

Audited Financial Statements

The directors are pleased to present the financial statements of Orion New Zealand Limited and its subsidiaries for the year ended 31 March 2003.

Authorised for issue on 27 May 2003 for and on behalf of directors:



Linda Susan Constable
Chairman
Christchurch
27 May 2003



Peter Rae
Deputy Chairman
Christchurch
27 May 2003

Statement of Financial Performance

For the year ended 31 March	Notes	Group 2003 \$000's	Group 2002 \$000's	Parent 2003 \$000's	Parent 2002 \$000's
Operating revenue	2 & 3	163,729	190,090	153,025	166,300
Operating surplus before taxation	4	55,733	60,632	54,222	58,256
Taxation expense	5	25,839	29,169	24,329	26,795
Operating surplus		29,894	31,463	29,893	31,461
Minority interests		(1)	(2)	-	-
Net surplus	2	29,893	31,461	29,893	31,461

Statement of Movements in Equity

For the year ended 31 March	Notes	Group 2003 \$000's	Group 2002 \$000's	Parent 2003 \$000's	Parent 2002 \$000's
Equity at the start of the year		430,910	623,649	430,910	623,649
Net surplus		29,893	31,461	29,893	31,461
Revaluation of property, plant and equipment	14	148,397	-	148,397	-
Total recognised revenues and expenses for the year		178,290	31,461	178,290	31,461
Distributions paid or provided to shareholders during the year					
– ordinary dividend		(23,650)	(24,200)	(23,650)	(24,200)
– special dividend		-	(200,000)	-	(200,000)
Equity at the end of the year		585,550	430,910	585,550	430,910

Statement of Financial Position

As at 31 March	Notes	Group 2003 \$000's	Group 2002 \$000's	Parent 2003 \$000's	Parent 2002 \$000's
Assets:					
Current Assets					
Bank and short term deposits		1,744	1,676	1,743	1,669
Accounts receivable	6	6,836	6,690	4,914	3,958
Inventories	7	3,539	3,818	166	99
Income tax		3,418	6,909	3,353	6,616
Property held for sale	9	3,304	3,416	3,304	3,416
Intercompany balances		3,980	3,966	70,291	10,514
		<u>22,821</u>	<u>26,475</u>	<u>83,771</u>	<u>26,272</u>
Non-Current Assets					
Subsidiaries		-	-	4,233	5,249
Goodwill		27	39	-	-
Associates	8	12,305	12,767	12,305	11,426
Energy Developments Limited		57,986	-	-	-
Property, plant and equipment	9	623,731	466,773	618,979	462,280
Prepayment		1,470	1,680	1,470	1,680
Other long term investments		8,724	3,200	4,546	-
		<u>704,243</u>	<u>484,459</u>	<u>641,533</u>	<u>480,635</u>
Total assets		<u>727,064</u>	<u>510,934</u>	<u>725,304</u>	<u>506,907</u>

Statement of Financial Position (continued)

As at 31 March	Notes	Group 2003 \$000's	Group 2002 \$000's	Parent 2003 \$000's	Parent 2002 \$000's
Liabilities:					
Current Liabilities					
Bank overdraft		231	-	-	-
Accounts payable and accruals	10	21,089	26,467	19,151	21,747
Other debt	11	262	262	262	262
		<u>21,582</u>	<u>26,729</u>	<u>19,413</u>	<u>22,009</u>
Non-Current Liabilities					
Interest bearing debt	11	79,068	17,700	79,068	17,700
Deferred tax liability	5	40,864	35,595	41,273	36,288
		<u>119,932</u>	<u>53,295</u>	<u>120,341</u>	<u>53,988</u>
Total external liabilities		<u>141,514</u>	<u>80,024</u>	<u>139,754</u>	<u>75,997</u>
Shareholders' Equity					
Paid up capital	13	120,000	120,000	120,000	120,000
Retained earnings		114,402	109,787	114,402	109,787
Revaluation reserve	14	351,148	201,123	351,148	201,123
		<u>585,550</u>	<u>430,910</u>	<u>585,550</u>	<u>430,910</u>
Total liabilities and equity		<u>727,064</u>	<u>510,934</u>	<u>725,304</u>	<u>506,907</u>

Statement of Cash Flows

For the year ended 31 March	Notes	Group 2003 \$000's	Group 2002 \$000's	Parent 2003 \$000's	Parent 2002 \$000's
Cash Flows From Operating Activities					
Cash was provided from:					
Cash receipts from customers		164,998	184,322	149,649	153,948
Dividends received		113	46	1,613	7,000
Interest received		665	11,911	4,166	11,911
		165,776	196,279	155,428	172,859
Cash was applied to:					
Non capitalised payments to suppliers and employees		83,079	96,201	71,015	76,181
Income tax paid (net of refunds)		17,285	4,915	16,081	1,132
Subvention payments		-	10,198	4,312	14,871
Interest paid		2,195	108	2,195	296
		102,559	111,422	93,603	92,480
Net cash inflow from operating activities	15	63,217	84,857	61,825	80,379
Cash Flows From Investing Activities					
Cash was provided from:					
Sale of property, plant and equipment		556	15,470	286	15,352
Proceeds from investments		-	202	-	-
		556	15,672	286	15,352
Cash was applied to:					
Purchase of property, plant and equipment		27,115	38,989	25,496	37,187
Purchase of investments		76,850	12,015	16,806	7,832
Exploration expenditure		(1)	4,484	-	-
Long term prepayment		-	1,546	-	1,546
		103,964	57,034	42,302	46,565
Net cash outflow from investing activities		(103,408)	(41,362)	(42,016)	(31,213)

Statement of Cash Flows (continued)

For the year ended 31 March	Notes	Group 2003 \$000's	Group 2002 \$000's	Parent 2003 \$000's	Parent 2002 \$000's
Cash Flows From Financing Activities					
Cash was provided from:					
Proceeds of debt		63,700	17,702	63,700	17,702
		63,700	17,702	63,700	17,702
Cash was applied to:					
Increase in current accounts		14	29	59,777	5,989
Dividends paid		23,650	224,200	23,650	224,200
		23,664	224,229	83,427	230,189
Net cash inflow/(outflow) from financing activities		40,036	(206,527)	(19,727)	(212,487)
Cash Flow Summary and Reconciliation					
Opening bank and short term investments		1,676	164,708	1,669	164,990
Effect of foreign exchange fluctuations on cash		(8)	-	(8)	-
Inflow from operating activities		63,217	84,857	61,825	80,379
Outflow from investing activities		(103,408)	(41,362)	(42,016)	(31,213)
Inflow/(outflow) from financing activities		40,036	(206,527)	(19,727)	(212,487)
Net closing bank and short term investments		1,513	1,676	1,743	1,669

1 Statement of Accounting Policies

Reporting entity

Orion New Zealand Limited is a company registered under the Companies Act 1993. The group consists of Orion New Zealand Limited and its subsidiaries (refer to Note 19).

