

## Introduction

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**This Corporate Governance Statement is dated 22 August 2019 and contains information regarding corporate governance at Vector for the financial year ended 30 June 2019 and refers to the 2019 annual report (annual report).**

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

The Board has established a set of guiding principles contained in the Board Charter that state that the company will:

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

This Corporate Governance Statement (**Statement**) provides further detail around the framework of corporate governance policies, practices and processes that Vector has adopted. The Statement follows the NZX Corporate Governance Code (2019) (**NZX Code**), and reports on Vector's practices against the NZX Code's recommendations. Vector's key corporate governance documents referred to in this Statement, including charters and policies, can be found at [www.vector.co.nz/investors/governance](http://www.vector.co.nz/investors/governance) (the **Website Governance section**).

Vector's governance practices are informed by the NZX Listing Rules (**NZX Rules**), the NZX Code, the Financial Markets Conduct Act 2013 and the Companies Act 1993.

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

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## Principle 1 – Code of Ethical Behaviour

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*“Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for these standards being followed throughout the organisation.”*

### RECOMMENDATION 1.1

**The board should document minimum standards of ethical behaviour to which the issuer’s directors and employees are expected to adhere (a code of ethics).**

Directors and employees are expected to act legally, ethically, responsibly and with integrity in a manner consistent with Vector’s policies, procedures and values.

A comprehensive set of policies has been put in place to assist directors, staff and contractors to act and make decisions in an ethical and responsible manner. The policies are available to staff on Vector’s internal website. The Code of Conduct and Ethics and Directors Code of Practice are available at the Website Governance section.

The Code of Conduct and Ethics covers a wide range of areas and provides guidance regarding personal integrity, business integrity, customers and society, people, and assets and information.

The procedure for advising the company of a suspected breach is set out in the Whistleblower Policy. The options include a dedicated 0800 number, email, post, an online form and an in person complaint.

### RECOMMENDATION 1.2

**An issuer should have a financial product dealing policy which applies to employees and directors.**

The Board has implemented formal procedures to handle trading in Vector’s securities by directors and employees of Vector, with approval being required before trading can occur. Approval must be obtained from the Company Secretary.

The policy provides that shares may not be traded at any time by any individual holding “material information” (as defined in the NZX Rules). A blackout period is imposed for all directors, senior officers and certain other people between the day before the end of the half year and full year balance dates and the day after the release to NZX of the result for that period. The full procedures and specific details of the blackout period are included in the Insider Trading Policy which is available at the Website Governance section.

The fundamental rule in the policy is that insider trading is prohibited at all times. The requirements of the policy are separate from, and in addition to, the legal prohibitions on insider trading in New Zealand.

## Principle 2 – Board Composition & Performance

*“To ensure an effective board, there should be a balance of independence, skills, knowledge, experience and perspectives.”*

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; and
- ensure a balance of authority so that no single individual has unfettered powers.

Vector's Constitution and the NZX Rules set certain requirements in relation to the Board structure. The Board must have a minimum of three and a maximum of nine directors, with at least two being ordinarily resident in New Zealand. The Board comprises eight 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 'Our Board' section on pages 36 and 37 of the annual report.

### RECOMMENDATION 2.1

**The board of an issuer should operate under a written charter which sets out the roles and responsibilities of the board.**

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

The Board has overall responsibility for all decision making within Vector. To ensure that Vector's business objectives and strategies are achieved and to deliver value to the company and its shareholders, the Board will strive to understand, meet, and appropriately balance the expectations of all its stakeholders, including its employees, customers and the wider community. It has delegated day-to-day management of the company to the Group Chief Executive and the senior management team.

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 sets out the expectation that all directors continuously educate themselves to ensure that they may appropriately and effectively perform their duties. The charter is available at the Website Governance section.

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

The main functions of the Board include:

- Reviewing and approving the strategic, business and financial plans prepared by Management.
- Monitoring performance against the strategic, business and financial plans.
- Appointing, delegating to and reviewing the performance of the Group Chief Executive.
- Approving major investments and divestments.
- Ensuring ethical behaviour by the company, Board, management and employees.
- Assessing its own effectiveness in carrying out its functions.

A committee or individual director may engage separate independent professional advice in certain situations, at the expense of the company. The Chair of the Board is to be advised that the advice has been taken and the advice is to be made available to the rest of the Board.

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.

## PRINCIPLE 2 CONTINUED

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### RECOMMENDATION 2.2

**Every issuer should have a procedure for the nomination and appointment of directors to the board.**

The Board is responsible for appointing directors. The Board seeks diversity in the skills, attributes, perspectives and experience of its members across a broad range of criteria so as to represent the diversity of shareholders, business types and regions in which the company operates. The Board has established a nominations committee (**Nominations Committee**), the purpose of which is to assist the Board in fulfilling its responsibility to have an efficient mechanism for examination of the selection and appointment practices of the company.

