



ANNUAL REPORT 2006





Electricity is critical to the community we serve. Orion's priority is to operate a reliable and efficient network and invest appropriately to meet growing customer demand for electricity.

Orion New Zealand Limited owns and operates the electricity distribution network in central Canterbury between the Waimakariri and Rakaia rivers, and from the Canterbury coast to Arthur's Pass.

Our network covers 8,000 square kilometres of diverse geography, including Christchurch city, Banks Peninsula, farming communities and high country.

We transport electricity from nine Transpower grid exit points to more than 180,000 homes and businesses. We charge electricity retailers for this network delivery service and retailers, in turn, charge electricity consumers.

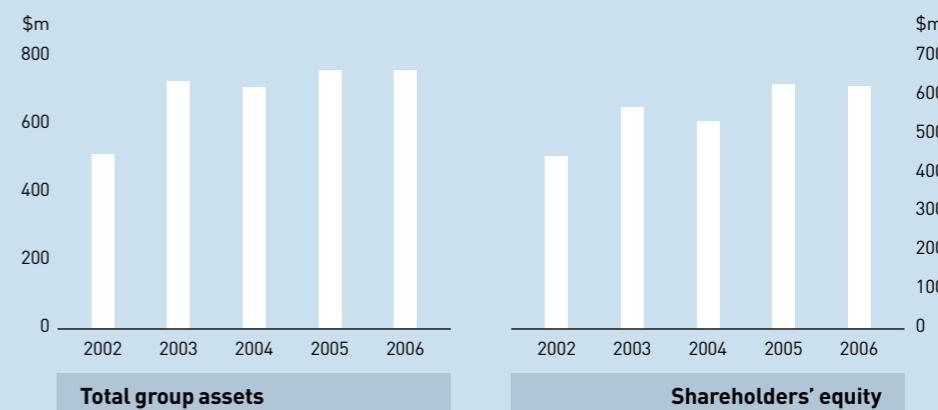
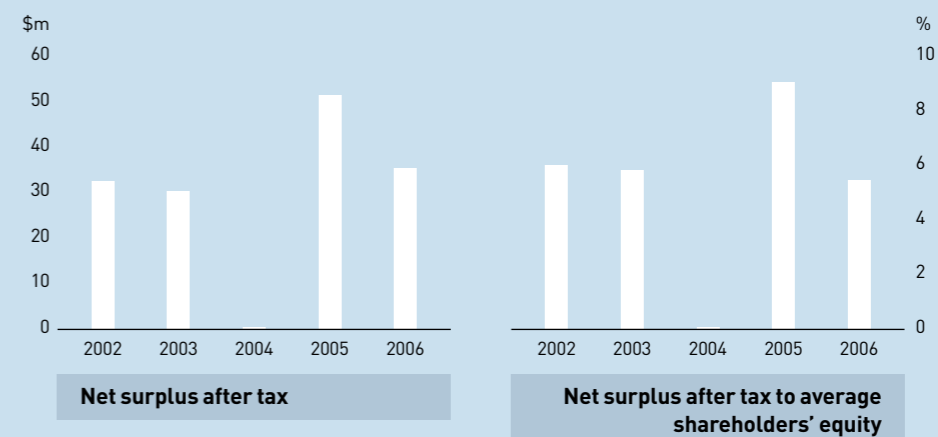
Over the last 12 months we delivered 3,260GWh of electricity and supplied a maximum demand of 592MW.

We own the electrical contracting business, Connetics.

Our ultimate shareholders are:  
Christchurch City Council (89.3%)  
Selwyn District Council (10.7%).

## Highlights

- Achieved an overall net surplus of \$34.1m. This was \$3.0m ahead of our statement of intent (SOI) forecast and included a \$3.5m gain on the sale of our remaining Energy Developments Limited shares, \$1.8m above budget.
- Paid fully imputed ordinary dividends of \$38m during the year (\$11m above our SOI forecast).
- Achieved a net surplus on our core electricity distribution network of \$39.7m. This was \$4.7m ahead of our SOI forecast.
- Continued to reduce our distribution prices in real terms. Our residential prices have fallen by over 11% in real terms in the five years to 31 March 2006.
- Continued to rank as one of the most reliable and efficient networks in the country. In the last five years we had fewer power outages per customer than any other network operator in New Zealand.
- Invested over \$30m on projects to connect new customers, reinforce our network and replace aging equipment.
- Operated a successful campaign, in partnership with Meridian Energy and the Electricity Commission, to subsidise household purchase of energy efficient light bulbs. Over 125,000 bulbs were sold.
- Continued to address the risk of an aging workforce through increased trainee programmes. We helped establish a new CPIT Distribution Trades Training Centre for the electricity industry.



We ran an awareness campaign in 2005 to promote public safety around our electricity network. Our series of illustrated safety advertisements in local newspapers helped increase our profile and raise awareness that we are owned by the community we serve. The illustrative theme is carried through into this annual report.

**SOME LINES ABOUT SAFETY**

ORION IS YOUR ELECTRICITY NETWORK. We don't generate or sell you power directly - what we do is deliver electricity from the national grid to more than 175,000 homes and businesses in central Canterbury.

Over the last five years there have been fewer power outages per customer in our network area than in any other area in New Zealand. You can stay safe and help us continue to keep the lights on by following some simple safety guidelines.

These owners are responsible for making sure trees and shrubs don't touch power lines.

When operating machinery, always be careful of overhead power lines. When you're working, always look up for lines. Contact Orion for safety advice if you need to work close to power lines.

Also, remember that the lines connecting substations to the ground are usually made of steel. These are hot and are easily hit by lightning. Always take special care to avoid these lines.

Always pay attention when working - power lines are easily overlooked.

Consider mature trees and shrubs around power lines.

Orion is owned by the Christchurch City, Selwyn District and Banks Peninsula Councils. More information on our network, our grid and our performance can be found on our website [www.orionnz.co.nz](http://www.orionnz.co.nz)

FOR MORE INFORMATION FREEPHONE ORION ON 0800 343 9898.

**PLEASE, PLAY IT SAFE**

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Our substations are marked with a "Keep Out" sign for any road vehicles.

Though they appear harmless, substations have powerful transformers that convert electricity from a high voltage to the voltage used in our homes. Some substations are located at ground level and others are mounted on poles.

There are power lines with electric shock substations - but they are NOT a playground.

Never climb power poles.

Never poke or throw any objects into a substation.

Do not play or climb around substations.

Report any open holes or wires to Orion or the police immediately.

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**WATCH YOUR OVERHEAD**

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Over the last five years there have been fewer power outages per customer in our network area than in any other area in New Zealand. You can stay safe and help us continue to keep the lines on by following some simple safety guidelines.

Overhead power lines are a common and easily overlooked feature of the landscape. But disregarding them can be dangerous.

When building or garden plans or working, always look up for overhead power lines. If you must work near overhead power lines, make sure you are not touching anything that could touch the lines. If you are working in a field, ensure the ground is level and the lines are under control at all times.

Keep the lines under control so that it can't touch anything towards the lines.

Always keep equipment at least 3 metres from power lines.

Only some business owners have power lines where the ground is level.

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**THE DIRT ON SAFETY**

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Over the last five years there have been fewer power outages per customer in our network area than in any other area in New Zealand. You can stay safe and help us continue to keep the lights on by following some simple safety guidelines.

Don't take chances - hitting a power cable can kill. If you're planning a job that requires digging, have the exact location of electricity cables before you start. About half our cables (around 5,000 km) are buried underground.

We have three types of our network and are happy to advise you how to locate our cables. If you do hit a power cable, or discover a cable you're not sure about, please contact Orion immediately.

Use Orion's free dig service to check for cables before you dig.

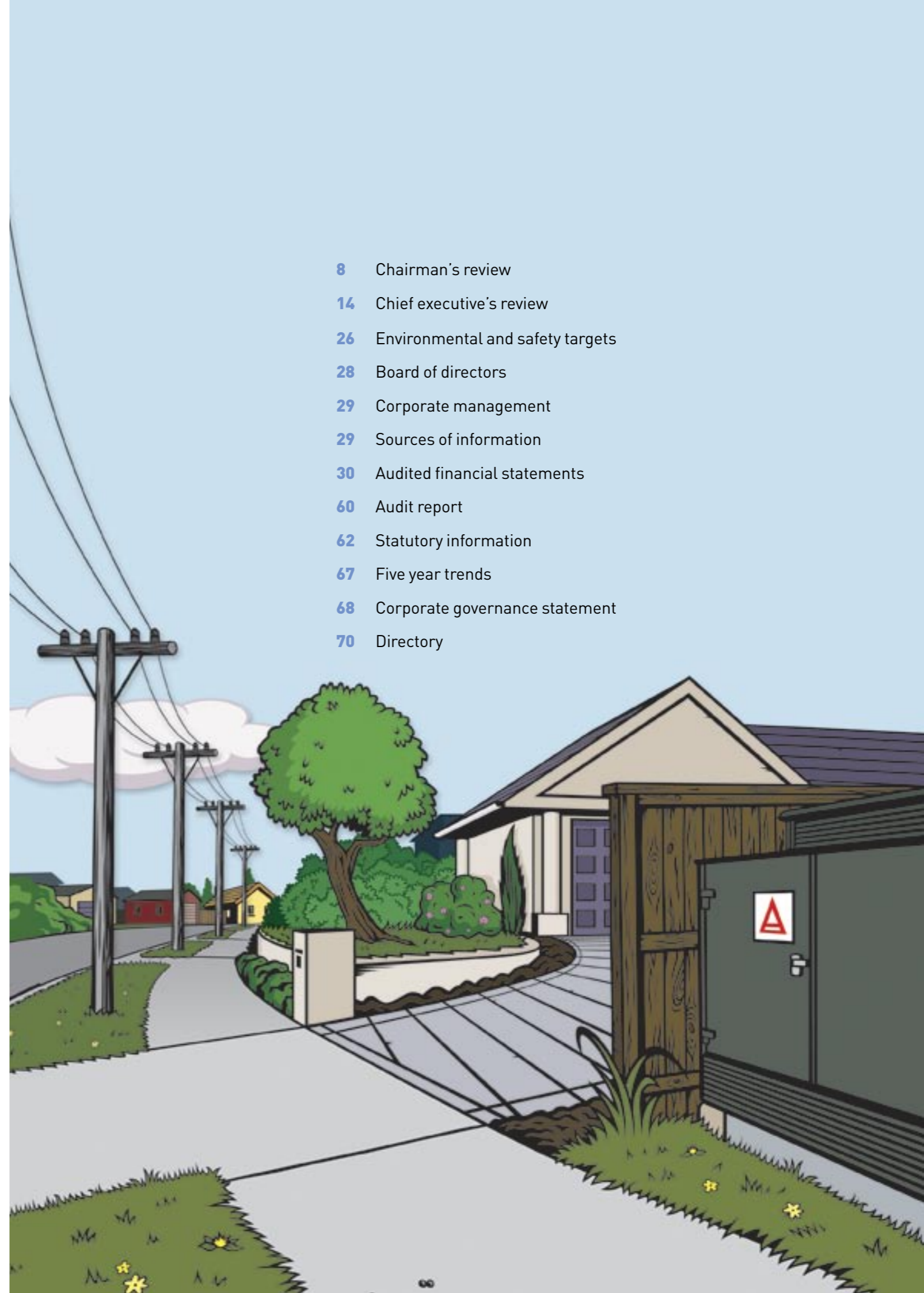
Consult with Orion before digging within 2 metres of a power pole or pylon.

Cables may be buried horizontally and at any depth through both public and private property.

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## Chairman's review

The last year was a period of continued success and consolidation for Orion. As in previous years, our financial performance was strong. We also progressed our strategy to 'return to core' – to concentrate on our electricity network operations – by divesting a number of technology investments.

Our primary goal is to operate a safe and reliable electricity network and we consistently deliver on this. In 2005 we maintained our status as one of the most reliable and efficient network operators in the country.

Although no significant new regulatory changes affected the industry in 2005, the Commerce Commission initiated detailed investigations into price threshold breaches by both network distribution company, Unison Networks, and national transmission company, Transpower. While final decisions on these investigations have not yet been made, they may establish important precedents.

We continue to advocate that any regulation must be principled, predictable and foster innovation. It must also encourage much needed investment in electricity infrastructure. In order to invest confidently, the electricity industry needs to know it can earn appropriate returns.



Linda Constable CHAIRMAN

### Financial performance

Orion's net surplus for the year was \$34.1m - \$3.0m above our statement of intent (SOI) forecast.

The primary reasons for the improved result were:

- our network performed strongly, \$4.7m ahead of our SOI forecast. This was primarily driven by high levels of capital contributions, which under current GAAP must be booked as revenue but under NZ IFRS will be offset against the associated capital expenditure.
- our sale of Energy Developments Limited shares achieved a surplus of \$3.5m, \$1.8m ahead of our SOI forecast.

These positive results were offset by write-downs to the valuations of some of our investments. The write-downs and provisions associated with these investments were approximately \$4.8m above our SOI forecast.

### Distributions to shareholders

We paid two fully imputed ordinary dividends to shareholders during the year – \$20m in June 2005 and \$18m in December 2005. The total of \$38m in dividend payments was \$11m above our SOI forecast.

Our SOI for 2007 forecasts dividend payments of \$28m in the coming year.





Above: Lyttelton Port Company Limited, which operates the South Island's major deep-water port, is one of Orion's largest customers.

**Adoption of NZ IFRS**

In line with the Christchurch City Council's approach, we will shortly adopt New Zealand International Financial Reporting Standards (NZ IFRS) for our financial reporting. Our first full NZ IFRS report will be for the financial year ending 31 March 2007.

The new reporting standards change how certain assets, liabilities and revenue/expense items are treated. The estimated major impacts of these changes are summarised in the notes to our audited financial statements. We anticipate that when we adopt NZ IFRS, our opening (1 April 2005) net equity position will reduce by up to \$100m.

Our 2007 SOI reflects NZ IFRS accounting.

**Energy Developments Limited**

We sold most of our 13% shareholding in Australian listed company Energy Developments Limited (EDL) in March 2005 as part of our strategy to concentrate on core electricity network operations. The sale resulted in a \$23m gain on investment which was recognised in last year's financial accounts.

The 4.25m EDL shares we retained were sold for A\$4.50 per share in September 2005.

As a result, in the year to 31 March 2006 we recognised a further \$3.5m gain on our investment. This gain was due to our sale price per share (A\$4.50) being above the closing Australian Stock Exchange price on 31 March 2005 of A\$3.85 per EDL share.

Overall, we made a gross profit of approximately \$17m and a net surplus, after all acquisition, interest and holding costs were taken into account, of approximately \$9.4m on this investment.

