CREATING A NEW ENERGY FUTURE

ANNUAL REPORT 2015

VECTOR LIMITED

Thank you to Auckland City BMW for providing the BMW i8 for the front cover photograph.

WE ARE

New technology is transforming energy distribution networks. We are developing new options that allow us to control our future.

CREATING

Customers are gaining greater choice over the source of energy they use, who supplies it, when and how they consume it and the price they pay.

A NEW

We are focused on meeting customers' ever-rising expectations and growing sustainably while setting standards for health, safety and environmental leadership.

ENERGY

We are leveraging our heritage as New Zealand's largest electricity and gas distributor, our broad portfolio of operations and the pivotal role we play in the country's economic development.

FUTURE.

Vector is leading change.

Revenue

$1,294.0m

REVENUE RISES 2.8%

SOLAR TAKES OFF

Installed more than 400 solar systems

Adjusted EBITDA[1]

$596.9m

GROWTH IN AUCKLAND, ENERGY VOLUMES AND TECHNOLOGY OFFSET REGULATED PRICE CUTS.

RELATIONSHIP WITH TESLA ENERGY

Vector has a new relationship with Silicon Valley pioneer Tesla Energy through which it expects to bring commercial and residential batteries to New Zealand.

1. Adjusted EBITDA is a non-GAAP profit measure. For a comprehensive definition and reconciliation of this measure to the GAAP measure of net profit, refer to page 38 of this report.

ABOUT VECTOR

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. We are also leading a revolution in infrastructure management technology.

- New Zealand's largest distributor of electricity and gas.
- Electricity and gas distribution networks span the Auckland region.
- Around 40 towns and cities in the North Island served by Vector's gas regional network.
- Nearly 800 OnGas bottle swap outlets across New Zealand.
- LPG depots spread from Invercargill to Whangarei.
- Nearly $160 million in revenue is generated by technology products and services.
- 874 staff and more than 1,000 contractors employed.
- Vector has a strong record of health, safety and environmental leadership.
- More than $100 million distributed annually to the beneficiaries of the Auckland Energy Consumer Trust.

We are one of the largest New Zealand companies on the NZX, we deliver consistent returns to shareholders and we are advocates for an effective infrastructure sector. We are committed to being the country's leading infrastructure company.

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

Dividend

15.50c

THIS HAS BEEN THE NINTH YEAR OF FULL-YEAR DIVIDEND INCREASES

Reduction in TRIFR[2]

42.5%

VECTOR CONTINUES TO IMPROVE SAFETY

Electricity customer numbers

544,513

AUCKLAND UNDERPINS LONG-TERM GROWTH POTENTIAL

METERING IN AUSTRALIA

Well positioned to support a smart meter roll out

ARC INNOVATIONS

Acquired Arc Innovations from Meridian Energy

2. Total recordable injury frequency rate: number of recordable injuries per million hours worked, including contractors.

PROUDLY LOCALLY OWNED

Vector is a majority New Zealand-owned company. Our majority shareholder is the Auckland Energy Consumer Trust (AECT). The remainder of our shares are held by investors. Our shares are traded on NZX Limited's Main Board under the ticker code VCT.

The AECT is a private trust established in 1993 under a Trust Deed that runs 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. This allows Vector to look through economic cycles and make investments that deliver sustainable and growing returns across generations.

AECT acts in the interests of its beneficiaries, around 318,000 households and businesses in Auckland, Manukau and parts of Papakura that were historically the customers of the old Auckland Electric Power Board (AEPB).

It is one of 22 similar trusts that operate throughout New Zealand.

Since its formation, it has returned more than $1.0 billion to its beneficiaries in annual distributions. Every three years, beneficiaries elect five trustees. These trustees are responsible for managing AECT's assets, administering the largest dividend distribution in New Zealand, acting as trustees on behalf of trust beneficiaries, acting as majority shareholder in Vector, monitoring regulatory issues and taking a proactive role in ensuring energy supply security.

AECT's trustees: William Cairns (Chairman); Warren Kyd (Deputy Chairman); Michael Buczkowski; James Carmichael* and Karen Sherry*

For more visit: www.aect.co.nz

AECT AUCKLAND ENERGY CONSUMER TRUST

* Also sit on the Vector Board as Directors.

Transforming our business

Vector has accelerated the transformation of its business in line with its vision to create a new energy future, which is entirely aligned with the needs and wants of our customers.

Also, it has delivered a strong result, despite significant and well-signalled regulator-imposed price cuts on our energy networks and falling natural gas volumes and weaker prices at the gas wholesale business.

We benefited from strong growth in Auckland, a return to cooler temperatures in line with historical averages and ongoing growth in our technology operations. Meanwhile, we have continued to prepare the company for a future that is significantly different from the past.

We are leading the adoption of technology that will transform the electricity industry worldwide and we are creating new opportunities for the company.

In particular, Vector has a new, ground breaking relationship with Silicon Valley pioneer Tesla Energy, through which we expect to bring commercial and residential batteries to New Zealand.

Our metering business continues to grow. We are well positioned to leverage our New Zealand credentials to support a smart meter roll out that is beginning to gain momentum in Australia. Our metering business has also been bolstered by the $20 million acquisition of Arc Innovations.

In addition, we commenced a strategic review of our gas transmission assets and our gas distribution assets outside Auckland.

Annual revenue rose 2.8% to $1,294.0 million from $1,258.9 million. Increases in Transpower charges, rates and levies and other costs that are passed directly through to customers lifted revenue by around $28 million. Vector is one of Auckland's largest ratepayers and these increases are reducing the benefits of the significant price reductions we have delivered to Auckland consumers over the past few years.

Adjusted EBITDA rose 2.8% to $596.9 million from the $580.7 million posted in the same period last year, ahead of guidance of around $588 million. Adjusted EBITDA, excluding capital contributions, rose $3.4 million to $540.4 million from $537.0 million.

Net profit fell 12.8% to $149.4 million from $171.3 million. A non-cash $11.0 million mark-to-market loss on derivatives, principally reflecting a weakening of the New Zealand dollar, and higher borrowing costs, diluted the gains in adjusted EBITDA.

"We are leading the adoption of technology that will transform the electricity industry worldwide and we are creating new opportunities for the company."

The Board has declared a fully imputed final dividend of 8.0 cents per share, taking total dividends for the year to 15.5 cents per share, up 0.25 cents per share on the prior year's 15.25 cents per share.

It is the ninth year running that Vector has delivered an increase in dividends to shareholders. The dividend represents a pay-out of 69% of free cash flows[1] and is ahead of our policy to target a pay-out of 60%. This compensates for below-target pay-outs in the four years prior to the last financial year.

Our balance sheet is strong with gearing[2] at 53.6% compared to 52.5% in the prior year and we retain an investment-grade credit rating. Vector continues to benefit from its position as a provider of essential infrastructure to Auckland, the country's economic powerhouse.

In the coming ten years, Vector forecasts around $1.8 billion of capital investment will be required for its Auckland energy networks. Were this investment ring-fenced into a stand-alone company it would create the country's second largest energy distribution company after Vector. This level of investment is critical given Auckland's significance to the national economy and stands in sharp contrast to those regions that have little or no growth.

We believe the current regulatory regime does not recognise adequately the extent of investment required in Auckland or the rising risks, due to advances in technology, that new investments could be made redundant before they have delivered a return to investors. Furthermore, most distribution companies do not earn the returns allowed by the regulator, since actual energy volume growth and the rate of inflation have been consistently and significantly below the forecasts used by the Commission to set our revenue.

These factors, combined with the continued concern over the potential for further significant change to the regime, create disincentives to new investment.

To invest in our energy networks, Vector needs confidence that the regulatory environment will enable us to recover our capital and earn a fair return.

The Commerce Commission is reviewing the key inputs that determine the prices we can charge for use of our network and we welcome its focus on customer adoption of new technology and the impact of this on network infrastructure investment.

We are firmly of the view that the regulatory environment needs to recognise that Auckland is a special case. The region is growing strongly, it has the highest demands for capital and it drives the growth of the national economy. Vector, with its investment requirements, is at the sharp end of this issue.

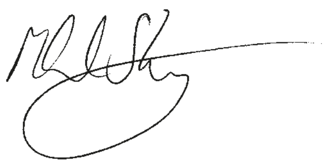
We believe infrastructure providers should be able to reach binding, long-term 'special undertakings' that enable investment in the face of these challenges.

We, meanwhile, continue to invest to open new markets and create new options for growth with investments in new technologies such as solar panels, residential and commercial batteries, electric vehicle charging infrastructure and home energy management services.

Looking ahead to the 2016 financial year, Auckland continues to grow and this will underpin the expansion of our Auckland energy distribution networks as well as in the company's investments into new areas of growth. We are also confident of continued growth in our bottle swap operation and our metering business.

Our wholesale gas business still enjoys a strong position in the market. But it faces increased competition and uncertainty over the quantity of gas reserves remaining in the Kapuni field and the price we pay for the gas. The business also faces tighter margins due to weaker global oil and gas prices and weaker demand from the major electricity generators.

Nevertheless, we are confident of meeting analysts' expectations of adjusted EBITDA for the 2016 financial year, which range from $605 million to $620 million. Excluding capital contributions, which are volatile and driven by developer and relocation activity, we expect adjusted EBITDA to be in the range of $550 million to $565 million.

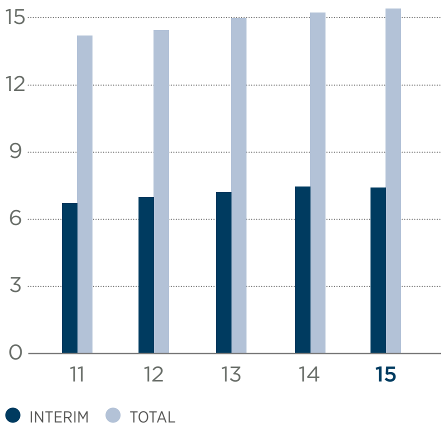


MICHAEL STIASSNY

Chairman

1. Defined as net cash flows arising from operating and financing activities less replacement capital expenditure outflows.
2. Gearing is defined as net economic debt to net economic debt plus equity. Economic debt means the amount repayable upon maturity, including the impact of hedging.

DIVIDENDS DECLARED
CENTS PER SHARE



BALANCE SHEET STRENGTH

Gearing[2] as at 30 June 2015

53.6%

Standard & Poor's rating

BBB/ stable

For more visit: vector.co.nz/news

New technology drives strategy

Vector's vision to create a new energy future reflects the new reality we face.

Customers are seeking and gaining greater choice over the source of energy they use. They expect energy services to be delivered like any other service. They want them to be at their fingertips; they want to be in control.

And, given the rise in electricity prices over the last few years, customers, increasingly, are becoming incentivised to make use of all of these developments to manage their energy costs.

In addition to seeking sustainable growth, Vector is meeting these challenges by continuing to place customers and new technology at the centre of our thinking, by engaging and collaborating with new partners to develop innovative options and by excelling operationally and doing all of this while setting standards for health and safety.

Our ground-breaking relationship with Tesla Energy illustrates the approach. Tesla's Energy's batteries, which offer energy storage at a price that is significantly lower than that of other systems, represent a game changer for the country's energy industry and we expect them to open an array of new markets for Vector including the provision of back up power supply systems and new network services.

Tesla Energy's Powerwall Home Battery is within the reach of a large section of the population. Combined with Vector's solar solutions, it will allow customers to store energy generated by solar panels during the day for use in the evening, when daily electricity prices are highest. This is but one of many applications for the system.

Tesla Energy's Powerpack Commercial Battery systems are meanwhile creating new options for network investment. Later this year, we intend to deploy a cohort of the larger batteries to the network. Depending on the circumstances, these systems can be more cost-effective than an upgrade of a distribution circuit.

Vector is not a mere distributor of the battery systems. We have developed the engineering that adapts batteries to local conditions, including the control systems, the interface with local networks as well as the appropriate health and safety protocols and systems.

By playing a key role in the commercialisation of solar panels and battery storage in New Zealand, we are also better positioned to manage the challenges the technologies pose to our core electricity networks, including reduced demand for electricity network services.

The technology also allows us to build deeper and more-enduring relationships with the nearly 545,000 electricity customers we serve across the Auckland region with complementary technologies such as solar panels and home energy management systems.

Such transformations are taking place across our portfolio of operations.

> Vector's vision is to create a new energy future... by continuing to place customers and new technology at the centre of our thinking."

The acquisition of Arc Innovations this year added nearly 140,000 smart meters to the Vector fleet and led to a new long-term metering services contract with the vendor Meridian Energy. As at 30 June 2015 we had installed 958,146[1] smart meters and we are now contracted to install over 1.2 million smart meters across the country, up from 889,000 in the prior year.

Following a great deal of work over the past two years, Vector's metering business is well positioned to leverage its New Zealand expertise to support the smart meter roll-out across the Tasman.

In recognition of customers' preference for the convenience of swapping empty gas bottles rather than standing in a queue to have their bottles filled by an attendant, Vector, this year, gave the green light to the construction of a $22-million state-of-the-art LPG bottling plant.

We are working with Auckland City BMW to provide charging solutions for those customers who have bought the company's eye-catching electric vehicles. In addition to this, we are working to develop the infrastructure to support electric vehicles.

We are reconfiguring the organisation to prepare us for the future. We have established a new post of Chief Networks Officer to oversee the customer, commercial, engineering and regulatory aspects of Vector's regulated gas and electricity networks. This follows on from the creation of a new role of Group General Manager Development to explore ways to enhance the company's growth and development through innovative customer solutions and technology.

We are continuing to streamline the business to ensure we are responsive to customer demand. For example, this year we launched our online gas connection portal, which cuts the time it takes to get a quote for a residential connection to the gas network and we hope to deploy similar tools on the electricity network. Our outage app for smartphones, which provides the details of power outages and the likely time to restoration continues to provide customers with the information they need to manage their lives in the event of energy supply disruptions. The more than 8.8 million total visits to the app and the website over the last two years and the popularity of our Twitter feed demonstrate Vector is delivering the information customers are seeking.

Growth in Auckland continues to underpin our future and we are advocating for the region's interests. We have, for example, argued for a revision of the Electricity Authority's recently announced proposed transmission pricing options. All options will result in Auckland households and businesses bearing a significantly greater share of Transpower's electricity transmission costs and dilute the gains that have come from Vector passing on its cost savings to customers.

New connections to the electricity network rose 26% to 7,813 from 6,202 in 2014, laying new foundations for future growth. Volumes transported through the electricity network also rose.

Nevertheless, the electricity network endured a particularly difficult year, weathering four major events over the regulatory year to 31 March 2015, challenging our strong record for providing a reliable electricity supply. This number of major events is well ahead of the average of less than one per year over the prior ten-year period.

Three of the events were the major storms in April, June and July, while the fourth was the fire at Transpower's Penrose substation last October. As a result, SAIDI, Vector's key measure of network reliability, was 155 minutes, exceeding the Commerce Commission's quality threshold of 127 minutes.

As foreshadowed in February, we have informed the Commission that we have breached the service quality requirement that we do not exceed the threshold two out of every three years.

We continue to work with the Electricity Authority and Transpower on the investigation into the Penrose outage. Vector and Transpower have delivered their draft technical report into the outage to the EA, which is now completing its report for the Minister of Energy and Resources. The investigation and reporting process being undertaken by all parties will ensure contributing factors to the outage are accurately identified and any necessary risk management improvements are being actioned quickly.

We continued to improve our health and safety performance with the Total Recordable Injury Frequency Rate (TRIFR) falling 42.5% to 7.45 in the 2015 financial year from 12.95 in 2014 due to a continued strong focus on workplace safety. The company is positioning itself for the long term and is looking ahead to the remainder of the year with confidence.

SIMON MACKENZIE

Group Chief Executive

New connections to Vector's Auckland electricity network are creating new customer relationships and the foundations for future growth.

See page 14

Vector has installed our first roadside electric vehicle charging station.

See page 15

Making the case for Auckland.

See page 20

1. Includes 13,609 meters deployed on behalf of the SmartCo consortium of power companies and the nearly 140,000 meters acquired with Arc Innovations.

Our vision and how we achieve it

We are leveraging our heritage as New Zealand's largest electricity and gas distributor, our broad portfolio of operations and the pivotal role we play in the country's economic development. We are developing new options that allow us to control our future.

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

01. SUSTAINABLE GROWTH

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

> We continue to invest in our assets and grow connections to our Auckland distribution networks.

> We acquired the Arc Innovations metering business and continue to prepare to grow the metering business in Australia.

> We are contracted now to install more than 1.2 million smart meters in New Zealand: up from 889,000 at the end of the prior year.

> Capital expenditure totalled $323.3 million spread across our portfolio of operations.

02. CUSTOMER FOCUS

Engaging with our customers to deliver value and exceed expectations

> We continue to put customers at the centre of our thinking, responding to their clear messages that they want Vector to deliver value and they want their interactions with us to be easy and fast.

> We continue to explore new technologies such as commercial and residential batteries, solar panels, electric vehicles and home energy management systems so we are ready to meet customer demand.

> We are expanding our communication channels to customers.

> We have cut the time it takes us to provide a quote for a residential connection to our gas network from five days to just a few seconds.

> Our highly successful smartphone outage manager has received more than 8.8 million visits over the last two years.

03.
OPERATIONAL EXCELLENCE

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

- Our electricity network was available 99.99% of the time, including both planned and unplanned outages.
- Our gas distribution network was available 99.99% of the time. Of the outages, 52% were planned.
- Our smart meter reliability metric, based on our ability to read customer meters remotely and successfully, was 99.09%.
- We introduced new technology such as the Street Evaluating Laser Methane Assessment vehicle to improve reliability and lower costs across Vector's gas network.
- We educated more than 10,000 children about health and safety around our energy networks.

04.
PARTNERSHIPS

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

- We have a new ground-breaking relationship with Silicon Valley pioneer Tesla Energy through which we expect to bring affordable residential and commercial battery solutions to our customers.
- We are working to develop the charging infrastructure to support electric vehicles.
- We are assisting the dairy industry to grow with new connections to our gas networks.
- We are assisting other electricity distribution companies to deploy smart meters on their networks.
- We are pursuing all available avenues rigorously to create a regulatory regime that delivers value to customers and returns to our shareholders.

