NEW ENERGY

ANNUAL REPORT 2016
VECTOR LIMITED

NEW TECHNOLOGY

We're leading from the front: looking forward and future-proofing the business with new and innovative customer solutions, today.

NEW CHOICE

We are building on our heritage, stability and history, but playing to new models of business and fresh ways of thinking; delivering straightforward choices to make our customers' lives, easy.

NEW MARKETS

From Tesla batteries for home and industry, to charging stations for electric vehicles across Auckland, to taking our metering expertise to the Australian market.

VECTOR

CREATING A NEW ENERGY FUTURE

For customers, consumers, shareholders and New Zealand.

CONTENTS

ABOUT VECTOR

Vector is the country's largest distributor of electricity and gas with our networks spanning the Auckland region. We maintain and operate nearly 1.5 million electricity and gas meters. We retail natural gas to industry and LPG to industry and homes from specialised depots and more than 800 LPG bottle swap outlets across the country from Whangarei to Invercargill. We employ nearly 800 staff and 1,000 contractors and we are one of the largest companies listed on the NZX. We have a record for delivering growing returns to shareholders.

For more, visit: www.vector.co.nz

Revenue from continuing operations

$1,144.6m

FALLS 0.8% DUE TO CHALLENGING GAS TRADING CONDITIONS AND LOWER PASS-THROUGH COSTS

Adjusted EBITDA from continuing operations[1,2]

$473.0m

RISES 4.7% UNDERPINNED BY GROWTH IN AUCKLAND AND METERING

Full-year dividend

15.75c

RISES 0.25 CENTS, THE 10TH STRAIGHT YEAR OF DIVIDEND INCREASES

Electricity and gas connections

654,375

RISE 1.3% DUE TO GROWTH IN AUCKLAND

Vector's fleet of smart meters[3]

1,126,258

RISES 17.5% AFTER A RECORD NUMBER OF INSTALLATIONS

1. Adjusted EBITDA is a non-GAAP profit measure. For a comprehensive definition and reconciliation to the GAAP measure of net profit refer to page 42 of this report.
2. For statutory reporting purposes, the Vector Gas businesses are presented separately in the profit or loss statement as discontinued operations. Please refer to our full-year financial statements for a breakdown of continuing and discontinued operations.
3. Includes 55,775 meters managed but not owned by Vector.

Reshaping the portfolio towards higher growth (page 14)

Investing ahead of demand – electric vehicles in Auckland (page 16)

Front-row seats – our partnership with Hawaii's Energy Excelerator (page 21)

LEADING CHANGE

Vector continues to prioritise growth in its portfolio, both from its existing assets and from the new opportunities emerging with advances in new energy technologies.

We are excited by the opportunities. We have sold Vector Gas, which owned the gas transmission and gas distribution assets outside Auckland, for $952.5 million[4] as we seek to refocus our regulated investment into our rapidly growing Auckland energy networks.

Over the past year we installed a record 180,842 smart electricity meters across the country. This took our total smart meter fleet to over 1.1 million. Building on our market-leading position in New Zealand, we also signed our first metering services contract and installed our first smart meters in Australia.

With the support of our majority shareholder, Entrust, we have rolled out a network of electric vehicle (EV) chargers across Auckland. We have installed 78 Tesla Powerwall batteries across our network.

We have installed a 1 MW Tesla Powerpack battery in Glen Innes. And we have achieved all of this while delivering improved earnings and returns to shareholders.

We are creating a new energy future. Critical to achieving this goal is a culture that prioritises safety, nurtures innovation and new ideas, and actively encourages diversity and inclusion.

We were pleased this year, for instance, to be recognised with the Rainbow Tick certification, given to companies that can demonstrate that they understand, value and welcome sexual and gender diversity.

We are championing New Zealand's efforts to create safer workplaces. We welcome the new Health and Safety at Work Act 2015. We have ceased most live-line work, in a move aligned with Vector's aim to lead the way on safety by taking all practicable steps to protect the health and safety of our people.

Our Total Recordable Injury Frequency Rate (TRIFR)[5] for the year to 30 June 2016 increased 7.9%. Our TRIFR has reduced by an average of 17.0% annually since the end of the 2013 financial year.

FINANCIAL PERFORMANCE

Net profit rose 84% to $274.4 million from $149.4 million, lifted by increased operating earnings, lower interest costs, favourable derivative movements and the $164.1 million gain on the sale of Vector Gas, partially offset by a $64.0 million non-cash write down in the value of the Gas Trading business.

Group revenue from continuing operations (that is, excluding Vector Gas) fell 0.8% to $1.14 billion from $1.15 billion due primarily to a reduction in Gas Trading volumes as well as lower electricity transmission charges that are passed directly through to customers.

Adjusted EBITDA from continuing operations rose 4.7% to $473.0 million from $451.9 million. This figure excludes the contribution from Vector Gas through to its sale on 20 April 2016. Absent the Vector Gas sale, adjusted EBITDA would have been at the top end of our market guidance[6] of $550 million to $565 million.

AUCKLAND GROWTH

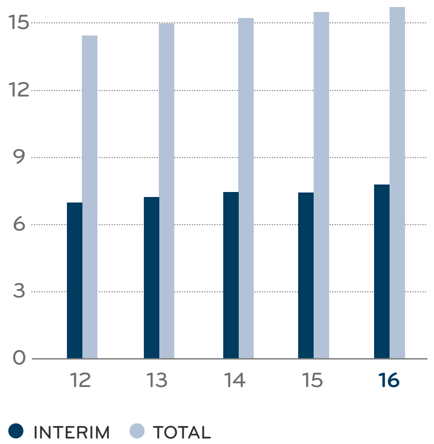
Growth in Auckland and a strong focus on cost control continues to support earnings at the regulated energy networks and offset a continuing decline in average household power consumption.

We added 11,849 new connections to our Auckland energy networks, up 11% on the prior year. Total electricity

New energy technologies are opening up a new growth frontier for Vector.

4. The sale of Vector Gas to First State Funds completed on 20 April for $952.5 million. On June 22 Vector received a fee of $7.5 million plus GST from First Gas Limited in relation to its successful acquisition of the Maui pipeline. As at 30 June 2016, the sale of Vector Gas remained subject to minor wash-ups in respect of working capital and capital expenditure.
5. A TRIFR of 8.04 is equivalent to 8.04 total recordable injuries for every million hours worked.
6. Assumes annualisation of the results from Vector Gas, rather than the actual contribution for the almost 10 months to 20 April.

DIVIDENDS DECLARED CENTS PER SHARE



BALANCE SHEET STRENGTH

Gearing[7] as at 30 June 2016

43.7%

Standard & Poor's rating

BBB /stable

For more, visit: vector.co.nz/news

connections were up 1% to 550,053, while total gas connections grew 2.7% to 104,322. Adjusted EBITDA[8] for the continuing regulated networks business[9] increased by 5.4% to $368.5 million from $349.7 million.

Adjusted EBITDA in the unregulated businesses rose 1.1% to $154.1 million from $152.4 million. An improved contribution from Vector Communications and ongoing growth in the New Zealand metering business offset costs associated with the expansion into Australia and the commercialisation of new technologies and challenges at the Gas Trading business.

We signalled in February a review of the carrying value of the Gas Trading business. We have now written down this value to reflect the steady decline in the output from the Kapuni field, the diminishing prospects of further field development due to ongoing disputes, and weak international hydrocarbon prices. The write down is a non-cash accounting adjustment that has no impact on the financial strength of Vector.

FINANCIAL STRENGTH

The sale of Vector Gas has further strengthened our balance sheet. As a result of the sale, Vector's gearing as at 30 June 2016 fell to 43.7%, down from 53.6% a year ago and 53.4% at 31 December 2015. The proceeds from the sale of Vector Gas will be applied initially to debt reduction, before redeployment to support growth in Auckland, smart metering and new energy technologies.

Our investment in our Auckland energy distribution networks will be linked to the regulatory regime's recognition of the special challenges we face with Auckland growth and the rising risks – due to advances in new technology – that new investments could be made redundant before they have delivered a return.

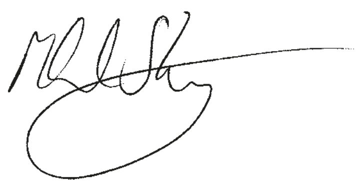
We are engaging constructively with regulators and policymakers over these issues. Indeed, the Commerce Commission, as part of its review of the regulatory regime ahead of the next regulatory resets for the gas and electricity businesses, is recognising these challenges.

Vector has increased its dividend for the 10th year running to 15.75 cents per share from 15.5 cents in the prior year, after the board declared a fully-imputed final dividend of 8.0 cents per share. The record date for dividend entitlements is 8 September 2016 and the payment date is 15 September 2016.

This dividend represents a pay-out of 75% of free cash flows[10] and is ahead of our policy to target a pay-out of 60%. As signalled in February, the board is reviewing whether a higher target is appropriate.

OUTLOOK

Vector is proud of the successes of the last year. We are looking forward to the remainder of this financial year with confidence and expect adjusted EBITDA[11] for the year to 30 June 2017 to range between $460 million and $475 million.



MICHAEL STIASSNY

Chairman

7. Gearing is defined as net economic debt to net economic debt plus equity. Economic debt means the amount repayable upon maturity, including the impact of hedging.
8. Unregulated and regulated adjusted EBITDA figures reflect the EBITDA of the three operating segments, excluding capital contributions.
9. That is, excluding Vector Gas.
10. Defined as net cash flows arising from operating activities less replacement capital expenditure outflows.
11. Excluding capital contributions.

NEW OPPORTUNITIES

Vector is providing new energy choices to customers by taking advantage of new technologies, even though this may disrupt long-established value chains in the energy sector.

We are evolving our networks to deliver the benefits that smart meters, highly efficient and cost-effective solar panels, batteries, electric vehicle charging infrastructure and energy management services offer to customers.

The future is unpredictable. New business models are evolving in response to new customer demands and these new technologies. We have taken the strategic decision to embrace these changes rather than resist them.

We see the new environment as an opportunity to work with providers of new business solutions and products. We will not always get it right, but we cannot afford to stand still as some others in the sector appear to be doing.

OUR HERITAGE

We approach this new environment from a strong position. Our networks, due to their growth prospects, are highly sought after by international investors. They are essential infrastructure for our communities and the economy. For those of our customers with solar generation, they provide access to grid power when the sun doesn't shine and enable customers to export excess power back to the grid or, in future, the option to share it with neighbours.

They enable customers with electric vehicles or those equipped with batteries to store power generated in the middle of the night, when significant latent electricity-generating capacity depresses prices. They also serve the long-term interests of customers by giving them access to new and innovative retail offers that seek to take advantage of wide variations in energy pricing.

The challenge for Vector is to continue to demonstrate to customers the continuing important role for the network, the value these new solutions deliver and ensure any new investment takes account of the risks and opportunities of this industry transformation.

These risks – that investments could be made redundant before they have delivered a return – are particularly acute in Auckland, where significant investment is required to meet customer demand for infrastructure.

ACCUSTOMED TO CHANGE

We are well accustomed to such change. Our bottle swap business is thriving. Since acquisition in 2011 this business has delivered a compound annual growth in 9 kg bottle swap volumes of 15.2%. In the year to 30 June 2016, swap volumes reached 549,998 bottles, up from 505,927 in the prior financial year.

Only a few years ago this business did not exist. By recognising early a change in customer preferences towards swapping bottles over refilling, Vector has been able to carve out a strong position in this market, whilst protecting itself from the decline in sales of LPG at fuelling stations.

Similarly, Vector was among the first to identify the benefits new smart meter technologies offered to customers and energy retailers. In under a decade we have grown to become a New Zealand leader in the provision of these services.

We have made significant strides in the current year. We installed a record number of smart meters in New Zealand. After receiving Australian Energy Market Operator accreditation, we signed our first metering services

Our networks are essential infrastructure for our communities and the economy.

Vector's strategic pillars (page 12)

First meters installed in Australia (page 15)

Network of the future (page 15)

agreement with a major Australian electricity retailer in May this year.

We are well positioned to make the most of the considerable potential we see across the Tasman, not least because the move builds on our position as a leading provider of advanced metering services in New Zealand, where we now operate a total fleet of nearly 1.5 million gas and electricity meters.

NEW TECHNOLOGIES

This year, we were among the first customers outside of the US to take delivery of Tesla batteries, which we are now deploying across our network.

In Glen Innes, east Auckland, we have installed a Tesla utility-scale Powerpack battery. It will allow Vector to continue to provide a secure power supply and defer the significant investment required for a new substation while we assess the effects of trends in the area such as declining household power consumption, renovation and infill housing, and the uptake of new energy solutions.

We have installed 78 Tesla Powerwall batteries on the network, mainly to the winners of the Future of Energy competition, which – with the support of our major shareholder, Entrust – is giving deserving schools, community groups and families free use of a solar and battery system for 10 years.

These installations are providing Vector with valuable insights into how customers use the technology, the systems' technical requirements and the potential of batteries and solar panels to deliver savings on our customers' energy bills.

We have also made significant advances in the provision of electric vehicle (EV) charging infrastructure. With the support of Entrust, we have installed 16 chargers across Auckland including 10 rapid chargers, which can charge an average EV's battery to 80% of capacity in around 20 minutes.

Vector was among the first to identify the benefits new smart meter technologies offered to customers and energy retailers.

CUSTOMER EXCELLENCE

Reflecting our determination to put customers at the centre of our business and improve the customer experience, we have set up a new customer excellence group to oversee key interfaces with customers, including customer communications, gas and electricity connections and network provisioning. The aim is to ensure Vector delivers services easily and quickly or – in the shorthand of the group – 'easyfast'.

At the heart of this group's efforts is the development of online self-service tools for network provisioning, fault reporting and updates on the progress of customer requests including fault resolution.

These programmes are building on the success of the Vector outage app and the online gas connection estimator. The outage app is one of the first ports of call for customers for fault information, while the estimator, launched last year, has reduced the time for a residential gas connection quote from five days to just a few seconds.

We are also advocates for the Auckland region and customers. This in part reflects our majority ownership by Entrust, which holds shares in Vector on behalf of approximately 320,000 Auckland electricity consumers. It also reflects our determination to lead change in the sector. We are, for example, strongly arguing against the Electricity Authority's (EA) proposals for Transpower's transmission network charges. These proposals will see Aucklanders paying an extra $78 million annually to meet their energy needs and major electricity generating companies sharing less of the burden.

"We are evolving our networks to deliver the benefits that smart meters, highly efficient and cost-effective solar panels, batteries, electric vehicle charging infrastructure and energy management services offer to customers."

The EA's proposals will have no financial impact on Vector, because transmission charges are passed directly on to customers, but we object because the proposals are contrary to the EA's goal to ensure all who benefit from Transpower's grid pay their fair share.

Vector meanwhile continues to work closely with Auckland Council on the challenges facing the region. Together we are planning a range of initiatives in the coming year to deliver new energy solutions into the community. The Council is also an important customer of Vector Communications and our vegetation management company Treescape, in which we are a 50% shareholder.

SERVICE QUALITY

We have continued to work hard to improve our service quality. We consistently meet the Commerce Commission requirements for System Average Interruption Frequency Index (SAIFI), which measures the number of times customers are affected by an outage. However, in each of the last three regulatory years our System Average Interruption Duration Index (SAIDI) measure, the duration of interruptions per customer, has exceeded the Commerce Commission's quality threshold.

The SAIDI performance reflects, in no small measure, changes in our operating environment. Increasing traffic congestion in Auckland has made it harder for our crews to get to the site of faults. Meanwhile, new health and safety practices, such as our cessation of most live-line work is also extending the duration of outages. We are working with the Commerce Commission on these issues.

Vector is looking to the future confidently. We are driving energy industry transformation by providing choice for customers and working with like-minded businesses that are embracing the new opportunities emerging in the sector.

Vector is grateful to the efforts of our staff and contractors over the last year. It is thanks to their efforts that we have been able to give our customers greater choice and control over their energy use. We are creating a new energy future.

SIMON MACKENZIE
Group Chief Executive

PROTECTING AUCKLAND'S INVESTMENT IN VECTOR

ENTRUST IS VECTOR'S MAJORITY SHAREHOLDER.

Entrust oversees Auckland's investment in Vector. It provides the strong, stable long-term ownership that has allowed the company to look through economic cycles, advances in technology and changes in customer behaviour to deliver the best outcomes for shareholders and energy consumers.

Entrust is helping Vector to create a new energy future.

ABOUT ENTRUST

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

TIMELINE:

- **1922** AEPB formed
- **1993** Corporatisation of the AEPB, and formation of the AECT now named Entrust
- **1998** Vector formed after the retail electricity business Mercury Energy is sold as part of continuing reforms in the electricity sector
- **2002 – 2004** Vector acquires gas and electricity utilities, including UnitedNetworks, which owned the power lines on the North Shore and West Auckland
- **2005** Vector shares offered to the public and the company floats a 24.9% stake on the NZX Main Board
- **Today** Entrust retains a 75.1% stake in Vector worth nearly $2.6 billion

From left: **Paul Hutchison, William Cairns** (CHAIRMAN), **James Carmichael, Karen Sherry, Michael Buczkowski,** (DEPUTY CHAIRMAN)

ENTRUST'S ROLE

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

$1.2b

TOTAL DISTRIBUTIONS TO ENTRUST BENEFICIARIES

Entrust proposes, and with all other shareholders, appoints directors to the Vector Board, two of whom are trustees, and approves all of Vector's major transactions. It is actively engaged on regulatory and industry issues to advocate for Auckland energy consumers, and by implication, all electricity consumers. Using a fund set up at the time Vector acquired UnitedNetworks, Entrust also supports the undergrounding of overhead lines and promotes new technologies such as solar, batteries and electric vehicle charging infrastructure.

AUCKLAND BENEFITS

Vector's EBITDA, a key measure of the company's financial performance, has grown strongly, since the AEPB's assets were first transferred to Entrust. Vector has achieved this record, with the support of Entrust through prudent management of the core electricity lines business and through diversification into new sectors like energy metering, gas distribution and now new technologies such as batteries and electric vehicle charging infrastructure. Vector's growth has allowed Entrust to distribute more than $1.2 billion to its beneficiaries. In the last year alone it distributed more than $100 million.

ENTRUST TRUSTEES

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

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

ENTRUST ONLINE

w www.entrustnz.co.nz/

f www.facebook.com/entrustnz/

t 0508 ENTRUST (0508 368 7878)

Entrust
PO Box 109626
Auckland 1149

Entrust
Majority shareholder of Vector

ACHIEVING OUR VISION

We are creating a new energy future with a focus on five strategic pillars.

Vector is challenging and reinventing the way communities and businesses are powered and connected so they can grow and thrive. We are embracing new technologies, disrupting traditional business models and working with like-minded companies to deliver customers the new energy solutions they demand.

01.

Sustainable Growth

Enhancing our financial performance and growth while innovating to deliver shareholder value.

- We sold Vector Gas, releasing capital to recycle into growth in our Auckland energy infrastructure networks, and the expansion of our metering and new technology initiatives.
- Our metering business installed a record number of smart electricity meters in New Zealand. And, in Australia, we signed our first metering services contract and installed our first meters.
- We deployed batteries, solar panels and home energy management technologies to our network.

02.

Customer Focus

Engaging with our customers to deliver value and exceed expectations.

- We established electric vehicle charging stations across Auckland to cater for growth in electric vehicle use.
- We set up a customer advisory board to give our customers a voice at the heart of the business.
- We have made a significant investment in data analytics to understand customer trends, target capital expenditure, monitor performance and help us develop new energy solutions.
- Vector's LPG distribution business, OnGas, was voted by customers the Best Gas Provider of the Year at the Roy Morgan Research Customer Satisfaction Awards 2016.
- We are developing more online tools to make sure customer interaction with us is easy and fast.

03.

Operational Excellence

Excelling at what we do while managing our impact on the environment and the communities in which we operate.

- We are working constructively with regulators and policymakers to ensure settings that: deliver customers choice and value; evolve with technological change and promote the rapid innovation taking place in the sector, while still allowing infrastructure companies to earn a fair return on their investments.
- Our networks are reliable. Last year:
  - Our electricity network was available 99.97% of the time, including both planned and unplanned outages.
  - Our gas distribution network was available 99.99% of the time.
- We have completed environmental risk assessments across all our business units and we are progressing with our business plans to mitigate the risks we have identified.

04.

Partnerships

Engaging and collaborating with key partners to develop a range of innovative options for creating a new energy future.

- We are working with Tesla Energy to launch its world-leading batteries in New Zealand.
- We joined Hawaii's Energy Excelerator, giving us a front-row seat to the latest developments in the energy sector.
- We continue to work with Auckland Council on the challenges facing Auckland.
- We are working with schools and community groups and our majority shareholder Entrust to enhance understanding of new energy technologies and provide a boost to deserving members of the community.

05.

Safety, People and Culture

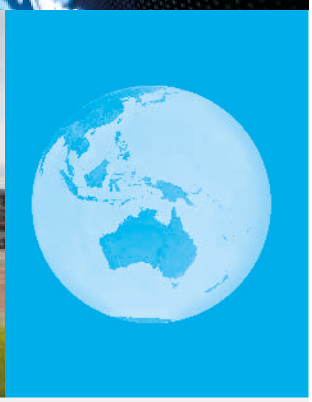
Providing a safe and great place to work that values diversity and inclusion and develops skilled people who can lead our company into the future.

- Our Health, Safety and Environmental Management System was ready for the Health and Safety at Work Act, which came into force this year.
- Our Total Recordable Injury Frequency Rate for the year to 30 June 2016 increased by 7.9%, but it has fallen by an average of 17% annually since the end of 2013.
- We invested in our people offering a variety of internal and external professional and skills-based training programmes.
- We received the Rainbow Tick certification, which is given to New Zealand companies that can demonstrate that they understand, value and welcome sexual and gender diversity.
- We refreshed our values and associated behaviours to ensure we continue to evolve our culture to support our vision and strategy.

01.

Sustainable Growth

Enhancing our financial performance and growth while innovating to deliver shareholder value.



Reshaping the portfolio towards higher growth

Vector completed the sale of its gas transmission business and its gas distribution business outside of Auckland for $952.5 million with a clear goal in mind – we wanted to release capital for deployment into areas that offered better growth prospects and were aligned with our vision of creating a new energy future.

Continued growth in Auckland is presenting numerous attractive opportunities on our core energy distribution networks. Meanwhile, rapid advances in technology coupled with customers' ever-increasing demands for greater choice and improved service are disrupting traditional energy network businesses and creating significant new opportunities across our portfolio.

$952.5m

VECTOR GAS SALE PRICE

Compared to these opportunities, Vector Gas offered more limited prospects. The assets were also exposed to a regulatory reset in 2017 at a time of historically low interest rates. The Vector Gas sale, which was completed in April, realised full value for these businesses and resulted in a one-off gain of $164.1 million. Meanwhile, it has allowed Vector to repay debt, with gearing[12] falling to 43.7% from 53.4% as at 31 December 2015.

We intend to redeploy this capital with the continuing investment into Australian metering opportunities and investment in Auckland as our networks experience strong connection growth. We are also investing in new technologies such as batteries, solar panels and electric vehicle charging infrastructure.

As a direct result of the sale, Vector and the buyer, First State Funds, have also agreed to consider opportunities to co-invest in regulated and unregulated energy infrastructure, both in New Zealand and offshore.

12. Gearing is defined as net economic debt to net economic debt plus equity. Economic debt means the amount repayable upon maturity, including the impact of hedging.

