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PRESENTATION

Operator

Good morning everybody. Welcome to the Vector Limited webcast to discuss the financial results for the year June 30, 2013. At this time all participants are in a listen only mode. There will be a presentation followed by a question and answer session. (Operator Instructions). I must advise you that this conference is being recorded today, the 22nd of August 2013.

I will now hand you over to the chairperson, Michael Stiassny, who will take you through the call. Go ahead please.

Michael Stiassny - *Vector Limited - Chairman & Independent Director*

Good morning everyone and welcome to our full year market briefing for the 12 months ended 30 June 2013. As you know, I'm Michael Stiassny, I'm Chairman of Vector and joining me on this webcast and teleconference are our Group Chief Executive, Simon Mackenzie and our Acting Chief Financial Officer, Shane Sampson.

Simon will begin today's presentation by giving a quick overview of the highlights, followed by Shane providing an overview of the financial results. Simon will then return to discuss the operating performance of our segments and the investments we are making across our regulated and unregulated business. The presentation will conclude with an update on outlook.

Once the formal part of the presentation is over, there will be time for your questions, and as always, before I hand over to Simon, let me quickly discuss the final dividend. Vector has sought to deliver sustainable and growing dividends. We have this year lifted our final fully imputed dividend to NZD0.0775 per share, up from last year's NZD0.075 per share. The dividend brings total dividends for the year to NZD0.15 per share, up NZD0.005 or 3.4% on last year's NZD0.145 per share. The dividend will have a record date of 6 September and a payment date of 13 September 2013.

The dividend supports Vector's strong record of delivery for shareholders and the broader community. It will inject at least NZD100 million into the local economy by a distribution to shareholders and distributions to the beneficiaries of the AECT. We have achieved this result while continuing to invest for the future. Notably we are very pleased to have completed the NZD60 million acquisition of Contact Energy's gas metering operation. This business gives us another opportunity to leverage our internationally recognised expertise in managing energy infrastructure.

The Board is pleased with the results for the 2013 year. Vector, a critical provider of New Zealand's strategic energy infrastructure, has once again delivered on its commitments to the Auckland region, the national economy and importantly our shareholders. The results were lifted by growth in our technology business, the continuation of legacy pricing on our Kapuni gas entitlements and continued tight cost control.

We're in good shape and I now hand over to Simon to talk through those highlights.

Simon Mackenzie - *Vector Limited - CEO*

Thanks Michael and good morning everyone. As noted, we're pleased with the results for the 2013 year. EBITDA was above last year and ahead of guidance, despite a particularly warm summer and mild winter leading into the result. The convergence of information technology and infrastructure management technology has opened up new growth opportunities for Vector. These are now buoying our financial performance in the face of a new economic norm of patchy growth, reduced energy consumption and a challenging environment for value enhancing acquisitions.

Our technology division is at the forefront of these developments, especially in our smart metering investment. However, innovations such as photovoltaic cells combined with battery storage are offering new emerging investment opportunities. They also offer consumers real opportunities to reduce energy consumption and help us to more efficiently manage our network, something that customers ever increasingly seek.

So revenue for the 12 months to June increased 2.2% to NZD1.279 billion. Our unregulated technology operation provided the standout performance of the business, demonstrating the strengths of Vector's diversified portfolio of businesses. However, revenue fell after stripping out increases in Transpower charges.

The reduction in revenue followed reduced Kapuni production, warmer weather and a trend by homes and businesses towards reduced energy consumption. And you should also note that we had a quarter of the year impact from the regulated price reset.

EBITDA rose 0.5% to NZD630.5 million. Net profit rose 2.2% to NZD206.2 million as we benefited from continued access to Kapuni legacy gas and successfully controlled costs. Operating cash flow rose 8.6% to NZD426.2 million, although this figure was lifted by the timing of payments to certain creditors and we would expect this to reverse in the upcoming year.

Capital expenditure increased 14.1% to NZD298.6 million. Of this, NZD167.6 million was directed at growth initiatives and a further NZD131 million to maintain the quality of our assets.

We seek to deliver a sustainable and growing dividend to shareholders through growing our portfolio of businesses, driving operational excellence and delivering services attuned to our customers' changing needs. Michael has already mentioned the dividend and I'm pleased to say we met those other objectives.

Our customers tell us that they want a utility they can trust to deliver reliable, efficient infrastructure services. They also want timely delivery of those services and they want choice and flexibility over how they receive them. And finally, obviously they want good value. They want us to deliver all those things for a fair price.

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

However, unfortunately customers' wallets are yet to benefit from these initiatives. From April of this year we reduced prices in accordance with the regulatory requirements on our residential electricity network by 9%, or the equivalent of NZD60 per residential customer per year. However, only in the case of a small minority of energy retailers have we seen these savings passed on to customers.

