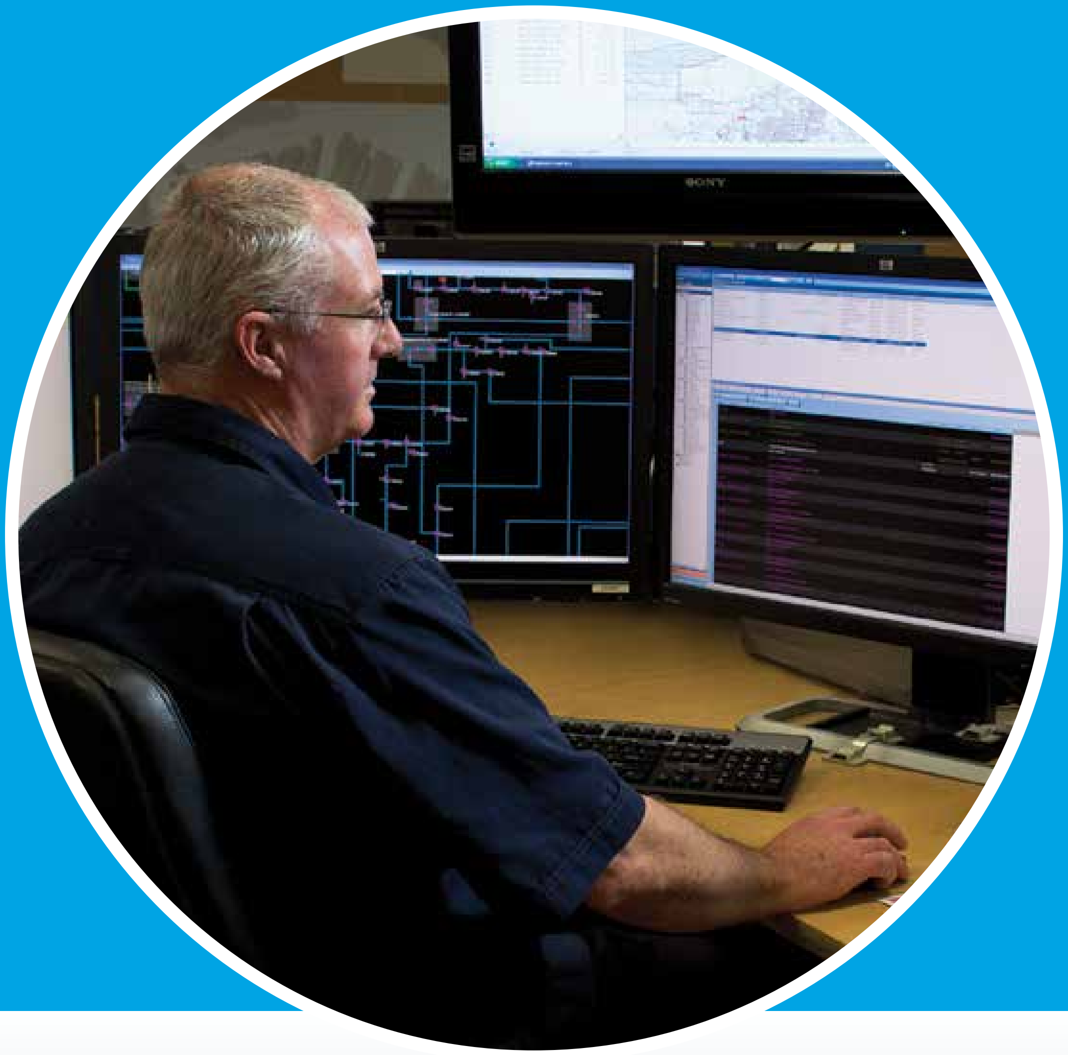
ORION NEW ZEALAND LIMITED **2013** annual report



Orion New Zealand Limited owns and operates one of the largest electricity distribution networks in New Zealand. Our network covers 8,000 square kilometres in central Canterbury between the Waimakariri and Rakaia rivers and from the Canterbury coast to Arthur's Pass. This diverse geographical area stretches from rural Banks Peninsula to Christchurch city and out to farming towns on the plains and into the hills and high country.

This year we continued to work alongside our owners – Christchurch City Council (89.3%) and Selwyn District Council (10.7%) – to recover from our region's biggest natural disaster.

More than 160 employees work directly for Orion, and most days a further 250 contractors help us on the network. All of these people are critical to our business as we plan, engineer, operate and control our network, manage finances and contracts, and give our customers the best service we can.

This report is Part 2 of the 2013 annual report for Orion New Zealand Limited and its subsidiaries. Part 1, which is available online at oriongroup.co.nz and in print, summarises the year in review.

