VECTOR://

REPOWERED.

LIFE.

AR 2017

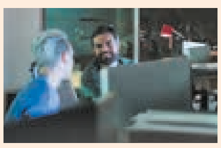
SECTION 01




The whole concept of an 'internet of energy' changes the frameworks for how Vector works and plans. Our goal is for New Zealand's energy to be cleaner and more accessible than ever before and sourced from a multitude of renewable sources. But the real difference will be in how that energy is stored, managed, traded and delivered.

SECTION 02

Learn more about our work with Ngāti Whātua Ōrākei, our acquisition of PowerSmart, the new mPrest technology and our vehicle-to-grid (V2G) initiative.






SECTION 03

We're proud of the way the company continues to perform strongly across all its businesses.

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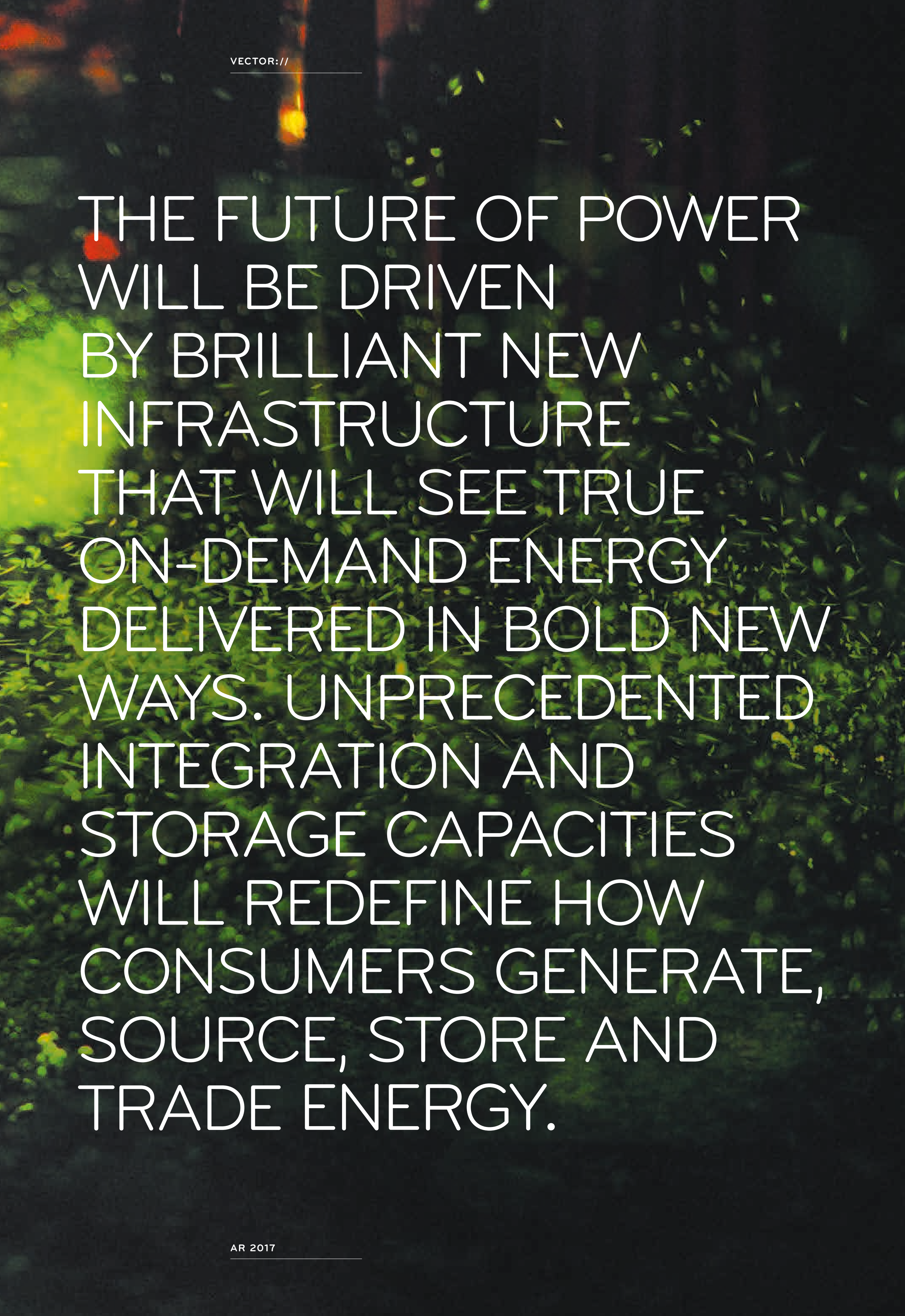
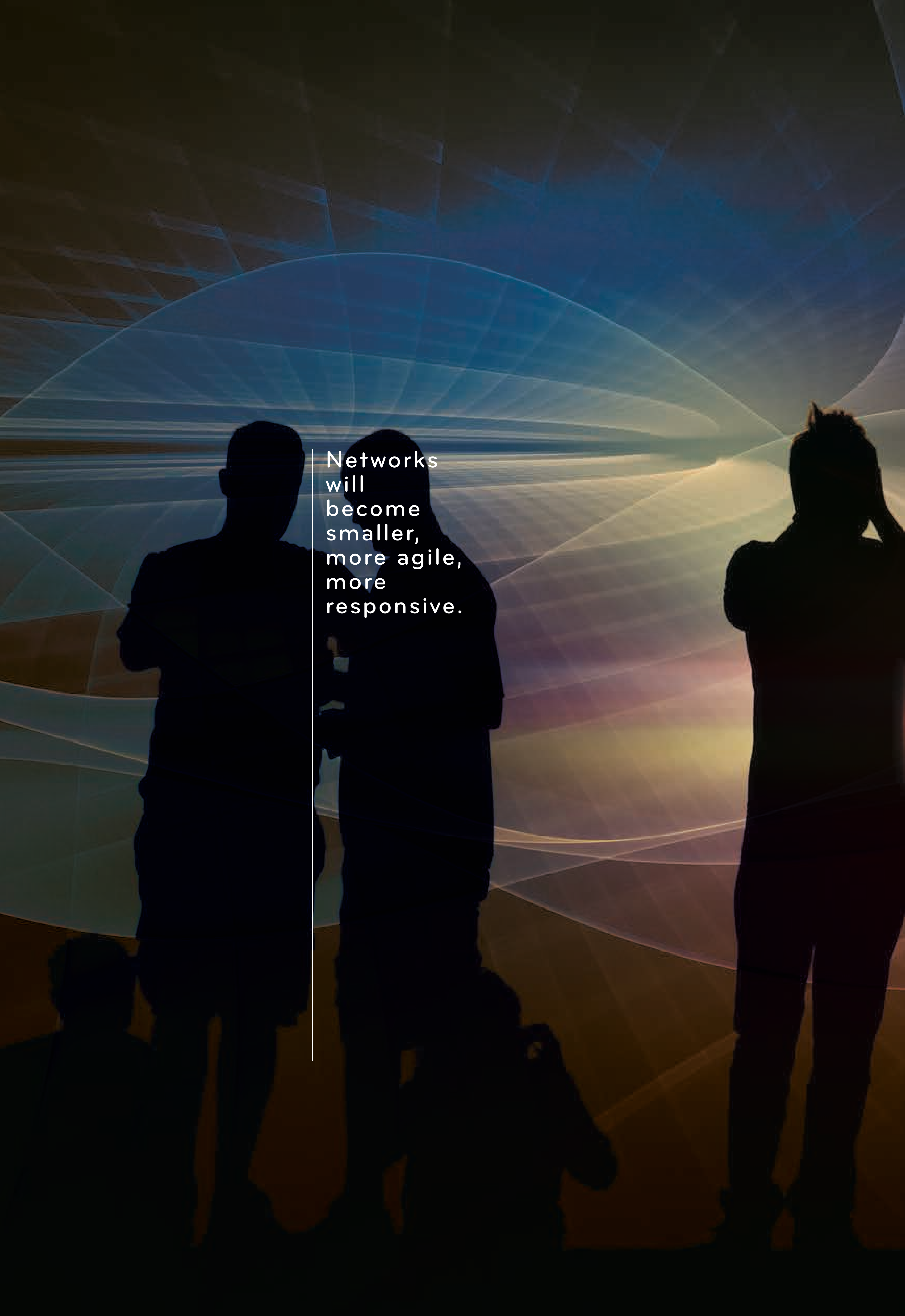


THE FUTURE OF POWER WILL BE DRIVEN BY BRILLIANT NEW INFRASTRUCTURE THAT WILL SEE TRUE ON-DEMAND ENERGY DELIVERED IN BOLD NEW WAYS. UNPRECEDENTED INTEGRATION AND STORAGE CAPACITIES WILL REDEFINE HOW CONSUMERS GENERATE, SOURCE, STORE AND TRADE ENERGY.


VECTOR://


Vector is challenging and transforming how customers
connect to infrastructure. It is changing how cities work.



Networks will become smaller, more agile, more responsive.

This will influence so many aspects of how we live.

TECHNO LOGICA LLY ___


SUSTAINABLY.

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SECTION

Ø2

VECTOR.

REIMAGINING

BOLDLY APPROACHING CHALLENGES

We won't answer the issues of tomorrow by relying on industry models that just look to what's been done before.

Attitudes continue to hold this industry back and therefore hold back the potential for consumers. For some time, our collective view as a board and management team has been that Vector has a responsibility to deliver all customers real choices and to make meaningful contributions towards decarbonising the economy. While some energy businesses are starting to recognise the need to shift thinking in the sector, others remain committed to protecting their legacy models.

We believe that meeting the future needs of Auckland is not about continuing to invest in bigger traditional assets. We believe we have to reinvent ourselves as agents of change and facilitators of integration. Distributed generation, customer-owned distributed energy resources, smarter distribution technology and advanced analytics give us access to new options and choices. The challenges of tomorrow lie in how we build revolutionary energy systems that are highly effective, faster, smaller, more economical and provide environmental and social benefits.

Greater understanding

To find those systems, we've gone looking for new convergences. Through our relationship with mPrest, for example, we've used learnings from defence systems to achieve new levels of synergy, machine learning and rapid and cumulative decision-making. Equally,

Simon Mackenzie
—
GROUP CHIEF EXECUTIVE

Michael Stiassny
—
CHAIRMAN

with PowerSmart, we've identified that solar/battery microgrids already offer compelling economic and environmental benefits to remote communities and over time will increasingly disrupt traditional supply-demand economics across our industry.

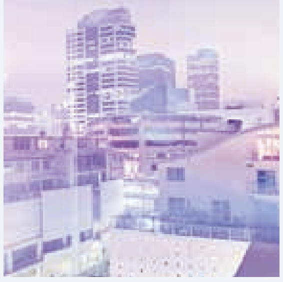
Much more nimble

Feedback from our customers clearly underscores the need for us to move forward with flexibility and careful investment. Average household energy consumption is declining, as people renovate, building standards improve, we incorporate more energy efficient appliances and lighting into our homes and businesses, and responsive technology delivers new energy solutions.

That's why we're investing in assets that can be moved around as required and are not sunk or tethered to one location. One example is a battery that can be deployed in one area to meet a period of need and then redeployed in another area as consumer usage rises or falls. These assets also provide a logical solution to the need for affordable, innovative infrastructure development to support Auckland's growth. The Tesla Powerpack battery storage system we installed at the high voltage substation in Glen Innes has reduced peak demand by up to 13%. That in turn has enabled us to defer or avoid significant investment that would otherwise be required.

We're serious about sustainability in its broadest sense

We believe the United Nations Sustainable Development Goals need to sit at the very heart of our business. Our decisions must be based on integrated environmental and socially responsible views that are agile enough to meet quarterly demands and yet strong enough to truly shape and prepare the business for the long term. As we explain later in this report, we have committed to all 17 United Nations Sustainable Development Goals, but for the short to medium term, we're focusing on seven that specifically support our strategic focus on decarbonisation and climate action and social inequalities. The more we pursue this approach, the greater the opportunities that we discover. For example, in an Australasian first, we will be deploying a solution that utilises recycled Nissan Leaf batteries as mobile battery units that act like diesel generators to support customers during planned and unplanned work on the network.



Future

A different mandate

Applying learnings gained from working with offshore and local technology companies, we are also opening up new opportunities and new markets: selling smart meter solutions into Australia; partnering with mPrest and becoming a reseller of their revolutionary network management technology; and working with PowerSmart across Australasia.

There are certainly those in other parts of the energy sector that would like us to get back in the corner they have consigned us to. Our view is that we need to pursue a different mandate. The rationale for Vector embracing new technology and focusing on our customers' shifting energy needs is clear. Nor are we solely focused on electricity. We are committed, for example, to bringing safer and more efficient gas solutions to customers — and our new OnGas bottle filling plant in Papakura is an example of that. We're also working with telecommunications providers to enable customers to access high-speed secure fibre as well as enabling immediate response to devices on our network. To make all that happen, our conversations are continuing with regulators, investors, our communities, our people, our partners and, of course, our customers about regulatory frameworks, pricing structures, rates of growth and more.

LEADERS //

POWERING A REAL SENSE OF COMMUNITY

Introducing solar energy and batteries changes the whole energy profile.

Kāinga Tuatahi in Kupe Street is a 30-home residential development for iwi first home owners delivered by Ngāti Whātua Ōrākei. Vector has collaborated with Ngāti Whātua Ōrākei to demonstrate how a future community energy solution might operate by installing solar and battery storage in each home. Not only is this already changing how these residents consume power, but how they will one day share it as well.

Located on trust land on a four-hectare site close to the centre of Auckland, the community provides environmentally efficient, socially integrated housing for the descendants of Auckland's largest hapū. Eighty percent of the houses meet the Government's affordable definition, meaning they cost $550,000 or less.

Batteries included

There's an inverter and a Tesla Powerwall battery at each property. Residents stay connected to mains power and pay for that, but their monthly energy bills have fallen to as low as $13. Each system is paid for as part of a monthly development fee that residents pay to Ngāti Whātua Ōrākei, which also includes their mortgage repayments.

The energy that's stored in the neighbourhood could one day stay in the neighbourhood

That capability is a glimpse into the future we see for New Zealanders: neighbour-to-neighbour distribution, potentially allowing people with excess power to exchange it with those who need more but don't have the means, or to sell it to their neighbour or back to the grid for additional income.

Photo credit: Paperboy and Michael Lewis.

NGĀTI WHĀTUA ŌRĀKEI //

> **When my cousin got her first bill she said 'this is great'. And it was like $50. Then she actively tried to challenge herself to bring it down ... now, I think one of the lowest power bills she got was $13.**

NGĀTI WHĀTUA ŌRĀKEI RESIDENT

Savings

A year in, the project's proving a win-win.

Ngāti Whātua Ōrākei has fulfilled its commitment to care for its land and the environment. From December 2016 to April 2017, the households were provided 47% of their electricity needs directly from their individual solar systems, saving the equivalent of 12.55 tonnes of carbon dioxide equivalent (CO_2e).

For Vector, our involvement reflects our commitment to a lower carbon economy and greater social equality. We absolutely believe that the pursuit of competitive returns is compatible with our drive to deliver clean and affordable energy, innovate the infrastructure we're responsible for, and contribute to more sustainable cities and communities. And the best place for us to start doing that is at home, in Auckland.

New behaviours

Perhaps most importantly, this initiative is making a real difference at a day-to-day level for the people who are using this new technology. Residents at Kupe Street have said that being part of this community has made them more aware of their power bills, and that's pushing them to really try to reduce their bill as much as possible. So we're seeing a shift in personal behaviour over and above the changes prompted by the technology. Residents can directly influence the impact that the solar panels are having – on their lives and on the lives of those around them.

COMMERCIAL IMPERATIVES://

This is a real-life opportunity for Vector to understand the potential impact of new technologies and new business models in a rapidly changing energy environment.

We can directly appraise the impact and usage patterns of networked solar and batteries, both at a household level and across a cluster of households. This will help us plan the longer-term network infrastructure requirements for Auckland as it continues to rapidly expand.

Vector and Ngāti Whātua Ōrākei's already strong relationship has been further strengthened because everyone's needs are being met.

SOCIAL IMPERATIVES://

The Vector-Ngāti Whātua Ōrākei relationship is undertaken in a spirit of true partnership, providing an energy-focused model for engaging with the community, delivering meaningful social and economic benefits.

By encouraging greater self-sufficiency, Ngāti Whātua Ōrākei has been able to stay true to its core principles as kaitiaki (guardians) of the land.

Vector has enabled all residents to achieve access to the very latest technology.

This initiative aligns with our commitments to four United Nations Sustainable Development Goals: Affordable and Clean Energy; Reduced Inequalities; Climate Action; and Partnerships for the Goals.

MAKING SMART INVESTMENT DECISIONS

We can't just settle for improvements.

Energy today demands new mindsets.

Historically, electricity has always been a closed, one-way system: power flowed from faraway generation stations through the national grid and into communities. But the integration of next-generation technology has disrupted that blueprint.

Smart storage batteries are revolutionising infrastructure. Suddenly, the passive consumer is evolving into an active consumer/generator/storer/trader of energy. Now instead of needing to rely on a dam to store energy, households can use batteries to keep the energy they make at home.

PowerSmart is a leading New Zealand solar energy company. It specialises in the development of reticulated energy systems that use a combination of solar photovoltaic cells and battery storage, managed using the latest technology, with the ability to have no connection to the outside world. PowerSmart has already proven that solar and batteries provide a compelling economic and environmental solution for remote communities in the Pacific, and increasingly in remote parts of Australia.

The focus on the Pacific and opportunities in Australia will remain, but PowerSmart will also be helping us at home in New Zealand to bring on-site energy generation and usage alive with microgrids, and contained grids that can source their energy in any number of ways.

The microgrid opportunity is highlighted by recent projects that PowerSmart has completed in the Northern Cook Islands and Tuvalu, in partnership with the New Zealand Aid Programme. The project installed 12 solar and battery microgrids on 10 remote atolls, eliminating their reliance on diesel generators that ran for generally only a couple of hours each day. This has resulted in huge quality-of-life improvements for communities in the area and real economic and environmental benefits. With these high-tech systems, 12 remote Pacific Island communities now have reliable 24-hour power.

Combine PowerSmart's proven portfolio of commercial projects with Vector's energy network technology, expertise, resources and strong balance sheet, and the whole paradigm for how energy is made, where it's made and who has access to it is challenged.

Charging ahead

Until now, the energy generation/retail model has been based on getting power from elsewhere and consumers paying for this in a largely fixed way. Solar and battery systems rewrite that. Not only do they enable a complete rescoping of the demand curve by shaving the peaks, they will also let households and businesses become generators and, through peer-to-peer trading, one day to buy and sell solar energy on their own terms. Households will be able to generate clean electricity on-site, to store it for use at any time and/or as a backup for uninterrupted power, and to convert any surplus from waste to revenue by trading locally.

Bringing the changes home so that they become more widely accepted

For this to go mainstream though, we recognised that the adoption of these new options had to expand beyond commercial projects. Our biggest national market is residential and being able to introduce smarter solar solutions into that market will deliver more choice for Vector customers and enable greater growth. Solar and batteries will go mainstream as costs continue to reduce and people build or renovate.

Our decision to purchase E-Co Products Group, which trades as HRV and EES, will over time enhance Vector's capacity to deliver solar solutions. While PowerSmart increases our existing expertise and delivers us the knowledge and experience to make solar and batteries work commercially, HRV is well structured to serve the residential energy solutions market.

The current HRV offering includes ventilation, heat pumps, retrofit double glazing and water filtration. In addition to the healthy home focus, we anticipate HRV will increasingly target energy-efficient home solutions, including solar, ducted and hot-water heat pumps, and residential batteries. HRV's other products already help keep people's homes warm and dry. So it makes sense that HRV should incorporate energy solutions like solar energy and batteries into its product mix.

Making it happen

As a company, we won't hesitate to invest in innovation, either by ourselves or through critical partnerships. For example, we began installing solar and batteries on our network more than four years ago. But we're also not afraid to acquire other like-minded businesses where doing so aligns with our strategy and where it delivers the capability, technology and reach we need to provide our customers with solutions that give them maximum flexibility.

Change is killing the learning curve. We don't have time to learn what PowerSmart already knows, nor to build the customer base and brand recognition that HRV already commands. So it makes complete sense to us that we would welcome them into our business, combine our complementary strengths and work together to realise our vision of creating a new energy future in New Zealand and beyond.

Focus

POWERSMART //

COMMERCIAL IMPERATIVES://

Consumers want to make their own decisions. We are focused on addressing that market need and providing them with viable options.

For example, batteries provide benefits for those who wish to maximise their investment in solar or move to a time-of-use tariff where they charge up when prices are at the lowest rates and use the electricity when market rates are high.

We must invest wisely. Every dollar we save while meeting Auckland's growing infrastructure needs is one that consumers don't have to fund.

SOCIAL IMPERATIVES://

We are at the front end of meeting the energy infrastructure needs of Auckland's growth. We know we must act to move the city forward. It's about making the right choices and providing customers options to support their long-term interests and needs.

We cannot burden Auckland now or into the future with traditional network investment solutions when there are potentially cheaper, smarter options available. We believe it is in the long-term interests of our customers that we invest in and bring new energy solutions to market that enable our customers to access lower costs, and have access to greater control and choice.

This initiative aligns with our commitments to three United Nations Sustainable Development Goals: Good Health and Well-being; Industry Innovation and Infrastructure; and Sustainable Cities and Communities.

VECTOR BRINGS THE INTERNET OF ENERGY

Bringing together diverse standards and complex systems through a single platform.

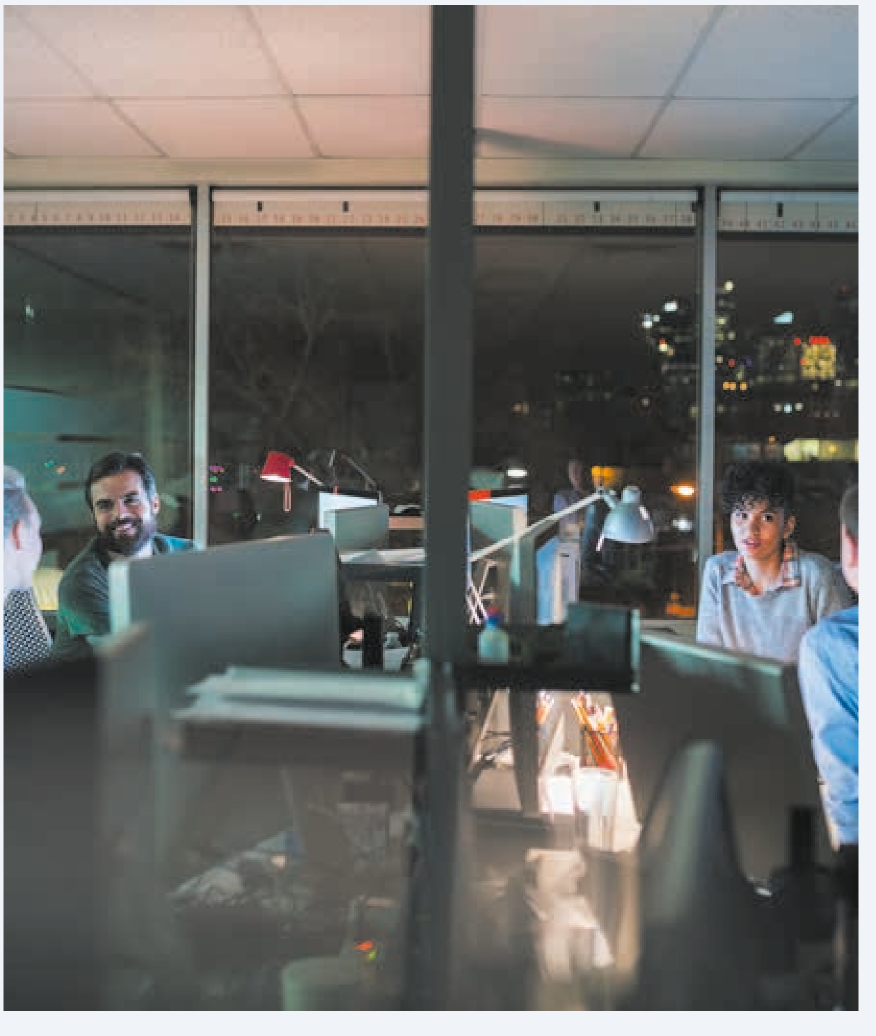
We're using world-leading technology to manage multiple technologies on our network in revolutionary ways. We call this the Internet of Energy.

Traditionally the energy system from generation to distribution has been uni-directional, but the introduction of distributed energy resources is seeing that rapidly evolve into a multi-directional dynamic system. As consumers assume greater control and choice over the energy they have in their lives, how we all interact with the energy that will be produced through large-scale generation and storage, micro storage and micro generation is completely changing.

Partnering with mPrest allows us to manage complex systems in much more sophisticated ways through unprecedented integration of information and operational technologies. It will also help us to integrate our systems with the wholesale markets more easily to manage and coordinate customers' energy use and assets in real time. We are confident this will also enable our customers to access potentially lower energy costs more easily, and better enable automation to optimise energy use and cost.

Unprecedented awareness

We see this 'system of systems' as the most comprehensive monitoring, analytical and control system available anywhere in the world. It will sit over our customer, market, distributed energy resources and network systems and manage their performance in real time. Through self-learning, it will be able to build 'the story of the networks' based on what has happened historically and to use artificial intelligence to optimise



This project represents a new level of software control for the power utility sector. [It] will allow Vector to progress its goal of expanding access to participative energy markets for its customers, save capex and opex in developing its digital power grid, improve services and create new offerings for customers.

RON HALPERN,
mPrest CHIEF
COMMERCIAL OFFICER

mPrest //

numerous objectives. Our goal is for the mPrest system to assess and predict multiple factors including loads in different parts of the network, market dynamics, storage, customer demand and capacity.

Offering enhanced resilience, security and efficiency

The mPrest system will allow us to control not just how energy is used but also the assets required to connect energy with people in ways that we forecast will save Auckland many millions of dollars. It challenges the traditional mindset that has seen energy companies growing their networks to accommodate greater peaks. It also helps us defer network reinforcement costs, reduce the risk of stranded assets at the very time we're seeing a slow-down in electricity consumption, and promote a rapid increase in new solutions to generate and manage energy.

The mPrest software will also enable Vector to bring together the acquisitions and developments we are making. Instead of adding more systems to achieve a more diversified energy network, the mPrest software allows us to bring all the moving parts together in ways that we can control and coordinate. That in turn will enable Vector to play a strong and proactive role in developing the networks best suited to the changing needs of customers.

We expect the system to be fully operational by the end of FY18. As a partner in the project, having acquired the Australasian and Pacific Island rights for utility-related mPrest applications, we look forward to making the solution available to other companies in the region so that they too can gain greater synergies from their assets and deliver new solutions to their customers.

COMMERCIAL IMPERATIVES://

mPrest enables unprecedented options to integrate and develop new energy solutions for customers and the management of multiple technologies on Vector's networks. So it will enable us to fully utilise existing load management systems as well as battery solutions and other emerging technologies.

It will enable us to streamline capital investment through higher equipment utilisation and non-traditional solutions, and, combined with market incentives, could lead to consumers modifying behaviour patterns.

It will help us meet the expectations of our regulator, the Commerce Commission, which incentivises us to innovate with the objective of benefitting customers.

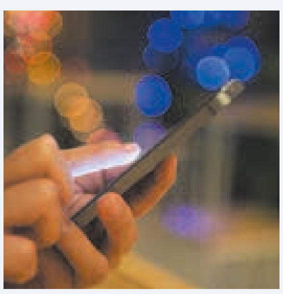
CUSTOMER IMPERATIVES://

mPrest will enable us to better service customers through faster location of network issues at fault locations and improved deployment of field crews.

Our customers will feel better informed because we will be able to provide them with more detailed information, faster.

SOCIAL IMPERATIVES://

This initiative aligns with our commitments to three United Nations Sustainable Development Goals: Industry Innovation and Infrastructure; Sustainable Cities and Communities; and Partnerships for the Goals.



Control

GIVING NEW MEANING TO THE 'ELECTRIC VEHICLE'

Finding new uses for parked vehicles changes their role.

We're rethinking the whole concept of how consumers access the power they need, and in doing so we're bringing electricity to New Zealanders in ways that redefine current infrastructure.

We have deployed sixteen 50kW rapid electric vehicle chargers to provide fast and effective power to Auckland's growing fleet of electric vehicles. As we did so, we recognised there was a wider issue we would need to solve. When electric vehicle usage increases, it will only be a question of time before repowering them puts pressure on the current grid. More electric vehicles being charged at peak time could lead to a greater need for more infrastructure to meet that peak.