The goal of regulation is to incentivise us to drive efficiencies in our business and we expect the gains we make to flow through to customers as regulation intended through the context of sharing efficiency gains.

On that note I will now hand over to Shane to walk you through the financial result for the year.

Shane Sampson - *Vector Limited - Acting CFO*

Thank you Simon and good morning everyone. If we start with the income statement, Group revenue increased by 2.2%, however as Simon noted, after stripping out the effect of Transpower charges which are passed directly through to customers, Group revenue fell slightly.

Operating expenditure rose 3.8% to NZD648.7 million due largely to the higher Transpower charges. Depreciation and amortisation was broadly steady at NZD174.1 million and as a result, EBIT largely increased, reflecting the increase in EBITDA.

Results from associates improved. Most of the result was due to a further write-down in the value of our 22% stake in New Zealand Windfarms to reflect the market price. This was offset by stronger earnings from our associate, Treescape. The bottom line result was a 2.2% increase in net profit to NZD206.2 million.

Looking at EBITDA, the gas transportation and technology businesses delivered the standout performances for the year, with EBITDA increasing by NZD9.9 million and NZD8.8 million respectively. But electricity and gas wholesale EBITDA fell by NZD11.6 million and NZD5.4 million respectively. Costs were controlled in shared services, providing a meaningful NZD1.4 million lift to EBITDA. Overall, Group EBITDA for the year was NZD630.5 million.

Looking at the segment results in more detail, a NZD29.1 million hike in Transpower charges, which are passed directly through to customers, has lifted operating expenditure and weighed on EBITDA margins. The regulated price increases assisted revenue in the first three quarters of the year, but the new price reductions came into effect at the start of the fourth quarter. Stripping out the effects of the price increases and Transpower's charges, revenues fell due to lower electricity volumes transported across the network.

The lower EBITDA result was also due to increased inter-segment costs and external costs such as higher council rates. Electricity volumes will have less effect on our long term revenues, following changes to the electricity regulatory regime effective 1 April 2013, and Vector in response is making changes to ensure tariffs reflect costs which are predominantly fixed.

Growth capital expenditure increased 16.1% to NZD69.2 million, reflecting an increase in subdivision activity, investment in the rollout of the solar program and the timing of expenditure on key projects, including the Hobson Street substation. Replacement capital expenditure increased 8.6% to NZD81 million due to an increase in undergrounding activity.

Looking at gas transportation, revenue rose 2.3% to NZD219.6 million, due to regulated price increases and an increase in customer numbers. EBITDA rose 6.2% to NZD170.4 million, as costs fell due to lower fuel gas costs, reflecting the reduced volumes through the Vector network, and maintenance expenditure was also down.

Legal fees, mostly linked to the outage of the Maui pipeline, had also lifted expenses in the prior year but were not repeated in the current year. However, the savings were offset by increases in council rates.

Growth capital expenditure was up 21.7% to NZD12.9 million, due to an increase in subdivision activity.

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

The division also benefited from high LPG sales due to continued growth in our bottle swap business and an increase in tolling volumes in our liquid gas business. These gains were diluted by lower production from the Kapuni field, lower natural gas sales volumes, which fell 4.3% from 27.7 PJ to 26.5 PJ, higher LPG purchase prices and higher maintenance and administration costs. Revenue fell 2.3% to NZD372.2 million, while EBITDA fell 8.2% to NZD60.4 million.

The technology segment was the standout performer in our portfolio of businesses. Revenue rose 12.5% to NZD109.1 million, while EBITDA rose 13% to NZD76.3 million. Revenue benefited from the 37% increase in the installed base of smart meters, and Vector Communications is making an important contribution to the Group.

Costs also increased, largely reflecting increased communication and platform costs, due to the continued rollout of smart meters and our success in contracting new customers. The 29.2% increase in the growth of capital expenditure to NZD80.5 million was due to a step-up in the rate of installation of smart meters compared to the prior year.

In shared services, costs were contained with EBITDA slightly improved despite lower external revenue.

In cash flow, as Simon mentioned, the increase in operating cash flow was lifted by the timing of payments to certain creditors. Capital expenditure cash outflows increased 9% to NZD283.4 million. The prior year's investment cash inflows were lifted by the sale to Transpower of rights to use our Penrose to Hobson tunnel.

Looking at the maturity profile, it was a relatively quiet year from a financing perspective, with minimal debt maturing. A NZD50 million senior credit facility expired in July and a NZD125 million working capital facility will expire later in the year. Both facilities are undrawn and we are reviewing our requirements.

Our balance sheet remains strong. Net debt decreased 0.4% to NZD2,364.3 million from the prior year and gearing has fallen from 52.5% to 51.1%. Interest was covered by operating earnings 2.8x. Our S&P rating remains at BBB+ stable. I will now hand you back to Simon.

