

Working together to deliver a safe, secure and cost-effective electricity supply



Orion has used ripple control to actively manage its electrical load for decades. Now, those same principles are being applied to the wider upper South Island power system – with Orion at the forefront of a cooperative load management trial service.

“We see enormous benefits in electricity networks working together to reduce peak load on a regional basis,” says Orion chief executive officer Roger Sutton.



Front cover: Planning and design managers (from left) Glenn Coates, Alisdair Reid and Kevin Small – from Orion, MainPower and Transpower respectively – worked together throughout the year to help manage the upper South Island's electrical load.

Below: Participants in regional load management view the load control system in Orion's control centre.



About Orion

Orion New Zealand Limited is one of the largest and most reliable electricity distribution networks in New Zealand. We own, manage and operate the electricity network in central Canterbury, between the Waimakariri and Rakaia rivers and from the Canterbury coast to Arthur's Pass.

Our network

Through some 13,000km of lines and cables, Orion transports electricity to more than 192,000 homes and businesses over a large and diverse geographical area including Christchurch city, Banks Peninsula, farming communities and remote high country.

Some more key facts:

- our extensive network consists of **\$940m** worth of infrastructure and equipment
- on average our customers experience **less than one interruption in power supply a year**
- our **prices are consistently below the national average**
- Orion is **owned by local councils** – Christchurch City Council (89.3%) and Selwyn District Council (10.7%)
- over the last 10 years we paid **\$670m in returns** to our council shareholders – money that has been invested back into our local community.

Our workforce

More than 150 employees work directly for Orion, and most days a further 250 experienced contractors help 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.

Our purpose and values

Orion's core purpose is to consistently deliver a safe, secure and cost-effective supply of electricity to our customers. To help us achieve this purpose, we have developed a set of values that reflects what is important to us – guiding our behaviours and providing a framework for the way we do things.

This framework is based on a commitment to:

- value relationships
- be trustworthy
- be proactive
- maintain a long term focus
- be effective and efficient
- be innovative
- value safety and well-being
- value our natural environment.

The wider Orion family

Orion also owns the electrical contracting business, Connetics, and is an enduring supporter and founding sponsor of Community Energy Action, a charitable trust that provides energy efficiency services for Canterbury people in need.

Snapshot of Orion's network as at 31 March 2010

192,000

> Number of customer connections

618MW

> Network maximum demand (MW)

Main divide

Waimakariri River

Rakaia River

Christchurch city

Banks Peninsula

3,430GWh

> Electricity delivered

13,591km

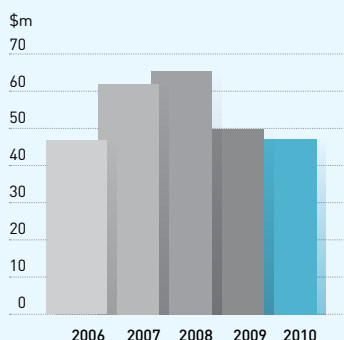
> Total length of lines and cables

\$940m

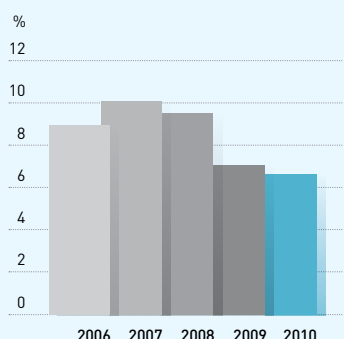
> Value of network assets

Highlights

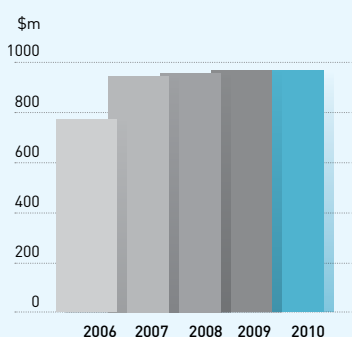
Net profit after tax



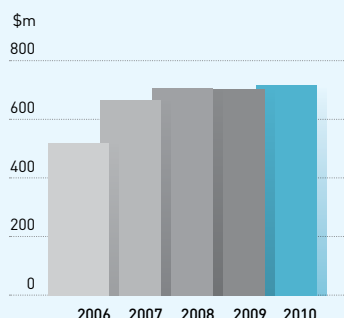
Net profit after tax to shareholders' equity



Total group assets



Shareholders' equity



Overall consolidated net profit after tax of **\$46.8m**, \$4.1m above our target.

Paid fully imputed ordinary dividends of **\$37m**, consistent with our statement of intent target.

Core electricity distribution network net profit of **\$48.5m**, \$4m above our target.

Invested over **\$34m** on capital expenditure projects to connect new customers, reinforce our network and replace ageing equipment.

Developed **New Zealand's first regional load management system** to monitor the load of eight upper South Island electricity networks, successfully reducing the region's peak demand on the national grid.

Completed and installed two of three phases of an integrated network management system which will **improve how we manage our network** during day-to-day operations and any major events.



Above: Orion's control centre is our technological hub, where sophisticated computer systems allow us to operate, monitor and control our network in real time.



Contents

6	Chairman's review
8	Chief executive's review
10	The year in review
20	Corporate management
21	Board of directors
22	Corporate governance statement
27	Audited financial statements
75	Performance statements
82	Audit report
83	Five-year trends
85	Directory

Jimmy Joel, an electrical fitter with Orion contractor Power Jointing, prepares a cable core during cable jointing training at the CPIT Distribution Trades Training Centre, of which Orion is a key partner.

Chairman's review

As an efficient and responsible electricity network company, our focus is to cost-effectively develop our network to meet the growing electricity needs of our region.



We aim to ensure Orion stays at the leading edge of an industry that continues to evolve as smarter ways to work emerge.

Our ongoing strong financial and operational performance is largely due to prudent network investment over the past decade – this strategy has remained regardless of considerable regulatory uncertainty in the electricity industry. We have incrementally built a stronger and more innovative network that gives our customers a reliable and secure power supply and – through the use of load management and price incentives – more control over their power bills.

An industry talking point during the year was the 'smart grid' concept, and I'm pleased to report that Orion's application of technology over the past 20 years means we now operate one of New Zealand's 'smartest' electricity networks.

We are well known for our innovative load management practices including our use of 'ripple signals' to turn off household hot water cylinders, and offering price incentives to major business and industrial customers if they reduce their electricity use during times of network peak loading. Major customers use around 25 per cent of the total electricity delivered over our network, so they can help to significantly reduce our electrical load during peak times.

More recent developments that enable us to automatically operate, monitor and control our network in real time are also working examples of smart grid initiatives.

Orion will continue to build intelligence into the network to provide further benefits to our community.

Working with neighbours

A significant achievement during the 2009 winter was the success of our trial service to coordinate load management in the upper South Island. We developed New Zealand's first regional load management system which monitors the load of eight upper South Island electricity networks to help reduce peak demand on their networks and the national grid.

Collaborating with Transpower and neighbouring electricity networks to cooperatively manage regional peaks gives our customers a more secure electricity supply and reduces our transmission costs. On page 12 of this report, we outline the success of our trial service so far.

We also continue to work closely with Transpower as it upgrades and replaces local transmission assets to strengthen reliability of supply to our network. The national grid owner's transmission lines are critical to our region's security and economy, and in particular to our rural sector which uses twice as much power as a decade ago.

Financial performance

Our net profit after tax for the year was \$46.8m – \$4.1m above our target. The following factors contributed to this excellent result (all figures post tax):

- after an internal review we reclassified about \$1.4m of our planned network projects from expense to capital
- our costs – spread across most of our cost centres – were \$2.4m below target.

The New Zealand international financial reporting standards (NZ IFRS) include a new accounting concept called 'comprehensive income'. This year we had a 'below the profit line' impairment loss on the revaluation of some of our substation land of \$1.1m, which would previously have been recognised through the statement of movements in equity. Under NZ IFRS this impairment is now recognised below our net profit after tax figure, giving us a comprehensive income figure of \$45.7m – \$3.0m above our statement of intent (SOI) target.

Our net profit after tax of \$46.8m was \$3.1m below last year's equivalent. The following factors contributed to this reduction (all figures post tax):

- we received \$4.4m less capital contribution and vested assets revenues this year – reflecting subdued economic conditions and reduced land subdivision activity
- our network maintenance expenses increased by about \$2.0m – reflecting our increased focus on network safety and performance, consistent with our 10-year asset management plan

- our wholly-owned contracting subsidiary company Connetics had a difficult year, largely due to a significant drop in demand for its services from land subdividers and developers. Connetics was 'break even' this year, down from a profit of about \$0.9m in 2009
- partly offsetting the three factors above, our electricity delivery gross margin improved by \$3.9m – largely driven by strong growth in electricity demand during winter.

Distributions to shareholders

We were pleased to pay \$37m of fully imputed ordinary dividends to shareholders during the year, consistent with our SOI target. Dividends were paid after taking into account the ongoing cash needs of the business and the availability of imputation credits.

Our prices

Finding the right balance between costs for customers and network investment is critical to operating an efficient and cost-effective network. We believe we strike the price/reliability balance well – our prices are consistently below average and Orion continues to rank as one of the most reliable electricity networks in the country.

In February 2010 we announced an average electricity delivery price increase of 1.2 per cent, effective 1 April 2010. This includes a 2.9 per cent increase for distribution and a 3.3 per cent decrease for transmission.

Our price increase was consistent with the Commerce Commission's new Consumer Price Index (CPI) based price control regime. The transmission decrease was mostly due to a reduction in winter demand achieved by the upper South Island networks' coordinated approach to load management, mentioned above.

The graph below illustrates that over the past 12 years we have kept our annual distribution price increases consistently

less than the rate of inflation. Since 1999 our distribution prices have increased by about 2.3 per cent each year, while the CPI has increased by about 2.6 per cent each year.

Looking forward

The Commerce Commission is developing input methodologies under Part 4 of the Commerce Act which will form the basis of future economic regulation of electricity distribution networks. These methodologies should be published by the end of 2010 and will underpin Orion's future revenues.

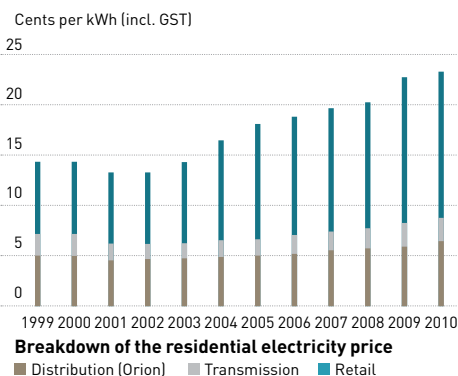
On 1 October 2010 the new Electricity Authority is likely to take office, with responsibility for the energy market rules. We will continue to engage with all regulators to ensure we achieve our objective of long term benefits for our customers.

Acknowledgements

On behalf of the board I thank Roger Sutton, his management team and the skilled employees at Orion and its subsidiary Connetics for their excellent contribution to the company's achievements over the past year. Orion owes its success and reputation to the efforts of its dedicated people.

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

CRAIG BOYCE CHAIRMAN



Source: Quarterly Survey of Domestic Electricity Prices, Ministry of Economic Development.
Note: Data based on Orion distribution and transmission prices, and Meridian Energy retail prices.

Chief executive's review

We all know how dangerous working near electricity can be – no more so than Orion's front line staff and contractors who expose themselves daily to a level of risk rarely seen in any other industry. This is why the safety of our staff, contractors and the public is central to everything we do.

We take pride in our employees' low incidence of injury record, largely achieved through our traditional 'rules-based' approach to safety. During the year we progressed plans to strengthen the safety culture within Orion and empower our employees and contractors to take ownership and accountability for their own safety and of others around them. This is a long term strategy – it's not something we can achieve in a year or even two.

We have however made a strong start, putting in place a range of safety measures designed to protect our staff, contractors and our community. A safer workplace also improves network reliability – our customers expect us to provide a safe and reliable supply of electricity, and we're proud to deliver on that expectation.

Having extensive safety systems and procedures in place is crucial but can never replace the human element, and two serious incidents on our network during the year were sobering reminders of this.

A major fire in a cable bay at Tower Junction injured two firefighters and a

significant 'near miss' incident occurred in south Christchurch where a contractor made contact with and damaged a live high voltage underground cable. While these types of events occur very rarely, they highlight the need to enhance our commitment to safety and address cultural and behavioural issues.

Improving safety at all levels

The safety measures we implemented during the year are designed to improve staff and contractor safety, make our network safer for the public and enhance our network reliability.

We provide further information about these measures in the 'Our safety' section of this report on pages 14 and 15. In brief:

- We developed innovative new standards for the security of our infrastructure to minimise the risk of public access to live equipment. Our substations, kiosks, link boxes and other electrical assets are now being fitted with new locks, extra barriers and warning notices in a double warning-barrier approach which

sets a benchmark in the New Zealand electricity industry.

- We adopted an integrated safety management system where the risks associated with all staff activities can be assessed through an easy-to-use risk management model.
- Recognising the value of interactive learning, we adapted the Department of Labour's printed publication "Guide for Safety with Underground Services" into a DVD that demonstrates how to keep safe around underground services. We now deliver this visual presentation to civil contractors to ensure they know the key steps to take to minimise risk of a cable strike.

Network reliability, performance and development

During the year we achieved a very good financial result and our network continued to perform strongly.

Despite the Tower Junction fire which caused a sustained power outage affecting 6,000 of our customers for more than



two hours, we met our overall network reliability targets this year. During this outage the robust design of our overall urban network enabled us to switch load from other surrounding areas so we could restore power to affected customers relatively quickly.

See the 'Our network' section on page 10 for more detail on our reliability performance.

We finished several significant network development projects during the year, detailed on page 11. A notable achievement was completing and installing two of the three phases in our three-year network management system (NMS) project – a new supervisory control and data acquisition (SCADA) system, and a distribution network management system which enables us to control the network from a single viewpoint via electronic network diagrams in the Orion control centre.

By April 2011 we will implement an outage management system as the final phase of the project.

When complete, our integrated NMS will be one of the first of its kind to go live in New Zealand, recognising years of hard work and effort put in by many of our people particularly those in our operations, information solutions and mapping teams.

The rollout of another technology recently introduced to our network, the Ground Fault Neutraliser (GFN), is also progressing well. The GFN, which has the potential to reduce rural power cuts by 20 to 40 per cent over the next five to ten years, is now installed at eight of our rural substations.

The innovation reduces the amount of electrical arcing at the point a fault occurs on the network, which minimises the level of threat to human life and risk of fire – another feature of our network which can enhance both safety and reliability.

Acknowledgements

Above everything else, our staff and contractors are what make Orion the successful and innovative company it is today. The safety initiatives we have implemented this year underline the

importance we place on their vital roles and our absolute commitment to ensure they go home safely to their families each night.

I continue to be impressed by the enormous pride our people take in doing the very best they can for the benefit of the Orion network and the entire community. It's thanks to their dedication, and the support and guidance of our board, that this year we have continued to maintain our reputation as one of New Zealand's leading electricity distribution companies.

Thank you all for another great year.

ROGER SUTTON CHIEF EXECUTIVE OFFICER

The year in review

Our network

During the year Orion delivered **3,430GWh** of electricity and supplied a maximum demand of **618MW**. We met our key targets for network reliability and invested in new infrastructure and technology to meet our customers' growing demand for electricity.

Network reliability and price

New Zealand electricity distribution networks are compared and benchmarked on internationally accepted reliability measures known as SAIDI (system average interruption duration index) and SAIFI (system average interruption frequency index). These measures outline the average length (SAIDI) and frequency (SAIFI) of interruptions to customers' electricity supply.

In the year to 31 March 2010, Orion performed well in terms of network reliability:

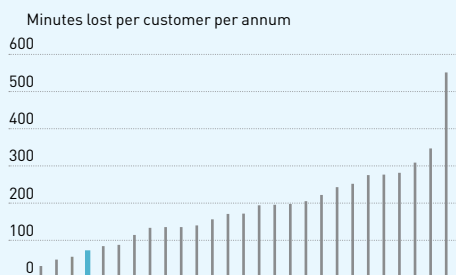
- SAIDI: our customers were without power for just over an hour on average – the New Zealand average for the previous five years was more than three hours.
- SAIFI: on average our customers' power supply was interrupted less than once during the year.

Given the impact of extreme weather events, it is more meaningful to look at the long term trend in SAIDI and SAIFI figures when considering network performance, rather than just the results for any one year. Based on the latest available comparison figures, for the five years to 31 March 2009:

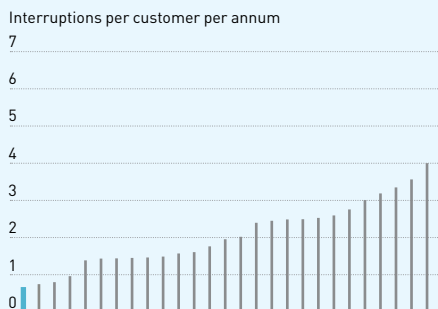
- We 'kept the lights on' 99.99 per cent of the time. Only three other New Zealand networks lost power for less time. However, two of those three networks

serve urban customers only, unlike Orion which delivers electricity across a diverse and challenging topography that includes remote rural areas.

