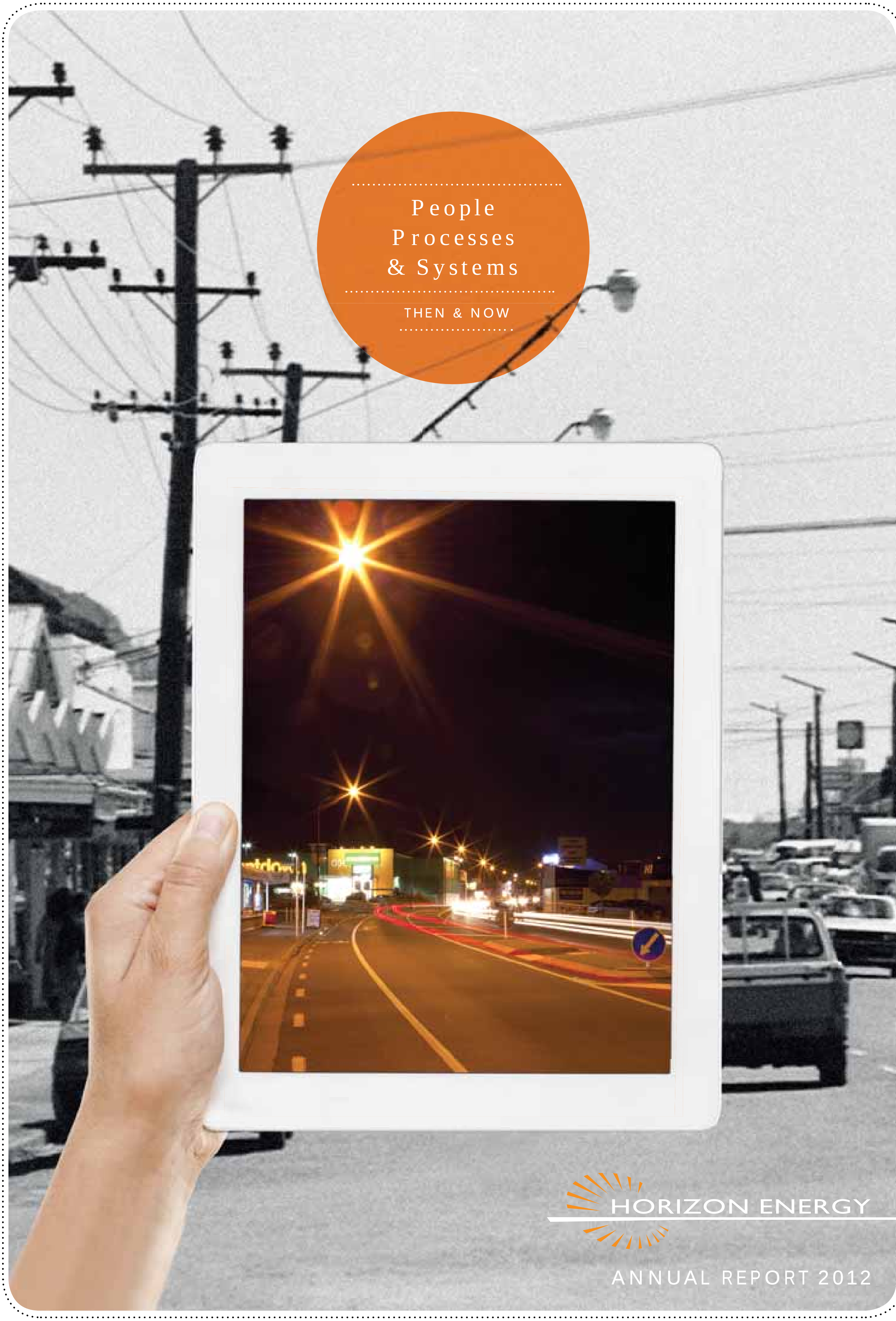
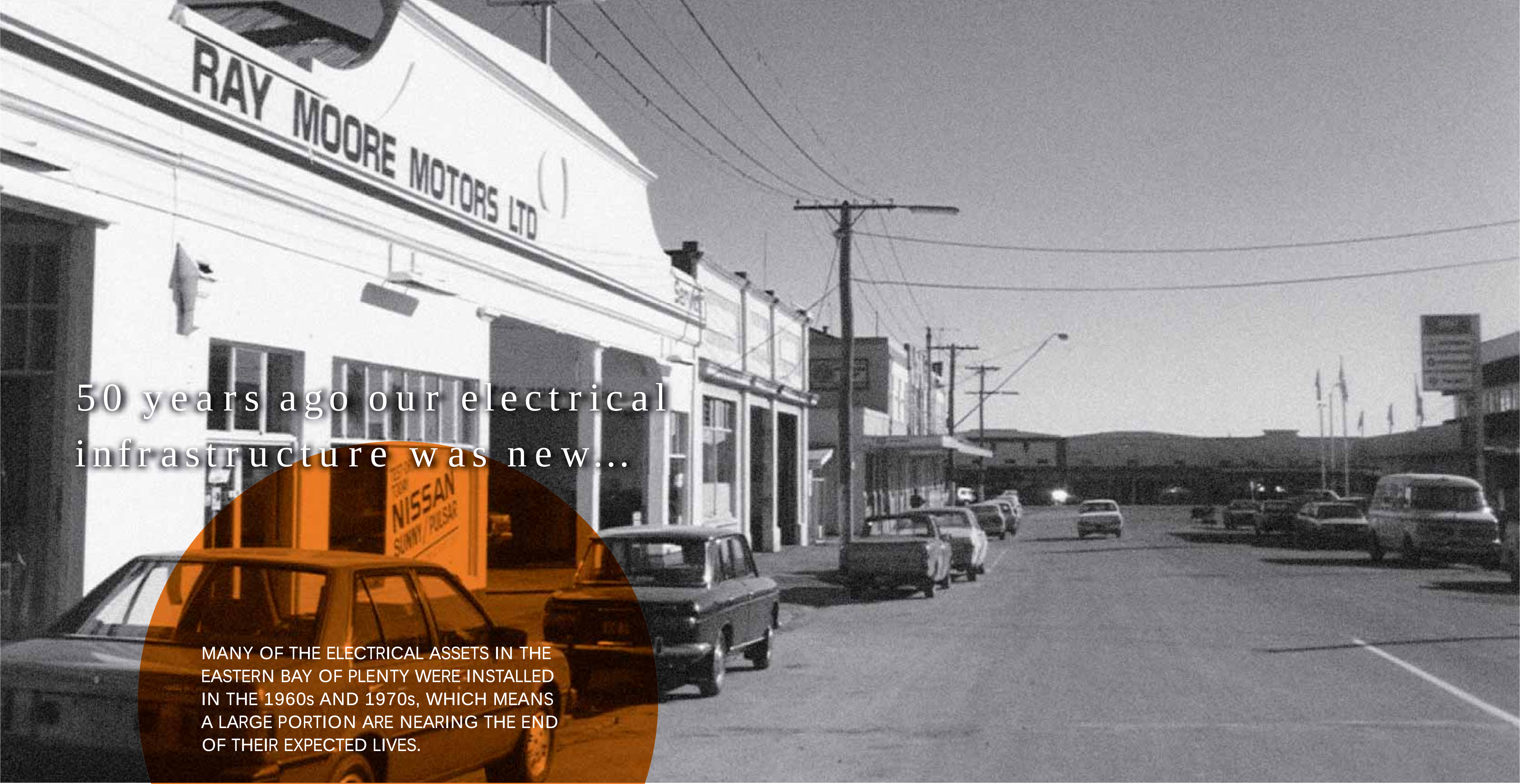
People Processes & Systems

THEN & NOW



HORIZON ENERGY

ANNUAL REPORT 2012



50 years ago our electrical infrastructure was new...

MANY OF THE ELECTRICAL ASSETS IN THE EASTERN BAY OF PLENTY WERE INSTALLED IN THE 1960s AND 1970s, WHICH MEANS A LARGE PORTION ARE NEARING THE END OF THEIR EXPECTED LIVES.

Contents

But a lot changes in 50 years...

TIMES CHANGE, AND CONSUMERS ARE MORE DEMANDING THAN EVER WHEN IT COMES TO RELIABILITY AND QUALITY OF THEIR ELECTRICITY SUPPLY.

Highlights

6.4	7.3	New
Million After Tax	Million Invested	System Implemented
Net Profit	Assets	Financial

Informed decisions must be made...

WE NEED TO KNOW WHETHER IT IS MORE EFFECTIVE TO MAINTAIN, UPGRADE, OR COMPLETELY REPLACE THESE AGING ASSETS.

GO live
Geographical Information
System

3 yr
HV Asset Inspection Programme
Completed

AS/NZS 4801
Health and Safety Standard
Achieved

Electricity
Reliability Performance
Achieved

And we know exactly what to do!

WE'VE UPGRADED AND INTEGRATED OUR SYSTEMS SO WE HAVE ALL THE TOOLS AT HAND TO GUIDE OUR DECISIONS BASED ON ACCURATE INFORMATION.

Transition
of Stewart Browne Group
Acquisition

Integrated
A1 Stump and Tree Services
Acquisition

Investment
7 Electrical Trainees
Development

Welcome...

OUR VISION

A growth focussed and diversified infrastructure business that challenges our traditional boundaries and increases long-term sustainable value.

Our
GUIDING
PRINCIPLES

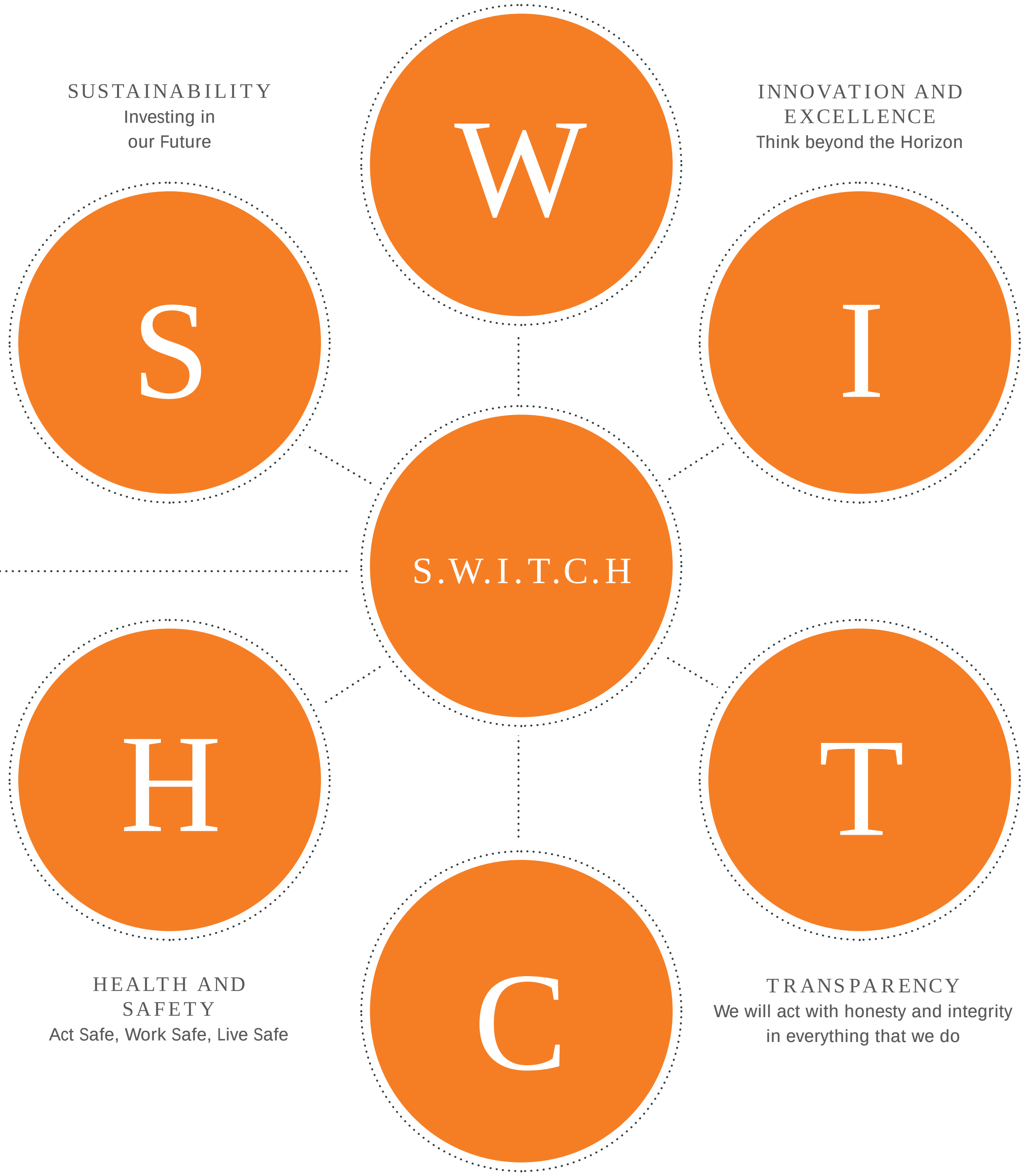
OUR MISSION

To grow a diverse infrastructure business that thinks beyond the Horizon.

WELLBEING
Creating success through our People

SUSTAINABILITY
Investing in our Future

INNOVATION AND EXCELLENCE
Think beyond the Horizon



HEALTH AND SAFETY
Act Safe, Work Safe, Live Safe

TRANSPARENCY
We will act with honesty and integrity in everything that we do

CUSTOMER FOCUS
We will strive to exceed expectations all the time

A word from the top...

CHAIRMAN'S REPORT
Rob Tait

Successful electricity lines businesses like Horizon Energy require skilled staff, efficient management systems and sound operating processes to maintain a safe working environment that delivers a reliable electricity supply to consumers and generates sustained returns for shareholders.

This year has been one of quiet but solid achievements as we have further improved our capabilities with key staff appointments, implemented new systems and processes designed to increase the skills and resources of the organisation enabling us to pursue our strategic goals to deliver a solid financial result.

Operationally, the Company enjoyed a successful year with the completion of the majority of the planned network capital investment and maintenance programmes while meeting the reliability measures set by the Commerce Commission.

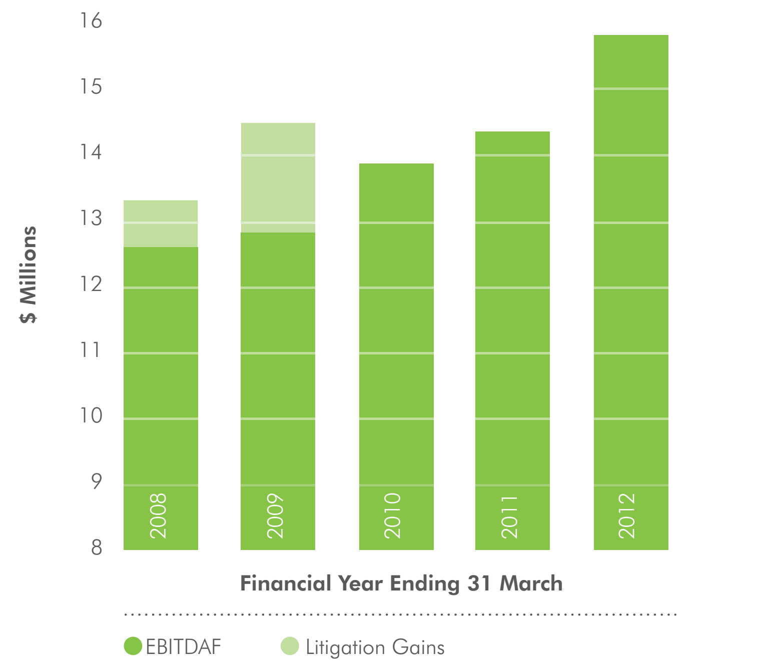
I am pleased to present this Report for the year ended 31 March 2012 reporting an after tax profit of $6.4 million for the year and success in a number of key objectives for the Company which positions it for growth opportunities in the future.

Directors have declared a fully imputed final dividend of 9.0 cents per share. This dividend brings the total dividend paid for the year to a fully imputed 17.0 cents per share and is consistent with dividends paid in the previous year.

Financial Summary

The underlying profitability of the business is stable and the earnings before accounting for interest, tax, depreciation, abnormal items and the impact of financial derivatives (EBITDAF) has grown steadily.

EBITDAF



The business has enjoyed an increase in profits over last year as a result of increases in revenue and sound management of costs as we start to enjoy the benefits of our investment to improve operations, procedures and systems.

This years' result also includes higher levels of regulated revenue from over recovery of transmission and distribution costs of approximately $465,000 after tax that will be adjusted against subsequent years lines charges. This was offset by the negative impact of accounting for non-cash losses arising from marking to market the rates on the Company's interest rate derivative portfolio (as required under the New Zealand Equivalent International Financial Reporting Standards) of $439,000 after tax (2011 - $532,000).