Orion yourNETwork

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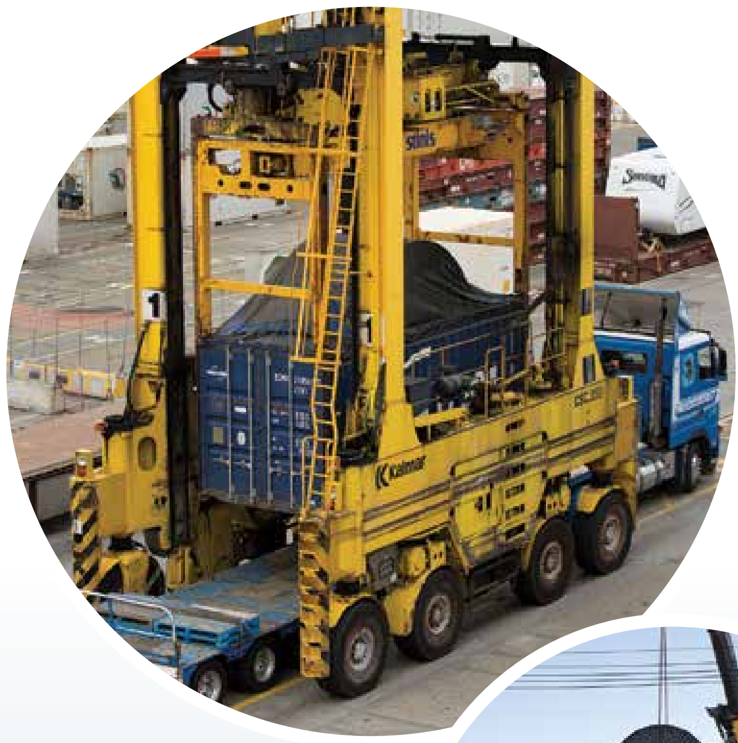

Clockwise from above: This year we made our largest cable purchase in more than a decade, with the arrival of 270 tonnes of 66,000 volt cable at Lyttelton Port of Christchurch;

A work crew installs the new cable as stage one of a three-stage project to deliver a more secure power supply to eastern Christchurch;

The final destination for the cable is underground between our major substations in St Albans and Dallington. While that distance spans just over five kilometres of road, we will use nearly 16 kilometres of cable for the project. That is because we need three lengths of cable to maintain a three-phase system in the power supply network.

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 2013.

The company's audited financial statements also include five audited statements of performance:

- financial
- electricity network reliability
- earthquake recovery and disaster resilience
- environment
- community and employment.

Authorised for issue on 12 June 2013.

For and on behalf of the board of directors:

CRAIG BOYCE CHAIRMAN
12 June 2013

PAUL MUNRO DIRECTOR
12 June 2013

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For the year ended 31 March 2013

Statement of comprehensive income

For the year ended 31 March 2013

	Notes	Group 2013 $000	Group 2012 $000	Parent 2013 $000	Parent 2012 $000
Revenues	2	260,882	245,302	227,301	221,867
Expenses	3	154,009	139,904	123,687	120,106
Depreciation, amortisation and other impairment expenses	4	37,367	32,751	35,664	31,400
		191,376	172,655	159,351	151,506
Earnings before net interest expense and tax (EBIT)		69,506	72,647	67,950	70,361
Interest income	5	212	411	525	565
Interest expense	6	3,998	4,932	3,998	4,932
Profit before income tax		65,720	68,126	64,477	65,994
Income tax expense	8	16,729	13,972	16,353	13,241
Net profit		48,991	54,154	48,124	52,753
Other comprehensive income:					
Gain on revaluation of property, plant and equipment	15	-	275	-	275
Deferred tax on revaluation of property, plant and equipment	8	-	(71)	-	(71)
Other comprehensive income		-	204	-	204
Total comprehensive income		48,991	54,358	48,124	52,957

The accompanying notes form part of and are to be read in conjunction with these financial statements

Statement of changes in equity

For the year ended 31 March 2013

	Notes	Share capital $000	Retained earnings $000	Asset revaluation reserve $000	Total equity $000
Consolidated entity					
Balance as at 1 April 2011		120,000	453,882	25,674	599,556
Net profit		-	54,154	-	54,154
Other comprehensive income		-	-	204	204
Total comprehensive income		-	54,154	204	54,358
Transfers between reserves:					
Realised gain on disposal of property, plant and equipment		-	103	(103)	-
Deferred tax reversed on sale of property, plant and equipment		-	(28)	28	-
Transactions with owners in their capacity as owners:					
Dividends paid	27	-	(34,000)	-	(34,000)
Balance as at 31 March 2012		120,000	474,111	25,803	619,914
Net profit		-	48,991	-	48,991
Other comprehensive income		-	-	-	-
Total comprehensive income		-	48,991	-	48,991
Transfers between reserves:					
Realised gain on disposal of property, plant and equipment		-	33	(33)	-
Deferred tax reversed on sale of property, plant and equipment		-	(9)	9	-
Transactions with owners in their capacity as owners:					
Dividends paid	27	-	(32,000)	-	(32,000)
Balance as at 31 March 2013		120,000	491,126	25,779	636,905

The accompanying notes form part of and are to be read in conjunction with these financial statements

