

Connecting with our
community

Sala Aileone, Tiffany Sinafoa and children enjoy a healthy home thanks to the Orion-funded Warm Families project.

Annual Report for Orion New Zealand Limited 2009

Our people, our future

Providing a reliable, safe and secure supply of electricity to 190,000 customers 24 hours a day, seven days a week takes foresight, dedication and technical expertise from a highly-skilled and specialised team.

The professional development of our employees is crucial for the long term strong performance and security of our network. Our people maintain their leading-edge skills through extensive in-house training and external career development - whether they're a trainee network operator just starting out at Orion or an experienced engineer with an in-depth understanding of our network.

We're also focused on developing a solid future workforce, funding industry-wide initiatives such as the CPIT Distribution Trades Training Centre which provides specific electricity distribution trade training, and the University of Canterbury's Electric Power Engineering Centre which supports power engineering education. Our managers also assist these centres at board level, advising on ways to retain and attract people into the electricity distribution industry.

Orion New Zealand Limited owns and operates the electricity distribution network in central Canterbury between the Waimakariri and Rakaia rivers and from the Canterbury coast to Arthur's Pass. We transport electricity from 10 Transpower grid exit points to more than 190,000 homes and businesses in Christchurch city, Banks Peninsula, farming communities and high country.

Orion
your network

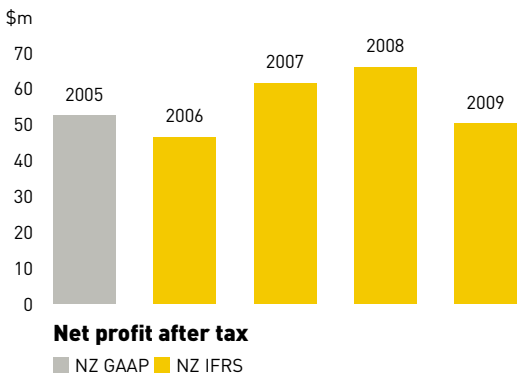
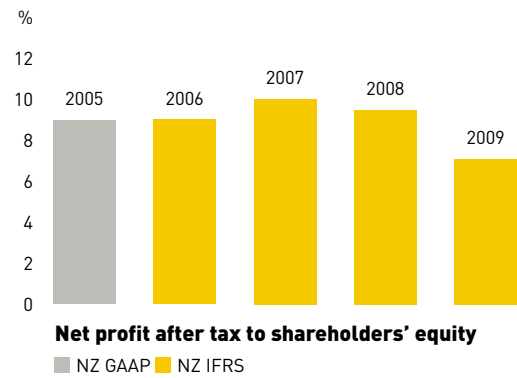


Highlights

Overall consolidated net profit after tax of **\$49.9m**, \$4.4m above our statement of intent (SOI) target.

Fully imputed ordinary dividends paid of **\$44m**, \$7m above our SOI target.

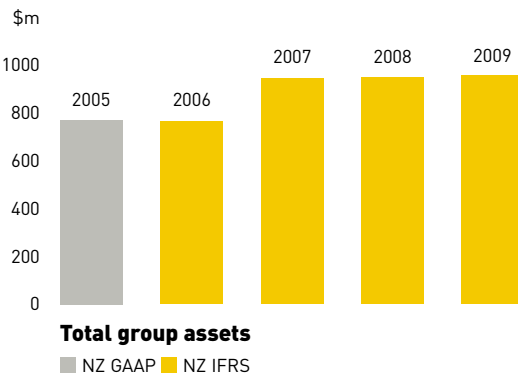
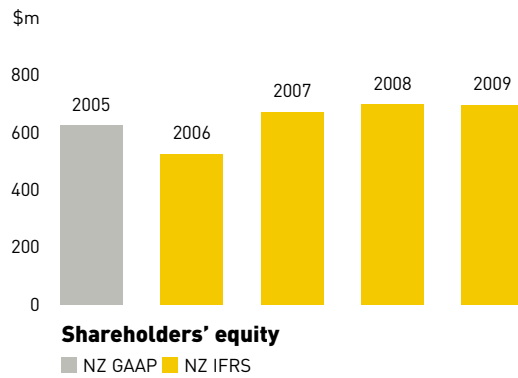
Core electricity distribution network net profit of **\$52m**, \$4m above our SOI target.



Continued to rank as **one of the most reliable and efficient networks** in New Zealand, meeting all key network reliability targets.

Invested over **\$36m on capital expenditure**, including projects to connect new customers, reinforce our network and replace ageing equipment.

Implemented the first phase of a **fully integrated network management system**, to be completed by mid 2010. This system will streamline our network control room functions and improve how we manage our day-to-day operations and any major events.



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Chairman’s review
Craig Boyce CHAIRMAN

Our goal this year, as in other years, has been to provide an excellent service for our community. New infrastructure and technology solutions have helped us to work in smarter ways to improve network performance and give our customers the secure and reliable electricity supply they expect from us.

A stable and capable national transmission grid is needed to provide security of supply to the 190,000 homes and businesses within our network area. With limited electricity generation available in the Canterbury region, we rely on Transpower’s transmission network to deliver power from other regions via 10 grid exit points in the Orion network area. This year we continued to work closely with Transpower to ensure the national grid provides appropriate service for our customers.

Investment

The biggest single driver of investment in our network is growth in peak demand. While the growth of new connections has decreased, electricity peak demand in our network area continues to grow steadily, particularly in the industrial sector. In April 2008 we connected power to our largest single customer, the Synlait milk processing plant at Dunsandel, and we have also recently completed a new rural district substation at Larcomb to provide additional capacity for the rapidly expanding Rolleston industrial park.

Despite the serious economic downturn, we continued to invest this year and that is positive news for the local economy and our employees, contractors and customers. Our community relies on essential services such as electricity – for us, this means developing and managing our network as efficiently as possible to keep the power on.

Financial performance

Our net profit after tax for the year was \$49.9m – \$4.4m above our statement of intent (SOI) target. The following factors contributed to this excellent above target achievement (all figures post tax):

- our revenues relating to capital contributions and vested assets for new connections were over \$3.9m ahead of target – reflecting the pre-recession economy
- our network related costs were \$1.8m below our targets – reflecting tight cost control
- offsetting the above, our network delivery revenues were \$0.6m below our targets – reflecting how last winter’s hydro shortages and energy savings campaign affected customer demand.

Our net profit after tax of \$49.9m is not directly comparable with the previous year’s profit of \$65.5m due to two significant one-off events in 2008 (all figures post tax):

- a \$14m increase in profit due to a change in the corporate tax rate
- \$3m of profit recognised on the sale of our HumanWare investment.

After accounting for last year’s one-off events, our financial performance this year was \$1.5m ahead of last year.

Distributions to shareholders

We were pleased to pay a total of \$44m fully imputed ordinary dividends to shareholders during the year, \$7m above our SOI target and \$1m less than in 2008. Dividends were paid after taking into

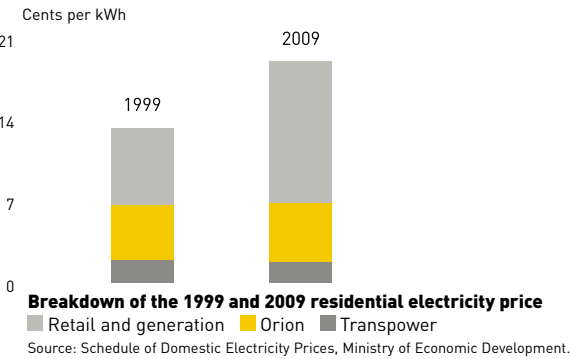
account the ongoing cash needs of the business and the availability of imputation credits.

Industry issues

The electricity industry attracted plenty of headlines in the past year for issues including transmission constraints and asset failures, hydro lake shortages, a lack of generation capacity and retail electricity price increases well above inflation.

In the last 10 years the average retail price for our residential customers has risen by about 50% – or 6.9 cents per kilowatt hour. The vast majority of this increase is from the retail and generation sectors, while distribution and transmission charges from Orion and Transpower account for just 0.6 cents of the increase.

Our annual distribution price increases are consistently less than the rate of inflation as regulated, to comply with the Commerce Commission’s price/quality threshold regime. Considering the excellent reliability of our network, our prices compare favourably with other New Zealand network companies – over the last five years, our network has been one of the most reliable in New Zealand and our operating costs have been at least 20% below the New Zealand average.



Electricity demand continues to grow in the South Island, and further generation is needed to meet this growth. We are working constructively with our neighbouring electricity network companies to ensure the region’s peak demand is managed and transmission costs are contained.

Despite the overall challenges and issues that surround regulation of the electricity industry, we maintain a positive approach to the framework that governs our activities, and we actively participate in consultation and other initiatives undertaken by the Electricity Commission, Commerce Commission and Ministry of Economic Development.

Looking forward

In the coming year we will continue to work alongside neighbouring electricity network operators on a range of projects for the long term benefit of our region. We are the third largest of 29 electricity networks nationwide, and our community gains from the efficiencies created by operating at a larger scale. We welcome any opportunities to strengthen these efficiencies for our customers, including through coordinated ‘cross-border’ projects with our neighbours.

With so many electricity networks, each with their own management, engineering and operating policies and procedures, distribution industry consolidation would be an efficient way forward – yet the barriers to forming alliances with other networks are high.

The pervasiveness of electricity industry regulation remains a concern for us – the associated high costs of compliance add little

value to our network service or efficiency. Nevertheless, we will continue to work closely with regulators for the long term benefit of our customers. Helping to achieve positive and innovative solutions to the country’s energy challenges is an important contribution we can make for our region and for New Zealand as a whole.

Acknowledgements

After another successful year, the board thanks all employees at Orion and its subsidiary, Connetics, for their significant efforts and dedication. Our people have collectively built Orion’s reputation as an industry leader.

I thank my fellow directors for their hard work and input during the year, as they strive to achieve excellence for the company. Bill Heaps retired from the board in September 2008 after two years of valued contribution, and in April 2009 we welcomed Geoff Vazey who brings a wealth of experience to the table.

We are grateful for the continued support of our shareholders, Christchurch City Holdings Limited and Selwyn Investment Holdings Limited, and their ultimate owners the Christchurch City and Selwyn District councils.

Recognition is also due to Roger Sutton and his management team for their contributions over the past year. The company’s success is testament to their experience and dedication.

As a community we can all be proud of Orion’s position as one of New Zealand’s most innovative and reliable electricity network operators.



Craig Boyce
CHAIRMAN

Chief executive's review

Roger Sutton CHIEF EXECUTIVE OFFICER

A reliable and secure electricity supply is critical to essential services, manufacturing operations, the Christchurch central business district and our entire community. This year we took steps to reassure our region and, in particular, central Canterbury manufacturers and businesses that electricity supply in our network area is stable.

We continue to invest to improve our network's performance and protect our lines and cables against risks such as natural disasters and asset failure. On average, our customers experience less than one interruption in power supply a year, and in the last year we maintained our ranking as one of the most reliable and efficient networks in the country.

Security of electricity supply was a concern throughout New Zealand during the year. The low levels of South Island hydro lakes last winter sparked a nationwide electricity savings campaign and the country rallied to avoid electricity shortages. We worked closely with the wider electricity industry to ensure the power stayed on, and helped our customers by sending early signals of high electricity spot prices.

We were disappointed that neighbouring electricity network operator MainPower's application to build a wind farm on Mt Cass in North Canterbury was rejected during the year. However, several other generation projects are proposed that could strengthen security of supply to the South Island – we are watching with interest the consenting processes for TrustPower's Wairau River and Arnold River hydro schemes and Meridian Energy's proposed Mokihinui hydro dam and power station.

Working for our community

As a company ultimately owned by local councils, we are effectively owned by the customers we serve. We take our community responsibility seriously, and this year we were involved in several local initiatives – from home insulation and heating programmes to electrical trades training and electrical safety in schools.

Turning damp, cold homes of low-income Canterbury families into warm, dry and healthy homes is one way we have made a

positive impact. We played a leading role in the Warm Families project, helping to insulate and heat the homes of families in need. We funded this project alongside MainPower, our longstanding partners Community Energy Action and the Energy Efficiency and Conservation Authority, and Partnership Health Canterbury. We are proud to be part of such a significant Canterbury community project – you can read more about this and other community initiatives on pages 13 and 14.

Our network

Last year we reported on two notable investments in new technologies to further improve our network quality and reliability – the Ground Fault Neutraliser (GFN) and a fully integrated network management system (NMS).

The GFN, which has the potential to reduce rural power cuts by 20-40% over the next five to 10 years, is now installed at five of our rural substations. We're on track to purchase and install 10 more GFN units throughout the remainder of our rural network in the next three years. This innovative technology is designed to reduce the amount of electrical arcing at the point a fault occurs on the network, so we can maintain power supply to homes and businesses while field staff are dispatched to fix the fault.

The supervisory control and data acquisition (SCADA) phase of our NMS project is also complete, and we expect the entire NMS to be fully operational by mid 2010. This is a significant development for us – the system will help us manage our assets and programme our maintenance in smarter ways, and will ultimately benefit all central Canterbury residents due to its potential to reduce the length of power cuts. When severe storms hit, the NMS will give us

information and capabilities to prevent outages, and help crews to restore power to more people faster.

We also continued our work with Transpower to upgrade and replace local transmission grid assets and strengthen security and reliability of supply for our customers. Where transmission security or performance gaps exist, we have either invested in our network or planned future investment to maintain the security of supply that our customers, particularly our major industrial customers, need. One particular Transpower project we are involved in is the upgrade of transformers at Bromley substation – a \$6-18m staged project, currently in the investigation phase.

Our industry partnerships

This year we continued to foster partnerships with MainPower, Alpine Energy and several other South Island network operators. Through relationships with these companies, we continue to develop common operating standards and improve other areas for the benefit of employees, contractors and customers.

One project currently unifying regional network operators is load management coordination in the upper South Island. This is an Orion-led initiative to cooperatively manage regional peaks in load through controlling water heating. As we work together to reduce peaks, our customers benefit through secure electricity supply and lower transmission costs (and therefore electricity prices) and so we are keen to maintain our key involvement in this process.

Our prices

In February 2009 we announced an average electricity delivery price increase of 5.2%, effective 1 April 2009. This includes a 3.1% increase for distribution and a 10.6% rise due to an increase from Transpower. This year we also changed the structure of our pricing to reflect Transpower's new winter-based pricing.

Our new prices were set so that we continue to comply with the Commerce Commission's price threshold regime.

Our environment

We are proactive when it comes to minimising our environmental impact. This year we became the first electricity network operator in New Zealand to commission a full, independent carbon footprint assessment of our activities, right down to quantifying the levels of carbon in materials used on our network.

I'm pleased to report that our carbon emissions are low when compared with emissions in the wider electricity industry. Electrical losses on the network create our biggest impact, and these losses are governed by the laws of physics. In an effort to have even better environmental performance, next year we will implement key recommendations from the independent assessment. See further details on page 14.

Our people

This year our employees agreed on a set of core values that reflect what is important to us, and how we want to treat customers and key stakeholders as we operate our network. Building and maintaining positive relationships is a cornerstone value for us, and the range of community and industry initiatives we're involved in is evidence of this.

Our people step up to the challenge at every opportunity, whether it is to restore power in remote areas after a storm, fix major technical problems or resolve difficult issues for customers. I thank Orion and Connetics employees for their efforts during the year, consistently giving their all to plan, operate and maintain our network.

Thank you all for another great year.



Roger Sutton
CHIEF EXECUTIVE OFFICER

Powering our rural communities

"It's such a beautiful day, but you could only imagine how cold it gets up here when a wintry southerly hits," Christine Fernyhough of Castle Hill Station tells Orion network operator Warwick Taylor. "A decent snow storm really takes its toll and can isolate us pretty quickly."

Remote farming communities like those in the Canterbury high country rely heavily on essential services like electricity - particularly in winter when snow wreaks havoc for farmers and their stock.

"We're very lucky to have a reliable supply of electricity up here," Christine says, "and when the power does go out, Orion gets up here in good time to fix the problem and get us back up and running. Their responsiveness is impressive."

During severe snow or wind storms, the impact from trees falling on overhead power lines creates one of Orion's biggest hazards. To reduce this risk we spend more than \$2.2m each year on tree maintenance, which helps to prevent faults from vegetation during storms.

When we need to remove or trim trees next to rural power lines, we work closely with property owners and designers to minimise our impacts and restore the landscape with fresh planting.



Warming up

our families

It's time for a hot drink in this Woolston household - a quick break for a busy family of five who are keeping warm, dry and healthy inside their home this winter.

When Sala Aileone and Tiffany Sinafoa discovered an under-insulated house was contributing to their young girls' breathing problems, they turned to our energy efficiency partner, Community Energy Action (CEA), for help.

With funding from the Warm Families home insulation and heating programme, CEA insulated the family's house and installed a heat pump - a welcome relief that ended a string of hospital visits for Anna-Naina, four, and Atalaita, two.

"The girls are keeping much better now," says Tiffany. "Having a warmer home has really made a difference, and I'm sure baby Aidan is noticing it too!"

Orion is proud to fund Warm Families alongside CEA, MainPower, the Energy Efficiency and Conservation Authority and Partnership Health Canterbury.



Our year in review

Our electricity distribution network is one of the largest and most reliable in New Zealand. A dependable and safe supply of electricity is of critical importance to the community we serve, and our priority is to continue the cost-effective improvement of our network performance.

This year we delivered over **3,400GWh** of electricity and supplied a maximum demand of **624MW**.