The Nominations Committee's responsibilities broadly include management of the appointment process for new directors and the re-election of existing directors.

When considering an appointment, the Nominations Committee will undertake a thorough check of the candidate and his or her background. Where the Board determines a person is an appropriate candidate, shareholders are notified of that and are provided with appropriate information to enable them to vote on whether to elect or re-elect a director.

The Nominations Committee also has responsibility for reviewing the Board's composition and succession plans to ensure that the company has access to the most appropriate balance of skills, qualifications, experience, perspectives and background to effectively govern the company. The current mix of skills and experience is considered appropriate for the responsibilities and requirements of governing the company. The Board looks to strengthen its oversight of issues in all disciplines, as required, via expert advice.

Other responsibilities of the Nominations Committee include recommending procedures for the regular review of the performance of the Board and committees; making determinations as to the independence status of all directors; and ensuring there is an appropriate induction and education programme and that letters of engagement are in place for new directors.

### RECOMMENDATION 2.3

**An issuer should enter into written agreements with each newly appointed director establishing the terms of their appointment**

All new directors enter into a written agreement with Vector setting out the terms of their appointment.

### RECOMMENDATION 2.4, 2.8 and 2.9

**Every issuer should disclose information about each director in its annual report or on its website, including a profile of experience, length of service, independence, ownership interests and director attendance at board meetings.**

**A majority of the board should be independent directors. An issuer should have an independent chair of the board.**

A profile of each of the directors is on pages 36 to 37 of the annual report. The profiles include information on the year of appointment, skills, experience and background of each director.

In November 2018, the Board appointed Dame Alison Paterson as Vector's Chair and Jonathan Mason as Deputy Chair.

The Board considers all directors to be independent with the exceptions of Michael Buczowski and Karen Sherry, who are also trustees of Entrust, Vector's majority shareholder. Directors are required to inform the Board of all relevant information which may affect their independence. The Nominations Committee is responsible for assessing director independence on an ongoing basis.

Only independent directors are eligible to be the Board Chair. The roles of Board Chair, Audit Committee Chair, Risk and Assurance Committee Chair and Group Chief Executive are each held by different people.

The Board has a majority of independent directors. Director independence is considered on a case-by-case basis and is monitored.

## PRINCIPLE 2 CONTINUED

Ownership of Vector shares by directors is encouraged but is not a requirement. Directors' ownership interests are listed on page 109 of the annual report.

The Board does not have a tenure policy however it recognises that a regular refreshment programme leads to the introduction of new perspectives, skills, attributes and experience.

	Director period of appointment		
	0 – 3 YEARS	3 – 9 YEARS	9 YEARS +
<b>Number of Directors</b>	4	1	3

Details of director attendance at Board meetings are set out under Principle 3 below.

### Interests Register

The Board maintains an Interests Register. Any director who is interested in a transaction with the company must immediately disclose to the Board the nature, monetary value and extent of the interest. A director who is interested in a transaction may attend and participate at a Board meeting at which the transaction is discussed but may not be counted in the quorum for that meeting or vote in respect of the transaction, unless it is one in respect of which directors are expressly required by the Companies Act 1993 to sign a certificate.

Particulars of entries made in the Interests Register are included in the Directors section on pages 102 and 103 of the annual report.

## RECOMMENDATION 2.5

**An issuer should have a written diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving diversity (which, at a minimum, should address gender diversity) and to assess annually both the objectives and the entity's progress in achieving them.**

Vector is committed to:

- adding to, nurturing and developing the collective relevant skills, and diverse experience and attributes of Vector's 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; and
- being recognised as an organisation that exemplifies diversity and inclusion in action.

Vector recruits, promotes and compensates based on merit, regardless of gender, gender identity, ethnicity, disability, religion, age, nationality, sexual orientation, or socio-economic background.

It is a company policy that people in the workplace are treated with respect in accordance with the company's philosophies of equal employment opportunities, and anti-harassment and discrimination policies.

Vector's workforce is made up of many individuals with diverse skills, values, backgrounds and experiences. Vector respects and values the benefit of this diversity and is committed to creating and maintaining both a diverse workforce and an inclusive workplace for all employees.

"Diversity" at Vector refers to all characteristics that make individuals different from each other, including gender, gender identity, ethnicity, disability, age, sexual orientation, religion and socio-economic background.

"Inclusion" at Vector means providing a work environment where everyone feels comfortable to bring themselves to work, where they have an opportunity to fully participate in achieving Vector's business objectives and where each person is valued for their unique perspectives, skills and experiences.