05.
SAFETY, PEOPLE AND CULTURE

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

- We maintained our strong focus on injury prevention introducing measures such as a cessation of most 'live-line' work.
- We have embraced the upcoming health and safety legislation proactively as part of our drive to set standards for health, safety and environmental leadership for New Zealand businesses.
- Our total recordable injury frequency rate has improved by 42.5% to 7.45 due to proactive health and safety initiatives.
- We have refreshed our corporate values to continue to build a culture that is supportive of our vision to create a new energy future.

Batteries: a catalyst for change

Through Vector's new, ground-breaking relationship with Silicon Valley pioneer Tesla Energy the company expects to bring commercial and residential battery solutions to New Zealand.

Vector expects the relationship to accelerate the transformation of electricity distribution in New Zealand. The Tesla Energy batteries offer energy storage at a price that is significantly lower than that of competing systems. Vector expects many customers who install Tesla Energy's innovative Powerwall systems for the home will store energy generated during the day from solar panels, for use in the evening, when daily electricity prices peak.

Meanwhile, the technology opens up new options for network investment and an array of new markets including the provision of backup power supply systems and new network services.

Electricity networks no longer need to rely on traditional solutions to meet peak demand. Instead, networks can install Tesla Energy's Powerpack batteries to store power closer to centres of demand for use during peak consumption periods. Depending on the circumstances these systems can be more cost effective than upgrading a distribution circuit. Moreover, should demand in a particular area wane, distribution companies can move the battery systems elsewhere.

Vector is not only a distributor of the battery systems. It has developed the engineering that adapts batteries to local conditions including the control systems, the interface with local networks as well as the appropriate health and safety protocols and systems.

VECTOR'S RELATIONSHIP WITH TESLA ENERGY IS CREATING A RANGE OF INNOVATIVE OPTIONS FOR CREATING A NEW ENERGY FUTURE.

Batteries creating new network investment options

Later this year, Vector expects to deploy a cohort of Tesla Energy's Powerpack commercial batteries to the network. Depending on circumstances, these systems can be more cost effective than an upgrade of a distribution circuit would be.

Vector expects the new Powerpack battery installation to be the first of many to be deployed across its network in the future. It is expected to store enough power to deliver one MW of power per hour for two hours. During periods of low demand, Vector plans to charge the batteries and when demand peaks in the evening, it plans to discharge the batteries rather than importing power to the suburb from the grid.

In addition to providing batteries on its own network, Vector is also in talks regarding the provision of similar installations to businesses around the country.

"We will learn a lot from this first installation, building on our extensive knowledge about how to connect batteries to our network safely, how to deploy them across the network and how to maximise the potential savings they offer. Other networks across the country recognise our growing expertise," says Group General Manager Development Brian Ryan.

Solar investment for good

Vector, with the support of the Auckland Energy Consumer Trust (AECT), is giving a lucky few Auckland families, schools and community groups a total of 130 solar panel and battery units to use for free for 10 years as it further enhances its understanding of the technology.

The programme has been made possible via a fund which, historically, has been used for undergrounding projects in the AECT district and has been extended recently to include new technology such as solar and batteries. Installations will begin later in 2015. Aucklanders have nominated and voted for the most-deserving winners in their local communities with 100 systems earmarked for families and community organisations and the other 30 going to state and state-integrated schools.

"The campaign is an opportunity to ease the energy burden for 130 deserving groups and families in Auckland, while also highlighting the many benefits solar power can offer," says Group Chief Executive Simon Mackenzie.

Vector has installed more than 400 solar panel systems across Auckland since the programme began and expects deployment rates to accelerate fuelled by the relationship with Tesla Energy and the onset of spring, when the benefits of solar power become more readily apparent. Most recently we installed solar panels and energy monitoring solutions for Auckland City BMW's iBrand showroom in Newmarket as part of a drive to spearhead the adoption of electric vehicles in New Zealand.

"When you put the emerging technologies together – solar panels and batteries, solar and electric vehicle charging, solar and home energy management – then you have a suite of products that could grow to become a significant business," Mackenzie says.

> "The campaign is an opportunity to ease the energy burden for 130 deserving groups and families in Auckland, while also highlighting the many benefits solar power can offer."
>
> **SIMON MACKENZIE**
> Group Chief Executive

Vector HomeSense: putting customers back in control

Vector's HomeSense home energy monitoring service is putting customers in the driving seats of their energy consumption.

Thanks to a black box the size of a wireless internet router and an online interface available through any internet-connected device, Vector HomeSense customers can see how much power they are generating, how much they are consuming and when and how much they are selling back to the grid. Using this information, they are taking control of their energy consumption.

"HomeSense is changing energy-consumption behaviour. People attach timers to energy-consuming appliances, allowing them to take advantage of the free power they are generating during the day with their solar systems," says Group General Manager Development Brian Ryan. "Others are using their hot water systems like a battery. They turn up the thermostat so it is heating the water during the day with solar power and is ready for showers or the washing up in the evening."

Over the longer term, as home appliances come equipped with internet connections, HomeSense will play an increasingly important role for customers' management of their home energy use.

Vector has about 40 customers using the service, which is offered with all new solar installations.

Growing metering in Australia

Vector's ambition to grow its metering business across the Tasman got a lift this year with regulatory changes in Queensland, New South Wales and South Australia that shift responsibility for electricity metering from distributors to electricity retailers in 2017.

In contrast to New Zealand, electricity consumption in Australia is monitored generally by mechanical meters rather than electronic smart meters. But the unbundling of meters from distribution networks this year and Australian Energy Market Commission rule changes, which come into effect in 2017, are providing a catalyst for change. Retailers now must move towards assuming responsibility for mass-market metering, replicating the highly successful New Zealand model.

Ahead of the shift, electricity retailers and distribution companies are considering whether to set up their own smart metering subsidiaries or whether to contract the service from experienced operators such as Vector.

We have invested significantly in the Australian metering project and we are well advanced towards gaining Australian Energy Market Operator accreditation to operate as a metering service provider. We are working now to develop the infrastructure and business capabilities needed to operate in the market. We are working with a number of electricity distribution and retailing companies to demonstrate our capability.

VECTOR'S MOVE INTO AUSTRALIA LEVERAGES OUR METERING EXPERTISE.

FINANCIAL PERFORMANCE

Technology revenue increased $21.4 million or 15.6% to $158.4 million from $137.0 million in the prior year. This reflected the increase in installed smart meters to 958,146 from 675,555 in the prior year.

The increase in meters includes the contribution from the December 2014 acquisition of Arc Innovations and the deployment of meters for the SmartCo consortium of electricity distribution companies. Vector Communications grew its revenue by 8.5%: a good result given the competitive pressures in the sector.

These gains in segment revenue were offset partially by a decrease in revenue due to a decline in installed legacy meters.

We are now contracted to install 1.2 million smart meters, up from 889,000 at the end of the prior year.

EBITDA increased 8.2% to $108.2 million. Growth in EBITDA lagged revenue growth due to investment in the Australian metering business, Arc Innovations integration costs and investment into new energy technologies.

INCREASE IN SMART METERS

41.8% ▲

TECHNOLOGY REVENUE

$158.4m

Gas meters offer opportunity

Vector continues to trial smart gas meters across the North Island as technological advances begin to offer gas retailers and their customers many of the benefits smart meters have provided already to the electricity sector.

It is a highly competitive market but there is a growing interest among retailers for the technology, which has been deployed successfully overseas. For example, in Europe 28.2 million meters are contracted to be deployed in five countries with a further seven countries yet to make a final decision.

Assuming a successful trial of this new technology, we intend to install smart gas meters whenever we establish a new connection or when an old mechanical meter reaches the end of its useful life. The new technology gives gas retailers and their customers the opportunity to access interval data and understand their daily consumption patterns. This will allow retailers to develop new products and services adapted to customer needs and meet changing industry requirements around reconciliation. Also, the meters will allow remote disconnection and meter reading, saving gas retailers time and money and avoiding the health and safety risks associated with this work.

Metering acquisition

Vector's $20-million acquisition of Arc Innovations has delivered significant incremental gains to the metering business. The acquisition has added nearly 140,000 smart meters and more than 17,000 legacy meters to the Vector fleet, primarily in Canterbury and Hawke's Bay. It has helped cement a relationship with the vendor, Meridian Energy, in a new long-term metering services contract, under which Vector has agreed to deploy over 80,000 additional meters. With the acquisition, we have also gained a highly skilled team that will bolster the metering business as it readies itself for expansion into Australia. Recently, Vector has moved to integrate the Arc team fully with the team from its existing metering business.

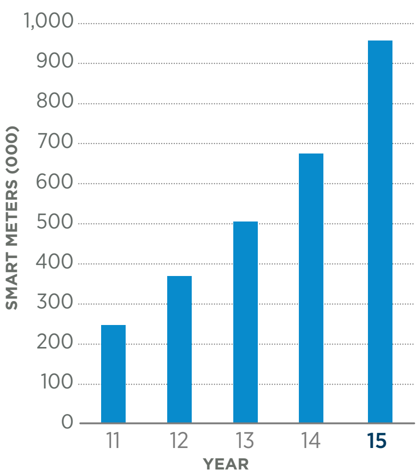
TECHNOLOGY SNAPSHOT

SMART METERS

958,146*

* Managed and owned smart meters.

ELECTRICITY SMART METERS INSTALLED



Vector is now contracted to install 1.2 million smart meters.

Auckland driving Vector's growth

Vector's Auckland energy networks have seen a strong step up in connections, laying the foundations for the company's future growth.

New connections to the electricity network rose to 7,813 in the year to 30 June 2015 from 6,202 representing an increase of 26% in new connections on the 2014 financial year. The strong rise in connections reflects the Auckland region's burgeoning growth and its strong demand for new dwellings.

These new connections not only deliver Vector new revenue for the supply of energy distribution services and expand our asset base, they also establish new relationships upon which we can build deeper engagement with customers with complementary technologies such as solar panels and home energy management systems.

Connection growth, which is for the moment offsetting the gradual decline in consumption per connection, should continue for the foreseeable future. In 2012 Auckland Council identified a need for 13,000 new homes a year for the next 30 years. Meanwhile, as the number of new connections to the network show, actual house building has fallen short of that target.

Growth is occurring predominantly in the special housing areas the Auckland Council and the Government earmarked for development in the special housing accords in 2013. Industrial and commercial electricity connections remained static over the last year.

NEW CONNECTIONS MEAN NEW CUSTOMERS FOR THE BROADER VECTOR SERVICE OFFERING.

FINANCIAL PERFORMANCE

Electricity revenue increased $39.5 million or 6.3% to $670.8 million from $631.3 million. EBITDA increased by $2.8 million to $348.8 million.

Around 70% or $28 million of the increase in electricity segment revenue was due to an increase in costs passed directly through to customers including Transpower charges, rates and regulatory levies. The remainder of the revenue growth was due to connection and volume growth on the network.

Volume gains were offset by lower prices and the regulatory clawback implemented from 1 April 2014.[1] The segment also saw a $5.3-million increase in capital contributions, due largely to an increase in housing activity.

Volumes transported through the network rose 2.0% to 8,414 GWh from 8,252 GWh in the prior year, reflecting an increase in connections and cooler winter temperatures in a reversion to historical norms.

Network expenditure was up by $36.7 million, due largely to an increase in pass-through costs, including a one-off non-recoverable $3.3 million charge following clarification from the courts on the use of Transpower's Auckland transmission network. Storms and the Penrose outage contributed additional repair and investigation costs of $5.2 million.

EBITDA INCREASED

0.8%

ELECTRICITY REVENUE

$670.8m

1. The regulator imposed a further price reduction from 1 April 2014 to 'claw back' or compensate for the one-year delay to the start of the previous price-quality determination, which was due to start on 1 April 2012 but was delayed following a legal challenge.

Preparing for electric vehicles

A new electric vehicle (EV) charging station at Vector's headquarters opposite the Auckland Domain is the first of many charging stations we expect to roll out across Auckland's streets.

The information Vector gets from the new station provides the company with valuable insights into the use of the technology and how it can be deployed across Auckland.

We are introducing a fast-charging station which can recharge an EV in less than 30 minutes, at our Hobson Street substation and we expect to roll out more of these across the city over the next year.

We are working with EV distributors such as Auckland City BMW to develop charging stations best suited to local conditions.

Vector has also offered support to all companies seeking the rights to operate Auckland Transport's planned city-wide EV sharing scheme.

Network performance

Vector's electricity network endured four major events in the regulatory year to 31 March 2015 that challenged our strong record for providing a reliable electricity supply. This is well ahead of the average of less than one event per year over the prior ten-year period. Three of the events were the major storms in April, June and July, when we recorded the highest-ever sustained wind speeds and strong winds lasting for considerably longer periods than we have seen in any other year. The fourth was the fire at Transpower's Penrose substation last October.

As a result Vector's key measure of network reliability, SAIDI, was 155 minutes, exceeding the Commerce Commission's quality threshold of 127 minutes. As foreshadowed in February, Vector has informed the Commission that it has breached the service quality requirement that we do not exceed the threshold two out of every three years.

We continue to work with the Electricity Authority (EA) and Transpower on the investigation into the Penrose outage. Vector and Transpower have delivered their draft technical report into the outage to the EA, which is now completing its report for the Minister of Energy and Resources. The investigation and reporting process being undertaken will ensure contributing factors to the outage are identified accurately and any necessary risk management improvements are being actioned quickly.

We continue to look at ways to streamline our customer response to minimise the disruption of major events.

ELECTRICITY SNAPSHOT

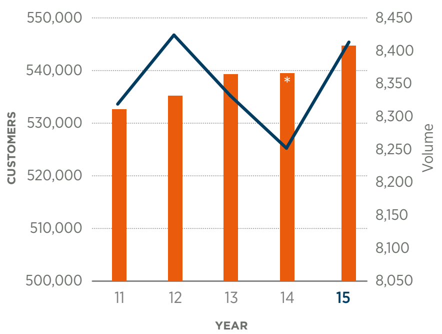
ELECTRICITY CUSTOMERS

544,513

NEW CONNECTIONS

7,813

ELECTRICITY CUSTOMERS AND VOLUME



ELECTRICITY CUSTOMER NUMBERS

ELECTRICITY VOLUME DISTRIBUTED (GWh)

* The electricity customer number as at 30 June 2014 has been restated to remove 4,799 ICPs following a data cleanse by retailers. There was no consumption for any of these ICPs in the current period. The same restatement has not been applied to the years prior to 2014.

New connections establish new relationships upon which we can build deeper engagement with customers.

New gas-sensing equipment drives safety and efficiency

A vehicle equipped with a 'moustache' to sniff out gas leaks across Vector's vast pipeline network is delivering improvements in safety and reliability and lowering costs across our 7,245km gas distribution network.

The moustache is the business end of new technology called SELMA (Street Evaluating Laser Methane Assessment). It samples the air above the pipes and funnels it to low-powered laser detectors. They identify the presence of gas by analysing the amount of laser light reflected by the samples.

The technology, developed in Switzerland, enables the vehicle to travel at up to 30km/hr over pipes buried underneath roads and berms across the North Island. Previously field crews had to walk the pipelines with hand-held detectors and SELMA means a big improvement in safety and costs, according to Vector Manager, Gas Distribution, Graham Green.

Hand-held versions of SELMA will help field crews pinpoint the location of a gas escape on site – usually from a leak reported by a customer or detected by a leakage survey.

"The new system accurately records the location of any leaks using GPS data – which can then be downloaded onto our mapping system, enabling us to improve public and network safety," says Green.

THE SELMA VEHICLE IS AN EXAMPLE OF HOW VECTOR IS ALWAYS LOOKING AT HOW WE CAN DO THINGS BETTER.

FINANCIAL PERFORMANCE

Gas Transportation revenue rose by $6.4 million to $193.4 million. EBITDA, meanwhile, rose 7.3% to $143.2 million as costs were controlled. Price increases implemented from 1 October 2014 on the gas networks largely counteracted the price reductions implemented from 1 October 2013.

Gas transmission volumes were up 2.8% on last year to 114.4 PJ from 111.3 PJ, primarily due to increased customer transport in the Taranaki region and higher industrial and commercial deliveries, particularly to the dairy sector.

Gas transmission revenues were up by $6 million, largely due to capital contributions, primarily related to the relocation of the transmission pipeline for the Waikanae expressway near Wellington. Gas distribution revenues were up 1% on the prior year, with higher volumes offsetting the impact of slightly lower net pricing.

New gas connections were down 3.1% on the prior period to 3,915 and total customers were 163,243 at 30 June 2015, up by 2.2% on the prior year's 159,738. Gas distribution volumes were up by 2.3% to 22.4 PJs from 21.9 PJs, largely driven by increased non-residential consumption.

EBITDA INCREASED

7.3% ▲

GAS TRANSPORTATION REVENUE

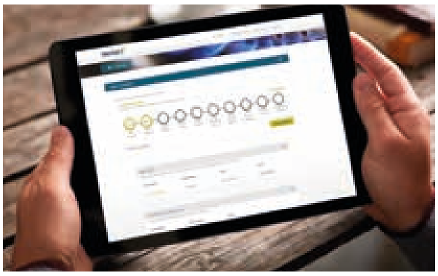
$193.4m

Saving time: Vector's gas connection portal

Vector has cut the time it takes to get a quote for a residential connection to its gas network from five days to just a few seconds with its new online gas connection portal.

The portal is part of a drive to make all our dealings with our customers easy and fast or in the shorthand of the newly formed customer excellence team, 'easyFast'. Through the portal, customers get an estimate using Vector's online gas connection estimator and then using a suite of online tools they can get a quote that is good for 60 days. The tool has struck a chord among customers, with 24% of all requests for gas connections to the network coming through the portal since it was launched in April.

