Orion New Zealand Limited

Statement of intent

For the 3 years ending 31 March
2012, 2013 and 2014

Approved by the board
23 June 2011

Table of contents

		Page
A	Introduction	1
B	Nature and scope of activities to be undertaken	2
C	Impact of recent earthquakes	2
D	Objectives of the group	2
D	Governance	8
E	Performance targets	9
F	Dividends	10
G	Capital structure	10
H	Accounting policies	10
I	Information to be reported to shareholders	11
J	Acquisitions/divestments	11
K	Intercompany transactions	11
L	Compensation sought from local authorities	12
M	Commercial relationships within the CCC group	12
N	Growth in the regional economy	12
O	Commercial value of the shareholders' investment	12
Appendix 1	Earthquake recovery targets	13
Appendix 2	Network reliability targets	18
Appendix 3	Environmental targets	19
Appendix 4	Community and employment targets	21
Appendix 4	Community and employment targets	21
Appendix 5	Financial performance targets	23
Appendix 6	Key assumptions used in our financial targets	24
Appendix 7	Key accounting policies	25

Head office

200 Armagh Street
PO Box 13896
Christchurch
New Zealand

Phone: + 64 3 363 9898
Fax: + 64 3 363 9899

Email: info@oriongroup.co.nz
Web site: oriongroup.co.nz

Directors

Craig Boyce - chairman
Michael Andrews
John Dobson
George Gould
Gail Jewell
Geoff Vazey

Acting Chief Executive Officer

Geoff Vazey

A Introduction

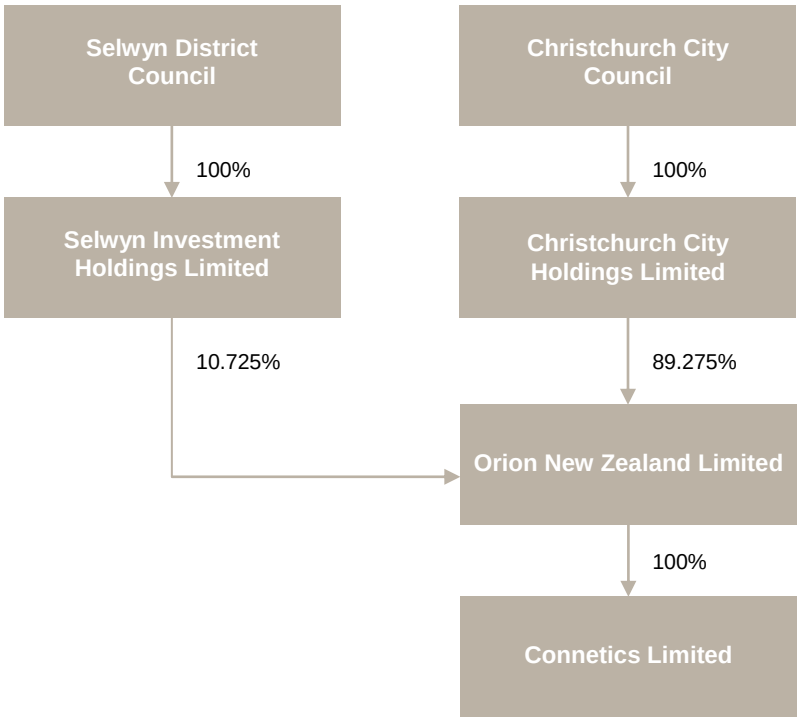
This statement of intent (SOI) sets out Orion New Zealand Limited's (Orion's) overall intentions and objectives for the three financial years ending 31 March 2012, 2013 and 2014. This SOI has been prepared in accordance with section 39 of the Energy Companies Act 1992 and Orion's constitution. All 'years' referred to in this document are financial years ending 31 March.

This SOI covers the activities of Orion and its subsidiary company, Connetics Limited, and sets out the nature and scope of the activities we will undertake, our objectives, our key performance targets and other measures by which our performance may be judged in relation to our objectives, amongst other requirements.

Our SOI is a public expression of the accountability relationship between Orion and its shareholders – Christchurch City Holdings Limited and Selwyn Investment Holdings Limited. Our SOI is reviewed annually in consultation with our shareholders and covers a three year period.

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

Our group structure is as follows:



Section 36 of the Energy Companies Act 1992 requires Orion, as its principal objective, to operate as a successful business.

We will seek to:

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

Our top priority is the efficient and effective management of our electricity distribution network. We aim to provide customers with a high level of service, a reliable and secure supply and competitive prices. We also aim to provide our shareholders with an attractive risk adjusted return on their investment.

B Nature and scope of activities to be undertaken

We will undertake activities to:

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

C Impact of recent earthquakes

The 22 February 2011 earthquake caused damage to a significant amount of our electricity distribution network. The most extensive damage has been to our underground cable network in the north east suburbs of Christchurch. Our four 66kV underground cables in this area were damaged beyond repair and our 11kV underground cables in the area suffered hundreds of faults. The New Brighton zone substation on Pages Road also suffered damage from liquefaction. Some of the damage to our underground cables may not become apparent for some time.

The 22 February 2011 earthquake caused around ten times the damage that the 4 September 2010 earthquake caused.

While many of our network repair and enhancement responses to the earthquakes are completed or underway, our priority over the next several months is to return our network to a reasonable level of reliability and security.

The earthquakes have shaped many of our intentions and objectives during the three year period of this SOI. Many of our previous targets, for example some environmental targets, have been postponed. Our response to the earthquakes is now the driver of our targets within this SOI. Appendix 1 has our key specific targets related to our earthquake recovery.

D Objectives of the group

Security of supply and system reliability

A secure supply of energy is critical to our customers.

We will seek to maintain, upgrade and expand our electricity distribution network as appropriate to comply with our published network security of supply standard. Where appropriate, we will also seek to meet our security of supply standard through innovative demand side initiatives such as smart pricing signals and load interruptibility agreements with our customers. Such initiatives aim to reduce system peak demands to enhance the overall

economic and environmental wellbeing of Orion, Christchurch and Canterbury. We formally reviewed our network security of supply standard in our 2008 financial year and, after customer consultation, implemented relatively minor changes to that standard.

Our approach to the operation and management of our electricity network is included in our 10-year network asset management plan (AMP). Our AMP is typically published in April each year however, as a result of the earthquakes, we are uncertain if we will be publishing our 2011 version. Our 2010 AMP is publicly available on request, in accordance with the electricity information disclosure requirements, and it is also on our public website.

Our planning includes initiatives to significantly mitigate the impacts of any major outages due to major events. We aim to ensure that our contingency plans and practices are relevant and robust.

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

We will use all reasonable endeavours to ensure that Transpower provides our region with cost effective transmission services – including the provision of adequate, ongoing and planned security of supply, consistent with good industry practice and the long-term interests of our customers.

Earthquake recovery

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

The local infrastructure lifelines risk analysis carried out in the mid 1990s provided the impetus for us to reinforce and strengthen key components of our electricity network – in particular our major substations. Following a subsequent 15 year reinforcement programme very few of our major substations suffered severe damage in the earthquakes and so supply was able to be restored in good time to the majority of our customers. The significant delays in restoration of power after the February earthquake were primarily due to severe damage caused to our underground cable network, particularly in the eastern suburbs of Christchurch, due to severe ground liquefaction. Our preparation for and response to both the September and February earthquakes will be reviewed, with focus given to where improvements may be able to be made. We will continue with a prudent risk-based approach to our network asset planning and management.