Responsibility for workplace diversity and the setting of measurable objectives for approval by the Board is held by management on behalf of the Board. A Diversity Council, made up of senior management representatives, provides overview of the implementation of the Diversity and Inclusion Policy. The full version of the Diversity and Inclusion Policy can be found on the Website Governance section.

## PRINCIPLE 2 CONTINUED

A summary of performance for the financial year is shown at pages 32 – 33 of the annual report.

Vector's gender statistics are as follows:

Position	AS AT 30 JUNE 2019			AS AT 30 JUNE 2018	
	Female	Male	Diverse	Female	Male
<b>Directors</b>	3 (38%)	5 (62%)		3 (38%)	5 (62%)
<b>Executive team</b>	2 (29%)	5 (71%)		1 (14%)	6 (86%)
<b>Direct reports to the executive team</b>	8 (22%)	29 (78%)		13 (34%)	25 (66%)
<b>Across the Vector group</b>	334 (34%)	635 (66%)	1 (0.1%)	271 (32%)	563 (68%)

### RECOMMENDATION 2.6

**Directors should undertake appropriate training to remain current on how to best perform their duties as directors of an issuer.**

The Board ensures that there is appropriate training available to all directors to enable them to remain current on how best to discharge their responsibilities and keep up to date on changes and trends in areas relevant to their work. Directors are provided with industry information and receive copies of appropriate company documents to enable them to perform their role.

The Board also ensures that new directors are appropriately introduced to management and the businesses.

### RECOMMENDATION 2.7

**The board should have a procedure to regularly assess director, board and committee performance.**

The Board annually assesses its effectiveness in carrying out its functions and responsibilities. The Board Chair leads the review and evaluation of the Board as a whole, and of the Board Committees, against their respective charters. The Board Chair also engages with individual directors to evaluate and discuss performance and professional development.

## Principle 3 – Board Committees

*“The board should use committees where this will enhance its effectiveness in key areas, while still retaining board responsibility.”*

The Board has four committees – an Audit Committee, a Risk and Assurance Committee, a Remuneration Committee and a Nominations Committee. The Regulatory Committee and the Sustainability Committee were discontinued by the Board on 3 December 2018 and 21 March 2019 respectively, as the Board considered it more appropriate for these matters to be considered by the full Board.

Members of each Committee are appointed by the Board.

Each Committee has a written charter that is approved by the Board and sets out its mandate. The charters are reviewed at least every two years, with any proposed changes recommended to the Board for approval. The charters are available at the Website Governance section.

### Attendance at Meetings

Attendance records of Board and committee meetings are provided in the table below.

	FULL BOARD	AUDIT COMMITTEE	RISK AND ASSURANCE COMMITTEE	REMUNERATION COMMITTEE	REGULATORY COMMITTEE‡	NOMINATIONS COMMITTEE	SUSTAINABILITY COMMITTEE‡	AGM
<b>TOTAL MEETINGS</b>	<b>11</b>	<b>6</b>	<b>3</b>	<b>5</b>	<b>1</b>	<b>3</b>	<b>0</b>	<b>1</b>
M Stiassny *	4	2	2	3	1	2	–	1
D Bartholomew ~	3	2†	2†	2†	1†	2†	–	–
M Buczkowski ^	7	4†	1†	2†	–	1†	–	–
J Carmichael *	4	2	2	3	1	2	–	–
A Carter ^	2	1†	–	1†	–	–	–	–
S Krieger ~	3	2†	2†	2†	–	2†	–	–
J Mason	11	6	3	5†	1	3	–	1
A Paterson (Chair)	11	6	3	5	1	3	–	1
P Rebstock ^	3	1†	–	1†	–	–	–	–
K Sherry	11	6	3	5	1	3	–	1
B Thomson	9	5	3	4	1	3	–	1
B Turner ^	3	1†	–	1†	–	–	–	–

‡ Regulatory Committee was dissolved on 3 December 2018 and the Sustainability Committee was dissolved on 21 March 2019.

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

~ David Bartholomew and Sibylle Krieger ceased to be directors on 9 November 2018.

\* James Carmichael and Michael Stiassny ceased to be directors on 12 November 2018.

^ Michael Buczkowski was appointed on 12 November 2018. Dame Paula Rebstock and Bruce Turner were appointed on 16 April 2019. Antony Carter was appointed on 1 May 2019.

## PRINCIPLE 3 CONTINUED

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### RECOMMENDATION 3.1

**An issuer's audit committee should operate under a written charter. Membership on the audit committee should be majority independent and comprise solely of non-executive directors of the issuer. The chair of the audit committee should be an independent director and not the chair of the board.**

The audit committee's (**Audit Committee**) responsibilities are set out in its Charter which is available at the Website Governance section.

