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Vector 2015 Annual General Meeting
2:00pm Thursday 22 October 2015
Ellerslie Function Centre

Chairman's Address

Good afternoon ladies and gentlemen.

My name is Michael Stiassny. I am Chairman of Vector. As we have a quorum and it's 2:00pm, I am very happy to declare open the 2015 Annual General Meeting of Vector Limited.

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

In addition to those attending in person today, **1,113** shareholders, holding a total of **809,968,401** shares, have appointed proxies. They are represented by **12** proxy holders.

In my capacity as Chairman of the meeting and in my own name I hold proxies for **1,004** shareholders, representing **57,961,007** shares. Included in the proxies are **751 million** shares held by the Auckland Energy Consumer Trust, our majority shareholder. The Trust is represented in the audience today by AECT Chair William Cairns and trustees Warren Kyd and Mike Buczkowski.

Members of the news media are also here today and we welcome you. But, I would remind you this is a meeting for shareholders. Vector's Group Chief Executive Simon Mackenzie and I will be happy to talk to you after the meeting.

Before we move on to the agenda, I have a couple of housekeeping matters to discuss. If you have a cell phone, please switch it off. If we need to evacuate this room for any reason, there are exits behind me and there is also the entrance you came through.

Thank you.

It's also my pleasure to introduce my fellow directors: Peter Bird, James Carmichael, Hugh Fletcher, Jonathan Mason, Dame Alison Paterson, Karen Sherry and Bob Thomson.

I would also like to introduce Nick Astwick, who sits on the Vector board as a participant in the future directors programme, which aims to give talented people the opportunity to participate on a board for one year.

In my role as President of the Institute of Directors and in other governance roles I hold, I have been a keen advocate for this programme. I believe it can play a key role in expanding the pool of New Zealand directors and support the country's economic growth.

Nick - drawing on his 20 years of experience in the financial services sector - has made a valuable contribution to Vector since he joined the board in July demonstrating the value of the programme and diversity in a board room.

Also joining us on stage is our Group Chief Executive Simon Mackenzie and Diane Green our Company Secretary. We have members of our executive team here today, our external auditors KPMG and legal advisers Russell McVeagh.

This meeting follows a slightly different format to other years. We released our financial results in August and they are well covered in our annual report so we are not going to focus on them too much.

Instead, before we get into the formalities of voting, we wanted to spend a little time focusing on the key initiatives that we believe will create value for you as shareholders over the long term.

I will start with an overview of the Vector strategic framework as it is against this we believe you should judge the success of the company. Simon will then review the key initiatives of the past year and the opportunities in the year ahead.

After that we will open the meeting for discussion on the annual report, including the financial statements and audit report as well as matters we have raised in our respective addresses to you. We will then attend to the formal business and then it will be time to vote on the resolutions.

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

The energy industry is undergoing a period of rapid transformation due to advances in technology and customers' ever-growing demands for greater choice and service. Our response to this change rests on our vision to create a new energy future.

In the face of this significant transformation, we seek to understand and proactively lead the change in our industry, to give customers the choice and control they want and make the most of the challenges and opportunities we see emerging.

We achieve this by leveraging our heritage. All our actions seek to make the most of the position we now occupy. We are the country's largest distributor of electricity and gas.

We provide services essential to New Zealand's economic growth. We have sophisticated technological expertise, extending from the management and operation of energy networks through to the technology of adjacent industries, including smart metering, telecommunications and information technology.

We have a strong portfolio of businesses, which we operate safely and reliably. We enjoy good relationships with customers and operate a culture committed to putting their needs at the top of our minds.

These qualities represent a very strong foundation from which the company can develop in the future. Put another way these qualities give us the opportunity to create options that make sure we are always ahead of the transformation that is taking place in our industry.

This vision is underpinned by our five strategic pillars. These are the lenses through which we assess our performance and take decisions on the future of the business.

We seek to meet or exceed customers ever rising expectations. We seek growth options that are sustainable for the long-term. We drive operational excellence across our business and we are always looking at how we can do things better. We look for partnerships with organisations and people with complementary expertise and interests to take advantage of the opportunities we see.

Finally, our people and culture are central to our success. We aim to provide a safe and great place to work, a place that values diversity and forward thinking and attracts and develops talented passionate people.

We see this as fundamental to unlocking creativity and innovation and creating the type of organisation our customers and partners want to do business with.

The outcome of all of this is growing shareholder value including sustainable increases in dividends to our shareholders.

So how have we done?

