VectorReview

CRITICAL INFRASTRUCTURE:
OUR ELECTRICITY NETWORK CONTINUES TO GROW DESPITE THE TOUGH ECONOMY PAGE 10

TRUSTED PARTNER:
LARGE GAS USERS ARE TURNING TO VECTOR PAGE 12

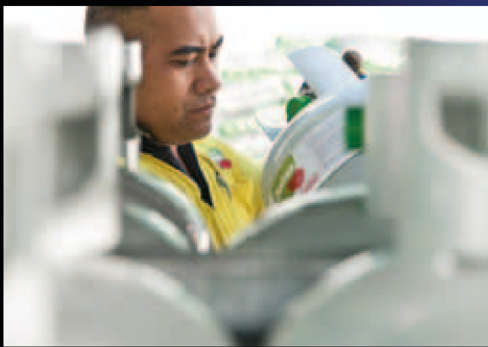
LEADING-EDGE INNOVATION:
WE ARE AT THE FOREFRONT OF DEVELOPING A SMART METERING BUSINESS PAGE 16

Vector

Delivering the energy and technology services that our customers rely on to work, live and play.









Welcome to our 2012 Shareholder Review.

ENABLING NATIONAL PROSPERITY

Vector delivers for our shareholders, our customers, Auckland and the national economy says Chairman Michael Stiassny. **PAGE 4**

SMART GROWTH

All of Vector's operating divisions delivered an improved annual result says Group Chief Executive Simon Mackenzie. **PAGE 6**

AT A GLANCE

Operational statistics and key facts about our business. **PAGE 2**

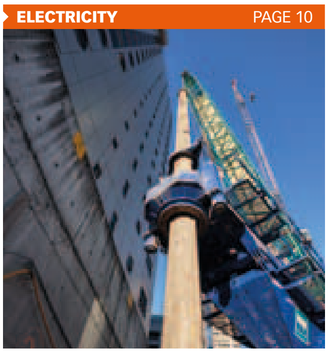
8,424

ELECTRICITY VOLUME DISTRIBUTED (GWh)

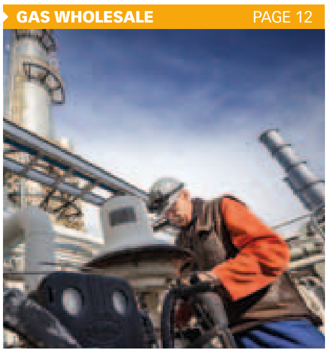
THE YEAR IN REVIEW

Our unregulated technology and gas wholesale operations delivered the stand out performances for the year as they drew on Vector's deep resources of expertise and innovation. **PAGE 10**

ELECTRICITY PAGE 10



GAS WHOLESALE PAGE 12



GAS TRANSPORTATION PAGE 14

TECHNOLOGY PAGE 16

OUR PEOPLE & SAFETY

Read how Vector's audited Safety Management System leads in New Zealand. **PAGE 20**

IN THE COMMUNITY

Making sure we keep our people, customers and suppliers safe in and around our networks is one of our primary goals. Read how we are achieving this not only within Vector, but also in the broader community. **PAGE 21**

BOARD & MANAGEMENT

Vector's board and management team bring skills and experience to deliver on our commitments to our customers, our shareholders, Auckland and New Zealand. **PAGE 22**

CONTENTS

SERVICING MORE THAN 700,000 CUSTOMERS AROUND NEW ZEALAND

VISIBLE EARTH / NASA

VECTOR CUSTOMERS

Vector services more than 700,000 customers across the country. Our electricity networks span the Auckland region and we distribute natural gas to more than 30 towns and cities in the North Island. Our LPG business has depots spread from Wanaka in the South to Whangarei in the far North. We're striving to service our customers better, streamlining our systems and processes.

What proportion of my electricity bill goes to Vector? Across Vector's electricity networks residential lines distribution charges are approximately 27% of the average residential consumer's bill.

Vector's annual price increases are limited under regulation to inflation (the Consumer Price Index) plus changes in pass-through costs. You can check it out at: www.vector.co.nz/power-bill

How is Vector looking after its customers? We post information about upgrades and outages on our website, and we are always working to improve our customer service and our response to customers across all our businesses.

How does Vector deal with faults? If there is a problem with your electricity supply and you live on the North Shore or in Waitakere or Rodney, call your electricity retailer and they will contact Vector.

If you live south of the harbour bridge, in the old Auckland City district, Manukau or Papakura, you should call 0508 VECTOR (0508 832 867). For more information, visit: www.vector.co.nz/electricity/faults-your-property For gas faults, call 0800 764 764.

Do customers talk to real people? Absolutely. Our customer contact centre for the electricity and gas networks is based in Auckland and staffed by a team familiar with our business and the region. The call centre for OnGas is based in Hamilton.

AUCKLAND ENERGY CONSUMER TRUST

The majority shareholder in Vector is the Auckland Energy Consumer Trust (AECT or Trust). The AECT is a consumer trust which pays a dividend to its beneficiaries. These beneficiaries are the more than 310,000 Vector electricity customers in the Auckland, Manukau and northern Papakura regions. As a consumer trust, the AECT provides stable, local ownership of Vector and, like other shareholders, is committed to Vector's continued success.

Who are the AECT Trustees? The AECT has five Trustees who are elected by the beneficiaries. The current Trustees are William Cairns (Chairman), Michael Buczkowski (Deputy Chairman), James Carmichael, Warren Kyd, and Karen Sherry.

Are any of the Trustees also on the Vector Board? The Trust has two representatives on the Vector Board of directors: James Carmichael and Karen Sherry.

When is the AECT dividend paid to its beneficiaries? The AECT dividend is usually paid in late September/October each year. It is paid to the person or organisation named on the power bill.

How much do AECT beneficiaries receive? In 2011, beneficiaries each received $320 net.

How many AECT beneficiaries receive the dividend? Population growth in the Trust district has seen the number of dividend payments increase by 8,400 over the past five years, with 310,556 receiving dividends in 2011.

All up, how much has the AECT distributed in dividends? Since it was formed in 1993, the AECT has distributed more than $990.0 million in dividends to its beneficiaries.

For more information visit: www.aect.co.nz

Customer service & delivery

OUR BUSINESS

- Electricity networks servicing more than 535,000 customers in Auckland
- Natural gas distribution networks servicing 154,649 customers in more than 30 towns and cities in the North Island
- High-pressure natural gas transmission system throughout the North Island
- Natural gas supplier to industrial and commercial customers throughout the North Island
- Kapuni Gas Treatment Plant processes raw gas into natural gas, Liquified Petroleum Gas (LPG), natural gasoline and liquefied carbon dioxide
- LPG supplied to more than 30,000 customers throughout New Zealand
- Electricity and gas metering services were supplied via approximately 822,000 meters at homes and businesses throughout New Zealand
- Fibre optic broadband communications networks in Auckland and Wellington
- 50% owner of a professional arboriculture and vegetation management company
- 60.25% owner of a bulk LPG tolling, storage and distribution company
- 22.11% owner of a wind electricity generation company

OPERATIONAL STATISTICS

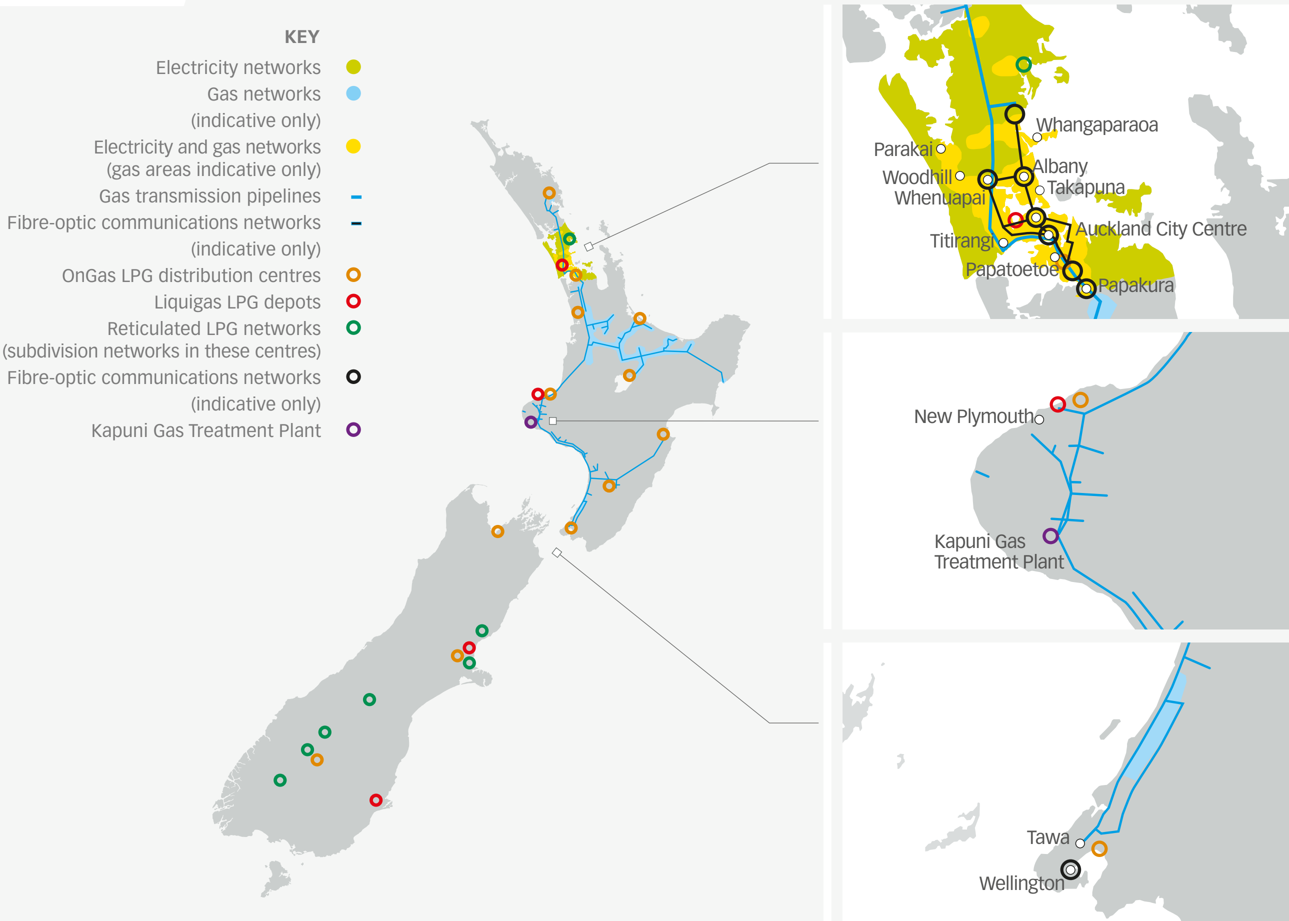
	2012	2011
ELECTRICITY		
Customers[1,3]	535,228	532,607
Volume distributed (GWh)	8,424	8,319
Network length (km)[1]	17,780	17,737
SAIDI (minutes)[2,3]		
Normal operations	95.7	113.8
Extreme events	–	9.4
Total	95.7	123.2
GAS TRANSPORTATION		
Distribution: customers[1,3]	154,649	152,508
Distribution: volume (PJ)	21.8	20.8
Transmission volume (PJ)[4]	125.4	120.1
GAS WHOLESALE		
Natural gas sales (PJ)[5]	27.7	26.1
Gas liquid sales (tonnes)[6]	76,876	79,015
Liquigas LPG tolling (tonnes)[7]	130,820	129,893
TECHNOLOGY		
Electricity: smart meters[1]	369,394	245,477
Electricity: legacy meters[1]	355,801	463,812
Electricity: pre-pay meters[1]	5,291	5,991
Electricity: time of use meters[1]	10,901	10,853
Gas meters[1]	81,600	79,588
Data management service connections[1]	8,500	8,313

