

Orion Group Limited and Orion New Zealand Limited

Statement of intent

For the 3 years ending 31 March
2009, 2010 and 2011

Approved by the board
26 March 2008



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A Introduction

This statement of intent (SOI) sets out Orion Group Limited's and Orion New Zealand Limited's (Orion's) overall intentions and objectives for the three financial years ending 31 March 2009, 2010 and 2011. This SOI has been prepared in accordance with s64(1) of the Local Government Act 2002 and s39 of the Energy Companies Act 1992.

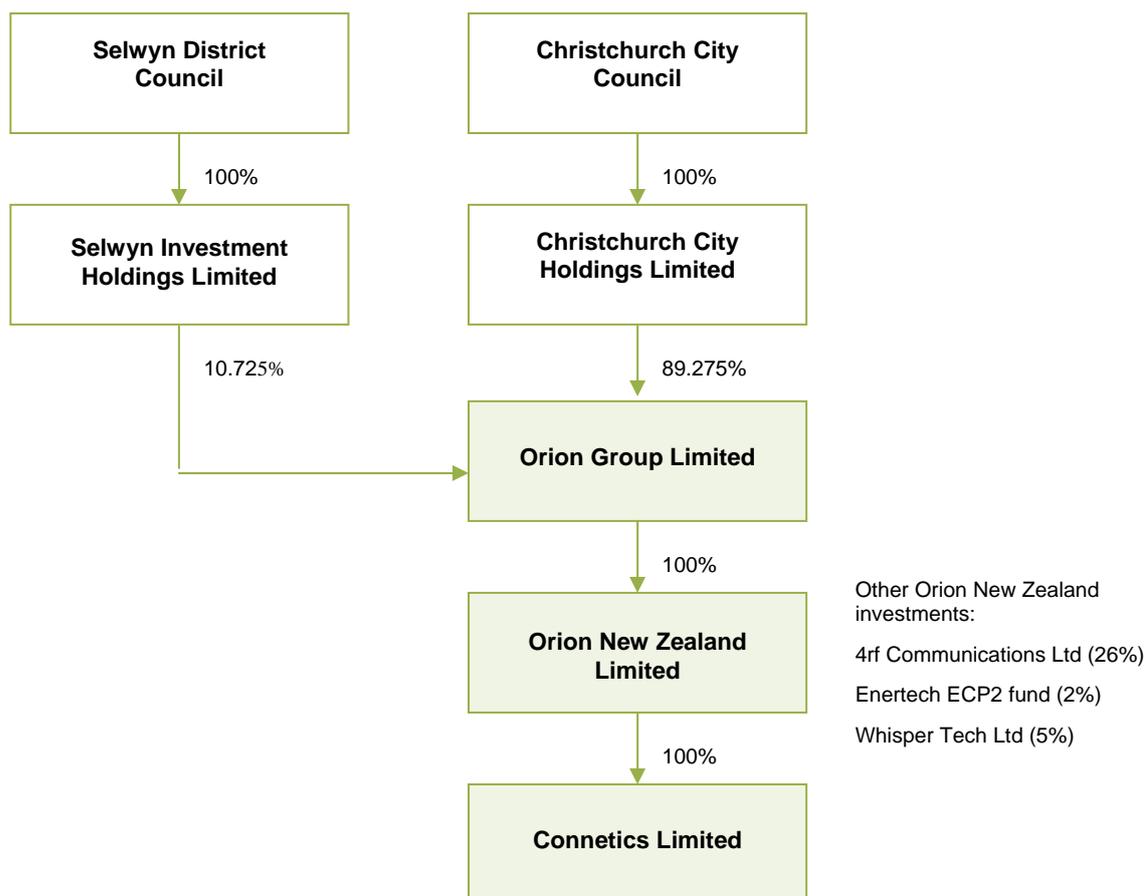
This SOI covers the activities of Orion and its subsidiaries and sets out the nature and scope of the activities we will undertake, our objectives, our key performance targets and other measures by which our performance may be judged in relation to our objectives, amongst other requirements.

The determination of our SOI is a public expression of the accountability relationship between Orion and its shareholders – Christchurch City Holdings Limited and Selwyn Investment Holdings Limited. This SOI is reviewed annually in consultation with our shareholders.

All “years” referred to in this document are financial years ending 31 March.

Orion Group Limited is a council controlled trading organisation (CCTO) for the purposes of the Local Government Act 2002. Orion New Zealand Limited is an energy company for the purposes of the Energy Companies Act 1992.

The group structure is as follows:



Section 36 of the Energy Companies Act 1992 requires Orion New Zealand Limited, as its principal objective, to operate as a successful business. Section 59 of the Local Government Act 2002 obliges Orion Group Limited to:

- achieve the objectives of its shareholders, both commercial and non-commercial, as specified in this statement of intent
- be a good employer
- exhibit a sense of social and environmental responsibility by having regard to the interests of the community in which it operates
- conduct its affairs in accordance with sound business practice.

