

Interim **Financial Statements**

FOR THE SIX MONTHS ENDED 31 DECEMBER 2021



Group Condensed Interim Financial Statements

for the six months ended 31 December 2021 (unaudited)

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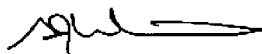
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GROUP CONDENSED INTERIM FINANCIAL STATEMENTS

These group condensed interim financial statements for the six months ended 31 December 2021 are dated 24 February 2022, and signed for and on behalf of Vector Limited by:



Director



Director

And management of Vector Limited by:



Group Chief Executive



Chief Financial Officer

Independent Review Report

To the shareholders of Vector Limited

Report on the interim consolidated financial statements

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim consolidated financial statements on pages 5 to 21 do not:

- i. present fairly in all material respects the Group's financial position as at 31 December 2021 and its financial performance and cash flows for the 6 month period ended on that date; and
- ii. comply with NZ IAS 34 *Interim Financial Reporting*.

We have completed a review of the accompanying interim consolidated financial statements which comprise:

- the consolidated balance sheet as at 31 December 2021;
- the consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the 6 month period then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



Basis for conclusion

A review of interim consolidated financial statements in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* ("NZ SRE 2410") is a limited assurance engagement. The auditor performs procedures, consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

As the auditor of Vector Limited, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

Our firm has also provided other services to the group in relation to annual audit, regulatory assurance services, other assurance services, compliance services in relation to R&D tax credits and review of enterprise management and internal audit processes. Subject to certain restrictions, partners and employees of our firm may also deal with the group on normal terms within the ordinary course of trading activities of the business of the group. These matters have not impaired our independence as reviewer of the group. The firm has no other relationship with, or interest in, the group.



Use of this Independent Review Report

This report is made solely to the shareholders as a body. Our review work has been undertaken so that we might state to the shareholders those matters we are required to state to them in the Independent Review Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholders as a body for our review work, this report, or any of the opinions we have formed.



Responsibilities of the Directors for the interim consolidated financial statements

The Directors, on behalf of the company and group, are responsible for:

- the preparation and fair presentation of the interim consolidated financial statements in accordance with NZ IAS 34 *Interim Financial Reporting*;
- implementing necessary internal control to enable the preparation of the interim consolidated financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



Auditor's Responsibilities for the review of the interim company and group financial statements

Our responsibility is to express a conclusion on the interim financial statements based on our review. We conducted our review in accordance with NZ SRE 2410. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with NZ IAS 34 *Interim Financial Reporting*.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on these interim company and group financial statements.

This description forms part of our Independent Review Report.

Auckland

24 February 2022

Profit or Loss

| | NOTE | 31 DEC 2021 6 MONTHS (UNAUDITED) \$M | 31 DEC 2020 6 MONTHS (UNAUDITED) \$M | 30 JUN 2021 12 MONTHS (AUDITED) \$M |
|---|------|---|---|--|
| Revenue | 4 | 684.6 | 647.7 | 1,279.3 |
| Operating expenses | 4 | (348.6) | (322.5) | (643.3) |
| Depreciation and amortisation | | (142.6) | (133.1) | (270.1) |
| Interest costs (net) | | (54.5) | (58.7) | (108.6) |
| Fair value change on financial instruments | | 7.6 | (2.2) | (3.5) |
| Gain on sale of investment in associate | 3 | 7.1 | - | - |
| Associates (share of net profit/(loss)) | | - | 1.6 | 1.8 |
| Profit/(loss) before income tax | | 153.6 | 132.8 | 255.6 |
| Income tax benefit/(expense) | | (38.1) | (30.7) | (61.0) |
| Net profit/(loss) for the period | | 115.5 | 102.1 | 194.6 |
| Net profit/(loss) for the period attributable to | | | | |
| Non-controlling interests | | 1.0 | 1.0 | 1.4 |
| Owners of the parent | | 114.5 | 101.1 | 193.2 |
| Basic and diluted earnings per share (cents) | 7 | 11.5 | 10.1 | 19.3 |

Other Comprehensive Income

| | 31 DEC 2021 6 MONTHS (UNAUDITED) \$M | 31 DEC 2020 6 MONTHS (UNAUDITED) \$M | 30 JUN 2021 12 MONTHS (AUDITED) \$M |
|---|---|---|--|
| Net profit/(loss) for the period | 115.5 | 102.1 | 194.6 |
| Other comprehensive income net of tax | | | |
| <i>Items that may be re-classified subsequently to profit or loss:</i> | | | |
| Net change in fair value of hedge reserves | 49.3 | 6.2 | 46.9 |
| Translation of foreign operations | (2.9) | (0.1) | 0.8 |
| Share of other comprehensive income of associate | – | – | 0.1 |
| <i>Items that will not be re-classified subsequently to profit or loss:</i> | | | |
| Fair value change on financial asset | – | 0.5 | (0.5) |
| Other comprehensive income/(loss) for the period net of tax | 46.4 | 6.6 | 47.3 |
| Total comprehensive income/(loss) for the period net of tax | 161.9 | 108.7 | 241.9 |
| Total comprehensive income for the period attributable to | | | |
| Non-controlling interests | 1.0 | 1.0 | 1.4 |
| Owners of the parent | 160.9 | 107.7 | 240.5 |

