HORIZON ENERGY

Investing in Reliability

ANNUAL REPORT 2011

HORIZON ENERGY DISTRIBUTION LIMITED

Highlights

Overall consolidated net profit after tax of **$5.9m**

Over **$6m** invested in reliability and capital expansion projects

Acquisition of a majority shareholding in Tauranga based **Stewart Browne Group**, a diversified electrical contracting business

Upgrade of Geospatial Information System and advancement of detailed Asset Inspection

Achieved reliability performance in line with regulatory requirements, despite severe weather events

Improved Health and Safety awareness and reporting

Proud sponsor of the **Horizon AAA Business Excellence Awards**, recognising business excellence in our region

About Horizon Energy

Our Network

Horizon Energy Distribution Limited (Horizon Energy) and its subsidiary is a successful New Zealand NZX listed business operating from Whakatane in the Eastern Bay of Plenty. We own, manage and operate over 2,300km of high voltage lines supplying 8,400 square kilometres of the Eastern Bay of Plenty, covering a diverse geographical area from Otamarakau, to Kaiangaroa and Ruatahuna through to Cape Runaway. Horizon Energy transports electricity to more than 24,500 homes and businesses.

Horizon Energy Vision

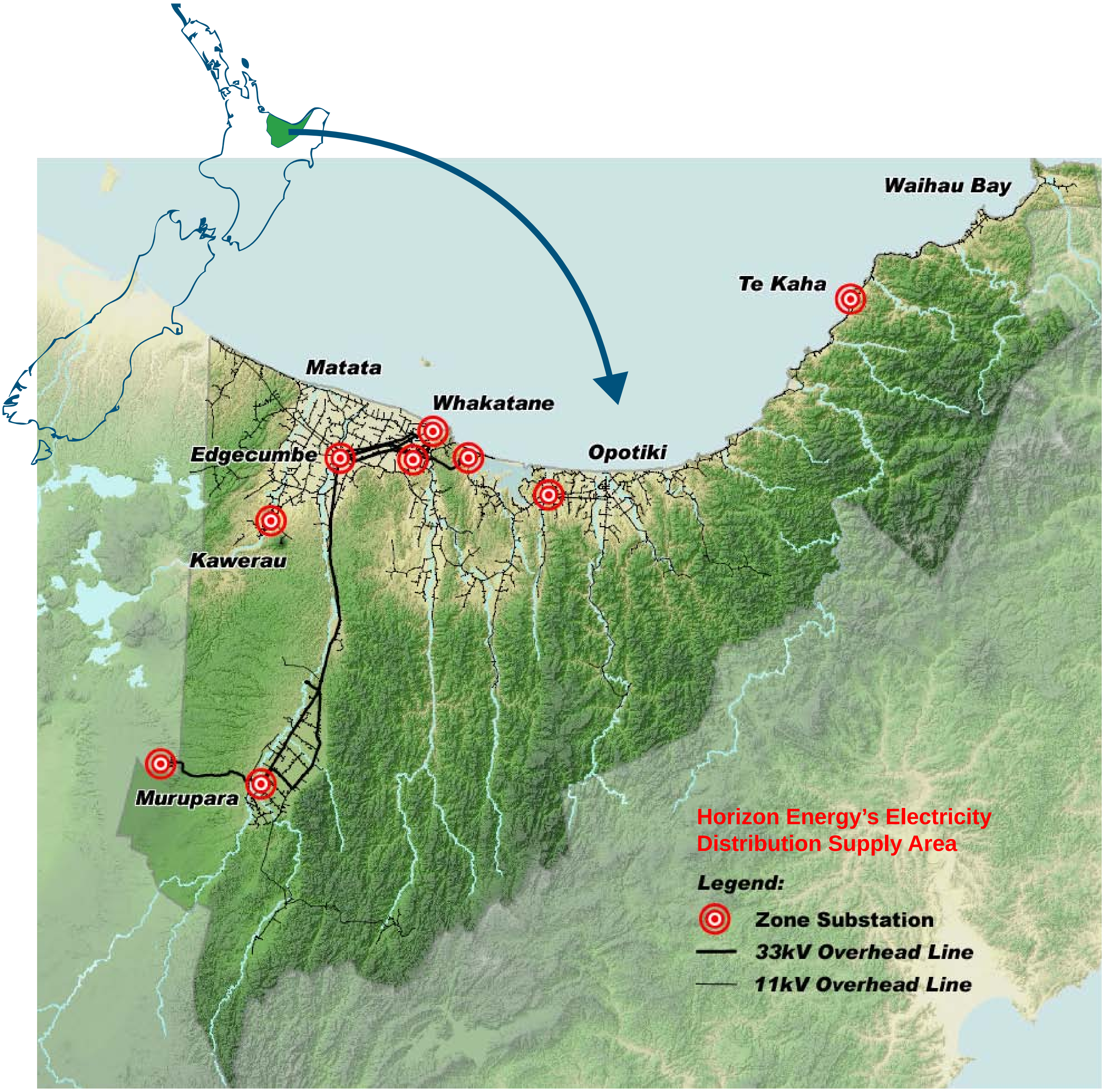
Horizon Energy will be an efficient infrastructure owner and the provider of choice for infrastructure services in the Eastern Bay of Plenty. We will identify and evaluate opportunities that maximise the value of the business in the long term for the benefit of our stakeholders in an environmentally and socially responsible manner through our dedicated and committed staff.

Horizon Energy Mission

To provide a safe, efficient, sustainable and reliable electricity network service to the Eastern Bay of Plenty. “Keeping you Connected 24/7”.

Horizon Energy Core Purpose

To provide an essential service to the people of the Eastern Bay of Plenty. “To Keep the Lights ON”.



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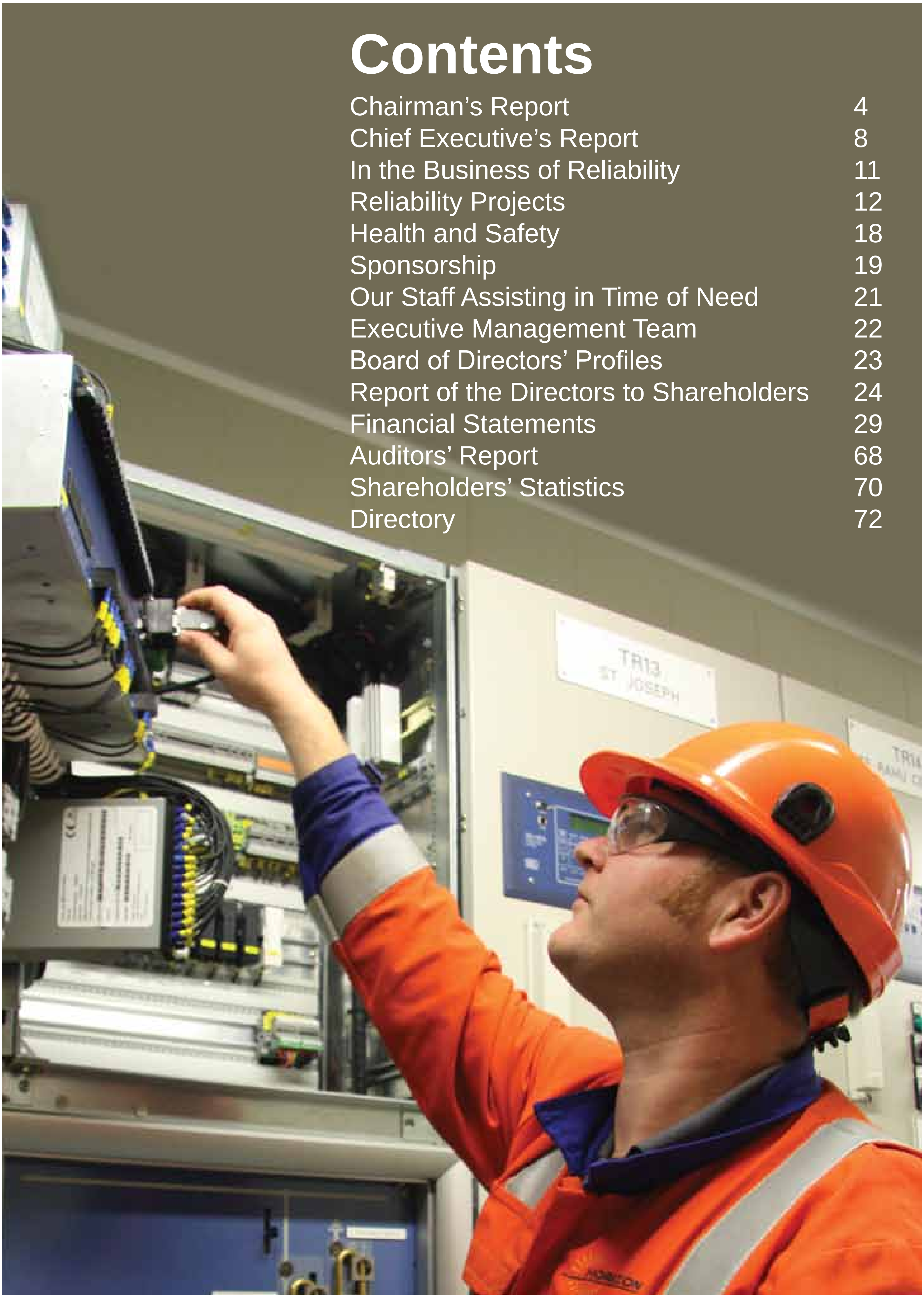


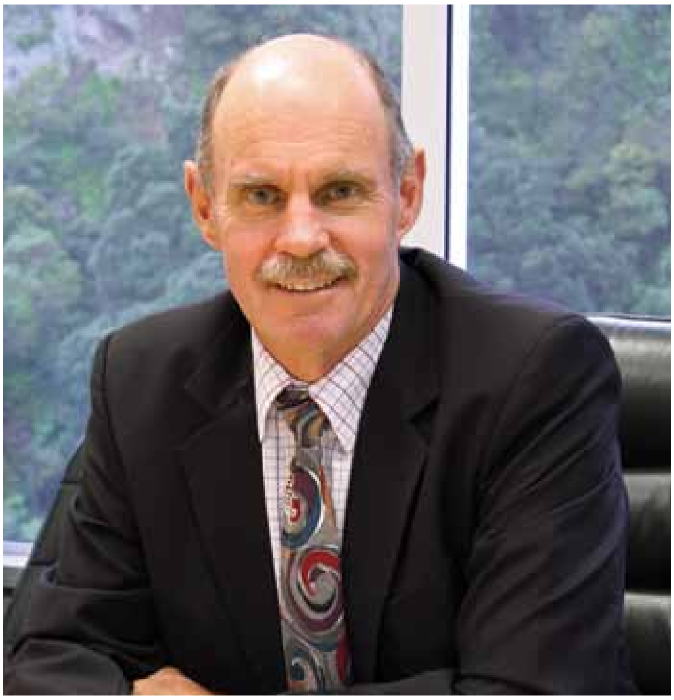
Chairman's Report

To an electricity lines business like Horizon Energy, reliability means many things. It means delivering a constant power supply to consumers, it means generating a sound financial performance for its shareholders, it means being a good employer, committed to the ongoing well being and safety of its staff and it means being a dependable and good corporate citizen to the communities in which it operates.

I am therefore pleased to present this Report for the year ended 31 March 2011, the highlights of which include a sound and reliable performance, reporting an after tax profit of $5.9 million for the year and outlining the plans for the business to meet the challenges of the future.

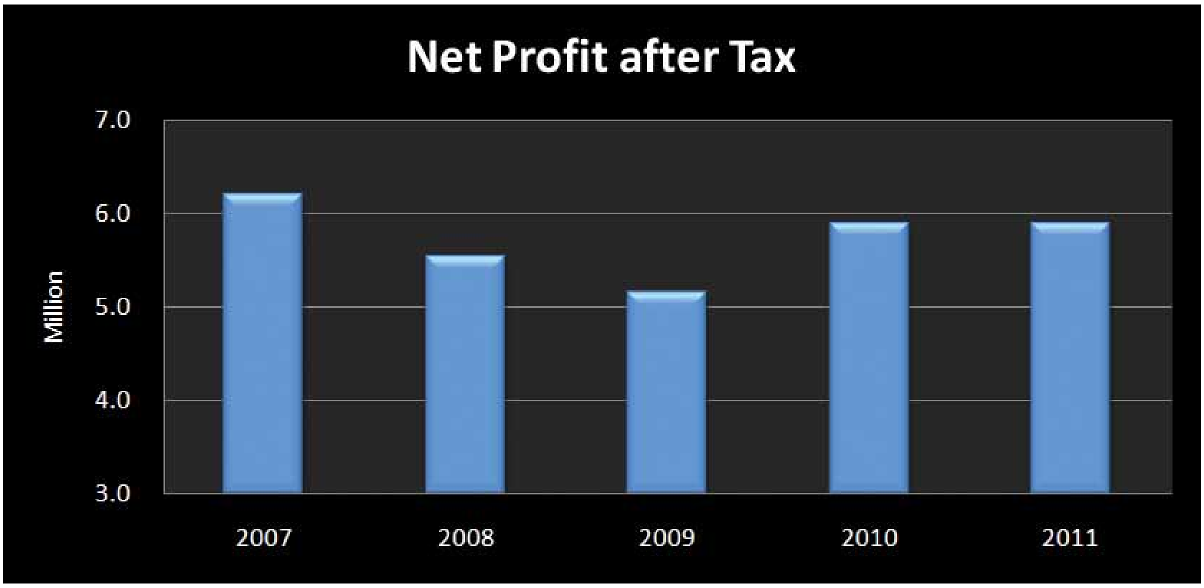
Directors have declared a fully imputed final dividend of 10 cents per share. This dividend brings the total dividend paid for the year to a fully imputed 17 cents per share and is the same as the dividend paid in the previous year.

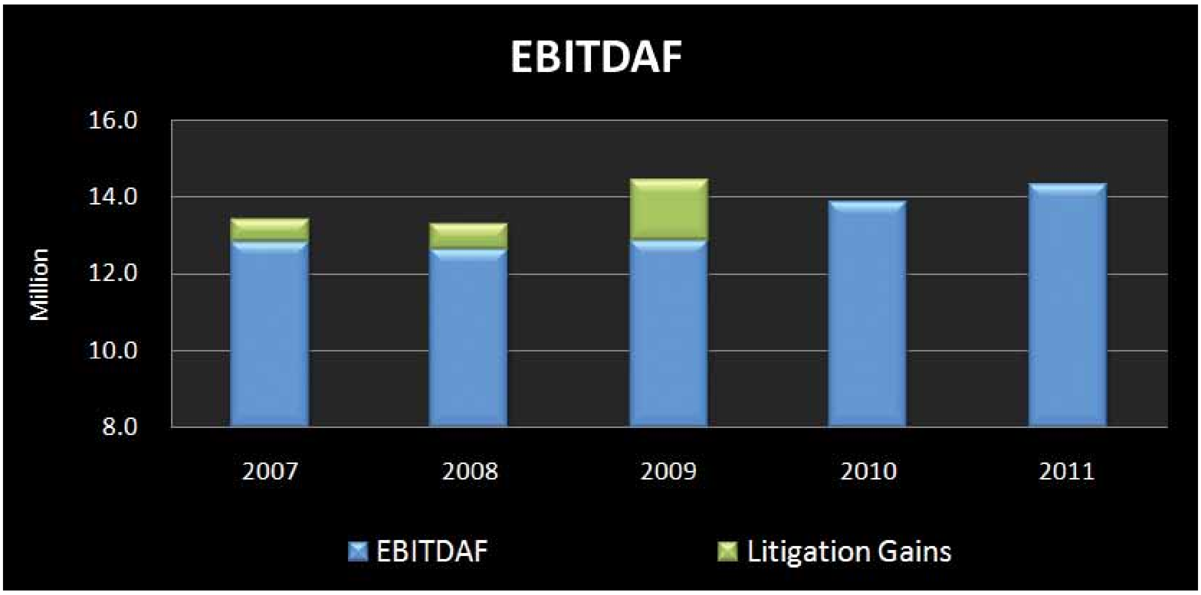
Operationally, the Company enjoyed a successful year and remained within the reliability measures set by the Commerce Commission. The resilience of the network was well tested during the year as it was largely unaffected during three significant weather events that occurred in the Eastern Bay of Plenty. This is a credit to the organisation and management of the network and the skill and commitment of Horizon Energy staff.



Rob Tait
Chairman

Chairman's Report





Financial Summary

At $5.9 million, the 2011 financial result is ahead of the guidance given to the market and in line with the previous years result.

The underlying profitability of the business is sound and the earnings before accounting for interest, taxes, depreciation, amortisation and the impact of financial derivatives (EBITDAF) has grown steadily.

During the year, the Company's electrical contracting business, Horizon, performed well despite an apparent slow-down in commercial activity in the region. A number of organisation changes and enhancements of the capability of this business unit has seen pleasing growth and development of commercial opportunities.

Cash flows for the Group remain strong. Shareholders' funds increased by $2.5 million at year end, reflecting good financial performance after allowing for dividends paid to shareholders. With total fixed assets of $108 million, and relatively low external debt of $25 million, the Group continues to enjoy a strong balance sheet which underpins the strategic intention to seek the acquisition of value adding non-regulated businesses.

Strategic Direction

Growth in shareholder value is the cornerstone of Horizon Energy's strategic plan. Operating a profitable and sustainable business within both the regulated and non-regulated environment underpins this plan.

Chairman's Report

The focus over the past three years has been one of putting in place systems and resources to enable the Company to meet statutory obligations for network reliability and service delivery, while achieving operational efficiency and the best practice safety standards. We are now at a point when I can say that we have achieved most of these goals, or are currently implementing plans to achieve the desired growth objectives.

The development of a successful contracting business provides the platform to further build this non-regulated business unit throughout the Bay of Plenty by both acquisition and organic growth. Opportunities in generation are also being pursued.

Regulatory Developments and Profit Outlook

The ongoing focus on operational efficiencies, cost savings and growth in the external contracting services, together with some improvement in the pricing structure for Horizon Energy's network services, provides confidence in forecasting sustainable revenues and profitability for the core functions of the Group.

Recent announcements by the Commerce Commission on proposed changes to the price setting regulations does create some uncertainty on revenues and profitability. Until Horizon Energy's submissions on these changes are considered by the Commission, I cannot give any guidance on the likely impact of these changes. I will however advise shareholders as soon as possible.

Other Growth Opportunities

Several business development opportunities were considered during the year or remain under consideration. Only businesses that fit our strategic direction, in line with Horizon Energy's core competencies and which are commercially sound are being considered. Where appropriate, due diligence is undertaken, including obtaining specialist external advice in assessing the opportunity.

In March 2011, the Board was pleased to announce the acquisition of a 60% shareholding in Stewart Browne Group, a Tauranga based electrical contracting business. The company's location and diversified service capabilities are considered a natural fit and substantially enhance our capacity in the electrical contracting market.

