



2014 Annual Meeting

22 October 2014
Ellerslie Event Centre, Auckland

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Disclaimer

This presentation contains forward-looking statements. Forward-looking statements often include words such as "anticipates", "estimates", "expects", "intends", "plans", "believes" and similar words in connection with discussions of future operating or financial performance. The forward-looking statements are based on management's and directors' current expectations and assumptions regarding the Vector's businesses and performance, the economy and other future conditions, circumstances and results. As with any projection or forecast, forward-looking statements are inherently susceptible to uncertainty and changes in circumstances. Vector's actual results may vary materially from those expressed or implied in its forward-looking statements.

Michael Stiassny

CHAIRMAN



Directors

- Peter Bird
- James Carmichael
- Hugh Fletcher
- Jonathan Mason
- Dame Alison Paterson
- Karen Sherry
- Bob Thomson
- Tony Arthur (Future Director)

Agenda

- Ordinary business
 - Penrose outage
 - Chairman's update
 - Group Chief Executive's update
 - Election of directors
 - Appointment and remuneration of auditors
- Special business
 - Vector's constitution
- General business
- Meeting close

Simon Mackenzie

GROUP CHIEF EXECUTIVE



The Penrose outage

- Vector recognises the disruption that outages on our networks cause to all our customers
- Our joint investigation with Transpower into what caused the incident commenced last week
- We are committed to learning the lessons from these events
- We will of course be working on the Inquiry requested by the Minister of Energy

Industry structure



Auckland's network



Penrose Substation



Minimising the disruption

"Kinda blown away by how ridiculously good @Vectorltd social media and comms are. I hope they manage to celebrate that in amongst the mess."

- Oct 06, 11:14am

"Thanks @Vectorltd for all the updates today, & for being so quick off the mark :) looking forward to hopefully having power again tomorrow!"

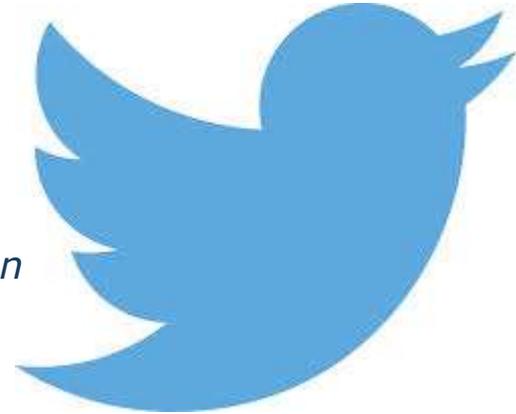
- Oct 05, 9:09pm

"@Vectorltd has done a damn good job today, and their communication online has been fantastic. Hats off!"

