Orion New Zealand Limited

Statement of intent

For FY16, FY17 and FY18

10 June 2015

Contents

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A Introduction

This statement of intent (SOI) sets out Orion New Zealand Limited's (Orion's) overall intentions and objectives. This SOI also covers our wholly-owned subsidiary companies, Connetics Limited and Orion New Zealand Ventures Limited.

Orion and its subsidiaries are energy companies, pursuant to the Energy Companies Act 1992. This SOI has been prepared in accordance with section 39 of the Act and clause 11 of our company constitution.

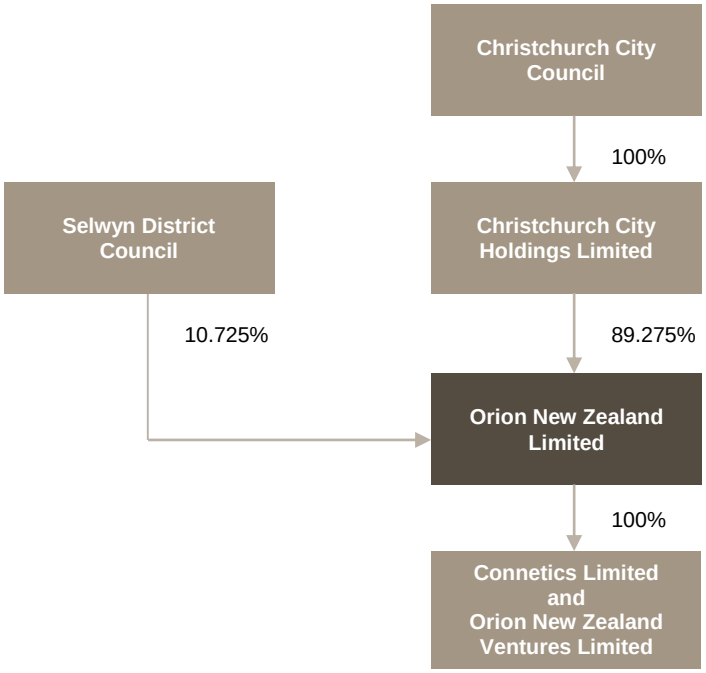
Our SOI is a public expression of the accountability relationship between Orion and its shareholders – Christchurch City Holdings Limited and the Selwyn District Council. We review and update our SOI at least annually, in consultation with our shareholders.

This SOI covers the three financial years ending 31 March 2016, 2017 and 2018. Our financial years end on 31 March and are denoted with the "FY" prefix – for example FY15 means the year ended 31 March 2015.

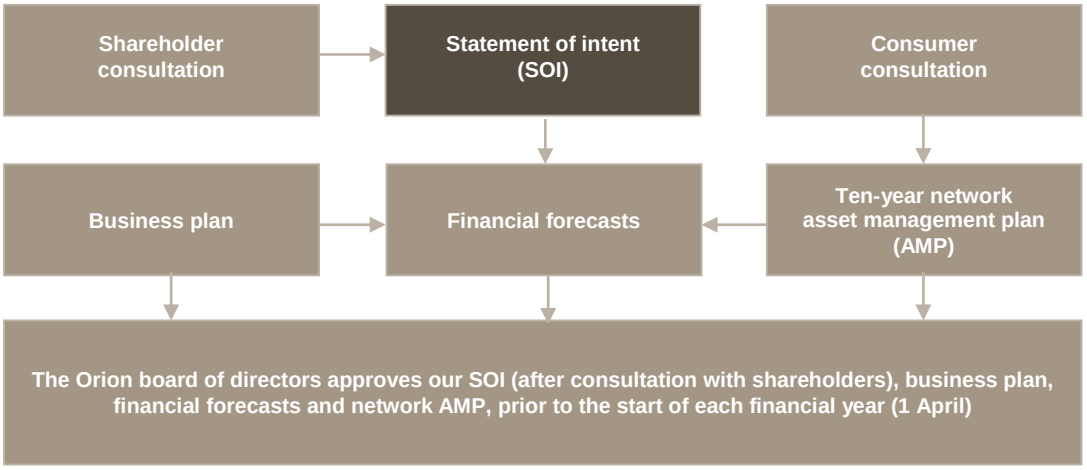
Pursuant to section 36 of the Energy Companies Act 1992, our principal objective is to operate as a successful business.

We will aim to provide consumers with a safe, resilient, reliable and efficient electricity distribution service and efficient prices. We will aim to recover our prudent and efficient costs and provide our shareholders with attractive risk-adjusted returns on their investment. These objectives are in the long term interests of electricity consumers, our shareholders and our community.

Our group structure is as follows:



The following diagram shows how this SOI sits within our planning and governance framework:



B The nature and scope of our activities

We will undertake activities to:

- plan, construct and maintain a safe, resilient, reliable and efficient electricity distribution network in the Christchurch and central Canterbury region
- recover our prudent and efficient costs
- provide efficient processes that support competition among electricity retailers and generators
- seek investment/acquisition opportunities in the infrastructure and energy sectors
- manage, grow and if appropriate, realise our other subsidiary and associate company interests.

C Our objectives

Our network resilience and reliability

A resilient and reliable supply of energy is critical to consumers and our community.

Network resilience refers to the ability of an electricity network to maintain and restore supply to consumers, particularly following high impact, low probability (HILP) events. Network reliability refers to the extent that an electricity network provides consumers with an uninterrupted supply of electricity. Network security refers to the ability of an electricity network to maintain and restore supply to consumers, following one or more faults on the network. Network architecture refers to how we design our network at different voltage levels.