The Board continues to encourage Management to seek growth opportunities and is confident that further businesses will be found that will add value to the Company.

Urban Fibre Initiative

As part of a Consortium with four other regional lines businesses, Horizon Energy pursued the opportunity to participate in the Government's ultra fast broadband (UFB) initiative for the deployment of a fibre network to the communities of Whatakane and Ohope, and potential future expansions to include surrounding townships within the Eastern Bay.

Regrettably Horizon Energy (and the Consortium) was not successful and the bulk of the UFB project was awarded to Telecom. The process of analysis of the opportunity and preparation of the Consortium tender cost Horizon Energy in excess of $200,000 and considerable senior Management time. The bulk of this cost has been expensed in the 2011 financial year.

While disappointed, the Board are pleased to have had the opportunity and there remains a possibility of being involved in some capacity with Telecom in the roll out of UFB in this region.

East Coast Assets

During the year the Company undertook thorough due diligence to assess the business case for acquiring the Transpower transmission assets servicing the Opotiki/Te Kaha region.

The assessment of the revenue that Horizon Energy could earn from this asset under the current pricing methodology and the proposed regulatory environment determined that the business case is commercially not viable. The Board resolved to postpone any acquisition decision until the final regulatory environment (changes under Part 4 of the Commerce Act 1986) is established by the Commerce Commission. The acquisition of this asset into Horizon Energy's network is operationally logical, however there is no sense in proceeding with an acquisition unless there is a sound commercial outcome for the Company.

Dividend Expectations

Infrastructure companies like Horizon Energy must balance the returns paid to shareholders with the imperative to reinvest in capital equipment. The ability to do either is constrained by the regulatory controls that govern the Company's revenue.

As advised previously, the Company is forecasting a maintenance and capital expenditure programme at levels necessary to maintain safety standards and continue to improve the quality and reliability of electricity supply to consumers. Funding for this anticipated expenditure will be by prudent debt financing and retention of surpluses generated by the business.

The final dividend of 10 cents per share is determined by the Directors as appropriate at this time. It is the Board's view that a conservative dividend policy is necessary in the medium term, particularly until there is more certainty around the proposed regulatory price regime.

Relationship with Eastern Bay Energy Trust (EBET)

The Company has continued to maintain a good working relationship with EBET, its major shareholder. During the year, the Company received financial support from EBET in undertaking a training programme for lines staff appointed to the new Glove and Barrier (live line) and Technical Services business units. The addition of these business units has significantly enhanced the Company's contracting and servicing capabilities.

The Board is grateful for the ongoing support provided by EBET.

Chairman's Report

Settlement with Marlborough Lines

I am pleased to advise that all outstanding matters associated with the unsuccessful takeover offer by Marlborough Lines Limited in 2009 have now been settled. While most of the external costs were recovered, as was the case last year, a significant amount of time was diverted to attending to the ongoing legal and debt recovery action arising from this failed takeover.

Appreciation and Acknowledgements

Our Chief Executive Ajay Anand, and his small but focused Management team, have demonstrated a commitment and level of professionalism during the year which is again worthy of praise. Ajay has made significant progress in pursuing business opportunities while also facilitating a number of operational and strategic development matters. The Company is now enjoying the benefit of these and earlier initiatives undertaken by our Management team.

Earlier this year our Network Manager Alastair McAra left the Company to join another lines business. We thank him for his services and wish him well for the future. Peter Middlemiss joined the Company as Network Manager in April 2011 and we welcome Peter to Horizon Energy.

Horizon Energy's relatively small Board remains highly focused, works very well together, and has a constructive relationship with Management. These factors are essential in supporting and executing Horizon Energy's commitment to the delivery of reliable services while actively fulfilling its broader role within the communities of which it is an integral part. I extend my sincere thanks to fellow Directors, Management and staff for your ongoing contribution and support.

Rob Tait
Chairman

Chief Executive's Report

Remarkable progress in our Health and Safety culture across all levels of the business has been achieved over the past 12 months.
It is our belief that having a safe working environment coupled with innovative asset management practices and sound network management leads to the delivery of a reliable and efficient service which is what our customers expect of us.

Operational Performance

I am pleased to report that during the 2011 financial year Horizon Energy's network delivered the reliability which is expected of it while also completing several projects which will contribute to the improved performance of the network, both now and into the future. The Group delivered a sound financial performance in line with forecasts.

Almost all of the network capital budget of $6.5 million was completed during the year which is a significant improvement on the capital works completed in the 2010 year and reflects the outstanding efforts of all our staff. The significant projects are detailed on pages 12 to 17.

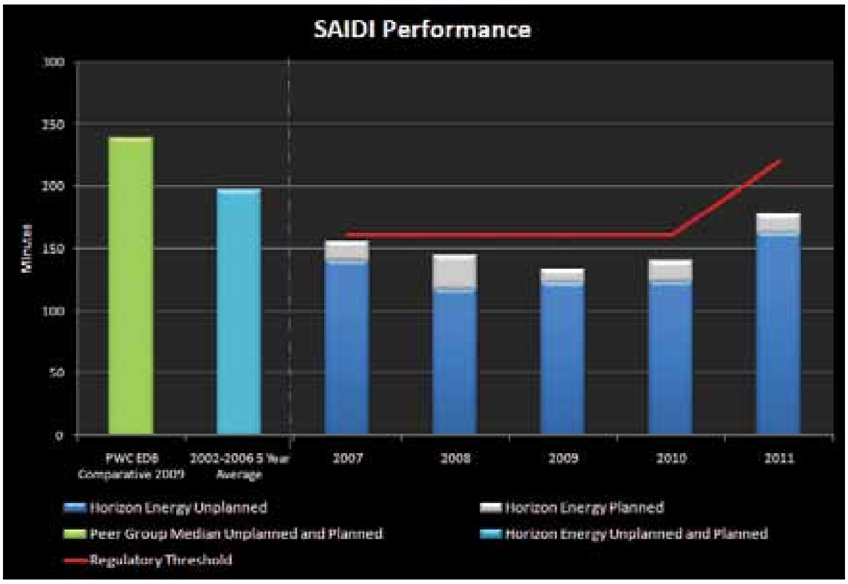
During the year the Company achieved another significant milestone whereby we developed a Cost of Supply model for our business, which allows us the ability to determine the most appropriate and optimum tariffs for our consumers. The new tariffs came into force on 1 April 2011 following an extensive customer consultation process. The business will be transitioning customers over the next three years to these new pricing plans which are designed to mitigate price shocks on consumers.

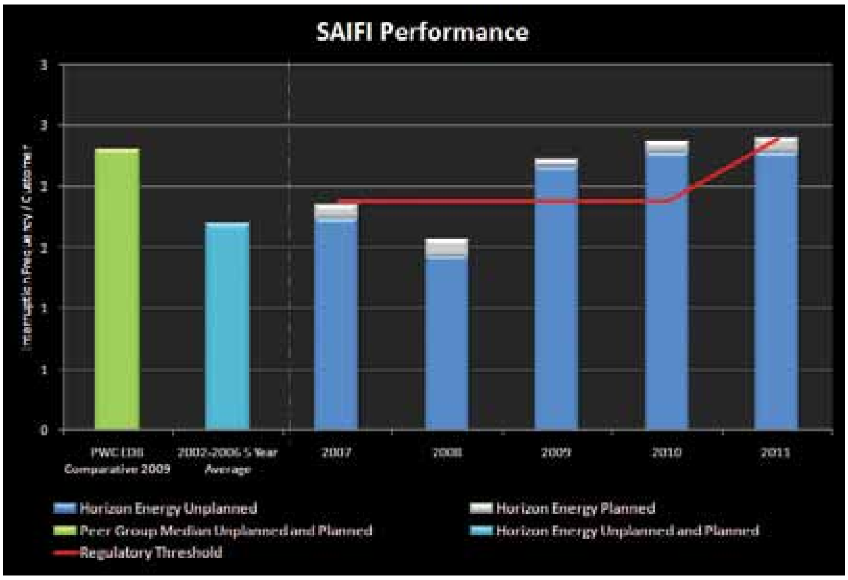
Network Performance and Reliability

The reliability of Horizon Energy's network is measured by internationally recognised metrics monitored by the regulator. Those metrics are known as SAIDI (System Average Interruption Duration Index, which is the average outage duration for each customer served) and SAIFI (System Average Interruption Frequency Index, or the average number of interruptions that a customer would experience). It is pleasing to report that Horizon Energy is within the regulatory limits for both of these measures, as can be seen from the graphs on the following page.

Ajay Anand
Chief Executive

Chief Executive's Report





Safety Improvements

During the year the following safety measures were developed and implemented across the business:

- Development of an improved accident/incident reporting template. The awareness and uptake of this safety tool has exceeded Management's expectations and the business has gathered useful information that will assist in designing relevant training and risk mitigation plans;
- We have initiated dedicated monthly 'tool box' meetings which are aimed at encouraging awareness and employee participation in all things safety;
- We have adopted the Du Pont Bradley Curve framework as a means of assessing our health and safety culture; and
- We have enhanced and further developed sound operating procedures and rules for undertaking work on the network.

Regulatory Update and Future Landscape

In April 2011 the Commerce Commission released its long awaited proposal on Starting Price Adjustments. This proposal will determine the regulated pricing for Horizon Energy's network distribution services and therefore profit boundaries within which Horizon Energy must operate. This proposal does not apply to any of Horizon Energy's non-regulated business.

The revised pricing methodology is a significant change from that indicated in the August 2010 announcements by the Commission. In the current form, the proposal does not allow for specific factors impacting on individual companies such as Horizon Energy.

The Company has been actively engaged in responding to the various information requests and in assessing the impact of the changing regulatory landscape on our business. Our aim is to manage any adverse impact arising from the Starting Price Adjustments as proposed by the Commerce Commission. It is vital for Horizon Energy that an appropriate balance is struck between our continued need to invest in the network, the dividend expectations of our shareholders and the prices paid by our customers. The current proposal from the Commission does not provide sufficient investment certainty.

Chief Executive's Report

Left to right: Ajay Anand (Chief Executive, Horizon Energy), Stewart Browne (Managing Director, Stewart Browne Group), Pete Theron (Divisional Manager – Contracting, Horizon), Sara McFlinn (Director, Stewart Browne Group) and Rob Tait (Chairman, Horizon Energy)

A final decision on the methodology that will be applied by the Commerce Commission, and any revenue impact on Horizon Energy, will not be known until late October 2011 with implementation of the new regime expected to apply from 1 April 2012.

Horizon Energy Investments Limited

Rebranded simply as 'Horizon' in 2009, our contracting business continues to gain momentum and critical mass. Horizon serves the Horizon Energy network as well as providing specialised electrical services to external customers.

Following undertaking several due diligence reviews in 2010 on potential businesses for acquisition, the Tauranga headquartered Stewart Browne Group was identified as a business with the right organisational culture and mix of skills and market presence that would complement Horizon's staff and expertise portfolio. Horizon Energy acquired a majority stake in this diversified electrical contracting company effective 1 April 2011.

The resulting expanded capacity, combined with investments in equipment made in 2010, position Horizon well for sound growth and financial performance. There are a number of other operational and strategic objectives currently being pursued by the business with a view to developing the contracting business.

Business Changes and Our People

During the course of the year a review of the operation of the Network Control Room was undertaken and several changes made in order to achieve improved Health and Safety and operational efficiencies.

The operation of the contracting business has benefited significantly from the appointment of a suitably qualified and experienced Divisional Manager. A focus on system improvements is further expected to drive efficiency and profitability of this business unit.

The appointment of an Operations Manager and Business Analyst, together with the contribution of a newly appointed and experienced Network Manager, will provide the necessary resources and impetus to complete the implementation of several operational changes expected to deliver further improvements to the Company.

Our Community

Horizon Energy remains an active member of the Eastern Bay communities. While our business is centred in the Eastern Bay of Plenty, we are also a part of the broader community of New Zealand. The destruction wreaked by the Canterbury earthquake requires not only financial assistance, but also that of specialist technicians and engineers. A two man team from Horizon Energy staff was deployed to Christchurch to assist in the extensive repairs required to the electricity network of that region, in the process gaining valuable experience in dealing with natural disasters.

Further, the Company matched dollar for dollar staff donations for the Christchurch earthquake appeal and $10,000 was given to the Salvation Army in support of rebuilding the city and supporting its residents.

Locally, we continue to support local community organisations with sponsorships which encourages growth and achievement. Central to these activities is our Legends in Business series, run in collaboration with the Eastern Bay Chamber of Commerce. This initiative brings prominent business leaders to our region for seminars in which they share their commercial knowledge and experience.

We also continue to sponsor Stadium Horizon, the Young Achiever Awards in Whakatane and the Secondary Schools Sports Awards.

The Future and Thanks

Achieving and sustaining a business which plays a pivotal role in the delivery of an efficient and reliable electricity supply requires making sound decisions. Without the support of the Board and senior Management team, it would not be possible to optimise or grow our business.

The continued commitment and contributions of each and every member of Horizon Energy's staff remains essential in delivering the high levels of reliability which customers have come to expect from their electricity service. I appreciate the dedication and commitment from all of our staff and express my sincere thanks for their contribution to achieving our goals.

The work done through 2011 keeps Horizon Energy on a pathway for sound financial performance and operational excellence.

Ajay Anand
Chief Executive

Horizon Energy

In the Business of Reliability

Horizon Energy receives electricity from the national transmission network operator, Transpower and local generation stations at 33,000 volts. This electricity is then transported by Horizon Energy to key locations called zone substations where the voltage is stepped down to 11,000 volts which is the voltage used to distribute the power around the streets. Every few hundred metres or so Horizon Energy has either pole top or ground mounted transformers that step the electricity down to 230 volts used in Bay of Plenty households. Some industrial consumers receive high voltage supply to power factories and other processing plants.

As a lines business, one of the primary measures of success for Horizon Energy is its ability to maintain the reliability of the electricity supply. Doing so depends on careful management of over 32,000 assets which are strategically located across more than 8,400 square kilometres and which deliver electricity to approximately 24,500 consumers within the Eastern Bay of Plenty region.

Asset Management

Among the challenges faced by Horizon Energy is the low population density and the vast area which we service. This requires more assets to reach those consumers than other more urban based lines businesses. There is the added difficulty of the terrain on which our network is built: dense bush, steep inclines which are prone to slips, corrosive coastal air, geothermal gases and torrential downpours which all present threats to the network.

Overcoming these difficulties depends on using available assets and resources as efficiently as possible. This is achieved using a combination of technology and skilled personnel. Horizon Energy invests in technology to complement its skilled and dedicated staff to maximise the technological benefits that have become available to the industry. This has involved a mixture of automated and remote controllable switches that allow fast isolation of faulty sections of the network and restoration of supply to as many customers as possible.

Every asset has a limited lifespan and considerable effort is put into managing each of the 32,000 plus individual assets for optimal performance and lifespan. To this end, Horizon Energy is creating a detailed computerised Asset Register and Maintenance Management System which will provide improved data for the ten year Asset Management Plan. This Plan takes into account many factors, such as economic growth, population density, asset condition and suitability, maintenance and replacement schedules and capital investment criteria. All of these initiatives are conducted with an express view to obtain optimum return on the investment and maintain continuity of supply.

Regulatory Framework

Horizon Energy operates within a highly regulated industry. While electricity lines businesses are but one part of the electricity supply chain, this sector is the most closely regulated, in part because it is a monopoly business. Regulation has developed from a light-handed 'monitoring' approach to a more stringent compliance regime that now specifies price and quality measurements. Increased compliance requirements and the extensive reporting of the business performance add significant additional costs.

Horizon Energy must therefore balance the limitation of price restrictions set by the Commerce Commission, with the costs of operating and investing in its network, and the expectation of shareholder returns.

Achieving an optimum balance is a complex undertaking which depends on the contributions of a highly skilled team.

Capital Programme

The capital budget reflects the careful long term planning process which considers many different technical, commercial and social elements so as to achieve a "just in time" investment strategy which balances all stakeholders expectations. Every dollar invested in the capital budget is designed to take a long term holistic view of the network's ability to cope with current and future demand. During the year the business developed a detailed project prioritisation framework which now contains a detailed project list that spans over ten years.

Network Reliability

Historically the electricity distribution industry has had to duplicate assets in order to improve the reliability of networks. Although appropriate in some cases this is very heavy handed, expensive and often an impractical approach especially in rural networks such as Horizon Energy. Horizon Energy is, with its current reliability projects, using its newly developed communication infrastructure to improve reliability and in that way extracting better performance from its existing assets. Although still a significant financial commitment, adding smart devices and systems to the network gives a much better return to both investors and customers through reduced maintenance costs and better quality of supply.

Reliability Projects

SCADA and Communications Upgrade

The Control Room is the nerve centre of operations on the Horizon Energy network.

The ability of our operators to perform the challenging task of controlling and monitoring the state of our network is underpinned by an advanced computer system and communications network.

The SCADA, or Supervisory Control and Data Acquisition system is continually communicating to devices in the field and receiving feedback on the status of the network and devices.

In turn the SCADA system relies on our communications network built from fibre optic cables, microwave links, radio links and traditional copper wire.

Horizon Energy's focus on reliability is addressing all aspects of our network. The reliability of the communications and SCADA systems underpins our ability to find faults faster, reduce the number of consumers affected and provide supply with fewer interruptions. The network also provides our contractors with a vital channel of communication with the Control Room that allows them to work safely and efficiently. Because of the rugged and expansive terrain we cover, other forms of communication such as cell phones do not provide adequate coverage so the reliability of our own systems are all the more important.

With this in mind, in 2010 Horizon Energy embarked on a major upgrade of the SCADA and communications systems. Now all our vehicle radio channels are digital and soon we will have the ability to track where all our vehicles are for added safety and efficiency. Our new SCADA system will link our operators to the smart devices installed as part of the reliability projects.

Radio tower at Putauaki

Reliability Projects

Automated Switching and Fault Protection

Finding faults on a network which covers an area as vast as the Eastern Bay of Plenty is difficult and takes time. Around the clock, the lines face threats including possums and birds, falling trees, adverse weather and vehicle accidents. When an incident occurs, supply to a whole section of the network is interrupted. Traditionally, fault finding requires the dispatch of a service man to patrol the line looking for the cause of the fault before the damaged equipment can be separated from the rest of the network and repairs carried out. Depending on the location of the fault this may involve significant periods of time just getting to the site – a truck journey followed by on foot access to more remote areas.