Simon Mackenzie - *Vector Limited - CEO*

Thanks Shane. Just turning to electricity. In the electricity segment, customers' numbers increased 0.7% to 539,232. Net movement in customers increased 52.8% to 4004 customers. However, the increase is flatted by the impact of disconnection of inactive accounts in the prior financial year. SAIDI, our measure of network reliability, rose over the fourth quarter from 15.9 minutes to 37.2 minutes over the same period last year. This is due to a higher number of storms and high wind events. The audited SAIDI value for the regulatory period to 31 March 2013 is unchanged at 95.8 minutes.

Power distribute through the network fell 1.1% to 8332 GWh across Vector's networks due mainly to warmer than average temperatures over the prior year with heating degree days falling 8.9% to 1150.

Going forward, we expect to see connection growth in Auckland but on a per user basis, we expect to see flat to reducing volumes consistent with international trends. We have continued to invest in our business for growth and greater choice for energy users.

We are investing in technology as well and we continue to develop ways to keep customers informed of any outages. An example is our recently launched smartphone app, which provides customers with real-time information about outages. It builds on the extensive web, social and other media channels we use to get critical information to customers on our networks.

In gas transportation, construction is fuelling growth on our gas transportation network. During the year, distribution customers rose 1.5% from 154,649 to 156,952 and net new customers rose 7.6% to 2303. This is partly driven by an increase in subdivision activity with key projects, including subdivisions at Millwater and Long Bay on the north shore of Auckland and Flat Bush in south east Auckland which will house an additional 40,000 people by 2025. Vector is working in close consultation with Auckland Council and is building the infrastructure for these projects in the future of Auckland.

Growth was also assisted by a strong increase in the number of new small to medium sized business customers compared to the prior year. The volume of gas transported through the distribution network fell from 21.8 petajoules to 21.4 petajoules due again mainly to the warmer weather.

Volume on our gas transmission network fell from 125.4 petajoules to 118.2 petajoules, primarily due to reduced demand from gas-fired power stations. But the fall has little impact on revenue as many of our large users are on fixed price contracts.

With respect to gas wholesale, as Shane mentioned, the results were underpinned by the continuation of supply of Kapuni gas at legacy prices following our success in arbitration to determine our entitlements. As noted, the matter is still subject to appeal. We have consolidated our position as the country's leading gas supplier and intermediary signing 70 industrial and commercial customers and wholesale contracts, 61 of which were contract renewals or existing customers and the remaining new customers. These contracts equated to a total of 5.8 petajoules of which approximately 1 petajoule is new business.

Customers engage with Victor because they recognize our willingness to configure gas supply to meet their specific needs and because they trust us. The division has also benefited from higher LPG sales due to the continued growth in our bottle swap business, again reinforcing the benefit of this previous acquisition. In a week during the cold snap in the middle of June the LPG business delivered 11,873 bottles, the highest ever deliveries for a winter month. The busiest ever week also occurred in this financial year at the end of December 2012, when we delivered 15,175 bottles. This business is going from strength to strength with customers showing a clear preference for bottle swaps over filling their own bottles and we lead the way in this space.

LPG tolling volumes rose 15.8% to 151,500 tonnes due to recovery in the South Island in increased exports. Natural gas sales fell 4.3% to 26.5 petajoules, while gas liquid sales fell 6.7% to 71,800 tonnes reflecting lower Kapuni field production being at an average of 38.8 terajoules per day, compared to 45 terajoules per day last year.

Turning to technology. Our roll out of smart meters represents one of the most ambitious investment programs the Company has undertaken in recent years. Late in the financial year, we installed our 500,000th meter and we expect to install around 13,000 to 15,000 meters a month over the next 12 months. In addition to this, we have extended our contract with Contact Energy to install a further 90,000 meters and agreed to install 38,000 meters for Mighty River Power. Allowing for customer movement between retailers, this increases our total contracted installations to over 764,000 meters up from 670,000 meters, June last year.

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

This year in our telecommunications business, we extended our reach across New Zealand with new points of presence or telecommunications switching facilities in Tauranga, New Plymouth and Napier. These points provide greater competitive reach and service in the regions. This expansion has enabled us to release many new products outside our core Auckland network, one example being EduNet, which provides fixed cost but unlimited broadband access for schools and educational establishments.

With regard to copper regulation, we will be submitting on this issue as we seek regulatory consistency in New Zealand. The decisions on Merit Appeals of the Commerce Commission's Input Methodology decisions brought by Vector, along with six other large infrastructure companies, are due next month. From April this year, Vector reduced its lines charges electricity in line with the Commerce Commission's price quality determination. And the Commerce Commission also mandated price reductions for our gas transmission and distribution networks of 29% and 18% respectively.

