Orion New Zealand Limited

Statement of intent

For the 3 years ending 31 March
2011, 2012 and 2013

Approved 30 March 2010

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A Introduction

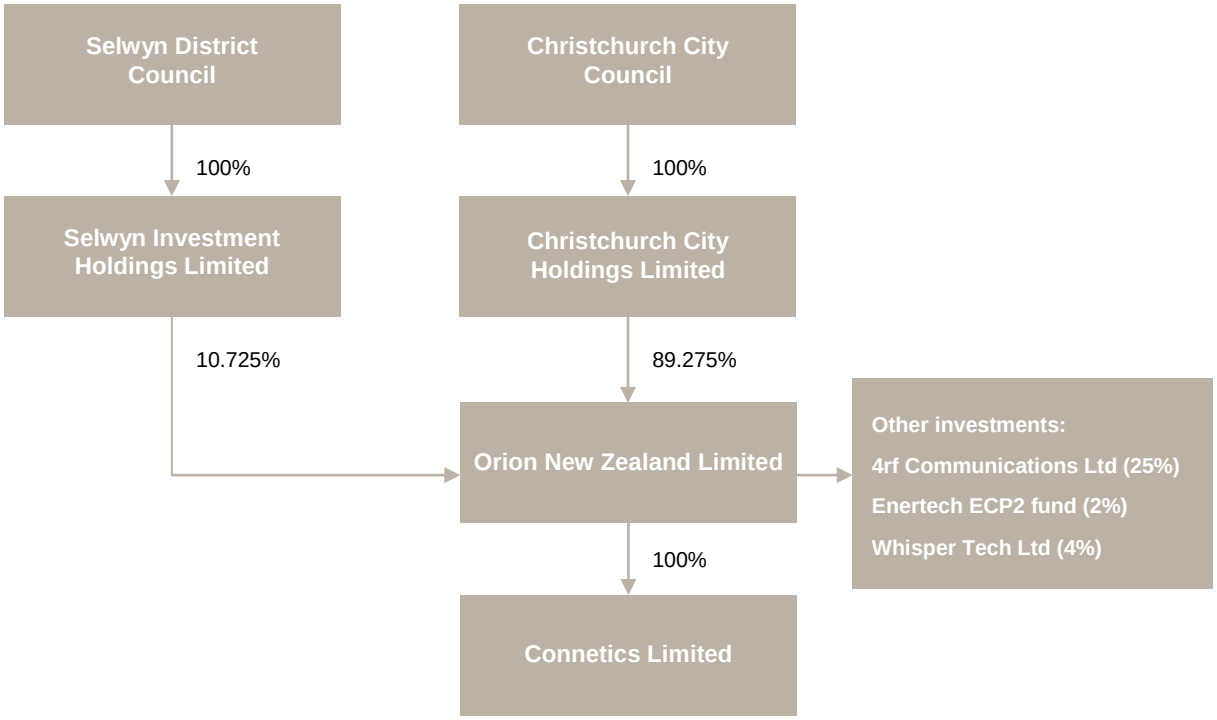
This statement of intent (SOI) sets out Orion New Zealand Limited's (Orion's) overall intentions and objectives for the three financial years ending 31 March 2011, 2012 and 2013. This SOI has been prepared in accordance with section 39 of the Energy Companies Act 1992. All "years" referred to in this document are financial years ending 31 March.

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.

Our SOI is a public expression of the accountability relationship between Orion and its shareholders – Christchurch City Holdings Limited and Selwyn Investment Holdings Limited. Our SOI is reviewed annually in consultation with our shareholders and covers a three year period.

Orion New Zealand Limited is an energy company for the purposes of the Energy Companies Act 1992.

Our group structure is as follows:



Section 36 of the Energy Companies Act 1992 requires Orion, as its principal objective, to operate as a successful business.