1. As at 30 June.
2. Regulatory year 12 Months to 31 March 2012.
3. Billable ICPs.
4. Based on billable volumes.
5. Excludes gas sold as gas liquids as these sales are included within the gas liquids sales tonnages.
6. Total of retail and wholesale LPG production and natural gasoline.
7. Includes product tolled in Taranaki and further tolled in the South Island.

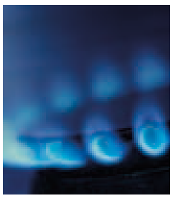
WORK IN PROGRESS AT OUR HOBSON STREET SUBSTATION PROJECT | AUCKLAND

Vector's financial and operating picture visit: www.vector.co.nz/corporate/investor-relations/financial-and-operating-picture

WHERE WE ARE



535,228
ELECTRICITY CUSTOMERS



154,649
GAS DISTRIBUTION CUSTOMERS

741,387
ELECTRICITY METERS

8,424
ELECTRICITY VOLUME DISTRIBUTED (GWh)

17,780
ELECTRICITY NETWORKS LENGTH (km)

22
GAS DISTRIBUTION VOLUME (PJ)

28
NATURAL GAS SALES (PJ)

369,394
ELECTRICITY SMART METERS

Enabling national prosperity

Vector, owned jointly by the public through the Auckland Energy Consumer Trust (AECT) and private investors, is delivering critical infrastructure to Auckland and the national economy. It is also enhancing returns to our shareholders through prudent investment in growth opportunities.

You will notice this year's Annual Report continues the same style we established last year. We were grateful and pleased with the feedback we received on last year's report.

In addition to the many supportive comments we received from shareholders and the broader community, we were delighted to receive a 'Bronze Award' in the 2011 Australasian Reporting Awards. This report will continue to evolve to achieve even higher standards and, as always, we welcome your comments.

How has Vector performed this year? Despite a tough economic environment, our performance has been robust. Group revenue for the 12 months to 30 June grew by 0.6% to $1,252.6 million.

Underlying NPAT, which strips out last year's sale to Transpower of rights to use Vector's Penrose to Hobson Street tunnel rose 16.1% to $198.8 million. Reported NPAT fell 1.3%.

We have achieved these gains while still maintaining a conservative financial structure.

At the end of June, our gearing, or the ratio of our net debt to net debt plus equity, was 52.5%. Meanwhile, Standard & Poor's affirmed our BBB+/stable investment-grade credit rating in August 2012. At the same time, we have delivered on our commitments to customers to deliver safe and reliable energy networks that are responsive to their needs.

Have shareholders benefited from these gains? Vector is delivering for shareholders as well as customers, the broader community and the national economy. The Vector Board has declared a final dividend of 7.5 cents per share, taking total dividends for the year to 14.5 cents, up a quarter of a cent on last year's 14.25 cents per share.

Does the community share in these rewards? Yes. The dividend payment has injected more than $100 million into the local economy over the last year via distributions to shareholders and distributions to the beneficiaries of the AECT.

Our robust performance over the year further strengthens our capability to continue to make this contribution. Nevertheless, we remain concerned the regulatory regime governing our gas and electricity networks could undermine the significant achievements we have made to date.

How is Vector responding to regulatory pressure? New Zealand's lack of regulatory certainty is of concern to investors. The upshot of this is higher borrowing costs and that is impinging on our international competitiveness.

Vector's 2012 results show a company delivering to the expectations of shareholders, our customers, Auckland and the national economy in a successful example of the mixed-ownership model.

The regulatory regime is also imposing excessive costs on the company and is failing to incentivise productivity and energy efficiency, both of which are in the national interest.

We are at half-time in the regulatory process. The second half will resume later this year when we and others take our Merits Review of the regulatory regime to the High Court. We continue to believe the Commerce Commission has not provided a complete regulatory package and the certainty for sound long-term investments.

What is Vector's outlook for the year ahead? Vector expects continued revenue growth from our technology business and growth in the volume of electricity and gas transported across our regulated energy networks.

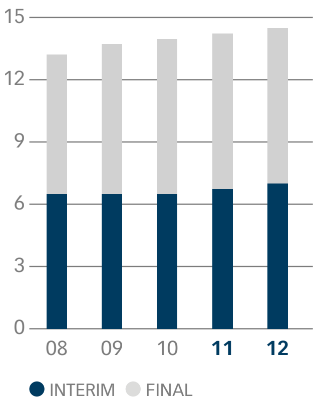
However, Vector faces a number of challenges that make it difficult to predict with certainty the outcome for the 2013 financial year. These include the Commerce Commission's decision on the starting prices on our regulated electricity network for the current regulatory period and the outcome of the Merits Review court action on the regulatory regime and negotiations about the price we pay for further gas from the Kapuni field.

Our objective, recognising these uncertainties, is to maintain EBITDA broadly in line with this year and market consensus.

Our long-term objective remains to deliver reliable and sustainable dividends to our shareholders, and drive growth across our portfolio of businesses while meeting our weighty public-interest responsibilities. This result is evidence that we are good for the challenge.

MICHAEL STIASSNY
Chairman

DIVIDENDS DECLARED
CENTS PER SHARE



IMPROVED DIVIDEND

Vector's dividend policy is to target a dividend pay-out ratio of 60% of free cash flows on average over time (net of replacement capital expenditure) subject to maintaining an investment grade credit rating. This year's dividend is a 1.8% increase on 2011 and represents a pay-out ratio of 53% of free cash flows. It reflects the board's view of the current regulatory environment and growth options available to the company.

Check out Vector's dividend calculator: www.vector.co.nz/dividends

ROBUST FINANCIAL PERFORMANCE

Earnings before interest, tax, depreciation and amortisation (EBITDA)

$627.4m

Net profit after tax attributable to shareholders (NPAT)

$198.8m

BALANCE SHEET STRENGTH

Net debt/net debt + equity

52.5%

Standard & Poor's rating

BBB+/ stable

Why do you describe the 2012 financial results as robust? Vector owns and operates a portfolio of businesses that operate in unregulated and regulated markets. All have delivered an improved performance in the last year despite the adverse economic environment and rising regulatory costs.

Our unregulated metering, telecommunications and gas wholesale divisions stood out. They demonstrate Vector's ability to drive revenue and earnings growth in highly competitive markets.

Meanwhile, our regulated electricity and gas distribution and transmission networks still delivered improved returns even though our prices are set by the Commerce Commission.

Both regulated businesses benefited from continued focus on efficiency, customer growth as well as temperatures returning to normal and cooler patterns. To me all of that adds up to Vector delivering a robust performance.

Can the growth continue? We are very optimistic about our long-term prospects.

In our unregulated activities, we are growing strongly. Our technology division is recognised internationally for being at the forefront of developing a business using smart meters. These smart meters lay an important foundation for competition, customer services and smart electricity networks.

We are only halfway through our contracted deployment of approximately 670,000 smart meters and even after these installations are completed, the technology offers great promise.

We also continue to examine other growth opportunities in infrastructure and related markets.

Longer-term, our gas distribution network could experience a similar evolution. With this in mind, we have been trialling new smart meter gas technology and we are about to embark on more extensive field trials.

Our gas wholesale business clearly demonstrated the value it can add as a gas intermediary as gas users turn to Vector recognising our willingness to configure gas supply to meet their specific needs. These customers also recognise our ability to offer greater price certainty and supply security thanks to our multiple long-term contracts with diverse gas suppliers.

Meanwhile, despite the tough economic environment, our regulated businesses, mainly centred in Auckland, grew customer numbers on their energy networks and extended the network. This shows Vector's core business can continue to prosper even while the broader economy struggles.

If we can maintain this record, as I expect we will, then Vector has a bright long-term future. My only concern is the potential for regulation to weigh on our performance.