Our top priority is the efficient and effective management of our electricity network. We aim to provide customers with a high level of service, a reliable and secure supply and competitive prices. We also aim to provide our shareholders with an attractive risk adjusted return on their investment.

B Nature and scope of activities to be undertaken

We will undertake activities to:

- plan, construct and maintain a reliable and secure electricity distribution network in the Christchurch/central Canterbury region
- 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 Objectives of the group

Commercial

We aim to operate as a successful business and we also aim to provide shareholders with appropriate returns on their investment. We will pursue strategies that will aim to ensure Orion's long-term success as a business.

To achieve this, we will seek to:

- achieve the specific financial, operational, environmental, community and employment performance targets outlined in section E
- understand and meet our customers' needs in terms of network reliability and security of supply
- improve the efficiency of our operations, including efficient investment in the network
- ensure our network delivery contracts with our customers meet the requirements and objectives 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.

Security of supply

A secure supply of energy is critical to customers. We will seek to ensure that we add new network capacity to match to actual and forecast market demand as prudently as possible. Our electricity network 10 year asset management plan is published in accordance with the electricity information disclosure requirements by 31 August each year. Our asset management plan is available to the public on request and is also on our website.

We will seek to maintain, upgrade and expand our electricity distribution network as appropriate to comply with our network security of supply standard. Where appropriate, we will also seek to meet our security of supply standard through innovative demand side initiatives such as smart pricing signals. Such initiatives aim to reduce system peak demands to enhance the overall economic well being of Orion, Christchurch and Canterbury. We formally reviewed our network security of supply standard in the 2008 financial year and, after customer consultation, implemented relatively minor changes to that standard.

Part of our network planning involves planning to significantly mitigate the impact of any major outages due to major events. Part of this planning involves ensuring that our contingency plans are relevant and robust.

We will use all reasonable endeavours to ensure that Transpower provides the region with cost effective transmission services – including the provision of adequate, ongoing and planned security of supply, consistent with good industry practice.

We will continue to investigate our possible participation in the Electricity Commission's dry-year reserve generation activities.

System reliability

We have one of the most reliable electricity distribution networks in New Zealand.

Our reliability performance forecasts for the three years ending 31 March 2010 are shown in Appendix 2.

Social responsibility and community interest

As described above, our key role in the community is to ensure that our electricity network capacity continues to match actual and forecast demand as prudently as possible.

Orion is charged with being a successful business. The benefits to the public of community ownership result from the dividends paid by the company to shareholders. The shareholding councils then use the dividends in the manner specified in their respective plans and budgets. As a provider of monopoly network delivery services, we consider that achieving a fair return on capital for that business is socially responsible and we have adopted such a policy.

In making our commercial decisions, we will act in a socially responsible way as a good corporate citizen with empathy for the communities of interest which we serve. In many of our key decisions we will continue to actively consult with customers and key stakeholders.

Our social responsibility and community targets are shown in Appendix 4.

Greater Christchurch Urban Development Strategy (UDS)

The UDS was published in 2007 by four local councils (Christchurch, Selwyn, Waimakariri and Environment Canterbury) and Transit NZ. The UDS was developed to provide a strategy as to how the region should grow out to the year 2041. The strategy will be implemented through tools such as the Regional Policy Statement under the Resource Management Act 1991, amendments to the Regional Land Transport Strategy as mandated by the Land Transport Management Act 2003 and LTCCPs prepared under the Local Government Act 2002.

The UDS will play a major part in the future of greater Christchurch and the Canterbury region. As a long-term land-use strategy for our region the UDS provides the opportunity for organisations and the local community to co-operatively manage growth.

We can contribute to the implementation of the UDS in a number of ways. For example we can provide information on the likely cost, both financial and environmental, of the development of electricity infrastructure in various Canterbury areas, provide guidance on any security of supply issues to these areas, assist with research on affordable energy efficiency measures and consider the goals of the UDS in any sale of significant pieces of land that we own.

Our principal roles under this strategy are to:

- protect and enhance our electricity network to support future growth – for example in the indicative intensification area of the central city through our published network asset management plan
- co-operate with property developers, local authorities and other agencies to ensure timely provision of network services
- make it easy for consumers to connect to our network
- support growth and support the provision of on-site and distributed electricity generation such as solar power and wind generation where this is economically justifiable.

CCC sustainable energy strategy for Christchurch

The Christchurch City Council (CCC) published this document, after public consultation, in 2007. The strategy is seen as a support for the UDS in terms of managing future growth in the region in a sustainable manner. We have a role to play in this strategy.