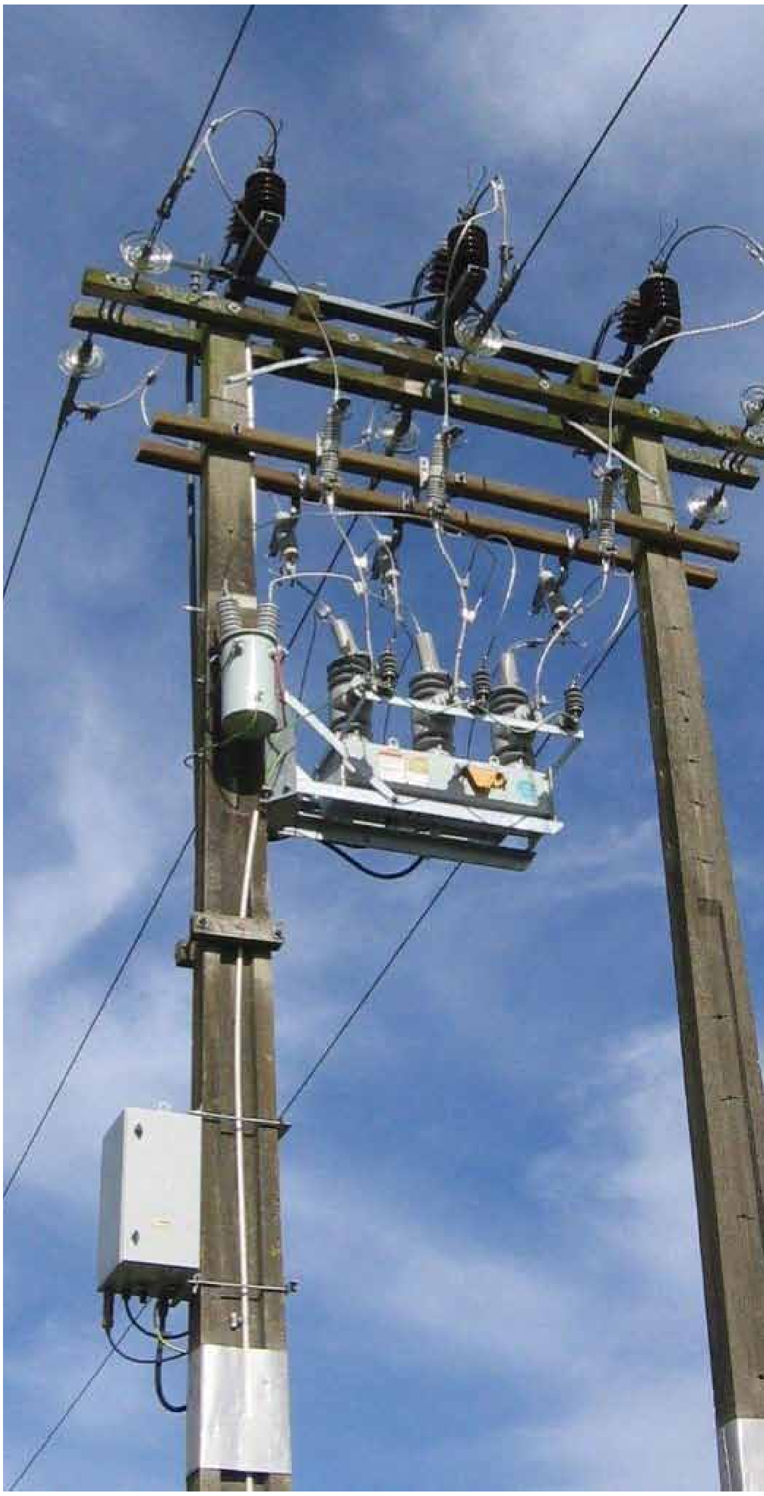
Where the SCADA and communications upgrade enables us to quickly locate the fault, automated switching and fault protection equip us to minimise the impact to a large extent before a vehicle even leaves the depot, ensuring the service men and women focus on fixing the fault.

This is achieved by creating smaller sections of power lines that are automatically isolated in a fault situation, allowing the rest of the line to be used to get power back on quickly. An automated switch, which can be remotely managed from the Control Room, is deployed between each section.

Outages remain an operational reality owing to the harsh environment in which electricity lines must operate, this project will substantially reduce their impact. As Horizon Energy proceeds with improved meshing and more automation, it is moving towards the establishment of an intelligent network, the status of which will always be visible to operators in the Control Room.

The network will become increasingly fault tolerant and capable of isolating faults automatically without interrupting the majority of electricity consumers.

Horizon Energy commenced a three year project in 2010 to increase automated switching and fault tolerance. Already, devices are improving the way we operate the network at Ruatoki, Galatea, Te Teko and Manawahe, with a further fifteen devices planned for 2011.



Nova Circuit Breaker

Reliability Projects

Te Rahu Substation

The 33,000 volt lines are the main arteries of the Horizon Energy network.

Any problems with these high voltage circuits can cause major disruption to large numbers of customers. These assets are very expensive to build and maintain.

Prior to 2010 three 33,000 volt (33kV) lines from Transpower's connection point passed through Horizon Energy's site at Te Rahu Road. They were not normally connected together and if a problem occurred on any of them, the supply would be lost to a large part of the Whakatane area.

The completion of a $1.7 million upgrade to the Te Rahu Road switching station has allowed for the three lines to be connected to a common 33kV indoor switchboard with an automated protection scheme. In the event of a problem on a line, that line will be disconnected and the new switchboard will distribute the load over the remaining two lines. Since the commissioning of the new switchboard there have been two events that resulted in that happening. The other two feeders remained in service and continued supplying the town without disruption.

Te Rahu Substation from start to completion

Reliability Projects

Opotiki Reinforcement

With the rapid load growth due to the expanding kiwifruit industry in the Opotiki area, Horizon Energy underestimated the sudden spike in demand for electricity in the event of a frost. Kiwifruit orchardists had installed a large number of additional pumps for irrigation and frost fighting, each one of them quite easily supplied from the network with the local changes made at the time of connection. However, the impact of them all being turned on at the same time was an unpleasant shock for all concerned.

The interim solution was for Horizon Energy to install a new voltage regulator to provide a stable electricity supply to all customers. Horizon Energy pulled out all stops and the regulator was installed and commissioned in mid October 2010. Subsequent load recordings taken during a planned simulated frost event have confirmed that the regulator can compensate for a sharp increase of load and maintain compliant voltage.

The long term solution is to build a new zone substation in Opotiki as close as possible to the load centre. Planning is already underway to develop the new zone substation with construction to be carried out over a five year period. While this is a lengthy project which carries a high cost, it will deliver substantial advantages.

Hiab lifting one regulator into position

Opotiki Kiwifruit Orchard

Completed three phase regulator and controllers

Reliability Projects

Asset Audit and Defect Identification

The assets which Horizon Energy has in the field are the essential building blocks for the delivery of a reliable electricity supply. However, managing these assets over an operational area of some 8,400 square kilometres is a substantial and ongoing challenge. This is where our Geospatial Information System (GIS) provides essential functions: the ability to 'see' where assets are physically located, what each asset is and its condition.

While a new and more powerful GIS system is being implemented at present as part of a wider Information Systems upgrade, a complete Asset Audit and Defect Identification process is also underway. A team is traversing the Horizon Energy area of operations with handheld GPS units, tasked with identifying and describing every above ground asset to record its geographical position, its present condition and expected remaining life. All of this data is then captured into a central database to provide staff with an accurate assessment of each asset currently installed in the field. These assets include items such as poles, cross-arms, conductors, transformers and substations. The process of asset identification is around 80% complete and is expected to conclude during 2011.

The GIS system integrates this information with other data from several sources to provide context and depth. For example, every asset has a replacement cost. It also has a limited lifespan and its value depreciates over time. By knowing where it is, what it is worth and what kind of maintenance is likely to be required during its lifespan, capital and maintenance expenditure can be planned with a degree of confidence not previously available, leading to better financial and technical decision making and therefore better returns to shareholders and customers.

The GIS system is considered a sound choice for Horizon Energy as it is competitively priced and incorporates standards applicable in this country and is widely used by lines companies across New Zealand. It also provides a flexible structure to allow for future technological or business changes.

The combination of accurate asset descriptions, combined with the geospatial view afforded by the GIS system, supports our quest for a more reliable network by limiting unplanned maintenance – and keeping unscheduled outages to a minimum.

Cary Grant
Asset Inspector

Cary Grant using GPS data capture unit

Reliability Projects

Ohope Hill Goes Underground

Cliff moves closer to Horizon pole

Probably one of the more visible projects with which Horizon Energy has embarked on during the 2011 year is the removal of the overhead power lines which provided a backup supply to Ohope.

The extreme rains last year caused major slips on the hillside near the Otarawairere Bay/Ohope Road intersection. The lines were left within a mere four metres from the precipice in unstable ground and presented a significant risk to the areas power supply. At that point the lines posed a potential danger and gave commuters a first hand view of the problems Horizon Energy faces in keeping power lines functioning safely within the region.

The poles and lines needed to be moved to enable the Whakatane District Council to stabilise the hill, notorious for slipping onto the road in heavy bouts of rain.

With underground power lines being less intrusive on the aesthetics of the area, the unstable terrain and the proximity of the road, a solution was found by routing the supply beneath Ohope Road. The line now runs from the corner of Ohope and Otarawairere Roads to the bottom of the road at West End. This project was funded jointly by Horizon Energy and the Whakatane District Council.

Horizon staff remove the poles after undergrounding of the power lines

Health and Safety

Improving Safety at All Levels

Christine Shears
Health and Safety Manager

As a result of consistent initiatives implemented during the year, we are pleased to report that we have achieved ACC Tertiary Level Accreditation.

The high voltage industry carries with it inherent dangers which must be identified and managed to not only ensure the safety of our people, but also to guarantee the reliability of electricity supply to our customers. Improved Health and Safety also means reduced cost to the business, both through lower Accident Compensation Corporation (ACC) levies and the elimination of lost man-hours.

During the year under review, we have focused on enhancing the safety culture throughout the business. To achieve this, a number of initiatives were implemented to ensure our approach to safety shifted from reactive to assuming individual responsibility for each other's safety.

These initiatives included:

- Development and monitoring of Company safety Lead/ Lag Indicators;
- The public display of our performance towards these Key Performance Indicators;
- Monthly 'Safety Toolbox' meetings for all Horizon employees;
- Regular safety observation tours by Horizon Supervisors and Management; and
- The introduction of our 'safety non-negotiables' – the practices, equipment and processes which are essential for conducting safe operations.

The benefits of these initiatives are already clear, with an increase in near-miss reporting and a definite decline in the number of actual accidents and injuries.

Meanwhile, achieving Tertiary Level Accreditation for ACC Workplace Safety Management Practices demonstrates Horizon Energy's safety commitment to staff, customers, public and the community.

Sponsorship

Connecting with the Community

As an active, visible and committed member of the community in which we serve and in which our people live and work, Horizon Energy takes pride in making a positive contribution that goes beyond the reliable and affordable supply of electricity. Such contributions are outcomes-driven with a specific focus on education and business growth development.

As such, our organisation has forged partnerships with local schools, supporting the youth of today who are the leaders of tomorrow. While we have several programmes in place, Horizon Energy continually seeks ways to improve its contribution to and support of young people across the spectrum.

Horizon AAA Business Excellence Awards

To support business growth development, Horizon Energy sponsors the Horizon AAA Business Excellence Awards, which recognises excellence in business in our region. This event is organised in conjunction with the Eastern Bay Chamber of Commerce. In the period under review, 32 organisations participated in 9 categories, with the ultimate goal of winning the Horizon Supreme Award.

The popularity of the event was clear, with the formal prize-giving event drawing some 330 people from across the region to the Whakatane War Memorial Hall in November 2010.

The high standard of entries attests to the considerable business acumen and entrepreneurial spirit alive in the Eastern Bay. With that level of competition, worthy winner East Bay Dental Centre can be proud of its achievement.

Rob Tait, Chairman of Horizon Energy presenting Horizon Supreme Award to John Twaddle, East Bay Dental Centre

Horizon Supreme Award Winner

East Bay Dental Centre

Sponsorship

Connecting with the Community

Cornerstone Sponsorship

Demonstrating its continuing commitment to advancing industry in the Eastern Bay of Plenty region, Horizon Energy is again a cornerstone sponsor of the Eastern Bay Chamber of Commerce. This relationship commenced in 2009 and we continue our support in 2011.

This is a key partnership with the Chamber of Commerce representing some 200 members across the region – all of whom are customers of Horizon Energy in one way or another. The Chamber of Commerce plays a key role in networking and advocacy for local businesses, providing services and consulting with local government.

Gerard Casey, CEO of the Eastern Bay Chamber of Commerce, says:

"The partnership with Horizon Energy cements strong business links with the community. It is owing to our sponsors, to a large extent, that the Chamber exists; we value the support of organisations like Horizon Energy, as this enables us to build these links in the Eastern Bay."

Left to right: Miles McConway (Group Manager, Technology and Economic Development, Bay of Plenty Regional Council), Rob Fyfe (Chief Executive, Air New Zealand), Ajay Anand (Chief Executive, Horizon Energy) and Cheryllea Schwass (Corporate Services Administrator, Horizon Energy)

Legends in Business

In continued partnership with the Bay of Plenty Regional Council, Horizon Energy's Legends in Business series continues to draw some of the nations most recognised executives to share their insights with the region. Prominent guests included Ernie Newman (TUANZ), Rob Fyfe (CEO of Air New Zealand) and Rod Drury (XERO and Pacific Fibre).

Well attended and growing in stature, this initiative provides valuable insight into the qualities and commitment which are required to reach the highest levels of success.

Young Achiever Awards 2010

Providing an incentive towards excellence for young Whakatane residents, the Young Achiever Awards recognise those who have distinguished themselves academically and on the sports field. Held in conjunction with the Whakatane District Council, nominees for an award include those individuals who have attained national or international success in their endeavours.

Young Achievers were recognised in a public ceremony, with nearly 200 recipients in 2010.

Sports Bay of Plenty Awards

In association with Sports Bay of Plenty, Horizon Energy has for the third year running contributed to the Secondary Schools Sports Awards in the Eastern Bay of Plenty.

From February to November, awards which include Sportsman, Sportswoman, Coach and Fairplay are made to recognise prowess on the field and to encourage excellence in sporting endeavours. The role of mentors in achieving sporting excellence, as well as the spirit of fair competition, is uniquely recognised – principles which Horizon Energy believes are as valid in the professional environment as they are on the sports field.

This year, Horizon Energy expanded its sponsorship to include Primary Schools.

Primary Schools sports event

Horizon Energy Expertise Contributes to Christchurch Rebuild

Our Staff Assisting in Time of Need

Jamie Olsen and Brian Moffat made a valuable contribution to Christchurch earthquake recovery

As a member of the broader community of New Zealand, there was no hesitation from Horizon Energy in its response to the devastating Christchurch earthquake. In addition to collecting and contributing funds, it also dispatched a vehicle with a team of two skilled members of staff to assist in restoring the shattered electricity network.

Technician Brian Moffat and electrician Jamie Olsen drove a Horizon Energy vehicle with state-of-the-art equipment to Christchurch with a mission to seek out faults on the city's electricity distribution network. In the three weeks they spent working in the city, over 100 faults were identified; with modern equipment and solid motivation to restore the power, they were among a contingent of electrical repair teams which had come from across New Zealand.

In addition to playing a part in repairing the city, invaluable experience of how to handle a disaster situation comes back to the Eastern Bay of Plenty with Brian and Jamie.

Left to right: Captain Ken Smith (Whakatane Salvation Army), Brian Moffat (Technician), Terry Shutt (Contracts Manager), Pete Theron (Divisional Manager - Contracting) and Christine Shears (Health & Safety Manager)

Executive Management Team

Ajay Anand **Chief Executive Officer**

Ajay Anand is the Chief Executive of Horizon Energy Distribution Limited, leading the Executive Management team and managing the Company's business interests. Ajay joined Horizon Energy in September 2008.

Ajay is an electrical engineer with over 15 years experience in the electricity sector. He has significant experience in utility strategy, design, construction, management and operations.

Ajay is a Chartered Electrical Engineer and has a degree in Electrical and Electronic Engineering and a Master of Business Administration from Henley in the UK. Ajay is a member of the Electricity Engineers Association and the Institution of Engineering and Technology.

Todd Campbell **Chief Financial Officer / Company Secretary**

Todd joined Horizon Energy at the beginning of May 2009.

Todd has had extensive experience in the financial and regulatory aspects of the energy sector over the past 18 years having held a variety of roles both within the electricity network and retail segments of the industry. Todd's responsibilities include the management and control of the finance, information technology, legal, risk and regulatory teams. In addition, he also has responsibility for NZX market compliance, investor and shareholder communications and reporting.

Todd holds a Bachelor of Business Studies with a Graduate Diploma, is a Chartered Accountant and a member of the New Zealand Institute of Chartered Accountants.

Peter Middlemiss **Network Manager**

Peter joined Horizon Energy as the Network Manager in April 2011.

Peter has extensive experience as an engineer and manager in the power industry spanning more than 30 years. During his career he has worked throughout New Zealand in generation, distribution and building services roles.

He moved to Horizon Energy after six years working as an engineering and management consultant. Immediately prior to that Peter held the position of Network Manager at Top Energy Limited. As divisional manager he was responsible for the operation of the network, major contracts and oversaw significant network innovations including the introduction of GIS systems, and reliability and asset management enhancements.

Peter gained an Honours degree in Electrical Engineering from the University of Canterbury and a Bachelor of Business Studies from Massey University.

Pete Theron **Divisional Manager - Contracting**

Pete joined Horizon Energy as the Divisional Manager for its contracting division, Horizon, in April 2010.

Pete has over 30 years in the electrical industry in various roles in construction, projects and the service environment. Prior to joining Horizon, Pete was employed as Manager Projects for ABB Australia. In this role, Pete was responsible for the overall management and execution of turnkey transmission and distribution substation projects across Australia.

Pete joined the substations team in Brisbane as a Senior Project Manager in 2008. Before this, Pete worked in ABB New Zealand from 1998 to 2008 in a number of positions within the Power Systems Division, his most recent role being the Local Business Manager, Substation Services.

Pete holds a MBA from Massey University and is a member of the Project Management Institute.

Board of Directors' Profiles

Rob Tait **Chairman: BCom, MInstD**

A Director of Horizon Energy since 2007, Rob has an extensive background in finance, accounting and corporate strategy. Working in both the public and private sectors he has considerable experience in governance roles.

He is a Director of NZX listed Comvita Limited and is a former Director of a number of public and private companies and trusts. Rob retains a number of directorships with small to medium enterprises and operates an independent consulting practice. He is a member of the Institute of Directors.

John McDonald **Audit Committee Chairman: BCA (Hons), BCom, CA, CMA, MInstD**

John's business career began after graduation in the mid 1960s with Tasman Pulp and Paper in Kawerau before moving in the 1980s to join Fletcher Challenge as a senior executive. This was an association which gave him knowledge of, and affection for, the Eastern Bay of Plenty. John has farming interests at Manawahe and lives at Ohope. He also has considerable national and international experience in management, finance and corporate governance as an Executive and Director of private and publicly listed companies.

