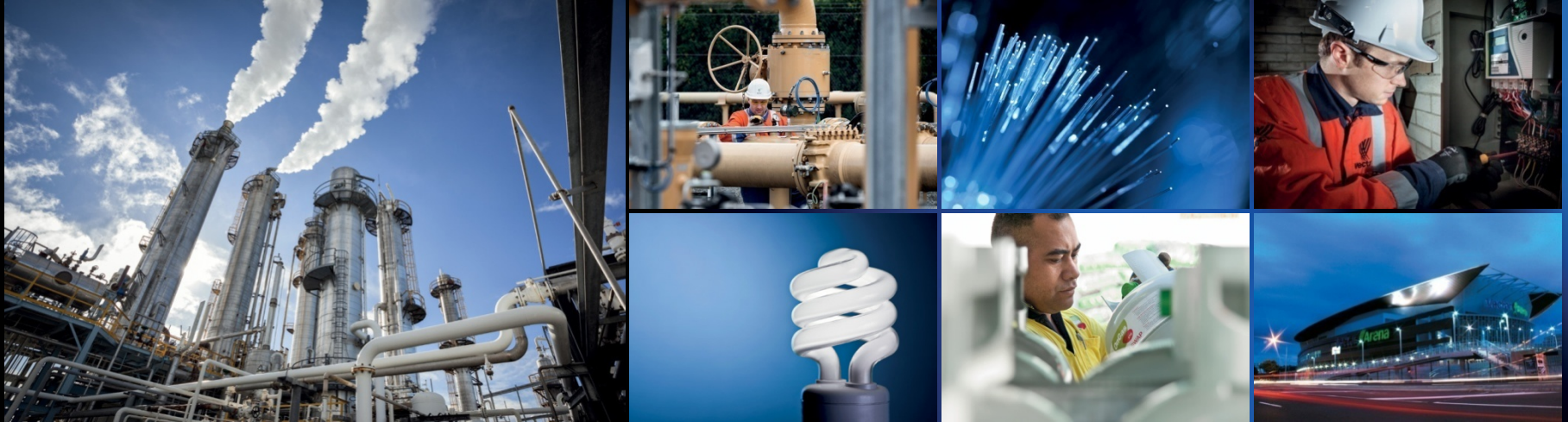


# 2012 | Annual Meeting

EMBARGOED 2PM / 18 OCTOBER 2012



# Michael Stiasny

CHAIRMAN



# Directors



- Michael Stiassny, Chairman and Independent Director
- Alison Paterson, Independent Director
- Karen Sherry, Non-independent Director
- Hugh Fletcher, Independent Director
- James Carmichael, Non-independent Director
- Peter Bird, Independent Director
- Bob Thomson, Independent Director

# Agenda



1. Chairman's update
2. Group Chief Executive's update
3. Ordinary business
4. Re-election of directors
5. Appointment and remuneration of Auditor
6. General business

# FY 2012 – Robust performance



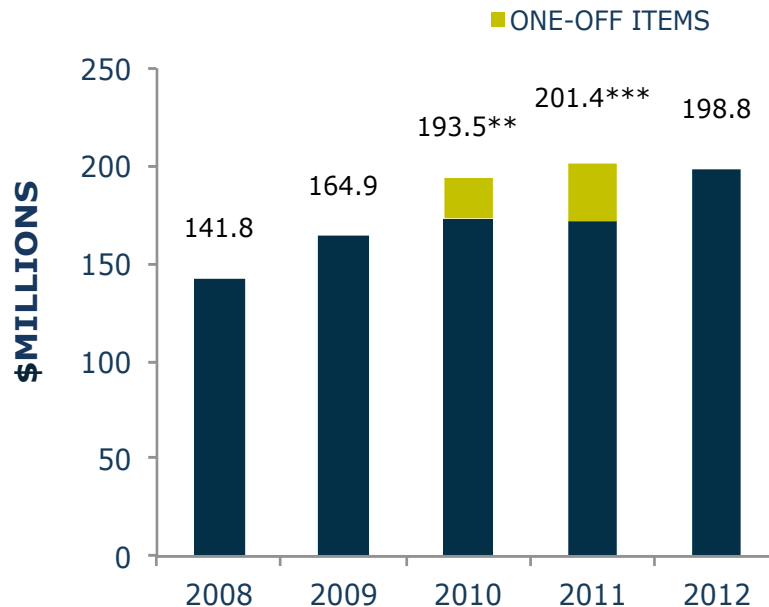
- All operating segments deliver earnings improvements
- Revenue increases 0.6% to \$1.25 billion
- Sale of tunnel rights to Transpower in 2011 mask strong underlying result
- Underlying net profit after tax\* up 16.1% to \$198.8 million
- Reported net profit after tax\* down 1.3%

\* Net profit after tax attributable to shareholders (continuing operations).

\*\* The 2010 result included a \$20.9 million deferred tax liability decrease due to tax rate and legislative changes.

\*\*\* Transpower tunnel rights gain \$30.1 million.