Orion New Zealand Limited is a reporting entity for the purposes of the Financial Reporting Act 1993. The financial statements include the group financial statements of Orion New Zealand Limited and have been prepared in accordance with the Financial Reporting Act 1993 and Section 44 of the Energy Companies Act 1992.

Measurement base

The accounting principles recognised as appropriate for the measurement and reporting of financial performance, cash flows and financial position on an historical cost basis are followed by the group, with the exception that certain property, plant, equipment and investments have been revalued.

Specific accounting policies

The following specific accounting policies that materially affect the measurement of financial performance, cash flows and financial position are applied:

- (a) **Basis of consolidation - purchase method**
The group financial statements include the parent company, its subsidiaries and its in-substance subsidiaries using the purchase method. All significant intercompany transactions have been eliminated on consolidation.
- (b) **Capital contributions**
Capital contributions that are refundable to customers are treated as current liabilities until refunded. Non-refundable contributions are credited to income when received.
- (c) **Research and development costs**
Research and development costs are expensed in the period incurred. Development costs are deferred where future benefits are expected to exceed those costs, otherwise such costs are expensed in the period incurred. Deferred development costs are amortised over future periods in relation to expected future revenue. Unamortised costs are reviewed at each balance date to determine the amount (if any) that is no longer recoverable and any amounts, so identified, are expensed.
- (d) **Distinction between capital and revenue expenditure**
Capital expenditure is defined as all expenditure incurred in the creation of a new asset and any expenditure that results in a significant restoration or increased service potential for existing assets. Constructed assets are included in property, plant and equipment as each becomes operational and available for use. Revenue expenditure is defined as expenditure that is incurred in the maintenance and operation of the property, plant and equipment of the group.
- (e) **Accounts receivable**
Accounts receivable are valued at their expected realisable value. All known bad debts are written off during the financial year. Hire purchase debtors exclude unearned interest (calculated using the "Rule of 78" method).
- (f) **Inventories**
Stocks and inventories are valued at the lower of cost (FIFO or weighted average) and net realisable value, with additional allowances for obsolescence where necessary. Chargeable work in progress includes direct materials and labour and an allocation of overheads that directly relate to the contract.
- (g) **Investments**
Investments are initially recorded at cost. In the parent company financial statements, subsidiaries and associates are accounted for on an equity accounting basis, which shows the company's share of retained surpluses and its share of post acquisition increases/decreases in net assets, less goodwill write offs. Where, in the opinion of the directors, there has been a permanent diminution in the carrying value of investments, this has been recognised in the current period. Dividend income is recognised in the statement of financial performance when received.

The investment in Energy Developments Limited is recorded at cost, adjusted for the exchange rate movement between acquisition and balance date.

- (h) **Depreciation**
Depreciation has been provided on property, plant and equipment using the straight line method at rates which amortise the cost or valuation less estimated residual value over their useful lives.

The main bases are periods not exceeding:

	Years
Electricity distribution system	55
Buildings	50
Cars and vans	5
Trucks	7
Plant and equipment	10
Computer equipment and software	3

The electricity distribution system useful lives have been set consistent with the Ministry of Economic Development's revised ODV Handbook. The useful lives range from 15 - 70 years for the different components of the distribution system.

The depreciation methods and useful lives of property, plant and equipment are reviewed annually to ensure that they remain appropriate.

- (i) **Property, plant and equipment**
The group's property, plant and equipment are revalued on a cyclic basis at least once every three years by independent valuers to fair value. Any subsequent additions are initially recorded at cost until the next revaluation.
- (j) **Goodwill**
Goodwill represents the excess of the purchase consideration over the fair value of net tangible and identifiable intangible assets acquired at the time of the acquisitions of the shares in subsidiaries and associates. Goodwill is amortised by the straight line method over the period during which benefits are expected to be received. This is a maximum of 20 years.
- (k) **Income tax**
The income tax expense charged to the statement of financial performance includes both the current year's provision and the income tax effect of timing differences calculated using the liability method.

Tax effect accounting is applied on a comprehensive basis to all timing differences. A debit balance in the deferred tax account, arising from timing differences or income tax benefits from income tax losses, is only recognised if there is virtual certainty of realisation.
- (l) **Foreign currencies**
Transactions in foreign currencies are converted at the New Zealand rate of exchange ruling at the date of the transaction. Short-term transactions covered by forward exchange contracts are measured and reported at the forward rates specified in those contracts.

At balance date, foreign monetary assets and liabilities are translated at the closing rate, and exchange variations arising from these translations are included in the Statement of Financial Performance.

The exchange difference on hedging transactions undertaken to establish the price of particular sales or purchases, together with any costs associated with hedging transactions, are deferred and included in the measurement of the purchase or sale transaction.
- (m) **Derivative financial instruments**
Orion New Zealand Limited may enter into swaps, FRA's and options transactions. Such transactions are undertaken within board-approved policies and limits for the primary purpose of reducing exposure to fluctuations in interest rates and foreign exchange rates. While these financial instruments are subject to the risk that market rates may change subsequent to the acquisition of the financial instrument, such changes would generally be offset by opposite effects on the items being hedged. For the agreements, the differential to be paid or received is accrued as rates change and is recognised over the life of the agreements.

The group does not engage in speculative transactions or hold derivative financial instruments for trading purposes.

- (n) Employee entitlements
Provision is made in respect of the group's liability for annual and long service leave. The annual leave liability has been calculated on an actual entitlement basis at current rates of pay. The long service leave liability has been assessed on an actuarial basis.
- (o) Exploration expenditure
Exploration expenditure is accounted for using the successful efforts method. Under this method, capitalised exploration costs are immediately written off when it becomes apparent that the activity will not result in the discovery of economically recoverable reserves.

Changes in Accounting Policies

There have been no changes in accounting policies in the 2003 year. The policies have been applied on bases consistent with those used in previous years.