- We had fewer power outages per customer than in any other area in New Zealand. On average our customers experienced one interruption to their electricity supply every 17 months.

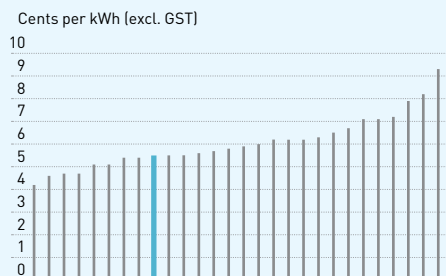


Orion's position relative to other New Zealand electricity distributors, SAIDI (2005 to 2009 average)



Orion's position relative to other New Zealand electricity distributors, SAIFI (2005 to 2009 average)

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

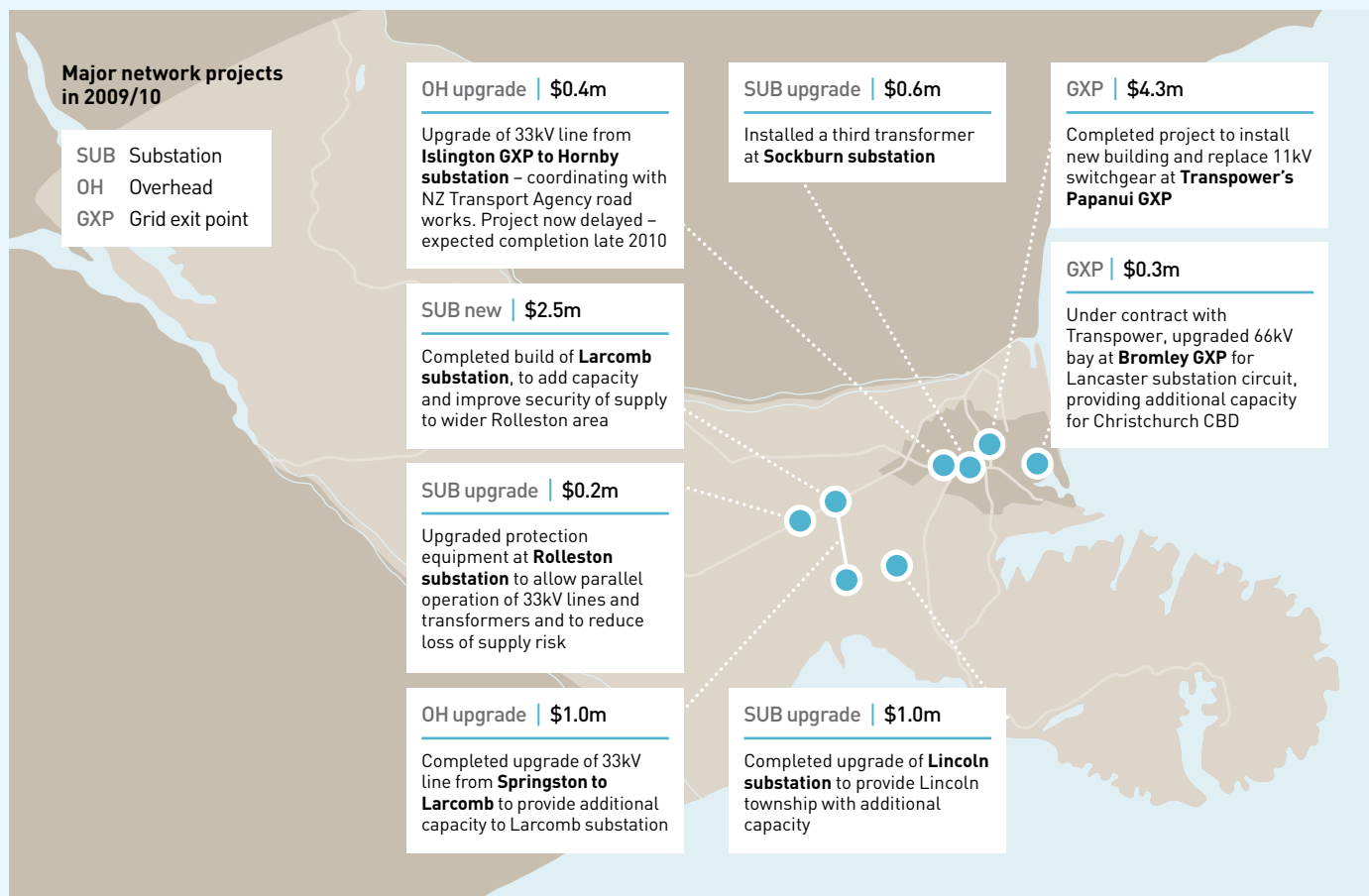


Orion's position relative to other New Zealand electricity distributors (2009 average kWh price)

Source: New Zealand Gazette notices, information disclosures for line businesses 31 March 2009.

We welcome the ongoing rollout of 'smart meters' in our network area, and the 'smarter' pricing options that they make possible. Electricity retailers can use the meters to charge different electricity prices at different times of the day or season, encouraging customers to reduce energy consumption when demand on our network is high, which then lowers power bills.

One retailer offers a rebate for electricity used at the weekend, reflecting our lower delivery costs on Saturdays and Sundays. This rebate encourages customers to shift their electricity usage away from more congested and expensive weekdays.



Some retailers also display daily usage information online.

Around 80 per cent of our residential and small business customers now have smart meters.

Network development projects

We continue to invest significant capital to develop our network to meet future demand growth.

Capital expenditure during the year totalled more than \$34m and included several major projects to reinforce the network.

View the map above for details of our major network projects undertaken in the year ended 31 March 2010.

A further \$25m was spent on network asset management and maintenance.

Over the next 10 years we expect our capital expenditure to range between \$34m and \$64m per year – an average of \$44.6m 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

- meet strong residential demand 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.

In the next year we plan to complete major network enhancements in the Prebbleton and Weedons areas.

66kV oil filled cable joint replacements

During the year we completed a major maintenance project to replace 66kV oil filled cable joints on our network, which had a significant failure risk due to limits in the manufacturer's design. We will continue to monitor our lower risk cable joints and undertake remedial work as required.



Above: Cable jointing is a specialist skill in high demand. Here, workers from power contractor Lemacon refresh their skills in cable jointing training organised by Orion.

The year in review

Our network
continued

Above: Handheld PDAs connected to our new network management system enable network operators to respond to faults faster and more efficiently.

Technology projects

Network management system

We have now completed the first two phases of an advanced network management system (NMS), which includes a new supervisory control and data acquisition (SCADA) system and a distribution management component. This technology significantly improves our ability to manage big network emergencies and restore power faster when outages occur.

We plan to complete the third phase, an outage management system, by April 2011. This will give us greater ability to identify the effects of outages automatically, dispatch work to field crews via handheld devices and communicate the status of outages to our contact and control centres.

Once fully implemented, the integrated NMS will help us better manage our assets, plan maintenance in smarter ways and minimise the potential for equipment overload.

We spent \$1.5m on the NMS project during the year bringing the total project cost to \$3.7m over three years. Orion's NMS will be one of the first of its kind in New Zealand and we hope it will set new benchmarks for electricity distribution network operation and management.

Regional load management system

At the start of the 2009 winter Orion instigated a two-year trial to cooperatively manage electrical load on eight distribution networks in the upper South Island.

We developed the regional load management system – a New Zealand first – to monitor and control the combined networks' load in order to lessen peak demand on the national grid.

As a group we reduced transmission peaks in the region by about 30MW during the 2009 winter – the equivalent of removing demand from about 10,000 homes, or from all the homes in Ashburton. Our efforts were key to saving customers \$3m of Transpower peak charges this year.

Participants in this initiative are Alpine Energy, Buller Electricity, Electricity Ashburton, MainPower, Marlborough Lines, Network Tasman, Orion and Westpower. Transpower helped fund the project to gain knowledge for the benefit of other New Zealand communities.

Our coordinated load control initiative avoids the early need for costly new national grid and peak generation investment that would otherwise be crucial to meet relatively short periods of high demand. Also, when Transpower's grid is constrained due to an emergency, the system can remove load in a managed and coordinated manner – avoiding power outages which might otherwise have occurred.

Ground Fault Neutraliser

The rollout of Ground Fault Neutralisers (GFN) throughout our network is well under way, with GFN units now installed at eight rural substations. We plan to add a further 13 units by 2014.

The GFN's innovative technology has the potential to reduce rural power cuts by 20 to 40 per cent over the next five to ten years. Designed to minimise the amount of electrical arcing at the point a fault occurs on the network, it allows us to maintain power supply to homes and businesses while we dispatch field staff to fix the fault.

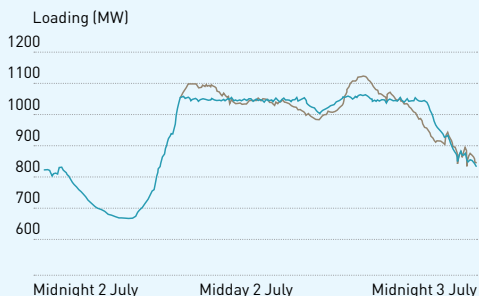
Orion has exclusive distribution rights to market the GFN in New Zealand, Victoria and Western Australia. Several Australasian electricity network companies have now purchased GFN units, including Jemena in Melbourne, Electronet on the South Island's West Coast, and Powerco, Northpower, Unison and Top Energy in the North Island.

New data communication system

Robust data communication networks are essential for high quality, safe and reliable electricity supply. A new wireless-based communication solution was deployed during the year to keep pace with change and reflect the growing sophistication of our network.

Four years ago we identified a need to replace dated wireless communications at rural substations with modern, faster equipment. A worldwide search uncovered a technology developed by local radio communications company Tait Electronics and commercialised by spin-off company MiMOMax.

After assessing the product and realising its potential, we agreed to work with MiMOMax to develop the product over two years. The result was a world-first deployment of two variants tailored specifically to our needs.



Upper South Island load management

— Typical load without control
— 2 July 2009 – actual load

Above: The positive effects of coordinated upper South Island load control on the region's electricity load – comparing a cold winter day in 2009 with a day when load control was not carried out.



"Orion and Connetics make a great team. For years we've worked together, often pioneering innovative technology to give customers a reliable electricity supply. I'm really proud to play a part in contributing to our local community and economy."

GLENN McROSTIE

Connetics electrical fitter

Left: Connetics electrical fitters carry out switchyard maintenance at Orion's Heathcote substation.

In the last year MiMOMax received two international awards for the solutions developed for our network:

- the 2009 British Federation of Communications Services Innovation in Business Radio Award
- the 2010 North American Utilities Telecommunications Council Award for the Best Wireless Product.

In addition, we intend to deploy and integrate new advanced technology from wireless communications company 4RF, which is part-owned by Orion. The 4RF equipment will enable us to communicate remotely with network assets located away from main substations.

Connetics

Our wholly-owned subsidiary Connetics had a challenging year and a break-even financial result due to economic downturn in subdivision and commercial work, restructuring and a commitment to investment to grow the business.

An independent review of health and safety policies and procedures reconfirmed the company's proactive stance in this area – focus on continuous improvement remains a benefit. Connetics maintained accreditation for its health and safety, quality management and employer licence systems.

Significant projects completed during the year included Heathcote and Lincoln zone substation upgrades, Newtons Road 66kV line construction, Christchurch City Mall lighting, an energy efficiency lighting design project for the Electricity Commission and a 66kV line design for Delta Networks.

The company established a new consultancy design and engineering practice, and also completed its first year managing supply and logistics for Buller Electricity in Westport. Another supply hub for Lineworks, based in Paraparaumu, is now well established and operates successfully.

Connetics is investigating several new business opportunities, including four new equipment supply distribution hubs and three significant field services opportunities. Considerable time has also been invested to develop the requirements for a new enterprise resource planning system. The biggest challenge for the business in the coming year will be to select, design and implement this new information system.

The year in review

Our safety

When electricity is involved, a zero 'serious harm' incident target is the only option. Orion's employees have a low incidence of injury record, averaging just one 'lost time injury' per year in the last five years; however as outlined on page 8, two safety-related incidents on our network could have had much more serious consequences.

Both incidents were investigated thoroughly by independent consultants and we have implemented the changes they recommended to minimise the risk of such events occurring in future.

To date, Orion's management of staff safety has been largely 'rules and regulations-

based' and during the year we made a strategic decision to evolve this rather disciplined approach into one where our safety culture is more intricately embedded throughout Orion and our contractors' businesses.

As a result we progressed several new projects designed to protect our staff, contractors and the public, and improved our existing safety management procedures. Public safety education was also a focus – you can read about this in the 'Our community' section of this report on page 18.



Above: An example of Orion's innovative double warning-barrier safety measures at Larcomb substation near Christchurch.

New safety standards for Orion infrastructure

During the year we implemented a range of infrastructure improvements based on our new physical security plan which was developed over the last four years.

The plan outlines new standards for the security of our infrastructure to make our network safer and minimise the risk of public access to live equipment. We are proud to set a benchmark in the New Zealand electricity industry with these innovative security measures designed by our own talented team of engineers.

A double warning-barrier approach is now applied to new and refurbished infrastructure ranging from zone substations, ground-mounted street transformers and switchgear, to low voltage kiosks and link boxes. Key improvements include:

- double barrier fencing at zone substations, with a buffer zone between fences
- a polycarbonate barrier installed inside the door on transformer kiosks with exposed live equipment
- all-insulated units to replace exposed live equipment in kiosks and cable distribution cabinets, featuring a unique security key and improved resistance to vehicle impact
- upgraded warning signs and new locking devices on all equipment
- a new substation lock and key programme.

Significant progress has been made to install these security measures throughout our network.

We were pleased to win the 2009 Electricity Engineers' Association (EEA) Public Safety Award for our development of the physical security plan, recognising the significant work undertaken by Orion's engineering and safety and compliance staff.

Enhanced safety and risk management

We have adopted an integrated safety management system where we assess risks associated with all staff activities through a user-friendly and intuitive risk management model. The system gives managers and staff shared responsibility for safety in a more people-based approach.

Rules and regulations are effective for ensuring safety around electrical tasks on our network but they cannot anticipate every hazardous situation – our safety statistics clearly show that slips, trips and falls, and vehicle-related incidents are our most common causes of harm.

We now assign 'risk champions' to all our significant risks, and the safety management system allows us to rate and display our key business risks both before and after we have applied mitigation.

Recognising that tidy well-organised workplaces have lower safety incident rates, we have also applied a new 'housekeeping standard' to better monitor our performance throughout all workplaces, including office environments.

Keeping safe around underground services

Another Orion project to enhance staff and contractor safety was recognised by the EEA in its annual awards in 2010. Our visual adaptation of the Department of Labour's printed publication "Guide for Safety with Underground Services" won a merit award in the Workplace Safety category.

Working with a range of contracting companies such as cable locators and underground boring contractors, we created a DVD utilising video, still images and graphics to visually demonstrate the key steps to keeping safe around underground services.

The DVD was developed following a serious harm incident at an Orion work site in April 2009 and a subsequent industry forum to remind civil contractors of the dangers when working near our cables. During the forum we identified that other forms of communication were needed to support written education and training materials.

We now deliver our visual presentation to contractors working around our underground services, and several contracting companies have indicated they will include this useful resource in

their own staff training and induction programmes.

Orion's public safety advisor continues to visit contractors' work sites regularly to check safety compliance and remind workers how to keep safe around our lines, cables and other network equipment.



"My job is to advise people on working safely around the network and how to avoid the dangers with electricity. What I do makes a difference and I like that."

TREVOR HILSTON

Orion public safety advisor

Below: Orion public safety advisor Trevor Hilston (far right) talks with Underground Brown field staff about Orion's new DVD which outlines how to keep safe around underground services.



The year in review

Our people

More than 150 employees work directly for Orion, and most days a further 250 contractors help to maintain and develop our sophisticated network of electrical assets and infrastructure.

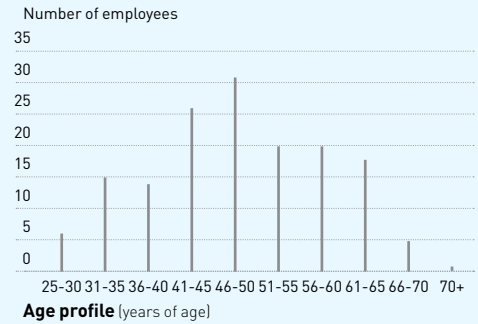
Operating a reliable and efficient electricity network requires a talented team of people with a diverse range of qualifications, experience and skills. Our employees work in network control and operation, engineering and planning, asset management, contract management, and support services in the information technology, financial, commercial and customer service areas.

An industry shortage of skilled staff and an ageing workforce remain issues for us, and we must continue to plan ahead to recruit and retain the next generation of skilled employees.