For the ninth year running we have delivered an increase in dividend to shareholders.

The Board this year declared a fully imputed final dividend of 8.0 cents per share, taking total dividends for the year to 15.5 cents per share, up 0.25 cents per share on the prior year.

We are proud of our record. We are one of the few companies in the NZX 50 Index to have steadily increased dividends over the past decade; a period that included the worst financial crisis in nearly a century.

The dividend represents a pay-out of 69% of free cash flow. This is ahead of our policy to target a pay-out of 60% and compensates for below target pay-outs in the four years prior to the last financial year.

We have made significant strides in all areas of our business. We are growing organically. New electricity connections rose 26%. Our metering business gained new contracts to roll out meters for the SmartCo consortium of power companies and Meridian Energy.

And, as the December 2014 acquisition of Arc Innovations demonstrates, we are growing with value-enhancing acquisitions.

We are at the forefront of adapting new technologies that are transforming the electricity industry worldwide and are creating new opportunities for the company.

The best example of this is our ground-breaking relationship with Tesla Energy, through which we expect to bring residential and commercial battery solutions to New Zealand and in so doing change the electricity landscape both in Auckland and further afield.

Another good example is the work we are doing to develop the charging infrastructure for electric vehicles.

Our new online gas connection tool, which cuts the quote time for a gas connection from days to a matter of seconds, is among the latest examples of our efforts to deliver services in ways that exceed customer expectations.

We faced a challenging year on our electricity networks. In the regulatory year to 31 March 2015, we weathered four major events that challenged our strong record for providing a reliable electricity supply. These events included three major storms and the fire at Transpower's Penrose substation last October.

As noted in our annual report, Vector and Transpower have completed their investigations and delivered their joint report to the Electricity Authority. The EA is now completing its report for the Minister of Energy and Resources.

We continue to raise the bar on health and safety practices. Notably, we this year ceased live-line work except in special circumstances where health and safety and risks could be exacerbated by turning off the power.

In addition, we cut our total recordable injury frequency rate by 42.5% over the period.

We also continue to drive a performance culture within our business. Promoting diversity is at the centre of these efforts. The Vector Board understands that valuing gender, age and ethnic diversity is good business sense.

It drives high business performance, ensures better alignment with customers and it delivers different perspectives, skills and experience on which the company can draw. Diversity is also essential to delivering the highest standards of corporate governance, which remains a core focus of the Vector board.

The efforts the board is making to promote diversity through initiatives such as the Future Directors' programme is replicated throughout the organisation.

In recognition of our efforts we were pleased to be announced the winner of the Supreme award at the Equal Employment Opportunities Trust 2015 Diversity Awards as well as winner of the Tomorrow's Workforce award, recognising our innovative responses to tackling future labour force challenges.

It has been another good year for Vector. I would now like to hand you over to Simon who will cover some of these points in more detail.

Group Chief Executive Address

Thank you Michael. Good afternoon ladies and gentlemen.

As the chairman said, we will take the annual report as read and therefore I will only cover the main features of the results.

Overall they show Vector benefiting from strong growth in Auckland, a return to cooler temperatures in line with historic averages and ongoing growth in our technology operations.

We made these gains despite significant price cuts to our regulated energy networks, falling natural gas volumes and weaker prices at our gas wholesale business.

Annual revenue rose 2.8%, with much of that increase due to increases in Transpower charges, rates and levies and other costs that are passed through to customers.

Adjusted EBITDA is up 2.8%, while net profit is down 12.8%.

As you can see, we have seen gains across most operating segments of our business. The gas wholesale segment has faced some challenges including falling natural gas volumes and a highly competitive market.

However, our LPG business and particularly our bottle swap business performed strongly in the face of these challenges, further validating our investment into this operation over the last few years.

Meanwhile, Vector Communications continues to make a positive contribution to the business in the face of tough competition in the broadband market.

When we look to the future, the success of the bottle swap operation serves as a good example of what you should expect from Vector.

Only a few years ago most people filled their BBQ bottles at a petrol station. Today most people swap bottles and demand is growing strongly, so much so that we are investing $22 million in a new bottle filling station that will open next year.

Our investment into this business arose from Vector identifying and acting on a shift in customer and business attitudes. Recent investments could similarly deliver revenue growth to the business.

As the chairman mentioned, the energy industry is undergoing a rapid transformation.

Customers are gaining greater choice over the source of energy they use, who supplies it, when and how they consume it and the price they pay. Competition among energy sector companies to deliver these choices to customers is intensifying.

