



Annual Report 2012

Orion New Zealand Limited

Orion
your NETwork

About Orion

Orion New Zealand Limited owns and operates one of the largest electricity distribution networks in New Zealand. Our network covers 8,000 square kilometres in central Canterbury between the Waimakariri and Rakaia rivers and from the Canterbury coast to Arthur's Pass. This diverse geographical area stretches from rural Banks Peninsula to Christchurch city and out to farming towns on the plains and into the hills and high country.

Above: Line crews work in hot, dusty conditions to restore power in damaged suburbs.

This year we continued to work alongside our owners – Christchurch City Council (89.3%) and Selwyn District Council (10.7%) – to recover from our region's biggest natural disaster.

Assisted by contractors from throughout New Zealand, including our subsidiary Connetics, we completed emergency earthquake repairs after the February, June and December 2011 earthquakes, worked hard to keep the power on and began to rebuild our network.

As we've moved from emergency repairs into the rebuild phase we're applying lessons learnt from the earthquakes and will plan and engineer our network to best meet the ongoing and changing needs of our community.

Our workforce

More than 150 employees work directly for Orion, and most days a further 250 contractors help us on the network. All of these 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 our customers the best service we can.

Our purpose and values

Orion's core purpose is to consistently deliver a safe, secure and cost-effective supply of electricity to our 190,000 customers. To help us achieve this purpose, we've developed a set of values that reflects what's important to us – guiding our behaviours and providing a framework for the way we do things, particularly during tough times like we've had in the past 18 months.

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.

Our sponsorship

Orion is an enduring supporter and founding sponsor of Community Energy Action, a charitable trust that provides energy efficiency services for the elderly, families with small children and people on low incomes or with poor health.

Front cover, main picture: Orion substation project manager, Andy Parr, visits residents Wayne and Gail Hopkins to check their power supply after the February 2011 earthquake.

Front cover, from top left: Repairing quake-damaged high voltage underground cables. Fifty percent of our large 66,000 volt cables were broken, stretched or twisted due to massive lateral ground movement.

Tracking power outages in our emergency backup bunker.

Support from the local community was exceptional this year. Here, a Redcliffs resident offers celebratory home baking as our earthquake response effort reaches her street.

Installing a new 11,000 volt underground cable to help keep the power on in eastern Christchurch. Most of the damage to our network is in the eastern suburbs, particularly around the Avon River.

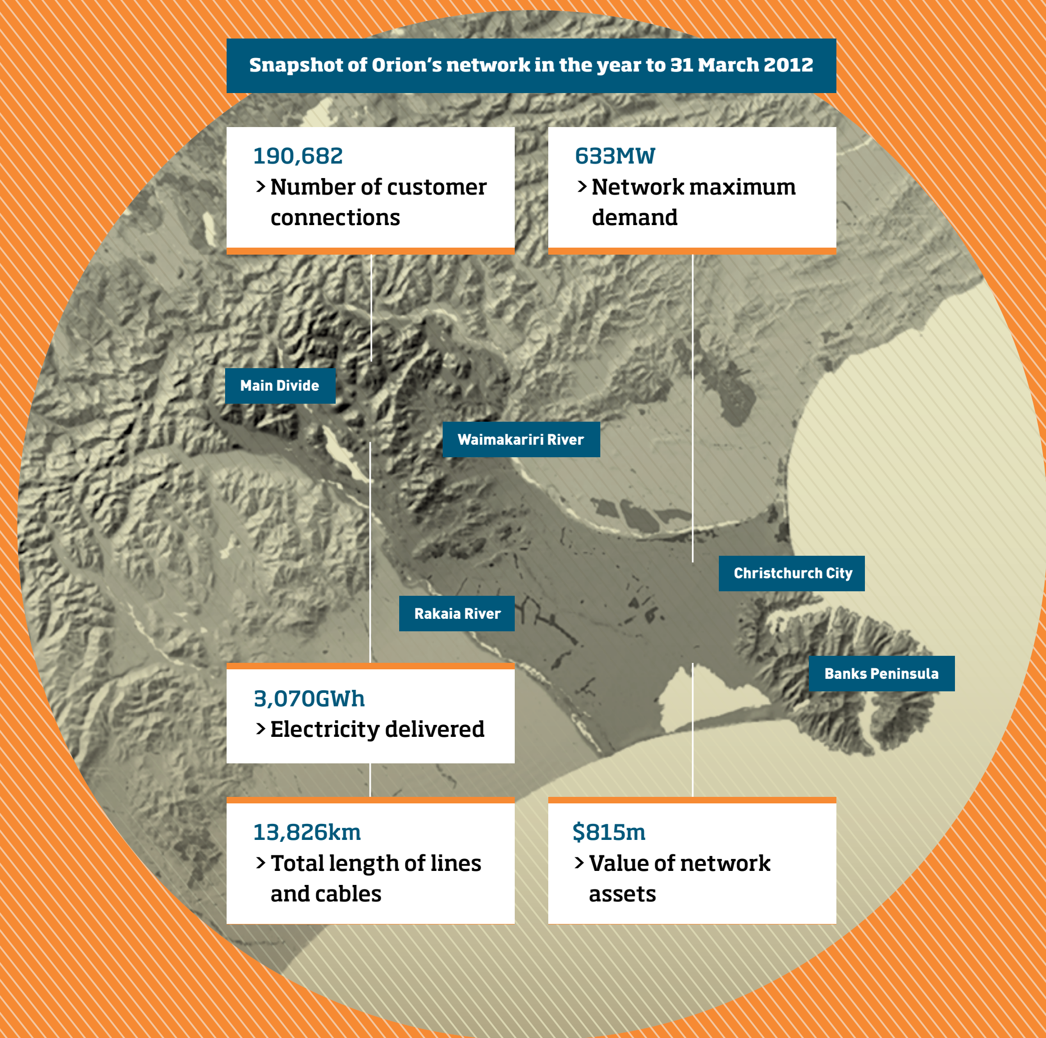
Above from left: Orion network development general manager, Tas Scott, updates the Mount Pleasant community about progress and plans to restore power. Similar meetings were held across the other suburbs that bore the brunt of the quakes.

Our corporate management team briefed Orion employees each day during the earthquake response phase. Here, people gather at our temporary outdoor café, 'Camp Megawatt', for a progress report.

Twenty four diesel generators were deployed at the height of our quake response. This generator powered 100 homes in what is now 'red zone' land in Avonside.

An Orion contractor repairs underground cables. Seven hundred electricity sector workers from around New Zealand and Australia helped with our earthquake repairs.

Snapshot of Orion's network in the year to 31 March 2012



Highlights

Completed all major emergency post-quake repairs on our network

99% of our customers had their power on within 24 hours of the 6.3 magnitude earthquake on 13 June

99% of our customers had their power on by nightfall after the 6.0 magnitude earthquake on 23 December

Kept the power on to 99% of our customers during the July and August snow storms – some of the heaviest snowfalls in Christchurch in two decades

Had no major safety incidents or accidents during a year of difficult and intense work

Installed the final major phase of an advanced network management system. This significantly improves our ability to manage big network emergencies and restore power faster when outages occur

Appointed Rob Jamieson, previously commercial general manager for Orion, as chief executive after Roger Sutton left to lead the Canterbury Earthquake Recovery Authority.

Key financial results

Profit of $54m was affected by a number of one-offs – $21m in insurance receipts, $4m in deferred operational expenses and a $2m part reversal of last year's downwards revaluation

Network cash expenses of $57m – $6m above last year. Around $20m of these expenses were earthquake related. Some routine maintenance projects were deferred as we focused on our earthquake response and recovery

Electricity distribution revenue of $128m – $21m below our pre-quake forecast

Capital expenditure of $54m – $17m above last year

Connetics profit of $3.3m – $2.2m above last year

Fully imputed dividends of $34m – $4m below last year

Interest bearing debt of $53m – $17m above last year.

Above, main photo: Orion network operator, Gilbert Cantin, closes switches to reroute power supply. The Orion network is like a spider's web – rather than have a single line or cable into an area, we have multiple links so the power stays on if one link fails.

Above top left: Repairing a high voltage cable in central Christchurch. While we don't yet know where new buildings will go, we are already talking with developers to make sure they understand how to connect power supply to their buildings in the CBD.

Above bottom left: Advanced testing equipment shows breaks in underground cables.

Contents

Chairman's review

Canterbury people, more than anyone in New Zealand, now know that electricity, water and wastewater are essential to our modern way of life. The 2010 and 2011 earthquakes damaged crucial infrastructure and cut power across the Christchurch region.

Our people have been exceptional in their response. They worked together in very difficult conditions, leaving family and friends in order to report for duty, even when their own homes were badly damaged. We are proud of our team in a year of extraordinary challenges.

Earthquake preparation

While in some areas the quake damage was extensive and most customers experienced power cuts, in general our network performed well due to our commitment to forward planning and risk protection work.

Since the mid 1990s we have invested more than $40 million to strengthen key substations and build resilience into our network. Without this preparation, we expect there would have been weeks and months of continuous power cuts across most of Christchurch.

Earthquake response

Our earthquake response was very effective – an independent review of our performance found very little to improve on. We carefully prioritised work so that essential services and the greatest numbers of customers were reconnected first. And we kept our customers well informed of what we were doing and what was coming up. Most importantly, we had no major safety incidents or accidents during our response.

An important milestone was reached mid-year when we completed all major emergency repairs on our network. Ahead of us are several more years of checks and repairs. At the same time, we will engineer and build a robust power supply into the eastern suburbs to replace the temporary overhead lines built after the February 2011 quake.

Our ongoing plan and commitment is to provide a strong and resilient power supply, capable of meeting Christchurch's changing electricity needs.

Connetics

Our contracting subsidiary, Connetics, was an integral part of our quake-response. As well as working long hours in challenging conditions, Connetics coordinated the many repair crews who arrived from out of town to help on the network. We expect Connetics will be busy for some time as earthquake repairs continue.

Prices

As an electricity network business, Orion is regulated under the Commerce Act. Due to an anomaly in the price control regulations, we cannot increase our electricity distribution prices for 2012/13 even to account for inflation, let alone help with our post-quake repair bill.

At the same time, our customer base has shrunk so revenue is down. Load levels on our network are around 10 percent below pre-quake levels.

This means that we must do more with less. We will have to prioritise our work programme and some of our plans will take longer to implement. We will continue to discuss options with regulators and key stakeholders to manage this unprecedented situation.

Our customers will still pay more for their electricity from 1 April 2012 due to a nationwide price increase from Transpower. These increases are intended to help cover ongoing investment in the national grid to increase capacity and improve reliability. For domestic consumers, this increase in Transpower's charges will mean about three percent extra on a typical residential power bill.

Financial performance

A summary of our financial results is shown on page two. Our results were affected by a number of one-offs. In particular, several significant non-recurring insurance receipts increased our reported profit this year. These revenues related to our soon to be demolished offices.

Electricity network delivery revenue was $21m below our pre-quake forecast and we incurred around $20m in extra operating costs related to the earthquakes.

We still have a lot to do to restore resiliency to our network and so our 10-year network asset management plan has a very large capital expenditure programme. This will see our debt levels rise considerably over the next few years.

Looking forward

While we know that we have made progress, we have some way to go to restore our network to its pre-quake state of high reliability.

To this end, we have short-term and long-term priorities. These include delivering on our plan to fully restore our network. At the same time we need to remain flexible to support the city's rebuild, particularly in the CBD. We also need to be ready to respond to any further earthquakes or other emergencies like winter storms.

Acknowledgements

I thank my fellow directors for their insights and support through what will undoubtedly become known as one of the most challenging periods in Orion's history. Special mention must be made of Geoff Vazey, who stepped in as acting chief executive for three months after Roger Sutton left at short notice to head up the Canterbury Earthquake Recovery Authority.

The board and I thank Roger for his significant contribution during more than 20 years with the company. His leadership helped prepare Orion's infrastructure and team to deal with the events of the past year, and his communication efforts after the earthquakes were widely acknowledged.

On behalf of the board, I thank all of the Orion and Connetics team for their considerable efforts and steadfast dedication to our community. We also thank the other electricity businesses and suppliers who helped us during the past 18 months.

The ongoing support of our shareholders, Christchurch City Holdings and Selwyn Investment Holdings, and their ultimate owners Christchurch City and Selwyn District councils, is greatly appreciated.

Finally, I want to thank Rob Jamieson who took over as chief executive at the end of August 2011. We were pleased to appoint a new chief executive from within the existing management team, and see it as a testament to the team's outstanding leadership during these difficult times.

CRAIG BOYCE CHAIRMAN

Board of directors

GEORGE GOULD
LLB

George has a background in law, banking, investment and rural services. He has been a director of the Orion board since August 2001.

Other directorships
Managing director of PGG Wrightson Limited, director of Christchurch International Airport Limited and Gould Holdings Limited and its subsidiaries.

MICHAEL ANDREWS
Michael has been a director of the Orion board since August 2006. He has extensive experience in industry, including as chief executive officer of Fletcher Challenge Limited from 1997 to 2001.

Other directorships
Tenon Limited and the Bio-Protection Research Centre hosted by Lincoln University.

GAIL JEWELL
Gail has been a director of the Orion board since April 2005.

Other directorships
Lifestyle Trust, Pegasus Bay Charitable Trust and Sunshine Trust.

CRAIG BOYCE
B Com, FCA, FNZIM, FInstD

Craig is a professional company director with extensive commercial governance experience. He was chief executive officer of Smiths City Group Limited during the 1990s and since 2000 has been chairman of that company. Craig has been a director of Orion since 2002 and chairman since August 2006.

Other chairmanships
Smiths City Group Limited and its subsidiary companies, Ovation New Zealand Limited, Progressive Leathers Limited, Transdiesel Limited and Horizon Farming Limited.

Other directorships
Combined Rural Traders Society Limited and Datacom Group Limited.

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.

Chairmanship
Rural Transport Limited.

Other directorships
Smiths City Group Limited and its subsidiary companies, NZ Express Transport (2006) Limited, Wilson Bulk Transport and Anderson Lloyd.

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.

Chairmanship
HEB Construction Limited.

Chief executive's review

As always, our goal at Orion over the past year has been to provide excellent service to our community. But this has been a year like no other.

We have worked hard since the first quake struck to keep electricity flowing through some 13,000 kilometres of lines and cables to the more than 190,000 homes and businesses across our region.

On 1 September 2011, we marked the end of emergency repairs to the network following February's devastating quake. Our intensive, six-month programme included some 700 electricity sector workers and more than 200,000 people hours, focused on delivering a stable power supply across the city. The final stage saw us commission a new substation in Rawhiti Domain in New Brighton to replace the damaged Pages Road substation.

Rebuilding our city

With that milestone completed, we are now working on longer-term solutions for the city's electricity supply. There is a large programme of underground cable assessments and repairs ahead of us. We also need a permanent solution to replace the temporary overhead high voltage lines into Dallington and New Brighton. These have to be removed in 2014.

Then of course, there is the CBD. The programme of work in central Christchurch is unprecedented. In a normal year we'd see one or two large buildings go up. Now, we may see up to 200 new builds each year. It's likely more than 1,000 commercial buildings will be demolished and replaced, which would take 20 years if a new building was opened every week.

While we don't yet know where the new buildings will go, we are already talking with developers to make sure they understand how to connect power supply to their buildings. Some may move locations, some may want their connection point in a different place and others may not realise they will need a transformer on site. We recognise we need to help owners and planners navigate their way through these issues, and provide as much certainty as possible.

That's why we're working alongside the Canterbury Earthquake Recovery Authority, the Christchurch City Council and other local agencies tasked with earthquake recovery. As a critical infrastructure service provider, we know Orion plays a crucial role in our city but more than that, we are a committed partner in the rebuild, eager to help bring the vision for Christchurch and the new CBD to life.

Future focus

In the network review section on page 13 we outline our plan to spend $870 million on the network over the next 10 years. While our thinking remains fluid so we can align with and support the city's rebuild plans, we do know some work programmes must be completed.

However, it's important we do more than just fix or replace what we had – we must also plan for the future. This future-focus is a challenge when dealing with such big, immediate issues. But looking at longer term issues is why we were well prepared for the earthquakes and why so many of our substations survived intact.

Over the past two decades we reinforced our brick substations with steel. That planning and future-proofing is as crucial now as it was then. We need to think about the next 20-40 years and ask ourselves: what will help us get through the things we could face?

It isn't all about responding to emergency situations – we also need to think about how electricity use is changing. Power lines might look much the same as they have for decades, but how we use the power they distribute has changed dramatically.

We see Orion as an important facilitator, providing a reliable, secure network that supports innovation and investment by others.

Safety

The damage caused by the earthquakes tested the safety focus and preparedness, not only of Orion staff and contractors, but also of the thousands of people working in and around building demolition and construction.

As the demolitions continue and the rebuild gathers momentum, it's important that we keep safety top of mind. Our team is working with demolition and construction crews throughout the city to make sure they know how to stay safe around electricity. We talk with them about what to look out for and what processes work best to keep people safe. We see this safety role as a key extension of what we do – not just for our staff but for the public as well. As we visit sites, we see real co-operation and a conscious effort to keep others safe. We're eager for this to continue.

Acknowledgements

I want to thank all Orion staff and our contractors, many of whom had their own difficult situations to deal with in terms of damaged homes and other quake-related issues this year. They willingly gave their very best to provide excellent service to our customers and keep the power on.

It's thanks to their dedication, and the support and guidance of the board, that Orion has been able to respond so well.

I also want to thank the families of all of our people for their understanding during the long, challenging hours worked this year.

Finally, thank you to our community for standing by us. Your support has been overwhelming.

ROB JAMIESON CHIEF EXECUTIVE OFFICER

Award for innovative wireless communications system

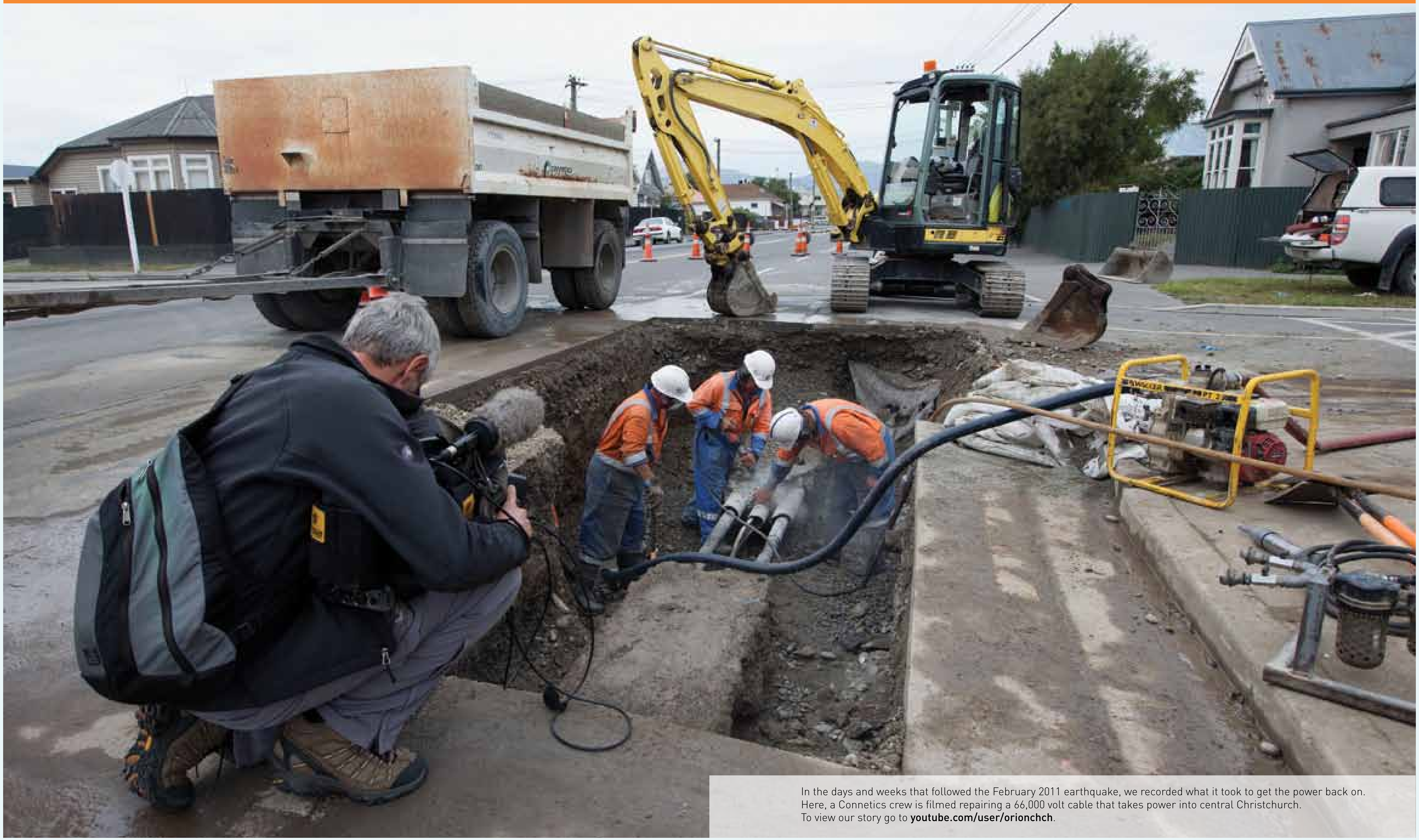
Orion's position as an industry leader was recognised in May 2012 when we received the prestigious Apex Award from the Utilities Telecommunications Council (UTC). This award recognises utilities that employ communications networks to benefit the communities they serve. To determine who should receive the award, UTC looks at the impacts of the service provided and the difference it makes within the community.

