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Vector Special Shareholders Meeting
11:00am Wednesday 16 December 2015
Ellerslie Event Centre

Chairman's Address

Good afternoon ladies and gentlemen.

My name is Michael Stiassny. I am Chairman of Vector. As we have a quorum and it's 11:00am, I am very happy to declare open this special meeting to consider the proposed sale of Vector's Gas transmission and non-Auckland gas distribution assets.

On behalf of my fellow Directors, a very warm welcome, and a special welcome to those shareholders who are following this meeting from our webcast.

In addition to those attending in person today, **1,295** shareholders, holding a total of **813,656,860** shares, have appointed proxies. They are represented by **10** proxy holders.

In my capacity as Chairman of the meeting and in my own name I hold proxies for **1,202** shareholders, representing **61,871,065** shares.

Included in the proxies are **751 million** shares held by the Auckland Energy Consumer Trust, our majority shareholder.

The Trust, which has voted in favour of the transaction, is represented in the audience today by AECT Chair William Cairns and trustees Mike Buczkowski and Paul Hutchison.

Members of the news media are also here today and we welcome you. But, I would remind you this is a meeting for shareholders. Vector's Group Chief Executive Simon Mackenzie and I will be happy to talk to you after the meeting.

Before we move on to the agenda, if you have a cell phone, please switch it off. If we need to evacuate this room for any reason, there are exits behind me and there is also the entrance you came through.

Thank you.

It's also my pleasure to introduce my fellow directors: James Carmichael, Hugh Fletcher, Jonathan Mason, Dame Alison Paterson, Karen Sherry and Bob Thomson.

Peter Bird and Nick Astwick are unable to join us today and have put in their apologies.

Also joining us on stage is our Group Chief Executive Simon Mackenzie and Diane Green our Company Secretary. We have members of our executive team here today, our external auditors KPMG and legal advisers Chapman Tripp.

Today's meeting is to consider the proposed sale of Vector Gas Limited, which owns Vector's gas transmission business and its gas distribution business outside Auckland. Throughout this presentation we refer to the company and these businesses as Vector Gas.

A notice of meeting was sent to all shareholders on 1 December 2015 and covers the proposed sale and its rationale in detail. We shall take that as read.

I will briefly provide an overview of the transaction and then I will hand over to Simon who will cover the rationale for the sale. We will then move to discuss the resolution and then vote.

Vector Gas owns and operates more than 2,200 km of high pressure gas transmission pipelines, which supply natural gas to industrial consumers and distribution networks in most cities and large towns in the North Island.

Vector Gas also owns gas distribution networks spread across six regions in the North Island outside of Auckland, with over 3,400 km of mains pipes and 1,400 km of service pipes, servicing more than 60,000 customers.

The gas transmission and gas distribution networks are regulated under Part 4 of the Commerce Act. In addition to owning regulated pipelines, Vector Gas is a leading provider of unregulated pipeline management services.

Vector Gas 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.

After receiving unsolicited interest in the assets, the Vector Board in June 2015 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 the retention of the business; a full or partial sale and continuing to manage the business for a new owner under a management contract.

Goldman Sachs conducted an exhaustive process, which culminated in three final offers to buy Vector Gas. And after a period of negotiation, Vector agreed to sell the business to First State Funds.

The sale is conditional upon the approval of shareholders and the approval of the Overseas Investment Office.

The offer of $952.5 million is attractive, realises full value of Vector Gas and results in a gain on sale of around $167 million[1]. It compares very well with similar recent transactions and the valuations of comparable companies with shares trading on public markets.

Vector's diverse portfolio of businesses creates a range of investment options, from our fast growing and high volume regulated Auckland energy networks through to unregulated activities such as metering and new energy infrastructure technologies. The sale allows Vector to repay debt and recycle capital into these growth opportunities.

This is not the first time the company has reconfigured its portfolio in this manner. In 2008 Vector sold its Wellington electricity network and since that time has successfully reinvested the proceeds, most notably into our metering business.

Initially, sale proceeds will be used to repay debt, strengthening Vector's balance sheet. The sale will not result in a special dividend or share buyback.

[1] *If the sale had occurred on 30 June 2015. The actual gain on sale will depend on the date of completion

The sale will result in an initial dilution of earnings per share, but this does not diminish the company's commitment to delivering sustainable dividends to shareholders. We expect earnings to recover as we reinvest the proceeds of the sale.

The First State offer has the unanimous support of the Vector Board and our majority shareholder the Auckland Energy Consumer Trust has voted in favour of the transaction. Accordingly, Directors encourage you to vote in favour of the transaction later in the meeting.