Charging becomes two-way

Our next iteration of electric vehicle chargers helps resolve that issue by time-shifting when people will charge their vehicles. Our new vehicle-to-grid (V2G) chargers operate in two ways. In another first in New Zealand, not only can they take power from the grid, they can also reverse the process; putting power back in ways that have the potential to transform electric vehicles into mobile power sources for businesses and homes. A Nissan Leaf G2 for example with a 30kWh battery could power the average household for 10 hours.

If you think you don't get that much use out of your car given what it costs, you're right. The average vehicle is parked for the majority of the time. But the new V2G chargers transform what we will soon mean by vehicle usage. Charging vehicles when they are idle during daylight hours will enable electric vehicles to act as an additional rechargeable energy source. Connected to a V2G charger, the vehicle itself could be used to introduce extra power to buildings, as a cheaper power source during peak-hour consumption, as a way to power homes during power outages, and even to release energy back to the grid to support customer demand.

And of course the new chargers could, in time, integrate with other technologies such as solar and batteries to redefine what we mean by a truly smart energy home or business.

VEHICLE TO GRID //

V2G is proof of how quickly innovation cycles are condensing in the energy sector and elsewhere. Such change is not without its challenges. At this stage, in our view, only two vehicle models, the Nissan Leaf and Mitsubishi Outlander, can be used with the new V2G chargers. It's also important that the Australia/New Zealand standards for how residential batteries can be housed is worked through, because otherwise there's a risk that electric vehicles will not be able to be plugged into customers' garages.

We are confident that take-up will increase as manufacturers see no adverse impact on their batteries. The University of Warwick in the United Kingdom undertook research on the potential of V2G, and found that it could improve vehicle battery life by around 10% over a year.

Change

COMMERCIAL IMPERATIVES://

As New Zealand's biggest distributor of electricity and gas, we cannot afford to wait and see how all the changes that affect us will play out before we act. V2G is one more example of the way we are taking a leadership role, transforming the way energy is managed in Auckland by incorporating lateral approaches into our network.

V2G is one aspect of changing what it means to be a successful distributor.

Increasingly, the assets we recognise as being energy generators are being replaced by new means that require us to rethink what it means to integrate energy into our network. The transition to V2G is a strong example of addressing a problem, only to arrive at a solution that will help redefine our business.

SOCIAL IMPERATIVES://

V2G offers consumers whole new ways to use their vehicle. Charging the electric vehicle this way will change how people think about, and pay for, the energy they use as well as potentially improving the economics of vehicle ownership. This is a tangible example of technology convergence in a world focused on finding sustainable solutions to global challenges.

By providing new ways for companies and individuals to think about electric vehicles, we're encouraging electrification of corporate fleets and potentially helping businesses to reduce their carbon impacts.

This initiative aligns with our commitments to three United Nations Sustainable Development Goals: Affordable and Clean Energy; Industry Innovation and Infrastructure: and Sustainable Cities Communities.

SECTION

Ø3

A SUSTAINED APPROACH.

TAKING

29 — 134

PERFORMANCE HIGHLIGHTS

$
361.2
MILLION

Regulated businesses

Adjusted EBITDA

Down 2.0% on the back of flat revenue, higher maintenance costs and one-off items

555,100
CONNECTIONS

Electricity network

Up 0.9%

106,670
CONNECTIONS

Gas network

Up 2.3%

$
159.4
MILLION

Unregulated businesses

Adjusted EBITDA

Up 3.4% due to growth in the installed smart meter base

$
168.9
MILLION

Group net profit

Down 38.4% on prior year result, which was boosted by $164m gain on the sale of Vector Gas, offset by the $64m impairment to the Gas Trading division

$
474.4
MILLION

Continuing operations

Adjusted EBITDA

Up 0.3%

47.1%

Balance sheet strength

Up from 43.7%

$
367.4
MILLION

Capital expenditure

Up 13.9%, driven by growth in Auckland, metering and expenditure on Bottle Swap plant

Regulated business $210.6m (up 4.8%)

Unregulated business and corporate $156.8m (up 28.9%)

16.00
CENTS

Full year dividend

Up 0.25 cents, the 11th consecutive year of dividend increases

OPERATIONAL HIGHLIGHTS

Award

Received an Edison Electric Institute Asia-Oceania Index Award for superior and sustained financial performance.

Goals

Identified seven United Nations Sustainable Development Goals that we will actively pursue.

Installed

Installed over 24,200 smart meters in Australia.

Integrated

Worked with Dominion Salt to integrate a Tesla Powerpack with their 660kW wind turbine at Lake Grassmere to deliver around 75% of the site's energy needs.

App

Updated our app to make it easier for customers to see current outages, planned and unplanned, and to report an outage to us. Some 70,000 customers have now downloaded the app.

Acquired

Acquired E-Co Products Group (which trades as HRV and EES) and PowerSmart as part of delivering on our vision to create a new energy future.

Launched

Launched our Electric Vehicle (EV) app to make EV charging smarter by making it easy to find and get directions to EV chargers nationwide.

Achieved

Achieved certification to AS/NZS 4801 and ISO 14001.

Won

Won the Territory Generation contract for a 5MW battery in Alice Springs in the Northern Territory of Australia.

Installed

Installed a 1MW/2.3MWh Tesla Powerpack battery in Glen Innes, Auckland.

Partner

Entered into multimillion-dollar partnership with Auckland Council, to produce a series of Vector-funded projects, including the Energy Efficient Communities Project (with the support of Entrust) and lighting up the Auckland Harbour Bridge.

Decreased

Decreased Lost Time Injury Frequency Rate by 15%.

THE BUSINESS CASE FOR AN ENERGY DEMOCRACY

It is pleasing to report that Vector's performance continues to deliver the solid results necessary to support growing dividends for our shareholders.

–

MICHAEL STIASSNY
CHAIRMAN

With adjusted EBITDA of $474.4 million, Vector has delivered at the top end of our market guidance of $460 million to $475 million. Shareholders will receive a fully-imputed final dividend of 8.0 cents, taking the full year dividend to 16.00 cents per share, up from 15.75 cents in 2016.

The Vector board and management team are proud to have delivered 11 consecutive years of dividend growth, noting that via our majority shareholder Entrust, these proceeds are largely distributed to the people of Auckland by way of the Entrust dividend.

We encourage you to read through these pages to learn more about the innovation, initiatives and attitude that Vector has employed to deliver this result.

After 11 years, you might assume that such results are to be expected: Vector provides an essential service, we have robust strategies and we are in good shape. In this vein, our focus on creating a new energy future based on disruption and sustainability could be considered a "nice to have". I strongly urge you to rethink that assumption.

Vector is a business under pressure through a combination of consumer trends, a low interest rate environment and regulatory settings. The downward movements in our regulated networks' financial results may be small, but they are noticeable: electricity connections may be up, but throughput is down; gas volumes are up, but prices are about to be reset down.

Despite net investment of over $700 million into our regulated networks over the past five years, our regulated adjusted EBITDA remains $30 million below what it was four years ago.

Don't make the mistake of dismissing these as one-off anomalies; they are trends. Vector's performance is – and will continue to be – impacted by changing energy consumption patterns. There is no room for complacency – the future is here.

For example, while the fundamentals of our Auckland energy networks remain strong, the growth in Auckland's population is not expected to translate into growth in regulated earnings for the next two to three years. That means Vector has to look to other sources to generate revenue to plug this gap.

So when Vector talks about embracing disruptive technologies or our commitment to the United Nations Sustainable Development Goals, we are not merely paying lip service to lofty ideals or indulging in green washing – these are essential to our very survival. Long-term dividend growth is untenable without a radically different business paradigm.

Therefore, innovative, sustainable and customer-focused initiatives are at the heart of our strategy for one reason only, they make good business sense.

"Therefore, innovative, sustainable and customer-focused initiatives are at the heart of our strategy for one reason only, they make good business sense."

Historical methods of electricity generation and delivery put generators, distributors and retailers firmly in the driver's seat, but no more: the transition from monopoly to energy democracy is well advanced and power is now shifting to the people. To reap the economic benefits of what have been described as "the four Ds of energy democracy" – distributed power, decentralisation, democracy from ownership and disruptive technology – Vector has to continue to forge a new path with customers at our heart.

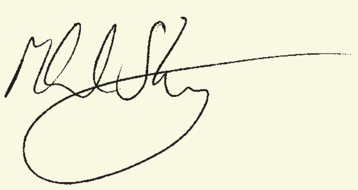
If we don't provide what they want, someone else will.

For Vector, there is no choice. We are already fully committed to unlocking greater value through the deployment of new technology targeted at energy production, storage, delivery, management and optimisation. We don't underestimate the fight on our hands, given others in the sector are determined to hang on to the past. As we have seen in the past year, they will use any means at their disposal – from regulatory lobbying to public campaigns – to protect their revenue streams. Fortunately, the opportunities from new energy solutions are significant, and Vector is well-positioned to capitalise – by fighting for what is right and in consumers' best interests.

We are already transforming how we support Auckland's growth, how we educate consumers to think about energy and how we future-proof our business to maximise value for shareholders.

And, we have a unique and vital competitive advantage – to a great extent our customers and shareholders are one. Successfully serving one, is inextricably linked to successfully delivering to the other. This single-minded focus is powering our future.

Looking forward to the 2018 financial year, we are targeting adjusted EBITDA at, or around, the FY17 result. ■



Michael Stiassny
Chairman

THE BALANCE OF POWER IS SHIFTING

A pleasing financial result is testimony to the hard work and commitment of all the teams across the multiple businesses that make up Vector, and to our investors for their faith in our ability to continue to generate competitive returns. Winning the Edison Electric Institute (EEI) award for best performing utility in Asia-Oceania shows that we are a top performer and I wish to take this opportunity to thank everyone at Vector for all they've done to make this win possible.

–

SIMON MACKENZIE
GROUP CHIEF EXECUTIVE

Group net profit from continuing operations rose 186.8% to $168.9 million from $58.9 million. The uplift was due to the $64 million impairment of the Gas Trading division in the prior year; growth in capital contributions; lower interest costs; and a one-off tax gain of $15 million following the Court of Appeal ruling in Vector's favour over the tax treatment of the sale of rights to use our Penrose to Hobson Street tunnel. Overall group net profit of $168.9 million was down 38.4% on the prior year result, which was boosted by the $164 million gain on sale of Vector Gas, offset by the impairment to Gas Trading.

Vector's balance sheet remains strong, with gearing as at 30 June 2017 at 47.1%, up from 43.7% a year ago and 43.9% at 31 December 2016. The $960 million proceeds of the sale of Vector Gas were initially applied to debt repayment, and are now being redeployed to support growth in our Auckland networks and across our unregulated portfolio.

Capital expenditure (capex) rose 13.9% to $367.4 million from $322.6 million. The increase in capital expenditure was driven by growth in Auckland, metering and expenditure associated with the OnGas Bottle Swap plant in South Auckland. Capex for the regulated business rose 4.8% to $210.6 million from $201.0 million. Capex for the unregulated businesses and corporate rose 28.9% to $156.8 million from $121.6 million.

This year, as we have continued to acquire new businesses and expand into new markets, we have once again shown that Vector is not a company to stand still. We are fundamentally committed to providing the best solutions we can for our customers, and we are unafraid to challenge traditional models in order to make that happen.

EDISON ELECTRIC INSTITUTE AWARDS://

Vector received an Edison Electric Institute Asia-Oceania Index Award for superior and sustained financial performance.

THE NEW ZEALAND WORKPLACE HEALTH AND SAFETY AWARDS://

Vector's OnGas business won the WorkSafe New Zealand Best Initiative to Address a Work-Related Health Risk Award.

2017 DELOITTE ENERGY EXCELLENCE AWARDS://

Vector's General Manager Gas Trading Brenda Talacek was a finalist in the Women in Energy category.

Vector's Kupe St collaboration with Ngāti Whātua Ōrākei was a finalist in the Community Initiative category.

Vector's Line Operating Standards were a finalist in the Health and Safety Initiative category.

RESPONSIBLE INVESTOR AWARDS EUROPE://

Vector was shortlisted for a Responsible Investor Award for Innovation and Industry Leadership alongside Deutsche Börse, DS Smith, London Stock Exchange Group PLC, ProCredit Holding, Tesla Inc., Thrive Renewables and Unilever.

From the battery contract we won in Alice Springs to the successful installation of smart meters in Australia, we've shown that our skills and solutions are not only internationally competitive but also timely as countries grapple with the challenges of rethinking their energy mix, decarbonising their economies and finding new ways to give consumers the control they now expect.

Our deliberate strategy to innovate with technology has seen us acquire businesses like PowerSmart, with its proven ability to deliver innovative and economic commercial solar/battery solutions, and E-Co Products Group which, through its HRV and EES brands, will help us deliver healthy and energy efficient solutions direct to consumers' homes.

It's seen us work with world-class innovators like Tesla, LG Chem, and mPrest to take the most exciting global thinking we can find and apply it, in lateral ways, to propel us forward. It's motivated us to introduce changes, big and small, right across our business — from app improvements to our vehicle-to-grid (V2G) initiative to mobile batteries — that will improve the lives of our customers at work, at home and in between.

Details of what we've done and how we have aligned ourselves to the United Nations Sustainable Development Goals are included in this report. I invite you to take the time to read more about what we've been doing and how we believe these changes and improvements are contributing to Vector being a better, more sustainable, customer-focused company.

The awards we've won this year are indicative of the high standards we hold ourselves to. Initiatives like working with lines that are de-energised where possible, and the ingenious solution that our OnGas team introduced to make a repetitive task safer and remove the danger of strain injuries show that we are unafraid to step up if we believe there are better and safer ways for things to be done.

This year, our leadership team engaged with the All Blacks Manager for Leadership and Mental Skills, Gilbert Enoka, to help us identify frameworks to continue to move the business forward. He talked about three things that hold companies back: mindset (they're used to thinking about themselves in particular ways); skill sets (their knowledge and capabilities are not up to the challenges that the business increasingly faces); and process issues (they find it hard to adjust to new needs operationally).

While we're pleased with the progress we're making in keeping skill sets current, and in streamlining our processes, one of the challenges we face is that in order to challenge existing models, we need to shift not just our own mindsets but also those of the sector and of our regulators. We're determined to enable customers to have energy choices, and that's not something others in the industry find easy. It also challenges regulators and policy makers because it requires rethinking parameters at the speed at which technology now moves. We have no problem with debate over ways forward, as long as the issues being raised are legitimate concerns.

As a business, we are determined to put customers first and to strive to make best use of our capital over the longer term across both our regulated and unregulated businesses. The search for sustainable answers isn't always easy, but when we get it right – and we have done that many times this year – it's immensely satisfying. ■

Simon Mackenzie
Group Chief Executive

BACKED BY EXPERIENCE

PROTECTING AUCKLAND'S INVESTMENT IN VECTOR://

FROM LEFT TO RIGHT

–

SEATED: PAUL HUTCHISON, KAREN SHERRY, AND MICHAEL BUCZKOWSKI (DEPUTY CHAIRMAN)

STANDING: WILLIAM CAIRNS (CHAIRMAN) AND JAMES CARMICHAEL.

ENTRUST IS VECTOR'S MAJORITY SHAREHOLDER.

Entrust oversees the people of Auckland's investment in Vector and is helping Vector to create a new energy future. It provides strong and consistent ownership that has allowed the company to navigate economic cycles, advances in technology and changes in customer behaviour to deliver shareholders and energy consumers the best outcomes.

About Entrust

Entrust, which was formerly known as the Auckland Energy Consumer Trust (AECT), was formed in 1993 as part of the corporatisation of the Auckland Electric Power Board (AEPB). Shares in the new company, which later became Vector, were transferred to Entrust to hold on behalf of residential and business consumers in the AEPB supply area.

Entrust's role

Entrust's mandate is to make sure its beneficiaries get value from the 75.1% stake it holds in Vector. There are approximately 320,000 households and businesses in the former AEPB supply area.

Entrust proposes, and alongside all other shareholders, appoints directors to the Vector board and approves all of Vector's major transactions. Two of Vector's directors are Entrust trustees.

Entrust is actively involved in regulatory and industry issues, advocating for Auckland energy consumers, and, by implication, all electricity consumers. A particular focus in recent times has been speaking out about a proposal to increase Auckland's transmission prices.

Using a fund set up at the time Vector acquired UnitedNetworks, Entrust has also supported the undergrounding of overhead lines in the Entrust district and promoting new technologies such as solar, batteries and electric vehicle charging infrastructure.

Auckland benefits

Vector's asset base, a key measure of the company's financial performance, has grown strongly since the AEPB's assets were first transferred to Entrust. Entrust has supported Vector to achieve this through diversification into new sectors like energy metering, gas distribution and new technologies.

Vector's growth has allowed Entrust to distribute more than $1.2 billion to its beneficiaries. In the last year alone it distributed more than $100 million.

Entrust trustees

Entrust has five trustees, who are elected every three years. The trustees are: William Cairns (Chairman), Michael Buczkowski (Deputy Chairman), James Carmichael*, Paul Hutchison and Karen Sherry*. ■

ENTRUST ONLINE://

www.entrustnz.co.nz
www.facebook.com/entrustnz
0508 ENTRUST (0508 368 7878)
PO Box 109626, Auckland 1149

* James Carmichael and Karen Sherry sit on the Vector board.

FOCUSING ON CONSUMERS.

OUR STRATEGY

01. → TECHNOLOGY://

–

02. → CONNECTIVITY://

–

03. → SUSTAINABILITY://

01.

FINDING THE BEST TECHNOLOGY FOR NEW ZEALANDERS

By sourcing new technologies from global innovators, Vector has successfully introduced new energy choices to New Zealanders. We continue to look for new technologies to add to our portfolio that deliver the best combinations of technological performance, innovation, sustainability and commercial viability.

Accessing Silicon Valley technology

We have been working with Tesla since that company's early development of stationary energy batteries. We have deployed its leading-edge battery technology at numerous sites across our network, from 395 Powerwalls in a range of residential, community and school settings to the 1 MW/2.3MWh Powerpack at the Glen Innes substation. We have also deployed a commercial solution using Tesla technology for Dominion Salt.

Partnering with global leaders

Tesla is one of a number of technology relationships that Vector has in place. We are also working with mPrest to streamline our systems, and with world-class technology company LG Chem to supply the battery technology for Territory Generation's 5MW battery project in Alice Springs. This deal is a beach head for Vector into the rapidly expanding utility and commercial battery market in Australia.

Together, these partnerships give us access to a global portfolio of products capable of catering to multiple vertical sectors.

Source

Brian Ryan
MBA (Hons), BTech
GROUP GENERAL MANAGER DEVELOPMENT

Introducing new energy technologies to New Zealand is about getting four things right: technology; innovation; sustainability; and of course commerciality.

Global innovation

To achieve technological performance, innovation, sustainability and commercial viability, Vector must combine bleeding edge, leading edge and proven technology in the projects we work on. Alongside our technology partnerships, we work with a number of not-for-profit innovation organisations to help us access new and exciting thinking that can change how we work.

Elemental Excelerator is a non-profit organisation with offices in Palo Alto and Hawaii that help later-stage startups commercialise their technologies with funding for demonstration projects. Elemental Excelerator has a portfolio of 53 promising startups, and 28 demonstration projects deployed across Hawaii and Asia-Pacific. Vector is a part of Elemental Excelerator's Global Advisory Board. We sit alongside some of the world's largest energy stakeholders, including the United States Department of Energy, United States Navy, TEPCO, First Philippine Holdings, Enel Green Power, and General Electric Ventures. In addition to peer-to-peer learning opportunities within this group, we are provided access to a pipeline of vetted companies that can change the way we provide value to our customers. For example, the mobile charging units that we are now starting to use to keep households connected while we are safely undertaking repairs came through this organisation. ■

DOMINION SALT://

INTEGRATING BATTERY STORAGE WITH WIND POWER

We have worked with Dominion Salt, a world-leading manufacturer and supplier of salt products, to integrate a Tesla Powerpack with their 660kW wind turbine at Lake Grassmere to deliver around 75% of the site's energy needs. It's another example of Vector developing an innovative customer solution.

Since 1942 Dominion Salt has been making pharmaceutical, food, agricultural and industrial grade salt for markets around the world. The company has long relied on sun and wind to evaporate water for salt production, but its long-term goal is to continue to adopt new technologies that minimise environmental impact and enhance manufacturing efficiency. In addition to wind energy, the company also uses co-generation from process heat.

The 250kW battery storage system will enable Dominion Salt to make the best use of its wind turbine and to store any excess generation. That means the company will need less peak energy and can rely on the Tesla Powerpack to smooth out the flow of energy generated and delivered by its wind turbine.

THE ENERGY SOLUTION WE HAVE DEVELOPED WITH DOMINION SALT WILL DELIVER A SIGNIFICANT PROPORTION OF THE SITE'S ENERGY NEEDS AND REQUIRE LESS PEAK ENERGY.

02.

CONTINUING TO CONNECT WITH CUSTOMERS

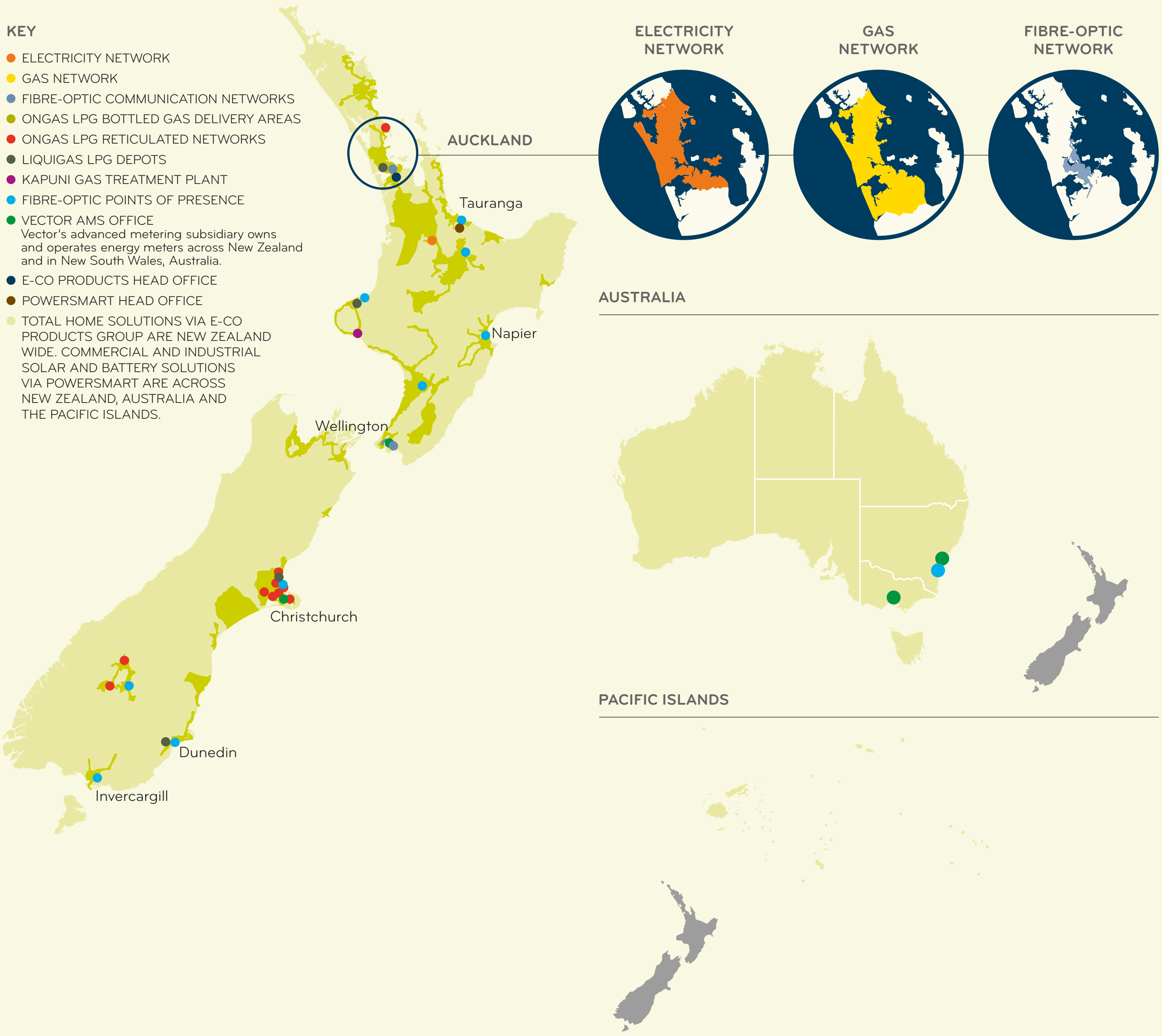
Vector is committed to building strong and authentic relationships with customers. This year we launched a range of initiatives to improve customer interactions and to bring us closer to communities.

Making inroads with outages

Our electricity, gas distribution and telecommunications networks were available more than 99.9% of the time over the past 12 months, including both planned and unplanned outages.

That said, one thing we did identify this year is that our communications around outages could be improved. Research showed that 81% of our customers would prefer us to email them rather than writing to them about planned outages. We now have email addresses for 76% of our retail customer base. That has saved the business $126,000 in postage costs and saved 4.5 tonnes of CO_2e.

We also improved our communications around unplanned outages. A customer lifestyle survey this year showed 73% of customers would prefer to be notified by text if there was



an unplanned outage. Where possible, we now text customers in areas affected by a full feeder outage to tell them what has happened. Customers can now receive a text within five minutes of the fault occurring. Doing this has cut calls to our contact centre significantly.

In April 2017 we updated our app to make it easier for customers to see current outages, planned and unplanned, and to report an outage to us. Some 70,000 customers have downloaded the app. These customers can now receive progress updates.

Finally, recognising that some people still prefer to deal with us face to face, we appointed two full-time community engagement managers to get out into the field and support residents and businesses during outages. Our goal in doing this is to minimise the number of complaints and/or lack of understanding from our customers over work in progress by doing our best to listen to them and provide answers.

Charging stations

The Electric Vehicle (EV) app we launched this year makes charging smarter, providing directions to EV chargers nationwide, making them easier for customers to find. The app offers a real-time update on the status of rapid chargers, and filters searches for charging stations by port type, type of charger and availability. We'll continue adding new stations to the app as they open.

New online connection service

In November 2016, we launched an online self-service portal to make it faster and easier to request a new electricity connection. As a result, customers can now request new network connections at their convenience rather than calling our contact centre. They can also create a login to track progress on multiple connection jobs. We have also reduced the average time to connect by an estimated two days.

Campaigns and social media

One in five power outages is caused by trees. This year, our Keep the Lights On campaign informed people about this and offered them a significant discount on tree trimming to keep their branches away from our network. The campaign ran through April and May using mainstream media and digital channels and reached more than 700,000 Aucklanders.

To support our new approach to working with lines that are de-energised where possible, we ran an advertising campaign to talk through why there would be increased outages on our network. Our 2017 Lifestyle survey shows that seven out of 10 customers support our approach in the name of safety.

We also introduced a new social media strategy which will enable us to listen and respond to what our customers are talking about. Since we launched our Facebook page, our content has been viewed by over 700,000 people. Our Twitter following has increased from 2,000 followers in March 2016 to more than 4,700 followers a year later. Our LinkedIn presence has also built a strong following. Over the last 12 months our content has been viewed over 58,500 times. These new and improved channels have meant new ways for customers to contact us, and for us to communicate with them.

Customer Advisory Board (CAB)

We continued to engage with consumers through our Customer Advisory Board. Last year, eight members out of the 12 from the original committee returned for another term. Since then, we have introduced two new members to the team. This year, we have involved the CAB in testing a number of products such as the new Vector website. We also asked them to contribute to our pricing survey.

Our successful schools programme

This year we continued to visit schools to teach students about sustainability and electricity safety to help them act responsibly around power lines. Thirty-six schools were visited during the year, and our team talked to 7,619 students.

Murals

We revitalised our mural programme to make it easier to seek permission to paint artwork on our assets to beautify communities. This year, three new murals were completed in Avondale, Kingsland and Ellerslie.

Auckland Council partnerships

In addition to the innovation partnerships we are undertaking to pursue our sustainability goals, we are also working with communities to encourage greater energy efficiency. Vector continues to work closely with Auckland Council on the challenges facing the region. This year, we entered into a multimillion-dollar partnership with the Council, with the support of Entrust.

