Annual Report 2011 Orion New Zealand Limited

This has been an extraordinary year. The September and February earthquakes shattered our region and tested our community. Faced with an electricity network decimated in some areas by massive earth movement, our people went to work and got the power back on. Again and again. Thank you to them, and to the people of Canterbury for your support and patience.

Orion yourNETwork

Due to our focus on earthquake recovery work, the overview in the first few pages of this annual report is brief. A full report detailing the earthquake impacts and our response will be published in the coming months.

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 across central Canterbury between the Waimakariri and Rakaia rivers and from the Canterbury coast to Arthur's Pass.

This year we've worked alongside our owners – Christchurch City Council (89.3%) and Selwyn District Council (10.7%) – to restore essential infrastructure to a region facing its biggest natural disaster.

Severely affected by two major earthquakes and numerous aftershocks, our primary goal has been to keep the electricity flowing through our 13,600 kilometres of lines and cables to around 193,000 homes and businesses.

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 the best service we can to our customers.

In the exceptional weeks following the 22 February earthquake our numbers increased by 300 as extra teams arrived from around the country and Australia to tackle the vast repair job.

Our purpose and values

Orion's core purpose is to consistently deliver a safe, secure and cost-effective supply of electricity to our customers. To help us achieve this purpose, we'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 this year.

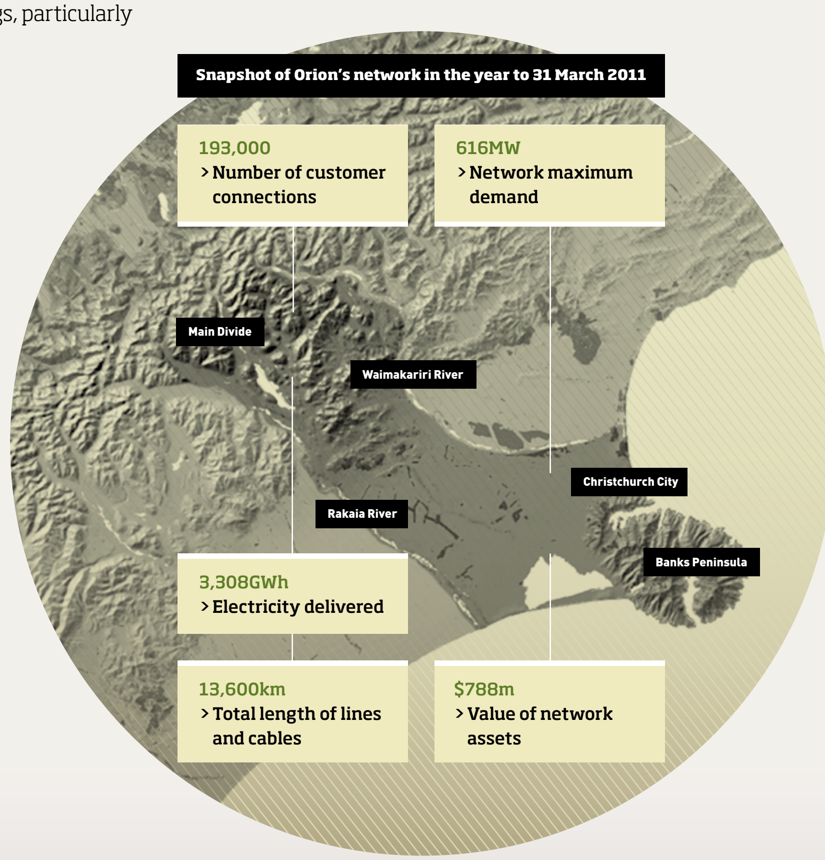
This framework is based on a commitment to:

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

The wider Orion family

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

Snapshot of Orion's network in the year to 31 March 2011



Key financial results

Profit after tax of $28.4m, $11m below our statement of intent (SOI) target and $18.4m below last year's result.

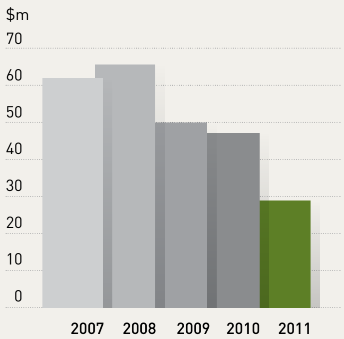
Spent $11m on earthquake repairs, mostly to our 11,000 volt underground cable network in eastern Christchurch, and a further $1.5m on other business continuity costs.

Network delivery revenues reduced by around $3m, due to earthquakes.

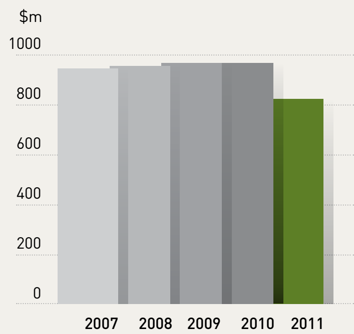
Asset write-downs of $104m (after deferred tax offsets of 30%), $6.5m of which were expensed within our profit after tax. These write-downs were due, in around equal parts, to earthquake damage and regulatory changes.

Prior to the 22 February earthquake paid fully imputed ordinary dividends of $37.5m, consistent with our SOI target.

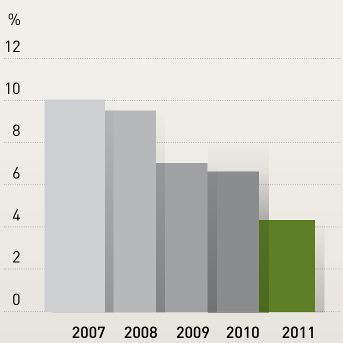
Net profit after tax



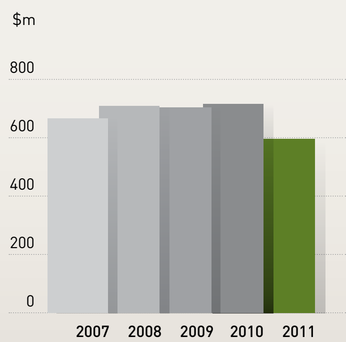
Total group assets



Net profit after tax to shareholders' equity



Shareholders' equity



Key post-earthquake performance

Restored power to 90% of customers by nightfall on 4 September 2010, the day that the 7.1 magnitude earthquake cut power to 150,000 households and businesses.

Restored power to 90% of customers within 10 days of the 6.3 magnitude earthquake in February, when damage was 10 times greater than in September.

Built a new 2.5 kilometre, 66,000 volt (66kV), temporary overhead line in five days to provide power to 20,000 customers after the 66kV underground cables supplying New Brighton and Dallington were seriously damaged by the February quake. This project would normally take six weeks.

Repaired more than 600 quake-related underground cable faults within three months – more faults than we usually have in a decade.

Kept our hundreds of employees and contractors safe as they worked to rebuild the power network in difficult conditions.

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Right: After Orion's head office cracked and slumped on 22 February, operations immediately moved to an emergency backup site on Armagh Street. There, staff worked shifts to coordinate our quake response and keep customers informed.

Our people

This year our people worked long hours in difficult circumstances, leaving family and friends to report for duty even when their own homes were badly damaged. We can't thank them enough. Here, the team gathers behind our temporary head office on Armagh Street, with rubble from the TVNZ building in the background.


Orion
Orion

The year in review

What Orion does today determines the quality of electricity supply enjoyed by future generations. The immediate challenge is to engineer an electricity network that will support the Christchurch rebuild and meet the needs of our community decades from now.

The first half of 2010/11 was similar to other years. Orion traded ahead of budget and continued to rank as one of the most efficient networks in New Zealand, meeting all key reliability targets. An interim dividend of $18.75m was paid to shareholders, consistent with our SOI target.

Our year changed radically from 4 September 2010 when the 7.1 magnitude earthquake centred near Darfield damaged buildings and infrastructure, leaving more than 150,000 customers without power. We successfully achieved our target of restoring power to 90% of customers by nightfall that day. In February, after the 6.3 magnitude quake near Lyttelton caused some of the most violent urban ground shaking ever recorded globally, the same result took 10 days.

In terms of the amount of time without power, the impact of the February quake was around 20 times more severe than that of any natural event experienced in our region prior to September.

Post balance-date, the 5.7 and 6.3 magnitude earthquakes on 13 June cut power to around 56,000 customers and caused further underground cable damage – 99% of power was restored within 48 hours.

Previous earthquake strengthening work

While in some areas damage has been extensive, in general our network has performed well due to our commitment to forward planning and risk protection work.

During the mid 1990s Orion was part of a study into how natural disasters would affect Christchurch. As a result, we spent over $6m on seismic protection work and a further $35m building resilience into our network.

Without this earthquake strengthening work, it is likely our projected $70m earthquake repair bill would have more than doubled. In terms of hours without power, the impact would have been much worse with weeks and months of continuous power cuts across most of Christchurch. Even so, power cuts have been very disruptive and we are grateful for customers' patience.

Earthquake impacts on our network

Massive earth movement from each large quake has stretched some underground cables up to a metre and caused more faults than we would usually see in a decade.

In February the four large underground cables which take power into north-east Christchurch were damaged beyond repair and some emergency measures were needed (see our earthquake response below).

Only four of our 314 substations were severely damaged, including the Pages Road substation in New Brighton which sank two metres into the ground.

In general, our overhead line network has stood up very well.

Earthquake response

Each of the 600+ cable faults from the February quake took more than 12 hours to find and repair – a huge task for the cable crews who rallied from around the country and Australia. Almost all of this work was completed by the end of April. Our contracting subsidiary, Connetics, did an outstanding job coordinating and carrying out these repairs. Work is well underway to repair cables damaged in the June quakes.

Our immediate emergency measures after the February quake included building a new substation in Rawhiti Domain off Keyes Road in New Brighton to replace the severely damaged Pages Road substation.

We also built two temporary 66,000 volt overhead lines. The first extends from the national grid in Bromley to our damaged Pages Road substation and from there to our new substation in Rawhiti Domain, over a distance of four kilometres. The second is a 4.5 kilometre line from the national grid in Bromley to our Dallington substation in Coopers Road.

These lines are needed to keep power on to 20,000 customers in north-east Christchurch for the three years it will take to design and build a permanent supply from Bromley to the existing Dallington substation and the new substation in Rawhiti Domain.

At the height of our earthquake response we deployed 24 diesel generators to supply electricity to 10,000 customers city-wide.

A full report detailing the effects of the quakes and our response will be published in the coming months.

Restoring the network

Our major earthquake response work will be complete by August. The network will then be thoroughly rechecked and permanent fixes designed for those parts that are damaged beyond repair. While in general our network should continue to respond well, we expect it will take three to five years to completely restore resilience. During this time customers may lose power occasionally, particularly if we continue to experience large aftershocks.

New technology allows faster response

Fortunately new technology allows us to respond faster to power cuts. A smart grid computer software system installed last year helps us to quickly identify faults, re-route electricity through undamaged sections of the network and restore power supply.

Stage three of the smart grid project, to be completed in late 2011, will allow us to track customer calls easily and give people more accurate information about when power should be back on.

Financial impacts of the quakes

The impacts of the quakes have been significant and will continue for many years. Our estimates of increased network repairs, capital expenditure and business continuity costs, and our reduced network delivery revenues in future years have been taken into account in our asset write-down as detailed in note 40 on pages 50 and 51.

Insurance cover

Our key earthquake insurance policies cover:

- our head office buildings
- most of our substations
- our business continuity costs and lost revenues as a result of damage to our insured assets.

For some years it has been uneconomic to insure underground cables and overhead lines. Globally, the costs of this cover outweigh the benefits. Our largest earthquake claims are likely to involve damage to our main head office, the fate of which is not yet known. No insurance receipts have been booked so far, as it is too early to estimate claims reliably. We expect to have more reliable estimates later in our 2012 financial year.

Capital structure

Despite the negative quake impacts, our financial structure remains robust. Shareholders' funds at balance date were $600m and our bank debt was under $32m.

Prudent capital management requires us to look ahead – in our new SOI our bank debt is forecast to grow to around $170m over the next three years. Due to this increase, and the uncertainties from ongoing aftershocks, our planned $82m share buy-back is on hold. We will review this decision when the post-quake environment stabilises and uncertainties reduce.

The challenges ahead

The existing regulatory framework is largely designed for times of modest change. Change in Canterbury this year has been anything but modest. The ongoing seismic events bring challenges that require a flexible and pragmatic regulatory approach to encourage investment in essential infrastructure.

In the months ahead we will:

- work constructively with relevant authorities to develop a thorough understanding of the investment necessary to support the rebuild of Christchurch
- engage with our regulators to develop positive and practical solutions to the challenges ahead.

Connetics

Our wholly-owned subsidiary, Connetics, constructs, maintains and repairs substations and overhead and underground lines and associated equipment. In the first half of the year the company reviewed and refined its processes and resources during a consolidation phase, providing an excellent platform for the post-quake work that followed. In December the company welcomed Jono Brent as CEO.

Buoyed by a busy second half of the year, Connetics achieved a net profit of $1.1m, almost double its target.

Acknowledgments

Our people stepped up to the challenge this year, consistently giving their all to help a region in crisis. 'Business as usual' takes on a different meaning now as Orion staff go to work each day in the CBD red zone and stay prepared for the possibility of major aftershocks. We thank our highly skilled and experienced workforce, including our contractors, for their contribution to the company's achievements during a time of immense change.

We also thank our fellow directors for their vision and commitment.

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.

As a community, we can all be proud of Orion's achievements this year.

