vector

ANNUAL REPORT 2020

The interplay of today and tomorrow.

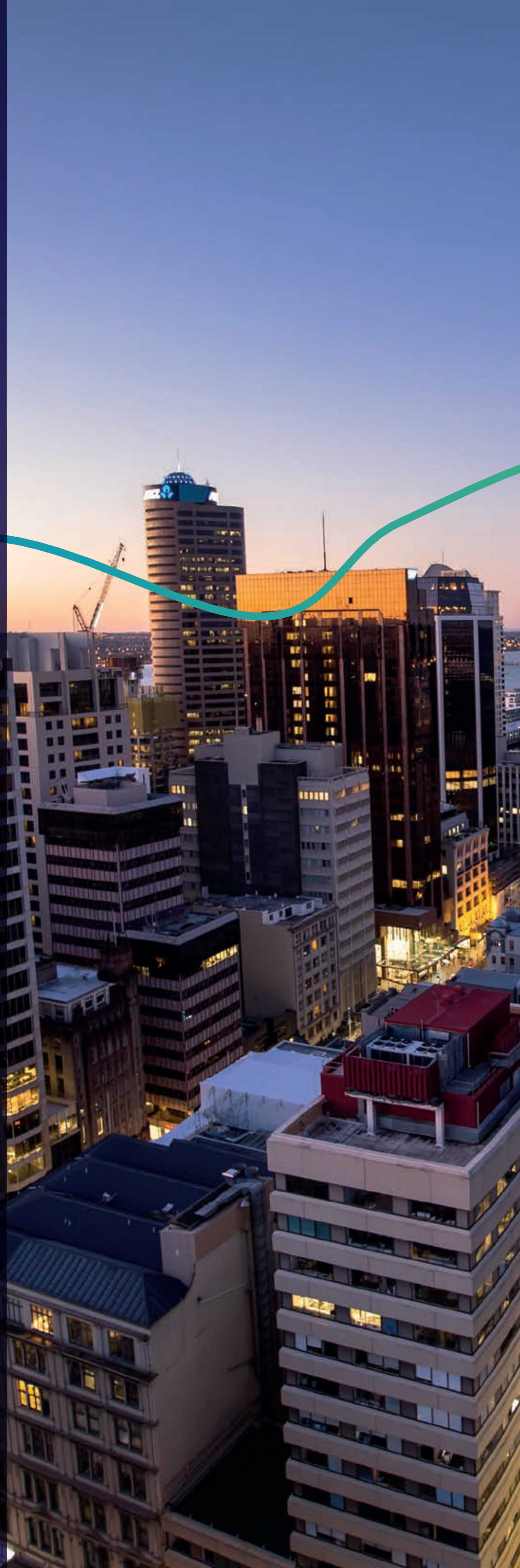
THE INTERPLAY OF
TODAY AND TOMORROW

Second to second. Decade to decade.

At Vector, the interplay of daily living, detail and foresight – now and in the future – motivates us to ensure our essential services are delivered for customers, but also that we continue to evolve to meet future challenges. Our focus is on being proactive, leading, and creating, not waiting for the future to arrive.

This year, the COVID-19 lockdowns further highlighted the need for everyone who uses our services to have as close to uninterrupted supply as possible. Our people are dedicated to making that happen. We continue to lift our responsiveness to ensure our energy system operates at peak efficiency. We continue to sharpen our networks and increase new technologies. We question the rules that seem to hold energy consumers back.

In the longer term, as the very nature of how customers source their power changes, we'll be at the heart of a digital and technological revolution that will accelerate decarbonisation and see our customers empowered as never before. We have a key role to play in creating a cleaner energy future. Already, we're engaging in new technologies, partnerships and global alliances that will redefine the possibilities in the years ahead.



About this report

This report, dated 26 August 2020, is a review of Vector's financial and operational performance for the year ended 30 June 2020.

The financial statements have been prepared in accordance with appropriate accounting standards and have been independently audited by KPMG.

The financial and operational information has been compiled in line with NZX Rules and recommendations for investor reporting.

The report has drawn from a wide range of information sources. This includes: our stakeholders, customers, communities, sustainability framework, value drivers, risk register, Board reports, asset management plan, financial statements and our operational reports.

Throughout the report, we have focused on what matters most to our stakeholders and our business.

Care has been taken to ensure all information in this report is accurate, including internal assurance and verification processes and Board approval.

Forward-looking statements in this report are based on best-available information and assumptions regarding Vector's businesses and performance, the economy and other future conditions, circumstances and results. As with any forecast, forward-looking statements are subject to uncertainty. Vector's actual results may vary from those expressed or implied in these forward-looking statements.

Contents

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.

Disruption is here, and while some energy companies choose to take a "wait and see" approach, Vector has been an active leader in the disruption for years. We have long recognised the potential benefits of energy sector transformation, and we've been leading the adoption of new energy technologies in New Zealand as we gear our business towards putting the customer at the heart of the energy system. We've recently named this strategy 'Symphony', in which each of our six business units has a key role to play to:

1. Design energy solutions and systems around the customer – transforming our systems to start with demand, not supply.

2. Keep it local – locate energy systems in the community to increase resilience and system-wide efficiencies.

3. Optimise the system – leverage smart energy solutions, future focused using technology and data to support an agile system which can unlock new products and solutions for our customers.

4. Capture the value of coordination – enable an energy system that is more than the sum of its parts through coordination between customers and their energy systems, between distributed energy resources, and across energy supply chains.

Symphony is how Vector is creating a new energy future, supporting a cleaner, more affordable and reliable energy system.

Symphony Strategy

THE INTERPLAY OF TODAY AND TOMORROW

Customer benefits of Symphony

COST EFFICIENCIES

Cost efficiencies can be delivered by harnessing the power of data to build efficient assets and provide new products and services to our customers

CLIMATE ACTION

Climate action is enabled by supporting New Zealand's electrification of transport and transition to a low emissions economy

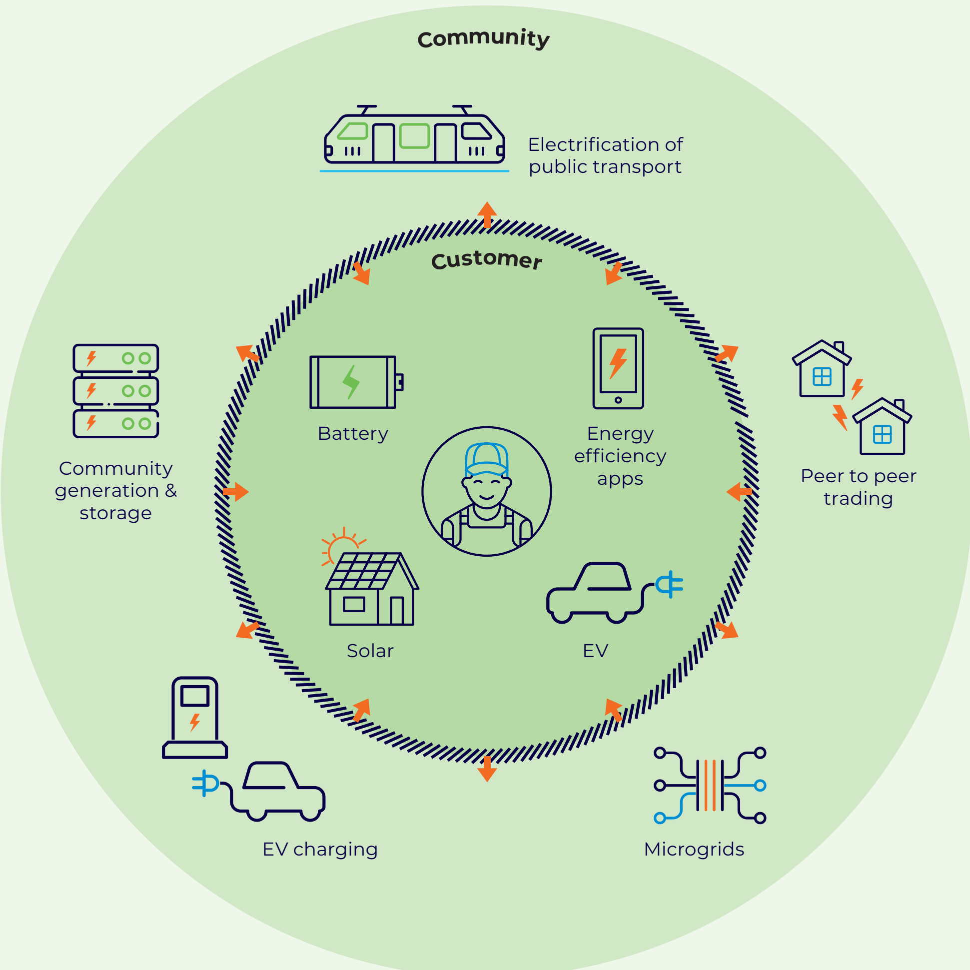
RELIABILITY & RESILIENCY

Reliability and resiliency will increase, due to data insights into operational and asset performance and customer trends

CUSTOMER CHOICE

Customer choice increased across a range of competing services to create healthier and smarter homes that will optimise energy use to suit their needs

THE FUTURE OF ENERGY



How we're creating a new energy future:

- Intelligent Distribution Network
- Harnessing the power of data analytics and new technology
- Working with aligned partners and sector specialists to accelerate our progress and ensure best practice
- Working collaboratively across the Vector Group to unlock potential
- Keeping the customer at the heart of every decision
- Connecting network assets and distributed energy resources with a focus on cyber security
- Enabling customers to have cleaner, more reliable and affordable energy
- Advanced meters allowing customers to develop new products and services for changing consumer needs.

KEY

Data & electricity

Smart distribution network

OUR ENERGY SYSTEMS

$488.7M INVESTED

GROSS CAPITAL EXPENDITURE INVESTMENT ACROSS VECTOR GROUP

15,432

NEW ELECTRICITY AND GAS CONNECTIONS ADDED

CUSTOMERS AND COMMUNITY

STRATEGIC ALLIANCE

WITH AMAZON WEB SERVICES TO CREATE THE NEW ENERGY PLATFORM

119,000+

ADVANCED METERS INSTALLED IN AUSTRALIA

ESSENTIAL SERVICE

STATUS DURING COVID-19 ALERT LEVELS 4 AND 3 – THANK YOU TO OUR PEOPLE AND PARTNERS FOR ENABLING VECTOR TO KEEP THE LIGHTS ON AND ENERGY FLOWING FOR OUR CUSTOMERS DURING THE PANDEMIC

BATTERY INDUSTRY GROUP (B.I.G.)

SPEARHEADED AN INDUSTRY-WIDE EFFORT TO DEVELOP A CIRCULAR ECONOMY PRODUCT STEWARDSHIP SCHEME FOR END-OF-LIFE BATTERIES

Performance snapshot

THE INTERPLAY OF TODAY AND TOMORROW

CLEAN ENERGY

WAIHEKE ISLAND

SUPPORTING THE GOAL TO BECOME THE WORLD'S FIRST ELECTRIFIED ISLAND THANKS TO AN EECA FUNDING GRANT TO VECTOR TO INSTALL SMART EV CHARGING INFRASTRUCTURE

VECTOR POWERSMART

CLEAN ENERGY SYSTEMS DELIVERED FOR THE GOVERNMENT OF NIUE (WITH SUPPORT FROM MINISTRY OF FOREIGN AFFAIRS AND TRADE) AND WATERCARE

EMPOWERED PEOPLE

SUPREME AWARD

AT THE DIVERSITY WORKS AWARDS FOR OUR COMMITMENT TO BUILDING AN INCLUSIVE AND SUPPORTIVE WORKPLACE CULTURE

17%

REDUCTION IN OUR TRIFR COMPARED WITH FY19, 11% INCREASE IN LTIFR[1]

GENDER DIVERSITY 35%

FEMALE EMPLOYEES (UP FROM 34% FY19)

FINANCIAL SUSTAINABILITY

$490.0M

ADJUSTED EBITDA[2]

MORE THAN

$1B

SUCCESSFUL DEBT RAISING AND REFINANCING ACROSS NEW ZEALAND AND UNITED STATES FINANCIAL MARKETS

$97.3M

GROUP NET PROFIT AFTER TAX

16.5CENTS

PER SHARE FULL-YEAR DIVIDEND

SALE

OF KAPUNI GAS TREATMENT PLANT AND ASSOCIATED ASSETS TO TODD ENERGY

1. Lost Time Injury Frequency Rate (LTIFR) and Total Recordable Injury Frequency Rate (TRIFR).
2. Refer to Non-GAAP reconciliation on page 34.

Chair and Group Chief Executive report

One of the biggest lessons from the past year is how important it is to be ready and willing to adapt to change within an unchartered and fast-moving environment.

As a provider of essential services, Vector is proud of the way our people responded to the COVID-19 global pandemic. Whether it meant putting the needs of our customers and communities ahead of their own fears or working collaboratively to find an innovative solution to a new problem – our people showed courage and determination at every turn.

As well as a summary of our past year's performance, this report includes tributes to the outstanding commitment and dedication of our people and field service partners, who went above and beyond for our customers in the most unsettling of circumstances.

In addition to adapting admirably to change, our people and partners have been the driving force behind Vector's exciting progress towards our new energy future vision in FY20. Despite the challenges of today, our integrated Group strategy we call 'Symphony' is preparing us for the opportunities of tomorrow.

Through Symphony, we are tracking well towards our objective of providing shareholders with more options for sustainable returns – further defining our company as an innovative energy group with a growing local and international impact.

Steady earnings performance

The Group delivered a steady earnings performance for the year, with the adjusted EBITDA of $490.0 million, $4.2 million ahead of FY19.

Our revenues continued to grow from investment in metering in New Zealand and Australia, however we still face challenges given the recent electricity regulatory reset and interest rate environment. These gains were partially offset by increased maintenance expenditure to improve electricity network reliability, as well as the impact of COVID-19, which was particularly significant for the E-Co Products Group, which had demonstrated improved performance prior to ceasing operations during Alert Level 4 lockdown.

Group net profit after tax was $97.3 million which is an improvement on the previous year. More detailed information about our financial performance is provided in the Financial Review on pages 12 to 13.

Dividend

As announced in our interim report, the Board has decided to move from a progressive dividend policy, to a policy of maintaining the current dividend of 16.5 cents per annum, with the expectation of future dividend growth based on projected growth in Vector's businesses.

This year, shareholders will receive a final dividend of 8.25 cents per share imputed at 10.5%, taking the full-year partially imputed dividend to 16.5 cents per share. The final dividend will be paid to investors who are on the register at 14 September 2020 and distributed to investors on 21 September 2020.

COVID-19 network demand impact

Understanding how and why demand patterns change over time is essential for efficient network planning and investment. Throughout each stage of the COVID-19 lockdown, 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% compared with the average consumption of the previous three years. Across our gas network it dropped by approximately 22%. For the first time, weekday commercial load profiles across both networks resembled those of a typical weekend.

With more people living, working and schooling from home, residential consumption during Alert Level 4 increased by approximately 13%. 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, residential trends largely returned to normal; however, commercial energy usage remains suppressed compared with historical averages.

Vector continues to advocate for greater access to customer advanced meter data. These insights would allow us to harness the latest data analysis technologies to improve investment decisions and forecasting methods for new customer growth, as well as improve customer experiences by enabling more accurate customer communication about a network outage and more coordinated outage responses.

Accelerated momentum across the Group

During the initial COVID-19 lockdown, our teams were busy finalising an exciting strategic alliance with global cloud provider Amazon Web Services (AWS). While the agreement was signed after the balance date, this alliance is a critical part of unlocking the new energy future. Our multi-year partnership with AWS will see us co-develop a cloud-based New Energy Platform (NEP) which will radically improve the way we collect and process energy consumption data from advanced meters. The strategic alliance to jointly develop the NEP is the first of its kind for AWS in New Zealand, and for AWS in the global energy sector. The NEP will help to unlock innovative energy products and services to benefit consumers. We look forward to working alongside AWS and our energy industry partners initially in New Zealand and Australia to bring these to market over time.

This year, Vector Metering has expanded its leadership position in the Australian and New Zealand markets. Our investment in people, systems and digital platforms has enabled us to optimise our installation process over the past year, comfortably meeting service level agreements and enabling us to consistently and reliably scale up meter installations. In October 2019, Vector Metering announced an innovative partnership with Genesis Energy to roll out advanced gas meters to their customers across New Zealand. The advanced metering solution will see Genesis become the first energy retailer to move customers from an analogue to digital platform, resulting in greater transparency and visibility over customer gas use.

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. The process has constructively reset the relationship. 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.

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 build of the floating solar array at Watercare's Rosedale Water Treatment Plant is complete with commissioning in late August.

Our Vector Fibre business has continued to perform well this year, progressing plans to create new products and services to capitalise on changes in the telecommunications landscape. Vector Fibre remains focused on seeing our fibre network support the roll-out of 5G technology against the backdrop of regulation opportunities to increase industry competition. A key component of this strategy is investment in digital platforms to enhance the way our customers interact with us through the provisioning process.

As we continue our efforts to create a new energy future for New Zealand, Australia and beyond, the power of the Symphony strategy lies in combining our many strengths. As an integrated Group united under one strategy, this enables us to overcome challenges and capitalise on the best opportunities to empower our customers now and into the future.

Lifting customer service

In a year characterised by constant change, our commitment to improving customer service in our regulated electricity and gas businesses has remained constant, and we are pleased to report continued progress.

We invested $317.1 million – or $6.1 million every week – to make our networks more intelligent and resilient and to keep pace with Auckland's growth. Furthermore, we have actively embraced new ways of working that have reduced the frequency and duration of outages across the electricity network. In FY20 we ran an internal programme to significantly reduce our System Average Interruption Duration Index (SAIDI) and continuously drive reliability and performance. We are proud of the progress we made, and will work hard to build on these achievements to deliver a favourable network performance outcome in the coming year.

DAME ALISON PATERSON
CHAIR

SIMON MACKENZIE
GROUP CHIEF EXECUTIVE OFFICER

In the past year, Vector has progressed work on a digital platform to enhance the way we monitor the condition, performance and future potential of the many thousands of assets that make up our electricity network, such as poles, wires and transformers.

Working collaboratively with our field service providers (FSPs), we are now collecting and storing more detailed, accurate and consistent data to track the general health and condition of our network assets. This capability is paving the way for more precise and real-time information flow to customers via the Outage Centre and other customer information channels.

Funding efficient investment

As a country – and now more than ever – we must be strategic and 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.

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. Nor do we 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.

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, extending and maintaining Auckland's electricity network to the best of our ability for the benefit of energy consumers.

Vector Technology Services

In the past year, Vector carried out a review of our assets and business activities to support the delivery of our future-focused Symphony strategy. In addition to the movement of some assets between wholly-owned entities within the Group, the restructure saw several digital assets moved to a new entity, which we have named Vector Technology Services (VTS).

Our Symphony strategy has a fundamental technology overlay across all business units, including our electricity business, and there are opportunities to commercialise these solutions. Beyond creating another revenue stream for the Group, taking these proprietary solutions to market will support other infrastructure companies on a similar digital transformation. The review found that such activities can be more effectively and transparently achieved through a new subsidiary company with its own incentives and leadership. At first, VTS will focus on our industry-leading cyber security capability which was developed by Vector's own cyber experts with input from expert global partners. We will also take to market our Distributed Energy Resource Management Systems (DERMS), the system co-developed with our partner, mPrest. In future, we will look to add

"As a country – and now more than ever – we must be strategic and focus on creating a high-value economy that is built on innovation, moving from volume to value."

to our catalogue of services, working alongside appropriately skilled partners.

Leadership

Continuing to use Symphony as the strategy to deliver a new energy future vision has led us to implement a new approach to working across the Group. Under our new model, we draw on the power of cross-functional team-based collaboration to prioritise and achieve our business goals. In the past year, we have commenced our evolution towards a new operating model where employees are better supported to succeed personally, professionally and through business performance. This way of working has already fostered the development of new technical skills throughout our workforce, opened career pathways and released new ways of thinking that support our direction as a business and the sort of culture we aspire to.

In August 2019, we were pleased to be awarded the Empowerment, Diversability 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 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 November 2019, we announced the launch of the Battery Industry Group (B.I.G), a cross-industry collaboration to design reuse and recycling solutions for large batteries, commonly found in electric vehicles or in stationary energy storage. We are also an active participant in the Aotearoa Circle, Sustainable Finance Forum, Sustainable Business Council and Climate Leaders' Coalition.

Our cultural leadership has already been recognised by other like-minded organisations, for example AWS, which appreciated the strong cultural alignment when forming our strategic alliance.

Looking to tomorrow

Vector is focused on managing the demands of today while preparing our people, customers and wider energy sector for the opportunities of tomorrow. We have the right talent, strategy and partners to enable us to forge ahead towards our new energy future vision.

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 we will continue to experience the impact and uncertainties caused by a COVID-19 world. 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. 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 to continue to execute our Symphony strategy, investing wisely to benefit customers. We will embrace change and disruption and harness innovation with a relentless commitment to improving outcomes for our customers.

Dame Alison Paterson
Chair

Simon Mackenzie
Group Chief Executive

Board succession planning

Succession planning is key to ensuring continuity as the business environment continues to evolve.

Earlier this year Vector announced our Deputy Chair, Jonathan Mason, will take over from our Chair, Dame Alison Paterson – who has made the decision to retire at our upcoming annual meeting on 25 September 2020.

The Board is deeply thankful to Dame Alison for 13 years of outstanding service on Vector's Board, including the past two years serving as our Chair. Her achievements and standing within both Vector and New Zealand's wider business community are unparalleled.

While we are reluctant to farewell Dame Alison, the Board acknowledges it is fortunate to have a director of Jonathan's calibre ready to take up the position of Chair in September. Jonathan joined Vector as a non-executive director in 2013, bringing with him extensive experience in the energy and financial services sectors. He has a strong governance background that includes directorships on the boards of leading companies, such as Air New Zealand, Zespri and Westpac New Zealand.

We look forward to welcoming Jonathan as he takes the reins from Dame Alison to continue the Board's work supporting Vector's Symphony strategy and enabling our vision to create a new energy future.

Vector's financial performance for the year benefitted from continued advanced meter deployment in New Zealand and Australia. However, this was offset by the regulatory Default Price-Path 3 reset from 1 April 2020 and the impact of COVID-19 which resulted in lower electricity network volumes and therefore revenue, driven by a significant drop in commercial sector consumption as well as an impact on the wider business.

We recorded adjusted EBITDA[1] of $490.0 million. This was up $4.2 million or 0.9% on last year's result. Group net profit after tax was $97.3 million and includes a non-cash impairment of $32.0 million in respect of E-Co Products Group.

COVID-19 impact

With restrictions in place under COVID-19 Alert Levels 3 and 4, electricity volumes across our network decreased by approximately 10% leading to a fall in revenue for the period. Under DPP3 regulatory settings, any increase or decrease in electricity revenue relative to our maximum allowable revenue (MAR) targets set by the Commerce Commission, can be adjusted (up or down) through electricity prices from 1 April 2022. We are evaluating the ways in which we can minimise impacts on customers through price adjustments through a range of factors, including market rebates. We continue to be concerned with the regulatory settings, particularly in light of the COVID-19 environment.

The FY20 performance of our unregulated E-Co Products Group and Gas Trading businesses was also impacted by the COVID-19 pandemic. Across the Vector Group, we estimate that adjusted EBITDA earnings were adversely impacted by approximately $10 million. Despite improved performance from E-Co in the first half of FY20, Level 3 and 4 restrictions and the subsequent impact on the wider economy and consumer confidence, have impacted E-Co's growth trajectory resulting in us taking a conservative approach and impairing the carrying value of the E-Co Products Group.

Segment adjusted EBITDA[1]

Adjusted EBITDA for our Regulated Networks was $337.6 million, down $29.4 million (8.0%) against the prior year. The lower result was driven by: the DPP3 price reset which came into effect on 1 April 2020 and saw prices reduce by 6.9%; higher maintenance activity linked to the improvement in reliability and resilience of the network; as well as the impact of COVID-19, which saw lower volumes across our electricity and gas networks after Alert Level 4 lockdown began on 25 March 2020.

In FY20 we invested $317.1 million of capital expenditure to improve the safety, reliability and resilience of our network and facilitate Auckland's growth. This represents an increase of 21.5%, or $56.2 million, on a year earlier.

Gas Trading adjusted EBITDA was $33.9 million, up $2.6 million against the prior year total of $31.3 million. During the period, we sold the Kapuni Gas Treatment Plant and associated assets to Todd Energy. The effective date of this transaction was 31 March 2020. The sale resulted in a decline in adjusted EBITDA for Q4 FY20, which was largely offset by interest income on the sale consideration, reported below the line as part of net interest costs. This will continue in future. The overall impact to earnings was not material to the FY20 result.

The Gas Trading result benefitted from improved Natural Gas margin and higher Liquigas throughput. The LPG business delivered a strong result, despite the COVID-19 lockdown. Residential cylinder LPG and Bottle Swap operations saw increased volumes, while commercial cylinder and bulk LPG supplies were lower, due to variable take by a large customer in the petroleum industry. The gas market is competitive, and as such, we continue to evolve our approach.

1. Refer to Non-GAAP reconciliation on page 34.

JASON HOLLINGWORTH
CHIEF FINANCIAL OFFICER

$490.0M

ADJUSTED EBITDA[1]

$97.3M

GROUP NET PROFIT AFTER TAX

Chief Financial Officer report

Adjusted EBITDA for Vector's metering segment grew $16.1 million (11.6%) to $154.8 million, as a result of continued growth in advanced meter deployments in New Zealand and Australia.

Capital contributions

Capital contributions grew by 9.0% to $86.4 million during the year, resulting from continued connection growth and significant infrastructure development taking place across Auckland.

The challenge of investing to keep pace with Auckland's growth remains and Vector continued to review and test our pricing framework in FY20. We have adjusted our capital contributions position to reflect regulatory settings while remaining committed to facilitating these projects.

Cash flow

Operating cash flow was 14.1% higher at $397.3 million. This increase was largely due to a number of factors including lower interest paid, higher receipts associated with loss rental rebates, and higher capital contributions.

Capital expenditure

Capital expenditure was $488.7 million, $63.6 million (15%) higher than last year. This increase reflected ongoing investment in infrastructure to support Auckland's continued growth, higher network replacement expenditure, and increasing deployments of advanced meters as market demand continues to accelerate in Australia. Network investment included a programme to replace and upgrade automated switching equipment in approximately 180 feeders across the network to improve circuit options to remotely restore power to customers experiencing an outage. This was one of a number of initiatives aimed at meeting quality targets and improving reliability.

Re-financing and balance sheet

Vector continues to maintain a strong balance sheet. Our 30 June 2020 gearing, as measured by economic net debt to economic net debt plus adjusted equity rose to 55.2% from 52.2% at the beginning of the year.

We successfully raised over NZ$1.1 billion of debt in the financial year, utilising both the domestic and the US markets.

In one of the largest deals for a New Zealand-based entity in recent times, we secured US$500 million from the US Private Placement market for 12 and 15 years, which has allowed us to further extend the maturity profile of the Group's debt portfolio and preserve liquidity.

