VECTOR LIMITED

ANNUAL MEETING

FRIDAY, 19 OCTOBER 2007

Chairman's Address

Chief Executive's Address

Michael Stiassny, Chairman

Ladies and gentlemen,

On behalf of the Directors, it's pleasing to address you today on a year of continued solid financial performance.

However, our pleasure is tempered by disappointment that our business environment remains uncertain due to a volatile and unpredictable regulatory and policy environment that continues to impact on our investment confidence.

A year after our last annual meeting, it is a source of frustration to the Board and management that our discussion of the future is limited largely to what we'd like to do and not what we are incentivised to do and confident to proceed with.

We'd much prefer reporting an investment programme that will further build on our current infrastructure portfolio and deliver greater value to New Zealand consumers and, of course, to you our shareholders.

The Government is to be recognised for providing policy direction and making the right moves to support infrastructure investment, but the inescapable reality for Vector is that our ability to contribute fully to the Government's objectives will be determined to a large extent by Commerce Commission actions and the implementation of recent policy announcements. This is not an issue exclusive to Vector - it permeates through the whole infrastructure sector, undermining confidence and clarity and therefore the appetite to progress with investment plans.

In the past year, Vector has put every effort into trying to understand and meet the Commission's requirements and, in doing so, we have co-operated at all levels, and on all requests, in a professional and constructive way.

However, we continue to receive decisions from the Commission which have adverse implications for our businesses, our shareholders and the wider infrastructure sector – and, if investment in new infrastructure is to be blunted, it will also ultimately have adverse implications for the ordinary public.

We are committed to continuing to work constructively and professionally with the Commission – and all regulatory bodies – to seek mutually acceptable resolutions of issues between us.

I will have more to say on regulatory developments shortly, but first I'd like to briefly review our financial results for the year ended the 30th of June 2007.

Given the challenges, we can take some satisfaction from the year's outcome. Profit from underlying business was up almost 37 percent and we complied fully with all regulatory requirements. All core businesses made an improved contribution to earnings before interest, tax, depreciation and amortisation.

The total net earnings of 101.7 million dollars for the year included a one-off gain of 40.1 million dollars as a result of a change in the deferred tax liability.

A reduction in the corporate tax rate from 33 percent to 30 percent, enacted in May and to take effect from the 1st of July next year meant we had to restate our deferred tax liabilities at the lower rate as part of our year-end accounting processes.

As a non-recurring, non-cash accounting entry, the deferred tax adjustment had no impact on our underlying profitability and cash flows.

Excluding this item, net earnings from underlying business increased by 36.7 percent to 61.6 million dollars. I note that this was at the upper end of the 58 to 63 million dollar net earnings guidance range we gave to the market in May.

Vector recorded a substantial 19.4 percent increase in operating revenue due to a combination of volume and connection growth on our networks, higher per-customer energy use with the return to more seasonable winter weather in 2006, compared with that in 2005, and greater natural gas demand, including from one-off, short-term sales contracts.

However, operating expenditure also increased significantly. It was up 34 percent to approximately 743 million dollars for a variety of reasons.

Principal among these were:

- the need to purchase greater volumes of increasingly dearer gas to meet customer demand. In fact, a large proportion of the increase in operating expenditure comes from the change in the weighted cost of our gas entitlements as the lower-cost legacy Maui gas entitlements expire and we tap into our other, more expensive entitlements;

- In addition, operating expenditure includes rates impositions on our infrastructure networks;

- We are incurring higher regulatory compliance costs;

- and we wrote off 11 million dollars of network assets removed or replaced as part of our replacement programmes. However, it's possible a portion of this amount may be recovered in future.

I note that the corporate sector costs reflect our shared services model, and this year includes the full transfer of 22 million dollars from the former NGC gas business.

Taken together, these costs restricted growth in earnings before interest, tax, depreciation and amortisation to 5.4 percent - or 31.4 million dollars.

Cost increases were also evident in our operating cash flows which, while still strong at 358 million dollars, increased by just 1.4 percent.

Clearly, costs are having an effect on our financial performance and we are addressing this as a management priority. I will talk more about that in a moment.

The EBITDA flow-through to earnings before interest and tax was itself impacted by a 25.5 million dollar increase in depreciation charges, reflecting primarily the accounting revaluation of our electricity network and Auckland gas networks in March 2006, as well as asset growth from capital expenditure.

