Vector 2017 Annual General Meeting

2:00pm Tuesday 26 September 2017

Ellerslie Event Centre

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Good afternoon ladies and gentlemen.

My name is Michael Stiassny and I am Chairman of Vector.

The video you just saw was a little taster of what is to come with Harbour Bridge Lighting project – a fantastic example of Vector using new energy solutions including solar, battery, LED and peer-to-peer trading to make a difference to Auckland.

As we have a quorum and it's 2:00pm, I am very happy to declare open the 2017 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, 931 shareholders, holding a total of more than 806,055,548 shares, have appointed proxies. They are represented by 14 proxy holders.

In my capacity as Chairman of the meeting and in my own name I hold proxies for 799 shareholders, representing 53,640,741 shares. Included in the proxies are 751,000,000 shares held by Entrust, our majority shareholder. Entrust is represented in the audience today by Chair William Cairns, deputy chair Michael Buczkowski.

We welcome members of the media to our meeting today also. 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 draw your attention to a couple of housekeeping matters. If you have a cell phone, please turn it to silent. If we need to evacuate this room for any reason, there are exits behind me and there is also the entrance you came through.

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

Hugh Fletcher - as detailed in your notice of meeting - retires from the Vector board today. On behalf of my fellow directors and our shareholders, I would like to formally thank Hugh. He has made a significant contribution to Vector and to Auckland during his many years on the Board. We have begun a search for a replacement and we will update the market as appropriate.

Also joining us are our Group Chief Executive Simon Mackenzie and John Rodger our General Counsel and Company Secretary. We have members of our executive team here today, our external auditors KPMG and legal advisers Chapman Tripp.

So, to the structure for the day. We released our financial results at the end of August and all the details on this are extensively covered in our annual report, which I encourage you to read. Rather than repeat that detail, I will instead provide a strategic overview of Vector's future as we see it before handing over to Simon to review some of the highlights for the year and the progress we are making against our strategy.

After that we will open the meeting for specific discussion on the annual report, including the financial statements and audit report as well as matters raised in our respective addresses. We will then move to the formal business of the meeting.

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Chairman's Address

It is very pleasing to report that this year Vector has delivered at the top end of our market guidance, with adjusted EBITDA of $474.4 million.

The directors have declared a fully-imputed final dividend of 8.0 cents per share, which takes the total dividend for the year to 16 cents per share, up 0.25 cents on the prior year.

This is now the 11th year in a row that Vector has increased its dividend pay-out. As I stated in the Annual Report, it's immensely satisfying to the Board to be able to do this

In fact, just last week Entrust distributed their Vector dividend, making a lot of Aucklanders very happy in the process.

But, as I also cautioned, with the energy sector undergoing such rapid disruption, there is no room for complacency in this track-record. Unless we relentlessly continue to look for new and inventive ways to adapt and change our business paradigm, such consistent dividend growth may not continue. It's therefore critically important that we adopt a clear and sustainable approach to Vector's future.

We see sustainability as a key part of the new energy future that we are pioneering. That's why we are joining other leading global businesses in making a clear commitment to the United Nations Sustainable Development Goals. Our initial focus will be on seven key areas: Good health and well-being; Affordable and clean energy; Industry, innovation and infrastructure; Reduced inequalities; Sustainable cities and communities; Climate action; and Partnership.

As you may have noticed, we are also responding to the increasing expectations from global financial markets for Environmental Social and Governance disclosures by including carbon reporting in this year's annual report for the first time.

Our long-term future revolves around a simple and powerful theme that we will all have been very aware of this past weekend. Democracy. The democracy we voted for on Saturday may revolve around two votes, but there are four key aspects to energy democracy – I call them the four Ds.

Distributed power focuses on decentralised generation. It will become a bigger reality for all of us as more and more alternative reliable and secured power sources come online, including of course solar and wind. Batteries are rapidly changing how consumers can store the power they need once it has been generated. The days of use – or lose – are now over.

Decentralisation is the second aspect. We forecast that power generation will, over time, shift from being the sole preserve of incumbent generators to a much broader and more diverse generation sector as consumers choose from a wider range of energy sources that are, quite literally, closer to home.

The third D is Democracy from ownership, and that's about the inevitable emergence of a new economic model where ownership is more dispersed, more transparent and more public. Some of you may have heard the term the collaborative economy. We believe as energy decentralises and people choose new energy sources that opportunities for people to generate, source, store and trade energy are going to increase. That's exciting because it will redefine not just how people consume, but also what they can participate in, and indeed how they can own. It's all about driving a more inclusive economy – which ties directly to the United Nations Goals I talked about earlier.