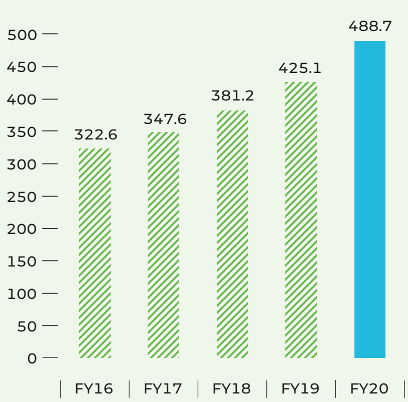
We remain an 'investment-grade' credit risk with a Baa1 rating from Moody's and BBB from Standard & Poor's.

Dividend

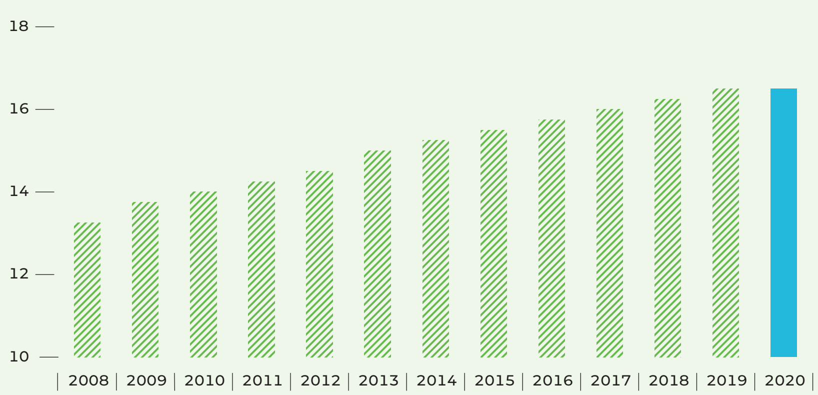
This year, shareholders will receive a final dividend of 8.25 cents per share imputed at 10.5%, taking the full-year partially imputed dividend to 16.5 cents per share. The final dividend will be paid to investors who are on the register at 14 September 2020 and distributed to investors on 21 September 2020.

"Capital expenditure was $488.7 million, $63.6 million (15%) higher than last year. This increase reflected ongoing investment in infrastructure to support Auckland's continued growth, higher network replacement expenditure, and increasing deployments of advanced meters as market demand continues to accelerate in Australia."

GROUP CAPITAL EXPENDITURE
$ MILLION



DIVIDEND DECLARED
CENTS PER SHARE



Working and living around risks of electricity, gas and other energy systems drives our 'safety always' approach. During the COVID-19 pandemic, this focus expanded to include new controls and processes to protect the health of our people and communities. Cautious and considered at every stage, we were successful in ensuring continuity of service while upholding the high health and safety standards we set for ourselves and our contractor partners.

Progress towards our Group safety goals

To track our progress against our safety goals, Vector continues to record reactive measures across the Group, specifically Lost Time Injury Frequency Rate (LTIFR) and Total Recordable Injury Frequency Rate (TRIFR). Beyond tracking progress, these measures are critical for indicating which areas require ongoing improvement. In the past year we observed a 11% increase in LTIFR and a 17% improvement in TRIFR across the Group.

The severity rate, which measures number of lost days per 1 million hours worked, increased by 235.6%. This was impacted by a FY19 injury, where time away from work was incurred in the 2020 financial year.

In alignment with our Symphony strategy, our approach to managing safety across the Group is evolving – moving away from a standardised approach, to one where the unique needs and circumstances of different situations directly inform risk mitigation.

Our focus on managing safety will still centre around the proactive steps we can take to avoid incidents, and our reporting system will still serve to highlight areas where we can make continuous improvements. The change in approach is receiving positive feedback from our leadership teams and operational staff, who see this collaborative approach as a more effective and practical way to manage safety.

Safety during the COVID-19 pandemic

As an essential service, thousands of New Zealanders were relying on us during the COVID-19 lockdowns. In Australia, our metering customers were relying on our teams to continue operations to support customers on their behalf. Vector needed to do everything we could to keep our people safe and healthy, so they could continue to keep the lights on and energy flowing for those depending on us.

Vector's COVID-19 "Warrant of Fitness" (WOF) training programme was created to ensure our operational teams were fit to work in the field under COVID-19 Alert Levels. The WOF programme was later adapted to support our office teams to re-enter our workplaces safely under Level 1. We also had leading external experts review our safe work practices and assist with ensuring our staff communications were evidence based.

The programme was based on management of change safety protocols which required each part of the business to step back and assess risks before developing controls to protect our people, their families and communities while COVID-19 was still active. These included robust training around hygiene and physical distancing controls when working with each other and interacting with members of the community. It also included thorough mechanisms to record contact tracing data.

Our people showed remarkable commitment and courage during this time, adapting quickly and adeptly to the rapidly changing circumstances and safety requirements asked of them.

Vector continues to provide health and safety guidance to our office and operational teams in New Zealand, Victoria and New South Wales, where, at the time of writing, community transmission was still being managed.

Wellness while working from home

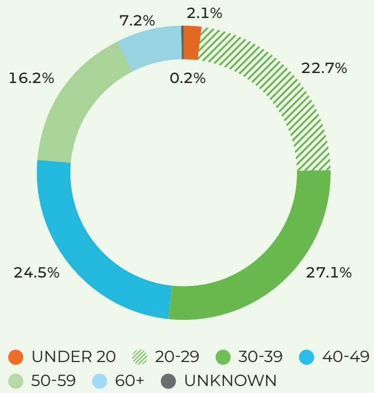
When it became certain that our office-based employees would work from home during COVID-19 lockdowns, Vector introduced a range of initiatives to ensure their physical environment could be as safe and comfortable as possible.

During lockdown, Vector provided regular advice to staff about resilience and well-being and ensured mental health and wellness resources were available to them. We outline other initiatives in the People section of this report.

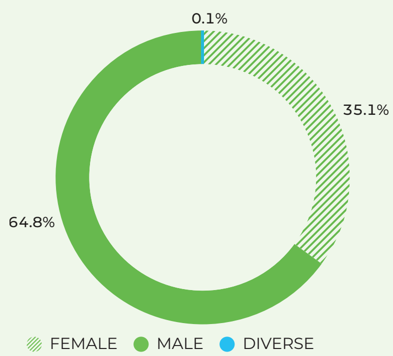
"As an essential service, thousands of New Zealanders were relying on us during the COVID-19 lockdowns."

Safety always

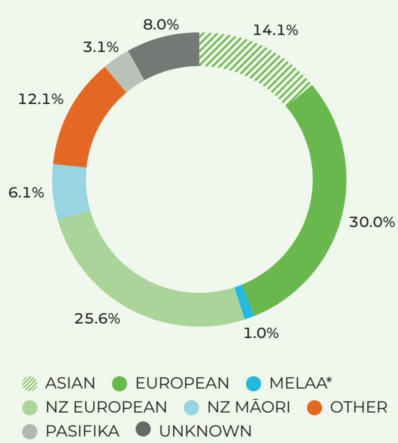
EMPLOYEES BY AGE



EMPLOYEES BY GENDER



EMPLOYEES BY ETHNICITY[1]



* Middle East, Latin America and Africa

Ultimately, our people are the ones who will deliver the future of energy. Over the past year, we have continued to invest in our people through a range of award-winning initiatives, further strengthening Vector's reputation as an employer of choice.

FY20 has also seen Vector purposefully shape our organisation to amplify the skills and competencies necessary to continue to deliver our Symphony strategy. We are integrating lessons from our global partners to help cultivate a nimble, innovative and collaborative culture to propel the business forward and deliver for our customers.

Developing talent from within

Vector remains committed to diversity and inclusion as we recognise the importance of a dynamic workplace to drive a range of views that are representative of our communities and customers.

In August 2019, Vector was pleased to win the overall Supreme Award at the 2019 Diversity Works Awards for our commitment to building an inclusive and supportive workplace culture. We also took home the Empowerment Award in acknowledgement of our programmes to improve gender diversity and the Diversability Award for our work to make Vector a more accessible environment for people with disabilities.

In the past five years, we have seen a significant gender composition shift within our executive team with the number of female executives increasing from 17% to 44%. In the same period, we have seen a gender composition shift with the number of female employees increasing from 34% to 35% across the organisation.

Age-wise, in the past year our employees aged 20 to 39 have increased to 49.8% – up from 43.0% one year ago. Those aged 40 and over have decreased by 8.7%. Our ethnicity profile has moved only slightly, with Māori representation up 1% to 6.1% and Pasifika static at 3.1%.

In January we commenced a pilot coaching programme for an initial cohort of leaders – all provided positive feedback on the value of coaching techniques to increase staff engagement and grow performance within their sphere of influence.

Flexibility and the future

The productivity benefits of working from home have long been discussed by business experts the world over and the COVID-19 lockdown provided an opportunity for Vector to test our own thinking around workplace flexibility.

We canvassed the views of our people through a working-from-home survey which found 90% of people found their productivity levels were the same or higher compared with working from the office. The most popular working-from-home benefit was 'avoiding the commute', which has the flow-on benefit of allowing people to strike a better work-life balance.

The survey is helping the business evolve our ways-of-working framework for the future.

1. HRV and Vector PowerSmart staff numbers included in gender and age data only, not ethnicity.

Adapting to a COVID-19 world

Alongside a thorough programme of employee communications, the People and Culture response team established a confidential care-call initiative where every employee was contacted on a regular basis to ask them if they were coping under the extraordinarily challenging circumstances. In the event anyone needed extra help – whether that be in the form of additional ergonomic equipment, counselling support or a safe environment to seek help, the team was there to source confidential advice and support where it was needed.

The People and Culture team made over 2,000 confidential calls to over 1,000 staff during lockdown, receiving feedback that people felt supported and cared for by Vector. The initiative proved particularly beneficial to several of our Christchurch-based staff who experienced overlaid trauma from the Christchurch earthquakes and appreciated the personal assistance.

Our people

The regulated gas and electricity distribution networks that stretch across the Auckland region serve thousands of homes and businesses every day. Maintaining their integrity while also preparing them for the opportunities of tomorrow are top priorities for the Group.

This past year, the continuing pressures of population growth, climate change and new technology adoption were compounded by the extraordinary circumstances of the COVID-19 pandemic.

Despite a challenging year, Vector, with support from our field service providers (FSPs), continued to deliver for our communities and made solid progress towards our commitment to comply with network quality standards.

Volumes and new connections

Reflecting Auckland's continued growth, new electricity connections in the year increased to 12,231 from 11,000 in the prior year. Total electricity connections stood at 580,060, up 1.6% from 571,125 a year earlier. We also added 3,201 new gas connections. As at 30 June, total gas connections were 113,960, up 2.1% on a year ago.

Both gas and electricity distribution volumes were impacted when only essential businesses were permitted to operate during COVID-19 lockdown. Gas volumes were down 0.7% at 14.3 PJ from 14.4 PJ a year earlier and volumes transported across the electricity network fell 1.1% to 8,315 GWh from 8,410 GWh in the prior year.

Improving reliability for our customers

In FY20 we invested $317.1 million to improve the safety, reliability and resilience of our gas and electricity networks and facilitate Auckland growth. This is a 21.5% lift on the previous year's investment and reflects our ongoing commitment to reduce the frequency and duration of outages across our electricity network through a mix of new initiatives and innovative approaches to asset management.

In FY20 we significantly reduced SAIDI minutes and aim to build on the achievements of the past year in FY21. Critical to this will be the continued adoption of new technologies and more advanced operating practices to drive better outcomes for our customers.

However, challenges remain, such as climate change, volatile weather patterns, increased traffic and more cars hitting poles. We also continue to work with Auckland Council and MBIE on vegetation issues affecting the network.

Protecting our people and communities in a pandemic

With families and communities based from home and even more reliant on the continuity of power, Vector temporarily halted planned outages across our electricity and gas networks to minimise disruption during the COVID-19 lockdowns. Only works relating to maintenance necessary for safety or to support other essential services continued, for example, upgrading the network to allow a supermarket to install a new storeroom.

COVID-19 restrictions led to the suspension of several non-critical maintenance and capital works projects across our gas and electricity networks. When restrictions eased, we worked collaboratively with our FSP partners to recover time lost. This has included increasing our programme of weekend and night works which has the added benefit of reducing the inconvenience planned outages have on customers during busy times of the day and week. The intention is to continue these practices as part of our ongoing commitment to customer service excellence and network improvement.

Like many businesses, Vector moved quickly to prioritise essential energy services to best protect our people, communities and customers during the COVID-19 lockdowns. We commend the remarkable commitment and courage of our essential workers who worked

$337.6M

ADJUSTED EBITDA[1], DOWN 8% FROM A YEAR EARLIER

12,231

NEW ELECTRICITY CONNECTIONS

1. Refer to Non-GAAP reconciliation on page 34.

Regulated networks

throughout lockdown to keep the lights on and energy flowing for our customers.

The future of gas

In recent years, industries and governments both in New Zealand and globally have taken a growing interest in the role hydrogen technologies could play in the decarbonisation of our energy systems.

However, our focus remains on investing in the gas distribution business to ensure the network can grow in line with Auckland while surpassing expectations around safety and network quality.

Vegetation management

Trees falling into powerlines during high winds continues to be one of the leading causes of power outages that disrupt our customers. Improving vegetation management is key to strengthening network resilience and reliability – and is an area where partnership with our customers and community stakeholders is critical. Increasingly volatile weather systems, together with Auckland's sub-tropical climate, mean regulations concerning vegetation management need to change. We are working urgently with Auckland Council to address this challenge. Key to this is advocating for improved risk management measures - including greater clarity around cutting and trimming responsibilities - to reduce the network events that cause disruption to customers.

3,201

NEW GAS CONNECTIONS

$6.1M

PER WEEK INVESTED TO IMPROVE THE SAFETY, RELIABILITY AND RESILIENCE OF OUR GAS AND ELECTRICITY NETWORKS AND TO FACILITATE AUCKLAND'S CONTINUED GROWTH

Waiheke's goal to become a fully electrified island

In August 2019, Vector was awarded funding from the Government's Low Emission Vehicles Contestable Fund (LEVCF), administered by the Energy Efficiency and Conservation Authority (EECA), to install and manage at least 80 electric vehicle (EV) 7.2kW smart chargers in homes across Waiheke Island, along with ten 7.2kW public EV chargers and one mobile EV charger. The funding will see us put in place the technology needed to support Waiheke's goal to become fully electrified. The technology includes network-ready EV chargers and public charging infrastructure as well as smart EV charging systems that will enhance network resilience and avoid the need for costly traditional network infrastructure. With the numbers of EVs on the island doubling year-on-year, this new technology will better manage the expected surges in network demand from increased EV uptake. The new chargers will connect to Vector's intelligent utility networking system of systems, known as DERMS (Distributed Energy Resource Management System), which the company has co-developed to help manage and optimise the growth in solar, battery, EVs and other distributed energy sources and network connected devices.

Evolution and innovation of work practices

Over the last 12 months, we have invested in new equipment including bypass cables that enable work to be performed on de-energised assets while the power remains on for customers. To integrate bypass cable technology into our approach to managing the network, we spent time in South Korea learning the skills and capabilities to bring back to New Zealand and up-skill our workforce. The first deployment of this new technology on Auckland's electricity network occurred in December 2019 in Tapora. Many in the community would not have been aware of the maintenance work underway because the bypass cable technology keeps the power on while the work is being done.

In December 2019, Vector announced the sale of the Kapuni Gas Treatment Plant and associated assets to Todd Energy. This transaction was completed on 31 March 2020. The deal aligns our shared interests in seeing the Kapuni field developed further.

New natural gas and LPG supply agreements have been secured as part of this deal to ensure Vector has long-term access to gas products on behalf of our customers. The sale has had no material impact on adjusted EBITDA earnings for the FY20 result.

Looking ahead to FY21, the decline in adjusted EBITDA is largely offset by interest income on the sale consideration. Interest income is reported below the line as part of net interest costs.

Gas volumes

Natural gas volumes were down, due to field outages and constraints on the supply side. However, the team managed these challenges well, which led to improved margins over the period.

Total natural gas supply in the period was 12.4 PJ, down 23.0% on last year, largely due to the loss of a major customer part way through the year.

Growth in LPG

The LPG side of the Gas Trading business continues to strengthen, solidifying its reputation as a versatile and convenient energy choice for homes and businesses across New Zealand.

Bottle Swap 9kg cylinder volumes were up by 6.6% to 701,923 swaps and sales from 658,159 a year earlier. Liquigas tolling volumes were up 5.0% to 116,024 tonnes, mainly due to the signing of a new enterprise customer in the second half of the year.

Commercial cylinder and bulk LPG supplies were down, driven by a decline in demand during COVID-19 Alert Levels 4 and 3. Gas liquid sales were down 2.2% to 43,338 tonnes.

$33.9M

ADJUSTED EBITDA[1], UP $2.6M FROM A YEAR EARLIER

SALE

OF KAPUNI GAS TREATMENT PLANT AND ASSOCIATED ASSETS TO TODD ENERGY

701,923

9KG BOTTLE SWAPS, A 6.6% LIFT FROM FY19

116,024

LIQUIGAS LPG TOLLING (TONNES), UP 5.0% FROM A YEAR EARLIER

1. Refer to Non-GAAP reconciliation on page 34.

Group collaboration for customer benefit

LPG and natural gas sales and distribution continued during lockdown and experienced unprecedented demand for the time of year as customers sought to stock up on supplies. In a strong display of collaboration, members of the Gas Trading and HRV office-based teams rolled up their sleeves to support the efficient distribution of Gas products to our customers. HRV staff made outbound calls to commercial customers to understand their gas requirements given the lockdown restrictions, LPG was then diverted to meet spiking residential demand. Our Bottle Swap delivery partner, Carr & Haslam, also assisted with the massive task of distributing 9kg orders by providing additional vehicles and drivers to deliver product across the country. The collective determination and outstanding teamwork of our partners and operational teams meant we could deliver product to our customers, while largely maintaining our residential five-day delivery service level.

Gas trading

THE INTERPLAY OF TODAY AND TOMORROW

Advanced meters enable our energy retail customers to provide accurate billing information to their energy consumers. Increasingly, meter data is playing an important role in enabling benefits to the way people use and consume energy.

Operationally, our metering business has continued to thrive as a market leader in Australasia over the past year. This is an achievement underpinned by an unwavering commitment to operational and customer service excellence supported by a strong health and safety focus.

Expanding our metering fleet

In the 12 months to 30 June 2020, we installed 36,350 advanced meters in New Zealand and 119,033 in Australia. Our advanced meter fleet across the two countries grew 10% to 1.71 million, from 1.56 million the year before.

We have now deployed almost 280,000 advanced meters in Australia, having met the 250,000 milestone in April during the initial COVID-19 pandemic lockdown. In Australia, we are now averaging approximately 10,000 installations per month.

Preparing for future growth

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

Innovating for our customers

In October 2019, Vector Metering announced a partnership with Genesis Energy to roll out advanced gas meters, making Genesis the first energy retailer in New Zealand to offer its customers a digital gas metering solution.

This innovation will provide Genesis' customers with the benefit of full visibility across their gas use at home, giving them more freedom to make decisions about their energy usage long before their bill arrives. It will also avoid the need to have a meter reader visit the consumer's property.

Today Genesis has 110,000 natural gas customers across New Zealand who could benefit from the solution. We are excited to be working with Genesis on this large deployment that will help them better manage their business and respond to their customers' needs.

Advancing operational excellence

Over the past year we have continued to invest in the service delivery software and meter data processing capability which has enabled us to consistently outperform our service levels. These investments are driving efficiencies throughout our operations and enabling us to scale quickly while maintaining customer excellence and a strong health and safety focus.

Introducing the New Energy Platform

The rise in renewable energy, growth in electric vehicles, and higher consumer expectations to make energy choices, require the energy industry to transform and harness the power of data to make smarter customer-centric decisions.

Vector and Amazon Web Services (AWS) recently announced a global multi-year strategic alliance to jointly develop the New Energy Platform (NEP) – an Internet of Things (IoT) and analytics solution to enable the delivery of more affordable, reliable, and cleaner energy options to consumers.

The initial focus of the NEP is to rapidly collect and analyse data from more than 1.6 million Vector advanced meters that securely gather information on energy consumption across Australia and New Zealand. The insights collected by the NEP will help Vector Metering to enable energy and utility companies to develop tailored products and energy management for their customers based on their energy consumption needs.

The NEP will leverage AWS IoT Analytics, a fully-managed service that makes it easy to run and operationalise sophisticated analytics on large volumes of data to enable Vector Metering and its customers to develop insights on network performance to help plan energy networks, drive smarter investment decisions, and increase reliability for consumers.

By increasing the capacity and rate of data collection, the NEP will also help Vector Metering deliver meter reporting from the current 30 minute to five minute intervals in Australia by 2021, as required by the Australian market rules.

In the future, insights from the NEP will enable the market to develop innovative solutions and other new market models that accelerate the uptake of renewables and electric vehicles.

Through the strategic alliance, Vector and AWS plan to assemble a highly skilled technology and engineering team in Auckland to co-develop the platform with our customers.

This strategic alliance to jointly develop the NEP is the first of its kind for AWS in New Zealand, and for AWS in the global energy sector. The NEP is another step in our long-stated ambition to benefit our energy and utility customers, and ultimately consumers. 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.

Metering

Our approach to sustainability is to deliver innovative, long-term solutions for our shareholders, customers, partners and suppliers to build shared resilience, reduce our carbon footprint and help regenerate our environment.

Our Symphony strategy enables us to drive better environmental, social and economic business outcomes such as energy affordability, decarbonisation and the circular economy, aligned to the UN Sustainable Development Goals (SDGs) which remain our ultimate focus.

In FY20, we focused on seven SDGs, all supported by Goal 17: Partnerships for the Goals.

FY20: Seven SDGs

Underpinned by:

Greenhouse gas emissions

In the past year, our carbon footprint (Scope 1, 2 and 3) reduced by 23.6%, which is a reduction of approximately 103,000 tonnes CO_2e.

Historically, our primary source of greenhouse gas emissions has stemmed from our gas processing operation at Kapuni, representing around 83% of total emissions in past years. Due to the sale of our Kapuni Gas Treatment Plant to Todd Energy in early 2020, the Group's Scope 1 emissions for FY20 have substantially decreased by 25.4% as compared with FY19.

Our Scope 2 emissions, which relate to our purchased electricity (all sites) and the electricity distribution losses from our Auckland electricity network, decreased by 3.8%.

Scope 3 emissions increased by 1.6%. Scope 3 emissions primarily consist of fuel consumption by the service delivery vehicles used by our key field service providers for network maintenance.

YEAR ENDED 30 JUNE	FY17	FY18	FY19	FY20	% Change from FY17 baseline
Scope 1*	341,964	371,084	402,575	300,315	-12.18%
Scope 2*	31,599	29,070	23,768	22,863	-27.65%
Scope 3*	–	5,869	11,009	11,180	

* Scope 3 emission sources include business travel and fuel consumption for our key service providers in each business unit. Our Scope 1 and 2 carbon data is inclusive of the co-generation facility at Kapuni Gas Treatment Plant, which has been apportioned 50% between the two joint venture parties but excludes emissions from E-Co Products Group Limited except for Leaseplan fleet fuel emissions in FY20.

MEMBER OF:

- CLIMATE LEADERS COALITION
- SUSTAINABLE BUSINESS COUNCIL
- AOTEAROA CIRCLE
- SUSTAINABLE FINANCE FORUM

26,735

NATIVE TREES AND SHRUBS PLANTED IN PARTNERSHIP WITH SUSTAINABLE COASTLINES AND AUCKLAND COUNCIL AS PART OF VECTOR'S URBAN FOREST INITIATIVE

23.6%

REDUCTION OF CARBON FOOTPRINT

TARGET: CORPORATE CARBON INTENSITY RATE – ANNUAL REDUCTION OF 5%

12.6%

FY20 REDUCTION

THIS COVERS BUSINESS TRAVEL, FLEET FUEL USE AND ELECTRICITY CONSUMPTION ACROSS OUR OFFICES AND IS A RATIO OF TCO$_2$E TO EBITDA. SINCE 2017, WE HAVE REDUCED THIS INTENSITY VALUE BY 39.6% (A REDUCTION OF ABSOLUTE EMISSIONS BY 37.6% FOR THESE SOURCES)

B

CARBON DISCLOSURE PROJECT (CDP) SCORE

POSITIVE CARBON HANDPRINT

VECTOR HRV AND SMART METERING PRODUCTS HELP CREATE HEALTHY AND ENERGY-EFFICIENT HOMES AND BUSINESSES. VECTOR POWERSMART OFFERS SOLAR AND BATTERY SOLUTIONS TO HELP LOWER OUR CUSTOMERS' CARBON FOOTPRINTS. WE ARE ENABLING THE DECARBONISATION OF AUCKLAND'S TRANSPORT SYSTEM THROUGH OUR NETWORK AND CHARGING INFRASTRUCTURE

BATTERY INDUSTRY GROUP (B.I.G.)

B.I.G.'S ROLE IS TO DESIGN A PRODUCT STEWARDSHIP SCHEME FOR LARGE BATTERIES WHICH SUPPORTS A CIRCULAR ECONOMY. B.I.G. NOW HAS MORE THAN 140 ORGANISATIONS AND INDIVIDUALS AS MEMBERS ACROSS ENERGY, WASTE, TRANSPORT AND BATTERY INDUSTRIES, AND WAS CONVENED AND IS CHAIRED BY VECTOR

Sustainability

16

VECTOR LIGHTS EVENTS FOR AUCKLANDERS IN FY20

SCHOOLS PROGRAMME

IN FY20, MORE THAN 8,000 CHILDREN IN AUCKLAND SCHOOLS ATTENDED AROUND 100 SESSIONS OF VECTOR'S FULLY-FUNDED 'STAY SAFE' AND 'BE SUSTAINABLE' EDUCATIONAL PROGRAMMES

ELECTRIC VEHICLES

AS AT JUNE 2020, VECTOR HAS:

- 18 X RAPID CHARGERS
- 12 X STANDARD CHARGERS
- ENABLED MORE THAN 100,000 FREE CHARGING SESSIONS AT RAPID CHARGERS
- PROVIDED MORE THAN 900MWH OF ELECTRICITY OUTPUT TO EV USERS
- OUR PUBLIC EV CHARGERS ENABLED EMISSIONS OF APPROXIMATELY 1,500 TONNES OF $C0_2e$ TO BE AVOIDED

PAYMENT DEFERRALS DURING COVID-19

LED THE IMPLEMENTATION OF A PAYMENT DEFERRAL SCHEME FOR RETAILERS WITH FOUR OTHER ENERGY BUSINESSES

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD)

VECTOR SUPPORTS THE TCFD, IS CLOSELY FOLLOWING THE PASSAGE OF LEGISLATION AND IS CURRENTLY WORKING TOWARDS MAKING THE APPROPRIATE DISCLOSURES EITHER IN COMPLIANCE WITH, OR IN ADVANCE OF, LEGISLATION

DIVERSITY AND ACCESSIBILITY

ACHIEVED EMPOWERMENT, DIVERSABILITY AND OVERALL SUPREME AWARD AT THE DIVERSITY WORKS AWARDS FOR OUR COMMITMENT TO BUILDING AN INCLUSIVE AND SUPPORTIVE WORKPLACE CULTURE

ONE OF THE FIRST LARGE CORPORATE BUSINESSES TO BE GRANTED THE ACCESSIBILITY TICK, ALONGSIDE OUR RAINBOW TICK AND LIVING WAGE ACCREDITATION

Looking ahead

We recognise the community's focus on the challenges of decarbonisation and climate change, so will continually evolve our approach in order to ensure we invest in these areas.