We will aim to maintain, upgrade and expand our electricity distribution network to comply with our network security of supply standard, and our network resilience and reliability objectives and targets – as published in our network AMP. We review and update our AMP every year and we publish it on our website – usually in March. Our AMP is publicly available on request.

We will aim to ensure that we add new network capacity to match actual and forecast market demand in a timely, prudent and efficient manner. We will continue our innovative demand side initiatives – such as cost reflective network price signals and load interruption agreements with consumers.

We will aim to restore the network's resilience and reliability to near pre-quake levels by FY19. We're making good progress on this we will continue to invest to achieve our aim.

We reviewed and reconfirmed our network security of supply standard in FY13. We also reviewed our urban network architecture. In this review, we reconfirmed our objective to over time build more network resilience and interconnection in our high voltage 66kV sub-transmission system rather than our 11kV system.

When HILP events occur, our approach includes:

- urgent restoration of supply where practicable and safe
- repairs where economic
- temporary alternatives where repairs or replacements cannot occur quickly
- replacement where repairs are not economic or where repairs cannot occur quickly
- planned projects brought forward to restore network capacity, resilience and reliability to areas where our network has been damaged and to where the wider rebuild occurs.

We will aim to ensure that our contingency plans and practices are relevant and robust.

We will aim to ensure that Transpower continues to provide our region with prudent and cost effective transmission services – including the provision of adequate grid capacity and resilience, consistent with good industry practice and the long-term interests of consumers.

Our role in the wider recovery and rebuild

Our principal roles are to:

- restore network resilience and reliability
- invest to meet future connection and electricity demand growth
- co-operate with property developers, local authorities and other agencies to ensure timely provision of network services

- make it easy for consumers to connect and reconnect to our network
- make it easy for generators to connect to our network – including on-site and distributed electricity generation, such as solar power and wind generation
- make it easy for consumers to adopt new technologies such as electric vehicles or battery storage.

We will aim to provide an electricity distribution network delivery service that meets the long term interests of consumers and our community.

Our interaction with regulatory agencies

Regulatory agencies develop and administer several key regional and city planning documents. Key planning documents include:

The Christchurch City Council (CCC)	The City Plan
	The Greater Christchurch Urban Development Strategy
	The Christchurch Economic Development Strategy
	The Christchurch Economic Recovery Strategy
	The Safer Christchurch Strategy
	The Road Safety Strategy
	The Christchurch Transport Strategic Plan
	The Sustainable Energy Strategy
The Selwyn District Council (SDC)	The Selwyn District Plan
Environment Canterbury (Ecan)	The Regional Policy Statement
	The Canterbury Water Management Strategy
	The Canterbury Regional Transport Strategy
	Land and Water Regional Plan
The Canterbury Earthquake Recovery Authority (CERA) including the Christchurch City Development Unit (CCDU)	The Recovery Strategy for Greater Christchurch
	The Christchurch Central Recovery Plan
	The Land Use Recovery Plan
	An Accessible City
Civil Defence	Guidelines for Lifelines Utilities
The Treasury	The National Infrastructure Plan

We will aim to co-operate with and meet the objectives of relevant regulatory agencies, and comply with all applicable planning requirements, where practicable.

Our commercial objectives

We will aim to operate as a successful business and provide our shareholders with appropriate risk-adjusted returns on their investment.

To achieve this, we will aim to:

- achieve our performance targets referred to in section F

- understand and meet consumers' needs in terms of network safety, resilience and reliability
- improve the efficiency and effectiveness of our operations
- prudently and efficiently invest in the network
- recover our prudent and efficient costs, including a fair risk-adjusted cost of capital
- prudently and efficiently identify and manage our key risks
- align our network delivery service agreements with the requirements of relevant industry legislation and regulation
- undertake new investments in the infrastructure and energy sectors which (taken as a whole) over their life are expected to:
    - yield a return at least equal to those investments' risk-adjusted weighted average cost of capital, and
    - increase the commercial value of the business
- if appropriate, realise investments over time.

Our costs

We will seek innovative ways to reduce our capital and operating costs.

For example, we signal the long-term economic costs of providing our network services to consumers in our network delivery prices. These signals aim to incentivise consumers to reduce load at peak times, which in turn reduces the need for us to invest in expensive network capacity to meet peak loads that occur for relatively short periods.

We will carefully plan our network capital and operating expenditures and, where appropriate, competitively tender substantive network works and procurement.

We are responsible for a key community infrastructure asset – the local electricity distribution network. It's important that we provide consumers with a safe, resilient, reliable and efficient network delivery service. This requires a long term view, and prudent and timely investment. We believe that the long term economic costs for consumers of lower levels of network resilience and reliability outweigh the short term benefits of related cost savings.

Our approach to risk management

We will aim to understand the context, likelihood and potential consequences of our key risks, and we will aim to manage our key risks, consistent with the risk management standard AS/NZS 31000. There is more information about our key risks, and our risk management processes and plans, in section 6 of our ten-year network AMP.

Our network prices and our customised price-quality path (CPP)

Our electricity distribution network charges make up around a quarter of an average household and business power bill in Christchurch and central Canterbury. Our electricity distribution network prices are relatively simple.

