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30 November 2015

Dear Shareholder

Sale of Vector Gas Limited

This letter accompanies formal notice of a special meeting to vote on the sale by Vector Limited (**Vector**) of its subsidiary, Vector Gas Limited to two infrastructure funds managed by First State Investments (**First State Funds**).

We believe this is a great outcome for shareholders, further strengthening our balance sheet to fund organic growth in Auckland and pursue further unregulated growth.

Vector's board unanimously recommends shareholders vote for the sale.

In this letter, we have set out an overview of the Vector Gas Limited businesses, our rationale for the sale and an overview of the process we went through to reach our recommendation. We have also summarised the proposed transaction, and the financial impact on Vector's balance sheet, future earnings per share and dividends to you. We are working towards completing the transaction by 31 March 2016.

BUSINESSES OWNED BY VECTOR GAS LIMITED

Vector Gas Limited owns Vector's regulated gas transmission and non-Auckland gas distribution businesses and is a leading provider of unregulated pipeline management services to third party pipeline owners.

The gas transmission business owns and operates over 2,200 km of high pressure gas transmission pipelines, 233 stations and associated non-network assets that supply natural gas to industrial consumers and distribution networks in most cities and large towns in the North Island of New Zealand.

The non-Auckland gas distribution business comprises gas distribution networks spread across six regions in the North Island, consisting of over 3,400 km of main pipes and 1,400 km of service pipes. The non-Auckland gas distribution business provides gas distribution services to gas retailers who sell gas to more than 60,000 customers. Industrial and commercial customers represent around 85% of gas usage.

The gas transmission and non-Auckland gas distribution pipelines are regulated under Part 4 of the Commerce Act. In addition to owning regulated pipelines, Vector Gas Limited is a leading provider of unregulated pipeline management services. Vector Gas Limited operates the 309 km Maui Pipeline owned by Maui Development Limited and maintains a number of other pipelines owned by third parties, utilising its own highly skilled internal field force.

Vector Gas Limited generated earnings before interest, tax, depreciation and amortisation¹ (EBITDA) of \$77.2 million in the twelve months to 30 June 2015.

STRATEGIC REVIEW

After receiving unsolicited interest, in June 2015 the board of Vector engaged Goldman Sachs New Zealand to undertake a comprehensive review of strategic options for the gas transmission and non-Auckland gas distribution businesses. The review canvassed a range of options, including full or partial sale; continuing to manage the business for a new owner under a management contract; and retention.

Goldman Sachs conducted a process soliciting interest in the businesses from a very wide range of international investors. This process ultimately culminated in several offers to purchase all of the shares in Vector Gas Limited. After a period of negotiation, Vector concluded a sale and purchase agreement with the First State Funds.

¹ Pro-forma, includes a portion of Vector's corporate overheads and excludes contribution from parts of Vector's gas trading operations which have subsequently been transferred out of Vector Gas Limited. Excludes capital contributions.

The First State Funds comprise the Global Diversified Infrastructure Fund (Active) and the Colonial First State Active Infrastructure Income Fund. Both are managed by First State Investments (known in Australia as Colonial First State Global Asset Management). First State Investments is a leading manager of global infrastructure funds, with approximately NZ\$7 billion of capital invested in infrastructure assets across Australia, New Zealand and Europe. First State Investments has made 16 utility investments over that time; with existing investments including Ferngas (German gas network), EVG (German gas network), Reganosa (Spanish gas storage), ANZ Terminals (Australian and New Zealand bulk liquid storage network), Electricity North West (UK electricity distribution network), Caruna (Finnish electricity network) and Anglian Water Group (UK water utility).

TRANSACTION DETAILS

The First State Funds will pay \$952.5 million to acquire all of the shares in Vector Gas Limited, which will be sold on a cash-free, debt-free basis. The transaction is subject only to approval under the Overseas Investment Act 2005 and the shareholders of Vector. Other details of the transaction, including timings, conditions, obligations and transitional arrangements are contained in the explanatory notes to the notice of special meeting that accompany this letter.