We won the Apex Award because of our mission-critical private radio communications network which withstood all of the Canterbury earthquakes, allowing teams to start to restore power immediately while maintaining communications in the field. This innovative wireless technology was vital to our response and created benefits for the entire community, as it shortened the length of power cuts.

The wireless system allows us to 'talk to' various assets around our electricity network over a large and diverse geographical area, and operate and protect the network by remote control.

We are proud that our local product has been recognised internationally. UTC is an American body which represents critical infrastructure operators worldwide, and this is the first time an Apex Award has been granted outside of the United States.

UTC has acknowledged that Orion's earthquake response was of a standard that would, in its view, not normally be achievable and that we are a world leader in this area.



In the days and weeks that followed the February 2011 earthquake, we recorded what it took to get the power back on.
Here, a Connetics crew is filmed repairing a 66,000 volt cable that takes power into central Christchurch.
To view our story go to **youtube.com/user/orionchch**.

The year in review – our network

Our electricity network is usually one of the most reliable in the country but it was badly damaged by the series of quakes experienced in Christchurch since September 2010. The good news is that major earthquake repairs were completed in September 2011.

We are still experiencing occasional power cuts. Some of these are due to the impacts of ongoing aftershocks. Others are the result of damage from some of the bigger quakes that is only evident now, often after exposure to rain or water runoff.

We have begun the important process of thoroughly rechecking the network, while permanent fixes are designed for those parts that are badly damaged.

It will take three to five years to completely restore the network's resilience. During this time occasional outages will likely continue, particularly if we experience any large aftershocks. While power cuts are lessening in duration and frequency, we know they are still disruptive. We appreciate our customers' continued patience and support.

The impact of the earthquakes

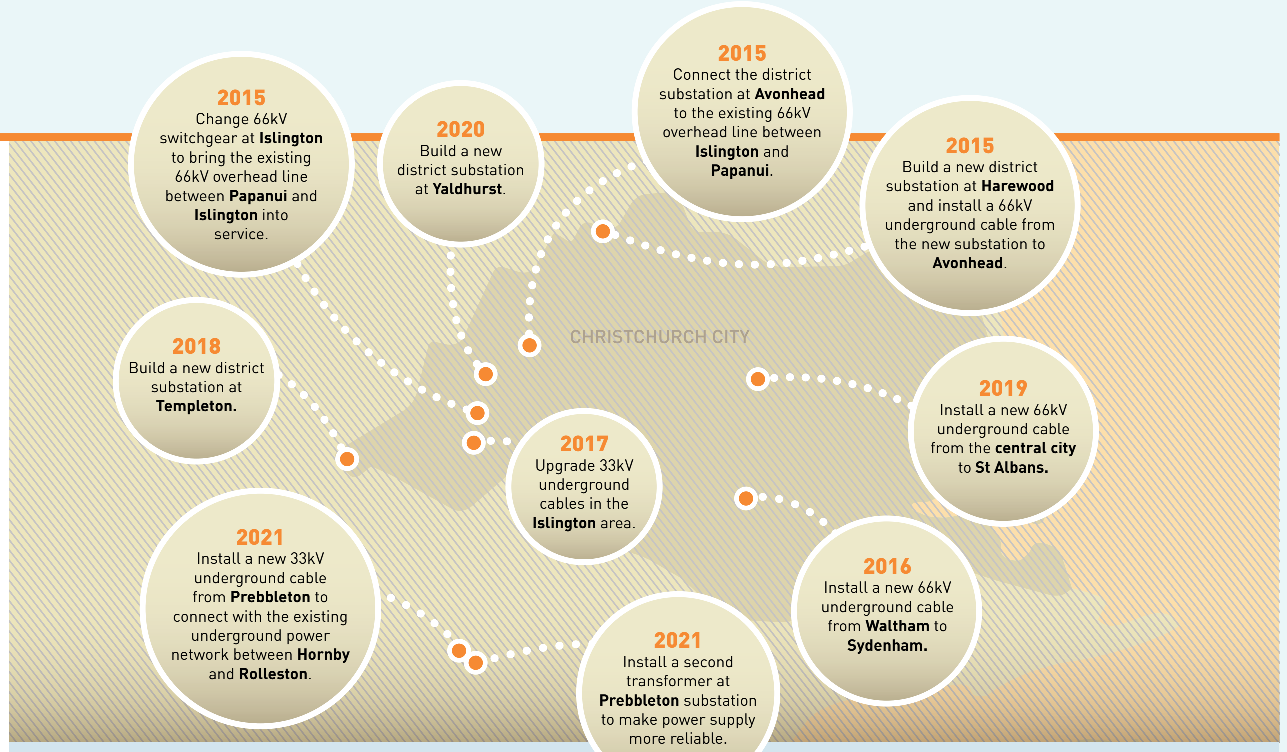
Large parts of our network were relatively undamaged in the earthquakes, but what was impacted was severely affected. During the February 2011 earthquake for example, earth movement stretched some underground power cables up to a metre. Massive lateral forces caused more faults on the underground network than we would normally see in an entire decade. Damage was compounded by the 5.7 and 6.3 magnitude earthquakes on 13 June and the 5.8 and 6.0 magnitude earthquakes on 23 December.

Most of the impacts were centred in eastern Christchurch and the CBD. We experienced thousands of aftershocks, including several large ones – these caused around 10 times the number of underground cable faults per week that we would usually see pre-quake.

At the height of our earthquake response, we deployed 24 diesel generators to supply electricity to 10,000 customers. While all customers were back on mains supply by mid April 2011, diesel generators remain on standby to help. In particular, generators will be used if there is a power cut and we cannot quickly restore electricity by rerouting it from other parts of the network.

As a result of our extensive seismic strengthening programme started in the 1990s, only four of our 314 substations were badly affected by the quakes. Among those damaged, however, was the Pages Road substation which supplied power to the north-eastern suburbs. It sank two metres into the ground.

Above: Our network held up as well as it did because of our risk-protection work over the past 15 years. The Orion substation on the left withstood the quakes because of our seismic protection programme, while a similar building 500 metres away collapsed. The second building, shown on the right, is no longer owned by Orion and hadn't been strengthened.



Our 10-year major project plan

Over the next 10 years, we plan to fund more than $160 million worth of capital projects to strengthen our electricity network in the north, west and south of Christchurch. The top 10 projects are shown in the diagram above. A separate plan is being developed for eastern Christchurch to reflect the amount of damage experienced there.

In total we plan to allocate $870 million in capital and maintenance expenditure across our entire urban and rural network over the next decade.

What's been done so far

In total, more than 200,000 people hours have been spent on electricity network earthquake recovery and repairs. Seven hundred electricity sector workers from more than 40 companies helped in the recovery effort, which included repairs to 360 kilometres of damaged underground cables. A summary of our progress is shown on page 15.

Major recovery initiatives included:

- building a new substation in Rawhiti Domain on Keyes Road in New Brighton to replace the damaged substation on Pages Road. The new substation was officially opened in September
- building two temporary high voltage (66,000 volt) overhead lines in New Brighton and Dallington to replace four large underground cables which were damaged beyond repair. These lines will be removed in 2014 after we design and build a permanent supply to carry power into northeast Christchurch
- laying new 11,000 volt underground cables in the footpath and roads of some streets around the new Keyes Road substation to connect with Orion's existing underground power network.

On a broader level, we commissioned a new portable computer facility to house sensitive computer systems which are needed to operate and control our network. This mobile backup unit was necessary after the building which housed our main computer room partially sunk after the February 2011 earthquake.

The mobile facility allows us to place the backup equipment at a different location from the main computer room to help mitigate risk.

During the year we also implemented the final stage of our new network management system, which allows us to keep track of the real-time state of the electricity network. This technology significantly improves our ability to manage big network emergencies and restore power faster when outages occur.

The heart of the system is a computer-based model which holds information about every circuit breaker, transformer, line, cable and all the other equipment on our network. Whenever a change is planned on the network, the system checks each step to ensure it is safe and that the proposed change doesn't conflict with anything else on the network. The system also predicts the impact on customers and helps avoid scenarios that would cause power cuts.

Customer calls are logged into the system, and the system automatically detects call patterns related to loss of power and predicts the most likely cause. This means field crews can be dispatched promptly and directly to the relevant spot on the network.

Overall, the system helps us better manage our assets, plan maintenance in smarter ways and minimise the potential for equipment overload.

The year in review – our network continued

Above: Installing large diesel generators in QEII Park to provide backup power supply.

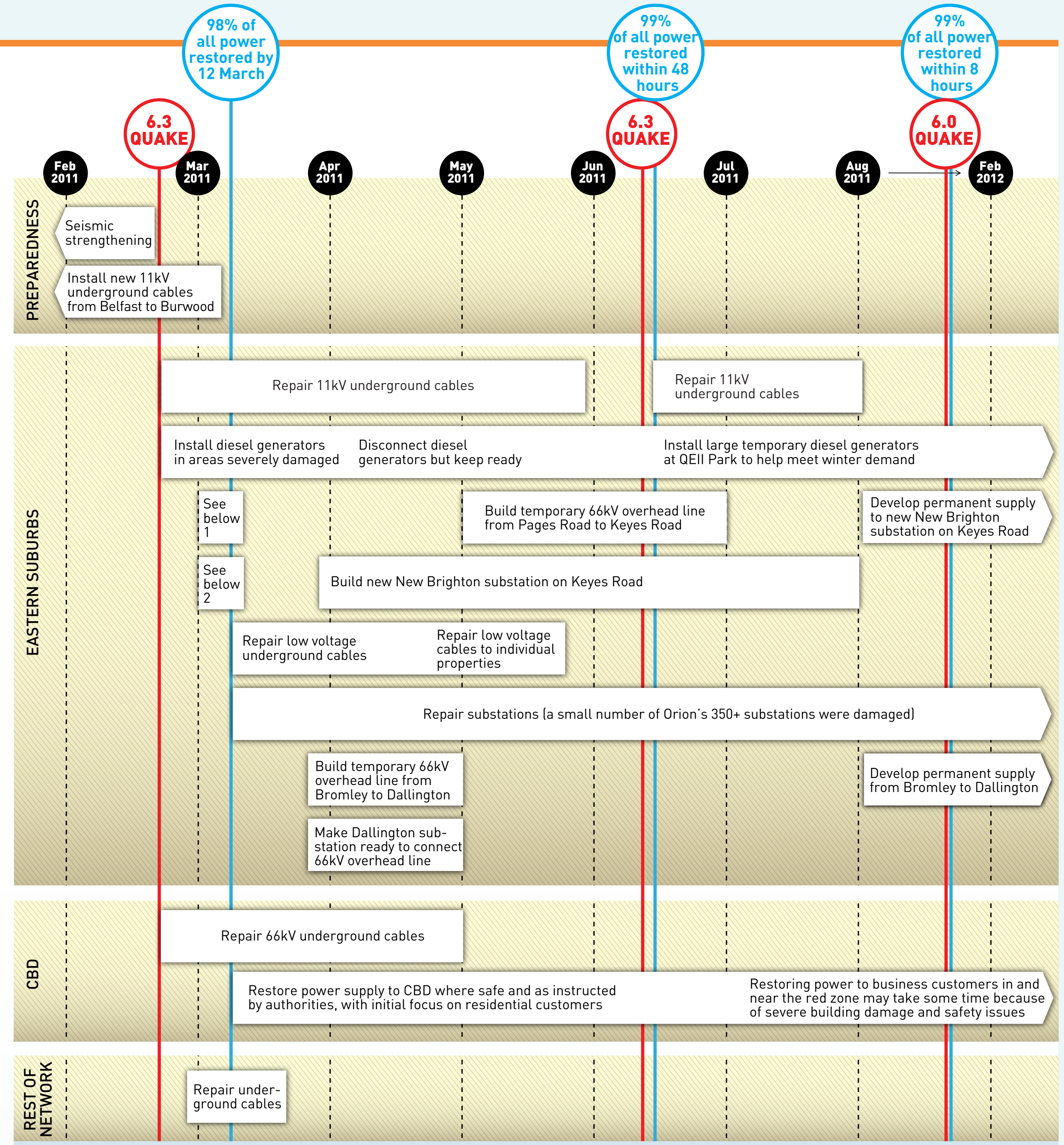
What we are doing now

As we prepare to develop permanent solutions to carry power into north-east Christchurch, projects are underway to make the power supply more secure during the time it will take to complete the permanent work. These projects include:

- installing a new 66,000 volt underground cable from our major substation in McFaddens Road in St Albans to our Dallington substation – this will give us another option to get power to the suburbs in the Dallington area if the temporary overhead line from Bromley faults or is affected by weather or wildlife. Laying this cable is a major project which we expect to complete by August 2013
- implementing small changes to the design of the temporary overhead lines to reduce the likelihood of power cuts if a bird flies into the lines
- installing several large diesel generators in the grounds at QEII Park to provide some backup power supply if either of the temporary overhead lines fail
- fine-tuning our substation alarms so they do their job of preventing transformer damage but are less likely to be set off by seismic activity. This is a balancing act as these safety systems are important and cannot simply be turned off. It would take months to build a new transformer if one burnt out and the result would be lengthy power cuts
- a project by national grid owner Transpower to replace circuit breakers at the Bromley substation to reduce the length of power cuts.

As the CBD red zone cordon reduces and commercial redevelopment gains momentum, we are working with developers, owners and tenants to re-establish power supply where needed. Earth movement has stretched, cracked, bent or twisted many of our underground cables in the central city. Above ground, our local substations are sometimes in buildings that are unsafe to enter, or have been removed when the buildings that housed them were demolished. As the new CBD takes shape, we will configure and provide an electricity network to support the rebuild.

We are also advising people to talk to us early when it's time to develop their commercial property in Christchurch. New requirements as a result of the earthquakes mean electrical equipment such as transformers need to be easily accessible, which may impact on site design. Early contact will help prevent unwelcome surprises later in the development process.



Summary of our earthquake recovery progress this year

As soon as the extent of damage became apparent in the days and weeks after the February 2011 earthquake, we developed a comprehensive plan to rebuild, repair and strengthen our network. All work shown in the plan above has been completed on schedule.

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

2) Install temporary transformer at New Brighton.

The year in review – our network continued

Network reliability and pricing

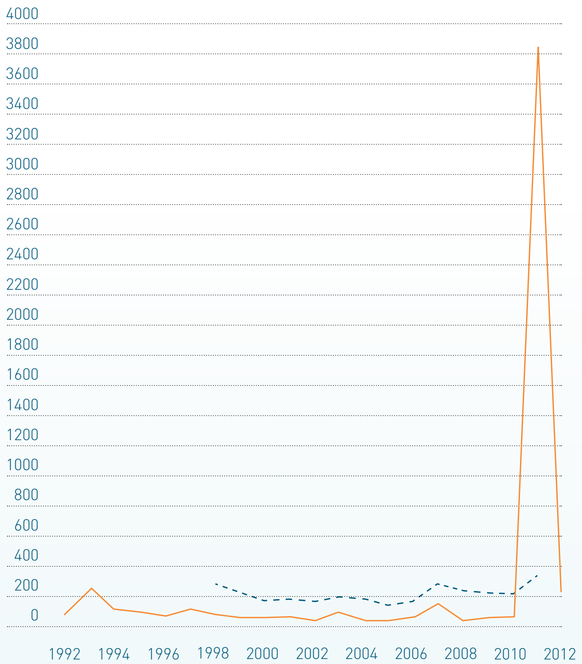
The earthquakes and aftershocks have had a significant impact on our electricity network reliability. This may continue for some time to come.

New Zealand electricity distribution networks are measured against internationally accepted reliability measures known as SAIDI (system average interruption duration index) and SAIFI (system average interruption frequency index). These measure the average duration (SAIDI) and frequency (SAIFI) of power cuts. Orion is traditionally among the top performers in the country for both these benchmarks but that has not been the case post-quakes.

Our SAIDI results

The massive impacts of the earthquakes on our SAIDI results can be seen in the graph below. In terms of the amount of time without power, the impact of the February quake was around 20 times worse than the 1992 snow storm, our biggest natural event prior to September 2010.

Minutes lost per customer



Orion's position relative to the SAIDI average of other New Zealand electricity network companies

Orion SAIDI average ——— Other NZ electricity companies average - - - - -

Note 1: To calculate SAIDI we treated all power cuts caused by the 22 February 2011 earthquake as ended by 31 March 2011. By that date we had restored power supply to everyone who needed it. While there was still no supply to parts of the Christchurch CBD at 31 March 2011, we did not treat that as an "outage" for measurement purposes as the CDB was off-limits for safety reasons.

Note 2: Data in relation to the average SAIDI results achieved by electricity distribution networks across New Zealand is only available from 1998 to 2011.

Our results compared with other electricity network companies

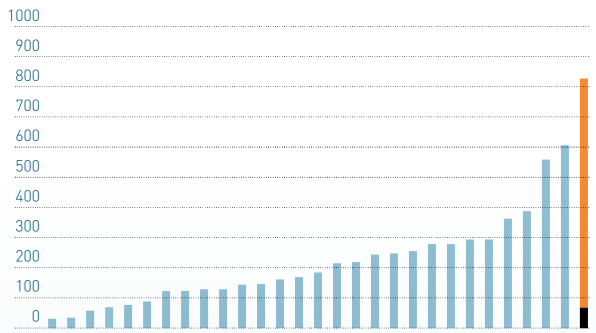
SAIDI and SAIFI comparison figures across the other electricity network companies in New Zealand are not yet available for the 2011/12 year. Latest data is up to 31 March 2011, which means the September 2010 and February 2011 earthquakes are included, but not the subsequent large quakes in June and December 2011.

Since extreme weather events and natural disasters such as earthquakes have a major impact on an electricity network's performance, when considering network performance it is more meaningful to look at the SAIDI and SAIFI trends, rather than the figures for any one year.

Based on the available figures over the last five years, when compared with the other 28 New Zealand electricity network companies, Orion has moved from:

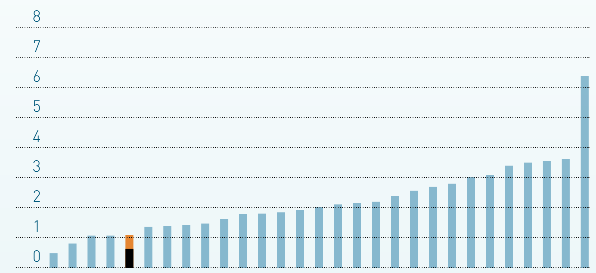
- fifth to last place in terms of the length of power cuts per customer (SAIDI)
- second to fifth place in terms of the number of power cuts per customer (SAIFI).

Minutes lost per customer per annum



Orion's position relative to other New Zealand electricity network companies, SAIDI (2007 to 2011 average coloured orange – 2006 to 2010 average coloured black)

Interruptions per customer per annum



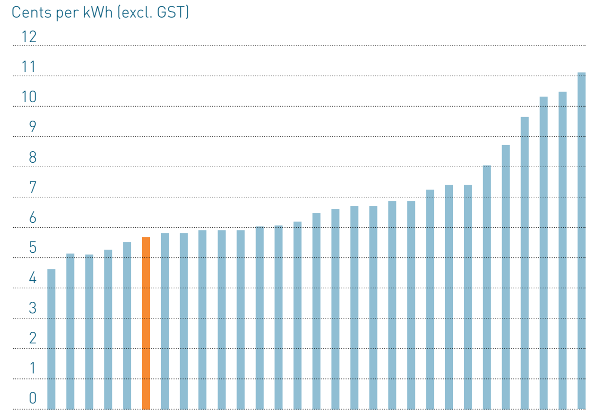
Orion's position relative to other New Zealand electricity network companies, SAIFI (2007 to 2011 average coloured orange – 2006 to 2010 average coloured black)

It may be difficult to meet SAIDI and SAIFI targets for the coming year, but regardless of the targets, a huge effort is being made to improve the network's reliability and security of supply.