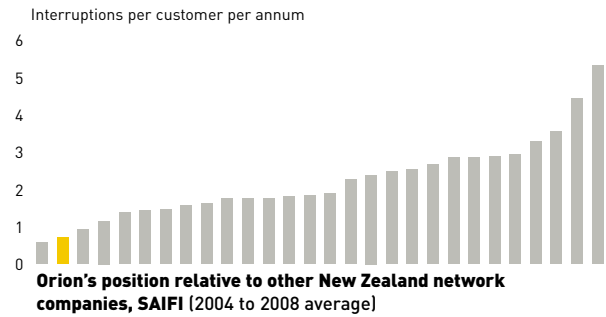
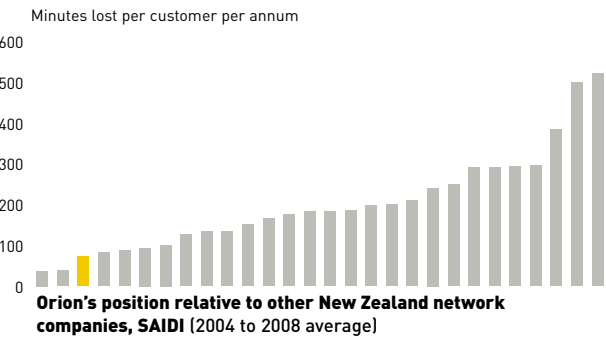
Network reliability and price

We have achieved a reputation as one of the best network operators in the country because we consistently operate a safe and reliable network at below average price levels.

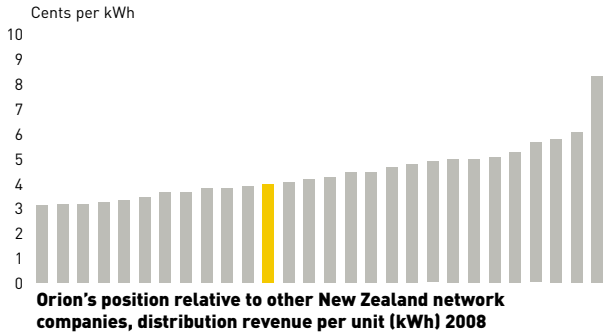
In the five years to 31 March 2008 (the most recent period where comparative figures are available):

- Only one other network operator in New Zealand had fewer power outages per customer than us. On average our customers experienced one interruption to their electricity supply every 15 months.
- We 'kept the lights on' over 99.99% of the time. Only two other New Zealand networks lost power for less time. However, both of those networks only serve city customers, unlike ours which delivers electricity to customers across a diverse topography that includes remote rural areas.

When we compare our 2009 results with those of other network operators, we believe that we again performed well.



In the year to 31 March 2009 our customers were without power for just over an hour on average. The New Zealand average for the previous five years was over three hours. We also kept the number of interruptions per customer at very low levels.



Our prices compare favourably with those of other New Zealand electricity network operators. Combined with our superior reliability, this means excellent value for money for our customers.

We are pleased that the two main electricity retailers operating in our area, Meridian Energy and Contact Energy, are installing 'smart meters' at all of their customers' premises. About three quarters of local residential and small business customers now have smart meters, which will allow customers to be better informed about their energy use.

With the successful rollout of smart meters in our network area, we are impatient for retailers to introduce 'smart pricing' options. Smart meters give retailers the ability to offer customers different electricity prices at different times of the day or season, encouraging them to reduce energy consumption at peak network demand times and lower their electricity bills. We strongly encourage retailers to offer innovative pricing options in the near future, for the benefit of our community.

Our prices are already structured to reflect the actual cost of delivering electricity across our network. Many major business customers take advantage of our own smart pricing options to lower their electricity bills. By responding to our signals during times of peak loading on our network, businesses can reduce their electrical load and their electricity bill by as much as half.

Network enhancements

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

- began a project to replace Transpower's 11kV switchgear at Papanui, take over ownership of the equipment to reduce costs and improve efficiency, and install additional 11kV circuit breakers to provide extra capacity and security of supply for electrical load growth in Belfast and Harewood
- largely completed the new 66kV Larcomb substation near Rolleston to provide additional capacity to the Rolleston industrial park and improve security of supply to the wider area
- completed a new district substation at Dunsandel to connect the Synlait milk processing plant, which began operation in August 2008
- installed four Ground Fault Neutralisers at the Hills Road, Larcomb, Killinchy and Springston substations, to improve reliability of supply for our rural areas at Leeston, Southbridge, Springston, Killinchy and part of Rolleston
- largely installed a third 33/11kV transformer at the Sockburn substation to increase capacity to meet projected load growth due to residential and industrial development in the Wigram area
- implemented the first phase of our network management system (NMS) project – a new supervisory control and data acquisition (SCADA) system which provides centralised control and monitoring of electrical equipment around the network. Once completed, the NMS will significantly improve our ability

to respond to big network emergencies and help us to manage assets and programme maintenance in smarter ways.

Capital expenditure on our network during the year totalled more than \$36m. Our network asset management and maintenance expenditure amounted to a further \$25m.

Over the next 10 years we expect our capital expenditure to range from \$30m to \$50m per year – an average of \$41m per year – due to the need to:

- increase network capacity in Christchurch city as a result of infill housing, overall urban growth and Environment Canterbury's clean air plan
- continue investment in rural areas to meet strong residential growth at Rolleston and increased dairy farming loads between the Selwyn and Rakaia rivers
- replace network assets installed in the high electricity growth years of the 1960s which are now reaching the end of their service life.

Over the next year, we plan to complete major network enhancements in the Papanui, Lincoln, Rolleston and Sockburn areas.

Further information on our network investment plans can be found in our network asset management plan, available on our website oriongroup.co.nz

Our community

We contribute to the community we serve through a range of sponsorships and initiatives.

Community Energy Action

We continue to provide significant funding and operational support to the charitable trust Community Energy Action (CEA), in a partnership that has spanned 15 years. CEA is Canterbury's leading provider of energy efficiency services and aims to eliminate cold, damp and poorly insulated houses, particularly for people on low incomes or with poor health.

Since its early days as a pilot for similar trusts around New Zealand, employing just a handful of staff, CEA now employs about 40 people including office staff and insulation installers.

Demand for CEA's insulation and other energy efficiency services continues to grow. Since its inception in 1994, the company has installed energy efficiency improvements in more than 13,000 homes. This year saw the launch of the Warm Families project, a major new home insulation and heating programme to warm up thousands of cold and damp homes in Canterbury. We played a leading role in this project, providing funding alongside CEA, MainPower, the Energy Efficiency and Conservation Authority and Partnership Health Canterbury, a public health organisation.

As well as key financial contributions, we help CEA with information technology and other issues that arise in day-to-day operations. CEA plans to expand its activities now that the Government has announced increases in subsidies for insulation and heating – CEA has been approved to deliver the new insulation and heating subsidy programme.

Public safety education

We extended our local public safety and awareness programme this year to include electrical safety displays at the Royal New Zealand Show, the South Island Agricultural Field Days and several rural A & P shows. Our presence at these events helped us to achieve



ABOVE: Our South Island Agricultural Field Days display reminded farmers and rural landowners to keep their equipment clear of power lines.

our goal of promoting safe use of electricity in our community, particularly in rural areas, while raising Orion's profile throughout our network area.

We also continued our free "Understanding Electricity" programme in schools, to educate primary school children about the safe use of electricity. This programme provides materials, tools and support to Canterbury teachers and students, and supports the school curriculum in the areas of electricity, science and social needs.

Our year in review continued

Our community continued

Canterbury Innovation Incubator

We are a founding partner of Cii, New Zealand’s leading business incubation facility, which accelerates the growth of emerging technology companies in Canterbury. We play an active role in Cii, utilising our extensive experience in new technology companies and our networks in the international technology market. The incubator is located alongside Orion’s building on Armagh Street in Christchurch and is increasingly recognised as the technology hub of Canterbury, hosting networking events, forums, seminars and guest speakers.

Earth Hour

On Saturday 28 March 2009 at 8.30pm, Christchurch joined cities around the world in Earth Hour. As a key supporter of this event, we calculated the savings for Christchurch during Earth Hour at 8.1%. About 22 megawatt hours of electricity were saved – roughly equating to the amount of electricity used by two New Zealand homes each year. Earth Hour successfully communicated the importance of electricity to our region, and we were proud to be associated with this event alongside the Christchurch City Council.

Connetics

Our wholly-owned subsidiary, Connetics, constructs and maintains substations, overhead and underground lines and associated equipment. The company, which employs about 240 people, also operates an equipment supply and logistics business and provides engineering design and consultancy services.

Connetics achieved its financial targets for the year, reporting an after tax surplus of \$888,000 compared with a budget of \$867,000. Confronted with a downturn in market conditions, the company overcame significant challenges to achieve this result. It met its targets through maximising value, carefully managing operating and project costs, and ensuring quality and compliance.

Safety is a key priority and Connetics maintained accreditation for its health and safety and quality management systems during the year, including tertiary accreditation of its workplace safety management systems under the ACC partnership programme.

Training, development and retention of employees is also a key focus for Connetics. At year end, the company had 24 apprentices in formal training. During the year, two Connetics apprentices completed their training.

The company’s excellence was recognised in 2008 when it received the Electricity Engineers’ Association (EEA) workplace safety award for its efforts to develop and implement equipotential bonding procedures when working on de-energised overhead lines, and the EEA engineering excellence award for lighting at ChristChurch Cathedral. Connetics was also a finalist in the 2008 Champion Canterbury ACC workplace safety awards.

The company retained several large Orion contracts covering emergency response, cable supply, emergency spare storage and engineering design. Connetics secures approximately half of its revenue from Orion via a competitive contracting process, and in parallel, we contract Connetics to carry out around half of the total construction and maintenance on our network.

During the year Connetics completed a range of significant projects – the company installed and commissioned Larcomb district substation, reinforced 11kV underground cable in Papanui, implemented a low voltage underground conversion at Bridge Street and replaced cable joints on the 66kV underground cable from Bromley to Dallington.

Connetics’ supply and logistics business unit also secured new business to provide materials supply to Lineworks based in Paraparaumu and Buller Electricity in Westport.

Our people

Over 140 talented and dedicated employees work directly for Orion, and most days a further 250 experienced contractors work with us on the network. Our people are critical to our business – their qualifications, experience and skills are essential as we plan, engineer, operate and control our network, manage finances and contracts, and give the best service we can to our customers.

An ageing workforce and an industry shortage of skilled staff remain key issues for us. To ensure that we are not left short of skilled employees in the future, we continue to plan ahead and support several initiatives that focus on training, recruitment and staff retention.

We are committed to providing our employees with a safe, healthy and rewarding work environment. Our people have access to the training and resources they need to develop their skills, and we implement systems and procedures that support safe working practices throughout the company.

Keeping people safe and healthy

We do all that we can to provide a healthy and safe work environment for the benefit of our employees, contractors and the general public, taking all practical steps to ensure we do not place anyone at risk.

As a responsible electricity network company, zero is the only prudent “serious harm” injury/accident target we can have. Our extensive safety management procedures identify hazards and risks that could harm our staff or contractors, and we build safety components into all aspects of our operations. Everyone in our company is responsible for safety – whether they are field staff fixing faults, planning engineers, contact centre staff or business unit managers.

We provide wellness opportunities for our employees, to enable them to keep healthy and remain productive and safe at work. Our employees can access services such as an on-site occupational health nurse, influenza vaccinations, regular health seminars, an employee counselling programme and a number of fitness activities.



ABOVE: Connetics workers move circuit breakers onsite at the CPIT Distribution Trades Training Centre, to support a simulated subdivision at the site.

Our wellness programme is reviewed regularly to ensure it meets our needs.

In-house trainee programmes

We have introduced and developed in-house programmes to train employees to a level where they are sufficiently skilled to replace those we expect will retire in the next five to 10 years. Our four-year advanced engineering programme currently has three trainees who are developing a diverse set of skills by working and training in areas throughout the company.

Annual staff survey

In August 2008 we participated in the ‘Best Places to Work’ survey, New Zealand’s largest annual survey of workplace climate and employee engagement. In the survey, our employees rated their overall perception of Orion at an average of 81 out of 100. The results are not directly comparable to previous years’ surveys due to significant changes in the design and scoring of this year’s survey. Results and feedback were discussed with employees and action plans developed for those areas where improvements were identified. The key issues currently being addressed from last year’s survey results are:

- to improve our employee performance and feedback process
- to broaden employees’ knowledge of our reward and recognition practices
- to improve communication and cooperation between different teams within Orion.

CPIT Distribution Trades Training Centre

We are proud to be a founding partner of this excellent trade facility which provides training specifically for the electricity distribution sector, and is already attracting electrical workers from throughout New Zealand.

We have committed \$1.5m to develop the centre at CPIT’s Sullivan Avenue site, in an effort to encourage careers in the electricity distribution sector and help resolve issues with skill shortages and an ageing workforce. This is a significant investment for Orion, providing a crucial local resource to ensure the ongoing competence of workers in the electricity distribution industry.

During the year Orion and Connetics staff continued cable jointing and line mechanic training at the centre, while other electrical workers from around the country used the onsite facilities to hone their skills. Work continued on a \$9.6m simulated subdivision, including housing, civil works, plumbing, drainlaying, gas fitting, drainage and roading, to replicate actual electricity distribution field work. A switchyard has now been built to support the subdivision, and boundary, multi and link boxes have been installed.

The Electrical Engineers’ Association also held professional development workshops at the site during the year, attracting participants nationwide.

Supplying safe and reliable power

Orion urban network operator Marc Curd takes pride in maintaining our network around Christchurch city. It's a rewarding and safe job, he says, when the lines, cables and substations are treated with the respect and caution they deserve.

Keeping people safe is integral to our company's culture, as can be seen by our commitment this year to reduce 'live-line' work. Maintaining live lines involves an additional level of risk, and this year our staff and contractors have focused on more training and assessment to minimise those safety risks.

The downside of less live-line maintenance is that power is out for longer during planned interruptions. To prevent disruption to customers, we regularly inspect assets to identify risks before they become a problem, and use advanced technology to find defects on the network.

More district substations on our network also mean fewer outages - on average we've added another substation each year since 2001 to help meet increased demand for electricity. These create shorter feeder lines, so fewer customers are affected by any one power cut.



Corporate management

Roger Sutton

CHIEF EXECUTIVE OFFICER

Roger has extensive experience managing operational and strategic development projects in the New Zealand energy industry. He has worked at a senior level in both the electricity and gas industries, in management of infrastructure as well as in customer service/sales roles.

Roger has been Orion's chief executive officer since April 2003. He is chairman of the Energy Efficiency and Conservation Authority and Connetics Limited, and is a director of 4RF Communications Limited and the Electricity Networks Association.



Craig Kerr

GENERAL MANAGER
INFORMATION SOLUTIONS

Craig manages the information solutions function within Orion, which involves the delivery and management of information solutions infrastructure and the provision, support and enhancement of information systems to support Orion's business processes.

Craig has over 20 years' experience in the information technology sector, mostly within the electricity industry. He is also responsible for the management of Orion's contact centre.



Brendan Kearney

GENERAL MANAGER
CORPORATE SERVICES

Brendan leads the Orion corporate services team, which is responsible for the corporate finance function of the business. Brendan is also a director of Connetics Limited and 4RF Communications Limited.

He is a chartered accountant with the New Zealand Institute of Chartered Accountants and is a fellow of Chartered Secretaries New Zealand. Brendan joined Orion in 1988 and previously worked for the Electricity Corporation of New Zealand and international accounting firm Arthur Young.



John O'Donnell

GENERAL MANAGER INFRASTRUCTURE

John leads Orion's infrastructure team, which manages the safe construction, maintenance, engineering and operation of Orion's network. He has extensive experience with distribution networks, holding senior management positions in the gas and electricity industries.

John is a member of the CPIT Trades Innovation Institute Advisory Board, a past board member of the Gas Association of New Zealand and a current member of the Canterbury Engineering Lifelines group.



Rob Jamieson

GENERAL MANAGER COMMERCIAL

Rob manages Orion's commercial team, which is responsible for pricing, regulatory issues, relationships with retailers and major customers, and Orion's communications.

Rob has extensive electricity industry experience, including an engineering role in the generation sector, a commercial role for a private company, management experience with a rural North Island power company and managing wholesale electricity purchases for Orion's predecessor, Southpower Limited. He is also a member of the Electricity Commission's retail market advisory group and chairs the Electricity Networks Association's regulatory working group.



Tas Scott

GENERAL MANAGER
NETWORK DEVELOPMENT

Tas leads Orion's network development team, which plans and develops the Orion network to provide security of supply and adequate capacity for the future. He has extensive experience in the generation, transmission and distribution sectors of the electricity and gas industries.

Tas is a past president and current executive board member of the Electricity Engineers' Association of New Zealand. He is also a member of the Power Engineering Excellence Trust at the University of Canterbury and a member of the Electricity Commission's transmission advisory group.



Adrienne Sykes

HUMAN RESOURCES MANAGER

Adrienne is responsible for the human resources function of Orion, working at both strategic and operational levels within the company. She has previous experience in senior and corporate human resources roles in manufacturing, not-for-profit and commercial iwi operations.



Board of directors

Craig Boyce

B Com, FCA, FNZIM, FNZID

Craig is a professional company director with extensive commercial governance experience. He has previously chaired the board of TVNZ, and was chief executive officer of Smiths City Group Limited during the 1990s. Craig has been chairman of the Orion board since August 2006.

Other chairmanships

Smiths City Group Limited and its subsidiary companies.

Directorships

Connexionz Limited, Canterbury Economic Development Co. Limited, Bernard Matthews New Zealand Limited, Combined Rural Traders Society Limited, Progressive Leathers Limited, Datacom Group Limited, Transdiesel Limited and Horizon Farming Limited.



George Gould

LLB

George is a professional company director and investor with a background in law, investment banking and management. George has public and private company experience in a wide range of industry sectors, and has been an Orion board director since August 2001.

Chairmanships

Gould Holdings Limited.

Other directorships

George Gould Limited, Southern Hemisphere Proving Grounds Limited, Milford Dart Limited, Mitre Peak Cruises Limited, Newsmonitor Investments Limited (formerly known as Chong Bureau Limited) and Gloucester Cambridge Holdings Limited.



Michael Andrews

Michael has been a director of the Orion board since August 2006, and holds directorships in many other companies. He has extensive experience in the forestry industry, including as chief executive officer of Fletcher Challenge Limited from 1997 to 2001.