How are you funding growth? Across our portfolio, we have targeted investment to support growth and maintain our high levels of service and performance.

In the 2012 year, capital investment increased 1.8% to $261.8 million. This spending is underpinned by our strong operating cash flow and a very strong balance sheet.

Our investment over the next two to three years will reflect large customer projects, network upgrades and continued investment in our metering business.

Vector is also at the forefront of development of infrastructure for the future. We understand energy will be provided to customers in a myriad of different ways in the years ahead and this will require the development of a substantially different infrastructure. Our investment programme is also aimed at preparing us for a future with other technologies such as photovoltaic cells.

What are you doing for customers? We continue to deliver improvements in our services to customers. Our energy network businesses, for example, use the internet and social media to ensure customers are given timely information including: information on critical network outages and how much it will cost to connect their home or business to our gas networks. Our telecommunications business is using technology to help wholesale customers estimate how much it will cost their customers to connect business operations in disparate locations. These businesses are among the most highly efficient and responsive service providers in the country.

Why do you contest the regulatory regime? We do not take the decision to contest the regulatory regime lightly, especially as these actions come at considerable cost to the company.

However, the regulatory regime fails to provide the certainty and stability offered by mature regulatory regimes offshore. It does not provide appropriate incentives for investment or energy efficiency and does not recognise productivity

Our technology division is recognised internationally for being at the forefront of developing a business using smart meters.

Smart GROWTH

gains. In our view, these outcomes are fundamental to the Commerce Act and therefore we feel bound to test these matters in the courts.

We also recognise we will only arrive at the balance and stability the country needs if Vector and others test this still immature regime through the courts.

Do you have the people you need? Vector has deep pools of capability among its highly dedicated and motivated staff. But we are still working with industry and local organisations and the universities to overcome the challenges of a shallow external talent pool.

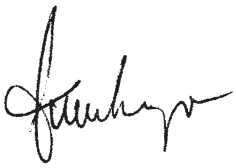
More than 24 nationalities and 12 ethnic groups are represented in our workforce and women represent just over a fifth of senior management and just under a third of all employees.

What are you doing to help the community? We help the community in many ways including sponsorship of community organisations and facilities including Auckland's Vector Arena.

Our promotion of safety and security around our energy networks is perhaps the best example of our grass roots contribution with initiatives such as our in-school education programmes.

This year, these programmes were recognised by the Electricity Engineers' Association (EEA) Public Safety Award for the contribution they make to public safety.

We also paid out more than $147 million in dividends to our investors in the latest financial year.



SIMON MACKENZIE
Group Chief Executive

To keep informed visit:
www.vector.co.nz/corporate/investor-relations/announcements

Vector's diverse income streams demonstrate a company constantly drawing on its deep resources of expertise and innovation.

INVESTMENTS DIRECTED SPECIFICALLY AT GROWTH AND MAINTAINING THE EXISTING CRITICAL ENERGY INFRASTRUCTURE –

$261.8m

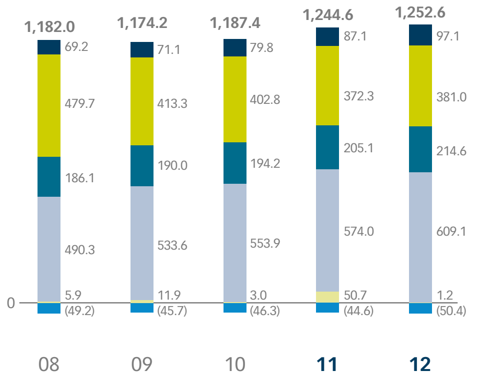
FINANCIAL PERFORMANCE TRENDS

YEAR ENDED 30 JUNE ($ MILLION)	2012	2011	2010	2009	2008
INCOME STATEMENT[1]					
Total income	1,252.6	1,244.6	1,187.4	1,174.2	1,182.0
EBITDA	627.4	636.6	578.1	582.2	547.9
Depreciation and amortisation	(173.5)	(170.2)	(156.3)	(145.4)	(140.4)
EBIT	453.9	466.4	421.8	436.8	407.6
NPAT attributable to shareholders	198.8	201.4	193.5	164.9	141.8
Total NPAT attributable to shareholders including discontinued activities	198.8	201.4	193.5	370.5	164.4
BALANCE SHEET					
Total equity	2,148.3	2,112.7	2,084.2	2,058.9	1,901.3
Total assets	5,616.6	5,579.0	5,550.9	5,538.6	5,979.4
Net debt (net of cash and short term deposits)	2,373.8	2,289.5	2,447.5	2,485.7	3,106.6
CASHFLOW					
Operating cash flow	392.3	374.6	367.5	330.3	324.5
Capital expenditure	(260.0)	(251.6)	(220.4)	(237.1)	(226.2)
Dividends paid[2]	(147.4)	(143.7)	(140.9)	(136.7)	(136.9)
KEY FINANCIAL MEASURES					
EBITDA/total income	50.1%	51.1%	48.7%	49.6%	46.4%
EBIT/total income	36.2%	37.5%	35.5%	37.2%	34.5%
Equity/total assets	38.2%	37.9%	37.5%	37.2%	31.8%
Return on assets (EBITDA/assets)	11.2%	11.4%	10.4%	10.5%	9.2%
Gearing (net debt/net debt + equity)	52.5%	52.0%	54.0%	54.7%	62.0%
Net interest cover (EBIT/net finance costs)	2.7	2.6	2.5	2.3	2.0
Earnings (NPAT) per share (cents)[3]	20.0	20.2	19.4	16.5	14.2
Total earnings (NPAT) per share (cents)[3] including discontinued activities	20.0	20.2	19.4	37.1	16.4
Dividends declared, cents per share (fully imputed)	14.50	14.25	14.00	13.75	13.25

1. Prepared on a continuing operations basis excluding the Wellington electricity network in financial years 2008 to 2010 unless otherwise stated.
2. Includes dividends paid to non-controlling interests in subsidiaries.
3. Calculated using a weighted average number of shares due to treasury shares purchased.

TOTAL INCOME
$ MILLION
FOR THE YEAR ENDED 30 JUNE

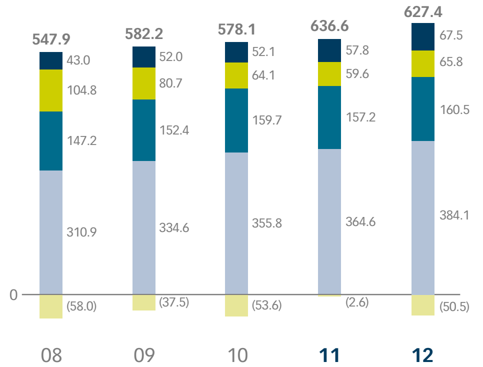
- TECHNOLOGY
- GAS WHOLESALE
- GAS TRANSPORTATION
- ELECTRICITY
- SHARED SERVICES
- INTER-SEGMENT



Total income increased 0.6% to $1,252.6 million from $1,244.6 million. All operating segments posted income increases, sufficient to offset the one-off gain in the prior year from the sale of rights to Transpower to use Vector's Penrose to Hobson Street tunnel in Auckland.

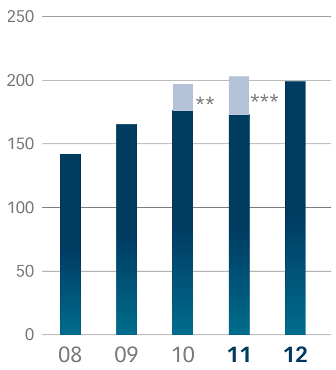
EBITDA
$ MILLION
FOR THE YEAR ENDED 30 JUNE

- TECHNOLOGY
- GAS WHOLESALE
- GAS TRANSPORTATION
- ELECTRICITY
- SHARED SERVICES



All operating segments delivered improvements in EBITDA. However, these gains were insufficient to offset the one-off gain in the prior year from the sale of tunnel rights to Transpower. The stand out performance gains came from our unregulated and fast growing technology and gas wholesale businesses.

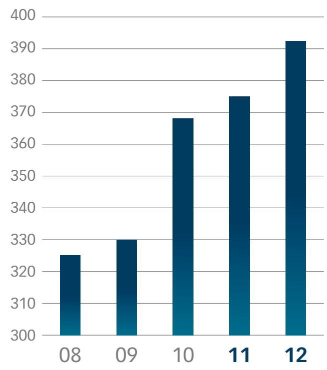
NET
PROFIT AFTER TAX*
$ MILLION
FOR THE YEAR ENDED 30 JUNE



Overall, reported NPAT fell by 1.3% to $198.8 million; however excluding the contribution of the Transpower deal in 2011, underlying NPAT rose 16.1% due to underlying growth in the business.

* NPAT attributable to shareholders (continuing operations).
** The 2010 result included a $20.9 million deferred tax liability decrease due to tax rate and legislative changes.
*** The 2011 result included a $30.1 million one-off gain from the sale of rights to Transpower to use Vector's Penrose to Hobson Street tunnel.

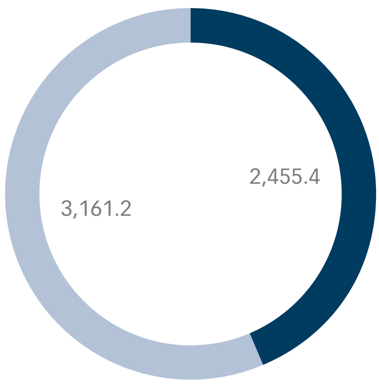
OPERATING
CASH FLOW
$ MILLION
FOR THE YEAR ENDED 30 JUNE



Operating cash flow improved 4.7% to $392.3 million from $374.6 million in the prior year.

