Good morning everyone and welcome to Vector’s Full Year Market Briefing for the 12 months ended June 30, 2014. I’m Michael Stiassny, I’m Chairman of Vector. Joining me on this webcast and teleconference this morning is our Group Chief Executive, Simon Mackenzie and our Chief Financial Officer, Dan Molloy. Simon will begin today’s presentation by giving a quick overview of the highlights of the 2014 financial year followed by Dan providing an overview of the financial result. Simon will return to discuss the operating performance of our segment and the presentation will conclude with an update on the outlook.

Once the formal part of the presentation is over, there will be time for your questions. But before I hand over to Simon, let me quickly discuss the final dividend.

We have faced a challenging year but we are pleased with our performance. Our financial results are in line with market expectations, our technology business continues to grow and this demonstrates the benefits of our portfolio diversification. Well signalled regulatory price resets to the electricity and gas networks and the end to Kapuni gas at legacy prices, have weighed heavily on our Group revenue and net profit. However, we continue to deliver on our aspirations to be New Zealand’s first choice for integrated infrastructure solutions and to deliver sustainable increases in dividends to our shareholders.

The Board has resolved to pay a final fully-imputed dividend of NZD0.0775 per share, unchanged from last year. The dividend brings total dividends for the year to NZD0.1525 per share up NZD0.0025 on last year’s NZD0.15 per share.

This is the eighth consecutive year of dividend increases reflecting prudent management of our capital in the lead up to regulatory imposed price reductions on our energy networks and our determination to provide investors with stability through this regulatory period.

It also reflects our success in delivering services attuned to our customers, growing our portfolio of businesses and driving operational excellence. The dividend will inject at least NZD100 million into the local economy by our distributions to shareholders and distributions to beneficiaries of our majority shareholder the Auckland Energy Consumer Trust. However, further recent regulatory actions place additional pressure on future dividends and investments on our regulated assets. Simon will talk about this later.

As long as commercial rationality emerges from the regulation of our energy networks, Vector’s energy infrastructure business is well positioned to grow over the long term given the concentration of our assets in the growing Auckland region. We also continue to see the emergence of opportunities, particularly in our technology operation.

I’ll now hand over to Simon to give you an overview of the result.
Simon Mackenzie - Vector Limited - CEO

Thanks Michael and good morning everyone. Vector’s financial performance this year reflects our commitment to understanding and taking into account customers’ current and future perspectives. Until recently our smart meter business [and] Vector Communications for example made a negligible contribution to the Group result. Today they make up a significant contribution to our bottom line and have supported the Group financial results in the face of significant regulatory imposed price reductions on our energy networks. We have similar aspirations for a number of emerging businesses within our portfolio of operations which I’ll talk to more shortly.

Adjusted EBITDA fell 7.9% to NZD580.7 million. The price reductions on our energy networks were responsible for most of the fall. EBITDA at our gas wholesale business also fell due to the end of our entitlements to Kapuni gas at legacy prices but continued growth in our technology business has partially offset these effects.

Revenue for the 12 months to June 30 fell 1.6% to NZD1.26 billion and net profit fell 16.9% to NZD171.3 million. Operating cash flow fell 14% to NZD366.6 million in line with earnings. Meanwhile, the prior year’s operating cash flow was lifted by the timing of payments to certain creditors. Capital expenditure increased 13.6% to NZD339.2 million and capital expenditure directed at growth initiatives was NZD202 million and was evenly split between regulated and non-regulated businesses.

However, the regulatory regime is making it increasingly difficult to advocate for incremental capital to be allocated to our regulated businesses especially when we see the potential for much more appropriate commercial outcomes in our non-regulated activities.

I’ll now hand over to Dan to take you through some more detail.

Dan Molloy - Vector Limited - CFO

Morning everyone. Thanks Simon. The first slide in my section summarises the Group profit statement. Michael and Simon have covered the key features of this already so let’s move on -- straight on to the divisional results.

Slide 11 summarises the performance of the electricity business over the year. The regulator imposed priced reductions weighed on our electricity business in FY14. These reductions in place since April 2013 equated to a weighted average total of 10%. The business was also impacted by warmer winter weather. Both August 2013 and June 2014 claimed warmest on record status. This was one factor contributing to consumption of electricity transported on our network falling by 1% over the year.

Revenue, however, remained essentially static. This was due to higher pass through charges which do not flow to EBITDA. Higher capital contributions on the back of connection growth and Auckland infrastructure activity offset in price reductions and the effects of the weather.

An increase in maintenance expenditure was driven by an unusually high number of extremely windy days. This contributed to a significant increase in normalised SAIDI, which is our measure of network reliability and this rose to 141 minutes for normal operations for the regulatory year to March 2014.