Overall, the CCC's strategy is for the region to:

- reduce overall energy use
- become more energy efficient
- replace non-renewable with renewable energy sources
- fuel switch to lower-carbon energy sources
- increase solar hot water heating
- increase wind power generation
- increase pellet fuel for heating
- increase use of heat pumps
- increase use of biofuel for transport
- constantly evaluate new technologies and their potential to assist.

Our targets related to the CCC's sustainable energy strategy are shown in Appendix 3.

Environmental commitment

We are committed to working towards a sustainable environment. To that end we have adopted and published environmental sustainability policies under the following headings:

- stakeholder consultation
- protection of the biosphere
- sustainable use of natural resources
- reduction and disposal of waste
- wise use of energy
- risk reduction
- restoration of the environment

- disclosure
- commitment of management resources
- review.

Our full environmental sustainability policies are publicly available on our website. We formally review the policies annually.

Other aspects of our operations that support our environmental commitment include:

- we facilitate the easy connection of renewable and low-carbon electricity generation (for example wind power) to our network
- we signal load peaks in our network pricing to encourage the efficient use of our network
- we maintain and operate an efficient water cylinder load control system so that significant loads can be shifted away from peak times to less expensive off peak times – at minimal inconvenience to customers
- we are looking at possible wind generation sites in our network area.

Environment Canterbury wishes to significantly improve Christchurch's air quality over time by reducing the use of high emission solid fuel burning forms of heating. If consumers choose to replace these forms of heating with on-peak electric heating, this will impact on our electricity distribution network. While most of our urban network has adequate capacity to meet normal growth rates, higher than normal increases in peak demand will require additional network upgrading in some areas. Despite the extra costs, we are confident that with appropriate demand side management initiatives and prudent levels of capital investment in the network, the integrity of our network will be maintained.

The impact of deep-well irrigation pumping for dairy farm conversions has required large investment in rural network upgrades in recent years. Further investment in the rural area is dependent on issues such as commodity prices, and the continuing availability of water supplies to support increased dairying, horticulture and lifestyle residential land use. We will actively contribute to the local debates on clean air policies and plains irrigation developments by ensuring that the decision making parties and interested groups have an appreciation of the impact of any major proposals on Orion's and Transpower's electricity network costs and prices.

Our key environmental targets are shown in Appendix 3.

Undergrounding

The council shareholders have agreed that it is their responsibility to determine the priority 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 one which is appropriate for both shareholders and Orion. We will continue our policy of undergrounding most urban extensions to our network. In rural areas it is often up to the developer to decide whether reticulation is underground or above ground. A portion of our system reinforcement, safety and improvement projects will continue to include undergrounding of overhead reticulation.

Pricing

No increases in Orion's network line prices are forecast for the year ended 31 March 2009 other than the already announced 3.5% price increase to apply from April 2008. This increase is within the allowable increase set as part of the Commerce Commission's thresholds regime, although to estimate the threshold we have had to estimate CPI inflation for the coming calendar year. The increase also corrects for differences in last year's actual increase in CPI relative to our estimate. We have estimated CPI inflation for the calendar year ending 31 December 2008 based on the latest available RBNZ forecasts. Any changes in Transpower's pricing for electricity transmission will be passed on to Orion's network customers (principally electricity retailers).

Our network delivery prices seek to reflect economic costs, are relatively simple and low-cost to operate and seek to ensure a fair rate of return on the assets employed.

We will work with regulatory agencies to ensure that our line pricing is adequate to ensure that there are incentives to invest in and operate our network in a way that meets customers' long term interests in terms of reliability and security of supply. We will seek to efficiently recover the full economic costs of our services.

Our people

We aim to be a good, socially responsible employer. Our ability to recruit and retain competent, motivated and committed staff is essential to our efficiency and effectiveness. Orion is an equal opportunity employer.

We aim to provide a work environment that enables professional and personal growth for our employees and we recognise our responsibility to ensure our people achieve the best mix of skills they can acquire while they are here. An ageing workforce and an industry shortage of skilled staff remain issues for us. To ensure that we are not left short of skilled employees in the future, we will continue with our initiatives that focus on recruitment, training and retention.

Our employment targets are shown in Appendix 4.

Health and safety

We aim to provide a safe, reliable network and a safe and healthy work environment for all employees and visitors. This commitment extends to taking all practicable steps to ensure that our operations do not place the community at undue risk of injury or illness.

Our health and safety targets are shown in Appendix 4.

Compliance

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

D Governance

Introduction

Orion's directors are appointed by the shareholders to govern and direct Orion's activities. The board is the overall and final body responsible for all decision-making within the company.

Role of the board

The board is responsible for the proper direction and control of the company's activities. This responsibility includes such areas of stewardship as:

- commercial performance
- business plans and budgets
- corporate 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.

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.

