

FULL YEAR ENDED 30 JUNE 2019

FINANCIAL & OPERATIONAL RESULTS

23 August 2019

Disclaimer

This presentation contains forward-looking statements.

Forward-looking statements often include words such as “anticipates”, “estimates”, “expects”, “intends”, “plans”, “believes” and similar words in connection with discussions of future operating or financial performance.

The forward-looking statements are based on management's and directors' current expectations and assumptions regarding Vector's businesses and performance, the economy and other future conditions, circumstances and results.

As with any projection or forecast, forward-looking statements are inherently susceptible to uncertainty and changes in circumstances. Vector's actual results may vary materially from those expressed or implied in its forward-looking statements.

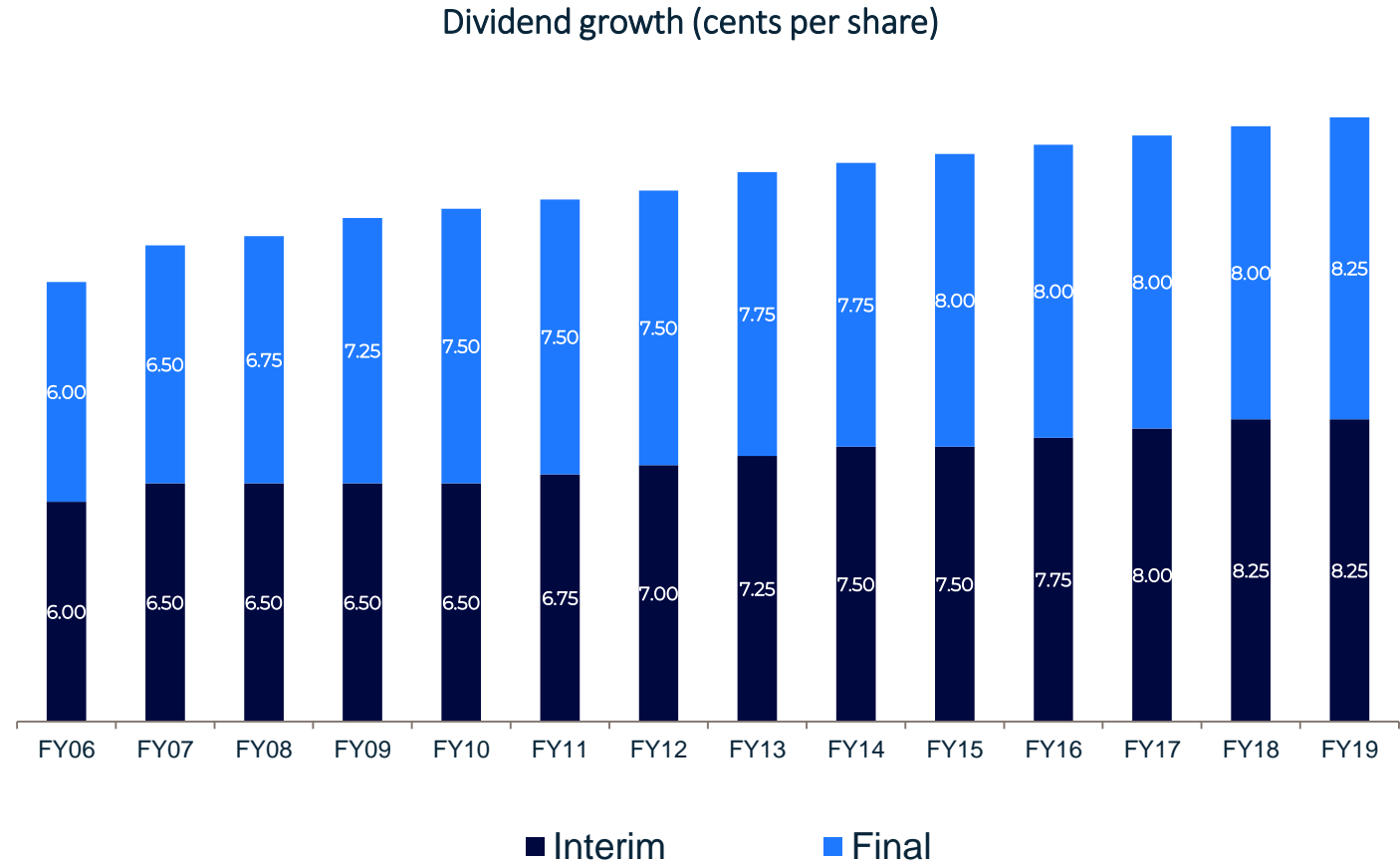
Agenda

- Dividend
- FY2019 Business Insights
- Financial Performance
- Segment Performance
- Outlook
- Q&A

DIVIDEND

Full year dividend growth

- Full year dividend of 16.50 cents per share
 - Up 0.25 cents per share on prior year
 - Fully imputed
- Dividend policy to be reviewed once parameters for 2020 electricity reset are confirmed
- Electricity network revenues from 1 April 2020 to 31 March 2025 (DPP3) will be known by December 2019
- We will provide dividend and FY20 adjusted EBITDA guidance following the final DPP3 decision



FY2019 BUSINESS INSIGHTS



FY19 Business insights

Network growth



- 14,322 new electricity and gas connections, c50% higher than 5 years ago
- Electricity volumes down 0.4% to 8,410 GWh with C&I volumes lower but residential volumes higher
- Invested a further \$261m of capital expenditure in our networks – or \$5m every week

Metering growth



- Deployed 57k advanced meters in NZ
- Deployed 96k advanced meters in Australia
- Smart meter fleet totals 1.6m across NZ and Australia
- Acquisition of Vircom augments nationwide service capability in NZ

Challenging environment for Gas Trading



- Continued natural gas supply constraints due to field outages
- Kapuni field production up 8.5%
- New LPG 9kg Bottle Swap plant generating cost efficiencies
- Bottle Swap plant won 'Health and Safety Initiative of the year' at Deloitte Energy Excellence Awards

New energy solutions



- HRV combining with PowerSmart to form 'Vector PowerSmart'
- 600kW renewable energy system installed in Niue
- More than 96,000 rapid EV charging sessions on Vector owned charging stations

Continued business leadership



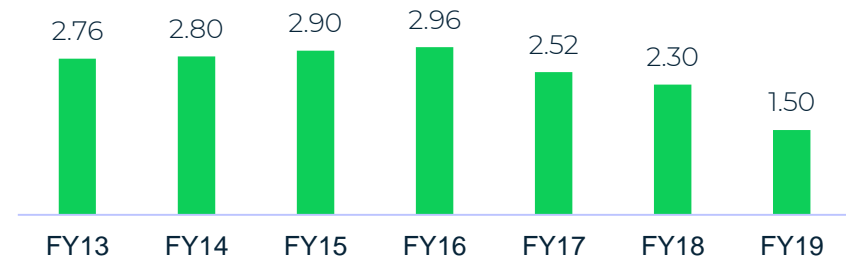
Urban
Forest
Initiative

- LTIFR reduced by 35%
- TRIFR reduced by 40%
- 31,000 native trees planted through Urban Forest initiative over past year
- Vector EV charging stations have saved more than 1,183 tonnes of CO₂ emissions from entering the environment (compared to petrol powered vehicles)
- Convened Battery Industry Group to address end-of-life battery issues
- 17% reduction in carbon intensity
- First NZ business to gain Accessibility Tick



