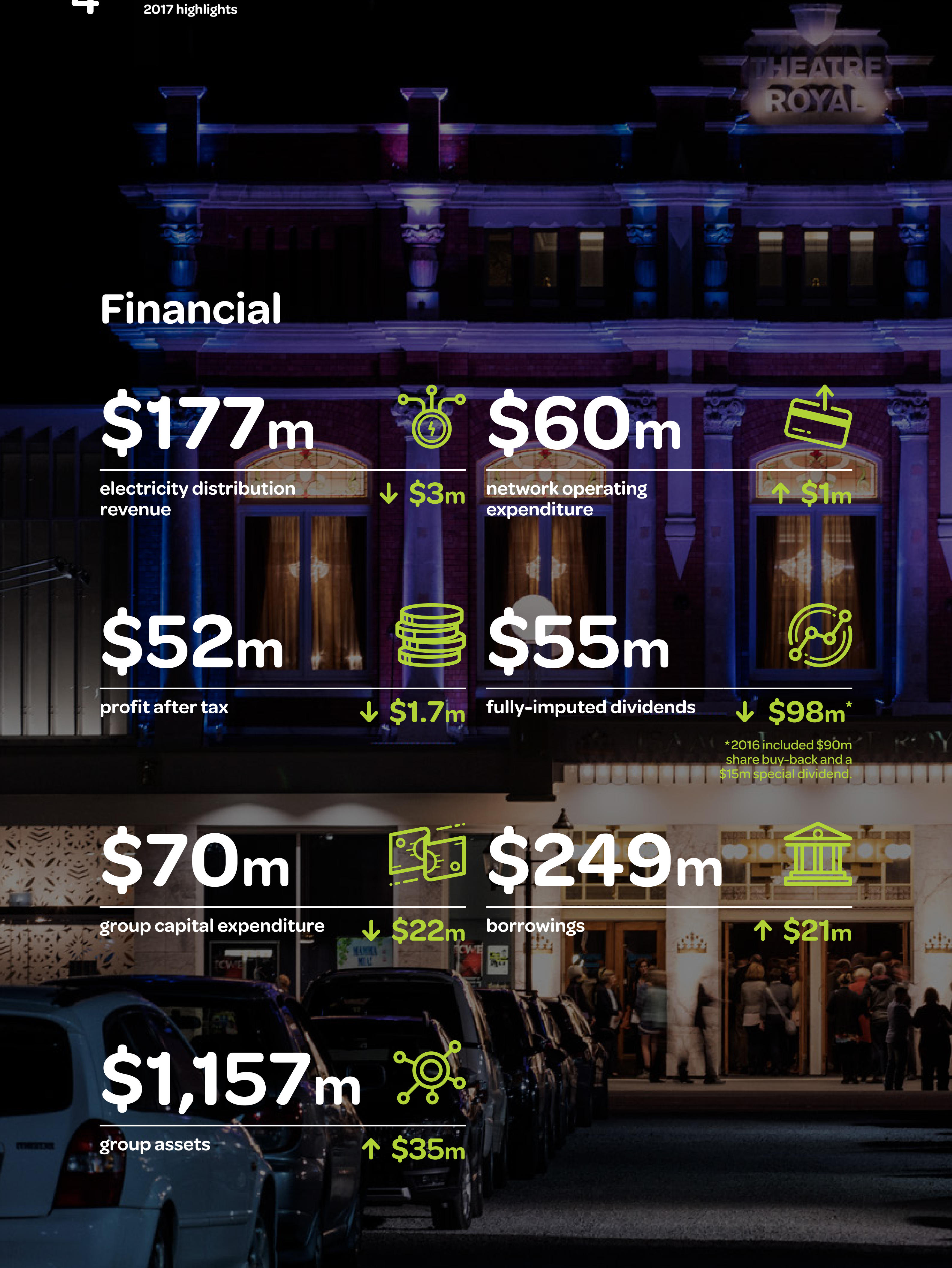
Orion

Orion New Zealand Limited
Annual Report FY17

"You just flick on a switch and it's there.

You don't realise how much you rely on power for pretty much everything you do."

– Gina Wood
Customer



Financial

$177m
electricity distribution revenue
↓ $3m

$60m
network operating expenditure
↑ $1m

$52m
profit after tax
↓ $1.7m

$55m
fully-imputed dividends
↓ $98m*

*2016 included $90m share buy-back and a $15m special dividend.

$70m
group capital expenditure
↓ $22m

$249m
borrowings
↑ $21m

$1,157m
group assets
↑ $35m

2017 highlights

Network

198,000
customer connections
↑ 3,600

3,200
gigawatt hours of electricity delivered
↓ 70

600MW
network maximum demand
↓ 20MW

80
minutes of network outages per customer
↓ 33

Chairman and Chief Executive Officer's report

Nick Miller
Chairman

Rob Jamieson
Chief Executive Officer

Our vision is to connect communities and ignite innovation. We aim to support our customers to achieve their goals and aspirations.

Every moment of every day, our 198,000 customers rely on electricity delivered by the Orion network – across 8,000 square kilometres in Christchurch and the Selwyn District.

Keeping this vital infrastructure operating safely and sustainably all day, every day is our top priority.

A year of strong performance – with a focus on the future

Cantabrians have come to appreciate the value of a reliable and resilient power supply, and knowing their electricity network has the capacity to meet their needs, when they need it.

As a lifelines utility, we continue to invest for the long term interest of our community. We hear clearly the expectations of our region for a resilient, cost effective and sustainable supply of electricity to enable and support the aspirations of our customers.

Our role as an enabler is not to monopolise good ideas but to try to sustain a platform on which others can innovate.

Our Vision of **Connecting Communities**, and **Igniting Innovation** spells out what we are striving to achieve.

Our Values of **Connect, Create and Collaborate** represent our culture to achieve our vision.

Applying lessons from the past and investing in the resilience of our network proved their worth again this year. Orion's new 66,000 volt "Northern Loop" underground cables, commissioned in June 2016, were an investment of $60m over the last two years and are a key element of our resilience programme. The cables enable us to re-route power around and across the city when required and in case of emergency. When we lost power to almost 90,000 customers during the Port Hills fires, it was the Northern Loop that enabled power to be fully restored in under 30 minutes, including to the pumps feeding water for firefighting.

Other significant investments we have made in building our network resilience include:

- installing additional equipment and technology at the Papanui 66kV zone substation to provide alternatives for re-routing supply as needed - significantly reducing the chances of power cuts for 30,000 customers
- installing interim generators in our Highfield zone sub-station to shoulder the current peak demand for irrigation until the Central Plains Water Scheme comes online in late 2018, reducing power demand
- installing a number of remotely operated, smart switches in the Leeston and Banks Peninsula areas that will allow us to restore power more quickly in the event of outages
- continuing to implement a robust continuous asset management process that has all our equipment assessed and replaced on an optimised, whole of life basis

This year we also undertook an independent review of our power poles and pole maintenance practices. It was pleasing to note the review determined that our pole management practices represent good industry practice and are "arguably industry leading".

We currently have 198,000 customers, making Orion the third largest lines company in New Zealand. We expect to reach 200,000 customers by the end of 2017.

Thriving new subdivisions in Wigram, Burwood, Lincoln and Rolleston, have spurred growth which sees us connecting around 300 new customers per month.

The more than 3,600 increase in our customer numbers this year is the largest annual growth in our customer base in ten years. While employment opportunities, affordability and lifestyle continue to make Canterbury a great place to live, we expect to see more moderate customer growth in our region in the near future.

"We currently have 198,000 customers, making Orion the third largest lines company in New Zealand. We expect to reach 200,000 customers by the end of 2017."

The Central Business District (CBD) remains a focus for us too. As businesses and Crown entities move into their modern, more energywise buildings the exciting new face of the central city is taking shape. The power dynamic in the CBD is being transformed, and we are working hard to ensure we meet the connection and energy needs of the heart of the city.

To support this growth across our region, Orion has:

- installed three new 11kV cables in Rolleston to increase the capacity of our network to meet rising demand from business and residential customers there
- reconfigured and connected 18 new substations with remotely operated switchgear in the CBD to provide services to new buildings and businesses
- installed 199 new transformers to support residential and business growth
- increased capacity at six network “hotspot” locations around the city to meet increased demand, and improve reliability of our service in these areas
- commenced the move of Connetics’ operational base from Woolston to a new purpose-built facility in the Waterloo Business Park in the south west of Christchurch. The new Connetics site is critically important to improving response times and operational efficiency, brings us closer to our growing customer base and puts us in a better, more resilient position to support the region in its recovery from any future events. It also reflects our commitment to invest in the Canterbury rebuild

Despite the growth in customer numbers, the amount of electricity we delivered and our maximum network demand were less than the previous year, largely due to a mild winter.

At the heart of our business, maintaining our distribution network is fundamental to providing the people and businesses of our region with a service they can depend on. They also count on Orion to focus on the future.

New technologies will continue to shape and influence where we head as a company. Our customers are also changing and they want more control over where their energy comes from, and how they consume it. With lifestyles that are becoming increasingly diverse, customers are looking for flexibility and more choice.

One customer and market trend that is gaining momentum is the shift to electric vehicles. Almost every vehicle manufacturer now offers EV models. With more than 80% of the country’s electricity generated from renewable sources, our reputation for environmental consciousness, and a high proportion of homes with garages, New Zealand is ideally suited for the adoption of EVs.

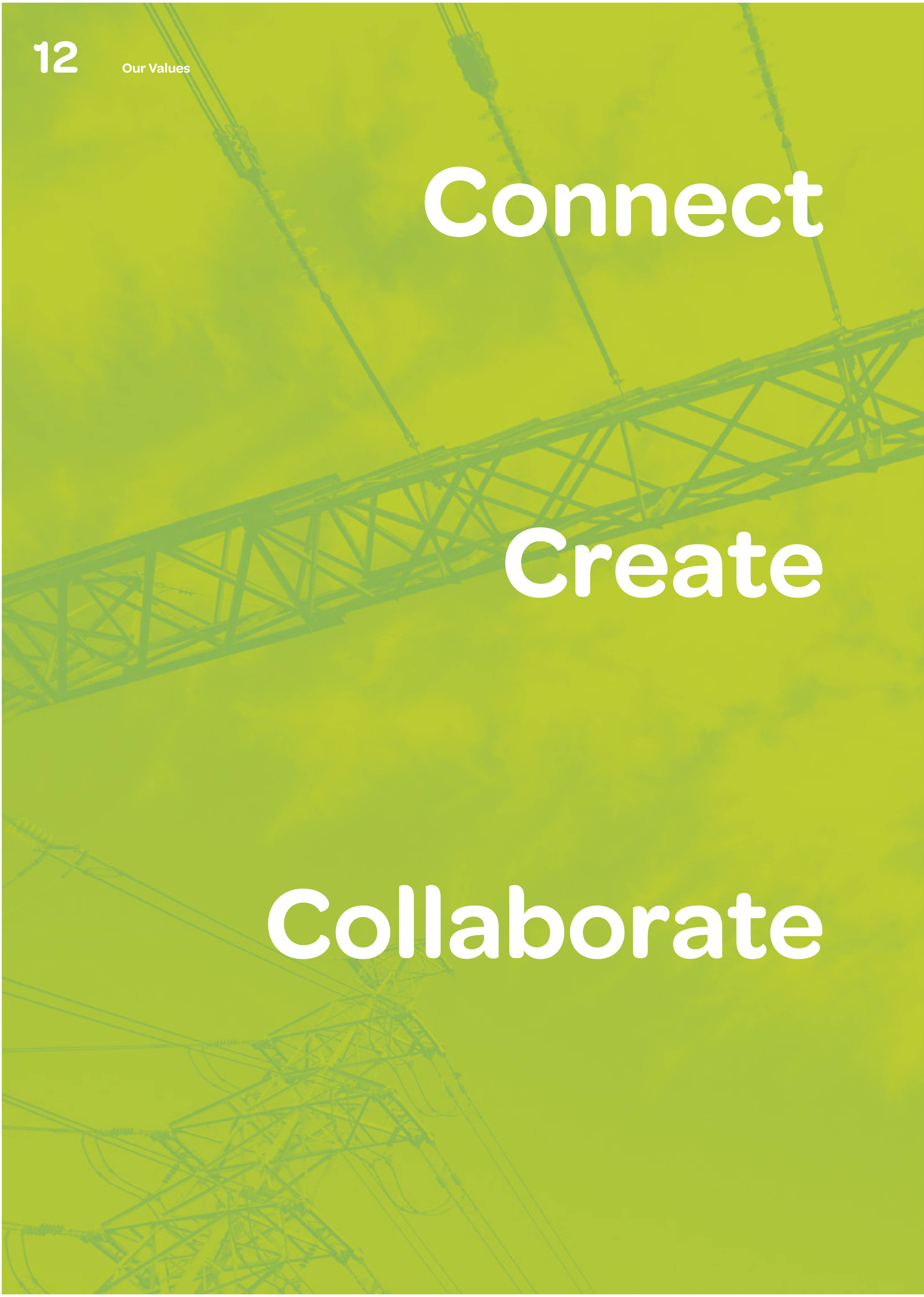
It is clear that electricity generated by New Zealand’s predominantly renewable sources is key to reducing our transport system’s reliance on imported carbon fuels.

