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CORPORATE PARTICIPANTS

Michael Stiassny *Vector Limited - Chairman*

Simon Mackenzie *Vector Limited - CEO*

Dan Molloy *Vector Limited - CFO*

CONFERENCE CALL PARTICIPANTS

Andrew Harvey-Green *Forsyth Barr - Analyst*

Greg Main *First NZ Capital - Analyst*

Grant Swanepoel *Craigs Investment Partners - Analyst*

Stephen Hudson *Macquarie Group - Analyst*

Kate Barker *Energy News - Media*

PRESENTATION

Operator

Good morning everybody, welcome to Vector Limited's conference call and webcast to discuss the Company's Financial and Operational Results for the six months to December 31, 2015.

(Operators instructions)

Operator

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

Michael Stiassny - *Vector Limited - Chairman*

Thank you, Kia ora everyone and welcome to Vector's results briefing for the six months ended December 31, 2015. Joining me on the call today is our Group Chief Executive Simon Mackenzie and our Chief Financial Officer Dan Molloy.

I will begin today's presentation with a review of the interim dividend and the outlook then I will hand over to Simon to review the highlights for the period. Dan will deal with the financial results for the period before Simon concludes the briefing with an operational review. As always we are happy to take your questions.

The Vector Board has today declared a fully imputed interim dividend of NZD0.0775 per share up NZD0.025 on the prior year. The increase builds on Vector's long standing record for growing shareholder returns.

It reflects Directors' confidence in the financial strength of Vector after completion of the NZD952.5 million sale of Vector Gas which owns the Group's gas transmission business and its gas distribution business outside Auckland.

We have made considerable progress in the half year. In addition to negotiating the sale of Vector Gas we have lifted half year earnings. We continue to benefit from continued growth in Auckland and made significant progress in areas we have identified for future growth, such as metering in Australia, electric vehicle charging infrastructure, and batteries.

We look forward to the remainder of the year with confidence and as we noted to NZX today, absent the sale of Vector Gas, the Group is performing in line with our previous guidance for adjusted EBITDA, excluding capital contributions of NZD550 million to NZD565 million.

The final result for the year to June 30, 2016 will be impacted by the timing of the sale of Vector Gas which is now conditional only upon approval by the Overseas Investment Office. We are targeting completion to occur by the end of March.

I now have pleasure in handing over Simon -- handing over to Simon to take you through the highlights of the period, my apologies for the Freudian slip.

Simon Mackenzie - *Vector Limited - CEO*

Thank you Michael. Our vision is to create a new energy future and is supported by five strategic pillars. As Michael has mentioned already, the gas sale which we regard as pivotal to achieving our strategic pillar of sustainable growth is it will enable us to recycle capital into higher growth opportunities.

The smart meter fleet continues to grow. We installed more than 14,000 meters a month over the six month period and now have an install base of more than 1 million smart meters.

Auckland continues to grow, providing us with numerous growth opportunities in our existing network as well as other new areas to be added to that new network, as well further opportunities further afield.

We have also been accredited to operate as a metering service provider in Australia. This is a significant achievement for our metering business and potentially opens a new frontier of growth for the Company.

We have acknowledged the disruption caused by the 2014 fire at Penrose substation and offered a service level payment to impacted customers. As Dan will discuss shortly, tight management of costs supported by Group earnings we continue to work with a range of organisations to ensure we are at the forefront of the energy sector innovation.

These organisations are as diverse as the Energy Excelerator in Hawaii and energy company [incubator] [spoken in Hawaiian] with whom we are developing a solar and battery solution.

We also continue to have constructive dialogue with the Commerce Commission over the unique challenges Vector faces as a provider of essential infrastructure to Auckland. These challenges include the region's strong growth and new technologies which are facilitating increased customer choice in the way future energy services are delivered and are also driving significant change in the sector.

Our focus on safety, people, and culture has seen our total recordable injury frequency rate fall 41% from where it was two years ago and we have been recognized for providing leadership and promoting diversity and inclusion. We can look back on the last six months with some satisfaction and I would like to now hand over to Dan to cover our financial performance.