## Net Profit After Tax\*



# FY 2012 – Dividend growth



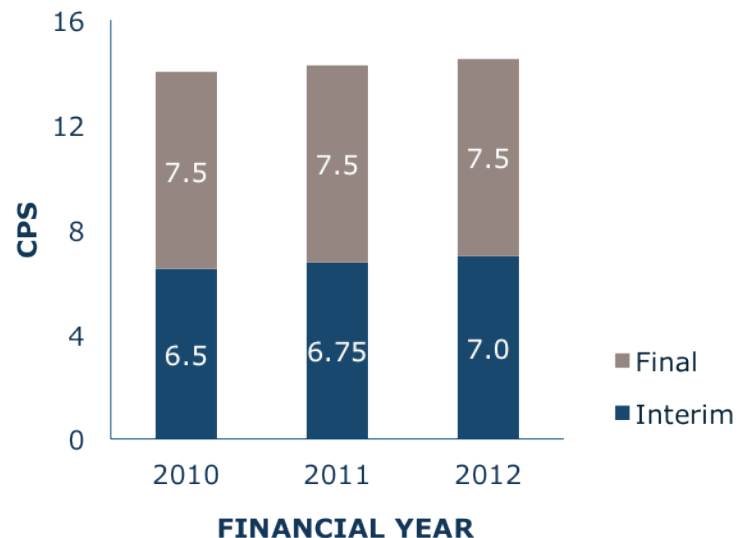
- 2012 fully-imputed dividend of 14.50 cents per share, which represents a pay-out ratio\* of 53%
- Dividend policy targets an average of 60% pay-out over time
- Conservative capital structure – gearing\*\* at 52.5%

Key ratios	2010	2011	2012
Payout ratio*	51%	56%	53%
Dividend yield	9.3%	7.9%	7.5%
Share price (30 June)	\$2.16	\$2.54	\$2.68

\* Payout ratio of free cash flow after replacement capital expenditure.

\*\* Gearing is net debt to net debt plus equity.

## Declared dividend

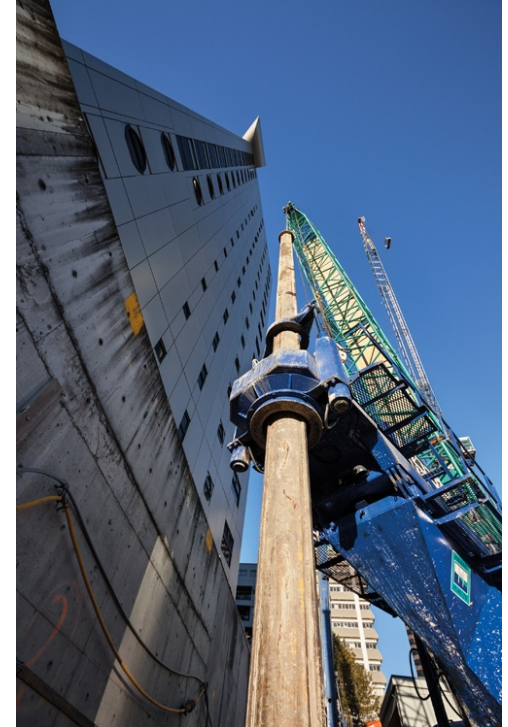




# FY 2012 – Enabling national prosperity



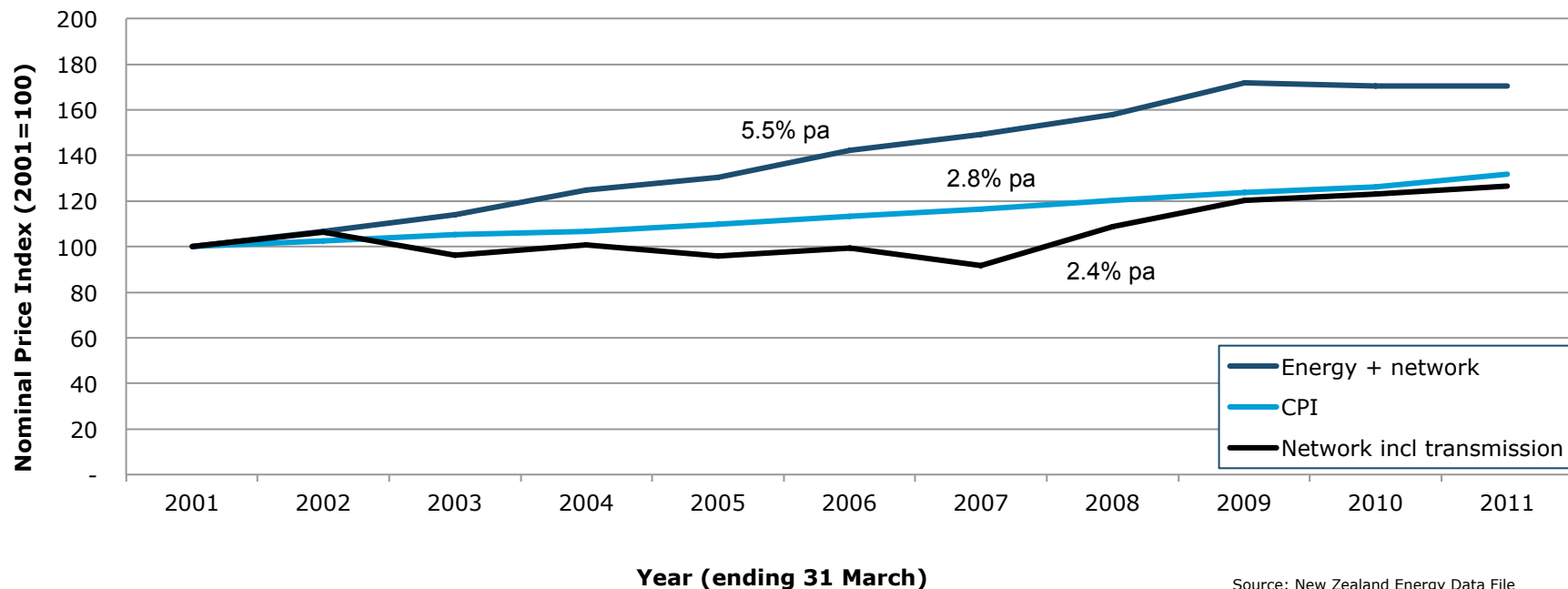
- Capital investment of \$261.8 million in 2012
- Nearly \$170 million spent on regulated energy infrastructure
- \$134.2 million spent on Auckland electricity network
- Projects strengthen Auckland's energy infrastructure and provide capacity for growth
- Investment critical to future of Auckland and New Zealand