For the decade prior to the earthquakes, we had one of the most reliable electricity distribution networks in New Zealand. Inevitably our network reliability statistics have been adversely affected in our 2011 financial year. Assuming no further major earthquakes or other disasters, we expect our customers that are occupying their homes and businesses, to on average enjoy a level of reliability of electricity supply that is close to pre-earthquake levels in the financial year to 31 March 2012 and beyond.

Our responses to the damage involve:

- repairs where economic
- replacement where repairs are not economic or where repairs cannot occur quickly. For example we are in the process of building a new substation in Rawhiti Domain to replace the damaged New Brighton zone substation
- temporary alternatives where replacement cannot occur quickly. For example we have built a number of temporary high voltage overhead lines in the north east of Christchurch
- planned projects brought forward to improve network capacity and security of supply to areas where our network is still vulnerable (ie where our security of supply standards are not being met)
- new (relocatable) diesel generator sets at our already-consented site at Belfast
- purchase of diesel generator sets to be located at QEII site
- purchase or rental of a number of other mobile standby diesel generators

Many of our repair and enhancement projects are already underway, with key projects scheduled for completion prior to winter 2011. See Appendix 1.

Commercial

We aim to operate as a successful business and we also aim to provide our shareholders with appropriate returns on their investment. We will pursue strategies that will aim to ensure Orion's long-term success as a business.

To achieve this, we will seek to:

- achieve our specific financial, operational, environmental, community and employment performance targets referred to in section E
- understand and meet our customers' needs in terms of network reliability and security of supply
- improve the efficiency of our operations, including efficient ongoing investment in the network
- ensure our network delivery contracts with customers meet the requirements and objectives of relevant industry legislation and regulation
- undertake new investments in the infrastructure and energy sectors which (taken as a whole) over their life are expected to:
  - yield a return at least equal to those investments' risk-adjusted weighted average cost of capital, and
  - increase the commercial value of the business
- if appropriate, realise investments over time.

Profitability and return on investment

Orion is subject to price control administered by the Commerce Commission under Part 4 of the Commerce Act 1986. We may only increase our network line prices each year up to the rate of consumer price index inflation (this is known as CPI minus 0%). As a result of the February 2011 earthquake we will seek to be exempted from this pricing regulatory regime for a period of time. The exemption sought will be over both the CPI minus 0% price path and any one-off starting price adjustments.

We have no certainty over how our prices will be regulated in the next few years and we will continue to work with regulatory agencies to ensure that our pricing is adequate so we can invest in and operate our network in a way that meets our customers' long term interests in terms of reliability and security of supply.

Our revenues are a function of our prices and customer demand. The 22 February 2011 earthquake has caused a significant reduction in load demand, and the timing and extent of economic recovery in Christchurch is highly uncertain. The earthquake has also caused us to incur additional increased operating costs and capital expenditure, a portion of which will be offset by insurance proceeds.

We will seek innovative ways to reduce our costs, for example we are a national leader in signalling the long-term economic costs of providing our network services to our customers – this signalling is designed to stimulate customer demand side load shedding at peak times, which in turn reduces the need for us to invest in expensive network equipment. We also carefully plan our network capital and operating expenditures and, where appropriate, competitively tender all substantive work and procurement.

We also seek new business opportunities and investments that meet our investment criteria – consistent with our overriding objective to operate as a successful business.

We are responsible for a key community infrastructure asset – the local electricity distribution network. As such, we are committed to continue our policy, as stated in section A of this SOI, to provide our customers with a high level of service, a reliable and secure supply and competitive prices. This policy will inevitably restrict the size of any possible ongoing cost savings but we believe that the wider economic costs of lower levels of network security, service and reliability outweigh the benefits of related cost savings. Our ability to continue with this policy in the next few years will however be dependent on regulatory decisions regarding our pricing.

Our approach to network asset management is under constant review and we have recently commissioned independent expert reviews. The first review focuses on management of our overhead line assets. The second focuses on our preparation for and our response to the September 2010 and February 2011 earthquakes and aftershocks. The results of these reviews will be available in our 2012 financial year.

Our financial performance targets are shown in Appendix 5.

Pricing

No increases in our network line prices are included in the financial forecasts shown in Appendix 5 for the year ended 31 March 2012, other than our already announced price increase that applied from 1 April 2011. This increase was within the allowable increase set as part of the CPI minus 0% price path regime.

We will seek to be exempted from the current regulatory regime for our network pricing for a period of time. This may result in additional price increases above the current assumed CPI minus 0%.

Our network delivery (line and transmission) prices seek to reflect our economic costs, are relatively simple and are low-cost to operate. Our pricing also seeks to ensure a fair rate of return on the assets employed. We will seek to efficiently recover the full economic costs of our services.

Any changes in Transpower's pricing for electricity transmission will be passed onto Orion's network customers (principally electricity retailers).

Social responsibility and community interest

Our key role in our community is to ensure that our electricity network capacity continues to match actual and forecast demand as prudently as possible.

Orion is charged with being a successful business. The benefits to the public of community ownership result from the dividends paid by the company to our shareholders. Our shareholders and their respective shareholding councils then use those dividends in the manner specified in their respective plans and budgets. As a provider of monopoly network delivery services, we consider that achieving a fair return on capital for our business is socially responsible and we have adopted such a policy.

In making our commercial decisions, we act in a socially responsible way and as a good corporate citizen - with empathy for the communities of interest which we serve. In many of our key decisions we continue to actively consult with customers and key stakeholders.

We are waiving connection fees for buildings damaged in the earthquakes that require reconnection to our network. For our major customers we are waiving capacity and equipment charges for the period they either did not have network supply or were, or are, not able to take supply.

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

Our people

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

We aim to provide a work environment that enables professional and personal growth for our employees and we recognise our responsibility to ensure our people achieve the best mix of skills they can acquire while they are here. An ageing workforce and an industry shortage of skilled staff remain issues for us. To ensure that we are not left short of skilled employees in the future, we will continue with our initiatives that focus on recruitment, training and retention.

Our employment targets are shown in Appendix 4.

Health and safety

We aim to provide a safe, reliable network and a safe and healthy work environment for all employees, contractors, visitors and the public. This commitment extends to taking all practicable steps to ensure that our operations do not place the community at undue risk of injury or illness. Our health and safety targets are shown in Appendix 4.

Compliance

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

Greater Christchurch urban development strategy (UDS)

The UDS was published in 2007 by four local councils (Christchurch, Selwyn, Waimakariri and Environment Canterbury) and Transit NZ to provide a strategy as to how the region should grow until the year 2041. The UDS was prepared pre earthquakes. The UDS may be modified as a result of the earthquakes.

We can contribute to implementation of the UDS in a number of ways. For example, we can provide information on the likely cost, both financial and environmental, of the development of electricity infrastructure in various Canterbury areas, provide guidance on any security of supply issues to these areas, assist with research on affordable energy efficiency measures and consider the goals of the UDS in any sale of significant pieces of land that we own.

Our principal roles under the strategy are to:

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

Our target related to the UDS is shown in Appendix 4.

Christchurch economic development strategy (CEDS)

The Canterbury Development Corporation, after wide consultation, developed a draft CEDS. The CEDS was to be a blueprint for accelerating the rate of growth in the Canterbury economy. Our principal roles here are the same as we have listed above related to the UDS. The draft CEDS may be updated as a result of the earthquakes.

CCC sustainable energy strategy for Christchurch

The Christchurch City Council (CCC) published this document, after public consultation, in 2007. The strategy is seen as a support for the UDS in terms of managing future growth in the region in a sustainable manner. We have a role to play in this strategy.

Overall, the CCC's strategy is for the region to:

- reduce overall energy use
- become more energy efficient
- replace non-renewable with renewable energy sources
- fuel switch to lower-carbon energy sources
- increase solar hot water heating
- increase wind power generation
- increase pellet fuel for heating
- increase use of heat pumps
- increase use of biofuel for transport
- constantly evaluate new technologies and their potential to assist.