It is pleasing to report that turnover remains very low at Orion, resulting in an average length of service for our

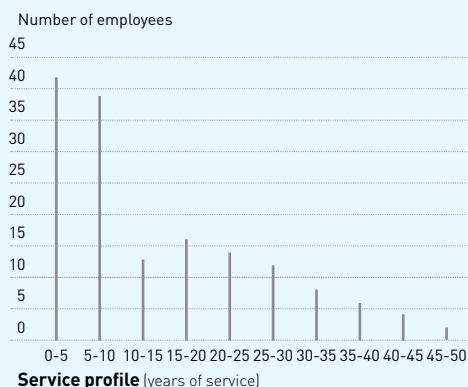
workforce of 14 years. Almost a third of our employees have worked for the company for more than 20 years. This is a key strength for Orion and benefits the company in several ways:

- we maintain high levels of skills and institutional knowledge
- a strong base of long-serving employees helps to create a stable working environment



Above: Experiencing the culture of learning at Orion are advanced engineering programme trainees (from left) Brent Sellers, Daniel Bateman, Peter Allen, Aaron Tong and Jamie Morrison.

- our more experienced employees pass on their knowledge to younger and newer employees, through our in-house training programmes
- maintaining the health and well-being of our older employees helps to focus our wellness programme.



Health and well-being

We further developed the Orion wellness programme during the year, encouraging all employees to participate to take ownership of their health and well-being and help Orion to maintain a healthy workforce.

Our employees can access services such as an on-site health nurse, influenza vaccinations, regular health seminars, an employee counselling programme and a range of fitness activities.

New initiatives added during the year included:

- access to an activa account card – a health management account that allows employees to spend money on areas of health and well-being important to them
- online health checks – helping employees to actively manage their own health and gain regular feedback
- resiliency training – how to proactively manage stress
- healthy heart seminars and healthy lunch days
- the Global Corporate Challenge – a workplace health challenge where participants record their daily walking activity levels.



“After three years in training with Orion I’m now making great use of my skills in a permanent role here. The advanced engineering programme gave me invaluable opportunities and experience and provides good long term career options.”

AARON TONG

Orion technical engineer

Training and development

To ensure that we are not left short of skilled employees in the future, we support several initiatives that focus on training, recruitment and staff retention. Outlined below are some of our key training initiatives.

We know the importance of fostering a learning environment, so we offer internal training programmes and also support employees to expand their skills and gain qualifications at a tertiary level.

In-house trainee programme

Orion has 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 ten years. Our four-year advanced engineering programme currently has four trainees who are developing a diverse set of skills by working and training in areas throughout the company. One trainee completed the programme during the year and has now been employed as an Orion engineer (see left).

Supporting trades training at CPIT

We continue to support and develop the CPIT Distribution Trades Training Centre, of which Orion is a founding partner. We have committed \$1.5m to this facility, to encourage careers in the electricity distribution sector and help resolve issues with skill shortages and an ageing workforce.

Training held at the facility during the year for employees of Orion and our contractors included:

- live line familiarisation for Orion contract managers
- several courses for trainee line mechanics and trainee cable jointers
- a cable jointing course, facilitated by Orion, training representatives from five of Orion’s main contractors
- training for entry and approval certification.

A 33kV/11kV switchyard has now been completed at the training facility and security fencing erected, and a transformer, circuit breaker, disconnector and earthing are now installed.

CPIT also laid foundations for a substation building at the site and manufactured and installed the tilt slabs for this.

Training and development at Connetics

Training, development and retention of employees is also a key focus for Connetics, our wholly-owned subsidiary.

At year end 18 apprentices were employed in Connetics’ operation business with one apprentice, Simon Wilson, winning the Electricity Supply Industry Training Organisation (ESITO) Apprentice of the Year award.

During the year seven Connetics apprentices completed training and three new apprentices were employed.

The year in review

Our community



Above: Orion vegetation manager Tim Pow (right) advises Brian Farrand from Tai Tapu of his responsibility to keep trees away from power lines.

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

Keeping trees clear of power lines

During severe weather, trees and other vegetation create some of our biggest hazards. Orion spends more than \$2m each year trimming trees to reduce the risk of impact on power lines.

Property owners play a big part in keeping vegetation away from overhead lines. We educate and encourage owners to be aware of their obligations to maintain safe distances and comply with the Electricity (Hazards from Trees) Regulations 2003. As a responsible network operator, Orion schedules regular checks for vegetation around our lines.

When trimming trees and other vegetation, we consult with property owners and designers to minimise impacts on the existing landscape. Qualified arborists carry out the work in an environmentally responsible and safe manner and can recommend varieties that are safe to plant near lines.

We are pleased to report that awareness about risks and responsibilities continues to grow - many property owners now contact Orion directly for advice and assistance in managing their trees.

Public safety education

We continued our local public safety and awareness programme this year with electrical safety displays at several rural A & P shows. Our presence at these events helped promote safe use of electricity in our community, particularly in rural areas, while raising Orion's profile throughout the region.

Orion messages on several local radio stations also raised awareness of safety issues. Targeted at local contractors, DIY enthusiasts and farmers, these commercials gave useful tips on how to keep safe while working around our network.

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

Community Energy Action

Orion continues 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 the elderly, families with small children and people on low incomes or with poor health.

Since its inception in 1994 the trust has installed energy efficiency improvements in more than 15,000 homes. Its services include:

- ceiling and underfloor insulation
- heating
- draught stopping and moisture barriers
- cylinder wraps
- free recycled thermal and lined curtains.



Above: Community Energy Action staff gather outside the trust's new premises in Moorhouse Avenue, Christchurch.

CEA recently moved out of premises in Orion's building on Armagh Street in Christchurch to larger offices on Moorhouse Avenue. More space was needed to accommodate CEA's people and growing range of services, with around 40 office staff and insulation installers now employed. While Orion no longer provides free accommodation for the trust, we continue to support CEA wherever we can.

During the year CEA became a registered provider for the government's "Warm Up New Zealand: Heat Smart" programme, aimed to make New Zealand homes warmer, drier and more energy efficient. The trust is one of the few organisations approved to install insulation and heating through this programme for Community Services Card holders.

CEA also launched the Home Energy Advice Service, a free phone service for householders with home energy questions, and extended its curtain bank services to include bedroom curtains.



"Orion doesn't just focus on electricity cables and power poles; they think about the people who use their lines and the effects on them. In other words, they really capture the community spirit and, if it wasn't for them, we wouldn't be where we are today."

BEDE MARTIN

Community Energy Action chief executive

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 delivers information solutions infrastructure and provides and enhances 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 also manages 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 chairman of the Canterbury Lifelines Utilities 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 also 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 future security of supply and adequate capacity. His team also drives business development initiatives such as the upper South Island load management service, and sales of Ground Fault Neutraliser units to other network companies.

Tas has extensive experience in the generation, transmission and distribution sectors of the electricity and gas industries, and 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.



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, FInstD

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, Connexionz Limited, Bernard Matthews New Zealand Limited, Progressive Leathers Limited, Transdiesel Limited and Horizon Farming Limited.

Directorships

Combined Rural Traders Society Limited and Datacom Group 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.

Other directorships

Gould Holdings Limited, Southern Hemisphere Proving Grounds Limited, Milford Dart Limited, Christchurch International Airport Limited, Pyne Gould Corporation Limited and PGG Wrightson 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 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 the Lifestyle Trust.



John Dobson

B Com, AFInstD

John is a professional company director with extensive governance experience. 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

B Eng (Hons)

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 and Northland Port Corporation (NZ) Limited.

Other directorship

Northport Limited.



Corporate governance statement

The directors are pleased to present Orion'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>

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

Orion's directors are appointed by the shareholders to govern and direct the company's activities. The board is the overall and final body responsible for the proper direction and control of the company's activities and all decision-making within the company. 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 management of business risks
- identification and management of business opportunities
- internal control systems
- integrity of management information systems
- relationships with stakeholders and external parties
- compliance with relevant law
- reports to shareholders.

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

Statement of intent

In accordance with section 39 of the Energy Companies Act 1992, 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 and intentions, as well as financial, network reliability, environmental, community and employment 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 publicly available website.

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

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.

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 2010, Craig Boyce, George Gould and Gail Sheriff will retire according to this rotation rule. All three directors have indicated they are available for reappointment. Pursuant to the company's constitution, the shareholders have advised they intend to reappoint all three directors in August 2010.

Board operation

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

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

All new directors undertake an induction process 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 planned annual programme is set by the board a few months in advance of the start of each calendar year.

Directors receive formal agenda papers and regular reports, 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.

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 liaises with the company's external independent auditor and provides additional assurance regarding the quality and reliability of internal controls and financial information used by and issued by the board. The committee also oversees the company's insurance practices and monitors the effectiveness of the company's risk and loss control activities
- the remuneration committee assists the board to establish remuneration policies and practices to set and review remuneration of the company's chief executive officer and other senior executives.

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

AUDIT AND RISK MANAGEMENT COMMITTEE

John Dobson (chairman)
Michael Andrews
Craig Boyce
Gail Sheriff

REMUNERATION COMMITTEE

George Gould (chairman)
Craig Boyce

Subsidiary companies

The following people held office of subsidiary companies during the year. Except where shown on page 26, no director of any subsidiary company within the Orion group received directors' fees or other benefits as a director. The remuneration of employees who act as directors of subsidiary companies is disclosed in the relevant bandings in the group employee remuneration section on page 26.

Connetics Limited   Roger Sutton (chairman), Michael Andrews, Brendan Kearney, Robert Taylor (retired 28 May 2010)

Orion New Zealand
Ventures Limited   Roger Sutton

Apart from the interests register entries disclosed on page 24, 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 was the managing director of the company's subsidiary Connetics Limited until 28 May 2010 when he left the company.

Corporate governance statement continued

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.

Legislative compliance

The company has a comprehensive risk-based approach to compliance with relevant 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.

Board performance and review

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

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.

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 2010.

Michael Andrews	Centre for Research Excellence in Bio-Protection Technologies	Director
	Tenon Limited	Director
Craig Boyce	Bernard Matthews New Zealand 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
John Dobson	Transdiesel Limited	Director
	NZ Express Transport (2006) Limited	Director
	Rural Transport Limited	Director
	Smiths City Group Limited and subsidiaries	Director
	Wilson Bulk Transport	Director

George Gould	Christchurch International Airport Limited	Director
	George Gould Limited	Director
	Gloucester Cambridge Holdings Limited	Director
	Gould Holdings Limited	Director
	Milford Dart Limited	Director
	PGG Wrightson Limited	Director
	Pyne Gould Corporation Limited	Director
	Southern Hemisphere Proving Grounds Limited	Director
Gail Sheriff	Canterbury Development Corporation	Director
	Canterbury Economic Development Fund Trustee Limited	Director
	Christchurch City Council	Councillor
	Lifestyle Trust	Trustee
Geoff Vazey	HEB Construction Limited	Director
	Northland Port Corporation (NZ) Limited	Director
	Northport Limited	Director

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.

Board and committee attendance

The board and the two standing committees have a number of scheduled meetings each financial year. The following table is a summary of attendance for the company's financial year ended 31 March 2010.

	Board meetings	Audit and risk management committee meetings	Remuneration committee meetings
Number of meetings held	11	5	1
Michael Andrews	11	5	-
Craig Boyce	11	4	1
John Dobson	11	5	-
George Gould	9	-	1
Gail Sheriff	11	5	-
Geoff Vazey	11	-	-

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.

Corporate governance statement continued

Directors' remuneration

During the year the total 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
Michael Andrews	40	13
Craig Boyce	77	-
John Dobson	45	-
George Gould	41	-
Gail Sheriff	40	-
Geoff Vazey	37	-
	280	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 figures for 2010 include 27 fortnightly pays, compared with 26 fortnightly pays in 2009. This causes the appearance of an approximate 4 per cent increase in each employee's remuneration even when there has been no such actual increase to employees.

Remuneration \$000	Number of current and former employees 2010	Number of current and former employees 2009
100 - 110	30	19
110 - 120	8	11
120 - 130	3	3
130 - 140	4	4
140 - 150	5	2
150 - 160	2	-
160 - 170	2	1
170 - 180	4	2
180 - 190	2	-
270 - 280	-	1
290 - 300	-	2
300 - 310	1	-
310 - 320	2	-
340 - 350	1	-
370 - 380	-	1
430 - 440	-	1
460 - 470	1	-
670 - 680	-	1
700 - 710	1	-

Auditor

In accordance with section 45 of the Energy Companies Act 1992 and section 15 of the Public Audit Act 2001, the Auditor-General remains as auditor of the company.

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 2010.

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 15 June 2010 for and on behalf of the board of directors:



John Dobson
DIRECTOR

Christchurch, 15 June 2010



Gail Sheriff
DIRECTOR

Christchurch, 15 June 2010

Table of contents for the audited financial statements

Statement of comprehensive income	29
Statement of changes in equity.....	30
Statement of financial position	32
Statement of cash flows.....	33
Notes to the financial statements.....	34
1. Statement of accounting policies	
2. Operating revenue	
3. Other gains and/(losses)	
4. Operating expenses	
5. Depreciation, amortisation and impairment expenses	
6. Interest expense	
7. Interest income	
8. Remuneration of the auditor	
9. Income taxes	
10. Cash and cash equivalents	
11. Current trade and other receivables	
12. Construction contracts	
13. Other current financial assets	
14. Current inventories	
15. Other current assets	
16. Non current trade and other receivables	
17. Investments in subsidiaries and associates	
18. Property, plant and equipment	
19. Other non current financial assets	
20. Investment property	
21. Other intangible assets	
22. Current trade and other payables	
23. Current borrowings	
24. Other current financial liabilities	
25. Current provisions	
26. Non current borrowings	
27. Other non current financial liabilities	
28. Non current provisions	
29. Capital and other equity instruments	
30. Reserves	
31. Dividends	
32. Leases	
33. Notes to the statement of cash flows	
34. Related party transactions	
35. Key management personnel	
36. Commitments for expenditure	
37. Contingent liabilities and contingent assets	
38. Defined benefit superannuation scheme	
39. Significant events after balance date	
40. Financial instruments	
41. Group entities	
Performance statement – financial	75
Performance statement – electricity network reliability.....	76
Performance statement – environmental.....	77
Performance statement – community and employment.....	80
Audit report	82
Five-year trends	83

Statement of comprehensive income

For the year ended 31 March 2010

	Notes	Group 2010 \$000	Group 2009 \$000	Parent 2010 \$000	Parent 2009 \$000
Operating revenue	2	222,392	231,272	203,367	210,432
Other gains/(losses)	3	136	(309)	(49)	(368)
Operating expenses	4	116,794	122,019	98,972	103,124
Earnings before interest, tax, depreciation, amortisation and financial instrument revaluations (EBITDAF)		105,734	108,944	104,346	106,940
Depreciation, amortisation and impairment expenses	5	37,479	35,667	35,965	34,325
Earnings before net interest expense and tax (EBIT)		68,255	73,277	68,381	72,615
Finance costs and revenues:					
Interest expense	6	2,248	3,191	2,248	3,191
Interest income	7	336	339	504	496
Profit before income tax		66,343	70,425	66,637	69,920
Income tax expense	9	19,548	20,565	19,606	20,230
Net profit for the year attributable to the parent entity		46,795	49,860	47,031	49,690
Other comprehensive income:					
Impairment loss on revaluation of property, plant and equipment		(1,059)	(4,422)	(1,059)	(4,422)
Deferred tax movement on revaluation of property, plant and equipment	9	-	36	-	36
Other comprehensive income/(expense) for the year net of tax		(1,059)	(4,386)	(1,059)	(4,386)
Total comprehensive income for the year attributable to the parent entity		45,736	45,474	45,972	45,304

Statement of changes in equity

For the year ended 31 March 2010

	Notes	Share capital \$000	Retained earnings \$000	Asset revaluation reserve \$000	Total equity \$000
Consolidated entity					
Balance as at 1 April 2008		120,000	449,623	130,368	699,991
Elimination of intercompany advance on amalgamation	13, 34	-	(4,036)	-	(4,036)
Restated balance as at 1 April 2008		120,000	445,587	130,368	695,955
Profit for the year attributable to the parent entity		-	49,860	-	49,860
Other comprehensive income net of tax		-	-	(4,386)	(4,386)
Total comprehensive income for the year		-	49,860	(4,386)	45,474
Transfers between reserves:					
Realised gain on disposal of property, plant and equipment	30	-	1,054	(1,054)	-
Deferred tax reversed on sale of property, plant and equipment		-	(71)	71	-
Transactions with owners in their capacity as owners:					
Dividends	31	-	(44,000)	-	(44,000)
Balance as at 31 March 2009		120,000	452,430	124,999	697,429
Profit for the year attributable to the parent entity		-	46,795	-	46,795
Other comprehensive income net of tax		-	-	(1,059)	(1,059)
Total comprehensive income for the year		-	46,795	(1,059)	45,736
Transfers between reserves:					
Realised gain on disposal of property, plant and equipment	30	-	151	(151)	-
Deferred tax reversed on sale of property, plant and equipment		-	(45)	45	-
Transactions with owners in their capacity as owners:					
Dividends	31	-	(37,000)	-	(37,000)
Balance as at 31 March 2010		120,000	462,331	123,834	706,165