CRAIG BOYCE CHAIRMAN
GEOFF VAZEY ACTING CEO

22 July 2011

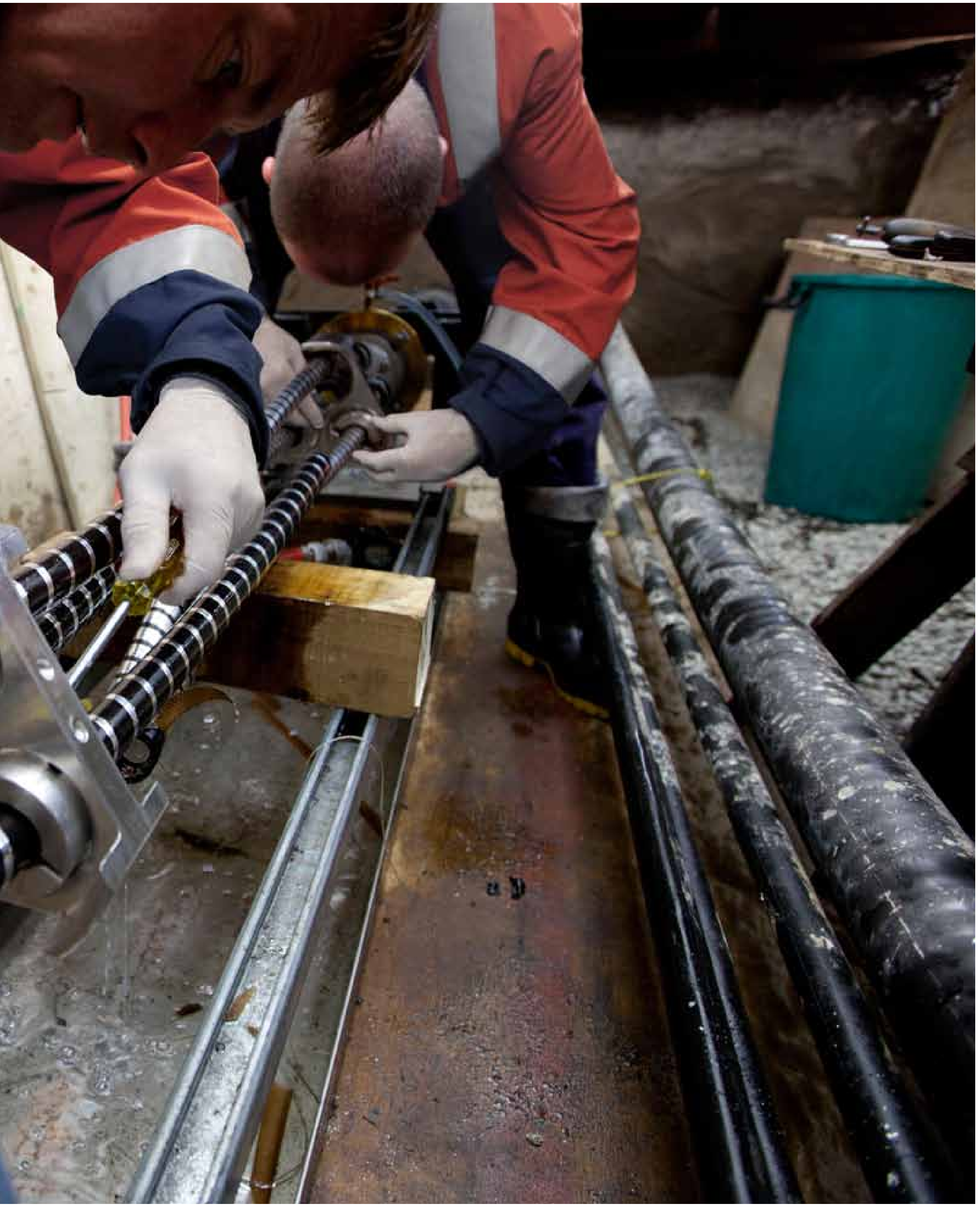
Leadership change

Roger Sutton resigned as CEO in May 2011, after an outstanding contribution to Orion and its predecessors in various roles since 1989. On behalf of the board and management we thank Roger for his dedication and leadership, particularly in working with staff to prepare for the events of the past year. Roger contributed insight and wisdom during his eight years as CEO, always striving to do his very best for the company. While sorry to see Roger go, we are pleased that our region will benefit from his appointment as CEO of the Canterbury Earthquake Recovery Authority.

In June 2011 we welcomed Geoff Vazey as acting CEO until a permanent appointment is made. Geoff is a director of Orion and was previously CEO of the Ports of Auckland.

Meeting the challenge

We value the relationships we've built within the electricity industry and thank the many companies who supported us this year. Teams from around the country and Australia worked 14-hour days in challenging conditions to rebuild the network. Here, Shaun Baker (front) and Barry Kelly from Baker Cable Connections repair a 66,000 volt cable in Colombo Street.



We are fully committed to open and honest dialogue about the state of the electricity network and what our community can expect from us. Our earthquake recovery logo, shown below, will continue to appear on published communications about our recovery work. We welcome questions or comments about our progress – please get in touch via our contact centre 03 363 9898 or email info@oriongroup.co.nz.

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 2011.

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

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

Authorised for issue on 22 July 2011 for and on behalf of the board of directors:

Craig Boyce
CHAIRMAN
Christchurch, 22 July 2011

John Dobson
DIRECTOR
Christchurch, 22 July 2011

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Statement of comprehensive income
For the year ended 31 March 2011

	Notes	Group 2011 $000	Group 2010 $000	Parent 2011 $000	Parent 2010 $000
Operating revenues	2	222,052	222,392	204,095	203,367
Other gains/(losses)	3	391	143	58	(42)
Total operating income		222,443	222,535	204,153	203,325
Operating expenses	4	124,191	116,794	108,195	98,972
Impairment loss on revaluation of property, plant and equipment	40	6,288	838	6,288	838
Electricity distribution network assets decommissioned due to earthquake	40	3,334	-	3,334	-
Depreciation, amortisation and other impairment expenses	5	40,082	36,648	38,506	35,134
Total operating expenses		173,895	154,280	156,323	134,944
Earnings before net interest expense and tax (EBIT)		48,548	68,255	47,830	68,381
Interest income	6	363	336	537	504
Interest expense	7	4,040	2,248	4,040	2,248
Profit before income tax		44,871	66,343	44,327	66,637
Income tax expense	9	16,511	19,548	16,140	19,606
Net profit		28,360	46,795	28,187	47,031
Other comprehensive income:					
Impairment loss on revaluation of property, plant and equipment	40	(139,051)	(1,059)	(143,743)	(1,059)
Deferred tax gain on revaluation of property, plant and equipment	9	40,969	-	42,283	-
Deferred tax gain from the change in income tax rate	9	613	-	613	-
Other comprehensive loss		(97,469)	(1,059)	(100,847)	(1,059)
Total comprehensive income/(loss)		(69,109)	45,736	(72,660)	45,972

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 2011

	Notes	Share capital $000	Retained earnings $000	Asset revaluation reserve $000	Total equity $000
Consolidated entity					
Balance as at 1 April 2009		120,000	452,430	124,999	697,429
Net profit		-	46,795	-	46,795
Other comprehensive gain/(loss) net of tax		-	-	(1,059)	(1,059)
Total comprehensive income/(loss)		-	46,795	(1,059)	45,736
Transfers between reserves:					
Realised gain on disposal of property, plant and equipment	30	-	151	(151)	-
Deferred tax reversed on sale of property, plant and equipment		-	(45)	45	-
Transactions with owners in their capacity as owners:					
Dividends paid	31	-	(37,000)	-	(37,000)
Balance as at 31 March 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	30	-	988	(988)	-
Deferred tax reversed on sale of property, plant and equipment		-	(297)	297	-
Transactions with owners in their capacity as owners:					
Dividends paid	31	-	(37,500)	-	(37,500)
Balance as at 31 March 2011		120,000	453,882	25,674	599,556

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 2009		120,000	453,940	124,999	698,939
Net profit		-	47,031	-	47,031
Other comprehensive gain/(loss) net of tax		-	-	(1,059)	(1,059)
Total comprehensive income/(loss)		-	47,031	(1,059)	45,972
Transfers between reserves:					
Realised gain on disposal of property, plant and equipment	30	-	151	(151)	-
Deferred tax reversed on sale of property, plant and equipment		-	(45)	45	-
Transactions with owners in their capacity as owners:					
Dividends paid	31	-	(37,000)	-	(37,000)
Balance as at 31 March 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	30	-	988	(988)	-
Deferred tax reversed on sale of property, plant and equipment		-	(297)	297	-
Transactions with owners in their capacity as owners:					
Dividends paid	31	-	(37,500)	-	(37,500)
Balance as at 31 March 2011		120,000	455,455	22,296	597,751

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 2011

	Notes	Group 2011 $000	Group 2010 $000	Parent 2011 $000	Parent 2010 $000
Current assets					
Cash and cash equivalents	10	331	335	55	305
Trade and other receivables	11	5,764	5,265	4,028	2,887
Other current financial assets	13	14	-	5,292	5,964
Inventories	14	5,701	4,085	501	162
Other	15	1,862	974	1,509	696
Total current assets		13,672	10,659	11,385	10,014
Non current assets					
Trade and other receivables	16	47	67	47	67
Investments in subsidiaries and associates	17	-	-	6,551	6,551
Other financial assets	18	1,263	3,409	-	309
Property, plant and equipment	19	794,161	943,617	788,615	941,171
Investment property	20	8,055	5,480	8,055	5,480
Other intangible assets	21	4,221	4,096	3,805	4,072
Total non current assets		807,747	956,669	807,073	957,650
Total assets		821,419	967,328	818,458	967,664
Current liabilities					
Trade and other payables	22	28,689	20,485	27,801	17,632
Borrowings	23	80	37,281	80	37,281
Other current financial liabilities	24	-	347	-	347
Current income tax liability	9	3,658	4,290	3,363	4,451
Provisions	25	95	100	51	50
Total current liabilities		32,522	62,503	31,295	59,761
Non current liabilities					
Borrowings	26	36,397	4,912	36,397	4,912
Other financial liabilities	27	1,212	-	1,212	-
Deferred tax liabilities	9	150,787	192,909	151,219	194,555
Provisions	28	945	839	584	525
Total non current liabilities		189,341	198,660	189,412	199,992
Equity					
Issued capital	29	120,000	120,000	120,000	120,000
Reserves	30	25,674	123,834	22,296	123,834
Retained earnings		453,882	462,331	455,455	464,077
Total equity attributable to parent equity holders		599,556	706,165	597,751	707,911
Total liabilities and equity		821,419	967,328	818,458	967,664

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 2011

	Notes	Group 2011 $000	Group 2010 $000	Parent 2011 $000	Parent 2010 $000
Cash flows from operating activities					
Receipts from customers		210,977	221,781	198,680	203,469
Interest received		583	111	756	279
Payments to suppliers and employees		(114,118)	(118,249)	(101,103)	(100,676)
Interest and other finance costs paid		(3,151)	(3,097)	(3,151)	(3,097)
Subvention payments		-	-	(35)	(33)
Income tax paid		(17,684)	(15,903)	(17,669)	(15,710)
Net cash provided by operating activities	33	76,607	84,643	77,478	84,232
Cash flows from investing activities					
Payment for available-for-sale investments		-	(240)	-	-
Proceeds from sale of available-for-sale investments		437	137	-	-
Amounts advanced to related parties		-	-	(828)	(380)
Payment for property, plant and equipment		(32,568)	(36,006)	(32,722)	(35,049)
Proceeds from sale of property, plant and equipment		168	355	62	131
Payment for investment property		(67)	(17)	(67)	(17)
Proceeds from sale of investment property		248	-	248	-
Payment for intangible assets		(1,613)	(2,608)	(1,205)	(2,608)
Net cash used in investing activities		(33,395)	(38,379)	(34,512)	(37,923)
Cash flows from financing activities					
Repayment of borrowings		(5,716)	(9,670)	(5,716)	(9,670)
Dividends paid		(37,500)	(37,000)	(37,500)	(37,000)
Net cash used in financing activities		(43,216)	(46,670)	(43,216)	(46,670)
Net decrease in cash and cash equivalents		(4)	(406)	(250)	(361)
Summary					
Cash and cash equivalents at beginning of year		335	741	305	666
Net decrease in cash and cash equivalents		(4)	(406)	(250)	(361)
Cash and cash equivalents at end of year	10	331	335	55	305

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 2011

1. Statement of accounting policies

Statement of compliance

Orion New Zealand Limited (the company) is a profit-oriented company incorporated in New Zealand under the Companies Act 1993 and the Energy Companies Act 1992. The group consists of Orion New Zealand Limited and its subsidiaries (refer also to note 42). The company is a reporting entity for the purposes of the Financial Reporting Act 1993 and its financial statements comply with that Act and section 44 of the Energy Companies Act 1992.

The company's statutory reporting deadline under section 44 of the Energy Companies Act 1992 is three months from balance date. By an Order in Council the company's statutory reporting deadline has been extended by two months to 31 August 2011 and therefore the company did not breach this reporting deadline.

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

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

Basis of financial statement preparation

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

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

Accounting policies have been selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported. The accounting policies set out below were applied in preparing the financial statements for the year ended 31 March 2011 and the comparative information presented in the financial statements for the year ended 31 March 2010.

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 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 also estimated the impacts of the Canterbury earthquakes up to and including 31 March 2011 (informed by data up to 22 July 2011 on the impacts of those earthquakes) 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 2011 revaluation of the company's electricity distribution network (refer to note 19 – property, plant and equipment, and note 40 – impact of the Canterbury earthquakes).

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

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

1. Statement of accounting policies continued

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.

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.

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

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

Significant accounting policies

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

(a) Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the group (refer to note 42).

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

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

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

Associates

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

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

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

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

Notes to the financial statements continued

For the year ended 31 March 2011

1. Statement of accounting policies continued

Parent company

Investments in associates are accounted for in the parent's financial statements using fair value. Fair value is determined as the 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.

(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 which 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.

1. Statement of accounting policies continued

(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 the financial statements and the corresponding tax bases used in the computation of taxable profit.

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

Current tax and deferred tax are charged or credited to the 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.

(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.

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.