We recorded a slightly higher net interest expense of 230.4 million dollars due to additional net debt carried during the year, and a reduction of almost 60 percent in the taxation expense reflects the 40.1 million dollar deferred tax adjustment as well as a 9.6 million dollar benefit from the resolution of prior year taxation matters.

The net profit after tax and before amortisation of 199.9 million dollars also incorporated the 40.1 million dollar deferred tax adjustment.

Vector's dividend policy is linked to free cash flows – which is in essence NPATA from our underlying business.

Dividend payments for the year therefore were based on the underlying NPATA of 159.8 million dollars – itself an increase of 11.2 percent when compared with the previous financial year.

In line with the improved earnings, the Board was able to declare a final dividend of 6.5 cents per share, fully imputed.

When added to the 6.5 cents per share interim dividend, the total per share payment for the year was 13 cents, fully imputed – an increase of 8.3 percent on the 12 cents per share total dividend of the previous year.

The total dividend for the 2007 year represents 81 percent of NPATA.

Looking now at our financial position, this has changed little from the position a year ago.

Apart from the 40.1 million dollar reduction in the deferred tax liability being reflected in a matching increase in equity, there have been no material changes in either our sources of funds or total assets.

Net debt amounted to 3.1 billion dollars, a slight increase of 1.5 percent over the previous year as a result of capital expenditure and the acquisition of the New Zealand Windfarms shareholding for 17 million dollars.

I note that there are a number of methods market observers use to rate a company.

For the Board, however, it's the formal basis of assessment that is most relevant.

Based on our current market positions, we have a solid investment grade long-term rating of Triple B Plus, with a stable outlook.

Vector’s financial metrics have remained largely consistent with the previous year. Our gearing increased slightly from 61.5 percent to 62.2 percent, but remains within a range the Board considers acceptable for a company such as ours.

Our current cash flow metrics and gearing are comparable with the average of our peers in the industry, and our debt metrics are above average for like companies in the energy sector.

We continue to effectively manage our capital requirements and in December successfully rolled over our 307 million dollars of capital bonds with an attractive reset interest rate of 8 percent to apply until the next election date in June 2012.

And in April we refinanced our 200 million New Zealand dollar medium term notes with credit-wrapped floating rate bonds for the same amount. These will expire in 2017.

For the 2008 financial year a 70 million dollar working capital facility expiring today is being refinanced on similar terms and, in April next year, we will be refinancing 260 million Australian dollar medium term notes.

These two facilities are in fact part of a 1.2 billion dollar refinancing programme over the next two years.

We are well positioned for this process, having good access to debt capital markets and a supportive group of lenders.

We are currently fully reviewing our debt strategy and related policies to optimise a funding portfolio suited to the long-term needs of the Company.

We can be encouraged by the financial performance trends to date.

But you will have gathered from reading the annual report that we are not complacent and why we are focusing strongly on cost management and improved efficiencies.

Sustaining profitable growth and enhancing enterprise value are of course constant year-in, year-out challenges for any company.

The operating environment for infrastructure companies is changing rapidly and imposing increasing demands for improved efficiency and innovative thinking in the delivery of services to customers.

The Board and management are fully conscious of the rigours ahead and we continue to pursue well-defined strategies to address them. A complication for us, however, is that many of these strategies are dependent on a clear and certain regulatory framework.

When we briefed the market on our financial results in August, I used a racing analogy to illustrate Vector’s situation as it stands today.

I think it’s worth repeating here, especially given the nature of this venue.

We have raised a thoroughbred with strong lineage. The job now is to hone its full potential, maximise the output of every sinew, and make sure we have the right strategy to win the race.

In other words, our growth strategy of the past four years and the bringing together of three large companies - Vector, UnitedNetworks and NGC – has given our business enhanced scale and competency.

The task for the Board and management is to ensure Vector is as efficient, flexible and value-focused as it can be, and that strategies are in place to cement our leading role in the provision of utility services and solutions.

This is our key focus for the immediate future and is captured in our annual report theme - “Core Strengths – New Ideas”.

Our portfolio of quality assets and people skills form the core of Vector’s business.

The desirability of our assets is perhaps evident in a number of approaches we have had from the market this year about our Wellington electricity network.