Dan Molloy - *Vector Limited - CFO*

Morning everyone. Look most of you will have already seen our NZX release this morning so I will just summarise the high level results for you now. The graph on slide 9 shows you that Group adjusted EBITDA and net profit are both up and I will discuss the key factors driving these increases shortly. Half year revenue was down 3.5% and that was largely due to lower volumes at our gas trading division.

Operating cash flow was up more than 22% to almost NZD250 million and that has reflected the improved earnings as well as the timing of tax payments. As Michael just mentioned our interim dividend is also up.

Moving to slide 10, you can see from the graph that we have benefited from growth in adjusted EBITDA across all our divisions with the exception of Gas Trading. As we have signalled previously, this division faces a tough trading environment.

Across the portfolio we have benefited from growth and connections and energy volumes in Auckland, from continued growth in the metering business, from regulated price increases in gas transportation, and from cost control across the regulated portfolio.

Those gains have been somewhat diluted by ongoing challenges for Gas Trading and should the trading outlook for this business continue to weaken over the rest of the year we are going to carefully review the carrying value at year end.

On slide 11 we give you a breakdown of the movement and net profit and show some gearing trends. Net profit after tax was up 14.7% to just over NZD100 million, this was due to the increased operating earnings and also due to positive market-to-market derivative adjustments and these were partially offset by some high depreciation charges.

Our balance sheet is strong, gearing sitting at just above 53%. Gearing is going to reduce substantially following the sale of Vector Gas. If that sale had occurred on 30 June 2015 gearing would have reduced from 54% to 42%. The sale is also going to have an impact on our net tangible assets per share.

This measure is already up 46% compared to the prior corresponding period and this is due to the de-recognition of around NZD300 million of goodwill associated with Vector Gas, and the NTA per share will increase again when we book the gain on sale on Vector Gas towards the end of the year. As we said in December we expect to retain our investment grade credit rating following completion of that sale.

Last slide for me is slide 12 on capital expenditure. As you can see CapEx across the Company is broadly consistent with the previous corresponding period, a 1% decrease in gross CapEx overall and that largely reflects a reduction in capital contributions and that's mainly in the gas transmission business, back to you Simon.

Simon Mackenzie - *Vector Limited - CEO*

Thanks Dan. We identified a number of years ago that customers' demands for choice and new technologies were driving a shift in the energy sector. To be a leader of change in the sector and deliver to customers we deliberately focused on a number of areas including batteries, solar, control systems, metering, and new digital interfaces with customers.

We are taking advantage of the strong position we occupy as a provider of essential energy infrastructure in identifying and developing options that would deliver value, choice, and service for our customers in Auckland and further afield and obviously improve shareholder returns.

The NZD952.5 million sale of Vector Gas is a key part of this strategy. Shareholders approved the sale before Christmas, as Michael mentioned, the sale is now conditional only on the approval of the Overseas Investment Office and we are targeting completion by the end of March.

The sale realises full value for the business and allows us to recycle capital into attractive growth opportunities. The proceeds of the sale will be used to immediately repay around NZD560 million of floating rate debt and other debt facilities as they mature over the next 12 months.

As we noted in December, the sale will result in an initial dilution of earnings per share relative to retaining the businesses but we expect to reverse this as we recycle the capital into new areas.

In the six month period we made good progress on bringing some of these opportunities to fruition. While still at an early stage, our expansion into the provision of electrical vehicle charging infrastructure is gaining momentum.

With the support of our major shareholder the Auckland Energy Consumer Trust we are rolling out rapid chargers in a number of locations.

In January we received our first significant shipment of Tesla Energy Powerwall batteries, one of the first shipments of these batteries to be delivered to a customer outside of the US.

Critical to deploying these batteries, however, is the health, safety, and statutory compliance. Installing a battery requires a technological solution that is more than a standalone unit. A battery requires a number of other technologies including control systems, invertors, and other connections to make these functional in the home.

All of these systems must pass numerous health, safety, and electrical [engineering] compliance hurdles. We are working through an extensive testing and compliance regime which covers more than 900 legal requirements emerging out of more than 80 acts, regulations, and standards.

So it's no small task and we will be looking to get these out into the market as soon as possible.

