Market Release
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Vector Limited Annual Meeting of Shareholders Speaking Notes

Chair, Jonathan Mason

Ngā mihi o te ata ki a koutou katoa
Nau mai haere mai ki tēnei hui.
Ko Jonathan Mason toku ingoa.

Good afternoon and welcome to this meeting. My name is Jonathan Mason, and I am Vector's Chair.

I'd like to acknowledge Ngāti Whātua Ōrākei as mana whenua for central Auckland, where we are today.

I hope you found the video interesting. You'll have seen it focuses on a project to install a major, new underground power cable, at a cost of $50 million, to boost electricity supply capacity, and reliability, for the growing Warkworth area.

It's just one example of the types of investments Vector is making to support an increasing demand for electricity, including the electrification of transport, and to enhance resilience and reliability against the impacts of climate change.

As we have a quorum and it's 2:00pm, I will now declare open the 2023 Annual Meeting of Vector Limited shareholders.

We're starting today with ordinary business, which includes short addresses from myself and Simon.

Then the only item to be voted on today is the appointment of our auditor.

After that we'll move to general business, Q&A, and voting.

Today's meeting is a hybrid meeting, where shareholders can participate by asking questions and voting here in the room as well as online.

As this is a shareholder meeting, we ask that you please do not use the time for asking operational, or customer service, questions. Members of our customer team are available here in the room, and will be happy after the meeting to take these types of questions.

The time for relevant shareholder questions is after the presentation. We'll have microphones which will be available to you. Once you've asked your question, please give the microphone back so that others can have their turn.

We are limiting the number of questions each person can ask, to two questions only. This is so we can answer questions from as many shareholders as possible. If, after two questions, you still have more, myself, incoming chair Doug McKay and Group chief executive Simon Mackenzie, will be available after the meeting for up to an hour.

While we welcome any members of the media to our meeting today as observers, please hold your questions during the meeting. If you would like to talk to Simon or myself after the meeting, please make yourself known to one of our communications team, who are at the back of the room, or call our usual media phone number.

If you're online and you'd like some help, you can type your query and one of the Computershare team will assist you.

Voting today will be conducted by way of a poll.

If you're here in the room, you can mark your voting paper at any time, and a team member from Computershare will collect the voting forms at the end of the meeting.

If you're online, you will be able to cast your vote under the Vote tab, once I declare voting open.

I will indicate when voting will close, so that you have a final opportunity to cast your vote.

With those instructions now complete, I declare voting open.

The proxy appointments are shown on screen.

It's now my pleasure to introduce my fellow directors: Alastair Bell, Tony Carter, Dr Paul Hutchison, Doug McKay, Dame Paula Rebstock, Bruce Turner, and Anne Urlwin, who is joining us remotely. Also at the table we have Group Chief Executive Simon Mackenzie and John Rodger, Chief Legal & Assurance Officer and Company Secretary. Vector's Chief Financial Officer, Jason Hollingworth, and external auditor Graeme Edwards from KPMG are seated in the front row.

We see our role at Vector as navigating the complexities of the energy transition. Whether that's by enabling the system changes needed for efficient and affordable decarbonisation, or boosting resilience against a rapidly changing climate. There is an urgent need for decarbonisation, and this is the biggest challenge for the Group, but it also presents a significant opportunity.

We know that current and future energy needs cannot be met by systems and solutions of the past. We need to do things differently, giving customers more choice, and this year Vector has continued to go beyond the status quo. We've deployed a range of innovative solutions to support smart energy use using digital technology, and our strategic partnerships, driven by our team with a depth of skills and experience that we are immensely proud of.

In these uncertain times, we're thinking about the future of energy, so our consumers don't have to.

This year we've seen some solid financial results.

Given the sale of Vector Metering, we're presenting the results here as Continuing, Discontinued, and Combined operations, so you can see what the picture looks like with and without the Vector Metering component.

We've seen a strong performance across the portfolio, with Combined adjusted EBITDA of $523.3 million, up $13.3 million or 2.6% on last year's result. This is made up of $335.1 million from continuing operations and $188.2 million from discontinued operations.