On behalf of shareholders, the Board has a duty to take such approaches seriously, and we have engaged Goldman Sachs JB Were to assess the various strategic options available to us for the Wellington assets.

There are a wide variety of potential outcomes from Goldman Sachs’ evaluation, and we will keep you informed of developments as they occur.

For the moment, we continue to plan on the basis of our existing business portfolio, but we always keep sight of our responsibility to review our activities and to be open to new possibilities.

At this time, our strategy involves a further consolidation of the core business platform we have established, improving efficiencies, and investigating new ways to leverage value from the broader assets and skills now residing in the Company.

Our electricity, gas and telecommunications activities provide a solid core for generic development of the Company as well as a launch pad for new initiatives to meet changing customer requirements and for retaining a market-relevant position in the supply chain.

There are two key external drivers for change relevant to our business.

Revolutionary policy developments emerging from a sharper international focus on climate change issues are reshaping how countries, including New Zealand, produce and use their energy.

These policies are aimed at reducing greenhouse gas emissions through a focus on renewable generation and changing peoples’ energy consumption habits. We fully support the big picture goal of reducing greenhouse gas emissions, however choosing the right path to achieve these aims is critical. Ensuring reliable, affordable energy sources as we move down the chosen path is key.

We saw the latest manifestation of this trend just a few weeks ago when the Government unveiled its emissions trading scheme as a mechanism to help New Zealand meet its international commitments to greenhouse gas reduction.

Shortly afterwards the Government released the New Zealand Energy Strategy, which confirms the earlier draft strategy's focus on a low carbon future with a heavy weighting on renewable generation and energy efficiency.

The second driver is the Government's promotion of investment requirements in new and existing infrastructure, particularly to see increased broadband uptake, to improve this country's economic performance and ensure we don't lag behind the telecommunications standards of peer nations.

Vector is particularly well positioned to provide solutions to assist both energy efficiency and technological advancement, given the right investment climate.

However, we must first be making the most of the value inherent in our existing businesses.

We have therefore embarked on a focused programme to achieve further improvements in business efficiency, operational excellence and customer service standards across the Company.

It necessarily involves a concerted effort to reduce business costs and to work more efficiently.

There are further synergies to be captured following the initial integration of the acquired businesses and there are always opportunities to improve business models and productivity.

It's about smarter business practices and wise use of financial resources – both at the operational and capital expenditure levels.

But it doesn't mean we're intending to stand still - again given the right business climate and regulatory and policy certainty.

In parallel, we're also looking at how our infrastructure assets and growing technology capabilities can translate to new business initiatives that meet our financial objectives, help achieve national policy aims and enhance customer services.

Vector has a particular capability to be at the forefront of demand-side solutions for the energy market. For some years now, we have been exploring a range of renewable and energy efficient options for our customers, such as smart metering, solar, wind, and our electricity demand exchange.

We are progressing with a number of initiatives, although some are in their formative stages and their further evolution subject to regulatory and policy outcomes.

- We have taken initial steps in renewable energy generation through a cornerstone 19.99 percent shareholding in the wind farm developer, NZ Windfarms. We will have two directors on the board of that company.

- Also in the area of wind generation, we are trialling a micro wind turbine technology, under an exclusive arrangement with the Scottish developers, to test its performance in New Zealand urban conditions.

  A month ago today, I had the pleasure of joining with the Minister of Energy, the Mayor of Wellington and other influential stakeholders for the commissioning of one of these turbines in the Capital's Waitangi Park.

  It was the second of 10 trial turbines to be installed in parts of Auckland and Wellington – the first having been installed on the roof of the Waitakere City Council building in June.

  It's still early days in our understanding of how the turbine will operate in New Zealand, but the overwhelming interest already shown by businesses, developers, individuals and community groups is clear evidence that New Zealanders are ready to embrace alternative and innovative forms of energy generation.

- Vector has taken a leading role in assessing international smart energy metering technologies and, in conjunction with retailers, deploying them for widespread customer use in the New Zealand market.

  Having already participated in the introduction of a smart electricity prepayment metering option, we are in the process now of deploying another new metering technology with greater customer reach and a range of benefits to retailers, distributors and consumers.