SOURCE OF
FUNDING
$ MILLION
AS AT 30 JUNE 2012

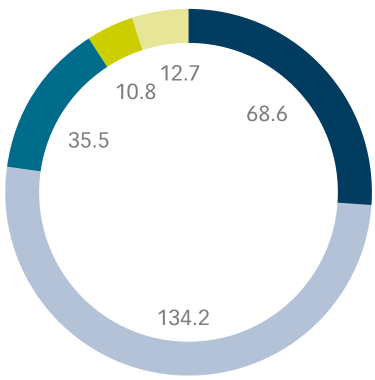
- TOTAL DEBT
- EQUITY AND OTHER LIABILITIES



Vector's capital structure remains strong. Standard & Poor's reaffirmed our BBB+/stable investment-grade credit rating and we have successfully established new senior credit facilities. Our gearing (net debt to net debt plus equity) is stable at 52.5%.

CAPITAL
EXPENDITURE
$ MILLION
FOR THE YEAR ENDED 30 JUNE 2012

- TECHNOLOGY
- GAS WHOLESALE
- GAS TRANSPORTATION
- ELECTRICITY
- SHARED SERVICES



Capital investment directed at growth and maintaining the existing critical energy infrastructure rose 1.8% to $261.8 million, from $257.1 million in the prior year. Of this sum more than half was directed at growth investments.

Critical infrastructure

INVESTING FOR GROWTH AND SECURITY

Vector is the fifth largest listed company in New Zealand and one of the economy's largest investors.

Investment in our electricity networks, of which the majority is spent locally, underpins the livelihood of many thousands of people and ensures Auckland, the engine of the national economy, is supplied with energy and is given the capacity to thrive and grow.

In the last year, capital expenditure on the Auckland network increased 8.2% to $134.2 million from $124.0 million in the prior year. The lion's share of this increase in expenditure was on the upgrades to the Wairau Road and Hobson Street substations, where Vector, in conjunction with Transpower, is developing and upgrading supply points.

When completed in 2014, this infrastructure will provide additional security of electricity supply to Auckland and the North Shore and provide additional capacity for growth.

WORK UNDERWAY AT THE HOBSON STREET SUBSTATION PROJECT | AUCKLAND

▲6.1%

REVENUE ROSE 6.1%

FINANCIAL PERFORMANCE

Revenue rose 6.1% to $609.1 million from $574.0 million due to regulated CPI adjustments, increases in consumption to 8,424 GWh from 8,319 GWh in 2011 and higher Transpower transmission charges. Customer numbers grew 0.5% to 535,228 from 532,607 in 2011, a pleasing performance given the difficult economic environment.

▲3.3%

RESIDENTIAL CONSUMPTION GREW BY 3.3%

Residential consumption grew by 3.3%, while consumption from small and medium sized business customers rose by 2.0%. Industrial and commercial consumption was up 0.8%. These gains were partly offset by lower capital contributions and the delay of several large projects.

EBITDA rose 5.3% to $384.1 million from $364.6 million as the revenue gains were partially offset by a 7.4% increase in operating expenditure largely due to the increase in transmission costs.

The world was watching during the Rugby World Cup and we delivered.

HARNESSING TECHNOLOGY

Vector is at the forefront of the development of infrastructure for the future. One technology we believe offers great potential is solar power.

Over the last year, we have further developed our capabilities in the deployment of photovoltaic cells and have worked with the Department of Conservation (DOC) to install battery arrays and solar panels on islands in the Hauraki Gulf.

These installations will supply up to 80% of DOC's needs on the islands and deliver substantial cost savings. Soon New Zealand homes and business may enjoy similar benefits.

LIFTING PRODUCTIVITY

Vector is constantly seeking to make the most of every dollar we spend on our network. For example, we are relocating more than 300 pole-mounted transformers to the ground making them easier to maintain and improving the aesthetic appeal of the streetscape.

This initiative is funded from the millions we spend each year replacing power lines and power poles with underground cables in accordance with an agreement we have with our major shareholder; Auckland Energy Consumer Trust. Since this 'undergrounding' project started, more than 124km of power lines have disappeared and the look of streets all over Auckland has improved.

EXISTING

PROPOSED

POWERING THE RUGBY WORLD CUP

Network performance is always a focus, but last year the stakes were higher with Auckland hosting many of the Rugby World Cup games including the final.

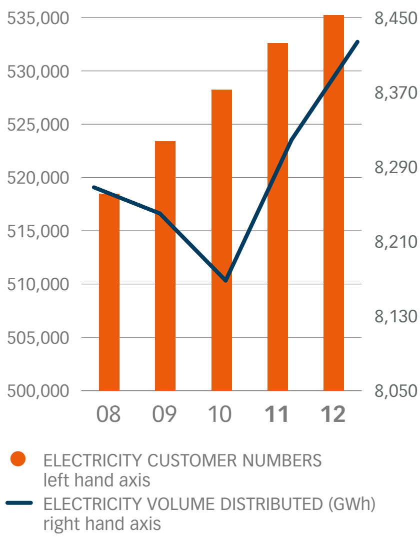
The successful delivery of a reliable, uninterrupted flow of electricity during the tournament had been a major focus for Vector for the past two years and it is an achievement in which we take great pride.

Any failure, either at the venues affecting customers watching the games on television, would have dented Vector's reputation and the standing of New Zealand in the international market place.

The world was watching and we delivered.

0.5% ▲ Increase in customers

ELECTRICITY CUSTOMERS AND VOLUME



Electricity customers rose despite the weak economy and volume transported across our networks increased due to temperatures falling to normal levels.

ELECTRICITY HIGHLIGHTS

535,228
Customers

2,621
Net movement in customers

17,780km
Network length

Trusted partner

Vector has in the last year consolidated its position as the country's leading gas supplier and intermediary. Customers, from electricity generators and steel mills through to Kiwi families needing fuel for the weekend barbecue, depend on us.

KAPUNI GAS TREATMENT PLANT | TARANAKI

10.4%

INCREASE IN GAS WHOLESALE EBITDA FROM $59.6 MILLION TO $65.8 MILLION

6.1%

INCREASE IN NATURAL GAS SALES FROM 26.1 PJ TO 27.7 PJ

FINANCIAL PERFORMANCE

Gas wholesale EBITDA rose 10.4% to $65.8 million from $59.6 million. Revenues rose 2.3% to $381.0 million from $372.3 million in 2011. The natural gas, Kapuni Gas Treatment Plant (KGTP) and Liquigas operations all posted revenue gains.

The business benefited from high LPG and natural gasoline prices and higher gas sales to industrial and commercial customers. Lower production by the Kapuni gas field weighed on KGTP revenues.

Natural gas sales rose 6.1% to 27.7 PJ from 26.1 PJ; Gas liquid sales fell 2.7% or 2,139 tonnes largely due to the prior year including a one-off opportunistic sale.

Tolling volumes at our 60.3% owned Liquigas business increased 0.7% or 927 tonnes to 130,820 tonnes. This increase is due to higher customer export volumes in response to favourable international prices. These export volumes have offset weaker demand from the South Island, a direct result of the Canterbury earthquakes, which continue to reverberate throughout the entire business.

KAPUNI

Access to Kapuni gas and legacy pricing is drawing to a close. This is expected to lead to a decline in the wholesale gas business' EBITDA, with the timing of that decline dependent on the outcome of negotiations with signatories to the Kapuni Gas Contract.

We have contractual rights to half the reserves above 1,010 PJ (roughly 35 PJ) and are negotiating a price for this gas. We are also pursuing a further 7.3 PJ of gas at the legacy price that we believe we are entitled to.

TRUSTED GROWTH PARTNER

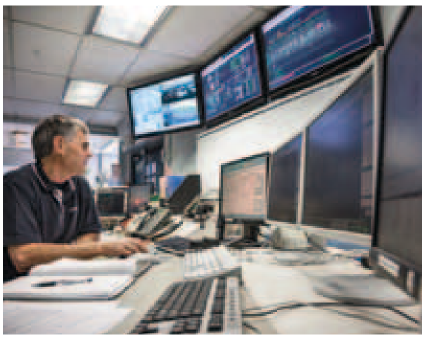
The gas trading business delivered one of the stand out performances of the year. Vector has, in the last year, consolidated its position as the country's leading gas supplier and intermediary, striking a number of closely-matched supply and gas procurement contracts. These strengthen the gas trading book, providing greater income certainty.

These contracts include agreements to:

> Purchase up to 3.5 PJ a year (although we expect actual purchases to be 2 PJ) until December 2012 from TAG Oil's Sidewinder field with an option to continue this contract through to December 2014 and 5 PJ a year from January 2015 until December 2018 from Shell.

> Supply Fonterra increasing amounts of gas, rising to a peak of more than 4 PJ a year from 2015 until 2018. We have also renewed contracts to supply Carter Holt Harvey and New Zealand Steel, two of the largest industrial gas users in New Zealand.

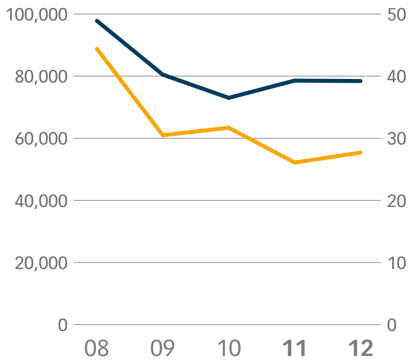
We have renewed the business because large gas users are turning to Vector as they recognise our willingness to configure gas supply to meet their specific needs, for example our capability to manage obligations incurred under the Emissions Trading Scheme. They also recognise our ability to offer greater price certainty and supply security, thanks to our multiple long-term contracts with diverse gas suppliers. They value our financial strength and our pivotal position in the New Zealand energy market. In short they trust us.



OPERATIONAL EXCELLENCE

Vector's Kapuni Gas Treatment Plant (KGTP) won the Strategic Industry Research Foundation 2012 Australasian Maintenance Excellence Awards (AMEA), a first for a New Zealand company. Commissioned in 1970, KGTP is the country's oldest gas treatment plant. It remains a key asset in the country's natural gas network, and is one of the country's four LPG producers and the largest producer of liquid carbon dioxide.