John has recently retired as a Director of Air New Zealand Limited, a position he held for more than 9 years.

Other directorships include: Fletcher Building Retirement Plan; Fletcher Building Educational Fund Limited; Tenon Employee Educational Fund Limited; Solid Energy New Zealand Limited; Dairy Equity Limited; Pohutukawa Private Equity Limited.

Christopher Boyle **MBA, BE, (electrical and electronic), AFNZIM, MIPENZ, MInstD**

Chris' background in heavy current electrical and electronic engineering has led from sixteen years in the electricity industry as a Network Manager to an international consulting career in infrastructure asset management and corporate structure. His assignments have taken him to the Maldives, Butan and Nepal. He has worked with one of the United Kingdom's largest water reticulators, Anglian Water and with various infrastructure companies in Australia. As well as being a management and business consultant to a number of New Zealand companies, Chris is also a keen sportsman and a member of the Board of Triathlon New Zealand. He enjoys the Eastern Bay of Plenty for surfing, mountain biking and spear fishing.

Chris is currently a Trustee of Sport Manawatu Regional Sports Trust and is a Director of the following companies: Third Bearing Limited; Fabrum Solutions Limited; Martin Engineering Limited; Triathlon New Zealand.

Anthony (Tony) de Farias **MInstD**

Tony and his family live at Ohope. Tony has a long history with the kiwifruit industry in the wider Bay of Plenty and is currently a Director of Zespri International. He was instrumental in the establishment of Seeka Kiwifruit Industries Limited where he was the Managing Director until his retirement in 2006 and now has a career as a professional Director.

Tony is currently Chairman of Opotiki Packing and Coolstorage Limited (OPAC); Canterbury Grasslands Limited; Grasslands Consultants LLC and is a Director of the following companies: The Fresh Fruit Company of Nelson Limited, Bay of Plenty Rugby Union and a number of private companies.

He is also a Trustee of the Eastern BOP Economic Development Agency (Toi EDA) and was recently appointed Chairman of the Whakatane Airport Board.

Report of the Directors to Shareholders

The Directors take pleasure in presenting their report, including the financial statements of Horizon Energy Distribution Limited, for the year ending 31 March 2011.

Overview

Principal Activities

During the period, the Company has been engaged principally in the construction and operation of an electricity distribution network and the provision of electrical contracting services. The Company is listed on the New Zealand Stock Exchange (NZX).

Significant Changes

In March 2011, Mr Alastair McAra resigned from the position of Network Manager with Mr Peter Middlemiss being appointed as the Network Manager effective from April 2011.

Financial Performance

Financial Results

The financial statements for the Company appear on pages 31 to 67 of this report. The after tax profit for the Group for the period was $5.9 million. The equity of the Company at the end of the year totalled $56 million.

Dividends

The Directors on 30 May 2011 approved a final dividend of 10 cents per ordinary share for the period ended 31 March 2011. This dividend will be paid on 29 June 2011 to shareholders registered as at 17 June 2011. It follows payment of an interim dividend of 7 cents per ordinary share and brings the total dividends paid for the 2011 year to 17 cents. Full imputation credits attach to the dividends.

Solvency certificates have been completed by Directors in support of the dividends.

The full dividend of 17 cents per share for the 2011 financial year equates to 72% of net profit after tax. The Company has in recent years paid approximately 70%-90% of net profit after tax. The Directors consider that with the Company's continued low gearing, and with all financial operating ratios remaining robust, shareholders can continue to expect dividends within the policy range which provides for dividend payments between 70% and 100% of tax paid profit.

Auditors

PricewaterhouseCoopers has indicated its willingness to remain in office.

The Company has procedures in place to address the issues of audit independence by insisting that the audit partner or lead audit manager changes at least every five years. Audit partner rotation occurred in the 2009 financial year.

Directors

Board Composition

The Company's Constitution authorises Directors to fix the number of Directors at no more than eight and no less than three. The Board of Directors is currently comprised of four Directors. A listing of the present Directors is contained in the Directory on page 72 of this report. Brief profiles of the Directors appear on page 23 of this report. All present Directors are ordinarily resident in New Zealand and all have been determined by the Board to be Independent Directors as that term applies in the NZX Listing Rules. The Board normally meets once each month.

Committees of the Board

All Directors are members of the Audit Committee. Mr McDonald chairs the Audit Committee and is a Chartered Accountant.

The function of the Audit Committee is to assist the Board in carrying out its responsibilities under the Companies Act 1993 and the Financial Reporting Act 1993. It pronounces on matters relating to management's accounting practices, policies and controls relevant to the Company's financial position, and liaises with external auditors on behalf of the Board of Directors. The Audit Committee has the responsibility for monitoring the effectiveness of the Company's risk management activities.

Rotation, Resignation and Retirement of Directors

In accordance with the Company Constitution, at each annual meeting of the Company one third (or the number nearest to one third) of the Directors must retire from office. A retiring Director is eligible for re-election. At the 2011 Annual Meeting, Mr Boyle retires by rotation and offers himself for re-election.

Directors' Statutory Information

Shareholders approve the remuneration for Directors. The maximum total aggregate fees payable annually to Directors is set at $200,000. The level of fees paid during the year was $200,000.

The Directors are seeking shareholder approval to increase the 2012 Director fees by $15,000 to bring the total to $215,000 per annum. This additional amount will provide for an increase of $8,000 (4% increase) for current Director duties plus an amount of $7,000 for additional Directors fees on a Group subsidiary company.

Report of the Directors to Shareholders

Directors' remuneration paid during the period under review was as follows:

	Directors Fees	
Director	**2011**	**2010**
R.B.Tait (Chairman)	$76,000	$77,000
J. McDonald	$48,000	$44,000
C.P. Boyle	$38,000	$39,000
A.E. de Farias	$38,000	$34,000
Totals	**$200,000**	**$194,000**

Disclosures of Interest

The following are particulars of general disclosures of interest as given by Directors of the Company during the year pursuant to Section 140 (2) of the Companies Act 1993. The disclosures serve as notice that the Director may benefit from any transaction between the Company and the identified entity.

Nil

Directors' Insurance

The Company has effected insurance of $10 million for Directors and executive employees with QBE Insurance (International) Limited. This ensures that generally, Directors or executive employees will incur no monetary loss as a result of action undertaken by them as Directors or employees, provided they operate within the law.

Use of Information by Directors

There were no requests received from Directors of the Company, to use Company information received in their capacities as Directors, which would not otherwise have been available to them.

Share Dealings by Directors

There have not been any acquisitions or disposals of shares, either beneficially or non-beneficially, by Directors during the period under review.

Corporate Governance

Horizon Energy's Board and Executive are committed to conducting the Company's business ethically and with high standards of corporate governance. The Board regularly reviews governance structures and processes to ensure consistency in form and substance, observing best practice and meeting the requirements of an entity listed on the New Zealand Stock Exchange (NZX).

Building long term shareholder value is the Board's primary objective with due regard to other stakeholder interests. This is achieved through the provision of strategic direction and providing oversight on its successful execution.

The Board's Charter sets out the governance principles, authority, responsibilities, membership and operation of the Board of Directors. This statement reflects corporate governance principles in place as at 27 May 2011.

Compliance

Appropriate observance of best practice recommendations for listed companies is made in accordance with the extent and nature of Horizon Energy's operations. These recommendations include the NZX Listing Rules, NZX Corporate Governance Best Practice Code, and the New Zealand Securities Commission's Corporate Governance Principles and Guidelines. Together, these are hereinafter referred to as 'the Principles'.

This section of the Annual Report is aligned with the requirements of the New Zealand Securities Commission's Corporate Governance Principles and Guidelines. It is the view of the Board that Horizon Energy's corporate governance principles, policies, and practices do not materially differ from the Principles.

The Company's constitution, the Board and Committee charters, codes and policies referred to in this document can be viewed online at www.horizonenergy.net.nz in the Investors section.

Governance Principles and Guidelines

Principle 1 – Ethical Standards: Directors observe and foster high ethical standards

As a minimum standard, Horizon Energy expects its Directors, officers, and employees to act legally, maintain sound ethical standards, and demonstrate integrity consistent with Company policies, guiding principles and values. These standards are encapsulated in a Director's Code of Ethics which can be viewed in the Investors section of the Company's website at www.horizonenergy.net.nz.

Policies are in place to ensure that the Company maintains high standards of performance and behaviour in its interactions with customers, suppliers, shareholders and staff. Additionally, specific policies refer to environment management, Privacy Act requirements, confidentiality, complaints from stakeholders, and trade in Company securities.

Conflicts of Interest

The Horizon Energy Directors' Code of Ethics requires that individuals and the Board restrict their involvement in other businesses which could result in a conflict of interest. The salient interests are recorded in an Interest Register. Where a conflict arises, the affected Director must advise the Board and absent themselves from discussions and voting.

Trading in Horizon Energy Securities

The Board is required to consider whether any matters under consideration are likely to materially influence the present or future market expectations of the Company, including share value. It must determine if share trading by Directors or Officers of the Company is permissible. Policy requires a specific declaration in respect of this matter to be made as appropriate. All proposed transactions by Directors or Officers require specific prior approval by the Chairperson of the Board, who in turn requires approval from the Audit Committee Chairperson.

Report of the Directors to Shareholders

Principle 2 - Board Composition and Performance

A balance of independence, skill, knowledge, experience and perspective is required of the Board to enable it to effectively execute its mandate.

Board Size and Composition

The Board of Horizon Energy is comprised of individuals who bring a depth and breadth of qualifications, skills and experience appropriate to the Company's business. The four Directors on the Board all act in a non-executive role; one member is annually elected as Chairperson. A biography of each member is provided in this report and on the Horizon Energy website.

Independence of Directors

In the opinion of the Board, independence of the Executive is fundamental. There should be no relationship which could interfere materially (or be perceived to interfere) with the Director's exercise of his or her unclouded judgment.

The Board Charter specifies the issues considered in determining Director independence; the Company is satisfied that the provisions for independence are met. Furthermore, the Board is satisfied that each of its Directors is deemed independent in terms of NZX Listing Rules.

Responsibilities of the Board and Management

The business and affairs of the Company are executed under the direction of the Board of Directors on behalf of shareholders.

Board responsibilities include:

- Appointment of the Chief Executive and monitoring performance;
- Approval of the Company's objectives and values;
- Engagement in strategic direction formulation and review;
- Approval of Company strategies and transactions involving merger, acquisition or divestment or other transactions of a material nature;
- Review and approval of Company budgets and business plans and progress monitoring;
- Review of key risk identification processes and systems and monitoring risk management;
- Approval and review of overall policy framework within which the business of the Company is conducted. This includes remuneration, financial reporting, compliance, treasury management, insider trading, market disclosure, and travel;
- Monitoring the performance of Management with respect to these matters; and
- Communication and reporting to shareholders.

The Board delegates responsibility for the day-to-day operations and administration to the Chief Executive and the senior Management team.

Appointment and Retirement of Directors

At each annual meeting, one third (or the number nearest to one third) of the Directors retire by rotation. Retired individuals may apply for re-election at the annual meeting, along with any appointments made since the previous annual meeting. The Company does not pay retirement benefits to any Director.

Board Processes

The Board has a regular on-site meeting schedule complemented by teleconference meetings. There were eleven Board meetings, three teleconference special meetings and five Audit Committee meetings for the 12 month period ending 31 March 2011.

Director	Board Meetings		Conference Calls & Special Meetings		Audit Committee (incl. conference calls)	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
R. Tait (Chairman)	11	11	3	3	5	5
J. McDonald	11	11	3	3	5	5
A.E de Farias	11	9	3	2	5	5
C.P Boyle	11	11	3	2	5	5

Note: In addition to the formal Board Meetings and conference calls, there are a number of unofficial discussions with either the full Board or subsets of the Board. Board members that are not available for any particular Board Meeting or conference call usually discuss their views on key issues with the Chairman in advance of the meeting.

Principle 3 – Board Committees

Given the small size of the Board it has been deemed appropriate that the full Board of Directors administer the review of Executive remuneration, succession planning and performance reviews of the Chief Executive.

Audit Committee

A separate Audit Committee containing all Directors as members meets a minimum of three times per annum. This Committee is chaired independently from the Chairman of the Board and operates under its own Charter document. Currently the Chairman of the Audit Committee is Mr John McDonald.

The role of the Audit Committee is to review the annual audit process, the financial and operational information provided to the stakeholders and others, to monitor the management of business risk to the organisation, and review the framework of internal control and governance which the Executive and the Board have established. The Chief Executive Officer and Chief Financial Officer regularly attend meetings. The Company's external auditors attend Committee meetings as deemed necessary by the Committee.

Report of the Directors to Shareholders

Principle 4 – Reporting and Disclosure

The Board insists on integrity in financial reporting and in the timeliness and balance of disclosure on Company affairs. This is considered essential, together with the provision of information to the market and shareholders which reflects a considered view on the present and future prospects of the Company.

Financial Reporting

The quality and integrity of external financial reporting including the accuracy, completeness and timeliness of financial statements is overseen by the Audit Committee.

This Committee reviews financial statements on a six-monthly basis and makes recommendations to the Board concerning accounting policies, areas of judgement, compliance with accounting standards, stock exchange and legal requirements, and the results of the external audit.

The Chief Executive Officer (CEO) and Chief Financial Officer (CFO) certify in writing that the Company's financial reports presents an accurate and fair view of the Company's performance and position in all material respects.

Timely and Balanced Disclosure

In terms of its continuous disclosure obligations, NZX requires all listed companies to advise the market about any material events and developments as soon as the Company becomes aware of them. The Company has policies and a monitoring programme in place to ensure that it complies with these obligations on an on-going basis. It ensures timely communication of material items to shareholders through NZX or directly as appropriate.

Principle 5 – Remuneration

The remuneration of Directors is transparent, fair, and reasonable and is approved by shareholders.

Principle 6 – Risk Management

The Board regularly verifies that Horizon Energy has appropriate processes to identify and manage potential and relevant risks.

Business Risks

A risk management plan which identifies and addresses areas of significant business risk is in place. Adequate insurance policies cover the insurable risks of the Company, and where appropriate exposure to any foreign exchange risk and on going interest rate risk is managed in accordance with policies laid down by the Directors.

Together with the Executive team, the Chief Executive is required to identify major risks faced by the business and to develop mitigation strategies. Upon identification of significant risks, the Board is to be advised. Such risks are discussed and the Executive is mandated to undertake prompt corrective action to mitigate and monitor the risk.

Health and Safety

Given the inherent risks associated with its line of business, the Company takes a proactive stance to its Health and Safety obligations. A Health and Safety Manager is employed and a monthly report is made to the Board on all pertinent matters. The Company's commitment to providing a safe work environment is evidenced by the achievement of Accident Compensation Corporation (ACC) Tertiary Level Accreditation.

CEO and CFO Assurance

The CEO and CFO have provided the Board with written confirmation that Horizon Energy's 2011 financial statements are founded on a sound system of risk management and internal compliance and control. They assert that all such systems are operating efficiently and effectively in all material respects.

Risk Monitoring

The Audit Committee annually reviews the Company's risk management policies and processes and the Executive provides an updated risk assessment profile at each Board meeting.

Principle 7 – Auditors

The Board ensures the quality and independence of the external audit process and monitors this through the Audit Committee. To ensure the independence of the Company's external auditors, the Board has agreed the external auditors will not provide any services prohibited under the International Federation of Accountants regulations.

External Auditor

Horizon Energy's external auditor is PriceWaterhouseCoopers. PriceWaterhouseCoopers continues as auditors in accordance with the provisions of the Companies Act 1993.

Principle 8 – Shareholder Relations

The Board fosters constructive relationships with shareholders and encourages engagement with the Company. It takes measures to keep all shareholders abreast of information necessary to assess the strategic direction and performance of the Company.

This is achieved through a communication strategy which includes:

- Periodic and continuous disclosure to NZX;
- Information distributed to local and national media and briefings to the major shareholder;
- Half-yearly and annual reports;
- The annual shareholders meeting, conducted in an open manner which permits a wide range of questions; and
- The Company website www.horizonenergy.net.nz which includes a comprehensive Investor relations section.

Report of the Directors to Shareholders

Principle 9 - Stakeholder Interests

Horizon Energy seeks to manage its business to produce positive outcomes for all stakeholders including the public, customers, staff, shareholders and suppliers. The Company is an active and committed member of the communities in which it operates; it acts in a socially responsible manner with all stakeholders. This commitment is demonstrated in the activities described in the Sponsorship section of this Report.

Subsidiary Companies

The following persons held the office of Director of the respective subsidiaries during the year. No Director of any subsidiary Company received beneficially any Directors' fees or other benefits as a Director of the subsidiary Company.

Horizon Energy Investments Limited – A. Anand

On 1 April 2011 the Company acquired 60% of the equity in Stewart Browne Group Limited. The Directors representing Horizon Energy Distribution Limited's interests within this Company are Mr R. Tait and Mr A. Anand.

Employee Remuneration

Details of the salary ranges for employees or former employees of the holding Company and subsidiaries receiving remuneration and benefits in excess of $100,000 for the year ended 31 March 2011 are as follows:

	Number of Employees	
Remuneration Range	**2011**	**2010**
$340,001 - $350,000	1	-
$310,001 - $320,000	-	1
$190,001 - $200,000	1	-
$170,001 - $180,000	-	1
$150,001 - $160,000	-	1
$140,001 - $150,000	1	-
$120,001 - $130,000	1	1
$110,001 - $120,000	1	-

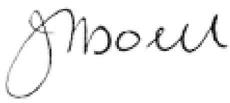
Events Subsequent to Balance Date

The Directors are not aware of any other matter or circumstance at the end of the financial year, not otherwise dealt with in this report or in the financial statements, which may significantly affect the operations of Horizon Energy Distribution Limited, the results of these operations, or the state of affairs of the Company.