**Prices**

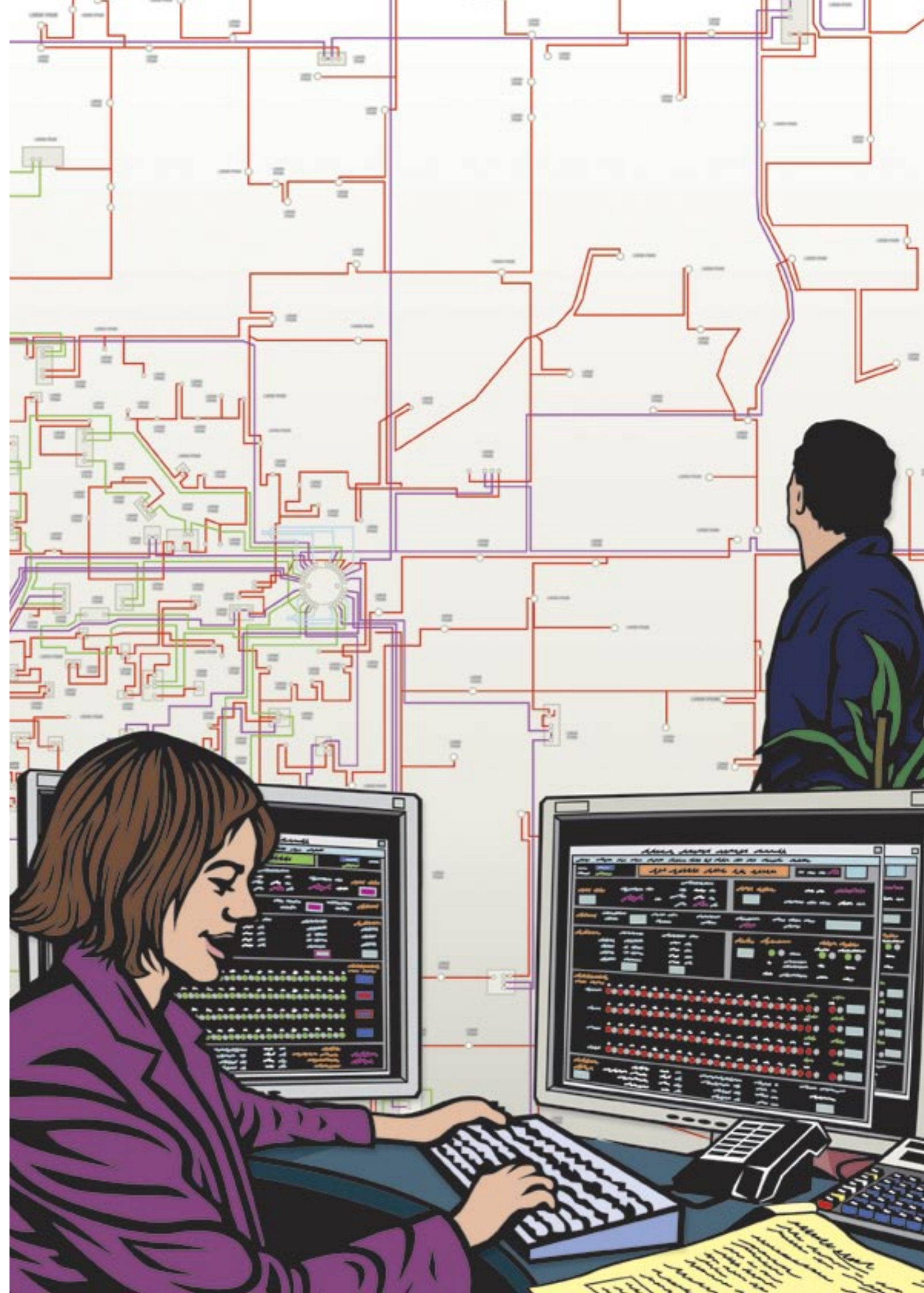
Our customers want us to deliver electricity reliably and keep prices down. In order to meet this expectation, we need to find the right balance between network investment and costs for customers.

Our success in achieving this balance is reflected in our prices, which are below average, and in our ranking as one of the most reliable electricity networks in the country.

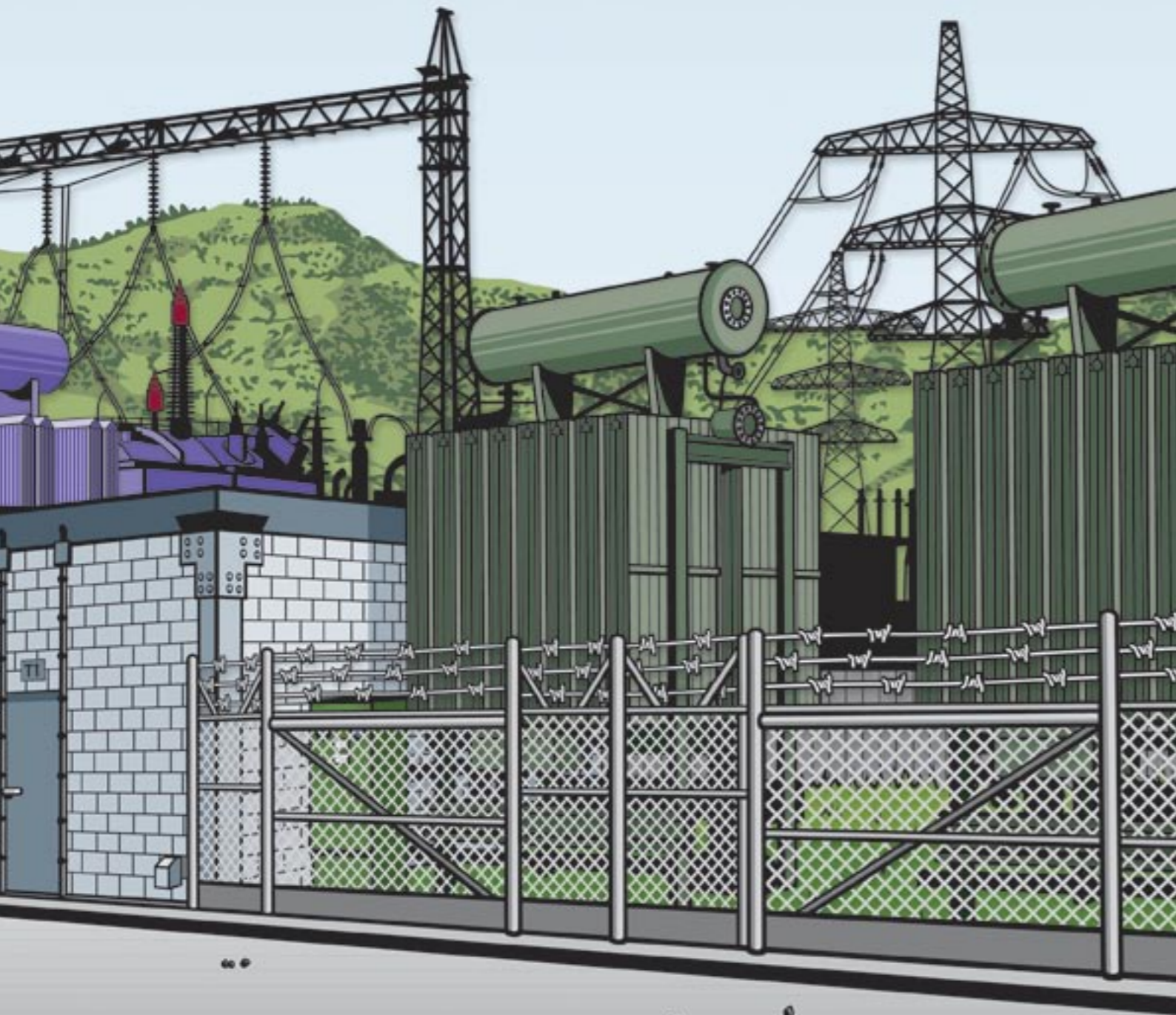
In February 2006 we announced an average electricity network distribution price increase of 3.9%. The rise was effective 1 April 2006 and is consistent with the Commerce Commission's CPI-x price threshold regime. This regime sets a threshold for any price increase by Orion.

In the last five years our residential prices have fallen by over 11% in real terms.

Opposite: From our control room we manage a sophisticated network of electrical assets and load control equipment. When an electricity outage occurs, the control room forms the 'hub' of our response, where we coordinate employee and contractor teams and remote control systems to restore power supply.



Over the last five years  
Orion has kept the power on  
99.99% of the time.



At the same time that we announced our price increase, Transpower also proposed a national 19% transmission price rise, which we passed on to our customers along with our 3.9% price increase. The Commerce Commission has investigated Transpower's prices to determine whether to place Transpower's transmission services and prices under Commerce Commission control. Transpower is now seeking an administrative settlement with the Commerce Commission to avoid control and has advised that, while the 19% price rise will go ahead in the interim, Transpower will credit a similar amount to network distribution companies, effectively cancelling the increase.

Once the Commerce Commission's investigation is resolved we will pass any credit, including interest, on to our customers.

#### Regulation

The electricity industry continues to face challenges. It is well documented that growing customer demand over the last 20 years has not been matched by sufficient investment in generation or transmission. Less well known is the need for continued investment in distribution assets to meet customers' expectations of a reliable electricity supply. Distribution assets installed in the high electricity growth period of the 1960s are approaching the end of their life. Replacing these assets will require significant investment throughout New Zealand over the coming years.

It is important that electricity distribution networks such as Orion are not overly constrained by regulations that stifle their ability to innovate and earn appropriate financial returns on their investments. We will continue to encourage regulatory authorities to give lines companies the freedom to invest appropriately, so that we can meet the future needs of our communities.

We have observed with interest the Commerce Commission's processes following notices of its intention to declare control of both Unison Networks and Transpower. The decisions reached in these processes need to be principled and transparent if the rules are to be clearly understood by all.

A number of regulatory agencies have indicated that they intend to review the electricity industry and its regulations. Our submissions during this process will emphasise that industry regulation should be principled, practical and encourage innovation and efficient investment, for the long term benefit of customers.

#### Looking forward

Our employees are key to our success and we are mindful of the ongoing shortage of skilled electricity personnel, both in New Zealand and internationally. We have therefore put in place a range of initiatives over the last five years to encourage industry training, recruitment and career development. These initiatives will continue to be a company focus.

During the year we began a review of our capital structure and we will continue this process in the new financial year.

#### Acknowledgements

At the annual meeting in August I will retire as chairman and from the board. My involvement with the company spans nearly 20 years, starting as a city councillor on the Public Utilities Committee in November 1986 and progressing through the Municipal Electricity Board and Southpower to Orion, which I have chaired since 1999. The industry has seen massive change and, at times, it has been a roller coaster ride, but it has never been boring. It has been a privilege to be involved with this great company and its staff.

I would like to thank all of the employees at Orion and its subsidiary, Connetics, for the commitment and dedication they have shown, not just over the last year but for many years. Their determination to provide a reliable network for our community is highly commendable. Their professional skills, willingness to tackle new challenges and dedication to ensuring the company operates efficiently and successfully is, I believe, without parallel in the New Zealand electricity industry.

I would also like to thank my fellow directors for their contributions and support in serving our shareholders and our community so well.

Orion is a tremendous company in which to be involved. It is highly successful, is a leader in the electricity industry and has talented employees. I have greatly enjoyed my time with the company, am very proud of its historical achievements and wish it well in the future.

Linda Constable CHAIRMAN

Opposite: Electrical assets at an exit point from Transpower's national transmission network. At these grid exit points voltage is reduced and electricity is 'fed' into Orion's district substations.

## Chief executive's review

Underlying all that we do is a commitment to provide our customers with a reliable and cost efficient electricity network. We are a service industry and our success is dictated by our customers' satisfaction. During the year in review, we continued to perform strongly. While careful planning and investment play a part in this success, our employees' dedication is key to our achievements.

As demand for electricity increases, we need to think intelligently about how to build a strong and secure regional electricity supply. Recent decisions within the electricity industry highlight the importance of considering alternatives to transmission upgrades. We support this approach.

We also need to operate in an industry that promotes innovation and provides sufficient incentives to encourage investment. We continue to call for a regulatory environment that gives us the freedom and the confidence to invest in much needed infrastructure so that we can meet the needs of our customers, both now and in the future.



Roger Sutton CHIEF EXECUTIVE

## Network reliability and price

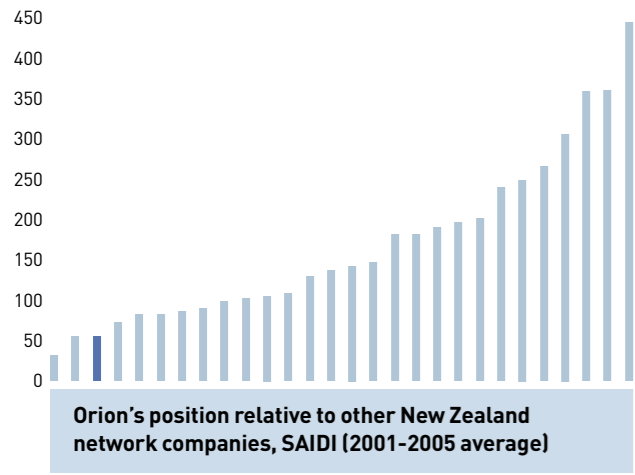
Our customers expect us to plan, build and operate a reliable, safe and cost efficient electricity network. Once again, I am pleased to report that we achieved this during the year. Our ability to manage expenditure, contain prices and consistently maintain network reliability cements our position as one of the best network operators in the country.

Despite a snow storm in mid-September, the average time our customers went without power was only 59 minutes in the year to 31 March 2006; one of the very best results in New Zealand. This represents a reliability performance percentage of 99.99%.

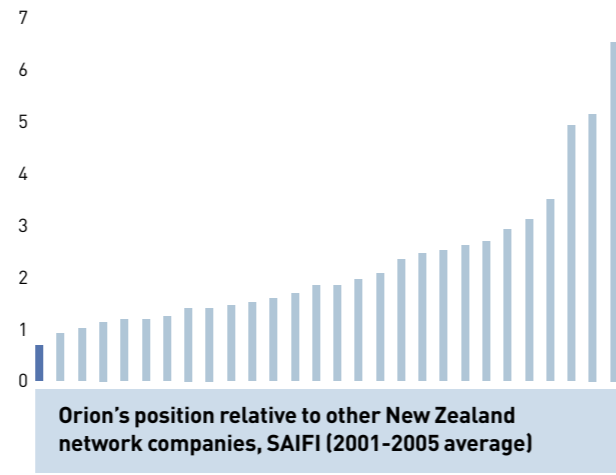
In the five years to 31 March 2005 (the most recent period where figures are available that compare the performance of New Zealand's 28 electricity networks):

- we had fewer power outages per customer than in any other area in New Zealand. On average our customers experienced fewer than one interruption to their electricity supply per annum.
- we 'kept the lights on' for 99.99% of the time. Two other New Zealand networks lost power for less time. However both networks only serve city customers. Orion delivers electricity to customers across a diverse topography including Banks Peninsula and the Southern Alps.

Minutes lost per consumer per annum



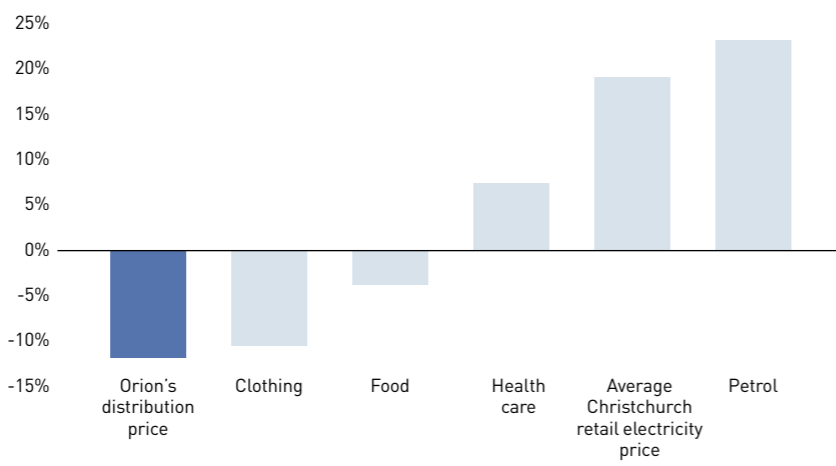
Interruptions per consumer per annum



We have achieved these very impressive reliability results while reducing the prices we charge.

