market release

25 February 2022

VECTOR ANNOUNCES HALF YEAR GROWTH

- ***Group net profit after tax of $115.5 million which was $13.4 million or 13.1% higher than the prior year.***
- ***Adjusted EBITDA of $263.6 million. This was down $10.2 million or 3.7% on last year's result.*** [1]
- ***Interim dividend 8.25 cents per share***
- ***Total capex in the first 6 months has been $266.4 million, an increase of $5.7 million or 2.2% on the prior period.***
- ***Continued investment in infrastructure to support Auckland's growth***
- ***Stock levels increased to counteract risks associated with global production shortages linked to Covid-19***
- ***Progress with AWS strategic alliance and X strategic collaboration***
- ***Two-year EV smart charging trial complete, demonstrating high levels of customer satisfaction and successful reduction in peak electricity demand***

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

Vector Chair Jonathan Mason said, "Despite the ongoing uncertainties and challenges that have arisen because of Covid-19, the Group has delivered a steady start to the 2022 financial year. Group net profit after tax was $115.5 million, which was $13.4 million or 13.1% higher than the prior year. The result was largely due to higher capital contributions, gain on sale of the 50% share of Treescape and lower interest cost, being partially offset by lower network and gas earnings and higher depreciation and amortisation.

[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 22 of the interim financial statements for further details or click on this link to see Vector's policy

“Total capital expenditure in the period has been $266.4 million, an increase of $5.7 million or 2.2% on the prior period. The increase reflected continued investment in infrastructure to support Auckland’s growth, rollout of 4G modem upgrades across the New Zealand advanced meter base, deployment of additional advanced meters in Australia and increasing stock levels to counteract risks associated with global production shortages linked to Covid-19.

“We are continuing our strategy of investing in infrastructure, and complementary innovative technologies, to deliver for our customers across the Group and unlock opportunities to help decarbonise our energy systems in ways that are equitable for consumers. I’m pleased with the progress we’ve made in this period.

“The Board has determined that shareholders will receive an interim dividend of 8.25 cents per share imputed at 10.5%[2].”

Group Chief Executive Simon Mackenzie said, “We’ve continued delivering against our objectives during the first half of our financial year, while also responding to evolving challenges from Covid-19. Throughout the changing Alert Levels and now the traffic light framework, we have maintained our focus on delivering essential services for our customers, and making progress against our Symphony strategy.

“We’ve completed our largest ever study of customer behaviour, with a two-year research project on smart electric vehicle charging that will help us plan for the electrification of transport. With high levels of customer satisfaction throughout the trial, the results are extremely pleasing, as they illustrate the benefit to customers and networks of smart technology that makes the most of existing infrastructure to help deliver affordable decarbonisation.

“Another highlight from the past six months has been our announcement of our strategic collaboration with X on network virtualisation and simulation technology, including the virtualisation of the electricity network in Auckland. These tools will help us, and other

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

transmission and distribution operators, simulate the likely impact of increasing solar and electric vehicles, and proactively invest and manage their networks to maintain a reliable and affordable energy supply.

“The strategic collaboration with X is part of our shared vision to reimagine the design, management, and operation of electricity networks; get ahead of increasing demands for clean energy; and transform the network in order to support decarbonisation. Together with continued progress in our strategic alliance with Amazon Web Services to build the New Energy Platform, these initiatives reflect strongly our strategy of looking for the best partners to work with from around the world to transform our energy systems.

“Regarding the recently released gas distribution draft DPP by the Commerce Commission (available to read here), we’re pleased the Commission has acknowledged the transition to a low carbon economy, and the need to balance the objectives of Government, customers, and gas asset owners around the use of natural gas within credible emission reduction pathways. This is especially critical in this next four-year DPP period for our ability to recover our investment, in order to lessen the risk of bigger price changes for gas customers further down the track.

“The Climate Change Commission’s final advice to government recognised the complexities of a transition away from the use of fossil gas, and we await decisions from the Government, now due in May, that will hopefully shed some light on the gas transition.

“We will continue to engage with the Commerce Commission, New Zealanders and the Government, as decisions are worked through on the best possible transition plan.”

