26 August 2022

VECTOR ANNOUNCES FULL YEAR RESULTS

- ***Adjusted EBITDA of $510 million. This was down $3.5 million or 0.7% on last year's result.*** [1]
- ***Group net profit after tax of $160.9m***
- ***Results include a $40.2m non-cash goodwill impairment of Vector's LPG business, which 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***
- ***Final dividend of 8.5 cents per share imputed at 10.5%, taking the full-year partially imputed dividend to 16.75 cents per share***
- ***Total capital expenditure for the year was $545.9 million, an increase of $4.4 million or 0.8% on the prior year***
- ***Strategic review of Metering business ongoing, with smart metering a critical part of the transformation and digitalisation of the energy sector***

Vector Group (NZX: VCT) today announces a steady result for the full 2022 financial year.

Vector Chair Jonathan Mason said, "The Group has delivered a steady result for the 2022 financial year, against a backdrop of sustained supply chain and inflationary pressure, and constant evolution of the impacts from the Covid-19 pandemic.

"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, which 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

[1] EBITDA and Adjusted EBITDA are non-GAAP measures which the directors and management believe provide useful information as they are used internally to evaluate performance of business units, to establish operational goals and to allocate resources. See page 56 of the annual report for further details or click on this link to see Vector's policy

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.

“We’ve seen a number of significant policy developments announced this year that reflect the growing urgency around New Zealand’s response to climate change, with the release of New Zealand’s first Emissions Reduction Plan set to be fundamental to the energy transition. Given the challenges of climate change and decarbonisation, we are continuing to find solutions that deliver to customer needs and accommodate the extra demands on the energy system of a decarbonised future in the smartest possible way.

“The Board has determined that shareholders will receive a final dividend of 8.5 cents per share imputed at 10.5%[2]. This will have a record date of 12 September 2022 and payment date of 19 September 2022.

“We are pleased to announce that we are recommending to shareholders that Doug McKay be elected as a new director from October 1. Doug has an impressive governance and management experience and I am confident he will make a valuable contribution to Vector, if elected.”

Group Chief Executive Simon Mackenzie said, “We’ve seen the clearest signals yet that the new energy future Vector has been working towards for years, is becoming an imperative. Climate change, together with a heightened focus on affordability from the rising cost of living, point clearly to a future energy sector that must be very different from today’s. It is for us to continue to develop the solutions required to tackle climate change and ensure an

[2] Further information on imputation credits is available on our website under Industry Updates.

affordable decarbonisation, particularly at a time when people are grappling with the rising cost of living.

“The energy transition will increase the criticality of network businesses into the future as more and more reliance is placed on clean energy for transport, and other industries, in order to meet carbon reduction goals.

“While we’re meeting the challenges of today and working with Auckland stakeholders to enable and support the region’s growth, we’re also taking steps to transform the electricity network to support a future where consumers demand cleaner, more reliable, affordable energy. We’re working closely with policy makers and regulatory bodies to advocate for necessary changes, participating in sector forums, and driving the uptake of digitalisation with global partners, such as AWS and X, the moonshot factory (formerly Google X).

“We’re proud of achieving compliance within our key regulatory SAIDI and SAIFI limits. Achieving this has been the result of a significant, sustained effort and we are fully committed to retaining our focus on these key measures of performance for our electricity network customers. As always, and in particular through this pandemic, we thank our staff and our Field Service Providers for their dedication to serving our customers.

“In the wider context of helping ensure decarbonisation is affordable, policy makers should target the long-term interests of consumers at the level of an overall household “energy wallet” rather than separately considering electricity, or gas, pricing. In many instances, electrification may lead to overall savings for households, the largest being 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.

“The Commerce Commission is reviewing the Input Methodologies (IMs) or key regulatory rules that underpin the way energy networks are regulated for the first time since 2016. There are significant challenges to address in the regime given it was not designed for decarbonisation nor the level of network investment and innovation now being asked of networks in the face of electrification. Indexation continues to introduce the perennial challenge of inflation forecasting and back-ended cashflows which risk the financeability of needed and enabling infrastructure investment. Vector is advocating the review needs to focus squarely on the implications of the Government’s decarbonisation goals for the energy sector and be approached with a significantly higher level of engagement between the Commerce Commission and industry. This is because such a review comes at a critical time to ensure these settings are fit for purpose and properly support the transition to a net zero economy – all the while being completed ahead of the Government's 2024 Energy Strategy and 2023 Gas Transition Plan.

"Also this year, The Commerce Commission has 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.

"We're also laying the foundation for smart electric vehicle (EV) charging, as the numbers of EVs continues to rise, and the electrification of the wider transport fleet begins. We've concluded a two-year trial to find out how EV drivers impact electricity demand patterns and how we can manage that while keeping the costs of new infrastructure to a minimum This trial shows the benefits of looking at how to enable the energy transition from a number of different points of views, including customer experience, pricing, and network management and optimisation."