Other directorships

Tenon Limited, Eastland Infrastructure Limited, Eastland Network Limited, Eastland Port Limited and the Centre for Research Excellence in Bio-Protection Technologies hosted by Lincoln University.



Gail Sheriff

Gail is a long-serving Christchurch City Councillor, with experience including chairing resource consent hearings and serving on the council's audit and risk management subcommittee. She was a director of Christchurch International Airport Limited for seven years, and has been an Orion board director since April 2005.

Other directorships

Canterbury Development Corporation, Canterbury Economic Development Fund Trustee Limited and Canterbury Repertory Theatre Limited.



John Dobson

B Com, AF.Inst.D

John is a professional director with over 20 years' experience in a wide range of industries. He has been a director of the Orion board since August 2003.

Other directorships

Smiths City Group Limited and its subsidiary companies, Rural Transport Limited, NZ Express Transport (2006) Limited and Wilson Bulk Transport.



Geoff Vazey

Geoff was appointed as an Orion board director in April 2009.

He is a professional director with strong commercial and governance experience, including 20 years' involvement in infrastructure at the Ports of Auckland.

Geoff is a fellow of the Institution of Professional Engineers New Zealand.

Chairmanships

HEB Construction Limited, Northland Port Corporation (NZ) Limited and the Advisory Committee of Lloyds Register New Zealand.

Other directorships

Northport Limited.



Corporate governance statement

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

Ownership

The company is owned by:

• Christchurch City Holdings Limited (which is 100% owned by the Christchurch City Council)	89.275%
• Selwyn Investment Holdings Limited (which is 100% owned by the Selwyn District Council)	10.725%
	<u>100.000%</u>

The company amalgamated with its 100% holding company, Orion Group Limited, on 31 March 2009.

Prior to amalgamation, the shareholders listed above owned the holding company in the same percentages.

Principal activities

The company's principal activities during the year were:

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

Role of the board

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

- commercial performance
- business plans and budgets
- company policies
- financial and dividend policies
- management oversight and development
- delegations of authority
- identification and control of business risks
- identification and control 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 Act), the company's principal objective is to operate as a successful business.

Statement of intent

In accordance with section 39 of the Act, in February each year the board submits a draft statement of intent (SOI) to its shareholders 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 board, delivered to the company's shareholders and placed on the company's website.

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

Code of conduct

The board has adopted a code of conduct. The purposes of the code are to clarify how the board and directors 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.

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

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 membership

The board currently consists of six non-executive directors. Under the company's constitution:

- five have been appointed by the company's majority shareholder, Christchurch City Holdings Limited
- one has been appointed by the company's minority shareholder, Selwyn Investment Holdings Limited.

Note: One of the Christchurch City Holdings Limited appointments is made after consultation with Selwyn Investment Holdings Limited.

Under the company's constitution, at least one third of the company's directors retire from office at the formal annual meeting each year. At this year's annual meeting to be held in August 2009, Michael Andrews, John Dobson and Geoff Vazey will retire to meet this rotation rule. All three directors have indicated they are available for reappointment. Pursuant to the company's constitution, Christchurch City Holdings Limited has advised that it intends to reappoint all these directors in August 2009.

Note: Geoff Vazey was appointed to the board to fill a casual vacancy effective 1 April 2009. Bill Heaps retired as a director on 9 September 2008.

Board operation

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

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

All new directors undertake an induction process at the time of their appointment to familiarise them with matters related to the company.

Board meetings

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

Directors receive formal papers and regular reports for consideration generally a week in advance of meetings.

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

Corporate governance statement continued

Board committees

While the board may delegate some responsibilities and tasks to a board committee, it cannot avoid ultimate responsibility and 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 to set and review remuneration of the company’s chief executive officer and other senior executives.

Legislative compliance

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

Investments in other companies

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

Subsidiary companies

The following people held office of subsidiary companies during the year. Except where shown on page 24, no director of any subsidiary company within the Orion group received directors’ fees or other benefits as a director. The remuneration of employees acting as directors of subsidiary companies is disclosed in the relevant bandings in the group employee remuneration section on page 25.

Connetics Limited	Michael Andrews, Brendan Kearney, Roger Sutton, Robert Taylor
Orion New Zealand Ventures Limited	Roger Sutton

Apart from the interests register entries disclosed on the next page, the further entries made in the subsidiary and other companies’ interests registers were as follows:

Brendan Kearney	4RF Communications Limited	Director
Roger Sutton	Energy Efficiency and Conservation Authority	Chairman
	4RF Communications Limited	Director
	Electricity Networks Association	Board member
Robert Taylor	Electricity Supply Industry Training Organisation	Director
	Electricity Engineers’ Association	Committee member

Brendan Kearney and Roger Sutton are executive employees of the company. Robert Taylor is managing director of the company’s subsidiary company Connetics Limited.

Conflicts of interest

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

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

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

Interests register

The company maintains an interests register in which particulars of certain transactions and matters involving the directors are recorded. These records are a requirement under the Companies Act 1993. The following entries were recorded by the company’s directors in the interests register during the year ended 31 March 2009.

Michael Andrews	Centre for Research Excellence in Bio-Protection Technologies	Director
	Eastland Infrastructure Limited	Director
	Eastland Network Limited	Director
	Eastland Port Limited	Director
	Tenon Limited	Director
Craig Boyce	Bernard Matthews New Zealand Limited	Director
	Canterbury Economic Development Co. Limited	Director
	Combined Rural Traders Society Limited	Director
	Connexionz Limited	Director
	Datacom Group Limited	Director
	Horizon Farming Limited	Director
	Progressive Leathers Limited	Director
	Smiths City Group Limited and subsidiaries	Director
	Snowy Peak Limited	Director
	Thermocell Limited	Director
	Transdiesel Limited	Director
John Dobson	Gough Holdings Limited and subsidiaries	Director
	Gough Securities Limited	Director
	NZ Express Transport (2006) Limited	Director
	Rural Transport Limited	Director
	Securitised Equipment Holdings Limited	Director
	Smiths City Group Limited and subsidiaries	Director
	Wilson Bulk Transport	Director
George Gould	Chong Bureau Limited and subsidiaries	Director
	George Gould Limited	Director
	Gloucester Cambridge Holdings Limited	Director
	Gould Holdings Limited	Director
	Gould Wealth Management Limited	Director
	Milford Dart Limited	Director
	Mitre Peak Cruises Limited	Director
	Southern Hemisphere Proving Grounds Limited	Director
Bill Heaps	Business Symmetrics Limited	Director
	Electricity Commission’s transmission and wholesale market advisory groups	Member
	Strata Energy Consulting Limited	Director
	Strata Energy Limited	Director
	Strata Limited	Director
	The Sustainable Capital Company Limited	Director
Gail Sheriff	Canterbury Development Corporation	Director
	Canterbury Economic Development Fund Trustee Limited	Director
	Christchurch City Council	Councillor

Corporate governance statement continued

Board standing committees

During the year the following directors served as standing committee members:

AUDIT AND RISK MANAGEMENT COMMITTEE	REMUNERATION COMMITTEE
John Dobson (chairman)	George Gould (chairman)
Michael Andrews	Craig Boyce
Craig Boyce	
Gail Sheriff	

Board and committee attendance

The board and the two standing committees have a number of scheduled meetings each financial year. The following table summarises attendance for the company's financial year ended 31 March 2009.

	Board meetings	Audit and risk management committee meetings	Remuneration committee meetings
Number of meetings held	8	5	1
Craig Boyce	7	5	1
Michael Andrews	7	4	-
John Dobson	8	5	-
George Gould	7	-	1
Bill Heaps	4	1	-
Gail Sheriff	6	4	-

Note: Bill Heaps retired as a director on 9 September 2008 and was not a member of either of the two standing committees.

Auditor

In accordance with section 45 of the Act and section 15 of the Public Audit Act 2001, the Auditor-General remains as auditor of the company.

Directors' insurance

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

Loans to directors

No loans were made to directors.

Directors' remuneration

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

	Orion New Zealand Limited directors' fees \$000	Subsidiary company directors' fees \$000
Craig Boyce	75	-
Michael Andrews	38	13
John Dobson	43	-
George Gould	39	-
Bill Heaps	15	-
Gail Sheriff	38	-
	248	13

Group employee remuneration

The numbers of group employees and former employees, other than directors of the company, whose remuneration and benefits fall within specified bands are listed below. Remuneration includes all non-cash benefits and redundancy payments where applicable.

Remuneration \$000	Number of current and former employees 2009	Number of current and former employees 2008
100 - 110	19	15
110 - 120	11	7
120 - 130	3	4
130 - 140	4	5
140 - 150	2	2
150 - 160	-	1
160 - 170	1	1
170 - 180	2	1
270 - 280	1	1
290 - 300	2	1
300 - 310	-	1
360 - 370	-	1
370 - 380	1	-
430 - 440	1	-
480 - 490	-	1
640 - 650	-	1
670 - 680	1	-

Audited financial statements

The board of directors is pleased to present the audited financial statements of Orion New Zealand Limited and its subsidiaries for the year ended 31 March 2009.

The company's audited financial statements also include four audited statements of performance:

- financial
- electricity network reliability
- environmental
- community and employment.

.....

Authorised for issue on 10 June 2009 for and on behalf of the board of directors:



Craig Boyce
CHAIRMAN

Christchurch, 10 June 2009



John Dobson
DIRECTOR

Christchurch, 10 June 2009

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Income statement

For the year ended 31 March 2009

		Group 2009 \$000	Group 2008 \$000	Parent 2009 \$000	Parent 2008 \$000
	Notes				
Operating revenue	2	231,611	208,989	210,928	191,578
Other income	3	248	4,214	189	3,364
		231,859	213,203	211,117	194,942
Operating expenses	4	122,489	101,901	103,594	85,911
Depreciation, amortisation and impairment	5	35,667	35,056	34,325	32,581
Finance expenses	6	3,278	2,287	3,278	2,287
		161,434	139,244	141,197	120,779
Profit before income tax expense		70,425	73,959	69,920	74,163
Income tax expense	8	20,565	8,449	20,230	7,968
Profit for the year attributable to the parent entity		49,860	65,510	49,690	66,195

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

Statement of changes in equity

For the year ended 31 March 2009

Notes	Share capital \$000	Retained earnings \$000	Asset revaluation reserve \$000	Available-for-sale revaluation reserve \$000	Total equity \$000
Consolidated entity					
Balance as at 1 April 2007	120,000	429,027	125,473	2,236	676,736
Decreases in the asset revaluation reserve	18	-	(246)	-	(246)
Deferred tax on items transferred from equity	8	-	35	-	35
Net expense recognised directly in equity		-	(211)	-	(211)
Available-for-sale investment transferred to profit on sale		-	-	(2,780)	(2,780)
Reversal of deferred tax on realisation of available-for-sale investment	8	-	-	378	378
Available-for-sale investment transferred to profit on impairment		-	-	166	166
Realised gain on disposal of property, plant and equipment		-	86	(86)	-
Impact of change in the corporate tax rate on deferred tax liability	8	-	-	5,192	5,192
Profit for the year		-	65,510	-	65,510
Total recognised income and expense for the year		-	65,596	5,106	68,466
Dividends	31	-	(45,000)	-	(45,000)
Balance as at 31 March 2008		120,000	449,623	130,368	699,991
Elimination of intercompany advance to Orion Group Limited on amalgamation	34	-	(4,036)	-	(4,036)
Restated balance as at 1 April 2008		120,000	445,587	130,368	695,955
Decreases in the asset revaluation reserve	18	-	-	(4,422)	(4,422)
Deferred tax on items transferred from equity	8	-	-	18	18
Net expense recognised directly in equity		-	-	(4,404)	(4,404)
Realised gain on disposal of property, plant and equipment		-	1,054	(1,054)	-
Reversal of deferred tax on realisation of property, plant and equipment	8	-	(71)	89	18
Profit for the year		-	49,860	-	49,860
Total recognised income and expense for the year		-	50,843	(965)	49,878
Dividends	31	-	(44,000)	-	(44,000)
Balance as at 31 March 2009		120,000	452,430	124,999	697,429

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

Notes	Share capital \$000	Retained earnings \$000	Asset revaluation reserve \$000	Available-for-sale revaluation reserve \$000	Total equity \$000
Parent entity					
Balance as at 1 April 2007	120,000	430,022	125,473	2,402	677,897
Decreases in the asset revaluation reserve	18	-	(246)	-	(246)
Deferred tax on items transferred from equity	8	-	35	-	35
Net expense recognised directly in equity		-	(211)	-	(211)
Available-for-sale investment transferred to profit on sale		-	-	(2,780)	(2,780)
Reversal of deferred tax on realisation of available-for-sale investment	8	-	-	378	378
Realised gain on disposal of property, plant and equipment		-	86	(86)	-
Impact of change in the corporate tax rate on deferred tax liability	8	-	-	5,192	5,192
Profit for the year		-	66,195	-	66,195
Total recognised income and expense for the year		-	66,281	5,106	68,985
Dividends	31	-	(45,000)	-	(45,000)
Balance as at 31 March 2008		120,000	451,303	130,368	701,671
Elimination of intercompany advance to Orion Group Limited on amalgamation	34	-	(4,036)	-	(4,036)
Restated balance as at 1 April 2008		120,000	447,267	130,368	697,635
Decreases in the asset revaluation reserve	18	-	-	(4,422)	(4,422)
Deferred tax on items transferred from equity	8	-	-	18	18
Net expense recognised directly in equity		-	-	(4,404)	(4,404)
Realised gain on disposal of property, plant and equipment		-	1,054	(1,054)	-
Reversal of deferred tax on realisation of property, plant and equipment	8	-	(71)	89	18
Profit for the year		-	49,690	-	49,690
Total recognised income and expense for the year		-	50,673	(965)	49,708
Dividends	31	-	(44,000)	-	(44,000)
Balance as at 31 March 2009		120,000	453,940	124,999	698,939

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

Balance sheet

As at 31 March 2009

		Group 2009 \$000	Group 2008 \$000	Parent 2009 \$000	Parent 2008 \$000
Notes					
Current assets					
Cash and cash equivalents		741	339	666	312
Trade and other receivables	9	8,162	5,931	6,330	3,476
Other current financial assets	11	2	4,366	5,631	10,187
Inventories	12	4,521	3,450	538	298
Current tax assets		-	393	-	493
Other	13	1,641	608	1,402	383
Total current assets		15,067	15,087	14,567	15,149
Non current assets					
Trade and other receivables	14	85	102	85	102
Inventories	15	-	784	-	784
Investments in subsidiaries and associates		-	-	6,551	6,551
Other financial assets	21	3,000	3,749	-	65
Property, plant and equipment	18	940,195	933,289	937,007	930,165
Investment property	17	5,719	5,860	5,719	5,860
Other intangible assets	20	3,175	1,622	3,147	1,598
Other	16	-	574	-	574
Total non current assets		952,174	945,980	952,509	945,699
Total assets		967,241	961,067	967,076	960,848
Current liabilities					
Trade and other payables	22	22,881	25,404	19,985	22,147
Borrowings	23	61	33	61	33
Other current financial liabilities	24	254	-	254	-
Current tax liability		2,924	-	2,838	-
Provisions	25	164	119	126	79
Total current liabilities		26,284	25,556	23,264	22,259
Non current liabilities					
Borrowings	26	51,477	43,562	51,477	43,562
Other financial liabilities	27	601	-	601	-
Deferred tax liabilities	8	190,630	191,153	192,272	192,781
Provisions	28	820	805	523	575
Total non current liabilities		243,528	235,520	244,873	236,918
Equity					
Issued capital	29	120,000	120,000	120,000	120,000
Reserves	30	124,999	130,368	124,999	130,368
Retained earnings		452,430	449,623	453,940	451,303
Total equity attributable to parent equity holders		697,429	699,991	698,939	701,671
Total liabilities and equity		967,241	961,067	967,076	960,848

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

Cash flow statement

For the year ended 31 March 2009

		Group 2009 \$000	Group 2008 \$000	Parent 2009 \$000	Parent 2008 \$000
Notes					
Cash flows from operating activities					
Receipts from customers		221,536	199,581	200,043	180,856
Interest received		336	348	493	499
Dividends received		-	-	500	1,500
Payments to suppliers and employees		(124,768)	(102,852)	(105,113)	(87,459)
Interest and other finance costs paid		(1,988)	(1,832)	(1,988)	(1,832)
Subvention payments		-	-	(36)	-
Income tax paid		(17,736)	(20,329)	(17,374)	(19,660)
Net cash provided by operating activities	33	77,380	74,916	76,525	73,904
Cash flows from investing activities					
Payment for available-for-sale investments		-	(256)	-	-
Proceeds from sale of available-for-sale investments		-	6,216	-	5,071
Proceeds from repayment of related party loans		-	-	-	894
Amounts advanced to related parties		-	(7)	(539)	(7)
Payment for property, plant and equipment		(36,388)	(40,141)	(34,761)	(38,948)
Proceeds from sale of property, plant and equipment		2,737	706	2,456	509
Payment for investment property		(329)	-	(329)	-
Deposit paid for property purchase		-	(574)	-	(574)
Payment for intangible assets		(2,707)	(591)	(2,707)	(591)
Net cash used in investing activities		(36,687)	(34,647)	(35,880)	(33,646)
Cash flows from financing activities					
Proceeds from borrowing		3,800	4,700	3,800	4,700
Repayment of borrowings		(91)	(91)	(91)	(91)
Dividends paid		(44,000)	(45,000)	(44,000)	(45,000)
Net cash used in financing activities		(40,291)	(40,391)	(40,291)	(40,391)
Net increase/(decrease) in cash and cash equivalents					
		402	(122)	354	(133)
Summary					
Cash and cash equivalents at beginning of year		339	461	312	445
Net increase/(decrease) in cash and cash equivalents		402	(122)	354	(133)
Cash and cash equivalents at end of year	33	741	339	666	312

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

Notes to the financial statements

For the year ended 31 March 2009

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 42). On 31 March 2009 the 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.