We have made a commitment to encouraging the uptake of EVs in our region by:

- installing EV chargers in strategic locations around the region. We aim to have at least 20 chargers installed by the end of 2018, working in partnership with local councils and businesses
- working with other businesses, promoting the wider installation of chargers in a variety of locations. Our view is that access to charging stations will reduce range anxiety for local EV drivers and promote uptake
- walking the talk. We run fifteen plug-in hybrid vehicles in Orion’s operational fleet – one of New Zealand’s largest electrically powered corporate fleets
- continuing our sponsorship of EVolocity – an annual competition for young people to design, build and race their own EVs

It is an exciting time in the electricity industry in an era of transformation, driven by new technology and shifting customer expectations. With our strong foundation built on core network strength and commitment to putting our customers at the centre of all we do, Orion looks forward to a vibrant future.

"With our strong foundation built on core network strength and commitment to putting our customers at the centre of all we do, Orion looks forward to a vibrant future."



Connect

Create

Collaborate

We build relationships with our customers and stakeholders so we can better power, energise and connect our communities.

We are big picture thinkers and our innovation and agility enable us to identify opportunities, exercise sound judgement and learn continuously.

We work together building on our strengths, our initiative and our commitment to ensure our communities trust us, our business is successful and our people and environment are valued.

“We worked together with Orion to ensure we had a reliable, stable supply of power to our printing business. We’re running sensitive machines 24/7, so it’s essential.”

— **Blair Cutting**
Site Manager, Inkwise


LOW PRICES
NO BULL
inkwise

Financial performance

Financial performance

Our financial sustainability benefits our local community – through Orion's ultimate shareholders, the Christchurch City Council and the Selwyn District Council.

We are pleased to have delivered another year of strong financial performance. That strength enabled us to pay our shareholders $55m of fully-imputed dividends this year, $3m above our Statement of Intent (SOI) target.

Our $52m profit was $4m above our SOI target, driven largely by three positive factors:

- $6m – lower operating expenses, partly because a mild winter meant less emergency work
- $3m – lower interest expense, including fair value revaluations of our interest rate swaps
- $1m – a portion of our asset revaluations reversed expensed write-downs in previous years

These positive factors were partly offset by:

- $4m – lower network delivery volumes and revenues due to a mild winter
- $1m – lower profit than forecast from Connetics

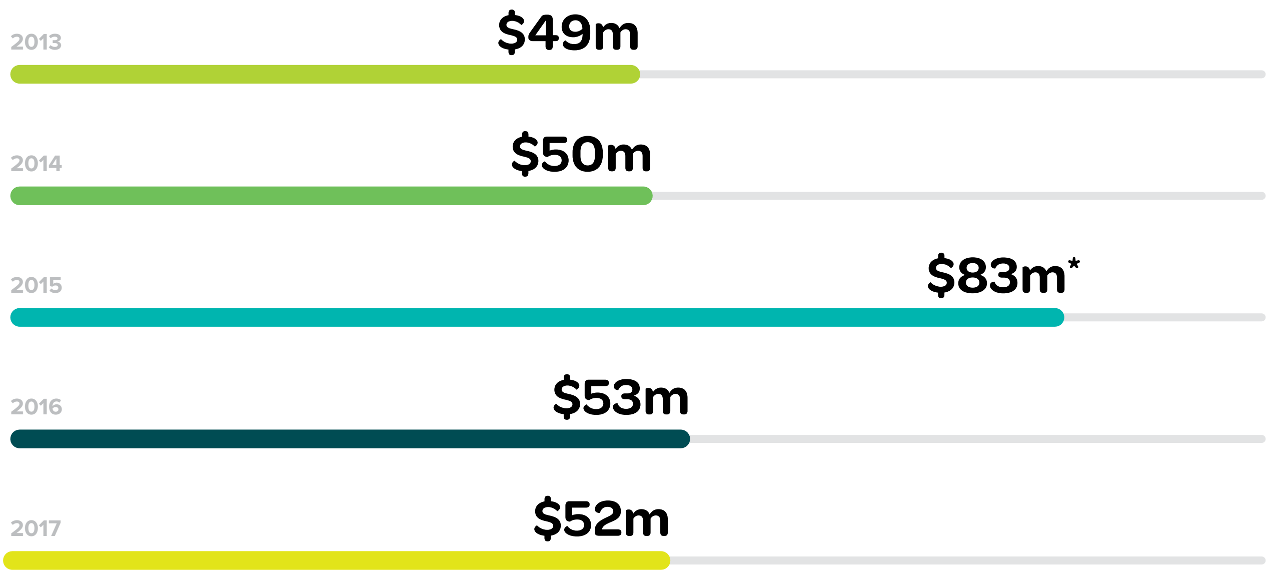
This year's profit of $52m is $1.7m below last year's, partly due to the factors noted and partly because we took on more debt half-way through the previous year to fund our $90m share buy-back.

Based on independent valuations, we booked a post-tax $17m upwards revaluation of our land, buildings and electricity distribution network this year – $16m in other comprehensive income and $1m in profit. Our last revaluation was three years ago.

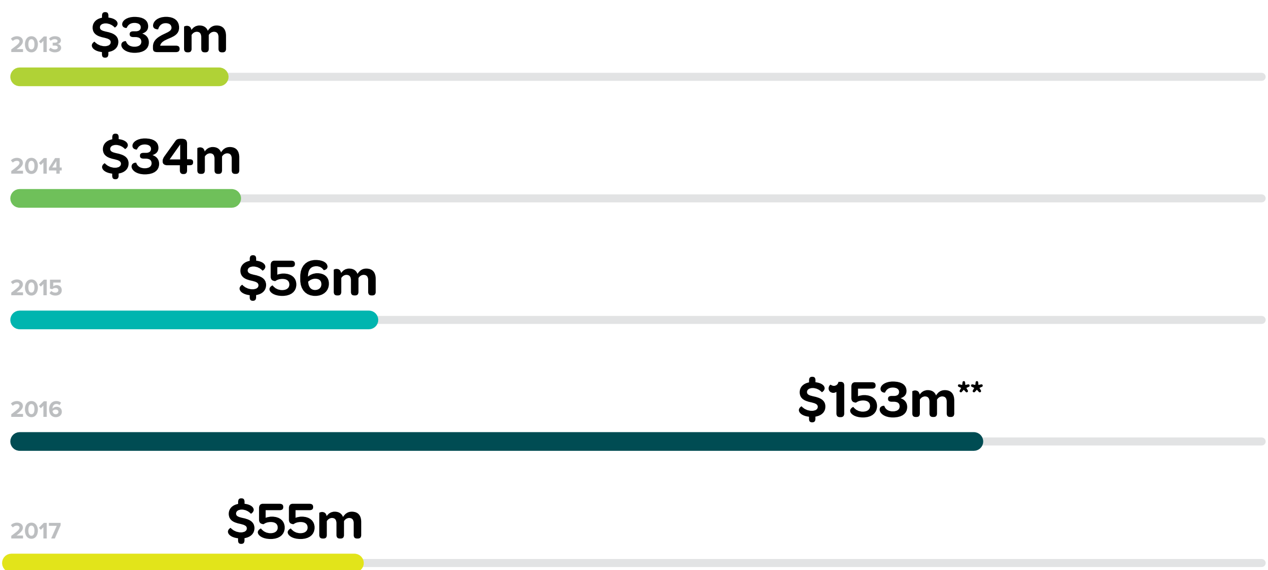
Our borrowings increased by $21m to $249m this year – largely due to our capital expenditure programme for our post-quake recovery and to support the wider rebuild. We expect our capex to continue to reduce over the next year or so and our borrowings to stabilise at around $300m – well within prudent levels given the value of our assets approaching $1.2 billion.

Connetics had a challenging year in a competitive market, but it remains profitable and a strong and vital contributor to the group.

Net profit



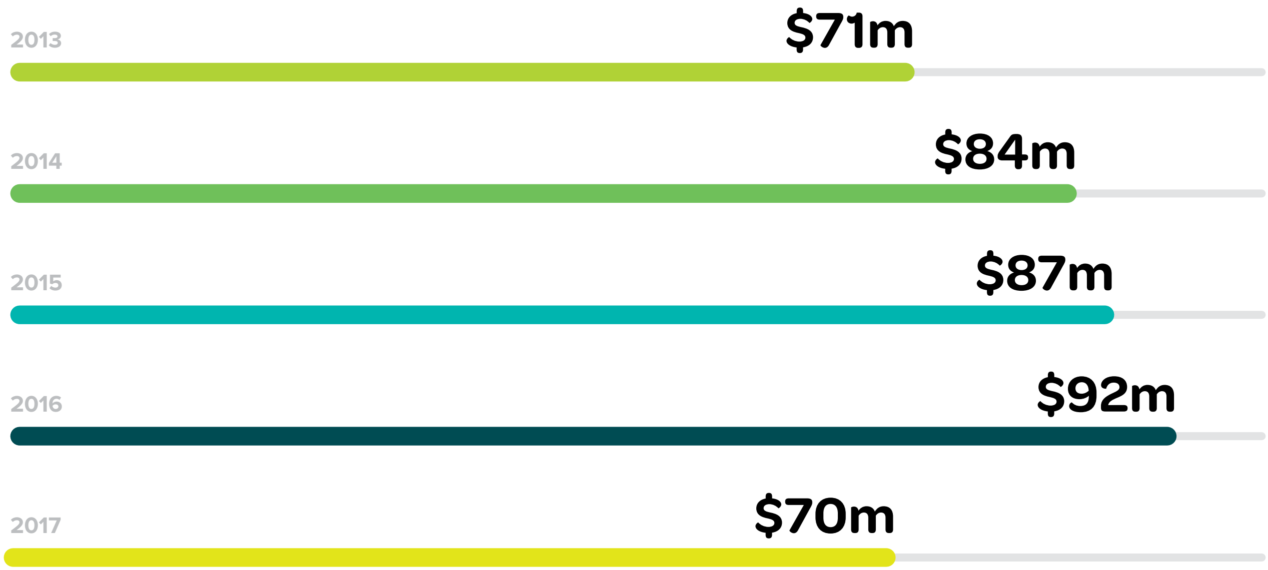
Cash distributions to shareholders



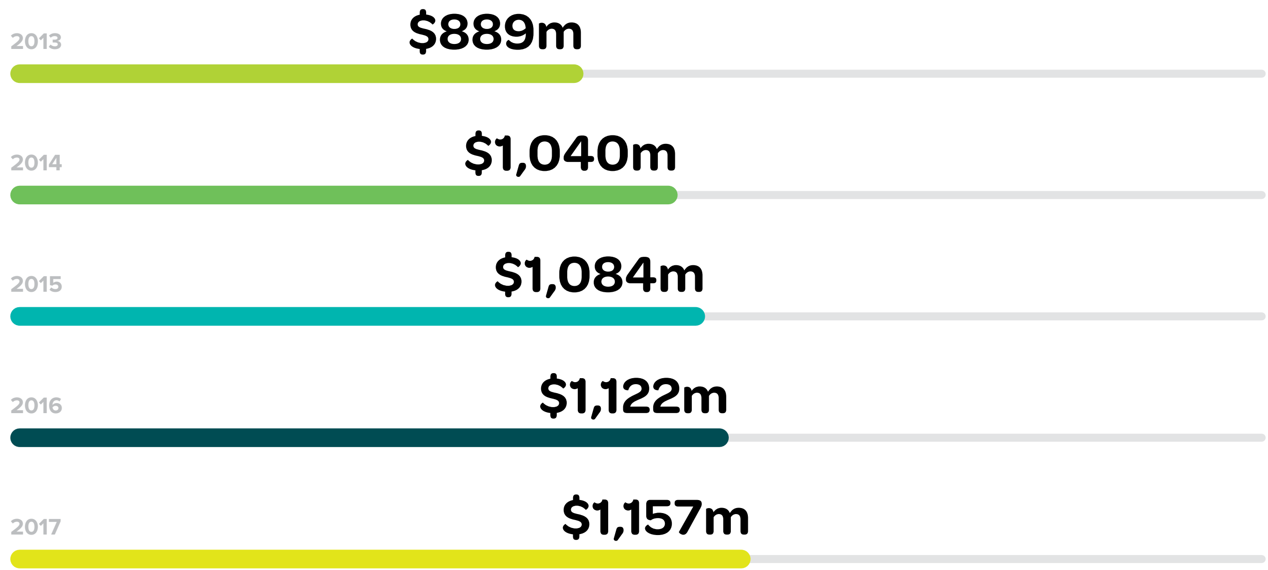
*2015 net profit includes a $24 million earthquake insurance settlement.