Metering Australia

Vector's fast-growing metering business has now installed its first smart meters in Australia after it struck a long-term metering services agreement with a large Australian energy retailer. The agreement follows our accreditation as a metering services provider by the Australian Energy Market Operator. We are targeting more agreements in the coming year. In the medium term we are focused on the large opportunity in New South Wales, South Australia, Queensland as well as Tasmania. Across these areas there is an installed base of 6.3 million legacy meters and there are as many as 450,000 new and replacement meters installed each year.

We expect momentum to build in Australia towards the end of next year, when Australian energy retailers take responsibility for electricity meters in line with the Australian Energy Market Commission rules.

We intend to redeploy this capital with the continuing investment into Australian metering opportunities and investment in Auckland.

Vector has proven itself in New Zealand, where we have grown to become the market leader, with an installed fleet of 1,126,258 smart meters[13]. We expect this fleet to continue to grow in the coming 12 months, but after that the focus will be on managing the existing meter fleet and installing new and replacement meters as required.

1,126,258

VECTOR'S FLEET OF SMART METERS[13]

Continued growth in Auckland is presenting numerous attractive opportunities.

Network of the future

A new electricity network is emerging in Auckland – one that offers energy consumers greater choice over the sources of energy they use and greater control over how they use energy.

Batteries are at the centre of the transformation. But smart meters, solar panels and the control systems that allow customers to monitor their energy use are also playing a significant role.

371

BATTERY SYSTEMS INSTALLED

As part of one of the largest Tesla Energy product deployments in the world to date, Vector with the support of its majority shareholder, Entrust, has installed 78 Tesla Powerwall batteries. The installations expand our fleet to 371 batteries, including those installed with our SunGenie solar and battery solutions.

We have also installed a utility-scale Tesla Powerpack battery at our Glen Innes substation. Powerpack batteries are giving Vector new options for network investment.

The batteries allow Vector to continue to provide a secure power supply and defer an upgrade to the Glen Innes high-voltage circuit, giving us time to gauge trends such as declining household energy consumption. Conversely, if ongoing connection growth requires an upgrade to the circuit, we can ship the batteries off to other parts of the network where power demand is rising.

Meanwhile, with the assistance of Entrust, 130 of the Tesla Powerwall batteries and solar panels are being given to deserving schools, families and community groups to use for free for 10 years.

Auckland network growth continues

Auckland City could add as much as the population of Hamilton every five years between now and 2043[14], as a result the growth we have seen on our network over the past year looks set to continue.

In the year to 30 June 2016, we added 11,849 new connections to our Auckland energy networks, up 11% on the prior year. Total electricity connections were up 1% to 550,053 from 544,513 in the prior year. Total gas connections grew 2.7% to 104,322 from 101,565 in the prior year.

These connections augur well for Vector's long-term growth prospects as they establish new relationships upon which we can provide new services such as batteries, solar panels and home energy management services.

11%

GROWTH IN NEW CONNECTIONS TO OUR REGULATED ENERGY NETWORKS

13. This figure includes 55,775 meters managed on behalf of the Smartco consortium of power companies.

14. Statistics New Zealand.

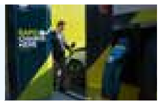
02.

Customer Focus

Engaging with our customers to deliver value and exceed expectations.

Sustainable Growth | Customer Focus | Operational Excellence | Partnerships | Safety, People and Culture

Investing ahead of demand



VECTOR'S CHARGING STATIONS HAVE:

- Served 4,469 rapid charging sessions.
- Delivered 22.7 MWh of electricity to electric vehicle users.
- Saved 30,000 kg of CO_2 emissions[15].

Electric vehicles (EVs) are coming and Vector – with the support of its majority shareholder, Entrust – is investing ahead of customer demand by installing a network of charging stations across the Auckland region.

Vector understands that uptake will be slow unless drivers can be certain they can overcome the range limitations of most EVs.

At present, EVs represent a relatively small component of the New Zealand vehicle fleet, with just over 1,500 vehicles registered as at 30 June 2016. However, with the Government targeting a doubling in the number of EVs in New Zealand every year, that number is expected to grow rapidly.

Rapid EV chargers, those that can restore an average EV's battery to 80% of capacity in around 20 minutes, are pivotal to driving EV uptake as they allow EVs to begin to offer the convenience of fossil-fuel-powered cars.

With the support of Entrust we have installed ten rapid chargers across Auckland and a further six standard chargers, which can restore a battery to 80% capacity within six hours at shopping malls, carparks and other places where EVs are likely to be parked for longer periods. And we plan to install a further 11 rapid chargers by the end of 2016.

The charging stations are already proving popular. As at 30 June 2016, Vector has served 4,469 rapid charging sessions and delivered 22.7 MWh of electricity to EV users. This amount of electricity would allow a Nissan Leaf EV to drive 131,312 km, saving more than 30,000 kg of CO_2 emissions.

15. Vector estimates.

GOING THE DISTANCE:
THE RANGE OF AN AVERAGE EV RELYING ON VECTOR'S CHARGING NETWORK

Customer engagement

Customers have been given a voice at the heart of Vector's business with the establishment of a Vector Customer Advisory Board.

The board is made up of a group of 12 people representative of Vector's customers. It meets quarterly and is being consulted on a wide array of topics ranging from pricing plans through to regulatory policy and indeed any suggestions to improve our service.

The board is one among a number of initiatives of our new Customer Excellence Group, which was set up last year to improve the customer experience by overseeing key customer interfaces. Its aim is to ensure we deliver services easily and quickly or, in the shorthand of the group, 'easyfast'.

Members of the Customer Advisory Board have been selected for the perspective they provide to the business and they include household customers through to property developers. Reflecting our focus on managing our environmental impact, the board includes members with a keen interest in environmental sustainability.

The Customer Advisory Board has already provided insight into the complexities customers face as they commission Vector to provide new infrastructure. Over the longer term, the board will also give us feedback on the progress we are making.

Other initiatives of the Customer Excellence Group include the development of new customer online interfaces to facilitate connections to the gas and electricity networks, improvements to service delivery times and the streamlining of service delivery processes.

We are working from the customer perspective to remove the complexity of our business, to reduce the time it takes to deliver customer solutions and enabling customers to access the services they need when they need them.

Best gas provider

Vector's LPG distribution business OnGas was named by its customers as the Best Gas Provider of the Year at the Roy Morgan Research Customer Satisfaction Awards 2016.

Twenty-one awards were presented to businesses that topped their respective categories by delivering outstanding levels of customer satisfaction, as judged by over 13,000 Kiwi consumers throughout the year.

Over the past 12 months, OnGas has introduced text/email notifications at the time of delivery. Meanwhile, bottle-tracking barcode technology, which provides useful information about every cylinder that has been delivered or collected, is improving the service OnGas delivers to its customers.

This recognition is directly attributable to the effort every single member of our team makes every day in delivering great service to our customers.

Portal improves LPG ordering

A collaboration between Vector and the Microsoft Student Accelerator programme has cut delays between the order and delivery of LPG to OnGas customers. As part of the programme, which helps talented information technology students transition from university to the workplace, Vector recruited and mentored three Auckland University students to develop a new online LPG ordering portal for OnGas.

The system, which went live in March of this year, connects seamlessly with Vector's order scheduling system. It replaces the old website, which required the OnGas customer services team to input orders manually into the scheduling system.

03.

Operational Excellence

Excelling at what we do, while managing our impact on the environment and the communities in which we operate.

Sustainable Growth | Customer Focus | Operational Excellence | Partnerships | Safety, People and Culture

Incentivising choice

Vector continues to strive for a regulatory regime and energy policy settings that: deliver customers choice and value; evolve with technological change; promote the rapid innovation taking place in the sector – while still allowing companies to earn a fair return.

This often means taking a strong position against those who seek to protect the status quo. This approach reflects our majority ownership by Entrust, which holds shares in Vector on behalf of approximately 320,000 Auckland electricity consumers. It also reflects our determination to lead change in the sector.

Vector, regulators and policymakers face challenges to these goals. Rapid and unpredictable technological innovation has heightened risks that traditional network investments may be made redundant before investors have recovered their capital. Meanwhile, investments in traditional technologies may no longer be the most efficient.

$2.0b

FORECAST CAPITAL EXPENDITURE ON THE AUCKLAND ENERGY NETWORKS OVER THE COMING 10 YEARS

The investment challenges are especially acute in Auckland, where an estimated $2.0 billion[16] needs to be spent on our energy networks over the next 10 years to meet demand.

The Commerce Commission, as part of a review of the regulatory regime ahead of the next reset for our energy distribution businesses,[17] has recently released draft proposals recognising these challenges and the role Vector plays in delivering choice.

16. Excludes operating expenditure.
17. The next gas reset is in 2017 and the electricity reset is in 2020.

Notably, it has proposed a reduction in network asset lives, which will allow Vector to recover capital more quickly. Vector agrees with the general approach, but believes the Commission is underestimating the potential for technology to make investments redundant. Additionally, the regulatory regime also continues to weight cash flows towards the end of asset lives, heightening the risks of rapid technological change.

$130m

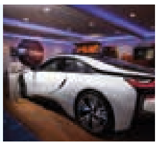
LOST SINCE 2013 DUE TO COMMERCE COMMISSION INFLATION FORECASTS PERSISTENTLY OVER-ESTIMATING ACTUAL INFLATION

The Commission has also proposed replacing the cap on prices we charge for the use of our network with a revenue cap. If implemented this proposal would give us greater flexibility over the way we charge and reduce the risk of historical under-recovery of revenue due to differences between the Commission's forecasts for growth in volumes on the network and actual volumes. These differences have cost Vector substantial sums since the 2010 regulatory reset.

Against this, the Commission continues to link Vector's allowable revenues from its regulated assets to inflation forecasts over a regulatory period rather than actual inflation outcomes. The Commission's persistent overestimation of inflation has cost Vector more than $130 million since 2013.

The Commerce Commission has recognised the challenges we face and the role Vector plays in delivering choice to customers.

Driving environmental improvements

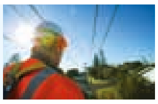


Vector this year completed environmental risk assessments across all of its business units in line with its strategic goal to manage its environmental impact. And now we are progressing with our plans to mitigate the risks we have identified.

The work has drawn on our system of environmental performance monitoring, which covers measures as diverse as energy consumption and waste generation, through to the handling of hazardous materials.

Vector is striving to foster environmental awareness in its business and embed it in our culture. We are also a strong advocate for renewable energy. For example, we are at the forefront of the solar and battery industries in New Zealand and in association with Entrust, we have been a leader in the roll-out of electric vehicle (EV) charging infrastructure in order to foster EV uptake.

Providing reliable networks



Vector has a strong record for delivering reliable networks. Our electricity, gas distribution and telecommunications networks were available more than 99.9% of the time over the past 12 months and that figure includes outages, both planned and unplanned.

That said, our network quality is facing a challenge from congestion in Auckland, stormy weather and new health and safety practices. We consistently meet Commerce Commission requirements for SAIFI,[18] which measures the number of times customers are affected by an outage. However, in each of the last three regulatory years[19] SAIDI[20], the duration of interruptions per customer, has exceeded the Commerce Commission's quality threshold. We have informed the Commission that in the 2015 and 2016 regulatory years we breached its quality thresholds.

Vehicle journeys in Auckland now take 33% longer when compared to a free flow situation, up from 27% in 2012.[21] This increase in traffic has delayed our response times and led to an increase in outages caused by car accidents. Additionally, our fault restoration times have been impacted by our decision to cease most live-line work, in accordance with international practices. Meanwhile, better asset monitoring practices have led to an increase in planned outages as we identify issues on the network.

Unusually stormy weather was a major contributor to Vector not meeting the threshold in the 2014 and 2015 regulatory years. Meanwhile the fire at Transpower's Penrose substation contributed to weaker network performance in the 2015 year.

We are continually improving our network management and organisation practices to minimise outages. We are working with the Commerce Commission over the breaches.

GREATER THAN

99.9%

ENERGY DISTRIBUTION NETWORK AVAILABILITY

18. System Average Interruption Frequency Index.
19. The 12 months to 31 March.
20. System Average Interruption Duration Index.
21. www.tomtom.com/en_nz/trafficindex/city/AUC.

04.

Partnerships

Engaging and collaborating with key partners to develop a range of innovative options for creating a new energy future.

Sustainable Growth | Customer Focus | Operational Excellence | **Partnerships** | Safety, People and Culture

Energy sector transformation

Vector's collaboration with Tesla and its energy products represents a significant step in the transformation of the New Zealand energy sector.

In January, we were among the first customers in the world to take delivery of state-of-the-art Tesla Powerwall batteries. And now, having met New Zealand compliance standards we are rolling them out across New Zealand.

"Tesla's Powerwall and Powerpack utility-scale batteries are among the most efficient, cost effective and reliable batteries on the market. If widely adopted, the technology will help reshape the way the country consumes energy," says Vector Group Chief Executive Simon Mackenzie.

More than 2,900 people have registered interest with Vector in installing a Tesla energy product in their homes and businesses. At the front of the queue are 130 schools, families and community groups. As part of a competition run by Vector and its majority shareholder, Entrust, all were nominated by Aucklanders as the most deserving recipients of the technology. They will receive free use of an integrated solar and Tesla Powerwall system for 10 years.

Batteries have the potential over the long-term to change the economics of the electricity industry. New Zealand's energy networks are engineered for peak demand, which in the evening can amount to around 6,700 MW. However, in the dead of night demand is on average around 3,000 MW. Batteries offer the opportunity to store power in anticipation of demand peaks, potentially reducing future investment in lines and generating assets. They can improve the economics of roof-mounted solar panels, which generate most power during the day, when home demand is generally low.

Front-row seats

Vector has a front-row seat to technological developments in the energy sector thanks to its partnership with the Hawaii-based Energy Excelerator.

The Excelerator has the bold ambition of solving the world's energy challenges. It was founded in 2013 and is part of a US Government programme of research designed to reduce Hawaii's dependency on fossil fuels. It provides start-up energy companies funding of up to US$1 million, access to strategic relationships, and offers them a vibrant ecosystem of partners which can provide expertise, funding networks and test beds for new technologies.

Vector is the only New Zealand company involved in the Excelerator. Thanks to the partnership we are gaining access to the latest and greatest technology and we are influencing the way new energy technology is developing and getting access to new investment opportunities.

We are also getting to understand how investment in clean technology is being directed and that gives us a good sense of the future for infrastructure. All of this is aligned with our vision to create a new energy future.

Since it was founded, the Energy Excelerator has awarded US$15 million to 43 portfolio companies and launched 14 demonstration projects in Hawaii and the Asia Pacific. Portfolio companies have gone on to raise US$223 million in follow-on funding to scale their demonstration projects in other markets.

2,909

PEOPLE WHO HAVE REGISTERED INTEREST IN TESLA POWERWALL BATTERIES WITH VECTOR

Through the Energy Excelerator we are influencing the way new energy technology is developing and getting access to new investment opportunities.

Community of interest

Vector's first installations of solar panels paired with Tesla Powerwall batteries are helping communities while broadening our understanding of the technology and the benefits it can deliver to the whole country.

The first recipients are the 130 deserving families, schools and community groups that won systems in Vector's Future of Energy Programme and residents of an affordable housing development on Ngāti Whātua land in Ōrākei.

The Ngāti Whātua's Kāinga Tuatahi (Kāinga- home, Tuatahi- the first) development covers 30 medium-density affordable housing units on land near the Ōrākei marae and it is the first residential cluster in New Zealand to install batteries.

Vector's installation of solar and battery systems is aligned with the hapū's commitment to environmental well-being and sustainable design principles, as well as its determination to make the development affordable over the lifetime of the houses. Kāinga Tuatahi is of particular interest to us as it will give insights into the benefits a cluster of batteries and solar systems can deliver to network development. We also hope it will serve as a template for other Ngāti Whātua developments in Auckland.

The installations offer residents obvious benefits. Power stored in the batteries, generated by solar panels, can be used when households generally need it most in the evenings. This reduces the amount of electricity they have to purchase from the grid. But if these practices are widely adopted, they also may allow Vector to re-evaluate its plans for network investment.

The Future of Energy Programme, launched with the support of Vector's majority shareholder Entrust, is aimed at highlighting the potential of the systems to deliver energy savings and help Vector understand the technical requirements and potential of the technology. It will also gain insights into how customers will use the technology.

130

SCHOOLS, COMMUNITY GROUPS AND FAMILIES BENEFITING FROM THE FUTURE OF ENERGY PROGRAMME

Rongomai School in Otara in South Auckland is one of the first of the 130 Future of Energy recipients, who get free use of the solar and battery systems for 10 years. The Tesla Powerwall battery and the solar system are not only saving the primary school hundreds of dollars in annual electricity costs, but they are also powering the minds of students participating in the school's ground-breaking technology immersion programme.

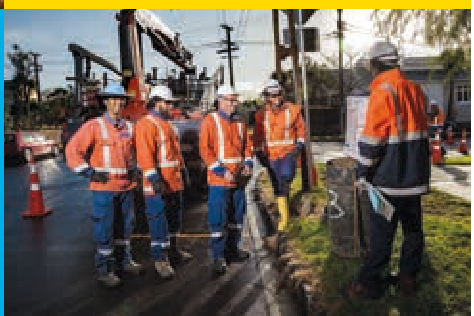
"The Tesla Powerwall and the solar panels represent a great opportunity to normalise and embed cutting-edge technology in our classroom and they provide enormous learning opportunities," says Rongomai teacher Nick Pattison, who established the technology programme.

Vector's first installations of solar panels paired with Tesla Powerwall batteries are helping communities while broadening our understanding of the technology and the benefits it can deliver to the whole country.

05.

Safety, People and Culture

Providing a safe and great place to work that values diversity and inclusion and develops skilled people who can lead our company into the future.



Sustainable Growth | Customer Focus | Operational Excellence | Partnerships | Safety, People and Culture

Health, safety and environment

Ahead of the curve

The Health and Safety at Work Act 2015 became law on 4 April 2016. Vector proactively prepared for the new legislation by:

> Making submissions on the Health and Safety at Work Act 2015, and other major new Health Safety and Environment (HSE)-related regulations and guidance documents
> Continuing to update our Health, Safety and Environmental Management System (HSEMS) documentation to ensure it aligns to legislation and remains fit for purpose
> Ongoing work with the business developing safety cases and completing major hazard risk assessments.

Vector also appointed a dedicated Process Safety Manager in 2016, who oversees key safety case requirements across the business.

Our shift to lead indicators

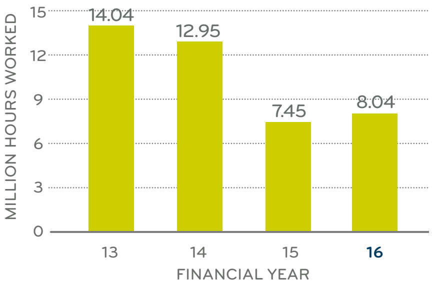
Vector's HSE performance is measured using a number of indicators. These include Lost Time Injury Frequency Rate (LTIFR), and Total Recordable Incident Frequency Rate (TRIFR). Further, the severity of lost-time incidents is measured by tracking and counting the number of working days lost due to the injury. Vector consolidates all contractor and direct employee safety statistics to provide a holistic picture of safety performance across our business.

Our safety record is the result of a long programme of ongoing, proactive work and a wide range of educational and practical programmes with employees, suppliers and contractors.

Over the past two years in particular, as our health and safety performance has improved, we have been able to start shifting our focus from lag indicators like TRIFR, which are based on incidents that have already occurred, to lead indicators that measure proactive activities, which prevent incidents occurring.

TOTAL RECORDABLE INJURY FREQUENCY RATE

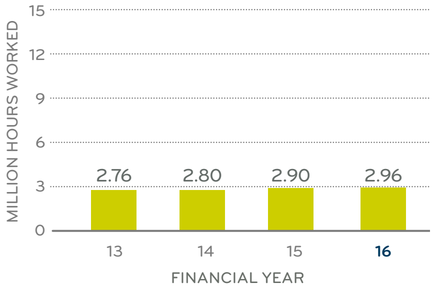
Number of recordable injuries per million hours worked, including contractors.



Lead indicator measures include mandatory health, safety and environment-focused site visits by employees in senior positions, health and safety culture and leadership training, auditing programmes, and an examination of the human factors that contribute to workplace incidents.

LOST-TIME INJURY FREQUENCY RATE

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



Vector's Human Error Assessment and Reduction Techniques (HEART) programme is based on the understanding that no one goes to work intending to be injured, and that the decisions and actions workers take make sense to them at the time, given their goals, experiences, knowledge, motivation and focus of attention. However, mistakes are made and incidents do happen.

As an employer, it is Vector's responsibility to create the conditions where the causes of human errors can be identified, managed and controlled to minimise their frequency and impact as much as possible.

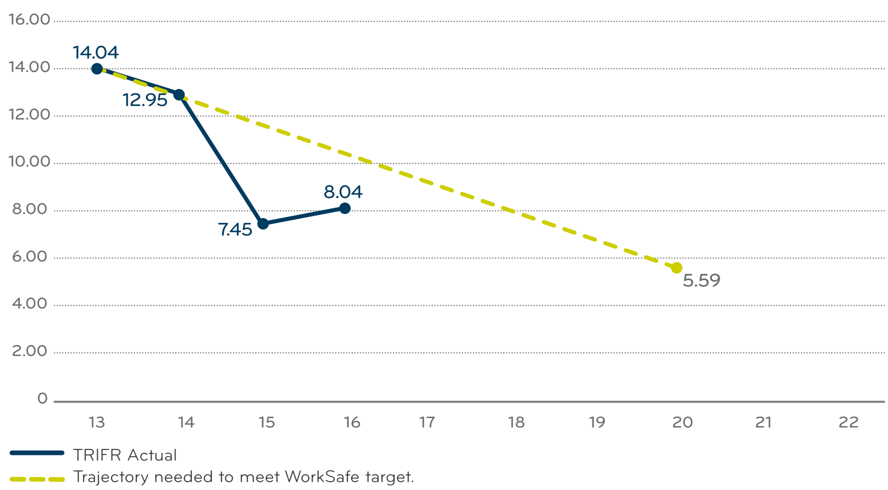
The HEART programme has been running for more than 12 months, initially within Vector's Network Services team and now across the wider business, and has included our contracted field service providers. Everyone is engaged, including those in office-based roles, so that all of our people understand the challenges, risks and opportunities to work better and safer and can factor this knowledge into their decisions, particularly where they could impact others.

SAFETY – A TEN YEAR VIEW

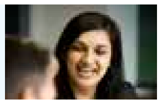
Vector has made solid progress on reducing its Total Recordable Incident Frequency Rate (TRIFR) over the past few years. In 2013, our TRIFR was 14.04 injuries sustained per million hours worked; this dropped to 8.04 by the close of our 2016 financial year. This equates to a 42.7% reduction in TRIFR since 2013.

Vector strives to achieve a year-on-year reduction in injuries and make a significant contribution to WorkSafe's 2020 goal to reduce the number of injuries and deaths in New Zealand by at least 25 per cent from the 2015 baseline. For Vector, which seeks to become a better and safer employer for its employees every day, this would mean reducing our TRIFR to 5.59 by 2020.

10 YEAR TRIFR REDUCTION MODEL



Culture and Values



Over the past year, we have refreshed our values and associated behaviours to ensure we continue to evolve our culture to support our vision and strategy. The new values were introduced to the business via a series of interactive leadership presentations and supported by company-wide communications, focus groups, staff competitions and collateral.

