

market release



25 September 2020

Vector Ltd Annual Meeting of Shareholders

Speaking Notes

Chair, Dame Alison Paterson:

Good afternoon ladies and gentlemen. My name is Dame Alison Paterson and I am Chair of Vector.

As we have a quorum and it's 3:00pm, I will now declare open the 2020 Annual Meeting of Vector Limited shareholders. On behalf of my fellow directors, a warm welcome to you all.

Today's meeting is being held online for the first time. Like many listed companies, we had prepared for a number of scenarios depending on Auckland's Covid-19 alert level status. It is, of course, different to our in-person meeting so I have some instructions to ensure participation in the usual way, albeit virtually. We have Shareholders, Proxies and Guests attending the meeting virtually. All attendees are able to watch this live webcast of the meeting. In addition, shareholders and proxies have the ability to submit questions and their vote.

Questions can be submitted at any time. To ask a question, press the speech bubble icon. This will open a new screen. At the bottom of that screen there is a section for you to type your question. Once you have finished typing, please hit the arrow symbol to send.

Please note that while you can submit questions from now, I will not address them until the relevant time in the meeting. Please also note that your questions may be grouped or amalgamated if we receive multiple questions on the same topic. While we also welcome any members of the media to our meeting today, as this is a meeting for shareholders, please hold your questions and Vector's Group Chief Executive Simon Mackenzie and I will be happy to talk to you afterwards.

Voting today will be conducted by way of a poll on the item of business. In order to provide you with enough time to vote, I will shortly open voting on the sole resolution. At that time, if you are eligible to vote at this meeting, a new polling icon will appear. Selecting this icon will bring up the resolution and present you with voting options. To

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cast your vote simply select one of the options. There is no need to hit a submit or enter button as the vote is automatically recorded.

You do however have the ability to change your vote, up until the time I declare voting closed.

I now declare voting open on the sole resolution. The polling icon will soon appear, please submit your vote at any time. I will give you a warning before I move to close voting.

In addition to those attending this webcast today, 598 shareholders, holding a total of more than 804,303,549 shares, have appointed proxies. In my capacity as Chair of the meeting and in my own name I hold proxies for 514 shareholders, representing 52,297,665 shares.

Also included in the proxies are 751,000,000 shares held by Entrust, our majority shareholder. Entrust is represented at the meeting today by William Cairns. It's now my pleasure to introduce my fellow directors: Alastair Bell, Jonathan Mason, Tony Carter, Bruce Turner, Dame Paula Rebstock, and Michael Buczkowski. 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.

So, to the structure of the meeting. We released our financial results on 27 August and the details on this are extensively covered in our annual report, which is available on our website. Rather than repeat that detail, I will instead provide a strategic overview of Vector's future as we see it, before handing over to Simon to review some of the highlights for the year and the progress we are making against our strategy. After that, we will open the meeting for specific discussion on the annual report, including the financial statements and audit report, as well as matters raised in our respective addresses. We will then move to the formal business of the meeting.

I think we can all agree it has been a year of tremendous upheaval.

Vector is a critical infrastructure provider and, as almost all our services are deemed 'essential', we have continued to support our customers throughout all COVID-19

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alert levels. On behalf of the Board, I am proud of the way our people responded to the global pandemic. Whether it meant putting the needs of our customers and communities ahead of their own fears or working collaboratively to find new ways of working within the government's guidelines, our people showed great commitment to delivering to our customers and communities.

Like the world around us, the pace of change at Vector is accelerating. Energy systems in New Zealand and globally are under pressure to respond to the uptake of new consumer energy technology, electrification of transport, demands for decarbonisation, increased consumption of renewable energy and energy poverty. Vector has been an active leader in this change for many years.

Our strategy – which we call Symphony - is about designing energy solutions and systems that put our customers first - starting with demand, not supply. We are focused on enabling energy systems in the community, close to where the power is needed rather than at the end of costly and remote infrastructure. This approach increases resilience and system-wide efficiencies. Technology is at the heart of our strategy as we leverage smart energy solutions and data to unlock new products and solutions for our customers. All of this relies on coordination between customers and their energy systems, distributed energy resources, and across energy supply chains.

We are not doing this alone and strategic partnerships are a critical part of our strategy. Our belief is that accessing expertise in sectors outside energy will not only accelerate our progress but allow us to work alongside the world's best and smartest companies and individuals. Our announcement of our strategic alliance with Amazon Web Services is our most recent example of this part of our strategy in action. You can expect to see other partnerships of a similar calibre in the future.

