



VECTOR CAPITAL BONDS

—
Explanatory Notes

03 May 2017

1. VECTOR CAPITAL BONDS ELECTION DATE

On 5 November 2002, Vector Limited (**Vector**) issued unsecured, subordinated capital bonds (**Capital Bonds**) under a trust deed dated 25 September 2002 (as amended) (**Trust Deed**). The Capital Bonds are subject to the terms of the Trust Deed, including the conditions set out in Schedule 1 of the Trust Deed (the **Conditions**) as amended in accordance with the Trust Deed. The Conditions provide that the next election date for the Capital Bonds is 15 June 2017 (**Election Date**).

Under the Conditions, prior to the Election Date Vector must send you an Election Notice specifying the new:

- (a) Interest Rate;
- (b) Interest Payment Dates; and
- (c) Election Date,

(together, the **New Conditions**) to apply to the Capital Bonds from the Election Date. The new Interest Rate, Issue Margin and Election Date are set out in section 2 below.

Vector has sent you an Election Notice together with these explanatory notes which describe the election options available to you as a New Zealand Bondholder in relation to the upcoming Election Date, being to:

- > keep all of your Capital Bonds; or
- > keep all of your Capital Bonds and apply to purchase additional Capital Bonds through the resale facility to be established by Vector as part of the election process (**Resale Facility**); or
- > offer some of your Capital Bonds for sale through the Resale Facility and keep the balance of your Capital Bonds; or
- > offer to sell all of your Capital Bonds through the Resale Facility.

Completed Election Notices should be returned to and received by Computershare Investor Services Limited (Vector's bond registrar) (**Computershare**) **no later than 5.00pm on Wednesday 31 May 2017**.

If you do not complete your Election Notice correctly or if Computershare does not receive your Election Notice by 5.00pm on 31 May 2017, you will be deemed to have elected to continue to keep all of your Capital Bonds subject to the New Conditions as from the Election Date.

If on 31 May 2017 your registered address is outside New Zealand, you will not be entitled to keep your Capital Bonds after the Election Date. All Capital Bonds held by Bondholders with a non-New Zealand registered address on 31 May 2017 will be automatically offered for sale through the Resale Facility.

Further information about election options for New Zealand Bondholders is set out in section 5 below.

On the Election Date, Vector is required to pay you all interest accrued, un-cancelled and unpaid up to that date on your Capital Bonds. Vector will pay this interest to you irrespective of whether or not you keep your Capital Bonds after the Election Date.

Capitalised terms defined in the Trust Deed (including in the Conditions) have the same meaning when used in these explanatory notes.

2. NEW CONDITIONS APPLICABLE TO THE CAPITAL BONDS FROM THE ELECTION DATE

2.1 NEW ELECTION DATE

The new election date that will apply to the Capital Bonds will be 15 June 2022 (**New Election Date**).

2.2 INTEREST RATE

An Interest Rate of 7.00 per cent per annum currently applies to the Capital Bonds.

If all Capital Bonds offered for sale through the Resale Facility are sold or redeemed by Vector, the Interest Rate applicable to the Capital Bonds from the Election Date will be the higher of either:

- (a) 5.70 per cent per annum; or
- (b) the Swap Rate at or about 3.00pm on 14 June 2017 plus the Issue Margin of 2.75 per cent per annum.

As at 9.00am on 28 April 2017, the Swap Rate was 2.90 per cent. By way of illustrative example only, if the Interest Rate was being determined at that time, the calculation set out in paragraph (b) above would give an interest rate of 5.65 per cent per annum and accordingly the Interest Rate would be 5.70 per cent per annum (being the higher of the figures in paragraph (a) and (b) above). The Swap Rate will fluctuate between the date of these explanatory notes and 14 June 2017.

If any Capital Bonds offered for sale through the Resale Facility are not sold or redeemed by Vector, the interest rate payable by Vector on all Capital Bonds from the Election Date is the Adjusted Interest Rate (see section 3 below).