In March Vector and Entrust, along with Auckland Council, launched the Energy Efficient Communities Project, which will deliver hot-water heat control units, LED lightbulbs and energy advice to homeowners in Papakura and Takanini. Local organisations, including schools and community facilities, will also receive a Tesla Powerwall.

In May 2017 we also announced that we would be lighting up the Auckland Harbour Bridge using permanent LED lighting powered by 630 solar panels and a large-scale 500kW/1MWh energy storage battery. The planning and installation of the lights is expected to take several months once council planning, consenting and NZ Transport Agency approval processes have been completed.

This year, Treescape, which is 50% owned by Vector, also won a contract for much of the Council's arboriculture work. ■

3 GOOD HEALTH AND WELL-BEING
7 AFFORDABLE AND CLEAN ENERGY
11 SUSTAINABLE CITIES AND COMMUNITIES

03.

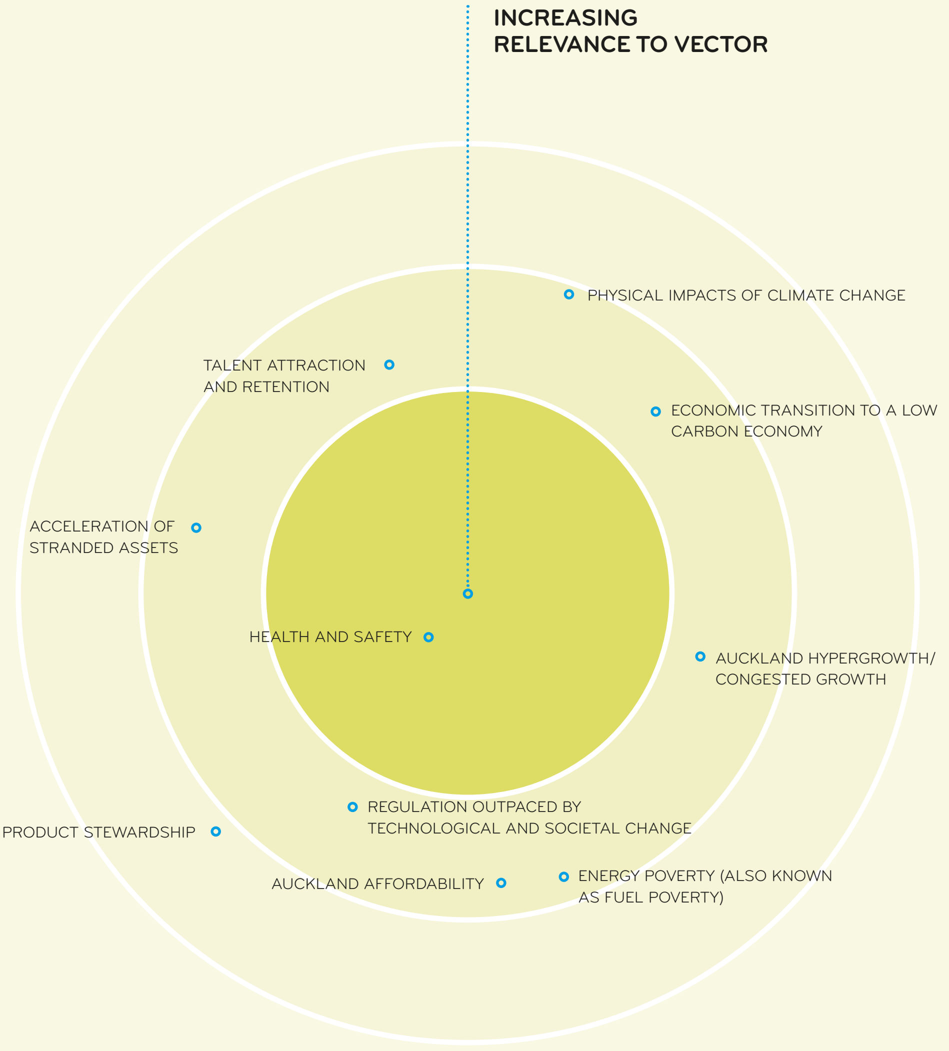
SETTING SUSTAINABLE GOALS

Sustainability lies at the heart of creating a new energy future. Meeting the needs of current generations without compromising the ability of future generations to meet their needs is about striking the right balance between the environment, society and the economy.

The last 12 months have seen a significant shift in the response to sustainability challenges, including ratification of the Paris Agreement by governments, commitment by leading businesses to the United Nations Sustainable Development Goals and increasing expectations from the financial market on Environmental, Social and Governance (ESG) disclosures.

Vector key sustainability risks

For our part, we have already identified a number of key risks and correlated opportunities that will drive the sustainability agenda for our business and stakeholders in the short to medium term.



Converge

Simon Mackenzie
Grad DipBS (Dist), DipFin, NZCE
GROUP CHIEF EXECUTIVE

"Our search for effective partnerships is not confined to energy. We work with people across the world who share our vision and bring unique complementary solutions."

We are taking a holistic view of all the aspects that we believe are likely to impact on the business. We think there are advantages in Vector understanding and responding early to these risks. Some risks we will be able to address directly. For others we will partner with local and international organisations to develop solutions to negotiate our way through these challenges.

Approach

To help manage both the risks and opportunities that we have identified, our board established a new sub-committee during FY17 to provide a governance focus on sustainability. Meanwhile, the business has identified several United Nations Sustainable Development Goals that we will actively pursue. We will also be expanding our ESG reporting. The inclusion of carbon reporting in this year's annual report is an example of this change.

We chose to pursue the United Nations Sustainable Development Goals for several reasons. First of all, they provide us with a global framework to align to, making it easier to explain our approach to sustainability in language that others will understand. Secondly, because the goals clearly establish the issues the world needs to address in order to become more sustainable, the goals create a common and consistent framework for collaboration. This enables us to have conversations with a range of business and government entities, opening up opportunities for relationships with non-traditional partners. Thirdly, we can see that pursuing these goals will improve our own business.

From a commercial point of view, committing to a sustainable approach will help us compete for a share of the burgeoning renewables market in New Zealand, Australia and the Pacific, thus protecting our long-term value for shareholders. Increasingly, sustainability is an important factor when competing for tenders and in competing for the right talent – responsible and future focused businesses are attractive. ■

OUR PRIORITY GOALS://

The business has agreed on seven key goals to focus on initially. Each goal can be referenced back to our overarching priorities of climate change and transition to a low carbon economy and/or inclusion and equality. Performance against these goals are underpinned by Sustainable Development Goal 17, 'Partnerships for the Goals', which recognises that achieving these goals requires partnership and collaboration.

Ensure healthy lives and promote well-being for all at all ages

Enabling access to affordable energy and healthy homes will help to reduce health issues associated with cold and damp homes.

Make cities inclusive, safe, resilient and sustainable

Holistic goal that aligns well to Auckland's ambitions – resilience, energy efficiency and affordable housing.

Ensure access to affordable, reliable, sustainable and modern energy for all

Disruption of the current energy model will result in increased renewable energy while creating opportunities for new models to lower costs for all.

Take urgent actions to combat climate change and its impacts

The transition to a low carbon economy will require commitment from the energy sector. With an extensive network of assets the business is also exposed to the physical risks of climate change. Both of these require a business response.

Build resilient infrastructure, promote sustainable industrialisation and foster innovation

Creates an opportunity to incorporate sustainable thinking and build resilience into network development. It also acknowledges the importance of the existing network while fostering the innovation that will drive the future.

Revitalise the global partnership for sustainable development

Collaboration with other businesses, government and other organisations is a key foundation for achieving the goals. Vector will continue to develop partnerships within New Zealand and globally.

Reduce inequality within and among countries

Inequality is a key emerging issue for New Zealand. Viewed in the wider sense this means access to technology, education and opportunities.

On 25 September 2015, United Nations member countries adopted a set of goals to end poverty, protect the planet and ensure prosperity for all as part of a new sustainable development agenda.

We also recognise that for New Zealand and the other countries in which we operate, there are a range of important social and environmental issues that are not covered by these Sustainable Development Goals. Over time we will be challenging ourselves on how we can contribute positively to these. By 2030 we intend to be making progress against the wider set of goals.

Taking a leadership role in sustainability will mean taking strong positions on issues that are of importance to the business and our stakeholders. Our stance on working with lines that, where possible, are de-energised is an example of an area where we have prioritised the safety of our workers over the penalties we may incur from missing targets.

But we also recognise that addressing some of the more significant sustainability challenges will require innovative and potentially disruptive solutions. To work with us in this process we are partnering with Forum for the Future, an organisation that has vast international experience in transforming both individual businesses and whole industries to create a sustainable and equitable future. ■

REGULATED NETWORKS

Revenue for our Regulated Networks business increased 2.2% to $741.9 million from $726.2 million the year before. This was largely driven by an increase in capital contributions – up 25.2% to $61.2 million – reflecting continued connection growth and significant infrastructure development taking place across Auckland.

Excluding capital contributions, revenue was effectively flat, with growth in connections and gas volumes largely offset by declining electricity consumption. New electricity connections rose 7.2% to 9,138 from 8,526. New gas connections rose 5.8% to 3,515 from 3,323. Total connections to the electricity network stood at 555,100 at year end, up 0.9% from 550,053 a year ago. Total gas connections were 106,670, up 2.3% from 104,322 a year ago.

Despite the increase in connections, volumes transported across the electricity network fell 0.5% to 8,332GWh from 8,372GWh due to ongoing declines in household electricity consumption and the partial closure of a large commercial customer. Auckland gas distribution network volumes were 14.3PJ, up 2.9% from 13.9PJ the previous year, due largely to connection growth.

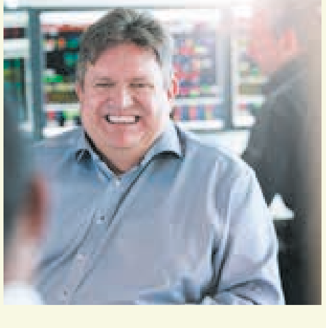
Adjusted EBITDA (which excludes capital contributions) fell 2.0% on the prior year to $361.2 million from $368.5 million on the back of flat revenue, higher maintenance costs and one-off items.

Our Regulated Asset Base (RAB) now stands at $3.3 billion. The electricity RAB amounts to $2.9 billion and the Auckland gas distribution RAB is around $390 million.

In May 2017, the Commerce Commission released its final decision on the default price-quality path for the gas distribution business. This decision is the primary reason average gas distribution prices will reduce by around 14% from 1 October 2017. The impact of this on next year's EBITDA result is expected to be around $6 million. The main drivers of the decrease in our regulated revenue allowance in the Commerce Commission's decision were lower interest rates, lower operating expenditure allowances, and tightening regulatory parameters with a move to P67 WACC (from P75) and a lower asset beta.

In 2014-2015 the assumptions we made around customers being placed by their electricity retailer on the most suitable lines charge plan did not eventuate. As a result, we unintentionally earnt more than allowed by the Commerce Commission. We've been working extensively with the Commerce Commission to find the best solution for consumers, and we will return $13.9 million to Auckland consumers by reducing the amount of revenue we recover over two regulatory years, starting in April 2018. In FY18, Vector's electricity revenues (and EBITDA) will be $0.9 million lower than they would otherwise have been, with the remainder of the reductions in revenues and EBITDA to be spread across FY19 and FY20. The $13.9 million to be returned to consumers includes accumulated interest of $3.8 million.

Meanwhile assumptions made by the Commerce Commission in setting our regulated revenues also continue to prove challenging. In particular, errors in the Commerce Commission's electricity growth forecasts have contributed to Vector under-recovering by more than $60 million over the past five years. Furthermore, the regulator's persistent over-forecasting of revaluation rates has resulted in Vector missing out on additional revenue of over $130 million over the same period.



Andre Botha
BEng, MEng, PG DipBus
CHIEF NETWORKS OFFICER

The days of building network capacity around small windows of peak demand are coming to a close. We're using integration to redesign that model.

Connect

OUR DECISION TO PUT SAFETY FIRST://

Sometimes leadership is about making unpopular decisions but for the right reasons. Our commitment to keeping our people safe has challenged tradition in the interests of safety.

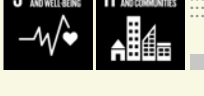
For decades, network workers have undertaken repairs and upgrades on lines that are energised. The thinking was always that the work could be done within acceptable risk standards and that keeping the power on was best for the customer. But the lead up to, and passing of, new health and safety legislation in 2015 saw us reconsidering what it meant to keep people safe in this day and age. It led us to a New Zealand first: the decision to turn off power, wherever possible, whenever we are working on the lines, first with our high voltage network and then, a year later, with our low voltage network as well.

Today, our line mechanics start every job knowing that in most circumstances work will be done de-energised. Yet making this change happen was no simple procedural switch. In fact, shifting such an entrenched way of working meant fundamentally changing not just how our own people were used to working but also our internal safety systems and processes. To ensure we got it right, we considered safety procedures in Australia and the UK, worked closely with our staff and with our field service providers Northpower and Electrix, rewrote major systems and policies and created a risk assessment matrix that has an automated scoring system heavily weighted towards health and safety to ensure consistent decision-making.

–
LINE MECHANIC WORKING ON DE-ENERGISED HIGH VOLTAGE LINES.

Now, live-line work only accounts for a fraction of what it used to. The decision hasn't been without commercial consequences — or pushback. We received a lot of resistance from other utilities over the decision, and inevitably our customers will experience more outages. We have incurred, and will continue to incur, direct costs as a result of breaching agreed quality targets as well as missing out on incentive payments. The switching required to work this way has also meant costs have increased, jobs take longer and there is more wear and tear on equipment. But the balance for us is that our people are now working in safer working conditions and we believe this was necessary for ourselves and as a signal to others. We are currently discussing all of this with the Commerce Commission.

It's encouraging to see the Electricity Engineers Association has since issued a new guideline that categorises high voltage overhead work as a "substantial hazard". Our view is that regulators now need to recognise and adjust for the flow-on implications for our performance targets and cost structures, both of which are based on historic data and practices. ■



GAS TRADING

Revenue for the Gas Trading division increased 1.7% to $281.8 million from $277.1 million a year earlier. This is on the back of higher natural gas volumes, up 6.6% to 17.8PJ from 16.7PJ in the prior year. Volumes from the Kapuni field, however, continued to decline, down 23% to 8.4PJ.

Despite an increase in volumes, our natural gas operations were impacted by lower margins as a result of strong competition in the market and by lower production and processing fees at the Kapuni Gas Treatment Plant.

Vector's LPG operations continue to occupy a strong market position. Bottle Swap nine kilogram volumes were up 9.9% to 604,391 bottles from 549,998 a year earlier. The new bottling facility in South Auckland is expected to be operational for our summer peak this year and will help drive efficiencies and enable further growth in our Bottle Swap operations.

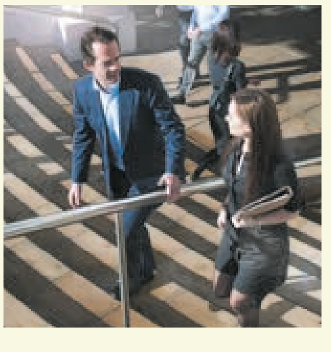
LPG tolling volumes were down 2.1% to 169,046 tonnes from 172,695 tonnes a year earlier, driven by lower export volumes as lower international prices for LPG made exports less attractive.

Gas Trading adjusted EBITDA fell 9.1% to $36.9 million from $40.6 million a year earlier. This result includes a one-off insurance settlement of $5.3 million in relation to damage to the Liquigas facilities at Lyttelton in the 2012 earthquake.

As previously disclosed, Vector received an arbitral award in its favour regarding the price and terms for the next tranche of Kapuni gas which we have been taking since 2013. On 31 May 2017, Vector announced that the High Court had denied Todd and Shell a right to appeal this judgment. They have now applied to have aspects of the High Court's judgment recalled and, alternatively, sought leave to appeal this decision to the Court of Appeal. We will oppose this application.

During the year, Shell and Todd agreed a transaction that saw Todd assume 100% ownership and operation of the Kapuni field on 1 August 2017. ■

Adjust



Dan Molloy
BSc
CHIEF FINANCIAL OFFICER

"Growth for Vector is about striking the right balance between delivering what's expected from our regulated assets and exploring unregulated adjacent opportunities."

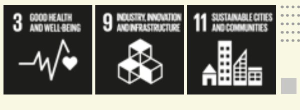
ONGAS: FILLING A NEED IN THE MARKET AND THE COMMUNITY://

The opening of our new Papakura gas bottling plant will bring new efficiencies to the business and new jobs to the community.

Vector OnGas currently refills and refurbishes more than 600,000 nine-kilogram gas bottles a year, but the existing process is cumbersome, with much of it outsourced and each bottle handled up to 21 times. The new plant will enable semi-automated refilling and refurbishment of the popular nine-kilogram bottles, reduce handling by up to 80% and increase capacity to 1 million bottles per year. The new plant will also set a new standard for health and safety for bottle fills in New Zealand.

Demand for bottled gas continues to increase, but the opportunities to fill-your-own are diminishing as service stations take bulk tanks out of the ground in the light of changes to New Zealand's health and safety regime. Our new plant will help meet that shortfall. Swapping is safer and more convenient than other practices and Vector OnGas is a significant player, with a distribution channel of 274 retailers nationwide covering 875 retail outlets.

The new bottling plant will not only help meet this change in consumer behaviour, it will also bring new jobs to the community. Vector is currently hiring people locally and training them to operate the machinery. It's a huge opportunity to bring people with no formal skills into the business and give them the means to earn more than a living wage and build careers. ■



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THE NEW PLANT WILL INCREASE FILLING CAPACITY TO 1 MILLION BOTTLES PER YEAR AND SET A NEW STANDARD FOR HEALTH AND SAFETY FOR BOTTLE FILLS IN NEW ZEALAND.

TECHNOLOGY

Technology division revenue rose 18.8% to $214.0 million from $180.1 million a year earlier, driven largely by increased deployment of smart meters in New Zealand and Australia and the acquisition of E-Co Products Group and PowerSmart from 31 March 2017. Technology adjusted EBITDA rose 7.9% to $122.5 million from $113.5 million, with gains from the smart meter roll-out and acquisitions diluted by continued business development expenditure associated with establishing the new energy solutions and Australian metering operations.

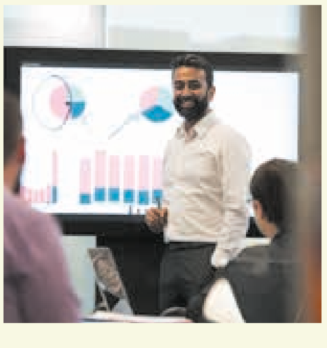
This year we installed almost 145,000 advanced meters in New Zealand and over 24,200 advanced meters in Australia. Our smart meter base grew 13.7% to 1.28 million (including 102,808 meters which are managed, but not owned, by Vector) from 1.13 million the year before. Vector is now reaching the end of its smart meter roll-out in New Zealand, and we are targeting a reduced deployment of around 80,000 to 100,000 meters over the next 12 months. After that, the focus in New Zealand will shift to managing the existing electricity meter fleet and installing new and replacement meters as required.

We are targeting Australia to deliver the next phase of growth for the metering business. The Power of Choice reforms take effect from 1 December 2017, at which point metering will become competitive across New South Wales, Queensland and South Australia. Vector is currently involved in competitive procurement processes with major Australian retailers with a view to securing contracts for deployment from 1 December 2017.

Meanwhile, Vector Communications has delivered an improved result. The company continues to provide high-end telecommunications solutions to customers.

Our Technology division also includes Vector's nascent new energy solutions business. The business development expenditure we have committed in this area over the past two years is now starting to bear fruit, as evidenced by Vector winning a multimillion-dollar contract to supply the Northern Territory with a 5MW grid-tied battery storage solution. Vector will be responsible for the design, engineering, construction, and installation of the system and once commissioned, we will also be responsible for ongoing maintenance. Another example is our pioneering work with Dominion Salt where we integrated a Tesla Powerpack with their 660kW wind turbine at Lake Grassmere to deliver around 75% of the site's energy needs.

Our new energy solutions business was strengthened this year by the acquisition of E-Co Products Group and PowerSmart. Together these businesses contributed $0.9 million in EBITDA for the period 1 April to 30 June 2017. ■



Unleash

Nikhil Ravishankar
BSc BComm (Hons)
CHIEF DIGITAL OFFICER

"Emerging technologies, multi-directional power flows, heterogeneous generation and storage, robotics and artificial intelligence will change the dynamics of energy dramatically."

EXPORTING OUR EXPERTISE://

We're working with Northern Territory Government owned electricity company Territory Generation to supply a grid-tied lithium ion battery storage solution. It's a specific example of Vector leveraging our strategy to lead new energy thinking.

The 5MW battery solution will stabilise and enhance utilisation of solar generation on the Alice Springs electricity network.

Alice Springs has a high penetration of solar energy which can result in a highly variable load profile. Solar generation peaks mid-afternoon, which does not necessarily coincide with peak demand. Solar energy is also intermittent, especially during cloud cover. The new battery will help Territory Generation deliver more reliable power by smoothing the solar on the network, assisting with management of major contingency events and reducing peak demands, particularly during summer.

The battery itself will be a leading edge, innovative containerised solution. Designed for harsh conditions, the unit includes air conditioning and dust resistance. Vector will be responsible for the design, engineering, construction, and installation of the system and its ongoing maintenance.

This battery, and Vector's installation at Glen Innes are currently among the largest grid-tied battery storage projects in Australasia. Together, they have changed the game for us in Australasia by proving we can partner with the best in the world and introduce innovations that allow us to deliver against competitive bids from global players. But just as importantly, they prove that grid-tied batteries like these can be used in a variety of situations, each of which represents completely different challenges.

The speed with which a containerised solution like this can be built, and the flexibility of the technology, gives us confidence we can look to offer more flexible and faster deployment across a full range of environments. Once again, Vector is set to deliver a sustainable energy solution that will address the specific challenges of a network and, in doing so, help people to live more comfortable lives. ■

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THE 5MW BATTERY SOLUTION IS A LEADING EDGE CONTAINERISED SOLUTION THAT WILL HELP TERRITORY GENERATION DELIVER MORE RELIABLE POWER ON THE ALICE SPRINGS ELECTRICITY NETWORK.

PEOPLE, SAFETY & RISK

Vector values diversity and inclusion. Our goal is to provide a safe and inspiring place to work that people enjoy being part of and that provides them with opportunities to develop their skills and achieve their potential. We recognise that the most powerful way that we can prepare for the changes that lie ahead for this business is to continue to adapt how we think and work as teams. To that end, this year we continued to push forward with an ambitious programme to broaden our demographic and cultural base, develop leaders, increase health, safety and well-being, and implement our environmental strategy.

DIVERSITY AND INCLUSION

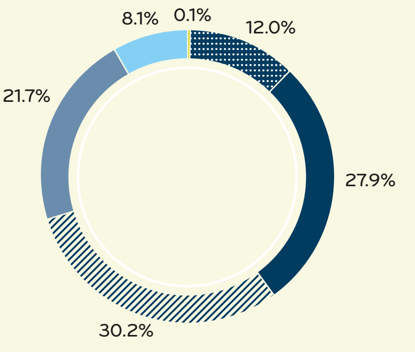
The number of employees in the 20 to 29 age bracket has had the largest movement (as a total percentage of employees), increasing by 3% when compared to 2016. This reflects the impact of our internship and graduate programmes.

Due to the reclassification of the European ethnicity category by Statistics NZ, Vector can now differentiate more effectively between New Zealand European and European employees. Compared with 2016, employees who identify as European increased 30% to 43%, whereas those identifying as New Zealand European decreased by 24%.

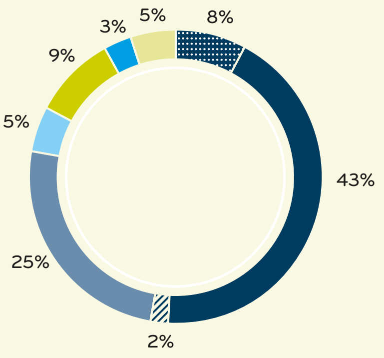
In New Zealand, Māori make up 15% of the population, and Pasifika make up 7%. Although under-represented at Vector compared with the New Zealand population, we have seen a 1% increase for both Māori and Pasifika groups, to 5% and 3% respectively during FY17. In addition, the number of employees who chose "unknown" as their ethnicity has decreased by 13% compared with 2016.

The total percentage of females in the workforce has decreased by 1% during FY17. The percentage of females in leadership roles has also decreased from 26% in FY16 to 22% during the same time frame. We commenced a women in leadership programme during FY17 to support women in our business to continue to grow their leadership capabilities, and to expand our future pipeline of women leaders. Refer to page 55 for more information on the programme.

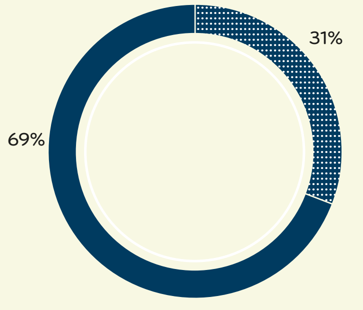
VECTOR EMPLOYEES BY AGE



VECTOR EMPLOYEES BY ETHNICITY



VECTOR EMPLOYEES BY GENDER



This data excludes statistics from our newly acquired businesses, PowerSmart NZ Limited and E-Co Products Group Limited, which were acquired on 31 March 2017.

* Middle Eastern, Latin American, and African

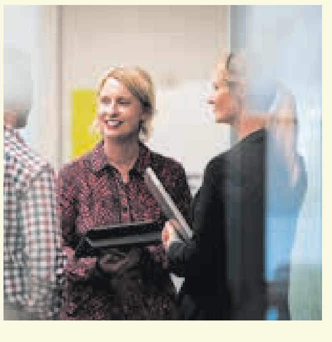
VECTOR LEADERSHIP GROUP BY GENDER

VECTOR GENDER BREAKDOWN	MALE 2017	FEMALE 2017	MALE 2016	FEMALE 2016
Directors	5 (71%)	2 (29%)	6 (75%)	2 (25%)
Executive team	5 (83%)	1 (17%)	5 (83%)	1 (17%)
Direct reports to the executive team	30 (79%)	8 (21%)	17 (71%)	7 (29%)
Across Vector Group	548 (69%)	244 (31%)	534 (68%)	249 (32%)

VECTOR EMPLOYEES BY AGE AND GENDER

AGE	MALE	FEMALE	GRAND TOTAL
Under 20	1		**1**
20 – 24	14	7	**21**
25 – 29	42	31	**73**
30 – 34	74	39	**113**
35 – 39	76	35	**111**
40 – 44	87	39	**126**
45 – 49	79	36	**115**
50 – 54	72	32	**104**
55 – 59	50	18	**68**
60+	53	7	**60**
GRAND TOTAL	**548**	**244**	**792**

This data excludes statistics from our newly acquired businesses, PowerSmart NZ Limited and E-Co Products Group Limited, which were acquired on 31 March 2017.



Kate Beddoe
BA, LLB
CHIEF RISK OFFICER

“We have no option but to disrupt our business model. Our sustainability strategy cannot be separated from our business strategy.”

Sustain

Diversity and inclusion initiatives

Workshops on inclusive leadership, which included awareness of unconscious biases, were undertaken by 128 of our people leaders, including our board and executive team.

Dr Harold Hillman presented a speaker series throughout the regions, where he shared his personal experiences of living an inauthentic life as a closeted gay military officer. An extension of Dr Hillman's sessions was authentic leadership workshops where he translated the key messages for a leadership context. Thirty-five of our leaders took part in these training sessions.

Executive team member Nikhil Ravishankar along with two external speakers, Te Aroha Morehu, Ngāti Whātua Ōrākei, and Laulu Mac Leauanae, relayed personal stories to demonstrate the importance of cultural intelligence in promoting deeper understanding of diversity and inclusion within business.

Complementing our diversity and inclusion initiatives to promote awareness, all our employees complete an e-learning module on diversity and inclusion. Vector is also an active supporter and participant in the Institute of Directors Future Directors and Mentoring for Diversity programmes.

RAINBOW TICK://

This year Vector received the Rainbow Tick, a certification given to New Zealand companies to show they understand, value and welcome sexual and gender diversity.

To help us achieve Rainbow Tick certification, we asked focus groups drawn from across the business whether our employment and business processes aligned with the needs of the wider Rainbow community, including those who identify as lesbian, gay, transgender, intersex or questioning. Working closely with the Rainbow Tick organisation, we made some revisions to the language we use in some of our policies, including our Diversity and Inclusion Policy, our Shareholder Relations Policy and our Parental Leave Policy.