Total combined capital expenditure was $700.4 million, an increase of $154.5 million or 28.3% on the prior period. You can see there was an increase in both Continuing and Discontinued operations, with ongoing investment in infrastructure to support Auckland's growth driving the

Continuing operations figure, while for Discontinued operations the investment is in the ongoing rollout of meters in Australia and 4G modem upgrades in New Zealand.

Group net profit from Continuing Operations was $112.6 million which was $10.1 million or 9.9% higher than the prior year. You can see here the impact of the Vector Metering transaction, which resulted in a one-off gain on sale of $1.51 billion, feeding into net profit from Discontinued Operations of $1.60 billion, and a Combined net profit of $1.72 billion.

The Board has determined that shareholders will receive an unimputed final dividend of 14.0 cents per share, comprising an ordinary dividend of 8.5 cents and a special dividend of 5.5 cents in recognition of the gain from the sale of 50% of the metering business.

As we indicated at the interim results earlier this year, now that the metering transaction has concluded, the board will review Vector's future dividend policy. The Board will do this after the release of the Commerce Commission's Input Methodologies Review, which is due in December. The Board expects to announce any changes to the dividend policy along with the release of our FY24 interim results, in February next year.

Our Total Shareholder Return, which factors in capital gain on share price as well as dividends paid and imputation credits attached to dividends, compares well against the average across the NZX 50.

When looking at the 5 year TSR Vector has outperformed the market, and over a 10 year period is broadly in line with the market.

The sale of a 50% interest in Vector Metering was completed on 30 June 2023, and resulted in a significant one-off gain. The proceeds have been used to repay debt, with gearing falling to 33.1%, compared to a gearing of 58.2% at 30 June 2022. Some of the proceeds have been retained to repay wholesale bonds on maturity in March 2024 and other debt.

We had questions and challenges at our last annual meeting about our gearing and balance sheet. We are pleased to have made significant progress since that meeting.

Standard & Poor's has recognised the strengthening of Vector's balance sheet by increasing our credit rating to BBB+ with a positive outlook.

With the successful conclusion of the Vector Metering transaction, Vector is positioned well for the future to support the decarbonisation of the economy, including the electrification of transport, and to enhance resilience and reliability against the impacts of climate change. However regulatory settings must be changed to enable the level of investment required. Simon will have more to say on what specific changes are needed a bit later on.

To give you a sense of the investment that's needed, capital expenditure for the Regulated Networks segment of Vector, which includes the electricity network, was $422.6m, while operating expenditure was $344 million. That's more than $1 million per day, as the Group ramps up investment in infrastructure to support Auckland's growth, strengthen the network against climate change and continue to prepare for the decarbonisation of the economy.

This reflects a continuing trend of year on year increases at levels we believe are at, or near, the highest of any single entity involved in the energy transition.

This is important because New Zealand has a tendency to underspend on infrastructure until it's too late. Vector, in its' Auckland network, is an exception, with spend of $2.3 billion over the past eight years. We need a system with good incentives for reinvestment to meet the decarbonisation challenge in the coming years, as demand for electricity continues to grow.

A highlight from the year has been the ongoing work to challenge ourselves to further refine and develop our understanding and disclosure of climate risks and opportunities. This is exemplified in our leading Taskforce for Climate Related Financial Disclosures report, now in its third year of publication.

We've been encouraged by the external feedback we've received on the maturity of our understanding and disclosure of climate risks and opportunities. According to this feedback, our report compares highly favourably with peer companies from New Zealand, and is in the upper quartile globally.

A strong contributor to this is our sector-leading work to develop a carbon emission abatement cost curve, which we've updated this year to reflect our progress, and our latest assessment of the cost and benefit of further action.

Activities to reduce our own emissions this year have included increasing the frequency of gas pipeline surveying for leaks, from every two years down to annually. This means we find and fix gas pipeline leaks faster, resulting in the reduction of emissions from those leaks.