Our targets related to the CCC's sustainable energy strategy are shown in Appendix 3. We are a member of the Christchurch Agency for Energy that was established as part of the CCC's sustainable energy strategy.

The focus of the sustainable energy strategy may be modified as a result of the earthquakes. We note that with the likely demolition and rebuild of thousands of homes and business premises, there is an opportunity to significantly improve the community's energy efficiency.

Environmental commitment

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

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

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

In 2007 and 2008 we engaged an independent environmental expert, MWH, to determine our impact on the environment and identify where we can improve our environmental performance. This 'mapping' exercise was very wide ranging and went beyond the factors normally considered in carbon footprint exercises. MWH could not identify any other network company in the world that had undertaken a similarly comprehensive environmental study. As a result of MWH's report on our environmental performance we set six targets in addition to other environmental targets. Five of these targets were subsequently successfully met and the other, relating to our demand side management initiatives, is ongoing in nature – see Appendix 3.

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

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

The impact of deep-well irrigation pumping for dairy farm conversions has required large investment in rural network upgrades in recent years. Further load growth and therefore investment by us in the rural area is dependent on issues such as commodity prices, and the continuing availability of water supplies to support increased dairying, horticulture and lifestyle residential land use.

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

Our environmental targets are shown in Appendix 3.

Undergrounding

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

Our policy of undergrounding most urban extensions to our network will be reviewed post the earthquakes. In rural areas it is often up to the developer to decide whether reticulation is underground or overhead. A portion of our system reinforcement, safety and improvement projects will continue to include undergrounding of overhead reticulation.

D Governance

Introduction

Orion's directors are appointed by the shareholders to govern and direct Orion's activities. The board is the overall and final body responsible for all decision-making within the company.

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

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

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 to establish remuneration policies and practices and set and review 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 and the company's constitution, 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 with the company's shareholders, and after considering any comments from those shareholders, the final SOI is approved by the company's board, is delivered to the company's shareholders and is also placed on the company's publicly available website.

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

Legislative compliance

We have a comprehensive approach to compliance with relevant law. Compliance manuals and training are made available to all employees. Where appropriate, we engage external experts to advise us on appropriate policies and 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

The Orion board receives regular updates on and monitors the performance of each investee company. Our most significant trading investment is Connetics Limited and this company has one non-executive Orion New Zealand Limited director on its board.

E Performance targets

Our earthquake recovery targets are shown in Appendix 1

Our network reliability targets are shown in Appendix 2

Our environmental targets are shown in Appendix 3

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

Our financial performance targets are shown in Appendix 5

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

F Dividends

We will pay dividends to our shareholders after taking into account the company's financial position, profitability and future investment requirements. The dividends payable to the shareholders will be determined by the board after consideration of the company's funding requirements and the requirement to meet the solvency test under the provisions of the Companies Act 1993. Our dividends are forecast to be paid in two equal instalments in June and December of each financial year. Our forecasts are close to the maximum that we forecast can be paid as fully imputed dividends for tax purposes. To assist the shareholders with budgeting, our ordinary fully imputed dividend forecasts are shown in Appendix 5.

G Capital structure

In seeking new investments, we plan to ensure that explicitly or implicitly the company retains a rating agency credit rating of at least "strong capacity to pay". Although no material acquisitions have been included in our financial forecasts and targets, we may undertake new investments as long as they are consistent with our objectives (see Section C).

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

Significant earthquake aftershocks are still continuing and there is still a material risk of another local earthquake above magnitude 6 within the next 12 months.

We currently insure our corporate buildings and our key network substations. It has not been economic to insure our network underground cables and overhead lines and there is no certainty as to whether the insurances we currently have will remain economically sustainable in the future.

We therefore believe that the company should be conservatively geared with debt and that the company's capital structure should be managed in a prudent manner. We will continue to review the company's capital structure on an ongoing basis. We believe that due to all of the current significant uncertainties facing the company due to the earthquakes it is not prudent to proceed with the previously planned $82m share buy-back in the short term – however we will continue to review this as and when the uncertainties reduce.

H Accounting policies

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

Our accounting policies are based on NZ IFRS standards and interpretations applicable at 30 March 2011. Accounting standards and interpretations are subject to change and therefore our accounting policies are also subject to change during the three year period for this SOI to 31 March 2014.

Our key current and proposed accounting policies are shown in Appendix 7.

I Information to be reported to shareholders

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

We will submit an annual report to the shareholders. The annual report will include audited financial statements and such other details as are necessary to permit an informed assessment of the company's performance and financial position during the reporting period. We will also provide half-yearly reports to the shareholders. These reports will contain unaudited information similar in content to the annual report and will comply with accounting standard NZ IAS 34.

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

- financial
- environmental, and
- social inputs, outputs and outcomes.

We will also publish a separate annual report on the quality and reliability performance of our electricity distribution network.

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

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

J Acquisitions/divestments

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

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

K Intercompany transactions

No material intercompany transactions are forecast to take place during the three years ending 31 March 2014, except:

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

L Compensation sought from local authorities

At the request of our shareholders, or our shareholders' shareholding councils, we may undertake activities that are not consistent with our normal commercial objectives. Specific financial arrangements will be entered into to meet the full commercial cost of undertaking such activities. At present, the only such material activities undertaken involve discretionary conversions of overhead network reticulation to underground as described in section C above. Due to the discretionary nature of these projects it is difficult to forecast the extent of these transactions over the next three years but the extent of such charges to councils could average in the order of $1.3m per annum.

M Commercial relationships within the CCC group

Orion is an 89.275% subsidiary of Christchurch City Holdings Limited (CCHL) which is itself a wholly-owned subsidiary of the Christchurch City Council (CCC). It may be possible to develop commercial opportunities with other group companies to benefit Orion, the CCC group and the Canterbury region. We will continue to work with other group companies to explore such opportunities and develop new business opportunities as appropriate.

N Growth in the regional economy

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

Our group of companies is also a significant employer – with over 350 employees. We have annual operating and capital expenditures of over $50m. Orion is one of the leading electricity distribution companies in New Zealand in the promotion of energy efficiency and we will continue to develop that activity. Our key role is to prudently manage our electricity distribution network in the long-term interests of our shareholders and customers. Success in doing so means that local individuals and companies can continue to invest for growth with confidence that the "lights will go on when the switch is flicked".

We may also be able to assist to leverage the value of the Christchurch City Holdings group of companies to further enhance regional growth. This is an initiative from Christchurch City Holdings Limited. We will liaise with those group companies as appropriate and seek and pursue material and worthwhile opportunities – consistent with our principal objective to operate as a successful business.

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

O Commercial value of the shareholders' investment

The Orion directors estimate that the commercial value of the shareholders' investment in the group is at least that which is stated as "shareholders' equity" in the latest available audited financial statements. This value is reassessed annually as part of the preparation of the audited financial statements. The directors' estimate is subject to any future adverse consequences arising from the outcome of the Commerce Commission's current work on developing a targeted price control regime for the industry under Part 4 of the Commerce Act and the impacts of the recent earthquakes.

Appendix 1 Earthquake recovery targets

The recent earthquakes caused significant damage to our electricity distribution network, particularly the 22 February 2011 earthquake which caused around ten times the damage that the 4 September 2010 earthquake caused. While only around 6% of our underground high voltage cables suffered damage in the earthquakes, this damage was mainly concentrated in the north east of Christchurch where ground liquefaction was greatest. The most significant damage occurred to our 66kV underground cables, with around half subject to damage. The worst of these being our cables to our Armagh, Dallington and Brighton zone substations.