We will seek to:

- achieve our objectives, 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 our 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 our 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 our 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 ongoing 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 actual and forecast market demand as prudently as possible. Our electricity network 10 year network asset management plan is published and is publicly available in accordance with the electricity information disclosure requirements by 1 April 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 and load interruptibility agreements with our customers. Such initiatives aim to reduce system peak demands to enhance the overall economic and environmental well being of Orion, Christchurch and Canterbury. We formally reviewed our network security of supply standard in our 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 our region with cost effective transmission services – including the provision of adequate, ongoing and planned security of supply, consistent with good industry practice and the long term interests of our customers.

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 network reliability targets for the three years ending 31 March 2013 are shown in Appendix 1.

Social responsibility and community interest

As described above, our key role in our 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 our shareholders. Our shareholders and their respective shareholding councils then use those 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 our business is socially responsible and we have adopted such a policy.

In making our commercial decisions, we will act in a socially responsible way and 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 3.

Our people

We aim to be a good, socially responsible employer. Our ability to recruit and retain competent, motivated and committed employees and contractors 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 3.

Health and safety

We aim to provide a safe, reliable network and a safe and healthy work environment for all employees, contractors, visitors and the public. 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 3.

Compliance

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

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.

Our target related to the UDS is shown in Appendix 3.

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 2.

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 our policies annually.

In 2007 and 2008 we engaged an independent environmental expert, MWH, to determine our impact on the environment and identify where we can improve our environmental performance. This "mapping" exercise has been very wide ranging and went beyond the factors normally considered in carbon footprint exercises. MWH could not identify any other network company in the world that had undertaken a similarly comprehensive environmental study. As a result of MWH's report on our environmental performance, we have set a number of environmental targets - see Appendix 2.

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 our customers.

The impact of deep-well irrigation pumping for dairy farm conversions has required large investment in rural network upgrades in recent years. Further load growth and therefore investment by us 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 debate on plains irrigation developments by ensuring that the decision making parties and interested groups have an appreciation of the likely impact of any major proposals on Orion's and Transpower's electricity network costs and prices.

Our environmental targets are shown in Appendix 2.

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 overhead. 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 2011 other than our already announced price increase to apply from April 2010. This increase is within the allowable increase set as part of the Commerce Commission's CPI-X price path regime.

Any changes in Transpower's pricing for electricity transmission will be passed on to Orion's network customers (principally electricity retailers).

Since April 2009 we have combined our two pricing zones into one zone in order to better reflect Transpower's new pricing regime - which is now largely winter peak based. It is Transpower's winter peaks which will drive its future major grid investments for the upper South Island. These changes to our pricing structures were made after consultation with our electricity retailer customers and our major customers.

Our network delivery (line and transmission) prices seek to reflect our economic costs, are relatively simple and are low-cost to operate. Our pricing also seeks to ensure a fair rate of return on the assets employed.

We will work with regulatory agencies to ensure that our network line pricing is adequate to ensure that we have 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.

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 and 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, 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 publicly available 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

Operational

Our network reliability targets are shown in Appendix 1.

Environmental

Our environmental targets are shown in Appendix 2.

Community, employment and health and safety

Our community, employment and health and safety targets are shown in Appendix 3.

Financial

Our financial performance targets are shown in Appendix 4. Our key assumptions that underpin our financial targets are shown in Appendix 5 and our accounting policies are shown in Appendix 6.

F 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 equal instalments in June and December of each financial year. Our forecasts are close to the maximum that we forecast can be paid as fully imputed dividends for tax purposes. To assist the shareholders with budgeting, our ordinary fully imputed dividend forecasts are shown in Appendix 4.

G Capital structure

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 financial forecasts and targets, we may undertake new investments as long as they are consistent with our objectives (see Section C).

Subject to an Inland Revenue Department binding ruling on the matter, we propose to implement a non-taxable $82m share buy-back in during our 2011 financial year. If implemented, this would:

- increase our interest bearing debt by $82m and
- decrease our shareholders' equity by $82m.

Our proposed share buy-back is reflected in our capital structure forecasts and targets, our dividend targets and our financial targets – all shown in Appendix 4.

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 accounting policies are based on NZ IFRS standards and interpretations applicable at 30 March 2010. 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 2013.

Our key current accounting policies are shown in Appendix 6.

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 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. 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.