Statement of changes in equity continued

For the year ended 31 March 2013

	Notes	Share capital $000	Retained earnings $000	Asset revaluation reserve $000	Total equity $000
Parent entity					
Balance as at 1 April 2011		120,000	455,455	22,296	597,751
Net profit		-	52,753	-	52,753
Other comprehensive income		-	-	204	204
Total comprehensive income		-	52,753	204	52,957
Transfers between reserves:					
Realised gain on disposal of property, plant and equipment		-	103	(103)	-
Deferred tax reversed on sale of property, plant and equipment		-	(28)	28	-
Transactions with owners in their capacity as owners:					
Dividends paid	27	-	(34,000)	-	(34,000)
Balance as at 31 March 2012		120,000	474,283	22,425	616,708
Net profit		-	48,124	-	48,124
Other comprehensive income		-	-	-	-
Total comprehensive income		-	48,124	-	48,124
Transfers between reserves:					
Realised gain on disposal of property, plant and equipment		-	33	(33)	-
Deferred tax reversed on sale of property, plant and equipment		-	(9)	9	-
Transactions with owners in their capacity as owners:					
Dividends paid	27	-	(32,000)	-	(32,000)
Balance as at 31 March 2013		120,000	490,431	22,401	632,832

The accompanying notes form part of and are to be read in conjunction with these financial statements

Statement of financial position

As at 31 March 2013

	Notes	Group 2013 $000	Group 2012 $000	Parent 2013 $000	Parent 2012 $000
Current assets					
Cash and cash equivalents	9	1,362	632	1,122	321
Trade and other receivables	10	10,194	19,493	3,807	13,083
Financial assets	11	15	1	4,641	3,503
Inventories	12	4,881	4,741	227	177
Prepayments		2,595	2,393	1,762	1,898
Investment property	16	8,805	-	8,805	-
Total current assets		27,852	27,260	20,364	18,982
Non current assets					
Trade and other receivables	28	-	25	-	25
Subsidiaries	14	-	-	6,551	6,551
Financial assets	29	-	45	-	-
Prepayments		101	440	101	440
Investment property	16	-	7,915	-	7,915
Property, plant and equipment	15	855,076	819,633	850,000	815,489
Intangible assets	17	5,534	5,833	3,132	3,867
Goodwill	18	250	-	-	-
Total non current assets		860,961	833,891	859,784	834,287
Total assets		888,813	861,151	880,148	853,269
Current liabilities					
Trade and other payables	19	29,186	27,780	24,265	22,920
Borrowings	20	153	96	153	96
Income tax liability	8	3,701	3,242	3,587	2,975
Provisions	21	169	163	92	85
Financial liabilities	22	17	151	-	151
Total current liabilities		33,226	31,432	28,097	26,227
Non current liabilities					
Borrowings	23	61,088	53,359	61,088	53,359
Provisions	24	1,200	1,084	739	649
Financial liabilities	25	1,402	2,283	1,402	2,283
Deferred tax	8	154,992	153,079	155,990	154,043
Total non current liabilities		218,682	209,805	219,219	210,334
Equity					
Share capital	26	120,000	120,000	120,000	120,000
Asset revaluation reserve		25,779	25,803	22,401	22,425
Retained earnings		491,126	474,111	490,431	474,283
Total equity attributable to parent equity holders		636,905	619,914	632,832	616,708
Total liabilities and equity		888,813	861,151	880,148	853,269

The accompanying notes form part of and are to be read in conjunction with these financial statements

Statement of cash flows

For the year ended 31 March 2013

	Notes	Group 2013 $000	Group 2012 $000	Parent 2013 $000	Parent 2012 $000
Cash flows from operating activities					
Receipts from customers		249,411	222,722	217,951	195,809
Interest received		214	413	513	567
Dividends received		-	-	-	500
Payments to suppliers and employees		(153,359)	(146,324)	(124,372)	(123,452)
Payments for interest and other finance costs		(4,010)	(3,829)	(4,010)	(3,829)
Payments for income tax		(14,357)	(12,167)	(13,794)	(10,875)
Subvention payments		-	-	(34)	(29)
Net cash provided by operating activities	30	77,899	60,815	76,254	58,691
Cash flows from investing activities					
Proceeds related to insurance claims on investment property		11,179	12,308	11,179	12,308
Proceeds from sale of available-for-sale investments		1,818	10	1,714	10
Proceeds from sale of property, plant and equipment		514	316	348	243
Payments for property, plant and equipment		(63,042)	(51,793)	(60,866)	(51,771)
Payments for intangible assets		(1,671)	(3,267)	(1,020)	(1,697)
Payment for interest rate swap closeout		(870)	-	(870)	-
Payment for goodwill		(250)	-	-	-
Payments for investment property		(186)	(508)	(186)	(508)
Amounts advanced from/(to) related parties		-	-	(1,091)	570
Net cash used in investing activities		(52,508)	(42,934)	(50,792)	(40,845)
Cash flows from financing activities					
Proceeds from borrowings		7,500	16,500	7,500	16,500
Repayment of borrowings		(161)	(80)	(161)	(80)
Dividends paid		(32,000)	(34,000)	(32,000)	(34,000)
Net cash used in financing activities		(24,661)	(17,580)	(24,661)	(17,580)
Net increase in cash and cash equivalents		730	301	801	266
Summary					
Cash and cash equivalents at beginning of year		632	331	321	55
Net increase in cash and cash equivalents		730	301	801	266
Cash and cash equivalents at end of year	9	1,362	632	1,122	321

The accompanying notes form part of and are to be read in conjunction with these financial statements

1. Statement of accounting policies

Statement of compliance

Orion New Zealand Limited (the company) is a profit-oriented company incorporated in New Zealand under the Companies Act 1993 and the Energy Companies Act 1992. The group consists of Orion New Zealand Limited and its subsidiaries (refer also to note 14). The company is a reporting entity for the purposes of the Financial Reporting Act 1993 and its financial statements comply with that Act and section 44 of the Energy Companies Act 1992.