# Regulation – NZ lines prices contained



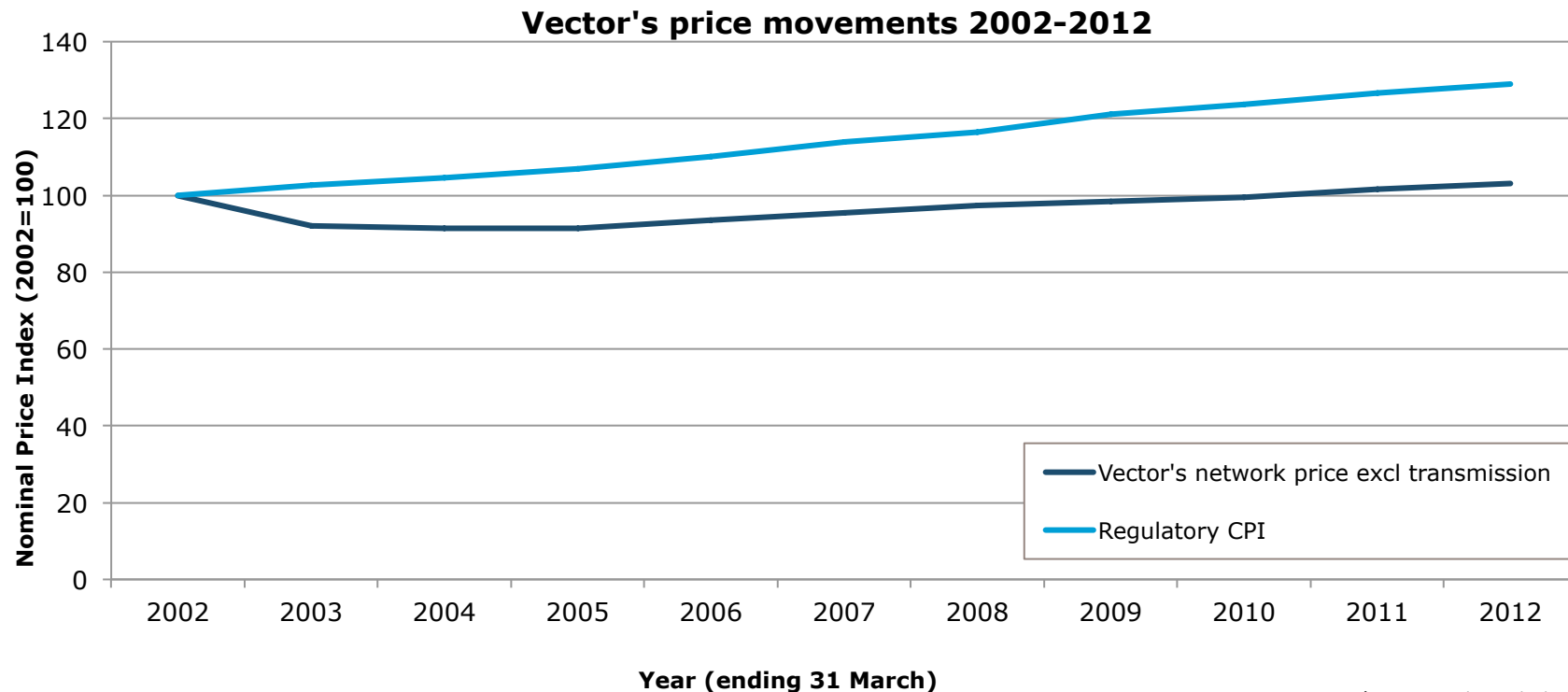
## Energy, Network and Transmission Price Movements for New Zealand 2001-2011



Source: New Zealand Energy Data File



# Regulation – Vector's excellent record



Source: Vector's price compliance disclosures

# Vector's role is misunderstood



## THE PUBLIC

- Blames lines companies for price increases
- Feels unable to participate in the infrastructure regulation debate
- Dismisses lines industry arguments as self-interest

## BUT

**A FAIR REGULATORY REGIME IS AN ISSUE OF NATIONAL IMPORTANCE**

We'd like to shed a little light on your electricity bill.