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

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

We will also publish a separate annual report on the quality and reliability performance 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 Energy Companies Act 1992. 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/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 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 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 2013, 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 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 CCC group

Orion is an 89.275% subsidiary of Christchurch City Holdings Limited (CCHL) which is itself a wholly-owned subsidiary of the Christchurch City Council (CCC). It may be possible to develop commercial opportunities with other group companies to benefit Orion, the CCC 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 Christchurch and central Canterbury electricity network distribution system.

Our group of companies is also a significant employer - with over 350 employees. We have annual operating and capital expenditures of over $50m per annum. Orion is one of the leading electricity distribution companies in New Zealand in the promotion of energy efficiency and we will continue to develop that activity. Our key role is to prudently manage our electricity distribution network in the long term interests of our shareholders and customers. Success in doing so means that local 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.

O Commercial value of the shareholders' investment

The Orion 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 directors’ estimate 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 under Part 4 of the Commerce Act.

Appendix 1 Network reliability targets

	Target 3 years average to 31 March 2013	Latest forecast 1 year to 31 March 2010	Actual 1 year to 31 March 2009	Actual 1 year to 31 March 2008	Actual 5 year average to 31 March 2009	Gazetted NZ average 2009
Reliability – all interruptions (including Transpower):						
Duration of supply interruptions in minutes per year per connected customer (SAIDI)						
- urban	20	21	17	13	19	
- rural	432	404	382	344	506	
- overall	68	69	63	54	78	198
Number of supply interruptions per year per connected customer (SAIFI)						
- urban	0.5	0.3	0.3	0.3	0.4	
- rural	4.0	3.5	3.8	4.2	4.0	
- overall	0.9	0.7	0.7	0.7	0.8	2.1
Reliability – Orion network interruptions only:						
Duration of supply interruptions in minutes per year per connected customer (SAIDI)						
- urban	19	20	17	13	18	
- rural	412	362	376	271	476	
- overall	64	63	62	45	74	183
Number of supply interruptions per year per connected customer (SAIFI)						
- urban	0.4	0.3	0.2	0.3	0.3	
- rural	3.6	3.1	3.4	3.3	3.4	
- overall	0.8	0.7	0.6	0.6	0.7	2.0

Important notes:

1. Our targets for the 3 years to 31 March 2013 are unchanged from our 3 year targets in last year's SOI. Actual performance in individual years may vary. Our targets above are no longer consistent with the Commerce Commission's network reliability limit settings under Part 4 of the Commerce Act because the Commission's settings now exclude what it defines as "extreme events" (for example large snow storms), whereas our targets above include such events.

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

3. SAIDI: system average interruption duration index – an international index which measures the average duration of interruptions to supply that a consumer experiences in a given period.

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

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

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

Appendix 2 Environmental targets

Introduction

Environmental consulting firm, MWH, completed a report for us on our overall carbon impact in 2009. MWH's report found that the overwhelming majority of our annual carbon footprint comes from two main sources as follows:

- 77% from electrical losses from our network. Electrical losses are natural phenomena that are caused by the heating of equipment as electricity passes through
- 17% from carbon embedded in our physical electricity distribution network assets.

MWH found that there was little we can do to significantly reduce our carbon footprint from either of the above two sources.

In last year's statement of intent we set six environmental targets after consultation with MWH. Three of those targets have been successfully completed and the other three are ongoing and repeated in this statement of intent as targets 1, 2 and 3. We also include a number of new targets in this year's statement of intent.

1. Continue to undertake and encourage demand side management

Target date: Ongoing

Comments: MWH's report found that 17% of our carbon footprint is due to carbon embedded in our electricity distribution network assets. MWH found that carbon savings from DSM can be achieved through demand side management (DSM) and that we already achieve significant carbon savings through our existing DSM initiatives. However further savings through increased DSM may be possible. Carbon savings include one-off embedded asset savings and annual electricity generation savings. Indeed MWH found that even peak load lopping through the use of local diesel generation can result in carbon savings despite the increased use of diesel.

We will continue with our current DSM initiatives and encourage greater response to our peak pricing, both by businesses and electricity retailers. We will also work with local businesses to assist them to install peak load lopping diesel generation.