Around 10% of our 11kV underground cables and 1% of our 400V cables suffered major damage. This damage was largely located in the eastern suburbs.

Power was restored to around 90% of our network within 10 days, with 95% restored within two weeks. This compares with 90% restoration on the day of the 4 September earthquake.

Our substations and overhead network were largely undamaged from the earthquakes.

At the back of this Appendix we show:

- an overview of damage to our network
- our work plan to restore capacity and security of supply to our network.

Our eight earthquake recovery targets below relate to work that we consider the most important to restore capacity and security of supply to our network:

1. Repair our damaged 11kV and low voltage underground cables in the eastern suburbs

Target date: 30 June 2011

Comments: Our extensive 11kv underground cable network in the eastern suburbs suffered hundreds of faults due to liquefaction in the February earthquake. These faults each take up to 12 hours to repair.

2. Build and commission a new zone substation in Rawhiti Domain (fronting Keyes Road) to replace the New Brighton substation

Target date: 31 August 2011

Comments: The Rawhiti Domain substation will replace our New Brighton zone substation, which is located on Pages Road. The Pages Road site sustained such severe liquefaction and it is not prudent to keep this important substation at this site now. The new Rawhiti Domain site has been assessed as suitable for a new zone substation, in particular the ground is not susceptible to liquefaction.

Although most of our equipment at the New Brighton substation was not severely damaged in the February earthquake due to our previous earthquake strengthening work, two transformers were damaged. In the days following the February earthquake, a major transformer from another part of our urban network was brought to the site to keep the New Brighton substation operational. The two damaged transformers were removed offsite and are now being repaired. When repaired, the two transformers will be installed in the new Rawhiti Domain substation.

3. Build and connect a new 1.5km temporary 66kV overhead line from our existing (damaged) New Brighton substation to the new Rawhiti Domain substation

Target date: 31 August 2011

Comments: A map of the route for our new temporary 66kV overhead line from the existing New Brighton substation to our new Rawhiti Domain substation is included at the back of this Appendix.

In the days after the 22 February earthquake, a new temporary 66kV overhead line was built from the Bromley grid exit point to the New Brighton substation on Pages Road. This overhead line replaced damaged 66kV underground cables that previously supplied New Brighton substation from the Bromley grid exit point.

When the new 1.5km temporary 66kV overhead line from the New Brighton zone substation to the Rawhiti Domain substation is commissioned, the Pages Road New Brighton substation will effectively be bypassed and will then be decommissioned.

4. **Build and connect a new 4.5km temporary 66kV overhead line from the Bromley grid exit point to our Dallington substation**

   Target date: 31 May 2011

   Comments: A map of the route for our new temporary 66kV overhead line from the Bromley grid exit point to our Dallington substation is included at the back of this Appendix.

   These temporary lines are in response to 66kV underground cables that feed the eastern suburbs being severely damaged in the February earthquake. These cables were damaged to probably beyond economic repair and certainly are not repairable within an acceptable timeframe for our affected customers in the community. This target is an important part of our strategy to bring capacity and security of supply to our network in the eastern suburbs before higher winter loads occur.

5. **Purchase or hire up to twenty five 100kW to 440kW mobile diesel generator sets as a contingency measure for the next three years**

   Target date: 31 May 2011

   Comments: While we are restoring our network to a secure level, these mobile emergency generators will remain vitally important for our security of supply. The generators will only be operated for mains failure or capacity constraint reasons. The location of these mobile generators will be dependent on power supply faults and how localised network demand changes through time.

6. **Install up to 4MW of temporary diesel generators at QEII**

   Target date: 31 March 2012

   Comments: These diesel generators will be located on CCC land to the north-east of the QEII swimming complex. The generators will help increase security of supply to the surrounding area and will only be operated for mains failure or capacity constraint reasons. We envisage that we will retain these generators on site until our 66kV underground cables are successfully installed as per target 7 below.

7. **Lay and commission permanent 66kV underground cables from Bromley grid exit point to the Dallington and Rawhiti Domain substations. Then remove the temporary 66kV overhead lines installed after the February 2011 earthquake.**

   Target date: 31 March 2014

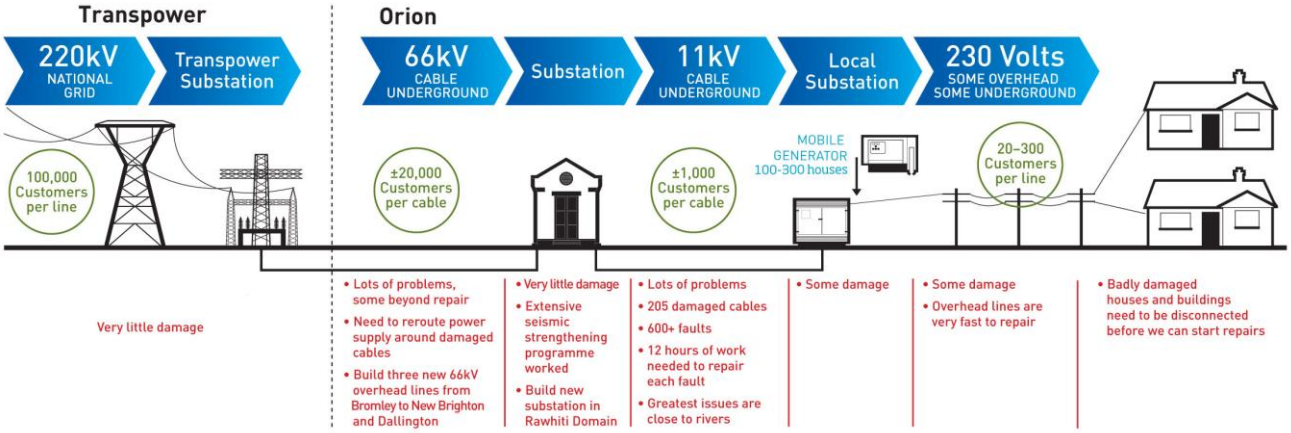
   Comments: The 66kV overhead lines we installed after the February 2011 earthquake from the Bromley grid exit point to the Dallington and Rawhiti Domain substations are temporary lines. They were authorised and installed under emergency powers to provide power to the eastern suburbs of Christchurch. Our long term solution to ensure there is sufficient network capacity to this area is to lay and commission permanent 66kV underground cables. These cables will be laid on such routes as to minimise future risk of damage due to liquefaction. Given the time to plan the routes and lay cables of this length, a target date of 31 March 2014 is considered appropriate.