**Includes our $90m share buy-back and a $15m special dividend.

Capital expenditure



Total assets



Network maximum demand

599MW

MW Year	592 2013	619 2014	590 2015	618 2016

Network volumes

3,227GWh

GWh Year	3,165 2013	3,162 2014	3,277 2015	3,296 2016

Network connections

198k

(000) Year	189 2013	189 2014	191 2015	195 2016


0959

The power of relationships

82%

of residents surveyed agree that Orion is capable and effective

84%

of residents surveyed agree that Orion carries out its duties very well

We continue to work hard to better understand the needs of our customers as we power a vibrant and energised region now and into the future.

We have taken significant steps in this area and have set our goal to do even better in the future. Steps we have taken include:

- collaborating more closely with our colleagues in the electricity industry, swapping experiences and expertise and engaging together in communities we share
- in our journey to bring our new vision and values to life, we have made big strides in putting our customers at the centre of all we do. The needs and aspirations of our customers have become top of mind in all our conversations and decisions
- an independent survey of 800 urban and rural residential customers. This gave us valuable insight into their expectations and levels of satisfaction with our service, views on network reliability and awareness of and interest in new technologies
- significantly improving our website's provision of information on power outages. We now provide customers with real-time, precise information on unexpected and planned power cuts. The site explains the nature of the event, its expected duration, the streets affected and our progress with power restoration. More than 39,000 people visited the site seeking information during the major outage on 15 February 2017

Orion doesn't just provide a network – we provide advice and support to customers seeking to connect to our network. We have an important role in helping our customers with their energy choices. This role continues to be critical in working with our Christchurch developers who have major projects underway in the CBD and businesses relocating their premises. We need to fully understand their needs to be able to provide cost effective energy and network solutions that meet their capacity and reliability requirements.

We would like to take this opportunity to thank our stakeholders and customers – your support and collaboration are vital to Orion's success.

The power of our network

8,000
square kilometres network coverage

11,200
kilometres of lines and cables

325
major business customers with loads ranging from 0.3MW–11MW

18
customers per kilometre

53
zone substations

11,500
distribution substations

A record number of new customers on our network isn't simply a matter of turning on a switch.

To support this year's significant growth in customer numbers our teams have worked hard behind the scenes to plan and build the infrastructure that supports service to new residential subdivisions and business premises in Christchurch and the Selwyn District.

Extensive planning and co-ordination with building developers and other service providers has supported the acceleration in migration of retailers, Crown agencies and businesses back into the CBD.

Rapid growth in and around Christchurch is also placing demand on state highways. Designing, configuring and re-aligning our network to support the NZ Transport Agency's Christchurch Roads of National Significance programme is also a major project for Orion.

This $800m highway construction programme is the most ambitious ever seen in Christchurch. It will provide increased capacity and safety for various sections of state highways that provide critical routes to the Christchurch International Airport (SH1), into the Christchurch CBD and to the Port of Lyttelton.

We have completed around two thirds of our work supporting this programme, and expect to be finished by 2020.

It is not just the major projects that make a difference for customers, however. Every day, our investment in new technology and continuous asset management of every component across our network from poles and switches, to 66kV transformers keeps our network operating efficiently and safely.

“I used to worry about my power bill in winter. After the curtains and insulation were put in by CEA, I don’t worry about it anymore.”

– **Esther Davie**
Customer

The power of community

We are part of the local community and support a variety of organisations to contribute to the wellbeing of Canterbury people.

Our enduring relationship with Community Energy Action (CEA) is a key partnership. CEA is a charitable trust that provides insulation and energy advice services to the most vulnerable in our community. Its objective is to create warmer, healthier and more energy efficient homes. We're proud to have sponsored and supported CEA for more than 20 years and we're committed to continuing this in the years to come.

We continued to sponsor the Canterbury Rams basketball team which plays a significant role in encouraging participation in community basketball, and provides an aspirational development pathway for our talented Canterbury youngsters.

This year we began a new partnership with the Canterbury Employers' Chamber of Commerce, growing our relationship with the business community.

Other organisations we support include AMI Stadium, the Selwyn Gallery and the EVolocity Electric Vehicle Competition for Schools, ensuring Orion contributes widely to the community.

We are also there supporting the community when the going gets tough – whether it's a storm or a seismic event. Our crews work hard to quickly restore power so people and businesses can continue their daily lives.

The power of keeping safe

Health and safety is our first priority, and something we never take for granted.

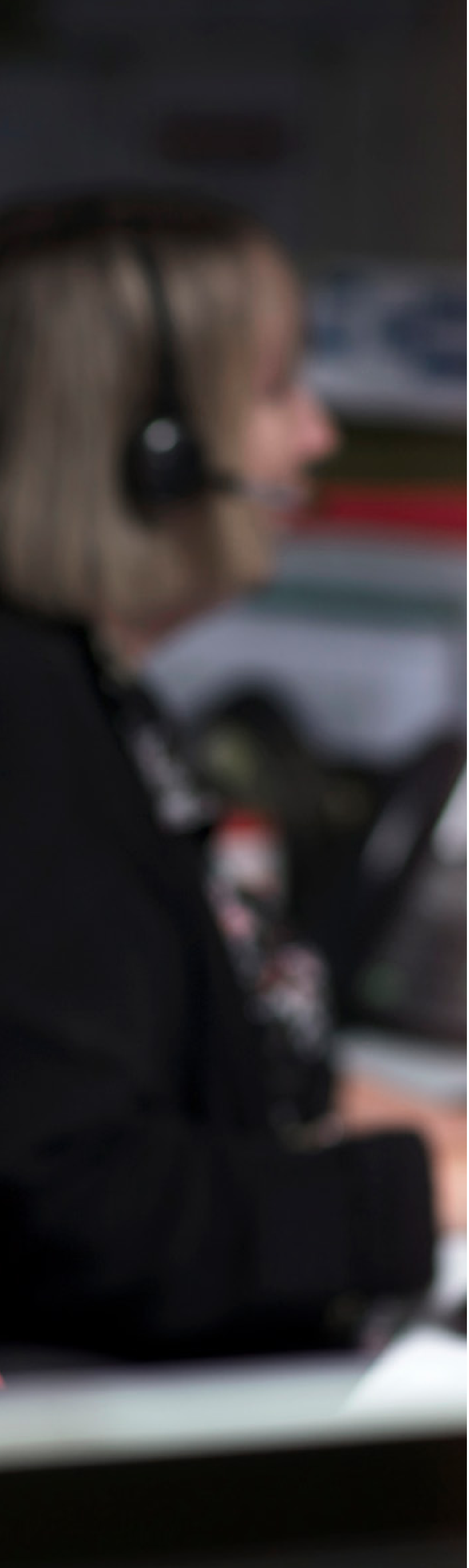
With a technology that has inherent risks, ensuring our people and the community can safely work and go about their daily lives is not simply a matter of compliance, it is embedded in our culture.

Never complacent, we continue to strengthen our health and safety culture. We can again report that Orion staff had no notifiable injuries this year and our rate of lost time injuries reduced, continuing last year's downward trend. Connetics had one notifiable incident and we continue to work closely with them to enhance safety culture.

We're working hard to continually improve our health and safety processes and outcomes. This year we have:

- improved our risk management by being more rigorous in our risk assessment and mitigation processes
- reviewed our health and safety structure to ensure it aligns closely with our business needs and culture
- improved our reporting, resulting in a steady increase in the number of actual and potential incidents reported
- continued our drug and alcohol testing programme which includes pre-employment, reasonable cause, post incident and random testing
- conducted public safety education campaigns
- collaborated with our industry colleagues to amplify health and safety messages in the farming community, through a shared presence at the South Island Agricultural Field Days
- continued the rollout of a comprehensive health and safety information management platform to improve monitoring of performance and outcomes
- introduced a collaborative, learnings based focus into our safety incident investigations both internally and with our contractors

The power of our people



Employee wellbeing is fundamental to our success at Orion. We believe employees who are flourishing will be engaged, productive and help us drive successful business outcomes.

We offer a flexible work environment and have an active wellness programme that focuses on resiliency and employee health, and supports our employees to achieve our business goals.

Development of our employees is key to our current and future success. We are proud of the new employees we develop through our Engineering Development Programme, who, after a period of time, progress into permanent roles within the business. This programme supports our succession planning, and nurtures future leaders in our business.

Our people will continue to determine our success, both through their skills and commitment to delivering a robust, safe and secure network, and the relationships they have with our customers and our community. As we continue to work to connect, create and collaborate, we build a more agile, responsive workforce who can more readily respond to the changing industry we work in.

Our people connect communities and ignite innovation and through them we will achieve our vision. On behalf of the Orion Board – thank you.

In February 2017, we said farewell to outgoing Orion Chairman, Jeremy Smith, and congratulate him on his appointment to Christchurch City Holding Limited (CCHL) Chair. We thank Jeremy for his three and a half years of service to Orion and the contributions he made to the growth and vitality of the company. We thank all directors for their commercial insights, hard work, support and commitment.

We would also like to thank our shareholders who have taken a positive and active interest in Orion throughout the year.

Nick Miller
Chairman

Rob Jamieson
Chief Executive Officer

“We want people to feel at home. Power makes sure the coffee’s hot, the welcome is warm and the beer is cool.”

— Lisa Bennett
The Laboratory, Lincoln


KOHU ROAD/KAPITI
Strawberries & Cream
Mint Chocolate
CAUSE
A REACTION

Board of directors

Nick Miller

BE (Civil Engineering, Hons), NZCE, FIPENZ, GAICD

Nick was appointed as an Orion director in September 2016 and as board chairman in February 2017. He is Managing Director of Fulton Hogan Limited, and a director of a number of its subsidiaries and joint ventures. Nick has more than 25 years' experience in civil engineering and management roles, including as Chief Executive of Isaac Construction. Nick is a director of the Australian Constructors' Association, Annavale Limited, Coleridge Downs Limited, HCG Group Limited, Magnolia Farm Limited, Halerose Limited and Southbase Construction Limited.

John Austin

BCom LLB MBA CA

John was appointed as an Orion director in May 2014. He is a development banker and an infrastructure specialist and in 2014 returned to New Zealand after heading the Pacific Region Infrastructure Facility Coordination Office of the Asian Development Bank in Sydney. John is a former executive director of the World Bank and was a director of the Asian Development Bank.

Dr Nicola Crauford

BSc, PhD, FAICD, FIPENZ, CPEng

Nicola was appointed as an Orion director in August 2014. She is a director of Watercare Services, Wellington Water and the Environmental Protection Authority. She also chairs GNS Science and is deputy chair of the Fire Service Commission (soon to become Fire and Emergency New Zealand). She has previously held several senior management roles, including as a member of Transpower's executive team, and is a former director of Genesis Energy.

Bruce Gemmell
BBS, CA (NZ and AU)

Bruce was appointed as an Orion director in September 2016. He is a professional director. Bruce was formerly a senior partner of international accounting firm EY. Bruce is either a Director, Councillor or Trustee of the Highlanders rugby franchise, Lincoln University, Mirimar Consolidated Limited, Taylor Preston Limited, The Christchurch Symphony Orchestra Foundation Trust, The Second Little Pig Was Right Limited and the University of Canterbury. Bruce also consults to corporates on matters of value, capital raising and restructuring.

Bob Simpson
M.E. FIPENZ CPEng FIET CEng

Bob was appointed as an Orion director in August 2014. He recently retired from Transpower in 2014, where he was chief engineer, and he now works as a consultant. Bob is a board member of New Zealand Engineering Diplomas and the Electricity Engineers' Association.

Geoff Vazey
BEng (Hons)

Geoff was appointed as an Orion director in April 2009. He is a professional director with strong commercial and governance experience, including 20 years' involvement in infrastructure at the Ports of Auckland. Geoff is a fellow of the Institution of Professional Engineers New Zealand.

Audited financial statements

Audited financial statements

The board of directors is pleased to present the audited financial statements of Orion New Zealand Limited and its subsidiaries for the year ended 31 March 2017.

The company's audited financial statements include six audited performance statements:

- financial
- network reliability
- network development
- environment
- health and safety
- community and employment.

Authorised for issue on 9 June 2017.