Achieving Rainbow Tick certification was celebrated across all of our sites and followed by awareness roadshows continuing our diversity and inclusion dialogue. We also made an announcement to the NZX. In February 2017 Vector staff also participated for the first time in Auckland's Pride Parade Festival, as a public demonstration of our support for the Rainbow community. These are further examples of our commitment to creating an inspiring workplace by encouraging and embracing diversity and inclusion. They follow on from Vector winning both the Supreme award and Tomorrow's Workforce award at the 2015 Diversity Awards.

It's important to us that all our people feel confident sharing their insights, ideas and experiences freely at work each day. Providing a safe and inclusive environment will enable us to attract diverse talent and boost productivity and engagement.

RAINBOW TICK

10 REDUCED INEQUALITIES

LEARNING AND DEVELOPMENT

Foundations of leadership

Our first-time and emerging leader programme continues to go from strength to strength, with 30 of our new leaders now through the programme. Feedback has been consistent, with participants strongly agreeing that the workshops provided them with new skills and capabilities to be more effective leaders within our business.

"It has made me realise that it is okay not to have all the answers, that I am bound to make mistakes and that I'm at the beginning of my leadership journey, but that I have a lot of people travelling with me who are sharing the experience, that we all have tremendous support from the business and the people around us – our teams, peers and managers." Nadia Botha, participant.

Women in Leadership

Our Women in Leadership programme aims to empower our female employees who are in, or aspire to be in, leadership positions. Its launch coincided with International Women's Day and attracted a great response in applications. Sponsored by executive team members and with support from our board, Group Chief Executive and senior leaders, who shared their thoughts and experiences of leadership on the first day, the programme involves 20 women from across the organisation who have formed teams to work on Vector business projects.

"The programme has given me the opportunity to analyse my career and aspirations at a level that I've never done before, turning a switch in my mind where I am now thinking about where I want to be and what I need to do to get there." Frances Bates, participant.

Cultural leadership programmes

Our inaugural Growing Pasifika Niu Leaders programme was developed in 2017, an initiative which brings together participants from Vector and other organisations. The programme, sponsored by Vector executive team members Kate Beddoe and Nikhil Ravishankar, aims to provide Pasifika people who are leaders in business or their community an opportunity to explore and develop their leadership potential through the lens of a shared Pasifika heritage.

"I have always had a goal to be a role model to other young aspiring Pasifika. Growing up, there were not many cultural icons that I could personally relate to. I feel the more Pasifika leaders we have, the better." Tom Kavaliku, participant.

7,271

Hours of training completed

8.85

Average number of training hours per employee

244

Number of participants in leadership training

HEALTH & SAFETY

FY17 was the first year that Vector has run a concentrated and dedicated well-being programme. Vector workers have been able to take part in monthly well-being challenges, attend sessions with guest speakers on topics around health and well-being, get access to discounted mole checks and take part in the Well-being 360 self-assessment that provides staff with detailed reports of their own health and well-being. One of our biggest successes was the increase in participation for this survey – from 57% participation rate in FY16 to 71% in FY17.

Our well-being programme is also underpinned by a range of occupational health services and health monitoring.

Health, Safety and Environment (HSE) leadership engagements are a vital part of building on our HSE culture because they allow senior management to interact and engage with the wider workforce and have strong HSE conversations. Over 280 leadership activities took place over FY17 – including site visits, discussions with contractors, participation in health, safety and environmental committee activities, safe act reinforcement observations, and office floor walks with health and safety representatives.

Ensuring we have competent and trained workers is key to our ability to deliver our services and products safely and efficiently.

Our workers completed over 2,688 hours in HSE-specific training during FY17, covering topics such as HSE leadership, asbestos management, environmental awareness, confined space and work at height training.

Vector's HSE performance is measured using a number of indicators. These include Lost Time Injury Frequency Rate (LTIFR) and Total Recordable Injury Frequency Rate (TRIFR). The severity of lost-time incidents is then measured by tracking and counting the number of working days lost due to the injury. Vector consolidates all contractor and direct employee safety statistics to provide a holistic picture of safety performance across our total business. We have made a 15% improvement in our LTIFR over FY16. While our TRIFR has increased slightly this year (by 2%), we remain optimistic of achieving our longer-term TRIFR goal of 5.59, which will contribute to WorkSafe's 2020 goal to reduce the number of injuries and deaths in New Zealand by at least 25%. While it's important to continue to track these lag indicators, our efforts are concentrated on a broad range of lead indicators including HSE leadership engagements, health, safety and environmental training, participation in health and well-being activities, and health and safety committee activity. These measure proactive activities which prevent incidents occurring.

0

Public safety incidents involving serious harm

AS/NZS
4801

Certification achieved for New Zealand and Australia business

281

HSE leadership engagements undertaken

4,027

Students attended Stay Safe around Electricity schools programme

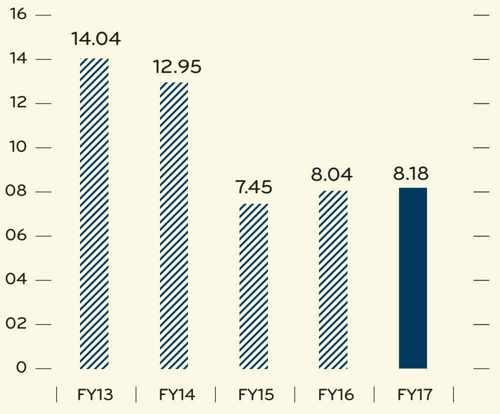
2,688

HSE training hours completed

Vector RAW
Personal RESILIENCE AND WELLBEING PROGRAMME

TOTAL RECORDABLE INJURY FREQUENCY RATE

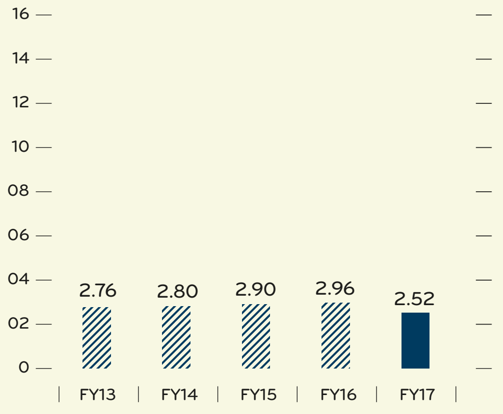
Number of recordable cases per million hours worked including contractors



TRIFR – COMBINED

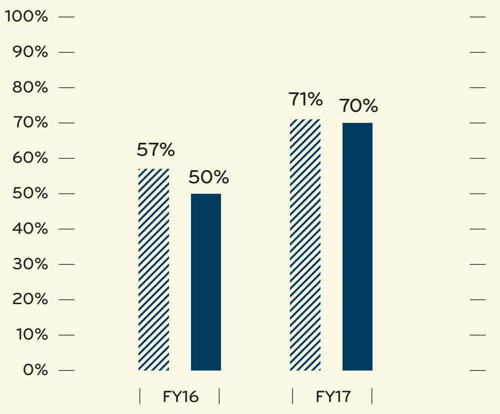
LOST TIME INJURY FREQUENCY RATE

Number of lost-time injuries per million hours worked including contractors



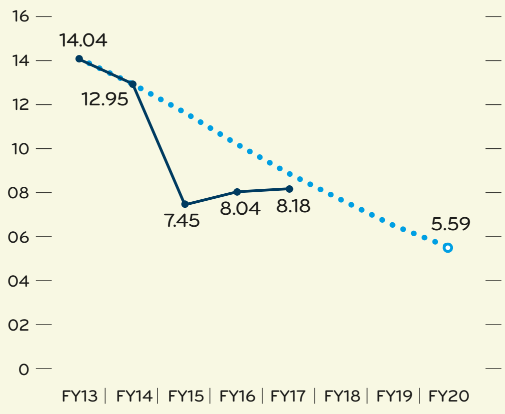
LTIFR – COMBINED

WELL-BEING 360 PARTICIPANTS (%)



ACTUAL AMOUNT TARGET AMOUNT

TOTAL RECORDABLE INJURY FREQUENCY RATE REDUCTION MODEL



TRAJECTORY NEEDED TO MEET WORKSAFE TARGET
TRIFR – ACTUAL

This data excludes statistics from our newly acquired businesses, PowerSmart NZ Limited and E-Co Products Group Limited, which were acquired on 31 March 2017.

A GREAT IDEA SOLVES SAFETY ISSUE

Across New Zealand, OnGas fills over 600,000 LPG cylinder bottles every year and before filling, each bottle is leak-tested via the industry standard method of applying soap solution from a spray bottle activated by squeezing the trigger. As you can imagine that's a lot of squeezing every day for the 60 fillers and driver/fillers, potentially causing soft tissue injuries to hands, wrists, forearms right up to the shoulder and neck.

Napier health and safety representative Nakia Holland had a great idea to adapt the overhead pneumatic teat sprayers he'd used in the dairy industry so that a similar tool could be used to leak-test the LPG cylinders. A prototype was quickly developed and tested at the Palmerston North depot before being refined and rolled out across all 10 other depots up and down New Zealand.

Since then, there have been no further reports of pain and discomfort relating to hands, wrists, or elbows in the OnGas LPG filling teams.

"It does give me a bit of satisfaction to know something I did is helping the whole country," Nakia said.

Nakia's idea received the Workplace Best Initiative to Address a Health Risk Award.

3 GOOD HEALTH AND WELL-BEING

Won

PHOTO CREDIT
MICHAEL SCHULTZ
PHOTOGRAPHY

Nakia Holland introduced an idea that received the WorkSafe New Zealand Best Initiative to Address a Work-Related Health Risk Award.

ENVIRONMENT

Following the completion of environmental risk assessments across our business units in 2016, Vector's executive leadership team endorsed a three-year Environmental Strategy. We successfully completed the first milestones of this strategy, including achieving ISO14001 certification of our environmental management system and completing a reassessment of our carbon footprint. We also outperformed our target for completion of environmental improvement plan actions.

For the FY17 year we have focused on scope 1 and 2 emissions, being our direct emissions and indirect emissions from the use of energy, including electricity and steam. The majority of our emissions emanate from our Kapuni Gas Treatment Plant. We are currently investigating a range of new technologies to support planned reduction initiatives. We are also using an environmental reporting system (BraveGen) to support the management of our carbon and other environmental data. During FY18 we will continue to compile data relevant to our indirect scope 3 emissions, establish carbon reduction targets and continue to mature our environmental reporting.

From July 2016 to June 2017, Vector enabled 22,701 rapid electric vehicle charging sessions and delivered 180.6MWh of electricity to EV users. This amount of electricity would allow a Nissan Leaf to drive 1,039,317km, saving 195,641 kg of CO_2e emissions compared with using a petrol-powered vehicle.

Limited assurance has been provided over our scope 1 and 2 emissions inventory by Ernst & Young New Zealand Limited. Refer to page 60.

CARBON BASELINE

Scope 1:
340,176 tCO_2e*

Scope 2:
31,597 tCO_2e*

CARBON AVOIDED THROUGH

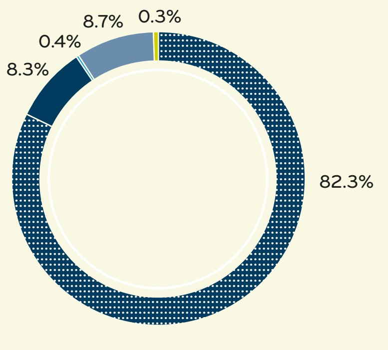
EV Chargers:
195,641 kg CO_2e*

TARGET
66%

ACHIEVED
85%

Of environmental improvement plan actions completed

TOP 5 EMISSION SOURCES



- KAPUNI GAS TREATMENT PLANT – GAS PROCESSING (tCO_2e)
- VECTOR LIMITED – ELECTRICITY – TRANSMISSION & DISTRIBUTION LOSSES (KWH)
- ONGAS NEW ZEALAND – DIESEL (L)
- VECTOR LIMITED – NATURAL GAS – FUGITIVE EMISSIONS (GJ)
- NETWORKS – DIESEL (L)

ISO
14001

Certification achieved for New Zealand and Australia business

3,592

Students attended sustainability schools programme

* 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 our newly acquired businesses, PowerSmart NZ Limited and E-Co Products Group Limited, which were acquired on 31 March 2017.

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Independent limited assurance report in relation to Vector Limited's scope 1 and scope 2 greenhouse gas emissions inventory for the year ended 30 June 2017

To the Directors of Vector Limited ('Vector'),

We have carried out a limited assurance engagement in order to state that nothing has come to our attention that causes us to believe that Vector's Scope 1 and 2 greenhouse gas ("GHG") emissions inventory ("GHG inventory") for the year ended 30 June 2017 on page 59 of Vector's Annual Report, has not been reported, in all material respects, in accordance with the criteria.

Our assurance did not include the GHG emissions from the activities under the operational control of PowerSmart NZ Limited and E-Co Products Group Limited.

Criteria

The following criteria have been applied to the subject matter described above:

- Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard
- New Zealand Ministry for the Environment: Guidance for Voluntary Corporate Greenhouse Gas Reporting 2016 (together 'the criteria').

The responsibility of management

The Management of Vector is responsible for the preparation and presentation of the GHG inventory in accordance with the above criteria, and is also responsible for the selection of methods used in the criteria. No conclusion is expressed as to whether the selected methods used are appropriate for the purpose described above. Further, Vector's management is responsible for establishing and maintaining internal controls relevant to the preparation and presentation of the GHG inventory that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate criteria; maintaining adequate records and making estimates that are reasonable in the circumstances.

Ernst & Young Limited's responsibilities

Ernst & Young Limited's ('Ernst & Young') responsibility is to express a limited assurance conclusion in accordance with International Standard on Assurance Engagements (New Zealand) 3000 (Revised) Assurance Engagements Other Than Audits or Review of Historical Financial Information ('ISAE (NZ) 3000') issued by the External Reporting Board of New Zealand.

Basis of our statement

ISAE (NZ) 3000 requires that we comply with the professional and ethical standards issued by the External Reporting Board of New Zealand, and to plan and perform our engagement to provide limited assurance in order to state that nothing has come to our attention that causes us to believe that the GHG inventory has not been reported, in all material respects, in accordance with the criteria.

A limited assurance engagement includes making enquiries and performing analytical procedures and the nature, timing and extent is less than would be undertaken for a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. The procedures performed depend on our judgement including the risk of material misstatement of the GHG inventory, whether due to fraud or error. In developing our understanding of the subject matter we developed an understanding of management's internal controls over the preparation of the GHG inventory in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing a conclusion as to the effectiveness of Vector's internal control over the preparation of the GHG inventory.

Our procedures did not include testing controls or performing procedures relating to checking aggregation or calculation of data within IT systems, which would have been performed under a reasonable assurance engagement.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our limited assurance conclusion.

Building a better working world

Work performed

In order to form our conclusions we undertook the following limited assurance procedures:

- Gained an understanding of the GHG emission reporting process supporting the business activities, through conducting interviews and collation of evidence to understand the basis of measurement, processes and controls supporting the preparation of the GHG inventory.
- Conducted a site visit at the Kapuni Gas Treatment Plant to identify sources of GHG emissions.
- Assessed whether methodologies for GHG emissions have been correctly applied as per the criteria.
- Performed analytical review procedures to support the reasonableness of the data including year on year comparisons of GHG emissions and operational data across the reporting period.
- Tested certain calculations performed by Vector, including the monthly energy mass balance.
- Identified and tested assumptions supporting the calculations, performed by Vector.
- Tested, on a sample basis, to underlying source information to ensure completeness and accuracy of the GHG inventory.
- Tested the effectiveness of the controls performed including a sample of validation records for key measurement devices used to estimate GHG emissions.
- Checked the appropriateness of the presentation of the information in the Annual Report.

Independence, competence and experience

Ernst & Young applies Professional and Ethical Standard 3 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance Engagements (Amended)* and we have complied with the independence and other ethical requirements of Professional and Ethical Standard 1 *Code of Ethics for Assurance Practitioners (Revised)*. We have the required competencies and experience to conduct this assurance engagement

Ernst & Young's other relationships with Vector

We provide consultancy services in respect of the physical risks from climate change to Vector and Vector is a participant in the EY Cambridge Sustainability Leadership development Programme. We have no other relationships with, or interests in Vector.

Limited assurance conclusion

Based on the evidence obtained from the procedures we have performed, as described in this report, nothing has come to our attention that causes us to believe that Vector's GHG inventory for the year ended 30 June 2017 has not been reported, in all material respects, in accordance with the criteria.

Restrictions on use of our Report

We disclaim any assumption of responsibility for any reliance on this assurance statement or on Vector's greenhouse gas emissions inventory to which it relates, to any person other than Directors of Vector, or for any purpose other than that for which it was prepared.

Any other party seeking to use this report does so at their own risk and we disclaim all responsibility to any other party for any loss or liability that the other party may suffer or incur arising from, or relating to or if any way connected with the contents of our report, the provision of our report to the other party or the reliance on our report by the other party.

Ernst & Young Limited

Graeme Bennett
EY Assurance Partner

Auckland
23 August 2017

A member firm of Ernst & Young Global Limited

OPERATING STATISTICS

VECTOR OPERATING STATISTICS

YEAR ENDED 30 JUNE	2017	2016
ELECTRICITY		
Customers[1, 4]	555,100	550,053
New connections	9,138	8,526
Net movement in customers[2]	5,047	5,540
Volume distributed (GWh)	8,332	8,372
Networks length (km)[1]	18,503	18,292
SAIDI (minutes)[3]		
Normal operations	174.0	117.0
Extreme events	38.8	7.8
Total	212.8	124.8
GAS DISTRIBUTION[5]		
Customers[1, 4]	106,670	104,322
New connections	3,515	3,323
Net movement in customers[2]	2,348	2,757
Volume distributed (PJ)[6]	14.3	13.9
GAS TRADING		
Natural gas sales (PJ)[7]	17.8	16.7
Gas liquid sales (tonnes)[8]	73,119	76,144
9kg LPG bottles swapped	604,391	549,998
Liquigas LPG tolling (tonnes)[9]	169,046	172,695
TECHNOLOGY		
Electricity: smart meters[1, 10]	1,280,889	1,126,258
Electricity: legacy meters[1]	96,529	121,768
Electricity: prepay meters[1]	3,555	4,933
Electricity: time-of-use meters[1]	12,134	11,858
Gas meters[1]	221,495	217,832
Data management and service connections[1]	8,823	8,832

1. As at period end.
2. The net number of customers added during the 12-month period.
3. Regulatory year – 12 months to 31 March.
4. Billable ICPs.
5. The group's gas transmission and non-Auckland gas distribution business (Vector Gas) was sold to First Gas on 20 April 2016. The operating statistics for the period to 30 June 2017 relate only to the Auckland network, and the prior period comparatives have been adjusted accordingly.
6. Billable volumes.
7. Excludes gas sold as gas liquids as these sales are included within the gas liquids sales tonnages.
8. Total of retail and wholesale LPG production and natural gasoline.
9. Includes product tolled in Taranaki and further tolled in the South Island.
10. The number of smart meters deployed at 30 June 2017 includes 102,808 meters managed but not owned by Vector (2016: 55,775).

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%

KAPUNI ENERGY JOINT VENTURE

Vector Kapuni Limited (a wholly owned subsidiary of Vector) holds a 50% interest in an unincorporated joint venture that operates a cogeneration plant situated at the Kapuni Gas Treatment Plant, producing electricity and steam for the gas treatment plant and other customers.

50%

TREESCAPE

Vector holds a 50% shareholding in Treescape 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 500 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

22.11%

NZ WINDFARMS

Vector holds a 22.11% shareholding in NZ Windfarms Limited, a wind-power electricity generation company, which sells renewably generated electricity.

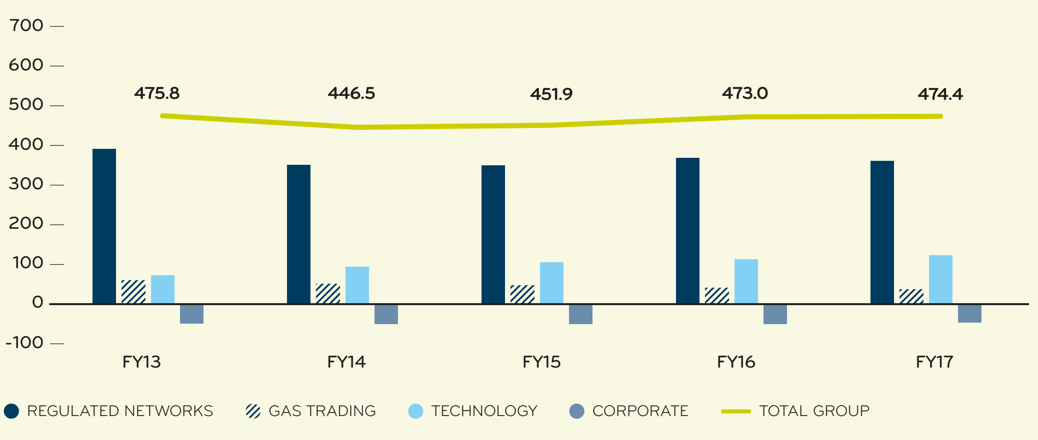
www.nzwindfarms.co.nz

FIVE YEAR FINANCIAL PERFORMANCE

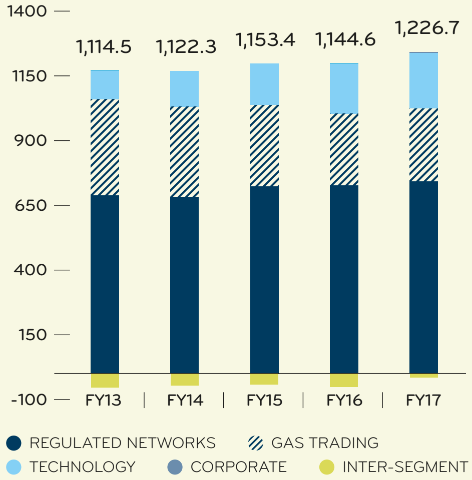
YEAR ENDED 30 JUNE ($ MILLION)	2017	2016	2015	2014	2013
PROFIT OR LOSS – CONTINUING OPERATIONS[1]					
Total income	1,226.7	1,144.6	1,153.4	1,122.3	1,114.5
Adjusted EBITDA	474.4	473.0	451.9	446.5	475.8
Depreciation and amortisation	(199.6)	(194.6)	(179.0)	(168.5)	(158.4)
Adjusted EBIT	274.8	278.4	272.9	278.0	317.4
Net profit – continuing operations	168.9	58.9	88.3	114.4	129.3
PROFIT OR LOSS – DISCONTINUED OPERATIONS					
Total income	–	110.7	140.6	136.6	164.7
Adjusted EBITDA	–	75.3	88.5	90.5	122.0
Depreciation and amortisation	–	(5.8)	(16.2)	(15.3)	(15.7)
Adjusted EBIT	–	69.5	72.3	75.2	106.3
Net profit - including discontinued operations	168.9	274.4	149.4	171.3	206.2
BALANCE SHEET					
Total equity	2,448.3	2,398.3	2,298.6	2,307.8	2,258.5
Total assets	5,574.6	5,603.0	6,123.0	5,839.1	5,747.1
Economic net debt (borrowings net of cash and deposits)	2,220.1	1,932.9	2,745.1	2,625.0	2,448.1
CASH FLOW					
Operating cash flow	335.7	352.1	369.2	366.6	426.2
Capital expenditure	(354.2)	(340.1)	(311.8)	(327.4)	(283.4)
Dividends paid	(161.0)	(159.2)	(155.4)	(156.7)	(148.3)
KEY FINANCIAL MEASURES					
Adjusted EBITDA/total income	38.7%	41.3%	39.2%	39.8%	42.7%
Adjusted EBIT/total income	22.4%	24.3%	23.7%	24.8%	28.5%
Equity/total assets	43.9%	42.8%	37.5%	39.5%	39.3%
Return on assets (adjusted EBITDA/assets)	8.5%	8.4%	7.4%	7.6%	8.3%
Gearing	47.1%	43.7%	53.6%	52.5%	50.9%
Net interest cover – continuing ops (adjusted EBIT/net finance costs) (times)	2.0	1.6	1.5	1.6	1.9
Earnings (NPAT) per share (cents) including discontinued activities	16.7	27.2	14.6	16.9	20.4
Dividends declared, cents per share (fully imputed)	16.00	15.75	15.50	15.25	15.00

1. Prepared on a continuing basis, excluding contribution from gas transmission and Non-Auckland gas distribution for all periods presented.

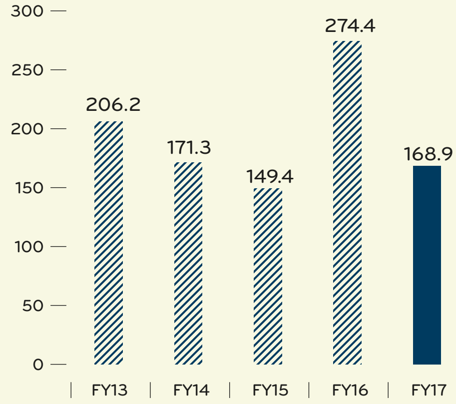
ADJUSTED EBITDA (CONTINUING OPERATIONS)
$ MILLION



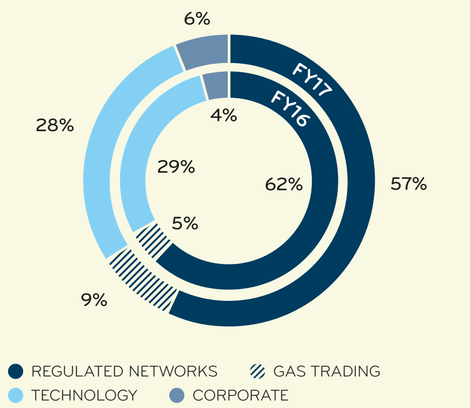
TOTAL INCOME
(CONTINUING OPERATIONS)
$ MILLION



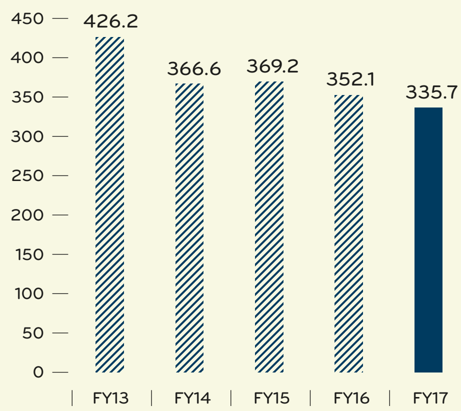
NET PROFIT
(INCLUDING DISCONTINUED OPERATIONS)
$ MILLION



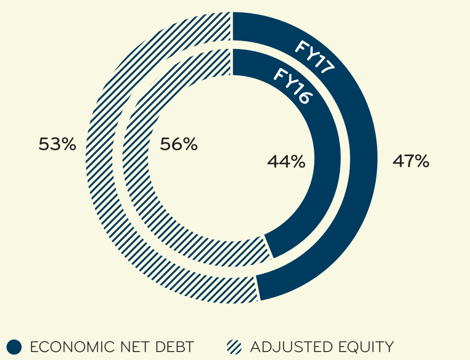
CAPITAL EXPENDITURE
(CONTINUING OPERATIONS)



OPERATING CASH FLOWS
(INCLUDING DISCONTINUED OPERATIONS)
$ MILLION



SOURCE OF FUNDING – GEARING[1]
As at 30 June



STANDARD & POOR'S RATING

BBB

/ STABLE

1. Gearing is defined as economic net debt to economic net debt plus adjusted equity. Adjusted equity means total equity adjusted for hedge reserves.

STRONG GOVERNANCE

Our experienced directors hail from diverse backgrounds and lead Vector on behalf of our shareholders and other stakeholders://

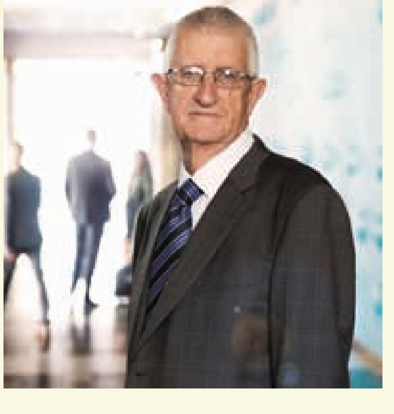
–
MICHAEL STIASSNY

–
JONATHAN MASON

–
KAREN SHERRY

–
JAMES CARMICHAEL

–
DAME ALISON PATERSON



–
BOB THOMSON

–
HUGH FLETCHER

MICHAEL STIASSNY
BCom, LLB, CA, FInstD
CHAIRMAN, INDEPENDENT NON-EXECUTIVE DIRECTOR

(APPOINTED ON 11 SEPTEMBER 2002)

Michael Stiassny is a fellow of Chartered Accountants Australia and New Zealand and partner of KordaMentha in Auckland. He is a director of a number of public and private companies and is Chairman of Ngāti Whātua Ōrākei Rawa Limited and Tower Limited. Michael is a fellow and former president of the Institute of Directors in New Zealand.