To ensure our values are core to our culture, they are incorporated throughout our employee life cycle, from our recruitment and induction processes, to leadership training and performance management. In particular we focus on recognising and rewarding our people, not only for what they achieve but how they achieve it. We believe this will lead to a better workplace, enhanced performance and greater outcomes for our customers and communities.

Our culture is supported by our commitment to employee engagement. We use a range of communication channels to keep our people connected, and host a variety of learning and social activities. We also conduct culture focus groups and team pulse surveys to hear first-hand how our people are feeling, what's working and where things can be improved.

We are finalising changes to our Code of Conduct and Ethics to create a stronger link to our culture and values and will be rolling out ethics training later this year.

VALUES:

Here to win — We use our courage and commercial savvy to compete for business, achieve results and create value for our shareholders. As a team, we are focused on having a positive impact and winning the trust, hearts and minds of our customers and communities.

Inquisitive — We are both outward and forward looking. We are open to challenging everything we do, as well as ourselves and each other. And we encourage fresh thinking and collaborate to create opportunity.

Passionate — We are all champions of Vector and our role in society. We believe in what we do and are committed to delivering results for our customers, communities and shareholders. We are proud of our heritage and positive about our future.

Resilient — We accept ambiguity and seek opportunity. We learn from setbacks and use our experience, determination and creativity to solve problems and adapt to change. We back ourselves and support each other to make things happen.

Building Capability

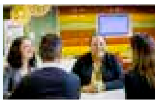
Investing in the development of our people ensures we have the capability to deliver against our vision and strategy, now and in the future. We offer our people access to a variety of internal and external professional and skills-based training programmes. We have recently updated our first-time leader programme, Foundations of Leadership, to ensure that anyone new to leadership generally or leadership at Vector is equipped for success and is connected to a cohort of others to share their learning.

To complement classroom learning, our learning management system, Success Factors, provides a selection of online learning options to people across the business. We have also partnered with Lynda.com to provide a large bank of online videos for easy, on-demand bite-sized learning.

Vector's executive team hosts a series of senior leadership forums throughout the year to discuss business strategy and priorities, and provide an opportunity for collaboration and learning amongst the leadership group.

We encourage all of our people to create individual development plans and to regularly discuss and work on this with their managers. We also use our talent management and succession planning processes to identify high-potential employees and build their capability for future roles.

Diversity and inclusion



Presented by the Equal Employment Opportunities Trust
DIVERSITY
Awards NZ 2015

Our success at the Equal Employment Opportunity Trust 2015 Diversity Awards, as the winners of the Tomorrow's Workforce and Supreme awards, provided further momentum to our commitment to diversity and inclusion. It has helped Vector to strengthen existing relationships and build new ones.

Through Diversity Works NZ (formerly the Equal Employment Opportunity Trust) we were invited to present at a number of events to share our learnings and gain additional knowledge to advance our diversity journey. Vector has also held several of its own events, including hosting Lieutenant General David Morrison, Chief of the Australian Army at the NZ Institute of Directors conference, which have cemented Vector as a leader in diversity in New Zealand.

Vector's Board of Directors considers the company to have made considerable, continued progress integrating the principles of our Diversity and Inclusion policy. Our strong governance structure remains in place, with the Diversity Council led by the Group Chief Executive, and members of the executive overseeing the activities of our Diversity Committee.

Our success at the Equal Employment Opportunity Trust 2015 Diversity Awards provided further momentum to our commitment to diversity and inclusion.

Over the past year, Vector has delivered a number of initiatives in line with our commitment to diversity and inclusion including:

- The introduction of a diversity and inclusion e-learning module for employees
- Two leaders with Māori ancestry participated in the 'Te Whakaterehia Māori Acceleration Programme' and after 12 months of study each received a NZ Institute of Management Diploma, Level 5
- Unconscious bias training for the HR team focused on unconscious bias in the employee life cycle. Similar training will be run later in 2016 with the board, executive team and their direct reports
- Achieving Rainbow Tick certification, which is given to New Zealand companies that can demonstrate that they understand, value and welcome sexual and gender diversity
- Hosting Dr Harold Hillman to speak to employees, who openly shared his personal experience of living an inauthentic life as a closeted gay military officer
- Supporting Mental Health Awareness Week and International Women's Day
- Hosting directors from various organisations to discuss the importance of diversity in governance

- Providing support for single parents and parents returning to work through networks and coaching, as well as hosting teenager relationship workshops
- Providing three-month summer internships for 12 university undergraduates to support maintaining a strong youth pipeline for Vector
- Celebrating various cultural events including Diwali, Pacifica and Kiwiana events.

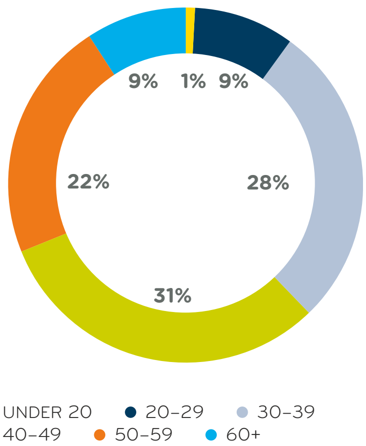
Community engagement

In April, Vector sponsored the University of Auckland Business School's inaugural Sustainability Week. Taking a broad view of pressing sustainability topics, Vector and peer organisations participated in speaker sessions, an exhibition and panel discussions including the topic of cultural sustainability, linked back to Vector's award-winning diversity and inclusion programme.

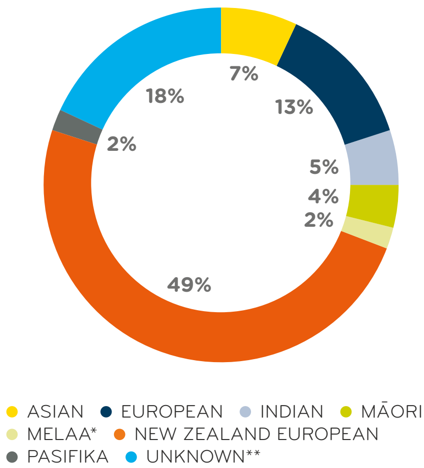
Vector's schools programme continues to thrive. Running for more than 12 years in Auckland, Vector has now educated over 124,000 children on how to stay safe around electricity in their schools, homes and in the community, and how to be more responsible with energy use. Increasingly we are showcasing Vector's new technology to children, including the growing electric vehicle charging network, how solar and batteries work, and case studies on 'smart homes' that demonstrate how technology fits together in practice.

The Vector Technology Challenge is growing also. In the 2016 school year, Vector will increase the number of events to four, involving local primary schools in Central, East, North and South Auckland, culminating in a regional final at Vector Wero Whitewater Park in November. This year's hands-on challenges focus on solar and batteries, exposing children to exciting new technology while building their team-work, creative thinking and problem solving skills.

VECTOR EMPLOYEES BY AGE



VECTOR EMPLOYEES BY ETHNICITY



* Middle Eastern, Latin American, and African

** The high proportion of 'unknown' relates to the December 2014 acquisition of Arc Innovations. This information from this subsidiary has not been captured.

VECTOR EMPLOYEES BY AGE AND GENDER

AGE RANGE	MALE	FEMALE	GRAND TOTAL
UNDER 20	4	0	4
20–24	11	4	15
25–30	35	23	58
30–34	68	38	106
35–39	74	37	111
40–44	83	41	124
45–49	79	43	122
50–54	63	32	95
55–59	54	22	76
60+	63	9	72
Grand Total	**534**	**249**	**783**

VECTOR EMPLOYEES BY GENDER

VECTOR GENDER BREAKDOWN	MALE 2016	FEMALE 2016	MALE 2015	FEMALE 2015
Directors	**6 (75%)**	2 (25%)	**6 (75%)**	2 (25%)
Executive team	**5 (83%)**	1 (17%)	**5 (83%)**	1 (17%)
Direct reports to the executive team	**17 (71%)**	7 (29%)	**17 (65%)**	9 (35%)
Across Vector Group	**534 (68%)**	249 (32%)	**616 (70%)**	258 (30%)

Technology

Technology division revenue rose 13.7% to $180.1 million from $158.4 million a year earlier driven largely by increased deployment of smart meters (including the first full year contribution from Arc).

Adjusted EBITDA rose 7.6% to $113.5 million from $105.5 million. Gains from the smart meter roll out were diluted by significant business development expenditure associated with the commercialisation of new energy technologies and the establishment of the Australian metering operation.

The division benefited from a significantly higher installed smart meter base, up 17.5% to 1.13 million from 958,146 in the prior year.

The company is reaching the end of the New Zealand smart meter roll-out. We are targeting the deployment of around 140,000 to 160,000 meters over the next 12 months. Thereafter, the focus in New Zealand will be on managing the existing electricity meter fleet and installing new and replacement meters as required.

Vector is targeting Australia to deliver the next phase of growth for the metering business. Following our Australian accreditation earlier this year, we have also this year executed our first metering services agreement with a large Australian retailer.

Meanwhile, Vector Communications has delivered an improved result and continues to grow its market share within its network footprint. It is in a strong position to provide high-end telecommunications solutions to its customers. This year Vector Communications entered into a contract to supply connectivity to all Auckland Council offices across the city.

Revenue

$180.1m

REVENUE INCREASED 13.7% FROM $158.4 MILLION

Adjusted EBITDA

$113.5m

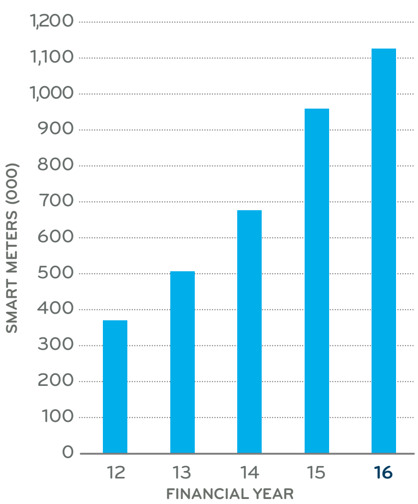
ADJUSTED EBITDA ROSE 7.6% FROM $105.5 MILLION

Electricity smart meters

1,126,258

MANAGED AND OWNED SMART METERS UP 17.5% ON THE PRIOR YEAR

ELECTRICITY SMART METERS INSTALLED



INCREASE IN SMART METERS

VECTOR INSTALLED MORE THAN 180,000 SMART METERS IN THE 2016 FINANCIAL YEAR.

Regulated Networks

Following the sale of Vector Gas, the company has combined the Auckland gas and electricity distribution businesses into a single segment for reporting purposes.

The division's revenue from continuing operations (that is, excluding Vector Gas) for the year grew by 0.4% to $726.2 million from $723.6 million in the prior year. A decline in pass through charges due to lower transmission fees was offset by a 21.6% increase in capital contributions, reflecting connection growth and the significant infrastructure development taking place in Auckland.

Adjusted EBITDA rose 5.4% on the prior year to $368.5 million from $349.7 million on the back of lower segment expenses (excluding pass through costs), which fell $16.7 million. These lower costs were due to ongoing cost reduction and a combination of provision releases and one-off costs in the prior year.

New electricity connections rose 9.1% to 8,526 from 7,813. New gas connections rose 18.0% to 3,323 from 2,821. Total connections to the electricity network at the end of the year stood at 550,053, up 1.0% from 544,513[22] a year ago. Total gas connections to the network at year end stood at 104,322, up 2.7% from 101,565 a year ago.

Despite the increase in connections, volumes transported across the electricity network fell 0.5% to 8,372 GWh from 8,414 GWh, due to the effects of warmer weather, the partial closure of a large commercial customer and continuing declines in average electricity consumption per residential connection. Auckland gas distribution network volumes rose 3.7% to 13.9 PJ from 13.4 PJ in the prior year due largely to an increase in new connections.

Revenue

$726.2m

REVENUE INCREASED 0.4% FROM $723.6 MILLION

Adjusted EBITDA

$368.5m

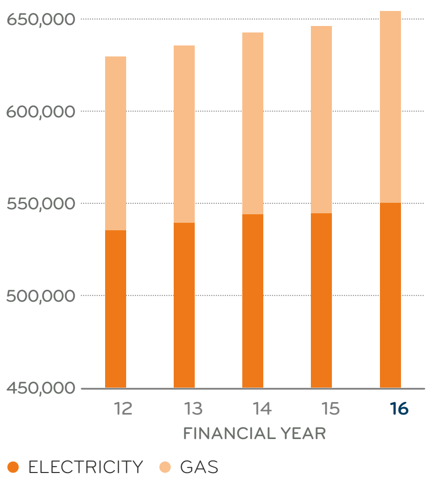
ADJUSTED EBITDA INCREASED 5.4% FROM $349.7 MILLION

Electricity and gas connections

654,375

11,849 NEW CONNECTIONS TO OUR NETWORKS, UP 11% ON LAST YEAR

ELECTRICITY AND GAS CONNECTIONS



INCREASE IN NEW ELECTRICITY AND GAS CONNECTIONS

11.4%

NEW ELECTRICITY CONNECTIONS INCREASED TO 8,526 AND NEW GAS CONNECTIONS INCREASED TO 3,323 IN THE 2016 FINANCIAL YEAR.

22. The ICP numbers reported for the prior corresponding period have been restated to remove 4,799 ICPs following a data cleanse by retailers. There is no consumption for any of these ICPs in the current period.

Gas Trading

Revenue at the Gas Trading division fell 11.8% to $277.1 million from $314.2 million a year earlier as the division faces a challenging trading environment. Adjusted EBITDA fell 13.4% to $40.6 million from $46.9 million.

Natural gas volumes continued to decline, falling 14.4% to 16.7 PJ from 19.5 PJ due to a reduction in demand from gas fired electricity generators and the end to some entitlements to Maui gas.

Continued weakness in the price for natural gas in New Zealand has weighed on margins. Additionally, adjusted EBITDA was impacted by lower production and processing fees at the Kapuni Gas Treatment Plant and lower hydrocarbon prices.

We signalled in February a review of the carrying value of the Gas Trading business. We have now written down the carrying value by $64.0 million to reflect the steady decline in the output from the Kapuni field, the diminishing prospects of further field development due to ongoing disputes, and weak international hydrocarbon prices.

Despite the uncertainty surrounding our natural gas activities, Vector's LPG operations occupy a strong market position. Bottle swap volumes continued to grow, supporting our decision to invest in a new bottling facility. Volumes of 9 kg bottles were up 8.7% to 549,998.

Liquigas continues to make a strong contribution, despite a 7.5% decline in tolling volumes to 172,695 tonnes, largely due to fewer exports, as lower international prices made exports less attractive.

As previously disclosed, Vector received an arbitral award regarding the price and terms for the next tranche of Kapuni gas which we have been taking since July 2013. The award was broadly in line with our expectations.

Revenue

$277.1m

REVENUE FELL 11.8% FROM $314.2 MILLION

Adjusted EBITDA

$40.6m

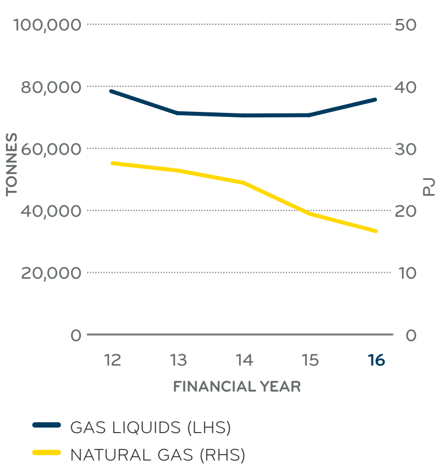
ADJUSTED EBITDA FELL 13.4% FROM $46.9 MILLION

Bottle swap volumes (9 kg bottles)

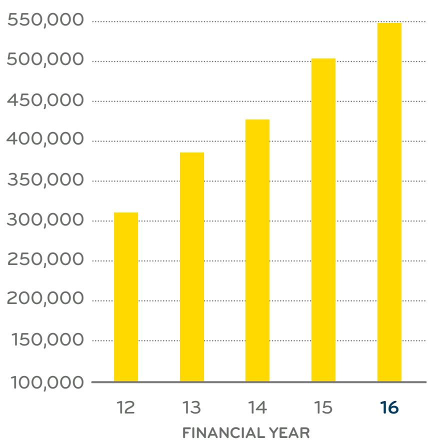
549,998

BOTTLE SWAP VOLUMES INCREASED 8.7% ON THE PRIOR YEAR

GAS TRADING SALES



BOTTLESWAP VOLUMES (9 KG BOTTLES)



DISCONTINUED OPERATIONS

The group's Gas Transmission and non-Auckland Gas Distribution business was sold on 20 April 2016. As at that date, revenue less operating expenses was $79.1 million. In the prior year it earned $102.2 million for the full year. Net profit after tax but before gain on sale of discontinued operations was $51.4 million. In the prior year net profit was $61.1 million.

Sponsorship

Vector Wero Whitewater Park

Pumping the 20 million litres of water in New Zealand's first man-made white water park takes a fair amount of power, so it is fitting that Vector, the country's leading energy infrastructure company, is the sponsor.

Vector announced its sponsorship of the Vector Wero Whitewater Park earlier this year followed by an official opening in April.

The park, developed and operated on behalf of the community by Second Nature Charitable Trust, is the first of its kind in New Zealand. It features two rafting and kayaking courses and a one-hectare pool. A main attraction is the world's first, man-made, 4.5 metre waterfall.

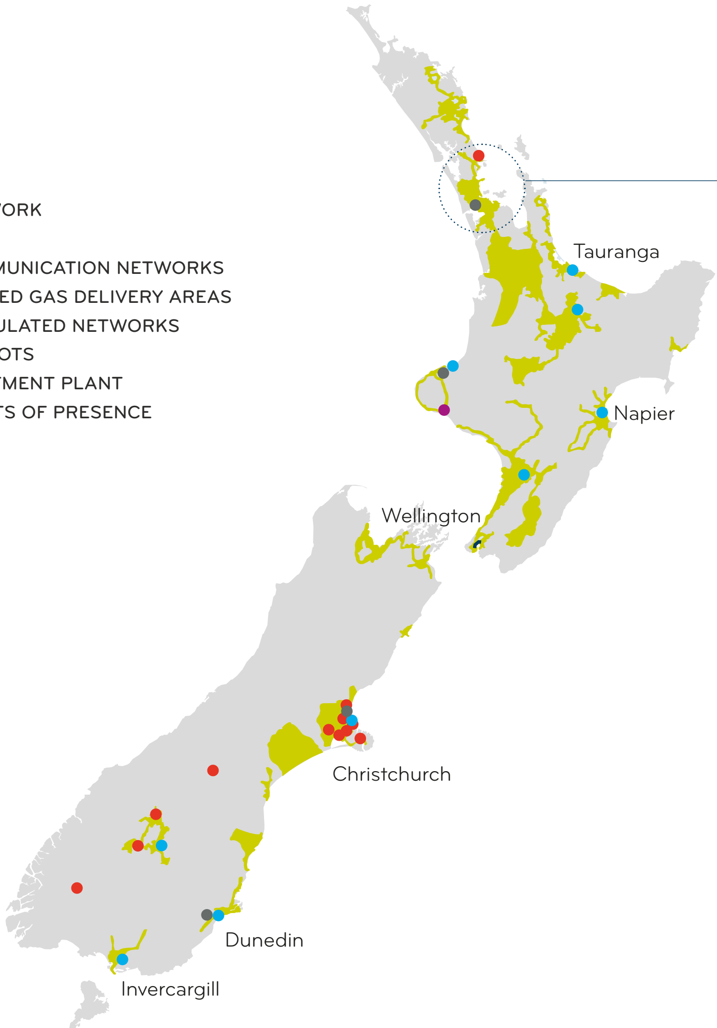
Managed by former Olympian Ian Ferguson and open for the general public to use, the park is proving to be a major attraction for local and overseas visitors. It also provides many benefits to the community, particularly for school children who take part in water confidence, leadership and practical training on the water. The Olympic-standard course also provides outdoor education challenges to business teams, outdoor education institutions, Fire Service and Search and Rescue, as well as being a training ground for present and future Olympians.

Vector Wero
Whitewater Park

WHERE WE ARE

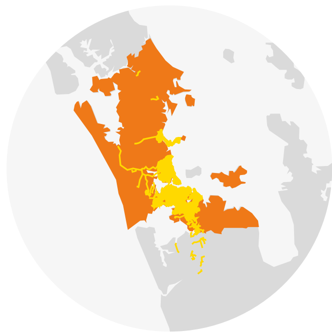
KEY

- ELECTRICITY NETWORK
- GAS NETWORK
- FIBRE-OPTIC COMMUNICATION NETWORKS
- ONGAS LPG BOTTLED GAS DELIVERY AREAS
- ONGAS LPG RETICULATED NETWORKS
- LIQUIGAS LPG DEPOTS
- KAPUNI GAS TREATMENT PLANT
- FIBRE-OPTIC POINTS OF PRESENCE (Indicative only)



AUCKLAND

ELECTRICITY AND GAS NETWORKS



FIBRE-OPTIC NETWORK

VECTOR OPERATING STATISTICS

YEAR ENDED 30 JUNE	2016	2015
ELECTRICITY		
Customers[1,4]	550,053	544,513
New connections	8,526	7,813
Net movement in customers[2]	5,540	5,359
Volume distributed (GWh)	8,372	8,414
Networks length (km)[1]	18,292	18,160
SAIDI (minutes)[3]		
Normal operations	117.0	155.3
Extreme events	7.8	341.0
Total	**124.8**	**496.3**
GAS DISTRIBUTION[5]		
Customers[1,4]	104,322	101,565
New connections	3,323	2,821
Net movement in customers[2]	2,757	2,781
Volume distributed (PJ)[6]	13.9	13.4

YEAR ENDED 30 JUNE	2016	2015
GAS TRADING		
Natural gas sales (PJ)[7]	16.7	19.5
Gas liquid sales (tonnes)[8]	76,144	71,092
9 kg LPG bottles swapped	549,998	505,927
Liquigas LPG tolling (tonnes)[9]	172,695	186,626
TECHNOLOGY		
Electricity: smart meters[1,10]	1,126,258	958,146
Electricity: legacy meters[1]	121,768	164,417
Electricity: prepay meters[1]	4,933	6,560
Electricity: time-of-use meters[1]	11,858	11,602
Gas meters[1]	217,832	214,974
Data management and service connections[1]	8,832	8,499

1. As at period end. **2.** The net number of customers added during the 12-month period. **3.** Regulatory year – 12 months to 31 March **4.** Billable ICP's. **5.** The group's gas transmission and non-Auckland gas distribution business (Vector Gas) was sold to First Gas on 20 April 2016. The operating statistics for the period to 30 June 2016 relate only to the Auckland network, and the prior period comparatives have been adjusted accordingly. **6.** Billable volumes. **7.** Excludes gas sold as gas liquids as these sales are included within the gas liquids sales tonnages. **8.** Total of retail and wholesale LPG production and natural gasoline. **9.** Includes product tolled in Taranaki and further tolled in the South Island. **10.** The number of smart meters deployed at 30 June 2016 includes 55,775 meters managed but not owned by Vector (2015: 13,609).

JOINT VENTURES AND INVESTMENTS

Vector has investments in a number of businesses that complement our core network businesses and strengthen our capabilities in the energy services field.

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.