2 Continuing and Discontinued Activities

	Group 2003 \$000's	Group 2002 \$000's	Parent 2003 \$000's	Parent 2002 \$000's
Continuing activities:				
Operating revenue	163,729	189,939	153,025	166,149
Net surplus	29,893	34,440	29,893	34,440
Discontinued activities:				
Operating revenue	-	151	-	151
Net surplus	-	(2,979)	-	(2,979)

3 Operating Revenue

A summary of operating revenue is as follows:

Electricity network delivery revenue	136,779	128,646	136,779	128,646
Transmission rental rebates received	4,323	9,015	4,323	9,015
Ancillary service charge revenue	2,874	-	2,874	-
Network capital contributions	6,229	9,241	6,229	9,241
Contracting	14,440	29,175	-	-
Bad debts recovered	76	119	75	119
Changes in bad debt provisions	214	451	207	421
Interest	628	13,989	4,175	13,986
Dividends	113	46	1,613	7,000
Equity accounted deficits of subsidiaries	-	-	(1,005)	(1,671)
Equity accounted deficits of associates	(6,469)	(3,300)	(6,469)	(3,300)
Foreign exchange gain	2,324	-	2,324	-
Profit on sale of equipment	210	109	85	47
Other	1,988	2,599	1,815	2,796
	<u>163,729</u>	<u>190,090</u>	<u>153,025</u>	<u>166,300</u>

4 Operating Surplus Before Tax

	Group 2003 \$000's	Group 2002 \$000's	Parent 2003 \$000's	Parent 2002 \$000's
Operating surplus before tax includes the following expense items:				
Ancillary service charges	2,874	-	2,874	-
Audit fees – parent company auditor	97	97	63	62
Other fees – parent company auditor	6	14	6	14
Audit fees – other	-	25	-	-
Bad debts written off	88	251	78	249
Depreciation				
– buildings	840	758	824	745
– distribution system	16,173	15,389	16,173	15,389
– other	2,275	2,108	1,220	1,183
Directors' fees	254	203	241	197
Donations	33	42	29	37
Foreign exchange loss	2,755	-	-	-
Goodwill amortisation	2,958	3,727	2,958	3,391
Interest expense	2,462	141	2,462	360
Leasing and rental	489	428	60	59
Loss on disposal of equipment	58	26	39	14
Replaced assets written off	594	-	594	-
Research and development	17	49	-	49
Severance and restructuring	110	257	110	257
Subvention payments	-	10,198	5,212	14,871
Transmission rental rebates refunded	4,323	9,015	4,323	9,015
Write-off exploration expenditure	6	4,233	-	-

5 Taxation

The taxation provisions are subject to Inland Revenue Department assessment.

	Group 2003 \$000's	Group 2002 \$000's	Parent 2003 \$000's	Parent 2002 \$000's
Taxation expense				
Operating surplus before taxation	55,733	60,632	54,222	58,256
Prima facie taxation at 33%	18,392	20,008	17,893	19,224
Taxation effect of:				
Deferred tax adjustment	736	358	744	498
Permanent differences	6,729	4,214	5,709	2,355
Under/(over) provisions in prior years	(18)	4,589	(17)	4,718
Taxation expense as per Statement of Financial Performance	25,839	29,169	24,329	26,795
Comprising:				
Current tax	20,570	24,790	19,344	22,443
Deferred tax	5,269	4,379	4,985	4,352
	25,839	29,169	24,329	26,795
Deferred tax liability				
Opening balance	35,595	31,216	36,288	31,936
Current year movement expensed	5,269	4,379	4,985	4,352
Closing balance	40,864	35,595	41,273	36,288
Imputation credit account				
Opening balance			10,411	28,067
Opening balance adjustment			(860)	(183)
Income tax paid			17,270	4,301
Imputation credits attached to dividends received			53	-
Use of money interest received			1,666	-
Imputation credits attached to dividends paid			(11,649)	(21,770)
Tax transferred to related companies			-	(4)
Closing balance			16,891	10,411

The Orion consolidated tax group, comprising Orion New Zealand Limited and Connetics Limited, had a closing imputation credit account balance of \$16.9m (2002 \$10.4m).

6 Accounts Receivable

A summary of accounts receivable is as follows:

	Group 2003 \$000's	Group 2002 \$000's	Parent 2003 \$000's	Parent 2002 \$000's
Trade receivables	7,096	7,163	5,119	4,379
Interest receivable	-	1	10	1
Allowance for doubtful debts	(260)	(474)	(215)	(422)
	6,836	6,690	4,914	3,958

7 Inventories

	Group 2003 \$000's	Group 2002 \$000's	Parent 2003 \$000's	Parent 2002 \$000's
A summary of inventories is as follows:				
Chargeable work in progress	526	306	166	24
Goods for sale	1,201	1,385	-	75
Maintenance items	1,963	2,246	-	-
Allowance for stock write-off	(151)	(119)	-	-
	3,539	3,818	166	99

Certain inventories are subject to retention of title clauses.

8 Associates

Carrying value

Opening balance – carrying value	(743)	2,869	(743)	2,869
Opening balance – goodwill	13,510	5,500	12,169	5,500
Equity accounted deficits	(6,469)	(3,300)	(6,469)	(3,300)
Purchase of investments	10,813	11,415	10,296	9,738
Goodwill amortised during the year	(2,948)	(3,717)	(2,948)	(3,381)
Disposal of associate	(1,858)	-	-	-
Closing balance	12,305	12,767	12,305	11,426

Closing balances are made up as follows:

Carrying value	4,131	(743)	4,131	(743)
Goodwill	8,174	13,510	8,174	12,169
	12,305	12,767	12,305	11,426

Equity accounted earnings

Share of deficits before tax	(6,469)	(3,300)	(6,469)	(3,300)
Income tax	-	-	-	-
Total recognised revenues and expenses	(6,469)	(3,300)	(6,469)	(3,300)

Goodwill

Closing balances are made up as follows:

Gross amount	15,858	18,582	15,858	16,905
Accumulated amortisation	(7,684)	(5,072)	(7,684)	(4,736)
	8,174	13,510	8,174	12,169

9 Property, Plant and Equipment

	Group 2003 \$000's	Group 2002 \$000's	Parent 2003 \$000's	Parent 2002 \$000's
Land and buildings (at valuation)	34,059	25,230	33,941	25,112
Land and buildings (at cost)	167	4,245	-	4,202
Work in progress	129	88	129	88
Accumulated depreciation	(118)	(1,341)	(78)	(1,317)
	34,237	28,222	33,992	28,085
Distribution system (at valuation)	575,097	390,350	575,097	390,350
Distribution system (at cost)	-	64,400	-	63,765
Work in progress	6,240	6,495	6,240	6,495
Accumulated depreciation	-	(30,106)	-	(30,056)
	581,337	431,139	581,337	430,554
Other (at valuation)	5,092	5,198	2,839	2,739
Other (at cost)	8,802	6,221	3,987	3,344
Work in progress	30	14	16	-
Accumulated depreciation	(5,767)	(4,021)	(3,192)	(2,442)
	8,157	7,412	3,650	3,641
Total property, plant and equipment	623,731	466,773	618,979	462,280
Totals for all asset classes:				
At valuation	614,248	420,778	611,877	418,201
At cost	8,969	74,866	3,987	71,311
Work in progress	6,399	6,597	6,385	6,583
Accumulated depreciation	(5,885)	(35,468)	(3,270)	(33,815)
Carrying value	623,731	466,773	618,979	462,280

Revaluation

All of the group's land and buildings were revalued to fair value at 31 March 2003 by independent valuers Ernst & Young Corporate Finance Limited. The electricity distribution system was revalued by Orion management on an optimised depreciated replacement cost basis and was certified by independent valuers, Ernst and Young Corporate Finance Limited as at 31 March 2003.