Board performance review and development

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 set in place plans to achieve those opportunities.

Board committees

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

The audit and risk management committee of the board liaises with the company's 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 of the board 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.

Statement of intent

In accordance with section 39 of the Energy Companies Act 1992 and section 64 of the Local Government Act 2002, the board submits a draft statement of intent (SOI) for the coming financial year. This SOI sets out the company's overall objectives, intentions, and financial and 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 company's board, is delivered to the company's shareholders and is also placed on the company's website.

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

Legislative compliance

We have a comprehensive approach to compliance with relevant law. Compliance manuals and training are made available to all employees. Where appropriate, we engage external experts to advise us on the 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.

Investments in other companies

The Orion board receives regular updates on and monitors the performance of each investee company. Our most significant trading investment is Connetics Limited and this company has at least one non-executive Orion New Zealand Limited director on its board.

E Performance targets

Financial

We adopted New Zealand equivalents to international reporting standards (NZ IFRS) from the 2007 financial year.

Our financial performance targets for the parent company for the years ending 31 March are as follows:

	2009	2010	2011
Profit after tax (\$m)	45.5	44.9	46.0
Profit after tax/average shareholders' equity (%)	6.5	6.4	6.5

The major assumptions we have used in these forecasts are shown in Appendix 1.

The "*profit after tax*" forecasts above represent the return on the equity of the business as a whole and not just our network. The valuation of equity for this measure is based on Orion's accounting policies and may differ from the regulatory ODV handbook valuation and the Commerce Commission's electricity information disclosure Requirements, which are used to calculate the electricity network regulatory ROI.

Operational

Our network reliability targets are shown in Appendix 2.

Environmental

Our environmental targets are shown in Appendix 3.

Community, employment and health and safety

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

F Capital structure

The financial year end capital structure of the consolidated group (based on NZ IFRS) is forecast as follows:

	2009	2010	2011
	%	%	%
Debt ¹	7	7	6
Equity ²	93	93	94
	<u>100</u>	<u>100</u>	<u>100</u>
Equity/total assets ³	74	74	74

¹ Debt is defined as interest bearing debt and after deduction of cash/short term investments.

² Equity is defined as all shareholders' equity.

³ Total assets is defined as the total book value of all assets of the parent company, excluding investments in technology companies.

The above capital structure forecasts assume no further major investments or divestments. Note that as per Section B above, we may seek to undertake new investment opportunities and/or realise some or all of our existing investments.

In seeking new investments we plan to ensure that explicitly or implicitly the company retains a rating agency credit rating of at least "strong capacity to pay". Although no material acquisitions have been included in our forecasts, we may undertake new investments as long as they are consistent with the objectives of the Orion group (see Section C).

We will review the company's capital structure during the 2009 financial year.

G Dividends

We will pay dividends to our shareholders after taking into account the company's financial position, profitability and future investment requirements. The dividends payable to the shareholders will be determined by the board after consideration of the company's funding requirements and the requirement to meet the solvency test under the provisions of the Companies Act 1993. Our dividends are forecast to be paid in two instalments in June and December of each financial year and are also forecast to be fully imputed for tax purposes. To assist the shareholders with budgeting, the following ordinary dividends are forecast:

2009	2010	2011
\$m	\$m	\$m
37	37	37

Dividends may also be paid on the redeemable preference shares. These are at the discretion of the board. No dividends are forecast to be paid on these shares.

H Accounting policies

We will continue to adopt accounting policies consistent with the Financial Reporting Act 1993 and the policies adopted by the Christchurch City Council group.

Our key accounting policies are shown in Appendix 5.

Our accounting policies are based on NZ IFRS Standards and Interpretations currently applicable at 1 April 2008. Accounting standards and interpretations are subject to change and therefore our accounting policies are also subject to change during the three year period for this SOI to 31 March 2011.

I Information to be reported to shareholders

We will submit our draft statement of intent to our shareholders for consultation annually, as required under the Local Government Act 2002, the Energy Companies Act 1992 and the company's constitution. Where appropriate, we will submit revised forecasts to our shareholders.

We will submit an annual report to the shareholders. The annual report will include audited financial statements and such other details as are necessary to permit an informed assessment of the company's performance and financial position during the reporting period provided to the shareholders. We will also provide half-yearly reports to the shareholders. These reports will contain unaudited information similar in content to the annual report and will comply with accounting standard NZ IAS 34.

The reports will outline Orion's objectives and performance in terms of:

- financial
- environmental, and
- social inputs, outputs and outcomes.

We will also publish a separate report on the reliability of our electricity distribution network.

We will 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 Local Government Act 2002. The books, records and accounts maintained by, or on behalf of, the company will be made available as required by the Companies Act 1993.

J Acquisitions/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 the long-term commercial objectives of Orion. When the 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 s129(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 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 Orion's directors and staff.