Balance Sheet

| | NOTE | 31 DEC 2021 (UNAUDITED) \$M | 31 DEC 2020 (UNAUDITED) \$M | 30 JUN 2021 (AUDITED) \$M |
|--|------|-----------------------------------|-----------------------------------|---------------------------------|
| CURRENT ASSETS | | | | |
| Cash and cash equivalents | | 24.7 | 31.8 | 17.4 |
| Trade and other receivables | | 74.8 | 83.8 | 83.2 |
| Contract assets | | 89.9 | 85.6 | 105.5 |
| Derivatives | 6 | 21.5 | 33.7 | 38.0 |
| Inventories | | 15.1 | 8.7 | 12.4 |
| Contingent consideration | | 10.6 | 6.5 | 8.2 |
| Intangible assets | | 11.8 | 7.8 | 2.0 |
| Income tax | | 20.5 | 29.5 | 28.7 |
| Investment classified as held for sale | 3 | – | – | 12.2 |
| Total current assets | | 268.9 | 287.4 | 307.6 |
| NON-CURRENT ASSETS | | | | |
| Receivables | | 1.5 | 1.7 | 1.7 |
| Derivatives | 6 | 75.1 | 54.3 | 65.3 |
| Contingent consideration | | 80.8 | 75.0 | 73.5 |
| Investment in associates | | – | 10.6 | – |
| Investment in private equity | | 12.3 | 13.3 | 12.3 |
| Intangible assets | 5 | 1,296.4 | 1,286.6 | 1,292.3 |
| Property, plant and equipment (PPE) | | 4,745.5 | 4,497.0 | 4,625.8 |
| Right of use assets (ROU) | | 28.9 | 37.3 | 36.1 |
| Income tax | | 105.8 | 99.2 | 102.8 |
| Deferred tax | | 2.0 | 0.3 | 2.1 |
| Total non-current assets | | 6,348.3 | 6,075.3 | 6,211.9 |
| Total assets | | 6,617.2 | 6,362.7 | 6,519.5 |
| CURRENT LIABILITIES | | | | |
| Trade and other payables | | 208.5 | 199.5 | 221.7 |
| Provisions | | 16.2 | 17.4 | 21.3 |
| Borrowings | 3,6 | 366.4 | 458.9 | 232.3 |
| Derivatives | 6 | 3.6 | 3.0 | 0.9 |
| Contract liabilities | | 77.6 | 60.2 | 65.0 |
| Lease liabilities | | 9.2 | 8.7 | 8.4 |
| Income tax | | 0.3 | 0.1 | 1.8 |
| Total current liabilities | | 681.8 | 747.8 | 551.4 |

Balance Sheet (CONTINUED)

| | NOTE | 31 DEC 2021 (UNAUDITED) \$M | 31 DEC 2020 (UNAUDITED) \$M | 30 JUN 2021 (AUDITED) \$M |
|---|------|-----------------------------------|-----------------------------------|---------------------------------|
| NON-CURRENT LIABILITIES | | | | |
| Provisions | | 7.9 | 8.4 | 8.7 |
| Borrowings | 3,6 | 2,750.0 | 2,537.7 | 2,838.3 |
| Derivatives | 6 | 107.8 | 192.2 | 164.7 |
| Contract liabilities | | 24.5 | 29.7 | 30.2 |
| Lease liabilities | | 20.7 | 30.5 | 29.0 |
| Deferred tax | | 612.9 | 530.5 | 561.8 |
| Total non-current liabilities | | 3,523.8 | 3,329.0 | 3,632.7 |
| Total liabilities | | 4,205.6 | 4,076.8 | 4,184.1 |
| EQUITY | | | | |
| Equity attributable to owners of the parent | | 2,395.6 | 2,268.0 | 2,319.7 |
| Non-controlling interests in subsidiaries | | 16.0 | 17.9 | 15.7 |
| Total equity | | 2,411.6 | 2,285.9 | 2,335.4 |
| Total equity and liabilities | | 6,617.2 | 6,362.7 | 6,519.5 |
| Net tangible assets per share (cents) | 7 | 108.7 | 97.4 | 102.5 |
| Gearing ratio (%) | 7 | 56.9 | 56.1 | 56.8 |