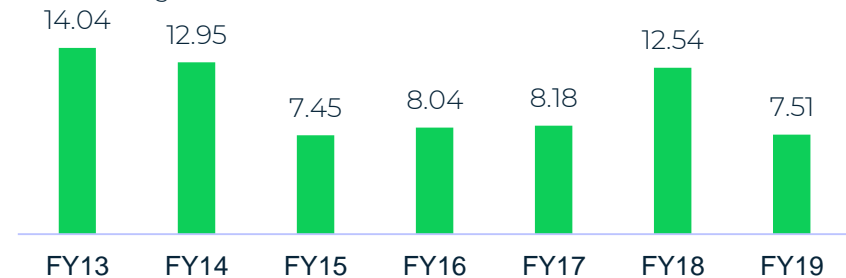
Total Lost Time Injury Frequency Rate (LTIFR)

Number of lost time injury incidents per million hours worked, including contractors



Total Recordable Injury Frequency Rate (TRIFR)

Number of recordable cases per million hours worked, including contractors

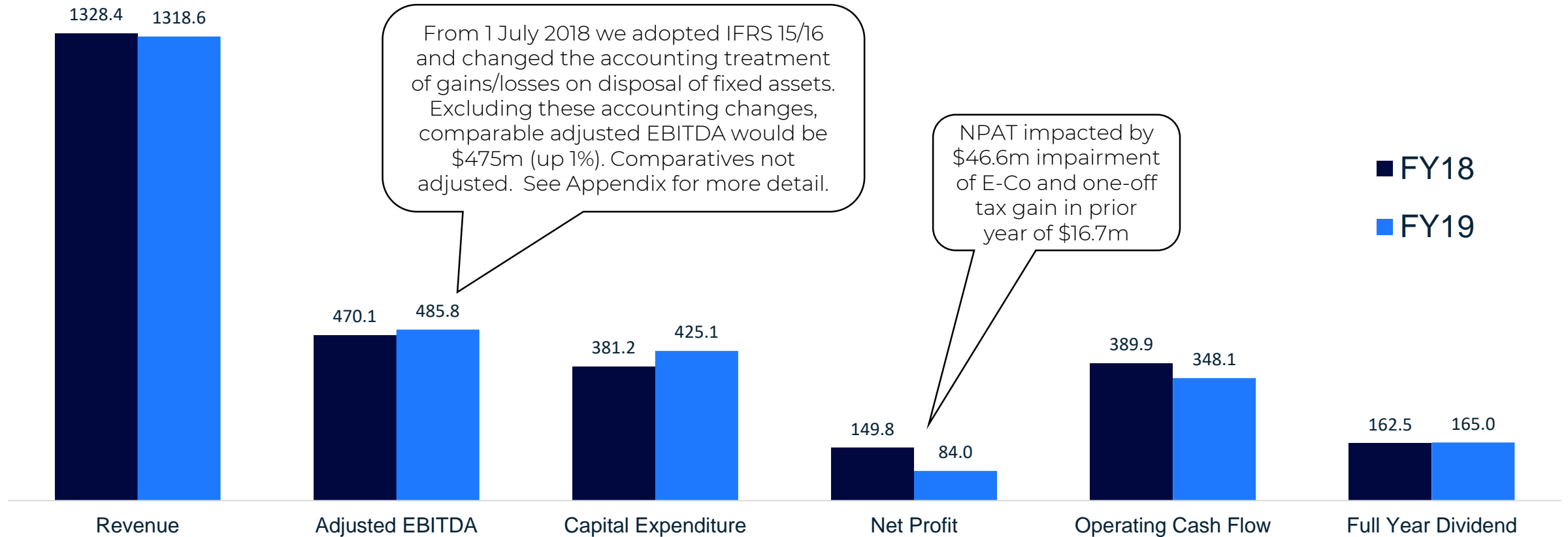


Committed to Accessibility

FINANCIAL PERFORMANCE

Overview of financial performance

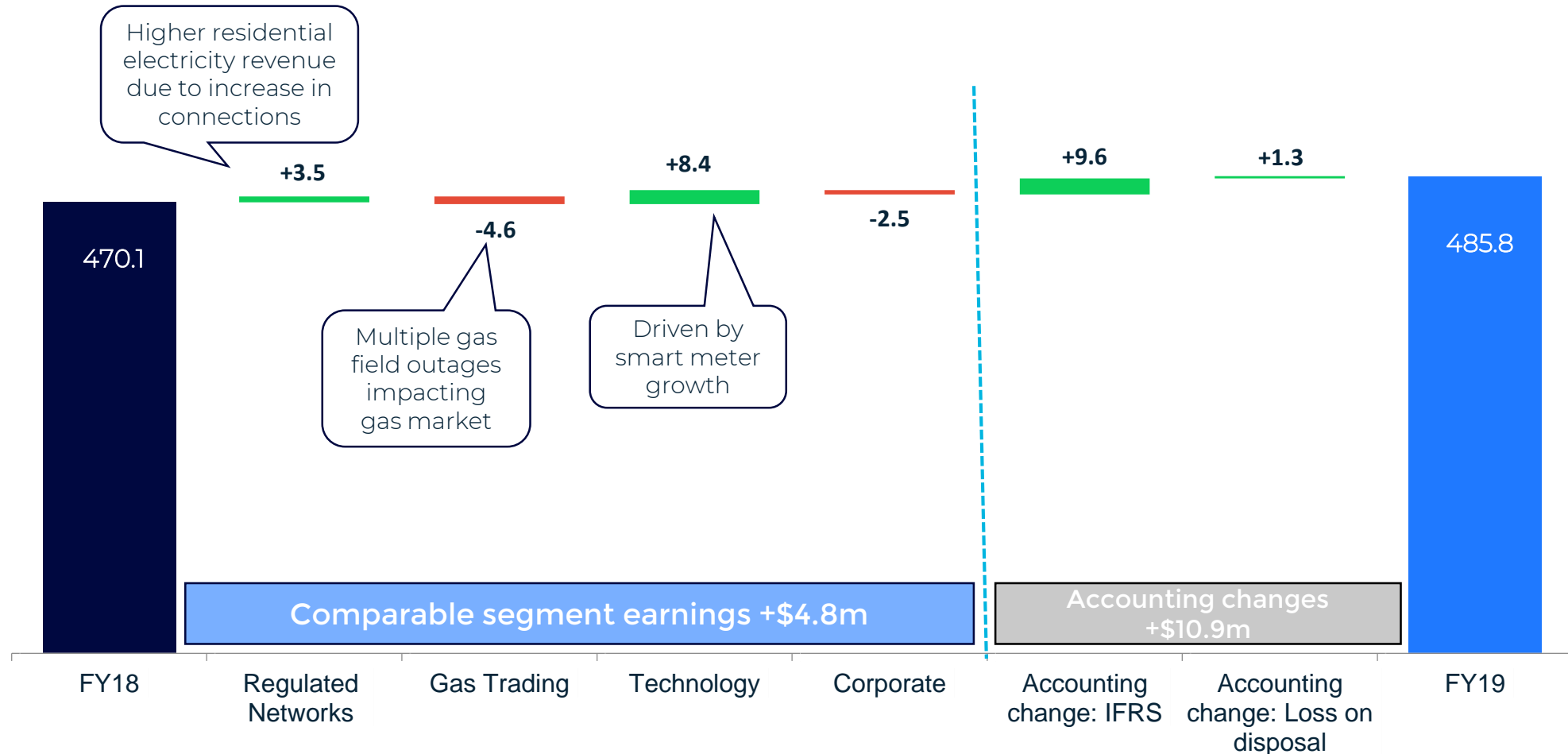
FY19 FINANCIAL PERFORMANCE (\$M)



Adjusted EBITDA is not a GAAP measure of profit. For a reconciliation of adjusted EBITDA to EBITDA and net profit refer to page 31 of this presentation.

