Market Release
29 September 2022

Vector Limited Annual Meeting of Shareholders Speaking Notes

Chair, Jonathan Mason:

Ngā mihi o te ata ki a koutou katoa
Nau mai haere mai ki tēnei hui.
Ko Jonathan Mason toku ingoa.

Good afternoon to you all and welcome to this event. My name is Jonathan Mason, and I am Vector's Chair.

I'd like to acknowledge Ngāti Whātua Ōrākei as mana whenua for central Auckland, where we are today, and also thank them for their partnership this year as Vector worked closely with them to support COVID-19 vaccination efforts.

As we have a quorum and it's 2:00pm, I will now declare open the 2022 Annual Meeting of Vector Limited shareholders.

Today's meeting is a hybrid meeting, with shareholders attending here in the room as well as online. We hope this format provides our shareholders with more convenience, while also allowing them to join proceedings in a way they're comfortable with.

It is nice to be able to offer this choice, after two years of online-only meetings as a result of the COVID-19 pandemic.

A hybrid meeting does come with some special instructions to make sure everyone, whether in person or online, has an opportunity to participate I'll go through these now.

Today's meeting is being held both in-person and online via the Computershare Online Meetings platform. This allows Shareholders, Proxies and Guests who were not able to travel and attend the meeting in person the ability to attend the meeting virtually. All online attendees can watch a live webcast of the meeting and read the company documents associated with the meeting. In addition, shareholders and proxies have the ability to ask questions and submit votes.

For those of you attending the meeting virtually, if you have a question to submit during the live meeting, please select the Q&A tab on the right half of your screen anytime. Type your question into the field and press send. Your question will be immediately submitted. Should you require any assistance, you can type your query and one of the Computershare team will assist with the chat function and reply to your query. Alternatively, you can call Computershare on 0800-650-034.

Please note that while those online can submit questions from now on, I will not address them until the relevant time in the meeting. Please also note that your questions may be moderated or if we receive multiple questions on one topic, amalgamated together. Finally, due to time constraints we may run out of time to answer all your questions. If this happens, we will answer them in due course via email.

For those in the room, we will open the floor to questions at the relevant time in the meeting. We have a number of microphones which will be available to you.

For all those asking questions, as this is a shareholder meeting, we ask that you please do not ask operational or customer service questions in this forum. We have members of our Customer team available to help you with these questions after the meeting at the entrance to the room. For those online, these types of questions can be put to our customer services team by phoning 0508 VECTOR, that's 0508 832 867, or by emailing info@vector.co.nz.

While we welcome any members of the media to our meeting today, please hold your questions during the meeting and if you want to talk to Simon or myself after the meeting concludes please talk to one of our communications team who will be at the back of the room or use our usual media phone number.

Voting today will be conducted by way of a poll on all items of business. I'll now describe how you can cast your votes, starting with the online process.

For those online, if you are eligible to vote at this meeting, once I declare the voting to be open, you will be able to cast your vote under the Vote tab. To vote, simply select your voting direction from the options shown on screen. You can vote for all resolutions at once, or by each resolution. Your vote has been cast when the tick appears. To change your vote, simply select 'Change Your Vote'. You have the ability to change your vote, up until the time I declare voting closed. In order to provide you with enough time to vote, I will shortly open the voting for all resolutions.

Those of you in the room are able to mark your voting paper at any time, and a team member from Computershare will collect the voting forms at the conclusion of the meeting.

I will indicate when voting will close, so that you have a final opportunity to cast your vote.

With those instructions now complete, I now declare voting open on all items of business. Those in the room may mark your voting paper at any time. Those online will see the resolutions will now be open in the vote tab, please submit your votes at any time. I will give you a warning before I move to close voting.

In addition to those attending this webcast today, 908 shareholders, holding a total of more than 818,575,744 shares, have appointed proxies.

In my capacity as Chair of the meeting and in my own name I hold proxies for 445 shareholders, representing 812,782,076 shares. Also included in the proxies are 751,000,000 shares held by Entrust, our majority shareholder.

It's now my pleasure to introduce my fellow directors: Alastair Bell, Tony Carter, Bruce Turner, and Dame Paula Rebstock, Anne Urlwin, and Dr Paul Hutchison. Also joining us are our Group Chief Executive Simon Mackenzie and John Rodger our Chief Legal & Assurance Officer and Company Secretary. We also have our Chief Financial Officer, Jason Hollingworth and Graeme Edwards from our external auditors KPMG joining us via webcast.