We will implement these with our normal price change from 1 October this year, that's the gas changes and transmission and distribution, in order to align with our regulatory periods. However, outside of the Merit Appeals process there remain areas that we believe the Commerce Commission should enable choice in which we will continue to pursue.

Turning to outlook for the 2014 financial year, we expect EBITDA to be in line with market consensus estimates. Continued tight costs control and growth in our technology businesses will underpin Group revenue in earnings in the coming year despite given all the significant price reductions imposed through the regulatory construct. We remain focused on growing our technology portfolio, especially in the metering related business line. We operate a highly valued portfolio of assets that is coveted by international investors and we are very aware of the long-term value it can create for shareholders as well as Auckland and the national economy.

So this concludes today's presentation. We are now going to hand over to the conference moderator for your questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). Your first question today comes from Grant Swanepoel from Craigs. Go ahead thank you.

Grant Swanepoel - *Craigs Investment Partners - Analyst*

Morning guys, not a great result. Just on the wholesale gas side, can you guys give some sort of colour on what the current mix is on cheap gas in that portfolio and what it might look like in FY14?

And then just on your -- the usage where you indicated you (inaudible) customers following international norms. With the market having fallen 1% in FY13, what is your expectation for FY14? I mean if I -- yes, FY14, thank you, those are my two questions.

Simon Mackenzie - *Vector Limited - CEO*

Sorry Grant, hi, good morning. It was a little bit kind of hazy -- the reception here but my understanding of your question was with respect to how much cheap gas we have still with regards to Kapuni, was that the correct question?

Grant Swanepoel - *Craigs Investment Partners - Analyst*

Yes, thanks Simon and it wasn't the link that was hazy, it was more the question that was hazy. And what do you expect the earnings to look like on that division next year?

Simon Mackenzie - *Vector Limited - CEO*

Okay, so we don't have any more cheap legacy gas on our portfolio and Shane you can give an indication with regards to -- estimates with regards to looking forward on the gas side.

Shane Sampson - *Vector Limited - Acting CFO*

So I think in our accounts we've indicated that we took around 6 point something petajoules of gas. You know in broad terms if you talk about NZD2 million of value for each of those petajoules that would get you to the right kind of ballpark. And from what we can see, the analyst community is pretty much sitting on those kind of numbers in terms of their forecasts for next year. So hopefully that won't come as a surprise.

Simon Mackenzie - *Vector Limited - CEO*

And then with respect to the volumes, what I mean by the international trends, we are seeing, both in New Zealand and internationally there has been a trend for reduced energy consumption. We see that particularly in the Auckland region, where the consumption per user is not increasing and in some cases reducing and we would expect that trend to continue flat to reducing on a per user basis. Of course, the difference in Auckland is that we also grow customers onto our network.

The reason for the reduce in volume, from our research, is that customers are much more active with respect to how they are managing their energy purchases and that comes in two shapes. One is whereby customers are actively looking to do things such as turn off the lights, because of the cost pressure in the energy as well as look to put new technology solutions, whether they range through things such as more energy efficient appliances. And where we see the other trends coming in lighting, with regards to things such as LED lighting, which consumes a lot less energy than traditional lighting. So we see those trends continuing. And the other trend being customers being much more active in how they manage their energy purchases.

I think it's important to note, Grant, also off the back of that from a network perspective, as we noted in the presentation that our revenues obviously are determined by the Commerce Commission, they are principally derived by -- with respect to our asset base. What we are seeing is a bit more of a disconnect between what we call demand in volume because people still flick the lights on, they may not leave them on as long type of issue. So our networks are very much invested in from a demand perspective, as opposed to a volume perspective, hence our revenues are pegged to ASX values, obviously with the rate of return determined by the Commission being used as the factor that determines off that asset value how much revenue we can earn. Our pricing methodologies we are moving towards a more cost-reflective basis being more fixed.

Operator

Thank you. Your next question comes from Matt Henry from Goldman Sachs. Go ahead, thank you.

Matt Henry - *Goldman Sachs - Analyst*

Hi Simon and Shane. My remaining -- some micro questions are -- do you just -- I presume the change to the contract -- gas transmission contract ended up being earnings is neutral, can you just confirm that that's the case?

Second question is just you say you're comfortable with consensus. Can you just tell us what your understanding on consensus is?

And thirdly can you just give us some more colour into your PV battery initiative? How you plan to market that. Are you already marketing it? What sort of consumer interest are you finding?

Simon Mackenzie - *Vector Limited - CEO*

Yes, hi Matt. The first question I think I'll pass over to Shane. But -- well maybe I'll lead you past -- go for that one first Shane.

