

ORION NEW ZEALAND LIMITED **2013** year in review



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.

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.

More than 160 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 as we plan, engineer, operate and control our network, manage finances and contracts, and give our customers the best service we can.

This year in review is Part 1 of the 2013 annual report for Orion New Zealand Limited and its subsidiaries. Part 2, which contains our audited financial statements, is available online at oriongroup.co.nz and in print.



Snapshot of Orion's network in the year to 31 March 2013



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. These values guide our behaviours and provide a framework for the way we do things, particularly during tough times like we've had in the past two years.

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.

Chairman and chief executive's review

Orion and its contractors continue to work hard to keep the power on as our region recovers from the events of the last few years.

At the same time, the past 12 months have been a time of transition and planning from emergency earthquake response towards a clearer picture of what the future might hold.

We expect this transition phase will last for another year. In that time we will settle into new business premises in west Christchurch after our CBD office site is acquired by the Government as part of the Central Christchurch Recovery Plan's 'green frame'. We will also replace underground cables in eastern Christchurch to restore resilience to our community's power supply.

As we plan for the future, we intend to provide the platform of a secure and reliable electricity network essential for a strong Canterbury economy.

Network plans

The most important contribution Orion can make to boosting both community and business confidence in Christchurch is to keep the power on where it's needed, quickly respond if it goes out, and promptly provide accurate information during major power cuts.

We have needed to rethink how we configure our network and what we do to keep the power on, both now and in the future, as a result of the earthquakes.

In determining how to rebuild our network, we have considered many options. The balance we have struck between the different options is based on the assumption that our network should be rebuilt to a similar standard to that which our community required before the earthquakes. This assumption is supported by feedback received from around our region.

Compared to what we had forecast to spend before the earthquakes, our capital expenditure in this decade is now \$156m greater. These capital investments are for the long term so the recovery of these costs will typically be spread over 50 years.

Quake lessons

Our objective is to restore network resilience over eight years from 2011 to 2019 to the levels we targeted before the quakes. In doing this, we will implement lessons learnt from the quakes. For example, we won't place cables in parallel trenches near rivers, where the risk of damage from lateral spread is high. By diversifying cable routes, we will reduce the risk of many cables failing at once.

Review of our electricity network reliability and prices

As an electricity network business, Orion is regulated under the Commerce Act. In February this year, after a period of public feedback, we applied to the Commerce Commission for a post-earthquake review of our regulated prices and network reliability targets.

As well as proposing to target near pre-quake levels of electricity network reliability by 2019, we also proposed a price increase. The increase, spread over several years, would start on 1 April 2014. Excluding inflation, it would equate to 5% more on the average electricity bill of a household or business. For a typical household consumer, the impact of our proposal would be a real increase of \$8.70 a month including GST.

We are mindful of the impact that any price increase has, especially for those on lower incomes. However, we have to consider the long-term interests of our region. We think it is fair to recover our reasonable costs from the consumers who use, and benefit from, our service. The proposed prices recover our costs and provide the cash flow and certainty for us to continue to make sound investments in a strong, essential electricity network.

After a period of public consultation, the Commerce Commission will make its final decision in November this year.

Safety

As the rebuild gathers momentum, it's important that we keep safety top of mind. For Orion, 'safety' is more than just educating people about how to stay safe around our network. Christchurch depends on electricity for health and wellbeing more than, for example, Auckland does. Our winters are much colder, we have no reticulated natural gas, clean air regulation means fewer solid fuel burners and quakes have damaged chimneys. Our awareness of electricity dependency for safety and wellbeing has informed our planning for years - a key reason we were able to restore power so quickly after the quakes.

Financial performance

Our financial performance highlights are shown on page 4. More detail on the key differences from our statement of intent targets and last year's results is shown on page 46 of our audited financial statements.

This year's financial performance is not directly comparable with last year's. For example, last year's results included much of our emergency quake response efforts



and over \$22m of one-off insurance cash settlement revenues. We expect to reach more cash settlements with our insurers on the more complex aspects of our quake claims in our 2014 financial year.

We're pleased with this year's financial performance, which has been achieved in difficult circumstances. We did well to control our expenses and our network delivery revenues have started to recover, the latter broadly in line with our forecasts.

We paid \$32m of fully imputed dividends to our shareholders, in line with our statement of intent target.

We're well underway on our objective to restore our electricity distribution network's resiliency and reliability by 2019 and we have a large capital expenditure programme to achieve that. This will see our debt levels rise considerably over the next few years.

Acknowledgements

The dedication of Orion employees is evident from feedback we receive. In another challenging year, their commitment has been total. Our people clearly value the fact that they are a key part of an essential service. They know how important their work is and take genuine pride in 'keeping the lights on' around Canterbury. On behalf of Orion's board and management, we thank all of our employees and contractors for their ongoing professionalism.

In August 2012 we welcomed Christchurch Deloitte partner Paul Munro to the board and farewellled Gail Jewell and John Dobson. We wish to thank all board members for the time and hard work they have given to the company this year.