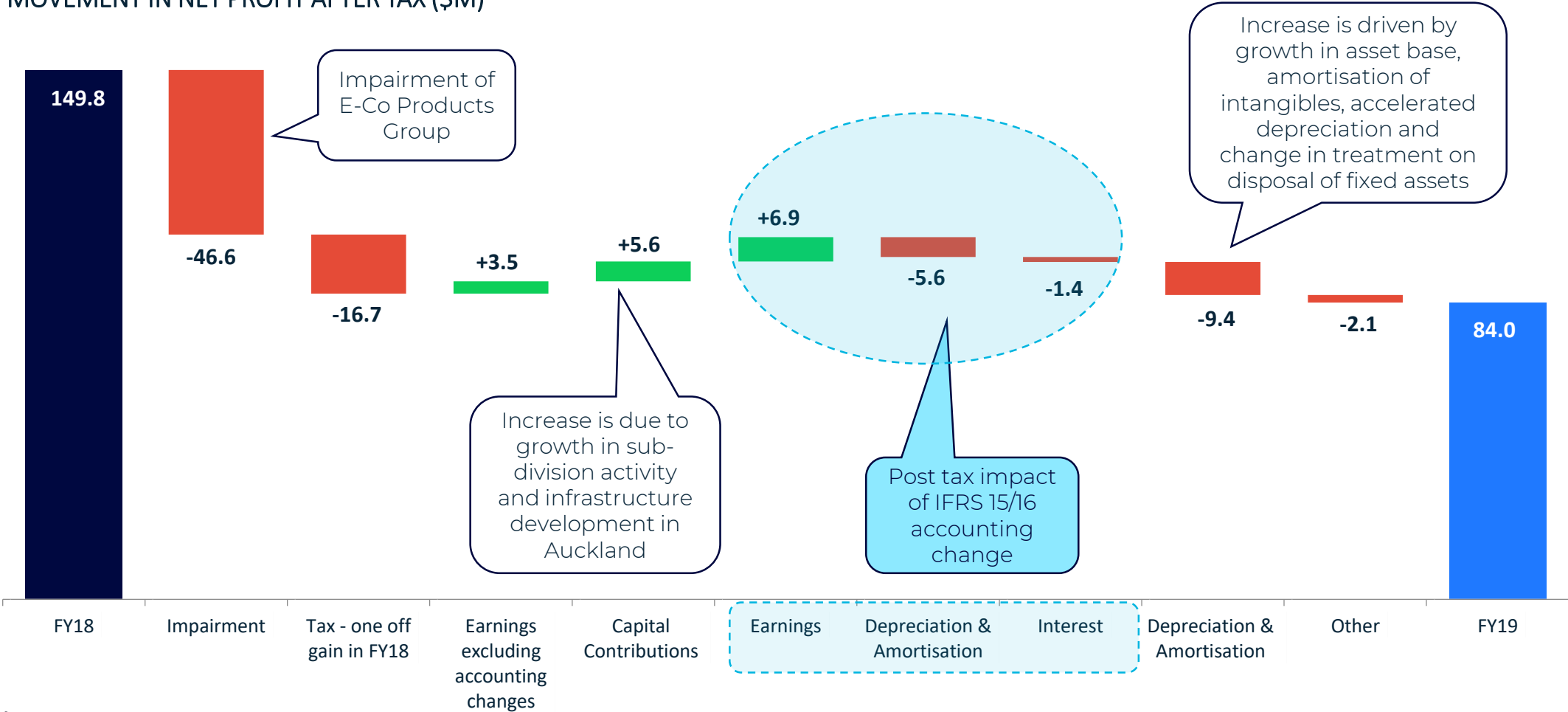
Comparable segment earnings up \$4.8m or 1.0%

FY19 ADJUSTED EBITDA MOVEMENT (\$M)



NPAT impacted by impairment, one-off tax gain in prior year and higher depreciation and amortisation

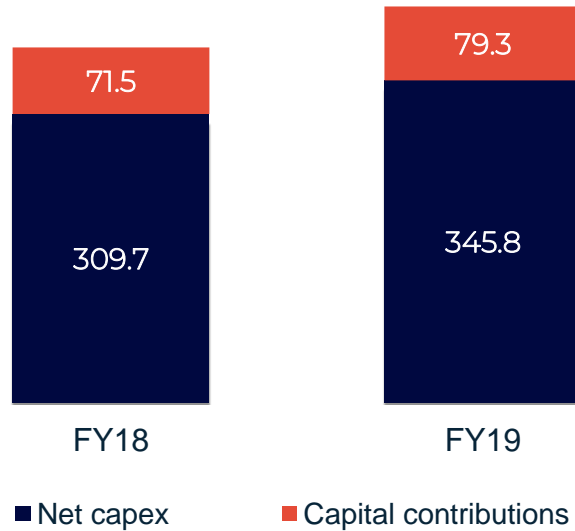
MOVEMENT IN NET PROFIT AFTER TAX (\$M)



All items above are net of tax (except impairment and one off tax gain).
 "Other" includes associates, interest (other than IFRS 16) and fair value change on financial instruments
 The impact of the IFRS 15/16 accounting change is shown in more detail on slide 30

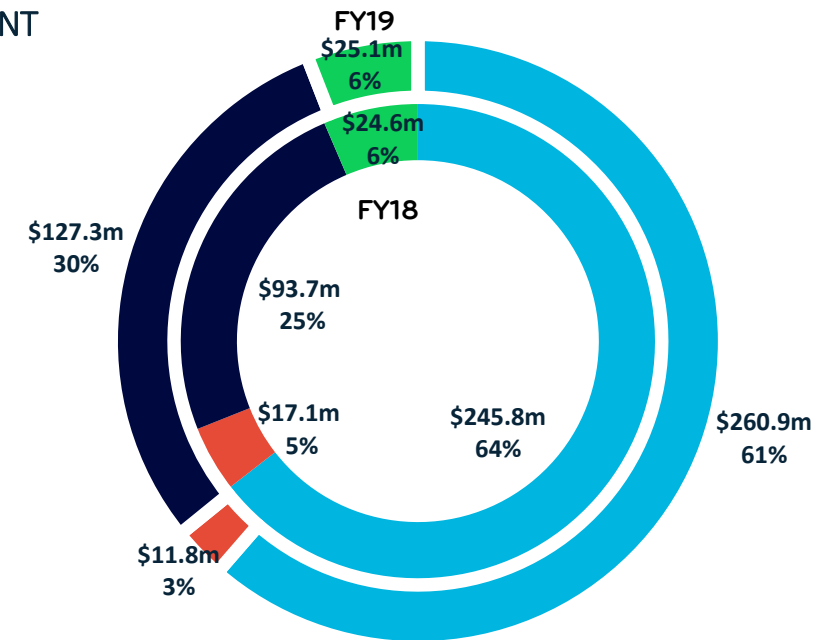
Capex driven by Auckland growth & meter deployment in Australia

GROSS CAPITAL EXPENDITURE (\$m)