Floating solar delivers clean energy solutions

Vector PowerSmart has been working alongside Watercare to deliver New Zealand's first floating solar array. Situated on the Rosedale wastewater treatment pond near Auckland's Northern Motorway, the array features more than 2,700 solar panels and 3,000 floating pontoons. Once fully commissioned, it will generate an estimated 1,480 megawatt hours of electricity each year – the equivalent of 200 average New Zealand homes – with zero emissions.

The project is New Zealand's first foray into floating solar. With land at a premium in Auckland, the innovative floating array will cover only three percent of the pond's surface area, despite its significant generation capacity.

The array will be used to supplement electricity from the grid as well as co-generation from biogas, which is already generated on-site from wastewater treatment. The electricity is used for pumping and aeration for natural bacteria that help break down the waste as part of the treatment process.

Watercare has an ambitious programme to reduce its energy use by 8GWh by 2022 and to achieve energy self-sufficiency at its Mangere and Rosedale wastewater treatment plants by 2025.

Vector PowerSmart is responsible for delivering landmark utility-scale solar and battery projects in the Pacific Islands, utility battery projects on the Vector network and commercial solar and battery installations throughout New Zealand.

DAME ALISON PATERSON
DNZM, QSO, DCom(hc), FCA, ADistFInstD

INDEPENDENT NON-EXECUTIVE
DIRECTOR AND CHAIR

—

Appointed on 7 March 2007

Dame Alison Paterson is Chair of the Forestry Industry Safety Council, Te Aupouri Commercial Development Limited and Te Aupouri Fisheries Management Limited. She is the former Chair of Kiwi Wealth Group and was also a member of the Health Quality & Safety Commission New Zealand.

JONATHAN MASON
MBA, MA, BA

INDEPENDENT NON-EXECUTIVE
DIRECTOR

—

Appointed on 10 May 2013

Jonathan Mason has extensive commercial experience. He has worked in financial management positions in the oil and gas, chemicals, forest products and dairy industries in New Zealand and the USA for International Paper, ExxonMobil Corporation, Carter Holt Harvey, Cabot Corporation and Fonterra. Jonathan also has experience as a non-executive director on boards in both New Zealand and the USA and his current directorships include Air New Zealand Limited, Westpac New Zealand Limited and Zespri Group Limited. He is also an Adjunct Professor of Management at the University of Auckland, focusing on finance.

ALASTAIR BELL
BCom; CA, PMP

NON-INDEPENDENT NON-EXECUTIVE
DIRECTOR

—

Appointed on 23 September 2019

Alastair is a chartered accountant, chartered director and qualified member of the Project Management Institute. He has more than 30 years' experience in the corporate, public and not-for-profit sectors. Alastair balances his professional life between board roles and leading a consultancy specialising in business and infrastructure projects. He is an elected Trustee of Entrust, chairing the Entrust board's Communications and Dividend committee. Formerly, he was deputy chair of Foundation North and chair of its Audit, Finance and Risk Committee. Alastair is also chair of the Orakei Community Association and a trustee of the Motutapu Restoration Trust.

Our Board

MICHAEL BUCZKOWSKI
BE (Electrical), MBA (With Dist)

NON-INDEPENDENT NON-EXECUTIVE DIRECTOR

—

Appointed on 14 November 2018

Michael Buczkowski is an experienced Trustee and Deputy Chairman of Entrust. He was General Manager Operations at Ricoh from 2007 to 2018 and, prior to that, Managing Director of Hirepool and also Director of Owens Industrial (NZX top 40). His professional experience includes: Consulting Electrical Engineer at Beca, registered Electrical Engineer from 1984 to 2004 as well as international consulting expertise in the energy sector.

TONY CARTER
BE (Hons), ME, MPhil

INDEPENDENT NON-EXECUTIVE DIRECTOR

—

Appointed on 1 May 2019

Tony Carter was Managing Director of Foodstuffs New Zealand Ltd for 10 years until he retired in 2010. Tony is currently Chair of Datacom Ltd and TR Group Ltd, and a director of ANZ Bank New Zealand Ltd. He was previously Chair of Air New Zealand Ltd until 2019 and Chair of Fisher & Paykel Healthcare Limited until August 2020. He was made a Companion of the New Zealand Order of Merit in 2020.

DAME PAULA REBSTOCK
BSc (Econ), Dip & MSc (Econ)

INDEPENDENT NON-EXECUTIVE DIRECTOR

—

Appointed on 16 April 2019

Dame Paula Rebstock is a leading Auckland-based economist and company director, who was made a Dame Companion of the New Zealand Order of Merit in 2015. She is Chair of ACC, Ngāti Whātua Ōrākei Whai Maia and the New Zealand Defence Force Board and a director of Auckland Transport, Kiwi Group Holdings Limited, and SeaLink. Dame Paula is the former Chair of the New Zealand Commerce Commission.

BRUCE TURNER
BE (Hons), ME, BCom

INDEPENDENT NON-EXECUTIVE DIRECTOR

—

Appointed on 16 April 2019

Bruce Turner is Director of Central Portfolio Management at Fonterra and a director of New Zealand Butter Canners Ltd. He is a highly experienced senior executive who has held leadership roles in the energy industry, both in New Zealand and overseas. Bruce is an advisory board member at the University of Colorado's JP Morgan Center for Commodities. He was previously a member of the Electricity Authority's Security and Reliability Council and was involved in the reform of the electricity industry, as a member of the despatch rules working group, the NZEM Rules Committee, the MARIA governance board and the development of industry common quality standards.

SIMON MACKENZIE
Grad DipBS (Dist), DipFin, NZCE
GROUP CHIEF EXECUTIVE

—

Simon Mackenzie is passionate about the power of technology to transform the energy industry and consumers' lives. As Group Chief Executive, he has expanded and driven Vector's portfolio of businesses to embrace innovative technologies and strategies to deliver efficient, sustainable energy solutions to consumers.

Simon was appointed Vector's Group Chief Executive in 2008. His tertiary qualifications include engineering, finance and business studies, and the Advanced Management Programme at the Wharton School, University of Pennsylvania.

JASON HOLLINGWORTH
MCom (Hons), FCA, CMInstD
CHIEF FINANCIAL OFFICER

—

Jason Hollingworth joined Vector as Chief Financial Officer in May 2019. He has over 30 years' experience in a range of senior corporate finance roles including being CFO of public listed pay television company Sky TV, CFO of telecommunications company TelstraClear, Investment Manager for the diversified investment company Ngai Tahu Holdings, Executive Director at Asian private power development company AsiaPower and a director of corporate advisory firm Southpac Corporation. Jason has a Master of Commerce degree, is a Fellow of the Institute of Chartered Accountants ANZ and a member of the Institute of Directors.

FIONA MICHEL
MBA
CHIEF PEOPLE AND CULTURE OFFICER

—

Fiona Michel is responsible for people, capability and culture at Vector. She has worked in the technology, banking, insurance and public sectors for over two decades in New Zealand and overseas. Fiona has won awards in New Zealand and Australia for achievement in human resources, leadership, culture transformation and industrial relations. She has a Master of Business Administration and is an alumnus of Harvard Business School. Professionally, Fiona is a graduate of the Australian Institute of Company Directors, a Chartered Fellow of the Chartered Institute of Personnel and Development in the United Kingdom and a Fellow Certified Practitioner and Non-Executive Director of the Australian Human Resources Institute.

Our management team

NIKHIL RAVISHANKAR
BSc, BCom (Hons)

CHIEF DIGITAL OFFICER

—

Nikhil Ravishankar leads Vector's digital team and is responsible for managing the company's digital and IT functions. He is charged with harnessing the performance of both existing and emerging disruptive digital technologies to ensure Vector is able to provide reliable, relevant and innovative services, and compete in the modern customer driven energy marketplace. Prior to joining Vector, Nikhil was with Accenture where he held the position of Managing Director for New Zealand operations and also sat on its Global Advisory Council for Telecommunications and Media practice. Prior to his role at Accenture, he was the Head of Technology Strategy for Spark and was part of their group transformation office.

ANDREA ROBERTSON
ACTING CHIEF OPERATING OFFICER, ELECTRICITY, GAS AND FIBRE

—

Andrea Robertson is responsible for Vector's electricity, gas and fibre networks businesses. She is a seasoned leader with 30 years' experience in the energy sector, including more than 20 years at Vector, where she has held a mix of customer care, service delivery and operational leadership roles across our electricity and fibre businesses. Her proven ability in change management as well as her strong relationship, people management and communication skills are proving invaluable as Vector completes our recruitment and selection process for Chief Operating Officer, Electricity Gas and Fibre. Andrea is a graduate of the University of Auckland Business School's Leadership Programme and the New Zealand Institute of Management's Strategic Business Planning and Strategic Leadership programmes.

JOHN RODGER
LLB, BA

CHIEF LEGAL AND ASSURANCE OFFICER AND COMPANY SECRETARY

—

John Rodger is Vector's Chief Legal and Assurance Officer and Company Secretary, responsible for legal, corporate governance, business performance, internal audit, risk, compliance, privacy and government relations. He brings a deep experience managing business performance and resilience in the context of fast-moving and rapidly changing environments. John has significant legal and commercial expertise gained from working across a range of sectors including energy, telecommunications and financial services. John joined Vector in 2006 from O2 in the UK and has held legal roles in major corporates and in professional services firms in London, the Cayman Islands and New Zealand.

BRENDA TALACEK
LLB, MComLaw (Hons)

CHIEF OPERATING OFFICER, METERING AND ONGAS

—

Brenda Talacek is Vector's Chief Operating Officer, Metering and OnGas, responsible for managing OnGas (LPG and Natural Gas), Metering NZ/AU and the Kapuni Gas Treatment Plant transition. Prior to joining Vector, Brenda held commercial and legal leadership positions at Genesis Energy, and was Senior Associate at New Zealand law firm Kensington Swan. Before joining the Group's executive team, Brenda led Vector's Gas Trading business and has held senior positions in our Electricity Networks division. Her leadership and commercial focus has helped to deliver strong growth, an excellent record in safety and customer satisfaction.

MARK TONER
LLB (Hons), BCom

CHIEF PUBLIC POLICY AND REGULATORY OFFICER

—

With over 20 years' experience across a range of sectors including energy, telecommunications, aviation and technology, Mark Toner has consistently navigated market, regulatory and policy changes across industries in disruption. Responsible for leading the Group's regulatory, public policy, sustainability and data insights functions, he combines strong stakeholder engagement and reputation management expertise with his commercial and legal background to drive Vector's vision of Creating a New Energy Future. In 2017, Mark was awarded the New Zealand Prime Minister's Business Scholarship and in 2018 completed an Advanced Management Programme at MIT in Boston.

SARAH WILLIAMS
BA, Cert. Journalism

CHIEF MARKETING AND COMMUNICATIONS OFFICER

—

Sarah Williams is responsible for developing and delivering Vector Group's Marketing and Communications strategy. She is a seasoned executive with 30 years' experience in communication related roles at an executive and board level with broad experience in both the corporate and agency environments. Sarah joins Vector from Porter Novelli, a public relations and marketing agency where she held the position of Managing Director. Her experience ranges from crisis management, stakeholder engagement, reputation management, to consumer PR, internal communications, brand management, digital and social. In 2019, Sarah was inducted into the College of Fellows of the Public Relations Institute of New Zealand in recognition of her significant contribution to the industry and high levels of competence.

This section of the annual report is an overview of selected aspects of Vector's corporate governance framework. A copy of Vector's full Corporate Governance Statement for the 2020 financial year, which provides detailed information about the company's framework of corporate governance policies, practices and processes, is available at the corporate governance section of the company's website at www.vector.co.nz/investors/governance.

Vector's Board is committed to maintaining high standards of corporate governance, ensuring transparency and fairness, and recognising the interests of our shareholders and other stakeholders.

The Board has an established set of guiding principles that state that the company will:

- Be a leading commercial enterprise in Australasia with a reputation for delivering results through sound strategy;
- Have entrepreneurial agility, being the first to identify opportunities and bring them to market;
- Be a great employer which values knowledge and talent;
- Strive to ensure that everyone who does work for Vector, goes home healthy and safe;
- Deal fairly and honestly with its customers; and
- Be a good corporate citizen.

Vector's governance practices are consistent with the principles in the NZX Corporate Governance Code (2020) (NZX Code), except that Vector has not adopted a formal protocol for responding to takeovers (NZX Code Recommendation 3.6). Because Entrust holds 75.1% of Vector's shares, it is not practically possible for a takeover offer of Vector to be made by a party other than Entrust.

Roles and responsibilities of the Board and management

The primary objective of the Board is to protect and enhance the value of the company in the interests of the company and its shareholders.

To ensure that Vector's business objectives and strategies are achieved and to deliver value to the company and its shareholders, the Board strives to understand, meet and appropriately balance the expectations of all its stakeholders, including its employees, customers and the wider community.

In carrying out its responsibilities and powers, the Board at all times recognises its overriding responsibility to act honestly, fairly, diligently and in accordance with the law. The Board works to promote and maintain an environment within Vector that establishes these principles as basic guidelines for all of its employees and representatives.

The Group Chief Executive has responsibility for the day-to-day management of Vector and its businesses. He is supported in this function by the Vector executive team. Details of the members of the executive team are set out on pages 24 and 25 of this annual report and in the About Us section of Vector's website (www.vector.co.nz/about-us/board-executive-team). The Board maintains ultimate responsibility for strategy and control of Vector and its businesses.

Board membership

Vector's Board comprises experienced directors from diverse backgrounds and who lead the company on behalf of its shareholders and other stakeholders. The directors are committed to maintaining high standards of corporate governance, ensuring transparency and fairness and recognising the interests of our stakeholders.

The Board comprises seven directors, all of whom are non-executive. Biographies are set out on pages 22 and 23 of this report. The current directors possess an appropriate mix of skills, expertise and diversity to enable the Board to discharge its responsibilities and deliver the company's strategic priorities.

Director independence

The Nominations Committee has responsibility on behalf of the Board for making determinations as to the independence status of all directors. The committee's assessment of independence is guided by the NZX Listing Rules and NZX Code Recommendation 2.4.

The Board has reviewed the position and relationships of all directors in office and considers that five of the non-executive directors are independent. Those directors are Dame Alison Paterson who is Vector's Chair, Jonathan Mason who is Deputy Chair, Tony Carter, Dame Paula Rebstock and Bruce Turner. Michael Buczkowski and Alastair Bell represent Vector's majority shareholder Entrust, and are therefore not independent directors.

Board committees

There are currently four Board committees: an Audit Committee, a Nominations Committee, a Remuneration Committee and a Risk and Assurance Committee.

Each committee has a written charter setting out its purpose, objectives, responsibilities, structure and composition, meetings and procedure, authority and reporting.

The members and chairs of each committee are:

COMMITTEE	MEMBERS
Audit Committee	Jonathan Mason (Chair)
	Alastair Bell
	Tony Carter
	Alison Paterson
	Bruce Turner
Nominations Committee	Tony Carter (Chair*)
	Alastair Bell
	Mike Buczkowski
	Jonathan Mason
	Alison Paterson
	Paula Rebstock
	Bruce Turner
Remuneration Committee	Tony Carter (Chair*)
	Alastair Bell
	Alison Paterson
	Paula Rebstock
Risk and Assurance Committee	Bruce Turner (Chair*)
	Michael Buczkowski
	Jonathan Mason
	Alison Paterson
	Paula Rebstock

* effective 2 December 2019.

Governance report

External auditor

The effectiveness, performance and independence of the external auditor is reviewed annually by the Audit Committee.

The company's external auditor is KPMG. Graeme Edwards has been the Audit Partner since 2019 and Laura Youdan has been the Assurance Partner since 2018. KPMG has provided the Board with the required independence declaration for the financial year ended 30 June 2020. The Audit Committee has determined that there are no matters that have affected the auditor's independence.

It is the Board's policy that all non-audit services proposed to be undertaken by the external auditor must be pre-approved by the Audit Committee. The Audit Committee considered and gave its approval for the auditor to undertake certain non-audit related matters. KPMG was paid $1.3m for services in the financial year to 30 June 2020. Of this sum, $1.2m was for audit-related services and $0.1m was for non-audit related services. Further detail is provided on page 54 of this annual report.

Risk management

At Vector, we recognise that rigorous risk and opportunity management is essential for corporate stability and performance, and supports Vector in our pursuit to create a new energy future. To drive sustainable growth and ensure business resilience, we must anticipate risks to our operations while capitalising on opportunities as they arise.

Vector's enterprise risk management (ERM) framework provides a flexible and purpose-built approach to the application of risk management across Vector and is consistent with the Australian/New Zealand Risk Management Standard "AS/NZS ISO 31000:2018 Risk management – Principles and Guideline". Our risk management processes and tools are embedded within our business operations to drive consistent, effective and accountable decision-making.

Consistent with the "Three Lines of Defence" principle, all Vector people are responsible for applying Vector's ERM framework within their individual roles to proactively identify, analyse, escalate and treat risks. This risk mindset has been implemented through:

- Awareness of risk management's value at operational, Executive and Board level;
- Relatable and easily applied risk management policies, processes and tools;
- Integration of specialised risk partners throughout the business; and
- Continuous training and education, both formal and informal.

Vector regularly monitors the changing business landscape, assessing the influence of macrotrends on Vector's operating environment. These perspectives, along with material risks from individual business unit risk profiles, support the identification of key group wide risks and opportunities.

Vector is undertaking an external review of its ERM including its key and emerging risks to incorporate latest developments in risk management in the current environment.

Internal audit

Vector's Group Internal Audit function provides independent and objective assurance on the effectiveness of governance, risk management and internal controls across all business operations. The team follows a co-sourced model, drawing on both in-house and external expertise, and has unrestricted access to all Vector staff, records and third parties. The team liaises closely with KPMG, as Vector's external auditor, to share the outcomes of the internal audit programme to the extent that they are relevant to the financial statements.

Ethical and responsible behaviour

The Code of Conduct and Ethics outlines the responsibilities of Vector's people and explains the standards of conduct and ethics.

At Vector our vision and values are the foundation of our business; they reflect who we are and how we do business. Together as a team, as well as with our customers, partners and the wider community, each and every one of us has an important role to play in bringing our values to life.

The purpose of our Code is to provide a framework for ethical decision making. However, the Code is not a substitute for good judgment. As Vector employees we strive to carry out our work in accordance with our values, and this Code should be used as a practical set of guiding principles to help us make decisions in our daily jobs.

Diversity and inclusion

The Board's commitment to creating and maintaining both a diverse workforce and an inclusive workplace for all employees is reflected in its Diversity and Inclusion Policy. A Diversity Council, made up of senior management representatives, provides governance over the implementation of the Policy. The Diversity Council also provides guidance and direction in relation to the activity of the Diversity Committee, which consists of employee representatives from across the business.

Vector has sought to establish measurable objectives for achieving diversity, including gender diversity, and its annual assessment of its diversity objectives for FY20 and the company's progress towards achieving these objectives are set out on page 15 of this annual report.

Gender statistics for Board and Executive team:

	AS AT 30 JUNE 2020			AS AT 30 JUNE 2019		
Position	**Female**	**Male**	**Diverse**	**Female**	**Male**	**Diverse**
Directors	2(29%)	5(71%)		3 (38%)	5 (62%)	
Executive team	4(44%)	5(56%)		2 (29%)	5 (71%)	

Our key and emerging risks

STRATEGIC RISKS		
●	Business evolution and adaptation	Changing customer needs and expectations; managing the balance of regulated and non-regulated revenues effectively
●	Rapid digitalisation and technology changes	Appropriately innovating and keeping pace with technological advancements as they emerge
●	Product/service commercialisation	Delivery of new revenue streams in a dynamic marketplace, needing a strong coordinated approach
●	Portfolio management	Delivery of acceptable returns in the medium term, through actively managing the investment portfolio and capturing growth opportunities
●	Political and regulatory uncertainty	Ongoing changes in the New Zealand and Australian political and regulatory landscape; ensuring the regulatory environment keeps pace with technological and operational change
●	Accelerated climate change adaptation and mitigation	Exposure of network assets to potential changes in weather trends and increased severe weather events; transition to a net zero emissions economy (presents both risks and opportunities for the business)
●	Data governance and management	Heightened focus on ensuring organisations appropriately manage, use and safeguard data
OPERATING RISKS		
●	Cyber security	Vector's IT/OT environment being compromised, leading to disruption to critical services or confidential information being released, modified or deleted
●	Significant HSE incident	Safety Always is fundamental to Vector's operations, to protect our people, contractors and the wider public
●	Core business operational failure	Strong business continuity practices to minimise disruption from the unlikely event of a significant operational incident at a critical site or the impacts of a pandemic on the Vector Group
●	Compliance with quality standards	External factors, resourcing and technical constraints and Auckland's ongoing growth; challenging Vector's ability to achieve SAIDI and SAIFI targets
●	Reputational damage	The use, speed and hyper-transparency of social media, coupled with increasing engagement with customers
EMERGING RISKS		
●	Trust and ethical conduct perceptions	Heightened focus on organisational trust, transparency and conduct
●	Talent, capability and capacity	Resourcing capability and capacity due to the volume and speed of change, together with evolving workforce requirements and skillsets
●	Growing value of intangible assets	Increasing role of intangibles in supporting and driving business value (presents both long-term opportunities and risks)

● ENVIRONMENTAL RISKS ● TECHNOLOGICAL RISKS ● ECONOMIC RISKS ● SOCIETAL RISKS ● OPERATIONAL RISKS

Investor engagement

Vector's Board is committed to maintaining open and transparent communications with investors and other stakeholders and it supports a programme for two-way engagement with shareholders, debt investors, the media and the broader investment community.

Annual and interim reports, NZX releases, quarterly reports on operational performance, governance policies and charters and a wide variety of corporate information are posted on Vector's website. Vector conducts detailed market briefings in conjunction with the release of the annual and interim financial results. Transcripts of the briefings are available at the annual reports page of the Investor section of the website.

Entrust
Majority shareholder of Vector

WILLIAM CAIRNS (CHAIR)

MICHAEL BUCZKOWSKI (DEPUTY CHAIR)

ALASTAIR BELL

PAUL HUTCHISON

KAREN SHERRY

In September 2019, each of Entrust's 336,000 beneficiaries received a $360 dividend – that's more than $120 million going straight into the Auckland economy.

More than 228 undergrounding projects have been completed since the programme began, in Auckland, Manukau and northern Papakura.

Consumer trust Entrust was formed more than 25 years ago to ensure that stewardship over Auckland's electricity network remains in the hands of Aucklanders. Entrust acts in the interests of its 336,000 families and businesses in Auckland, Manukau, northern Papakura and eastern Franklin. Entrust protects the $3 billion investment in Vector through its role in the appointment of directors to Vector's Board.

Here for the community

Entrust is proud of the work it has undertaken for its beneficiaries and all Aucklanders.

Passing on a share of Vector's profits to beneficiaries

Vector's growth and operating performance enables Entrust to distribute an annual dividend to beneficiaries through its 75.1% stake in Vector.

Advocacy on behalf of energy consumers

Entrust regularly advocates on behalf of energy consumers on important matters such as the Electricity Pricing Review and transmission pricing.

Enabling projects with direct benefit

Entrust has an agreement with Vector that requires an average of $10.5 million to be invested in projects in the Entrust District every year.

In the year to 30 June 2020, key undergrounding projects have been undertaken in Mt Albert, Coronation Road (Mangere Bridge), Selwyn Street (Onehunga), Powell Street (Avondale), Ngahue Drive (Stonefields), Campbell Crescent (Epsom), Norwich Street (Newton), Ruskin Street (Parnell), and Bella Vista Road (Herne Bay).

Entrust, majority shareholder of Vector

Joint ventures and investments

Vector has investments in a number of businesses that complement our network businesses and strengthen our capabilities in the energy services field.

50%

TREESCAPE

Vector holds a 50% shareholding in Tree Scape Limited, one of Australasia's largest specialist tree and vegetation management companies, with depots throughout New Zealand and in Queensland and New South Wales. Treescape employs more than 600 staff. Its customers include councils, utilities, government agencies, construction companies and developers. Treescape implements Vector's planned vegetation management programme, which plays a major role in minimising the impact of severe weather on Vector's electricity network.

www.treescape.co.nz

60.25%

LIQUIGAS

NGC Holdings Limited (a wholly owned subsidiary of Vector) holds a 60.25% shareholding in Liquigas Limited, New Zealand's leading company for tolling, storage and distribution of bulk LPG. Liquigas has staff and depots in Auckland, New Plymouth, Christchurch and Dunedin.

www.liquigas.co.nz

8.1%

mPREST

Vector holds a 8.1% shareholding in mPrest Systems (2003) Limited. The mPrest technology allows companies to better monitor, analyse, and control energy networks and connect traditional infrastructure like electricity lines and substations with new technology like solar and battery energy solutions.

www.mprest.com

Operating statistics

YEAR ENDED 30 JUNE	2020	2019
ELECTRICITY		
Customers[1, 6]	580,060	**571,125**
New connections	12,231	**11,000**
Net movement in customers[2]	8,935	**8,049**
Volume distributed (GWh)	8,315	**8,410**
Network length (km)[1]	18,999	**18,884**
SAIDI (minutes)[3]		
Normal operations[4]	167.5	**198.2**
Major network events[5]	3.4	**377.2**
Total	170.9	**575.4**
GAS DISTRIBUTION		
Customers[1, 6]	113,960	**111,642**
New connections	3,201	**3,322**
Net movement in customers[2]	2,318	**2,413**
Volume distributed (PJ)	14.3	**14.4**
GAS TRADING		
Natural gas sales (PJ)[7]	12.4	**16.1**
Gas liquid sales (tonnes)[8]	43,338	**44,309**
9kg LPG bottles swapped[9]	701,923	**658,159**
Liquigas LPG tolling (tonnes)[10]	116,024	**110,457**
METERING		
Electricity: smart meters[1, 11]	1,713,674	**1,558,291**
Electricity: legacy meters[1]	69,527	**76,367**
Electricity: prepay meters[1]	28	**39**
Electricity: time-of-use meters[1]	12,556	**12,473**
Gas meters[1]	230,862	**228,027**
Data management and service connections[1]	8,472	**8,824**

1. As at 30 June.
2. Net number of customers added during the period, includes disconnected, reconnected and decommissioned ICPs.
3. SAIDI minutes for the regulatory year – 12 months to 31 March (audited).
4. Normal Operations (SAIDI) includes the impact of 1 Major Event Day (MED) resulting in 6.371 SAIDI minutes capped to 3.374 minutes.
5. This is the SAIDI amount over and above the MED cap for the Major event days in aggregate.
6. Billable ICPs.
7. Excludes gas sold as gas liquids.
8. The group completed the sale of its interests in the Kapuni Gas Treatment Plant (KGTP) and co-generation facility on 31 March 2020. As a result, we have changed the methodology of calculating liquids volumes to reflect continuing activities only. LPG volumes include LPG sold by the OnGas business. LPG and Natural Gasoline sold by KGTP is now excluded. Comparatives have been restated to reflect this.
9. Number of 9kg LPG bottles swapped and sold during the year.
10. The group has revised the methodology for Liquigas LPG tolling to reflect new contractual terms and calculates product tolling domestic and exports. Product further tolled in South Island has been removed.
11. The number of advanced meters as at 30 June 2020 includes 168,793 meters managed but not owned by Vector (30 June 2019: 156,713).