And we would like to help you understand our pricing. Vector owns and maintains the power lines which provide you with electricity from retailers.

**ELECTRICITY INDUSTRY STRUCTURE:**

GENERATION      TRANSMISSION      VECTOR      RETAILING TO CUSTOMERS

VECTOR OWNED AND OPERATED THE PARTS OF THE INDUSTRY THAT VECTOR OPERATES

# Vector keeps its side of the bargain



## VECTOR

- ✓ Contained prices on our network
- ✓ Delivered a safe reliable service
- ✓ Made significant productivity gains
- ✓ Delivered on our obligations
- ✓ The principles of regulatory regime ingrained in business culture

## COMMERCE COMMISSION

- ✗ Does not recognise Vector's achievements
- ✗ Narrowly focussed on investment returns
- ✗ Flawed methods to determine returns
- ✗ Makes unreasonable demands on staff
- ✗ Ignores disciplines imposed on Vector by mixed ownership

**Regulator's actions threaten to degrade New Zealand energy infrastructure**

# Regulation – a common sense test



Vector's regulated cost of capital (WACC) = 8.77%\*  
Comparable Australian lines companies WACC = 9.40% to 9.95\*\*

## WACC SHOULD BE HIGHER IN NEW ZEALAND

### NEW ZEALAND

- Equity market risk - HIGHER

### AUSTRALIA

- Equity market risk - LOWER

**WE ARE NOT ALONE: EIGHT PARTIES CHALLENGING THE COMMISSION IN COURT**

# Looking out for the community



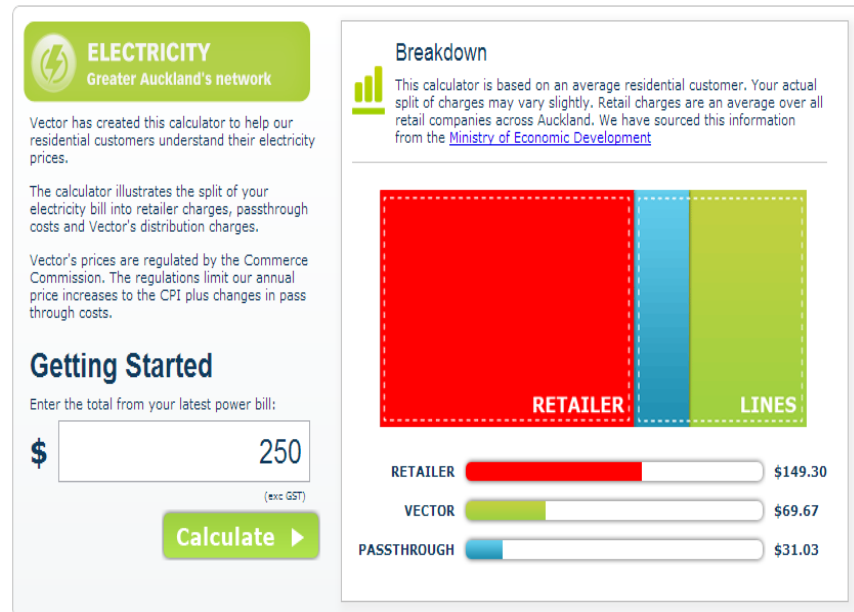
- Strong stance against low ball offers
  - Vector welcomes impending legislative change
- Helping lower socio-economic communities
  - Tickets to Vector Arena shows
  - Providing role models
  - Netball 'Fast5'



# Responding to customers



- Vector constantly seeking ways to make it easier for customers to transact with us
- Using technology to respond quickly to queries:
  - Gas connection estimator
  - Quick Quote telecommunications portal
  - Pricing calculator
- A highly-responsive workforce
  - 24 nationalities
  - Women represent 31% of staff and 20% of senior management





# Outlook



Looking forward to 2013 there are a number of uncertainties:

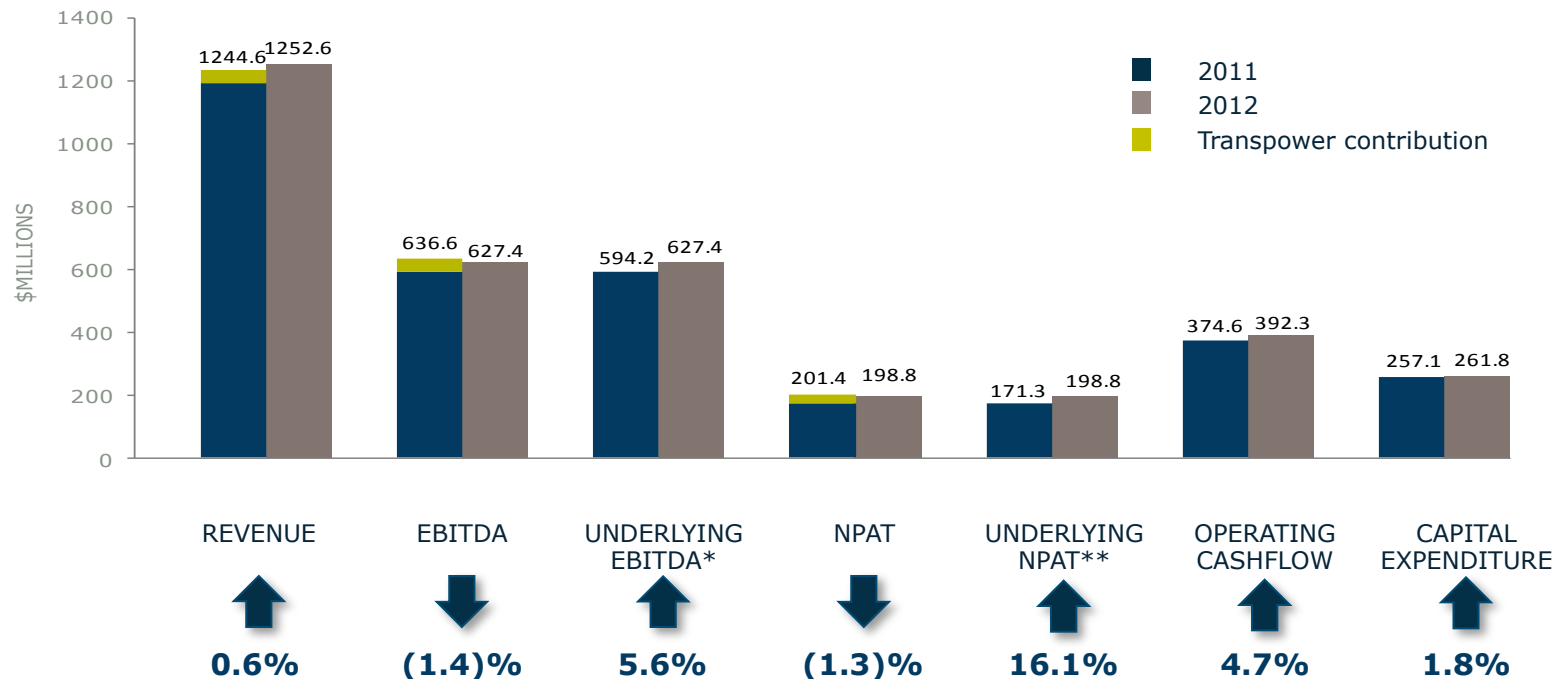
- The Commerce Commission's decision on the starting prices on our regulated electricity network for the current regulatory period
- The outcome of the Merits Review court action on the regulatory regime
- Negotiations over our rights to gas at the Kapuni field and the price we pay for that gas
- Our objective is to maintain EBITDA broadly in line with this year, recognising these uncertainties

# Simon Mackenzie

## GROUP CHIEF EXECUTIVE



# FY 2012 operational performance



\* Excludes contribution of \$42.4m from Transpower agreement in 2011.

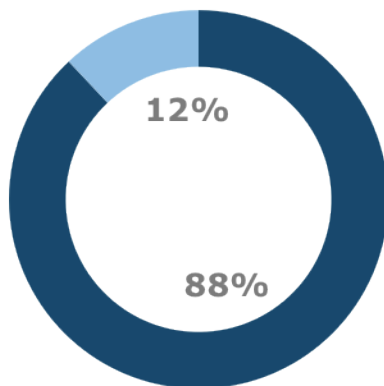
\*\* Excludes contribution of \$30.1m from Transpower agreement in 2011.

# Vector - a portfolio of businesses



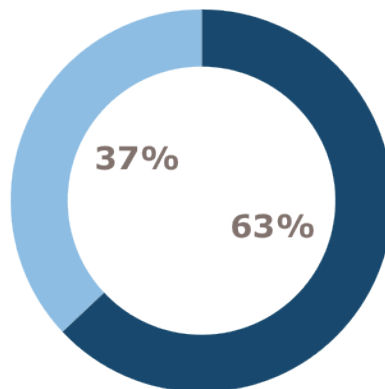
## Assets

As at 30 June 2012



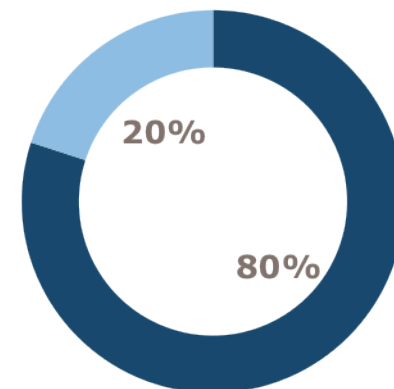
## Revenue

Year ended June 30 2012



## EBITDA

Year ended 30 June 2012



■ Regulated  
■ Unregulated

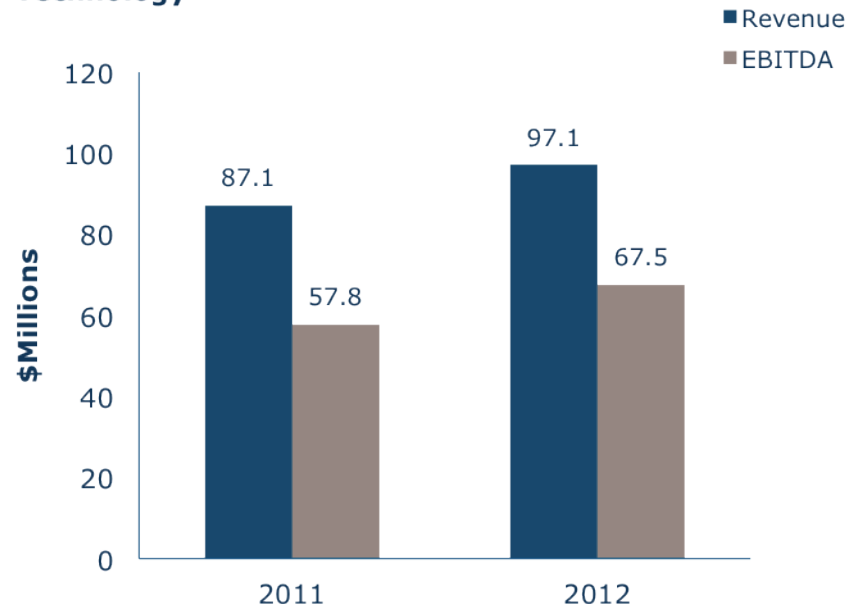
**Unregulated operations deliver standout performances for the year**