An impairment review of all other plant and equipment was undertaken as at 31 March 2003 by independent valuers Ernst & Young Corporate Finance Limited, who determined that as no significant impairment exists, these assets may be carried at their existing carrying values. Assets in this category were last revalued at 31 March 2000.

Depreciation has been applied to the assets for the year ended 31 March 2003 in accordance with the group's accounting policies.

Property held for sale

Property held for sale was revalued to net current value as at 31 March 2000 and has not been subsequently revalued. Depreciation has been applied to these assets consistent with the group's accounting policies.

Property held for sale at 31 March was as follows:

	Group 2003 \$000's	Group 2002 \$000's	Parent 2003 \$000's	Parent 2002 \$000's
At cost/valuation	3,700	3,751	3,700	3,751
Accumulated depreciation	(396)	(335)	(396)	(335)
	3,304	3,416	3,304	3,416

10 Accounts Payable, Accruals and Provisions

	Group 2003 \$000's	Group 2002 \$000's	Parent 2003 \$000's	Parent 2002 \$000's
A summary of accounts payable and accruals is as follows:				
Trade creditors and accruals	16,921	20,164	16,575	17,886
Employee entitlements	2,607	2,643	1,172	1,153
Provisions	1,230	3,631	1,073	2,644
Interest accrued on term liabilities	331	29	331	64
	21,089	26,467	19,151	21,747
Provisions comprise:				
Warranties	50	65	10	65
Long service leave	255	270	138	154
Site restoration	400	400	400	400
Revenue adjustments	525	2,025	525	2,025
Remedial work	-	613	-	-
Restructuring	-	258	-	-
	1,230	3,631	1,073	2,644

Details of these provisions are:

Warranties

Opening balance	65	300	65	300
Additional provision made	55	15	-	15
Amount utilised	(40)	(96)	(25)	(96)
Unused provision reversed	(30)	(154)	(30)	(154)
Closing balance	50	65	10	65

The provision for warranties relates mainly to Transflux units developed over the last two years. The amount of the provision is based on estimates made from historical warranty data. The liability is expected to be incurred over the next year.

Long service leave

Opening balance	270	237	154	132
Additional provision made	24	46	23	35
Amount utilised	(39)	(13)	(39)	(13)
Closing balance	255	270	138	154

The provision for long service leave relates to an actuarial assessment of entitlements that may become due to employees in the future. The provision is affected by a number of estimates, including the expected length of service of employees and the timing of benefits being taken. Most of the liability is expected to be incurred over the next 5 years.

	Group 2003 \$000's	Group 2002 \$000's	Parent 2003 \$000's	Parent 2002 \$000's
Site restoration				
Opening balance	400	-	400	-
Additional provision made	-	400	-	400
Closing balance	400	400	400	400

The provision for site restoration relates to an assessment of costs to remove and treat contaminated soil and to reinstate with clean soil. This liability is expected to be incurred in the next few months.

Revenue adjustments

Opening balance	2,025	3,300	2,025	3,300
Additional provision made	-	525	-	525
Amount utilised	-	(1,800)	-	(1,800)
Unused provision reversed	(1,500)	-	(1,500)	-
Closing balance	525	2,025	525	2,025

The provision for revenue adjustments relates to an allowance for possible adjustments to amounts billed to electricity retailers. This is as a consequence of improved billing data becoming available through the regular monthly billing wash up process. The liability is expected to be incurred over the next year.

Remedial work

Opening balance	613	700	-	-
Additional provision made	-	-	-	-
Amount utilised	(1)	(87)	-	-
Unused provision reversed	(612)	-	-	-
Closing balance	-	613	-	-

The provision for remedial work related to an assessment of the costs to replace cable supplied by a third party under a cable supply agreement. This matter is now resolved.

Restructuring

Opening balance	258	-	-	-
Additional provision made	-	258	-	-
Amount utilised	(185)	-	-	-
Unused provision reversed	(73)	-	-	-
Closing balance	-	258	-	-

The provision for restructuring related to an assessment of employee related and recruitment costs resulting from the implementation of the restructuring plan announced in March 2002.

11 Interest Bearing and Other Debt

	Group 2003 \$000's	Group 2002 \$000's	Parent 2003 \$000's	Parent 2002 \$000's
A summary of interest bearing and other debt is as follows:				
Clean air loan advance	262	262	262	262
Other interest bearing debt	79,068	17,700	79,068	17,700
	79,330	17,962	79,330	17,962
Current	262	262	262	262
> 2 years	79,068	17,700	79,068	17,700
	79,330	17,962	79,330	17,962

All debt is unsecured against the group, however a Deed of Negative Pledge and Guarantee requires the company to comply with certain covenants.

Interest bearing debt includes borrowings in the following currencies:

New Zealand dollars	\$30m
Australian dollars	\$45m.

Interest rates for all borrowing are floating based on bank bill rates plus a margin. As at 31 March 2003 this rate was 5.9925% (2002, 5.33%) for New Zealand dollar borrowing and averaged 5.015% for Australian dollar borrowing. The company has entered into derivative contracts to hedge its exposure to interest rate fluctuations (refer Note 12).

12 Financial Instruments

A summary of financial instruments is as follows:

	Carrying Amount 2003 \$000's	Fair Value 2003 \$000's	Carrying Amount 2002 \$000's	Fair Value 2002 \$000's
Group				
Cash and short term investments	1,744	1,744	1,676	1,676
Long term investments	21,029	21,029	15,967	15,967
Energy Developments Limited	57,986	33,818	-	-
Bank overdraft	(231)	(231)	-	-
Interest bearing debt – term	(79,068)	(79,068)	(17,700)	(17,700)
Other debt – current	(262)	(262)	(262)	(262)
Interest rate swaps and FRA's	-	240	-	-
Parent company				
Cash and short term investments	1,743	1,743	1,669	1,669
Long term investments	21,084	21,084	16,675	16,675
Interest bearing debt – term	(79,068)	(79,068)	(17,700)	(17,700)
Other debt – current	(262)	(262)	(262)	(262)
Interest rate swaps and FRA's	-	240	-	-

The company anticipates that long term debt will be held to maturity.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Cash, short term investments, bank overdraft and short term debt. The carrying amounts of these balances are equivalent to their fair value.