Five year financial performance

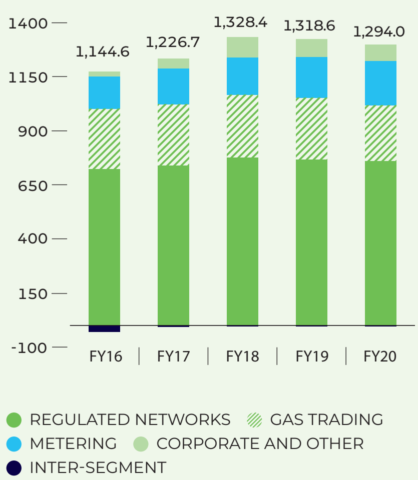
YEAR ENDED 30 JUNE ($ MILLION)	2020	2019	2018	2017	2016
PROFIT OR LOSS – CONTINUING OPERATIONS[1]					
Total income	**1,294.0**	1,318.6	1,328.4	1,226.7	1,144.6
Adjusted EBITDA[2]	**490.0**	485.8	470.1	474.4	473.0
Depreciation and amortisation	**(262.8)**	(246.8)	(225.9)	(199.6)	(194.6)
Adjusted EBIT	**227.2**	239.0	244.2	274.8	278.4
Net profit – continuing operations	**97.3**	84.0	149.8	168.9	58.9
PROFIT OR LOSS – DISCONTINUED OPERATIONS					
Total income	**–**	–	–	–	110.7
Adjusted EBITDA	**–**	–	–	–	75.3
Depreciation and amortisation	**–**	–	–	–	(5.8)
Adjusted EBIT	**–**	–	–	–	69.5
Net profit – including discontinued operations	**97.3**	84.0	149.8	168.9	274.4
BALANCE SHEET					
Total equity	**2,259.7**	2,349.4	2,457.9	2,448.3	2,398.3
Total assets	**6,380.9**	6,061.0	5,808.0	5,574.6	5,603.0
Economic net debt (borrowings net of cash and short-term deposits)	**2,882.3**	2,627.5	2,377.8	2,220.1	1,932.9
CASH FLOW					
Operating cash flow	**397.3**	348.1	389.9	335.7	352.1
Capital expenditure	**(476.4)**	(418.4)	(386.8)	(354.3)	(340.1)
Dividends paid	**(167.0)**	(164.1)	(163.9)	(161.0)	(159.2)
KEY FINANCIAL MEASURES					
Adjusted EBITDA/total income	**37.9%**	36.8%	35.4%	38.7%	41.3%
Adjusted EBIT/total income	**17.6%**	18.1%	18.4%	22.4%	24.3%
Equity/total assets	**35.4%**	38.8%	42.3%	43.9%	42.8%
Return on assets (adjusted EBITDA/total assets)	**7.7%**	8.0%	8.1%	8.5%	8.4%
Gearing[3]	**55.2%**	52.2%	48.8%	47.1%	43.7%
Net interest cover – continuing ops (adjusted EBIT/ net finance costs) (times)	**1.8**	1.8	1.8	2.0	1.6
Earnings (NPAT) per share (cents) including discontinued activities	**9.5**	8.3	14.8	16.7	27.2
Dividends declared, cents per share (fully imputed)	**16.50**	16.50	16.25	16.00	15.75

1. Prepared on a continuing basis, excluding contribution from gas transmission and Non-Auckland gas distribution for all periods presented.
2. Refer to Non-GAAP reconciliation on page 34.
3. Gearing is defined as economic net debt to economic net debt plus adjusted equity. Adjusted equity means total equity adjusted for hedge reserves.

ADJUSTED EBITDA (continuing operations)
$ MILLION

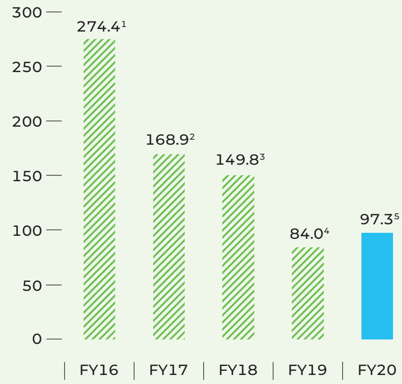
TOTAL INCOME
(continuing operations)

$ MILLION



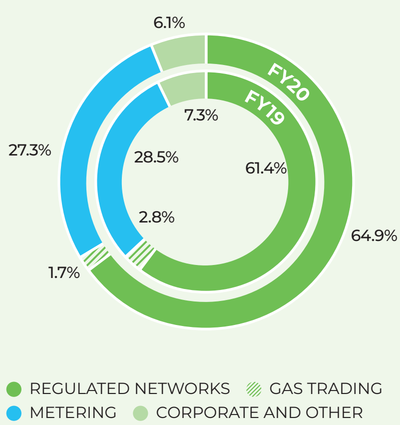
NET PROFIT
(including discontinued operations)

$ MILLION



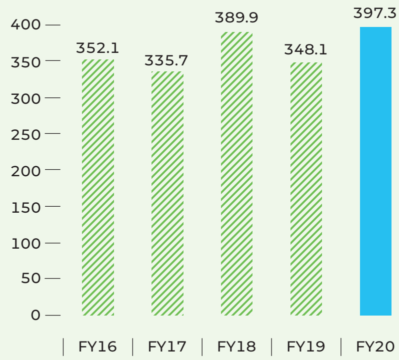
1. FY16 includes a $164.1 million gain on sale of Vector Gas Limited, partly offset by a $64.0 million non-cash impairment.
2. FY17 includes a $15.0 million gain from a tax dispute settlement.
3. FY18 includes a $16.7 million one-off tax gain.
4. FY19 includes a $46.6 million non-cash impairment.
5. FY20 includes a $32.0 million non-cash impairment.

CAPITAL EXPENDITURE

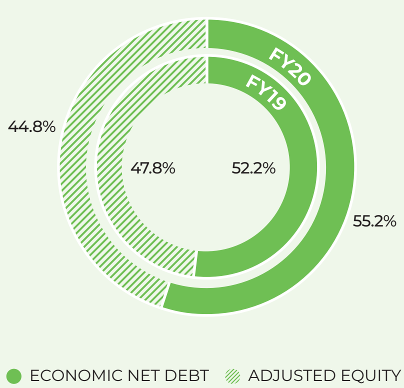


OPERATING CASH FLOWS
(including discontinued operations)

$ MILLION



SOURCE OF FUNDING – GEARING
AS AT 30 JUNE



Non-GAAP financial information

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 the 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 (vector.co.nz).

Non-GAAP profit measures are not prepared in accordance with New Zealand International 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

YEAR ENDED 30 JUNE ($ MILLION) Group EBITDA and adjusted EBITDA from continuing operations	2020	2019
Reported net profit for the period (GAAP)	**97.3**	**84.0**
Add back: net interest costs	**126.5**	**133.3**
Add back: tax (benefit)/expense	**55.2**	**52.5**
Add back: depreciation and amortisation	**262.8**	**246.8**
Add back: impairment	**32.0**	**46.6**
EBITDA	**573.8**	**563.2**
Adjusted for:		
Associates (share of net (profit)/loss)	**(0.3)**	**(0.6)**
Third-party contributions	**(86.4)**	**(79.3)**
Fair value change on financial instruments	**3.4**	**2.5**
Gain on sale of Kapuni gas interests	**(0.5)**	**–**
Adjusted EBITDA	**490.0**	**485.8**

	2020			2019		
YEAR ENDED 30 JUNE ($ MILLION) Segment adjusted EBITDA	REPORTED SEGMENT EBITDA	LESS THIRD-PARTY CONTRIBUTIONS AND OTHER MOVEMENTS	SEGMENT ADJUSTED EBITDA	REPORTED SEGMENT EBITDA	LESS THIRD-PARTY CONTRIBUTIONS AND OTHER MOVEMENTS	SEGMENT ADJUSTED EBITDA
Metering	154.8	–	154.8	138.7	–	138.7
Gas Trading	33.9	–	33.9	31.3	–	31.3
Unregulated segments	**188.7**	**–**	**188.7**	**170.0**	**–**	**170.0**
Regulated segment	**423.3**	**(85.7)**	**337.6**	**446.0**	**(79.0)**	**367.0**
TOTAL REPORTED SEGMENTS	**612.0**	**(85.7)**	**526.3**	**616.0**	**(79.0)**	**537.0**
Corporate and other	**(38.2)**	**1.9**	**(36.3)**	**(52.8)**	**1.6**	**(51.2)**
TOTAL	**573.8**	**(83.8)**	**490.0**	**563.2**	**(77.4)**	**485.8**

Financials

Financial Statements

CONTENTS

2020 FINANCIAL STATEMENTS

These financial statements for the year ended 30 June 2020 are dated 26 August 2020, and signed for and on behalf of Vector Limited by:

Director 26 August 2020

Director 26 August 2020

And management of Vector Limited by:

Group Chief Executive 26 August 2020

Chief Financial Officer 26 August 2020

PROFIT OR LOSS

for the year ended 30 June

	NOTE	2020 $M	2019 $M
Revenue	6	**1,294.0**	1,318.6
Operating expenses	7	**(717.6)**	(753.5)
Depreciation and amortisation		**(262.8)**	(246.8)
Interest costs (net)	8	**(126.5)**	(133.3)
Impairment	10	**(32.0)**	(46.6)
Associates (share of net profit/(loss))	13.1	**0.3**	0.6
Fair value change on financial instruments	20.2	**(3.4)**	(2.5)
Gain on sale of Kapuni gas interests	5	**0.5**	–
Profit/(loss) before income tax		**152.5**	136.5
Income tax benefit/(expense)	14	**(55.2)**	(52.5)
Net profit/(loss) for the period		**97.3**	84.0
Net profit/(loss) for the period attributable to			
Non-controlling interests		**1.9**	1.1
Owners of the parent		**95.4**	82.9
Basic and diluted earnings per share (cents)	23.3	**9.5**	8.3

OTHER COMPREHENSIVE INCOME

for the year ended 30 June

	NOTE	2020 $M	2019 $M
Net profit/(loss) for the period		**97.3**	84.0
Other comprehensive income net of tax			
Items that may be re-classified subsequently to profit or loss:			
Net change in fair value of hedge reserves	20	**(20.6)**	(21.0)
Translation of foreign operations		**3.5**	(2.1)
Share of other comprehensive income of associate	13.1	**(0.1)**	–
Items that will not be re-classified to profit or loss:			
Fair value change on investment	13.2	**(2.8)**	0.6
Other comprehensive income for the period net of tax		**(20.0)**	(22.5)
Total comprehensive income for the period net of tax		**77.3**	61.5
Total comprehensive income for the period attributable to			
Non-controlling interests		**1.9**	1.1
Owners of the parent		**75.4**	60.4

BALANCE SHEET

as at 30 June

	NOTE	2020 $M	2019 $M
CURRENT ASSETS			
Cash and cash equivalents		**28.3**	27.6
Trade and other receivables	9	**88.6**	100.1
Contract assets		**92.7**	105.2
Inventories		**9.4**	8.4
Contingent consideration	5	**5.2**	–
Intangible assets		**2.4**	1.9
Income tax	14	**33.7**	52.4
Total current assets		**260.3**	295.6
NON-CURRENT ASSETS			
Receivables	9	**1.7**	1.7
Derivatives	20	**220.4**	109.3
Contingent consideration	5	**79.5**	–
Investments	13	**21.7**	24.3
Intangible assets	10	**1,283.4**	1,373.2
Property, plant and equipment (PPE)	11	**4,367.7**	4,166.3
Right of use assets (ROU)	12.1	**35.8**	38.1
Income tax	14	**110.0**	52.3
Deferred tax	15	**0.4**	0.2
Total non-current assets		**6,120.6**	5,765.4
Total assets		**6,380.9**	6,061.0
CURRENT LIABILITIES			
Trade and other payables	16	**201.6**	200.1
Provisions	17	**27.0**	17.4
Borrowings	19	**374.7**	481.3
Derivatives	20	**9.5**	4.9
Contract liabilities	6.2	**53.4**	48.4
Lease liabilities	12.2	**8.2**	7.2
Income tax	14	**0.1**	0.8
Total current liabilities		**674.5**	760.1
NON-CURRENT LIABILITIES			
Payables	16	**–**	1.8
Provisions	17	**7.8**	27.4
Borrowings	19	**2,760.9**	2,279.7
Derivatives	20	**95.4**	78.2
Contract liabilities	6.2	**38.6**	43.9
Lease liabilities	12.2	**29.6**	32.7
Deferred tax	15	**514.4**	487.8
Total non-current liabilities		**3,446.7**	2,951.5
Total liabilities		**4,121.2**	3,711.6
EQUITY			
Equity attributable to owners of the parent		**2,242.8**	2,332.4
Non-controlling interests in subsidiaries		**16.9**	17.0
Total equity		**2,259.7**	2,349.4
Total equity and liabilities		**6,380.9**	6,061.0
Net tangible assets per share (cents)	23.3	**95.7**	95.7
Gearing ratio (%)	23.3	**55.2**	52.2

CASH FLOWS

for the year ended 30 June

	NOTE	2020 $M	2019 $M
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		**1,312.9**	1,316.5
Interest received		**2.0**	1.1
Payments to suppliers and employees		**(717.2)**	(765.3)
Interest paid		**(134.0)**	(142.6)
Income tax paid		**(66.4)**	(61.6)
Net cash flows from/(used in) operating activities	22.1	**397.3**	348.1
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of PPE and software intangibles		**0.5**	0.6
Purchase and construction of PPE		**(436.7)**	(383.2)
Purchase and development of software intangibles		**(39.7)**	(35.2)
Acquisition of businesses		**–**	(8.0)
Other investments		**(0.3)**	(1.6)
Net cash flows from/(used in) investing activities		**(476.2)**	(427.4)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		**797.1**	535.0
Repayment of borrowings		**(541.6)**	(285.6)
Dividends paid		**(167.0)**	(164.1)
Lease liabilities payments		**(8.9)**	(6.2)
Other financing cash flows		**–**	(0.1)
Net cash flows from/(used in) financing activities	22.2	**79.6**	79.0
Net increase/(decrease) in cash and cash equivalents		**0.7**	(0.3)
Cash and cash equivalents at beginning of the period		**27.6**	27.9
Cash and cash equivalents at end of the period		**28.3**	27.6
Cash and cash equivalents comprise:			
Bank balances and on-call deposits		**23.2**	22.0
Short-term deposits		**5.1**	5.6
	22.2	**28.3**	27.6

CHANGES IN EQUITY

for the year ended 30 June

	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 2018		880.0	(0.2)	(40.1)	(0.3)	1,595.0	17.5	2,451.9
Net profit/(loss) for the period		–	–	–	–	82.9	1.1	84.0
Other comprehensive income		–	–	(21.0)	(1.5)	–	–	(22.5)
Total comprehensive income		–	–	(21.0)	(1.5)	82.9	1.1	61.5
Dividends	3	–	–	–	–	(162.5)	(1.6)	(164.1)
Employee share purchase scheme transactions		–	(0.2)	–	0.3	–	–	0.1
Total transactions with owners		–	(0.2)	–	0.3	(162.5)	(1.6)	(164.0)
Balance at 30 June 2019		**880.0**	**(0.4)**	**(61.1)**	**(1.5)**	**1,515.4**	**17.0**	**2,349.4**
Net profit/(loss) for the period		**–**	**–**	**–**	**–**	**95.4**	**1.9**	**97.3**
Other comprehensive income		**–**	**–**	**(20.6)**	**0.6**	**–**	**–**	**(20.0)**
Total comprehensive income		**–**	**–**	**(20.6)**	**0.6**	**95.4**	**1.9**	**77.3**
Dividends	3	**–**	**–**	**–**	**–**	**(165.0)**	**(2.0)**	**(167.0)**
Employee share purchase scheme transactions		**–**	**0.1**	**–**	**(0.1)**	**–**	**–**	**–**
Total transactions with owners		–	**0.1**	**–**	**(0.1)**	**(165.0)**	**(2.0)**	**(167.0)**
Balance at 30 June 2020		**880.0**	**(0.3)**	**(81.7)**	**(1.0)**	**1,445.8**	**16.9**	**2,259.7**

Notes to the 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 reporting entity for the purposes of Part 7 of the Financial Markets Conduct Act 2013. The financial statements comply with this Act.

The financial statements presented are for Vector Limited Group ("Vector" or "the group") as at, and for the year ended 30 June 2020. The group comprises Vector Limited ("the parent") and its subsidiaries (together referred to as "the group").

In accordance with the Financial Markets Conduct Act 2013, where a reporting entity prepares consolidated financial statements, parent company disclosures are not required.

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

Statement of compliance

The financial statements comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable Financial Reporting Standards, as appropriate for Tier 1 for–profit entities. They also comply with International Financial Reporting Standards.

Basis of preparation

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP) as appropriate to Tier 1 for–profit entities.

They are prepared on the historical cost basis except for the following items, which are measured at fair value:

— the identifiable assets and liabilities acquired in a business combination; and

— certain financial instruments, as disclosed in the notes to the financial statements.

The presentation currency is New Zealand dollars ($). All financial information has been rounded to the nearest 100,000, unless otherwise stated.

The statements of profit or loss, other comprehensive income, cash flows and changes in equity are stated exclusive of GST. All items in the balance sheet are stated exclusive of GST except for trade receivables and trade payables, which include GST.

Significant accounting policies, estimates and judgements

Vector's management is required to make judgements, estimates, and apply assumptions that affect the amounts reported in the financial statements. They have based these on historical experience and other factors they believe to be reasonable. The table below lists the key areas of judgements and estimates in preparing these financial statements:

KEY AREAS	JUDGEMENTS / ESTIMATES	NOTE
Valuation of contingent consideration receivable	Estimates	5,18
Intangible assets: valuation of goodwill	Estimates	10
Property, plant and equipment: classification of costs	Judgements	11
Leases: assessment of lease term for perpetual leases and leases with renewal options	Judgements	12
Valuation of derivative financial instruments	Estimates	18,20

New standards effective

A number of new standards and interpretations are effective from 1 July 2019, but they do not have a material effect on the group's financial statements.

A number of new standards and interpretations are effective for annual periods beginning on or after 1 July 2020 and earlier application is permitted, however the group has not early adopted the new or amended standards in preparing these consolidated financial statements. None of the amended standards and interpretations are expected to have a significant impact on the group's consolidated financial statements.

2. Summary of significant accounting policies continued

COVID–19 global pandemic

The New Zealand Government ("the Government") announced a State of National Emergency on 25 March 2020 in response to the World Health Organisation ("WHO") declaring COVID–19 as a global pandemic on 11 March 2020, signalling the beginning of a countrywide lockdown period (Alert Level 4) from midnight 25 March, which lasted until 28 April 2020. All non–essential services were suspended during this period, while a limited number of essential services were allowed to continue trading under guidelines from the Government.

While the pandemic has impacted parts of the group's businesses operationally, the financial impact in the current financial year has been limited.

Vector's electricity and gas distribution, supply and distribution of natural gas and LPG, metering services and telecommunication services were considered essential businesses and continued to trade through Alert Level 4. The energy solutions business and meters deployment work in New Zealand were suspended in line with the Government's guidelines. As New Zealand moved out from Alert Level 4 and the subsequent Alert Level 3 periods in mid May, all of Vector's New Zealand businesses have resumed by 30 June 2020.

Vector's Australia metering business, while also curtailed to some degree by differing pandemic response rules imposed by state governments in Australia, was able to operate under essential services capacity during the last quarter of the current financial year. The impact to the business was not material.

In respect of the balance sheet, the table below provides a summary of assessment by the Board on key areas impacted by COVID–19, based on information available at the time the financial statements are approved.

	NOTE	
Contingent consideration	5,18	Contingent consideration from the sale of Vector's Kapuni interests is recorded at fair value. Commodity prices used to calculate the initial fair value recorded at 31 March 2020 have reflected the impact of COVID–19, which was declared a global pandemic by the WHO on 11 March 2020.
Trade and other receivables	9	The group has not seen a significant increase in doubtful debts throughout and after Alert Level 4 in New Zealand and similar restrictive period in Australia. Specific circumstances pertaining to individual customers are assessed and considered in the provision for doubtful debts, but the pandemic has not had a material impact on the group's assessment of expected credit losses at balance date.
Intangible assets	10	In respect of impairment testing COVID–19 restrictions imposed by the Government have had an impact on the business performance of the E–Co Products CGU and have contributed, in part, to impairment recognised in the CGU in the current year.
Investment in private equity	13,18	Investment in private equity is recorded at fair value. The carrying amount reflects future cash flow forecasts of the investee at balance date, which have been impacted by COVID–19.
Deferred tax	15	The group recognised a reduction in deferred tax liability of $3.5 million as a result of the COVID-19 Response (Taxation and Social Assistance Urgent Measures) Act 2020 having reinstated Vector's ability to deduct non-residential building depreciation for tax purposes.

3. Significant transactions and events

Significant transactions and events that have impacted the financial year ended 30 June 2020:

The Commerce Commission

Over–recovery of electricity revenue

On 7 July 2017, Vector and the Commerce Commission ("the Commission") agreed the settlement of an over–recovery of electricity revenue by Vector during the regulatory years ended 31 March 2014 and 31 March 2015.

The settlement was effected through a $15.2 million (including accumulated interest of $3.8 million) price adjustment for the regulatory years ending 31 March 2019 ($5.3 million) and 31 March 2020 ($9.9 million), impacting the group's reported revenues and interest costs for the financial years ended 30 June 2018 (3 months), 30 June 2019 (12 months) and 2020 (9 months).

The impact in the current year ended 30 June 2020 is a $5.6 million (2019: $4.8 million) decrease in revenue and a $1.8 million (2019: $1.7 million) increase in interest costs.

Sale of the Kapuni gas interests

On 3 December 2019, Vector announced an agreement for the sale of the Kapuni Gas Treatment Plant and related assets including Vector's 50% interest in the Kapuni Energy Joint Venture (together "the Kapuni gas interests") to Todd Petroleum Mining Company Limited.

The Kapuni gas interests were a part of Vector's Gas Trading segment. Assets and liabilities associated with the Kapuni gas interests were $103.8 million and $21.5 million respectively at completion date.

The sale transaction was completed on 31 March 2020 for a contingent consideration of $84.3 million, resulting in a gain on sale of $0.5 million after deducting total costs to sell of $1.5 million. Refer to note 5 for details on the sale.

Debt programme

On 16 September 2019, the group repaid $296.6 million (USD $195.0 million) of USD senior notes.

On 12 March 2020, a total of $797.0 million (USD $500.0 million) of USD senior notes were issued. $573.9 million (USD $360.0 million) matures in March 2032 and $223.1 million (USD $140.0 million) matures in March 2035.

During the year ended 30 June 2020, the group repaid a net $245.0 million (2019: $285.0 million draw down) from the bank facilities. Refer to note 19.

Dividends

Vector Limited's final dividend for the year ended 30 June 2019 of 8.25 cents per share was paid on 16 September 2019, with a supplementary dividend of 1.46 cents per non–resident share. The total dividend paid was $82.5 million.

Vector Limited's interim dividend for the year ended 30 June 2020 of 8.25 cents per share was paid on 8 April 2020, with a supplementary dividend of 0.44 cents per non–resident share. The total dividend paid was $82.5 million.

Liquigas Limited, a subsidiary of the group, paid an interim dividend in December 2019 of $0.8 million and a final dividend in June 2020 of $1.2 million to the company's non–controlling interests.

4. Segment information

Segments	Vector report on three reportable segments in accordance with NZ IFRS 8 *Operating Segments*. These segments are reported internally to the group chief executive. This reporting is used to assess performance and make decisions about the allocation of resources. A review of the reportable segments in the current year resulted in the following changes from the 30 June 2019 reporting period: — The Technology segment, which included the metering services, telecommunications and new energy solutions businesses is no longer a reportable segment; — The Metering services business is disaggregated from the Technology segment to form a new and single reportable segment, Metering; — The telecommunications and new energy solutions businesses have been removed from segment reporting. These businesses do not satisfy the criteria to report as reportable segments. The key change was the presentation of the Metering services business as an individual reportable segment as a result of growth in metering services revenue in recent years. The current reportable segments, including their key business activities at 30 June 2020 are therefore: **Regulated Networks** Auckland electricity and gas distribution services. **Gas Trading** Natural gas and LPG sales, storage, and transportation. **Metering** Metering services. The processing and cogeneration businesses in Gas Trading ceased at completion of the sale of Vector's Kapuni gas interests. Refer to note 5. Prior periods segment information has been restated to reflect the changes in the segments. Segment information is prepared and reported in accordance with Vector's accounting policies. Intersegment transactions included in the revenues and operating expenses for each segment are on an arm's length basis.
Segment profit	The measures of segment profit reported to the group chief executive are earnings before interest and tax and earnings before interest, tax, depreciation, amortisation and impairments (EBITDA).
Activities not reported in segments	Other activities engaged by the group comprise shared services and other business activities. Revenues generated by these activities are incidental to Vector's operations and/or do not meet the definition of an operating segment under NZ IFRS 8. The results for these activities are reported in the reconciliations of segment information to the group's financial statements. Interest costs (net), fair value change on financial instruments and associates (share of net profit/(loss)) are not allocated to the segments.
Geographical information	The group derives a majority of the revenue from external customers in New Zealand.
Major customers	Vector engage with three major customers, each of which contribute greater than ten percent of the group's revenue. These customers are large energy retailers. For the year ended 30 June 2020, the customers contributed $216.5 million (2019: $220.4 million), $159.1 million (2019: $172.3 million) and $158.5 million (2019: $164.6 million) respectively, which is reported across all segments.