K Intercompany transactions

No material intercompany transactions are forecast to take place during the three years ending 31 March 2010, except:

- payment of dividends on the ordinary shares
- provision of services, such as street lighting maintenance for local authorities, on an arms length commercial basis and services received from shareholders, such as services covered by 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 Orion's subsidiary companies.

L Compensation sought from local authorities

At the request of our shareholders, or our shareholders' shareholding councils, we may undertake activities that are not consistent with our normal commercial objectives. Specific financial arrangements will be entered into to meet the full commercial cost of undertaking such activities. At present, the only such material activities undertaken involve discretionary conversions of overhead network reticulation to underground as described in section C above. Due to the discretionary nature of these projects it is difficult to forecast the extent of these transactions over the next three years but the extent of such charges to councils could average in the order of \$2.0m per annum.

M Commercial relationships within the CCHL group

Orion is an 89.275% subsidiary of Christchurch City Holdings Limited. It may be possible to develop commercial opportunities with other group companies to benefit Orion, the CCHL group and the Canterbury region. We will continue to work with other group companies to explore such opportunities and develop new business opportunities as appropriate.

N Growth in the regional economy

Orion owns and manages a key local and regional infrastructure asset – the electricity network distribution system. Our group of companies is also a significant employer with over 300 employees. We have annual operating and capital expenditures of over \$50m per annum. Orion is the pre-eminent lines company in New Zealand in the promotion of energy efficiency and we will continue to develop that activity. Our key role is to prudently manage the electricity distribution network in the long term interests of our shareholders and customers. Success in doing so means that individuals and companies can continue to invest for growth with confidence that the "lights will go on when the switch is flicked".

We may also be able to assist to leverage the value of the Christchurch City Holdings group of companies to further enhance regional growth. This is an initiative from Christchurch City Holdings Limited. We will liaise with those group companies as appropriate and seek and pursue material and worthwhile opportunities – consistent with our principal objective to operate as a successful business.

We will continue to support energy efficiency initiatives, especially those with the extra benefit of driving economic efficiency and growth.

Transpower is currently considering the need for a major new transmission upgrade to supply the upper South Island - which includes the Orion network area. Part of Transpower's consultation has involved seeking out alternatives or complementary solutions for this expensive new upgrade. We will explore and, where economic, develop projects that may act as alternatives or as complementary solutions to the proposed transmission upgrade where there are positive overall economic benefits.

O Commercial value of the shareholders' investment

The directors estimate that the commercial value of the shareholders' investment in the group is at least that which is stated as "shareholders' equity" in the latest available audited financial statements. This value is reassessed annually as part of the preparation of the audited financial statements. The estimate above is subject to any future adverse consequences arising from the outcome of the Commerce Commission's current work on developing a targeted price control regime for the industry or the Government's current review of the Commerce Act.

Appendix 1 Key assumptions used in our financial forecasts

The major assumptions we have used in calculating our financial forecasts for the company are as follows:

- the forecasts are for the consolidated results of Orion Group Limited and its subsidiaries
- all figures are in nominal terms reflecting estimated inflation
- accounting policies adopted are based on NZ IFRS and consistent with those shown in Appendix 5
- line price increases 1% below forecast CPI from the 2009 financial year onwards - consistent with the Commerce Commission's current thresholds regime settings
- no further major adverse changes to the ODV methodology currently used for regulatory valuations of electricity industry network assets
- no decisions by the Government, Commerce Commission or Electricity Commission that materially adversely affect Orion's shareholder value
- all price changes from Transpower "passed through" to electricity network customers
- expenditures and practices in line with our current published electricity network asset management plan
- no major investments/divestments
- no further capital repatriations to shareholders other than the forecast dividends noted in Section G.

Appendix 2 Network reliability targets

	Forecast 5 years to 31 March 2013	Latest forecast 1 year to 31 March 2008	Actual 1 year to 31 March 2007	Actual 1 year to 31 March 2006	Gazetted NZ average 2006
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Reliability – all interruptions:

Duration of supply interruptions in minutes per year
per connected customer (SAIDI)

- urban	20	17	19	20	
- rural	432	444	1,147	394	
- overall	68	68	154	64	171

Number of supply interruptions per year
per connected customer (SAIFI)

- urban	0.5	0.4	0.3	0.4	
- rural	4.0	4.7	3.8	5.0	
- overall	0.9	0.9	0.7	1.0	2.5

Reliability – Orion network interruptions only:

Duration of supply interruptions in minutes per year
per connected customer (SAIDI)

- urban	19	16	18	19	
- rural	412	336	1,118	359	
- overall	64	54	150	59	153

Number of supply interruptions per year
per connected customer (SAIFI)

- urban	0.4	0.3	0.3	0.4	
- rural	3.6	3.6	3.7	3.5	
- overall	0.8	0.8	0.7	0.7	2.1

Important notes:

The above forecasts are averages for the 5 year period and are consistent with our current Commerce Commission quality threshold settings. Actual performance in individual years may vary. Network reliability in the 2007 year was adversely affected by the severe June 2006 snow storm.