Long term investments. For non-current investments where there are no quoted market prices for these or similar investments, it was not practicable to estimate fair values. The investments are carried at valuation and are considered redeemable at their carrying amount.

Energy Developments Limited: The fair value of the investment is based on the Australian Stock Exchange listed share price on 31 March 2003. The investment has not been revalued. The board believes that, despite the current Australian Stock Exchange market price being lower than cost, there has been no permanent impairment in value as the company's strategy is to be a long term shareholder and the net tangible backing supports retaining the cost price valuation, adjusted for foreign exchange movements. On 31 March 2003, the net carrying value of the investment was approximately A\$3.00 per share and the net tangible asset backing of Energy Developments Limited was also approximately A\$3.00 per share.

Long term debt. The fair value of long term debt is estimated based on current market interest rates available to the company for debt of similar maturities.

Interest rate swaps and forward rate agreements (FRA's). The fair value of interest rate swaps and FRA's, is estimated based on quoted market prices of those instruments.

Off-Balance Sheet Risk

The notional principal or contract amounts of derivative instruments outstanding at 31 March were as follows:

	Group 2003 \$000's	Group 2002 \$000's	Parent 2003 \$000's	Parent 2002 \$000's
Interest rate swaps and FRA's (NZD)	20,000	-	20,000	-
Cross currency interest rate swaps (AUD)	40,000	-	40,000	-
Foreign currency forward exchange contracts (AUD)	164	-	164	-

Interest Rate Risk

Interest rate risk is the risk that the value of the group's assets and liabilities will fluctuate due to changes in market interest rates.

The company has interest bearing debt which is subject to interest rate variations in the market.

Interest rate swaps, FRA's and options are employed to manage interest rate exposure on long term borrowings.

Contracts have been entered into with various counterparties having such credit ratings and in accordance with such dollar limits as set by the Board of Directors. The company does not require collateral or other security to support financial instruments with credit risk. While the company may be subject to credit losses up to the notional principal or contract amounts in the event of non performance by its counterparties, it does not expect such losses to occur.

For interest rate swaps, FRA's and options contracts the cash requirements are limited to interest payable or receivable which was a net payable amount of \$35,422 as at 31 March 2003 (Nil in 2002).

Foreign currency risk

Foreign currency risk is the risk that the value of the company's assets and liabilities will fluctuate due to changes in foreign exchange rates. The company is exposed to currency risk as a result of transactions that are denominated in a currency other than New Zealand dollars, such as the investment in Australia, and the Australian dollar borrowings.

The group's policy is to hedge its foreign currency exposure, which at group level is achieved by a partial hedge of the investment against the borrowings, in accordance with group treasury policies.

Market risk

Market risk is the risk that the value of the group's assets and liabilities will fluctuate due to changes in market prices. These changes may be caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The group is exposed to market risk through its investments in listed and unlisted companies.

It is not the group's policy to hedge its exposures to market risk. The group has specific policies and procedures for identifying and evaluating investment opportunities.

Concentration of Credit Risk

Financial instruments that potentially subject the company to concentrations of credit risk consist principally of cash and short-term investments, trade and notes receivable and various off-balance sheet instruments. The company places its cash and short-term investments with high credit quality financial institutions and sovereign bodies and limits the amount of credit exposure to any one financial institution in accordance with its treasury policy.

13 Paid up capital

The 80 million (\$1.50) ordinary shares were issued in April 1993 pursuant to the approved establishment plan and sale and purchase agreement and are fully paid up.

14 Revaluation Reserve

	Group 2003 \$000's	Group 2003 \$000's	Parent 2003 \$000's	Parent 2003 \$000's
Opening balance	201,123	201,123	201,123	201,123
Disposal of revalued assets	1,628	-	1,628	-
Revaluation of distribution system and land and buildings	148,397	-	148,397	-
	351,148	201,123	351,148	201,123
The revaluation reserve is comprised as follows:				
Land and buildings	9,394	2,262	9,394	2,262
Distribution system	341,754	198,861	341,754	198,861
	351,148	201,123	351,148	201,123

15 Reconciliation of Net Surplus After Taxation with Net Cash Flow from Operating Activities

Net surplus after tax	29,893	31,461	29,893	31,461
Minority interests' share of net surplus	1	2	-	-
Non cash items:				
Depreciation	19,288	18,255	18,217	17,317
Assets written off	594	12	594	-
Subsidised assets	(1,745)	-	(1,745)	-
Change in deferred tax liability via expense	5,269	4,379	4,985	4,352
Amortisation of goodwill	2,958	3,727	2,958	3,391
Foreign exchange movements	431	-	(2,324)	-
Non dividend equity accounted surpluses and deficits from subsidiaries and associates	6,469	3,300	7,474	4,971
Other	217	-	210	-
	33,481	29,673	30,369	30,031

	Group 2003 \$000's	Group 2002 \$000's	Parent 2003 \$000's	Parent 2002 \$000's
Movements in other working capital items:				
(Increase)/decrease in debtors	(116)	5,052	(947)	3,696
(Increase)/decrease in interest receivable	1	1,112	(9)	1,112
(Increase)/decrease in stocks	279	677	(67)	48
Decrease in taxation receivable	3,351	16,688	3,263	18,124
Decrease in creditors	(3,631)	(3,972)	(898)	(4,124)
Increase in interest payable	302	26	267	64
	186	19,583	1,609	18,920
Items classified as an investing activity:				
Write off exploration expenditure	6	4,233	-	-
Profit on sale of property, plant and equipment	(152)	(95)	(46)	(33)
Profit on sale of investment	(198)	-	-	-
	(344)	4,138	(46)	(33)
Net cash inflow from operating activities	63,217	84,857	61,825	80,379

16 Contingent Assets and Liabilities

As at 31 March 2003, Connetics Limited had arranged performance bonds with its bankers in favour of various parties for contract work to the value of \$120,000 (\$720,000 in 2002).

17 Commitments

At balance date, capital commitments were as follows:

	2003	2002	2003	2002
Electricity network	4,894	4,018	4,894	4,018
Investments	23,252	16,107	23,252	16,107
	28,146	20,125	28,146	20,125

Capital commitments of \$24.9m are uncertain as to timing (2002 \$8.0m).

At balance date, lease commitments were as follows:

Year	2003	2002	2003	2002
2004	406	138	49	48
2005	49	48	49	48
2006	49	48	49	48
2007	49	477	49	48
2008 and beyond	488	477	488	477

Note: commitments that extend beyond 2008 have been assessed for a maximum period of 10 years.