Horizon, the Company's electrical services business performed well during the year despite a very competitive and challenging business environment. We are confident that Horizon is maintaining its market share of available business and has made operational efficiencies which have resulted in an improvement in margins and has contributed to the Group result. Horizon completed the majority of network construction and maintenance works for the Company, while also being an integral part to the business in responding to network faults. In early 2012 Horizon extended its vegetation capability with the acquisition of A1 Stumps and Tree Services, which will enhance both the internal and external vegetation management services offered by the business.

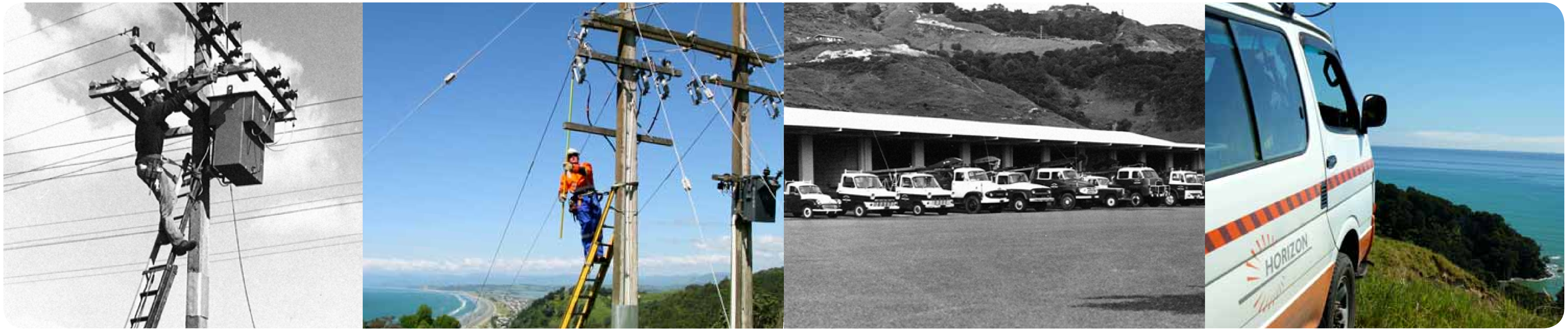
The Stewart Browne Group (SBG) subsidiary (owned 60% by Horizon Energy) was also impacted by the slower economic activity throughout the Bay of Plenty with fewer commercial and new house constructions resulting in a very competitive environment. However, the Company was able to secure a good share of the opportunities available and recorded a sound result for the year.

This year also marks a milestone for Stewart Browne who has operated a successful electrical services business in Tauranga for 40 Years. The Stewart Browne Group has an excellent reputation in the Western Bay of Plenty and a wide business network and client base. We congratulate Stewart and his family on this achievement and also for the commitment to the business. There is optimism for economic growth in the Bay of Plenty and Horizon and SBG are well placed to take advantage of opportunities.

Cash flows for the Company remain strong. Shareholders' funds increased by $1.9 million at year end, reflecting good financial performance. With total assets of approximately $112 million, and relatively low external debt of $26 million, the Company continues to enjoy a strong Balance Sheet which underpins the strategic intention to seek the acquisition of value adding non-regulated business.

A word from the top...

CHAIRMAN'S REPORT continued...



Strategic Direction

The strategic plan for the Group is centred upon the pursuit of growth of the non-regulated business of the Company. Considerable effort has been made over the past three years to maximise the revenue available from the operation of the lines network. The forecast of low growth in consumer numbers and electricity consumption in the short to medium term remain. The benefit of the change to a higher portion of revenue from fixed charges, together with enhanced operating procedures and associated cost savings are expected to provide an on-going solid financial performance from the network business.

The Company's primary growth focus is through the growth and addition of profitable non-regulated activities. The acquisition and successful integration of Stewart Browne Group and A1 Stumps and Tree Services will add to the Group profit, however Horizon Energy Management continues to investigate value adding business opportunities. The Board have set an investment criteria and only businesses that are a strategic fit and within our core competencies will be considered. A number of opportunities were investigated during the year and some negotiations are on-going.

Whilst the Company continues to investigate possible acquisition opportunities, there has been a deliberate strategy and focus for the last three years to improve internal systems and processes while also securing and developing resources and capabilities upon which we can leverage growth going forward.

The need for safety in all our operations remains paramount and considerable effort has gone into constantly reinforcing this discipline through the development of revised work procedures and through regular safety training and testing programmes.

Regulatory Developments and Profit Outlook

There continues to be uncertainty surrounding the Commerce Commission's intention to impose a mid-period starting price adjustment under Section 54K of the Commerce Act 1986, and the impact this may have on revenue and profitability. The draft proposals announced by the Commission, if enacted would have resulted in a significant reduction of regulated revenue. Horizon Energy has made numerous submissions to the Commission seeking amendments to the draft proposal. Until the Commerce Commission provides further detail on this process later this year, I cannot give any guidance on the likely impact of these changes. I will however advise shareholders as soon as possible of any impact of future changes proposed by the Commerce Commission.

Dividend Expectations

Notwithstanding the regulatory uncertainty, the on-going focus on operational efficiencies and cost savings and growth in the external electrical 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 Group.

However, electricity lines businesses such as Horizon Energy must continually seek a balance between the returns paid to shareholders and the need to reinvest in the underlying infrastructural assets to maintain and improve service levels to consumers.

As previously advised through prior annual reports and also through the Company's published Asset Management Plans, the business is facing an increased capital and maintenance expenditure forecast over the next 10 years. This is due to the need to replace high value aging network assets and also address supply constraint issues resulting from the erosion of spare capacity within the network.

The ability for the Company to fund this increased investment from increased profits is constrained by the very low regional growth and also by the regulatory constraints imposed across the New Zealand Electricity Distribution Industry. Funding for this anticipated expenditure will be by prudent debt financing and retention of surpluses generated by the business.

The final dividend of 9.0 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 a good working relationship with EBET, its major shareholder. During the year, the Company received financial support from EBET for the funding of training programmes for newly appointed apprentice lines staff. This much appreciated funding is a critical component of maintaining our operational capacity as the ability to attract skilled staff remains a challenge given the global demand for experienced technical/line mechanics.

Appreciation and Acknowledgements

The Board of Directors is pleased to acknowledge the key achievements for the year particularly in the area of system improvements that position the Company for future expansion. These improvements have been driven by the Chief Executive Ajay Anand, and his small but focussed Management team. Ajay has demonstrated a strong commitment to growth and applies a robust commercial discipline to these opportunities.

To provide appropriate management resource to develop the growth strategy, Kiran Watkins was appointed as Group Commercial and Regulatory Manager and Jan Pedersen joined the Company in the role of Group People and Performance Manager. We welcome Kiran and Jan to the Management team at Horizon Energy.

The Horizon Energy Board brings a wide range of skills and experience to the Company, works very well together and has a constructive relationship with Management. These factors are essential in supporting and executing Horizon Energy's strategy and commitment to the delivery of reliable network services. I extend my sincere thanks to fellow Directors, Management and staff within the Group for their on-going contribution and support.

Rob Tait
Chairman

...and from our Chief Executive

CHIEF EXECUTIVE'S REPORT

Ajay Anand

Although 2012 can be best described as a year of quiet achievements, we have in fact accomplished a lot and every staff member of the Group deserves recognition for the role they have played.

Introduction

2012 has been a year of achievements across the business and reflects the culmination of three years of effort by every staff member across the Group. The improvements made in People, Processes and Systems places the business in a much better position to continue to meet increasing regulatory requirements and to pursue new business opportunities that will provide long term sustainable value to our shareholders.

Our Financial Performance

The Horizon Group as a whole performed well ahead of budget during the financial year largely driven by the extra revenue growth earned off the core distribution business. Although the total energy throughput (534 GWh) was lower than last year, revenue was maintained as a result of the changes to the Company's pricing structures in 2010. Because those changes were designed to reflect a true cost of supply it is anticipated that over time, the revenue earned will return to historic levels as customers are transitioned to correct tariffs and greater forecasting certainty is achieved with the Company's avoided transmission costs.

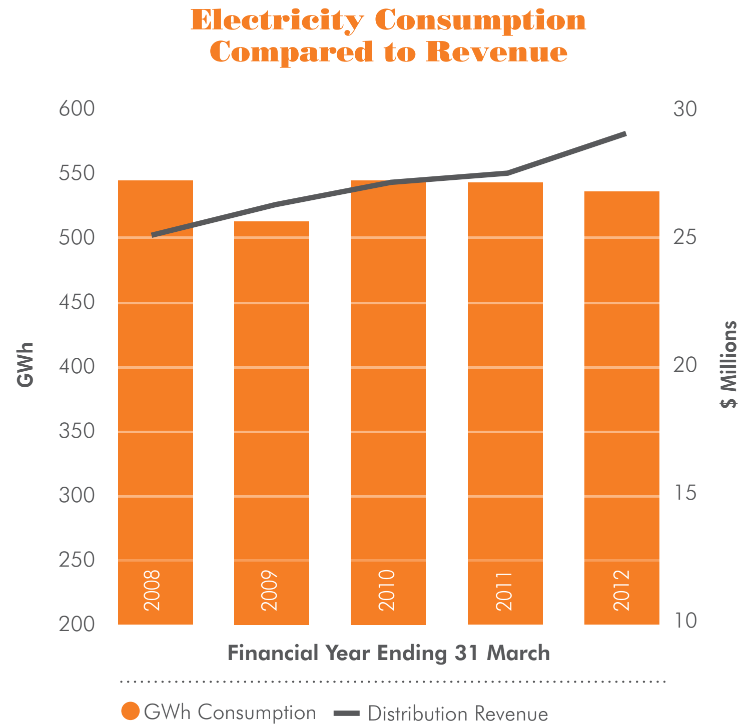
Total Group revenue was $36.5 million for the year, an increase of 18% reflecting the contribution of the newly acquired Stewart Browne Group.

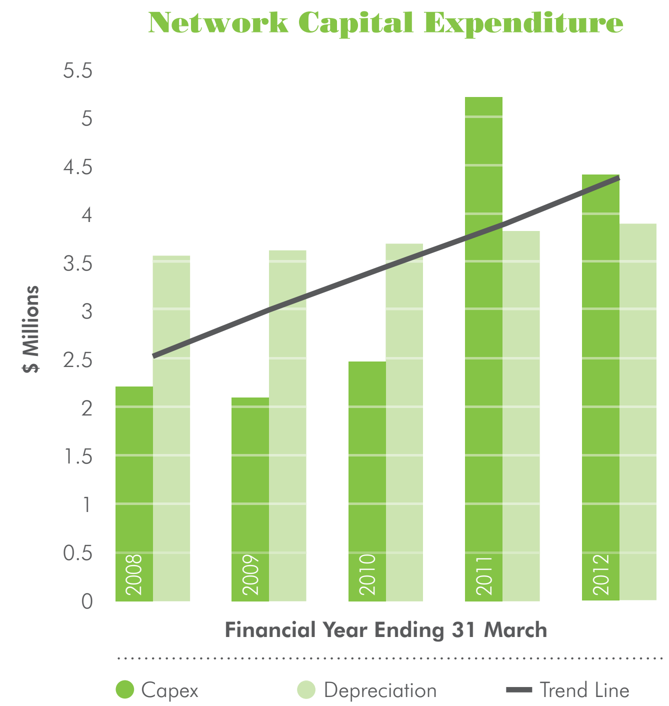
Group Overview

Health and Safety

During the year the Company achieved AS/NZS 4801 Health and Safety Management Systems standard and are working towards completing the NZS 7901 Public Safety standard.

Last year I referred to the various safety initiatives that the business was implementing and I am pleased to report that there has been an increased focus in the health and safety culture across the business as a direct result of these initiatives. In order to continue to sustain





...and from our Chief Executive

CHIEF EXECUTIVE'S REPORT continued...

this momentum the Company committed to creating a People and Performance team to support the management of the overall safety framework in conjunction with the various divisional managers.

During the year one of the Company's line mechanics suffered a workplace injury and our internal investigation into the accident gave me comfort that our processes and systems worked well. As a notifiable incident, this occurrence was also investigated by the Department of Labour who subsequently confirmed that there was no breach of the Health and Safety in Employment Act 1992 and that no further action will be taken against the Company.

I am pleased to report that, after a prolonged recovery and rehabilitation process, the employee has made a return to work and is gradually being incorporated back into the workforce.

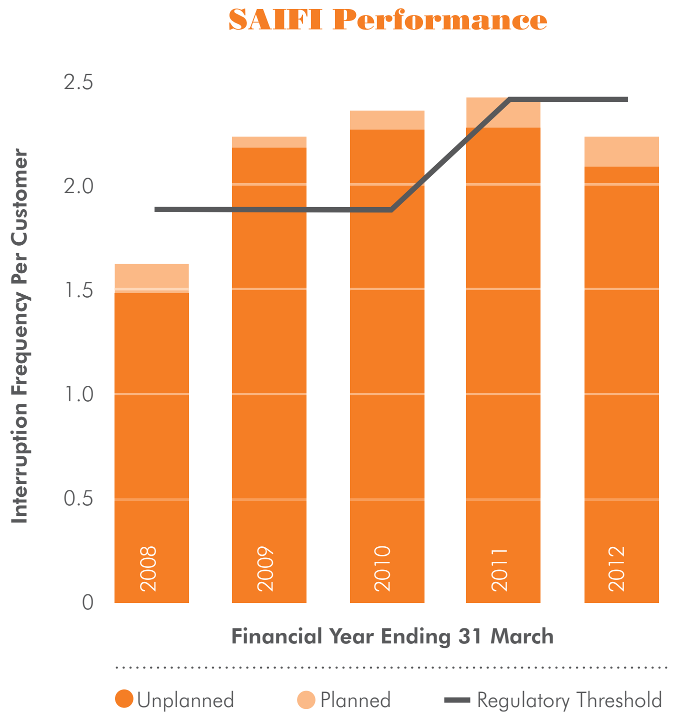
Horizon Energy Distribution Limited

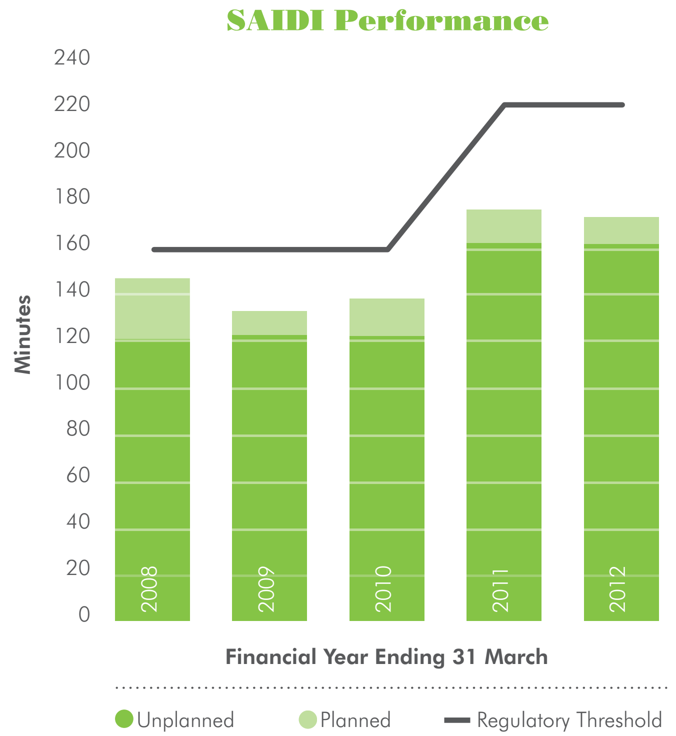
As depicted in the graphs, the core business continues to perform well despite declining volume growth on the network. This year revenue was up 4% and energy consumption was 1.5% lower than the previous year largely due to the relatively mild winter.

The network team continued to refine and redevelop the asset management plan to better reflect and manage the future investment needs of the business. A number of projects were undertaken throughout the year and the Company effectively completed $6 million of capital and maintenance works for the year.

Additionally, the network team released a comprehensive set of design and construction standards that will drive further productivity and efficiency gains in creating and maintaining the Company's physical assets.

The Company continues to provide a high level of service to its consumers and the reliability projects undertaken over the last three years is beginning to pay dividends so far as System Average Interruption Frequency Index (SAIFI) is concerned.





Horizon Energy Investments Limited and Stewart Browne Group Limited

2011-12 proved to be a challenge for Horizon contracting due to the subdued local construction sector and skilled personnel loss. The ability to remain focussed in this extremely competitive market segment has been tested at times but the business has been able to rise to the challenge in order to keep the lights on and to meet its customer's needs.

Horizon contracting's relationship with its parent continues to grow from strength to strength with both businesses focussed on improving the productivity and efficiency of the work undertaken. Major projects completed for the year includes the undergrounding of Cobham Drive in Kawerau, tap changer upgrade at Galatea and reliability upgrade projects at Te Teko and Waimana.

