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VCT.NZ - Interim 2014 VECTOR LTD Earnings Presentation

EVENT DATE/TIME: FEBRUARY 20, 2014 / 10:00PM GMT

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PRESENTATION

Operator

Good morning, everybody. Welcome to Vector Limited's webcast to discuss the financial results for the 6 months to December 31, 2013. (Operator instructions). There will be a presentation, followed by a question and answer session. (Operator instructions). I must advise you that this conference is being recorded today, February 21, 2014.

I will now hand you over to Chairman Michael Stiassny, who will take you through the call. Please go ahead, Mr. Stiassny.

Michael Stiassny - *Vector Limited - Chairman*

Good morning, everyone and welcome to Vector's half year market briefing for the 6 months ended December 31, 2013. I'm Michael Stiassny. I'm Chairman of Vector.

Joining me on this webcast and teleconference is Group Chief Executive, Simon Mackenzie and our new Chief Financial Officer, Dan Molloy. Simon will begin today's presentation by giving a quick overview of the highlights, followed by our Chief Financial Officer, Dan Molloy, who will provide an overview of the financial result.

Simon will return to discuss the operating performance and how we are delivering on our core strategic objectives. Once the formal part of the presentation is over, there will be time for your questions. But before I hand over to Simon, let me briefly discuss the interim dividend.

Vector has performed well. Our vision is to be New Zealand's first choice for integrated infrastructure solution. We own a portfolio of assets managed by a team with shared values and aspiration.

Our goal is to deliver sustainable increases in dividend to our shareholders. We continue to achieve this goal and in the 6 months to December 31, 2013, we delivered results in line with those we signalled in August of last year.

Vector's earnings in the 6 months to December 31 show a strong performance across our portfolio of operation in the face of well signalled price reduction imposed by the regulator on our electricity and gas network and a challenging market environment.

We've delivered a result in line with expectation and we are well placed to continue to grow over the long term given concentration of our assets in the strong growing Auckland region and the emergence of new growth opportunity, including those available to our technology operation.

Reflecting the director's confidence in the future and the extreme importance of dividend to our shareholder's, the Board has resolved to pay a fully imputed interim dividend of NZD0.075 per share for the half year, up from last year's NZD0.0725 per share interim dividend.

Simon, over to you.

Simon Mackenzie - *Vector Limited - CEO*

Thanks, Michael and good morning, everyone. The results for the 6 months to December 31 are testament to the benefit of Vector's diversified portfolio of businesses. Our financial performance over the period has been constrained by a number of factors.

Some of these factors were well flagged. The 5 yearly regulatory resets to prices on our regulated electricity and gas networks and the end of our entitlements to Kapuni gas at legacy prices. Some of them, however, were less predictable.

We have faced much warmer than normal weather, which has led to reductions in energy consumption and the amount of energy transported across our network. The performance of the business has also been constrained by lower production at the Kapuni gas field. Customers continue to use less energy as they seek to minimise spending.

Nevertheless, we have delivered a result that is in line with the guidance we gave to the market in August, when we announced our results for the 2013 financial year. Revenue for the period fell 1.7% to NZD657.9 million, reflecting the price reset, warmer weather and lower production from the Kapuni gas field, partially offset by growth in our technology operation.

Net profit and adjusted EBITDA fell to NZD104.6 million and NZD317.8 million respectively, affected not by the decline in revenue, but also the end of our entitlements to legacy gas. Similarly, operating cash flow has fallen. Capital expenditure has increased by 15.1% to NZD148.3 million, as we continue to invest in the smart metering program and invest in our networks to accommodate growth and raise the bar on safety and reliability standard.

So I will now handover to Dan to walk you through the detail of our financial performance.

Dan Molloy - *Vector Limited - CFO*

Thanks, Simon. Morning, everyone. Simon's already covered the main features of the P&L, so I'm not going to dwell on it here too much.