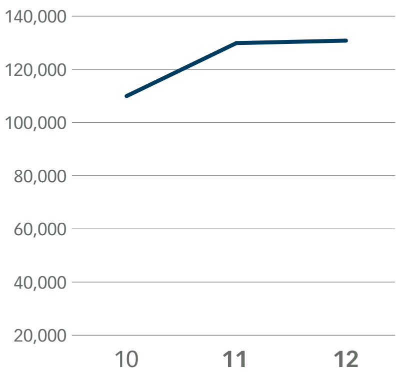
GAS WHOLESALE SALES



— GAS LIQUIDS SALES (TONNES) (LEFT HAND AXIS)
— NATURAL GAS SALES (PJ) (RIGHT HAND AXIS)

In natural gas our sales rose thanks to sales to large industrial and commercial customers. Gas liquid sales fell due to the prior year including a large opportunistic sale.

LIQUIGAS LPG TOLLING (TONNES)



Tolling volumes rose due to increased customer export volumes in response to favourable international prices.

GAS WHOLESALE HIGHLIGHTS

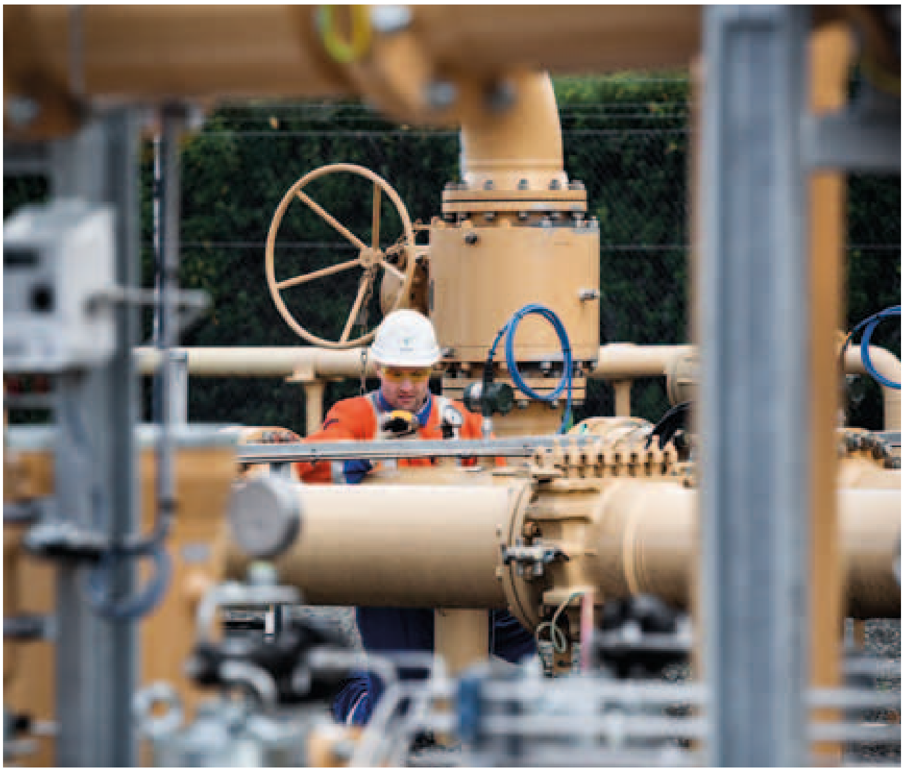
10.4%
EBITDA increase

27.7 PJ
Gas sales

130,820
LPG tonnes tolled

Fuelling the economy

Our gas network is a critical piece of the national energy infrastructure. It links customers with the gas resources in Taranaki, the country's energy province, and distributes the bounty to customers across the North Island.



MAINTAINING OUR GAS TRANSPORT NETWORK

4.6%

REVENUE INCREASED 4.6% TO $214.6 MILLION

FINANCIAL PERFORMANCE

Revenue increased 4.6% to $214.6 million reflecting an increase in gas transmission due to a 4.4% or 5.3 PJ increase in transmission volumes to 125.4 PJ from 120.1 PJ in 2011. Meanwhile, consumption on the distribution network increased 4.8% or 1 PJ to 21.8 PJ from 20.8 PJ.

EBITDA rose 2.0% to $160.5 million from $157.3 million. In gas distribution, we saw a 1.4% growth in connections taking total customer numbers to 154,649 from 152,508 in 2011. Residential connections grew 1.5% to 144,975 from 142,866. Industrial and commercial connections grew 0.9%.

Gains in operating earnings were offset by an increase in gas maintenance costs. This includes increased amounts of 'pigging' or the cleaning and inspection of our pipelines using intelligent devices. Meanwhile, capital expenditure rose 11.3% to $35.5 million from $31.9 million as we stepped up the replacement of old sections of low pressure pipelines in Hamilton and Auckland.

24|7

Monitoring and Response

RESPONDING TO CUSTOMERS

In our gas distribution business, we are constantly striving to reduce the time between a customer requesting a connection and getting the gas flowing to their premises to make sure we are getting the most from our infrastructure.

In May 2012, we launched the gas connection estimator on our website, www.vector.co.nz/residential-gas-estimator which gives customers an immediate online estimate of the costs of connecting their homes or businesses to our reticulated gas network. We have also cut the time between Vector making a quote to a customer and work starting on the customer connection by more than 50%.

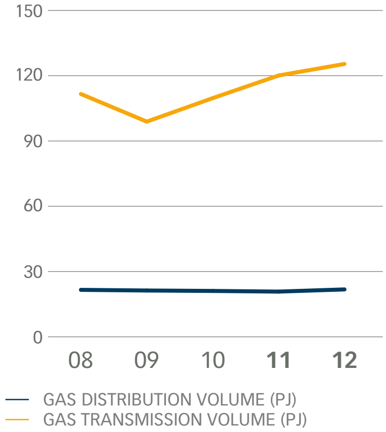
ENERGY SECURITY

This year we connected TAG Oil's Sidewinder gas field to our gas transmission network. This connection plays a key role in ensuring the security of the nation's gas supply. The field was connected on time and on budget.

Meanwhile, late in 2011, the Maui Development Limited-owned Maui Pipeline, a key piece of the national energy infrastructure failed. Our gas transportation team performed an exemplary job responding to the challenge. Although we do not own the pipeline, as critical contingency operator and Maui Pipeline operator, our involvement was critical.

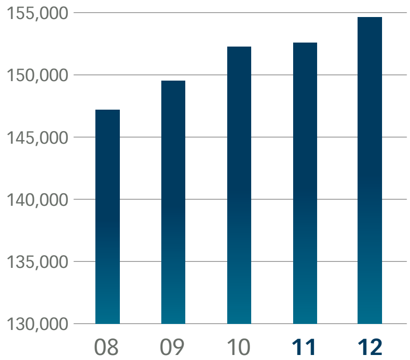
We optimised capacity on the smaller Vector network, which runs parallel to the Maui Pipeline and worked well with customers to manage their demand. Maui was restored within five days of the original outage; a great result and a testament to the dedication and expertise of the Vector team.

GAS TRANSPORTATION VOLUMES



Gas transmission volumes increased, reflecting higher demand from electricity generators seeking to overcome water shortages in New Zealand's hydroelectric catchments.

GAS DISTRIBUTION CUSTOMERS



Gas distribution customers increased modestly, a pleasing result given the sluggish economy.

GAS TRANSPORTATION HIGHLIGHTS

125.4 PJ
Transmission volume

30
Towns and cities in the North Island connected

3,505km
Length of gas transmission networks owned and managed

Leading-edge innovation

Vector's technology business delivered one of the stand out performances of the year. It is an excellent example of how Vector can use its scale and deep resources of expertise and innovation to open new markets and opportunities.

A VECTOR TECHNICIAN CHECKS A SMART METER

METERING

Vector is internationally recognised for being at the forefront of smart metering operations. Over the period, the number of installed smart meters rose 50.5% to 369,394 from 245,477.

We are only halfway through our contracted roll-out of approximately 670,000 smart meters. This figure includes our contract to install approximately 150,000 meters for Contact Energy, which has consolidated our position as the country's leading supplier of smart meters.

Each one of these meters delivers Vector revenue from the provision of metering and related information services to electricity retailers.

▲ **369,394**

INSTALLED SMART METERS, UP 50.5% FROM 245,477

They also lay an important foundation for competition, customer services and smart networks. We believe this technology may also be deployed on other infrastructure assets. With this in mind, we have been testing new smart gas meters and in the country...

...a win of a contract to install approximately 150,000 smart meters for Contact Energy has consolidated our position as the country's leading supplier of electricity smart meters.

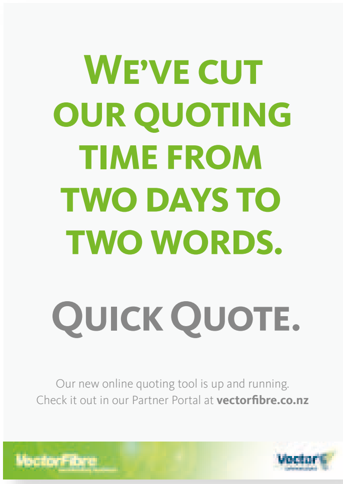
TELECOMMUNICATIONS

Our telecommunications business has grown from providing infrastructure services to one that also provides communications logistics services. We are now helping customers with the delivery of data from one location to another, in the same way as Fedex or DHL delivers parcels, by connecting with other telecommunications providers across the country.

Our customers, which include global blue chip telecommunications operators and systems integrators, have responded very well to this shift in focus. They value our high-quality Ethernet Transport Network (ETN) and our expertise in providing solutions to their complex telecommunications requirements.

We have also sought to reduce costs for our wholesale customers by simplifying their ability to provide services to their customers.