We will aim to ensure that our network prices reflect our prudent and efficient costs, including a fair risk-adjusted return on our investment. Full economic cost recovery retains our incentives to continue to invest in the capacity, resilience and reliability of the network, in the long term interests of consumers.

The Commerce Commission released its final CPP determination on 29 November 2013. The Commission's CPP determination reset our network reliability limits/targets and our maximum network prices for the five years ending 31 March 2019. We will aim to comply with the Commission's CPP determination.

We will aim to pass on Transpower's charges for electricity transmission to our network customers (principally electricity retailers).

Our social responsibility and community interest

Our key role is to ensure that our electricity distribution network matches consumers' expectations for network safety, capacity, resilience and reliability as prudently and efficiently as possible.

The benefits to the public of community ownership result from the dividends paid by the company to our shareholders. Our ultimate council shareholders use those dividends in the manner specified in their respective plans and budgets. We consider that achieving a fair risk-adjusted return on capital is socially responsible and is in consumers' and our community's long term interests.

We will aim to act in a socially responsible way and as a good corporate citizen – with empathy for our community. In some of our key decisions, we actively consult with consumers and key stakeholders.

Our people

We will aim to be a good, socially responsible employer. Our ability to recruit, develop and retain competent, motivated and committed employees and contractors is essential to our efficiency and effectiveness. We are an equal opportunity employer.

We will aim to provide a work environment that enables professional and personal growth for our employees and we recognise our responsibility to ensure our people can do their jobs effectively. To ensure that we have skilled employees, we will continue with our initiatives that focus on recruitment, training, retention and succession.

Health and safety

We are committed to having safe work sites and a safe electricity distribution network for all employees, contractors, visitors and the public. We will aim to take all practicable steps to ensure that our operations do not place people at undue risk of injury or illness.

The environment

We are committed to working towards a sustainable environment. We have published our environmental sustainability policies on our website. We review our policies at least annually.

Undergrounding

Our council shareholders have agreed that it is their responsibility to determine the priorities for discretionary undergrounding projects and to pay for such work on an agreed basis. This is a commercially sound arrangement which puts the correct incentives on the parties and is appropriate for shareholders and Orion.

Virtually all new urban extensions to our network are underground, in compliance with the City Plan. In rural areas, it is often up to the developer to decide whether reticulation is underground or overhead.

A portion of our system reinforcement, safety and improvement projects will continue to include undergrounding of overhead reticulation.

Compliance

We will continue our comprehensive legislative compliance programmes and we will aim to ensure we meet our obligations under relevant legislation and regulations.

D Our governance

The board

The company's shareholders appoint the directors 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 decision-making within the company. The board's responsibilities include 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.

Statement of intent (SOI)

In accordance with section 39 of the Energy Companies Act 1992 and the company's constitution, in February each year the board submits a draft SOI to its shareholders. The draft SOI sets out the company's overall objectives and intentions, as well as financial, quake recovery, network reliability, environmental, community, employment and health and safety performance targets for the next three financial years.

After due consultation with the company's shareholders and after considering comments from those shareholders, the board approves the final SOI and delivers it to the company's shareholders. A copy is also placed on the company's public website.

Board membership

Pursuant to the company's constitution:

- one Orion director is appointed by the Selwyn District Council
- all other Orion directors are appointed by Christchurch City Holdings Limited.

The board chairman is elected by the board.

Board operation

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

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

New directors undertake an induction process to familiarise them with matters related to the company.

Code of conduct

The board has adopted a code of conduct. The code clarifies how the board and directors shall undertake their responsibilities, including:

- the role and fundamental obligations of the board and directors
- the terms of reference and operation of board committees
- independence and conflicts of interest, including any conflicts with management
- board procedures
- the role of the chairman
- interaction with the chief executive officer and the senior management team
- reliance on information and independent advice
- confidentiality of company information
- shareholder participation
- board and director performance review and development.

The board reviews the code of conduct every year to reflect good practice.

Board performance and review

The board regularly reviews its performance and the performance of the chief executive officer. The reviews aim to identify opportunities and set plans for performance development and improvement.

Board meetings

The board meets approximately 10 times per year. Additional meetings are convened as and when required. The board's annual work programme is set by the board before the start of each calendar year. The board receives formal agenda papers and regular reports, generally a week in advance of meetings. Senior managers are regularly involved in board discussions. Directors also have other opportunities to obtain information and seek independent expert advice.

Board committees

The board delegates some responsibilities and tasks to board committees. However, the board retains the ultimate responsibility and accountability for any committee's actions or inactions. All directors receive agenda papers for committee meetings and all directors have the right to attend committee meetings.

The board's two standing committees are as follows:

- the audit committee liaises with the company's independent auditor, Audit New Zealand on behalf of the Auditor-General, and it reviews the quality and reliability of internal controls and financial information used by and issued by the board
- the remuneration committee reviews the company's remuneration policies and practices, and reviews and sets the remuneration of the company's chief executive officer and senior management team respectively.

Liability insurance

The company arranges comprehensive liability insurance policies for the company, directors and officers within the limits and requirements as set out in the Companies Act 1993 and the company's constitution.

Loans to directors

The company and group do not make loans to directors.

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 an issue or a transaction in which they have an interest
- disclose to the board all business relationships relevant to the company
- if requested by any other director, withdraw from any meeting where discussion of an issue or transaction will occur in which they have an interest
- comply with 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.