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

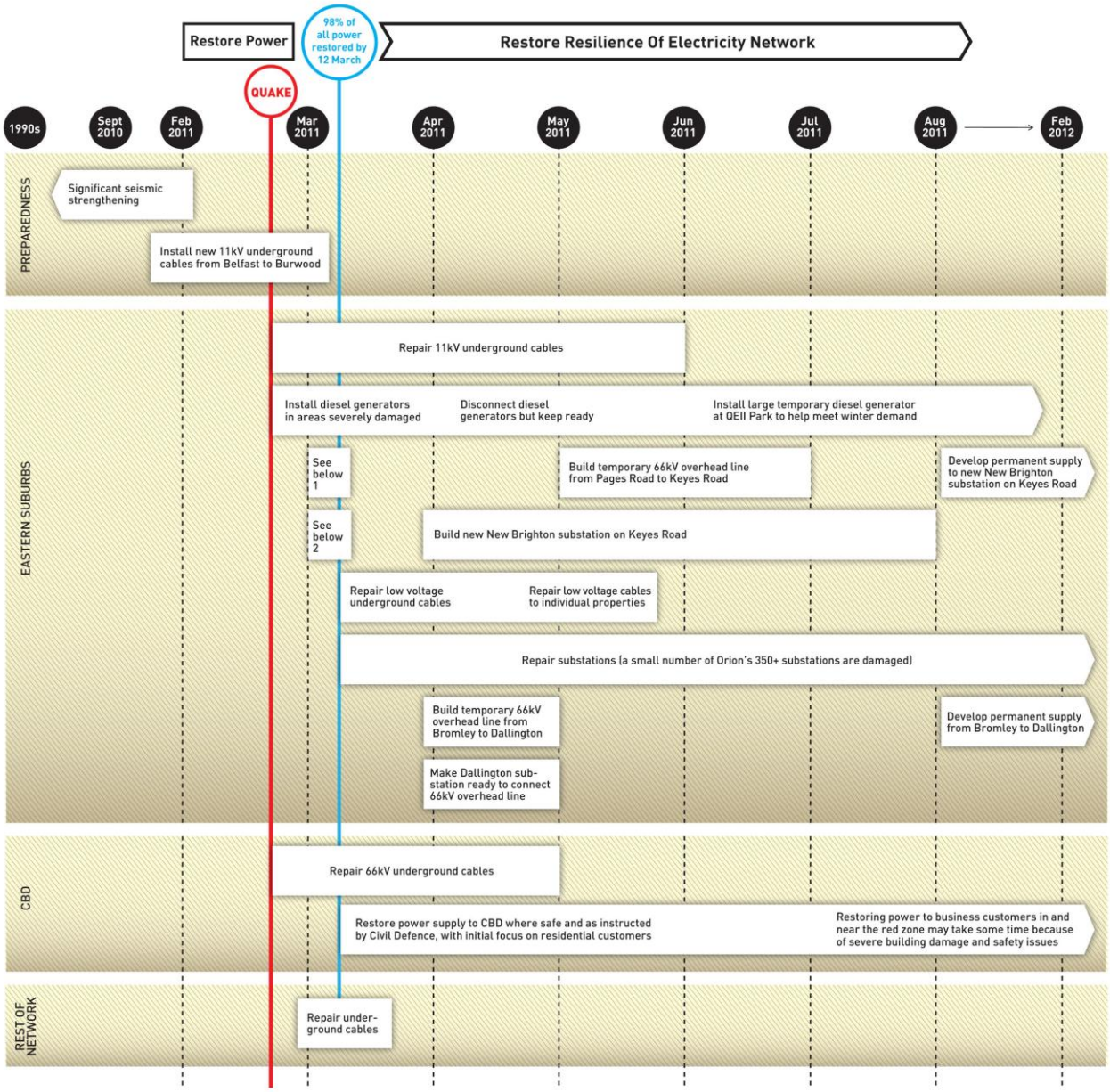
   Target date: Ongoing

   Comments: As CERA reduces the “no-go” CBD cordon area over time we will gain further access to our network in the CBD and we will be able to assess damage and repair it as appropriate. For example, some of our substations are located inside customers’ premises in the CBD so it’s not yet certain how much of our equipment has been damaged inside damaged buildings. It is also not yet certain how the CBD will be repopulated/redeveloped or over what time period.