Revenue has fallen due to the well flagged electricity and gas price resets. It was also impacted by a continued decline in per capita consumption and by lower production from Kapuni at the beginning of the period. These factors also weighed on our adjusted EBITDA line, which was also impacted by the end of our entitlements at Kapuni gas at legacy prices.

You'll note we're now using the term adjusted EBITDA in our market communications. This puts us in line with international best practice and the FMAs recent guidance on non-GAAP profit measures. Adjusted EBITDA reported this period remains comparable with EBITDA reported in prior periods in that it excludes any impairment in earnings from associates and you'll find a reconciliation to this effect at the end of the presentation.

Now, moving to electricity. Electricity revenue fell 2.5% to NZD326 million due to the Commerce Commission's requirement to reduce prices on our network by 10% from April 1, 2013. The impact of the cuts at the revenue line is masked somewhat by increases in transmission charges, which we pass through and by growth in capital contribution.

Operating expenditure was inflated by higher pass through costs, including Transpower charges. Electricity EBITDA fell 5.3% to NZD191 million, largely due to regulatory price reset. In terms of usage and consumption trends, power transported across our networks fell 1.2% on the prior period.

July 2013 was the second driest July in Auckland since records began. Auckland 2013 was the warmest August on record and heating degree days were 9.1% lower than the prior period.

Now, as you'll be aware, the Auckland Unitary Plan is forecasting significant growth in Auckland over the medium term. We're starting to see some evidence of a ramp up and this can be seen in our capital contributions and growth CapEx, which will both up over the period, largely on the back of increased subdivision and developer activity.

On to gas transportation. Again, the story here is regulatory resets. Revenue fell 7.8% to NZD105 million. The fall was due to the price resets imposed by the regulator. These occurred on October 1 2013.

The price reductions were set at 29% for gas transmission and 18% for gas distribution. As a result, EBITDA fell 12% to NZD78 million.

Gas wholesale. Gas wholesale revenue fell 5.5% to NZD184 million for the half year. This fall was due to a 6.5% fall in natural gas sales volumes and a similar sized fall in gas liquid sales volumes. This reflected lower demand from electricity generators, weaker industrial and commercial revenue due to lower prices and some production issues at Kapuni at the start of the period.

These falls were partially offset by continued growth in the bottle swap business and an increase our customers LPG export. LPG tolling volumes are up 15% for the period. Overall EBITDA fell 26% to NZD25 million, driven largely by lower sales volumes and prices and the end of our entitlement to Kapuni gas at legacy prices.

Now to technology. The technology division increased its revenue by 26% to NZD66 million for the period. Our smart meter roll out continued to accelerate.

Deployed smart meters increased by 36% over the period to just under 600,000. The gas metering business we acquired in June last year also lifted revenue. Overall, technology EBITDA increased more than 30% to NZD48 million.

Shared services costs. These are largely in line with the prior period.

Moving to cash flow. Operating cash flow fell by around 15% to NZD225 million. The decline was largely due to the fall in revenue and earnings and the timing of tax payment. The increase in capital expenditure was driven by the smart metering rollout and investment in our networks to accommodate growth. The acquisition line reflects our purchase of Contact's gas metering business.

Finally from me, capital structure. As you may be aware, Standard & Poor's recently lowered Vector's credit rating one notch from BBB+ to BBB flat. The rating action doesn't have any immediate financial impact on Vector, given the long dated duration of our debt portfolio.

The rerating was largely due to S&P revising its assessment of the New Zealand regulatory regime. Our gearing as measured by net debt to debt plus equity fell slightly from 51.1% at the end of last financial year to 50.7% at 31 December. Our interest cover for the period was 2.7 times.

We remain strongly investment grade and our balance sheet remains strong. Back to Simon.

Simon Mackenzie - *Vector Limited - CEO*

Thanks, Dan. I'd just like to spend some time reviewing our progress against our 5 years of strategic focus. So to refresh your memory, we are focused on customers, disciplined growth, operational excellence, regulatory outcomes and obviously fostering excellent health and safety and embracing a spirit of innovation across all of these areas.