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

The parent and group financial statements comply with International Financial Reporting Standards (IFRS).

Basis of financial statement preparation

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

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

Accounting policies have been selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported. The accounting policies set out below were applied in preparing these financial statements for the year ended 31 March 2013 and the comparative information presented in these financial statements for the year ended 31 March 2012.

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

Preparing financial statements to conform with NZ IFRS requires the company to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The company's estimates and associated assumptions have been based on historical experience and other factors that are believed to be reasonable under the circumstances. These estimates and assumptions have formed the basis for making judgements about the carrying values of assets and liabilities, where these are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are regularly reviewed. Any change to estimates is recognised in the year if the change affects only that year, or into future years if it also affects future years. In the process of applying the company's and group's accounting policies, management has made the following judgements, estimates and assumptions that have had the most significant impact on the amounts recognised in these financial statements.

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

The company operates an extensive integrated electricity distribution network comprising large numbers of relatively minor individual network asset components. These components are replaced over time as part of an ongoing maintenance/refurbishment programme, consistent with the company's approved network asset management plan. The costs associated with recording and tracking all individual components replaced and removed from the network substantially outweigh the benefits of doing so. The company has estimated the quantities and the carrying values of components removed from the network in each reporting period and also the value of the 66kV underground cables decommissioned as a result of the 22 February 2011 earthquake. Any changes in the estimates of such removals are recognised at the next asset revaluation and are not considered to be material on either an annual or a cumulative basis with respect to either reported net profits or carrying values of the electricity distribution network. Refer also to note 1(k) regarding revaluations of property, plant and equipment.

The company has included the estimated impacts of the Canterbury earthquakes on its estimates of the future cash flows of the business. The company's estimates contain some uncertainty because the company is still assessing the impacts of the earthquakes and not all data is to hand. The company's estimates have been relied upon in the review of the carrying value of the company's electricity distribution network (refer to note 15 – property, plant and equipment).

The company has adopted certain key assumptions and made certain key estimates in its discounted cash flow valuation of its electricity distribution network. These include the relevant discount rate and the amounts and timing of future cash flows. These assumptions and estimates are described in note 15.

1. Statement of accounting policies continued

In February 2013 the company applied to the Commerce Commission for a customised price-quality path (CPP). The company's CPP application proposes that, in light of the impacts of the earthquakes on the company's operations and cash flows, the Commission:

- resets the company's distribution network reliability targets
- allows the company to increase its electricity distribution network prices above the company's current default price-quality path (DPP) levels, starting on 1 April 2014.

The Commission will not make its decisions on the company's CPP proposals until late 2013 at the earliest. Due to the considerable uncertainty around the Commission's decisions, the company has not assumed that any future revenue uplifts will arise from the company's CPP application. Instead, in forecasting future cash flows, the company has assumed that its distribution network price increases will continue to be restricted to the level of ongoing consumer price index (CPI) inflation under its current DPP.

The company assesses whether individual assets or a grouping of related assets (which generate cash flows independently) are impaired by estimating the future cash flows that those assets are expected to generate. Assumptions, such as rates of expected revenue growth or decline, expected future margins and the selection of an appropriate discount rate for discounting future cash flows, are required. Following the Canterbury earthquakes these assumptions are of a higher degree of sensitivity than would normally be the case.

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

The group has determined estimated useful lives for particular assets. The group has exercised judgements over the expected length of service potential of assets, the likelihood of assets becoming obsolete as a result of technological advances and the likelihood of the company and group ceasing to use assets in its business operations.

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

The company estimates and eliminates intragroup profits that are recognised in new electricity distribution network assets.

Other areas where judgement has been exercised in preparing these financial statements include calculating provisions for doubtful debts, assessing any unrecoverable work in progress, calculating provisions for employee benefits and in the determination of SAIDI/SAIFI measures in the statement of electricity network reliability performance.

Significant accounting policies

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

(a) Basis of consolidation

Subsidiaries

A subsidiary is an entity where the group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

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

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income and statement of changes in equity.

1. Statement of accounting policies continued

Parent company

Investments in subsidiaries held by the parent are accounted for at cost less any impairment charges in the separate financial statements of the parent entity. Dividends received from subsidiaries are recorded as a component of other revenues and do not impact the recorded cost of the investment in the separate balance sheet of the parent entity. Upon receipt of dividend payments from subsidiaries, the parent will assess whether any indicators of impairment of the carrying value of the investment in the subsidiary exist. Where such indicators exist, to the extent that the carrying value of the investment exceeds its recoverable amount, an impairment loss is recognised. Details of the impairment tests performed are disclosed in note 1(j).

(b) Goods and services tax

Revenues, expenses, cash flows and assets are recognised net of the amount of goods and services tax (GST), except for receivables and payables which are recognised inclusive of GST. Where GST is not recoverable as an input tax it is recognised as part of the related asset or expense. Cash flows in respect of payments to and receipts from the Inland Revenue Department are shown net in the statement of cash flows.