In the last five years our residential prices have decreased by over 11% in real, inflation adjusted terms (or increased by just 0.2% in nominal, non-inflation adjusted terms). This compares with significant price increases for a number of other essential household items, including rises in the retail electricity price (due to higher prices imposed by generators and retailers).

Percentage change in real price in the last five years



**The change in price of household expenditure items in the last five years**

Sources: Schedule of Domestic Electricity Prices, Ministry of Economic Development; Consumer Price Index, Statistics New Zealand.

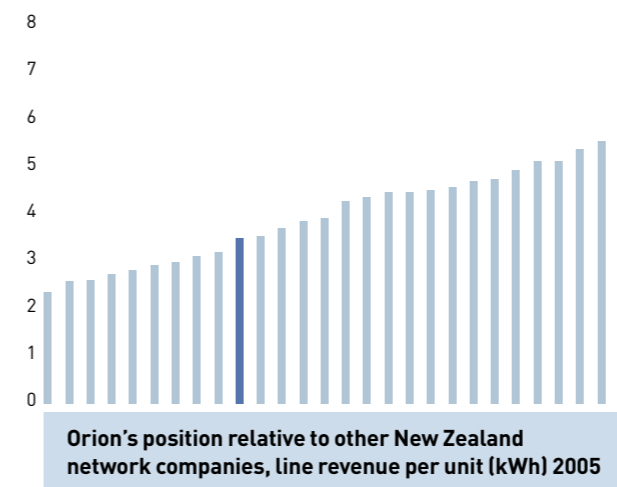
**Network enhancements**

In the past year we undertook several major projects to reinforce our network. In particular:

- we constructed a new 66kV line between Greendale and Hororata and installed a new district substation at Greendale. This relieved load on the Highfield, Bankside and Darfield district substations and provided additional capacity for new irrigation load.
- we installed 175Hz 11kV ripple plants at Harewood and Sockburn district substations to improve security of supply in these areas.
- we purchased a new 23MVA transformer for Barnett Park. This will allow the existing transformer at Barnett Park to be used to provide security of supply elsewhere on the network, when major half life transformer maintenance is undertaken at all of Orion's urban 66/11kV district substations over the next 5-10 years.
- we provided additional capacity to meet 3-5 years' load growth in the Islington/Hornby industrial area by laying a new 33kV feeder from Islington to Hornby district substation.
- we relieved load on the fully utilised 33kV Sockburn and Moffett district substations by laying 11kV cable from Hornby district substation along Halswell Junction Road and Branston Street. This project also relieved load on the Prebbleton 11kV feeder out of Shands Road district substation.

Considering the excellent reliability of our network, our pricing compares very favourably with other New Zealand network companies.

Cents per kWh



Above: Increased farm irrigation has driven a 20% rise in our rural network's peak demand over the last four years.

Capital expenditure on our network during the year totalled \$30m. Our network asset management and maintenance expenditure amounted to a further \$20m.

Our expenditure is expected to remain around these levels in real, inflation adjusted terms, for the next 10 years due to the need to:

- increase network capacity in Christchurch city due to infill housing, overall urban growth and Environment Canterbury's Clean Air Plan
- continue investment in rural areas to meet ever increasing loads
- replace network assets installed in the high electricity growth years of the 1960s which are now reaching the end of their service life.

Over the next year, we plan to make major network enhancements in the Windwhistle, Brookside and Islington areas and from Mt Pleasant to Sumner.

Further information on our network investment plans can be found in our network Asset Management Plan (available on our website [www.oriongroup.co.nz](http://www.oriongroup.co.nz)).

### Security of supply standard review

We currently plan and invest in our network to meet a security of supply standard that was developed with stakeholder input in 1998. This standard sets out the length of time that customers can expect to be without power after an interruption to supply on our network.

As eight years have passed since we first started using this standard, we recently conducted a review to ensure it still takes into account current customer preferences for the quality and price of service that we provide. As a result of the review, we are now consulting with customers on some proposed amendments. These may result in slightly lower reliability for urban residential customers. However the changes may also reduce the need for future price rises.

Further information, including how you can comment on our network security standard, is on our website ([www.oriongroup.co.nz](http://www.oriongroup.co.nz)).

### Regulatory issues

We encourage the Government to find the right balance between consumer protection and impacts on those who are regulated. Any regulation needs to be necessary, fair, effective and affordable.

We have been pleased with the level of consultation carried out by the Commerce Commission, Electricity Commission and Ministry of Economic Development. It is crucial that our regulators listen and respond to electricity industry views to ensure the impacts of their decisions on the industry are fair and proportionate. We remain committed to investing the time and resources necessary to participate in these consultation processes.

Both Unison Networks and Transpower face Commerce Commission control after breaching the Commission's price thresholds. In reaching its final decisions in breach enquiries, the Commission needs to ensure that it does not inappropriately reduce incentives for electricity distributors to innovate and invest in their networks. Innovation and investment are crucial to meet the challenges facing the electricity sector.

We look forward to working constructively with our regulators throughout the coming year to help ensure that existing rules are interpreted fairly and in the best interests of our customers, and new rules are only imposed if necessary.

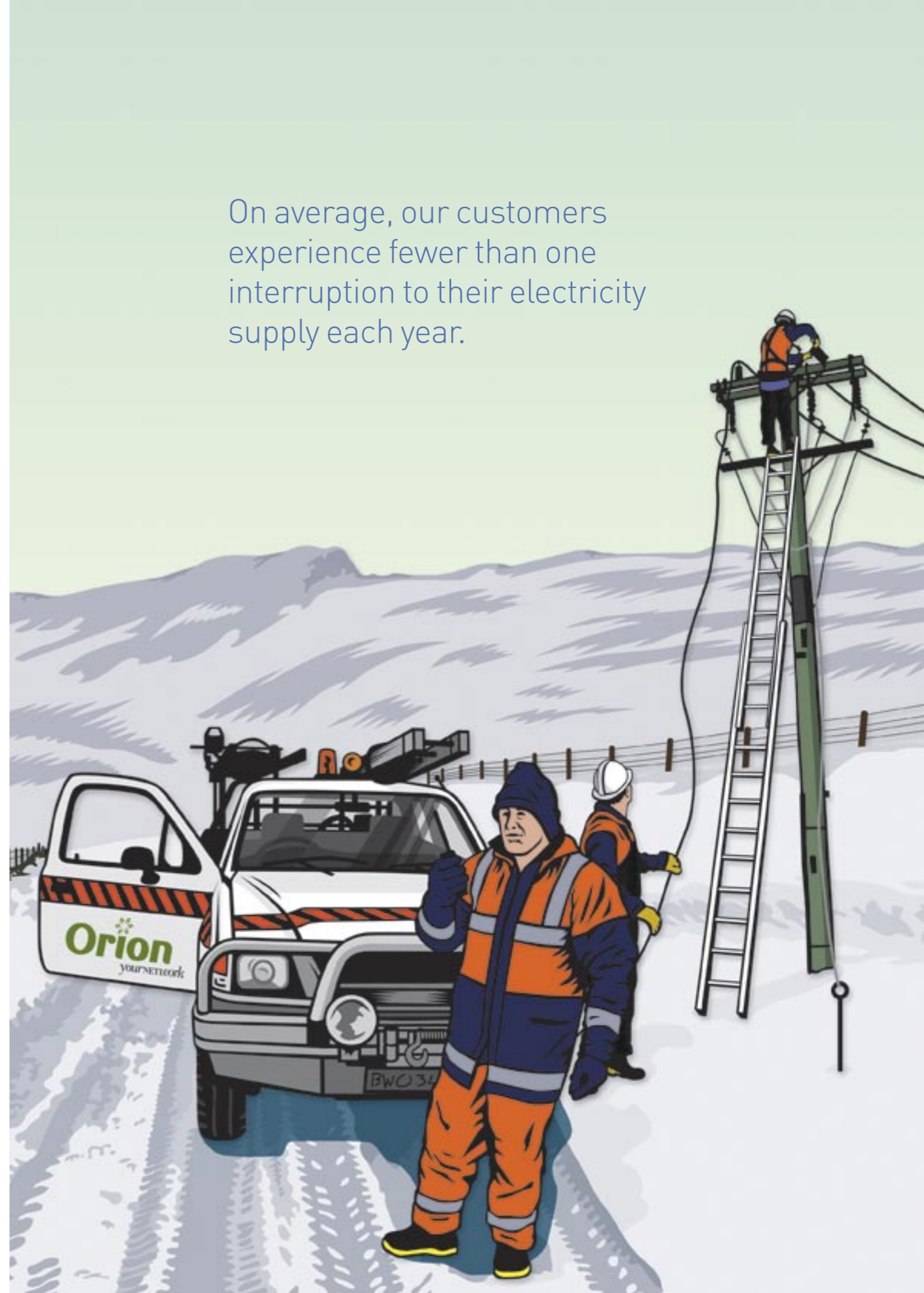
We continue to work with the Electricity Networks Association to seek more flexibility around electricity distributors' ability to own generation and buy financial hedges to manage revenue and operating risks. We consider a review of these rules to be timely and appropriate, given that growing customer demand for electricity has not been matched by sufficient investment in generation.



Above: In late March 2006 Orion worked with Transpower to maintain electricity supply to local residents during a major upgrade to Transpower's Coleridge grid exit point. We arranged and supplied equipment, including one of our mobile diesel generators.

Opposite: During the September 2005 snow storm our employees' and contractors' efforts to maintain supply meant that, on average, only one in four rural customers experienced a power outage.

On average, our customers experience fewer than one interruption to their electricity supply each year.



## Transmission issues

We continue to seek ways to make our region's electricity supply more secure. One option is to diversify the sources of electricity available to us so that we are better able to meet the needs of our community when natural disasters or dry hydro years affect the way in which electricity is usually supplied.

The gains from diversity are one of the reasons why we continue to explore alternatives to Transpower's proposed \$300-\$400m upgrade to the transmission lines that feed Christchurch and the upper South Island. This upgrade is planned for 2012.

We believe this upgrade may be able to be delayed cost-effectively for several years without risking security of supply. The available options to delay the upgrade include a mix of customer load shedding, fuel switching from electricity to gas, diesel generation and energy efficiency measures. These options, if implemented, may provide more immediate security of supply than could be achieved by a new transmission line.

Not only are these alternatives readily available, they are also cheaper than the cost of building a large, new transmission line. An independent report prepared for us by a leading international consulting firm on the potential to delay the transmission line, concluded that the alternatives would save the community at least \$50m.

We have communicated our views on viable alternatives to Transpower and will continue to work with key stakeholders to explore other options.

### Energy efficient light bulb campaign

Orion, in partnership with Meridian Energy and the Electricity Commission, operated a successful campaign in late 2005 to subsidise the purchase of energy efficiency light bulbs.

The campaign, which advertised three Ecobulbs® for \$5, resulted in sales of more than 125,000 energy efficient bulbs to households in our network area. This translates to three Ecobulbs® introduced into approximately 25% of households.

Partly due to the success of this campaign, the Electricity Commission has allocated \$3m of funding in 2006 to other regions to operate campaigns based on the 'Orion/Meridian model'.

Energy efficient bulbs use only one-fifth of the power of a normal light bulb so energy and peak demand savings are likely. To demonstrate the benefits of energy efficiency campaigns, the savings will be measured through a comprehensive in-home survey in winter 2006.

## Managing the future

### Our people

We recognise that our people are critical to the success of our business and we are committed to providing a work environment that enables professional and personal growth.

An aging workforce and a shortage of skilled staff remains an issue and we continue to plan ahead to recruit and retain skilled employees.

In planning for the future, we support several initiatives that focus on training, recruitment and staff retention:

- **In-house trainee programmes**

We have developed and introduced programmes to train employees to a level where they are sufficiently skilled to replace employees who we expect will retire in the next 5 to 10 years. Our four-year advanced engineering programme currently has four trainees, with one more joining the scheme in the coming year. Two network trainees are expected to complete their national diploma in electro-technology this year.

- **Connetics apprenticeship scheme**

Employee training, development and retention are a key focus for our subsidiary company, Connetics. The company currently has 23 apprentices. Nine apprentices completed their training during the year.

Through its focus on training, Connetics has helped ease staff shortages in other distribution network areas. For example, several Connetics employees are currently contracted to Vector in the North Island.

- **CPIT Trades Innovation Board**

Since 2003 an Orion manager has sat on the Christchurch Polytechnic Institute of Technology's (CPIT) Trades Innovation Advisory Board and we continue to advise on ways to retain and attract people into electricity-related trades. We are also involved in the development of a Distribution Trades Training Centre at CPIT.

### Distribution Trades Training Centre

In 2006 Orion will contribute up to \$1.5m towards a new CPIT Distribution Trades Training Centre, to be built at CPIT's Sullivan Avenue site. We are working with CPIT to develop the centre as a means to help resolve our ongoing issues with skills shortages and an aging workforce.

The centre will focus on specific trade training for the electricity distribution sector. Government funding to match Orion's contribution has been secured through the Government's Partnership for Excellence scheme.

- **Power Engineering Excellence Trust**

For the past three years we have contributed \$20,000 annually to this joint venture between the power industry and the University of Canterbury. An Orion manager has also been appointed as a trustee.

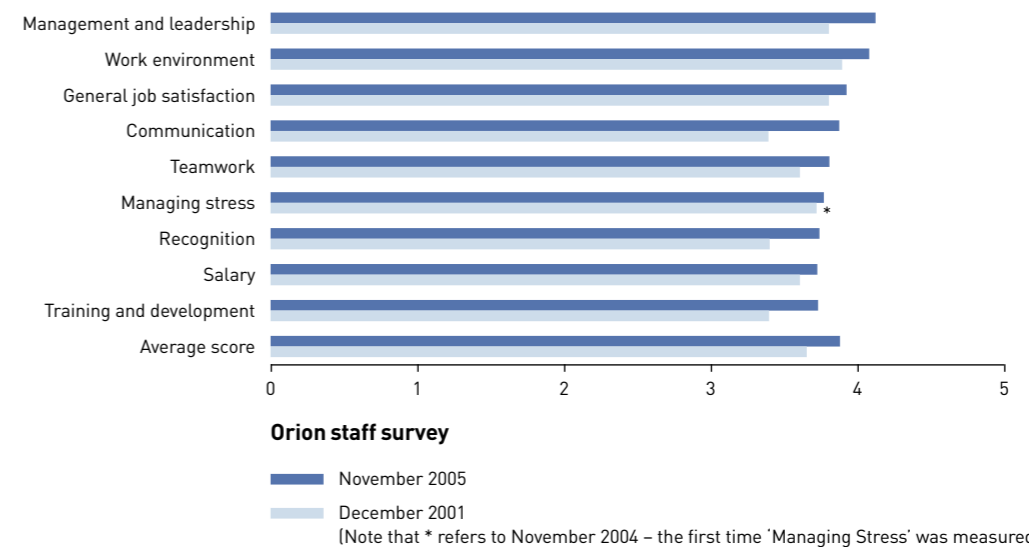
The Trust and the university have established an Electric Power Engineering Centre to support power engineering education. Over the three years since the Trust's inception the number of power engineering enrolments at the university has more than doubled. The centre has also created scholarships, facilitated undergraduate and graduate research study and assisted in the placement of over 175 students in industry vacancies.