The SAIDI and SAIFI measures are international industry standards which enable assessment of network performance. The gazetted industry average is for all New Zealand electricity distribution networks and includes rural and urban networks. Our network includes a significant rural component.

Gazetted NZ averages are not yet available for the 2007 financial year.

Gazetted NZ averages are stated above only where comparable data is available.

Appendix 3 Environmental targets

1. **Map our key impact on the environment.**

Target date: September 2008

Comments: Over the last ten years we have made a concerted effort to reduce our impact on the environment. We have implemented numerous initiatives in our office and our network to reduce product use, to increase recycling of the products we do use and to switch to more environmentally friendly products/practices. We have over this period won New Zealand's highest environmental award for businesses - the Green Ribbon award. We have engaged independent environmental experts to determine our current impact on the environment and identify where we can improve our environmental performance still further, while maintaining our network reliability at current high levels.

2. **Following completion in September 2008 of our target to map our impact on the environment, we will then assess the feasibility and desirability of becoming carbon neutral.**

Target date: September 2009

Comments: Our target to map our impact on the environment is very wide ranging. We aim to go beyond merely examining such factors as fuel, electricity and paper usage in our own company, and instead try to determine the footprint that all of our activities have on the environment.

Accordingly, our mapping exercise endeavours to measure the footprint impact of manufacture of our primary network equipment, the impact of activities such as digging trenches for cables, the impact of our subsidiary Connetics and many other factors. Such a wide ranging scope is challenging and our independent international environmental consultants are not aware of any other network company in the world undertaking such a project. How successful we will be achieving our goals is still unknown.

Given the wide scope of our mapping exercise the cost of becoming "carbon neutral" for Orion is likely to be greater than if we had chosen a narrow band of activities normally examined. For this reason until our footprint is known, we cannot pledge to become carbon neutral but we will examine the feasibility and desirability of it.

Any path to carbon neutrality that we choose may be a phased one. Options include the possible purchase of carbon credits to achieve neutrality and/or the actual reduction of our impact on the environment by changing the way in which we operate. Or alternatively we may look to instead ensure that all future activities we undertake are carbon neutral and gradually over time seek a "total business carbon neutral" position.

3. **Reduce energy costs in office buildings occupied by Orion by 10% by March 2008 and a further 5% by March 2009.**

Target date: March 2009

Comments: This target was first set in last year's statement of intent and is analogous to reducing energy usage in our head office building. However the target is written as 'reduce energy costs' due to our desire to primarily achieve energy reduction at times when energy usage is having the most impact on the environment. This is typically during winter peak times when more fossil fuel is being used to generate electricity and the network is operating at peak load. (i.e. winter energy usage in New Zealand typically has a far greater environmental impact than summer usage). As energy prices are typically higher during winter times we believe energy costs to be a better measure of reduced environmental impact, through reduced distant fossil fuel generation, than energy usage.

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

Target date: Ongoing

Comments: We have sponsored CEA since its inception in 1994. As well as providing financial sponsorship we assist CEA with employment advice, information technology and other issues that arise in its day-to-day operations. Demand for CEA's insulation and energy efficiency services continues to grow and over 10,000 local houses have already benefited from CEA's services. We view CEA's services as very important for our local community.

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 2009

Comments: CEA is a Christchurch based charitable trust focused on improving energy efficiency in the low income housing sector. We have supported CEA since its establishment in 1994.

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

Target date: Ongoing

Comments: Our specific targets here 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 our network and increase our network load factor
- obtain better, more accurate real-time data of our network loadings. This allows for more efficient network planning so that our spending to meet load growth is efficient.

Our policies for the connection of distributed generation to our network enable the safe and efficient connection of a range of local generation. Our policies and procedures in this area are rated very highly in terms of ease of connection relative to the rest of the industry and we will continue to lead the industry in this regard. Our policies therefore promote the provision of economic renewable energy sources.

Appendix 4 Community and employment targets

1. Zero lost time accidents for our employees and contractors

Target date: March 2009

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

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

Target date: March 2009

Comments: Recent amendments to the Electricity Act 1993 mean that electricity network companies have greater responsibilities in this area. We have excluded car versus pole accidents at this stage as it is very difficult to be sure of the completeness and accuracy of any data we gather in this area.

3. Continue with our safety programmes in schools

Target date: March 2009

Comments: Our free "Understanding Electricity" programmes provide materials, tools and support to Canterbury teachers and students to educate tomorrow's generations about electricity and how to use it safely. This programme supports the objectives of the curriculum in the areas of electricity, science and social needs.