Among the first to receive the first Tesla Energy batteries in New Zealand will be the 130 winners of the Future of Energy competition which we ran last year, also with the support of the Auckland Energy Consumers' Trust.

We also intend to install a Tesla Energy power pack utility scale battery into one of our zone substations later this year.

Meanwhile, opportunities are bound to cross our Auckland energy networks. We have estimated as much as NZD1.8 billion of new investment on those networks will be required over the next 10 years to support growth in the region.

The metering business is now poised to extend its strong record of growth with an expansion into Australia. As I mentioned earlier, in January the Australian Energy Market Operator accredited Vector to operate as a metering services provider for mass market meters. This is a fundamental requirement to be able to operate in the market.

The increase in smart meter installations drove earnings growth in the technology segment. Our installed meter fleet now exceeds 1 million and we supply metering services to more than 20 electrical retailers.

We expect to have installed 1.2 million by June 2017.

Adjusted EBITDA of the Gas Trading business fell 14% to NZD25.2 million as the division faced a challenging trading environment. As foreshadowed last August, the sector has faced a reduction in demand from gas fired electricity generators.

We have also faced lower production at Kapuni and continued weakness in the prices for natural gas, natural gasoline, and LPG.

In September 2015, Vector received an arbitral award regarding the pricing terms for the next tranche of Kapuni gas which we have been taking since 2013 July.

The award was broadly in line with the amounts the Company provided for in its accounts. The KMCs have subsequently applied to the high court to set aside certain parts of the award and for leave from the high court to appeal certain parts of it.

Vector is opposing both applications. Additionally, the Kapuni field redetermination process and proceedings relating to the Kapuni gas treatment processing fee are continuing. On a positive note bottle swap volumes continue to increase and were up 13.7% on the year earlier at 302,109. This supports our decision to invest in a new bottling facility in South Auckland.

The electricity division adjusted EBITDA rose 1.7% to NZD173.7 million, electricity volumes increased 0.7% due to new connections which continue to run at historically high levels and a return to cooler winter temperatures in line with historic averages.

Cost savings delivered NZD4.5 million to the division's result.

Gas transportation adjusted EBITDA rose 18.3% to NZD71.1 million from NZD63.5 million. Price increases made in accordance with the regulated revenue cap contributed too much of this uplift. Volumes transported across the transmission network declined 4% to 55.7 petajoules largely due to a reduction in demand from gas fired electricity generators.

The gas distribution business benefited from a 4.1% increase in volume year-on-year reflecting an increase in connections and a return to cooler winter temperatures.

Following the agreement to sell Vector Gas to First State Funds, the Gas Transmission and Non-Auckland Distribution assets are now categorized as held for sale and so we have ceased depreciation of these assts.

So to summarise, Vector is in good shape, we are creating a new energy future, and as Michael noted we are on track to meet guidance.

We continue to engage positively with key stakeholders including our shareholders, employees, contractors, business partners, and regulators to ensure continued improvement in all aspects of our business.

We are excited about the opportunities we see ahead of us and we would like to now hand over the moderator for any questions, thank you.

QUESTIONS AND ANSWERS

Editor

(Operator instructions)

Operator

Andrew Harvey-Green with Forsyth Barr.

Andrew Harvey-Green - *Forsyth Barr - Analyst*

Morning guys, a couple of questions from me. The first question, just around the smart meter opportunity over in Australia, are you able to give us an idea of who else has the qualifications, who else -- how many other competitors are there in Australia, and maybe what the status is from any tenders and opportunities there at the moment?

Dan Molloy - *Vector Limited - CFO*

Morning Andrew, thanks for the question. In terms of who else is out there in the market in Australia with accreditation to provide mass market metering services, there's AGL who have decided to go their own way.

They are accredited and are -- look, I'm not sure if they have actually hung meters on the wall yet but they are obviously preparing to do so. Another party who has accreditation to perform those services is an outfit called Metropolis.

There may be other parties that are accredited but I am -- of course, yes Simon, the Victorian distributors who have already gone through the roll out in Victoria and may be looking to compete elsewhere in the [NIM].

In terms of the key (inaudible) who out in the market looking, EnergyAustralia is in the market at the moment with an RFP but that's probably the only one.

