

FINANCIAL RESULTS FOR THE YEAR TO 30 JUNE 2019

FY19 ADJUSTED EBITDA RESULT IN LINE WITH GUIDANCE. NOVEMBER REGULATORY RESET KEY FOR FIVE YEAR OUTLOOK

Vector's financial results for the 12 months to 30 June 2019 were steady, with adjusted earnings before interest, tax, depreciation and amortisation (Adjusted EBITDA)¹ of \$485.8 million² - ahead of FY18 and in the mid-point of the guidance range provided over the year.

Shareholders will receive a fully imputed final dividend of 8.25 cents per share, taking the full year dividend to 16.50 cents per share, up from 16.25 cents per share in 2018.

Dame Alison Paterson said, "While our revenues continued to benefit from strong connection growth across our networks and the further expansion of the metering business in New Zealand and Australia, gains were partially offset by increased maintenance expenditure to improve electricity network reliability and the underperformance of E-Co Products Group, trading as HRV.

"Group net profit after tax was \$84.0 million and includes a non-cash impairment of \$46.6 million in respect of E-Co Products Group. The prior year's net profit of \$149.8 million included a one-off tax gain of \$16.7 million. If we exclude these, Group net profit after tax of \$130.6 million was down slightly on the prior year.

"As a result of the disappointing performance of E-Co Products Group leading to impairment, we have new leadership in place and have repositioned the business with our other technology solutions, through Vector PowerSmart.

"For the past decade, we have worked hard to build a strategic asset portfolio which provides more options for sustainable returns. Alongside our regulated electricity and gas businesses, we have continued to grow our wider businesses, particularly Vector PowerSmart, Vector Advanced Metering Services (AMS) and Vector Communications, which, along with our Gas Trading business, define our company as an energy group with a growing domestic and international footprint."

Vector Group Chief Executive, Simon Mackenzie said, "The 12 months saw many operational highlights, including continued network and smart meter connection growth, ongoing leadership in health and safety, and the successful integration of network management software co-developed with technology firm, mPrest.

"Vector has continued to engage with the Commerce Commission in relation to electricity network service performance in the context of an increasingly challenging environment. As part of this process, earlier this year Vector and the Commission agreed to recommend to the Court a penalty of \$3.6 million in recognition of Vector's breaches of the electricity

¹ Excludes capital contributions

² As at 1 July 2018, Vector adopted new accounting standards for revenue from contracts and leases (NZ IFRS 15 and 16) and changed the way we account for gains/losses on disposal of fixed assets. For more information and a breakdown of NZ IFRS changes by segment see notes to the financial statements in Vector's 2019 annual report.

network quality standards in 2015 and 2016. This year we have strengthened our focus on improving network reliability and we remain committed to meeting our regulatory compliance requirements.”

“Vector is facing a significant, ongoing requirement to invest in our networks not just to support growing consumer demand, but also local and central policy objectives of enabling Auckland growth, keeping energy affordable and enabling the transition to a low carbon world through the accelerated electrification of transport.

“April 2020 marks the start of the next five-year regulatory period where the Commerce Commission will reset limits for our electricity network revenues and network quality standards.

“In terms of network revenues, a key focus of our ongoing engagement with the Commission calls into question the sustainability of two critical regulatory settings. The first is the indexation of asset values, which are heavily reliant on inflation forecasts and have been significantly over-forecasted for a decade - resulting in major revenue impacts to electricity distributors, without correction.

“Secondly, the current ultra-low interest rate environment underscores the urgent need for the Commerce Commission to amend the way it derives the cost of debt in its Weighted Average Cost of Capital (WACC) determinations. Currently this is determined from a narrow window around the time of reset.

“Within the broader regulatory regime, there are avenues for Vector and the Commerce Commission to work together to correct these anomalies, and better align cashflows with investment needs.

“We remain committed to working openly and collaboratively with the Commerce Commission - both within the current reset process and beyond - to explore all options to address these two challenges.”

Looking ahead

Dame Alison Paterson said, “While acknowledging the key challenges ahead of us, we remain committed to Vector’s vision to create a new energy future for New Zealanders.

“We remain confident in our plan to rise to the challenges of Auckland’s growth and increasing electrification of transport. We will continue target investment as efficiently as we can by supporting traditional network assets with digital and new energy solutions for the long-term benefit of energy consumers. However, changes to regulatory settings which enable this investment will be critical.

“We are pleased by our ongoing success in the Australian metering market and look forward to continued growth in the coming year. Our revised approach for Vector Communications and the newly consolidated Vector PowerSmart business are already gaining traction, and we look forward to reporting on progress and improved profitability. Our Gas Trading

creating a new energy future

business will continue to adapt and seek new opportunities in the challenging market conditions.

“As has been signalled previously, we will be reviewing our dividend policy and providing guidance on FY20 earnings once we have the Commission’s final reset decision, which is expected in late November of this year.”

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About Vector

Vector is New Zealand’s leading network infrastructure company which runs a portfolio of businesses delivering energy and communication services to more than one million homes and commercial customers across the country. Vector is leading the country in creating a new energy future for customers and continues to grow and invest in the growth of Auckland, and in a wide range of activities and locations. Vector is listed on the New Zealand Stock Exchange with ticker symbol VCT. Our majority shareholder, with voting rights of 75.1%, is Entrust. For further information, visit www.vector.co.nz