For and on behalf of the board of directors:

Nick Miller
Director

Bruce Gemmell
Director

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Statement of comprehensive income

	Notes	2017 $000	2016 $000
Operating revenues	2	309,718	307,295
Operating expenses	3	(175,802)	(170,729)
Depreciation, amortisation and other impairment expenses	4	(54,220)	(50,953)
Earnings before net interest expense and tax (EBIT)		79,696	85,613
Interest income		53	145
Interest expense	5	(10,660)	(8,618)
Net change in fair value of derivatives income/(expense)		2,093	(2,896)
Profit before income tax		71,182	74,244
Income tax expense	7	(19,412)	(20,798)
Net profit		51,770	53,446
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Gain on revaluation of property, plant and equipment	11	18,433	-
Deferred tax expense on revaluation of property, plant and equipment	7	(2,602)	-
		15,831	-
Total comprehensive income		67,601	53,446

The accompanying notes form part of these financial statements

Statement of changes in equity

	Notes	Share capital $000	Retained earnings $000	Asset revaluation reserve $000	Total equity $000
Balance as at 1 April 2015		120,000	534,327	105,367	759,694
Net profit		-	53,446	-	53,446
Other comprehensive income		-	-	-	-
Total comprehensive income		-	53,446	-	53,446
Transfers between reserves:					
Realised gain on disposal		-	267	(267)	-
Deferred tax on realised gain		-	(73)	73	-
Share buy-back	16	(15,000)	(75,000)	-	(90,000)
Dividends paid		-	(63,000)	-	(63,000)
Balance as at 31 March 2016		105,000	449,967	105,173	660,140
Net profit		-	51,770	-	51,770
Other comprehensive income		-	-	15,831	15,831
Total comprehensive income		-	51,770	15,831	67,601
Transfers between reserves:					
Realised gain on disposal		-	158	(158)	-
Deferred tax on realised gain		-	(44)	44	-
Dividends paid		-	(55,000)	-	(55,000)
Balance as at 31 March 2017		105,000	446,851	120,890	672,741

The accompanying notes form part of these financial statements

Statement of financial position

	Notes	2017 $000	2016 $000
Current assets			
Cash and cash equivalents		390	192
Trade and other receivables	8	11,789	8,730
Sale proceeds held in trust account		-	2,698
Inventories	9	7,928	7,938
Prepayments		2,085	2,042
Property held for sale		1,010	-
Total current assets		23,202	21,600
Non current assets			
Prepayments		77	161
Goodwill		250	250
Intangible assets	10	2,522	2,981
Property, plant and equipment	11	1,130,052	1,096,966
Interest rate swaps		642	-
Total non current assets		1,133,543	1,100,358
Total assets		1,156,745	1,121,958
Current liabilities			
Trade and other payables	12	30,566	28,576
Borrowings	14	36,897	967
Income tax liability	7	6,260	6,605
Employee entitlements	13	7,120	6,677
Interest rate swaps	15	553	340
Total current liabilities		81,396	43,165
Non current liabilities			
Borrowings	14	212,318	227,265
Employee entitlements	13	1,440	1,379
Interest rate swaps	15	1,736	3,401
Deferred tax	7	187,114	186,608
Total non current liabilities		402,608	418,653
Shareholders' equity	16	672,741	660,140
Total liabilities and equity		1,156,745	1,121,958

The accompanying notes form part of these financial statements

Statement of cash flows

	2017 $000	2016 $000
Cash flows from operating activities		
Receipts from customers	307,798	308,152
Interest received	251	65
Payments to suppliers and employees	(175,082)	(171,840)
Payments for interest and other finance costs	(10,696)	(7,822)
Payments for income tax	(21,856)	(25,172)
Net cash provided from operating activities	100,415	103,383
Cash flows from investing activities		
Proceeds from the sale of investment property	2,500	-
Proceeds from the sale of property, plant and equipment	485	571
Proceeds from sale of investment	495	-
Payments for property, plant and equipment	(69,770)	(91,872)
Payments for intangible assets	(390)	(330)
Net cash used in investing activities	(66,680)	(91,631)
Cash flows from financing activities		
Proceeds from bank loans	22,650	143,350
Repayment of finance leases	(1,187)	(2,338)
Dividends paid	(55,000)	(63,000)
Share buy-back	-	(90,000)
Net cash used in financing activities	(33,537)	(11,988)
Net increase/(decrease) in cash and cash equivalents	198	(236)
Summary		
Cash and cash equivalents at beginning of year	192	428
Net increase/(decrease) in cash and cash equivalents	198	(236)
Cash and cash equivalents at end of year	390	192

The accompanying notes form part of these financial statements

Statement of cash flows continued

	2017 $000	2016 $000
Reconciliation of net profit to net cash provided from operating activities		
Net profit	51,770	53,446
Adjustments		
Depreciation, amortisation and impairment of property, plant and equipment	54,220	50,953
Gain on disposal of investment	(494)	-
Change in fair value of derivatives	(2,093)	2,896
Other	97	(208)
	51,730	53,641
Changes in tax balances		
Decrease in current tax liability	(345)	(2,854)
Decrease in deferred tax liability	(2,096)	(1,521)
(Increase)/decrease in assets		
Trade and other receivables	(2,559)	2,927
Inventories	(79)	(315)
Prepayments	41	102
Increase/(decrease) in liabilities		
Trade and other payables	1,449	(2,316)
Employee entitlements	504	273
	(3,085)	(3,704)
Net cash provided from operating activities	100,415	103,383

The accompanying notes form part of these financial statements

Notes to the financial statements

1. Statement of accounting policies

Corporate information

Orion New Zealand Limited (the company) is a for-profit company incorporated in New Zealand under the Companies Act 1993 and the Energy Companies Act 1992. The group consists of the company and its subsidiaries.

The group primarily operates in one segment – it owns and operates the electricity distribution network in Christchurch and central Canterbury.

Statement of compliance

The financial statements comply with the Companies Act 1993 and section 44 of the Energy Companies Act 1992. They also comply with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and with International Financial Reporting Standards.

Basis of financial statement preparation

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). For the purpose of complying with NZ GAAP, the group is a for-profit entity. The financial statements have been prepared on the basis of historical cost, except for certain financial instruments, land and buildings, and the electricity distribution network, which have been measured at fair value.

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

Significant judgements, estimates and assumptions

In applying the accounting policies, the group has made the following judgements, estimates and assumptions that have the most significant impact on the amounts recognised in these financial statements. The group regularly reviews these estimates and assumptions. Actual results may differ from the group's estimates and assumptions.

Electricity delivery revenue

The company initially invoices electricity retailers monthly for electricity delivery services on the basis of an estimation of usage, later adjusted for (more accurate) metering data when it becomes available from the electricity wholesale market and from electricity retailers. The company has made an allowance in revenue and in current assets/liabilities for estimated amounts under/over charged during the reporting period. Because final metering data is not available for up to 12 months after the initial invoices to customers, the final amounts payable or receivable may vary from that initially invoiced.

Electricity distribution network valuation

The company owns and operates an extensive integrated electricity distribution network in Christchurch and central Canterbury, comprising large numbers of individual network asset components.

The company values its electricity distribution network on a discounted cash flow basis. The company has adopted assumptions and estimates in its discounted cash flow valuation, including the amounts and timing of future cash flows and the relevant discount rate.

The Commerce Commission has authorised the company to implement specific network delivery price increases for the five years commencing 1 April 2014. The Commission has also decided how it will set the company's price limits for the year commencing 1 April 2019. There is less certainty in forecasting the company's future revenue cash flows from 1 April 2020.

The company acquires certain electricity distribution assets for less than their replacement cost, sometimes at nil cash cost. The non-cash portions of these asset acquisitions are valued at nil on acquisition because they are not recognised under the regulatory price control regime and therefore these assets do not generate additional future cash inflows.

The group estimates and eliminates intra-group profits in new electricity distribution network assets.

Capitalisation of costs and impairment

The group makes judgements about whether costs incurred should be capitalised or expensed. The group assesses whether individual assets or groups of related assets (which generate cash flows independently) are impaired by estimating the future cash flows that those assets are expected to generate. The group applies assumptions and estimates when assessing future cash flows and appropriate discount rates.

Notes to the financial statements continued

Other areas of judgement

Other areas of judgement include estimating: useful lives of assets, provisions for doubtful debts, unrecoverable work in progress, provisions for employee benefits, revaluation of interest rate swaps, income tax, deferred tax, the income tax effects of insurance claim proceeds and network reliability (SAIDI/SAIFI) measures.

Significant accounting policies

The following significant accounting policies have been applied consistently to all periods presented in these financial statements:

(a) Basis of consolidation

A subsidiary is an entity that is directly or indirectly controlled by the company.

The consolidated financial statements are prepared by combining the financial statements of all group entities for the same reporting period, using consistent accounting policies. All intra-group balances and transactions, including unrealised profits arising within the group, are eliminated in full.

(b) Revenue recognition

Revenue is measured at the fair value of consideration received, or receivable.

Revenue is recognised when the amount of revenue can be measured reliably and it is probable that the economic benefits of the transaction will flow to the group. Sales of goods are recognised when the significant risks and rewards of ownership of the goods have been transferred to the buyer. Sales of services are recognised as the services are delivered, or if applicable on a percentage of completion basis.

(c) Capital contributions

Capital contributions that are refundable to customers are treated as current liabilities until refunded or applied. Non-refundable cash contributions from customers, relating to the electricity distribution network, are recognised as revenue.

(d) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (an asset that takes a substantial period of time to get ready for intended sale or use and is of significant cost) are capitalised as part of the cost of that asset. All other borrowing costs are expensed in the period in which they occur.

(e) Income tax

Income tax expense comprises current tax and deferred tax.

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

Deferred tax is recognised on temporary differences between the carrying values of assets and liabilities and the equivalent amounts used for taxation purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available, against which the deductible temporary differences or tax losses can be utilised. Deferred tax is calculated at the tax rates that are expected to apply in the period when the temporary differences will reverse.

Current tax and deferred tax are charged or credited to profit or loss. When deferred tax relates to items charged or credited to other comprehensive income, then deferred tax is recognised in other comprehensive income.

(f) Financial instruments

All financial instruments are initially recognised at fair value plus directly attributable transaction costs where applicable.

Subsequently, the group applies the following accounting policies for financial instruments.

Loans and receivables consist of trade and other receivables. Trade and other receivables are measured at face value, less an allowance for impairment. All known bad debts are written off through profit and loss.

Notes to the financial statements continued

The group's available-for-sale financial asset is an investment fund managed by Enertech Capital Partners. This asset is measured at fair value, with impairments in fair value recognised in profit or loss.

Financial liabilities at amortised cost consist of trade and other payables and borrowings. Financial liabilities at amortised cost are measured using the effective interest rate method. Due to their short term nature, trade and other payables are not discounted.

The group has not designated any derivatives as hedges for financial reporting purposes. Derivatives are subsequently measured at fair value, with movements recognised in profit or loss. The fair value of derivatives is determined, pursuant to NZ IFRS 13 – Fair Value Measurement (Level 2), using valuation techniques and models where all significant inputs are observable. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative, and they are only offset against each other if the group has a legal right of offset.

(g) Inventories

Inventories are valued at the lower of cost or net realisable value. Net realisable value is the amount inventories are expected to realise in the ordinary course of business. Individual stock items are valued on a weighted average cost basis.

(h) Property, plant and equipment

Property, plant and equipment acquisitions are initially measured at cost.

Land and buildings are measured at fair value, based on periodic independent valuations prepared by external valuers, which are based on comparable market sales, discounted cash flows or capitalisation of net income (as appropriate), less subsequent depreciation. Fair value is reviewed at the end of each reporting period to assess whether carrying value is materially different to fair value.

The electricity distribution network is measured at fair value, based on periodic independent valuations prepared by an external valuer, which are based on a discounted cash flow methodology. Fair value is reviewed at the end of each reporting period to assess whether the carrying value is materially different to fair value.

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

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation on revalued buildings and the electricity distribution network is charged to profit or loss.

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

Depreciation is calculated on a straight-line basis to write off the net cost, or other revalued amount of each asset, over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period.

The main bases for the calculation of depreciation are periods not exceeding:

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

Notes to the financial statements continued

Residual values for an item of property, plant and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period.

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

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These gains and losses are included in profit or loss.

(i) Impairment of assets

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

The recoverable amounts are the higher of fair value (less costs to sell) or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a 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.

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

If a revalued asset is determined to be impaired, then the impairment is firstly applied against the revaluation reserve related to that asset, with any remaining impairment loss expensed in profit or loss. If the impairment loss is subsequently reversed, the reversal is firstly applied to profit or loss to the extent of previously expensed impairment losses relating to that asset, with any further increase taken to the revaluation reserve.

For assets which are not revalued, an impairment loss is expensed immediately in profit or loss. If an impairment loss is subsequently reversed, the carrying value of the asset is stated at not more than what its carrying value would have been had the earlier impairment not occurred.

(j) Leased assets and lease liabilities

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

Operating lease receipts are recognised as revenue on a straight-line basis over the lease term.

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

Finance leases payments are allocated between expense and reduction of the lease liability over the term of the lease. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the group will obtain ownership by the end of the lease term.

(k) New accounting standards and interpretations

No new accounting standards or interpretations that became effective for the period had a material impact on the group. No new accounting standards or interpretations that will become effective after the period are expected to have a material impact on the group.