50%

TREESCAPE

Vector has a 50% shareholding in Treescape, one of Australasia's largest specialist tree and vegetation management companies, with depots throughout New Zealand and in Queensland and New South Wales. Treescape employs more than 500 staff. Its customers include councils, utilities, government agencies, construction companies and developers. Treescape implements Vector's planned vegetation management programme, which plays a major role in minimising the impact of severe weather on Vector's electricity network.

www.treescape.co.nz

60.25%

LIQUIGAS

Vector holds a 60.25% shareholding in Liquigas Limited, New Zealand's leading company for tolling, storage and distribution of bulk LPG. Liquigas has staff and depots in Auckland, New Plymouth, Christchurch and Dunedin.

www.liquigas.co.nz

22.11%

NZ WINDFARMS

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

www.nzwindfarms.co.nz

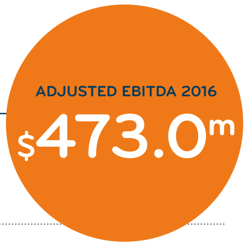
FIVE YEAR FINANCIAL PERFORMANCE TRENDS

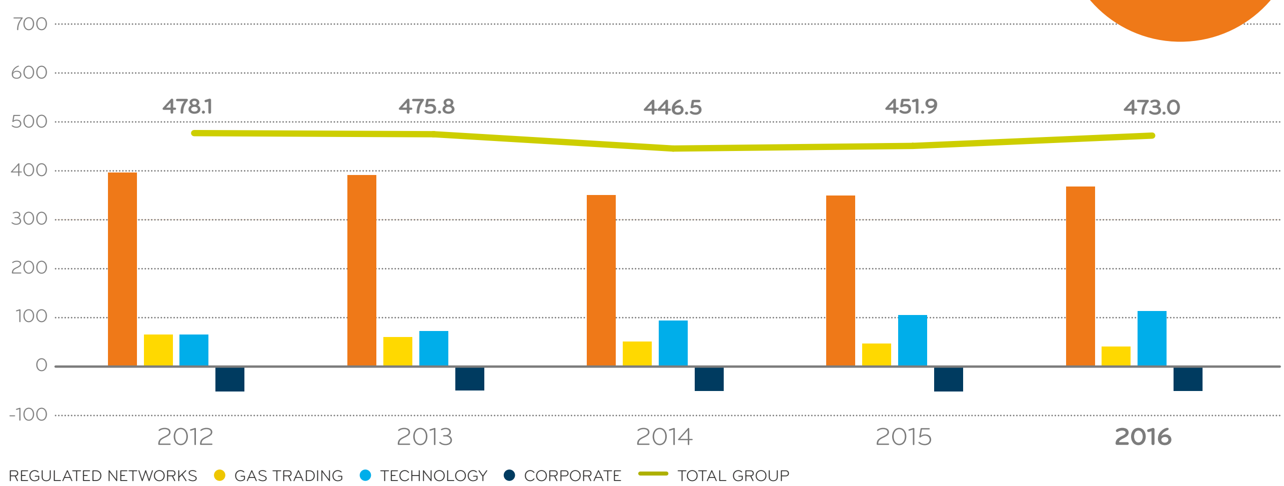
YEAR ENDED 30 JUNE ($ MILLION)	2016	2015	2014	2013	2012
PROFIT OR LOSS – CONTINUING OPERATIONS[1]					
Total income	**1,144.6**	1,153.4	1,122.3	1,114.5	1,087.7
Adjusted EBITDA	**473.0**	451.9	446.5	475.8	478.1
Depreciation and amortisation	**(194.6)**	(179.0)	(168.5)	(158.4)	(159.2)
Adjusted EBIT	**278.4**	272.9	278.0	317.4	318.9
Net profit – continuing operations	**58.9[2]**	88.3	114.4	129.3	126.1
PROFIT OR LOSS – DISCONTINUED OPERATIONS					
Total income	**110.7**	140.6	136.6	164.7	164.5
Adjusted EBITDA	**75.3**	88.5	90.5	122.0	119.3
Depreciation and amortisation	**(5.8)**	(16.2)	(15.3)	(15.7)	(14.3)
Adjusted EBIT	**69.5**	72.3	75.2	106.3	105.0
Net profit – including discontinued operations	**274.4[3]**	149.4	171.3	206.2	201.7
BALANCE SHEET					
Total equity	**2,398.3**	2,298.6	2,307.8	2,258.5	2,148.3
Total assets	**5,603.0**	6,123.0	5,839.1	5,747.1	5,616.6
Net economic debt (borrowings net of cash and short-term deposits)	**1,932.9**	2,745.1	2,625.0	2,448.1	2,445.5
CASH FLOW					
Operating cash flow	**352.1**	369.2	366.6	426.2	392.3
Capital expenditure	**(340.1)**	(311.8)	(327.4)	(283.4)	(260.0)
Dividends paid	**(159.2)**	(155.4)	(156.7)	(148.3)	(147.4)
KEY FINANCIAL MEASURES					
Adjusted EBITDA/total income[1]	**41.3%**	39.2%	39.8%	42.7%	44.0%
Adjusted EBIT/total income[1]	**24.3%**	23.7%	24.8%	28.5%	29.3%
Equity/total assets	**42.8%**	37.5%	39.5%	39.3%	38.2%
Return on assets (adjusted EBITDA/assets)[1]	**8.4%**	7.4%	7.6%	8.3%	8.5%
Gearing	**43.7%**	53.6%	52.5%	50.9%	51.5%
Net interest cover – (adjusted EBIT/net finance costs) (times)[1]	**1.6**	1.5	1.6	1.9	1.9
Earnings (NPAT) per share (cents) including discontinued activities	**27.2**	14.6	16.9	20.4	20.0
Dividends declared, cents per share (fully imputed)	**15.75**	15.50	15.25	15.00	14.50

1. Excludes contribution from gas transmission and non-Auckland gas distribution networks owned by Vector Gas (which was sold on 20 April 2016) for all periods presented.
2. Includes $64 million impairment of Gas Trading.
3. Includes $164 million gain on sale of Vector Gas.

ADJUSTED EBITDA (CONTINUING OPERATIONS)

$ MILLION
FOR THE YEAR ENDED 30 JUNE 2015

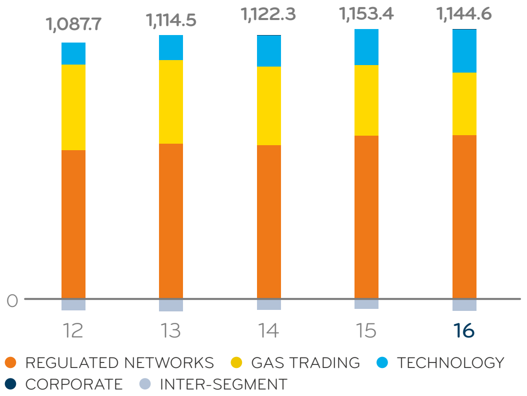




Adjusted EBITDA from continuing operations was underpinned by growth in Auckland and the expansion of the company's smart meter fleet.

TOTAL INCOME (CONTINUING OPERATIONS)

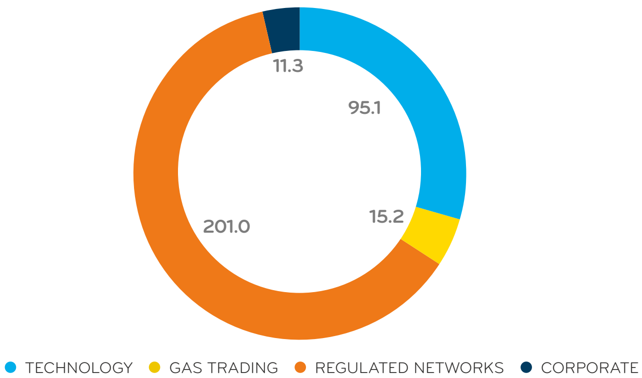
$ MILLION
FOR THE YEAR ENDED 30 JUNE



Group revenue from continuing operations fell due to a reduction in Gas Trading volumes as well as lower electricity transmission charges.

CAPITAL EXPENDITURE (CONTINUING OPERATIONS)

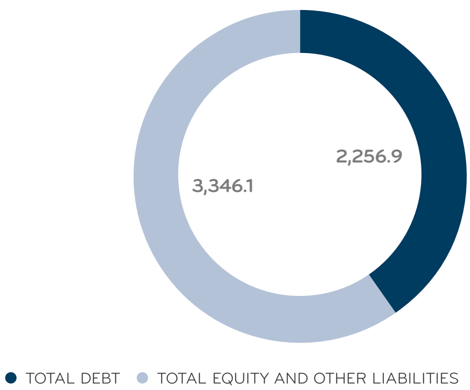
$ MILLION
FOR THE YEAR ENDED 30 JUNE 2016



Total capital expenditure was $322.6 million, of which $185.6 million was directed at growth initiatives.

SOURCE OF FUNDING

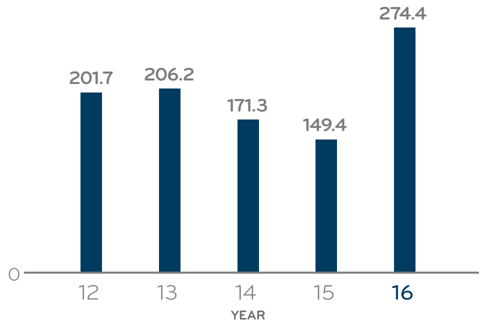
$ MILLION
AS AT 30 JUNE 2016



Gearing[23] as at 30 June 2016 was 43.7%, down from 53.6% at 30 June 2015.

NET PROFIT (INCLUDING DISCONTINUED OPERATIONS)

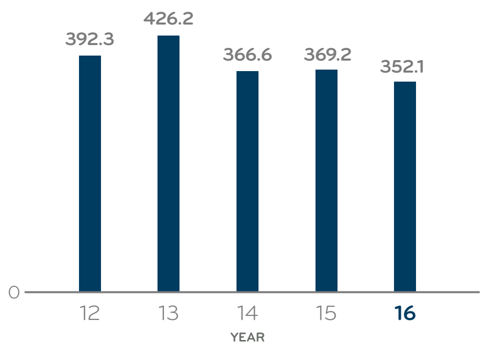
$ MILLION
FOR THE YEAR ENDED 30 JUNE



2016 net profit includes gain on sale of Vector Gas of $164.1m and goodwill impairment of Gas Trading of $64.0 million.

OPERATING CASH FLOWS (INCLUDING DISCONTINUED OPERATIONS)

$ MILLION
FOR THE YEAR ENDED 30 JUNE



23. Gearing is defined as net economic debt to net economic debt plus equity. Economic debt means the amount repayable upon maturity, including the impact of hedging.

STRONG GOVERNANCE

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

Michael Stiassny 01

BCom, LLB, CA, FInstD

CHAIRMAN, INDEPENDENT NON-EXECUTIVE DIRECTOR
(APPOINTED ON 11 SEPTEMBER 2002)

Michael Stiassny is a chartered accountant and partner of KordaMentha in Auckland. He has significant experience in investigative accountancy, company restructuring, due diligence and insolvency. He is a director of a number of public and private companies and is Chairman to Ngāti Whātua Ōrākei Rawa Limited and Tower Limited. Michael is president and a fellow of the Institute of Directors in New Zealand.

Peter Bird 02

BA, MA, PhD

INDEPENDENT NON-EXECUTIVE DIRECTOR
(APPOINTED ON 25 MAY 2007)

Peter Bird is a former Executive Vice-Chairman of Rothschild Global Advisory in Southeast Asia. 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, an economic researcher in the energy sector and an academic economist at Stirling University.

James Carmichael 03

BE, FIPENZ

NON-INDEPENDENT NON-EXECUTIVE DIRECTOR
(APPOINTED ON 23 OCTOBER 2008)

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

TO VIEW VECTOR'S GOVERNANCE POLICIES VISIT:
www.vector.co.nz/governance

Hugh Fletcher 04

BSc, MBA (Stanford), MCom (Hons)

INDEPENDENT NON-EXECUTIVE DIRECTOR
(APPOINTED ON 25 MAY 2007)

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

Jonathan Mason 05

MBA, MA, BA

INDEPENDENT NON-EXECUTIVE DIRECTOR
(APPOINTED 10 MAY 2013)

Jonathan Mason has extensive commercial experience having worked in financial management positions in the oil and gas, chemicals, forest products and dairy industries in New Zealand and the USA for International Paper, ExxonMobil Corporation, Carter Holt Harvey, Cabot Corporation and Fonterra. Jonathan also has experience as a non-executive director on boards in both New Zealand and the USA and is currently a director of Air New Zealand Limited, Compac Holdings Limited, New Zealand Assets Management Limited (NZAM), Westpac New Zealand Limited and Zespri Group Limited. Jonathan is also an Adjunct Professor of Management at the University of Auckland, focusing on finance.

Dame Alison Paterson 06

DNZM, QSO, DCom(hc), FCA, ADistFInstD

INDEPENDENT NON-EXECUTIVE DIRECTOR
(APPOINTED ON 7 MARCH 2007)

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

Karen Sherry 07

QSM, BA, MA (Hons), LLB (Hons), C.FInstD.

NON-INDEPENDENT NON-EXECUTIVE DIRECTOR
(APPOINTED ON 24 JULY 2006)

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

Bob Thomson 08

BEng (Electrical), DipBS

INDEPENDENT NON-EXECUTIVE DIRECTOR
(APPOINTED ON 18 MARCH 2005)

Bob Thomson was chief executive of Transpower Limited and, since 2004, has been an adviser to Energy Trusts of New Zealand Inc. Prior to his appointment at Transpower, he held a range of senior management and engineering positions in the New Zealand Electricity Department and Electricity Corporation of New Zealand Limited. He was involved in the reform of the electricity industry, including 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.

Nick Astwick (Not pictured)

BCom

FUTURE DIRECTOR

Nick Astwick joined the Vector board on 20 July 2015 as part of the 'Future Directors' initiative, which aims to give talented people the opportunity to participate on a company board for one year, while giving the company exposure to this talent. Future Directors participate as board members in all aspects, but do not have voting rights and do not form part of the quorum of a board meeting. Nick is the Chief Transformation Officer of Kiwibank. He has 21 years' experience in the financial services industry in various roles across retail and investment banking organisations. Nick is a director on a number of Kiwibank Group subsidiary company boards as well as being a trustee of the Leadership New Zealand organisation.

EXPERIENCED LEADERSHIP

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

Simon Mackenzie 01

Grad DipBS (Dist), DipFin, NZCE

GROUP CHIEF EXECUTIVE

Simon was appointed Group Chief Executive in February 2008 and has been with Vector for 18 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 has tertiary qualifications in engineering, finance and business studies, and has completed the Advanced Management Program at the Wharton School, University of Pennsylvania.

Andre Botha 02

BEng, MEng, PG DipBus

CHIEF NETWORKS OFFICER

Andre's role as Chief Networks Officer oversees customer, commercial, engineering and regulatory aspects of Vector's regulated gas and electricity networks businesses. His experience includes customer service, field services, capital projects, regulatory affairs, engineering, smart grids implementation and work practices development and training for distribution and transmission networks. Andre has a proven track record of working successfully at an executive level in the energy sector, and brings with him over 25 years' experience in the energy industry in South Africa, New Zealand and Australia.

Kate Beddoe 03

BA, LLB

CHIEF RISK OFFICER

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

Brian Ryan 04

MBA (Hons), BTech

GROUP GENERAL MANAGER DEVELOPMENT

Brian leads the Development team and is focused on the company's growth and development, through innovative customer solutions and technology. He joined Vector in 2014 with extensive strategic and commercial experience in both the technology and manufacturing environments. Brian's most recent role was as Managing Director of NextWindow, a subsidiary of the Canadian business SMART Technologies, which is a leading supplier of optical touch panels and touch-screen components to the consumer electronics industry. He has also held a number of global senior management and executive positions across the engineering, product development and marketing disciplines.

Dan Molloy 05

BSc

CHIEF FINANCIAL OFFICER

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

David Thomas 06

BSc, BE (Chem) (Hons)

GROUP GENERAL MANAGER
GAS TRADING AND METERING

David leads Vector's gas trading, gas processing, LPG and metering businesses. He has worked in nearly all parts of the energy sector over the last 30 years. Prior to joining Vector in 2008, David was General Manager Operations at Contact Energy, responsible for the company's power stations and power station development. Also, he has held roles at BP and Fletcher Challenge in New Zealand, Canada and Europe. David's tertiary qualifications include degrees in engineering and science, and he has completed the Senior Executive Programme at the London Business School.

TO VIEW VECTOR'S GOVERNANCE POLICIES VISIT:
www.vector.co.nz/governance

GUIDING PRINCIPLES

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

Vector strives to maintain a framework of corporate governance that reflects this commitment as it recognises that good corporate governance enhances the company and its reputation.

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

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

PROMOTION OF ETHICAL AND RESPONSIBLE DECISION-MAKING

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

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

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

> **Continuous Disclosure Policy**
Affirms Vector's commitment to provide accurate, timely, orderly and consistent disclosure and compliance with its continuous disclosure obligations

> **Directors' Code of Practice**
Sets out additional standards expected from Vector's directors when carrying out their duties as directors of Vector

> **Diversity and Inclusion Policy**
Recognises Vector's commitment to diversity and the inclusion of measurable objectives in relation to diversity

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

> **Shareholder Relations Policy**
Recognises the rights of Vector's Shareholders as the owners of the Company, and encourages their ongoing active interest in the Company's affairs

> **Stakeholder Relations Policy**
Recognises the interests of stakeholders, and demonstrates Vector's commitment to treat all stakeholders fairly and with respect

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

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

PROMOTING A COMPANY CULTURE WHICH EMBRACES DIVERSITY AND INCLUSION

Vector is committed to:

> Adding to, nurturing and developing the collective relevant skills, and diverse experience and attributes of Vector people

> Ensuring that Vector's culture and management systems are aligned with and promote the attainment of diversity and inclusion

> Providing an environment in which all people are treated with fairness and respect, and have equal opportunities available at work

> Being recognised as an organisation that exemplifies diversity and inclusion in action

Further information about Vector's diversity policy can be found in the 'Safety, People and Culture' section of this report.

LAYING SOLID FOUNDATIONS FOR MANAGEMENT

Vector's governance practices are designed to:

> Enable the board to provide strategic guidance for the company and effective oversight of management

> Clarify the roles and responsibilities of Vector's directors and senior executives in order to facilitate board and management accountability to both the company and its shareholders

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

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

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

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

STRUCTURING THE BOARD TO ADD VALUE

Vector's board is composed of a minimum of three and a maximum of nine directors, with at least two being ordinarily resident in New Zealand. As at 30 June 2016, the board comprised eight directors, all of whom are non-executive directors. Information on the skills, experience and expertise of each director and their independence status is set out in the 'Board of Directors' section.

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

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

PREPARATION OF ANNUAL REPORT

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

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

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

AUDITORS

Vector's external auditors for the year ending 30 June 2016 were KPMG. The board, after considering the recommendations of the audit committee, consider and review the appointment of external auditors. The board requires the rotation of the audit partner for the statutory audit after no more than five years.

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

BOARD COMMITTEES

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

Audit Committee

Assists the board in fulfilling its corporate governance responsibilities to safeguard the integrity of Vector's financial reporting. It independently meets external auditors at least twice a year without company employees present. A full description of the audit committee's composition and duties is contained in the audit committee charter which is published on Vector's website. The committee's members as at 30 June 2016 were: Jonathan Mason (Chairman), James Carmichael, Hugh Fletcher, Alison Paterson, Karen Sherry, Michael Stiassny and Bob Thomson.

Regulatory Committee

Assists the board in fulfilling its responsibilities to protect the interests of Vector, its shareholders and stakeholders given the regulatory environment in which Vector operates. A full description of the regulatory committee's composition and duties is contained in the regulatory committee

TABLE OF ATTENDANCE

Attendance records of board and committee meetings for the year ended 30 June 2016 are provided in the table below:

	FULL BOARD	AUDIT COMMITTEE	RISK AND ASSURANCE COMMITTEE	REMUNERATION COMMITTEE	REGULATORY COMMITTEE	NOMINATIONS COMMITTEE	AGM AND SPECIAL SHAREHOLDERS MEETINGS
Total meetings	**14**	**9**	**5**	**4**	**3**	**1**	**2**
M Stiassny (chair)	14	9	5	4	3	1	2
P Bird	13	8*	4*	2*	2		1
J Carmichael	14	9	5	4	3		2
H Fletcher	13	9	3*	3*	3*	1	2
J Mason	13	9	5	4*	3		2
A Paterson	14	9	5	4	3*	1	2
K Sherry	14	9	5	4	3		2
B Thomson	13	7	3	4*	3		2

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

charter which is published on Vector's website. The committee's members as at 30 June 2016 were: James Carmichael (Chairman), Peter Bird, Jonathan Mason, Karen Sherry, Michael Stiassny and Bob Thomson.

Risk and Assurance Committee

Assists the board in fulfilling its responsibilities to protect the interests of shareholders, customers, employees and the communities in which Vector operates through establishing a sound risk management framework and rigorous processes for internal control. A full description of the risk and assurance committee's composition and duties is contained in the risk and assurance committee charter, which is published on Vector's website. Risk and assurance committee members as at 30 June 2016 were: Karen Sherry (Chair), James Carmichael, Jonathan Mason, Alison Paterson, Michael Stiassny and Bob Thomson.

Nominations Committee

Assists the board in fulfilling its responsibilities to have an efficient mechanism for examination of the selection and appointment practices of the company. For as long as Entrust holds at least 50.01% of Vector's shares, this committee undertakes non-binding consultation with Entrust prior to finalising any board recommendation regarding a director nomination or appointment. A full description of the nominations committee's composition and duties is contained in the nominations committee charter which is published on Vector's website. Members of the nominations committee as at 30 June 2016 were: Michael Stiassny (Chairman), Hugh Fletcher and Alison Paterson.

Remuneration Committee

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

The evaluations are based on criteria that include the performance of Vector and the accomplishment of strategic objectives. During the year ended 30 June 2016, 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 2016 were: James Carmichael (Chairman), Michael Stiassny, Alison Paterson and Karen Sherry.

REMUNERATING FAIRLY AND RESPONSIBLY

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

RESPECTING THE RIGHTS OF SHAREHOLDERS

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

> Communicating with them effectively

> Ensuring they have full access to information about the company, including through the Vector website

> Conducting shareholder meetings in locations and at times convenient to the majority of shareholders

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

> Enabling shareholders to receive communications from, and send communications to, Vector and its security registry electronically

> Inviting shareholders to contact the company to ask questions, or express views, about matters affecting the company. To facilitate this, Vector has a dedicated email address for shareholder/investor queries, which is: investor@vector.co.nz.

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

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

RECOGNISING THE LEGITIMATE INTERESTS OF VECTOR'S STAKEHOLDERS

Vector's commitments to its various stakeholders are part of the board charter and the company's code of conduct and ethics. Vector's stakeholder relations policy is published on Vector's website. The board monitors compliance with the stakeholder relations policy.

MAKING TIMELY AND BALANCED DISCLOSURE

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

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

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

Vector's interim and annual company reports are now viewed primarily online but shareholders are entitled to have hard copies of both documents, and can request them by contacting the company. If you have any questions or would like to request a copy of the Annual or Interim Report, please email investor@vector.co.nz or phone +64 9 978 7852.

