



PLEASE READ

Notice of Special Meeting Vector Limited

Notice is given that a special meeting of the shareholders of Vector Limited will be held in the Guineas Ballroom, Ellerslie Event Centre, Ellerslie Racecourse, 80 Ascot Avenue, Remuera, Auckland, New Zealand, on 16 December 2015, commencing at 11am ●>

AGENDA

ORDINARY RESOLUTION; TO CONSIDER, AND IF THOUGHT FIT, PASS THE FOLLOWING RESOLUTION:

To approve the sale by NGC Holdings Limited of all of the shares in Vector Gas Limited to Odysseus Investments Limited under an Agreement for the Sale and Purchase of shares in Vector Gas Limited dated 9 November 2015 between Vector Limited, NGC Holdings Limited, Odysseus Investments Limited and Colonial First State Infrastructure Managers (Australia) Pty Limited as manager and agent for Colonial First State Managed Infrastructure Limited as trustee for the Global Diversified Infrastructure Fund (Active), as required by clause 34.1 of Vector Limited's constitution.

By Order of the Board

Diane Green
Company Secretary
30 November 2015

ORDINARY RESOLUTIONS: Ordinary resolutions are required to be approved by a simple majority of more than 50% of votes validly cast at the Special Meeting.

SHAREHOLDERS ENTITLED TO ATTEND AND VOTE: Pursuant to section 125 of the Companies Act 1993, the Board has determined that, for the purposes of voting at the Special Meeting, only those registered shareholders of the Company as at 5.00pm on 10 December 2015, being a day not more than 20 working days before the meeting, shall be entitled to exercise the right to vote at the meeting.

PROXIES: Any person entitled to attend and vote at the meeting may appoint another person as his/her proxy (or representative in the case of a corporate shareholder) to attend and vote instead of him/her. A proxy need not be a shareholder of the Company. You may appoint the "Chairman of the Meeting" as your proxy if you wish. A proxy form accompanies this Notice of Meeting. Proxy forms must be received at the office of the Company's share registry, Computershare Investor Services Limited, Level 2, 159 Hurstmere Road, Takapuna, Auckland, New Zealand (Private Bag 92119, Auckland 1142), or at the Company's registered office, Level 4, 101 Carlton Gore Road, Newmarket, Auckland 1023, not less than 48 hours before the meeting, being 11am on 14 December 2015. Alternatively you can appoint a proxy online at www.investorvote.co.nz. Online proxy appointments must be received by 11am on 14 December 2015. Please see your proxy form for further details. The chairman and directors intend to vote all discretionary proxies in favour of the resolution.

EXPLANATORY NOTES

TERMS OF SALE AND PURCHASE AGREEMENT

On Monday 9 November 2015 Vector Limited (**Vector**) announced the conditional sale of Vector Gas Limited (which owns Vector's gas transmission business, non-Auckland gas distribution business and third party pipeline management business) to the Global Diversified Infrastructure Fund (Active) and the Colonial First State Active Infrastructure Income Fund (together, the **First State Funds**) for a price of \$952.5 million. A copy of our announcement is available at www.vector.co.nz/news.

Under an agreement dated 9 November 2015, Vector as guarantor and NGC Holdings Limited as the vendor of the shares in Vector Gas Limited (**VGL**) agreed to sell all the shares in VGL to Odysseus Investments Limited (the **purchaser**), (an entity owned by the First State Funds) with the obligations of the purchaser guaranteed by Colonial First State Infrastructure Managers (Australia) Pty Limited as manager and agent for Colonial First State Managed Infrastructure Limited as trustee for the Global Diversified Infrastructure Fund (Active) (the **Sale and Purchase Agreement**).

The First State Funds 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).

The sale is conditional on the purchaser receiving consent to the transaction under the Overseas Investment Act 2005. At the date of this notice this condition remains outstanding but an application to the Overseas Investment Office (**OIO**) for consent to the transaction is under consideration by the OIO. This condition must be satisfied by 6 May 2016.

The agreement is further conditional on Vector's shareholders' approval by ordinary resolution. That approval is being sought from the shareholders of Vector at the special meeting, the subject of this notice. This condition must be satisfied by 9 February 2016.

Approval of an ordinary shareholders' resolution is required because Vector's constitution (clause 34.1) states that if a transaction involves the sale of assets with a value exceeding 15% of the average market capitalisation of Vector, as this transaction does, then approval of Vector's shareholders is required. As at Monday 9 November 2015, based on the preceding 20 Business Days Volume Weighted Average Price of shares the transaction represents 29% of the market capitalisation of Vector.