We believe this approach will ensure our business is configured to prosper in the conditions ahead that we face and will also ensure we meet our goal to deliver sustainable dividend. Focusing on customers means taking into account their current and future perspectives in everything we do. Our products and services must always be attuned to their need.

In this area, we face a unique challenge. The balance of power is shifting from utility service providers to consumers as technology allows consumers to switch suppliers, switch energy solutions, potentially switch off from the grid or networks. Customers are every increasingly more technologically savvy and more aware of alternatives than before.

They are looking for utilities that are committed to the highest standards of service and those that can provide choice and do both at an efficient cost. Meanwhile, spending on utilities is a significant area of concern for customers and they are targeting this as an area for saving money. As the graph shows, customers have good reason for concern. Over the past 5 years, real energy prices have risen substantially.

For most of New Zealand, average distribution prices have also slightly increased. However, Vector's record remains strong with world distribution prices falling over that same period. We are already seeing the effects of these trends and falls in average consumption per connection.

Consumers are also increasingly considering the merits of new technologies, such as domestic solar, energy efficiency appliance and in the future, electric vehicles. These new technologies have important implications for Vector's network investment plan.

Domestic solar facilities, for example, are not moderated or including battery storage, we will need to invest in capacity to manage their two way and fluctuating power flows as has been witnessed in many overseas jurisdictions.

Vector is innovating to respond to customer demands earlier, setting the agenda and ensuring that we're at the forefront of the change. We continue to be an efficient provider of energy infrastructure services and are embracing these new technologies to ensure they are accessible to the appropriate audience. We encourage customers to ensure they are on the appropriate electricity tariff and to examine the merits of low user tariff options.

We also encourage customers to check the tariff options with their retailer or check any of the tariff switching websites. However, we are working with the industry to oppose the electricity authority's latest proposals for transmission pricing.

These proposals have the potential to unfairly disadvantage Auckland customers and those in other regions where there has been substantial growth or under investment in the national grid. We're also working with Housing New Zealand to ensure its housing stock features the most up to date technology such as LED lighting.

We installed solar panels and solutions on the Ngati Whatua Marae to assist understanding of the benefits of technology among iwi. Our customer engagement through the web and social media, our highly successful smartphone outage app and our internationally recognised metering business, which allow us to monitor and proactively address energy demand trends, will also help prepare us for this exciting future.

Disciplined growth means investing in opportunities that align with our other areas of strategic focus and can deliver the earnings improvements necessary to achieve our goal of sustainable dividend increases. Despite the well signaled fall in revenue and earnings during the last 6 month period, our confidence in our future prospects remains undiminished.

Our energy networks will continue to grow due in no small part to growth in Auckland. Over the year we have added more than 3500 connections to our gas and electricity networks.

Meanwhile Auckland Council is forecasting a significant acceleration in housing growth. We welcome and support Auckland Council and the government's growth aspirations and we will continue to innovate and invest appropriately in solutions to service the needs of our customers, subject obviously to the right commercial environment.

We are bedding down our recently acquired gas meter business and we are the country's leading supplier of metering services in New Zealand. We also expect continued growth in our metering business in New Zealand, and are also heavily involved in exploring opportunities to grow our metering business offshore, particularly in Australia.

Continuous improvement. Striving for operational excellence means always looking at how we can do things better, more efficiently and in the current period we continue to achieve that goal. Vector is one of the lowest cost providers of electricity distribution services in New Zealand on measures such as the cost per unit of electricity distributed and the average cost per customer.

Our metering business continues a smooth rollout of advanced meters. We installed 19,500 meters in November, a record for a single month. We continue to install up to 15,000 meters a month over the next 6 months. We have an installed base of nearly 600,000 meters and are contracted to install a total of approximately 850,000 meters.

In our gas business our rights to approximately 7.3 petajoules of Kapuni gas at legacy prices were confirmed by the High Court. The High Court judgement dismissed appeals by the suppliers of Kapuni against an arbitral award in Vector's favour.