Electricity and gas networks

Regulated adjusted EBITDA for the six months to 31 December 2021 was down $10.4 million (5.3%) to $185.5 million against the prior six month period. The decrease in adjusted EBITDA was largely driven by the prior year release of loss rental rebates (LRRs), which had been utilised to mitigate the impact of volume reductions on 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. The prior year impact of retaining the LRRs and lower gas volumes this year were partially offset by higher electricity revenue due to higher recovery of pass-through costs and connection growth.

Revenue increased 10.0% to $422.7 million, driven by the higher recovery of pass-through costs and an increase in capital contributions, up 42.1% to $71.9 million, reflecting continued connection growth and significant infrastructure development taking place across Auckland. We added 6,603 new electricity connections and 1,731 new gas connections. These were more modest increases than last year, which saw 7,777 new electricity connections and 2,027 for gas. Total electricity connections stood at 596,396, up 1.7% from 586,480 a year earlier, and total gas connections were 117,628, up 1.9% from 115,432 a year ago.

Both electricity and gas volumes have been impacted by Covid-19. Volumes transported across the electricity network fell 0.3% to 4,313 GWh from 4,324 GWh a year earlier, with lower business volumes being partially offset by higher residential volumes. Auckland gas distribution volumes were down 7.9% at 7.0 PJ from 7.6 PJ a year earlier.

In the first half of FY22, gross regulated capex increased by 3.8% to $163.1 million compared to $157.1 million a year earlier. Capex net of capital contributions was 14.4% lower than the prior year at $91.2 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.

Gas Trading

Adjusted EBITDA for the gas trading business was down 16.4% at $12.2 million from $14.6 million a year earlier. The result was mainly due to the impact of higher cost of LPG product, which has only been partially recovered through higher customer prices. The higher cost is the result of higher Saudi Aramco price of LPG, higher ETS prices and a stronger US dollar all contributing to a higher cost of gas. This has been partially offset by improved performance from the natural gas business.

The Ongas LPG business was also impacted by Covid-19 during the period, with Bottle Swap 9kg volumes down 5.1% to 356,098 bottles from 375,271 a year earlier. LPG sales were mixed, with bulk volumes higher and cylinder volumes lower. Overall LPG sales were up 6.2% at 25,240 tonnes. Liquigas LPG tolling volumes were down 1.4% to 54,489 tonnes from 55,239 tonnes a year earlier.

Natural gas sales volumes were down 2.1 PJ to 2.9 PJ from 5.0 PJ in the prior period mainly due to the loss of a major customer from June 2021.

Metering

Adjusted EBITDA for the Metering segment was $86.0 million, up $2.9 million or 3.5% from a year earlier with gains coming from the continued rollout of advanced meters, particularly in Australia.

Metering revenue increased 6.1% to $116.5 million from $109.8 million a year earlier driven by the increased deployment of advanced meters.

In the six months to 31 December 2021 we have installed 10,273 additional advanced meters in New Zealand and 50,481 additional advanced meters in Australia. Our advanced meter base grew 7.9% to 1.93 million from 1.78 million the year before. We have now deployed over 447,000 advanced meters in Australia.

In the first half, metering capex increased by 3.3% to $84.5 million with the high level of spend reflecting the continued deployment of new advanced meters in Australia, 4G modem replacement program, roll out of advanced gas meters and an increase in stock levels to help mitigate supply concerns.

Progress continues on building the New Energy Platform, a next-generation metering information platform, through our strategic alliance with AWS.

E-Co Products Group, Vector Powersmart and Vector Fibre

HRV has had an interrupted start to the year as a result of Covid-19 but, since the lifting of Alert Level restrictions and transition to a traffic light framework, HRV has seen an increase in activity and is now well positioned for the remainder of the year

Vector Powersmart continues to be impacted by Covid-19 and has been unable to access some key projects in the Pacific islands. The focus for this business has been on improving the pipeline of activities within New Zealand.

Vector Fibre has had a steady start to the year.

FY22 Guidance

Based on this half year result, we expect FY22 adjusted EBITDA to be in the range of $505-515 million provided there is no further significant impact of Covid-19 on economic activity, such as extended or frequent lockdowns, and supply chain disruptions, and that impacts on our workforce from isolation requirements are managed.

ENDS

Vector's interim financial statements 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