GROSS CAPEX BY SEGMENT

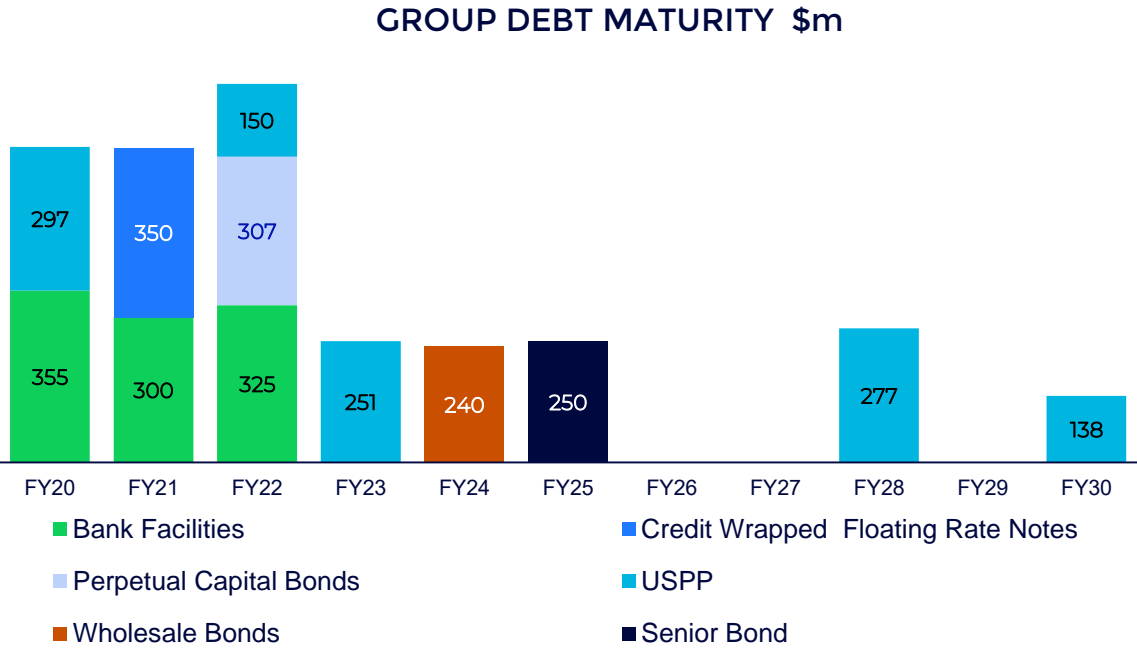
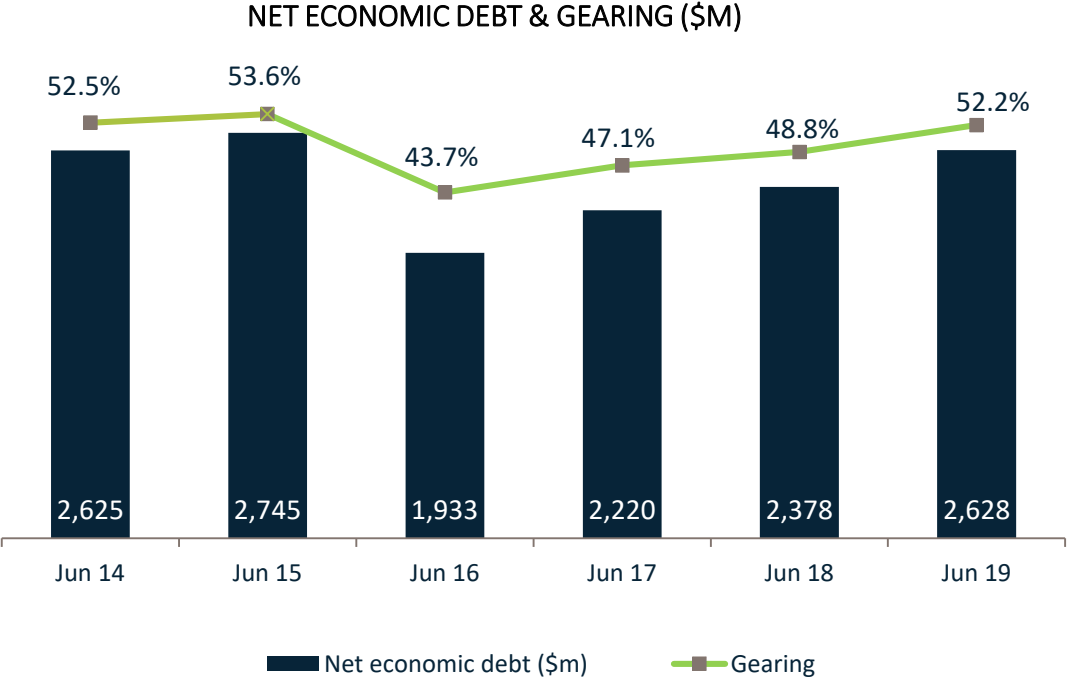
- Regulated Networks
- Gas Trading
- Technology
- Corporate



- Gross capex up 11.5% to \$425.1m. Net capex (after deducting contributions) up 11.7% to \$345.8m
- Growth capex up 9.3% to \$250.6m. Replacement capex up 14.9% to \$174.5m
- Technology capex up 35.9% with growth driven by smart meter deployment in Australia where we deployed almost 96,000 meters in FY19



Strong balance sheet



- Economic gearing as at 30 June 2019 at 52.2%
- Issued a NZ\$250 million senior bond in May 2019 at a rate of 3.45%
- BBB credit rating by Standard and Poor's