Cash Flows

| | NOTE | 31 DEC 2021 6 MONTHS (UNAUDITED) \$M | 31 DEC 2020 6 MONTHS (UNAUDITED) \$M | 30 JUN 2021 12 MONTHS (AUDITED) \$M |
|---|------|---|---|--|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Receipts from customers | | 703.2 | 647.5 | 1,268.9 |
| Interest received | | 0.3 | 0.3 | 2.9 |
| Payments to suppliers and employees | | (358.6) | (307.1) | (626.3) |
| Interest paid | | (59.9) | (67.5) | (125.3) |
| Income tax paid | | (1.4) | (1.9) | (21.1) |
| Net cash flows from/(used in) operating activities | 8 | 283.6 | 271.3 | 499.1 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Proceeds from sale of PPE | | 0.4 | 0.1 | 0.2 |
| Purchase and construction of PPE | | (246.5) | (247.6) | (474.9) |
| Purchase and construction of software intangibles | | (23.8) | (30.3) | (41.3) |
| Proceeds from contingent consideration | | 1.6 | 2.5 | 4.4 |
| Proceeds from sale of investment in associate | 3 | 16.4 | - | - |
| Other investing cash flows | | 0.1 | - | 0.2 |
| Net cash flows from/(used in) investing activities | | (251.8) | (275.3) | (511.4) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Proceeds from borrowings | 3,6 | 225.0 | 445.0 | 530.0 |
| Repayment of borrowings | 3,6 | (158.0) | (350.0) | (350.0) |
| Dividends paid | 3 | (85.7) | (82.5) | (165.8) |
| Lease liabilities payments | | (5.8) | (5.0) | (11.0) |
| Redemption of preference shares from non-controlling interest | | - | - | (1.8) |
| Net cash flows from/(used in) financing activities | | (24.5) | 7.5 | 1.4 |
| Net increase/(decrease) in cash and cash equivalents | | 7.3 | 3.5 | (10.9) |
| Cash and cash equivalents at beginning of the period | | 17.4 | 28.3 | 28.3 |
| Cash and cash equivalents at end of the period | | 24.7 | 31.8 | 17.4 |
| Cash and cash equivalents comprise: | | | | |
| Bank balances and on-call deposits | | 21.7 | 27.7 | 12.8 |
| Short term deposits | | 3.0 | 4.1 | 4.6 |
| | | 24.7 | 31.8 | 17.4 |

Changes in Equity

(unaudited)

| | NOTE | ISSUED SHARE CAPITAL \$M | TREASURY SHARES \$M | HEDGE RESERVES \$M | OTHER RESERVES \$M | RETAINED EARNINGS \$M | NON- CONTROLLING INTERESTS \$M | TOTAL EQUITY \$M |
|---|------|--------------------------------|---------------------------|--------------------------|--------------------------|-----------------------------|---|---------------------|
| Balance at 1 July 2020 | | 880.0 | (0.3) | (81.7) | (1.0) | 1,445.8 | 16.9 | 2,259.7 |
| Net profit/(loss) for the period | | - | - | - | - | 101.1 | 1.0 | 102.1 |
| Other comprehensive income | | - | - | 6.2 | 0.4 | - | - | 6.6 |
| Total comprehensive income | | - | - | 6.2 | 0.4 | 101.1 | 1.0 | 108.7 |
| Dividends | | - | - | - | - | (82.5) | - | (82.5) |
| Employee share purchase scheme transactions | | - | 0.1 | - | (0.1) | - | - | - |
| Total transactions with owners | | - | 0.1 | - | (0.1) | (82.5) | - | (82.5) |
| Balance at 31 December 2020 | | 880.0 | (0.2) | (75.5) | (0.7) | 1,464.4 | 17.9 | 2,285.9 |
| Net profit/(loss) for the period | | - | - | - | - | 92.1 | 0.4 | 92.5 |
| Other comprehensive income | | - | - | 40.7 | - | - | - | 40.7 |
| Total comprehensive income | | - | - | 40.7 | - | 92.1 | 0.4 | 133.2 |
| Dividends | | - | - | - | - | (82.5) | (0.8) | (83.3) |
| Reclassification to investment held for sale | | - | - | - | 1.4 | - | - | 1.4 |
| Redemption of preference shares | | - | - | - | - | - | (1.8) | (1.8) |
| Total transactions with owners | | - | - | - | 1.4 | (82.5) | (2.6) | (83.7) |
| Balance at 30 June 2021 | | 880.0 | (0.2) | (34.8) | 0.7 | 1,474.0 | 15.7 | 2,335.4 |
| Net profit/(loss) for the period | | - | - | - | - | 114.5 | 1.0 | 115.5 |
| Other comprehensive income | | - | - | 49.3 | (2.9) | - | - | 46.4 |
| Total comprehensive income | | - | - | 49.3 | (2.9) | 114.5 | 1.0 | 161.9 |
| Dividends | 3 | - | - | - | - | (85.0) | (0.7) | (85.7) |
| Employee share purchase scheme transactions | | - | 0.1 | - | (0.1) | - | - | - |
| Total transactions with owners | | - | 0.1 | - | (0.1) | (85.0) | (0.7) | (85.7) |
| Balance at 31 December 2021 | | 880.0 | (0.1) | 14.5 | (2.3) | 1,503.5 | 16.0 | 2,411.6 |

Notes to the Interim Financial Statements

1. Company information

Reporting entity

Vector Limited is a company incorporated and domiciled in New Zealand, registered under the Companies Act 1993 and listed on the NZX Main Board (NZX). The company is an FMC entity for the purposes of Part 7 of the Financial Markets Conduct Act 2013. Vector's condensed interim financial statements (the interim financial statements) comply with this Act.

The interim financial statements presented are for Vector Limited Group ("Vector" or "the group") as at, and for the six months ended 31 December 2021. The group comprises Vector Limited ("the parent") and its subsidiaries.

Vector Limited is a 75.1% owned subsidiary of Entrust which is the ultimate parent entity for the group.