(c) Foreign currency

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

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks (including bank overdrafts) and investments in money market instruments with maturities of three months or less. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

(e) Financial assets

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

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

Financial assets at fair value through profit or loss

The group has certain derivatives which are stated at fair value and the movements are recognised in profit or loss (refer to note 1(i)).

Available-for-sale financial assets

Certain shares and convertible notes held by the group are classified as being available-for-sale and are stated at fair value. Gains and losses arising from changes in fair value are recognised directly in the available-for-sale revaluation reserve (except for impairment losses that are recognised in profit or loss), until the investment is disposed of or is determined to be impaired. At this time the cumulative gain or loss previously recognised in the available-for-sale revaluation reserve is included in profit or loss for the year.

Loans and receivables

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

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

The cost of chargeable work in progress includes direct materials and labour, an allocation of overheads that directly relate to the work performed and the expected margin or loss on the costs incurred to date.

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

(f) Inventories

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

1. Statement of accounting policies continued

(g) Income tax

Income tax expense in relation to the profit or loss for the year comprises current tax and deferred tax.

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

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

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

For investment property measured at fair value, there is a rebuttable presumption that any deferred tax will be recovered through the sale of the asset. The carrying value of the asset is therefore used to calculate any deferred tax balance.

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 also recognised in other comprehensive income.

(h) Leased assets and lease liabilities

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

Group as lessor

Amounts due from lessees under finance leases are recorded as receivables. Finance lease payments are allocated between interest revenue and reduction of the lease receivable over the term of the lease in order to reflect a constant periodic rate of return on the net investment outstanding in respect of the lease.

Group as lessee

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

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

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.

(i) Derivative financial instruments

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

The group has not designated any derivatives as hedges for financial reporting purposes. Derivatives are initially recognised at fair value on the date a derivative contract is entered into. Subsequent to initial recognition, derivatives are revalued to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative and they are offset against each other if the company has a legal right of offset.

The fair value of interest rate swaps is the estimated amount the group would receive or pay to terminate the swap at balance date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward rate agreements is their quoted market price at balance date, being the present value of the quoted forward price.

1. Statement of accounting policies continued

(j) Impairment of assets

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

The recoverable amounts are the higher of fair value (less costs to sell) 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.

A cash-generating unit is defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

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

If a revalued asset is determined to be impaired, then the impairment is firstly applied against the 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.

Equity instruments are deemed to be impaired whenever there is a significant or prolonged decline in fair value below the original purchase price. Any subsequent recovery of an impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss.

(k) Property, plant and equipment

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

The electricity distribution network is measured at fair value. Fair value has been determined on the basis of a periodic independent valuation prepared by external valuers, based on a discounted cash flow methodology. The fair values have been recognised in the financial statements of the group and have been reviewed at the end of each reporting period to assess whether the carrying value of the electricity distribution network is not materially different from fair value. Consideration has been given to whether the electricity distribution network is impaired as detailed in note 1(j).

Capital expenditure is defined as all expenditure incurred in the creation of a new asset and any expenditure that results in a significant restoration or increased service potential for existing assets. Revenue expenditure is defined as expenditure that does not meet the definition of capital expenditure.

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

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

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

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

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

1. Statement of accounting policies continued

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

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

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

(l) Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation (including property held for a currently undetermined future use), is measured at its fair value at the reporting date. Gains or losses arising from changes in the fair value of investment property are included in profit or loss in the year in which those gains or losses arise.

(m) Intangible assets

Intangible assets with a finite life are stated at cost less accumulated amortisation and impairment. All the group's intangible assets are computer software.

Acquired computer software licences are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives. This period does not usually exceed three years – however for some significant projects, estimated useful lives may be assessed as up to 10 years.

Costs associated with developing or maintaining computer software programmes are recognised as expenses as incurred. Costs directly associated with the production of identifiable and unique software products controlled by the group, are recognised as intangible assets if the completion of the product is technically feasible, the company has the intention to complete and ability to use the asset, the asset will generate probable future economic benefits, the company has adequate resources available to complete the development of the asset and the company has the ability to reliably measure the expenditure attributable to the asset during development.

Direct costs include the software development employee costs and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised over their estimated useful lives. Usually this period does not exceed three years – however for some significant projects, estimated useful lives may be assessed as up to 10 years.

(n) Goodwill

Goodwill, representing the excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired, is recognised as an asset and is not amortised, but it is tested for impairment annually and whenever there is an indication that the goodwill may be impaired. Any impairment is recognised immediately in profit or loss and is not subsequently reversed. Refer also to note 1(j).

(o) Payables

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

(p) Borrowings

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit or loss over the period of the borrowing using the effective interest rate method.

1. Statement of accounting policies continued

(q) Provisions

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

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

(r) Employee benefits

Provisions made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Provisions made in respect of employee benefits which are not expected to be settled within 12 months, such as long service leave, are measured as the present value of the estimated future cash outflows to be made by the group in respect of services provided by employees up to the reporting date, taking into account years of service, years to entitlement and the likelihood that staff will reach the point of entitlement.

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

(s) Financial instruments issued by the group

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement. Interest and dividends are classified as expenses or as distributions of profit consistent with the statement of financial position classification of the related debt or equity instruments or component parts of compound instruments.