Legislative compliance

The board receives regular updates and representations from management on legislative compliance. Areas of relevant law include industry-specific regulation, health and safety, corporate, taxation, financial reporting, commercial, environmental, human resources and privacy**.**

Investments in other companies

The board receives regular updates on, and monitors the performance of each investee company.

Policies

The board formally reviews the company's key policies, and any recommendations for changes from management, at least annually.

Auditor

Pursuant to section 45 of the Energy Companies Act 1992 and section 15 of the Public Audit Act 2001, Audit New Zealand on behalf of the Auditor-General is the auditor of the company.

E Our performance targets

Our network development targets are shown in Appendix 1.

Our network reliability targets are shown in Appendix 2.

Our environmental targets are shown in Appendix 3.

Our community, employment and health and safety targets are shown in Appendix 4.

Our financial performance targets are shown in Appendix 5.

F Our dividends

We will pay dividends to our shareholders after taking into account:

- the company's financial position and profitability
- the company's future investment requirements
- the company's future funding requirements
- the solvency test, pursuant to section 53 of the Companies Act 1993.

We will pay our ordinary imputed dividends in two equal instalments – in June and December.

Our forecast dividends are close to the maximum that we forecast can be paid as fully imputed dividends.

G Our capital structure

We will aim to manage the company's capital structure so that we have sufficient financial flexibility to cope with and recover from future catastrophic events.

Cost effective insurance for underground cables and overhead lines (or a significant drop in network revenues following a catastrophic event) is not available. Because of these uninsurable risks, Orion should have relatively conservative debt gearing.

We forecast that our interest bearing debt will rise for the next three financial years due to:

- our relatively high levels of network investment to restore network resilience and reliability by FY19
- our dividend policy
- our proposed $90m share buy-back.

Subject to favourable Inland Revenue Department binding rulings, we propose to undertake a $90m share buy-back in FY16. Our proposed share buy-back will:

- increase our interest bearing debt by $90m and
- reduce our shareholders' equity by $90m.

The aim of the proposed share buy-back is to achieve a more efficient capital structure.

Despite the issues noted above, we forecast that the company will retain sufficient financial flexibility, even if another catastrophic event similar in magnitude to the 22 February 2011 earthquake occurs.

We will aim to ensure that the company retains at least a strong capacity to pay its debts when they fall due – this implies retaining an implicit Standard and Poor's credit rating of at least A-minus.

H Our accounting policies

We will adopt accounting policies that are consistent with the Financial Reporting Act 1993 and the policies adopted by the Christchurch City Council group. Our accounting policies will comply with applicable NZ IFRS standards and interpretations. NZ IFRS standards and interpretations are subject to change and therefore our accounting policies are also subject to change during the three year period of this SOI. Our accounting policies as at the date of this SOI are shown in Appendix 6.

I How we'll report to shareholders

We will submit our draft SOI to our shareholders for consultation annually, as required under the Energy Companies Act 1992 and the company's constitution. Where appropriate, we will submit a revised SOI to our shareholders.

We will submit an annual report to our shareholders. Our annual report will include our audited financial statements (including performance statements) and other information as necessary to permit an informed assessment of the group's performance and financial position during the reporting period.

We will submit quarterly reports to our shareholders. These reports will contain unaudited information similar in content to the annual report and they will comply with accounting standard NZ IAS 34 – Interim Financial Reporting.

Our reports to shareholders will outline our objectives and performance in terms of:

- financial
- network development
- network reliability
- environment
- community and employment – including health and safety.

We will update and publish our ten-year network AMP before 1 April each year.

We will aim to operate on a 'no surprises' basis in respect of significant shareholder-related matters, to the extent possible in the context of commercial sensitivity and confidentiality obligations.

We will provide information requested by the shareholders in accordance with the requirements of the Energy Companies Act 1992 and the company's constitution. The books, records and accounts maintained by, or on behalf of, the company will be made available in accordance with the Companies Act 1993 and the Energy Companies Act 1992.

J Acquisitions and divestments

The subscription or acquisition of securities in any company or organisation, or a divestment of part of the existing business, will only be considered where it is consistent with our long-term commercial objectives. When our subscription, acquisition or divestment is considered by directors to be significant to the company's business operations, we will consult with our shareholders.

Major transactions as defined in section 129(2) of the Companies Act 1993, will be subject to shareholders' approval by special resolution. Notwithstanding the above, when we are considering a significant acquisition or disposal of assets or securities, we will consult with our shareholders with as much lead-time as is commercially practicable in the prevailing circumstances. Where we decide to incorporate or subscribe for shares in subsidiaries to undertake our commercial activities, we will ensure effective management.

Board control of any subsidiary is exercised by our directors and management.

K Intercompany transactions

No material intercompany transactions are forecast to take place during the three years covered by this SOI, except:

- payment of dividends
- our proposed $90m share buy-back
- provision of services, such as street lighting maintenance for local authorities, on an arms length commercial basis, and services received from our shareholders, such as services covered by local authority rates and chargeable services, on an arms length commercial basis. It is impracticable to quantify the extent of most of these transactions
- dividends and intercompany interest on current accounts to be received from our subsidiary companies.

L Compensation we'll seek from local authorities

Local authorities sometimes ask us to undertake projects that are inconsistent with our normal commercial objectives. We'll seek to recover the full cost of these projects from the local authorities who request them.

It is difficult to forecast the extent of these transactions over the next three years – the requests will most likely relate to discretionary conversions of overhead reticulation to underground, and to network reconfiguration to accommodate the wider post-quake rebuild.