Electricity and gas networks

Adjusted EBITDA for our Regulated Networks was $355.8 million, up $5.1 million against the prior year. The increase in adjusted EBITDA was largely driven by higher electricity revenue due to the growth in connections and higher recovery of pass-through and recoverable costs. This is partially offset by lower gas distribution volumes and the prior year release of loss rental rebates (LRRs), which had been utilised to mitigate the impact of volume reductions on electricity distribution revenue as a result of Covid-19, as well as to offset against what would otherwise have been a larger price increase from 1 April 2021.

Revenue increased 8.3% to $831.5 million, due to higher pass-through, recoveries and connection growth, Loss Rental Rebates received and an increase in capital contributions, up 24.1% to $150.3 million. The increase in capital contributions reflects continued connection growth and a policy where we seek 100% contribution for electricity and gas connections. In addition, during the period we introduced a development charge, where new connections need to make a contribution towards the capital investment we make in the electricity infrastructure that supports overall network growth.

We added 13,538 new electricity connections in the year, down from 14,995 in the prior year. We also added 3,146 new gas connections, down from 3,844 a year earlier. Total electricity connections stood at 600,112, up 1.6% from 590,799 a year earlier. While total gas connections were 117,995, up 1.3% from 116,472 a year ago.

Both electricity and gas volumes have been impacted by Covid-19. Volumes transported across the electricity network increased 0.4% to 8,361 GWh from 8,325 GWh a year earlier with residential volumes higher partially offset by lower business volumes. Auckland gas distribution volumes were down 7.1% at 13.1 PJ from 14.1 PJ a year earlier.

Gross regulated capex increased by 4.7% to $331.9 million compared to $316.9 million a year earlier. Capex net of capital contributions was 7.3% lower than the prior year at $181.6 million. Capex continues to be at historically high levels due to investment to improve the reliability and resilience of our network as well as higher growth capex reflecting the continued growth in connections and infrastructure projects. This amount of investment equates to almost $1m per day, with a significant portion dedicated to building an electricity network that is ready for the demands of the future, and ensures Auckland has what it needs now to continue growing, and to support major changes to our transport and energy systems driven by decarbonisation.

Gas Trading

Gas Trading adjusted EBITDA was $21.9 million, down $5.5 million against the prior year total of $27.4 million. The result was mainly due to the impact of higher cost of LPG product, which has only been partially recovered through higher consumer prices. The higher cost is the result of higher Saudi Aramco contract price (CP) of LPG, higher ETS and a weaker NZ dollar all contributing to a higher cost of gas. These increasing costs have reduced the profitability of the LPG business and, along with the impact of the increase in discount rates as at 30 June 2022, resulted in us recognising a non-cash goodwill impairment of $40.2 million. The was partially offset by an improved performance from the natural gas business which where margins have benefitted from a tight gas market.

Bulk and cylinder sales were lower compared to the prior year. Total LPG sales were down 1.6% at 44,330 tonnes. Bottle Swap 9kg volumes were down 7.4% to 629,651 bottles from 680,099 a year earlier. This decline is partly attributable to the impact of Covid-19 as well as the loss of a major customer from December 2021. Liquigas LPG tolling volumes were up 10.3% to 112,913 tonnes from 102,351 tonnes a year earlier. Natural gas sales volumes were down 3.3 PJ to 5.3 PJ from 8.6 PJ in the prior period mainly due to the loss of a major customer from July 2021.

Metering

Adjusted EBITDA for Vector's metering segment grew $2.1 million (1.2%) to $173.7 million, as a result of continued growth in advanced meter deployments in New Zealand and Australia, offset by increased operating costs (shifted from capital expenditure) due to changes in accounting policy and additional one-off income received in the prior period.

Metering revenue increased 3.8% to $235.6 million from $227.0 million a year earlier driven by the increased deployment of advanced meters. We installed and billed 18,053 additional advanced meters in New Zealand and 93,334 additional advanced meters in Australia. The level of deployment in New Zealand and Australia has been disrupted by Covid-19 and some extreme weather events in NSW and Queensland. Our advanced meter base grew 6.5% to 1.98 million from 1.86 million the year before. We have now deployed nearly 490,000 advanced meters in Australia.

Total metering capex invested was 3.9% lower at $156.7m due to the lower level of advanced meter deployment in the period partially offset by increased expenditure for the 4G modem replacement programme.

A strategic review of Vector Metering is ongoing, to assess options for the next phase of growth for this successful business.

E-Co Products Group, Vector Powersmart and Vector Fibre

HRV and Powersmart have both had an interrupted year as a result of Covid-19. HRV experienced a decline in profitability due to a reduction in sales and installation activity due to Covid-19 restrictions. Staff shortages are a significant challenge for HRV.

Vector Powersmart has seen a change from projects in the Pacific to a large pipeline of opportunities in New Zealand as organisations look to build solar farms and install solar on their businesses.

Vector Fibre has delivered a solid performance over the year. High speed telecommunications services are critical to customers, and we see Vector Fibre as key to this opportunity as it leverages its fibre assets in the wholesale market.

ENDS

Vector's full year financial statements, annual report, Taskforce for Climate-related Financial Disclosures report, and Greenhouse Gas Emissions Inventory report, are available here: vector.co.nz/reports

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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