4. Segment information continued

2020	REGULATED NETWORKS $M	GAS TRADING $M	METERING $M	INTER–SEGMENT $M	TOTAL $M
External revenue:					
Sales	656.9	256.4	203.9	–	1,117.2
Third party contributions	85.7	–	–	–	85.7
Other	15.6	–	–	–	15.6
Intersegment revenue	2.7	–	1.3	(4.0)	–
Segment revenue	760.9	256.4	205.2	(4.0)	1,218.5
External expenses:					
Electricity transmission expenses	(200.8)	–	–	–	(200.8)
Gas purchases and production expenses	–	(153.2)	–	–	(153.2)
Metering services cost of sales	–	–	(25.2)	–	(25.2)
Network and asset maintenance	(68.4)	(13.8)	(9.1)	–	(91.3)
Employee benefit expenses	(18.9)	(13.8)	(7.4)	–	(40.1)
Other expenses	(49.5)	(37.7)	(8.7)	–	(95.9)
Intersegment expenses	–	(4.0)	–	4.0	–
Segment operating expenses	(337.6)	(222.5)	(50.4)	4.0	(606.5)
Segment EBITDA	423.3	33.9	154.8	–	612.0
Gain from sale of Kapuni gas interests	–	0.5	–	–	0.5
Depreciation and amortisation	(131.2)	(14.9)	(81.3)	–	(227.4)
Segment profit/(loss)	292.1	19.5	73.5	–	385.1
Segment capital expenditure	317.1	8.2	133.3	–	458.6

Reconciliation to revenue, profit/(loss) before income tax and capital expenditure reported in the financial statements: 2020	REVENUE $M	PROFIT/(LOSS) BEFORE INCOME TAX $M	CAPITAL EXPENDITURE $M
Reported in segment information	1,218.5	385.1	458.6
Amounts not allocated to segments:			
Revenue	74.8	74.8	–
Third party contributions	0.7	0.7	
Impairment (refer to note 10.1)	–	(32.0)	–
Employee benefit expenses	–	(54.2)	–
Other operating expenses	–	(66.9)	–
Elimination of transactions with segments	–	10.0	–
Depreciation and amortisation	–	(35.4)	–
Interest costs (net)	–	(126.5)	–
Fair value change on financial instruments	–	(3.4)	–
Associates (share of net profit/(loss))	–	0.3	–
Capital expenditure	–	–	30.1
Reported in the financial statements	1,294.0	152.5	488.7

4. Segment information continued

2019 (RESTATED)	REGULATED NETWORKS $M	GAS TRADING $M	METERING $M	INTER–SEGMENT $M	TOTAL $M
External revenue:					
Sales	676.8	284.1	186.9	–	1,147.8
Third party contributions	79.0	–	–	–	79.0
Other	8.8	–	–	–	8.8
Intersegment revenue	3.0	–	1.5	(4.5)	–
Segment revenue	767.6	284.1	188.4	(4.5)	1,235.6
External expenses:					
Electricity transmission expenses	(209.6)	–	–	–	(209.6)
Gas purchases and production expenses	–	(179.2)	–	–	(179.2)
Metering services cost of sales	–	–	(22.8)	–	(22.8)
Network and asset maintenance	(60.6)	(17.1)	(9.0)	–	(86.7)
Employee benefit expenses	(16.3)	(13.6)	(9.5)	–	(39.4)
Other expenses	(35.1)	(38.4)	(8.4)	–	(81.9)
Intersegment expenses	–	(4.5)	–	4.5	–
Segment operating expenses	(321.6)	(252.8)	(49.7)	4.5	(619.6)
Segment EBITDA	446.0	31.3	138.7	–	616.0
Depreciation and amortisation	(122.4)	(15.6)	(72.0)	–	(210.0)
Segment profit/(loss)	323.6	15.7	66.7	–	406.0
Segment capital expenditure	260.9	11.8	121.2	–	393.9

Reconciliation to revenue, profit/(loss) before income tax and capital expenditure reported in the financial statements: **2019 (RESTATED)**	REVENUE $M	PROFIT/(LOSS) BEFORE INCOME TAX $M	CAPITAL EXPENDITURE $M
Reported in segment information	1,235.6	406.0	393.9
Amounts not allocated to segments:			
Revenue	82.7	82.7	–
Third party contributions	0.3	0.3	
Impairment (refer to note 10.1)	–	(46.6)	–
Employee benefit expenses	–	(59.6)	–
Other operating expenses	–	(78.1)	–
Elimination of transactions with segments	–	3.8	–
Depreciation and amortisation	–	(36.8)	–
Interest costs (net)	–	(133.3)	–
Fair value change on financial instruments	–	(2.5)	–
Associates (share of net profit/(loss))	–	0.6	–
Capital expenditure	–	–	31.2
Reported in the financial statements	1,318.6	136.5	425.1

5. Sale of Kapuni Gas interests

The sale of Vector's Kapuni gas interests to Todd Petroleum Mining Company Limited was completed on 31 March 2020.

The Kapuni gas interests were classified as a disposal group held for sale from December 2019 and its assets and liabilities were presented as a disposal group held for sale at this date. Depreciation and amortisation on the property, plant and equipment ceased from December 2019 due to the held for sale classification.

	2020 $M
Carrying value of disposal group as at 31 March 2020:	
Trade and other receivables	0.4
Intangible assets (including goodwill)	65.8
Property, plant and equipment	30.6
Trade and other payables	(0.4)
Provisions	(21.1)
Deferred tax	7.0
Net assets sold	82.3
Contingent consideration	84.3
Costs to sell	(1.5)
Gain on sale	0.5

Goodwill

Where an operation within a group of cash generating units (CGUs) to which goodwill has been allocated is disposed of, goodwill attributable to the operation disposed of is included in the disposed assets.

Prior to the sale the disposal group consisted a part of the gas trading CGU, which had ceased to exist following completion of the sale (refer to note 10). The goodwill was apportioned by measuring it on the basis of relative values of the operation disposed of and the portion of the CGU retained. Management has determined that a relative valuation method based on each operation's valuation compared to its carrying value to be the most appropriate method for goodwill allocation purposes.

In the group interim financial statements for the six-months ended 31 December 2019 the disposal group included goodwill of $36.0 million. Information made available to management subsequent to 31 December 2019 but pertaining to 31 March 2020 changed the valuations of the disposal group and continuing businesses, thus also causing changes in the allocation of goodwill.

Key accounting estimate

The fair value of the contingent consideration was estimated by calculating the present value of the future expected cash flows payable by Todd to Vector. The future period of payment is not fixed by the contract but is dependent on the remaining useful life of the Kapuni gas treatment plant, which is directly correlated to the volume of gas available at the Kapuni gas field and the rate at which the gas is extracted. The values of future cash flows are highly dependent on the future sale prices of gas products (LPG and oil) in the market. Underpinning this all is the assumption that there is an active market for processed gas products in the future and government policy relating to the transition of New Zealand to a low carbon economy.

Management made the following estimates in calculating the fair value of the contingent consideration at 31 March 2020 completion:

— Future available raw gas volume at the Kapuni gas field to be approximately 210 PJ based on volume forecasts, as at 1 January 2020;

— Future LPG prices in the range of USD $280 per tonne to USD $520 per tonne;

— Future oil prices in the range of USD $25 per barrel to US $60 per barrel;

— Future FX rate of approximately 1.50 NZD/USD in the long–term;

— Discount rate of 8%.

Management have re–estimated the same unobservable inputs when calculating the fair value of the contingent consideration at balance date. Refer to note 18 for details and sensitivity analysis around significant unobservable inputs used in measuring fair values.

5. Sale of Kapuni Gas interests continued

Consideration

At completion of the sale on 31 March 2020, the group recognised total consideration of $84.3 million represented entirely by the fair value of a contingent consideration at completion date. The contingent consideration was classified as a financial asset measured at fair value through profit or loss.

Net gains and losses recognised in the profit or loss and arising from the contingent consideration subsequent to completion comprises:

— Fair value movement, which represents changes in management estimates and assumptions used to determine fair value at each reporting date; and

— Interest income, which represents the unwinding of the discounting applied in calculating the fair value at each reporting.

At reporting date, the consideration was remeasured to $84.7 million. The gain this year reflects interest income recognised in the three months between completion date and balance date only. Refer to the table below for a reconciliation between fair value calculated at completion and at balance date.

	NOTE	2020 $M
Carrying value of contingent consideration		
At completion of sale at 31 March 2020		**84.3**
Unwinding of interest	8	**1.7**
Consideration due reclassified to receivables	9	**(1.0)**
Payments received		**(0.3)**
Balance at 30 June 2020		**84.7**
Comprising:		
Current		**5.2**
Non–current		**79.5**

6. Revenue

6.1 Revenue from contracts with customers

	2020 $M	2019 $M
Regulated networks – sale of distribution services	**672.5**	685.6
Regulated networks – third party contributions	**85.7**	79.0
Gas trading sales	**256.4**	284.1
Metering services	**203.9**	186.9
Other	**75.5**	83.0
Total	**1,294.0**	1,318.6

	Revenue streams	**Satisfaction of performance obligation**
Regulated networks – sale of distribution services	The group receives revenue from business customers and energy retailers who sell energy to end customers for electricity and gas distribution services in Auckland.	Revenue from electricity and gas distribution services is measured at the value of consideration received, or receivable, to the extent that pricing is measured by the regulator within a defined revenue path. Revenue is recognised over time on a basis that corresponds with end consumers' pattern of electricity and gas consumption. Customers are billed monthly in arrears for distribution services, measured in units of electricity and gas distributed. Revenue from distribution services therefore includes an accrual for services provided but not billed at the end of the month. The accrual is determined based on the group's estimate of volume distributed in the month using the most recent data available. A large portion of the contract assets at balance date consists of this accrual.
Regulated networks – third party contributions	The group receives contributions from residential and commercial customers towards the construction of distribution system assets in the Auckland electricity or gas distribution networks.	Third party contributions are recognised as revenue over time, reflecting the percentage completion of the underlying construction activity. The group recognises a contract liability to account for consideration received from the customer but where the agreed construction activity is not completed; and conversely a contract asset is recognised to account for activities completed not billed. The transaction price for third party contributions is netted against estimated rebates payable to commercial customers. A contract liability is recognised to account for payments received from customers for construction activities completed but who are eligible for rebates in the future based on completion of developments. In the event that a contract combines a contribution towards an agreed construction activity with sale of electricity or gas distribution services, the group unbundles the contract into two performance obligations and recognises revenue in accordance with each obligation's accounting policy.

6. Revenue continued

6.1 Revenue from contracts with customers continued

Gas trading sales	Gas trading sales comprises predominantly three revenue streams: sale of natural gas, and distribution and sale of LPG.	
	Revenue streams	**Satisfaction of performance obligation**
Sale of natural gas	The group receives revenue from business customers for providing a supply of natural gas over a contracted time period.	Revenue is recognised over time that corresponds with the customer's consumption of natural gas and measured at the transaction price of the contract. The transaction price for a gas supply contract includes variable consideration in the form of indexed pricing, volume pricing, and take or pay arrangements. The group estimates the amount of variable consideration present in each contract using the expected value method. Customers are billed monthly. A contract asset is recognised to account for natural gas supplied but not billed to the customer at balance date.
Sale of LPG	Sale of LPG comprises bulk LPG sales to commercial customers and bottled LPG sales to both commercial and residential customers.	Revenue is recognised at a point in time when LPG is delivered to a customer's site. Billing to a customer occurs after completion of deliveries and at the end of each month with payment terms ranging from 60 days to 90 days.
Distribution of LPG	The group provides services in the areas of bulk LPG storage, distribution and management.	Revenue is recognised over time in line with a customer's consumption of monthly tolling and storage volumes and measured at the transaction price of the contract. The transaction price for a monthly tolling and storage contract includes variable considerations in the form of volume pricing and take or pay arrangements. The group estimates the amount of variable consideration present in each contract using the expected value method.

6. Revenue continued

6.1 Revenue from contracts with customers **continued**

	Revenue streams	Satisfaction of performance obligation
Metering services	The group receives revenue from business customers for providing electricity and gas metering and data services.	Customer is predominantly an energy retailer who has multiple customers (end users) consuming electricity and gas. Metering and metering data services comprise collection and provision of half–hourly data, utilising the group's electricity and gas meter assets that are fitted at the premises of end users. Metering services are billed to the customer monthly, based on actual and validated metering and data services provided. Customers are billed monthly a number of days after the end of the month to allow for data validation to take place. A contract asset is recognised at the end of each month for services provided but unbilled.
Other revenue streams	Other revenue includes telecommunications revenue and revenue from providing energy solution services. Telecommunications revenue from commercial customers comprise the sale of fibre services. Revenue is recognised at the point in time of supply and customer consumption. Energy solutions services comprise predominantly the sale of home and commercial ventilation and solar services. Revenue is recognised as revenue over time, reflecting the percentage completion of each ventilation and solar system install.	

6.2 Revenue in relation to contract liabilities

The following table sets out the expected timing of future recognition of revenue relating to performance obligations not satisfied (or partially satisfied) at balance date:

2020	1 – 2 YEARS $M	2 – 4 YEARS $M	TOTAL $M
Electricity distribution services	2.6	1.9	**4.5**
Telecommunication services	3.4	2.2	**5.6**
Total	**6.0**	**4.1**	**10.1**

Policies	No information is provided in relation to the remaining performance obligations at 30 June 2020 or 30 June 2019 that have an original duration of one year or less as permitted by NZ IFRS 15.
Revenue recognised	Of the revenue recognised this year, $30.2 million was included in the contract liability balance at the beginning of the reporting period. (2019: $29.2 million).

7. Operating expenses

	NOTE	2020 $M	2019 $M
Electricity transmission	4	**200.8**	209.6
Gas purchases and production	4	**153.2**	179.2
Metering cost of sales	4	**25.2**	22.8
Energy solutions cost of sales		**23.7**	25.7
Network and asset maintenance	4	**91.3**	88.7
Other direct expenses		**75.6**	65.0
Employee benefit expenses	4	**94.3**	99.0
Administration expenses		**18.0**	26.0
Professional fees		**10.9**	13.0
IT expenses		**16.6**	16.0
Other indirect expenses		**8.0**	8.5
Total		**717.6**	753.5

Fees paid to auditors

Fees were paid to KPMG as follows:

— audit or review of financial statements: $562,000 (2019: $597,000);

— regulatory assurance: $663,000 (2019: $392,185);

— other assurance fees: $22,000 (2019: $74,485);

— non–audit fees: $125,000 (2019: $174,000).

Other assurance fees include fees for the audit of guaranteeing group financial statements, bond registers, and agreed upon procedures required by certain contractual arrangements. Non-audit fees include fees for compliance services for R&D tax credits (2019: fees for IT forensics and other forensic services).

Government wage subsidy

The group applied for and was granted a total wage subsidy of $1.6 million from the New Zealand Government Wage Subsidy Scheme for one of the group's subsidiary companies. The lump sum payment was initially recognised as a deferred income and subsequently amortised to the profit or loss, as a reduction in expenses, over the 12–week subsidy period commencing April 2020.

8. Interest costs (net)

	NOTE	2020 $M	2019 $M
Interest expense		**121.2**	125.9
Amortisation of finance costs		**7.9**	6.5
Capitalised interest		**(4.1)**	(5.4)
Interest income		**(2.2)**	(1.1)
Unwinding of contingent consideration	5	**(1.7)**	–
Interest on leases	12.3	**1.9**	2.0
Unwinding of decommissioning provisions	17	**1.7**	2.0
Interest associated with Commerce Commission settlement	3	**1.8**	1.7
Other		**–**	1.7
Total		**126.5**	133.3

Policies

Interest costs (net) include interest expense on borrowings and interest income on funds invested which are recognised using the effective interest rate method.

Capitalised interest

Vector has capitalised interest to PPE and software intangibles while under construction at an average rate of 4.3% per annum (2019: 5.3%).

9. Trade and other receivables

	NOTE	2020 $M	2019 $M
Current			
Trade receivables		**64.0**	76.3
Interest receivable		**11.0**	9.4
Prepayments		**9.0**	11.1
Consideration due from sale of Kapuni gas interests	5	**1.0**	–
Other taxes and duties receivable		**1.7**	1.9
Other		**1.9**	1.4
Balance at 30 June		**88.6**	100.1
Non–current			
Other contract receivables		**1.7**	1.7
Balance at 30 June		**1.7**	1.7

At 30 June, the exposure to credit risk for trade and other receivables by type of counterparty was as follows.

	2020 $M		2019 $M	
	NOT CREDIT IMPAIRED	CREDIT IMPAIRED	NOT CREDIT IMPAIRED	CREDIT IMPAIRED
Business customers	**55.7**	**2.4**	62.4	2.8
Mass market customers	**4.4**	**0.3**	6.6	–
Third party asset damages	–	**4.6**	0.3	5.2
Residential and other	**2.1**	**1.5**	4.2	0.9
Total gross carrying amount	**62.2**	**8.8**	73.5	8.9
Loss allowance	–	**(5.3)**	(0.2)	(4.2)
	62.2	**3.5**	73.3	4.7

The following table provides information about the exposure to credit risk and expected credit losses for trade and other receivables as at 30 June.

	2020 $M		2019 $M	
	CARRYING AMOUNT	LOSS ALLOWANCE	CARRYING AMOUNT	LOSS ALLOWANCE
Not past due	**55.0**	–	65.9	–
Past due 1 – 30 days	**2.7**	–	7.1	–
Past due 31 – 120 days	**4.8**	**0.5**	2.9	0.2
Past due more than 120 days	**3.2**	**4.8**	2.1	4.2
Balance at 30 June	**65.7**	**5.3**	78.0	4.4

Policies

Trade receivables are predominantly billed receivables. Sales to business customers are billed monthly. Trade receivables from mass market, residential and other customers are recognised as they are originated.

Other receivables represent the amount of contractual cash flows that the group expect to collect from third parties but that did not arise from contracts with customers. Where contractual cash flows are expected or contracted to be received after 12 months, the balance is presented as non–current.

9. Trade and other receivables continued

Expected credit losses

In assessing credit losses for trade receivables, the group applies the simplified approach and records lifetime expected credit losses ("ECLs") on trade receivables. The group consider both quantitative and qualitative inputs. Quantitative data includes past collection rates, industry statistics, ageing of receivables, and trading outlook. Qualitative inputs include past trading history with the group.

Lifetime ECLs result from all possible default events over the expected life of a trade receivable. The group considers the probability of default upon initial recognition of the trade receivable, based on reasonable and available information on the group's customers and groups of customers. The group's trade receivables are monitored in two groups: business customers, and mass market residential customers.

The group's customer acceptance process includes a check on credit history, profitability, and the customer's external credit rating if available. Different levels of sale limits are also imposed on customer accounts by nature.

The group have assessed the impact COVID–19 had on the group's customers and determined the effect to be insignificant.

10. Intangible assets

	NOTE	CUSTOMER INTANGIBLES $M	EASEMENTS $M	SOFTWARE $M	TRADE NAMES $M	GOODWILL $M	CAPITAL WORK IN PROGRESS $M	TOTAL $M
Carrying amount 30 June 2018		33.9	16.8	61.1	15.8	1,269.6	11.3	1,408.5
Cost		49.9	16.8	276.6	16.8	1,333.6	11.3	1,705.0
Accumulated amortisation		(16.0)	–	(215.5)	(1.0)	–	–	(232.5)
Accumulated impairment		–	–	–	–	(64.0)	–	(64.0)
Additions		–	–	–	–	–	38.1	38.1
Transfers		–	0.5	30.6	–	–	(31.1)	–
Acquisition of business		–	–	0.1	–	7.4	–	7.5
Impairment	10.1	(3.9)	–	–	–	(42.7)	–	(46.6)
Amortisation for the period		(5.9)	–	(26.6)	(1.8)	–	–	(34.3)
Carrying amount 30 June 2019		24.1	17.3	65.2	14.0	1,234.3	18.3	1,373.2
Cost		49.9	17.3	299.0	16.8	1,341.0	18.3	1,742.3
Accumulated amortisation		(21.9)	–	(233.8)	(2.8)	–	–	(258.5)
Accumulated impairment		(3.9)	–	–	–	(106.7)	–	(110.6)
Additions		**–**	**–**	**–**	**–**	**–**	**49.0**	**49.0**
Transfers		**–**	**0.5**	**45.3**	**–**	**–**	**(45.8)**	**–**
Sale of Kapuni gas interests		**–**	**–**	**–**	**–**	**(65.8)**	**–**	**(65.8)**
Disposals		**–**	**–**	**(0.2)**	**–**	**–**	**–**	**(0.2)**
Impairment	10.1	**(15.4)**	**–**	**–**	**(12.2)**	**(4.4)**	**–**	**(32.0)**
Amortisation for the period		**(4.5)**	**–**	**(34.5)**	**(1.8)**	**–**	**–**	**(40.8)**
Carrying amount 30 June 2020		**4.2**	**17.8**	**75.8**	**–**	**1,164.1**	**21.5**	**1,283.4**
Cost		**49.9**	**17.8**	**343.2**	**16.8**	**1,275.2**	**21.5**	**1,724.4**
Accumulated amortisation		**(26.4)**	**–**	**(267.4)**	**(4.6)**	**–**	**–**	**(298.4)**
Accumulated impairment		**(19.3)**	**–**	**–**	**(12.2)**	**(111.1)**	**–**	**(142.6)**

10. Intangible assets continued

10.1 Goodwill

Goodwill by cash generating unit	2020 $M	2019 $M
Electricity	**881.0**	881.0
Gas Distribution	**169.2**	169.2
Gas Trading	**–**	156.8
Natural Gas	**10.3**	–
LPG	**40.2**	–
Liquigas	**40.5**	–
Metering	**22.9**	22.9
E-Co Products	**–**	4.4
Total	**1,164.1**	1,234.3

Policies

Goodwill represents the excess of the consideration transferred over the fair value of Vector's share of the net identifiable assets of an acquired subsidiary.

Goodwill is carried at cost less accumulated impairment losses.

Allocation

Goodwill is monitored internally at a group level. It is allocated to the group's cash generating units ("CGUs"), for impairment testing purposes.

Following the sale of its Kapuni gas interests on 31 March 2020, the group has reassessed its CGUs for impairment testing as at 30 June 2020. As a result of the sale, the group's gas trading CGU has ceased to exist, with the remaining natural gas, LPG and Liquigas businesses being deemed as individual CGUs respectively. As at 30 June 2020, CGUs within the group are: electricity, gas distribution, metering, natural gas, LPG, Liquigas, communications, and E–Co Products.

Goodwill is tested at least annually for impairment against the recoverable amount of the CGU to which it has been allocated.

Impairment

As at 30 June 2020, the group has recognised an impairment loss of $32.0 million (2019: $46.6 million) in respect of goodwill and intangible assets allocated to the E–Co Products ("E–Co") CGU. The impairment reflects the post–acquisition performance of E–Co's heat pumps and filters businesses continuing to fall below expectations. E–Co's current year business performance has been affected by the impact of COVID–19 trading restrictions. COVID–19 has highlighted the challenging market conditions which E–Co faces, and as a result management have reassessed both the structure and the forecast financial performance for this business.

The recoverable amount of the E–Co CGU has been determined based on value in use. Post–tax discount rates of between 7.5% and 8.2% (2019: 7.6% and 8.3%) have been applied in determining the recoverable amount for the E–Co CGU.

Key accounting judgements

To assess impairment, management must estimate the future cash flows of operating segments including the CGUs that make up those segments. This entails making judgements including:

— the expected rate of growth of revenues;

— margins expected to be achieved;

— the level of future maintenance expenditure required to support these outcomes; and

— the appropriate discount rate to apply when discounting future cash flows.

10. Intangible assets continued

10.1 Goodwill continued

Assumptions	The recoverable amounts attributed to all of the group's CGUs are calculated on the basis of value–in–use using discounted cash flow models. On the basis that the recoverable amounts of these CGUs to which goodwill is allocated exceeds the net assets plus goodwill allocated, other than the impairment of E–Co Products the group has determined that no further impairment to goodwill has occurred during the period. Future cash flows are forecast based on actual results and business plans. For the electricity, gas distribution and metering CGUs, a ten–year period has been used due to the long–term nature of the group's capital investment in these businesses and the predictable nature of their cash flows. A five–year period has been used for the natural gas, Liquigas, LPG, E–Co and communications CGUs. Terminal growth rates in a range of 0.0% to 2.0% (2019: 1.0% to 2.0%) and post–tax discount rates between 3.9% to 8.2% (2019: 4.7% and 8.9%) are applied. Rates vary for the specific CGU being valued. Projected cash flows for regulated businesses are sensitive to regulatory uncertainty. Estimated future regulated network revenues and the related supportable levels of capital expenditure are based on default price–quality path determinations issued by the Commerce Commission and are in line with estimates published in the asset management plans.

10.2 Other intangible assets

Policies	Other intangible assets are initially measured at cost, and subsequently stated at cost less any accumulated amortisation and impairment losses. Software, customer intangibles, and trade names have been assessed as having a finite life greater than 12 months and are amortised from the date the asset is ready for use on a straight–line basis over its estimated useful life. The estimated useful lives (years) are as follows: Software 3 – 10 Customer intangibles 3 – 10 Trade names 10 Easements are not amortised but are tested for impairment at least annually as part of the assessment of the carrying values of assets against the recoverable amounts of the CGUs to which they have been allocated.

11. Property, plant and equipment (PPE)

	DISTRIBUTION SYSTEMS $M	ELECTRICITY AND GAS METERS $M	LAND, BUILDINGS AND IMPROVE-MENTS $M	COMPUTER AND TELCO EQUIPMENT $M	OTHER PLANT AND EQUIPMENT $M	CAPITAL WORK IN PROGRESS $M	TOTAL $M
Carrying amount 30 June 2018	2,962.3	478.6	170.7	99.9	156.5	116.4	3,984.4
Cost	4,028.1	829.2	206.6	206.6	265.6	116.4	5,652.5
Accumulated depreciation	(1,065.8)	(350.6)	(35.9)	(106.7)	(109.1)	–	(1,668.1)
Additions	–	–	–	–	–	386.5	386.5
Acquisition of business	–	–	–	0.1	0.3	–	0.4
Transfers	269.8	102.0	13.0	6.1	20.2	(411.1)	–
Disposals	(1.9)	(1.7)	(0.1)	–	(0.1)	–	(3.8)
Depreciation for the period	(120.0)	(53.4)	(3.4)	(11.7)	(12.7)	–	(201.2)
Carrying amount 30 June 2019	3,110.2	525.5	180.2	94.4	164.2	91.8	4,166.3
Cost	4,280.4	926.7	219.4	198.4	286.0	91.8	6,002.7
Accumulated depreciation	(1,170.2)	(401.2)	(39.2)	(104.0)	(121.8)	–	(1,836.4)
Additions	**–**	**–**	**–**	**–**	**5.1**	**439.7**	**444.8**
Transfers	**293.2**	**115.6**	**8.3**	**5.3**	**10.5**	**(432.9)**	**–**
Sale of Kapuni gas interests	**(17.3)**	**–**	**(2.1)**	**–**	**(11.2)**	**–**	**(30.6)**
Disposals	**(3.2)**	**–**	**(0.2)**	**(0.3)**	**(0.7)**	**–**	**(4.4)**
Depreciation for the period	**(124.2)**	**(59.2)**	**(3.5)**	**(9.9)**	**(11.6)**	**–**	**(208.4)**
Carrying amount 30 June 2020	**3,258.7**	**581.9**	**182.7**	**89.5**	**156.3**	**98.6**	**4,367.7**
Cost	**4,458.5**	**1,039.6**	**222.2**	**199.7**	**289.7**	**98.6**	**6,308.3**
Accumulated depreciation	**(1,199.8)**	**(457.7)**	**(39.5)**	**(110.2)**	**(133.4)**	**–**	**(1,940.6)**

11. Property, plant and equipment (PPE) continued

Policies

PPE is initially measured at cost, and subsequently stated at cost less depreciation and any impairment losses. Cost may include:

— Consideration paid on acquisition
— Costs to bring the asset to working condition
— Materials used in construction
— Direct labour attributable to the item
— Interest costs attributable to the item
— A proportion of directly attributable overheads incurred
— If there is a future obligation to dismantle and/or remove the item, the costs of doing so

Capitalisation of costs stops when the asset is ready for use.

Subsequent expenditure that increases the economic benefits derived from the asset is capitalised.

Uninstalled assets are stated at the lower of cost and estimated recoverable amount.

Depreciation commences when an asset becomes available for use.

Depreciation of PPE, other than freehold land and capital work in progress, is calculated on a straight–line basis and expensed over the useful life of the asset. Useful lives are reviewed regularly and adjusted as appropriate for the revised expectations.

Estimated useful lives (years) are as follows:

Buildings	40 – 100	Meters and meter inspections	2 – 40
Distribution systems	5 – 100	Computer and telco equipment	2 – 50
Leasehold improvements	5 – 20	Other plant and equipment	3 – 55

Key accounting judgements

The group's property, plant and equipment, particularly the group's distribution assets, are critical to the running of the group's business. In assessing whether the costs incurred in a project on the group's assets are capital in nature, management must apply the following judgements:

— Whether the costs incurred are directly attributable to bringing an asset to the location and condition necessary for it to be capable of operating in the manner intended by management;
— Whether subsequent costs incurred represent an enhancement to existing assets or maintain the current operating capability of existing assets;
— Whether overhead costs can be reasonably allocated to the construction or acquisition of an asset.