The primary operations of the group are electricity and gas distribution, natural gas and LPG sales, metering, telecommunications and new energy solutions.

2. Summary of significant accounting policies

Basis of preparation

The interim financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP) as applicable to interim financial statements, and as appropriate to profit oriented entities. They comply with NZ IAS 34 *Interim Financial Reporting*.

These interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the group financial statements and related notes included in Vector's 2021 Annual Report. The interim financial statements for the six months ended 31 December 2021 and 31 December 2020 are unaudited.

All financial information is presented in New Zealand dollars (\$) and has been rounded to the nearest 100,000, unless otherwise stated.

Seasonality

Vector's electricity and gas businesses are affected by the seasonal demand for energy, which generally increases during periods of colder weather. Accordingly, financial results for the first half of the financial year reported in the interim financial statements are generally more profitable than those of the second half of the year.

Notes to the Interim Financial Statements

3. Significant transactions and events

Significant transactions and events that have occurred during the six months to 31 December 2021:

Loss rental rebates Vector distributed loss rental rebates (“LRRs”) of \$11.7 million to customers on the Vector electricity network in September 2021 at \$20 per customer, representing excess LRRs not required to partially mitigate electricity distribution price increases applying from 1 April 2021. A provision for distribution to customers of \$8.0 million is recognised at 31 December 2021 (31 December 2020: \$5.6 million, 30 June 2021: \$11.9 million) in anticipation for distribution to customers at a later date and at discretion of the Board. This approach is consistent with the Board’s view that LRRs should ultimately benefit electricity customers.

In the current half year ended 31 December 2021, Vector received \$12.7 million of LRRs from Transpower, \$4.8 million of which is retained and recognised in the profit or loss (31 December 2020 (6 months): \$15.5 million, 30 June 2021 (12 months): \$22.8 million). LRRs retained will partially mitigate electricity distribution price increases applying from 1 April 2022.

Sale of investment in associate On 31 August 2021, Vector and other shareholders of Tree Scope Limited, each owning 50% of the company and its subsidiaries, sold all the shares to Blair Mill NZ Holdings Limited for a cash consideration of \$58.0 million excluding debt. The consideration was finalised in November 2021 at a total of \$38.6 million net of debt. Vector was entitled to \$19.3 million, reflecting Vector’s 50% shareholding. The investment in Tree Scope Limited – an associate prior to the sale - was classified as an investment held for sale from 1 June 2021 at \$12.2 million. A gain on sale of \$7.1 million has been recognised in the half year ended 31 December 2021. In accordance with the sale and purchase agreement, \$2.9 million of the consideration due to Vector will be held on escrow for 24 months from sale completion until August 2023.

Debt programme \$150.0 million of US Private Placements were repaid on 14 October 2021. These were refinanced as part of our ongoing debt management activities.

On 26 November 2021, Vector issued \$225.0 million of retail bonds at a fixed rate of 3.69% maturing on 26 November 2027.

During the six months ended 31 December 2021, the group repaid a net of \$8.0 million (six months ended 31 December 2020: \$275 million) from bank facilities.

Dividends Vector Limited’s final dividend for the year ended 30 June 2021 of 8.50 cents per share was paid on 16 September 2021, with a supplementary dividend of 0.45 cents per non-resident share. The total dividend paid was \$85.0 million.

Liquigas Limited, a subsidiary of the group, paid a dividend in December 2021 of \$0.7 million to the company’s non-controlling interests.

Notes to the Interim Financial Statements

4. Segment information

Segments

Vector reports on three reportable segments in accordance with NZ IFRS 8 *Operating Segments*. The segments and related policies remain unchanged from those reported in Vector's 2021 Annual Report.

The reportable segments are:

Regulated Networks Auckland electricity and gas distribution services.

Gas Trading Natural gas and LPG sales, storage, and transportation.

Metering Metering services.

Notes to the Interim Financial Statements

4. Segment information (continued)

| 31 DEC 2021 6 MONTHS (UNAUDITED) | REGULATED NETWORKS \$M | GAS TRADING \$M | METERING \$M | INTER- SEGMENT \$M | TOTAL \$M |
|---------------------------------------|------------------------------|-----------------------|-----------------|--------------------------|----------------|
| External revenue: | | | | | |
| Sales | 337.1 | 110.7 | 115.8 | - | 563.6 |
| Third party contributions | 71.9 | - | - | - | 71.9 |
| Other | 12.6 | - | - | - | 12.6 |
| Intersegment revenue | 1.1 | - | 0.7 | (1.8) | - |
| Segment revenue | 422.7 | 110.7 | 116.5 | (1.8) | 648.1 |
| External expenses: | | | | | |
| Electricity transmission expenses | (90.4) | - | - | - | (90.4) |
| Gas purchases and production expenses | - | (64.4) | - | - | (64.4) |
| Metering services cost of sales | - | - | (14.3) | - | (14.3) |
| Network and asset maintenance | (35.3) | (3.0) | (5.5) | - | (43.8) |
| Employee benefit expenses | (8.6) | (6.2) | (6.3) | - | (21.1) |
| Other expenses | (31.0) | (23.1) | (4.4) | - | (58.5) |
| Intersegment expenses | - | (1.8) | - | 1.8 | - |
| Segment operating expenses | (165.3) | (98.5) | (30.5) | 1.8 | (292.5) |
| Segment EBITDA | 257.4 | 12.2 | 86.0 | - | 355.6 |
| Depreciation and amortisation | (72.7) | (5.7) | (46.9) | - | (125.3) |
| Segment profit/(loss) | 184.7 | 6.5 | 39.1 | - | 230.3 |
| Segment capital expenditure | 163.1 | 2.8 | 84.5 | - | 250.4 |