RECOGNISING AND MANAGING RISK

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

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

The following features have been enhanced over the past year:

> Implementation of a new risk, audit and compliance software tool to support risk management processes across the business. The tool ensures consistency of approach, improved data and knowledge management and provides improved risk analytics and reporting

> Engaged an international information security expert to conduct a cyber security risk review of the Vector group. As a result we have enhanced our cyber security governance frameworks policies and processes as well as our cyber security control posture in line with international best practices

> Refreshing and continuously improving business continuity and crisis management design, training, testing and benchmarking our consistency of approach to ensure we meet our obligations as an essential services provider.

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

Vector's standard profit measure prepared under New Zealand Generally Accepted Accounting Practice (GAAP) is net profit. Vector has used non-GAAP profit measures when discussing financial performance in this document. The directors and management believe that these measures provide useful information as they are used internally to evaluate performance of business units, to establish operational goals and to allocate resources. For a more comprehensive discussion on the use of non-GAAP profit measures, please refer to the policy 'Reporting non-GAAP profit measures' available on our website (vector.co.nz).

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

In this period we have amended our definition of adjusted EBITDA to exclude capital contributions.

DEFINITIONS

EBITDA:	Earnings before interest, taxation, depreciation and amortisation from continuing operations
Adjusted EBITDA:	EBITDA from continuing operations adjusted for fair value changes, associates, impairments, capital contributions, and significant one-off gains, losses, revenues and/or expenses.

GAAP TO NON-GAAP RECONCILIATION

Group EBITDA and adjusted EBITDA from continuing operations	30 JUN 2016 $M	30 JUN 2015 $M
Reported net profit for the period (GAAP)	58.9	88.3
Add back: net interest costs[1]	168.8	180.8
Add back: tax (benefit)/expense[1]	44.3	36.4
Add back: depreciation and amortisation[1]	194.6	179.0
EBITDA	466.6	484.5
Adjusted for:		
Associates (share of net (profit)/loss)[1]	(2.8)	(0.8)
Capital contributions[1]	(49.8)	(42.8)
Fair value change on financial instruments[1]	(2.4)	11.0
Impairment	61.4	–
Adjusted EBITDA	473.0	451.9

1. Extracted from audited financial statements.

Segment adjusted EBITDA ($M)	2016			2015		
Year ended 30 June	REPORTED SEGMENT EBITDA	LESS CAPITAL CONTRIBUTIONS	SEGMENT ADJUSTED EBITDA	REPORTED SEGMENT EBITDA	LESS CAPITAL CONTRIBUTIONS	SEGMENT ADJUSTED EBITDA
Technology	114.4	(0.9)	113.5	108.2	(2.7)	105.5
Gas Trading	40.6	–	40.6	46.9	–	46.9
Unregulated Segments	155.0	(0.9)	154.1	155.1	(2.7)	152.4
Regulated Networks Continuing	417.4	(48.9)	368.5	389.8	(40.1)	349.7
Regulated Networks Discontinued	79.1	(3.8)	75.3	102.2	(13.7)	88.5
Regulated Segments	496.5	(52.7)	443.8	492.0	(53.8)	438.2
Corporate	(49.6)	–	(49.6)	(50.2)	–	(50.2)
TOTAL	601.9	(53.6)	548.3	596.9	(56.5)	540.4
TOTAL Continuing Operations Only	522.8	(49.8)	473.0	494.7	(42.8)	451.9

FINANCIAL STATEMENTS

2016 FINANCIAL STATEMENTS

These financial statements for the year ended 30 June 2016 are dated 23 August 2016, and signed for and on behalf of Vector Limited by:

Director 23 August 2016

Director 23 August 2016

And management of Vector Limited by:

Group Chief Executive 23 August 2016

Chief Financial Officer 23 August 2016

TO THE SHAREHOLDERS OF VECTOR LIMITED

We have audited the accompanying consolidated financial statements of Vector Limited and its subsidiaries ("the group") on pages 46 to 85. The financial statements comprise the consolidated statement of financial position as at 30 June 2016, the consolidated profit or loss statement and consolidated statements of other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the shareholders as a body. Our audit work has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in the auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company's shareholders as a body, for our audit work, this report or any of the opinions we have formed.

Directors' responsibility for the consolidated financial statements

The directors are responsible on behalf of the company for the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our firm has also provided other services to the group in relation to regulatory assurance services, other assurance services and advisory services in relation to the strategic review of Vector's gas transmission and non-Auckland gas distribution businesses. Subject to certain restrictions, partners and employees of our firm may also deal with the group on normal terms within the ordinary course of trading activities of the business of the group. These matters have not impaired our independence as auditor of the group. The firm has no other relationship with, or interest in, the group.

Opinion

In our opinion, the consolidated financial statements on pages 46 to 85 comply with generally accepted accounting practice in New Zealand and present fairly, in all material respects, the consolidated financial position of Vector Limited as at 30 June 2016 and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

KPMG

23 August 2016
Auckland

	NOTE	2016 $000	2015 $000
CONTINUING OPERATIONS			
Revenue	5	1,144,603	1,153,410
Operating expenses	6	(621,764)	(658,690)
Depreciation and amortisation		(194,580)	(178,981)
Interest costs (net)	7	(168,805)	(180,801)
Fair value change on financial instruments	8	2,344	(11,014)
Associates (share of net profit/(loss))	14	2,809	812
Impairment	9	(61,422)	–
Profit/(loss) before income tax		103,185	124,736
Tax benefit/(expense)	10	(44,277)	(36,397)
Net profit/(loss) for the period from continuing operations		58,908	88,339
Net profit/(loss) for the period from discontinued operations (net of tax)	4	215,494	61,054
Net profit/(loss) for the period		274,402	149,393
Net profit/(loss) for the period attributable to			
Non-controlling interests		2,909	3,285
Owners of the parent – continuing operations		55,999	85,054
Owners of the parent – discontinued operations		215,494	61,054
Basic and diluted earnings per share (cents) attributable to			
Owners of the parent – continuing operations	24	5.6	8.5
Owners of the parent – discontinued operations	24	21.6	6.1
Total		27.2	14.6

	NOTE	2016 $000	2015 $000
Net profit/(loss) for the period		274,402	149,393
Other comprehensive income net of tax			
Items that may be re-classified subsequently to profit or loss:			
Net change in fair value of hedge reserves	21	(15,685)	(9,499)
Share of other comprehensive income of associate	14	250	(418)
Translation of foreign operations		(42)	25
Other comprehensive income for the period net of tax		(15,477)	(9,892)
Total comprehensive income for the period net of tax		258,925	139,501
Total comprehensive income for the period attributable to			
Non-controlling interests		2,909	3,285
Owners of the parent – continuing operations		40,522	75,162
Owners of the parent – discontinued operations		215,494	61,054

BALANCE SHEET

AS AT 30 JUNE

	NOTE	2016 $000	2015 $000
CURRENT ASSETS			
Cash and cash equivalents	12	321,371	8,222
Trade and other receivables	13	192,804	195,812
Derivatives	21	–	186
Inventories		4,285	5,130
Income tax		35,126	22,731
Total current assets		553,586	232,081
NON-CURRENT ASSETS			
Receivables	13	51	1,783
Derivatives	21	82,428	104,959
Investments in associates	14	15,612	11,475
Intangible assets	15	1,280,375	1,642,783
Property, plant and equipment (PPE)	16	3,670,191	4,129,876
Deferred tax	11	715	–
Total non-current assets		5,049,372	5,890,876
Total assets		5,602,958	6,122,957
CURRENT LIABILITIES			
Trade and other payables	18	251,383	246,666
Provisions	19	6,232	26,325
Borrowings	20	251,820	249,903
Derivatives	21	12,608	6,557
Income tax		829	1,038
Total current liabilities		522,872	530,489
NON-CURRENT LIABILITIES			
Payables	18	15,400	17,725
Provisions	19	17,040	14,160
Borrowings	20	2,005,061	2,585,667
Derivatives	21	187,037	113,915
Deferred tax	11	457,213	562,369
Total non-current liabilities		2,681,751	3,293,836
Total liabilities		3,204,623	3,824,325
EQUITY			
Equity attributable to owners of the parent		2,381,988	2,282,810
Non-controlling interests in subsidiaries		16,347	15,822
Total equity		2,398,335	2,298,632
Total equity and liabilities		5,602,958	6,122,957
Net tangible assets per share (cents)	24	110.6	64.3
Gearing ratio (%)	24	43.7	53.6

	NOTE	2016 $000	2015 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		1,263,179	1,294,361
Interest received		438	1,311
Dividend received from associate		1,500	400
Payments to suppliers and employees		(676,305)	(681,502)
Interest paid		(175,232)	(185,384)
Income tax paid		(61,526)	(59,994)
Net cash flows from/(used in) operating activities	23	352,054	369,192
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of PPE and software intangibles		223	383
Purchase and construction of PPE and software intangibles		(340,082)	(311,823)
Proceeds from liquidation of associate		–	7
Acquisition of business	27	–	(19,906)
Proceeds from sale of discontinued operations	4	960,000	–
Other investing cash flows		(750)	(750)
Net cash flows from/(used in) investing activities		619,391	(332,089)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		310,000	320,000
Repayment of borrowings		(809,000)	(200,000)
Dividends paid		(159,215)	(155,430)
Other financing cash flows		(81)	(1,735)
Net cash flows from/(used in) financing activities		(658,296)	(37,165)
Net increase/(decrease) in cash and cash equivalents		313,149	(62)
Cash and cash equivalents at beginning of the period	12	8,222	8,284
Cash and cash equivalents at end of the period		321,371	8,222
Cash and cash equivalents comprise:			
Bank balances and on-call deposits	12	3,241	3,653
Short-term deposits	12	318,130	4,569
		321,371	8,222

CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE

	NOTE	ISSUED SHARE CAPITAL $000	TREASURY SHARES $000	HEDGE RESERVES $000	OTHER RESERVES $000	RETAINED EARNINGS $000	NON-CONTROLLING INTERESTS $000	TOTAL EQUITY $000
Balance at 30 June 2014		874,979	(9,293)	(70,586)	(820)	1,497,392	16,115	2,307,787
Impact of adopting NZ IFRS 9 (2013) at 1 July 2014		–	–	6,492	–	284	–	6,776
Restated balance at 1 July 2014		874,979	(9,293)	(64,094)	(820)	1,497,676	16,115	2,314,563
Net profit/(loss) for the period		–	–	–	–	146,108	3,285	149,393
Other comprehensive income		–	–	(9,499)	(393)	–	–	(9,892)
Total comprehensive income		–	–	(9,499)	(393)	146,108	3,285	139,501
Dividends	24	–	–	–	–	(151,852)	(3,578)	(155,430)
Employee share purchase scheme transactions		–	15	–	(17)	–	–	(2)
Total transactions with owners		–	15	–	(17)	(151,852)	(3,578)	(155,432)
Balance at 30 June 2015		874,979	(9,278)	(73,593)	(1,230)	1,491,932	15,822	2,298,632
Net profit/(loss) for the period		–	–	–	–	271,493	2,909	274,402
Other comprehensive income		–	–	(15,685)	208	–	–	(15,477)
Total comprehensive income		–	–	(15,685)	208	271,493	2,909	258,925
Dividends	24	–	–	–	–	(156,831)	(2,384)	(159,215)
Employee share purchase scheme transactions		–	79	–	(86)	–	–	(7)
Total transactions with owners		–	79	–	(86)	(156,831)	(2,384)	(159,222)
Balance at 30 June 2016		874,979	(9,199)	(89,278)	(1,108)	1,606,594	16,347	2,398,335

NOTES

1. COMPANY INFORMATION

Reporting entity

Vector Limited is a company incorporated and domiciled in New Zealand, registered under the Companies Act 1993 and listed on the NZX Main Board (NZX). The company is an FMC reporting entity for the purposes of Part 7 of the Financial Markets Conduct Act 2013. The financial statements comply with this Act.

The financial statements presented are for Vector Limited Group ("Vector" or "the group") as at, and for the year ended 30 June 2016. The group comprises Vector Limited ("the parent"), its subsidiaries, and its investments in associates and joint arrangements.

In accordance with the Financial Markets Conduct Act 2013, where a reporting entity prepares consolidated financial statements, parent company disclosures are not required.

Vector Limited is a 75.1% owned subsidiary of Entrust (formerly Auckland Energy Consumer Trust) which is the ultimate parent entity for the group.

The primary operations of the group are electricity and gas distribution, natural gas and LPG sales, gas processing, metering, telecommunications and new energy solutions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The financial statements comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable Financial Reporting Standards, as appropriate for Tier 1 for-profit entities. They also comply with International Financial Reporting Standards.

Basis of preparation

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP) as appropriate to Tier 1 for-profit entities.

They are prepared on the historical cost basis except for the following items, which are measured at fair value:

- the identifiable assets and liabilities acquired in a business combination; and
- certain financial instruments, as disclosed in the notes to the financial statements.

The presentation currency is New Zealand dollars ($). All financial information has been rounded to the nearest thousand, unless otherwise stated.

The statements of profit or loss, other comprehensive income, cash flows and changes in equity are stated exclusive of GST. All items in the balance sheet are stated exclusive of GST with the exception of trade receivables and trade payables, which include GST.

Significant accounting policies, estimates and judgements

Vector's management is required to make judgements, estimates, and apply assumptions that affect the amounts reported in the financial statements. They have based these on historical experience and other factors they believe to be reasonable. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in the future periods affected.

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

- Discontinued operations (Note 4)
- Revenue recognition (Note 5)
- Consolidation basis and classification of investments (Note 14)
- Impairment and valuation of goodwill (Note 15)
- Property, plant and equipment: valuation and classification of expenses (Note 16)
- Provisions (Note 19)
- Borrowings: measurement bases (Note 20)
- Valuation of derivatives (Note 21)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New and amended accounting standards adopted

- *Disclosure Initiative (Amendments to IAS 1)*

The group has early adopted the *Disclosure Initiative* (*Amendments to IAS 1*) issued in December 2014. The effective date is annual periods beginning on or after 1 January 2016. For the group the amendments are effective for the first time from financial year ended 30 June 2017. The amendments provide the group with discretion around the inclusion of specific disclosures that would have otherwise been mandated by other standards on the basis of materiality, including 30 June 2015 comparatives.

New accounting standards and interpretations not yet adopted

The following standards and interpretations which are considered relevant to the group but not yet effective for the year ended 30 June 2016 have not been applied in preparing the financial statements:

- IFRS 15 *Revenue from Contracts with Customers*

This standard was issued in May 2014, and will replace all existing guidance for revenue recognition, including IAS 11 *Construction Contracts* and IAS 18 *Revenue*. The effective date is annual periods beginning on or after 1 January 2018. Vector has not yet fully evaluated the impact this standard will have on the financial statements.

- IFRS 16 *Leases*

This standard was issued in January 2016, and will replace all existing guidance on leases, including IAS 17 *Leases*. The standard introduces a single, on-balance sheet accounting model for lessees that is similar to current finance lease accounting. The effective date is annual periods beginning on or after 1 January 2019. Vector has not yet fully evaluated the impact this standard will have on the financial statements.

- IFRS 9 (2014) *Financial Instruments*

Vector adopted NZ IFRS 9 (2013) on 1 July 2014. The 2014 version is the final step in the transition from IAS 39 *Financial Instruments* to IFRS 9, and was issued in September 2014. It will replace the existing guidance for expected credit exposures relating to financial assets. The effective date is annual periods beginning on or after 1 January 2018. Vector has not yet fully evaluated the impact this standard will have on the financial statements, however it is not expected to be material.

- *Disclosure Initiative (Amendments to IAS 7)*

The amendments were issued in January 2016. The amendments introduce a reconciliation between cash flows arising from financing activities as reported in the statement of cash flows to the corresponding liabilities in the opening and closing balance sheet. The effective date is annual periods beginning on or after 1 January 2017.

3. SEGMENT INFORMATION

Segments

Vector reports on three reportable segments in accordance with NZ IFRS 8 *Operating Segments*. These segments are reported internally to the group chief executive and the board of directors. This reporting is used to assess performance and make decisions about the allocation of resources.

Vector's segment information excludes discontinued operations relating to the sale of Vector's gas transmission and non-Auckland gas distribution businesses. Subsequent to the sale, a review of the reportable segments resulted in the following changes from the 30 June 2015 reporting period:

- The Gas Transportation segment, which included the gas transmission and both Auckland and non-Auckland gas distribution businesses is no longer a reportable segment.
- The Auckland gas distribution and the electricity distribution businesses have been combined into a single segment "Regulated Networks". Both distribution networks operate in the New Zealand regulated utilities market, within the Auckland area. They are similar in the nature of the services, processes, type of customer, methods of distribution and regulatory environment, such as to have essentially the same future prospects.
- The Gas Wholesale segment has been renamed "Gas Trading".

The reported segments are therefore:

Regulated Networks	Auckland electricity and gas distribution services.
Gas Trading	Natural gas and LPG sales, storage and processing, and cogeneration.
Technology	Metering services, telecommunications and new energy solutions.

Segment information is prepared and reported in accordance with Vector's accounting policies.

Intersegment transactions included in the revenues and operating expenses for each segment are on an arms' length basis.

The prior period segment information has been restated to reflect the changes in the segments.

Segment profit

The measures of segment profit reported to the group chief executive and the board of directors are earnings before interest and tax and earnings before interest, tax, depreciation and amortisation (EBITDA).

Corporate activities

Corporate activities, comprising shared services and investments, earn revenues that are incidental to Vector's operations and do not meet the definition of an operating segment under NZ IFRS 8. The results for corporate activities are reported in the reconciliations of segment information to the group's financial statements.

Interest costs (net), fair value change on financial instruments, associates (share of net profit/(loss)) and impairment of investment in associate are reported as corporate activities and are not allocated to the segments.

Major customers

Vector engages with three major customers, each of which contribute greater than ten percent of the group's revenue. These customers are large energy retailers. For the year ended 30 June 2016, the customers contributed $229.9 million (2015: $193.6 million), $179.3 million (2015: $159.1 million) and $154.9 million (2015: $174.7 million) respectively, which is reported across all segments.

3. SEGMENT INFORMATION (CONTINUED)

2016	REGULATED NETWORKS $000	GAS TRADING $000	TECHNOLOGY $000	INTER-SEGMENT $000	TOTAL $000
External revenue:					
Sales	671,234	277,098	166,977	(22,661)	1,092,648
Third party contributions	48,903	–	915	–	49,818
Intersegment revenue	6,082	–	12,162	(18,244)	–
Segment revenue	726,219	277,098	180,054	(40,905)	1,142,466
External expenses:					
Electricity transmission expenses	(209,740)	–	–	–	(209,740)
Gas purchases and production expenses	–	(176,512)	–	21,543	(154,969)
Asset maintenance expenses	(47,880)	(21,120)	(12,737)	1,088	(80,649)
Employee benefit expenses	(17,963)	(13,954)	(18,016)	–	(49,933)
Other expenses	(22,562)	(19,297)	(32,901)	30	(74,730)
Intersegment expenses	(10,638)	(5,662)	(1,944)	18,244	–
Segment operating expenses	(308,783)	(236,545)	(65,598)	40,905	(570,021)
Segment EBITDA	417,436	40,553	114,456	–	572,445
Depreciation and amortisation	(100,837)	(12,480)	(66,642)	–	(179,959)
Impairment of goodwill and assets	–	(64,000)	–	–	(64,000)
Segment profit/(loss)	316,599	(35,927)	47,814	–	328,486
Segment capital expenditure	200,994	15,255	95,113	–	311,362

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

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

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

3. SEGMENT INFORMATION (CONTINUED)

2015	REGULATED NETWORKS $000	GAS TRADING $000	TECHNOLOGY $000	INTER-SEGMENT $000	TOTAL $000
External revenue:					
Sales	678,771	314,167	145,544	(28,345)	1,110,137
Third party contributions	40,168	–	2,655	–	42,823
Intersegment revenue	4,699	–	10,171	(14,870)	–
Segment revenue	723,638	314,167	158,370	(43,215)	1,152,960
External expenses:					
Electricity transmission expenses	(217,039)	–	–	–	(217,039)
Gas purchases and production expenses	–	(206,776)	–	21,492	(185,284)
Asset maintenance expenses	(51,043)	(22,480)	(7,285)	1,099	(79,709)
Employee benefit expenses	(22,141)	(13,032)	(13,511)	–	(48,684)
Other expenses	(34,754)	(20,636)	(27,706)	5,754	(77,342)
Intersegment expenses	(8,825)	(4,317)	(1,728)	14,870	–
Segment operating expenses	(333,802)	(267,241)	(50,230)	43,215	(608,058)
Segment EBITDA	389,836	46,926	108,140	–	544,902
Depreciation and amortisation	(92,853)	(14,329)	(56,894)	–	(164,076)
Segment profit	296,983	32,597	51,246	–	380,826
Segment capital expenditure	170,369	14,895	86,736	–	272,000

The intersegment eliminations include $28.3m of transactions between continuing and discontinued operations which have been eliminated on consolidation.

Reconciliation to revenue, profit/(loss) before income tax and capital expenditure reported in the financial statements: 2015	REVENUE $000	PROFIT/(LOSS) BEFORE INCOME TAX $000	CAPITAL EXPENDITURE $000
Reported in segment information	1,152,960	380,826	272,000
Amounts not allocated to segments (corporate activities):			
Revenue	450	450	–
Employee benefit expenses	–	(26,234)	–
Other operating expenses	–	(24,398)	–
Depreciation and amortisation	–	(14,905)	–
Interest costs (net)	–	(180,801)	–
Fair value change on financial instruments	–	(11,014)	–
Associates (share of net profit/(loss))	–	812	–
Capital expenditure	–	–	15,468
Reported in the financial statements	1,153,410	124,736	287,468

4. DISCONTINUED OPERATIONS

In November 2015, Vector announced an agreement for the sale of 100% of the shares in its subsidiary Vector Gas Limited ("Vector Gas") to First State Funds. Vector Gas owned the gas transmission and non-Auckland gas distribution businesses. The sale was approved at a special meeting of shareholders in December 2015 and was approved under the Overseas Investment Act 2005 in April 2016. The sale was completed on 20 April 2016.

The disposal group is presented as discontinued operations as gas transmission represented a separate major line of business and the non-Auckland gas distribution business represented a separate geographical area of operations. The comparative statement of profit or loss has been restated to show the discontinued operations separately from continuing operations. Vector has applied some of the sale proceeds to the repayment of group debt and most of the remaining funds have been placed on deposit, pending repayment of future debt maturities. However, Vector Gas held no debt itself, so the results presented for the discontinued operations do not include any finance costs.

Results of discontinued operations

	1 JULY 2015 - 20 APRIL 2016 $000	1 JULY 2014 - 30 JUNE 2015 $000
Revenue	110,735	140,606
Operating expenses	(31,650)	(38,441)
Depreciation and amortisation	(5,798)	(16,172)
Profit/(loss) before income tax	73,287	85,993
Tax benefit/(expense)	(21,913)	(24,939)
Net profit/(loss) for the period before gain on sale	51,374	61,054
Gain on sale (net of tax)	164,120	–
Net profit/(loss) for the period attributable to owners of the parent	215,494	61,054

Cash flows from discontinued operations

	1 JULY 2015 - 20 APRIL 2016 $000	1 JULY 2014 - 30 JUNE 2015 $000
Net cash flows from/(used in) operating activities	54,185	71,214
Net cash flows from/(used in) investing activities	937,721	(28,056)
Net cash inflow/(outflow)	991,906	43,158

Sale of subsidiary

	2016 $000
Carrying value of net assets sold as at 20 April 2016:	
Trade and other receivables	21,574
Inventories	1,571
Intangible assets (including goodwill)	335,037
Property, plant and equipment	560,996
Trade and other payables	(12,805)
Provisions	(228)
Deferred tax	(119,302)
Net assets sold	786,843
Consideration received on 20 April 2016	952,500
Fee received on 22 June 2016	7,500
Post-completion adjustment	(59)
Total received in cash and cash equivalents	959,941
Costs of sale	(6,892)
Carrying value of net assets sold	(786,843)
Gain on sale of discontinued operations	166,206
Tax expense	(2,086)
Gain on sale of discontinued operations (net of tax)	164,120

4. DISCONTINUED OPERATIONS (CONTINUED)

Policies

Where a disposal group that is either sold or is held for sale meets the following parameters, it is reported as a discontinued operation:

- The operations and cash flows can be clearly distinguished from the rest of the group
- It represents a separate major line of business or geographical area of operations.