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

Compliance with NZ IFRS ensures that the group financial statements comply with International Financial Reporting Standards (IFRS). The parent entity financial statements also comply with NZ IFRS.

Basis of financial statement preparation

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

These financial statements have been prepared on the basis of historical cost, except for the revaluation of certain financial instruments as outlined in note 1(e), property, plant and equipment as outlined in note 1(l), and investment property as outlined in note 1(m). 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 have been applied in preparing these financial statements for the year ended 31 March 2009 and the comparative information presented in these financial statements for the year ended 31 March 2008.

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(l) 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 codependently) are impaired by estimating the future cash flows that those assets are expected to generate. Assumptions such as rates

1. Statement of accounting policies continued

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 these 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.

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 income statement 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.

Minority interests in the results and equity of subsidiaries are shown separately in the consolidated income statement 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 parent's financial statements using the cost less impairment method and 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 income statement and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the parent's income statement, while 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.

Notes to the financial statements continued

For the year ended 31 March 2009

1. Statement of accounting policies continued

(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 income statement 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 INCOME STATEMENT

The group has certain derivatives which are stated at fair value and the movements are recognised in the income statement.

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 income statement), 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 income statement for the year.

LOANS AND RECEIVABLES

Accounts receivable are stated at cost less impairment losses. 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(k).

(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.

1. Statement of accounting policies continued

(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 income statement, except when they relate to items charged or credited directly to equity, in which case the tax is dealt with in equity.

(h) Investments in subsidiaries and associates

Investments in subsidiaries and associates are stated at cost less impairment. Details of the impairment tests performed are disclosed in note 1(k).

(i) Leased assets

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.

CONSOLIDATED ENTITY 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.

CONSOLIDATED ENTITY AS LESSEE

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

(j) 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. 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 income statement immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the income statement depends on the nature of the hedge relationship.

The fair value of interest rate swaps is the estimated amount that 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.

Notes to the financial statements continued
For the year ended 31 March 2009

1. Statement of accounting policies continued

(k) 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 related component of the revaluation reserve, with any remaining impairment loss expensed in the income statement. If the impairment loss is subsequently reversed, the reversal is firstly applied to the income statement 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 income statement. 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 profit and loss.

(l) Property, plant and equipment

Land and buildings are valued 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 valued 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 ensure that 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(k).

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 income statement 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 income statement 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 income statement. 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 valued 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.

1. Statement of accounting policies continued

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 income statement. When revalued assets are sold, the amounts included in the revaluation reserve in respect of those assets are transferred to retained earnings.

(m) 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 income statement in the year in which those gains or losses arise.

(n) Intangible assets

Internally generated intangible assets for finite life intangibles are stated at cost less accumulated amortisation and impairment and are amortised on a straightline 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. Usually this period does not exceed three years.

Costs associated with developing or maintaining computer software programmes are recognised as expenses as incurred. Costs that are 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.

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.

RESEARCH AND DEVELOPMENT COSTS

Expenditure on research activities is recognised as an expense in the year in which it is incurred. An intangible asset arising from development (or from the development phase of an internal project) is recognised if future benefits are expected to exceed these costs. Otherwise, development expenditure is recognised as an expense in the year in which it is incurred.

Notes to the financial statements continued

For the year ended 31 March 2009

1. Statement of accounting policies continued

(o) 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 income statement and is not subsequently reversed. Refer also to note 1(k).

(p) 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.

(q) 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 income statement over the period of the borrowing using the effective interest rate method.

(r) 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.

(s) Business combinations

Business combinations involving entities that are under common control are accounted for using the pooling of interest method. This involves assets being transferred at their carrying value at the time of the transaction.

(t) 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.

(u) 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 balance sheet classification of the related debt or equity instruments or component parts of compound instruments.

(v) 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 income statement as it accrues, using the effective interest rate method.

(w) Distinction between capital and revenue expenditure

Capital expenditure is defined as all expenditure incurred in the creation of a new asset and any expenditure that results in a significant restoration or increased service potential for existing assets. Constructed assets are included in property, plant and equipment as each becomes operational and available for use. Revenue expenditure is defined as expenditure that is incurred in the maintenance and operation of the property, plant and equipment of the group.

1. Statement of accounting policies continued

(x) Capital contributions and Government grants

Capital contributions that are refundable to customers are treated as current liabilities until refunded. Non-refundable cash contributions from customers, including Government agencies, 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.

(y) Borrowing costs

Borrowing costs are expensed using the effective interest rate method. No borrowing costs have been capitalised.

Changes in accounting policies

The accounting policies detailed above have been applied in preparation of these financial statements for the year ended 31 March 2009 and have been consistently applied throughout the year. There have been no changes in accounting policies in comparison with the prior year.

New standards and interpretations on issue but not yet effective

The following standards are relevant to the group's operations and will become mandatory for the group's 2010 financial statements:

- NZ IFRS 7 Significance of Financial Instruments for Financial Position or Performance. This amendment enhances disclosures over fair value measurements of financial instruments and liquidity risk. The revised standard will impact on the quantum of the information disclosed in respect of financial instruments but will not impact on the financial performance or financial position of the group.
- NZ IFRS 8 Operating Segments, which supersedes NZ IAS 14 Segment Reporting. This new standard provides guidance on the disclosure requirements in respect of the operating segments of entities. The group is awaiting the outcome of a proposed change in the standard by the Financial Reporting Standards Board that may result in the group being outside of its scope before assessing the impact.
- NZ IAS 1 Presentation of Financial Statements (revised). This revision changes the presentation and components of the statement of changes in equity and introduces a new statement of comprehensive income. The revised standard will impact on the presentation of the financial statements but will not impact on the financial performance or financial position of the group.
- NZ IAS 23 Borrowing Costs (revised). This revision removes the option to expense borrowing costs incurred in respect of qualifying assets. The group has not determined the potential impact of this revised standard.
- NZ IFRIC 18 Transfers of Assets from Customers. This interpretation provides guidance on when and how an entity should recognise such assets. The interpretation will 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 IFRS 1 Amendments to Cost of Investments in Subsidiary, Jointly Controlled Entity or Associate	2010
NZ IFRS 2 Amendments to Share Based Payments	2010
NZ IFRS 3 Business Combinations (revised)	2011
NZ IFRS 4 Insurance Contracts (amendments)	2010
NZ IAS 27 Consolidated and Separate Financial Statements (amended)	2011
NZ IAS 32 Financial Instruments Presentation (amendments)	2010
NZ IAS 39 Financial Instruments: Recognition and Measurement (amendment)	2011
NZ IFRIC 9 Reassessment of Embedded Derivatives	2010
NZ IFRIC 13 Customer Loyalty Programmes	2010
NZ IFRIC 15 Agreements for Construction of Real Estate	2010
NZ IFRIC 16 Hedges of a Net Investment in a Foreign Operation	2010
NZ IFRIC 17 Distribution of Non-Cash Assets to Owners	2011

Notes to the financial statements continued

For the year ended 31 March 2009

	Group 2009 \$000	Group 2008 \$000	Parent 2009 \$000	Parent 2008 \$000
2. Operating revenue				
Electricity delivery services	180,415	169,372	180,415	169,372
Transmission rental rebates	13,378	4,217	13,378	4,217
Contracting	6,616	6,201	-	-
Sale of goods and services	15,812	12,897	819	-
Consumer capital contributions	4,833	4,088	4,833	4,088
Donated and subsidised assets	7,108	8,696	7,108	8,696
Rental:				
Investment property	310	309	310	309
Other property	376	350	376	350
Interest:				
Finance lease	11	12	11	12
Bank deposits	38	31	38	31
Other	52	164	52	164
Related parties	238	141	395	293
Dividends from subsidiaries	-	-	500	1,500
Other	2,424	2,511	2,693	2,546
	231,611	208,989	210,928	191,578

3. Other income				
Gain on disposal of property, plant and equipment	93	226	55	177
Gain on disposal of investments	-	786	-	-
Realisation of available-for-sale revaluation reserve	-	2,780	-	2,780
Gain on hedging	82	407	82	407
Net foreign exchange gains	52	-	52	-
Other	21	15	-	-
	248	4,214	189	3,364

4. Operating expenses				
Transmission	49,062	44,148	49,062	44,148
Transmission rental rebates	13,378	4,217	13,378	4,217
Employee benefits:				
Multi-employer defined benefit plans	214	156	35	84
Other employee benefits	28,876	26,977	13,709	12,766
Network maintenance	17,447	16,396	17,447	16,396
Operating lease payments	680	527	81	70
Change in fair value of investment property	470	355	470	355
Movement in provisions	58	64	[7]	44
Direct operating expenses of investment property	35	65	35	65
Donations	32	52	30	50
Subvention payments	-	-	36	-
Other	12,237	8,944	9,318	7,716
	122,489	101,901	103,594	85,911

	Group 2009 \$000	Group 2008 \$000	Parent 2009 \$000	Parent 2008 \$000
5. Depreciation, amortisation and impairment				
Depreciation of non current assets	33,046	31,873	31,684	30,557
Amortisation of non current assets	1,181	930	1,158	900
Impairment of property, plant and equipment	49	-	49	-
Impairment of financial assets	684	1,452	727	309
Reversals of impairment losses – property, plant and equipment	-	[14]	-	-
Replaced assets written off	707	815	707	815
	35,667	35,056	34,325	32,581

6. Finance expenses				
Interest expense on loans	1,650	2,199	1,650	2,199
Other interest expense	375	58	375	58
	2,025	2,257	2,025	2,257
Net change in fair value of derivatives	1,253	30	1,253	30
	3,278	2,287	3,278	2,287

7. Remuneration of auditors				
Audit of the financial statements	198	160	151	116
Audit of the NZ IFRS transition	-	9	-	9
Audit-related services or review of the financial statements not reported above	51	23	51	23
	249	192	202	148

The auditor of the company and its subsidiaries is Audit New Zealand on behalf of the Auditor-General.

Audit-related services comprise an independent assurance report of the company's regulatory disclosures in accordance with the Electricity (Information Disclosure) Requirements 2008 and the audit of the company's threshold compliance statement in accordance with the Commerce Act [Electricity Distribution Thresholds] Notice 2004.

Audit New Zealand also undertook an internal control review for the company during the year ended 31 March 2009.

Notes to the financial statements continued

For the year ended 31 March 2009

8. Income taxes**Income tax expense recognised in profit**

Tax expense comprises:

	Group 2009 \$000	Group 2008 \$000	Parent 2009 \$000	Parent 2008 \$000
Current tax expense	20,904	22,999	20,503	22,234
Adjustments recognised in current year in relation to the current tax of prior years	148	193	200	148
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	(529)	(577)	(473)	(328)
Deferred tax income relating to change in the corporate income tax rate	-	(13,924)	-	(14,086)
Benefit arising from previously unrecognised tax losses of prior years	-	(324)	-	-
Deferred tax expense relating to use of prior years' losses	42	82	-	-
Total income tax expense recognised in profit	20,565	8,449	20,230	7,968

The prima facie income tax expense on pre tax accounting profit reconciles to the income tax expense in the financial statements as follows:

Profit before tax from continuing operations	70,425	73,959	69,920	74,163
Prima facie income tax expense calculated at 30% (2008: 33%)	21,127	24,406	20,976	24,474
Non-deductible expenses	556	675	564	293
Non-assessable income	(1,041)	(2,302)	(1,191)	(2,538)
Other deductible items	(22)	(12)	(22)	(12)
Previously unrecognised and unused tax losses now recognised as deferred tax assets	-	(324)	-	-
Deferred tax expense relating to use of prior year's losses	42	82	-	-
Effect on deferred tax balances due to the change in the corporate income tax rate from 33% to 30% effective 1 April 2008	-	(13,924)	-	(14,086)
	20,662	8,601	20,327	8,131
Over-provision of income tax in the previous year	(97)	(152)	(97)	(163)
Total income tax expense recognised in profit	20,565	8,449	20,230	7,968

The impact of the change in tax rate on deferred taxation has been credited as follows:

Income tax expense	-	13,924	-	14,086
Asset revaluation reserve	-	5,192	-	5,192
	-	19,116	-	19,278

The tax rate used in the above reconciliation is the corporate income tax rate payable by New Zealand companies on taxable profits under New Zealand tax law. This is 30% for the year ended 31 March 2009 and 33% for the year ended 31 March 2008, as the corporate income tax rate in New Zealand changed from 33% to 30% with effect from 1 April 2008. The impact of the change in the income tax rate was recognised in the measurement of deferred taxes as at 31 March 2008.

8. Income taxes continued**Consolidated group for the year ended 31 March 2009**

Taxable and deductible temporary differences arise from:

Deferred tax liabilities

Property, plant and equipment	192,690	76	(36)	-	-	192,730
Intangible assets	65	67	-	-	-	132
Fair value through profit or loss financial assets	120	(120)	-	-	-	-
	192,875	23	(36)	-	-	192,862

Deferred tax assets

Fair value through profit or loss financial liabilities	-	257	-	-	-	257
Provisions	1,371	77	-	-	-	1,448
Doubtful debts and impairment losses	32	57	-	-	-	89
Finance lease liability	89	(7)	-	-	-	82
Tax losses	220	(42)	-	-	-	178
Other	10	168	-	-	-	178
	1,722	510	-	-	-	2,232
Net deferred tax liability	191,153	(487)	(36)	-	-	190,630

Consolidated group for the year ended 31 March 2008**Deferred tax liabilities**

Property, plant and equipment	212,533	(538)	(35)	-	(19,270)	192,690
Intangible assets	37	34	-	-	(6)	65
Fair value through profit or loss financial assets	142	(10)	-	-	(12)	120
Available-for-sale financial assets	377	-	-	(377)	-	-
	213,089	(514)	(35)	(377)	(19,288)	192,875

Deferred tax assets

Provisions	1,313	195	-	-	(137)	1,371
Doubtful debts and impairment losses	41	(6)	-	-	(3)	32
Finance lease liability	226	(128)	-	-	(9)	89
Tax losses	-	242	-	-	(22)	220
Other	9	2	-	-	(1)	10
	1,589	305	-	-	(172)	1,722
Net deferred tax liability	211,500	(819)	(35)	(377)	(19,116)	191,153

Notes to the financial statements continued

For the year ended 31 March 2009

	Opening balance \$000	Charged/ (credited) to income \$000	Charged/ (credited) to equity \$000	Disposals \$000	Change in tax rate \$000	Closing balance \$000
8. Income taxes continued						
Parent entity for the year ended 31 March 2009						
Taxable and deductible temporary differences arise from:						
Deferred tax liabilities						
Property, plant and equipment	193,426	142	(36)	-	-	193,532
Intangible assets	65	67	-	-	-	132
Fair value through profit or loss financial assets	120	(120)	-	-	-	-
	193,611	89	(36)	-	-	193,664
Deferred tax assets						
Fair value through profit or loss financial liabilities	-	257	-	-	-	257
Provisions	699	87	-	-	-	786
Doubtful debts and impairment losses	32	57	-	-	-	89
Finance lease liability	89	(7)	-	-	-	82
Other	10	168	-	-	-	178
	830	562	-	-	-	1,392
Net deferred tax liability	192,781	(473)	(36)	-	-	192,272
Parent entity for the year ended 31 March 2008						
Deferred tax liabilities						
Property, plant and equipment	213,244	(440)	(35)	-	(19,343)	193,426
Intangible assets	37	34	-	-	(6)	65
Fair value through profit or loss financial assets	142	(10)	-	-	(12)	120
Available-for-sale financial assets	377	-	-	(377)	-	-
	213,800	(416)	(35)	(377)	(19,361)	193,611
Deferred tax assets						
Provisions	725	44	-	-	(70)	699
Doubtful debts and impairment losses	41	(6)	-	-	(3)	32
Finance lease liability	226	(128)	-	-	(9)	89
Other	9	2	-	-	(1)	10
	1,001	(88)	-	-	(83)	830
Net deferred tax liability	212,799	(328)	(35)	(377)	(19,278)	192,781

8. Income taxes continued

Imputation credit account balances

The Orion consolidated tax group for imputation credit account purposes includes the company, Connetics Limited, Orion Group Limited (from 1 April 2007), and Orion New Zealand Ventures Limited (from 1 April 2008) – therefore the parent and consolidated group imputation credit accounts are the same. All of these companies remained in the consolidated tax group for the year ended 31 March 2009 – except Orion Group Limited, which was amalgamated into Orion New Zealand Limited on 31 March 2009.

	Group 2009 \$000	Group 2008 \$000	Parent 2009 \$000	Parent 2008 \$000
Opening balance	1,150	2,506	1,150	2,506
Inclusion of Orion Group Limited	-	479	-	479
Inclusion of Orion New Zealand Ventures Limited	23	-	23	-
Use of money interest received	50	138	50	138
Taxation paid	17,683	22,368	17,683	22,368
Refunds received	-	(2,177)	-	(2,177)
Attached to dividends paid	(18,857)	(22,164)	(18,857)	(22,164)
Closing balance	49	1,150	49	1,150

9. Current trade and other receivables

Trade receivables	7,786	5,534	6,326	3,342
Allowance for impairment of receivables	(100)	(85)	(95)	(65)
	7,686	5,449	6,231	3,277
Finance lease receivable	17	15	17	15
GST receivable	82	184	82	184
Amounts due from customers under construction contracts	377	283	-	-
	8,162	5,931	6,330	3,476
Bad debts written off	345	251	334	236
Bad debts recovered	8	29	8	29
Increase/(decrease) in allowance	15	(40)	30	(60)

An allowance has been made for estimated irrecoverable amounts from the provision of goods and services, determined by reference to past default experience. The net movement in the allowance was recognised in the income statement for the current financial year. The allowance for impairment of receivables has been increased in the current year because of the increased difficulty in recovering costs from parties who have damaged the company's electricity distribution network assets. The allowance for impairment of receivables was reduced in the previous year because an earlier large outstanding receivable was resolved.