The business continues to diversify its revenue stream by seeking new clients and markets and in March 2012 the Company expanded its vegetation capability by acquiring A1 Stumps and Tree Services who provide vegetation control services to a range of customers in the Eastern Bay.

Like Horizon, the Stewart Browne Group continued to trade in a slow Tauranga electrical services market. Although the overall revenue was down relative to budget, the margins earned were significantly better than budget. During the year a revised strategic plan was developed which will be implemented during the 2012-13 financial year.

Despite the challenges posed by the trading environment both businesses made positive contributions to the overall Group results.

Regulatory Environment

Due to the judicial review against the Commerce Commission ("Commission") last year, the mid-period starting price adjustment process has been delayed a year as the High Court directed the Commission to enter into more consultation and engagement on the starting price

adjustment process. This combined with other regulatory developments prompted a range of consultations being undertaken by the Commission and the Electricity Authority ("EA"). Horizon Energy made twenty one submissions directly to the Commission and the EA and was part of numerous other industry led submissions. As a result of these submissions the Commission is reconsidering the starting price adjustment process. The final decision on the mid-period starting price adjustment is expected to be made in November 2012.

People and Systems

Several key appointments were made across the Group during the year in order to provide the requisite capability and capacity to support the changing needs of the business. Notably the creation of the People and Performance team and the Commercial and Regulatory team is designed to progress our business development and our continued organisational learning and development initiatives.

Following our strategic review it was evident that our existing disparate systems were becoming difficult to manage and would not serve the business needs going forward. Under the year in review the business replaced its Financial and Geospatial Information Management systems within the allocated budget.

Future and Appreciation

The Group has made a number of changes to its operational processes, replaced its old legacy systems and recruited some very capable and talented people to the Eastern Bay of Plenty who are committed to sharing the vision of the Board and are prepared to be part of a team that is focussed on the future.

Despite the challenges faced by the business this financial year, our staff remained committed and loyal to the Company and I would like to thank staff for their continued support.

Finally, I would like to thank my Management team and the Board for their confidence and guidance throughout the year and look forward to an exciting 2012-13 financial year.

Ajay Anand
Chief Executive

The year in review...

OUR EXISTING SYSTEMS WERE TOO CUMBERSOME TO ALLOW THE BUSINESS TO FUNCTION EFFICIENTLY.

Information systems upgrade...

Why Upgrade?

With the expansion of Horizon Energy into a multi-service contracting operation and the ever increasing regulatory compliance requirements, it was quickly identified that the current financial and business support systems needed upgrading to meet the needs of the business.

What is being Upgraded?

The Information System Review (ISR) project commenced three years ago to assess the needs of the business and to evaluate the available options within the current market to satisfy our needs. From this we identified that we required a solution that essentially covered three distinct areas:

1. Financial Management Information System (FMIS)

Providing core financial transaction management and reporting;

2. Geographical Information System (GIS)

Providing physical asset tracking to locations, tracing and planning ability, valuation and incident tracking;

3. Asset Management System (AMS)

Tracking asset configurations, testing and maintenance records, proactive maintenance scheduling.

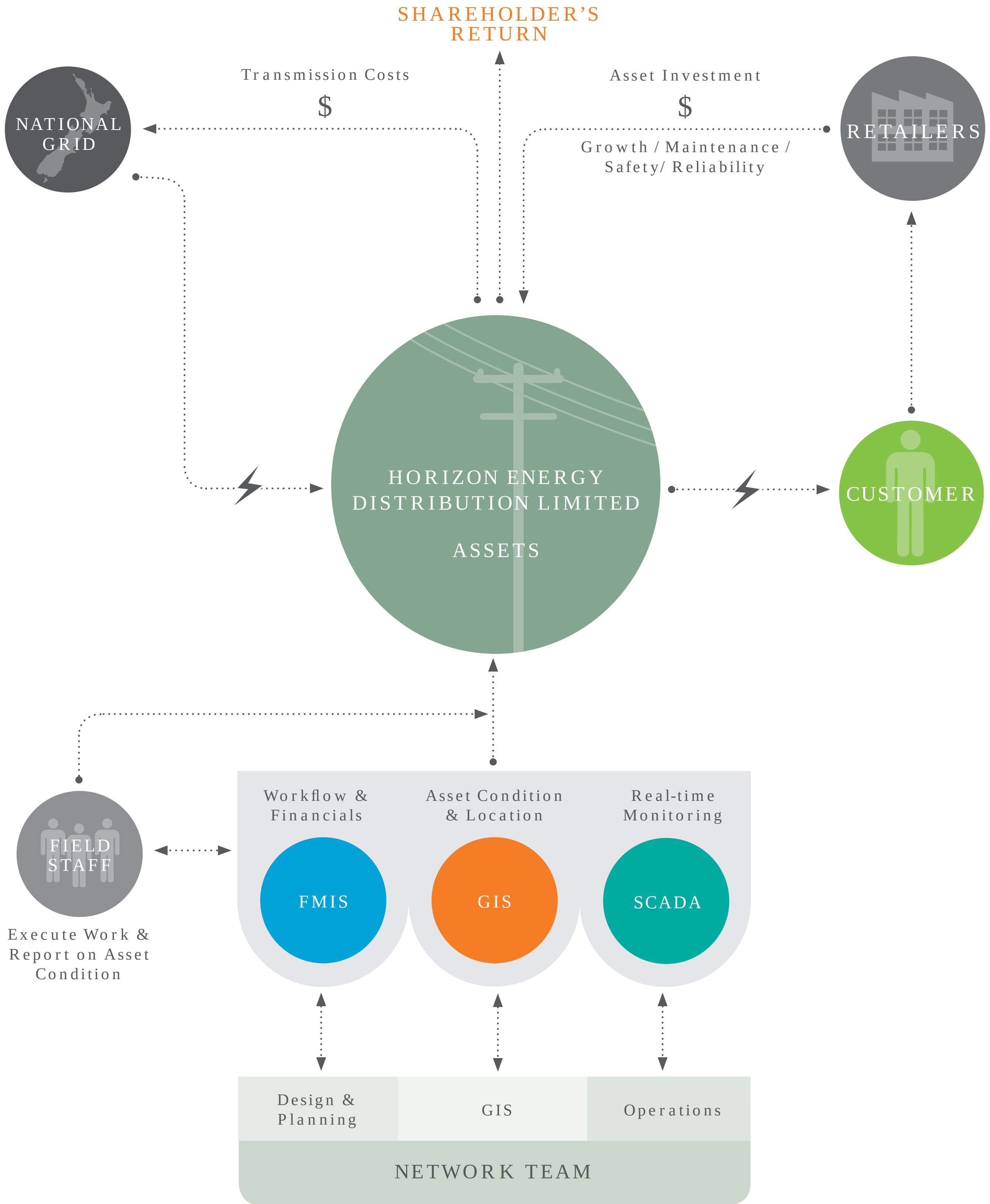
During 2011–12 we successfully completed phase one of the implementation which comprised the core Financial Management Information System and the Geographical Information System installation.

By March 2013 we intend to complete the project by implementing the integrated Asset Management System, common integrated fixed asset registers, business intelligence reporting solutions, and improved Human Resource Management (competency and training management) systems.

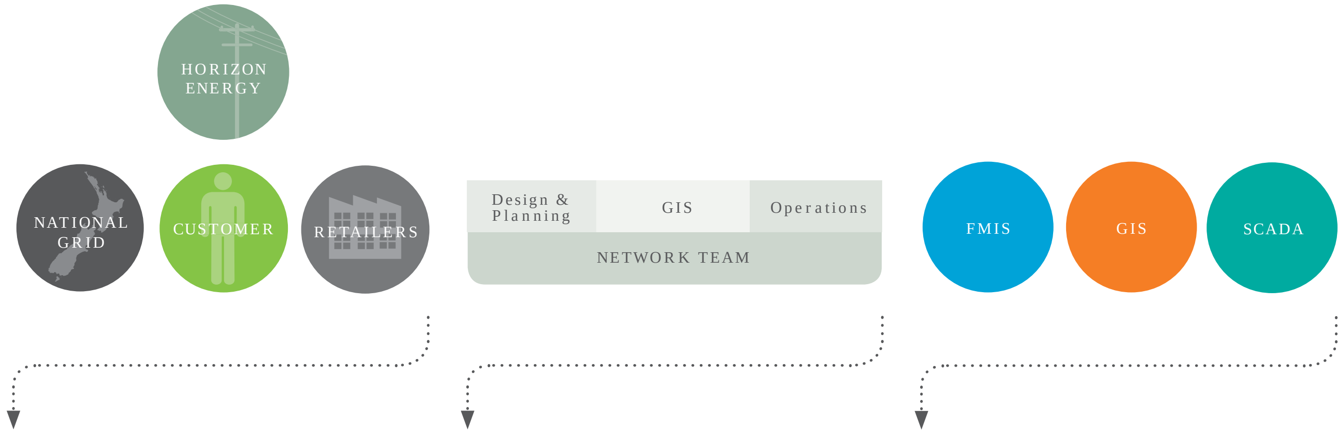
About us

2300	8400	NZX
KM OF HIGH VOLTAGE LINES	KM² COVERAGE	LISTED

Here’s how it works...



HOW IT WORKS



Horizon Energy distributes electricity through our network assets that take electricity from the National Grid to our customers. In return, our customers pay line charges to support the safe reliable operation of our assets and those of the National Grid (which are passed through to Transpower), and to provide a return to shareholders.

The safe reliable operation of our assets is managed by a dedicated Network team and field staff who undertake repairs, maintenance and upgrades, and assess asset condition on the network.

The main functions within the Network team are:

- Asset Management Planning for the next 10 years;
- Design and Planning - manage upgrades, protection schemes and maintain network construction standards;
- GIS - manage the information on each and every asset, provide electrical drawings and asset location services;
- Operations - are the 24/7 nerve centre monitoring the real-time state of the network and responding to faults.

To enable the team to operate effectively and efficiently we rely on a number of core systems:

- FMIS which assists with the financial management and workflow of all our projects issued;
- Intergraph GIS which captures and presents asset data, including condition and connectivity;
- Supervisory Control and Data Acquisition (SCADA) for real-time monitoring and controlling the state of the network.

SYSTEMS INTEGRATION

The Financial Management Information Systems (FMIS), GIS and SCADA all use industry standard databases and therefore data can be exchanged between them and information harvested from the Company’s entire dataset, generating analysis and insight not readily available to the Company previously. This also allows us to benefit from the operational efficiencies achieved by having common dataset managed in one place.

The FMIS and GIS combine to ensure that the financial and physical assets match. The FMIS is used to generate and track projects with the associated engineering and financial approval controls. It goes on to track and notify job progress and record costs against the assets and other expenditure categories required by the Company and the regulatory authorities.

The FMIS, GIS and SCADA combine when used for fault location and repair. During fault finding, the GIS is used by the operators alongside SCADA information to direct fault staff to critical locations. This is particularly useful where routes over private property are not obvious from the road. The FMIS allows the cost of fault work and the subsequent repair to be tracked so that informed decisions can be made about proactive and reactive maintenance policies for different asset types.

We've had some help staying on track...

ASSET DATA AND GIS

In our industry, knowing where our assets are and what condition they are in is crucial. Thankfully, our systems are advancing to the point where we can access all of this information without having to leave the building.

Why Upgrade?

In the 1960s and 1970s there was rapid growth of electrical infrastructure in New Zealand, including the Eastern Bay of Plenty. As a result, Horizon Energy has many assets that were installed during that period which are nearing the end of their expected lives. Like other network owners, Horizon Energy is facing the need to ensure that it thoroughly understands all the components that make up the network. We, as a Company, have to make decisions about which assets need to be replaced, those that can be upgraded and which are likely to last well beyond their generally expected life.

For some assets it is better to leave them alone until they fail and then replace them, rather than attempt to maintain them during their life. The small distribution transformers that convert the electricity down from 11kV to 400V are a good example of this. They have to be removed to maintain them and therefore the cost of maintaining them is typically the same as the cost of replacement.

Other assets, although they may cost a lot to maintain, cause major inconvenience to large numbers of customers if they fail, so a regular inspection and maintenance programme is required to minimise the risk of unplanned outages.

These decisions need to be made on an informed basis taking into account not only the asset type, but also where it sits geographically and electrically on the network.

With over 22,000 poles, 3,300 transformers, 600 kilometres of cable and 2,300 kilometres of high voltage overhead line supplying 25,000 customers spread over 8,400 square kilometres of New Zealand countryside, the ability to make these decisions requires a mixture of skilled people and robust systems. Horizon Energy has been investing heavily to ensure its skilled staff have the systems in place to make those decisions correctly.

Case Study

Upgrading Our GIS

Significant upgrades to our GIS system have improved the accuracy of our data, enabling us to make better decisions based on the location and condition of our assets.

Horizon Energy's new Intergraph G/Technology GIS system was commissioned at the end of the 2012 financial year. This system assists us to comply with our safety obligations by maintaining the network design plans that third parties rely upon when undertaking construction projects. Horizon Energy has over 50,000 individual assets (including the GPS location, asset type, easement details and electrical connectivity) identified and stored in the GIS system.

Horizon Energy engineers use our GIS system to assist with works planning by identifying any outstanding maintenance activities within a section of the network that is planned to be taken out of service. This allows the efficient completion of non-urgent works by grouping projects collectively, thereby eliminating the inconvenience for customers of multiple shut-downs for maintenance. This also includes vegetation management works, which mitigates risks to both the network and the consumer's electricity supply.

Horizon Energy commissioned a data validation and condition assessment programme. Over the last three years asset inspectors have visited every Horizon Energy owned high voltage asset and validated existing data and captured new data such as GPS locations, photographs and condition assessments to ensure the most up-to-date information was loaded into the new GIS system. This information provides Horizon Energy with a holistic view for future maintenance planning and budgetary requirements based on asset conditions.

"Depending on the location some assets last longer than others – therefore it makes sense to replace assets based on their condition rather than just age", states Peter Middlemiss, Network Manager.

In conjunction with the new financial system, the GIS implementation has relied heavily on existing staff being trained as 'super users'; this included long hours of testing and reviewing prior to going live. In many cases, staff have had to undertake these additional functions while also performing their 'business as usual' roles. These systems have been successfully implemented on time, which is a credit to all staff involved.

Peter Middlemiss reports that "this has been a huge achievement for the business – we couldn't wait to go live".

Over the last three years, Horizon Energy has undertaken a major project to capture the location and condition of all its assets. Previously, the Company had to rely on piecemeal inspections by its staff to highlight assets that might be requiring attention. Consistent with many other lines companies, Horizon Energy has never had a means of storing the information in such a way that it could be reliably accessed and analysed on demand. As a result, with the commissioning of the new Geographical Information System in March 2012, all the captured data along with photographs is available to anyone in the organisation at any time.

How does it Work?

The use of Geographical Positioning Systems (GPS) during the data capture has allowed assets to be shown on our plans to within a metre of their true position. This has resulted in many assets being repositioned by up to 20 metres from where they were previously shown. This level of accuracy allows our engineers and maintenance staff to be able to make faster decisions about assets and our ability to supply new customers without having to go to site on every occasion. When our people do go to site and obtain updated information, they are able to store it where it can be shared within the entire Company.

Horizon Energy has maintained a strong focus on safety. Along with the rest of the industry we have selected equipment and constructed assets in a way that ensured the risks inherent to electricity distribution have been minimised. What Horizon Energy has lacked in the past is a means of proactively and systematically identifying potential hazards and mitigating them.

The new GIS system, with its ability to hold and make available asset condition information, will be a major component of our Public Safety Management System. The use of a modern mapping system makes it easier to identify assets that can be considered to be in high-risk areas such as near schools or particularly close to roads. The GIS system has put Horizon Energy in an excellent position to not only comply with the new regulatory requirements for Gas and Electricity companies to have a documented system compliant with AS/NZS 7901 Public Safety Management Systems from April 2012, but it also provides a significant step up for Horizon Energy's intention to achieve best practice in this area.

GIS staff using the new system are able to record and show proposed assets as well as those that are in service. This will allow easier coordination between the planning and maintenance teams and means initiatives for network improvement can be discussed at all levels of the Company.

The ability of GIS to trace all the assets connected to a feeder and use this information in electrical modelling of the network is another brilliant feature our staff are eager to use. Using this single source of asset information means that our modelling will be more accurate and therefore we will be able to more easily identify parts of the network that are stressed. This information is an invaluable input to the development of the Asset Management Plan, which sets out the 10-year capital and maintenance programme for the Company.

There's no time for nostalgia...

OPERATING THE ELECTRICITY DISTRIBUTION SYSTEM

Monitoring and controlling our vast network is no small feat. Our SCADA system makes our Network more robust and increases reliability of supply.

Why Upgrade?