The purpose of the Audit Committee is to assist the Board in its oversight of the quality and integrity of Vector's external financial reporting, the independence and performance of the external auditors, and effectiveness of internal control system for financial reporting and accounting records.

The NZX Rules and the Audit Committee's charter require that the Audit Committee must comprise not less than three members, being directors of Vector, at least one of whom must have an adequate accounting or financial background and the majority of whom are acknowledged as independent by the Board pursuant to its charter. The chair shall be an independent director and shall not be the chair of the Board.

The Chair of the Audit Committee is Jonathon Mason who has specialist financial skills and experience. The other members of the Audit Committee are Alison Paterson, Karen Sherry and Bob Thomson.

The secretary of the Audit Committee is the Company Secretary.

### RECOMMENDATION 3.2

**Employees should only attend audit committee meetings at the invitation of the audit committee.**

The Group Chief Executive and the Chief Financial Officer have a standing invitation to attend Audit Committee meetings.

### RECOMMENDATION 3.3

**An issuer should have a remuneration committee which operates under a written charter. At least a majority of the remuneration committee should be independent directors. Management should only attend remuneration committee meetings at the invitation of the remuneration committee.**

The remuneration committee's (**Remuneration Committee**) responsibilities are set out in its Charter which is available at the Website Governance section.

The purpose of the Remuneration Committee is to assist the Board in overseeing the appointment, performance and remuneration of the Group Chief Executive and members of the executive team (including succession planning) and reviewing and monitoring the Remuneration Policy.

Evaluations are based on criteria that include the performance of Vector and the accomplishment of strategic objectives.

The Remuneration Committee's charter require the Remuneration Committee to comprise not less than three members, being directors of Vector, a majority of whom shall be independent directors. Bob Thomson is the Chair of the Remuneration Committee. The other members of the Remuneration Committee are Alison Paterson and Karen Sherry.

The secretary of the Remuneration Committee is the Company Secretary.

The Group Chief Executive may be invited to attend meetings where the Remuneration Committee thinks this is appropriate.



## PRINCIPLE 3 CONTINUED

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### RECOMMENDATION 3.4

**An issuer should establish a nomination committee which operates under a written charter. At least a majority of the nomination committee should be independent directors.**

The purpose of the nominations committee (**Nominations Committee**) is to assist the Board in fulfilling its responsibility 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, the Nominations Committee undertakes non-binding consultation with Entrust prior to finalising any Board recommendation regarding a director nomination or appointment.

The Nominations Committee's responsibilities are set out in its Charter which is available at the Website Governance section.

The Nominations Committee's charter requires that the Nominations Committee shall comprise not less than three members, being directors of Vector, a majority of whom shall be independent directors. Alison Paterson is the Chair of the Nominations Committee.

The secretary of the Nominations Committee is the Company Secretary.

The Group Chief Executive may be invited to attend meetings where the Nominations Committee thinks this is appropriate.

### RECOMMENDATION 3.5

**An issuer should consider whether it is appropriate to have any other board committees as standing board committees. All committees should operate under written charters. An issuer should identify the members of each of its committees, and periodically report member attendance.**

#### **Risk and Assurance Committee**

The purpose of the risk and assurance committee (**Risk and Assurance Committee**) is to assist 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. The Risk and Assurance Committee's responsibilities are set out in its charter which is available at the Website Governance section.

The Risk and Assurance Committee Charter requires the Risk and Assurance Committee to comprise not less than three members, being directors of Vector. Karen Sherry is the Chair of the Risk and Assurance Committee. The other members are Jonathan Mason, Alison Paterson and Bob Thomson.

The secretary of the Risk and Assurance Committee is the Company Secretary.

The Group Chief Executive, Chief Risk and Sustainability Officer and the Group Manager Internal Audit and Assurance may be invited to attend all or part of the Risk and Assurance Committee's meetings.

Details of Risk and Assurance Committee meeting attendance are set out on page 7 of this Statement.

## Principle 4 – Reporting and Disclosure

*“The Board should demand integrity in financial and non-financial reporting, and in the timeliness and balance of corporate disclosure.”*

### RECOMMENDATION 4.1

#### **An issuer’s board should have a written continuous disclosure policy**

The Board is committed to the provision of accurate, timely, orderly, consistent and credible disclosure and compliance with the continuous disclosure requirements of the Financial Markets Conduct Act 2013 and the NZX Rules. The Board supports the principle that high standards of reporting and disclosure are essential for proper accountability between the company and its investors, employees and stakeholders.

It achieves these commitments, and the promotion of investor confidence, by ensuring that trading in its shares takes place in an efficient, competitive and informed market. Vector’s Continuous Disclosure Policy, Shareholder Relations Policy and Stakeholder Relations Policy set out protocols to facilitate effective and compliant disclosure. These policies include procedures intended to ensure that:

- All investors have equal and timely access to material information concerning the company, including its financial situation, performance, ownership and governance.
- Company announcements are factual and presented in a clear and balanced way.