We plan to extend the tool to residential connections to our electricity network over the coming year and, over the longer term, to deploy it for commercial electricity and gas connections. At the same time, we are looking at ways to reduce the delay between a customer accepting a quote and Vector's network service team completing the connection to the network.



THE PORTAL GIVES CUSTOMERS OPTIONS OVER HOW THEY ENGAGE WITH US AND IS HELPING US EXCEED SERVICE EXPECTATIONS.

Gas connection wins accolade

Vector's gas transmission team won the praise of a long-standing client the Tatua Co-operative Dairy Company, as it upgraded its gas connection to accommodate a new specialised milk-powder drier. The drier lifted Tatua's gas demand well above the capacity of Vector's Tatuanui Delivery Point and it necessitated a replacement.

"We had a tight deadline for the upgrade. The Vector team was committed to meeting this and we are really happy with the result," says Tatua Supply Chain Manager Grant Russell. To avoid disturbing Tatua's existing gas supply when construction got underway, Vector installed the new connection alongside the old gas delivery point and then switched over once the new drier was commissioned. Commercial terms were finalised after that in a deal that gave Tatua the additional gas capacity as well as some headroom for further expansion. Gas began flowing to the new plant in May.

GAS TRANSPORTATION SNAPSHOT

DISTRIBUTION CUSTOMERS

163,243

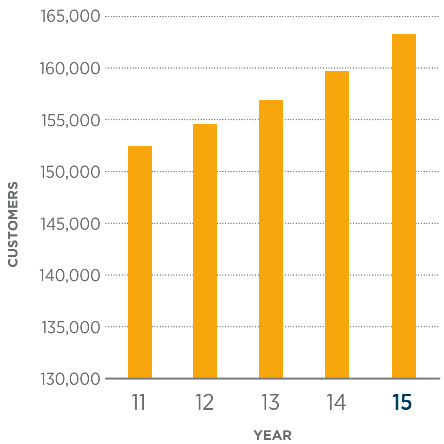
NET MOVEMENT IN DISTRIBUTION CUSTOMERS

3,505▲

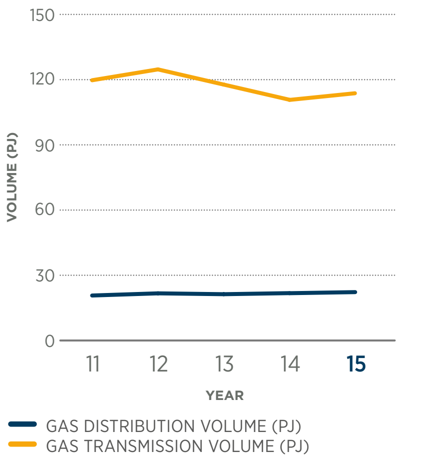
TRANSMISSION VOLUMES

114.4PJ

GAS DISTRIBUTION CUSTOMERS



GAS DISTRIBUTION AND TRANSMISSION VOLUMES



Bottle swap plant gets the green light

Vector this year gave the green light to the construction of a $22.0 million LPG bottling plant to meet the burgeoning demand for pre-filled 9kg gas bottles.

Since 2009, OnGas has grown from filling just a few thousand 9kg bottles a year to more than 500,000 this year, in recognition of customers' preference for the convenience of swapping empty gas bottles rather than standing in queues to have their bottles filled by attendants. That trend is likely to continue, with OnGas predicting the new plant will fill one million bottles a year in the next four to five years.

The plant, which will fill and refurbish gas bottles for OnGas' nationwide nearly 800-strong network of bottle swap outlets, is to be built on a 3ha site in Papakura and will be five times larger than a sister site in Wiri. In addition to automated filling facilities, the plant will also provide for bottle washing, repainting and repair. It will have the capacity to store 70,000 bottles on site and is expected to open in 2016, giving the bottle swap business the necessary operational capacity to cope with the expected increase in demand.

VECTOR'S BOTTLE FILLING STATION WILL DRIVE EFFICIENCIES AS CONSUMERS TURN TO LPG BOTTLE SWAP OVER BOTTLE REFILLS.

FINANCIAL PERFORMANCE

Gas Wholesale revenue fell to $314.2 million from $349.8 million due to falling demand from the major power generators, and lower oil and gas prices. Natural gas volumes fell 20.4% to 19.5 PJ from 24.5 PJ.

Lower revenues flowed through to EBITDA, which fell to $46.9 million from $50.9 million. The result was also lower due to higher maintenance costs and costs relating to arbitration over the price Vector must pay for the next tranche of Kapuni gas. These costs offset gains from higher gas liquid sales and margin improvements in the natural gas portfolio.

Our bottle swap business continues to grow, with the numbers of bottles swapped rising 17.9% to 505,927 from 428,951.

Liquigas performed strongly, increasing its tolling volumes by 4.5% to 186,626 tonnes. Production at Kapuni was up marginally and sales of gas liquids were in line with the prior year at 71,092 tonnes.

Kapuni legal proceedings notwithstanding, the gas wholesale business is facing headwinds in the coming financial year due to changes to the pricing of gas processing arrangements at Kapuni, lower prices for oil and gas globally, and lower LPG exports.

EBITDA FELL

7.9% ▼

GAS WHOLESALE REVENUE

$314.2m

Fuelling the Pacific

Rugby legend Michael Jones and Vector are driving down the costs of critical fuel supplies in the Pacific Islands.

Jones, as Head of Strategic Development at the regional shipping group Matson, saw an opportunity to expand the export of New Zealand LPG to smaller Pacific Islands in ISO tank containers: large gas bottles, each of which is enclosed in a steel frame the size of a standard shipping container.

Now LPG is delivered to the islands alongside all other containerised freight, eliminating the need for dedicated LPG carriers to make costly stops at smaller ports to discharge only small amounts of the fuel.

"Vector has been a great help in establishing this fuel service," Jones says. "It committed to get the service going and now communities across the Pacific are benefiting from a much cheaper source of fuel."

Vector is filling 70 of the ISO tank containers annually, each of which carries the equivalent of 1,000 standard BBQ bottles, for delivery across the Pacific and we see that traffic trebling over the next few years.

Kapuni field redetermination

Vector is awaiting an award from a recent arbitration hearing over the price it is required to pay for the next tranche of Kapuni gas, which it has been taking since July 2013.

Vector has rights to take 50% of the gas remaining in the field from 1 April 1997. In late 2014, the Kapuni Mining Companies (KMCs) issued a redetermination notice for the Kapuni field, proposing a reserves figure that would reduce the quantity of Kapuni gas to which Vector considers it is entitled to.

Vector's international expert considers the remaining reserves are currently some 103 PJ more than the KMCs propose. Currently, the parties are trying to agree on a reserves figure.

In addition to the arbitration and redetermination issues, the KMCs have also issued legal proceedings in relation to the ongoing application of a 1999 arbitral award setting terms for the gas processing of the KMCs' share of Kapuni gas at the Kapuni Gas Treatment Plant.

GAS WHOLESALE SNAPSHOT

LPG TOLLING VOLUMES (TONNES)

186,626

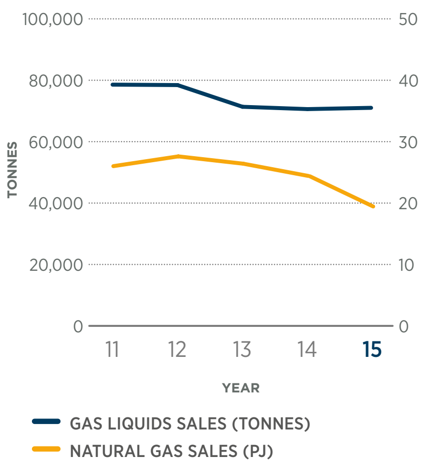
NATURAL GAS SALES VOLUMES

19.5PJ

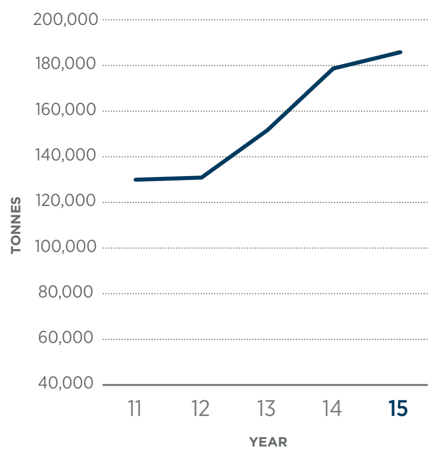
GAS BOTTLES SWAPPED

505,927

GAS WHOLESALE SALES



LIQUIGAS LPG TOLLING (TONNES)



Auckland: a special case

Vector believes the regulatory regime for its energy networks needs to evolve to recognise Auckland's significance to the broader economy and the unique challenges the company faces as we provision for growth in the region.

The rapid technological change sweeping the energy distribution industry increases the risk that investments could be made redundant before they have delivered returns to investors. Meanwhile, the capital required to provision for Auckland's growth is significant.

In the coming ten years, Vector forecasts around $1.8 billion of capital investment will be required for its Auckland energy networks. Were this investment ring-fenced into a standalone company, it would create the country's second-largest energy distribution company after Vector. This level of investment is critical given Auckland's significance to the national economy and stands in sharp contrast to those regions that have little or no growth.

We believe the current regulatory regime does not recognise the rising technology risks adequately.

Furthermore, most distribution companies do not earn the returns allowed by the regulator, since actual energy volume growth and the rate of inflation have been consistently and significantly below the forecasts used by the Commission to set our revenue. In the last three years alone, these forecasting differences have cost Vector $175 million in lost electricity revenue.

These factors, combined with the continued concern over the potential for further significant change to the regime, create disincentives to new investment.

To invest in our energy networks, Vector needs confidence that the regulatory environment will enable us to recover our capital and earn a fair return.

The Commerce Commission is reviewing the key inputs that determine the prices we can charge for the use of our network and we welcome the Commission's focus on customer adoption of the new technology and the impact of this on network infrastructure investment.

We are also firmly of the view that the regulatory environment needs to recognise that Auckland is a special case.

We believe infrastructure providers should be able to reach binding, long-term 'special undertakings' with the regulator that incentivise investment in the face of these challenges.

Such arrangements, which are working already with some success in the UK and Australia, could allow Vector (and others) the ability to seek credible, long-term, tailored regulatory commitments, which aim to match the asset life and expected recovery times of either existing or new infrastructure investment.

They could allow infrastructure providers to bring forward cost recovery to reward efficient investment and minimise the risks associated with new technologies by matching allowable cash flows with real cash flows.

TRANSMISSION PRICING

Vector is advocating on behalf of Auckland consumers against the Electricity Authority's (EA) recently announced proposed transmission pricing options, which could result in Auckland households and businesses bearing a greater share of Transpower's electricity transmission costs.

The EA's base option would result in a 59% increase in transmission costs in Auckland, diluting the significant price cuts we have made for the benefit of the Auckland region in recent years.

We believe a generator located at the bottom of the South Island that supplies energy into the Auckland region should have to pay for its transport. The price customers pay for their energy may, in fact, reduce if generators had to pay Transpower for transporting their energy to their customers.

NEW PRICES

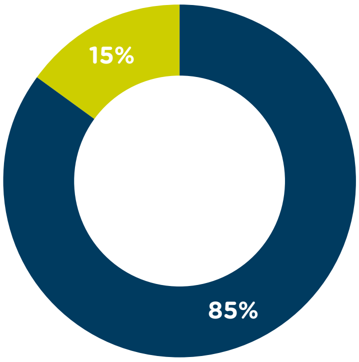
From 1 April 2015, a new price quality determination for the electricity network was put in place, giving Vector a positive 0.8%[1] starting price adjustment, setting the maximum allowable revenue the network can generate for the year ended 31 March 2016, at $395 million.[2]

Thereafter, for the remainder of the current regulatory period, which ends on 31 March 2020, Vector's average prices can increase annually at the rate of inflation so that revenue will increase at the rate of volume growth plus inflation. Prices on the gas network increased in October 2014, offsetting price cuts in the prior year.

1. Relative to what prices would have done in the absence of a reset.
2. Excluding pass-through charges.

ASSETS

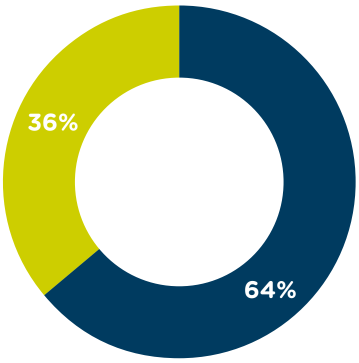
AS AT 30 JUNE 2015



● REGULATED[1,4] ● UNREGULATED

REVENUE

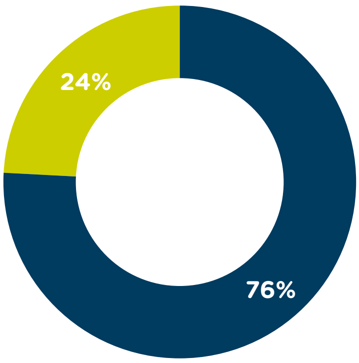
YEAR ENDED 30 JUNE 2015



● REGULATED[2,4] ● UNREGULATED

EBITDA

YEAR ENDED 30 JUNE 2015



● 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.

Vector culture integral to new energy future

Vector believes a focus on culture and people is integral to our ability to deliver against our vision to create a new energy future.

We have recently refreshed our values on which our culture is founded and they will be introduced formally to the business over the next few months. Over the past year, we have focused on promoting diversity and inclusion in order to support strategic priorities such as employee engagement, development and leadership.

DIVERSITY AND INCLUSION

The Vector Board considers the company has made considerable progress integrating into its operations the principles of the company's Diversity Policy, which aims, among other things, to ensure the company's workforce reflects the full spectrum of New Zealand society. A strong governance framework has been developed with the establishment of a Diversity Council to oversee the activities of a Diversity Committee, which actively promotes diversity in the organisation.

In recognition of our efforts, we were pleased to be announced the winner of the Supreme award at the Equal Employment Opportunities Trust 2015 Diversity Awards NZ as well as winner of the Tomorrow's Workforce award, recognising innovative responses to tackling future labour force challenges.

Diversity initiatives

Over the past year, Vector has delivered a number of initiatives to emphasise the value of gender, ethnicity and age diversity among its staff and to help attract candidates from a rich array of backgrounds.

The initiatives have included:

> Partnering with Te Puni Kōkiri, the Ministry of Māori Development, to employ Māori cadets and sponsor existing employees to further their education and professional skills

> Participating in the BEST Pasifika Leadership Programme to help emerging Polynesian leaders advance into more-senior positions

> Promoting flexible working arrangements and knowledge-transfer programmes for employees nearing retirement age

> Establishing a number of other apprenticeship, internship, cadetship and general work experience opportunities for youth.

Vector's Diversity Committee

Vector's Diversity Committee is a team made up of 19 volunteers, passionate about valuing and promoting diversity at Vector. In 2015, the committee elected to focus on three key areas: women in the workplace, all ages at work and culture in the workplace.

The committee has hosted company-wide cultural celebrations such as Matariki and Thanksgiving, arranged financial and retirement planning sessions, and organised seminars to support working parents.

Transferring knowledge and expertise across generations

Vector is seeking proactively to forge links between experienced employees and those at earlier stages in their careers. We want to ensure technical knowledge, skills and expertise are passed on to future leaders and also help more mature employees learn from a younger group.

The asset resilience team has been one of the most active in fostering this engagement and, particularly Engineering Manager Ashneel Prasad. For the past three and a half years Ashneel has coordinated the 'Next Generation Vector Engineering Forum', a monthly knowledge sharing event for staff hosted at Vector's Newmarket office. "The biggest losers from the retirement of experienced staff are the youngest engineers who want to upskill. This forum lifts the skill base of the younger team," Ashneel says.

Partnering with Te Puni Kōkiri

In partnership with Te Puni Kōkiri, the Ministry of Māori Development, Vector employed eight young Māori cadets for a six-month period. After the first programme came to a close in April 2015, one cadet took a permanent role at Vector's Taranaki gas processing plant and three cadets took temporary contracts in Auckland. Through the programme, Vector has formed relationships with Auckland and Taranaki iwi and the cadets have played a major part in raising awareness of Māori culture within the business.

Cadets, for example, organised a day at central Auckland's Ōrākei Marae. It gave Vector employees a unique opportunity to learn about Māori culture, traditions and history.

For Solutions Manager Travis Scanlan of Ngāti Whātua (Te Uri o Hau) in particular, who for the first time in his life stood on a marae and recited his mihi (kaikōrero), including his lineage (pepeha), the visit was very special. He said: "It felt like my ancestors and whānau were there. Vector has worked hard to break from traditional corporate thinking to take an interest in the people that make up this company."

COMMUNITY

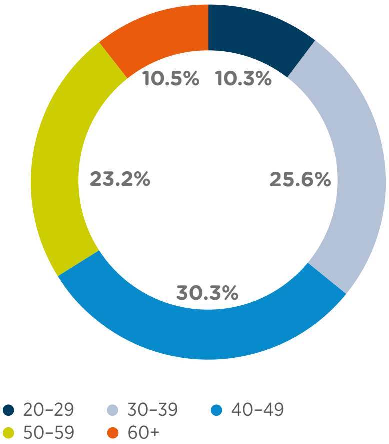
Improving public safety from an early age

Vector is committed to educating customers and the public to help them stay safe around our electricity and gas networks. Vector's award-winning schools safety programme, which has been running for more than 11 years, continues to go from strength to strength. In the 2015 financial year, the business' two educators delivered programmes to more than 10,000 children in Auckland and Taranaki. The programme, which features Vector's Zot the Energy Bot, is aligned closely with the New Zealand School Curriculum.