Vector also retains the right to purchase 50% of the gas remaining in the Kapuni field from April 1, 1997 and we're in the process of resolving the price for the next tranche of that gas.

Regulation. Reflecting the accordance of our regulated energy networks to the business we also work to achieve a fair and certain regulatory regime that incentivises investment and allows us to earn a reasonable return on our assets. Vector has implemented and weathered the well signaled price reset.

However these have weighed on our financial results in the last 6 months. However the regime is far from optimal in our view. It is clear the frequency of changes to the core elements of the regime for each new regulatory period is adding costs to New Zealand infrastructure providers. Also consumers do not appear to be benefiting from the price reset Vector has made.

As you are aware international rating agency Standard & Poor's recently downgraded Vector's corporate credit rating due to what it saw as instability and greater risk in the wider New Zealand regulatory regime. The share market's disappointment with news the Commerce Commission is again considering a review of the allowable return on our regulated assets only reinforces this point.

All regulated infrastructure providers in New Zealand are affected in the same way by these factors. This is an issue that is critical to the future prosperity of the country and we are hopeful Standard & Poor's comments will provide the catalyst for change in regulatory outcomes for all regulated entity.

We were obviously disappointed the merits review of the regulatory regime bought by Vector and 6 other infrastructure companies did not redress back in the balance as we see. The court said the alternate approaches proposed by Vector and others did not provide a materially better outcome than the commission's approach. However from our perspective it is now evident the materiality -- materially better test is unworkable.

The High Court's decision gives the regulator wide discretion over the conduct of New Zealand's critical infrastructure. But it gives no guidance to how the test of materially better can be assessed robustly. Therefore New Zealand infrastructure providers have no effective process under the Commerce Act to challenge the regulator's determination.

We are reviewing the implications of these issues on Vector. We had decided against appealing the decision. However as the Major Electricity Users' Group is appealing the decision we are now assessing whether to cross appeal.

We welcome the government's recent announcement to review regulatory arrangements under the Commerce Act, as well as the Productivity Commission's investigation into making improvements to the design and operation of regulatory regimes in this country.

Getting to health and safety. Health and safety is not an isolated compliance activity within our business. Rather we strive for a high performance culture that recognises health and safety as a core value. This is not just for our own employees, but for our contractors and obviously members of the public.

We have reviewed and updated our emphasis on this critical issue through a 3 year health, safety and environment strategy which requires commitment and proactive leadership from our Board, senior leaders, employees and contractors alike. The strategy will help us to achieve a reduction in our total recordable incident frequency rate as well as continually building a consistently high performing and sustainable safety culture within our business.

With respect to outlook Vector is in good shape and we are confident of our growth prospects, despite a complex and changing environment. We continue to target adjusted EBITDA for the 12 months to June 30, 2014 to be in line with market consensus estimates, assisted by our focus on growth in our technology business and continued tight cost control.

As mentioned we are well positioned to deliver long term growth. We will continue to innovate and be at the forefront of change in a way that is aligned with the advances in technology, and importantly the changes in customer preferences.

So that concludes today's presentation. I'm now going to hand over to the moderator for your questions. Please follow their instruction.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator instructions). The first question comes from Grant Swanepoel with Craigs Investment Partners. Please go ahead.

Grant Swanepoel - *Craigs Investment Partners - Analyst*

Good morning all. I just want to start with your guidance. Where the number of consensus sits at the moment it's NZD573million at the EBITDA line which means are you really looking for around about 13% to 14% down at the EBITDA level in the second half?

The second question is from this Kapuni legacy gas at 7.3 petajoules at termination, have you used that up already? Or is that still available to use in your wholesale gas business? And can you give some sort of comment on the technology segment on how the Contact purchase has impacted those earnings, and how much is organic growth -- that's it from me for now, thanks.

Dan Molloy - *Vector Limited - CFO*

Grant, thanks for the questions. I didn't quite catch the figure you said in relation to consensus but basically at our full year announcement we announced then that we were happy with consensus estimates which at the time were around NZD575 million.