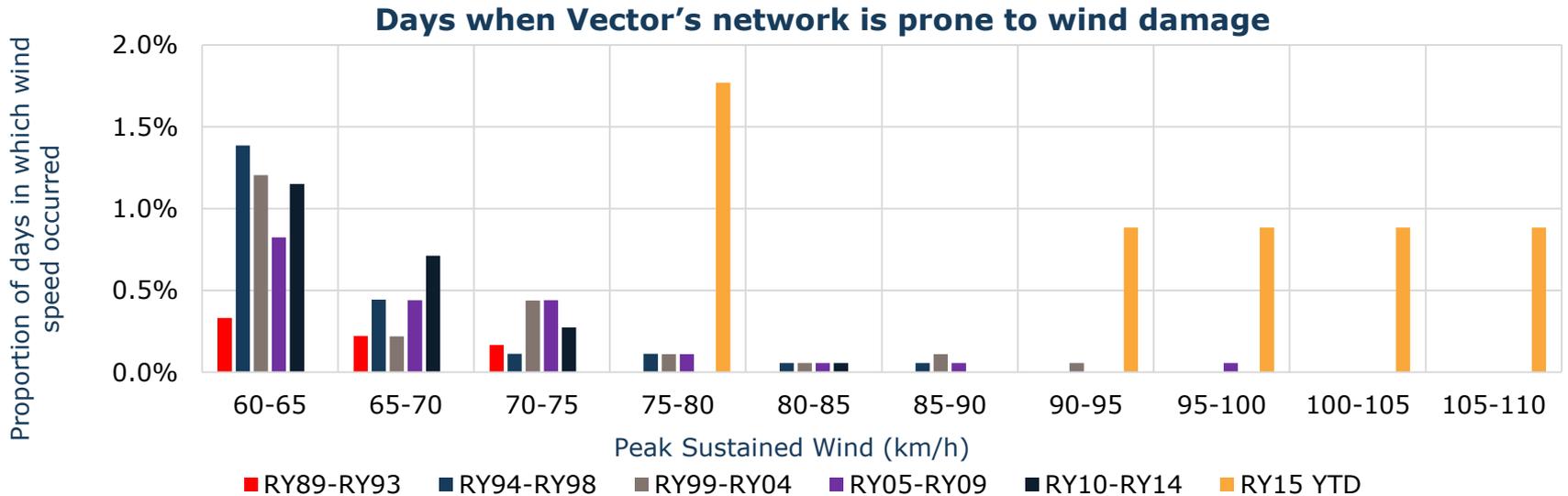
- Oct 05, 7:09pm

"@Vectorltd We're still affected :(really impressed by your online communication though! Putting minds at ease :)."

- Oct 05, 7:21pm



Vector's challenging year



A winter of intense and damaging storms

- During the category 1 storm in June, Vector's network suffered the worst damage in four decades.
- Highest average daily wind speeds ever recorded on our network
- 90,000 customers without power

Network investment

Reliability

- Areas affected by Penrose outage have enjoyed 99.99% reliability over the last 15 years
- Incident reduces reliability of the area to 99.98%

Investment

- Over the last 10 years Vector's electricity networks have received \$1.3 billion in capital expenditure and nearly \$460 million in operating maintenance expenditure
- Transpower has also invested heavily in the region



Independent network oversight

Vector understands the pivotal position we occupy in the New Zealand and the Auckland economy and we take this responsibility very seriously.

Our network investments are reviewed by:

- The Auckland Energy Consumer Trust
- The Commerce Commission
- Our insurers

Board oversight of all operations:

- Vector enjoys a diversity of viewpoints including the views of James Carmichael and Bob Thomson, two highly-experienced engineers with power industry expertise

“PA considers Vector to be a high performing utility with low expenditure and strong reliability when compared to U.S. utilities, Australian utilities and New Zealand electricity distribution businesses.”



Scott Sidney
PA Consulting Group
- Report to the AECT (2014)

Conclusions

- This was a freak incident and if customers want a platinum service they will have to pay for it
- The cost of energy has been a hot topic both here and internationally with this being further complicated by the impact of new technologies, renewables and economic performance
- Until we know what the cause of the fire we are not in a position to discuss compensation
- I would like to thank everybody - from the Fire Service and other emergency services through to the Vector team and our network services providers for the way they worked during what has been an extraordinary year