CRAIG BOYCE CHAIRMAN
ROB JAMIESON CHIEF EXECUTIVE OFFICER

12 June 2013



Left: We continually look for efficient, cost-effective ways to improve our electricity network performance. Here, our field response manager, Brent Davidson, operates new switchgear which replaced old circuit breakers this year.

Key financial results

Net profit of \$49m

- \$5m below last year

Network cash expenses of \$50m

- \$7m below last year

Electricity distribution revenue of \$139m

- \$11m above last year

Insurance revenue of \$2m

- \$20m below last year

Capital expenditure of \$63m

- \$11m above last year

Fully imputed dividends of \$32m

- \$2m below last year

Borrowings of \$61m

- \$8m above last year

2013

year in review

Safety

Even under normal circumstances, you can't run an electricity network successfully without having safety top of mind at all times. Despite the enormous challenges of the quake response and rebuild, our safety record is excellent. This is the result of considerable effort to foster a strong safety culture at Orion.

In 2012/13 we continued our public campaign to help keep people safe around our network. We also worked hard to inform the thousands of contractors working on the Christchurch rebuild about how to stay safe near our lines, cables and other electrical equipment.

In August we were recognised with the Deloitte Energy Excellence Award for Health and Safety for our emergency preparedness and ongoing support provided to our people after the 2011 earthquakes.

Resilience

Making sure we had a resilient network is why we were well prepared for the earthquakes and why so many of our substations and so much of our network survived intact.

We plan to spend \$400m over the next 10 years to strengthen and expand our network to provide a strong platform for growth, innovation and investment in our region. Our plans are detailed extensively in our 2,000 page post-quake application to the Commerce Commission to review our prices and reliability. It is available at www.oriongroup.co.nz/cpp. We welcome your feedback.



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injuries
to the public



Above: A team from our contracting subsidiary company, Connetics, replaces quake-damaged underground cable. An estimated additional 25,000 contracting staff are needed in trades across Christchurch as the rebuild continues. The potential for injury is high as houses, buildings and infrastructure are rebuilt around a live electricity network. Our contractor engagement programme is a crucial component of managing this risk safely.

Right: In April 2012 a mudslide from a quake-weakened cliff threatened our Lyttelton substation after heavy rain. This incident highlights the importance of being prepared for the wide range of weather-related events and natural disasters which can damage our network.



Momentum

We're working closely with the Canterbury Earthquake Recovery Authority, the Christchurch City Council and other local agencies tasked with earthquake recovery. As a critical infrastructure provider, we know Orion plays a crucial role supporting the momentum of the rebuild.

During the year we refined our processes to make sure we don't slow things down. The programme of work in central Christchurch is unprecedented and we continue to talk with developers about how to connect power and work through the issues and choices they face. To speed up the connection process, we encourage people to follow our online connection process and contact us or their electrician with any questions.

Our team has expanded to cope with the unprecedented workload since the quakes, and we remain committed to timely, efficient customer response as the rebuild gains momentum.

Above left and top: Work is well underway to remedy earthquake damage and restore a more reliable power supply into eastern Christchurch. Here, teams from Connetics install 66,000 volt cable. Orion is working alongside the Stronger Christchurch Infrastructure Rebuild Team (SCIRT) on this eastern suburbs project. SCIRT is repairing other underground services and roads along the same cable route, which results in fewer disruptions to our customers.

Right: New equipment is installed at our Dallington substation as part of our major project to restore a more reliable power supply into eastern Christchurch.



Service

We aim to consistently deliver a safe, secure and cost-effective supply of electricity to our customers. This creates a culture of service to our community and reflects what our customers have repeatedly told us over many decades.

We take our responsibility to our customers seriously. We're continuously looking for ways to fulfill our core purpose, and in doing so, improve our service to our community.

We've worked hard since the earthquakes to keep our community informed about the state of our electricity network and our plans to fix those parts that are badly damaged. And we've encouraged people to let us know whether we could be doing things differently to better meet the needs of our region.

Community feedback has been very positive.

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year plan to restore our electricity network

Investment

A key Orion value is to be efficient and effective. We continue to focus on restoring our network performance in the most cost-effective ways possible.

We know that in order to act in our community's best interests, we need to think carefully about when and how we invest. If we don't look for efficient, innovative ways to improve our network performance, we run the risk of over-investment. Over-investment can result in electricity distribution prices that are too high. It's even more important that our customers and the community are not put at risk by under-investment. So it's important to strike the right balance - one that ensures an appropriate rate of return to prevent the risk of under-investment, and thus avoid the possibility of a less secure electrical system in the future.

This year we sought feedback from our customers to ensure we get the balance right between over and under investment. We found there was good support for our proposal to restore our network to near pre-quake levels of reliability, spread the cost of doing so over time and recover costs from power consumers. We await with interest the Commerce Commission's decisions in this area.