Customer expectations continue to rise. Customers expect energy services to be delivered like any other service. They want information and they want control at their fingertips. They also expect responsive service providers.

Customers are increasingly concerned about the environment and energy efficiency and they are using less electricity.

Given the rise in electricity prices over the last few years, they are becoming increasingly incentivised to make use of technological developments to manage their energy costs.

Technological advances such as batteries, solar panels, and energy monitoring technologies are also opening new options for consumers and driving change in the industry.

Change is also occurring in the supply and distribution of energy. Energy monitoring technology such as smart meters and advances in data management are giving energy producers and distributors much greater visibility over how energy is consumed. These technologies are also assisting with network and supply planning and creating new options for network investment.

Making sense of this change and more importantly getting ahead of it and creating a new energy future is the task we face.

So what does the future look like?

Although transformation is occurring across all energy networks, a good place to demonstrate the extent of change is to look at developments at home.

This diagram shows what we should expect to become common place in the not-too-distant future.

Batteries will store energy generated by solar panels during the day for use at night. Smart devices will switch energy consumption between different sources of energy, whether from the distribution network or solar panels, according to customer preferences.

Electric vehicles will be recharged at night during low tariff periods, saving spending on fuel. Information technology will allow customers to monitor how they are using energy and allow them to modify their behaviour accordingly.

Vector is leading the introduction of this technology in New Zealand.

A key enabler is the relationship we have with Silicon Valley pioneer Tesla Energy.

Tesla Energy batteries, which can offer energy storage at a price that is significantly lower than other systems, represent a game changer for the global energy industry.

Also they are expected to open an array of new markets for Vector, including the provision of back-up power supply, peak energy supply and new network services.

Vector's long-standing commitment to understanding this technology and leading its introduction in New Zealand was pivotal to securing the relationship with Tesla. Demand for the new batteries exceeds supply, but Vector is among the first customers in the world to take delivery.

Vector expects to bring two Tesla Energy battery solutions to New Zealand. The first is the Powerwall, with a variant for home use and another for small to medium-sized enterprises. The second is the Powerpack commercial and utility solution.

Vector is not a mere distributor of the battery systems. We are developing the engineering that adapts batteries to local conditions, including the control systems, the interface with local networks as well as the appropriate health and safety protocols and systems.

By playing a key role in the commercialisation of solar panels and batteries in New Zealand, we are better positioned to manage the challenges the technologies pose to our core electricity networks, including reduced demand for electricity network services.

The technology also allows us to build a deeper and more enduring relationship with the more than 544,000 electricity customers we serve across Auckland.

At the same time, we expect to gain new customers. Already, we have fielded inquiries from businesses across New Zealand as to whether Vector could install Tesla Energy Powerpack systems and we see plenty of other opportunities further afield.

We now have more than 400 solar installations across Auckland and we expect the relationship with Tesla to accelerate uptake of these technologies in the coming year.

To lead change Vector also needs to educate customers about the merits of these technologies. This year, with the support of the Auckland Energy Consumer Trust (AECT), we have realised this goal while supporting our community.

Our Future of Energy Programme asked Aucklanders to nominate and then vote for 130 deserving families, schools and community groups to get the use of solar panel and battery units for free for 10 years.

The arrangement was made possible via a fund which, historically, has been used for overhead network projects in the AECT district and has been extended recently, with the AECT's agreement, to include new technology.

The campaign has been an unqualified success in spreading Vector's message of creating a new energy future. There has been extensive mainstream and social media coverage here in New Zealand. Meanwhile, in recognition of our innovative approach, full page reports were carried on US news sites, Australian news sites and in Europe.

By the end of the four-week competition we had received more than 260,000 unique visits to the Future of Energy website and a total of 535,472 votes, from as far away as Germany and the US.

Winners of this competition will be announced in November and we will be working closely with those families and organisations over the next few months to install batteries and solar systems.

The programme has furthered our efforts to propagate understanding of the benefits of this new technology throughout the community.

It has also provided a lift to our efforts to drive adoption of the technology throughout our communities.

We are also deploying electric vehicle charging infrastructure around the city. Earlier this year, we deployed charging stations at our Newmarket head office.

We are also introducing a station which can recharge an EV in less than 30 minutes, at our Hobson Street substation and we expect to roll out more of these stations across the city over the next year.

We are working with EV distributors such as Auckland City BMW and Auckland Transport to develop charging stations best suited to local conditions.