Bad debts written off include interest receivable on loans to an associate which will not be recovered.

There are no significant concentrations of credit risk within trade receivables.

Electricity retailers are invoiced on the 10th day of the month of usage (based on an estimation of usage) with payment due on the 20th of that month. Invoiced amounts are subject to subsequent adjustments for later (more accurate) metering data as outlined under critical judgements, estimates and assumptions in note 1.

No interest is charged on trade receivables from most customers.

Notes to the financial statements continued

For the year ended 31 March 2009

	Group 2009 \$000	Group 2008 \$000	Parent 2009 \$000	Parent 2008 \$000

10. Construction contracts

Construction contracts in progress comprise:

Construction costs incurred plus estimated recognised profits less estimated recognised losses to date

Less progress billings

Total construction work in progress

6,450	5,924	-	-
6,073	5,641	-	-
377	283	-	-

Included in the financial statements as:

Amounts due from customers under construction contracts (note 9)

377	283	-	-

11. Other current financial assets

At fair value

Interest rate swaps

Foreign currency forward contracts

-	327	-	327
2	7	2	7
2	334	2	334

At amortised cost

Interest bearing loans advanced to subsidiaries

Non interest bearing advances to Orion Group Limited

-	-	5,629	5,821
-	4,032	-	4,032
-	4,032	5,629	9,853
2	4,366	5,631	10,187

Amounts receivable from related entities

The non interest bearing advance to Orion Group Limited was eliminated on its amalgamation into the company on 31 March 2009.

Receivables from entities related to the company are included within the parent company financial statements in accordance with funding arrangements in place with those parties. These arrangements may include a charge for interest. Receivables from subsidiaries are repayable on demand and are not overdue. The carrying value of the company's advances to subsidiaries is calculated after the deduction of a \$2.6m (2008: \$1.9m) allowance for impairment, as the net tangible assets of the borrower are not sufficient to cover the debt. During the year the allowance for impairment on these advances to subsidiaries was increased by \$727,000 (2008: \$309,000).

	Group 2009 \$000	Group 2008 \$000	Parent 2009 \$000	Parent 2008 \$000

12. Current inventories

Chargeable work in progress

Goods for sale

Maintenance items

Less allowance for impairment

465	377	68	19
1,330	1,026	4	-
3,043	2,200	666	321
[317]	[153]	[200]	[42]
4,521	3,450	538	298

Certain inventories are subject to security interests created by retention of title clauses.

13. Other current assets

Prepayments

Prepayments includes the deposit paid to purchase a property (note 16)

1,641	608	1,402	383

14. Non current trade and other receivables

Finance lease receivable

Group 2009 \$000	Group 2008 \$000	Parent 2009 \$000	Parent 2008 \$000

85	102	85	102

15. Non current inventories

Maintenance items

-	784	-	784

16. Other non current assets

Prepayments

-	574	-	574

In March 2008 the company entered into a contract to purchase a property. The sale and purchase contract is conditional for up to two years while the purchaser obtains various legal consents required to use the property as a substation site. The purchase price is held in solicitors' trust accounts and, if the company is unable to obtain the required consents, the contract can be cancelled and the purchase price will be refunded to the company. The company believes that it will be in a position to complete the purchase prior to March 2010. Therefore this prepayment has been reclassified as a current asset as at 31 March 2009.

	Group 2009 \$000	Group 2008 \$000	Parent 2009 \$000	Parent 2008 \$000

17. Investment property

Balance at beginning of financial year

Additions

Net loss from fair value adjustments

Balance at end of financial year

5,860	6,215	5,860	6,215
329	-	329	-
[470]	[355]	[470]	[355]
5,719	5,860	5,719	5,860

The company's investment property held at 31 March 2007 was valued by independent registered valuer Mr Marius Ogg of CB Richard Ellis Limited as at 31 March 2007, 31 March 2008 and 31 March 2009. Mr Ogg is a senior member of the Property Institute of New Zealand and is a director of CB Richard Ellis Limited. The valuations were performed to assess fair value in accordance with NZ IAS 40. Various valuation approaches were undertaken relating closely to appropriate market evidence. The investment property acquired during the year ended 31 March 2009 has been valued at cost.

Notes to the financial statements continued

For the year ended 31 March 2009

18. Property, plant and equipment

Consolidated group

	Freehold land at fair value \$000	Buildings at fair value \$000	Electricity distribution network at fair value \$000	Leasehold improvements plant and equipment at cost \$000	Total \$000
Gross carrying amount					
Balance as at 1 April 2007	43,588	2,500	863,103	18,818	928,009
Additions	483	322	44,546	3,353	48,704
Disposals	(220)	-	(839)	(1,722)	(2,781)
Net revaluation increases/(decreases)	(140)	(106)	-	-	(246)
Balance as at 31 March 2008	43,711	2,716	906,810	20,449	973,686
Additions	1,226	111	42,038	4,397	47,772
Disposals	(1,716)	-	(1,110)	(1,939)	(4,765)
Net revaluation increases/(decreases)	(4,360)	(110)	-	-	(4,470)
Balance as at 31 March 2009	38,861	2,717	947,738	22,907	1,012,223
Accumulated depreciation, amortisation and impairment					
Balance as at 1 April 2007	-	-	46	9,966	10,012
Disposals	-	-	(17)	(1,457)	(1,474)
Impairment loss charged to profit	-	-	-	(14)	(14)
Depreciation expense	-	115	29,496	2,262	31,873
Balance as at 31 March 2008	-	115	29,525	10,757	40,397
Disposals	-	-	(48)	(1,367)	(1,415)
Depreciation expense	-	119	30,426	2,501	33,046
Balance as at 31 March 2009	-	234	59,903	11,891	72,028
Net book value as at 31 March 2008	43,711	2,601	877,285	9,692	933,289
Net book value as at 31 March 2009	38,861	2,483	887,835	11,016	940,195

	2009 \$000	2008 \$000
Electricity distribution network assets included above which are subject to finance leases	4,626	560

Capital work in progress in the consolidated group is contained in the following categories:

Buildings	-	24
Plant and equipment	668	-
Electricity distribution network	12,724	11,312
	13,392	11,336

18. Property, plant and equipment continued

Parent entity

	Freehold land at fair value \$000	Buildings at fair value \$000	Electricity distribution network at fair value \$000	Leasehold improvements plant and equipment at cost \$000	Total \$000
Gross carrying amount					
Balance as at 1 April 2007	43,588	2,500	865,535	6,920	918,543
Additions	483	322	44,987	1,850	47,642
Disposals	(220)	-	(839)	(1,036)	(2,095)
Net revaluation increases/(decreases)	(140)	(106)	-	-	(246)
Balance as at 31 March 2008	43,711	2,716	909,683	7,734	963,844
Additions	1,226	111	42,350	2,416	46,103
Disposals	(1,716)	-	(1,110)	(952)	(3,778)
Net revaluation increases/(decreases)	(4,360)	(110)	-	-	(4,470)
Balance as at 31 March 2009	38,861	2,717	950,923	9,198	1,001,699
Accumulated depreciation, amortisation and impairment					
Balance as at 1 April 2007	-	-	46	4,026	4,072
Disposals	-	-	(17)	(933)	(950)
Depreciation expense	-	115	29,496	946	30,557
Balance as at 31 March 2008	-	115	29,525	4,039	33,679
Disposals	-	-	(48)	(623)	(671)
Depreciation expense	-	119	30,426	1,139	31,684
Balance as at 31 March 2009	-	234	59,903	4,555	64,692
Net book value as at 31 March 2008	43,711	2,601	880,158	3,695	930,165
Net book value as at 31 March 2009	38,861	2,483	891,020	4,643	937,007

	2009 \$000	2008 \$000
Electricity distribution network assets included above which are subject to finance leases	4,626	560

Capital work in progress in the parent entity is contained in the following categories:

Buildings	-	24
Plant and equipment	667	-
Electricity distribution network	12,724	11,312
	13,391	11,336

Notes to the financial statements continued

For the year ended 31 March 2009

	Group 2009 \$000	Group 2008 \$000	Parent 2009 \$000	Parent 2008 \$000

18. Property, plant and equipment continued

Aggregate depreciation allocated, whether recognised as an expense or capitalised as part of the carrying amount of other assets during the year:

Buildings	119	115	119	115
Leasehold improvements	34	29	-	-
Electricity distribution network	30,257	29,448	30,257	29,448
Plant and equipment and leasehold improvements	2,467	2,233	1,139	946
Equipment under finance lease	169	48	169	48
	33,046	31,873	31,684	30,557

Carrying amounts of property, plant and equipment had they been recognised under the cost model:

Freehold land	34,770	34,454	34,770	34,454
Buildings	2,723	2,921	2,723	2,921
Electricity distribution network	728,957	712,406	728,957	712,406
Plant and equipment and leasehold improvements	11,036	9,691	4,663	3,694
	777,486	759,472	771,113	753,475

Revaluations and impairment review

The company's electricity distribution network and substation buildings were revalued to \$854m as at 31 March 2007 by Ms Lynne Taylor, a director, and Mr Craig Rice, a partner of PricewaterhouseCoopers. Ms Taylor and Mr Rice have been responsible for all of the electricity distribution network valuations undertaken by PricewaterhouseCoopers for financial reporting purposes over the last decade. The valuations were performed to assess fair value in accordance with NZ IAS 16 and were undertaken on an optimised depreciated replacement cost basis. Additions since that valuation date have been added at cost, depreciation applied to the assets and disposals removed.

Most of the company's land and non-substation building assets were revalued to \$51.5m as at 31 March 2007 by independent registered valuer Mr Marius Ogg of CB Richard Ellis Limited. Mr Ogg is a senior member of the Property Institute of New Zealand and is a director of CB Richard Ellis Limited. Mr Ogg's valuations were performed to assess fair value in accordance with NZ IAS 16. Various valuation approaches were undertaken relating closely to appropriate market evidence. Additions since 1 April 2007 have been added at cost, depreciation applied to the assets and disposals removed.

Mr Ogg reviewed the carrying value of the company's network land as at 31 March 2009 and determined that the carrying value was above fair value by \$3.8m. Therefore the carrying value of network land has been written down by \$3.8m. As this land has previously been revalued upwards, the \$3.8m write-down was offset against the associated brought forward asset revaluation reserve in the year ended 31 March 2009.

Mr Ogg also reviewed the carrying value of certain other land and buildings at 31 March 2008 and 31 March 2009. At both dates Mr Ogg determined that some carrying values were above fair value and, as the affected assets had previously been revalued upwards, all but \$49,000 of the write-down was offset against the asset revaluation reserve. Land assets were written down by \$540,000 (2008: \$140,000) and building assets were written down by \$110,000 (2008: \$106,000).

The company's other minor land and building assets were revalued to a fair value of \$596,000 as at 31 March 2007, as assessed by independent registered valuer Ms Melanie Holcroft of Quotable Value Limited. Ms Holcroft is a member of the New Zealand Institute of Valuers and the New Zealand Property Institute. This valuation, using a market value approach, was performed in accordance with NZ IAS 16.

19. Investments accounted for using the equity method

Associate company

As at 31 March 2009 and 31 March 2008 the group has a 26% ownership interest in 4RF Communications Limited, a company incorporated in New Zealand (the associate).

The carrying value of this investment is nil (2008: nil). The group has not recognised its 26% share of current year profits or the accumulated losses relating to the associate amounting to \$8.0m. The group has no obligation or rights in respect of these accumulated losses. This total includes the associate's \$766,000 profit for 2009 and \$136,000 profit for 2008.

	2009 \$000	2008 \$000
Summarised financial information of associate		
Current assets	10,663	10,220
Non current assets	1,335	1,068
	11,998	11,288
Current liabilities	6,878	7,027
Non current liabilities	5,504	7,524
	12,382	14,551
Net assets/(liabilities)	(384)	(3,263)
Revenue	23,744	19,082
Net profit	2,947	525
Net movement in reserves	68	6

Notes to the financial statements continued
For the year ended 31 March 2009

	Software \$000	Other \$000	Total \$000
20. Other intangible assets			
Consolidated group			
Gross carrying amount			
Balance as at 1 April 2007	4,028	2,100	6,128
Additions	453	-	453
Additions from internal developments	148	-	148
Disposals	(178)	-	(178)
Balance as at 31 March 2008	4,451	2,100	6,551
Additions	2,464	-	2,464
Additions from internal developments	270	-	270
Balance as at 31 March 2009	7,185	2,100	9,285
Accumulated amortisation and impairment			
Balance as at 1 April 2007	2,916	1,260	4,176
Amortisation expense	720	210	930
Disposals	(177)	-	(177)
Balance as at 31 March 2008	3,459	1,470	4,929
Amortisation expense	971	210	1,181
Balance as at 31 March 2009	4,430	1,680	6,110
Net book value as at 31 March 2008	992	630	1,622
Net book value as at 31 March 2009	2,755	420	3,175

Amortisation expense is included in the line item depreciation, amortisation and impairment in the income statement.

	Software \$000	Other \$000	Total \$000
20. Other intangible assets continued			
Parent entity			
Gross carrying amount			
Balance as at 1 April 2007	3,600	2,100	5,700
Additions	443	-	443
Additions from internal developments	148	-	148
Disposals	(178)	-	(178)
Balance as at 31 March 2008	4,013	2,100	6,113
Additions	2,446	-	2,446
Additions from internal developments	261	-	261
Balance as at 31 March 2009	6,720	2,100	8,820
Accumulated amortisation and impairment			
Balance as at 1 April 2007	2,532	1,260	3,792
Amortisation expense	690	210	900
Disposals	(177)	-	(177)
Balance as at 31 March 2008	3,045	1,470	4,515
Amortisation expense	948	210	1,158
Balance as at 31 March 2009	3,993	1,680	5,673
Net book value as at 31 March 2008	968	630	1,598
Net book value as at 31 March 2009	2,727	420	3,147

Amortisation expense is included in the line item depreciation, amortisation and impairment in the income statement.

Notes to the financial statements continued

For the year ended 31 March 2009

	Group 2009 \$000	Group 2008 \$000	Parent 2009 \$000	Parent 2008 \$000
21. Other non current financial assets				
At fair value				
Available-for-sale:				
EnerTech Capital Partners II LP	3,000	3,684	-	-
Interest rate swaps	-	65	-	65
	<u>3,000</u>	<u>3,749</u>	<u>-</u>	<u>65</u>
Investment in EnerTech limited liability partnership				
The EnerTech investment is made with an off-shore venture capital limited liability partnership, which invests in individual high technology and start-up type entities. Individual investments remain in the name of the venture capital partnership. The EnerTech investment held is not publicly traded, is recorded at the directors' estimate of fair value and is revalued annually. The valuation is based on the group's share of the partnership's net assets.				
	Group 2009 \$000	Group 2008 \$000	Parent 2009 \$000	Parent 2008 \$000
22. Current trade and other payables				
Trade payables	16,904	19,617	16,972	19,230
Employee entitlements	5,222	4,768	2,479	2,123
GST payable	221	225	-	-
Other	534	794	534	794
	<u>22,881</u>	<u>25,404</u>	<u>19,985</u>	<u>22,147</u>
23. Current borrowings				
Unsecured at amortised cost				
Finance lease liability (note 32)	61	33	61	33
24. Other current financial liabilities				
Interest rate swaps	254	-	254	-
25. Current provisions				
Employee benefits – long service leave (note 28)	164	119	126	79
26. Non current borrowings				
Unsecured loans	46,800	43,000	46,800	43,000
Unsecured finance lease liability (note 32)	4,677	562	4,677	562
	<u>51,477</u>	<u>43,562</u>	<u>51,477</u>	<u>43,562</u>

All parent company bank debt is unsecured against the company, however a deed of negative pledge and guarantee requires the company to comply with certain covenants. The facilities mature on 30 September 2010 (2008: 25 August 2008) and may be extended for further periods as agreed by the lenders.

Interest bearing debt by the parent and group comprise New Zealand dollar borrowings.

Interest rates for all borrowings are floating based on bank bill rates plus a margin. As at 31 March 2009 this rate (including margin) averaged 3.83% (2008: 8.95%). The company has entered into derivative contracts to hedge its exposure to interest rate fluctuations (refer to note 41).

	Group 2009 \$000	Group 2008 \$000	Parent 2009 \$000	Parent 2008 \$000
27. Other non current financial liabilities				
Interest rate swaps	601	-	601	-
28. Non current provisions				
Employee benefits – long service leave	820	805	523	575
The provision for long service leave is an actuarial assessment of entitlements that may become due to employees in the future. The provision is affected by a number of estimates, including the expected length of service of employees and the timing of benefits being taken. While most of the liability is expected to be incurred over the next five years, the liability covers a period up to 40 years as employees complete service entitling them to long service leave benefits.				
Key assumptions in the calculation of the provision include:				
• risk-free rate 5.34% (2008: 6.5%)				
• salary inflation 2.5% (2008: 4.00%)				
• discount rate 0.95 (2008: 0.94).				
	Group 2009 \$000	Group 2008 \$000	Parent 2009 \$000	Parent 2008 \$000
29. Capital and other equity instruments				
Fully paid ordinary shares	120,000	120,000	120,000	120,000
The 80 million (\$1.50) ordinary shares were issued in April 1993 pursuant to the approved establishment plan (pursuant to the Energy Companies Act 1992) and sale and purchase agreement, and are fully paid up. There were no issues or redemptions of shares during the year.				
On 31 March 2009 the company's sole shareholder, Orion Group Limited, was amalgamated into Orion New Zealand Limited. The share capital of the company remained the same, however the shareholders of Orion New Zealand Limited are now the former shareholders of Orion Group Limited – Christchurch City Holdings Limited (89.275%) and Selwyn Investment Holdings Limited (10.725%).				
30. Reserves				
The asset revaluation reserve arises on the revaluation of the company's electricity distribution network, land and buildings. Where a revalued asset is sold or disposed, that portion of the asset revaluation reserve which relates to that asset, and is effectively realised, is transferred directly to retained earnings.				
The available-for-sale revaluation reserve arises on the revaluation of available-for-sale financial assets. Where a revalued financial asset is sold, that portion of the reserve which relates to that financial asset and is effectively realised, is recognised in the income statement. Where a revalued financial asset is impaired, that portion of the reserve which relates to that financial asset is recognised in the income statement.				
An analysis of reserves is shown in the statement of changes in equity.				
	2009 cents per share	2008 cents per share	2009 \$000	2008 \$000
31. Dividends				
Recognised amounts:				
Fully paid ordinary shares	55.00	56.25	44,000	45,000

Notes to the financial statements continued

For the year ended 31 March 2009

32. Leases

Operating lease commitments

	Group 2009 \$000	Group 2008 \$000	Parent 2009 \$000	Parent 2008 \$000
No later than one year	665	648	90	73
Later than one year and not later than five years	803	1,233	219	211
Later than five years	548	665	548	528
	2,016	2,546	857	812

Non-cancellable operating lease receivables

No later than one year	512	533	512	533
Later than one year and not later than five years	748	929	748	929
Later than five years	-	82	-	82
	1,260	1,544	1,260	1,544

Operating lease commitments

The company leases a number of sites for electrical kiosks and substations. There is a range of rental amounts and terms, although many lease payments are indexed to changes in the consumer price index. Leases which extend in perpetuity have been reported to a maximum of 10 years beyond that time. In addition, a group company leases properties under operating leases, with commitments until 1 April 2014 and an operational right of renewal every three years until 31 March 2020.