Notes to the financial statements continued

For the year ended 31 March 2011

1. Statement of accounting policies continued

(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.

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

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

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.

1. **Statement of accounting policies** continued

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

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

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

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These gains and losses are included in the 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.

Notes to the financial statements continued

For the year ended 31 March 2011

1. Statement of accounting policies continued

(p) Borrowings

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in the 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.

(s) Employee benefits

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

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

(t) Financial instruments issued by the group

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

(u) Revenue recognition

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

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

(v) Distinction between capital and revenue expenditure

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

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

(w) Capital contributions and grants

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

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

(x) Borrowing costs

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

1. Statement of accounting policies continued

Changes in accounting policies and disclosures

The accounting policies detailed above have been applied in the preparation of these financial statements for the year ended 31 March 2011 and have been consistently applied throughout the year. There have been no changes in accounting policies in comparison with the prior year, except that the group has adopted the following new and amended New Zealand equivalents to International Financial Reporting Standards as of 1 April 2010:

- NZ IAS 27 Consolidated and Separate Financial Statements (Amendment) effective 1 July 2009
- NZ IFRS 3 Business Combinations (Revised) effective 1 July 2009
- NZ IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (Amendment) effective 1 July 2009
- NZ IFRIC 17 Distributions of Non-cash Assets to Owners effective 1 July 2009
- NZ IFRIC 18 Transfers of Assets from Customers
- NZ IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (Amendment) effective 1 February 2010.

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

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

	Effective for the financial year ending
• NZ IAS 24 Related Party Disclosures (Revised)	2012
• NZ IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	2012
• NZ IFRS 1 First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative NZ IFRS 7 Disclosures for First Time Adopters	2012
• NZ IFRIC 14 Prepayments of Minimum Funding Requirements (Amendments)	2012
• NZ IAS 12 Income taxes: Deferred Tax Recovery of Underlying Assets (Amendments)	2013
• NZ IFRS 7 Disclosures – Transfers of Financial Assets (Amendments)	2013
• NZ IFRS 9 Financial Instruments	2014

Notes to the financial statements continued
For the year ended 31 March 2011

	Notes	Group 2011 $000	Group 2010 $000	Parent 2011 $000	Parent 2010 $000
2. Operating revenues					
Electricity delivery services		189,860	190,151	189,860	190,151
Transmission rental rebates		5,015	3,451	5,015	3,451
Contracting		7,946	7,558	-	-
Sale of goods and services		10,847	12,283	584	583
Consumer capital contributions *		2,808	3,376	2,808	3,376
Non-cash vested assets		3,829	3,824	3,829	3,824
Rental – investment property		211	262	211	262
Rental – other property		400	436	400	436
Other		1,136	1,051	1,388	1,284
		222,052	222,392	204,095	203,367
3. Other gains/(losses)					
Gain on disposal of property, plant and equipment		47	133	21	29
Gain on disposal of investment		307	62	-	-
Net foreign exchange gains/(losses)		3	(48)	3	(48)
Net change in fair value of foreign exchange contracts income/(expense)		34	(23)	34	(23)
Other		-	19	-	-
		391	143	58	(42)
4. Operating expenses					
Transmission		51,144	53,283	51,144	53,283
Transmission rental rebates		5,015	3,451	5,015	3,451
Employee benefits – multi-employer defined benefit plans		243	227	30	32
Employee benefits – other benefits		32,261	30,220	15,387	14,431
Network maintenance		15,536	19,404	15,536	19,404
Earthquake repair costs	40	11,061	-	11,061	-
Earthquake other costs	40	1,545	-	1,545	-
Operating lease payments		705	678	85	78
Movement in provisions		100	(44)	59	(73)
Direct operating expenses of investment property		84	148	84	148
Donations *		37	55	28	53
Subvention payments		-	-	35	33
Other		6,460	9,372	8,186	8,132
		124,191	116,794	108,195	98,972

*Additional donation – the company waived a network connection charge of $60,000 for a charitable organisation which is not included in consumer capital contributions income or donations expense.

	Notes	Group 2011 $000	Group 2010 $000	Parent 2011 $000	Parent 2010 $000
5. Depreciation, amortisation and other impairment expenses					
Depreciation of non current assets		34,918	33,996	33,550	32,520
Amortisation of non current assets		1,489	1,491	1,473	1,473
Impairment of financial assets		1,707	65	1,515	45
Replaced assets written off		1,477	1,089	1,477	1,089
Fair value impairment of investment property		491	7	491	7
		40,082	36,648	38,506	35,134
6. Interest income					
Finance lease		8	9	8	9
Bank deposits		19	23	19	23
Other		50	28	50	28
Related parties		286	276	460	444
		363	336	537	504
7. Interest expense					
Interest expense on loans		2,487	2,751	2,487	2,751
Other interest expense		358	335	358	335
Net change in fair value of derivatives expense/(income)		1,195	(838)	1,195	(838)
		4,040	2,248	4,040	2,248
8. Remuneration of the auditor					
Audit of the financial statements		257	203	205	154
Audit-related services or review of the financial statements not reported above		20	45	20	45
		277	248	225	199

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

Audit-related services comprise an independent assurance report of the company's regulatory disclosures in accordance with the Electricity (Information Disclosure) Requirements 2008 and audit of the company's annual compliance statement in accordance with the Commerce Act (Electricity Distribution Default Price-Quality Path) Determination 2010.

Notes to the financial statements continued
For the year ended 31 March 2011

9. Income tax

	Group 2011 $000	Group 2010 $000	Parent 2011 $000	Parent 2010 $000
Income tax expense recognised in net profit				
Tax expense comprises:				
Current income tax				
Current income tax charge	17,083	18,054	16,613	18,100
Adjustments in respect of the current income tax of prior years	(32)	(785)	(32)	(777)
Deferred income tax				
Expense/(income) relating to origination and reversal of temporary differences	(1,458)	2,246	(1,122)	2,283
Expense relating to use of prior years' losses	33	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 of deferred tax asset	74	-	-	-
Total income tax expense recognised in net profit	16,511	19,548	16,140	19,606

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

	Group 2011 $000	Group 2010 $000	Parent 2011 $000	Parent 2010 $000
Profit before income tax	44,871	66,343	44,327	66,637
Prima facie income tax expense calculated at 30%	13,461	19,903	13,298	19,991
Non-deductible expenses	2,284	252	2,221	264
Non-assessable income	(139)	(578)	(47)	(578)
Other deductible items	(32)	(33)	(32)	(33)
Deferred tax expense relating to use of prior year's losses	33	33	-	-
Effect on deferred tax balances of the removal of assets which are non-depreciable for tax purposes	10,869	-	10,869	-
Effect on deferred tax balances due to the change in income tax rate from 30% to 28% effective 1 April 2011	(10,058)	-	(10,188)	-
Impairment of deferred tax asset	74	-	-	-
	16,492	19,577	16,121	19,644
Over-provision of income tax in the previous year	19	(29)	19	(38)
Total income tax expense recognised in net profit	16,511	19,548	16,140	19,606

	Group 2011 $000	Group 2010 $000	Parent 2011 $000	Parent 2010 $000
Income tax recognised in other comprehensive income				
Reversal of deferred tax liability on revaluation of property, plant and equipment	40,969	-	42,283	-
Impact on deferred tax of change in income tax rate	613	-	613	-
Deferred tax income recognised in comprehensive income	41,582	-	42,896	-

9. **Income tax** continued

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 30% for the years ended 31 March 2011 and 31 March 2010. The company income tax rate will reduce from 30% to 28% effective for the years beginning on or after 1 April 2011.

Current income tax liability

The group current income tax liability as at 31 March 2011 of $3.7m (2010: $4.3m) is the unpaid portion of the group's third instalment of provisional income tax for the year ended 31 March 2011. 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 $3.4m (2010: $4.5m).

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 2011.

	Group 2011 $000	Group 2010 $000	Parent 2011 $000	Parent 2010 $000
Opening balance	86	49	86	49
Use of money interest received	50	28	50	28
Tax paid	17,634	15,866	17,634	15,866
Attached to dividends paid to shareholders	(16,071)	(15,857)	(16,071)	(15,857)
Closing balance	1,699	86	1,699	86

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 $376,000 of ring-fenced tax losses available to carry forward at 31 March 2011 will be able to be utilised in the foreseeable future. It is estimated that tax losses of approximately $110,000 could be utilised and therefore the deferred tax asset has been impaired by $74,000 relating to tax losses of $266,000 which have not been recognised.

Notes to the financial statements continued

For the year ended 31 March 2011

9. Income tax continued

Consolidated 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	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

Consolidated group for the year ended 31 March 2010

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	Closing balance $000
Deferred tax liabilities					
Property, plant and equipment	192,730	1,225	-	-	193,955
Intangible assets	132	289	-	-	421
Other	-	510	-	-	510
	192,862	2,024	-	-	194,886
Deferred tax assets					
Derivative financial liabilities	257	(252)	-	-	5
Provisions	1,448	(46)	-	-	1,402
Doubtful debts and impairment losses	89	66	-	-	155
Finance lease liability	82	188	-	-	270
Tax losses	178	(33)	-	-	145
Other	178	(178)	-	-	-
	2,232	(255)	-	-	1,977
Net deferred tax liability	190,630	2,279	-	-	192,909

9. **Income tax** continued

Parent entity 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	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

Parent entity for the year ended 31 March 2010

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	Closing balance $000
Deferred tax liabilities					
Property, plant and equipment	193,532	1,277	-	-	194,809
Intangible assets	132	289	-	-	421
Other	-	510	-	-	510
	193,664	2,076	-	-	195,740
Deferred tax assets					
Derivative financial liabilities	257	(252)	-	-	5
Provisions	786	(31)	-	-	755
Doubtful debts and impairment losses	89	66	-	-	155
Finance lease liability	82	188	-	-	270
Other	178	(178)	-	-	-
	1,392	(207)	-	-	1,185
Net deferred tax liability	192,272	2,283	-	-	194,555

Notes to the financial statements continued

For the year ended 31 March 2011

	Group 2011 $000	Group 2010 $000	Parent 2011 $000	Parent 2010 $000
10. Cash and cash equivalents				
Cash and cash equivalents are held in the following currencies				
New Zealand dollar	331	306	55	276
Australian dollar	-	29	-	29
	331	335	55	305
11. Current trade and other receivables				
Trade receivables	5,140	5,085	3,910	3,156
Allowance for impairment of receivables	(150)	(290)	(97)	(287)
	4,990	4,795	3,813	2,869
Finance lease receivable	20	18	20	18
GST receivable	195	-	195	-
Amounts due from customers under construction contracts (refer to note 12)	559	452	-	-
	5,764	5,265	4,028	2,887
Bad debts written off	323	88	319	86
Bad debts recovered	12	16	12	16
Increase/(decrease) in allowance for impairment	(243)	190	(190)	192

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

	Group 2011 $000	Group 2010 $000	Parent 2011 $000	Parent 2010 $000
Not past due	3,164	4,143	2,858	2,339
Past due 0 to 30 days	1,189	455	417	342
Past due 31 to 60 days	441	73	368	65
Past due greater than 60 days	346	414	267	410
	5,140	5,085	3,910	3,156

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

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

Allowances have been made for estimated irrecoverable amounts from the provision of goods and services, determined by reference to past default experience. The net movement in the allowance was recognised in the income statement for the current financial year. Allowances for impairment of receivables have been decreased in the current year largely because of the write-off of interest due from an associate which was determined to be uncollectible.

The allowance for impairment of receivables was increased in the previous year largely because of uncertainty regarding the receipt of $166,000 interest due from an associate company. That interest was written off in the current 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 $166,000 of interest receivable on loans to an associate 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 below.

	Group 2011 $000	Group 2010 $000	Parent 2011 $000	Parent 2010 $000

12. Construction contracts

	Group 2011 $000	Group 2010 $000	Parent 2011 $000	Parent 2010 $000
Construction contracts in progress comprise:				
Construction costs incurred plus estimated recognised profits less estimated recognised losses to date	8,667	4,656	-	-
Less progress billings	8,108	4,204	-	-
Total construction work in progress (refer to note 11)	559	452	-	-

13. Other current financial assets

	Group 2011 $000	Group 2010 $000	Parent 2011 $000	Parent 2010 $000
At fair value				
Foreign currency forward contracts	14	-	14	-
At amortised cost				
Interest bearing loans advanced to subsidiaries	-	-	5,278	5,964
	14	-	5,292	5,964

Amounts receivable from related entities

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 $4.2m (2010: $2.6m) 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 $1,515,000 (2010: $45,000).

14. Current inventories

	Group 2011 $000	Group 2010 $000	Parent 2011 $000	Parent 2010 $000
Chargeable work in progress	890	384	361	13
Goods for sale	1,700	1,334	4	4
Maintenance items	3,169	2,713	136	376
Allowance for impairment	(58)	(346)	-	(231)
	5,701	4,085	501	162

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

15. Other current assets

	Group 2011 $000	Group 2010 $000	Parent 2011 $000	Parent 2010 $000
Prepayments	1,862	974	1,509	696

16. Non current trade and other receivables

	Group 2011 $000	Group 2010 $000	Parent 2011 $000	Parent 2010 $000
Finance lease receivable	47	67	47	67

Notes to the financial statements continued
For the year ended 31 March 2011

17. Investments in associate and subsidiaries

Associate company

As at 31 March 2011 the group had a 23% (2010: 23%) ownership interest in 4RF Communications Limited, a company incorporated in New Zealand (the associate).The carrying value of this investment is nil (2010: nil). The group has not recognised its 23% share of current year profits or losses, or the accumulated losses relating to the associate amounting to $8.0m. The group has no obligation or rights in respect of these accumulated losses. This total includes the group's share of the associate's $708,000 loss for 2011 and $195,000 loss for 2010.