M Our commercial relationships within the CCC/SDC group

It may be possible to develop commercial opportunities with CCC/SDC group companies to benefit Orion, the CCC/SDC group and the Canterbury region. We will aim to work with other group companies to explore such opportunities and develop new business opportunities as appropriate.

N We'll co-operate if a shareholder decides to sell shares in Orion

If a shareholder decides to sell shares in Orion, we'll co-operate and work with that shareholder and its advisors, subject to our obligations at law.

O How we'll support growth in the regional economy

Our key role is to prudently manage our electricity distribution network, in the long-term interests of our shareholders and consumers. Delivering on our key role means that local individuals and businesses can continue to invest for growth, confident that their electricity will go on and stay on when they 'flick the switch'.

We will continue to support energy efficiency initiatives, especially those that enhance economic efficiency and growth.

P The commercial value of the shareholders' investment

We estimate that the commercial value of our shareholders' investment in the group is at least that which is stated as "shareholders' equity" in our latest available audited financial statements. This value is reassessed annually when we prepare our audited financial statements.

Appendix 1 Our network development targets

1. **Lay and commission a permanent 66kV high voltage underground feed from Transpower's Bromley grid exit point to the McFaddens, Dallington and Rawhiti Domain zone substations. Then remove the temporary 66kV overhead lines we installed after the February 2011 quake**

   Target date: 31 August 2015

   The 22 February 2011 quake damaged our 66kV underground cables that supply the eastern suburbs beyond repair.

   We urgently built temporary 66kV overhead lines from Transpower's Bromley grid exit point to our Dallington substation and to our new Rawhiti substation in order to get power to the eastern suburbs. Our temporary overhead lines were initially authorised by Civil Defence and then under resource consents approved by the CCC.

   We have made good progress on our major projects to replace the temporary overhead lines with new permanent cables, via different routes.

   Our new cables will use two CCC-owned bridges for two Avon River crossings. The Stronger Christchurch Infrastructure Rebuild Team's (SCIRT's) repairs/rebuilds of those bridges are underway. Once the bridge repairs/rebuilds are complete and we have installed, tested and commissioned our new cables, we will remove the temporary overhead lines.

   If the bridge repairs are delayed, our target date of 31 August 2015 may not be met.

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

   Target date: Ongoing

   We work with CERA, CCC, SCIRT and property developers on an ongoing basis.

   Our 66kV and 11kV underground cable assets in the CBD sustained relatively little damage from the quakes and we aim to provide a resilient and reliable network to CBD businesses and residents in the years ahead.

   Each new building in the CBD needs to be individually assessed to ensure that sufficient network capacity and resilience is supplied to that building.

   CERA and the CCC may also require new network configurations in the CBD as they further develop and implement aspects of the CBD blueprint and rebuild.

   We are working with the authorities, building owners and demolition contractors in order to minimise network outages and to protect and recover our network assets as appropriate.

3. **Continue to support the key regional quake recovery planning documents**

   Target date: Ongoing

   Our key role here is to restore network resilience and reliability and to plan for future customer load growth and new connections. Our key network planning and accountability document is our ten-year network asset management plan (AMP).

   We will aim to ensure that our AMP remains up to date and consistent with good industry practice while taking approved regional recovery documents fully into account.

Appendix 2 Our network reliability targets

	Approx no of customer connections 31 March 2015	Target FY18	Target FY17	Target FY16	Current forecast FY15	Actual FY14	Actual FY13	NZ average actual FY14
Orion network:					*	*	*	*
Duration of supply interruptions in minutes per year per connected customer (SAIDI)								
- urban	163,000	24	27	31	57	150	33	
- rural	27,000	430	475	475	490	2,604	536	
- overall	190,000	82	91	95	118	474	94	229
Number of supply interruptions per year per connected customer (SAIFI)								
- urban	163,000	0.7	0.8	0.8	0.6	0.6	0.5	
- rural	27,000	2.9	3.4	3.4	3.8	5.8	4.4	
- overall	190,000	1.0	1.2	1.2	1.1	1.3	1.0	1.8

Notes:

1. Major storms, natural disasters and other catastrophic events can cause significant numbers and significant durations of network supply interruptions. The occurrence and severity of 'major events' cannot be predicted.
2. A significant wind storm on 10 September 2013 caused significant network interruptions, mainly from tree branches and even whole trees falling onto overhead lines.
3. The Commerce Commission sets limits for and assesses the industry's network reliability performance. The Commission assesses the industry's actual performance, after 'normalising' for the impacts of major events. The Commission's network reliability limits are for the company's overall network, there is no urban/rural split.
4. The columns marked with an asterisk (*) above are stated gross – that is, before applying the Commission's normalisation methodology for major events.
5. The company expects to achieve the Commission's network reliability CPP limits in FY15, after applying the Commission's normalisation methodology.
6. The FY16, FY17 and FY18 targets above are consistent with the Commission's limits for the company, pursuant to the company's customised price-quality path (CPP).
7. The NZ weighted averages are for all 29 New Zealand electricity distribution networks – a mixture of rural and urban networks. The Orion network includes a significant rural component.
8. SAIDI and SAIFI measures are standard industry measures for network reliability:

   SAIDI: system average interruption duration index ─ the average duration of interruptions to supply that each consumer experiences

   SAIFI: system average interruption frequency index – the average number of interruptions that each consumer experiences.