Non-cancellable operating lease receivables

The company leases land and buildings at its head office site to a variety of tenants, on a range of different terms. The company also leases some land at substation sites to a range of tenants. The leasing operation is incidental to the company's principal business.

	Minimum future lease receivables		Present value of minimum future lease receivables	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Finance lease receivable				
No later than one year	26	26	17	15
Later than one year and not later than five years	104	104	85	77
Later than five years	-	26	-	25
Minimum future lease payments	130	156	102	117
Less unearned finance income	(28)	(39)	-	-
Present value of minimum lease payments	102	117	102	117
Included in the financial statements as:				
Current trade and other receivables			17	15
Non current trade and other receivables			85	102
			102	117

32. Leases continued

Finance lease liability

	Minimum future lease receivables		Present value of minimum future lease receivables	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
No later than one year	440	86	61	33
Later than one year and not later than five years	1,762	346	311	170
Later than five years	10,695	554	4,366	392
Minimum lease payments	12,897	986	4,738	595
Less future finance charges	(8,159)	(391)	-	-
Present value of minimum lease payments	4,738	595	4,738	595

Included in the financial statements as:

Current borrowings (note 23)	61	33
Non current borrowings (note 26)	4,677	562
	4,738	595

Finance lease receivable

The finance lease receivable above relates to equipment leased for a total term of 10 years, whereby the purchaser owns the equipment at the end of the term. The residual value at the end of the lease is nil. The company is the only entity in the group which has a finance lease receivable.

Finance lease liability

The finance lease liability above relates to agreements with Transpower New Zealand Limited (Transpower) for Transpower to construct assets at its grid exit points. The agreements are for terms of 10, 20 or 35 years. The company does not own the assets at the end of the lease term and there is no residual value. There is no security provided for the arrangements. The monthly payment amount may be reviewed annually by Transpower and the risk-free portion of the interest rate may be adjusted. The company is the only entity in the group which has a finance lease liability.

Notes to the financial statements continued

For the year ended 31 March 2009

	Group 2009 \$000	Group 2008 \$000	Parent 2009 \$000	Parent 2008 \$000
33. Notes to the cash flow statement				
Reconciliation of profit for the year to net cash flows from operating activities				
Net profit for the year	49,860	65,510	49,690	66,195
Adjustments				
Gain on disposal of property, plant and equipment	(93)	(226)	(55)	(177)
Gain on disposal of investment	-	(786)	-	-
Loss on revaluation of investment property	470	355	470	355
Net change in fair value of derivatives	1,253	30	1,253	30
Cumulative gain transferred from equity on sale of available-for-sale financial assets	-	(2,780)	-	(2,780)
Cumulative loss transferred from equity on impairment of available-for-sale financial asset	-	166	-	-
Depreciation and amortisation of non current assets	34,227	32,803	32,842	31,457
Impairment of assets and assets written off	1,440	2,087	1,483	1,124
Donated and subsidised assets	(7,108)	(8,696)	(7,108)	(8,696)
Other	(4)	21	-	21
	30,185	22,974	28,885	21,334
Changes in tax balances				
Decrease in current tax asset	3,316	2,861	3,329	2,721
Decrease in deferred tax liability	(487)	(14,743)	(473)	(14,414)
(Increase)/decrease in assets				
Current receivables	(2,596)	(689)	(2,853)	(216)
Current inventories	(1,072)	43	(240)	(15)
Other current assets	(1,033)	173	(1,019)	173
Non current receivables	17	15	17	15
Non current inventories	784	(166)	784	(166)
Other non current assets	574	-	574	-
Increase/(decrease) in liabilities				
Current payables	(2,227)	(1,081)	(2,162)	(1,768)
Current provisions	45	(44)	47	(24)
Non current provisions	14	63	(54)	69
	(2,665)	(13,568)	(2,050)	(13,625)
Net cash from operating activities	77,380	74,916	76,525	73,904

	Group 2009 \$000	Group 2008 \$000	Parent 2009 \$000	Parent 2008 \$000
33. Notes to the cash flow statement continued				
Financing facilities				
Unsecured bank overdraft facility, reviewed annually and payable at call:				
Amount used	-	-	-	-
Amount unused	500	500	500	500
	500	500	500	500
Unsecured bank loan facilities maturing 30 September 2010 (2008: 25 August 2008) which may be extended as agreed by the lenders:				
Amount used	46,800	43,000	46,800	43,000
Amount unused	83,200	137,000	83,200	137,000
	130,000	180,000	130,000	180,000

34. Related party transactions

Group structure
The parent entity in the consolidated group is Orion New Zealand Limited, which until 31 March 2009, was 100% owned by Orion Group Limited (OGL). OGL was owned by Christchurch City Holdings Limited (CCHL) and Selwyn Investment Holdings Limited (SIHL).
Other related parties include:
• subsidiaries (refer to note 42)   • associates (refer to note 42)   • the various subsidiaries of the Christchurch City Council (CCC) and the Selwyn District Council (SDC) and their key management personnel   • the group’s key management personnel (refer to note 35).
The group undertakes many transactions with CCC and SDC and their related parties, all of which are carried out on a commercial and arms-length basis. During the year no material transactions, other than the payment of dividends to OGL, CCHL and SIHL were entered into with related parties.
During the year no transactions were entered into with any of the company’s directors, other than the payment of directors’ fees and the reimbursement of valid company-related expenses such as travel costs to board meetings. Some minor transactions were entered into with companies in which some directors held directorships, and with other related parties. These transactions were carried out on a commercial and arms-length basis.
Amalgamation with Orion Group Limited
On 31 March 2009 OGL was amalgamated into Orion New Zealand Limited. Subsequently the shareholders of Orion New Zealand Limited are now:
• Christchurch City Holdings Limited (which is 100% owned by the Christchurch City Council) – 89.275%   • Selwyn Investment Holdings Limited (which is 100% owned by the Selwyn District Council) –10.725%.

The intercompany advance from Orion New Zealand Limited to Orion Group Limited was eliminated on amalgamation in retained earnings.

Notes to the financial statements continued

For the year ended 31 March 2009

	Group 2009 \$000	Group 2008 \$000	Parent 2009 \$000	Parent 2008 \$000
34. Related party transactions continued				
Transactions during the year				
Dividends paid by Orion New Zealand Limited to Orion Group Limited prior to amalgamation	44,000	45,000	44,000	45,000
Dividends paid to shareholders by Orion Group Limited	44,000	45,000	44,000	45,000
Purchases from CCC/SDC	2,035	1,805	2,035	1,792
Revenues from CCC/SDC	6,508	6,000	1,956	2,071
Purchases from subsidiaries	-	-	21,607	20,270
Revenues from subsidiaries (including interest)	-	-	391	545
Dividends from subsidiaries	-	-	500	1,500
Revenues from associates	238	141	238	141
Revenues from joint ventures	-	1	-	1
Purchases from other related parties	486	444	178	171
Revenues from other related parties	3,287	2,096	221	276
Outstanding balances as at 31 March				
Accounts payable to CCC/SDC	-	1	-	-
Accounts receivable from CCC/SDC	1,276	632	724	84
Accounts payable to subsidiaries	-	-	3,105	3,371
Accounts receivable from subsidiaries	-	-	162	101
Accounts payable to other related parties	86	23	2	5
Accounts receivable from other related parties	74	252	55	18

Orion New Zealand Ventures Limited

In the year ended 31 March 2004 the company wrote down the value of its intercompany advance to Orion New Zealand Ventures Limited by \$2.1m on the basis that the net assets of this subsidiary did not support the debt to the parent. The intercompany balance impairment has been adjusted in subsequent years, including a further \$727,000 in the year ended 31 March 2009 (2008: \$309,000).

The net impairment of the intercompany balance as at 31 March 2009 was \$2.6m (2008: \$1.9m).

4RF Communications Limited

The group assessed a \$524,000 loan to an associate to be impaired, and expensed the amount through the income statement in the year ended 31 March 2007. In the year ended 31 March 2009, the \$238,000 of interest due on loans to the associate was written off as not recoverable (2008: \$141,000). Other than the above, no provisions were made for doubtful debts relating to the amount of outstanding balances, and no bad or doubtful debts expense was recognised in relation to related parties during the year.

Other transactions involving related parties

The group paid directors' fees totalling \$249,000 (2008: \$288,000).

Key management personnel of the group purchased goods and services from group companies during the year which in total did not exceed \$1,000 for any individual, with the exception of one person who reimbursed private overseas travel expenses of \$6,079 (2008: all less than \$1,000 with the exception of three personnel who each purchased a second-hand vehicle from the company for between \$7,000 and \$13,500). No leaving gifts were made to retiring directors (2008: two directors \$3,333). There were no outstanding balances with key management personnel as at 31 March 2009 (2008: nil). All transactions were conducted on standard commercial terms and in the case of the second-hand vehicles, were based on independent market valuations.

34. Related party transactions continued

During the year ended 31 March 2009 the following transactions occurred between the group and an organisation in which a key management person of the group holds a position of control:

- Community Energy Action (CEA) of which a group employee was a trustee until September 2007. During the year ended 31 March 2008 CEA paid for goods and services totalling \$1,256, the group contributed sponsorship to CEA projects of \$75,000, human resources advice of \$1,515 and provided property and related services to CEA at no cost, with the market value of these benefits estimated at approximately \$80,000. There was a balance due to the group from CEA as at 31 March 2008 of \$761.
- Energy Efficiency and Conservation Authority (EECA) of which a group employee is the chairman. EECA paid directors' fees and reimbursed meeting expenses to the group totalling \$28,981 (2008: \$30,245) and paid an energy audit incentive grant of \$3,906 in 2008. There was a balance due to the group from EECA as at 31 March 2009 of \$1,028 (2008: \$1,507). EECA provides policy advice that can impact on the group and is also responsible for setting minimum energy performance standards for certain equipment that the group may purchase.
- Electricity Supply Industry Training Organisation (ESITO) of which a group employee is a director. The group received training subsidies, directors' fees and property occupancy income from ESITO of \$52,431 (2008: \$33,180). The group paid membership fees to ESITO of \$51,273 (2008: \$33,510). There was a balance due to the group from ESITO as at 31 March 2009 of \$6,150 (2008: \$17,622).
- Electricity Engineers' Association (EEA) of which two group employees are executive committee members. The group paid sponsorship, membership and course fees totalling \$63,479 (2008: \$62,048) and received reimbursements for travel costs of \$4,211 (2008: \$4,190). There was a balance due from the group to the EEA as at 31 March 2009 of \$11,795 (2008: \$13,147). There was a balance due to the group by the EEA as at 31 March 2009 of \$700 (2008: nil).
- Electricity Networks Association (ENA) of which a group employee is a board member. The group paid a subscription to ENA of \$48,000 (2008: \$40,000).
- Power Engineering Excellence Trust (PEET) and Electric Power Excellence Centre (EPEC) (both managed by the University of Canterbury) of which a group employee is a trustee and board member respectively. The group paid membership fees of \$20,000 to PEET (2008: \$20,000) and consultancy and sponsorship of \$28,225 to EPEC (2008: \$5,840).
- A director of the ultimate holding company (CCHL) was a partner in a business which provided consulting services to the group. During the year ended 31 March 2008, payments to this business were \$25,095. There was a balance due by the group to this business as at 31 March 2008 of \$18,107.

All transactions with EECA, ESITO, EEA, ENA, PEET, EPEC and consulting companies were conducted on normal commercial terms. A director of the company was also a councillor of the Christchurch City Council in the years ended 31 March 2009 and 31 March 2008.

	Group 2009 \$000	Group 2008 \$000	Parent 2009 \$000	Parent 2008 \$000

35. Key management personnel

The compensation of the directors and executives, being the key management personnel of the entity, is set out below:

Salaries and short term employee benefits	3,351	3,313	2,524	2,450

Executive staff remuneration comprises salary and other short term benefits. Orion executives appointed to the boards of related companies do not receive directors' fees personally.

36. Segmental reporting

The company and its subsidiaries operate predominantly in the electricity distribution network sector.

Notes to the financial statements continued

For the year ended 31 March 2009

37. Significant events after balance date

There were no significant events that the directors are aware of between the preparation and authorisation of these financial statements on 10 June 2009.

	Group 2009 \$000	Group 2008 \$000	Parent 2009 \$000	Parent 2008 \$000
38. Commitments for expenditure				
Capital expenditure commitments				
Electricity distribution network	6,031	9,075	6,031	9,075
Intangible assets	2,353	3,075	2,353	3,075
Investments	263	191	263	191
Lease commitments				
Refer to note 32.				
For most commitments expenditure is expected to be incurred in the next financial year.				

39. Contingent liabilities and contingent assets

Contingent liabilities				
Performance bonds in relation to contract work	497	247	-	-

The group is a participating employer in the National Provident Fund's Defined Benefit Plan Contributors Scheme (the scheme) which is a multi-employer defined benefit superannuation scheme. If the other participating employers ceased to participate in the scheme, the group could be responsible for the entire deficit of the scheme (refer to note 40). Similarly, if a number of employers ceased to participate in the scheme, the group could be responsible for an increased share of the deficit. The group estimates that during the next financial year the group's contribution to the scheme will be approximately \$36,000 (2008: \$45,000).

Prior to 31 March 2009, a group company had initiated an internal restructuring to better align the management of its resources to the services delivered. Due to significant uncertainty over the final form the restructuring will take, it is not possible to accurately predict the future costs related to this restructuring. However it is expected that total costs will not exceed \$200,000.

Other than the above, the group had no material or significant contingent liabilities or contingent assets as at 31 March 2009 or 31 March 2008.

40. Defined benefit superannuation scheme

As outlined in note 39, the group contributes to a multi-employer defined benefit superannuation scheme (the scheme), operated by the National Provident Fund. The Fund has advised that insufficient information is available to use defined benefit accounting as it is not possible to determine, from the terms of the scheme, the extent to which the deficit will affect future contributions by employers, as there is no prescribed basis for allocation.

As at 31 March 2008, the scheme had an estimated past service surplus of \$28.3m (9.9% of the estimated liabilities). This amount is exclusive of specified superannuation contribution withholding tax. This surplus was calculated by the actuary to the scheme using a discount rate equal to the expected return on the assets, but otherwise the assumptions and methodology were consistent with the requirements of NZ IAS 19. The actuary to the scheme has recommended the employer contribution continues at 1.0 times contributor contributions. The 1.0 times is inclusive of specified superannuation contribution withholding tax. The equivalent information as at 31 March 2009 is not available at the date of preparation of these financial statements.

Refer also to accounting policy 1(t) – employee benefits.

41. Financial instruments

Exposure to interest rates, foreign currency market and credit risk arises in the normal course of the group's business.

Interest rate risk

Interest rate risk is the risk that the value of the group's assets and liabilities will fluctuate due to changes in market interest rates. The company has interest bearing debt which is subject to interest rate variations in the market. Interest rate swaps, forward rate agreements (FRAs) and options are employed to manage interest rate exposure on long term borrowings. Contracts have been entered into with various counterparties having such credit ratings and in accordance with such dollar limits as set by the board of directors. The company does not require collateral or other security to support financial instruments with credit risk. While the company may be subject to credit losses up to the notional principal or contract amounts in the event of non performance by its counterparties, it does not expect such losses to occur. For interest rate swaps, FRAs and options contracts, the cash requirements are limited to interest payable or receivable.

Foreign currency risk

Foreign currency risk is the risk that the value of the group's assets and liabilities or revenues and expenses will fluctuate due to changes in foreign exchange rates. The group is exposed to currency risk as a result of transactions that are denominated in a currency other than New Zealand dollars. The group's policy is to hedge any material foreign currency exposure, usually with FRAs.

Liquidity risk

Liquidity risk represents the risk that the group may not have the financial ability to meet its contractual obligations. The group evaluates its liquidity requirements on an ongoing basis. In general, the group generates sufficient cash flows from its operating activities to meet its obligations arising from its financial liabilities and has funding in place to cover potential shortfalls.

Concentration of credit risk

Financial instruments that potentially subject the group to concentrations of credit risk consist principally of cash and short term investments, trade receivables, loans to subsidiaries and derivative financial instruments. The group places its cash and short term investments and derivative financial instruments with banks. Only independently rated banks with a minimum rating of 'A' are accepted. The group limits the amount of credit exposure to any one financial institution in accordance with its board-approved treasury policy.