At the time of Vector's listing in August 2005, Vector was granted a waiver by NZX Regulation to allow it to include a number of provisions in its constitution which give additional approval rights to the Auckland Energy Consumer Trust, as majority shareholder in Vector, and in the case of clause 34.1 all shareholders voting at a meeting. Clause 34.1 is on similar terms to NZX Main Board Listing Rule 9.1.1 except it is triggered at a 15% of market

capitalisation threshold rather than the 50% threshold in the listing rules. The Sale and Purchase Agreement does not trigger Listing Rule 9.1.1 because the sale price is not more than 50% of Vector's market capitalisation.

If either condition is not satisfied by the required date then the Sale and Purchase Agreement will be at an end unless both parties agree to an extension.

The sale will be settled on the date that is the later of 10 Business Days after the purchaser receives consent under the Overseas Investment Act 2005 or such other date as is agreed by Vector. Vector and First State Investments are working towards completing the transaction by 31 March 2016.

The purchaser has provided to Vector a deposit of \$47 million of the total purchase price by way of letter of credit, which may be drawn on if settlement of the Sale and Purchase Agreement does not proceed for certain reasons.

Vector is working with First State Investments to ensure there is a smooth transition in ownership and will continue to do so for a period following completion of the sale. Vector has agreed to provide transitional services at market rates from settlement of the Sale and Purchase Agreement through until the later of 9 months after settlement of the Sale and Purchase Agreement and 31 December 2016.

SALES PROCESS

As announced to NZX in June this year, after receiving unsolicited interest, the board of Vector engaged Goldman Sachs New Zealand (**Goldman Sachs**) to undertake a comprehensive review of strategic options for the gas transmission and non-Auckland gas distribution businesses.

Utilising its global network, Goldman Sachs provided an information flyer summarising the potential opportunity to over 60 parties, including financial investors, trade buyers and wealth funds in Asia, Japan, North America, Europe and Australasia.

A number of parties submitted expressions of interest. Vector in conjunction with Goldman Sachs decided which parties to admit to the second stage of the process, which involved Vector issuing a detailed information memorandum in July this year. Parties were invited to submit indicative proposals based upon the information set out in the information memorandum. Indicative proposals were sought on a range of bases, including for one or both businesses, for full or partial ownership, and with or without an ongoing management contract with Vector. Vector received indicative proposals from several parties in August.

At this stage there was no decision to sell, rather an openness to ascertain whether proposals put forward would be attractive.

Having assessed the initial proposals, several parties were admitted into the final phase of the review. These parties were offered the opportunity to undertake comprehensive due diligence, including site visits, management presentations, access to an online dataroom containing detailed information about the businesses, and the ability to submit written questions. While undertaking due diligence the shortlisted bidders also commenced negotiations with Vector on the form of the documentation to record the transaction proposed.

EXPLANATORY NOTES

Final proposals were received from the shortlisted parties in late October. Final negotiations on the form of documentation were then undertaken which resulted in the Sale and Purchase Agreement being entered into on 9 November 2015.

RATIONALE FOR SALE

In assessing the proposals received for the VGL businesses and ultimately arriving at its decision to sell to the First State Funds for \$952.5 million, the Board took the following criteria into consideration:

- > The price offered, relative to Vector's own valuation of the businesses, and to other comparable transactions in the sector
- > The outlook for the businesses including the regulatory environment in which they operate
- > The growth opportunities available to the businesses relative to those available to Vector's Auckland energy networks and across its portfolio of non-regulated businesses

- > The limited inter-relations between the VGL businesses and the remainder of Vector's portfolio
- > The ability to repay debt and recycle capital to fund growth in other areas of the portfolio.

Having considered these criteria, the Board reached the view that a sale to the First State Funds on the terms negotiated represents the best value for shareholders.

SALE PRICE

The First State Funds will pay \$952.5 million to acquire all of the shares in VGL, which will be sold on a cash-free, debt-free basis. The acquisition will result in a gain on sale for Vector of approximately \$167 million¹ and represents a multiple of around 12.3x VGL's proforma EBITDA for the 12 months to 30 June 2015. We believe the price offered by the First State Funds compares favourably with recent comparable sector transactions and current comparable trading multiples (including those of Vector) and that the transaction realises full value for shareholders.