JAMES CARMICHAEL
BE, FIPENZ
NON-INDEPENDENT NON-EXECUTIVE DIRECTOR

(APPOINTED ON 23 OCTOBER 2008)

James Carmichael is a trustee of Entrust and an executive of Energy Trusts of New Zealand Inc. His significant international energy sector experience includes responsibility for multi-billion-dollar energy assets and acquisition strategy for Power-Gen International Limited and thermal and hydro power generation investment decisions for Ranhill Power Berhad.

HUGH FLETCHER
BSc, MBA (Stanford), MCom (Hons)
INDEPENDENT NON-EXECUTIVE DIRECTOR

(APPOINTED ON 25 MAY 2007)

Hugh Fletcher is a former chief executive officer of Fletcher Challenge Limited and is a director of Insurance Australia Group Limited and Rubicon Limited. He is Non-Executive Chairman of IAG New Zealand Limited. He is also a trustee of The University of Auckland Foundation, Dilworth Trust and the NZ Portrait Gallery.

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 is currently a director of Air New Zealand Limited, New Zealand Assets Management Limited (NZAM), Westpac New Zealand Limited and Zespri Group Limited. Jonathan is also an Adjunct Professor of Management at the University of Auckland, focusing on finance.

DAME ALISON PATERSON
DNZM, QSO, DCom(hc), FCA, ADistFInstD
INDEPENDENT NON-EXECUTIVE DIRECTOR

(APPOINTED ON 7 MARCH 2007)

Dame Alison Paterson is Chair of the Forestry Industry Safety Council, GMI Group, Farm IQ Systems Limited, New Zealand Formulary Limited, Te Aupouri Commercial Development Limited and Te Aupouri Fisheries Management Limited. She is also a member of the New Zealand Markets Disciplinary Tribunal and a member of the Health Quality and Safety Commission New Zealand.

KAREN SHERRY
QSM, BA, MA (Hons), LLB (Hons), C.FInstD.
NON-INDEPENDENT NON-EXECUTIVE DIRECTOR

(APPOINTED ON 24 JULY 2006)

Karen Sherry is a director and shareholder of the firm Bell-Booth Sherry Limited where she specialises in commercial and trust law. She is a trustee and former Chair of Entrust. She is the Chair of Energy Trusts of New Zealand Inc and a director of the Energy Efficiency and Conservation Authority. Karen is also a chartered fellow of the Institute of Directors in New Zealand.

BOB THOMSON
BEng (Electrical), DipBS
INDEPENDENT NON-EXECUTIVE DIRECTOR

(APPOINTED ON 18 MARCH 2005)

Bob Thomson was chief executive of Transpower Limited and, since 2004, has been an adviser to Energy Trusts of New Zealand Inc. Prior to his appointment at Transpower, he held a range of senior management and engineering positions in the New Zealand Electricity Department and Electricity Corporation of New Zealand Limited. He was involved in the reform of the electricity industry, including as a board member of the Electricity Market Company Limited from 1994 to 1998. He is a fellow of the New Zealand Institute of Engineers. ■

EXPERIENCED LEADERSHIP

Vector's management team are experts in their field, committed to delivering world-class infrastructure services, and attuned to the rapidly evolving demands of our customers://

—
SIMON MACKENZIE

—
KATE BEDDOE

—
ANDRE BOTHA

—
DAN MOLLOY

—
NIKHIL RAVISHANKAR

—
BRIAN RYAN

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

Simon Mackenzie is passionate about the power of technology to transform the energy industry and consumers' lives. As Group Chief Executive Officer, Simon 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 Officer in 2008. His tertiary qualifications include engineering, finance and business studies, and the Advanced Management Programme at the Wharton School, University of Pennsylvania.

ANDRE BOTHA
BEng, MEng, PG DipBus
CHIEF NETWORKS OFFICER

Andre is Vector's Chief Networks Officer, accountable for the management of Vector's regulated electricity and gas businesses.

He brings 28 years' experience in the energy sector with a proven track record at executive level, initially as Chief Engineer with Eskom in South Africa and most recently as Chief Operations Officer with Western Power in Australia.

Andre holds a ME (Electrical) degree from the University of Pretoria and a PGDip (Finance) from the University of Auckland.

KATE BEDDOE
BA, LLB
CHIEF RISK OFFICER

Kate leads Vector's people, safety and risk teams to ensure these areas are aligned and support Vector's strategy and culture. Areas of responsibility include risk management, business continuity management, internal audit, cyber security, HSE, human resources and sustainability. Kate's background includes strategic and operational risk management, business continuity, OHSE, insurance, sustainability and commercial law. Prior to joining Vector in July 2012, Kate was with Amcor Limited where she held the global position of Vice-President, Risk and Sustainability and has held management roles with Toyota and Bonlac Foods (Fonterra).

Kate is also a director and Vice President of RIMS (Risk Management Society) Australasia and a contributor to the Cambridge Institute for Sustainability Leadership – Business and Sustainability Executive Leadership Program (Melbourne).

BRIAN RYAN
MBA (Hons), BTech
GROUP GENERAL MANAGER DEVELOPMENT

Brian leads the Development team and is focused on the company's growth and development, through the implementation of disruptive customer solutions and new technologies. His team scans the globe for opportunities, solutions and technologies that will enable Vector to "create the new energy future" and lead the way. He also heads the Vector Communications business, having previously held strategic and commercial executive roles in both the technology and manufacturing environments.

He is a board member and Vector's representative for the Elemental Excelerator, a non-profit organisation with offices in Palo Alto and Hawaii that helps start-ups change the world, one community at a time. He joined Vector in 2014.

DAN MOLLOY
BSc
CHIEF FINANCIAL OFFICER

Dan leads Vector's finance team and is responsible for financial and management reporting, corporate finance, procurement, transaction processing, investor relations, treasury and tax. He has 15 years' experience in the professional services sector across a range of disciplines, including corporate finance, valuation, insolvency, restructuring and business turnaround. Dan joined Vector from Northpower, where he was Chief Financial Officer.

NIKHIL RAVISHANKAR
BSc BComm (Hons)
CHIEF DIGITAL OFFICER

Nikhil leads the Vector Group Digital team and is responsible for managing Vector's IT and digital functions. Nikhil works across the group to help shape Vector's response to disruptive technologies. 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 group transformation office. ■

CORPORATE GOVERNANCE

GUIDING PRINCIPLES

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

Vector strives to maintain a framework of corporate governance that reflects this commitment.

This section provides an overview of Vector's main corporate governance policies, practices and processes which have been adopted and are followed by Vector's board. More information can be found at: www.vector.co.nz/investors/governance.

Vector's ordinary shares are quoted on the NZX Limited's Main Board and its capital bonds are quoted on the NZX Debt Market. Consequently, Vector's governance practices are informed by the principles, guidelines and recommendations of NZX Limited's Main Board Listing Rules, the NZX Corporate Governance Best Practice Code, and the Financial Market Authority's Corporate Governance Principles and Guidelines. Vector believes that the governance practices it has adopted follow all of these principles, guidelines and recommendations with one exception – the NZX Corporate Governance Best Practice Code encourages directors to take a portion of their remuneration under a performance-based equity security compensation plan; however, Vector does not have an equity security compensation plan for directors.

NZX CORPORATE GOVERNANCE CODE

In May 2017, NZX published the NZX Corporate Governance Code, which will replace the existing NZX Corporate Governance Best Practice Code with effect from 31 December 2017. The new Code is the first substantial change since 2003. Vector will be required to report against the new NZX Corporate Governance Code.

While Vector has opted not to voluntarily report early against the new Code, Vector is already compliant with the Code's eight principles and most of the recommendations.

Vector fully supports NZX's update to the Code, which has a stated purpose of promoting good corporate governance, recognising that boards are in place to protect the interests of shareholders and provide long-term value.

PROMOTION OF ETHICAL AND RESPONSIBLE DECISION-MAKING

Vector expects its directors and employees to act legally, ethically, responsibly and with integrity in a manner consistent with Vector's policies, procedures and values.

The following measures have been put in place to assist with this.

- **Code of Conduct and Ethics**

  Sets out the ethical standards expected from Vector's directors, staff and anyone acting on Vector's behalf. The Code of Conduct and Ethics is made available to all employees. Vector monitors compliance with the Code through its normal performance management processes and its Whistleblower Policy.

- **Continuous Disclosure Policy**

  Affirms Vector's commitment to provide accurate, timely, orderly and consistent disclosure and compliance with its continuous disclosure obligations.

- **Director and Executive Remuneration Policy**

  Sets out Vector's policy on director and executive remuneration.

- **Directors' Code of Practice**

  Sets out additional standards expected from Vector's directors when carrying out their duties as directors of Vector.

- **Diversity and Inclusion Policy**

  Recognises Vector's commitment to diversity and inclusion and sets out measurable objectives in relation to diversity and inclusion.

- **Environmental Policy**

  Sets out Vector's overarching commitment for managing the environmental aspects of its businesses.

- **Fraud Control Policy**

  Sets out Vector's commitment to achieving effective fraud control supporting an honest and ethical culture.

- **Health and Safety Policy**

  Sets out Vector's overarching commitments and requirements for health, safety and well-being.

- **Reporting Non-GAAP Profit Measures Policy**

  Sets out Vector's position in relation to reporting profit measures to the market other than those calculated in accordance with GAAP.

- **Risk Management Policy**

  Provides a framework for maximising opportunities and managing risk (creating and protecting organisational value) by supporting effective decision-making and robust commercial outcomes.

- **Insider Trading Policy**

  Details Vector's policy on, and rules for, dealing in Vector's or its subsidiaries' quoted financial products (including ordinary shares and bonds).

- **Shareholder Relations Policy**

  Recognises the rights of Vector's shareholders as the owners of the company, and encourages their ongoing active interest in the company's affairs.

- **Stakeholder Relations Policy**

  Recognises the interests of stakeholders, and demonstrates Vector's commitment to treat all stakeholders fairly and with respect.

- **Interests Register**

  Vector maintains an interests register in which relevant transactions and matters involving the directors are recorded. See the 'Statutory Information' section of this Annual Report for details of directors' interests.

- **Whistleblower Policy**

  Recognises Vector's commitment to the principles of whistleblower protection, demonstrates Vector's commitment to encouraging staff to speak up about serious misconduct or serious wrongdoing and details the protection offered if this occurs.

PROMOTING A COMPANY CULTURE WHICH EMBRACES DIVERSITY AND INCLUSION

Vector is committed to:

- adding to, nurturing and developing the collective relevant skills, and diverse experience and attributes of Vector people
- ensuring that Vector's culture and management systems are aligned with and promote the attainment of diversity and inclusion
- providing an environment in which all people are treated with fairness and respect, and have equal opportunities available at work
- being recognised as an organisation that exemplifies diversity and inclusion in action.

LAYING SOLID FOUNDATIONS FOR MANAGEMENT

Vector's governance practices are designed to:

- enable the board to provide strategic guidance for the company and effective oversight of management
- clarify the roles and responsibilities of Vector's directors and senior executives in order to facilitate board and management accountability to both the company and its shareholders
- ensure a balance of authority so that no single individual has unfettered powers.

Each director has a duty to act in the best interests of the company and the directors are aware of their collective and individual responsibilities to stakeholders for the manner in which Vector's affairs are managed, controlled and operated.

The board's primary objective is to protect and enhance the value of the company whilst acting in the interests of the company and its shareholders and, in that context, to have due regard to the interests of other stakeholders. The board exercises this obligation through the approval of appropriate corporate strategies, practices and processes. These include the approval of transactions and commitments not within the authorities delegated by the board to management and the review of company performance against strategic objectives.

Vector achieves board and management accountability through its board charter, which sets out (amongst other things) matters reserved for the board and responsibilities delegated to the Group Chief Executive, and a formal delegation of authority framework. The effect of this framework is that, whilst the board has statutory responsibility for the activities of the company, this is exercised through the delegation to the Group Chief Executive, who is responsible for the day-to-day leadership and management of the company. The framework also reserves certain matters for the decision of the board. The board charter also sets out the expectation that all directors continuously educate themselves to ensure that they may appropriately and effectively perform their duties.

STRUCTURING THE BOARD TO ADD VALUE

Vector's board is composed of a minimum of three and a maximum of nine directors, with at least two being ordinarily resident in New Zealand. As at 30 June 2017, the board comprised seven directors, all of whom are non-executive directors. Information on the skills, experience and expertise of each director and their independence status is set out in the 'Board of Directors' section.

The board considers all directors to be independent with the exception of James Carmichael and Karen Sherry who are not independent directors as they are also trustees of Entrust, Vector's majority shareholder. Only independent directors are eligible to be the board Chairman. Directors are required to inform the board of all relevant information which may affect their independence.

The board has a formal board charter detailing the board's purpose, responsibilities, composition and operation, which is published on Vector's website. The board charter includes a requirement for the Chairman to meet regularly with each director to review his or her individual performance. In addition the board charter requires a review of the performance of the board as a whole on an annual basis. A committee or individual director may engage separate independent professional advice in certain situations, at the expense of the company, with the approval of the Chairman of the board.

PREPARATION OF ANNUAL REPORT

The board takes an active role in preparing the Annual Report, including the financial statements that comply with generally accepted accounting practice. The board contributes to and reviews all aspects of the Annual Report.

The audit committee is responsible for financial reporting integrity, which includes reviewing financial statements, reviewing external financial reporting, assessing the fairness of financial statements, submitting group financial statements to the board for approval, and considering and approving the Chairman's and Group Chief Executive's reports for the Annual Report.

The board approves the Annual Report, including the financial statements, following the recommendation to do so from the audit committee.

AUDITORS

Vector's external auditors for the year ending 30 June 2017 were KPMG. The board, after considering the recommendations of the audit committee, consider and review the appointment of external auditors. The board requires the rotation of the audit partner for the statutory audit after no more than five years.

The audit committee provides a formal forum for communication between the board and the external auditors, ensures the independence of the external auditors, has oversight of audit planning, reviews and recommends audit fees, considers audit opinions and evaluates the performance of the external auditors. No issues concerning the external auditors' independence have been identified.

BOARD COMMITTEES

There are currently six board committees, to assist the board with specific responsibilities. Each committee reports its proceedings back to the board.

The committees are:

Audit Committee

Assists the board in fulfilling its corporate governance responsibilities to safeguard the integrity of Vector's financial reporting. It independently meets external auditors at least twice a year without company employees present.

A full description of the Audit Committee's composition and duties is contained in the Audit Committee Charter, which is published on Vector's website. The committee's members as at 30 June 2017 were: Jonathan Mason (Chairman), James Carmichael, Hugh Fletcher, Alison Paterson, Karen Sherry, Michael Stiassny and Bob Thomson.

Regulatory Committee

Assists the board in fulfilling its responsibilities to protect the interests of Vector, its shareholders and stakeholders given the regulatory environment in which Vector operates. A full description of the Regulatory Committee's composition and duties is contained in the Regulatory Committee Charter, which is published on Vector's website. The committee's members as at 30 June 2017 were: James Carmichael (Chairman), Jonathan Mason, Karen Sherry, Michael Stiassny and Bob Thomson.

Risk and Assurance Committee

Assists the board in fulfilling its responsibilities to protect the interests of shareholders, customers, employees and the communities in which Vector operates through establishing a sound risk management framework and rigorous processes for internal control. A full description of the Risk and Assurance Committee's composition and duties is contained in the Risk and Assurance Committee charter, which is published on Vector's website. Risk and Assurance Committee members as at 30 June 2017 were: Karen Sherry (Chair), James Carmichael, Jonathan Mason, Alison Paterson, Michael Stiassny and Bob Thomson.

Nominations Committee

Assists the board in fulfilling its responsibilities to have an efficient mechanism for examination of the selection and appointment practices of the company. For as long as Entrust holds at least 50.01% of Vector's shares, this committee undertakes non-binding consultation with Entrust prior to finalising any board recommendation regarding a director nomination or appointment. A full description of the Nominations Committee's composition and duties is contained in the Nominations Committee Charter, which is published on Vector's website. Members of the Nominations Committee as at 30 June 2017 were: Michael Stiassny (Chairman), Hugh Fletcher and Alison Paterson.

Remuneration Committee

Assists the board in overseeing the appointment, performance and remuneration of the Group Chief Executive and members of the executive team (including succession planning), reviewing Vector's Remuneration Policy and reviewing and monitoring Vector's Diversity and Inclusion Policy. The Remuneration Committee evaluates the performance of the Group Chief Executive and provides input into the process and review by the Group Chief Executive of the performance of senior management.

The evaluations are based on criteria that include the performance of Vector and the accomplishment of strategic objectives. During the year ended 30 June 2017, performance evaluations of the Group Chief Executive and executives were conducted in accordance with this process. A full description of the Remuneration Committee's composition and duties is contained in the Remuneration Committee Charter, which is published on Vector's website. Members of the Remuneration Committee as at 30 June 2017 were: James Carmichael (Chairman), Michael Stiassny, Alison Paterson and Karen Sherry.

Sustainability Committee

Assists the board in fulfilling its responsibilities and objectives in matters related to implementing sustainable business practices and Vector's role as a responsible corporate citizen; this includes but is not limited to environmental performance and opportunities, community engagement and investment, diversity and inclusion, ethical business practices and human rights and sustainable supply chain practices. The Sustainability Committee Charter is available on Vector's website. Members of the Sustainability Committee as at 30 June 2017 were: Karen Sherry (Chair), James Carmichael, Hugh Fletcher, Jonathan Mason, Alison Paterson, Michael Stiassny and Bob Thomson.

REMUNERATING FAIRLY AND RESPONSIBLY

The directors' remuneration, and certain employee remuneration information, is set out in the 'Statutory Information' section of this Annual Report. Vector's Director and Executive Remuneration Policy is published on Vector's website. Vector's directors do not participate in an executive remuneration or share scheme. Directors do not receive any options, bonus payments or incentive-based remuneration. The company does not have a scheme for retirement benefits to be given to directors.

RESPECTING THE RIGHTS OF SHAREHOLDERS

Vector recognises the rights of shareholders as the owners of the company and encourages their ongoing active interest in the company's affairs by:

- communicating with them effectively
- ensuring they have full access to information about the company, including through the Vector website
- conducting shareholder meetings in locations and at times convenient to the majority of shareholders
- providing shareholders with adequate opportunity to ask questions about, and comment upon, relevant matters, and to question directly the external auditors at shareholder meetings
- enabling shareholders to receive communications from, and send communications to, Vector and its security registry electronically
- inviting shareholders to contact the company to ask questions, or express views, about matters affecting the company. To facilitate this, Vector has a dedicated email address for shareholder/investor queries, which is: investor@vector.co.nz.

Vector's Shareholder Relations Policy is published on Vector's website.

Vector's Constitution includes provisions relating to its majority shareholder, Entrust. In addition, Vector and Entrust are parties to a Deed Recording Essential Operating Requirements, which includes certain policy, consultation, pricing reporting and the energy solutions programme obligations.

RECOGNISING THE LEGITIMATE INTERESTS OF VECTOR'S STAKEHOLDERS

Vector's commitments to its various stakeholders are part of the board charter and the company's Code of Conduct and Ethics. Vector's Stakeholder Relations Policy is published on Vector's website. The board monitors compliance with the Stakeholder Relations Policy.

MAKING TIMELY AND BALANCED DISCLOSURE

Vector has in place a Continuous Disclosure Policy designed to ensure that it complies with NZX Limited's Main Board Listing Rules.

Vector ensures that public information about the company is readily accessible to all stakeholders. The company maintains an up-to-date website containing a comprehensive range of information. Vector issues quarterly reports on its operational performance and conducts detailed market briefings in conjunction with the release of its annual and interim financial results.

Information presented at these briefings, and public announcements made at other times, are published on the NZX website. In addition, they are made available on Vector's website following their NZX release.

Vector's interim and annual company reports are now viewed primarily online, but shareholders are entitled to have hard copies of both documents, and can request them by contacting the company. If you have any questions or would like to request a copy of the Annual or Interim Report, please email investor@vector.co.nz or phone +64 9 978 7788.

RECOGNISING AND MANAGING RISK

Vector is committed to ensuring that our risk management and assurance processes support organisational performance and are embedded within our business to drive consistent, effective and accountable decision-making and management practice.

Vector has continued to focus on maturing and enhancing its Enterprise Risk Management Framework by improving the consistency of risk management approaches and behaviours within the business while improving design elements.

The following features have been enhanced over the past year:

- Refreshed approach to risk and fraud control training across the organisation using a range of training and educational tools and practices including the development of e-learning modules.
- Continued development of our cyber security risk capability with the appointment of a Group Manager Cybersecurity and Data Privacy responsible for delivering enhanced governance, risk management and education and awareness in relation to cybersecurity and data privacy.
- Refreshing and continuously improving business continuity and crisis management design, training and testing, and benchmarking our consistency of approach to ensure we meet our obligations as an essential services provider.

Corporate governance is assured through the regular measurement and reporting of our risk management performance and assurance activities to the board's risk and assurance committee. ■

TABLE OF ATTENDANCE

Attendance records of board and committee meetings for the year ended 30 June 2017 are provided in the table below.

	FULL BOARD	AUDIT COMMITTEE	RISK AND ASSURANCE COMMITTEE	REMUNERATION COMMITTEE	REGULATORY COMMITTEE	NOMINATIONS COMMITTEE	SUSTAINABILITY COMMITTEE	AGM
TOTAL MEETINGS	**10**	**7**	**5**	**4**	**3**	**1**	**2**	**1**
M Stiassny (chair)	10	5	5	4	1	1	1	1
P Bird*	2	1†	1†	2†	1	–	–	–
J Carmichael	10	7	5	4	3	1†	2	1
H Fletcher	10	7	4†	4†	3†	1	2	1
J Mason	10	7	5	4†	3	–	2	1
A Paterson	10	7	5	4	3†	1	2	1
K Sherry	10	7	5	4	2	1†	2	1
B Thomson	9	6	4	4†	3	1†	2	1

† Director attending the committee meeting who is not a member of the committee.

* Peter Bird ceased to be a director on 29 September 2016.

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 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 NZ IFRS (New Zealand International Financial Reporting Standards) and are not uniformly defined; therefore, the non-GAAP profit measures reported in this document may not be comparable with those that other companies report and should not be viewed in isolation from or considered as a substitute for measures reported by Vector in accordance with NZ IFRS.

DEFINITIONS

EBITDA:	Earnings before interest, taxation, depreciation and amortisation from continuing operations
Adjusted EBITDA:	EBITDA from continuing operations adjusted for fair value changes, associates, impairments, capital 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	2017	2016
Reported net profit for the period (GAAP)	168.9	58.9
Add back: net interest costs[1]	137.3	168.8
Add back: tax (benefit)/expense[1]	34.1	44.3
Add back: depreciation and amortisation[1]	199.6	194.6
EBITDA	539.9	466.6
Adjusted for:		
Associates (share of net (profit)/loss)[1]	(1.6)	(2.8)
Capital contributions[1]	(62.3)	(49.8)
Fair value change on financial instruments[1]	(1.6)	(2.4)
Impairment[1]	–	61.4
Adjusted EBITDA	474.4	473.0

1. Extracted from audited financial statements

YEAR ENDED 30 JUNE ($ MILLION) Segment adjusted EBITDA	2017 REPORTED SEGMENT EBITDA	2017 LESS CAPITAL CONTRIBUTIONS	2017 SEGMENT ADJUSTED EBITDA	2016 REPORTED SEGMENT EBITDA	2016 LESS CAPITAL CONTRIBUTIONS	2016 SEGMENT ADJUSTED EBITDA
Technology	123.6	(1.1)	122.5	114.4	(0.9)	113.5
Gas Trading	36.9	–	36.9	40.6	–	40.6
Unregulated segments	160.5	(1.1)	159.4	155.0	(0.9)	154.1
Regulated Networks – continuing	422.4	(61.2)	361.2	417.4	(48.9)	368.5
Regulated Networks – discontinuing	–	–	–	79.1	(3.8)	75.3
Regulated segment	422.4	(61.2)	361.2	496.5	(52.7)	443.8
Corporate	(46.2)	–	(46.2)	(49.6)	–	(49.6)
TOTAL	536.7	(62.3)	474.4	601.9	(53.6)	548.3
TOTAL – continuing operations only	536.7	(62.3)	474.4	522.8	(49.8)	473.0

FINANCIAL STATEMENTS.

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2017 FINANCIAL STATEMENTS

These financial statements for the year ended 30 June 2017 are dated 23 August 2017, and signed for and on behalf of Vector Limited by:

Director 23 August 2017

Director 23 August 2017

And management of Vector Limited by:

Group Chief Executive 23 August 2017

Chief Financial Officer 23 August 2017

	NOTE	2017 $000	2016 $000
CONTINUING OPERATIONS			
Revenue	5	1,226,653	1,144,603
Operating expenses	6	(689,967)	(621,764)
Depreciation and amortisation		(199,566)	(194,580)
Interest costs (net)	7	(137,272)	(168,805)
Fair value change on financial instruments	8	1,571	2,344
Associates (share of net profit/(loss))	14	1,568	2,809
Impairment	9	–	(61,422)
Profit/(loss) before income tax		202,987	103,185
Tax benefit/(expense)	10	(34,116)	(44,277)
Net profit/(loss) for the period from continuing operations		168,871	58,908
Net profit/(loss) for the period from discontinued operations (net of tax)		–	215,494
Net profit/(loss) for the period		168,871	274,402
Net profit/(loss) for the period attributable to			
Non-controlling interests		3,082	2,909
Owners of the parent – continuing operations		165,789	55,999
Owners of the parent – discontinued operations		–	215,494
Basic and diluted earnings per share (cents) attributable to			
Owners of the parent – continuing operations	24	16.7	5.6
Owners of the parent – discontinued operations	24	–	21.6
Total		16.7	27.2

	NOTE	2017 $000	2016 $000
Net profit/(loss) for the period		168,871	274,402
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	21	40,280	(15,685)
Fair value change on financial asset	14	1,783	–
Share of other comprehensive income of associate	14	(18)	250
Translation of foreign operations		143	(42)
Other comprehensive income for the period net of tax		42,188	(15,477)
Total comprehensive income for the period net of tax		211,059	258,925
Total comprehensive income for the period attributable to			
Non-controlling interests		3,082	2,909
Owners of the parent – continuing operations		207,977	40,522
Owners of the parent – discontinued operations		–	215,494

	NOTE	2017 $000	2016 $000
CURRENT ASSETS			
Cash and cash equivalents	12	14,878	321,371
Trade and other receivables	13	206,343	191,523
Derivatives	21	47	–
Inventories		11,306	4,285
Intangible assets		2,394	1,281
Income tax		51,059	35,126
Total current assets		286,027	553,586
NON-CURRENT ASSETS			
Receivables	13	39	51
Derivatives	21	37,920	82,428
Investments in associates	14	9,566	15,612
Other investments	14	6,241	–
Intangible assets	15	1,397,244	1,280,375
Property, plant and equipment (PPE)	16	3,837,455	3,670,191
Deferred tax	11	104	715
Total non-current assets		5,288,569	5,049,372
Total assets		5,574,596	5,602,958
CURRENT LIABILITIES			
Trade and other payables	18	249,920	222,990
Provisions	19	4,780	6,232
Borrowings	20	399,745	251,820
Derivatives	21	6,619	12,608
Income tax		506	829
Total current liabilities		661,570	494,479
NON-CURRENT LIABILITIES			
Payables	18	41,411	43,793
Provisions	19	20,441	17,040
Borrowings	20	1,770,745	2,005,061
Derivatives	21	156,470	187,037
Deferred tax	11	475,621	457,213
Total non-current liabilities		2,464,688	2,710,144
Total liabilities		3,126,258	3,204,623
EQUITY			
Equity attributable to owners of the parent		2,430,618	2,381,988
Non-controlling interests in subsidiaries		17,720	16,347
Total equity		2,448,338	2,398,335
Total equity and liabilities		5,574,596	5,602,958
Net tangible assets per share (cents)	24	103.5	110.5
Gearing ratio (%)	24	47.1	43.7

	NOTE	2017 $000	2016 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		1,224,186	1,263,179
Interest received		8,993	438
Dividends received from associate		2,000	1,500
Payments to suppliers and employees		(686,558)	(676,305)
Interest paid		(151,667)	(175,232)
Income tax refunded		853	–
Income tax paid		(62,094)	(61,526)
Net cash flows from/(used in) operating activities	23	335,713	352,054
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of PPE and software intangibles		353	223
Purchase and construction of PPE and software intangibles		(354,177)	(340,082)
Acquisition of businesses	27	(90,985)	–
(Post-completion payment) / Proceeds from sale of discontinued operations		(59)	960,000
Other investing cash flows		–	(750)
Net cash flows from/(used in) investing activities		(444,868)	619,391
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		284,557	310,000
Repayment of borrowings		(318,173)	(809,000)
Dividends paid		(161,028)	(159,215)
Other financing cash flows		(2,694)	(81)
Net cash flows from/(used in) financing activities		(197,338)	(658,296)
Net increase/(decrease) in cash and cash equivalents		(306,493)	313,149
Cash and cash equivalents at beginning of the period	12	321,371	8,222
Cash and cash equivalents at end of the period		14,878	321,371
Cash and cash equivalents comprise:			
Bank balances and on-call deposits	12	7,041	3,241
Short-term deposits	12	7,837	318,130
		14,878	321,371

	NOTE	ISSUED SHARE CAPITAL $000	TREASURY SHARES $000	HEDGE RESERVES $000	OTHER RESERVES $000	RETAINED EARNINGS $000	NON-CONTROLLING INTERESTS $000	TOTAL EQUITY $000
Balance at 1 July 2015		874,979	(9,278)	(73,593)	(1,230)	1,491,932	15,822	2,298,632
Net profit/(loss) for the period		–	–	–	–	271,493	2,909	274,402
Other comprehensive income		–	–	(15,685)	208	–	–	(15,477)
Total comprehensive income		–	–	(15,685)	208	271,493	2,909	258,925
Dividends	24	–	–	–	–	(156,831)	(2,384)	(159,215)
Employee share purchase scheme transactions		–	79	–	(86)	–	–	(7)
Total transactions with owners		–	79	–	(86)	(156,831)	(2,384)	(159,222)
Balance at 30 June 2016		874,979	(9,199)	(89,278)	(1,108)	1,606,594	16,347	2,398,335
Net profit/(loss) for the period		–	–	–	–	165,789	3,082	168,871
Other comprehensive income		–	–	40,280	1,908	–	–	42,188
Total comprehensive income		–	–	40,280	1,908	165,789	3,082	211,059
Dividends	24	–	–	–	–	(159,319)	(1,709)	(161,028)
Employee share purchase scheme transactions		–	(47)	–	19	–	–	(28)
Total transactions with owners		–	(47)	–	19	(159,319)	(1,709)	(161,056)
Balance at 30 June 2017		874,979	(9,246)	(48,998)	819	1,613,064	17,720	2,448,338

NOTES TO THE FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

01. 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 2017. The group comprises Vector Limited ("the parent"), its subsidiaries, and its investments in associates and joint arrangements.