The group manages its exposure to credit risk arising from trade receivables by performing credit evaluations on all customers requiring credit, wherever practicable, and continuously monitors the outstanding credit exposure to individual customers. The group generally requires collateral security (such as bank letters of credit from an 'A' rated bank) from its electricity retailer customers against credit risk, but not generally from its other customers.

The company's loans to subsidiaries are in accordance with the funding arrangements in place with those parties who do not have credit ratings. The carrying value represents the net realisable value of the loans.

The carrying value is the maximum exposure to credit risk for bank balances, accounts receivable, loans to subsidiaries and derivative financial instruments.

The group has not renegotiated the terms of any financial assets other than some trade receivables. The parent company has debtors who have damaged network assets. Many of these debtors are unable to settle their accounts immediately and the company enters arrangements with these debtors to allow them to pay their debts off over time. The receivables in the 'past due over 60 days' category predominantly represents these debts.

The status of trade and related party receivables as at the reporting date is as follows:

	Group 2009 \$000	Group 2008 \$000	Parent 2009 \$000	Parent 2008 \$000
Not past due	7,224	4,928	5,948	2,965
Past due 0 to 30 days	163	249	57	149
Past due 31 to 60 days	89	128	44	37
Past due greater than 60 days	310	229	277	191
	7,786	5,534	6,326	3,342

Notes to the financial statements continued

For the year ended 31 March 2009

41. Financial instruments continued

The allowance for impairment of receivables relates to debts past due by more than 60 days and is based on an analysis of individual debtors' balances.

Interest rate swap contracts outstanding at balance date

Under interest rate swap contracts, the group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the group to mitigate the risk of changing interest rates on debt held. All swap contracts within the group are held by the company. The fair values of interest rate swaps are based on market values of equivalent instruments at the reporting date and are disclosed below. The group has not designated any swap contracts as hedges and therefore has not adopted hedge accounting for its interest rate swap contracts.

The following table details the notional principal amounts, the remaining terms and the company's estimates of fair values of interest rate swap contracts outstanding as at the reporting date:

	Contracted fixed		Notional		Fair value	
	interest rate		principal amount			
	2009	2008	2009	2008	2009	2008
	%	%	\$000	\$000	\$000	\$000
Outstanding floating for fixed contracts:						
Less than 1 year	7.45	6.70	6,000	20,000	(254)	327
1 to 2 years	6.87	7.45	10,000	6,000	(601)	65
			16,000	26,000	(855)	392

Forward foreign exchange currency contracts outstanding at balance date

It is the policy of the group to enter into forward foreign exchange contracts to cover specific foreign currency payments and receipts where the committed exposure is greater than NZ\$50,000.

The following table details the forward foreign currency contracts outstanding as at the reporting date:

	Average exchange rate		Foreign currency		Contract value		Fair value	
	2009	2008	2009	2008	2009	2008	2009	2008
			FC000	FC000	NZ\$000	NZ\$000	NZ\$000	NZ\$000
Buy EURO								
Less than 3 months	-	0.52	-	94	-	182	-	7
Sell AUD								
Less than 3 months	0.79	-	85	-	108	-	2	-
Buy AUD								
Less than 3 months	0.81	-	212	-	262	-	-	-

As at the reporting date, the aggregate amount of unrealised gains under forward foreign exchange contracts relating to anticipated future transactions is \$2,220 (2008: \$7,000). The group has not designated any forward foreign exchange contracts as hedges.

Capital management

The group's capital includes share capital, reserves and retained earnings. The group's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The allocation of capital between the group's specific business segment operations and activities is, to a large extent, driven by risk-adjusted optimisation of the returns achieved on capital allocated. The process of allocating capital to specific business segment operations and activities is undertaken independently of those responsible for the operations and activities.

41. Financial instruments continued

The group policies in respect of capital management and allocation are reviewed regularly by the board of directors. There have been no material changes to the group's management of capital during the year.

The company is not subject to any externally imposed capital requirements, however it has provided certain covenants to its key lenders by way of a negative pledge deed that it will not create any security interest over its assets to any party, except under certain agreed circumstances. The deed has other covenants restricting certain asset disposals, the lending of money to other parties, non-commercial transactions with related parties, the alteration of share capital where this would have a material adverse effect and any material change of business. The deed includes an interest coverage requirement and an obligation that the guaranteeing group be at least 75% of the group in terms of assets and earnings. The deed also places other specific undertakings and obligations on the company – for example the obligation to provide relevant lenders with information, comply with the law and to pay taxes as they fall due. The company has complied with all covenants.

Sensitivity analysis

In managing interest rate and currency risks the group aims to reduce the impact of short term fluctuations on the group's earnings. Over the longer term, however, permanent changes in foreign exchange and interest rates will impact on profit.

As at 31 March 2009 it is estimated that a general increase of one percentage point in interest rates on the group's borrowings would reduce the group's profit before income tax by approximately \$23,000 (2008: increase by \$208,000). The valuation of interest rate swaps has been included in this calculation.

The company estimates that a general increase of one percentage point in the value of the New Zealand dollar against other foreign currencies would have increased the group's profit before income tax by less than \$10,000 for the year ended 31 March 2009 (2008: less than \$10,000).

A decrease in both interest rates and exchange rates would have opposite impacts on profit than those described above.

Fair value of financial instruments

The company considers that the carrying amounts of financial assets and financial liabilities recorded in the financial statements approximate their fair values. The fair values and net fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices
- for investments in other companies, where quoted market prices are not available and valuation techniques are not appropriate, the company has determined fair value using cost less impairment.

Notes to the financial statements continued

For the year ended 31 March 2009

	Notes	Derivatives \$000	Loans and receivables \$000	Available- for-sale \$000	Other amortised cost \$000	Total carrying amount \$000
41. Financial instruments continued						
Consolidated group as at 31 March 2009						
Classification of financial instruments						
Current assets						
Cash and cash equivalents		-	741	-	-	741
Trade and other receivables	9	-	8,162	-	-	8,162
Other current financial assets	11	2	-	-	-	2
		2	8,903	-	-	8,905
Non current assets						
Trade and other receivables	14	-	85	-	-	85
Other financial assets	21	-	-	3,000	-	3,000
		-	85	3,000	-	3,085
Total financial assets		2	8,988	3,000	-	11,990
Current liabilities						
Trade and other payables	22	-	-	-	17,659	17,659
Borrowings	23	-	-	-	61	61
Other financial liabilities	24	254	-	-	-	254
		254	-	-	17,720	17,974
Non current liabilities						
Borrowings	26	-	-	-	51,477	51,477
Other financial liabilities	27	601	-	-	-	601
		601	-	-	51,477	52,078
Total financial liabilities		855	-	-	69,197	70,052

Liquidity risk

The following table sets out the contractual cash flows and maturity analysis for all financial liabilities and interest rate swaps.

	Balance sheet	Contractual cash flows	Less than 1 year	1 to 2 years	2 to 5 years	More than 5 years
Trade and other payables	17,659	17,659	17,659	-	-	-
Finance lease liability	4,738	12,897	440	440	1,322	10,695
Unsecured loans	46,800	46,800	-	46,800	-	-
Interest on unsecured loans	-	2,688	1,792	896	-	-
Effect of interest rate swaps	-	922	599	323	-	-
Total financial liabilities	69,197	80,966	20,490	48,459	1,322	10,695

41. Financial instruments continued

Consolidated group as at 31 March 2008

Classification of financial instruments

Current assets

Cash and cash equivalents		-	339	-	-	339
Trade and other receivables	9	-	5,931	-	-	5,931
Other financial assets	11	334	4,032	-	-	4,366
		334	10,302	-	-	10,636

Non current assets

Trade and other receivables	14	-	102	-	-	102
Other financial assets	21	65	-	3,684	-	3,749
		65	102	3,684	-	3,851
Total financial assets		399	10,404	3,684	-	14,487

Current liabilities

Trade and other payables	22	-	-	-	20,636	20,636
Borrowings	23	-	-	-	33	33
		-	-	-	20,669	20,669

Non current liabilities

Borrowings	26	-	-	-	43,562	43,562
Total financial liabilities		-	-	-	64,231	64,231

Liquidity risk

The following table sets out the contractual cash flows and maturity analysis for all financial liabilities and interest rate swaps.

	Balance sheet	Contractual cash flows	Less than 1 year	1 to 2 years	2 to 5 years	More than 5 years
Trade and other payables	20,636	20,636	20,636	-	-	-
Finance lease liability	595	986	86	86	260	554
Unsecured loans	43,000	43,000	43,000	-	-	-
Interest on unsecured loans	-	1,604	1,604	-	-	-
Effect of interest rate swaps	-	(547)	(466)	(81)	-	-
Total financial liabilities	64,231	65,679	64,860	5	260	554

Notes to the financial statements continued

For the year ended 31 March 2009

	Notes	Derivatives \$000	Loans and receivables \$000	Available- for-sale \$000	Other amortised cost \$000	Total carrying amount \$000
41. Financial instruments continued						
Parent entity as at 31 March 2009						
Classification of financial instruments						
Current assets						
Cash and cash equivalents		-	666	-	-	666
Trade and other receivables	9	-	6,330	-	-	6,330
Other current financial assets	11	2	5,629	-	-	5,631
		2	12,625	-	-	12,627
Non current assets						
Trade and other receivables	14	-	85	-	-	85
Total financial assets		2	12,710	-	-	12,712
Current liabilities						
Trade and other payables	22	-	-	-	17,506	17,506
Borrowings	23	-	-	-	61	61
Other financial liabilities	24	254	-	-	-	254
		254	-	-	17,567	17,821
Non current liabilities						
Borrowings	26	-	-	-	51,477	51,477
Other financial liabilities	27	601	-	-	-	601
		601	-	-	51,477	52,078
Total financial liabilities		855	-	-	69,044	69,899

Liquidity risk

The following table sets out the contractual cash flows and maturity analysis for all financial liabilities and interest rate swaps.

	Balance sheet	Contractual cash flows	Less than 1 year	1 to 2 years	2 to 5 years	More than 5 years
Trade and other payables	17,506	17,506	17,506	-	-	-
Finance lease liability	4,738	12,897	440	440	1,322	10,695
Unsecured loans	46,800	46,800	-	46,800	-	-
Interest on unsecured loans	-	2,688	1,792	896	-	-
Effect of interest rate swaps	-	922	599	323	-	-
Total financial liabilities	69,044	80,813	20,337	48,459	1,322	10,695

41. Financial instruments continued

Parent entity as at 31 March 2008

Classification of financial instruments

Current assets

Cash and cash equivalents		-	312	-	-	312
Trade and other receivables	9	-	3,476	-	-	3,476
Other financial assets	11	334	9,853	-	-	10,187
		334	13,641	-	-	13,975

Non current assets

Trade and other receivables	14	-	102	-	-	102
Other financial assets	21	65	-	-	-	65
		65	102	-	-	167
Total financial assets		399	13,743	-	-	14,142

Current liabilities

Trade and other payables	22	-	-	-	20,024	20,024
Borrowings	23	-	-	-	33	33
		-	-	-	20,057	20,057

Non current liabilities

Borrowings	26	-	-	-	43,562	43,562
Total financial liabilities		-	-	-	63,619	63,619

Liquidity risk

The following table sets out the contractual cash flows and maturity analysis for all financial liabilities and interest rate swaps.

	Balance sheet	Contractual cash flows	Less than 1 year	1 to 2 years	2 to 5 years	More than 5 years
Trade and other payables	20,024	20,024	20,024	-	-	-
Finance lease liability	595	986	86	86	260	554
Unsecured loans	43,000	43,000	43,000	-	-	-
Interest on unsecured loans	-	1,604	1,604	-	-	-
Effect of interest rate swaps	-	(547)	(466)	(81)	-	-
Total financial liabilities	63,619	65,067	64,248	5	260	554

Notes to the financial statements continued

For the year ended 31 March 2009

41. Financial instruments continued

Consolidated group as at 31 March 2009

Maturity profile of financial instruments

The following table details the group's exposure to interest rate risk:

Financial assets

	Weighted average effective interest rate %	Variable interest rate \$000	Fixed maturity dates	Non interest bearing \$000	Total \$000
Cash and cash equivalents	4.8	723	-	18	741
Trade receivables	-	-	-	8,145	8,145
Finance lease receivables	10.0	-	102	-	102
Foreign currency forward contracts	-	-	-	2	2
Venture capital investment	-	-	-	3,000	3,000
		723	102	11,165	11,990

Financial liabilities

Trade payables	-	-	-	17,125	17,125
Other payables	-	-	-	534	534
Bank loans	3.7	46,800	-	-	46,800
Finance lease liabilities	8.1	4,617	121	-	4,738
Interest rate swaps	-	-	-	855	855
		51,417	121	18,514	70,052

An analysis of the fixed maturity dates is as follows:

	Finance lease receivable \$000	Finance lease liability \$000
Less than 1 year	17	11
1 to 2 years	18	13
2 to 3 years	20	14
3 to 4 years	22	16
4 to 5 years	25	18
More than 5 years	-	49
	102	121

41. Financial instruments continued

Consolidated group as at 31 March 2008

Maturity profile of financial instruments

The following table details the group's exposure to interest rate risk:

Financial assets

Cash and cash equivalents	6.5	326	-	13	339
Trade receivables	-	-	-	5,916	5,916
Finance lease receivables	10.0	-	117	-	117
Foreign currency forward contracts	-	-	-	7	7
Interest rate swaps	-	-	-	392	392
Related party loans	-	-	-	4,032	4,032
Venture capital investment	-	-	-	3,684	3,684
		326	117	14,044	14,487

Financial liabilities

Trade payables	-	-	-	19,842	19,842
Other payables	-	-	-	794	794
Bank loans	8.9	43,000	-	-	43,000
Finance lease liabilities	9.2	463	132	-	595
		43,463	132	20,636	64,231

An analysis of the fixed maturity dates is as follows:

	Finance lease receivable \$000	Finance lease liability \$000
Less than 1 year	15	10
1 to 2 years	17	12
2 to 3 years	18	13
3 to 4 years	20	14
4 to 5 years	22	16
More than 5 years	25	67
	117	132

Notes to the financial statements continued

For the year ended 31 March 2009

41. Financial instruments continued

Parent entity as at 31 March 2009

Maturity profile of financial instruments

The following table details the company's exposure to interest rate risk:

Financial assets

	Weighted average effective interest rate %	Variable interest rate \$000	Fixed maturity dates \$000	Non interest bearing \$000	Total \$000
Cash and cash equivalents	4.8	648	-	18	666
Trade receivables	-	-	-	6,313	6,313
Finance lease receivables	10.0	-	102	-	102
Foreign currency forward contracts	-	-	-	2	2
Related party loans	5.0	2,455	-	3,174	5,629
		3,103	102	9,507	12,712

Financial liabilities

Trade payables	-	-	-	16,972	16,972
Other payables	-	-	-	534	534
Bank loans	3.7	46,800	-	-	46,800
Finance lease liabilities	8.1	4,617	121	-	4,738
Interest rate swaps	-	-	-	855	855
		51,417	121	18,361	69,899

An analysis of the fixed maturity dates is as follows:

	Finance lease receivable \$000	Finance lease liability \$000
Less than 1 year	17	11
1 to 2 years	18	13
2 to 3 years	20	14
3 to 4 years	22	16
4 to 5 years	25	18
More than 5 years	-	49
	102	121

41. Financial instruments continued

Parent entity as at 31 March 2008

Maturity profile of financial instruments

The following table details the company's exposure to interest rate risk:

Financial assets

Cash and cash equivalents	6.5	299	-	13	312
Trade receivables	-	-	-	3,461	3,461
Finance lease receivables	10.0	-	117	-	117
Foreign currency forward contracts	-	-	-	7	7
Interest rate swaps	-	-	-	392	392
Related party loans	10.8	1,923	-	7,930	9,853
		2,222	117	11,803	14,142

Financial liabilities

Trade payables	-	-	-	19,230	19,230
Other payables	-	-	-	794	794
Bank loans	8.9	43,000	-	-	43,000
Finance lease liabilities	9.2	463	132	-	595
		43,463	132	20,024	63,619

An analysis of the fixed maturity dates is as follows:

	Finance lease receivable \$000	Finance lease liability \$000
Less than 1 year	15	10
1 to 2 years	17	12
2 to 3 years	18	13
3 to 4 years	20	14
4 to 5 years	22	16
More than 5 years	25	67
	117	132

Notes to the financial statements continued
For the year ended 31 March 2009

42. Group entities

The company's subsidiary, associate and other investments as at 31 March were as follows:

	Designation 2009	Effective ownership 2009	Effective ownership 2008	Year end
Connetics Limited	Subsidiary	100%	100%	31 March
4RF Communications Limited	Associate	26%	26%	31 March
Orion New Zealand Ventures Limited	Subsidiary	100%	100%	31 March
Whisper Tech Limited	Investment	4%	4%	31 March

The effective ownership and the voting interests in the above investments are the same.
All of the group entities are incorporated in New Zealand.

Performance statement – financial

	Status	Notes	Consolidated actual 2009	Statement of intent target 2009	Actual 2008
Financial					
Profit after tax (\$m)	Achieved	1	49.9	45.5	65.5
Net profit to average shareholders' equity (%)	Achieved	1	7.1	6.5	9.5
Debt (%)	Achieved	2	7	7	6
Equity (%)	Achieved	2	93	93	94
Equity / total assets (%)	Not achieved	2	72	74	73
Dividends (\$m)	Achieved	3	44	37	45

Notes:

- The group's 2009 statement of intent (SOI) targets were set in March 2008. The net profit to average shareholders' equity target of 6.5% was based on a forecast profit of \$45.5m and forecast average shareholders' equity of \$697m.

The group's net profit after tax was \$4.4m above the SOI target, largely due to vested asset revenue exceeding the SOI target by \$2.2m and below budget operating expenses.

As a result of the above target profit, the group's net profit to average shareholders' equity performance was 7.1% (0.6% above the group's 6.5% target).
- The group's debt to debt-plus-equity ratio is improved relative to the SOI target because the 1 April 2008 actual position of interest bearing debt was approximately \$6.5m lower than previously forecast in the group's SOI target.

