

How Vector is Achieving Best Practice Corporate Governance

Financial Markets Authority – Corporate Governance in New Zealand Principles and Guidelines

NZX Limited Corporate Governance Best Practice Code

Purpose

This document summarises Vector's corporate governance policies and practices in the context of the Financial Markets Authority Corporate Governance in New Zealand Principles and Guidelines ("FMA Principles") as well as governance guidelines contained in the NZX Limited Corporate Governance Best Practice Code ("NZX Code").

Background

The FMA Principles and NZX Code are aimed at enhancing investor confidence through high standards of corporate governance and accountability. They recognise differences in company size, culture and ownership and, while non-binding, encourage companies to report fully on their corporate governance policies and practices, and how they are achieving the principles.

Vector's corporate governance framework incorporates contemporary best practice standards in New Zealand, and the Board as far as practicable operates in accordance with the Institute of Directors' Code of Practice for Directors. In addition, Vector has also considered trends in corporate governance in other jurisdictions and has incorporated these where applicable.

Following is a summary of how Vector is achieving the FMA Principles and NZX Code. Vector's corporate governance policies and practices are published in detail in the annual report and on this website.

Principle 1. Ethical Standards

Directors should set high standards of ethical behaviour, model this behaviour, and hold management accountable for delivering these standards throughout the organisation.

NZX Code

An issuer should formulate a code of ethics to govern its conduct.

Vector operates a Code of Conduct and Ethics that sets ethical standards for directors, employees and contractors. Implementation and monitoring is a function of the organisation services group and the Code is approved and reviewed by the Board.

The Code of Conduct and Ethics covers all of the matters recommended by the FMA Principles and NZX Code and is further supported by specific policies, for example Vector's Whistleblowers Policy, Legal Compliance Policy, Insider Trading Policy, the Delegated Authorities Framework and a separate Directors' Code of Practice. Many

of the Code of Conduct and Ethics provisions are reflected in employees' employment contracts.

Principle 2. Board Composition and Performance

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

NZX Code

An issuer should establish a nomination committee (which may be comprised of members of the issuer's remuneration committee) to recommend director appointments to the Board.

Directors should undertake appropriate training to remain current on how to best perform their duties.

The Board should establish a formal procedure to regularly assess director and Board performance.

Vector's Board composition complies with the mandatory requirements of the NZX Listing Rules, including size and independent director representation, and has a standing Nominations Committee to consider and recommend to the Board director nominations and appointments. The committee's responsibilities include ensuring the Board is of an appropriate size with a balance of skills, qualifications, background and experience.

The Board is governed by a formal charter setting out its role, responsibilities, duties and delegations, and includes provisions for annual Board/director performance review and director training.

In addition, each director adheres to the Directors' Code of Practice, which sets out specific ethical and professional behaviour expectations.

Directors are entitled to seek independent advice at the company's expense.

Vector separates the roles of Board Chairman and Group Chief Executive. Vector's Chairman is an independent director.

Principle 3. Board Committees

The board should use committees where this would enhance its effectiveness in key areas, while still retaining board responsibility.

NZX Code

In addition to the mandatory requirement of the NZX Listing Rules for listed companies to establish a Board Audit Committee, the NZX Code recommends companies establish Board Remuneration and Nomination Committees.

Vector has five standing committees to enhance the Board's effectiveness and focus on key areas of its responsibilities. They are:

- Audit Committee
- Risk and Assurance Committee
- Remuneration Committee
- Nominations Committee
- Regulatory Committee

Each committee operates within the terms of a formal committee charter, specifying their duties and responsibilities. The charters are approved by the Board and are published in the annual report and on this website.

The committees report their decisions and recommendations to the Board and do not take actions or make decisions on behalf of the Board unless they have a prior Board mandate to do so.

The size and composition of Vector's Board committees are consistent with the principles and code recommendations.

Details of Board committee members and meeting frequency are disclosed in the annual report.

Principle 4. Reporting and Disclosure

The board should demand integrity both in financial reporting and in the timeliness and balance of corporate disclosures.

NZX Code

In addition to Listing Rule requirements in relation to continuous disclosure and the responsibilities of Board Audit Committees, the NZX Code includes recommendations regarding the composition and other functions of the Audit Committee

Vector achieves financial reporting integrity through rigorous internal processes and the oversight role of the Audit Committee.

The Board oversees Vector's communications with shareholders, considers matters arising within Vector in the context of the company's information disclosure obligations and ensures compliance with information disclosure requirements.

Principle 5. Remuneration

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

NZX Code

Every issuer should have a formal and transparent method to recommend director remuneration to shareholders.

Vector's Remuneration Policy (published on this website) sets out the company's approach to director and executive remuneration. The policy is reviewed annually

by the Board Remuneration Committee, which also considers all appointments and contractual terms at the senior management level. Vector's total cash remuneration approach is a mix of fixed pay and "at risk" incentives which provide a clear link between performance and remuneration.

Currently, directors' remuneration does not include an element of performance-based share compensation. Vector has not made any retirement payments to directors ceasing to hold office.

Vector complies with all statutory and regulatory requirements in respect of director and executive remuneration disclosure.

Principle 6. Risk Management

Directors should have a sound understanding of the key risks faced by the business. The board should regularly verify that the entity has appropriate processes that identify and manage potential and relevant risks.

Vector maintains a continuous focus on business risks through its Risk and Assurance Committee. This committee, together with management, helps to identify, analyse and manage risks which may have a significant influence on the company's performance, as well as the company's insurance coverage. The board receives regular reports on the operation of the company's risk management and internal control processes, via this committee.

A summary of the company's recognition and management of risk is disclosed in the governance section of the annual report.

Principle 7. Auditors

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

NZX Code

In addition to Listing Rule requirements in relation to the responsibilities of Board Audit Committees, the NZX Code recommends formal and transparent frameworks for the relationship with auditors, including auditor independence and oversight of non-audit services.

Functions of the Audit Committee include auditor performance monitoring, matters of auditor independence, reviewing the range of services provided by the auditors and lead audit partner rotation. The auditors certify to the Board that there is nothing that compromises their independence. Where fees are paid to the auditors for audit and non-audit services, these are differentiated in the annual report.

Principle 8. Shareholder Relations

The Board should foster constructive relationships with shareholders and encourage them to engage with the entity.

The Board charter recognises directors' overriding responsibility to act in the interests of all shareholders. The Board also recognises that majority shareholders represent a special relationship and, in the case of Vector's 75.1% owner, the Auckland Energy Consumer Trust (AECT), this is managed by the Chairman.

Through its Shareholder Relations Policy, Vector encourages all shareholders to engage with the company by offering broad, detailed and current information on its website, holding the annual meeting in Auckland, which is the domicile of the majority of shareholders, opening the auditors to direct questioning at the annual meeting, and encouraging shareholders to contact the company at any time on relevant matters.

Principle 9. Stakeholder Relations

The board should respect the interests of stakeholders taking into account the entity's ownership type and its fundamental purpose.

Through its Stakeholder Relations Policy, Board Charter and Code of Conduct and Ethics, Vector recognises an overriding responsibility to act honestly, fairly, diligently and in accordance with the law in serving the interests of all stakeholders with a legitimate interest in the company's business activities. Vector seeks to foster constructive relationships with stakeholders through legal compliance, operating its assets in a safe and responsible manner, eliminating or mitigating risk, open communication and providing timely access to information, including, where applicable, safety information, about the company's operations, goods and services, direct liaison and consultation, establishing partnerships with communities and providing mutually-beneficial practical support, and creating and maintaining a positive employment environment for Vector's employees.