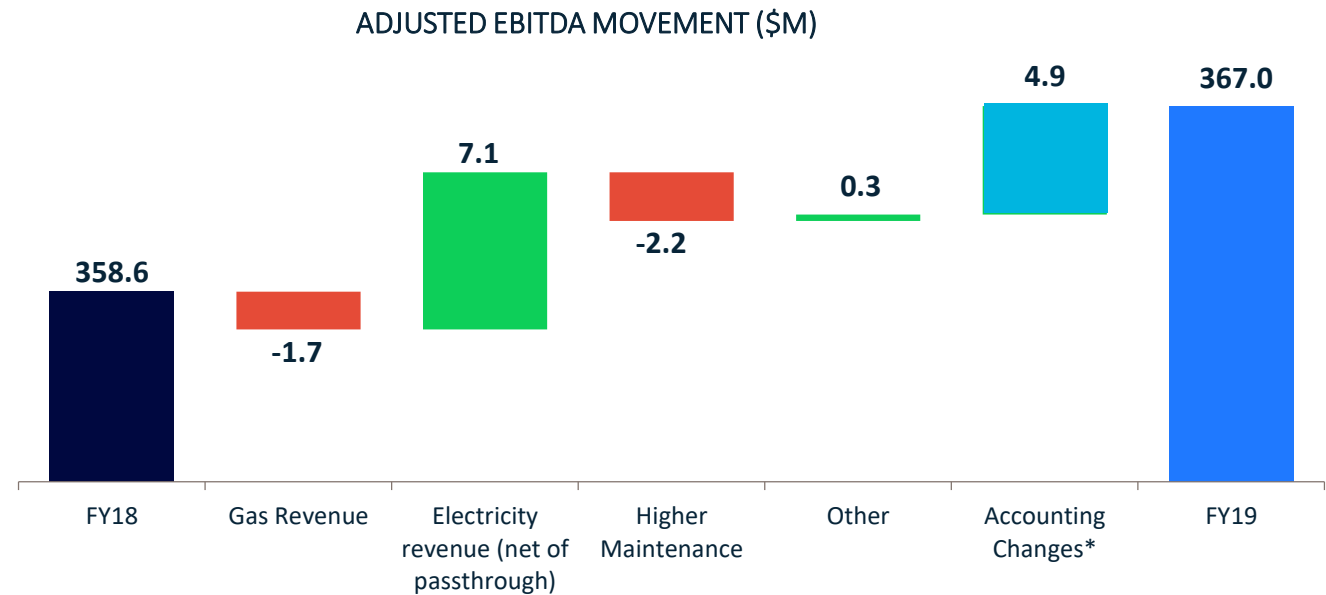


SEGMENT PERFORMANCE



Network earnings benefit from higher electricity revenue

- Revenue growth coming from residential sector driven by ongoing connection growth and average household consumption, which appears to have stabilised after a decade of decline once normalised for weather
- Revenue would be higher if not for:
 - Settlement with Commission for LUFC adjustment
 - Missing regulatory incentive targets reducing revenue by c\$4m pa from 1 April 2018
 - Regulatory forecast inaccuracies
- Gas volumes down slightly at 14.4 PJ from 14.5 PJ a year earlier. Gas revenue impacted by full year of regulatory price reset of -14% from 1 October 2017
- Increase in maintenance focused on improving network reliability and reducing SAIDI



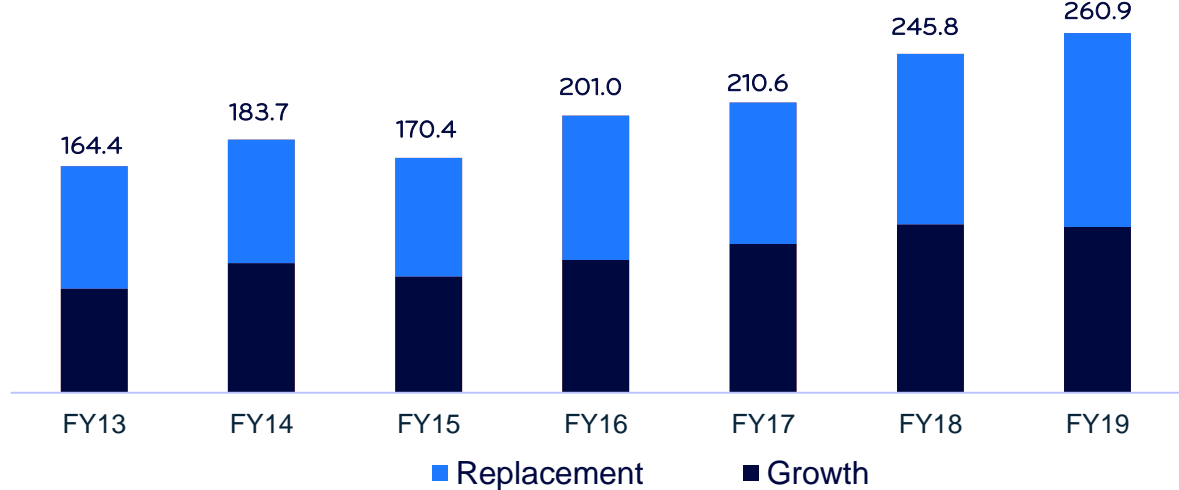
* Adoption of IFRS 15/16 from 1 July 2018. Impact for FY19 is \$2.5m. In addition, the prior year included a loss on disposal of (\$2.4m) as part of operating expenses. In the current period, gains/losses on disposal of fixed assets have been classified to depreciation with a loss of (\$2.1m) recorded in the period. Comparatives for both changes have not been restated.

Regulated capex higher due to continued Auckland growth and higher replacement capex

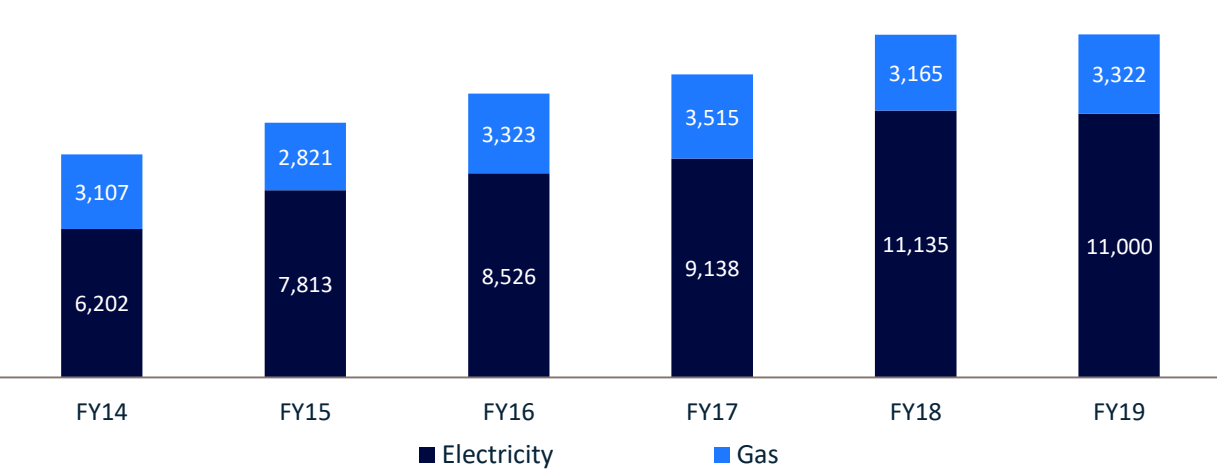
- Regulated capex up 6.1% to \$260.9m
- Higher capex driven by investment to improve safety, reliability and resilience of our network and to support Auckland growth
- Capital contributions up 12.5% to \$79.0m driven by Auckland infrastructure development and increase in subdivision activity
- Electricity Regulated Asset Base (RAB) as at 31 March is c\$3.1b. Gas RAB is c\$420m
- New connections for FY19 up slightly to 14,322
 - 571,125 total electricity connections (up 1.4%)
 - 111,642 total gas connections (up 2.2%)
 - New connections remain circa 50% higher than 5 years ago



REGULATED NETWORK CAPEX \$M



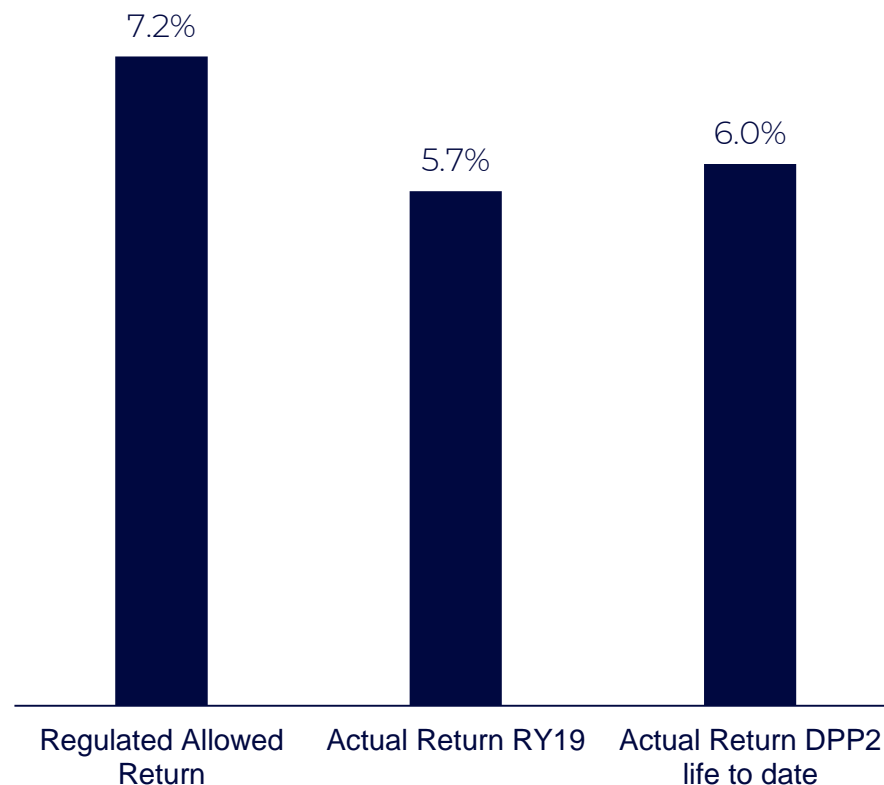
NEW CONNECTIONS



Electricity default price path reset (DPP3)