This is how Vector is delivering on our vision to create a new energy future.

For shareholders, this Symphony strategy allows us to provide you with a diverse portfolio for sustainable returns – no longer simply a distribution company, but an innovative energy group with a growing local and international impact.

Moving on to people highlights for the year.

In August 2019, we were pleased to be awarded the Empowerment, Diversity and overall Supreme Award at the Diversity Works Awards for our commitment to building an inclusive and supportive workplace culture. For the Supreme Award, Vector was

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chosen from 36 other entrants and 76 entries across nine categories. This is the second time we have won the Supreme Award, the first being in 2015.

In sustainability, we were pleased to announce the launch of the Battery Industry Group in November 2019. This cross-industry collaboration aims to propose a 'circular' product stewardship scheme for end-of-use and end-of-life battery management to the Ministry for the Environment by the end of April next year. This will include recommendations on consistent safety guidance for the handling, storage and shipping of used large batteries.

Given our goal of Net Zero Carbon by 2030 and increasing demand from investors, shareholders and other stakeholders, it is imperative we remain focused on our carbon footprint. We're pleased this has substantially decreased by almost a quarter from FY19. In FY20 we participated in the Carbon Disclosure Project for the second consecutive year and started working towards making the appropriate disclosures required by the Task Force on Climate-related Financial Disclosures.

We recognise the challenges of decarbonisation and climate change, so will continually evolve our approach in order to ensure we are contributing ourselves, but also enabling others through our products, services and partnerships.

Our view is that New Zealand needs to focus on creating a high-value economy that is built on innovation, moving from volume to value. This way of thinking is the embodiment of our Symphony strategy and is a central theme in our ongoing discussions with our regulators, as we continue to advocate for changes to reflect the environment we are in today and into the future.

In November 2019, our Default Price Path 3 (DPP3) regulatory settings were confirmed through to 2025 – providing targets for electricity network quality and allowable revenues for the five-year period, which commenced 1 April 2020.

A significant issue we are facing is the impact of the inflation assumptions selected by the Commerce Commission. Those assumptions used in setting our new price path have, for a decade, systematically over-forecast inflation and, in turn, reduced our revenues below levels consistent with a fair return. This is an impact that will be further exacerbated through to 2025 given radically different inflation expectations since DPP3 was determined in late 2019. We do not believe this is a sustainable outcome or one that is consistent with the legislation intended to ensure regulated businesses can invest for the long-term interests of consumers and earn an appropriate return.

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This is not an issue that is exclusive to Vector, as other regulated entities in New Zealand face the same challenges and a review is underway in Australia with their regulator.

We will actively engage with the Commerce Commission to seek a constructive solution. Vector considers this to be a critical matter that must be worked through collaboratively to ensure Auckland growth and government infrastructure investments are supported through aligned regulatory settings, while ensuring fair returns to our shareholders.

Despite this obvious cashflow challenge, Vector remains committed to upgrading and maintaining Auckland's electricity network to the best of our ability for the benefit of energy consumers. We recognise this obligation and, as such, our focus will be on the existing network as there is little incentive to invest more broadly. We will allocate capital to other parts of the Group that provide better returns.

I would also like to point out that a feature of the current regime is that any revenue under recovery can be recovered in subsequent years. Given the impact of COVID-19 on revenues, we are changing our previous policy and will use loss rental rebates, allocated by Transpower, to offset future customer price increases. It is important to note that consumers will not be disadvantaged by this as it will limit future price impacts and any excess will be returned to consumers later.

In closing, as previously announced, today I will retire as Vector's Chair. Before I pass to Simon, I would like to share some reflections about my time at Vector and the opportunities ahead for the company and the industry.

When I started on the board some 13 years ago, Vector was effectively 'just' a lines company. I challenge anyone who thinks that is the case today to take another look and be prepared to see a diverse, innovative and progressive company that is leading the thinking that I believe can transform the energy industry. This week the board was fortunate to spend time with Laura Sandys who is leading a UK Think Tank about the future of energy. Management has been working with Laura as she prepares a report for the UK government and regulator on the energy system of the future. What struck me is the alignment of thinking between Laura's group and Vector. We both believe that a centrally planned model focused on energy supply is largely redundant and that one which considers the opportunities that exist across

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the customer, the demand side, decarbonisation and a fully costed system is fit for the challenges of today.