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 (formerly Auckland Energy Consumer Trust) 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, gas processing, metering, telecommunications and new energy solutions.

02. 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 thousand, 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. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in the future periods affected.

Accounting policies, and information about judgements, estimations and assumptions that have had a significant effect on the amounts recognised in the financial statements are disclosed in the relevant notes as follows:

- Revenue recognition (Note 5)
- Consolidation basis and classification of investments (Note 14)
- Impairment and valuation of goodwill (Note 15)
- Property, plant and equipment: valuation and classification of expenses (Note 16)
- Provisions (Note 19)
- Borrowings: measurement bases (Note 20)
- Valuation of derivatives (Note 21)
- Financial risk management – impairment of financial instruments (Note 22)
- Business combinations (Note 27)

02. Summary of significant accounting policies://
CONTINUED

New and amended accounting standards adopted

— NZ IFRS 9 (2014) *Financial Instruments*

The group has previously early adopted NZ IFRS 9 (2013) *Financial Instruments* with a date of initial application of 1 July 2014.

The group has now adopted the final phase of NZ IFRS 9 (2014) *Financial Instruments* with initial application date of 1 July 2016. This completes the early adoption of NZ IFRS 9. This phase of the standard introduces an 'expected credit loss' (ECL) model that replaces the existing 'incurred loss' model under IAS 39 *Financial Instruments*. Under NZ IFRS 9, ECLs are assessed on a forward-looking basis at the time of initial recognition, and measured on a 12-month or lifetime basis. The group have adopted the simplified approach for trade receivables, where lifetime expected losses are assessed at initial recognition and throughout the life of the asset, with an allowance recognised should the assessment indicate an ECL exists.

The adoption of the final phase of NZ IFRS 9 (2014) does not have a material impact on the group's financial results in the current year or in the comparative period. As a result, no retrospective adjustments have been made.

— *Disclosure Initiative (Amendments to IAS 1)*

In the year ended 30 June 2016, the group early adopted the *Disclosure Initiative* (*Amendments to IAS 1*), which is mandatory for the group in the current period.

03. Segment information://

Segments	Vector reports on three reportable segments in accordance with NZ IFRS 8 *Operating Segments*. These segments are reported internally to the Group Chief Executive and the board of directors. This reporting is used to assess performance and make decisions about the allocation of resources. The segments are unchanged from those reported in Vector's Annual Report for the year ended 30 June 2016. The segments are: **Regulated Networks** Auckland electricity and gas distribution services. **Gas Trading** Natural gas and LPG sales, storage and processing, and cogeneration. **Technology** Metering services, telecommunications and new energy solutions. 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 arms' length basis. The Technology segment includes the financial performance of E-Co Products Group Limited and PowerSmart NZ Limited from the date of acquisition.
Segment profit	The measures of segment profit reported to the Group Chief Executive and the board of directors are earnings before interest and tax and earnings before interest, tax, depreciation and amortisation (EBITDA).
Corporate activities	Corporate activities, comprising shared services and investments, earn revenues that are incidental to Vector's operations and do not meet the definition of an operating segment under NZ IFRS 8. The results for corporate activities are reported in the reconciliations of segment information to the group's financial statements. Interest costs (net), fair value change on financial instruments, associates (share of net profit/(loss)) and impairment of investment in associate are reported as corporate activities and are not allocated to the segments.
Major customers	Vector engages 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 2017, the customers contributed $228.2 million (2016: $229.9 million), $177.6 million (2016: $179.3 million) and $160.4 million (2016: $154.9 million) respectively, which is reported across all segments.

03. Segment information://
CONTINUED

2017	REGULATED NETWORKS $000	GAS TRADING $000	TECHNOLOGY $000	INTER-SEGMENT $000	TOTAL $000
External revenue:					
Sales	674,762	281,846	202,973	–	1,159,581
Third party contributions	61,220	–	1,050	–	62,270
Intersegment revenue	5,963	–	9,972	(15,935)	–
Segment revenue	741,945	281,846	213,995	(15,935)	1,221,851
External expenses:					
Electricity transmission expenses	(212,620)	–	–	–	(212,620)
Gas purchases and production expenses	–	(181,744)	–	–	(181,744)
Technology cost of sales	–	–	(35,662)	–	(35,662)
Asset maintenance expenses	(50,877)	(20,024)	(14,366)	–	(85,267)
Employee benefit expenses	(16,056)	(14,991)	(26,039)	–	(57,086)
Other expenses	(31,661)	(21,843)	(13,027)	–	(66,531)
Intersegment expenses	(8,326)	(6,302)	(1,307)	15,935	–
Segment operating expenses	(319,540)	(244,904)	(90,401)	15,935	(638,910)
Segment EBITDA	422,405	36,942	123,594	–	582,941
Depreciation and amortisation	(103,512)	(15,127)	(68,787)	–	(187,426)
Segment profit/(loss)	318,893	21,815	54,807	–	395,515
Segment capital expenditure	210,624	32,651	104,335	–	347,610

In March 2017, the Technology segment granted an indefeasible right of use ("IRU") to the Regulated Networks segment for the exclusive use of a network of fibre and fibre-associated telecommunications assets. The agreement is recognised as a finance lease and replaces the previous telecommunications services agreement between the two segments. The impact is a reduction in intersegment sales for the Technology segment and an equivalent reduction in intersegment expenses for the Regulated Networks segment.

During the year, the Technology segment procured and sold $1.4 million of battery assets to Regulated Networks at zero margin. The battery assets are included in the segment capital expenditure for Regulated Networks. The impact of the sale transaction is not reflected in the segment information presented for Technology.

Reconciliation to revenue, profit/(loss) before income tax and capital expenditure reported in the financial statements: 2017	REVENUE $000	PROFIT/(LOSS) BEFORE INCOME TAX $000	CAPITAL EXPENDITURE $000
Reported in segment information	1,221,851	395,515	347,610
Amounts not allocated to segments (corporate activities):			
Revenue	4,802	4,802	–
Employee benefit expenses	–	(25,770)	–
Other operating expenses	–	(25,287)	–
Depreciation and amortisation	–	(12,140)	–
Interest costs (net)	–	(137,272)	–
Fair value change on financial instruments	–	1,571	–
Associates (share of net profit/(loss))	–	1,568	–
Capital expenditure	–	–	19,831
Reported in the financial statements	1,226,653	202,987	367,441

03. Segment information://
CONTINUED

2016	REGULATED NETWORKS $000	GAS TRADING $000	TECHNOLOGY $000	INTER-SEGMENT $000	TOTAL $000
External revenue:					
Sales	671,234	277,098	166,977	(22,661)	1,092,648
Third party contributions	48,903	–	915	–	49,818
Intersegment revenue	6,082	–	12,162	(18,244)	–
Segment revenue	726,219	277,098	180,054	(40,905)	1,142,466
External expenses:					
Electricity transmission expenses	(209,740)	–	–	–	(209,740)
Gas purchases and production expenses	–	(176,512)	–	21,543	(154,969)
Technology cost of sales	–	–	(19,465)	30	(19,435)
Asset maintenance expenses	(47,880)	(21,120)	(12,737)	1,088	(80,649)
Employee benefit expenses	(17,963)	(13,954)	(18,016)	–	(49,933)
Other expenses	(22,562)	(19,297)	(13,436)	–	(55,295)
Intersegment expenses	(10,638)	(5,662)	(1,944)	18,244	–
Segment operating expenses	(308,783)	(236,545)	(65,598)	40,905	(570,021)
Segment EBITDA	417,436	40,553	114,456	–	572,445
Depreciation and amortisation	(100,837)	(12,480)	(66,642)	–	(179,959)
Impairment of goodwill and assets	–	(64,000)	–	–	(64,000)
Segment profit/(loss)	316,599	(35,927)	47,814	–	328,486
Segment capital expenditure	200,994	15,255	95,113	–	311,362

The intersegment eliminations include $22.7 million of transactions between continuing and discontinued operations which have been eliminated on consolidation.

During the year, the Technology segment procured and sold $11.9 million of battery assets to Regulated Networks at zero margin. The battery assets are included in the segment capital expenditure for Regulated Networks. The impact of the sale transaction is not reflected in the segment information presented for Technology.

Reconciliation to revenue, profit/(loss) before income tax and capital expenditure reported in the financial statements: 2016	REVENUE $000	PROFIT/(LOSS) BEFORE INCOME TAX $000	CAPITAL EXPENDITURE $000
Reported in segment information	1,142,466	328,486	311,362
Amounts not allocated to segments (corporate activities):			
Revenue	2,137	2,137	–
Employee benefit expenses	–	(26,500)	–
Other operating expenses	–	(25,243)	–
Depreciation and amortisation	–	(14,621)	–
Interest costs (net)	–	(168,805)	–
Fair value change on financial instruments	–	2,344	–
Associates (share of net profit/(loss))	–	2,809	–
Reversal of impairment of investment in associate	–	2,578	–
Capital expenditure	–	–	11,259
Reported in the financial statements	1,144,603	103,185	322,621

04. Discontinued operations://

On 20 April 2016, Vector completed the sale of 100% of the shares in its subsidiary Vector Gas Limited ("Vector Gas") to First State Funds. Vector Gas owned the gas transmission and non-Auckland gas distribution businesses.

The disposal group is presented as discontinued operations in the comparatives in this report.

05. Revenue://

	NOTE	2017 $000	2016 $000
Sales	3	1,159,581	1,092,648
Third party contributions	3	62,270	49,818
Other	3	4,802	2,137
Total		1,226,653	1,144,603

Policies

Revenue is measured at the fair value of consideration received, or receivable.

Revenue is recognised when:

- The amount of the revenue and the costs in respect of the transaction can be measured reliably; and
- It is probable that the economic benefits of the transaction will flow to Vector.

Sales of goods are recognised when the risks and rewards of the goods have been transferred to the buyer.

Sales of services are recognised as the services are delivered, or if applicable on a percentage of completion basis.

Third party contributions towards the construction of property, plant and equipment are recognised to reflect the percentage completion of the underlying construction activity.

Judgements

Management must apply judgement where:

- The timing of customer payments for services does not coincide with the timing of delivery of those services; and/or
- Multiple services are delivered under one contract.

New accounting standards not yet adopted

NZ IFRS 15 *Revenue from Contracts with Customers (including subsequent amendment)*

NZ IFRS 15 applies to contracts to deliver goods and services to customers. Guiding principles in the standard will affect when, how, and how much revenue is recognised in an entity's financial statements in any given reporting period. The standard and its subsequent amendment will replace all existing IFRS guidance for revenue recognition. The most relevant to Vector are: NZ IAS 18 *Revenue*, NZ IAS 11 *Construction Contracts*, and NZ IFRIC 18 *Transfers of Assets from Customers*.

We expect the impact of NZ IFRS 15 on the group will be in respect of the timing and amount of third party contributions recognised each year. We are currently assessing contracts with customers against principles in NZ IFRS 15 to understand and quantify such impact. Revenue streams with a "use and pay" nature will likely continue to be accounted for as under current accounting practice. Examples include line revenues earned in the Regulated Networks segment, and natural gas sales made in the Gas Trading segment. We expect to provide a more detailed update on our evaluation of the financial impact of NZ IFRS 15, including its amendments, in our 2018 interim financial statements. NZ IFRS 15 is mandatory for the group's financial year ended 30 June 2019.

06. Operating expenses://

	NOTE	2017 $000	2016 $000
Electricity transmission	3	212,620	209,740
Gas purchases and production	3	181,744	154,969
Technology cost of sales		35,662	19,435
Network and asset maintenance	3	85,267	80,649
Other direct expenses		30,331	22,922
Employee benefit expenses	3	82,856	76,433
Administration expenses		16,074	15,052
Professional fees		14,438	11,224
IT expenses		14,447	14,767
Loss/(gain) on disposal of PPE and software intangibles		4,348	4,309
Other indirect expenses		12,180	12,264
Total		689,967	621,764

Fees paid to auditors

	2017 $000	2016 $000
Audit or review of financial statements	530	539
Regulatory assurance	508	547
Other audit fees	24	24
Other services	16	4
Total	1,078	1,114

Other audit fees

Other audit fees are for the audit of guaranteeing group financial statements, share registry, bond registers and agreed upon procedures required by certain contractual arrangements.

07. Interest costs (net)://

	2017 $000	2016 $000
Interest expense	144,094	169,036
Capitalised interest	(4,784)	(4,901)
Interest income	(7,110)	(2,321)
Other	5,072	6,991
Total	137,272	168,805

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 6.5% per annum (2016: 6.3%).

08. Fair value change on financial instruments://

	NOTE	2017 $000	2016 $000
Fair value movement on hedging instruments		(53,577)	(27,579)
Fair value movement on hedged items		56,285	29,923
Reclassification of investment in associate to financial asset	14	(1,137)	–
Total gains/(losses)		1,571	2,344

09. Impairment://

	NOTE	2017 $000	2016 $000
Reversal of impairment of investment in associate	14	–	(2,578)
Impairment of goodwill	15	–	64,000
Total		–	61,422

10. Income tax expense/(benefit)://

Reconciliation of income tax expense/(benefit)	2017 $000	2016 $000
Profit/(loss) before income tax	202,987	103,185
Tax at current rate of 28%	56,836	28,892
Current tax adjustments:		
Non-deductible expenses	2,041	1,517
Impairment	–	17,198
Relating to prior periods – depreciation method	17,219	–
Relating to prior periods – tax dispute settlement	(12,570)	–
Relating to prior periods – others	(6,084)	1,836
Other	(3,185)	(2,341)
Deferred tax adjustments:		
Relating to prior periods – depreciation method	(17,219)	–
Relating to prior periods – tax dispute settlement	(2,478)	–
Relating to prior periods – others	(444)	(2,114)
Other	–	(711)
Income tax expense/(benefit)	34,116	44,277
Comprising:		
Current tax	43,200	21,702
Deferred tax	(9,084)	22,575

10. Income tax expense/(benefit):// CONTINUED

Prior period adjustments

Included in the adjustments related to prior periods are:

Change in depreciation method

During the year the group changed the tax depreciation method used for property, plant and equipment from the diminishing value method to the straight-line method.

As a result the group recognised a $17.2 million current income tax expense and an equivalent deferred income tax credit.

Tax dispute settlement

On 12 August 2016, the Court of Appeal released their judgment in respect of a tax dispute between Vector and the Inland Revenue Department. The dispute related to the tax treatment of monies received from Transpower for various rights including access to Vector's tunnel from Penrose to Hobson and the transmission corridor on the North Shore. The Court found in favour of Vector. Through the course of the dispute, Vector had taken a prudent approach and paid taxes in relation to the underlying transaction.

As a result of the judgment and subsequent confirmation that the Commissioner of Inland Revenue will not appeal the Court of Appeal decision, Vector has recognised a $15.0 million income tax benefit.

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.

Imputation credits

There are no imputation credits available for use as at 30 June 2017 (2016: nil), as the imputation account has a debit balance as of that date.

11. Deferred tax://

Deferred tax liability/ (asset)

	NOTE	PPE $000	PROVISIONS AND ACCRUALS $000	HEDGE RESERVES $000	OTHER $000	TOTAL $000
Balance at 1 July 2015		585,927	(14,500)	(27,809)	18,751	562,369
Recognised in profit or loss		26,055	4,830	–	(10,543)	20,342
Recognised in other comprehensive income		–	–	(6,911)	–	(6,911)
Deferred tax associated with discontinued operations		(118,791)	(511)	–	–	(119,302)
Balance at 30 June 2016		493,191	(10,181)	(34,720)	8,208	456,498
Recognised in profit or loss		(13,240)	1,912	–	2,244	(9,084)
Recognised in other comprehensive income		–	–	15,665	–	15,665
Recognised from business combinations	27	12,438	–	–	–	12,438
Balance at 30 June 2017		492,389	(8,269)	(19,055)	10,452	475,517

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

	2017 $000	2016 $000
Deferred tax asset	(104)	(715)
Deferred tax liability	475,621	457,213
Total	475,517	456,498

11. Deferred tax://
CONTINUED

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.

12. Cash and cash equivalents://

	2017 $000	2016 $000
Cash and bank balances	7,041	3,241
Short-term deposits	7,837	318,130
Total	14,878	321,371

Policies

Cash and cash equivalents are carried at amortised cost less an allowance for expected credit losses.

Cash and cash equivalents includes deposits that are on call.

New accounting standards not yet adopted

• ***Disclosure Initiative (Amendments to IAS 7)***

The amendments were issued in January 2016. The amendments introduce a reconciliation between cash flows arising from financing activities as reported in the statement of cash flows to the corresponding liabilities in the opening and closing balance sheet. The amendments will be effective for the first time in the group's financial year ended 30 June 2018.

13. Trade and other receivables://

	2017 $000	2016 $000
Current		
Trade receivables	77,425	71,780
Accrued revenues	101,896	92,378
Interest receivable	13,173	17,100
Prepayments	9,890	7,988
Other	3,959	2,277
Balance at 30 June	206,343	191,523
Non-current		
Other	39	51
Balance at 30 June	39	51

13. Trade and other receivables:// CONTINUED

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

	2017 $000		2016 $000	
	Not credit impaired	Credit impaired	Not credit impaired	Credit impaired
Business customers	56,099	59	56,398	806
Mass market customers	11,179	96	8,936	47
Third party asset damages	2,156	2,957	3,153	2,115
Residential and other	7,650	289	3,099	293
Total gross carrying amount	77,084	3,401	71,586	3,261
Loss allowance	(186)	(2,874)	(484)	(2,583)
	76,898	527	71,102	678

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

	2017 $000		2016 $000	
	Carrying amount	Loss allowance	Carrying amount	Loss allowance
Not past due	60,783	111	55,217	3
Past due 1-30 days	6,022	42	8,441	38
Past due 31-120 days	3,616	284	2,558	136
Past due more than 120 days	7,004	2,623	5,564	2,890
Balance at 30 June	77,425	3,060	71,780	3,067

Policies

Receivables are initially recognised at fair value. They are subsequently adjusted for credit impairment losses.

Discounting is not applied to receivables where collection is expected to occur within the next twelve months.

Credit risk

In assessing credit losses for trade receivables, the group applies the simplified approach and records lifetime expected credit losses ("ECLs") on trade receivables.

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.

In assessing ECLs on trade receivables the group considers 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.

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.

14. Investments://

Judgements

Classifying investments as either subsidiaries, associates, or joint operations requires management to judge the degree of influence which the group holds over the investee.

These judgements impact upon the basis of consolidation accounting which is used to recognise the group's investments in the consolidated financial statements.

14.1 Investments in subsidiaries

Trading subsidiaries

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

		PERCENTAGE HELD	
	Principal Activity	2017	2016
Subsidiaries with 30 June balance date			
NGC Holdings Limited	Holding company	100%	100%
Vector Gas Trading Limited	Natural gas trading and processing	100%	100%
Vector Kapuni Limited	Joint operator – cogeneration plant	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%
Vector Advanced Metering Services (Australia) Pty Limited	Metering services	100%	100%
Vector Advanced Metering Assets (Australia) Limited	Metering services	100%	100%
Arc Innovations Limited	Metering services	100%	100%
Vector Communications Limited	Telecommunications	100%	100%
Vector Energy Solutions Limited (formerly Vector Solar Limited)	Holding company	100%	100%
PowerSmart NZ Limited (formerly Vector Contracting Services Limited)	Energy solutions services	100%	100%
Vector ESPS Trustee Limited	Trustee company	100%	100%
Vector Energy Solutions (Australia) Pty Limited	Energy solutions services	100%	–
Subsidiaries with 31 March balance date			
E-Co Products Group Limited	Holding company	100%	–
Cristal Air International Limited	Ventilation systems assembler and brand franchisor	100%	–
HRV Home Solutions Limited	Ventilation systems, water systems and parts sales	100%	–
Ventilation Australia Pty Limited	Holding company	100%	–
HRV Australia Pty Limited	Ventilation system and parts sales	100%	–
Energy Efficient Solutions NZ (2016) Limited	Home heating solutions sales	100%	–
HVAC Hero 2016 Limited	Wholesaler of systems and parts	100%	–

14. Investments:// CONTINUED

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. There are currently no indicators that Vector does not have control consistent with these voting rights.

The financial statements of subsidiaries are reported in the financial statements using the acquisition method of consolidation.

Intra-group balances and transactions between group companies are eliminated on consolidation.

Balance date

Subsidiaries which have a 31 March balance date are in the process of changing the balance dates to 30 June.

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.

Removal

During the year, two of the group's subsidiaries, Poihipi Land Limited and Mercury Geotherm Limited were removed from the Register of Companies.

14.2 Investment in associates

				PERCENTAGE HELD	
ASSOCIATES	PRINCIPAL ACTIVITY	BALANCE DATE	COUNTRY OF INCORPORATION	2017	2016
Tree Scape Limited	Vegetation management	31 March	New Zealand	50%	50%

	2017 $000	2016 $000
Carrying amount of associates		
Balance at 1 July	15,612	11,475
Reclassification of investment in NZ Windfarms Limited to financial asset	(5,596)	–
Share of net profit/(loss) of associates	1,568	2,809
Share of other comprehensive income of associate	(18)	250
Dividends received	(2,000)	(1,500)
Reversal of impairment of investment in associate	–	2,578
Balance at 30 June	9,566	15,612
Equity accounted earnings of associates		
Profit/(loss) before income tax	2,178	3,901
Income tax benefit/(expense)	(610)	(1,092)
Share of net profit/(loss) of associates	1,568	2,809
Total recognised revenues and expenses	1,568	2,809

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.

14. Investments://
CONTINUED

14.3 Interest in joint operation

			INTEREST HELD	
JOINT OPERATION	PRINCIPAL ACTIVITY	BALANCE DATE	2017	2016
Kapuni Energy Joint Venture	Cogeneration plant operator	30 June	50%	50%

Policies

A joint operation is where Vector is a party to a joint arrangement, and has rights to the assets and obligations for the liabilities relating to the arrangement.

Vector has assessed that the contractual arrangement governing the Kapuni Energy Joint Venture, of which Vector Kapuni Limited is a party, meets the criteria of a joint arrangement, and that the rights and obligations conferred by that contract meet the classification of a joint operation.

The interest in the joint operation is reported in the financial statements using the proportionate method.

14.4 Other investments

NZ Windfarms Limited

During the year, the group reclassified its investment in NZ Windfarms Limited as a financial asset, measured at fair value through other comprehensive income ("OCI"). The investment was previously treated as an associate. The fair value of the investment is determined by reference to its active market price on the New Zealand Stock Exchange. For disclosure purposes, it is classified as level 1 on the fair value hierarchy, explained further in Note 22. On initial measurement to fair value, a loss of $1.1 million was recognised in profit or loss, as shown in Note 8.

15. Intangible assets://

	NOTE	CUSTOMER INTANGIBLES $000	EASEMENTS $000	SOFTWARE $000	TRADE NAMES $000	GOODWILL $000	TOTAL $000
Carrying amount 1 July 2015		15,299	14,751	51,773	–	1,560,960	1,642,783
Cost		21,742	14,751	217,982	–	1,560,960	1,815,435
Accumulated amortisation		(6,443)	–	(166,209)	–	–	(172,652)
Transfers from PPE		–	34,817	29,528	–	–	64,345
Sale of discontinued operations		–	(35,025)	(1,189)	–	(298,823)	(335,037)
Impairment		–	–	–	–	(64,000)	(64,000)
Amortisation for the period		(2,271)	–	(25,445)	–	–	(27,716)
Carrying amount 30 June 2016		13,028	14,543	54,667	–	1,198,137	1,280,375
Cost		21,742	14,543	229,041	–	1,198,137	1,463,463
Accumulated amortisation		(8,714)	–	(174,374)	–	–	(183,088)
Transfers from PPE		–	1,763	24,849	–	–	26,612
Acquisition of business	27	28,200	–	2,123	16,800	67,868	114,991
Disposals		–	–	(11)	–	–	(11)
Amortisation for the period		(2,755)	–	(21,759)	(209)	–	(24,723)
Carrying amount 30 June 2017		38,473	16,306	59,869	16,591	1,266,005	1,397,244
Cost		49,942	16,306	252,516	16,800	1,266,005	1,601,569
Accumulated amortisation		(11,469)	–	(192,647)	(209)	–	(204,325)

15. Intangible assets://
CONTINUED

15.1 Goodwill

Goodwill by reportable segment	2017 $000	2016 $000
Regulated Networks	1,021,458	1,021,458
Gas Trading	156,826	156,826
Technology	87,721	19,853
Total	1,266,005	1,198,137

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. However, it is allocated to operating segments for impairment testing purposes as this is the highest level permissible under NZ IFRS.

Impairment testing

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

For all segments the recoverable amount of each segment to which goodwill is allocated exceeds the net assets plus goodwill allocated. Therefore the group has determined that no impairment to goodwill has occurred during the period.

As at 30 June 2016, the group recognised an impairment loss of $64.0 million in respect of goodwill allocated to the gas trading segment. The gas trading segment comprises the group's natural gas, LPG, gas storage and processing, and cogeneration businesses.

Judgements

To assess impairment, management must estimate the future cash flows of operating segments including the cash generating units (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.

Assumptions

The recoverable amounts attributed to the electricity, gas distribution, metering and communications CGUs are calculated on the basis of value-in-use using discounted cash flow models. For the gas trading CGU, both value in use and fair value less costs to sell were considered. 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 gas trading and communications CGUs.

Terminal growth rates in a range of 1.0% to 2.0% (2016: 1.0% to 2.0%) and post-tax discount rates between 4.8% and 7.6% (2016: 5.3% and 8.1%) are applied. Rates vary for the specific segment 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.

