VECTOR ANNUAL REPORT 2014

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Welcome to our 2014 Annual Report

Vector is focused on meeting the energy needs of more than 700,000 customers across the country. We keep the lights on, the gas flowing and provide many other essential services crucial to New Zealand's economic success.

Our electricity networks span the Auckland region and we distribute natural gas to more than 40 towns and cities in the North Island. Our LPG business has depots spread from Invercargill in the south to Whangarei in the far north.

While we are New Zealand's largest distributor of electricity and gas, we also own more than one million meters and we are leading a revolution in infrastructure management technology. Nearly 40% of our revenue is generated by related technology products and services and our gas intermediary operations. We are committed to continued strong growth while striving to service our customers better and streamline our systems and processes.

We provide vital services to consumers safely, efficiently and reliably. Employing 850 staff and over 1,000 contractors, we are one of the largest New Zealand companies on the NZX and we deliver consistent returns to shareholders. Being majority owned by the Auckland Energy Consumer Trust, we act with consumers' interests in mind. We return more than $100 million annually to income beneficiaries of the Trust.

We are proudly New Zealand owned, firm advocates for an effective infrastructure sector and are committed to being the country's best infrastructure company.

INFORMATION FOR OUR CUSTOMERS

Who owns Vector? Vector is majority owned by the Auckland Energy Consumer Trust. Our shares are publicly traded on the NZX under the ticker code VCT.

What proportion of my electricity bill goes to Vector? Across Vector's electricity networks, residential distribution charges are approximately 27% of a residential consumer bill (based on 8000kWh per year).

How does Vector fix faults? At present, if there is a problem with your electricity supply, and you live on the North Shore, Waitakere or Rodney you call your electricity retailer and it contacts Vector. If you live south of the Auckland Harbour Bridge, in the old Auckland City District, Manukau or Papakura, you call 0508 VECTOR (0508 832 867). Soon, we will move to one faults number for the whole region.

You can also use our smartphone outage app, the web or our Twitter feed to find out the status of an outage.

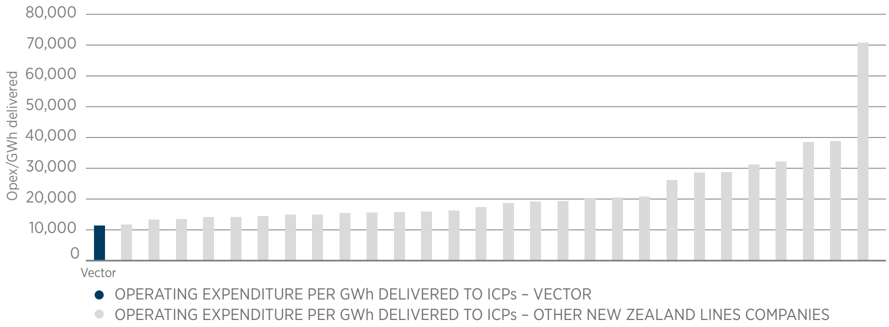
Our customer contact centre for the electricity and gas networks is based in Auckland and staffed by a team familiar with our business. The call centre for OnGas is based in Hamilton.

For more information, visit: www.vector.co.nz/outages.

How is Vector looking after its customers? We continue to make changes across our business to respond to customer needs. We advocate for better regulatory outcomes and we embrace new technology to give our customers greater choice. We also post information about upgrades and outages on our website, our smartphone app and via social media. We are always working to improve our customer service and our response to customers across all of our businesses.

Is Vector delivering electricity line services to customers efficiently? Vector remains among the lowest-cost energy infrastructure providers in the country. On our electricity networks, for instance, our operating expenditure per GWh of energy delivered to an installation control point (ICP) is the lowest of all the country's electricity lines businesses. Meanwhile, our average operating expenditure per ICP is the second lowest.

New Zealand 2013 electricity distribution business operating costs



Source: PwC Electricity Line Business 2013 Information Disclosure Compendium, February 2014

Meeting customer demand

AUCKLAND ENERGY CONSUMER TRUST

The Auckland Energy Consumer Trust (AECT or Trust) is Vector's majority shareholder.

The AECT has five trustees: William Cairns (Chairman); Warren Kyd (Deputy Chairman); Michael Buczkowski; James Carmichael; and Karen Sherry. Two of the Trustees, James Carmichael and Karen Sherry, are also directors on the Vector Board.

What is the AECT? The AECT is a consumer trust. The Trust owns a 75.1% shareholding in Vector for its beneficiaries. It also pays an annual dividend to income beneficiaries, from the dividends it receives as majority shareholder of Vector.

Who chooses the AECT Trustees?
Trustees are elected every three years by the Trust's income beneficiaries. These are all customers on the Vector electricity network in the Trust district, which covers Auckland, Manukau and the northern Papakura region.

How many people are beneficiaries of the AECT? The numbers keep increasing as the population grows in the Trust district. Last year, 314,104 people, businesses and organisations received the AECT dividend. This is an increase of more than 7,100 over the past five years.

What is the lifetime of the AECT? The AECT was established in 1993 with a Trust Deed that runs for 80 years, until 2073. This means the AECT has an enduring commitment to its investment and is, therefore, able to provide strong, stable, local ownership of Vector over the long term.

AECT AUCKLAND ENERGY CONSUMER TRUST

FOR MORE INFORMATION VISIT:
www.aect.co.nz

YOUR ELECTRICITY BILL

From April this year Vector cut its electricity distribution prices by a weighted average of 2.4% and this followed on a weighted average cut of 7.6% in April 2013. Vector's electricity charges, after stripping out the effects of inflation, have fallen over recent years. Over the same period, other costs that Vector passes through to customers, including the costs of using the national grid, have increased. In short, Vector continues to deliver real value to its customers.

Domestic retail power bills are made up of three components:

1. RETAILER – This is the company that sends you your bill. This charge relates to the energy you use.

2. VECTOR – Your Auckland lines company. Regulated by the Commerce Commission, any annual price increases are limited to the Consumers Price Index.

3. PASS-THROUGH AND RECOVERABLE COSTS – Costs outside of Vector's control including transmission charges from Transpower, rates from Council, and regulatory levies from the Commerce Commission, the Electricity Authority and the Electricity and Gas Complaints Commission.

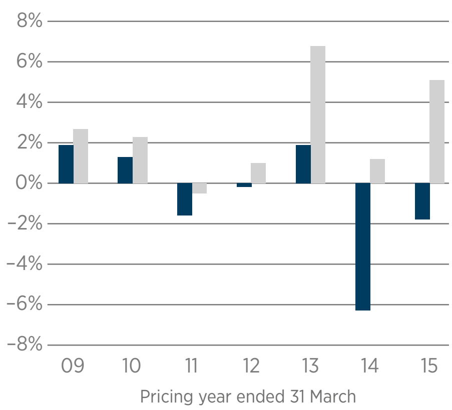
ANNUAL REPORT ACCOLADE

In recognition of Vector's commitment to providing relevant, high-quality information to stakeholders, we received a silver award in the Australasian Reporting Awards for our 2013 Annual Report. The criteria are based on world best practice in annual reporting.

NEW LOOK WEBSITE

Vector this year launched a brand-new website. It continues to grow in importance as a key channel for communication in times of emergency and as a repository of Vector's external communications with our stakeholders: www.vector.co.nz

Real contribution of distribution costs to line charge increases



● DISTRIBUTION COSTS
● PASS THROUGH AND RECOVERABLE COSTS

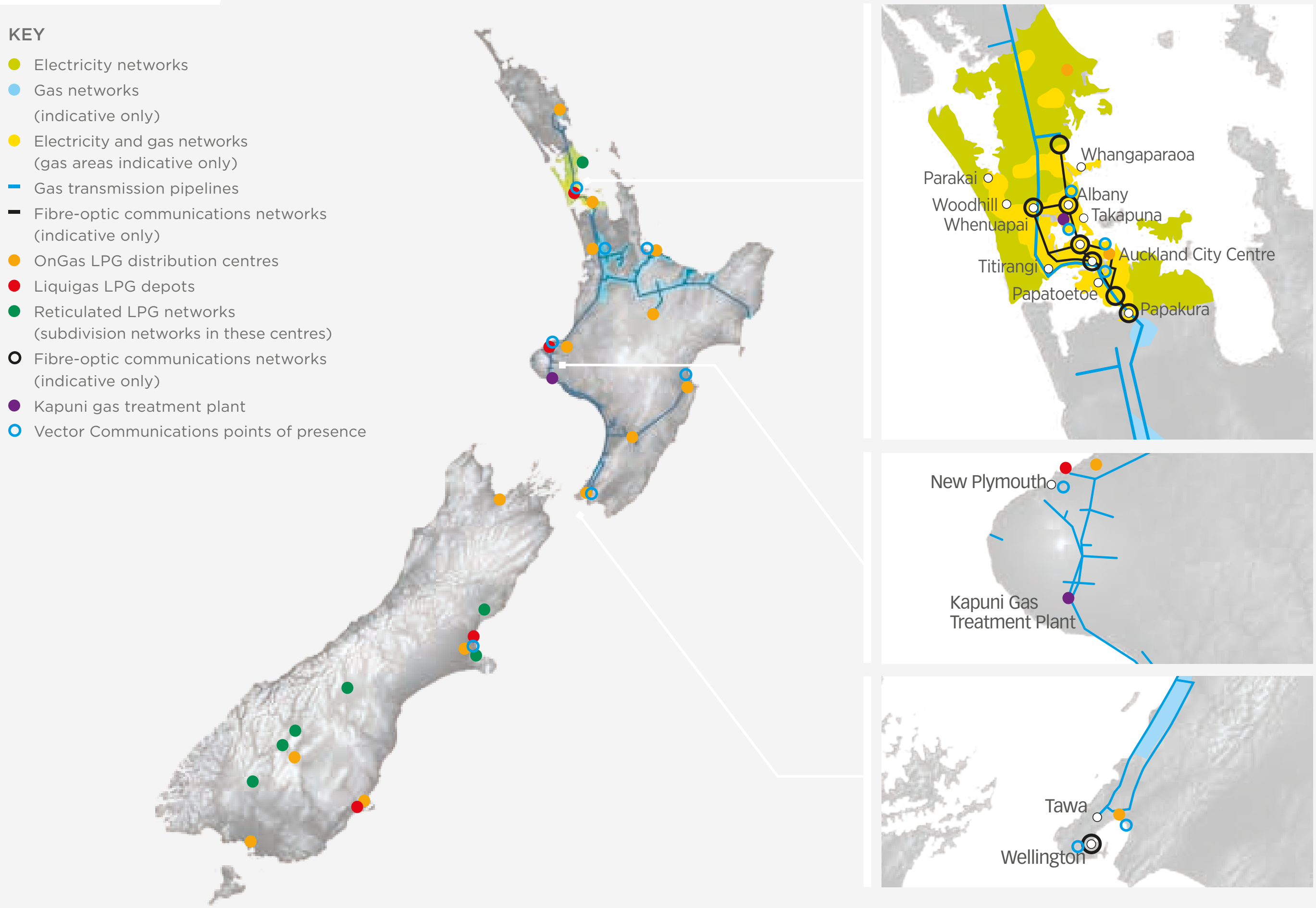
Source: Vector compliance modelling

543,953
ELECTRICITY CUSTOMERS

159,738
GAS DISTRIBUTION CUSTOMERS

893,919
ELECTRICITY METERS

WHERE WE ARE



OPERATING STATISTICS

Year ended 30 June	2014	2013
ELECTRICITY		
Customers[1,4]	543,953	539,232
Net movement in customers[2]	4,721	4,004
Volume distributed (GWh)	8,252	8,332
Networks length (km)[1]	18,021	17,865
SAIDI (minutes)[3]		
Normal operations	141.3	95.8
Extreme events	9.6	0.0
Total	150.9	95.8
GAS TRANSPORTATION		
Distribution customers[1,4]	159,738	156,952
Net movement in distribution customers[2]	2,786	2,303

Year ended 30 June	2014	2013
Distribution volume (PJ)	21.9	21.4
Transmission volume (PJ)[5]	111.3	118.2
GAS WHOLESALE		
Natural gas sales (PJ)[6]	24.5	26.5
Gas liquids sales (tonnes)[7]	71,000	71,757
Liquigas LPG tolling (tonnes)[8]	178,510	151,544
TECHNOLOGY		
Electricity: smart meters[1]	675,555	505,888
Electricity: legacy meters[1]	202,561	269,289
Electricity: prepay meters[1]	4,527	4,851
Electricity: time-of-use meters[1]	11,276	11,039
Gas meters[1]	211,741	215,948
Data management services connections[1]	8,227	8,123

1. As at 30 June **2.** The net number of customers added during the year **3.** Regulatory year 12 months to 31 March **4.** Billable ICPs **5.** Based on billable volumes **6.** Excludes gas sold as gas liquids as these sales are included within the gas liquids sales tonnages **7.** Total of retail and wholesale LPG and natural gasoline **8.** Includes product tolled in Taranaki and further tolled in the South Island

Our vision and how we achieve it

Vector's vision is to be New Zealanders' first choice for integrated infrastructure solutions to help build a better, brighter future.

Our goal is to deliver sustainable increases in dividends to our shareholders. This year we paid a total dividend of 15.25 cents a share, up a quarter of a cent on last year. This is the eighth consecutive year that the dividend has increased.

We own a portfolio of assets, managed by a team with shared values and aspirations. To achieve our vision and goal, Vector focuses on five strategic areas, which in turn drive what we do.

5

STRATEGIC AREAS OF FOCUS

01

DISCIPLINED GROWTH

Investing where we achieve the best commercial outcome for the business.

- This year, we continued to invest in our assets to improve reliability and efficiency and prepare for growth. Capital expenditure totalled $339.2 million spread across our whole portfolio.
- We continue to expand our networks across the country. In the last year we have connected 7,507 new homes and businesses to our networks.
- We have extended our gas network by 90 km and our electricity network by 156 km.
- Our advanced metering business continues to grow. We are managing a portfolio of more than 1.1 million gas and electricity meters and we are exploring opportunities in Australia.

02

CUSTOMER FOCUS

Understanding and taking into account our customers' current and future perspectives in everything we do.

- We continue to put customers at the centre of our thinking, responding to their clear messages that they want Vector to deliver value, minimise disruptions and deliver services that give them more time to pursue their busy lives.
- We have worked towards putting in place a single contract across our northern and southern electricity networks to improve service and drive efficiencies.
- We have enhanced our communication channels to customers with a revamped website and delivered improvements to our highly successful smartphone outage app.
- We have sponsored the development of a wholesale gas trading market which provides transparency and flexibility to wholesale gas customers.

03

OPERATIONAL EXCELLENCE

Looking, always, at how we can do things better. Our operational highlights for the year were:

- 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. Of the outages, 48% were planned.
- Our telecommunications network was available 99% of the time.
- Our smart meter reliability metric, based on our ability to successfully read customer meters remotely, was 99%.

04

REGULATORY OUTCOMES

Seeking a certain and fair regulatory regime that allows us to earn a return on our assets.

- We are rigorously pursuing all available avenues to create a regulatory regime that delivers value to customers and returns to our shareholders.

05

PEOPLE AND SAFETY

Employing great people and keeping them safe and healthy.

- We maintained our strong focus on injury prevention.
- Our lost time injury frequency rate has remained steady at a low level of 2.8. Our total recordable injury frequency rate has improved by 7.8% and our injury severity rate has improved by 58%.
- We launched our diversity policy supported by a number of key initiatives to assist our long-term goal of having a workforce composition that closely reflects the demographic of the New Zealand population.

The first choice for energy infrastructure

"We have met our goal... this reflects our focus on continuing to deliver services attuned to our customers, growing our portfolio of businesses and driving operational excellence."

Vector has faced a challenging year but we continue to deliver on our vision: to be New Zealand's first choice for delivering integrated energy infrastructure.

We have met our goal to continue to generate sustainable returns to our shareholders. The Board has declared fully imputed dividends for the year totalling 15.25 cents per share, up 0.25 cents on the prior year's total dividend of 15.0 cents per share.

This is the eighth consecutive year of increases, reflecting prudent management of our capital in the lead-up to regulator-imposed price reductions on our energy networks and our determination to provide investors stability through regulatory periods. It also reflects our focus on continuing to deliver services attuned to our customers, growing our portfolio of businesses and driving operational excellence.

FINANCIAL RESULTS

Continued growth in our technology business has partially offset the end of our entitlements to Kapuni gas at legacy prices and significant and well-signalled regulator-imposed price reductions on our regulated energy networks.

Our results were in line with guidance and slightly ahead of consensus. Revenue fell 1.6% from $1,279.2 million to $1,258.9 million, while adjusted EBITDA fell from $630.5 million to $580.7 million. Net profit fell 16.9% from $206.2 million to $171.3 million. The price reductions were responsible for most of these falls.

Nevertheless, as long as commercial rationality emerges in the regulation of our energy networks, Vector's energy infrastructure business is well positioned to grow over the long term, given the concentration of our assets in Auckland. We also continue to see the emergence of opportunities, particularly in our technology operations.

RESILIENT FINANCIAL PERFORMANCE

Adjusted EBITDA[1]

$580.7m

Net profit

$171.3m

BALANCE SHEET STRENGTH

Gearing: Net debt/(net debt + equity) as at 30 June 2014

51.6%

Standard & Poor's rating

BBB/ stable

TO KEEP INFORMED VISIT:
www.vector.co.nz/news

PREPARING FOR THE FUTURE

We understand and are embracing the rapid technological advances that enable customers to generate their own electricity and control their energy consumption. However, the regulatory regime is not adequately supporting the shift. Over the long-term, this could discourage investment in regulated energy networks and put at risk the security of the energy supply. The regime assumes new network investment will have an average life of more than 40 years and that cash flows should be skewed towards the end of that period as we prepare for the renewal of assets.

As a result, Vector is required to commit to significant upfront capital expenditure and accept a cash flow profile that does not reflect the risk that technological change could leave once-essential assets redundant. Meanwhile, the Commerce Commission's draft decision in July 2014 to adjust the method it uses to determine our cost of capital – and, therefore, reduce the allowable returns on our assets – gives us further cause for disquiet. The decision runs contrary to a position the Commission has held for a considerable period of time and one that has been backed up by a body of analytical work over time.

INVESTMENT FOR GROWTH

In the 2014 financial year, Vector's total capital expenditure increased 13.6% to $339.2 million from $298.6 million. Capital expenditure directed at growth was $202.6 million, with around half of this spend focused on the regulated networks to support growth in Auckland. Capital expenditure focused on maintaining the quality of our assets was $136.6 million. Nevertheless, the unattractive cash flow profile and the allowable returns on our regulated networks are making it increasingly difficult to advocate for incremental capital to be allocated to our regulated businesses, especially when we see the potential for much more appropriate commercial outcomes from our non-regulated activities.

Vector maintains a sound balance sheet. Our 30 June 2014 gearing, as measured by net debt to net debt plus equity, rose to 51.6% from 51.1% at the beginning of the year. We remain an 'investment-grade' credit risk.

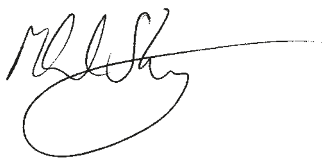
We are well positioned to deliver long term growth. We will continue to innovate to be at the forefront of change aligned with changes in customer preferences and advances in technology.

We are investing in our people and supporting diversity in our business. We have joined the 25 Percent Group of New Zealand companies, which promotes diversity in board rooms and we celebrated the fact that 25% of our directors are women. We understand diversity is about diverse thinking that provides for better governance and a better bottom line. Vector is helping to foster the next generation of directors with the appointment of Tony Arthur to the Board as part of the Future Directors scheme. Tony, head of BNZ's retail network, participates fully in Board discussions but does not have formal voting rights.

We also continue to work to ensure we operate our infrastructure assets safely while caring for the well-being of the people who live in and around them. We are committed to the proposed Health and Safety Reform Bill and to ensuring that our risk management culture and processes support organisational performance and are embedded within our business.

OUTLOOK

The coming financial year will be challenging with regulatory pricing adjustments relating to prior periods and the continued decline in per-capita consumption likely to offset the benefits of growth in Auckland. However, we are comfortable with consensus estimates for adjusted EBITDA for the 2015 financial year of $588.2 million. We have a great team committed to our core goals and we remain focused on customer solutions, the demands of our gas customers, delivering on the potential of our Technology operations and – assuming commercial rationality in the regulation of our energy networks – meeting population growth in Auckland.



MICHAEL STIASSNY
Chairman

1. In line with international best practice, Vector has replaced group 'EBITDA' with 'adjusted EBITDA' to better reflect the nature of this non-GAAP profit measure. Adjusted EBITDA reported this period remains comparable with EBITDA reported in the prior period. For a comprehensive definition and reconciliation of this measure to the GAAP measure of net profit, refer to page 38 of this report.

Customer focus driving growth

"The balance of power is shifting from utility service providers to consumers as they now have greater choice than ever before."

Understanding and taking into account customers' current and future perspectives is at the foundation of Vector's success. Without such a focus we will neither grow to our potential nor achieve our core goal of delivering sustainable increases in dividends year after year.

Our OnGas Bottle Swap business (see page 15) shows the power of the idea. In 2011, Vector recognised swapping bottles rather than asking customers to queue at the filling station was a much better way to sell LPG. It was not only more convenient, it was also safer. When Vector acquired its Bottle Swap business, it had just 380 outlets. Today, OnGas has just under 800 outlets in locations ranging from fuel retailers to building merchants and convenience stores: more than doubling its coverage in a little under three years. Sales growth, meanwhile, is showing no signs of slowing.