(t) Revenue recognition

Revenue from the sale of goods is recognised when the group has transferred to the buyer the significant risks and rewards of ownership of the goods. Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract at the balance date, as measured by progress invoices raised to customers in conjunction with an assessment of costs incurred to date.

Earthquake insurance proceeds are recognised as revenues in these financial statements when they are received or when it is virtually certain that they will be received under the company's insurance contracts and the amounts can be reliably measured or estimated. If insurance cash receipts relate partially to business interruption and partially to property, plant and equipment, the cash flows are allocated between cash flows from operating activities (for example for the business interruption portion of the claim) and cash flows from investing activities (for example for the property, plant and equipment portion of the claim). Insurance cash receipts that relate to property, plant and equipment claims are classified as cash flows from investing activities. Insurance cash receipts that do not relate to property, plant and equipment (for example for increased operating cost or loss of revenue claims) are classified as operating activities.

Dividend revenue from investments is recognised when the shareholders' rights to receive payment have been established. Interest revenue is recognised in profit or loss as it accrues, using the effective interest rate method.

(u) Capital contributions and grants

Capital contributions that are refundable to customers are treated as current liabilities until refunded. Non-refundable cash contributions from customers, relating to assets, are credited directly to income when the asset is connected to the network.

The group acquires certain distribution assets for less than their replacement cost. Such assets are capitalised at their replacement cost to the group, and the difference between the cash cost and the replacement cost is recognised as revenue in the year of acquisition.

(v) 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) are capitalised as part of the cost of that asset. All other borrowing costs are expensed in the period in which they occur.

1. Statement of accounting policies continued

Changes in accounting policies and disclosures

The accounting policies detailed above have been applied in the preparation of these financial statements and have been consistently applied throughout the year.

This year a change in accounting policy occurred – chargeable work in progress now includes the expected margin or loss on the costs incurred to date, and is now reclassified in trade and other receivables.

In addition, the following new and amended New Zealand equivalents to International Financial Reporting Standards have been adopted as of 1 April 2012:

- Amendments to NZ IAS 12

  These amendments include a rebuttable presumption that deferred tax on investment property should be determined on the basis that carrying amounts, measured at fair value, will be recovered through sale. This presumption is rebutted if investment property is held within a business model where the objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale
- Amendments to NZ IFRS 7

  Amendments to improve the level of transparency of disclosures in respect of the transfer of financial assets
- FRS 44: New Zealand Additional Disclosures and Harmonisation Amendments

  Amendments as a consequence of the joint-Trans-Tasman Convergence project of the Australian Accounting Standards Board ("AASB") and Financial Reporting Standards Board ("FRSB"). The amendments relocate New Zealand specific disclosures from other standards to one place and revise certain disclosures.

Adoption of the above standards did not have a material impact on the financial statements of the group.

NZ IFRS Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ending 31 March 2013 are listed below:

	Effective
• NZ IAS 1 Presentation of Items of Other Comprehensive Income – Amendment to NZ IAS 1	FY14
• NZ IAS 19 Employee Benefits (Revised)	FY14
• NZ IAS 28 Investments in Associates and Joint Ventures	FY14
• Amendments to NZ IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities	FY14
• NZ IFRS 10 Consolidated Financial Statements	FY14
• NZ IFRS 11 Joint Arrangements	FY14
• NZ IFRS 12 Disclosure of Interests in Other Entities	FY14
• NZ IFRS 13 Fair Value Measurement	FY14
• Annual Improvements NZ IFRS (2009-2011) Cycle	FY14
• Amendments to NZ IAS 32: Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities	FY15
• NZ IFRS 9 Financial Instruments – Classification and Measurement	FY16

The group expects to adopt these new or amended standards and interpretations in the period that application of the standard is required, however they are not expected to have a significant impact on the group's operations.

	Group 2013 $000	Group 2012 $000	Parent 2013 $000	Parent 2012 $000
2. Revenues				
Electricity delivery services	204,326	182,885	204,326	182,885
Transmission rental rebates	7,081	5,605	7,081	5,605
Contracting	16,945	7,017	-	-
Sale of goods and services	16,643	18,027	135	964
Consumer capital contributions	4,241	4,099	4,241	4,099
Non-cash vested assets	4,406	4,188	4,406	4,188
Insurance proceeds	1,849	22,393	1,849	22,393
Gain on disposal of investments	1,788	10	1,714	10
Fair value adjustment of investment property	1,395	-	1,395	-
Rental – other property	323	168	189	168
Dividend from subsidiaries	-	-	-	500
Other	1,885	910	1,965	1,055
	260,882	245,302	227,301	221,867
3. Expenses				
Transmission	65,219	55,126	65,219	55,126
Transmission rental rebates	7,081	5,605	7,081	5,605
Employee benefits	38,270	34,735	17,249	16,385
Network maintenance	19,644	30,908	19,644	30,908
Earthquake other costs	1,415	2,164	1,415	2,164
Operating lease payments	979	1,232	117	621
Direct operating expenses of investment property	446	470	446	470
Loss on disposal of property, plant and equipment	129	133	166	101
Movement in provisions	122	208	97	100
Donations	51	37	29	34
Change in fair value of foreign exchange contracts	18	13	1	13
Foreign exchange expenses	14	55	14	55
Fair value adjustment of investment property	-	648	-	648
Subvention payments	-	-	34	29
Other	20,621	8,570	12,175	7,847
	154,009	139,904	123,687	120,106