More specifically, we will continue to promote and enable DSM through the following initiatives:

- in co-operation with other upper South Island distributors we will continue to implement an upper South Island centralised load management control system. This system, which we successfully trialled last year, enables the benefits of co-ordinated control to be quantified and provides a platform for future DSM initiatives. The system is transferable to other regions within New Zealand, potentially bringing further environmental gains

- monitor the application of smart meters and where appropriate, lobby through regulatory submissions to ensure that the development and the application of smart meters occurs in an integrated way. In particular, ensure that a transparent and co-ordinated DSM environment is created to provide the best possible long term outcome for our customers.

We will also make submissions to government to encourage other network companies to adopt similar DSM initiatives. MWH found that if other New Zealand network companies followed our lead in DSM it could result in up to 1% of total annual emissions generated in New Zealand being saved.

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

Target date: March 2011

Comments: MWH's report found that we have relatively few areas where we can realistically make significant improvements to our overall carbon footprint. Unlike most companies our fuel use is a relatively minor part of our footprint at only 3.5% of our annual carbon impact. However fuel usage is an area where gains can be made.

MWH recommended that Orion and Connetics employees who drive operational vehicles be trained in how to drive efficiently and how to maintain vehicles so as obtain maximum efficiency from them. In the 31 March 2010 financial year we put our operational employees who drive the most on such a course and combined it with a safe driving component. Connetics will do the same prior to 31 March 2011.

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

Target date: March 2011

Comments: MWH identified that 3.5% of our annual impact is from fuel usage in vehicles. We have reviewed our operational fleet to ensure that where practicable efficient vehicles are purchased. Our ongoing replacement policies mean that we gain the benefits of newer fuel efficient technology as our vehicles are replaced. However, for our operational vehicles "fitness for purpose" and safety are the most important factors we take into account. Connetics has undertaken a similar review. In the year to 31 March 2011 we will look to implement a policy to consider the efficiency of contractor our vehicle fleets in any process that awards a multi-year tender.

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. Since 1994 CEA has resided rent-free at our head office premises. Due to significant increases in demand for its services, CEA will relocate to new premises in our 2011 financial year. We will continue to offer financial and administrative support to CEA.

We have committed to support CEA for our 2011 financial year with financial sponsorship of $150,000.

Over 15,000 local homes 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 2011

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:

- participate in Christchurch Agency for Energy (CAfE). We have agreed to be a founding member of CAfE which is due to begin its work in early-mid 2010. Financially we have committed $100,000 for the next five years to CAfE and we look forward to working with the CCC and other organisations to develop and implement the energy efficiency initiatives outlined in the CCC's sustainable energy 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.

We are currently undertaking discussions with a number of parties over the proposed Energy Agency as part of our effort to assist the CCC in the implementation of the sustainable energy strategy.

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

Target date: March 2011

Comments: We utilise large quantities of paint at our head office and in the field – on our kiosks, substations etc. Paint can contain components that can impact adversely on the environment at different stages of the products' life cycles – potentially releasing solvents and toxic substances during production, application, the service life of the coating and disposal.

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

Target date: March 2011

Computers, printers and photocopiers use considerable amounts of energy if left on during non-work hours. Several large corporations overseas have in recent years successfully introduced 'electrical smart sockets' into their offices - which turn off office equipment if left unnecessarily on by users. These 'smart sockets' detect usage on the equipment and, if there is none, switches the equipment into hibernation and then turns the equipment back on at a selected time prior to workers returning to use the equipment. The 'smart sockets' and associated energy management system monitor we will conduct energy consumption in real time so that energy savings can be determined. Our investigation into these systems will consider any impact on the security and usability of our IT network and if no significant issues are identified a trial of the smart sockets in our office.

Appendix 3 Community and employment targets

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

Target date: March 2011

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 2011

Comments: 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 local public safety education and awareness programme in the safe use of electricity

Target date: March 2011

Comment: 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 and radio.