	2011 $000	2010 $000
Summarised financial information of associate		
Current assets	6,489	8,229
Non current assets	2,346	2,310
	8,835	10,539
Current liabilities	5,765	5,747
Non current liabilities	6,848	5,506
	12,613	11,253
Net assets/(liabilities)	(3,778)	(714)
Revenue	16,959	21,655
Net profit/(loss)	(3,044)	(840)
Net movement in reserves	(9)	(366)

	Parent 2011 $000	Parent 2010 $000
Subsidiary companies		
Investments in subsidiaries		
Connetics Limited	6,551	6,551
Orion New Zealand Ventures Limited	-	-
	6,551	6,551

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

18. Other non current financial assets

	Group 2011 $000	Group 2010 $000	Parent 2011 $000	Parent 2010 $000
At fair value				
Available-for-sale – EnerTech Capital Partners II LP	1,263	3,100	-	-
Interest rate swaps	-	309	-	309
	1,263	3,409	-	309

19. Property, plant and equipment

Consolidated group

	Freehold land at fair value $000	Buildings at fair value $000	Electricity distribution network at fair value $000	Leasehold improvements plant and equipment at cost $000	Total $000
Gross carrying amount					
Balance as at 1 April 2009	38,861	2,717	947,738	22,907	1,012,223
Reclassification	-	(23)	-	23	-
Additions	401	273	37,486	2,466	40,626
Disposals	(16)	-	(1,164)	(876)	(2,056)
Impairment loss on revaluation	(1,589)	(622)	-	-	(2,211)
Balance as at 31 March 2010	37,657	2,345	984,060	24,520	1,048,582
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
Accumulated depreciation, amortisation and impairment					
Balance as at 1 April 2009	-	234	59,903	11,891	72,028
Disposals	-	-	(75)	(670)	(745)
Impairment loss on revaluation	-	(314)	-	-	(314)
Depreciation expense	-	104	31,128	2,764	33,996
Balance as at 31 March 2010	-	24	90,956	13,985	104,965
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
Net book value as at 31 March 2010	37,657	2,321	893,104	10,535	943,617
Net book value as at 31 March 2011	27,746	291	756,097	10,027	794,161

	2010 $000	2011 $000
Capital work in progress in the consolidated group, included above, is as follows:		
Land	-	3
Plant and equipment	173	14
Electricity distribution network	16,030	15,566
	16,203	15,583
Electricity distribution network assets also included above which are subject to finance leases	4,565	4,779

Notes to the financial statements continued

For the year ended 31 March 2011

19. Property, plant and equipment continued

Parent entity

	Freehold land at fair value $000	Buildings at fair value $000	Electricity distribution network at fair value $000	Leasehold improvements plant and equipment at cost $000	Total $000
Gross carrying amount					
Balance as at 1 April 2009	38,861	2,717	950,923	9,198	1,001,699
Reclassification	-	(23)	-	23	-
Additions	401	273	37,859	1,239	39,772
Disposals	(16)	-	(1,164)	(314)	(1,494)
Impairment loss on revaluation	(1,589)	(622)	-	-	(2,211)
Balance as at 31 March 2010	37,657	2,345	987,618	10,146	1,037,766
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
Accumulated depreciation, amortisation and impairment					
Balance as at 1 April 2009	-	234	59,903	4,555	64,692
Disposals	-	-	(75)	(228)	(303)
Impairment loss on revaluation	-	(314)	-	-	(314)
Depreciation expense	-	104	31,128	1,288	32,520
Balance as at 31 March 2010	-	24	90,956	5,615	96,595
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
Net book value as at 31 March 2010	37,657	2,321	896,662	4,531	941,171
Net book value as at 31 March 2011	27,746	291	756,097	4,481	788,615

	2011 $000	2010 $000
Capital work in progress in the parent entity, included above, is as follows:		
Land	-	3
Plant and equipment	93	12
Electricity distribution network	16,030	15,566
	16,123	15,581
Electricity distribution network assets also included above which are subject to finance leases	4,565	4,779

	Group 2011 $000	Group 2010 $000	Parent 2011 $000	Parent 2010 $000

19. **Property, plant and equipment** continued

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

	Group 2011 $000	Group 2010 $000	Parent 2011 $000	Parent 2010 $000
Buildings	162	104	162	104
Electricity distribution network	31,804	30,957	31,804	30,957
Plant and equipment and leasehold improvements	2,775	2,764	1,407	1,288
Equipment under finance lease	177	171	177	171
	34,918	33,996	33,550	32,520

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

	Group 2011 $000	Group 2010 $000	Parent 2011 $000	Parent 2010 $000
Freehold land	35,824	35,550	35,824	35,550
Buildings	2,781	2,868	2,781	2,868
Electricity distribution network	746,794	740,515	746,794	740,515
Plant and equipment and leasehold improvements	10,028	10,540	4,482	4,536
	795,427	789,473	789,881	783,469

Revaluations and impairment review

Electricity distribution network and substation buildings

In 2010 the company's electricity distribution network and substation buildings were subjected to an impairment review 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 for financial reporting purposes in New Zealand over the last decade. The review considered the company's carrying values, which were based on an optimised depreciated replacement cost (ODRC) valuation undertaken by the same valuers in 2007, adjusted for subsequent additions, disposals and depreciation. The valuers considered that no impairment adjustments were required as at 31 March 2010.

The company's electricity distribution network and substation buildings were revalued as at 31 March 2011 to a fair value of $751.4m by Ms Taylor and Mr Taylor. 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 has 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 now believe that an ODRC value is unlikely to align with either the Commerce Commission's regulatory asset base (RAB) valuation and input methodologies under Part 4, or the present value of the future cash flows that will be generated by the electricity distribution network. Accordingly, the basis of the fair value valuation at 31 March 2011 has been changed to 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 at year 10.

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

In estimating future electricity distribution prices, the implications of the regulatory requirements of Part 4 of the Commerce Act were taken into consideration. In the short term, the company faces significant additional costs and lower revenues due to the Canterbury earthquakes which occurred up to and including 31 March 2011. It is unclear at this time whether the Commerce Commission will make a starting price adjustment (SPA) to the company's prices, either upwards or downwards, at any time during the current regulatory period (to 31 March 2015). The 31 March 2011 valuation assumes that there is no SPA during the current regulatory period. The valuation assumes that the company's revenues are able to rise in line with changes in electricity demand plus annual price increases equivalent to the consumer price index (CPI) during the current regulatory period, and that the company does 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 electricity distribution network valuation assumes that an upwards distribution service revenue SPA of around 19% (approximately $40m) will be made effective 1 April 2015 to align the company's actual regulatory profits with the Commission's weighted average cost of capital benchmark – in other words, that the company's below-benchmark profits during the current regulatory period are not continued beyond 31 March 2015. The valuation assumes 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 SPA is assumed for the start of the third regulatory period (from 1 April 2021 onwards).

Notes to the financial statements continued

For the year ended 31 March 2011

19. Property, plant and equipment continued

The 31 March 2011 network valuation assumes that:

- the company's allowable distribution service revenues are set at a level which generates a regulatory return 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 distribution service 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
- electricity distribution 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 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 is $141m below the company's pre-revaluation carrying value of the electricity distribution network assets. This reduction is attributable to two key factors as follows:

- approximately $68m is 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 is due to the impacts of the Canterbury earthquakes up to and including 31 March 2011 and the abnormal levels of expenses and reduced revenues as a result of the earthquakes for the period up to 31 March 2015.

Substation land

The valuation of the company's substation land to fair value as at 31 March 2011 was prepared by an independent valuer, Mr Marius Ogg of CB Richard Ellis, in accordance with NZ IAS 16. Mr Ogg is a registered public valuer, Director of Valuation & Advisory Services at CB Richard Ellis, an Associate of the New Zealand Institute of Valuers and a Senior Member of the New Zealand Property Institute. Mr Ogg prepared the equivalent valuation in 2010.

Mr Ogg randomly selected a sample of the company's 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 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 an identical methodology to value the company's substation land in 2010.

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 2011.

The valuation resulted in a net write-down of the company's substation land by $4.1m (2010: $1.0m) to $26.9m of which $0.2m (2010: $0.5m) reduced the asset revaluation reserve for land and $3.9m (2010: $0.5m) was expensed to profit. The land write-down is primarily due to the movements in the property market due to the September 2010 and February 2011 earthquakes.

19. **Property, plant and equipment** continued

Corporate premises

The valuation of the company's head office premises on Manchester Street to fair value as at 31 March 2011 was prepared by an independent valuer, Mr Marius Ogg of CB Richard Ellis, in accordance with NZ IAS 40 – Investment Property and NZ IAS 16. Mr Ogg prepared the equivalent valuation in 2010.

Mr Ogg's valuation comprised valuations of the individual components of the site, with a concluding value determined under a hypothetical subdivision approach. The overall valuation was then apportioned between property, plant and equipment (NZ IAS 16) and investment property (NZ IAS 40 – refer to note 20).

In 2011 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 and the uncertain state or future viability of the buildings, value was determined on a land value only less associated building demolition costs.

Fair value for other buildings on site was determined using both discounted cash flow and capitalisation approaches. A key assumption is a notional lease on occupied space for a term of three years. Other key assumptions include an assumed capitalisation rate of 10.0%, a discount rate of 9.5%, and market rental growth rates of 0.0% - 2.5% over the investment horizon.

Mr Ogg considered the likely future of the buildings on the corporate site. Given the uncertainty surrounding the level of earthquake damage (in particular, whether or not the buildings are economically viable to repair or reinstate) Mr Ogg assumed that the most plausible future of this site is that the buildings will be demolished. The valuer had due regard to the possibility of the buildings being reinstated. However, without knowing accurately the likely costs to reinstate, valuation on this basis was considered to be too subjective to provide any definitive conclusions. Further, depending on the level of reinstatement costs, the difference between land value (less demolition) and reinstated value may also not be materially different. As described in note 40, no allowance has been made for any amounts receivable from the company's insurers.

As the corporate site is within the CBD red zone, restricted access has been in place since the 22 February 2011 earthquake. It is uncertain how long such restrictions will remain although it has been suggested that a large part of the CBD may be open by the end of 2011. For this reason, Mr Ogg added a deferred rental income allowance of one year to the concluded values reflecting a delay by any potential purchaser until such time as access is available.

Where the valuer 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 provide the ability to override such ordinances, in addition to many other powers such as acquiring land.

Mr Ogg's valuation assumed that the site's land is sound and that the 4 September 2010 and 22 February 2011 earthquakes (and aftershocks) have not had a significant impact on the land.

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

Mr Ogg's valuation resulted in a net write-down of the corporate premises by $3.9m (2010: $0.6m) to $2.2m for land and by $1.1m (2010: $0.3m) to $0.8m for buildings. Of the combined $5.0m write-down, $2.4m was expensed in the statement of comprehensive income, while the balance of $2.6m reduced the land revaluation reserve.

As the 22 February 2011 earthquake significantly damaged the site's buildings, the company now considers that new corporate premises are required either at its existing site or elsewhere. For this reason, following the downwards revaluation of land and buildings, the majority of the corporate premises (excluding the site and buildings occupied by the Armagh district substation) have been reclassified as investment property (refer to note 20).

As at 31 March 2010 fair values were determined using discounted cash flow, capitalisation analysis and sales comparison approaches. The major assumption used in the 2010 valuation was a notional lease for a six-year term on occupied space. Under the discounted cash flow and capitalisation approaches assumptions included an adopted capitalisation rate of 9.4%, a discount rate of 10.0%, and market rental growth rates of 0.0% - 2.5% over the investment horizon.

Notes to the financial statements continued

For the year ended 31 March 2011

20. Investment property

	Group 2011 $000	Group 2010 $000	Parent 2011 $000	Parent 2010 $000
Balance at beginning of financial year	5,480	5,719	5,480	5,719
Opening balance adjustment	-	(36)	-	(36)
Additions	67	53	67	53
Disposals	-	(249)	-	(249)
Transferred from property, plant and equipment	3,000	-	3,000	-
Net loss from fair value adjustments	(492)	(7)	(492)	(7)
Balance at end of financial year	8,055	5,480	8,055	5,480

The valuation of the company's investment property as at 31 March 2011 was prepared by an independent valuer, Mr Marius Ogg of CB Richard Ellis, in accordance with NZ IAS 40. Mr Ogg is a registered public valuer, Director of Valuation & Advisory Services at CB Richard Ellis, an Associate of the New Zealand Institute of Valuers and a Senior Member of the New Zealand Property Institute. Mr Ogg prepared the equivalent valuation in 2010.

The valuations were performed to assess fair value in accordance with NZ IAS 40. Primarily fair values have been determined using discounted cashflow, capitalisation analysis and sales comparison approaches to derive market value on an as-is basis. Key assumptions used in the valuation are summarised in note 19.

The 22 February 2011 earthquake damaged buildings at the company's main administrative site and the company now considers that new premises are required either at its existing site or elsewhere. The land and buildings were revalued downwards by $5m (refer to note 19) to reflect the change in fair value following the earthquake and were subsequently reclassified as investment property due to the change in anticipated use by the company. All land and buildings at the company's main administrative site, with the exception of the Armagh district substation, are now classified as investment property.

As at 31 March 2010, reflecting that redevelopment was considered the highest and best use of the investment property, a sales comparison approach was adopted by the valuer, using the most recent land sales evidence to assist in analysis of underlying land values.

	Software $000	Other $000	Total $000

21. Other intangible assets

Consolidated group

	Software $000	Other $000	Total $000
Gross carrying amount			
Balance as at 1 April 2009	7,185	2,100	9,285
Additions	2,222	-	2,222
Additions from internal developments	400	-	400
Balance as at 31 March 2010	9,807	2,100	11,907
Additions	1,385	-	1,385
Additions from internal developments	229	-	229
Balance as at 31 March 2011	11,421	2,100	13,521
Accumulated amortisation and impairment			
Balance as at 1 April 2009	4,430	1,680	6,110
Amortisation expense	1,281	210	1,491
Reclassification to prepayment	-	210	210
Balance as at 31 March 2010	5,711	2,100	7,811
Amortisation expense	1,489	-	1,489
Balance as at 31 March 2011	7,200	2,100	9,300
Net book value as at 31 March 2010	4,096	-	4,096
Net book value as at 31 March 2011	4,221	-	4,221

Capital work in progress included above is $386,000.