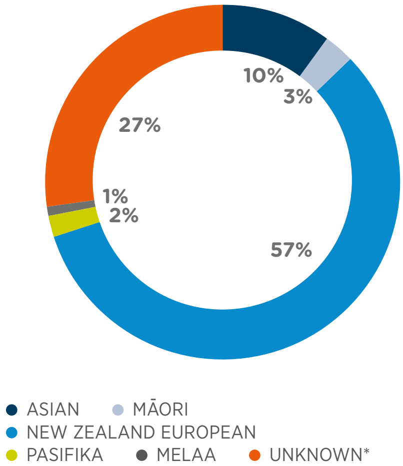
Inspiring young minds

Vector supported the inaugural Vector Technology Challenge, a small learning event working with a cluster of Auckland primary schools. In October 2014, teams of four children from eight schools, aged nine to 11 years old, took part in a series of short hands-on technology-focused challenges. The winning school took home a prize to support learning in its school. All children gained an insight into what Vector does and the many career opportunities that exist in the energy industry.

VECTOR EMPLOYEES BY AGE



VECTOR EMPLOYEES BY ETHNICITY



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

VECTOR EMPLOYEES BY AGE AND GENDER

AGE RANGE	MALE	FEMALE	GRAND TOTAL
20–24	21	3	24
25–29	40	26	66
30–34	64	38	102
35–39	85	37	122
40–44	95	51	146
45–49	79	40	119
50–54	88	25	113
55–59	65	25	90
60–64	54	7	61
65+	25	6	31
Grand Total	**616**	**258**	**874**

VECTOR EMPLOYEES BY GENDER

VECTOR GENDER BREAKDOWN	MALE 2015	FEMALE 2015	MALE 2014	FEMALE 2014
Directors	**6 (75%)**	2 (25%)	**6 (75%)**	2 (25%)
Executive team	**5 (83%)**	1 (17%)	**6 (75%)**	2 (25%)
Direct reports to the executive team[1]	**17 (65%)**	9 (35%)	**27 (55%)**	22 (45%)
Across Vector Group	**616 (70%)**	258 (30%)	**557 (69%)**	248 (31%)

1. The change can be attributed to the removal of Personal Assistants to the executive team for this data. If the number of Personal Assistants are added back into the 2015 data, the ratio of male direct reports to female direct reports is unchanged from the 2014 ratio.

Health and safety leadership

At Vector we want to be recognised as setting the standard for Health, Safety and Environmental (HSE) leadership for New Zealand businesses. Vector's strategic health, safety and environmental objectives are to:

> Deliver first-class HSE performance

> Drive a HSE leadership culture that is embedded within all levels of the organisation

> 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.

Vector's 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 internally and externally on an annual basis. Each business unit has annual HSE improvement plans, which support the implementation of the HSEMS and achievement of the corporate strategy.

The Vector Board receives monthly HSE performance reports detailing injury statistics, trending analysis, reporting of key incidents and 'near misses' (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'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).

Vector also has 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.

During the year, Vector has been actively reviewing much of its health and safety documentation to ensure compliance with the developing HSE landscape and legislative reform. Vector has made written submissions to the Ministry of Business, Innovation and Employment on the first three sets of regulations released under the Health and Safety at Work Act.

Proactive leadership of health and safety reforms

Despite the delay to the Health & Safety Reform Bill, Vector is well prepared for the changes with a number of initiatives under way to ensure we meet the new requirements before any changes come into effect.

The Bill is the most significant change in health and safety legislation we've experienced in New Zealand in more than 20 years and Vector welcomes these changes. A new requirement introduced by regulations made under the Bill is the need for upper-tier, major-hazard facilities to prepare a safety case; this involves a detailed document outlining all aspects of a site's operations as they relate to major incident hazards and how the operator controls risks.

Vector's Kapuni gas processing plant and a number of our LPG sites will be classified as upper-tier, high-hazard facilities due to the nature of the substances and the threshold volumes we have on these sites. The regulator will require safety cases to be submitted and approved within 24 months of major-hazard facilities legislation being passed.

Fourteen months into the Kapuni Safety Case project, we have completed the first draft of the pre-legislative safety case for the Kapuni Gas Treatment Plant and have made a number of improvements already to the way we work. This will not only ensure compliance with legislation when it comes into effect but also act as a proactive measure to ensure the ongoing safety and well-being of everyone.

Rethinking live-line work

In 2015 Vector's contractors completed more than 4,000 planned maintenance jobs, of which:

> 25% were undertaken using live-line techniques

> 75% were undertaken with equipment in a de-energised state.

With safety in mind, Vector Directors have challenged traditional methods of live-line work and now have adopted a policy that requires work to be done in a de-energised state unless doing so presents a greater risk to:

> Our people who perform the complicated switching activity that could impact their personal safety

> The public, for example, if de-energising the network risked interrupting supply to important traffic intersections, or continual supply to hospitals or medically dependent customers

> Vector's business.

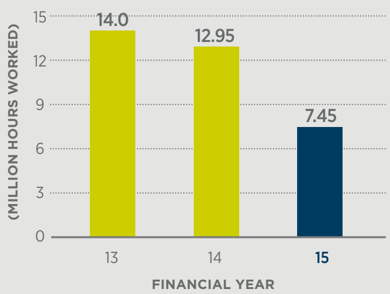
While this new policy is likely to impact on Vector's SAIDI, our measure of network reliability, we believe that the safety of our people and the public should take precedence always.

Injuries and illness

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

TOTAL RECORDABLE INJURY FREQUENCY RATE*

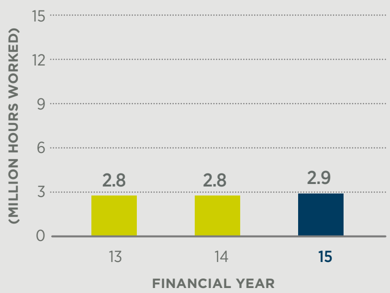
Number of recordable injuries per million hours worked, including contractors.



* Includes lost-time injuries, medically treated injuries and restricted-duty injuries.

LOST-TIME INJURY FREQUENCY RATE

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



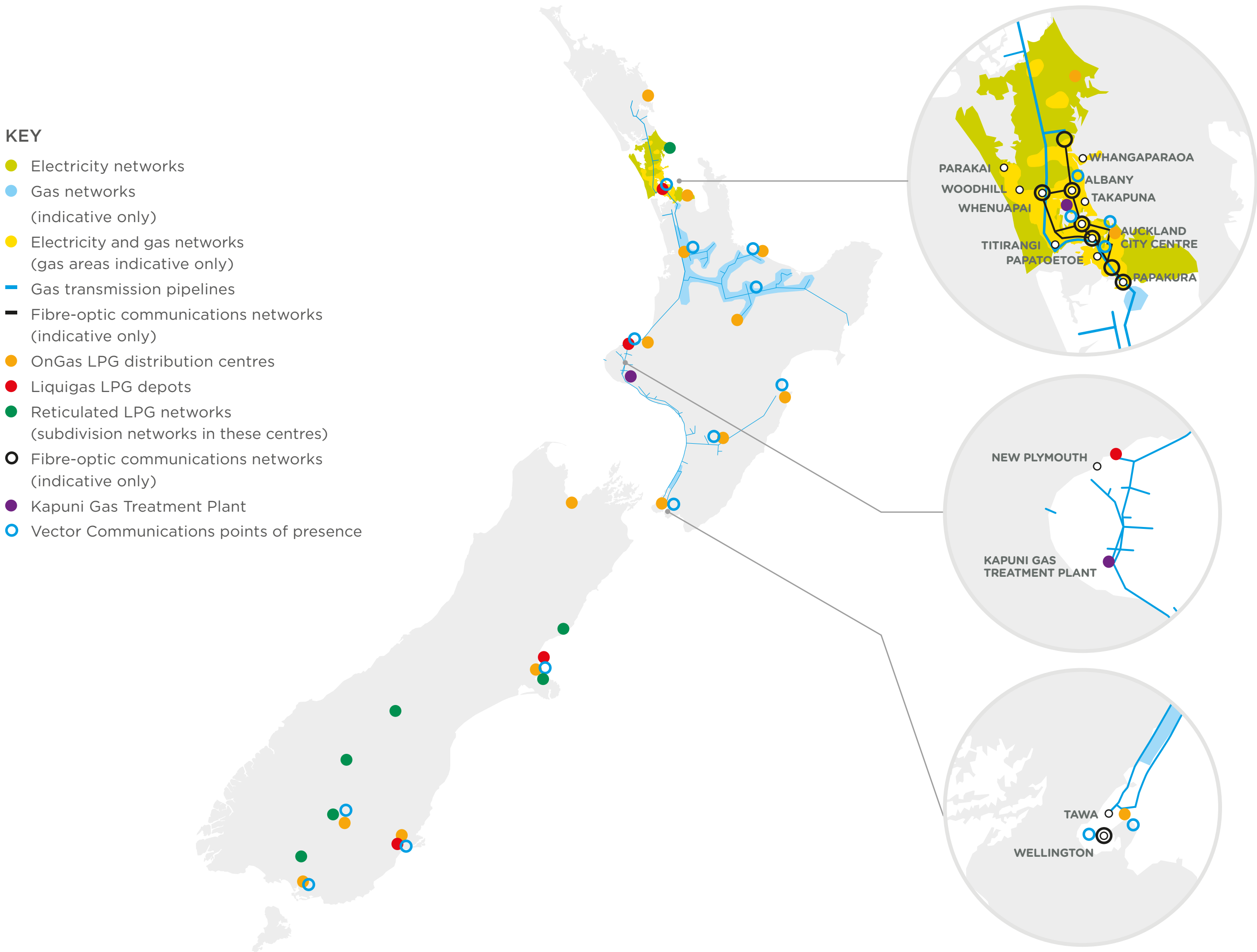
VECTOR 12-MONTH ROLLING SEVERITY RATE*

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

Vector's headline health and safety measure, TRIFR, has fallen 42.5% to 7.45 in the 2015 financial year from 12.95 in 2014. This improvement has been achieved by working proactively with our employees and key field services providers on injury-prevention methods including human factors performance programmes, and rigorous incident investigations to ensure root causes are identified and addressed. A strong occupational health programme is also available to employees which includes proactive, early management of pain and discomfort.

Our Lost Time Injury Frequency Rate (LTIFR) has remained relatively static year on year. Our 12-month rolling Severity Rate (SR) has increased 28.4% to 51.5 in 2015 from 40.1 in the prior year. This increase has been impacted by two serious-harm incidents, which involved one employee and one contractor, where the injured workers were each off work for a significant time.

Where we are



VECTOR OPERATING STATISTICS

YEAR ENDED 30 JUNE	2015	2014
ELECTRICITY		
Customers[1,4,5]	544,513	539,154
New connections	7,813	6,202
Net movement in customers[2]	5,359	4,721
Volume distributed (GWh)	8,414	8,252
Networks length (km)[1]	18,160	18,021
SAIDI (minutes)[3]		
Normal operations	155	141
Extreme events	341	10
Total	**496**	**151**
GAS TRANSPORTATION		
Distribution customers[1,4]	163,243	159,738
New connections	3,915	4,042
Net movement in distribution customers[2]	3,505	2,786
Distribution volume (PJ)	22.4	21.9
Transmission volume (PJ)[6]	114.4	111.3

YEAR ENDED 30 JUNE	2015	2014
GAS WHOLESALE		
Natural gas sales (PJ)[7]	19.5	24.5
Gas liquid sales (tonnes)[8]	71,092	71,000
Liquigas LPG tolling (tonnes)[9]	186,626	178,510
TECHNOLOGY		
Electricity: smart meters[1,10]	958,146	675,555
Electricity: legacy meters[1]	164,417	202,561
Electricity: prepay meters[1]	6,560	4,527
Electricity: time-of-use meters[1]	11,602	11,276
Gas meters[1]	214,974	211,741
Data management and service connections[1]	8,499	8,227

1. As at period end. **2.** The net number of customers added during the twelve month period. **3.** Regulatory year – 12 months to 31 March. **4.** Billable ICPs. **5.** The electricity customer number as at 30 June 2014 has been restated to remove 4,799 ICPs following a data cleanse by retailers. There was no consumption for any of these ICPs in the current period. **6.** Billable volumes. **7.** Excludes gas sold as gas liquids as these sales are included within the gas liquids sales tonnages. **8.** Total of retail and wholesale LPG production and natural gasoline. **9.** Includes product tolled in Taranaki and further tolled in the South Island. **10.** Includes 13,609 meters deployed on behalf of the SmartCo consortium of electricity distribution companies and the nearly 140,000 meters acquired with Arc Innovations.

Vector Arena: the beating heart of Auckland

Vector is a key supporter of Auckland's cultural infrastructure with its sponsorship of Vector Arena, the region's premier entertainment venue.

The 12,000-seat arena, which opened in 2007, has seen around three million people through its doors, from top rock acts through to sporting events such as the Netball Fast5 series and SKYCITY New Zealand Breakers' games. In the last two years, the venue has hosted more than 500,000 people for some of the biggest names in the world of entertainment including: One Direction, Beyoncé, Rihanna, Lorde, Taylor Swift, Katy Perry, Justin Bieber and Rod Stewart. The sell-out show *Walking with Dinosaurs* pulled in a record number of people.

The sponsorship is important to Vector as it not only showcases our brand and the important role we play in Auckland but it also enables us to give back to the broader community. The venue shares many of the attributes that differentiates Vector in the New Zealand market. Vector Arena is a world-class component of our country's infrastructure; it is innovative and it is centred highly on delivering to customers' needs. Auckland has a lot to look forward to in the coming year with acts including: Neil Diamond, Robbie Williams and Madonna.

Ventures and investments

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

50%

KAPUNI ENERGY JOINT VENTURE
The group has a 50% interest in an unincorporated joint venture that operates a cogeneration plant situated at the Kapuni Gas Treatment Plant producing electricity and steam for the gas treatment plant and other customers.

50%

TREESCAPE
Vector has a 50% shareholding in Treescape, one of Australasia's largest specialist tree and vegetation management companies, with divisions throughout New Zealand, Queensland and New South Wales. Treescape employs close to 500 staff and customers including 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

60.25%

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

www.liquigas.co.nz

22.11%

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

www.nzwindfarms.co.nz

FINANCIAL PERFORMANCE TRENDS

YEAR ENDED 30 JUNE ($ MILLION)	2015	2014	2013	2012	2011
PROFIT OR LOSS					
Total income	1,294.0	1,258.9	1,279.2	1,252.2	1,238.2
Adjusted EBITDA	596.9	580.7	630.5	627.4	636.6
Depreciation and amortisation	(195.2)	(183.8)	(174.1)	(173.5)	(170.2)
Adjusted EBIT[1]	401.7	396.9	456.4	453.9	466.4
Net profit	**149.4**	**171.3**	**206.2**	**201.7**	**203.8**
Net profit attributable to:					
Non-controlling interests	3.3	2.8	2.9	2.9	2.4
Shareholders of the parent	146.1	168.5	203.3	198.8	201.4
BALANCE SHEET					
Total equity	2,298.6	2,307.8	2,258.5	2,148.3	2,112.7
Total assets	6,123.0	5,839.1	5,747.1	5,616.6	5,579.0
Net debt (borrowings net of cash and short-term deposits)	2,827.4	2,460.7	2,364.3	2,373.8	2,289.5
CASH FLOW					
Operating cash flow	369.2	366.6	426.2	392.3	374.6
Capital expenditure	(311.8)	(327.4)	(283.4)	(260.0)	(251.6)
Dividends paid[2]	(155.4)	(156.7)	(148.3)	(147.4)	(143.7)
KEY FINANCIAL MEASURES					
Adjusted EBITDA/total income	46.1%	46.1%	49.3%	50.1%	51.4%
Adjusted EBIT/total income	31.0%	31.5%	35.7%	36.2%	37.7%
Equity/total assets	37.5%	39.5%	39.3%	38.2%	37.9%
Return on assets (adjusted EBITDA/assets)	9.7%	9.9%	11.0%	11.2%	11.4%
Gearing[3]	53.6%	52.5%	50.9%	51.5%	52.1%
Net interest cover (adjusted EBIT/net finance costs) (times)	2.2	2.3	2.8	2.7	2.6
Earnings (NPAT) per share (cents)[4]	14.7	16.9	20.4	20.0	20.2
Dividends declared, cents per share (fully imputed)	15.50	15.25	15.00	14.50	14.25

1. Adjusted EBIT is a non-GAAP profit measure. 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. Gearing is net economic debt to net economic debt and equity. Economic debt is amount repayable on maturity including the impact of hedging.
4. Calculated using a weighted average number of shares due to treasury shares purchased.

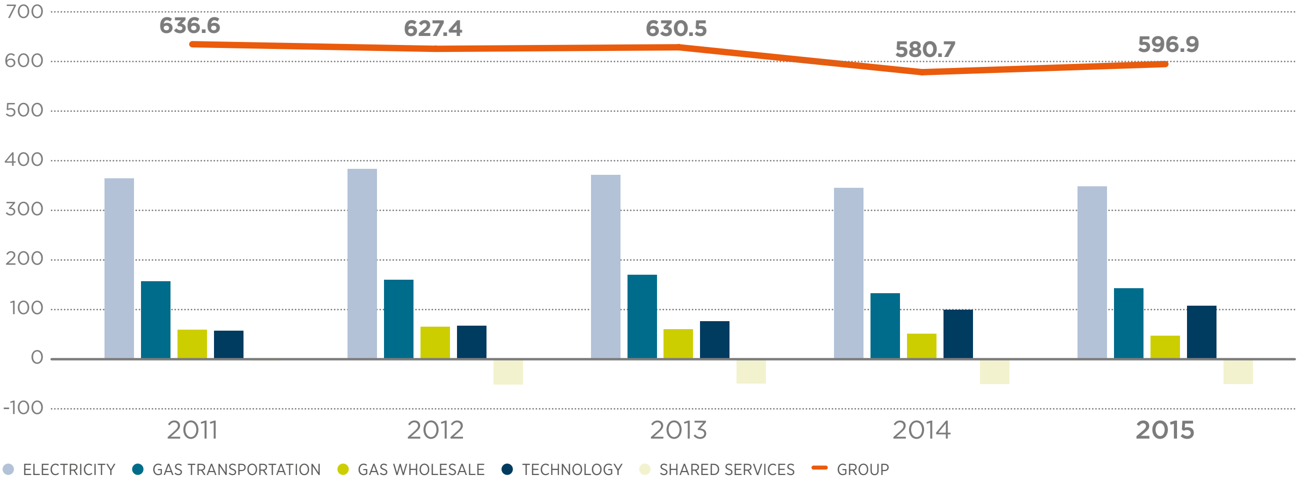
ADJUSTED EBITDA 2015

$596.9m

Adjusted EBITDA

$ MILLION

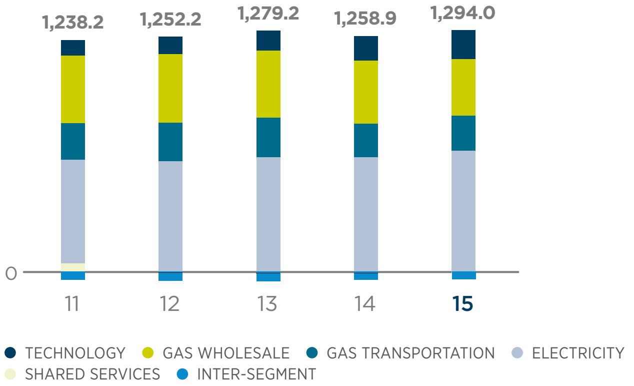
FOR THE YEAR ENDED 30 JUNE 2015



Strong growth in Auckland, higher energy volumes and continued growth in the technology operations lift Vector's financial performance, offsetting well-signalled price cuts to the regulated energy networks.