Operating a distribution system that covers 2,300 kilometres of circuit presents a real challenge for the people involved in finding faults, the processes employed to keep our customers informed, and the SCADA system used to monitor and control switches on the network. This year the Company has invested significantly in all three aspects to improve overall network performance and operational efficiency.

The network we operate is highly reliable, delivering power to our customers over 99.9% of the time. However, when a fault occurs and our customers' power is interrupted, we become highly focussed to restore power in a safe and efficient manner. Our communications and remote operation network has been extended and enhanced to allow the area affected to be minimised remotely from our Control Room. Working together with our fault response team and Control Room staff, we utilise information such as distance to fault information, customer calls, and local knowledge to rapidly locate the fault, make safe, repair and restore supply.

Unfortunately, at times large numbers of customers are affected by a fault. To keep customers informed we provide regular updates from our Control Room to the electricity retailers and local media. We ask customers to call their retailers to get up to date information, as the retailers are equipped with customers' details and call centres to manage the large call volumes. This allows our staff to stay focussed on the job at hand and customers to be reassured we are working to restore supply safely and as quickly as possible.

To operate the network at its optimum for our customers and shareholders, we use our ability to control and shift load to avoid overloading our assets and those on the wider electricity network. This allows upgrade investments to be deferred in time, extending usage driven maintenance, increasing the lifespan of assets and reducing pass through costs from the National Grid. The network's ability to load control – reduce peaks, smooth demand and reduce costs – was upgraded in the 2012 financial year. Despite challenges along the way in implementing the new system and associated processes, we reduced load during 80% of the peak periods, saving over $150,000 from our pass through costs to customers.

In 2010, we embarked on a significant project to upgrade the overall network reliability, and throughout this past year we have observed the benefits - 34 reliability devices were installed and commissioned on the network in 2011/12. The result was a noticeable reduction in the SAIDI and SAIFI impact on the network where these devices have been installed. As we head towards an intelligent network, with greater meshing and more automation, the network will become increasingly fault tolerant and capable of isolating faults minimising disruption to our customers.

Horizon Energy is one part of the electricity supply chain, servicing the Eastern Bay of Plenty area, which supports the electricity from generators around New Zealand to be delivered to customers. As with any network, other parties in the chain can affect the quality and reliability of supply to our customers. We receive our electricity supply from Transpower, the National Grid operator who link generators to distributors like us, via Grid Exit Points (GXPs). Within our network there are four of these located at Edgecumbe, Kawerau, Waiotahi and Te Kaha. One GXP of particular note is Te Kaha as Transpower have had ongoing issues with the reliability of supply to this GXP. This year however has seen significant investment by Transpower in the line and also the semi-permanent installation of generation at Te Kaha. The generation is to allow for line maintenance and upgrades without affecting supply, and has been used to provide an alternative supply when there has been faults on the line. By the end of 2012, Transpower and Horizon Energy expect the work to be completed and our customers in Te Kaha to benefit from the line improvements.

Maintenance

A key area of maintenance has always been our Zone Substations. This year we completed major maintenance programmes at three Zone Substations namely Kope, Plains and Station Road. On top of the significant level of planned maintenance, staff dealt with a break down of the voltage tap changer on one of the 33kV/11kV transformers at Galatea. The 21 tonne transformer had to be removed from site, a delicate operation, and transported to Bunnethorpe for repairs. It was returned approximately three months later. Meanwhile, supply was maintained to customers because Horizon Energy maintains a second unit on standby to meet its reliability standards.

Case Study

Investing in Reliability

It's been another busy year as we look to further eliminate any defects and potential faults across our network.

We are midway through our five-year plan of investing in reliability. This year we installed and commissioned 34 protection devices that are linked to SCADA, which will assist the Control Room with sectionalising faults and restoring supply after an event.

Over and above isolating faults, these devices provide network control with valuable data relating to the load, voltage and power factor at their locations. This information is used to assess the state of the network and to assist the Control Room when making decisions with switching and applying temporary generation. The engineering team uses this information to highlight any constraints or stressed parts of the network, which need to be addressed.

Additionally, our asset inspectors have been collecting information over the past year to identify public safety and network issues which are prioritised and repaired through our defect process. Any defect that significantly affects public safety is given the highest priority and repaired immediately. The defect management process addresses all our assets from 33kV sub transmission circuits, Zone Substations, 11kV feeders, distribution transformers, LV feeders and pedestals. Specific attention has been given to ground mounted assets and overhead road crossings as these tend to be exposed to the public. Our major concern for public safety is preventing unauthorised access to our assets where people can harm themselves or others and affect the supply to our customers.

We have embarked on several cable replacement projects where the cable reached the end of its design life and was becoming unreliable, as well as upgrading the network to cater for load growth. Over and above the cable replacement we have installed ground mounted switchgear, which allows the Control Room operators to sectionalise the network to remove assets from service for maintenance. Part of our maintenance programme for this financial year was to complete partial discharge testing on our assets. Partial discharge tests detect the inception of faults in the insulation of power cables and switchgear that manifest themselves as small voids. Partial discharge is the electrical equivalent of rust, so if detected early remedial action can be taken to prevent unscheduled outages.

We’ve come a long way from the humble calculator...

FINANCIAL MANAGEMENT INFORMATION SYSTEM

Improvements to our Financial Management Information System were necessary as we looked to streamline the business.

Why Upgrade?

Horizon Energy staff have spent the last two years defining the ongoing requirements of the business, streamlining our processes and determining the best system to satisfy these requirements. Following a ‘proof of concept’ phase to ensure the system would meet our particular needs, Microsoft Dynamics NAV was chosen as our new system.

To enable the key benefits of the new systems to be transitioned and implemented as smoothly as possible, a two-phase approach was chosen. The first phase being the core financial functions went live in mid-December 2011. The second phase will be undertaken in the latter half of 2012, which will include fully integrated fixed asset registers, asset management functions and linked asset condition data functionality.

What are the Key Improvements?

- Fully integrated financial system that includes job costing, inventory management, financial reporting and fixed asset management;
- Full project lifecycle capability incorporating planning/quoting, project builds, commissioning, ongoing maintenance and disposals through sale or replacement;
- Integration with other specialist systems such as payroll and Geographical Information System (GIS);
- One all-encompassing corporate system removing the need for data entry duplication and allowing standardisation of training and operations;
- Proactive management of asset and equipment management functions;
- Improved expenditure decisions based on updated condition data and priority weighted risk factors;
- System controls on work flow processes with automated notification programmes.

We aim to avoid bumps and scrapes along the way...

CONTINUOUS IMPROVEMENTS FOR HEALTH, SAFETY AND WELLBEING

As time passes, Health and Safety standards continue to rise. At Horizon Energy, we are focussed on the protection of the public and our staff and are doing all we can to ensure we exceed expectations in this area.

Why Upgrade?

The high voltage electricity industry carries with it intrinsic risks and hazards which must be identified, controlled and managed to ensure the safety of our people, assets, public property and the general public.

This year, Horizon Energy has implemented a number of public safety projects including replacement and enhancement of all safety signage around Zone Substation assets.

In addition to last year’s ACC Tertiary Level Accreditation, we have achieved AS/NZS 4801 Health and Safety Management System standard and are working towards completing the NZS 7901 Public Safety Management standard.

What has been Upgraded?

To enhance public safety, Horizon Energy ensures that the following key performance indicators are accomplished to drive continuous health and safety improvements:

Safety indicators include, but are not limited to:

- Management of Hazard and Risk Registers;
- Management of Safety Lead/Lag Indicators;
- Development and consultation of Company procedures for safe operations;
- Monthly Health and Safety Committee meetings;
- Monthly ‘Safety Toolbox’ meetings for all Horizon Energy employees;
- Regular safety observation tours by Supervisors and Managers across the Horizon Group.

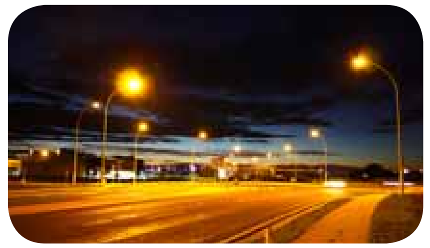
The benefits of these initiatives are already clear, with improved incident reporting allowing a proactive approach to risk management and a reduction in serious harm injuries recorded for the last reporting period.

Without our people, we wouldn't be where we are...

OUR PEOPLE

Our people are multi-skilled, multi-disciplined professionals, united in the pursuit of quality service for our customers. Horizon Energy's achievements as a Company are down to the collective efforts of hard working individuals, sharing a common vision.

KEEPING YOU CONNECTED 24/7



Our specialised team of electrical and technical professionals at Horizon take pride in and are committed to, maintaining full electricity supply to all of our customers 24/7.

Lines Teams Focus on Fault Response

Over the last year the Eastern Bay of Plenty has experienced a range of extreme weather events that have tested the capabilities and durability of our network and our staff. These weather events resulted in a number of major landslides, severe flooding and high winds causing major faults to network equipment with an associated high level of supply interference. This necessitated a strong focus on fault response capability and event planning to enable Horizon to manage restoration in an efficient and effective manner.

Despite these extreme weather events, we have managed to maintain a reliable electricity supply for our customers. Especially pleasing is the fact that we managed a number of difficult and complex restoration events in a safe manner without any harm being caused to our staff, general public and the community despite the risks associated with these events. Any disruption has been minimised as a result of the completion of a substantial number of reliability projects and initiatives.

What has been Upgraded?

Cobham Drive, Kawerau Overhead to Underground Project

This project was jointly funded by the Kawerau District Council, the Eastern Bay Energy Trust and Horizon Energy. This was a community project designed to improve reliability, neighbourhood aesthetics and public safety.

Reids Central Canal Bridge Replacement

Horizon, in collaboration with Transit NZ and various other authorities were instrumental in shifting a major feeder line enabling the completion of the bridge replacement project.

Ohiwa Cove Subdivision

Stage one of a new subdivision comprising sixteen sections was developed around Ohiwa Harbour. Horizon Energy installed assets including three new transformers and five hundred metres of high voltage cable.

Electrical Services

The electrical services business unit continues to focus on growing the external market. This includes the Tauranga based Stewart Browne Group.

Some of the more significant projects have included the Tauranga City streetlight upgrade, Whakatane District Council new library and museum project, the Baptist Church project and various other smaller projects. The Stewart Browne Group successfully tendered for the electrical, data and security installation on the Cameron Road commercial development project in Tauranga.

Vegetation Services

Foliage growth flourishes in the Eastern Bay of Plenty due to the warm climate. As a result, there is a heavy demand placed on the small vegetation services team.

In March 2012, we acquired A1 Stump and Tree Services (a locally owned arborist business). This was was identified as a business that would bring synergies and growth strategies to Horizon enabling the vegetation services business unit to extend its vegetation capabilities into the external market.

A companywide drive on improving customer service has been a primary focus over the last year. Positive feedback has been received through the customer feedback processes.

Connecting with our community...

SPONSORSHIP

Horizon Energy prides itself as an active and visible member of the community in which we serve and in which our people live and work. That's why we endeavour to make a positive contribution that goes beyond the reliable and affordable supply of electricity, incorporating a diverse range of community organisations and events.

HORIZON ENERGY SPONSORS THE HORIZON BUSINESS EXCELLENCE AWARDS 2012

Cornerstone Sponsorship

Horizon Energy extends its support again as a cornerstone sponsor of The Eastern Bay Chamber of Commerce. This sponsorship demonstrates Horizon Energy's commitment to advancing industry in the Eastern Bay of Plenty region.

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

"The support from Horizon Energy as a cornerstone sponsor with the EBOP Chamber of Commerce continues to flourish. The Horizon Legends in Business series in association with the Chamber continues to grow from strength to strength. The successful and inspirational speakers who attend, ensure that key stakeholders in the community can connect, network and be challenged to succeed and strive for excellence in business. These are now becoming must attend events. This sponsorship provides both parties the opportunity to recognise and celebrate excellence in business."

Gerard Casey
CEO, EBOP Chamber of Commerce

Horizon Legends in Business

Horizon Energy has continued its partnership with the Bay of Plenty Regional Council, in hosting the invaluable Horizon Legends in Business series, which continues to draw some of New Zealand's high-profile executives to share their insights with the region. The outstanding speaker for the year was Dr Karen Willcox (Sir Peter Blake Emerging Leader 2010). Karen spoke to business people and students at a local High School on her aspiration to become New Zealand's first astronaut, and being a finalist in the 2009 NASA Astronaut Selection. She is also an Associate Professor of Aeronautics and Astronautics and Co-Director at the Centre for Computational Engineering at the Massachusetts Institute of Technology (MIT).

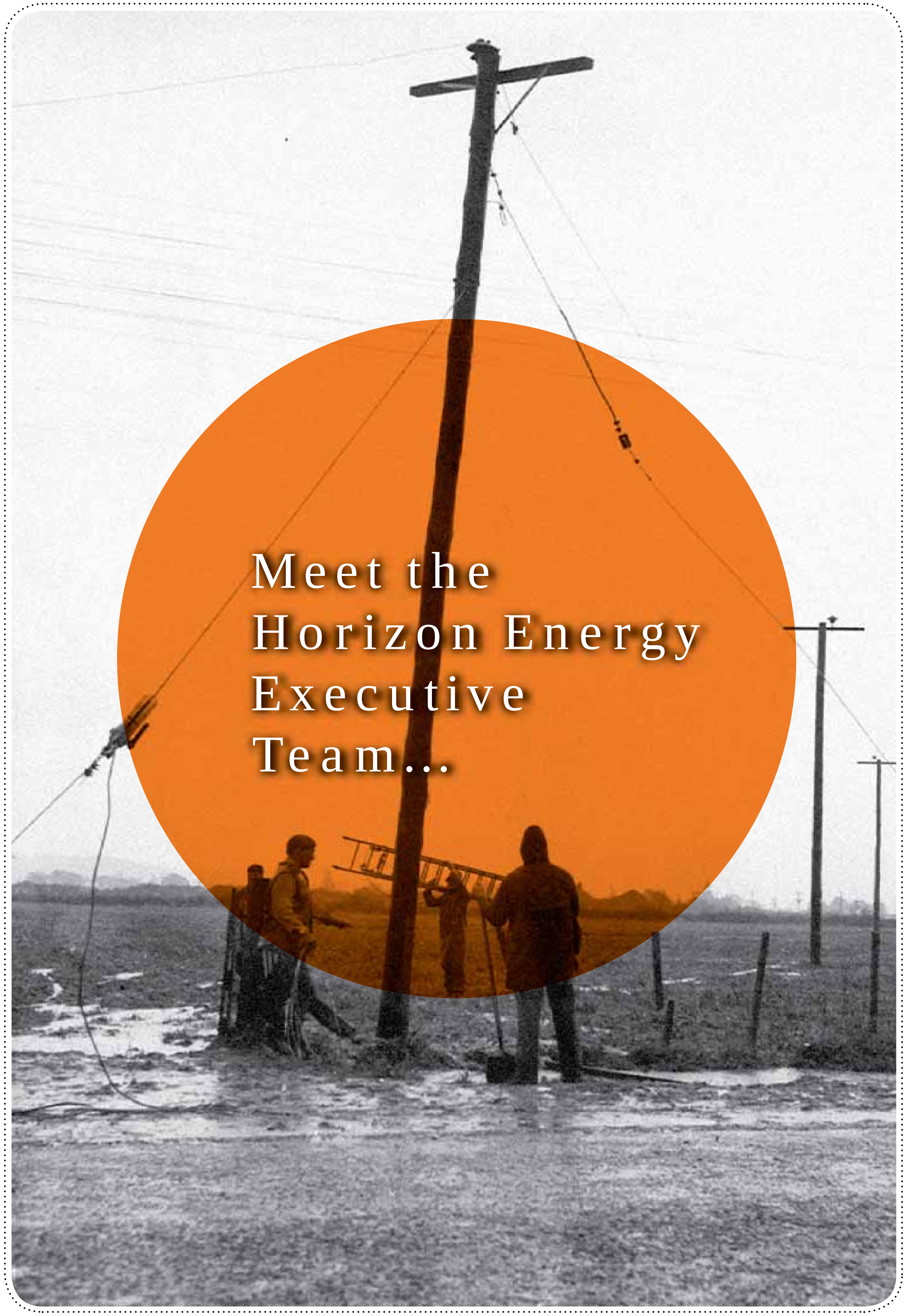
Stadium Horizon

We are proud to provide ongoing support for the pro-turf stadium in Whakatane. As a Company, we feel that the stadium is a major asset for the region, which is enjoyed by sportspeople and their supporters in the thousands each year.

Sport Bay of Plenty Awards

Horizon, in conjunction with Sport Bay of Plenty, have been proud to once again contribute to the Secondary Schools Sports Awards and Primary Schools sports events in the Eastern Bay of Plenty. The recognition of mentors and the importance of fair competition are principles that can be applied to both the business and sporting arenas.