Shane Sampson - *Vector Limited - Acting CFO*

So I'm not sure in terms of commercial sensitivity, what we've said about these contracts but certainly in our gas transmission business we're on a revenue cap from 1 October rather than a price cap. So therefore, if you like, if there's any rebalancing between customers it doesn't impact our overall revenues. So I wouldn't speak to the specific customer but there would be the general principle.

Simon Mackenzie - *Vector Limited - CEO*

Was it -- sorry it was a little bit hard to hear. Was it actually that or was it the contact metering contracts?

Matt Henry - *Goldman Sachs - Analyst*

No that was the question, thank you.

Simon Mackenzie - *Vector Limited - CEO*

Okay, cool.

Shane Sampson - *Vector Limited - Acting CFO*

And on consensus we -- according to our numbers -- the consensus across the analysts looks like NZD575 million EBITDA.

Simon Mackenzie - *Vector Limited - CEO*

With regards to your last question, Matt. With our PV we very much, as signalled earlier, saw this as a program to ascertain demand and also for us importantly, understand the network benefits and network interface. So we have connected over 50 customers on this program. We have seen very strong demand for this. We haven't gone out with a major marketing campaign. It has been very much through social media and channels particularly in the renewables kind of world. By way of example, we had, as I said 50 customers connected up but in order of magnitude higher than that with regards to people signing up and registering interest.

The solution, I think, is unique and is observed as unique by other jurisdictions in the sense that the main factor of it is really bringing in battery storage and also control technology that integrates with our network so that that energy is usable 24/7 either by the customer or the network and it optimizes the use of the solar energy generated with obviously the network characteristics.

The solution can also facilitate further down the path, if needs be we can integrate into it other technology in the home and/or services such as electric vehicles if they were wanting to be charged in the home as well. So we see this as very much where the world's going. The cost curves of solar has obviously been reducing, i.e. the panels, but what we're also observing is battery technology is also significantly reducing. The most complex area is actually the control of those devices and how they interface with our network.

Matt Henry - *Goldman Sachs - Analyst*

Thank you.

Operator

Thank you. Your next question today comes from Felicity Wolfe from Energy News. Go ahead, thank you.

Felicity Wolfe - *Energy News - Media*

Oh hi. I've just got a couple of questions. One was just around sort of the expectations around CapEx spend going forward if there's any significant projects on the horizon?

And the other one's just around smart metering and just you mentioned that there's been some interest in how things have gone on your roll out from overseas and I'm just wondering if Vector's looking at getting involved in any overseas projects?

Simon Mackenzie - *Vector Limited - CEO*

Yes, sure. The CapEx has obviously -- we split that between the regulated and unregulated sides. So as we mentioned we continue to invest in the regulated side of the business in accordance with the growth projections we have. And there is a slight increase in forecast going forward with

CapEx there. We disclosed that through our asset management plans. In the unregulated side of our business the capital will increase and there is a reflection of the increased customer contract volumes for the smart metering rollout.

With regards to your second question, smart metering, mentioned overseas interest. Yes we have had interest from overseas parties with regards to, probably two kind of key areas. One is how we've rolled out in New Zealand. This extended up into the UK where the UK Government was looking at how they actually facilitate smart metering in the UK. So we had some interface with the Department of Energy up there as they really wanted to understand how we had done this in New Zealand. But more importantly from a growth opportunity perspective -- and Australia is very much looking at smart metering now outside of Victoria and we are actively participating and looking at the opportunity for us to roll the service over into Australia.

Operator

Thank you. Your next question comes from Andrew Harvey-Green from Forsyth Barr. Go ahead, thank you.

Andrew Harvey-Green - *Forsyth Barr - Analyst*

Oh hi Simon and Shane. Just a couple of questions around the technology business. First question just around the CapEx requirements on the gas metering side of things. I understand obviously that the purchaser and contact is -- there is some additional CapEx required. Can you give us a bit of a feel around how much and when that's likely to be?

Shane Sampson - *Vector Limited - Acting CFO*

Hi Andrew. It's certainly not a material amount that comes in through that acquisition. So there's an increase but it's not big. I don't think overall we've given any indication of where we see that transaction going. So I won't go there now but not a material increase in the overall CapEx.

Andrew Harvey-Green - *Forsyth Barr - Analyst*

Okay.

Simon Mackenzie - *Vector Limited - CEO*

It's probably just fair to say that the way in which that may change would be if there was a decision to move from the gas traditional meters to smart meters. So obviously we would only do that if there was a contract in place to reflect that transition as well.

Andrew Harvey-Green - *Forsyth Barr - Analyst*

Yes, okay. And secondly are you just able to give us a little bit of a feel for what revenue growth you're seeing within the technology business regarding the meters versus the telecommunications [business type] services?

Shane Sampson - *Vector Limited - Acting CFO*

Hi Andrew. The bulk of the growth in that segment is coming out of the metering with the strong growth in the number of smart meters. So that's the bulk of the growth in there. And we continue to expect to see in the upcoming year, you know, double-digit growth in the technology segment overall in revenues and earnings.