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Andrew Harvey-Green - *Forsyth Barr - Analyst*

My second question was just around the dividend and I'm looking at that going forward with the sale of the Non-Auckland Gas business, will that have any impact on your ability to fully impute dividends going forward, giving you will be paying less tax for a period of time?

Dan Molloy - *Vector Limited - CFO*

Thanks Andrew, look as -- I guess as we have forecast or set out in the notice of meeting that accompanied the gas sale, we do expect the sale in the short to medium term to result in a decline in earnings per share relative to what the earnings that we would have seen had we continued to hold the gas sale. So that will mean less tax and less imputation.

I think we are pretty comfortable with the dividend trajectory and we certainly are comfortable that we have the financial capacity to deliver on that dividend trajectory. In terms of the policy, our dividend policy, it is likely that that sale and in the short to medium term is going to result in us being above policy for a period of time.

We are relatively comfortable with that and in terms of imputation on dividends, if there is a period where we need to pay forward a little bit of tax to generate full imputed dividends then we will do that in the short term.

Andrew Harvey-Green - *Forsyth Barr - Analyst*

Okay, but the intention is that you continue paying fully imputed dividends then.

Dan Molloy - *Vector Limited - CFO*

Yes.

Michael Stiassny - *Vector Limited - Chairman*

Andrew, I think this all leads on to the fact that the policy of -- our dividend policy looks a little bit unusual in light of where we are. We are committed to continuing growth and dividend flow and one of Dan's tasks in the upcoming few months is to look at our policy and you will see that changing not before too long.

Andrew Harvey-Green - *Forsyth Barr - Analyst*

Okay, and the last question I had was just to understand some of the inter-segment movements, if I just look at what has happened between the Gas Trading and Gas Transport businesses.

There has been a big increase in the segment revenue into Gas Transport and a big increase in the costs for the transport business and a little bit (inaudible) and the other way as well on the cost side.

That has given the gas transport business around about a NZD7.9 million EBITDA tailwind and an NZD8 million cost and profits to the Gas Trading business. Are you able to give us a little bit of -- sort of unpack that a little bit for us and what is actually going on there?

Dan Molloy - *Vector Limited - CFO*

Yes, so if you look at our segment note Andrew and the gas transportation inter-segments and segments costs -- sorry, the inter-segment costs for Gas Trading have gone from NZD12.9 million and the PCP to NZD17.8 million.

Then if you look at the corresponding inter-segment revenues in Gas Transportation they have effectively gone up by the same amount.

So that's simply as a result of the increased transmission charges on the network, which is a result of simply pricing to the regulated revenue cap in that business. I think you can see in the Gas Transportation slide that those price increases have added NZD10 million to the EBITDA.

In terms of the other inter-segment, possibly changes that won't be obvious is that traditionally the Gas Transportation business has been buying gas from OnGas which is our gas business which is an inter-segment expense.

During the period that business went out for tender, found out it could get cheaper gas from another provider, so we started to buy gas externally, which has resulted in that cost line shifting from an inter-segment expense to another operating expense.

Probably the other big change in the cost profile of the Gas Trading business is that ETS costs went up about NZD3.2 million over the period but these have been recovered through higher revenues.

Andrew Harvey-Green - *Forsyth Barr - Analyst*

Yes, okay, that was all from me thanks.

Operator

Greg Main with First NZ Capital.

Greg Main - *First NZ Capital - Analyst*

Hi, good morning, yes, just a couple of questions. Just on that same thing with segment for the different divisions, just wondering around the higher depreciation charge coming through in electricity, is that policy review or is that just -- or what does that reflect?

Dan Molloy - *Vector Limited - CFO*

Thanks Greg, that high depreciation in electricity was mainly as a result of assets that we have relocated or are about to relocate and accelerated depreciation on the assets that are going to be replaced.

Greg Main - *First NZ Capital - Analyst*

Okay, and then on the Penrose outage I mean is there -- can you give us a figure of how much liability or provision you have made with regard to that and is that sitting in the balance sheet?