The final D is disruptive technology. As I said, batteries are already changing how consumers can store power – but that's just one example of many new technologies that will rewrite the possibilities. I hope you've had the opportunity to read the case study in the annual report about V2G or Vehicle to Grid technology that we are pioneering. Who would have thought, even five years ago, that you could power a house through your car, or use that vehicle at peak times to reduce your overall peak energy consumption? There are many, many examples of technology like this on their way. It's why we keep saying we're not a lines company or even an energy company any more. Today, and into the future, we are a technology company, because it is technology that has the greatest potential to rethink and improve our lives and those of the people around us.

But the impacts of the 4Ds are about more than what they deliver for consumers. They're about how they change control.

The days of consumers being dictated to by generators, distributors and retailers are all but over. As in other parts of their lives, power increasingly rests with consumers. The days of decision-making based on information and control are rapidly shifting to new sector models as the people who pay for energy demand the right to participate in more decisions around that energy than they have in the past. This is the energy democracy in action, and its effects are going to be far-reaching. It will change how consumers choose, who they choose, what they expect, what they look for and what they deem to be acceptable.

As we see it, energy companies, ourselves included, have two choices in such an environment: they can adapt and reap the economic benefits; or they can disregard, insist they know best and slowly wilt. We've chosen the former, because we believe that greater equality in terms of access to energy makes sense, because we want to be part of a decarbonising economy, because we want to keep delivering to our shareholders the best returns we can over the longer term, and because we find these new challenges stimulating.

These challenges are inspiring us to disrupt the comfortable and defensive legacy sector business model that, in some instances, appears to be paying lip-service to the innovations that will deliver improved energy efficiency and tangible benefit to consumers.

That’s why customer-focused, innovative and sustainable initiatives are at the heart of our new energy future strategy. Because in the end it makes sound business sense, and because it’s the right thing to do.

Some of the most powerful endorsements that our thinking on this is sound and that it aligns with where the world is going has come from the awards we have won this year. Increasingly, our people and their work are being picked out from incredibly prestigious line-ups and given pride of place for what we are doing.

This year, Vector received an Edison Electric Institute Asia-Oceania Index Award for superior and sustained financial performance. We were shortlisted for a Responsible Investor Award for Innovation and Industry Leadership alongside prestigious international companies like Deutsche Borse, DS Smith, London Stock Exchange PLC, ProCredit Holding. Tesla Inc, Thrive Renewables and Unilever. We also won the WorkSafe New Zealand Best Initiative to Address a Work-Related Health Risk Award.

These accolades reinforce that Vector is a top performer. They show the high standards we aspire to, because we know that success in the energy sector is not an accident. It comes from being very clear about what we want and going all-out, with the best people, to get there. It’s about being up for it. Up for the change and diversification that’s needed to continue make a difference to Auckland and to New Zealand long into the future.

We take our responsibilities seriously: our responsibilities to Auckland and its continued growth; our responsibilities to you, our investors; and our responsibilities to the country.

Vector has always been a proudly Auckland company. And because of that, we have a responsibility to act in the city’s best interests. Continuing to invest in bigger traditional assets that are increasingly uneconomical is not the way to meet the future needs of Auckland - not when there are other ways of meeting those needs that make better sense.

Secondly, we have a responsibility to you. We’re proud of the fact that we have paid out almost $1.7 billion in dividends over the last 12 years and that we have added $2.2 billion in investments into electricity and gas networks over that same time. So, it really does pay to be one of our investors. But, as I said earlier, if we want to continue to grow how much you receive, we must continue adapting to make that happen.

And sustainability is a key change. As you can see from this graph, we stand at a tipping point, with climate change now the most pressing global challenge we face.

As well as being our biggest societal challenge, increasingly it matters to investors. Globally, big fund managers are dropping companies that they deem to have an irresponsible approach to carbon because they worry that they pose a risk of class action. We’ve seen that here too with NZ Super divesting in companies recently.

Finally, everyone wants the best result they can, but part of being a sustainable company is earning and retaining revenue in ways that are fair to all stakeholders. There seems to be something of a trend these days for big companies to do their best to avoid making the contributions expected of them through tax through various means.