Andrew Harvey-Green - *Forsyth Barr - Analyst*

Okay and so the telecommunications business is relatively steady?

Shane Sampson - *Vector Limited - Acting CFO*

So the telecommunications business continued to contribute in there but the growth is predominantly coming out of metering.

Andrew Harvey-Green - *Forsyth Barr - Analyst*

Yes, all right, okay. That's all I have, thanks.

Operator

Thank you. Your next question comes from Greg Main from First NZ Capital. Go ahead, thank you.

Greg Main - *First NZ Capital - Analyst*

Good morning guys. Yes, I just want to clarify that CapEx question. You sort of inferred that [though] you had NZD283 million this year, you inferred that it's going to be slightly more going forward. And then you've got the incremental of the contact meters business which you said isn't great. So does that sort of tend to imply you expect CapEx to be in that NZD300 million to NZD320 million range in FY14?

Shane Sampson - *Vector Limited - Acting CFO*

Hi Greg, we'd expect it to be a bit higher than that. If you look at our [end] numbers plus the continued growth in the smart metering business. So we're probably more sitting above the upper end of your range rather than within that range you've got there.

Greg Main - *First NZ Capital - Analyst*

Okay. And then secondly obviously with the regulatory decisions that have impacted gas [emissions and] electricity to some extent, you know, you're obviously inferring that there's a bit of nip and tuck in your costs that you can take out to offset some of that impact. I mean how much do you -- that internal question -- how much efficiency do you think you actually can continue to take out of the business on that angle, especially when you tend to sort of give some of it back to a regulator?

And then likewise on CapEx. I mean your asset management plan, I think had higher CapEx for FY13 depending on how you split the timing. And some of that, you know, you'd probably have to try to pull back on. So how much leeway have you actually got to play around with those numbers?

Simon Mackenzie - *Vector Limited - CEO*

Well I think probably the first part of your question is with regards to costs. We obviously have to be fully cognisant of the costs in the model and the pricing model that's used for the Commerce Commission. We continually -- I mean I think break it into two parts. We continue to drive operating efficiency in the business which is not only just cost but it's also, you know speed of service through some of the developments such as our smartphone app, that's reduced the number of call centre costs, for example, when we have outages. So those kind of reflect those adjustments. I think it's fair to say that it is -- we're not seeking big cost reductions out of the business and the operating side at the moment because that is actually also coming with, obviously, maintenance activities that we have to keep up with. So we're seeing that reasonably small levels of costs being able to be taken out of the regulated side of the business.

With respect to CapEx, probably the biggest issue there is around how quickly growth occurs in the subdivisions in particular as we've seen continued strong growth in the subdivision activities. But one of the other aspects when you link that to the extent of capital expenditure in that space is the way in which we seek developer contributions given the regulatory timing and context. Because for us it's very important to ensure that we're the -- the return from the Commission sets with respect to the timing of developments is critical from a timing perspective and how much they should be contributing. What I mean probably in a roundabout way is, is that capital contributions from those developers we fundamentally peg to what is the uptake expectation of the subdivision as well as what is the timing of the cash flow with respect to the regulatory reset period.

Other than that we continually focus on how we seek to find much more innovative and cost effective ways to deploy network, Particularly with in mind where customers' choice is going in other solutions such as renewable space. So we're actively not looking only at the solar area and the impacts that they may have but also things such as LED lighting. That's another key area we see. And looking at substitutes for typical network investments such as more cables in the ground through potentially rolling out LED solutions in various areas.

The other area that we're also focusing on is large scale battery storage and how that may also assist to manage peaks on our network through switching between adjacent areas as opposed to just solely burying more cables in the ground. So doing a lot of work in that, much more the technology end of the capital investment. Coordination of projects with other parties like we have done with Transpower. I think one of the other really big issues that we are focusing in on is just basically the way in which we tender out and manage contractors for the large scale projects and ensuring that we're getting open and transparent pricing through those processes.

Greg Main - *First NZ Capital - Analyst*

Thank you. That's all from me, thank you.

Operator

Thank you. Your next question today comes from Steve Hudson from Macquarie Securities, go ahead, thank you.

Steve Hudson - *Macquarie Securities - Analyst*

Hi Simon and Shane. Just a couple of quick questions. I just wondered if you could split out the NZD15 million [BPP] claw back between fiscal year '14 and '15? I think you've disclosed that number in the accounts today.

And then just secondly related to what you were just talking about Simon. I just wondered if you can split out the customer contributions and CapEx for this year? How much of the CapEx was actually customer contributions?