Horizon Energy also continues its sponsorship and support of numerous other organisations within our community.



Meet the Horizon Energy Executive Team...

Our EXECUTIVE TEAM

Ajay Anand
Chief Executive Officer

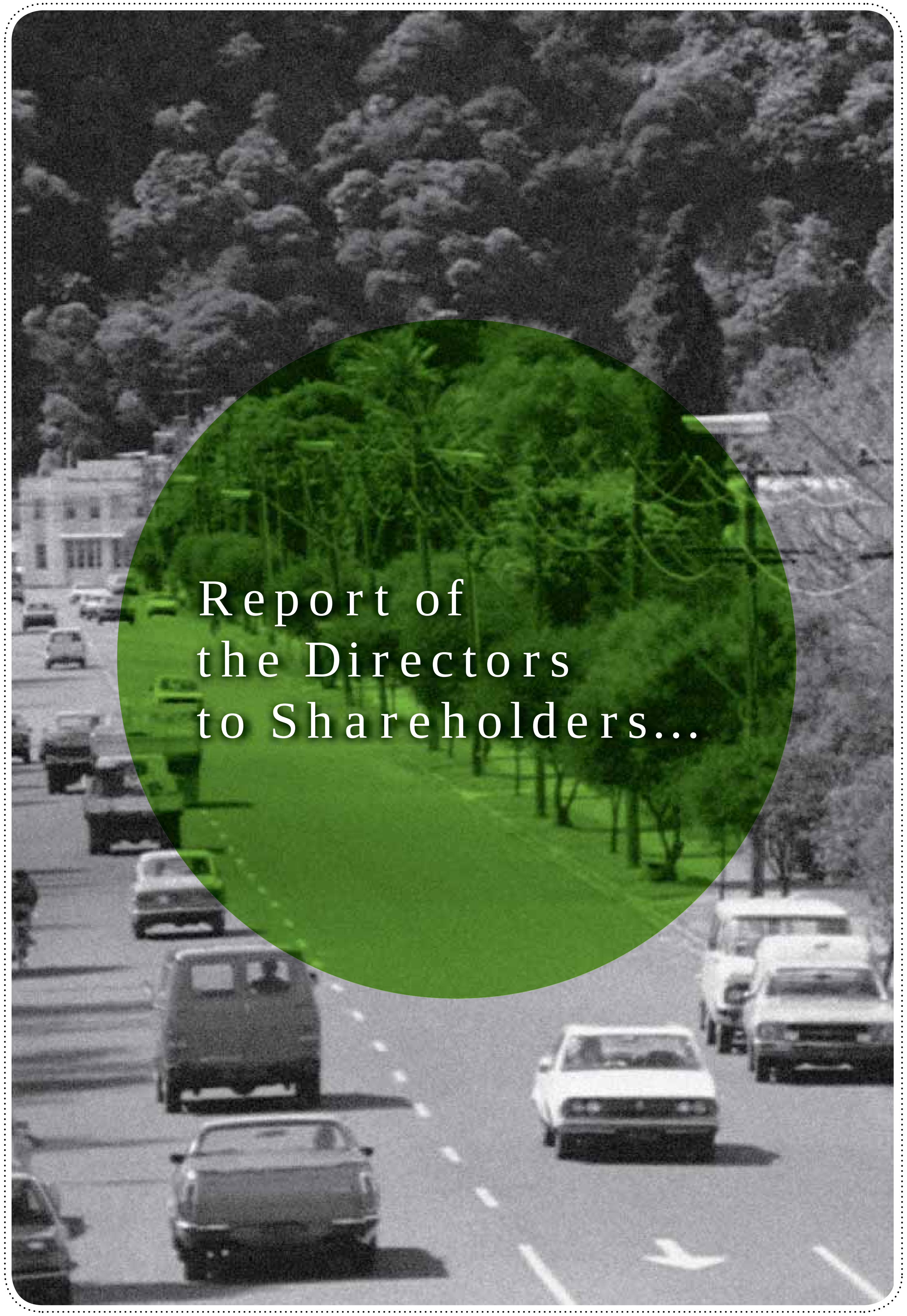
Kiran Watkins
Group Commercial
and Regulatory Manager

Pete Theron
Divisional Manager - Contracting

Jan Pedersen
Group People and Performance Manager

Peter Middlemiss
Network Manager

Todd Campbell
Chief Financial Officer / Company Secretary



Our BOARD OF DIRECTORS

Rob Tait
Chairman,
BCom, MInstD

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

Anthony de Farias
Director,
MInstD

Christopher Boyle
Director,
MBA, BE, AFNZIM, MIPENZ, MInstD

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 2012.

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 October 2011, two new management positions were filled. Mr Kiran Watkins was appointed as the Group Commercial and Regulatory Manager and Mrs Jan Pedersen was appointed as the Group People and Performance Manager.

FINANCIAL PERFORMANCE

Financial Results

The Financial Statements for the Company appear on pages 44 to 79 of this report. The after tax profit for the Group for the period was $6.4 million. The equity of the Company at the end of the year totalled $58 million.

Dividends

The Directors on 29 May 2012 approved a final dividend of 9.0 cents per ordinary share for the period ended 31 March 2012. This dividend will be paid on 28 June 2012 to shareholders registered as at 18 June 2012. It follows payment of an interim dividend of 8.0 cents per ordinary share and brings the total dividends paid for the 2012 year to 17.0 cents. Full imputation credits attach to the dividends.

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 86 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 John 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 2012 Annual Meeting, Mr Anthony de Farias retires by rotation and offers himself for re-election. A brief profile of the retiring Director is detailed below:

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 The Fresh Fruit Company of Nelson Limited. He is an independent Director and Deputy Chairman of the Bay of Plenty Rugby Union.

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

Directors' Statutory Information

Shareholders approve the remuneration for Directors. The maximum total aggregate fees payable annually to Directors is set at $215,000. The level of fees paid during the year was $215,000.

The Directors are seeking shareholder approval to increase Director fees by $10,000 to bring the total to $225,000 per annum. This additional amount will ensure Horizon Energy Directors' fees remain at or near market rates.

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

Director	Directors Fees 2012	Directors Fees 2011
R.B.Tait (Chairman)	$85,000	$76,000
J. McDonald	$50,000	$48,000
C.P. Boyle	$40,000	$38,000
A.E. de Farias	$40,000	$38,000
Totals	**$215,000**	**$200,000**

Disclosures of Interest

There are no disclosures of interest to report for the year.

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

Report of the Directors to Shareholders...

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.

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 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, 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 shareholders meeting, along with any appointments made since the previous annual meeting. The Company does not pay retirement benefits to any Director

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.

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 three Audit Committee meetings for the 12 month period ending 31 March 2012.

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

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.

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.

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 report 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 & Quality Coordinator is employed and a monthly report is provided to the Board on all pertinent matters. The Company's on-going commitment to providing a safe work environment is evidenced by maintaining the ACC Tertiary Level Accreditation of Workplace Safety Management Programme. Throughout the year under review we are pleased to advise that the Company has achieved the AS/NZS 4801 Health & Safety Management Systems standard and are working towards completing the NZS 7901 Public Safety standard.

CEO and CFO Assurance

The CEO and CFO have provided the Board with written confirmation that Horizon Energy's 2012 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.

Report of the Directors to Shareholders...

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, which includes a comprehensive Investor relations section. www.horizonenergy.net.nz

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 2012 are as follows:

Remuneration Range	Number of Employees 2012	Number of Employees 2011
$350,001 – $360,000	1	-
$340,001 – $350,000	-	1
$190,001 – $200,000	1	1
$170,001 – $180,000	1	-
$140,001 – $150,000	-	1
$130,001 – $140,000	1	-
$120,001 – $130,000	1	1
$110,001 – $120,000	1	1
$100,001 – $110,000	1	-

EVENTS SUBSEQUENT TO BALANCE DATE

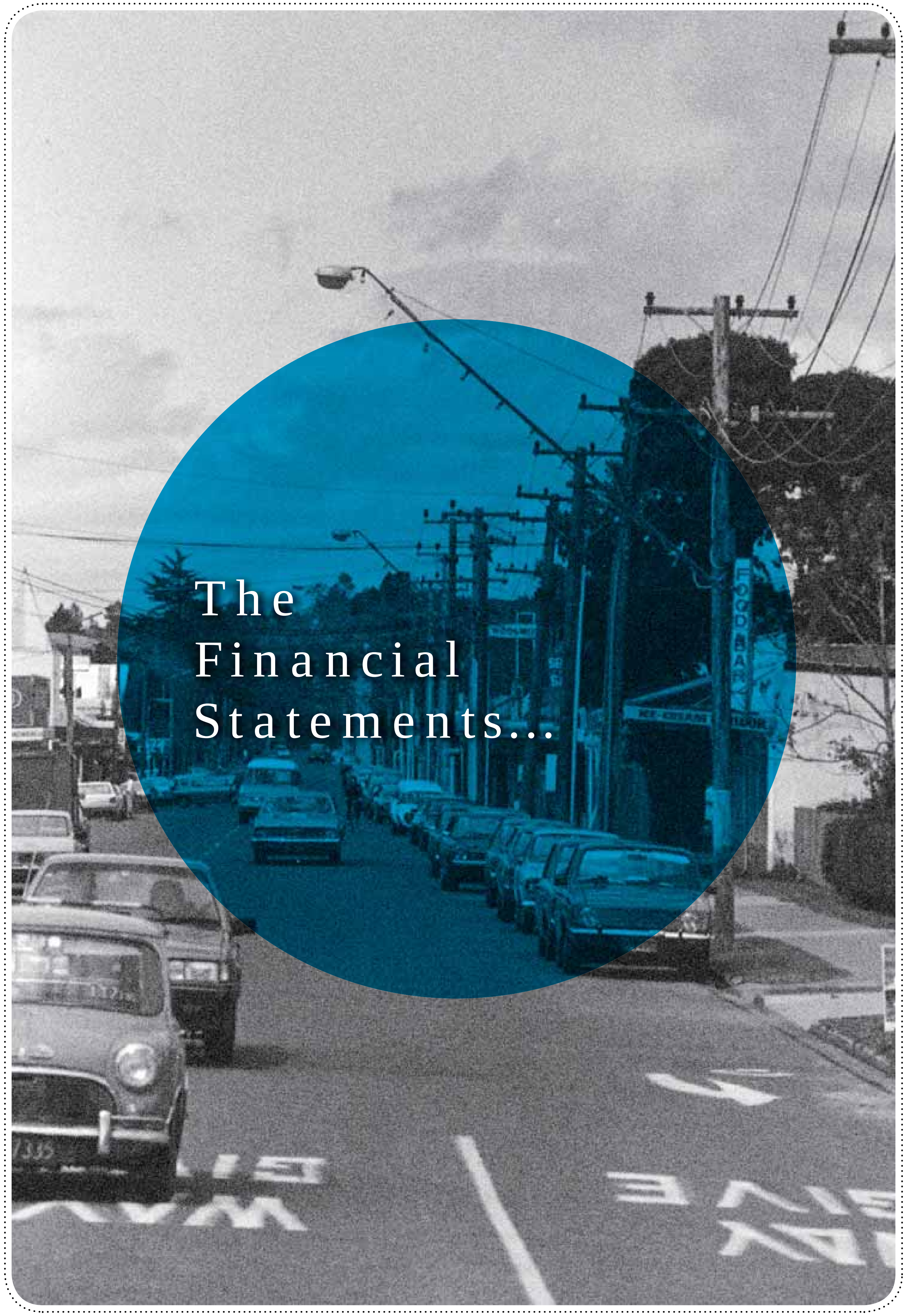
The Directors are not aware of any other matter or circumstance at the end of the financial year, not otherwise dealt with in this report or in the Financial Statements, which may significantly affect the operations of Horizon Energy Distribution Limited, the results of these operations, or the state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

ANNUAL REPORT CERTIFICATE

This Annual Report is dated 11 June 2012 and is signed on behalf of the Board by:

Robert Tait
Chairman

John McDonald
Director



Statement of Comprehensive Income

For the year ended 31 March 2012

		Group		Parent	
		2012	2011	**2012**	2011
	Notes	**$000**	$000	**$000**	$000
Trading Operations					
Operating Revenue	6	36,527	31,006	29,843	28,632
Operating Expenses	6	(25,445)	(21,216)	(19,285)	(18,982)
Operating Profit		**11,082**	**9,790**	**10,558**	**9,650**
Other Income					
Other Income	6	141	37	105	13
		141	**37**	**105**	**13**
Financing Income and Expenses					
Interest Income		2	74	227	297
Less Finance Expenses					
Interest on Loans		(1,676)	(1,632)	(1,667)	(1,632)
Fair Value Movement of Financial Derivatives	18	(610)	(739)	(610)	(739)
		(2,284)	**(2,297)**	**(2,050)**	**(2,074)**
Profit before Tax		**8,939**	**7,530**	**8,613**	**7,589**
Income Tax Expense	7	(2,507)	(1,632)	(2,390)	(1,421)
Net Profit after Tax		**6,432**	**5,898**	**6,223**	**6,168**
Net Reduction in Deferred Tax Provision on Revalued Assets due to Changes to the Income Tax Rate	8	-	628	-	628
Total Comprehensive Income		**6,432**	**6,526**	**6,223**	**6,796**
Profit Attributable to:					
Equity holders of Horizon Energy Distribution Limited		6,387	5,898	6,223	6,168
Non-Controlling Interest		45	-	-	-
		6,432	**5,898**	**6,223**	**6,168**
Total Comprehensive Income Attributable to:					
Equity holders of Horizon Energy Distribution Limited		6,387	6,526	6,223	6,796
Non-Controlling Interest		45	-	-	-
		6,432	**6,526**	**6,223**	**6,796**

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

		Group	
		2012	2011
		cents	cents
Basic and Diluted Earnings per Share (Cents per Share)	25	**25.56**	**23.60**

Notes on pages 48 to 79 are an integral part of these Financial Statements

Balance Sheet

As at 31 March 2012

		Group		Parent	
		2012	2011	**2012**	2011
	Notes	**$000**	$000	**$000**	$000
Current Assets					
Cash and Cash Equivalents	11	98	259	-	63
Trade and Other Receivables	11	5,147	4,275	3,876	3,747
Construction Work in Progress		426	250	-	-
Inventories - Finished Goods	21	1,167	827	-	-
Total Current Assets		**6,838**	**5,611**	**3,876**	**3,810**
Non-Current Assets					
Property, Plant and Equipment	13	101,798	100,926	99,973	98,838
Intangible Assets	14	3,703	1,712	2,652	1,498
Derivative Financial Instruments	18	-	7	-	7
Intercompany Loans	29	-	-	3,235	3,116
Total Non-Current Assets		**105,501**	**102,645**	**105,860**	**103,459**
Total Assets		**112,339**	**108,256**	**109,736**	**107,269**
Current Liabilities					
Bank Overdraft		-	-	51	-
Trade and Other Payables	15	4,072	3,977	3,330	3,952
Current Tax Liabilities		1,172	905	1,029	912
Employee Benefit Accruals	16	696	525	341	288
Deferred Capital Contributions	17	18	18	18	18
Loan from Minority Shareholder	29	483	-	-	-
Current portion of Bank Loans	19	-	8,000	-	8,000
Derivative Financial Instruments	18	15	42	15	42
Total Current Liabilities		**6,456**	**13,467**	**4,784**	**13,212**
Non-Current Liabilities					
Employee Benefit Accruals	16	153	124	71	66
Deferred Capital Contributions	17	611	628	611	628
Non-Current portion of Bank Loans	19	25,825	17,000	25,825	17,000
Derivative Financial Instruments	18	1,974	1,344	1,974	1,344
Deferred Tax Liabilities	8	19,585	19,889	19,456	19,726
Total Non-Current Liabilities		**48,148**	**38,985**	**47,937**	**38,764**
Total Liabilities		**54,604**	**52,452**	**52,721**	**51,976**
Net Assets		**57,735**	**55,804**	**57,015**	**55,293**
Equity					
Share Capital	9	8,433	8,433	8,433	8,433
Retained Earnings		23,490	21,604	23,159	21,437
Revaluation Reserves	10	25,767	25,767	25,423	25,423
		57,690	**55,804**	**57,015**	**55,293**
Non-Controlling Interest		45	-	-	-
Total Equity		**57,735**	**55,804**	**57,015**	**55,293**
Total Equity and Liabilities		**112,339**	**108,256**	**109,736**	**107,269**