Overview of damage to the electricity network

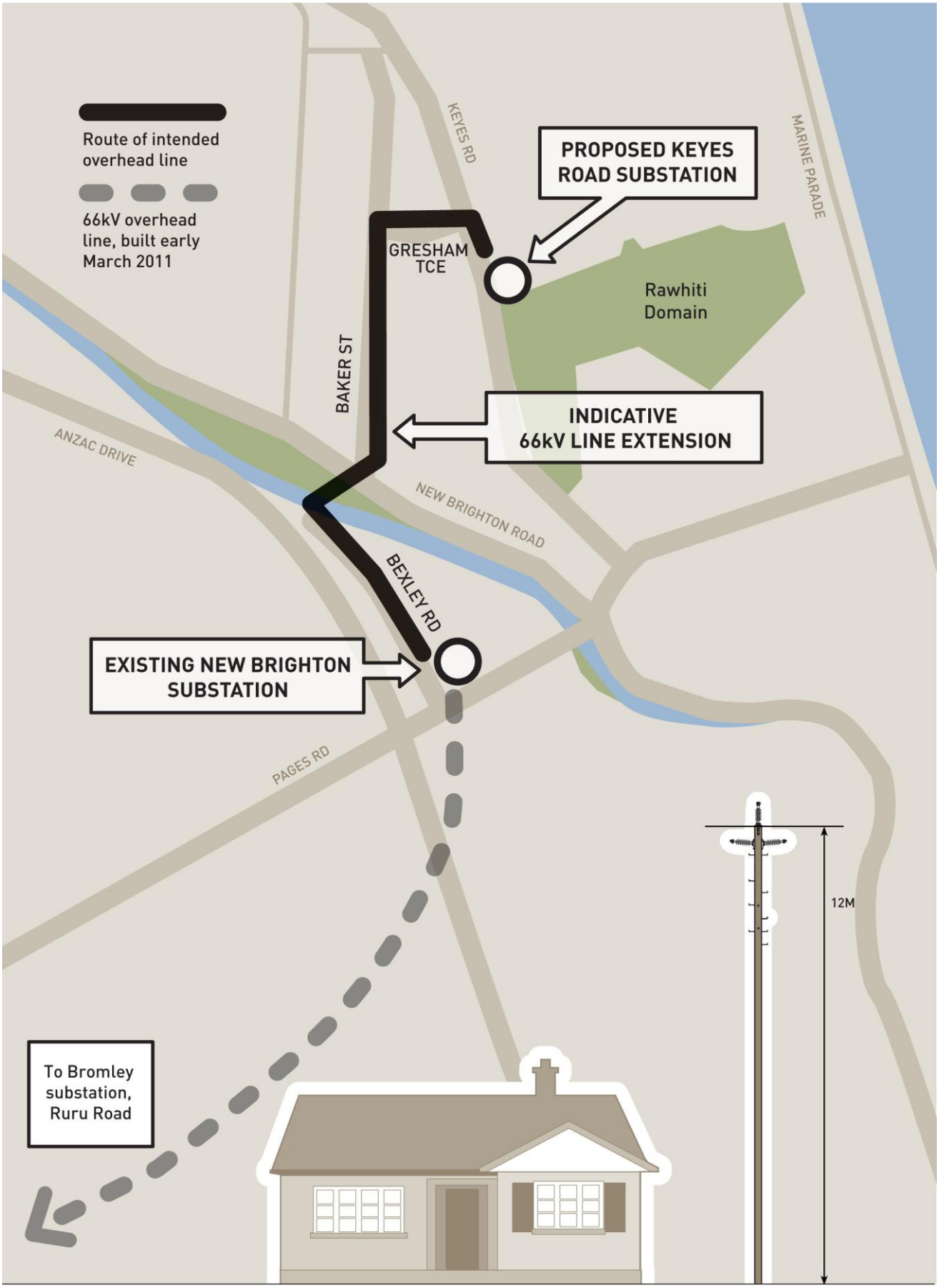


Orion's earthquake recovery work plan

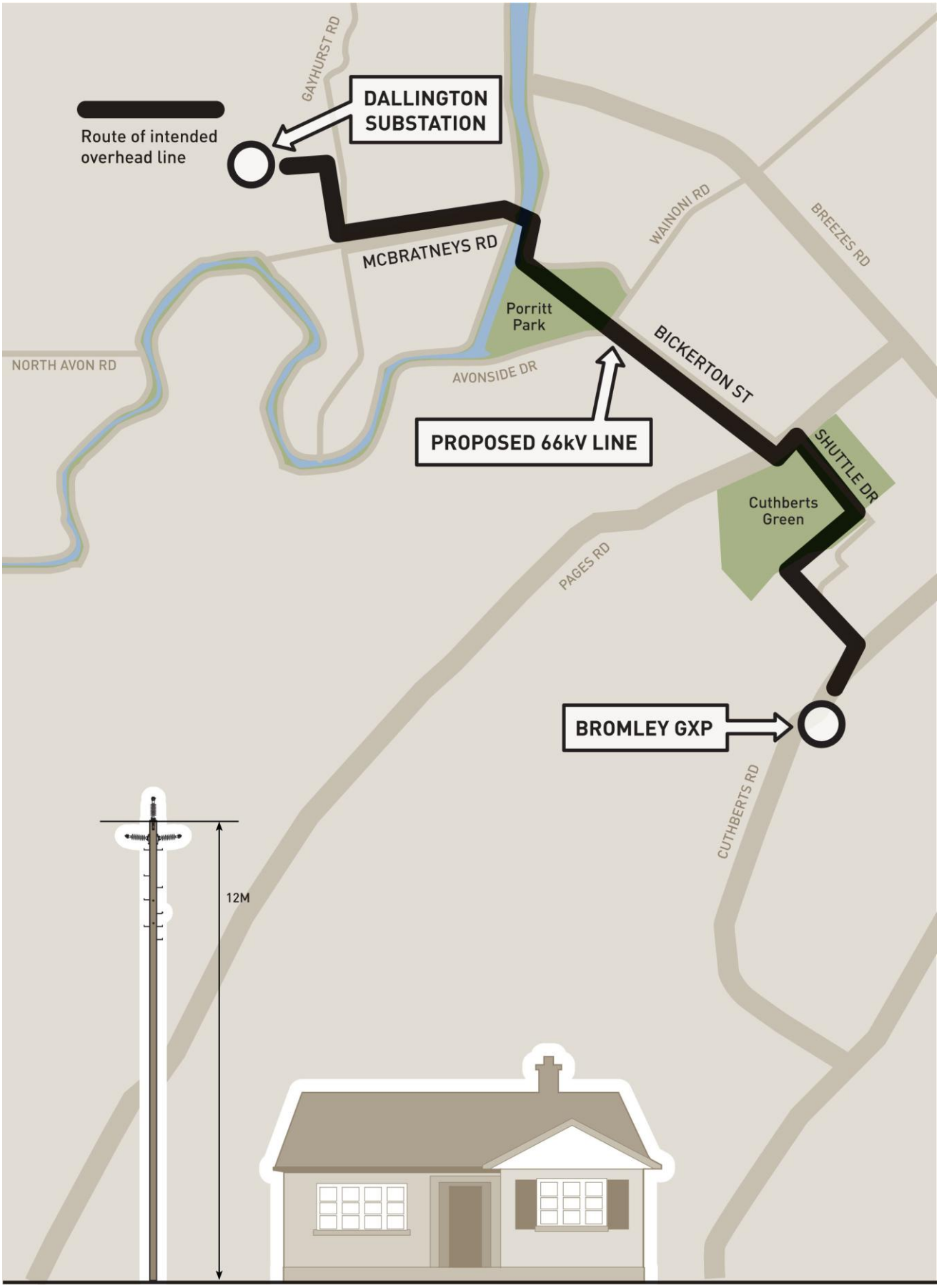


1) Build emergency 3.5km 66kV overhead line to supply existing New Brighton substation at Pages Road. 2) Install temporary transformer at New Brighton.

66kV overhead line route to our new Keyes Road substation



66kV overhead line route to our Dallington substation



Appendix 2 Network reliability targets

	Target 3 years average to 31 March 2014	Actual 1 year to 31 March 2011	Actual 1 year to 31 March 2010	Actual 1 year to 31 March 2009	Actual 5 year average to 31 March 2010	Gazetted NZ weighted average 2010
Reliability – all interruptions (including Transpower):						
Duration of supply interruptions in minutes per year per connected customer (SAIDI)	See note 2	See note 1				
- urban			21	17	18	
- rural			412	382	536	
- overall			70	63	81	150
Number of supply interruptions per year per connected customer (SAIFI)	See note 2	See note 1				
- urban			0.2	0.3	0.3	
- rural			3.6	3.8	4.1	
- overall			0.7	0.7	0.8	1.8
Reliability – Orion network interruptions only:						
Duration of supply interruptions in minutes per year per connected customer (SAIDI)	See note 2	See note 1				
- urban			21	17	18	
- rural			342	376	493	
- overall			61	62	75	126
Number of supply interruptions per year per connected customer (SAIFI)	See note 2	See note 1				
- urban			0.2	0.2	0.3	
- rural			2.9	3.4	3.4	
- overall			0.6	0.6	0.6	1.6

Important notes:

1. The earthquakes and aftershocks have had a significant one-off negative impact on the company's electricity network reliability in the year ended 31 March 2011. However the compilation of the statistics has not been able to occur to date. It has not been possible to calculate a reliable estimate of the impacts of the recent earthquakes on the company's SAIDI/SAIFI performance for the year ended 31 March 2011 in time for this statement of intent.

2. See note 1 above. Due to all of the significant uncertainties related to the ongoing nature of the earthquakes it is not practicable to set meaningful SAIDI/SAIFI targets for this statement of intent.

3. SAIDI and SAIFI measures are international industry standards which enable assessment of network performance. The gazetted industry averages noted above are for all New Zealand electricity distribution networks and include rural and urban networks. Our network includes a significant rural component.

4. SAIDI: system average interruption duration index – an international index which measures the average duration of interruptions to supply that a consumer experiences in a given period.

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

   SAIFI: system average interruption frequency index – an international index which measures the average number of interruptions that a consumer experiences in a given period.

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

Appendix 3 Environmental targets

1. Continue to undertake and encourage demand side management

Target date: Ongoing

Comments: Environmental consulting firm, MWH, completed a report for us on our overall carbon impact in 2009. MWH's report found that the overwhelming majority of our annual carbon footprint comes from two main sources as follows:

- 77% from electrical losses from our network. Electrical losses are natural phenomena that are caused by the heating of equipment as electricity passes through
- 17% from carbon embedded in our physical electricity distribution network assets.

MWH found that we can do little to significantly reduce our carbon footprint from either of the above two sources.

In our statement of intent for the three years ending March 2012 we set six environmental targets after consultation with MWH. Five of those targets have been successfully completed. The remaining target relates to demand side management and is ongoing in nature.

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

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

More specifically, we will continue to promote and enable DSM through the following initiatives:

- in co-operation with other upper South Island distributors we will continue to implement an upper South Island centralised load management control system. This system enables the benefits of co-ordinated control to be quantified and provides a platform for future DSM initiatives. The system is transferable to other regions within New Zealand, potentially bringing further environmental gains
- monitor the application of smart meters and, where appropriate, lobby through regulatory submissions to ensure that the development and application of smart meters occurs in an integrated way. In particular, we want to ensure that a transparent and co-ordinated DSM environment is created to provide the best possible long-term outcome for our customers.

We will also make submissions to government to encourage other network companies to adopt similar DSM initiatives. MWH found that if other New Zealand network companies followed our lead in DSM, up to 1% of total annual emissions generated in New Zealand could be saved.

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

Target date: Ongoing

Comments: We have sponsored CEA since its inception in 1994. As well as providing financial sponsorship we assist CEA with information technology and other issues that arise in its day-to-day operations. From 1994 CEA resided rent-free at our head office premises. Due to significant increases in demand for its services, CEA relocated to new premises in our 2011 financial year

Because the needs of our community will likely have changed as a result of the earthquakes, CEA is currently undertaking a strategic review of its operations. While that review is being undertaken we will continue to offer financial and administrative support to CEA on a month by month basis. Over 15,000 local homes have already benefited from CEA's services. We view CEA's services as very important for our local community.