18 Segmental Reporting

Orion New Zealand Limited and its subsidiaries operate predominantly in the electricity distribution network sector. The Australian and USA operations are not material in relation to Orion's overall operations.

19 Subsidiary and Associated Companies at 31 March 2003

All group companies have a 31 March year-end except for the Manchester Holdings/CIC group who have a 31 December year-end and Pulse Data International Limited that has a 30 September year-end. The operating subsidiary and in-substance subsidiary companies of Orion New Zealand Limited, its associated companies and their activities were as follows:

Company name	Effective ownership	Principal activities
Connetics Limited	100%	Contracting
Energetics Pty Ltd	36%	Energy consultancy
4RF Communications Limited	38%	High performance radio systems
IO Fund No. 1 Limited	33%	Investment
IO Management Limited	50%	Investment management
Manchester Holdings, Inc – CIC Global LLC	100% 50%	Registered in USA - holding company Power metering systems
Orion Exploration Limited	100%	Gas exploration
Orion New Zealand Ventures Limited	100%	Investment
Orion No. 2 Limited – Energy Developments Limited	100% 15%	Holding company Electricity generation and waste management
Pulse Data International Limited	17%	Products for the visually impaired
Transflux Holdings Limited	70%	Induction heating licensing
Transflux Limited	100%	Induction heating development
Whisper Tech Limited	47%	Micro cogeneration systems

20 Significant Events After Balance Date

There were no significant events between the preparation and authorisation of these accounts on 27 May 2003.

21 Related Parties

Christchurch City Holdings Limited (CCHL) is an 87.625% shareholder in the holding company. CCHL is 100% owned by the Christchurch City Council (CCC).

Selwyn Council Trading Enterprises Limited (SCTEL) is a 10.725% shareholder in the holding company. SCTEL is 100% owned by the Selwyn District Council (SDC).

Banks Peninsula District Council (BPDC) is a 1.650% shareholder in the holding company.

The company has been 100% owned by Orion Group Limited (the holding company) since 23 October 1998. Prior to that date its shares were owned in the above proportions by CCHL, SCTEL and BPDC.

The company and its subsidiaries undertake many transactions with the shareholders and their related parties, all of which are carried out on a commercial and arms length basis. During the year no material transactions, other than the payment of dividends, were entered into with such parties.

During the year no transactions were entered into with any of the directors, except for the following:

– transactions with Carter Group Limited and a subsidiary relating to subdivision power reticulation:

Purchase	\$51,000
Liability at 31 March 2003	\$27,000

– a transaction between Connetics Limited and a director for \$5,000.

All of these transactions were conducted on an arms length commercial basis.

	Group 2003 \$000's	Group 2002 \$000's	Parent 2003 \$000's	Parent 2002 \$000's
Transactions during the year with owners				
Purchases from CCC, SDC, BPDC and their subsidiaries	2,242	4,934	1,452	3,376
Revenues from CCC, SDC, BPDC and their subsidiaries	6,681	4,949	4,036	2,524
Dividend payments to Orion Group Ltd	23,650	224,200	23,650	224,200
Subvention payment to Orion Group Ltd	-	10,198	-	10,198
Outstanding balances as at 31 March with owners				
Accounts payable to CCC, SDC, BPDC and their subsidiaries	111	257	22	6
Accounts receivable from CCC, SDC, BPDC and their subsidiaries	1,533	280	1,275	40
Transactions during the year with subsidiaries and associates				
Purchases				
– Connetics Limited	-	-	16,672	21,482
– IO Management Limited	197	-	197	-
Subvention payments made				
– Transflux Limited	-	-	902	-
– Orion No. 2 Limited	-	-	3,447	-
Revenues				
– Connetics Limited	-	-	676	695
– Transflux Limited	-	-	102	-
– Orion No. 2 Limited	-	-	3,467	-
Dividends received				
– Connetics Limited	-	-	1,500	7,000
Outstanding balances as at 31 March with subsidiaries and associates				
Accounts payable				
– Connetics Limited	-	-	2,465	2,450
– Transflux Limited	-	-	900	-
Accounts receivable				
– Connetics Limited	-	-	75	88
– Transflux Limited	-	-	1	-
Intercompany loans to/(from)				
– Connetics Limited	-	-	1,074	169
– Transflux Limited	-	-	1,039	(52)
– Orion No. 2 Limited	-	-	60,764	-
– IO Fund	1,471	-	1,471	-

	Actual 2003	Target 2003	Actual 2002	Gazetted NZ Average 2002
Financial				
Electricity network regulatory return on investment (ROI) (%)	8.8	7.8	7.7	-
Net surplus to average shareholders' equity (%)	5.9	5.4	6.0	-
Customers (Electricity Network)				
All interruptions: The following targets include interruptions sourced from the Orion network, Transpower network and the generation companies.				
Duration of supply interruptions per connected customer (SAIDI)				
• minutes per year:				
– urban	31	38	15	-
– rural	651	375	288	-
– overall	102	76	46	187
Number of supply interruptions per connected customer (SAIFI)				
• times per year:				
– urban	0.8	0.8	0.3	-
– rural	4.5	3.8	3.7	-
– overall	1.2	1.1	0.7	2.7
Orion network interruptions only: The following targets include interruptions sourced from the Orion network only.				
Duration of supply interruptions per connected customers (SAIDI)				
• minutes per year:				
– urban	24	34	15	-
– rural	646	340	219	-
– overall	96	69	38	155
Number of supply interruptions per connected customer (SAIFI)				
• times per year:				
– urban	0.5	0.7	0.3	-
– rural	4.3	3.4	2.9	-
– overall	0.9	1.0	0.6	2.1

**REPORT OF THE AUDITOR-GENERAL
TO THE READERS OF THE FINANCIAL STATEMENTS OF
ORION NEW ZEALAND LIMITED AND GROUP
FOR THE YEAR ENDED 31 MARCH 2003**

We have audited the financial statements and performance information on pages 46 to 67. The financial statements provide information about the past financial performance of Orion New Zealand Limited and group and its financial position as at 31 March 2003. The performance information specifies the performance targets and other measures by which the performance of Orion New Zealand Limited and group can be judged in relation to its objectives. This information is stated in accordance with the accounting policies set out on pages 52 to 54.

Responsibilities of the Board of Directors

The Energy Companies Act 1992 and the Financial Reporting Act 1993 require the Board of Directors (the Board) to prepare financial statements in accordance with generally accepted accounting practice and give a true and fair view of the financial position of Orion New Zealand Limited and group as at 31 March 2003 and the results of its operations and cash flows for the year ended 31 March 2003. The Energy Companies Act 1992 also requires the Board to report the performance targets and other measures by which the performance of Orion New Zealand Limited and group can be judged in relation to its objectives.