Now to the structure of this meeting. We released our financial results on 26 August in our annual report, which is available on our website, and has been mailed to all shareholders who requested a copy. As all shareholders have by now had the chance to review the report, I will take this opportunity to comment briefly on the dividend, then talk about some key themes from the year, how Vector is at the forefront of decarbonisation initiatives on behalf of its shareholders, customers and communities, and give a short summary of the Group's financial performance for the year.

I will then hand over to Simon to talk about Vector's operational performance, and other highlights from the year.

After that, we will open the meeting for specific discussion on the annual report, including the financial statements and audit report, as well as anything raised in our respective addresses. We will then move to the formal business of the meeting.

Before I move to my address I want to acknowledge some important highlights of the year.

Firstly, I commend the efforts of Vector staff across New Zealand and Australia, together with our contracted field service providers, who have worked extremely hard this year. They have again worked through COVID-19 lockdowns, ongoing disruption, and unexpected challenges to keep delivering to our customers. My thanks to you all.

Secondly, I want to call out that this year is significant for Vector, as it marks 100 years since the creation of the Auckland Electric Power Board. This was a local authority established on 1 April 1922 to manage Auckland's power assets. It was created by act of Parliament to supplying electricity to around 8000 customers in the Auckland region, and in that time, all electricity generation came from within the region too.

Since then Auckland Electric Power Board has become the Vector of today, an innovative and globally recognised New Zealand energy company with a portfolio of businesses delivering energy, technology solutions and communication services to more than one million homes and commercial customers across Australasia and the Pacific.

The board and I are proud of this long heritage, which has always included a strong commitment to serve the interests of Vector's customers. Today this commitment is embodied in Vector's Symphony strategy, which is enabling Vector to continue delivering today, while pro-actively rising to the challenges of today and the future.

Finally I'd like to call out that Vector published its second Taskforce for Climate-related Financial Disclosures report this year, and within that has a detailed Carbon Abatement Curve, which sets out action to reduce emissions, including actions which save money. Progress has already been made against some of those initiatives, and Simon will go into that in more detail.

The full year dividend 16.75 cents per share was partially imputed at 10.5%, and was paid to shareholders on 19 September.

I want to provide some context about the circumstances of our dividends, and I'll give an example to illustrate.

In 2016, the Commerce Commission allowed us to earn 7.19% on our regulated assets. But now, we're earning 4.57%. This is a function of interest rates, as with low interest rates our allowable earnings are set lower. Those returns are also impacted by inflation which impacts the level of cash return versus asset valuation. Currently, inflation is higher than what the Commerce Commission forecast when setting the current price path, and so we will earn more, however some of this upside is not recoverable until 2024. The board considers this, as well as a range of other factors when setting the dividend.

This year we determined that a flat dividend, when compared to last year, was appropriate.

I also want to comment briefly on how else we're delivering value to shareholders besides our dividend payments.

Our Total Shareholder Return, which factors in capital gain on share price as well as dividends paid and imputation credits attached to dividends, compares well against the average across the NZX 50.

This is a point in time measure, however when looking at the 5 year TSR Vector has outperformed the market, and over a 10 year period is broadly in line with the market.

Vector invests significant sums into infrastructure growth, resilience and reliability. In the last year, this investment stood at close to $350 million, or almost $1m per day. This covers what is needed to ensure the electricity network is ready for the demands of the future, while ensuring Auckland has the infrastructure it needs now to continue growing, and to support major changes to our transport and energy systems drive by decarbonisation.

We've reached a settlement agreement with the Commerce Commission into historic breaches of network quality standards, and we're pleased to have seen full compliance since the period in question. This reflects our strong focus on improving performance, and a comprehensive programme of network reliability initiatives in recent years to mitigate the impacts of the challenges we have experienced in our operating environment. These include meeting Auckland's growth requirements, increasing congestion, and weather volatility. That work has been successful and we've seen a sustained improvement in the key network reliability measures that the Commerce Commission requires electricity regulators to meet, being SAIDI and SAIFI.

Looking elsewhere across the Group, Vector Metering has been a strong and consistent success story. Vector started the metering business in 2008, and since then has been steadily building and growing it, first in New Zealand, then entering into the Australian market and growing it there too.

The business continues to focus on providing innovative, smart meter data services to energy retailers from more than 2.3 million electricity and gas meters across both markets.