Parent entity

	Software $000	Other $000	Total $000
Gross carrying amount			
Balance as at 1 April 2009	6,720	2,100	8,820
Additions	2,208	-	2,208
Additions from internal developments	400	-	400
Balance as at 31 March 2010	9,328	2,100	11,428
Additions	977	-	977
Additions from internal developments	229	-	229
Balance as at 31 March 2011	10,534	2,100	12,634
Accumulated amortisation and impairment			
Balance as at 1 April 2009	3,993	1,680	5,673
Amortisation expense	1,263	210	1,473
Reclassification to prepayment	-	210	210
Balance as at 31 March 2010	5,256	2,100	7,356
Amortisation expense	1,473	-	1,473
Balance as at 31 March 2011	6,729	2,100	8,829
Net book value as at 31 March 2010	4,072	-	4,072
Net book value as at 31 March 2011	3,805	-	3,805

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

Notes to the financial statements continued

For the year ended 31 March 2011

	Group 2011 $000	Group 2010 $000	Parent 2011 $000	Parent 2010 $000
22. Current trade and other payables				
Trade payables	22,974	14,588	25,201	14,643
Interest payable	20	50	20	50
Employee entitlements	5,107	4,618	2,276	2,029
GST payable	284	909	-	590
Other	304	320	304	320
	28,689	20,485	27,801	17,632

23. Current borrowings

	Group 2011 $000	Group 2010 $000	Parent 2011 $000	Parent 2010 $000
Unsecured at amortised cost				
Finance lease liability (refer to note 32)	80	81	80	81
Bank loans	-	37,200	-	37,200
	80	37,281	80	37,281

As at 31 March 2010, $130m of bank loan facilities were due to mature on 30 September 2010. Subsequent to 31 March 2010, the facilities were extended to mature on 31 December 2010 and the facility limit was reduced to $90m. In December 2010 the company negotiated $90m of new facilities which mature in December 2014 ($40m) and December 2015 ($50m). As at 31 March 2011 these facilities are classified as non-current borrowings.

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

24. Other current financial liabilities

	Group 2011 $000	Group 2010 $000	Parent 2011 $000	Parent 2010 $000
Interest rate swaps	-	327	-	327
Foreign currency forward contracts	-	20	-	20
	-	347	-	347

25. Current provisions

	Group 2011 $000	Group 2010 $000	Parent 2011 $000	Parent 2010 $000
Employee benefits - long service leave (refer to note 28)	95	100	51	50

26. Non current borrowings

	Group 2011 $000	Group 2010 $000	Parent 2011 $000	Parent 2010 $000
Unsecured at amortised cost				
Bank loans (refer to note 23)	31,600	-	31,600	-
Finance lease liability (refer to note 32)	4,797	4,912	4,797	4,912
	36,397	4,912	36,397	4,912

All parent company bank debt is unsecured against the company, however a deed of negative pledge and guarantee requires the company to comply with certain covenants. The facilities mature on 17 December 2014 ($40m) and 17 December 2015 ($50m). 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 2011 this rate (including margin) averaged 3.22% (2010: 3.06%). The company has entered into derivative contracts to hedge its exposure to bank bill interest rate fluctuations (refer to note 41). Daily commitment fees are also payable on the facilities.

	Group 2011 $000	Group 2010 $000	Parent 2011 $000	Parent 2010 $000
27. Other non current financial liabilities				
Interest rate swaps	1,212	-	1,212	-
28. Non current provisions				
Employee benefits - long service leave	945	839	584	525

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 5.71% (2010: 6.07%)
- salary inflation 2.5% (2010: 2.5%)
- discount rate 0.95% (2010: 0.94%).

29. 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.

30. Reserves

The asset revaluation reserve arises on the revaluation of the company's electricity distribution network and land and buildings. Where a revalued asset is sold or disposed, that portion of the asset revaluation reserve which relates to that asset is effectively realised and is transferred directly to retained earnings. Where a revalued asset is impaired that portion of the asset revaluation reserve which relates to that asset is removed from the revaluation reserve to offset the impairment.

	2011 cents per share	2010 cents per share	2011 $000	2010 $000
31. Dividends				
Recognised amounts:				
Dividends paid on fully paid ordinary shares (fully imputed)	46.875	46.25	37,500	37,000

Notes to the financial statements continued

For the year ended 31 March 2011

32. Leases

	Group 2011 $000	Group 2010 $000	Parent 2011 $000	Parent 2010 $000
Operating lease commitments				
No later than one year	677	687	65	75
Later than one year and not later than five years	959	1,612	210	251
Later than five years	456	558	456	558
	2,092	2,857	731	884
Non-cancellable operating lease receivables				
No later than one year	148	544	148	544
Later than one year and not later than five years	282	861	282	861
Later than five years	2	2	2	2
	432	1,407	432	1,407

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 buildings under operating leases, with commitments until 1 April 2014 and an operational right of renewal every three years until 31 March 2020.

Non-cancellable operating lease receivables

Until the earthquake on 22 February 2011, the company leased land and buildings at its head office site in the CBD to a variety of tenants, on a range of different terms. Due to the severe damage caused to the buildings by the earthquake and a lack of access to the CBD it is likely that the leases will not run to completion. The company also leases some land adjacent to substation sites to a range of tenants. These leases are incidental to the company's principal business.

	Minimum future lease receivables		Present value of minimum future lease receivables	
	2011 $000	2010 $000	2011 $000	2010 $000
Finance lease receivable				
No later than one year	26	26	20	18
Later than one year and not later than five years	52	78	47	67
Minimum future lease payments	78	104	67	85
Less unearned finance income	(11)	(19)	-	-
Present value of minimum lease payments	67	85	67	85
Included in the financial statements as:				
Current trade and other receivables			20	18
Non current trade and other receivables			47	67
			67	85

32. Leases continued

	Minimum future lease payables 2011 $000	Minimum future lease payables 2010 $000	Present value of minimum future lease payables 2011 $000	Present value of minimum future lease payables 2010 $000
Finance lease liability				
No later than one year	440	412	80	81
Later than one year and not later than five years	1,763	1,648	400	398
Later than five years	9,903	9,585	4,397	4,514
Minimum lease payments	12,106	11,645	4,877	4,993
Less future finance charges	(7,229)	(6,652)	-	-
Present value of minimum lease payments	4,877	4,993	4,877	4,993
Included in the financial statements as:				
Current borrowings (refer to note 23)			80	81
Non current borrowings (refer to note 26)			4,797	4,912
			4,877	4,993

Finance lease receivable

The finance lease receivable on the previous page 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 amount may be reviewed annually by Transpower and the risk-free portion of the interest rate may be adjusted. The company is the only entity in the group which has a finance lease liability.

Notes to the financial statements continued

For the year ended 31 March 2011

33. Notes to the statement of cash flows

	Group 2011 $000	Group 2010 $000	Parent 2011 $000	Parent 2010 $000
Reconciliation of profit for the year to net cash flows from operating activities				
Net profit	28,360	46,795	28,187	47,031
Adjustments				
Gain on disposal of property, plant and equipment	(47)	(133)	(21)	(29)
Gain on disposal of investment	(307)	(62)	-	-
Loss on revaluation of investment property	491	7	491	7
Net change in fair value of derivatives	1,160	(815)	1,160	(815)
Depreciation and amortisation of non current assets	36,407	35,487	35,023	33,993
Impairment loss on revaluation of property, plant and equipment	6,288	838	6,288	838
Electricity distribution network assets decommissioned	3,334	-	3,334	-
Impairment of financial assets	1,707	65	1,515	45
Replaced assets written off	1,477	1,089	1,477	1,089
Non-cash vested assets revenue	(3,829)	(3,824)	(3,829)	(3,824)
	46,681	32,652	45,438	31,304
Changes in tax balances				
Increase/(decrease) in current tax liability	(632)	1,366	(1,088)	1,613
Increase/(decrease) in deferred tax liability	(540)	2,279	(441)	2,283
(Increase)/decrease in assets				
Current receivables	(758)	2,919	(1,390)	3,690
Current inventories	(1,616)	436	(339)	376
Other current assets	(858)	342	(783)	342
Non current receivables	20	18	20	18
Increase/(decrease) in liabilities				
Current payables	5,849	(2,120)	7,814	(2,353)
Current provisions	(5)	(76)	1	(76)
Non current provisions	106	32	59	4
	1,566	5,196	3,853	5,897
Net cash from operating activities	76,607	84,643	77,478	84,232
Financing facilities				
Unsecured bank overdraft facility, reviewed annually and payable at call:				
Amount used	-	-	-	-
Amount unused	500	500	500	500
	500	500	500	500
Unsecured bank loan facilities maturing 17 December 2014 ($40m) and 17 December 2015 ($50m). (2010: $130m maturing on 30 September 2010).				
Amount used	31,600	37,200	31,600	37,200
Amount unused	58,400	92,800	58,400	92,800
	90,000	130,000	90,000	130,000

34. Related party transactions

Group structure

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

Other related parties include:

- subsidiaries (refer to note 42)
- associate (refer to note 42)
- the various subsidiaries of the Christchurch City Council (CCC) and the Selwyn District Council (SDC)
- the group's key management personnel (refer to note 35).

The group undertakes many transactions with CCC and SDC and their related parties, all of which are carried out on a commercial and arms-length basis. During the year no material transactions, other than the payment of dividends to CCHL and SIHL, were entered into with related parties.

	Group 2011 $000	Group 2010 $000	Parent 2011 $000	Parent 2010 $000
Transactions during the year				
Dividends paid by Orion New Zealand Limited to CCHL and SIHL	37,500	37,000	37,500	37,000
Purchases from CCC/SDC	2,067	2,158	2,055	2,135
Revenues from CCC/SDC	4,646	5,427	632	1,260
Purchases from subsidiaries	-	-	29,805	25,115
Revenues from subsidiaries (including interest and excluding reimbursements of payments made on behalf of the subsidiaries)	-	-	430	387
Revenues from associate	286	276	286	276
Purchases from other related parties	1,111	622	810	386
Revenues from other related parties	1,374	604	482	279
Outstanding balances as at 31 March				
Accounts payable to CCC/SDC	93	7	93	4
Accounts receivable from CCC/SDC	846	660	-	67
Accounts payable to subsidiaries	-	-	8,518	3,593
Accounts receivable from subsidiaries	-	-	944	178
Accounts receivable from associate	-	219	-	219
Accounts payable to other related parties	38	40	34	7
Accounts receivable from other related parties	462	55	240	24
Loans outstanding from subsidiaries	-	-	5,278	5,964

Notes to the financial statements continued

For the year ended 31 March 2011

34. Related party transactions continued

Orion New Zealand Ventures Limited

In the year ended 31 March 2011, the company wrote down the value of its intercompany advance to Orion New Zealand Ventures Limited by $1,515,000 (2010: $45,000) on the basis that the net assets of this subsidiary did not support the $5.4m debt to the parent.

4RF Communications Limited

The group assessed a $524,000 loan to an associate to be impaired, and expensed the amount through the income statement in the year ended 31 March 2007. In the year ended 31 March 2011, $166,000 of interest due on convertible notes in the associate was written off as not recoverable (2010: $164,000 considered impaired and expensed).

Other transactions involving related parties

The group paid directors' fees totalling $280,000 (2010: $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, with the exception of one employee who purchased a second-hand vehicle from the group for $10,667 (2010: all less than $2,000 with the exception of one employee who purchased a second-hand vehicle from the group for $24,000). A total of $831 was due from key management personnel as at 31 March 2011 (2010: nil). All transactions were conducted on standard commercial terms and, in the case of the second-hand vehicle, was based on independent market valuations.

During the year ended 31 March 2011 the following transactions occurred between the group and an organisation in which a key management person of the group holds a position of control:

- Energy Efficiency and Conservation Authority (EECA) of which a former group employee was the chairman. EECA reimbursed meeting expenses to the group totalling $5,046 (2010: $10,788). The group provided sponsorship of $5,000 to EECA in 2010. There was no balance due to the group from EECA as at 31 March 2011 (2010: $1,313). EECA provides policy advice that can impact on the group and is also responsible for setting minimum energy performance standards for certain equipment that the group may purchase.
- Electricity Supply Industry Training Organisation (ESITO) of which a group employee is a director and a former group employee was a director. The group received training subsidies, directors' fees and property occupancy income from ESITO of $55,211 (2010: $59,808). The group paid membership fees, sponsorship and training costs to ESITO of $7,576 (2010: $28,089). There was a balance due to the group from ESITO as at 31 March 2011 of $5,175 (2010: $5,928).
- Electricity Engineers' Association (EEA) of which one current and one former group employee are executive committee members. The group paid sponsorship, membership and course fees totalling $82,143 (2010: $49,907) and received reimbursements for travel costs of $1,499 (2010: $10,115). There was no balance due from the group to the EEA as at 31 March 2011 (2010: $10,019). There was a balance due to the group by the EEA as at 31 March 2011 of $784 (2010: nil).
- Electricity Networks Association (ENA) of which a former group employee was a board member. The group paid a subscription and consultancy costs to ENA of $87,450 (2010 subscription: $48,000).
- Power Engineering Excellence Trust (PEET) and Electric Power Excellence Centre (EPEC) (both managed by the University of Canterbury) of which a group employee is a trustee and board member respectively. The group paid membership fees of $20,000 to PEET (2010: $20,000) and sponsorship of $6,000 to EPEC in 2010.

All transactions with EECA, ESITO, EEA, ENA, PEET and EPEC were conducted on normal commercial terms. A director of the company was also a councillor of the Christchurch City Council in the years ended 31 March 2011 and 31 March 2010.