Judgements

Where an operation within a group of cash generating units (CGUs) to which goodwill has been allocated is disposed of, goodwill attributable to the operation disposed of should be included in the disposed assets. The goodwill should be apportioned by measuring it on the basis of the relative values of the operation disposed of and the portion of the CGU retained. Management has determined that applying a relative fair value method based on regulatory asset values was the most appropriate method to allocate goodwill to the disposal group.

Consideration

Upon completion of the sale of Vector Gas, the group received $952.5 million from First State Funds on 20 April 2016. On 22 June 2016, the group received a fee of $7.5 million plus GST in relation to First State Funds' successful acquisition of the Maui pipeline. Management has concluded that for accounting purposes, this fee forms part of the total consideration for the sale.

As at 30 June 2016, the sale of Vector Gas remained subject to minor wash-ups in respect of working capital and capital expenditure. These amounts have been agreed and resulted in a payment of $59,000 from Vector to First State Funds post balance date.

Depreciation

Vector Gas was classified as held for sale from November 2015 and its assets and liabilities were presented as a disposal group held for sale in the 2016 interim financial statements. Depreciation and amortisation on the assets of Vector Gas ceased from November 2015 due to the held for sale classification.

5. REVENUE

	NOTE	2016 $000	2015 $000
Sales	3	1,092,648	1,110,137
Third party contributions	3	49,818	42,823
Other	3	2,137	450
Total		1,144,603	1,153,410

Policies

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

Revenue is recognised when:

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

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

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

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

Judgements

Management must apply judgement where:

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

6. OPERATING EXPENSES

	NOTE	2016 $000	2015 $000
Electricity transmission	3	209,740	217,039
Gas purchases and production	3	154,969	185,284
Network and asset maintenance	3	80,649	79,709
Other direct expenses		42,357	38,888
Employee benefit expenses	3	76,433	74,918
Administration expenses		15,052	14,727
Professional fees		11,224	15,969
IT expenses		14,767	14,103
Loss/(gain) on disposal of PPE and software intangibles		4,309	5,187
Other indirect expenses		12,264	12,866
Total		621,764	658,690

		2016 $000	2015 $000
Fees paid to auditors	Audit or review of financial statements	539	541
	Regulatory assurance	547	536
	Other audit fees	24	19
	Other services	4	185
	Total	1,114	1,281

Other audit fees

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

Other services

Other services in the current and prior period comprised advisory services in relation to the strategic review of Vector's gas transmission and non-Auckland gas distribution businesses.

7. INTEREST COSTS (NET)

	2016 $000	2015 $000
Interest expense	169,036	184,646
Capitalised interest	(4,901)	(6,277)
Interest income	(2,321)	(1,311)
Other	6,991	3,743
Total	168,805	180,801

Policies

Interest costs (net) include interest expense on borrowings and interest income on funds invested which are recognised using the effective interest rate method.

Capitalised interest

Vector has capitalised interest to PPE and software intangibles while under construction at an average rate of 6.3% per annum (2015: 6.8%).

8. FAIR VALUE CHANGE ON FINANCIAL INSTRUMENTS

	2016 $000	2015 $000
Fair value movement on hedging instruments	(27,579)	199,906
Fair value movement on hedged items	29,923	(210,920)
Total gains/(losses)	2,344	(11,014)

9. IMPAIRMENT

	NOTE	2016 $000	2015 $000
Impairment of goodwill	15	64,000	–
Reversal of impairment of investment in associate	14	(2,578)	–
Total		61,422	–

10. INCOME TAX EXPENSE/(BENEFIT)

Reconciliation of income tax expense/(benefit)	2016 $000	2015 $000
Profit/(loss) before income tax	103,185	124,736
Tax at current rate of 28%	28,892	34,926
Current tax adjustments:		
Non-deductible expenses	1,517	257
Impairment	17,198	–
Relating to prior periods	1,836	2,149
Other	(2,341)	196
Deferred tax adjustments:		
Relating to prior periods	(2,114)	(1,870)
Other	(711)	739
Income tax expense/(benefit)	44,277	36,397
Comprising:		
Current tax	21,702	28,723
Deferred tax	22,575	7,674

Policies

Income tax expense/(benefit) comprises current and deferred tax and is calculated using rates enacted or substantively enacted at balance date.

Current and deferred tax is recognised in profit or loss unless the tax relates to items in other comprehensive income, in which case the tax is recognised as an adjustment in other comprehensive income against the item to which it relates.

Imputation credits

There are no imputation credits available for use as at 30 June 2016 (2015: nil), as the imputation account has a debit balance as of that date.

11. DEFERRED TAX

Deferred tax liability/(asset)	NOTE	PPE $000	PROVISIONS AND ACCRUALS $000	HEDGE RESERVES $000	OTHER $000	TOTAL $000
Balance at 1 July 2014		554,873	(7,893)	(27,452)	32,409	551,937
Recognised in profit or loss		32,320	(6,607)	–	(13,658)	12,055
Recognised in other comprehensive income		–	–	(357)	–	(357)
Recognised from business combinations		(1,266)	–	–	–	(1,266)
Balance at 30 June 2015		585,927	(14,500)	(27,809)	18,751	562,369
Recognised in profit or loss		26,055	4,830	–	(10,543)	20,342
Recognised in other comprehensive income		–	–	(6,911)	–	(6,911)
Deferred tax associated with discontinued operations	4	(118,791)	(511)	–	–	(119,302)
Balance at 30 June 2016		493,191	(10,181)	(34,720)	8,208	456,498

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

	2016 $000	2015 $000
Deferred tax asset	(715)	–
Deferred tax liability	457,213	562,369
Total	456,498	562,369

Policies

Deferred tax is:

- Recognised on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.
- Not recognised for the initial recognition of goodwill.
- Measured at the tax rates that are expected to be applied to the temporary differences when they reverse.

12. CASH AND CASH EQUIVALENTS

	MATURITY DATE	2016 $000	2015 $000
Cash and bank balances	–	3,241	3,653
Short-term deposits	Jul 2016 - Oct 2016	318,130	4,569
Total		321,371	8,222

Policies

Cash and cash equivalents includes deposits that are subject to insignificant risk of changes in their fair value.

Cash and cash equivalents are carried at amortised cost in the balance sheet.

13. TRADE AND OTHER RECEIVABLES

	2016 $000	2015 $000
TRADE RECEIVABLES		
Current		
Trade receivables	168,919	170,383
Less provision for doubtful debts	(3,067)	(2,528)
Balance at 30 June	165,852	167,855
AGEING OF TRADE RECEIVABLES		
Not past due	152,356	157,521
Past due 1–30 days	8,441	5,392
Past due 31–120 days	2,558	1,603
Past due more than 120 days	5,564	5,867
Balance at 30 June	168,919	170,383
OTHER RECEIVABLES		
Current		
Interest receivable	17,100	17,436
Prepayments	7,988	9,208
Other	1,864	1,313
Balance at 30 June	26,952	27,957
Non-current		
Finance lease	–	1,308
Other	51	475
Balance at 30 June	51	1,783

Policies

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

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

Impairment

Trade receivables past due by up to 120 days include allowances for impairment of $0.1 million (2015: nil).

Trade receivables past due by more than 120 days include allowances for impairment of $3.0 million (2015: $2.5 million).

A provision for impairment is recognised when there is objective evidence that Vector will be unable to collect amounts due. The amount provided is the difference between the receivable's carrying and expected recoverable amount.

14. INVESTMENTS

Judgements

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

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

14.1 Investments in subsidiaries

	PRINCIPAL ACTIVITY	PERCENTAGE HELD 2016	2015
Trading subsidiaries			
NGC Holdings Limited	Holding company	100%	100%
– Vector Gas Limited	Gas transportation	–	100%
– NGC Limited	Holding company	100%	100%
– Vector Gas Trading Limited	Natural gas trading and processing	100%	100%
– Vector Gas Investments Limited	Holding company	100%	100%
– Vector Kapuni Limited	Joint operator – cogeneration plant	100%	100%
– Liquigas Limited	Bulk LPG storage, distribution and management	60%	60%
– On Gas Limited	LPG sales and distribution	100%	100%
– Advanced Metering Assets Limited	Electricity and gas metering	100%	100%
– Vector Advanced Metering Assets (Australia) Limited	Metering	100%	–
– Vector Metering Data Services Limited	Holding company	100%	100%
– Vector Advanced Metering Services (Australia) Pty Limited	Metering	100%	100%
Vector Contracting Services Limited	Contracting services	100%	100%
Vector Communications Limited	Telecommunications	100%	100%
Advanced Metering Services Limited	Metering services	100%	100%
Vector Solar Limited	Solar sales	100%	100%
Arc Innovations Limited	Metering	100%	100%
Non-trading subsidiaries			
Auckland Generation Limited	Holding company	100%	100%
– MEL Network Limited	Holding company	100%	100%
– Mercury Geotherm Limited	Dormant	100%	100%
– Poihipi Land Limited	Dormant		
UnitedNetworks Limited	Dormant	100%	100%
Vector Management Services Limited	Dormant	100%	100%
Vector ESPS Trustee Limited	Trustee company	100%	100%

Policies

Subsidiaries are entities controlled directly or indirectly by the parent. Vector holds over 50% of the voting rights in all entities reported as subsidiaries. There are currently no indicators that Vector does not have control consistent with these voting rights. Vector Gas Limited was a wholly owned subsidiary of the group until its sale to First State Funds on 20 April 2016.

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

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

Balance dates

All subsidiaries have a balance date of 30 June, apart from Mercury Geotherm Limited and Poihipi Land Limited which have a balance date of 31 March.

Geography

All subsidiaries are incorporated in New Zealand, except Vector Advanced Metering Services (Australia) Pty Limited which is incorporated in Australia.

Removal

Mercury Geotherm Limited and Poihipi Land Limited are in the process of being removed from the Register of Companies.

14. INVESTMENTS (CONTINUED)

14.2 Investment in associates

	PRINCIPAL ACTIVITY	BALANCE DATE	COUNTRY OF INCORPORATION	PERCENTAGE HELD	
				2016	2015
Associates					
Tree Scape Limited	Vegetation management	31 March	New Zealand	50%	50%
Total Metering 2012 Limited	Non-trading	30 June	New Zealand	–	25%
NZ Windfarms Limited	Power generation	30 June	New Zealand	22%	22%

Total Metering 2012 Limited was removed from the Register of Companies on 17 July 2015.

14.2 Investment in associates

	2016 $000	2015 $000
Carrying amount of associates		
Balance at 1 July	11,475	11,481
Share of net profit/(loss) of associates	2,809	812
Share of other comprehensive income of associate	250	(418)
Dividends received	(1,500)	(400)
Reversal of impairment of investment in associate	2,578	–
Balance at 30 June	15,612	11,475
Equity accounted earnings of associates		
Profit/(loss) before income tax	3,901	1,128
Income tax benefit/(expense)	(1,092)	(316)
Share of net profit/(loss) of associates	2,809	812
Total recognised revenues and expenses	2,809	812

Policies

Associates are entities in which Vector has significant influence, but not control or joint control, over the operating and financial policies. Vector holds over 20%, but not more than half, of the voting rights in all entities reported as associates, and has assessed that there are currently no indicators that Vector does not have significant influence consistent with these voting rights. Where Vector has 50% voting rights in an entity reported as an associate, we have determined that this does not constitute joint control as there is more than one combination of parties that can achieve majority voting rights.

Investments in associates are reported in the financial statements using the equity method.

Impairment reversal

Vector has recognised an impairment reversal of $2.6 million in respect of the investment in its associate company, NZ Windfarms Limited (2015: nil).

The recoverable amount as at 30 June 2016 was estimated based on the investment's fair value less costs to sell by reference to its weighted average share price on the New Zealand Stock Exchange.

The share price of NZ Windfarms Limited increased from $0.06 per share at 30 June 2015 to $0.10 per share at 30 June 2016. The impairment reversal has been recognised to the extent of the recoverable value of the investment.

14. INVESTMENTS (CONTINUED)

14.3 Interest in joint operation

	PRINCIPAL ACTIVITY	BALANCE DATE	INTEREST HELD 2016	2015
Joint operation				
Kapuni Energy Joint Venture	Cogeneration plant operator	30 June	50%	50%

Policies

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

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

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

15. INTANGIBLE ASSETS

	CUSTOMER CONTRACTS $000	EASEMENTS $000	SOFTWARE $000	GOODWILL $000	TOTAL $000
Opening carrying amount 1 July 2014	11,966	14,289	46,659	1,559,516	1,632,430
Cost	16,464	14,289	189,363	1,559,516	1,779,632
Accumulated amortisation	(4,498)	–	(142,704)	–	(147,202)
Acquisition of business	5,278	–	717	1,444	7,439
Transfers from PPE	–	462	27,902	–	28,364
Amortisation for the period	(1,945)	–	(23,505)	–	(25,450)
Closing carrying amount 30 June 2015	15,299	14,751	51,773	1,560,960	1,642,783
Cost	21,742	14,751	217,982	1,560,960	1,815,435
Accumulated amortisation	(6,443)	–	(166,209)	–	(172,652)
Transfers from PPE	–	34,817	29,528	–	64,345
Sale of discontinued operations	–	(35,025)	(1,189)	(298,823)	(335,037)
Impairment	–	–	–	(64,000)	(64,000)
Amortisation for the period	(2,271)	–	(25,445)	–	(27,716)
Closing carrying amount 30 June 2016	13,028	14,543	54,667	1,198,137	1,280,375
Cost	21,742	14,543	229,041	1,198,137	1,463,463
Accumulated amortisation	(8,714)	–	(174,374)	–	(183,088)

15.1 Goodwill

	2016 $000	2015 $000
Goodwill by reportable segment		
Regulated Networks	1,021,458	–
Electricity	–	852,219
Gas Transportation	–	468,062
Gas Trading	156,826	220,826
Technology	19,853	19,853
Total	1,198,137	1,560,960

15. INTANGIBLE ASSETS (CONTINUED)

15.1 Goodwill (continued)

Policies

Goodwill represents the excess of the consideration transferred over the fair value of Vector's share of the net identifiable assets of an acquired subsidiary.

Goodwill is carried at cost less accumulated impairment losses.

Allocation

Goodwill is monitored internally at a group level. However, it is allocated to operating segments for impairment testing purposes as this is the highest level permissible under NZ IFRS.

Impairment testing

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

As at 30 June 2016, the group has recognised an impairment loss of $64.0 million in respect of goodwill allocated to the gas trading segment. The gas trading segment comprises the group's natural gas, LPG, gas storage and processing, and cogeneration businesses. The impairment reflects various factors including the steady decline in the output from the Kapuni field, the diminishing prospects of further field development due to ongoing disputes, and weak international hydrocarbon prices.

The recoverable amount of the gas trading segment has been determined based on value in use. Post-tax discount rates of between 6.4% and 6.7% (2015: 6.8% and 7.1%) have been applied in determining the recoverable amount for the gas trading segment.

For the regulated networks and technology segments the recoverable amount of each segment to which goodwill is allocated exceeds the net assets plus goodwill allocated. The group has determined that no impairment to goodwill for those segments has occurred during the period.

Judgements

To assess impairment, management must estimate the future cash flows of operating segments including the cash generating units (CGUs) that make up those segments. This entails making judgements including:

- the expected rate of growth of revenues;
- margins expected to be achieved;
- the level of future maintenance expenditure required to support these outcomes; and
- the appropriate discount rate to apply when discounting future cash flows.

Assumptions

The recoverable amounts attributed to the electricity, gas distribution and technology CGUs are calculated on the basis of value-in-use using discounted cash flow models. For the gas trading CGU, both value in use and fair value less costs to sell were considered. Future cash flows are forecast based on actual results and business plans.

For the electricity, gas distribution and metering CGUs, a ten year period has been used due to the long-term nature of the group's capital investment in these businesses and the predictable nature of their cash flows. A five year period has been used for all other CGUs.

Terminal growth rates in a range of 1.0% to 2.0% (2015: 1.0% to 2.0%) and post-tax discount rates between 5.3% and 8.1% (2015: 5.4% and 8.2%) are applied. Rates vary for the specific segment being valued.

Projected cash flows for regulated businesses are sensitive to regulatory uncertainty. Estimated future regulated network revenues and the related supportable levels of capital expenditure are based on default price-quality path determinations issued by the Commerce Commission and are in line with estimates published in the asset management plans.

15. INTANGIBLE ASSETS (CONTINUED)

15.2 Other intangible assets

Policies

Other intangible assets are initially measured at cost, and subsequently stated at cost less any accumulated amortisation and impairment losses.

Software and customer contracts have been assessed as having a finite life greater than 12 months, and are amortised from the date the asset is ready for use on a straight line basis over its estimated useful life. The estimated useful lives are: software 2 – 36 years; customer contracts 3 – 10 years.

Easements are not amortised, but are tested for impairment at least annually as part of the assessment of the carrying values of assets against the recoverable amounts of the operating segments to which they have been allocated.

16. PROPERTY, PLANT AND EQUIPMENT (PPE)

GROUP	DISTRIBUTION SYSTEMS $000	ELECTRICITY AND GAS METERS $000	LAND, BUILDINGS AND IMPROVEMENTS $000	COMPUTER AND TELCO EQUIPMENT $000	OTHER PLANT AND EQUIPMENT $000	CAPITAL WORK IN PROGRESS $000	TOTAL $000
Carrying amount 1 July 2014	3,170,517	348,984	156,554	98,868	112,659	111,995	3,999,577
Cost	3,968,590	543,624	178,432	170,310	181,182	111,995	5,154,133
Accumulated depreciation	(798,073)	(194,640)	(21,878)	(71,442)	(68,523)	–	(1,154,556)
Additions	–	–	–	–	–	323,278	323,278
Acquisition of business	–	5,489	–	441	3,784	720	10,434
Transfers – Intangible assets	–	–	–	–	–	(28,364)	(28,364)
Transfers – Other	203,626	72,295	10,322	14,951	(848)	(300,346)	–
Disposals	(4,972)	(306)	(49)	–	(19)	–	(5,346)
Depreciation for the period	(111,231)	(32,779)	(3,237)	(13,029)	(9,427)	–	(169,703)
Carrying amount 30 June 2015	3,257,940	393,683	163,590	101,231	106,149	107,283	4,129,876
Cost	4,167,244	621,102	188,705	185,702	184,099	107,283	5,454,135
Accumulated depreciation	(909,304)	(227,419)	(25,115)	(84,471)	(77,950)	–	(1,324,259)
Additions	–	–	–	–	–	342,272	342,272
Transfers – Intangible assets	(34,292)	–	–	–	–	(30,053)	(64,345)
Transfers – Other	185,267	66,685	7,455	12,818	22,138	(294,363)	–
Disposals	(3,475)	(43)	–	(31)	(405)	–	(3,954)
Sale of discontinued operations	(543,603)	(199)	(431)	(111)	(6,568)	(10,084)	(560,996)
Depreciation for the period	(109,690)	(40,637)	(3,455)	(12,195)	(6,685)	–	(172,662)
Carrying amount 30 June 2016	2,752,147	419,489	167,159	101,712	114,629	115,055	3,670,191
Cost	3,609,898	684,310	195,249	196,854	200,682	115,055	5,002,048
Accumulated depreciation	(857,751)	(264,821)	(28,090)	(95,142)	(86,053)	–	(1,331,857)

16. PROPERTY, PLANT AND EQUIPMENT (PPE) (CONTINUED)

Policies

PPE is initially measured at cost, and subsequently stated at cost less depreciation and any impairment losses. Cost may include:

- Consideration paid on acquisition
- Costs to bring the asset to working condition
- Materials used in construction
- Direct labour attributable to the item
- Finance costs attributable to the item
- A proportion of directly attributable overheads incurred
- If there is a future obligation to dismantle and/or remove the item, the costs of doing so

Capitalisation of costs stops when the asset is ready for use.

Subsequent expenditure that increases the economic benefits derived from the asset is capitalised.

Uninstalled assets are stated at the lower of cost and estimated recoverable amount.

Depreciation commences when an asset becomes available for use.

Depreciation of PPE, other than freehold land, is calculated on a straight line basis and expensed over the useful life of the asset.

Estimated useful lives (years) are as follows:

Buildings	40 – 100	Meters and meter inspections	2 – 40
Distribution systems	10 – 100	Other plant and equipment	3 – 55
Leasehold improvements	5 – 20		

Judgements

Management must apply judgement when evaluating:

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

Capital commitments

The estimated capital expenditure for PPE and software intangibles contracted for at balance date but not provided is $57.9 million for the group (2015: $56.4 million).

17. OPERATING LEASES

	2016 $000	2015 $000
Aggregate minimum lease payments under non-cancellable operating leases where Vector is the lessee		
Within one year	5,018	4,768
One to five years	14,126	15,931
Beyond five years	5,219	5,898
Total	24,363	26,597

Policies

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

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

Lease of premises

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

18. TRADE AND OTHER PAYABLES

	2016 $000	2015 $000
Current		
Trade payables	175,097	172,221
Deferred consideration payable	–	750
Employee benefits	14,488	16,861
Deferred income	22,618	10,973
Finance leases	237	623
Interest payable	38,943	45,238
Balance at 30 June	251,383	246,666
Non-current		
Deferred income	12,188	13,828
Finance leases	414	1,099
Other non-current payables	2,798	2,798
Balance at 30 June	15,400	17,725

Other payables

Employee benefits which remain unused at balance date, and amounts expected to be paid under short-term cash bonus plans are accrued for.

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

19. PROVISIONS

2016	NOTE	DECOMMISSIONING PROVISIONS $000	PROVISION FOR CONTRACTUAL DISPUTES $000	OTHER $000	TOTAL $000
Balance 1 July 2015		14,160	13,165	13,160	40,485
Additions		3,687	991	–	4,678
Reversed to the profit or loss		(2,630)	(1,361)	(6,164)	(10,155)
Payments		–	(12,795)	(536)	(13,331)
Unwinding of discount		1,823	–	–	1,823
Associated with sale of discontinued operations	4	–	–	(228)	(228)
Balance at 30 June 2016		17,040	–	6,232	23,272
Current		–	–	6,232	6,232
Non-current		17,040	–	–	17,040
Total		17,040	–	6,232	23,272

Policies

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

Decommissioning

The decommissioning provisions represent the present value of the future expected costs for dismantling the group's gas treatment and cogeneration plants situated at Kapuni and depot assets situated at various regions in New Zealand. Timing of economic outflows represents management's best estimate of the end of the useful life of the plant and associated assets.

Contractual disputes

The contractual disputes provision related to matters which were the subject of arbitration proceedings completed in the current financial year.

Other provisions

These provisions comprise amounts that may be required to be utilised within one year or a longer period dependent on ongoing negotiations with third parties involved. There are currently no foreseeable uncertainties which would be reasonably expected to lead to material changes in the amounts provided.