A PORTFOLIO OF BUSINESSES

The Bottle Swap success is not an isolated case. Vector operates New Zealand's largest smart metering operation with an installed base of 675,555 meters and has agreements to lift the total to almost 900,000 (see page 16). The meters are enabling a suite of new products, such as pre-paid electricity tariffs and new services, such as offering customers the opportunity to sell electricity back to the grid. Our smart metering business is recognised internationally for being at the forefront of change, yet 10 years ago, meters which track hourly consumption, were not available for mass-market consumers. Meanwhile, Vector Communications, in which we invested to support the electricity network, is now key to providing customers with smart energy networks and smart network solutions. Our communications network now reaches more than 10,000 Auckland business addresses.

We have similar aspirations for a number of emerging businesses within our portfolio of operations. We installed close to 200 of our award-winning SunGenie solar units across Auckland in a trial of this technology. We believe solar panels and the associated technology, such as battery storage, are maturing to the point of mass-market appeal (see page 12).

We are exploring other technological developments for the opportunities they present, including the integration of energy management technology within the home. Our Auckland customers faced significant disruptions during the severe storm in June. However, our smartphone outage app and other communication channels, such as Twitter and our new website, proved to be vital links to help customers minimise the impact.

The balance of power is shifting from utility service providers to consumers as they now have greater choice than ever before. Energy distribution technology – largely unchanged for decades – now allows customers to switch suppliers, switch energy solutions and switch from the grid. Customers are more technologically savvy and more aware of alternatives. They are looking for utility providers that are committed to the highest standards of service and those that can provide choice and do both at a low cost. Meanwhile, customers say spending on utilities is a significant area of concern and they are targeting this as an area for saving money and actively managing their energy needs.

These trends are, of course, challenging, but across our portfolio of operations, customers are appreciative of our efforts. Yashili New Zealand Dairy (see page 14) is a great example of the many industrial partners that recognise us for delivering on our commitments. Our metering, Bottle Swap and communications successes also demonstrate the efforts we are making to meet these trends and take advantage of the opportunities they present to Vector.

Our electricity and gas transportation networks are the foundations of our business, but also they will continue to be important sources of growth for Vector.

Auckland continues to grow and with it our regulated asset base. Indeed, in the last year it has driven an increase in connections to our gas and electricity distribution networks of 7,507 to 703,691. The pace of development in Auckland has picked up, reflecting favourable economic conditions, strong net migration to the region and a gradual recovery of the housing market after several years of sluggish growth in the wake of the global financial crisis (see page 18).

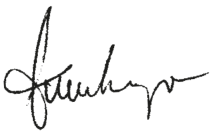
We also continue to look for acquisitions and we are looking to repeat our metering success in Australia.

OPERATIONAL EXCELLENCE

We operate our business efficiently. Vector's electricity distribution network is among the lowest cost in the country on measures such as operating expenditure per unit of electricity delivered and average operating expenditure per ICP.

We also operate our business safely while caring for the well-being of the people who live in and around our networks. We have maintained our strong focus on injury prevention. Our total recordable injury rate has shown good, consistent improvement over the past year.

Our focus across our portfolio of assets remains to deliver sustainable dividend increases to our shareholders. In our regulated businesses, we continue to seek appropriate regulatory settings and to manage our capital in line with this regime and customer needs. In our market-facing businesses, we seek to grow and maintain our gas businesses, continue to build Vector Communications' market share and deliver on the New Zealand smart meter roll-out, while exploring growth opportunities in other markets. In our emerging businesses, we will continue to aim to deliver solutions and technology aligned with customer needs.

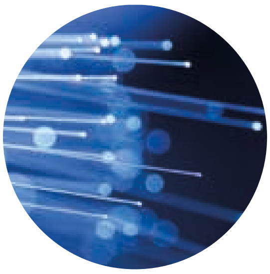


SIMON MACKENZIE
Group Chief Executive

SUN SHINES ON CUSTOMER DEMAND

VECTOR'S AWARD WINNING SOLAR PROGRAMME.
SEE PAGE 12

TECHNOLOGY DRIVING GROWTH



VECTOR'S NATIONWIDE ROLL OUT OF SMART METERS IS ONE OF NEW ZEALAND'S LARGEST DOOR-TO-DOOR INFRASTRUCTURE PROJECTS.
SEE PAGE 16

HEALTH SAFETY AND ENVIRONMENT

VECTOR SEEKS TO BE RECOGNISED AS SETTING THE STANDARD FOR HEALTH, SAFETY AND ENVIRONMENTAL LEADERSHIP FOR NEW ZEALAND BUSINESSES.
SEE PAGE 28

FINANCIAL PERFORMANCE TRENDS

YEAR ENDED 30 JUNE ($ MILLION)	2014	2013	2012	2011	2010
PROFIT OR LOSS					
Total income	1,258.9	1,279.2	1,252.2	1,238.2	1,185.8
Adjusted EBITDA	580.7	630.5	627.4	636.6	578.1
Depreciation and amortisation	(183.8)	(174.1)	(173.5)	(170.2)	(156.3)
Adjusted EBIT[1]	396.9	456.4	453.9	466.4	421.8
Net profit	171.3	206.2	201.7	203.8	199.1
Net profit attributable to:					
Non-controlling interests	2.8	2.9	2.9	2.4	5.6
Shareholders of the parent (NPAT)	168.5	203.3	198.8	201.4	193.5
BALANCE SHEET					
Total equity	2,307.8	2,258.5	2,148.3	2,112.7	2,084.2
Total assets	5,839.1	5,747.1	5,616.6	5,579.0	5,550.9
Net debt (borrowings net of cash and short-term deposits)	2,460.7	2,364.3	2,373.8	2,289.5	2,447.5
CASH FLOW					
Operating cash flow	366.6	426.2	392.3	374.6	367.5
Capital expenditure	(327.4)	(283.4)	(260.0)	(251.6)	(220.4)
Dividends paid[2]	(156.7)	(148.3)	(147.4)	(143.7)	(140.9)
KEY FINANCIAL MEASURES					
Adjusted EBITDA/total income	46.1%	49.3%	50.1%	53.3%	48.8%
Adjusted EBIT/total income	31.5%	35.7%	36.2%	39.0%	35.6%
Equity/total assets	39.5%	39.3%	38.2%	37.9%	37.5%
Return on assets (adjusted EBITDA/assets)	9.9%	11.0%	11.2%	11.4%	10.4%
Gearing (debt/(net debt + equity))	51.6%	51.1%	52.5%	52.0%	54.0%
Net interest cover (adjusted EBIT/net finance costs) (times)	2.3	2.8	2.7	2.6	2.5
Earnings (NPAT) per share (cents)[3]	16.9	20.4	20.0	20.2	19.4
Dividends declared, cents per share (fully imputed)	15.25	15.00	14.50	14.25	14.00

1. In line with international best practice, Vector has replaced group 'EBIT' with 'adjusted EBIT' to better reflect the nature of this non-GAAP profit measure. Adjusted EBIT reported this period remains comparable with EBIT reported in the prior period. For a comprehensive definition and reconciliation of this measure to the GAAP measure of net profit, refer to page 38 of this report.

2. Includes dividends paid to non-controlling interests in subsidiaries. **3.** Calculated using a weighted average number of shares due to treasury shares purchased.

Adjusted EBITDA

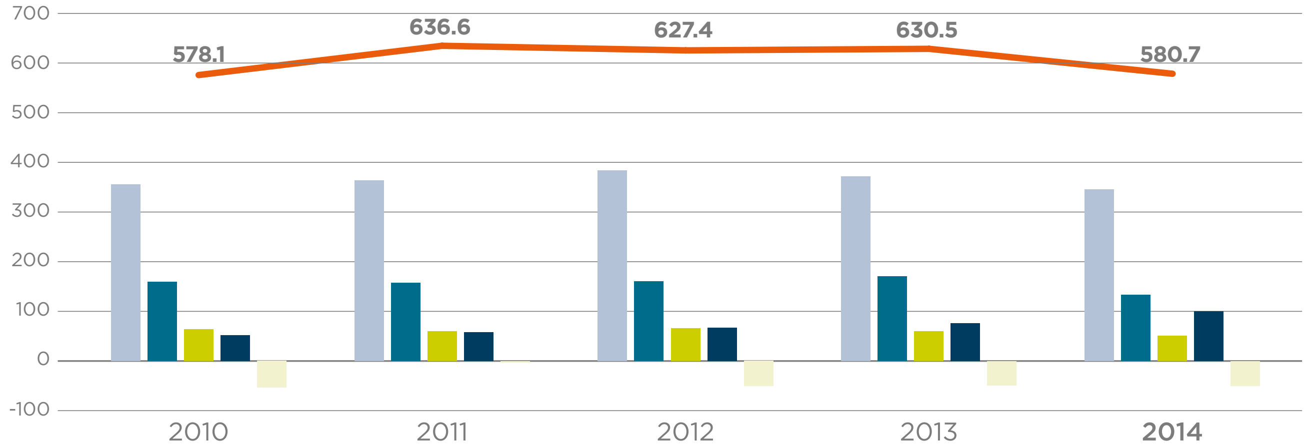
$ MILLION

FOR THE YEAR ENDED 30 JUNE

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

ADJUSTED EBITDA 2014

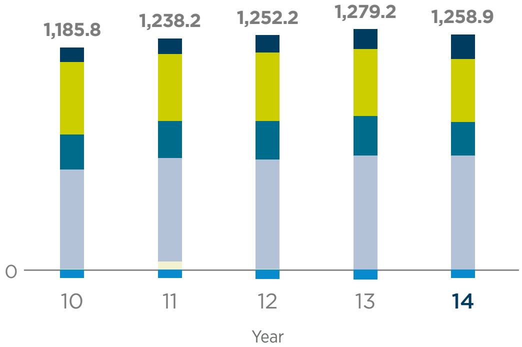
$580.7m



We successfully controlled costs and benefited from growth in our internationally recognised technology business.

Total Income

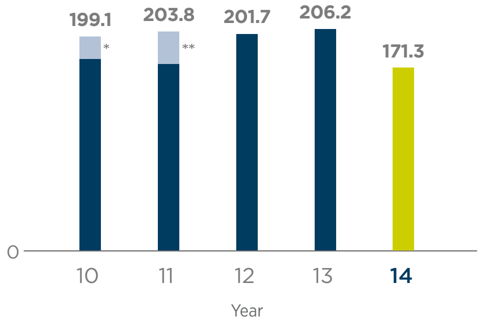
$ MILLION
FOR THE YEAR ENDED 30 JUNE



Total income decreased 1.6% from $1,279.2 million to $1,258.9 million. Our unregulated technology operation has provided considerable support to the business.

Net Profit

$ MILLION
FOR THE YEAR ENDED 30 JUNE

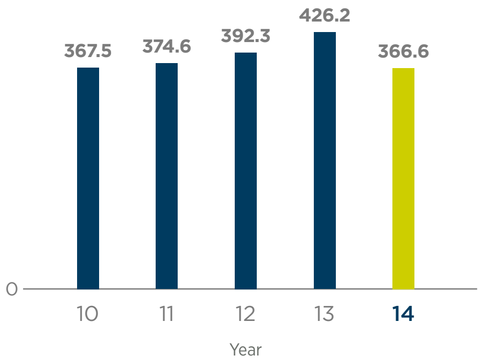


Net profit fell 16.9% from $206.2 million to $171.3 million.

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

Operating Cash Flow

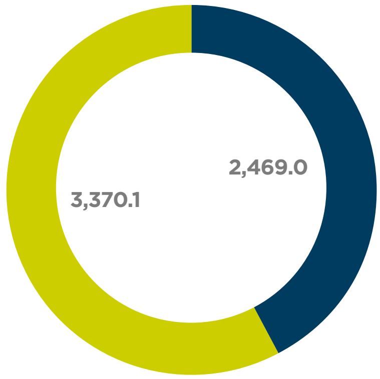
$ MILLION
FOR THE YEAR ENDED 30 JUNE



Operating cash flow fell 14.0% to $366.6 million from $426.2 million in the prior year.

Source of Funding

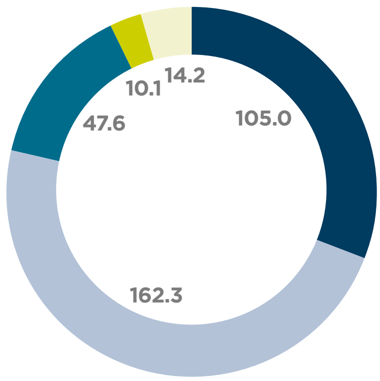
$ MILLION
AS AT 30 JUNE 2014



Vector's capital structure remains sound. We hold a Standard & Poor's BBB/stable investment-grade credit rating. Our gearing (net debt to net debt plus equity) is 51.6%.

Capital Expenditure

$ MILLION
FOR THE YEAR ENDED 30 JUNE 2014



Capital investment directed at growth and maintaining the existing critical energy infrastructure rose 13.6% to $339.2 million from $298.6 million in the prior year. Of this sum $202.6 million was for growth investments.

Sun shines on customer demand

Vector's SunGenie tuned to beer brewing.

Vector's solar technology has offered beer and technology enthusiast Rhys Williams a unique way to combine his twin passions – solar-powered beer brewing.

Mr Williams is a 47-year-old information technology specialist and one of the first people to sign up to Vector's innovative and award-winning SunGenie system. On a sunny midwinter day in June last year, he fired up his brewing equipment. The one-hour boil for his 'Wilberforce' brew uses 3 kW of electricity. But thanks to the Vector system all of the energy came from the sun.

"It tasted great and had the added benefit of coming from sustainable energy," says Mr Williams.

In the 2014 financial year Vector installed close to 200 of its solar units across Auckland in a trial of the technology.

Vector is exploring a variety of solar solutions and we will continue to evolve the programme as we learn more about customers and customers become more aware of the technology.

Mr Williams was drawn to the Vector solution because it is offered on a long-term contract rather than through a fixed upfront payment. Vector monitors, manages and maintains the system for the customer; effectively, the customer can 'set and forget'.

Mr Williams also values the smartphone app that comes with the system and reports household power consumption and shows whether supply is generated by the solar panels or drawn from the grid.

During sunny weather, Mr Williams is offsetting the monthly charges for the solar unit by exporting power back to the grid.

The solution has won the Sustainable Business Network Renewables Innovation Award and the New Zealand Innovation Council's Award for Innovation in Sustainability and Clean-tech. Judges of the Sustainable Business Network award recognised Vector for our attention to determining customers' needs to encourage the uptake of the solar solution.

Vector's solution has won the Sustainable Business Network Renewables Innovation Award.

Powering essential services

Delivering power to Middlemore Hospital – one of the country's largest teaching hospitals – is not a matter of convenience; it is a matter of life and death.

In the 2014 financial year, Vector completed an upgrade of the hospital's power supply, installing two 11kV feeder cables, both of which are capable of powering all of the hospital's operations should the other fail.

"Before the upgrade the second circuit could only deliver about half of our power demand. But we must have full redundancy," says John Black, Counties Manukau Health Engineering and Facilities Manager. "If the power fails, lives are at risk."

The project included 2.4 km of feeder cabling, a new substation, switchgear, distribution substations and ducts to future-proof the hospital's communications network. Vector has completed the work over a two year period.

The cable upgrade was an essential component of a $200-million redevelopment project, which included the construction of a new 30,000-sqm clinical services block, housing 14 operating theatres, medical assessment rooms, the hospital's neonatal intensive care unit as well as future space for laboratories and Middlemore's radiology facilities.

Mr Black said the project proceeded without a hitch and he is appreciative of the way the Vector team worked in the face of the project's significant constraints. Power to the hospital, which each year admits more than 91,000 in-patients and handles in excess of 354,000 day-patients and outpatients, had to be maintained throughout the upgrade. Special care had to be taken to ensure minimal disruption to patients, their families and the clinical staff who attended them.

"The project was completed without disruption to the site. We were able to take one cable out at a time. There was no noise or disruption at the street level. Everything went really smoothly with Vector – we had really good communication and there was great coordination," Mr Black says.

It is not a surprise. Vector delivers power to critical infrastructure across the region from hospitals to water treatment plants, fire stations and schools. It is the network that powers Auckland and helps hold the community together.

> "We must have full redundancy... if the power fails, lives are at risk."
>
> **John Black**
> Counties Manukau Health Engineering and Facilities Manager
> AUCKLAND

Meeting demand from a fast growing market

A new dairy factory on the edge of Auckland is being fuelled by Vector's gas infrastructure.

Rising out of the green fields at the end of Auckland's southern motorway is tangible evidence of China's fast-growing demand for New Zealand's dairy products and the key role Vector plays in driving New Zealand industry.

Yashili New Zealand Dairy, a subsidiary of one of China's leading infant milk formula producers, is building a $220-million, 30,000-sqm dairy factory, transforming the landscape around Pokeno. The first sod was turned in October last year, but already a modern dairy factory with its huge dry store is visible from the top of the Bombay Hills.

Despite the scale of the project, Yashili New Zealand Dairy General Manager William Zhao is relaxed. He is appreciative of all of the work on site and acknowledges Vector's commitment to delivering the project within a tight time frame.

"We are on track and on budget; I appreciate the support and input from Vector," Mr Zhao says.

The dairy plant will be fired by gas delivered through Vector's transmission pipeline. Vector has installed 7.5 km of steel distribution pipeline linking the factory to the Tuakau transmission delivery point, 9 km south of Pukekohe. We have also upgraded the transmission delivery point as part of the infrastructure project to support Yashili's growth. "Yashili and Vector cooperated; we both thought about how we could work together to achieve the same goal. This has been a real win-win for us," Mr Zhao says.

The factory is due to commence production early next year. Once fully commissioned, it will produce 52,000 tonnes of infant milk formula per year. Half of this will be canned on site at a purpose-built canning facility with the rest shipped in bulk to China to be further processed into final products. As many as 120 new jobs will be created at the plant, injecting new energy into the community.

The factory is the first stage of the development. Vector will be a key long-term partner and key supplier as the site grows in the future.

> "Yashili and Vector cooperated; we both thought about how we could work together to achieve the same goal."
>
> **William Zhao**
> General Manager
> YASHILI NEW ZEALAND DAIRY

Swapping gas bottles for time

Pre-filled BBQ bottles improve health and safety and make more time for friends.

Five years ago, Jon Heaphy found filling his 9 kg barbecue bottle a chore. On a hot Saturday afternoon, just as he was about to put the meat on the grill, he, like many Kiwis across the country, soon realised he was missing a crucial ingredient – LPG. And at the LPG filling station, he expected a queue.

A queue is what he found. The cautious attendant, decked out in protective gloves, goggles and a hi-vis vest, would carefully weigh Mr Heaphy's bottle, enter the weight into the scales, connect the gas cylinder to the pump and then, as the bottle was filling, check for leaks by spraying the neck with soap.

"On a bad day, you could lose 20 minutes of quality barbecuing time," says Mr Heaphy.

Today, that has all changed thanks to Vector. In 2011, Vector acquired a small business, Kwik-Swap, which was quickly growing by providing an alternative to the Saturday afternoon queue at the filling station.

"It is so much quicker, I save so much time doing this," says Mr Heaphy. "I also get a great-looking bottle out of the cage every time. Why wouldn't I do it?"

Pre-filled LPG bottles have become just another retail item in a long list of retail items at the petrol station. Moreover, this pre-packaged item does not require specialised equipment, nor extensive staff training or expertise to sell. Other retailers now see the benefits of stocking OnGas bottles, increasing the convenience of the offer.

When Vector acquired the business it had 380 outlets. Today OnGas has around 800 outlets in locations ranging from fuel retailers to building merchants and convenience stores.

The business has been recognised by retailers for responding to customer demands. In 2013, OnGas was nominated for an award from The New Zealand Association of Convenience Stores. Meanwhile, in 2014 oil giant BP awarded OnGas' Bottle Swap business its Supreme Supplier award for excellence in safety.

"It is so much quicker, I save so much time doing this."

Jon Heaphy
OnGas Bottle Swap customer
AUCKLAND

Meters continue to drive growth

Vector's nationwide roll-out of advanced 'smart' meters is one of New Zealand's largest door-to-door infrastructure projects and one of the company's most ambitious investment programmes.

The ten-year smart meter project is a key to providing customers with smart energy networks and smart network solutions. It has seen Vector install more than 675,000 meters. New contracts with Contact Energy and the SmartCo consortium of electricity distribution businesses will lift the number of meters contracted to Vector to 889,000, up from 764,000 last year. We installed around 170,000 smart meters during the year, an average of more than 14,000 meters per month.

The project demonstrates Vector's commitment to delivering essential energy services, which are responsive to customer demand safely, efficiently and reliably. The focus of the metering business in 2014 was on delivering to existing contracts and developing an enterprise-scale meter data management platform, enhancing our ability to service a range of meter types and communications technologies and meet new regulatory standards. Approximately 845,000 legacy meters remain across New Zealand, and it is most likely that they will be replaced with smart meters over the next three to five years.

FINANCIAL PERFORMANCE

Vector's metering business has continued to drive growth in our Technology business. Revenue increased 25.6% to $137.0 million from $109.1 million. This followed a 33.5% increase in the number of deployed smart meters and the successful integration of the gas metering business acquired in June 2013. EBITDA increased 31.1% to $100.0 million from $76.3 million.

Capital expenditure, primarily targeted at funding the meter roll-out and IT investment programme, was $105.0 million, up from $88.9 million in the previous year. A significant portion of the meters to be rolled out in 2015 will be owned and funded by SmartCo, a consortium of electricity distribution businesses.