The accountabilities of individual directors and employees are documented in the Continuous Disclosure Policy, which is available at the Website Governance section. Vector has also established procedures to follow if potential material information is raised by an employee or a director.

Significant market announcements, including the preliminary announcement of the half year and full year results, the financial statements for those periods, and any advice of a change in earnings forecast are approved by the Board. The Chair will consult with directors on any other matters for which the issue or form of the disclosure is determined by the Chair to be a matter for the Board.

### RECOMMENDATION 4.2

#### **An issuer should make its code of ethics, board and committee charters and the policies recommended in the NZX Code, together with any other key governance documents, available on its website.**

Vector’s key corporate governance documents, including charters and policies, can be found at the Website Governance section.

### RECOMMENDATION 4.3

#### **Financial reporting should be balanced, clear and objective. An issuer should provide non-financial disclosure at least annually, including considering environmental, economic and social sustainability factors and practices. It should explain how operational or non-financial targets are measured. Non-financial reporting should be informative, include forward looking assessments, and align with key strategies and metrics monitored by the board.**

Vector believes that balanced and objective reporting is fundamental to building shareholder value and earning the trust of employees, shareholders and stakeholders.

The Board is committed to reporting Vector’s financial and non-financial information in an objective, balanced, and clear manner. The Board takes an active role in overseeing financial and non-financial reporting. The annual report is an important document for communicating financial reporting. It contains the financial statements that are prepared to comply with generally accepted accounting practice. The Board contributes to and reviews the annual report.

The annual report also reports on strategic progress and operational performance. A series of key performance indicators are used to link results to strategy. Vector is committed to transparent reporting of non-financial objectives, such as environmental, social, and governance (ESG) factors. A commitment has been made to the 17 United Nations Sustainable Development Goals with a specific focus on seven that specifically support Vector’s focus on decarbonisation and climate action and social inequalities. Vector’s ESG reporting is woven throughout the annual report with detailed sustainability performance outlined on pages 34 – 35.

## Principle 5 - Remuneration

*“The remuneration of directors and executives should be transparent, fair and reasonable.”*

The Remuneration Committee reviews and makes recommendations in respect of remuneration policies and practices for directors, senior executives and Vector employees generally. Vector’s policies for director remuneration and executive remuneration are available at the Website Governance section.

### RECOMMENDATIONS 5.1, 5.2 and 5.3

**Director remuneration should be clearly disclosed in an issuer’s annual report. An issuer should have a remuneration policy for directors and officers to outline weightings and performance criteria. The CEO’s remuneration should be disclosed in the annual report.**

Vector provides fair and reasonable, yet competitive, remuneration for its directors to ensure that it is able to attract and retain high calibre directors who have the skills, experience and knowledge to increase entity value, to the benefit of all shareholders.

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.

The Remuneration Committee is responsible for review directors’ remuneration and, from time to time, making recommendations in relation to the level of fees in accordance with the Remuneration Policy.

Directors fees were last approved by shareholders at the 2013 annual shareholders’ meeting. Directors receive a single fee for membership of the Board and committees. All Directors are also entitled to be reimbursed for costs associated with carrying out their duties. Fees payable to Vector’s directors for the 2019 financial year were as follows:

DIRECTOR	FEE (\$)
A Paterson	162,462
J Mason	100,650
M Stiassny #	74,040
D Bartholomew #	36,032
M Buczkowski *	59,487
J Carmichael #	36,859
A Carter ^	16,775
S Krieger #	36,032
P Rebstock ^	21,015
K Sherry	100,650
B Thomson	100,650
B Turner ^	21,015

# David Bartholomew and Sibylle Krieger resigned on 9 November 2018; James Carmichael and Michael Stiassny resigned on 12 November 2018.

^ Dame Paula Rebstock and Bruce Turner were appointed on 16 April 2019. Tony Carter was appointed on 1 May 2019.

\* Michael Buczkowski was appointed on 14 November 2018.

### Remuneration framework

Vector’s remuneration framework is designed to attract and retain high performing individuals, to support the delivery of the company’s strategy and vision, and reward Vector people appropriately and competitively. The Remuneration Committee assists the Board in overseeing the 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.

### 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 Vector’s internal role bands and the market.

## PRINCIPLE 5 CONTINUED

### Short term incentive

The objective of the STI Scheme is to link the achievement of annual financial and operational targets with remuneration received by the executives charged with meeting those targets. The total potential remuneration under the STI Scheme is set at a level to provide sufficient incentive to the executive to achieve the targets at a fair and reasonable cost to the company.