3. Support the Christchurch City Council's sustainable energy strategy

Target date: Ongoing

Comments: Our specific targets are to:

- participate in Christchurch Agency for Energy (CAfE). We are a founding member of CAfE , which began its work in late 2010. Financially we have committed $100,000 per annum to CAfE until 2014 and we look forward to working with the CCC and other organisations to develop and implement the energy efficiency initiatives outlined in the CCC's sustainable energy strategy.

- continue to seek ways to reduce peak loads on our network and increase our network load factor

- obtain better, more accurate real-time data of our network loadings. This allows for more efficient network planning so that our spending to meet load growth is efficient.

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

We recognise that as a result of the earthquakes the sustainable energy strategy and the role and priorities for CAfE are likely to change.

Appendix 4 Community and employment targets

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

Target date: March 2012

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

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

Target date: March 2012

Comments: Amendments to the Electricity Act 1993 mean that electricity network companies have greater responsibilities in this area. We have excluded car versus pole accidents at this stage as it is very difficult to be sure of the completeness and accuracy of any data we gather in this area.

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

Target date: March 2012

Comment: Our programme covers issues such as tree owner responsibilities near lines, close approach to lines with irrigators and other operators of plant, scaffolding near lines, householder maintenance near lines, digging near underground cables and safety and security near electricity equipment. Our messages are delivered through a series of community shows and through regular media outlets such as local newspapers and radio.

4. Undertake our annual formal employee survey and follow up on the results

Target date: November 2011

Comments: We have undertaken these surveys since 2001. In 2010 our employees rated their overall satisfaction at an average of 80 out of 100 (2009: 77). Scores improved in all of our survey categories in 2010 except for 'my team' - where scores were just under the rated level in 2009. We've worked to improve on our previous surveys' ratings - especially related to 'performance and feedback' and 'reward and recognition' - and our recent initiatives have been reflected in continued improved scores in these areas. We recognise that our working conditions have changed significantly post earthquake. This survey will gather information from our employees to assist us to provide support and solutions foreseen in our current environment. We expect trends and comparisons with previous survey results will be less useful in 2011 due to the significant impacts of the recent earthquakes.

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

Target date: March 2012

Comments: These targets exclude the impacts of employees leaving for reasons of retirement, redundancy or on completion of a fixed term (or casual) employment contract or disciplinary related. Orion's turnover was 2.8% and 1.7% in our 2010 and 2011 financial years respectively and Connetics' was 4.7% and 4.6%.

6. Continue with our Orion engineering trainee programme

Target date: Ongoing

Comments: Our engineering trainee programme has been very successful in placing talented individuals into key positions within our business. One or two of our employees are placed on this programme annually and over several years are developed into areas where we consider there may be existing or future skill shortages. Our programme ensures that we adequately plan for replacement of our ageing workforce. As at February 2011 we had five employees on this programme. Over the next two years we intend to appoint several new trainees into this programme as we expect a number of senior engineer retirements over the next three to five years.

7. Continue to develop our Connetics apprentice scheme

Target date: March 2012

Comments: We continue with this scheme to ensure our key contracting subsidiary sustainably develops and improves its overall competencies. As at 31 March 2011 Connetics employed eleven apprentices.

8. Continue to support the CPIT Trades Innovation Centre

Target date: Ongoing

Comments: In 2003 the Christchurch Polytechnic Institute of Technology (CPIT) set up an advisory board to align trades training with industry needs. An Orion manager is a member of this board and was instrumental in proposing the development of a simulated subdivision where trades trainees can be trained in real life situations. Electricity distribution is a significant part of the simulated subdivision. The subdivision and the training facility as a whole at the Sullivan Avenue site provides training facilities to contractors to help ensure a sustainable contracting work force into the future. Orion is the major sponsor for this project, with the Government having supported this initiative on a dollar for dollar basis. Orion and Connetics will also maintain their respective memberships of the Electricity Supply Industry Training Organisation (ESITO) and will endeavour to influence ESITO's direction for the long-term benefit of the industry.

9. Continue to support the Greater Christchurch Urban Development Strategy (UDS) through our network AMP

Target date: Ongoing

Comments: Our key role here is to anticipate and plan for future customer load growth and new connections in our network area. For example, the UDS aims is to intensify population growth and development in the central city. Our key network planning and accountability document is our network asset management plan (AMP) and we will continue to ensure that our plan remains up to date and consistent with good industry practice while taking the UDS fully into account.

Appendix 5 Financial performance targets

Financial years ending 31 March	2012	2013	2014
Profit after tax ($m)	28.0	31.8	33.3
Profit after tax/average shareholders' equity (%)	5.2	5.9	6.1
Fully imputed dividends ($m)	24.0	28.0	29.0
Debt (%)	15	21	25
Equity (%)	85	79	75
Equity/total assets (%)	69	65	62

Notes:

"Profit after tax" above is as defined under NZ IAS1.

Our "*profit after tax/average shareholders' equity"* forecasts above represent the return on the shareholders' equity of our business as a whole and not just our network.

"Debt" is defined as interest bearing debt (including bank debt and debt associated with new investment agreements with Transpower) and after deduction of cash/short-term investments.

"Equity" is defined as all shareholders' equity.

"Total assets" is defined as the total book value of all assets of the parent company, excluding investments in technology companies.

Our financial performance targets above are subject to:

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

Appendix 6 Key assumptions used in our financial targets

The major assumptions we have used in calculating our financial targets for the company are as follows:

- our targets are for financial years ending 31 March
- our targets are for the consolidated results of Orion New Zealand Limited and its subsidiaries
- all figures are in nominal terms reflecting estimated forecast inflation
- our accounting policies are based on NZ IFRS and are consistent with those shown in Appendix 7
- our ongoing line price increases are equal to forecast CPI from our 2012 financial year onwards – consistent with the Commerce Commission's current default price path regime settings for Orion. No significant 'P_0' (one-off) line price adjustments enforced by the Commerce Commission are forecast
- we have estimated reduced revenues from reduced customer demand due to the recent earthquakes – a total of $51m over the next three financial years
- no decisions by the Government, Commerce Commission or Electricity Authority that materially adversely affect Orion's shareholder value
- all price changes from Transpower will be 'passed through' to electricity network customers
- expenditures and practices in line with our current approved and published 10-year electricity distribution network asset management plan. Over the next three financial years our forecasts include approximately $36m of additional capital expenditure and $16m of additional net operating expenditure due to the recent earthquakes
- an estimated $250m downwards revaluation of property, plant and equipment as at 31 March 2011 – this needs to be confirmed by way of an independent valuation and board and audit review as part of the company's preparation of its audited financial statements for the year ended 31 March 2011. Approximately $57m (after adjusting for the impact on the company's deferred tax liability) of this downwards revaluation is assumed to be expensed through profit, and approximately $123m (also after the impact on deferred tax) is assumed to be booked through the statement of comprehensive income (below profit after tax)
- no significant revaluations (upwards or downwards) of:
  - investment properties
  - financial instruments (for example our interest rate swaps) and other investments
- no major investments/divestments
- no cash distributions to shareholders other than our forecast fully imputed dividends noted in Appendix 5
- no further major earthquakes
- no major earthquake recovery cash contributions from either the Government, no cash contributions from industry wide levies and no special price increases authorised by the Commerce Commission.