By offering combinations of these emerging technologies - solar panels and batteries, solar and electric vehicle charging, solar and home energy management - you have a suite of products that could grow to make a significant contribution to the group.

We have transformed our metering business. Only a decade ago it was a provider of traditional metering services and it now leads New Zealand in smart metering technology.

Our acquisition of Arc Innovations late last year added almost 140,000 smart meters to the Vector fleet and led to a new long-term metering services contract with the vendor Meridian Energy.

These agreements, combined with others the company has struck over the last few years, have lifted the installed base of Vector smart meters to more than 900,000 and we are now contracted to install over 1.2 million smart meters across the country.

Following a great deal of work over the past two years, Vector's metering business is now well-positioned to leverage its New Zealand expertise to support the smart meter roll-out in Australia.

Australian retailers now must move towards assuming responsibility for mass-market metering in a model that closely follows the development of the highly-successful New Zealand market.

The potential is significant. We are looking initially at Queensland, New South Wales and Tasmania. The regions offer an opportunity of well over 6 million meters.

Our Auckland energy networks continue to offer strong growth prospects. Connection growth is for the moment offsetting the continuing decline in consumption per connection and this should continue for the foreseeable future.

In 2012, Auckland Council identified a need for 13,000 new homes a year for the next 30 years. Meanwhile, as the number of new connections to the network shows, actual house building has fallen short of that target.

In the coming ten years, Vector forecasts around $1.8 billion of capital investment will be required for its Auckland energy networks. Were this investment ring-fenced into a standalone company, it would create the country's second-largest energy distribution company after Vector.

This level of investment is critical given Auckland's significance to the national economy and stands in sharp contrast to those regions that have little or no growth.

However, to invest in our energy networks, Vector needs confidence that the regulatory environment will enable us to recover our capital and earn a fair return. We also need confidence that the rules will remain the same across investment periods.

The Commerce Commission is reviewing the key inputs that determine the prices we can charge for the use of our network and we welcome the Commission's focus on customer adoption of the new technology and the impact of this on network infrastructure investment.

The regulatory environment needs further tools to recognise those businesses that are facing large scale infrastructure investment demands to support economic growth, such as that we are seeing in Auckland.

To that end we believe infrastructure providers should be able to reach binding, long-term 'special undertakings' similar to those used in other countries to support this economic growth.

Meanwhile, Vector is advocating on behalf of Auckland consumers against the Electricity Authority's recently announced proposed transmission pricing options, which could result in Auckland households and businesses bearing an unjustifiably greater share of Transpower's electricity transmission costs.

The EA’s base option would result in a 59% increase in Transpower’s transmission costs in Auckland, diluting the significant price cuts Vector has made for the benefit of the region in recent years.

We believe that a ‘user-pays’ principle should apply and result in both generators and customers paying an equal share of transmission services. This is currently not the case,as customers pick up the bulk of the charges, nor is it proposed by the EA.

Faced with the significant opportunities we see across our portfolio of operations, we obviously need to consider whether capital in our existing assets is optimally deployed.

It is for this reason, and following unsolicited interest in our gas transmission assets and our gas distribution assets outside Auckland, we commenced a strategic review of these assets.

The review covers more than 6,000 km of gas transmission and distribution pipes across the North Island. These assets contribute around 70% of gas transportation EBITDA. The review is ongoing and we will report to the market when we have an outcome.

Vector has an active and broad ranging programme of safety leadership, safety initiatives and safety training throughout the business. Notably, this year we ceased live-line work except in special circumstances where health and safety risk could be exacerbated by turning off the power.

Live-line work, for some time, has been standard industry practice. However, Vector now believes that the health and safety risks of live line work generally outweigh the benefits.

Reflecting the success of our efforts, Vector’s headline Health and Safety performance continues to improve. Our headline measure, the Total Recordable Injury Frequency Rate, has fallen 42.5% to 7.45 in the 2015 financial year. Unlike some others in the industry this measure covers our more than 1000 contractors.

Meanwhile, ahead of major storms, which inevitably lead to network outages, we have proactively communicated to customers that we will not allow our people to take risks or put themselves in danger to get the power back on. This approach has allowed our people to get on with the job safely without undue pressure.

We have also reviewed and enhanced our Health Safety and Environment Management system, policies, procedures and reporting in preparation for the Health and Safety at Work Act, which comes into full force next year.

We continue to evolve a performance culture that is aligned with our vision to create a new energy future.

Key to this evolution has been the recruitment of new people from New Zealand and offshore with expertise in understanding customer demands and making the most of the transformation taking place in our industry.