Total Income

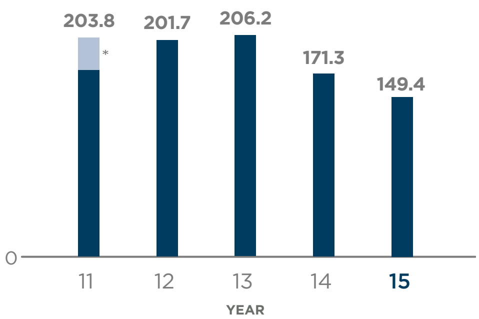
$ MILLION
FOR THE YEAR ENDED 30 JUNE



Increases in charges that are passed directly through to customers lifted revenue by around $28 million.

Net Profit

$ MILLION
FOR THE YEAR ENDED 30 JUNE

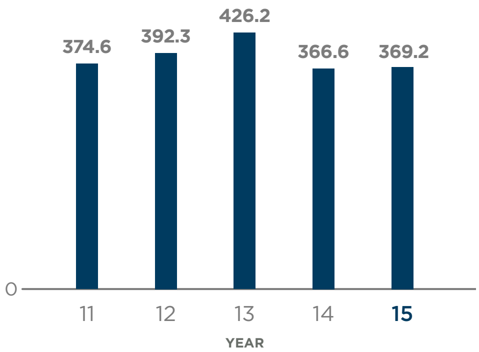


Net profit included higher borrowing costs and $11 million of non-cash mark-to-market losses on derivatives.

* One-off contribution from sale of tunnel use rights.

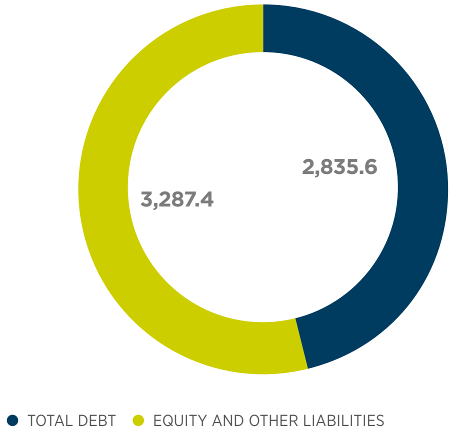
Operating Cash Flow

$ MILLION
FOR THE YEAR ENDED 30 JUNE



Source of Funding

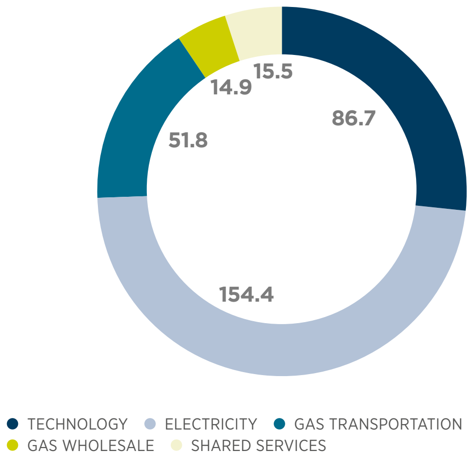
$ MILLION
AS AT 30 JUNE 2015



Vector's capital structure remains sound. We hold a Standard & Poor's BBB/stable investment-grade credit rating.

Capital Expenditure

$ MILLION
FOR THE YEAR ENDED 30 JUNE 2015



Total capital expenditure was $323.3 million of which $173.4 million was directed at growth initiatives.

Experienced Leadership

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

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 to Ngāti Whātua Ōrākei Rawa Limited and Tower Limited. Michael is 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 Air New Zealand Limited, Compac Holdings Limited, New Zealand Asset Management Limited, Westpac New Zealand Limited and Zespri Group Limited. 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 the Forestry Industry Safety Council, BPAC New Zealand Limited, GMI Group, Farm IQ Systems Limited, Stevenson Agriculture 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 director of Intueri Education Group Limited, a member of the NZ Markets Disciplinary Tribunal and a member of the Health Quality & Safety Commission New Zealand.

7. KAREN SHERRY

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

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

Karen Sherry is a principal of the firm Bell-Booth Sherry where she specialises in commercial and trust law. She is a trustee and former chair of the Auckland Energy Consumer Trust. She is the chair of Energy Trusts of New Zealand Inc., and a director of SPCA Auckland Inc. Karen is also a chartered fellow of the Institute of Directors in New Zealand.

8. BOB THOMSON

BEng (Electrical), DipBS

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

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

NICK ASTWICK (not pictured)

BCom

FUTURE DIRECTOR

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

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

Astute Management

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

1. SIMON MACKENZIE

Grad DipBS (Dist), DipFin, NZCE

GROUP CHIEF EXECUTIVE

Simon was appointed Group Chief Executive in February 2008 and has been with Vector for 17 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. ANDRE BOTHA

BEng, MEng, PG DipBus

CHIEF NETWORKS OFFICER

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

3. 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, culture and internal communications. Kate's background includes strategic and operational risk management, business continuity, OHSE, insurance, sustainability and commercial law. Prior to joining Vector in July 2012, Kate was with Amcor Limited where she held the global position of Vice-President, Risk & Sustainability and has held management roles with Toyota and Bonlac Foods (Fonterra).

4. BRIAN RYAN

MBA (Hons), BTech

GROUP GENERAL MANAGER DEVELOPMENT

Brian leads the Development team and is focused on the company's growth and development, through innovative customer solutions and technology. Brian joined Vector in 2014 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.

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 Chief Financial Officer.

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 30 years. Prior to joining Vector in 2008, he was general manager operations at Contact Energy, responsible for the company's power stations and power station development. Also, he has held roles at BP and Fletcher Challenge in New Zealand, Canada and Europe. David's tertiary qualifications include degrees in engineering and science, and he has completed the Senior Executive Programme at the London Business School.

Guiding principles

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

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

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

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

PROMOTION OF ETHICAL AND RESPONSIBLE DECISION-MAKING

Vector expects its directors and employees to act legally, ethically, responsibly and with integrity in a manner consistent with Vector's policies, procedures and values. The following measures have been put in place to assist with this:

> **Code of Conduct and Ethics**

Sets out the ethical standards expected from Vector's directors, staff and anyone acting on Vector's behalf

> **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 the inclusion of 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

> **Whistleblower 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.

PROMOTING A COMPANY CULTURE WHICH EMBRACES 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

> 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.

LAYING SOLID FOUNDATIONS FOR MANAGEMENT

Vector's governance practices are designed to:

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

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

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

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

The board's primary objective is to protect and enhance the value of the company in the interests of the company and its shareholders and, in that context, to have due regard to the interests of other stakeholders. The board exercises this obligation through the approval of appropriate corporate strategies, practices and processes.

These include the approval of transactions and commitments not within the authorities delegated by the board to management and the review of company performance against strategic objectives.

Vector achieves board and management accountability through its board charter, which sets out matters reserved for the board and responsibilities delegated to the Group Chief Executive, and a formal delegation of authority framework. The effect of this framework is that, whilst the board has statutory responsibility for the activities of the company, this is exercised through the delegation to the Group Chief Executive, who is responsible for the day-to-day leadership and management of the company. The framework also reserves certain matters for the decision of the board.

STRUCTURING THE BOARD TO ADD VALUE

Vector's board is composed of a minimum of three and a maximum of nine directors, with at least two being ordinarily resident in New Zealand. As at 30 June 2015, the board comprised eight directors, all of whom are non-executive directors. Information on the skills, experience and expertise of each director and their independence status is set out in the 'Board of Directors' section.

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

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

PREPARATION OF ANNUAL REPORT

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

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

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

AUDITORS

Vector's external auditors for the year ending 30 June 2015 were KPMG. The board, after considering the recommendations of the audit committee, consider and review the appointment of external auditors. The board requires the rotation of the audit partner for the statutory audit after no more than five years.

The audit committee provides a formal forum for communication between the board and the external auditors, ensures the independence of the external auditors, has oversight of audit planning, reviews and recommends audit fees, considers audit opinions and evaluates the performance of the external auditors.

There have been no identified threats to the external auditors' 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 to safeguard the integrity of Vector's financial reporting. It independently meets external auditors at least twice a year without company employees present. A full description of the audit committee's composition and duties is contained in the audit committee charter which is published on Vector's website. The committee's members as at 30 June 2015 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 2015 were James Carmichael (chair), Peter Bird, Jonathan Mason, Karen Sherry, Michael Stiassny and Bob Thomson.

TABLE OF ATTENDANCE

Attendance records of board and committee meetings for the year ended 30 June 2015 are provided in the table below:

	FULL BOARD	AUDIT COMMITTEE	RISK AND ASSURANCE COMMITTEE	REMUNERATION COMMITTEE	REGULATORY COMMITTEE	NOMINATIONS COMMITTEE
Total meetings	13	5	3	3	3	1
CURRENT DIRECTORS						
M Stiassny (Chair)	12	5	3	3	3	1
P Bird	13	1*	2*	3*	3	
J Carmichael	13	5	3	3	3	
H Fletcher	13	5	3*	3*	3*	1
J Mason	13	5	3	3*	3	
A Paterson	13	5	3	3	3*	1
K Sherry	13	5	3	3	3	
B Thomson	13	5	3	3*	3	

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

Risk and Assurance Committee

Assists the board in fulfilling its responsibilities to protect the interests of shareholders, customers, employees and the communities in which Vector operates through establishing a sound risk management framework and rigorous processes for internal control. A full description of the risk and assurance committee's composition and duties is contained in the risk and assurance committee charter, which is published on Vector's website. Risk and assurance committee members as at 30 June 2015 were Karen Sherry (chair), James Carmichael, Jonathan Mason, Alison Paterson, Michael Stiassny and Bob Thomson.

Nominations Committee

Assists the board in fulfilling its responsibilities to have an efficient mechanism for examination of the selection and appointment practices of the company. For as long as 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 2015 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 2015, 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 2015 were James Carmichael (chair), Michael Stiassny, Alison Paterson and Karen Sherry.

REMUNERATING FAIRLY AND RESPONSIBLY

The directors' remuneration, and certain employee remuneration information, is set out in the Statutory Information section of this Annual Report. Vector's director and executive remuneration policy is published on Vector's website.

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

RESPECTING THE RIGHTS OF SHAREHOLDERS

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

> Communicating with them effectively

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

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

- Providing shareholders with adequate opportunity to ask questions about, and comment upon, relevant matters, and to question directly the external auditors at shareholder meetings
- Enabling shareholders to receive communications from, and send communications to, Vector and its security registry electronically
- Inviting shareholders to contact the company to ask questions, or express views, about matters affecting the company. To facilitate this, Vector has a dedicated email address for shareholder/investor queries which is: investor@vector.co.nz

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

Vector's constitution includes provisions relating to its majority shareholder, 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.

RECOGNISING THE LEGITIMATE INTERESTS OF VECTOR'S STAKEHOLDER

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

MAKING TIMELY AND BALANCED DISCLOSURE

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

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

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

Vector's interim and annual company reports are now viewed primarily online but shareholders are entitled to have hard copies of both documents, and can request them by contacting the company.

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

RECOGNISING AND MANAGING RISK

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

Vector has continued to focus on maturing and enhancing its Enterprise Risk Management Framework by improving the consistency of risk management approaches and behaviours within the business while improving design elements. The following features have been enhanced over the past year:

- Simplifying the risk assessment process to ensure consistency of approach in articulating and managing risk in line with the risk appetite of the board and governance structures
- Providing fraud and corruption risk-awareness training throughout the organisation to follow a better practice standard resulting in improved governance and oversight
- Refreshing and continuously improving business continuity management design, training, testing and 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 through scenario testing our Crisis Management Plan
- Appointing an in-house internal auditor whose role is to review and consolidate all assurance activities. The Group Manager Internal Audit & Assurance reports to the chair of the board's Risk and Assurance Committee and functionally to the Chief Risk Officer.

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

Vector's standard profit measure prepared under New Zealand 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, establish operational goals and allocate resources. For a more comprehensive discussion on the use of non-GAAP profit measures, please refer to the policy 'Reporting non-GAAP profit measures' available on our website (vector.co.nz).

Non-GAAP profit measures are not prepared in accordance with NZ IFRS (New Zealand International Financial Reporting Standards) and are not uniformly defined, therefore the non-GAAP profit measures reported in this document may not be comparable with those that other companies report and should not be viewed in isolation 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 2015 $M	30 JUN 2014 $M
Reported net profit for the period (GAAP)	**149.4**	171.3
Add back: net interest costs[1]	**180.8**	168.9
Add back: tax (benefit)/expense[1]	**61.3**	63.2
Add back: depreciation and amortisation[1]	**195.2**	183.8
EBITDA	**586.7**	587.2
Adjusted for:		
Impairment of investment in associate[1]	**–**	1.2
Associates (share of net (profit)/loss)[1]	**(0.8)**	(1.7)
Fair value change on financial instruments[1]	**11.0**	(6.0)
Adjusted EBITDA	**596.9**	580.7

EBIT and Adjusted EBIT	30 JUN 2015 $M	30 JUN 2014 $M
Reported net profit for the period (GAAP)	**149.4**	171.3
Add back: net interest costs	**180.8**	168.9
Add back: taxation[1]	**61.3**	63.2
EBIT	**391.5**	403.4
Adjusted for:		
Impairment of investment in associate[1]	**–**	1.2
Share of net (profit)/loss from associate[1]	**(0.8)**	(1.7)
Fair value change on financial statements[1]	**11.0**	(6.0)
Adjusted EBIT	**401.7**	396.9

1. Extracted from audited financial statements.

Financial Statements

2015 FINANCIAL STATEMENTS

These financial statements for the year ended 30 June 2015 are dated 28 August 2015, and signed on behalf of the board of directors by:

Director	28 August 2015
Director	28 August 2015

And for and on behalf of management by:

Group Chief Executive	28 August 2015
Chief Financial Officer	28 August 2015

KPMG

TO THE SHAREHOLDERS OF VECTOR LIMITED

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Vector Limited and its subsidiaries (''the group'') on pages 42 to 76. The financial statements comprise the consolidated balance sheet as at 30 June 2015, the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements on pages 42 to 76 comply with generally accepted accounting practice in New Zealand and present fairly, in all material respects, the consolidated financial position of Vector Limited as at 30 June 2015 and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

KPMG

28 August 2015

Auckland

PROFIT OR LOSS

FOR THE YEAR ENDED 30 JUNE

	NOTE	2015 $000	2014 $000
Revenue	4	1,294,016	1,258,864
Operating expenses	5	(697,131)	(678,224)
Depreciation and amortisation		(195,153)	(183,756)
Interest costs (net)	6	(180,801)	(168,877)
Fair value change on financial instruments	7	(11,014)	5,993
Associates (share of net profit/(loss))	11	812	1,727
Impairment of investment in associate	11	–	(1,241)
Profit/(loss) before income tax		210,729	234,486
Tax benefit/(expense)	8	(61,336)	(63,195)
Net profit/(loss) for the period		149,393	171,291
Net profit/(loss) for the period attributable to			
Non-controlling interests		3,285	2,789
Owners of the parent		146,108	168,502
Basic and diluted earnings per share (cents)	21	14.7	16.9

FOR THE YEAR ENDED 30 JUNE

	NOTE	2015 $000	2014 $000
Net profit/(loss) for the period		149,393	171,291
Other comprehensive income net of tax			
Items that may be re-classified subsequently to profit or loss:			
Net change in fair value of hedge reserves		(9,499)	35,900
Share of other comprehensive income of associate	11	(418)	(1,194)
Translation of foreign operations		25	(23)
Other comprehensive income for the period net of tax		(9,892)	34,683
Total comprehensive income for the period net of tax		139,501	205,974
Total comprehensive income for the period attributable to			
Non-controlling interests		3,285	2,789
Owners of the parent		136,216	203,185

BALANCE SHEET

AS AT 30 JUNE

	NOTE	2015 $000	2014 $000
CURRENT ASSETS			
Cash and cash equivalents		8,222	8,284
Trade and other receivables	10	195,812	169,163
Derivatives	18	186	598
Inventories		5,130	4,350
Income tax		22,731	11,366
Total current assets		232,081	193,761
NON-CURRENT ASSETS			
Receivables	10	1,783	1,851
Derivatives	18	104,959	–
Investments in associate	11	11,475	11,481
Intangible assets	12	1,642,783	1,632,430
Property, plant and equipment (PPE)	13	4,129,876	3,999,577
Total non-current assets		5,890,876	5,645,339
Total assets		6,122,957	5,839,100
CURRENT LIABILITIES			
Trade and other payables	15	246,666	217,830
Provisions	16	26,325	9,554
Borrowings	17	249,903	200,314
Derivatives	18	6,557	169
Income tax		1,038	702
Total current liabilities		530,489	428,569
NON-CURRENT LIABILITIES			
Payables	15	17,725	19,544
Provisions	16	14,160	17,628
Borrowings	17	2,585,667	2,268,674
Derivatives	18	113,915	244,961
Deferred tax	9	562,369	551,937
Total non-current liabilities		3,293,836	3,102,744
Total liabilities		3,824,325	3,531,313
EQUITY			
Equity attributable to owners of the parent		2,282,810	2,291,672
Non-controlling interests in subsidiaries		15,822	16,115
Total equity		2,298,632	2,307,787
Total equity and liabilities		6,122,957	5,839,100