- **Wellness programme**

We have established a wellness programme to help our employees maintain good standards of health. Benefits of this programme include free seminars and full health checks conducted by a local medical clinic, flu vaccinations, optometrist visits and twice weekly Pilates sessions, which have proved popular. A health nurse visits Orion each week and employees have the opportunity to talk to her about any of their health concerns. As part of the wellness programme, we also offer counselling to assist employees to overcome personal problems which may affect their work performance.

Each year we conduct a staff survey to give our employees the opportunity to express opinions on their working environment. Our 2005 staff survey showed that Orion continues to be viewed as a caring and supportive company and that staff remain satisfied in all areas considered important to them.

All category results were above 3.7 (out of 5, with 3 being neutral). Good improvements in all categories have been made since the survey was first introduced in 2001.



Above: Workmen replace lines following the September 2005 snow storm.

### Pandemic planning

We have developed a health emergency plan to manage the health risk for employees and ensure that we have sufficient staff to undertake critical activities in the event of a widespread health emergency, such as avian flu.

To help manage any risks to our employees we have established an education programme which includes seminars on how staff can keep themselves and their families healthy. We have also developed a plan for our key head-office site in Armagh Street to isolate staff as much as possible, and have drawn up policies for meetings and travel for the duration of a health emergency.

To manage operational risk in any emergency we will limit our activities to those considered essential for 'keeping the lights on'. We will also reduce the number of employees at our Armagh Street site to a minimum and provide some staff with the ability to work from home.

We will take our cue from the Ministry of Health and action our health emergency plan in response to its alerts.

## Our community

We contribute to the community through a range of sponsorships, including:

### Community Energy Action

We support Community Energy Action (CEA), a Christchurch-based charitable trust focused on improving energy efficiency in the low income housing sector. CEA was established in 1994 and our sponsorship since inception has been critical to CEA's success.



Above: CEA employees installing insulation.

Over its 12 years of operation, CEA has installed energy efficiency improvements in approximately 10,000 homes. In 2005 a project targeting older people resulted in a 450% increase in the number of elderly residents who benefited from CEA's energy efficiency improvements. We congratulate all CEA employees and trustees on their significant achievements which provide long-term benefits to residents.

### Selwyn district scholarship fund

To mark our centenary in 2003, we established a permanent scholarship fund to benefit high school students in the Selwyn district who have shown potential for future success. Several scholarships are distributed annually. So far nine students have received financial assistance to go on to tertiary study.

Above right: A 'Spot the Danger' poster developed by Orion for use by school children.

Right: One of Orion's safety and education officers delivers an 'Understanding Electricity' school programme.

### Programmes in schools

Schools play an important part in our goal to promote safe use of electricity. In 2005 we started free community education programmes to educate primary school children about the positive aspects of electricity and how to use it safely. Our 'Understanding Electricity' programmes provide materials, tools and support to Canterbury teachers and students, and support the school curriculum in the areas of electricity, science and social needs. To date, 10 primary schools and approximately 1,100 students have taken part in the programmes.



## Over or under investment

We continue to focus on improving our network performance in the most cost-effective ways possible. We know that, in order to act in our community's best interests, we need to think carefully about where and how we invest.

If we expand our network capacity without looking at innovative and cost-effective ways to improve our network performance, we run the risk of over-investment. Over-investment can result in higher prices for customers. However, if we encourage our customers to save electricity, especially at times when our network is heavily loaded, we can improve our network performance without the need to build as many large new assets.

It is equally important that our customers and the community are not put at risk by under-investment. The regulatory framework that applies to lines companies needs to allow an appropriate rate of return to prevent the risk of under-investment, and to avoid the possibility of a less secure electrical system in the future. We await with interest the Commerce Commission's decisions in this area.

We regularly consult with our customers to ensure we get the balance right between over and under investment. We listen to our customers and respond to their views on the level of reliability and prices that they prefer. These preferences then form the basis of our security of supply standard and asset management planning.

A good example of this consultation process is our pricing and investment for customers who connect high-demand irrigators to our network. Feedback from these customers in 2005 showed that they were prepared to accept lower reliability in return for reduced need for future price rises. We will remove some investments from our next asset management plan to reflect this preference.



Above and right: 66kV cable joint replacement work undertaken by our subsidiary company, Connetics.

## Connetics

Connetics constructs and maintains substations, overhead and underground utility lines and associated equipment. It also operates an equipment supply and distribution business and provides engineering design and consultancy services. Connetics is wholly owned by Orion.

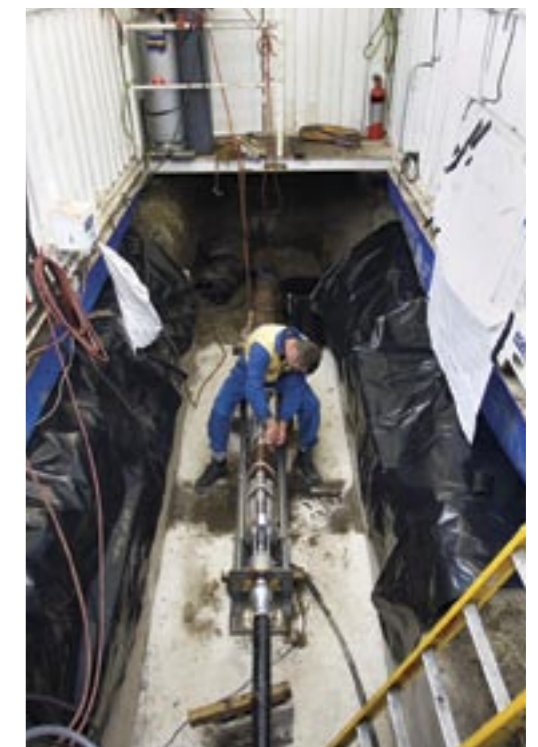
In March 2006 the company celebrated 10 years of business success. Since its inception, Connetics has built its reputation as a reliable and responsive company, due in large part to the skills and dedication of its employees and its ability to adapt and respond to market changes and new opportunities.

Connetics exceeded its financial targets for the year, reporting an after tax surplus of \$1.4m, compared with a budget of \$1.2m. This excellent result was due to ongoing control of operating costs, proactive quality control and a strong focus on compliance.

Connetics undertook several major projects for Orion during the year, including the New Brighton, Halswell and Lancaster substation upgrades and the Bromley/Pages Road 66kV oil filled cable joint replacement project. New business was secured with Vector in Wellington, the Christchurch City Council and MainPower NZ Limited.

The company maintained a quality management system accredited to the AS/NZS ISO 9001:2000 standard. Its health and safety management system was accredited to the AS/NZS 4801:2001 standard during the year.

The company also received its fourth Electricity Engineers' Association safety award and maintained tertiary accreditation under the ACC partnership programme.





## Focus on core

In 2003 we made a strategic decision to reduce our level of investment in technology companies and 'return to core'. This decision was made principally to allow us to focus on our core operations. At that time our technology investments were slightly less than 10% of our overall business assets and required a disproportionately high level of management commitment.

Since 2003 we have successfully withdrawn from several investments and we will continue our strategy to undertake further divestments to maximise our commercial returns when opportunities arise. An example is this year's exit from Energy Developments Limited.

As at 31 March 2006, our non-network related investments had a carrying value of only \$8m. This compares with a book value of approximately \$740m for our network related assets, including our investment in subsidiary company, Connetics.

## Acknowledgements

Our continued success is a tribute to our people. From the board and corporate managers, through to the front-line employees working in all kinds of weather to keep the lights on, I thank you for your dedication and professionalism.

Linda Constable has announced that she is standing down from the board at the next annual meeting after more than 15 years on the board, including seven years as chairman. It is my privilege to have worked with Linda. She has contributed intelligence, wisdom and leadership to board decisions, and has gained enormous respect from her fellow directors and employees. Linda has served the shareholders and the community well and has helped Orion consolidate its position as an industry leader. Linda will be missed and leaves with my grateful thanks and best wishes.

Thank you all for another great year.

**Roger Sutton** CHIEF EXECUTIVE OFFICER

Opposite: Workmen maintain an underground cable. 70% of our annual network maintenance expenditure relates to planned-in-advance maintenance work. The remaining 30% is for unplanned or emergency work such as that caused by a car hitting a power pole or a storm damaging our network.



Above: Corona camera detecting faulty insulators on a rural line. The corona camera identifies defective equipment on our network that cannot be picked up by the naked eye or other commonly used maintenance techniques.

## Environmental targets

### This year's targets

- 1 Undertake two projects with energy retailers that reduce peak demand on Orion's network by 2MW in the winter of 2003 and an additional 0.5MW in the winter of 2004 (total 2.5MW).**

Target date: September 2004

Status: **Ongoing**

Comments: A successful subsidised energy efficient light bulb campaign was operated in conjunction with Meridian Energy and the Electricity Commission in late 2005. Over 125,000 energy efficient bulbs were sold to households in the Orion network area. Peak demand savings from this project will be measured in winter 2006 and we are hoping for a saving of 2.5MW. At the time the campaign was the largest ever residential energy efficiency initiative in New Zealand.

- 2 Achieve Enviro-Mark® gold certification.**

Target date: March 2005

Status: **Complete**

Comments: We achieved bronze and silver level standards in the year to March 2005. Gold status was achieved in July 2005. Enviro-Mark® is a recognised health, safety and environmental management certification programme.

- 3 Review the design of power pole side-arms for those locations where it would be desirable for poles to be placed further away from road edges to improve safety in the event of a car leaving the road.**

Target date: March 2006

Status: **Complete**

Comments: Independent consultants who reviewed the use of power pole side-arms on our network found that side-arms are generally not economically justifiable, due to a range of issues including changed line tension, reduced ability to use soft wood poles and difficulty in ensuring poles will not lean over time. In some instances however side-arms will be considered for use by Orion due to safety gains. We will examine the benefits of using side-arms on a case-by-case basis.

- 4 Implement a programme to replace all CRT computer monitors with LCD monitors. This will result in reduced energy use.**

Target date: September 2005

Status: **Complete**

Comments: LCD monitors consume 60% less electricity than CRT monitors. A Christchurch organisation recycled our used CRT monitors.

- 5 Implement training for all staff in the Resource Management Act (RMA), Hazardous Substances and New Organisms (HSNO) Act and our compliance requirements.**

Target date: March 2007

Status: **Ongoing**

Comments: This is part of our ongoing effort to train staff to prevent and/or manage adverse effects of hazardous substances in the environment.

### New targets for next year

- Review standards for public access to network equipment. Review to consider safety, public awareness of hazards and security policies.**

Target date: March 2007

Comments: This is part of our ongoing efforts to maximise safety around our network equipment.

- Assess the risk of 'arc flash' on our network and the use of personal protective equipment where risks exist.**

Target date: March 2008

Comments: An 'arc flash' occurs when electric current flows between two or more separated energised conducting surfaces, releasing tremendous amounts of energy, heat and pressure. Arc flashes can cause severe burns and death if appropriate protective equipment is not used. This target is part of our ongoing efforts to maximise safety around our network equipment.

- Examine the ability for additional diesel generation capacity to operate at network peak loading times.**

Target date: March 2008

Comments: Diesel generation can be used to reduce our network peak loads, thereby reducing the requirement for additional investment in our network. This saves on the use of copper, steel etc. This review will examine the economic and regulatory compliance issues associated with increasing the amount of low emission diesel generation in our network area.



## Board of directors



**Linda Constable**  
MNZM, LL.M (Hons), FNZIM

Chairman from August 1999. Director since February 1989. Linda is a director of Ngai Tahu Holdings Corporation and New Zealand Railways Corporation, and a trustee of the Arts Festival Trust.



**Peter Rae**  
FCA, AFNZIM

Deputy chairman from August 1999. Director since 1998. Chairman of the audit and risk management committee and a director of Orion subsidiary, Connetics Limited. Peter is chairman and managing director of Peter Rae Industries Limited and a director of its associate companies. He is also chairman of Waitaki Transport Limited, Red Bus Limited and a director of Mutual Credit Finance Limited, and several private companies.



**Craig Boyce**  
B Com, FCA, FNZIM, FNZID

Director since August 2002. Craig is chairman of Smiths City Group Limited and its subsidiary companies, Connexionz Limited and Snowy Peak Limited. He is a director of Christchurch City Holdings Limited, Bernard Matthews NZ Limited, Progressive Leathers Limited, Datacom Group Limited, New Zealand Express Company Limited and a trustee of the Christchurch Arts Centre.



**John Dobson**  
B Com, AF.Inst.D

Director since August 2003. John is chairman of Rural Transport Limited and deputy chairman of Smiths City Group Limited and its subsidiary companies. He is a director of Real Journeys Limited and its subsidiary companies, Gough Holdings Limited and its subsidiary companies, NZ Express Transport 2006 Limited, Securitised Equipment Receivables Limited and Securitised Equipment Holdings Limited, and Wilson Bulk Transport Limited.



**Don Elder** BE (Hons), Ph.D

Director since February 2002. Don is chief executive officer of Solid Energy New Zealand Limited and is a director of several of its subsidiary and associate companies. He is also a director of ASB Bank Limited, ASB Group (Life) Limited and the World Coal Institute.



**George Gould** LLB

Director since August 2001. George is chairman of Gould Holdings Limited, George Gould Limited, Pod Limited, Southern Hemisphere Proving Grounds Limited and Milford Dart Limited. He is also a director of Chong Bureau Limited and Westgold Finance Limited.



**Gail Sheriff** JP

Director since April 2005. Gail is a long-serving Christchurch City Councillor and is a member of the Burwood/Pegasus Community Board. She is also a director of A Beach Café Limited and Oceanside Apartments Limited.

## Corporate management



**Roger Sutton**  
Chief Executive Officer



**Brendan Kearney**  
General Manager  
Corporate Services



**Rob Jamieson**  
General Manager  
Commercial



**Craig Kerr**  
General Manager  
Information Services



**John O'Donnell**  
General Manager  
Infrastructure



**Tas Scott**  
General Manager  
Network Development

## Sources of information

A range of information about Orion's policies and operations is available on our website ([www.oriongroup.co.nz](http://www.oriongroup.co.nz)). Paper copies are available from our head office at 218 Manchester Street. Information includes:

- Orion's network asset management plan
- Orion's network quality report
- Orion's pricing guide and detailed information on our pricing
- Information on daily load management
- A guide to connecting distributed generation
- Safety guidelines for working on Orion's network
- Discussion of environmental issues

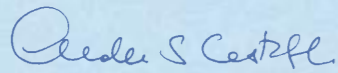
Other websites which contain information of interest include:

- Commerce Commission ([www.comcom.govt.nz](http://www.comcom.govt.nz))
- Consumer electricity information ([www.consumer.org.nz/powerswitch](http://www.consumer.org.nz/powerswitch))
- Electricity and Gas Complaints Commission ([www.egcomplaints.co.nz](http://www.egcomplaints.co.nz))
- Electricity Commission ([www.electricitycommission.govt.nz](http://www.electricitycommission.govt.nz))
- Electricity Networks Association ([www.electricity.org.nz](http://www.electricity.org.nz))
- Ministry of Economic Development ([www.med.govt.nz](http://www.med.govt.nz))


## Financial statements

The directors are pleased to present the financial statements of Orion New Zealand Limited and its subsidiaries for the year ended 31 March 2006.