EBITDA INCREASED

31.1%

INCREASE IN SMART METERS

33.5%

TECHNOLOGY REVENUE ROSE TO $137.0 M

25.6%

TECHNOLOGY SNAPSHOT

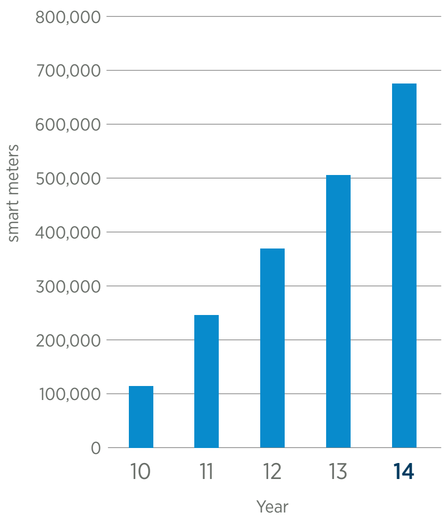
675,555

SMART METERS

14,000

AVERAGE METER INSTALLATIONS PER MONTH

ELECTRICITY SMART METERS



The ten-year smart meter project, has seen Vector install more than 675,000 meters.

NEW PRODUCTS

Vector has, this year, rolled out a suite of new products across its metering network taking advantage of the streams of data provided by the new meters and delivering real benefits to customers. Customers who have installed solar panels or other forms of home generation can now export power back to the grid thanks to technology that allows customers to track imports of power as well as exports to the grid. Meanwhile customers can now control their energy consumption with the introduction of technology that allows users to pay for specified amounts of power ahead of use.

AUSTRALIAN EXPANSION

We expect the Australian market for smart metering to develop in a similar way to the New Zealand market. The new territory represents a significant opportunity for Vector's metering services. We are holding discussions with various agencies of Australian state and federal governments and retailers as potential customers.
We are investigating the certification requirements to operate in the Australian market as a meter and data services provider.

PARTNERSHIPS

Advanced Metering Services – our smart metering business – partners with other distribution companies nationwide to deliver smart meter services. We provide SmartCo, a venture between several electricity distribution companies, with a range of services including meter data management, asset management, deployment, logistics management, integration and development services.

VECTOR COMMUNICATIONS

Vector Communications continues to expand its footprint as it gets closer to both its reseller and direct customers. Our network now reaches more than 10,000 Auckland business addresses.
Enhancements to our product and service capabilities, coupled with improved online quoting, reporting, and notification tools, have better equipped us to leverage our own and third-party telecommunications infrastructure and provide a higher level of support to our customers. Closer relationships with our customers, including the embedding of our own account managers within reseller sales teams, are ensuring we not only meet market demand, but do so at a competitive price.

Innovating to meet customer demands

Vector is deploying new tools to improve the reliability of service on our energy networks.

Vector is making use of geographic information systems and combining these with other data such as call-outs and fault reports to identify fault 'hot spots' or areas on the network that are more prone to instability.

This year, in conjunction with our service provider Northpower, we introduced a new technology that allows us to listen to the sound of electricity passing through our network to identify maintenance issues.

The traditional method of visually inspecting lines meant technicians could not pick up faults that would only be obvious from looking down on the wires. Technicians now drive slowly around the network with a specialised boom microphone and amplifier listening for the distinct pops and clicks different from the usual faint purr that characterise healthy power lines. The result: more effective maintenance and less downtime.

FINANCIAL PERFORMANCE

Benign winter temperatures contributed to an overall 1.0% decline in consumption to 8,252 GWh from 8,332 GWh. Electricity revenue was in line with last year at $631.3 million compared to $632.9 million in 2013. This result includes a $14.3 million increase in pass-through charges (primarily due to Transpower transmission charges, which have increased 17.2%* in the current pricing year) and a $6.2 million increase in capital contributions (on the back of higher new connections and significant Auckland infrastructure activity). Auckland Council's housing intensification policies are starting to flow through to net new connections, up 17.9% on the previous year to 4,721. Electricity customers increased 0.9% to 543,953. These trends broadly offset the consumption fall and the regulator-imposed price reductions. In April of this year Vector cut its electricity distribution prices by a weighted average of 2.4% and this followed on a weighted average cut of 7.6% in April 2013. EBITDA fell 7.1% to $346.0 million from $372.5 million as we also incurred higher corrective maintenance costs.

ELECTRICITY REVENUE WAS IN LINE WITH 2013

$631.3M

ELECTRICITY CUSTOMERS INCREASED

0.9% ▲

NET MOVEMENT IN CUSTOMERS

17.9% ▲

* The Transpower increase relates to the difference between the 2014 and 2015 pricing years ended 31 March.

ELECTRICITY SNAPSHOT

543,953

CUSTOMERS

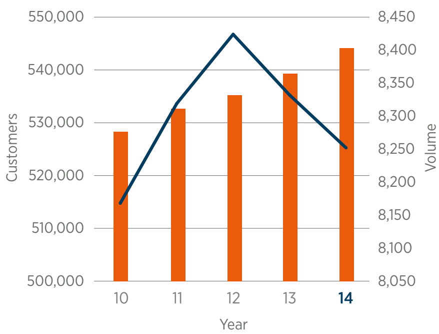
4,721

NET MOVEMENT IN CUSTOMERS

18,021KM

NETWORK LENGTH

ELECTRICITY CUSTOMERS AND VOLUME

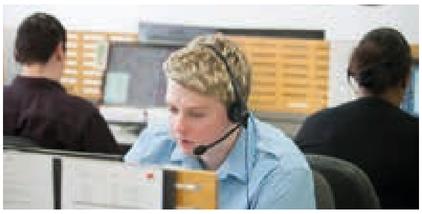


ELECTRICITY CUSTOMER NUMBERS

ELECTRICITY VOLUME DISTRIBUTED (GWh)

Vector is seeking to deliver a more streamlined and efficient service for the benefit of our customers.

NEW NETWORK CONTRACTS

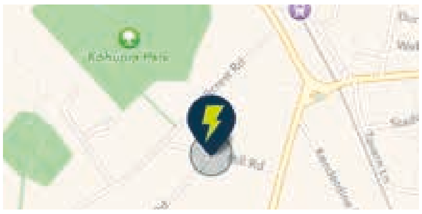


Vector is seeking to deliver a more streamlined and efficient service for the benefit of our customers, with the introduction of new use-of-network service agreements with the major electricity retailers. The changes include bringing billing arrangements and service standards into alignment across Vector's northern and southern networks. The new agreements will centralise fault call-outs throughout the region. All residential customers will be offered three free non-network fault call-outs per year. Meanwhile, those customers south of the bridge will no longer require a contract with Vector, with responsibility for making the arrangements passing over to retailers.

SECURING AUCKLAND'S ENERGY SUPPLY

Vector this year completed its multi-million dollar substation at Hobson Street, putting in place the final piece of the jigsaw that secures electricity supply into the CBD, Auckland's North Shore and the far north. The Hobson Street facility and another substation at Wairau Road on the North Shore are linked to a new Transpower cable that links Pakuranga with Albany. The Hobson Street substation was a crucial element in the creation of an extra electricity circuit to prevent supply disruptions to the financial powerhouse of the national economy.

STANDING WITH CUSTOMERS IN A STORM



Vector fault crews and customer response teams faced down the big one in mid-June. At its peak, the Category 1 tropical storm brought wind gusts of up to 175 kph with average wind speeds as high as 103 kph. It left up to 90,000 homes without power.

In terms of our workload, it was the worst storm in the Auckland region in 40 years. Vector had emergency repair crews operating across the region, dealing with the thousands of notified faults. Additional staff in call centres and other areas of the business worked tirelessly to manage and repair network damage.

While power was quickly restored to most areas, hot water issues troubled some areas of Auckland for an extended period.

Vector has identified several areas where it can improve its customer response. The new network agreements will streamline fault logging as they will provide a single point of contact for all customers connected to our networks. The industry is also discussing interim arrangements for major weather events until those agreements are effected.

The investments we have made also help minimise the inevitable disruption such storms bring. Vector's outage manager, which provides details of outages and the likely time to the restoration of power to smart phones and the Vector website, has received more than 2.6 million hits since it was created last year and was used heavily through the rough weather. We are examining additional web-based systems that will allow customers to log faults, track fault repair progress in real time and systems that will address some of the hot water issues. We will also continue to promote prudent tree management with our customers to assist in the protection of power lines during storms.

2.6m+

HITS RECEIVED BY THE VECTOR OUTAGE MANAGER SINCE ITS LAUNCH

Twenty-first-century gas network

Vector's 10-year, $40 million Auckland gas network upgrade programme has drawn to a close.

Vector's Auckland gas network completed its transition to the 21st century as the last 22 km of low-pressure cast iron gas pipes were replaced in Otahuhu, Papatoetoe and Greenlane. The new polyethylene pipes will endure for at least the next 80 years. Years of ground movement due to subsidence, road works and high traffic volumes and other issues put pressure on the joints leading to failures. With gas now flowing through the refurbished pipe at a pressure of nearly four atmospheres, Auckland gas users can be sure of a consistent and regular flame. Over the last 10 years more than 140 km of mains pipe have been replaced. Meanwhile, work continues to upgrade the Hamilton network, and this is expected to be completed by the end of the 2014 calendar year.

FINANCIAL PERFORMANCE

Price reductions, set by the regulator in October 2013, of 29% for gas transmission and 18% for gas distribution weighed on our financial performance. Revenue fell 14.8% to $187.0 million from $219.6 million. Prices will increase this year albeit to a level that is still below the October 2013 prices. We had sought to smooth these prices over the period, but our approach was rejected by the regulator.

An increase in capital contributions, distribution volumes and other revenues somewhat offset the effects of the price cuts. Overall, net new distribution connections were up 21.0%. Average consumption per distribution connection increased due mainly to increased gas usage by industrial and commercial customers. Gas distribution volumes were up by 2.3% to 21.9 PJ from 21.4 PJ. Gas transmission volumes fell by 5.8% to 111.3 PJ from 118.2 PJ, primarily due to a reduction in electricity generation in the upper North Island. Gas transportation EBITDA dropped 21.7% to $133.4 million from $170.4 million due to the decrease in revenue and an increase in maintenance costs.

INCREASE IN DISTRIBUTION VOLUME (PJ)

2.3% ▲

NET MOVEMENT IN DISTRIBUTION CUSTOMERS

21.0% ▲

GAS TRANSPORTATION REVENUE

$187.0M

GAS TRANSPORTATION SNAPSHOT

159,738

DISTRIBUTION CUSTOMERS

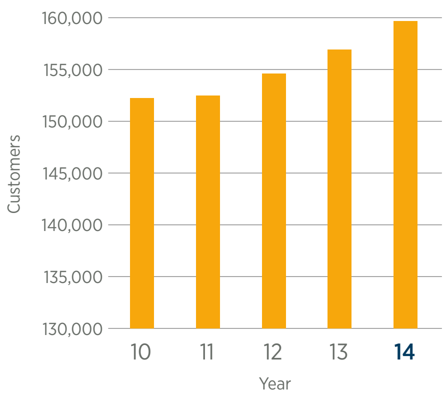
2,786

NET MOVEMENT IN DISTRIBUTION CUSTOMERS

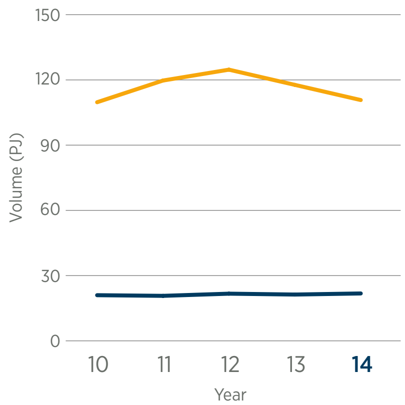
111.3 PJ

TRANSMISSION VOLUME

GAS DISTRIBUTION CUSTOMERS



GAS DISTRIBUTION AND TRANSMISSION VOLUMES

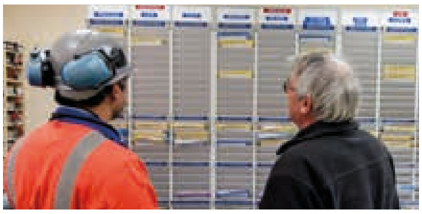


GUARDIANS OF GAS SECURITY

Vector provides operations and maintenance services to some of New Zealand's largest oil and gas companies, taking advantage of our expertise in managing and maintaining the country's gas transmission systems.

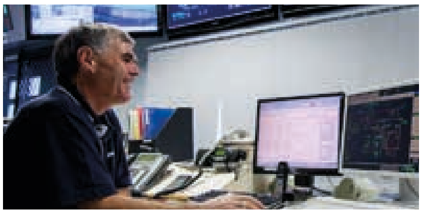
Vector maintains a North Island-wide team to manage our gas assets which include the high-pressure gas transmission system and a number of third-party pipelines. In many places third-party pipelines lie alongside Vector assets. This cooperation allows for cost savings for both Vector and other asset owners and can help to ensure the integrity of these vital assets. We have enjoyed long-standing relationships with the country's leading energy producers and customers as a result.

APPRENTICES



Vector is investing in apprenticeships in our gas transmission and gas processing operations to support the development of gas network maintenance skills. Vector has apprentices in a range of disciplines including mechanical, instrument and electrical and cathodic protection. Such apprentices ensure the vital skills to maintain the gas networks are passed on to the next generation. The apprentices may also form part of the new team of leaders.

DELIVERING ON OUR PROMISES



'Deliver on our commitments and communicate well' have become the watch words of our service delivery team. And, if we fall short of our commitments, we will communicate with our customers as quickly as possible. We have simplified the process to connect with our gas network and taken steps to ensure our customers are informed every step of the way. The Vector team is communicating with customers at every major milestone in the connection process from approval of the works through to construction and commissioning of the gas connection. Where there is an opportunity to be proactive in communication, we will grasp that opportunity.

DEVELOPING YOUNG MINDS

Vector's *Discover Natural Gas* programme has been specially developed for school children in Taranaki. Students learn about natural gas, gas safety, the energy industry in Taranaki and its importance to the country. The Taranaki course is sister to the award-winning *Stay Safe Around Electricity* and *Be Sustainable with Energy* programmes we have been running since 2005 in schools serviced by our electricity network.

Vector's OnGas LPG business continues to be recognised as a trusted partner to New Zealand industry.

Vector's reliable energy supply contracts and our scale and financial strength are crucial to our success. This year we won the contract to supply fuel for Fonterra's forklifts nationwide, one of the top three LPG supply contracts in New Zealand for forklift fleets. The contract covers around 2,200 bottles in sites from Invercargill through to Whangarei. We have also signed a deal with Pureland Dairy to supply bulk LPG to its Waharoa UHT milk facility in the Waikato. Vector is building a new bulk facility and expects to begin making weekly visits to the factory in September. OnGas supplies 120 similar sites across the country. It has recently expanded its distribution network to 14 depots across the country, acquiring a distributor covering Dunedin and Invercargill.

FINANCIAL PERFORMANCE

The Gas Wholesale result for 2014 reflected strong growth in our LPG businesses (OnGas and Liquigas) partially offsetting a weaker result for gas trading, which was impacted by increased competition and the end of our entitlements to Kapuni gas at legacy prices.

Production issues at the Kapuni field during the first quarter were largely rectified by the field operator, with average production of 39.0 TJ per day over 2014, back up to 2013 levels of 38.8 TJ per day. Revenue fell 6.0% to $349.8 million from $372.2 million, due largely to lower volumes and gas trading pricing. EBITDA fell 15.7% to $50.9 million from $60.4 million as natural gas trading margins contracted due to the end of our entitlements to Kapuni gas at legacy prices, and increased competition for customers.

GAS WHOLESALE REVENUE

$349.8M

LIQUIGAS TOLLING VOLUMES (TONNES)

17.8% ▲

NATURAL GAS SALES VOLUMES (PJ)

-7.5% ▼

GAS WHOLESALE SNAPSHOT

178,510

LPG TOLLING VOLUMES (TONNES)

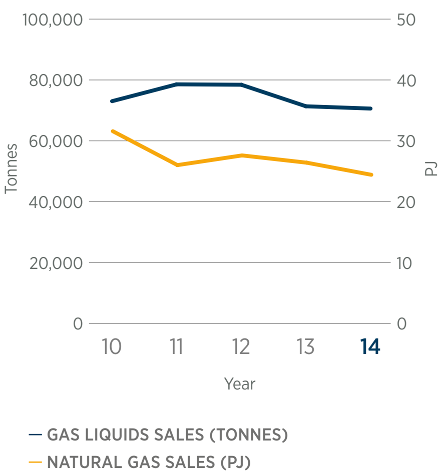
24.5 PJ

NATURAL GAS SALES VOLUMES

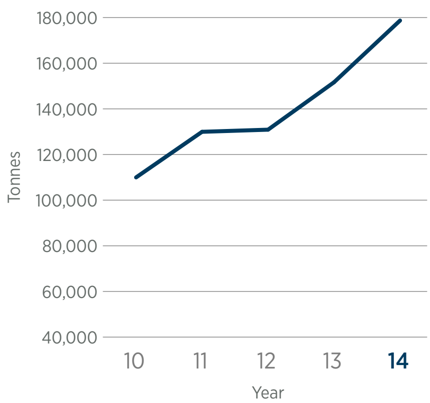
39.0 TJ/day

KAPUNI PRODUCTION (AVERAGE)

GAS WHOLESALE SALES



LIQUIGAS LPG TOLLING (TONNES)



NATURAL GAS OPERATIONAL PERFORMANCE

Vector maintains a portfolio of customers that broadly matches its gas supply contracts. LPG volumes were up over the previous year, with strong growth in wholesale and across all cylinder markets. Liquigas LPG tolling volumes increased 17.8% to 178,510 tonnes from 151,544 tonnes. Natural gas trading volumes fell 7.5% to 24.5 PJ, due to lower demand from electricity generators while industrial and commercial volumes were flat. Gas-fired power stations are being dispatched increasingly as generators of peak load and, as a result, gas prices have fallen. And, even though lower prices have led to a step up in demand from large gas users, trading remains difficult.

TRANSPARENCY IN GAS PRICING

Vector has been a key sponsor of the new energy exchange emsTradepoint. This energy market was launched in 2013 in a bid to introduce flexibility in the gas market, enhance price stability and give customers confidence on the fair market price for gas. emsTradepoint enables the trading of natural gas by producers, wholesalers, industrial users and wider industry participants. Participants trade standardised gas contracts for delivery on the Vector transmission pipelines. Gas suppliers and consumers also price long-term contracts against this market price and buy insurance against sharp spikes or troughs in prices. The market was established in 2013 by Transpower New Zealand. Other sponsors include OMV New Zealand and Methanex New Zealand.

KAPUNI ARBITRATION

Vector's rights to approximately 7.3 PJ of Kapuni gas at legacy prices, which Vector completed taking in July 2013, were confirmed by the High Court in January. The High Court judgment dismissed appeals by the suppliers of Kapuni gas against an arbitral award in Vector's favour. The High Court subsequently dismissed an application for the decision to be further appealed at the Court of Appeal, and made an award of costs to Vector. Vector retains the right to purchase 50% of the gas remaining in the Kapuni field from 1 April 1997. We are in the process of resolving the price for the next tranche of that gas, which Vector started taking in July 2013, via an arbitration scheduled to commence in April 2015.

Vector has been a key sponsor of the new energy exchange emsTradepoint.

Seeking regulatory evolution

Vector is seeking to address the significant imbalances we see in the regulatory regime.

TECHNOLOGICAL CHANGE

Vector has absorbed significant price cuts on its regulated energy networks.

Over the 2014 financial year we invested $209.9 million in our regulated energy networks. However, Vector's ability to continue to invest at this pace will be limited if the current regulatory model does not keep pace with technological change and global trends. Over the long-term, this could discourage investment in regulated energy networks and put at risk the security of the energy supply.

We are concerned the regulatory regime is not keeping pace with technological change and global trends.

The balance of power is shifting from utility service providers to consumers as they now have greater choice than they have had ever before. Energy distribution technology – largely unchanged for decades – now allows customers to switch suppliers, switch energy solutions and switch from the grid.

Customers are more technologically savvy and they are adopting solutions that enable them to generate their own power. This is leading to falling volumes of energy transported across our electricity network and the pace of this decline will increase in line with the growing affordability of new technology.

Vector is embracing, and is excited about, this technological shift, but we are thwarted in our efforts to meet the challenge on our regulated energy networks by the regulatory regime. Notably, the regime assumes that new network investment will have an average life of more than 40 years and that cash flows from our investments should be skewed towards the end of that period as we are preparing for the renewal of those assets.

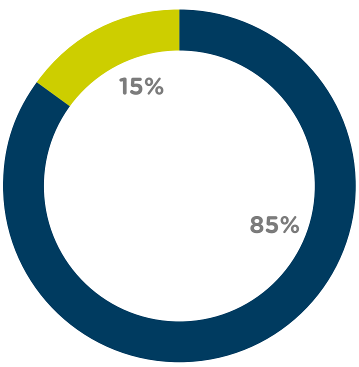
In effect, the regime requires Vector to commit to significant upfront capital expenditure and accept a cash flow profile that fails to provide adequate compensation for the risk we are taking.

Investors will look warily at such a long-duration investment proposition, especially in the face of such disruptive technological and social change.

We face a significant risk, that, over a period of 40 years, essential assets may become redundant and the cash flows deferred under the regulatory regime will not be recovered. We believe a more sensible approach is for the Commerce Commission to allow Vector to generate cash flows that better reflect the useful life of the assets. It has allowed other operators in the sector to adopt this very approach.