The group's equity to total assets ratio is below that forecast in the SOI, primarily due to the above budget dividend payment (refer below).

Although the group's equity increased due to the above budget profit, a downwards revaluation of land assets has almost completely offset the impact of the improved profit on equity.
- The group pays dividends to its shareholders after taking into account the group's financial position, profitability and future investment requirements. The dividends payable to shareholders are determined by the board after consideration of the group's funding requirements and the requirement to meet the solvency test under the provisions of the Companies Act 1993.

Performance statement – electricity network reliability

	Actual 2009	Target 2009	Actual 2008	Disclosed New Zealand average 2008
Reliability – all interruptions (including Transpower):				
Duration of supply interruptions in minutes per year per connected customer (SAIDI)				
• urban	17	20	13	
• rural	382	432	344	
• overall network	63	68	54	262
Number of supply interruptions per year per connected customer (SAIFI)				
• urban	0.3	0.5	0.3	
• rural	3.8	4.0	4.2	
• overall network	0.7	0.9	0.7	2.7
Reliability – Orion network interruptions only:				
Duration of supply interruptions in minutes per year per connected customer (SAIDI)				
• urban	17	19	13	
• rural	376	412	271	
• overall network	62	64	45	238
Number of supply interruptions per year per connected customer (SAIFI)				
• urban	0.2	0.4	0.3	
• rural	3.4	3.6	3.3	
• overall network	0.6	0.8	0.6	2.3

The company achieved all of its network reliability targets in the year ended 31 March 2009. The year was relatively normal in terms of weather, with no severe storms. The company’s employees and contractors also carried out less ‘live-line’ work during the year, which increased the total number of minutes lost through planned interruptions. Maintaining lines while they are live involves an additional level of risk, and during the year the company’s employees and contractors undertook further training and competency checks to improve the quality of live-line work and minimise any risks.

- Notes:
- The SAIDI and SAIFI measures are international industry standard measures which are used to assess network performance. The gazetted industry averages noted above are for all New Zealand electricity distribution networks and include rural and urban networks. The company’s electricity distribution network includes a significant rural component. The disclosed gazetted New Zealand average 2008 figures are stated only where comparable data is available.
  - 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.
$$\text{SAIFI} = \frac{\text{Sum of (number of interrupted consumers)}}{\text{Average number of connected consumers.}}$$
  - The company’s statement of intent targets are annual averages for the five-year forecast period and are consistent with the company’s current Commerce Commission quality threshold settings. The company expects that in any one year actual results could be above or below the company’s forecasts.

Performance statement – environmental

1. Map the company’s key impact on the environment

Target date: September 2008
Status: Achieved

International environmental consulting firm, MWH, completed a report on the company’s carbon impact. The full report is available on the company’s website.

MWH’s report finds that the company can take very few practical measures to significantly reduce its overall carbon footprint. Electrical losses on the company’s network contribute 77% of its annual footprint and most of these losses are unavoidable. Losses are natural phenomena caused by lines and cables heating up as electricity passes through them. Another 17% of the company’s annual carbon footprint is from carbon embedded in the assets installed in its electricity distribution network. The company has relatively few practical and economic choices available regarding network equipment, and MWH has identified few areas where the company is not already making the optimal decision. Only 6% of the company’s footprint is from office related activities and fuel use, also with limited practical gains possible.

MWH has identified five environmental targets for the company to focus on in the coming year, with these targets based around where the largest achievable and practicable gains are possible. These targets have been adopted in the company’s statement of intent for the three years commencing 1 April 2009 – also available on the company’s website.

2. Following completion of MWH’s carbon footprint report, assess the feasibility and desirability of becoming carbon neutral

Target date: September 2009
Status: Achieved

MWH identified a range of options regarding potential offsets of the company’s carbon footprint and certification of the company’s impact. There are limited marketing gains for the company from being labelled as “carbon neutral”, and both MWH and the company recognise that actual emissions reduction should take priority. Consequently the company has committed to spend \$250,000 per year, for the next two years, on local environmental initiatives that lead to actual carbon reduction. The company believes this is a better use of its resources than the purchase of carbon credits from external, possibly overseas, parties.

The \$250,000 amount is based on MWH’s calculation of the company’s carbon impact given carbon prices at the time of completion of its report.

3. Reduce energy costs in office buildings occupied by Orion by 10% by March 2008 and a further 5% by March 2009

Target date: March 2009
Status: Not achieved

As outlined in the company’s environmental performance statement for last year, energy costs rose nearly 5% in the year ended 31 March 2008. This means that our further 5% reduction target for March 2009 effectively required a reduction in energy costs of approximately 20%.

The company’s head office gas boiler is now fully operational, and although this has assisted in reducing the company’s contribution to winter peak electricity loads, total energy costs for the June-August 2008 period were 50% above last year’s actual costs for the equivalent period. This increase was due to significant ongoing price increases by gas and electricity retailers well in excess of general inflation, and also very high spot prices paid by the company during the winter 2008 hydro water shortage period.

The company has therefore not met its March 2009 target.

In the year ended 31 March 2010, the company will look to install an electric boiler alongside its existing gas boiler. This will enable the company to operate the electric boiler for heating when electricity spot prices are low and operate the gas boiler when spot prices are high.

Performance statement – environmental continued

4. Continue support for, and sponsorship of, Community Energy Action (CEA)

Target date: Ongoing
Status: Achieved

CEA is a Christchurch-based charitable trust focused on improving energy efficiency in the low income housing sector. The company has sponsored CEA since its inception in 1994. As well as providing financial sponsorship, the company assists CEA with information technology and other issues that arise in its day-to-day operations. Demand for CEA's insulation and energy efficiency services continues to grow, and over 13,000 local houses have benefited from CEA's services.

The company views CEA's services as very important for the local Christchurch and central Canterbury community, and has committed to support CEA until at least 31 March 2011. The company's \$150,000 per year commitment also supports CEA's ability to obtain financial support from other possible funding providers and gives CEA and its employees some certainty.

5. Work with CEA to ensure that at least a further 500 low income homes are insulated this financial year in Christchurch

Target date: March 2009
Status: Achieved

In the year ended 31 March 2009 CEA insulated a total of 529 (2008: 679) low income households directly related to the company's financial sponsorship.

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

Target date: Ongoing
Status: Achieved

The company's specific targets in support of this strategy are to:

- be available to play an active part in the regional "Energy Agency" suggested by the strategy
- continue to seek ways to reduce peak loads on the company's network and increase its network load factor
- obtain better, more accurate real-time data of the company's network loadings. This allows for more efficient network planning and investment to meet load growth.

The company's policies for the connection of distributed generation to its network enable the safe and efficient connection of a range of local generation. The company's policies and procedures in this area are rated very highly in terms of ease of connection relative to the rest of the industry . Its distributed generation policies continue to be industry-leading and these policies promote the provision of economic renewable energy sources.

The company is available to play an active part in the Energy Agency suggested by the strategy and has submitted positively on this concept in the Christchurch City Council's draft Long Term Council Community Plan consultation process.

The company continues to seek ways to reduce peak loads on its electricity distribution network and increase its network load factor through efficient price signalling and effective policies and procedures for the connection of local generation. The company has also worked closely with Environment Canterbury on air quality restrictions to obtain greater flexibility to reduce peak load via diesel generation.

Performance statement – community and employment

1. Zero lost time accidents for the company's employees and contractors

Target date: March 2009
Status: Achieved for Orion New Zealand Limited but not achieved for the company's contractors

This target covers both the company and its contractors (including Connetics Limited) and is extremely challenging due to the physical and diverse nature of the work required on our electricity distribution network. Care is needed with this target as the company does not want to create a culture where accidents are not reported and/or harm is compounded through inappropriate policies to force people back to work too early.

In the year ended 31 March 2009 the company had zero lost time accidents for its employees. However the company's contractors had seven injury accidents, which resulted in 47 days of lost time.

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

Target date: March 2009
Status: Not achieved

Recent amendments to the Electricity Act 1993 mean that electricity network companies have greater responsibilities in this area. We have excluded car versus pole accidents from this target at this stage as it is very difficult to ensure the completeness and accuracy of any data we gather.

In the year ended 31 March 2009 one member of the public suffered minor injuries on one of the company's work sites after the theft of a trench cover plate overnight.

3. Continue with the company's safety programmes in schools

Target date: March 2009
Status: Achieved

In the year ended 31 March 2009 a series of presentations to 300 intermediate school pupils were made at one school. A crowded school curriculum makes it difficult for schools to include external programmes such as ours. The company is continuing its promotional efforts to local schools to improve uptake.

4. Continue with the company's local public safety education and awareness programme in the safe use of electricity

Target date: March 2009
Status: Achieved

In the year ended 31 March 2009 the company continued with its local public safety education and awareness programme, which included:

- several print media advertisements on keeping safe around electricity
- a stand at the November 2008 Royal New Zealand Show, to highlight electrical safety, and similar attendances at other rural A & P shows.

This 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 electrical equipment.

5. Undertake an annual formal staff survey and follow up on the results

Target date: November 2008
Status: Achieved

The company's annual staff survey was completed in early August 2008 with employees rating their overall perception of Orion at an average of 81 out of 100. The results are not directly comparable with previous years' surveys due to a significant change in the design and scoring of this year's survey. Results and feedback were provided back to employees.

Action plans have been developed for those areas where improvements were identified. The key issues from this year's survey were:

- to improve the company's employee performance and feedback processes
- to broaden employees' knowledge of the company's reward and recognition practices
- to improve the communication and co-operation between different teams within the company.

The company is addressing all of the above key issues and the other issues identified in the survey.

Performance statement – community and employment continued

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

Target date: March 2009
Status: Achieved for Orion New Zealand Limited, but not achieved for Connetics Limited

In the year ended 31 March 2009:

- Orion had a 3.1% staff turnover (2008: 3.2%)
- Connetics had a 10.5% staff turnover (2008: 9.3%).

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

7. Continue with the company’s engineering trainee programme

Target date: Ongoing
Status: Achieved

This engineering trainee programme has been very successful in placing talented individuals into key positions within the company’s business. A number of employees are placed on this programme annually and over several years are developed into areas where the company considers there may be existing or future skill shortages. The company’s programme ensures that there is a prudent plan for replacement of its ageing workforce.

As at 31 March 2009 three employees were on this programme. Another trainee completed their training during the year ended 31 March 2009 and has retained a permanent position with the company. The company intends to bring more trainees into this programme and is considering the best time to do so.

8. Continue to develop the Connetics apprentice scheme

Target date: March 2009
Status: Achieved

The company continues with this scheme to ensure that this key contracting subsidiary company sustainably develops and improves its overall competencies and performance. As at 31 March 2009 Connetics had 24 (2008: 17) apprentices and two (2008: five) successfully completed their training in the year ended 31 March 2009. Of the seven apprentices who have completed their apprenticeships over the last two financial years, four are still employed by Connetics.

9. Continue to support the CPIT Trades Innovation Board

Target date: Ongoing
Status: Achieved

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 training facility at the Sullivan Avenue site are crucial local resources to help ensure a sustainable contracting workforce into the future. The company is the major sponsor for this project, with the Government supporting this initiative on a dollar-for-dollar basis. The company is also working to bring other local network operators and contractors into the project.

Orion and Connetics 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.

10. Continue to support the Greater Christchurch Urban Development Strategy (UDS) through the company’s network asset management plan (AMP)

Target date: Ongoing
Status: Achieved

The aim of the UDS is to intensify population growth and development in the central district of Christchurch city. The company’s key role in the support of this aim is to anticipate and plan for future load growth and new connections in the local network area. The company’s key network planning and accountability document is its 10-year network AMP. The UDS was fully considered in the preparation of the company’s recently released AMP for the 10 years commencing 1 April 2009. The company is also reviewing the use of its head office site and is taking the UDS into account as part of this process.

AUDIT REPORT
TO THE READERS OF ORION NEW ZEALAND LIMITED AND GROUP’S
FINANCIAL STATEMENTS AND STATEMENT OF SERVICE PERFORMANCE FOR THE YEAR ENDED 31 MARCH 2009

The Auditor-General is the auditor of Orion New Zealand Limited (the company) and group. The Auditor-General has appointed me, Julian Tan, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and statement of service performance of the company and group, on his behalf, for the year ended 31 March 2009.

Unqualified Opinion

In our opinion:

- The financial statements of the company and group on pages 27 to 76:
  - comply with generally accepted accounting practice in New Zealand; and
  - give a true and fair view of:
- the company and group’s financial position as at 31 March 2009;
- the results of their operations and cash flows for the year ended on that date.
- The statement of service performance of the company and group on pages 77 to 82 gives a true and fair view of the achievements measured against the performance targets adopted for the year ended 31 March 2009.
- Based on our examination the company and group kept proper accounting records.

The audit was completed on 10 June 2009, and is the date at which our opinion is expressed.

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

Basis of Opinion

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

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

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

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

Audit procedures generally include:

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

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

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

Responsibilities of the Board of Directors and the Auditor

The Board of Directors is responsible for preparing the financial statements in accordance with generally accepted accounting practice in New Zealand. The financial statements must give a true and fair view of the financial position of the company and group as at 31 March 2009. They must also give a true and fair view of the results of their operations and cash flows for the year ended on that date. The Board of Directors is also responsible for preparing the statement of service performance that gives a true and fair view of service performance achievements for the year ended 31 March 2009. The Board of Directors’ responsibilities arise from the Energy Companies Act 1992 and the Financial Reporting Act 1993.

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

Independence

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

In addition to the audit, we have carried out other audit and assurance related engagements during the reporting period. These involved a review of internal controls and issuing a report pursuant to the Commerce Act (Electricity Distribution Thresholds) Notice 2004 (assessment period ended 31 March 2008), and since 31 March 2009 issuing reports pursuant to the Commerce Act (Electricity Distribution Thresholds) Notice 2004 (assessment period ended 31 March 2009) and the Commerce Act (Electricity Information Disclosure Requirements) Notice 2004 (financial year ended 31 March 2008). These assignments are compatible with those independence requirements.

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



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

Matters relating to the electronic presentation of the audited financial statements and performance information

This audit report relates to the financial statements and performance information of Orion New Zealand Limited (the company) and group for the year ended 31 March 2009 included on the company’s website. The company’s board of directors is responsible for the maintenance and integrity of the website. We have not been engaged to report on the integrity of the website. We accept no responsibility for any changes that may have occurred to the financial statements and performance information since they were initially presented on the website.

The audit report refers only to the financial statements and performance information named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements and performance information. If readers of this report are concerned with the inherent risks arising from electronic data communication, they should refer to the published hard copy of the audited financial statements and performance information and the related audit report dated 10 June 2009 to confirm the information included in the audited financial statements and performance information presented on this website.

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

Five-year trends

	NZ IFRS 2009	NZ IFRS 2008	NZ IFRS 2007	NZ IFRS 2006	NZ GAAP 2005
Group operating revenues (gross) (\$m)	232	213	198	196	208
Net surplus after tax attributable to parent company shareholders (\$m)	49.9	65.5	60.6	46.3	52.3
Net surplus attributable to parent company shareholders per share (cents)	62.3	81.9	75.8	57.9	65.4
Net surplus attributable to parent company shareholders to average ordinary shareholders' equity (%)	7.1	9.5	10.1	8.8	9.1
Ordinary dividends per share (cents)	55.0	56.3	47.5	47.5	33.8
Total group assets (\$m)	967	961	955	776	778
Total group liabilities (\$m)	270	261	278	250	152
Orion shareholders' equity (\$m)	697	700	677	526	626
External debt to debt-plus-equity ratio (parent) (%)	6.9	5.8	5.4	10.2	10.2
Net asset backing per share (\$)	8.68	8.73	8.43	6.55	7.80
Electricity maximum demand (MW)	624	623	630	592	577
Electricity deliveries into the network (GWh) (includes embedded generation)	3,402	3,325	3,287	3,258	3,194
Five-year trend information from the 2006 financial year onwards is stated under NZ IFRS, however the 2005 financial year above is stated under previous NZ GAAP.					

Directory

Directors

Craig Boyce
CHAIRMAN
Michael Andrews
John Dobson
George Gould
Gail Sheriff
Geoff Vazey

Corporate management

Roger Sutton
CHIEF EXECUTIVE OFFICER
Brendan Kearney
GENERAL MANAGER CORPORATE SERVICES
Rob Jamieson
GENERAL MANAGER COMMERCIAL
Craig Kerr
GENERAL MANAGER INFORMATION SOLUTIONS
John O'Donnell
GENERAL MANAGER INFRASTRUCTURE
Tas Scott
GENERAL MANAGER NETWORK DEVELOPMENT
Adrienne Sykes
HUMAN RESOURCES MANAGER

Head office

218 Manchester Street
PO Box 13896
Christchurch
New Zealand

Phone + 64 3 363 9898
Fax + 64 3 363 9899
Email info@oriongroup.co.nz
Website oriongroup.co.nz

Auditors

Audit New Zealand on behalf of the Auditor-General

Principal solicitors

Chapman Tripp
Christchurch

Sources of information

A range of information about our policies and operations is available on our website oriongroup.co.nz. Paper copies are available from our head office at 218 Manchester Street, Christchurch. Information includes our:

- network asset management plan
- network quality report
- network pricing guide and detailed information on our pricing
- daily load management
- guide to connecting distributed generation
- safety guidelines for working on our network
- discussion of environmental issues.

Other websites which contain information of interest include:

- Commerce Commission
comcom.govt.nz
- Community Energy Action
cea.co.nz
- Connetics
connetics.co.nz
- Consumer electricity information
consumer.org.nz/powerswitch
- Electricity and Gas Complaints Commission
egcomplaints.co.nz
- Electricity Commission
electricitycommission.govt.nz
- Electricity Networks Association
electricity.org.nz
- Environment Canterbury
ecan.govt.nz
- Energy Efficiency and Conservation Authority
eeca.govt.nz
- Ministry of Economic Development
med.govt.nz



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