Authorised for issue on 6 June 2006 for and on behalf of directors:



**Linda Susan Constable** CHAIRMAN  
Christchurch, 6 June 2006



**Peter Rae** DEPUTY CHAIRMAN  
Christchurch, 6 June 2006

## Statement of financial performance

For the year ended 31 March	Notes	Group 2006 \$000's	Group 2005 \$000's	Parent 2006 \$000's	Parent 2005 \$000's
Operating revenues	2 & 3	197,999	207,741	181,616	195,902
Operating expenses	4	143,437	133,917	126,625	119,535
Operating surplus before taxation		54,562	73,824	54,991	76,367
Taxation expense	5	20,425	21,495	20,083	22,914
Net surplus	2	34,137	52,329	34,908	53,453

## Statement of movements in equity

Equity at the start of the year		625,557	518,914	626,681	518,914
Net surplus		34,137	52,329	34,908	53,453
Revaluation of property, plant and equipment	9 & 14	-	82,314	-	82,314
Deferred tax liability adjustment	5 & 14	-	(1,000)	-	(1,000)
Total recognised revenues and expenses for the year		34,137	133,643	34,908	134,767
Distributions paid or provided to shareholders during the year		38,000	27,000	38,000	27,000
Equity at the end of the year		621,694	625,557	623,589	626,681

The accompanying notes form part of and are to be read in conjunction with these financial statements.

## Statement of financial position

As at 31 March	Notes	Group 2006 \$000's	Group 2005 \$000's	Parent 2006 \$000's	Parent 2005 \$000's
<b>Current assets</b>					
Bank and short term deposits		1,119	2,842	1,108	1,504
Accounts receivable	6	9,695	6,430	4,847	3,667
Inventories	7	6,302	5,983	563	781
Income tax		2,602	1,456	2,671	1,413
Energy Developments Limited		-	17,437	-	-
Intercompany balances		4,019	4,262	7,478	21,755
		<u>23,737</u>	<u>38,410</u>	<u>16,667</u>	<u>29,120</u>
<b>Non-current assets</b>					
Subsidiaries	21	-	-	10,273	7,424
Associates	8 & 21	9,507	7,448	858	7,448
Property, plant and equipment	9	733,638	723,359	729,142	718,380
Prepayment		840	1,050	840	1,050
Other long term investments		6,365	7,594	1,627	3,218
		<u>750,350</u>	<u>739,451</u>	<u>742,740</u>	<u>737,520</u>
Total assets		<u>774,087</u>	<u>777,861</u>	<u>759,407</u>	<u>766,640</u>

The accompanying notes form part of and are to be read in conjunction with these financial statements.

As at 31 March	Notes	Group 2006 \$000's	Group 2005 \$000's	Parent 2006 \$000's	Parent 2005 \$000's
<b>Current liabilities</b>					
Accounts payable and accruals	10	24,681	22,684	18,827	16,743
Other debt	11	-	262	-	262
		<u>24,681</u>	<u>22,946</u>	<u>18,827</u>	<u>17,005</u>
<b>Non-current liabilities</b>					
Interest bearing debt	11	70,808	78,256	59,300	71,123
Deferred tax liability	5	56,904	51,102	57,691	51,831
		<u>127,712</u>	<u>129,358</u>	<u>116,991</u>	<u>122,954</u>
Total external liabilities		<u>152,393</u>	<u>152,304</u>	<u>135,818</u>	<u>139,959</u>
<b>Shareholders' equity</b>					
Paid up capital	15	120,000	120,000	120,000	120,000
Retained earnings	13	70,670	68,430	72,565	69,554
Revaluation reserve	14	431,024	437,127	431,024	437,127
		<u>621,694</u>	<u>625,557</u>	<u>623,589</u>	<u>626,681</u>
Total liabilities and equity		<u>774,087</u>	<u>777,861</u>	<u>759,407</u>	<u>766,640</u>

The accompanying notes form part of and are to be read in conjunction with these financial statements.

## Statement of cash flows

For the year ended 31 March	Notes	Group 2006 \$000's	Group 2005 \$000's	Parent 2006 \$000's	Parent 2005 \$000's
<b>Cash flows from operating activities</b>					
Cash was provided from:					
Cash receipts from customers		181,663	168,800	164,916	154,122
Dividends received		78	589	1,000	1,598
Interest received		234	323	1,483	7,303
		<u>181,975</u>	<u>169,712</u>	<u>167,399</u>	<u>163,023</u>
Cash was applied to:					
Non capitalised payments to suppliers and employees		100,991	90,585	76,631	73,503
Income tax paid (net of refunds)		15,833	14,797	15,481	16,329
Subvention payments		-	-	5,300	11,700
Interest paid		3,353	7,817	3,348	7,811
		<u>120,177</u>	<u>113,199</u>	<u>100,760</u>	<u>109,343</u>
Net cash inflow from operating activities	16	<u>61,798</u>	<u>56,513</u>	<u>66,639</u>	<u>53,680</u>
<b>Cash flows from investing activities</b>					
Cash was provided from:					
Sale of property, plant and equipment		447	4,971	365	4,828
Proceeds from investments		21,451	60,340	1,067	-
		<u>21,898</u>	<u>65,311</u>	<u>1,432</u>	<u>4,828</u>
Cash was applied to:					
Purchase of property, plant and equipment		33,714	33,577	32,320	32,392
Purchase of investments		1,825	6,245	1,183	619
Exploration expenditure		-	3	-	-
		<u>35,539</u>	<u>39,825</u>	<u>33,503</u>	<u>33,011</u>
Net cash inflow/(outflow) from investing activities		<u>(13,641)</u>	<u>25,486</u>	<u>(32,071)</u>	<u>(28,183)</u>

The accompanying notes form part of and are to be read in conjunction with these financial statements.

For the year ended 31 March	Notes	Group 2006 \$000's	Group 2005 \$000's	Parent 2006 \$000's	Parent 2005 \$000's
<b>Cash flows from financing activities</b>					
Cash was provided from:					
Proceeds of debt		8,800	-	8,800	-
Decrease in current accounts		231	-	15,147	56,262
		<u>9,031</u>	<u>-</u>	<u>23,947</u>	<u>56,262</u>
Cash was applied to:					
Repayment of debt		20,911	53,282	20,911	53,282
Increase in current accounts		-	13	-	-
Dividends paid		38,000	27,000	38,000	27,000
		<u>58,911</u>	<u>80,295</u>	<u>58,911</u>	<u>80,282</u>
Net cash (outflow) from financing activities		<u>(49,880)</u>	<u>(80,295)</u>	<u>(34,964)</u>	<u>(24,020)</u>
<b>Cash flow summary and reconciliation</b>					
Opening bank and short term investments		2,842	1,138	1,504	27
Inflow from operating activities		61,798	56,513	66,639	53,680
Inflow/(outflow) from investing activities		(13,641)	25,486	(32,071)	(28,183)
(Outflow) from financing activities		(49,880)	(80,295)	(34,964)	(24,020)
		<u>1,119</u>	<u>2,842</u>	<u>1,108</u>	<u>1,504</u>
Net closing bank and short term investments		<u>1,119</u>	<u>2,842</u>	<u>1,108</u>	<u>1,504</u>

The accompanying notes form part of and are to be read in conjunction with these financial statements.

## Notes to financial statements

### 1 Statement of accounting policies

#### Reporting entity

Orion New Zealand Limited is a company registered under the Companies Act 1993. The group consists of Orion New Zealand Limited and its subsidiaries (refer to Note 21).

Orion New Zealand Limited is a reporting entity for the purposes of the Financial Reporting Act 1993. The financial statements include the group financial statements of Orion New Zealand Limited and have been prepared in accordance with the Financial Reporting Act 1993 and Section 44 of the Energy Companies Act 1992.

#### Measurement base

The accounting principles recognised as appropriate for the measurement and reporting of financial performance, cash flows and financial position on an historical cost basis are followed by the group, with the exception that certain property, plant, equipment and investments have been revalued.

#### Specific accounting policies

The following specific accounting policies that materially affect the measurement of financial performance, cash flows and financial position are applied:

- (a) **Basis of consolidation - purchase method**  
The group financial statements include the parent company, its subsidiaries and its in-substance subsidiaries using the purchase method. All significant intercompany transactions are eliminated on consolidation.
- (b) **Capital contributions**  
Capital contributions that are refundable to customers are treated as current liabilities until refunded. Non-refundable contributions are credited to income when received.
- (c) **Research and development costs**  
Research costs are expensed in the period incurred. Development costs are deferred where future benefits are expected to exceed those costs, otherwise such costs are expensed in the period incurred. Deferred development costs are amortised over future periods in relation to expected future revenue. Unamortised costs are reviewed at each balance date to determine the amount (if any) that is no longer recoverable and any amounts, so identified, are expensed.
- (d) **Distinction between capital and revenue expenditure**  
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. Constructed assets are included in property, plant and equipment as each becomes operational and available for use. Revenue expenditure is defined as expenditure that is incurred in the maintenance and operation of the property, plant and equipment of the group.
- (e) **Accounts receivable and intercompany balances**  
Accounts receivable are valued at their expected realisable value. All known bad debts are written off during the financial year. Hire purchase debtors exclude unearned interest (calculated using the "Rule of 78" method).  
  
Intercompany balances due from subsidiaries and associates are valued at fair value. Where the subsidiaries and associates' net assets are negative, then the company values those intercompany receivables having regard to the carrying amounts of the net operating assets of those subsidiaries and associates.
- (f) **Inventories**  
Stocks and inventories are valued at the lower of cost (FIFO or weighted average) and net realisable value, with additional allowances for obsolescence where necessary. Chargeable work in progress includes direct materials and labour and an allocation of overheads that directly relate to the contract.
- (g) **Investments**  
Investments are initially recorded at cost. In the parent company financial statements, subsidiaries and associates are accounted for on an equity accounting basis which shows the company's share of retained surpluses and deficits and its share of post acquisition increases/decreases in net assets less goodwill write offs. Where the company's share of post acquisition reductions in net assets exceeds the cost of the investment, the equity accounting method is discontinued to preclude the recognition of any balance below zero. Where, in the opinion of the

directors, there has been a permanent diminution in the carrying value of investments, this is recognised in the relevant period. Dividend income is recognised in the statement of financial performance when received.

As at 31 March 2005, the investment in Energy Developments Limited was based on the 31 March 2005 closing Australian stock exchange price, converted using the closing AUD/NZD exchange rate.

- (h) **Joint ventures**  
The company's share of the assets, liabilities, revenues and expenses of any joint venture is incorporated into the group's financial statements on a line-by-line basis using the proportionate method.
- (i) **Depreciation**  
Depreciation is provided on property, plant and equipment using the straight line method at rates which amortise the cost or valuation less estimated residual value over their useful lives.

The main bases are periods not exceeding:

	Years
Electricity distribution network	60
Building structures	70
Building services	30
Building fit-out	15
Cars and vans	5
Trucks	7
Plant and equipment	10
Computer equipment and software	3

The depreciation methods and useful lives of property, plant and equipment are reviewed annually to ensure that they remain appropriate.

- (j) **Property, plant and equipment**  
The group's property, plant and equipment are revalued on a cyclic basis at least once every three years by independent valuers to fair value. Any subsequent additions are initially recorded at cost until the next revaluation.
- (k) **Goodwill**  
Goodwill represents the excess of the purchase consideration over the fair value of net tangible and identifiable intangible assets acquired at the time of the acquisitions of the shares in subsidiaries and associates. Goodwill is amortised by the straight line method over the period during which benefits are expected to be received. This is a maximum of 20 years.
- (l) **Income tax**  
The income tax expense charged to the statement of financial performance includes both the current year's provision and the income tax effect of timing differences calculated using the liability method.  
  
Tax effect accounting is applied on a comprehensive basis to all timing differences. A debit balance in the deferred tax account, arising from timing differences or income tax benefits from income tax losses, is only recognised if there is virtual certainty of realisation.
- (m) **Foreign currencies**  
Transactions in foreign currencies are converted at the New Zealand rate of exchange ruling at the date of the transaction. Short-term transactions covered by forward exchange contracts are measured and reported at the forward rates specified in those contracts.

The exchange difference on hedging transactions undertaken to establish the price of particular sales or purchases, together with any costs associated with hedging transactions, are deferred and included in the measurement of the purchase or sale transaction.

At balance date, foreign monetary assets and liabilities are translated at the closing rate, and exchange variations arising from these translations are included in the statement of financial performance, except where a foreign currency liability is designated as a hedge of a foreign non-monetary asset (or vice versa). These exchange differences are taken to the foreign currency

## Notes to financial statements continued

translation reserve except where the exchange difference on the hedging liability exceeds that of the hedged asset, in which case the excess difference is taken to the statement of financial performance.

### (n) Derivative financial instruments

The company may enter into swaps, forward rate agreements and options transactions. Such transactions are undertaken within board-approved policies and limits for the primary purpose of reducing exposure to fluctuations in interest rates and foreign exchange rates. 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 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.

### (o) Employee entitlements

Provision is made in respect of the group's liability for annual and long service leave. The annual leave liability is calculated on an actual entitlement basis at current rates of pay. The long service leave liability is assessed on an actuarial basis.

### Changes in accounting policies

There have been no changes in accounting policies in the 2006 year. The company's accounting policies have been applied on bases consistent with those used in previous years.