Notes to the financial statements continued

	2017 $000	2016 $000
2. Operating revenues		
Electricity delivery services	247,436	247,173
Transmission rental rebates	3,796	4,230
Contracting	33,750	32,819
Sale of goods and services	11,373	11,938
Consumer capital contributions	9,856	7,054
Gain on disposal of investment	494	-
Other	3,013	4,081
	309,718	307,295

3. Operating expenses

	2017 $000	2016 $000
Transmission	70,692	67,808
Transmission rental rebates	3,796	4,230
Employee benefits	51,590	49,725
Network maintenance	26,004	26,126
Operating lease payments	1,207	1,530
Other	22,513	21,310
	175,802	170,729

4. Depreciation, amortisation and impairment expenses

	2017 $000	2016 $000
Depreciation of property, plant and equipment	42,871	41,586
Impairment of property, plant and equipment	9,856	7,353
Reversal of impairment loss on revaluation of property, plant and equipment	(821)	-
Amortisation of intangible assets	849	1,080
Property, plant and equipment disposed and written off	1,465	930
Impairment of financial assets	-	4
	54,220	50,953

5. Interest expense

	2017 $000	2016 $000
Bank loans	9,094	7,142
Finance leases	1,416	1,476
Other	150	-
	10,660	8,618

No interest expense was capitalised during the year (2016: nil).

6. Remuneration of the auditor

	2017 $000	2016 $000
Audit of the financial statements	242	227
Audit-related services	32	60
	274	287

Audit-related services comprise assurance reviews of the company's annual customised price-quality path (CPP) compliance statement, regulatory information disclosures and fraud risk review.

Notes to the financial statements continued

7. Income tax and deferred tax

	2017 $000	2016 $000
Income tax expense comprises:		
Current income tax charge	21,048	23,162
Adjustments to prior years	460	(843)
Temporary differences	(2,096)	(1,521)
	19,412	20,798
Reconciliation of profit before income tax with income tax expense:		
Profit before income tax	71,182	74,244
Prima facie income tax expense calculated at 28%	19,931	20,788
Other permanent differences	(519)	10
Income tax expense	19,412	20,798

	Property, plant and equipment $000	Earthquake insurance proceeds $000	Provisions $000	Other $000	Total $000
Deferred tax liability					
Balance as at 1 April 2015	188,263	2,495	(1,606)	(1,023)	188,129
Charged/(credited) to income	217	(642)	8	(1,104)	(1,521)
Balance as at 31 March 2016	188,480	1,853	(1,598)	(2,127)	186,608
Charged/(credited) to income	(2,687)	(305)	12	884	(2,096)
Charged to comprehensive income	2,602	-	-	-	2,602
Balance as at 31 March 2017	188,395	1,548	(1,586)	(1,243)	187,114

The group's current income tax liability as at 31 March 2017 is $6.3m (2016: $6.6m). The liability mainly comprises the group's third instalment of provisional income tax for the year ended 31 March 2017 (31 March 2016).

The Orion consolidated tax group comprises the company, Connetics Limited and Orion New Zealand Ventures Limited for imputation credit account purposes.

The group's imputation credits available for use in subsequent reporting periods total $8.2m as at 31 March 2017 (2016: $8.1m), which includes the income tax liability of $6.3m (2016: $6.6m).

Notes to the financial statements continued

	2017 $000	2016 $000
8. Trade and other receivables		
Trade receivables	10,451	7,362
Chargeable work in progress	1,484	1,436
Allowance for impairment of trade receivables	(146)	(68)
	11,789	8,730
Trade receivables before allowance for impairment:		
Current	9,131	6,062
1 month overdue	547	530
2 months overdue	92	138
3 months overdue	681	632
	10,451	7,362
9. Inventories		
Goods for sale	4,456	4,241
Electricity distribution network stock	3,629	3,893
Allowance for impairment	(157)	(196)
	7,928	7,938
10. Intangible assets		
Capitalised at cost	16,328	16,294
Accumulated amortisation	(13,806)	(13,313)
	2,522	2,981

Intangible assets comprise computer software assets which have a finite life. Carrying values are amortised over their estimated useful lives. This period usually does not exceed three years – however for significant projects, estimated useful lives may be assessed as up to 10 years.

Notes to the financial statements continued

11. Property, plant and equipment

	Freehold land at fair value $000	Buildings and land improvements at fair value $000	Electricity distribution network at fair value $000	Plant and equipment at cost $000	Total $000
Gross carrying amount					
Balance as at 1 April 2015	54,451	12,108	1,008,655	39,569	1,114,783
Additions	2,924	3,037	80,518	5,517	91,996
Reclassified assets	217	-	(217)	-	-
Disposals	(47)	(5)	(2,048)	(2,578)	(4,678)
Balance as at 31 March 2016	57,545	15,140	1,086,908	42,508	1,202,101
Additions	267	4,795	60,803	3,990	69,855
Reclassified assets	(248)	170	(47)	125	-
Transferred to held for sale	(1,010)	-	-	-	(1,010)
Disposals	(4)	(1)	(2,309)	(2,541)	(4,855)
Revaluation	10,585	(1,557)	(117,416)	-	(108,388)
Balance as at 31 March 2017	67,135	18,547	1,027,939	44,082	1,157,703
Accumulated depreciation and impairment					
Balance as at 1 April 2015	-	534	35,479	23,272	59,285
Disposals	-	(1)	(823)	(2,265)	(3,089)
Reclassified assets	-	(6)	6	-	-
Depreciation expense	-	437	36,798	4,351	41,586
Asset impairment	-	198	6,856	299	7,353
Balance as at 31 March 2016	-	1,162	78,316	25,657	105,135
Disposals	-	-	(291)	(2,277)	(2,568)
Reclassified assets	-	-	(16)	16	-
Depreciation expense	-	563	38,053	4,255	42,871
Asset impairment	-	-	9,856	-	9,856
Revaluation	-	(1,725)	(125,918)	-	(127,643)
Balance as at 31 March 2017	-	-	-	27,651	27,651
Net book value as at 31 March 2016	57,545	13,978	1,008,592	16,851	1,096,966
Net book value as at 31 March 2017	67,135	18,547	1,027,939	16,431	1,130,052
Capital work in progress included above:					
As at 31 March 2016	16	1,775	28,075	317	30,183
As at 31 March 2017	49	6,441	47,239	130	53,859
Assets subject to finance leases included above:					
As at 31 March 2016	-	-	15,434	-	15,434
As at 31 March 2017	-	-	13,340	-	13,340

Notes to the financial statements continued

11. Property, plant and equipment continued

Electricity distribution network

The electricity distribution network, including substation buildings, ('the network') was revalued to fair value of $980.7m as at 31 March 2017, by independent valuer Ernst & Young Transaction Advisory Services Limited (EY), in accordance with NZ IAS 16 – Property, Plant and Equipment, NZ IAS 36 – Impairment of Assets, and NZ IRFS 13 – Fair Value Measurement. EY has significant experience in undertaking valuations of unlisted entities and assets for unit pricing, accounting and commercial purposes.

Including capital work in progress, EY's valuation resulted in a total network valuation of $1,028m, an increase of $8.5m as at 31 March 2017.

In the absence of an active market for the network, EY calculated fair value using significant unobservable inputs (level 3, as defined in NZ IFRS 13). EY used a discounted cash flow (DCF) methodology. EY based its cash flow forecasts on the company's cash flow forecasts and adjusted those forecasts to remove the impacts of expansionary growth on forecast future revenues, operating expenditure and capital expenditure.

EY's key valuation assumptions were that:

- network revenues will be consistent with the company's customised price-quality path (CPP) limit for the two years ending 31 March 2019
- for the year ended 31 March 2020, the company's price limit will be reset at the previous year's limit, minus claw-back, plus CPI
- for the five years ended 31 March 2025, the company's price limit will be reset to achieve returns of regulatory WACC on regulatory investment value
- non-expansionary 'infill' growth will be 0.1% per annum
- the appropriate DCF discount rate is 5.5% post-tax.

EY performed sensitivity analysis as follows:

- a capital expenditure increase/(decrease) of 5% would decrease/(increase) fair value by $33m/($39m)
- a discount rate increase/(decrease) of 0.3% would decrease/(increase) fair value by $55m/($62m)
- an increase/(decrease) in gross margin of 2.5% would increase/(decrease) fair value by $59m/($66m).

EY reviewed the network carrying value as at 31 March 2016, using a similar methodology to that described above. EY concluded that there were no indicators that the network carrying value was materially different from fair value as at that date.

In the year ended 31 March 2017, the company has impaired the carrying value of its electricity distribution network and substation buildings on the basis that capital contributions reduce the value of the company's regulatory asset base, and this in turn reduces the company's future revenues from future regulatory price resets. The company has recognised:

- $9.9m (2016: $7.1m) of capital contribution revenue during the year
- $9.9m (2016: $7.1m) of associated impairment expense during the year.

Notes to the financial statements continued

11. Property, plant and equipment continued

Land and non-substation buildings

The company's land and non-substation buildings were revalued to fair value as at 31 March 2017, by Marius Ogg, in accordance with NZ IAS 16 – Property, Plant and Equipment, NZ IAS 36 – Impairment of Assets, and NZ IFRS 13 – Fair Value Measurement. Mr Ogg is a registered valuer and a director of CBRE Limited. Mr Ogg used significant observable inputs (level 2, as defined in NZ IFRS 13) and significant unobservable inputs (level 3, as defined in NZ IFRS 13).

Mr Ogg's valuations resulted in a total land and non-substation buildings valuation of $86m, an increase of $11m as at 31 March 2017.

Mr Ogg:

- selected a representative sample of the company's substation sites and valued land at those sites using sales comparisons and unit metre frontage methodologies (level 2). Mr Ogg compared his values with their respective rateable values. He used these comparisons to develop standard site multipliers, which he applied to rateable land values for approximately 2,300 substation sites
- valued the company's head office land and building using a market rental assessment and a capitalisation rate of 7.5% (level 3)
- valued the company's Waterloo Road depot site using a sales comparison method, and the buildings under construction using a depreciated cost method (level 2).

Mr Ogg reviewed the company's carrying value for land and non-substation buildings as at 31 March 2016, using similar methodologies to those described above. He concluded that there were no indicators that the company's carrying values for land and non-substation buildings were materially different to fair value as at that date.

Fair values for approximately 23% of the company's land and non-substation buildings (by value) were calculated using significant unobservable inputs (level 3, as defined in NZ IFRS 13).

Restrictions over title

There are no restrictions over the title of the group's property, plant and equipment, nor is any property, plant and equipment pledged as security for liabilities.

12. Trade and other payables

	2017 $000	2016 $000
Trade payables	28,699	27,330
GST payable	1,506	1,065
Other	361	181
	30,566	28,576

13. Employee entitlements

	2017 $000	2016 $000
Current	7,120	6,677
Non current	1,440	1,379
	8,560	8,056

Employee entitlements include a provision for employee long service leave.

Key assumptions in the actuarial assessment of the provisions include:

- risk-free rate 3.24% (2016: 3.0%)
- salary inflation 2.0% (2016: 2.0%).

Notes to the financial statements continued

14. Borrowings

	2017 $000	2016 $000
Current		
Finance lease liability	897	967
Bank loans	36,000	-
Total current borrowings	36,897	967
Non current		
Finance lease liability	12,318	13,915
Bank loans	200,000	213,350
Total borrowings	212,318	227,265

The finance lease liabilities relate to agreements with Transpower New Zealand Limited (Transpower) for Transpower to install new assets at or near its local grid exit points. The agreements have remaining terms of between three and 31 years (2016: less than one and 32 years). The company does not own the assets at the end of the lease term and there is no residual value. There is no security provided for the arrangements. The monthly payment amounts are reviewed periodically by Transpower based on prevailing interest rates and agreed margins. The company is the only entity in the group which has a finance lease liability.

15. Financial instruments

Introduction

Exposures to interest rates, foreign currency, liquidity and credit risk arise in the normal course of the group's business. The group has policies to manage the risks associated with financial instruments. The significant accounting policies and methods adopted, including the criteria for recognition and the basis of measurement applied in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1.

Capital management

The group's capital includes share capital, reserves and retained earnings. The group's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain future development of the business.

The board of directors regularly reviews the group's policies in respect of the management and allocation of capital. There has been no material change to the group's management and allocation of capital during the year.

All bank loans are unsecured against the group. The group provides certain covenants to its key lenders, by way of a negative pledge deed, that it will not create any material security interest over its assets to any party, except under certain agreed circumstances. The deed has other covenants that restrict certain asset disposals, the lending of money to other parties, non-commercial transactions with related parties, the alteration of share capital where this would have a material adverse effect and any material change of business. The deed includes an EBIT interest coverage requirement and an obligation that the guaranteeing group will comprise at least 75% of the group in terms of assets and earnings. The deed places other undertakings and obligations on the company – for example the obligation to provide relevant lenders with information, comply with the law and to pay taxes as they fall due. The company has complied with all covenants during the two years ended 31 March 2017.

All interest bearing bank loans and finance lease liabilities are in New Zealand dollars.