I want to emphasise that as a board and a management team, we have always held the view that Vector has a civic responsibility to pay what it should – because such contributions benefit all New Zealanders, lift the shared prosperity of the country and are part of living in a civil society. In the last 12 years, we have paid $689 million in total tax and we're proud of that. We believe in tax transparency and in acting responsibly, and we encourage others to do the same.

Thank you. I shall now hand over to our Group Chief Executive, Simon Mackenzie.

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Thank you, Michael.

The way we've been growing is driven by our ambition to create a new energy future. Not just a new energy future for us; a new energy future based on our customers' desire for choice and control. Living life, repowered.

In the world of energy, innovation and disruption is occurring across the entire value chain, and every business that wishes to succeed must orient themselves around the customer.

For Vector, customer expectations are always the starting point for our thinking. Customer's expect information, choice, and transparency so we must embrace new solutions, new technology, and respond directly to customer demands. The energy industry is no different to any other, be it banking, airlines or insurance, in needing to accommodate this demand.

There are some who might argue that's not our role; that we should just be a distributor, make our regulated income, and stay put. But in the age of disruption no business can avoid having a customer focus, and nor can they afford to ignore the significant opportunities that changing customer needs and technology trends can offer.

Today's customer simply won't be owned - no business 'owns' their customer anymore. The days of any service provider telling people what to do are well and truly over. In today's world customers will no longer stand for it, and nor should they. They will find their own ways to get things done in their lives, and the companies who do not offer them the choice and flexibility they want will not survive. Already consumers are starting to generate, store, use and trade electricity. These abilities are only going to be enhanced as technology improves.

Our customers are also choosing to engage with us directly via our digital technology on issues such as choice, connections, and outages. So we must continue to deliver them what they want and how they want it – as an energy enabler, not just a distributor.

As Michael has said, we have an imperative to broaden our business through customer-focussed growth. Increasingly we must find new ways to generate new streams of income so we can sustain our revenues and our dividends.

The reality is we are now far more than an outstanding and resilient power network. We have already expanded into a range of businesses that meet the ever-changing needs of customers swiftly and intelligently and enable us to grow as a business.

Through Entrust, many of our customers are also Entrust beneficiaries, so in creating value and good returns, we help our own customers save money.

Thirdly, to better serve customers, to deliver for our shareholders and to lead the way towards a new energy future for New Zealand, we must continue to push boundaries. Our regulated businesses are tightly framed by policies and regulations, and those structures are important because of the operating context and the critical importance of energy.

But, as in most sectors, it is increasingly challenging for regulatory and legislative frameworks to keep up with the rapid change being driven by technology and innovation, change which is coming regardless. The fact is that the energy sector is now changing faster than the ability of regulation and policy to keep up. And customer expectations and demands are changing faster still, fuelled by a desire to have more control and choice. In addition, the impact of the growing concerns over climate change and the trend towards decarbonisation will play a growing role in the future of energy.

Accordingly, we feel we have a responsibility to actively embrace the possibilities that energy innovation offers Auckland and New Zealand in order to help create a new energy future.

This year's result reflects good progress on those ambitions. Adjusted EBITDA was up 0.3% to $474.4m which was at the top end of market guidance. Net profit is also up significantly when adjusted for last year's one-off gain on the sale of Vector Gas. In fact, net profit from continuing operations rose 186.8% to $168.9m from $58.9m. Excluding the prior year impairment of Gas Trading, the key factors driving those gains have been a growth in capital contribution, lower interest cost and a one-off tax gain of $15m.

That said, Vector must continue to look for new ways to meet the needs of customers. On 31 March 2017, we acquired two companies – PowerSmart and E-Co Products Group for $106 million. These businesses provide Vector with proven channels for introducing exciting residential and commercial new energy technologies.

PowerSmart is a leading New Zealand solar energy company that specialises in developing innovative microgrids for commercial operations, using a combination of solar photovoltaic cells and battery storage. This acquisition is exciting for us because PowerSmart introduces the step-change we've been looking for – a new paradigm for how energy is supplied, where it's made and who has access to it. PowerSmart also expands the markets we can operate in. For example, PowerSmart will be Vector's channel for commercial solar/battery solutions in Australasia, including delivering the 5MW battery to Territory Generation in Alice Springs.

While you may not know the E-Co Products Group by name, you will know them by the brand they trade under - HRV. Already market leaders in delivering healthy homes, HRV's current offering includes ventilation, heat pumps, retrofit double glazing and water filtration. Over time we see significant opportunities for them to enhance our capacity to deliver solar solutions in the residential energy market. Energy efficient home solutions are a logical extension of the HRV brand as we see it, including solar, ducted and hot water heat pumps and residential batteries. Through the HRV brand, we can bring these to market using a proven distribution channel with strong brand recognition.

