Orion New Zealand Limited

Statement of intent

For FY15, FY16 and FY17

7 May 2014

Contents

Head office

565 Wairakei Road

PO Box 13896
Christchurch 8141
New Zealand

Phone: + 64 3 363 9898
Fax: + 64 3 363 9899
Email: info@oriongroup.co.nz
Web site: oriongroup.co.nz
Twitter: twitter.com/orionnz

Directors

Craig Boyce – chairman
John Austin
Paul Munro
Jeremy Smith
Geoff Vazey

Chief Executive Officer

Rob Jamieson

A Introduction

This statement of intent (SOI) sets out Orion New Zealand Limited's (Orion's) overall intentions and objectives. Our SOI sets out the nature and scope of our activities, our objectives, our key performance targets and other measures by which our performance may be judged in relation to our objectives and other requirements.

This SOI also covers our wholly-owned subsidiary companies, Connetics Limited and Orion New Zealand Ventures Limited.

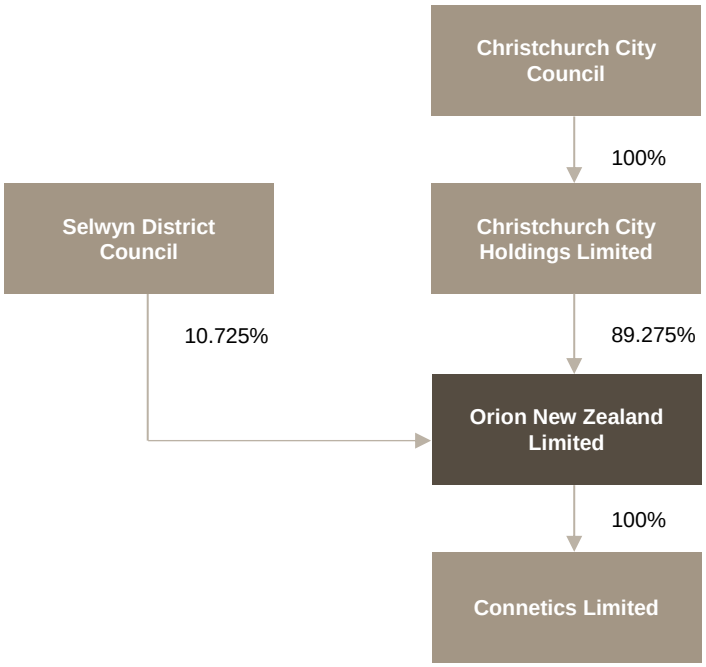
Orion is an energy company pursuant to the Energy Companies Act 1992.

Our SOI has been prepared in accordance with section 39 of the Energy Companies Act 1992 and clause 11 of our company constitution.

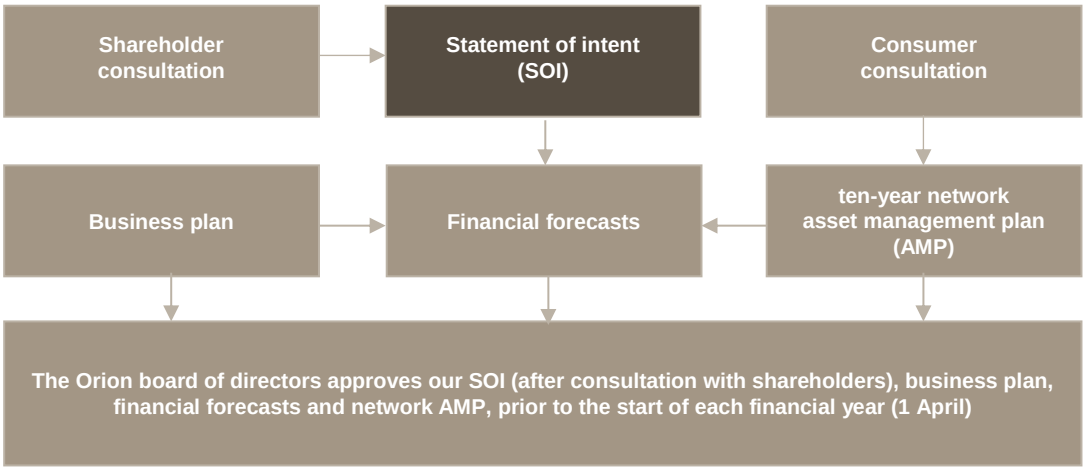
Our SOI is a public expression of the accountability relationship between Orion and its shareholders – Christchurch City Holdings Limited and the Selwyn District Council. We review and update our SOI at least annually in consultation with our shareholders.

Our SOI covers three financial years ending 31 March 2015, 2016 and 2017. Our financial years end on 31 March and are denoted with the "FY" prefix – for example FY15 means the year ended 31 March 2015.

Our group structure is as follows:



The following diagram shows how this SOI sits within our planning and governance framework:



We will seek to:

- achieve our objectives, as specified in this SOI
- be a good employer
- exhibit a sense of social and environmental responsibility by having regard to the interests of the community in which we operate
- conduct our affairs in accordance with sound business practice.

Our top priority is the safe, efficient and effective management of our electricity distribution network. We aim to provide customers with a safe, resilient and efficient electricity delivery service and efficient prices.

Section 36 of the Energy Companies Act 1992 requires Orion, as its principal objective, to operate as a successful business. We aim to recover our efficient costs and provide our shareholders with attractive risk adjusted returns on their investment. We believe that this is what a sustainably successful business does.

We believe that these objectives and priorities are in the long term interests of electricity consumers, our shareholders and our community.

B Nature and scope of activities to be undertaken

We will undertake activities to:

- plan, construct and maintain a safe, resilient and reliable electricity distribution network in the Christchurch and central Canterbury region
- recover our efficient and prudent costs
- provide efficient processes that support competition among electricity retailers and generators
- seek investment/acquisition opportunities in the infrastructure and energy sectors
- manage, grow and if appropriate, realise our other subsidiary and associate company interests.

C The Canterbury earthquakes

The Canterbury earthquakes caused damage to significant parts of our electricity distribution network. The most extensive damage was to our underground cables in the north eastern suburbs of Christchurch. The 22 February 2011 quake caused around 10 times more damage to our network than that caused by the 4 September 2010 earthquake.

Some damage to our electricity distribution network may not become apparent for some time.

Our CBD office buildings were badly damaged and it was not economic to repair them. Our former offices were demolished in early 2012, following a negotiated cash settlement agreement with our insurers. We operated in temporary accommodation at our CBD site from February 2011 until we moved to our new office site at 565 Wairakei Road in May 2013. We sold our former CBD office site to the Crown in September 2013.

Our costs have increased and our revenues have reduced since the quakes.

The earthquakes have shaped many of our intentions, objectives and targets in this SOI. Appendix 1 has our key specific targets related to our earthquake recovery.

D Objectives of the group

Network resilience and reliability

A resilient and reliable supply of energy is critical to our customers and our community.

Network resilience refers to the ability of an electricity network to maintain, and if interrupted, restore supply to consumers, particularly following the onset of a high impact, low probability (HILP) event, or series of events.

Network reliability refers to the extent that an electricity network provides consumers with continuous, uninterrupted supply of electricity to consumers.

We will seek to maintain, upgrade and expand our electricity distribution network as appropriate to comply with our network security of supply standard and our network resilience and reliability objectives and targets – as published in our annual ten-year network asset management plans (AMPs). Network security refers to the ability of an electricity network to maintain continuous supply to consumers following one or more faults that impact a specific part of the network.

Where appropriate, we will aim to meet our network security of supply standard and our resilience objectives through innovative demand side initiatives – such as smart pricing signals and load interruption agreements with our customers. These initiatives aim to reduce system peak demands in the long term interests of Orion, Christchurch and Canterbury.

We reviewed our network security of supply standard in FY08 and, after customer consultation, implemented relatively minor changes to that standard. We reviewed and reconfirmed our security of supply standard in FY13.

In FY13, we also reviewed our network 'architecture' (by architecture we particularly mean how much of our urban high voltage network should be interlinked, or 'meshed', and how much should be radial). Our review largely reconfirmed our existing settings, and we made only minor modifications.

Our approach to the planning, management and operation of our electricity distribution network is included in our ten-year network AMP. We review and update our network AMP every year and then we publish it on our website – usually in late March. Our network AMP is also publicly available on request.

Our ten-year network AMPs include our initiatives to significantly mitigate the impacts of any major outages due to major/catastrophic events. We aim to ensure that our contingency plans and practices are relevant and robust.