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	Total equity \$000
Parent entity					
Balance as at 1 April 2008		120,000	451,303	130,368	701,671
Elimination of intercompany advance on amalgamation	13, 34	-	(4,036)	-	(4,036)
Restated balance as at 1 April 2008		120,000	447,267	130,368	697,635
Profit for the year attributable to the parent entity		-	49,690	-	49,690
Other comprehensive income net of tax		-	-	(4,386)	(4,386)
Total comprehensive income for the year		-	49,690	(4,386)	45,304
Transfers between reserves:					
Realised gain on disposal of property, plant and equipment	30	-	1,054	(1,054)	-
Deferred tax reversed on sale of property, plant and equipment		-	(71)	71	-
Transactions with owners in their capacity as owners:					
Dividends	31	-	(44,000)	-	(44,000)
Balance as at 31 March 2009		120,000	453,940	124,999	698,939
Profit for the year attributable to the parent entity		-	47,031	-	47,031
Other comprehensive income net of tax		-	-	(1,059)	(1,059)
Total comprehensive income for the year		-	47,031	(1,059)	45,972
Transfers between reserves:					
Realised gain on disposal of property, plant and equipment	30	-	151	(151)	-
Deferred tax reversed on sale of property, plant and equipment		-	(45)	45	-
Transactions with owners in their capacity as owners:					
Dividends	31	-	(37,000)	-	(37,000)
Balance as at 31 March 2010		120,000	464,077	123,834	707,911

Statement of financial position

As at 31 March 2010

	Notes	Group 2010 \$000	Group 2009 \$000	Parent 2010 \$000	Parent 2009 \$000
Current assets					
Cash and cash equivalents	10	335	741	305	666
Trade and other receivables	11	5,265	8,162	2,887	6,330
Other current financial assets	13	-	2	5,964	5,631
Inventories	14	4,085	4,521	162	538
Other	15	974	1,641	696	1,402
Total current assets		10,659	15,067	10,014	14,567
Non current assets					
Trade and other receivables	16	67	85	67	85
Investments in subsidiaries and associates	17	-	-	6,551	6,551
Other financial assets	19	3,409	3,000	309	-
Property, plant and equipment	18	943,617	940,195	941,171	937,007
Investment property	20	5,480	5,719	5,480	5,719
Other intangible assets	21	4,096	3,175	4,072	3,147
Total non current assets		956,669	952,174	957,650	952,509
Total assets		967,328	967,241	967,664	967,076
Current liabilities					
Trade and other payables	22	20,485	22,881	17,632	19,985
Borrowings	23	37,281	61	37,281	61
Other current financial liabilities	24	347	254	347	254
Current tax liability	9	4,290	2,924	4,451	2,838
Provisions	25	100	164	50	126
Total current liabilities		62,503	26,284	59,761	23,264
Non current liabilities					
Borrowings	26	4,912	51,477	4,912	51,477
Other financial liabilities	27	-	601	-	601
Deferred tax liabilities	9	192,909	190,630	194,555	192,272
Provisions	28	839	820	525	523
Total non current liabilities		198,660	243,528	199,992	244,873
Equity					
Issued capital	29	120,000	120,000	120,000	120,000
Reserves	30	123,834	124,999	123,834	124,999
Retained earnings		462,331	452,430	464,077	453,940
Total equity attributable to parent equity holders		706,165	697,429	707,911	698,939
Total liabilities and equity		967,328	967,241	967,664	967,076

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

Statement of cash flows

For the year ended 31 March 2010

	Notes	Group 2010 \$000	Group 2009 \$000	Parent 2010 \$000	Parent 2009 \$000
Cash flows from operating activities					
Receipts from customers		221,781	221,536	203,469	200,043
Interest received		111	336	279	493
Dividends received		-	-	-	500
Payments to suppliers and employees		(118,249)	(124,768)	(100,676)	(105,113)
Interest and other finance costs paid		(3,097)	(1,988)	(3,097)	(1,988)
Subvention payments		-	-	(33)	(36)
Income tax paid		(15,903)	(17,736)	(15,710)	(17,374)
Net cash provided by operating activities	33	84,643	77,380	84,232	76,525
Cash flows from investing activities					
Payment for available-for-sale investments		(240)	-	-	-
Proceeds from sale of available-for-sale investments		137	-	-	-
Amounts advanced to related parties		-	-	(380)	(539)
Payment for property, plant and equipment		(36,006)	(36,388)	(35,049)	(34,761)
Proceeds from sale of property, plant and equipment		355	2,737	131	2,456
Payment for investment property		(17)	(329)	(17)	(329)
Payment for intangible assets		(2,608)	(2,707)	(2,608)	(2,707)
Net cash used in investing activities		(38,379)	(36,687)	(37,923)	(35,880)
Cash flows from financing activities					
Proceeds from borrowings		-	3,800	-	3,800
Repayment of borrowings		(9,670)	(91)	(9,670)	(91)
Dividends paid		(37,000)	(44,000)	(37,000)	(44,000)
Net cash used in financing activities		(46,670)	(40,291)	(46,670)	(40,291)
Net increase/(decrease) in cash and cash equivalents		(406)	402	(361)	354
Summary					
Cash and cash equivalents at beginning of year		741	339	666	312
Net increase/(decrease) in cash and cash equivalents		(406)	402	(361)	354
Cash and cash equivalents at end of year	10	335	741	305	666

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 2010

1. Statement of accounting policies

Statement of compliance

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

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

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

Basis of financial statement preparation

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

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

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

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

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

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

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

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

Management has determined appropriate useful lives for particular assets. Management has made judgements about the expected length of service potential of the asset, the likelihood of the asset becoming obsolete as a result of technological advances and the likelihood of the company and group ceasing to use the asset in its business operations.

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

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

1. Statement of accounting policies continued

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

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

Significant accounting policies

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

(a) Basis of consolidation

Subsidiaries

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

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

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

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

Associates

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

Investments in associates are accounted for in the 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 statement of comprehensive income and its share of post-acquisition movements in reserves is recognised in other comprehensive income (reserves). The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the parent's statement of comprehensive income, 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.

Parent company

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

Notes to the financial statements continued

For the year ended 31 March 2010

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 statement of comprehensive income in the year in which they arise.

(d) Cash and cash equivalents

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

(e) Financial assets

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

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

Financial assets at fair value through statement of comprehensive income

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

Available-for-sale financial assets

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

Loans and receivables

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

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

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

(f) Inventories and work in progress

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

(g) Income tax

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

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

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

1. Statement of accounting policies continued

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

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

(h) Leased assets and lease liabilities

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

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.

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

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

(i) Derivative financial instruments

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

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

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

(j) Impairment of assets

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

Notes to the financial statements continued

For the year ended 31 March 2010

1. Statement of accounting policies continued

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 statement of comprehensive income. If the impairment loss is subsequently reversed, the reversal is firstly applied to the statement of comprehensive income to the extent of previously expensed impairment losses relating to that asset, with any further increase taken to the revaluation reserve.

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

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

(k) Property, plant and equipment

Land and buildings are 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(j).

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

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

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

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

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

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

1. Statement of accounting policies continued

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

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

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

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

(l) Investment property

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

(m) Intangible assets

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

Computer software

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

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

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

Patents, trademarks and licences

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

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.

(n) Goodwill

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

(o) Payables

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

Notes to the financial statements continued

For the year ended 31 March 2010

1. Statement of accounting policies continued

(p) Borrowings

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

(q) Provisions

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

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

(r) 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.

(s) 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.

(t) Financial instruments issued by the group

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

(u) Revenue recognition

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

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

(v) Distinction between capital and revenue expenditure

Capital expenditure is defined as all expenditure incurred in the creation of a new asset and any expenditure that results in a significant restoration or increased service potential for existing assets.

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

(w) Capital contributions and grants

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

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

(x) Borrowing costs

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

1. Statement of accounting policies continued

Changes in accounting policies and disclosures

The accounting policies detailed above have been applied in the preparation of these financial statements for the year ended 31 March 2010 and have been consistently applied throughout the year. There have been no changes in accounting policies in comparison with the prior year, except that the group has adopted the following new and amended New Zealand equivalents to International Financial Reporting Standards as of 1 April 2009.

- NZ IFRS 7 Financial Instruments: Disclosures effective 1 January 2009
- NZ IAS 1 Presentation of Financial Statements (revised 2007) effective 1 January 2009
- NZ IAS 23 Borrowing Costs (revised 2008) effective 1 January 2009.

The impact of the adoption of the above standards on the financial statements is described below:

NZ IFRS 7 Financial Instruments: Disclosures

The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to all financial instruments recognised and measured at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class. In addition, a reconciliation between the beginning and ending balance for level three fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures and liquidity risk disclosures are presented in note 40.

NZ IAS 1 Presentation of Financial Statements (revised)

The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in the new statement of comprehensive income. The statement of comprehensive income presents all items of recognised income and expense, either in one single statement, or in two linked statements. The group has elected to present one statement.

NZ IAS 23 Borrowing Costs (revised)

The revised NZ IAS 23 requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The group's previous policy was to expense borrowing costs as they were incurred. In accordance with the transitional provisions of the revised NZ IAS 23, the group has adopted the standard on a prospective basis. Therefore, borrowing costs are capitalised on qualifying assets with a commencement date on or after 1 April 2009. The group did not capitalise any borrowing costs in the current year.

New standards and interpretations on issue but not yet effective

The following standards are relevant to the group's operations:

- 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 interpretation will become mandatory for the group's 2011 financial statements.
- NZ IFRS 9 Financial Instruments will replace NZ IAS 39. At present only phase 1 of NZ IFRS 9 has been issued. It covers classification and measurement of financial assets. The group has not yet assessed the impact of this standard that will become mandatory for the group's 2014 financial statements.

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 3 Business Combinations (revised)	2011
• NZ IAS 27 Consolidated and Separate Financial Statements (amended)	2011
• NZ IAS 39 Financial Instruments: Recognition and Measurement (amendment)	2011
• NZ IFRIC 17 Distribution of Non-Cash Assets to Owners	2011
• Improvements to IFRS (issued 2009)	2011
• NZ IAS 24 Related Party Disclosures	2012
• NZ IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	2012

Notes to the financial statements continued

For the year ended 31 March 2010

	Group 2010 \$000	Group 2009 \$000	Parent 2010 \$000	Parent 2009 \$000
2. Operating revenue				
Electricity delivery services	190,151	180,415	190,151	180,415
Transmission rental rebates	3,451	13,378	3,451	13,378
Contracting	7,558	6,616	-	-
Sale of goods and services	12,283	15,812	583	819
Consumer capital contributions	3,376	4,833	3,376	4,833
Donated and subsidised assets	3,824	7,108	3,824	7,108
Rental – investment property	262	310	262	310
Rental – other property	436	376	436	376
Dividends from subsidiaries	-	-	-	500
Other	1,051	2,424	1,284	2,693
	<u>222,392</u>	<u>231,272</u>	<u>203,367</u>	<u>210,432</u>
3. Other gains/(losses)				
Gain on disposal of property, plant and equipment	133	93	29	55
Gain on disposal of investment	62	-	-	-
Fair value impairment of investment property	(7)	(470)	(7)	(470)
Net foreign exchange gains/(losses)	(48)	52	(48)	52
Net change in fair value of foreign exchange contracts expense	(23)	(5)	(23)	(5)
Other	19	21	-	-
	<u>136</u>	<u>(309)</u>	<u>(49)</u>	<u>(368)</u>
4. Operating expenses				
Transmission	53,283	49,062	53,283	49,062
Transmission rental rebates	3,451	13,378	3,451	13,378
Employee benefits – multi-employer defined benefit plans	227	214	32	35
Employee benefits – other benefits	30,220	28,876	14,431	13,709
Network maintenance	19,404	17,447	19,404	17,447
Operating lease payments	678	680	78	81
Movement in provisions	(44)	58	(73)	(7)
Direct operating expenses of investment property	148	35	148	35
Donations	55	32	53	30
Subvention payments	-	-	33	36
Other	9,372	12,237	8,132	9,318
	<u>116,794</u>	<u>122,019</u>	<u>98,972</u>	<u>103,124</u>
5. Depreciation, amortisation and impairment expenses				
Depreciation of non current assets	33,996	33,046	32,520	31,684
Amortisation of non current assets	1,491	1,181	1,473	1,158
Impairment loss on revaluation of property, plant and equipment	838	49	838	49
Impairment of financial assets	65	684	45	727
Replaced assets written off	1,089	707	1,089	707
	<u>37,479</u>	<u>35,667</u>	<u>35,965</u>	<u>34,325</u>

	Group 2010 \$000	Group 2009 \$000	Parent 2010 \$000	Parent 2009 \$000
6. Interest expense				
Interest expense on loans	2,751	1,568	2,751	1,568
Other interest expense	335	375	335	375
Net change in fair value of derivatives expense/(income)	(838)	1,248	(838)	1,248
	<u>2,248</u>	<u>3,191</u>	<u>2,248</u>	<u>3,191</u>
7. Interest income				
Finance lease	9	11	9	11
Bank deposits	23	38	23	38
Other	28	52	28	52
Related parties	276	238	444	395
	<u>336</u>	<u>339</u>	<u>504</u>	<u>496</u>
8. Remuneration of the auditor				
Audit of the financial statements	203	198	154	151
Audit-related services or review of the financial statements not reported above	45	51	45	51
	<u>248</u>	<u>249</u>	<u>199</u>	<u>202</u>

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 audit of the company's price and quality 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 2010

	Group 2010 \$000	Group 2009 \$000	Parent 2010 \$000	Parent 2009 \$000
9. Income taxes				
Income tax expense recognised in profit				
Tax expense comprises:				
Current tax expense	18,054	20,904	18,100	20,503
Adjustments recognised in the current year that relate to the current tax of prior years	(785)	148	(777)	200
Deferred tax expense/(income) that relates to origination and reversal of temporary differences	2,246	(529)	2,283	(473)
Deferred tax expense relating to use of prior years' losses	33	42	-	-
Total income tax expense recognised in profit	19,548	20,565	19,606	20,230
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	66,343	70,425	66,637	69,920
Prima facie income tax expense calculated at 30%	19,903	21,127	19,991	20,976
Non-deductible expenses	252	556	264	564
Non-assessable income	(578)	(1,041)	(578)	(1,191)
Other deductible items	(33)	(22)	(33)	(22)
Deferred tax expense relating to use of prior year's losses	33	42	-	-
	19,577	20,662	19,644	20,327
Over-provision of income tax in the previous year	(29)	(97)	(38)	(97)
Total income tax expense recognised in profit	19,548	20,565	19,606	20,230
Income tax recognised in other comprehensive income				
Deferred tax				
Transfer of deferred tax from asset revaluation reserve to retained earnings	-	18	-	18
Reversal of deferred tax on impairment of property, plant and equipment	-	18	-	18
	-	36	-	36

The tax rate used is the corporate income tax rate payable by New Zealand companies on taxable profits under New Zealand tax law. This is 30% for the years ended 31 March 2010 and 31 March 2009.

Since 31 March 2010 the Government has announced that the company tax rate will reduce from 30% to 28% effective for the years beginning on or after 1 April 2011. Refer to note 39 for the financial impact of this change.

Current tax liability

The group current tax liability as at 31 March 2010 of \$4.3m (2009: \$2.9m) is the unpaid portion of the group's third instalment of provisional income tax for the year ended 31 March 2010. The group's third instalment of provisional tax is due for payment approximately five weeks after balance date. The equivalent current tax liability for the parent is \$4.5m (2009: \$2.8m).

	Opening balance \$000	Charged/ (credited) to income \$000	Charged/ (credited) to other comprehensive income \$000	Closing balance \$000
9. Income taxes continued				
Consolidated group for the year ended 31 March 2010				
Taxable and deductible temporary differences arise from:				
Deferred tax liabilities				
Property, plant and equipment	192,730	1,225	-	193,955
Intangible assets	132	289	-	421
Other	-	510	-	510
	192,862	2,024	-	194,886
Deferred tax assets				
Derivative financial liabilities	257	(252)	-	5
Provisions	1,448	(46)	-	1,402
Doubtful debts and impairment losses	89	66	-	155
Finance lease liability	82	188	-	270
Tax losses	178	(33)	-	145
Other	178	(178)	-	-
	2,232	(255)	-	1,977
Net deferred tax liability	190,630	2,279	-	192,909
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
Derivative financial assets	120	(120)	-	-
	192,875	23	(36)	192,862
Deferred tax assets				
Derivative 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

Notes to the financial statements continued

For the year ended 31 March 2010

	Opening balance \$000	Charged/ (credited) to income \$000	Charged/ (credited) to other comprehensive income \$000	Closing balance \$000
9. Income taxes continued				
Parent entity for the year ended 31 March 2010				
Taxable and deductible temporary differences arise from:				
Deferred tax liabilities				
Property, plant and equipment	193,532	1,277	-	194,809
Intangible assets	132	289	-	421
Other	-	510	-	510
	<u>193,664</u>	<u>2,076</u>	<u>-</u>	<u>195,740</u>
Deferred tax assets				
Derivative financial liabilities	257	(252)	-	5
Provisions	786	(31)	-	755
Doubtful debts and impairment losses	89	66	-	155
Finance lease liability	82	188	-	270
Other	178	(178)	-	-
	<u>1,392</u>	<u>(207)</u>	<u>-</u>	<u>1,185</u>
Net deferred tax liability	<u>192,272</u>	<u>2,283</u>	<u>-</u>	<u>194,555</u>
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
Derivative financial assets	120	(120)	-	-
	<u>193,611</u>	<u>89</u>	<u>(36)</u>	<u>193,664</u>
Deferred tax assets				
Derivative 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
	<u>830</u>	<u>562</u>	<u>-</u>	<u>1,392</u>
Net deferred tax liability	<u>192,781</u>	<u>(473)</u>	<u>(36)</u>	<u>192,272</u>

9. Income taxes continued

Imputation credit account balances

The Orion consolidated tax group includes the company, Connetics Limited and Orion New Zealand Ventures Limited (from 1 April 2008) for imputation credit account purposes. 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 2010.