  We are looking to further strengthen our positioning in the competitive metering market through a strategic partnership with Siemens. Our discussions with Siemens on a shared venture are well advanced.

  The intention of combining Vector's local market expertise with Siemens' international technical and operational experience is to provide additional capability in offering valued-added services tailored to customers' needs.

In the telecommunications sector, our cutting edge fibre-optic networks give us the potential to play a greater role in the provision of super fast broadband services.

The networks were originally developed in part to lay the platform for intelligent operating systems for our electricity lines business, and are now finding wider demand from customers desperately seeking the high quality true broadband services that fibre can provide.

Our fibre-optic networks in Auckland and Wellington now total some 500 kilometres and we have taken the decision to accelerate our investigations into whether conditions are right for Vector to step up to a larger broadband role in the New Zealand market.

These initiatives together demonstrate a willingness by Vector to respond proactively to the right opportunities when they arise.

We certainly have the capability to step up and, as we're planning with Siemens in energy metering, we'd look at partnering with other experts to share the risks and benefits in any new fields of endeavour.

However, all of these intentions are inextricably tied to our main area of focus – regulatory outcomes.

New Government policy developments crop up regularly – the most recent being the emissions trading scheme announced on the 20th of September and the New Zealand Energy Strategy released on the 11th of October.

We welcome the emissions trading scheme proposal as a positive step towards reducing New Zealand's greenhouse gas emissions. There is a considerable amount of detail to be worked through before reaching a final design of the scheme and so a number of important issues have yet to be resolved.

We support the cap and trade, least-cost approach it is taking, and are pleased it encompasses all greenhouse gases.

This means everyone is being asked to share the responsibility for managing climate change.

Vector is especially interested in such areas as where an emissions cap will be set and where responsibility will fall in the supply chain.

It's important to us, also, to ensure that the potential for demand-side solutions to help greenhouse gas reduction is fully addressed and acknowledged in the final design of the emissions scheme.

We also welcome some elements of the New Zealand Energy Strategy, which recognises the value of a cost-effective demand-side response in energy efficiency and security, especially in smart meters and distributed generation.

We're pleased the Government intends to relax some of the conditions around investment by lines companies as this will enable companies like Vector to consider making a greater contribution to demand-side solutions.

However we do have concerns regarding the decision to ban any new base load fossil fuel electricity generation and replace it with renewable energy sources.

While we wholeheartedly support the move to renewable energy generation, we believe there are challenges in delivering the energy and security required, particularly in the North Island. We cannot see how the volume and security of generation we need to power Auckland alone, given current growth rates, can be replaced solely by renewables.

This raises the critical question of security of supply in the North Island. There is simply not enough wind, not enough wide open spaces or enough research into viable, renewable generation options that will provide a secure, reliable supply in the short term. We believe that the more traditional generation fuels must remain part of the mix in order to have confidence in energy supply.

At a broader level, for Vector there currently remains a considerable gap between what we'd like to do, and what we feel we can responsibly do in this unpredictable regulatory regime, particularly in the light of the Commerce Commission's recent draft decision on final control arrangements for our Auckland gas network.

Revenue from this network represented just 3.2 percent of total Vector group revenue in the 2007 financial year, however the Commission's basis for its draft determination has the potential to resonate adversely through other parts of our business and the wider infrastructure sector.

The draft decision was released on the 4th of October and proposes a further 15 percent reduction in our pricing for the Auckland gas network.

This would be additional to the 9.5 percent reduction and price freeze imposed on us at the time a provisional authorisation was applied in 2005.

The suggestion that Vector has been making excessive returns derives solely from the Commission's unprecedented ex-post decisions on asset valuation. Adopting the Commission's previous treatment of valuations in other sectors would most likely have led it to conclude that Vector's returns were below normal and price increases justified.

We are continuing our full analysis of the draft decision and its potential affect on the Company.

But we have major concerns about the Commission's approach to asset valuation and how economic theory matches with the reality of running a business of this nature.

Accordingly, I have serious doubts about how far we can implement our new ideas in the current environment.

It may be a draft decision and subject to change following a consultation process, but such is the market's sensitivity to regulatory uncertainty that even this suggestion of further regulatory intrusion had the immediate effect of reducing Vector shareholder value by 100 million dollars.

Consequently, the draft decision has further damaged our investment confidence and, I suspect, has caused other infrastructure providers to reflect deeply on their own position.