Robert Tait
Director
29 May 2012

John McDonald
Director

Notes on pages 48 to 79 are an integral part of these Financial Statements

Statement of Changes in Equity

For the year ended 31 March 2012

	Notes	Share Capital $000	Retained Earnings $000	Revaluation Reserves $000	Non-Controlling Interest $000	Total Equity $000
GROUP						
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		-	(3,999)	-	-	(3,999)
Balance as at 31 March 2011		**8,433**	**21,604**	**25,767**	**-**	**55,804**
Net Profit after Tax		-	6,387	-	45	6,432
Total Comprehensive Income for the Year		**-**	**6,387**	**-**	**45**	**6,432**
Unclaimed Dividends Now Presented		-	(3)	-	-	(3)
Dividends Paid		-	(4,498)	-	-	(4,498)
Balance as at 31 March 2012		**8,433**	**23,490**	**25,767**	**45**	**57,735**
PARENT						
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		-	(3,999)	-	-	(3,999)
Balance as at 31 March 2011		**8,433**	**21,437**	**25,423**	**-**	**55,293**
Net Profit after Tax		-	6,223	-	-	6,223
Total Comprehensive Income for the Year		**-**	**6,223**	**-**	**-**	**6,223**
Unclaimed Dividends Now Presented		-	(3)	-	-	(3)
Dividends Paid		-	(4,498)	-	-	(4,498)
Balance as at 31 March 2012		**8,433**	**23,159**	**25,423**	**-**	**57,015**

Notes on pages 48 to 79 are an integral part of these Financial Statements

Cash Flow Statement

For the year ended 31 March 2012

		Group		Parent	
	Notes	**2012 $000**	2011 $000	**2012 $000**	2011 $000
Operating Activities					
Cash Receipts from Customers		35,856	30,765	29,879	28,847
Cash Paid to Suppliers		(15,609)	(10,926)	(13,227)	(12,359)
Salaries and Wages Paid to Employees		(5,648)	(5,056)	(2,566)	(2,227)
Total Operating Receipts and Payments		**14,599**	**14,784**	**14,086**	**14,261**
Interest Received		2	74	227	297
Interest Paid		(1,678)	(1,653)	(1,668)	(1,653)
Cash Flow from Operating Activities before Tax	12	**12,923**	**13,204**	**12,645**	**12,905**
Income Tax Paid		(2,544)	(2,517)	(2,543)	(2,415)
Net Cash from Operating Activities		**10,379**	**10,688**	**10,102**	**10,490**
Investing Activities					
Purchases of Property, Plant & Equipment		(5,671)	(5,163)	(5,223)	(5,757)
Purchases of Intangible Assets - Software		(1,679)	(1,036)	(1,201)	(1,034)
Loan Repayments (to)/from Subsidiaries		-	-	(119)	642
Net Cash used in Investing Activities		**(7,350)**	**(6,199)**	**(6,543)**	**(6,149)**
Financing Activities					
Dividends Paid		(4,498)	(3,999)	(4,498)	(3,999)
Loan from Minority Shareholder		483	-	-	-
Repayment of Term Debt		32,895	(16,970)	32,895	(16,970)
Term Debt Drawn Down		(32,070)	16,680	(32,070)	16,680
Net Cash used in Financing Activities		**(3,190)**	**(4,289)**	**(3,673)**	**(4,289)**
Net increase/(decrease) in Cash and Cash Equivalents		**(161)**	**200**	**(114)**	**52**
Cash and Cash Equivalents at the Beginning of the Year		259	59	63	11
Cash and Cash Equivalents at the End of the Year	11	**98**	**259**	**(51)**	**63**

Notes on pages 48 to 79 are an integral part of these Financial Statements

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 29 May 2012.

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.

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

Basis of Consolidation

The Consolidated Financial Statements incorporate the Financial Statements of the Company and its subsidiaries, as listed in Note 22.

The Consolidated Financial Statements incorporate the assets and liabilities of all subsidiaries of Horizon Energy at 31 March. 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.

Business Combinations

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition related costs are expensed as incurred.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income.

Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the event that the Group ceases to have control, any retained interest in the entity would be re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are to be accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2. Significant Accounting Policies continued...

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

Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

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 Financial Statements are presented in New Zealand dollars, rounded to the nearest thousand, which is the Company's functional currency and the Group's presentation currency.

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.

2. Significant Accounting Policies continued...

Employee Benefits

Wages, Salaries and Annual Leave

Liabilities for wages, 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 represents 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. 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.

2. Significant Accounting Policies continued...

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 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 decrease 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.

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.

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.

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

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

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.

2. Significant Accounting Policies continued...

Financial Instruments

Financial assets and financial liabilities are recognised on the Group's Consolidated Balance Sheet when the Group becomes a party to the contractual provisions (the trade date) 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. Loans and receivables include trade receivables and cash and cash equivalents. Financial assets at fair value through profit or loss include all derivatives financial instruments.

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 that the Group will not be able to collect all amounts due according to the original terms of the receivables.

The criteria the Group uses to determine that there is objective evidence of an impairment of receivables includes significant difficulty of the debtor, breach of contract such as default, granting of a concession to the debtor due to economic or legal reasons relating to the debtor's financial difficulty, or the debtor likely entering bankruptcy or reorganisation.

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 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.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

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 employees 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.

Operating activities are the principal revenue producing activities of the Group and other activities that are not investing or financing activities.

Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

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**
  This standard addresses the classification, measurement and derecognition of financial assets and financial liabilities. NZ IFRS 9 was issued

2. Significant Accounting Policies continued...

  in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of IAS 39 requirements. The main change is that in cases where the fair value option is taken for financial liabilities, the part of the fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess NZ IFRS 9's full impact and intends to adopt NZ IFRS 9 no later than 1 April 2015.

- **NZ IAS 1 Amendments Presentation of Items of Other Comprehensive Income**
  The amendment requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. This will not affect the measurement of any of the items recognised in the Balance Sheet or the profit or loss in the current period. The Group intends to adopt the new standard from 1 April 2012.

- **NZ IFRS 10 Consolidated Financial Statements**
  NZ IFRS 10 replaces all of the guidance on control and consolidation in NZ IAS 27 Consolidated and Separate Financial Statements, and NZ SIC 12 Consolidation – Special Purpose Entities. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However, the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent/principal relationships. While the Group does not expect the new standard to have a significant impact on its composition, it has yet to perform a detailed analysis of the new guidance in the context of its various investees that may or may not be controlled under the new rules. The Group intends to adopt NZ IFRS 10 no later than 1 April 2013.

- **NZ IFRS 12 Disclosures of Interests in Other Entities**
  NZ IFRS 12 sets out the required disclosures for entities reporting under the two new standards, NZ IFRS 10 and NZ IFRS 11, and replaces the disclosure requirements currently found in NZ IAS 28. Application of this standard by the Group will not affect any of the amounts recognised in the Financial Statements, but will impact the type of information disclosed in relation to the Group's investments. The Group intends to adopt NZ IFRS 12 no later than 1 April 2013.

- **NZ IFRS 13 Fair Value Measurement**
  NZ IFRS 13 explains how to measure fair value and aims to enhance fair value disclosures. The Group has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the Financial Statements. The Group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 31 March 2014.

- **FRS 44 New Zealand Additional Disclosures and Harmonisation Amendments**
  FRS 44 sets out New Zealand specific disclosures for entities that apply NZ IFRSs. These disclosures have been relocated from NZ IFRSs to clarify that these disclosures are additional to those required by NZ IFRS. Adoption of the new rules will not affect any of the amounts recognised in the Financial Statements, but may simplify some of the Group's current disclosures.

  The Harmonisation Amendments amends various NZ IFRSs for the purpose of harmonising with the source IFRSs and Australian Accounting Standards. The significant amendments include:

  - Deletion of the requirement for an independent valuer to conduct the valuation of investment property and property, plant and equipment;
  - Inclusion of the option to account for investment property using either cost or fair value model;
  - Introduction of the option to use the indirect method of reporting cash flows that is not currently in NZ IAS 7.

  In addition, various disclosure requirements have been deleted.

  The Group intends to adopt FRS 44 and the Harmonisation Amendments from 1 April 2012.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

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 and Stewart Browne Group Limited.

The Directors have reviewed the carrying value of goodwill and do not believe there is any impairment on the basis that the budgeted cashflows for the next five years exceed the carrying value of goodwill recorded.

Where goodwill has an element of contingent consideration Management have used budgeted earnings to estimate the contingent consideration due based on the contracted formula for its calculation.

Valuation of Network Distribution System

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 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 2012, if interest rates had changed by +/- 1% (2011: +/- 1%) with all other variables held constant, post-tax profit and equity for the year would have been $8,700 lower/higher (2011: $15,400 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 36% of the Group's total trade and other receivables as at 31 March 2012 (2011: 40%). 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.

4. Financial Risk Management continued...

31 March 2012	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	4,406	-	-	-
Bank Overdrafts and Loans	-	19,000	6,825	-
Derivatives				
- Inflows	(638)	(634)	(1,378)	(543)
- Outflows	1,276	1,238	2,587	1,068
	5,044	**19,604**	**8,034**	**525**
PARENT				
Trade and Other Payables	3,330	-	-	-
Bank Overdrafts and Loans	-	19,000	6,825	-
Derivatives				
- Inflows	(638)	(634)	(1,378)	(543)
- Outflows	1,276	1,238	2,587	1,068
	3,968	**19,604**	**8,034**	**525**
31 March 2011				
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**

4. Financial Risk Management continued...

Refer to Note 19 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.

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	
	2012 $000	2011 $000
Borrowings	25,825	25,000
Plus / (Less): Cash and Bank	(98)	(259)
Net Debt	**25,727**	**24,741**
Equity	57,734	55,804
Equity plus Net Debt	**83,461**	**80,545**
Gearing Ratio	**31%**	**31%**

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 condition 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 20 for further information.

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

5. Operating Segments

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

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 2012				
Revenue				
External Revenue	29,819	6,708	-	36,527
Internal Revenue	24	6,774	(6,798)	-
Total Segment Revenue	**29,843**	**13,482**	**(6,798)**	**36,527**
Depreciation	4,088	502	(35)	4,555
Amortisation	49	-	-	49
Fair Value Movement of Financial Derivatives	610	-	-	610
Net Finance Costs	1,667	-	-	1,667
Income Tax Expense	2,390	257	(140)	2,507
Operating Profit after Income Tax	**6,223**	**569**	**(360)**	**6,432**
Assets and Liabilities				
Segment Assets	109,736	7,706	(5,103)	112,339
Total Assets	**109,736**	**7,706**	**(5,103)**	**112,339**
Segment Liabilities	52,721	6,126	(4,243)	54,604
Total Liabilities	**52,721**	**6,126**	**(4,243)**	**54,604**
Capital Additions	6,435	1,089	(553)	6,971
Goodwill Additions	-	839	-	839

One customer (Bay of Plenty Energy) comprised 55.3% of the Group's revenue in 2012 (2011: 65.1%).

5. Operating Segments continued...

	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**

6. Operating Revenues & Expenses By Nature

	Notes	Group 2012 $000	Group 2011 $000	Parent 2012 $000	Parent 2011 $000
a. Operating Revenues					
Distribution Revenue		29,003	27,463	29,003	27,475
Contracting Revenue		6,684	2,386	-	-
Capital Contributions Revenue		840	1,157	840	1,157
Total Operating Revenue		**36,527**	**31,006**	**29,843**	**28,632**
b. Other Income					
Sundry Income		120	33	84	9
Proceeds from Sale of Property, Plant and Equipment		18	-	18	-
Recovery of Bad Debts		3	4	3	4
Total Other Income		**141**	**37**	**105**	**13**
c. Operating Expenses Include the Following:					
Depreciation	13	4,555	4,375	4,088	3,971
Software Amortisation	14	49	37	47	33
Net Loss on Sale of Property, Plant and Equipment		31	-	-	-
Operating Lease Payments		248	403	105	119
Movement in Doubtful Debt Provisions	11	80	11	-	-
Directors' Remuneration	29	215	200	215	200
Maintenance of Network Distribution Assets		1,081	939	2,323	2,035
Employee Costs		4,136	3,242	2,697	2,388
Transmission Charges		7,722	7,764	7,843	7,884

Notes to the Financial Statements

For the year ended 31 March 2012

7. Income Tax Expense

	Notes	Group 2012 $000	Group 2011 $000	Parent 2012 $000	Parent 2011 $000
Current Tax		2,811	2,705	2,660	2,565
Deferred Tax	8	(304)	(1,073)	(270)	(1,144)
Income Tax Expense		**2,507**	**1,632**	**2,390**	**1,421**

The applicable tax rate is 28% (2011: 30%).

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

	Group 2012	Group 2011	Parent 2012	Parent 2011
Profit before Tax	**8,939**	**7,530**	**8,613**	**7,589**
Expenses Not Deductible for Tax Purposes	11	14	10	14
Income Not Subject to Tax	-	(229)	-	(229)
Taxable Profit	**8,950**	**7,315**	**8,623**	**7,374**
Income Tax Expense at 28% (2011: 30%)	**2,506**	**2,194**	**2,414**	**2,212**
Prior Year Adjustments	1	16	(24)	16
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	**2,507**	**1,632**	**2,390**	**1,421**
Effective Income Tax Expense Rate	28.0%	21.7%	27.7%	18.7%

On 20 May 2010 the New Zealand Government announced three tax changes that effected the Groups future tax liabilities. These changes included: the corporate tax rate reduction from 30% to 28%, effective 1 April 2011; Buildings lasting more than 50 years were no longer allowed to be depreciated, effective 1 April 2011; Capital contributions would no longer be exempt from tax but would 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).

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
GROUP				
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**
Adjustments through Income Tax Expense	(637)	(178)	511	(304)
At 31 March 2012	**19,909**	**(557)**	**233**	**19,585**
PARENT				
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**
Adjustments through Income Tax Expense	(610)	(178)	518	(270)
At 31 March 2012	**19,686**	**(557)**	**327**	**19,456**

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	
	2012 $000	2011 $000	**2012 $000**	2011 $000
Deferred Tax Assets				
Recoverable after more than 12 Months	(557)	(276)	(557)	(249)
Recoverable within 12 Months	(180)	(382)	(86)	(321)
	(737)	**(658)**	**(643)**	**(570)**
Deferred Tax Liabilities				
Recoverable after more than 12 Months	20,022	20,141	19,690	19,932
Recoverable within 12 Months	300	406	409	364
	20,322	**20,547**	**20,099**	**20,296**
Net Deferred Tax Liabilities	**19,585**	**19,889**	**19,456**	**19,726**

9. Share Capital

	Group & Parent	
	2012 $000	2011 $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.

	Network Distribution Assets $000	Network Land & Buildings $000	Total $000
GROUP			
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**
At 31 March 2012	**25,705**	**62**	**25,767**
PARENT			
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**
At 31 March 2012	**25,361**	**62**	**25,423**

11. Other Financial Assets

	Group		Parent	
	2012	2011	**2012**	2011
	$000	$000	**$000**	$000
a. Cash and Cash Equivalents				
Cash at Bank	98	259	-	63
	98	**259**	**-**	**63**

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.

	Group 2012 $000	Group 2011 $000	Parent 2012 $000	Parent 2011 $000
b. Trade and Other Receivables				
Trade Receivables	5,095	4,208	3,701	3,670
Less provision for Doubtful Debts	(105)	(25)	(5)	(5)
Trade Receivables Owing by Subsidiary (Note 29a)	-	-	29	-
Prepayments	157	92	151	82
	5,147	**4,275**	**3,876**	**3,747**

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 collectibility and impaired where collectibility is considered doubtful. As at 31 March 2012, trade receivables of $285,270 (2011: $148,000) were past due; these relate to a number of independent customers for whom there is no recent history of default and are not impaired.