	Group 2010 \$000	Group 2009 \$000	Parent 2010 \$000	Parent 2009 \$000
Opening balance	49	1,150	49	1,150
Inclusion of Orion New Zealand Ventures Limited	-	23	-	23
Use of money interest received	28	50	28	50
Tax paid	15,866	17,683	15,866	17,683
Attached to dividends paid	(15,857)	(18,857)	(15,857)	(18,857)
Closing balance	86	49	86	49

10. Cash and cash equivalents

Cash and cash equivalents are held in the following currencies

New Zealand dollar	306	342	276	267
Australian dollar	29	55	29	55
Euros	-	344	-	344
	335	741	305	666

11. Current trade and other receivables

Trade receivables	5,085	7,786	3,156	6,326
Allowance for impairment of receivables	(290)	(100)	(287)	(95)
	4,795	7,686	2,869	6,231
Finance lease receivable	18	17	18	17
GST receivable	-	82	-	82
Amounts due from customers under construction contracts	452	377	-	-
	5,265	8,162	2,887	6,330
Bad debts written off	88	345	86	334
Bad debts recovered	16	8	16	8
Increase in allowance for impairment	190	15	192	30

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.

Allowances have 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. Allowances for impairment of receivables have been increased in the current year largely because of uncertainty regarding the receipt of some interest due from an associate company.

The allowances for impairment of receivables was increased in the previous 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 relates to debts past due by more than 60 days and is based on an analysis of individual debtors balances.

Notes to the financial statements continued

For the year ended 31 March 2010

11. Current trade and other receivables continued

Bad debts written off relate to debtors who have damaged the parent company's network assets. Bad debts written off in the year ended 31 March 2009 also include \$238,000 of interest receivable on loans to an associate which was not expected to be recovered.

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. These rearranged debts form the majority of the 'past due over 60 days' category below.

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

	Group 2010 \$000	Group 2009 \$000	Parent 2010 \$000	Parent 2009 \$000
Not past due	4,143	7,224	2,339	5,948
Past due 0 to 30 days	455	163	342	57
Past due 31 to 60 days	73	89	65	44
Past due greater than 60 days	414	310	410	277
	<u>5,085</u>	<u>7,786</u>	<u>3,156</u>	<u>6,326</u>

12. 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 (note 11)

	4,656	6,450	-	-
	<u>4,204</u>	<u>6,073</u>	<u>-</u>	<u>-</u>
	<u>452</u>	<u>377</u>	<u>-</u>	<u>-</u>

13. Other current financial assets

At fair value

Foreign currency forward contracts

-	2	-	2

At amortised cost

Interest bearing loans advanced to subsidiaries

-	-	5,964	5,629
<u>-</u>	<u>2</u>	<u>5,964</u>	<u>5,631</u>

Amounts receivable from related entities

A non interest bearing advance of \$4.0m to Orion Group Limited was eliminated on Orion Group Limited's 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 (2009: \$2.6m) allowance for impairment, as the net recoverable assets of the borrower are assessed as not sufficient to cover the debt. During the year the allowance for impairment on these advances to subsidiaries was increased by \$45,000 (2009: \$727,000).

14. Current inventories

Chargeable work in progress

Goods for sale

Maintenance items

Allowance for impairment

384	465	13	68
1,334	1,330	4	4
2,713	3,043	376	666
<u>(346)</u>	<u>(317)</u>	<u>(231)</u>	<u>(200)</u>
<u>4,085</u>	<u>4,521</u>	<u>162</u>	<u>538</u>

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

	Group 2010 \$000	Group 2009 \$000	Parent 2010 \$000	Parent 2009 \$000
15. Other current assets				
Prepayments	974	1,641	696	1,402
Prepayments as at 31 March 2009 included the deposit paid to purchase a property. The company completed the purchase of the property in October 2009 and the cost is now included in property, plant and equipment.				

16. Non current trade and other receivables

Finance lease receivable	67	85	67	85

17. Investments in subsidiaries and associates

Associate company

As at 31 March 2010 the group had a 23% (2009: 26%) ownership interest in 4RF Communications Limited, a company incorporated in New Zealand (the associate).

The carrying value of this investment is nil (2009: nil). The group has not recognised its 23% share of current year profits or losses, or the accumulated losses relating to the associate amounting to \$7.3m. The group has no obligation or rights in respect of these accumulated losses. This total includes the group's share of the associate's \$195,000 loss for 2010 and \$766,000 profit for 2009.

	2010 \$000	2009 \$000
Summarised financial information of associate		
Current assets	8,229	10,663
Non current assets	2,310	1,335
	<u>10,539</u>	<u>11,998</u>
Current liabilities	5,747	6,878
Non current liabilities	5,506	5,504
	<u>11,253</u>	<u>12,382</u>
Net assets/(liabilities)	<u>(714)</u>	<u>(384)</u>

Revenue	21,655	23,951
Net profit/(loss)	(840)	2,947
Net movement in reserves	(366)	68

	Parent 2010	Parent 2009
Subsidiary companies		
Investments in subsidiaries		
Connetics Limited	6,551	6,551
Orion New Zealand Ventures Limited	-	-
	<u>6,551</u>	<u>6,551</u>

The carrying value of the investments in subsidiaries, as shown in the parent company, is at cost less impairment.

Notes to the financial statements continued

For the year ended 31 March 2010

	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
18. Property, plant and equipment					
Consolidated group					
Gross carrying amount					
Balance as at 1 April 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)
Impairment loss on revaluation	(4,360)	(110)	-	-	(4,470)
Balance as at 31 March 2009	38,861	2,717	947,738	22,907	1,012,223
Reclassification	-	(23)	-	23	-
Additions	401	273	37,486	2,466	40,626
Disposals	(16)	-	(1,164)	(876)	(2,056)
Impairment loss on revaluation	(1,589)	(622)	-	-	(2,211)
Balance as at 31 March 2010	37,657	2,345	984,060	24,520	1,048,582
Accumulated depreciation, amortisation and impairment					
Balance as at 1 April 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
Disposals	-	-	(75)	(670)	(745)
Impairment loss on revaluation	-	(314)	-	-	(314)
Depreciation expense	-	104	31,128	2,764	33,996
Balance as at 31 March 2010	-	24	90,956	13,985	104,965
Net book value as at 31 March 2009	38,861	2,483	887,835	11,016	940,195
Net book value as at 31 March 2010	37,657	2,321	893,104	10,535	943,617

2010
\$000

2009
\$000

Capital work in progress in the consolidated group, included above, is as follows:

Land	3	-
Plant and equipment	14	668
Electricity distribution network	15,566	12,724
	15,583	13,392
Electricity distribution network assets included above which are subject to finance leases	4,779	4,626

18. Property, plant and equipment continued

Parent entity

Gross carrying amount

	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
Balance as at 1 April 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)
Impairment loss on revaluation	(4,360)	(110)	-	-	(4,470)
Balance as at 31 March 2009	38,861	2,717	950,923	9,198	1,001,699
Reclassification	-	(23)	-	23	-
Additions	401	273	37,859	1,239	39,772
Disposals	(16)	-	(1,164)	(314)	(1,494)
Impairment loss on revaluation	(1,589)	(622)	-	-	(2,211)
Balance as at 31 March 2010	37,657	2,345	987,618	10,146	1,037,766

Accumulated depreciation, amortisation and impairment

Balance as at 1 April 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
Disposals	-	-	(75)	(228)	(303)
Impairment loss on revaluation	-	(314)	-	-	(314)
Depreciation expense	-	104	31,128	1,288	32,520
Balance as at 31 March 2010	-	24	90,956	5,615	96,595
Net book value as at 31 March 2009	38,861	2,483	891,020	4,643	937,007
Net book value as at 31 March 2010	37,657	2,321	896,662	4,531	941,171

	2010 \$000	2009 \$000
Capital work in progress in the parent entity, included above, is as follows:		
Land	3	-
Plant and equipment	12	667
Electricity distribution network	15,566	12,724
	15,581	13,391
Electricity distribution network assets included above which are subject to finance leases	4,779	4,626

Notes to the financial statements continued

For the year ended 31 March 2010

Group 2010 \$000	Group 2009 \$000	Parent 2010 \$000	Parent 2009 \$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	104	119	104	119
Electricity distribution network	30,957	30,257	30,957	30,257
Plant and equipment and leasehold improvements	2,764	2,501	1,288	1,139
Equipment under finance lease	171	169	171	169
	<u>33,996</u>	<u>33,046</u>	<u>32,520</u>	<u>31,684</u>

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

Freehold land	35,550	34,770	35,550	34,770
Buildings	2,868	2,723	2,868	2,723
Electricity distribution network	740,515	728,957	740,515	728,957
Plant and equipment and leasehold improvements	10,540	11,036	4,536	4,663
	<u>789,473</u>	<u>777,486</u>	<u>783,469</u>	<u>771,113</u>

Revaluations and impairment review

Electricity network and substation buildings

The company's electricity distribution network and substation buildings were revalued to a fair value of \$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 fair value as at 31 March 2007 was established by determining the depreciated replacement cost (DRC) in accordance with NZ IAS 16. The 31 March 2007 DRC valuation used:

- replacement costs which reflected the company's experience and unique circumstances
- asset lives and remaining lives which reflected the expected service potential of each class of asset, and
- an assessment of asset specific obsolescence and surplus capacity consistent with the NZ IAS 16 definition of optimisation.

Additions since 31 March 2007 have been added at cost, depreciation applied to the assets and disposals removed.

In 2010, PricewaterhouseCoopers confirmed that the carrying value of the company's distribution system fixed assets did not materially differ from that which would be determined using a fair value approach as at 31 March 2010. A DRC valuation as at 31 March 2010 was estimated for this purpose, based on the 31 March 2007 DRC valuation adjusted for replacement cost price inflation since that date with further adjustments for depreciation, additions and disposals between 2007 and 2010. An additional check was also undertaken using the discounted cash flow (DCF) valuation methodology incorporating the present value of the free cash flows generated by the assets over five years, plus a terminal value calculation.

Substation land

The valuation of the company's substation land to fair value as at 31 March 2010 was prepared by an independent valuer, Mr Marius Ogg, of CB Richard Ellis, in accordance with NZ IAS 16. Mr Ogg is a registered public valuer, Director of Valuation & Advisory Services at CB Richard Ellis, an Associate of the New Zealand Institute of Valuers and a Senior Member of the New Zealand Property Institute.

Mr Ogg used an independently determined methodology, adopting land rating valuations and applying indices and multipliers over the company's substation land population to determine current fair value. A randomly selected sample of the population was individually valued utilising sales comparisons and a unit metre frontage methodology. The concluding multiplier and adjustments from the land rating indices were then recast over the total population to determine a fair value for all the substation sites.

Mr Ogg's revaluation resulted in a net write-down of substation land by \$1.0m (2009: \$4.4m) of which \$0.5m (2009: \$4.4m) reduced the asset revaluation reserve for land and \$0.5m (2009: nil) was expensed in the statement of comprehensive income.

18. Property, plant and equipment continued

Corporate premises

The valuation of the company's head office premises to fair value as at 31 March 2010 was prepared by an independent valuer, Mr Marius Ogg, of CB Richard Ellis in accordance with NZ IAS 40 and NZ IAS 16.

The valuation was performed to assess fair value in accordance with NZ IAS 40 (refer note 20) and NZ IAS 16. Fair values have been determined using discounted cashflow, capitalisation analysis and sales comparison approaches. The major assumption used in the valuation is a notional lease for a six-year term on occupied space. Under the discounted cashflow and capitalisation approaches assumptions include an adopted capitalisation rate of 9.4%, a discount rate of 10.0%, and market rental growth rates of 0.0% - 2.5% over the investment horizon.

The valuation comprises a combined value of the individual components, with a concluding value determined under a hypothetical subdivision approach and then apportioned between property, plant and equipment (NZ IAS 16) and investment property (NZ IAS 40 – refer note 20).

The revaluation resulted in a net writedown of the head office premises by \$0.6m (2009: nil) for land and \$0.3m (2009: \$0.1m) for buildings. The \$0.6m writedown reduced the asset revaluation reserve for land and the \$0.3m writedown was expensed in the statement of comprehensive income.

Group	Group	Parent	Parent
2010	2009	2010	2009
\$000	\$000	\$000	\$000

19. Other non current financial assets

At fair value

Available-for-sale – EnerTech Capital Partners II LP

Interest rate swaps

3,100	3,000	-	-
309	-	309	-
3,409	3,000	309	-

20. Investment property

Balance at beginning of financial year

Opening balance adjustment

Additions

Disposals

Net loss from fair value adjustments

Balance at end of financial year

5,719	5,860	5,719	5,860
(36)	-	(36)	-
53	329	53	329
(249)	-	(249)	-
(7)	(470)	(7)	(470)
5,480	5,719	5,480	5,719

The valuation was prepared by an independent valuer, Mr Marius Ogg, of CB Richard Ellis in accordance with NZ IAS 40. Mr Ogg is a registered public valuer, Director of Valuation & Advisory Services at CB Richard Ellis, an Associate of the New Zealand Institute of Valuers and a Senior Member of the New Zealand Property Institute.

The valuations were performed to assess fair value in accordance with NZ IAS 40. Primarily fair values have been determined using discounted cashflow, capitalisation analysis and sales comparison approaches.

Reflecting that the highest and best use of the investment property is as redevelopment, the sales comparison approach has been adopted with the most recent land sales evidence utilised to assist in analysing the underlying land values.

Notes to the financial statements continued

For the year ended 31 March 2010

	Software \$000	Other \$000	Total \$000
21. Other intangible assets			
Consolidated group			
Gross carrying amount			
Balance as at 1 April 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
Additions	2,222	-	2,222
Additions from internal developments	400	-	400
Balance as at 31 March 2010	9,807	2,100	11,907
Accumulated amortisation and impairment			
Balance as at 1 April 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
Amortisation expense	1,281	210	1,491
Reclassification to prepayment	-	210	210
Balance as at 31 March 2010	5,711	2,100	7,811
Net book value as at 31 March 2009	2,755	420	3,175
Net book value as at 31 March 2010	4,096	-	4,096
Parent entity			
Gross carrying amount			
Balance as at 1 April 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
Additions	2,208	-	2,208
Additions from internal developments	400	-	400
Balance as at 31 March 2010	9,328	2,100	11,428
Accumulated amortisation and impairment			
Balance as at 1 April 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
Amortisation expense	1,263	210	1,473
Reclassification to prepayment	-	210	210
Balance as at 31 March 2010	5,256	2,100	7,356
Net book value as at 31 March 2009	2,727	420	3,147
Net book value as at 31 March 2010	4,072	-	4,072

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

	Group 2010 \$000	Group 2009 \$000	Parent 2010 \$000	Parent 2009 \$000
22. Current trade and other payables				
Trade payables	14,588	16,843	14,643	16,911
Interest payable	50	61	50	61
Employee entitlements	4,618	5,222	2,029	2,479
GST payable	909	221	590	-
Other	320	534	320	534
	<u>20,485</u>	<u>22,881</u>	<u>17,632</u>	<u>19,985</u>

23. Current borrowings

Unsecured at amortised cost

Finance lease liability (note 33)	81	61	81	61
Bank loans	37,200	-	37,200	-
	<u>37,281</u>	<u>61</u>	<u>37,281</u>	<u>61</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 (2009: 30 September 2010). Subsequent to balance date the facilities have been extended to mature on 31 December 2010 and the company elected to reduce its facility limit to \$90m. (Refer also to note 39).

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 2010 this rate (including margin) averaged 3.06% (2009: 3.83%). The company has entered into derivative contracts to hedge its exposure to interest rate fluctuations (refer to note 40).