15. Intangible assets://
CONTINUED

15.2 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	2 – 36
Customer intangibles	3 – 20
Trade names	20

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 operating segments to which they have been allocated.

16. Property, plant and equipment (PPE)://

	DISTRIBUTION SYSTEMS $000	ELECTRICITY AND GAS METERS $000	LAND, BUILDINGS AND IMPROVEMENTS $000	COMPUTER AND TELCO EQUIPMENT $000	OTHER PLANT AND EQUIPMENT $000	CAPITAL WORK IN PROGRESS $000	TOTAL $000
Carrying amount 1 July 2015	3,257,940	393,683	163,590	101,231	106,149	107,283	4,129,876
Cost	4,167,244	621,102	188,705	185,702	184,099	107,283	5,454,135
Accumulated depreciation	(909,304)	(227,419)	(25,115)	(84,471)	(77,950)	–	(1,324,259)
Additions	–	–	–	–	–	342,272	342,272
Transfers – Intangible assets	(34,292)	–	–	–	–	(30,053)	(64,345)
Transfers – Other	185,267	66,685	7,455	12,818	22,138	(294,363)	–
Disposals	(3,475)	(43)	–	(31)	(405)	–	(3,954)
Sale of discontinued operations	(543,603)	(199)	(431)	(111)	(6,568)	(10,084)	(560,996)
Depreciation for the period	(109,690)	(40,637)	(3,455)	(12,195)	(6,685)	–	(172,662)
Carrying amount 30 June 2016	2,752,147	419,489	167,159	101,712	114,629	115,055	3,670,191
Cost	3,609,898	684,310	195,249	196,854	200,682	115,055	5,002,048
Accumulated depreciation	(857,751)	(264,821)	(28,090)	(95,142)	(86,053)	–	(1,331,857)
Additions	–	–	–	–	2,500	367,441	369,941
Acquisition of business	–	–	800	203	1,903	–	2,906
Transfers – Intangible assets	–	–	–	–	–	(26,612)	(26,612)
Transfers – Other	221,824	73,044	8,388	17,285	24,010	(344,551)	–
Disposals	(4,022)	–	(7)	(99)	–	–	(4,128)
Depreciation for the period	(108,085)	(43,636)	(3,856)	(11,211)	(8,055)	–	(174,843)
Carrying amount 30 June 2017	2,861,864	448,897	172,484	107,890	134,987	111,333	3,837,455
Cost	3,818,393	755,975	204,660	208,870	229,095	111,333	5,328,326
Accumulated depreciation	(956,529)	(307,078)	(32,176)	(100,980)	(94,108)	–	(1,490,871)

16. 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	10 – 100	Other plant and equipment	3 – 55
Leasehold improvements	5 – 20		

Judgements

Management must apply judgement when evaluating:

- Whether costs relate to bringing the items to working condition
- The amount of overhead costs which can be reasonably directly attributed to the construction or acquisition of an asset
- Whether subsequent expenditure on the asset increases the future economic benefits to be obtained from that asset
- Whether any indicators of impairment have occurred which might require impairment testing of the current carrying values

Capital commitments

The estimated capital expenditure for PPE and software intangibles contracted for at balance date but not provided is $52.6 million for the group (2016: $57.9 million).

17. Operating leases://

	2017 $000	2016 $000
Aggregate minimum lease payments under non-cancellable operating leases where Vector is the lessee		
Within one year	5,732	5,018
One to five years	13,431	14,126
Beyond five years	5,205	5,219
Total	24,368	24,363

Policies

Payments made under operating leases, where the lessors effectively retain the risks and benefits of ownership, are recognised in profit or loss on a straight-line basis over the lease term.

Lease incentives received are recognised as an integral part of the total lease expense over the term of the lease.

Lease of premises

The majority of the operating lease commitments relate to the group's leases of premises. These, in the main, give the group the right to renew the lease at the end of the current lease term.

New accounting standards not yet adopted

NZ IFRS 16 *Leases*

NZ IFRS 16 will replace all existing guidance on leases, in particular NZ IAS 17 *Leases* and NZ IFRIC 4 *Determining Whether an Arrangement Contains a Lease*. Under NZ IFRS 16, an entity's right to control the use of an asset (analogous to an operating lease under NZ IAS 17) meets the definition of, and is recognised as, an asset on the balance sheet. A lease liability reflecting future lease payments is also recognised. Vector is a lessee in predominantly property and land leases. Total non-cancellable operating lease commitments total $24.4 million at 30 June 2017.

We expect to provide a more detailed update on our evaluation of the financial impact of NZ IFRS 16 in our 2018 interim financial statements. NZ IFRS 16 is mandatory for the group's financial year ended 30 June 2020 with early adoption permitted if NZ IFRS 15 is also adopted.

18. Trade and other payables://

	2017 $000	2016 $000
Current		
Trade payables	164,034	134,320
Deferred payables	10,401	12,383
Employee benefits	15,934	14,488
Deferred income	25,452	22,618
Finance leases	434	238
Interest payable	33,665	38,943
Balance at 30 June	249,920	222,990
Non-current		
Deferred income	10,548	12,188
Deferred payables	29,992	28,394
Finance leases	371	413
Other non-current payables	500	2,798
Balance at 30 June	41,411	43,793

Other payables

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

Deferred income includes third party contributions received in excess of those recognised in profit or loss.

Deferred payables include third party rebates payable in excess of those paid in cash.

19. Provisions://

	DECOMMISSIONING PROVISIONS $000	OTHER $000	TOTAL $000
Balance 1 July 2016	17,040	6,232	23,272
Additions	1,946	–	1,946
Reversed to the profit or loss	–	(1,452)	(1,452)
Unwinding of discount	1,455	–	1,455
Balance at 30 June 2017	20,441	4,780	25,221
Comprising:			
Current	–	4,780	4,780
Non-current	20,441	–	20,441

Policies

A provision is recognised where the likelihood of a resultant liability is more probable than not, and the amount required to settle the liability can be reliably estimated.

Decommissioning

The decommissioning provisions represent the present value of the future expected costs for dismantling the group's gas treatment and cogeneration plants situated at Kapuni and 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.

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.

20. Borrowings://

2017	CURRENCY	MATURITY DATE	FACE VALUE $000	UNAMORT-ISED COSTS $000	FAIR VALUE ADJUSTMENT ON HEDGED RISK $000	CARRYING VALUE $000	FAIR VALUE $000
Bank facilities – variable rate	NZD	Feb 2018 – Mar 2020	95,000	(940)	–	94,060	94,060
Capital bonds – 5.7% fixed rate	NZD	–	307,205	(1,553)	–	305,652	319,349
Wholesale bonds – 4.996% fixed rate	NZD	Mar 2024	100,000	(301)	–	99,699	98,320
Senior notes – fixed rate	USD	Sep 2019 – Sep 2022	697,139	(1,369)	23,498	719,268	711,341
Floating rate notes – variable rate	NZD	Oct 2017 – Oct 2020	750,000	(1,579)	–	748,421	735,959
Medium term notes – 7.625% fixed rate	GBP	Jan 2019	285,614	(909)	(81,315)	203,390	222,709
Balance at 30 June			2,234,958	(6,651)	(57,817)	2,170,490	2,181,738

20. Borrowings://
CONTINUED

2016	CURRENCY	MATURITY DATE	FACE VALUE $000	UNAMORT-ISED COSTS $000	FAIR VALUE ADJUSTMENT ON HEDGED RISK $000	CARRYING VALUE $000	FAIR VALUE $000
Bank facilities – variable rate (undrawn)	NZD	Feb 2018	–	(229)	–	(229)	(229)
Capital bonds – 7% fixed rate	NZD	–	262,651	(116)	–	262,535	270,026
Senior notes – fixed rate	USD	Sep 2016 - Sep 2022	796,014	(1,683)	79,783	874,114	834,256
Floating rate notes – variable rate	NZD	Apr 2017 - Oct 2020	910,000	(2,647)	–	907,353	872,269
Medium term notes – 7.625% fixed rate	GBP	Jan 2019	285,614	(1,464)	(71,042)	213,108	241,074
Balance at 30 June			2,254,279	(6,139)	8,741	2,256,881	2,217,396

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, explained further in Note 22.

Capital bonds

Capital bonds of $307.2 million are unsecured, 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. On 15 June 2017, Vector also sold at face value $44.6 million of capital bonds that it had held as treasury stock since the 2012 election process.

Wholesale bonds

Wholesale bonds of $100.0 million were issued in March 2017, with the interest rate fixed at 4.996%.

Senior notes

In September 2016, $98.9 million (USD 65.0 million) of USD senior notes were repaid with cash from short term deposits.

Floating rate notes

The $750.0 million floating rate notes are credit wrapped by MBIA Insurance Corporation and Ambac Assurance Corporation. In April 2017, $160.0 million of floating rate notes matured and were repaid with cash from short term deposits. $400.0 million of floating rate notes are due to be repaid in October 2017 – a process to refinance these notes in the US private placement market is well advanced.

Bank facilities

Three new floating rate bank facilities were added to the existing facilities in March 2017, these mature in March 2020. The unamortised establishment fees unwind over the life of the facilities.

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 2017 and 30 June 2016.

21. Derivatives and hedge accounting://

	CASH FLOW HEDGES		FAIR VALUE HEDGES		COST OF HEDGING		TOTAL	
	2017 $000	2016 $000	2017 $000	2016 $000	2017 $000	2016 $000	2017 $000	2016 $000
Derivative assets								
Cross currency swaps	–	–	35,812	84,758	(3,712)	(2,330)	32,100	82,428
Interest rate swaps	5,820	–	–	–	–	–	5,820	–
Forward exchange contracts	47	–	–	–	–	–	47	–
Total	5,867	–	35,812	84,758	(3,712)	(2,330)	37,967	82,428
Derivative liabilities								
Cross currency swaps	(94,679)	(87,964)	(11,564)	(6,933)	1,153	1,781	(105,090)	(93,116)
Interest rate swaps	(57,695)	(106,380)	–	–	–	–	(57,695)	(106,380)
Forward exchange contracts	(304)	(149)	–	–	–	–	(304)	(149)
Total	(152,678)	(194,493)	(11,564)	(6,933)	1,153	1,781	(163,089)	(199,645)

The fair value of derivative assets has decreased as at 30 June 2017 largely due to the strengthening of the New Zealand dollar against foreign currencies. The fair value of derivative liabilities has increased as at 30 June 2017 largely due to the decrease in New Zealand floating rates, offset by the strengthening of the New Zealand dollar against foreign currencies.

Key observable market data for fair value measurement	2017	2016
Foreign currency exchange (FX) rates as at 30 June		
NZD-GBP FX rate	0.5629	0.5360
NZD-USD FX rate	0.7334	0.7134
Interest rate swap rates		
NZD	1.85% to 3.36%	2.24% to 2.67%
USD	1.22% to 2.51%	0.47% to 1.73%
GBP	0.25% to 1.62%	0.38% to 1.24%
Credit margins		
Vector	1.00% to 2.05%	1.59% to 2.69%
Counterparties	0.03% to 1.18%	0.40% to 2.32%

21. Derivatives and hedge accounting://
CONTINUED

Sensitivity to changes in market rates	2017 $000	2016 $000
Impact on comprehensive income:		
Sensitivity to change in interest rates		
-1% change in interest rates	(42,649)	(48,695)
+1% change in interest rates	39,008	42,798
Sensitivity to change in foreign exchange rates		
-10% change in foreign exchange rates	(2,385)	(6,082)
+10% change in foreign exchange rates	3,001	6,341
Sensitivity to change in credit margins		
-0.50% change in credit margins	(908)	(1,845)
+0.50% change in credit margins	909	1,803
Impact on profit or loss:		
Sensitivity to change in interest rates		
-1% change in interest rates	(1,377)	(2,418)
+1% change in interest rates	1,200	2,392
Sensitivity to change in foreign exchange rates		
-10% change in foreign exchange rates	2,806	4,452
+10% change in foreign exchange rates	(1,487)	(3,843)
Sensitivity to change in credit margins		
-0.50% change in credit margins	633	2,008
+0.50% change in credit margins	(655)	(1,949)

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 22.

Fair value is calculated as the present value of the estimated future cash flows based on 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.

The resulting gain or loss on re-measurement is recognised in profit or loss immediately, unless the derivative is designated and effective as a hedging instrument, in which case the timing of recognition in profit or loss depends on the nature of the designated hedge relationship.

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.

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

21. Derivatives and hedge accounting://
CONTINUED

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, GBP medium term 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 table on the previous page shows the sensitivity of the financial statements to a range of possible changes in the market data at balance date.

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.

	2017 $000		2016 $000	
	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	37,967	–	82,428	7,986
Derivative liabilities	(163,089)	(125,122)	(199,645)	(125,203)
Net amount	(125,122)	(125,122)	(117,217)	(117,217)

21. Derivatives and hedge accounting://
CONTINUED

21.1 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 2017	FACE VALUE $000	WEIGHTED AVERAGE RATE	CARRYING AMOUNT ASSETS/ (LIABILITIES) $000	CHANGE IN FAIR VALUE USED FOR MEASURING INEFFECTIVENESS $000	HEDGING (GAIN) OR LOSS RECOGNISED IN CASH FLOW HEDGE RESERVE $000	HEDGE INEFFECTIVENESS RECOGNISED IN PROFIT OR LOSS $000	(GAIN) OR LOSS RECOGNISED IN COST OF HEDGING $000
Interest risk							
Hedged item: NZD floating rate exposure on borrowings	(1,000,000)			(52,842)			
Hedging instrument: Interest rate swaps	(1,420,000)	5.0%	(51,875)	(51,875)	51,875	–	–
Interest and exchange risk							
Hedged item: GBP fixed rate exposure on borrowings	(285,614)			(96,315)			
Hedging instrument: Cross currency swaps	(285,614)	10.8%	(93,954)	(94,679)	13,364	–	(725)
					Total	–	

Cash flow hedges 2016	FACE VALUE $000	WEIGHTED AVERAGE RATE	CARRYING AMOUNT ASSETS/ (LIABILITIES) $000	CHANGE IN FAIR VALUE USED FOR MEASURING INEFFECTIVENESS $000	HEDGING (GAIN) OR LOSS RECOGNISED IN CASH FLOW HEDGE RESERVE $000	HEDGE INEFFECTIVENESS RECOGNISED IN PROFIT OR LOSS $000	(GAIN) OR LOSS RECOGNISED IN COST OF HEDGING $000
Interest risk							
Hedged item: NZD floating rate exposure on borrowings	(1,160,000)			(110,817)			
Hedging instrument: Interest rate swaps	(1,430,000)	5.5%	(106,380)	(106,380)	106,380	–	–
Interest and exchange risk							
Hedged item: GBP fixed rate exposure on borrowings	(285,614)			(92,161)			
Hedging instrument: Cross currency swaps	(285,614)	10.8%	(86,198)	(87,964)	16,923	–	(1,766)
					Total	–	

The NZD floating rate exposure includes $750.0 million from the floating rate notes (2016: $910.0 million) and $250.0 million arising from hedging the USD senior bonds (2016: $250.0 million), as allowable under NZ IFRS 9.

The interest rate swaps include $420.0 million of forward starting swaps (2016: $270.0 million).

21. Derivatives and hedge accounting:// CONTINUED

21.1 Effects of hedge accounting on the financial position and performance (continued)

Fair value hedges 2017	FACE VALUE $000	WEIGHTED AVERAGE RATE	ACCUMULATED FAIR VALUE HEDGE ADJUSTMENTS $000	CARRYING AMOUNT ASSETS/ (LIABILITIES) $000	CHANGE IN FAIR VALUE OF THE HEDGED ITEM $000	CHANGE IN FAIR VALUE OF THE HEDGING INSTRUMENT $000	CHANGE IN VALUE IN COST OF HEDGING $000
Interest and exchange risk							
Hedged item: USD fixed rate exposure on borrowings	(697,139)		(23,498)	(719,268)	56,285		
Hedging instrument: Cross currency swaps	(697,139)	floating		20,964		(53,577)	(970)
				Total	56,285	(53,577)	

Fair value hedges 2016	FACE VALUE $000	WEIGHTED AVERAGE RATE	ACCUMULATED FAIR VALUE HEDGE ADJUSTMENTS $000	CARRYING AMOUNT ASSETS/ (LIABILITIES) $000	CHANGE IN FAIR VALUE OF THE HEDGED ITEM $000	CHANGE IN FAIR VALUE OF THE HEDGING INSTRUMENT $000	CHANGE IN VALUE IN COST OF HEDGING $000
Interest and exchange risk							
Hedged item: USD fixed rate exposure on borrowings	(796,014)		(79,783)	(874,114)	29,923		
Hedging instrument: Cross currency swaps	(796,014)	floating		75,511		(27,579)	(1,094)
				Total	29,923	(27,579)	

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.

21. Derivatives and hedge accounting://
CONTINUED

21.2 Reconciliation of changes in hedge reserves

Hedge reserves 2017	CASHFLOW HEDGE RESERVE $000	COST OF HEDGING $000	TOTAL $000
Opening balance	88,883	395	89,278
Hedging gains or losses recognised in OCI	1,640	2,011	3,651
Transferred to profit or loss	(59,469)	–	(59,469)
Recognised as basis adjustment to non-financial assets	(127)	–	(127)
Deferred tax on change in reserves	16,228	(563)	15,665
Closing balance	47,155	1,843	48,998

Hedge reserves 2016	CASH FLOW HEDGE RESERVE $000	COST OF HEDGING $000	TOTAL $000
Opening balance	74,065	(472)	73,593
Hedging gains or losses recognised in OCI	71,708	1,204	72,912
Transferred to profit or loss	(50,194)	–	(50,194)
Recognised as basis adjustment to non-financial assets	(934)	–	(934)
Deferred tax on change in reserves	(5,762)	(337)	(6,099)
Closing balance	88,883	395	89,278

22. Financial risk management://

Policies

Fair value measurement hierarchy

Financial instruments measured at fair value are classified according to the following levels:

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).

Risk management framework

Vector has a comprehensive treasury policy, approved by the board of directors, 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 of directors. Each risk is monitored on a regular basis and reported to the board.

22. Financial risk management:// CONTINUED

22.1 Interest rate risk

Interest rate exposure 2017	< 1 YEAR $000	1 - 2 YEARS $000	2 - 5 YEARS $000	> 5 YEARS $000	TOTAL $000
Interest rate exposure: borrowings	845,000	285,614	753,828	350,516	2,234,958
Derivative contracts:					
Interest rate swaps	(790,000)	(230,000)	600,000	420,000	–
Cross currency swaps	697,139	–	(446,623)	(250,516)	–
Net interest rate exposure	752,139	55,614	907,205	520,000	2,234,958

Interest rate exposure 2016	< 1 YEAR $000	1 - 2 YEARS $000	2 - 5 YEARS $000	> 5 YEARS $000	TOTAL $000
Interest rate exposure: borrowings	1,271,526	–	582,237	400,516	2,254,279
Derivative contracts:					
Interest rate swaps	(1,000,000)	210,000	520,000	270,000	–
Cross currency swaps	697,139	–	(296,623)	(400,516)	–
Net interest rate exposure	968,665	210,000	805,614	270,000	2,254,279

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

22.2 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 of directors 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 2017, all financial instruments are held with financial institutions with credit rating above A+;
- The board of directors 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.

22. Financial risk management:// CONTINUED

22.3 Liquidity risk

Contractual cash flows maturity profile 2017	PAYABLE <1 YEAR $000	PAYABLE 1-2 YEARS $000	PAYABLE 2-5 YEARS $000	PAYABLE >5 YEARS $000	TOTAL CONTRACTUAL CASH FLOWS $000
Non-derivative financial liabilities					
Trade payables	174,435	8,025	21,874	93	204,427
Borrowings: interest	87,724	84,026	142,138	15,252	329,140
Borrowings: principal	400,000	204,299	1,195,377	348,176	2,147,852
Derivative financial (assets)/liabilities					
Cross currency swaps: inflow	(47,392)	(251,691)	(497,378)	(253,425)	(1,049,886)
Cross currency swaps: outflow	55,518	336,758	508,127	257,944	1,158,347
Forward exchange contracts: inflow	(23,523)	–	–	–	(23,523)
Forward exchange contracts: outflow	23,787	–	–	–	23,787
Net settled derivatives					
Interest rate swaps	29,173	17,503	17,816	(3,389)	61,103
Group contractual cash flows	699,722	398,920	1,387,954	364,651	2,851,247

Contractual cash flows maturity profile 2016	PAYABLE <1 YEAR $000	PAYABLE 1-2 YEARS $000	PAYABLE 2-5 YEARS $000	PAYABLE >5 YEARS $000	TOTAL CONTRACTUAL CASH FLOWS $000
Non-derivative financial liabilities					
Trade payables	146,703	10,306	18,006	82	175,097
Borrowings: interest	95,285	63,246	114,794	19,285	292,610
Borrowings: principal	513,764	400,000	837,911	437,342	2,189,017
Derivative financial (assets)/liabilities					
Cross currency swaps: inflow	(142,688)	(49,065)	(578,809)	(456,627)	(1,227,189)
Cross currency swaps: outflow	157,016	56,198	668,730	422,476	1,304,420
Forward exchange contracts: inflow	(3,301)	–	–	–	(3,301)
Forward exchange contracts: outflow	3,460	–	–	–	3,460
Net settled derivatives					
Interest rate swaps	42,348	28,305	49,247	4,279	124,179
Group contractual cash flows	812,587	508,990	1,109,879	426,837	2,858,293

The above table shows the timing of non-discounted cash flows for all financial instrument liabilities and derivatives.

The cash flows for capital bonds, included in borrowings, are disclosed as payable within 2 – 5 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 $530.0 million (2016: $315.0 million).

22. Financial risk management:// CONTINUED

22.4 Foreign exchange risk

Policies

Vector is exposed to foreign exchange risk through its borrowing activities, foreign currency denominated expenditure, and through its Australian subsidiaries.

Foreign exchange exposure is primarily managed through entering into derivative contracts. The board of directors 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.

22.5 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 20.

The board of directors has set the maximum amount of debt that may mature in any one financial year.

23. Cash flows://

Reconciliation of net profit/(loss) to net cash flows from/(used in) operating activities	NOTE	2017 $000	2016 $000
Net profit/(loss) for the period		168,871	274,402
Items associated with sale of discontinued operations			
Gain on sale of discontinued operations classified as investing activities		–	(166,206)
Costs of sale of discontinued operations classified as operating activities		–	(6,892)
Items classified as investing activities			
Net loss/(gain) on disposal of PPE and software intangibles	6	4,348	4,312
Non-cash items			
Depreciation and amortisation		199,566	200,378
Non-cash portion of interest costs (net)		(3,824)	(1,102)
Fair value change on financial instruments	8	(1,571)	(2,344)
Associates (share of net profit/(loss))	14	(1,568)	(2,809)
Impairment	9	–	61,422
Increase/(decrease) in deferred tax		(9,084)	20,529
Increase/(decrease) in provisions		(1,312)	(4,505)
		182,207	271,569
Cash items not impacting net profit/(loss)			
Payments of amounts in provisions		–	(13,331)
Dividends received from associate	14	2,000	1,500
Changes in assets and liabilities			
Trade and other payables		8,186	24,564
Inventories		(2,049)	845
Trade and other receivables		(11,183)	(25,109)
Income tax		(16,667)	(13,600)
		(21,713)	(13,300)
Net cash flows from/(used in) operating activities		335,713	352,054

24. Equity://

24.1 Transactions with owners

Dividends

Vector's final dividend for the year ended 30 June 2016 of 8.00 cents per share was paid on 15 September 2016, with a supplementary dividend of $0.5 million (equating to 1.41 cents per non-resident share).

The interim dividend for the current year of 8.00 cents per share was paid on 13 April 2017, with a supplementary dividend of $0.5 million (equating to 1.41 cents per non-resident share).

Both dividends were fully imputed, and gave rise to foreign investor tax credits equal to the amount of supplementary dividend paid.

Vector recognises dividends as a payable in the financial statements on the date the dividend is declared.

Shares

The total number of authorised and issued shares is 1,000,000,000 (2016: 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 4,354,013 shares (2016: 4,340,052) are held as treasury shares of which 109,090 (2016: 95,129) are allocated to the employee share purchase scheme.

24.2 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;
- Issue new shares; or
- Sell assets to reduce debt.

Vector primarily monitors capital on the basis of the gearing ratio.

24. Equity://
CONTINUED

24.3 Financial ratios

Earnings per share	2017 $000 12 MONTHS	2016 $000 12 MONTHS
Net profit from continuing operations attributable to owners of the parent	165,789	55,999
Net profit from discontinued operations attributable to owners of the parent	–	215,494
Net profit attributable to owners of the parent	165,789	271,493
Weighted average ordinary shares outstanding during the period (number of shares)	995,651,036	995,642,121
Earnings per share from continuing operations	16.7 cents	5.6 cents
Earnings per share from discontinued operations	–	21.6 cents
Total earnings per share	16.7 cents	27.2 cents

Net tangible assets per share	2017 $000	2016 $000
Net assets attributable to owners of the parent	2,430,618	2,381,988
Less total intangible assets	(1,399,638)	(1,281,656)
Total net tangible assets	1,030,980	1,100,332
Ordinary shares outstanding (number of shares)	995,645,987	995,659,948
	103.5 cents	110.5 cents

Economic net debt to economic net debt plus adjusted equity ratio ("gearing ratio")	2017 $000	2016 $000
Face value of borrowings	2,234,958	2,254,279
Less cash and cash equivalents	(14,878)	(321,371)
Economic net debt	2,220,080	1,932,908
Total equity	2,448,338	2,398,335
Adjusted for hedge reserves	48,998	89,278
Adjusted equity	2,497,336	2,487,613
Economic net debt plus adjusted equity	4,717,416	4,420,521
	47.1%	43.7%

24. Equity://
CONTINUED

24.4 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 interest rate swaps 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, $59.5 million (2016: $50.2 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 associates other comprehensive income. — A reserve to record the fair value movements in the group's investments in financial assets.

25. Related party transactions://

	2017 $000	2016 $000
Transactions with Entrust		
Dividends paid	120,160	118,283
Rental income received	15	15
Telecommunication services	2	3

	2017 $000	2016 $000
Transactions with associates and joint operations		
Purchases of electricity and steam from Kapuni Energy Joint Venture (KEJV)	7,818	9,070
Purchase of vegetation management services from Tree Scape Limited	6,778	5,655
Sale of gas to KEJV	8,254	8,987
Sales of operations and maintenance services to KEJV	1,859	2,081
Administration and other services provided to KEJV	89	87
Dividends received from Tree Scape Limited	2,000	1,500
Electricity services provided to NZ Windfarms Limited	120	120
Directors' fees from NZ Windfarms Limited	–	30
Directors' fees from Tree Scape Limited	94	94
Transactions with key management personnel		
Salary and other short-term employee benefits	5,518	4,795
Directors' fees	945	1,003

Related parties

Related parties of the group include the associates and joint operations disclosed in Note 14, the ultimate parent entity (Entrust) and key management personnel (directors and the executive team).

Other

The group may transact on an arms' length basis with companies in which directors have a disclosed interest.

Receivables/payables

	2017 $000	2016 $000
NZ Windfarms Limited	(17)	3
Tree Scape Limited	(724)	–
KEJV	534	141

26. 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 19 of these financial statements.

No material contingent liabilities have been identified.

27. Business combinations://

On 31 March 2017, Vector Energy Solutions Limited (formerly known as Vector Solar Limited) and its subsidiary, Vector Contracting Services Limited acquired 100% of the voting shares in E-Co Products Group Limited ("E-Co Products") and the business and net assets of PowerSmart NZ Limited ("PowerSmart") respectively for total cash consideration of $91.0 million.

Vector Contracting Services Limited simultaneously changed its name to PowerSmart NZ Limited on 31 March 2017. Both Vector Energy Solutions Limited and PowerSmart NZ Limited are wholly owned subsidiaries of Vector.

E-Co Products is a provider of healthy home solution products. E-Co Products operates primarily in New Zealand with some small scale operations in Australia. PowerSmart is a provider of solar power solutions, primarily to the commercial and industrial sectors.

The acquired businesses will provide Vector with complementary channels to deliver healthy and energy efficient solutions directly to customers. Goodwill is attributable to the synergies that these channels are expected to deliver to the group, as well as the knowledge and skillset of the staff retained. None of the goodwill recognised is expected to be deductible for tax purposes.

The fair values of the assets and liabilities acquired have been determined on a provisional basis. The final determination of fair values will be finalised within twelve months from the date of the acquisition. The difference between the provisional fair value of assets and liabilities acquired and the purchase price has been recognised as goodwill.