3. ADJUSTED INTEREST RATE

The Adjusted Interest Rate is the aggregate of:

- (a) the Swap Rate at or about 3.00pm on 14 June 2017; plus
- (b) the Issue Margin for the prior Bond Period (being an Issue Margin of 2.95 per cent per annum); plus
- (c) the Specified Margin (being 1.00 per cent per annum).

As at 9.00am on 28 April 2017, the Swap Rate was 2.90 per cent. By way of illustrative example only, if the Adjusted Interest Rate was being determined at that time, the calculation set out above would give an Adjusted Interest Rate of 6.85 per cent per annum. The Swap Rate will fluctuate between the date of these explanatory notes and 14 June 2017.

4. INTEREST PAYMENT DATES

The interest payment dates applicable to the Capital Bonds from the Election Date will remain 15 June and 15 December in each year.

5. ELECTION OPTIONS FOR BONDHOLDERS

5.1 NEW ZEALAND BONDHOLDERS

If you are a New Zealand Bondholder, you have four election options available to you in relation to the upcoming Election Date. These options are described below. Further details in respect of the operation of the Resale Facility are set out in section 5.3.

New Zealand Bondholder options

OPTION	ACTION	OUTCOME	WHAT TO DO	RELEVANT PAYMENTS
A	<p>Keep all of your Capital Bonds.</p> <p>If you do not complete your Election Notice correctly or if Computershare does not receive your Election Notice by 5.00pm on 31 May 2017, you will be deemed to have elected this Option A.</p>	<p>From the Election Date, the New Conditions will apply to all of the Capital Bonds.</p> <p>In the event that any Capital Bonds offered for sale under the Resale Facility are not sold or redeemed by Vector, the unsold Capital Bonds will remain on issue and will be subject to the New Conditions except that, for the period until the New Election Date, the interest rate payable by Vector from the Election Date on all Capital Bonds (including the Capital Bonds that you choose to keep) will be the Adjusted Interest Rate (see section 3).</p>	<p>Send in a completed Election Notice to Computershare by no later than 5.00pm on 31 May 2017 indicating that you want to keep all of your Capital Bonds.</p>	<p>No payment required by Bondholder.</p> <p>No amounts payable by Vector to Bondholder.</p>
B	<p>Keep all of your Capital Bonds and apply to purchase additional Capital Bonds through the Resale Facility.</p>	<p>From the Election Date, the New Conditions will apply to all of the Capital Bonds you keep and any additional Capital Bonds you purchase through the Resale Facility.</p> <p>In the event that any Capital Bonds offered for sale under the Resale Facility are not sold or redeemed by Vector, the unsold Capital Bonds will remain on issue and will be subject to the New Conditions except that, for the period until the New Election Date, the interest rate payable by Vector from the Election Date on all Capital Bonds (including the Capital Bonds that you choose to keep and any additional Capital Bonds you purchase through the Resale Facility) will be the Adjusted Interest Rate (see section 3).</p>	<p>Send in a completed Election Notice to Computershare by no later than 5.00pm on 31 May 2017 together with payment for the aggregate Principal Amount of the additional Capital Bonds you wish to apply to purchase.</p> <p>You must enter the dollar value of the Capital Bonds you would like to purchase into the space provided in the Election Notice. The dollar amount of Capital Bonds you nominate to purchase must be in multiples of \$1,000. If the dollar amount you insert is not a multiple of \$1,000, the dollar amount you have inserted will be rounded down to the nearest \$1,000 and you will be deemed to have nominated to purchase that new dollar amount of Capital Bonds.</p>	<p>Bondholders must pay for additional Capital Bonds by cheque or direct debit in accordance with the payment instructions set out in the Election Notice.</p> <p>If Vector does not or is unable to allocate to you through the Resale Facility any Capital Bonds or fewer Capital Bonds than the number you have requested, a refund for the balance of the amount paid by you (without interest) will be provided to you as soon as practical after the Election Date.</p>