	Group 2006 \$000's	Group 2005 \$000's	Parent 2006 \$000's	Parent 2005 \$000's
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## 2 Continuing and discontinued activities

Continuing activities:

Operating revenue	197,999	207,741	181,616	195,902
Net surplus	34,137	52,329	34,908	53,453

## 3 Operating revenues

A summary of operating revenue is as follows:

Electricity network delivery revenue	151,266	144,463	151,266	144,463
Transmission rental rebates received	7,181	3,189	7,181	3,189
Bad debts recovered	10	23	10	23
Capital contributions	9,308	6,124	9,308	6,124
Changes in bad debt provisions	13	163	-	163
Contracting	15,749	12,126	-	-
Dividends	78	589	1,000	1,598
Equity accounted surpluses of subsidiaries	-	-	2,899	914
Equity accounted surpluses of associates	4,567	1,170	4,567	1,170
Foreign exchange gain - realised	263	1,852	83	1,852
Foreign exchange gain - unrealised	-	438	-	878
Intercompany write-downs reversed	-	249	831	23,044
Interest	385	364	1,544	7,308
Investment write-down reversed - EDL	-	5,295	-	-
Profit on disposal of property, plant and equipment	194	2,927	161	2,851
Realised gain on disposal of investments	3,382	25,430	42	-
Other	5,603	3,339	2,724	2,325
	197,999	207,741	181,616	195,902

Notes to financial statements continued

	Group 2006 \$000's	Group 2005 \$000's	Parent 2006 \$000's	Parent 2005 \$000's
<b>4 Operating expenses</b>				
A summary of operating expenses is as follows:				
Audit fees- parent company auditor	183	107	129	62
Other fees- parent company auditor	12	12	12	12
Bad debts written off	67	37	67	37
Changes in bad debt provisions	1	5	1	-
Depreciation - buildings	1,055	1,054	1,030	1,027
Depreciation - distribution system	22,054	21,499	22,054	21,499
Depreciation - other	2,976	2,453	1,329	1,236
Directors' fees	263	263	250	250
Donations	56	49	51	43
Foreign exchange loss – realised	405	2,864	294	169
Goodwill amortisation	1,409	2,540	1,409	2,540
Interest expense	4,267	7,825	3,417	7,401
Investment write-down	2,983	-	11,466	-
Leasing and rental	506	523	64	70
Loss on disposal of property, plant and equipment	19	634	5	590
Replaced assets written off	1,235	1,983	1,198	1,983
Research and development	2,906	1,552	-	-
Severance and restructuring	-	88	-	88
Subvention payments	-	-	5,213	10,867
Transpower transmission	39,946	39,397	39,946	39,397
Transmission rental rebates refunded	7,181	3,189	7,181	3,189
Other	55,913	47,843	31,509	29,075
	<u>143,437</u>	<u>133,917</u>	<u>126,625</u>	<u>119,535</u>

	Group 2006 \$000's	Group 2005 \$000's	Parent 2006 \$000's	Parent 2005 \$000's
<b>5 Taxation</b>				
The taxation provisions are subject to Inland Revenue Department assessment.				
<b>Taxation expense</b>				
Operating surplus before taxation	54,562	73,824	54,991	76,367
Prima facie taxation at 33%	18,005	24,362	18,147	25,201
Taxation effect of:				
Deferred tax adjustment	54	661	54	664
Permanent differences	2,929	(4,491)	2,371	(3,906)
Under / (over) provisions in prior years	(563)	963	(489)	955
Taxation expense as per statement of financial performance	<u>20,425</u>	<u>21,495</u>	<u>20,083</u>	<u>22,914</u>
Comprising:				
Current tax	14,623	15,911	14,223	17,376
Deferred tax	5,802	5,584	5,860	5,538
	<u>20,425</u>	<u>21,495</u>	<u>20,083</u>	<u>22,914</u>
<b>Deferred tax liability</b>				
Opening balance	51,102	44,611	51,831	45,293
Opening balance adjustment	-	(93)	-	-
Adjustment via revaluation reserve (see note 14)	-	1,000	-	1,000
Current year movement expensed	5,802	5,584	5,860	5,538
Closing balance	<u>56,904</u>	<u>51,102</u>	<u>57,691</u>	<u>51,831</u>
<b>Imputation credit account (parent only)</b>				
Opening balance			3,572	144
Opening balance adjustment			-	823
Income tax paid (net of refunds)			15,689	15,741
Imputation credits attached to dividends received			-	48
Use of money interest received			81	221
Imputation credits attached to dividends paid			(18,716)	(13,299)
Imputation credits attached to deemed dividends			(130)	(106)
Closing balance			<u>496</u>	<u>3,572</u>

The Orion consolidated tax group, comprising Orion New Zealand Limited and Connetics Limited, had a closing imputation credit account balance of \$0.5m (2005 \$3.6m).

Notes to financial statements continued

	Group 2006 \$000's	Group 2005 \$000's	Parent 2006 \$000's	Parent 2005 \$000's
<b>6 Accounts receivable</b>				
A summary of accounts receivable is as follows:				
Trade receivables	9,820	6,597	4,909	3,788
Interest receivable	57	1	66	5
Allowance for doubtful debts	(182)	(168)	(128)	(126)
	<u>9,695</u>	<u>6,430</u>	<u>4,847</u>	<u>3,667</u>

	Group 2006 \$000's	Group 2005 \$000's	Parent 2006 \$000's	Parent 2005 \$000's
<b>7 Inventories</b>				
A summary of inventories is as follows:				
Chargeable work in progress	409	372	103	2
Goods for sale	4,227	3,675	-	-
Maintenance items	2,142	2,460	460	779
Allowance for stock write-off	(476)	(524)	-	-
	<u>6,302</u>	<u>5,983</u>	<u>563</u>	<u>781</u>

Certain inventories are subject to retention of title clauses.

	Group 2006 \$000's	Group 2005 \$000's	Parent 2006 \$000's	Parent 2005 \$000's
<b>8 Associates</b>				
<b>Carrying value</b>				
Opening balance - carrying value	6,039	5,153	6,039	5,153
Opening balance - goodwill	1,409	3,059	1,409	3,059
Equity accounted surpluses/(deficits)	4,567	1,170	4,567	1,170
Purchase of investments	-	606	-	606
Investments realised	(1,002)	-	(1,002)	-
Goodwill amortised during the year	(1,409)	(2,540)	(1,409)	(2,540)
Fair value write down	(97)	-	(8,746)	-
	<u>9,507</u>	<u>7,448</u>	<u>858</u>	<u>7,448</u>
Closing balance				
Closing balances are made up as follows:				
Carrying value	9,507	6,039	858	6,039
Goodwill	-	1,409	-	1,409
	<u>9,507</u>	<u>7,448</u>	<u>858</u>	<u>7,448</u>
<b>Equity accounted earnings</b>				
Share of surpluses/(deficits) before tax	4,567	1,170	4,567	1,170
Income tax	-	-	-	-
	<u>4,567</u>	<u>1,170</u>	<u>4,567</u>	<u>1,170</u>
Total recognised revenues and expenses				
	<u>4,567</u>	<u>1,170</u>	<u>4,567</u>	<u>1,170</u>
<b>Goodwill</b>				
Closing balances are made up as follows:				
Gross amount	16,748	16,748	16,748	16,748
Accumulated amortisation	(16,748)	(15,339)	(16,748)	(15,339)
	<u>-</u>	<u>1,409</u>	<u>-</u>	<u>1,409</u>

Notes to financial statements continued

	Group 2006 \$000's	Group 2005 \$000's	Parent 2006 \$000's	Parent 2005 \$000's
<b>9 Property, plant and equipment</b>				
Land and buildings (at valuation)	70,741	70,876	70,623	70,758
Land and buildings (at cost)	3,577	2,453	3,339	2,063
Work in progress	3	-	3	-
Accumulated depreciation	(2,145)	(1,100)	(2,041)	(1,015)
	72,176	72,229	71,924	71,806
Electricity distribution network (at valuation)	623,810	625,008	623,810	625,008
Electricity distribution network (at cost)	62,257	32,011	64,152	33,135
Work in progress	9,189	6,309	9,189	6,309
Accumulated depreciation	(43,553)	(21,499)	(43,553)	(21,499)
	651,703	641,829	653,598	642,953
Other (at valuation)	7,472	3,326	5,736	1,378
Other (at cost)	13,587	14,777	3,341	6,590
Work in progress	-	13	-	-
Accumulated depreciation	(11,300)	(8,815)	(5,457)	(4,347)
	9,759	9,301	3,620	3,621
<b>Total property, plant and equipment</b>	<b>733,638</b>	<b>723,359</b>	<b>729,142</b>	<b>718,380</b>
Totals for all asset classes:				
At valuation	702,023	699,210	700,169	697,144
At cost	79,421	49,241	70,832	41,788
Work in progress	9,192	6,322	9,192	6,309
Accumulated depreciation	(56,998)	(31,414)	(51,051)	(26,861)
<b>Carrying value</b>	<b>733,638</b>	<b>723,359</b>	<b>729,142</b>	<b>718,380</b>

**Revaluation**

The electricity distribution network and substation buildings were revalued on an optimised depreciated replacement cost basis by independent valuers, PricewaterhouseCoopers as at 1 April 2004.

All of the group's land and other buildings were revalued to fair value as at 1 April 2004 by independent valuers Ernst & Young Corporate Finance Limited.

An impairment review of all other plant and equipment was undertaken as at 31 March 2003 by independent valuers Ernst & Young Corporate Finance Limited, who determined that as no significant impairment existed, these assets could be carried at their existing carrying values. Assets in this category were last revalued as at 31 March 2000.

Depreciation has been applied for the year ended 31 March 2006 in accordance with the group's accounting policies.

	Group 2006 \$000's	Group 2005 \$000's	Parent 2006 \$000's	Parent 2005 \$000's
<b>10 Accounts payable, accruals and provisions</b>				
A summary of accounts payable and accruals is as follows:				
Trade creditors and accruals	19,596	18,349	16,776	15,108
Employee entitlements	3,962	3,268	1,804	1,470
Provisions	1,021	1,034	145	132
Interest accrued on term liabilities	102	33	102	33
	24,681	22,684	18,827	16,743
Provisions comprise:				
Warranties	720	758	-	-
Long service leave	301	276	145	132
	1,021	1,034	145	132

## Notes to financial statements continued

	Group 2006 \$000's	Group 2005 \$000's	Parent 2006 \$000's	Parent 2005 \$000's
Details of these provisions are:				
<b>Warranties</b>				
Opening balance	758	403	-	-
Additional provision made	-	365	-	-
Amount utilised	(38)	-	-	-
Unused provision reversed	-	(10)	-	-
Closing balance	720	758	-	-
<b>Long service leave</b>				
Opening balance	276	308	132	186
Additional provision made	65	35	53	13
Amount utilised	(40)	(67)	(40)	(67)
Closing balance	301	276	145	132

The provision for warranties relates to Whisper Gen units. The amount of the liability is estimated using historical warranty data and industry information where available. Costs are expected to be incurred over the next three years.

The provision for long service leave is an actuarial assessment of entitlements that may become due to employees in the future. The provision is affected by a number of estimates, including the expected length of service of employees and the timing of benefits being taken. Most of the liability is expected to be incurred over the next 5 years.

### 11 Interest bearing and other debt

A summary of interest bearing and other debt is as follows:

Clean air loan advance	-	262	-	262
Other interest bearing debt	70,808	78,256	59,300	71,123
	70,808	78,518	59,300	71,385
<b>Current</b>				
	-	262	-	262
More than 1 year	70,808	78,256	59,300	71,123
	70,808	78,518	59,300	71,385

All debt is unsecured against the group, however a deed of negative pledge and guarantee requires the company to comply with certain covenants.

Interest bearing debt by the parent includes New Zealand dollar borrowings of \$59m (2005, \$51m) and Australian dollar borrowings of nil (2005, \$19m) and for the group New Zealand dollar borrowings of \$71m (2005, \$59m) and Australian dollar borrowings of nil (2005, \$19m).

Interest rates for all borrowing are floating based on bank bill rates plus a margin. As at 31 March 2006 this rate averaged 7.47% (2005, average 7.07%) for New Zealand dollar borrowing. The company had no Australian dollar borrowings at 31 March 2006 (2005, 6.02%). The company has entered into derivative contracts to hedge its exposure to interest rate fluctuations (refer Note 12).

	Carrying amount 2006 \$000's	Fair value 2006 \$000's	Carrying amount 2005 \$000's	Fair value 2005 \$000's
<b>12 Financial instruments</b>				
A summary of financial instruments is as follows:				
<b>Group</b>				
Cash and short term investments	1,119	1,119	2,842	2,842
Long term investments	15,872	15,872	15,042	15,042
Energy Developments Limited	-	-	17,437	17,437
Interest bearing debt - term	(70,808)	(70,808)	(78,256)	(78,256)
Other debt - current	-	-	(262)	(262)
Interest rate swaps and FRAs	-	124	-	539
<b>Parent company</b>				
Cash and short term investments	1,108	1,108	1,504	1,504
Long term investments	12,758	12,758	18,090	18,090
Interest bearing debt - term	(59,300)	(59,300)	(71,123)	(71,123)
Other debt - current	-	-	(262)	(262)
Interest rate swaps and FRAs	-	124	-	539

The company anticipates that long term debt will be held to maturity.

The following methods and assumptions are used to estimate the fair value of each class of financial instrument:

The carrying amounts of cash, short term investments, bank overdraft and short term debt are equivalent to their fair value.

For long term investments where there are no quoted market prices, it is not practicable to estimate fair values, and so the investments are carried at directors' valuation and are considered redeemable at their carrying amount.

The carrying amount and fair value of the investment in Energy Developments Limited was based on the closing Australian stock exchange listed share price on 31 March 2005 using the closing AUD/NZD exchange rate. The 4.25m EDL shares held at 31 March 2005 were sold on 15 September 2005 at A\$4.50 per share less transaction costs.

The fair value of long term debt is estimated based on current market interest rates available to the company for debt of similar maturities.

The fair value of interest rate swaps and FRAs is estimated based on quoted market prices of those instruments.

## Notes to financial statements continued

### Off-balance sheet risk

The notional principal or contract amounts of derivative instruments outstanding at 31 March are as follows:

	Group 2006 \$000's	Group 2005 \$000's	Parent 2006 \$000's	Parent 2005 \$000's
Interest rate swaps and FRAs (NZD)	55,000	35,000	55,000	35,000
Cross currency interest rate swaps (AUD)	-	10,000	-	10,000

### Interest rate risk

Interest rate risk is the risk that the value of the group's assets and liabilities will fluctuate due to changes in market interest rates.

The company has interest bearing debt which is subject to interest rate variations in the market.

Interest rate swaps, FRAs and options are employed to manage interest rate exposure on long term borrowings.

Contracts have been entered into with various counterparties having such credit ratings and in accordance with such dollar limits as set by the board of directors. The company does not require collateral or other security to support financial instruments with credit risk. While the company may be subject to credit losses up to the notional principal or contract amounts in the event of non performance by its counterparties, it does not expect such losses to occur.

For interest rate swaps, FRAs and options contracts the cash requirements are limited to interest payable or receivable which is a net receivable amount of \$32,699 as at 31 March 2006 (\$31,780 receivable in 2005).

### Foreign currency risk

Foreign currency risk is the risk that the value of the company's assets and liabilities will fluctuate due to changes in foreign exchange rates. The company is exposed to currency risk as a result of transactions that are denominated in a currency other than New Zealand dollars, such as the investment in Australia.

The group's policy is to hedge its foreign currency exposure, which at group level is achieved by a partial hedge of the investment against the borrowings, in accordance with group treasury policies.

### Market risk

Market risk is the risk that the value of the group's assets and liabilities will fluctuate due to changes in market prices. These changes may be caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The group is exposed to market risk through its investments in listed and unlisted companies.

It is not the group's policy to hedge its exposures to market risk. The group has specific policies and procedures for identifying and evaluating investment opportunities.

### Concentration of credit risk

Financial instruments that potentially subject the company to concentrations of credit risk consist principally of cash and short-term investments, trade and notes receivable and various off-balance sheet instruments. The company places its cash and short-term investments with high credit quality financial institutions and sovereign bodies and limits the amount of credit exposure to any one financial institution in accordance with its treasury policy.