Annual Report Certificate

This annual report is dated 13 June 2011 and is signed on behalf of the Board by:

Rob Tait
Chairman



John McDonald
Director

Financial Statements
For the year ended 31 March 2011

Contents

Statement of Comprehensive Income

For the year ended 31 March 2011

		Group		Parent	
	Notes	**2011**	2010	**2011**	2010
		$000	$000	**$000**	$000
Trading Operations					
Operating Revenues	6	31,006	30,419	28,632	27,792
Operating Expenses	6	(21,216)	(20,860)	(18,982)	(18,211)
Operating Profit		**9,790**	**9,559**	**9,650**	**9,581**
Other Income					
Other Income	6	37	16	13	8
		37	**16**	**13**	**8**
Financing					
Interest Income		74	2	297	218
Less Finance Expenses					
Interest on Loans		(1,632)	(1,713)	(1,632)	(1,712)
Fair Value Movement of Financial Derivatives	19	(739)	254	(739)	254
		(2,297)	**(1,457)**	**(2,074)**	**(1,240)**
Profit before Tax		**7,530**	**8,118**	**7,589**	**8,349**
Income Tax Expense	7	(1,632)	(2,212)	(1,421)	(2,281)
Net Profit after Tax		**5,898**	**5,906**	**6,168**	**6,068**
Attributable to Equity Holders of the Company		**5,898**	**5,906**	**6,168**	**6,068**
Other Comprehensive Income					
Revaluation of Property, Plant and Equipment (Net of Tax)	10	-	1,700	-	1,356
Net reduction in Deferred Tax provision on Revalued Assets due to changes to the income tax rate	8	628	-	628	-
Total Comprehensive Income		**6,526**	**7,606**	**6,796**	**7,424**

Earnings per share for profit attributable to the equity holders of the Company during the year

		Group	
		2011	2010
		cents	cents
Basic and Diluted Earnings per Share (Cents per Share)	26	**23.60**	**23.63**

Notes on pages 35 to 67 are an integral part of these Financial Statements

Balance Sheet
As at 31 March 2011

		Group		Parent	
	Notes	**2011**	2010	**2011**	2010
		$000	$000	**$000**	$000
Current Assets					
Cash and Cash Equivalents	11	259	59	63	11
Trade and Other Receivables	11	4,275	4,615	3,747	4,156
Intercompany Loans	29	-	-	3,116	3,758
Inventories		1,077	821	-	-
Total Current Assets		5,611	5,495	6,926	7,925
Non-Current Assets					
Property, Plant and Equipment	13	100,926	99,745	98,838	96,842
Intangible Assets	14	1,712	675	1,498	459
Derivative Financial Instruments	19	7	248	7	248
Total Non-Current Assets		102,645	100,668	100,343	97,549
Total Assets		**108,256**	**106,163**	**107,269**	**105,474**
Current Liabilities					
Trade and Other Payables	15	3,977	3,239	3,952	3,571
Current Tax Liabilities		905	716	912	762
Provision for Employee Costs	16	525	381	288	265
Deferred Capital Contributions	18	18	17	18	17
Current portion of Bank Loans	20	8,000	-	8,000	-
Derivative Financial Instruments	19	42	11	42	11
Total Current Liabilities		13,467	4,364	13,212	4,626
Non-Current Liabilities					
Provision for Employee Costs	16	124	109	66	31
Deferred Capital Contributions	18	628	651	628	651
Non-Current portion of Bank Loans	20	17,000	25,290	17,000	25,290
Derivative Financial Instruments	19	1,344	877	1,344	877
Deferred Tax Liabilities	8	19,889	21,590	19,726	21,498
Total Non-Current Liabilities		38,985	48,517	38,764	48,347
Total Liabilities		**52,452**	**52,881**	**51,976**	**52,973**
Net Assets		**55,804**	**53,282**	**55,293**	**52,501**
Equity					
Share Capital	9	8,433	8,433	8,433	8,433
Retained Earnings		21,604	19,710	21,437	19,273
Revaluation Reserves	10	25,767	25,139	25,423	24,795
Total Equity Attributable to Equity Holders of the Company		**55,804**	**53,282**	**55,293**	**52,501**
Total Equity and Liabilities		**108,256**	**106,163**	**107,269**	**105,474**

Robert Tait
Director
30 May 2011

John McDonald
Director

Notes on pages 35 to 67 are an integral part of these Financial Statements

Statement of Changes in Equity

For the year ended 31 March 2011

	Notes	Share Capital $000	Retained Earnings $000	Revaluation Reserves $000	Total Equity $000
GROUP					
Balance as at 31 March 2009		**8,433**	**16,934**	**23,439**	**48,806**
Revaluation of Property, Plant and Equipment (Net of Tax)	10	-	-	1,700	1,700
Net Profit after Tax		-	5,906	-	5,906
Total Comprehensive Income for the Year		**-**	**5,906**	**1,700**	**7,606**
Unclaimed Dividends Now Presented		-	(6)	-	(6)
Dividends Paid	24	-	(3,124)	-	(3,124)
Balance as at 31 March 2010		**8,433**	**19,710**	**25,139**	**53,282**
Net reduction in Deferred Tax provision on Revalued Assets due to changes to the income tax rate	8	-	-	628	628
Net Profit after Tax		-	5,898	-	5,898
Total Comprehensive Income for the Year		**-**	**5,898**	**628**	**6,526**
Unclaimed Dividends Now Presented		-	(5)	-	(5)
Dividends Paid	24	-	(3,999)	-	(3,999)
Balance as at 31 March 2011		**8,433**	**21,604**	**25,767**	**55,804**
Attributable to Equity Holders of the Company		**8,433**	**21,604**	**25,767**	**55,804**
PARENT					
Balance as at 31 March 2009		**8,433**	**16,335**	**23,439**	**48,207**
Revaluation of Property, Plant and Equipment (Net of Tax)	10	-	-	1,356	1,356
Net Profit after Tax		-	6,068	-	6,068
Total Comprehensive Income for the Year		**-**	**6,068**	**1,356**	**7,424**
Unclaimed Dividends Now Presented		-	(6)	-	(6)
Dividends Paid	24	-	(3,124)	-	(3,124)
Balance as at 31 March 2010		**8,433**	**19,273**	**24,795**	**52,501**
Net reduction in Deferred Tax provision on Revalued Assets due to changes to the income tax rate	8	-	-	628	628
Net Profit after Tax		-	6,168	-	6,168
Total Comprehensive Income for the Year		**-**	**6,168**	**628**	**6,796**
Unclaimed Dividends Now Presented		-	(5)	-	(5)
Dividends Paid	24	-	(3,999)	-	(3,999)
Balance as at 31 March 2011		**8,433**	**21,437**	**25,423**	**55,293**
Attributable to Equity Holders of the Company		**8,433**	**21,437**	**25,423**	**55,293**

Notes on pages 35 to 67 are an integral part of these Financial Statements

Cash Flow Statement

For the year ended 31 March 2011

	Notes	Group 2011 $000	Group 2010 $000	Parent 2011 $000	Parent 2010 $000
Operating Activities					
Cash Receipts from Customers		30,765	29,558	28,847	26,695
Cash Paid to Suppliers		(10,926)	(12,702)	(12,359)	(13,290)
Salaries and Wages Paid to Employees		(5,056)	(4,674)	(2,227)	(2,125)
Total Operating Receipts and Payments		**14,784**	**12,182**	**14,261**	**11,280**
Interest Received		74	2	297	218
Interest Paid		(1,653)	(1,712)	(1,653)	(1,712)
Income Tax Paid		(2,517)	(2,086)	(2,415)	(2,086)
Total Interest and Tax Receipts and Payments		**(4,096)**	**(3,796)**	**(3,771)**	**(3,580)**
Net Cash from Operating Activities	12	**10,688**	**8,386**	**10,490**	**7,700**
Investing Activities					
Purchases of Property, Plant & Equipment		(5,163)	(4,327)	(5,757)	(3,569)
Purchases of Intangible Assets - Software		(1,036)	(412)	(1,034)	(412)
Loan Repayments (to)/from Subsidiaries		-	-	642	-
Proceeds on Disposal of Property, Plant & Equipment		-	61	-	-
Net Cash used in Investing Activities		**(6,199)**	**(4,678)**	**(6,149)**	**(3,981)**
Financing Activities					
Dividends Paid	24	(3,999)	(3,124)	(3,999)	(3,124)
Repayment of Term Debt		(16,970)	(27,580)	(16,970)	(27,580)
Term Debt Drawn Down		16,680	26,970	16,680	26,970
Net Cash used in Financing Activities		**(4,289)**	**(3,734)**	**(4,289)**	**(3,734)**
Net increase/(decrease) in Cash and Cash Equivalents		**200**	**(26)**	**52**	**(15)**
Cash and Cash Equivalents at the Beginning of the Year		59	85	11	26
Cash and Cash Equivalents at the End of the Year	11	**259**	**59**	**63**	**11**

Notes on pages 35 to 67 are an integral part of these Financial Statements

Notes to the Financial Statements

For the year ended 31 March 2011

1. GENERAL INFORMATION

Horizon Energy Distribution Limited (Horizon Energy or 'the Company') is a limited liability company incorporated in New Zealand. The Company is listed on the New Zealand Stock Exchange.

The address of the Company's registered office is 52 Commerce Street, Whakatane and its principal activities are substantially carried out in the greater Eastern Bay of Plenty region of New Zealand. The principal activities of Horizon Energy and its Subsidiaries ('the Group') are the provision of an electricity distribution network for the conveyance of electricity, supply of electrical equipment and electrical contracting. The Company and Group are designated as profit-orientated entities for financial reporting purposes.

The Financial Statements were authorised for issue by the Directors on 30 May 2011.

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

Standards, interpretations and amendments to published standards that came into effect during the reporting year.

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 April 2010 or later periods. Where applicable comparative years have been restated in accordance with the standards, interpretations and amendments:

- NZ IFRS 3 *(Amendment) Business Combinations* (effective for annual periods beginning on or after 1 July 2009). The amendment includes a number of updates including the requirement that all costs relating to a business combination must be expensed. As the Group has not acquired any businesses during the year the amendment has no effect.

- NZ IFRIC 17 *(Amendment) Distribution of Non-cash Assets to Owners* (effective for annual periods beginning on or after 1 July 2009). This amendment has not affected the Company as the Company's policy is for shareholder distributions to be in cash through the semi annual dividend payments.

- NZ IFRIC 18 *Transfers of Assets from Customers* (effective for annual periods beginning on or after 1 July 2009). The IFRIC relates to the recognition of revenue where the Company receives from a customer a transfer of an item of property, plant and equipment, or cash which must be used to construct an item of property, plant and equipment in return for ongoing service provision at a discounted rate. It has not had a material impact on the Company and Group due to the nature of capital contribution arrangements in place.

- NZ IAS 27 (*Amendment) Consolidated and Separate Financial Statements* (effective for annual periods beginning on or after 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value, and a gain or loss is recognised in profit or loss. As the Group has no transactions involving non-controlling interests the amendment has had no impact.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group.

- NZ IFRS 9 *Financial Instruments* (effective for periods beginning on or after 1 January 2013). The standard replaces part of NZ IAS 39 and establishes two primary measurement categories for financial assets, amortised cost and fair value, with classification depending on an entity's business model and the contractual cash flow characteristics of the financial asset. The Group is currently in the process of evaluating the potential effect of this standard.

Basis of Preparation

The Company and Group are reporting entities for the purposes of the Financial Reporting Act 1993 and their financial statements comply with that Act and the Companies Act 1993. The financial statements have been prepared in accordance with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards as appropriate for profit-oriented entities.

These financial statements comply with International Financial Reporting Standards.

The consolidated financial statements have been prepared on the historical cost basis, as modified by the revaluation of network distribution assets (including land

Notes to the Financial Statements

For the year ended 31 March 2011

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

and buildings related to network distribution assets) and derivative financial instruments at fair value through profit or loss.

Basis of Consolidation

The Group's Financial Statements incorporate the Financial Statements of the Company and its subsidiaries, as listed in note 23.

The Group's Financial Statements incorporate the assets and liabilities of all subsidiaries of Horizon Energy at 31 March 2011. Where necessary, adjustments are made to the Financial Statements of Subsidiaries, to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

There are no minority interests in the Group.

Business Combinations

Business combinations are accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed for control of the acquiree. Costs directly attributable to the business combination are expensed. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under NZ IFRS 3 are recognised at their fair values at the acquisition date. The excess of the cost of the acquisition over the fair value of the identifiable net assets acquired is recorded as goodwill. If the cost of the acquisition is less than the Group's share of the identifiable net assets acquired, the difference is recognised directly in the Statement of Comprehensive Income.

Segment Reporting

The Group operates in one Geographical segment, being New Zealand. The operating segments have been determined based on the reports reviewed by the chief operating decision maker. The chief operating decision maker who is responsible for allocating resources, assessing performance of the operating segments and making strategic decisions for the Group, has been identified as the Chief Executive Officer of the Company.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services, including lines revenue generated in the normal course of business, net of rebates and discounts, net of Goods and Services Tax (GST) and after eliminating sales within the Group. Electricity lines revenue is based on actual and assessed readings and includes an allowance for unread meters at balance date.

Revenue from construction contracts is recognised in accordance with the Group's accounting policy on construction contracts as set out below.

Sales of services are recognised in the accounting period in which the services are rendered, by reference to the completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Construction Contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at balance date, as measured by the proportion that contract costs for work performed to date bear to the total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that are recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Capital Contributions from Non-Government Entities

Capital contributions received from non-government entities relating to the purchase of property, plant and equipment are included in revenue in the year in which the contribution is earned.

Finance Leases

Leases where the Group has substantially all the risks and rewards of ownership, are classified as finance leases. The Group is not party to any finance lease arrangements.

Notes to the Financial Statements
For the year ended 31 March 2011

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating Leases
Leases in which a substantial portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received by the lessor) are charged to the Statement of Comprehensive Income on a straight line basis over the period of the lease.

Currencies
Functional and Presentation Currency
Items included in the financial statements of each of the Group's entities are measured and presented using the currency of the primary economic environment in which the entity operates ('the functional currency'). The Group's functional and presentation currency is New Zealand dollars rounded to the nearest thousand.

Foreign Currency Transactions and Balances
The Group does not have significant transactions involving foreign currencies.

Borrowing Costs
Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the Statement of Comprehensive Income in the period in which they are incurred.

Goods and Services Tax (GST)
Revenues, expenses and assets are recognised net of the amount of GST, except for receivables and payables, which are recognised inclusive of GST.

Employee Benefits
Wages and Salaries and Annual Leave
Liabilities for wages and salaries and annual leave expected to be settled within 12 months from the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Long Service Leave and Retirement Gratuity
The liability for long service leave and retirement gratuity is recognised in the provision for employee benefits and measured such that the liability is not materially different from the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Consideration is also given to discounting the provision if the effect is material.

Bonus Plans
The Group recognises a liability and an expense for bonuses based on a bonus pool that is available for distribution subject to certain performance criteria being met. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Taxation
Current tax payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at balance date. The income tax expense or revenue for the year in the Statement of Comprehensive Income is the current tax adjusted by changes in deferred tax assets and liabilities.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the Financial Statements and their corresponding tax bases using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Notes to the Financial Statements

For the year ended 31 March 2011

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the Statement of Comprehensive Income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity (such as asset revaluations).

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Property, Plant and Equipment

Network Distribution System

Network distribution system assets held for use are stated at valuation, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Distribution assets have been revalued on a discounted cash flow basis for the year ended 31 March 2010. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at balance date.

Any revaluation increase arising on the revaluation of network distribution system assets is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in the net profit, in which case the increase is credited to the net profit to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such assets is charged to the net profit to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset.

In the event of the sale or retirement of a revalued asset the attributable revaluation surplus remaining in the asset revaluation reserve is transferred directly to retained earnings.

Annual additions between valuations are recorded at cost. Internally constructed assets include materials, labour and attributable overheads, and for qualifying assets include capitalised interest.

Land and Buildings

Land and buildings held as part of the network distribution system are stated in the Balance Sheet at valuation, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent accumulated impairment losses.

Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at balance date.

Land and buildings held for administration purposes are stated at cost, comprising the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended service.

Any revaluation increase arising on the revaluation of such land and buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in the net profit, in which case the increase is credited to the net profit to the extent of the previously charged. A decrease in carrying amount arising on the revaluation of such land and buildings is charged to the net profit to the extent that it exceeds the balance, if any, held in the capital revaluation reserve relating to a previous revaluation of that asset.

Plant, Vehicles, Furniture and Fittings

Plant, vehicles, furniture and fittings are stated at cost less accumulated depreciation and any accumulated impairment losses.

Gain or Loss on Disposal

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the Statement of Comprehensive Income.

Estimated Useful Lives

Depreciation is charged so as to write off the cost or valuation of assets, over their estimated useful lives, using the straight-line method. No depreciation is charged on land.

The following estimated useful lives are used in the calculation of depreciation. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period.

Notes to the Financial Statements

For the year ended 31 March 2011

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Category	Estimated useful life (years)
Distribution System	8 - 70
Buildings	40 - 100
Plant and Equipment	2 - 10
Motor Vehicles	5 - 10
Furniture and Fittings	10

Intangible Assets

Computer Software

Acquired computer software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (five to ten years).

Goodwill

The excess of the cost of a business acquisition over the fair value of the identifiable net assets acquired is recorded as goodwill. Goodwill is not amortised and is assessed at each reporting date for impairment as set out below.

Impairment of Non Financial Assets

At each reporting date the Group reviews the carrying amounts of its depreciated or amortised assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the assets are tested for impairment.

At each reporting date the Group tests intangible assets with indefinite useful lives and intangible assets not yet available for use for impairment.

To test an asset for impairment, the recoverable amount of the asset is estimated. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs being the smallest group of assets that, together, generate cash flows independently of other assets or cash-generating units.

An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future 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.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the Statement of Comprehensive Income immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease to the extent of any revaluation reserve balance.

Inventories

Inventories are stated at the lower of cost or net realisable value. Cost includes the cost of direct materials and other charges, such as freight costs, that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Financial Instruments

Financial assets and financial liabilities are recognised on the Group's Balance Sheet when the Group becomes a party to the contractual provisions of the instrument.

The Group classifies its financial assets in the following categories: fair value through profit and loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired.

Management determines the classification of its financial assets at initial recognition.

Trade Receivables

Trade receivables are initially measured at fair value and subsequently measured at amortised cost. Appropriate allowances for estimated irrecoverable amounts are recognised in the Statement of Comprehensive Income when there is objective evidence, such as default, that the Group will not be able to collect all amounts due according to the original terms of the receivables.

The allowance recognised is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows discounted using the effective interest rate.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and other short term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of

Notes to the Financial Statements

For the year ended 31 March 2011

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

changes in value.

Bank overdrafts are shown within borrowings in current liabilities in the Balance Sheet.

Bank Borrowings

Interest-bearing bank loans and overdrafts are initially measured at fair value (net of transaction costs), and are subsequently measured at amortised cost, using the effective interest rate method.

Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs.

Trade Payables

Trade payables and other accounts payable are recognised when the Group becomes obligated to make future payments resulting from the purchase of goods and services.

Derivative Financial Instruments

Derivative financial instruments are initially measured at fair value on the contract date, and revalued to fair value at subsequent reporting dates. The Company has elected not to designate its derivative financial instruments for hedge accounting. Consequently they are classified as 'held for trading' with changes in the fair value of these derivative instruments recognised immediately in the Statement of Comprehensive Income.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, it is more likely than not that the future sacrifice of economic benefits will arise and the amount of the provision can be measured reliably. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at balance date, and are discounted to present value where the effect is material. Provisions are not recognised for future operating losses.