Appendix 7 Key accounting policies

1. Statement of accounting policies

Statement of compliance

Orion New Zealand Limited (the company) is a profit-oriented company incorporated in New Zealand under the Companies Act 1993 and the Energy Companies Act 1992. The group consists of Orion New Zealand Limited and its subsidiaries (refer also to note 41). On 31 March 2009 the former parent company, Orion Group Limited, was amalgamated into Orion New Zealand Limited. The company is a reporting entity for the purposes of the Financial Reporting Act 1993 and its financial statements comply with that Act and section 44 of the Energy Companies Act 1992.

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

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

Basis of financial statement preparation

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

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

Accounting policies have been selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported. The accounting policies set out below were applied in preparing the financial statements for the year ended 31 March 2010 and the comparative information presented in the financial statements for the year ended 31 March 2009.

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

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

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

The company operates an extensive integrated electricity distribution network comprising large numbers of relatively minor individual network asset components. These components are replaced over time as part of an ongoing maintenance/refurbishment programme, consistent with the company's approved network asset management plan. The costs associated with recording and tracking all individual components replaced and removed from the network substantially outweigh the benefits of doing so. Management has estimated the quantities and the carrying values of components removed from the network in each reporting period. Any errors in the estimates of such removals are corrected at the next asset revaluation, and are not considered to be material on either an annual or a cumulative basis with respect to either reported net profits or carrying values of the network. Refer also to note 1(k) property, plant and equipment regarding revaluations.

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

Management has determined appropriate useful lives for particular assets. Management has made judgements about the expected length of service potential of the asset, the likelihood of the asset becoming obsolete as a result of

technological advances and the likelihood of the company and group ceasing to use the asset in its business operations.

Management assesses whether individual assets or a grouping of related assets (which generate cash flows independently) are impaired by estimating the future cash flows that those assets are expected to generate. Assumptions such as rates of expected revenue growth or decline, expected future margins and the selection of an appropriate discount rate for discounting future cash flow are required.

The company enters into arrangements with customers to purchase new network assets at below current replacement costs. Management has estimated the difference between the cash costs and the replacement costs of these assets and the differences are reported within revenue. Any errors in estimating the carrying values of these assets are corrected at the next asset revaluation and are not considered to be material on either an annual or a cumulative basis with respect to either reported net profits or carrying values of the network.

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

Other areas where judgement has been exercised in preparing the financial statements are in relation to calculating provisions for doubtful debts, assessing the level of any unrecoverable work in progress and calculating provisions for employee benefits.

Significant accounting policies

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

(a) Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the group (refer to note 41).

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

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

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

Associates

Associates are entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in associates are accounted for in the consolidated financial statements using the equity method, after initially being recognised at cost. The group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The group's share of its associates' post-acquisition profits or losses is recognised in the statement of comprehensive income and its share of post-acquisition movements in reserves is recognised in other comprehensive income (reserves). The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the consolidated financial statements they reduce the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the group and its associates are eliminated to the extent of the group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Parent company

Investments in associates are accounted for in the parent's financial statements using the cost less impairment. Dividends receivable from associates are recognised in the statement of comprehensive income.

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

(b) Goods and services tax

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

(c) Foreign currency

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

(d) Cash and cash equivalents

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

(e) Financial assets

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

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

Financial assets at fair value through statement of comprehensive income

The group has certain derivatives which are stated at fair value and the movements are recognised in the statement of comprehensive income (refer note 1(i)).

Available-for-sale financial assets

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

Loans and receivables

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

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

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

(f) Inventories and work in progress

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

(g) Income tax

Income tax expense in relation to the surplus or deficit for the year comprises current tax and deferred tax.

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

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

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

Current tax and deferred tax are charged or credited to the statement of comprehensive income. When deferred tax relates to items charged or credited to other comprehensive income then deferred tax is also recognised in other comprehensive income.

(h) Leased assets and lease liabilities

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

Group as lessor

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

Group as lessee

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

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

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

(i) Derivative financial instruments

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

The group has not designated any derivatives as hedges for financial reporting purposes. Derivatives are initially recognised at fair value on the date a derivative contract is entered into. Subsequent to initial recognition derivatives are revalued to their fair value at each reporting date. The resulting gain or loss is recognised in the statement of comprehensive income immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the statement of comprehensive income depends on the nature of the hedge relationship. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

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

(j) Impairment of assets

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

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

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

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

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

For assets which are not revalued, an impairment loss is expensed immediately in the statement of comprehensive income. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

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

(k) Property, plant and equipment

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

The electricity distribution network is measured at fair value. Fair value is determined on the basis of a periodic independent valuation prepared by external valuers, based on an optimised depreciated replacement cost methodology. The fair values are recognised in these financial statements of the group and are reviewed at the end of each reporting period to assess whether the carrying value of the electricity distribution network is not materially different from fair value. Consideration is given to whether the electricity distribution network is impaired as detailed in note 1(j).

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

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

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation on revalued buildings and the electricity distribution network is charged to the statement of comprehensive income.

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

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

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

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

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

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

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

(l) Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is measured at its fair value at the reporting date. Gains or losses arising from changes in the fair value of investment property are included in the statement of comprehensive income in the year in which those gains or losses arise.

(m) Intangible assets

Internally generated intangible assets with a finite life are stated at cost less accumulated amortisation and impairment and are amortised on a straight-line basis over their useful lives.

Computer software

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

Costs associated with developing or maintaining computer software programmes are recognised as expenses as incurred. Costs directly associated with the production of identifiable and unique software products controlled by the group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets.

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

Patents, trademarks and licences

Patents, trademarks and licences are finite life intangibles and are recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight-line basis over their estimated useful lives of 20 years. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period.

(n) Goodwill

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

(o) Payables

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

(p) Borrowings

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

(q) Provisions

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

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

(r) Employee benefits

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

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

(s) Financial instruments issued by the group

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

(t) Revenue recognition

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

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

(u) 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.

Revenue expenditure is defined as expenditure that does not meet the definition of capital expenditure.

(v) Capital contributions and grants

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

The group acquires certain distribution assets for less than their replacement cost. Such assets are capitalised at their replacement cost to the group, and the difference between the cash cost and the replacement cost is recognised as revenue in the year of acquisition.

(w) Borrowing costs

Borrowing costs are expensed using the effective interest rate method. Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. A qualifying asset is defined as a separate asset where the construction period exceeds 12 months and the cost is in excess of $3m.

Changes in accounting policies and disclosures

The accounting policies detailed above have been applied in the preparation of these financial statements for the year ended 31 March 2011 and have been consistently applied throughout the year. There have been no changes in accounting policies in comparison with the prior year, except that the group has adopted the following new and amended New Zealand equivalents to International Financial Reporting Standards as of 1 April 2011.

- NZ IAS 27 Consolidated and Separate Financial Statements (Amendment) effective 1 July 2009NZ IFRS 3 Business Combinations (Revised) effective 1 July 2009
- NZ IAS 39 Financial Instruments: Recognition and Measurement – Eligible hedged items (Amendment) effective 1 July 2009
- NZ IFRIC 17 Distributions of Non-cash assets to Owners effective 1 July 2009.

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

The amendments to the following standards and interpretations are not relevant to the group's operations and are not expected to have any significant impact:

	Effective for the financial year ending
• NZ IAS 24 Related Party Disclosures (Revised)	2012
• NZ IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	2012
• NZ IFRS 1 First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative	2012
• NZ IFRS 7 Disclosures for first time adopters	2012
• NZ IAS 32 financial Instruments: Presentation – Classification of Rights Issues (Amendment)	2012
• NZ IFRIC 14 Prepayments of a Minimum Funding Requirements (Amendments)	2012
• NZIFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	2012
• NZ IFRS 9 Financial Instruments	2014