Appendix 3 Our environmental targets

1. Comply with applicable environmental legislation

Target date: Ongoing

We are committed to being environmentally responsible, consistent with our principal objective to operate as a successful business. The board reviews our overarching environmental policy at least annually and we publish it on our website.

We believe that our most significant impacts, or potential environmental impacts, are:

- our carbon footprint
- sulphur hexafluoride (SF_6) gas losses to the atmosphere from our network equipment
- unconstrained oil spills from our network transformers.

Our targets for these three key issues are below.

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

Target date: Ongoing

Over 90% of our annual carbon footprint comes from electrical losses, a natural phenomenon caused by the heating of an electricity distribution network as electricity passes through it, and from the carbon embedded in network assets. Electrical losses increase considerably when network assets are highly loaded, especially during peak demand periods. It therefore makes sense to 'smooth out' (reduce) peaks via DSM initiatives where practicable.

Our DSM initiatives also aim to prevent overinvestment in network assets.

Our network pricing aims to reflect the economic costs of providing our network delivery service. Our pricing helps consumers to make efficient decisions about which form of energy to use and when to use it, which contributes to overall economic welfare and long term carbon savings.

We also assist local businesses to install peak load lopping diesel generation, and we continue to co-operate with other electricity distributors on the upper South Island centralised load management control system.

We will continue with our DSM initiatives.

3. Keep annual SF6 gas losses below 1% per year

Target date: Ongoing

SF_6 is mainly a legacy network equipment issue for the industry. In our memorandum of understanding (MOU) with the Ministry for the Environment, we commit to keeping annual SF_6 gas losses below 1% of the total contained in our network equipment. We have documented procedures to assist us to achieve that commitment.

4. Keep non-contained transformer oil spills to nil

Target date: Ongoing

We have installed oil containment bunding at our zone substations that have oil-filled transformers. We also have documented oil spill mitigation procedures to quickly and effectively deal with incidents should they occur.

5. Continue to support the Christchurch City Council's sustainable energy strategy

Target date: Ongoing

We will continue to seek ways to reduce peak loads on our network and increase our network load factor

We will enable the safe and efficient connection of a range of distributed electricity generation, including renewables.

Appendix 4 Our community and employment targets

1. Comply with health and safety legislation

Target date: 31 March 2016

Our aim is to have safe worksites and a safe network – for our employees, contractors, visitors and the public. Electricity and electricity distribution are inherently high risk. The industry has specific health and safety legislative and regulatory requirements. There are pending changes to wider health and safety legislation too – which the Government hopes to enact later this calendar year.

Orion and Connetics have commenced risk-based safety improvement programmes in advance of the pending legislative changes. Key programme initiatives include:

- increased profile and leadership of the importance of safety and what we want to achieve – safe outcomes
- effective engagement at all levels of the organisation – the board of directors, management, all employees, contractors and suppliers
- increased use of lead indicators to ensure that safety improvement is given appropriate priority
- effective and timely investigation, analysis and corrective actions for accidents and near miss incidents.

We will develop specific targets for the above initiatives for next year's SOI.

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

Target date: Ongoing

Our aim is zero harm. This target covers Orion and its contractors (including Connetics). This is a challenging target, due to the physical nature of the work required on our electricity distribution network.

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

Target date: Ongoing

This covers all accidents on our network, except for car versus pole accidents. It is not possible to ensure the completeness and accuracy of car versus pole accident data.

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

Target date: Ongoing

Our programme covers issues such as tree owner responsibilities near overhead lines, close approach to lines with irrigators and other operators of plant, scaffolding near lines, householder maintenance near lines, digging near underground cables and safety and security near electricity equipment.

Our messages are delivered through a series of community shows, presentations to targeted groups and through regular media outlets such as local newspapers and radio. We especially target contractors and their principals because they are exposed to significant electricity distribution network hazards in the field – this includes contractors involved in the wider post-quake rebuild.

The sheer scale of the post-quake rebuild, and the fact that contractors in the rebuild are expanding and experiencing high employee turnover, mean that safety risks for those working near our network assets have increased.

The Ministry of Business Innovation and Employment has published a mandatory code of practice for working within four metres of our overhead network (our written consent is required for this), and there is an industry best practice guide for working near our underground network.

We will continue to:

- develop and grow constructive relationships with contractors, their principals and other interested parties to promote safety around our electricity network assets
- advertise safety messages via local radio, print and rural A&P shows
- process safe approach consent applications.

5. Run a staff culture survey, and follow up on the results

Target date: 31 March 2016

This survey will measure employees' perceptions of current and preferred workplace culture attributes.

6. Achieve voluntary annual staff turnover of less than 5% for Orion and less than 10% for Connetics

Target date: Ongoing

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

Employee turnover was:

- 5% in FY14 for Orion (latest forecast 4% in FY15)
- 9% in FY14 for Connetics (latest forecast 7% in FY15).

7. Continue with our Orion engineering development programme

Target date: Ongoing

As at 31 December 2014, we employed six employees in our engineering development programme.

Our programme has successfully developed and placed talented and motivated people into key positions in our business.

Positions in the programme are advertised internally and externally. Successful candidates are selected on merit.

Engineering trainees are trained and gain work experience in the business, with a view to placing them in areas where there are or may be skill shortages and/or succession opportunities. Trainees usually complete the programme three years, and are then offered permanent roles in the company.