Dan Molloy - *Vector Limited - CFO*

Yes, look on Penrose I guess we have got a claims window that is open until 04 March. Based on a current trajectory of claims, probably looking at about 10% of impacted customers making a claim, that's going to result in around about NZD0.5 million worth of cost. We made a provision in the previous financial year for that cost, probably the payout is tracking a bit lower than we expected but we are just going to have to wait and see how that plays out over the next month.

Greg Main - *First NZ Capital - Analyst*

Okay, and then lastly just with regard to the -- I know it's small fry but the Tesla batteries and trialling the Tesla battery and the substation situation, I mean how does that -- with regard to where those assets sit? Do you classify that as technology CapEx or electricity CapEx or...

Simon Mackenzie - *Vector Limited - CEO*

So with regards to the power pack batteries that we will be putting in the substations they would be classified in the electricity business as electricity assets. Basically, I think the best way to think about those is that they are essentially providing electricity line services and they, importantly from our perspective, are enabling the network to deliver the same level of service at a lower cost.

That's how we see, particularly going forward, with meeting that challenge of NZD1.8 billion worth of capital expenditure as one of the assets that needs to be deployed to ensure the network reliability and service but at a lower cost to consumers.

Greg Main - *First NZ Capital - Analyst*

Okay, that's all from me thank you.

Operator

Grant Swanepoel with Craigs Investment Partners.

Grant Swanepoel - *Craigs Investment Partners - Analyst*

Good morning team, first of all for Dan I suppose, great disclosure and a much better presentation than in the past in terms of understanding what's going on, so thank you. Just my two questions are on profitability of bottle swap, can you give some [quantum] on that front and also is that division on track for about NZD45 million for the full year in terms of EBITDA? Second question is, what are the capital contributions associated with the discontinued operations in the first half of this year, thank you?

Dan Molloy - *Vector Limited - CFO*

We don't disclose financial details for bottle swap and we are not proposing to do so but we are just showing through the introduction of that new [ops stat] the way that segment is tracking. In terms of the outlook for Gas Trading I think when we were on this call back in August we flagged around about NZD35 million or so full year result for that business.

I think it's going to come in a bit better but it will still be below NZD40 million, so significantly below where it was last year. Sorry, was there one other part to your question?

Grant Swanepoel - *Craigs Investment Partners - Analyst*

It was capital contributions associated with the discontinued operations or assets for sale of that NZD52 million--

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Dan Molloy - *Vector Limited - CFO*

-- it was about ▯.9 million, Grant, and I can confirm that to you later.

Grant Swanepoel - *Craigs Investment Partners - Analyst*

Thanks Dan, thank you, that's all from me.

Operator

Stephen Hudson with Macquarie Group.

Stephen Hudson - *Macquarie Group - Analyst*

Good morning guys, just maybe firstly a question for the Chairman, I was just interested in your comment on your dividend policy and potential changes there. Is there anything to stop the business moving to 100% free cash flow payout?

I was thinking particularly with regards to the capital beneficiaries under the Trust. Then maybe just a couple for Dan and Simon, in terms of your free cash flow payout for this half, can you give us what that was on a pro-forma basis i.e. pre Vector Gas?

Then just lastly, just interested in your thinking on the recent release by the Commerce Commission, on the airport percentile WACCs, there was a comment in there that they have actually retained a P75 WACC for you guys on an ex-post basis, i.e. on a price reset basis. I wasn't actually aware of that so I'm just interested in your thoughts on whether or not that is indeed the case, that they have actually retained P75.

Michael Stiassny - *Vector Limited - Chairman*

Dan is going to answer I think with excitement.

Dan Molloy - *Vector Limited - CFO*

Stephen just to answer your second question first, in terms of the dividend payout, last year we were at about 70% of policy which is our operating -- sorry, our policy is payout 60% of operating cash flow less replacement CapEx. Last year that level was at about 70%.

This year it's absent the sale and again on sale it's looking at being about 72% of policy. Post-sale that's going -- the number is going to kick up into the 80s.

Now as to your question as to whether we can increase the payout to 100%, look I think as Michael has mentioned, we are definitely looking at what the appropriate policy is and we think we can definitely afford to make that level higher. In terms of whether we can get to 100% we are not probably there yet. We need to really look at what our future CapEx levels are going to be.