Above: The president of the Utilities Telecommunications Council, Connie Durcsak, presents Orion chief executive Rob Jamieson with the Apex Award for our earthquake response.

Right: This year we committed to repair our oldest building, the historic Akaroa Powerhouse Gallery, after it was badly damaged in the quakes.

Innovation

Our commitment to innovation gained international recognition in May 2012 when we received the prestigious Apex Award from the Utilities Telecommunications Council (UTC), an American body which represents critical infrastructure operators worldwide.

Our win was the first time the Apex Award has been received outside the United States. We won the award because of our customised radio communications network which withstood all of the Canterbury earthquakes. It allowed teams to start restoring power to homes, businesses and critical infrastructure immediately, shortening the length of power cuts. UTC has acknowledged that our 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.

Environment

We are mindful of our environmental impacts and are committed to protecting our environment.

We incorporate the cost of carbon into our network investment decisions, reduce and eliminate lead in our underground cables where possible and factor load peaks into our pricing to encourage efficient use of our network. This year we met our target of zero uncontained oil spills on our network.

Over the past two decades we reinforced our brick substations with steel and, as a result, almost all of them withstood the quakes. They now provide a unique record of the many building influences that shaped Christchurch, from intricate brickwork in the early 1900s through to Neo-Georgian, Art Deco and Modernist in the 1950s. This year we also saved the quake-damaged Akaroa Powerhouse Gallery. Built originally in 1911, this rare brick building is the oldest building in our ownership and has a category 2 Historic Places Trust listing.



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heritage buildings saved due to seismic strengthening before the earthquakes

People

The past few years have been tough for many Cantabrians. We're proud that through it all our people have been unwavering in their commitment to get the power back on and keep it on, despite their own challenges with damaged homes, insurance claims and land rezoning announcements.

We're committed to doing what we can to keep our people safe and well. We recognise that our true value lies with them, not with the physical equipment on our electricity network. 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.

In June 2013 we relocated to purpose-built offices in Wairakei Road, Russley, after our CBD site was acquired as part of the Central Christchurch Recovery Plan's 'green frame'.

Community

The importance of community spirit is reinforced in the aftermath of a natural disaster, as people look for ways to cope during a time of immense change.

During the year we increased our sponsorship to support initiatives that help our community to recover. These include the Canterbury Crusaders' new 'home' at Christchurch Stadium in Addington, as well as 'Life in Vacant Spaces' - an organisation set up to encourage the productive, temporary use of vacant land and buildings around the city.

We have also continued to support Community Energy Action, a Christchurch-based charitable trust that provides energy efficiency services for the elderly, families with small children, and people on low incomes or with poor health.

Right: Some of our substations in central Christchurch form the backdrop for a range of artwork as the city recovery continues. Here, we see an installation view of Stereoscope #2 by Jason Greig, 2013. Reproduced courtesy of Christchurch Art Gallery Te Puna o Waiwhetu. Photo: John Collie.



Far right: Melanie Baynes, Steve Nairn and their son Wilkin enjoy a warm, healthy home thanks to Community Energy Action, a charitable trust which we have supported since its inception nearly 20 years ago.





Responsive

For Orion, “responsive” means being ready and able to deal with change and crisis, no matter how frequent or protracted.

And it's not just about earthquakes. In the past year two major snowstorms cut power to thousands of customers. Power cuts lasted from just a few minutes up to 48 hours in a small number of areas where snow hampered access or power lines had broken in many places. Our quick and effective response to the storms was due to years of careful planning and training. We also have pandemic plans to cope with potential health emergencies.

In June 2013 our move to new offices in west Christchurch created a more resilient work environment. The new building and its services are built to IL4 standard, which means they should remain operational after a disaster such as a major earthquake. Advanced features include a state-of-the-art network control centre and contact centre.



62
kilometres
of high voltage
underground cable
laid this year

Top: Our new offices and control centre are built to withstand natural disasters.

Right: Two major snow storms affected our network this year. We restored all power within 48 hours after each storm.



Clockwise from above:

This has been another year of intense, challenging work for our employees and contractors. Here, a team prepares a trench for underground cable.

Thousands of people turned out for this year's lantern festival in Christchurch, celebrating the start of the Chinese New Year. The Orion dragon lantern was displayed for the first time.

A transportable computer facility custom-built in Germany arrives at our new offices to house sensitive computer systems crucial to the operation and control of our network.

A significant number of power cuts are caused by trees coming into contact with power lines. This typically happens when strong wind or snow causes branches to touch lines, trees grow into the lines, or trees or branches fall onto lines. Here, our vegetation specialists check tree clearances on Banks Peninsula.

Directory as at 12 June 2013

Directors

Craig Boyce

CHAIRMAN

Michael Andrews

George Gould

Paul Munro

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

Contact us

565 Wairakei Road

PO Box 13896

Christchurch 8141

New Zealand

Phone + 64 3 363 9898

Fax + 64 3 363 9899

Email info@oriongroup.co.nz

Website oriongroup.co.nz

Twitter twitter.com/OrionNZ