	2017 $000
Provisional fair value of net assets acquired at acquisition date	
Net working capital	956
Property, plant and equipment (including software)	5,029
Identifiable intangible assets	45,000
Deferred tax liability	(12,438)
Bank debt and other liabilities subsequently repaid	(15,430)
Goodwill	67,868
Net assets and liabilities acquired	90,985
Cash paid 31 March 2017	92,006
Post-acquisition adjustment	(1,021)
Total consideration	90,985

On the date of acquisition, Vector repaid $15.4 million of E-Co Products' liabilities. The repayment was treated as a separate transaction.

From the date of acquisition, E-Co Products and PowerSmart have contributed a combined $17.5 million of revenue and $0.5 million of profit before tax to the group.

If the acquisitions had taken place at the beginning of the period, the combined contribution to revenue and net profit before tax for the group would have been $68.9 million and $8.7 million respectively.

28. Events after balance date://

Approval	The financial statements were approved by the board of directors on 23 August 2017.
Commerce Commission settlement	On 7 July 2017, Vector and the Commerce 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 will be effected through a price adjustment for the regulatory year to 31 March 2019 and 31 March 2020. The total amount of the adjustment is approximately $13.9 million which will impact revenues reported for the financial years ending 30 June 2018 (3 months), 30 June 2019 (12 months), and 30 June 2020 (9 months). No adjustment is required to these financial statements in respect of this event.
Final dividend	On 23 August 2017, the board declared a final and fully imputed dividend for the year ended 30 June 2017 of 8.0 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 consolidated financial statements

Opinion

In our opinion, the accompanying consolidated financial statements of Vector Limited and its subsidiaries (the "Group") on pages 77 to 117:

i. present fairly in all material respects the Group's financial position as at 30 June 2017 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 (NZ IFRS) and International Financial Reporting Standards.

We have audited the accompanying consolidated financial statements which comprise:

— the consolidated statement of financial position as at 30 June 2017;

— the consolidated statement of comprehensive income, statement of changes in equity, and statement of 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) (ISA's (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 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under International Standards on Auditing (New Zealand) 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 and other assurance services. 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 statements as a whole was set at $9.5 million. This was determined with reference to a benchmark of Group profit before tax. We chose profit before tax as the benchmark as the Group is a profit oriented business and in our view, this is a key measure of the of the Group's performance.

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Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Group 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 Matters we identified are:

1 Capitalisation and asset lives

2 Impairment testing of goodwill

3 Valuation of investments in new energy technologies and markets as part of Vector's strategy to 'Create a New Energy Future'

The key audit matter	How the matter was addressed in our audit
1. Capitalisation and asset lives (Property, plant and equipment of $3,837 million, with additions during the year of $370 million). Refer to Note 16 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 to Vector'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 electricity and gas distribution networks. This decision depends on whether the expenditure is considered to enhance the network (and therefore capital), or to maintain the current operating capability of the network (and therefore an expense); — 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 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 amounts 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.

The key audit matter	How the matter was addressed in our audit
2. Impairment assessment of a) the Gas Trading and b) the Regulated Networks cash generating units (inclusive of $1,178 million of goodwill). Refer to Note 15 of the financial statements	
We considered the impairment assessment of the Gas Trading cash generating unit (CGU), including $157m of goodwill, to be a key audit matter due to the continued low margin trading environment and also in the context of the impairment of $64 million recorded in 30 June 2016 period. We also considered the impairment assessment of the Regulated Networks CGUs to be a key audit matter due to the significance of goodwill of $1,021 million to the financial position of the Group and the significant judgment used to estimate future pricing of the regulated revenue streams beyond the timeframe of the current Commerce Commission regulatory price paths.	The procedures we performed to evaluate the impairment assessments included: — assessing whether the methodology adopted in the discounted cash flow models was consistent with accepted valuation approaches within the energy industry; — evaluating the significant future cash flow assumptions by comparing to historical trends, customer contracts and supplier agreements, Asset Management Plans, regulatory pricing models and budgets; — 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; and — comparing the Group's total net assets as at 30 June 2017 of $2,448 million to its market capitalisation of $3,330 million at 30 June 2017 which implied total headroom of $882 million. For each CGU we found the methodology to be consistent with industry norms. We found: — the discount and terminal growth rates were in an acceptable industry range; — future cash flow assumptions to be supportable 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.
3. Valuation of investments in new energy technologies and markets as part of Vector's strategy to 'Create a New Energy Future'	
During the year ended 30 June 2017 Vector has invested circa $155 million in new energy technologies and markets as part of its strategy to 'Create a New Energy Future', including but not limited to: — acquisitions of E-Co Products Group Limited and PowerSmart NZ Limited (refer Note 27 of the financial statements) — continued investment in developing a presence in the Australian electricity	The procedures we performed to conclude on the valuation assessments included: — understanding the sale and purchase agreement for the acquisitions, critically assessing the approach and assumption used to identify and value the respective intangible assets and understanding the intrinsic value that is represented by the resulting goodwill; — evaluating the performance of the Australian metering business, in particular understanding the status and critically challenging the expected future outlook of Vector's bids for meter data and deployment contracts with Australian energy retailers ahead of

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The key audit matter	How the matter was addressed in our audit
metering market to coincide with changes to the market regulation and structure. We consider the valuation of investments in new energy technologies and markets to be a key audit matter because of the judgement involved whether through; — valuing intangible assets and goodwill acquired in a business or asset purchase; or — considering the carrying value of assets in markets where the future outcomes are more uncertain than in Vector's established businesses.	the "Power of Choice" regime that comes into effect from 1 December 2017; and — assessing whether there are indicators of impairment in respect of any of these investments. We did not identify any material errors in the valuations attributed to the investments in the new non-regulated activities outlined opposite.

Other Information

The Directors, on behalf of Vector Limited, are responsible for the other information included in the entity's Annual Report. Other information may include the Chairman and Chief Executive reports, the financial performance trends and disclosures relating to corporate governance and statutory information. 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 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 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 report or any of the opinions we have formed.

Responsibilities of the Directors for the consolidated financial statements

The Directors, on behalf of Vector Limited, are responsible for:

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

— implementing necessary internal control to enable the preparation of consolidated financial statements that are 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 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 International Standards on Auditing (New Zealand) will always detect a material misstatement when it exists.

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:

https://www.xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page1.aspx

This description forms part of our Auditor's Report.

KPMG

Ross Buckley

Partner

KPMG
Auckland
23 August 2017

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 2017 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.

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 $10,000 during the year ended 30 June 2017. Subsidiaries of Vector Limited made donations of $8,850 during the year ended 30 June 2017.

Credit rating
At 30 June 2017 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
Vector Limited has been granted waivers from the requirements of various listing rules to allow the Constitution to contain certain provisions which are not ordinarily contained in the constitution of a company listed on the NZSX, including, in particular, provisions giving certain rights to Entrust (formerly Auckland Energy Consumer Trust). Vector has been given a non-standard designation by NZX due to the inclusion of these provisions in its constitution.

On 12 September 2008 NZX Regulation granted Vector a waiver from NZX Main Board Listing Rule 9.3.1 to the extent necessary to allow the trustees of Entrust to vote on any ordinary resolution of shareholders to set Vectors' Director's remuneration under NZX Main Board Listing Rule 3.5.1.

Exercise of NZX powers
NZX did not exercise any of its powers set out in Listing Rule 5.4.2 (relating to powers to cancel, suspend or censure an issuer) with respect to Vector Limited.

Trustees of Entrust
During the year ended 30 June 2017, Vector Limited made payments to J Carmichael and K Sherry, trustees of Entrust (Vector Limited's majority shareholder) totalling $201,300 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 124 and 125. Other than PowerSmart NZ Limited and E-Co Products Group Limited, which were acquired on 1 April 2017, the Company has not gained or lost control of any entity during the year ended 30 June 2017.

Directors

The following directors of Vector Limited and current group companies held office as at 30 June 2017 or resigned (R) as a director during the year ended 30 June 2017. Directors marked (A) were appointed during the year.

Parent	Directors
Vector Limited	P Bird (R), J Carmichael, H Fletcher, J Mason, A Paterson, K Sherry, M Stiassny, R Thomson

All of the above directors in office at 30 June 2017 are independent directors, except for J Carmichael and K Sherry who are trustees of Entrust (Vector Limited's majority shareholder).

Subsidiaries	Directors
Advanced Metering Assets Limited	P Bird (R), J Carmichael, H Fletcher, J Mason, A Paterson, K Sherry, M Stiassny, R Thomson
Advanced Metering Services Limited	P Bird (R), J Carmichael, H Fletcher, J Mason, A Paterson, K Sherry, M Stiassny, R Thomson
Arc Innovations Limited	P Bird (R), J Carmichael, H Fletcher, J Mason, A Paterson, K Sherry, M Stiassny, R Thomson
Auckland Generation Limited	S Mackenzie, D Molloy
Cristal Air International Limited	R Bell (R), J Carmichael (A), B Gordon (A), S Mackenzie (A)
E-Co Products Group Limited	J Carmichael (A), R Dhawan (R), R Eagar (R), B Gordon (A), S Mackenzie (A)
Energy Efficient Solutions NZ (2016) Limited	R Bell (R), J Carmichael (A), B Gordon (A), S Mackenzie (A)
HRV Australia Pty Limited	R Bell (R), J Carmichael (A), R Dhawan (R), B Gordon (A), S Mackenzie (A) J Sheridan (A)
HRV Clean Water	R Bell (R), J Carmichael (A), B Gordon (A), S Mackenzie (A)
HRV Filters Limited	R Bell (R), J Carmichael (A), B Gordon (A), S Mackenzie (A)
HRV Home Solutions Limited	R Bell (R), J Carmichael (A), B Gordon (A), S Mackenzie (A)
HRV Marketing Limited	R Bell (R), J Carmichael (A), B Gordon (A), S Mackenzie (A)
HVAC Hero 2016 Limited	R Bell (R), J Carmichael (A), B Gordon (A), S Mackenzie (A)
Liquigas Limited	T Barstead, J Floyd (R), A Gilbert, I Lindsay (R), D Molloy, G O'Brien (A), T Palmer, J Seymour, R Sharp, A Smith, B Talacek (A), D Thomas (R), C Thompson, M Trigg (A)
MEL Network Limited	S Mackenzie, D Molloy
NGC Limited	S Mackenzie, D Molloy
NGC Holdings Limited	P Bird (R), J Carmichael, H Fletcher, J Mason, A Paterson, K Sherry, M Stiassny, R Thomson
On Gas Limited	P Bird (R), J Carmichael, H Fletcher, J Mason, A Paterson, K Sherry, M Stiassny, R Thomson
PowerSmart NZ Limited	J Carmichael (A), B Gordon (A), S Mackenzie (A)
Safe Filters Limited	R Bell (R), J Carmichael (A), B Gordon (A), S Mackenzie (A)
Safe Windows Limited	R Bell (R), J Carmichael (A), B Gordon (A), S Mackenzie (A)
UnitedNetworks Limited	S Mackenzie, D Molloy
Vector Advanced Metering Assets (Australia) Limited	P Bird (R), J Carmichael, H Fletcher, J Mason, A Paterson, K Sherry, M Stiassny, R Thomson
Vector Advanced Metering Services (Australia) Pty Limited	S Mackenzie, I McClelland (R), J Sheridan (A)
Vector Communications Limited	P Bird (R), J Carmichael, H Fletcher, J Mason, A Paterson, K Sherry, M Stiassny, R Thomson
Vector ESPS Trustee Limited	S Mackenzie, D Molloy
Vector Gas Trading Limited	P Bird (R), J Carmichael, H Fletcher, J Mason, A Paterson, K Sherry, M Stiassny, R Thomson
Vector Gas Investments Limited	S Mackenzie, D Molloy
Vector Kapuni Limited	S Mackenzie, D Molloy
Vector Management Services Limited	S Mackenzie, D Molloy
Vector Metering Data Services Limited	P Bird (R), J Carmichael, H Fletcher, J Mason, A Paterson, K Sherry, M Stiassny, R Thomson
Vector Energy Solutions (Australia) Pty Limited	J Carmichael (A), B Gordon (A), S Mackenzie (A), J Sheridan (A)
Vector Energy Solutions Limited	J Carmichael (A), B Gordon (A), S Mackenzie (A), D Molloy (R)
Ventilation Australia Pty Limited	R Bell (R), J Carmichael (A), R Dhawan (R), B Gordon (A), S Mackenzie (A) J Sheridan (A)

Directors
CONTINUED

Associates	Directors
Tree Scape Limited	A Botha, E Chignell, S Mackenzie, D Molloy, K Smith (A) P Smithies (R), B Whiddett

Directors' remuneration and value of other benefits received from Vector Limited and current group companies for the year ended 30 June 2017:

Directors of Vector Limited	Paid by parent $	Paid by subsidiaries $
P Bird (R)	25,163	–
J Carmichael	100,650	–
H Fletcher	100,650	–
J Mason	100,650	–
A Paterson	100,650	–
K Sherry	100,650	–
M Stiassny	201,300	–
R Thomson	100,650	–
	830,363	–

Directors of subsidiaries	Paid by parent $	Paid by subsidiaries $
T Barstead	–	5,625
J Floyd (R)	–	3,750*
A Gilbert	–	3,521
I Lindsay (R)	–	15,649
D Molloy	–	5,000*
G O'Brien	–	1,479
J Seymour	–	5,000
R Sharp	–	5,000*
J Sheridan	–	20,501
A Smith	–	5,000
B Talacek	–	1,260*
D Thomas	–	6,875*
C Thompson	–	5,000
M Trigg	–	30,783
	–	114,443

*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 2017 that are not set out elsewhere in this annual report:

Director	Entity	Position
J Carmichael	Aku Investments Limited	Director
	Energy Trusts of New Zealand	Executive member
	Entrust	Trustee
	Projectmax Limited	Director
	UniServices	Advisor
H Fletcher	Arrow Wrights Limited	Director
	Dilworth Trust	Trustee
	E.T. & B.H. Fletcher Trust	Trustee
	Fletcher Brothers Limited	Director and shareholder
	Harper Pass Limited	Chairman and shareholder
	IAG (NZ) Holdings Limited	Non-executive chairman
	IAG Finance (New Zealand) Limited	Director
	IAG New Zealand Limited	Non-executive chairman
	Insurance Australia Group Limited	Non-executive director
	J.M.C. Fletcher Family Trust	Trustee
	Knox Investment Partners Fund IV	Member of the advisory committee
	Roderic Fletcher Trust	Trustee
	Rubicon Limited	Non-executive director and shareholder
	S.S., E.T. & B.H. Fletcher Trust	Trustee
	Tenon Clearwood Limited Partnership	Limited partner and director of the advisory board
	The Fletcher Trust	Trustee
	The New Zealand Portrait Gallery	Trustee
	The University of Auckland Foundation	Trustee
J Mason	Air New Zealand Limited	Director
	Beloit College, Wisconsin, USA	Trustee
	New Zealand Assets Management Limited	Director
	University of Auckland	Trustee and adjunct professor of management
	Westpac New Zealand Limited	Director
	Zespri Group Limited	Director

Directors
CONTINUED

Directors of Vector Limited
CONTINUED

Director	Entity	Position
A Paterson	AM Paterson Trust	Trustee
	BJ Paterson Trust	Trustee
	Donny Charitable Trust	Trustee
	Farm IQ Systems Limited	Chairman
	Forestry Industry Safety Council	Chairman
	GMI Group	Chairman
	Health Quality & Safety Commission	Member
	New Zealand Formulary Limited	Chairman
	NZ Markets Disciplinary Tribunal	Member
	Te Aupouri Commercial Development Limited	Chairman
	Te Aupouri Fisheries Management Limited	Chairman
K Sherry	Bell-Booth Sherry Limited	Director and shareholder
	Energy Efficiency and Conservation Authority (EECA)	Director
	Energy Trusts of New Zealand	Chairman
	Entrust	Trustee
	Sasha & Otto Limited	Director and shareholder
M Stiassny	Atapo Corporation Limited	Director and shareholder
	Auckland Hebrew Congregation Trust Board	Chairman
	DNZ Property Fund Limited	Director
	Emerald Group Limited	Director
	Gadol Corporation Limited	Director and shareholder
	KordaMentha	Partner
	Ngati Whatua Orakei Whai Rawa Limited	Chairman
	Plan B Limited	Director
	Tower Capital Limited	Director
	Tower Limited	Director
	Triceps Holdings Limited	Director and shareholder
R Thomson	Calnan Holdings Limited	Director and shareholder
	Energy Trusts of New Zealand	Consultant
	R & M Thomson Holdings Limited	Director and shareholder

The entities listed above against each director may transact with Vector Limited and its subsidiaries in the normal course of business. Auckland based directors (J Carmichael, H Fletcher, J Mason, A Paterson, K Sherry and M Stiassny) are Vector Limited residential electricity customers.

Directors of subsidiaries
There are no entries in the interests register of subsidiaries up to 30 June 2017 that are not set out elsewhere in this annual report.

Remuneration and performance

Remuneration Framework

Vector's remuneration framework is designed to attract and retain high performing individuals, able to support the delivery of the company's strategy and vision, and reward them appropriately and competitively. The board regularly reviews our remuneration strategy.

All employees have fixed remuneration, targeted at the market median and most have the potential to earn a short-term incentive (STI). STI is a variable element of remuneration and is only paid if both Company and individual performance goals have been met.

We have expanded our disclosure this year, including Group Chief Executive remuneration.

Fixed Remuneration

Fixed remuneration is reviewed each year based on data from independent remuneration specialists. Employees' fixed remuneration is based on a matrix of their own performance and their current position when compared to our internal role bands and the market.

Short-term incentive

STI values are set as a percentage of fixed remuneration, from 5% to 50% based on the complexity of the role. The Group Chief Executive has an STI as a percentage of fixed remuneration as set out later in this report. STI payments are determined following a review of Company and individual performance and paid out at a multiplier of between 0x and 1.0x for the Group Chief Executive and executive leadership team, and between 0x and 1.0x for all other employees.

This model is based on clear goals, differentiating performance, and rewarding delivery.

Company performance goals are set and reviewed annually by the board to align with shareholder value. If Company goals are not met, including preliminary "gateway" goals, no STI is payable. In the year ended 30 June 2017, the Company goals were:

- 40% Disciplined growth & cost efficiency (EBITDA performance against budget);
- 40% Customer experience; and
- 20% Environmental compliance.

Individual performance goals for all employees are tailored to their role, with 50% of the goals based on 'what' they achieve and 50% based on 'how' they perform their role, which includes a health and safety component for all employees.

As an example of how STI is calculated, an employee with fixed remuneration of $80,000 and an STI element of 10% may receive between $0 and $8,000 (0x to 1.0x their STI percentage) depending on the level of Company performance and their individual performance.

Group Chief Executive remuneration

The Group Chief Executive's remuneration consists of fixed remuneration and an STI. There is no long-term incentive or share options. This is reviewed annually by the board after reviewing company performance, the Group Chief Executive's individual performance and advice from external remuneration specialists.

Remuneration and performance
CONTINUED

Group Chief Executive remuneration for performance periods ending 30 June 2017 and 30 June 2016

	Fixed remuneration			Pay for performance	Total remuneration
	Salary[1]	Non-taxable benefits[2]	Subtotal	STI	
FY17	1,176,997	–	1,176,997	SEE FOOTNOTE 3	SEE FOOTNOTE 5
FY16	1,148,290	–	1,148,290	427,164[4]	1,575,454

Five Year Remuneration Summary

	Total remuneration	% STI awarded against maximum
FY17	SEE FOOTNOTE 5	SEE FOOTNOTE 3
FY16	1,575,454	74.40%
FY15	1,533,947	73.85%
FY14	1,501,316	74.73%
FY13	1,484,427	79.76%

1. Salary indicates fixed remuneration, inclusive holiday pay as per NZ legislation.
2. No additional benefits.
3. STI for FY17 performance period has not been calculated (scheduled for review in October 2017).
4. STI for FY16 performance period (paid FY17).
5. Total Remuneration and STI data not available at this time.

Description of Group Chief Executive STI, scheme for performance period ending 30 June 2017

Scheme	Description	Performance measures	Percentage of maximum awarded
STI	Set to a maximum of 50% of fixed remuneration for FY17 on-plan performance where the highest levels of both company and individual performance measures are achieved.	Company performance measures: • 40% Disciplined growth and cost efficiency. • 40% Customer experience. • 20% Environmental compliance. Individual performance measures: • 20% New Technology and Growth. • 35% Operational Excellence. • 20% Customer Excellence. • 25% Health & Safety.	If met, payment will be October 2017

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 2017 are set out in the table below:

Current employees	Group	Company
$100,001 - $110,000	67	58
$110,001 - $120,000	65	56
$120,001 - $130,000	49	41
$130,001 - $140,000	49	41
$140,001 - $150,000	39	32
$150,001 - $160,000	23	21
$160,001 - $170,000	27	23
$170,001 - $180,000	10	8
$180,001 - $190,000	10	10
$190,001 - $200,000	12	9
$200,001 - $210,000	12	11
$210,001 - $220,000	8	7
$220,001 - $230,000	5	2
$230,001 - $240,000	4	3
$240,001 - $250,000	5	5
$250,001 - $260,000	4	4
$260,001 - $270,000	2	2
$270,001 - $280,000	1	1
$280,001 - $290,000	3	3
$300,001 - $310,000	2	2
$310,001 - $320,000	3	3
$340,001 - $350,000	4	3
$350,001 - $360,000	3	3
$370,001 - $380,000	1	1
$380,001 - $390,000	1	1
$430,001 - $440,000	1	1
$530,001 - $540,000	1	1
$550,001 - $560,000	1	1
$620,001 - $630,000	1	1
$710,001 - $720,000	1	1
$810,001 - $820,000	1	1
$1,590,001 - $1,600,000	1	1
	416	357

The number of former employees of the company and the group receiving remuneration and benefits above $100,000 in the year ended 30 June 2017 are set out in the table below:

Former employees (including any termination payments)	Group	Company
$100,001 - $110,000	2	2
$110,001 - $120,000	7	6
$120,001 - $130,000	1	1
$160,001 - $170,000	1	1
$210,001 - $220,000	1	1
$250,001 - $260,000	1	1
$260,001 - $270,000	1	1
$290,001 - $300,000	1	1
$330,001 - $340,000	1	1
$970,001 - $980,000	1	1
	17	16

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 2017:

5.70% capital bonds

Range	Number of bondholders	Percentage of bondholders	Number of securities held	Percentage of securities held
5,000 – 9,999	678	16.11%	3,657,000	1.19%
10,000 – 49,999	2,652	63.02%	53,220,700	17.32%
50,000 – 99,999	545	12.95%	31,170,000	10.15%
100,000 – 499,999	301	7.16%	45,749,300	14.89%
500,000 – 999,999	10	0.24%	5,823,000	1.90%
1,000,000 plus	22	0.52%	167,585,000	54.55%
	4,208	100.00%	307,205,000	100.00%

The following current directors of the parent are holders (either beneficially or non-beneficially) of Vector Limited capital bonds as at 30 June 2017:

Director	Number of bonds
M Stiassny	150,000
H Fletcher (as a trustee of The Fletcher Trust)	250,000

Shareholder statistics

Twenty largest registered shareholders as at 30 June 2017:

Shareholder	Ordinary shares held	Percentage of ordinary shares held
Entrust	751,000,000	75.10%
New Zealand Central Securities Depository Limited*	66,307,863	6.63%
Custodial Services Limited <A/C 3>	13,769,126	1.38%
Custodial Services Limited <A/C 2>	6,919,064	0.69%
Custodial Services Limited <A/C 4>	6,503,369	0.65%
Investment Custodial Services Limited <A/C C>	4,796,444	0.48%
JBWERE (NZ) Nominees Limited <NZ Resident A/C>	4,459,477	0.45%
Vector Limited	4,244,923	0.42%
Custodial Services Limited <A/C 18>	4,138,404	0.41%
FNZ Custodians Limited	3,046,958	0.30%
Forsyth Barr Custodians Limited <1-CUSTODY>	2,455,243	0.25%
Custodial Services Limited <A/C 1>	2,103,518	0.21%
Custodial Services Limited <A/C 16>	1,548,233	0.16%
New Zealand Depository Nominee Limited <A/C 1 Cash Account>	1,300,293	0.13%
M A Janssen Limited	1,039,200	0.10%
PT (Booster Investments) Nominees Limited	1,012,861	0.10%
Anthony Ian Gibbs & Valarie Jane Gibbs & Joseph Michael Windmeyer <Ruby Cove Legacy A/C>	552,460	0.06%
Custodial Services Limited <A/C 6>	510,489	0.05%
Kershaw Investments Limited	475,000	0.05%
Croxen Investments Limited	431,624	0.04%
	876,614,549	87.66%

*New Zealand Central Securities Depository Limited provides a depository system which allows electronic trading of Securities for its members.

Shareholder statistics
CONTINUED

As at 30 June 2017, the 10 largest shareholdings in Vector Limited held through NZCSD were:

Shareholder	Ordinary shares held	Percentage of ordinary shares held
Citibank Nominees (New Zealand) Limited	17,206,082	1.72%
HSBC Nominees (New Zealand) Limited A/C State Street	11,564,264	1.16%
Accident Compensation Corporation	11,296,192	1.13%
HSBC Nominees (New Zealand) Limited	7,666,829	0.77%
ANZ Custodial Services New Zealand Limited	3,742,719	0.37%
JP Morgan Chase Bank NA NZ Branch-Segregated Clients Acct	3,503,555	0.35%
National Nominees New Zealand	3,445,153	0.34%
BNP Paribas Nominees (NZ) Limited	2,948,132	0.29%
Public Trust RIF Nominees Limited	1,334,275	0.13%
HSBC Nominees A/C NZ Superannuation Fund Nominees Limited	1,281,363	0.13%

Substantial product holders as at 30 June 2017:

Shareholder	Number of relevant interest voting products held	Percentage of voting products held
Entrust	751,000,000	75.10%

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

As at 30 June 2017, voting products issued by Vector Limited totalled 1,000,000,000 ordinary shares. Of these shares 4,244,923 are held by Vector Limited with the rights and obligations attaching to those shares being suspended pursuant to the provisions of section 67B of the Companies Act 1993.

Ordinary shares distribution as at 30 June 2017:

Range	Number of shareholders	Percentage of shareholders	Number of shares held	Percentage of shares held
1 – 499	6,598	20.33%	2,072,666	0.21%
500 – 999	3,373	10.39%	2,637,436	0.26%
1,000 – 4,999	16,780	51.70%	30,551,925	3.06%
5,000 – 9,999	2,816	8.68%	18,887,431	1.89%
10,000 – 49,999	2,623	8.08%	46,389,766	4.64%
50,000 – 99,999	167	0.51%	10,638,011	1.06%
100,000 plus	101	0.31%	888,822,765	88.88%
	32,458	100.00%	1,000,000,000	100.00%

Analysis of shareholders as at 30 June 2017:

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	984	3.03%	8,722,117	0.87%
Individual Holders	20,774	64.00%	60,029,624	6.00%
Joint	9,714	29.93%	45,268,808	4.53%
Nominee Companies	525	1.62%	127,460,959	12.75%
Vector Limited	1	0.00%	4,244,923	0.42%
Other	459	1.42%	3,273,569	0.33%
	32,458	100.00%	1,000,000,000	100.00%

Shareholder statistics
CONTINUED

The following current directors of the parent are holders (either beneficially or non-beneficially) of Vector Limited ordinary shares as at 30 June 2017:

Director	Number of shares
J Carmichael	1,322
H Fletcher (held by Fletcher Brothers Limited)	100,344
H Fletcher (as a trustee of The Fletcher Trust)	67,000
H Fletcher (held by Arrow Wrights Limited)	40,000
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
K Sherry	840
M Stiassny	65,793
R Thomson	45,000

Michael Buczkowski, James Carmichael, William Cairns, Paul Hutchison and Karen Sherry are the registered holders of the 751,000,000 ordinary shares held by Entrust. James Carmichael and Karen Sherry 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 2017 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
M Stiassny	Beneficial	26 July 2016	None	1,322

2017	
Final dividend paid	15 September
Annual meeting	26 September
2018	
First quarter operational statistics	October
Second quarter operational statistics	January
Half year result and report	February
Interim dividend*	April
Third quarter operational statistics	April
Fourth quarter operational 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 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

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This Annual Report is dated 23 August 2017 and signed on behalf of the board by:

Michael Stiassny
Chairman

Jonathan Mason
Director

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