An example of this initiative is the ‘Quick Quote’ portal, which can allow channel partners, at the click of a button, to buy a telecommunications circuit connecting premises across a number of locations. We are nimble and responsive to their needs and as a result the business continues to grow and is delivering to Vector’s bottom line.



FINANCIAL PERFORMANCE

The technology segment continued to grow strongly and delivered a stand out performance. Revenue rose 11.5% to $97.1 million from $87.1 million and EBITDA grew 16.8% to $67.5 million from $57.8 million, assisted by the fast growing metering business, as well as a solid contribution from our communications business.

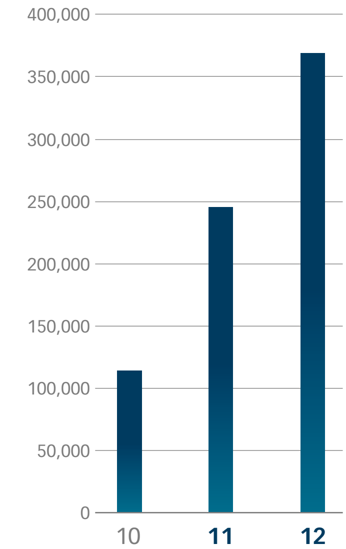
▲11.5%

REVENUE INCREASED 11.5% TO $97.1 MILLION

50.5% ▲

Installed smart meters

ELECTRICITY SMART METERS



Smart meter numbers continue to grow as we consolidate our position as the country’s leading supplier of smart meters.

TECHNOLOGY HIGHLIGHTS

16.8%
EBITDA growth

831,487
Meters managed

99.99%
Telecommunications network availability

Seeking regulatory certainty

New Zealand's lack of regulatory certainty on critical infrastructure is of concern to international capital markets.

There is a need for clarity around the regulatory environment or this country will continue to be viewed negatively.

The country needs a regulatory regime that recognises the critical importance of infrastructure to the national economy, the country's international competitiveness and our society's well-being.

Investment in ports, airports, and telecommunications and energy networks requires long-term commitments.

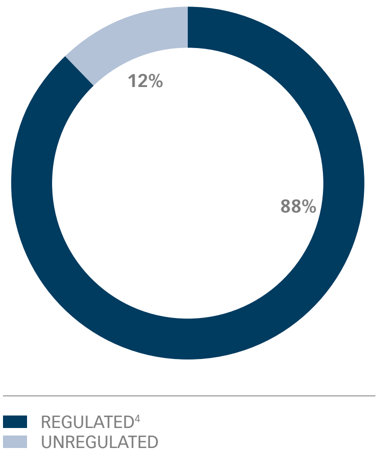
In mature and stable regulatory environments, investors are certain they will be able to recoup the costs over the life time of their investments. The 'rules of the game' are clearly signalled upfront. At present, there is a lack of clarity about how key parts of the regulatory regime will play out.

A successful regulatory regime balances the need to provide investment certainty against the need to keep the costs of goods and services down.

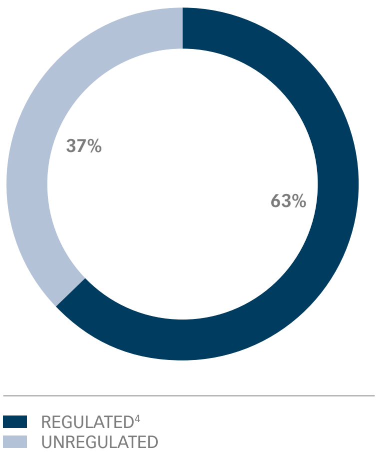
The current regulatory regime is some way from achieving that balance. It also fails to recognise Vector's unique mixed-ownership structure where our major shareholder, Auckland Energy Consumer Trust, faces strong disciplines to deliver outcomes that benefit the broader community.

> We continue to believe the Commerce Commission has not determined the fundamental inputs appropriately.

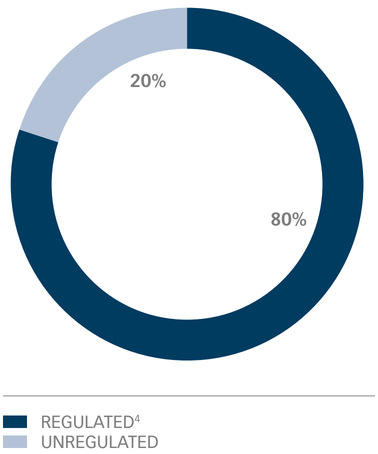
ASSETS[1]
AS AT 30 JUNE 2012



REVENUE[2]
YEAR ENDED 30 JUNE 2012



EBITDA[3]
YEAR ENDED 30 JUNE 2012



1. Calculated as the net assets for the electricity and gas transportation segments as a percentage of the total assets in the four operating segments.
2. Calculated as the external operating revenue for the electricity and gas transportation segments as a percentage of total external operating revenues.
3. Calculated as EBITDA for the electricity and gas transportation segments as a percentage of the total EBITDA in the four operating segments.
4. The electricity and gas transportation segments are subject to regulated price path controls.

THE SECOND HALF

We are at half-time in the regulatory process. The second half will resume in the third quarter of this year when we and others take our Merits Review of the regulatory regime to the High Court.

We continue to believe the Commerce Commission has not determined the fundamental inputs appropriately. Its determination of key regulatory inputs is flawed on many counts including its asset valuation and allowable return methodologies and its lack of incentives for cost savings and energy efficiency.

The recently-released draft electricity distribution price decision reinforces Vector's view. The Commission proposes we reduce our electricity distribution prices by an average of 8% in 2013. Additionally, there may be a further price adjustment to back date the change to 2012 in a later period.

Vector has been under price regulation since 2001, but the Commission gives us no recognition for our achievements over this period.

We do not take legal action lightly. However, we will only arrive at the balance and stability the country needs if Vector and others test this still immature regime through the courts.

SEEKING CLARITY

Nevertheless, over the last year, we made progress in gaining clarity on the process and intent of regulations governing our electricity and gas networks.

In the High Court in December 2011, we lost our challenge to the way the Commission engaged with the industry over the regulation of our networks. We believed the Commission prevented us from reasonably assessing its plans. We have since decided against taking our case to the Court of Appeal.

Meanwhile, we continued our challenge to the way the Commission sets prices at the start of each regulatory period. In June, the Court of Appeal found in favour of the Commission, overturning the High Court's decision in our favour. But we have been granted leave to take this matter to the Supreme Court because we believe specifying the process to determine starting prices is fundamental to a good regulatory regime and was implicit in the decision to make the amendments to the Commerce Act in 2008.

PIPELINE ACCESS

Outside of the courts we made important progress in clarifying how capacity on our northern gas pipeline is shared between gas shippers and how we arrive at gas transmission prices.

Following general consultation with the gas industry regulator and the broader industry, it is now accepted that capacity on the pipeline should be more freely tradable between gas shippers. Gas shippers and the industry also understand that further investment in the pipeline to expand capacity is unnecessary and would probably result in greater and unwarranted gas transmission costs.

Partnership & responsibility

SAFETY

Vector puts safety first – making sure we keep the public, our people, customers and suppliers safe around our networks.

In March this year, Vector was one of the first companies in New Zealand to be able to make a statutory declaration to the Ministry of Economic Development, confirming we had an audited Safety Management system that was accredited against the new NZS 7901:2008 "Safety Management System for Public Safety" standard. We are very proud of this achievement.

Vector has also retained its Tertiary Level accreditation within the ACC Workplace Safety Management Programme.

We are also constantly providing training to staff to minimise the risk of injuries and we are continually looking to improve the measures that identify risk of injury and incentivise management to deliver on these indicators.

... an audited Safety Management System that was accredited against the new NZS 7901:2008 "Safety Management System for Public Safety" standard. We are very proud of this achievement.

COMMUNITY

We also take our safety message to the broader community and this year, we were recognised by the Electricity Engineers' Association (EEA) for the contribution we make to public safety.

EEA awarded Vector's "Stay Safe Around Electricity" schools programme, with its prestigious Public Safety Award. This programme, in conjunction with our energy conservation programme "Be Sustainable With Energy" has been running in Years three to six in schools covered by our electricity network.

Communicating safety messages through schools allows Vector to engage with children in a way that leaves a lasting impression and imparts knowledge that is likely to be taken into adulthood. The initiative also helps to communicate safety messages to adults as children are active persuaders in the home.

All programmes are delivered in-class by dedicated school educators and include in-class displays, interactive learning tools, student workbooks, fun giveaways and a website with games and experiments. Since 2005, our educators have visited 423 schools in Auckland, delivering the safety message to more than 87,000 children.

This year, we extended the programme to Taranaki where Vector's transmission pipeline operations are based. The Discover Natural Gas (for Years 5 to 8) programme is a great new way for kids to learn about the wonders of natural gas, the region's special relationship with the gas industry and gas safety.

GARRY BRANDON PHOTOGRAPHY

PROUD

We take pride in our long term relationship with Auckland's Vector Arena, the country's leading concert venue. Seating up to 12,200, the Vector Arena, like our energy networks, is a key part of infrastructure for the Auckland region and host to a wide variety of concerts. This year, among many other acts, it hosted New Zealand's own Flight of the Conchords to a packed arena for three nights.

SEEKING NEW LEADERS

Skilled workers remain difficult to recruit despite the softer employment market, particularly in positions requiring specialist engineering and information technology skills.

This reflects the fall in students registering for courses in these disciplines. Another key factor is the resource boom in Australia, where oil and gas companies, for instance, are recruiting New Zealand engineers on fly-in fly-out contracts at remuneration rates with which we cannot compete.

So we are making a lot of effort to recruit new talented graduates and hold on to the talent we have in the organisation. We are also looking at innovative alternatives to find the skilled people we need.