Net tangible assets per share (cents)	21	64.3	66.2
Net debt to net debt plus equity ratio	21	55.2%	51.6%
Economic net debt to economic net debt plus adjusted equity ratio	21	53.6%	52.5%

CASH FLOWS

FOR THE YEAR ENDED 30 JUNE

	NOTE	2015 $000	2014 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		1,294,361	1,284,414
Interest received		1,311	1,483
Income tax refunds		–	1,505
Dividends received from associate		400	1,400
Payments to suppliers and employees		(681,502)	(689,618)
Interest paid		(185,384)	(173,926)
Income tax paid		(59,994)	(58,635)
Net cash flows from/(used in) operating activities	20	369,192	366,623
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of PPE and software intangibles		383	1,772
Purchase and construction of PPE and software intangibles		(311,823)	(327,428)
Proceeds from liquidation of associate		7	45
Acquisition of businesses	24	(19,906)	(60,060)
Other investing cash flows		(750)	–
Net cash flows from/(used in) investing activities		(332,089)	(385,671)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		320,000	149,000
Repayment of borrowings		(200,000)	(20,000)
Dividends paid		(155,430)	(156,663)
Other financing cash flows		(1,735)	(1,169)
Net cash flows from/(used in) financing activities		(37,165)	(28,832)
Net increase/(decrease) in cash and cash equivalents		(62)	(47,880)
Cash and cash equivalents at beginning of the period		8,284	56,164
Cash and cash equivalents at end of the period		8,222	8,284
Cash and cash equivalents comprise:			
Bank balances and on-call deposits		3,653	3,684
Short term deposits maturing within three months		4,569	4,600
		8,222	8,284

CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE

	NOTE	ISSUED SHARE CAPITAL $000	TREASURY SHARES $000	HEDGE RESERVES $000	OTHER RESERVES $000	RETAINED EARNINGS $000	NON-CONTROLLING INTERESTS $000	TOTAL EQUITY $000
Balance at 1 July 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
Impact of adopting NZ IFRS 9 (2013) at 1 July 2014		–	–	6,492	–	284	–	6,776
Restated balance at 1 July 2014		874,979	(9,293)	(64,094)	(820)	1,497,676	16,115	2,314,563
Net profit/(loss) for the period		–	–	–	–	146,108	3,285	149,393
Other comprehensive income		–	–	(9,499)	(393)	–	–	(9,892)
Total comprehensive income		–	–	(9,499)	(393)	146,108	3,285	139,501
Dividends	21	–	–	–	–	(151,852)	(3,578)	(155,430)
Employee share purchase scheme transactions		–	15	–	(17)	–	–	(2)
Total transactions with owners		–	15	–	(17)	(151,852)	(3,578)	(155,432)
Balance at 30 June 2015		874,979	(9,278)	(73,593)	(1,230)	1,491,932	15,822	2,298,632

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 FMC reporting entity for the purposes of the Financial Reporting Act 2013 and the Financial Markets Conduct Act 2013. Both these acts have become effective for financial years beginning on or after 1 April 2014, and the Financial Reporting Act 1993 was repealed from that date. The financial statements comply with these Acts.

The financial statements presented are for Vector Limited Group ("Vector" or "the group") as at, and for the year ended 30 June 2015. The group comprises Vector Limited ("the parent"), its subsidiaries, and its investments in associates and joint arrangements.

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

Vector Limited is a 75.1% owned subsidiary of 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

Basis of preparation

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

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

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

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

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

Significant accounting policies, estimates and judgements

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

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

- 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 expenses (Note 13)
- Provisions (Note 16)
- 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 9 *Financial Instruments: Classification and Measurement.*** Vector has adopted NZ IFRS 9 (2013) on 1 July 2014 and has elected not to restate comparative information. The impact of retrospective application of NZ IFRS 9 (2013) is therefore adjusted directly to the opening equity, increasing it by $6.8 million net of tax. This is to recognise the change in hedge accounting structure.
- **IFRIC 21 *Levies*** has not had any impact on the group financial statements.

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 2015 have not been applied in preparing the financial statements:

- **IFRS 15 *Revenue from Contracts with Customers.***

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

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 2014. 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 revenues and operating expenses for each segment are on an arms' length basis.

Segment profit

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

Corporate activities

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

Interest costs (net), fair value change on financial instruments, associates (share of net profit/(loss)) and impairments are incurred within corporate activities and are not allocated to the segments.

Major customers

Vector engages with three major customers, each of which contribute greater than ten percent of the group's revenue. These customers are large energy retailers. For the year ended 30 June 2015, the customers contributed $205.2 million, $201.3 million and $182.5 million respectively which is reported across all segments (2014: one major customer which contributed $195.3 million). The increase in the number of major customers during 2015 is a result of the shift to an interposed billing model on Vector's electricity distribution network from 1 September 2014. Under the interposed billing model Vector holds a contractual relationship with the retailers only, rather than with individual customers.

3. SEGMENT INFORMATION (CONTINUED)

2015	ELECTRICITY $000	GAS TRANS-PORTATION $000	GAS WHOLESALE $000	TECHNOLOGY $000	INTER-SEGMENT $000	TOTAL $000
External revenue:						
Sales	632,181	152,005	307,344	145,514	–	1,237,044
Third party contributions	36,878	16,989	–	2,655	–	56,522
Intersegment revenue	1,728	24,463	6,823	10,201	(43,215)	–
Segment revenue	670,787	193,457	314,167	158,370	(43,215)	1,293,566
External expenses:						
Electricity transmission expenses	(217,039)	–	–	–	–	(217,039)
Gas purchases and production expenses	–	–	(185,284)	–	–	(185,284)
Asset maintenance expenses	(46,822)	(18,611)	(22,480)	(7,285)	–	(95,198)
Employee benefit expenses	(18,081)	(3,602)	(17,688)	(13,511)	–	(52,882)
Other expenses	(31,262)	(21,148)	(15,980)	(27,706)	–	(96,096)
Intersegment expenses	(8,767)	(6,911)	(25,809)	(1,728)	43,215	–
Segment operating expenses	(321,971)	(50,272)	(267,241)	(50,230)	43,215	(646,499)
Segment EBITDA	348,816	143,185	46,926	108,140	–	647,067
Depreciation and amortisation	(84,586)	(24,439)	(14,329)	(56,894)	–	(180,248)
Segment profit	264,230	118,746	32,597	51,246	–	466,819
Segment capital expenditure	154,435	51,744	14,895	86,736	–	307,810

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

2015	REVENUE $000	PROFIT/ (LOSS) BEFORE INCOME TAX $000	CAPITAL EXPENDITURE $000
Reported in segment information	1,293,566	466,819	307,810
Amounts not allocated to segments (corporate activities):			
Revenue	450	450	–
Employee benefit expenses	–	(26,234)	–
Other operating expenses	–	(24,398)	–
Depreciation and amortisation	–	(14,905)	–
Interest costs (net)	–	(180,801)	–
Fair value change on financial instruments	–	(11,014)	–
Associates (share of net profit/(loss))	–	812	–
Capital expenditure	–	–	15,468
Reported in the financial statements	1,294,016	210,729	323,278

3. SEGMENT INFORMATION (CONTINUED)

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 financial statements:

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	–
Employee benefit expenses	–	(26,497)	–
Other operating expenses	–	(23,748)	–
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 financial statements	1,258,864	234,486	339,158

4. REVENUE

	NOTE	2015 $000	2014 $000
Sales	3	1,237,044	1,214,518
Third party contributions	3	56,522	43,726
Other	3	450	620
Total		1,294,016	1,258,864

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	2015 $000	2014 $000
Electricity transmission	3	217,039	188,246
Gas purchases and production	3	185,284	224,389
Network and asset maintenance	3	95,198	93,270
Other direct expenses		54,489	41,981
Employee benefit expenses	3	79,116	70,452
Administration expenses		16,134	17,828
Professional fees		16,898	12,042
IT expenses		14,461	13,927
Loss/(gain) on disposal of PPE and software intangibles		5,123	3,029
Other indirect expenses		13,389	13,060
Total		697,131	678,224

Fees paid to auditors

	2015 $000	2014 $000
Audit or review of financial statements	541	515
Regulatory assurance	536	511
Other audit fees	19	19
Other services	185	20
	1,281	1,065

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 advisory services in relation to the strategic review of Vector's gas transmission and non-Auckland gas distribution businesses. The prior period costs include assurance services for a fraud gap analysis.

6. INTEREST COSTS (NET)

	2015 $000	2014 $000
Interest expense	184,646	174,063
Capitalised interest	(6,277)	(7,438)
Other	3,743	3,685
Interest income	(1,311)	(1,433)
Total	180,801	168,877

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 6.8% per annum (2014: 6.6%).

7. FAIR VALUE CHANGE ON FINANCIAL INSTRUMENTS

	2015 $000	2014 $000
Ineffective portion of cash flow hedges	–	(191)
Fair value movement on hedging instruments	199,906	(75,464)
Fair value movement on hedged items	(210,920)	81,648
Total gains/(losses)	(11,014)	5,993

8. INCOME TAX (BENEFIT)/EXPENSE

Reconciliation of income tax expense/(benefit)	2015 $000	2014 $000
Profit/(loss) before income tax	210,729	234,486
Tax at current rate of 28%	59,004	65,656
Current tax adjustments:		
Non-deductible expenses	490	416
Relating to prior periods	2,188	2,157
Other	212	(1,165)
Deferred tax adjustments:		
Impairment of investment in associate	–	348
Relating to prior periods	(1,778)	(2,984)
Other	1,220	(1,233)
Income tax expense/(benefit)	61,336	63,195
Comprising:		
Current tax	49,281	51,569
Deferred tax	12,055	11,626

Policies

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

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

Imputation credits

There are no imputation credits available for use as at 30 June 2015 (2014: nil), as the imputation account has a debit balance as of that date.

9. DEFERRED TAX

Deferred tax liability/(asset)	TAX LOSSES $000	PPE $000	PROVISIONS AND ACCRUALS $000	HEDGE RESERVES $000	OTHER $000	TOTAL $000
Balance at 1 July 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
Recognised in profit or loss	–	32,320	(6,607)	–	(13,658)	12,055
Recognised in other comprehensive income	–	–	–	(357)	–	(357)
Recognised from business combinations	–	(1,266)	–	–	–	(1,266)
Balance at 30 June 2015	–	585,927	(14,500)	(27,809)	18,751	562,369

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.

10. TRADE AND OTHER RECEIVABLES

	2015 $000	2014 $000
TRADE RECEIVABLES		
Current		
Trade receivables	170,383	149,370
Less provision for doubtful debts	(2,528)	(2,602)
Balance at 30 June	167,855	146,768
AGEING OF TRADE RECEIVABLES		
Not past due	157,521	132,911
Past due 1-30 days	5,392	6,593
Past due 31-120 days	1,603	2,845
Past due more than 120 days	5,867	7,021
Balance at 30 June	170,383	149,370
OTHER RECEIVABLES		
Current		
Interest receivable	17,436	13,629
Prepayments	9,208	8,662
Other	1,313	104
Balance at 30 June	27,957	22,395
Non-current		
Finance lease	1,308	1,332
Other	475	519
Balance at 30 June	1,783	1,851

Policies

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

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

Impairment

Trade receivables past due by up to 120 days do not include any allowances for impairment (2014: nil).

Trade receivables past due by more than 120 days include allowances for impairment of $2.5 million (2014: $2.6 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	
		2015	2014
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%
- Vector Advanced Metering Services (Australia) Pty Limited	Metering	100%	100%
Vector Communications Limited	Telecommunications	100%	100%
Advanced Metering Services Limited	Metering services	100%	100%
Vector Solar Limited	Solar sales	100%	–
Arc Innovations Limited	Metering	100%	–
Non-trading subsidiaries			
Auckland Generation Limited	Holding company	100%	100%
- MEL Network Limited	Holding company	100%	100%
- Mercury Geotherm Limited	Dormant	100%	100%
- Poihipi Land Limited	Dormant	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 financial statements using the acquisition method of consolidation.

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

Balance dates

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

Geography

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

11. INVESTMENTS (CONTINUED)

11.2 Investment in associates

	PRINCIPAL ACTIVITY	BALANCE DATE	COUNTRY OF INCORPORATION	PERCENTAGE HELD	
				2015	2014
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%

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

	2015 $000	2014 $000
Carrying amount of associates		
Balance at 1 July	11,481	13,589
Share of net profit/(loss) of associates	812	1,727
Share of other comprehensive income of associate	(418)	(1,194)
Dividends received	(400)	(1,400)
Impairment of investment	–	(1,241)
Balance at 30 June	11,475	11,481
Equity accounted earnings of associates		
Profit/(loss) before income tax	1,128	2,398
Income tax benefit/(expense)	(316)	(671)
Share of net profit/(loss) of associates	812	1,727
Total recognised revenues and expenses	812	1,727

Policies

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

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

Impairment

Vector has not recognised any impairment loss at group level in respect of the investment in its associate company, NZ Windfarms Limited (2014: $1.2 million).

The recoverable amount determined as at 30 June 2015 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 recoverable amount exceeds the current carrying value of the group's investment in NZ Windfarms Limited as the share price of NZ Windfarms Limited increased from $0.05 per share at 30 June 2014 to $0.06 per share at 30 June 2015.

11.3 Interest in joint operation

	PRINCIPAL ACTIVITY	BALANCE DATE	INTEREST HELD	
			2015	2014
Joint operation				
Kapuni Energy Joint Venture	Cogeneration plant operator	30 June	50%	50%

Policies

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

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

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

12. INTANGIBLE ASSETS

	CUSTOMER CONTRACTS $000	EASEMENTS $000	SOFTWARE $000	GOODWILL $000	TOTAL $000
Opening carrying amount 1 July 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)
Acquisition of business	5,278	–	717	1,444	7,439
Transfers from PPE	–	462	27,902	–	28,364
Amortisation for the period	(1,945)	–	(23,505)	–	(25,450)
Closing carrying amount 30 June 2015	15,299	14,751	51,773	1,560,960	1,642,783
Cost	21,742	14,751	217,982	1,560,960	1,815,435
Accumulated amortisation	(6,443)	–	(166,209)	–	(172,652)

12.1 Goodwill

	2015 $000	2014 $000
Goodwill by segment		
Electricity	852,219	852,219
Gas transportation	468,062	468,062
Gas wholesale	220,826	220,826
Technology	19,853	18,409
Total	1,560,960	1,559,516

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.

12. INTANGIBLE ASSETS (CONTINUED)

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. 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 all other cash generating units.

Key assumptions include the level of future EBITDA and maintenance expenditure for each segment. Terminal growth rates in a range of 1.0% to 2.0% (2014: 0.0% to 3.0%) and post-tax discount rates between 5.4% and 8.2% (2014: 6.5% and 8.9%) are applied. Rates vary for the specific segment being valued.

Projected cash flows for regulated businesses are sensitive to regulatory uncertainty. Estimated future regulated network revenues and the related supportable levels of capital expenditure are based on default price-quality path determinations issued by the Commerce Commission and are in line with estimates published in the asset management plans. For the electricity segment, the recoverable amount exceeds the carrying value based on the electricity distribution default price-quality path determination released in November 2014. In calculating the recoverable amount for the electricity segment, the Commerce Commission's decision on 30 October 2014 to amend the weighted average cost of capital (WACC) methodology and to adopt a P67 WACC has 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 2014 through to 30 September 2017.

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 – 36 years; customer contracts 3 - 10 years.

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

13. PROPERTY, PLANT AND EQUIPMENT (PPE)

GROUP	DISTRIBUTION SYSTEMS $000	ELECTRICITY AND GAS METERS $000	LAND, BUILDINGS AND IMPROVEMENTS $000	COMPUTER AND TELCO EQUIPMENT $000	OTHER PLANT AND EQUIPMENT $000	CAPITAL WORK IN PROGRESS $000	TOTAL $000
Carrying amount 1 July 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)
Additions	–	–	–	–	–	323,278	323,278
Acquisition of business	–	5,489	–	441	3,784	720	10,434
Transfers – Intangible assets	–	–	–	–	–	(28,364)	(28,364)
Transfers – Other	203,626	72,295	10,322	14,951	(848)	(300,346)	–
Disposals	(4,972)	(306)	(49)	–	(19)	–	(5,346)
Depreciation for the period	(111,231)	(32,779)	(3,237)	(13,029)	(9,427)	–	(169,703)
Carrying amount 30 June 2015	3,257,940	393,683	163,590	101,231	106,149	107,283	4,129,876
Cost	4,167,244	621,102	188,705	185,702	184,099	107,283	5,454,135
Accumulated depreciation	(909,304)	(227,419)	(25,115)	(84,471)	(77,950)	–	(1,324,259)

Policies

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

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

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

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

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

Depreciation commences when an asset becomes available for use.

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

Estimated useful lives are as follows:

Buildings	40 – 100	Electricity and gas meters	5 – 40
Distribution systems	10 – 100	Other plant and equipment	3 – 55

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

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 $56.4 million for the group (2014: $52.0 million).

