

# Reporting Non-GAAP profit measures

## 1. Purpose

The purpose of this policy is to set out Vector's position in relation to reporting profit measures to the market *other* than those calculated in accordance with GAAP. It is intended to support the guidance provided by the Financial Markets Authority release of September 2012 'Guidance Note: Disclosing non-GAAP financial information'. This policy:

- (a) identifies the non-GAAP profit measures used by Vector;
- (b) prescribes the definitions applied by Vector to these non-GAAP profit measures;
- (c) prescribes the calculations applied by Vector to these non-GAAP profit measures;
- (d) provides guidance around the use of adjusting items to derive underlying results; and
- (e) provides disclosure guidance in respect to reporting non-GAAP profit measures in Vector's financial statements and other key public documents.

## 2. Definitions

**GAAP:** generally accepted accounting practice

**GAAP profit measure:** 'Profit or loss' as defined in paragraph 7 of IAS 1, and presented by Vector as 'Net profit for the period' in its financial statements.<sup>1</sup>

**IFRS:** International financial reporting standards

**Non-GAAP profit information:** Any measure of profit other than the 'profit or loss' as defined in paragraph 7 of IAS 1.1

**New Zealand GAAP:** NZ IFRS

## 3. Non-GAAP profit measures in use

The following is a list of the non-GAAP profit measures that Vector currently reports and the definition of these measures:

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<sup>1</sup> as defined by the Financial Markets Authority in its 'Guidance note: disclosing non-GAAP financial information' para 15.

**(1) EBITDA**

*Definition:* Earnings before net finance costs, income tax, depreciation, amortisation, share of net profit or loss from associates and impairments.

*Rationale:* EBITDA is a key measure used internally to evaluate and report on the operational profitability and performance of the business and individual operating segments.

**(2) EBIT**

*Definition:* Earnings before net finance costs, income tax, share of net profit or loss from associates and impairments.

*Rationale:* EBIT is a key measure that is reported to the group's chief operating decision makers in order to assess performance and make decisions about resources to be allocated to operating segments.

**(3) Underlying Net Profit & EBITDA**

*Definition:* Net profit and EBITDA adjusted to eliminate the effects of significant one-off gains, losses, revenues and expenses.

*Rationale:* Underlying results exclude the volatility of one-off transactions which allows us to measure and report the underlying operating performance trends of the business. This facilitates meaningful comparisons from period to period.

**4. Calculation of Non-GAAP profit measures****(1) EBITDA**

EBITDA shall be calculated as follows:

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Net Profit – GAAP

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*add* Net finance costs

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*add* Income tax expense or *deduct* income tax benefits

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*add* Depreciation and amortisation

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*add* Share of net loss from associates or *deduct* net profit from associates

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*add* Impairment losses or *deduct* reversals of impairment losses

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**(2) EBIT**

EBIT shall be calculated as follows:

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Net Profit – GAAP

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*add* Net finance costs

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*add* Income tax expense or *deduct* income tax benefits

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*add* Share of net loss from associates or *deduct* net profit from associates

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*add* Impairment losses or *deduct* reversals of impairment losses

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**(3) Underlying Net Profit**

Underlying Profit shall be calculated as follows:

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Net Profit – GAAP

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*excluding*, adjusting items as defined in this policy.

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**(4) Underlying EBITDA**

Underlying EBITDA shall be calculated as follows:

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EBITDA – as defined in this policy

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*excluding*, adjusting items as defined in this policy.

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**5. Adjusting items**

**Definition:** Adjusting items are items adjusted for tax that reflect significant one-off gains, losses, revenues and/or expenses within the reported result.

When determining if an item is an adjusting item Vector considers the following factors:

- (a) is the item material to understanding the underlying financial performance of Vector;  
and
- (b) is the item 'one-off'. Items that have occurred in recent periods or are likely to occur in future periods are unlikely to be "one-off" or "non-recurring".

In regard to any adjusting items, Vector shall:

- (a) for completeness, include all components of an adjusting item in the calculation;

- (b) prepare a clear narrative and explanation for every adjusting item;
- (c) where an adjusting item cannot be extracted directly from the financial statements provide a reconciliation to show how the number is calculated;
- (d) adopt a consistent approach from period to period. If the directors determine it necessary to change the approach from that applied in the previous period, an explanation about the nature of the change, the reasons for the change and the financial impact of the change shall be provided; and
- (e) for each adjustment made to GAAP financial information, adjust corresponding items in any comparative information making it clear that those prior years have been adjusted.