Assets

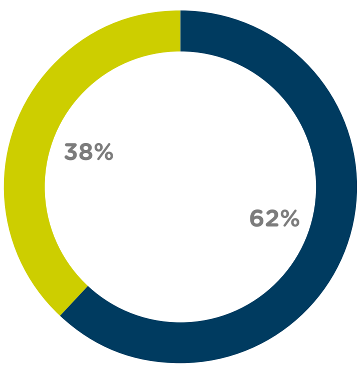
AS AT 30 JUNE 2014



- REGULATED[1,4]
- UNREGULATED

Revenue

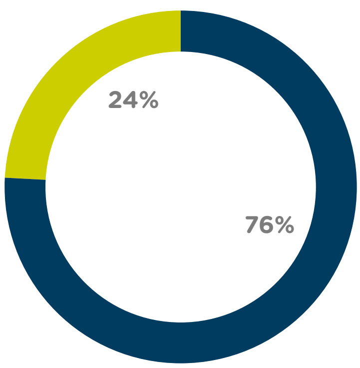
YEAR ENDED 30 JUNE 2014



- REGULATED[2,4]
- UNREGULATED

EBITDA

YEAR ENDED 30 JUNE 2014



- REGULATED[3,4]
- UNREGULATED

1. Calculated as the property, plant and equipment for the electricity and gas transportation segments as a percentage of the total property plant and equipment in the four operating segments.
2. Calculated as the external operating revenue (excluding any revenue streams generated from unregulated activities) for the electricity and gas transportation segments as a percentage of total external operating revenues.
3. Calculated as segment EBITDA for the electricity and gas transportation segments as a percentage of the total segment EBITDA in the four operating segments.
4. The electricity and gas transportation segments are subject to regulated price path controls.

FREQUENT CHANGE

It is clear the frequency of change to the core elements of the regulatory regime is adding significant cost to New Zealand infrastructure providers. Also, consumers do not appear to be benefiting from the price reductions Vector has made. We believe a major flaw in the current regulatory process is that there is no mechanism, regulator or government department with accountability to ensure these benefits are passed through to customers. Rating agency Standard & Poor's recently downgraded Vector's credit rating one notch to the 'investment grade' BBB, from BBB+, due to what it saw as instability and greater risk in the New Zealand regulatory regime.

Stability of the regulatory regime is important, but where there are flaws or errors that need to be corrected, the regulator needs to act swiftly and decisively otherwise it risks dissuading investors from funding our infrastructure assets.

REGULATED RETURNS

The Commerce Commission's draft decision in July 2014 to adjust the method it uses to determine our cost of capital – and therefore reduce the allowable returns on our assets – gives us further cause for disquiet. The decision runs contrary to a position the Commerce Commission has held for a considerable period of time and one that has been backed up by a body of analytical work over time.

Meanwhile, due to asset revaluation rates not matching the regulator's assumptions over the recent regulatory period, we have not been able to generate the returns determined by the regulator. PwC has calculated the differences between recorded inflation and the Commission's forecasts for inflation will result in electricity distribution businesses recovering $150 million less than they are allowed over the 2013–2015 regulatory period. The regulator's model takes no account of this.

MERITS REVIEW

We were disappointed the merits review of the regulatory regime brought by Vector and six other infrastructure companies did not redress the imbalances we see. The High Court said the alternative approaches proposed by Vector and others did not provide a 'materially better' outcome than the Commerce Commission's approach. In our view the way the 'materially better' standard has been defined by the High Court is unworkable.

People

DIVERSITY AND INCLUSION

In June 2013, the Board introduced a diversity policy to recognise that valuing diversity was good business and would drive high business performance through better customer alignment, different insights and thinking and attract staff with diverse skills and experiences.

Vector joined the 25 Percent Group of New Zealand Corporates and celebrated the fact that 25% of our directors are women.

25 percent GROUP

Throughout 2014 Vector has introduced initiatives to recognise the importance of valuing gender, ethnicity and age diversity within our workforce and attract candidates from a rich array of backgrounds with the objective of more closely reflecting the demographics of New Zealand society.

The gender composition of the New Zealand workforce is approximately 53% male and 47% female. Vector recognises that it still has some way to go with 69% of its staff being male and 31% being female. Specifically, the gender composition of Vector's directors and senior management, as at 30 June 2014, is shown below.

Vector is working to increase diversity in its workforce in the following ways.

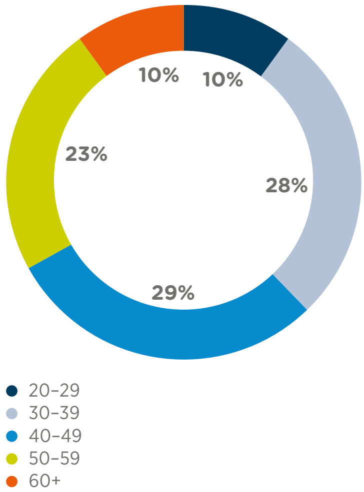
- Diversity training for all permanent staff facilitated by the Equal Employment Opportunities Trust.
- The establishment of a Diversity Committee to promote diversity initiatives across Vector.
- Participation in the Future Directors scheme, which assists in the quest to improve the quantum, quality and diversity of 'board-ready' director candidates.
- Participation in the 'Ultimit' programme to promote technical careers in the industry to women.
- Partnership with Te Puni Kōkiri, the Ministry of Māori Development, to offer cadetships for young Māori inside Vector: Vector has received $100,000 in government funding to support 10 young cadets over a six-month period.
- Hosted 12 senior school students from Tamaki College as part of the Manaiakalani Education Trust initiative to provide a one week work experience to help prepare them for employment.
- Participation in the BEST Pasifika Leadership Programme designed for emerging Polynesian leaders to help them advance into more senior positions.
- A number of other apprenticeship, internship, cadetship and general work experience opportunities for youth.

"Boardroom diversity is not about quotas or fairness or gender politics – it's about diverse thinking that provides for better governance and a better bottom line."

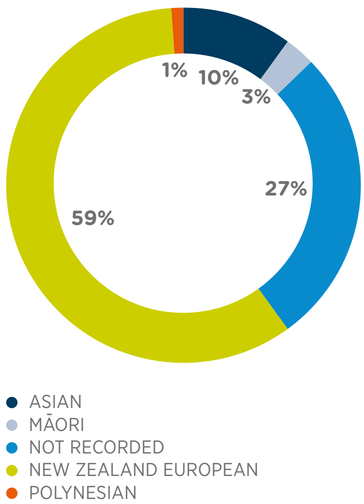
Michael Stiassny
Vector Chairman

	Male 2014	Male 2013	Female 2014	Female 2013
Directors	6 (75%)	6 (75%)	2 (25%)	2 (25%)
Executive team	6 (75%)	6 (75%)	2 (25%)	2 (25%)
Direct reports to the executive team	27 (55%)	32 (76%)	22 (45%)	10 (24%)
All staff	557 (69%)		248 (31%)	

VECTOR EMPLOYEES BY AGE



VECTOR ETHNICITY BREAKDOWN



Beatrice Faumuina and Teina Teariki Mana
Vector Business Risk Manager

PROMOTING LEADERSHIP

Vector Business Risk Manager Teina Teariki Mana's leadership of her community and her team within Vector has secured her a place on the BEST Pasifika Leadership Programme.

Vector will support Teina through the 18-month programme, offered by the BEST Leadership Academy, the New Zealand Leadership Institute at The University of Auckland Business School and Roseann's Principles Limited. The programme is targeted at people who have demonstrated high performance and aspire to roles with responsibility and decision-making. Teina, who will be mentored through the programme by Olympic discus champion Beatrice Faumuina, has also been selected to be part of the Vector Diversity Committee and this will be a great opportunity for her to promote diversity awareness across Vector. Teina views the programme as an opportunity to develop new techniques of leadership and communication and to collaborate with great minds. "I am grateful for the opportunity to develop not only professionally but personally, as a woman, mother and friend. This experience is a great gift that will allow me to pay it forward in so many ways."

PAYING THE LIVING WAGE

Vector's employees are generally paid at or above the living wage, the income necessary to provide a full-time, year-round worker and his or her family with sufficient income to ensure an adequate standard of living and allow full participation in society.

The only exceptions to this are three apprentices who are paid in line with industry standards. Apprentice wages reflect their experience and the high level of investment required to train them.

EMPLOYEE ENGAGEMENT

Vector has been actively measuring engagement. Employees are invited to respond to an annual pulse survey on all aspects of the working environment including leadership, learning and growth, and commitment to health and safety (amongst other things). We have formed people forums to review the feedback from staff and actively address any issues and further promote areas of high satisfaction.

"Every interaction with an employee has the potential to influence his or her engagement and inspire effort. For me, as a leader within Vector, the pulse survey results have highlighted that real change at the local workplace and that our local leadership group can substantially affect engagement levels in the workplace."

Mark Webb
Group Manager GAS TRANSMISSION

EMPLOYEE DEVELOPMENT

Vector offers staff a wide range of learning opportunities to assist them to achieve their goals and aspirations and at the same time contribute to Vector's success.

The opportunities include on-the-job learning through special projects or more responsibility, secondments, mentoring, coaching, essential skills courses and leadership. A sample of the training offered includes:

- High Performing Teams
- Financial Acumen
- Project Management
- Business Writing

Vector has implemented a new strategic planning and execution initiative using the 'Agile' methodology popularised by Japan's Toyota Motor Corporation to develop agile, cohesive and high-performing teams in order to achieve sustainable results and build a healthy business.

The initiative is being trialled in the People, Safety and Risk, Asset Investment, Service Delivery and External Relations departments of the business. The initiative responds to research which indicates that, when people and teams use Agile Thinking, they approach problems, communications and planning more effectively and break out of self-limiting patterns that interfere with productivity, innovation and creativity. With better thinking across Vector, we are confident that we will achieve better results – and the competitive advantage that comes with them.

Health, safety and environment

VECTOR'S APPROACH TO HEALTH AND SAFETY

At Vector we want to be recognised as setting the standard for Health, Safety and Environmental leadership for New Zealand businesses.

Vector's strategic health, safety and environmental (HSE) objectives are to:

- Deliver first-class HSE performance;
- Drive safety leadership and culture that is embedded within all levels of the organisation; and
- Strengthen both internal and external customer engagement

These objectives are supported by more detailed and measurable one, two and three-year projects, initiatives and key performance indicators.

The Vector framework for the management of HSE performance is underpinned by three key corporate policies (Health and Safety, Environmental and Rehabilitation).

The Vector Health, Safety and Environment Management System (HSEMS) details the minimum HSE requirements for all Vector business units, employees and contractors. Compliance to these standards is audited on an annual basis.

Each business unit has annual HSE improvement plans which support the implementation of the HSEMS and the achievement of the corporate strategy.

The Vector Board receives monthly HSE performance reports detailing injury statistics, trending analysis, reporting of key incidents (safety and environmental), results of audits (internal and external), drug and alcohol testing and updates on key HSE matters such as legislative reform, training and the HSE impacts of any new business procedures or processes. Vector safety management systems are audited both internally and externally on an annual basis. Vector's HSEMS is certified to NZS 7901:2008 – Electricity and Gas Industries – Safety Management Systems for Public Safety. Vector also holds Tertiary-level certification under the ACC Workplace Safety Management Programme (WSMP).

During the year, Vector made both written and oral submissions to the Transport and Industrial Relations Select Committee on the Health and Safety Reform Bill.

REMOTE ACTUATOR

Vector has developed an innovative solution to mitigate the risks of switching electric current on some of its older oil-filled switchgear.

Operators working on the equipment always ran the risk that short circuits during switching operations could lead to an injury if the switchgear was faulty.

Vector worked with LINAK New Zealand Limited to design and develop a portable actuator device that allows the operator to move a safe distance away from the switchgear when the switch is thrown, avoiding the threat of injury. The rechargeable battery-driven actuator can be installed and removed within 30 seconds and is capable of operating multiple switches. Using the actuators has significantly reduced the likelihood of any serious-harm incidents, without adding materially to complexity, operating time or cost.

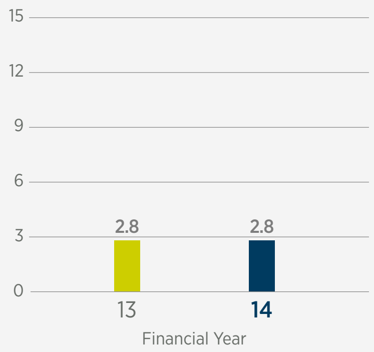
INJURIES AND ILLNESS

Vector's HSE performance is measured using two criteria – Lost Time Injury Frequency Rate (LTIFR) and Total Recordable Incident Frequency Rate (TRIFR).

Also, 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 in our business.

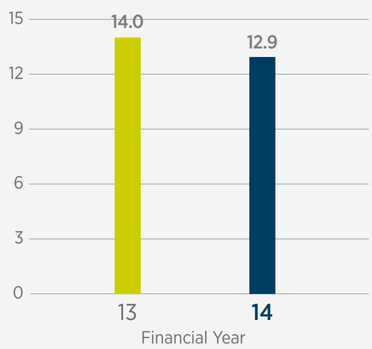
Lost Time Injury Frequency Rate

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



Total Recordable Injury Frequency Rate

Number of recordable injuries per million hours worked, including contractors



Vector 12 month rolling severity rates*

* Severity rate is the number of days lost through injuries per million hours worked.

Vector's LTIFR of 2.8 has remained at a consistently low level year on year. The TRIFR has fallen 7.8% from 14.0 in the 2013 financial year to 12.9 in the 2014 financial year. In addition the severity rate for injuries has significantly improved, falling 58% to 40.1 from 95.3 in the 2013 financial year. The improvements are due to a range of proactive initiatives implemented over the last year, such as pre-winter health checks, on site occupational health providers and access to physiotherapy services. Vector achieved another year without a workplace fatality.

Vector also has implemented the use of a robust and thorough accident investigation process to ensure all direct and contributing factors, along with root causes, have been identified from any injury events to ensure appropriate corrective action is taken.

The executive team reviews key incidents frequently and key learnings from the investigations are shared across Vector, with contractors and within our industry, where appropriate.

IMPROVING PUBLIC SAFETY

Vector is committed to educating our customers and the public to help them stay safe around our networks and to seeking innovative ways to engage them around our safety messages. Vector's long-running school safety programme won the Public Safety award at the 2014 Electricity Engineers' Association (EEA) awards. The Public Safety Award recognises initiatives and activities aimed at raising public awareness of safety around electricity industry assets. The programme, which features Vector's Zot the Energy Bot (pictured), is closely aligned with the New Zealand School Curriculum.

Vector has also engaged the services of the well-known and respected ex-All Black, Wayne 'Buck' Shelford. Buck is a powerful influencer with the public as the face of Vector's summer and winter public safety campaigns.

Buck's three rules to protect your power supply this winter:

RULE #1:
LOOK UP

RULE #2:
LOOK OUT

RULE #3:
LOOK DOWN

OUR CULTURE

It is vital that strong safety leadership is embedded throughout Vector. We have a number of initiatives running to ensure we continue to build on, and improve, our current safety culture, including:

- Extensive safety leadership programmes have been deployed to the Vector Board, executive team and senior leaders throughout the organisation. These include HSEMS, incident investigation, hazard analysis and process safety training as well as a programme of site safety observations and visits.
- Vector has a number of well-being initiatives that run throughout the year, including fitness grants, biennial medical checks and access to on-site occupational health specialists.
- There is a strong employee participation programme in place including HSE committees based at work sites around the country.
- This programme allows staff to become actively involved in the management of HSE. It also provides the opportunity for staff to raise suggestions for continuous improvements and a strong channel for two-way communication between management and staff.

Experienced leadership

Our experienced Board leads Vector on behalf of our shareholders and other stakeholders.

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1. MICHAEL STIASSNY

BCom, LLB, CA, FInstD

CHAIR

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 chair of Ngāti Whātua Ōrākei Rawa Limited and Tower Limited. Michael is vice-president and a fellow of the Institute of Directors in New Zealand.

2. PETER BIRD

BA, MA, PhD

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

Peter Bird is a former executive vice-chair of Rothschild's South East Asian global financial advisory business. His experience includes advising large corporates and governments on a range of issues including acquisitions and disposals, privatisation, project and acquisition financing, mutualisation, insolvency and debt restructuring. Peter has worked as an economic consultant, an economic researcher in the energy sector and an academic economist at Stirling University.

3. JAMES CARMICHAEL

BE, FIPENZ

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

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

4. HUGH FLETCHER

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 also non-executive chair of IAG New Zealand Limited and a trustee of The University of Auckland Foundation.

5. JONATHAN MASON

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 Zespri and Air New Zealand. Jonathan is also an Adjunct Professor of Management at the University of Auckland, focusing on finance.

6. DAME ALISON PATERSON

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

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

Dame Alison Paterson is chair of BPAC New Zealand Limited, GMJ Group, Farm IQ Systems Limited, Stevenson Agriculture Limited, Crown Irrigation Investments Limited, New Zealand Formulary Limited and the Governing Board of the Centre of Research Excellence for Growth and Development (The University of Auckland). She is also a member of the NZ Markets Disciplinary Tribunal and a member of the Health Quality & Safety Commission.

7. KAREN SHERRY

QSM, BA, MA (Hons), LLB (Hons)

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

Karen 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 the Auckland Energy Consumer Trust. She is the chair of Energy Trusts of New Zealand Inc. and a director of SPCA Auckland Inc.

8. BOB THOMSON

BEng (Electrical), DipBS

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

Bob Thomson was chief executive of Transpower Limited and has been an adviser to Energy Trusts of New Zealand Inc. since 2004. Prior to his appointment at Transpower, he held a range of senior management and engineering positions in the New Zealand Electricity Department and Electricity Corporation of New Zealand Limited. He was involved in the reform of the electricity industry, including being a board member of the Electricity Market Company Limited from 1994 to 1998. He is a fellow of the New Zealand Institute of Engineers.

9. TONY ARTHUR

BSc, Post Grad Dip Mgmt

FUTURE DIRECTOR

Tony Arthur joined the Board in January 2014 as part of the 'Future Directors' initiative, which aims to give talented people the opportunity to observe and 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. Tony Arthur is currently Bank of New Zealand's (BNZ) head of retail network. He is a senior executive leader and has led businesses across a number different industries and markets both regulated and unregulated.

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

We have a team committed to delivering world-class infrastructure services and attuned to the rapidly evolving demands of our customers.

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Astute management

1. SIMON MACKENZIE

Grad Dip BS (Dist), Dip Fin, NZCE

GROUP CHIEF EXECUTIVE

Simon was appointed Group Chief Executive in February 2008 and has been with Vector for 16 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.

2. KATE BEDDOE

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, business continuity management, internal audit, HSE and human resources. 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 & Sustainability and has held management roles with Toyota and Bonlac Foods (Fonterra).

3. ALLAN CARVELL

BCom, Dip Com (Econ), CA

GROUP GENERAL MANAGER COMMERCIAL AND REGULATORY AFFAIRS

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

4. MINORU FREDERIKSENS

BE (Electrical and Electronic), Dip Bus (Marketing)

GROUP GENERAL MANAGER SERVICE DELIVERY

Minoru's responsibilities include the delivery of the capital works programme for electricity and gas distribution, management of operations and maintenance activities across electricity and gas distribution and gas transmission, and the customer fulfilment function. Minoru has more than 25 years' local and international experience in electrical design, project management and business development in the utilities, commercial and export sectors. Over the past two decades, he has managed several of New Zealand's major infrastructure projects, including geothermal power stations in Taupo and Ngawha, and supervised network control projects for high-profile utility companies.

5. DAN MOLLOY

BSc

CHIEF FINANCIAL OFFICER

Dan leads Vector's finance team and is responsible for financial and management reporting, corporate finance, decision support, investor relations, treasury and tax. Dan 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 CFO.

6. DAVID THOMAS

BSc, BE (Chem) (Hons)

GROUP GENERAL MANAGER GAS TRADING AND METERING

David leads Vector's gas trading, gas processing, LPG and metering businesses. David has worked in nearly all parts of the energy sector over the last 29 years. Prior to joining Vector in 2008, he was general manager operations at Contact Energy, responsible for the company's power stations and generation development. He has also held roles at BP and Fletcher Challenge in New Zealand, 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.

7. SHELLEY WATSON

BSc, FCIM

GROUP GENERAL MANAGER EXTERNAL RELATIONS

Shelley is Vector's Group General Manager External Relations, responsible for the company's marketing, public affairs, government and strategic relations. Shelley is an experienced senior executive with both private and public sector expertise including at Vodafone, Telecom and Westpac. Most recently she held the role of Communications & Public Affairs Director at Auckland Council. Shelley is a member of the Institute of Directors and on the Electricity Networks Association board.

8. RYNO VERSTER

B-Eng (Elec), M-Eng (Elec), MBA

ACTING GROUP GENERAL MANAGER ASSET INVESTMENT

Ryno has managed the Asset Investment engineering teams at Vector for the last six years. He has 29 years' experience in the engineering industry and his background includes detailed engineering, project management, company and asset valuation and advising regulators on technical and economic matters. Ryno has worked in the energy and utility sectors in New Zealand, Southern Africa, Australia and South-east Asia.

9. BRIAN RYAN

MBA (Hons), B-Tech

GROUP GENERAL MANAGER DEVELOPMENT

Brian leads the Development team, focused on the company's growth and development, through innovative customer solutions and technology. Brian joins us with extensive strategic and commercial experience in both the technology and manufacturing environments. His most recent role has been Managing Director for 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. Brian has also held a number of global senior management and executive positions across the engineering, product development and marketing disciplines.

- Brian Ryan takes over from Russell Ambrose who has been the Acting Group General Manager Development over the 2014 financial year.

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 good corporate governance enhances the company and its reputation. This section provides an overview of Vector's main corporate governance policies, practices and processes. More information can be found at: www.vector.co.nz/governance

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

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

PROMOTION OF ETHICAL AND RESPONSIBLE DECISION-MAKING

Vector expects its directors and employees to act legally, ethically, 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;

- **Continuous Disclosure Policy**
Affirms Vector's commitment to provide accurate, timely, orderly, consistent and credible 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 Policy**
Recognises Vector's commitment to diversity and to developing measurable objectives in relation to diversity;

- **Insider Trading Policy**
Details Vector's policy on, and rules for, dealing in Vector ordinary shares, Vector bonds, any other listed securities of Vector or its subsidiaries, and any listed derivatives;

- **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; and

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

DIVERSITY

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;
- Providing an environment in which all people are treated with fairness and respect, and have equal opportunities available at work; and
- Being recognised as being an organisation that exemplifies diversity in action.