For instance this year we established a new post of Chief Networks Officer to oversee the customer, commercial, engineering and regulatory aspects of Vector’s regulated gas and electricity networks.

This follows on from the creation of a new role of Group General Manager Development to explore ways to enhance the company’s growth and development through innovative customer solutions and technology.

Finally, we continue to engage positively with all our key stakeholders: our employees, our contractors, our business partners and regulators to ensure continued improvement in all aspects of our business.

Vector is committed to creating a new energy future for our customers and our actions demonstrate that commitment. Initiatives launched over the last few years, such as our gas bottle swap and metering operations, have delivered strong returns to shareholders.

Meanwhile, the emergence of new technologies and the transformation of energy networks worldwide are opening up significant opportunities for Vector both in New Zealand and further afield.

We are leading change and this is most evident in the relationship we have struck with Tesla, the progress we are making in developing electric vehicle charging infrastructure and the steps we are taking in Australia.

We continue to have confidence about the growth prospects for Auckland and we expect this growth to underpin our Auckland energy distribution networks as well as the company's new businesses.

In the face of these changes and opportunities we are constantly reviewing the returns generated by our existing portfolio of businesses against those available from new investments.
In light of this and following an unsolicited approach, we commenced a strategic review of our gas transmission assets and our gas distribution assets outside Auckland.

As we noted in August our wholesale gas business still enjoys a strong position in the market, but faces increased competition due to lower demand for gas to use in electricity generation, uncertainty over the quantity of gas reserves remaining in the Kapuni field and the price we pay for the gas.

Nevertheless, we remain comfortable with the guidance we provided in August for adjusted EBITDA for the 2016 financial year ranging from $605 million to $620 million. Excluding capital contributions, which are volatile and driven by developer and relocation activity, we expect adjusted EBITDA to be in the range of $550 million to $565 million.

Chairman – Michael Stiassny

Thank you Simon

The Notice of Meeting lists on the agenda four items to be considered as ordinary resolutions. Each of the ordinary resolutions requires a simple majority of votes validly cast.

For transparency at each vote you will be shown the number of discretionary proxies held by me as Chairman of the meeting or in my own name. I declare that it is my intention to vote the discretionary proxies I hold in favour of all resolutions, with the exception of resolution two concerning my re-election. On this resolution I will abstain from voting undirected proxy votes.

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

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

I remind everyone this is a meeting of and for our shareholders. Only shareholders or corporate representatives or proxy holders for shareholders are entitled to speak and vote here today.

As stated in the Notice of Meeting, only shareholders registered at 5.00pm on 17 October 2015 or their proxies or representatives are entitled to vote.

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

In the interests of allowing everyone who wishes to speak to do so, I would ask you to limit yourselves to a reasonable speaking time.

Remote microphones are available and if you wish to speak please raise your hand, and someone will come to you. Again, to make things easier, when you do speak if you first could tell us your name, that would be helpful.

So the first agenda item is to invite discussion on Vector's financial and operational results for the year ended 30 June 2015.

The Annual Report was available online on 28 August 2015 and hard copy reports were sent to all shareholders who requested one.
Questions on this topic may be put directly to our external auditors, KPMG, but please keep those questions relevant to their auditing role. Is there any discussion in respect of the Annual Report, the Financial Statements and Audit Report for the year ended 30 June 2015?

I shall now move to the second item of business, the election and re-election of directors. The NZX Limited Main Board Listing Rules require that at least one third of the Company's directors or, if their number is not a multiple of three, then the number nearest to one third, shall retire from office at the annual meeting each year, but shall be eligible for re-election at that meeting.

Dame Alison Paterson, myself and Jonathan Mason are the directors, who are the longest in office since the last election, retire by rotation at this Annual Meeting and, being eligible, offer ourselves for re-election.

Speaking on behalf of all directors, you should know that we are all committed to the highest standards of corporate governance, ensuring transparency, fairness and recognising the interests of our stakeholders.

We note this year a group of leading New Zealand institutional investors has established a Corporate Governance Forum seeking to promote good governance in New Zealand business.

The forum has also released a set of Corporate Governance Guidelines. Vector directors welcome the formation of this group and we are reviewing these guidelines as part of our regular review of our corporate governance practices.

As required by the NZX listing rules, on 13 August 2015 Vector issued a notice advising a closing date of 28 August 2015 for director nominations.

No nomination to elect an additional director was received. Biographies of each director seeking re-election or election are contained in the explanatory notes to the notice of meeting.

/end