24. Other current financial liabilities

Interest rate swaps	327	254	327	254
Foreign currency forward contracts	20	-	20	-
	<u>347</u>	<u>254</u>	<u>347</u>	<u>254</u>

25. Current provisions

Employee benefits – long service leave (note 28)	100	164	50	126

26. Non current borrowings

Unsecured at amortised cost

Bank loans (note 23)	-	46,800	-	46,800
Finance lease liability (note 32)	4,912	4,677	4,912	4,677
	<u>4,912</u>	<u>51,477</u>	<u>4,912</u>	<u>51,477</u>

Notes to the financial statements continued

For the year ended 31 March 2010

	Group 2010 \$000	Group 2009 \$000	Parent 2010 \$000	Parent 2009 \$000
27. Other non current financial liabilities				
Interest rate swaps	-	601	-	601

28. Non current provisions

Employee benefits – long service leave	839	820	525	523

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 experience of employee departure, 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 6.07% (2009: 5.34%)
- salary inflation 2.5% (2009: 2.5%)
- discount rate 0.94 (2009: 0.95).

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 became 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 and land and buildings. Where a revalued asset is sold or disposed, that portion of the asset revaluation reserve which relates to that asset is effectively realised and is transferred directly to retained earnings.

An analysis of reserves is shown in the statement of changes in equity.

	2010 cents per share	2009 cents per share	2010 \$000	2009 \$000
31. Dividends				
Recognised amounts:				
Fully paid ordinary shares	46.25	55.00	37,000	44,000

32. Leases

Operating lease commitments

No later than one year

Later than one year and not later than five years

Later than five years

Group 2010 \$000	Group 2009 \$000	Parent 2010 \$000	Parent 2009 \$000
687	665	75	90
1,612	803	251	219
558	548	558	548
2,857	2,016	884	857

Non-cancellable operating lease receivables

No later than one year

Later than one year and not later than five years

Later than five years

544	512	544	512
861	748	861	748
2	-	2	-
1,407	1,260	1,407	1,260

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. A group company leases its head office property and buildings 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 adjacent to substation sites to a range of tenants. These leases are incidental to the company's principal business.

Finance lease receivable

No later than one year

Later than one year and not later than five years

Minimum future lease payments

Less unearned finance income

Present value of minimum lease payments

Minimum future lease receivables		Present value of minimum future lease receivables	
2010 \$000	2009 \$000	2010 \$000	2009 \$000
26	26	18	17
78	104	67	85
104	130	85	102
(19)	(28)	-	-
85	102	85	102

Included in the financial statements as:

Current trade and other receivables

Non current trade and other receivables

18	17
67	85
85	102

Notes to the financial statements continued

For the year ended 31 March 2010

	Minimum future lease payables		Present value of minimum future lease payables	
	2010	2009	2010	2009
	\$000	\$000	\$000	\$000
32. Leases continued				
Finance lease liability				
No later than one year	412	440	81	61
Later than one year and not later than five years	1,648	1,762	398	311
Later than five years	9,585	10,695	4,514	4,366
Minimum lease payments	11,645	12,897	4,993	4,738
Less future finance charges	(6,652)	(8,159)	-	-
Present value of minimum lease payments	4,993	4,738	4,993	4,738
Included in the financial statements as:				
Current borrowings (refer to note 23)			81	61
Non current borrowings (refer to note 26)			4,912	4,677
			4,993	4,738

Finance lease receivable

The finance lease receivable above relates to equipment leased for a total term of 10 years, whereby the lessee owns the equipment at the end of the term. The company has security over the equipment which is registered on the Personal Property Securities Register. 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 and 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.

33. Notes to the statement of cash flows

Reconciliation of profit for the year to net cash flows from operating activities

	Group 2010 \$000	Group 2009 \$000	Parent 2010 \$000	Parent 2009 \$000
Net profit attributable to the parent entity	46,795	49,860	47,031	49,690
Adjustments				
Gain on disposal of property, plant and equipment	(133)	(93)	(29)	(55)
Gain on disposal of investment	(62)	-	-	-
Loss on revaluation of investment property	7	470	7	470
Net change in fair value of derivatives	(815)	1,253	(815)	1,253
Depreciation and amortisation of non current assets	35,487	34,227	33,993	32,842
Impairment of assets and assets written off	1,992	1,440	1,972	1,483
Donated and subsidised assets	(3,824)	(7,108)	(3,824)	(7,108)
Other	-	(4)	-	-
	<u>32,652</u>	<u>30,185</u>	<u>31,304</u>	<u>28,885</u>
Changes in tax balances				
Increase in current tax liability	1,366	3,316	1,613	3,329
Increase/(decrease) in deferred tax liability	2,279	(487)	2,283	(473)
(Increase)/decrease in assets				
Current receivables	2,919	(2,596)	3,690	(2,853)
Current inventories	436	(1,072)	376	(240)
Other current assets	342	(1,033)	342	(1,019)
Non current receivables	18	17	18	17
Non current inventories	-	784	-	784
Other non current assets	-	574	-	574
Increase/(decrease) in liabilities				
Current payables	(2,120)	(2,227)	(2,353)	(2,162)
Current provisions	(76)	45	(76)	47
Non current provisions	32	14	4	(54)
	<u>5,196</u>	<u>(2,665)</u>	<u>5,897</u>	<u>(2,050)</u>
Net cash from operating activities	<u>84,643</u>	<u>77,380</u>	<u>84,232</u>	<u>76,525</u>

Financing facilities

Unsecured bank overdraft facility, reviewed annually and payable at call:

Amount used	-	-	-	-
Amount unused	500	500	500	500
	<u>500</u>	<u>500</u>	<u>500</u>	<u>500</u>

Unsecured bank loan facilities maturing 30 September 2010 (2009: 30 September 2010) which, subsequent to balance date, have been extended to 31 December 2010 and the facility limit reduced to \$90m

Amount used	37,200	46,800	37,200	46,800
Amount unused	92,800	83,200	92,800	83,200
	<u>130,000</u>	<u>130,000</u>	<u>130,000</u>	<u>130,000</u>

Notes to the financial statements continued

For the year ended 31 March 2010

34. Related party transactions

Group structure

The parent entity in the consolidated group is Orion New Zealand Limited, which is owned by Christchurch City Holdings Limited (CCHL) (89.275%) and Selwyn Investment Holdings Limited (SIHL) (10.725%).

Prior to 31 March 2009 Orion New Zealand Limited was owned by Orion Group Limited (OGL), whose shareholders were CCHL and SIHL in the same proportions as above. On 31 March 2009 OGL was amalgamated into Orion New Zealand Limited and the intercompany advance from Orion New Zealand Limited to OGL was eliminated in retained earnings on amalgamation.

Other related parties include:

- subsidiaries (refer to note 41)
- associates (refer to note 41)
- the various subsidiaries of the Christchurch City Council (CCC) and the Selwyn District Council (SDC)
- 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 CCHL and SIHL, were entered into with related parties.

	Group 2010 \$000	Group 2009 \$000	Parent 2010 \$000	Parent 2009 \$000
Transactions during the year				
Dividends paid by Orion New Zealand Limited to CCHL and SIHL (2009: OGL paid to CCHL and SIHL)	37,000	44,000	37,000	44,000
Purchases from CCC/SDC	2,158	2,035	2,135	2,035
Revenues from CCC/SDC	5,427	6,508	1,260	1,956
Purchases from subsidiaries	-	-	25,115	21,607
Revenues from subsidiaries (including interest)	-	-	387	391
Dividends from subsidiaries	-	-	-	500
Revenues from associates	276	238	276	238
Purchases from other related parties	622	486	386	178
Revenues from other related parties	604	3,287	279	221
Outstanding balances as at 31 March				
Accounts payable to CCC/SDC	7	-	4	-
Accounts receivable from CCC/SDC	660	1,276	67	724
Accounts payable to subsidiaries	-	-	3,593	3,105
Accounts receivable from subsidiaries	-	-	178	162
Accounts receivable from associate	219	-	219	-
Accounts payable to other related parties	40	86	7	2
Accounts receivable from other related parties	55	74	24	55
Loans outstanding from subsidiaries	-	-	5,964	5,629

34. Related party transactions continued

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 \$45,000 in the year ended 31 March 2010 (2009: \$727,000). The net impairment of the intercompany balance as at 31 March 2010 was \$2.6m (2009: \$2.6m).

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 2010, \$164,000 of interest due on loans to the associate was considered impaired (2009: written off as not recoverable \$238,000). 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 \$280,000 (2009: \$249,000).

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 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.

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 purchased a second-hand vehicle from the group for \$24,000 (2009: all less than \$1,000 with the exception of one person who reimbursed private overseas travel expenses of \$6,079). There were no outstanding balances with key management personnel as at 31 March 2010 (2009: nil). All transactions were conducted on standard commercial terms and, in the case of the second-hand vehicle, were based on independent market valuations.

During the year ended 31 March 2010 the following transactions occurred between the group and an organisation in which a key management person of the group holds a position of control:

- Energy Efficiency and Conservation Authority (EECA) of which a group employee is the chairman. EECA reimbursed meeting expenses to the group totalling \$10,788 (2009: directors' fees and meeting expenses \$28,981). The group provided sponsorship of \$5,000 to EECA (2009: nil). There was a balance due to the group from EECA as at 31 March 2010 of \$1,313 (2009: \$1,028). 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 \$59,808 (2009: \$52,431). The group paid membership fees, sponsorship and training costs to ESITO of \$28,089 (2009: \$51,273). There was a balance due to the group from ESITO as at 31 March 2010 of \$5,928 (2009: \$6,150).
- Electricity Engineers' Association (EEA) of which two group employees are executive committee members. The group paid sponsorship, membership and course fees totalling \$49,907 (2009: \$63,479) and received reimbursements for travel costs of \$10,115 (2009: \$4,211). There was a balance due from the group to the EEA as at 31 March 2010 of \$10,019 (2009: \$11,795). There was a balance due to the group by the EEA as at 31 March 2010 of \$nil (2009: \$700).
- Electricity Networks Association (ENA) of which a group employee is a board member. The group paid a subscription to ENA of \$48,000 (2009: \$48,000).
- 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 (2009: \$20,000) and sponsorship of \$6,000 to EPEC (2009: consultancy and sponsorship \$28,225).

All transactions with EECA, ESITO, EEA, ENA, PEET and EPEC 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 2010 and 31 March 2009.

Notes to the financial statements continued

For the year ended 31 March 2010

	Group 2010 \$000	Group 2009 \$000	Parent 2010 \$000	Parent 2009 \$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	3,720	3,351	2,763	2,524
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. Commitments for expenditure				
Capital expenditure commitments				
Electricity distribution network	3,607	6,031	3,607	6,031
Intangible assets	803	2,353	803	2,353
Investments	-	263	-	263
Lease commitments - refer to note 32.				
Most expenditure commitments are expected to be incurred in the next financial year.				
37. Contingent liabilities and contingent assets				
Contingent liabilities				
Performance bonds in relation to contract work	350	497	-	-
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 38). 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 \$39,000 (2009: \$36,000).				
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 would take, it was not possible to accurately predict the future costs related to this restructuring. However, it was expected that total costs would not exceed \$200,000.				
Other than the above, the group had no material or significant contingent liabilities or contingent assets as at 31 March 2010 or 31 March 2009.				
38. Defined benefit superannuation scheme				
As outlined in note 37, 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 2009, the scheme had an estimated past service surplus of \$15.3m (5.7% 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 2010 is not available at the date of preparation of these financial statements.				
Refer also to accounting policy 1(s) – employee benefits.				

39. Significant events after balance date

The company's statement of intent for the three years commencing 1 April 2010 states that the company proposes to implement a non-taxable \$82m share buy-back during the year ended 31 March 2011. If the buy-back offer is accepted by both shareholders this would increase the company's interest bearing debt by \$82m and decrease the company's shareholders' equity by \$82m.

The company's share buy-back proposal is subject to a favourable ruling on its tax status from the Commissioner of Inland Revenue. The company made its formal application to the Commissioner in May 2010 but the outcome of the ruling process is not yet known.

As disclosed in note 23 the company's significant interest bearing debt facilities expire on 30 September 2010. The company has completed its preparations to refinance and extend the maturity of its debt facilities to 31 December 2010. The company will seek specific proposals from financial institutions as soon as the company knows the outcome of the company's application to the Commissioner of Inland Revenue on the tax status of the company's share buy-back proposal. If the Commissioner's ruling is not favourable then the company's refinancing requirements are likely to be approximately \$82m less than if the ruling is favourable.

Since 31 March 2010 the Government has announced various changes to tax legislation which will impact on the company's statement of financial position and statement of comprehensive income. The most significant changes announced are a reduction in the corporate income tax rate from 30% to 28% and the removal of the tax depreciation claim for long-lived buildings, both changes effective from 1 April 2011.

The financial effects of these changes have not been brought to account in the financial statements for the year ended 31 March 2010; however had they been recognised the financial effects are estimated as follows:

- change in the corporate income tax rate – a reduction in the balance of deferred tax liabilities by \$13.0m, a decrease in income tax expense by \$9.5m and an increase in the asset revaluation reserve (and other comprehensive income) by \$3.5m
- removal of the tax depreciation claim for long-lived buildings – an increase in the balance of deferred tax liabilities by \$7.2m and an increase in income tax expense by \$7.2m.

Other than the change in two events noted above, there were no other significant events that the directors are aware of between the preparation and authorisation of these financial statements on 15 June 2010.

40. Financial instruments

Exposure to interest rates, foreign currency, liquidity and credit risk arises in the normal course of the group's business. The group has policies to manage the risks associated with financial instruments.

Details of the significant accounting policies and methods adopted, including the criteria for recognition and the basis of measurement applied in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

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 return on shareholders' capital 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.

In the year ended 31 March 2010 the company completed a capital structure review. As a result of the review the company proposes to, subject to a favourable ruling from the Commissioner of Inland Revenue, buy back \$82m of shares pro-rata from its shareholders in the year ended 31 March 2011 (see note 39). The capital structure review confirmed that the company will maintain its strong capital base immediately following the \$82m share buy-back.

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 segments and activities is undertaken independently of those responsible for the operations and activities.

The group's policies in respect of capital management and allocation are reviewed regularly by the board of directors. There has been no material change 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 material 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 EBIT interest coverage requirement and an obligation that the guaranteeing group will comprise 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 for the year ended 31 March 2010 and the year ended 31 March 2009.

Notes to the financial statements continued

For the year ended 31 March 2010

40. Financial instruments continued

Classification of financial instruments

The following tables classify the financial assets and liabilities of the group and parent between the various categories set out in NZ IAS 39 and NZ IFRS 7.

	Group 2010 \$000	Group 2009 \$000	Parent 2010 \$000	Parent 2009 \$000
Financial assets				
Fair value through income statement:				
Derivative financial instruments	309	2	309	2
Loans and receivables at cost less impairment:				
Cash and cash equivalents	335	741	305	666
Trade and other receivables	5,332	8,247	2,954	6,415
Advances to subsidiaries	-	-	5,964	5,629
Available-for-sale at fair value:				
EnerTech Capital Partners II LP	3,100	3,000	-	-
Total financial assets	9,076	11,990	9,532	12,712
Financial liabilities				
Fair value through income statement:				
Derivative financial instruments	347	855	347	855
Amortised cost:				
Trade and other payables	15,867	17,659	15,603	17,506
Borrowings	42,193	51,538	42,193	51,538
Total financial liabilities	58,407	70,052	58,143	69,899

Fair value of financial instruments

The group considers that the carrying amounts of financial assets and financial liabilities recorded in the financial statements approximate their fair values.

The group uses various methods in estimating the fair value of a financial instrument. The methods comprise:

- Level 1: the fair value is calculated using quoted prices in active markets. Quoted market price represents the fair value determined based on quoted prices in active markets as at the reporting date without any deduction for transaction costs. The group does not have any financial instruments classified as level 1.
- Level 2: the fair value is estimated using inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices). Financial instruments that use valuation techniques with only observable market inputs or unobservable inputs that are not significant to the overall valuation include interest rate swaps and foreign exchange contracts not traded on a recognised exchange. The fair values are estimated using a discounted cash flow model using Bloomberg's SWPM model for swaps, and inputs obtained from Bloomberg for foreign currency derivatives. The inputs used in the valuations are observable market inputs from a composite of banks. The yield curve inputs are made up of cash rates, futures, forward rate agreements and swap rates and their composition changes to ensure the inputs produce the most appropriate yield curve. Rates are interpolated using a piecewise linear method.
- Level 3: the fair value is estimated using inputs for the asset or liability that are not based on observable market data. The fair values of unlisted investments that do not have an active market are based on valuation techniques that use market data that is not observable. The EnerTech investment is made with a US based 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 and is revalued annually. The valuation is based on the group's share of the partnership's net assets. The investments in 4RF Communications Limited and Whisper Tech Limited are recorded at the directors' estimate of fair value which is nil for both investments. This estimate of fair value is based on the current financial position of both companies.