I am very proud that Vector is recognised at top tables globally for our views, our willingness to advance through action, not just words, and expert opinions on the future of energy. Notably, our strategic alliance partner Amazon Web Services highlighted our cultural alignment to their way of thinking and ethos around innovation for customer benefit. There are certainly challenges and none of this transformation is easy. But for these reasons I am confident in Vector's leadership, both at a board and management level, and in the Symphony strategy. I look forward to seeing the company take the opportunities before it and continue to evolve into a truly innovative and world-leading energy group.

Finally, I thank my board for their support, wish in-coming Chair Jonathan Mason all the best and to Simon and his team, I have very much enjoyed our working relationship and you have my respect.

Group Chief Executive's Address:

Thank you, Dame Alison. Before I provide an overview of Vector's financial performance in FY 2020, I would like to acknowledge Vector's staff, our key partners, particularly our field service providers for their tremendous dedication to our customers throughout the year but particularly since the start of the Covid-19 pandemic. Our business started preparing for Covid-19 in January and moved quickly to activate our response team and initiatives, such as banning travel, temperature checking, and working from home trials starting earlier than most organisations. All of our business units have changed their ways of working multiple times in the past nine months and I am proud to say that our focus on our customers hasn't faltered. My thanks go to our Vector teams and to our partners.

Our earnings to June 30 were steady, with adjusted EBITDA of \$490.0 million, \$4.2 million ahead of last year. Group net profit after tax was \$97.3 million and includes a non-cash impairment of \$32 million in respect of E-Co Products Group.

Despite improved performance from E-Co in the first half of FY20, Covid-19 Alert Level 3 and 4 restrictions and the subsequent impact on the wider economy and consumer confidence, have impacted E-Co's growth trajectory. As a result, we have taken a conservative approach and impaired the carrying value of this business.

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Throughout the Covid-19 lockdowns, Vector observed significant changes in consumption trends across our electricity and gas networks. At the start of Alert Level 4 on 25 March 2020, volume across our electricity network dropped by approximately 15 percent compared with the average consumption of the previous three years.

Across our gas network it dropped by approximately 22 percent.

With more people working and studying from home, residential consumption during Alert Level 4 increased by approximately 13 percent. We also noticed morning peaks started later in the day and a midday peak forming for the first time on record. When the country entered Covid-19 Alert Level 1 and Alert Level 2 in August, residential trends largely returned to normal; however, commercial energy usage remains suppressed compared with historical averages.

I'll briefly talk about some of the highlights that you can see on the slide deck.

New electricity and gas connections increased by 7.8% on the comparative period. To keep pace with Auckland's growth and enhance network integrity, this year Vector invested an all-time high of \$317.1 million in our electricity and gas networks, 21.5% more than last year.

Overall, electricity volumes were 1.1% lower at 8,315 GWh with lower business volume partially offset by higher residential volume – as mentioned this was largely attributable to the Covid-19 lockdowns.

The sale of the Kapuni Gas Treatment Plant and associated assets to Todd Energy marked a key milestone for our Gas Trading business this year. This means that, in the future, Vector will no longer receive earnings from the Kapuni Gas Treatment Plant, but will recognise interest income "below the line" as part of its net interest costs. Bringing the ownership of the plant and field together clears the way for Todd to invest in developing the field. The deal includes long-term supply agreements, which means Vector can support our customers who value gas as a preferred energy choice.

Vector's LPG business, Vector OnGas, continues to operate in an increasingly competitive retail marketplace. The sustained strong performance from the Vector OnGas team is testament to their commitment to safety and customer service excellence, as well as innovating to provide new customer solutions and optimise existing operations.

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Our new energy solutions business, Vector Powersmart, has delivered several major projects in New Zealand and the Pacific this year – further enhancing our reputation as a leading provider of advanced energy solutions in the region. The floating solar array at Watercare’s Rosedale Water Treatment Plant has now been commissioned. This 1MW floating solar project is New Zealand’s first floating solar array and first megawatt-scale solar system. You may have seen recent media coverage about Vector Powersmart being selected as the technical partner in the next phase of the Hawke’s Bay Airport solar project. It is encouraging to see organisations look to renewable energy options in their communities.

Vector Fibre has continued to perform well this year, progressing plans to create new products and services to capitalise on changes in the telecommunications landscape. This business remains focused on seeing our fibre network support the roll-out of 5G technology against the backdrop of regulation opportunities to increase industry competition. As such, we continue to advocate for a level playing field for all competitors in this market, which is in line with the original framework for ultra-fast broadband. A key component of this strategy is investment in digital platforms to enhance the way our customers interact with us through the provisioning process.