We're still comfortable at that level. Although in the last few weeks I think consensus average estimates seem to have come down a fraction since then. In terms of Kapuni gas entitlements, I can confirm that we have used those all up. That's the 7.3 petajoules.

In terms of the impact of the Contact purchase. It had a roughly NZD7 million impact on revenue over the period.

Grant Swanepoel - *Craigs Investment Partners - Analyst*

Thanks Dan.

Operator

Thank you. The next question comes from Matthew Henry with Goldman Sachs. Please go ahead.

Matthew Henry - *Goldman Sachs - Analyst*

Hi Simon, hi Dan. A few quick questions. Firstly, are you able to tell us what capital contributions were up year-on-year? Secondly, in your release commentary you make a statement in the electricity business which-- something along the lines of a favourable customer mix across new pricing benefited. Can you just provide some colour on that?

Thirdly, just wondering, were you're looking at opportunities in Australia, if you just give us a sense on how much balance sheet capacity you think you've got available to look at acquisition opportunities? Just lastly, you know the high hurdle on the materially better factor in the merits review. Are you able to give us any colour or insight into whether that is a standard hurdle internationally? Or the hurdles are different in other jurisdictions. Thanks.

Dan Molloy - *Vector Limited - CFO*

Matt, thanks for those questions. In terms of capital contributions for electricity this year they were NZD15.9 million. That was about NZD4.8 million ahead of last year, and that's been driven by residential activity and also some relocations, particularly in relation to the Waterview project.

Gas capital contributions were NZD2.5 million so they were up NZD1 million on the prior year. Again that was due to higher subdivisions and due to relocation around the Waikanae expressway.

In terms of favourable pricing mix that comment relates to a restructure of our tariffs that we implemented on April 1 and effectively the actual numbers of people who have taken up those tariffs would have been slightly different from what we had assumed.

Simon Mackenzie - *Vector Limited - CEO*

But it is important to note that it still sits within the regulatory revenue requirement. So it's just how that played out with weather and other factors.

Matthew Henry - *Goldman Sachs - Analyst*

I was just really wondering whether the tariff structure was more fixed and less demand sensitive.

Dan Molloy - *Vector Limited - CFO*

Oh sorry, we did make some adjustments to fixed variable as well and we are continuing to adjust that principally through from April this year an adjustment around the amount of power we're passing through our transmission charges and how we decouple that from our distribution charges so then we get the right proportion of fixed versus variable without it being -- for want of a better word -- eaten up by transmission being included in it.

Simon Mackenzie - *Vector Limited - CEO*

So Matt, just to put some numbers to that in terms of last half year fixed proportion of our electricity revenues are 22%, this half year they're 34%.

Matthew Henry - *Goldman Sachs - Analyst*

34%?

Simon Mackenzie - *Vector Limited - CEO*

34%, yes.

Matthew Henry - *Goldman Sachs - Analyst*

Thank you.

Simon Mackenzie - *Vector Limited - CEO*

In terms of your question and in terms of opportunities in Australia and balance sheet capacity I mean I guess we're still working through this slightly on the back of the downgrade from S&P. But essentially we believe we've got capacity to at least do a similar volume to what we've done in New Zealand.

Lastly Matt with regards to your question on the materially better tester we're obviously still working through the analysis on this but I think the fundamental issue, at a high level when we look at overseas jurisdictions when there are merits appeal they are usually much more definitive around whether or not an outcome is better.

For example if they're talking about a WAP determination then it's typically more binary I guess. What we see has occurred here is essentially a situation where it's much more subjective and very much seems to be deferring to a view that the regulator is the expert in this space and therefore they should defer the guidance to them.

I think also that what we are saying with this material the better test is there's a real absence of how can this be quantified because in some parts of the judgment they're saying some of the factors put up by other parties were not material enough and then in other cases they're saying well, they would be too material and have an impact on consumers' prices.

What that leaves it there's a complete gap of well, what actually does pass the test? And so those are the types of issues that we see are problematic. Certainly when we look at the advice we've had from our legal advisers, many of whom have been very active in this space and the Australian market in particular, they see this as the problematic aspect of the regulation as drafted at the moment or the legislation, in contrast to Australia.