We’re now starting to see the impacts of Auckland Council’s housing growth initiatives with net new electricity connections for 2014 up 17.9% to just over 4700. Electricity customer numbers increased 0.9% over the year to almost 544,000. This growth is the main driver of increases in growth CapEx for the electricity businesses.

If we move on to the next slide, slide 12, which shows the performance of the gas transportation division. The fall in revenue and earnings for the gas transportation business reflects the regulator imposed price cuts to our gas transmission and distribution businesses of 29% and 18% respectively. The cuts were effective from October 1, 2013.
Operating expenditure in the gas transportation division increased but this was largely due to higher pass through costs. Capital expenditure increased due to growth in Auckland and growth in business connections and in particular a connection to the new NZD220 million Yashili dairy factory in Pokeno.

Slide 13 shows the gas wholesale division. Now the financial performance of gas wholesale was impacted by the end of entitlements to Kapuni gas at legacy prices, lower demand from electricity generators and increased competition. We have however seen pleasing growth in our LPG business. LPG volumes were up over the previous year with strong growth in wholesale LPG and across all cylinder markets. Liquigas LPG tolling volumes increased by 17.8% over the year.

Competitive pressures in the LPG market are intense but we’re continuing to grow our position. The High Court confirmed our right to approximately 7.3 petajoules of Kapuni gas at legacy prices. Vector retains the right to purchase 50% of the gas remaining in the Kapuni field from April 1, 1997. Arbitration to resolve the price for the next tranche of Kapuni gas is set to commence April 2015.

The next slide shows you the results from the technology division. This division delivered the stand-out result for the year and this was due to smart meter deployment and the integration of the gas metering business acquired from Contact Energy. We installed approximately 170,000 smart meters over the year which is an average of more than 14,000 meters per month and we finished the year with an installed base of 676,000 smart meters.

The increase in depreciation you’ll see on the table reflects increased smart meter deployment and the depreciation linked to the gas metering business acquired at the end of last financial year. Capital expenditure was targeted at the smart meter rollout and also into an IT investment program.

Looking briefly at shared services on slide 15. Head office costs were contained with adjusted EBITDA largely in line with the prior year.

Our cash flow is summarised on slide 16 and as Simon mentioned earlier, the fall in operating cash flow was broadly consistent with the decline in earnings, it was also impacted by higher interest costs. CapEx streams continue to be driven by investment in the smart metering program and investment in our networks to accommodate growth. We also settled the acquisition of Contact’s gas metering business in the 2014 financial year.

The last slide for me shows our asset backing and capital structure. Our balance sheet remains sound. Net debt at year end was NZD2.46 billion with gearing up slightly at 51.6%. Interest cover stood at 2.3x.

Standard & Poor’s cut our credit rating from BBB+ to BBB in December primarily due to concerns over the stability of the regulatory regime. The rating action will not have any immediate impact on our business given the long dated duration of our debt portfolio. We remain an investment grade credit risk.

With that, I’ll hand you back to Simon.

Simon Mackenzie - Vector Limited - CEO

Thanks Dan. Turning to slide 19. We believe we can achieve our goal to deliver sustainable increases in dividends to our shareholders through our focus on five key strategic areas.

First and foremost is obviously investing where we can achieve the best commercial outcome. Understanding and taking into account customer perspectives in everything we do, particularly into the future. Looking always to deliver operational excellence through cost management. Seeking certain and fair regulatory outcomes and a core principle being to foster excellent health and safety outcomes. We also embrace a spirit of innovation across all of these areas and we’ve made good progress in most of these domains during the last year.

Turning to slide 20. As long as commercial rationality emerges in the regulatory environment of our energy networks, our energy infrastructure businesses are well positioned to grow over the long term. Our assets are concentrated in Auckland, where the pace of development has picked
up thanks to local and central government growth initiatives, favourable economic conditions, strong net migration to the region and a gradual recovery in the housing market. Net new connections on our regulated energy networks increased 19% to 7507.

We meanwhile continue to see the emergence of opportunities, particularly in our technology operations. Our metering business continues to grow strongly. We are contracted to install almost 900,000 smart meters up from 764,000 a year earlier following new contracts with Contact Energy and the SmartCo consortium of electricity distribution businesses.

We're also, however, in the process of seeking certification as a meter and data services provider in Australia and we see the potential for growth in our emerging businesses as well. We believe for example that solar panels and the associated technology are maturing to the point of mass market appeal.