Michael Stiassny

CHAIRMAN



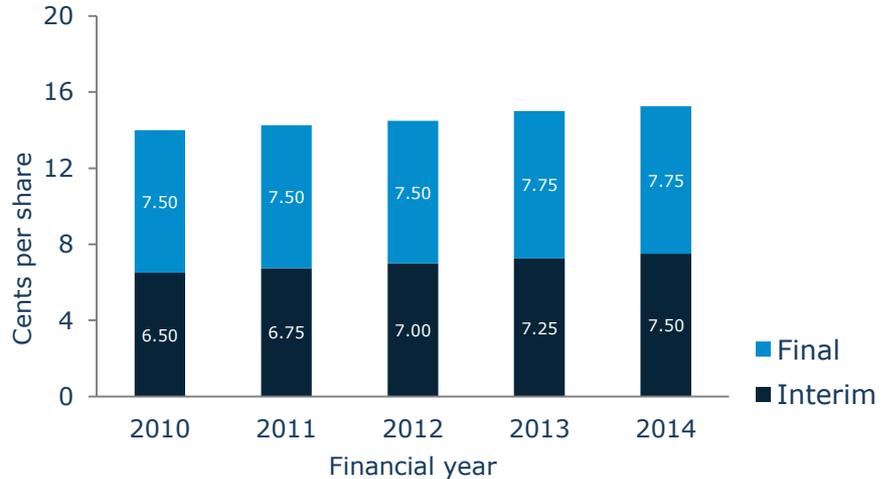
Vector's vision and goal

VISION: First choice for integrated infrastructure solutions

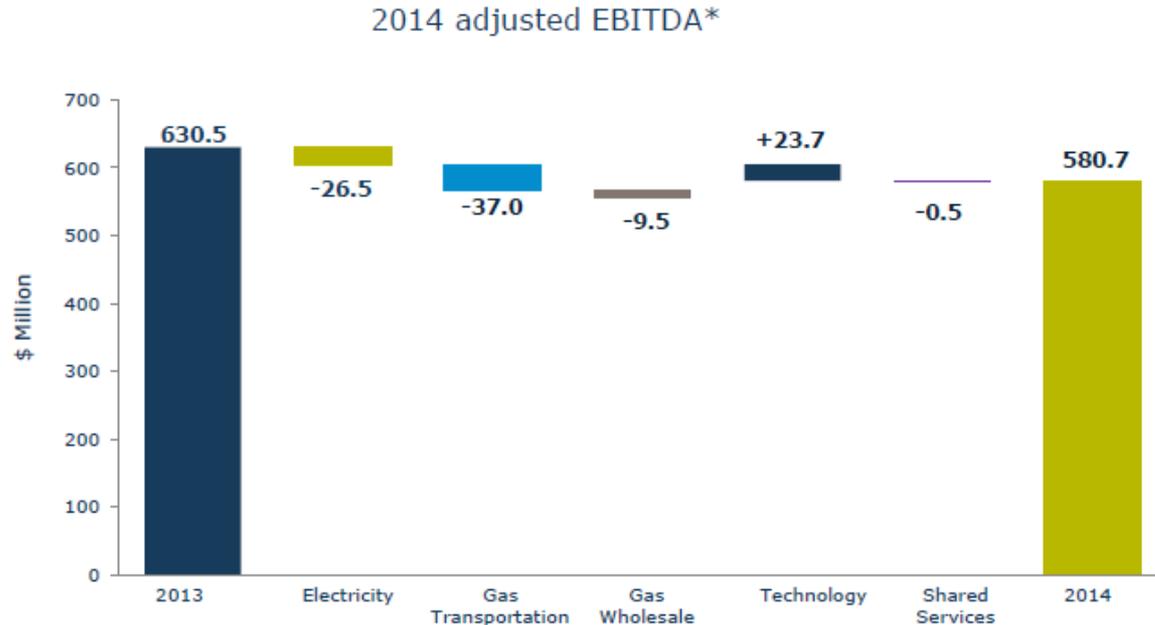
GOAL: Deliver sustainable dividend increases

- 2014 fully-imputed full year dividend rises 0.25 cents per share to 15.25 cents per share
- Approximately two thirds of AECT dividend generated outside the original Auckland network
- More than \$100 million injected into the local economy