OPTION	ACTION	OUTCOME	WHAT TO DO	RELEVANT PAYMENTS
C	Choose to keep some of your Capital Bonds and offer to sell the balance of your Capital Bonds through the Resale Facility.	<p>Subject to the minimum holding requirements, you will keep the number of Capital Bonds nominated in your Election Notice.</p> <p>From the Election Date, the New Conditions will apply to all of the Capital Bonds you keep.</p> <p>The balance of your Capital Bonds will be offered for sale under the Resale Facility.</p> <p>Vector may redeem all Capital Bonds not sold through the Resale Facility on the Election Date.</p> <p>Capital Bonds not sold or redeemed by Vector will remain on issue and they will remain yours and will be subject to the New Conditions except that, for the period until the New Election Date, the interest rate payable by Vector from the Election Date on all Capital Bonds (including all unsold Capital Bonds and any Capital Bonds that you choose to keep) will be the Adjusted Interest Rate (see section 3).</p>	<p>Send in a completed Election Notice to Computershare by no later than 5.00pm on 31 May 2017 detailing the number of Capital Bonds you wish to keep.</p> <p>You must enter the dollar amount of the Capital Bonds you wish to keep into the space provided in the Election Notice. The dollar amount of Capital Bonds you keep must be at least \$5,000 and a multiple of \$1,000.</p> <p>If you do not insert the dollar amount of the Capital Bonds you wish to keep, you will be deemed to have elected to keep all of your Capital Bonds beyond the Election Date of 15 June 2017 and accepted the New Conditions in respect of those Capital Bonds.</p> <p>If the dollar amount you insert is:</p> <ul style="list-style-type: none"> > not a multiple of \$1,000, the dollar amount you have inserted will be rounded up to the nearest \$1,000; and/or > less than \$5,000, you will be deemed to have elected to keep \$5,000 (the Minimum Holding), <p>and in each case you will be deemed to have elected to keep that new dollar amount of Capital Bonds and accepted the New Conditions in respect of those Capital Bonds and deemed to have elected to offer to sell the remainder of your Capital Bonds through the Resale Facility.</p>	<p>Vector will pay to you the Principal Amount of each of the Capital Bonds which you have elected to offer for sale through the Resale Facility and which have either been sold through the Resale Facility or, if Vector so elects, redeemed by Vector. Any such payment is required to be made to you no later than 22 June 2017. No brokerage fee will be deducted from, nor any interest added to, amounts payable to you in respect of any Capital Bonds sold through the Resale Facility.</p> <p>If some or all of your Capital Bonds are not sold through the Resale Facility nor redeemed by Vector, no payment will be made to you in relation to those unsold Capital Bonds and they will remain yours.</p>
D	Choose to offer to sell all of your Capital Bonds through the Resale Facility. Overseas Bondholders will be deemed to have elected this option.	<p>All of your Capital Bonds will be offered for sale under the Resale Facility.</p> <p>Vector may redeem all Capital Bonds not sold through the Resale Facility on the Election Date.</p> <p>Capital Bonds not sold or redeemed will remain on issue and they will remain yours and will be subject to the New Conditions except that, for the period from the Election Date until the New Election Date, the interest rate payable by Vector on all Capital Bonds (including all unsold Capital Bonds) will be the Adjusted Interest Rate (see section 3).</p>	<p>Send in a completed Election Notice to Computershare by no later than 5.00pm on 31 May 2017 indicating that you wish to offer to sell all of your Capital Bonds through the Resale Facility.</p> <p>If your Election Notice is not received by this time, you will be deemed to have selected Option A described above in respect of all of your Capital Bonds.</p>	<p>Vector will pay to you the Principal Amount of each of the Capital Bonds which you have elected to offer for sale and which have either been sold through the Resale Facility or, if Vector so elects, redeemed by Vector. Any such payment is required to be made to you no later than 22 June 2017. No brokerage fee will be deducted from, nor any interest added to, amounts payable to you in respect of Capital Bonds sold through the Resale Facility.</p> <p>If some or all of your Capital Bonds are not sold through the Resale Facility nor redeemed by Vector, no payment will be made to you in relation to those unsold Capital Bonds and they will remain yours.</p>