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

Target date: March 2009

Comment: We developed this programme in response to recent public electricity related incidents and the potential public risks that our communities live with. Our programme covers issues such as tree owner responsibilities near 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 and through regular media outlets such as local newspapers.

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

Target date: November 2008

Comments: We have undertaken these formal annual surveys since 2001. Over that period there has been an overall increase in staff satisfaction. In 2007 our employees rated their overall satisfaction levels at approximately 3.8 out of 5.0. The survey covers areas such as management/leadership, work environment/resources/safety, job satisfaction, communication, work relationships/teamwork, stress recognition, salary/workload/hours and training/professional development. Messages in past surveys have influenced our increased current focus on managers' increased involvement in employee professional and career development and performance feedback. Surveys have also reinforced the value of our staff wellness programmes and our in-house trainee programmes.

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

Target date: March 2009

Comments: These targets exclude the impacts of employees leaving for reasons of retirement, redundancy or on completion of a fixed term employment contract. Orion's turnover was 4.2% and 3.5% in 2006 and 2007 respectively and Connetics' was 8.0% and 12.0%.

7. Continue with our Orion engineering trainee programme

Target date: Ongoing

Comments: Our engineering trainee programme has been very successful in placing talented individuals into key positions within our business. One or two of our employees are placed on this programme annually and over several years are developed into areas where we consider there may be existing or future skill shortages. This programme ensures that we adequately plan for replacement of our ageing workforce.

8. Continue to develop our Connetics apprentice scheme

Target date: March 2009

Comments: We continue with this scheme to ensure our key contracting subsidiary sustainably develops and improves its overall competencies. Connetics currently has approximately twenty five apprentices and nine successfully completed their training in our 2007 financial year.

9. Continue to support the CPIT Trades Innovation Board

Target date: Ongoing

Comments. In 2003 the Christchurch Polytechnic Institute of Technology (CPIT) set up this board to align trades training with industry needs. An Orion manager is a member of this board was instrumental in proposing the development of a simulated subdivision where trades trainees can be trained in real life situations. Electricity distribution is a significant part of the simulated subdivision. The subdivision and the training facility as a whole at the Sullivan Avenue site provides training facilities to contractors to ensure a sustainable contracting work force into the future. Orion is the major sponsor for this project, with the Government supporting this initiative on a dollar for dollar basis. Connetics will also maintain its membership of the Electricity Supply Industry Training Organisation (ESITO).

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

Target date: Ongoing

Comments: Our key role here is to anticipate and plan for future customer load growth and new connections in our network area. For example the UDS aims is to intensify population growth and development in the central city. Our key network planning and accountability document is our network asset management plan (AMP) and we will continue to ensure that our plan remains up to date and consistent with good industry practice – taking the UDS fully into account.

Appendix 5 Key accounting policies

Statement of compliance

Orion Group Limited (the company) is a profit-oriented company incorporated in New Zealand under the Companies Act 1993. The group consists of Orion Group 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 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-orientated entities.

Compliance with NZ IFRS ensures that the group financial statements comply with International Financial Reporting Standards (IFRS). The parent entity financial statements also comply with IFRS.

Basis of financial statement preparation

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

These financial statements have been prepared on the basis of historical cost, except for the revaluation of certain financial instruments as outlined in note 1(f), property, plant and equipment as outlined in note 1(m) below; and investment property, as outlined in note 1(n). 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 have been applied in preparing these financial statements for the year ended 31 March 2008 and the comparative information presented in these financial statements for the year ended 31 March 2007.

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

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

Estimates and underlying assumptions are regularly reviewed. Any change to estimates is recognised in the period if the change affects only that period, or into future periods if it also affects future periods.

In the process of applying the 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 group 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 group's approved network asset management plan. The costs associated with recording and tracking all individual components replaced and removed from the network substantially outweigh the benefits of doing so. Management has estimated the quantities and the carrying values of components removed from the network in each reporting period. Any errors in the estimates of such removals are corrected at the next asset revaluation, and are not considered to be material on either an annual or a cumulative basis with respect to either reported net profits or carrying values of the network. Refer also note 1(m) property, plant and equipment regarding revaluations.

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

The group invoices its customers (predominantly electricity retailers) monthly for electricity delivery services on the basis of an estimation of usage, adjusted for the latest washed-up 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 wash-up metering data is not available for in excess of twelve 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 these 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.

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, exceeds the cost of acquisition, the difference is credited to the income statement in the period of acquisition. The consolidated financial statements include the information and results of each subsidiary from the date on which the group obtains control and until such time as the group ceases to control the subsidiary. In preparing the consolidated financial statements, all intergroup balances and transactions, and unrealised profits arising within the group are eliminated in full.