Our prices

Our prices continue to compare favourably with those of other electricity network companies throughout New Zealand, as shown in the graph below. This fact, combined with our history of excellent reliability statistics, means we believe Orion continues to offer very good value for money. The work programme that we have outlined will restore the network's reliability as quickly as is practical.

Cents per kWh (excl. GST)



Orion's position relative to other New Zealand electricity network companies, distribution revenue per unit (kWh) 2011

Source: New Zealand Gazette notices, information disclosures for line businesses 31 March 2011.

While we can't increase our electricity distribution prices from 1 April 2012, we will have to pass on a rise in Transpower charges to customers. This means an increase of about three percent on a typical residential power bill.

Our prices will stay the same, but our operating and capital programme has increased by around $70 million as a direct result of earthquake recovery efforts. At the same time, the amount of power used on our network has dropped by around 10 percent. This reduction is equivalent to the annual electricity used by 40,000 homes, or the amount of electricity it takes to power Invercargill for a year. Most of the drop is due to closure of the CBD and damage to homes and businesses in the eastern suburbs.

The shrinking revenue base combined with large repair costs means we will have to rigorously prioritise our work activities, as well as work constructively with regulators to address the resulting negative impacts on our business.

Independent review of our performance

As part of our post-quake review processes, we commissioned Kestrel Group – a New Zealand consultancy specialising in risk management, business continuity and emergency management – to independently review our performance in 2010 and 2011.

Kestrel found very little to improve on and concluded that:

- our management approach, particularly our investment in seismic mitigation, was central to us being able to restore electricity rapidly
- we demonstrated self-improvement between the September and February earthquakes
- it was important to maintain the focus on safety, even when things were very busy.

We are very pleased with Kestrel's findings. The full Kestrel report is available on our website oriongroup.co.nz.

Above, top: Checking power supply in the badly damaged CBD. Our mapping team produced more than 10,000 maps to help assess and restore infrastructure in the aftermath of the quakes.

Above: Repair teams fixed more than 1,000 underground cable faults this year – more faults than we would usually see in a decade. Each fault took around 12 hours to find and fix.

Joshua Bull, a year four student at New Brighton Catholic School, presents Orion chief executive Rob Jamieson with a giant scarf covered in thank you messages from 1,600 eastern suburbs residents grateful for our efforts to keep the power on this year.

The year in review – our safety

You can't run an electricity network successfully without having safety top of mind at all times. The damage caused by the earthquakes tested the safety focus and preparedness not only of Orion staff and contractors, but also of the thousands of people working in and around building demolition and construction.

Keeping our people safe

Orion has an excellent safety record and we have invested considerable effort to foster a true safety culture in the organisation. While we still have strict rules and procedures to follow, we want everyone who works with us, regardless of their role or task, to see safety as everyone's responsibility and always have it at the top of their list.

Our people stay safe by working within safe limits, including hours worked at any one time. Based on our experiences responding to storms and other emergencies, when the big earthquakes happened, we immediately assessed and deployed the skill set at hand and then tapped into our mutual aid agreements with other electricity network businesses. The additional staff they supplied meant we could allocate repairs among a larger pool of people and make faster progress with the immense workload. We also used a roster system to control workflow out to our contractors and tried to limit particularly difficult tasks to daylight hours.

Office staff were essential to our earthquake response efforts and willingly helped wherever they could, particularly in the contact centre which fielded thousands of calls from customers during the first six months of the year. Many did their own jobs as well as helping out in other areas.

Above: Acting Energy Minister, Hekia Parata, presents Orion infrastructure general manager, John O'Donnell, with the Electrical Engineers' Association award for public safety during a visit to our offices in June 2011.

Public safety

Orion's public safety campaign over the past few years has included information and advertising to help keep people safe near overhead lines, keep trees trimmed and avoid general electrical hazards. But the vast amount of quake damage to our network and to properties exposed a huge number of people – Orion staff and public – to an unprecedented level of electrical risk.

To deal with the scope of the challenge, we took a very measured approach to restoring electricity. We created detailed plans tailored to the specific issues faced by each area.

As a result, we successfully restored power to tens of thousands of people – all while keeping staff, contractors and the public safe. To recognise that significant achievement, we received a public safety award from the Electricity Engineers' Association (EEA) in June 2011.

Work is also underway to meet compliance deadlines required by changes to the Electricity Act. The changes aim to improve public safety, but since Orion already has a strong programme in that area, our focus is on documenting what we already do.

Keeping safe around electricity in a construction area

With the scale of the damage throughout Christchurch, especially in the CBD, it is obvious that the number of contractors engaged to construct buildings, roads and the services buried beneath them will increase dramatically.

Initial estimates are that an extra 10,000 contracting staff will be needed.

Many of these contractors will be from outside the city and are unlikely to be familiar with our systems or electricity network. To support them, we have developed and refined a contractor engagement programme – we visit contractors' work sites, or wherever they are available, and show them how to keep safe around our lines, cables and other network equipment.

We have taken a 'top down' approach to getting buy-in for the electricity safety message and have engaged with the Stronger Canterbury Infrastructure Rebuild Team (SCIRT) and the other major contracting hubs working on the Christchurch rebuild.

We can't overstate how important it is that contractors have the right information about keeping safe around electricity. The earthquakes have created very unusual circumstances, and the potential for injury is high as houses and buildings will be rebuilt around a live network. The contractor engagement programme is a crucial component of managing this risk safely. To help with the huge engagement task ahead, an additional public safety advisor joined our safety team during the year.

We are also developing an internet-based "minimum safe approach" consents process. Our safety team wants to make it easier for consents to be lodged and processed. We are also keen to ensure that people know when consent is needed to work near overhead lines. The basic rule is that consent is required for work within the minimum safe approach distances allowed by regulation – currently four metres. The online system will help us to process the expected volume of consents associated with rebuild activities in a timely, efficient way.

Above: Access to our backup offices in the Christchurch CBD red zone was restricted for safety reasons. This year, our 150 staff came through the Canterbury Earthquake Recovery Authority cordon each day monitored by the army, to get to work. We remained in the cordon for 14 months.

Below: Orion public safety advisors, Trevor Hilston and Lloyd Clausen, brief employees of The Fletcher Construction Company Limited about hazards around our network. No major safety incidents or accidents occurred during this year of difficult and intense work.

Here, the Orion team gathers at our backup site in the central city, with standby generators in the background. Our employees and contractors were outstanding in their efforts this year. They continued to give their best for our community despite further aftershocks and their own challenges with damaged homes, insurance claims and land rezoning announcements.

The year in review – our people

The heart of our business isn't the poles, wires or cables that deliver electricity – it's our people. And while parts of our network may have been seriously damaged in the quakes, our people have been unwavering in their commitment to get the power back on and keep it on. Field staff and office staff alike have come to work, even when their own homes and families were affected. We can't thank them enough.

In the electricity network business, we need to be prepared to deal with power cuts and emergencies. It's part of our job, but more than that, it's part of our commitment to our community. Orion has detailed processes and procedures to manage these situations. Our experience with the quake in September 2010 meant that when the February 2011 quake happened, we knew staff workload would need to be managed carefully. We put a roster in place to ensure everyone got time to rest and deal with their own personal situation as well.

Working in the CBD red zone

For the past year our 150 employees worked within the CBD red zone. This meant passing through a Canterbury Earthquake Recovery Authority cordon, monitored by the army, to enter or exit the area. At the same time, no other businesses or services operated near our offices – many of the buildings around us have already been demolished.

Orion has provided our people working in the CBD with lunch. We actively encourage people to stop and share a meal. It's a simple thing, but we believe it helps make the challenging physical environment a little more bearable if there's an opportunity for some daily social interaction.

Wellness programme

We are committed to doing what we can to keep our staff safe and well – we recognise that our true value as an organisation lies with them, not with the physical assets on our electricity network, and we want to retain as many of our highly skilled people as possible during these difficult times.

Since the earthquakes we have enhanced our wellness programme to encourage employees to take ownership of their own health and well-being. Our philosophy is that to keep staff as safe as possible, they need to be well, physically and emotionally. We have focused on practical things to help people cope with the ongoing challenge of working, and in some cases, living, in an uncertain environment. This includes being a bit more flexible with working hours to allow them to meet with the Earthquake Commission (EQC) and their home insurance providers during regular business hours. We also provide access to a confidential support service that helps staff work through the most difficult earthquake related insurance issues.

Below: All Blacks captain, Ritchie McCaw, visits our team at the height of the earthquake response to offer support and help boost morale.

We celebrate our successes and important milestones, such as when all known underground cable faults were repaired after the February earthquake. We've also supported Orion's social club to run activities for staff offsite. And because this year has been like no other, we went an extra step and hosted an organisation-wide winter event for our team and their partners.

In terms of our focus on employee health, we continue to provide our staff with access to an onsite health nurse, onsite and offsite counselling, influenza vaccinations, a two yearly doctor-provided health check, ergonomic checks, smoking cessation programme and subsidised vision checks.

Staff survey results

Every year, Orion employees complete a staff survey. This is an important exercise for us and, despite the intense workload and large aftershocks during the survey period in June 2011, 76% of staff participated.

Generally, the staff survey is a key tool that we use to ensure Orion provides a healthy and safe work environment where people understand what's expected of them, are recognised for their efforts and have the opportunity to grow and be challenged.

While the 2011 survey results are important, it is unlikely they can be used in comparison to previous years given the unique circumstances. Nonetheless, we were pleased to note that the overall satisfaction drop was relatively small – from 79.9 to 77.4%. Orion will use these survey results to help ensure we provide the right mix of leadership, communications and support for our staff in the future.

Above: Connetics linemen replace a quake-damaged power pole. This year, 21 apprentices worked with Connetics as part of the company's commitment to training and development.

Training and development

A long-term goal is to recruit and retain employees with skills that are in short supply and to ensure we have the capabilities needed as people retire. We expect this particular issue to increase as the Christchurch rebuild momentum grows and skill shortages intensify.

Despite the earthquakes, we continued our engineering development programme during the year. This programme aims to train employees to replace those people who will retire in the coming decade. This year three employees joined the programme. Over the next four years they will become proficient in areas where there are current or anticipated skill shortages. At the end of the financial year, we had a total of six employees on this programme. One employee completed the programme during the year.

We continue to support the CPIT Distribution Trades Training Centre of which Orion is a founding partner. The centre has now been running for two years and provides training courses for those in the electrical industry.

At year end, 21 apprentices worked with our subsidiary Connetics – 14 electrical apprentices and seven multi-skilled line mechanic/cable jointer apprentices.

During the year Connetics apprentice Carson Cox won the Schneider Electrical Award and the New Zealand Electrical Institute Award for the best aggregate of marks in the nationwide Electrical Workers Registration Board exams. This is the third time that a Connetics apprentice has received these awards.

Corporate management

CRAIG KERR
GENERAL MANAGER
INFORMATION SOLUTIONS

TAS SCOTT
GENERAL MANAGER
NETWORK DEVELOPMENT

GINA CLARKE
COMMUNICATIONS AND
ENGAGEMENT MANAGER

ROB JAMIESON
CHIEF EXECUTIVE
OFFICER

BRENDAN KEARNEY
GENERAL MANAGER
CORPORATE SERVICES

DAVID FREEMAN-GREENE
GENERAL MANAGER
COMMERCIAL

ADRIENNE SYKES
HUMAN RESOURCES
MANAGER

JOHN O'DONNELL
GENERAL MANAGER
INFRASTRUCTURE

In September 2011, we commissioned a new substation in Rawhiti Domain to replace the quake-damaged Pages Road substation which sank two metres into the ground. This milestone marked the end of our major emergency repairs.

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 2012.

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

- financial
- electricity network reliability
- earthquake recovery
- environment
- community and employment.

Authorised for issue on 6 June 2012 for and on behalf of the board of directors:

CRAIG BOYCE CHAIRMAN
Christchurch, 6 June 2012

JOHN DOBSON DIRECTOR
Christchurch, 6 June 2012

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For the year ended 31 March 2012

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Performance statements

Audit report

Statement of comprehensive income
For the year ended 31 March 2012

	Notes	Group 2012 $000	Group 2011 $000	Parent 2012 $000	Parent 2011 $000
Operating revenues	3	222,899	222,052	199,464	204,095
Other gains	4	22,202	391	22,234	58
Total operating income		245,101	222,443	221,698	204,153
Operating expenses	5	139,055	124,191	119,289	108,195
Impairment loss/(reversal of impairment loss) on revaluation of property, plant and equipment	2	(2,240)	6,288	(2,240)	6,288
Electricity distribution network assets decommissioned due to earthquake	2	394	3,334	394	3,334
Depreciation, amortisation and other impairment expenses	6	35,245	40,082	33,894	38,506
Total operating expenses		172,454	173,895	151,337	156,323
Earnings before net interest expense and tax (EBIT)		72,647	48,548	70,361	47,830
Interest income	7	411	363	565	537
Interest expense	8	4,932	4,040	4,932	4,040
Profit before income tax		68,126	44,871	65,994	44,327
Income tax expense	10	13,972	16,511	13,241	16,140
Net profit		54,154	28,360	52,753	28,187
Other comprehensive income:					
Gain/(impairment loss) on revaluation of property, plant and equipment	20	275	(139,051)	275	(143,743)
Deferred tax movement on revaluation of property, plant and equipment	10	(71)	40,969	(71)	42,283
Deferred tax gain from the change in income tax rate	10	-	613	-	613
Other comprehensive income/(loss)		204	(97,469)	204	(100,847)
Total comprehensive income/(loss)		54,358	(69,109)	52,957	(72,660)

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

Statement of changes in equity

For the year ended 31 March 2012

	Notes	Share capital $000	Retained earnings $000	Asset revaluation reserve $000	Total equity $000
Consolidated entity					
Balance as at 1 April 2010		120,000	462,331	123,834	706,165
Net profit		-	28,360	-	28,360
Other comprehensive gain/(loss) net of tax		-	-	(97,469)	(97,469)
Total comprehensive income/(loss)		-	28,360	(97,469)	(69,109)
Transfers between reserves:					
Realised gain on disposal of property, plant and equipment		-	988	(988)	-
Deferred tax reversed on sale of property, plant and equipment		-	(297)	297	-
Transactions with owners in their capacity as owners:					
Dividends paid	32	-	(37,500)	-	(37,500)
Balance as at 31 March 2011		120,000	453,882	25,674	599,556
Net profit		-	54,154	-	54,154
Other comprehensive income net of tax		-	-	204	204
Total comprehensive income		-	54,154	204	54,358
Transfers between reserves:					
Realised gain on disposal of property, plant and equipment		-	103	(103)	-
Deferred tax reversed on sale of property, plant and equipment		-	(28)	28	-
Transactions with owners in their capacity as owners:					
Dividends paid	32	-	(34,000)	-	(34,000)
Balance as at 31 March 2012		120,000	474,111	25,803	619,914

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 2010		120,000	464,077	123,834	707,911
Net profit		-	28,187	-	28,187
Other comprehensive gain/(loss) net of tax		-	-	(100,847)	(100,847)
Total comprehensive income/(loss)		-	28,187	(100,847)	(72,660)
Transfers between reserves:					
Realised gain on disposal of property, plant and equipment		-	988	(988)	-
Deferred tax reversed on sale of property, plant and equipment		-	(297)	297	-
Transactions with owners in their capacity as owners:					
Dividends paid	32	-	(37,500)	-	(37,500)
Balance as at 31 March 2011		120,000	455,455	22,296	597,751
Net profit		-	52,753	-	52,753
Other comprehensive income net of tax		-	-	204	204
Total comprehensive income		-	52,753	204	52,957
Transfers between reserves:					
Realised gain on disposal of property, plant and equipment		-	103	(103)	-
Deferred tax reversed on sale of property, plant and equipment		-	(28)	28	-
Transactions with owners in their capacity as owners:					
Dividends paid	32	-	(34,000)	-	(34,000)
Balance as at 31 March 2012		120,000	474,283	22,425	616,708

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

Statement of financial position

As at 31 March 2012

	Notes	Group 2012 $000	Group 2011 $000	Parent 2012 $000	Parent 2011 $000
Current assets					
Cash and cash equivalents	11	632	331	321	55
Trade and other receivables	12	17,798	5,764	13,044	4,028
Other current financial assets	13	1	14	3,503	5,292
Inventories	14	6,436	5,701	216	501
Other	16	2,393	1,651	1,898	1,298
Total current assets		27,260	13,461	18,982	11,174
Non current assets					
Trade and other receivables	17	25	47	25	47
Subsidiaries	18	-	-	6,551	6,551
Other financial assets	19	45	1,263	-	-
Property, plant and equipment	20	819,633	794,161	815,489	788,615
Investment property	21	7,915	8,055	7,915	8,055
Other intangible assets	22	5,833	4,221	3,867	3,805
Other	23	440	211	440	211
Total non current assets		833,891	807,958	834,287	807,284
Total assets		861,151	821,419	853,269	818,458
Current liabilities					
Trade and other payables	24	27,780	28,689	22,920	27,801
Borrowings	25	96	80	96	80
Other current financial liabilities	26	151	-	151	-
Income tax liability	10	3,242	3,658	2,975	3,363
Provisions	27	163	95	85	51
Total current liabilities		31,432	32,522	26,227	31,295
Non current liabilities					
Borrowings	28	53,359	36,397	53,359	36,397
Other financial liabilities	29	2,283	1,212	2,283	1,212
Deferred tax liabilities	10	153,079	150,787	154,043	151,219
Provisions	30	1,084	945	649	584
Total non current liabilities		209,805	189,341	210,334	189,412
Equity					
Issued capital	31	120,000	120,000	120,000	120,000
Reserves		25,803	25,674	22,425	22,296
Retained earnings		474,111	453,882	474,283	455,455
Total equity attributable to parent equity holders		619,914	599,556	616,708	597,751
Total liabilities and equity		861,151	821,419	853,269	818,458

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 2012

	Notes	Group 2012 $000	Group 2011 $000	Parent 2012 $000	Parent 2011 $000
Cash flows from operating activities					
Receipts from customers		222,722	210,977	195,809	198,680
Interest received		413	583	567	756
Dividends received		-	-	500	-
Payments to suppliers and employees		(146,324)	(114,118)	(123,452)	(101,103)
Interest and other finance costs paid		(3,829)	(3,151)	(3,829)	(3,151)
Subvention payments		-	-	(29)	(35)
Income tax paid		(12,167)	(17,684)	(10,875)	(17,669)
Net cash provided by operating activities	35	60,815	76,607	58,691	77,478
Cash flows from investing activities					
Proceeds from sale of available-for-sale investments		10	437	10	-
Amounts advanced to related parties		-	-	570	(828)
Payment for property, plant and equipment		(51,793)	(32,568)	(51,771)	(32,722)
Proceeds from sale of property, plant and equipment		316	168	243	62
Payment for investment property		(508)	(67)	(508)	(67)
Proceeds from sale of investment property		-	248	-	248
Insurance proceeds relating to investment property		12,308	-	12,308	-
Payment for intangible assets		(3,267)	(1,613)	(1,697)	(1,205)
Net cash used in investing activities		(42,934)	(33,395)	(40,845)	(34,512)
Cash flows from financing activities					
Proceeds from borrowings		16,500	-	16,500	-
Repayment of borrowings		(80)	(5,716)	(80)	(5,716)
Dividends paid		(34,000)	(37,500)	(34,000)	(37,500)
Net cash used in financing activities		(17,580)	(43,216)	(17,580)	(43,216)
Net increase/(decrease) in cash and cash equivalents		301	(4)	266	(250)
Summary					
Cash and cash equivalents at beginning of year		331	335	55	305
Net increase/(decrease) in cash and cash equivalents		301	(4)	266	(250)
Cash and cash equivalents at end of year	11	632	331	321	55

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 2012

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 18). The company is a reporting entity for the purposes of the Financial Reporting Act 1993 and its financial statements comply with that Act and section 44 of the Energy Companies Act 1992.

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

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

Basis of financial statement preparation

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

These financial statements have been prepared on the basis of historical cost, except for the revaluation of certain financial instruments as outlined in note 1(e), property, plant and equipment as outlined in note 1(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 these financial statements for the year ended 31 March 2012 and the comparative information presented in these financial statements for the year ended 31 March 2011.

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, 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 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.

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 and also the value of the 66kV underground cables decommissioned as a result of the 22 February 2011 earthquake. 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 electricity distribution network. Refer also to note 1(k) regarding revaluations of property, plant and equipment.