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

Target date: November 2010

Comments: We have undertaken these surveys since 2001. In 2009 our employees rated their overall satisfaction at an average of 77 out of 100. Scores improved in all of our survey categories in 2009 except for ‘culture and values’ - where scores remained consistent with 2008. We've worked to improve on our previous surveys' ratings - especially related to ‘performance and feedback’ and ‘reward and recognition’ - and our recent initiatives have been reflected in much improved scores in these areas. Our current initiatives are to continue improve employee engagement, with a focus to improve our internal communication and agreement on our mission, our plans, our culture and our values.

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

Target date: March 2011

Comments: 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. Orion’s turnover was 3.2% and 3.1% in our 2008 and 2009 financial years respectively and Connetics’ was 9.3% and 10.5%.

6. 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. Our programme ensures that we adequately plan for replacement of our ageing workforce. As at February 2010 we have five employees on this programme.

7. Continue to develop our Connetics apprentice scheme

Target date: March 2011

Comments: We continue with this scheme to ensure our key contracting subsidiary sustainably develops and improves its overall competencies. As at February 2010 Connetics has 15 apprentices and 6 have so far successfully completed their training in our 2010 financial year.

8. Continue to support the CPIT Trades Innovation Centre

Target date: Ongoing

Comments. In 2003 the Christchurch Polytechnic Institute of Technology (CPIT) set up an advisory board to align trades training with industry needs. An Orion manager is a member of this board and 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 help 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. Orion and Connetics will also maintain their respective memberships of the Electricity Supply Industry Training Organisation (ESITO) and will endeavour to influence ESITO's direction for the long term benefit of the industry.

9. 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.

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

Target date: March 2011

In particular we want to:

- reflect values-based behaviours in all of our performance objectives
- develop our strategies to improve our customer service
- increase our leadership capabilities and implement a leadership development programme for our existing and future leaders.

Comments: These initiatives have come from our work arising from our employee surveys and our ongoing business planning initiatives.

Appendix 4 Financial performance targets

	2011	2012	2013
Profit after tax ($m)	39.4	33.8	33.9
Profit after tax/average shareholders' equity (%)	5.9	5.4	5.4
Fully imputed dividends ($m)	37.5	32.0	32.0
Share buy-back ($m)	82.0	-	-
Debt (%)	19	24	26
Equity (%)	81	76	74
Equity/total assets (%)	63	60	59

Notes:

"Profit after tax" above is consistent with "total comprehensive income" as defined under NZ IAS1. Note that our forecasts above exclude any future revaluations - see Appendix 1 for more details on this exclusion.

Our "*profit after tax/average shareholders' equity"* forecasts above represent the return on the equity of our business as a whole and not just our network.

"Debt" is defined as interest bearing debt (including debt associated with new investment agreements with Transpower) and after deduction of cash/short term investments.

"Equity" is defined as all shareholders' equity.

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

Our financial performance targets above are subject to:

- our key assumptions – see Appendix 5 and
- our key accounting policies – see Appendix 6.

Appendix 5 Key assumptions used in our financial targets

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

- our targets are for financial years ending 31 March
- our targets are for the consolidated results of Orion New Zealand Limited and its subsidiaries
- all figures are in nominal terms reflecting estimated forecast inflation
- our accounting policies are based on NZ IFRS and are consistent with those shown in Appendix 5
- our ongoing line price increases are equal to forecast CPI from our 2011 financial year onwards - consistent with the Commerce Commission's current default price path regime settings for Orion. No significant "P_0" (one-off) line price adjustments enforced by the Commerce Commission are forecast
- no decisions by the Government, Commerce Commission or Electricity Commission that materially adversely affect Orion's shareholder value
- all price changes from Transpower will be "passed through" to electricity network customers
- expenditures and practices in line with our current approved and published 10 year electricity distribution network asset management plan
- no significant revaluations (upwards or downwards) of:
  - investment properties
  - property plant and equipment (for example our electricity distribution network)
  - financial instruments (for example our interest rate swaps) and other investments
- no major investments/divestments apart from the acquisition of $40m of local Transpower spur assets over the next three financial years
- no further capital repatriations to shareholders other than our forecast dividends noted in Appendix 4 and our forecast $82m share buy-back noted in Appendix 4.