Cash Flow Statement

Cash flows are categorised into operating, investing and financing activities. Operating activities are disclosed using the direct method, whereby major classes of cash receipts from customers and cash payments to suppliers and to customers are disclosed for operating activities. Cash receipts and payments are shown exclusive of GST. Interest and dividends received are included in operating activities.

Investing activities include the purchase and disposal of assets, shown exclusive of GST. Financing activities include loans drawn and/or repaid and finance raised from equity holders or dividends paid to shareholders and interest paid on instruments classified as equity.

Dividends

Provision is made for the amount of any dividend declared on or before the end of the financial year but not distributed at balance date.

Comparatives

Certain comparatives have been reclassified to conform to the current years' presentation. Note 8 – Deferred Tax: Fixed Asset Depreciation is now included within Property, Plant and Equipment and Derivative Mark to Market has been separated from Other.

3. CRITICAL JUDGEMENTS IN APPLYING THE ENTITY'S ACCOUNTING POLICIES

Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the process of applying the entity's accounting policies, which are described in note 2, Management have made the following judgements and estimates that have significant effects on the amounts recognised in the Financial Statements.

Revenue Recognition

Lines revenue includes an accrual for unbilled revenue, where consumption is estimated to the end of the billing period based on historical actual electricity usage.

Occasionally historical electricity usage data is not consistent and subsequent adjustments are made. These adjustments are immaterial compared with total network revenue.

Fair Value of Derivatives

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves. Changes in these estimates could have a material effect on the value of the derivative financial statements in the Balance Sheet, and the associated change in fair values disclosed in the Statement of Comprehensive Income.

Goodwill

Goodwill has been allocated to Horizon Energy Investments Limited. The Directors have reviewed the carrying value of goodwill and do not believe there is any

Notes to the Financial Statements

For the year ended 31 March 2011

3. CRITICAL JUDGEMENTS IN APPLYING THE ENTITY'S ACCOUNTING POLICIES (CONTINUED)

impairment on the basis that the budgeted cashflows for the next two years exceed the carrying value of goodwill recorded.

Valuation of Network Distribution System

Directors have determined that it is not yet possible to establish the impact on the network value of the announcement by the Commerce Commission on 11 April 2011 proposing changes to the methodology for setting starting price adjustments (refer note 28 (c)). Consequently the Directors have determined that the carrying value of the network distribution system at 31 March 2011 remains the best estimate of its fair value.

The Group estimates the fair value of the distribution network using independent valuers in accordance with the property, plant and equipment accounting policy. Because of the specialised nature of the network and the infrequency of network sale transactions, there is a lack of market-based evidence available to determine fair value. The valuation undertaken at 31 March 2010 has been compiled using the discounted cash flow technique. Previously the distribution network was valued using a depreciated replacement cost method as there was insufficient regulatory certainty to perform a reliable discounted cash flow valuation.

Changes in these valuation estimates could have a material effect on the carrying amount of the distribution network disclosed in note 13.

The key valuation assumptions relating to the network revaluation performed at 31 March 2010 are outlined below and were adopted in determining the fair value of the Group's network distribution assets:

i. Network assets have been valued on a going concern basis;
ii. Cost of Capital: Regulatory Weighted Average Cost of Capital (WACC) has been assessed at 7.51% with an overall allowable rate of return of 8.50%;
iii. Revenue is based on the current pricing applying the CPI-X methodology (with X = 0 for the next 5 year regulatory period. For the second regulatory period X is set at 1%);
iv. In-fill growth being new connections to existing infrastructure is based on a conservative assessment of management forecasts;
v. Costs were based on 2010 forecasts;
vi. A discount rate (WACC) of 7.79% has been used in discounting the present value of expected cash flows;
vii. Inflation and the terminal growth rate have both been applied at 2.5%.

Valuation Sensitivity

The nature of the valuation methodology adopted provides that a small number of key variables can have a significant value impact. The key sensitivities are provided below with the forecast impact on value as the result of the possible identified change.

Key Variable	Change	Value Impact ($million)	
Horizon WACC (7.79%)	+ / - 0.25%	-3.9	+4.3
Allowable Rate of Return (8.5%)	+ / - 0.25%	-5.5	+7.2
Organic growth as % total forecast growth (50%)	+ / - 25%	-8.2	+8.7
Regulatory Price Change (CPI – X)	+ / - 1%	-8.5	+8.9

4. FINANCIAL RISK MANAGEMENT

Risk management is carried out by Management under policies approved by the Board of Directors (the 'Board'). Management identifies and evaluates relevant financial risks and acts to manage these risks where possible within the parameters set out by the Board. The Board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, and use of derivative financial instruments. Management reports to the Board regularly on financial risk management.

a) ***Market Risk***

(i) Foreign Exchange Risk

The Group's revenue is entirely denominated in New Zealand dollars and it has no significant currency exposure in the foreseeable future. The Group may from time to time purchase assets, or conduct service transactions denominated in foreign currency.

Board approval is required for foreign currency denominated contracts valued above a specified threshold, together with a recommendation on the manner in which the

Notes to the Financial Statements

For the year ended 31 March 2011

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

foreign currency exposure is to be managed, which may include the use of foreign exchange contracts.

(ii) Cash Flow and Fair Value Interest Rate Risk

The Group's main interest rate risk arises from long term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group's borrowings are denominated in New Zealand dollars.

The Group manages its interest rate risk by using floating-to-fixed interest rate swaps.

Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provide written principles on the use of financial derivatives consistent with the Group's risk management strategy. The Group does not use derivative financial instruments for speculative purposes.

Generally the Group raises long term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating-rate interest amounts, calculated by reference to the agreed notional principal amounts.

At 31 March 2011, if interest rates had changed by +/- 1% (2010: +/- 1%) with all other variables held constant, post-tax profit and equity for the year would have been $15,400 lower/higher (2010: $14,900 lower/higher), mainly as a result of lower/higher interest expense on borrowings.

b) *Credit Risk*

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks, as well as credit exposures to customers, including outstanding receivables and committed transactions.

For banks and financial institutions, only independently rated parties with a minimum rating of A are accepted. If other customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, Management assess the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board. The utilisation of credit limits by customers is regularly monitored by Management.

One customer comprised 40% of the Group's total trade and other receivables as at 31 March 2011 (2010: 42%). Subsequent to the balance dates, the amounts due were cleared. The Group does not expect the non-performance of any material obligations as at balance date.

c) *Liquidity Risk*

Liquidity risk management has the objective of maintaining sufficient cash and the availability of funding through an adequate amount of credit facilities to meet the short and long term commitments of the Group as they arise in an orderly manner. The Group generates sufficient cash flows from its operating activities to meet its obligations arising from its financial liabilities and has bank facilities available to cover potential shortfalls.

Management monitors rolling forecasts of the Group's liquidity requirements on the basis of expected cash flow. The Board approves all new borrowing facilities.

The following table analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

The amounts disclosed in the table are contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

Notes to the Financial Statements

For the year ended 31 March 2011

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

31 March 2011	Less than 1 year $000	Between 1 and 2 years $000	Between 2 and 5 years $000	Over 5 years $000
Group				
Trade and other payables	3,861	-	-	-
Bank overdrafts and loans	9,687	18,147	-	-
Derivatives				
- inflows	(979)	(958)	(2,636)	(1,534)
- outflows	1,536	1,308	3,015	1,715
	14,105	**18,497**	**379**	**181**
Parent				
Trade and other payables	3,721	-	-	-
Bank overdrafts and loans	9,687	18,147	-	-
Derivatives				
- inflows	(979)	(958)	(2,636)	(1,534)
- outflows	1,536	1,308	3,015	1,715
	13,965	**18,497**	**379**	**181**
31 March 2010				
Group				
Trade and other payables	3,239	-	-	-
Bank overdrafts and loans	1,235	9,455	18,463	-
Derivatives				
- inflows	(805)	(934)	(1,921)	(1,001)
- outflows	1,317	1,266	2,355	979
	4,986	**9,786**	**18,897**	**(22)**
Parent				
Trade and other payables	3,571	-	-	-
Bank overdrafts and loans	1,235	9,455	17,732	-
Derivatives				
- inflows	(805)	(934)	(1,921)	(1,001)
- outflows	1,317	1,266	2,355	979
	5,518	**9,786**	**18,166**	**(22)**

Refer to note 20 Bank Loans for classifications of borrowings and facilities available. In the table above cash flows relating to bank loans are presented in accordance with facility maturity dates.

Notes to the Financial Statements

For the year ended 31 March 2011

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) ***Capital Risk Management***

The Group manages its capital structure and makes adjustments to it in light of economic conditions and business requirements. Total capital is calculated as 'equity' shown in the Balance Sheet plus net debt. To maintain or adjust the existing structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group monitors capital using a gearing ratio, which is net debt divided by net debt plus equity. The Group includes within net debt, borrowings less cash and cash equivalents. The Group complied with all borrowing covenants during the year.

The gearing ratios are as follows:

	Group	
	2011	2010
	$000	$000
Borrowings	25,000	25,290
Plus / (Less): Cash and bank	(259)	(59)
Net debt	**24,741**	**25,231**
Equity	55,804	53,282
Equity plus net debt	80,530	78,513
Gearing ratio	**31%**	**32%**

e) ***Fair Value Estimation***

The fair value of financial assets and liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value for any financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value of the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

The fair value measurements of financial instruments are disclosed using the following fair value measurement hierarchy:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)

Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

Refer to note 21 for further information.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values.

Notes to the Financial Statements

For the year ended 31 March 2011

5. OPERATING SEGMENTS

Segment information is presented in respect of the Group's business. The Group operates in one geographical region being New Zealand.

(a) Operating Segments

The Group comprises of the following main operating segments:

- *Regulated Electricity Distribution*
- *Other Electrical Contracting and Lines activities*

The chief operating decision maker assesses the performance of the operating segments based on operating profit/(loss) after tax. Intersegment pricing is determined on an arms length basis.

	Regulated $000	Other $000	Elimination $000	Group $000
Year ended 31 March 2011				
Revenue				
External Revenue	28,620	2,386	-	31,006
Internal Revenue	12	7,151	(7,163)	-
Total segment revenue	**28,632**	**9,537**	**(7,163)**	**31,006**
Depreciation	3,971	425	(21)	4,375
Amortisation	33	4	-	37
Fair Value Movement of Financial Derivatives	739	-	-	739
Net Finance Costs	1,335	224	-	1,559
Income Tax Expense	1,421	425	(214)	1,632
Operating profit after income tax	**6,168**	**230**	**(500)**	**5,898**
Assets and liabilities				
Segment assets	107,269	6,211	(5,224)	108,256
Total assets	**107,269**	**6,211**	**(5,224)**	**108,256**
Segment liabilities	51,976	5,060	(4,584)	52,452
Total liabilities	**51,976**	**5,060**	**(4,584)**	**52,452**
Capital additions	**7,039**	**326**	**(735)**	**6,630**

One customer (Bay of Plenty Energy) comprised 65.1% of the Group's revenue in 2011 (2010: 65.8%).

Notes to the Financial Statements

For the year ended 31 March 2011

5. OPERATING SEGMENTS (CONTINUED)

	Regulated $000	Other $000	Elimination $000	Group $000
Year ended 31 March 2010				
Revenue				
External Revenue	27,780	2,639	-	30,419
Internal Revenue	12	4,606	(4,618)	-
Total segment revenue	**27,792**	**7,245**	**(4,618)**	**30,419**
Depreciation	(3,903)	(383)	-	(4,286)
Amortisation	(37)	(3)	-	(40)
Fair Value Movement of Financial Derivatives	254	-	-	254
Net Finance Costs	(1,494)	(217)	-	(1,711)
Income Tax Expense	(2,281)	(79)	148	(2,212)
Operating profit after income tax	**6,068**	**183**	**(345)**	**5,906**
Assets and liabilities				
Segment assets	105,474	5,441	(4,752)	106,163
Total assets	**105,474**	**5,441**	**(4,752)**	**106,163**
Segment liabilities	52,973	4,660	(4,752)	52,881
Total liabilities	**52,973**	**4,660**	**(4,752)**	**52,881**
Capital additions	**3,005**	**1,162**	**-**	**4,167**

Notes to the Financial Statements

For the year ended 31 March 2011

6. OPERATING REVENUES AND EXPENSES BY NATURE

	Notes	Group 2011 $000	Group 2010 $000	Parent 2011 $000	Parent 2010 $000
a) Operating Revenues					
Distribution Revenue		27,463	27,108	27,475	27,120
Contracting Revenue		2,386	2,639	-	-
Capital Contributions Revenue		1,157	672	1,157	672
Total Operating Revenue		**31,006**	**30,419**	**28,632**	**27,792**
b) Other Income					
Sundry Income		33	4	9	4
Net Gain on Sale of Property, Plant and Equipment		-	8	-	-
Recovery of Bad Debts		4	4	4	4
Total Other Income		**37**	**16**	**13**	**8**
c) Operating Expenses					
Depreciation	13	4,375	4,286	3,971	3,903
Software Amortisation	14	37	40	33	37
Net Loss on Sale of Property, Plant and Equipment		-	31	-	-
Operating Lease Payments		403	191	119	114
Movement in Doubtful Debt Provisions	11	11	14	-	5
Directors' Remuneration	29	200	194	200	194
Maintenance of Network Distribution Assets		939	1,343	2,035	2,058
Employee Costs		3,242	3,103	2,388	2,393
Transmission Charges		7,764	7,190	7,884	7,324

Notes to the Financial Statements

For the year ended 31 March 2011

7. INCOME TAX EXPENSE

		Group		Parent	
		2011	2010	**2011**	2010
	Notes	**$000**	$000	**$000**	$000
Current Tax		2,705	2,582	2,565	2,676
Deferred Tax	8	(1,073)	(370)	(1,144)	(395)
Income Tax Expense		**1,632**	**2,212**	**1,421**	**2,281**

The applicable tax rate is 30% (2010: 30%).

The tax charge for the year can be reconciled to the profit per the Statement of Comprehensive Income as follows:

	Group 2011	Group 2010	Parent 2011	Parent 2010
Profit before Tax	7,530	8,118	7,589	8,349
Expenses Not Deductible for Tax Purposes	14	10	14	9
Income Not Subject to Tax	(229)	(537)	(229)	(537)
Taxable Profit	**7,315**	**7,591**	**7,374**	**7,821**
Income Tax Expense at 30%	**2,194**	**2,277**	**2,212**	**2,346**
Prior Year Adjustments	16	(65)	16	(65)
Income Tax Expense Attributable to Changes in Deferred Tax Liability	212	-	(29)	-
Income Tax rate change to deferred tax balance	(790)	-	(778)	-
Income Tax Expense	**1,632**	**2,212**	**1,421**	**2,281**
Effective Income Tax Expense Rate	21.7%	27.3%	18.7%	27.3%

On 20 May 2010, the New Zealand Government announced in its annual budget changes to the corporate tax rate, depreciation on buildings and the tax treatment for capital contributions. The corporate tax rate will be reduced from 30% to 28%, effective 1 April 2011. Buildings lasting more than 50 years will no longer be able to be depreciated, effective 1 April 2011. Capital contributions will no longer be exempt from tax but will either reduce the tax asset base or be spread over ten years as taxable income, effective 20 May 2010. Accordingly the deferred tax liability at 31 March 2011 reflects the impact of these changes.

These changes have reduced the deferred tax liability at 31 March 2011 for the Group by $1.0 million (Parent: $1.1 million), of which $0.4 million has reduced the income tax expense (Parent: $0.5 million) and $0.6 million has been accounted for in the asset revaluation reserve (Parent: $0.6 million).

Notes to the Financial Statements

For the year ended 31 March 2011

8. DEFERRED TAX

The following are the deferred tax liabilities and assets recognised by the Company and Group including movements during the current and prior reporting period.

	Property, Plant & Equipment $000	Derivatives Mark to Market $000	Other $000	Total $000
(a) Group				
At 31 March 2009	**21,374**	**(268)**	**126**	**21,232**
Adjustments through Income Tax Expense	(386)	76	(60)	(370)
Arising from Revaluation	728	-	-	728
At 31 March 2010	**21,716**	**(192)**	**66**	**21,590**
Adjustments through Income Tax Expense	295	(214)	(364)	(283)
Income Tax Rate Changes adjusted through Tax Expense	(837)	27	20	(790)
Income Tax Rate Changes adjusted through the Revaluation Reserve	(628)	-	-	(628)
At 31 March 2011	**20,546**	**(379)**	**(278)**	**19,889**
(b) Parent				
At 31 March 2009	**21,067**	**(268)**	**513**	**21,312**
Adjustments through Income Tax Expense	(391)	76	(80)	(395)
Arising from Revaluation	581	-	-	581
At 31 March 2010	**21,257**	**(192)**	**433**	**21,498**
Adjustments through Income Tax Expense	486	(214)	(638)	(366)
Income Tax Rate Changes adjusted through Tax Expense	(819)	27	14	(778)
Income Tax Rate Changes adjusted through the Revaluation Reserve	(628)	-	-	(628)
At 31 March 2011	**20,296**	**(379)**	**(191)**	**19,726**

Notes to the Financial Statements

For the year ended 31 March 2011

8. DEFERRED TAX (CONTINUED)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	Group		Parent	
	2011	2010	**2011**	2010
	$000	$000	**$000**	$000
Deferred Tax Assets				
Recoverable after more than 12 Months	(276)	(192)	(249)	(192)
Recoverable within 12 Months	(382)	(203)	(321)	(128)
	(658)	**(395)**	**(570)**	**(320)**
Deferred Tax Liabilities				
Recoverable after more than 12 Months	20,141	21,600	19,932	21,436
Recoverable within 12 Months	406	385	364	382
	20,547	**21,985**	**20,296**	**21,818**
Net Deferred Tax Liabilities	**19,889**	**21,590**	**19,726**	**21,498**

Notes to the Financial Statements

For the year ended 31 March 2011

9. SHARE CAPITAL

	Group & Parent	
	2011	2010
	$000	$000
Issued and Fully Paid Share Capital	8,433	8,433

Share capital comprises:

	No. of Shares	No. of Shares
Ordinary Shares Issued and Fully Paid	24,991,385	24,991,385

All ordinary shares have no par value and rank equally with one vote attached to each fully paid share.

10. REVALUATION RESERVES

The asset revaluation reserve arises on the revaluation of network distribution system assets, and land and buildings that are part of the network distribution system. Where an asset is sold the portion of the asset revaluation reserve which relates to that asset is effectively realised and is transferred directly to retained earnings.