I would now like to hand you over to Simon Mackenzie, who will take you through these points in more detail.

Group Chief Executive Address

Thank you Michael. Good morning ladies and gentlemen.

Vector's vision is to create a new energy future.

This vision is a response to the significant change we see occurring in the energy industry. We talked of this extensively at our recent annual meeting and in our 2015 annual report.

The change follows the ongoing and rapid advances in technology and customers' ever-growing demands for greater choice and service. This transformation obviously presents challenges, but it also offers significant opportunities.

Our strategy to achieve this vision is led by two overarching principles.

Firstly we will leverage our heritage. To put it another way, we believe we will be most successful by making the most of the strong position we occupy as an Auckland-centric provider of energy infrastructure.

The second leg of the strategy is to create options. This means identifying and developing options that will deliver value and choice and service for our customers and improve shareholder returns.

The sale of Vector Gas is aligned with both of those core strategic goals.

Vector is at its core an Auckland Energy company. Our Auckland gas and electricity networks are experiencing significant growth in connections and volumes.

And, as evidenced in forecast demand for new housing in the region, this growth looks set to continue for some time. In contrast the gas transmission and non-Auckland gas distribution businesses offer more limited opportunities for 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.

The sale will enable Vector to repay debt and recycle capital into our Auckland networks to support this growth.

Our metering business has grown rapidly. Only a decade ago it was a provider of traditional metering services. Now it leads New Zealand in smart metering technology.

Vector now has an installed base of more than 1,000,000 smart meters and we are contracted to install over 1.2 million smart meters across the country. Vector's technology segment, of which metering is a significant part, now contributes well over $100 million to group EBITDA annually.

We have achieved this result because we identified and acted quickly on a shift in technology.

Now following a great deal of work over the past two years, Vector's metering business is well-positioned to leverage its New Zealand expertise to support the smart meter roll-out in Australia.

The market there is substantial and represents a significant opportunity.

We see similar opportunities emerging as a result of new technologies such as electric vehicles, solar panels, battery systems, new energy monitoring technologies and, further out, fuel cells.

This diagram shows what we should expect to become common place in the home in the not-too-distant future.

In addition to offering a range of benefits to Vector's commercial customers, residential customers will use batteries to store energy generated by solar panels during the day for use at night.

Smart devices will switch energy consumption between different sources of energy, whether from the distribution network or solar panels, according to customer preferences.

Electric vehicles will be recharged at night during low tariff periods, saving spending on fuel. Information technology will allow customers to monitor how they are using energy and allow them to modify their behaviour accordingly.

Over time we expect these technologies to displace and reduce our spending on traditional technologies such as poles and wires.

We can for instance use large batteries across the network to better manage peak demand. Such investments – which will become part of our regulated network – can be more efficient than investments such as network upgrades.

Vector is investing in this new energy future.

Not only will this enable us to better understand how these technologies will impact and benefit our traditional activities, but it will also help us better understand our customers' evolving needs and how we can benefit commercially from these new markets.

Vector believes our Auckland networks and the unregulated activities offer more attractive growth prospects than those offered by Vector Gas.

Additionally, by selling Vector Gas and reinvesting organically into growth opportunities across our Auckland networks and unregulated portfolio, we can begin to earn a return on a significant portion of the goodwill currently sitting on our balance sheet. Currently this goodwill is not recognised by the regulator when it sets our allowable return.

As Michael mentioned, this is not the first time we have significantly reconfigured our portfolio of businesses.

In 2008 we sold our Wellington Electricity network, which offered more limited growth prospects. The sale allowed Vector to reduce its exposure to regulatory risk, repay debt and incrementally redeploy capital into, amongst other things, smart metering growth.

This move has delivered considerable enhancements in returns to shareholders.

A comparison between Vector's former Wellington business with Vector's technology business - which has been a significant recipient of the proceeds from the sale - shows we made the right decision.

Between the 2009 and 2014 financial years, the period for which we have comparable data, EBITDA at Vector's technology business nearly doubled from $52.1 million to $100.0 million.

However, over the same years, EBITDA at Wellington Electricity rose just 13% from $76.1 million to $86.1 million.

We are very pleased with the offer price. This slide compares the proposed transaction – in green on the right hand side of this chart – to similar transactions since 2012. It also compares the offer price to the sale of Vector's Wellington electricity network in 2008.

As you can see, the price for Vector Gas is equal to 12.3 times the company's 2015 EBITDA.

This multiple of EBITDA is higher than all but two Australasian transactions since 2012. And, as detailed in your notice of meeting, it is in the top tier of all Australasian transactions since 2010.