Appendix 6 Key accounting policies

Statement of compliance

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

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

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

Basis of financial statement preparation

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

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

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

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

Preparing financial statements to conform with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets 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 year if the change affects only that year, or into future years if it also affects future years. In the process of applying the company's and group's accounting policies, management has made the following judgements, estimates and assumptions that have had the most significant impact on the amounts recognised in these financial statements.

The company operates an extensive integrated electricity distribution network comprising large numbers of relatively minor individual network asset components. These components are replaced over time as part of an ongoing maintenance/refurbishment programme, consistent with the company's approved network asset management plan. The costs associated with recording and tracking all individual components replaced and removed from the network substantially outweigh the benefits of doing so. Management has estimated the quantities and the carrying values of components removed from the network in each reporting period. 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 to note 1(l) property, plant and equipment regarding revaluations.

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

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

Management assesses whether individual assets or a grouping of related assets (which generate cash flows co dependently) are impaired by estimating the future cash flows that those assets are expected to generate. Assumptions such as rates of expected revenue growth or decline, expected future margins and the selection of an appropriate discount rate for discounting future cash flow are required.

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

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

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

Significant accounting policies

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

(a) Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the group.

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

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

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

Associates

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

Investments in associates are accounted for in the 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 statement of comprehensive income and its share of post-acquisition movements in reserves is recognised in other comprehensive income (reserves). The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the parent's statement of comprehensive income, 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.

Parent company

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

(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 expenses. Cash flows in respect of payments to and receipts from the Inland Revenue Department are shown net in the statement of cash flows.

(c) Foreign currency

The functional and presentation currency is New Zealand dollars. Transactions in foreign currencies are translated at the foreign exchange rate ruling on the day of the transaction. Foreign currency monetary items at balance date are translated at the exchange rate ruling at that date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates ruling at the date when the fair value was determined. Exchange differences are recognised in the statement of comprehensive income 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 balance sheet.

(e) Financial assets

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

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

Financial assets at fair value through statement of comprehensive income

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

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 statement of comprehensive income), 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 statement of comprehensive income for the year.

Loans and receivables

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

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

Details of the impairment tests performed are disclosed in note 1(k).

(f) Inventories and work in progress

Inventories are valued at the lower of cost (first in first out (FIFO) or weighted average) and net realisable value, with additional allowances for obsolescence where necessary. The cost of finished goods comprises direct materials and where applicable, direct labour and other direct variable costs incurred in order to bring inventories to their present location and condition. Costs are assigned to individual items of inventory on a weighted average cost basis. The cost of chargeable work in progress includes direct materials and labour and an allocation of overheads that directly relate to the work performed. Net realisable value is the estimated amount the inventories are expected to realise in the ordinary course of business less an estimate of any costs to completion and applicable variable selling expenses.

(g) Income tax

Income tax expense in relation to the surplus or deficit for the year comprises current tax and deferred tax.

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

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

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

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

(h) Investments in subsidiaries and associates

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

(i) 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.

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.

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

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.

(j) Derivative financial instruments

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

The group has not designated any derivatives as hedges. 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 statement of comprehensive income immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the statement of comprehensive income 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.

(k) Impairment of assets

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

The recoverable amounts are the higher of fair value (less costs to sell) and value in use. In assessing value in use, the estimated future 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 statement of comprehensive income. If the impairment loss is subsequently reversed, the reversal is firstly applied to the statement of comprehensive income 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 statement of comprehensive income. 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.

(l) Property, plant and equipment

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

The electricity distribution network is 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 electricity distribution network is not materially different from fair value. Consideration is given to whether the electricity distribution network is impaired as detailed in note 1(k).

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

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

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation on revalued buildings and the electricity distribution network is charged to the statement of comprehensive income.

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

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

Depreciation is calculated on a straight-line basis to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight-line method. The estimated useful lives, residual values and depreciation method is reviewed at the end of each annual reporting period. The main bases for the calculation of depreciation are periods not exceeding:

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

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

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

(m) 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 statement of comprehensive income in the year in which those gains or losses arise.

