates its shortcomings in this regard and particularly of our obligations as a listed company and as a provider of critical infrastructure to Auckland and the national economy.

This year, for example, just days before Vector's year end on 30 June 2012, the Commission required us to comply with significant requests for information. Not only that, it also released its highly contentious draft electricity pricing decision.

Both documents demanded the attention of the board, myself, the acting Chief Financial Officer, senior management, and a significant portion of the finance, communications and regulatory teams as well as our external auditors.

But all were already heavily committed to the preparation and release of full-year results, a task that ranks among the more taxing events in the life of a listed company. Vector's team, our board and our auditors were placed under unacceptable pressure.

However, the costs imposed on Vector by the Commission's shortcomings in these domains are relatively trivial compared to the long-term consequences of the more fundamental flaws in the way it is operating the regime.

Let us be crystal clear on this point - Vector is not arguing for the ability to increase prices at will.

As you can see from the graphs the Chairman showed earlier, we have maintained our prices below inflation for the last ten years. Our objection is that we are being asked to significantly reduce prices using a fundamentally-flawed method of determining the allowable returns to our investors.

We do not believe this is in the long term interests of anyone and it is certainly not in the interests of consumers since the Commission's actions threaten the degradation of critical components of the national energy infrastructure.

To emphasise this point I would like to highlight two other areas of contention, which show how the Commission operates in a way that frustrates not only consumer interests, but also national policy objectives.

Vector believes the promotion of Energy Efficiency and Productivity was a fundamental objective of the Commerce Act. However, the Commission discourages both.

Cost savings Vector achieves from initiatives such as new computer systems or merging disparate divisions have to be handed back to consumers at the start of each new regulatory period. The Commission **cuts** our allowable revenues every five years by an amount **equal** to these productivity gains.

This means lines companies are perversely incentivised to defer productivity initiatives until the start of each regulatory period rather than making these gains throughout the regulatory period.

We do not object to sharing these gains with customers, just the amount and the timing.

The Commission, in our view should allow infrastructure companies to keep productivity gains for a pre-determined period that **begins** from the day the gain begins to be accrued.

These savings should not be extinguished at the start of each new regulatory period and again we should be able to retain them for a fixed period.

Lines companies would then be incentivised to make gains continually – a behaviour that in the longer term would deliver real cost savings for consumers and the national economy.

The same pattern emerges over Energy Efficiency. The amount of revenue the Commission allows Vector to earn depends on the volume of power transported.

Yet if we paid for customers to install energy efficient light bulbs in place of increasing capacity on our network we would be penalised for that investment, because the volume of electricity across our networks would fall.

We should be incentivised to promote lower energy use solutions with customers and share in the benefits of this rather than being discouraged.

Similarly perverse incentives exist around network reliability and innovation.

What we are asking for is not unique. Energy efficiency incentive mechanisms, for example, are standard components of best practice regimes internationally.

The successes of our unregulated operations – our gas wholesale and technology businesses I mentioned earlier – also show the extent of our capability to innovate and come up with solutions that not only serve you, our shareholders, but also meet customer needs.

We would like the Commission to recognise this.

In the absence of political intervention we have no recourse but to the courts.

We hope sense will prevail and the High Court will agree to the modifications for which we have argued during our Merits Review of the regime.

The outcome will have important ramifications for the regulatory actions in train which include.

- The finalisation of prices and quality thresholds on our electricity network due in November and

- The finalisation of prices and quality thresholds on our gas network due in February 2013.

However, with the pending court decisions, this remains uncertain. Even in the event of a decision in favour of Vector we have to be prepared for the Commerce Commission challenging the decision in a higher court.

The Chairman has already mentioned the significant investment we are making in the Auckland and national economy in order to ensure we have the infrastructure to support growth into the future. In the last year this came to a total of **$261.8 million.**

Barring a perverse outcome in the courts we expect to make similar commitments in the coming years reflecting large customer projects, network upgrades and continued investment in our metering business.

We reiterate that across our portfolio we are investing for growth. However, I want to highlight the steps we are taking with solar power.

At the back of the room, you will note a display of a photo voltaic or solar power energy installation. This technology is showing promise and we are starting to deploy this technology on our network as a choice for customers. It incorporates battery technology to help make it a 24-7 electricity supply solution.

We believe it will allow us to optimise network investment and help those customers seeking to manage their energy costs.

This technology has emerged as the result of Vector’s strong technical innovation capability and our cultivation of relationships with leading-edge suppliers, particularly in the US.

In 2012 Vector delivered a solid result. All of our businesses made solid operational gains and they continue to perform well despite the challenging market conditions.

For the remainder of the year we will seek to drive better regulatory outcomes, explore growth opportunities and continue to drive efficiencies in the business.

I would like to note that the performance of Vector is obviously the result of all staff and I acknowledge their dedication and effort. In addition I would like to thank the board for their support and their challenge which ensure we are always looking to improve and deliver.

I will now hand you back to the Chairman.

Thank you, Simon.

We now move on to the formal business of the day, and the procedure for this part of the meeting. The Notice of Meeting lists the agenda items to be considered as ordinary resolutions. Each of the resolutions requires a majority of 50 percent or more of votes validly cast.

Again for transparency you will be shown the number of discretionary proxies held by me as Chairman of the meeting or in my own name. I declare that it is my intention to vote the discretionary proxies I hold in favour of all resolutions.

During discussion of the agenda items, I again ask that you confine your questions and any comments directly to the particular matter before the meeting and Vector business.