The strategic review of Vector Metering, which is underway at the moment, is looking ahead to the next chapter for the business. While there are no certainties as to the outcome of the review, we believe that there are strong opportunities for a partner to invest with Vector and drive strong growth.

I'll now talk a little about Vector's role in decarbonisation, which was the subject of the video we played at the start of this meeting. Looking at Vector's Symphony strategy as it applies to Auckland's electricity network helps illustrate this. As the country moves to lower carbon emissions, transport and other industries will increasingly look to electricity for their energy needs. Combined with renewable generation, these are key to New Zealand achieving its decarbonisation commitments.

This will result in a significant increase in demand for electricity. If that demand is unmanaged, for example where electric vehicle charging at the end of the day increases the period of peak electricity demand, that will mean Vector must build much more network to accommodate that extra demand. As the blue line on this chart shows. But that approach of meeting demand through building more network, is expensive for customers.

Instead, if the growth in electricity demand can be managed, so that overall demand is managed and controlled, that means the need for costly network upgrades is minimised.

Vector has demonstrated leadership in this thinking for a number of years, and is why Vector has worked with global technology, most recently Amazon Web Services and X, formerly Google X, on innovative, new tools. Through its leadership and relationships like these, Vector has a clear line of sight into what is needed to achieve the energy transition, and can offer a perspective that others just don't have.

But it is crucial that policy decisions to support the changes needed are made quickly, so that the energy transition can be successfully managed.

Vector has delivered a steady result for the 2022 financial year, against a backdrop of inflationary pressure, sustained supply chain challenges and constant evolution of the impacts from the COVID-19 pandemic.

The group recorded adjusted EBITDA of $510 million. This was down $3.5 million or 0.7% on last year's result, and is in line with guidance provided at the half year result.

Group net profit after tax was $160.9m which was $33.7m lower than the prior year due to a $40.2m non-cash goodwill impairment of Vector's LPG business. This goodwill impairment recognises the impact of higher Saudi Aramco contract price of LPG, higher ETS, and a weaker NZ dollar, all contributing to a higher cost of gas, along with the impact of the increase in discount rates as at 30 June 2022. This was offset by higher capital contributions, lower interest cost, and a gain from the sale of Vector's 50% shareholding in Treescape.

Total capital expenditure for the year was $545.9 million, an increase of $4.4 million or 0.8% on the prior period. The increase reflected continued investment in infrastructure to support Auckland's continued growth, higher network replacement expenditure, and continued rollout of advanced meters in Australia and New Zealand, and the rollout of 4G modem upgrades across the New Zealand advanced meter base.

Operating cash flow was 3.9% higher at $518.8 million. This increase was largely due to the higher capital contributions received in the period.

In closing, I thank my board for their support this year, Simon and his Executive team for their leadership, and Vector staff for all they've done to look after their customers, including navigating through another year of disruption from COVID-19 lockdowns.

I will now hand over to Simon.

CEO, Simon Mackenzie:

Thank you Jonathan.

I'd also like to thank our staff and field service providers for another full year of delivering for our customers, again with multiple disruptions from COVID-19, not just lockdowns but also the need to be flexible and adaptable as we saw increased absenteeism from infection and isolation protocols. Our people have shown a great deal of resilience and commitment to Vector and our customers in a time of great change and uncertainty.

I'll start my address by reflecting on what's different about the Vector of today compared to what began 100 ago. Then I'll move to a short summary of our financial performance for the year, and then provide a few operational highlights, as well as talk about some of the challenges we see ahead and how we're addressing them.

A lot has changed since the Auckland Electric Power Board was first created 100 years ago. Today's Vector serves more than 600,000 connections on the electricity network, our gas network has more than 115,000 connections, we served more than 600,000 LPG bottle swaps around New Zealand in the last year, we operate nearly 2 million advanced meters across New Zealand and Australia, we have an extensive fibre network across the greater Auckland region, including our own direct access into over 1000 commercial buildings and we run a number of other energy related businesses across our portfolio.

We're continuing to deploy large amounts of capital in our energy networks to enable and support Auckland's significant growth, and transform the electricity network to facilitate a future where consumers increasingly demand and rely on cleaner, more reliable, affordable energy.

Through Vector Technology Solutions we're looking to sell solutions to help other companies on similar transformation journeys both locally and overseas.

And as Jonathan mentioned, we're looking ahead to the next chapter of growth for Vector Metering.