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

ENSURING SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

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; and
- 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 has an obligation to create shareholder wealth (with a long-term bias) and, in that context, to have due regard to the interests of other stakeholders. The Board exercises this obligation through the approval of appropriate corporate strategies, practices and processes. These include the approval of transactions and commitments not within the authorities delegated by the Board to management and the review of company performance against strategic objectives.

Vector achieves Board and management accountability through its Board charter, which sets out matters reserved for the Board and responsibilities delegated to

TABLE OF ATTENDANCE

Attendance records of Board and committee meetings for the year ended 30 June 2014 are provided in the table below:

	Full Board	Audit Committee	Risk and Assurance Committee	Remuneration Committee	Regulatory Committee	Nominations Committee
Total meetings	14	7	4	3	4	1
Current Directors						
M Stiassny (Chair)	14	7	4	3	4	1
P Bird	12	6*	4*	3*	4	
J Carmichael	14	7	4	3*	4	
H Fletcher	14	7	3*	3*	4*	1
J Mason	14	7	4	3*	4	
A Paterson	13	7	3	3	3*	1
K Sherry	12	5	4	2	3	
B Thomson	14	7	4	3*	4	
T Arthur (Future Director**)	8	2*	2*	1*	2*	

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

** Tony Arthur is part of the Institute of Directors in New Zealand (Inc.)'s Future Directors programme. He is not a statutory director of the company.

the group chief executive, and a formal delegation of authority framework. The effect of this framework is that, whilst the Board has statutory responsibility for the activities of the company, this is exercised through the delegation to the group chief executive, who is responsible for the day-to-day leadership and management of the company. The framework also reserves certain matters for the decision of the Board.

BOARD OF DIRECTORS

Vector's Board is composed of a minimum of three and a maximum of nine directors, with at least two being ordinarily resident in New Zealand. As at 30 June 2014, the Board comprised eight directors, all of whom are non-executive directors. The Board has a formal Board charter detailing the Board's purpose, responsibilities, composition and operation, which is published on Vector's website. The Board usually meets monthly but, as required, does meet between regular scheduled meetings.

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

DIRECTOR INDEPENDENCE

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

BOARD COMMITTEES

There are currently five Board committees, to assist the Board with specific responsibilities.

They are:

Audit Committee

Assists the Board in fulfilling its corporate governance responsibilities in respect of the integrity of Vector's financial reporting and the independence of the external auditors. 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 2014 were Alison Paterson (chair), James Carmichael, Hugh Fletcher, Jonathan Mason, 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 charter which is published on Vector's website. The committee's members as at 30 June 2014 were James Carmichael (chair), 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 system of risk oversight and rigorous processes for risk management and 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 2014 were Karen Sherry (chair), James Carmichael, Jonathan Mason, Alison Paterson, Michael Stiassny and Bob Thomson.

Nominations Committee

Assists the Board in fulfilling its responsibility to have an efficient mechanism for examination of the selection and appointment practices of the company. For as long as the AECT holds at least 50.01% of Vector's shares, this committee undertakes non-binding consultation with the AECT prior to finalising any Board recommendation regarding a director nomination or appointment. A full description of the nominations committee's composition and duties is contained in the nominations committee charter which is published on Vector's website. Members of the nominations committee as at 30 June 2014 were Michael Stiassny (chair), 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 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 2014, 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 2014 were James Carmichael (chair), Michael Stiassny, Alison Paterson and Karen Sherry.

BOARD REMUNERATION

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

BOARD PERFORMANCE EVALUATION

The Board charter includes a requirement for the chairperson to meet regularly with each director to review his or her individual performance. In addition the Board charter requires a review of the performance of the Board as a whole on an annual basis. During the year ending 30 June 2014, the performance of the directors was reviewed in accordance with the Board charter.

STAKEHOLDER RELATIONS

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

SHAREHOLDERS

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

Communicating with them effectively;

- Ensuring they have full access to information about the company, including through the Vector website;
- Conducting shareholder meetings in a location and at a time convenient to the majority of shareholders;
- Providing shareholders with adequate opportunity to ask questions about, and comment upon, relevant matters, and to directly question the external auditors, at shareholder meetings;
- Enabling shareholders to receive communications from, and send communications to, Vector and its security registry electronically; and
- 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, the AECT. In addition, Vector and the AECT are parties to a Deed Recording Essential Operating Requirements, which includes certain policy, consultation, pricing reporting and undergrounding of overhead electricity lines obligations.

ACCESSIBLE INFORMATION

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

Information presented at these briefings, and public announcements made at other times are published on the NZX website in accordance with NZX Limited's Main Board Listing Rules. In addition, they are made available on Vector's website following their NZX release.

Stakeholders can register online to receive immediate electronic notification when new information is posted on the Vector website. Vector's interim and annual company reports are now primarily viewed online, but shareholders are entitled to hard copies of both documents and can request them by contacting the company.

If you have any questions or would like to request a copy of the annual or interim report, please email investor@vector.co.nz or phone +64 9 978 8257.

MATURITY IN RISK MANAGEMENT

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

Over the past year, Vector has focused on maturing and enhancing the Enterprise Risk Management Framework by improving consistency of approach and behaviour within the business while improving design elements. The following aspects have been enhanced over the past year:

- Refreshing risk appetite and escalation procedures in order to facilitate proactive risk management according to the Board's guidelines;
- Simplifying the risk assessment process to ensure consistency of approach in articulating and managing risk;
- Formalising a fraud risk programme to follow a better practice standard resulting in improved governance and oversight;
- Refreshing business continuity management design, benchmarking our consistency of approach to ensure we meet our obligations as an essential services provider;
- Refreshing and continuously improving our approach to Crisis Management; and
- Reviewing and consolidating various assurance activities.

Corporate governance is assured through the regular measurement and reporting of our risk management performance to the Board's Risk and Assurance Committee.

DIFFERENCES IN PRACTICE TO NZSX CODE

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

Valued partnerships

Vector is involved in a number of partnerships and ventures 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.

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

50%

TREESCAPE

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

www.treescape.co.nz

22.11%

NZ WINDFARMS

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

www.nzwindfarms.co.nz

Vector's standard profit measure prepared under New Zealand 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 www.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 or considered as a substitute for measures reported by Vector in accordance with NZ IFRS.

DEFINITIONS

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

GAAP TO NON-GAAP RECONCILIATION

EBITDA and Adjusted EBITDA	30 JUN 2014 $M	30 JUN 2013 $M
Reported net profit for the period (GAAP)	171.3	206.2
Add back: interest costs (net)[1]	168.9	164.4
Add back: tax (benefit)/expense[1]	63.2	83.6
Add back: depreciation and amortisation[1]	183.8	174.1
EBITDA	587.2	628.3
Adjusted for:		
Impairment of investment in associate[1]	1.2	3.6
Associates (share of net (profit)/loss)[1]	(1.7)	(1.3)
Fair value change on financial instruments[1]	(6.0)	(0.1)
Adjusted EBITDA	580.7	630.5

EBIT and Adjusted EBIT		
Reported net profit for the period (GAAP)	171.3	206.2
Add back: interest costs (net)[1]	168.9	164.4
Add back: tax (benefit)/expense[1]	63.2	83.6
EBIT	403.4	454.2
Adjusted for:		
Impairment of investment in associate[1]	1.2	3.6
Associates (share of net (profit)/loss)[1]	(1.7)	(1.3)
Fair value change on financial instruments[1]	(6.0)	(0.1)
Adjusted EBIT	396.9	456.4

1. Extracted from audited financial statements.

Financial Statements

CONTENTS

2014 FINANCIAL STATEMENTS

These financial statements for the year ended 30 June 2014 are dated 22 August 2014, and signed on behalf of the board of directors by:

Director 22 August 2014

Director 22 August 2014

And for and on behalf of management by:

Group Chief Executive 22 August 2014

Chief Financial Officer 22 August 2014

KPMG

TO THE SHAREHOLDERS OF VECTOR LIMITED

Report on the Company and Group Financial Statements

We have audited the accompanying financial statements of Vector Limited (''the company'') and the group, comprising the company and its subsidiaries, on pages 42 to 77. The financial statements comprise the balance sheet as at 30 June 2014, the statements of profit or loss, 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, for both the company and the group.

Directors' Responsibility for the Company and Group Financial Statements

The directors are responsible for the preparation of company and group financial statements in accordance with generally accepted accounting practice in New Zealand that give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of company and group 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 company and group 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 company and group financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the company and group financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company and group's preparation of the financial statements that give a true and fair view of the matters to which they relate 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 company and 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 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 company and group in relation to regulatory assurance and other non-assurance services. Partners and employees of our firm may also deal with the company and group on normal terms within the ordinary course of trading activities of the business of the company and group. These matters have not impaired our independence as auditor of the company and group. The firm has no other relationship with, or interest in, the company and group.

Opinion

In our opinion the financial statements on pages 42 to 77:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the financial position of the company and the group as at 30 June 2014 and of the financial performance and cash flows of the company and the group for the year then ended.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, we report that:

- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by Vector Limited as far as appears from our examination of those records.

KPMG

22 August 2014

Auckland

PROFIT OR LOSS

FOR THE YEAR ENDED 30 JUNE

	NOTE	GROUP 2014 $000	GROUP 2013 $000	PARENT 2014 $000	PARENT 2013 $000
Revenue	4	1,258,864	1,279,150	725,900	727,116
Operating expenses	5	(678,224)	(648,684)	(359,531)	(335,439)
Depreciation and amortisation		(183,756)	(174,078)	(107,023)	(104,000)
Interest costs (net)	6	(168,877)	(164,352)	(171,319)	(166,529)
Fair value change on financial instruments	7	5,993	62	5,993	62
Associates (share of net profit/(loss))	11	1,727	1,291	–	–
Impairment of investment in associate	11	(1,241)	(3,570)	(4,405)	(3,570)
Profit/(loss) before income tax		234,486	289,819	89,615	117,640
Tax benefit/(expense)	8	(63,195)	(83,588)	(27,122)	(35,029)
Net profit/(loss) for the period		171,291	206,231	62,493	82,611
Net profit/(loss) for the period attributable to					
Non-controlling interests		2,789	2,890	–	–
Owners of the parent		168,502	203,341	62,493	82,611

	NOTE	GROUP 2014	GROUP 2013
Basic and diluted earnings per share (cents)	21	16.9	20.4

		GROUP		PARENT	
	NOTE	2014 $000	2013 $000	2014 $000	2013 $000
Net profit/(loss) for the period		171,291	206,231	62,493	82,611
Other comprehensive income net of tax					
Items that may be re-classified subsequently to profit or loss:					
Net change in fair value of cash flow hedges		35,900	52,215	35,900	52,215
Share of other comprehensive income of associates	11	(1,194)	(20)	–	–
Translation of foreign operations		(23)	(30)	–	–
Other comprehensive income for the period net of tax		34,683	52,165	35,900	52,215
Total comprehensive income for the period net of tax		205,974	258,396	98,393	134,826
Total comprehensive income for the period attributable to					
Non-controlling interests		2,789	2,890	–	–
Owners of the parent		203,185	255,506	98,393	134,826

BALANCE SHEET

AS AT 30 JUNE

	NOTE	GROUP 2014 $000	GROUP 2013 $000	PARENT 2014 $000	PARENT 2013 $000
CURRENT ASSETS					
Cash and cash equivalents		8,284	56,164	871	43,973
Trade and other receivables	10	169,163	170,452	102,583	107,171
Derivatives	18	598	344	598	344
Inventories		4,350	5,513	–	–
Income tax		11,366	3,811	11,366	2,955
Advances to subsidiaries	22	–	–	84,279	20,588
Total current assets		193,761	236,284	199,697	175,031
NON-CURRENT ASSETS					
Receivables	10	1,851	2,134	1,359	1,396
Derivatives	18	–	10,664	–	10,664
Deferred tax	9	–	1,646	–	–
Investments in subsidiaries	11	–	–	1,407,346	1,407,346
Investments in associates	11	11,481	13,589	6,069	10,474
Intangible assets	12	1,632,430	1,633,369	557,796	557,759
Property, plant and equipment (PPE)	13	3,999,577	3,849,391	2,821,725	2,735,133
Total non-current assets		5,645,339	5,510,793	4,794,295	4,722,772
Total assets		5,839,100	5,747,077	4,993,992	4,897,803
CURRENT LIABILITIES					
Trade and other payables	15	217,830	273,187	161,211	147,440
Provisions	16	9,554	11,676	–	–
Borrowings	17	200,314	–	200,314	–
Derivatives	18	169	2,065	169	2,065
Income tax		702	586	–	–
Advances from subsidiaries	22	–	–	465,906	419,061
Total current liabilities		428,569	287,514	827,600	568,566
NON-CURRENT LIABILITIES					
Payables	15	19,544	20,136	2,890	2,241
Provisions	16	17,628	8,690	–	–
Borrowings	17	2,268,674	2,420,430	2,268,674	2,420,430
Derivatives	18	244,961	226,331	244,961	226,331
Deferred tax	9	551,937	525,514	411,134	388,070
Total non-current liabilities		3,102,744	3,201,101	2,927,659	3,037,072
Total liabilities		3,531,313	3,488,615	3,755,259	3,605,638
EQUITY					
Equity attributable to owners of the parent		2,291,672	2,240,326	1,238,733	1,292,165
Non-controlling interests in subsidiaries		16,115	18,136	–	–
Total equity		2,307,787	2,258,462	1,238,733	1,292,165
Total equity and liabilities		5,839,100	5,747,077	4,993,992	4,897,803

	NOTE	GROUP 2014	GROUP 2013
Net tangible assets per share (cents)	21	66.2	60.9
Net debt to net debt plus equity ratio	21	51.6%	51.1%

		GROUP		PARENT	
	NOTE	2014 $000	2013 $000	2014 $000	2013 $000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		1,284,414	1,292,704	707,580	694,210
Interest received		1,483	4,486	876	4,012
Income tax refunds		1,505	–	624	–
Dividends received from associates		1,400	200	1,400	200
Payments to suppliers and employees		(689,618)	(643,065)	(398,827)	(357,462)
Interest paid		(173,926)	(170,739)	(173,602)	(170,526)
Income tax paid		(58,635)	(57,403)	(55,813)	(54,802)
Net cash flows from/(used in) operating activities	20	366,623	426,183	82,238	115,632
CASH FLOWS FROM INVESTING ACTIVITIES					
Advances from/repaid by subsidiaries	22	–	–	308,097	346,937
Proceeds from sale of PPE and software intangibles		1,772	884	360	688
Advances to/repaid to subsidiaries	22	–	–	(218,367)	(156,465)
Purchase and construction of PPE and software intangibles		(327,428)	(283,383)	(192,098)	(164,586)
Proceeds from liquidation of associate		45	2,757	–	–
Acquisition of businesses	24	(60,060)	–	–	–
Net cash flows from/(used in) investing activities		(385,671)	(279,742)	(102,008)	26,574
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from borrowings		149,000	–	149,000	–
Repayment of borrowings		(20,000)	(22,817)	(20,000)	(22,817)
Dividends paid		(156,663)	(148,265)	(151,853)	(146,874)
Other financing cash flows		(1,169)	(788)	(479)	(269)
Net cash flows from/(used in) financing activities		(28,832)	(171,870)	(23,332)	(169,960)
Net increase/(decrease) in cash and cash equivalents		(47,880)	(25,429)	(43,102)	(27,754)
Cash and cash equivalents at beginning of the period		56,164	81,593	43,973	71,727
Cash and cash equivalents at end of the period		8,284	56,164	871	43,973
Cash and cash equivalents comprise:					
Bank balances and on-call deposits		3,684	13,890	871	10,973
Short term deposits maturing within three months		4,600	42,274	–	33,000
		8,284	56,164	871	43,973

		GROUP						
	NOTE	ISSUED SHARE CAPITAL $000	TREASURY SHARES $000	HEDGE RESERVE $000	OTHER RESERVES $000	RETAINED EARNINGS $000	NON-CONTROLLING INTERESTS $000	TOTAL EQUITY $000
Balance at 1 July 2012		874,979	(9,240)	(158,701)	371	1,424,296	16,637	2,148,342
Net profit/(loss) for the period		–	–	–	–	203,341	2,890	206,231
Other comprehensive income		–	–	52,215	(30)	(20)	–	52,165
Total comprehensive income		–	–	52,215	(30)	203,321	2,890	258,396
Dividends	21	–	–	–	–	(146,874)	(1,391)	(148,265)
Employee share purchase scheme transactions		–	(39)	–	28	–	–	(11)
Total transactions with owners		–	(39)	–	28	(146,874)	(1,391)	(148,276)
Balance at 30 June 2013		874,979	(9,279)	(106,486)	369	1,480,743	18,136	2,258,462
Net profit/(loss) for the period		–	–	–	–	168,502	2,789	171,291
Other comprehensive income		–	–	35,900	(1,217)	–	–	34,683
Total comprehensive income		–	–	35,900	(1,217)	168,502	2,789	205,974
Dividends	21	–	–	–	–	(151,853)	(4,810)	(156,663)
Employee share purchase scheme transactions		–	(14)	–	28	–	–	14
Total transactions with owners		–	(14)	–	28	(151,853)	(4,810)	(156,649)
Balance at 30 June 2014		874,979	(9,293)	(70,586)	(820)	1,497,392	16,115	2,307,787

		PARENT					
	NOTE	ISSUED SHARE CAPITAL $000	TREASURY SHARES $000	HEDGE RESERVE $000	OTHER RESERVES $000	RETAINED EARNINGS $000	TOTAL EQUITY $000
Balance at 1 July 2012		874,979	(8,939)	(158,701)	287	596,559	1,304,185
Net profit/(loss) for the period		–	–	–	–	82,611	82,611
Other comprehensive income		–	–	52,215	–	–	52,215
Total comprehensive income		–	–	52,215	–	82,611	134,826
Dividends	21	–	–	–	–	(146,874)	(146,874)
Employee share purchase scheme transactions		–	–	–	28	–	28
Total transactions with owners		–	–	–	28	(146,874)	(146,846)
Balance at 30 June 2013		874,979	(8,939)	(106,486)	315	532,296	1,292,165
Net profit/(loss) for the period		–	–	–	–	62,493	62,493
Other comprehensive income		–	–	35,900	–	–	35,900
Total comprehensive income		–	–	35,900	–	62,493	98,393
Dividends	21	–	–	–	–	(151,853)	(151,853)
Employee share purchase scheme transactions		–	–	–	28	–	28
Total transactions with owners		–	–	–	28	(151,853)	(151,825)
Balance at 30 June 2014		874,979	(8,939)	(70,586)	343	442,936	1,238,733

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 New Zealand Stock Exchange (NZX). The company is an issuer for the purposes of the Financial Reporting Act 1993, and its financial statements comply with that Act.

The financial statements presented are for Vector Limited Group ("Vector" or "the group") and Vector Limited ("the parent") as at, and for the year ended 30 June 2014. The group comprises the parent, its subsidiaries, and its investments in associates and joint arrangements.

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

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

Financial reporting framework

From 1 April 2014, the new Financial Reporting Act 2013 has come into force replacing the Financial Reporting Act 1993. This will be effective for the group's financial statements for the year ended 30 June 2015. The change in legislation is not expected to have any material impact on the group's obligation to prepare general purpose financial statements. In addition to the change in legislation, the External Reporting Board of New Zealand ("the XRB") has released a new accounting standards framework which establishes the financial standards to be applied to entities with statutory financial reporting obligations. The group currently reports under New Zealand equivalents to International Financial Reporting Standards (NZ IFRS). Under the new XRB framework Vector will continue to apply NZ IFRS as applicable for Tier 1 for-profit entities when preparing its consolidated group financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The financial statements comply with NZ IFRS, and other applicable Financial Reporting Standards, as appropriate for profit-oriented 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 profit-oriented 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 ($), which is also the parent's functional currency. 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:

- Revenue recognition (Note 4)
- Consolidation basis and classification of investments (Note 11)
- Impairment and valuation of goodwill (Note 12)
- Property, plant and equipment: valuation and classification of expenditure (Note 13)
- Borrowings: measurement bases (Note 17)
- Valuation of derivatives (Note 18)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New and amended accounting standards adopted

We have adopted the following accounting standards in the current period:

- **IFRS 10, *Consolidated Financial Statements*** has not had any impact on the group consolidation.
- **IFRS 11, *Joint Arrangements*** has led to the group's interest in the Kapuni Energy Joint Venture being classified as a joint operation. The operation continues to be consolidated using the proportionate method.
- **IFRS 12, *Disclosure of Interests in Other Entities*** has not materially impacted the financial statements.
- **IFRS 13, *Fair Value Measurement*** the impact on the statements of profit or loss and other comprehensive income on adoption of this standard was a non-cash gain of $6.2 million and $6.1 million respectively for the year ended 30 June 2014. Vector has applied this standard prospectively, and has not re-stated any comparative information.

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 2014 have not been applied in preparing the financial statements:

IFRS 9, *Financial Instruments: Classification and Measurement.*
IFRS 9 (2009), IFRS 9 (2010) and IFRS 9 (2013) together will replace parts of IAS 39, *Financial Instruments: Recognition and Measurement*. The new standard:

- Simplifies the measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value; and
- Adds requirements related to the classification and measurement of financial liabilities, and de-recognition of financial assets and liabilities.

The effective date is annual periods beginning on or after 1 January 2018. Vector has chosen to early adopt the above standards for the period beginning 1 July 2014. It is not expected to have a material impact on the group's 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 2017. Vector has not yet fully evaluated the impact this standard will have on the group's financial statements.