It may therefore have major implications for the huge investment that will be required to meet the Government's objectives to improve the extent and quality of basic infrastructure services, not to mention the technologically advanced services required by 21st century society.

As I mentioned before, this will ultimately have an adverse effect on the general public, and it is important that the need for investment in infrastructure over the longer term is not overwhelmed by a desire to cut pricing in the shorter term.

The Commission has signalled there may be significant changes to the draft decision as a result of the consultation process and we will be making extensive submissions, and working closely with them, in the period leading to the final authorisation determination, expected in the first half of 2008.

On a separate matter, when we spoke to you a year ago we were pleased to report the Commerce Commission had accepted in principle our administrative settlement offer relating to electricity network pricing. The Commission assures us there are no remaining issues and it is working through its process. We look forward to final resolution of this issue.

There are numerous other regulatory, policy and industry governance issues under active management by Vector, and the significant matters I've referred to have still to run their course.

In the meantime we await with interest the outcome of the Government's review of the regulatory framework to look at impediments to achieving national infrastructure policy objectives, and getting the regulatory frameworks and governance corrected to give some confidence to investors.

This involves what is for Vector a crucial review of key sections of the Commerce Act, and includes proposals aimed at fostering infrastructure investment, creating regulatory certainty and transparency and allowing merits review of regulatory decisions.

This can't come too soon and would allow the substance of regulatory decisions – not just the process followed – to be more closely scrutinised.

To Vector, merits review is simply good practice for any decision or ruling that has such broad ramifications for business and consumers. Merits review is standard internationally and one we believe is vital to introduce into New Zealand if we want a system that allows challenge and robust analysis around our most critical decisions.

In conclusion, I'd like to emphasise that Vector is focused on continuing its record of achievement.

Apart from the inherent strengths of the business itself, to which I referred earlier, the Board is at full strength with the appointment of four exceptional individuals during the year.

You will be asked to confirm their appointments later in the meeting.

The Directors together represent a rich mix of talent, experience and skills and are the nucleus of a robust governance structure that will underpin Vector's ongoing success. It is a strong and able Board working constructively in progressing the Company's interests.

We continue our international search for a chief executive officer following Mark Franklin's decision to step down from that position shortly after the financial year ended.

I expect that an appointment will be confirmed before the end of the year.

In the meantime the Company continues to be in the very capable hands of our acting CEO, Simon, who had most recently been our chief operating officer.

I'm now pleased to invite Simon to talk to you about Vector's operations.

Simon Mackenzie, Acting Chief Executive Officer

Ladies and gentlemen, I'm pleased to give you a management perspective of the year just gone and our priorities moving forward.

I've been acting in the role of Chief Executive for just on three months now. My focus, and that of the executive team and all staff, is to implement the agreed and refreshed strategy and to effectively manage the external influences that impact our business.

Driving our strategic plan and maximising company performance takes four important dimensions:

- Improving cost efficiency and operational effectiveness.
  In the past few months cost control has been a key focus area for me and the management team. There has been significant process made to date in identifying and implementing cost savings and efficiency programmes. We continue to identify opportunities to work more efficiently and eliminate waste and duplication.

- Managing regulatory and policy outcomes

- Meeting our customers' changing needs

- And achieving disciplined growth

Our cost efficiency programme targets a wide range of activity – from corporate and supply costs, ensuring an effective alignment of management systems with our strategic direction, streamlining our business models and minimising external party expenses.

At the same time, and to reinforce Michael's point, we are constantly aware that our business strategy, business performance and regulation go hand in hand.

I therefore can't overstate the importance of regulatory outcomes to our future strategic development.

I'd like to turn now to our various business operations, which give us a national presence in the delivery of electricity, natural gas, LPG, telecommunications and smart metering services to customers.

Within the disciplines of our investment criteria, we have continued to develop our infrastructure networks to meet increasing customer demand and to enhance system integrity.

Capital spending increased by around 22 million dollars, or approximately 10 percent, to 249.3 million dollars.

There was a slight predominance of growth projects, but this is still relatively evenly balanced with expenditure on compliance and asset replacement projects.

Most of the increase was directed towards the electricity business, but it also included higher corporate expenditure on IT consolidation and business systems integration projects, as well as 4 million dollars granted for the North Shore Urban Fibre Network development under the Government's Broadband Challenge programme.