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

	Group 2012 $000	Group 2011 $000	Parent 2012 $000	Parent 2011 $000
Up to 3 months	4,705	4,035	3,653	3,642
Over 3 months	285	148	43	23
	4,990	**4,183**	**3,696**	**3,665**

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

	Group 2012 $000	Group 2011 $000	Parent 2012 $000	Parent 2011 $000
Opening Balance at 1 April	**(25)**	**(14)**	**(5)**	**-**
Receivables Identified During the Year as Potentially Uncollectable	(80)	(11)	-	(5)
Closing Balance at 31 March	**(105)**	**(25)**	**(5)**	**(5)**

12. Reconciliation Of Net Profit To Net Cash From Operating Activities

		Group		Parent	
		2012	2011	**2012**	2011
	Notes	**$000**	$000	**$000**	$000
Profit before Tax for the Year		**8,939**	**7,530**	**8,613**	**7,589**
Adjustments for:					
Capital Contributions Amortised	17	(17)	(17)	(17)	(17)
Depreciation and Amortisation	6	4,604	4,412	4,135	4,004
Loss on disposal of Fixed Assets		31	-	-	-
Loss on Fair Value of Interest Rate Swaps	18	610	739	610	739
Operating Cash Flows before Movements in Working Capital		**14,167**	**12,664**	**13,341**	**12,315**
Changes in Working Capital					
Construction Work in Progress		(176)	(74)	-	-
Trade and Other Payables	15	95	738	(622)	381
Trade and Other Payables related to Fixed Assets		(134)	(419)	14	(236)
Trade and Other Receivables	11	(872)	340	(129)	409
Inventories		(340)	(182)	-	-
Deferred Capital Contributions	17	(17)	(22)	(17)	(22)
Provision for Employee Costs	16	200	159	58	58
		(1,244)	**540**	**(696)**	**590**
Cash Flow from Operating Activities before Tax		**12,923**	**13,204**	**12,645**	**12,905**

13. Property, Plant And Equipment

	Network Distribution System (At Valuation)	Land & Buildings (At Cost)	Plant & Equipment (At Cost)	Furniture & Fittings (At Cost)	Vehicles (At Cost)	Finance Leased Assets (At Cost)	Total
	$000	$000	$000	$000	$000	$000	$000
GROUP							
Cost or Valuation							
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**
Additions	3,881	304	332	6	409	-	4,932
Asset Reclassification	(351)	147	168	25	11	-	-
Transfer of Software to Intangibles	-	-	(242)	-	-	-	(242)
Disposals	(15)	-	3	-	(55)	-	(67)
Capital Works in Progress	351	-	2	-	-	201	554
At 31 March 2012	**105,054**	**1,545**	**3,277**	**638**	**2,847**	**201**	**113,562**
Accumulated Depreciation and Impairment							
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**
Depreciation Charge for the Year	3,883	28	254	28	362	-	4,555
Asset Reclassification	(171)	(1)	174	3	(5)	-	-
Transfer of Software to Intangibles	-	-	(242)	-	-	-	(242)
Eliminated on Disposals	(3)	-	(5)	-	-	-	(8)
At 31 March 2012	**7,480**	**91**	**2,365**	**509**	**1,319**	**-**	**11,764**
Net Book Value							
At 31 March 2011	**97,417**	**1,030**	**830**	**129**	**1,520**	**-**	**100,926**
At 31 March 2012	**97,574**	**1,454**	**912**	**129**	**1,528**	**201**	**101,798**

During the implementation of the new Financial Management Information System in 2012 certain assets were reclassified to better reflect the nature of the asset, including software assets of $241,551 which were transferred to intangible assets.

13. Property, Plant And Equipment continued...

	Network Distribution System (At Valuation)	Land & Buildings (At Cost)	Plant & Equipment (At Cost)	Furniture & Fittings (At Cost)	Vehicles (At Cost)	Finance Leased Assets (At Cost)	Total
	$000	$000	$000	$000	$000	$000	$000
PARENT							
Cost or Valuation							
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**
Additions	4,414	128	140	-	-	-	4,682
Asset Reclassification	(352)	148	145	18	41	-	-
Transfer of Software to Intangibles	-	-	(242)	-	-	-	(242)
Disposals	(15)	-	-	-	-	-	(15)
Capital Works in Progress	351	-	-	-	-	201	552
At 31 March 2012	**106,321**	**576**	**2,235**	**556**	**319**	**201**	**110,208**
Accumulated Depreciation and Impairment							
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**
Depreciation Charge for the Year	3,917	12	118	21	20	-	4,088
Asset Reclassification	(171)	-	149	(3)	25	-	-
Transfer of Software to Intangibles	-	-	(242)	-	-	-	(242)
Eliminated on Disposals	(3)	-	(1)	-	-	-	(4)
At 31 March 2012	**7,535**	**27**	**1,889**	**477**	**307**	**-**	**10,235**
Net Book Value							
At 31 March 2011	**98,131**	**285**	**327**	**79**	**16**	**-**	**98,838**
At 31 March 2012	**98,786**	**549**	**346**	**79**	**12**	**201**	**99,973**

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.

The carrying amount of the Group and Parent network distribution system commissioned assets had they been recognised under the cost model is $82.5 million (2011: $78.1 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.

14. Intangible Assets

GROUP	Software $000	Goodwill $000	Total $000
Cost			
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**
Software Additions	938	-	938
Goodwill Additions	-	839	839
Transfer of Software from Property, Plant and Equipment	242	-	242
Disposals	(255)	-	(255)
Information Systems Work in Progress	263	-	263
At 31 March 2012	**2,845**	**1,050**	**3,895**
Accumulated Amortisation			
At 31 March 2010	**119**	**-**	**119**
Amortisation Charge for the Year	37	-	37
At 31 March 2011	**156**	**-**	**156**
Amortisation Charge for the Year	49	-	49
Transfer of Software from Property, Plant and Equipment	242	-	242
Disposals	(255)	-	(255)
At 31 March 2012	**192**	**-**	**192**
Net Book Value			
At 31 March 2011	**1,501**	**211**	**1,712**
At 31 March 2012	**2,653**	**1,050**	**3,703**
PARENT			
Cost			
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**
Additions	938	-	938
Transfer of Software from Property, Plant and Equipment	242	-	242
Disposals	(255)	-	(255)
Information Systems Work In Progress	263	-	263
At 31 March 2012	**2,833**	**-**	**2,833**
Accumulated Amortisation			
At 31 March 2010	**114**	**-**	**114**
Amortisation Charge for the Year	33	-	33
At 31 March 2011	**147**	**-**	**147**
Amortisation Charge for the Year	47	-	47
Transfer of Software from Property, Plant and Equipment	242	-	242
Disposals	(255)	-	(255)
At 31 March 2012	**181**	**-**	**181**
Net Book Value			
At 31 March 2011	**1,498**	**-**	**1,498**
At 31 March 2012	**2,652**	**-**	**2,652**

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 2012 year was 5.75% (2011: 6.75%), being the average cost of borrowings for the Company during the year. Interest capitalised for the 2012 year was $100,459 (2011: $61,277).

15. Trade And Other Payables

	Group		Parent	
	2012 $000	2011 $000	**2012 $000**	2011 $000
Trade Payables	2,102	1,430	1,061	929
Trade Payables Owed by Parent Company to Subsidiary (Note 29)	-	-	867	913
Other Payables	1,821	2,547	1,402	2,110
Contingent Liability Arising on a Business Combination (Note 26)	149	-	-	-
Total Trade Payables and Other Payables	**4,072**	**3,977**	**3,330**	**3,952**

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. Employee Benefit Accruals

	Group		Parent	
	2012 $000	2011 $000	**2012 $000**	2011 $000
Classified as:				
Current Employee Costs	696	525	341	288
Non-Current Employee Costs	153	124	71	66
Total Employee Costs	**849**	**649**	**412**	**354**

The Employee Benefits Accrual includes accrued wages, bonuses, accrued holiday pay, long service leave and retirement costs.

17. Deferred Capital Contributions

	Group		Parent	
	2012 $000	2011 $000	**2012 $000**	2011 $000
Opening Balance at 1 April	**646**	**668**	**646**	**668**
Less Amounts Recognised as Revenue during Year	(17)	(22)	(17)	(22)
Closing Balance at 31 March	**629**	**646**	**629**	**646**
Classified as:				
Current	18	18	18	18
Non-Current	611	628	611	628
Total Deferred Capital Contributions	**629**	**646**	**629**	**646**

Discretionary 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. There are no unfulfilled conditions and other contingencies attached to these contributions.

18. Derivative Financial Instruments

Interest Rate Swaps

The face value and fair value of the swaps the Group and Parent held at 31 March 2012 were as follows:

Commencement Date	Rate	Term	Expiry Date	Notional Value 2012 $000	Fair Value 2012 $000	Notional Value 2011 $000	Fair Value 2011 $000
17 Aug 2009	4.61%	93 Months	17 May 2017	-	-	3,000	7
Total Per Non-Current Assets				**-**	**-**	**3,000**	**7**
21 Sep 2009	4.54%	27 Months	21 Dec 2011	-	-	3,000	(42)
21 Sep 2009	4.19%	33 Months	21 Jun 2012	4,000	(15)	-	-
Total Per Current Liabilities				**4,000**	**(15)**	**3,000**	**(42)**
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)
27 Sep 2007	7.39%	78 Months	26 Mar 2014	-	-	1,000	(103)
05 Mar 2012	6.44%	30 Months	05 Sep 2014	2,800	(225)	-	-
21 Dec 2011	4.99%	33 Months	21 Sep 2014	2,000	(90)	2,000	(34)
21 Jun 2010	5.25%	60 Months	22 Jun 2015	2,000	(121)	2,000	(83)
26 Sep 2010	5.85%	63 Months	29 Dec 2015	1,000	(85)	-	-
09 Mar 2009	4.60%	84 Months	09 Mar 2016	2,000	(85)	-	-
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	(145)	2,000	(40)
17 Aug 2009	4.61%	93 Months	17 May 2017	3,000	(130)	-	-
26 Sep 2010	6.58%	93 Months	26 Jun 2018	2,000	(296)	2,000	(211)
05 Jul 2007	6.44%	140 Months	05 Mar 2019	2,000	(295)	2,000	(200)
26 Sep 2010	6.58%	117 Months	26 Jun 2020	3,000	(502)	3,000	(324)
Total Per Non-Current Liabilities				**21,800**	**(1,974)**	**22,800**	**(1,344)**
Total				**25,800**	**(1,989)**	**28,800**	**(1,379)**

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.

Management regularly monitors the level of interest derivatives held and the rates currently available and adjusts the interest derivatives portfolio as they believe prudent. During 2012 two swaps maturity dates were extended to provide additional cover while providing a decrease in interest rate.

Net Increase/(Decrease) in Fair Value in the Statement of Comprehensive Income	Group & Parent 2012 $000	Group & Parent 2011 $000
Fair Value at 31 March	(1,989)	(1,379)
Net Change in Fair Value	**(610)**	**(739)**

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

19. Bank Loans

	Group 2012 $000	Group 2011 $000	Parent 2012 $000	Parent 2011 $000
The borrowings are repayable as follows:				
Within One Year	-	8,000	-	8,000
Within One to Two Years	12,825	17,000	12,825	17,000
Within Three to Four Years	13,000	-	13,000	-
Total	**25,825**	**25,000**	**25,825**	**25,000**
Classified as follows:				
Amount due for Settlement within 12 Months (Current)	-	8,000	-	8,000
Amount due for Settlement after 12 Months (Non-Current)	25,825	17,000	25,825	17,000
Total	**25,825**	**25,000**	**25,825**	**25,000**

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 because the interest rates payable on these loans is determined at variable market rates, and therefore any 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 3.35% (2011: 2.98%). The weighted average floating interest rate excludes the effect of the Company's interest rate risk management.

As at 31 March 2012 the Company had available undrawn debt facilities of $6.2 million (2011: $7.0 million).

	Expiry	Group & Parent Drawn $000	Group & Parent Undrawn $000
At 31 March 2012			
Tranche A	23/11/2013	19,000	-
Tranche B	23/11/2015	6,825	6,175
		25,825	**6,175**
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**

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 had 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% of consolidated Group EBITDA
- Guaranteeing Group Coverage ratio - Total Assets must be greater than 95%

20. Financial Instruments By Category

	Assets at Fair Value through Profit or Loss $000	Loans & Receivables $000	Total $000
Assets as per Balance Sheet			
GROUP			
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**
Trade and Other Receivables	-	4,990	4,990
Cash and Cash Equivalents	-	98	98
At 31 March 2012	**-**	**5,088**	**5,088**
PARENT			
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**
Trade and Other Receivables	-	3,696	3,696
Intercompany Loans	-	3,235	3,235
At 31 March 2012	**-**	**6,931**	**6,931**

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

20. Financial Instruments By Category continued...

	Liabilities at Fair Value through Profit or Loss $000	Measured at Amortised Cost $000	Total $000
Liabilities as per Balance Sheet			
GROUP			
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**
Borrowings	-	25,825	25,825
Derivative Financial Instruments	1,989	-	1,989
Trade and Other Payables	-	4,072	4,072
At 31 March 2012	**1,989**	**29,897**	**31,886**
PARENT			
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**
Borrowings	-	25,825	25,825
Derivative Financial Instruments	1,989	-	1,989
Trade and Other Payables	-	3,330	3,330
Bank Overdraft	-	51	51
At 31 March 2012	**1,989**	**29,206**	**31,195**

21. Construction Contracts

The following amounts relating to construction contracts in progress at balance date are included within Construction Work in Progess, Trade and Other Receivables and Trade and Other Payables in the Balance Sheet. Refer Note 2 Accounting Policies - Construction Contracts.

	Group		Parent	
	2012	2011	**2012**	2011
	$000	$000	**$000**	$000
Amounts due from Construction Contracts	426	250	-	-
	426	**250**	**-**	**-**

22. Subsidiary Companies

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

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

During the year Horizon Energy Distribution Limited acquired 600 shares (60% of the total issued shares) in Stewart Browne Group Limited and has contracted to acquire the remaining 400 shares currently owned by the Browne Family Trust, no later than 1 April 2013. Further information regarding the purchase of Stewart Browne Group Limited is contained in Note 26.

	Group	
	2012	2011
Shares held in Stewart Browne Group Limited	600	-
Shares held in Horizon Energy Investments Limited	100	100

23. Dividends Per Share

Amounts recognised as distributions to equity holders in the period:

	Group	
	2012	2011
	cents	cents
Final (for Previous Financial Year)	10.0	9.0
Interim	8.0	7.0

All dividends had full imputation credits attached.

As set out in Note 28 a fully imputed final dividend for the year ended 31 March 2012 was declared post year end. The financial impact of this dividend has not been recognised in these Financial Statements.

24. 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	
	2012	2011	**2012**	2011
	$000	$000	**$000**	$000
Opening Balance at 1 April	**1,932**	**1,181**	**1,932**	**1,181**
Credits Gained from Income Tax Paid	2,534	2,558	2,534	2,558
Credits Applied to Dividends Paid	(1,928)	(1,807)	(1,928)	(1,807)
UOMI relating to Prior Year Income Tax Period	32	-	32	-
Closing Balance at 31 March	**2,570**	**1,932**	**2,570**	**1,932**

25. 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	
	2012	2011
Profit Attributable to Equity Holders of the Company ($000)	6,387	5,898
Weighted Average Number of Ordinary Shares on Issue	24,991,385	24,991,385
Basic Earnings per Share (Cents per Share)	**25.56**	**23.60**

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.

26. Business Combinations

Acquisition of Stewart Browne Group Limited

On 1 April 2011, Horizon Energy Distribution Limited acquired 60% of the shares in Stewart Browne Group Limited and has contracted to acquire the remaining 40%, currently owned by the Browne Family Trust, no later than 1 April 2013.

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

Horizon Energy Distribution Limited - Investment in Stewart Browne Group Limited

The Company owns 60% of the issued shares in Stewart Browne Group Limited and has contracted to purchase the remaining 40% of shares no later than 1 April 2013.

Stewart Browne Group Limited (SBGL) contracted to acquire the electrical business owned by the Browne Family Trust as detailed in the table overleaf. The final purchase price payable by SBGL is contingent on the average profits achieved by SBGL prior to the 1 April 2013 settlement date.

26. Business Combinations continued...

Details of Net Assets and Goodwill acquired for full ownership of Stewart Browne Group Limited (100% shareholding):

	Group
	1-Apr-11
	$000
Consideration on Acquisition	933
Contingent Consideration (based on forecast performance)	149
	1,082

Consisting of:	Fair Value	Acquiree's Carrying Amount
Inventory	170	170
Lease Assets	13	13
Plant and Equipment	57	57
Motor Vehicles	94	94
Total Assets Acquired	**334**	**334**
Total Liabilities Acquired	**(50)**	**(50)**
Fair Value of Net Assets Acquired	**284**	**284**
Goodwill	798	798
Total Purchase Consideration	**1,082**	**1,082**

Goodwill is attributable to the presence in the market place and workforce of the acquired businesses and is not a separately identifiable intangible asset. Goodwill related to this business combination is non-deductible for income tax.

Other costs of $12,000 associated with the acquisition have been expensed during the year (2011: $62,000).

The acquisition by SBGL was funded by secured loans provided by its Shareholders (Note 29)

Loan from Horizon Energy Distribution Limited 60%	560
Loan from Browne Family Trust 40%	373
	933

The loan from Browne Family Trust is repayable by SBGL when the Trust sells its remaining 40% of shares in SBGL to Horizon Energy.

SBGL amounts included in the Statement of Comprehensive Income for the 2012 financial year include:

Revenue	3,480
Net Profit after Tax	112

Acquisition of A1 Stump and Tree Services

On 20 February 2012 Horizon Energy Investments Limited, a subsidiary of Horizon Energy Distribution Limited purchased the assets and customer base of A1 Stump and Tree Services, an arborist business operating in the Eastern Bay of Plenty. Consideration totalling $160,000 was paid for tangible assets valued at $119,000. The balance of $41,000 represents goodwill relating to the expected future earnings attributable to these assets. The acquisition of the A1 Stump and Tree Services business will enable the expansion of Horizon's capability in the vegetation sector to include vegetation services such as stump removal and tree management services to the general public.