IFRIC 21, *Levies.*
IFRIC 21 is an interpretation of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* and clarifies when an entity should recognise a liability to pay levies imposed by governments.

The effective date is annual periods beginning on or after 1 January 2014. It is not expected to have a material impact on the group's financial statements.

3. SEGMENT INFORMATION

Segments

Vector reports on four operating 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. The segments are unchanged from those reported in Vector's Annual Report for the year ended 30 June 2013. The segments are:

Electricity	Electricity distribution services.
Gas Transportation	Gas transmission and distribution services.
Gas Wholesale	Natural gas and LPG sales, storage and processing, and cogeneration.
Technology	Telecommunications and metering services.

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

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

Segment profit

Segment profit reported to the group chief executive and the board of directors is earnings before interest and tax.

Vector also reports earnings before interest, tax, depreciation and amortisation (EBITDA) at segment level to the group chief executive and the board of directors.

3. SEGMENT INFORMATION (CONTINUED)

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 impairments are incurred within corporate activities and are not allocated to the segments.

Major customer

Vector engages with one major customer which contributes individually greater than ten percent of the group's revenue. The customer contributed $229.0 million (2013: $209.0 million) which is reported across all segments.

	GROUP 2014					
	ELECTRICITY $000	GAS TRANS-PORTATION $000	GAS WHOLESALE $000	TECHNOLOGY $000	INTER-SEGMENT $000	TOTAL $000
External revenue:						
Sales	597,950	152,597	343,316	120,655	–	1,214,518
Third party contributions	31,559	6,206	–	5,961	–	43,726
Intersegment revenue	1,818	28,171	6,489	10,347	(46,825)	–
Segment revenue	631,327	186,974	349,805	136,963	(46,825)	1,258,244
External expenses:						
Electricity transmission expenses	(188,246)	–	–	–	–	(188,246)
Gas purchases and production expenses	–	–	(224,389)	–	–	(224,389)
Asset maintenance expenses	(50,363)	(18,158)	(19,826)	(4,923)	–	(93,270)
Employee benefit expenses	(13,497)	(2,743)	(17,099)	(10,616)	–	(43,955)
Other expenses	(24,385)	(26,140)	(7,958)	(19,636)	–	(78,119)
Intersegment expenses	(8,878)	(6,516)	(29,615)	(1,816)	46,825	–
Segment operating expenses	(285,369)	(53,557)	(298,887)	(36,991)	46,825	(627,979)
Segment EBITDA	345,958	133,417	50,918	99,972	–	630,265
Depreciation and amortisation	(83,064)	(22,770)	(15,431)	(46,466)	–	(167,731)
Segment profit	262,894	110,647	35,487	53,506	–	462,534
Segment capital expenditure	162,324	47,623	10,061	104,982	–	324,990

Reconciliation of segment revenue, segment profit and segment capital expenditure to revenue, profit/(loss) before income tax and capital expenditure reported in the group financial statements:

	GROUP 2014		
	REVENUE $000	PROFIT/(LOSS) BEFORE INCOME TAX $000	CAPITAL EXPENDITURE $000
Reported in segment information	1,258,244	462,534	324,990
Amounts not allocated to segments (corporate activities):			
Revenue	620	620	–
Operating expenses	–	(50,245)	–
Depreciation and amortisation	–	(16,025)	–
Interest costs (net)	–	(168,877)	–
Fair value change on financial instruments	–	5,993	–
Associates (share of net profit/(loss))	–	1,727	–
Impairment of investment in associate	–	(1,241)	–
Capital expenditure	–	–	14,168
Reported in the group financial statements	1,258,864	234,486	339,158

3. SEGMENT INFORMATION (CONTINUED)

	GROUP 2013					
	ELECTRICITY $000	GAS TRANS-PORTATION $000	GAS WHOLESALE $000	TECHNOLOGY $000	INTER-SEGMENT $000	TOTAL $000
External revenue:						
Sales	605,490	177,770	365,637	97,044	–	1,245,941
Third party contributions	25,424	3,655	–	3,586	–	32,665
Intersegment revenue	1,960	38,210	6,610	8,437	(55,217)	–
Segment revenue	632,874	219,635	372,247	109,067	(55,217)	1,278,606
External expenses:						
Electricity transmission expenses	(176,120)	–	–	–	–	(176,120)
Gas purchases and production expenses	–	–	(228,535)	–	–	(228,535)
Asset maintenance expenses	(42,661)	(17,206)	(18,383)	(4,520)	–	(82,770)
Employee benefit expenses	(12,396)	(4,229)	(16,260)	(9,210)	–	(42,095)
Other expenses	(21,523)	(21,167)	(9,686)	(17,125)	–	(69,501)
Intersegment expenses	(7,637)	(6,641)	(38,979)	(1,960)	55,217	–
Segment operating expenses	(260,337)	(49,243)	(311,843)	(32,815)	55,217	(599,021)
Segment EBITDA	372,537	170,392	60,404	76,252	–	679,585
Depreciation and amortisation	(80,814)	(23,915)	(16,252)	(38,854)	–	(159,835)
Segment profit	291,723	146,477	44,152	37,398	–	519,750
Segment capital expenditure	150,164	37,515	8,325	88,872	–	284,876

Reconciliation of segment revenue, segment profit and segment capital expenditure to revenue, profit/(loss) before income tax and capital expenditure reported in the group financial statements:

	GROUP 2013		
	REVENUE $000	PROFIT/ (LOSS) BEFORE INCOME TAX $000	CAPITAL EXPENDITURE $000
Reported in segment information	1,278,606	519,750	284,876
Amounts not allocated to segments (corporate activities):			
Revenue	544	544	–
Operating expenses	–	(49,663)	–
Depreciation and amortisation	–	(14,243)	–
Interest costs (net)	–	(164,352)	–
Fair value change on financial instruments	–	62	–
Associates (share of net profit/(loss))	–	1,291	–
Impairment of investments in associates	–	(3,570)	–
Capital expenditure	–	–	13,760
Reported in the group financial statements	1,279,150	289,819	298,636

4. REVENUE

	NOTE	GROUP 2014 $000	GROUP 2013 $000	PARENT 2014 $000	PARENT 2013 $000
Sales	3	1,214,518	1,245,941	648,051	660,660
Third party contributions	3	43,726	32,665	34,660	27,766
Management fees from related parties	22	–	–	41,789	38,490
Other		620	544	1,400	200
Total		1,258,864	1,279,150	725,900	727,116

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.

5. OPERATING EXPENSES

	NOTE	GROUP 2014 $000	GROUP 2013 $000	PARENT 2014 $000	PARENT 2013 $000
Electricity transmission	3	188,246	176,120	188,246	176,120
Gas purchases and production	3	224,389	228,535	–	–
Network and asset maintenance	3	93,270	82,770	63,374	54,802
Other direct expenses		41,981	31,968	12,999	9,980
Employee benefit expenses		70,452	70,639	50,068	52,444
Administration expenses		17,828	17,070	14,919	12,650
Professional fees		12,042	13,511	10,046	10,769
IT expenses		13,927	12,700	10,572	9,650
Loss/(gain) on disposal of PPE and software intangibles		3,029	4,704	3,818	4,183
Other indirect expenses		13,060	10,667	5,489	4,841
Total		678,224	648,684	359,531	335,439

Employee benefits

Employee benefits are net of employee benefits recharged to subsidiaries as disclosed in Note 22.

Fees paid to auditors

	GROUP 2014 $000	GROUP 2013 $000	PARENT 2014 $000	PARENT 2013 $000
Audit or review of financial statements	515	607	490	516
Regulatory assurance	511	503	459	227
Other audit fees	19	20	19	20
Other services	20	16	20	16
	1,065	1,146	988	779

Other audit fees

Other audit fees are for the audit of guaranteeing group financial statements, share registry and bond registers.

Other services

Other services in the current period comprised a fraud gap analysis. The prior period was for assurance services in relation to a cash flow impact for a proposed billing change.

6. INTEREST COSTS (NET)

	GROUP		PARENT	
	2014 $000	2013 $000	2014 $000	2013 $000
Interest expense	174,063	170,790	173,808	170,622
Capitalised interest	(7,438)	(5,189)	(4,800)	(2,863)
Other	3,685	3,179	3,615	3,193
Interest income	(1,433)	(4,428)	(1,304)	(4,423)
Total	168,877	164,352	171,319	166,529

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 6.6% per annum (2013: 6.8%).

7. FAIR VALUE CHANGE ON FINANCIAL INSTRUMENTS

		GROUP & PARENT	
	NOTE	2014 $000	2013 $000
Ineffective portion of cash flow hedges	17	(191)	23
Fair value movement on hedging instruments	17	(75,464)	(15,648)
Fair value movement on hedged items	17	81,648	15,687
Total gains/(losses)		5,993	62

8. INCOME TAX (BENEFIT)/EXPENSE

	GROUP		PARENT	
Reconciliation of income tax (benefit)/expense	2014 $000	2013 $000	2014 $000	2013 $000
Profit/(loss) before income tax	234,486	289,819	89,615	117,640
Tax at current rate of 28%	65,656	81,149	25,092	32,939
Current tax adjustments:				
Non-deductible expenses	416	340	261	313
Relating to prior periods	2,157	(670)	1,142	(1,939)
Other	(1,165)	(146)	269	(35)
Deferred tax adjustments:				
Impairment of investment in associate	348	1,000	1,234	1,000
Relating to prior periods	(2,984)	1,915	(1,105)	2,751
Other	(1,233)	–	229	–
Income tax (benefit)/expense	63,195	83,588	27,122	35,029
Comprising:				
Current tax	51,569	70,473	18,037	25,288
Deferred tax	11,626	13,115	9,085	9,741

Policies

Income tax (benefit)/expense comprises current and deferred tax.

Vector calculates income tax (benefit)/expense 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 2014 (2013: nil), as the imputation account has a debit balance as of that date.

9. DEFERRED TAX

	GROUP					
	TAX LOSSES $000	PPE $000	PROVISIONS AND ACCRUALS $000	HEDGE RESERVE $000	OTHER $000	TOTAL $000
Balance at 1 July 2012	(3,924)	538,487	(9,564)	(61,720)	16,902	480,181
Recognised in profit or loss	(820)	(3,777)	1,355	–	16,357	13,115
Recognised in other comprehensive income	–	–	–	20,289	–	20,289
Transfer to current tax	3,926	–	–	–	–	3,926
Recognised from business combinations	–	8,003	–	–	–	8,003
Balance at 30 June 2013	(818)	542,713	(8,209)	(41,431)	33,259	525,514
Recognised in profit or loss	–	12,160	316	–	(850)	11,626
Recognised in other comprehensive income	–	–	–	13,979	–	13,979
Transfer to current tax	818	–	–	–	–	818
Balance at 30 June 2014	–	554,873	(7,893)	(27,452)	32,409	551,937

	PARENT				
	PPE $000	PROVISIONS AND ACCRUALS $000	HEDGE RESERVE $000	OTHER $000	TOTAL $000
Balance at 1 July 2012	410,487	(5,298)	(61,720)	14,571	358,040
Recognised in profit or loss	(6,796)	2,242	–	14,295	9,741
Recognised in other comprehensive income	–	–	20,289	–	20,289
Balance at 30 June 2013	403,691	(3,056)	(41,431)	28,866	388,070
Recognised in profit or loss	9,800	689	–	(1,404)	9,085
Recognised in other comprehensive income	–	–	13,979	–	13,979
Balance at 30 June 2014	413,491	(2,367)	(27,452)	27,462	411,134

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.

Tax losses which are available to be utilised by the group are offset against deferred tax liabilities.

Deferred tax assets

During the period, Advanced Metering Services Limited, a subsidiary of the parent, utilised a deferred tax asset of $1.6 million related to the future income tax benefit of accumulated tax losses. There are no further deferred tax assets available.

10. TRADE AND OTHER RECEIVABLES

	GROUP 2014 $000	GROUP 2013 $000	PARENT 2014 $000	PARENT 2013 $000
Trade receivables				
Current:				
Trade receivables	149,370	152,163	85,695	90,651
Less provision for doubtful debts	(2,602)	(3,434)	(2,275)	(2,834)
Balance at 30 June	146,768	148,729	83,420	87,817
Ageing of trade receivables				
Not past due	132,911	139,567	77,330	82,350
Past due 1–30 days	6,593	3,140	1,581	1,403
Past due 31–120 days	2,845	2,057	1,247	537
Past due more than 120 days	7,021	7,399	5,537	6,361
Balance at 30 June	149,370	152,163	85,695	90,651
Other receivables				
Current:				
Interest receivable	13,629	13,753	13,629	13,753
Prepayments	8,662	7,838	5,430	5,474
Other	104	132	104	127
Balance at 30 June	22,395	21,723	19,163	19,354
Non-current:				
Finance lease	1,332	1,354	1,332	1,354
Other	519	780	27	42
Balance at 30 June	1,851	2,134	1,359	1,396

Policies

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

Fair value is estimated as the present value of future cash flows. Long term receivables are discounted to reflect the time value of money. 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 do not include any allowances for impairment (2013: nil).

Trade receivables past due by more than 120 days include allowances for impairment of $2.6 million (2013: $3.4 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.

11. 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.

11.1 Investments in subsidiaries

	PRINCIPAL ACTIVITY	PERCENTAGE HELD	
		2014	2013
Trading subsidiaries			
NGC Holdings Limited	Holding company	100%	100%
– Vector Management Services Limited	Management services	100%	100%
– Vector Gas Limited	Natural gas sales, processing and transportation	100%	100%
– Vector Gas Contracts Limited	Natural gas sales	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 Metering Data Services Limited	Holding company	100%	100%
– Elect Data Services (Australia) Pty Limited	Metering services	100%	100%
Vector Communications Limited	Telecommunications	100%	100%
Advanced Metering Services Limited	Metering services	100%	100%
Non-trading subsidiaries			
Auckland Generation Limited	Holding company	100%	100%
– MEL Network Limited	Holding company	100%	100%
– Mercury Geotherm Limited (in receivership)	Dormant	100%	100%
– Poihipi Land Limited (in receivership)	Dormant	100%	100%
UnitedNetworks Limited	Dormant	100%	100%
Broadband Services Limited	Dormant	100%	100%
Vector ESPS Trustee Limited	Trustee Company	100%	100%
NGC Limited	Dormant	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.

The financial statements of subsidiaries are reported in the group 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 (in receivership) and Poihipi Land Limited (in receivership) which have a balance date of 31 March.

Geography

All subsidiaries are incorporated in New Zealand, except Elect Data Services (Australia) Pty Limited which is incorporated in Australia.

11. INVESTMENTS (CONTINUED)

11.2 Investment in associates

	PRINCIPAL ACTIVITY	BALANCE DATE	COUNTRY OF INCORPORATION	PERCENTAGE HELD 2014	PERCENTAGE HELD 2013
Associates					
Tree Scape Limited	Vegetation management	31 March	New Zealand	50%	50%
Total Metering 2012 Limited (in liquidation)	Non-trading	30 June	New Zealand	25%	25%
NZ Windfarms Limited	Power generation	30 June	New Zealand	22%	22%

	GROUP 2014 $000	GROUP 2013 $000	PARENT 2014 $000	PARENT 2013 $000
Carrying amount of associates				
Balance at 1 July	13,589	16,088	10,474	14,044
Share of net profit/(loss) of associates	1,727	1,291	–	–
Share of other comprehensive income of associates	(1,194)	(20)	–	–
Dividends received	(1,400)	(200)	–	–
Impairment of investment	(1,241)	(3,570)	(4,405)	(3,570)
Balance at 30 June	11,481	13,589	6,069	10,474
Equity accounted earnings of associates				
Profit/(loss) before income tax	2,398	1,793		
Income tax benefit/(expense)	(671)	(502)		
Share of net profit/(loss) of associates	1,727	1,291		
Total recognised revenues and expenses	1,727	1,291		

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 a 50% shareholding in an entity reported as an associate we have determined that this does not constitute joint control and Vector's shareholding does not carry majority voting rights.

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

Impairment

Vector has recognised an impairment loss of $1.2 million (2013: $3.6 million) in respect of the investment in its associate company, NZ Windfarms Limited.

The recoverable amount determined as at 30 June 2014 was estimated based on the investment's fair value less costs to sell by reference to the active market price on the New Zealand Stock Exchange.

The share price of NZ Windfarms Limited declined from $0.08 per share at 30 June 2013 to $0.05 per share at 30 June 2014, and supports the current carrying value of the group's investment in NZ Windfarms Limited.

11.3 Interest in joint operation

	PRINCIPAL ACTIVITY	BALANCE DATE	INTEREST HELD 2014	INTEREST HELD 2013
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 group financial statements using the proportionate method.

12. INTANGIBLE ASSETS

	GROUP				
	CUSTOMER CONTRACTS $000	EASEMENTS $000	SOFTWARE $000	GOODWILL $000	TOTAL $000
Opening carrying amount 1 July 2012	2,067	13,644	45,287	1,555,802	1,616,800
Cost	3,100	13,644	167,871	1,555,802	1,740,417
Accumulated amortisation	(1,033)	–	(122,584)	–	(123,617)
Acquisition of business	13,102	–	–	3,407	16,509
Transfers from PPE	–	243	18,108	–	18,351
Amortisation for the period	(1,034)	–	(17,257)	–	(18,291)
Closing carrying amount 30 June 2013	14,135	13,887	46,138	1,559,209	1,633,369
Cost	16,202	13,887	168,074	1,559,209	1,757,372
Accumulated amortisation	(2,067)	–	(121,936)	–	(124,003)
Acquisition of business	262	–	–	307	569
Transfers from PPE	–	402	21,289	–	21,691
Amortisation for the period	(2,431)	–	(20,768)	–	(23,199)
Closing carrying amount 30 June 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)

	PARENT			
	EASEMENTS $000	SOFTWARE $000	GOODWILL $000	TOTAL $000
Opening carrying amount 1 July 2012	13,118	29,732	515,112	557,962
Cost	13,118	116,813	515,112	645,043
Accumulated amortisation	–	(87,081)	–	(87,081)
Transfers from PPE	243	9,717	–	9,960
Amortisation for the period	–	(10,163)	–	(10,163)
Closing carrying amount 30 June 2013	13,361	29,286	515,112	557,759
Cost	13,361	112,462	515,112	640,935
Accumulated amortisation	–	(83,176)	–	(83,176)
Transfers from PPE	364	11,037	–	11,401
Amortisation for the period	–	(11,364)	–	(11,364)
Closing carrying amount 30 June 2014	13,725	28,959	515,112	557,796
Cost	13,725	123,499	515,112	652,336
Accumulated amortisation	–	(94,540)	–	(94,540)

12. INTANGIBLE ASSETS (CONTINUED)

12.1 Goodwill

	GROUP	
	2014 $000	2013 $000
Goodwill by segment		
Electricity	852,219	852,219
Gas transportation	468,062	468,062
Gas wholesale	220,826	220,764
Technology	18,409	18,164
Total	1,559,516	1,559,209

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.

The recoverable amount of each segment to which goodwill is allocated exceeds the net assets plus goodwill allocated. Therefore the group has determined that no impairment to goodwill has occurred during the period.

Judgements

To assess impairment, management must estimate the future cash flows of operating segments including the cash generating units 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 transportation and gas wholesale segments and the metering cash generating unit of the technology segment are calculated on the basis of value-in-use using discounted cash flow models. Due to the long term nature of the electricity and gas transportation regulated businesses, it should be noted that the terminal value makes up a significant amount of the value-in-use calculated. For the communications cash generating unit of the technology segment, both value-in-use and fair value less costs to sell are considered. Future cash flows are projected out based on actual results and business plans.

For the electricity and gas transportation segments and the metering cash generating unit a ten year period has been used due to the long-term nature of the group's capital investment in these businesses. A five year period has been used for the gas wholesale segment and the communications cash generating unit given the markets these businesses operate in.

Key assumptions include the level of future EBITDA and maintenance expenditure for each segment. Terminal growth rates in a range of 0.0% to 3.0% (2013: 0.0% to 3.0%) and post-tax discount rates between 6.5% and 8.9% (2013: 6.5% and 11.4%) 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. For the electricity segment, the recoverable amount exceeds the carrying value based on the electricity distribution default price-quality path determination released in November 2012. In calculating the recoverable amount for the electricity segment, the potential impact of the Commerce Commission's draft decisions on 4 July 2014 on the default price-quality path from 1 April 2015, and the proposed amendment announced on 22 July 2014 to reduce the weighted average cost of capital (WACC) have been considered. For the gas transportation segment, the recoverable amount exceeds the carrying value based on the initial default price-quality path for gas pipeline services applying from 1 July 2013 through to 30 September 2017.

12. INTANGIBLE ASSETS (CONTINUED)

12.2 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 2–10 years; customer contracts 3–10 years.

Easements are not amortised, but are tested for impairment at least annually.