Slide 21. The pace of change in our industry will increase exponentially over the next decade and we're up for the challenge and prepared for this. The balance of power is shifting from utility service providers to consumers. Energy distribution technology, largely unchanged for decades, now allows customers to switch suppliers, switch energy solutions and switch from the grid.

Customers are demanding choice and the highest standards of service from utility service providers. They are targeting energy consumption as an area for saving money and they are actively managing their energy needs. Customers are also environmentally conscious and more technology savvy and therefore willing to adopt technology such as solar panels that allow them to generate their own electricity.

So we're meeting these needs by implementing a single contract across our electricity networks, enhancing communication via upgrades to our websites and outage managers, leading the development of a trading market for wholesale gas customers and working on numerous initiatives around distributed generation, including solar solutions, battery storage, smart metering, energy management and electric vehicles.

We are also encouraging customers to check with their retailer that they have benefitted from the significant price cuts we made last year and the year before by checking they're on the correct tariff suited to their needs. We believe a major flaw in the current regulatory process is that there is no mechanism, regulator or government department with accountability to ensure these benefits are passed through to customers.

Slide 22. We deliver real value to customers. After stripping out inflation, our charges have fallen over recent years, however, over the same period, the cost Vector has been charged for the transporting of electricity to its network has risen due to increases in the costs we pass through to customers, primarily transmission costs. Transpower's transmission costs increased 17.2% in the current pricing year.

We continue to make significant inroads and driving efficiencies to our network and we continue to seek ways to make our services better. Our electricity distribution network has the lowest cost in the country on measures such as operating expenditure per unit of electricity delivered and average operating expenditure per electricity customer.

We've introduced new products across the metering network including offering consumers the opportunity to export solar power back to the grid. We also utilised geographic information services and cutting edge new acoustic technology to proactively address maintenance issues and we have upgraded more than 140 kilometres of Auckland gas pipes from cast iron to more durable polyethylene.

Slide 24. Unfortunately, the regulatory regime does not recognise these achievements and is not keeping pace with technological change. The regime assumes that the new network investment will have an average life of more than 40 years and that the bulk of our positive cash flows should be skewed towards the end of that period as we are preparing for the renewal of the assets.

As a result, capital invested under this methodology means the cash flow profile that does, in our view, not reflect the risk that technological change could leave once essential assets redundant or stranded and ongoing regulatory risk through changes to the regulatory settings.

Another issue that we are concerned about is inflation forecast errors and how this impacts allowable revenues over a price path period. PwC for instance has calculated that differences between recorded inflation and the regulator's forecast used in its regulatory price setting processes for
inflation will result in electricity businesses recovering NZD150 million less than they are allowed to over the 2013/2015 regulatory period. The regulator's model takes no account of this.

In the case of Vector, this error by the Commission equates to NZD57 million of under recovery given actual inflation and we are strongly of the view that the Commission must correct this error in terms of both past and current [future] resets. The Commission does not recognise the trend we are seeing in the falling consumption per ICP. Meanwhile, the draft decision in July to adjust the method the regulator uses to determine our cost of capital and therefore reduce the allowable returns on our assets runs contrary to a position the Commission has held for a considerable period of time and one that has been backed up by a body of analytical work.

As the Standard & Poor's downgrade shows, it is clear the frequency of change to core elements of the regulatory regime is adding significant cost to New Zealand infrastructure providers. We have invested in good faith to support growth, nevertheless, the unattractive cash flow profile and the allowable returns on our regulated networks are making it increasingly difficult to advocate for incremental capital to be allocated to our regulated businesses. This is especially the case when we see the potential for much more appropriate commercial outcomes and returns in our non-regulated activities.

If this situation persists over the longer term, it could discourage investment in regulated energy networks. We will continue to work with regulators and government to address the imbalances we see.

Slide 25. We continue to work to ensure we operate our infrastructure assets safely while caring for the wellbeing of the people who live in and around them. We have developed a three year health, safety and environment strategy which requires commitment and proactive leadership from our Board, senior leaders, employees and contractors alike. We have also launched a number of initiatives to foster talent in the business.

Returning to outlook. The coming financial year will be challenging with regulatory pricing adjustments relating to prior periods and an expected continued decline in per capita electricity usage, offsetting growth and connection rates. However, at this stage we are comfortable with consensus estimates for adjusted EBITDA of NZD88 million for the 2015 financial year, subject to the finalisation of regulatory parameters in November, Auckland growth energy demand.

We have a great team committed to our core goals and we remain focused on customer solutions, the demands of our gas customers, delivering on the potential of our technology operations and assuming commercial rationality emerges in the regulation of our energy networks meeting population growth in Auckland.

So that concludes today's presentation. We're now going to hand over to the conference moderator for your questions and please follow their instructions.

