

# 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 July 2017 '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; and
- (e) provides disclosure guidance in 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 NZ IAS 1 *Presentation of Financial Statements*, 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.

**New Zealand GAAP:** NZ Equivalents to IFRS

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

### 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:

#### **(1) EBITDA**

Definition: Earnings before interest, taxation, depreciation, amortisation, impairment, associates and fair value changes.

Rationale: EBITDA is a key measure used internally to evaluate and report on the operational profitability and performance of the group and the reported segments.

#### **(2) Segment EBITDA**

Definition: Segment earnings before interest, taxation, depreciation, amortisation and impairment, associates and fair value changes.

Rationale: Segment EBITDA is a key measure used internally to evaluate and report on the operational profitability and performance of the reported segments.

#### **(3) EBIT**

Definition: Earnings before interest, taxation, impairment, associates and fair value changes.

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.

#### **(4) Adjusted EBITDA and Adjusted EBIT**

Definition: EBITDA and EBIT adjusted for capital contributions and significant one-off gains, losses, revenues and/or expenses.

Rationale: Adjusted EBITDA excludes 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.

#### **(5) Segment Adjusted EBITDA**

Definition: Segment EBITDA adjusted for capital contributions and significant one-off gains, losses, revenues and/or expenses.

**Rationale:** Segment Adjusted EBITDA excludes the volatility of one-off transactions which allows us to measure and report the underlying operating performance trends of the segments. This facilitates meaningful comparisons from period to period.

## 4. Calculation of Non-GAAP profit measures

### (1) EBITDA

EBITDA shall be calculated as follows:

Net Profit - GAAP
<i>add</i> net interest costs
<i>add</i> Tax expense or <i>deduct</i> tax benefits
<i>add</i> Depreciation and amortisation
<i>add</i> Impairment
<i>add / (deduct)</i> associates (share of net (profit)/loss
<i>add/ (deduct)</i> fair value changes on financial instruments

### (2) EBIT

EBIT shall be calculated as follows:

Net Profit – GAAP
<i>add</i> net Interest costs
<i>add</i> Tax expense or <i>deduct</i> tax benefits
<i>add</i> Impairment
<i>add / (deduct)</i> associates (share of net (profit)/loss
<i>add/ (deduct)</i> fair value changes on financial instruments

### (3) Segment EBITDA

Segment EBITDA shall be calculated as follows:

Segment Profit/(loss) – GAAP
<i>add</i> Depreciation and amortisation
<i>add</i> Impairment

#### **(4) Adjusted EBITDA and Segment Adjusted EBITDA**

Adjusted EBITDA and Segment Adjusted EBITDA shall be calculated as follows:

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EBITDA or Segment EBITDA – as defined in this policy

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*deduct* Capital contributions

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

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#### **(6) Adjusted EBIT**

Adjusted EBIT shall be calculated as follows:

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EBIT – as defined in this policy

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*deduct* Capital contributions

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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 and greater prominence, emphasis or authority than the most directly comparable GAAP financial information. The FMA guidelines provide guidance on what constitutes undue and greater prominence.

### ***Financial Statements***

As Vector uses the non-GAAP profit measure of EBITDA in its financial statements, the Accounting Policies set out in the Annual Report shall include a brief explanation of why it is 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**.

### ***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**

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## **Appendix 1:**

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

Non-GAAP reporting measures have been 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 interest, taxation, depreciation, amortisation, impairment, associates and fair value changes.

EBIT (a non-GAAP measure) represents earnings before interest, taxation, impairment, associates and fair value changes.

Adjusted EBITDA (a non-GAAP measure) represents EBITDA adjusted for capital contributions and significant one-off gains, losses, revenues and/or expenses.

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 NZ IFRS.

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

**EBITDA:** Earnings before interest, taxation, depreciation and amortisation impairment, associates and fair value changes .

#### Adjusted EBITDA:

EBITDA adjusted for capital contributions and significant one-off gains, losses, revenues and/or expenses.

GAAP to Non-GAAP Reconciliation	20XX \$M	20XX \$M
<b>EBITDA and Adjusted EBITDA</b>		
<b>Reported net profit for the period (GAAP) – continuing operations</b>	XXX.X	XXX.X
Add back: net interest costs <sup>2</sup>	XX.X	XX.X
Add back: tax (benefit)/expense <sup>2</sup>	X.X	X.X
Add back: depreciation and amortisation <sup>2</sup>	X.X	X.X
Add back: impairment	X.X	X.X
Add back: associates (share of net (profit)/loss)	X.X	X.X
Add back: fair value change on financial instruments	X.X	X.X
<b>EBITDA – continuing operations</b>	<b>XXX.X</b>	<b>XXX.X</b>
Adjusted for:		
Capital contributions	XX.X	XX.X
<b>Adjusted EBITDA – continuing operations</b>	<b>XXX.X</b>	<b>XXX.X</b>

<sup>2</sup> Extracted from audited financial statements



## 7. Document control

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