Auditor's responsibilities

Section 15 of the Public Audit Act 2001 and Section 45(1) of the Energy Companies Act 1992 requires the Auditor-General to audit the financial statements and the performance information presented by the Board. It is the responsibility of the Auditor-General to express an independent opinion on the financial statements and the performance information and report its opinion to you.

The Auditor-General has appointed K J Boddy, of Audit New Zealand, to undertake the audit.

Basis of opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements and performance information. It also includes assessing:

- the significant estimates and judgements made by the Board in the preparation of the financial statements and performance information; and
- whether the accounting policies are appropriate to Orion New Zealand Limited and group's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with the Auditing Standards published by the Auditor-General, which incorporate the Auditing Standards issued by the Institute of Chartered Accountants of New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

We have carried out an audit related assignment for Orion New Zealand Limited. This involved issuing audit certificates pursuant to the Electricity (Information Disclosure) Regulations 1999. Other than these assignments and in our capacity as auditor acting on behalf of the Controller and Auditor-General, we have no other relationship with or interests in Orion New Zealand Limited or its subsidiaries.

Unqualified opinion

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by Orion New Zealand Limited and group as far as appears from our examination of those records; and
- the financial statements of Orion New Zealand Limited and group on pages 46 to 66:
 - comply with generally accepted accounting practice; and
 - give a true and fair view of:
 - the financial position as at 31 March 2003; and
 - the results of its operations and cash flows for the year ended on that date; and
- the performance information of Orion New Zealand Limited and group on page 67 gives a true and fair view of the achievements in relation to the performance targets and other measures adopted for the year ended 31 March 2003.

Our audit was completed on 27 May 2003 and our unqualified opinion is expressed as at that date.



K J Boddy
Audit New Zealand
On behalf of the Controller and Auditor-General
Christchurch, New Zealand

Board of Directors



Linda Constable LLM (Hons)

Chairman from August 1999. Director since February 1989. She is a member of the Local Government Commission appointed by government, and a director of IO Management Limited and New Zealand Railways Corporation Limited.

Peter Rae FCA, AFNZIM

Director since 1998 and deputy chairman since August 1999. Chairman of the audit and risk management committee and a director of Orion subsidiary, Connetics Limited. He is chairman and managing director of Peter Rae Industries Limited and a director of its associate companies. He is also a director of The National Property Trust, NPT Capital Limited and several private companies.

Craig Boyce B Com, ACA, FNZIM

Director since August 2002. He is chairman of Smiths City Group Limited, Connexionz Limited and Television New Zealand Limited. He is a director of Christchurch City Holdings Limited, Bernard Matthews NZ Limited, Industry New Zealand Limited, Datacom Group Limited, The Christchurch Arts Centre and deputy chair of the Central City Forum.

Philip M Carter JP, BE (Hons), Reg Eng, Dip Bus Admin (Cant)

Director since November 1989 and deputy chairman between 1993 and 1998. He is managing director of Carter Group Limited and its subsidiaries, and a trustee of the Carter Charitable Trust. He is a former member of the Christchurch City Council.



Don Elder BE (Hons), PhD

Director since February 2002. He is chief executive officer of Solid Energy New Zealand Limited and is a director of several of its subsidiary companies and associate companies. He is also a director of the Port of Napier Limited.

George A C Gould LLB

Director since August 2001. A member of the audit and risk management committee. He is managing director of Pyne Gould Guinness Limited and a director of Pyne Gould Corporation Limited. He is also chairman of Designer Textiles Limited and Vertex Group Holdings Limited.

Sue Wells BA

Director since March 2002. Christchurch City councillor since 1998. She is chairperson of the Christchurch City Council's Regulatory and Consents Standing Committee, the District Licensing Agency and has been a member of the Spreydon – Heathcote Community Board since 1995.

Statutory information

Ownership

The company has, since 23 October 1998, been 100% owned by Orion Group Limited (the holding company).

The holding company is owned in the following proportions:

• by Christchurch City Holdings Limited (which is 100% owned by the Christchurch City Council)	87.625%
• by Selwyn Council Trading Enterprises Limited (which is 100% owned by the Selwyn District Council)	10.725%
• by the Banks Peninsula District Council	1.650%
	<u>100.000%</u>

There have been no changes in the above beneficial interests during the financial year.

Principal Activities

The company's principal activities during the year were:

- to provide network distribution services to electricity retailers on behalf of consumers
- to provide other services such as contracting in the utilities sector
- to seek investment opportunities in the infrastructure, energy and technology sectors.

Directors

John Gray retired as a director on 6 August 2002.

Craig Boyce was appointed as a director on 7 August 2002.

Chris Laurie resigned as a director on 12 March 2003.

The following directors retire by rotation at the Annual Meeting:

- Philip Carter
- Linda Constable.

Philip Carter is not seeking reappointment.

Linda Constable, being eligible, offers herself for reappointment.

Entries in the Interests Register

The company maintains an interests register in which particulars of certain transactions and matters involving the directors are recorded. These are requirements under the Companies Act 1993. The following entries were recorded in the interests register during the year ended 31 March 2003.

Director	Company	Position
Craig Boyce	Bernard Matthews New Zealand Limited	Director
	Christchurch City Holdings Limited	Director
	Connexionz Limited	Director
	Datacom Group Limited	Director
	Industry New Zealand	Director
	Progressive Leathers Limited	Director
	Smiths City Group Limited	Director
	Television New Zealand Limited	Director
	The Christchurch Arts Centre	Trustee
	Philip Carter	Carter Charitable Trust
Carter Group Limited and subsidiaries in hotel and property		Director
Linda Constable	Carter Group Limited and subsidiary companies	Director
	Energy Developments Limited (Australia)	Director
	IO Fund No. 1 Limited	Director
	IO Management Limited	Director
	Local Government Commission	Member
	Orion No. 2 Limited	Director
Don Elder	Port of Napier Limited	Director
	Solid Energy New Zealand Limited - also a director of its subsidiaries	Chief Executive Officer
George Gould	Designer Textiles (NZ) Limited	Director
	Gould Holdings Limited	Director
	Pyne Gould Corporation Limited and its subsidiaries	Director
	Pyne Gould Guinness Limited and its subsidiaries	Director
	Vertex Group Holdings Limited and its subsidiaries	Director