20. BORROWINGS

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

2015	CURRENCY	MATURITY DATE	FACE VALUE $000	UNAMORT-ISED COSTS $000	FAIR VALUE ADJUST-MENT ON HEDGED RISK $000	CARRYING VALUE $000	FAIR VALUE $000
Bank facilities							
– variable rate	NZD	Dec 2016–Feb 2018	249,000	(752)	–	248,248	248,248
Capital bonds							
– 7% fixed rate	NZD	–	262,651	(229)	–	262,422	272,539
Senior notes							
– fixed rate	USD	Sep 2016–Sep 2022	796,014	(2,022)	109,706	903,698	872,763
Floating rate notes							
– variable rate	NZD	Oct 2015–Oct 2020	1,160,000	(3,920)	–	1,156,080	1,116,230
Medium term notes							
– 7.625% fixed rate	GBP	Jan 2019	285,614	(1,978)	(18,514)	265,122	304,127
Balance at 30 June			2,753,279	(8,901)	91,192	2,835,570	2,813,907

Policies

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in finance costs in profit or loss over the period of the borrowing using the effective interest rate method.

The carrying value of borrowings includes the principal converted at contract rates (face value), unamortised costs and a fair value adjustment for the component of the risk that is hedged. The fair value is calculated by discounting the future contractual cash flows at current market interest rates that are available for similar financial instruments. The fair value of all borrowings, calculated for disclosure purposes, are classified as level 2 on the fair value hierarchy, explained further in Note 21.

Capital bonds

Capital bonds of $307.2 million are unsecured, subordinated bonds with the next election date set as 15 June 2017. The interest rate was fixed at 7% at the last election date. In June 2012, Vector repurchased $44.6 million of its capital bonds at face value as part of the capital bonds election process and the repurchased bonds were derecognised from borrowings, leaving an outstanding balance of $262.7 million.

Floating rate notes

The $910.0 million floating rate notes are credit wrapped by MBIA Insurance Corporation and Ambac Assurance Corporation. In October 2015, $250.0 million of floating rate notes matured and were repaid.

Bank facilities

Following the sale of Vector Gas Limited (see Note 4), the facilities were repaid in full and remain undrawn at 30 June 2016. The unamortised establishment fees will continue to unwind over the life of the remaining facilities.

Covenants

All borrowings are unsecured and are subject to negative pledge arrangements and various lending covenants. These have all been met for the years ended 30 June 2016 and 30 June 2015.

21. DERIVATIVES AND HEDGE ACCOUNTING

	CASH FLOW HEDGES		FAIR VALUE HEDGES		COST OF HEDGING		TOTAL	
	2016 $000	2015 $000	2016 $000	2015 $000	2016 $000	2015 $000	2016 $000	2015 $000
Derivative assets								
Cross currency swaps	–	–	84,758	105,403	(2,330)	(1,221)	82,428	104,182
Interest rate swaps	–	777	–	–	–	–	–	777
Forward exchange contracts	–	186	–	–	–	–	–	186
Total	–	963	84,758	105,403	(2,330)	(1,221)	82,428	105,145
Derivative liabilities								
Cross currency swaps	(87,964)	(31,558)	(6,933)	–	1,781	1,876	(93,116)	(29,682)
Interest rate swaps	(106,380)	(90,790)	–	–	–	–	(106,380)	(90,790)
Forward exchange contracts	(149)	–	–	–	–	–	(149)	–
Total	(194,493)	(122,348)	(6,933)	–	1,781	1,876	(199,645)	(120,472)

The fair value of the derivative assets has decreased as at 30 June 2016 largely due to the strengthening of the New Zealand dollar against foreign currencies. The fair value of derivative liabilities has decreased as at 30 June 2016 largely due to the strengthening of the New Zealand dollar against foreign currencies, and the decrease in New Zealand floating rates.

Key observable market data for fair value measurement	2016	2015
Foreign currency exchange (FX) rates as at 30 June		
NZD–GBP FX rate	0.5360	0.4306
NZD–USD FX rate	0.7134	0.6764
Interest rate swap rates		
NZD	2.24% to 2.67%	3.09% to 3.91%
USD	0.47% to 1.73%	0.28% to 2.96%
GBP	0.38% to 1.24%	0.58% to 2.27%
Credit margins		
Vector	1.59% to 2.69%	1.24% to 2.31%
Counterparties	0.40% to 2.32%	0.09% to 1.52%

Sensitivity to changes in market rates	2016 $000	2015 $000
Impact on comprehensive income:		
Sensitivity to change in interest rates		
-1% change in interest rates	(48,695)	(43,231)
+1% change in interest rates	42,798	41,230
Sensitivity to change in foreign exchange rates		
-10% change in foreign exchange rates	(6,082)	(3,392)
+10% change in foreign exchange rates	6,341	4,811
Sensitivity to change in credit margins		
-0.50% change in credit margins	(1,845)	(910)
+0.50% change in credit margins	1,803	891
Impact on profit or loss:		
Sensitivity to change in interest rates		
-1% change in interest rates	(2,418)	(2,411)
+1% change in interest rates	2,392	2,296
Sensitivity to change in foreign exchange rates		
-10% change in foreign exchange rates	4,452	2,843
+10% change in foreign exchange rates	(3,843)	(2,755)
Sensitivity to change in credit margins		
-0.50% change in credit margins	2,008	3,083
+0.50% change in credit margins	(1,949)	(3,014)

21. DERIVATIVES AND HEDGE ACCOUNTING (CONTINUED)

Policies

Vector initially recognises derivatives at fair value on the date the derivative contract is entered into, and subsequently they are re-measured to their fair value at each balance date. All derivatives are classified as level 2 on the fair value hierarchy explained below.

Fair value is calculated as the present value of the estimated future cash flows based on observable interest yield curves and/or foreign exchange market prices. The carrying values of the financial instruments are the fair values excluding any interest receivable or payable, which is separately presented in the balance sheet in other receivables or other payables.

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

Vector designates certain derivatives as either:

- Fair value hedges (of the fair value of recognised assets or liabilities or firm commitments); or
- Cash flow hedges (of highly probable forecast transactions).

At inception each transaction is documented, detailing:

- The economic relationship and the hedge ratio between hedging instruments and hedged items;
- The risk management objectives and strategy for undertaking the hedge transaction; and
- The assessment (initially and on an ongoing basis) of whether the derivatives that are used in the hedging transaction are highly effective in offsetting changes in fair values or cash flows of hedged items.

The underlying risk of the derivative contracts is identical to the hedged risk component (i.e. the interest rate risk and the foreign exchange risk) therefore the group has established a one-to-one hedge ratio.

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

Fair value hedges

Vector has entered into cross currency interest rate swaps (the hedging instruments) to hedge the interest rate risk and foreign currency risk (the hedged risk) arising in relation to its USD senior notes (the hedged items). These transactions have been designated into fair value hedges.

The following are recognised in profit or loss:

- The change in fair value of the hedging instruments; and
- The change in fair value of the underlying hedged items attributable to the hedged risk.

Once hedging is discontinued, the fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised through profit or loss from that date through to maturity of the hedged item.

21. DERIVATIVES AND HEDGE ACCOUNTING (CONTINUED)

Cash flow hedges

Vector has entered into interest rate swaps and cross currency interest rate swaps (the hedging instruments) to hedge the variability in cash flows arising from interest rate and foreign currency exchange rate movements in relation to its NZD floating rate notes, GBP medium term notes and USD senior notes.

The effective portion of changes in the fair value of the hedging instruments are recognised in other comprehensive income.

The following are recognised in profit or loss:

- any gain or loss relating to the ineffective portion of the hedging instrument; and
- fair value changes in the hedging instrument previously accumulated in other comprehensive income, in the periods when the hedged item is recognised in profit or loss.

Once hedging is discontinued, any cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss either:

- at the same time as the forecast transaction; or
- immediately if the transaction is no longer expected to occur.

Fair value measurement hierarchy

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities; or

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices); or

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Market rate sensitivity

All derivatives are measured at fair value. A change in the market data used to determine fair value will have an impact on Vector's financial statements.

The table on page 72 shows the sensitivity of the financial statements to a range of possible changes in the market data at balance date.

Rights to offset

Vector enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master agreements. The ISDA agreements do not meet the criteria for offsetting in the balance sheet for accounting purposes. This is because Vector does not have any currently legally enforceable right to offset recognised amounts. Under the ISDA agreements the right to offset is enforceable only on the occurrence of future events such as a default on the bank loans or other credit events. The potential net impact of this offsetting is disclosed in column 'amount after applying rights of offset under ISDA agreements.' Vector does not hold and is not required to post collateral against its derivative positions.

	2016 $000		2015 $000	
	DERIVATIVES POSITION AS PER BALANCE SHEET	AMOUNT AFTER APPLYING RIGHTS OF OFFSET UNDER ISDA AGREEMENTS	DERIVATIVES POSITION AS PER BALANCE SHEET	AMOUNT AFTER APPLYING RIGHTS OF OFFSET UNDER ISDA AGREEMENTS
Derivative assets	82,428	7,986	105,145	42,497
Derivative liabilities	(199,645)	(125,203)	(120,472)	(57,824)
Net amount	(117,217)	(117,217)	(15,327)	(15,327)

21.1 Effects of hedge accounting on the financial position and performance

The tables below demonstrate the impact of hedged items and the hedging instruments designated in hedging relationships:

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

Cash flow hedges 2015	FACE VALUE $000	WEIGHTED AVERAGE RATE	CARRYING AMOUNT ASSETS/ (LIABILITIES) $000	CHANGE IN FAIR VALUE USED FOR MEASURING INEFFECTIVE-NESS $000	HEDGING (GAIN) OR LOSS RECOGNISED IN CASH FLOW HEDGE RESERVE $000	HEDGE INEFFECTIVE-NESS RECOGNISED IN PROFIT OR LOSS $000	(GAIN) OR LOSS RECOGNISED IN COST OF HEDGING $000
Interest risk							
Hedged item: NZD floating rate exposure on borrowings	(1,160,000)		–	(92,554)	–	–	–
Hedging instrument: Interest rate swaps	(1,810,000)	6.2%	(90,013)	(90,013)	90,013	–	–
Interest and exchange risk							
Hedged item: GBP fixed rate exposure on borrowings	(285,614)		–	(32,722)	–	–	–
Hedging instrument: Cross currency swaps	(285,614)	10.8%	(29,682)	(31,558)	13,044	–	(1,876)
					Total	–	

The NZD floating rate exposure includes $910.0 million from the floating rate notes (2015: $1,160.0 million) and $250.0 million arising from hedging the USD senior bonds (2015: nil), as allowable under NZ IFRS 9 (2013).

The interest rate swaps include $270.0 million of forward starting swaps (2015: $650.0 million).

21. DERIVATIVES AND HEDGE ACCOUNTING (CONTINUED)

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

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

Fair value hedges 2015	FACE VALUE $000	WEIGHTED AVERAGE RATE	ACCUMULATED FAIR VALUE HEDGE ADJUSTMENTS $000	CARRYING AMOUNT ASSETS/ (LIABILITIES) $000	CHANGE IN FAIR VALUE OF THE HEDGED ITEM $000	CHANGE IN FAIR VALUE OF THE HEDGING INSTRUMENT $000	CHANGE IN VALUE IN COST OF HEDGING $000
Interest and exchange risk							
Hedged item: USD fixed rate exposure on borrowings	(796,014)		(109,706)	(903,698)	(211,500)		
Hedging instrument: Cross currency swaps	(796,014)	floating		104,182		200,504	1,769
				Total	(211,500)	200,504	

Hedging instruments and hedged items are included in the line items "Derivatives" and "Borrowings" respectively in the balance sheet. Ineffectiveness is the sum of the change in fair value of the hedged item and the change in fair value of the hedging instrument. The source of ineffectiveness is largely due to counterparty credit risk on the derivative instruments. Hedge ineffectiveness is included in the "Fair value change on financial instruments" in the profit or loss.

21. DERIVATIVES AND HEDGE ACCOUNTING (CONTINUED)

21.2 Reconciliation of changes in hedge reserves

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

Hedge reserves 2015	CASHFLOW HEDGE RESERVE $000	COST OF HEDGING $000	TOTAL $000
Opening balance	63,038	1,056	64,094
Hedging gains or losses recognised in OCI	71,120	(2,122)	68,998
Transferred to profit or loss	(51,241)	–	(51,241)
Recognised as basis adjustment to non-financial assets	(4,565)	–	(4,565)
Deferred tax on change in reserves	(4,287)	594	(3,693)
Closing balance	74,065	(472)	73,593

22. FINANCIAL RISK MANAGEMENT

Policies

Vector has a comprehensive treasury policy, approved by the board of directors, to manage financial risks arising from business activity. The policy outlines the objectives and approach that the group applies to manage:

- Interest rate risk;
- Credit risk;
- Liquidity risk;
- Foreign exchange risk; and
- Funding risk.

For each risk type, any position outside the policy limits requires the prior approval of the board of directors. Each risk is monitored on a regular basis and reported to the board.

22.1 Interest rate risk

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

Interest rate exposure 2015	< 1 YEAR $000	1-2 YEARS $000	2-5 YEARS $000	> 5 YEARS $000	TOTAL $000
Interest rate exposure: borrowings	1,409,000	361,526	582,237	400,516	2,753,279
Derivative contracts:					
Interest rate swaps	(1,160,000)	160,000	350,000	650,000	–
Cross currency swaps	796,014	(98,874)	(296,624)	(400,516)	–
Net interest rate exposure	1,045,014	422,652	635,613	650,000	2,753,279

Policies

Vector is exposed to interest rate risk through its borrowing activities.

Interest rate exposures are managed primarily by entering into derivative contracts. The main objectives are to minimise the cost of total borrowings, control variations in the interest expense of the borrowings from year to year, and where practicable to match the interest rate risk profile of the borrowings with the risk profile of the group's assets.

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

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

22.2 Credit risk

Maximum exposure to credit risk – fair value	2016 $000	2015 $000
Cash and cash equivalents	321,371	8,222
Trade and other receivables	165,852	167,855
Interest rate swaps	–	777
Cross currency swaps	82,428	104,182
Forward exchange contracts	–	186
Total credit risk exposure	569,651	281,222

Policies

Vector is exposed to credit risk, in the normal course of business, from financial institutions, energy retailers, and customers. The main objective is to minimise financial loss as a result of counterparty default.

Our credit policies to manage this exposure include:

- The board of directors must approve exposure to financial institutions with a credit rating less than A+;
- The board of directors sets limits and monitors exposure to financial institutions; and
- Exposure is spread across a range of financial institutions. Where there is credit exposure to large energy retailers and customers, Vector minimises its risk by performing credit evaluations and/or requiring a bond or other form of security.

Concentrations of credit risk

Vector monitors concentrations of credit risk by type and geographic location. All cash and cash equivalents are held by banks in Australia and New Zealand, while trade and other receivables are with both retail and commercial customers in both Australia and New Zealand.

22.3 Liquidity risk

Contractual cash flows maturity profile 2016	PAYABLE <1 YEAR $000	PAYABLE 1-2 YEARS $000	PAYABLE 2-5 YEARS $000	PAYABLE >5 YEARS $000	TOTAL CONTRACTUAL CASH FLOWS $000
Non-derivative financial liabilities					
Trade payables	175,097	–	–	–	175,097
Borrowings: interest	95,285	63,246	114,794	19,285	292,610
Borrowings: principal	513,764	400,000	837,911	437,342	2,189,017
Derivative financial (assets)/liabilities					
Cross currency swaps: inflow	(142,688)	(49,065)	(578,809)	(456,627)	(1,227,189)
Cross currency swaps: outflow	157,016	56,198	668,730	422,476	1,304,420
Forward exchange contracts: inflow	(3,301)	–	–	–	(3,301)
Forward exchange contracts: outflow	3,460	–	–	–	3,460
Net settled derivatives					
Interest rate swaps	42,348	28,305	49,247	4,279	124,179
Group contractual cash flows	840,981	498,684	1,091,873	426,755	2,858,293

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

22.3 Liquidity risk (continued)

Contractual cash flows maturity profile 2015	PAYABLE <1 YEAR $000	PAYABLE 1-2 YEARS $000	PAYABLE 2-5 YEARS $000	PAYABLE >5 YEARS $000	TOTAL CONTRACTUAL CASH FLOWS $000
Non-derivative financial liabilities					
Trade payables	172,221	–	–	–	172,221
Deferred consideration payable	750	–	–	–	750
Borrowings: interest	138,066	96,988	185,765	46,208	467,027
Borrowings: principal	250,000	597,748	1,125,391	811,266	2,784,405
Derivative financial (assets)/liabilities					
Cross currency swaps: inflow	(60,154)	(153,604)	(691,315)	(499,522)	(1,404,595)
Cross currency swaps: outflow	66,767	162,967	732,355	454,480	1,416,569
Forward exchange contracts: inflow	(2,948)	–	–	–	(2,948)
Forward exchange contracts: outflow	2,770	–	–	–	2,770
Net settled derivatives					
Interest rate swaps	36,875	33,598	32,450	1,505	104,428
Group contractual cash flows	604,347	737,697	1,384,646	813,937	3,540,627

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

The cash flows for capital bonds, included in borrowings, are disclosed as payable within one year as the next election date set for the capital bonds is 15 June 2017 and the bonds have no contractual maturity date.

Policies

Vector is exposed to liquidity risk where there is a risk that the group may encounter difficulty in meeting its day to day obligations due to the timing of cash receipts and payments.

The objective is to ensure that adequate liquid assets and funding sources are available at all times to meet both short term and long term commitments. The board has set a minimum headroom requirement for committed facilities over Vector's anticipated 18 month peak borrowing requirement.

At balance date, in addition to short-term deposits, Vector has access to undrawn funds of $315.0 million (2015: $396.0 million).

22.4 Foreign exchange risk

Policies

Vector is exposed to foreign exchange risk through its borrowing activities.

Foreign exchange exposure is primarily managed through entering into derivative contracts. The board of directors requires that all foreign currency borrowings are hedged into NZD at the time of commitment to drawdown. Hence, at balance date there is no significant exposure to foreign currency risk.

22.5 Funding risk

Policies

Funding risk is the risk that Vector will have difficulty refinancing or raising new debt on comparable terms to existing facilities. The objective is to spread the concentration of risk so that if an event occurs the overall cost of funding is not unnecessarily increased. Details of borrowings are shown in Note 20.

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

23. CASH FLOWS

Reconciliation of net profit/(loss) to net cash flows from/(used in) operating activities	NOTE	2016 $000	2015 $000
Net profit/(loss) for the period		274,402	149,393
Items associated with sale of discontinued operations			
Gain on sale of discontinued operations classified as investing activities	4	(166,206)	–
Costs of sale of discontinued operations classified as operating activities	4	(6,892)	–
Items classified as investing activities			
Net loss/(gain) on disposal of PPE and software intangibles	6	4,312	5,123
Non-cash items			
Depreciation and amortisation		200,378	195,153
Non-cash portion of interest costs (net)		(1,102)	(2,952)
Fair value change on financial instruments	8	(2,344)	11,014
Associates (share of net profit/(loss))	14	(2,809)	(812)
Impairment	9	61,422	–
Increase/(decrease) in deferred tax		20,529	12,484
Increase/(decrease) in provisions	19	(4,505)	13,303
		271,569	228,190
Cash items not impacting net profit/(loss)			
Payments of amounts in provisions		(13,331)	–
Dividend received from associate	14	1,500	400
Changes in assets and liabilities			
Trade and other payables		24,564	20,196
Inventories		845	(780)
Trade and other receivables		(25,109)	(22,191)
Income tax		(13,600)	(11,139)
		(13,300)	(13,914)
Net cash flows from/(used in) operating activities		352,054	369,192

24. EQUITY

24.1 Transactions with owners

Dividends

Vector's final dividend for the year ended 30 June 2015 of 8.00 cents per share was paid on 21 September 2015, with a supplementary dividend of $0.5 million (equating to 1.41 cents per non-resident share).

The interim dividend for the current year of 7.75 cents per share was paid on 14 April 2016, with a supplementary dividend of $0.4 million (equating to 1.37 cents per non-resident share).

Both dividends gave rise to foreign investor tax credits equal to the amount of supplementary dividend paid.

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

Shares

The total number of authorised and issued shares is 1,000,000,000 (2015: 1,000,000,000).

All ordinary issued shares are fully paid, have no par value and carry equal voting rights and equal rights to a surplus on winding up of the parent.

At balance date 4,340,052 shares (2015: 4,371,524) are held as treasury shares of which 95,129 (2015: 126,601) are allocated to the employee share purchase scheme.

24. EQUITY (CONTINUED)

24.2 Capital Management

Policies

Vector's objectives in managing capital are:

- To safeguard the ability of entities within the group to continue as a going concern;
- To provide an adequate return to shareholders by pricing products and services commensurate with the level of risk; and
- Maintain an investment grade credit rating.

Vector manages and may adjust its capital structure in light of changes in economic conditions and for the risk characteristics of the underlying assets. To achieve this Vector may:

- Adjust its dividend policy;
- Return capital to shareholders;
- Issue new shares; or
- Sell assets to reduce debt.

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

24.3 Financial ratios

Earnings per share	2016 $000 12 MONTHS	2015 $000 12 MONTHS
Net profit from continuing operations attributable to owners of the parent	55,999	85,054
Net profit from discontinued operations attributable to owners of the parent	215,494	61,054
Net profit attributable to owners of the parent	271,493	146,108
Weighted average ordinary shares outstanding during the period (number of shares)	995,642,121	995,629,796
Earnings per share from continuing operations	5.6 cents	8.5 cents
Earnings per share from discontinued operations	21.6 cents	6.1 cents
Total earnings per share	27.2 cents	14.6 cents

Net tangible assets per share	2016 $000	2015 $000
Net assets attributable to owners of the parent	2,381,988	2,282,810
Less total intangible assets	(1,280,375)	(1,642,783)
Total net tangible assets	1,101,613	640,027
Ordinary shares outstanding (number of shares)	995,659,948	995,628,476
	110.6 cents	64.3 cents

24.3 Financial ratios (continued)

Economic net debt to economic net debt plus adjusted equity ratio ("gearing ratio")	2016 $000	2015 $000
Face value of borrowings	2,254,279	2,753,279
Less cash and cash equivalents	(321,371)	(8,222)
Economic net debt	1,932,908	2,745,057
Total equity	2,398,335	2,298,632
Adjusted for hedge reserves	89,278	73,593
Adjusted equity	2,487,613	2,372,225
Economic net debt plus adjusted equity	4,420,521	5,117,282
	43.7%	53.6%

All the above ratios are impacted by the sale of shares in Vector Gas.

24.4 Reserves

Hedge reserves

Hedge reserves comprise the cash flow hedge reserve and cost of hedging.

The cash flow hedge reserve records the effective portion of changes in the fair value of interest rate swaps that are designated as cash flow hedges.

The gain or loss relating to the ineffective portion is recorded in profit or loss within interest costs (net).

During the year, $50.2 million (2015: $51.2 million) was transferred from the cash flow hedge reserve to interest expense.

Cost of hedging records the change in the fair value of the cost to convert foreign currency into New Zealand dollars as required under NZ IFRS 9 (2013).

Other reserves

Other reserves comprise:

- A share-based payment reserve relating to the employee share purchase scheme. When shares are vested to the employee, the related reserve is offset with a reduction in treasury shares.
- A foreign currency translation reserve to record exchange differences arising from the translation of the group's foreign subsidiaries.
- A reserve recording the group's share of its associates other comprehensive income.