40. Financial instruments continued

The fair value of the financial instruments as well as the methods used to estimate the fair value are summarised as follows:

	Year ended 31 March 2010			Year ended 31 March 2009		
	Valuation technique – market observable inputs (level 2) \$000	Valuation technique – non market observable inputs (level 3) \$000	Total \$000	Valuation technique – market observable inputs (level 2) \$000	Valuation technique – non market observable inputs (level 3) \$000	Total \$000
Consolidated group						
Financial assets						
Derivative instruments:						
Foreign exchange contracts	-	-	-	2	-	2
Interest rate swaps	309	-	309	-	-	-
Available-for-sale investments:						
EnerTech Capital Partners II LP	-	3,100	3,100	-	3,000	3,000
	309	3,100	3,409	2	3,000	3,002
Financial liabilities						
Derivative instruments:						
Foreign exchange contracts	20	-	20	-	-	-
Interest rate swaps	327	-	327	855	-	855
	347	-	347	855	-	855
Parent entity						
Financial assets						
Derivative instruments:						
Foreign exchange contracts	-	-	-	2	-	2
Interest rate swaps	309	-	309	-	-	-
	309	-	309	2	-	2
Financial liabilities						
Derivative instruments:						
Foreign exchange contracts	20	-	20	-	-	-
Interest rate swaps	327	-	327	855	-	855
	347	-	347	855	-	855

Notes to the financial statements continued

For the year ended 31 March 2010

	Group 2010 \$000	Group 2009 \$000	Parent 2010 \$000	Parent 2009 \$000
40. Financial instruments continued				
Financial assets classified as level 3 include:				
EnerTech Capital Partners II LP	3,100	3,000	-	-
4RF Communications Limited	-	-	-	-
WhisperTech Limited	-	-	-	-
	<u>3,100</u>	<u>3,000</u>	<u>-</u>	<u>-</u>
Reconciliation of level 3 fair value movements				
Opening balance	3,000	3,684	-	-
Addition	240	-	-	-
Disposal	(75)	-	-	-
Impairment	(65)	(684)	-	-
Closing balance	<u>3,100</u>	<u>3,000</u>	<u>-</u>	<u>-</u>
Total gain/(loss) stated above for assets held at the end of the period	(65)	(684)	-	-

Transfer between categories

There were no transfers between level 1 and level 2 during the year.

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 are employed to manage the company's interest rate exposure on long term borrowings. Interest rate swaps 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 interest rate swaps 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 the cash requirements are limited to interest payable or receivable.

40. Financial instruments continued

Exposure to New Zealand fixed and variable interest rates

	Variable 2010 \$000	Fixed 2010 \$000	Non interest bearing 2010 \$000	Variable 2009 \$000	Fixed 2009 \$000	Non interest bearing 2009 \$000
Consolidated group						
Financial assets						
Cash and cash equivalents	328	-	7	723	-	18
Trade receivables	-	-	5,246	-	-	8,145
Finance lease receivables	-	86	-	-	102	-
Foreign currency forward contracts	-	-	-	-	-	2
Interest rate swap	-	-	309	-	-	-
Venture capital investment	-	-	3,100	-	-	3,000
	328	86	8,662	723	102	11,165
Financial liabilities						
Trade payables	-	-	15,547	-	-	17,125
Other payables	-	-	320	-	-	534
Bank loans	37,200	-	-	46,800	-	-
Finance lease liabilities	4,883	110	-	4,617	121	-
Foreign currency forward contracts	-	-	20	-	-	-
Interest rate swaps	-	-	327	-	-	855
	42,083	110	16,214	51,417	121	18,514
Net financial liabilities	41,755	24	7,552	50,694	19	7,349
Parent entity						
Financial assets						
Cash and cash equivalents	298	-	7	648	-	18
Trade receivables	-	-	2,868	-	-	6,313
Finance lease receivables	-	86	-	-	102	-
Foreign currency forward contracts	-	-	-	-	-	2
Interest rate swaps	-	-	309	-	-	-
Related party loans	2,723	-	3,241	2,455	-	3,174
	3,021	86	6,425	3,103	102	9,507
Financial liabilities						
Trade payables	-	-	15,283	-	-	16,972
Other payables	-	-	320	-	-	534
Bank loans	37,200	-	-	46,800	-	-
Finance lease liabilities	4,883	110	-	4,617	121	-
Foreign currency forward contracts	-	-	20	-	-	-
Interest rate swaps	-	-	327	-	-	855
	42,083	110	15,950	51,417	121	18,361
Net financial liabilities	39,062	24	9,525	48,314	19	8,854

Notes to the financial statements continued

For the year ended 31 March 2010

40. Financial instruments continued

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. The economic effect of such contracts is to convert a portion of the company's floating rate debt into fixed rate debt. 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 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:

	Average contracted fixed interest rate		Notional principal amount		Fair value	
	2010 %	2009 %	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Outstanding floating for fixed contracts:						
Less than 1 year	6.87	7.45	10,000	6,000	(327)	(254)
1 to 2 years	-	6.87	-	10,000	-	(601)
6 to 7 years	5.14	-	30,000	-	309	-
			<u>40,000</u>	<u>16,000</u>	<u>(18)</u>	<u>(855)</u>

Interest rate sensitivity

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

It is considered that a reasonably possible movement in New Zealand interest rates is a one percentage point movement in either direction and this is the range that has been used in the group's sensitivity analysis.

As at 31 March 2010 it was estimated that a general increase of one percentage point in interest rates on the group's borrowings would increase the group's profit before income tax by approximately \$1,827,000 (2009: decrease by \$32,000). The valuation of existing interest rate swap contracts has been included in this calculation. A decrease in interest rates of one percentage point would have the opposite impact on profit before income tax than that described above.

The impact in the income statement of a general increase of one percentage point in interest rates on the group's other financial assets and liabilities would be immaterial. There would be no impact on other comprehensive income.

Significant assumptions used in the interest rate sensitivity analysis include:

- reasonably possible movements in interest rates were determined based on the group's implied credit rating and mix of debt, relationships with finance institutions and economic forecasters' expectations
- a price sensitivity of derivatives has been based on a reasonably possible movement of interest rates at balance dates by applying the change as a parallel shift in the forward curve
- the net exposure at balance date is not representative of what the group is expecting to be exposed to in the next 12 months from balance date due to the company's proposed share buy-back of \$82m in the next 12 months (refer to note 39).

40. Financial instruments continued

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. These currencies are primarily Australian dollars, US dollars and Euros. The group's policy is to hedge any material foreign currency exposure, usually with forward rate agreements.

	AUD \$000	EURO \$000	GBP \$000
Exposure to foreign currency transactions 31 March 2010			
Foreign currency risk			
Trade receivables	1	76	-
Trade payables	(56)	(1)	-
Net balance sheet exposure before hedging activity	(55)	75	-
Estimated forecast purchases	-	(253)	-
Net cash flow exposure before hedging activity	-	(253)	-
Hedged by:			
Forward exchange contracts – notional amounts	-	253	-
Foreign currency on hand	23	-	-
Net (unhedged exposure)/surplus assets	(32)	75	-
Exposure to foreign currency transactions 31 March 2009			
Foreign currency risk			
Trade receivables	132	18	5
Trade payables	(36)	(324)	-
Net balance sheet exposure before hedging activity	96	(306)	5
Estimated forecast purchases	(262)	-	-
Net cash flow exposure before hedging activity	(262)	-	-
Hedged by:			
Forward exchange contracts – notional amounts	154	-	-
Foreign currency on hand	55	344	-
Net (unhedged exposure)/surplus assets	43	38	5

Notes to the financial statements continued

For the year ended 31 March 2010

40. Financial instruments continued

Forward foreign exchange currency contracts outstanding at balance date

The group's policy is 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	
	2010	2009	2010	2009	2010	2009	2010	2009
			FC000	FC000	NZ\$000	NZ\$000	NZ\$000	NZ\$000
Buy EURO < 3 months	0.49	-	147	-	298	-	(19)	-
Buy EURO 3 to 6 months	0.52	-	107	-	206	-	(1)	-
Sell AUD < 3 months	-	0.79	-	85	-	108	-	2
Buy AUD < 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 \$20,200 (2009: \$2,200). The group has not designated any forward foreign exchange contracts as hedges.

Foreign exchange sensitivity

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

The group estimates that a 10% movement in the value of the New Zealand dollar against other foreign currencies would have the following impacts on the group's profit before income tax:

	2010 \$000	2009 \$000
Decrease of 10%	33	21
Increase of 10%	(64)	(17)

There would be no impact on other comprehensive income.

Significant assumptions used in the foreign currency exposure sensitivity analysis include:

- reasonably possible movements in foreign exchange rates were determined based on economic forecasters' expectations
- the reasonably possible movement was calculated by taking the foreign currency spot rate as at balance date, moving this spot rate by the reasonably possible movements and then re-converting the foreign currency into NZD with the 'new spot-rate'. This methodology reflects the translation methodology undertaken by the group
- a price sensitivity of derivatives is not considered material
- the net exposure at balance date is representative of what the group is expecting to be exposed to in the next 12 months from balance date.

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40. Financial instruments continued

Liquidity risk

Liquidity risk represents the risk that the group may not have the financial ability to meet its contractual obligations. Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

In meeting its liquidity requirements, the group manages its borrowing in accordance with its approved treasury policy - which requires that the company must have access to funds by securing as a minimum, sufficient committed financing facilities to cover at least 110% of the anticipated peak borrowing requirement as determined by the monthly rolling 12 months cash flow forecast. The sum of interest bearing debt maturing in any 12 month period is not to exceed 33% of total debt – however as the company's debt to debt-plus-equity ratio is very low (less than 10%) the company has determined that it is not currently in its best interests to comply with this particular aspect of its treasury policy.

In general the group generates sufficient cash flows from its operating activities to meet its obligations arising from its financial liabilities and has funding arrangements in place to cover potential shortfalls. The company evaluates its liquidity requirements on an ongoing basis.

As disclosed in notes 23 and 39, the company's \$130m bank facilities mature on 30 September 2010. The company has, subsequent to balance date, extended the facilities to mature on 31 December 2010 and reduced the combined limit to \$90m.

The company believes that it will have replacement bank debt facilities in place by 31 December 2010. The company's confidence that it will successfully refinance its existing debt facilities before their 31 December 2010 expiry date is based on:

- the company's existing and forecast low debt gearing levels
- the company's existing and forecast cash flows
- discussions it has already had with banks about its refinancing process and timetable
- independent advice to the company on the prospects for a successful refinancing received from the company's specialist independent treasury advisor, Bancorp Treasury Services Limited, dated 28 May 2010. In Bancorp's opinion "...there is no doubt that Orion will be able to refinance its current debt by 30 November 2010."

The outcome of the company's application to the Commissioner of Inland Revenue on the tax status of the company's proposed \$82m share buy-back (refer to note 39), will determine the amount of debt facilities the company requires. Once the amount is known, the company will seek specific committed proposals from financial institutions. If the share buy-back proposal proceeds then it is likely that the company will seek committed proposals from banks for approximately \$170m of debt facilities. If the share buy-back does not proceed then it is likely that the company will seek committed proposals from banks for approximately \$90m.

Notes to the financial statements continued

For the year ended 31 March 2010

40. Financial instruments continued

Contractual cash flows and maturity analysis

The following tables analyse the group company and parent company contractual cash flows for financial assets and liabilities into relevant maturity groupings based on the remaining period at year end to the contractual maturity date. The amounts disclosed in the tables are the contractual undiscounted cash flows:

	Balance sheet \$000	Contractual cash flows \$000	Less than 1 year \$000	1 to 2 years \$000	2 to 5 years \$000	More than 5 years \$000
Consolidated group as at 31 March 2010						
Financial assets						
Cash and cash equivalents	335	335	335	-	-	-
Trade and other receivables	5,247	5,247	5,247	-	-	-
Finance lease receivable	85	104	26	26	52	-
Interest rate swaps	309	(3,900)	(767)	(767)	(2,302)	(64)
Total financial assets	5,976	1,786	4,841	(741)	(2,250)	(64)

Financial liabilities

Trade and other payables	15,867	15,867	15,867	-	-	-
Finance lease liability	4,993	11,645	412	412	1,236	9,585
Unsecured loans	37,200	37,200	37,200	-	-	-
Interest on unsecured loans	-	569	569	-	-	-
Forward foreign exchange contract	20	-	-	-	-	-
Interest rate swaps	327	393	393	-	-	-
Total financial liabilities	58,407	65,674	54,441	412	1,236	9,585

Consolidated group as at 31 March 2009

Financial assets

Cash and cash equivalents	741	741	741	-	-	-
Trade and other receivables	8,145	8,145	8,145	-	-	-
Finance lease receivable	102	130	26	26	78	-
Forward foreign exchange contract	2	-	-	-	-	-
Total financial assets	8,990	9,016	8,912	26	78	-

Financial liabilities

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	-	-
Interest rate swaps	855	922	599	323	-	-
Total financial liabilities	70,052	80,966	20,490	48,459	1,322	10,695

	Balance sheet \$000	Contractual cash flows \$000	Less than 1 year \$000	1 to 2 years \$000	2 to 5 years \$000	More than 5 years \$000
40. Financial instruments continued						
Contractual cash flows and maturity analysis continued						
Parent entity as at 31 March 2010						
Financial assets						
Cash and cash equivalents	305	305	305	-	-	-
Trade and other receivables	2,869	2,869	2,869	-	-	-
Finance lease receivable	85	104	26	26	52	-
Related party loans	5,964	5,964	5,964	-	-	-
Interest rate swaps	309	(3,900)	(767)	(767)	(2,302)	(64)
Total financial assets	9,532	5,342	8,397	(741)	(2,250)	(64)
Financial liabilities						
Trade and other payables	15,603	15,603	15,603	-	-	-
Finance lease liability	4,993	11,645	412	412	1,236	9,585
Unsecured loans	37,200	37,200	37,200	-	-	-
Interest on unsecured loans	-	569	569	-	-	-
Forward foreign exchange contract	20	-	-	-	-	-
Interest rate swaps	327	393	393	-	-	-
Total financial liabilities	58,143	65,410	54,177	412	1,236	9,585
Parent entity as at 31 March 2009						
Financial assets						
Cash and cash equivalents	666	666	666	-	-	-
Trade and other receivables	6,313	6,313	6,313	-	-	-
Finance lease receivable	102	130	26	26	78	-
Related party loans	5,629	5,629	5,629	-	-	-
Forward foreign exchange contract	2	-	-	-	-	-
Total financial assets	12,712	12,738	12,634	26	78	-
Financial liabilities						
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	-	-
Interest rate swaps	855	922	599	323	-	-
Total financial liabilities	69,899	80,813	20,337	48,459	1,322	10,695

Notes to the financial statements continued

For the year ended 31 March 2010

40. Financial instruments continued

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the group.

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 monitoring 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 instrument assets as follows:

	Group 2010 \$000	Group 2009 \$000	Parent 2010 \$000	Parent 2009 \$000
Cash and cash equivalents	335	741	305	666
Trade and other receivables	5,332	8,247	2,954	6,415
Related party loans	-	-	5,964	5,629
Derivative financial instruments	309	2	309	2
	5,976	8,990	9,532	12,712

The credit quality of financial assets is as follows:

	Counterparties' credit ratings	Group 2010 \$000	Group 2009 \$000	Parent 2010 \$000	Parent 2009 \$000
Cash and cash equivalents	AA	335	741	305	666
Derivative financial instruments	AA	309	2	309	2
Related party loans	Unrated	-	-	5,964	5,629

The credit ratings above are based on the equivalent Standard & Poor's ratings of the counterparties with whom the financial assets are held rather than the ratings of the financial assets themselves.

Designation 2010	Effective ownership 2010	Effective ownership 2009	Year end

41. Group entities

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

Connetics Limited	Subsidiary	100%	100%	31 March
Orion New Zealand Ventures Limited	Subsidiary	100%	100%	31 March
4RF Communications Limited	Associate	23%	26%	31 March
Whisper Tech Limited	Investment	4%	4%	30 June

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 31 March 2010	Statement of intent target 31 March 2010	Consolidated actual 31 March 2009
Financial					
Total comprehensive income (after tax) (\$m)	Achieved	1	45.7	42.7	45.5
Total comprehensive income to average shareholders' equity (%)	Achieved	1	6.5	6.1	6.5
Dividends (\$m)	Achieved	2	37	37	44
Debt (%)	Achieved		6	7	7
Equity (%)	Achieved		94	93	93
Equity/total assets (%)	Achieved		73	73	72

Notes:

1. The actual for the year ended 31 March 2009 above is restated as total comprehensive income (\$45.5m). This amount was previously disclosed as net profit for the year attributable to the parent entity (\$49.9m). Total comprehensive income to average shareholders' equity for the year ended 31 March 2009 (6.5%) is also restated based on total comprehensive income of \$45.5m. This percentage was previously based on net profit for the year attributable to the parent entity and was disclosed as 7.1%.
2. 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 1 year to 31 March 2010	Statement of intent target 1 year to 31 March 2010	Actual 1 year to 31 March 2009	Gazetted NZ weighted average 1 year to 31 March 2009
Reliability – all interruptions (including Transpower):				
Duration of supply interruptions in minutes per year per connected customer (SAIDI)				
• urban	21	20	17	
• rural	412	432	382	
• overall network	70	68	63	198
Number of supply interruptions per year per connected customer (SAIFI)				
• urban	0.2	0.5	0.3	
• rural	3.6	4.0	3.8	
• overall network	0.7	0.9	0.7	2.1
Reliability – Orion network interruptions only:				
Duration of supply interruptions in minutes per year per connected customer (SAIDI)				
• urban	21	19	17	
• rural	342	412	376	
• overall network	61	64	62	183
Number of supply interruptions per year per connected customer (SAIFI)				
• urban	0.2	0.4	0.2	
• rural	2.9	3.6	3.4	
• overall network	0.6	0.8	0.6	2.0

Notes:

- SAIDI and SAIFI measures are international industry standard measures 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. Our electricity distribution network includes a significant rural component.
- 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 a three-year forecast period. In any one year actual results could be above or below the company's targets.