For example, we are working with local industry initiatives such as Omega organisation, which works for the prosperity of the Auckland region, by fully engaging with skilled immigrants to help alleviate workplace skill shortages.

... we are making a lot of effort to recruit new talented graduates and hold on to the talent we have in the organisation.

Strong leadership

MICHAEL STIASSNY
BCom, LLB, CA
Chairman and independent director

Michael Stiassny is a chartered accountant and partner of KordaMentha in Auckland. He has significant experience in investigating accountant work, company restructuring, due diligence and insolvency. He is a director of a number of public and private companies. Michael is a Fellow (FinstD) and council member of the Institute of Directors of New Zealand, and chairman of the Institute's Auckland branch. Michael has been on the Vector Board for ten years.

PETER BIRD
BA, MA, PhD
Independent director

Peter Bird was, until June 2012, Executive Vice-Chairman of Rothschild's South East Asian global financial advisory business. His experience includes advising large corporates and governments on a range of issues including acquisitions and disposals, privatisation, project and acquisition financing, mutualisation, insolvency and debt restructuring. Peter has worked as an economic consultant, as an economic researcher in the energy sector and as an academic economist at Stirling University. Peter has been a Vector board member for five years and four months.

JAMES CARMICHAEL
BE, FIPENZ
Non-independent director

James Carmichael is a trustee of the Auckland Energy Consumer Trust 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. James has been a Vector board member for three years and eleven months.

HUGH FLETCHER
BSc, MBA (Stanford), MCom (Hons)
Independent director

Hugh Fletcher is a former CEO of Fletcher Challenge Limited and is a director of Fletcher Building Limited, Insurance Australia Group Limited and Rubicon Limited. He is also non-executive chairman of IAG New Zealand Limited and a member of L.E.K. Consulting Pty Limited's Australasian Advisory Board.
Hugh has been a Vector board member for five years and four months.

ALISON PATERSON
CNZM, QSO, DCom(hc), FCA, ADistFInstD
Independent director

Alison Paterson is chairman of BPAC New Zealand Limited, Farm IQ Systems Limited, Stevenson Agriculture Limited, NZ Formulary Limited and the Governing Board of the Centre of Research Excellence for Growth and Development (The University of Auckland). She is also the deputy chair of Stevenson Group Limited, a director of Abano Healthcare Group Limited, a Pro Chancellor of Massey University and a member of the NZ Markets Disciplinary Tribunal. Alison has been a Vector board member for five years and seven months.

KAREN SHERRY
MA (Hons), LLB (Hons)
Non-independent director

Karen Sherry has been a trustee since 1994 and is a former chair of the Auckland Energy Consumer Trust. She is also the chair of Energy Trusts of New Zealand Inc, a trustee of Auckland Healthy Houses Trust, a former trustee of Challenge Trust and a former director of Mercury Energy. Karen has recently been appointed director of Auckland SPCA. Karen is a principal of the firm Bell-Booth Sherry where she specialises in commercial and trust law. Karen has been a Vector board member for six years and two months.

BOB THOMSON
BEng (Electrical), DipBS
Independent director

Bob Thomson was chief executive of Transpower Limited, and has been an adviser to Energy Trusts of New Zealand Inc since 2004. 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 being a board member of the Electricity Market Company Limited from 1994 to 1998.
He is a Fellow of the New Zealand Institute of Engineers. Bob has been a Vector board member for seven years and seven months.

IMAGE: FROM LEFT

Karen Sherry
Peter Bird
Hugh Fletcher
Michael Stiassny
Bob Thomson
Alison Paterson
James Carmichael

To view Vector's governance policies visit: www.vector.co.nz/corporate/investor-relations/governance

Our experienced board leads Vector on behalf of our shareholders and customers.

Effective management

SIMON MACKENZIE
Grad Dip BS (Dist), Dip Fin, NZCE
Group Chief Executive

Simon was appointed Group Chief Executive in February 2008 and has been with Vector for 14 years. He has extensive experience in the infrastructure sector, including strategy, regulation, network management, information technology and telecommunications. In addition to international experience in the construction and consultancy sectors, Simon's tertiary qualifications include engineering, finance and business studies, and the Advanced Management Programme at the Wharton School, University of Pennsylvania.

ALLAN CARVELL
BCom, Dip Com (Econ), CA
Group General Manager Regulation and Pricing

Allan's responsibilities include regulatory policy, compliance and risk, network pricing and Government relations. In addition to his extensive regulatory and pricing experience particularly in the electricity sector, Allan's background includes finance and treasury management, legal, IT and HR. Prior to joining Vector he held general management roles at Unison Networks and Transpower. Allan has completed an Accelerated Development Programme at the London Business School and is a member of the Institute of Directors.

DANIEL MCCARTHY
M Eng, MA (Hons)
Group General Manager Commercial

Daniel leads commercial activity, customer relationships and marketing across the group's infrastructure businesses. Prior to joining Vector in 2008, he was commercial director for Avis Rent A Car in the UK. He has also been a strategy consultant with L.E.K. Consulting and Marakon Associates in the USA, Europe and Asia Pacific and has held brand management roles at Procter & Gamble.

PEGGY MOLYNEUX
MBA, BA, MIPM
Group General Manager Corporate Services

Peggy leads Vector's IT, human resources, health and safety, and property teams to ensure their services are integrated and support company strategy. Peggy has more than 11 years' experience in the New Zealand energy industry. In her last role, she was general manager of corporate services at Genesis Energy and played a key role in shaping the company's business model and culture. Prior to that, she was a senior member of the HR team at Air New Zealand. She has also held executive roles in the UK, Europe and the USA. She attended the Advanced Management Programme at INSEAD in 2002.

SHANE SAMPSON
BCA, LLB (Hons), CA
Acting Chief Financial Officer

Shane leads the finance team and is responsible for financial and management reporting, risk management, corporate finance, investor relations, treasury, legal and tax. Shane started his career with KPMG and has spent the last 14 years in financial and commercial leadership roles in the utilities sector. Shane joined Vector from Telecom where he was general manager finance and commercial for the company's Gen-i division.

DAVID THOMAS
BSC, BE (Chem) (Hons)
Group General Manager Gas Trading and Metering

David leads Vector's gas wholesale, gas processing, LPG and metering businesses. David has worked in nearly all parts of the energy sector over the last 27 years. Prior to joining Vector in 2008, he was general manager operations at Contact Energy, responsible for the company's power stations and generation development. He has also held roles at BP and Fletcher Challenge in New Zealand and overseas. David's tertiary qualifications include engineering, science and the Senior Executive Programme at the London Business School.

DAVID TOMPKINS
BA Sc, M Eng, MIPENZ, Dip B Mgt, Dip Int Fin
Group General Manager Asset Investment

David's role encompasses electricity and gas network investment, asset management, asset performance and engineering. David has more than 30 years' experience in asset development and management, engineering and contracting, as well as business development. He joined Vector in January 2002 as general manager service delivery after returning from Canada where he managed a number of North American power station developments.

IMAGE: FROM LEFT

Shane Sampson
David Tompkins
Peggy Molyneux
Simon Mackenzie
Daniel McCarthy
Allan Carvell
David Thomas

Our skilled management team leads Vector as it delivers energy and communication services to homes and businesses across New Zealand.

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 stakeholders.

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

Vector's ordinary shares are quoted on NZX Limited's NZSX. The capital bonds and senior bonds of Vector are quoted on the NZDX. Vector's governance practices comply with the NZSX Listing Rules, relevant laws and Vector's constitution.

Our governance practices incorporate the Securities Commission's (now the Financial Markets Authority) Corporate Governance Principles and Guidelines and the NZX Corporate Governance Best Practice Code to ensure our corporate governance practices reflect best practice in New Zealand.

PROMOTION OF ETHICAL AND RESPONSIBLE DECISION MAKING

Vector expects its directors and employees to act legally, ethically 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**
  Sets out the ethical standards expected from Vector's directors, employees and contractors;
- **Directors' Code of Practice**
  Sets out additional standards expected from Vector's directors when carrying out their duties as directors of Vector;
- **Protected Disclosures Policy**
  Recognises the protections afforded employees under the Protected Disclosures Act 2000 and supports employees who, acting in good faith, report any serious wrongdoing;
- **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;
- **Insider Trading Policy**
  Details Vector's policy on, and rules for, dealing in Vector ordinary shares, Vector bonds, any other listed securities of Vector or its subsidiaries, and any listed derivatives; and
- **Continuous Disclosure Policy**
  Affirms Vector's commitment to provide accurate, timely, orderly, consistent and credible disclosure and compliance with its continuous disclosure obligations.

DIVERSITY

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. Women represent just over a fifth of senior management and just under a third of all employees. Vector is currently looking to formalise its diversity policy as encouraged by a recent change to the NZSX Listing Rules.

ENSURING SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Vector's 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; and
- Ensure a balance of authority so that no single individual has unfettered powers.

The board has an obligation to create shareholder wealth (with a long-term bias) 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 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.

BOARD OF DIRECTORS

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 2012, the board comprised seven directors, all of whom are non-executive directors. 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 usually meets monthly but, as required, does meet between regular scheduled meetings.

The board charter contemplates a need for the directors to seek independent professional advice in certain situations and there is a procedure agreed by the board for directors to obtain this advice at the expense of the company.

TABLE OF ATTENDANCE

Attendance records of board and committee meetings for the year ended 30 June 2012 are provided in the table below:

	Full Board	Audit Committee	Risk and Assurance Committee	Remuneration Committee	Regulatory Committee
Total Meetings	19	4	4	3	2
Directors					
M Stiassny (Chair)	19	4	4	3	2
P Bird	17	2*	3*	2*	1
J Carmichael	19	4	4	3*	2
T Carter to 15 May 2012	15	2*	2	2	0
H Fletcher	17	4	3*	3*	2*
J Miller to 20 March 2012	9	4	2	1*	2
A Paterson	18	4	4	1	2*
K Sherry	18	4	4	1	2
B Thomson	19	4	4	1*	2

* Director attending committee meeting who is not a member of the committee.
The Nominations Committee has met twice since 30 June 2012.