We aim to ensure that we add new network capacity to match actual and forecast market demand as prudently and efficiently as possible.

We aim to ensure that Transpower continues to provide our region with cost effective transmission services – including the provision of adequate, ongoing and planned capacity and resilience, consistent with good industry practice and the long-term interests of consumers.

Catastrophic events

The 4 September 2010 and 22 February 2011 earthquakes, and the many aftershocks, tested our security of supply standards, our policies, our investments and our procedures. We believe that the relative lack of earthquake-related damage to our key substations, and our effective responses to the earthquakes, confirmed our asset management practices.

During FY13 independent specialist consultancy, Kestrel Group, reviewed our preparedness for earthquakes. Kestrel endorsed our approach and made a few relatively minor recommendations for improvement. A full copy of Kestrel's report is available on our website.

A June 2012 New Zealand Lifelines report also endorsed our preparedness and approach. The report states that the main elements that contribute most strongly to network resilience are:

- asset awareness and risk reduction – identifying points of particular vulnerability
- readiness – taking steps to improve organisational performance in emergencies
- perseverance – maintaining the effort over time while communicating realistic expectations.

We will aim to continue to perform consistent with the New Zealand Lifelines findings. The Lifelines report is available at civildefence.govt.nz.

Our preparation for, and response to, catastrophic events is subject to ongoing review, with a focus on where we can improve. We will continue with our prudent risk-based approach to network planning, management and operation.

When high impact low probability (HILP) events occur, our approach includes:

- urgent restoration where practicable and safe
- repairs where economic
- replacement where repairs are not economic or where repairs cannot occur quickly. For example, in FY12 and under emergency powers, we built a new substation in Rawhiti Domain to replace our damaged and now decommissioned Brighton zone substation

- temporary alternatives where repairs or replacements cannot occur quickly. For example, we built a number of temporary 66kV overhead lines in the east of Christchurch to replace our severely damaged 66kV underground cables that previously supplied the area
- planned projects brought forward to restore network capacity, resilience and reliability to areas where our network has been damaged and to where the wider rebuild is occurring
- other alternatives to restore supply, such as the lease and purchase of diesel generators

Prior to the earthquakes, our electricity distribution network was resilient and reliable. The quakes have damaged our network, and so have reduced its resilience and reliability.

Our aim is to restore the network's resilience and reliability back to near pre-quake levels by 2019. The network's resilience and reliability will steadily improve between now and 2019 as we continue to invest to achieve our aim.

Our earthquake recovery targets and our network reliability targets are in Appendices 1 and 2 respectively.

Our role in the wider recovery and rebuild

Our principal roles for the city and wider region recovery, rebuild and growth phases will continue to be to:

- protect and enhance our electricity network, restore network resilience and reliability and invest to meet future electricity load growth
- co-operate with property developers, local authorities and other agencies to ensure timely provision of network services
- make it easy for consumers to connect and reconnect to our network
- support growth of on-site and distributed electricity generation, such as solar power and wind generation where this is economically justifiable.

We will aim to provide an electricity distribution network delivery service that meets the long term interests of consumers and our community. One that is:

- safe
- resilient
- reliable
- cost effective and
- meets the objectives, policies and strategies of regulatory agencies where practicable.

Our targets related to this are shown in Appendices 1, 2 and 4.

Our interaction with various authorities' planning documents

There are several key regional and city planning documents developed and administered by regulatory agencies.

Key planning documents include:

Regulatory agency	Document
The Christchurch City Council (CCC)	The City Plan
	The Greater Christchurch Urban Development Strategy
	The Christchurch Economic Development Strategy
	The Christchurch Economic Recovery Strategy
	The Safer Christchurch Strategy
	The Road Safety Strategy
	The Christchurch Transport Strategic Plan
	The Sustainable Energy Strategy

The Selwyn District Council (SDC)	The Selwyn District Plan
Environment Canterbury (Ecan)	The Regional Policy Statement The Canterbury Water Management Strategy The Canterbury Regional Transport Strategy Land and Water Regional Plan
The Canterbury Earthquake Recovery Authority (CERA) including the Christchurch City Development Unit (CCDU)	The Recovery Strategy for Greater Christchurch The Christchurch Central Recovery Plan The Land Use Recovery Plan An Accessible City
Civil Defence	Guidelines for Lifelines Utilities
The Treasury	The National Infrastructure Plan

We will aim to co-operate with all regulatory agencies and comply with all applicable planning requirements.

Commercial

We will aim to operate as a successful business and provide our shareholders with appropriate returns on their investment.

To achieve this, we will aim to:

- achieve our specific financial, operational, environmental, community and employment performance targets referred to in section F
- understand and meet consumers' needs in terms of network safety, resilience and reliability
- improve the efficiency and effectiveness of our operations, including efficient ongoing investment in the network and the effective and prudent management of risk
- recover our prudent and efficient costs, including a fair and regulated return on investment
- identify and manage our key risks
- align our network delivery service agreements with the requirements of relevant industry legislation and regulation
- undertake new investments in the infrastructure and energy sectors which (taken as a whole) over their life are expected to:
    - yield a return at least equal to those investments' risk-adjusted weighted average cost of capital, and
    - increase the commercial value of the business
- if appropriate, realise investments over time.

Our financial performance targets are shown in Appendix 5.

Costs

We will seek innovative ways to reduce our capital and operating costs. For example, we signal the long-term economic costs of providing our network services to our customers in our network delivery prices. These signals incentivise customers to reduce load at peak times, which in turn reduce the need for us to invest in expensive network capacity. We also carefully plan our network capital and operating expenditures and, where appropriate, competitively tender all substantive work and procurement.

We are responsible for a key community infrastructure asset – the local electricity distribution network. As such,

we will continue our policy, as stated in section A of this SOI, to provide our customers with a safe, resilient and reliable network delivery service and competitive prices. This policy restricts the size of possible ongoing cost savings, but we believe that the wider and long term economic costs of lower levels of network resilience and reliability outweigh the short term benefits of related cost savings.

Our target to review our network AMP in light of The Commerce Commission's final CPP decisions paper is shown in Appendix 1.

Risk management

We will aim to understand the context, likelihood and potential consequences of our key risks, and we will aim to manage our key risks, consistent with the risk management standard AS/NZS 31000.

There is more information about our key risks, and our risk management processes and plans, in section 6 of our ten year network asset management plan (which is published on our website).

Customised price-quality path (CPP)

In February 2013, following consumer and stakeholder consultation on our draft proposals, we applied to the Commerce Commission for a customised price-quality path (CPP). We proposed that:

- our regulated network reliability targets be reset to lower (less reliable) levels to reflect the damaged state of our network. We proposed to continue to invest to restore our network to near pre-quake levels of resilience and reliability by 2019 and so our network reliability targets would continue to improve over the five years to 2019
- our regulated distribution network prices would be reset to higher levels to enable us to fully recover our prudent and efficient costs, including our uninsurable costs and revenue losses caused by the earthquakes. Our costs include our network repair costs, our lost revenues from depopulation effects and a regulated fair rate of return on our network assets
- our proposed cost recovery (via higher prices) would be smoothed and spread over ten years – to 2024
- our reset reliability targets and our reset network prices would take effect from 1 April 2014.

The Commission released its final decisions on our CPP proposals on 29 November 2013. The Commission:

- approved revised network reliability targets for the five years ending 31 March 2019, as we proposed
- approved higher network prices for the five years ending 31 March 2019, below what we proposed.

The effect of the Commission's decision means that we will not recover all of our uninsurable quake related costs and revenue losses.

We will aim to ensure that our electricity network delivery prices and network reliability performance comply with the Commission's final CPP determination for the five years commencing 1 April 2014.

Our electricity distribution network reliability targets in Appendix 2 of this SOI are consistent with the Commission's final CPP decisions.

Our financial performance targets in Appendix 5 of this SOI are consistent with the Commission's final CPP price determination.

Prices

Our electricity distribution charges make up around a quarter of the average household and business power bill in Christchurch and Canterbury.

Our electricity distribution network prices are relatively simple and low-cost to operate.

Our prices aim to reflect our prudent and efficient economic costs, including a fair risk-adjusted return on our (and our shareholders') investment. Full economic cost recovery retains our incentives to continue to invest in the capacity, resilience and reliability to the network in the long term interests of consumers.

Transpower's charges for electricity transmission (including the national grid) will be passed on to our network customers (principally electricity retailers).

For our financial targets in this SOI, we have assumed that our future electricity distribution network price increases will comply with the Commerce Commission's final CPP decisions.