**QUESTIONS AND ANSWERS**

**Operator**

(Operator Instructions). Grant Swanepoel, Craigs Investment Partners.

**Grant Swanepoel - Craigs Investment Partners - Analyst**

Good morning team. A quick question on wholesale gas, with Genesis more active in that market you mentioned it's more competitive. Do you see that playing out negatively for your division over the next 12 months or is there enough going on in terms of contracts you've got in place to hold whatever profits you've achieved so far?

Second question is on price cuts for the electricity business in April relative to your -- being comfortable with analysts' expectations. Have you put the P67 price cut in and what does that equate to?
Final question, where you guys are tracking at the moment relative to regulatory returns on your electricity and gas businesses, can you give some indication of what prices might have to occur over the next couple of months in order to comply one way or the other? Thank you.

Simon Mackenzie - Vector Limited - CEO
Yes, hi Grant. First question -- sorry there’s quite a lot there so start off with the wholesale gas question. Look we have always said that the gas market is competitive. We have a very strong position in the market. We have obviously relationships with upstream field providers for the buy side and we have good relationships with a very large proportion of the -- sorry, I should say the customers in the market. So that is always going to stay competitive but we do believe that where we sit at the moment we are comfortable and we will continue to compete.

Dan Molloy - Vector Limited - CFO
Grant, it’s Dan. From a financial perspective we’re forecasting sort of flat performance for that business (technical difficulty).

Simon Mackenzie - Vector Limited - CEO
So turning to price cuts. I think there’s a lot of focus on P75 versus P67, obviously that’s still got to play out with regards to final decisions. In conjunction with that, as well, we have the DPP settings. As we mentioned earlier, we have a difference of opinion with regards to what’s happening with volume. But with regards to P67, Dan can give you some indication around that implication, I’m sure most of you have modelled it in any case.

Dan Molloy - Vector Limited - CFO
So Grant we have -- to your second question we have included the draft DPP parameters and P67 in our forecasts. Obviously comes in from the fourth quarter and depending on where the Commission sits relative to its current position or to the position that we’re advocating, you’re looking at a range of P0s from between a sort of 5% negative P0 to a 1% positive P0.

Simon Mackenzie - Vector Limited - CEO
If I understood you correctly, you’re talking about how we were tracking versus -- for this year with regards to our returns in the electricity business in particular. So we’re tracking against the Commission’s numbers of 8.7%, we’re sitting at about 8.02% and that reflects the difference in volume in particular.

Grant Swanepoel - Craigs Investment Partners - Analyst
Thanks very much.

Operator
Felicity Wolfe, Energy News.

Felicity Wolfe - Energy News - Media
Hi, look, I’ve just got a couple of questions around the smart meters, and particularly sort of your plans in Australia. You mentioned that you’re undertaking or undergoing some certification at the moment, how long will that process take and what does it involve and also how -- when do you think that you might be doing some actual work over there?
Also my second question is just around the SunGenie program. You’ve got sort of about 200 until the end of the financial year, I was just wondering how that’s going to date, what the expectations are for this year and whether or not it’s still a trial?

Simon Mackenzie - Vector Limited - CEO

Yes, sure Felicity. With regards to Australia and metering, we have to be accredited to operate in Australia. It’s roughly about a six month program. We’re, I guess, about six weeks into that and basically the accreditation is to be a meter service provider and data manager. So really it’s around developing the processes and systems to meet the market requirements for their metering regulations and so that’s basically a process that we have to meet to be able to provide those services in the market.

Where do we actually see things tracking. Well the market in particular between New South Wales and Queensland is starting to move I guess in two ways. One is that they’re obviously looking to divest parts of their businesses whether it’s in New South Wales or Queensland, so there’s the potential of selling down assets. Coupled with that, they’re also as part of that process looking at how smart metering gets rolled out.

We’ve been strong advocates in Australia for the same market model that’s been put in place in New Zealand, so that’s a retail customer led market model as opposed to a regulated market model. Some of the issues that are being worked at in Australia are primarily around displacement fees for existing legacy meters and whether there should be any or not. What occurs with that is a debate around if meters do get displaced how does that impact on the carrying values of assets in some of the businesses that are being sold. So we see that accelerating though and we are actively involved in the market both from the regulatory design perspective as well as working with customers such as the major retailers over in Australia to provide solutions.

With regards to our solar solution, the SunGenie. I think the first thing I’d probably mention which is the most pertinent point is that I think there’s a lot of talk about the solar and what’s going on. There’s no doubt that globally solar has grown significantly. Yes it has grown in a lot of markets because of subsidies but interestingly where we see subsidies being removed in countries such as Australia you’re still seeing solar grow at about 12% per annum by way of penetration.