## 6. Disclosure guidelines

### ***General guidelines***

Vector's policy when using non-GAAP profit measures in documents, including (but not limited to) annual and interim reports, market and/or media releases and market presentations is as follows:

- (a) The definitions and naming conventions of non-GAAP profit measures as outlined in this policy shall be used consistently in all documents and in all reported comparative periods;
- (b) The calculations applied to non-GAAP profit measures as outlined in this policy shall be used consistently in all documents and in all reported comparative periods; and
- (c) Non-GAAP profit measures shall not be presented with undue prominence, emphasis or authority. The FMA guidelines provide guidance on what constitutes undue prominence.<sup>2</sup>

### ***Financial statements***

As Vector uses the non-GAAP profit measures of EBITDA and EBIT in its financial statements, the Accounting Policies set out in the Annual Report shall include a brief explanation of why they are used and how they are calculated in regard to their calculation and presentation in the financial statements. An example of this disclosure is attached as **Appendix 1**.

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<sup>2</sup> Financial Markets Authority. (2012). *Guidance Note: Disclosing non-GAAP financial information*. (pp. 9-10).

### ***Key documents***

Any document that contains non-GAAP profit measures that is deemed to be a key public document including (but not limited to) annual and interim reports, market and/or media releases and results presentations to the market shall contain the following disclosures for all current and comparative measures:

- (a) a statement disclosing the reasons directors believe that presentation of the non-GAAP profit measure provides useful information;
- (b) a clear narrative explanation about how the non-GAAP financial measure is calculated;
- (c) a reconciliation between the non-GAAP and GAAP financial measures that separately itemises and explains each significant adjustment. Where a reconciling item cannot be extracted directly from the financial statements, the reconciliation should state how the number is calculated; and
- (d) a clear statement identifying aspects of the non-GAAP financial measure that have been extracted from audited or reviewed financial statements.

An example of this disclosure is attached as **Appendix 2**

## **Appendix 1:**

### ***Vector Accounting Policy: Non-GAAP profit reporting measures***

Non-GAAP reporting measures have been presented in the income statement or referenced to in the notes to the financial statements. The following non-GAAP measures are relevant to the understanding of the Group financial performance:

EBITDA (a non-GAAP measure) represents earnings before net finance costs, income tax, depreciation, amortisation, share of net profit or loss from associates and impairments.

EBIT (a non-GAAP measure) represents earnings before net finance costs, income tax, and share of net profit or loss from associates and impairments.

For a more comprehensive discussion on the group's use of non-GAAP reporting measures, please refer to the policy 'Reporting non-GAAP financial measures' available on our website ([vector.co.nz](http://vector.co.nz)).

## Appendix 2: Non-GAAP profit reporting measures

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 reporting measures, please refer to the policy 'Reporting non-GAAP financial 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 substitute for measures reported by Vector in accordance with IFRS.

### Vector's definition of non-GAAP measures used in this document:

**EBITDA:** Earnings before net finance costs, tax expense, depreciation, amortisation, share of net profit or loss from associates and impairments.

**EBIT:** Earnings before net finance costs, tax expense, share of net profit or loss from associates and impairments.

### Underlying Net Profit and EBITDA:

Net profit and EBITDA adjusted to eliminate the effects of significant one-off gains, losses, revenues and expenses.

### Reconciliation of non-GAAP to GAAP profit measures used in this document:

	20XX \$M	20XX \$M
<b>Net profit for the period (GAAP)</b>	XXX.X	XXX.X
Less underlying adjustment <sup>1 3</sup>	XX.X	XX.X
Less underlying adjustment <sup>2 4</sup>	XX.X	XX.X
<b>Underlying Net Profit</b>	<b>XXX.X</b>	<b>XXX.X</b>
<b>Net profit for the period (GAAP)</b>	XXX.X	XXX.X
Add back: income tax expense <sup>5</sup>	XX.X	XX.X
Add back: impairment of investment in associate <sup>5</sup>	X.X	X.X
Add back: share of net loss from associates <sup>5</sup>	X.X	X.X
Add back: net finance costs <sup>5</sup>	XX.X	XX.X

<sup>3</sup> <insert narrative – underlying adjustment 1>

<sup>4</sup> <insert narrative – underlying adjustment 2>

<sup>5</sup> Extracted from audited financial statements

<b>EBIT5</b>	<b>XXX.X</b>	<b>XXX.X</b>
Add back: depreciation and amortisation <sup>5</sup>	XX.X	XX.X
<b>EBITDA5</b>	<b>XXX.X</b>	<b>XXX.X</b>
Less underlying adjustment <sup>1 3</sup>	XX.X	XX.X
Less underlying adjustment <sup>2 4</sup>	XX.X	XX.X
<b>Underlying EBITDA</b>	<b>XXX.X</b>	<b>XXX.X</b>





## 7. Document control

<b>Document author:</b>	Group Financial Controller
<b>Document owner:</b>	Chief Financial Officer
<b>Document approved by:</b>	Vector Board
<b>Document published:</b>	Vector’s website
<b>Date of issue:</b>	April 2020

