

VECTOR CORPORATE GOVERNANCE STATEMENT

AS AT 24/08/2018

INTRODUCTION

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

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 on the Vector website. For further information, please refer to Vector's annual report.

COMMITMENT TO LISTING RULES AND CORPORATE GOVERNANCE

Vector's ordinary shares are quoted on the NZX Limited's Main Board and our capital bonds are quoted on the NZX Debt Market. Consequently, Vector's governance practices are informed by the listing rules, principles, guidelines, and recommendations of NZX Limited's Main Board Listing Rules and the October 2017 Edition of the NZX Corporate Governance Code.

During the financial year ended 30 June 2018, the October 2017 Edition of the NZX Corporate Governance Code commenced for Vector. Vector has recently reviewed its corporate governance practices in light of the Code. Further changes are expected to apply from 1 July 2019 as a result of an NZX review of the listing rules.

As at the date of the Annual Report, Vector believes that the governance practices it has opted to follow generally align with these principles, guidelines and recommendations with one material exception. The NZX Corporate Governance Code recommends that protocols be established for dealing with takeovers. Given the Entrust's Trust Deed, it is not practically possible for a takeover offer to be made in respect of Vector otherwise than by Entrust, so Vector has not adopted takeover protocols.

RESPECTING THE RIGHTS OF SHAREHOLDERS

Vector's commitments to our various stakeholders are part of our Board charter and the company's Code of Conduct and Ethics. Vector's Stakeholder Relations Policy is also published on Vector's website.

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, and enabling shareholders to receive communications from, and send communications to, Vector and our security registry electronically.
- 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.
- 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 Constitution includes provisions relating to our 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.

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 2018, the Board comprised eight directors, all of whom are non-executive directors. Information on the skills, experience, and expertise of each director and their independence status can be found on Vector's website.

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 can be found on Vector's website. 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.

LAYING SOLID FOUNDATIONS FOR MANAGEMENT

Each director has a duty to act in the best interests of the company. 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 while acting in the interests of the company and our 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.

Vector achieves Board and management accountability through its Board charter, which sets out 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 they may appropriately and effectively perform their duties.

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 our shareholders
- Ensure a balance of authority so that no single individual has unfettered powers.

BOARD COMMITTEES

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

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 2018 were: Jonathan Mason (Chairman), James Carmichael, Alison Paterson, Karen Sherry, Michael Stiassny, and Bob Thomson.

REGULATORY COMMITTEE

- Assists the Board in fulfilling its responsibilities to protect the interests of Vector, our 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 2018 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 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 2018 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.
- The Nominations Committee considered and recommended the appointment of David Bartholomew and Sibylle Krieger before their recent appointments.
- Members of the Nominations Committee as at 30 June 2018 were: Michael Stiassny (Chairman), James Carmichael, Jonathan Mason, Alison Paterson, Karen Sherry, and Bob Thomson.

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 2018, performance evaluations of the Group Chief Executive and executives were conducted in accordance with this process.

BOARD COMMITTEES

- 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 2018 were: James Carmichael (Chairman), Alison Paterson, Karen Sherry, Michael Stiassny, and Bob Thomson.

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 2018 were: Karen Sherry (Chair), James Carmichael, Jonathan Mason, Alison Paterson, Michael Stiassny, and Bob Thomson.

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 2018 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.

MAKING TIMELY AND BALANCED DISCLOSURE

Vector has in place a Continuous Disclosure Policy designed to ensure that we comply 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 our operational performance and conducts detailed market briefings in conjunction with the release of our 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.

REMUNERATING FAIRLY AND RESPONSIBLY

The directors' remuneration, and certain employee remuneration information, is set out in the 'Statutory Information' section of Vector's 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.

PROMOTION OF ETHICAL AND RESPONSIBLE DECISION-MAKING

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

The following policies have been put in place to assist with this and can be found in full on Vector's website.

CODE OF CONDUCT AND ETHICS

Sets out the ethical standards expected from Vector's directors, employees, 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 our normal performance management processes and our Whistleblower Policy.

CONTINUOUS DISCLOSURE POLICY

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

INSIDER TRADING POLICY

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

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.

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.

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.

SUSTAINABILITY POLICY

Sets out Vector's overarching commitment to sustainability.

WHISTLEBLOWER POLICY

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