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.

	Group 2011 $000	Group 2010 $000	Parent 2011 $000	Parent 2010 $000

35. Key management personnel

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

	Group 2011 $000	Group 2010 $000	Parent 2011 $000	Parent 2010 $000
Salaries and short-term employee benefits			2,629	2,763
Termination benefits			-	-
			2,629	2,763

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

36. Commitments for expenditure

	Group 2011 $000	Group 2010 $000	Parent 2011 $000	Parent 2010 $000
Capital expenditure commitments				
Electricity distribution network	10,468	3,607	10,468	3,607
Intangible assets	2,092	803	1,160	803

Lease commitments (refer to note 32)

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

37. Contingent liabilities and contingent assets

	Group 2011 $000	Group 2010 $000	Parent 2011 $000	Parent 2010 $000
Contingent liabilities				
Performance bonds in relation to contract work	657	350	-	-

The group is a participating employer in the National Provident Fund's Defined Benefit Plan Contributors Scheme (the scheme) which is a multi-employer defined benefit superannuation scheme. If the other participating employers ceased to participate in the scheme, the group could be responsible for the entire deficit of the scheme (refer to note 38). Similarly, if a number of employers ceased to participate in the scheme, the group could be responsible for an increased share of the deficit. The group estimates that during the next financial year the group's contribution to the scheme will be nil as employer contributions have been suspended by the Fund's actuary from 1 April 2011 (2010: $39,000).

Contingent assets

The group will lodge insurance claims in relation to damage incurred from the Canterbury earthquakes. However, as at 31 March 2011 no claims have yet been lodged. The quantum of the likely insurance proceeds cannot be reliably estimated. Refer to note 40 for further details.

Other than those described above, the group had no material or significant contingent liabilities or contingent assets as at 31 March 2011 or 31 March 2010.

38. Defined benefit superannuation scheme

As outlined in note 37, the group contributes to a multi-employer defined benefit superannuation scheme (the scheme) operated by the National Provident Fund. The Fund has advised that insufficient information is available to use defined benefit accounting as it is not possible to determine, from the terms of the scheme, the extent to which the deficit will affect future contributions by employers, as there is no prescribed basis for allocation.

As at 31 March 2010, the scheme had an estimated past service surplus of $43.6m (18.2% of the estimated liabilities). This amount is exclusive of specified superannuation contribution withholding tax. This surplus was calculated by the actuary to the scheme using a discount rate equal to the expected return on the assets, but otherwise the assumptions and methodology were consistent with the requirements of NZ IAS 19 – 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 2011 is not available at the date of preparation of these financial statements.

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

Notes to the financial statements continued

For the year ended 31 March 2011

39. Significant events after balance date

Mr Roger Sutton, chief executive officer, resigned effective 31 May 2011 to take up the position of chief executive officer of the Canterbury Earthquake Recovery Authority. Mr Geoff Vazey, a director, was appointed acting chief executive officer until the appointment of a new chief executive officer.

Aftershocks of magnitude 5.7 and 6.3 on 13 June 2011 caused further damage to the electricity distribution network, as discussed in note 40 below.

Other than these two events noted above, the directors are unaware of any other significant events between the preparation and authorisation of these financial statements on 22 July 2011.

40. Impact of the Canterbury earthquakes

The purposes of this note are to disclose the:

- estimated material impacts of the earthquake on the financial performance and financial position of the company and 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 affected by a magnitude 6.3 earthquake on 22 February 2011. The estimated impacts of this earthquake on the company's electricity distribution network and head office buildings were around ten times the impacts of each of the 4 September 2010 (magnitude 7.1) and 13 June 2011 (magnitude 5.7 and 6.3) earthquakes.

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 the company's customers were reconnected by nightfall. Following the 22 February 2011 earthquake, it took over a week to restore power supply to over 90% of the company's customers. Due to the severity of the earthquakes the company has been unable to calculate its SAIDI/SAIFI performance for the year ended 31 March 2011 – however it is clear that the company did not meet its electricity distribution network reliability targets, as set out in the statement of performance, by a very wide margin.

Financial impacts – the damage

The impact on the company's electricity distribution network was as follows:

- overhead lines were relatively undamaged, with relatively minor repairs required
- high voltage underground cables were damaged – particularly in the eastern suburbs of the city – due to ground movement. Many of the company's 11kV underground cables in those areas now need repairs. The company's four key 66kV underground cables that feed the eastern suburbs from Transpower's Bromley grid exit point were also extensively damaged and have been decommissioned. The carrying value of these cables was $3.3m which was derecognised and expensed in the year ended 31 March 2011. The company has since built an emergency temporary 66kV overhead line to replace the decommissioned cables, at a cost of approximately $1.6m
- substations were relatively undamaged, however two of our smaller substations were destroyed (Sumner and Mt Pleasant) and one major substation (New Brighton) suffered subsidence and liquefaction but its equipment survived.

The company's New Brighton zone substation is being rebuilt in a different location from its current Pages Road site –1.5km away in Rawhiti Domain (Keyes Road). It is uncertain how much of the estimated rebuild costs will be covered by the company's insurance underwriters. The estimated cost for this substation rebuild is $4m, excluding the estimated costs of purchasing the land or obtaining an easement over the land and extending lines and cables to the new site.

A full survey of damage and an assessment of required remedial action for all of the company's electricity distribution network is underway. It will be several months before this work is completed and findings collated.

The company's main head office buildings suffered significant damage. The buildings are currently 'yellow stickered' and are unable to be used. Detailed engineering assessments are underway. Once those assessments are complete, long-term decisions will be made in conjunction with the company's insurance underwriters. The possible outcomes include:

- uneconomic to repair – full replacement to be built to modern standards
- economic to repair – in conformance with council planning requirements
- negotiated cash settlement with insurance underwriters – with the buildings partly or wholly demolished or sold 'as is where is'.

As discussed below, no insurance proceeds have been recognised in these financial statements.

40. Impact of the Canterbury earthquakes continued

The company estimates that the key financial impacts of the Canterbury earthquakes in the year ended 31 March 2011 were as follows (all amounts post-tax):

	Year ended 31 March 2011 $m
Impact on net profit	
Reduction in electricity delivery revenues (estimate)	2.2 *
Other earthquake costs	1.1 *
Earthquake repair costs	7.7 *
Four key 66kV underground cables decommissioned	2.3 **
Write-down of substation land	3.9
Write-down of head office land	1.3
Write-down of head office buildings	0.8 **
Write-down of investment property	0.5
	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	73.9

* After deducting the impact of income tax at 30%

** After deducting the impact of deferred tax at 30%.

Note that these amounts are the company's estimates of the material incremental costs which have arisen as a consequence of the earthquakes.

An assessment of the earthquake impacts on the company's future cash flows as they affect the company's property, plant and equipment revaluation as at 31 March 2011 is included in note 19.

Estimation uncertainty

Two keys areas of estimation uncertainty arise from the earthquake. 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 19
- assess the carrying value of the insurance proceeds receivable, the details of which are discussed below.

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's insurance policies have a combined excess of $750,000 per event for earthquakes.

The group is virtually certain to receive insurance proceeds on both policies, 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.

It is also very early in the group's insurance claims process and it will be several months before the group will be in a position to put forward definitive and detailed claims to the underwriters. 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 nil).

Notes to the financial statements continued

For the year ended 31 March 2011

41. Financial instruments

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

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

Capital management

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

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 for the year ended 31 March 2011 and the year ended 31 March 2010.

41. **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 2011 $000	Group 2010 $000	Parent 2011 $000	Parent 2010 $000
Financial assets				
Fair value through income statement:				
Derivative financial instruments	14	309	14	309
Loans and receivables at cost less impairment:				
Cash and cash equivalents	331	335	55	305
Trade and other receivables	5,811	5,332	4,075	2,954
Advances to subsidiaries	-	-	5,278	5,964
Available-for-sale at fair value:				
EnerTech Capital Partners II LP	1,263	3,100	-	-
Total financial assets	7,419	9,076	9,422	9,532
Financial liabilities				
Fair value through income statement:				
Derivative financial instruments	1,212	347	1,212	347
Amortised cost:				
Trade and other payables	23,582	15,867	25,525	15,603
Borrowings	36,477	42,193	36,477	42,193
Total financial liabilities	61,271	58,407	63,214	58,143

Fair value of financial instruments

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

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

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

Notes to the financial statements continued
For the year ended 31 March 2011

41. 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 2011			Year ended 31 March 2010		
	Valuation technique - market observable inputs (level 2) $000	Valuation technique - non market observable inputs (level 3) $000	Total $000	Valuation technique - market observable inputs (level 2) $000	Valuation technique - non market observable inputs (level 3) $000	Total $000
Consolidated group						
Financial assets						
Derivative instruments:						
Foreign exchange contracts	14	-	14	-	-	-
Interest rate swaps	-	-	-	309	-	309
Available-for-sale investments:						
EnerTech Capital Partners II LP	-	1,263	1,263	-	3,100	3,100
	14	1,263	1,277	309	3,100	3,409
Financial liabilities						
Derivative instruments:						
Foreign exchange contracts	-	-	-	20	-	20
Interest rate swaps	1,212	-	1,212	327	-	327
	1,212	-	1,212	347	-	347
Parent entity						
Financial assets						
Derivative instruments:						
Foreign exchange contracts	14	-	14	-	-	-
Interest rate swaps	-	-	-	309	-	309
	14	-	14	309	-	309
Financial liabilities						
Derivative instruments:						
Foreign exchange contracts	-	-	-	20	-	20
Interest rate swaps	1,212	-	1,212	327	-	327
	1,212	-	1,212	347	-	347

41. **Financial instruments** continued

	Group 2011 $000	Group 2010 $000	Parent 2011 $000	Parent 2010 $000
Financial assets classified as level 3 include:				
EnerTech Capital Partners II LP	1,263	3,100	-	-
4RF Communications Limited	-	-	-	-
Whisper Tech Limited	-	-	-	-
	1,263	3,100	-	-

	Group 2011 $000	Group 2010 $000	Parent 2011 $000	Parent 2010 $000
Reconciliation of level 3 fair value movements				
Opening balance	3,100	3,000	-	-
Addition	-	240	-	-
Disposal	(130)	(75)	-	-
Impairment	(1,707)	(65)	-	-
Closing balance	1,263	3,100	-	-
Total gain/(loss) stated above for assets held at the end of the period	(1,707)	(65)	-	-

Transfer between categories

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

Interest rate risk

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

Notes to the financial statements continued
For the year ended 31 March 2011

41. Financial instruments continued
Exposure to New Zealand fixed and variable interest rates

	Variable 2011 $000	Fixed 2011 $000	Non interest bearing 2011 $000	Variable 2010 $000	Fixed 2010 $000	Non interest bearing 2010 $000
Consolidated group						
Financial assets						
Cash and cash equivalents	319	-	12	328	-	7
Trade receivables	-	-	5,744	-	-	5,246
Finance lease receivables	-	67	-	-	86	-
Foreign currency forward contracts	-	-	14	-	-	-
Interest rate swap	-	-	-	-	-	309
Venture capital investment	-	-	1,263	-	-	3,100
	319	67	7,033	328	86	8,662
Financial liabilities						
Trade payables	-	-	23,278	-	-	15,547
Other payables	-	-	304	-	-	320
Bank loans	31,600	-	-	37,200	-	-
Finance lease liabilities	4,780	97	-	4,883	110	-
Foreign currency forward contracts	-	-	-	-	-	20
Interest rate swaps	-	-	1,212	-	-	327
	36,380	97	24,794	42,083	110	16,214
Net financial liabilities	36,061	30	17,761	41,755	24	7,552
Parent entity						
Financial assets						
Cash and cash equivalents	43	-	12	298	-	7
Trade receivables	-	-	4,008	-	-	2,868
Finance lease receivables	-	67	-	-	86	-
Foreign currency forward contracts	-	-	14	-	-	-
Interest rate swaps	-	-	-	-	-	309
Related party loans	3,991	-	1,287	2,723	-	3,241
	4,034	67	5,321	3,021	86	6,425
Financial liabilities						
Trade payables	-	-	25,221	-	-	15,283
Other payables	-	-	304	-	-	320
Bank loans	31,600	-	-	37,200	-	-
Finance lease liabilities	4,780	97	-	4,883	110	-
Foreign currency forward contracts	-	-	-	-	-	20
Interest rate swaps	-	-	1,212	-	-	327
	36,380	97	26,737	42,083	110	15,950
Net financial liabilities	32,346	30	21,416	39,062	24	9,525

41. **Financial instruments** continued

Interest rate swap contracts outstanding at balance date

Under interest rate swap contracts, the group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. The economic effect of such contracts is to convert a portion of the company's floating rate debt into fixed rate debt. All swap contracts within the group are held by the company. The fair values of interest rate swaps are based on market values of equivalent instruments at the reporting date and are disclosed below. The group has not designated any swap contracts as hedges and has not adopted hedge accounting for its interest rate swap contracts.

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

	Average contracted fixed interest rate		Notional principal amount		Fair value	
	2011	2010	2011	2010	2011	2010
	%	%	$000	$000	$000	$000
Outstanding floating for fixed contracts:						
Less than 1 year	-	6.87	-	10,000	-	(327)
1 to 2 years	3.95	-	14,000	-	(201)	-
5 to 6 years	5.14	-	30,000	-	(1,011)	-
6 to 7 years	-	5.14	-	30,000	-	309
			44,000	40,000	(1,212)	(18)

Interest rate sensitivity

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

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

As at 31 March 2011 it was estimated that a general increase of one percentage point in interest rates on the group's borrowings would increase the group's profit before income tax by approximately $1,942,000 (2010: increase by $3,363,000). A decrease in interest rates of one percentage point would decrease the group's profit before income tax by approximately $4,445,000 (2010: decrease by $3,493,000). When interest rates rise the benefit from the revaluation of the 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 due to any extra spending due to the Canterbury earthquakes.