We will continue to appoint new trainees each year into this programme.

8. Continue to develop our Connetics apprentice scheme

Target date: Ongoing

Connetics will continue with this scheme to ensure that our key contracting subsidiary company sustainably develops and improves its industry competencies. As at 31 December 2014, Connetics employed 33 apprentices.

9. Continue to support the CPIT Trades Innovation Centre

Target date: Ongoing

The Christchurch Polytechnic Institute of Technology (CPIT) has a simulated subdivision at its Sullivan Avenue site, where trades trainees can be trained in real life situations.

The facility is fully operational for electricity distribution – including overhead lines, underground cables and substations. The facility is an important part of our competence training for our employees, for our contractors and for the industry.

Appendix 5 Our financial performance targets

	FY16	FY17	FY18
Profit after tax ($m)	49	46	49
Profit after tax to average equity (%)	6.9	6.9	7.4
Fully imputed dividends ($m)	48	45	45
Debt to debt plus equity (%)	29	31	33
Equity to debt plus equity (%)	71	69	67
Equity to total assets (%)	58	56	55

The following are definitions of the above terms:

Profit after tax As defined under NZ IAS1

Debt Net interest bearing debt

Equity Shareholders' equity, including accumulated reserves

Total assets The carrying value of all assets.

Our key assumptions for our financial performance targets are:

- our financial targets are for the consolidated group
- our financial targets are in nominal terms and include forecast future cost inflation
- our future network prices will comply with the Commerce Commission's CPP determination
- all transmission charges from Transpower will be 'passed through' to customers
- our future opex and capex will be in line with our approved network AMP, effective from 1 April 2015
- no major investments/divestments
- no further natural disasters
- no future decisions by the Government or regulatory agencies that would have a materially adverse financial impact on the company
- no future asset revaluations
- fully imputed dividends as set out above
- $90m share buy-back in FY16.

Appendix 6 Our key accounting policies

Statement of accounting policies

Corporate information

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

Statement of compliance

The financial statements comply with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and they comply with International Financial Reporting Standards.

Basis of financial statement preparation

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). For the purpose of complying with NZ GAAP, the group is a for-profit entity. The financial statements have been prepared on the basis of historical cost, except for certain financial instruments, land and buildings, and the electricity distribution network, which have been measured at fair value. The financial statements are presented in New Zealand dollars, rounded to the nearest thousand.

Significant judgements, estimates and assumptions

In applying the accounting policies, the group has made the following judgements, estimates and assumptions that have the most significant impact on the amounts recognised in these financial statements. The group regularly reviews these estimates and assumptions. The group recognises changes in estimates or assumptions in the year of the change if the change affects only that year, and in future years if the changes also affect future years. Actual results may differ from the group's estimates and assumptions.

Electricity delivery revenue

The company initially invoices its customers (predominantly electricity retailers) monthly for electricity delivery services on the basis of an estimation of usage, later adjusted for (more accurate) metering data when it becomes available from the electricity wholesale market and from electricity retailers. The company has made an allowance in revenue and in current assets/liabilities for estimated amounts under/over charged during the reporting period. Because final metering data is not available for up to 12 months after the initial invoices to customers, the final amounts payable or receivable may vary from that initially invoiced.

Electricity distribution network valuation

The company owns and operates an extensive integrated electricity distribution network in Christchurch and central Canterbury, comprising large numbers of individual network asset components.

The company values its electricity distribution network on a discounted cash flow basis. The company has adopted assumptions and estimates in its discounted cash flow valuation, including the amounts and timing of future cash flows and the relevant discount rate.

The Commerce Commission has authorised the company to implement certain network delivery price increases for the five years commencing 1 April 2014, pursuant to a customised price-quality path (CPP). There is less certainty in forecasting the company's future revenue cash flows from 1 April 2019.

The company acquires certain electricity distribution assets for less than their replacement cost, sometimes at nil cash cost. The non-cash portions of these asset acquisitions are valued at nil on acquisition because they are not recognised under the regulatory price control regime and therefore these assets do not generate additional future cash inflows.

The group estimates and eliminates intra-group profits in new electricity distribution network assets.

Capitalisation of costs and impairment

The group makes judgements about whether costs should be capitalised or expensed. The group assesses whether individual assets or groups of related assets (which generate cash flows independently) are impaired by estimating the future cash flows that those assets are expected to generate. The group applies assumptions and estimates when assessing future cash flows and appropriate discount rates.

Other areas of judgement

Other areas of judgement include estimating: useful lives of assets, provisions for doubtful debts, unrecoverable work in progress, provisions for employee benefits, income tax, deferred tax, the income tax effects of insurance claim proceeds and network reliability (SAIDI/SAIFI) measures.

Significant accounting policies

The following significant accounting policies have been applied consistently to all periods presented in these financial statements:

(a) Basis of consolidation

A subsidiary is an entity over which the group has control. Control is achieved when the group is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary.

The consolidated financial statements are prepared by combining the financial statements of all group entities for the same reporting period, using consistent accounting policies. All intra-group balances and transactions, including unrealised profits arising within the group, are eliminated in full.

Subsidiaries are fully consolidated from the date on which the group obtains control and ceases to be consolidated from the date on which the group ceases to control the subsidiary.

When the group acquires control of a business, the assets, liabilities and contingent liabilities of the acquiree 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 profit or loss.