25. RELATED PARTY TRANSACTIONS

	2016 $000	2015 $000
Transactions with Entrust		
Dividends paid	118,283	114,528
Rental income received	15	15
Telecommunication services	3	–
Transactions with associates and joint operations		
Purchases of electricity and steam from Kapuni Energy Joint Venture (KEJV)	9,070	12,819
Purchase of vegetation management services from Tree Scape Limited	5,655	3,702
Capital distribution received from Total Metering 2012 Limited (in liquidation)	–	7
Sale of gas to KEJV	8,987	11,788
Sales of operations and maintenance services to KEJV	2,081	1,602
Administration and other services provided to KEJV	87	71
Dividends received from Tree Scape Limited	1,500	400
Electricity services provided to NZ Windfarms Limited	120	120
Directors' fees from NZ Windfarms Limited	30	30
Directors' fees from Tree Scape Limited	94	94
Transactions with key management personnel		
Salary and other short-term employee benefits	4,795	5,495
Directors' fees	1,003	1,001
Redundancy and termination benefits	–	250

Related parties

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

Other

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

Other receivables

	2016 $000	2015 $000
Entrust	–	1
NZ Windfarms Limited	3	12
Tree Scape Limited	–	7
KEJV	141	212

26. CONTINGENT LIABILITIES

Disclosures	The directors are aware of claims that have been made against entities of the group and, where appropriate, have recognised provisions for these within Note 19 of these financial statements. No material contingent liabilities have been identified.

27. BUSINESS COMBINATIONS

Metering acquisition	In the prior year, Vector Limited purchased Arc Innovations Limited, the electricity metering subsidiary of Meridian Energy Limited for $19.9 million. The fair value of assets and liabilities acquired are unchanged from those reported in Vector's Annual Report for the year ended 30 June 2015.

28. EVENTS AFTER BALANCE DATE

Approval	The financial statements were approved by the board of directors on 23 August 2016.
Final dividend	On 23 August 2016, the board declared a final dividend for the year ended 30 June 2016 of 8.00 cents per share. No adjustment is required to these financial statements in respect of this event.
Tunnel tax dispute	On 12 August 2016 the Court of Appeal released their judgment in respect of a tax dispute between Vector and the Inland Revenue Department. The dispute related to the tax treatment of monies received from Transpower for various rights including access to Vector's tunnel from Penrose to Hobson and the transmission corridor on the North Shore. The Court found in favour of Vector. Through the course of the dispute, Vector had taken a prudent approach and paid taxes in relation to the underlying transaction. As a result of the judgment, Vector will recognise a $15m tax benefit in the financial year ended 30 June 2017.

INTERESTS REGISTER

Each company in the group is required to maintain an interests register in which the particulars of certain transactions and matters involving the directors must be recorded. The interests registers for Vector Limited and its subsidiaries are available for inspection at their registered offices.

Particulars of entries in the interests registers made during the year ended 30 June 2016 are set out in this Statutory Information section.

INFORMATION USED BY DIRECTORS

During the financial year there were no notices from directors of Vector Limited, or any subsidiary, requesting to use information received in their capacity as a director which would not otherwise have been available to them.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

As permitted by the constitution and the Companies Act 1993, Vector Limited has indemnified its directors, and those directors who are directors of subsidiaries against potential liabilities and costs they may incur for acts or omissions in their capacity as directors. In addition, Vector Limited has indemnified certain senior employees against potential liabilities and costs they may incur for acts or omissions in their capacity as employees of Vector Limited, or directors of Vector subsidiaries.

During the financial year, Vector Limited paid insurance premiums in respect of directors and certain senior employees' liability insurance which covers risks normally covered by such policies arising out of acts or omissions of directors and employees in their capacity as such. Insurance is not provided for criminal liability or liability or costs in respect of which an indemnity is prohibited by law.

DONATIONS

Vector Limited made donations of $130 during the year ended 30 June 2016. No other members of the group made a donation during that period.

CREDIT RATING

At 30 June 2016 Vector Limited had a Standard & Poor's credit rating of BBB/stable, and a Moody's credit rating of Baa1/stable.

NON STANDARD DESIGNATION

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

EXERCISE OF NZX POWERS

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

TRUSTEES OF ENTRUST

During the year ended 30 June 2016, Vector Limited made payments to J Carmichael and K Sherry, trustees of Entrust (Vector Limited's majority shareholder) totalling $201,300 in respect of their roles as directors on the Vector Limited Board.

SUBSIDIARIES AND ASSOCIATES

A list of each of the Company's subsidiaries and associates is contained on page 87. Other than Vector Gas Limited, which was sold on 20 April 2016, the Company has not gained or lost control of any entity during the year ended 30 June 2016.

DIRECTORS

The following directors of Vector Limited and current group companies held office as at 30 June 2016 or resigned (R) as a director during the year ended 30 June 2016. Directors marked (A) were appointed during the year.

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

All of the above directors in office at 30 June 2016 are independent directors, except for J Carmichael and K Sherry who are trustees of Entrust (Vector Limited's majority shareholder).

Subsidiaries	Directors
Advanced Metering Assets Limited	P Bird, J Carmichael, H Fletcher, J Mason, A Paterson, K Sherry, M Stiassny, R Thomson
Advanced Metering Services Limited	P Bird, J Carmichael, H Fletcher, J Mason, A Paterson, K Sherry, M Stiassny, R Thomson
Arc Innovations Limited	P Bird, J Carmichael, H Fletcher, J Mason, A Paterson, K Sherry, M Stiassny, R Thomson
Auckland Generation Limited	S Mackenzie, D Molloy
Liquigas Limited	T Barstead, B Boswell (R), J Floyd, A Gilbert, I Lindsay, D Molloy, T Palmer, J Seymour, R Sharp, A Smith, D Thomas, C Thompson
MEL Network Limited	S Mackenzie, D Molloy
Mercury Geotherm Limited	D Molloy
NGC Limited	S Mackenzie, D Molloy
NGC Holdings Limited	P Bird, J Carmichael, H Fletcher, J Mason, A Paterson, K Sherry, M Stiassny, R Thomson
On Gas Limited	P Bird, J Carmichael, H Fletcher, J Mason, A Paterson, K Sherry, M Stiassny, R Thomson
Poihipi Land Limited	D Molloy
UnitedNetworks Limited	S Mackenzie, D Molloy
Vector Advanced Metering Assets (Australia) Limited	P Bird, J Carmichael, H Fletcher, J Mason, A Paterson, K Sherry, M Stiassny, R Thomson
Vector Advanced Metering Services (Australia) Pty Limited	S Mackenzie, I McClelland
Vector Communications Limited	P Bird, J Carmichael, H Fletcher, J Mason, A Paterson, K Sherry, M Stiassny, R Thomson
Vector Contracting Services Limited	P Bird, J Carmichael, H Fletcher, J Mason, A Paterson, K Sherry, M Stiassny, R Thomson
Vector ESPS Trustee Limited	S Mackenzie, D Molloy
Vector Gas Trading Limited	P Bird, J Carmichael, H Fletcher, J Mason, A Paterson, K Sherry, M Stiassny, R Thomson
Vector Gas Investments Limited	S Mackenzie, D Molloy
Vector Kapuni Limited	S Mackenzie, D Molloy
Vector Management Services Limited	S Mackenzie, D Molloy
Vector Metering Data Services Limited	P Bird, J Carmichael, H Fletcher, J Mason, A Paterson, K Sherry, M Stiassny, R Thomson
Vector Solar Limited	D Molloy

Associates	Directors
NZ Windfarms Limited	V Buck (R), J Elder (R), S Mackenzie, M Stiassny (R), D Walker (R), S Bauld (A), R Kerr-Newell (A)
Tree Scape Limited	A Botha, E Chignell, S Mackenzie, D Molloy, P Smithies, B Whiddett

DIRECTORS (CONTINUED)

Directors' remuneration and value of other benefits received from Vector Limited and current group companies for the year ended 30 June 2016:

Directors of Vector Limited	Paid by parent $	Paid by subsidiaries $
P Bird	100,650	–
J Carmichael	100,650	–
H Fletcher	100,650	–
J Mason	100,650	–
A Paterson	100,650	–
K Sherry	100,650	–
M Stiassny	201,300	–
R Thomson	100,650	–
	905,850	**–**

Directors of subsidiaries	Paid by parent $	Paid by subsidiaries $
T Barstead	–	5,000
J Floyd	–	5,000*
A Gilbert	–	5,000
I Lindsay	–	44,208
I McClelland	–	5,566
D Molloy	–	5,000*
J Seymour	–	5,000
R Sharp	–	5,000*
A Smith	–	5,000
D Thomas	–	7,500*
C Thompson	–	5,000
	–	**97,274**

*Directors' fees relating to any Vector employee are paid to the company.

DIRECTORS OF VECTOR LIMITED

Entries in the interests register of Vector Limited during the year to 30 June 2016 that are not set out elsewhere in this annual report:

Director	Entity	Position
P Bird	InfraCo Asia Investments Pte Limited	Non-Executive Director
	Green Africa Power LLP	Board Member
	Meitner Pte Limited	Managing Director and Owner
	Rothschild Singapore Limited	Non-Executive Director
J Carmichael	Aku Investments Limited	Director
	Entrust	Trustee
	Energy Trusts of New Zealand	Executive member
	Projectmax Limited	Director
	UniServices	Advisor
H Fletcher	Arrow Wrights Limited	Director
	Dilworth Trust	Trustee
	E.T. & B.H. Fletcher Trust	Trustee
	Fletcher Brothers Limited	Director and shareholder
	Fletcher Building Limited	Shareholder
	Gravida National Centre for Growth and Development	Member of advisory board
	Harper Pass Limited	Chairman and Shareholder
	IAG (NZ) Holdings Limited	Non-executive chairman
	IAG Finance (New Zealand) Limited	Director
	IAG New Zealand Limited	Director
	Insurance Australia Group Limited	Non-executive director
	J.M.C. Fletcher Family Trust	Trustee
	Knox Investment Partners Fund IV	Member of the advisory committee
	Roderick Fletcher Trust	Trustee
	Rubicon Limited	Non-executive director and shareholder
	S.S., E.T. & B.H. Fletcher Trust	Trustee
	The Fletcher Trust	Trustee
	The New Zealand Portrait Gallery	Trustee
	The University of Auckland Foundation	Trustee
J Mason	Air New Zealand Limited	Director
	Auckland International Airport Limited	Shareholder
	Beloit College, Wisconsin, USA	Trustee
	Compac Holdings Limited	Director
	Exxon Mobil	Shareholder
	Meridian Energy Limited	Shareholder (Trumbull Trust)
	Mighty River Power Limited	Shareholder (Trumbull Trust)
	New Zealand Asset Management	Director
	Ryman Healthcare Limited	Shareholder
	Trumbull Trust	Trustee
	University of Auckland	Trustee and Adjunct Professor of Management
	Westpac New Zealand Limited	Director
	Zespri Group Limited	Director

DIRECTORS OF VECTOR LIMITED (CONTINUED)

Entries in the interests register of Vector Limited up to 30 June 2016 that are not set out elsewhere in this annual report (continued):

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

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

DIRECTORS OF SUBSIDIARIES

Entries in the interests register of subsidiaries up to 30 June 2016 that are not set out elsewhere in this annual report:

None

EMPLOYEES

The number of current employees of the company and the group receiving remuneration and benefits above $100,000 in the year ended 30 June 2016 are set out in the table below:

Current employees	Group	Company
$100,001 – $110,000	63	58
$110,001 – $120,000	50	46
$120,001 – $130,000	51	39
$130,001 – $140,000	40	36
$140,001 – $150,000	18	17
$150,001 – $160,000	28	27
$160,001 – $170,000	11	9
$170,001 – $180,000	11	11
$180,001 – $190,000	11	11
$190,001 – $200,000	11	11
$200,001 – $210,000	10	10
$210,001 – $220,000	9	8
$220,001 – $230,000	2	2
$230,001 – $240,000	4	2
$240,001 – $250,000	1	1
$260,001 – $270,000	1	1
$270,001 – $280,000	2	2
$280,001 – $290,000	4	4
$290,001 – $300,000	1	1
$300,001 – $310,000	3	3
$310,001 – $320,000	2	2
$320,001 – $330,000	2	2
$330,001 – $340,000	1	1
$340,001 – $350,000	2	2
$360,001 – $370,000	1	1
$380,001 – $390,000	1	1
$390,001 – $400,000	1	1
$420,001 – $430,000	1	1
$490,001 – $500,000	1	1
$530,001 – $540,000	1	1
$540,001 – $550,000	1	1
$600,001 – $610,000	1	1
$640,001 – $650,000	1	1
$690,001 – $700,000	1	1
$790,001 – $800,000	1	1
$1,560,001 – $1,570,000	1	1

EMPLOYEES (CONTINUED)

The number of former employees of the company and the group receiving remuneration and benefits above $100,000 in the year ended 30 June 2016 are set out in the table below:

Former employees (including any termination payments)	Group	Company
$100,001 – $110,000	24	24
$110,001 – $120,000	13	12
$120,001 – $130,000	9	9
$130,001 – $140,000	6	5
$140,001 – $150,000	2	2
$150,001 – $160,000	2	2
$160,001 – $170,000	5	5
$170,001 – $180,000	3	3
$180,001 – $190,000	3	3
$190,001 – $200,000	3	2
$220,001 – $230,000	1	1
$260,001 – $270,000	1	1
$290,001 – $300,000	1	1
$300,001 – $310,000	1	1

No employee of the group appointed as a director of a subsidiary or associate company receives or retains any remuneration or benefits as a director. The remuneration and benefits of such employees, received as employees, are included in the relevant bandings disclosed above, where the annual remuneration and benefits exceed $100,000.

BONDHOLDER STATISTICS

NZDX debt securities distribution as at 30 June 2016:

7.00% CAPITAL BONDS

Range	Number of bondholders	Percentage of bondholders	Number of securities held	Percentage of securities held
5,000 – 9,999	841	18.61%	4,507,667	1.47%
10,000 – 49,999	2,801	61.97%	56,404,700	18.36%
50,000 – 99,999	544	12.03%	31,364,000	10.21%
100,000 – 499,999	298	6.59%	43,331,000	14.10%
500,000 – 999,999	12	0.27%	6,359,000	2.07%
1,000,000 plus	24	0.53%	165,238,633	53.79%
	4,520	**100.00%**	**307,205,000**	**100.00%**

Of these capital bonds, 44,553,666 are held by Vector Limited.

The following current directors of the parent are holders (either beneficially or non-beneficially) of Vector Limited capital bonds as at 30 June 2016:

Director	Number of bonds
M Stiassny	150,000
H Fletcher (as a trustee of The Roderick Fletcher Trust)	50,000
H Fletcher (as a trustee of The Fletcher Trust)	250,000

SHAREHOLDER STATISTICS

Twenty largest registered shareholders as at 30 June 2016:

Shareholder	Ordinary shares held	Percentage of ordinary shares held
Entrust	751,000,000	75.10%
New Zealand Central Securities Depository Limited*	58,648,967	5.86%
Custodial Services Limited <A/C 3>	14,408,224	1.44%
Investment Custodial Services Limited <A/C C>	8,491,247	0.85%
Custodial Services Limited <A/C 2>	6,586,424	0.66%
Custodial Services Limited <A/C 4>	4,810,718	0.48%
Forsyth Barr Custodians Limited <1-Custody>	4,324,394	0.43%
Vector Limited	4,244,923	0.42%
Custodial Services Limited <A/C 18>	3,994,715	0.40%
FNZ Custodians Limited	2,215,415	0.22%
Custodial Services Limited <A/C 1>	2,146,140	0.21%
Custodial Services Limited <A/C 16>	1,626,327	0.16%
Investment Custodial Services Limited <A/C R>	1,203,102	0.12%
New Zealand Depository Nominee Limited <A/C 1 Cash Account>	956,470	0.10%
NZPT Custodians (Grosvenor) Limited	759,699	0.08%
M A Janssen Ltd	619,200	0.06%
Custodial Services Limited <A/C 6>	596,708	0.06%
Anthony Ian Gibbs & Valerie Jane Gibbs & Joseph Michael Windmeyer <Ruby Cove Legacy A/C>	552,460	0.06%
Kershaw Investments Limited	475,000	0.05%
Croxen Investments Limited	431,624	0.04%
	868,091,757	**86.80%**

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

As at 30 June 2016, the 10 largest shareholdings in Vector Limited held through NZCSD were:

Shareholder	Ordinary shares held	Percentage of ordinary shares held
Citibank Nominees (New Zealand) Limited	14,341,917	1.43%
Accident Compensation Corporation	12,368,294	1.24%
HSBC Nominees (New Zealand) Limited <A/C State Street>	9,001,463	0.90%
National Nominees New Zealand Limited	7,088,363	0.71%
HSBC Nominees (New Zealand) Limited	4,497,107	0.45%
ANZ Custodial Services New Zealand Limited	4,200,853	0.42%
JP Morgan Chase Bank NA <NZ Branch-Segregated Clients Acct>	3,250,794	0.33%
BNP Paribas Nominees (NZ) Limited	1,777,931	0.18%
BNP Paribas Nominees (NZ) Limited	1,228,268	0.12%
Public Trust RIF Nominees Limited	451,247	0.05%

Substantial product holders as at 30 June 2016:

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

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

SHAREHOLDER STATISTICS (CONTINUED)

As at 30 June 2016, voting products issued by Vector Limited totalled 1,000,000,000 ordinary shares. Of these shares 4,244,923 are held by Vector Limited with the rights and obligations attaching to those shares being suspended pursuant to the provisions of section 67B of the Companies Act 1993.

Ordinary shares distribution as at 30 June 2016:

Range	Number of shareholders	Percentage of shareholders	Number of shares held	Percentage of shares held
1 – 499	6,693	19.93%	2,104,305	0.21%
500 – 999	3,438	10.24%	2,689,510	0.27%
1,000 – 4,999	17,380	51.75%	31,770,952	3.18%
5,000 – 9,999	2,946	8.77%	19,764,816	1.98%
10,000 – 49,999	2,831	8.43%	50,032,861	5.00%
50,000 – 99,999	194	0.58%	12,433,622	1.24%
100,000 plus	101	0.30%	881,203,934	88.12%
	33,583	**100.00%**	**1,000,000,000**	**100.00%**

Analysis of shareholders as at 30 June 2016:

Shareholder type	Number of shareholders	Percentage of shareholders	Number of shares held	Percentage of shares held
Entrust	1	0.00%	751,000,000	75.10%
Companies	1,007	3.00%	8,568,703	0.86%
Individual Holders	20,992	62.51%	60,408,594	6.04%
Joint	10,006	29.79%	46,594,075	4.66%
Nominee Companies	832	2.48%	124,208,984	12.42%
Vector Limited	1	0.00%	4,244,923	0.42%
Other	744	2.22%	4,974,721	0.50%
	33,583	**100.00%**	**1,000,000,000**	**100.00%**

The following current directors of the parent are holders (either beneficially or non-beneficially) of Vector Limited ordinary shares as at 30 June 2016:

Director	Number of shares 30 June 2016
P Bird	20,000
J Carmichael	1,322
H Fletcher (held by Fletcher Brothers Limited)	100,344
H Fletcher (as a trustee of The Fletcher Trust)	67,000
H Fletcher (held by Arrow Wrights Limited)	40,000
J Mason (as a trustee of the Trumbull Trust)	18,500
K Sherry	840
M Stiassny	64,471
R Thomson	45,000

Michael Buczkowski, James Carmichael, William Cairns, Paul Hutchison and Karen Sherry are the registered holders of the 751,000,000 ordinary shares held by Entrust. James Carmichael and Karen Sherry are directors of Vector Limited.

The following disclosures are made pursuant to section 148 of the Companies Act 1993, in relation to dealings during the year ended 30 June 2016 by directors of Vector Limited in the ordinary shares of Vector Limited.

There were no acquisitions or disposals of relevant interests.

FINANCIAL CALENDAR

2016	
Final dividend paid	15 September
Annual meeting	29 September

2017	
First quarter operational statistics	October
Second quarter operational statistics	January
Half year result and report	February
Interim dividend*	April
Third quarter operational statistics	April
Fourth quarter operational statistics	July
Full year result and annual report	August
Final dividend*	September

*Dividends are subject to board determination.

INVESTOR INFORMATION

Ordinary shares in Vector Limited are listed and quoted on the New Zealand Stock Market (NZSX) under the company code VCT. Vector also has capital bonds listed and quoted on the New Zealand Debt Market (NZDX). Current information about Vector's trading performance for its shares and bonds can be obtained on the NZX website at **www.nzx.com**. Further information about Vector is available on our website **www.vector.co.nz**.

DIRECTORY

REGISTERED OFFICE

Vector Limited
101 Carlton Gore Road
Newmarket
Auckland 1023

New Zealand
Telephone 64-9-978 7788
Facsimile 64-9-978 7799
www.vector.co.nz

POSTAL ADDRESS

PO Box 99882
Newmarket
Auckland 1149
New Zealand

INVESTOR ENQUIRIES

Telephone 64-9-213 5179
Email: investor@vector.co.nz

This Annual Report is dated 23 August 2016 and signed on behalf of the board by:

Michael Stiassny
Chairman

Jonathan Mason
Director

Year ended 30 June ($ million)	2016	2015
PROFIT OR LOSS		
Continuing Operations:		
Revenue	1,144.6	1,153.4
Operating expenses	(621.8)	(658.7)
Third party contributions	(49.8)	(42.8)
Adjusted EBITDA	473.0	451.9
Depreciation & amortisation	(194.6)	(179.0)
Adjusted EBIT	278.4	272.9
Fair value change on financial instruments	2.4	(11.0)
Interest costs (net)	(168.8)	(180.8)
Associates (share of net profit)	2.8	0.8
Impairment	(61.4)	–
Third party contributions	49.8	42.8
Profit before income tax	103.2	124.7
Tax expense	(44.3)	(36.4)
Net profit from continuing operations	58.9	88.3
Net profit from discontinued operations (net of tax)	215.5	61.1
Net profit	274.4	149.4
Net profit attributable to non-controlling interests	(2.9)	(3.3)
Net profit attributable to owners of the parent – discontinued operations	(215.5)	(61.1)
Net profit attributable to owners of the parent – continuing operations	56.0	85.0
ASSETS		
Current assets	553.6	232.1
Intangible assets	1,280.4	1,642.8
Property, plant & equipment	3,670.2	4,129.9
Other non-current assets	98.8	118.2
	5,603.0	6,123.0
EQUITY AND LIABILITIES		
Other current liabilities	271.1	280.6
Total borrowings	2,256.9	2,835.6
Deferred tax liability	457.2	562.4
Other non-current liabilities	219.5	145.8
Equity	2,398.3	2,298.6
	5,603.0	6,123.0
CASH FLOW		
Net cash flow from operating activities	352.1	369.2
Dividends paid[1]	(159.2)	(155.4)
Capital expenditure payments	(340.1)	(311.8)
Cash outflow before external funding & investments	(147.2)	(98.0)
Net borrowings drawn down/(repaid)	(499.0)	120.0
Other financing activities	(0.1)	(1.7)
Business acquisitions	–	(19.9)
Proceeds from sale of discontinued operations	960.0	–
Other investing activities	(0.6)	(0.5)
Increase/(decrease) in cash	313.1	(0.1)

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

www.vector.co.nz