All these activities reflect the pace of change the energy sector is going through right now, and the urgency to transform energy systems to address decarbonisation. As you've seen on one of Jonathan's slides earlier, demand for electricity is going to increase, and we're still going to be building traditional network infrastructure. That will include power poles and wires that would be recognisable to people from 100 years ago. But just doing that is no longer enough. We've got to build new digital infrastructure on top of the physical assets so that the whole system is more resilient in the face of climate change, and can accommodate the increased demand for electricity that will come with decarbonisation in the smartest way possible. While much of what we do is unseen by customers, our solutions are critical to the smooth running of customers lives at home and at work. Customer needs are at the core of our Symphony strategy and this includes equitable access to the energy they need to power what is important to them.

Now I'll move onto a review of Vector's operational performance for the year.

Firstly, for the regulated electricity and gas networks:

- Total net connections continue to grow with electricity connections up 1.6% to 600,112, and gas connections up 1.3% to 117,995

- The level of gross investment continues to be at high levels with capital expenditure for FY22 at $331.9m
- Electricity volumes overall were up 0.4% at 8,361 GWh with lower business volume offset by higher residential volume

For Metering:

- We deployed and billed 93,000 advanced meters in Australia, and 18,000 in New Zealand, with volumes impacted by COVID-19
- Our advanced meter fleet now totals 1.98 million across New Zealand and Australia, with nearly 490k meters now installed in Australia
- We invested capex of $156.7m or 3.9% lower than the prior year
- Our 4G modem replacement programme is underway in New Zealand with around 200,000 completed to date

For Gas Trading:

- We saw a 7.4% decrease in 9kg LPG bottle swaps to 629,651 in the year
- LPG volumes were down 1.6% to 44,330 tonnes, with bulk volumes and cylinder volumes down slightly.

I'll now share some achievements in relation to our carbon emissions.

We achieved a 16.5% reduction in our carbon footprint, across Scope 1, 2, and 3, from our FY20 baseline.

We also developed a tool that helps us identify and prioritise areas we can focus on to reduce our carbon emissions. We call this a "carbon abatement cost curve". It sets out the causes of our carbon emissions, and what it would cost us, or save us, to remove those emissions, based on the other alternative which is to pay to offset them.

This important work led to two initiatives this year where we've adapted our business processes to save money and reduce emissions, while maintaining our service delivery standards.

One of these initiatives involves identifying electricity maintenance jobs that be completed using a transformer, instead of a diesel generator, to keep the power on for customers while we do the work. We ran a successful trial of this programme and are now operationalising it into our maintenance programmes.

The second initiative was around increasing the frequency of inspections on our gas network. By increasing the inspection frequency, we can identify and fix gas leaks more quickly. The carbon cost abatement curve was particularly important here in identifying the right balance between the cost of increasing the inspection frequency, against the higher cost of the gas leaks going undetected for longer.

This abatement curve will help us reach our science-aligned target of a 53.5% reduction in Scope 1 and 2 emissions by 2030.

We've also published our second TCFD report, which sets out our big picture view of where the risks and opportunities are for our portfolio of energy businesses, and our overall role in delivering clean, reliable and affordable energy solutions for customers. You will find this on our website.

I'll now talk about a few other highlights from the year.

Earlier this year we announced a strategic review of Vector's Metering business. This comes at a key time for the business, when we're on track with a major modem replacement programme in New Zealand to future proof the fleet, and the trajectory for the business is strong as smart metering has become a critical part of the transformation and digitalisation of the energy sector around the world. We expect to announce the outcome of the strategic review by the end of this calendar year.

Vector Technology Solutions continues to explore the commercial opportunities for digital solutions we have co-developed through our strategic alliance with Amazon Web Services and other global partners. We are already providing services to 5 electricity distribution businesses across New Zealand. We have several encouraging offshore leads, and more local opportunities to explore, and we're getting strong validation from customers that what we are offering helps them address their key challenges.

We're continuing our strategic collaboration with X, the moonshot factory (formerly Google X), which is developing technology and tools to enable the virtualisation of the energy system and assist in managing the complexities that will arise in both real time and longer term planning.

I'll now talk about some of challenges we're seeing in the regulatory landscape and how we're engaging with policy makers to find solutions.