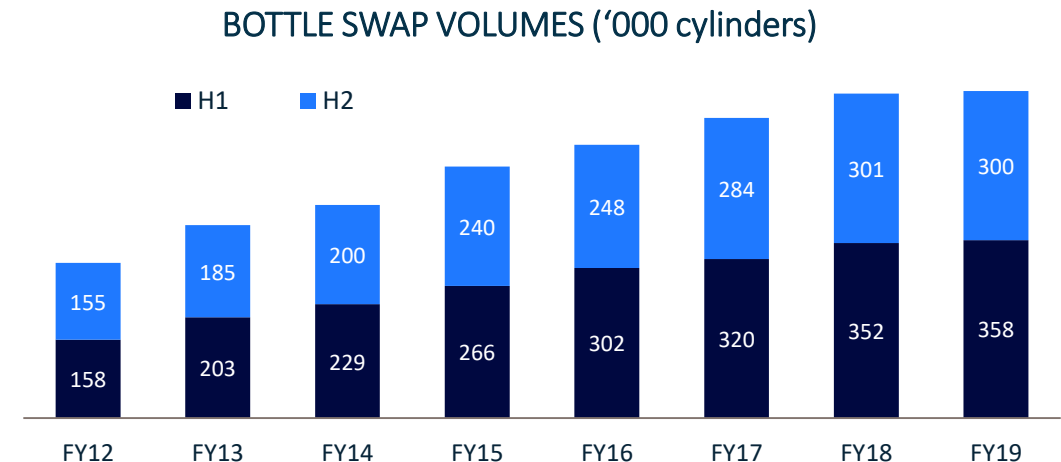
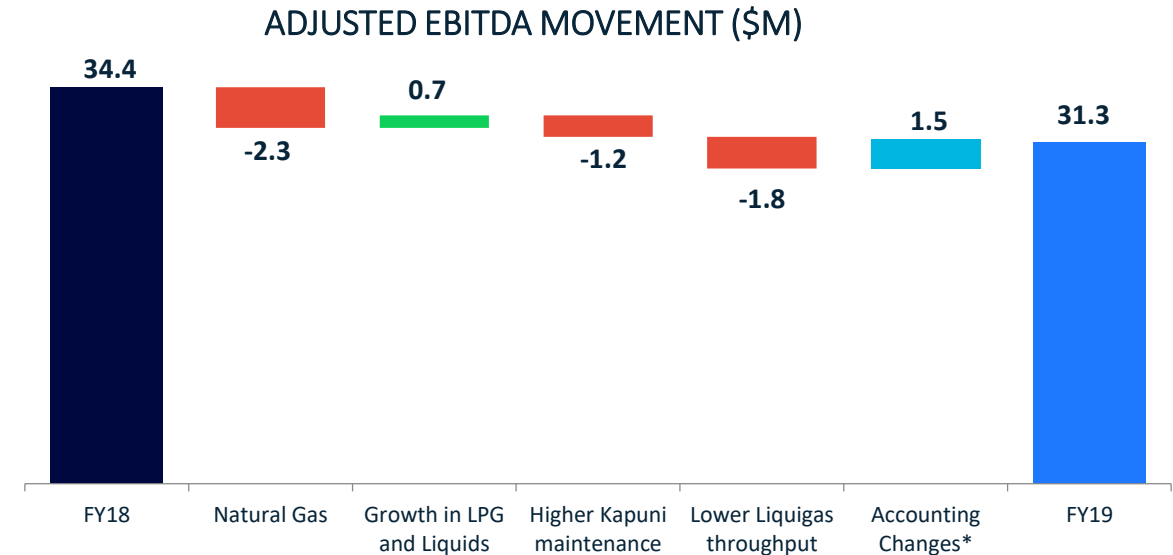
- Next DPP (DPP3) in place from 1 April 2020 to 31 March 2025
- The WACC will be based on an average of the risk free rate over the period 1 June 2019 to 31 August 2019
- The draft DPP3 released by the Commission on 29 May 2019 indicated a price change (from RY20 to RY21) of -3.5%
 - Key parameters of the reset still to be determined
- Expected return over DPP2 was 7.2% but have been earning 6.0% due to a number of issues including:
 - CPI has been lower than 2% assumption used by the Commission
 - Revenues were set on the basis that volume growth would be 1.1%pa but actual volume growth has been less
- Since 2013, regulatory forecasting inaccuracies have translated to around \$270m of lost revenue
- As we move from DPP2 to DPP3, the downward price reset as a result of the lower WACC will be less than implied by the WACC change as we are already earning less than the allowable return
- We are engaging with the Commission on this reset and on a number of issues given the significant growth in Auckland, cash flow profile and risk free rates

Electricity Returns for DPP2



Gas Trading performance weighed down by challenging market conditions

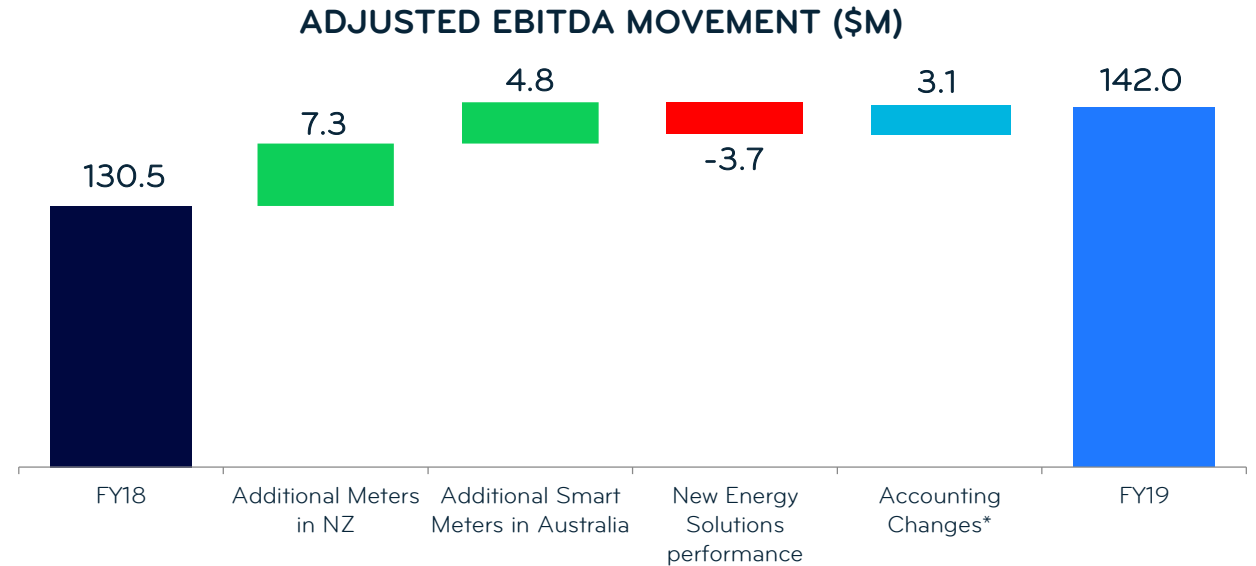
- Challenging market conditions for Natural Gas business
 - Natural gas volumes fell 12.0% to 16.1 PJ
 - Planned and unplanned gas field outages reduced supply
- Solid performance in Liquids & LPG
 - Gas liquid sales up 1.9% to 79,170 tonnes
 - Bottle Swap growth slowing (volumes up 0.8% on prior period) but we are now benefitting from cost efficiencies at the new plant
- Liquigas tolling volumes were down 17.1% to 152,206 tonnes due to lack of exports
- Additional cyclical maintenance requirements at Kapuni Gas Treatment Plant