Capital commitments

The estimated capital expenditure for PPE and software intangibles contracted for at balance date but not provided is $127.0 million for the group (2019: $83.4 million).

12. Leases

12.1 Right of use assets

	LAND, BUILDINGS AND IMPROVE-MENTS $M	OTHER PLANT AND EQUIPMENT $M	TOTAL $M
Opening net book value 1 July 2018	–	–	–
Movements on transition	39.4	0.7	40.1
Additions	2.1	3.7	5.8
Depreciation for the period	(6.8)	(1.0)	(7.8)
Carrying amount 30 June 2019	34.7	3.4	38.1
Additions	**4.0**	**2.7**	**6.7**
Disposals	**–**	**(0.1)**	**(0.1)**
Depreciation for the period	**(7.0)**	**(1.9)**	**(8.9)**
Carrying amount 30 June 2020	**31.7**	**4.1**	**35.8**
Cost	**44.5**	**6.6**	**51.1**
Accumulated depreciation	**(12.8)**	**(2.5)**	**(15.3)**

12.2 Lease liabilities maturity analysis

	MINIMUM LEASE PAYMENTS $M	INTEREST $M	PRESENT VALUE $M
Within one year	**9.8**	**(1.6)**	**8.2**
One to five years	**22.8**	**(4.4)**	**18.4**
Beyond five years	**15.7**	**(4.5)**	**11.2**
Total	**48.3**	**(10.5)**	**37.8**
Current portion			**8.2**
Non–current portion			**29.6**
Total			**37.8**

12.3 Lease expenses included in profit or loss

	2020 $M	2019 $M
Short–term leases	**0.1**	0.3
Interest on leases	**1.9**	2.0

12.4 Lease cashflows included in statement of cash flows

	2020 $M	2019 $M
Total cash outflow in relation to leases	**10.6**	8.4

12. Leases continued

Policies

Right of use ("ROU") assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of ROU assets includes the amount of lease liabilities recognised, initial direct costs incurred, restoration obligations, and lease payments made at or before the commencement date less any lease incentives received.

ROU assets are subsequently depreciated using the straight–line method from the commencement date to the end of the lease term.

Key accounting judgements

Determining the term of a perpetual lease and a lease with renewal options (single or multiple) can have a material impact on the value of the ROU asset and associated lease liability.

The group has two perpetual leases relating to two LPG storage and transportation sites at Lyttelton and Dunedin with no expiry dates. Management have determined the lease term for the perpetual leases be the same as the lease for the Port Taranaki LPG import facility, on the basis that economic benefits from the perpetual leases are requisite on the group having a continuing right to use the site and associated facilities at Port Taranaki. The end of the lease term for the lease at Port Taranaki is 30 September 2044.

For leases with renewal options, management include one to all available renewal periods in the lease term if it is reasonably certain that the renewal option or options will be exercised. In making this judgement management consider the non–cancellable period of the lease, other leases or assets associated with the lease in question, and other economic factors such as availability of similar leases in the market and costs to identify and negotiate another lease if not renewed.

Several property leases in the group's portfolio of leases contain renewal options. The group has estimated the impact from potential future lease payments, should it exercise these extension options, to be an increase of $2.9 million in the group's lease liability.

13. Investments

	NOTE	2020 $M	2019 $M
Investment in associate	18	**8.9**	8.7
Investment in private equity	18	**12.8**	15.6
Balance at 30 June		**21.7**	24.3

13. Investments continued

13.1 Investment in associate

ASSOCIATE	PRINCIPAL ACTIVITY	BALANCE DATE	COUNTRY OF INCORPORATION	PERCENTAGE HELD 2020	PERCENTAGE HELD 2019
Tree Scape Limited	Vegetation management	31 March	New Zealand	**50%**	50%

	2020 $M	2019 $M
Carrying amount of associate		
Balance at 1 July	**8.7**	8.1
Share of net profit/(loss) of associate	**0.3**	0.6
Share of other comprehensive income of associate	**(0.1)**	–
Balance at 30 June	**8.9**	8.7
Equity accounted earnings of associate		
Profit/(loss) before income tax	**0.4**	0.8
Income tax benefit/(expense)	**(0.1)**	(0.2)
Share of net profit/(loss) of associate	**0.3**	0.6
Total recognised revenues and expenses	**0.3**	0.6

Policies

Associates are entities in which Vector has significant influence, but not control or joint control, over the operating and financial policies. Vector holds over 20%, but not more than half, of the voting rights in all entities reported as associates and has assessed that there are currently no indicators that Vector does not have significant influence consistent with these voting rights. Where Vector has 50% voting rights in an entity reported as an associate, we have determined that this does not constitute joint control as there is more than one combination of parties that can achieve majority voting rights and control through Board voting.

Investments in associates are reported in the financial statements using the equity method.

13.2 Investment in private equity

INVESTEE	PRINCIPAL ACTIVITY	COUNTRY OF INCORPORATION	EQUITY INTEREST HELD 2020	EQUITY INTEREST HELD 2019
mPrest Systems (2003) Limited	Technology development	Israel	**8.1%**	8.1%

	2020 $M	2019 $M
Fair value of investment		
Balance at 1 July	**15.6**	15.0
Fair value movement recognised in OCI	**(2.8)**	0.6
Balance at 30 June	**12.8**	15.6

Policies

The investment is accounted for as a financial asset at fair value through other comprehensive income ("OCI") on the Balance Sheet.

Fair value of the investment is determined using the discounted cash flow method. Refer to note 18 for details on the significant unobservable inputs used in measuring the fair value and related sensitivity analysis.

13. Investments continued

13.3 Investments in subsidiaries

Significant trading entities and holding companies in the group are listed below.

		PERCENTAGE HELD	
	PRINCIPAL ACTIVITY	2020	2019
Trading subsidiaries			
Vector Gas Trading Limited	Natural gas trading and processing	**100%**	100%
Liquigas Limited	Bulk LPG storage, distribution, and management	**60%**	60%
On Gas Limited	LPG sales and distribution	**100%**	100%
Vector Metering Data Services Limited	Holding company	**100%**	100%
Advanced Metering Assets Limited	Metering services	**100%**	100%
Advanced Metering Services Limited	Metering services	**100%**	100%
Arc Innovations Limited	Metering services	**100%**	100%
Vector Communications Limited	Telecommunications	**100%**	100%
Vector Energy Solutions Limited	Holding company	**100%**	100%
PowerSmart NZ Limited	Energy solutions services	**100%**	100%
Vector ESPS Trustee Limited	Trustee company	**100%**	100%
E–Co Products Group Limited	Holding company	**100%**	100%
Cristal Air International Limited	Ventilation, heating and water systems sales and assembly	**100%**	100%
Ventilation Australia Pty Limited	Holding company	**100%**	100%
HRV Australia Pty Limited	Ventilation systems and parts sales	**100%**	100%
Vector Advanced Metering Services (Australia) Pty Limited	Metering services	**100%**	100%
Vector Advanced Metering Assets (Australia) Limited	Metering services	**100%**	100%
Vector Energy Solutions (Australia) Pty Limited	Energy solutions services	**100%**	100%
Vector Technology Services Limited	Technology services	**100%**	–
Vector Auckland Property Limited	Assets holding company	**100%**	–
Vector Northern Property Limited	Assets holding company	**100%**	100%
Non–trading subsidiaries			
Vector Kapuni Limited (non–trading from 1 April 2020)	Joint operator – cogeneration plant	**100%**	100%

Policies

Subsidiaries are entities controlled directly or indirectly by the parent. Vector holds over 50% of the voting rights in all entities reported as subsidiaries. The financial statements of subsidiaries are consolidated into the group's financial statements. Intra–group balances and transactions between group subsidiary companies are eliminated on consolidation.

Geography

All subsidiaries are incorporated in New Zealand, except for the following which are incorporated in Australia:

— Vector Advanced Metering Services (Australia) Pty Limited;

— Vector Energy Solutions (Australia) Pty Limited;

— Ventilation Australia Pty Limited;

— HRV Australia Pty Limited.

14. Income tax expense/ (benefit)

Reconciliation of income tax expense/(benefit)	NOTE	2020 $M	2019 $M
Profit/(loss) before income tax		**152.5**	136.5
Tax at current rate of 28%		**42.7**	38.2
Current tax adjustments:			
Non–deductible expenses		**1.9**	3.3
Adjustment relating to sale of Kapuni gas interest		**9.3**	–
Impairment		**9.0**	13.0
(Over)/under provisions in prior periods		**(1.6)**	0.4
Other permanent difference		**(1.2)**	(0.9)
Deferred tax adjustments:			
Impact from tax legislation amendment	15	**(3.5)**	–
(Over)/under provisions in prior periods		**(1.4)**	(1.5)
Income tax expense/(benefit)		**55.2**	52.5
Comprising:			
Current tax		**27.8**	40.8
Deferred tax		**27.4**	11.7

Policies

Income tax expense/(benefit) comprises current and deferred tax and is calculated using rates enacted or substantively enacted at balance date.

Current and deferred tax is recognised in profit or loss unless the tax relates to items in other comprehensive income, in which case the tax is recognised as an adjustment in other comprehensive income against the item to which it relates.

Income tax asset

During the year ended 30 June 2020, Vector introduced a new dividend and imputation policy and moved away from its previous approach of fully imputing dividend payments to shareholders. The previous imputation policy has driven the recognition of a current income tax asset at 30 June 2020 of $33.7 million (2019: $52.4 million) and a non-current income tax asset of $110.0 million (2019: $52.3 million).

Imputation credits

There are no imputation credits available for use as at 30 June 2020 (2019: nil), as the imputation account has a debit balance as of that date.

15. Deferred tax

Deferred tax liability/ (asset)

	NOTE	PPE AND INTANGIBLES $M	PROVISIONS AND ACCRUALS $M	HEDGE RESERVES $M	OTHER $M	TOTAL $M
Balance at 30 June 2018		514.8	(19.6)	(15.5)	6.9	486.6
Recognised in profit or loss		20.5	(5.9)	–	(2.9)	11.7
Recognised in other comprehensive income		–	–	(8.2)	–	(8.2)
Recognised from adoption of NZ IFRS 15		–	–	–	(2.3)	(2.3)
Recognised from adoption of NZ IFRS 16		–	–	–	(0.2)	(0.2)
Balance at 30 June 2019		535.3	(25.5)	(23.7)	1.5	487.6
Recognised in profit or loss		**23.1**	**7.9**	–	**(0.1)**	**30.9**
Recognised in other comprehensive income		–	–	**(8.0)**	–	**(8.0)**
Deferred tax associated with sale of Kapuni gas interests	5	**1.0**	**6.0**	–	–	**7.0**
Impact from tax legislation amendment		**(3.5)**	–	–	–	**(3.5)**
Balance at 30 June 2020		**555.9**	**(11.6)**	**(31.7)**	**1.4**	**514.0**

15. Deferred tax continued

The group's deferred tax position is presented in the balance sheet as follows:

	2020 $M	2019 $M
Deferred tax asset	**(0.4)**	(0.2)
Deferred tax liability	**514.4**	487.8
Total	**514.0**	487.6

Policies

Deferred tax is:

— Recognised on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

— Not recognised for the initial recognition of goodwill.

— Measured at tax rates that are expected to be applied to the temporary differences when they reverse.

Tax legislation amendment

On 26 March 2020, the COVID–19 Response (Taxation and Social Assistance Urgent Measures) Act 2020 received royal assent. The Act has reinstated Vector's ability to deduct non–residential building depreciation for tax purposes.

The group has recognised a reduction in deferred tax liability of $3.5 million as a result.

16. Trade and other payables

	2020 $M	2019 $M
Current		
Trade payables	**155.2**	154.6
Employee benefits	**17.8**	18.0
Interest payable	**28.6**	27.5
Balance at 30 June	**201.6**	200.1
Non–current		
Liability for asset acquisition	**–**	1.8
Balance at 30 June	**–**	1.8

Employee benefits

Vector accrues employee benefits which remain unused at balance date, and amounts expected to be paid under short–term cash bonus plans.

17. Provisions

	NOTE	PROVISION FOR DISTRIBUTION TO CUSTOMERS $M	DECOMMISSIONING PROVISIONS $M	PRODUCT WARRANTY $M	OTHER $M	TOTAL $M
Balance at 30 June 2019		8.8	27.4	4.4	4.2	44.8
Additions		**15.2**	–	–	**4.0**	**19.2**
Unwinding of discount		–	**1.7**	–	–	**1.7**
Payments		**(8.5)**	–	–	–	**(8.5)**
Reversed to profit or loss		–	–	**(1.1)**	–	**(1.1)**
Decrease in decommissioning provision		–	**(0.2)**	–	–	**(0.2)**
Associated with sale of Kapuni gas interests	5	–	**(21.1)**	–	–	**(21.1)**
Balance at 30 June 2020		**15.5**	**7.8**	**3.3**	**8.2**	**34.8**
Comprising:						
Current		**15.5**	–	**3.3**	**8.2**	**27.0**
Non–current		–	**7.8**	–	–	**7.8**

Policies	The group recognises a provision when the group has a present obligation – legal or constructive – as a result of a past event, it is more likely than not that the resulting liability will be required to be settled, and the amount required to settle can be reliably estimated.
Provision for distribution to customers	The provision represents the group's estimate of the total value of loss rental rebates to be distributed to customers on Vector's electricity network. The group's past practice of distributing all loss rental rebates received to customers gives rise to a constructive obligation. Of the $8.5 million payments made, $5.0 million was paid to customers via Entrust, the group's ultimate parent entity (refer to note 24).
Decommissioning	The decommissioning provisions represent the present value of the future expected costs for dismantling the depot assets situated at various regions in New Zealand. Timing of economic outflows represents management's best estimate of the end of the useful life of the plant and associated assets.
Product warranty	The group provides for restatement costs and warranty claims on products sold or installed. Provisions are recognised when the product is sold or the service is provided to the customer. Initial recognition is based on historical experience and subsequently revisited at each reporting date.
Other provisions	These provisions comprise amounts that may be required to be utilised within one year or a longer period dependent on ongoing negotiations with third parties involved. There are currently no foreseeable uncertainties which would be reasonably expected to lead to material changes in the amounts provided.

18. Fair values

	NOTE	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2 INPUTS) 2020 $M	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3 INPUTS) 2020 $M	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2 INPUTS) 2019 $M	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3 INPUTS) 2019 $M
Assets measured at fair value					
Derivative financial instruments	20	**220.4**	–	109.3	–
Investment in private equity	13.2	–	**12.8**	–	15.6
Contingent consideration	5	–	**84.7**	–	–
Balance at 30 June		**220.4**	**97.5**	109.3	15.6
Liabilities measured at fair value					
Derivative financial instruments	20	**104.9**	–	83.1	–
Balance at 30 June		**104.9**	–	83.1	–

Policies

The table above provides the fair value measurement hierarchy of the group's assets and liabilities that are measured at fair value.

The group estimates all fair values using the discounted cash flows method. All assets and liabilities for which fair value is measured and disclosed in the financial statements are categorised within the fair value hierarchy, described as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities; or

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices); or

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Derivative financial instruments

Fair value is calculated using the discounted cash flow method, estimated using observable interest yield curves and/or foreign exchange market prices. The carrying values of the financial instruments are the fair values excluding any interest receivable or payable, which is separately presented in the balance sheet in other receivables or other payables.

Investment in private equity

Fair value is calculated using the discounted cash flow method. In estimating the fair value, the group made assumptions on unobservable inputs, including, amongst others, forecasted future cash flows, an appropriate discount rate and terminal growth rate.

The fair value considers the expected impact of COVID-19 within the forecasted future cash flows. The impact has not been significant.

Contingent consideration

Fair value is calculated using the discounted cash flow method. The group made assumptions on unobservable inputs including amongst others, future raw gas volume from the Kapuni gas field, future LPG prices, future oil prices, foreign exchange rates, and an appropriate discount rate. Further details on the inputs are as follows:

- Future raw gas volume from the Kapuni gas field is based on published forecasts from the Ministry of Business, Innovation and Employment;
- Future LPG prices are based on an independent financial institution's commodity price forecasts;
- Future oil prices are based on S&P Capital IQ forecast data;
- Future foreign exchange rates are based on an independent financial institution's foreign exchange rate forecasts; and
- Discount rate of 8%, representing market discount rates as applicable to the remaining life of the Kapuni gas field.

The impact of COVID-19 was largely reflected in the commodity prices used in calculating the initial fair value at 31 March 2020. Movement since initial recognition reflects movements in market inputs as mentioned above and are not COVID-19 related.

18. Fair values continued

Description of significant unobservable inputs

The table below summarises the significant level 3 unobservable inputs used by the group in measuring fair values and related sensitivity analysis.

			SENSITIVITY OF VALUATION TO CHANGES IN INPUTS			
	SIGNIFICANT UNOBSERVABLE INPUTS	RANGE AND ESTIMATES	Low	Valuation impact (millions)	High	Valuation impact (millions)
Investment in private equity	Forecast cashflows	$-3.6 million to $13.8 million	-10.0%	-$1.2	10.0%	+$1.2
	Discount rate	9.8%	-1.0%	+$2.5	1.0%	-$1.9
	Terminal growth rate	2.0%	-1.0%	-$1.1	1.0%	+$1.4
Contingent consideration	Discount rate	8.0%	-1.0%	+$4.3	1.0%	-$4.0
	Future raw gas volume	210 PJ	- 2PJ per annum	-$10.3	+ 2PJ per annum	+$10.3
	LPG pricing	USD $520/tonne long-term	- USD $50/ tonne	- $8.1	+ USD $50/ tonne	+$8.1
	Oil pricing	USD $60/barrel long-term	- USD $6/ barrel	- $3.0	+ USD $6/ barrel	+ $3.0

19. Borrowings

2020	CURRENCY	MATURITY DATE	FACE VALUE $M	UNAMORT–ISED COSTS $M	FAIR VALUE ADJUSTMENT ON HEDGED RISK $M	CARRYING VALUE $M	FAIR VALUE $M
Bank facilities – variable rate	NZD	Feb 2021 – Jan 2025	**150.0**	**(1.3)**	**–**	**148.7**	**150.3**
Capital bonds – 5.7% fixed rate	NZD	–	**307.2**	**(0.7)**	**–**	**306.5**	**337.7**
Wholesale bonds – 4.996% fixed rate	NZD	Mar 2024	**240.0**	**3.1**	**–**	**243.1**	**274.6**
Senior notes – fixed rate	USD	Oct 2021 – Mar 2035	**1,613.4**	**(4.6)**	**231.1**	**1,839.9**	**1,873.6**
Floating rate notes – variable rate	NZD	Oct 2020	**350.0**	**(0.1)**	**–**	**349.9**	**350.0**
Senior bonds – 3.45% fixed rate	NZD	May 2025	**250.0**	**(2.5)**	**–**	**247.5**	**276.6**
Balance at 30 June			**2,910.6**	**(6.1)**	**231.1**	**3,135.6**	**3,262.8**

2019	CURRENCY	MATURITY DATE	FACE VALUE $M	UNAMORT–ISED COSTS $M	FAIR VALUE ADJUSTMENT ON HEDGED RISK $M	CARRYING VALUE $M	FAIR VALUE $M
Bank facilities – variable rate	NZD	Mar 2020 – Jul 2021	395.0	(1.2)	–	393.8	393.8
Capital bonds – 5.7% fixed rate	NZD	–	307.2	(1.0)	–	306.2	345.7
Wholesale bonds – 4.996% fixed rate	NZD	Mar 2024	240.0	3.9	–	243.9	278.7
Senior notes – fixed rate	USD	Sep 2019 – Sep 2029	1,112.9	(2.1)	109.7	1,220.5	1,291.6
Floating rate notes – variable rate	NZD	Oct 2020	350.0	(0.5)	–	349.5	351.8
Senior bonds – 3.45% fixed rate	NZD	May 2025	250.0	(2.9)	–	247.1	277.3
Balance at 30 June			2,655.1	(3.8)	109.7	2,761.0	2,938.9

Policies

Borrowings are initially recorded at fair value, net of transaction costs. After initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in interest costs in profit or loss over the period of the borrowing using the effective interest rate method.

The carrying value of borrowings includes the principal converted at contract rates (face value), unamortised costs and a fair value adjustment for the component of the risk that is hedged. The fair value is calculated by discounting the future contractual cash flows at current market interest rates that are available for similar financial instruments. The fair value of all borrowings, calculated for disclosure purposes, are classified as level 2 on the fair value hierarchy.

19. Borrowings continued

Bank facilities	New floating rate bank facilities were added as part of our debt management activities.
Capital bonds	Capital bonds of $307.2 million are subordinated bonds with the next election date set as 15 June 2022. The interest rate was fixed at 5.7% at the previous election date of 15 June 2017.
Wholesale bonds	$240.0 million of fixed rate wholesale bonds were issued at a fixed rate of 4.996% maturing in March 2024.

Senior notes

DATE ISSUED	AMOUNT ISSUED NZD	AMOUNT ISSUED USD	DATE OF MATURITY
March 2020	$797.1 million	USD $500.0 million	$573.9 million (USD $360.0 million) matures in Oct 2032 and $223.2 million (USD $140.0 million) matures in Oct 2035.
October 2017	$415.8 million	$300.0 million	$277.2 million (USD $200 million) matures in October 2027. $138.6 million (USD $100.0 million) matures in October 2029.
October 2014	$150.0 million	$130.0 million	$150.0 million (USD $130.0 million) matures in October 2021.
December 2010	$250.5 million	$182.0 million	$250.5 million (USD $182.0 million matures in December 2022.
September 2004	$296.6 million	$195.0 million	$296.6 million (USD $195.0 million) repaid in September 2019.

Floating rate notes	The $350.0 million floating rate notes are credit wrapped by MBIA Insurance Corporation. These will be refinanced as part of our ongoing debt management activities.
Senior bonds	In May 2019, Vector issued $250.0 million of senior bonds at a fixed rate of 3.45% maturing in May 2025.
Covenants	All borrowings are unsecured and are subject to negative pledge arrangements and various lending covenants. These have all been met for the years ended 30 June 2020 and 30 June 2019.

20. Derivatives and hedge accounting

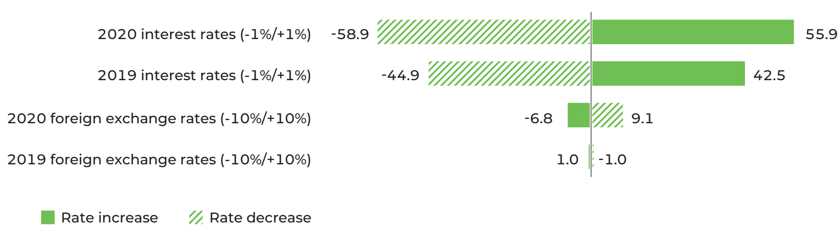
	CASH FLOW HEDGES		FAIR VALUE HEDGES		COST OF HEDGING		TOTAL	
	2020 $M	2019 $M	2020 $M	2019 $M	2020 $M	2019 $M	2020 $M	2019 $M
Derivative assets								
Cross currency swaps	**(23.8)**	–	**251.5**	116.0	**(7.6)**	(6.7)	**220.1**	109.3
Interest rate swaps	**–**	–	**–**	–	**–**	–	**–**	–
Forward exchange contracts	**0.3**	–	**–**	–	**–**	–	**0.3**	–
Total	**(23.5)**	–	**251.5**	116.0	**(7.6)**	(6.7)	**220.4**	109.3
Derivative liabilities								
Cross currency swaps	**–**	–	**–**	(4.9)	**–**	0.1	**–**	(4.8)
Interest rate swaps	**(104.5)**	(78.2)	**–**	–	**–**	–	**(104.5)**	(78.2)
Forward exchange contracts	**(0.4)**	(0.1)	**–**	–	**–**	–	**(0.4)**	(0.1)
Total	**(104.9)**	(78.3)	**–**	(4.9)	**–**	0.1	**(104.9)**	(83.1)

Key observable market data for fair value measurement	2020	2019
Foreign currency exchange (FX) rates as at 30 June		
NZD–USD FX rate	**0.6454**	0.6719
Interest rate swap rates		
NZD	**0.21% to 0.74%**	1.36% to 1.80%
USD	**0.16% to 0.88%**	1.74% to 2.40%

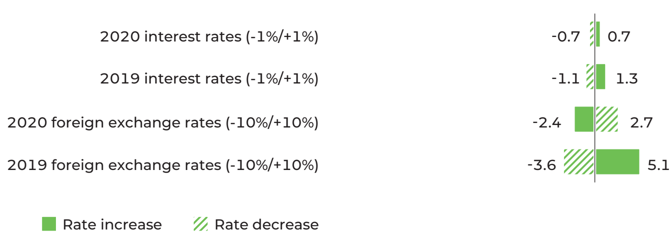
Sensitivity to changes in market rates

The graphs below illustrate the impact on derivative valuations of possible changes in interest rates and foreign exchange rates, assuming all other variables are held constant.

Impact on comprehensive income



Impact on profit or loss



20. Derivatives and hedge accounting continued

Policies

Vector initially recognises derivatives at fair value on the date the derivative contract is entered into, and subsequently they are re–measured to their fair value at each balance date. All derivatives are classified as level 2 on the fair value hierarchy explained in note 18.

Vector designates certain derivatives as either:

— Fair value hedges (of the fair value of recognised assets or liabilities or firm commitments); or

— Cash flow hedges (of highly probable forecast transactions).

At inception each transaction is documented, detailing:

— The economic relationship and the hedge ratio between hedging instruments and hedged items;

— The risk management objectives and strategy for undertaking the hedge transaction; and

— The assessment (initially and on an ongoing basis) of whether the derivatives that are used in the hedging transaction are highly effective in offsetting changes in fair values or cash flows of hedged items.

The underlying risk of the derivative contracts is identical to the hedged risk component (i.e. the interest rate risk and the foreign exchange risk) therefore the group has established a one–to–one hedge ratio. Effectiveness is assessed by comparing the changes of the hedged items and hedging instruments.

Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting.

Fair value hedges

Vector has entered into cross currency interest rate swaps (the hedging instruments) to hedge the interest rate risk and foreign currency risk (the hedged risk) arising in relation to its USD senior notes (the hedged items). These transactions have been designated into fair value hedges.

The following are recognised in profit or loss:

— The change in fair value of the hedging instruments; and

— The change in fair value of the underlying hedged items attributable to the hedged risk.

Once hedging is discontinued, the fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised through profit or loss from that date through to maturity of the hedged item.

Cash flow hedges

Vector has entered into interest rate swaps and cross currency interest rate swaps (the hedging instruments) to hedge the variability in cash flows arising from interest rate and foreign currency exchange rate movements in relation to its NZD floating rate notes and USD senior notes.

The effective portion of changes in the fair value of the hedging instruments are recognised in other comprehensive income.

The following are recognised in profit or loss:

— any gain or loss relating to the ineffective portion of the hedging instrument; and

— fair value changes in the hedging instrument previously accumulated in other comprehensive income, in the periods when the hedged item is recognised in profit or loss.

Once hedging is discontinued, any cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss either:

— at the same time as the forecast transaction; or

— immediately if the transaction is no longer expected to occur.