Declared dividend

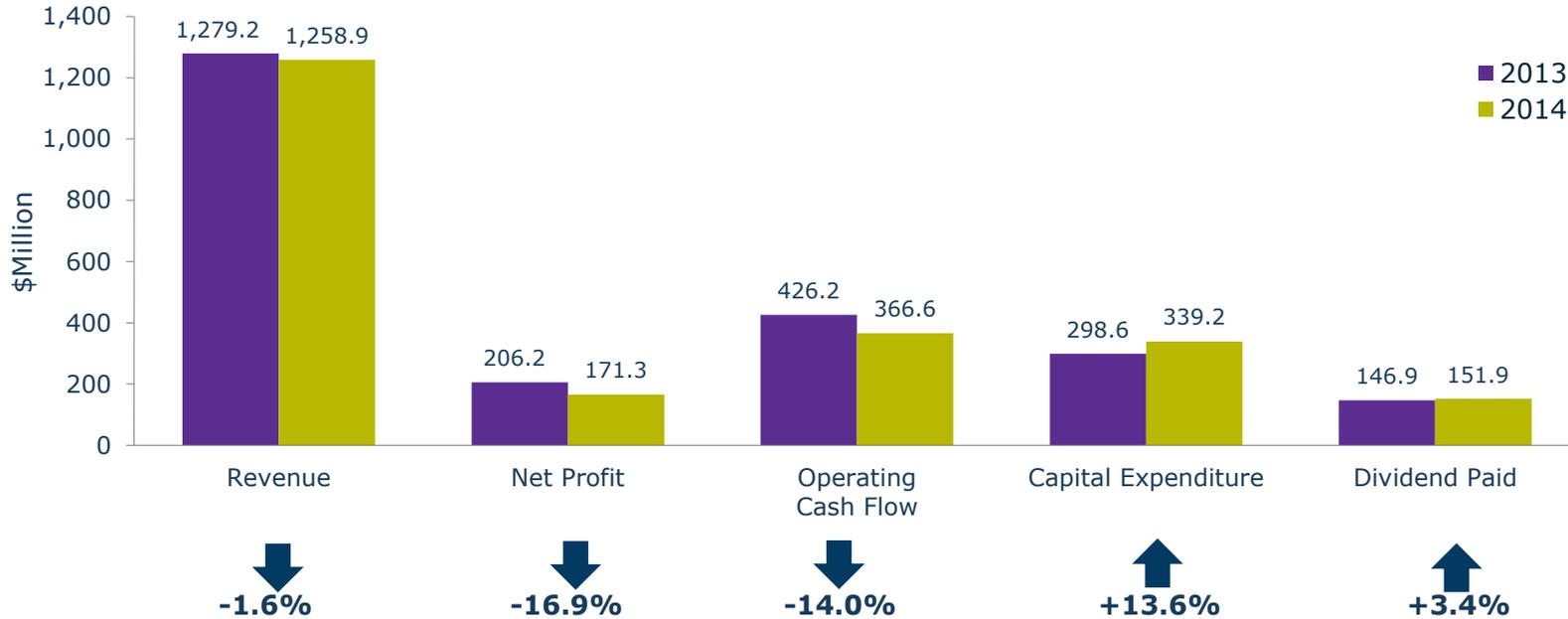


2014 financial performance



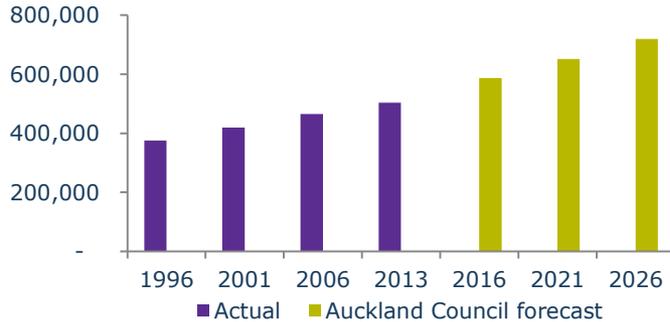
*For a comprehensive definition and reconciliation of this measure to the GAAP measure of net profit refer to page 50 of this presentation.

2014 financial performance



Well positioned to continue to grow

Auckland households



Source: Covec

Smart meters



- Well positioned to grow if commercial rationality emerges in the regulation of our energy networks
- New initiatives in unregulated businesses are promising
- Emerging businesses such as solar technology offer further growth opportunities
- Auckland growth is strong

Outlook

- A challenging year ahead, with regulatory pricing adjustments relating to prior periods and changes to our allowable returns
- Expected continued fall in demand for electricity per capita
- Comfortable with consensus estimates for adjusted EBITDA for the 2015 financial year of \$588 million