(a) Group

	Network Distribution Assets $000	Network Land & Buildings $000	Total $000
At 31 March 2009	**23,377**	**62**	**23,439**
Revaluation of Property, Plant and Equipment (Net of Tax)	1,700	-	1,700
At 31 March 2010	**25,077**	**62**	**25,139**
Adjustment for Income Tax Rate Change	628	-	628
At 31 March 2011	**25,705**	**62**	**25,767**

(b) Parent

	Network Distribution Assets $000	Network Land & Buildings $000	Total $000
At 31 March 2009	**23,377**	**62**	**23,439**
Revaluation of Property, Plant and Equipment (Net of Tax)	1,356	-	1,356
At 31 March 2010	**24,733**	**62**	**24,795**
Adjustment for Income Tax Rate Change	628	-	628
At 31 March 2011	**25,361**	**62**	**25,423**

Notes to the Financial Statements

For the year ended 31 March 2011

11. OTHER FINANCIAL ASSETS

		Group		Parent	
		2011	2010	**2011**	2010
	Notes	**$000**	$000	**$000**	$000
(a) Cash and Cash Equivalents					
Cash at bank		259	59	63	11
		259	**59**	**63**	**11**

Bank balances and cash comprise cash held by the Group and short-term bank deposits with a maturity of three months or less. The carrying amount of these assets equates to fair value.

(b) Trade and Other Receivables					
Trade Receivables		4,208	4,043	3,670	3,576
Less provision for Doubtful Debts		(25)	(14)	(5)	(5)
Trade Receivables Owing to Parent Company		-	-	-	5
Other Receivables Non-Trade		-	363	-	363
Other Receivables Owing by Related Parties	29	-	145	-	145
Prepayments		92	78	82	72
		4,275	**4,615**	**3,747**	**4,156**

All receivables are denominated in New Zealand dollars.

The Directors consider that the carrying amount of trade and other receivables approximates fair value because all amounts are due within one month and there are no significant amounts where settlement is expected in more than 12 months.

Trade receivables have been reviewed by Management with respect to their collectability and impaired where collectibility is considered doubtful. As at 31 March 2011, trade receivables of $148,000 (2010: $73,000) were past due; these relate to a number of independent customers for whom there is no recent history of default and are not impaired.

Other receivables Non-Trade relate to takeover costs incurred and payable by the applicant company.

Other receivables owing by related parties are in relation to the attempted takeover of the Group by the Eastern Bay Energy Trust.

The ageing analysis of trade and other receivables that are not impaired is as follows:

Up to 3 months	4,035	3,956	3,642	3,489
Over 3 months	148	73	23	82
	4,183	**4,029**	**3,665**	**3,571**

Movements in the provision for impairment of trade receivables are as follows:

Opening Balance at 1 April	(14)	-	(5)	-
Receivables Written off During the Year as Uncollectable	(11)	(14)	-	(5)
Closing Balance at 31 March	**(25)**	**(14)**	**(5)**	**(5)**

Notes to the Financial Statements

For the year ended 31 March 2011

12. RECONCILIATION OF NET PROFIT TO NET CASH FROM OPERATING ACTIVITIES

	Notes	Group 2011 $000	Group 2010 $000	Parent 2011 $000	Parent 2010 $000
Profit after Tax for the Year		5,898	5,906	6,168	6,068
Adjustments for Non Cash Items:					
Capital Contributions Amortised		(17)	-	(17)	-
Depreciation and Amortisation	6	4,412	4,326	4,004	3,940
Net Loss/(Gain) on Disposal of Fixed Assets		-	23	-	-
Loss/(Gain) on Fair Value of Interest Rate Swaps	19	739	(254)	739	(254)
Operating Cash Flows before movements in working Capital		**11,032**	**10,001**	**10,894**	**9,754**
(Increase) / Decrease in Assets					
Trade and Other Receivables	11	340	(1,147)	409	(1,835)
Inventories		(256)	15	-	-
Increase / (Decrease) in Liabilities					
Trade and Other Payables	15	738	58	381	467
Trade and Other Payables related to Fixed Assets		(419)	-	(236)	-
Deferred Capital Contributions	18	(22)	(14)	(22)	(14)
Provision for Employee Costs	16	159	(153)	58	(57)
Provisions	17	-	(500)	-	(500)
Current Tax Liability		189	496	150	280
Deferred Tax Liabilities	8	(1,701)	(370)	(1,772)	(395)
Deferred Tax Liabilities recorded in the asset revaluation reserve		628	-	628	-
		(344)	**(1,615)**	**(404)**	**(2,054)**
Net Cash from Operating Activities		**10,688**	**8,386**	**10,490**	**7,700**

Notes to the Financial Statements

For the year ended 31 March 2011

13. PROPERTY, PLANT AND EQUIPMENT

	Network Distribution System (At Valuation) $000	Land & Buildings (At Cost) $000	Plant & Equipment (At Cost) $000	Furniture & Fittings (At Cost) $000	Vehicles (At Cost) $000	Total $000
(a) Group						
COST OR VALUATION						
At 1 April 2009	**101,683**	**827**	**2,295**	**596**	**1,621**	**107,022**
Additions	1,976	7	583	14	775	3,355
Disposals	-	(3)	(8)	(3)	(149)	(163)
Revaluation Movement	(8,385)	-	-	-	-	(8,385)
Capital Works in Progress	993	-	-	-	7	1,000
At 31 March 2010	**96,267**	**831**	**2,870**	**607**	**2,254**	**102,829**
Additions	4,461	262	133	-	48	4,904
Capital Works in Progress	460	1	11	-	180	652
At 31 March 2011	**101,188**	**1,094**	**3,014**	**607**	**2,482**	**108,385**
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At 1 April 2009	**7,148**	**35**	**1,746**	**353**	**375**	**9,657**
Depreciation Charge for the Year	3,666	15	242	64	299	4,286
Eliminated on Disposals	-	-	(3)	-	(42)	(45)
Eliminated on Revaluation	(10,814)	-	-	-	-	(10,814)
At 31 March 2010	**-**	**50**	**1,985**	**417**	**632**	**3,084**
Depreciation Charge for the Year	3,771	14	199	61	330	4,375
At 31 March 2011	**3,771**	**64**	**2,184**	**478**	**962**	**7,459**
NET BOOK VALUE						
At 31 March 2010	96,267	781	885	190	1,622	99,745
At 31 March 2011	**97,417**	**1,030**	**830**	**129**	**1,520**	**100,926**

Notes to the Financial Statements

For the year ended 31 March 2011

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Network Distribution System (At Valuation) $000	Land & Buildings (At Cost) $000	Plant & Equipment (At Cost) $000	Furniture & Fittings (At Cost) $000	Vehicles (At Cost) $000	Total $000
(b) Parent						
COST OR VALUATION						
At 1 April 2009	**101,683**	**38**	**2,046**	**536**	**275**	**104,578**
Additions	2,468	-	97	2	3	2,570
Revaluation Movement	(8,877)	-	-	-	-	(8,877)
Capital Works in Progress	993	-	-	-	-	993
At 31 March 2010	**96,267**	**38**	**2,143**	**538**	**278**	**99,264**
Additions	5,196	262	46	-	-	5,504
Capital Works in Progress	460	-	3	-	-	463
At 31 March 2011	**101,923**	**300**	**2,192**	**538**	**278**	**105,231**
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At 1 April 2009	**7,148**	**15**	**1,631**	**345**	**194**	**9,333**
Depreciation charge for the year	3,666	-	138	57	42	3,903
Eliminated on Revaluation	(10,814)	-	-	-	-	(10,814)
At 31 March 2010	**-**	**15**	**1,769**	**402**	**236**	**2,422**
Depreciation charge for the year	3,792	-	96	57	26	3,971
At 31 March 2011	**3,792**	**15**	**1,865**	**459**	**262**	**6,393**
CARRYING AMOUNT (Net Book Value)						
At 31 March 2010	96,267	23	374	136	42	96,842
At 31 March 2011	**98,131**	**285**	**327**	**79**	**16**	**98,838**

Distribution System Assets were revalued on 31 March 2010 by Cameron Partners Limited (Independent Investment Bankers) on a discounted cash flow basis in accordance with generally accepted valuation techniques.

Note:
The carrying amount of the Group and Parent network distribution system commissioned assets had they been recognised under the cost model is $78.1 million (2010: $72.5 million).

The cost model is defined as the deemed cost on adoption of NZ IFRS on 1 April 2006. This amount comprises the revalued amount of the network distribution system assets as at 31 March 2000, as elected by Horizon Energy under NZ IFRS 1 'First time adoption of NZ equivalents to International Financial Reporting Standards'. This has subsequently been adjusted for additions and disposals.

Notes to the Financial Statements

For the year ended 31 March 2011

14. INTANGIBLE ASSETS

	Software $000	Goodwill $000	Total $000
(a) Group			
COST			
At 1 April 2009	**171**	**211**	**382**
Information Systems Work in Progress	412	-	412
At 31 March 2010	**583**	**211**	**794**
Software Additions	45	-	45
Information Systems Work in Progress	1,029	-	1,029
At 31 March 2011	**1,657**	**211**	**1,868**
ACCUMULATED AMORTISATION			
At 31 March 2009	**79**	**-**	**79**
Amortisation Charge for the Year	40	-	40
At 31 March 2010	**119**	**-**	**119**
Amortisation Charge for the Year	37	-	37
At 31 March 2011	**156**	**-**	**156**
CARRYING AMOUNT (Net Book Value)			
At 31 March 2010	**464**	**211**	**675**
At 31 March 2011	**1,501**	**211**	**1,712**
(b) Parent			
COST			
At 1 April 2009	**161**	**-**	**161**
Information Systems Work in Progress	412	-	412
At 31 March 2010	**573**	**-**	**573**
			-
Software Additions	43	-	43
Information Systems Work in Progress	1,029	-	1,029
At 31 March 2011	**1,645**	**-**	**1,645**
ACCUMULATED AMORTISATION			
At 1 April 2009	**77**	**-**	**77**
Amortisation Charge for the Year	37	-	37
At 31 March 2010	**114**	**-**	**114**
Amortisation Charge for the Year	33	-	33
At 31 March 2011	**147**	**-**	**147**
CARRYING AMOUNT (Net Book Value)			
At 31 March 2010	**459**	**-**	**459**
At 31 March 2011	**1,498**	**-**	**1,498**

Interest has been capitalised to Intangible Assets Work in Progress (software development and implementation) to reflect the financing costs to the Company attributable to the acquisition of qualifying assets, in accordance with the Group's accounting policy on borrowing costs. The interest rate applied for the 2011 year was 6.75% (2010: nil), being the average cost of borrowings for the Company during the year. Interest capitalised for the 2011 year was $61,277 (2010: nil).

Notes to the Financial Statements

For the year ended 31 March 2011

15. TRADE AND OTHER PAYABLES

	Group		Parent	
	2011	2010	**2011**	2010
	$000	$000	**$000**	$000
Trade Payables	1,430	1,436	929	1,031
Trade Payables Owed by Parent Company to Subsidiary	-	-	913	879
Other Payables	2,547	1,803	2,110	1,661
Total Trade and Other Payables	**3,977**	**3,239**	**3,952**	**3,571**

Trade and other payables principally comprise amounts outstanding for trade purchases and other ongoing costs.

The Directors consider that the carrying amount of trade and other payables approximate fair value because the amounts due will be settled within 12 months.

16. PROVISION FOR EMPLOYEE COSTS

Classified as:				
Current Employee Costs	525	381	288	265
Non-Current Employee Costs	124	109	66	31
Total Employee Costs	**649**	**490**	**354**	**296**

The provision for employee costs includes accrued wages, bonuses, accrued holiday pay, long service leave and retirement costs.

17. PROVISIONS

Opening Balance at 1 April	-	500	-	500
Provisions Released during the Year	-	(500)	-	(500)
Closing Balance at 31 March	**-**	**-**	**-**	**-**

The reduction in provisions at 31 March 2010 reflects the settlement of legal matters during the financial year.

18. DEFERRED CAPITAL CONTRIBUTIONS

Opening Balance at 1 April	**668**	**682**	**668**	**682**
Capital Contributions from Local Authorities	-	4	-	4
Less Amounts Recognised as Revenue during Year	(22)	(18)	(22)	(18)
Closing Balance at 31 March	**646**	**668**	**646**	**668**

Classified as:				
Current	18	17	18	17
Non-Current	628	651	628	651
Total Deferred Capital Contributions	**646**	**668**	**646**	**668**

Capital contributions from local authorities for the construction of network distribution assets meet the definition of a government grant under NZ IAS 20, *'Accounting for Government Grants'*. These cash receipts are included in non-current liabilities as deferred income and are amortised over a 45 year period which approximates the expected life of the asset.

Notes to the Financial Statements

For the year ended 31 March 2011

19. DERIVATIVE FINANCIAL INSTRUMENTS

Interest Rate Swaps

The face value and fair value of the swaps the Group and Parent held at 31 March 2011 were as follows:

Commencement Date	Rate	Term	Expiry Date	Notional Value 2011 $000	Fair Value 2011 $000	Notional Value 2010 $000	Fair Value 2010 $000
21 Sep 2009	4.19%	33 Months	21 Jun 2012	-	-	4,000	10
09 Mar 2009	4.60%	84 Months	09 Mar 2016	-	-	2,000	75
17 Aug 2009	4.61%	93 Months	17 May 2017	3,000	7	3,000	163
Total Per Non Current Assets				**3,000**	**7**	**9,000**	**248**
20 Sep 2007	6.98%	33 Months	21 Jun 2010	-	-	1,000	(11)
21 Sep 2009	4.54%	27 Months	21 Dec 2011	3,000	(42)	-	-
Total Per Current Liabilities				**3,000**	**(42)**	**1,000**	**(11)**
21 Sep 2009	4.54%	27 Months	21 Dec 2011	-	-	3,000	(28)
21 Sep 2009	4.19%	33 Months	21 Jun 2012	4,000	(68)	-	-
05 Mar 2009	7.03%	60 Months	05 Mar 2014	2,800	(263)	2,800	(216)
27 Sep 2007	7.39%	78 Months	26 Mar 2014	1,000	(103)	6,000	(530)
21 Dec 2011	4.99%	33 Months	21 Sep 2014	2,000	(34)	-	-
21 Jun 2010	5.25%	72 Months	21 Jun 2015	2,000	(83)	-	-
09 Mar 2010	4.60%	72 Months	09 Mar 2016	2,000	(18)	-	-
21 Dec 2011	5.33%	57 Months	21 Sep 2016	2,000	(40)	-	-
26 Sep 2010	6.58%	90 Months	26 Jun 2018	2,000	(211)	-	-
05 Jul 2007	6.44%	140 Months	05 Mar 2019	2,000	(200)	2,000	(103)
26 Sep 2010	6.58%	117 Months	26 Jun 2020	3,000	(324)	-	-
Total Per Non Current Liabilities				**22,800**	**(1,344)**	**13,800**	**(877)**
Total				**28,800**	**(1,379)**	**23,800**	**(640)**

Under interest rate swap contracts the Group agrees to exchange the difference between floating and fixed rate interest amounts calculated on notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on a portion of the Group's debt as set out in note 2, Accounting Policy - Derivative Financial Instruments.

No interest rate swaps have been designated as cash flow hedges and are therefore classified as 'held for trading' for accounting purposes. Consequently changes in fair value have been charged directly to the Statement of Comprehensive Income.

	Group	
Net Increase/(Decrease) in Fair Value Statement of Comprehensive Income	**2011 $000**	2010 $000
Fair Value at 31 March	(1,379)	(640)
Net Change in Fair Value	**(739)**	**254**

The maximum exposure to credit risk at the reporting date is the fair value of the derivative instruments in the Balance Sheet.

Notes to the Financial Statements

For the year ended 31 March 2011

20. BANK LOANS

	Group		Parent	
	2011	2010	**2011**	2010
	$000	$000	**$000**	$000
The borrowings are repayable as follows:				
Within One Year	8,000	-	8,000	-
Within One to Two Years	17,000	8,290	17,000	8,290
Within Two to Three Years	-	10,000	-	10,000
Within Three to Four Years	-	7,000	-	7,000
Total	**25,000**	**25,290**	**25,000**	**25,290**
Classified as follows:				
Amount due for Settlement within 12 Months (Current)	8,000	-	8,000	-
Amount due for Settlement after 12 Months (Non-current)	17,000	25,290	17,000	25,290
Total	**25,000**	**25,290**	**25,000**	**25,290**

Bank loans are drawn down at floating rates and expose the Group to interest rate risk. Borrowings are classified as current and non-current based on the terms of available facilities as these represent unconditional rights to defer payments until maturity.

The Directors estimate the fair value of the Group's bank loans are reflected in their book value, as the impact of discounting is immaterial.

All term loans are unsecured and are subject to negative pledge undertakings. The weighted average floating interest rate, inclusive of margins, on term loans is 2.98% (2010 3.04%). The weighted average floating interest rate excludes the effect of the Company's interest rate risk management.

As at 31 March 2011 the Company had available undrawn debt facilities of $7.0 million (2010: $6.7 million).

		Group	
	Expiry	**Drawn**	**Undrawn**
		$000	**$000**
At 31 March 2011			
Tranche A	22/11/2012	10,000	-
Tranche B	23/11/2013	-	7,000
Tranche C	23/11/2011	15,000	-
		25,000	**7,000**
At 31 March 2010			
Tranche A	22/11/2012	10,000	-
Tranche B	23/11/2013	290	6,710
Tranche C	23/11/2011	15,000	-
		25,290	**6,710**

All borrowings are with the same financial institution. In 2011 the non-current undrawn debt facilities of $7.0 million, which were available at 31 March, have been offset against the fully drawn facility of $15.0 million which expires within the next year. Horizon Energy has the discretion to rollover Tranche C financing into Tranche B. Consequently the current portion of loans disclosed in the Balance Sheet is $8.0 million.

The Company complied with all its banking covenants during the year.
These covenants comprise:
- Interest Rate Coverage ratio must be greater than 2.5
- Gearing ratio must be less than 60%
- Secured Liabilities ratio must be less than 10%
- Guaranteeing Group Coverage ratio - EBITDA must be greater than 95%
- Guaranteeing Group Coverage ratio - Total Assets must be greater than 95%

Notes to the Financial Statements

For the year ended 31 March 2011

21. FINANCIAL INSTRUMENTS BY CATEGORY

Assets as per Balance Sheet

	Assets at Fair Value through Profit or Loss $000	Loans & Receivables $000	Total $000
(a) Group			
Derivative Financial Instruments	248	-	248
Trade and Other Receivables	-	4,029	4,029
Cash and Cash Equivalents	-	59	59
At 31 March 2010	**248**	**4,088**	**4,336**
Derivative Financial Instruments	7	-	7
Trade and Other Receivables	-	4,183	4,183
Cash and Cash Equivalents	-	259	259
At 31 March 2011	**7**	**4,442**	**4,449**

	Assets at Fair Value through Profit or Loss $000	Loans & Receivables $000	Total $000
(b) Parent			
Derivative Financial Instruments	248	-	248
Trade and Other Receivables	-	3,571	3,571
Intercompany Loans	-	3,057	3,057
Cash and Cash Equivalents	-	11	11
At 31 March 2010	**248**	**6,639**	**6,887**
Derivative Financial Instruments	7	-	7
Trade and Other Receivables	-	3,665	3,665
Intercompany Loans	-	3,116	3,116
Cash and Cash Equivalents	-	63	63
At 31 March 2011	**7**	**6,844**	**6,851**

All derivatives at fair value relate to interest rate swaps, which have been determined to be Level 2 under the fair value heirarchy described in note 4.