Market rate sensitivity

All derivatives are measured at fair value. A change in the market data used to determine fair value will have an impact on Vector's financial statements.

The graphs on the previous page show the sensitivity of the financial statements to a range of possible changes in market data at balance date.

20. Derivatives and hedge accounting continued

	2020 $M		2019 $M	
	DERIVATIVES POSITION AS PER BALANCE SHEET	AMOUNT AFTER APPLYING RIGHTS OF OFFSET UNDER ISDA AGREEMENTS	DERIVATIVES POSITION AS PER BALANCE SHEET	AMOUNT AFTER APPLYING RIGHTS OF OFFSET UNDER ISDA AGREEMENTS
Derivative assets	**220.4**	**152.1**	109.3	60.0
Derivative liabilities	**(104.9)**	**(36.6)**	(83.1)	(33.8)
Net amount	**115.5**	**115.5**	26.2	26.2

Rights to offset

Vector enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master agreements. The ISDA agreements do not meet the criteria for offsetting in the balance sheet for accounting purposes. This is because Vector does not have any currently legally enforceable right to offset recognised amounts. Under the ISDA agreements the right to offset is enforceable only on the occurrence of future events such as a default on the bank loans or other credit events. The potential net impact of this offsetting is disclosed in column 'amount after applying rights of offset under ISDA agreements'. Vector does not hold and is not required to post collateral against its derivative positions.

20.1 Effects of hedge accounting on the financial position and performance

The tables below demonstrate the impact of hedged items and the hedging instruments designated in hedging relationships:

Cash flow hedges 2020	FACE VALUE $M	WEIGHTED AVERAGE RATE $M	CARRYING AMOUNT ASSETS/ (LIABILITIES) $M	CHANGE IN FAIR VALUE USED FOR MEASURING INEFFECTIVE-NESS $M	HEDGING (GAIN) OR LOSS RECOGNISED IN CASH FLOW HEDGE RESERVE $M	HEDGE INEFFECTIVE-NESS RECOGNISED IN PROFIT OR LOSS $M	(GAIN) OR LOSS RECOGNISED IN COST OF HEDGING $M
Interest risk							
Hedged item: NZD floating rate exposure on borrowings	**(1,280.0)**			**(106.2)**			
Hedging instrument: Interest rate swaps	**(1,780.0)**	**3.4%**	**(104.5)**	**(104.5)**	**104.5**	**–**	**–**
Interest and exchange risk							
Hedged item: USD fixed rate exposure on borrowings	**(797.1)**		**(810.5)**	**(31.8)**			
Hedging instrument: Cross currency swaps	**(797.1)**			**(26.1)**	**1.4**	**–**	**(2.3)**
					Total	–	

20. Derivatives and hedge accounting continued

20.1 Effects of hedge accounting on the financial position and performance CONTINUED

Cash flow hedges 2019	FACE VALUE $M	WEIGHTED AVERAGE RATE $M	CARRYING AMOUNT ASSETS/ (LIABILITIES) $M	CHANGE IN FAIR VALUE USED FOR MEASURING INEFFECTIVE-NESS $M	HEDGING (GAIN) OR LOSS RECOGNISED IN CASH FLOW HEDGE RESERVE $M	HEDGE INEFFECTIVE-NESS RECOGNISED IN PROFIT OR LOSS $M	(GAIN) OR LOSS RECOGNISED IN COST OF HEDGING $M
Interest risk							
Hedged item: NZD floating rate exposure on borrowings	(1,070.0)			(80.1)			
Hedging instrument: Interest rate swaps	(1,450.0)	3.8%	(78.2)	(78.2)	78.2	–	–
					Total	–	

The NZD floating rate exposure includes $350.0 million from the floating rate notes (2019: $350.0 million) and $930.0 million arising from hedging the USD senior bonds (2019: $720.0 million), as allowable under NZ IFRS 9 *Financial Instruments*.

The interest rate swaps include $500.0 million of forward starting swaps (2019: $380.0 million).

Fair value hedges 2020	FACE VALUE $M	WEIGHTED AVERAGE RATE $M	ACCUM-ULATED FAIR VALUE HEDGE ADJUSTMENTS $M	CARRYING AMOUNT ASSETS/ (LIABILITIES) $M	CHANGE IN FAIR VALUE OF THE HEDGED ITEM $M	CHANGE IN FAIR VALUE OF THE HEDGING INSTRUMENT $M	CHANGE IN VALUE IN COST OF HEDGING $M
Interest and exchange risk							
Hedged item: USD fixed rate exposure on borrowings	**(1,613.4)**		**(231.1)**	**(1,839.9)**	**(143.7)**		
Hedging instrument: Cross currency swaps	**(1,613.4)**	**floating**		**246.2**		**140.3**	**1.4**
				Total	**(143.7)**	**140.3**	

Fair value hedges 2019	FACE VALUE $M	WEIGHTED AVERAGE RATE $M	ACCUM-ULATED FAIR VALUE HEDGE ADJUSTMENTS $M	CARRYING AMOUNT ASSETS/ (LIABILITIES) $M	CHANGE IN FAIR VALUE OF THE HEDGED ITEM $M	CHANGE IN FAIR VALUE OF THE HEDGING INSTRUMENT $M	CHANGE IN VALUE IN COST OF HEDGING $M
Interest and exchange risk							
Hedged item: USD fixed rate exposure on borrowings	(1,112.9)		(109.7)	(1,220.5)	(57.2)		
Hedging instrument: Cross currency swaps	(1,112.9)	floating		104.5		54.7	(5.1)
				Total	(57.2)	54.7	

Hedging instruments and hedged items are included in the line items “Derivatives” and “Borrowings” respectively in the balance sheet. Ineffectiveness is the sum of the change in fair value of the hedged item and the change in fair value of the hedging instrument. The source of ineffectiveness is largely due to counterparty credit risk on the derivative instruments. Hedge ineffectiveness is included in the “Fair value change on financial instruments” in the profit or loss. In 2020, the total face value of the cross-currency swaps of $1.6 billion per the table above includes $797.1 million notional value that are designated under cash flow hedges.

20. Derivatives and hedge accounting continued

20.2 Fair value changes on financial instruments

	2020 $M	2019 $M
Recognised in profit or loss		
Fair value movement on hedging instruments	**140.3**	54.7
Fair value movement on hedged items	**(143.7)**	(57.2)
Total gains/(losses)	**(3.4)**	(2.5)

20.3 Reconciliation of changes in hedge reserves

Hedge reserves 2020	CASHFLOW HEDGE RESERVE $M	COST OF HEDGING $M	TOTAL $M
Opening balance	**56.4**	**4.7**	**61.1**
Hedging gains or losses recognised in OCI	**58.4**	**1.0**	**59.4**
Transferred to profit or loss	**(31.2)**	**–**	**(31.2)**
Recognised as basis adjustment to non–financial assets	**0.4**	**–**	**0.4**
Deferred tax on change in reserves	**(7.7)**	**(0.3)**	**(8.0)**
Closing balance	**76.3**	**5.4**	**81.7**

Hedge reserves 2019	CASHFLOW HEDGE RESERVE $M	COST OF HEDGING $M	TOTAL $M
Opening balance	39.3	0.8	40.1
Hedging gains or losses recognised in OCI	52.2	5.4	57.6
Transferred to profit or loss	(28.4)	–	(28.4)
Deferred tax on change in reserves	(6.7)	(1.5)	(8.2)
Closing balance	56.4	4.7	61.1

21. Financial risk management

Risk management framework

Vector has a comprehensive treasury policy, approved by the Board, to manage financial risks arising from business activity. The policy outlines the objectives and approach that the group applies to manage:

— Interest rate risk;

— Credit risk;

— Liquidity risk;

— Foreign exchange risk; and

— Funding risk.

For each risk type, any position outside the policy limits requires the prior approval of the Board. Each risk is monitored on a regular basis and reported to the board.

21. Financial risk management continued

21.1 Interest rate risk

Interest rate exposure 2020	< 1 YEAR $M	1 – 2 YEARS $M	2 – 5 YEARS $M	> 5 YEARS $M	TOTAL $M
Interest rate exposure: borrowings	500.0	457.2	740.5	1,212.9	2,910.6
Derivative contracts:					
Interest rate swaps	(1,030.0)	–	480.0	550.0	–
Cross currency swaps	1,613.4	(150.0)	(250.5)	(1,212.9)	–
Net interest rate exposure	1,083.4	307.2	970.0	550.0	2,910.6

Interest rate exposure 2019	< 1 YEAR $M	1 – 2 YEARS $M	2 – 5 YEARS $M	> 5 YEARS $M	TOTAL $M
Interest rate exposure: borrowings	1,041.6	–	947.7	665.8	2,655.1
Derivative contracts:					
Interest rate swaps	(1,150.0)	450.0	320.0	380.0	–
Cross currency swaps	816.3	–	(400.5)	(415.8)	–
Net interest rate exposure	707.9	450.0	867.2	630.0	2,655.1

Policies

Vector is exposed to interest rate risk through its borrowing activities.

Interest rate exposures are managed primarily by entering into derivative contracts. The main objectives are to minimise the cost of total borrowings, control variations in the interest expense of the borrowings from year to year, and where practicable to match the interest rate risk profile of the borrowings with the risk profile of the group's assets.

The Board has set and actively monitors maximum and minimum limits for the net interest rate exposure profile.

21.2 Credit risk

Policies

Credit risk represents the risk of cash flow losses arising from counterparty defaults. Vector is exposed to credit risk in the normal course of business from:

— Trade receivable transactions with business and mass market residential customers; and

— Financial instruments transactions with financial institutions.

The carrying amounts of financial assets represent the group's maximum exposure to credit risk.

The group has credit policies in place to minimise the impact of exposure to credit risk and associated financial losses:

— The Board must approve placement of cash, short–term cash deposits or derivatives with financial institutions whose credit rating is less than A+. As at 30 June 2020, all financial instruments are held with financial institutions with credit rating above A+;

— The Board sets limits and monitors exposure to financial institutions; and

— Exposure is spread across a range of financial institutions. Where we deem there is credit exposure to energy retailers and customers, the group minimises its risk by performing credit evaluations and/or requiring a bond or other form of security.

21. Financial risk management continued

21.3 Liquidity risk

Contractual cash flows maturity profile 2020	PAYABLE < 1 YEAR $M	PAYABLE 1 – 2 YEARS $M	PAYABLE 2 – 5 YEARS $M	PAYABLE > 5 YEARS $M	TOTAL CONTRACTUAL CASH FLOWS $M
Non–derivative financial liabilities					
Trade payables	155.2	–	–	–	155.2
Contract liabilities	10.9	9.9	16.8	1.8	39.4
Lease liabilities	9.8	7.8	15.0	15.7	48.3
Borrowings: interest	96.3	90.5	167.0	214.6	568.4
Borrowings: principal	499.1	507.7	775.2	1,239.5	3,021.5
Derivative financial (assets)/liabilities					
Cross currency swaps: inflow	(55.8)	(253.8)	(399.1)	(1,454.1)	(2,162.8)
Cross currency swaps: outflow	35.7	182.6	341.0	1,448.5	2,007.8
Forward exchange contracts: inflow	(33.1)	(2.3)	–	–	(35.4)
Forward exchange contracts: outflow	33.0	2.4	–	–	35.4
Net settled derivatives					
Interest rate swaps	33.8	24.0	47.6	9.3	114.7
Group contractual cash flows	784.9	568.8	963.5	1,475.3	3,792.5

Contractual cash flows maturity profile 2019	PAYABLE < 1 YEAR $M	PAYABLE 1 – 2 YEARS $M	PAYABLE 2 – 5 YEARS $M	PAYABLE > 5 YEARS $M	TOTAL CONTRACTUAL CASH FLOWS $M
Non–derivative financial liabilities					
Trade payables	154.6	–	–	–	154.6
Contract liabilities	9.7	9.6	19.0	2.2	40.5
Lease liabilities	9.0	6.9	16.3	19.7	51.9
Borrowings: interest	89.4	74.8	147.0	74.4	385.6
Borrowings: principal	685.2	350.0	1,011.6	696.5	2,743.3
Derivative financial (assets)/liabilities					
Cross currency swaps: inflow	(332.3)	(33.8)	(532.0)	(512.2)	(1,410.3)
Cross currency swaps: outflow	326.1	25.8	458.1	484.2	1,294.2
Forward exchange contracts: inflow	(13.0)	–	–	–	(13.0)
Forward exchange contracts: outflow	13.1	–	–	–	13.1
Net settled derivatives					
Interest rate swaps	29.7	22.6	28.8	6.2	87.3
Group contractual cash flows	971.5	455.9	1,148.8	771.0	3,347.2

21. Financial risk management continued

21.3 Liquidity risk

Contractual cash flows	The above table shows the timing of non–discounted cash flows for all financial instrument liabilities and derivatives. The cash flows for bank facilities, included in borrowings, are disclosed on the basis of their contractual repayment terms for the individual drawdowns. The cash flows for capital bonds, included in borrowings, are disclosed as payable within 1 – 2 years as the next election date set for the capital bonds is 15 June 2022 and the bonds have no contractual maturity date.
Policies	Vector is exposed to liquidity risk where there is a risk that the group may encounter difficulty in meeting its day to day obligations due to the timing of cash receipts and payments. The objective is to ensure that adequate liquid assets and funding sources are available at all times to meet both short-term and long–term commitments. The board has set a minimum headroom requirement for committed facilities over Vector's anticipated 18–month peak borrowing requirement. At balance date, in addition to short–term deposits, Vector has access to undrawn funds of $955.0 million (2019: $585.0 million).

21.4 Foreign exchange risk

Policies	Vector is exposed to foreign exchange risk through its borrowing activities, foreign currency denominated expenditure, and through our Australian subsidiaries. Foreign exchange exposure is primarily managed through entering into derivative contracts. The Board requires that all significant foreign currency borrowings and expenditure are hedged into NZD at the time of commitment to drawdown or when the exposure is highly probable. Hence, at balance date there is no significant exposure to foreign currency risk.

21.5 Funding risk

Policies	Funding risk is the risk that Vector will have difficulty refinancing or raising new debt on comparable terms to existing facilities. The objective is to spread the concentration of risk so that if an event occurs the overall cost of funding is not unnecessarily increased. Details of borrowings are shown in note 19. The Board has set the maximum amount of debt that may mature in any one financial year.

22. Cash flows

22.1 Reconciliation of net profit/(loss) to net cash flows from/(used in) operating activities

Reconciliation of net profit/(loss) to net cash flows from/(used in) operating activities	2020 $M	2019 $M
Net profit/(loss) for the period	**97.3**	84.0
Items classified as investing activities		
Items associated with investing activities	**(10.0)**	(1.8)
Items classified as financing activities		
Items associated with lease liabilities	**(1.0)**	1.5
Non–cash items		
Depreciation and amortisation	**262.8**	246.8
Non–cash portion of interest costs (net)	**(7.0)**	(5.5)
Fair value change on financial instruments	**3.4**	2.5
Associates (share of net (profit)/loss)	**(0.3)**	(0.6)
Impairment	**32.0**	46.6
Increase/(decrease) in deferred tax	**27.4**	11.6
Increase/(decrease) in provisions	**11.2**	(4.2)
Gain on sale of Kapuni gas interests	**(0.5)**	–
Other non–cash items	**0.8**	(1.6)
	329.8	295.6
Changes in assets and liabilities		
Trade and other payables	**2.9**	(12.4)
Contract liabilities	**(0.3)**	(5.2)
Contract assets	**12.7**	0.3
Inventories	**(1.0)**	3.2
Trade and other receivables	**6.9**	2.8
Income tax	**(40.0)**	(19.9)
	(18.8)	(31.2)
Net cash flows from/(used in) operating activities	**397.3**	348.1

22.2 Reconciliation of movement of liabilities to cash flows arising from financing activities

Reconciliation of movement of liabilities to cash flows arising from financing activities	LEASE LIABILITIES	BORROWINGS	DERIVATIVES	TOTAL
Balance at 1 July 2019	39.9	2,761.0	(26.2)	2,774.7
Net draw downs	–	**255.5**	–	**255.5**
Lease liabilities payments	**(8.9)**	–	–	**(8.9)**
Financing cash flows	**(8.9)**	**255.5**	–	**246.6**
Cost of debt raising	–	**(3.6)**	–	**(3.6)**
Fair value changes	–	**121.4**	**(89.3)**	**32.1**
Borrowing fees paid	–	**(5.7)**	–	**(5.7)**
Amortisation of debt raising costs	–	**7.9**	–	**7.9**
Premium released	–	**(0.9)**	–	**(0.9)**
ROU asset additions	**6.7**	–	–	**6.7**
Other	**0.1**	–	–	**0.1**
As at 30 June 2020	**37.8**	**3,135.6**	**(115.5)**	**3,057.9**

Policies

Cash and cash equivalents are carried at amortised cost. Cash and cash equivalents include deposits that are on call.

23. Equity

23.1 Share Capital

Shares

The total number of authorised and issued shares is 1,000,000,000 (2019: 1,000,000,000).

All ordinary issued shares are fully paid, have no par value and carry equal voting rights and equal rights to a surplus on winding up of the parent.

At balance date 116,948 shares (2019: 132,035) are allocated to the employee share purchase scheme.

23.2 Capital Management

Policies

Vector's objectives in managing capital are:

— To safeguard the ability of entities within the group to continue as a going concern;

— To provide an adequate return to shareholders by pricing products and services commensurate with the level of risk; and

— Maintain an investment grade credit rating.

Vector manages and may adjust its capital structure in light of changes in economic conditions and for the risk characteristics of the underlying assets. To achieve this Vector may:

— Adjust its dividend policy;

— Return capital to shareholders; or

— Sell assets to reduce debt.

23.3 Financial ratios

Basic and diluted earnings per share	2020 $M 12 MONTHS	2019 $M 12 MONTHS
Net profit attributable to owners of the parent	**95.4**	82.9
Weighted average ordinary shares outstanding during the period (number of shares)	**999,876,571**	999,889,595
Total earnings per share	**9.5 cents**	8.3 cents

Net tangible assets per share	2020 $M	2019 $M
Net assets attributable to owners of the parent	**2,242.8**	2,332.4
Less total intangible assets	**(1,285.8)**	(1,375.1)
Total net tangible assets	**957.0**	957.3
Ordinary shares outstanding (number of shares)	**999,883,052**	999,867,965
	95.7 cents	95.7 cents

Economic net debt to economic net debt plus adjusted equity ratio ("gearing ratio")	2020 $M	2019 $M
Face value of borrowings	**2,910.6**	2,655.1
Less cash and cash equivalents	**(28.3)**	(27.6)
Economic net debt	**2,882.3**	2,627.5
Total equity	**2,259.7**	2,349.4
Adjusted for hedge reserves	**81.7**	61.1
Adjusted equity	**2,341.4**	2,410.5
Economic net debt plus adjusted equity	**5,223.7**	5,038.0
	55.2%	52.2%

23. Equity continued

23.4 Reserves

Hedge reserves

Hedge reserves comprise the cash flow hedge reserve and cost of hedging.

The cash flow hedge reserve records the effective portion of changes in the fair value of derivatives that are designated as cash flow hedges.

The gain or loss relating to the ineffective portion is recorded in profit or loss within interest costs (net).

During the year, $31.2 million (2019: $28.4 million) was transferred from the cash flow hedge reserve to interest expense.

Cost of hedging records the change in the fair value of the cost to convert foreign currency into New Zealand dollars as required under NZ IFRS 9.

Other reserves

Other reserves comprise:

— A share–based payment reserve relating to the employee share purchase scheme. When shares are vested to the employee, the reserve is offset with a reduction in treasury shares.

— A foreign currency translation reserve to record exchange differences arising from the translation of the group's foreign operations.

— A reserve recording the group's share of its associate's other comprehensive income.

— A reserve to record the fair value movements in the group's investments in financial assets.

24. Related party transactions

	NOTE	2020 $M	2019 $M
Transactions with Entrust			
Dividends paid		**123.9**	122.0
Distribution to customers	17	**5.0**	9.9

	2020 $M	2019 $M
Transactions with joint operation (until 31 March 2020)		
Purchases of electricity and steam from Kapuni Energy Joint Venture ("KEJV")	**7.3**	8.0
Sale of gas to KEJV	**8.2**	9.8
Sales of operations and maintenance services to KEJV	**1.5**	1.9
Sales of administration and other services to KEJV	**0.1**	0.1
Transactions with associate		
Purchase of vegetation management services from Tree Scape Limited	**9.9**	9.3
Directors' fees received from Tree Scape Limited	**0.1**	0.1
Transactions with key management personnel		
Salary and other short–term employee benefits	**7.1**	5.1
Directors' fees	**0.9**	0.9

Related parties

Tree Scape Limited is an associate of the group (refer to note 13).

The Kapuni Energy Joint Venture was a joint operation to which the group was a party with 50% interest. The interest was sold on 31 March 2020 as a part of the sale of Vector's Kapuni gas interests to Todd Petroleum Mining Company Limited (refer to note 5).

Other related parties are Entrust, the group's ultimate parent entity and key management personnel that include the group's directors and the executive team.

24. Related party transactions continued

Receivables / (Payables)

	2020 $M	2019 $M
Tree Scape Limited	–	(0.4)
KEJV	–	0.3

25. 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 note 17.

No material contingent liabilities have been identified.

26. Events after balance date

COVID-19 pandemic

Auckland, New Zealand

On 12 August 2020 the New Zealand Government announced the city of Auckland would return to Alert Level 3 (and the rest of New Zealand to Alert Level 2) in response to signs of community transmission of the virus in the city. Further announcements by the New Zealand Government have extended Alert Level 3 for Auckland until 11:59pm 30 August 2020, with the rest of New Zealand including Auckland remaining at Alert Level 2 thereafter until at least 6 September 2020. Vector's businesses have continued to operate as essential services in the past two weeks except for the energy solutions business and the metering segment has seen a slight drop in work volumes within the Auckland region. Work volumes have remained at a consistent level for the rest of New Zealand. The financial impact from these events therefore has not been significant.

Victoria, Australia

On 30 June 2020, the State Government of Victoria ("Victorian Government") announced a number of areas in the state of Victoria would return to Stage 3 restrictions from Wednesday 1 July 2020 in response to a resurgence of COVID-19 in the country, centred from Victoria. In the weeks that followed, the Victorian Government made further related announcements, extending the restrictions to further areas in Victoria and extended the State of Emergency to Sunday 16 August 2020. Vector's metering business is managed out of Melbourne. Since metering services have been allowed to operate under essential services, disruption to the business has not been significant. Meters deployment work, which take place predominantly in the state of New South Wales and managed from the Sydney office, have also continued without significant disruptions. Overall these recent events in Australia have not had a material impact on the financial statements.

Loss rental rebates

On 26 August 2020, the Board resolved that, in a change from previous practice, it would not be distributing loss rental rebates to customers in September 2020. Under the new regulatory regime that came into effect on 1 April, any under recovery of the allowed regulated revenue can be recovered from customers in subsequent periods. Vector will retain loss rental rebates with a view to offsetting the impact of any electricity volume reductions on revenue and mitigating potential future prices increases for consumers under the new revenue cap regulatory regime. This change will not disadvantage customers and any excess loss rental rebate not required to mitigate revenue shortfalls will be returned to customers at a later date. As at 30 June 2020, Vector had recognised a provision of $15.5 million for loss rental rebates for distribution to customers.

Approval

The financial statements were approved by the Board on 26 August 2020.

Final dividend

On 26 August 2020, the Board declared a final dividend for the year ended 30 June 2020 of 8.25 cents per share.

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

KPMG

Independent Auditor's Report

To the shareholders of Vector Limited

Report on the audit of the consolidated financial statements

Opinion

In our opinion, the accompanying consolidated financial statements of Vector Limited (the 'company') and its subsidiaries (the 'group') on pages 37 to 83:

i. present fairly in all material respects the group's financial position as at 30 June 2020 and its financial performance and cash flows for the year ended on that date; and

ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying consolidated financial statements which comprise:

— the consolidated balance sheet as at 30 June 2020;

— the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended; and

— notes, including a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the group in accordance with Professional and Ethical Standard 1 International Code of Ethics for Assurance Practitioners (Including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the consolidated financial statements section of our report.

Our firm has also provided other services to the group in relation to regulatory assurance services, other assurance services and compliance services in relation to R&D tax credits. 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 auditor of the group. The firm has no other relationship with, or interest in, the group.

Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the consolidated financial statements as a whole. The materiality for the consolidated financial

KPMG

statements as a whole was set at $9.3 million determined with reference to a benchmark of group profit before tax. We chose the benchmark because, in our view, this is a key measure of the group's performance.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the consolidated financial statements as a whole and we do not express discrete opinions on separate elements of the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
1. Capitalisation and asset lives (Property, plant and equipment of $4,368 million, Software of $97 million, with additions during the year of $489 million). Refer to Notes 10 and 11 of the financial statements.	
Capitalisation of costs and useful lives assigned to these assets are a key audit matter due to the significance of property, plant and equipment and software to the group's business, and due to the judgement involved in determining the carrying value of these assets, principally: — the decision to capitalise or expense costs relating to the metering, electricity and gas distribution networks. This decision depends on whether the expenditure is considered to enhance the network (and is therefore capital), or to maintain the current operating capability of the network (and is therefore an expense). There is also judgement when estimating the extent of recovering internal salary costs, particularly within digital projects; and — the estimation of the useful life of the asset once the costs are capitalised. Estimated lives range between 2 and 100 years, resulting from the diversity of property, plant and equipment and software assets across a portfolio of businesses. There is also judgment when estimating asset lives due to the uncertainty of the impact of technological change.	Our audit procedures in this area included, among others: — examining the operating effectiveness of controls related to the approval of capital projects; — assessing the nature of capitalised costs by checking a sample of costs to invoice to determine whether the description of the expenditure met the capitalisation criteria in the relevant accounting standards; — assessing the useful economic lives stated in the accounting policies of the group by comparing to industry benchmarks and our knowledge of the business and its operations; and — assessing whether the useful economic lives of each individual asset capitalised in the current period was within the stated policies. We found no material errors in the nature and amount capitalised in the period and that the estimated useful lives of assets were within an acceptable range when compared to those used in the industry.
2. Impairment assessment of the Regulated Networks segment and the Metering and E-Co Products cash generating units (inclusive of $1,073 million of goodwill). Refer to Note 10 of the financial statements.	
We considered the impairment assessment of the Regulated Networks segment to be a key audit matter due to the significance of goodwill of $1,050 million to the financial position of the group and the significant judgment used to estimate future pricing of the regulated revenue streams	The procedures we performed to evaluate the impairment assessments included: — assessing whether the methodology adopted in the discounted cash flow models was consistent with

KPMG

The key audit matter	How the matter was addressed in our audit
beyond the timeframe of the current Commerce Commission regulatory price paths. We considered the impairment assessment of the E-Co Products cash generating unit, including goodwill and intangible assets, to be a key audit matter due to the underperformance against expectations since the completed restructuring in early FY20, impact of the COVID-19 and the resulting impairment expense of $32m recognised in the current period (including $4 million goodwill impairment). We considered the impairment assessment of the Metering cash generating unit to be a key audit matter due to significant value of intangible assets of $40 million in the business which operates across two geographical markets.	accepted valuation approaches of NZ IAS 36 *Impairment of Assets* and within the energy industry; — evaluating the significant future cash flow assumptions by comparing to historical trends, budgets and where applicable, Asset Management Plans, and regulatory pricing models; — comparing the discount rates applied to the estimated future cash flows and the terminal growth rates to relevant benchmarks using our own valuation specialists; — challenging the above assumptions and judgements by performing sensitivity analysis, considering a range of likely outcomes based on various scenarios; — calculating the regulated asset base ('RAB') multiple implied by valuation of the Regulated Network cash generated unit and comparing this to the range of RAB multiples observed in the marketplace; and — comparing the group's net assets as at 30 June 2020 of $2,260 million to its market capitalisation of $3,600 million at 30 June 2020 which implied total headroom of $1,340 million. We found the methodology to be consistent with industry norms, specifically: — the discount and terminal growth rates were in an acceptable industry range; — future cash flow assumptions were supported by comparison to the sources we considered above; and — the overall comparison of the group's net assets to market capitalisation did not indicate an impairment.