Notes to the financial statements continued

For the year ended 31 March 2011

41. Financial instruments continued

Foreign currency risk

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

	AUD $000	EURO $000	CHF $000
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)
Exposure to foreign currency transactions 31 March 2010			
Foreign currency risk			
Trade receivables	1	76	-
Trade payables	(56)	(1)	-
Net balance sheet exposure before hedging activity	(55)	75	-
Estimated forecast purchases	-	(253)	-
Net cash flow exposure before hedging activity	-	(253)	-
Hedged by:			
Forward exchange contracts – notional amounts	-	253	-
Foreign currency on hand	23	-	-
Net (unhedged exposure)/surplus assets	(32)	75	-

41. **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	
	2011	2010	2011 FC000	2010 FC000	2011 NZ$000	2010 NZ$000	2011 NZ$000	2010 NZ$000
Buy EURO up to 3 months	-	0.49	-	147	-	298	-	(19)
Buy EURO 3 to 6 months	0.55	0.52	260	107	472	206	14	(1)

As at the reporting date, the aggregate amount of unrealised gains under forward foreign exchange contracts relating to anticipated future transactions is $14,100 (2010: $20,200). The group has not designated any forward foreign exchange contracts as hedges.

Foreign exchange sensitivity

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

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

	2011 $000	2010 $000
Decrease of 10%	68	33
Increase of 10%	(30)	(64)

There would be no impact on other comprehensive income.

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

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

Notes to the financial statements continued

For the year ended 31 March 2011

41. Financial instruments continued

Liquidity risk

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

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

As disclosed in note 23, as at 31 March 2010, the company's $130m bank facilities matured on 30 September 2010. Subsequent to 31 March 2010, the company and its bank counterparties agreed to extend the facilities to mature on 31 December 2010 and agreed to reduce the combined limit to $90m.The company then put four and five year replacement bank debt facilities totalling $90m in place on 17 December 2010.

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.

41. **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
Consolidated 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
Consolidated group as at 31 March 2010						
Financial assets						
Cash and cash equivalents	335	335	335	-	-	-
Trade and other receivables	5,247	5,247	5,247	-	-	-
Finance lease receivable	85	104	26	26	52	-
Interest rate swaps	309	(3,900)	(767)	(767)	(2,302)	(64)
Total financial assets	5,976	1,786	4,841	(741)	(2,250)	(64)
Financial liabilities						
Trade and other payables	15,867	15,867	15,867	-	-	-
Finance lease liability	4,993	11,645	412	412	1,236	9,585
Unsecured loans	37,200	37,200	37,200	-	-	-
Interest on unsecured loans	-	569	569	-	-	-
Forward foreign exchange contract	20	-	-	-	-	-
Interest rate swaps	327	393	393	-	-	-
Total financial liabilities	58,407	65,674	54,441	412	1,236	9,585

Notes to the financial statements continued

For the year ended 31 March 2011

41. Financial instruments continued

Contractual cash flows and maturity analysis 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 entity 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
Parent entity as at 31 March 2010						
Financial assets						
Cash and cash equivalents	305	305	305	-	-	-
Trade and other receivables	2,869	2,869	2,869	-	-	-
Finance lease receivable	85	104	26	26	52	-
Related party loans	5,964	5,964	5,964	-	-	-
Interest rate swaps	309	(3,900)	(767)	(767)	(2,302)	(64)
Total financial assets	9,532	5,342	8,397	(741)	(2,250)	(64)
Financial liabilities						
Trade and other payables	15,603	15,603	15,603	-	-	-
Finance lease liability	4,993	11,645	412	412	1,236	9,585
Unsecured loans	37,200	37,200	37,200	-	-	-
Interest on unsecured loans	-	569	569	-	-	-
Forward foreign exchange contract	20	-	-	-	-	-
Interest rate swaps	327	393	393	-	-	-
Total financial liabilities	58,143	65,410	54,177	412	1,236	9,585

41. Financial instruments continued

Credit risk

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

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

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

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

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

	Group 2011 $000	Group 2010 $000	Parent 2011 $000	Parent 2010 $000
Cash and cash equivalents	331	335	55	305
Trade and other receivables	5,811	5,332	4,075	2,954
Related party loans	-	-	5,278	5,964
Derivative financial instruments	14	309	14	309
	6,156	5,976	9,422	9,532

The credit quality of financial assets is as follows:

	Counterparties' credit ratings				
Cash and cash equivalents	AA	331	335	55	305
Derivative financial instruments	AA	14	309	14	309
Related party loans	Unrated	-	-	5,278	5,964

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.

42. Group entities

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

	Designation 2011	Effective ownership 2011	Effective ownership 2010	Year end
Connetics Limited	Subsidiary	100%	100%	31 March
Orion New Zealand Ventures Limited	Subsidiary	100%	100%	31 March
4RF Communications Limited	Associate	23%	26%	31 March
Whisper Tech Limited	Investment	4%	4%	30 June

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

Performance statement – financial

For the year ended 31 March 2011

	Status	Notes	Consolidated actual 2011	Statement of intent target 2011	Consolidated actual 2010
Financial					
Net profit ($m)	Not achieved	1, 2	28.4	39.4	46.8
Net profit to average shareholders' equity (%)	Not achieved	1, 2	4.3	5.9	6.7
Dividends ($m)	Achieved	3	37.5	37.5	37.0
Share buy-back ($m)	Not achieved	4	-	82.0	-
Debt (%)	Achieved		6	19	6
Equity (%)	Achieved		94	81	94
Equity/total assets (%)	Achieved		73	63	73

Notes:

1. The actual profit for the year ended 31 March 2010 above is restated as net profit ($46.8m). This amount was previously disclosed as total comprehensive income after tax ($45.7m). Net profit to average shareholders' equity for the year ended 31 March 2010 (6.7%) is also restated based on net profit of $46.8m. This percentage was previously based on total comprehensive income after tax and was disclosed as 6.5%.
2. The group did not achieve its statement of intent target net profit or net profit to average shareholders' equity primarily due to the Canterbury earthquakes which reduced the group's net profit after tax by $19.8m (refer to note 40).
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 share buy-back did not take place prior to 31 March 2011. At the time of the earthquake on 22 February 2011 the company had not received the binding ruling from the Commissioner of Inland Revenue and as a result of that earthquake has not proceeded any further.

Performance statement – electricity network reliability

For the year ended 31 March 2011

	Actual 2011	Statement of intent target 2011	Actual 2010	Gazetted NZ weighted average 2010
Reliability – all interruptions (including Transpower):				
Duration of supply interruptions in minutes per year per connected customer (SAIDI)				
• urban	See note 1	20	21	
• rural	See note 1	432	412	
• overall network	See note 1	68	70	150
Number of supply interruptions per year per connected customer (SAIFI)				
• urban	See note 1	0.5	0.2	
• rural	See note 1	4.0	3.6	
• overall network	See note 1	0.9	0.7	1.8
Reliability – Orion network interruptions only:				
Duration of supply interruptions in minutes per year per connected customer (SAIDI)				
• urban	See note 1	19	21	
• rural	See note 1	412	342	
• overall network	See note 1	64	61	126
Number of supply interruptions per year per connected customer (SAIFI)				
• urban	See note 1	0.4	0.2	
• rural	See note 1	3.6	2.9	
• overall network	See note 1	0.8	0.6	1.6

Notes:

1. Not achieved. The 4 September 2010 and 22 February 2011 earthquakes in Canterbury and the many aftershocks had a very significant negative impact on the company's electricity network reliability performance in the year ended 31 March 2011. It has not been possible to calculate a reliable estimate of the company's SAIDI/SAIFI performance for the year ended 31 March 2011 in time for the approval of the audited financial statements. However, it is known that the company did not achieve its reliability targets for the year ended 31 March 2011 by a very large margin due to the impacts of the earthquakes.

2. SAIDI and SAIFI measures are international industry standard measures used to assess network performance. The gazetted industry averages noted above are for all New Zealand electricity distribution networks and include rural and urban networks. Our electricity distribution network includes a significant rural component.

3. 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.

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

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

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

5. The company's statement of intent targets are annual averages for a three-year forecast period. In any one year actual results could be above or below the company's targets. The company's targets are consistent with the current Commerce Commission price-quality regime. In future years the company's statement of intent targets will need to be carefully considered due to the impact of the recent earthquakes on the company's network.

Performance statement – environment

For the year ended 31 March 2011

1. **Continue to undertake and encourage demand side management**

   Target date: 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. MWH recommended five environmental targets for the company to focus on. Targets 1, 2 and 3 of this performance statement arose from MWH's report. The other two targets were completed last financial year.

   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). The consultants reported that the company already achieves significant carbon savings through its existing DSM initiatives.

   Over the last year the company has continued to implement an upper South Island centralised load management control system in co-operation with other upper South Island electricity distribution businesses. This system, which the company successfully trialled in 2009, quantifies the benefits of co-ordinated control and provides a platform for future DSM initiatives. The company is currently examining longer term funding for the system, which is transferable to other New Zealand regions to potentially bring further environmental gains.

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

   Target date: March 2011

   Status: Complete

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

   MWH recommended that Orion and Connetics employees who drive operational vehicles be trained in how to drive efficiently and how to maintain vehicles for maximum energy efficiency. In the 31 March 2010 financial year the company's and Connetics' operational employees who drive the most went on such a course combined with a safe driving component. In the year ended 31 March 2011, a further two Orion employees completed the course.

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

   Target date: March 2011

   Status: Complete

   MWH identified that 3.5% of the company's annual carbon impact is from fuel usage in vehicles. The company has reviewed its operational fleet to ensure that, where practicable, efficient vehicles are purchased. The company's ongoing replacement policies mean that it gains the benefits of newer fuel efficient technology as our vehicles are replaced. However, for operational vehicles, 'fitness for purpose' and safety are the most important factors. Connetics has undertaken a similar review.

   Over the last year the company has worked with its contractors to determine the vehicle types that are utilised for its operations. The company has promoted the use of fuel efficient plant with its larger contractors, and the Orion contracting model indirectly incentivises contractors to run efficient vehicles.

   The efficiency of the operational fleet vehicles of the company's main contractors compares favourably according to New Zealand fleet statistics. A comparison of the company's contractor statistics against the New Zealand Vehicle Fleet averages (Ministry of Transport, "The New Zealand Vehicle Fleet - annual fleet statistics 2009" March 2010), shows that for light fleet the company's contractors operate 57% fuel type diesel with an average age of 7.1 years against the NZ average of 16% and more than 12.5 years; and for trucks the company's contractors operate 100% fuel type diesel with an average age of 9.8 years against the NZ average of 98.2% and more than 14.2 years.

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

   Target date: 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 the trust with financial sponsorship of $150,000 in the 2011 financial year.

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

   Target date: March 2011

   Status: Complete

   As noted on the previous page, the company committed $150,000 of financial support to CEA in the financial year ended 31 March 2011. Due to earthquake damage to its premises, CEA has not been able to access some files so cannot provide an exact number of the low income homes insulated as a result of financial support from Orion. However, CEA has indicated that this target was met.

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

   Target date: 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' suggested by the strategy
   - continue to seek ways to reduce peak loads on the company's network and increase its network load factor
   - obtain better, more accurate real-time data of the company's network loadings. This allows for more efficient network planning and investment to meet load growth.

   The company's policies for the connection of distributed generation to its network enable the safe and efficient connection of a range of local generation. The company's policies and procedures in this area are rated very highly in terms of ease of network connection compared with 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 recently established Christchurch Agency for Energy (CAfE). CAfE will develop and implement initiatives to improve energy efficiency in Christchurch. The company's former chief executive officer, Roger Sutton, was a trustee of the new agency and following Mr Sutton's departure from Orion in May 2011 this role was filled by Rob Jamieson, the company's general manager commercial.

7. **Investigate the use of environmental paints on Orion's network**

   Target date: March 2011

   Status: Complete

   We utilise large quantities of paint at our head office and on network equipment such as kiosks and substation buildings. Paint can contain components that impact adversely on the environment – potentially releasing solvents and toxic substances during production, application, the service life of the coating and disposal.

   The vast majority of paint the company uses is now sourced from the Resene Environmental Choice product range. Environmental Choice is a programme endorsed by the Ministry for the Environment. The programme aims to improve the quality of the environment by minimising the adverse environmental impacts generated by product use, including paint. Some paints used by the company cannot be replaced by paint in the Environmental Choice product range at this stage. The company will continue to monitor the Environmental Choice product range as it expands over time, so it can switch paint product when possible.

8. **Investigate the use of electrical smart sockets in our head office**

   Target date: March 2011

   Status: Postponed

   Computers, printers and photocopiers use considerable amounts of energy if left on during non-work hours. In recent years several large overseas corporations have successfully introduced 'electrical smart sockets' into their offices. A smart socket detects if a piece of office equipment is not being used and switches it into hibernation. The device then turns the unit back on at a selected time before workers need to use it.

   The company ordered a number of smart sockets in mid 2010. The smart sockets have arrived in New Zealand and are now being tested to ensure they meet New Zealand standards. The company will trial these sockets across two of the company's departments, with energy consumption monitored to determine if a wider rollout is justified.

   The smart sockets were not installed in our head office prior to the 22 February earthquake due to delivery and testing delays. As this head office is now uninhabitable and our office location over the coming years is uncertain, this target is postponed to a later date.

Performance statement – community and employment

For the year ended 31 March 2011

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

   Target date: March 2011

   Status: Not achieved

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

   In the year ended 31 March 2011, the company has had one employee lost time accident (2010: three) resulting in two days of lost time (2010: 16). Eight employees of the company's contractors had injury accidents in the year ended 31 March 2011 (2010: 13), which resulted in 178 days of lost time (2010: 84).

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

   Target date: March 2011

   Status: Achieved

   In the year ended 31 March 2011, no members of the public suffered injuries at the company's worksites (2010: nil).