The company has estimated the impacts of the Canterbury earthquakes up to and including 31 March 2012 on the future cash flows of the business. These estimates contain some uncertainty as the company is still assessing the impacts and not all data is to hand. These estimates have been relied upon in the 31 March 2012 review of the carrying value of the company's electricity distribution network (refer to note 20 – property, plant and equipment, and note 2 – estimated impacts of the Canterbury earthquakes).

The company has certain key assumptions and estimates in its discounted cash flow valuation of its electricity distribution network. These include the relevant discount rate and the amounts and timing of future cash flows and are described in note 20.

Management assesses whether individual assets or a grouping of related assets (which generate cash flows independently) are impaired by estimating the future cash flows that those assets are expected to generate. Assumptions such as rates of expected revenue growth or decline, expected future margins and the selection of an appropriate discount rate for discounting future cash flow are required. Following the Canterbury earthquakes these assumptions are of a higher degree of sensitivity than would normally be the case. Extensive notes have been made to disclose key assumptions.

1. Statement of accounting policies continued

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 exercised judgements over 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.

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 as non-cash vested assets. 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.

Management has estimated, for income tax purposes, the depreciation recovered on the disposal of assets arising from the receipt of insurance proceeds. For income tax purposes this depreciation recovered may be deferred for offset against the acquisition cost of new replacement assets and this creates a deferred tax liability. Considerable detailed analysis will be required to allocate the relevant insurance proceeds against the relevant tax assets and the final depreciation recovered calculated may differ from the company's initial estimate in these financial statements.

Other areas where judgement has been exercised in preparing these financial statements are in relation to calculating provisions for doubtful debts, assessing the level of any unrecoverable work in progress, calculating provisions for employee benefits and in the determination of SAIDI/SAIFI measures in the statement of electricity network reliability performance.

Significant accounting policies

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

(a) Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the group (refer to note 18).

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

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

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

Parent company

Investments in associates are accounted for in the parent's financial statements at cost less impairment.

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

(b) Goods and services tax

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

1. Statement of accounting policies continued

(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 profit or loss in the year in which they arise.

(d) Cash and cash equivalents

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

(e) Financial assets

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

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

Financial assets at fair value through profit or loss

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

Available-for-sale financial assets

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

Loans and receivables

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

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

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 profit or loss for the year comprises current tax and deferred tax.

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

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

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

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

1. Statement of accounting policies continued

(h) Leased assets and lease liabilities

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

Group as lessor

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

Group as lessee

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

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

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

(i) Derivative financial instruments

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

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

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

(j) Impairment of assets

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

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

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

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

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

1. Statement of accounting policies continued

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

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

(k) Property, plant and equipment

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

The electricity distribution network is measured at fair value. Fair value has previously been determined on the basis of a periodic independent valuation prepared by external valuers, based on a depreciated replacement cost methodology. The fair values have been recognised in the financial statements of the group and have been reviewed at the end of each reporting period to assess whether the carrying value of the electricity distribution network is not materially different from fair value. Consideration has been given to whether the electricity distribution network is impaired as detailed in note 1(j). From 31 March 2011 onwards fair value has been determined on the basis of an independent valuation prepared by expert valuers using a discounted cash flow methodology (DCF).

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

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

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

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

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

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

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

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

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

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

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

1. Statement of accounting policies continued

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

(l) Investment property

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

(m) Intangible assets

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

Computer software

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

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

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

Patents, trademarks and licences

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

(n) Goodwill

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

(o) Payables

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

(p) Borrowings

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

(q) Provisions

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

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

(r) 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.

1. Statement of accounting policies continued

(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.

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

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

(v) Capital contributions and grants

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

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

(w) Borrowing costs

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

Changes in accounting policies and disclosures

The accounting policies detailed above have been applied in the preparation of these financial statements for the year ended 31 March 2012 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 a new revenue recognition policy related to the recognition of insurance proceeds (see note 1(u) above) and the following new and amended New Zealand equivalents to International Financial Reporting Standards as of 1 April 2011:

- Improvements to International Financial Reporting Standards (2010) effective 1 January 2011
- NZ IAS 24 Related Party Disclosures (Revised).

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

1. Statement of accounting policies continued

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

	Effective for the financial year ending 31 March
• NZ IFRS 7 Disclosures – Transfers of Financial Assets (Amendments)	2013
• NZ IAS 12 Income Taxes – Deferred Tax Recovery of Underlying Assets (Amendments)	2013
• FRS 43 Summary Financial Statements	2013
• FRS 44 NZ Additional Disclosures	2013
• Harmonisation Amendments	2013
• NZ IAS 1 Presentation of Items of Other Comprehensive Income – Amendment to NZ IAS 1	2014
• NZ IAS 19 Employee Benefits (Revised)	2014
• NZ IAS 28 Investments in Associates and Joint Ventures	2014
• NZ IFRS 10 Consolidated Financial Statements	2014
• NZ IFRS 11 Joint Arrangements	2014
• NZ IFRS 12 Disclosure of Interests in Other Entities	2014
• NZ IFRS 13 Fair Value Measurement	2014
• NZ IFRS 9 Financial Instruments – Classification and Measurement	2016

2. Estimated impacts of the Canterbury earthquakes

Introduction

The purposes of this note are to disclose the group's estimates of the:

- material impacts of the earthquake on the financial performance and financial position of the group
- significant areas of estimation uncertainty
- contingent insurance assets that exist at balance date.

The operations and performance of the company and group have been materially adversely affected by a magnitude 6.3 earthquake on 22 February 2011. The estimated adverse impacts of this earthquake on the company's electricity distribution network and head office buildings were around 10 times the impacts of each of the 4 September 2010 (magnitude 7.1) and 13 June 2011 (magnitude 5.7 and 6.3) earthquakes. There have also been over 10,000 aftershocks of varying magnitude.

Network reliability performance

The company's network reliability was severely affected in the year ended 31 March 2011. On 4 September 2010, over 90% of all of the company's customers had supply by nightfall. Following the 22 February 2011 earthquake, it took over a week to have supply to over 90% of all of the company's customers. Due to the severity of the earthquakes last year, the company was unable to calculate its SAIDI/SAIFI performance for the year ended 31 March 2011 in time for last year's audited performance statement. The company was also unable to set meaningful SAIDI/SAIFI performance targets for the year ended 31 March 2012.

In this year's audited electricity network reliability performance statement, the company has:

- disclosed its performance for the year ended 31 March 2011
- disclosed its performance for the year ended 31 March 2012
- increased its comparative disclosures to provide context to the company's performance in the absence of targets being set in the company's statement of intent.

Financial impacts – the damage

The estimated major impacts on the company's electricity distribution network were as follows:

- high voltage and low voltage overhead lines were relatively undamaged, with relatively minor repairs required
- high voltage underground cables were severely damaged in some city areas, particularly in the eastern suburbs of the city, due to ground movement. Many of the company's 11kV underground cables in those areas needed urgent repairs, including new cable joints in order to restore supply. The company's four key 66kV high voltage underground cables (these cables feed the eastern suburbs from Transpower's Bromley grid exit point) were extensively and severely damaged and the company has permanently decommissioned these cables rather than attempt to repair them. The carrying value of these cables was $3.3m which was derecognised and expensed in the year ended 31 March 2011. The company built an emergency temporary 66kV overhead line to replace the decommissioned cables, at a cost of approximately $1.6m. The company plans to replace (and decommission) this temporary line with a permanent 66kV high voltage supply to the area by 31 March 2014. The company's proposed route and design for this new supply will be subject to community consultation during calendar 2012.

2. Estimated impacts of the Canterbury earthquakes continued

- substations were relatively undamaged, however two of the company's smaller substations were destroyed (Sumner and Mt Pleasant) and one major substation (Brighton) suffered ground subsidence and liquefaction but its equipment survived. The company's Brighton zone substation has been rebuilt 1.5km away in Rawhiti Domain (Keyes Road) and this new substation was commissioned in September 2011. The company also moved its Pages Road switchgear to the new site. The temporary 66kV overhead line was extended a further 1.5km to Rawhiti and nearby damaged 11kV cables were repaired and reconnected to the new substation. The company also secured access and long term land use rights for the new site. The total cost of these projects was approximately $8m. It is uncertain how much of this cost will be covered by the company's insurance underwriters.

The company's assessments of damage and required remedial action for the company's electricity distribution network continue. It will be several months before this work is completed and findings collated. Any estimates and forecasts contained in these audited financial statements are therefore subject to change.

The company's main head office buildings suffered significant damage. The company has reached agreement to cash settle with its insurers on three of its significant buildings on its head office site and their unrecoverable contents and its overall earthquake deductibles for the 22 February and 13 June earthquakes. The company has recognised $22.3m as insurance revenues in the year ended 31 March 2012 (2011: nil). Due to estimation uncertainty, no other insurance proceeds have been recognised as revenue in these financial statements in either the current year or the prior year.

Immediately following the insurance cash settlements, the company decided to demolish its severely damaged main administration office buildings, as they were uneconomic to repair and are a potential hazard to the company's continued operations on the site. The demolitions will occur in the year ended 31 March 2013. In May 2012, the company also made announcements related to its proposal to build new office accommodation for all of its employees in north-west Christchurch (refer to note 41).

	2012 Increase/(decrease) $m	2011 Increase/(decrease) $m
Impact on net profit		
Insurance cash settlement revenues	20.9 ***	-
Reduced electricity delivery revenues	(14.8) *	(2.2) *
Other earthquake costs	(3.4) *	(1.1) *
Earthquake repair costs	(11.1) *	(7.7) *
Reduced operating expenses due to earthquakes	4.4 *	-
Write-off damaged underground cables	-	(2.3) **
Write-off damaged substations	(0.3) **	-
Reduced depreciation expense due to 2011 distribution network revaluation	1.8 **	-
(Write-down)/ reversal of write-down substation land	2.2	(3.9)
Write-down head office land	-	(1.3)
Write-down head office buildings	-	(0.8) **
Write-down investment property	(0.4) **	(0.5)
	(0.7)	(19.8)
Impact on other comprehensive income		
Write-down of substation land	-	(0.2)
Write-down of head office land	-	(2.6)
Write-down of the electricity distribution network	-	(51.3) **
	-	(54.1)
Total estimated impact on shareholders' funds	(0.7)	(73.9)

* After deducting the impact of income tax at 28% (2011: 30%)

** After deducting the impact of deferred tax at 28% (2011: 30%)

*** After deducting the impact of deferred tax at 28% - only applicable to $4.9m of these revenues

2. Estimated impacts of the Canterbury earthquakes continued

The major impact of the earthquakes on the company's capital expenditure for the year ended 31 March 2012 was the $8m Rawhiti substation project as noted above. A further $1m was spent on standby diesel generators. No significant capital projects were cancelled in the year ended 31 March 2012, although a number were postponed until future years.

Note that the amounts above are the company's estimates for the material stand alone incremental financial impacts which have arisen as a consequence of the earthquakes. It is difficult to be definitive, as:

- it is not known what delivery and other revenues would have been without the earthquakes
- 'normal' operational expenditure has been postponed or permanently replaced by earthquake-focused activities
- some valuation movements are directly attributable to earthquakes whereas others reflect local economic conditions
- the earthquakes have 'shifted' load from some areas, typically eastern suburbs and the CBD, to other areas and so some projects will be postponed indefinitely and other new projects commenced in response to changes in local demand
- as time goes by, it becomes less clear what is 'earthquake' and 'non-earthquake' expenditure.

The company's estimates of the earthquakes' impacts on the company's future cash flows as they affected the company's property, plant and equipment revaluation as at 31 March 2011 is included in note 20.

Estimation uncertainty

Three keys areas of estimation uncertainty arise from the earthquakes. They are to:

- determine the fair value of the company's electricity distribution network assets - due to the uncertainty around future electricity delivery revenues, future capital expenditure and future operating expenses resulting from the earthquake. The key assumptions used in the independent valuation undertaken as at 31 March 2011 are disclosed in note 20
- determine the carrying value of the insurance proceeds receivable, the details of which are discussed below
- determine the material stand alone incremental financial impacts as disclosed above.

Contingent asset in respect of insurance proceeds

The group has two key insurance policies relevant to the recent earthquakes as follows:

- material damage – this is a full replacement policy and covers the group's corporate properties and most of its key substations (not those substations sited in customers' premises). Network overhead lines and underground cables have not been insured as it has not been economic to do so
- business interruption – lost revenues and additional costs are claimable if they arise *"...as a consequence of..."* damage to the group's insured assets and occur within the first eighteen months following the earthquake.

The group is virtually certain to continue to receive insurance proceeds on both policies as its detailed claims processes progress, but the quantum of the likely proceeds cannot be reliably measured, because of the wide range of possible outcomes that will be negotiated with the group's insurers following completion of detailed engineering and financial assessments. Hence, no insurance proceeds receivable have been recognised as assets within these financial statements other than those that have been formally agreed and settled with the group's insurers.

It is still relatively early in the group's insurance claims process. There are currently no disputes with the group's underwriters or their assessors. Over the next financial year, as the quantity and quality of the various engineering assessments and financial information available to the group improves, there is likely to be a material upwards adjustment to the carrying amount of insurance proceeds receivable, currently $10.0m, (2011: nil).

	Notes	Group 2012 $000	Group 2011 $000	Parent 2012 $000	Parent 2011 $000
3. Operating revenues					
Electricity delivery services		182,885	189,860	182,885	189,860
Transmission rental rebates		5,605	5,015	5,605	5,015
Contracting		7,017	7,946	-	-
Sale of goods and services		18,027	10,847	964	584
Consumer capital contributions		4,099	2,808	4,099	2,808
Non-cash vested assets		4,188	3,829	4,188	3,829
Rental – investment property		-	211	-	211
Rental – other property		168	400	168	400
Dividend from subsidiary		-	-	500	-
Other		910	1,136	1,055	1,388
		222,899	222,052	199,464	204,095
4. Other gains/(losses)					
Insurance proceeds	2	22,393	-	22,393	-
Gain/(loss) on disposal of property, plant and equipment		(133)	47	(101)	21
Gain on disposal of investment		10	307	10	-
Net foreign exchange gains/(losses)		(55)	3	(55)	3
Net change in fair value of foreign exchange contracts income/(expense)		(13)	34	(13)	34
		22,202	391	22,234	58
5. Operating expenses					
Transmission		55,126	51,144	55,126	51,144
Transmission rental rebates		5,605	5,015	5,605	5,015
Employee benefits – multi-employer defined benefit plans		241	243	-	30
Employee benefits – other benefits		34,494	32,261	16,385	15,387
Network maintenance		15,428	15,536	15,428	15,536
Earthquake repair costs	2	15,480	11,061	15,480	11,061
Earthquake other costs	2	2,164	1,545	2,164	1,545
Operating lease payments		1,232	705	621	85
Movement in provisions		208	100	100	59
Direct operating expenses of investment property		470	84	470	84
Donations		37	37	34	28
Subvention payments		-	-	29	35
Other		8,570	6,460	7,847	8,186
		139,055	124,191	119,289	108,195

	Group 2012 $000	Group 2011 $000	Parent 2012 $000	Parent 2011 $000
6. Depreciation, amortisation and other impairment expenses				
Depreciation of non current assets	30,646	34,918	29,327	33,550
Amortisation of non current assets	1,655	1,489	1,635	1,473
Impairment of financial assets	1,218	1,707	1,206	1,515
Replaced assets written off	1,078	1,477	1,078	1,477
Fair value impairment of investment property	648	491	648	491
	35,245	40,082	33,894	38,506
7. Interest income				
Finance lease	6	8	6	8
Bank deposits	45	19	45	19
Other	360	50	360	50
Related parties	-	286	154	460
	411	363	565	537
8. Interest expense				
Interest expense on loans	3,343	2,487	3,343	2,487
Other interest expense	367	358	367	358
Net change in fair value of derivatives expense/(income)	1,222	1,195	1,222	1,195
	4,932	4,040	4,932	4,040
9. Remuneration of the auditor				
Audit of the financial statements	226	257	174	205
Audit-related services or review of the financial statements not reported above	19	20	19	20
	245	277	193	225

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

Audit-related services comprises an audit of the company's annual compliance statement in accordance with the Commerce Act Electricity Distribution Services Default Price-Quality Path Determination 2010.

10. Income tax and deferred tax

	Group 2012 $000	Group 2011 $000	Parent 2012 $000	Parent 2011 $000
Income tax expense recognised in net profit				
Tax expense comprises:				
Current income tax				
Current income tax charge	11,908	17,083	10,607	16,613
Adjustments in respect of the current income tax of prior years	(157)	(32)	(119)	(32)
Deferred income tax				
Expense/(income) relating to origination and reversal of temporary differences	2,233	(1,458)	2,753	(1,122)
Expense relating to use of prior years' losses	21	33	-	-
Expense relating to assets which are non-depreciable for tax purposes	-	10,869	-	10,869
Income relating to change in tax rate	-	(10,058)	-	(10,188)
Impairment/(reversal of impairment) of deferred tax asset	(33)	74	-	-
Total income tax expense recognised in net profit	13,972	16,511	13,241	16,140

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

	Group 2012 $000	Group 2011 $000	Parent 2012 $000	Parent 2011 $000
Profit before income tax	68,126	44,871	65,994	44,327
Prima facie income tax expense calculated at 28% (2011: 30%)	19,075	13,461	18,478	13,298
Non-deductible expenses	549	2,284	393	2,221
Non-assessable income	(3,770)	(139)	(3,770)	(47)
Other deductible items	(17)	(32)	(17)	(32)
Deferred tax expense relating to use of prior year's losses	21	33	-	-
Effect on deferred tax balances of the removal of assets which are non-depreciable for tax purposes	(1,835)	10,869	(1,835)	10,869
Effect on deferred tax balances due to the change in income tax rate from 30% to 28% effective 1 April 2011	(10)	(10,058)	(8)	(10,188)
Impairment/(reversal of impairment) of deferred tax asset	(33)	74	-	-
	13,980	16,492	13,241	16,121
Under-provision of income tax in the previous year	(8)	19	-	19
Total income tax expense recognised in net profit	13,972	16,511	13,241	16,140

	Group 2012 $000	Group 2011 $000	Parent 2012 $000	Parent 2011 $000
Income tax recognised in other comprehensive income				
Reversal of deferred tax liability on revaluation of property, plant and equipment	-	40,969	-	42,283
Deferred tax liability recognised on revaluation of property, plant and equipment	(71)	-	(71)	-
Impact on deferred tax of change in income tax rate	-	613	-	613
Deferred tax movement recognised in comprehensive income	(71)	41,582	(71)	42,896

The income tax rate used is the corporate income tax rate payable by New Zealand companies on taxable profits under New Zealand tax law. This is 28% for the year ended 31 March 2012 and 30% for the year ended 31 March 2011.

10. Income tax and deferred tax continued

Current income tax liability

The group current income tax liability as at 31 March 2012 of $3.2m (2011: $3.7m) is the unpaid portion of the group's third instalment of provisional income tax for the year ended 31 March 2012. The group's third instalment of provisional tax is due for payment approximately five weeks after balance date. The equivalent current income tax liability for the parent is $3.0m (2011: $3.4m).

Imputation credit account balances

The Orion consolidated tax group includes the company, Connetics Limited and Orion New Zealand Ventures Limited 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 2012.

	Group 2012 $000	Group 2011 $000	Parent 2012 $000	Parent 2011 $000
Opening balance	1,699	86	1,699	86
Use of money interest received	40	50	40	50
Tax paid	12,127	17,634	12,127	17,634
Attached to dividends paid to shareholders	(13,222)	(16,071)	(13,222)	(16,071)
Closing balance	644	1,699	644	1,699

Unrecognised deferred tax asset

A subsidiary has overseas tax losses which are only able to be offset against that subsidiary's share of future income from overseas and New Zealand Fair Dividend Rate (FDR) income. However, it is no longer probable that all of the $300,000 (2011: $376,000) of ring-fenced tax losses available to carry forward at 31 March 2012 will be able to be utilised in the foreseeable future. The group estimates that tax losses of $152,000 (2011: $110,000) could be utilised and therefore the deferred tax asset has been impaired by $41,000 (2011: $74,000) relating to tax losses of $148,000 (2011: $266,000) which have not been recognised.