FINANCIAL IMPACT OF THE TRANSACTION

The proceeds of the transaction will be applied to reduce Vector's debt, and will further strengthen Vector's balance sheet and debt servicing metrics. Vector expects to have around \$540 million of drawn bank debt as at 31 March 2016, which will be repaid immediately. We expect to apply the remainder of the sale proceeds to repay term debt as it matures over the following 12 months. Vector expects to redraw these facilities over time to fund investment into its Auckland networks and to expand its portfolio of unregulated businesses.

The impact of the sale on Vector's balance sheet is illustrated in the explanatory notes, which show that were the transaction to have occurred as at 30 June 2015, Vector's economic gearing as at that date would improve from 54% to 42%. The transaction will realise a portion of the goodwill on Vector's balance sheet, and as a result, net tangible assets (NTA) per share would improve from 64 cents to 111 cents. Assuming no other changes to Vector's business mix, we would expect our credit rating (BBB stable) to be unaffected by the sale.

Because the sale proceeds are being applied to debt reduction, Vector's future interest costs will reduce. However the reduction in interest costs does not quite offset the reduction in operating earnings due to the sale, and as a result, until such time as we are able to redeploy the proceeds and all other things being equal, we expect Vector's future earnings per share to reduce by around 10% over time relative to if we were to retain the businesses. Vector remains committed to maintaining a sustainable dividend, and the sale will not result in a special dividend or a share buyback.

RATIONALE FOR SALE

The board of Vector has considered a range of factors when making its decision to approve the sale of Vector Gas Limited to the First State Funds, including those set out below.

Growth opportunities

Vector's Auckland energy networks are experiencing significant growth. There is also potential for further significant growth in Vector's non-regulated portfolio, which spans a diverse range of activities from smart metering to bottled gas to new energy technologies. Relative to these parts of Vector's portfolio, the gas transmission & non-Auckland gas distribution businesses have more limited opportunities for growth, and are also exposed to a regulatory reset in 2017 at a time of historically low interest rates.

The "for-sale" assets are geographically & strategically non-core

Vector is, at its core, an Auckland energy company. The gas transmission and non-Auckland gas distribution businesses are remote from Auckland.

Realising the goodwill on our balance sheet & funding future Auckland growth

Over the next ten years, more than \$1.8 billion is forecast to be required to expand the electricity and gas infrastructure in Auckland. By selling the gas transmission and non-Auckland gas distribution businesses and re-investing the proceeds into the organic growth of its Auckland networks, Vector can realise a significant portion of the goodwill currently sitting in its gas transportation segment and begin earning a return off the full market value of these businesses.

Recycling capital to fund growth in other areas of the portfolio

Vector's vision is to create a new energy future. Vector is seeking to do this by leveraging the new technology which is rapidly emerging in the energy sector to deliver energy choices to consumers. Not only will the proceeds from the sale of Vector Gas Limited free up capacity to fund significant expected network growth in Auckland over the next decade, but it will also enable Vector to invest additional capital into its non-regulated activities, including smart metering, solar and network linked batteries. This is analogous to the sale by Vector of its Wellington network in 2008 - the proceeds were initially applied to repaying debt, which has subsequently been redrawn to fund, amongst other things, the successful growth of our metering business.