In my final year as Chair of the Vector Board, I'm pleased to step off as the Group continues to pursue its Symphony strategy to deliver an affordable, reliable electrified future. This is one where renewable energy is delivered efficiently, and networks are optimised to reduce the need for large upgrades. And, ultimately, where consumers will have more energy choices, including producing and selling their own renewable energy.

Tony Carter also retires from the board today. He has served since May 2019, and my thanks go to Tony for his commitment and contribution during his time as a director.

I'd like to thank Simon and his executive team, and everyone else at Vector for their work throughout the year. It's been a big year for the Group, and we're very proud of what we've achieved.

As this is my last annual meeting as Chair, I'd also like to thank all shareholders including our majority shareholder Entrust, and the investment community, for their constructive challenge and support.

CEO, Simon Mackenzie

Thank you Jonathan.

A major highlight from the year is, of course, the successful sale of a 50% interest in Vector Metering to QIC.

We are proud of the growth of the metering business over 14 years and believe it to be one of New Zealand's business success stories. It may not have been obvious more than a decade ago just how important smart meters would become. However, our forward-thinking strategy to establish and grow a highly successful metering business has proved the right call for Vector. This has been strongly validated by the successful sale of a 50% interest in the business, and the financial outcome for Vector, which Jonathan has already spoken about.

Backed by Vector and QIC, Vector Metering is well set up to accelerate growth opportunities in a significant market, and to continue providing data services for their customers to deliver innovative energy solutions.

The transaction with QIC is also the latest example of Vector choosing to grow or partner with an external organisation of high calibre, as we've done with other partners such as Amazon Web Services and Google X.

The new Vector Metering company has exclusive rights to use our industry-leading energy data platform called Diverge to provide metering data services in the New Zealand and Australian markets.

This platform was developed under the strategic alliance between Vector Technology Solutions and AWS, and ownership of the Diverge platform, and Vector Technology Solutions, stays 100% with the Vector group. Platform results from Australia show a material step up in processing times, accuracy, and delivery times, with flexibility to add new products and services quickly.

VTS is continuing to take solutions to market and explore specific new opportunities in response to emerging international demand for the types of solutions it provides.

It's also contracted to a number of parties for the provision of services, including the new, separate, Vector Metering company for meter data services.

And it provides managed cyber security services to five other Electricity Distribution Businesses around New Zealand, in addition to Vector. We see this as sharing the expertise we've developed, and encouraging an overall uplift in the cyber posture of the electricity distribution industry in New Zealand.

Electricity network performance was tracking within regulatory quality measures, but then in January we saw a 1 in 250 year flooding event on Auckland Anniversary weekend, followed by Cyclone Gabrielle just two weeks later, which was an event bigger even than Cyclone Bola.

After those severe weather events, one of our regulatory measures was breached, which was unplanned SAIDI, which stands for System Average Interruption Duration Index. This measures how long customers are without power for.

Our analysis shows the majority of SAIDI impact during Cyclone Gabrielle was caused by vegetation, and a significant amount of this was from trees outside the designated growth limit zone. This is in line with other severe weather events. Had the regulations been addressed, as we've been calling on for years now, we believe the impact on customers from these weather events would have been materially less. An example is in West Auckland, where we're currently going through the process to gain resource consent for tree work to improve reliability. This area was severely impacted during the cyclone, and yet we're still having extreme difficulty securing the consent to carry out the work. It's now urgent to update the tree regulations.

Other electricity distribution businesses, who were also impacted by Cyclone Gabrielle, have seen similar impacts to their SAIDI results. We're in discussion with the Commerce Commission over appropriate consideration of these weather events.

Our cost estimate for these events is around $7.4 million of operating expenditure, with a further $9.2 million of capital expenditure incurred replacing damaged assets.

These events, their cost to us, and more importantly their impact on customers, show the benefit of prior investments to improve resilience. For example, on screen you can see our Wairau Road zone substation, during the flooding earlier this year. Our decision in 2012 to shift critical assets to a new building and elevate them above a 1 in 500 year flood level, proved instrumental in minimising the impact at that location. You can see the water level during the flood on this slide, almost up to the top of the fences. Our assets are sitting above the water level, in the building shown on the right.