All of our businesses performed soundly during the year and I'd like to take a moment to discuss each of them in turn.

First, electricity.

Revenue from electricity grew from 580.1 to 611.5 million dollars, an increase of 5.4 percent.

EBITDA increased by 3.7 percent to 378 million dollars as cost efficiencies achieved in this business offset a 9.2 million dollar write off of assets removed or replaced on the electricity networks.

We recorded a 1.9 percent increase in electricity volume throughput, due in part to the return to more normal winter temperatures, but also reflecting the addition of over 10,000 new connections to our networks and higher per-customer electricity usage, particularly in Wellington.

Over 80 percent of the new connections occurred on our more extensive networks in the greater Auckland area.

Network reliability is a priority for our electricity business and we continue to commit significant resources to enhancing system performance.

Of approximately 161 million dollars of capital expenditure in the electricity business during the year, 88 million dollars – or more than half – was directed toward network compliance and improvements.

As in previous years, this country has again experienced extreme weather conditions that present major challenges for utility operators and the general community.

The difference this time was in the severity of the hurricane-force weather system that hit the upper North Island in July. No one could have, or did, predict the severity of this event.

The impact on our electricity networks is fully detailed in the annual report, so I won't go through it again today.

However, I've no doubt there were some Vector shareholders among the 150,000 customers on our greater Auckland networks who lost electricity during the peak of the hurricane force winds.

I'd like to take this opportunity to again acknowledge the inconvenience and disruption experienced by customers, especially those who were without power for an extended time.

At a general level I take considerable pride in the job done by Vector's people and field service partners to restore power supplies over a widespread area and under extremely trying conditions.

However, there are always learnings to be taken from incidents such as this and I want to reassure you, and all of our customers, that we have thoroughly reviewed all aspects of our response and have implemented a programme of improvements.

These are generally directed towards better communications both internally and, in conjunction with retailers, externally to customers.

We ended the regulatory year – to the 31st of March 2007 – with supply interruptions from our normal operations slightly below the regulatory threshold.

There were a number of additional outages caused by extreme events that, in the absence of a formal definition by the Commerce Commission, we have calculated using our own methodology.

We expect the supply disruptions caused by the hurricane damage in July will have a considerable impact on the extreme weather component of our network availability measure in this new regulatory year. We continue to discuss our views on extreme events methodology with the Commission to work to an outcome that accurately measures network performance against extreme events and third party hits.

Looking now at the gas business, revenue grew by 37.5 percent to 668.2 million dollars and EBITDA was up by 17.4 percent to 243 million dollars.

Demand growth in LPG and higher natural gas sales, particularly from some one-off short term supply contracts to petrochemical customers, were the key contributors to the strong result by this business.

Gas shipped through our transmission system in the year ended the 30th of June 2007 was around 11 petajoules down on the previous year.

That isn't surprising as transmission throughput during the 2005/2006 year was unusually high due to the increased demand for thermal power generation at a time of constrained hydro resources.

Throughput differences associated with deliveries to power stations have little impact on transmission revenues as gas for these customers is transported under fixed contract arrangements.

Distribution network volumes for the year were 3.5 percent lower at 22 petajoules due mainly to the loss of two large wood processing customers.

These offset volume gains from increased gas consumption following the warmer 2005 winter and a net gain of just over 4,000 new connections, which included 215 higher load commercial businesses.

During the year we installed 110 kilometres of new natural gas pipelines to cater for urban expansion and greater customer demand.

In our gas processing activity, we have achieved efficiency improvements at our Kapuni gas treatment plant which have increased plant uptime from 96 to 99.5 percent, yielding an associated value of approximately 1.6 million dollars.

Our natural gas sales for the year totalled 53.7 petajoules, an increase of 51 percent over the previous year due mainly to 12.6 petajoules sold under short-term supply agreements with petrochemical producers.

Two of these one-off contracts have now ceased, so the volume sales are not continuing throughout this new 2007/2008 financial year.

In our OnGas LPG business, bulk and cylinder LPG volumes were up by 10.4 percent to approximately 50,000 tonnes, and we continue to see growing demand for this unregulated product.

We continue to expand our storage, filling and delivery infrastructure to meet this market growth.