Social responsibility and community interest

Our key role in our community is to ensure that our electricity distribution network continues to match consumers' expectations for network safety, capacity, resilience and reliability as prudently and efficiently as possible.

Section 36 of the Energy Companies Act 1992 requires that our principal objective is to be a successful business.

The benefits to the public of community ownership result from the dividends paid by the company to our shareholders. Our ultimate council shareholders use those dividends in the manner specified in their respective plans and budgets. We consider that achieving a fair risk-adjusted return on capital is consistent with section 36, socially responsible and in the community's long term interests.

We will aim to act in a socially responsible way and as a good corporate citizen – with empathy for the communities of interest which we serve. In some of our key decisions, we actively consult with customers and key stakeholders.

Our social responsibility and community targets are shown in Appendix 4.

Our people

We will aim to be a good, socially responsible employer. Our ability to recruit, and develop retain competent, motivated and committed employees and contractors is essential to our efficiency and effectiveness. We are an equal opportunity employer.

We will aim to provide a work environment that enables professional and personal growth for our employees and we recognise our responsibility to ensure our people are skilled to do their jobs effectively. An ageing workforce and an industry shortage of skilled employees together with attraction and retention of employees in post-quake Christchurch are issues for us. To ensure that we are not left short of skilled employees in the future, we will continue with our initiatives that focus on recruitment, training, retention and succession.

We will continue to aim for high levels of motivation, engagement and productivity from our employees.

Our employee wellness programme supports our employees to remain safe and healthy and we believe that it is important.

We will aim to be an employer of choice for existing and prospective employees.

Our employment targets are shown in Appendix 4.

Health and safety

We will aim to provide a safe network and a safe and healthy work environment for all employees, contractors, visitors and the public. We will aim to take all practicable steps to ensure that our operations do not place people at undue risk of injury or illness.

Our health and safety targets are shown in Appendix 4.

Environmental commitment

We are committed to working towards a sustainable environment. To that end we have adopted and published environmental sustainability policies under the following headings:

- stakeholder consultation
- protection of the biosphere
- sustainable use of natural resources
- reduction and disposal of waste
- wise use of energy
- risk reduction
- restoration of the environment
- disclosure
- commitment of management resources
- review.

Our environmental sustainability policies are publicly available on our website. We formally review our policies

annually.

In FY08 and FY09 we engaged an independent environmental expert, MWH, to estimate our impact on the environment and identify where we could materially improve our environmental performance. MWH's study included but went beyond the factors normally considered in carbon footprint exercises.

MWH could not identify any other network company in the world that had undertaken a similarly comprehensive environmental study. As a result of MWH's report on our environmental performance, we set six targets in addition to other environmental targets. We have already achieved five of these targets. The other target relates to our network demand side management initiatives, and this target is ongoing – see Appendix 3.

Other aspects of our operations that support our environmental commitment include:

- we facilitate the connection of renewable and low-carbon electricity generation (for example wind power) to our network
- we signal load peaks in our network pricing to encourage efficient use of our network
- we maintain and operate an efficient water cylinder load control system so that significant loads can be shifted away from peak times to less expensive off peak times, at minimal inconvenience to our customers.

The huge increase in load demand from dairy farms and dairy processing in recent years has required large investment in rural network upgrades. Further load growth and therefore investment by us in our rural network is dependent on issues such as commodity prices, and the continuing availability of water supplies to support increased dairying, horticulture and lifestyle residential land use.

We will actively contribute to the local debate on rural irrigation developments by ensuring that decision making parties and interested groups have an appreciation of the likely impacts of any major proposals on our and Transpower's electricity network costs and prices.

Our environmental targets are shown in Appendix 3.

Undergrounding

Our council shareholders have agreed that it is their responsibility to determine the priorities for discretionary undergrounding projects and to pay for such work on an agreed basis. This is a commercially sound arrangement which puts the correct incentives on the parties and is appropriate for both shareholders and Orion.

Virtually all urban extensions to our network are underground, in compliance with the City Plan. In rural areas it is often up to the developer to decide whether reticulation is underground or overhead.

A portion of our system reinforcement, safety and improvement projects will continue to include undergrounding of overhead reticulation.

Compliance

We will continue our comprehensive legislative compliance programmes and we will aim to ensure we meet our obligations under relevant legislation and regulations.

E Governance

Role of the board

The company's shareholders appoint the directors to govern and direct the company's activities. The board of directors is the overall and final body responsible for the proper direction and control of the company's activities and decision-making within the company. The board's responsibilities include areas of stewardship such as:

- commercial performance
- business plans and budgets
- company policies
- financial and dividend policies
- management oversight and development
- delegations of authority
- identification and management of business risks

- identification and management of business opportunities
- internal control systems
- integrity of management information systems
- relationships with stakeholders and external parties
- compliance with relevant law
- reports to shareholders.

In accordance with section 36 of the Energy Companies Act 1992, the company's principal objective is to operate as a successful business.

Statement of intent (SOI)

In accordance with section 39 of the Energy Companies Act 1992 and the company's constitution, in February each year the board submits a draft SOI to its shareholders. The draft SOI sets out the company's overall objectives and intentions, as well as financial, earthquake recovery, network reliability, environmental, community, employment and health and safety performance targets for the next three financial years.

After due consultation with the company's shareholders and after considering any comments from those shareholders, the final SOI is approved by the board, delivered to the company's shareholders and placed on the company's publicly available website.

The board also aims to ensure that shareholders are informed of all major developments affecting the company's state of affairs.

Board membership

Pursuant to the company's constitution:

- one Orion director is appointed by the company's minority shareholder, the Selwyn District Council
- all other Orion directors are appointed by the company's majority shareholder, Christchurch City Holdings Limited.

The board chairman is elected by the board.

Board operation

The operation of the board is governed by the company's constitution and the board's code of conduct.

The board chairman has a leadership role in the conduct of the board and its relationship with shareholders and the company's other major stakeholders. The chairman maintains a close professional relationship with the company's chief executive officer, and through him, the company's management team.

All new directors undertake an induction process to familiarise them with matters related to the company.

Code of conduct

The board has adopted a code of conduct. The purposes of the code are to clarify how the board and directors shall undertake their responsibilities, including:

- the role and fundamental obligations of the board and directors
- the terms of reference and operation of board committees
- independence and conflicts of interest, including any conflicts with management
- board procedures
- the role of the chairman
- interaction with the chief executive officer and the senior management team
- reliance on information and independent advice
- confidentiality of company information

- shareholder participation
- board and director performance review and development.

The board formally reviews the code of conduct, along with the company's other significant policies, every year and changes the code and policies to reflect good practice.

Board performance and review

The board regularly reviews its own performance and the performance of the chief executive officer. The principal purposes of the reviews are to identify opportunities for performance development and improvement and to set in place plans to achieve those opportunities.

Board meetings

The board meets approximately 10 times per year. Additional meetings are convened as and when required and the board's planned annual programme is set by the board a few months in advance of the start of each calendar year.

The board receives formal agenda papers and regular reports, generally a week in advance of meetings.

Senior managers are regularly involved in board discussions. Directors also have other opportunities to gain information and independent expert advice in relation to the company and its operations.

Board committees

While the board may delegate some responsibilities and tasks to a board committee, it cannot avoid ultimate responsibility and accountability for a committee's actions or inactions. During the year, the board continued with its two standing committees as follows:

- the audit committee liaises with the company's external independent auditor and provides additional assurance regarding the quality and reliability of internal controls and financial information used by and issued by the board
- the remuneration committee assists the board to establish remuneration policies and practices to set and review remuneration of the company's chief executive officer and senior management team.

Directors' insurance

The company arranges comprehensive insurance policies for directors' liability within the limits and requirements as set out in the Companies Act 1993.

Loans to directors

The company and group do not make loans to directors.

Conflicts of interest

The board operates a formal directors' interests register and this register is formally reviewed for any necessary updates at the start of every board meeting. Directors are required to:

- not have any significant conflict of interest and/or the appearance of a conflict of interest that is potentially detrimental to the company
- declare any interest immediately to the board and refrain from voting on a transaction in which they have an interest
- disclose to the board all business relationships relevant to the company
- if requested by any other director, withdraw from any meeting where discussion of a transaction will occur in which they have an interest
- comply with the requirements of sections 139 to 149 of the Companies Act 1993
- not generally provide business or professional services of an ongoing nature to the company.

Employees are also required to not become involved in any activity that may affect or compromise their ability to perform their duties, or may be in conflict with the interests of the company. If employees become aware that they (or their family members or associates) have a potential conflict of interest, they are required to advise their manager.