KPMG

The key audit matter

How the matter was addressed in our audit

3. Restructure of the Gas Trading segment, including the sale of the group's gas interests in Kapuni. Refer to Notes 3 and 5.

We consider the sale of the group's gas interests in Kapuni to be a key audit matter because there is judgment required to estimate the consideration receivable, the value of the disposal group and resulting gain on sale. Specifically, there is judgment required to estimate:

- the consideration receivable because it is a) partially variable, dependent on future raw gas volumes, LPG pricing and oil pricing and is b) collected over time in the future.
- the assets and liabilities disposed including a portion of the goodwill which was previously held in the Gas Trading segment.

The Gas Trading segment historically comprised a number of highly integrated businesses which were considered to be a single cash generating unit. The structure of the Gas Trading segment has been reassessed following the disposal, resulting in three separate cash generating units being identified as the basis for assessing the carrying value of the retained business assets and goodwill. There is judgment in assessing the level of integration between the remaining businesses and the number of individual cash generating units which remain.

-

The procedures we performed include:

- assessing the estimation of contingent consideration by a) challenging managements forecasts and referencing external data including future Kapuni gas volumes and b) assessing the appropriateness of the calculation to present the future receivable in current terms;
- comparing the composition of the contingent consideration with the terms of the sale and purchase agreement;
- assessing whether the methodology adopted in the goodwill allocation between the Gas Trading businesses is consistent with NZ IAS 36 *Impairment of Assets*.
- evaluating the significant assumptions adopted in the valuation models of the remaining cash generating units which drive the goodwill allocation on disposal date including:
  - comparing the estimated future cashflow to the budgets and forecasts and where relevant to customer and supplier contracts; and
  - comparing the discount rates applied to the estimated future cash flows and the terminal growth rates to relevant benchmarks using our own valuation specialists;
- assessing whether the assets and liabilities of the gas interest in Kapuni (other than goodwill) have been appropriately identified and disposed of; and
- ensuring the cash generating units have been appropriately identified following the disposal. This included considering the nature of the business operations and the autonomy of their cash inflows.

We found no material errors in the estimation of the contingent consideration or the identification and disposal of the assets and liabilities of the gas interests in Kapuni. We consider the assessment that three separate cash generating units remain in the Gas Trading segment to be appropriate.

KPMG

Other information

The Directors, on behalf of the group, are responsible for the other information included in the group's Annual Report. Other information comprises the information included in the group's Annual Report, but does not include consolidated financial statements and our Independent Auditor's Report thereon. Our opinion on the consolidated financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Use of this independent auditor's report

This independent auditor's report is made solely to the shareholders as a body. Our audit work has been undertaken so that we might state to the shareholders those matters we are required to state to them in the independent auditor's 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 audit work, this independent auditor's report, or any of the opinions we have formed.

Responsibilities of the Directors for the consolidated financial statements

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

— the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;

— implementing necessary internal control to enable the preparation of a consolidated set of 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 audit of the consolidated financial statements

Our objective is:

— to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error; and

— to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

KPMG

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of these consolidated financial statements is located at the External Reporting Board (XRB) website at:

http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Graeme Edwards

For and on behalf of

KPMG

KPMG
Auckland

26 August 2020

Statutory Information

Interests register
Each company in the group is required to maintain an interests register in which the particulars of certain transactions and matters involving the directors must be recorded. The interests registers for Vector Limited and its subsidiaries are available for inspection at their registered offices.

Particulars of entries in the interests registers made during the year ended 30 June 2020 are set out in this Statutory Information section.

Information used by directors
During the financial year there were no notices from directors of Vector Limited, or any subsidiary, requesting to use information received in their capacity as a director which would not otherwise have been available to them.

Indemnification and insurance of directors and officers
As permitted by the constitution and the Companies Act 1993, Vector Limited has indemnified its directors, and those directors who are directors of subsidiaries against potential liabilities and costs they may incur for acts or omissions in their capacity as directors. In addition, Vector Limited has indemnified certain senior employees against potential liabilities and costs they may incur for acts or omissions in their capacity as employees of Vector Limited, or directors of Vector subsidiaries or associates.

During the financial year, Vector Limited paid insurance premiums in respect of directors and certain senior employees' liability insurance which covers risks normally covered by such policies arising out of acts or omissions of directors and employees in their capacity as such. Insurance is not provided for criminal liability or liability or costs in respect of which an indemnity is prohibited by law.

Donations
Vector Limited made donations of $250 during the year ended 30 June 2020. Subsidiaries of Vector Limited made donations of $13,461 during the year ended 30 June 2020.

Credit rating
At 30 June 2020 Vector Limited had a Standard & Poor's credit rating of BBB/stable, and a Moody's credit rating of Baa1/stable.

NZX Regulation waivers and rulings
On 30 June 2020, NZX Regulation re-documented certain of waivers and rulings previously granted to Vector as follows:

1. A waiver from Listing Rule 2.20.1(d), to allow clause 2.5 of Vector's constitution to provide that, unless the prior written approval of the trustees of Entrust has been obtained, an act or omission authorised by a ruling by NZX Regulation will not be deemed to be authorised if it would be in contravention of special provisions of Vector's constitution.
2. A waiver from Listing Rule 6.3.1, to the extent that this Rule would otherwise disqualify the trustees of Entrust from voting on resolutions to approve Vector director remuneration.

Non-standard Designation (NS)
Vector's constitution contains certain provisions which are not ordinarily contained in the constitution of a company listed on the NZX. Vector has been given a non-standard designation by NZX due to the inclusion of these provisions in its constitution.

Exercise of NZX powers
NZX did not exercise any of its powers set out in Listing Rule 9.9.3 (relating to powers to cancel, suspend or censure an issuer) with respect to Vector Limited.

Trustees of Entrust
During the year ended 30 June 2020, Vector Limited made payments to A Bell, M Buczkowski and K Sherry, trustees of Entrust (Vector Limited's majority shareholder) totalling $203,506 in respect of their roles as directors on the Vector Limited board.

Subsidiaries and associates
A list of each of the Company's subsidiaries and associates is contained on pages 63 and 64. The Company has not gained or lost control of any entity during the year ended 30 June 2020.

Directors

The following directors of Vector Limited and current group companies held office as at 30 June 2020 or resigned (R) as a director during the year ended 30 June 2020. Directors marked (A) were appointed during the year.

PARENT	DIRECTORS
Vector Limited	A Bell (A), M Buczkowski, A Carter, J Mason, A Paterson, P Rebstock, K Sherry (R), R Thomson (R), B Turner

All of the above directors in office at 30 June 2020 are independent directors, except for A Bell and M Buczkowski who are trustees of Entrust (Vector Limited's majority shareholder).

SUBSIDIARIES	DIRECTORS
Advanced Metering Assets Limited	J Mason, A Paterson, K Sherry (R), R Thomson (R)
Advanced Metering Services Limited	J Mason, A Paterson, K Sherry (R), R Thomson (R)
Arc Innovations Limited	J Mason, A Paterson, K Sherry (R), R Thomson (R)
Cristal Air International Limited	S Mackenzie
E-Co Products Group Limited	S Mackenzie
HRV Australia Pty Limited	S Mackenzie, J Sheridan
HRV Clean Water Limited	S Mackenzie
HRV Filters Limited	S Mackenzie
Liquigas Limited	A Andriopoulos, H Blackburn, S Bridge (A), P Goodeve, N Hannan, E Krogh, R Middelbeek, G O'Brien, R Sharp, B Talacek, M Trigg
NGC Holdings Limited	J Mason, A Paterson, K Sherry (R), R Thomson (R)
On Gas Limited	J Mason, A Paterson, K Sherry (R), R Thomson (R)
PowerSmart NZ Limited	S Mackenzie
Safe Filters Limited	S Mackenzie
Safe Windows Limited	S Mackenzie
SolPho Limited	S Mackenzie
Vector Advanced Metering Assets (Australia) Limited	J Mason, A Paterson, K Sherry (R), R Thomson (R)
Vector Advanced Metering Services (Australia) Pty Limited	S Mackenzie, J Sheridan
Vector Auckland Property Limited	J Rodger (A)
Vector Communications Limited	J Mason, A Paterson, K Sherry (R), R Thomson (R)
Vector Energy Solutions (Australia) Pty Limited	S Mackenzie, J Sheridan
Vector Energy Solutions Limited	S Mackenzie
Vector ESPS Trustee Limited	S Mackenzie
Vector Gas Trading Limited	J Mason, A Paterson, K Sherry (R), R Thomson (R)
Vector Kapuni Limited	S Mackenzie
Vector Management Services Limited	S Mackenzie
Vector Metering Data Services Limited	J Mason, A Paterson, K Sherry (R), R Thomson (R)
Vector Northern Property Limited	S Mackenzie
Vector Technology Services Limited	J Rodger (A)
Ventilation Australia Pty Limited	S Mackenzie, J Sheridan

Directors continued

ASSOCIATES	DIRECTORS
Tree Scape Limited	C Baudinet (R), C Beddoe (R), A Botha, E Chignell, K Smith, B Whiddett

Directors' remuneration and value of other benefits received from Vector Limited and current group companies for the year ended 30 June 2020:

DIRECTORS OF VECTOR LIMITED	PAID BY PARENT $	PAID BY SUBSIDIARIES $
A Bell	77,694	–
M Buczkowski	100,650	–
A Carter	100,650	–
J Mason	100,650	–
A Paterson	201,300	–
P Rebstock	100,650	–
K Sherry	25,162	–
R Thomson	25,162	–
B Turner	100,650	–
	832,568	–

DIRECTORS OF SUBSIDIARIES	PAID BY PARENT $	PAID BY SUBSIDIARIES $
A Andriopoulos	–	5,000*
H Blackburn	–	5,000*
S Bridge	–	1,398
P Goodeve	–	5,000
N Hannan	–	5,000
E Krogh	–	3,602
R Middelbeek	–	5,000*
G O'Brien	–	5,000
R Sharp	–	5,000*
B Talacek	–	7,500*
M Trigg	–	44,200
	–	91,700

* Directors' fees relating to any Vector Limited employee are paid to the company.

Directors continued

Directors of Vector Limited
Entries in the interests register of Vector Limited during the year to 30 June 2020 that are not set out elsewhere in this annual report:

DIRECTOR	ENTITY	POSITION
A Bell	Entrust	Trustee
	New Zealand National Party	Director
M Buczkowski	Entrust	Trustee
A Carter	ANZ Bank New Zealand Limited	Director
	Capital Education Limited	Advisor
	Capital Solutions Limited	Advisor
	Datacom Group Limited	Chairman
	Fisher & Paykel Healthcare Corporation Limited	Chairman
	Foodstuffs Protection Trust	Trustee
	Loughborough Investments Limited	Director and shareholder
	Maurice Carter Family Trust	Trustee
	T R Group Limited	Chairman
J Mason	Air New Zealand Limited	Director
	Alvarium Wealth (NZ) Limited	Director
	University of Auckland	Trustee and Adjunct Professor of Management
	Westpac New Zealand Limited	Director
	Zespri Group Limited	Director
A Paterson	AM Paterson Trust	Trustee
	BJ Paterson Trust	Trustee
	FarmIQ PGP Limited	Director
	Forestry Industry Safety Council	Chair
	Te Aupouri Commercial Development Limited	Chair
	Te Aupouri Fisheries Management Limited	Chair
P Rebstock	Accident Compensation Corporation	Chair
	Auckland District Health Board	Chair (Audit, Finance and Risk Committee)
	Auckland Transport	Director
	Kiwi Group Holdings Limited	Director
	New Zealand Defence Force Board	Chair
	New Zealand Police	Chair (Women's Advisory Network)
	Ngāti Whātua Ōrākei Whai Maia Limited	Chair
	On Being Bold Limited	Director and shareholder
B Turner	Fonterra Co-op Group Limited	Director (Central Portfolio Management)
	GlobalDairy Trade Holdings Limited	Member of the Oversight Board
	New Zealand Butter Canners Limited	Director
	The Arapaho Springs Trust	Trustee
	The Arapaho Springs Investment Trust	Trustee

The entities listed above against each director may transact with Vector Limited and its subsidiaries in the normal course of business. Auckland based directors (A Bell, M Buczkowski, A Carter, J Mason, A Paterson, P Rebstock and B Turner) are Vector Limited residential electricity customers.

Directors of subsidiaries
There are no entries in the interests register of subsidiaries up to 30 June 2020 that are not set out elsewhere in this annual report.

Employees

The number of current employees of the company and the group receiving remuneration and benefits above $100,000 in the year ended 30 June 2020 are set out in the table below:

CURRENT EMPLOYEES	GROUP	COMPANY
$100,001 – $110,000	53	41
$110,001 – $120,000	76	55
$120,001 – $130,000	51	41
$130,001 – $140,000	57	43
$140,001 – $150,000	47	36
$150,001 – $160,000	33	24
$160,001 – $170,000	20	15
$170,001 – $180,000	14	14
$180,001 – $190,000	18	9
$190,001 – $200,000	15	13
$200,001 – $210,000	8	6
$210,001 – $220,000	8	8
$220,001 – $230,000	14	14
$230,001 – $240,000	8	6
$240,001 – $250,000	4	4
$250,001 – $260,000	5	3
$260,001 – $270,000	3	3
$270,001 – $280,000	2	1
$280,001 – $290,000	3	3
$290,001 – $300,000	3	1
$300,001 – $310,000	2	2
$310,001 – $320,000	3	3
$320,001 – $330,000	4	2
$330,001 – $340,000	4	2
$340,001 – $350,000	1	1
$350,001 – $360,000	1	1
$360,001 – $370,000	1	1
$370,001 – $380,000	2	2
$380,001 – $390,000	2	2
$390,001 – $400,000	1	1
$400,001 – $410,000	2	2
$410,001 – $420,000	1	1
$430,001 – $440,000	1	1
$460,001 – $470,000	1	1
$480,001 – $490,000	2	1
$510,001 – $520,000	1	1
$540,001 – $550,000	1	1
$580,001 – $590,000	1	1
$610,001 – $620,000	1	1
$750,001 – $760,000	1	1
$1,920,001 – $1,930,000	1	1
	476	369

Employees continued

The number of former employees of the company and the group receiving remuneration and benefits above $100,000 in the year ended 30 June 2020 are set out in the table below:

FORMER EMPLOYEES (INCLUDING ANY TERMINATION PAYMENTS)	GROUP	COMPANY
$100,001 – $110,000	12	7
$110,001 – $120,000	6	5
$120,001 – $130,000	3	3
$130,001 – $140,000	5	4
$140,001 – $150,000	9	8
$150,001 – $160,000	2	1
$160,001 – $170,000	1	1
$170,001 – $180,000	7	6
$180,001 – $190,000	4	4
$190,001 – $200,000	3	3
$200,001 – $210,000	1	1
$210,001 – $220,000	1	1
$220,001 – $230,000	3	1
$230,001 – $240,000	1	1
$260,001 – $270,000	2	1
$320,001 – $330,000	1	1
$370,001 – $380,000	1	1
$420,001 – $430,000	1	0
$1,220,001 – $1,230,000	1	1
	64	50

No employee of the group appointed as a director of a subsidiary or associate company receives or retains any remuneration or benefits as a director. The remuneration and benefits of such employees, received as employees, are included in the relevant bandings disclosed above, where the annual remuneration and benefits exceed $100,000.

Bondholder statistics

NZDX debt securities distribution as at 30 June 2020:

5.70% capital bonds

RANGE	NUMBER OF BONDHOLDERS	PERCENTAGE OF BONDHOLDERS	NUMBER OF BONDS HELD	PERCENTAGE OF BONDS HELD
5,000 – 9,999	628	16.60%	3,404,000	1.11%
10,000 – 49,999	2,392	63.25%	47,844,500	15.58%
50,000 – 99,999	477	12.61%	27,311,300	8.89%
100,000 – 499,999	259	6.85%	40,594,000	13.21%
500,000 – 999,999	6	0.16%	4,087,000	1.33%
1,000,000 plus	20	0.53%	183,964,200	59.88%
	3,782	100.00%	307,205,000	100.00%

No current directors of the parent are holders (either beneficially or non-beneficially) of Vector Limited capital bonds as at 30 June 2020.

Twenty largest registered capital bond holders as at 30 June 2020:

BONDHOLDER	NUMBER OF BONDS HELD	PERCENTAGE OF BONDS HELD
Forsyth Barr Custodians Limited <1-CUSTODY>	31,774,000	10.34%
FNZ Custodians Limited	25,554,000	8.32%
Custodial Services Limited <A/C 3>	20,433,000	6.65%
Custodial Services Limited <A/C 4>	16,742,000	5.45%
Custodial Services Limited <A/C 2>	14,682,200	4.78%
JBWere (NZ) Nominees Limited <NZ RESIDENT A/C>	8,995,000	2.93%
Investment Custodial Services Limited <A/C C>	8,440,000	2.75%
Custodial Services Limited <A/C 1>	7,983,000	2.60%
Custodial Services Limited <A/C 18>	7,389,000	2.40%
Masfen Securities Limited	5,980,000	1.95%
Citibank Nominees (New Zealand) Limited – NZCSD <CNOM90>	4,450,000	1.45%
Forsyth Barr Custodians Limited <ACCOUNT 1 E>	4,317,000	1.41%
Tappenden Holdings Limited	3,856,000	1.25%
NZPT Custodians (Grosvenor) Limited – NZCSD <NZPG40>	3,016,000	0.98%
FNZ Custodians Limited <DRP NZ A/C>	2,447,000	0.80%
Francis Horton Tuck + Catherine Ann Tuck <PUKETIHI A/C>	2,300,000	0.75%
Fletcher Building Educational Fund Limited	2,000,000	0.65%
National Nominees Limited – NZCSD <NNLZ90>	1,980,000	0.64%
Custodial Services Limited <A/C 16>	1,960,000	0.64%
FNZ Custodians Limited <DTA NON RESIDENT A/C>	1,936,000	0.63%
	176,234,200	57.37%

Bondholder statistics continued

3.45% Senior retail bonds

RANGE	NUMBER OF BONDHOLDERS	PERCENTAGE OF BONDHOLDERS	NUMBER OF BONDS HELD	PERCENTAGE OF BONDS HELD
5,000 – 9,999	101	13.86%	618,000	0.25%
10,000 – 49,999	487	66.80%	9,877,000	3.95%
50,000 – 99,999	73	10.01%	4,468,000	1.79%
100,000 – 499,999	43	5.90%	7,509,000	3.00%
500,000 – 999,999	7	0.96%	4,868,000	1.95%
1,000,000 plus	18	2.47%	222,660,000	89.06%
	729	100.00%	250,000,000	100.00%

Twenty largest registered senior bond holders as at 30 June 2020:

BONDHOLDER	BONDS HELD	PERCENTAGE OF BONDS HELD
Forsyth Barr Custodians Limited <1-CUSTODY>	40,613,000	16.25%
National Nominees Limited – NZCSD <NNLZ90>	24,367,000	9.75%
FNZ Custodians Limited	23,657,000	9.46%
Custodial Services Limited <A/C 4>	15,610,000	6.24%
HSBC Nominees (New Zealand) Limited O/A Euroclear Bank – NZCSD <HKBN95>	15,000,000	6.00%
Custodial Services Limited <A/C 3>	11,153,000	4.46%
BNP Paribas Nominees (NZ) Limited – NZCSD <BPSS40>	9,749,000	3.90%
BNP Paribas Nominees (NZ) Limited – NZCSD <COGN40>	9,653,000	3.86%
Custodial Services Limited <A/C 2>	9,485,000	3.79%
Citibank Nominees (New Zealand) Limited – NZCSD <CNOM90>	9,380,000	3.75%
Investment Custodial Services Limited <A/C C>	7,471,000	2.99%
Custodial Services Limited <A/C 1>	5,822,000	2.33%
HSBC Nominees (New Zealand) Limited – NZCSD <HKBN90>	5,320,000	2.13%
Generate Kiwisaver Public Trust Nominees Limited <NZCSD> <NZPT44>	4,620,000	1.85%
Custodial Services Limited <A/C 18>	4,293,000	1.72%
New Zealand Methodist Trust Association	4,000,000	1.60%
JBWere (NZ) Nominees Limited <NZ RESIDENT A/C>	3,933,000	1.57%
Mint Nominees Limited – NZCSD <NZP440>	2,875,000	1.15%
Custodial Services Limited <A/C 16>	2,462,000	0.98%
Forsyth Barr Custodians Limited <ACCOUNT 1 E>	2,040,000	0.82%
	211,503,000	84.60%

Shareholder statistics

Twenty largest registered shareholders as at 30 June 2020:

SHAREHOLDER	ORDINARY SHARES HELD	PERCENTAGE OF ORDINARY SHARES HELD
Entrust	751,000,000	75.10%
Citibank Nominees (New Zealand) Limited - NZCSD <CNOM90>	16,201,335	1.62%
Custodial Services Limited <A/C 4>	14,351,364	1.44%
Custodial Services Limited <A/C 3>	12,693,584	1.27%
Custodial Services Limited <A/C 2>	8,815,863	0.88%
FNZ Custodians Limited	6,843,508	0.68%
HSBC Nominees (New Zealand) Limited – NZCSD <HKBN90>	6,355,726	0.64%
Accident Compensation Corporation – NZCSD <ACCI40>	5,902,789	0.59%
JBWere (NZ) Nominees Limited <NZ RESIDENT A/C>	5,681,148	0.57%
HSBC Nominees (New Zealand) Limited A/C State Street – NZCSD <HKBN45>	5,590,431	0.56%
Generate Kiwisaver Public Trust Nominees Limited <NZCSD> <NZPT44>	5,527,997	0.55%
Custodial Services Limited <A/C 18>	4,833,235	0.48%
Investment Custodial Services Limited <A/C C>	4,529,567	0.45%
JPMorgan Chase Bank NA NZ Branch-Segregated Clients ACCT – NZCSD <CHAM24>	4,459,800	0.45%
New Zealand Depository Nominee Limited <A/C 1 CASH ACCOUNT>	3,627,867	0.36%
National Nominees Limited - NZCSD <NNLZ90>	3,421,239	0.34%
Custodial Services Limited <A/C 1>	3,054,750	0.31%
Anz Custodial Services New Zealand Limited – NZCSD <PBNK90>	2,911,696	0.29%
Forsyth Barr Custodians Limited <1-CUSTODY>	2,210,763	0.22%
Custodial Services Limited <A/C 16>	2,065,733	0.21%
	870,078,395	87.01%

Substantial product holders as at 30 June 2020:

SHAREHOLDER	NUMBER OF RELEVANT INTEREST VOTING PRODUCTS HELD	PERCENTAGE OF VOTING PRODUCTS HELD
Entrust	751,000,000	75.10%

Alastair Bell, Michael Buczkowski, William Cairns, Paul Hutchison and Karen Sherry are the registered holders of the shares held by Entrust.

Shareholder statistics continued

As at 30 June 2020, voting products issued by Vector Limited totalled 1,000,000,000 ordinary shares.

Ordinary shares distribution as at 30 June 2020:

RANGE	NUMBER OF SHAREHOLDERS	PERCENTAGE OF SHAREHOLDERS	NUMBER OF SHARES HELD	PERCENTAGE OF SHARES HELD
1 – 499	6,289	20.75%	1,960,726	0.19%
500 – 999	3,155	10.41%	2,461,720	0.25%
1,000 – 4,999	15,353	50.66%	27,954,654	2.80%
5,000 – 9,999	2,706	8.93%	18,261,264	1.83%
10,000 – 49,999	2,529	8.35%	45,372,852	4.54%
50,000 – 99,999	157	0.52%	9,912,446	0.99%
100,000 plus	114	0.38%	894,076,338	89.40%
	30,303	100.00%	1,000,000,000	100.00%

Analysis of shareholders as at 30 June 2020:

SHAREHOLDER TYPE	NUMBER OF SHAREHOLDERS	PERCENTAGE OF SHAREHOLDERS	NUMBER OF SHARES HELD	PERCENTAGE OF SHARES HELD
Entrust	1	0.00%	751,000,000	75.10%
Companies	907	3.00%	12,272,541	1.23%
Individual Holders	16,125	53.21%	53,676,582	5.37%
Joint	8,873	29.28%	41,704,304	4.17%
Nominee Companies	593	1.96%	131,184,841	13.12%
Other	3,804	12.55%	10,161,732	1.01%
	30,303	100.00%	1,000,000,000	100.00%

The following current directors of the parent are holders (either beneficially or non-beneficially) of Vector Limited ordinary shares as at 30 June 2020:

DIRECTOR	NUMBER OF SHARES
M Buczkowski	1,322
A Carter (as a shareholder of Loughborough Investments Limited)	20,000
J Mason (as a trustee of the Trumbull Trust)	18,500
A Paterson (as trustee of the A M Paterson trust)	10,000
A Paterson (as trustee of the B J Paterson Trust)	10,700

Alastair Bell, Michael Buczkowski, William Cairns, Paul Hutchison and Karen Sherry are the registered holders of the 751,000,000 ordinary shares held by Entrust. Alastair Bell and Michael Buczkowski are directors of Vector Limited.

The following disclosures are made pursuant to section 148 of the Companies Act 1993, in relation to dealings during the year ended 30 June 2020 by directors of Vector Limited in the ordinary shares of Vector Limited:

There were no disposals of relevant interests.

Acquisitions of relevant interests – Vector Limited ordinary shares:

DIRECTOR	NATURE OF RELEVANT INTEREST	DATE OF ACQUISITION	CONSIDERATION PAID (PER SHARE)	NUMBER OF SHARES IN WHICH RELEVANT INTEREST ACQUIRED
A Carter (as a shareholder of Loughborough Investments Limited)	Beneficial	2 March 2020	$3.16	10,000

Financial calendar

2020

Final dividend paid	21 September
Annual meeting	25 September

2021

First quarter operating statistics	October
Second quarter operating statistics	January
Half year result and interim report	February
Interim dividend*	April
Third quarter operating statistics	April
Fourth quarter operating statistics	July
Full year result and annual report	August
Final dividend*	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**.

Directory

Registered office

Vector Limited
101 Carlton Gore Road
Newmarket
Auckland 1023
New Zealand

Telephone 64-9-978 7788
Facsimile 64-9-978 7799
www.vector.co.nz

Postal address

PO Box 99882
Newmarket
Auckland 1149
New Zealand

Investor enquiries

Telephone 64-9-978 7735
Email: investor@vector.co.nz

This annual report is dated
26 August 2020 and signed
on behalf of the Board by:

Dame Alison Paterson
Chair

Jonathan Mason
Director

VECTOR.CO.NZ