Reconciliation to revenue, profit/(loss) before income tax and capital expenditure reported in the financial statements:

| 31 DEC 2021 | REVENUE \$M | PROFIT/ (LOSS) BEFORE INCOME TAX \$M | CAPITAL EXPENDITURE \$M |
|---|----------------|--|-------------------------------|
| Reported in segment information | 648.1 | 230.3 | 250.4 |
| Amounts not allocated to segments: | | | |
| Revenue | 36.0 | 36.0 | - |
| Third party contributions | 0.5 | 0.5 | - |
| Employee benefit expenses | - | (30.4) | - |
| Other operating expenses | - | (32.6) | - |
| Elimination of transactions with segments | - | 6.9 | - |
| Depreciation and amortisation | - | (17.3) | - |
| Interest costs (net) | - | (54.5) | - |
| Fair value change on financial instruments | - | 7.6 | - |
| Gain on sale of investment in associate | - | 7.1 | - |
| Capital expenditure | - | - | 16.0 |
| Reported in the financial statements | 684.6 | 153.6 | 266.4 |

Notes to the Interim Financial Statements

4. Segment information (continued)

| 31 DEC 2020 6 MONTHS (UNAUDITED) | REGULATED NETWORKS \$M | GAS TRADING \$M | METERING \$M | INTER- SEGMENT \$M | TOTAL \$M |
|---------------------------------------|------------------------------|--------------------|-----------------|--------------------------|----------------|
| External revenue: | | | | | |
| Sales | 321.4 | 113.7 | 109.1 | - | 544.2 |
| Third party contributions | 50.6 | - | - | - | 50.6 |
| Other | 11.1 | - | - | - | 11.1 |
| Intersegment revenue | 1.3 | - | 0.7 | (2.0) | - |
| Segment revenue | 384.4 | 113.7 | 109.8 | (2.0) | 605.9 |
| External expenses: | | | | | |
| Electricity transmission expenses | (89.7) | - | - | - | (89.7) |
| Gas purchases and production expenses | - | (68.7) | - | - | (68.7) |
| Metering services cost of sales | - | - | (12.5) | - | (12.5) |
| Network and asset maintenance | (33.0) | (3.3) | (4.7) | - | (41.0) |
| Employee benefit expenses | (8.4) | (6.1) | (5.5) | - | (20.0) |
| Other expenses | (6.8) | (19.0) | (4.0) | - | (29.8) |
| Intersegment expenses | - | (2.0) | - | 2.0 | - |
| Segment operating expenses | (137.9) | (99.1) | (26.7) | 2.0 | (261.7) |
| Segment EBITDA | 246.5 | 14.6 | 83.1 | - | 344.2 |
| Depreciation and amortisation | (65.8) | (6.1) | (44.4) | - | (116.3) |
| Segment profit/(loss) | 180.7 | 8.5 | 38.7 | - | 227.9 |
| Segment capital expenditure | 157.1 | 4.1 | 81.8 | - | 243.0 |

Reconciliation to revenue, profit/(loss) before income tax and capital expenditure reported in the financial statements:

| 31 DEC 2020 | REVENUE \$M | PROFIT/ (LOSS) BEFORE INCOME TAX \$M | CAPITAL EXPENDITURE \$M |
|---|----------------|--|-------------------------------|
| Reported in segment information | 605.9 | 227.9 | 243.0 |
| Amounts not allocated to segments: | | | |
| Revenue | 41.0 | 41.0 | - |
| Third party contributions | 0.8 | 0.8 | - |
| Employee benefit expenses | - | (29.1) | - |
| Other operating expenses | - | (37.0) | - |
| Elimination of transactions with segments | - | 5.3 | - |
| Depreciation and amortisation | - | (16.8) | - |
| Interest costs (net) | - | (58.7) | - |
| Fair value change on financial instruments | - | (2.2) | - |
| Associates (share of net profit/(loss)) | - | 1.6 | - |
| Capital expenditure | - | - | 17.7 |
| Reported in the financial statements | 647.7 | 132.8 | 260.7 |