Notes to the Financial Statements

For the year ended 31 March 2011

21. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

Liabilities as per Balance Sheet

	Liabilities at Fair Value through Profit or Loss $000	Measured at Amortised Cost $000	Total $000
(a) Group			
Borrowings	-	25,290	25,290
Derivative Financial Instruments	888	-	888
Trade and Other Payables	-	3,239	3,239
At 31 March 2010	**888**	**28,529**	**29,417**
Borrowings	-	25,000	25,000
Derivative Financial Instruments	1,386	-	1,386
Trade and Other Payables	-	3,977	3,977
At 31 March 2011	**1,386**	**28,977**	**30,363**

	Liabilities at Fair Value through Profit or Loss $000	Measured at Amortised Cost $000	Total $000
(b) Parent			
Borrowings	-	25,290	25,290
Derivative Financial Instruments	888	-	888
Trade and Other Payables	-	3,571	3,571
At 31 March 2010	**888**	**28,861**	**29,749**
Borrowings	-	25,000	25,000
Derivative Financial Instruments	1,386	-	1,386
Trade and Other Payables	-	3,952	3,952
At 31 March 2011	**1,386**	**28,952**	**30,338**

Notes to the Financial Statements

For the year ended 31 March 2011

22. CONSTRUCTION CONTRACTS

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

The following amounts relating to construction contracts in progress at balance date are included within trade and other receivables and trade and other payables. Refer note 2 Accounting Policies - Construction Contracts.

	Group 2011 $000	Group 2010 $000	Parent 2011 $000	Parent 2010 $000
Contracts in progress at balance date:				
Amounts Due from Construction Contracts	250	175	-	-
	250	**175**	**-**	**-**

23. SUBSIDIARY COMPANIES

The Company has one wholly owned subsidiary, Horizon Energy Investments Limited. Horizon Energy Investments Limited was established as at 26 October 2006 for the Group's electrical contracting operation. The subsidiary has been fully consolidated with inter-company transactions eliminated.

	Group	
	2011	2010
Shares held in Horizon Energy Investments Limited	**100**	**100**

Horizon Energy Investments Limited is recorded at nil cost in the Balance Sheet of the Parent.

Notes to the Financial Statements

For the year ended 31 March 2011

24. DIVIDENDS (Per Share)

Amounts recognised as distributions to equity holders in the period:

	Group	
	2011	2010
	cents	cents
Final (for Previous Financial Year)	9.0	4.5
Interim	7.0	8.0

All dividends had full imputation credits attached.

As set out in note 28 a fully imputed final dividend for the year ended 31 March 2011 was declared post year end. The financial impact of this dividend has not been recognised in these financial statements.

25. IMPUTATION CREDIT MEMORANDUM ACCOUNT

Imputation credits are gained through income tax being paid by the Group and are subsequently available for attachment to future dividend payments.

	Group		Parent	
	2011	2010	**2011**	2010
	$000	$000	**$000**	$000
Opening Balance at 1 April	1,181	414	1,181	414
Credits Gained from Income Tax Paid	2,558	2,195	2,558	2,195
Credits Applied to Dividends Paid	(1,807)	(1,339)	(1,807)	(1,339)
UOMI Received	-	20	-	20
Income Tax Refund Received (Prior Years)	-	(109)	-	(109)
Closing Balance at 31 March	**1,932**	**1,181**	**1,932**	**1,181**

26. EARNINGS PER SHARE

a) Basic

Basic earnings per share is calculated by dividing the profit attributable to Equity Holders of the Company by the weighted average number of ordinary shares on issue during the year.

	Group	
	2011	2010
Profit Attributable to Equity Holders of the Company ($000)	5,898	5,906
Weighted Average Number of Ordinary Shares on Issue	24,991,385	24,991,385
Basic Earnings per Share (Cents per Share)	**23.60**	**23.63**

b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has no category of dilutive potential ordinary shares. Therefore diluted earnings per share is equal to basic earnings per share.

Notes to the Financial Statements

For the year ended 31 March 2011

27. CONTINGENT LIABILITIES

Electricity Purchase Commitment

In March 1999, as part of the sale of the Kapuni Generation assets, the Company assigned its rights under a long term contract for the purchase of electricity and remains contingently liable to purchase this electricity until the end of the contract (2017) should the purchasers fail to perform their obligations under the contract. In the event any claim is made against the Company under this long term contract for the purchase of electricity, the Company will have a claim against the purchaser of its Kapuni Generation assets under the relevant sale documentation.

Unclaimed Dividends

As provided for under clause 27.8 of the Company's constitution, unclaimed dividends totalling $114,757 (2010: $119,942) relating to the period 1995 to 2007 have been written back to retained earnings. Subject to compliance with the solvency test, the Company shall pay the dividend or other monetary distribution to the person or persons producing evidence of entitlement to these dividends.

28. EVENTS AFTER BALANCE DATE

The Directors authorised these financial statements for issue on 30 May 2011.

(a) Dividend Declaration

On 30 May 2011 the Directors declared a final fully imputed dividend of 10 cents (2010: 9 cents imputed) per ordinary share. As this event occurred after balance date the financial effect has not been recognised in the financial statements.

(b) Acquisition of Majority Interest

On 1 April 2011, Horizon Energy Distribution Limited acquired 60% of the shares in Stewart Browne Group Limited, an electrical contracting company operating in the Bay of Plenty, and has made a further commitment to acquire the remaining 40%, currently owned by the Browne Family Trust, no later than 1 April 2013 .

The investment is consistent with the Group's strategy to develop its contracting revenue streams. The new business has a strong presence in the Tauranga market and provides similar services to Horizon Energy Investments Limited electrical contracting business operating in the Eastern Bay of Plenty. The addition of Stewart Browne Group Limited to the Group will provide the geographical coverage and scale of resources to enable the Group to increase its involvement in the large construction opportunities arising within the region.

Horizon Energy Distribution Limited's investment in Stewart Browne Group Limited

Horizon Energy Distribution Limited has advanced Loans to the new company as follows:

Shareholder Loans	$750,000

Notes to the Financial Statements

For the year ended 31 March 2011

28. EVENTS AFTER BALANCE DATE (CONTINUED)

Details of net assets and goodwill acquired by Stewart Browne Group Limited are as follows:

	Group 1 April 2011 $000
Purchase Consideration	**965**
Fair Value of Net Assets Acquired	338
Goodwill	667
Total Purchase Consideration	**965**
Purchase Consideration Settled In Cash	965
Cash and Cash Equivalents In Subsidiary Acquired	-
Cash Outflow on Acquisition	**965**

The above values are preliminary and will be finally determined in the 31 March 2012 financial statements.

(c) Starting Price Adjustments

On 11 April 2011 the Commerce Commission released a draft methodology paper proposing new regulations on how Electricity Distribution Businesses (EDB's) will be permitted to set prices from the 2010 to 2015 financial years, essentially capping the amount EDB's may charge for their services. Any changes resulting from the Commerce Commission's new methodologies will be implemented from 1 April 2012. Horizon Energy Distribution Limited is currently developing a submission to the paper and until such time as the final proposal is released by the Commission the impact to the Company of the proposed regulations cannot be reliably determined. Consequently the Directors have determined that the carrying value of the network distribution system at 31 March 2011 remains the best estimate of its fair value.

29. RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties:

a) Transactions between the Parent and Horizon Energy Investments Limited

Horizon Energy Investments Limited is a 100% owned subsidiary of Horizon Energy Distribution Limited the Parent Company. Horizon Energy Investments Limited is a New Zealand registered company.

Horizon Energy Investments Limited provided distribution network capital and maintenance services to the Parent Company. These services are purchased by the Parent on an arms length basis at commercial terms and conditions that are available to third parties.

	2011 $000	2010 $000
Purchase of contracting services and network assets from subsidiary	7,091	4,546
Interest income from subsidiary on shareholder advances	(224)	(218)
Rent income from subsidiary	(12)	(12)
Rent expense paid to subsidiary	60	60
Balance of shareholder loan to subsidiary	3,116	3,758
Receivables owing by subsidiary	-	5
Payables owing to subsidiary	(913)	(879)

The shareholder loan is repayable on demand and incurs interest at the average weighted interest rate that the Group incurs on its bank borrowings. No bad debts have been recognised for the current and previous year.

Notes to the Financial Statements

For the year ended 31 March 2011

29. RELATED PARTY TRANSACTIONS (CONTINUED)

b) Major Shareholders

The Group is controlled by the Eastern Bay Energy Trust which owns 77.29% of the Company's shares. During the financial year Marlborough Lines Limited acquired 13.89% of the shares in the Company and is not a related party. The remaining 8.82% of shares in the Company are widely held.

	2011	2010
	$000	$000
i) Transactions with Eastern Bay Energy Trust		
Contributions Received towards Undergrounding Works	-	60
Contributions Received towards Staff Training	81	-
Services Supplied by Horizon to EBET	5	-
Reimbursement of Takeover Costs Incurred	1	-
	87	**60**
ii) Transactions with Marlborough Lines Limited		
Reimbursement of Takeover Costs	**562**	**-**
c) Year End Balances		
Receivables owing by Major Shareholders in relation to attempted takeovers of the Group		
Eastern Bay Energy Trust	-	145
	-	**145**
d) Remuneration of Key Management Personnel and Directors		
Short Term Benefits		
Salaries and Other Short Term Employee Costs	804	876
Directors' Fees and Payments	200	194
	1,004	**1,070**

30. COMMITMENTS

	Group		**Parent**	
	2011	2010	**2011**	2010
	$000	$000	**$000**	$000
a) Capital Commitments				
Capital expenditure contracted for at balance date but not yet incurred is:				
Software	398	-	398	-
Network Distribution Assets	786	614	786	614
	1,184	**614**	**1,184**	**614**

b) Operating Lease Commitments

The Group is party to a number of operating leases. The leasing arrangements are for office, warehouse and depot space and radio communication sites.

Operating lease commitments fall due for payment in the following periods:

	Group 2011	Group 2010	Parent 2011	Parent 2010
Within One Year	3	189	3	92
Within One to Five Years	-	176	-	176
Over Five Years	-	-	-	-
	3	**365**	**3**	**268**

Leasing arrangements for office, warehouse and depot space expired during the financial year. The Company is currently negotiating with Landlords, therefore no contractual commitments exist for these leases at 31 March 2011.

Notes to the Financial Statements

For the year ended 31 March 2011

31. REMUNERATION OF AUDITORS

During the year the following fees were paid or payable for services provided by PricewaterhouseCoopers, the auditor of the Parent and the Group:

	Group		Parent	
	2011	2010	**2011**	2010
	$000	$000	**$000**	$000
Statutory Audit				
Audit of the Financial Statements	60	83	60	83
Total Audit and Assurance Services	**60**	**83**	**60**	**83**
Audit Related Services				
Section 53ZD information request engagement	25	-	25	-
Regulatory DPP Threshold Compliance Statement Audit	25	15	25	15
Regulatory Disclosure Information Assurance Engagement	15	15	15	15
Taxation Compliance Services	17	18	17	18
Tax and Financial Due Diligence	-	35	-	35
Accounting Advice and Opinions	-	38	-	38
Total Audit Related Services	**82**	**121**	**82**	**121**
Other Services				
Financial and regulatory advice on proposed asset acquisition	72	-	72	-
Regulatory Advice and Preparation of Submissions	49	113	49	113
Tax Advice and Opinions	7	5	7	5
Total Remuneration for Other Services	**128**	**118**	**128**	**118**
Total Auditors' Remuneration	**270**	**322**	**270**	**322**

The above categories include the following types of service:

Audit Related Services

Financial and tax due diligence on proposed acquisitions.

Accounting advice and opinions relate to advice on the treatment of certain items in the financial statements.

Assistance with tax compliance, tax returns and documenting the chronology and methodology of intercompany margin eliminations.

Other Services

Regulatory advice includes assistance with regulatory submissions to the Commerce Commission in relation to regulatory compliance, standardisation of distribution tariffs, DPP Starting Price Adjustment, Input Methodology draft decisions, Standardisation of Distribution tariffs and Model Use of System Agreements and review of the regulatory compliance impacts of a potential asset purchase.

Auditors' Report

pwc

Independent Auditors' Report
to the shareholders of Horizon Energy Distribution Limited

Report on the Financial Statements

We have audited the financial statements of Horizon Energy Distribution Limited on pages 31 to 67, which comprise the Balance Sheet as at 31 March 2011, the Statement of Comprehensive Income and Statement of Changes in Equity and Cash Flow Statement for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 31 March 2011 or from time to time during the financial year.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal controls relevant to the Company and Group's preparation of financial statements that give a true and fair view of the matters to which they relate, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company and Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

We have no relationship with, or interests in, Horizon Energy Distribution Limited or any of its subsidiaries other than in our capacities as auditors, tax advisors and providers of other assurance and advisory services. These services have not impaired our independence as auditors of the Company and Group.

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Auditors' Report

pwc

Independent Auditors' Report

to the shareholders of Horizon Energy Distribution Limited

Opinion

In our opinion, the financial statements on pages 31 to 67:

(i) comply with generally accepted accounting practice in New Zealand;

(ii) comply with International Financial Reporting Standards; and

(iii) give a true and fair view of the financial position of the Company and the Group as at 31 March 2011, and their financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 March 2011:

(i) we have obtained all the information and explanations that we have required; and

(ii) in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

Restriction on Distribution or Use

This report is made solely to the Company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

PricewaterhouseCoopers

Chartered Accountants Auckland
30 May 2011

Shareholders' Statistics

At 31 May 2011 there were 24,991,385 voting securities on issue. They were held by 1,853 shareholders.

Twenty Largest Shareholders

The names of the twenty largest Shareholders of Ordinary Shares as at 31 May 2011 are listed below:

Name	Number of Ordinary Shares	Percentage of Issued Shares
Eastern Bay Energy Trust	19,316,130	77.29
Marlborough Lines Limited	3,472,059	13.89
RW White	67,714	0.27
Key Group Limited	37,455	0.15
Custodial Services Limited	24,500	0.10
AB Herdman	20,340	0.08
PBR Knyvett	20,000	0.08
MO Bailey	16,500	0.07
AR Twaites	16,500	0.07
Investment Custodial Services Limited	14,811	0.06
Investment Custodial Services Limited	14,810	0.06
HR Reynolds	13,000	0.05
Ronaki Limited	12,500	0.05
PW Ludbrook	12,120	0.05
RA Ussher	12,000	0.05
DP Davidson	11,750	0.05
PN Bannan	11,575	0.05
RJ & MR Wilson	11,460	0.05
A O'Brien	11,300	0.05
PJ Brine & L Haye	10,000	0.04
	23,126,524	**92.56**

Statement of Directors' Shareholdings

as at 31 March 2011

Fully Paid Ordinary Shares

Name	Beneficially Held		Non-Beneficially Held	
	31 March 2011	31 March 2010	**31 March 2011**	31 March 2010
R.B. Tait	-	-	-	-
J. McDonald	-	-	-	-
C.P. Boyle	-	-	-	-
A.E. de Farias	-	-	-	-

Shareholders' Statistics

Spread of Security Holders
as at 31 May 2011

	Shareholders		Shares	
	Number	**Percentage**	**Number**	**Percentage**
1 to 499	197	10.63	60,095	0.24
500 to 999	1,217	65.68	703,497	2.81
1,000 to 4,999	358	19.32	683,569	2.74
5,000 to 9,999	51	2.75	316,145	1.27
10,000 to 49,999	27	1.46	372,176	1.49
50,000 to 99,999	1	0.05	67,714	0.27
100,000 to 499,999	-	-	-	-
500,000 to 999,999	-	-	-	-
1,000,000 and over	2	0.11	22,788,189	91.18
Total	**1,853**	**100.00**	**24,991,385**	**100.00**

Analysis of Shareholder by Location
as at 31 May 2011

	Shareholders		Shares	
	Number	**Percentage**	**Number**	**Percentage**
Bay of Plenty	1,478	79.76	20,752,586	83.04
Blenheim	1	0.05	3,472,059	13.89
Auckland	122	6.58	248,774	1.00
Waikato	58	3.13	82,890	0.33
Wellington	37	2.00	126,559	0.51
Christchurch	9	0.49	39.210	0.16
Dunedin	10	0.54	11,800	0.05
Other	114	6.15	243,454	0.96
New Zealand	**1,829**	**98.70**	**24,977,332**	**99.94**
Overseas	24	1.30	14,053	0.06
Total Holders by Location	**1,853**	**100.00**	**24,991,385**	**100.00**

Substantial Security Holders
According to notices given to the Company under the Securities Markets Act 1988, as at 31 May 2011 the following were substantial security holders in the Company. In terms of the Act, the number of shares and percentages shown below are as last advised to Horizon Energy by the substantial security holder and may not be their current holding.

Name	Number of Shares	Percentage of Shares
Eastern Bay Energy Trust	19,316,130	77.29
Marlborough Lines Limited	3,393,826	13.58

Directory

Registered Office
52 Commerce Street
Whakatane 3120

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Facsimile	+64 7 306 2907
Email	info@horizonenergy.net.nz
Website	www.horizonenergy.net.nz

Postal Address
PO Box 281
Whakatane 3158
New Zealand

Directors
R. Tait (Chairman)
J. McDonald
C. Boyle
A.E. de Farias

Chief Executive
Ajay Anand

Bankers
Bank of New Zealand
125 Queen Street
Auckland 1010

Westpac
157 Lambton Quay
Wellington 6011

Solicitors
Bell Gully
48 Shortland Street
Auckland 1010

Auditors
PricewaterhouseCoopers
188 Quay Street
Auckland 1010

Share Registry
Computershare Investor Services Limited
Private Bag 92119
Auckland 1142
Level 2, 159 Hurstmere Road
Takapuna, Auckland 0622
New Zealand

Managing Your Shareholding Online
To change your address, update your payment instructions and to view your investment portfolio including transactions, please visit:
www.computershare.co.nz/investorcentre

General enquiries can be directed to:
- enquiry@computershare.co.nz
- Private Bag 92119, Auckland 1142, New Zealand
- Telephone +64 9 488 8777; Facsimile +64 9 488 8787

Please assist our registrar by quoting your CSN or shareholder number.

Horizon Energy Distribution Limited
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