If the past 12 months of weather have shown us anything, it's that the forces of climate change are aggressively and repeatedly impacting our Auckland customers.

In our latest Asset Management Plan, we're forecasting an approximate $270 million over the next five years for reliability and climate change investment, and we have ongoing work underway to refine this further as we look ahead to future severe weather events.

It's a critical time to invest in the energy sector, with demand for electricity set to grow strongly with electrification, and as we're faced with increasing demands for resilience in the face of climate change.

The distribution sector regulatory settings set by the Commerce Commission are hugely important and must achieve the right balance of investment incentives to provide for resilience, affordability, and customer requirements. Currently, they don't.

We're doing our part by laying the foundations for this on our own network, so that we can enable effective orchestration of load around peak times and integrate more flexible, cost-effective solutions to demand growth challenges.

As the country's largest electricity distributor Vector absolutely wants to continue enabling electrification and doing it in the most affordable way possible for our consumers. However, alongside other electricity network companies, we can only do so within the bounds of the Commission's strict regulatory returns and funding regime.

The Commerce Commission is currently developing a final decision over Input Methodologies, which are the key regulatory principles that will then bind the way electricity networks can operate and invest for the next seven years. Regulated distribution networks cannot be the sole industry price shock absorber, as proposed by some, at a time of needed investment. It is important that no part of the energy system is immune from scrutiny and sharing the affordability challenge. Because it is so critical to invest now for more resilience, and more long term affordability, we will continue to strongly advocate for improved financeability to create a sustainable investment pathway to enable decarbonisation.

I'll now go over the operational performance of our reported segments.

Firstly, for the regulated electricity and gas networks:

- Total net connections continue to grow with electricity connections up 2.1% to 612,909 and gas connections up 1.4% to 119,631.
- Electricity volumes overall were up 2.3% at 8,552 GWh, driven by higher business demand.
- You've already heard about the amount of investment going into the network, and why it's so critical that we can continue to do this to support electrification.

For Gas Trading:

- Earning are up 23% on the prior year, with increased margins on LPG and natural gas.
- Natural gas volumes were 1.9% higher, while LPG volumes were down.

For Metering:

- Australian and New Zealand smart meter deployment programmes both continued strongly, with 89,000 meters deployed and billed in Australia and 26,000 in New Zealand.
- The advanced meter fleet stands at 2.09 million.
- The Australian meter fleet was successfully migrated to the new 5 minute settlement market in line with regulatory timelines.

In closing, I'll talk briefly about the year ahead.

We expect Auckland growth to continue, and we're anticipating around 14,000 new electricity connections in FY24.

There is an ongoing need for significant capital expenditure to support new connections and infrastructure, as well as continuing to factor in climate resilience.

The Commerce Commission's regime currently sets a cash return on assets of approximately 2.58%. We're in a critical decision making period for the Commerce Commission and how they evolve regulatory settings to meet the resilience and decarbonisation challenges.

Our guidance is for adjusted EBITDA of $350m-$365m in FY24, which excludes Vector Metering.

I'd like to thank all our staff and Field Service Providers for their huge efforts this year, not just in responding to the extreme weather events in the early part of 2023, but also for their work every day to deliver for our customers. I'd also like to recognise all the work that's gone into the Vector Metering deal to make it so successful, and to all our people and partners for continuing to progress our Symphony strategy.

I'd also like to acknowledge and thank Jonathan, as this is not only his last meeting as Chair, but also as a member of the Vector board. Thank you Jonathan for everything you've done for Vector, your strong contributions and challenges as a board member, and your leadership of the board over the past three years.

Thank you.

ENDS

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About Vector

Vector is an innovative New Zealand energy company, which runs a portfolio of businesses delivering energy and communication services to more than 600,000 residential and commercial customers across New Zealand and the Pacific. Vector has a leading role in creating a new energy future through its Symphony strategy which puts customers at the heart of the energy system. Vector is listed on the New Zealand Stock Exchange with ticker symbol VCT. Our majority shareholder, with voting rights of 75.1%, is Entrust. For further information, visit www.vector.co.nz