STI values are set as a percentage of fixed remuneration, and range from 5% to 50% of base salary depending on the complexity of the role. The Group Chief Executive's STI and fixed remuneration is set out on page 14.

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, executive leadership team, and all eligible employees.

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. For the financial year, Vector's goals were:

- 40% Financial;
- 40% Customer Experiences;
- 20% Sustainability.

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.

The Remuneration Committee considers the performance against the targets, and determine the amount, if any, to be allocated to the Group Chief Executive and nominated executives. STI Scheme payments relating to the financial year ended 30 June 2019 are delivered as a taxable cash bonus and are payable on completion of the annual audited financial statements. Payments relating to the 2019 financial year are therefore paid in the 2020 financial year.

The number of employees of the company (including former employees), not being a Director, who received remuneration and other benefits in excess of \$100,000 in the 2019 financial year is set out in the remuneration bands detailed below:

CURRENT EMPLOYEES		GROUP	COMPANY
\$100,001	– \$110,000	53	44
\$110,001	– \$120,000	65	47
\$120,001	– \$130,000	55	44
\$130,001	– \$140,000	52	44
\$140,001	– \$150,000	47	37
\$150,001	– \$160,000	28	26
\$160,001	– \$170,000	24	20
\$170,001	– \$180,000	18	16
\$180,001	– \$190,000	19	16
\$190,001	– \$200,000	16	15
\$200,001	– \$210,000	9	7
\$210,001	– \$220,000	9	7
\$220,001	– \$230,000	5	5
\$230,001	– \$240,000	10	6
\$240,001	– \$250,000	5	3
\$250,001	– \$260,000	4	3
\$260,001	– \$270,000	3	3
\$270,001	– \$280,000	4	4
\$280,001	– \$290,000	3	2
\$290,001	– \$300,000	4	3
\$300,001	– \$310,000	2	1
\$310,001	– \$320,000	3	2

PRINCIPLE 5 CONTINUED

CURRENT EMPLOYEES			GROUP	COMPANY
\$320,001	–	\$330,000	2	2
\$330,001	–	\$340,000	2	2
\$340,001	–	\$350,000	1	–
\$350,001	–	\$360,000	2	2
\$360,001	–	\$370,000	1	1
\$370,001	–	\$380,000	1	–
\$380,001	–	\$390,000	2	1
\$390,001	–	\$400,000	3	3
\$450,001	–	\$460,000	2	1
\$470,001	–	\$480,000	1	–
\$490,001	–	\$500,000	1	1
\$540,001	–	\$550,000	1	1
\$550,001	–	\$560,000	1	1
\$740,001	–	\$750,000	1	1
\$830,001	–	\$840,000	1	1
\$1,670,001	–	\$1,680,000	1	1
			461	373

FORMER EMPLOYEES (including any termination payments)			GROUP	COMPANY
\$100,001	–	\$110,000	5	3
\$110,001	–	\$120,000	5	4
\$120,001	–	\$130,000	3	2
\$130,001	–	\$140,000	7	3
\$140,001	–	\$150,000	5	3
\$150,001	–	\$160,000	4	4
\$160,001	–	\$170,000	1	1
\$170,001	–	\$180,000	3	1
\$180,001	–	\$190,000	2	1
\$190,001	–	\$200,000	1	–
\$200,001	–	\$210,000	1	–
\$220,001	–	\$230,000	2	2
\$260,001	–	\$270,000	1	1
\$310,001	–	\$320,000	1	1
\$420,001	–	\$430,000	1	–
\$690,001	–	\$700,000	1	1
			43	27

The total remuneration and value of other benefits paid to the Group Chief Executive is detailed below on page 14 of this Statement.

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.

PRINCIPLE 5 CONTINUED

**Group Chief Executive remuneration**

The Board aims to reward the Group Chief Executive with a level and mix of remuneration commensurate with his position and responsibilities within the group, to:

- Reward company and business unit performance against targets set by reference to appropriate benchmarks and key performance indicators;
- Align his interests with those of shareholders; and
- Ensure total remuneration is competitive by market standards.

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.

**GROUP CHIEF EXECUTIVE REMUNERATION**

	FIXED REMUNERATION			PAY FOR PERFORMANCE		TOTAL REMUNERATION
	SALARY	BENEFITS	SUBTOTAL	STI	SUBTOTAL	
FY19	1,375,000.00*	–	–	**	–	–
FY18	1,206,422.00	–	1,206,422.00	417,724.00	417,724.00	1,624,146.00

\* Remuneration change effective 30 March 2019. Salary 1 July 2018 to 29 March 2019 was \$1,230,550

\*\* STI will be paid October 2019 for FY19

**DESCRIPTION OF THE GROUP CHIEF EXECUTIVE STI SCHEME FOR PERFORMANCE PERIOD ENDING 30 JUNE 2019**

SCHEME	DESCRIPTION	PERFORMANCE MEASURES	PERCENTAGE OF MAXIMUM AWARDED
STI	Set to a maximum of 50% of fixed remuneration for FY19 on-plan performance where the highest levels of both company and individual performance measures are achieved.	<p>Company performance measures:</p> <p>40% Financial.</p> <p>40% Customer experience.</p> <p>20% Sustainability.</p> <p>Individual performance measures:</p> <p>25% Growth options.</p> <p>25% Policy and regulatory compliance.</p> <p>25% Sustainability and communications.</p> <p>25% Health and Safety.</p>	If met, will be paid in October 2019.