It is also a higher multiple than that implied by Vector's current share price – the orange bar in this chart - and the share prices of several highly-rated infrastructure providers.

We are also selling to highly-regarded Australian infrastructure funds that recognise and take very seriously the responsibilities that come with owning such assets.

The buyers, First State Funds, comprise the Global Diversified Infrastructure Fund 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 has approximately $7 billion of capital invested in infrastructure assets across Australia, New Zealand and Europe including Electricity North West in the UK; Reganosa, a Spanish gas storage business and ANZ Terminals, an Australian and New Zealand bulk liquid storage network.

The sale is conditional on the approval of shareholders today and the approval of the Overseas Investment Office.

Subject to these approvals, we are working with First State Funds to complete the transaction by the end of March 2016.

The transaction will result in a gain on sale of around $167 million[2].

Vector has agreed to provide transitional services to First State through to the end of December 2016.

Vector and First State have also entered into a Memorandum of Understanding to co-operate in relation to their respective gas distribution activities. We have also agreed to consider co-investment in opportunities related to regulated and unregulated energy infrastructure.

The transaction will further strengthen Vector's balance sheet. If the transaction had occurred on 30 June 2015, gearing would decrease from 54% to 42%.

Assuming no other changes to Vector's business, we expect Vector's investment grade credit rating to be unaffected by the sale and remain at BBB stable on Standard & Poor's scale.

Because the sale proceeds are being applied to debt reduction, Vector's future interest costs will reduce.

[2] *If the sale had occurred on 30 June 2015. The actual gain on sale will depend on the date of completion.

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 compared to if Vector were to retain the businesses.

The sale will not result in a special dividend or share buyback.

We remain committed to delivering sustainable dividends to shareholders over the long term.

Vector believes this transaction is in the best interests of shareholders.

Our vision is to create a new energy future with a strategy that leverages our heritage and creates new options.

The sale is entirely aligned with this strategy as it allows Vector to repay debt and recycle capital in our portfolio into the most attractive growth opportunities.

Put simply we believe the returns available to Vector by investing in Auckland and taking advantage of emerging energy infrastructure management technologies are greater than the returns to be achieved by retaining our investment in Vector Gas.

We have completed a thorough process to arrive at this point and we are very happy with the price First State has offered.

Finally we are selling to a highly-rated group of investors that will take its responsibilities very seriously.

I will now hand you back to Michael to take us through the formal proceedings of the meeting.

Chairman – Michael Stiassny

Thank you Simon.

We will move shortly to a discussion on the resolution. But before we do I ask that during the discussion you confine your questions and any comments directly to the matter at hand.

I remind you this is a meeting of and for our shareholders. Only shareholders or corporate representatives or proxy holders for shareholders are entitled to speak and vote here today.

As stated in the Notice of Meeting, released to the NZX on November 30 2015 only shareholders registered at 5.00pm on 10 December 2015 or their proxies or representatives are entitled to vote.

If you have become a shareholder since that date, you are not entitled to vote at this meeting, but we do welcome you here.

In the interests of allowing everyone who wishes to speak to do so, I would ask you to limit yourselves to a reasonable speaking time.

Remote microphones are available and if you wish to speak please raise your hand, and someone will come to you. Again, to make things easier, when you do speak if you first could tell us your name, that would be helpful.

The Notice of Meeting details the resolution and it is also set out on the screen.

The resolution requires a simple majority of votes validly cast.

I now invite discussion on this resolution.

Before we move to a vote on the resolution, for transparency, on the screen you will see the proxy position.

We will now move to vote on this resolution.

If you wish to vote, you should have to hand either the Proxy Form that was sent to you with the Notice of Meeting or an alternative voting form given to you by Computershare when you entered the meeting.

When you cast your vote, please tick one box, either for, against or abstain in the section marked Step 2 on your form.

The proxy form given to proxy holders, sets out the number of proxy votes held and records directed votes. If there are no undirected votes a proxy holder needs to only sign the form.

Where there are undirected votes, proxy holders may vote these as they see fit by ticking the appropriate box.

Finally, in all cases, please ensure the form is signed. Once you have completed your form these will be collected and the votes will be counted under the scrutiny of our Auditor.

Is anyone unsure of what they are doing with the form or hasn't got a form?

Please make your way to the registration desk as you walked in, someone will be able to help you.

Results of the vote will be released to the New Zealand Stock Exchange later today.

Ladies and gentlemen I thank you for your attendance at the meeting. Vector has an exciting future and we look forward to sharing that with you in the coming year.

On behalf of Vector's Board, management team and staff we wish you well for the holiday season.

I now declare this special meeting closed.

/end