Notes to the Interim Financial Statements

4. Segment information (continued)

| 30 JUN 2021 12 MONTHS (AUDITED) | REGULATED NETWORKS \$M | GAS TRADING \$M | METERING \$M | INTER- SEGMENT \$M | TOTAL \$M |
|---------------------------------------|------------------------------|--------------------|-----------------|--------------------------|----------------|
| External revenue: | | | | | |
| Sales | 625.2 | 209.0 | 225.7 | – | 1,059.9 |
| Third party contributions | 121.1 | – | – | – | 121.1 |
| Other | 18.8 | – | – | – | 18.8 |
| Intersegment revenue | 2.4 | – | 1.3 | (3.7) | – |
| Segment revenue | 767.5 | 209.0 | 227.0 | (3.7) | 1,199.8 |
| External expenses: | | | | | |
| Electricity transmission expenses | (179.7) | – | – | – | (179.7) |
| Gas purchases and production expenses | – | (128.9) | – | – | (128.9) |
| Metering services cost of sales | – | – | (26.4) | – | (26.4) |
| Network and asset maintenance | (68.7) | (6.3) | (9.2) | – | (84.2) |
| Employee benefit expenses | (16.0) | (11.4) | (10.9) | – | (38.3) |
| Other expenses | (31.3) | (31.3) | (8.9) | – | (71.5) |
| Intersegment expenses | – | (3.7) | – | 3.7 | – |
| Segment operating expenses | (295.7) | (181.6) | (55.4) | 3.7 | (529.0) |
| Segment EBITDA | 471.8 | 27.4 | 171.6 | – | 670.8 |
| Depreciation and amortisation | (134.5) | (12.0) | (89.9) | – | (236.4) |
| Segment profit/(loss) | 337.3 | 15.4 | 81.7 | – | 434.4 |
| Segment capital expenditure | 314.7 | 11.2 | 165.3 | – | 491.2 |

Reconciliation to revenue, profit/(loss) before income tax and capital expenditure reported in the financial statements:

| 30 JUN 2021 | REVENUE \$M | PROFIT/ (LOSS) BEFORE INCOME TAX \$M | CAPITAL EXPENDITURE \$M |
|---|----------------|--|-------------------------------|
| Reported in segment information | 1,199.8 | 434.4 | 491.2 |
| Amounts not allocated to segments: | | | |
| Revenue | 78.1 | 78.1 | – |
| Third party contributions | 1.4 | 1.4 | – |
| Employee benefit expenses | – | (56.5) | – |
| Other operating expenses | – | (70.8) | – |
| Elimination of transactions with segments | – | 13.0 | – |
| Depreciation and amortisation | – | (33.7) | – |
| Interest costs (net) | – | (108.6) | – |
| Fair value change on financial instruments | – | (3.5) | – |
| Associates (share of net profit/(loss)) | – | 1.8 | – |
| Capital expenditure | – | – | 38.3 |
| Reported in the financial statements | 1,279.3 | 255.6 | 529.5 |

Notes to the Interim Financial Statements

5. Intangible assets

Goodwill impairment assessments

Goodwill is tested at least annually for impairment against the recoverable amount of the cash generating units ("CGU") to which it has been allocated.

As at 31 December 2021, CGUs within the group are: electricity, gas distribution, metering, natural gas, LPG, Liquigas, communications and E-Co Products. Management performed impairment assessments on all CGUs except for communications and E-Co Products at 31 December 2021. No impairment was found.

Risk of Impairment of Assets

On 15 September 2021, the New Zealand Government advised that it will release its final Emissions Reduction Plan (ERP) by the end of May 2022 in line with the 2022 Budget. The ERP will detail the policies the Government will use to achieve the emissions budgets to meet New Zealand's agreed decarbonisation targets. As previously indicated, the ERP will likely have significant implications for Vector's businesses and in particular, the value of our gas distribution network.

On 10 February 2022, the Commerce Commission released its draft determination of the default price-quality path for the group's gas distribution business for the period 1 October 2022 to 30 September 2026.

The key message of the draft determination decision is that gas pipeline businesses should continue to invest to deliver a safe and reliable supply over the short-term until the long-term future of natural gas use in New Zealand becomes clearer. Importantly, in releasing the draft determination, the Commerce Commission notes that it will soon start consulting with the energy sector on the review of the rules and processes that underpin the regulatory settings. Overall, the draft determination has a positive valuation impact for Vector with an increase in forecast revenue over the next four years from 1 October 2022 to 30 September 2026.

The impact of any ERP policy changes on the Commerce Commission's regulatory model for the gas distribution network will be fundamental to any revision in assumptions for the valuation of the gas distribution CGU. The timing or extent of this is not yet known. The regulatory model determines the cash flows we can earn from the gas distribution business and hence its value. We will be monitoring any policy developments closely. Similarly, any ERP policy changes could impact valuation assumptions for the natural gas, LPG and Liquigas CGUs. Vector currently has \$260.2m of goodwill allocated to its gas businesses.

While at 31 December 2021, the Board and management have concluded that there is no impairment recognised, we acknowledge that the ERP policies could change the outlook for these businesses and will present significant risk to the future cashflows and expected lives of the group's gas assets. As the ERP policies are formalised and the Commerce Commission considers the impact on the regulatory model for gas networks, their impact on the assumptions used in impairment valuation models will need to be carefully assessed. Accordingly, the gas distribution CGU along with the natural gas, LPG and Liquigas CGUs will be reassessed for impairment at 30 June 2022.