	Group 2006 \$000's	Group 2005 \$000's	Parent 2006 \$000's	Parent 2005 \$000's
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### 13 Retained earnings

The movements in retained earnings are as follows:

Opening balance	68,430	48,629	69,554	48,629
Net surplus	34,137	52,329	34,908	53,453
Transfer from/(to) revaluation reserve (property, plant & equipment)	808	(233)	808	(233)
Transfer investment revaluation from / (to) revaluation reserve	5,295	(5,295)	5,295	(5,295)
Distributions paid or provided to shareholders during the year	(38,000)	(27,000)	(38,000)	(27,000)
	<u>70,670</u>	<u>68,430</u>	<u>72,565</u>	<u>69,554</u>

### 14 Revaluation reserve

Opening balance	437,127	350,285	437,127	350,285
Disposal of revalued assets	(808)	233	(808)	233
Revaluation of electricity distribution network, land and buildings	-	82,314	-	82,314
Deferred tax liability adjustment (see note 5)	-	(1,000)	-	(1,000)
Revaluation of Energy Developments Limited investment	-	5,295	-	5,295
Disposal of Energy Developments Limited shares	(5,295)	-	(5,295)	-
	<u>431,024</u>	<u>437,127</u>	<u>431,024</u>	<u>437,127</u>

The revaluation reserve is comprised as follows:

Land and buildings	44,837	44,925	44,837	44,925
Electricity distribution network	386,187	386,907	386,187	386,907
Investment - Energy Developments Limited	-	5,295	-	5,295
	<u>431,024</u>	<u>437,127</u>	<u>431,024</u>	<u>437,127</u>

### 15 Paid up capital

The 80 million (\$1.50) ordinary shares were issued in April 1993 pursuant to the approved establishment plan and sale and purchase agreement and are fully paid up.

Notes to financial statements continued

	Group 2006 \$000's	Group 2005 \$000's	Parent 2006 \$000's	Parent 2005 \$000's
<b>16 Reconciliation of net surplus with net cash flow from operating activities</b>				
Net surplus	34,137	52,329	34,908	53,453
Non cash items:				
Depreciation	26,085	25,006	24,413	23,762
Assets written off	1,235	1,983	1,198	1,983
Subsidised assets	(4,263)	(2,745)	(4,263)	(2,745)
Change in deferred tax liability via expense	5,802	5,584	5,860	5,538
Amortisation of goodwill	1,409	2,540	1,409	2,540
Foreign exchange movements	108	445	288	(2,730)
Non dividend equity accounted surpluses and deficits from subsidiaries and associates	(4,567)	(1,170)	(7,466)	(2,084)
Investment revaluation	-	(5,295)	-	-
Investment write down	2,983	-	11,466	-
Intercompany balances - write-downs reversed	-	(249)	(831)	(23,044)
Other	3,864	4,577	(9)	210
	32,656	30,676	32,065	3,430
Movements in other working capital items:				
(Increase)/decrease in accounts receivable	(2,894)	1,572	(1,119)	580
(Increase)/decrease in interest receivable	(61)	-	(61)	(5)
(Increase)/decrease in stocks	(319)	(373)	218	(748)
(Increase)/decrease in taxation receivable	(1,211)	1,114	(1,258)	1,047
Increase/(decrease) in accounts payable	2,972	119	2,015	(1,406)
Increase/(decrease) in interest payable	74	(410)	69	(410)
	(1,439)	2,022	(136)	(942)
Items classified as an investing activity:				
Reversal of exploration expenditure written off	-	(791)	-	-
Profit on sale of property, plant and equipment	(174)	(2,293)	(156)	(2,261)
Profit on sale of investment	(3,382)	(25,430)	(42)	-
	(3,556)	(28,514)	(198)	(2,261)
Net cash inflow from operating activities	61,798	56,513	66,639	53,680

	Group 2006 \$000's	Group 2005 \$000's	Parent 2006 \$000's	Parent 2005 \$000's
<b>17 Commitments</b>				
Capital commitments are as follows:				
Electricity network	6,343	3,745	6,343	3,745
Purchase of property	33	-	-	-
Investments	1,957	7,912	1,957	7,845
	8,333	11,657	8,300	11,590
Lease commitments are as follows:				
2007	565	507	52	58
2008	175	473	52	58
2009	52	58	52	58
2010	52	58	52	58
2011 and beyond	520	581	520	581

Capital commitments of \$2.8m are uncertain as to timing (2005 \$3.8m). The balance is expected to be incurred within the next twelve months.

Lease commitments that extend beyond 2011 have been assessed for a maximum period of 10 years.

**18 Contingent assets and liabilities**

As at 31 March 2006, Connetics Limited had arranged performance bonds with its bankers in favour of various parties for contract work to the value of \$238,900 (2005 \$200,000).

**19 Segmental reporting**

Orion New Zealand Limited and its subsidiaries operate predominantly in the electricity distribution network sector. The Australian and USA operations are not material in relation to Orion's overall operations.

**20 Significant events after balance date**

There were no significant events that the directors are aware of between the preparation and authorisation of these financial statements on 6 June 2006.

## Notes to financial statements continued

### 21 Subsidiaries and associates at 31 March 2006

The operating subsidiary and in-substance subsidiary companies of Orion New Zealand Limited, its associated companies, their activities and year end dates are as follows:

Company name	Effective ownership	Principal activities	Year end
Connetics Limited	100%	Contracting	31 March
Energetics Pty Ltd	34%	Energy consultancy	31 March
4RF Communications Limited	26%	High performance radio systems	31 March
HumanWare Group	14%	Products for the visually impaired	30 June
Orion New Zealand Ventures Limited	100%	Investment	31 March
Orion (Whisper Tech) Limited	100%	Joint venture for micro cogeneration systems	31 March
– Whisper Tech joint venture	60%	Micro generation systems	31 March
Whisper Gen Limited and its wholly owned subsidiary Whisper Gen (UK) Limited	60%	Agent and nominee for the Whisper Tech joint venture	31 March
Whisper Tech Limited	49%	Micro cogeneration systems	31 March

### 22 Related parties

Christchurch City Holdings Limited (CCHL) is an 89.275% shareholder in the holding company. CCHL is 100% owned by the Christchurch City Council (CCC). In February 2006 the Banks Peninsula District Council (originally a 1.65% shareholder) was amalgamated with the Christchurch City Council.

Selwyn Investment Holdings Limited (SIHL) is a 10.725% shareholder in the holding company. SIHL is 100% owned by the Selwyn District Council (SDC).

The company has been 100% owned by Orion Group Limited (the holding company) since 23 October 1998. Prior to that date its shares were owned in the above proportions by CCHL, SIHL and BPDC.

The company and its subsidiaries undertake many transactions with the shareholders and their related parties, all of which are carried out on a commercial and arms length basis.

During the year no material transactions, other than the payment of dividends, were entered into with such parties.

During the year no transactions were entered into with any of the directors. Some minor transactions were entered into with companies in which some directors held directorships. These transactions were carried out on a commercial and arms length basis.

	Group 2006 \$000's	Group 2005 \$000's	Parent 2006 \$000's	Parent 2005 \$000's
<b>Transactions with owners during the year</b>				
Purchases from CCC, SDC and their subsidiaries	2,325	2,488	1,974	2,142
Revenues from CCC, SDC and their subsidiaries	7,057	6,006	2,426	2,398
Dividend payments to Orion Group Ltd	38,000	27,000	38,000	27,000
<b>Outstanding balances with owners as at 31 March</b>				
Accounts payable to CCC, SDC and their subsidiaries	67	52	51	15
Accounts receivable from CCC, SDC and their subsidiaries	958	2,052	192	1,583

Notes to financial statements continued

	Group 2006 \$000's	Group 2005 \$000's	Parent 2006 \$000's	Parent 2005 \$000's
<b>Transactions with subsidiaries and associates during the year</b>				
Purchases				
– Connetics Limited	–	–	18,813	20,705
Subvention payments made				
– Transflux Limited	–	–	–	98
– Orion New Zealand Ventures Limited	–	–	337	8
– Orion (Whisper Tech) Limited	–	–	4,876	10,761
Payment for tax effect of loss offset				
– Orion No 2 Limited	–	–	387	2,311
Revenues				
– Connetics Limited	–	–	103	140
– Transflux Limited	–	–	–	6
– Orion New Zealand Ventures Limited	–	–	17	6
– Orion No 2 Limited	–	–	1,217	7,036
– Orion (Whisper Tech) Limited	–	–	111	111
Dividends received				
– Connetics Limited	–	–	1,000	1,500
<b>Outstanding balances with subsidiaries and associates as at 31 March</b>				
Accounts payable				
– Connetics Limited	–	–	2,846	3,095
– Transflux Limited	–	–	–	87
Accounts receivable				
– Connetics Limited	–	–	92	11
Intercompany loans to/(from)				
– Connetics Limited	–	–	1,924	1,695
– Transflux Limited	–	–	–	37
– Orion No 2 Limited	–	–	(3,200)	16,025
– Orion Exploration Limited	–	–	–	(1)
– Orion New Zealand Ventures Limited	–	–	4,735	4,374
– Orion (Whisper Tech) Limited	–	–	–	(4,637)
– IO Fund No 1 Limited	–	249	–	249
– Orion Group Limited	4,019	4,013	4,019	4,013
Intercompany balances written-down/(written up)				
– Orion No 2 Limited	–	–	–	(22,525)
– Orion Exploration Limited	–	–	–	(17)
– Orion New Zealand Ventures Limited	–	–	(344)	(24)
– Orion (Whisper Tech) Limited	–	–	(487)	(229)
– IO Fund No 1 Limited	–	(249)	–	(249)

23 Joint ventures

A subsidiary and an associate are participants in the following joint ventures:

**Whisper Tech joint venture**

The partners in the Whisper Tech joint venture are Orion (Whisper Tech) Limited (60%) and Meridian (Whisper Tech) Limited (40%). The joint venture business is the development, manufacture and sale of the Stirling engine technology and associated systems for use in the micro-combined heat and power market.

**IO Fund joint venture**

IO Fund No 1 Limited (IOF) represents a joint venture that commenced in October 2002 between Orion New Zealand Limited (Orion), Infratil Ventures Limited (Infratil) and NZVIF (IOM) Limited (NZVIF) in equal shares. The joint venture business was to invest in start-up and early stage companies in the energy and technology sectors.

On 20 June 2003 Orion and Infratil purchased NZVIF's share of the joint venture interest and the remaining parties do not intend to make any further investments beyond the one investment made to that point.

In August 2005 the joint venture sold its investment. IOF and the joint venture are in the process of being wound up.

Included in the group financial statements are the following items that represent the group's interests in the assets and liabilities of the above joint ventures:

	Group 2006 \$000's	Group 2005 \$000's
<b>Assets</b>		
Bank and short term deposits	10	1,323
Accounts receivable	2,163	900
Inventories	2,905	2,337
Property, plant and equipment	735	719
	<hr/>	<hr/>
	5,813	5,279
<b>Liabilities</b>		
Accounts payable and accruals	3,326	3,190
Interest bearing debt	11,508	7,133
	<hr/>	<hr/>
	14,834	10,323
	<hr/>	<hr/>
Net (liabilities)	(9,021)	(5,044)

Included in the group financial statements are the following revenues and expenses that relate to the activities of the above joint ventures:

	Group 2006 \$000's	Group 2005 \$000's
Operating revenues	3,176	1,671
Operating expenses	(16,152)	(12,600)
Intercompany balances - (write-down) / write-up	–	249
Net deficit before tax	(12,976)	(10,680)

## Notes to financial statements continued

### 24 New Zealand equivalent International financial reporting standards

The company plans to adopt New Zealand equivalent international financial reporting standards (NZ IFRS) from 1 April 2006, in line with Christchurch City Holdings Limited and Christchurch City Council group. This will require the 2007 financial statements to include restated NZ IFRS-compliant comparatives for the year ended 2006 and balances as at 31 March 2006. The company has been working with representatives of the Christchurch City Council and its subsidiaries along with external advisers, to identify and quantify the impacts of NZ IFRS adoption and also to implement processes for capturing all relevant information. Our preliminary work has identified a number of changes which will result. The major changes are as follows:

#### Deferred tax

An estimated additional deferred tax liability of approximately \$99m will arise on 1 April 2006, with shareholders' equity reducing by the same amount. Deferred tax expense from that time will change from an expense of approximately \$6m per annum to a deferred tax benefit around \$1m to \$2m per annum. In years where an upwards revaluation takes place, the deferred tax liability will increase by approximately one third of the revaluation movement amount. In revaluation years the deferred tax movement arising from the revaluation will be put through the statement of movements in equity. This change arises principally because NZ IFRS assumes that the difference between the carrying value of the Orion electricity distribution network and its net tax book value is a temporary difference and, at the company's tax rate (33%), this is a deferred tax liability.

#### Revaluations of property, plant and equipment

The company plans to utilise the "deemed cost" exemption on adoption of NZ IFRS. This approach will cause the revaluation reserve to be reclassified as another class of equity. Any subsequent downwards revaluations of any component of property, plant and equipment (PPE) will be recognised in the statement of financial performance until such a time as that component has been revalued upwards. Assets must also be revalued individually (by component) and not by class. Both of these changes will cause some volatility in future net surpluses. Our assessment is that our existing PPE valuations are consistent with NZ IFRS and accordingly no financial impact is expected on adoption.

#### Capital contributions

The company receives approximately \$3m per annum from local and central government agencies associated with road works and underground conversions of the electricity network. Under NZ IFRS "government grants" must be offset against the costs of the assets constructed rather than treated as revenue.

Income from donated and subsidised assets arises where the company acquires network assets for less than their replacement cost. These "donated and subsidised assets" increase recognised revenue by up to \$4m per annum. Under NZ IFRS only the net "cash" cost of the asset actually paid by Orion will be recognised.

The combined impact of these changes is a net reduction in both net surplus and capital expenditure of around \$7m per annum. However, when revalued as part of Orion's cyclical revaluations, the full replacement costs of the assets will be recognised, increasing the value of the assets and the revaluation reserve.

#### Easements

The company is exploring the correct accounting treatment for easements and has received conflicting advice at this stage. If easements are treated as "intangible assets", then they must be held at cost and cannot subsequently be revalued. If the easements form part of the reticulation system, then they can be included in PPE at their current replacement cost and subsequently revalued.

The company has been unable to reliably estimate the impact on the statement of financial position.

#### Presentation of financial statements

Some presentation and classification issues will arise as a result of the adoption of NZ IFRS. Some assets may be reclassified as investment property. Investment property must be revalued on an annual basis with increases/decreases in value taken through the statement of financial performance. Depreciation is not applied to investment property. Accordingly, some volatility in net surplus can be expected.

#### Investment valuation

NZ IFRS requires impairment testing of goodwill. The company has written-off the goodwill component in investments prior to NZ IFRS adoption which has reduced the value of associates by approximately \$1m. The company is required to carry equity investments in accordance with IAS 39. As there is no active market for these investments, the group plans to value these at cost less impairment which has reduced the carrying value by \$2m in the 2006 year. The ongoing impairment testing of equity investments may cause some volatility in net surplus.

## Summary

The table below quantifies the estimated impact on 31 March 2006 equity and the net surplus for the year ended 31 March 2006 (as restated in the 2007 financial statements) of the adoption of NZ IFRS. However, it should be noted that the actual impact of NZ IFRS adoption may vary from the estimates stated above and below this summary and those variations may be material.