10. Income tax and deferred tax continued

Group for the year ended 31 March 2012

Taxable and deductible temporary differences arise from:

	Opening balance $000	Charged/ (credited) to income $000	Charged/ (credited) to other comprehensive income $000	Change in tax rate $000	Closing balance $000
Deferred tax liabilities					
Property, plant and equipment	152,042	969	71	-	153,082
Depreciation recovered deferred against future purchase	-	1,370	-	-	1,370
Intangible assets	633	(46)	-	-	587
Other	142	258	-	-	400
	152,817	2,551	71	-	155,439
Deferred tax assets					
Derivative financial liabilities	339	342	-	-	681
Provisions	1,391	(34)	-	-	1,357
Doubtful debts and impairment losses	27	20	-	-	47
Finance lease liability	242	(10)	-	-	232
Tax losses	31	12	-	-	43
	2,030	330	-	-	2,360
Net deferred tax liability	150,787	2,221	71	-	153,079

Group for the year ended 31 March 2011

Taxable and deductible temporary differences arise from:

	Opening balance $000	Charged/ (credited) to income $000	Charged/ (credited) to other comprehensive income $000	Change in tax rate $000	Closing balance $000
Deferred tax liabilities					
Property, plant and equipment	193,955	9,821	(40,969)	(10,765)	152,042
Intangible assets	421	257	-	(45)	633
Other	510	(358)	-	(10)	142
	194,886	9,720	(40,969)	(10,820)	152,817
Deferred tax assets					
Derivative financial liabilities	5	359	-	(25)	339
Provisions	1,402	86	-	(97)	1,391
Doubtful debts and impairment losses	155	(126)	-	(2)	27
Finance lease liability	270	(10)	-	(18)	242
Tax losses	145	(107)	-	(7)	31
	1,977	202	-	(149)	2,030
Net deferred tax liability	192,909	9,518	(40,969)	(10,671)	150,787

In the year ended 31 March 2011 the change in the company income tax rate from 30% to 28% resulted in a deferred tax benefit of $10.7m, of which $10.1m reduced income tax expense and $0.6m was included in other comprehensive income.

10. Income tax and deferred tax continued

Parent for the year ended 31 March 2012

Taxable and deductible temporary differences arise from:

	Opening balance $000	Charged/ (credited) to income $000	Charged/ (credited) to other comprehensive income $000	Change in tax rate $000	Closing balance $000
Deferred tax liabilities					
Property, plant and equipment	151,829	1,477	71	-	153,377
Depreciation recovered deferred against future purchase	-	1,370	-	-	1,370
Intangible assets	633	(46)	-	-	587
Other	142	258	-	-	400
	152,604	3,059	71	-	155,734
Deferred tax assets					
Derivative financial liabilities	339	342	-	-	681
Provisions	777	(46)	-	-	731
Doubtful debts and impairment losses	27	20	-	-	47
Finance lease liability	242	(10)	-	-	232
	1,385	306	-	-	1,691
Net deferred tax liability	151,219	2,753	71	-	154,043

Parent for the year ended 31 March 2011

Taxable and deductible temporary differences arise from:

	Opening balance $000	Charged/ (credited) to income $000	Charged/ (credited) to other comprehensive income $000	Change in tax rate $000	Closing balance $000
Deferred tax liabilities					
Property, plant and equipment	194,809	10,148	(42,283)	(10,845)	151,829
Intangible assets	421	257	-	(45)	633
Other	510	(358)	-	(10)	142
	195,740	10,047	(42,283)	(10,900)	152,604
Deferred tax assets					
Derivative financial liabilities	5	359	-	(25)	339
Provisions	755	77	-	(55)	777
Doubtful debts and impairment losses	155	(126)	-	(2)	27
Finance lease liability	270	(10)	-	(18)	242
	1,185	300	-	(100)	1,385
Net deferred tax liability	194,555	9,747	(42,283)	(10,800)	151,219

In the year ended 31 March 2011 the change in the company income tax rate from 30% to 28% resulted in a deferred tax benefit of $10.8m, of which $10.2m reduced income tax expense and $0.6m was included in other comprehensive income.

11. Cash and cash equivalents

	Group 2012 $000	Group 2011 $000	Parent 2012 $000	Parent 2011 $000
Cash and cash equivalents are held in the following currencies:				
New Zealand dollar	631	331	320	55
Euros	1	-	1	-
	632	331	321	55

12. Current trade and other receivables

	Group 2012 $000	Group 2011 $000	Parent 2012 $000	Parent 2011 $000
Trade receivables	7,908	5,699	3,145	3,910
Allowance for impairment of receivables	(176)	(150)	(167)	(97)
	7,732	5,549	2,978	3,813
Insurance proceeds	10,044	-	10,044	-
Finance lease receivable	22	20	22	20
GST receivable	-	195	-	195
	17,798	5,764	13,044	4,028
Bad debts written off	446	323	446	319
Bad debts recovered	16	12	13	12
Increase/(decrease) in allowance for impairment	26	(243)	70	(190)

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

	Group 2012 $000	Group 2011 $000	Parent 2012 $000	Parent 2011 $000
Not past due	5,782	3,723	1,442	2,858
Past due 0 to 30 days	1,245	1,189	963	417
Past due 31 to 60 days	142	441	87	368
Past due greater than 60 days	739	346	653	267
	7,908	5,699	3,145	3,910

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

Insurance proceeds of $7.4m were received in April 2012 and $2.6m was received in May 2012.

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. The company's allowance for impairment of receivables has been increased by $70,000 in the current year largely because of some large unpaid invoices which arose from damage to the company's electricity distribution system. The allowance for impairment of receivables was decreased in the previous year largely because of the write off of interest due which was determined to be uncollectible and written off in that year. 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.

Bad debts written off relate to debtors who have damaged the parent company's network assets and in the year ended 31 March 2012 also included $319,000 (2011: $166,000) of interest receivable on loans which are not expected to be recovered.

The group has not renegotiated the terms of any financial assets other than some trade receivables.

The 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 greater than 60 days" category above.

13. Other current financial assets

	Group 2012 $000	Group 2011 $000	Parent 2012 $000	Parent 2011 $000
At fair value				
Foreign currency forward contracts	1	14	1	14
At amortised cost				
Interest bearing loans advanced to subsidiaries	-	-	3,502	5,278
	1	14	3,503	5,292

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 advance to its subsidiary, Orion New Zealand Ventures Limited, is calculated after the deduction of a $5.4m (2011: $4.2m) allowance for impairment, as the net recoverable assets of the borrower are assessed as insufficient to cover the debt. During the year the allowance for impairment on this advance was increased by $1,206,000 (2011: $1,515,000).

14. Inventories

	Group 2012 $000	Group 2011 $000	Parent 2012 $000	Parent 2011 $000
Chargeable work in progress	912	890	39	361
Goods for sale	1,850	1,700	8	4
Maintenance items	3,760	3,169	169	136
Allowance for impairment	(86)	(58)	-	-
	6,436	5,701	216	501

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

15. Construction contracts

	Group 2012 $000	Group 2011 $000	Parent 2012 $000	Parent 2011 $000
Construction contracts in progress comprise:				
Construction costs incurred plus estimated recognised profits less estimated recognised losses to date	6,467	4,334	-	-
Less progress billings	(6,003)	(4,054)	-	-
Total construction work in progress	464	280	-	-

16. Other current assets

	Group 2012 $000	Group 2011 $000	Parent 2012 $000	Parent 2011 $000
Prepayments	2,393	1,651	1,898	1,298

17. Non current trade and other receivables

	Group 2012 $000	Group 2011 $000	Parent 2012 $000	Parent 2011 $000
Finance lease receivable	25	47	25	47

18. Subsidiaries

	Group 2012 $000	Group 2011 $000	Parent 2012 $000	Parent 2011 $000
Connetics Limited			6,551	6,551
Orion New Zealand Ventures Limited			-	-
			6,551	6,551

The subsidiaries are incorporated in New Zealand and are 100% owned by Orion New Zealand Limited as at 31 March 2012 (and 2011). The balance date for both subsidiaries is 31 March. The carrying values of the investments in subsidiaries, as shown in the parent company, are at cost less impairment.

19. Other non current financial assets

	Group 2012 $000	Group 2011 $000	Parent 2012 $000	Parent 2011 $000
At fair value				
Available-for-sale – Enertech Capital Partners II LP	45	1,263	-	-

20. Property, plant and equipment

Group

	Freehold land at fair value $000	Buildings at fair value $000	Electricity distribution network at fair value $000	Leasehold improvements, plant and equipment at cost $000	Total $000
Gross carrying amount					
Balance as at 1 April 2010	37,657	2,345	984,060	24,520	1,048,582
Additions	273	35	36,036	2,388	38,732
Disposals	-	-	(1,752)	(572)	(2,324)
Assets decommissioned due to earthquake	-	-	(3,782)	-	(3,782)
Impairment loss on revaluation	(7,989)	(1,252)	(257,859)	-	(267,100)
Transferred to investment property	(2,195)	(805)	-	-	(3,000)
Balance as at 31 March 2011	27,746	323	756,703	26,336	811,108
Additions	745	146	49,303	5,330	55,524
Disposals	-	-	(1,345)	(1,488)	(2,833)
Assets decommissioned due to earthquake	-	-	(516)	-	(516)
Revaluation	2,260	255	-	-	2,515
Balance as at 31 March 2012	30,751	724	804,145	30,178	865,798
Accumulated depreciation, amortisation and impairment					
Balance as at 1 April 2010	-	24	90,956	13,985	104,965
Disposals	-	-	(275)	(451)	(726)
Assets decommissioned due to earthquake	-	-	(448)	-	(448)
Impairment loss on revaluation	-	(154)	(121,608)	-	(121,762)
Depreciation expense	-	162	31,981	2,775	34,918
Balance as at 31 March 2011	-	32	606	16,309	16,947
Disposals	-	-	(266)	(1,040)	(1,306)
Assets decommissioned due to earthquake	-	-	(122)	-	(122)
Depreciation expense	-	9	27,840	2,797	30,646
Balance as at 31 March 2012	-	41	28,058	18,066	46,165
Net book value as at 31 March 2011	27,746	291	756,097	10,027	794,161
Net book value as at 31 March 2012	30,751	683	776,087	12,112	819,633

	2012 $000	2011 $000
Capital work in progress in the consolidated group, included above, is as follows:		
Plant and equipment	359	173
Electricity distribution network	17,269	16,030
	17,628	16,203
Electricity distribution network assets included above which are subject to finance leases	4,935	4,565

20. Property, plant and equipment continued

Parent

	Freehold land at fair value $000	Buildings at fair value $000	Electricity distribution network at fair value $000	Leasehold improvements, plant and equipment at cost $000	Total $000
Gross carrying amount					
Balance as at 1 April 2010	37,657	2,345	987,618	10,146	1,037,766
Additions	273	35	37,170	1,398	38,876
Disposals	-	-	(1,752)	(207)	(1,959)
Assets decommissioned due to earthquake	-	-	(3,782)	-	(3,782)
Impairment loss on revaluation	(7,989)	(1,252)	(262,551)	-	(271,792)
Transferred to investment property	(2,195)	(805)	-	-	(3,000)
Balance as at 31 March 2011	27,746	323	756,703	11,337	796,109
Additions	745	146	51,241	3,370	55,502
Disposals	-	-	(1,345)	(1,140)	(2,485)
Assets decommissioned due to earthquake	-	-	(516)	-	(516)
Revaluation	2,260	255	-	-	2,515
Balance as at 31 March 2012	30,751	724	806,083	13,567	851,125
Accumulated depreciation, amortisation and impairment					
Balance as at 1 April 2010	-	24	90,956	5,615	96,595
Disposals	-	-	(275)	(166)	(441)
Assets decommissioned due to earthquake	-	-	(448)	-	(448)
Impairment loss on revaluation	-	(154)	(121,608)	-	(121,762)
Depreciation expense	-	162	31,981	1,407	33,550
Balance as at 31 March 2011	-	32	606	6,856	7,494
Disposals	-	-	(266)	(797)	(1,063)
Assets decommissioned due to earthquake	-	-	(122)	-	(122)
Depreciation expense	-	9	27,840	1,478	29,327
Balance as at 31 March 2012		41	28,058	7,537	35,636
Net book value as at 31 March 2011	27,746	291	756,097	4,481	788,615
Net book value as at 31 March 2012	30,751	683	778,025	6,030	815,489

	2012 $000	2011 $000
Capital work in progress in the parent entity, included above, is as follows:		
Plant and equipment	316	93
Electricity distribution network	17,269	16,030
	17,585	16,123
Electricity distribution network assets included above which are subject to finance leases	4,935	4,565

20. Property, plant and equipment continued

	Group 2012 $000	Group 2011 $000	Parent 2012 $000	Parent 2011 $000
Aggregate depreciation allocated, whether recognised as an expense or capitalised as part of the carrying amount of other assets during the year:				
Buildings	9	162	9	162
Electricity distribution network	27,652	31,804	27,652	31,804
Plant and equipment and leasehold improvements	2,797	2,775	1,478	1,407
Equipment under finance lease	188	177	188	177
	30,646	34,918	29,327	33,550

Revaluations and impairment review

Electricity distribution network and substation buildings – 2011 valuation

The company's electricity distribution network and substation buildings were revalued as at 31 March 2011 to a fair value of $756m by independent valuers Ms Lynne Taylor, a director, and Mr Chris Taylor, a partner, of PricewaterhouseCoopers. Ms Taylor and Mr Taylor have been responsible for many of the electricity distribution network valuations undertaken by PricewaterhouseCoopers (the valuers) for financial reporting purposes in New Zealand over the last decade. The fair values were established in accordance with NZ IAS 16 – Property, Plant and Equipment.

In the year ended 31 March 2011 the regulatory framework for electricity distribution businesses was developed under Part 4 of the Commerce Act 1986 and the company's prices are now regulated via a default price-quality path. The valuers believed that a depreciated replacement cost based value was unlikely to align with either the Commerce Commission's regulatory asset base (RAB) valuation and input methodologies under Part 4, or with the present value of the future cash flows that would be generated by the electricity distribution network. Accordingly, the valuers' basis of fair value valuation at 31 March 2011 was a discounted cash flow analysis of the assets, based on 10 years of forecast information provided by the company and reviewed and adjusted by the valuers, with a terminal valuation determined by valuers at year 10.

The key assumptions used in the valuation as at 31 March 2011 included forecasts of future demand for electricity distribution services, electricity delivery prices, operating and capital expenditure associated with existing assets, and the discount rate.

In forecasting future electricity delivery prices, the implications of the regulatory requirements of Part 4 of the Commerce Act were taken into consideration. In the short to medium term, the company faced significant additional costs and lower network line revenues due to the Canterbury earthquakes which occurred up to and including 31 March 2011. It was unclear at that time whether the Commerce Commission would make a starting price adjustment (SPA) to the company's line prices, either upwards or downwards, at any time during the current regulatory period (to 31 March 2015). The valuers assumed that there would be no SPA during the current regulatory period. The valuers assumed that the company's line revenues would be able to rise consistent with forecast changes in electricity demand plus annual line price increases equivalent to the consumer price index (CPI) during the current regulatory period, and that the company would not apply to the Commerce Commission for a customised price path during the current regulatory period.

For the second regulatory period (five years commencing 1 April 2015), the valuers assumed that an upwards line revenue SPA of around 19% (approximately $40m) would be made effective 1 April 2015 to align the company's actual regulatory profits with the Commission's weighted average cost of capital (WACC) benchmark – in other words, that the company would achieve regulatory profits equivalent to regulatory WACC from 1 April 2015 onwards. The valuers assumed that the 1 April 2015 SPA will be 'smoothed in' over a period of time in the second regulatory period in a net present value (NPV) neutral manner.

A small upwards SPA was assumed for the start of the third regulatory period (from 1 April 2020 onwards).

The 31 March 2011 network valuation assumed that:

- the company's allowable line revenues are set at a level which generates regulatory returns equivalent to the Commission's cost of capital benchmark from 1 April 2015
- for the period 1 April 2016 to 31 March 2020 the company's line revenues are able to increase in line with changes in electricity demand plus annual price increases equivalent to CPI
- there are no other changes in the regulatory framework for electricity distribution businesses

20. Property, plant and equipment continued

- line revenues reduce and operating costs and capital expenditure both increase relative to pre-earthquake forecasts as a result of the Canterbury earthquakes up to and including 31 March 2011 as follows:

	Years ending 31 March 2012 $m	2013 $m	2014 $m
Reduced electricity line revenues	20	17	14
Increased asset maintenance expenses	6	2	2
Increased standby generator expenses	2	2	2
Increased overhead expenses	1	1	-
Increased capital expenditure	20	19	13

Beyond 31 March 2014 the impacts on revenues and expenses continue to reduce through to 31 March 2021

- the company's network capital and maintenance expenditure and line revenue forecasts have been adjusted to exclude the impact of 'new' customers to ensure the valuation is attributable to existing assets only
- the average post-tax discount rate is 8.0% (pre-tax equivalent 11.2%).

The 31 March 2011 valuation was $141m below the company's pre-revaluation carrying value of the electricity distribution network assets. This reduction was attributable to two key factors as follows:

- approximately $68m was due to the new Commerce Act Part 4 regulatory price controls, which effectively limit the company's profits to the Commission's regulatory weighted average cost of capital (WACC) on the RAB valuation calculated on a prescribed basis
- approximately $73m was due to the impacts of the Canterbury earthquakes up to and including 31 March 2011 and the abnormal levels of expenses and reduced line revenues as a result of the earthquakes for the period up to 31 March 2015.

Electricity distribution network and substation buildings – 2012 valuation

The company engaged Ms Taylor and Mr Taylor (the valuers) to undertake a review of the carrying value of the company's distribution network and substation buildings as at 31 March 2012.

The valuers concluded that the company's carrying value of $778m for the electricity distribution network, substation and kiosk buildings, leased assets and capital work in progress as at 31 March 2012 represented fair value in accordance with NZ IAS 16 – Property, Plant and Equipment. The valuers concluded that:

- there is no evidence of impairment to the $778m carrying value as at 31 March 2012 in accordance with NZ IAS 36 – Impairment of Assets
- the $778m carrying value is not materially different to fair value as at 31 March 2012
- accordingly that there is no need to revalue the company's electricity distribution network assets.

Substation land – 2011 and 2012 valuations

The valuation of the company's substation land to fair value as at 31 March 2012 was prepared by an independent valuer, Mr Marius Ogg of CBRE, in accordance with NZ IAS 16. Mr Ogg is a registered public valuer, Director of Valuation & Advisory Services at CBRE, an Associate of the New Zealand Institute of Valuers and a Senior Member of the New Zealand Property Institute. Mr Ogg prepared the equivalent valuation in 2011.

Mr Ogg selected a sample of the company's substation land holdings and valued them, utilising sales comparisons and a unit metre frontage methodology. He then developed multipliers to apply to land rating valuations which he then recast over the company's total substation land population of around 2,000 properties to determine a fair value for all of the company's substation sites. Mr Ogg used the same methodology to value the company's substation land in 2011.

Mr Ogg believes that the concluded values for the sample and indices reflect any impacts on the market as a result of the earthquakes prior to 31 March 2012 and also reflect some evidence of recovery in property values.

Mr Ogg's valuation resulted in an increase in the carrying value of the company's substation land by $2.2m, which was recognised in profit as it partially offset the prior year write-down expense (2011: $4.1m write-down, of which $3.9m was expensed in profit and $0.2m was recognised in comprehensive income).

21. Investment property

	Group 2012 $000	Group 2011 $000	Parent 2012 $000	Parent 2011 $000
Balance at beginning of financial year	8,055	5,480	8,055	5,480
Additions	508	67	508	67
Transferred from property, plant and equipment	-	3,000	-	3,000
Net loss from fair value adjustments	(648)	(492)	(648)	(492)
Balance at end of financial year	7,915	8,055	7,915	8,055

Investment property comprises land and buildings at the company's main administration and head office site in the Christchurch CBD. The land and buildings were reclassified as investment property as at 31 March 2011 as the company considered that new office accommodation would be required either at its existing site or elsewhere. On 2 May 2012 the company announced plans to move to a new temporary site for a period of some years. The company plans to eventually return to the CBD site. The company also announced plans to demolish the major buildings on the existing site.

The valuation of the company's investment property to fair value as at 31 March 2012 was prepared on 3 April 2012 by an independent valuer, Mr Marius Ogg of CBRE, in accordance with NZ IAS 40 – Investment Property and NZ IAS 16 – Property, Plant and Equipment. Mr Ogg prepared the equivalent valuation in 2011. Refer to note 20 for further information on Mr Ogg.

Mr Ogg's valuation comprised valuations of the individual components of the CBD site, with concluding values determined under a hypothetical subdivision approach. The overall valuation was then apportioned between property, plant and equipment (NZ IAS 16 – refer to note 20) for the Armagh district substation site and investment property for the balance of the site.

The values for individual components of the site were assessed under differing bases, reflecting the highest and best use for each. For cleared land, values were concluded on a land value (redevelopment) basis. Given the significant earthquake damage sustained by the main administration buildings, value was determined on a land value only less associated building demolition costs. This was consistent with the methodology adopted in 2011.