# Unregulated - Technology



- Technology revenue up 11.5% and EBITDA up 16.8%
- Internationally-recognised metering business lays foundations for growth and smart networks
- Half way through contracted deployment of 700,000 meters
- Vector Communications succeeding as a provider of telecommunications logistics

Technology

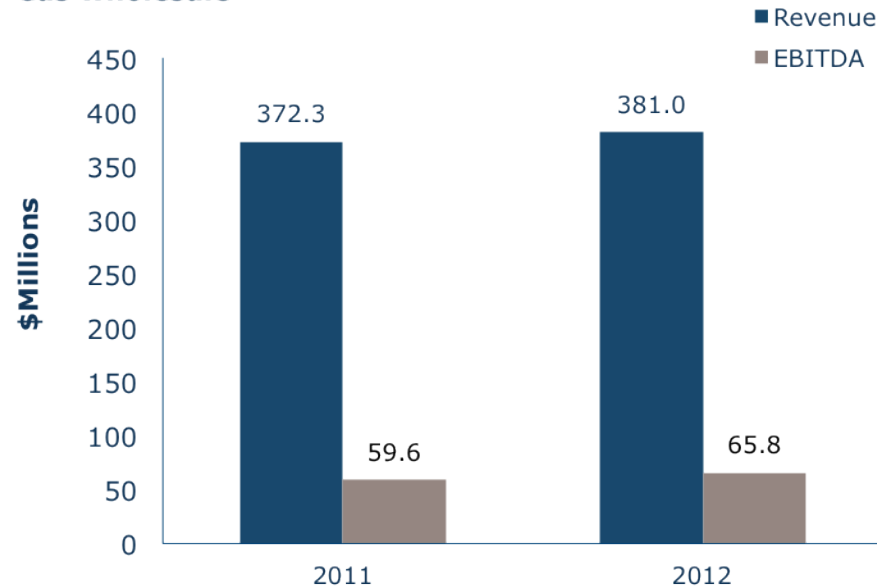


# Unregulated – Gas Wholesale



- Revenue up 2.3% and EBITDA up 10.4%
- New Zealand's leading gas intermediary
- Kapuni legacy gas coming to an end
- Contractual rights to reserves above 1010 PJ (approx 35PJ)
- Pursuing an additional 7.3PJ

Gas wholesale

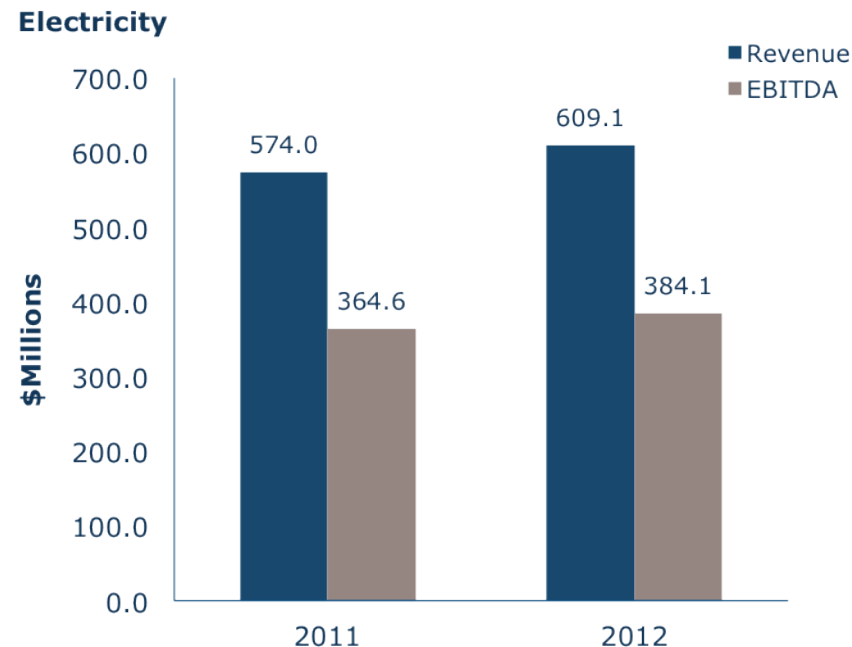




# Regulated – Electricity



- Electricity customer numbers grew 0.5% to 535,228
- Revenue grew 6.1% to \$609.1 million
- EBITDA rose 5.3% to \$384.1 million as the revenue gains were partially offset by an increase in transmission costs