As you'd expect, Vector takes a keen interest in electricity and gas supply security.

As I mentioned in the annual report, supply security is something for which the energy sectors, in conjunction with the Government, must take a collective responsibility.

Vector, however, is committed to do what it can to assist security of supply, and we actively work with other industry participants to this end, particularly given our concerns regarding elements of the Energy Strategy.

In electricity, we are working particularly closely with Transpower and the Electricity Commission on improving security of supply to the upper North Island, a region that is perhaps most in need of reinforcement.

We welcome the Electricity Commission's approval of an electricity grid upgrade into south Auckland, and Transpower's more recent initiative to reinforce the transmission system across and north of Auckland.

Vector and Transpower continue to work towards an appropriate arrangement for Transpower to use some of our assets for this purpose, but before we can finalise any arrangement we first need to understand how it will be viewed, and treated, by the Commerce Commission.

We are also working with Transpower to address a number of supply and grid stability matters that surfaced from a review we jointly commissioned from Siemens Global Consulting of electricity supply into Auckland.

Vector is concerned at the potential impact on security of supply by the recent decommissioning of Transpower's Pole 1 – one of the two Cook Strait cables that transfers generation capacity between the two islands. This is a significant issue for all of the country.

Gas is a critical component of electricity supply security, through generation, and as Michael has mentioned we see this continuing in the short and long term if we are to deliver consistent, affordable supply to consumers.

In the gas sector, we see a healthy state of supplies for the foreseeable future as additional resources become available, both from existing and new fields.

Our own supply position is particularly robust, and we have a strong portfolio of entitlements to gas from the three largest fields – Maui, Kapuni and Pohokura.

It is important to highlight to you that the large majority of our gas business is with the commercial and industrial sectors and is contracted.

Turning to our technology business, the energy metering and telecommunications activities delivered a solid performance with revenue up 11 percent to 66.9 million dollars, and EBITDA increasing by 14.1 percent to 47.8 million dollars.

A look now at metering.

Energy metering technology internationally is transitioning rapidly from simple meters to technologically advanced meters that offer customers real time information to help them monitor and manage their energy use more effectively.

My focus is now on completing the partnering arrangements with the international arm of Siemens to strengthen our capabilities in the energy services field.

I am confident that this will bring together the right mix of capabilities, technology and experience to truly make an impact on the metering landscape and I look forward to jointly continuing our work with retailers in implementing smart metering solutions.

To telecommunications….

Not a day goes by where broadband and related issues are not providing the media with new, usually dire, stories of New Zealand's offerings.

The contribution true broadband can make to economies is acknowledged globally and Vector is pleased to play its part for New Zealand.

The question we're often asked, and is the subject of some speculation, is exactly what is that part and where exactly might we play in the future.

We have a solid asset on which to base the answers to those questions as we work through our evaluation of our future role in broadband communications.

The fibre-optic networks are a valuable part of our business. Importantly, though, we have a number of other highly valuable assets and capabilities that put us in a unique position that we can leverage.

Where we take this business in the future is a major work stream for management and we are seriously focused on exploring if the environment is right for Vector to deliver the true broadband New Zealand is asking for.

Let's face it – the needs of customers and the economy are great and those with the ability to step up are extremely limited. Vector has that ability but that must be matched by the right partnerships, incentives, return on investment and the regulatory environment.

Evidence of what we can achieve is the rollout of fibre optic cable on the North Shore under the Government's Broadband Challenge.

Following the successful joint bid with North Shore City Council we are now providing ultra fast broadband services to over 40 schools, six libraries and 15 council facilities in North Shore City.

To illustrate our capability in this we were awarded a TUANZ Innovation award this month for best next generation network for the North Shore fibre optic rollout. Recognition was given both to our infrastructure capability as well as the partnerships that contributed to such a successful outcome. North Shore City Council, Ericsson and Northpower as well as the North Shore schools and community were all contributors to this award.

These groups are enjoying all the benefits true broadband offers and which, in turn, highlights the huge gap between old and new. Excuse the pun, but the difference is light years apart…

Similar to broadband, not a day goes by where you don't read or hear something relating to climate change.

The signs are all there – that this is the start of a revolution, not just evolution, for all New Zealand consumers including the energy sector.