Notes to the Interim Financial Statements

6. Borrowings and derivatives

| | NET DERIVATIVES \$M | BORROWINGS \$M |
|---|---------------------------|-------------------|
| Balance at 30 June 2021 (audited) | (62.3) | (3,070.6) |
| Fair value movements: | | |
| Foreign exchange rates | (5.2) | 5.2 |
| Interest rates and other fair value changes | 52.7 | 15.2 |
| Repayment | - | 158.0 |
| Drawdown | - | (225.0) |
| Amortised costs | - | 0.8 |
| Balance at 31 December 2021 (unaudited) | (14.8) | (3,116.4) |
| Fair value at 31 December 2021 (unaudited) | (14.8) | (3,185.5) |

Notes to the Interim Financial Statements

7. Financial ratios

| | 31 DEC 2021 6 MONTHS (UNAUDITED) \$M | 31 DEC 2020 6 MONTHS (UNAUDITED) \$M | 30 JUN 2021 12 MONTHS (AUDITED) \$M |
|--|---|---|--|
| Basic and diluted earnings per share | | | |
| Net profit attributable to owners of the parent | 114.5 | 101.1 | 193.2 |
| Weighted average ordinary shares outstanding during the period (number of shares) | 999,920,613 | 999,895,179 | 999,906,097 |
| Total earnings per share | 11.5 cents | 10.1 cents | 19.3 cents |
| | | | |
| | 31 DEC 2021 (UNAUDITED) \$M | 31 DEC 2020 (UNAUDITED) \$M | 30 JUN 2021 (AUDITED) \$M |
| Net tangible assets per share | | | |
| Net assets attributable to owners of the parent | 2,395.6 | 2,268.0 | 2,319.7 |
| Less total intangible assets | (1,308.2) | (1,294.4) | (1,294.3) |
| Total net tangible assets | 1,087.4 | 973.6 | 1,025.4 |
| Ordinary shares outstanding (number of shares) | 999,972,110 | 999,916,418 | 999,917,965 |
| | 108.7 cents | 97.4 cents | 102.5 cents |
| | | | |
| | 31 DEC 2021 (UNAUDITED) \$M | 31 DEC 2020 (UNAUDITED) \$M | 30 JUN 2021 (AUDITED) \$M |
| Economic net debt to economic net debt plus adjusted equity ratio ("gearing ratio") | | | |
| Face value of borrowings | 3,157.6 | 3,005.6 | 3,090.6 |
| Lease liabilities | 29.9 | 39.2 | 37.4 |
| Less cash and cash equivalents | (24.7) | (31.8) | (17.4) |
| Economic net debt | 3,162.8 | 3,013.0 | 3,110.6 |
| Total equity | 2,411.6 | 2,285.9 | 2,335.4 |
| Adjusted for hedge reserves | (14.5) | 75.5 | 34.8 |
| Adjusted equity | 2,397.1 | 2,361.4 | 2,370.2 |
| Economic net debt plus adjusted equity | 5,559.9 | 5,374.4 | 5,480.8 |
| | 56.9% | 56.1% | 56.8% |

Economic net debt

The definition of economic net debt has changed from (face value of borrowings less cash and cash equivalents) at 30 June 2021 and prior to (face value of borrowings and lease liabilities less cash and cash equivalents) at 31 December 2021. Comparatives at 31 December 2020 and 30 June 2021 have been restated accordingly.

Without the change in definition the gearing ratios are: 56.7%, 55.7%, and 56.5% as at 31 December 2021, 31 December 2020 and 30 June 2021 respectively.

Notes to the Interim Financial Statements

8. Cash flows

| | 31 DEC 2021 6 MONTHS (UNAUDITED) \$M | 31 DEC 2020 6 MONTHS (UNAUDITED) \$M | 30 JUN 2021 12 MONTHS (AUDITED) \$M |
|---|---|---|--|
| Reconciliation of net profit/(loss) to net cash flows from/ (used in) operating activities | | | |
| Net profit/(loss) for the period | 115.5 | 102.1 | 194.6 |
| Items associated with investing activities | | | |
| Gain on sale of investment in associate | (7.1) | - | - |
| Items associated with investing activities | 15.1 | 11.7 | (8.1) |
| Items classified as financing activities | | | |
| Items associated with lease liabilities | 0.3 | - | 0.4 |
| Non-cash items | | | |
| Depreciation and amortisation | 142.6 | 133.1 | 270.1 |
| Non-cash portion of interest costs (net) | (2.9) | (1.9) | (3.7) |
| Fair value change on financial instruments | (7.6) | 2.2 | 3.5 |
| Associates (share of net (profit)/loss) | - | (1.6) | (1.8) |
| Increase/(decrease) in deferred tax | 32.1 | 14.0 | 27.4 |
| Increase/(decrease) in provisions | (6.3) | (9.4) | (5.4) |
| Other non-cash items | (2.8) | (0.4) | 0.8 |
| | 155.1 | 136.0 | 290.9 |
| Changes in assets and liabilities | | | |
| Trade and other payables | (21.7) | (1.9) | 14.1 |
| Contract liabilities | 6.9 | (2.1) | 3.3 |
| Contract assets | 15.6 | 6.9 | (12.9) |
| Inventories | (2.7) | 0.7 | (3.0) |
| Trade and other receivables | 2.9 | 3.1 | 5.9 |
| Income tax | 3.7 | 14.8 | 13.9 |
| | 4.7 | 21.5 | 21.3 |
| Net cash flows from/(used in) operating activities | 283.6 | 271.3 | 499.1 |