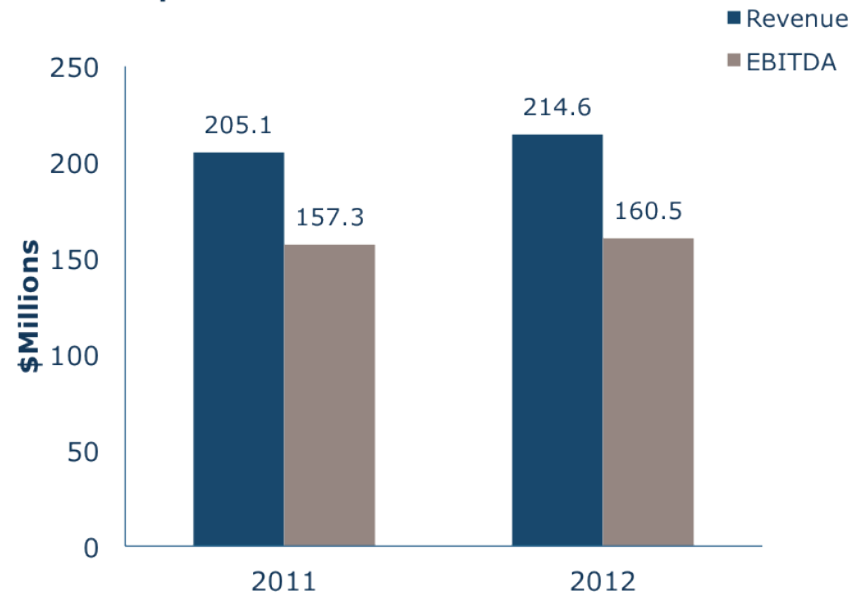


# Regulated – Gas Transportation



- Revenue rose 4.6% to \$214.6 million due to a 4.4% increase in transmission volumes
- EBITDA rose 2.0% to \$160.5 million
- Consumption on the distribution network increased 4.8%
- Resolved Maui pipeline failure in five days

Gas transportation



# Fighting for Auckland consumers



- New proposals to allocate Transpower charges:
  - Generators must pay greater share of Transpower 'national grid' charges
  - Auckland power users may pay more
  - May incentivise generator gaming to avoid paying transmission costs

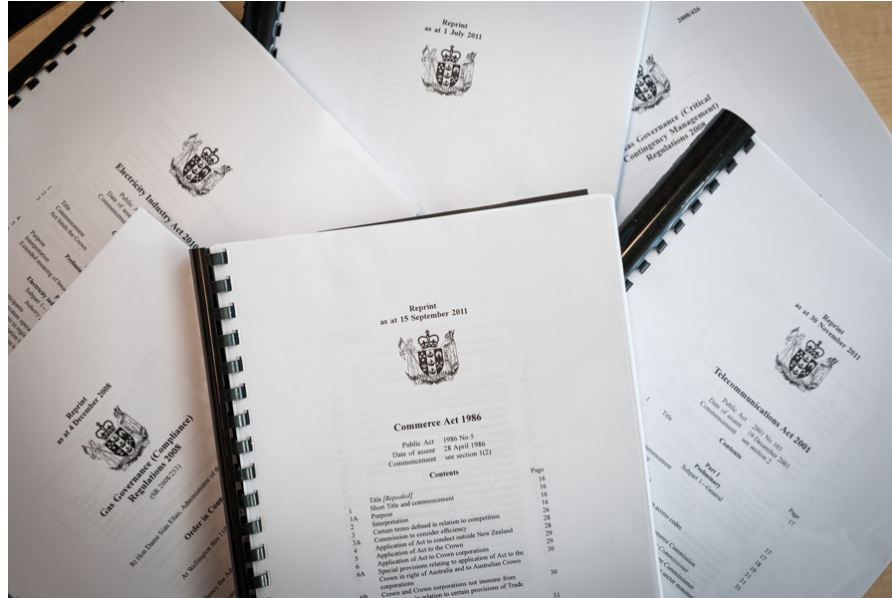
# Health and safety



- Vector's first priority is safety around our networks
  - 'Stay safe around electricity' schools programme wins prestigious Electricity Engineers Association Award
  - 423 schools and 87,000 children benefit
  - Programme extended to Taranaki
  - Safety systems meet new standards



# Shouldering the regulatory burden



**Regulation costs Vector running at least \$17 million\* a year**

\* Vector 2011 assessment.