And then thirdly, can you give us a feel for what the -- your electricity revenue now is in terms of fixed versus variable? You mentioned as well that there's been a change in the pricing model post the resets and redetermination. So I just wondered if you could give us the splits?

Simon Mackenzie - *Vector Limited - CEO*

Sure, Shane will take you through those ones.

Shane Sampson - *Vector Limited - Acting CFO*

Hi Stephen, in terms of the claw back, roughly if you take that NZD15 million -- NZD15.4 million or something in the accounts. If you split that into quarters it's probably close enough in terms of the impact on the upcoming financial year. And in terms of the customer contributions. So customer contributions for the year were about NZD32.7 million overall and that was about NZD25 million in our electricity, NZD3.7 million in gas transportation and in technology about NZD3.6 million.

And finally in terms of fixed and variable, it varies a bit between the different segments. So the --

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Simon Mackenzie - *Vector Limited - CEO*

Residential.

Shane Sampson - *Vector Limited - Acting CFO*

Yes in the residential space, which is about 56% of our revenue, we were running at about 7% fixed and we've lifted that to about 24% in the current regulatory year. And as Simon said that's something we're continuing to work on given our costs are broadly fixed. We're looking to move that to be more reflective of the cost base over time.

Simon Mackenzie - *Vector Limited - CEO*

Yes, so Steve one of the other things that we are doing is because we also have to recover transmission charges we're moving to separate the recovery of those out separately from our residential lines charges. Such that under the legislation where we're caught by having to have a certain percentage of -- a tariff with low fixed rate -- we don't actually have the recovery of transmission bundled up into that which in essence lowers our own distribution revenue recovery to a lower fixed percentage.

Steve Hudson - *Macquarie Securities - Analyst*

Okay that's brilliant. And sorry, just to clarify Shane, the NZD33 million of customer contributions, how much of that would have shown up in the CapEx numbers that you've disclosed?

Shane Sampson - *Vector Limited - Acting CFO*

Well effectively all of the capital contributions will relate to CapEx in some shape or form. So I think as Simon talked about before with the developer, you know we might spend -- for example's sake -- we might spend NZD1 million on a development. The capital contribution will be less than that and will be factored around what we assume the uptake is and the revenues off that. So, if you like, you can look at netting that NZD30 million off the CapEx if you wanted to look what the next cash flow impact was.

Steve Hudson - *Macquarie Securities - Analyst*

Okay, that's great. Thanks for that.

Operator

Thank you. Your next question today comes from Craig Brown from OnePath Limited. Go ahead, thank you.

Craig Brown - *One Path Limited - Analyst*

Oh good morning. Two questions if I could thanks. Firstly, it's more a clarification. I guess having the Chairman there's helpful for this one. Just wanting to confirm that the intention to deliver sustainable and growing dividends is still in place given you've guided for a reasonable reduction in EBITDA for '13 over '14 -- for '14 over '13?

And the second question, I note Simon you mentioned in your presentation about the effect that the number of the price reductions that you've had to put through haven't come through to -- reflected into consumers' bills. Have you got a feeling that -- or I'd be interested in your views as to whether you think that the proposed Labour Party policy for the single buyer model will go some ways to ensuring that those sorts of reductions are passed through to consumers? Thanks.

Michael Stiassny - *Vector Limited - Chairman & Independent Director*

Craig, I'll answer your question around dividend. I think we're very aware of the need to provide certainty and clarity around the dividend. So we are still very focused on lifting dividend and what we are signalling with the increase is a bottom position rather than something that will lower over time. So this is the bottom position and can only increase.

Craig Brown - *One Path Limited - Analyst*

Thanks Michael.

Operator

Thank you.

Simon Mackenzie - *Vector Limited - CEO*

Sorry, just with respect to your second question. As we noted we haven't seen those price reductions pass through -- only a minority of retailers in Auckland. It's fair to say that -- well you mentioned about the Labour Greens policy -- I don't have a view on whether or not that will make any difference. From my read of it I don't think it really went into mechanisms around ensuring pass throughs from lines businesses to -- through to consumers. However, I do think that certainly we know -- we're in discussions with the Electricity Authority, they're very focused on ensuring there's healthy retail competition and transparency with regards to market and pass throughs and so forth, so I'd imagine the Electricity Authority will be very much more focused on, how does this fit into the overall mix of ensuring there's a competitive market.

Operator

Thank you. Your next question today comes from David Lewis from Milford Asset Management. Go ahead, thank you.

David Lewis - *Milford Asset Management - Analyst*

Hi. I just want to get a little bit more colour on your financial policy, please, in terms of how you think about, especially, dividends and taking the gearing internally, what sort of metrics you look at, whether it's pay-out ratio, net debt, net debt to equity, if you have a target for that, and also relating to the gearing, what the commitment, I guess, is to the credit rating and how you think about that at the current level? Thanks.