Partnerships are another key strategic element for us. Our collaborations with innovators like Elemental Excelerator, Tesla, LG Chem, Geli and mPrest enable us to take the most exciting global thinking and apply it in lateral ways to propel us forward. It's not just about working with people who are good at energy, it's about aligning ourselves with companies that solve real problems in amazing ways.

For example, our relationship with mPrest allows us to manage complex systems in much more sophisticated ways, harnessing the power of artificial intelligence and rapid and cumulative decision making. Working with them will give us unprecedented network visibility and control. It will also enable customers to easily access low cost energy and automate their assets to optimise energy use and cost. This 'internet of energy' platform capability is world-leading and is seen globally as the next big advancement in energy system evolution.

That's the power of being customer focused: we take our cues from what our customers are looking for and what is happening across the world, not what is perceived by conventional industry norms to be right. That's how transformation happens: when Vector as a company dares to ask what is possible, rather than sticking to the way things have always been done.

We are now a technology rather than a network business, moving at the 'speed of life' to leverage new technology, lead the way on emerging energy trends and, ultimately, contribute more to our customers, owners, and communities.

A good example of how this is our support of the rapid growth in electric vehicle usage – with our network of rapid EV chargers across Auckland we're actively investing in helping achieve greater numbers of electric vehicle registrations in New Zealand, along with the reduction in carbon emissions that will bring.

We're also pioneering new, two-way chargers called 'vehicle to grid' that can reverse the flow of power. This is a game-changer for electric vehicles because it transforms them into rechargeable and mobile power sources, capable of powering your home, business, or even feeding power back into the network to help even out demand peaks.

This year, we also broke with convention when we chose to prioritise the health and safety of our people over the historical ways of doing things in this country. In a New Zealand first, we have stopped our people working on live lines wherever possible. This means that in most circumstances, electricity lines are now de-energised before work starts.

The decision to prioritise safety first means our customers are experiencing more planned outages. While this does have implications for performance targets, we have had strong support from safety regulators and professional health and safety bodies and we know it is the right thing to do – our people are now working in safer conditions. That said, the impact on performance targets means we anticipate that our decision will reduce revenue by about $4 million per annum from 1 April 2018 due to regulatory performance adjustments. We are working closely with the Commerce Commission on the issue, as we firmly believe safety should not be a secondary consideration to service targets.

This sort of critical thinking and embedded safety culture is extremely important to us. A customer focused company is primarily people focused, and we take the welfare of people, including our direct staff and our contractors, very seriously.

This year, I'm pleased to be able to tell you that Lost Time Injury Frequency Rate reduced by 15% and we have achieved certification to AS/NZS 4801 and ISO 14001 standard for our Health Safety and Environment Management System.

Three other important developments to touch on. Firstly, we are nearing the launch of our new Papakura gas bottling plant. When open, this new plant will enable semi-automated refilling and refurbishment of 9kg gas bottles, reduce handling by up to 80% and increase our capacity from around 600,000 bottles to 1 million bottles per year. The new plant will set a new standard for health and safety for bottle fills in New Zealand.

Secondly, in FY17 we deployed close to 145,000 smart meters in New Zealand and over 24,200 in Australia. Our smart meter fleet is now at 1.28 million, both owned and managed. In the next financial year, we expect to install between 80,000 and 100,000 meters in New Zealand which will almost complete the roll out. In Australia, deployment volumes will be influenced by the Power of Choice reforms which are due to take effect from 1 December.

Thirdly, we have entered a multimillion partnership with Auckland Council to produce a series of Vector-funded projects. These initiatives not only underline our commitment to our city, they enable us to show-case our technology and the new energy future we champion in action.

For example, as you've seen earlier we will light up the Auckland Harbour Bridge using energy supplied by a powerful solar and battery system, using leading peer-to-peer technology to improve the resiliency of that sustainable energy supply.

We are determined to continue to help customers have smart energy choices. That means Vector will continue keeping pace with technological advancement and delivering customers exciting and empowering energy choices. We will continue to look for opportunities technologically, sustainably, connectively, and profitably to transform how customers connect to infrastructure and how you, our shareholders, are rewarded for those initiatives.

To close, and before I hand you back to Michael, I wanted to share with you a brief video which highlights just a few of the new energy initiatives that Vector is working on.

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