Legislative compliance

The board receives regular updates and representations from management on legislative compliance. Areas of relevant law include industry-specific regulation, health and safety, corporate, taxation, financial reporting, commercial, environmental, human resources and privacy.

Investments in other companies

The board receives regular updates on, and monitors the performance of each investee company. The most significant current investment is the company's 100% shareholding in Connetics. Connetics has at least one non-executive Orion director on its board.

Policies

The board formally reviews the company's key policies and any recommendations for changes from management at least annually.

Auditor

Pursuant to section 45 of the Energy Companies Act 1992 and section 15 of the Public Audit Act 2001, Audit New Zealand on behalf of the Auditor-General is the auditor of the company.

F Performance targets

Our earthquake recovery targets are shown in Appendix 1.

Our network reliability targets are shown in Appendix 2.

Our environmental targets are shown in Appendix 3.

Our community, employment and health and safety targets are shown in Appendix 4.

Our financial performance targets are shown in Appendix 5.

Our key assumptions used in our financial performance targets are shown in Appendix 6.

G Dividends

We will pay dividends to our shareholders after taking into account the company's financial position, profitability and future investment requirements. Our dividends will be determined by the board after consideration of the company's funding requirements and the requirement to meet the solvency test under the provisions of the Companies Act 1993.

Our dividends are forecast to be paid in two equal instalments in June and December of each financial year.

Our forecast dividends are close to the maximum that we forecast can be paid as fully imputed dividends.

To assist the shareholders with budgeting, our ordinary fully imputed dividend forecasts are shown in Appendix 5.

H Capital structure

Orion is a key 'lifelines' infrastructure provider to our local community. It is very important that the capital structure of the company is managed prudently so that the company has sufficient financial flexibility to cope with any future civil defence emergencies – such as further significant earthquakes. We believe that consumers and our community need to have confidence that we can cope with any future shocks in an efficient and effective manner. Our ability to get on and restore power and our network's resilience quickly in such emergencies is vital to the community's health, safety and welfare, and also the region's recovery.

We currently insure our corporate buildings and our key network substations. It has not been economic to insure our network underground cables and overhead lines (or the sudden drop in network revenues due to depopulation effects).

Further, the Commerce Commission's final CPP decisions in November 2013 mean that it is most unlikely that we will recover all of our uninsurable costs and losses in any future catastrophic events.

We therefore believe that the company should be conservatively geared with debt and that the company's capital structure should be managed in a prudent manner. We forecast that our debt levels will continue to rise for the foreseeable future due to relatively high levels of network investment and our dividend policy.

We aim to ensure that the company retains at least a strong capacity to pay its debts when they fall due – this implies retaining an explicit or implicit Standard and Poor's credit rating of at least A-minus.

Although no material acquisitions, other than the purchase of local spur grid assets from Transpower, have been included in our financial forecasts and targets, we may undertake new investments as long as they are consistent with our objectives (see Section D).

We will continue to review the company's capital structure.

We will undertake a formal capital structure review during FY15.

Our debt and equity forecasts are shown in Appendix 5.

I Accounting policies

We will continue to adopt accounting policies consistent with the Financial Reporting Act 1993 and the policies adopted by the Christchurch City Council group.

Our accounting policies are based on NZ IFRS standards and interpretations applicable at the date of this SOI.

NZ IFRS standards and interpretations are subject to change and therefore our accounting policies are also subject to change during the three year period of this SOI.

Our key accounting policies (our draft policies for FY14) are shown in Appendix 7.

J Information to be reported to shareholders

We will submit our draft SOI to our shareholders for consultation annually, as required under the Energy Companies Act 1992 and the Orion constitution. Where appropriate, we will submit a revised SOI to our shareholders.

We will submit an annual report to our shareholders. Our annual report will include our audited financial statements and such other details as are necessary to permit an informed assessment of the company's performance and financial position during the reporting period.

We will also provide quarterly reports to our shareholders. These reports will contain unaudited information similar in content to the annual report and will comply with accounting standard NZ IAS 34 – Interim Financial Reporting.

Our reports will outline our objectives and performance in terms of:

- financial
- earthquake recovery
- network reliability
- environment
- community
- health and safety
- employment.

We will also publish an annual (ten-year) network asset management plan.

We will aim to operate on a 'no surprises' basis in respect of significant shareholder-related matters, to the extent possible in the context of commercial sensitivity and confidentiality obligations.

We will provide information requested by the shareholders in accordance with the requirements of the Energy Companies Act 1992. The books, records and accounts maintained by, or on behalf of, the company will be made available in accordance with the Companies Act 1993 and the Energy Companies Act 1992.

K Acquisitions/divestments

The subscription or acquisition of securities in any company or organisation, or a divestment of part of the existing business, will only be considered where it is consistent with our long-term commercial objectives. When our subscription, acquisition or divestment is considered by directors to be significant to the company's business operations, we will consult with our shareholders.

Major transactions as defined in section 129(2) of the Companies Act 1993, will be subject to shareholders' approval by special resolution. Notwithstanding the above, when we are considering a significant acquisition or disposal of assets or securities, we will consult with our shareholders with as much lead-time as is commercially practicable in the prevailing circumstances. Where we decide to incorporate or subscribe for shares in subsidiaries to undertake our commercial activities, we will ensure effective management.

Board control of any subsidiary is exercised by our directors and management.

L Intercompany transactions

No material intercompany transactions are forecast to take place during the three years covered by this SOI, except:

- payment of dividends
- provision of services, such as street lighting maintenance for local authorities, on an arms length commercial basis, and services received from our shareholders, such as services covered by local authority rates and chargeable services, on an arms length commercial basis. It is impracticable to quantify the extent of most of these transactions
- dividends and intercompany interest on current accounts to be received from our subsidiary companies.

M Compensation sought from local authorities

At the request of our shareholders, or their respective shareholders, we may undertake activities that are not consistent with our normal commercial objectives. Specific financial arrangements will be entered into to meet the full commercial cost of undertaking such activities. At present, the only such material activities undertaken involve discretionary conversions of overhead network reticulation to underground as described in section D above.

Due to the discretionary nature of these projects it is difficult to forecast the extent of these transactions over the next three years but the extent of such charges to councils is likely to be less than $0.5m per annum.

N Commercial relationships within the CCC/SDC group

It may be possible to develop commercial opportunities with CCC/SDC group companies to benefit Orion, the CCC/SDC group and the Canterbury region. We will continue to work with other group companies to explore such opportunities and develop new business opportunities as appropriate.

O Growth in the regional economy

Orion owns and manages a key local and regional infrastructure asset – the Christchurch and central Canterbury electricity network distribution system.

Our group of companies is a significant employer, with around 500 employees.

We have annual operating and capital expenditures of over $200m.

Orion is one of the leading electricity distribution companies in New Zealand in the promotion of energy efficiency and we will continue to develop that activity.

Our key role is to prudently manage our electricity distribution network in the long-term interests of our shareholders and consumers. Success in doing so means that local individuals and businesses can continue to invest for growth with confidence that the “lights will go on when the switch is flicked”.

We may also be able to assist to leverage the value of the CCC/SDC group of companies to further enhance regional growth. We will liaise with those group companies as appropriate and seek and pursue material and worthwhile opportunities – consistent with our principal objective to operate as a successful business.

We will continue to support energy efficiency initiatives, especially those with the extra benefit of driving economic efficiency and growth.

P Commercial value of the shareholders' investment

We estimate that the commercial value of our shareholders' investment in the group is at least that which is stated as "shareholders' equity" in our latest available audited financial statements. This value is reassessed annually as part of the preparation of our audited financial statements.

Appendix 1 Earthquake recovery targets

1. Repair our damaged underground cables

Target date: Ongoing

Our 11kV and low voltage underground cable network was extensively damaged in the earthquakes, especially in the eastern suburbs. All known 11kV underground cable faults have been repaired, however much of the actual damage to these cables will only be found when cable faults occur in the future over the coming years.

2. Lay and commission a permanent 66kV high voltage feed from Transpower's Bromley grid exit point to the McFaddens, Dallington and Rawhiti Domain zone substations. Then remove the temporary 66kV overhead lines we installed after the February 2011 earthquake

Target date: 31 December 2014

In the days after the 22 February 2011 earthquake, we urgently built new temporary 66kV overhead lines from Transpower's Bromley grid exit point to our Dallington substation and our new Rawhiti substation. These overhead lines replaced our severely damaged 66kV underground cables that previously supplied the eastern suburbs.