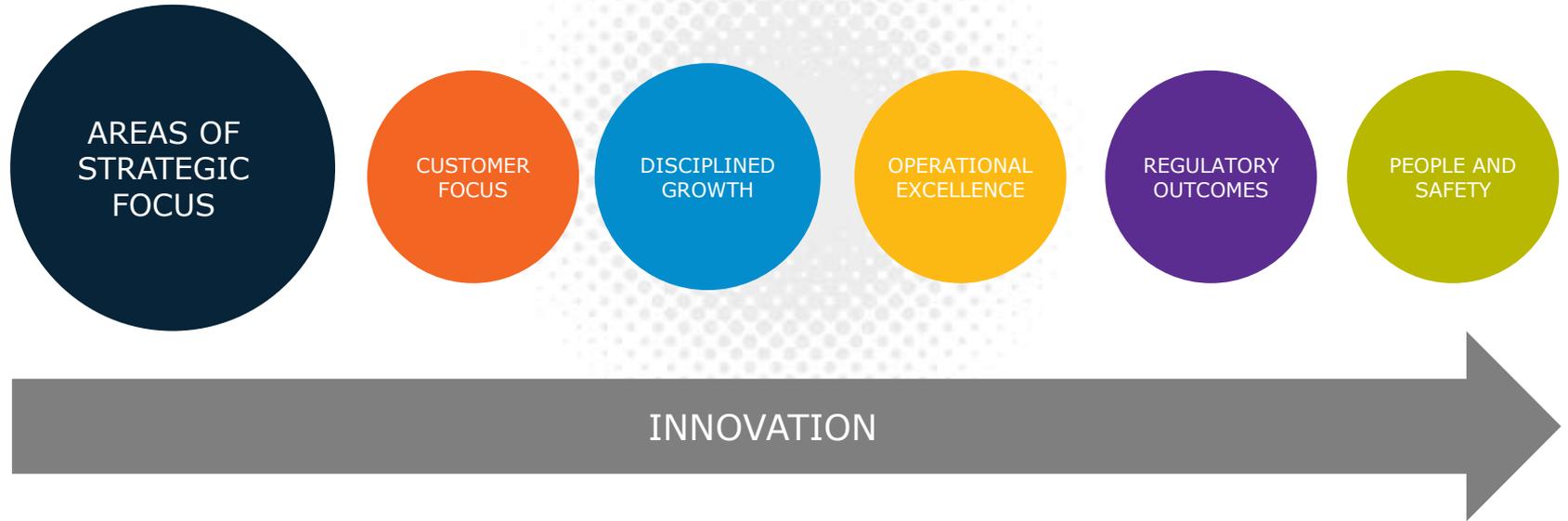
Simon Mackenzie

GROUP CHIEF EXECUTIVE



Strategic focus

GOAL: Deliver sustainable dividend increases



Meeting the challenge



Customers want:

- Value
- Efficiency
- Reliability
- Choice and flexibility
- Minimal disruption



How we are delivering:

- Pioneering solar solutions, battery storage, energy management and electric vehicles.
- Enhancing communication via upgrades to our website and outage manager app
- Driving efficiency by implementing a single contract across our electricity networks
- Leading development of a trading market for wholesale gas customers

INNOVATION



Vector delivers real value to customers

- Vector’s electricity distribution prices have dropped two years in a row
- After stripping out inflation our electricity distribution prices have fallen over recent years
- Over the same period other external charges have increased



Real contribution of distribution costs to line charge increases



● DISTRIBUTION COSTS
 ● PASS THROUGH AND RECOVERABLE COSTS

Source: Vector compliance modelling

Disciplined growth

Bottle swap and technology business emerged from the identification of customer demand.

Bottle swap

- Delivers convenience and better health and safety outcomes
- Outlets rise from 380 at acquisition to just under 800 in three years



Technology

- Smart meters offer customers opportunities to control energy use
- Installed smart meters now stand at 715,000
- Preferred bidder for Arc Innovations
- Seeking certification in the Australian market
- Communications network reaches 10,000 Auckland businesses



Vector's energy solutions



Our solutions will be:

- Tailored to meet customer needs and choices
- Accessible and affordable
- Smart, feature rich and worry free
- Sufficiently flexible to accommodate technological change