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

   Target date: March 2011

   Status: Achieved

   The company continues to deliver a computer-based version of the Department of Labour's "Guide for Safety with Underground Services". The company now delivers this visual presentation at contractor training sessions and it has received strong support from contractors. To date, the company has presented to over 500 contractor staff in 22 contractor companies, and for its efforts also won a merit award for workplace safety at the recent Electricity Engineers' Association conference in Christchurch. As a result of this award the company delivered the presentation at the national Electricity Engineers' Association annual two-day safety workshop in October 2010.

   The company is also creating a higher profile in the rural community, with upgraded displays at local rural A & P shows. Safety messages such as keeping trees clear of power lines are a key part of that presence.

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

   Target date: November 2010

   Status: Achieved

   The company's annual staff survey was conducted in the second quarter of the financial year. Over 84% of employees completed the survey. Eleven of the 12 survey categories showed improvements from last year's survey. Teams throughout the company have discussed this year's results and put in place actions to maintain the process of continuous improvement.

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

   Target date: March 2011

   Status: Achieved

   In the year ended 31 March 2011:

   - the company had a 1.7% staff turnover (2010: 2.8%)
   - Connetics had a 4.6% staff turnover (2010: 4.7%).

6. **Continue with our 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 into 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 2011 the company employed four trainees (2010: three) in this programme. One trainee completed his training during the year (2010: one) and gained a permanent position. The company plans to increase the number of trainees over time, with the possibility of reaching seven trainees by 31 March 2012.

7. Continue to develop the Connetics apprentice scheme

Target date: March 2011

Status: Achieved

Connetics continues with this scheme to ensure that it sustainably develops and improves its overall competencies and performance. As at 31 March 2011, Connetics employed 11 apprentices (2010: 18) – nine electrical and two line mechanic. Six apprentices qualified during the year ended 31 March 2011 (2010: 11). Sixteen apprentices have qualified in the last three financial years, and 12 remain employed at Connetics. Apprentices who successfully complete their programmes receive NZQA unit-based qualifications in their chosen disciplines.

8. Continue to support the CPIT Trades Innovation Centre

Target date: Ongoing

Status: Achieved

The company's support of this centre continues, especially for the CPIT Electrical Distribution Training Centre on Sullivan Avenue, Christchurch. The company is very pleased that tangible support for the centre from other electricity distribution businesses and contractors continues to grow.

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

Target date: Ongoing

Status: Achieved

The company's 10-year network asset management plan (AMP) continues to underpin its support of the UDS. The company considers the UDS in its annual formal updates of the plan. Due to the significant impact of the February earthquake, the company has not published an updated and detailed AMP for the 10 years commencing 1 April 2011. The company expects to publish its next AMP for the 10-year period commencing 1 April 2012.

10. Finalise the company's purpose, vision and values and embed these in our business through a number of initiatives

Target date: March 2011

Status: Achieved

The company's purpose, vision and values have been finalised after consultation with our employees. The company is progressing with a customer service programme and has recently completed an internal customer service survey. This survey will enable the company to assess its progress in future. The survey helped identify some service qualities where improvements can be made. The company has also implemented a formal leadership development programme for its existing and future leaders.

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 2011

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 11 to 63, that comprise the statement of financial position as at 31 March 2011, 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 64 to 69, that report separately on financial, electricity network reliability, environmental, and community and employment targets.

Opinion on the financial statements and the performance statements

In our opinion:

- the financial statements of the company and group on pages 11 to 63:
  - 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 2011; and
    - financial performance and cash flows for the year ended on that date;
- the performance statements of the company and group on pages 64 to 69:
  - comply with generally accepted accounting practice in New Zealand; and
  - give a true and fair view of the company and group's performance achieved as compared with the forecast targets specified in the statement of intent for the year ended on 31 March 2011.

Emphasis of matter – the effect of the Canterbury earthquakes

Without qualifying our opinion, we draw your attention to note 40 on page 50 and the performance statement on page 65, which explain the effect of the Canterbury earthquakes on the company and group's financial performance and the company's ability to report numerically against forecast electricity network reliability targets as set out in its statement of intent.

Opinion on 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 22 July 2011. 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 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 other audit engagements for the company. These included issuing an audit report pursuant to the Electricity Distribution (Information Disclosure) Requirements 2008 for the year ended 31 March 2010 and an audit report pursuant to the Distribution Default Price-Quality Path Compliance Statement prepared under the Commerce Act (Electricity Distribution Default Price-Quality Path) Determination 2010 for the assessment period ended 31 March 2011. These engagements are compatible with those independence requirements.

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

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

Matters relating to the electronic presentation of the audited financial statements and performance 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 31March 2011 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 22 July 2011 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
- to respond effectively to the 4 September 2010 and 22 February 2011 earthquakes in Canterbury and all subsequent earthquakes and aftershocks
- to provide other services such as contracting in the utilities sector
- to seek investment opportunities in the infrastructure and energy sectors.

Role of the board

Orion's directors are appointed by the shareholders to govern and direct the company's activities. The board is the overall and final body responsible for the proper direction and control of the company's activities and all decision-making within the company. This responsibility includes areas of stewardship such as:

- commercial performance
- business plans and budgets
- company policies
- financial and dividend policies
- management oversight and development
- delegations of authority
- identification and management of business risks
- identification and management of business opportunities
- internal control systems
- integrity of management information systems
- relationships with stakeholders and external parties
- compliance with relevant law
- reports to shareholders.

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

Statement of intent

In accordance with section 39 of the Energy Companies Act 1992, in February each year the board submits a draft statement of intent (SOI) to its shareholders for the coming financial year. This SOI sets out the company's overall objectives and intentions, as well as financial, network reliability, environmental, community, 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 September 2011, Michael Andrews and Geoff Vazey will retire by rotation according to this rotation rule. Both directors have indicated that they are available for reappointment. Under the company's constitution, Christchurch City Holdings Limited has advised the company that it intends to reappoint both directors in September 2011.

Board operation

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

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

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

Board meetings

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

Directors receive formal agenda papers and regular reports, generally a week in advance of meetings.

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

Board committees

While the board may delegate some responsibilities and tasks to a board committee, it cannot avoid ultimate responsibility and accountability for any committee's actions or inactions. The board has two standing committees as follows:

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

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

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

Subsidiary companies

The following people held office of subsidiary companies during the year. Except where shown on page 76, 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 77.

Connetics Limited	Roger Sutton (chairman) resigned as a director on 31 May 2011, Michael Andrews (chairman from 1 June 2011), Brendan Kearney, Tasman Scott (from 30 March 2011), Geoff Vazey (from 1 June 2011), Robert Taylor (resigned on 28 May 2010).
Orion New Zealand Ventures Limited	Roger Sutton (resigned on 31 May 2011), Brendan Kearney (from 31 May 2011).

Corporate governance statement continued

Apart from the interests register entries disclosed on page 75, the further entries made in the subsidiary and other companies' interests registers were as follows:

Brendan Kearney	4RF Communications Limited	Director
Tasman Scott	Electricity Engineers' Association	Director
	Power Engineering Excellence Trust	Trustee
	Canterbury Artificial Surface Trust	Trustee
Roger Sutton	Energy Efficiency and Conservation Authority	Chairman
	4RF Communications Limited	Director
	Electricity Networks Association	Board member
Robert Taylor	Electricity Supply Industry Training Organisation	Director
	Electricity Engineers' Association	Committee member

Brendan Kearney and Tasman Scott are executive employees of the company. Roger Sutton was the chief executive officer of the company until he resigned, effective 31 May 2011. Robert Taylor was the managing director of the company's subsidiary company Connetics Limited until 28 May 2010 when he left the company.

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.

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.

Appointment as acting chief executive officer

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 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, Orion New Zealand Ventures Limited and 4RF Communications Limited on the same date.

The board negotiated an arms-length contract with one of its 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. Mr Vazey works three days per week on average in his role as acting chief executive officer. Mr Vazey has also been appointed as a director of Connetics Limited. The board has commenced its recruitment process for a permanent chief executive officer and expects that it could be several months before the appointed person commences their employment in the role.

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 2011.

Michael Andrews	CO2 New Zealand Limited	Director
	Tenon Limited	Director
	Tukia Carbon Management Company Limited	Director
	Bio-Protection Research Centre	Board member
Craig Boyce	Bernard Matthews New Zealand Limited (renamed Ovation New Zealand Limited)	Director
	Combined Rural Traders Society Limited	Director
	Connexionz Limited	Director
	Datacom Group Limited	Director
	Horizon Farming Limited	Director
	Progressive Leathers Limited	Director
	Smiths City Group Limited and subsidiaries	Director
	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	Building Society Holdings Limited	Director
	Christchurch International Airport Limited	Director
	George Gould Limited	Director
	Gloucester Cambridge Holdings Limited	Director
	Gould Holdings Limited	Director
	Milford Dart Limited	Director
	PGG Wrightson Limited	Director
	Pyne Gould Corporation Limited	Director
	Southern Hemisphere Proving Grounds Limited	Director
	Wool Partners International Limited	Director
Gail Jewell	Canterbury Development Corporation	Director
	Canterbury Economic Development Fund Trustee Limited	Director
	Christchurch City Council	Councillor
	Lifestyle Trust	Trustee
Geoff Vazey	HEB Construction Limited	Director
	Northland Port Corporation (NZ) Limited	Director
	Northport Limited	Director

Corporate governance statement continued

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.

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 2011.

	Board meetings	Audit and risk management committee meetings	Remuneration committee meetings
Number of meetings held	**9**	**4**	**1**
Craig Boyce	7	3	1
Michael Andrews	7	3	*
John Dobson	9	4	*
George Gould	8	*	1
Gail Jewell	8	3	*
Geoff Vazey	9	*	*

* Not a member of this committee

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.

Directors' remuneration

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

	Orion New Zealand Limited directors' fees $000	Subsidiary company directors' fees $000
Craig Boyce	77	-
Michael Andrews	40	13
John Dobson	45	-
George Gould	41	-
Gail Jewell	40	-
Geoff Vazey	37	-
	280	13

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 2011	Number of current and former employees 2010
100 - 110	34	30
110 - 120	13	8
120 - 130	12	3
130 - 140	5	4
140 - 150	3	5
150 - 160	-	2
160 - 170	-	2
170 - 180	5	4
180 - 190	-	2
190 - 200	1	-
200 - 210	1	-
300 - 310	1	1
310 - 320	1	2
340 - 350	-	1
380 - 390	1	-
440 - 450	1	-
460 - 470	-	1
620 - 630	1	-
680 - 690	1	-
700 - 710	-	1

Auditor

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

Five-year trends

	2011 $m	2010 $m	2009 $m	2008 $m	2007 $m
Income statement					
Operating revenue	222	222	231	209	193
EBIT	49	68	73	75	73
Profit before income tax	45	66	70	74	70
Net profit for the year	28	47	50	66	61
Balance sheet					
Current assets					
Cash and cash equivalents	-	-	1	-	-
Trade and other receivables	6	5	8	6	6
Other	7	6	6	9	12
Total current assets	13	11	15	15	18
Non current assets					
Property, plant and equipment	794	944	940	933	918
Investment property	8	5	6	6	6
Other	6	7	6	7	13
Total non current assets	808	956	952	946	937
Total assets	821	967	967	961	955
Current liabilities					
Trade and other payables	29	20	23	25	27
Borrowings	-	37	-	-	-
Other	3	5	3	1	-
Total current liabilities	32	62	26	26	27
Non current liabilities					
Borrowings	36	5	51	44	39
Deferred tax	151	193	191	191	212
Other	2	1	2	-	-
Total non current liabilities	189	199	244	235	251
Equity					
Issued capital	120	120	120	120	120
Reserves	26	124	125	130	128
Retained earnings	454	462	452	450	429
Total equity attributable to parent equity holders	600	706	697	700	677
Total liabilities and equity	821	967	967	961	955
Cash flow statement					
Operating cash flow	76	84	77	75	71
Investing cash flow	(33)	(38)	(36)	(35)	(14)
Financing cash flow	(43)	(47)	(40)	(40)	(58)
Net increase/(decrease) in cash	-	(1)	1	-	(1)
Opening cash	-	1	-	-	1
Closing cash	-	-	1	-	-

	2011 $m	2010 $m	2009 $m	2008 $m	2007 $m
Financial performance indicators					
Dividends paid	38	37	44	45	38
Net profit for the year to average ordinary shareholders' equity (%) *	4.3	6.7	7.1	9.5	10.1
External debt/debt-plus-equity ratio (parent) (%)	5.7	5.6	6.9	5.8	5.4
FFO/interest expense (times) **	27.3	28.2	46.3	46.1	29.3
EBIT coverage (times)	16.6	22.4	37.1	40.8	29.0
Non financial measures					
Electricity maximum demand (MW)	616	618	624	623	630
Electricity deliveries into the network (GWh) (includes embedded generation)	3,308	3,430	3,402	3,325	3,287
Number of customer connections (000)	193	192	190	186	183

* 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.

Directory

Directors

Craig Boyce
CHAIRMAN

Michael Andrews

John Dobson

George Gould

Gail Jewell

Geoff Vazey

Corporate management

Geoff Vazey
ACTING CHIEF EXECUTIVE OFFICER

Rob Jamieson
GENERAL MANAGER COMMERCIAL

Brendan Kearney
GENERAL MANAGER CORPORATE SERVICES

Craig Kerr
GENERAL MANAGER INFORMATION SOLUTIONS

John O'Donnell
GENERAL MANAGER INFRASTRUCTURE

Tas Scott
GENERAL MANAGER NETWORK DEVELOPMENT

Adrienne Sykes
HUMAN RESOURCES MANAGER

Head office

200 Armagh Street
PO Box 13896, Armagh
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

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
- 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
  ecan.govt.nz
- Energy Efficiency and Conservation Authority
  eeca.govt.nz
- Ministry of Economic Development
  med.govt.nz

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

oriongroup.co.nz