Our trial has -- SunGenie we are reviewing where we go next with that. We still remain committed to solar solutions and we have found through our trial in this product it’s really identified the benefits of battery storage and how that integrates into our network as well as I think the most important point around what are the consumer trends and what are their motivations for solar?

Probably the biggest issue there is that a lot of people in the traditional energy markets think very much in terms of energy economics rationality in their world as opposed to in the context of a customer. Customers, we’ve certainly have found, are looking at price as about a third order issue, there are much wider issues that they look at. For example taking charge of their own energy, of issues from an environmental perspective and actually wanting to basically embrace solar as a solution.

That has also led in our case in a number of instances -- sorry, in most instances, for consumers that do have solar to actually use more energy once solar has been installed than prior to installing it. The most important part for us is to ensure that the environment is such that the control of the solar can be integrated into the network and the customer has information and control to be able to use those solutions effectively.

Felicity Wolfe - Energy News - Media

Right. Sorry, do you have any idea of just -- or forecast for growth in that over the next year?

Simon Mackenzie - Vector Limited - CEO

Oh we’re not going out into that detail but it’s fair to say that what we have seen by way of customer demand has lifted significantly in Auckland and we recognise also that it is also a competitive landscape where there are a number of other operators operating in the market as well. But
there is absolutely no doubt from where we sit that there is a lot of people looking to embrace solar and the amount of interest that we have has lifted significantly.

Felicity Wolfe - Energy News - Media
Okay, thank you.

Operator
Andrew Harvey-Green, Forsyth Barr.

Andrew Harvey-Green - Forsyth Barr - Analyst
Morning guys, a couple of questions from me. Just first of all I guess looking at those electricity costs in the second half, I think they’re coming around about NZD47 million all up and understand maintenance is a large chunk of that. But that is sort of the highest number I think we’ve seen, at least going back the last five or six years, so I imagine probably historically. Can you just give us a feel I guess how much of the -- how much those storms -- what sort of maintenance, one-off costs we’ve got in that number?

Dan Molloy - Vector Limited - CFO
Andrew, thanks for the question. In terms of the storms, NZD1 million to NZD2 million in the financial year. In terms of some of those -- the other reasons that operating expenses are up so strongly, looking at Transpower is up about NZD12 million, rates up about NZD3 million. Maintenance [spins] up about NZD7 million and that’s driven as you say by storms but also a decision to accelerate the corrective maintenance program this year -- or sorry, last year.

Andrew Harvey-Green - Forsyth Barr - Analyst
Okay, so in terms of going forward how should we think about what sort of level of maintenance you might be looking to do?

Dan Molloy - Vector Limited - CFO
We will be -- we’ll be reducing that in line with the DPP parameters.

Andrew Harvey-Green - Forsyth Barr - Analyst
Okay and a next question I guess was just around the gas trading and looking at the gross margin and what’s happened in that business. In the first half it came in I think around about 35% and the second half it’s sort of 36.7% so you’ve managed to get a little bit of a lift in the gross margin. Are you able to sort of give us an idea of what’s driving that and presumably given your previous comments around gas trading profitability for next year it’s going to stay at that sort of level going forward?

Dan Molloy - Vector Limited - CFO
Okay, so I guess we’re -- in the market we’re seeing some changes in terms of -- we’ve been able to buy gas a bit better. We’ve been able to -- we’re getting some strong growth in the LPG sector, particularly in Bottle Swap and we’ve also had strong growth in Liquigas, particularly, which has
added quite a bit in terms of the financial performance of that gas wholesale business. So those are the key factors playing into the second half performance of that business.

Andrew Harvey-Green - Forsyth Barr - Analyst

All right and just a last question, couple of questions I had just around the technology business. Are you able to give us a feel for what percentage of that business is now smart meters in terms of the NZD120 million how much -- or [NZD136 million] smart meters and NZD100 million of EBITDA are smart meters versus the other items within that division?

Dan Molloy - Vector Limited - CFO

No, look Andrew we've never unpacked the technology division so the level of disclosure we give is the limit of sort of where we want to be at this stage.

Andrew Harvey-Green - Forsyth Barr - Analyst

Right okay, that was all from me, thanks.

Operator

Thank you. (Operator Instructions). We are showing no further questions at this time.

Simon Mackenzie - Vector Limited - CEO

If there are no further questions, we'll end the teleconference and thank you for your attendance. If analysts have further questions please contact Dan and media can contact Sandy Hodge. Both will be happy to help with any questions you have. Thanks very much for joining us.

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