

Question and Answer

Unknown Attendee

David Chandler [ph]. You mentioned the transaction is subject to the approval of the Overseas Investment Office. Has any preliminary approach been made to that Office to indicate which way the wind might blow?

Michael Peter Stiassny

Former Chairman

As you would expect, there has been discussions with the Office of a general nature but none that would lead us to have a view whether it will be approved or not. Coralie would like to ask a question.

Coralie van Camp

If you insist upon calling me Coralie, I'm going to call you Mickey.

Michael Peter Stiassny

Former Chairman

You can call me Mickey Mouse, if you like, it won't make any difference.

Coralie van Camp

Well, that was at the back of my mind, but I wasn't going to be that rude. Because actually, I think, there's a lot of Mickey Mouse goings on with this transaction. When you first bought the gas network, there was great flurry of excitement that you're going to stick fiber-optic cables through it for broadband. And then, Chorus got the deal. So how much did you lose on pursuing trying to get fiber-optic cables through your gas network fruitlessly? How much did you lose of that \$167 million that you were hoping to get on the sale on that fruitless endeavor? Now I'm very worried. I'm very happy that you're going to put the proceeds towards debt, and at first, when I read about this in the paper, I thought it was just the non-Auckland assets that we're selling, but it's the whole shebang, isn't it? It's the whole of the gas network right through Auckland, all the pipes and...

Michael Peter Stiassny

Former Chairman

That's not my reading of it, but go on.

Coralie van Camp

Well it does see fit the Gas Limited, but it doesn't actually say in the resolution what exact areas of pipes you're selling. And there's no map to show which pipes? So I just got the impression from just sitting here before the meeting that it's the whole lot.

Michael Peter Stiassny

Former Chairman

Well, number one, it's not the whole lot. We come back to the fundamental issue. The fundamental issue is that we are one of the, I think, few companies in New Zealand that actually understand what our role is, which is to maximize shareholder wealth. We look at all our assets and view them as to where do we believe the curve is going to go to in return in the long-term and whether we can use those assets more efficiently to great -- get a better return by doing something else with them. We sold Wellington -- but I -- we sold Wellington, and that was an exceedingly successful transaction for us. We're now selling this business, and I think Simon has explained to you the returns we are making in our nonregulated businesses, such as metering. We were approached with interest in this asset. It's always really good when someone else thinks one of your assets is worth more than you do, and we talked it to the market. We've got what we consider to be a very good price. I think you can have a look at the other sales...

Coralie van Camp

Mr. Stiassny, the price for what? What part of the network are you actually selling? Is the total part of it...

Michael Peter Stiassny
Former Chairman

I think I've covered this...

Coralie van Camp

No you haven't really. Because you've just said out of Auckland. But what -- where is the line around Auckland? Or is it Auckland?

Michael Peter Stiassny
Former Chairman

Well, let Simon answer this question in detail for you.

Simon MacKenzie
Group Chief Executive Officer

Sorry. It was -- could we perhaps put Slide 6 up because it identifies the area that is covered by the assets? Vector Gas Limited actually arose from the sale of new -- sorry, from the acquisition of NGC. It did not include the gas networks of the Auckland assets that were previously owned by Pair [ph] New Zealand or Utilite [ph]. So as you see on the map, the assets that are being sold are the gas distribution assets outside of Auckland, they are not inclusive of Auckland, and also the gas transmission network. The gas transmission network does have some pipes through Auckland, but that was always part of the contiguous nature of that asset. You also asked with regards to fiber, we never had any intention of laying fiber in the gas pipe works because our focus for fiber was actually in the Auckland network, and these assets sit outside Auckland. The focus that we had for putting fiber in -- for Auckland was actually to deploy it on our overhead network because it's much more cost-effective and which is actually something now that Chorus is doing on our overhead network and in agreement with ourselves.

Coralie van Camp

Well that -- thank you. That is news to me because I always understood that the pipes were also for the other purpose. Just one last comment. I'm glad it's going towards repaying the debt, but I would be very, very concerned if you were then going to go and spend a whole lot of money on promoting a solar panel and battery business instead of doing what you're supposed to be doing. You are an electric -- electricity network, strategic network for the Auckland region, and if you're not going to upgrade that properly and put it on to batteries and solar power, then you're not doing your job.

Michael Peter Stiassny
Former Chairman

Well, it's nearly Christmas, so we'll -- just say that we understand exceedingly well our obligations to providing a good electric city network system in Auckland, and we continue to do so. Any other comments?

Unknown Shareholder

Stephen Bright [ph], shareholder.

Michael Peter Stiassny
Former Chairman

Use the microphone, Mate.

Unknown Shareholder

Yes. Question, in this agreement, is there anything relating to the future prices about gas? Can they gouge you in the future? Or is that under government regulation?

Simon MacKenzie*Group Chief Executive Officer*

Yes. The assets that we're talking about are gas pipes, so gas distribution pipes and gas transmission pipes. They -- those assets are regulated by the Commerce Commission, and those assets are priced independently of what's happening with gas prices in the market. So with regards to gas prices in the market, those are set by, by a competitive process, and so these basically -- the price that comes for the delivered gas is regulated, whereas the gas for -- so the price for the actual gas used is actually through your retailers or in the commercial cases, wholesale transactions.

Michael Peter Stiassny*Former Chairman*

There was another question somewhere down there.

Unknown Shareholder

Richard Crow, shareholder. It's often said that monopolies are ugly and undesirable unless your business has one. And it seems to me that the gas transmission business in the North Island is very much a monopoly and a pretty nice sort of a business to hold onto. If I could get your comment on that in a minute, but while I'm on my feet, I just wanted to also ask, is the Vector gas treatment plant at Kapuni not in the sale process? Or is that deemed to be part of the transmission system? Because that also is a very strategic asset. It strips high carbon dioxide out of Kapuni gas, and that is certainly another part of the monopoly that we have going as shareholders.