* Adoption of IFRS 15/16 from 1 July 2018. Impact for FY20 is \$1.4m. In addition, the prior year included a loss on disposal of (\$0.1m) as part of operating expenses. In the current period, gains/losses on disposal of fixed assets have been classified to depreciation with a small gain of \$0.03m recorded in the period. Comparatives for both changes have not been restated.

Technology result driven by smart meter rollout

- Smart meter fleet now 1.56 million (owned & managed)
 - Deployed nearly 96,000 smart meters in Australia, in line with expectations
 - NZ smart meter base increased by almost 57,000 (net of replacements)
 - Vircom acquired in September 2018
- HRV now combined with PowerSmart to form Vector PowerSmart
 - Vector PowerSmart to develop solutions to meet the needs of the new energy future and growing electrification of transport
 - HRV will focus on ventilation, heating and air-conditioning
 - PowerSmart led the way with a number of large scale Commercial solar and battery installations during the year including project on Niue



* Adoption of IFRS 15/16 from 1 July 2018. Impact for FY19 is \$4.3m. In addition, the prior year included a gain on disposal of \$1.2m as part of operating expenses. In the current period, gains/losses on disposal of fixed assets have been classified to depreciation with a loss of (\$1.5m) recorded in the period. Comparatives for both changes have not been restated.

OUTLOOK

Outlook

- Auckland growth continues
 - Targeting c12,000 new electricity connections in FY20
 - Connections & infrastructure activity remain elevated, necessitating significant capital expenditure
- Smart meter deployment to increase in FY20
 - Targeting 135k smart meters in Australia and 60k in New Zealand
- Impact of 2020 electricity reset will be known by the end of November 2019. FY20 guidance on hold until then
 - Regulatory WACC for DPP3 effectively known by 31 August 2019
 - Final decision on electricity allowances and quality targets on 28 November
- Dividend policy to be reviewed once parameters for 2020 electricity reset are confirmed

Q&A

ANY QUESTIONS?



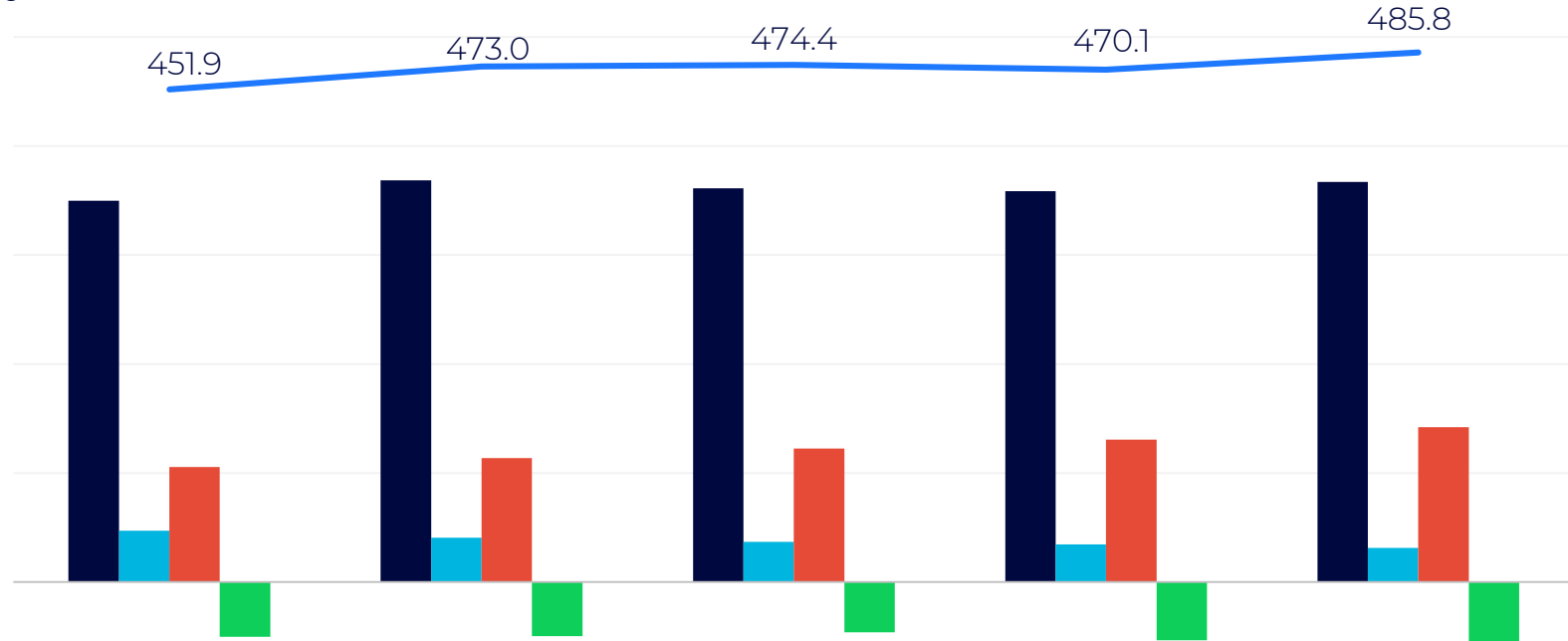
APPENDICES

5 Year Adjusted EBITDA Performance by Segment

Adjusted EBITDA (Continuing Operations Only)

\$million

For the year ended 30 June



	FY2015	FY2016	FY2017	FY2018	FY2019
Regulated Networks	349.7	368.5	361.2	358.6	367.0
Gas Trading	46.9	40.6	36.9	34.4	31.3
Technology	105.5	113.5	122.5	130.5	142.0
Corporate	(50.2)	(49.6)	(46.2)	(53.4)	(54.5)
Total Group	451.9	473.0	474.4	470.1	485.8



Segment Results

Year ended 30 June (\$m)

	REGULATED NETWORKS			TECHNOLOGY			GAS TRADING			CORPORATE		
	2019	2018	Change %	2019	2018	Change %	2019	2018	Change %	2019	2018	Change %
Revenue excluding Capital Contributions	690.1	706.0	-2.3	274.5	272.3	+0.8	284.1	290.3	-2.1	0.4	0.9	-55.6
Operating expenditure	(323.1)	(347.4)	+7.0	(132.5)	(141.8)	+6.6	(252.8)	(255.9)	+1.2	(54.9)*	(54.3)	-1.1
Segment Adjusted EBITDA	367.0	358.6	+2.3	142.0	130.5	+8.8	31.3	34.4	-9.0	(54.5)	(53.4)	-2.1
CAPEX												
Replacement	140.6	123.8	+13.6	14.8	11.3	+31.0	5.9	6.1	-3.3	13.2	10.7	+23.4
Growth	120.3	122.0	-1.4	112.5	82.4	+36.5	5.9	11.0	-46.4	11.9	13.9	-14.4
Total capex	260.9	245.8	+6.1	127.3	93.7	+35.9	11.8	17.1	-31.0	25.1	24.6	+2.0



* Corporate includes a group elimination of (\$0.1m) in relation to margin earned by the Technology segment in the delivery of solutions to the Regulated Networks.