DIRECTOR INDEPENDENCE

The board has determined the independence of directors as required by the NZSX Listing Rules. The board has determined the following directors to be independent directors: Michael Stiassny, Peter Bird, Hugh Fletcher, Alison Paterson and Bob Thomson. Only independent directors are eligible to be the board chairperson. James Carmichael and Karen Sherry are not independent directors as they are also trustees of the Auckland Energy Consumer Trust (AECT), Vector's majority shareholder. Directors are required to inform the board of all relevant information which may affect their independence.

BOARD COMMITTEES

There are currently five board committees, to assist the board with specific responsibilities. They are:

Audit Committee

Assists in the oversight of regulatory and financial reporting compliance, external audit processes and financial controls. 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 2012 were Alison Paterson (chair), James Carmichael, Hugh Fletcher, Karen Sherry, Michael Stiassny and Bob Thomson.

Regulatory Committee

Provides strategic guidance and feedback on Vector's regulatory policy and practice. 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 2012 were James Carmichael (chair), Peter Bird, Karen Sherry, Michael Stiassny and Bob Thomson.

Risk and Assurance Committee

Assists with the strategic guidance and oversight of Vector's risk management and assurance policy and practice. 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 2012 were Karen Sherry (chair), James Carmichael, Alison Paterson, Michael Stiassny and Bob Thomson.

Nominations Committee

Establishes and reviews the criteria for evaluating director nominees, identifies and recommends candidate directors, as well as formally engaging and inducting new directors. For as long as the AECT holds at least 50.01% of Vector's shares, this committee undertakes non-binding consultation with the AECT 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 2012 were Michael Stiassny (chair), Hugh Fletcher and Alison Paterson.

Remuneration Committee

Considers all senior management appointments and contractual terms, reviews the company remuneration policy and, from time to time, the remuneration of directors. 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 2012, performance evaluations of the Group Chief Executive and senior management 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 2012 were Michael Stiassny, Alison Paterson and Karen Sherry.

BOARD REMUNERATION

Vector's directors do not participate in an executive remuneration or share scheme. Directors do not receive any options, bonus payments or any incentive-based remuneration. The company does not have a scheme for retirement benefits to be given to directors. The directors' remuneration 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.

BOARD PERFORMANCE EVALUATION

The board charter includes a requirement for the chairperson 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. During the year ending 30 June 2012, the performance of the directors was reviewed in accordance with the board charter.

STAKEHOLDER RELATIONS

Vector's commitments to its various stakeholders, including shareholders, are part of the board charter and the company's code of conduct. Vector's stakeholder relations policy is published on Vector's website.

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 Vector's website;

> Conducting shareholder meetings in a location and at a time convenient to the majority of shareholders;

> Providing shareholders with adequate opportunity to ask questions about, and comment upon, relevant matters, and to directly question the external auditors, at shareholder meetings; and

> Inviting shareholders to contact the company to ask questions, or express views, about matters affecting the company.

Vector's shareholder relations policy is published on Vector's website.

Vector's constitution includes provisions relating to its majority shareholder, the AECT. In addition, Vector and the AECT are parties to a Deed Recording Essential Operating Requirements, which includes certain policy, consultation, pricing reporting and undergrounding of overhead electricity lines obligations.

ACCESSIBLE INFORMATION

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 accordance with NZSX Listing Rules. In addition, they are made available on Vector's website following their NZX release.

Stakeholders can register online to receive immediate electronic notification when new information is posted on the Vector website. Vector's interim and annual company reports are now primarily viewed online, but shareholders are entitled to 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 7780.

RECOGNISING AND MANAGING RISK

Vector recognises and manages risk by ensuring it has effective, systemised, coordinated and appropriate risk management practices in place. These practices are aligned to the ISO standard 31000 published in 2009. In doing so, Vector not only protects and enhances value to its stakeholders but also meets its obligations as both an owner and manager of critical infrastructure and as a listed company.

During the year ended 30 June 2012, management has reported to the board on the effectiveness of the company's risk management practices. As part of that report, appropriate assurances were received from management that the system of risk management and internal control is operating effectively in all material respects. These practices are also subject to internal audit review.

The processes involved require the maintenance of risk registers that identify material risks facing the company and the status of the initiatives employed to reduce them. The risk registers are reviewed regularly.

The risk and assurance committee reviews, on a rotating basis, individual key risks faced by the company. Material regulatory risks and risks regarding the security of Vector's networks are reviewed by the board.

DIFFERENCES IN PRACTICE TO NZSX CODE

Vector's corporate governance practices meet the NZX Corporate Governance Best Practice Code other than NZX principle 2.7 which encourages directors to take a portion of their remuneration under a performance-based equity security compensation plan. Vector does not have an equity security compensation plan for directors and notes that while this is encouraged under this principle it is not required.

Broader interests

We're involved in a number of partnerships and ventures that complement our core network businesses and strengthen our capabilities in the energy services field.

22.11%

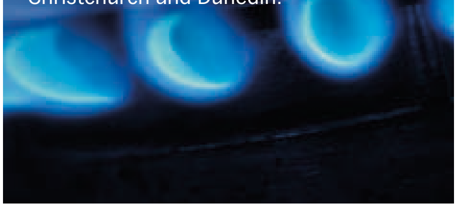
NZ WINDFARMS

Vector holds a cornerstone 22.11% shareholding in NZ Windfarms Limited, a wind power generation company that sells sustainably generated electricity.

60.25%

LIQUIGAS

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.



50%

TREESCAPE

Vector has a 50% shareholding in Treescape, one of Australasia's largest specialist tree and vegetation management companies, with divisions throughout New Zealand and Queensland. Treescape employs more than 250 trained staff and customers include councils, utilities, government agencies, construction companies and developers. Treescape's planned vegetation management programme plays a major role in minimising the impact of severe weather on Vector's electricity network.

50%

KAPUNI ENERGY JOINT VENTURE

The group has 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.

What things mean

EBIT
Earnings before interest, income tax, net profit/(loss) from associates and impairment losses on investments in associates.

EBITDA
Earnings before interest, income tax, depreciation and amortisation, net profit/(loss) from associates and impairment losses on investments in associates.

GWh
Gigawatt hours.

Net Debt
Total borrowings less cash and cash equivalents and short-term deposits.

Net Finance Costs
Interest paid/payable less interest received/receivable.

NPAT
Net profit after tax.

NZ IFRS
New Zealand Equivalents to International Financial Reporting Standards.

Operating Cash Flow
Cash inflows and outflows from principal revenue-producing activities.

Pay-out Ratio
The dividends declared for the year expressed as a percentage of operating cash flow less replacement capital expenditure.

PJ
Petajoules.

SAIDI
A measure in minutes that shows the average time a customer is without power during an outage across all electricity customers.

Revenue
Total income in the consolidated income statement.

Total Income
All sources of revenue received, except interest income.

Getting in touch

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INVESTOR ENQUIRIES
Telephone 64-9-978 7780
Email: investor@vector.co.nz

TO REPORT A FAULT:

Electricity
On the Auckland, Manukau or Papakura network, call: 0508 VECTOR (0508 832 867)

On the North Shore, Waitakere or Rodney network, call your electricity retailer

Gas
Call 0800 764 764

SHARE REGISTRAR
Computershare Investor Services Limited
Level 2
159 Hurstmere Road
Takapuna
Private Bag 92119
Auckland 1142
New Zealand
Telephone 64-9-488 8777

AUDITORS
KPMG
18 Viaduct Harbour Avenue
Auckland 1140
New Zealand

YEAR ENDED 30 JUNE ($ MILLION)	2012	2011
INCOME STATEMENT		
Total income	**1,252.6**	1,244.6
Operating expenditure	**(625.2)**	(608.0)
EBITDA	**627.4**	**636.6**
Depreciation and amortisation	**(173.5)**	(170.2)
EBIT	**453.9**	**466.4**
Net finance costs	**(166.2)**	(178.2)
Share of net (loss)/profit from associates	**(0.3)**	0.9
Impairment of investment in associate	**(4.1)**	(2.3)
Profit before income tax	**283.3**	**286.8**
Income tax expense	**(81.6)**	(82.9)
Profit after income tax	**201.7**	**203.9**
Profit attributable to non-controlling interests in subsidiaries	**(2.9)**	(2.5)
Profit attributable to shareholders of the parent	**198.8**	**201.4**
ASSETS		
Other current assets	**277.5**	327.6
Intangible assets	**1,617.3**	1,612.6
Property, plant and equipment	**3,679.4**	3,605.9
Other non-current assets	**42.4**	32.9
	5,616.6	**5,579.0**
EQUITY AND LIABILITIES		
Other current liabilities	**219.1**	222.6
Total borrowings	**2,455.4**	2,409.9
Deferred tax liability	**480.2**	465.9
Other non-current liabilities	**313.6**	367.9
Equity	**2,148.3**	2,112.7
	5,616.6	**5,579.0**
CASH FLOW		
Net cash flows from operating activities	**392.3**	374.6
Dividends paid[1]	**(147.4)**	(143.7)
Capital expenditure payments	**(260.0)**	(251.6)
Acquisition of gas businesses	**–**	(6.6)
Cash outflow before external funding and investments	**(15.1)**	**(27.3)**
Net borrowings (repaid)/drawn down	**(44.8)**	0.2
Other financing activities	**(4.7)**	(3.3)
Investing activities excluding capital expenditure	**25.8**	36.0
(Decrease)/increase in cash	**(38.8)**	**5.6**

1. Includes dividends paid to non-controlling interests in subsidiaries.

This Shareholder Review should be read in conjunction with the enclosed Vector Limited Annual Report 2012.

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 senior retail and 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**

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