The temporary overhead lines were authorised by Civil Defence under an emergency resource consent, which expires in December 2014.

These projects aim to ensure that there is sufficient network capacity and resilience to the eastern suburbs. The projects include upgrading McFaddens and Dallington zone substations as necessary and installing new 66kV underground cables at a total cost of around $35m, spread over four financial years to FY15.

3. Work with the Canterbury Earthquake Recovery Authority (CERA) and the Christchurch City Council to re-establish power and network resilience to the central business district (CBD) according to agreed priorities and timeframes

Target date: Ongoing

We are working with CERA, SCIRT and property developers on an ongoing basis. Our main involvement so far has been to decommission and reliven connection points as necessary and provide comprehensive information about the necessary process to connect to our network so that developers know what to expect.

Our 66kV and 11kV underground cable assets in the CBD sustained relatively little damage from the earthquakes and we expect to provide a resilient and reliable network to CBD businesses and residents in the years ahead.

However, each new building in the CBD needs to be individually assessed to ensure that sufficient network capacity and resilience is supplied to that building. For some new buildings, we will need to acquire a ground floor space for a new substation because we will no longer place our substations in building basements.

CERA and the CCC may also require new network configurations in the CBD as they further develop and implement aspects of the CBD blueprint and rebuild.

Many of our substations in the CBD are, and were, housed in damaged buildings that belong to third parties. We are working with the authorities, building owners and demolition contractors in order to minimise network outages and to protect and recover our network assets as appropriate.

4. Continue to support the key regional earthquake recovery planning documents

Target date: Ongoing

Our key role here is to restore resilience and reliability to our electricity distribution network and to anticipate and plan for future customer load growth and new connections in our network area. Our key network planning and accountability document is our ten-year network asset management plan (AMP) and we will continue to ensure that our AMP remains up to date and consistent with good industry practice while taking approved regional recovery documents fully into account.

5. Review our network AMP in light of the Commerce Commission's final CPP decisions paper

Target date: 31 March 2015

The Commerce Commission released its final CPP decisions paper on 29 November 2013. The Commission disagrees with aspects of our network plans – including our proposal to restore network resilience to near pre-quake levels by 2019.

The Commission's different views have resulted in lower forecast revenues than we proposed in our CPP application.

In this review, we will examine whether it would be prudent for us to reduce our major network operating and capital expenditure plans, effective from 1 April 2015. We will publish the results of our review in our updated ten year network asset management plan, on our website by 31 March 2015.

Appendix 2 Network reliability targets

		Affected by earthquakes							Unaffected by earthquakes	
	Approx no of customer connections 31 March 2014	Target FY17	Target FY16	Target FY15	Current forecast FY14	Actual FY13	Actual FY12	Actual FY11	Actual 5 year average to FY10	Gazetted NZ weighted average FY13
Orion network interruptions: Duration of supply interruptions in minutes per year per connected customer (SAIDI)										
- urban	163,000	27	31	42	125	33	208	4,155	18	
- rural	27,000	475	475	475	2,600	536	389	1,442	493	
- overall	190,000	91	95	104	476	94	231	3,812	75	144
Number of supply interruptions per year per connected customer (SAIFI)										
- urban	163,000	0.8	0.8	1.1	0.6	0.5	2.0	2.8	0.3	
- rural	27,000	3.4	3.4	3.4	5.3	4.4	3.6	4.5	3.4	
- overall	190,000	1.2	1.2	1.4	1.2	1.0	2.2	3.0	0.6	1.6

Notes:

1. The Canterbury earthquakes and aftershocks have had a significant adverse impact on the reliability of the company's electricity distribution network in FY11, FY12, FY13 and FY14. The 10 September 2013 wind storm had a significant adverse impact in FY14.
2. The network reliability targets for FY15, FY16 and FY17 above assume no further major earthquakes or other natural disasters. The targets are consistent with the Commerce Commission's CPP network reliability limits for the company.
3. All figures in the *'affected by earthquakes'* columns above are stated gross, and so exclude *'major event day'* adjustments allowed under the Commerce Commission's regulatory information disclosure requirements. Otherwise, the targets for FY15, FY16 and FY17 are consistent with the Commerce Commission's November 2013 final CPP decisions.
4. SAIDI and SAIFI measures are international industry standards which enable assessment of network reliability performance. The gazetted industry averages above are for all 29 New Zealand electricity distribution networks and a mixture of rural and urban networks. The Orion network includes a significant rural component.
5. SAIDI: system average interruption duration index – the average duration of interruptions to supply that consumers experience on average in the year.

   $$\text{SAIDI} = \frac{\text{Sum of (number of interrupted consumers x interruption duration)}}{\text{Average number of connected consumers}}$$

6. SAIFI: system average interruption frequency index – the average number of interruptions that consumers experience on average in the year.

   $$\text{SAIFI} = \frac{\text{Sum of number of interrupted consumers}}{\text{Average number of connected consumers}}$$

Appendix 3 Environmental targets

1. Continue to undertake and encourage demand side management

Target date: Ongoing

In 2009, environmental consulting firm, MWH, completed a report on our overall carbon impact. MWH's report found that over 90% of our annual carbon footprint came from electrical losses, a natural phenomenon that is caused by the heating of equipment as electricity passes through it, and from carbon embedded in our physical electricity distribution network assets. MWH found that we can do little to significantly reduce our carbon footprint from either of the above two sources.

MWH concluded that carbon savings can be achieved through demand side management (DSM) and that we already achieve significant carbon savings through our existing DSM initiatives. However, further savings through increased DSM may be possible. Carbon savings include one-off embedded asset savings and electricity generation savings. MWH found that peak load lopping through the use of local diesel generation can result in net carbon savings despite the use of diesel.

We will continue with our current DSM initiatives and encourage greater consumer response to our cost reflective peak pricing, both by businesses and electricity retailers. We will also work with local businesses to assist them to install peak load lopping diesel generation.

We will continue to promote and enable DSM through the following initiatives:

- continue to co-operate with other upper South Island electricity distributors on the upper South Island centralised load management control system. This system enables the benefits of co-ordinated control to be quantified and provides a platform for future DSM initiatives. In FY13 Transpower agreed to fully fund the direct costs of this project over three years to 31 March 2015.
- investigate trialling smart meters in the company's substations to better understand the performance and constraints of our distribution network. It may be that some peak demand savings are possible if the company's low voltage network can be further optimised.

2. Continue our support for and sponsorship of Community Energy Action (CEA)

Target date: Ongoing

We have sponsored CEA since its inception in 1994. From 1994, CEA resided rent-free at our CBD office premises. Due to significant increases in demand for its services, CEA relocated to new premises during FY11.

For several years, we have made financial sponsorship grants to CEA of $150,000 per year. We also assist CEA with other issues that arise in its day-to-day operations.

Over 20,000 local homes have already benefited from CEA's services. We view CEA's services as very important for our local community.

3. Continue to support the Christchurch City Council's sustainable energy strategy

Target date: Ongoing

Our specific targets are to:

- continue to seek ways to reduce peak loads on our network and increase our network load factor
- obtain better, more accurate real-time data of our network loadings. This allows for more efficient network planning so that our spending to meet load growth is efficient.

Our policies for the connection of distributed generation to our network enable the safe and efficient connection of a range of local electricity generation. Our policies and procedures in this area are rated very highly in terms of ease of connection relative to the rest of the industry and we will continue to lead the industry in this regard. Our policies promote economic renewable energy sources.

Appendix 4 Community and employment targets

1. Zero work related lost time accidents for our employees and contractors

Target date: Ongoing

Our aim is zero harm. This target covers Orion and its contractors (including Connetics) and is a challenging one due to the physical nature of the work required on our electricity distribution network. Care is needed with this target as we want to create a climate where incidents and accidents are reported and/or harm is not compounded through inappropriate policies to force people back to work too early.

2. Zero number of injury accidents (excluding car versus pole traffic accidents) involving members of the public

Target date: Ongoing

This covers all accidents on our network except for car versus pole accidents. It is not possible to ensure the completeness and accuracy of car versus pole accident data.

3. Continue with our local public safety education and awareness programme in the safe use of electricity

Target date: Ongoing

Our programme covers issues such as tree owner responsibilities near lines, close approach to lines with irrigators and other operators of plant, scaffolding near lines, householder maintenance near lines, digging near underground cables and safety and security near electricity equipment.

Our messages are delivered through a series of community shows, presentations to targeted groups and through regular media outlets such as local newspapers and radio. We're concentrating on educating with contractors and their principals because they are exposed to significant electricity distribution network hazards in the field.