# Regulator has fostered poor incentives



Energy efficiency and productivity are objectives of the Commerce Act

**BUT**

## The Commerce Commission

### INCENTIVISES:

- Deferral of productivity initiatives
- Power consumption

### DISCOURAGES:

- Energy Efficiency investment
- Network reliability investment
- Innovation



# Recourse to the courts



## Appeal process

Final Input  
Methodology  
Decisions for  
EDBs and  
GPBs  
23 Dec 2010

Merits Appeals  
Sept – Nov/Dec 2012

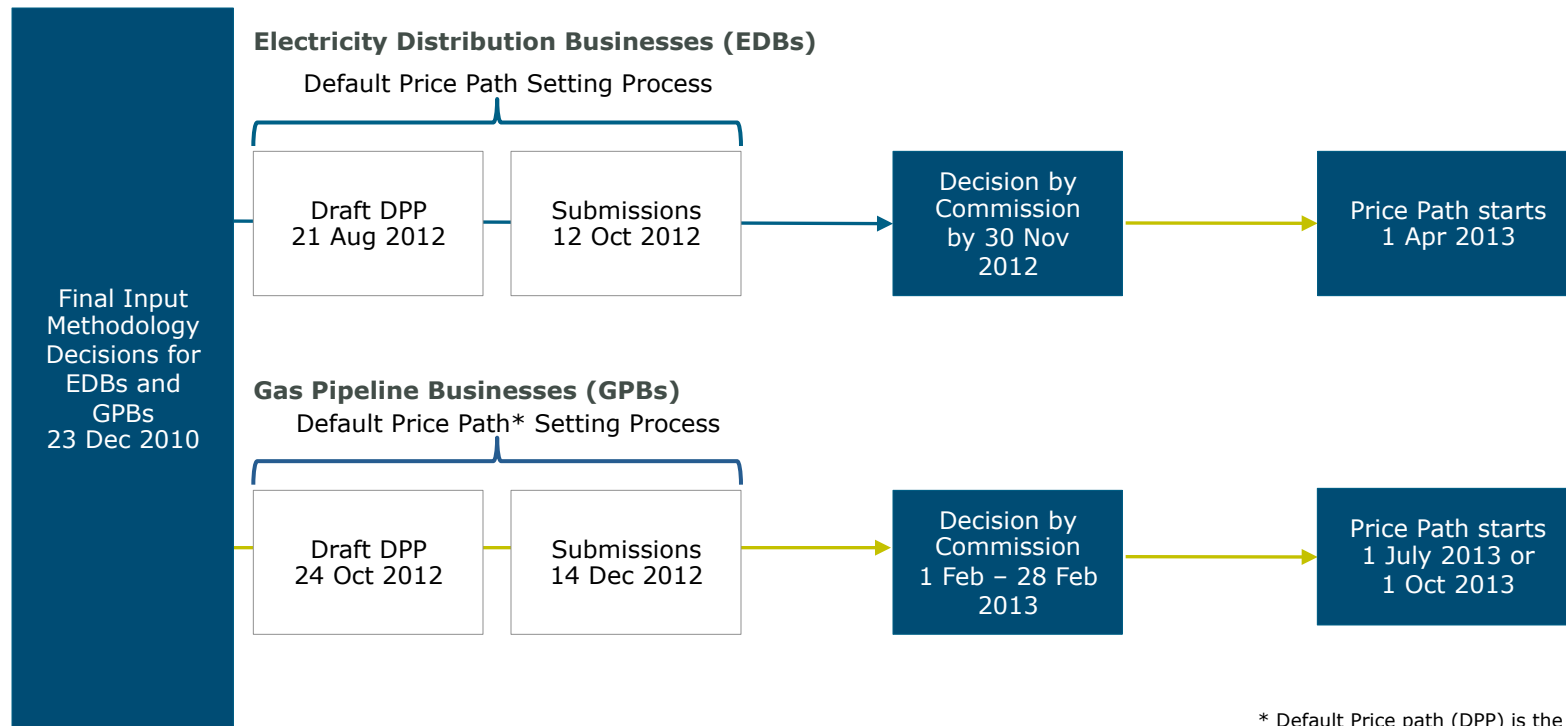
Judicial Review Supreme Court  
9-10 Oct 2012

Decisions made

Under Merit Appeals the Court determines whether there is a materially better methodology than adopted by the Commerce Commission.

Under Judicial Review the Court determines whether the Commission has acted reasonably and lawfully.

# Regulatory timeline



\* Default Price path (DPP) is the amount of revenue Vector is allowed to recover each year from its EDB and GPBs.

# Investing for growth



- Vector makes significant investments into Auckland and the national economy
  - FY 2012 \$261.8 million across all businesses
- Investing for growth across our portfolio of businesses
- Solar power holds promise reflecting:
  - Vector's strong technical innovation capability
  - Relationships with leading-edge suppliers



# Outlook and summary



- 2012 was another solid year with strong operational performance
- Looking forward to 2013 with continued focus on
  - Driving better regulatory outcomes
  - Growth opportunities and driving efficiencies in the business

# Michael Stiasny

CHAIRMAN



# Ordinary business



- Consideration of Annual Report and Audit Report

# Re-election of directors



- Alison Paterson
- Michael Stiassny

# Re-election of Alison Paterson





# Re-election of Alison Paterson



## Proxy Voting

For	800,327,998
Against	93,107
Abstain	90,648
Discretionary	677,603
Additional discretionary held by the Chairman	629,011

# Re-election of Michael Stiassny



# Re-election of Michael Stiassny



## Proxy Voting

For	799,856,792
Against	626,179
Abstain	42,067
Discretionary	678,772
Additional discretionary held by the Chairman	614,557

# Appointment and remuneration of auditor



# Appointment and remuneration of auditor



## Proxy Voting

For	800,234,877
Against	150,199
Abstain	125,466
Discretionary	678,772
Additional discretionary held by the Chairman	629,053

# Voting



# General business



Please wait for the microphone and please state your name before asking a question

# Meeting closes







[www.vector.co.nz](http://www.vector.co.nz)