Michael Stiassny - *Vector Limited - Chairman*

There was a more subtle point to his question. We have no restrictions other than the Directors' acting in the best interests of the Company like any other company as to what our dividend is.

There has been a commitment over time and it is continuing with our major shareholders' support to have a steady increase in dividend moving forward, that isn't changing. I think that was the answer to the subtlety.

Stephen Hudson - *Macquarie Group - Analyst*

Yes, that's useful.

Dan Molloy - *Vector Limited - CFO*

Stephen, to your last question, look I wasn't aware that the Commission was going to put us back to P75 WACC, I'm pretty sure we are -- yes, that would be great but we are preparing for the P67 that we have already got in electricity and that we are expecting to go to in gas from October 2017.

I think everyone worries about P50, it does seem to be ring fenced to the airport. The Commission is obviously taking submission on WACC. They have gone and recently -- in terms of their input methodology review, Vector submitted together with the ENA where we were basically supporting relatively limited change to that WACC regime, and the submission that the ENA made was mainly looking at some tweaks to the way of the cost of debt mechanism worked.

Stephen Hudson - *Macquarie Group - Analyst*

Okay, that's useful, thanks guys.

(Operator instructions)

Operator

Kate Barker with Energy News.

Kate Barker - *Energy News - Media*

Morning guys, just with the Gas Trading information just (inaudible) statement that you would be looking to review the division by year end, is that financial year or calendar year?

Simon Mackenzie - *Vector Limited - CEO*

Thanks Kate, that will be financial year.

Kate Barker - *Energy News - Media*

Okay, and so when that time rolls around and things still aren't looking so good for that division would it be a case of looking to sell or close down or --

Dan Molloy - *Vector Limited - CFO*

-- no, no, not at all. We like the Gas Trading business, we have been in it for a long time. I think it's fair to say it has continued to deliver the expectations that are higher than where we thought we'd be, particularly when we bought this business from NGC. So we are committed to the business, all we are flagging is there is a certain amount of goodwill on the balance sheet.

It's probably no surprise to anyone that given the conditions out there in the oil and gas space that's going to impact on the margins of a business like this. If there is a continued decline in some of these prices and margins then we are going to have a really close look at the carrying value of that asset -- of that business in our financial statements.

Kate Barker - *Energy News - Media*

Right, okay, and with the Powerwall I am just keen to get a bit of a sense on what the residential appetite has been for Powerwall because I understand you have got a -- there is something on the website where you can register your interest for them.

Michael Stiassny - *Vector Limited - Chairman*

There has been a pretty significant level of interest in the Powerwall's. I mean people registering their interest are well over 2000.

I think that obviously those people expressing an interest in understanding what that solution may provide for them, and those solutions range from coupling up with existing solar through to standalone battery solutions, to enable them to either have uninterrupted power supply for want of a better word.

So as we mentioned there is an extensive amount of testing and compliance that needs to be done, it's not just by virtue of a battery arriving, there's quite a lot of other parts to the system that has to be integrated, to be able to be installed in a safe manner and like I mentioned, over 900 different pieces of law.

So we are working through that, we will not put anything out into the market until we believe it's safe and then look at what offerings can be made out into the market that make sense for consumers.

Kate Barker - *Energy News - Media*

Have the winners of the competitions been announced yet?

Michael Stiassny - *Vector Limited - Chairman*

No, we haven't worked through those. That's -- obviously they know who they are but we haven't gone out publicly. We are going to obviously - once we have finished the testing regime then we will be working through those winners and installing the solutions on their premises.

Kate Barker - *Energy News - Media*

Right, great, thank you, that's all from me.

Operator

There are no further questions at this time, I will now hand back to Mr Mackenzie for closing remarks.

Simon Mackenzie - *Vector Limited - CEO*

Yes, well thanks very much for attending. That concludes the presentation today. Obviously if there are any further questions from the market analysts -- we thank you all for joining us and I am sure Dan will be more than happy to field those questions, and if there are any questions from the media then Sandy Hodge is our point of contact.

We look forward to continuing our progress in creating a new energy future and would like to thank all the staff in Vector for the great effort put in over the last six months. We have got a lot of challenges in front of us, a lot of exciting opportunities, and we look forward to speaking to you with our year end results, thank you very much.