Therefore it is highly relevant that Vector carefully considers its place in the future world.

The Energy Strategy highlights the need to urgently explore generation options beyond what we understand today, which is the mass-scale supply side generation.

I believe that the demand-side is the real frontier in terms of making New Zealand's economy more sustainable. This was clearly recognised in the Government's Energy Strategy.

My view is that we're not far from a "tipping point" where our instinctive preference as consumers switches to energy efficiency and that various providers will rush in with new products and services to enable us to take control of our carbon footprint and be energy efficient.

How and when we see a significant sea change in consumer behaviour, I can't say, but the important thing is that when the tide does turn, those who operate the demand-side are ready to respond. This is not new for Vector, so we are in a process of refinement and further research.

New Zealanders spend 13 billion dollars a year on energy. The question we face is how to spend that 13 billion dollars more intelligently in years to come.

That will require a much greater level of demand-side sophistication that calls for an emphasis on buying innovative, efficient, low carbon ways of meeting our energy needs, rather than just buying energy.

My vision is for Vector is to be the lead provider and innovator of demand-side solutions which put energy choices into the hands of the customer.

In the meantime it's crucial that everyone concerned takes care to not act in a way that would jeopardise security of supply.

Back to the present, Vector has the ideal platform for such innovation – quality electricity and gas infrastructure assets, plus solid market positions, innovative technologies in metering and telecommunications, and an initial presence in renewable generation.

Through these assets and market positions we are well-equipped to provide a suite of customer-led energy solutions, to pursue options for adding other solutions to the mix and to re-orientate the current supply-led paradigm to one that offers customers wider choice.

The big question is whether the regulatory and investment environment warrants us providing these solutions.

Michael and I have talked about smart metering, broadband, renewables, demand-side initiatives and the underlying support of our core business.

The operating environment for all of these activities is undergoing continual change and, as I mentioned earlier, a key priority for us is to handle the external influences that impact our business.

The main issues currently occupying Board and management attention, and which we factor fully into our strategic planning, are political actions influencing the regulatory regime, and environmental demands – both of which I've touched upon – and resource access and cost.

The latter recognises that, in planning our future we must first be operating to the best of our ability and managing our costs effectively.

Accordingly, operational excellence and cost efficiency are two of four key focus areas that will inform every initiative and decision by Vector over the coming year. To reiterate, these are:

- A cost efficiency programme. I have a priority focus on cost management across the business – both capital expenditure and operating expenditure.

- Regulatory, policy and customer outcomes and how the prevailing or anticipated regulatory environment will impact on customers, our assets or an initiative we are considering.

  With regulation, what we are looking for - and what we've been saying for the last year or more - is a robust, transparent and stable regime that provides investment incentives.

- The third focus area is whether any initiative will achieve our operational excellence and core business enhancement objectives. This includes how we can do things smarter and how we can leverage our current business and new technologies to offer customers the innovative packages they will increasingly demand in this changing environment.

- And, finally, where we are contemplating growth initiatives they must meet the disciplines of strategic alignment, return on investment and risk.

Finally, to summarise our earlier points in the context of Vector's next phase.

An accelerated work programme is currently underway to examine what part Vector can play in delivering to the country's broadband needs.

We continue to look for appropriate growth opportunities in our core businesses and within our investment disciplines.

We will review our current asset mix and look at options to change our portfolio where there is value in doing so.

For a number of years, our business planning has involved developing our capabilities in new technologies and environmental management.

We will continue to take a lead role in developing demand-side solutions for customers and you can expect our focus on customers to further increase over the next year. They have every right to expect a lot from us.

As do you, our shareholders.

To loop back, our focus on cost efficiency, operational effectiveness, disciplined growth and the management of external forces are all critical to ensuring we deliver to these expectations.

Regulation, however, remains the number one issue and until the regulatory environment has more clarity we will be limited in our ability to deliver the much-needed infrastructure and solutions that customers and the economy desire.

As Michael has stated, we will maintain constructive relationships with regulators and seek acceptable solutions to issues that are presenting roadblocks to Vector's development and our ability to maximise our contribution to national policy objectives.

You will be left in no doubt of the importance we place on the right regulatory outcomes, but also be assured we are not sitting still and waiting – we have an active programme exploring growth opportunities which we will look to activate when the incentives are in place.