The Commerce Commission is reviewing the Input Methodologies for the first time since 2016. These are the key regulatory rules that underpin the way energy networks are regulated, and the large-scale investment needed to enable decarbonisation. The key issues fall around incentives to invest, cashflow, the ability to finance, and how these align with shareholder expectations, and others such as credit rating agencies. This slide shown here gives you an idea of the scale of investment already underway. We are advocating that the review needs to focus squarely on the implications of the Government's decarbonisation goals for the energy sector, since these are not accounted for in the current regime. It's a critical time to ensure these settings are fit for purpose and properly support the transition to a net zero economy. We believe the review should be approached with a significantly higher level of engagement between the Commerce Commission and industry and we look forward to participating fully.

The Commerce Commission has also set the next Default Price Quality Path (DPP) for gas pipeline businesses for the four years commencing 1 October 2022. The new DPP allows for a moderate acceleration of asset depreciation. Our view is that this is a step in the right direction and is aligned with clear and consistent direction from government about the role of gas in New Zealand by 2050. We've been working constructively with the industry, Commerce Commission, the Gas Industry Company, and the government, both individually and as part of the Gas Infrastructure Group, to seek a transition plan that works for consumers, government and infrastructure owners, as well as recognising the option for renewable gas.

More broadly, the Government is looking to develop a National Energy Strategy. The current regulatory settings and structure of the industry has largely been the same for over 20 years.

This now has to be questioned as to whether it is appropriate for the future, given the challenges of decarbonisation, new technologies, and customer expectations, not having been considered in the past settings. We ask that policy makers consider the long-term interests of consumers in terms of an overall household "energy wallet" rather than just looking individually at the cost of electricity, or gas. In many instances, electrification may lead to overall savings for households. A good example is the potential for EVs to reduce household spending on petrol costs by more than they increase spending on electricity, including the network investment needed to meet new demand, which consumers pay through electricity bills.

We will actively engage with government as new policy is developed, as we believe we bring unique perspectives given our global alliances with leading technology companies as well as proven experience in trialling, analysing and operating new technology, how it impacts our ability to deliver customers' energy for their daily lives.

A final comment on regulatory matters, as Jonathan mentioned, we're pleased to have reached a settlement agreement with the Commerce Commission for historic breaches of network quality standards.

We're committed to complying with our regulatory quality limits and have put significant effort and investment over many years into ensuring the network is safe, reliable and resilient, while also flexible enough to meet the challenges of Auckland significant growth, and supporting major changes such as the electrification of transport.

We maintained high levels of work even over the last few years through COVID-19 lockdowns and other disruptions. I want to share some numbers from the last year to put this volume of work into perspective:

- We completed more than 500 complex customer-requested electricity connection projects, with an expenditure of $26.3 million.
- In addition, we also completed almost 4000 non-complex new connection requests, with expenditure of $86 million.
- We did 533,205 preventive maintenance activities, to maintain the reliability of the electricity network, and spent a total of $18.2 million
- For corrective maintenance, we spent $57.6 million.
- And for reactive maintenance, we spent $29.7 million, responding to 33,441 unplanned events.

All these numbers illustrate how we've maintained productivity despite COVID-19, and we're pleased to have seen full compliance with our regulatory quality limits in the two years since the breaches occurred.

In closing, I'll talk briefly about the year ahead.

Vector is well-positioned to enable decarbonisation, guided by our vision, which is to create a new energy future. Despite the challenges of climate change today, our Symphony strategy helps us seize the opportunities of a decarbonised future, by creating a decentralised energy system that opens future possibilities, delivering decarbonisation consistent with safe, reliable and affordable energy solutions for customers.

Our wider industry has never seen the level of change that is before us or the critical nature of getting this transition right. Collaboration across the industry, government and regulators is vital as is learning from our overseas counterparts. We will continue to participate fully and advocate for our customers.

We look forward to the next chapter for Vector Metering, with our work to date recognised by global organisations including AWS. We expect to announce an outcome by the end of the calendar year.
We intend to provide guidance to the market at our FY23 interim results.

I would like to thank Jonathan and the rest of the Board for their leadership and guidance over the past year, and of course thanks to all Vector staff, our service contractors and other partners.

Thank you.

ENDS

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About Vector
Vector is an innovative New Zealand energy company which runs a portfolio of businesses delivering energy and communication services to more than one million homes and commercial customers across Australasia and the Pacific. Vector is leading the country in creating a new energy future through its Symphony strategy which puts customers at the heart of the energy system. 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