Matthew Henry - *Goldman Sachs - Analyst*

Okay, thank you very much.

Operator

Thank you. The next question comes from Andrew Harvey-Green with Forsyth Barr. Please go ahead.

Andrew Harvey-Green - *Forsyth Barr - Analyst*

Hi. Morning, guys. Just a couple of questions from me, and just following on first of all from the regulatory question. Are you able to give some comments around what you expect with the Commerce Commission looking at consulting on the 75th percentile on the WACC, where that might end up?

And secondly, just around kapuni production. I think in your comments you noted that the production was down in the first half of this year to around about 32 TJs per day. Are you able to give us some idea what sort of production levels you're looking at for the second half?

Simon Mackenzie - *Vector Limited - CEO*

Okay. Andrew, on the first question, with regards to I think your question was around the discussion around 75th versus 50th percentile in the WACC discussion. Obviously the Commerce Commission have gone out with the consultation around whether or not people should -- whether or not they should look at this. I guess in our perspective the courts didn't instruct them to look at this.

They said it might be something that they would want to consider. In our view there is a whole lot of other issues that should be-- guidance and should be considered as well. I think the reality is that going through the whole process around WACC determinations and everything, the Commission has always, in our view, basically said that the 75th percentile is appropriate to recognise the other estimation errors and the potential risk for under-investment, so that's been their position.

They've previously even looked at supplementing that kind of potential error correction with putting bands around WACC parameters as well and then, as you've recognised a few years ago through the inputs process they moved back just down to using the 75th percentile.

So from where we sit they've actually -- they've recognised that there are a number of areas in the whole WACC calculation, they look at the risk and they said the 75th percentile is the right factor. Whether that was documented and set out strong enough is a matter of debate, but obviously from where we sit we'll engage in that debate.

We strongly believe that there are a number of issues with the WACC parameters and the 75th percentile should remain in place but there are other aspects such as 5 year versus 10 year rates which we raised through the whole merits appeal process as well.

And importantly, I also think the way in which the cash flows are derived from regulated assets now also needs to be looked at closely because of the way in which a lot of those cash flows are back-ended. So simple answer is it's obviously as you know a very complex area, simple pointers that the Commission have always defended the 75th as where they should be and we expect that they should maintain their position on that.

With respect to production at Kapuni down at around about 33 PJs (sic - see media release-"32.1TJs") as a result of lower flows from a few of the wells. Dan might give you a bit of an update on where things currently track.

Dan Molloy - *Vector Limited - CFO*

Andrew, in terms of the second half we're expecting production of around 14 to 45 TJ per day relative to 32 in the first half.

Andrew Harvey-Green - *Forsyth Barr - Analyst*

Okay, thanks. And just one other question. You commented that electricity revenues, the level of (inaudible) had increased significantly. Have you done something similar around the gas revenues?

Simon Mackenzie - *Vector Limited - CEO*

(Technical difficulty) restructuring of (inaudible) but we didn't do much adjustments there and in transmission it's always based on capacity entitlements anyway.

Andrew Harvey-Green - *Forsyth Barr - Analyst*

Sorry, I didn't quite catch the beginning of that.

Simon Mackenzie - *Vector Limited - CEO*

No, we haven't done too many adjustments in the gas distribution space, Andrew.

Andrew Harvey-Green - *Forsyth Barr - Analyst*

Okay. Thank you.

Operator

Thank you. The next question comes from Felicity Wolfe with Energy News. Please go ahead.

Felicity Wolfe - *Energy News - Media*

Hi. I was just wondering with some of the -- around the work that's been done with regulations and the Commerce Commission and stuff like that, have you got any kind of figures around just how much has -- that's cost Vector over the last year?

Simon Mackenzie - *Vector Limited - CEO*

This is with regards to what, regulation in general or -- sorry, I'm not quite sure of the question.