Fair values for other buildings on the CBD site were determined using both discounted cash flow and capitalisation approaches. Mr Ogg assumed notional leases on occupied space with terms of three years, an assumed capitalisation rate of 10.50%, a discount rate of 10.25% and market rental growth rates of 0.0% to 2.5% over the investment horizon.

Based on Christchurch City Council reports, the company's ownership interest in the adjacent Christchurch City Council car-parking building on the site is likely to be repaired and this has been valued net of an estimated $0.6m of repair costs. As described in note 2, no allowance has been made for an amount receivable from the company's insurers to offset these estimated repair costs.

Where Mr Ogg has considered underlying land values, individual assessments have been made on the basis of the Christchurch City Council town planning ordinances in place as at the date of valuation. The Canterbury Earthquake Recovery Authority (CERA) has been granted legislative powers to override such ordinances, in addition to many other powers such as compulsory land acquisition.

Mr Ogg's valuation assumed that the physical condition of the land on the CBD site is sound and that the Canterbury earthquakes have not had a significant adverse impact on the physical condition of the land.

It was difficult for Mr Ogg to determine market values as at 31 March 2012 and as at 31 March 2011, as the impacts of the earthquakes on the market in the CBD continue to be difficult to quantify. Accordingly there is considerable volatility risk associated with Mr Ogg's valuation.

Mr Ogg's valuation resulted in a write-down of the company's investment property by $0.6m to $7.9m (2011: $5.5m write-down including land and buildings subsequently transferred to investment property, of which $2.9m was expensed in profit and $2.6m was recognised as an impairment loss in the statement of comprehensive income).

22. Other intangible assets

	Group software $000	Parent software $000
Gross carrying amount		
Balance as at 1 April 2010	9,807	9,328
Additions	1,385	977
Additions from internal developments	229	229
Balance as at 31 March 2011	11,421	10,534
Additions	2,763	1,532
Additions from internal developments	504	165
Balance as at 31 March 2012	14,688	12,231
Accumulated amortisation and impairment		
Balance as at 1 April 2010	5,711	5,256
Amortisation expense	1,489	1,473
Balance as at 31 March 2011	7,200	6,729
Amortisation expense	1,655	1,635
Balance as at 31 March 2012	8,855	8,364
Net book value as at 31 March 2011	4,221	3,805
Net book value as at 31 March 2012	5,833	3,867
Capital work in progress included above as at 31 March 2011	386	-
Capital work in progress included above as at 31 March 2012	2,037	112

	Group 2012 $000	Group 2011 $000	Parent 2012 $000	Parent 2011 $000
23. Other non current assets				
Prepayments	440	211	440	211
24. Current trade and other payables				
Trade payables	19,865	22,974	18,070	25,201
Interest payable	83	20	83	20
Employee entitlements	4,897	5,107	2,106	2,276
GST payable	2,701	284	2,427	-
Other	234	304	234	304
	27,780	28,689	22,920	27,801
25. Current borrowings				
Unsecured at amortised cost				
Finance lease liability (refer to note 33)	96	80	96	80
26. Other current financial liabilities				
Interest rate swaps	151	-	151	-

	Group 2012 $000	Group 2011 $000	Parent 2012 $000	Parent 2011 $000
27. Current provisions				
Employee benefits – long service leave (refer to note 30)	163	95	85	51
28. Non current borrowings				
Unsecured at amortised cost				
Bank loans	48,100	31,600	48,100	31,600
Finance lease liability (refer to note 33)	5,259	4,797	5,259	4,797
	53,359	36,397	53,359	36,397

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.

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

Interest rates for all draw downs on the facilities are floating, based on bank bill rates plus a margin. As at 31 March 2012 this rate (including margin) averaged 3.36% (2011: 3.22%). The company has entered into derivative contracts to hedge its exposure to bank bill interest rate fluctuations (refer to note 34). Daily commitment fees are also payable on the facilities.

	Group 2012 $000	Group 2011 $000	Parent 2012 $000	Parent 2011 $000
29. Other non current financial liabilities				
Interest rate swaps	2,283	1,212	2,283	1,212
30. Non current provisions				
Employee benefits – long service leave	1,084	945	649	584

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 4.09% (2011: 5.71%)
- salary inflation 3.0% (2011: 2.5%)
- discount rate 0.96% (2011: 0.95%).

	Group 2012 $000	Group 2011 $000	Parent 2012 $000	Parent 2011 $000
31. Issued capital				
Fully paid ordinary shares	120,000	120,000	120,000	120,000

Eighty million ($1.50) ordinary shares were issued in April 1993 pursuant to the approved establishment plan (under 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 (2011: nil).

	2012 cents per share	2011 cents per share	2012 $000	2011 $000
32. Dividends				
Recognised amounts				
Dividends paid on fully paid ordinary shares (fully imputed)	42.5	46.875	34,000	37,500

	Group 2012 $000	Group 2011 $000	Parent 2012 $000	Parent 2011 $000
33. Leases				
Operating lease commitments				
No later than one year	730	677	76	65
Later than one year and not later than five years	395	959	234	210
Later than five years	560	456	560	456
	1,685	2,092	870	731
Non-cancellable operating lease receivables				
No later than one year	104	148	104	148
Later than one year and not later than five years	162	282	162	282
Later than five years	43	2	43	2
	309	432	309	432

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 15 years. A group company leases its head office property and other sites under operating leases. These leases have various fixed term commitments of one to two years with optional rights of renewal until 31 March 2020.

Non-cancellable operating lease receivables

Until the earthquake on 22 February 2011, the company leased some of its land and buildings at its head office site in the CBD to a variety of tenants, on a range of different lease terms. Due to the severe damage caused to the buildings by the earthquake and a lack of access to the CBD, the leases were effectively cancelled on the date of the earthquake. The company leases some land adjacent to some substation sites to a range of tenants. These leases are incidental to the company's principal business.

	Minimum future lease receivable 2012 $000	Minimum future lease receivable 2011 $000	Present value of minimum future lease receivable 2012 $000	Present value of minimum future lease receivable 2011 $000
Finance lease receivable				
No later than one year	26	26	22	20
Later than one year and not later than five years	26	52	25	47
Minimum future lease payments	52	78	47	67
Less unearned finance income	(5)	(11)	-	-
Present value of minimum lease payments	47	67	47	67
Included in these financial statements as:				
Current trade and other receivables			22	20
Non current trade and other receivables			25	47
			47	67

33. Leases continued

	Minimum future lease payable 2012 $000	Minimum future lease payable 2011 $000	Present value of minimum future lease payable 2012 $000	Present value of minimum future lease payable 2011 $000
Finance lease liability				
No later than one year	465	440	96	80
Later than one year and not later than five years	1,827	1,763	439	400
Later than five years	10,305	9,903	4,820	4,397
Minimum lease payments	12,597	12,106	5,355	4,877
Less future finance charges	(7,242)	(7,229)	-	-
Present value of minimum lease payments	5,355	4,877	5,355	4,877
Included in these financial statements as:				
Current borrowings (refer to note 25)			96	80
Non current borrowings (refer to note 28)			5,259	4,797
			5,355	4,877

Finance lease receivable

The finance lease receivable 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 local 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 amounts are reviewed annually by Transpower and the assessed risk-free portion of the lease interest rate may be adjusted. The company is the only entity in the group which has a finance lease liability.

34. Financial instruments

Introduction

Exposures to interest rates, foreign currency, liquidity and credit risk arise 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 these 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 group recognises the need to maintain a balance between the higher returns that might be possible with greater interest bearing debt levels relative to capital and the advantages and security afforded by a sound capital position.

The allocation of capital between the group's specific business segment operations and activities is, to a large extent, driven by risk-adjusted optimisation of the returns achieved on capital allocated. The process of allocating capital to specific business 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 convenants 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 convenants 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 convenants during the years ended 31 March 2012 and 31 March 2011.

34. 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 – Financial Instruments: Recognition and Measurement and NZ IFRS 7 – Financial Instruments: Disclosures.

	Group 2012 $000	Group 2011 $000	Parent 2012 $000	Parent 2011 $000
Financial assets				
Fair value through income statement:				
Derivative financial instruments	1	14	1	14
Loans and receivables at cost less impairment:				
Cash and cash equivalents	632	331	321	55
Trade and other receivables	17,823	5,811	13,069	4,075
Advances to subsidiaries	-	-	3,502	5,278
Available-for-sale at fair value:				
Enertech Capital Partners II LP	45	1,263	-	-
Total financial assets	18,501	7,419	16,893	9,422
Financial liabilities				
Fair value through income statement:				
Derivative financial instruments	2,434	1,212	2,434	1,212
Amortised cost:				
Trade and other payables	22,883	23,582	20,814	25,525
Borrowings	53,455	36,477	53,455	36,477
Total financial liabilities	78,772	61,271	76,703	63,214

Fair value of financial instruments

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

The group uses various methods in estimating the fair value of its financial instruments. The methods comprise:

- Level 1: Fair values are 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: Fair values are estimated using inputs other than quoted prices included in level 1 that are observable for each 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 range 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: Fair values are 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 less an allowance for impairment.

34. 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 2012			Year ended 31 March 2011		
	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
Group						
Financial assets						
Derivative instruments:						
Foreign exchange contracts	1	-	1	14	-	14
Available-for-sale investments:						
Enertech Capital Partners II LP	-	45	45	-	1,263	1,263
	1	45	46	14	1,263	1,277
Financial liabilities						
Derivative instruments:						
Interest rate swaps	2,434	-	2,434	1,212	-	1,212
Parent						
Financial assets						
Derivative instruments:						
Foreign exchange contracts	1	-	1	14	-	14
Financial liabilities						
Derivative instruments:						
Interest rate swaps	2,434	-	2,434	1,212	-	1,212

	Group 2012 $000	Group 2011 $000	Parent 2012 $000	Parent 2011 $000
Financial assets classified as level 3 include:				
Enertech Capital Partners II LP	45	1,263	-	-
Reconciliation of level 3 fair value movements				
Opening balance	1,263	3,100	-	-
Disposal	-	(130)	-	-
Impairment	(1,218)	(1,707)	-	-
Closing balance	45	1,263	-	-
Total gain/(loss) stated above for assets held at the end of the period	(1,218)	(1,707)	-	-

Transfer between categories

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

34. Financial instruments continued

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 floating rate borrowings. Interest rate swaps have been entered into with various New Zealand registered bank 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 the contracted fixed interest rates.

Exposure to New Zealand fixed and variable interest rates

	Variable 2012 $000	Fixed 2012 $000	Non interest bearing 2012 $000	Variable 2011 $000	Fixed 2011 $000	Non interest bearing 2011 $000
Group						
Financial assets						
Cash and cash equivalents	620	-	12	319	-	12
Trade and other receivables	-	-	17,776	-	-	5,744
Finance lease receivables	-	47	-	-	67	-
Foreign currency forward contracts	-	-	1	-	-	14
Venture capital investment	-	-	45	-	-	1,263
	620	47	17,834	319	67	7,033
Financial liabilities						
Trade payables	-	-	22,649	-	-	23,278
Other payables	-	-	234	-	-	304
Bank loans	48,100	-	-	31,600	-	-
Finance lease liabilities	5,272	83	-	4,780	97	-
Interest rate swaps	-	-	2,434	-	-	1,212
	53,372	83	25,317	36,380	97	24,794
Net financial liabilities	52,752	36	7,483	36,061	30	17,761
Parent						
Financial assets						
Cash and cash equivalents	309	-	12	43	-	12
Trade and other receivables	-	-	13,022	-	-	4,008
Finance lease receivables	-	47	-	-	67	-
Foreign currency forward contracts	-	-	1	-	-	14
Related party loans	3,421	-	81	3,991	-	1,287
	3,730	47	13,116	4,034	67	5,321
Financial liabilities						
Trade payables	-	-	20,580	-	-	25,221
Other payables	-	-	234	-	-	304
Bank loans	48,100	-	-	31,600	-	-
Finance lease liabilities	5,272	83	-	4,780	97	-
Interest rate swaps	-	-	2,434	-	-	1,212
	53,372	83	23,248	36,380	97	26,737
Net financial liabilities	49,642	36	10,132	32,346	30	21,416

34. Financial instruments continued

Interest rate swap contracts outstanding at balance date

Under interest rate swap contracts, the company 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	
	2012 %	2011 %	2012 $000	2011 $000	2012 $000	2011 $000
Outstanding floating for fixed contracts:						
Less than 1 year	3.95	-	14,000	-	(151)	-
1 to 2 years	-	3.95	-	14,000	-	(201)
2 to 3 years	3.91	-	20,000	-	(385)	-
4 to 5 years	5.14	-	30,000	-	(1,898)	-
5 to 6 years	-	5.14	-	30,000	-	(1,011)
			64,000	44,000	(2,434)	(1,212)

Interest rate sensitivity

In managing interest rate risks the group aims to reduce the impacts 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.

The company considers 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.

The company estimates as at 31 March 2012 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 $1,578,000 (2011: increase by $1,371,000). A decrease in interest rates of one percentage point would decrease the group's profit before income tax by approximately $1,645,000 (2011: decrease by $1,450,000). When interest rates rise the benefit from the revaluation of the company's existing interest rate swap contracts significantly outweighs the additional interest expense on the unhedged portion of the company's debt. The opposite applies to a decrease in interest rates.

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 necessarily representative of what the group is expecting to borrow in the 12 months from balance date as the company's interest bearing debt liabilities are forecast to increase by approximately $40m over the next 12 months.

34. 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, Euros and Swiss francs. The group's policy is to hedge any material foreign currency exposure, usually with forward rate agreements.

	AUD $000	EURO $000	CHF $000
Exposure to foreign currency transactions 31 March 2012			
Foreign currency risk			
Prepayments	-	200	-
Trade payables	(1)	-	-
Net balance sheet exposure before hedging activity	(1)	200	-
Estimated forecast purchases	-	(73)	-
Net cash flow exposure before hedging activity	(1)	127	-
Hedged by:			
Forward exchange contracts – notional amounts	-	93	-
Foreign currency on hand	-	1	-
Net (unhedged exposure)/surplus assets	(1)	221	-
Exposure to foreign currency transactions 31 March 2011			
Foreign currency risk			
Prepayments	-	120	-
Trade payables	(67)	-	(48)
Net balance sheet exposure before hedging activity	(67)	120	(48)
Estimated forecast purchases	-	(341)	-
Net cash flow exposure before hedging activity	(67)	(221)	(48)
Hedged by:			
Forward exchange contracts – notional amounts	-	260	-
Foreign currency on hand	-	-	-
Net (unhedged exposure)/surplus assets	(67)	39	(48)

34. 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	
	2012	2011	2012 FC000	2011 FC000	2012 NZ$000	2011 NZ$000	2012 NZ$000	2011 NZ$000
Buy EURO 3 to 6 months	0.61	0.55	93	260	151	472	1	14

As at 31 March 2012, the aggregate amount of unrealised gains under forward foreign exchange contracts relating to anticipated future transactions was $1,224 (2011: $14,100). The group has not designated any forward foreign exchange contracts as hedges and has not adopted hedge accounting for its interest rate swap contracts.

Foreign exchange sensitivity

In managing currency risks the group aims to reduce the impacts 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 company considers that a reasonably possible movement in the value of the New Zealand dollar against other foreign currencies is a 10% movement in either direction.

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:

	2012 $000	2011 $000
Decrease of 10%	17	54
Increase of 10%	(14)	(44)

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 reasonably representative of what the group expects to be exposed to in the 12 months from balance date.

34. 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. This policy 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 has not necessarily been in its best interests to comply with this particular aspect of its treasury policy at all times.

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.

In November 2011 the company negotiated additional bank debt facilities of $60m to bring total facilities available to the company to $150m.

The company's current five year forecasts for its debt/debt-plus-equity and its interest coverage indicate that it will maintain its financial ability to meet its contractual obligations for the foreseeable future (at least over the five year forecast period). These forecasts take into account the company's estimates of the financial impacts of the recent Canterbury earthquakes on the company.

34. Financial instruments continued

Contractual cash flows and maturity analysis

The following tables analyse the group 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
Group as at 31 March 2012						
Financial assets						
Cash and cash equivalents	632	632	632	-	-	-
Trade and other receivables	17,776	17,776	17,776	-	-	-
Finance lease receivable	47	52	26	26	-	-
Forward foreign exchange contract	1	-	-	-	-	-
Total financial assets	18,456	18,460	18,434	26	-	-
Financial liabilities						
Trade and other payables	22,883	22,883	22,883	-	-	-
Finance lease liability	5,355	12,597	465	465	1,362	10,305
Unsecured loans	48,100	48,100	-	-	48,100	-
Interest on unsecured loans	-	5,187	1,616	1,616	1,955	-
Interest rate swaps	2,434	3,773	1,134	974	1,665	-
Total financial liabilities	78,772	92,540	26,098	3,055	53,082	10,305
Group as at 31 March 2011						
Financial assets						
Cash and cash equivalents	331	331	331	-	-	-
Trade and other receivables	5,744	5,744	5,744	-	-	-
Finance lease receivable	67	78	26	26	26	-
Forward foreign exchange contract	14	-	-	-	-	-
Total financial assets	6,156	6,153	6,101	26	26	-
Financial liabilities						
Trade and other payables	23,582	23,582	23,582	-	-	-
Finance lease liability	4,877	12,106	440	441	1,322	9,903
Unsecured loans	31,600	31,600	-	-	31,600	-
Interest on unsecured loans	-	4,283	1,018	1,018	2,247	-
Interest rate swaps	1,212	4,400	988	972	2,374	66
Total financial liabilities	61,271	75,971	26,028	2,431	37,543	9,969

34. Financial instruments continued

	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
Parent as at 31 March 2012						
Financial assets						
Cash and cash equivalents	321	321	321	-	-	-
Trade and other receivables	13,022	13,022	13,022	-	-	-
Finance lease receivable	47	52	26	26	-	-
Related party loans	3,502	3,502	3,502	-	-	-
Forward foreign exchange contract	1	-	-	-	-	-
Total financial assets	16,893	16,897	16,871	26	-	-
Financial liabilities						
Trade and other payables	20,814	20,814	20,814	-	-	-
Finance lease liability	5,355	12,597	465	465	1,362	10,305
Unsecured loans	48,100	48,100	-	-	48,100	-
Interest on unsecured loans	-	5,187	1,616	1,616	1,955	-
Interest rate swaps	2,434	3,773	1,134	974	1,665	-
Total financial liabilities	76,703	90,471	24,029	3,055	53,082	10,305
Parent as at 31 March 2011						
Financial assets						
Cash and cash equivalents	55	55	55	-	-	-
Trade and other receivables	4,008	4,008	4,008	-	-	-
Finance lease receivable	67	78	26	26	26	-
Related party loans	5,278	5,278	5,278	-	-	-
Forward foreign exchange contract	14	-	-	-	-	-
Total financial assets	9,422	9,419	9,367	26	26	-
Financial liabilities						
Trade and other payables	25,525	25,525	25,525	-	-	-
Finance lease liability	4,877	12,106	440	441	1,322	9,903
Unsecured loans	31,600	31,600	-	-	31,600	-
Interest on unsecured loans	-	4,283	1,018	1,018	2,247	-
Interest rate swaps	1,212	4,400	988	972	2,374	66
Total financial liabilities	63,214	77,914	27,971	2,431	37,543	9,969

34. 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 of cash, short term investments, trade receivables, loans to subsidiaries and derivative financial instruments.

The group places its cash, short term investments and derivative financial instruments with registered New Zealand banks. Only independently rated banks with a minimum Standard & Poor's (or equivalent) rating of 'A' are accepted. The group limits the amount of credit exposure to any one bank in accordance with its board-approved treasury policy.

The group manages its exposure to credit risk from trade receivables by performing credit evaluations on all customers requiring credit wherever practicable and continuously monitoring credit exposures to individual customers.

Since 1999 the company has generally required collateral security (such as bank letters of credit from an'A' rated bank) from its electricity retailer customers to protect against credit risk. Recent changes to the Electricity Industry Participation Code significantly reduce the prudential securities that the electricity distribution businesses (EDBs) may require from their electricity retailer customers. From 1 May 2012, EDBs may only require such securities from their electricity retailer customers if those customers do not have a Standard & Poor's (or equivalent) minimum credit rating of 'BBB minus'. To comply with this regulatory change, in April 2012 the company cancelled $19m of prudential securities it held from its electricity retailer customers.

Collateral security is not generally required from the group's other customers.