5. ELECTION OPTIONS FOR BONDHOLDERS *continued*

5.2 OVERSEAS BONDHOLDERS AND MINIMUM HOLDING

Where:

- (a) you hold less than the Minimum Holding of Capital Bonds on 31 May 2017; or
- (b) your registered address is outside New Zealand on 31 May 2017,

you will be deemed to have elected to offer to sell all of your Capital Bonds through the Resale Facility.

5.3 RE SALE FACILITY

Vector may allocate any Capital Bonds offered for sale under the Resale Facility in its absolute discretion and does not guarantee the availability of Capital Bonds for purchase under the Resale Facility. It is Vector's current intention to give existing Bondholders who apply to purchase additional Capital Bonds through the Resale Facility (Option B) preferential access to Capital Bonds offered for sale through the Resale Facility.

Under the Conditions, Vector may itself purchase any Capital Bonds offered for sale under the Resale Facility. Vector must use reasonable endeavours to procure the purchase of any Capital Bonds offered for sale through the Resale Facility but is not obliged to purchase or procure the purchase of any such Capital Bonds offered.

If any Capital Bonds remain unsold under the Resale Facility on the Business Day preceding the Election Date (being 15 June 2017), Vector may on the Election Date redeem all those unsold Capital Bonds for the Principal Amount of each unsold Capital Bond. If Vector chooses not to redeem all of the unsold Capital Bonds on the Election Date, all Capital Bonds (including all unsold Capital Bonds) will remain on issue and will be subject to the New Conditions except that, for the period until the New Election Date, the interest rate payable by Vector on all Capital Bonds (including all unsold Capital Bonds) will be the Adjusted Interest Rate (see section 3).

Any Capital Bonds offered by a Bondholder for sale through the Resale Facility which are not sold or redeemed by Vector will continue to be held by that Bondholder. Vector's ability to purchase or redeem any Capital Bonds is subject to it being satisfied it can comply with its obligations under the Replacement Security Deed Poll.¹

Vector has not made any decisions as to whether it will purchase or redeem any Capital Bonds which are placed by Bondholders into the Resale Facility.

6. BROKERAGE

Vector may pay to one or more Primary Market Participants (in terms of the NZX Participant Rules) or other financial advisory firms (**Brokers**) a handling or procurement fee in respect of all Capital Bonds the subject of a completed Election Notice. Vector will be solely responsible for the payment of such fees.

7. INFORMATION FOR BONDHOLDERS

If you have any doubts as to what you should do, you should contact your authorised financial adviser. If you have any queries regarding the procedure for making your election you should contact Computershare Investor Services Limited, as bond registrar, or your authorised financial adviser.

The Capital Bonds are quoted on the NZX Debt Market and all the requirements of NZX Limited relating thereto have been duly complied with. However, NZX Limited accepts no responsibility for any statement in these Explanatory Notes. The NZX Debt Market is a licensed market operated by NZX Limited, a licensed market operator regulated under the Financial Markets Conduct Act 2013.

From 16 June 2017 the Capital Bonds will be quoted on the NZX Debt Market under the ticker code VCT080.

The Conditions can be found in the Trust Deed, a copy of which is accessible on Vector's website at www.vector.co.nz/investors/bonds.

Computershare Investor Services Limited

Address: Level 2, 159 Hurstmere Road
Takapuna
Auckland

Private Bag 92119
AUCKLAND 1142

Phone: +64 9 488 8777

Fax: +64 9 488 8787

Email: vector@computershare.co.nz

¹ Details of the Replacement Security Deed Poll are available at www.vector.co.nz/investors/bonds

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