Notes to the financial statements continued

15. Financial instruments continued

Liquidity risk management

Liquidity risk represents the risk that the group may not be able to meet its financial contractual obligations. Prudent liquidity risk management implies maintaining sufficient cash, sufficient committed credit facilities and the ability to close out market positions.

The group manages its liquidity in accordance with its board-approved treasury policy. This policy requires that the group must ensure that prudent levels of committed funding facilities are in place at all times, using senior management's best overall judgement in conjunction with the board, and based on prudent cash flow forecasts.

In general, the group generates sufficient cash flows from its operating activities to meet its contractual obligations and it has sufficient funding arrangements in place to cover potential shortfalls. The group evaluates its liquidity requirements on an ongoing basis. The group's current forecasts for its debt/debt-plus-equity and its interest coverage indicate that it will maintain its financial ability to meet its contractual obligations for the foreseeable future (at least over the next 12 month period).

	2017 $000	2016 $000
Unsecured bank overdraft facility, payable at call:		
Amount used at reporting date	-	-
Amount unused at reporting date	500	500
	500	500
Unsecured bank loan facilities as at 31 March 2017 mature as follows:		
$90m on 27 November 2017 (2016: $60m)		
$100m on 25 September 2018		
$100m on 25 September 2020		
Amount used at reporting date	236,000	213,350
Amount unused at reporting date	54,000	46,650
	290,000	260,000

Interest rate risk management

The group has interest bearing floating rate debt, and so the group is exposed to variations in market interest rates.

Interest rates on the group's bank loans are based on market rates for bank bills plus a margin. As at 31 March 2017, interest rates (including margins) on the group's bank loans averaged 2.66% (2016: 3.2%). Daily commitment fees are also payable on the bank loan facilities.

Interest rates on the group's finance lease liabilities are at rates set by Transpower plus, for some contracts, a margin. As at 31 March 2017, interest rates on the group's finance lease liabilities averaged 9.5% (2015: 9.6%).The group's other financial liabilities are non interest bearing.

The group enters into interest rate swaps to manage the company's interest rate risk. The swaps are with various New Zealand registered bank counterparties with such credit ratings and within limits set by the board of directors. The swaps' cash requirements are limited to the contracted fixed interest rates for the periods specified in each swap. The group usually enters swaps for periods up to four years in tenor.

Under interest rate swap contracts, the group agrees to pay fixed interest rates and to receive floating interest rates, calculated on agreed notional principal amounts for specified periods. The swaps effectively convert portions of floating rate debt into fixed rate debt. All swaps are held by the company. The fair values of interest rate swaps are based on market values of equivalent instruments at the reporting date and are disclosed below. The group does not use hedge accounting and gains and losses on remeasurement are recognised in profit and loss immediately.

Notes to the financial statements continued

15. Financial instruments continued

The following table details outstanding interest rate swaps as at the reporting date:

Swap maturity dates	Average contracted fixed interest rates %	Notional principal swap amounts 2017 $000	Notional principal swap amounts 2016 $000	Carrying value asset/(liability) 2017 $000	Carrying value asset/(liability) 2016 $000
April 2016	5.3	-	15,000	-	(37)
October 2016	4.0	-	30,000	-	(303)
February 2018	3.9	30,000	30,000	(553)	(989)
October 2018	3.2	100,000	100,000	(1,736)	(2,412)
October 2020	2.0	30,000	-	642	-
		160,000	175,000	(1,647)	(3,741)

The group considers that a reasonably possible movement in New Zealand interest rates is a 1% movement in either direction. For bank loans, an increase of 1% in interest rates as at 31 March 2017 would increase the group's profit before income tax by approximately $2,612,000 (2016: $944,000). A decrease of 1% would decrease the group's profit before income tax by approximately $2,703,000 (2016: $1,033,000). When interest rates rise, the benefit from the revaluation of the company's multi-year interest rate swaps outweighs the additional one-year interest expense on the company's floating rate debt. The converse applies when interest rates decrease. For the group's other financial assets and liabilities, an increase/decrease of 1% in interest rates would have an immaterial impact on the group's profit before income tax.

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in financial loss to the group. Financial instruments that potentially subject the group to concentrations of credit risk consist of cash, short term investments, trade receivables and derivative financial instruments.

The group places its cash, short term investments and derivative financial instruments with registered New Zealand banks. Only independently rated banks with a minimum Standard & Poor's (or equivalent) credit rating of 'A' or better are accepted. The group limits the credit exposure to any one bank in accordance with its board-approved treasury policy.

The group manages its exposure to credit risk from trade receivables by performing credit evaluations on customers requiring credit wherever practicable and monitoring credit exposures to individual customers. There are no significant concentrations of credit risk within trade receivables. Trade receivables are non-interest bearing. The carrying value of trade receivables approximates their estimated fair value.

Pursuant to the electricity participation code, the company may only require collateral securities from its electricity retailer customers if those customers do not have a Standard & Poor's (or equivalent) minimum credit rating of 'BBB-minus'. The company invoices electricity retailers and its direct major customers on the 10th day of the month of usage (based on an estimation of usage), with payment due on the 20th of that month. Invoiced amounts are subject to subsequent adjustments for later (more accurate) metering data as outlined under critical judgements, estimates and assumptions in note 1. Collateral security is not generally required from the group's other customers.

Notes to the financial statements continued

15. Financial instruments continued

Bad debts written off mostly relate to debtors who have damaged the company's electricity distribution network assets. The company enters arrangements with some of these debtors to allow them to pay their debts off over time. These rearranged debts form the majority of the 'three months overdue' category in note 8.

The maximum exposure to credit risk for bank balances, accounts receivable and derivative financial instrument assets is equal to the carrying values of these assets.

Carrying values of financial instruments

Cash and cash equivalents, trade and other receivables, trade payables and borrowings are measured at face value less impairment.

The group uses observable market prices and discounted cash flow techniques to calculate the fair value of its interest rate swaps. The discount rate used is based on the applicable market swap curve. This is the 'level 2' valuation category as described in NZ IFRS 13 – Fair Value Measurement.

16. Shareholders' equity and $90m share buy-back

On 21 September 2015, the company repurchased 10,000,000 of its ordinary shares from its shareholders at $9.00 per share, in proportion to both shareholders' respective shareholdings. As a result, in the year ended 31 March 2016:

- the carrying value of shareholders' equity decreased by $90m
- the number of fully-paid ordinary shares of the company on issue reduced by 10,000,000 to 70,000,000.

The par value of all shares on issue is $1.50 per share.

17. Information about subsidaries

Connetics Limited is a contractor in the electricity distribution and utility sectors. The company has owned a 100% equity interest in Connetics since April 1996.

18. Commitments

	2017 $000	2016 $000
Capital expenditure	27,636	7,658
Operating leases	3,810	2,564

Most commitments are expected to be incurred in the next financial year.

19. Contingent assets and liabilities

On the evening of Monday 13 February 2017, two fires started on the Port Hills near Christchurch. The fires worsened and spread over 2,100 hectares on the hills over several days. The fires caused significant costs and losses for third parties, including fire suppression costs and damage to private property, but little damage to the company's electricity distribution network. The company insures for liability risks, in line with good industry practice. It is too early to determine whether these events will result in a financial liability for the company. Other than this potential issue, the group had no contingent assets or liabilities as at 31 March 2017 (2016: nil).

20. Significant events after balance date

The group is not aware of any significant events between the preparation and authorisation of these financial statements on 9 June 2017.

21. Related party transactions

Group structure

The parent is Orion New Zealand Limited, which is owned by Christchurch City Holdings Limited (CCHL) (89.275%) and the Selwyn District Council (SDC) (10.725%). CCHL is owned by the Christchurch City Council (CCC).

Related parties include:

- CCC and SDC
- the subsidiaries of CCC and SDC
- the group's key management personnel.

The group undertakes many transactions with CCC and SDC and their related parties, all of which are carried out on a commercial and arms-length basis. No material transactions, other than the payment of dividends to CCHL and SDC, and the share buy-back in September 2015, were entered into with related parties during the year.

Transactions during the year	2017 $000	2016 $000
Dividends paid to CCHL and SDC	55,000	63,000
Share buy-back from CCHL and SDC	-	90,000
Purchases from CCC/SDC	3,790	3,498
Sales to CCC/SDC	8,647	6,074
Purchases from other related parties	1,174	2,123
Sales to other related parties	2,882	1,197
Outstanding balances as at 31 March		
Accounts payable to CCC/SDC	38	23
Accounts receivable from CCC/SDC	1,302	871
Accounts payable to other related parties	115	106
Accounts receivable from other related parties	468	173
Key management personnel compensation		
Salaries and short term employee benefits	2,777	2,646
Post-employment benefits	199	191

Other transactions involving related parties

The group paid directors' fees totalling $375,000 during the year (2016: $348,000). Two directors received a retirement gift during the year totalling $1,100 (2016: none). No other transactions were entered into with any of the company's directors, other than the payment of directors' fees and the reimbursement of valid company-related expenses such as travel costs to board meetings.

Key management personnel is defined as the company's directors, the company's chief executive officer and the company's managers who directly report to the chief executive officer. Key management personnel purchased goods and services from group companies during the year which in total did not exceed $2,000 for any individual (2016: all less than $2,000 with the exception of two employees who purchased second-hand vehicles from the group for $8,700 and $21,200 respectively). A total of nil was due from key management personnel as at 31 March 2017 (2016: nil). All transactions were conducted on standard commercial terms. Close family members of certain key management personnel are employed by the group. The terms and conditions of those arrangements are no more favourable than those that the group would have adopted if there was no relationship to key management personnel.

Performance statement – financial

	Notes	Actual 2017	Target 2017	Actual 2016
Net profit ($m)	1, 2	51.8	47.5	53.4
Net profit to average shareholders' equity (%)	1, 2	7.8	7.3	7.5
Debt to debt plus equity (%)	3	27	29	26
Equity to debt plus equity (%)	3	73	71	74
Equity to total assets (%)	3	58	57	59
Fully imputed dividends ($m)		55	52	63
Share buy-back ($m)		-	-	90

Note 1

Net profit was $4.3m above the statement of intent target because of:	Variances post-tax $m
Below-budget expenses	5.9
Above-budget interest rate swap revaluation revenue	1.5
Below-budget interest expense	1.1
Above-budget revaluation through profit	1.0
Above-budget prior year tax benefit	1.0
Above-budget gain on investment	0.5
Below-budget other revenues	(0.8)
Below-budget Connetics profit	(1.5)
Below-budget network distribution revenue	(4.2)
Other	(0.2)
	4.3

Note 2

Net profit was $1.7m below last year's because of:	
Higher interest rate swap revaluation revenue	3.6
Higher revaluation through profit	1.0
Higher gain on investment	0.5
Higher expenses	(0.9)
Higher interest expense	(1.5)
Lower network distribution revenue	(1.9)
Lower Connetics profit	(2.1)
Other	(0.4)
	(1.7)

Note 3

Debt is defined as interest bearing group borrowings, net of cash and cash equivalents. Equity is defined as shareholders' equity.

Performance statement – network reliability

	Approx number of connections 31 March 2017	Actual 2017 *	Target 2017	Actual 2016 *	Industry average 2016 *
Orion network interruptions:					
Duration of supply interruptions in minutes per year per connected customer (SAIDI)					
- urban	168,000	34	27	32	
- rural	30,000	335	475	585	
- overall	198,000	80	91	113	162
Number of supply interruptions per year per connected customer (SAIFI)					
- urban	168,000	0.4	0.8	0.6	
- rural	30,000	2.9	3.4	4.4	
- overall	198,000	0.8	1.2	1.2	1.7

Important notes:

1. Natural disasters and other catastrophic events can cause significant numbers and/or durations of network supply interruptions. The future occurrence and/or severity of these events cannot be predicted.
2. Weather conditions were relatively benign in the year ended 31 March 2017. We are also continuing to invest to achieve improved network resilience and reliability.
3. On 7/8 September 2016, a southerly storm caused interruptions to approximately 9,000 customer connections and added nine minutes to our overall SAIDI. On 5 November 2016, an extended interruption affected 1,600 customer connections in Lyttelton and the surrounding area and added six minutes to our overall SAIDI.
4. The Commerce Commission has set performance limits for our network reliability, pursuant to our customised price-quality path (CPP). The Commission assesses our actual network reliability against those limits, after normalising for the impacts of 'major events'. Our targets above are consistent with our CPP limits for FY17. After applying the Commission's normalisation methodology, we achieved our network reliability limits in FY16 and FY17.
5. Columns marked with an asterisk (*) are stated gross – before normalisation.
6. The industry averages are weighted averages for all 29 electricity distribution networks in New Zealand.
7. SAIDI and SAIFI are standard industry measures of network reliability performance. They include planned and unplanned interruptions, but exclude interruptions that:
   - are caused by electricity generators or Transpower
   - are caused in the low voltage (400V) network
   - last for less than one minute.