We know energy and how to deliver it

Vector's storm response

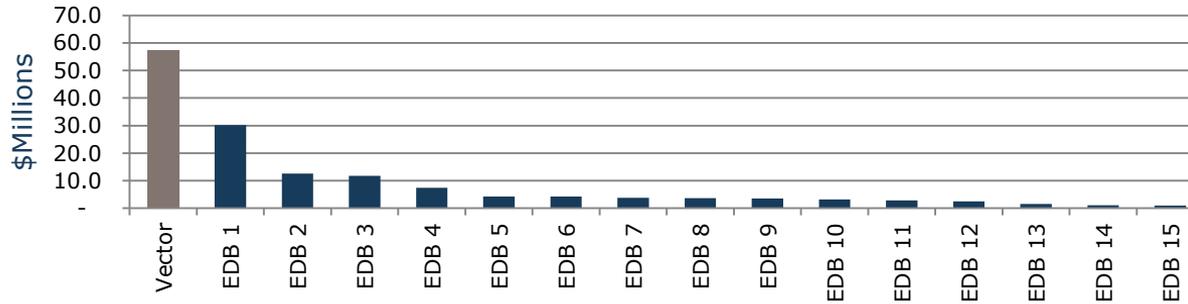
OPERATIONAL
EXCELLENCE

- Vector remains among the lowest cost providers in the country
- We deliver high standards of reliability on our networks
- Constantly working to improve performance:
 - Improved maintenance techniques
 - New network agreements streamline fault logging
 - Examining additional systems to:
 - log faults, track fault repair progress in real time
 - address recent hot water issues
 - We continue to promote prudent tree management



Regulation – the quest for an equitable regime

Unrecovered allowable revenue 2013-2015 due to inflation forecasting errors



Vector remains concerned the regulatory regime is not keeping pace with technological change and global trends

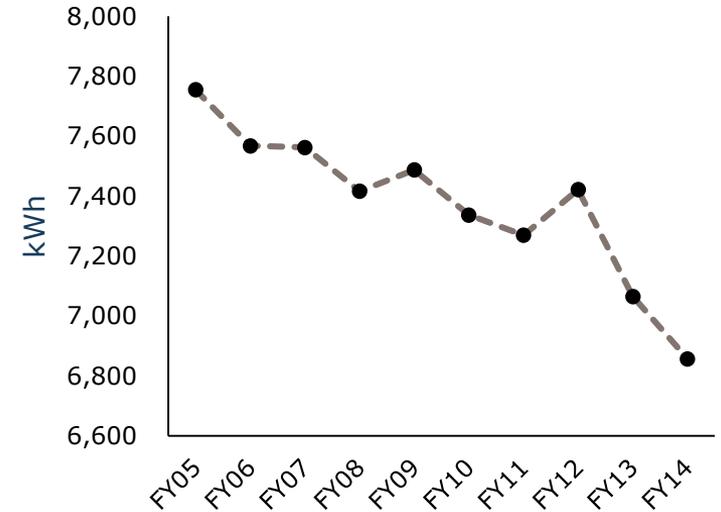
- Regulated cash flow profiles do not recognise technological change
- Allowable rates of return not achieved due to differences between actual inflation rates and those forecast by the Commerce Commission

Forecasting errors expensive



- The Commerce Commission does not recognise the trend of declining consumption per connection
- The actual volume of electricity transported across our network fell short of the regulator's forecasts
- This translated into a revenue shortfall of around \$25 million in the current regulatory period.
- Total forecasting errors will cost Vector circa \$80 million