With the large amount of demolition, repair and rebuild work in Christchurch following the quakes, there are now many additional contractors working close to our electricity distribution network. The sheer scale of the rebuild means that the number of contractors in the region is expanding. High staff turnover for these contractors also increases safety risks.

The MBIE has published a mandatory code of practice for working within four metres of our overhead network (our written consent is required for this), and there is an industry best practice guide for working near our underground network.

Over the last three years we have:

- developed and grown constructive and mutually beneficial relationships with contractor companies and established relationships with Stronger Christchurch Infrastructure Rebuild Team (SCIRT), surveyors and Enable Networks to promote safety around our electricity network assets
- maintained a working relationship and rapport with managers at the Fletcher Building and Hawkins Construction "hubs" – these companies are the main contractors to the Earthquake Commission for house repairs in the $15,000 to $100,000 range
- run process and safety briefings for over 3,500 contractor employees, during and outside of normal working hours
- developed and run further safety advertising radio and print messages
- developed and implemented an electronic safe approach consent application process
- developed our capability and capacity to process the large increase in minimum safe approach consent applications. Pre-quake, we received less than 400 of these applications per year, now we're running at around 4,000 per year.

4. Follow up on the November 2013 staff culture survey results

Target date: 31 March 2015

As signalled in last year's SOI, we have moved to a more customised survey in 2013, which we hope will produce more targeted issues for follow up and action. In late 2013, our employees completed an organisational culture survey. This survey measures employees' perceptions of current and preferred workplace culture attributes. Results are currently being analysed and proposed actions will be developed and implemented during FY15.

We expect to run this survey every two years, with the next survey scheduled for mid to late 2015.

5. Achieve voluntary annual staff turnover of less than 5% for Orion and less than 10% for Connetics

Target date: Ongoing

These targets exclude the impacts of employees leaving for reasons of retirement, redundancy or on completion of a fixed term (or casual) employment contract or disciplinary related.

Employee turnover was:

- 6% in FY12 and 4% in FY13 for Orion (latest forecast 6% for FY14)
- 8% in FY12 and 12% in FY13 for Connetics (latest forecast 9% for FY14).

6. Continue with our Orion engineering development programme

Target date: Ongoing

Our engineering development programme has been very successful in placing talented people into key positions within our business.

Positions in the programme are advertised internally and externally. Successful candidates are selected on merit.

Trainees are trained and gain work experience in several parts of the business, with a view to placing them in areas where there are or may be skill shortages and/or succession opportunities. On average, trainees are in the programme for around three years, after which we offer these employees permanent roles in the company.

The programme is an important part of our strategy to prudently manage employee turnover and the ongoing replacement of our ageing workforce.

As at 31 December 2013, we had seven employees on our engineering development programme. We will continue to appoint new trainees each year into this programme.

7. Continue to develop our Connetics apprentice scheme

Target date: Ongoing

Connetics will continue with this scheme to ensure that our key contracting subsidiary company sustainably develops and improves its industry competencies. As at 31 December 2013, Connetics employed 30 apprentices.

8. Continue to support the CPIT Trades Innovation Centre

Target date: Ongoing

In 2003, the Christchurch Polytechnic Institute of Technology (CPIT) set up an advisory board to align trades training with industry needs. Orion was instrumental in proposing the development of a simulated subdivision where trades trainees can be trained in real life situations. Electricity distribution is a significant part of the simulated subdivision. Orion has been the major sponsor for this facility, while the Government has also supported this initiative on a dollar for dollar basis.

The training facility at the Sullivan Avenue site is fully operational for electricity distribution – including overhead lines, underground cables and substations. The facility is now an important part of our initial and ongoing competence training for our employees and for our contractors.

Appendix 5 Financial performance targets

	FY15	FY16	FY17
Profit after tax ($m)	48	51	53
Profit after tax to average equity (%)	7.4	7.9	8.0
Fully imputed dividends ($m)	46	47	48
Debt to debt plus equity(%)	17	23	26
Equity to debt plus equity (%)	83	77	74
Equity to total assets (%)	67	63	61

Notes:

All financial performance targets above are for the consolidated group.

All financial performance targets are in nominal terms and include forecast future inflation – including forecast local cost inflation caused by increased demand for contacting resources, in turn caused by the wider local post-quake rebuild.

The following are definitions of the above terms:

Profit after tax as defined under NZ IAS1

Debt net interest bearing debt (including bank debt and debt associated with new investment agreement liabilities with Transpower), after deducting cash/short-term investments

Equity shareholders' equity, including accumulated reserves

Total assets the carrying value of all assets.

All financial performance targets above are subject to:

- our key assumptions – see Appendix 6
- our key accounting policies – see Appendix 7.

Appendix 6 Key assumptions used in our financial performance targets

The major assumptions for our financial performance targets are:

- future distribution network price increases will comply with the Commerce Commission's five year customised price-quality path (CPP) settings for the company that take effect from 1 April 2014
- all price changes from Transpower are 'passed through' to customers
- opex and capex in line with the company's approved and published 10-year electricity distribution network asset management plan (AMP) effective from 1 April 2014
- no major investments/divestments
- no further natural disasters
- no future decisions by the Government, the Commerce Commission or that Electricity Authority that would have a materially adverse financial impact on the company.

Appendix 7 Key accounting policies

Notes to the financial statements
For the year ended 31 March 2014

1. Statement of accounting policies

Statement of compliance

Orion New Zealand Limited (the company) is a profit-oriented company incorporated in New Zealand under the Companies Act 1993 and the Energy Companies Act 1992. The group consists of Orion New Zealand Limited and its subsidiaries (refer also to note XX). The company is a reporting entity for the purposes of the Financial Reporting Act 1993 and its financial statements comply with that Act and section 44 of the Energy Companies Act 1992.

These financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards as appropriate for profit-oriented entities.

The parent and group financial statements comply with International Financial Reporting Standards.

Basis of financial statement preparation

These financial statements are presented in New Zealand dollars, rounded to the nearest thousand.

These financial statements have been prepared on the basis of historical cost, except for the revaluation of certain financial instruments as outlined in note 1(e), property, plant and equipment as outlined in note 1(k), and investment property as outlined in note 1(l). In these instances, cost is based on the fair value of the consideration given in exchange for assets.

Accounting policies have been selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported. The accounting policies set out below were applied in preparing these financial statements for the year ended 31 March 2014 and the comparative information presented in these financial statements for the year ended 31 March 2013.

Critical judgements, estimates and assumptions in applying the entity's accounting policies

Preparing financial statements to conform with NZ IFRS requires the company to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The company's estimates and associated assumptions have been based on historical experience and other factors that are believed to be reasonable under the circumstances. These estimates and assumptions have formed the basis for making judgements about the carrying values of assets and liabilities, where these are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are regularly reviewed. Any change to estimates is recognised in the year if the change affects only that year, or into future years if it also affects future years. In the process of applying the company's and group's accounting policies, management has made the following judgements, estimates and assumptions that have had the most significant impact on the amounts recognised in these financial statements.

The company invoices its customers (predominantly electricity retailers) monthly for electricity delivery services on the basis of an estimation of usage, adjusted for later (more accurate) data available from the electricity wholesale market and certain metering data from electricity retailers. The company has made an allowance in revenue and in current assets/liabilities for any amounts which are estimated to be under/over charged during the reporting period. However, as final metering data is not available for up to 12 months, it is possible that the final amounts payable or receivable may vary from that calculated.

The company owns and operates an extensive integrated electricity distribution network in Christchurch and central Canterbury, comprising large numbers of relatively minor individual network asset components. These components are replaced over time as part of an ongoing maintenance/refurbishment programme, consistent with the company's approved network asset management plan. The costs associated with recording and tracking all individual components replaced and removed from the network substantially outweigh the benefits of doing so. The company has estimated the quantities and the carrying values of components removed from the network in each reporting period.

Any changes in the estimates of such removals are recognised at the next asset revaluation and are not considered to be material on either an annual or a cumulative basis with respect to either reported net profits or carrying values of the electricity distribution network. Refer also to note 1(k) regarding revaluations of property, plant and equipment.

The company has estimated the impacts of the Canterbury earthquakes on company's future cash flows. The estimates contain some uncertainty. The company's estimates are relevant to the company's cyclical reviews and revaluations of the carrying value of the electricity distribution network (refer to note 16 – property, plant and equipment).

The company has adopted certain key assumptions and made certain key estimates in its discounted cash flow valuation of its electricity distribution network. These include the relevant discount rate and the amounts and timing of future cash flows. These assumptions and estimates are described in note 16.