Shane Sampson - *Vector Limited - Acting CFO*

Hi, David. Our financial policy has been quite clear, that our dividend flows off the operating cash flow list, replacement CapEx line with a target of 60% over time. I think it's where you've signalled, in previous periods, we've paid well below that, so I think 2010 51%, 2011 56%, 2012 53% and this year 49%, recognizing the upcoming regulatory impact. As Michael put it before, we know our shareholders want to have certainty, so we've paid it lower than that target 60%, recognizing that there are some challenging years coming up. So, that's our policy. In terms of the gearing, we don't have a specific commitment to the credit rating agencies. They obviously do look at forecasts for our business, and certainly in terms of the last report that they put out, they were comfortable with where we were heading. I think if you compared us to some of the Australian companies, for example, our gearing is quite a bit lower. Does that cover your question, David?

David Lewis - *Milford Asset Management - Analyst*

Yes, I think, broadly. Is there any reason you couldn't operate the business at BBB flat?

Shane Sampson - *Vector Limited - Acting CFO*

We've been quite focused on retaining BBB+, so we I guess -- I wouldn't speculate in terms of other ratings it might end up at. We're BBB+ stable currently.

Simon Mackenzie - *Vector Limited - CEO*

Yes, I think also that we're obviously waiting for the Merit Appeals process and we've obviously had discussions from a Board perspective around our policies, particularly with regards to the 60% target, and also the credit rating metrics. We have always articulated our intention to remain BBB+, but I think it's very important to put that in the context of the regulatory environment in New Zealand, as well. I don't think it would be prudent for us at this point in time to go looking to change that until such time as we see where the regulatory regime finally lands post the Merit Appeals, and also Standard & Poor's potentially looking at the global methodology.

Michael Stiassny - *Vector Limited - Chairman & Independent Director*

So, I think, David, we're at two points. One, we're changing our mix from regulated to non-regulated business, so we're being creative and pushing the envelope in that regard. Then, at the same time, we're sending some very strong messages to our shareholder base of conservatism and certainty in the way we do business. It's finding the marriage between those two, I think.

David Lewis - *Milford Asset Management - Analyst*

That's helpful, thank you.

Operator

Thank you. I have a follow up question from Grant Swanepoel from Craigs. Go ahead, thank you.

Grant Swanepoel - *Craigs Investment Partners - Analyst*

Yes, sorry about this. Simon, you mentioned that the (inaudible) haven't passed on the discounts. Do you have a clear sight into what is going on, on their contracting with their customers in terms of changes, in terms of locking in price points at lower levels if you sign up for a two or three year contract, et cetera? Or is your assumption based on just the headline number that you see?

Simon Mackenzie - *Vector Limited - CEO*

Basically, what we're working off is the reported stats from [mobi], and so they publish the stats for Auckland, and they actually came from these stats. I'm not really going into why or not the retailers may or may not be passing them on. The issue we're making is that if they're not being passed on, it does make, in our view, a bit of a mockery of the regulatory regime, because the intention of the regime is that those benefits get passed on to consumers. So for us, when we drive efficiencies and drive productivity as a business, and through a reset process, which as you know occurs normally every five years, our objective is obviously to deliver a better result through that five-year period, through cost efficiency, productivity, to earn better than the regulatory return, get reset down. That's something that should actually be then shared with consumers.

So the bigger issue for us is why, from a regulatory perspective, it doesn't seem to be occurring. That's not saying it mightn't occur in the future, but currently, from the stats provided, that doesn't appear to be occurring.

Grant Swanepoel - *Craigs Investment Partners - Analyst*

So can I infer that you're implying that this is not a competitive regime up here, this level of churn you're seeing in the market is not really having an impact on competitive pricing, and that there's not a difference between regulatory markets and competitive markets?

Simon Mackenzie - *Vector Limited - CEO*

No, you shouldn't infer anything from it. We're really just much more focused on particularly making sure that those gains that we make from our line services go through to consumers. I'm not making any inference on the nature of the competition in the market. I actually think that that's much more of an issue, as I mentioned earlier, for the Electricity Authority to [pine] on, and I certainly know that they've got ongoing work streams around facilitating customers' information and transparency, which is probably best to speak to Carl Hansen at EA on about.

Shane Sampson - *Vector Limited - Acting CFO*

But we do endorse what --

Grant Swanepoel - *Craigs Investment Partners - Analyst*

Thanks.

Operator

Thank you Sir. Showing no further questions at this time.

Simon Mackenzie - *Vector Limited - CEO*

If there are no further questions, we'd just like to thank everyone for attending this morning, and if analysts have any further questions, please contact Daniel and if media have any questions, contact Sandy with the contact details provided. So thank you very much for joining us.

Michael Stiassny - *Vector Limited - Chairman & Independent Director*

Thank you.