Performance statement – network development

1. **Complete the 66kV sub-transmission 'northern loop'**

   Target date: 31 May 2016

   Status: Achieved

   We completed this project in late March 2016. The new 66kV underground cables link Waimakariri, Papanui and Rawhiti zone substations. This is a major milestone, because it largely completes our interconnected urban 66kV sub-transmission network – enhancing long-term capacity and resilience for our whole urban network.

   Our last major quake-recovery project is the repair/rebuild of our Lancaster zone substation – which is underway and will be completed in the year ending 31 March 2018.

2. **Work with the Christchurch City Council (CCC) and other Government agencies to re-establish power and network resilience to the central business district (CBD) according to agreed priorities and timeframes**

   Target date: Ongoing

   Status: Achieved

   Our aim is to provide a resilient and reliable network to CBD businesses and residents in the years ahead. Pleasingly, our underground cables and stand-alone substations in the CBD sustained relatively little quake-damage.

   We are working with the CCC and its agencies, the Government's agencies and developers. Each development needs to be individually assessed and planned. We are also working with contractors to minimise network outages during developments.

3. **Support the key regional quake recovery planning documents**

   Target date: Ongoing

   Status: Achieved

   Our key role here is to restore network resilience and reliability and to plan for and meet customer and developer demand. Our key planning documents are our ten-year network asset management plan (AMP) and our business plan.

   We aim to ensure that our network AMP remains up to date and consistent with good industry practice, while taking approved regional recovery documents fully into account.

Performance statement – environment

Introduction

We aim to be environmentally responsible, consistent with our principal objective to operate as a successful business. We review our overarching environmental policy at regular intervals, and we publish it on our website. Our most significant environmental impacts are:

- carbon footprint
- sulphur hexafluoride (SF_6) gas losses to the atmosphere from our network equipment
- uncontained oil spills from our network transformers.

1. Undertake and encourage demand side management (DSM)

Target date: Ongoing

Status: Achieved

Over 95% of our annual carbon footprint comes from:

- electrical losses, a natural phenomenon that is caused by heating/friction as electricity passes through network equipment
- carbon that is embedded in the network.

Electrical losses increase considerably when network assets are highly loaded during peak customer demand periods. It therefore makes sense to reduce system peaks via DSM initiatives where practicable.

Our key DSM initiative is cost-reflective network pricing. Cost-reflective pricing helps customers make efficient decisions about which form of energy to use and when to use it. This helps to shift some customer demand off-peak and so this helps to:

- reduce electrical losses
- prevent over-investment in network assets.

We continue to co-operate with other upper South Island electricity distributors for co-ordinated load management.

2. Keep annual sulphur hexafluoride (SF_6) gas losses below 1% per year

Target date: Ongoing

Status: Achieved

SF_6 is inorganic, colourless, odourless and non-flammable. It is also a potent greenhouse gas. Most of our 66kV circuit breakers use SF_6 as a load interruption medium because it is an excellent electrical insulator. Following our recent spur asset purchases from Transpower we now have over one tonne of SF_6 in our network.

Unfortunately, there is no proven viable vacuum option for this voltage. In our memorandum of understanding with the Ministry for the Environment, we have committed to keeping our annual SF_6 gas losses below 1% of the total contained in our network equipment. We have documented policies and procedures to help us achieve that commitment.

During the year, our SF_6 losses were less than 0.4% (2016: below 0.1%).

Performance statement – environment continued

3. Keep non-contained transformer oil spills to nil

Target date: Ongoing

Status: Achieved

We have installed oil containment bunding at all of our zone substations that have oil-filled transformers. We have documented oil spill mitigation procedures to quickly and effectively deal with incidents should they occur. During the year, we had no significant non-contained oil spill incidents (2016: nil).

4. Support and sponsor Community Energy Action

Target date: Ongoing

Status: Achieved

We have sponsored and supported Community Energy Action since its inception in 1994. For several years, we have made financial sponsorship grants to CEA of $150,000 per year. During the year ended 31 March 2017, we increased our annual sponsorship to $200,000. Thousands of local homes have benefited from CEA's services, which include insulation and heating subsidies, home energy assessments and other advice.

5. Work with partners to establish a publicly available electric vehicle (EV) charging network in our region

Target date: 31 March 2017

Status: Achieved

New Zealand's electricity generation is largely renewable. So it makes sense to facilitate the take-up of EVs and hybrid vehicles in our region. We already have 18 EV chargers at our Wairakei Road head office that the public may use free of charge during working hours. We have collaborated with other parties to so far install eight public EV chargers around the region – in Little River, Akaroa, Northwood, Sumner, Botanic Gardens and New Brighton. We continue to collaborate with partners, with an objective to have 20 public EV chargers around our network area by 31 March 2018 – including five fast chargers that can fully-charge an EV battery in half an hour or less.

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

Target date: Ongoing

Status: Achieved

We continue to:

- seek ways to reduce peak loads on our network and increase our network load factor
- enable the safe and efficient connection of a range of distributed electricity generation, including renewables
- sponsor EVolocity, a local event where high school teams design, build and race electric vehicles at a local track
- support Community Energy Action
- encourage the uptake of electric vehicles
- collaborate with partners to install a public electric vehicle charger network in our region.

Performance statement – health and safety

1. **No serious safety events impacting our employees and contractors**

Target date: Ongoing

Status: Achieved for Orion employees, not achieved for Orion's contractors

This target covers Orion and contractors working on the Orion network – including Connetics. We define serious event as a notifiable event as per section 25 of the Health and Safety at Work Act 2015.

During the year:

- Orion employees had no serious events, resulting in no days of lost time (2016: one event and two days of lost time)
- Orion contractors had one serious event, resulting in twelve days of lost time (2016: three events and 29 days of lost time).

Although this target was achieved during the year, Connetics had a notifiable incident on a job for a non-Orion customer. The incident resulted in three days' lost time for one Connetics employee. WorkSafe investigated the incident and took no further action.

2. **No accidents involving members of the public**

Target date: Ongoing

Status: Not achieved

This covers all accidents on our network, excluding car versus pole accidents.

During the year, one member of the public had a minor injury accident related to our electricity distribution network (2016: nil).

3. **Continue with our local public safety education and awareness programme**

Target date: Ongoing

Status: Achieved

Our public safety programme covers issues such as tree owner responsibilities for their trees growing near our overhead lines, operating irrigators, other plant and scaffolding near lines, householder maintenance near lines, digging near underground cables and safety and security near electrical equipment. We especially target contractors and their principals because they are exposed to significant potential hazards in the field – especially during this wider post-quake rebuild period.

We deliver messages through rural A&P shows, presentations to targeted groups and media outlets such as local newspapers and radio.

This year we led a new initiative at the South Island Agricultural Field Days event, which attracts 30,000 visitors. We worked with a group of local electricity distribution businesses to facilitate consistent safety messages to the public.

MBIE has published a mandatory code of practice for working within four metres of overhead networks and there is an industry best practice guide for working near underground networks.

We continue to:

- develop constructive relationships with local contractors, their principals and other interested parties to promote safety around the electricity network
- advertise safety messages via local radio, print and rural A&P shows
- liaise with other industry groups, such as the Electricity Networks Association's public safety working group
- process safe approach consent applications in a timely and effective manner.

Performance statement – community and employment

1. Follow up on the results of our employee survey

Target date: 31 December 2016

Status: Achieved

We undertake this survey every second year – with the latest undertaken in late 2015. The survey measures employees' perceptions of current workplace culture attributes. We have worked through the survey results with our work teams – and those teams have worked on the issues that arose specific to them. We will undertake our next employee survey in mid to late 2017.

2. Achieve voluntary annual staff turnover of less than 5% for Orion and less than 10% for Connetics

Target date: Ongoing

Status: Achieved

Our targets exclude the impacts of employees leaving for reasons of retirement, redundancy or on completion of a fixed term (or casual) employment contract or disciplinary related. During the year employee turnover was:

- 2.6% for Orion (2016: 4.4%)
- 6.9% for Connetics (2016: 8.5%).

3. Continue with our Orion engineering development programme

Target date: Ongoing

Status: Achieved

As at 31 March 2017, we employed five employees in our engineering development programme (2016: seven).

Our programme continues to successfully develop and place talented and motivated people into key positions in our business. We advertise internally and externally for candidates, and we select successful candidates on merit. Engineering trainees are trained and gain work experience in the business, with a view to placement in areas where there are current or forecast skill shortages and/or succession opportunities. Trainees usually complete the programme in three years, and are then placed in permanent roles. In recent months, three trainees have been placed in permanent roles. We continue to appoint new trainees each year.

4. Continue to develop our Connetics apprentice scheme

Target date: Ongoing

Status: Achieved

Connetics will continue with this scheme to ensure that our key contracting subsidiary company sustainably develops and improves its industry competencies. As at 31 March 2017, Connetics employed 31 apprentices (2016: 29) as follows:

- 18 electrical – including substations, streetlighting and wider electrician units
- 13 multi-skill – overhead lines and underground cables.

5. Continue to support the Ara Institute of Canterbury trades innovation centre

Target date: Ongoing

Status: Achieved

Ara (formerly CPIT) has a simulated subdivision at its Sullivan Avenue site, where trades trainees can be trained in real life situations. The facility is fully operational for electricity distribution – including overhead lines, underground cables and substations – and it is an important part of the competence training for our employees, contractors and our industry. We continue to support the centre by using it as an operational training site, managed by our network access team.

Audit New Zealand independent auditor's report

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

To the readers of Orion New Zealand Limited group's financial statements and performance information for the year ended 31 March 2017

The Auditor-General is the auditor of Orion New Zealand Limited group (the group). The Auditor-General has appointed me, John Mackey, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements of the group on his behalf.

Opinion on the financial statements and the performance information

We have audited:

- the financial statements of the group on pages 39 to 60, that comprise the statement of financial position as at 31 March 2017, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the group on pages 61 to 67.

In our opinion:

- the financial statements of the group:
  - present fairly, in all material respects:
    - its financial position as at 31 March 2017; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand in accordance with New Zealand equivalents to International Financial reporting Standards.
- the performance information of the group presents fairly, in all material respects, the group's achievements measured against the performance targets adopted for the year ended 31 March 2017.

Our audit was completed on 9 June 2017. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the board of directors and our responsibilities relating to the financial statements and the performance information, and we explain our independence.

Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

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

Responsibilities of the board of directors for the financial statements and the performance information

The board of directors is responsible on behalf of the group for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand.

The board of directors is also responsible on behalf of the group for preparing performance information that is fairly presented.

The board of directors is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the board of directors is responsible on behalf of the group for assessing the company's ability to continue as a going concern. The board of directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to liquidate the group or to cease operations, or there is no realistic alternative but to do so.

The board of directors' responsibilities arise from the Energy Companies Act 1992.

Responsibilities of the auditor for the audit of the financial statements and the performance information

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these financial statements and performance information.

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

Audit New Zealand independent auditor's report continued

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit 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 group's internal control.
- We evaluate the appropriateness of the reported performance information within the group's framework for reporting its performance;
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the board of directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial statements of the entities or business activities within the group to express an opinion on the consolidated financial statements and performance information. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Other information

The board of directors is responsible for the other information. The other information comprises the information included on pages 1 to 38 and from page 70 onwards, but does not include the financial statements and the performance information, and our auditor's report thereon.

Our opinion on the financial statements and the performance information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the performance information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the performance information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independence

We are independent of the group in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board. In addition to this audit, we have carried out other audit and assurance engagements for the company. These audit and assurance engagements, as described in note 6 on page 50, are compatible with those independence requirements. Other than the audit, and these assignments, we have no relationship with or interests in the group.

John Mackey
Audit New Zealand
On behalf of the Auditor-General
Christchurch, New Zealand

Governance statement

Shareholders

Our shareholders are:

• Christchurch City Holdings Limited – which is 100% owned by the Christchurch City Council	89.275%
• Selwyn District Council	10.725%
	100.000%

Our principal objective and our principal activities

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

Our principal activities during the year were to:

- provide electricity distribution network services to customers in Christchurch and central Canterbury
- provide contracting services in the utilities sector.

Role of the board

Our shareholders appoint our directors to govern and direct the company's activities. The board of directors is the overall and final body responsible for the proper direction and control of the company's activities and decision-making. The board's responsibility includes areas of stewardship such as:

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

In accordance with the Energy Companies Act 1992 and the company's constitution, the board of directors submits a draft statement of intent (SOI) to our shareholders in February each year. Our draft SOI sets out our overall objectives and intentions, and our financial, network reliability, network development, environmental, community and employment, and health and safety performance targets for the next three financial years. After due consultation with our shareholders and after considering their comments, the board approves our final SOI and delivers it to our shareholders. We also place a copy of our SOI on our public website.

The board aims to ensure that our shareholders are informed of all major developments and issues affecting the Orion group.

Board membership

Pursuant to the company's constitution:

- one director is appointed by the Selwyn District Council
- all other directors are appointed by Christchurch City Holdings Limited, one in consultation with the Selwyn District Council.