The company's targets are consistent with current Commerce Commission quality threshold settings. In future years the company's statement of intent targets will not be consistent with the Commerce Commission's because the Commission has altered its revised settings to exclude what it defines as 'extreme events' (for example very large snow storms) from its settings definitions.

Performance statement – environmental

1. Incorporate the cost of carbon into network investment decisions

Target date: June 2009

Status: Achieved

Environmental consulting firm, MWH, completed its report on the company's carbon impact in March 2009. The full report is available on the company's website – oriongroup.co.nz. MWH recommended five environmental targets for the company to focus on, of which this target is one.

Approximately 77% of the company's carbon footprint is due to electrical losses through the company's network. The company has for a number of years incorporated the 'non-carbon' costs of electrical losses in its network purchasing decisions. Non-carbon costs include the cost of generating electricity and transporting it from the generator through to the company's network. The values used are based on medium term electricity hedge contract prices.

MWH identified that prior to the establishment of an emissions trading scheme in New Zealand, the carbon cost associated with the generation of electricity had not been incorporated into current electricity hedge contract prices. MWH therefore recommended that the company include a specific carbon cost into its investment decision making process. This has occurred.

As a result, when considering two pieces of network equipment that do the same job, but have different prices and different levels of electrical efficiency (ie different amounts of electrical losses), the company now specifically takes into account the expected carbon costs of electrical losses in its investment process.

2. Continue to undertake and encourage demand side management

Target date: Ongoing

Status: Achieved

MWH found that approximately 17% of the company's total carbon footprint was due to carbon embedded in the company's network distribution assets. MWH found that carbon savings could be achieved through demand side management (DSM) – lower network demand peaks lead to fewer network assets in the long term – and that the company already achieves significant carbon savings through its existing DSM initiatives.

The company started its trial of an upper South Island centralised load management control system in May 2009. Commissioning of this system is now complete and all eight upper South Island electricity distribution businesses are connected to the load controller. In winter 2009 the system was trialled for peak demand control and in the past summer the system was also trialled to assist Transpower's transmission maintenance outage management. Both trials were successful. This project was initiated and is led by the company. The upper South Island trial will run through until April 2011. This trial will enable the benefits of coordinated control to be quantified and provide a platform for future DSM initiatives. The trial has since been picked up by upper North Island electricity distribution networks who are considering implementing their own system. This will possibly lead to further national cost and environmental savings.

The company is also investigating a number of other DSM initiatives. These include developing the concept of a 'distribution system operator'. This concept aims to provide coordination across a region by working with Transpower, electricity distribution businesses and metering companies.

3. Reduce and where practicable eliminate the installation of new network cables containing lead

Target date: Ongoing

Status: Achieved

This is another of the five targets recommended by MWH. Lead has two different uses in the cable industry – as an armour sheath moisture barrier and as a stabiliser in PVC resins for cable jacketing. The environmental impact of lead cables buried in the soil is relatively minor due to lead's low mobility in soil. However, since there is considerable discharge from the mining and smelting of lead, MWH recommended that the company choose cables without lead wherever possible.

Provided alternatives to cables containing lead are feasible from a technical perspective, do not contain chemicals which are just as detrimental to the environment as lead and are not disproportionately expensive, the company will install these alternatives. This is an ongoing policy of the company.

Lead cables that have reached the end of their life will also not be removed unless good reason exists. MWH identified that excavations to remove decommissioned cables have an environmental cost, including carbon emissions through machinery use and the risk of breaking cables and releasing toxic material, which outweighs the minor environmental impact of keeping old disused lead cables in the ground.

Performance statement – environmental continued

4. Undertake a safety and efficiency driving course for all Orion and Connetics employees who regularly drive operational vehicles

Target date: March 2011

Status: On target

MWH found that there are relatively few areas where the company can realistically make significant improvements to its overall carbon footprint. The company's fuel use for its vehicle fleet is a relatively minor part of its footprint at around 3.5% of annual carbon impact. However, fuel usage is an area where gains can be made.

Of the 17 Orion employees who drive the most kilometres, 16 have completed the appropriate training course, with the remaining person currently unable to after recent surgery.

Several Connetics employees will undertake the same course prior to March 2011.

5. Consider the potential to replace operational vehicles in the Orion and Connetics fleet with more fuel efficient models. Then work with other contractors servicing the Orion network to encourage them to run their vehicle fleets as efficiently as possible

Target date: March 2011

Status: On target

This is the fifth target recommended by MWH.

At the time of scheduled vehicle replacements, Orion and Connetics have policies to consider vehicles' fitness for purpose, safety, payload and fuel efficiency. An increasing number of the company's operational vehicles use diesel. Diesel is significantly more fuel efficient for those vehicles that travel high kilometres. Environmental and other considerations, such as fuel availability during an emergency and size/power requirements, also drive this trend. With non-operational vehicles, the company currently encourages a move to diesel powered options through financial mechanisms.

In the year ended 31 March 2011 the company will consider implementing a policy to consider the efficiency of contractor vehicle fleets in any process that awards a multi-year tender.

6. Assess the feasibility and desirability of becoming carbon neutral

Target date: September 2009

Status: Achieved

MWH identified a range of options in relation to potential offsets of the company's carbon footprint and certification. Being labelled "carbon neutral", through purchasing carbon offsets, would bring limited marketing gains for the company. Both MWH and the company recognise that actual emission reductions should take priority. Consequently, the company committed to spend \$250,000 per year, in both the 2010 and 2011 financial years, on local environmental initiatives that lead to actual carbon reduction. The company believes that 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 when the report was completed. This amount will be reviewed for 2012 and future years.

7. Continue our 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 - particularly for the local low income housing sector. The company has sponsored CEA since its inception in 1994.

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 helps CEA to obtain financial support from other funding providers and gives the trust and its employees some certainty.

CEA was originally located on Orion premises, but has now moved. This move was instigated by CEA due to the growth in the services it provides. The company continues to assist the trust with information technology and other issues that arise in its day-to-day operations. The company's corporate stationery has recently been redesigned to include the CEA logo to further promote CEA's efforts.

Performance statement – environmental continued

8. Work with Community Energy Action (CEA) to ensure that at least a further 500 low income homes are insulated this financial year in Christchurch

Target date: March 2010

Status: Achieved

As noted above, the company committed \$150,000 of financial support to CEA in the financial year ended 31 March 2010. CEA has also received financial support from several other parties and has insulated 1,354 low income homes in the year ended 31 March 2010.

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

Target date: Ongoing

Status: On target

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 electricity distribution network and increase its network load factor
- obtain better, more accurate real-time data of the company's network loadings. This would allow more efficient network planning and investment to meet load growth.

The company has been in discussions with the CCC and other parties over forming the 'Christchurch Agency for Energy' (CAfE) – we anticipate CAfE will be established in the next quarter.

Performance statement – community and employment

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

Target date: March 2010
Status: Not achieved

This target covers the company and its contractors (including Connetics Limited) and is extremely challenging due to the physical and diverse nature of 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 2010 the company had three employee lost time accidents (2009: nil) resulting in 16 days of lost time (2009: nil). Thirteen employees of its contractors had lost time injury accidents (2009: seven) – which resulted in 84 days of lost time (2009: 47).

It is disappointing that the company has not achieved its lost time accidents target. However, in relation to the size of the company, the company believes that its accident frequency and severity performance is good. All accidents are investigated for any systemic issues that the company needs to address and the company takes its health and safety responsibilities very seriously.

The company will continue to emphasise better health and safety outcomes for its employees and contractors. The company believes that successful health and safety management requires fundamental and full integration with the company's overall risk management policies and processes – the company will continue to pursue this strategy.

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

Target date: March 2010
Status: Achieved

In the year ended 31 March 2010 no members of the public suffered injuries at the company's worksites (2009: one, minor injury).

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

Target date: March 2010
Status: Achieved

In the year ended 31 March 2010 the company continued its public safety education and awareness programme, which included displays at local rural A & P shows, and local and regional advertising based on seasonal and topical requirements. In addition to print media the company is trialling targeted radio advertising to raise awareness of high risk activities.

Following on from a seminar to 50 local civil contracting companies, the company has developed an e-learning online version of the Department of Labour's printed "Guide for Safety With Underground Services". This will enable the company to deliver the content in a visual format to those workers most at risk. It can be delivered either at their worksites or in scheduled training sessions.

The company's school education programme continues on an as-requested basis – although with a busy school curriculum it has been challenging to actually schedule these seminars into schools.

As a result of the company receiving the 2009 Electricity Engineers' Association's public safety award for development and implementation of its physical security plan, the company delivered a presentation of the plan at the association's annual two-day safety workshop in Wellington in October 2009.

Following a recent ACC Workplace Safety Management Practices Programme audit, the company was again awarded tertiary level standard. Tertiary is the highest of three possible levels awarded by ACC and confirms the company's 'continuous improvement, best practices framework'.

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

Target date: November 2009
Status: Achieved

This year's survey was completed in August 2009. Employees rated their overall perception of Orion at an average of 84 out of 100 (2009: 81).

Similar to previous years, the key issues for employees relate to:

- employee performance management and feedback processes
- reward and recognition practices
- communication and cooperation between different teams within the company.

All three of these issues showed significant improvements over the 2008 survey ratings. Results and feedback were provided back to employees. The company is addressing all of the above key issues and the other issues identified in the survey.

Performance statement – community and employment continued

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

Target date: March 2010

Status: Achieved

In the year ended 31 March 2010:

- Orion had a 2.8% turnover (2009: 3.1%)
- Connetics had a 4.7% staff turnover (2009: 10.5%).

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.

6. Continue with our Orion engineering trainee programme

Target date: Ongoing

Status: Achieved

This engineering trainee programme has successfully placed talented individuals into key positions within the company's business. A number of employees are placed on this programme annually and over several years skills are developed in areas where the company considers shortages may exist now or in the future. The company's programme ensures that there is a prudent and ongoing plan for replacement of its ageing workforce.

As at 31 March 2010 four employees were on this programme (2009: three). One trainee completed his training during the year ended 31 March 2010 and gained a permanent position with the company.

7. Continue to develop our Connetics apprentice scheme

Target date: March 2010

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 2010 Connetics had 18 (2009: 24) apprentices and seven (2009: two) successfully completed their training in the year ended 31 March 2010. Of the 14 apprentices who have completed their apprenticeships over the last three financial years, seven are still employed by Connetics.

8. Continue to support the CPIT Trades Innovation Centre

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 is a crucial local resource 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 electricity distribution businesses and contractors into the project and their support continues to grow.

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.

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

Target date: Ongoing

Status: Achieved

The aim of the UDS is to intensify 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 when preparing the company's recently released AMPs for the 10 years commencing 1 April 2009 and 1 April 2010. In addition, after a review of options, the company has decided to remain at its current central city head office site and is planning a study of options at that site in order to achieve greater efficiencies. The UDS is being considered 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 2010

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 her behalf, for the year ended 31 March 2010.

Unqualified Opinion

In our opinion:

- The financial statements of the company and group on pages 29 to 74:
  - 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 2010; and
    - 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 75 to 81 gives a true and fair view of the achievements measured against the performance targets adopted for the year ended 31 March 2010.
- Based on our examination the company and group kept proper accounting records.

The audit was completed on 15 June 2010, and this 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 2010. 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 2010. 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 New Zealand Institute of Chartered Accountants.

In addition to the audit, we have carried out other audit engagements for the company. These included issuing audit certificates pursuant to the Commerce Act (Electricity Distribution Thresholds) Notice 2004 (assessment period ended 31 March 2009) and the Commerce Act (Electricity Disclosure Requirements) Notice 2004 (financial years ended 31 March 2008 and 31 March 2009), and since 31 March 2010 issuing an audit certificate pursuant to the Commerce Act (Electricity Distribution Thresholds) Notice 2004 as amended by the Commerce Act (Electricity Distribution Thresholds) Amendment Notice 2009 (assessment period ended 31 March 2010). These engagements 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

This audit report relates to the financial statements and statement of service performance of Orion New Zealand Limited (the company) and group for the year ended 31 March 2010 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 statement of service performance since they were initially presented on the website.

The audit report refers only to the financial statements and statement of service performance named above. It does not provide an opinion on any other information which may have been hyperlinked to or from these financial statements and statement of service performance. 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 statement of service performance and related audit report dated 15 June 2010 to confirm the information included in the audited financial statements and statement of service performance 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

	2010 \$m	2009 \$m	2008 \$m	2007 \$m	2006 \$m
Income statement					
Operating revenue	222	231	209	193	186
EDITDAF	106	109	111	101	103
EBIT	68	73	75	73	75
Profit before income tax	66	70	74	70	71
Net profit for the year attributable to the parent entity	47	50	66	61	46
Balance sheet					
Current assets					
Cash and cash equivalents	-	1	-	-	1
Trade and other receivables	5	8	6	6	7
Other	6	6	9	12	16
Total current assets	11	15	15	18	24
Non current assets					
Property, plant and equipment	944	940	933	918	728
Investment property	5	6	6	6	6
Other	7	6	7	13	18
Total non current assets	956	952	946	937	752
Total assets	967	967	961	955	776
Current liabilities					
Trade and other payables	20	23	25	27	22
Borrowings	37	-	-	-	-
Other	5	3	1	-	2
Total current liabilities	62	26	26	27	24
Non current liabilities					
Borrowings	5	51	44	39	71
Deferred tax	193	191	191	212	154
Other	1	2	-	-	1
Total non current liabilities	199	244	235	251	226
Equity					
Issued capital	120	120	120	120	120
Reserves	124	125	130	128	-
Retained earnings	462	452	450	429	406
Total equity attributable to parent equity holders	706	697	700	677	526
Total liabilities and equity	967	967	961	955	776

Five-year trends continued

	2010 \$m	2009 \$m	2008 \$m	2007 \$m	2006 \$m
Cash flow statement					
Operating cash flow	84	77	75	71	62
Investing cash flow	(38)	(36)	(35)	(14)	(14)
Financing cash flow	(47)	(40)	(40)	(58)	(50)
Net increase/(decrease) in cash	(1)	1	-	(1)	(2)
Opening cash	1	-	-	1	3
Closing cash	-	1	-	-	1
Financial performance indicators					
Dividends paid	37	44	45	38	38
Net profit for the year to average ordinary shareholders' equity (%)	6.7	7.1	9.5	10.1	8.8
External debt/debt-plus-equity ratio (parent) (%) *	5.6	6.9	5.8	5.4	10.2
FFO/interest expense (times) **	28.2	46.3	46.1	29.3	21.9
EBIT coverage (times)	22.4	37.1	40.8	29.0	21.8
Non financial measures					
Electricity maximum demand (MW)	618	624	623	630	592
Electricity deliveries into the network (GWh) (includes embedded generation)	3,430	3,402	3,325	3,287	3,258
Number of customer connections (000)	192	190	186	183	181

* Net profit for the year to average shareholders' equity uses the net profit (after income tax) attributable to the parent entity.

** FFO/interest expense (times). FFO is defined as operating profit less equity accounted profit from associates, plus depreciation and amortisation, less income tax paid, adjusted for net non-cash abnormal gains or losses and net gains or losses on the sale of assets.

Directory

Directors

Craig Boyce
CHAIRMAN

Michael Andrews

John Dobson

George Gould

Gail Sheriff

Geoff Vazey

Corporate management

Roger Sutton
CHIEF EXECUTIVE OFFICER

Rob Jamieson
GENERAL MANAGER COMMERCIAL

Brendan Kearney
GENERAL MANAGER CORPORATE SERVICES

Craig Kerr
GENERAL MANAGER INFORMATION SOLUTIONS

John O'Donnell
GENERAL MANAGER INFRASTRUCTURE

Tas Scott
GENERAL MANAGER NETWORK DEVELOPMENT

Adrienne Sykes
HUMAN RESOURCES MANAGER

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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 on environmental issues.

Other websites which contain information of interest include:

- Commerce Commission
comcom.govt.nz
- Community Energy Action
cea.co.nz
- Connetics
connectics.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



Printed on environmentally friendly paper (9Lives): 50% recycled pulp and 50% New Zealand virgin pulp. All virgin fibre used comes from sustainably managed forests and is elemental chlorine free (ECF). Printing plates are produced without the use of chemicals or water. All inks used are mineral-free and based on 100% renewable resources.