13. PROPERTY, PLANT AND EQUIPMENT (PPE)

	GROUP						
	DISTRI-BUTION SYSTEMS $000	ELECTRICITY AND GAS METERS $000	LAND, BUILDINGS AND IMPROVE-MENTS $000	COMPUTER AND TELCO EQUIPMENT $000	OTHER PLANT AND EQUIPMENT $000	CAPITAL WORK IN PROGRESS $000	TOTAL $000
Carrying amount 1 July 2012	3,045,136	200,677	129,145	104,169	108,488	91,823	3,679,438
Cost	3,640,700	342,878	145,658	159,658	160,885	91,823	4,541,602
Accumulated depreciation	(595,564)	(142,201)	(16,513)	(55,489)	(52,397)	–	(862,164)
Additions	–	–	–	–	11,646	286,990	298,636
Acquisition of business	–	50,512	–	–	–	–	50,512
Transfers – Intangible assets	–	–	–	–	–	(18,351)	(18,351)
Transfers – Other	146,883	73,139	23,098	12,420	5,047	(260,587)	–
Disposals	(2,646)	–	(214)	(294)	(1,903)	–	(5,057)
Depreciation for the period	(105,973)	(24,195)	(2,607)	(12,256)	(10,756)	–	(155,787)
Carrying amount 30 June 2013	3,083,400	300,133	149,422	104,039	112,522	99,875	3,849,391
Cost	3,780,306	466,529	168,289	163,463	172,226	99,875	4,850,688
Accumulated depreciation	(696,906)	(166,396)	(18,867)	(59,424)	(59,704)	–	(1,001,297)
Additions	–	–	–	–	553	338,605	339,158
Transfers – Intangible assets	–	–	–	–	–	(21,691)	(21,691)
Transfers – Other	198,963	77,495	10,369	7,126	10,841	(304,794)	–
Disposals	(4,863)	(254)	(181)	(9)	(1,417)	–	(6,724)
Depreciation for the period	(106,983)	(28,390)	(3,056)	(12,288)	(9,840)	–	(160,557)
Carrying amount 30 June 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)

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

	PARENT				
	DISTRI-BUTION SYSTEMS $000	LAND, BUILDINGS AND IMPROVE-MENTS $000	PLANT AND EQUIPMENT $000	CAPITAL WORK IN PROGRESS $000	TOTAL $000
Carrying amount 1 July 2012	2,457,796	123,046	17,628	67,347	2,665,817
Cost	2,914,338	138,158	35,887	67,347	3,155,730
Accumulated depreciation	(456,542)	(15,112)	(18,259)	–	(489,913)
Additions	–	–	1,667	176,324	177,991
Transfers – Intangible assets	–	–	–	(9,960)	(9,960)
Transfers – Other	128,203	23,098	2,431	(153,732)	–
Disposals	(4,585)	(214)	(79)	–	(4,878)
Depreciation for the period	(87,162)	(2,337)	(4,338)	–	(93,837)
Carrying amount 30 June 2013	2,494,252	143,593	17,309	79,979	2,735,133
Cost	3,033,669	161,042	35,321	79,979	3,310,011
Accumulated depreciation	(539,417)	(17,449)	(18,012)	–	(574,878)
Additions	–	–	1,876	196,389	198,265
Transfers – Intangible assets	–	–	–	(11,401)	(11,401)
Transfers – Other	171,684	10,344	2,158	(184,186)	–
Disposals	(4,431)	(181)	(1)	–	(4,613)
Depreciation for the period	(88,183)	(2,779)	(4,697)	–	(95,659)
Carrying amount 30 June 2014	2,573,322	150,977	16,645	80,781	2,821,725
Cost	3,195,783	171,191	39,261	80,781	3,487,016
Accumulated depreciation	(622,461)	(20,214)	(22,616)	–	(665,291)

13. 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 item becomes available for use.

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

Estimated useful lives are as follows:

Buildings	40 – 100
Distribution systems	10 – 100
Electricity and gas meters	5 – 30
Other plant and equipment	3 – 40

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 $52.0 million for the group and $40.8 million for the parent (2013: $75.1 million and $29.3 million respectively).

14. OPERATING LEASES

	GROUP		PARENT	
	2014 $000	2013 $000	2014 $000	2013 $000
Aggregate minimum lease payments under non-cancellable operating leases where Vector is the lessee				
Within one year	6,652	6,853	3,246	3,312
One to five years	11,637	12,040	8,037	8,843
Beyond five years	8,080	10,695	2,598	4,591
Total	26,369	29,588	13,881	16,746

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.

15. TRADE AND OTHER PAYABLES

	GROUP		PARENT	
	2014 $000	2013 $000	2014 $000	2013 $000
Current:				
Trade payables	159,938	151,480	105,762	97,104
Deferred consideration payable	1,500	–	1,500	–
Acquisition consideration payable	–	68,717	–	–
Employee benefits	6,455	6,139	6,178	5,838
Deferred income	7,308	5,080	5,856	3,387
Finance leases	836	751	122	91
Interest payable	41,793	41,020	41,793	41,020
Balance at 30 June	217,830	273,187	161,211	147,440
Non-current:				
Deferred income	15,867	17,108	–	–
Deferred consideration payable	–	1,500	–	1,500
Finance leases	875	936	88	149
Other non-current payables	2,802	592	2,802	592
Balance at 30 June	19,544	20,136	2,890	2,241

Other payables

The acquisition consideration payable (GST inclusive) for 2013 is in respect of the purchase of the business and assets of Contact Energy Limited's gas metering business which was completed on 30 June 2013.

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.

The deferred consideration payable is in respect of the purchase of Advanced Metering Services Limited in 2010, which is a subsidiary of the group.

16. PROVISIONS

	GROUP 2014 TOTAL $000
Balance 1 July 2013	20,366
Additions	8,939
Reversed to the income statement	(2,123)
Balance at 30 June 2014	27,182
Current	9,554
Non-current	17,628
Total	27,182

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.

Utilisation

These provisions comprise amounts that may be required to be utilised within one year or a longer period dependent on future events which include ongoing negotiations with third parties.

17. BORROWINGS

			GROUP & PARENT 2014				
	CURRENCY	MATURITY DATE	FACE VALUE $000	UN-AMORTISED COSTS $000	FAIR VALUE ADJUSTMENT ON HEDGED RISK $000	CARRYING VALUE $000	FAIR VALUE $000
Bank debt – variable rate	NZD	Feb 2015–Dec 2016	129,000	(665)	–	128,335	128,335
Capital bonds – 7% fixed rate	NZD	–	262,651	(335)	–	262,316	265,654
Senior bonds – 7.8% fixed rate	NZD	Oct 2014	150,000	(173)	581	150,408	151,150
Senior notes – fixed rate	USD	Sep 2016–Sep 2022	646,014	(2,269)	(92,384)	551,361	531,077
Floating rate notes – variable rate	NZD	Oct 2015–Oct 2020	1,160,000	(5,586)	–	1,154,414	1,102,264
Medium term notes – 7.625% fixed rate	GBP	Jan 2019	285,614	(2,455)	(61,005)	222,154	258,318
Balance at 30 June			2,633,279	(11,483)	(152,808)	2,468,988	2,436,798

17. BORROWINGS (CONTINUED)

			GROUP & PARENT 2013				
	CURRENCY	MATURITY DATE	FACE VALUE $000	UN-AMORTISED COSTS $000	FAIR VALUE ADJUSTMENT ON HEDGED RISK $000	CARRYING VALUE $000	FAIR VALUE $000
Bank debt – variable rate	NZD	Dec 2013–Feb 2015	–	(426)	–	(426)	–
Capital bonds – 7% fixed rate	NZD	–	262,651	(434)	–	262,217	266,352
Senior bonds – 7.8% fixed rate	NZD	Oct 2014	150,000	(839)	4,054	153,215	155,672
Senior notes – fixed rate	USD	Sep 2016–Sep 2022	646,014	(2,132)	(14,210)	629,672	636,729
Floating rate notes – variable rate	NZD	Oct 2015–Oct 2020	1,160,000	(7,373)	–	1,152,627	1,161,721
Medium term notes – 7.625% fixed rate	GBP	Jan 2019	285,614	(2,897)	(59,592)	223,125	263,756
Balance at 30 June			2,504,279	(14,101)	(69,748)	2,420,430	2,484,230

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, 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 18.

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 $1.2 billion floating rate notes are credit wrapped by MBIA Insurance Corporation and Ambac Assurance Corporation.

Senior notes – USD

USD Senior notes – a fixed rate USD 130 million agreement has been entered into to replace the NZD 150 million 7.8% fixed rate Senior bonds that mature in October 2014. The USD Senior notes will settle on 14 October 2014.

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 2014 and 30 June 2013.

18. DERIVATIVES AND HEDGE ACCOUNTING

	GROUP & PARENT					
	CASH FLOW HEDGES		FAIR VALUE HEDGES		TOTAL	
	2014 $000	2013 $000	2014 $000	2013 $000	2014 $000	2013 $000
Derivative assets						
Cross currency swaps	–	6,305	–	273	–	6,578
Interest rate swaps	–	–	598	4,086	598	4,086
Forward exchange contracts	–	344	–	–	–	344
Total	–	6,649	598	4,359	598	11,008
Derivative liabilities						
Cross currency swaps	(87,448)	(87,380)	(86,085)	(14,381)	(173,533)	(101,761)
Interest rate swaps	(71,417)	(124,570)	–	–	(71,417)	(124,570)
Forward exchange contracts	(180)	(2,065)	–	–	(180)	(2,065)
Total	(159,045)	(214,015)	(86,085)	(14,381)	(245,130)	(228,396)

The carrying values presented in the above table are the fair values excluding any interest receivable or payable, which is separately presented in the balance sheet in other receivables or other payables.

	GROUP & PARENT	
Key observable market data for fair value measurement	2014	2013
Foreign currency exchange (FX) rates as at 30 June:		
NZD-GBP FX rate	0.51200	0.50880
NZD-USD FX rate	0.87580	0.77435
Interest rate swap rates:		
NZD	3.43% to 4.90%	2.66% to 4.53%
USD	0.45% to 3.19%	0.28% to 3.29%
GBP	0.16% to 3.17%	0.54% to 3.19%
Credit margins:		
Vector	1.29% to 2.21%	
Counterparties	0.03% to 1.71%	

Sensitivity to changes in market rates	2014 $000	2013 $000
Impact on comprehensive income		
Sensitivity to change in interest rates:		
–1% change in interest rates	(38,535)	(45,951)
+1% change in interest rates	36,999	43,714
Sensitivity to change in foreign exchange rates:		
–10% change in foreign exchange rates	(7,015)	(9,664)
+10% change in foreign exchange rates	7,183	9,969
Sensitivity to change in credit margins:		
–0.50% change in credit margins	(1,569)	–
+0.50% change in credit margins	1,542	–
Impact on profit or loss		
Sensitivity to change in interest rates:		
–1% change in interest rates	(3,539)	(1,462)
+1% change in interest rates	3,826	1,455
Sensitivity to change in foreign exchange rates:		
–10% change in foreign exchange rates	6,654	–
+10% change in foreign exchange rates	(6,764)	–
Sensitivity to change in credit margins:		
–0.50% change in credit margins	(1,336)	–
+0.50% change in credit margins	1,311	–

18. 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 or foreign exchange market prices, including interest accrued.

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 relationship 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.

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 interest rate swaps and 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 NZD senior bonds, GBP medium term notes and 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.

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, USD senior notes and GBP medium term 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 previous table shows the sensitivity of the financial statements to the reasonably possible changes in the market data at balance date.

18. DERIVATIVES AND HEDGE ACCOUNTING (CONTINUED)

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. This is because Vector does not have any currently legally enforceable right to offset recognised amounts, as 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.

	GROUP AND PARENT	
	CARRYING AMOUNT	
	2014 $000	2013 $000
Net derivatives position under ISDA agreements		
Derivative assets	598	11,008
Derivative liabilities	(245,130)	(228,396)
Net amount	(244,532)	(217,388)

19. 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.

19.1 Interest rate risk

	GROUP AND PARENT 2014				
Interest rate exposure	< 1 YEAR $000	1–2 YEARS $000	2–5 YEARS $000	> 5 YEARS $000	TOTAL $000
Interest rate exposure: borrowings	1,439,000	–	647,140	547,139	2,633,279
Interest rate exposure: committed borrowings	–	–	–	150,000	150,000
Derivative contracts:					
Interest rate swaps	(1,160,000)	295,000	560,000	305,000	–
Cross currency swaps	796,014	–	(98,875)	(697,139)	–
Net interest rate exposure	1,075,014	295,000	1,108,265	305,000	2,783,279

	GROUP AND PARENT 2013				
Interest rate exposure	< 1 YEAR $000	1–2 YEARS $000	2–5 YEARS $000	> 5 YEARS $000	TOTAL $000
Interest rate exposure: borrowings	1,160,000	150,000	361,527	832,752	2,504,279
Derivative contracts:					
Interest rate swaps	(1,010,000)	(150,000)	960,000	200,000	–
Cross currency swaps	646,014	–	(98,875)	(547,139)	–
Net interest rate exposure	796,014	–	1,222,652	485,613	2,504,279

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 maximum and minimum limits for the net interest rate exposure profile.

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

19.2 Credit risk

Maximum exposure to credit risk – fair value	GROUP 2014 $000	GROUP 2013 $000	PARENT 2014 $000	PARENT 2013 $000
Cash and cash equivalents	8,284	56,164	871	43,973
Trade receivables	146,768	148,729	83,420	87,817
Interest rate swaps	598	4,086	598	4,086
Cross currency swaps	–	6,578	–	6,578
Forward exchange contracts	–	344	–	344
Total credit risk exposure	155,650	215,901	84,889	142,798

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 counter party 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.

19.3 Liquidity risk

Contractual cash flows maturity profile	GROUP 2014 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	159,938	–	–	–	159,938
Deferred consideration payable	1,500	–	–	–	1,500
Borrowings: interest	119,246	116,970	245,493	78,714	560,423
Borrowings: principal	51,564	250,000	1,200,479	928,899	2,430,942
Derivative financial assets/(liabilities):					
Cross currency swaps: inflow	(45,332)	(47,856)	(432,171)	(628,684)	(1,154,043)
Cross currency swaps: outflow	68,736	77,359	603,358	791,486	1,540,939
Forward exchange contracts: inflow	(2,796)	(180)	–	–	(2,976)
Forward exchange contracts: outflow	3,000	203	–	–	3,203
Net settled derivatives:					
Interest rate swaps	35,326	23,260	24,323	2,279	85,188
Group contractual cash flows	391,182	419,756	1,641,482	1,172,694	3,625,114
RECONCILIATION TO PARENT					
Subsidiary trade and other payables	(54,176)	–	–	–	(54,176)
Parent contractual cash flows	337,006	419,756	1,641,482	1,172,694	3,570,938

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

19.3 Liquidity risk (continued)

Contractual cash flows maturity profile	PAYABLE <1 YEAR $000	PAYABLE 1–2 YEARS $000	PAYABLE 2–5 YEARS $000	PAYABLE >5 YEARS $000	TOTAL CONTRACTUAL CASH FLOWS $000
	GROUP 2013				
Non-derivative financial liabilities:					
Trade payables	151,480	–	–	–	151,480
Acquisition consideration payable	68,717	–	–	–	68,717
Deferred consideration payable	–	–	1,500	–	1,500
Borrowings: interest	112,270	114,440	269,636	11,833	508,179
Borrowings: principal	–	150,000	1,171,526	1,182,753	2,504,279
Derivative financial assets/(liabilities):					
Cross currency swaps: inflow	(46,229)	(46,284)	(215,793)	(796,575)	(1,104,881)
Cross currency swaps: outflow	57,583	62,567	294,596	961,908	1,376,654
Forward exchange contracts: inflow	(16,625)	–	–	–	(16,625)
Forward exchange contracts: outflow	16,625	–	–	–	16,625
Net settled derivatives:					
Interest rate swaps	44,461	38,226	50,865	3,129	136,681
Group contractual cash flows	388,282	318,949	1,572,330	1,363,048	3,642,609
	RECONCILIATION TO PARENT				
Subsidiary trade and other payables	(123,093)	–	–	–	(123,093)
Parent contractual cash flows	265,189	318,949	1,572,330	1,363,048	3,519,516

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 between 2 and 5 years 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 Vector has access to undrawn funds of $396 million (2013: $325 million).

19.4 Foreign exchange risk

Policies

Vector is exposed to 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.

19.5 Funding risk

Policies

Funding risk is the risk that Vector will have difficulty refinancing or raising new debt on comparable terms as 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 17.

The board of directors has set maximum and minimum limits for the maturity profile of the debt and for the amount of debt that may mature in any one financial year.

20. CASH FLOWS

Reconciliation of net profit/(loss) to net cash flows from/(used in) operating activities	NOTE	GROUP 2014 $000	GROUP 2013 $000	PARENT 2014 $000	PARENT 2013 $000
Net profit/(loss) for the period		171,291	206,231	62,493	82,611
Items classified as investing activities					
Net loss/(gain) on disposal of PPE and software intangibles	5	3,029	4,704	3,818	4,183
Non-cash items					
Depreciation and amortisation		183,756	174,078	107,023	104,000
Non-cash portion of interest costs (net)		(4,473)	(1,490)	(2,290)	453
Fair value change on financial instruments		(5,993)	(62)	(5,993)	(62)
Associates (share of (net profit)/loss)	11	(1,727)	(1,291)	–	–
Impairment of investment in associate	11	1,241	3,570	4,405	3,570
Management fee income	22	–	–	(41,789)	(38,490)
Increase/(decrease) in deferred tax		14,090	17,042	9,085	9,742
Increase/(decrease) in provisions		6,816	1,169	–	–
Other non-cash items		–	–	(35,566)	(21,005)
		193,710	193,016	34,875	58,208
Cash items not impacting net profit/(loss)					
Dividends received from associate		1,400	200	–	–
Changes in assets and liabilities					
Trade and other payables		1,896	8,724	13,564	(2,407)
Inventories		1,163	(199)	–	–
Trade and other receivables		1,573	4,922	4,641	2,552
Income tax		(7,439)	8,585	(37,153)	(29,515)
		(2,807)	22,032	(18,948)	(29,370)
Net cash flows from/(used in) operating activities		366,623	426,183	82,238	115,632

21. EQUITY

21.1 Transactions with owners

Dividends

Vector Limited's final dividend for the year ended 30 June 2013 of 7.75 cents per share was paid on 13 September 2013, with a supplementary dividend of $0.4 million (equating to 1.37 cents per non-resident share).

The interim dividend for the current year of 7.5 cents per share was paid on 15 April 2014, with a supplementary dividend of $0.4 million (equating to 1.32 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 (2013: 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, 4,384,372 shares (2013: 4,379,027) are held as treasury shares of which 139,449 (2013: 134,104) are allocated to the employee share purchase scheme.

21.2 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
- To 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 net debt to net debt plus equity ratio.

21. EQUITY (CONTINUED)

21.3 Financial ratios

Earnings per share	2014	2013
Net profit attributable to owners of the parent ($000)	168,502	203,341
Weighted average ordinary shares outstanding during the period (number of shares)	995,616,805	995,626,031
	16.9 cents	20.4 cents

Net tangible assets per share	2014 $000	2013 $000
Net assets attributable to owners of the parent	2,291,672	2,240,326
Less total intangible assets	(1,632,430)	(1,633,369)
Total net tangible assets	659,242	606,957
Ordinary shares outstanding (number of shares)	995,615,628	995,620,973
	66.2 cents	60.9 cents

Net debt to net debt plus equity ratio	2014 $000	2013 $000
Current borrowings	200,314	–
Non-current borrowings	2,268,674	2,420,430
Total borrowings	2,468,988	2,420,430
Less cash and cash equivalents	(8,284)	(56,164)
Net debt	2,460,704	2,364,266
Total equity	2,307,787	2,258,462
Net debt plus equity	4,768,491	4,622,728
	51.6%	51.1%

21.4 Reserves

Hedge reserve

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, $63.2 million (2013: $52.2 million) was transferred from the cash flow hedge reserve to interest expense.

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 transferred to retained earnings.
- A foreign currency translation reserve to record exchange differences arising from the translation of foreign subsidiaries.
- A reserve recording the group's share of its associates other comprehensive income.

22. RELATED PARTY TRANSACTIONS

	PARENT 2014 $000	PARENT 2013 $000
Transactions with the Auckland Energy Consumer Trust		
Dividends paid	114,528	110,773
Call centre costs recovered	35	183
Rental income received	15	15
Transactions with subsidiaries		
Net cash advances/loan repayments paid	218,367	156,465
Net cash advances/loan repayments received	308,097	346,937
Management fees received	41,789	38,490
Employee costs recharged	38,021	25,754
Purchase of telecommunications services	9,918	8,279
Sales of gas distribution services	3,338	3,918
Income from call centre and network data services provided	1,811	1,960
Income from financial services	439	411
Directors' fees from Liquigas Limited	30	15
Property and administration services paid	5	6

	GROUP 2014 $000	GROUP 2013 $000	PARENT 2014 $000	PARENT 2013 $000
Transactions with associates and joint operations				
Purchases of electricity and steam from Kapuni Energy Joint Venture (KEJV)	12,787	12,710	–	–
Purchase of vegetation management services from Tree Scape Limited	3,911	4,482	3,911	4,482
Capital distribution received from Total Metering 2012 Limited (in liquidation)	45	2,757	–	–
Sales of operations and maintenance services to KEJV	1,659	1,869	–	–
Administration and other services provided to KEJV	70	70	–	–
Dividends received from Tree Scape Limited	1,400	200	1,400	200
Electricity services provided to NZ Windfarms Limited	120	120	120	120
Directors' fees from NZ Windfarms Limited	30	30	30	30
Directors' fees from Tree Scape Limited	94	–	94	–
Transactions with key management personnel				
Salary and other short-term employee benefits	6,052	5,858	5,934	5,826
Directors' fees	981	856	893	773
Redundancy and termination benefits	123	372	123	372

Related parties

Related parties of the group include the subsidiaries, associates and joint operations disclosed in Note 11, the ultimate parent entity (Auckland Energy Consumer Trust) and key management personnel (directors and the executive team).

Tax losses

Tax losses totalling $1.0 million with a tax effect of $0.3 million (2013: $10.4 million with a tax effect of $2.9 million) have been transferred during the period from various subsidiaries for utilisation by Vector Limited to partially offset against its 2013 taxable profits.

Vector Limited made payments totalling $0.3 million (2013: $2.9 million) for the transfer of these losses.

Guarantees

Vector Limited has provided guarantees on behalf of Vector Gas Limited and Vector Gas Contracts Limited for the sale and purchase of gas.

Vector Limited has also provided guarantees for Advanced Metering Assets Limited and Advanced Metering Services Limited for metering services.