In February 2013, the company applied to the Commerce Commission for a customised price-quality path (CPP). The company's CPP application proposed that, in light of the impacts of the earthquakes on the company's operations and cash flows, the Commission authorise the company to increase its electricity distribution network prices above the company's default price-quality path (DPP) levels, starting on 1 April 2014.

The Commerce Commission announced its final price control decision on the company's CPP proposals on 29 November 2013. The Commission's final price control decision authorised a price increase above the company's DPP level effective from 1 April 2014, but at a lower level than the company proposed in its CPP application. The Commission's decision covers the company's network prices for the five years starting 1 April 2014. Therefore, in forecasting future cash flows, there is relatively more uncertainty about the company's future revenue cash flows from when the company's network prices will be reset again from 1 April 2019, than for the five years ending 31 March 2019.

The company assesses whether individual assets or a grouping of related assets (which generate cash flows independently) are impaired by estimating the future cash flows that those assets are expected to generate. Assumptions, such as rates of expected revenue growth or decline, expected future margins and the selection of an appropriate discount rate for discounting future cash flows, are required. Following the Canterbury earthquakes, these assumptions are of a higher degree of sensitivity.

On initial recognition of items of property, plant and equipment and intangible assets with finite lives, the group makes judgements about whether costs incurred relate to bringing an asset to working condition for its intended use, and therefore are appropriate for capitalisation as part of the asset cost, or whether they should be expensed as incurred. Thereafter, the group's judgement is required to assess whether subsequent expenditure increases the future economic benefits to be obtained from that asset and is therefore also appropriate for capitalisation or whether such expenditure should be treated as maintenance and expensed.

The company acquires certain electricity distribution assets for less than their replacement cost. Up until 31 March 2013, the company capitalised these acquisitions at their estimated replacement cost, and the difference between the cash cost and the estimated replacement cost was recognised as revenue in the year of acquisition. From 1 April 2013 the company now values these asset acquisitions at nil because they are not recognised under the Commerce Commission's regulatory price control regime and therefore these assets do not generate future cash flows for the company.

The group has determined estimated useful lives for particular assets. The group has exercised judgements over the expected length of service potential of assets, the likelihood of assets becoming obsolete as a result of technological advances and the likelihood of the company and group ceasing to use assets in its business operations.

The company estimates and eliminates intragroup profits that are recognised in new electricity distribution network assets.

Other areas where judgement has been exercised in preparing these financial statements include calculating provisions for doubtful debts, assessing any unrecoverable work in progress, calculating provisions for employee benefits, estimating the expected movement in the deferred tax liability and in the determination of network reliability (SAIDI/SAIFI) measures in the statement of electricity network reliability performance.

Significant accounting policies

The following significant accounting policies have been adopted in the preparation and presentation of these financial statements:

(a) Basis of consolidation

Subsidiaries

A subsidiary is an entity where the group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the company (the parent entity) and its subsidiaries. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired exceed the cost of acquisition, the difference is credited to profit or loss in the year of acquisition. The consolidated financial statements include the information and results of each subsidiary from the date on which the group obtains control until such time as the group ceases to control the subsidiary. In preparing the consolidated financial statements, all intra-group balances and transactions, and unrealised profits arising within the group, are eliminated in full.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income and statement of changes in equity.

Parent company

Investments in subsidiaries held by the parent are accounted for at cost less any impairment charges in the separate financial statements of the parent entity. Dividends received from subsidiaries are recorded as a component of other revenues and do not impact the recorded cost of the investment in the separate balance sheet of the parent entity. Upon receipt of dividend payments from subsidiaries, the parent will assess whether any indicators of impairment of the carrying value of the investment in the subsidiary exist. Where such indicators exist, to the extent that the carrying value of the investment exceeds its recoverable amount, an impairment loss is recognised. Details of the impairment tests performed are disclosed in note 1(j).

(b) Goods and services tax

Revenues, expenses, cash flows and assets are recognised net of the amount of goods and services tax (GST), except for receivables and payables which are recognised inclusive of GST. Where GST is not recoverable as an input tax it is recognised as part of the related asset or expense. Cash flows in respect of payments to and receipts from the Inland Revenue Department are shown net in the statement of cash flows.

(b) Foreign currency

The functional and presentation currency is New Zealand dollars. Transactions in foreign currencies are translated at the foreign exchange rate ruling on the day of the transaction. Foreign currency monetary items at balance date are translated at the exchange rate ruling at that date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates ruling at the date when the fair value was determined. Exchange differences are recognised in profit or loss in the year in which they arise.

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks (including bank overdrafts) and investments in money market instruments with maturities of three months or less. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

(e) Financial assets

Investments are recognised and derecognised on trade date where purchase or sale of an investment is under contractual terms that require delivery of the investment within the timeframe established by the market concerned.

The classification into the following categories depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

Financial assets at fair value through profit or loss

The group has certain derivatives which are stated at fair value and the movements are recognised in profit or loss (refer to note 1(i)).

Available-for-sale financial assets

Certain shares and convertible notes held by the group are classified as being available-for-sale and are stated at fair value. Gains and losses arising from changes in fair value are recognised directly in the available-for-sale revaluation reserve (except for impairment losses that are recognised in profit or loss), until the investment is disposed of or is determined to be impaired. At this time the cumulative gain or loss previously recognised in the available-for-sale revaluation reserve is included in profit or loss for the year.

Loans and receivables

Accounts receivable are stated at cost less an allowance for impairment. All known bad debts are written off during the financial year. Hire purchase debtors exclude unearned interest (calculated using the effective interest rate method).

Intra-group balances due from subsidiaries and associates are stated at cost less impairment losses.

The cost of chargeable work in progress includes direct materials and labour, an allocation of overheads that directly relate to the work performed and the expected margin or loss on the costs incurred to date.

Details of the impairment tests performed are disclosed in note 1(j).

(f) Inventories

Inventories are valued at the lower of cost and net realisable value, with additional allowances for obsolescence where necessary. The cost of finished goods comprises direct materials and where applicable, direct labour and other direct variable costs incurred in order to bring inventories to their present location and condition. Costs are assigned to individual items of inventory on a weighted average cost basis. Net realisable value is the estimated amount the inventories are expected to realise in the ordinary course of business, less an estimate of any costs to completion and applicable variable selling expenses.

(g) Income tax

Income tax expense in relation to the profit or loss for the year comprises current tax and deferred tax.

Current tax is the amount of income tax payable based on the taxable profit for the current year, plus any adjustments to income tax payable in respect of prior years. Current tax is calculated using rates that have been enacted or substantively enacted by balance date.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in these financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available, against which the deductible temporary differences or tax losses can be utilised. Deferred tax is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of an asset and liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit. Deferred tax is recognised on taxable temporary differences arising on investments in subsidiaries and associates, except where the company can control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, using tax rates that have been enacted or substantively enacted by balance date.

For investment property measured at fair value, there is a rebuttable presumption that any deferred tax will be recovered through the sale of the asset. The carrying value of the asset is therefore used to calculate any deferred tax balance.

Current tax and deferred tax are charged or credited to profit or loss. When deferred tax relates to items charged or credited to other comprehensive income, then deferred tax is also recognised in other comprehensive income.

(h) Leased assets and lease liabilities

Leases are classified as finance leases whenever the lease terms transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Group as lessor

Amounts due from lessees under finance leases are recorded as receivables. Finance lease payments are allocated between interest revenue and reduction of the lease receivable over the term of the lease in order to reflect a constant periodic rate of return on the net investment outstanding in respect of the lease.

Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Finance leases, which transfer to the group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the group will obtain ownership by the end of the lease term.

(i) Derivative financial instruments

The group enters into swaps, foreign currency forward rate agreements and foreign currency options transactions. Such transactions are undertaken within board-approved policies and limits for the primary purpose of managing exposure to fluctuations in interest rates and foreign exchange rates arising from operational, financing and investing activities. While these financial instruments are subject to the risk that market rates may change subsequent to the acquisition of the financial instrument, such changes would generally be offset by opposite effects on the items being hedged. For the forward rate agreements, the differential to be paid or received is accrued as rates change and is recognised over the life of the agreements. The group does not engage in speculative transactions or hold derivative financial instruments for trading purposes.

The group has not designated any derivatives as hedges for financial reporting purposes. Derivatives are initially recognised at fair value on the date a derivative contract is entered into. Subsequent to initial recognition, derivatives are revalued to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative and they are offset against each other if the company has a legal right of offset.