Power usage per Vector residential connection point

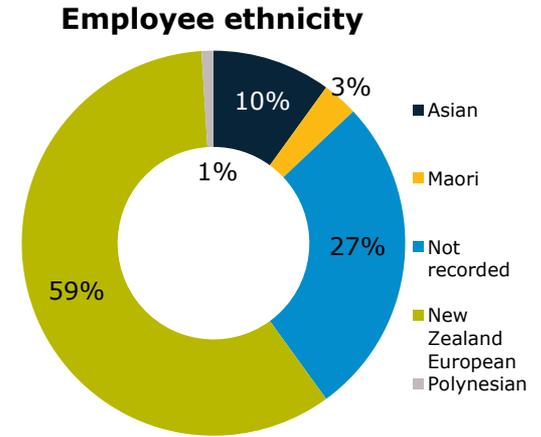
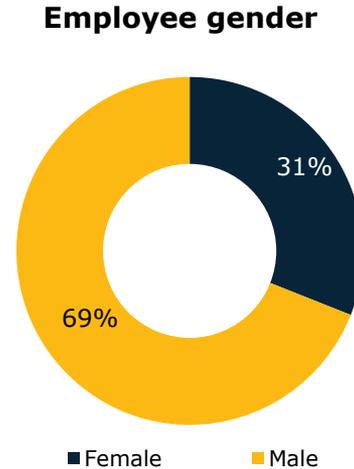
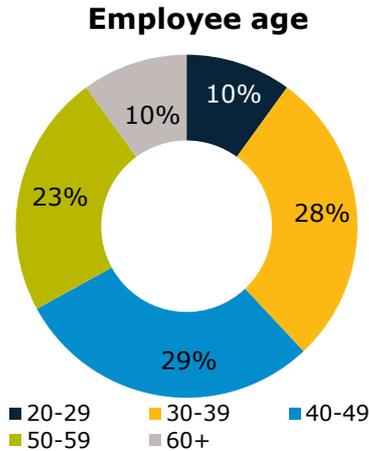


Difficult to advocate for incremental capex



- Proposals for cost of capital contrary to a position held for a considerable period of time
 - Proposed weighted average cost of capital would reduce regulated business EBITDA by \$12 million per annum
 - Electricity network price adjustments for new regulatory period range between 0% and minus 6% in revenue
 - Electricity pricing decision due end of November
- Regulatory uncertainty translates as a cost to the consumer in the long term
- Increasingly difficult to advocate for incremental capital expenditure

People: diversity and inclusion



Valuing diversity is good business and we expect it to drive better business performance through deeper customer insights and alignment, alternative perspectives, skills and experiences.

People: promoting diversity and inclusion



Vector understands the performance of its people is linked to the quality of the working environment. Our key initiatives include:

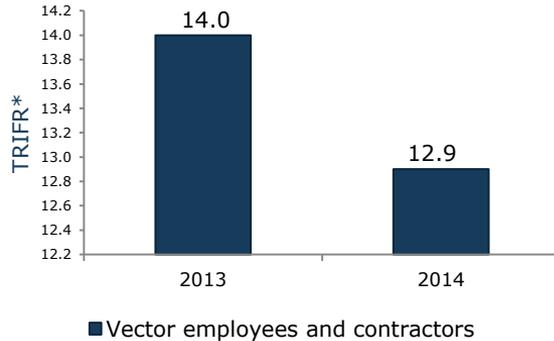
- Establishing a diversity committee to promote initiatives and a council to provide executive support
- Paying the living wage
- Promoting employee engagement and development
- Providing flexible working options to support changing lifestyle needs
- Te Puni Kokiri Maori cadetship programme (8 cadets FY14/15)
- Best Pasifika Leadership programme



Health safety and environment

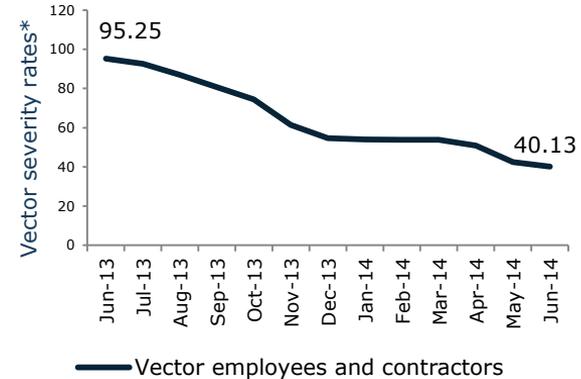


Total recordable injury frequency rate (TRIFR)*



*Number of recordable injuries per million hours worked, including contractors

Vector severity rates



*Lost days through injuries/million hours worked

Vector wants to be recognised as setting the New Zealand standard for health, safety and environmental leadership:

- Board oversight of Health and Safety performance
- Safety leadership and culture programmes
- Employee safety committees
- 7.8% reduction in TRIFR
- 58% reduction in severity rate
- Robust accident investigation processes
- Executive review of key incidents