TRANSACTION MULTIPLES	TRANSACTION DATE	% ACQUIRED	EBITDA MULTIPLE
NEW ZEALAND			
Wellington Electricity Network	Apr-08	100%	7.5 x
Powerco	Jul-13	42%	11.2 x
The Lines Company	Jan-14	10%	7.6 x
Otago Net	Sep-14	51%	17.3 x
Horizon	May-15	23%	11.7 x
AUSTRALIA			
Country Energy gas networks	Oct-10	100%	11.3 x
AET&D (West Australian gas)	Jun-11	100%	12.1 x
Multinet	Aug-11	20%	7.7 x
Danpier to Bunbury Pipeline	Aug-11	20%	9.6 x
Allgas	Dec-11	80%	15.0 x
ElectraNet	Nov-12	41%	10.8 x
SP Ausnet	May-13	20%	9.5 x
Envestra	May-14	83%	11.4 x

TRADING MULTIPLES	EBITDA MULTIPLE
Duet	10.7 x
AusNet	11.4 x
Spark Infrastructure	8.2 x
Vector	11.2 x

Source: Goldman Sachs. EBITDA multiples are trailing, and exclude capital contributions

The board of Vector believes that now is an opportune time to divest these regulated businesses. The sale of VGL 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.

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.

USE OF PROCEEDS

The proceeds of the transaction will be applied to reduce Vector's debt, which will strengthen Vector's balance sheet and debt servicing metrics. Vector expects to have around \$540 million of drawn bank debt as at completion, which will be repaid immediately, with a further \$259 million of debt maturing or available for repayment in the ensuing 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, providing commercial conditions are acceptable.

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

EXPLANATORY NOTES

FINANCIAL IMPACT ON VECTOR AS A RESULT OF TRANSACTION

VGL generated earnings before interest, tax, depreciation and amortisation² (EBITDA) of \$77.2 million in the twelve months to 30 June 2015. This result includes an allocation of its share of Vector's corporate overheads.

The impact of the proposed sale on Vector's balance sheet is illustrated in the following table, which sets out an unaudited pro forma balance sheet, as at 30 June 2015, assuming that the transaction had completed on that date. The pro forma balance sheet should be read in conjunction with the accounting policies of Vector as disclosed in its most recent annual report, and with the notes below.

The table shows that, were the proposed 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, NTA per share will 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% compared to if Vector were to retain the businesses.

² 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.

	30 JUNE 2015 \$m	IMPACT OF SALE (a) \$m	30 JUNE 2015 POST SALE \$m
CURRENT ASSETS			
Cash and cash equivalents	8.2	(0.6)	7.6
Trade and other receivables	195.8	(18.5)	177.3
Derivatives	0.2		0.2
Inventories	5.1	(1.6)	3.5
Income tax	22.8		22.8
Total current assets	232.1	(20.7)	211.4
NON-CURRENT ASSETS			
Receivables	1.8		1.8
Derivatives	104.9		104.9
Investments in associates	11.5		11.5
Intangible assets	1,642.8	(300.6)	1,342.2
Property, plant and equipment (PPE)	4,129.9	(588.1)	3,541.8
Total non-current assets	5,890.9	(888.7)	5,002.2
Total assets	6,123.0	(909.4)	5,213.6
CURRENT LIABILITIES			
Trade and other payables	246.7	(11.5)	235.2
Provisions	26.3	(1.5)	24.8
Borrowings	249.9	(249.9) (b)	0.0
Derivatives	6.6		6.6
Income tax	1.0		1.0
Total current liabilities	530.5	(262.9)	267.6
NON-CURRENT LIABILITIES			
Payables	17.7	(0.7)	17.0
Provisions	14.2		14.2
Borrowings	2,585.7	(695.7) (b)	1,890.0
Derivatives	113.9		113.9
Deferred tax	562.4	(117.1)	445.3
Total non-current liabilities	3,293.9	(813.5)	2,480.4
Total liabilities	3,824.4	(1,076.4)	2,748.0
EQUITY			
Equity attributable to owners of the parent	2,282.8	167.0	2,449.8
Non-controlling interests in subsidiaries	15.8		15.8
Total equity	2,298.6	167.0	2,465.6
Total equity and liabilities	6,123.0	(909.4)	5,213.6
Net tangible assets per share (cents)	64.3		111.2
Net debt to net debt plus equity ratio	55.2%		43.3%
Economic net debt to economic net debt plus adjusted equity ratio	53.6%		41.5%

(a) Assumes a sale took place as at 30 June 2015.

(b) Assumes net sale proceeds are applied to debt reduction from day 1. In reality Vector would only repay drawn short-term facilities on day 1, with the remaining proceeds applied to debt reduction as facilities matured over the following 12 months.

HOW TO GET THERE

DIRECTIONS TO ELLERSLIE EVENT CENTRE FROM THE SOUTHERN MOTORWAY

Ellerslie Racecourse is well sign posted from the Southern Motorway.

- > The best exit is Greenlane.
- > At the roundabout turn left if travelling from the north on the motorway, or right if travelling from the south.
- > At the first set of lights turn right.

The closest train station is the Greenlane train station.

ELLERSLIE EVENT CENTRE LOCATION