Vector Metering grew strongly with 119,003 advanced meters installed in Australia and 36,350 in New Zealand during the year. In Australia, we are now averaging approximately 10,000 installations per month.

Vector has continued to explore how next generation connectivity platforms can further optimise our metering solutions and enable us to deliver even more value to our customers at scale. We have started multiple upgrade programmes across key service platforms to ensure we continue to meet the evolving needs of our customers. In the past year we announced a significant upgrade programme to replace all existing 2G modems with future proofed technology, which will support 4G and 5G technology as it becomes available.

In March, we announced a partnership with Spark as we look to modernise the way energy consumption is measured in Kiwi homes and businesses. The deal will see a significant number of Vector’s New Zealand-based advanced meters connect to Spark’s 4G supported CAT M1 Internet of Things (IoT) network, with the ability to shift on to 5G connectivity as part of a multi-year rollout. This partnership works alongside existing agreements with Vodafone.

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Once complete, this investment will clear the way for continued meter connectivity and enable ongoing product innovation opportunities decades into the future.

Earlier this year, we announced a strategic alliance with Amazon Web Services, or AWS. As you may have seen, the purpose of this alliance is to jointly develop a New Energy Platform. Once complete, the platform will better meet customer and regulatory requirements. Initially, it will enable us to rapidly collect information on energy consumption and network performance from more than 1.6 million of our advanced meters across Australia and New Zealand. These insights will help us to enable energy and utility companies to develop tailored product and pricing solutions for their customers based on their energy consumption habits. This will drive forward more affordable, reliable, and cleaner energy options to consumers through new market models that accelerate the uptake of renewables and electric vehicles. This is a multi-year partnership, and our intention is that the multi-fuel platform will be introduced first in Australia and New Zealand, where there are around 70 energy retailers and more than 40 distribution networks, with the potential to be offered elsewhere around the world in time.

This strategic alliance is the first of its kind for AWS in New Zealand, and for AWS in the global energy sector. Together, we will be hiring more than 30 employees in highly skilled technology and engineering roles in New Zealand to help develop the platform and associated applications.

As regulators in New Zealand and Australia request that data becomes more accessible, and with the exponential increase in the volume of data available, we will continue to lead with these types of partnerships, as part of our Symphony strategy. An example of this is our ongoing partnership with mPrest, where we are developing a distributed energy resource management system that will connect traditional infrastructure, like electricity lines and substations, with new technology like solar, batteries, or other distributed energy resources. We also continue our efforts in the electrification of transport, such as installing EV chargers on Waiheke Island, in partnership with EECA, to support its goal of becoming the world's first fully electrified island.

Looking ahead to next year, we remain committed to growing, advancing and maintaining our networks so they can continue to deliver for our customers and evolve in line with their changing energy needs and preferences. Like all businesses,

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we will continue to experience the impact and uncertainties caused by a Covid-19 world but have fared better than many – something we do not take for granted. We remain concerned about the regulatory settings and the impact on our ability to invest. We must balance these external pressures on Vector with our responsibility to deliver essential services at affordable prices for customers, and will continue to work constructively with the Commerce Commission on this matter.

For the coming financial year we are targeting adjusted EBITDA of between \$480m and \$500m. This takes into account all the factors just outlined.

We firmly believe that our Symphony strategy is the right one for us as we strive towards our vision of a new energy future. As a shareholder, in the next year you can expect to see Vector continue to execute our Symphony strategy, investing wisely and partnering smartly to benefit customers. We will embrace change and disruption and harness innovation with a relentless commitment to improving outcomes for our customers. With the high profile cyber security attacks recently, Vector assures our shareholders that we remain vigilant and never complacent. We have partnered with global experts to develop our own protection systems which we now offer to other companies as part of Vector Technology services.

In conclusion, I would like to take this opportunity to thank Dame Alison for the leadership and guidance she has provided Vector over the past 13 years. She is an exemplary business leader and her wisdom will be missed. On behalf of everyone at Vector, we wish you all the very best for your retirement.

Thank you.

ENDS

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About Vector

Vector is New Zealand's leading network infrastructure company which runs a portfolio of businesses delivering energy and communication services to more than one million homes and commercial customers across the country. Vector is leading the country in creating a new energy future for customers and continues to grow and invest in the growth of Auckland,

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and in a wide range of activities and locations. 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

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