	Group 2013 $000	Group 2012 $000	Parent 2013 $000	Parent 2012 $000
4. Depreciation, amortisation and other impairment expenses				
Depreciation of property, plant and equipment	32,231	30,646	30,791	29,327
Amortisation of intangible assets	1,970	1,655	1,755	1,635
Impairment/(reversal) of property plant and equipment	1,634	(2,240)	1,634	(2,240)
Property, plant and equipment replaced and written off	1,532	1,472	1,532	1,472
Impairment/(reversal) of financial assets	-	1,218	(48)	1,206
	37,367	32,751	35,664	31,400
5. Interest income				
Finance lease	4	6	4	6
Bank deposits	44	45	44	45
Other	164	360	164	360
Related parties	-	-	313	154
	212	411	525	565
6. Interest expense				
Interest expense on loans	3,778	3,343	3,778	3,343
Interest expense on finance lease	382	367	382	367
Net change in fair value of derivatives expense/(income)	(162)	1,222	(162)	1,222
	3,998	4,932	3,998	4,932
7. Remuneration of the auditor				
Audit of the financial statements	237	226	176	174
Audit-related services	315	19	315	19
	552	245	491	193

The auditor of the company and its subsidiaries is Audit New Zealand, on behalf of the Auditor-General.

Audit-related services comprise:

- an assurance review of the company's annual default price-quality path (DPP) compliance statement in accordance with the Commerce Commission's Electricity Distribution Services Default Price-Quality Path Determination 2010
- an assurance review of the company's regulatory information disclosures in accordance with the Electricity Distribution (Information Disclosure) Requirements 2008
- an assurance review of certain parts of the information prepared by the company to comply with a Commerce Commission information request under s53ZD of the Commerce Act
- an assurance review of certain parts of the information prepared as part of the company's customised price path (CPP) proposal to the Commerce Commission.

8. Income tax and deferred tax

	Group 2013 $000	Group 2012 $000	Parent 2013 $000	Parent 2012 $000
Income tax expense comprises:				
Current income tax				
Current income tax charge	15,777	11,908	15,352	10,607
Adjustments relating to current income tax of prior years	(961)	(157)	(946)	(119)
Deferred income tax				
Expense relating to temporary differences	1,887	2,233	1,947	2,753
Expense relating to use of prior years' losses	17	21	-	-
Impairment/(reversal) of deferred tax asset	9	(33)	-	-
Income tax expense recognised in net profit	16,729	13,972	16,353	13,241
Prima facie income tax expense on pre tax accounting profit reconciles to the income tax expense in these financial statements as follows:				
Profit before income tax	65,720	68,126	64,477	65,994
Prima facie income tax expense calculated at 28%	18,402	19,075	18,053	18,478
Non-deductible expenses	702	549	692	393
Non-assessable income	(1,026)	(3,770)	(1,018)	(3,770)
Other deductible items	(24)	(17)	(24)	(17)
Deferred tax expense relating to use of prior years' losses	17	21	-	-
Effect on deferred tax balances of the removal of assets which are non-depreciable for tax purposes	(1,095)	(1,835)	(1,095)	(1,835)
Effect on deferred tax balances due to the change in income tax rate from 30% to 28% effective 1 April 2011	-	(10)	-	(8)
Impairment/(reversal) of deferred tax asset	9	(33)	-	-
	16,985	13,980	16,608	13,241
Over-provision of income tax in the previous year	(256)	(8)	(255)	-
Total income tax expense recognised in net profit	16,729	13,972	16,353	13,241
Income tax recognised in other comprehensive income				
Deferred tax liability recognised on revaluation of property, plant and equipment	-	(71)	-	(71)
Deferred tax movement recognised in comprehensive income	-	(71)	-	(71)

The income tax rate of 28% is the corporate income tax rate payable on taxable profits under New Zealand tax law.

8. Income tax and deferred tax continued

Current income tax liability

The group's current income tax liability as at 31 March 2013 of $3.7m (2012: $3.2m) is the group's third instalment of provisional income tax for the year ended 31 March 2013. This payment is due approximately five weeks after balance date. The equivalent current income tax liability for the parent is $3.6m (2012: $3.0m).

Imputation credit account

The Orion consolidated tax group includes the company, Connetics Limited and Orion New Zealand Ventures Limited for imputation credit account purposes. Therefore, the parent and consolidated group imputation credit accounts are the same. All of these companies remained in the consolidated tax group for the year ended 31 March 2013.

The amount of imputation credits available for use in subsequent reporting periods is $6,256,000 (2012: $3,886,000) which includes the income tax liability as at 31 March 2013 of $3,701,000 (2012: $3,242,000).

Unrecognised deferred tax asset

Orion New Zealand Ventures Limited has accumulated tax losses which are only able to be offset against its share of future income from the United States of America and New Zealand Fair Dividend Rate (FDR) income. However, it is no longer probable that all of the $241,000 (2012: $300,000) of ring-fenced tax losses available to carry forward at 31 March 2013 will be able to be utilised in the foreseeable future. The group estimates that tax losses of $59,000 (2012: $152,000) could be utilised and therefore the deferred tax asset has been impaired by $51,000 (2012: $41,000) relating to tax losses of $181,000 (2012: $148,000) which have not been recognised.