There were no business acquisitions 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 now total $112,198 (2011: $114,757) relating to the period 1995 to 2007. 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 29 May 2012.

a. Dividend Declaration

On 29 May 2012 the Directors declared a final fully imputed dividend of 9.0 cents (2011: 10.0 cents imputed) per ordinary share. As this event occurred after balance date the financial effect has not been recognised in the Financial Statements.

b. Regulated Revenue Over Recovery

In determining its lines charges for any subsequent year the Company, in meeting the Commerce Act Electricity Distribution Default Price – Quality Path – Determination 2010 requirements, must forecast regulated revenue based upon its estimated consumption levels, transmission and distribution costs. At the end of each year the actual regulated revenue when compared to such forecasts may result in an over or under recovery.

In this regard, subsequent to balance date, the Company identified a regulated over recovery revenue breach of approximately $646,000 ($465,000 after tax).

The Company has undertaken to return this additional revenue by reductions in the distribution pricing tariff charges in subsequent years. This will reduce the regulated revenue earned in the next and following reporting periods.

As this decision and its public announcement occurred after balance date, no liability has been recognised in these Financial Statements.

29. Related Party Transactions

The following transactions occurred 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.

29. Related Party Transactions continued...

	2012 $000	2011 $000
Purchase of contracting services and network assets from subsidiary	6,714	7,091
Interest income from subsidiary on shareholder advances	(225)	(224)
Rent income from subsidiary	(24)	(12)
Rent expense paid to subsidiary	60	60
Balance of shareholder loan to subsidiary	2,432	3,116
Receivables owing by subsidiary	29	-
Payables owing to subsidiary	(867)	(913)

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.

b. Major Shareholders

The Group is controlled by the Eastern Bay Energy Trust (EBET) which owns 77.29.% of the Company's shares. During the 2011 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.

	2012 $000	2011 $000
i. Transactions with Eastern Bay Energy Trust		
Contributions Received towards Undergrounding Works	330	-
Contributions Received towards Staff Training	1	81
Services Supplied by Horizon to EBET	9	5
Reimbursement of Takeover Costs Incurred	-	1
	340	**87**
ii. Transactions with Marlborough Lines Limited		
Reimbursement of Takeover Costs	-	**562**

c. Remuneration of Key Management Personnel and Directors

Short Term Benefits	2012 $000	2011 $000
Salaries and Other Short Term Employee Costs	863	804
Directors' Fees	215	200
	1,078	**1,004**

d. Transactions with Stewart Browne Group Limited

Horizon Energy Distribution Limited (60% Shareholder) and Browne Family Trust (40% Shareholder) have advanced funds to Stewart Browne Group Limited since the date of its incorporation.

	2012 $000	2011 $000
Loans to Stewart Browne Group Limited from Parent		
Loan - Interest Free	562	-
Loan - Interest Bearing (@ 8% per annum)	241	-
	803	**-**
Loans to Stewart Browne Group Limited from Browne Family Trust		
Loan - Interest Free	375	-
Loan - Interest Bearing (@ 8% per annum)	108	-
	483	**-**

These loans are repayable to the Browne Family Trust on 1 April 2013.

	2012 $000	2011 $000
Contingent liability arising on a business combination (Note 26)	**149**	**-**

30. Commitments

a. Capital Commitments

Capital expenditure contracted for at balance date but not yet incurred is:

	Group		Parent	
	2012 $000	2011 $000	2012 $000	2011 $000
Software	317	398	317	398
Network Distribution Assets	1,092	786	1,092	786
	1,409	**1,184**	**1,409**	**1,184**

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 2012 $000	Group 2011 $000	Parent 2012 $000	Parent 2011 $000
Within One Year	206	3	85	3
Within One to Five Years	535	-	49	-
Over Five Years	-	-	-	-
	741	**3**	**134**	**3**

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	
	2012 $000	2011 $000	2012 $000	2011 $000
Statutory Audit				
Audit of the Financial Statements	81	60	81	60
Total Audit and Assurance Services	**81**	**60**	**81**	**60**
Audit Related Services				
Section 53ZD information request engagement	-	25	-	25
Regulatory DPP Compliance Statement Audit	30	25	30	25
Regulatory Disclosure Information Assurance Engagement	20	15	20	15
Taxation Compliance Services	28	17	28	17
Total Audit Related Services	**78**	**82**	**78**	**82**
Other Services				
Financial and regulatory advice on proposed asset acquisition	7	72	7	72
Regulatory Advice and Preparation of Submissions	40	49	40	49
Tax Advice and Opinions	-	7	-	7
Total Remuneration for Other Services	**47**	**128**	**47**	**128**
Total Auditors' Remuneration	**206**	**270**	**206**	**270**

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 ("the Company") on pages 44 to 79, which comprise the balance sheet as at 31 March 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows 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 2012 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 auditors consider the internal controls relevant to the Company and the 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 the 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 the Group.

PricewaterhouseCoopers, 188 Quay Street, Private Bag 92162, Auckland 1142, New Zealand
T: +64 (9) 355 8000, F: +64 (9) 355 8001, www.pwc.com/nz

Independent Auditors' Report

to the shareholders of Horizon Energy Distribution Limited

Opinion

In our opinion, the financial statements on pages 44 to 79:

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

(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 2012, 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 2012:

(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 2012

Shareholders' Statistics

Twenty Largest Shareholders

The names of the twenty largest Shareholders of Ordinary Shares as at 31 May 2012 are listed below:

77.29%
Eastern Bay Energy Trust
19,316,130

13.89%
Marlborough Lines Limited
3,472,059

0.28%
RW White
68,764

0.16%
Key Group Limited
39,455

0.10%
Custodial Services Limited
24,500

0.08%
AB Herdman
20,340

PBR Knyvett
20,000

0.07%
MO Bailey
16,500

AR Twaites
16,500

0.06%
JP Morgan
15,000

Investment Custodial Services Limited
14,811

Investment Custodial Services Limited
14,810

0.05%
HR Reynolds
13,000

Ronaki Limited
12,500

PW Ludbrook
12,120

A O'Brien
12,000

RA Ussher
12,000

DP Davidson
11,750

PN Bannan
11,575

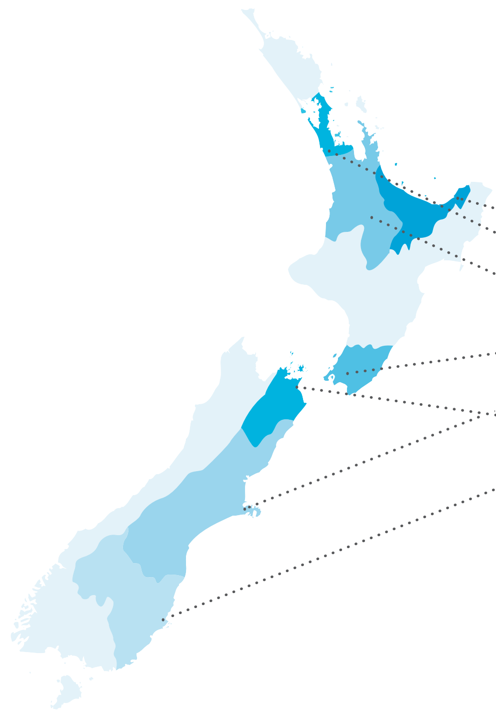
RJ Wilson & MR Wilson
11,460

Statement of Directors' Shareholdings

as at 31 March 2012

Fully Paid Ordinary Shares

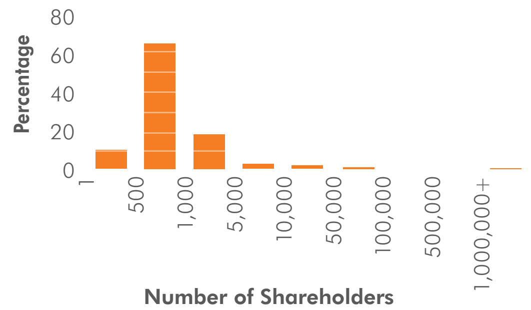
Name	Beneficially Held		Non-Beneficially Held	
	31 Mar 2012	31 Mar 2011	**31 Mar 2012**	31 Mar 2011
R.B. Tait	-	-	-	-
J. McDonald	-	-	-	-
C.P. Boyle	-	-	-	-
A.E. de Farias	-	-	-	-

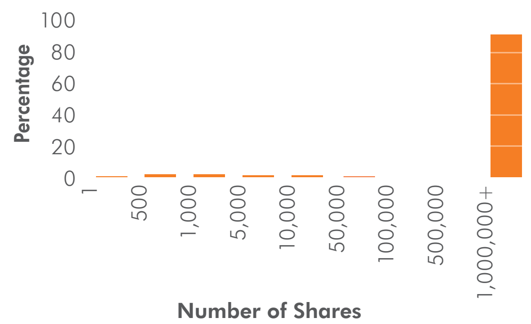


Analysis of Shareholder by Location

as at 31 May 2012

	Shareholders		Shares	
	Number	Percentage	Number	Percentage
Bay of Plenty	1,440	78.77%	20,719,781	82.91%
Auckland	128	7.02%	260,666	1.05%
Waikato	56	3.06%	82,898	0.33%
Wellington	38	2.08%	131,734	0.53%
Christchurch	11	0.60%	41,820	0.17%
Blenheim	1	0.05%	3,472,059	13.89%
Dunedin	11	0.60%	10,950	0.04%
Other	120	6.56%	257,974	1.03%
New Zealand	**1,805**	**98.74%**	**24,977,882**	**99.95%**
Overseas	23	1.26%	13,503	0.05%
Total Holders by Location	**1,828**	**100%**	**24,991,385**	**100%**





Spread of Security Holders

as at 31 May 2012

	Shareholders		Shares	
	Number	Percentage	Number	Percentage
1 to 499	197	10.78%	60,315	0.24%
500 to 999	1,189	65.04%	688,192	2.76%
1,000 to 4,999	362	19.80%	692,529	2.77%
5,000 to 9,999	50	2.74%	310,204	1.24%
10,000 to 49,999	27	1.48%	383,192	1.53%
50,000 to 99,999	1	0.05%	68,764	0.28%
100,000 to 499,999	-	-	-	-
500,000 to 999,999	-	-	-	-
1,000,000 and over	2	0.11%	22,788,189	91.18%
Total	**1,828**	**100%**	**24,991,385**	**100%**

Substantial Security Holders

According to notices given to the Company under the Securities Markets Act 1988, as at 31 May 2012 the following were substantial security holders in the Company. In terms of the Act, the number of shares and percentages shown adjacent 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

A collection of memories...

Cover
THEN: Commerce Street, Whakatane

Cover
NOW: Commerce Street, Whakatane

Page 5
THEN: George Street, Whakatane

Page 5
NOW: George Street, Whakatane

Page 9
THEN: West End, Ohope

Page 9
NOW: West End, Ohope

Page 14
THEN: Bay of Plenty Electricity Power Board - Eddie Muriwai, Line Mechanic

Page 14
NOW: Horizon - Aaron Radford, Line Mechanic now Contract Manager (Internal Business)

Page 19
NOW: Stewart Browne Group, Tauranga - team photo

Page 20
THEN: Muriwai Drive, Whakatane

Page 20
NOW: Muriwai Drive, Whakatane

Page 24
THEN: Transformer exercise for the George Smith Shield 1987, Line Mechanics left to right: Doug Ashford, Henry Walker and Joe Clements

Page 24
NOW: Horizon - Ron Mallasch, Line Mechanic

Page 26
THEN: Bay of Plenty Electricity Power Board - Allan Murphy, Controller

Page 26
NOW: Horizon Energy - Allan Murphy, Network Controller

Page 30
THEN: Winners of the Bowthorpe Shield 1977 - rear left to right: Jim Fogarty, Jimmy Cameron, Wayne Ranui and Kemara Miringaorangi (Line Mechanics)

Page 30
NOW: Horizon - rear left to right: Tim Schollum (Streetlight Supervisor), Billy Beeching and Kemara Miringaorangi (Line Mechanics)

Page 30
THEN: Bay of Plenty Electricity Power Board - left to right: Daryl Stone, Aubrey Tawhai, Wayne Ranui and Jim Kelly

Page 30
NOW: A1 Stump and Tree Services team - rear left to right: Ricky Kohunui, Kevin Knight, Dylan Arthur and Korey Poto

Page 32
THEN: Winners of the George Smith Shield 1987 - left to right: Joe Clements, John O'Connell, Ken Skelton (Chairman), Doug Ashford and Henry Walker

Page 32
NOW: Sport Bay of Plenty, Horizon Touch Tournament - Apanui School Primary Sports team

Page 32
THEN: Bay of Plenty Electric Power Board Appliance Centre

Page 32
NOW: Horizon AAA Business Excellence Awards 2010 - Supreme Award Winner: East Bay Dental

Page 36
THEN: Domain Road, Whakatane

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

Chief Executive
A. Anand

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125 Queen Street, Auckland 1010

Westpac
157 Lambton Quay, Wellington 6011

Solicitors
Bell Gully
48 Shortland Street, Auckland 1010

Company DIRECTORY

Auditors
PricewaterhouseCoopers
188 Quay Street
Auckland 1010

Share Registry
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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:
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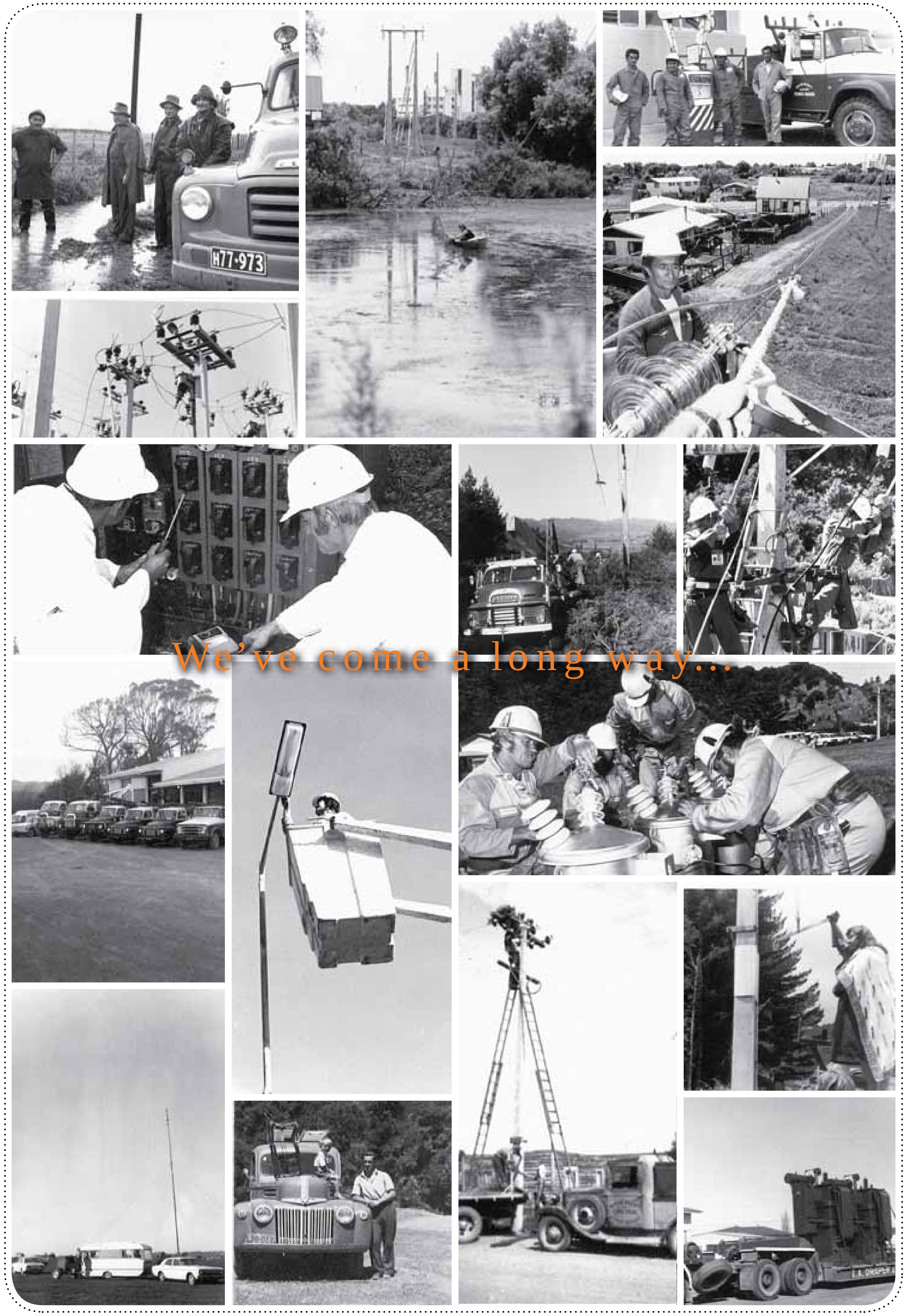
Please assist our Registrar by quoting your CSN or shareholder number.



HORIZON ENERGY