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

The carrying values are the maximum exposure to credit risk for bank balances, accounts receivable, loans to subsidiaries and derivative financial instrument assets and are as follows:

	Group 2012 $000	Group 2011 $000	Parent 2012 $000	Parent 2011 $000
Cash and cash equivalents	632	331	321	55
Trade and other receivables	17,823	5,811	13,069	4,075
Related party loans	-	-	3,502	5,278
Derivative financial instruments	1	14	1	14
	18,456	6,156	16,893	9,422

The credit quality of financial assets is as follows:

	Counterparties' credit ratings	Group 2012 $000	Group 2011 $000	Parent 2012 $000	Parent 2011 $000
Cash and cash equivalents	AA	-	331	-	55
Cash and cash equivalents	AA-	632	-	321	-
Derivative financial instruments	AA	-	14	-	14
Derivative financial instruments	AA-	1	-	1	-
Related party loans	Unrated	-	-	3,502	5,278

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.

35. Notes to the statement of cash flows

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

	Group 2012 $000	Group 2011 $000	Parent 2012 $000	Parent 2011 $000
Net profit	54,154	28,360	52,753	28,187
Adjustments				
Loss/(gain) on disposal of property, plant and equipment	133	(47)	101	(21)
Replaced assets written off	1,078	1,477	1,078	1,477
Electricity distribution network assets decommissioned	394	3,334	394	3,334
Impairment loss/(reversal of impairment loss) on revaluation of property, plant and equipment	(2,240)	6,288	(2,240)	6,288
Depreciation and amortisation of non current assets	32,301	36,407	30,962	35,023
Non-cash vested assets revenue	(4,188)	(3,829)	(4,188)	(3,829)
Insurance proceeds relating to non current assets	(22,302)	-	(22,302)	-
Loss on revaluation of investment property	648	491	648	491
Gain on disposal of investment	(10)	(307)	(10)	-
Impairment of financial assets	1,218	1,707	1,206	1,515
Net change in fair value of derivatives	1,235	1,160	1,235	1,160
	8,267	46,681	6,884	45,438
Changes in tax balances				
Increase/(decrease) in current tax liability	(416)	(632)	(388)	(1,088)
Increase/(decrease) in deferred tax liability	2,221	(540)	2,753	(441)
(Increase)/decrease in assets				
Current receivables	3,795	(758)	978	(1,390)
Current inventories	(735)	(1,616)	285	(339)
Other current assets	(481)	(858)	(623)	(783)
Non current receivables	22	20	22	20
Other non current assets	(229)	-	(229)	-
Increase/(decrease) in liabilities				
Current payables	(5,990)	5,849	(3,843)	7,814
Current provisions	68	(5)	34	1
Non current provisions	139	106	65	59
	(1,606)	1,566	(946)	3,853
Net cash from operating activities	60,815	76,607	58,691	77,478

Financing facilities

	Group 2012 $000	Group 2011 $000	Parent 2012 $000	Parent 2011 $000
Unsecured bank overdraft facility, reviewed annually and payable at call:				
Amount used	-	-	-	-
Amount unused	500	500	500	500
	500	500	500	500
Unsecured bank loan facilities:				
17 December 2014 - $40m (2011: $40m)				
16 November 2015 - $20m (2011: nil)				
17 December 2015 - $50m (2011: $50m)				
16 November 2016 - $40m (2011: nil)				
Amount used	48,100	31,600	48,100	31,600
Amount unused	101,900	58,400	101,900	58,400
	150,000	90,000	150,000	90,000

36. Related party transactions

Group structure

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

Other related parties include:

- subsidiaries (refer to note 18)
- the various subsidiaries of the Christchurch City Council (CCC) and the Selwyn District Council (SDC)
- the group's key management personnel (refer to note 37).

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.

The company undertakes many transactions with its subsidiaries, all of which are carried out on a commercial basis.

	Group 2012 $000	Group 2011 $000	Parent 2012 $000	Parent 2011 $000
Transactions during the year				
Dividends paid by Orion New Zealand Limited to CCHL and SIHL	34,000	37,500	34,000	37,500
Purchases from CCC/SDC	2,193	2,067	2,188	2,055
Revenues from CCC/SDC	4,586	4,646	544	632
Purchases from subsidiaries	-	-	40,151	29,805
Revenues from subsidiaries (including interest and excluding reimbursements of payments made on behalf of the subsidiaries)	-	-	307	430
Dividends from subsidiaries	-	-	500	-
Purchases from other related parties	1,131	1,111	798	810
Revenues from other related parties	1,146	1,374	618	482
Outstanding balances as at 31 March				
Accounts payable to CCC/SDC	26	93	26	93
Accounts receivable from CCC/SDC	589	846	18	-
Accounts payable to subsidiaries	-	-	3,500	8,518
Accounts receivable from subsidiaries	-	-	159	944
Accounts payable to other related parties	108	38	70	34
Accounts receivable from other related parties	141	462	98	240
Loans outstanding from subsidiaries	-	-	3,502	5,278

Orion New Zealand Ventures Limited

In the year ended 31 March 2012, the company impaired the value of its intercompany advance to Orion New Zealand Ventures Limited by $1,206,000 to $81,000 (2011: $1,515,000 to $1,287,000) on the basis that the net assets of this subsidiary did not support a higher valuation.

36. Related party transactions continued

Other transactions involving related parties

The group paid directors' fees totalling $293,000 (2011: $280,000).

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 $2,000 for any individual (2011: all less than $2,000 with the exception of one employee who purchased a second-hand vehicle from the group for $10,667). A total of $68 was due from key management personnel as at 31 March 2012 (2011: $831). All transactions were conducted on standard commercial terms and, in the case of the second-hand vehicle, were based on independent market valuations.

Close family members of key management personnel are employed by the group. The terms and conditions of those arrangements are no more favourable than those that the group would have adopted if there was no relationship to key management personnel.

37. Key management personnel

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

	Parent 2012 $000	Parent 2011 $000
Salaries and short term employee benefits	2,877	2,629

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.

38. Commitments for expenditure

	Group 2012 $000	Group 2011 $000	Parent 2012 $000	Parent 2011 $000
Capital expenditure commitments				
Electricity distribution network	18,654	10,468	18,654	10,468
Intangible assets	290	2,092	-	1,160

Lease commitments (refer to note 33)

Most commitments for capital expenditure are expected to be incurred in the next financial year.

Notes to the financial statements continued

For the year ended 31 March 2012

	Group 2012 $000	Group 2011 $000	Parent 2012 $000	Parent 2011 $000
39. Contingent liabilities and contingent assets				
Contingent liabilities				
Performance bonds in relation to contract work	707	657	-	-

The group is a participating employer in the National Provident Fund's Defined Benefit Plan Contributors Scheme (the scheme) which is a multi-employer defined benefit superannuation scheme. If the other participating employers ceased to participate in the scheme, the group could be responsible for the entire deficit of the scheme (refer to note 40). Similarly, if a number of employers ceased to participate in the scheme, the group could be responsible for an increased share of the deficit. The group estimates that during the next financial year the group's contribution to the scheme will be nil as employer contributions have been suspended by the Fund's actuary from 1 April 2011 (2011: nil).

The company is subject to a claim from a contractor for work purported to have been done over the past seven years which the contractor alleges the company has not paid for. The company disputes and is investigating the validity of these claims, which the contractor estimates to be approximately $0.5m.

Contingent assets

The group has lodged several material damage and business interruption insurance claims in relation to damage and losses from the Canterbury earthquakes. In the year ended 31 March 2012 the group has recognised $22.4m (2011: nil) of insurance cash settlement proceeds it has so far received from insurers as revenue. The group expects to reach several more such agreements with insurers in the year ended 31 March 2013 for most of the remaining parts of its earthquake claims, however the amounts and timing of these future cash settlement agreements cannot be reliably estimated. Refer to note 2 for further details.

Other than those described above, the group had no material or significant contingent liabilities or contingent assets as at 31 March 2012 or 31 March 2011.

40. Defined benefit superannuation scheme

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

As at 31 March 2011, the scheme had an estimated past service surplus of $37.6m (16.4% of the estimated liabilities). This amount excludes 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 – Employee Benefits. The actuary to the scheme has recommended that employer contributions are suspended with effect from 1 April 2011, which the company has done. The equivalent information as at 31 March 2012 is not available at the date of preparation of these financial statements.

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

41. Significant events after balance date

Since 31 March 2012, the company has purchased land at 565 Wairakei Road in north-west Christchurch. The company plans to build new 'lifelines standard' offices at the Wairakei Road site in the year ending 31 March 2013 to accommodate all of its employees. Early estimates of the total cost of this project, including the land purchase, are up to $15m. Estimates will be clearer once the site concept is confirmed and the building is designed and costed. The company also announced that it considers that this will be a temporary site for its employees and that its preference is to, within several years, move back to the Christchurch CBD.

Other than the above, the group is unaware of any other significant events between the preparation and authorisation of these financial statements on 6 June 2012.

Performance statement – financial

For the year ended 31 March 2012

	Status	Notes	Group actual 2012	Statement of intent target 2012	Group actual 2011
Financial					
Net profit ($m)	Achieved	1	54.2	28.0	28.4
Net profit to average shareholders' equity (%)	Achieved	2	8.9	5.2	4.3
Dividends ($m)	Achieved	3	34.0	24.0	37.5
Debt (%)	Achieved	4	8	15	6
Equity (%)	Achieved	4	92	85	94
Equity/total assets (%)	Achieved	4	72	69	73

Notes:

1. The group's net profit for the year ended 31 March 2012 was $26.2m above its SOI target due, primarily to the following favourable variances relative to target:

	$m post tax
Insurance proceeds	19.6
Delivery gross margin	2.3
Upwards revaluations of property, plant and equipment	2.0
Other (net)	2.3
	26.2

2. The group's net profit to average shareholders' equity ratio was above its SOI target primarily due to the above-target net profit.
3. 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.
4. The group's debt as at 31 March 2012 was lower than target due to higher than target insurance proceeds and lower than target capital expenditure.

   Equity was higher than target because:

   - net profit was higher than target by $26.2m (partly offset by dividends $10m higher than target)
   - the revaluation of the group's electricity distribution network on 31 March 2011 was down by $140m, whereas the group's SOI had a forecast downwards revaluation of $250m.

Performance statement - electricity network reliability

For the year ended 31 March 2012

	Approximate number of connections as at 31 March 2012	Affected by earthquakes		Unaffected by earthquakes		
		2012	2011	2010	5 year average to 31 March 2010	Gazetted NZ weighted average 2011
Reliability – Orion network interruptions						
Duration of supply interruptions in minutes per year per connected customer (SAIDI)						
• urban	168,000	208	4,155	21	18	
• rural	23,000	389	1,442	342	493	
• overall	191,000	231	3,812	61	75	166
Number of supply interruptions per year per connected customer (SAIFI)						
• urban	168,000	2.0	2.8	0.2	0.3	
• rural	23,000	3.6	4.5	2.9	3.3	
• overall	191,000	2.2	3.0	0.6	0.6	1.8

Important notes:

1. The Canterbury earthquakes and aftershocks have had a significantly adverse impact on the company's electricity distribution network reliability for the years ended 31 March 2011 and 2012.
2. This is the first time that the company has disclosed its actual electricity network reliability performance for the year ended 31 March 2011. Due to the severity of the earthquakes, the company was not able to calculate its reliability performance in time for last year's audited performance statements.
3. Due to the severity of the earthquakes and the significant uncertainties related to the ongoing nature of the earthquakes, it was not practicable for the company to set meaningful SAIDI/SAIFI targets in the company's statement of intent for the year ended 31 March 2012. In the absence of targets for the year ended 31 March 2012, the company has increased its comparative disclosures in the table above.
4. All figures in the two "affected by earthquakes" columns above are stated gross – that is, they are not adjusted for "major event days" as otherwise allowed under the Commerce Commission's default price quality path regulatory disclosures.
5. For SAIDI the company has assumed that all network outages caused by the 22 February 2011 earthquake were network fault-related outages only up until 31 March 2011. This applies to the figures above for the year ended 31 March 2011. The only ongoing outages as at that date were due to circumstances beyond the company's control – this especially applies to the cordoned off CBD area (approximately 2,000 mainly business customer connections).
6. The gazetted NZ weighted average figures above exclude Orion's so as not to 'skew' the wider industry comparative data for the year ended 31 March 2011.
7. SAIDI and SAIFI measures are international industry standards which enable assessment of network performance. The gazetted industry averages noted above are for all New Zealand electricity distribution networks and include rural and urban networks. Our network includes a significant rural component.
8. 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.

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

Performance statement - earthquake recovery

For the year ended 31 March 2012

Introduction

The Canterbury earthquakes significantly damaged the company's electricity distribution network. The 22 February 2011 earthquake caused around 10 times the damage of the 4 September 2010 and 13 June 2011 earthquakes. The 23 December 2011 quake was less severe than any of these previous big quakes.

The most serious damage was to the company's 66kV underground cables. The worst affected cables were those that supply power to the company's Armagh, Dallington and Brighton zone substations. Fifty percent of the company's 66kV cables were damaged.

In total, approximately six percent of the company's underground high voltage cables (11kV and 66kV) were damaged, with most of the damage concentrated in the eastern suburbs of Christchurch, where ground movement and liquefaction were the greatest.

Around 10 percent of the company's high voltage 11kV underground cables and one percent of the company's low voltage 400V cables suffered major damage. Again, this damage was largely in the city's eastern suburbs.

Power was on to 90 percent of the company's network within 10 days of the 22 February 2011 earthquake. Within two weeks, 95 percent of customers had power. In comparison, 90 percent of customers had power by nightfall on the day of the first earthquake on 4 September 2010.

The earthquakes caused little damage to the company's zone substations and overhead lines.

The eight earthquake recovery targets set in the company's statement of intent for the three years ending March 2014 related to work the company considered to be the most important to restore reliability and resiliency to its electricity distribution network. These targets and their status are detailed below.

1. **Repair the company's damaged 11kV and low voltage underground cables in the eastern suburbs**

   Target date: 30 June 2011
   Status: 11kV complete; low voltage ongoing

   The company's 11kV underground cable network in the eastern suburbs was damaged severely in the 22 February 2011 earthquake. Approximately 200 cables were damaged, many with multiple faults, with over 600 faults in total. All known cable faults were repaired by 31 May 2011.

   The 13 June 2011 earthquake caused further damage to more than one hundred 11kV underground cables, many of which sustained multiple faults. All of these cables were repaired by 31 August 2011. Each 11kV cable fault took up to 12 hours to repair.

   Repairs to the company's low voltage underground cables and overhead lines are well underway, however it will likely be three to five years before all underground cable damage is found and fixed.

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

   Target date: 31 August 2011
   Status: Achieved

   This new zone substation replaces the company's damaged Brighton zone substation on Pages Road. Liquefaction severely damaged the Pages Road site, so it was prudent to move the substation. As part of this project the company also moved its Pages Road switchyard to the Rawhiti Domain site. The new site is not susceptible to liquefaction and is approximately 1.5km away from the old substation and switchyard sites.

   The company has decommissioned both the Brighton zone substation and the old Pages Road switchyard.

3. **Build and connect a new 1.5km temporary 66kV overhead line from the damaged Brighton zone substation to the new Rawhiti zone substation**

   Target date: 31 August 2011
   Status: Achieved

   In the days immediately after the 22 February 2011 earthquake, the company built an emergency temporary 66kV overhead line from Transpower's Bromley grid exit point to the Brighton substation on Pages Road. This overhead line replaced the ruined 66kV underground cables that previously supplied the Brighton substation from Transpower's Bromley grid exit point.

   To remove reliance on the damaged Brighton zone substation, a new 1.5km temporary 66kV overhead line was then built from the Brighton zone substation to the new Rawhiti zone substation. This new line was commissioned in July 2011 and meant the company could then bypass the damaged Brighton zone substation and Pages Road switchyard to supply power into the wider New Brighton area.

   The emergency resource consents for these two temporary overhead lines were granted for three years. The company has commenced its studies and planning for a permanent solution to replace these lines and expects to consult on its proposals and decide a permanent solution in the second half of 2012.

Performance statement - earthquake recovery continued

For the year ended 31 March 2012

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

   Target date: 31 May 2011

   Status: Achieved

   This emergency temporary line was commissioned in early May 2011. It was built to replace the company's 66kV underground cables that were ruined in the 22 February 2011 earthquake and which supplied power into the suburbs around Dallington.

   The emergency resource consent for this temporary overhead line was granted for three years. The company has commenced its studies and planning for a permanent solution to replace the line and expects to consult on its proposals and decide a permanent solution in the second half of 2012.

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

   Target date: 31 May 2011

   Status: Achieved

   The company purchased 10 mobile diesel generator sets and leased a further five before 31 May 2011. As the company restores the network to a resilient level, these mobile emergency generators remain vitally important for security of supply. The generators only operate when mains supply fails or network capacity is under pressure or is constrained. The location of these mobile generators changes, depending on where faults and network demand occur.

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

   Target date: 31 March 2012

   Status: Achieved

   The company installed 3.6MW of leased diesel generators at QEII in June 2011 on Christchurch City Council land to the north-east of the QEII swimming complex. These generators helped increase security of supply to the surrounding area and operated for mains failure or capacity constraint reasons. They operated for a few days during winter 2011 to improve security of supply to the eastern suburbs.

   The generators have now been removed and the company has purchased 4MW of diesel generators, which were installed and commissioned in May 2012. The company expects to retain these generators on site for at least three years while a permanent 66kV subtransmission solution is determined for the eastern suburbs.

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

   Target date: 31 March 2014

   Status: Ongoing

   The 66kV overhead temporary lines installed after the February 2011 earthquake from the Bromley grid exit point to the Dallington and Rawhiti Domain zone substations are temporary lines. They were authorised and installed under emergency powers to provide power to the eastern suburbs of Christchurch. The company's long term solution to ensure there is sufficient network capacity and resiliency to this area may now involve 66kV underground cables along with some 66kV overhead lines. In the second half of 2012 the company will begin consultation with the community over a long term solution to replace the lines. A target date of 31 March 2014 remains for resolution.

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

   Target date: Ongoing

   Status: Ongoing

   The company continues to work with CERA to ensure that the cordoned CBD area can be reduced over time, as CERA deems appropriate. The company decommissions and relivens connection points in the CBD as necessary. It is still uncertain how long, and what form, redevelopment in the CBD will take.

   While the company's assets in the CBD sustained relatively little earthquake damage, many of the company's substations in the CBD are housed in damaged buildings that belong to third parties. As these buildings are demolished it will take time to design and implement new electrical network routes.

   Developers who are redeveloping their commercial properties will need to work with the company to assess and design their electrical requirements, to ensure electrical equipment is installed appropriately.

   The company is working alongside authorities, building owners and demolition contractors to minimise power outages and protect and recover network assets as appropriate. As the CBD is redeveloped the company will reuse its many undamaged underground cables. In the years ahead, the company expects it will be able to provide a resilient network to CBD businesses and residents.

Performance statement - environment

For the year ended 31 March 2012

1. **Continue to undertake and encourage demand side management (DSM)**

   Target date: Ongoing

   Status: Ongoing

   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. In the company's statement of intent for the three years ending March 2012, the company set six environmental targets after consultation with MWH. Five of those targets have been successfully completed. This is the remaining target.

   MWH found that approximately 17% of the company's total carbon footprint is due to carbon embedded in the company's network assets. MWH found that carbon savings can be achieved through demand side management (DSM) and that the company already achieves significant carbon savings through its existing DSM initiatives.

   During the 2012 financial year the company has, amongst other initiatives:

   - continued, in co-operation with other upper South Island electricity distributors, to implement an upper South Island centralised load management control system. This system enables the benefits of co-ordinated control to be quantified and provides a platform for future DSM initiatives. The system is transferable to other regions within New Zealand, potentially bringing further environmental gains. The company is presently in negotiations with Transpower for a four-year contract to help fund this project.
   - investigated trials of smart meters in the company's substations to better understand how the distribution network performs. It may be that some peak demand savings are possible if the company's low voltage network can be further optimised. A request for proposal to install and monitor smart meters in the company's substations has recently been made.
   - met with Transpower and regulators to discuss developing a local system operator. The company will continue to pursue this opportunity which it believes will lead to better coordination of New Zealand's DSM resources.

2. **Continue the company's support for and sponsorship of Community Energy Action (CEA)**

   Target date: Ongoing

   Status: Ongoing

   CEA is a Christchurch-based charitable trust that focuses on improving energy efficiency, particularly for the low income housing sector. The company has sponsored CEA since its inception in 1994. As well as providing financial sponsorship, the company assists CEA with information technology and other issues that arise in its day-to-day operations. The company views CEA's services as very important for the local Christchurch and central Canterbury community, and has provided CEA with financial sponsorship of $150,000 in the 2012 financial year (2011: $150,000).