Felicity Wolfe - *Energy News - Media*

Yes. Look, just I guess with the courts, court appeal of the --

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Simon Mackenzie - *Vector Limited - CEO*

Okay. Well, I guess --

Felicity Wolfe - *Energy News - Media*

Price fixing and stuff like that.

Simon Mackenzie - *Vector Limited - CEO*

Yes, similarly we don't disclose numbers with regards to appeals. Obviously we have all forms of legislation and costs with legal compliance and everything. We haven't gone into any detail but there has been an increase obviously.

It's been a reasonably expensive exercise but in the context of the importance and the costs when we see things occur such as Standard & Poor's downgrades and the effect on our share price through uncertainty it's immaterial given the risk on the other side.

Felicity Wolfe - *Energy News - Media*

Yes. Just another question as well just around your technology side. I understand that you've been doing -- sort of following the UK smart grid forum and looking to implement some of the stuff on your own networks. How is that going?

Simon Mackenzie - *Vector Limited - CEO*

Look, I think two parts. One is we joined the UK Energy Networks Association. We saw that was important for us to continually look at what's going on around the world. We obviously have relationships with players in the US and also in Asia as well.

That's just part of the wider perspective we have here to need to look externally to what are the trends going on with customers, what's going on with technology, the Energy Networks Association have obviously been working closely with a GBP500 million fund that's available in the UK where that fund is available for people to put in place new technologies that are relevant to the market conditions over there.

So we've found that beneficial. We've been involved for about a year. We get all the research reports. I think it's very much a two-way street. They also look at what we're doing in areas such as protection systems, other technologies around our smart networks.

We feel that we are well-advanced in the smart network space but we can't sit on our hands and we have to continue to look at improvements. A lot of that smart network development and technology is around the convergence between the IT technology communications and new devices on our networks.

So we will continue to look and learn at what's going on in the UK and other markets. I think it would be fair to say that because the fund in the UK is relatively new we're just starting now to get some of the new results of some of the new products and trials that have been put out there. Those are lessons learnt, so our guys have been up there understanding what are the lessons learnt and then we look at applicability or otherwise for our networks.

Felicity Wolfe - *Energy News - Media*

Sorry, just finally. Just your solar Genie program, how's that going?

Simon Mackenzie - *Vector Limited - CEO*

Well, from our perspective it's going well. I think the really important part about it is it's very much around the customer. We're getting a lot of positive customer feedback around the solution. And the fundamental point here is that this is around choice for customers, technology costs are dropping. If we sat on our hands and we didn't recognise and innovate we would potentially be putting more money in our networks that may be wasted capital in the future.

Certainly the feedback from customers is very much around the ease of getting the solution that's a viable and cost effective solution. It makes it affordable to people and from a network perspective a really important component is the battery storage making it usable 24 hours by 7 days and the information systems.

So yes, we're very positive. Obviously we'll continue to adapt and evolve new products and services off that but yes; I think we are very happy with where we sit at the moment on it.

Felicity Wolfe - *Energy News - Media*

Yes. Do you still see it as trial type program or is it something that's becoming more integrated into your standard offer?

Simon Mackenzie - *Vector Limited - CEO*

No. I'd say it's more of an integrated program. I think obviously these things start out as trials. When does a trial become more of an integrated? Well, we have an absolute focus on continuing this.

It's around now this development of variations on solutions, whether they be for businesses, whether they be for different types of customers, whether it's for different customer segments such as like we talked about, iwi, new developments going in. So there'll be different options that we will be developing for those different markets and customer need.

Felicity Wolfe - *Energy News - Media*

Sorry, I know that I said the last question was my final one but I also just wanted to quickly ask you about the gas wholesale side of things and how do you see that market developing?

Simon Mackenzie - *Vector Limited - CEO*

Well, we've always been as--we've always articulated that we had legacy gas but our position was always midmarket aggregator where we have a very strong ability to meet the different customers' needs by having a diversified portfolio of gas purchases and matching it with the demand on the other side.