14. OPERATING LEASES

	2015 $000	2014 $000
Aggregate minimum lease payments under non-cancellable operating leases where Vector is the lessee		
Within one year	4,768	6,652
One to five years	15,931	11,637
Beyond five years	5,898	8,080
Total	26,597	26,369

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

	2015 $000	2014 $000
Current		
Trade payables	183,564	159,938
Deferred consideration payable	750	1,500
Employee benefits	8,704	6,455
Deferred income	7,787	7,308
Finance leases	623	836
Interest payable	45,238	41,793
Balance at 30 June	246,666	217,830
Non-current		
Deferred income	13,828	15,867
Finance leases	1,099	875
Other non-current payables	2,798	2,802
Balance at 30 June	17,725	19,544

Other payables

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

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

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

2015	DECOMMISSIONING PROVISION $000	PROVISION FOR CONTRACTUAL DISPUTES $000	OTHER $000	TOTAL $000
Balance 1 July 2014	10,535	7,093	9,554	27,182
Additions	3,625	6,072	5,400	15,097
Reversed to the income statement	–	–	(1,794)	(1,794)
Balance at 30 June 2015	14,160	13,165	13,160	40,485
Current	–	13,165	13,160	26,325
Non-current	14,160	–	–	14,160
Total	14,160	13,165	13,160	40,485

Policies

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

Decommissioning

The decommissioning provision is in respect of future expected costs for dismantling the group's gas treatment and cogeneration plants situated at Kapuni and depot assets situated at various regions in New Zealand.

Contractual disputes

The contractual disputes provision relates to matters which are the subject of arbitration proceedings. The amount of the obligations is uncertain as they are contingent on the outcome of arbitration. The amount recognised represents management's best estimate of the amount that will be required to settle the obligations. The outcome of the obligations is expected to be determined within the next year and therefore these are classified as current.

Other provisions

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

17. BORROWINGS

	CURRENCY	MATURITY DATE	FACE VALUE $000	UNAMORTISED COSTS $000	FAIR VALUE ADJUSTMENT ON HEDGED RISK $000	CARRYING VALUE $000	FAIR VALUE $000
2015							
Bank facilities – variable rate	NZD	Dec 2016-Feb 2018	249,000	(752)	–	248,248	248,248
Capital bonds – 7% fixed rate	NZD	–	262,651	(229)	–	262,422	272,539
Senior notes – fixed rate	USD	Sep 2016-Sep 2022	796,014	(2,022)	109,706	903,698	872,763
Floating rate notes – variable rate	NZD	Oct 2015-Oct 2020	1,160,000	(3,920)	–	1,156,080	1,116,230
Medium term notes – 7.625% fixed rate	GBP	Jan 2019	285,614	(1,978)	(18,514)	265,122	304,127
Balance at 30 June			2,753,279	(8,901)	91,192	2,835,570	2,813,907
2014							
Bank facilities – 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

Policies

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

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

On 14 October 2014, USD 130 million Senior notes maturing on 14 October 2021, were drawn down. The proceeds were used to pay the NZD 150 million, 7.8% fixed rate Senior bonds which matured on 15 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 2015 and 30 June 2014.

18. DERIVATIVES AND HEDGE ACCOUNTING

	CASH FLOW HEDGES		FAIR VALUE HEDGES		COST OF HEDGING		TOTAL	
	2015 $000	2014 $000	2015 $000	2014 $000	2015 $000	2014 $000	2015 $000	2014 $000
Derivative assets								
Cross currency swaps	–	–	105,403	–	(1,221)	–	104,182	–
Interest rate swaps	777	–	–	598	–	–	777	598
Forward exchange contracts	186	–	–	–	–	–	186	–
Total	963	–	105,403	598	(1,221)	–	105,145	598
Derivative liabilities								
Cross currency swaps	(31,558)	(87,448)	–	(86,085)	1,876	–	(29,682)	(173,533)
Interest rate swaps	(90,790)	(71,417)	–	–	–	–	(90,790)	(71,417)
Forward exchange contracts	–	(180)	–	–	–	–	–	(180)
Total	(122,348)	(159,045)	–	(86,085)	1,876	–	(120,472)	(245,130)

The fair value of the derivative assets has increased as at 30 June 2015 largely due to the strengthening of the foreign currencies against the New Zealand dollar.

Key observable market data for fair value measurement	2015	2014
Foreign currency exchange (FX) rates as at 30 June		
NZD-GBP FX rate	0.4306	0.51200
NZD-USD FX rate	0.6764	0.87580
Interest rate swap rates		
NZD	3.09% to 3.91%	3.43% to 4.90%
USD	0.28% to 2.96%	0.16% to 3.17%
GBP	0.58% to 2.27%	0.45% to 3.19%
Credit margins		
Vector	1.24% to 2.31%	1.29% to 2.21%
Counterparties	0.09% to 1.52%	0.03% to 1.71%

Sensitivity to changes in market rates	2015 $000	2014 $000
Impact on comprehensive income:		
Sensitivity to change in interest rates		
-1% change in interest rates	(43,231)	(38,535)
+1% change in interest rates	41,230	36,999
Sensitivity to change in foreign exchange rates		
-10% change in foreign exchange rates	(3,392)	(7,015)
+10% change in foreign exchange rates	4,811	7,183
Sensitivity to change in credit margins		
-0.50% change in credit margins	(910)	(1,569)
+0.50% change in credit margins	891	1,542
Impact on profit or loss:		
Sensitivity to change in interest rates		
-1% change in interest rates	(2,411)	(3,539)
+1% change in interest rates	2,296	3,826
Sensitivity to change in foreign exchange rates		
-10% change in foreign exchange rates	2,843	6,654
+10% change in foreign exchange rates	(2,755)	(6,764)
Sensitivity to change in credit margins		
-0.50% change in credit margins	3,083	(1,336)
+0.50% change in credit margins	(3,014)	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 and/or foreign exchange market prices. The carrying values of the financial instruments are the fair values excluding any interest receivable or payable, which is separately presented in the balance sheet in other receivables or other payables.

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

Vector designates certain derivatives as either:

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

At inception each transaction is documented, detailing:

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

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

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

Fair value hedges

Vector has entered into 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 (which matured in October 2014) 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.

18. DERIVATIVES AND HEDGE ACCOUNTING (CONTINUED)

Cash flow hedges

Vector has entered into interest rate swaps and cross currency interest rate swaps (the hedging instruments) to hedge the variability in cash flows arising from interest rate and foreign currency exchange rate movements in relation to its NZD floating rate notes 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 table above shows the sensitivity of the financial statements to a range of possible changes in the market data at balance date.

Rights to offset

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

	2015 $000		2014 $000	
	DERIVATIVES POSITION AS PER BALANCE SHEET	AMOUNT AFTER APPLYING RIGHTS OF OFFSET UNDER ISDA AGREEMENTS	DERIVATIVES POSITION AS PER BALANCE SHEET	AMOUNT AFTER APPLYING RIGHTS OF OFFSET UNDER ISDA AGREEMENTS
Derivative assets	105,145	42,497	598	–
Derivative liabilities	(120,472)	(57,824)	(245,130)	(244,532)
Net amount	(15,327)	(15,327)	(244,532)	(244,532)

18. DERIVATIVES AND HEDGE ACCOUNTING (CONTINUED)

18.1 Effects of hedge accounting on the financial position and performance

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

	2015 $000					
Cash flow hedges	FACE VALUE	CARRYING AMOUNT ASSETS/ (LIABILITIES)	CHANGE IN FAIR VALUE USED FOR MEASURING INEFFECTIVE-NESS	HEDGING (GAIN) OR LOSS RECOGNISED IN CASH FLOW HEDGE RESERVE	HEDGE INEFFECTIVE-NESS RECOGNISED IN PROFIT OR LOSS	(GAIN) OR LOSS RECOGNISED IN COST OF HEDGING
Interest risk						
Hedged item: Floating rate notes	(1,160,000)		(92,554)			
Hedging instrument: Interest rate swaps	(1,810,000)	(90,013)	(90,013)	90,013	–	–
Interest and exchange risk						
Hedged item: Medium term notes – 7.625% fixed rate	(285,614)		(32,722)			
Hedging instrument: Cross currency swaps	(285,614)	(29,682)	(31,558)	13,044	–	(1,876)
				Total	–	

Cost of hedging is a new category of hedge reserves which has only applied following Vector's adoption of NZ IFRS 9 (2013) on 1 July 2014.

	2014 $000				
Cash flow hedges	FACE VALUE	CARRYING AMOUNT ASSETS/ (LIABILITIES)	CHANGE IN FAIR VALUE USED FOR MEASURING INEFFECTIVE-NESS	HEDGING (GAIN) OR LOSS RECOGNISED IN CASH FLOW HEDGE RESERVE	HEDGE INEFFECTIVE-NESS RECOGNISED IN PROFIT OR LOSS
Interest risk					
Hedged item: Floating rate notes	(1,160,000)		(73,499)		
Hedging instrument: Interest rate swaps	(1,465,000)	(71,417)	(71,417)	71,417	(1)
Interest and exchange risk					
Hedged item: Senior notes – fixed rate	(646,014)		(12,257)		
Hedging instrument: Cross currency swaps	(646,014)	(12,006)	(12,006)	12,006	192
Hedged item: Medium term notes – 7.625% fixed rate	(285,614)		(79,206)		
Hedging instrument: Cross currency swaps	(285,614)	(75,442)	(75,442)	14,437	–
				Total	191

The interest rate swaps include $650 million of forward starting swaps (2014: $305 million).

18. DERIVATIVES AND HEDGE ACCOUNTING (CONTINUED)

2015
$000

Fair value hedges	FACE VALUE	ACCUMULATED FAIR VALUE HEDGE ADJUSTMENTS	CARRYING AMOUNT ASSETS/ (LIABILITIES)	CHANGE IN FAIR VALUE OF THE HEDGED ITEM	CHANGE IN FAIR VALUE OF THE HEDGING INSTRUMENT	CHANGE IN VALUE IN COST OF HEDGING
Interest and exchange risk						
Hedged item: Senior notes – fixed rate	(796,014)	(109,706)	(903,698)	(211,500)		
Hedging instrument: Cross currency swaps	(796,014)		104,182		200,504	1,769
			Total	(211,500)	200,504	

2014
$000

Fair value hedges	FACE VALUE	ACCUMULATED FAIR VALUE HEDGE ADJUSTMENTS	CARRYING AMOUNT ASSETS/ (LIABILITIES)	CHANGE IN FAIR VALUE OF THE HEDGED ITEM	CHANGE IN FAIR VALUE OF THE HEDGING INSTRUMENT
Interest risk					
Hedged item: Senior bonds – 7.8% fixed rate	(150,000)	(581)	(150,408)	3,474	
Hedging instrument: Interest rate swaps	(150,000)		598		(3,488)
Interest and exchange risk					
Hedged item: Senior notes – fixed rate	(646,014)	92,384	(551,361)	78,174	
Hedging instrument: Cross currency swaps	(646,014)		(86,085)		(71,976)
			Total	81,648	(75,464)

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

18. DERIVATIVES AND HEDGE ACCOUNTING (CONTINUED)

18.2 Reconciliation of changes in hedge reserves

Hedge reserves	2015 $000 CASH FLOW HEDGE RESERVE	2015 $000 COST OF HEDGING	2015 $000 TOTAL
Opening balance	70,586	–	70,586
Impact of adoption of NZ IFRS 9 (2013) at 1 July 2014 net of tax	(7,548)	1,056	(6,492)
Restated balance at 1 July 2014	63,038	1,056	64,094
Hedging gains or losses recognised in OCI	71,120	(2,122)	68,998
Transferred to profit or loss	(51,241)	–	(51,241)
Recognised as basis adjustment to non-financial assets	(4,565)	–	(4,565)
Deferred tax on change in reserves	(4,287)	594	(3,693)
Closing balance	74,065	(472)	73,593

Hedge reserves	2014 $000 CASH FLOW HEDGE RESERVE
Opening balance	106,486
Hedging gains or losses recognised in OCI	32,750
Transferred to profit or loss	(63,181)
Recognised as basis adjustment to non-financial assets	(19,430)
Deferred tax on change in reserve	13,961
Closing balance	70,586

18.3 Impact from adoption of NZ IFRS 9 (2013)

Vector adopted NZ IFRS 9 (2013) on 1 July 2014 and elected not to restate comparative information. The impact of retrospective application of NZ IFRS 9 (2013) is therefore adjusted directly to the opening equity, increasing it by $6.8 million net of tax. This recognises the change in hedge accounting structure.

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

	< 1 YEAR $000	1 - 2 YEARS $000	2 - 5 YEARS $000	> 5 YEARS $000	TOTAL $000
2015					
Interest rate exposure					
Interest rate exposure: borrowings	1,409,000	361,526	582,237	400,516	2,753,279
Derivative contracts:					
Interest rate swaps	(1,160,000)	160,000	350,000	650,000	–
Cross currency swaps	796,014	(98,874)	(296,624)	(400,516)	–
Net interest rate exposure	1,045,014	422,652	635,613	650,000	2,753,279
2014					
Interest rate exposure					
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

Policies

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

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

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

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

19.2 Credit risk

Maximum exposure to credit risk – fair value	2015 $000	2014 $000
Cash and cash equivalents	8,222	8,284
Trade receivables	167,855	146,768
Interest rate swaps	777	598
Cross currency swaps	104,182	–
Forward exchange contracts	186	–
Total credit risk exposure	281,222	155,650

Policies

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

Our credit policies to manage this exposure include:

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

19.3 Liquidity risk

	2015				
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
Non-derivative financial liabilities					
Trade payables	183,564	–	–	–	183,564
Deferred consideration payable	750	–	–	–	750
Borrowings: interest	138,066	96,988	185,765	46,208	467,027
Borrowings: principal	250,000	597,748	1,125,391	811,266	2,784,405
Derivative financial (assets)/liabilities					
Cross currency swaps: inflow	(60,154)	(153,604)	(691,315)	(499,522)	(1,404,595)
Cross currency swaps: outflow	66,767	162,967	732,355	454,480	1,416,569
Forward exchange contracts: inflow	(2,948)	–	–	–	(2,948)
Forward exchange contracts: outflow	2,770	–	–	–	2,770
Net settled derivatives					
Interest rate swaps	36,875	33,598	32,450	1,505	104,428
Group contractual cash flows	615,690	737,697	1,384,646	813,937	3,551,970

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

	2014				
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
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

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 1 and 2 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 (2014: $396 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 to existing facilities. The objective is to spread the concentration of risk so that if an event occurs the overall cost of funding is not unnecessarily increased. Details of borrowings are shown in Note 17.

The board of directors has set 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	2015 $000	2014 $000
Net profit/(loss) for the period		149,393	171,291
Items classified as investing activities			
Net loss/(gain) on disposal of PPE and software intangibles	5	5,123	3,029
Non-cash items			
Depreciation and amortisation		195,153	183,756
Non-cash portion of interest costs (net)		(2,952)	(4,473)
Fair value change on financial instruments	7	11,014	(5,993)
Associates (share of net profit/(loss))	11	(812)	(1,727)
Impairment of investment in associate	11	–	1,241
Increase/(decrease) in deferred tax		12,484	14,090
Increase/(decrease) in provisions	16	13,303	6,816
		228,190	193,710
Cash items not impacting net profit/(loss)			
Dividends received from associate	11	400	1,400
Changes in assets and liabilities			
Trade and other payables		20,196	1,896
Inventories		(780)	1,163
Trade and other receivables		(22,191)	1,573
Income tax		(11,139)	(7,439)
		(13,914)	(2,807)
Net cash flows from/(used in) operating activities		369,192	366,623

21. EQUITY

21.1 Transactions with owners

Dividends

Vector's final dividend for the year ended 30 June 2014 of 7.75 cents per share was paid on 15 September 2014, 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 2015, 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 (2014: 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 4,371,524 shares (2014: 4,384,372) are held as treasury shares of which 126,601 (2014: 139,449) 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
- 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	2015	2014
Net profit attributable to owners of the parent ($000)	146,108	168,502
Weighted average ordinary shares outstanding during the period (number of shares)	995,629,796	995,616,805
	14.7 cents	16.9 cents

Net tangible assets per share	2015 $000	2014 $000
Net assets attributable to owners of the parent	2,282,810	2,291,672
Less total intangible assets	(1,642,783)	(1,632,430)
Total net tangible assets	640,027	659,242
Ordinary shares outstanding (number of shares)	995,628,476	995,615,628
	64.3 cents	66.2 cents

Net debt to net debt plus equity ratio	2015 $000	2014 $000
Current borrowings	249,903	200,314
Non-current borrowings	2,585,667	2,268,674
Total borrowings	2,835,570	2,468,988
Less cash and cash equivalents	(8,222)	(8,284)
Net debt	2,827,348	2,460,704
Total equity	2,298,632	2,307,787
Net debt plus equity	5,125,980	4,768,491
	55.2%	51.6%

Economic net debt to economic net debt plus adjusted equity ratio	2015 $000	2014 $000
Face value of borrowings	2,753,279	2,633,279
Less cash and cash equivalents	(8,222)	(8,284)
Economic net debt	2,745,057	2,624,995
Total equity	2,298,632	2,307,787
Adjusted for hedge reserves	73,593	70,586
Adjusted equity	2,372,225	2,378,373
Economic net debt plus adjusted equity	5,117,282	5,003,368
	53.6%	52.5%

21.4 Reserves

Hedge reserves

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

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

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

During the year, $51.2 million (2014: $63.2 million) was transferred from the cash flow hedge reserve to interest expense.

Cost of hedging records the change in the fair value of the cost to convert foreign currency into New Zealand dollars. This was previously reported as part of the cash flow hedge reserve and has been reclassified to its own reserve as required under NZ IFRS 9 (2013).

Other reserves

Other reserves comprise:

- A share-based payment reserve relating to the employee share purchase scheme. When shares are vested to the employee, the related reserve is 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

	2015 $000	2014 $000
Transactions with the Auckland Energy Consumer Trust		
Dividends paid	114,528	114,528
Call centre costs recovered	–	35
Rental income received	15	15
Transactions with associates and joint operations		
Purchases of electricity and steam from Kapuni Energy Joint Venture (KEJV)	12,819	12,787
Purchase of vegetation management services from Tree Scape Limited	3,702	3,911
Capital distribution received from Total Metering 2012 Limited (in liquidation)	7	45
Sale of gas to KEJV	11,788	–
Sales of operations and maintenance services to KEJV	1,602	1,659
Administration and other services provided to KEJV	71	70
Dividends received from Tree Scape Limited	400	1,400
Electricity services provided to NZ Windfarms Limited	120	120
Directors' fees from NZ Windfarms Limited	30	30
Directors' fees from Tree Scape Limited	94	94
Transactions with key management personnel		
Salary and other short-term employee benefits	5,495	6,052
Directors' fees	1,001	981
Redundancy and termination benefits	250	123

Related parties

Related parties of the group include the 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).