Group Profit Statement

Year ended 30 June (\$m)

INCOME STATEMENT	2019 \$m	2018 \$m	Change %
Revenue (excluding capital contributions)	1,239.3	1,256.9	-1.4
Operating expenditure	(753.5)	(786.8)	+4.2
Adjusted EBITDA	485.8	470.1	+3.3
Capital Contributions	79.3	71.5	+10.9
Depreciation and amortisation	(246.8)	(225.9)	-9.3
Net interest costs	(133.3)	(130.7)	-2.0
Fair value change on financial instruments	(2.5)	3.1	-180.6
Associates (share of net profit/(loss))	0.6	(1.5)	+140.0
Impairment	(46.6)	-	n/a
Tax	(52.5)	(36.8)	-42.7
Net profit for the period	84.0	149.8	-43.9

Group Cash Flow

Year ended 30 June (\$m)

CASH FLOW	2019 \$m	2018 \$m
Operating cash flow	348.1	389.9
Replacement capex	(170.1)	(152.7)
Dividends paid	(164.1)	(163.9)
Cash available for growth and debt repayment	13.9	73.3
Growth capex	(248.3)	(234.1)
Acquisitions	(8.0)	(3.1)
Proceeds from sale of investments	-	7.8
Other investment activities	(1.0)	(13.6)
Pre debt financing cash (outflow)/inflow	(243.4)	(169.7)
Increase/(decrease) in borrowings	249.4	170.8
Other financing activities	(6.3)	11.9
Increase/(decrease) in cash	(0.3)	13.0

Segment Adjusted EBITDA

SEGMENT ADJUSTED EBITDA (\$m)	2019			2018		
	Reported segment EBITDA	less capital contributions	Segment adjusted EBITDA	Reported segment EBITDA	less capital contributions	Segment adjusted EBITDA
Year ended 30 June						
Technology	142.3	(0.3)	142.0	131.8	(1.3)	130.5
Gas Trading	31.3	-	31.3	34.4	-	34.4
Unregulated Segments	173.6	(0.3)	173.3	166.2	(1.3)	164.9
Regulated Networks	446.0	(79.0)	367.0	428.8	(70.2)	358.6
Corporate	(54.5)	-	(54.5)	(53.4)	-	(53.4)
TOTAL	565.1	(79.3)	485.8	541.6	(71.5)	470.1

Impact of Accounting Changes in FY19

Segment	(A) Prior year reported FY18 Segment Adjusted EBITDA	(B) Change 1: Impact of adoption of IFRS 15/16	(C) Change 2: FY18 gain/(loss) on disposal of fixed assets	(D)= (B) + (C) Total Impact of changes on comparables	(E) FY19 Segment adjusted EBITDA post accounting changes	(F) = (E) – (D) Comparable ¹ Segment adjusted EBITDA FY19	Note: Re- Classification of FY19 gains/losses on disposal to Depreciation
Regulated Networks	358.6	2.5	2.4	4.9	367.0	362.1	2.1
Gas Trading	34.4	1.4	0.1	1.5	31.3	29.8	(0.0)
Technology	130.5	4.3	(1.2)	3.1	142.0	138.9	1.5
Corporate	(53.4)	1.4	0.0	1.4	(54.5)	(55.9)	0.0
Adjusted EBITDA	470.1	9.6	1.3	10.9	485.8	474.9	3.6
Depreciation and Amortisation		(7.8)					(3.6)
Finance Cost		(2.0)					

- Change 1:** From 1 July 2018, Vector has adopted two new accounting standards (IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases). Of the two accounting standards, IFRS 16 poses the most significant financial impact in both the balance sheet and the profit and loss. IFRS 16 requires that the present value of the outstanding liability for leases is calculated using Vector's incremental borrowing rate at the date of transition. The right of use asset is then recognised and measured at a value equalling the lease liability, adjusted for lease incentives recorded on the balance sheet. Under the modified retrospective approach, the FY18 comparatives are not restated. The impact on the profit and loss statement is a reduction in the amount of operating expense reported, offset by an increase in depreciation and interest. The impact for the year ending 30 June 2019 is a reduction to operating expense of \$8.4m and an increase to depreciation of \$7.8m and interest cost of \$2.0m. The impact of IFRS 15 is an increase to revenue of \$1.2m
- Change 2:** Vector has also reassessed the presentation of gains and losses on disposal of fixed assets within our statement of profit and loss. Historically, disposal gains and losses have been included within 'Operating Expenses'. Disposal gains/losses are also included within the group's non-GAAP profit measures of EBITDA and adjusted EBITDA. From 1 July 2018 we have included disposal gains and losses with depreciation and amortisation. In the year ending 30 June 2019, \$3.6 million has been reclassified from Operating Expenses to Depreciation and Amortisation. The FY18 comparatives are not restated. Prior year comparative value was \$1.3m.



¹Comparable segment adjusted EBITDA excludes the impact of the two accounting changes

GAAP to Non-GAAP Reconciliation

Vector's standard profit measure prepared under New Zealand GAAP is net profit. Vector has used non-GAAP profit measures when discussing financial performance in this document. The directors and management believe that these measures provide useful information as they are used internally to evaluate performance of business units, to establish operational goals and to allocate resources. For a more comprehensive discussion on the use of non-GAAP profit measures, please refer to the policy 'Reporting non-GAAP profit measures' available on our website (vector.co.nz).

Non-GAAP profit measures are not prepared in accordance with NZ IFRS (New Zealand International Financial Reporting Standards) and are not uniformly defined, therefore the non-GAAP profit measures reported in this document may not be comparable with those that other companies report and should not be viewed in isolation or considered as a substitute for measures reported by Vector in accordance with NZ IFRS.

Definitions

EBITDA

Earnings before interest, taxation, depreciation and amortisation from continuing operations.

Adjusted EBITDA

EBITDA from continuing operations adjusted for fair value changes, capital contributions, associates, impairments and significant one-off gains, losses, revenues and/or expenses.

GAAP to Non-GAAP reconciliation EBITDA and Adjusted EBITDA		
Year ended 30 June	2019 \$M	2018 \$M
Reported net profit for the period (GAAP)	84.0	149.8
Add back: net interest costs ¹	133.3	130.7
Add back: tax (benefit)/expense ¹	52.5	36.8
Add back: depreciation and amortisation ¹	246.8	225.9
EBITDA	516.6	543.2
<i>Adjusted for:</i>		
Associates (share of net (profit)/loss) ¹	(0.6)	1.5
Capital Contributions ¹	(79.3)	(71.5)
Fair value change on financial instruments ¹	2.5	(3.1)
Impairment ¹	46.6	-
Adjusted EBITDA	485.8	470.1

¹ Extracted from audited financial statements

END