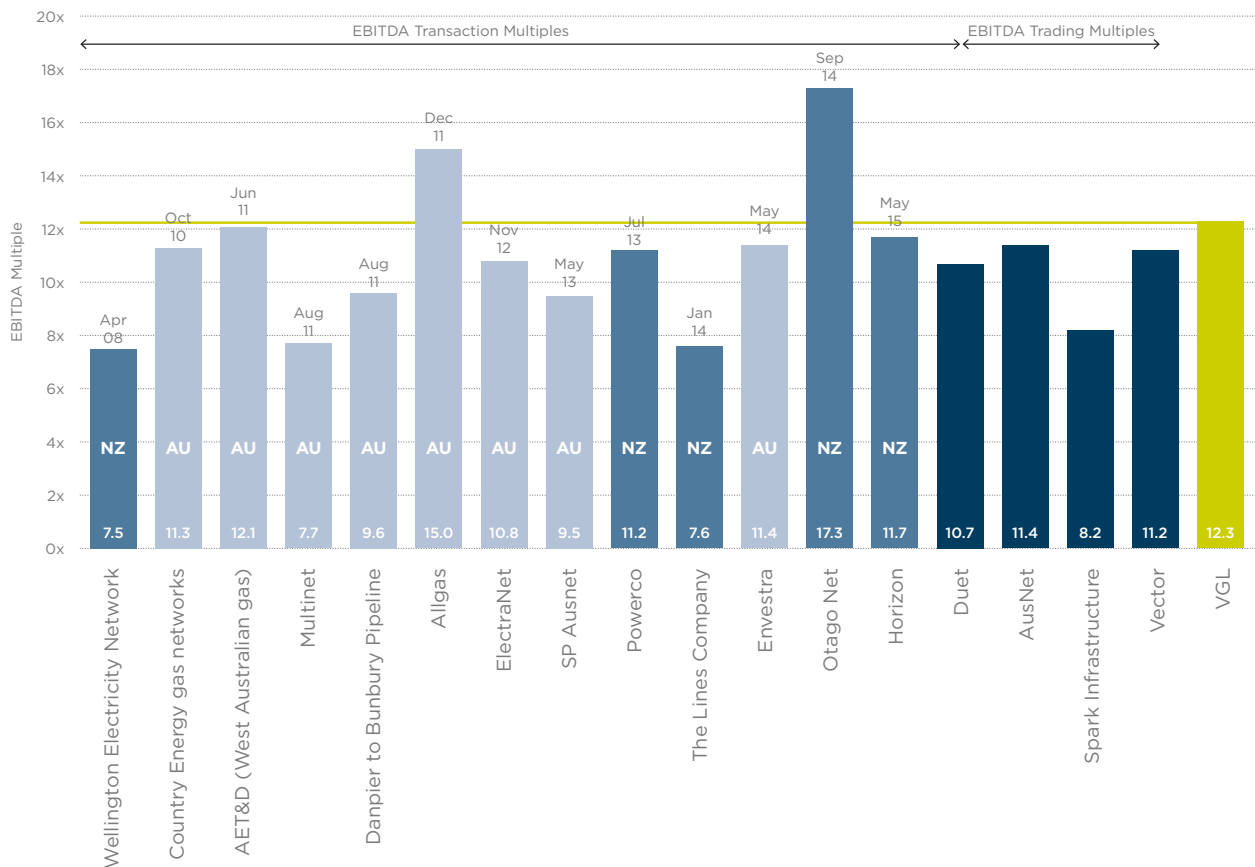
Opportunity to partner with the First State Funds on future opportunities

Vector and the First State Funds have entered into a Memorandum of Understanding to consider opportunities to co-invest in regulated and unregulated energy infrastructure, both in New Zealand and offshore, and to co-operate operationally on gas distribution activities.

The proposed sale realises full value for the businesses

The board of Vector believes that now is an opportune time to divest these regulated businesses. The sale of Vector Gas Limited is taking place during a period of historically low interest rates, and as a result, there is a significant weight of foreign capital targeting yield investments, and especially infrastructure. The acquisition will result in a gain on sale for Vector of approximately \$167 million² and represents a multiple of around 12.3x Vector Gas Limited's proforma EBITDA for the 12 months to 30 June 2015. We believe the price offered by the First State Funds compares very favourably with recent comparable sector transactions and current comparable trading multiples³ and that the transaction realises full value for shareholders.

Australasian Network EBITDA Multiples



CONCLUSION

Due to the factors set out in this letter and the attached explanatory notes, the board has determined that selling Vector Gas Limited to the First State Funds represents an excellent outcome for shareholders.

The board unanimously recommends shareholders endorse the decision to proceed with the sale. The chairman and directors intend to vote all discretionary proxies in favour of the resolution. We hope this information assists you in reaching your voting decision.

Yours sincerely

MICHAEL STIASSNY
Chairman

² Calculated as if the sale had occurred at 30 June 2015.

³ As summarised in the graph below and set out in the explanatory notes.

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