Statutory information

Director	Company	Position
Chris Laurie	CIC Global, LLC	Director
	Connetics Limited	Director
	4RF Communications Limited	Director
	Energetics Pty Limited	Director
	Energy Developments Limited (Australia)	Director
	Envinta Corporation (USA)	Director
	IO Fund No. 1 Limited	Director
	IO Management Limited	Director
	Manchester Holdings (Delaware)	Director
	Orion No. 2 Limited	Director
Pulse Data International Limited	Director	
Peter Rae	Abco Meats Limited	Director
	Bay City Meats Limited	Director
	Connetics Limited	Director
	Last Post Inn Limited	Director
	Lye Properties Limited	Director
	Newmarket Property Management Limited	Director
	NPT Capital Limited	Director
	Peter Rae Industries Limited	Director
	The National Property Trust Limited	Director
	Transport Haulage & Equipment Finance Limited	Director
	Waitaki Transport Limited	Director
	W H Collins Limited	Director
764 Colombo Street Limited	Director	
Sue Wells	Christchurch City Council	Councillor
	Spreydon - Heathcote Community Board	Member

Directors' Remuneration

During the year the total of the remuneration and value of other benefits received by the directors of the company was as follows:

	Orion NZ Ltd Directors' Fees \$000's
Craig Boyce	19.7
Philip Carter	30.5
Linda Constable (Chairman)	54.7
Don Elder	30.5
George Gould	30.5
John Gray	10.8
Peter Rae	33.5
Sue Wells	30.5
	<u>240.7</u>

In addition, John Gray received a retirement gift (\$3,300).

The remuneration of Chris Laurie (Managing Director) for the year was \$624,000, principally salary, and performance bonuses relating to the years ended 31 March 2002 and 31 March 2003 (on resignation).

Directors' Insurance

The company has arranged insurance policies for directors' liability insurance within the limits and requirements as set out in the Companies Act 1993.

Loans to Directors

There were no loans made to directors.

Subsidiary Companies

The following persons held office of subsidiary companies at the end of the year or in the case of those persons with the letter (R) after their name ceased to hold office during the year. Except where shown below and above, no director of any subsidiary company within the Orion group receives directors' fees or other benefits as a director. The remuneration of employees acting as directors of subsidiary companies is disclosed in the relevant bandings in the Group Employee Remuneration section following.

Statutory information

Connetics Limited	B Kearney, C Laurie, P Rae \$13,000
Manchester Holdings, Inc	C Laurie, I McInnes, J Thomas
Orion Exploration Limited	C Laurie (R), L Constable, J Gray (R)
Orion New Zealand Ventures Limited	C Laurie (R), I McInnes
Orion No. 2 Limited	C Laurie (R), L Constable
Transflux Holdings Limited	P Bodger, I McInnes (R), B Kearney, C Laurie (R), K Longden, C Eastgate
Transflux Limited	I McInnes (R), B Kearney, C Laurie (R), R Jamieson, C Eastgate

Other than those entries disclosed above, there were no further entries made in the subsidiary companies' interests registers. Chris Laurie resigned from his other directorships above on 12 May 2003.

Group Employee Remuneration

The number of group employees and former employees, other than directors of Orion New Zealand Limited, whose remuneration and benefits fall within specified bands is listed below. Remuneration includes all non-cash benefits and redundancy payments where applicable.

Remuneration \$000's	No. of current and former employees
100 - 110	4
110 - 120	5
120 - 130	3
130 - 140	1
140 - 150	2
150 - 160	1
160 - 170	2
260 - 270	1
270 - 280	1
290 - 300	1
330 - 340	1
400 - 410	1

Auditor

In accordance with Section 45 of the Energy Companies Act 1992, The Audit Office will remain as auditor of the company.

Five year trends

	2003	2002	2001	2000	1999
Group operating revenues (gross) (\$m)	164	190	408	273	576
Net surplus after tax attributable to parent company shareholders (\$m)	29.9	31.5	250.5	30.4	144.2
Net surplus attributable to parent company shareholders per share (cents)	37.4	39.3	313.1	38.0	180.3
Net surplus attributable to parent company shareholders to average ordinary shareholders' equity (%)	5.9	6.0	44.5	5.7	27.4
Ordinary dividends per share (cents)	29.6	30.3	16.0	30.0	30.0
Total group assets (\$m)	727	511	683	858	1,007
Total group liabilities (\$m)	142	80	60	356	375
Orion shareholders' equity (\$m)	586	431	624	503	632
External debt:debt plus equity ratio (parent) (%)	11.9	4.0	-	35.0	32.2
Net tangible asset backing per share (\$)	6.15	5.22	7.80	5.48	6.10
Electricity deliveries into the network (GWh)	3,064	2,901	2,822	2,735	2,690
Electricity maximum demand (MW)	603	565	526	542	517

Corporate Governance Statement

The directors are pleased to present the company's Corporate Governance Statement.

This statement provides an overview of the company's main corporate governance practices.

Role of the Board

The Board is responsible for the proper direction and control of the company's activities.

This responsibility includes such areas of stewardship as:

- commercial performance
- business plans and budgets
- corporate policies
- financial and dividend policies
- management oversight
- delegations of authority
- identification and control of business risks
- identification and control of business opportunities
- internal control systems
- integrity of management information systems
- compliance with relevant law
- reports to shareholders.

In accordance with section 36 of the Energy Companies Act 1992, the company's principal objective is to operate as a successful business.

Board Committees

The Audit and Risk Management Committee liaises with the company's auditors and provides additional assurance regarding the quality and reliability of internal controls and financial information used by and issued by the Board. The Committee also oversees the company's insurance practices and monitors the effectiveness of the company's risk and loss control activities.

Statement of Corporate Intent

In accordance with Section 39 of the Energy Companies Act 1992, the Board submits a draft Statement of Corporate Intent (SCI) for the coming financial year. This SCI sets out the company's overall objectives, intentions, and financial and performance targets. After due consultation and agreement with the holding company's three shareholders, a summary of the draft SCI is included in their respective draft Annual Plans which are available for public submissions. The final SCI is approved by the holding company's three shareholders.

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

Legislative Compliance

The company has a comprehensive approach to compliance with relevant law. Compliance manuals and staff training are made available to all employees. Where appropriate, external experts are engaged to advise the company on the appropriate practices to ensure compliance. The Board receives monthly updates from management on compliance. Areas of relevant law include corporate, taxation, financial reporting, commercial, environmental, human resources, health and safety and privacy.

Subsidiary Companies

Each of the significant trading subsidiary companies has at least one non-executive Orion New Zealand director on its Board. The Orion Board receives regular updates on and monitors the performance of each of those subsidiary companies.

Directory

Directors

Linda Constable (Chairman)

Peter Rae (Deputy Chairman)

Craig Boyce

Philip Carter

Don Elder

George Gould

Sue Wells

Senior Management

Roger Sutton (Chief Executive Officer)

Rob Jamieson (Commercial Manager)

Brendan Kearney (General Manager Corporate Services)

Craig Kerr (Information Services Manager)

Graeme Messervy (Network Operations Manager)

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