Fees are payable for these guarantees based on market rates.

The guarantees are all accounted for in accordance with NZ IFRS 4, *Insurance Contracts*, where a liability is recognised, if any, at the present value of expected future payments for claims incurred.

Other

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

22. RELATED PARTY TRANSACTIONS (CONTINUED)

Advances to/(from) subsidiaries at balance date	PARENT 2014 $000	PARENT 2013 $000
Advances by the parent to:		
MEL Network Limited	55,994	48,119
Mercury Geotherm Limited (in receivership)	1,671	9,547
Broadband Services Limited	366	366
Vector Management Services Limited	7,898	7,970
Advanced Metering Services Limited	20,278	11,852
Advanced Metering Assets Limited	4,661	–
Vector ESPS Trustee Limited	354	340
Elect Data Services (Australia) Pty Limited	858	–
NGC Holdings Limited	49,864	60
	141,944	78,254
Less: provision against advances to subsidiaries	(57,665)	(57,666)
Total	84,279	20,588
Advances to the parent by:		
Vector Communications Limited	(364)	(4,133)
Vector Gas Investments Limited	(12,728)	(9,703)
Vector Kapuni Limited	(8,943)	(58,224)
Vector Gas Contracts Limited	(108)	–
Advanced Metering Assets Limited	–	(24,216)
Vector Gas Limited	(236,196)	(144,944)
On Gas Limited	(54,642)	(33,648)
Elect Data Services (Australia) Pty Limited	–	(2,232)
Auckland Generation Limited	(13,323)	(13,323)
Vector Metering Data Services Limited	(139,602)	(128,638)
Total	(465,906)	(419,061)

Advances

The table above discloses the advances to and from all related parties as at balance date.

All advances to and from subsidiaries are non-interest bearing and repayable on demand.

Related party receivable provision

We hold a provision of $57.7 million (2013: $57.7 million) against Vector Limited's receivable from MEL Network Limited and Mercury Geotherm Limited (in receivership).

No related party debts have been written off or forgiven during the period.

Other related party receivables

	PARENT 2014 $000	PARENT 2013 $000
Auckland Energy Consumer Trust	1	1
NZ Windfarms Limited	18	22
Tree Scape Limited	6	7
	25	30

23. 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 16 of these financial statements.

No material contingent liabilities have been identified.

24. BUSINESS COMBINATIONS

Metering acquisition

In the prior period, Advanced Metering Assets Limited, a wholly owned subsidiary of the group, acquired the business and assets of the Contact Energy Limited gas metering systems business.

The fair value of the assets and liabilities acquired have now been finalised, and there is no change to the provisional values reported in the 2013 Annual Report.

A payment of $59.8 million exclusive of GST was made in the current period in respect of this acquisition.

25. EVENTS AFTER BALANCE DATE

Approval

The financial statements were approved by the board of directors on 22 August 2014.

Final dividend

On 22 August 2014, the board declared a final dividend for the year ended 30 June 2014 of 7.75 cents per share.

Regulatory announcements

In July 2014 the Commerce Commission released its draft price-quality paths for electricity distributors. The draft default price-quality paths cover the period 2015-2020, and will take effect from 1 April 2015. Also in July 2014 the Commerce Commission released its draft decision on amending the Weighted Average Cost of Capital (WACC) input methodology to be used for regulation of electricity lines and gas pipeline services. The draft decision proposes using the 67th percentile of the WACC range rather than the current 75th percentile.

26. ADDITIONAL DISCLOSURES

Electricity regulation claw back

On 30 November 2012, the Commerce Commission announced the reset of the default price-quality paths for 16 electricity distributors, one of which is the Vector electricity distribution business.

The new default price-quality paths took effect from 1 April 2013 and required an average reduction of 10% in Vector's electricity distribution prices in the regulatory year ended 31 March 2014. The Commerce Commission applied claw back for the over recovery of revenue for the regulatory year ended 31 March 2013 given that prices had already been set for that period prior to the Commerce Commission's 30 November 2012 reset announcement.

The claw back has been effected through a price adjustment for the regulatory year to 31 March 2015. The amount of the claw back is estimated to be $15 million which will impact revenues reported for the financial year ending 30 June 2014 (3 months) and 30 June 2015 (9 months).

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 2014 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 $28,394 during the year ended 30 June 2014. Vector's subsidiary companies made donations of $5,173.

CREDIT RATING

At 30 June 2014 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 the Auckland Energy Consumer Trust (AECT). 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 THE AUCKLAND ENERGY CONSUMER TRUST

During the year ended 30 June 2014, Vector Limited made payments to J Carmichael and K Sherry, trustees of the AECT (Vector Limited's majority shareholder) totalling $198,450 in respect of their roles as directors on the Vector Limited Board.

DIRECTORS

The following directors of Vector Limited and current group companies held office as at 30 June 2014 or resigned (R) as a director during the year ended 30 June 2014. 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 2014 are independent directors, except for J Carmichael and K Sherry who are trustees of the Auckland Energy Consumer Trust (Vector Limited's majority shareholder).

Subsidiaries	Directors
Advanced Metering Assets Limited	R Ambrose (A), S Mackenzie, D Molloy (A), S Sampson (R)
Advanced Metering Services Limited	D Molloy (A), D Thomas
Auckland Generation Limited	S Mackenzie, D Molloy (A), S Sampson (R)
Broadband Services Limited	M Stiassny
Elect Data Services (Australia) Pty Limited	S Mackenzie, I McClelland
Liquigas Limited	M Armstrong (R), T Barstead, B Boswell (A), J Floyd (A), A Gilbert, I Lindsay, S Mackenzie (R), D Molloy (A), T Palmer (A), P Ridley-Smith, S Sampson (R), J Seymour, A Smith, D Thomas, C Thompson (A)
MEL Network Limited	S Mackenzie, D Molloy (A), S Sampson (R)
Mercury Geotherm Limited (in receivership)	A McLachlan, D Ross, S Sampson
NGC Limited	S Mackenzie, D Molloy (A), S Sampson (R)
NGC Holdings Limited	P Bird, J Carmichael, H Fletcher, J Mason, A Paterson, K Sherry, M Stiassny, R Thomson
On Gas Limited	S Mackenzie, D Molloy (A), S Sampson (R)
Poihipi Land Limited (in receivership)	A McLachlan, D Ross
UnitedNetworks Limited	S Mackenzie, D Molloy (A), S Sampson (R)
Vector Communications 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 (A)
Vector Gas Limited	S Mackenzie, D Molloy (A), S Sampson (R)
Vector Gas Contracts Limited	S Mackenzie, D Molloy (A), S Sampson (R)
Vector Gas Investments Limited	S Mackenzie, D Molloy (A), S Sampson (R)
Vector Kapuni Limited	S Mackenzie, D Molloy (A), S Sampson (R)
Vector Management Services Limited	S Mackenzie, D Molloy (A), S Sampson (R)
Vector Metering Data Services Limited	P Bird, J Carmichael, H Fletcher, J Mason, A Paterson, K Sherry, M Stiassny, R Thomson

Associates	Directors
NZ Windfarms Limited	M Allen (R), V Buck, W Creech (R), J Elder (A), S Mackenzie, M Stiassny, D Walker
Total Metering 2012 Limited (in liquidation)	W Falconer, P Gardner, B Leighs
Tree Scape Limited	E Chignell, S Mackenzie, D Molloy (A), S Sampson (R), P Smithies, D Tompkins (R), 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 2014:

Directors of Vector Limited	Paid by parent $	Paid by subsidiaries $
P Bird	99,225	–
J Carmichael	99,225	–
H Fletcher	99,225	–
J Mason	99,225	–
A Paterson	99,225	–
K Sherry	99,225	–
M Stiassny	198,450	–
R Thomson	99,225	–
	893,025	–

Directors of subsidiaries	Paid by parent $	Paid by subsidiaries $
T Barstead	–	5,000
J Floyd (A)	–	2,840*
A Gilbert	–	6,073
I Lindsay	–	39,000
I McClelland	–	5,543
D Molloy (A)	–	2,840*
P Ridley-Smith	–	5,000
S Sampson (R)	–	5,000*
J Seymour	–	5,000*
A Smith	–	5,000
D Thomas	–	6,427*
	–	87,723

*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 2014 that are not set out elsewhere in this annual report:

Director	Entity	Position
P Bird	Green Africa Power LLP	Board member
	InfraCo Asia Development Pte Limited	Non-executive director
	InfraCo Asia Investments Pte Limited	Non-executive director
	Meitner Pte Limited	Managing director and owner
	Rothschild Singapore Limited	Non-executive director
J Carmichael	Aku Investments Limited	Director
	Auckland Energy Consumer Trust	Trustee
	Energy Trusts of New Zealand	Executive member
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
	IAG (NZ) Holdings Limited	Non-executive chairman
	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	Director
	Exxon Mobil	Shareholder
	Meridian Energy Limited	Shareholder (Trumbull Trust)
	Mighty River Power Limited	Shareholder (Trumbull Trust)
	Ryman Healthcare Limited	Shareholder
	Trumbull Trust	Trustee
	University of Auckland	Trustee and adjunct professor of management
	Zespri Group Limited	Director

DIRECTORS OF VECTOR LIMITED (CONTINUED)

Entries in the interests register of Vector Limited during the year to 30 June 2014 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
	Crown Irrigation Investments Limited	Chairman
	Donny Charitable Trust	Trustee
	Farm IQ Systems Limited	Chairman
	GMJ Group	Chairman
	Governing Board of The Centre of Research Excellence for Growth and Development (University of Auckland)	Chairman
	Health Safety and Quality Commission	Member
	New Zealand Formulary Limited	Chairman
	NZ Markets Disciplinary Tribunal	Member
	Stevenson Agriculture Limited	Chairman
K Sherry	Auckland Energy Consumer Trust	Trustee
	Bell-Booth Sherry	Principal
	Energy Trusts of New Zealand	Chairman
	Sasha & Otto Limited	Director and shareholder
	SPCA Auckland	Director
M Stiassny	Atapo Corporation Limited	Director and shareholder
	Auckland Hebrew Congregation Trust Board	Chairman
	DNZ Property Fund Limited	Director
	Gadol Corporation Limited	Director and shareholder
	KordaMentha	Partner
	Ngati Whatua Orakei Whai Rawa Limited	Chairman
	Plan B Limited	Director
	Tower Capital Limited	Director
	Tower Limited	Director
	Triceps Holdings Limited	Director and shareholder
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.

DIRECTORS OF SUBSIDIARIES

Entries in the interests register of subsidiaries up to 30 June 2014 that are not set out elsewhere in this annual report:

None.

EMPLOYEES

The number of current employees of the parent and subsidiaries receiving remuneration and benefits above $100,000 in the year ended 30 June 2014 are set out in the table below:

Current employees	Parent	Subsidiaries
$100,001 – $110,000	60	4
$110,001 – $120,000	52	8
$120,001 – $130,000	42	5
$130,001 – $140,000	40	6
$140,001 – $150,000	27	3
$150,001 – $160,000	18	1
$160,001 – $170,000	17	–
$170,001 – $180,000	8	1
$180,001 – $190,000	17	1
$190,001 – $200,000	13	2
$200,001 – $210,000	4	–
$210,001 – $220,000	3	1
$220,001 – $230,000	3	1
$230,001 – $240,000	3	–
$240,001 – $250,000	5	1
$250,001 – $260,000	1	–
$260,001 – $270,000	4	–
$270,001 – $280,000	4	–
$280,001 – $290,000	4	1
$290,001 – $300,000	1	–
$300,001 – $310,000	1	–
$310,001 – $320,000	1	–
$320,001 – $330,000	2	–
$330,001 – $340,000	1	–
$350,001 – $360,000	2	–
$370,001 – $380,000	1	–
$440,001 – $450,000	1	–
$680,001 – $690,000	1	–
$760,001 – $770,000	1	–
$960,001 – $970,000	1	–
$1,500,001 – $1,510,000	1	–

EMPLOYEES (CONTINUED)

The number of former employees of the parent and subsidiaries receiving remuneration and benefits above $100,000 in the year ended 30 June 2014 are set out in the table below:

Former employees (including any termination payments)	Parent	Subsidiaries
$100,001 – $110,000	3	1
$110,001 – $120,000	5	1
$120,001 – $130,000	2	–
$130,001 – $140,000	1	–
$140,001 – $150,000	5	1
$170,001 – $180,000	1	–
$180,001 – $190,000	2	–
$190,001 – $200,000	3	–
$210,001 – $220,000	1	–
$220,001 – $230,000	2	–
$270,001 – $280,000	1	–
$280,001 – $290,000	1	–
$410,001 – $420,000	1	–
$480,001 – $490,000	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 2014:

7.00% CAPITAL BONDS

Range	Number of bondholders	Percentage of bondholders	Number of securities held	Percentage of securities held
5,000 – 9,999	890	18.49%	4,774,667	1.55%
10,000 – 49,999	2,981	61.91%	59,867,700	19.49%
50,000 – 99,999	590	12.25%	34,067,000	11.09%
100,000 – 499,999	311	6.46%	45,932,000	14.95%
500,000 – 999,999	18	0.37%	9,862,000	3.21%
1,000,000 plus	25	0.52%	152,701,633	49.71%
	4,815	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 2014:

Director	Number of bonds
A Paterson (as a trustee of the BJ Paterson Trust)	25,000
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

BONDHOLDER STATISTICS (CONTINUED)

7.80% SENIOR RETAIL BONDS

Range	Number of bondholders	Percentage of bondholders	Number of securities held	Percentage of securities held
5,000 – 9,999	237	12.09%	1,350,000	0.90%
10,000 – 49,999	1,291	65.83%	24,305,000	16.20%
50,000 – 99,999	265	13.51%	14,429,000	9.62%
100,000 – 499,999	138	7.04%	21,480,000	14.32%
500,000 – 999,999	12	0.61%	6,513,000	4.34%
1,000,000 plus	18	0.92%	81,923,000	54.62%
	1,961	100.00%	150,000,000	100.00%

No directors of the parent are holders (either beneficially or non-beneficially) of Vector Limited retail bonds as at 30 June 2014:

SHAREHOLDER STATISTICS

Twenty largest registered shareholders as at 30 June 2014:

Shareholder	Ordinary shares held	Percentage of ordinary shares held
Auckland Energy Consumer Trust	751,000,000	75.10%
New Zealand Central Securities Depository Limited[1]	55,230,229	5.52%
Custodial Services Limited <A/C 3>	12,134,310	1.21%
Custodial Services Limited <A/C 2>	5,729,931	0.57%
FNZ Custodians Limited	5,462,333	0.55%
Investment Custodial Services Limited <A/C C>	5,207,145	0.52%
Vector Limited	4,244,923	0.43%
Custodial Services Limited <A/C 18>	3,529,835	0.35%
Custodial Services Limited <A/C 4>	3,334,261	0.33%
Custodial Services Limited <A/C 1>	2,040,443	0.21%
Forsyth Barr Custodians Limited <1-33>	2,036,839	0.20%
NZPT Custodians (Grosvenor) Limited	1,725,983	0.17%
Custodial Services Limited <A/C 16>	1,392,510	0.14%
New Zealand Depository Nominee Limited <A/C 1>	1,131,008	0.11%
Investment Custodial Services Limited <A/C R>	993,995	0.10%
Forsyth Barr Custodians Limited <1-17.5>	901,941	0.09%
M A Janssen Limited	619,200	0.06%
Anthony Ian Gibbs & Valerie Jane Gibbs & Joseph Michael Windmeyer <RubyCove (1990) A/C>	552,460	0.06%
Custodial Services Limited <A/C 6>	550,956	0.06%
Kershaw Investments Limited	475,000	0.05%
	858,293,302	85.83%

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

SHAREHOLDER STATISTICS (CONTINUED)

As at 30 June 2014, the 10 largest shareholdings in Vector Limited held through NZCSD were:

Shareholder	Ordinary shares held	Percentage of ordinary shares held
Accident Compensation Corporation	12,661,117	1.27%
Citibank Nominees (New Zealand) Limited	10,486,242	1.05%
JP Morgan Chase Bank NA	9,279,767	0.93%
HSBC Nominees (New Zealand) Limited A/C State Street	4,990,119	0.50%
Private Nominees Limited	4,657,181	0.46%
HSBC Nominees (New Zealand) Limited	4,301,228	0.43%
National Nominees New Zealand Limited	4,078,034	0.41%
TEA Custodians Limited	2,640,806	0.26%
BNP Paribas Nominees (NZ) Limited	1,609,429	0.16%
BNP Paribas Nominees (NZ) Limited	314,995	0.03%

Substantial security holders as at 30 June 2014:

Shareholder	Number of relevant interest voting securities held	Percentage of voting
Auckland Energy Consumer Trust	751,000,000	75.10%

Michael Buczkowski, James Carmichael, William Cairns, Warren Kyd and Karen Sherry are the registered holders of the shares held by the Auckland Energy Consumer Trust.

As at 30 June 2014, voting securities 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 2014:

Range	Number of shareholders	Percentage of shareholders	Number of shares held	Percentage of shares held
1 – 499	6,983	19.70%	2,202,846	0.22%
500 – 999	3,548	10.01%	2,765,933	0.28%
1,000 – 4,999	18,461	52.07%	33,480,734	3.35%
5,000 – 9,999	3,097	8.74%	20,761,090	2.08%
10,000 – 49,999	3,034	8.56%	53,544,398	5.35%
50,000 – 99,999	204	0.57%	12,888,277	1.29%
100,000 plus	126	0.35%	874,356,722	87.43%
	35,453	100.00%	1,000,000,000	100.00%

SHAREHOLDER STATISTICS (CONTINUED)

Analysis of shareholders as at 30 June 2014:

Shareholder type	Number of shareholders	Percentage of shareholders	Number of shares held	Percentage of shares held
Auckland Energy Consumer Trust	1	0.00%	751,000,000	75.10%
Companies	1,116	3.15%	19,117,749	1.91%
Individual Holders	22,140	62.45%	64,674,744	6.47%
Joint	10,675	30.11%	49,832,364	4.98%
Nominee Companies	801	2.26%	105,798,625	10.58%
Vector Limited	1	0.00%	4,244,923	0.43%
Other	719	2.03%	5,331,595	0.53%
	35,453	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 2014:

Director	Number of shares 30 June 2014
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
A Paterson	10,000
K Sherry	840
M Stiassny	64,471
R Thomson	45,000

Michael Buczkowski, James Carmichael, William Cairns, Warren Kyd and Karen Sherry are the registered holders of the 751,000,000 ordinary shares held by the Auckland Energy Consumer Trust. 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 2014 by directors of Vector Limited in the ordinary shares of Vector Limited. The nature of the relevant interests acquired or disposed are as described under section 146(1)(a) or section 146(1)(f) of the Companies Act 1993 as detailed below:

Acquisitions of relevant interests – Vector Limited ordinary shares:

Director	Nature of relevant interest	Date of acquisition	Consideration paid (per share)	Number of shares in which relevant interest acquired
R Thomson	Beneficial	2 October 2013	$2.68	15,000
H Fletcher	Beneficial	23 August 2013	$2.67	15,000
	Beneficial	23 August 2013	$2.68	23,000
	Beneficial	19 September 2013	$2.68	67,000
	Beneficial	13 November 2013	$2.55	30,000
	Beneficial	14 November 2013	$2.57	10,000
	Beneficial	25 February 2014	$2.49	40,000
J Mason	Beneficial	23 August 2013	$2.69	18,500

FINANCIAL CALENDAR

2014	
Annual meeting	October
1st quarter operational statistics	October

2015	
2nd quarter operational statistics	January
Half year result and report	February
Interim dividend*	April
3rd quarter operational statistics	April
4th 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 senior retail and capital bonds listed and quoted on the New Zealand Debt Market (NZDX). Current information about Vector's trading performance for its shares and bonds can be obtained on the NZX website at **www.nzx.com**. Further information about Vector is available on our website **www.vector.co.nz**.

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TO REPORT A FAULT

Electricity

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

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

Gas

Call 0800 764 764

Year ended 30 June ($ million)	2014	2013
PROFIT OR LOSS		
Revenue	1,258.9	1,279.2
Operating expenditure	(678.2)	(648.7)
Adjusted EBITDA	580.7	630.5
Depreciation and amortisation	(183.8)	(174.1)
Adjusted EBIT	396.9	456.4
Fair value change on financial instruments	6.0	0.1
Interest costs (net)	(168.9)	(164.4)
Associates (share of net profit)	1.7	1.3
Impairment of investment in associates	(1.2)	(3.6)
Profit before income tax	234.5	289.8
Tax expense	(63.2)	(83.6)
Net profit	171.3	206.2
Net profit attributable to non-controlling interests	(2.8)	(2.9)
Net profit attributable to shareholders of the parent	168.5	203.3
ASSETS		
Current assets	193.8	236.3
Intangible assets	1,632.4	1,633.4
Property, plant and equipment	3,999.6	3,849.4
Other non-current assets	13.3	28.0
	5,839.1	5,747.1
EQUITY AND LIABILITIES		
Other current liabilities	228.3	287.5
Total borrowings	2,469.0	2,420.4
Deferred tax liability	551.9	525.5
Other non-current liabilities	282.1	255.2
Equity	2,307.8	2,258.5
	5,839.1	5,747.1
CASH FLOW		
Net cash flows from operating activities	366.6	426.2
Dividends paid[1]	(156.7)	(148.3)
Capital expenditure payments	(327.4)	(283.4)
Cash outflow before external funding and investments	(117.5)	(5.5)
Net borrowings drawn down/(repaid)	129.0	(22.8)
Other financing activities	(1.1)	(0.8)
Business acquisitions	(60.1)	–
Other investing activities	1.8	3.7
Increase/(decrease) in cash	(47.9)	(25.4)

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

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Further information about Vector is available on our website **www.vector.co.nz** www.vector.co.nz