(n) Intangible assets

Internally generated intangible assets for finite life intangibles are stated at cost less accumulated amortisation and impairment and are amortised on a straightline basis over their useful lives.

Computer software

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

Costs associated with developing or maintaining computer software programmes are recognised as expenses as incurred. Costs 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 three years – however for some significant projects, estimated useful lives may be assessed as up to five years.

Patents, trademarks and licences

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

Research and development costs

Expenditure on research activities is recognised as an expense in the year 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 year in which it is incurred.

(o) 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 statement of comprehensive income and is not subsequently reversed. Refer also to note 1(k).

(p) Payables

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

(q) 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 statement of comprehensive income over the period of the borrowing using the effective interest rate method.

(r) Provisions

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

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

(s) Business combinations

Business combinations involving entities that are under common control are accounted for using the pooling of interest method. This involves assets being transferred at their carrying value at the time of the transaction.

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

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

(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 statement of financial position 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 statement of comprehensive income 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.

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

(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. Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset.

Changes in accounting policies

The accounting policies detailed above have been applied in preparation of these financial statements for the year ended 31 March 2011 and have been consistently applied throughout the year. There have been no changes in accounting policies in comparison with the prior year.

New standards and interpretations on issue but not yet effective

The following standards are relevant to the group's operations:

- NZ IFRS 7 Significance of Financial Instruments for Financial Position or Performance. This amendment enhances disclosures over fair value measurements of financial instruments and liquidity risk. The revised standard will impact on the quantum of the information disclosed in respect of financial instruments but will not impact on the financial performance or financial position of the group.
- NZ IFRS 8 Operating Segments, which supersedes NZ IAS 14 Segment Reporting. This new standard provides guidance on the disclosure requirements in respect of the operating segments of entities. The group is awaiting the outcome of a proposed change in the standard by the Financial Reporting Standards Board that may result in the group being outside of its scope before assessing the impact.
- NZ IFRS 9 Financial Instruments will replace NZ IAS 39. At present only phase 1 of NZ IFRS 9 has been issued. It covers classification and measurement of financial assets. The group has not yet assessed the impact of this standard that will become mandatory for the group's 2014 financial statements.

- NZ IAS 1 Presentation of Financial Statements (revised). This revision changes the presentation and components of the statement of changes in equity and introduces a new statement of comprehensive income. The revised standard will impact on the presentation of the financial statements but will not impact on the financial performance or financial position of the group.
- NZ IAS 23 Borrowing Costs (revised). This revision removes the option to expense borrowing costs incurred in respect of qualifying assets. The group has not determined the potential impact of this revised standard.
- NZ IFRIC 18 Transfers of Assets from Customers. This interpretation provides guidance on when and how an entity should recognise such assets. The interpretation will not have a material impact on the financial statements of the group.

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

	Effective for the financial year ending
• NZ IFRS 1 Amendments to Cost of Investments in Subsidiary, Jointly Controlled Entity or Associate	2010
• NZ IFRS 1 First-time Adoption of IFRS – Additional Exemptions for First-time Adoptors	2011
• NZ IFRS 2 Amendments to Share Based Payments	2010
• NZ IFRS 3 Business Combinations (revised)	2011
• NZ IFRS 4 Insurance Contracts (amendments)	2010
• NZ IAS 24 Related Party Disclosures	2012
• NZ IAS 27 Consolidated and Separate Financial Statements (amended)	2011
• NZ IAS 32 Financial Instruments Presentation (amendments)	2010
• NZ IAS 39 Financial Instruments: Recognition and Measurement (amendment)	2011
• NZ IFRIC 9 Reassessment of Embedded Derivatives	2010
• NZ IFRIC 13 Customer Loyalty Programmes	2010
• NZ IFRIC 15 Agreements for Construction of Real Estate	2010
• NZ IFRIC 16 Hedges of a Net Investment in a Foreign Operation	2010
• NZ IFRIC 17 Distribution of Non-Cash Assets to Owners	2011
• NZ IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	2012
• Improvements to IFRS (issued 2009)	2011