Campaigns to improve public safety

PEOPLE AND
SAFETY



Zot the Energy Bot: the face of Vector's award-winning schools programme



All Black Legend Buck Shelford fronted Vector's winter and summer safety campaigns

Our focus

We have a great team committed to our core goals and we remain focussed on:

- Delivering solutions to meet customer demands across all our businesses
- Delivering on the potential of our Technology operations
- Meeting the energy needs of a growing population in Auckland, assuming commercial rationality in the regulation of our energy networks emerges

Michael Stiassny

CHAIRMAN



Ordinary business



Re-election of Karen Sherry

Proxy Voting

| | |
|---|-------------|
| For | 812,476,620 |
| Against | 1,036,338 |
| Abstain | 80,675 |
| Discretionary | 810,060 |
| Additional discretionary held by the Chairman | 1,008,044 |

Re-election of Hugh Fletcher

Proxy Voting

| | |
|---|-------------|
| For | 813,042,545 |
| Against | 452,050 |
| Abstain | 56,031 |
| Discretionary | 839,608 |
| Additional discretionary held by the Chairman | 1,021,503 |

Re-election of James Carmichael

Proxy Voting

| | |
|---|-------------|
| For | 812,642,541 |
| Against | 912,241 |
| Abstain | 21,718 |
| Discretionary | 815,616 |
| Additional discretionary held by the Chairman | 1,019,621 |

Appointment and remuneration of auditor

Proxy Voting

| | |
|---|-------------|
| For | 813,242,080 |
| Against | 194,477 |
| Abstain | 67,759 |
| Discretionary | 815,028 |
| Additional discretionary held by the Chairman | 1,092,393 |

Special business



Vector's constitution

- This special resolution seeks shareholder approval of amendments to Vector's constitution consistent with the amended Listing Rules
- Vector's constitution was last amended in 2006

Vector's constitution

Proxy Voting

| | |
|---|-------------|
| For | 812,738,869 |
| Against | 99,459 |
| Abstain | 195,479 |
| Discretionary | 888,310 |
| Additional discretionary held by the Chairman | 1,489,620 |

Voting



General business





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22 October 2014

Appendix



Appendix

Vector's standard profit measure prepared under New Zealand GAAP is net profit. Vector has used non-GAAP profit measures when discussing financial performance in this document. The directors and management believe that these measures provide useful information as they are used internally to evaluate performance of business units, to establish operational goals and to allocate resources. For a more comprehensive discussion on the use of non-GAAP profit measures, please refer to the policy 'Reporting non-GAAP profit measures' available on our website (vector.co.nz).

Non-GAAP profit measures are not prepared in accordance with NZ IFRS (New Zealand International Financial Reporting Standards) and are not uniformly defined, therefore the non-GAAP profit measures reported in this document may not be comparable with those that other companies report and should not be viewed in isolation or considered as a substitute for measures reported by Vector in accordance with NZ IFRS.

Definitions

EBITDA: Earnings before interest, taxation, depreciation and amortisation.

Adjusted EBITDA: EBITDA adjusted for fair value changes, associates, impairments and significant one-off gains, losses, revenues and/or expenses.

GAAP TO Non-GAAP reconciliation

| EBITDA and Adjusted EBITDA | 2014 | 2013 |
|---|--------------|--------------|
| Year ended 30 June | \$M | \$M |
| Reported net profit for the period (GAAP) | 171.3 | 206.2 |
| Add back: net interest costs ¹ | 168.9 | 164.4 |
| Add back: tax (benefit)/expense ¹ | 63.2 | 83.6 |
| Add back: depreciation and amortisation ¹ | 183.8 | 174.1 |
| EBITDA | 587.2 | 628.3 |
| <i>Adjusted for:</i> | | |
| Impairment of investments in associates ¹ | 1.2 | 3.6 |
| Associates (share of net (profit)/loss) ¹ | (1.7) | (1.3) |
| Fair value change on financial instruments ¹ | (6.0) | (0.1) |
| Adjusted EBITDA | 580.7 | 630.5 |

1. Extracted from audited financial statements



vector.co.nz