The fair value of interest rate swaps is the estimated amount the group would receive or pay to transfer the swap at balance date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward rate agreements is their quoted market price at balance date, being the present value of the quoted forward price.

(j) Impairment of assets

The carrying amounts of the group's assets, other than inventory, investment property and deferred tax assets are reviewed at each balance date to determine whether there is any indication of impairment. If any such indication exists for an asset, the asset's recoverable amount is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent of other assets, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amounts are the higher of fair value (less costs to sell) or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

A cash-generating unit is defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Goodwill is tested for impairment annually, and whenever there is an indication that it may be impaired. An impairment of goodwill is not subsequently reversed.

If a revalued asset is determined to be impaired, then the impairment is firstly applied against the revaluation reserve related to that asset, with any remaining impairment loss expensed in profit or loss. If the impairment loss is subsequently reversed, the reversal is firstly applied to profit or loss to the extent of previously expensed impairment losses relating to that asset, with any further increase taken to the revaluation reserve.

For assets which are not revalued, an impairment loss is expensed immediately in profit or loss. If an impairment loss is subsequently reversed, the carrying value of the asset is stated at not more than what its carrying value would have been had the earlier impairment not occurred.

Equity instruments are deemed to be impaired whenever there is a significant or prolonged decline in fair value below the original purchase price. Any subsequent recovery of an impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss.

(k) Property, plant and equipment

Land and buildings are measured at fair value. Fair value is determined on the basis of a periodic independent market valuation prepared by external valuers, based on comparable market sales, discounted cash flows or capitalisation of net income (as appropriate). The fair values are recognised in these financial statements of the group, and are reviewed at the end of each reporting period to ensure that the carrying value of land and buildings is not materially different from fair value.

The electricity distribution network is measured at fair value. Fair value has been determined on the basis of a periodic independent valuation prepared by external valuers, based on a discounted cash flow methodology. The fair values have been recognised in the financial statements of the group and have been reviewed at the end of each reporting period to assess whether the carrying value of the electricity distribution network is not materially different

from fair value. Consideration has been given to whether the electricity distribution network is impaired as detailed in note 1(j).

Capital expenditure is defined as all expenditure incurred in the creation of a new asset and any expenditure that results in a significant restoration or increased service potential for existing assets. Revenue expenditure is defined as expenditure that does not meet the definition of capital expenditure.

Constructed assets are included in property, plant and equipment as each becomes operational and available for use.

Any revaluation increase arising on the revaluation of land and buildings and the electricity distribution network is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of land and buildings and the electricity distribution network is charged as an expense in profit or loss to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation on revalued buildings and the electricity distribution network is charged to profit or loss.

On the subsequent sale or retirement of a revalued item, the attributable revaluation surplus remaining in the asset revaluation reserve, net of any related deferred taxes, is transferred directly to retained earnings.

Other plant and equipment and leasehold improvements are recognised at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. The cost of self-constructed assets includes the cost of materials and direct labour and an allowance for overheads.

Depreciation is calculated on a straight-line basis to write off the net cost, or other revalued amount of each asset, over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period.

The main bases for the calculation of depreciation are periods not exceeding:

	Years
Electricity distribution network	60
Building structures	70
Building services	30
Building fit-out	20
Cars and vans	5
Trucks	10
Plant and equipment	10
Computer equipment	3

The carrying amount for an item of property, plant and equipment is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These gains and losses are included in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve in respect of those assets are transferred to retained earnings.

(l) Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation (including property held for a currently undetermined future use), is measured at its fair value at the reporting date. Gains or losses arising from changes in the fair value of investment property are included in profit or loss in the year in which those gains or losses arise.

(m) Intangible assets

Intangible assets with a finite life are stated at cost less accumulated amortisation and impairment. All the group's intangible assets are computer software.

Acquired computer software licences are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives. This period does not usually exceed three years – however for some significant projects, estimated useful lives may be assessed as up to 10 years.

Costs associated with developing or maintaining computer software programmes are recognised as expenses as incurred. Costs directly associated with the production of identifiable and unique software products controlled by the group, are recognised as intangible assets if the completion of the product is technically feasible, the company has the intention to complete and ability to use the asset, the asset will generate probable future economic benefits, the company has adequate resources available to complete the development of the asset and the company has the ability to reliably measure the expenditure attributable to the asset during development.

Direct costs include the software development employee costs and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised over their estimated useful lives. Usually this period does not exceed three years – however for some significant projects, estimated useful lives may be assessed as up to 10 years.

(n) Goodwill

Goodwill, representing the excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired, is recognised as an asset and is not amortised, but it is tested for impairment annually and whenever there is an indication that the goodwill may be impaired. Any impairment is recognised immediately in profit or loss and is not subsequently reversed. Refer also to note 1(j).

(o) Payables

Trade payables and other accounts payable are recognised when the group becomes obliged to make future payments resulting from the purchase of goods and services. Trade payables are recognised at amortised cost.

(p) Borrowings

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 profit or loss over the period of the borrowing using the effective interest rate method.

(q) Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of a past event, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

(r) Employee benefits

Provisions made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Provisions made in respect of employee benefits which are not expected to be settled within 12 months, such as long service leave, are measured as the present value of the estimated future cash outflows to be made by the group in respect of services provided by employees up to the reporting date, taking into account years of service, years to entitlement and the likelihood that staff will reach the point of entitlement.

Contributions to multi-employer defined benefit schemes are expensed when incurred.

(s) Financial instruments issued by the group

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement. Interest and dividends are classified as expenses or as distributions of profit consistent with the statement of financial position classification of the related debt or equity instruments or component parts of compound instruments.

(t) Revenue recognition

Revenue from the sale of goods is recognised when the group has transferred to the buyer the significant risks and rewards of ownership of the goods. Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract at the balance date, as measured by progress invoices raised to customers in conjunction with an assessment of costs incurred to date.

Earthquake insurance proceeds are recognised as revenues in these financial statements when they are received or when it is virtually certain that they will be received under the company's insurance contracts and the amounts can be reliably measured or estimated. If insurance cash receipts relate partially to business interruption and partially to property, plant and equipment, the cash flows are allocated between cash flows from operating activities (for example for the business interruption portion of the claim) and cash flows from investing activities (for example for the property, plant and equipment portion of the claim). Insurance cash receipts that relate to property, plant and equipment claims are classified as cash flows from investing activities. Insurance cash receipts that do not relate to property, plant and equipment (for example for increased operating cost or loss of revenue claims) are classified as operating activities.

Dividend revenue from investments is recognised when the shareholders' rights to receive payment have been established. Interest revenue is recognised in profit or loss as it accrues, using the effective interest rate method.

(u) Capital contributions and grants

Capital contributions that are refundable to customers are treated as current liabilities until refunded. Non-refundable cash contributions from customers, relating to assets, are credited directly to income when the asset is connected to the network.

(v) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (an asset that takes a substantial period of time to get ready for intended sale or use) are capitalised as part of the cost of that asset. All other borrowing costs are expensed in the period in which they occur.

Changes in accounting policies and disclosures

The accounting policies detailed above have been applied in the preparation of these financial statements and have been consistently applied throughout the year.

The following new and amended New Zealand equivalents to International Financial Reporting Standards have been adopted as of 1 April 2013:

- NZ IAS 1 Presentation of Items of Other Comprehensive Income – Amendment to NZ IAS 1
- NZ IAS 19 Employee Benefits (Revised)
- NZ IAS 28 Investments in Associates and Joint Ventures
- Amendments to NZ IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities
- NZ IFRS 10 Consolidated Financial Statements
- NZ IFRS 11 Joint Arrangements
- NZ IFRS 12 Disclosure of Interests in Other Entities
- NZ IFRS 13 Fair Value Measurement
- Annual Improvements NZ IFRS 2009 - 2011 Cycle

Adoption of the above standards did not have a material impact on the financial statements of the group.

NZ IFRS Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the group for the annual reporting period ending 31 March 2014 are listed below:

	Effective
• Amendments to NZ IAS 32: Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities	FY15
• NZ IFRS 9 Financial Instruments – Classification and Measurement	FY16
• Amendments to NZ IFRS 10, 11 and 12, and NZIAS 27 – Investment Entities	FY16
• NZ IFRIC 21 – Levies	FY16
• Amendments to NZ IAS 36 – Recoverable Amount Disclosures for Non-Financial assets	FY16
• Amendments to NZ IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting	FY16

The group expects to adopt these new or amended standards and interpretations in the period that application of the standard is required, however they are not expected to have a significant impact on the group's financial statements.