## Principle 6: Risk Management

*“Directors should have a sound understanding of the material risks faced by the issuer and how to manage them. The Board should regularly verify that the issuer has appropriate processes that identify and manage potential and material risks.”*

### RECOMMENDATION 6.1

**An issuer should have a risk management framework for its business and the issuer’s board should receive and review regular reports. An issuer should report the material risks facing the business and how these are being managed.**

The Board is responsible for ensuring that key business and financial risks are identified, and that appropriate controls and procedures are in place to effectively manage those risks. The Risk and Assurance Committee has overall responsibility for ensuring that Company’s risk management framework is appropriate and that it appropriately identifies, considers and manages risks.

Vector’s enterprise risk management (**ERM**) framework provides a flexible and purpose-built approach to the application of risk management across Vector and is consistent with the Australian / New Zealand Risk Management Standard “AS/NZS ISO 31000:2009 Risk management – Principles and Guideline”. Robust risk management processes and tools are embedded within business operations to drive consistent, effective and accountable decision making.

Consistent with the “Three Lines of Defence” principle, all employees are responsible for applying the ERM framework within their individual roles and are encouraged to proactively identify, analyse, escalate and treat risks. A risk mindset is implemented through:

- acknowledgement of risk management’s value at Executive and Board level;
- relatable and easily applied risk management policies, processes and tools;
- integration of risk champions throughout the business; and
- continuous training and education, both formal and informal.

To further promote accountability and transparency, key business areas formally present their material risks to the Risk and Assurance Committee on an annual basis. These material risks are assessed against a group wide set of criteria covering both consequence and likelihood, as defined in Vector’s Group Risk Assessment Matrix.

To support the identification of emerging risks and opportunities, Group Risk monitors the changing business landscape, assessing the influence of macro-economic trends on Vector’s operating environment. These perspectives, along with the material risks from the individual business unit risk profiles, inform the development of the Group Key Risk Profile which provides both the Board and Executive team with a consolidated view of:

1. The strategically focused risks which could have a significant impact on the long term value and sustainability of Vector’s business;
2. The material operational risks facing Vector as part of its business as usual activities which require significant oversight and control; and
3. Emerging risks acknowledged as having the potential to increase in materiality over time.

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

### AREAS OF FOCUS

Vector maintains a continued focus on maturing and developing risk management practices to deliver tangible benefits to the business and address emerging risk areas.

The following activities have been a particular area of focus over the past year:

- A review and re-articulation of the risk champion role to reinforce business accountability for risk management.
- The delivery of a face to face fraud training programme, including deep dive workshops across selected parts of the business to raise awareness and to identify potential improvements to the control environment.
- Ongoing enhancements to the set-up and use of Vector’s risk management software Active Risk Manager to support data analysis, risk reporting and control assurance activities.
- A comprehensive review of Vector’s resiliency framework and incident management programme against industry practice.
- Integration of Vector’s enterprise-level risk profile review into our materiality process, to ensure key issues and emerging trends with the potential to impact Vector’s ability to create value over the short, medium and long term are appropriately considered.
- Establishment of internal audits guest auditor programme to enhance the capability and improve awareness of internal audit across the business.

PRINCIPLE 6 CONTINUED

Key and Emerging Risks

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

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



## PRINCIPLE 6 CONTINUED

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### RECOMMENDATION 6.2

**An issuer should disclose how it manages its health and safety risks and should report on their health and safety risks, performance and management.**

#### **Health and Safety**

Vector is committed to ensuring that it has best practice health and safety practices. Vector's commitments and requirements for health and safety are set out in the Health and Safety Policy. The policy is available at the Website Governance section.

Vector will conduct its business activities in such a way as to protect the health and safety of all workers of Vector and its related companies, the public and visitors in its work environment. Vector is committed to continual and progressive improvement in its health and safety performance. Pages 24 and 25 of the annual report contain Vector's performance in these areas, including its Total Recordable Injury Frequency Rate (TRIFR) and Lost Time Injury Frequency Rate (LTIFR).