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

   Target date: Ongoing

   Status: Ongoing

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

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

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

   The company is a member of the Christchurch Agency for Energy (CAfE). CAfE will develop and implement initiatives to improve energy efficiency in Christchurch. The company's chief executive, Rob Jamieson, is a trustee of CAfE.

Performance statement - community and employment

For the year ended 31 March 2012

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

   Target date: 31 March 2012

   Status: Not achieved

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

   In the year ended 31 March 2012 the company had three employee lost time accidents (2011: one) resulting in 28 days of lost time (2011: two days of lost time). Ten employees of the company's contractors had injury accidents in the year ended 31 March 2012 resulting in 112 days of lost time (2011: eight with 178 days of lost time).

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

   Target date: 31 March 2012

   Status: Achieved

   In the year ended 31 March 2012 no members of the public suffered injuries on the company's worksites (2011: nil).

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

   Target date: 31 March 2012

   Status: Achieved and ongoing

   With the large amount of demolition and repair work required in Christchurch, many additional contractors now work in close proximity to the company's network assets. The company has concentrated its public safety education and awareness programme on this group, which is considered to be at the greatest risk of harm. Over the last year, the company has:

   - proactively sought contact with contractor companies and established relationships with the Stronger Christchurch Infrastructure Rebuild Team (SCIRT), surveyors and Enable Networks to promote the safe use of electricity
   - established a working relationship and rapport with managers at the Fletchers Building and Hawkins Construction 'hubs' – these companies are the main contractors to the Earthquake Commission for house repairs in the $10,000 to $100,000 range
   - scheduled and run process and safety meetings for over 1,000 contractor employees, before and after normal working hours
   - developed further safety advertising, radio and print materials
   - developed an electronic safe approach consents process
   - developed capability and capacity to handle the expected increase in minimum safe approach consent applications.

   The company's school education programme has been suspended due to lack of demand. The company is investigating the development of an interactive electronic programme to meet schools' preferred educational delivery methods.

4. **Undertake the company's annual formal employee survey and follow up on the results**

   Target date: 30 November 2011

   Status: Achieved

   These surveys have been undertaken since 2001. In July 2011 the company's employees rated their overall satisfaction at an average of 77 out of 100 (2010: 80). The company believes it is difficult to compare the 2011 results with results from previous years because of the significant changes in working conditions since the earthquakes. For example, the company's main office buildings were extensively damaged in the 22 February earthquake and since then employees have worked in less than ideal conditions. Employees have also been adversely affected in their private lives. The company's focus is to identify areas of improvement and then put these into practice.

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

   Target date: 31 March 2012

   Status: Not achieved by Orion, achieved by Connetics.

   In the year ended 31 March 2012:

   - the company had a 5.6% employee turnover (2011: 1.7%)
   - Connetics had an 8.1% employee turnover (2011: 4.6%).

   The company's employee turnover has been adversely affected by the Canterbury earthquakes.

6. **Continue with the company's engineering trainee programme**

   Target date: Ongoing

   Status: Achieved

   The 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 are developed in areas where the company considers there may be existing or future skill shortages. The company's programme ensures that there is a prudent and ongoing plan for replacement of its ageing workforce.

   As at 31 March 2012 the company had six employees (2011: four) in the programme.

7. **Continue to develop the Connetics apprentice scheme**

   Target date: 31 March 2012

   Status: Achieved

   As at 31 March 2012 Connetics had 21 apprentices (2011: 11). Fourteen of the current apprentices are electrical apprentices and seven are line mechanic/cable jointer apprentices. Two electrical apprentices qualified during the year 31 March 2012. In the last three financial years 18 apprentices have qualified and of those 11 remain employed by Connetics.

8. **Continue to support the CPIT Trades Innovation Centre**

   Target date: Ongoing

   Status: Achieved

   The company's support continues, especially for the Sullivan Avenue CPIT industry trade training centre. The company is also very pleased that tangible support from other electricity distribution businesses and contractors for the centre continues to grow. The company's operational network access training is now performed at this site.

9. **Continue to support the Greater Christchurch Urban Development Strategy (UDS) through the company's network asset management plan**

   Target date: Ongoing

   Status: Ongoing

   The company's key role here is to anticipate and plan for future customer load growth and new connections in the company's network area. Orion's key network planning and accountability document is its network Asset Management Plan (AMP). When revising and updating the AMP, the company will continue to remain up to date and consistent with good industry practice while taking the UDS and now the city's post earthquake recovery and rebuild fully into account.

Audit report

For the year ended 31 March 2012

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF ORION NEW ZEALAND LIMITED AND GROUP'S FINANCIAL STATEMENTS AND PERFORMANCE STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

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

We have audited:

- the financial statements of the company and group on pages 29 to 76, that comprise the statement of financial position as at 31 March 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance statements of the company and group on pages 77 to 83.

Opinion

Financial statements and the performance statements

In our opinion:

- the financial statements of the company and group on pages 29 to 76:
  - comply with generally accepted accounting practice in New Zealand; and
  - give a true and fair view of the company and group's:
    - financial position as at 31 March 2012; and
    - financial performance and cash flows for the year ended on that date;
- the performance statements of the company and group on pages 77 to 83:
  - comply with generally accepted accounting practice in New Zealand; and
  - give a true and fair view of the company and group's achievements measured against the performance targets adopted for the year ended 31 March 2012.

Other legal requirements

In accordance with the Financial Reporting Act 1993 we report that, in our opinion, proper accounting records have been kept by the company and group as far as appears from an examination of those records.

Our audit was completed on 6 June 2012. 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 our responsibilities, and explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and performance statements are free from material misstatement.

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

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and performance statements. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and performance statements whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the company and group's financial statements and performance statements that give a true and fair view of the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the company and group's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the adequacy of all disclosures in the financial statements and performance statements; and
- the overall presentation of the financial statements and performance statements.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and performance statements. In accordance with the Financial Reporting Act 1993, we report that we have obtained all the information and explanations we have required. We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board of Directors

The Board of Directors is responsible for preparing financial statements and performance statements that:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the company and group's financial position, financial performance and cash flows; and
- give a true and fair view of the company and group's service performance achievements.

The Board of Directors is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements and performance statements that are free from material misstatement, whether due to fraud or error.

The Board of Directors' responsibilities arise from the Energy Companies Act 1992 and the Financial Reporting Act 1993.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and performance statements and reporting that opinion to you based on our audit. Our 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 an audit-related engagement for the company. This involved issuing an audit report on the Annual Compliance Statement prepared under the Electricity Distribution Services Default Price-Quality Path Determination 2010 for the assessment period ended 31 March 2012. This engagement is compatible with those independence requirements.

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

Julian Tan

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

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

This audit report relates to the financial statements and performance statements of Orion New Zealand Limited (the company) and group for the year ended 31 March 2012 included on the company's website. The company's board of directors is responsible for the maintenance and integrity of the website. We have not been engaged to report on the integrity of the website. We accept no responsibility for any changes that may have occurred to the financial statements and performance statements since they were initially presented on the website.

The audit report refers only to the financial statements and performance statements named above. It does not provide an opinion on any other information which may have been hyperlinked to or from these financial statements and performance statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and performance statements and related audit report dated 6 June 2012 to confirm the information included in the audited financial statements and performance statements presented on this website.

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

Corporate governance statement

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

Ownership

The company is owned by:

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

Principal activities

The company's principal activities during the year were to:

- provide network distribution services to customers on behalf of electricity retailers
- respond effectively to the Canterbury earthquakes and aftershocks
- provide other services such as contracting in the utilities sector
- 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 and the company's constitution, 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, earthquake recovery, network reliability, environmental, community, employment and health and safety 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 shareholders are informed of all major developments affecting the company's state of affairs.

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 company's formal annual meeting each year. At this year's annual meeting to be held in August 2012, John Dobson and Gail Jewell will retire from the board. Christchurch City Holdings Limited is currently undertaking a recruitment and appointment process to replace the two retiring directors.

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. During the year, the board continued with its 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	REMUNERATION COMMITTEE
John Dobson (chairman)	George Gould (chairman)
Michael Andrews	Craig Boyce
Craig Boyce	
Gail Jewell	

Subsidiary companies

Except where shown on page 90, no director of any subsidiary company within the Orion group receives 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 91. The following people held office of subsidiary companies during the year:

Connetics Limited	Roger Sutton (chairman) resigned as a director on 31 May 2011, Michael Andrews (chairman from 1 June 2011), Brendan Kearney, Tasman Scott, Geoff Vazey (from 1 June 2011).
Orion New Zealand Ventures Limited	Roger Sutton (resigned on 31 May 2011), Brendan Kearney (from 31 May 2011).

Brendan Kearney is an executive employee of the company. Roger Sutton was the chief executive officer of the company until he resigned, effective 31 May 2011. Tasman Scott was an executive employee of the company until he resigned, effective 3 April 2012.

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 and this company has at least one non-executive Orion New Zealand Limited director on its board.

Corporate governance statement continued

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 shall define and deal with:

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

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.

Conflicts of interest

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

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

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

Interests register

The company maintains an interests register in which particulars of certain transactions and matters involving the directors are recorded. These records are a requirement under the Companies Act 1993. The following entries were recorded by the company's directors in the interests register during the year ended 31 March 2012.

Michael Andrews	CO2 New Zealand Limited	Director
	Tenon Limited	Director
	Tukia Carbon Management Company Limited	Director
	Bio-Protection Research Centre	Board member
Craig Boyce	Combined Rural Traders Society Limited	Director
	Datacom Group Limited	Director
	Horizon Farming Limited	Director
	Ovation New Zealand Limited	Director
	Progressive Leathers Limited	Director
	Smiths City Group Limited and subsidiaries	Director
	Transdiesel Limited	Director
John Dobson	Anderson Lloyd	Board member
	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 and subsidiaries	Director
	Milford Dart Limited	Director
	PGG Wrightson Limited and subsidiaries	Director
	Wool Partners International Limited	Director
Gail Jewell	Canterbury Development Corporation	Director
	Canterbury Economic Development Fund Trustee Limited	Director
	Lifestyle Trust	Trustee
	Sunshine Trust	Trustee
Geoff Vazey	Consult GV Limited	Director
	HEB Construction Limited	Director
	Northland Port Corporation (NZ) Limited	Director
	Northport Limited	Director

Corporate governance statement continued

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 2012.

	Board meetings	Audit and risk management committee meetings	Remuneration committee meetings
Number of meetings held	**13**	**3**	**1**
Craig Boyce	12	3	1
Michael Andrews	12	2	*
John Dobson	12	3	*
George Gould	9	*	1
Gail Jewell	12	3	*
Geoff Vazey	12	*	*

* Not a member of this committee

Directors' remuneration

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

	Orion New Zealand Limited directors' fees $000	Subsidiary company directors' fees $000	Orion New Zealand Limited as acting CEO $000
Craig Boyce	81	-	-
Michael Andrews	42	19	-
John Dobson	47	-	-
George Gould	43	-	-
Gail Jewell	42	-	-
Geoff Vazey	39	11	96
	294	30	96

Chief executive officer position

In May 2011 the company's chief executive officer, Roger Sutton, resigned to take up the chief executive's role with the Canterbury Earthquake Recovery Authority (CERA). The board agreed that part of Mr Sutton's contractual notice period should be waived in this instance and Mr Sutton's employment with the company ended on 31 May 2011. Mr Sutton also resigned as a director of Connetics Limited and Orion New Zealand Ventures Limited on the same date.

The board negotiated an arms-length contract with one of its non-executive directors, Geoff Vazey, to serve as acting chief executive officer at a flat daily rate equivalent to the basic daily rate paid to the former chief executive officer.

Rob Jamieson, previously General Manager Commercial, was appointed to the position of chief executive officer, effective from 29 August 2011.

Directors' insurance

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

Loans to directors

No loans were made to directors.

Group employee remuneration

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

Remuneration $000	Number of current and former employees 2012	Number of current and former employees 2011
100 - 110	26	34
110 - 120	22	13
120 - 130	12	12
130 - 140	10	5
140 - 150	8	3
150 - 160	-	-
160 - 170	-	-
170 - 180	2	5
180 - 190	1	-
190 - 200	3	1
200 - 210	2	1
240 - 250	1	-
300 - 310	-	1
310 - 320	-	1
330 - 340	1	-
340 - 350	-	-
350 - 360	1	-
380 - 390	-	1
430 - 440	1	-
440 - 450	1	1
460 - 470	1	-
620 - 630	-	1
680 - 690	-	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.

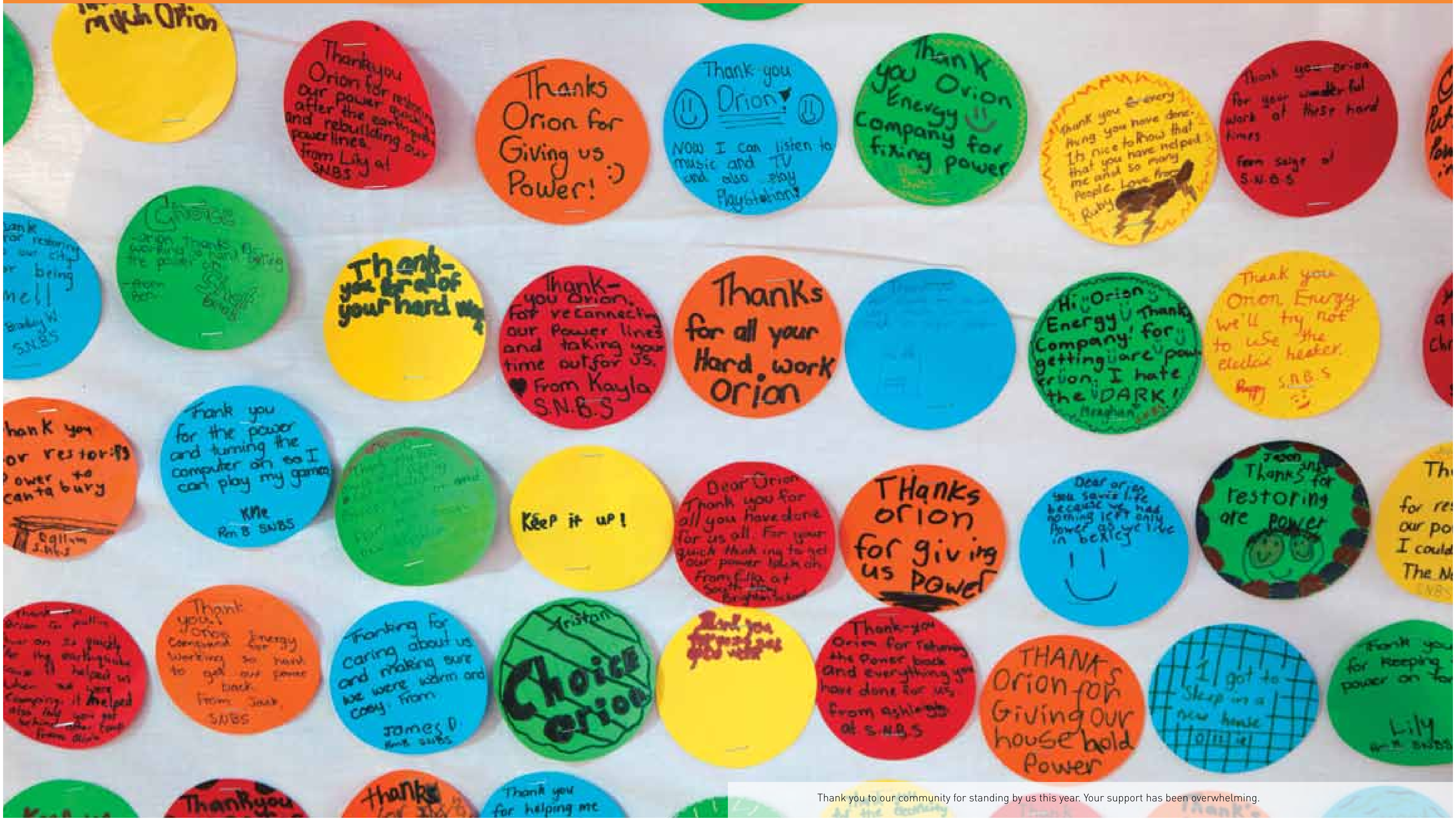
Five-year trends

	2012 $m	2011 $m	2010 $m	2009 $m	2008 $m
Income statement					
Operating revenue	223	222	222	231	209
EBIT	73	49	68	73	75
Profit before income tax	68	45	66	70	74
Net profit for the year	54	28	47	50	66
Balance sheet					
Current assets					
Cash and cash equivalents	1	-	-	1	-
Trade and other receivables	18	6	5	8	6
Other	8	7	6	6	9
Total current assets	27	13	11	15	15
Non current assets					
Property, plant and equipment	820	794	944	940	933
Investment property	8	8	5	6	6
Other	6	6	7	6	7
Total non current assets	834	808	956	952	946
Total assets	861	821	967	967	961
Current liabilities					
Trade and other payables	28	29	20	23	25
Borrowings	-	-	37	-	-
Other	3	3	5	3	1
Total current liabilities	31	32	62	26	26
Non current liabilities					
Borrowings	53	36	5	51	44
Deferred tax	153	151	193	191	191
Other	4	2	1	2	-
Total non current liabilities	210	189	199	244	235
Equity					
Issued capital	120	120	120	120	120
Reserves	26	26	124	125	130
Retained earnings	474	454	462	452	450
Total equity attributable to parent equity holders	620	600	706	697	700
Total liabilities and equity	861	821	967	967	961
Cash flow statement					
Operating cash flow	61	76	84	77	75
Investing cash flow	(43)	(33)	(38)	(36)	(35)
Financing cash flow	(17)	(43)	(47)	(40)	(40)
Net increase/(decrease) in cash	1	-	(1)	1	-
Opening cash	-	-	1	-	-
Closing cash	1	-	-	1	-

	2012 $m	2011 $m	2010 $m	2009 $m	2008 $m
Financial performance indicators					
Dividends paid	34	38	37	44	45
Net profit for the year to average ordinary shareholders' equity (%) *	8.9	4.3	6.7	7.1	9.5
External debt/debt-plus-equity ratio (parent) (%)	7.9	5.7	5.6	6.9	5.8
FFO/interest expense (times) **	18.3	27.3	28.2	46.3	46.1
EBIT coverage (times)	19.3	16.6	22.4	37.1	40.8
Non financial measures					
Electricity maximum demand (MW)	633	616	618	624	623
Electricity deliveries into the network (GWh) includes embedded generation	3,070	3,308	3,430	3,402	3,325
Number of customer connections (000)	191	193	192	190	186

* 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 (free funds from operations) 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.



Thank you to our community for standing by us this year. Your support has been overwhelming.

Directory as at 6 June 2012

Directors

Craig Boyce
CHAIRMAN

Michael Andrews

John Dobson

George Gould

Gail Jewell

Geoff Vazey

Corporate management

Rob Jamieson
CHIEF EXECUTIVE OFFICER

Gina Clarke
COMMUNICATIONS AND ENGAGEMENT MANAGER

David Freeman-Greene
GENERAL MANAGER COMMERCIAL

Brendan Kearney
GENERAL MANAGER CORPORATE SERVICES

Craig Kerr
GENERAL MANAGER INFORMATION SOLUTIONS

John O'Donnell
CHIEF OPERATING OFFICER

Adrienne Sykes
HUMAN RESOURCES MANAGER

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Website	oriongroup.co.nz
Twitter	twitter.com/OrionNZ

Auditor

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 on request. Information includes:

- details on our pricing
- summary of 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:

- Canterbury Earthquake
  canterburyearthquake.org.nz
- Canterbury Earthquake Recovery Authority
  cera.govt.nz
- Christchurch City Council
  ccc.govt.nz
- Commerce Commission
  comcom.govt.nz
- Community Energy Action
  cea.co.nz
- Connetics
  connetics.co.nz
- Consumer electricity information
  powerswitch.org.nz and whatsmynumber.org.nz
- Electricity and Gas Complaints Commission
  egcomplaints.co.nz
- Electricity Authority
  ea.govt.nz
- Electricity Networks Association
  electricity.org.nz
- Environment Canterbury Regional Council
  ecan.govt.nz
- Energy Efficiency and Conservation Authority
  eeca.govt.nz
- Ministry of Economic Development
  med.govt.nz
- Selwyn District Council
  selwyn.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.

Outside back cover from left: Checking the location of transformers in the CBD.

Our damaged administration building on the corner of Manchester and Armagh streets.

Building the temporary high voltage overhead power lines into the eastern suburbs, after all of the 66,000 volt cables into the area were damaged beyond repair.

A temporary diesel generator supplies power to Mount Pleasant.

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