	Group \$millions
<b>Impact on shareholders' equity</b>	
Existing shareholders' equity under current GAAP – 31 March 2006	622
Inclusion of easements (unknown)	–
Increase in deferred tax liability	(99)
Decrease in fixed asset valuation	(12)
Increase in long service leave provision	(1)
	<hr/>
Estimated restated shareholders' equity under NZ IFRS – 31 March 2006	510
	<hr/>
<b>Impact on net surplus</b>	
Net surplus under NZ GAAP – 31 March 2006	34
Adjustments to surplus as a result of NZ IFRS adoption:	
Deferred tax expense now a benefit	7
Investment write downs taken at April 2005 adoption	3
Government grants offset against cost of assets	(3)
Donated and subsidised assets excluded from revenue	(4)
	<hr/>
Estimated restated net surplus under NZ IFRS – 31 March 2006	37
	<hr/>

Note that these changes do not affect the 2006 financial statements, but will be included in the NZ IFRS-compliant prior year comparatives required within the financial statements for the year ended 31 March 2007.

## Statement of performance information

	Actual 2006	Target 2006	Actual 2005	Gazetted NZ Average 2005
<b>Financial (parent company only)</b>				
Electricity network regulatory return on investment (%)				
– refer to note below	7.3	6.0	6.2	–
Net surplus to average shareholders' equity (%)	5.5	6.0	9.1	–
Debt (%)	9	9	10	–
Equity (%)	91	91	90	–
Equity/total assets (%)	83	81	83	–
Dividends (\$m)	38.0	27.0	27.0	–
<b>Electricity network reliability</b>				
All interruptions:				
The following targets include interruptions sourced from the Orion network, Transpower network and the generation companies.				
Duration of supply interruptions				
SAIDI – minutes per year				
– urban	20	27	25	–
– rural	394	370	264	–
– overall	64	67	53	190
Number of supply interruptions				
SAIFI – times per year				
– urban	0.4	0.4	0.5	–
– rural	5.0	3.8	3.0	–
– overall	1.0	0.9	0.8	2.3
Orion network interruptions only:				
The following targets include interruptions sourced from the Orion network only.				
Duration of supply interruptions				
SAIDI – minutes per year				
– urban	19	25	24	–
– rural	359	348	258	–
– overall	59	63	52	145
Number of supply interruptions				
SAIFI – times per year				
– urban	0.4	0.4	0.4	–
– rural	3.5	3.5	3.0	–
– overall	0.7	0.8	0.7	2.0

**Note:** The Commerce Commission is currently revising the Electricity Information Disclosure Regulations, from which the regulatory ROI is derived. The ROI has been calculated on a basis consistent with the existing Regulations, and so may differ from that disclosed later in the year in accordance with the revised Regulations.

**AUDIT REPORT  
TO THE READERS OF ORION NEW ZEALAND LIMITED AND GROUP'S  
FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 31 MARCH 2006**

The Auditor-General is the auditor of Orion New Zealand Limited (the company) and group. The Auditor-General has appointed me, Julian Tan, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and performance information of the company and group, on his behalf, for the year ended 31 March 2006.

**Unqualified opinion**

In our opinion:

- the financial statements of the company and group on pages 30 to 58:
  - comply with generally accepted accounting practice in New Zealand; and
  - give a true and fair view of:
    - the company and group's financial position as at 31 March 2006;
    - the results of operations and cash flows for the year ended on that date.
- the performance information of the company on page 59 gives a true and fair view of the achievements measured against the performance targets adopted for the year ended 31 March 2006.
- based on our examination the company and group kept proper accounting records.

The audit was completed on 6 June 2006, and is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and the Auditor, and explain our independence.

**Basis of opinion**

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements and performance information did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements and performance information. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements and performance information. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Board of Directors;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all required disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and performance information.

We evaluated the overall adequacy of the presentation of information in the financial statements and performance information. We obtained all the information and explanations we required to support our opinion above.

**Responsibilities of the Board of Directors and the Auditor**

The Board of Directors is responsible for preparing financial statements in accordance with generally accepted accounting practice in New Zealand. Those financial statements must give a true and fair view of the financial position of the company and group as at 31 March 2006. They must also give a true and fair view of the results of operations and cash flows for the year ended on that date. The Board of Directors is also responsible for preparing performance information that gives a true and fair view of performance achievements for the year ended 31 March 2006. The Board of Directors' responsibilities arise from the Energy Companies Act 1992 and the Financial Reporting Act 1993.

We are responsible for expressing an independent opinion on the financial statements and performance information and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and section 45(1) of the Energy Companies Act 1992.

**Independence**

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the Institute of Chartered Accountants of New Zealand.

In addition to the annual audit of the financial statements and performance information, we carry out audit-related engagements for the company involving the issuance of audit opinions pursuant to the Commerce Act (Electricity Information Disclosure Requirements) Notice 2004 and the Commerce Act (Electricity Distribution Thresholds) Notice 2004. These engagements are compatible with those independence requirements.

Other than the annual audit and these engagements, we have no relationship with or interests in the company or any of its subsidiaries.



**Julian Tan**  
Audit New Zealand  
On behalf of the Auditor-General  
Christchurch, New Zealand

**Matters relating to the electronic presentation of the audited financial statements**

This audit report relates to the financial statements of Orion New Zealand Limited (the company) and group for the year ended 31 March 2006 included on Orion New Zealand Limited's web site. The company's Board of Directors is responsible for the maintenance and integrity of the Orion New Zealand Limited web site. We have not been engaged to report on the integrity of the Orion New Zealand Limited web site. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 6 June 2006 to confirm the information included in the audited financial statements presented on this web site.

Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Statutory Information

### Ownership

The company has, since 23 October 1998, been 100% owned by Orion Group Limited (the holding company).

The holding company is owned in the following proportions:

• by Christchurch City Holdings Limited (which is 100% owned by the Christchurch City Council)	87.625%
• by the Christchurch City Council	1.650%
• by Selwyn Council Trading Enterprises Limited (which is 100% owned by the Selwyn District Council)	10.725%
	100.000%

During the year the 1.650% previously owned by the Banks Peninsula District Council was transferred to the Christchurch City Council when those two councils were amalgamated.

### Principal activities

The company's principal activities during the year were:

- to provide network distribution services to electricity retailers on behalf of consumers
- to provide other services such as contracting in the utilities sector
- to seek investment opportunities in the infrastructure and energy sectors.

### Directors

The following directors retire by rotation at the company's annual meeting

- Linda Constable
- John Dobson.

Linda Constable does not offer herself for reappointment.

John Dobson, being eligible, offers himself for reappointment.

### Interests register

The company maintains an interests register in which particulars of certain transactions and matters involving the directors are recorded. These are requirements under the Companies Act 1993.

The following entries were recorded in the interests register during the year ended 31 March 2006.

Director	Company	Position	
Craig Boyce	Bernard Matthews New Zealand Limited	Director	
	Christchurch City Holdings Limited	Director	
	Connexionz Limited	Director	
	Datacom Group Limited	Director	
	Progressive Leathers Limited	Director	
	Smiths City Group Limited and subsidiaries	Director	
	Snowy Peak Limited	Director	
	The Christchurch Arts Centre	Trustee	
Linda Constable	New Zealand Railways Corporation	Director	
	Ngai Tahu Holdings Corporation Limited	Director	
	Orion Exploration Limited	Director	
	Orion No 2 Limited	Director	
John Dobson	Real Journeys Limited	Director	
	Gough Holdings Limited and subsidiaries	Director	
	New Zealand Express Transport 2006 Limited	Director	
	Rural Transport Limited	Director	
	Securitised Equipment Holdings Limited	Director	
	Securitised Equipment Receivables Limited	Director	
	Smiths City Group Limited and subsidiaries	Director	
	Wilson Bulk Transport	Director	
Don Elder	ASB Bank Limited	Director	
	ASB Group (Life) Limited	Director	
	CO2 Co-operative Research Centre, Australia	Director	
	Coal Association of NZ	Director	
	Innovative Carbon Technologies Pty Limited	Director	
	Solid Energy New Zealand Limited – also a director of its subsidiaries	Chief Executive Officer	
	World Coal Institute (UK)	Director	



## Statutory Information *continued*

George Gould	Chong Bureau Limited and its subsidiaries	Director
	Pod Limited	Director
	George Gould Limited	Director
	Gould Holdings Limited	Director
	Milford Dart Limited	Director
	Southern Hemisphere Proving Grounds Limited	Director
Peter Rae	Mutual Credit Finance Limited	Director
	Connetics Limited	Director
	Lye Properties Limited	Director
	Peter Rae Industries Limited and subsidiaries	Director
	Red Bus Limited	Director
	Transport Haulage & Equipment Finance Limited	Director
	Waitaki Transport Limited	Director
	Mutual Credit Finance Limited	Director
	W H Collins Limited	Director
	764 Colombo Street Limited	Director
Gail Sheriff	Christchurch City Council	Councillor
	A Beach Café Limited	Director
	Oceanside Apartments Limited	Director

### Directors' remuneration

During the year the total of the remuneration and value of other benefits received by the directors of the company was as follows:

	<b>Orion NZ Ltd directors' fees \$000's</b>
Craig Boyce	31
Linda Constable	56
John Dobson	31
Don Elder	33
George Gould	31
Peter Rae	37
Gail Sheriff	31
	<hr/>
	250
	<hr/>

### Directors' insurance

The company has arranged insurance policies for directors' liability insurance within the limits and requirements as set out in the Act.

### Loans to directors

There were no loans made to directors.

### Subsidiary companies

The following persons held office of subsidiary companies at the end of the year or in the case of those persons with the letter (R) after their name ceased to hold office during the year. Except where shown below and above, no director of any subsidiary company within the Orion group receives directors' fees or other benefits as a director. The remuneration of employees acting as directors of subsidiary companies is disclosed in the relevant bandings in the group employee remuneration section following.

Connetics Limited	B Kearney, R Sutton, P Rae \$13,000, R Taylor
Orion New Zealand Ventures Limited	R Sutton
Orion No. 2 Limited	L Constable, R Sutton
Orion (Whisper Tech) Limited	B Kearney, R Sutton

Other than those entries disclosed above, there were no further entries made in the subsidiary companies' interests registers.



## Statutory Information continued

### Group employee remuneration

The number of group employees and former employees, other than directors of Orion New Zealand Limited, whose remuneration and benefits fall within specified bands is listed below. Remuneration includes all non-cash benefits and redundancy payments where applicable.

Remuneration \$000's	No. of current and former employees
100 - 110	9
110 - 120	4
120 - 130	3
130 - 140	5
150 - 160	2
210 - 220	1
240 - 250	1
300 - 310	1
340 - 350	1
410 - 420	1
530 - 540	1

### Auditor

In accordance with section 45 of the Energy Companies Act 1992, the Auditor-General remains as auditor of the company.

## Five year trends

	2006	2005	2004	2003	2002
Group operating revenues (gross) (\$m)	198	208	172	170	190
Net surplus after tax attributable to parent company shareholders (\$m)	34.1	52.3	0.2	29.9	31.5
Net surplus attributable to parent company shareholders per share (cents)	42.7	65.4	0.3	37.4	39.3
Net surplus attributable to parent company shareholders to average ordinary shareholders' equity (%)	5.5	9.1	0.04	5.9	6.0
Ordinary dividends per share (cents)	47.5	33.8	33.6	29.6	30.3
Total group assets (\$m)	774	778	716	727	511
Total group liabilities (\$m)	152	152	197	142	80
Orion shareholders' equity (\$m)	622	626	519	586	431
External debt:debt plus equity ratio (parent) (%)	8.7	10.2	19.7	11.9	4.0
Net tangible asset backing per share (\$)	7.77	7.80	6.45	7.22	5.22
Electricity deliveries into the network (GWh)					
– includes embedded generation	3,258	3,194	3,080	3,067	2,904
Electricity maximum demand (MW)	592	577	563	603	565



## Corporate governance statement

The directors are pleased to present the company's corporate governance statement. This statement provides an overview of the company's main corporate governance practices.

### Role of the board

The board is responsible for the proper direction and control of the company's activities. This responsibility includes such areas of stewardship as:

- commercial performance
- business plans and budgets
- corporate policies
- financial and dividend policies
- management oversight and development
- delegations of authority
- identification and control of business risks
- identification and control of business opportunities
- internal control systems
- integrity of management information systems
- 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.

### 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 define and deal with:

- the role and fundamental obligations of the board
- independence and conflicts of interest, including any conflicts with management
- insider trading
- board procedures, including the role of the chairman and interaction with the chief executive officer
- reliance on information and independent advice
- confidentiality of company information
- shareholder participation
- training and continuing education
- board and director performance review and development.

### Board performance review and development

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 set in place plans to achieve those opportunities.

### Board committees

While the board may delegate some responsibilities and tasks to a board committee, it cannot avoid the ultimate accountability for any committee's actions or inactions. The board has two standing committees as follows.

The audit and risk management committee of the board liaises with the company's auditor and provides additional assurance regarding the quality and reliability of internal controls and financial information used by and issued by the board. The committee also oversees the company's insurance practices and monitors the effectiveness of the company's risk and loss control activities.

The remuneration committee of the board assists the board in the establishment of remuneration policies and practices for setting and reviewing remuneration of the company's chief executive officer and other senior executives.

### Statement of intent

In accordance with section 39 of the Energy Companies Act 1992, the board submits a draft statement of intent (SOI) for the coming financial year. This SOI sets out the company's overall objectives, intentions, and financial and performance targets. After due consultation and agreement with the holding company's shareholders, a summary of the draft SOI is included in their respective draft annual plans which are available for public submissions. The final SOI is approved by the holding company's three shareholders and is then placed on the company's website.

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

### Legislative compliance

The company has a comprehensive approach to compliance with relevant law. Compliance manuals and staff training are made available to all employees. Where appropriate, external experts are engaged to advise the company on the appropriate practices to ensure compliance. The board receives regular updates from management on compliance. Areas of relevant law include corporate, taxation, financial and regulatory reporting, commercial, environmental, human resources, health and safety and privacy.

### Investments in other companies

Each of the company's significant trading investee companies has at least one non-executive Orion New Zealand director on its board. The Orion board receives regular updates on and monitors the performance of each of those companies.



## Directory

### Directors

**Linda Constable**  
Chairman

**Peter Rae**  
Deputy Chairman

**Craig Boyce**

**John Dobson**

**Don Elder**

**George Gould**

**Gail Sheriff**

### Corporate management

**Roger Sutton**  
Chief Executive Officer

**Brendan Kearney**  
General Manager Corporate Services

**Rob Jamieson**  
General Manager Commercial

**Craig Kerr**  
General Manager Information Services

**John O'Donnell**  
General Manager Infrastructure

**Tas Scott**  
General Manager Network Development

### Head office

218 Manchester Street  
PO Box 13896  
Christchurch  
New Zealand  
Phone + 64 3 363 9898  
Fax + 64 3 363 9899  
Email [info@oriongroup.co.nz](mailto:info@oriongroup.co.nz)  
Web site [www.oriongroup.co.nz](http://www.oriongroup.co.nz)

### Auditors

**Audit NZ** on behalf of the Auditor-General

### Principal solicitors

**Chapman Tripp Sheffield Young**  
Christchurch