The Board has delegated day to day responsibility for the implementation of health and safety standards and practices to Management. The Board is none the less committed to providing effective resources and systems at all levels of the organisation to fulfil its commitment to employees, customers, shareholders and stakeholders.

## Principle 7: Auditors

*“The Board should ensure the quality and independence of the external audit process.”*

### RECOMMENDATION 7.1

**The board should establish a framework for the issuer’s relationship with its external auditors.**

Vector’s external auditor is KPMG. The Board, after considering the recommendations of the Audit Committee, considers and reviews 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.

#### External Auditor

Oversight of the company’s external audit arrangements to safeguard the integrity of financial reporting is the responsibility of the Audit Committee. Included within the Audit Committee’s responsibilities set out in its charter is the requirement to ensure that audit independence is maintained, both in fact and appearance.

The role of the external auditor is to audit the financial statements of the company in accordance with applicable auditing standards in New Zealand and to report on its findings to the Board and shareholders of the company.

KPMG is the company’s current external auditor. Malcolm Downes has been the Audit Partner since 2018 and Laura Youdan has been the Assurance Partner since 2018.

All services provided by KPMG are considered on a case by case basis by the Audit Committee to ensure there is no actual or perceived threat to independence in accordance with the policy. The Audit Partner and Assurance Partner have provided the Audit Committee with written confirmation that, in their view, they were able to operate independently during the year.

Fees paid to KPMG are included in Note 6 of the notes to the financial statements contained on page 64 of the annual report.

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

The auditor is regularly invited to meet with the Audit Committee including without Management present.

### RECOMMENDATION 7.2

**The external auditor should attend the issuer’s Annual Meeting to answer questions from shareholder.**

The auditor has been invited to attend the Annual Shareholders’ Meeting and will be available to answer questions about the audit process and the independence of the auditor.

### RECOMMENDATION 7.3

**Internal audit functions should be disclosed.**

Vector’s internal audit function is overseen by the Risk and Assurance Committee. Its responsibilities are set out in the Risk and Assurance Committee charter (available at the Governance Website section) and include, amongst other things:

- The control maturity of Vector and the effectiveness of key internal control systems;
- The overall scope, annual plan and resources for the internal audit program;
- All internal audit reports including audit findings, actions taken, and timetable proposed by management in response to the findings;
- The alignment of the ERM framework and internal audit activities; and
- The performance of group internal audit.

## Principle 8 – Shareholder Relations

*“The Board should respect the rights of shareholders and foster constructive relationship with shareholders that encourage them to engage with the issuer.”*

### RECOMMENDATION 8.1

**An issuer should have a website where investors and interested stakeholders can access financial and operational information and key corporate governance information about the issuer.**

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

Vector’s Board is committed to maintaining open and transparent communications with investors and other stakeholders.

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

Each shareholder is entitled to receive a hard copy of each annual and interim report.

The company has a Shareholder Meetings page in the Investors section on its website where documents relating to meetings are available.

Shareholders may raise relevant matters for discussion at the Annual Shareholders’ Meeting either in person or by emailing the Company with a question to be asked.

Vector’s Shareholder Relations Policy is available at the Website Governance section.

Vector’s Constitution includes provisions relating to Entrust, Vector’s majority shareholder. 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.

### RECOMMENDATION 8.2

**An issuer should allow investors the ability to easily communicate with the issuer, including providing the option to receive communications from the issuer electronically.**

Shareholders are encouraged to:

- Receive communications from, and send communications to, Vector and Computershare, the securities registry, electronically.
- Contact the company to ask questions, or express views, about matters affecting Vector. A dedicated email address is available for shareholder/investor queries, which is: investor@vector.co.nz.

Contact details for Vector’s head office are available on the website and at page 110 of the annual report.

### RECOMMENDATION 8.3

**Quoted equity security holders should have the right to vote on major decisions which may change the nature of the issuer in which they are invested.**

Vector is committed to complying with its obligations under the NZX Rules and the Companies Act 1993, both of which contain specific requirements to obtain shareholder approval for certain significant matters affecting Vector.

Where voting on a matter is required, the Board encourages investors to attend the meeting or to send in a proxy vote.

## PRINCIPLE 8 CONTINUED

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### RECOMMENDATION 8.4

**If seeking additional equity capital issuers of quoted equity securities should offer further equity securities to existing equity security holders of the same class on a pro rate basis and on no less favourable terms, before further equity securities are offered to other investors.**

Vector did not raise any further equity during the financial year ended 30 June 2019. Vector is not seeking to raise further equity at this time.

### RECOMMENDATION 8.5

**The board should ensure that notices of annual or special meetings of quoted equity security holders are posted on the issuer's website as soon as possible and at least 20 working days prior to the meeting.**

Notices of meeting are usually available at least 20 working days prior to the meeting on the Shareholder Meetings page in the Investors section of the website.