We continue to have a strong presence in that market and as mentioned, we also are seeking to negotiate price for the other legacy gas entitlements that we have rights to, albeit not at the legacy gas prices. So we're not seeing -- to be fair, we're not seeing the gas market grow significantly. I think it's been a pretty common factor over the years but we manage that book really well and we continue to retain our market position as the midmarket aggregator.

Felicity Wolfe - *Energy News - Media*

Great. Okay, thank you.

Operator

Thank you. The next question comes from Patrick Smellie with Business Desk. Please go ahead.

Patrick Smellie - *Business Desk - Media*

Hi, Simon. I just wondered whether, given the potential significance of the change to the 75th percentile whether you'd considered (inaudible) and whether there was any case for (inaudible) materiality then?

Simon Mackenzie - *Vector Limited - CEO*

Hi, Patrick. I think like with a lot of these issues the 75th percentile, I mean; we are just potentially in a start of a process. The first point is, is the Commission is going out to seek views on whether they should review this. Then they have to make a decision of whether they will.

That's also got in parallel with it an issue around whether or not the MEUG appeal to the courts actually is upheld and gets heard. And then there has to be a process that's gone through around whether or not the 75th is the right one or the 100th percentile is the right number or the 50th percentile is the right number.

So as with any of these issues, we are saying that yes it's an issue, but with regards to has there been a final decision, no, that's still very much up in the air.

Patrick Smellie - *Business Desk - Media*

Have you done any back of the envelope or even front of the envelope calculations internally as to what the impacts would be if there was a significant move there?

Simon Mackenzie - *Vector Limited - CEO*

Well, we always model a whole range of factors with regards to WACC calculations. I think a lot of people also forget that at the same time interest rates can be moving and so it's a kind of combination of a lot of the factors that go into the WACC calculation. I don't think you can just look at a move from 75th to 50th percentile in isolation of all the other input parameters.

We model these on a regular basis. We also model what it means to forecasts in terms of whether or not we sit on the default price path, whether we want to adapt to go for a customised price path. And so yes, it's just pretty much those kind of obviously ongoing modelling aspects.

Patrick Smellie - *Business Desk - Media*

Yes, okay. Thanks.

Operator

Thank you. The next question comes from Stephen Hudson with Macquarie Group. Please go ahead.

Stephen Hudson - *Macquarie Group - Analyst*

Good morning guys. I guess just following on from that last question, and perhaps a question for Michael and Dan. Is the Board comfortable that the current dividend would be sustainable under a P50 WACC scenario either under the CPP or DPP options? That would be my first question.

And then secondly, with regards to the guidance, what sort of level of full year capital contributions are you comfortable with? Obviously you can't see what we're using but would sort of annualising the first half be a reasonable starting point?

Dan Molloy - *Vector Limited - CFO*

Thanks for the question. In terms of the -- I guess looking at the dividend and whether the track of growing dividends is sustainable under a P50 scenario. We've done some work there. It suggests that the dividend growth and track is sustainable.

Obviously there would be a reduction in headroom under that scenario. In terms of the full year capital contributions I think that what you're suggesting is probably -- we're roughly comfortable with that. We definitely --

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Stephen Hudson - *Macquarie Group - Analyst*

Sorry, Dan. You were just breaking up there. Could I just clarify, you are saying that --

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Dan Molloy - *Vector Limited - CFO*

We'd be comfortable with your suggestion around annualising based on first half numbers.

Stephen Hudson - *Macquarie Group - Analyst*

Okay. And sorry, you said that the dividend is sustainable under P50?

Dan Molloy - *Vector Limited - CFO*

With a reduction in headroom.

Stephen Hudson - *Macquarie Group - Analyst*

Right. Okay, that's great. Thank you.

Operator

Thank you. (Operator Instructions) At this time we're showing no further questions. I will now hand back to Mr. Stiassny for closing remarks.

Michael Stiassny - *Vector Limited - Chairman*

Thank you very much everyone and we look forward to catching up with you in 6 months' time with continuing good news. Thank you.