9. Capital commitments

| | 31 DEC 2021 (UNAUDITED) \$M | 31 DEC 2020 (UNAUDITED) \$M | 30 JUN 2021 (AUDITED) \$M |
|---|-----------------------------------|-----------------------------------|---------------------------------|
| Capital expenditure committed to but not provided for at balance date | 234.8 | 132.1 | 206.1 |

10. Related party transactions

Majority shareholder dividend Vector Limited has paid its majority shareholder, Entrust, dividends of \$63.8 million during the period (six months ended December 2020: \$62.0 million, 12 months ended 30 June 2021: \$123.9 million).

Outstanding balances At 31 December 2021, the group has no material outstanding balances due to or from related parties of the group (31 December 2020 and 30 June 2021: not material).

11. Contingent liabilities

Disclosures The directors are aware of claims that have been made against entities of the group and, where appropriate, have recognised provisions for these within the financial statements.

No material contingent liabilities have been identified.

12. Events after the end of the period

Interim dividend On 24 February 2022, the board declared an interim dividend for the year ended 30 June 2022 of 8.25 cents per share.

No adjustment is required to these interim financial statements in respect of this event.

Financial statements approval The interim financial statements were approved by the board of directors on 24 February 2022.

Vector's standard profit measure prepared under New Zealand Generally Accepted Accounting Practice (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 (www.vector.co.nz).

Non-GAAP profit measures are not prepared in accordance with New Zealand International Financial Reporting Standards (NZ IFRS) 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 from or considered as a substitute for measures reported by Vector in accordance with NZ IFRS.

DEFINITIONS

- EBITDA:** Earnings before interest, taxation, depreciation, amortisation and impairments from continuing operations.
- Adjusted EBITDA:** EBITDA from continuing operations adjusted for fair value changes, associates, third-party contributions, and significant one-off gains, losses, revenues and/or expenses.

GAAP TO NON-GAAP RECONCILIATION

| Group EBITDA and adjusted EBITDA | 31-DEC-2021 6 MONTHS \$M | 31-DEC-2020 6 MONTHS \$M |
|--|--------------------------------|--------------------------------|
| Reported net profit for the period (GAAP) | 115.5 | 102.1 |
| Add back: net interest costs | 54.5 | 58.7 |
| Add back: tax (benefit)/expense | 38.1 | 30.7 |
| Add back: depreciation and amortisation | 142.6 | 133.1 |
| EBITDA | 350.7 | 324.6 |
| <i>Adjusted for:</i> | | |
| Associates (share of net (profit)/loss) | - | (1.6) |
| Capital contributions | (72.4) | (51.4) |
| Fair value change on financial instruments | (7.6) | 2.2 |
| Gain on sale of investment in associate | (7.1) | - |
| Adjusted EBITDA | 263.6 | 273.8 |

| Segment adjusted EBITDA | 2021 | | | 2020 | | |
|------------------------------------|-------------------------------|---|-------------------------------|-------------------------------|---|-------------------------------|
| SIX MONTHS ENDED 31 DECEMBER | REPORTED SEGMENT EBITDA | LESS CAPITAL CONTRIBUTIONS AND OTHER MOVEMENTS | SEGMENT ADJUSTED EBITDA | REPORTED SEGMENT EBITDA | LESS CAPITAL CONTRIBUTIONS AND OTHER MOVEMENTS | SEGMENT ADJUSTED EBITDA |
| Metering | 86.0 | - | 86.0 | 83.1 | - | 83.1 |
| Gas Trading | 12.2 | - | 12.2 | 14.6 | - | 14.6 |
| Unregulated segments | 98.2 | - | 98.2 | 97.7 | - | 97.7 |
| Regulated segment | 257.4 | (71.9) | 185.5 | 246.5 | (50.6) | 195.9 |
| TOTAL REPORTED SEGMENTS | 355.6 | (71.9) | 283.7 | 344.2 | (50.6) | 293.6 |
| Corporate and other | (4.9) | (15.2) | (20.1) | (19.0) | (0.8) | (19.8) |
| TOTAL | 350.7 | (87.1) | 263.6 | 325.2 | (51.4) | 273.8 |

Calendar and Directory

FINANCIAL CALENDAR

2022

| | |
|-------------------------------------|-----------|
| Record date for interim dividend | 30 March |
| Interim dividend paid | 8 April |
| Third quarter operating statistics | April |
| Fourth quarter operating statistics | July |
| Full year result and annual report | August |
| Final dividend* | September |
| Annual meeting | September |

* Dividends are subject to Board determination.

INVESTOR INFORMATION

Ordinary shares in Vector Limited are listed and quoted on the New Zealand Stock Market (NZSX) under the company code VCT. Vector also has capital bonds and unsubordinated fixed rate bonds listed and quoted on the New Zealand Debt Market (NZDX). Current information about Vector's trading performance for its shares and bonds can be obtained on the NZX website at www.nzx.com. Further information about Vector is available on our website www.vector.co.nz.

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