(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 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 instruments

All financial instruments are initially recognised at the fair value plus, in the case of financial instruments not at fair value through profit or loss, directly attributable transaction costs.

Subsequently, the group applies the following accounting policies for financial instruments.

Loans and receivables consist of trade and other receivables. Trade and other receivables are measured at cost, less an allowance for impairment. All known bad debts are written off through profit and loss. Hire purchase debtors exclude unearned interest (calculated using the effective interest rate method).

The group's available-for-sale financial asset is an investment fund managed by Enertech Capital Partners. This asset is measured at fair value, with movements in fair value recognised in profit or loss.

Financial liabilities at amortised cost consist of trade and other payables and borrowings. Financial liabilities at amortised cost are measured at amortised cost using the effective interest rate method. Due to their short term nature, trade and other payables are not discounted.

The group has not designated any derivatives as hedges for financial reporting purposes. Derivatives are subsequently measured at fair value, with movements recognised in profit or loss. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative, and they are only offset against each other if the group has a legal right of offset.

(f) Inventories

Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated amount the inventories are expected to realise in the ordinary course of business.

(g) Income tax

Income tax expense for the year comprises current tax and deferred tax.

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

Deferred tax is the income tax payable or recoverable in future periods for temporary differences and unused tax losses. Temporary differences are differences between the carrying values of assets and liabilities in these financial statements and the corresponding tax bases used to calculate 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 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 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.

Operating lease receipts are recognised as revenue on a straight-line basis over the lease term.

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

Finance leases payments are allocated between expense and reduction of the lease liability over the term of the lease. 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) 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 group estimates the recoverable amount of the cash-generating unit to which the asset belongs. 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.

The recoverable amounts are the higher of fair value (less costs to sell) or 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.

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 profit or loss. If the impairment loss is subsequently reversed, the reversal is firstly applied to 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 profit or loss. If an impairment loss is subsequently reversed, the carrying value of the asset is stated at not more than what its carrying value would have been had the earlier impairment not occurred.

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

(j) 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 comparable market sales, discounted cash flows or capitalisation of net income (as appropriate) less subsequent depreciation. The fair values are recognised in these financial statements, 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 been determined on the basis of a periodic independent valuation prepared by an external valuer, based on a discounted cash flow methodology. The fair value of the network is recognised in the financial statements and is reviewed at the end of each reporting period to assess whether the carrying value is not materially different from fair value.

Any revaluation increase arising on the revaluation of land and buildings and the electricity distribution network is recorded in other comprehensive income and credited to the asset revaluation reserve in equity, 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 profit or loss to the extent of the decrease previously charged. A revaluation decrease is charged as an expense in profit or loss to the extent that is exceeds the balance, if any, held in the asset revaluation reserve from previous revaluations 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 profit or loss.

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 are reviewed at the end of each annual reporting period.

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

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

Residual values for an item of property, plant and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period.

The carrying amount for an item of property, plant and equipment is written down immediately to its recoverable amount if the asset's carrying value 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 profit or loss.

(k) Intangible assets

The group has computer software assets which have a finite life and are carried at cost, less accumulated amortisation and impairment. Carrying values are amortised over their estimated useful lives. This period usually does not exceed three years – however for some significant projects, estimated useful lives may be assessed as up to 10 years.

Costs to acquire computer software licences are capitalised. Direct costs to internally develop computer software are capitalised if the software is technically feasible, the group intends to and has the resources to complete and use the software, and the software will generate probable future economic benefits. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

(l) 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. Goodwill is not amortised, but it is tested for impairment annually. Impairments are recognised immediately in profit or loss and is not subsequently reversed.

(m) 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 value 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.

(n) 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.

(o) Revenue recognition

Revenue from the sale of goods is recognised when the group has transferred the significant risks and rewards to the buyer. Revenue from certain contracts 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 profit or loss as it accrues, using the effective interest rate method.

(p) 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 the electricity distribution network, are recognised as revenue.

(q) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (an asset that takes a substantial period of time to get ready for intended sale or use and is of significant cost) are capitalised as part of the cost of that asset. All other borrowing costs are expensed in the period in which they occur.

(r) Changes in accounting policies and disclosures

No new accounting standards or interpretations that became effective for the period had a material impact on the group.

NZ IFRS Standards and Interpretations that have been issued or amended but are not yet effective and have not been adopted by the group for year ended 31 March 2015 are:

	Effective date	**Impact on group financial statements**	**Application date for the group**
NZ IFRS 9 (2014) Financial Instruments			
NZ IFRS 9 Financial Instruments brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace NZ IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of NZ IFRS 9.	1 Jan 2018	Not expected to have a significant impact.	1 Apr 2018
NZ IFRS 15 Revenue from Contracts with Customers			
NZ IFRS 15 will replace NZ IAS 11 Construction Contracts, NZ IAS 18 Revenue and related revenue interpretations. The core principle of NZ IFRS 15 is that an entity recognises revenue to reflect the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange.	1 Jan 2017	The group is evaluating the impact of the new standard.	1 Apr 2017
Amendments arising from the Annual Improvements Project 2010-12			
The annual improvements project amends to NZ IFRS 3 Business Combinations, NZ IFRS 13 Fair Value Measurement, NZ IAS 16 Property, Plant and Equipment, NZ IAS 24 Related Parties and NZ IAS 38 Intangible Assets, to clarify the accounting treatment for certain items.	1 Jul 2014	Not expected to have a significant impact.	1 Apr 2015