Simon MacKenzie*Group Chief Executive Officer*

So to answer your question, the Vector -- sorry, the Kapuni gas treatment plant is not part of this process. It is not deemed to be a monopoly asset. It's not regulated by the commission. There are a number of other processing facilities in the country, so we are still retaining the processing facility, and that's an integral part of our wholesale gas business.

Unknown Shareholder

I'm happy to hear that. The one -- if I can add, the \$167 million gain on sale that you have in your note, is that the sale price margin over the current net present value of the Vector Gas business? Or is that \$167 million over some historic purchase price, which we need to take into account real and nominal terms here in our economics?

Simon MacKenzie*Group Chief Executive Officer*

It's the gain on the book value of the assets.

Unknown Shareholder

And the book value, are you saying is today's net present value as run by your analyst?

Simon MacKenzie*Group Chief Executive Officer*

Well, the value that we actually have on our accounts from the acquisition.

Unknown Shareholder

Yes. I'm not convinced that you're making \$167 million to 2015 dollars in selling these assets.

Michael Peter Stiassny*Former Chairman*

We are, but we'll let Dan explain this to you, as our CFO, very simply. Yes.

Dan Molloy

Former Chief Financial Officer

[indiscernible] Thank you. No, you're right. The gain of \$167 million as a gain on the book value of the business. The book value of the business, obviously, reflects what we paid for it back in 2005 when we acquired it from NGC, but it also reflects the significant capital expenditure that we have invested into that business over that time. So that's a mix of old value and new value, if you like. And we have invested significantly in both of those businesses over the ensuing decade.

Michael Peter Stiassny

Former Chairman

Any other questions?

Unknown Shareholder

Grant Plum, a shareholder. There was a strategic review done by Goldman Sachs regarding the purchase. But has any strategic review been done by the board or the company regarding the whole capital structure of Vector notwithstanding the ball and chain it's got around its ankle with having the consumer trust being the major shareholder?

Michael Peter Stiassny

Former Chairman

Do you want to just be a little bit more clear on what you're driving at, sorry?

Unknown Shareholder

Well, looking at the whole scenario of this sale, it's basically a sale to free up capital to either repay debt or for future growth. One way of getting future growth and freeing up debt is to, obviously, go to the shareholders for like some form of capital raising or rights issue, something along those lines.

Michael Peter Stiassny

Former Chairman

Okay. Let's go back a little bit, and I won't do it in proper accounting terms because I'll get lost in it. This is a regulated business. Regulated businesses mean that we do not get a return on the total value of the asset as we see it. We only get a return on the RAB, in essence. What we're doing is recycling the money so that we can take \$100 -- so we get a return on roughly \$50 of this asset. We're selling it for \$100. We're going to either pay down debt, and then we're going to invest that \$100 and we want to get a return on all of the \$100. It is the simplistic difference between regulated on one hand and nonregulated on the other. On a nonregulated business, we make a return on the whole thing. On a regulated business, because of the way regulation works, we do not make a return on the whole egg. We only make it on half. So, therefore, it is quite rational for us to move it out of a regulated business into something else where we make a far higher return. That allows us to give a return to shareholders and to keep dividends going up. That's what we're trying to do here. It is not about reinvesting for that because we're short of cash. It's using it more effectively for a better return. Does that help you with your answer?

Unknown Shareholder

[indiscernible]

Michael Peter Stiassny

Former Chairman

Any other questions?

Unknown Shareholder

Richard Corrigan. Can I ask Simon what reduction in staff numbers you forecast, given that you're giving up the whole North Island gas transmission business? And, hence, what would be the annual cost savings and the salary burden side of things?

Simon MacKenzie

Group Chief Executive Officer

We're obviously still working through that, part of the transition and transition services, but we're in the order of 130 staff will be moving because of the business, but they'll move with the business to the new owners.

Michael Peter Stiassny

Former Chairman

Any other -- sorry?

Unknown Shareholder

[indiscernible]

Simon MacKenzie

Group Chief Executive Officer

Sorry, Dan, what was it roughly?

Michael Peter Stiassny

Former Chairman

We're still working on those numbers is my understanding.

Dan Molloy

Former Chief Financial Officer

Yes. Look, I'm not sure what the salary role is for the business, but it's included in the notice of meeting. We sort of talked about the businesses having an EBITDA contribution for the financial year, just completed of around \$77 million. So it's included in that number.

Michael Peter Stiassny

Former Chairman

Are there any other questions?

If there are not, I would then ask you to please vote on this resolution. So either hand in the proxy form that you were sent with the notice of meeting or an alternative voting form, given to ComputerShare when you entered the meeting. When you cast your vote, tick 1 box, either for, against or abstain in the Section marked 2. 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 only to sign the form. Where there are undirected votes, proxy holders may vote these as they see fit by ticking the box. And I'm sure I don't need to read this because we just did this for the AGM only a short time ago, didn't we? But I might get told off if I don't read it.

If you are unsure of what you've been doing, please -- or haven't got a form, make your way to the registration desk outside, and they will look after you. Results of the vote will be released to the stock exchange later today.

I thank you for your attendance at this meeting. Vector has an exciting future as we move forward, and we hope that you will share that with us in the incoming year.

On behalf of the board and of management and staff, I'd like to wish you all a very happy holiday season and hopefully, a safe one.

So I declare this meeting closed, and thank you.