Other

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

Other receivables

	2015 $000	2014 $000
Auckland Energy Consumer Trust	1	1
NZ Windfarms Limited	12	18
Tree Scape Limited	7	6
KEJV	212	212

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

On 1 December 2014, Vector Limited purchased Arc Innovations Limited (Arc), the electricity metering subsidiary of Meridian Energy Limited, for $20.0 million. This business will complement the group's existing metering business, and contribute to growth in the technology segment.

Advanced Metering Services Limited, a wholly owned subsidiary of the group, simultaneously entered into a transaction to provide metering services to Meridian Energy Limited. Some aspects of this contract have been included as part of the business combination.

The difference between the fair value of assets and liabilities acquired and the purchase price has been recognised as goodwill.

The goodwill is attributable mainly to the synergies expected to be achieved from integrating the company into the group's existing metering business.

From the date of acquisition, Arc has contributed $8.2 million of revenue and $3.5 million to the net profit before tax of the group. If the acquisition had taken place at the beginning of the period, Arc's contribution to revenue and net profit for the group for the period would have been $14.6 million and $4.3 million respectively.

	$000
Fair value of net assets acquired at acquisition date	
Property, plant and equipment	10,434
Identifiable intangible assets	5,995
Trade and other receivables	1,692
Deferred tax asset	1,266
Trade and other payables	(803)
Goodwill	1,322
Net assets and liabilities acquired	19,906
Cash paid 1 December 2014	20,000
Post-acquisition adjustment	(94)
Total consideration	19,906

25. EVENTS AFTER BALANCE DATE

Approval

The financial statements were approved by the board of directors on 28 August 2015.

Final dividend

On 28 August 2015, the board declared a final dividend for the year ended 30 June 2015 of 8.00 cents per share.

No adjustment is required to these financial statements in respect of this event.

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 2015 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 $1,500 during the year ended 30 June 2015. Vector's subsidiary companies made donations of $1,682.

CREDIT RATING

At 30 June 2015 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 2015, Vector Limited made payments to J Carmichael and K Sherry, trustees of the AECT (Vector Limited's majority shareholder) totalling $201,300 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 2015 or resigned (R) as a director during the year ended 30 June 2015. 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 2015 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 (R), P Bird (A), J Carmichael (A), H Fletcher (A), S Mackenzie (R), J Mason (A), D Molloy (R), A Paterson (A), K Sherry (A), M Stiassny (A), R Thomson (A)
Advanced Metering Services Limited	P Bird (A), J Carmichael (A), H Fletcher (A), J Mason (A), D Molloy (R), A Paterson (A), K Sherry (A), M Stiassny (A), D Thomas (R), R Thomson (A)
Arc Innovations Limited	M Binns (R), P Bird (A), J Carmichael (A), P Chambers (R), H Fletcher (A), J Mason (A), D Molloy (A) (R), A Paterson (A), K Sherry (A), M Stiassny (A), D Thomas (A) (R), R Thomson (A)
Auckland Generation Limited	S Mackenzie, D Molloy
Broadband Services Limited	M Stiassny
Liquigas Limited	T Barstead, B Boswell, J Floyd, A Gilbert, I Lindsay, D Molloy, T Palmer, P Ridley-Smith (R), J Seymour, R Sharp (A), A Smith, D Thomas, C Thompson
MEL Network Limited	S Mackenzie, D Molloy
Mercury Geotherm Limited	D Molloy (A), A McLachlan (R), D Ross (R), S Sampson (R)
NGC Limited	S Mackenzie, D Molloy
NGC Holdings Limited	P Bird, J Carmichael, H Fletcher, J Mason, A Paterson, K Sherry, M Stiassny, R Thomson
On Gas Limited	P Bird (A), J Carmichael (A), H Fletcher (A), S Mackenzie (R), J Mason (A), D Molloy (R), A Paterson (A), K Sherry (A), M Stiassny (A), R Thomson (A)
Poihipi Land Limited	D Molloy (A), A McLachlan (R), D Ross (R)
UnitedNetworks Limited	S Mackenzie, D Molloy
Vector Advanced Metering Services (Australia) Pty Limited	S Mackenzie, I McClelland
Vector Communications Limited	P Bird, J Carmichael, H Fletcher, J Mason, A Paterson, K Sherry, M Stiassny, R Thomson
Vector ESPS Trustee Limited	S Mackenzie, D Molloy
Vector Gas Limited	P Bird (A), J Carmichael (A), H Fletcher (A), S Mackenzie (R), J Mason (A), D Molloy (R), A Paterson (A), K Sherry (A), M Stiassny (A), R Thomson (A)
Vector Gas Contracts Limited	P Bird (A), J Carmichael (A), H Fletcher (A), S Mackenzie (R), J Mason (A), D Molloy (R), A Paterson (A), K Sherry (A), M Stiassny (A), R Thomson (A)
Vector Gas Investments Limited	S Mackenzie, D Molloy
Vector Kapuni Limited	S Mackenzie, D Molloy
Vector Management Services Limited	S Mackenzie, D Molloy
Vector Metering Data Services Limited	P Bird, J Carmichael, H Fletcher, J Mason, A Paterson, K Sherry, M Stiassny, R Thomson
Vector Solar Limited	D Molloy (A)

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

DIRECTORS (CONTINUED)

Directors' remuneration and value of other benefits received from Vector Limited and current group companies for the year ended 30 June 2015:

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

Directors of subsidiaries	Paid by parent $	Paid by subsidiaries $
T Barstead	–	5,000
J Floyd	–	5,000*
A Gilbert	–	5,000
I Lindsay	–	42,000
I McClelland	–	5,350
D Molloy	–	5,000*
P Ridley-Smith (R)	–	5,000
J Seymour	–	5,000*
R Sharp (A)	–	3,804*
A Smith	–	5,000
D Thomas	–	7,500*
C Thompson	–	3,247
	–	96,901

* 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 2015 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
	Projectmax Limited	Director
	UniServices	Advisor
H Fletcher	Arrow Wrights Limited	Director
	Dilworth Trust	Trustee
	E.T. & B.H. Fletcher Trust	Trustee
	Fletcher Brothers Limited	Director and shareholder
	Fletcher Building Limited	Shareholder
	Gravida National Centre for Growth and Development	Member of advisory board
	IAG (NZ) Holdings Limited	Non-executive chairman
	IAG Finance (New Zealand) Limited	Director
	IAG New Zealand Limited	Director
	Insurance Australia Group Limited	Non-executive director
	J.M.C. Fletcher Family Trust	Trustee
	Knox Investment Partners Fund IV	Member of the advisory committee
	Roderick Fletcher Trust	Trustee
	Rubicon Limited	Non-executive director and shareholder
	S.S., E.T. & B.H. Fletcher Trust	Trustee
	The Fletcher Trust	Trustee
	The New Zealand Portrait Gallery	Trustee
	The University of Auckland Foundation	Trustee
J Mason	Air New Zealand Limited	Director
	Auckland International Airport Limited	Shareholder
	Beloit College, Wisconsin, USA	Trustee
	Compac Holdings Limited	Director
	Exxon Mobil	Shareholder
	Meridian Energy Limited	Shareholder (Trumbull Trust)
	Mighty River Power Limited	Shareholder (Trumbull Trust)
	New Zealand Asset Management	Director
	Ryman Healthcare Limited	Shareholder
	Trumbull Trust	Trustee
	University of Auckland	Trustee and adjunct professor of management
	Westpac New Zealand Limited	Director
	Zespri Group Limited	Director

DIRECTORS OF VECTOR LIMITED (CONTINUED)

Entries in the interests register of Vector Limited up to 30 June 2015 that are not set out elsewhere in this annual report (continued):

Director	Entity	Position
A Paterson	AM Paterson Trust	Trustee
	BJ Paterson Trust	Trustee
	BPAC New Zealand Limited	Chairman
	Donny Charitable Trust	Trustee
	Farm IQ Systems Limited	Chairman
	Forestry Industry Safety Council	Chairman
	GMI Group	Chairman
	Governing Board of The Centre of Research Excellence for Growth and Development (University of Auckland)	Chairman
	Health Quality and Safety Commission	Member
	Intueri Education Group Limited	Director
	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
	NZ Windfarms Limited	Director
	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. Auckland based directors (J Carmichael, H Fletcher, J Mason, A Paterson, K Sherry and M Stiassny) are Vector residential electricity customers.

DIRECTORS OF SUBSIDIARIES

Entries in the interests register of subsidiaries up to 30 June 2015 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 2015 are set out in the table below:

Current employees	Parent	Subsidiaries
$100,001 – $110,000	61	3
$110,001 – $120,000	67	4
$120,001 – $130,000	44	7
$130,001 – $140,000	41	5
$140,001 – $150,000	26	–
$150,001 – $160,000	33	2
$160,001 – $170,000	18	1
$170,001 – $180,000	8	1
$180,001 – $190,000	15	–
$190,001 – $200,000	11	1
$200,001 – $210,000	12	–
$210,001 – $220,000	9	–
$220,001 – $230,000	10	–
$230,001 – $240,000	6	1
$250,001 – $260,000	4	–
$260,001 – $270,000	2	–
$270,001 – $280,000	–	2
$280,001 – $290,000	1	–
$290,001 – $300,000	2	–
$300,001 – $310,000	3	–
$310,001 – $320,000	3	–
$320,001 – $330,000	3	–
$330,001 – $340,000	4	–
$340,001 – $350,000	3	–
$350,001 – $360,000	1	–
$370,001 – $380,000	2	–
$380,001 – $390,000	2	–
$420,001 – $430,000	2	–
$510,001 – $520,000	1	–
$550,001 – $560,000	1	–
$680,001 – $690,000	1	–
$790,001 – $800,000	1	–
$1,520,001 – $1,530,000	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 2015 are set out in the table below:

Former employees (including any termination payments)	Parent	Subsidiaries
$100,001 – $110,000	2	–
$110,001 – $120,000	2	1
$120,001 – $130,000	2	–
$130,001 – $140,000	3	–
$140,001 – $150,000	2	–
$150,001 – $160,000	4	–
$160,001 – $170,000	–	1
$170,001 – $180,000	2	–
$180,001 – $190,000	2	–
$190,001 – $200,000	2	–
$200,001 – $210,000	3	–
$210,001 – $220,000	1	–
$220,001 – $230,000	1	–
$260,001 – $270,000	2	–
$270,001 – $280,000	1	–
$330,001 – $340,000	1	–
$350,001 – $360,000	1	–
$370,001 – $380,000	1	–
$390,001 – $400,000	1	–
$480,001 – $490,000	1	–
$800,001 – $810,000	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 2015:

7.00% CAPITAL BONDS

Range	Number of bondholders	Percentage of bondholders	Number of securities held	Percentage of securities held
5,000 – 9,999	853	18.38%	4,564,667	1.49%
10,000 – 49,999	2,875	61.93%	57,716,700	18.79%
50,000 – 99,999	564	12.15%	32,456,000	10.56%
100,000 – 499,999	308	6.64%	44,693,000	14.55%
500,000 – 999,999	16	0.34%	8,965,000	2.92%
1,000,000 plus	26	0.56%	158,809,633	51.69%
	4,642	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 2015:

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

SHAREHOLDER STATISTICS

Twenty largest registered shareholders as at 30 June 2015:

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]	59,468,502	5.95%
Custodial Services Limited <A/C 3>	12,927,250	1.29%
Custodial Services Limited <A/C 2>	6,098,113	0.61%
Investment Custodial Services Limited <A/C C>	6,000,068	0.60%
Vector Limited	4,244,923	0.42%
Forsyth Barr Custodians Limited <1-33>	3,821,597	0.38%
Custodial Services Limited <A/C 4>	3,718,379	0.37%
Custodial Services Limited <A/C 18>	3,616,074	0.36%
FNZ Custodians Limited	2,174,035	0.22%
Custodial Services Limited <A/C 1>	2,151,383	0.22%
Forsyth Barr Custodians Limited <1-17.5>	1,785,506	0.18%
Custodial Services Limited <A/C 16>	1,631,359	0.16%
New Zealand Depository Nominee Limited <A/C 1 Cash Account>	1,180,160	0.12%
NZPT Custodians (Grosvenor) Limited	1,011,509	0.10%
Forsyth Barr Custodians Limited <1-30>	918,592	0.09%
Investment Custodial Services Limited <A/C R>	797,596	0.08%
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>	551,419	0.06%
	864,268,125	86.43%

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

As at 30 June 2015, the 10 largest shareholdings in Vector Limited held through NZCSD were:

Shareholder	Ordinary shares held	Percentage of ordinary shares held
Citibank Nominees (New Zealand) Limited	14,534,540	1.45%
Accident Compensation Corporation	13,687,108	1.37%
National Nominees New Zealand Limited	7,095,219	0.71%
HSBC Nominees (New Zealand) Limited <A/C State Street>	5,745,901	0.57%
HSBC Nominees (New Zealand) Limited	4,934,142	0.49%
Private Nominees Limited	4,779,663	0.48%
JP Morgan Chase Bank NA <NZ Branch-Segregated Clients Acct>	3,560,672	0.36%
BNP Paribas Nominees (NZ) Limited	1,910,216	0.19%
BNP Paribas Nominees (NZ) Limited	1,699,449	0.17%
Guardian Nominees No. 2 <A/C Westpac W/S Enhanced Cash Trust>	415,800	0.04%

Substantial product holders as at 30 June 2015:

Shareholder	Number of relevant interest voting products held	Percentage of voting products held
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.

SHAREHOLDER STATISTICS (CONTINUED)

As at 30 June 2015, voting products issued by Vector Limited totalled 1,000,000,000 ordinary shares. Of these shares 4,244,923 are held by Vector Limited with the rights and obligations attaching to those shares being suspended pursuant to the provisions of section 67B of the Companies Act 1993.

Ordinary shares distribution as at 30 June 2015:

Range	Number of shareholders	Percentage of shareholders	Number of shares held	Percentage of shares held
1 – 499	6,836	19.89%	2,151,751	0.21%
500 – 999	3,533	10.28%	2,764,344	0.28%
1,000 – 4,999	17,789	51.76%	32,360,437	3.23%
5,000 – 9,999	3,002	8.74%	20,119,445	2.01%
10,000 – 49,999	2,901	8.44%	51,357,845	5.14%
50,000 – 99,999	197	0.57%	12,578,848	1.26%
100,000 plus	109	0.32%	878,667,330	87.87%
	34,367	100.00%	1,000,000,000	100.00%

Analysis of shareholders as at 30 June 2015:

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	1,069	3.11%	9,233,660	0.93%
Individual Holders	21,489	62.53%	62,589,730	6.26%
Joint	10,358	30.14%	47,931,718	4.79%
Nominee Companies	735	2.14%	120,101,866	12.01%
Vector Limited	1	0.00%	4,244,923	0.42%
Other	714	2.08%	4,898,103	0.49%
	34,367	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 2015:

Director	Number of shares 30 June 2015
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 2015 by directors of Vector Limited in the ordinary shares of Vector Limited.

There were no acquisitions or disposals of relevant interests.

FINANCIAL CALENDAR

2015	
Annual meeting	October
First quarter operational statistics	October

2016	
Second quarter operational statistics	January
Half year result and report	February
Interim dividend*	April
Third quarter operational statistics	April
Fourth quarter operational statistics	July
Full year result and annual report	August
Final dividend*	September

*Dividends are subject to board determination

INVESTOR INFORMATION

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

DIRECTORY

REGISTERED OFFICE

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Email: investor@vector.co.nz

SHARE REGISTRAR

Computershare Investor
Services Limited
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Takapuna
Private Bag 92119
Auckland 1142
New Zealand
Telephone 64-9-488 8777

AUDITORS

KPMG
18 Viaduct Harbour Avenue
Auckland 1140
New Zealand

TO REPORT A FAULT

Electricity
Call: 0508 VECTOR
(0508 832 867)

Gas
Call 0800 764 764

Year ended 30 June ($ million)	2015	2014
PROFIT OR LOSS		
Revenue	1,294.0	1,258.9
Operating expenditure	(697.1)	(678.2)
Adjusted EBITDA	596.9	580.7
Depreciation & amortisation	(195.2)	(183.8)
Adjusted EBIT	401.7	396.9
Fair value change on financial instruments	(11.0)	6.0
Interest costs (net)	(180.8)	(168.9)
Associates (share of net profit)	0.8	1.7
Impairment of investment in associates	–	(1.2)
Profit before income tax	210.7	234.5
Tax expense	(61.3)	(63.2)
Net profit	149.4	171.3
Net profit attributable to non-controlling interests	(3.3)	(2.8)
Net profit attributable to owners of the parent	146.1	168.5
ASSETS		
Current assets	232.1	193.8
Intangible assets	1,642.8	1,632.4
Property, plant & equipment	4,129.9	3,999.6
Other non-current assets	118.2	13.3
	6,123.0	5,839.1
EQUITY AND LIABILITIES		
Other current liabilities	280.6	228.3
Total borrowings	2,835.6	2,469.0
Deferred tax liability	562.4	551.9
Other non-current liabilities	145.8	282.1
Equity	2,298.6	2,307.8
	6,123.0	5,839.1
CASH FLOWS		
Net cash flows from operating activities	369.2	366.6
Dividends paid[1]	(155.4)	(156.7)
Capital expenditure payments	(311.8)	(327.4)
Cash outflow before external funding & investments	(98.0)	(117.5)
Net borrowings drawn down/(repaid)	120.0	129.0
Other financing activities	(1.7)	(1.1)
Business acquisitions	(19.9)	(60.1)
Other investing activities	(0.5)	1.8
Increase/(decrease) in cash	(0.1)	(47.9)

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

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