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

Associates

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

Investments in associates are accounted for in the parent's financial statements using the cost less impairment method and in the consolidated financial statements using the equity method, after initially being recognised at cost. The group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition. The group's share of its associates' post-acquisition profits or losses is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in 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 income statement, 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.

Joint ventures

Joint ventures are those entities over whose activities the group has joint control, established by contractual agreement. The group's share of the assets, liabilities, revenues and expenses of any joint venture is incorporated into the group's financial statements on a line-by-line basis using the proportionate method.

b Discontinued operations

A discontinued operation is a component of the group's business that represents a separate major line of business that has been disposed of. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is restated as if the operation had been discontinued from the start of the comparative period.

c Goods and services tax

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

d 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 income statement in the period in which they arise.

e Cash and cash equivalents

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

f Financial assets

Investments are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms 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 income statement

The group has certain derivatives which are stated at fair value and the movements are recognised in the income statement.

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 income statement), 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 income statement for the period.

Investments in subsidiaries, associates and joint ventures are stated at cost less impairment. Details of the impairment tests performed are disclosed in note 1(l).

Loans and receivables

Accounts receivable are stated at cost less impairment losses. All known bad debts are written off during the financial year. Hire purchase debtors exclude unearned interest (calculated using the effective interest rate method). Intergroup balances due from subsidiaries and associates are stated at cost less impairment losses. Details of the impairment tests performed are disclosed in note 1(l).

g 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.

h Income tax

Income tax expense in relation to the surplus or deficit for the period 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 substantially 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 and interest in joint ventures, 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 substantially enacted by balance date.

Current tax and deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the tax is dealt with in equity.

i Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell, and are not amortised or depreciated.

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. The sale of the asset is expected to be completed within one year from the date of classification.

j Leased assets

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

Consolidated entity as lessor

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

Consolidated entity as lessee

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

k Derivative financial instruments

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

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

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

l 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 from 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 pre-tax cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

If a revalued asset is determined to be impaired, then the impairment is firstly applied against the related component of the revaluation reserve, with any remaining impairment loss expensed in the income statement. If the impairment loss is subsequently reversed, the reversal is firstly applied to the income statement 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 income statement. 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 profit and loss.

m Property, plant and equipment

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

The electricity distribution network is valued at fair value. Fair value is determined on the basis of a periodic independent valuation prepared by external valuers, based on an optimised depreciated replacement cost methodology. The fair values are recognised in these financial statements of the group and are reviewed at the end of each reporting period to ensure that the carrying value of the distribution system is not materially different from fair value. Consideration is given as to whether the distribution system is impaired as detailed in note 1(l).

Any revaluation increase arising on the revaluation of land and buildings and the distribution system 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 income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of land and buildings and the distribution system is charged as an expense in the income statement 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 distribution system is charged to the income statement. 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 valued 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 so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method is reviewed at the end of each annual reporting period. The main bases for the calculation of depreciation are periods not exceeding:

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

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

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

n Investment property

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

o Intangible assets

Internally-generated intangible assets for finite life intangibles 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 licenses 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. Usually this period does not exceed 3 years.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are 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 3 years.

Patents, trademarks and licences

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

Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An intangible asset arising from development (or from the development phase of an internal project) is recognised if future benefits are expected to exceed these costs. Otherwise development expenditure is recognised as an expense in the period in which it is incurred.

p 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 income statement and is not subsequently reversed. Refer also to note 1(l).

q 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.

r 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 income statement over the period of the borrowing using the effective interest rate method.

s 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 reporting date, taking into account the risks and uncertainties surrounding the obligation.

Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows. 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.

Provisions for warranty costs are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the group's liability.

t 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 reporting date taking into account years of service, years to entitlement and the likelihood staff will reach the point of entitlement.

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

u 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 balance sheet classification of the related debt or equity instruments or component parts of compound instruments.

v 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 income statement as it accrues, using the effective interest rate method.

w 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. Constructed assets are included in property, plant and equipment as each becomes operational and available for use. Revenue expenditure is defined as expenditure that is incurred in the maintenance and operation of the property, plant and equipment of the group.

x Capital contributions and government grants

Capital contributions that are refundable to customers are treated as current liabilities until refunded. Non-refundable cash contributions from customers, including government agencies, 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.

y Borrowing costs

Borrowing costs are expensed using the effective interest rate method. No borrowing costs have been capitalised.

z New standards and interpretations not yet adopted

The following new standards are applicable to us but are not yet effective for the year ended 31 March 2008 or 31 March 2009, and will not be applied in preparing consolidated financial statements for those financial years:

- NZ IAS 1 Presentation of financial statements (revised)
- NZ IFRS 8 Operating segments
- NZ IFRS 23 Borrowing costs.

All of the above standards will be implemented for our year ended 31 March 2010 and beyond.