We are, naturally, happy to hear your views on how we operate our utility services, and to answer questions about operational policy and practice. If you have a personal matter relating to Vector's services, customer services representatives are available after the meeting to help you.

I remind everyone this is a meeting of and for our shareholders. Only shareholders or corporate representatives or proxy holders for shareholders are entitled to speak and vote here today. As stated in the Notice of Meeting, only shareholders registered at 5pm on 15 October or their proxies or representatives are entitled to vote.

If you have become a shareholder since that date, you are not entitled to vote at this meeting, but we do welcome you here.

In the interests of allowing everyone who wishes to speak to do so, I would ask you to limit yourselves to a reasonable speaking time. Remote microphones are available and if you wish to speak please raise your hand, and someone will come to you. Again, to make things easier, when you do speak if you could tell us your name first that would be helpful.

So the first agenda item is to invite discussion on Vector's financial and operational results for the year ended 30 June 2012. The Annual Report was available online from 20 September 2012 and hard copy reports were sent to all shareholders who requested one.

Questions on this topic may be put directly to our external auditors, KPMG, but however, please keep those relevant to their auditing role. Is there any discussion in respect of the Annual Report, the Financial Statements and Audit Report for the year ended 30 June 2012?

I shall now move to the second item of business, the election of directors, and invite Karen Sherry to conduct this part of the meeting.

Thank you Michael.

The NZX Listing Rules, which are incorporated into our Constitution by reference, require that at least one third of directors – or the number closest to a third – to retire from office at each annual meeting. The retiring directors are those who have been longest in office since their last re-election.

Accordingly, Directors must retire by rotation at this meeting. Those directors are Alison Paterson and Michael Stiassny.

Being eligible, Michael and Alison have confirmed they are available for re-election.

As required by the NZX listing rules, on 23 August 2012 Vector issued a notice advising a closing date of 10 September 2012 for director nominations. No nomination to elect an additional director was received.

Biographies of each director seeking re-election are contained in the explanatory notes to the notice of meeting.

The meeting is now asked to consider ordinary resolutions to re-elect Alison Paterson and Michael Stiassny as directors.

Alison Paterson is chairman of BPAC New Zealand Limited, Farm IQ Systems Limited, Stevenson Agriculture Limited, NZ Formulary Limited and the Governing Board of the Centre of Research Excellence for Growth and Development (University of Auckland).

She is also the deputy chair of Stevenson Group Limited, a director of Abano Healthcare Group Limited, a Pro Chancellor of Massey University and a member of the NZ Markets Disciplinary Tribunal. Alison has been a Vector board member for five years and seven months.

I now move, as an ordinary resolution, that Alison Paterson be re-elected as a director.

The proxy voting position is shown on the screen. Is there any discussion on this resolution?

There appears to be no [further] discussion.

Chairman and independent director Michael Stiassny is a chartered accountant and partner of KordaMentha in Auckland. He has significant experience in investigating accountant work, company restructuring, due diligence and insolvency.

He is a director of a number of public and private companies including Tower Limited and Tower Capital Limited. Michael is a Fellow and council member of the Institute of Directors of New Zealand, and chairman of the Institute's Auckland branch. Michael has been on the Vector board for ten years and one month.

I move, as an ordinary resolution, that Michael Stiassny be re-elected as a director.

The proxy voting position is shown on the screen. Is there any discussion on this resolution?

Thank you ladies and gentlemen. There appears to be no further discussion. I will now hand the meeting back to the Chairman.

Thank you Karen. Just to remind shareholders, that voting will be by poll conducted later in the meeting when all resolutions have been moved and discussed.

We now move on to the appointment of Auditor.

This resolution is to record the reappointment of KPMG as auditor of the Company, to hold office from the conclusion of this meeting until the conclusion of the next annual meeting pursuant to section 200 of the Companies Act 1993.

I move by way of an ordinary resolution, that the Directors are authorized to fix the Auditor's remuneration for the ensuing year. I move this resolution accordingly.

The proxy voting is again shown on the screen and I open this resolution up to any discussion?

If you wish to vote on all of these motions, you should have to hand either the Proxy Form/Voting Paper that was sent to you with the Notice of Meeting or an alternative voting form given to you by Computershare when you entered the meeting.

When you cast your vote, please tick one box, either for, against or abstain, alongside each resolution in the section marked Part B: Voting Instructions/Voting Paper.

If you hold a proxy on behalf of a shareholder you will need to cast that shareholder's votes in order for them to be counted. The proxy voting form given to proxy holders, sets out the number of proxy votes held and records directed votes. If there are no undirected votes the proxy holder need only sign the voting form.

Where there are undirected votes, proxy holders may vote these as they see fit by ticking the appropriate box. Finally, in all cases, please ensure the voting form is signed and I remind you that you are voting on each separate resolution as detailed in the Notice of Meeting. Once you have completed voting form these will be collected and the votes will be counted under the scrutiny of the Auditor.

If anyone is unsure of what they are doing with the voting form, hasn't got a form, if you go to the registration desk as you walked in, someone will be able to help you.

So if you would like to cast your votes we could then go into the General Business.

Have you all voted? Fine, so if you want to collect them we could move on.

Are there any items of general business to be discussed?

Are there any other comments or we could draw the meeting to a close and have a cup of tea?

Before we go though, it's appropriate that one I thank my fellow Board members for their input during the year and most importantly that I thank Simon and his team, for their performance throughout the year.

To all of you as shareholders we look forward to seeing you next year.