

How Vector is Achieving Best Practice Corporate Governance

Securities Commission Corporate Governance in New Zealand – Principles and Guidelines

New Zealand Exchange Limited Corporate Governance Best Practice Code

Purpose

This document summarises Vector's corporate governance policies and practices in the context of the Securities Commission's nine principles of corporate governance, as well as governance guidelines contained in the New Zealand Exchange Limited (NZX) Corporate Governance Best Practice Code.

Background

Two significant developments in corporate governance for New Zealand companies occurred in 2004.

The NZX introduced a Corporate Governance Best Practice Code as an appendix to the Listing Rules, and the Securities Commission published "Corporate Governance in New Zealand – Principles and Guideline" setting out nine corporate governance principles, with guidelines to assist companies to achieve them.

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

The Securities Commission principles take account of governance work carried out in New Zealand by the NZX, the Institute of Directors and the Institute of Chartered Accountants, as well as overseas developments, particularly in the OECD, Australia, United Kingdom and the United States. The principles therefore reflect current international practice and support existing laws and regulations, including the NZX Code, relating to corporate governance.

Vector's corporate governance framework incorporates contemporary best practice standards in New Zealand and Australia, the Securities Commission principles and the NZX code, and the board as far as practicable operates in accordance with the Institute of Directors' Code of Proper Practice.

Vector's corporate governance policies and practices are consistent with the codes, the principles and the related guidelines.

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

Principle 1. Ethical Standards

Directors should observe and foster high ethical standards.

NZX Code – Code of Ethics

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

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

The Code of Conduct covers all of the matters recommended by the governance principles and NZX Code and is further supported by specific policies, such as Vector's legal compliance policy, share trading policy, the delegated authorities manual and a separate Directors' Code of Conduct. Many of the Code of Conduct provisions are reflected in employees' employment contracts.

Principle 2. Board Composition and Performance

There should be a balance of independence, skills, knowledge, experience and perspectives among directors so that the board works effectively.

NZX Code – Nomination Committee

An issuer should establish a nomination committee to recommend director appointments to the board.

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

The board should establish a formal procedure to regularly assess individual and board performance.

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

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

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

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

Vector separates the roles of board chairman and chief executive. Vector's chairman is an independent director.

Principle 3 – Board Committees

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

NZX Code

In addition to the mandatory requirement of the NZX Listing Rules for listed companies to establish a board audit committee, the NZX Code recommends companies establish board remuneration and nominations committees.

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

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

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

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

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

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

Principle 4 – Reporting and Disclosure

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

NZX Code

In addition to Listing Rule requirements in relation to continuous disclosure and the responsibilities of board audit committees, the NZX Code includes recommendations regarding the composition and other functions of the audit committee

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

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

Principle 5 – Remuneration

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

NZX Code

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

Vector operates a Remuneration Policy (published in the annual report and on this website) that sets out the company's approach to director and executive remuneration. [There are specific provisions in respect of Directors' and executives' remuneration]. The policy is reviewed annually by the board Remuneration Committee, which also considers all appointments and contractual terms at the senior management level. Vector's total cash remuneration approach is a mix of fixed pay and "at risk" incentives which provide a clear link between performance and remuneration.

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

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

Principle 6 – Risk Management

The board should regularly verify that the entity has appropriate process that identify and manage potential and relevant risks.

Vector maintains a continuous focus on business risks through an executive risk management committee (which has its own charter) and the board Risk and Assurance Committee. These committees identify, analyse and manage risks which may have a significant influence on the company's performance, as well as the company's insurance coverage. The internal audit function is incorporated into Vector's risk management processes, with internal audit reporting directed both to the board audit committee and to the full board.

Principle 7 – Auditors

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

NZX Code

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

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

Principle 8 – Shareholder Relations

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

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

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

Principle 9 - Stakeholder Relations

The board should respect the interests of stakeholders within the context of the entity's ownership type and its fundamental purpose.

Through its Stakeholder Relations Policy, Board Charter and Code of Conduct Vector recognises an overriding responsibility to act honestly, fairly, diligently and in accordance with the law in serving the interests of all stakeholders with a legitimate interest in the company's business activities. Vector seeks to foster constructive relationships with stakeholders through legal compliance, operating its assets in a safe and responsible manner, eliminating or mitigating risk, open communication including direct liaison and consultation, community partnerships and treating employees with respect and dignity.