The board chairman is elected by the board.

Governance statement continued

Board operation

The operation of the board is governed by the company's constitution and the board's code of conduct. The board chairman leads the conduct of the board and its relationship with our shareholders and other major stakeholders. The board chairman maintains a close professional relationship with the chief executive officer, and through him, the senior management team.

New directors undertake an induction process to familiarise them with matters related to the company.

Code of conduct

The board of directors has a code of conduct; which it reviews and updates at regular intervals to reflect good practice. The code clarifies how the board and directors shall undertake their responsibilities, including:

- the role and fundamental obligations of the board and directors
- the terms of reference and operation of board committees
- independence and conflicts of interest, including any conflicts with management
- board procedures
- the role of the chairman
- interaction with the chief executive officer and the senior management team
- reliance on information and independent advice
- confidentiality of company information
- shareholder participation
- board and director performance review and development.

Policies

The board reviews key policies at regular intervals, including any recommendations for changes from management.

Board performance and review

The board reviews its performance and the performance of the chief executive officer at regular intervals.

Board meetings

The board meets approximately ten times per year. Additional meetings are convened as and when required. The board's annual work programme is set by the board before the start of each calendar year. The board receives formal agenda papers and regular reports, generally a week in advance of meetings. Senior managers and independent experts are regularly involved in board discussions. Directors may also obtain further information and independent expert advice.

Board committees

The board delegates some responsibilities and tasks to board committees. However, the board retains the ultimate responsibility and accountability for any committee's actions or inactions. All directors receive agenda papers for committee meetings and all directors have the right to attend committee meetings. The board's two standing committees are:

- the audit committee liaises with the company's independent auditor and it reviews the quality and reliability of internal controls and financial information used by and issued by the board
- the remuneration committee reviews the company's remuneration policies and practices, and reviews and sets the remuneration of the company's chief executive officer and senior management team respectively.

Governance statement continued

The following directors served as standing committee members during the year ended 31 March 2017:

Audit committee

Paul Munro – chairman	Resigned 14 Sep 2016
Bruce Gemmell – chairman	Appointed 15 Sep 2016
Jeremy Smith	Resigned 20 Feb 2017
Nick Miller	Appointed 21 Feb 2017
John Austin	
Nicola Crauford	

Remuneration committee

Geoff Vazey – chairman	
Jeremy Smith	Resigned 20 Feb 2017
Nick Miller	Appointed 21 Feb 2017

Subsidiary companies

The following served as directors of subsidiary companies during the year ended 31 March 2017:

Connetics	Rob Jamieson (chairman), Brendan Kearney, Geoff Vazey
Orion New Zealand Ventures Limited	Brendan Kearney

Legislative compliance

The board receives regular updates and representations from management on legislative compliance. Areas of relevant law include corporate, taxation, financial reporting, electricity industry regulation, commercial, environmental, human resources, health and safety and privacy. Compliance manuals and training are made available to all employees and we engage with independent experts for advice on some issues.

Directors' insurance

We have comprehensive liability insurance policies for the group, directors and officers that are within the limits and requirements as set out in the Companies Act 1993 and the company's constitution.

Loans to directors

The group does not make loans to directors.

Donations

The group made $1,000 of donations to charitable causes during the year (2016: $1,200).

Auditor

In accordance with section 45 of the Energy Companies Act 1992 and section 15 of the Public Audit Act 2001, Audit New Zealand on behalf of the Auditor-General is the auditor of the company.

Conflicts of interest

The board operates a formal directors' interests register and this register is reviewed for any necessary updates at the start of every board meeting. Directors are required to:

- not have any significant conflict of interest and/or the appearance of a conflict of interest that is potentially detrimental to the company
- declare any interest immediately to the board and refrain from voting on an issue or transaction in which they have an interest
- disclose to the board all business relationships relevant to the company
- if requested by any other director, withdraw from any meeting where discussion of an issue or a transaction will occur in which they have an interest
- comply with sections 139 to 149 of the Companies Act 1993
- not generally provide business or professional services of an ongoing nature to the company.

Employees may not become involved in any activity that may affect or compromise their ability to perform their duties, or may be in conflict with the interests of the company. If employees become aware that they (or their family members or associates) have a potential conflict of interest, they are required to advise their manager.

Governance statement continued

Interests register

Directors recorded the following interests in the interests register during the year ended 31 March 2017.

John Austin	Thomas Austin Securities Limited	Director and shareholder
Nicola Crauford	Co-operative Bank Limited – electoral authority	Member
	Environmental Protection Authority	Director
	GNS Science and subsidiaries/associates	Director
	Local Government Risk Management Agency Establishment Board	Member
	Martin Crauford Limited	Director and shareholder
	New Zealand Fire Service	Director
	Riposte Consulting Limited	Director and shareholder
	Watercare Services Limited	Director
	Wellington Water Limited	Director
	WorleyParsons New Zealand Limited	Consultant
Bruce Gemmell	ATT Australia Limited	Director
	ATT Trustee Limited	Director
	Gemmell and Associates Limited	Director and shareholder
	Gemmell Group Limited	Director and shareholder
	Highlanders GP Limited	Director
	Lincoln University	Councillor
	Miramar Consolidated Limited	Director
	PRT Limited	Director
	Taylor Preston Limited	Director
	Christchurch Symphony Foundation Trust	Trustee
	The Second Little Pig Was Right Limited	Director and shareholder
	University of Canterbury	Councillor
	X-Tend Life Natural Products Limited	Director
	X-Tend Life Holdings Limited	Director
Nick Miller	Annavale Limited	Director
	Australian Constructors Association Pty Limited	Director
	Coleridge Downs Limited	Director
	Fulton Hogan Limited and subsidiaries/associates	Director and shareholder
	Halerose Limited	Director and shareholder
	HCG Group Limited	Director
	Magnolia Farm Limited	Director and shareholder
	Quake Core	Advisory Board member
	Rangi Ruru Girls' School	Trustee
	Southbase Construction Limited	Director
Paul Munro	Central Plains Water Limited	Director
	Christchurch City Holdings Limited	Chief executive
	EA Networks Limited	Director
Bob Simpson	Electricity Engineers Association	Director
	New Zealand Board for Engineering Diplomas	Director
	Simpson & Associates Limited	Director and shareholder

Governance statement continued

Jeremy Smith	Barhill Chertsey Irrigation Limited	Director
	Christchurch City Holdings Limited	Director
	Farra Engineering Limited	Director
	Graymont (NZ) Limited	Director
	Holmes Group Limited	Director
	Seamount Advisory Limited	Director and shareholder
	Water Utilities Ashburton Limited	Director
Geoff Vazey	Business Mentors New Zealand Limited	Chairman
	Consult GV Limited	Director and shareholder
	HEB Construction Limited	Director
	Cook Islands Port Authority	Director
	Green Valley Dairies Limited	Director
	Green Valley Distribution Limited	Director

Directors' remuneration

		Orion $000	Connetics $000
John Austin		48	-
Nicola Crauford		48	-
Bruce Gemmell	Appointed 15 Sep 2016	29	-
Nick Miller	Appointed 15 Sep 2016	29	-
Paul Munro	Resigned 14 Sep 2016	24	-
Bob Simpson		44	-
Jeremy Smith	Resigned 20 Feb 2017	83	-
Geoff Vazey		49	20
		355	20

Employee remuneration

We aim to attract, retain, develop and motivate high calibre employees at all levels of the organisation. Our employee remuneration strategy aims for consistency, fairness and alignment with the group's principal objective – to operate as a successful business. We regularly compare our employees' remuneration against relevant market data. In general, we aim to meet the market, subject to employee performance.

All individual employment agreement terms and conditions are subject to one-up approval. For example, the board approves the chief executive officer's employment terms and conditions and the board remuneration committee approves those of the direct reports to the chief executive officer. Three collective employment agreements cover approximately 45% of the group's employees.

Chief executive officer's remuneration

The board negotiates the chief executive officer's remuneration, after taking independent expert advice on relevant market data and the remuneration of chief executives for comparable companies. The board reviews the chief executive officer's remuneration annually.

The board appointed Mr Jamieson as chief executive officer in August 2011. Mr Jamieson's employment agreement provided for a one-off deferred payment at the end of three years, subject to achieving performance objectives throughout those three years, and subject to Mr Jamieson remaining in the role. The one-off deferred payment was the equivalent of six months' total remuneration. In early 2014, the board carefully considered Mr Jamieson's performance and confirmed that he had achieved the requirements to earn the deferred one-off payment. In taking the company's overall best interests into account, the board decided to:

- pay half of the one-off deferred payment in the year ended 31 March 2014
- pay one quarter in the year ended 31 March 2015
- pay one quarter in the year ended 31 March 2016.

Mr Jamieson's employment agreement now has no deferred payment component.

Governance statement continued

Mr Jamieson's total remuneration over the last two financial years has been as follows:

	2017 $000	2016 $000
Fixed remuneration	628	613
One-off deferred payment	-	79
One-off holiday pay effect	-	23
	628	715

In accordance with the Holidays Act 2003, Mr Jamieson's holiday pay is paid at his average daily pay rate, calculated by reference to his gross taxable earnings for the previous 12 months. The one-off deferred payments noted above increased Mr Jamieson's holiday pay in the year ended 31 March 2016.

Group employee remuneration

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

Remuneration $000	2017	2016
100 - 110	49	41
110 - 120	29	27
120 - 130	30	25
130 - 140	14	17
140 - 150	9	9
150 - 160	10	9
160 - 170	5	5
170 - 180	2	2
180 - 190	1	1
190 - 200	1	1
200 - 210	3	-
210 - 220	1	2
220 - 230	1	-
230 - 240	1	3
240 - 250	1	1
250 - 260	2	1
300 - 310	-	1
310 - 320	-	1
320 - 330	1	-
380 - 390	-	1
390 - 400	1	-
470 - 480	-	1
480 - 490	2	1
620 - 630	1	-
710 - 720	-	1

Five-year trends

	2017 $m	2016 $m	2015 $m	2014 $m	2013 $m
Statement of comprehensive income					
Operating revenue	310	307	334	270	261
EBIT	80	86	116	73	70
Profit before income tax	71	74	110	69	66
Net profit	52	53	83	50	49
Other comprehensive income	16	-	-	79	-
Total comprehensive income	68	53	83	130	49
Statement of financial position					
Current assets	23	22	24	25	28
Non current assets	1,134	1,100	1,060	1,015	861
	1,157	1,122	1,084	1,040	889
Current borrowings	37	1	2	2	-
Other current liabilities	44	42	48	43	33
Non current borrowings	212	227	84	74	61
Deferred tax liability	187	187	188	186	155
Other non current liabilities	4	5	2	2	3
Shareholders' equity	673	660	760	733	637
Total assets	1,157	1,122	1,084	1,040	889
Statement of cash flows					
Operating cash flows	100	103	114	85	78
Investing cash flows	(67)	(91)	(68)	(52)	(53)
Financing cash flows	(33)	(12)	(46)	(34)	(25)
Financial performance measures					
Dividends paid	55	63	56	34	32
Share buy-back	-	90	-	-	-
Net profit to average shareholders' equity (%)	7.8	7.5	11.1	7.4	7.8
Net interest bearing debt to debt-plus-equity (%)	27	26	10	9	9
Non financial measures					
Electricity maximum demand (MW)	599	618	590	619	592
Electricity deliveries into the network (GWh)	3,227	3,296	3,277	3,162	3,165
Number of customer connections (000)	198	195	191	189	189

Directory

As at 9 June 2017

Directors

Nick Miller - chairman

John Austin

Nicola Crauford

Bruce Gemmell

Bob Simpson

Geoff Vazey

Corporate management

Rob Jamieson
Chief Executive Officer

David Freeman-Greene
General Manager Commercial

Brendan Kearney
Chief Financial and Governance Officer

Craig Kerr
General Manager Information Solutions

Andy Miller
Health and Safety Manager

John O'Donnell
Chief Operating Officer

Adrienne Sykes
General Manager People and Strategy

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Twitter	twitter.com/orionnz

Auditor

Audit New Zealand, on behalf of the Auditor-General

Sources of information

Other organisations and websites of interest include:

Christchurch City Council
ccc.govt.nz

Commerce Commission
comcom.govt.nz

Community Energy Action
cea.co.nz

Connetics Limited
connetics.co.nz

Consumer electricity information
powerswitch.org.nz and whatsmynumber.org.nz

Development Christchurch Limited
dcl.org.nz

Electricity Authority
ea.govt.nz

Electricity Networks Association
electricity.org.nz

Energy Efficiency and Conservation Authority
eeca.govt.nz

Environment Canterbury
ecan.govt.nz

Ōtākaro Limited
otakaroltd.co.nz

Regenerate Christchurch
regeneratechristchurch.nz

Selwyn District Council
selwyn.govt.nz

Utilities Disputes Limited
utilitiesdisputes.co.nz

Orion

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