8. Income tax and deferred tax continued

Group for the year ended 31 March 2013

Taxable and deductible temporary differences arise from:

	Opening balance $000	Charged/ (credited) to income $000	Charged to other comprehensive income $000	Closing balance $000
Deferred tax liabilities				
Property, plant and equipment	153,082	2,451	-	155,533
Depreciation recovered deferred against future purchase	1,370	(71)	-	1,299
Intangible assets	587	(150)	-	437
Other	400	(396)	-	4
	155,439	1,834	-	157,273
Deferred tax assets				
Derivative financial liabilities	681	(288)	-	393
Provisions	1,357	64	-	1,421
Doubtful debts and impairment losses	47	(2)	-	45
Finance lease liability	232	173	-	405
Tax losses	43	(26)	-	17
	2,360	(79)	-	2,281
Net deferred tax liability	153,079	1,913	-	154,992

Group for the year ended 31 March 2012

Taxable and deductible temporary differences arise from:

	Opening balance $000	Charged/ (credited) to income $000	Charged to other comprehensive income $000	Closing balance $000
Deferred tax liabilities				
Property, plant and equipment	152,042	969	71	153,082
Depreciation recovered deferred against future purchase	-	1,370	-	1,370
Intangible assets	633	(46)	-	587
Other	142	258	-	400
	152,817	2,551	71	155,439
Deferred tax assets				
Derivative financial liabilities	339	342	-	681
Provisions	1,391	(34)	-	1,357
Doubtful debts and impairment losses	27	20	-	47
Finance lease liability	242	(10)	-	232
Tax losses	31	12	-	43
	2,030	330	-	2,360
Net deferred tax liability	150,787	2,221	71	153,079

8. Income tax and deferred tax continued

Parent for the year ended 31 March 2013

Taxable and deductible temporary differences arise from:

	Opening balance $000	Charged/ (credited) to income $000	Charged to other comprehensive income $000	Closing balance $000
Deferred tax liabilities				
Property, plant and equipment	153,377	2,476	-	155,853
Depreciation recovered deferred against future purchase	1,370	(71)	-	1,299
Intangible assets	587	(150)	-	437
Other	400	(396)	-	4
	155,734	1,859	-	157,593
Deferred tax assets				
Derivative financial liabilities	681	(288)	-	393
Provisions	731	29	-	760
Doubtful debts and impairment losses	47	(2)	-	45
Finance lease liability	232	173	-	405
	1,691	(88)	-	1,603
Net deferred tax liability	154,043	1,947	-	155,990

Parent for the year ended 31 March 2012

Taxable and deductible temporary differences arise from:

	Opening balance $000	Charged/ (credited) to income $000	Charged to other comprehensive income $000	Closing balance $000
Deferred tax liabilities				
Property, plant and equipment	151,829	1,477	71	153,377
Depreciation recovered deferred against future purchase	-	1,370	-	1,370
Intangible assets	633	(46)	-	587
Other	142	258	-	400
	152,604	3,059	71	155,734
Deferred tax assets				
Derivative financial liabilities	339	342	-	681
Provisions	777	(46)	-	731
Doubtful debts and impairment losses	27	20	-	47
Finance lease liability	242	(10)	-	232
	1,385	306	-	1,691
Net deferred tax liability	151,219	2,753	71	154,043

9. Cash and cash equivalents

	Group 2013 $000	Group 2012 $000	Parent 2013 $000	Parent 2012 $000
New Zealand dollar	1,362	631	1,122	320
Euros	-	1	-	1
	1,362	632	1,122	321

10. Current trade and other receivables

	Group 2013 $000	Group 2012 $000	Parent 2013 $000	Parent 2012 $000
Trade receivables	9,431	7,908	3,847	3,145
Allowance for impairment of receivables	(170)	(176)	(161)	(167)
	9,261	7,732	3,686	2,978
Chargeable work in progress	908	1,695	96	39
Insurance cash settlement proceeds	-	10,044	-	10,044
Finance lease receivable	25	22	25	22
	10,194	19,493	3,807	13,083
Bad debts written off	78	376	76	376
Bad debts recovered	17	16	17	13
Increase/(decrease) in allowance for impairment	(6)	26	(6)	70

The status of trade and other receivables not impaired as at the reporting date is as follows:

	Group 2013 $000	Group 2012 $000	Parent 2013 $000	Parent 2012 $000
Not past due	8,106	5,782	3,131	1,442
Past due 0 to 30 days	519	1,245	197	963
Past due 31 to 60 days	183	142	8	87
Past due greater than 60 days	623	739	511	653
	9,431	7,908	3,847	3,145

There are no significant concentrations of credit risk within trade receivables.

Insurance cash settlement proceeds of $7.4m were received in April 2012 and $2.6m was received in May 2012.

The company invoices electricity retailers 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.

Allowances have been made for estimated irrecoverable amounts from the provision of goods and services, determined by reference to past default experience. The net movement in the allowance was recognised in profit or loss for the current financial year. Allowances for impairment of receivables have been decreased by $6,000 in the current year. The allowance for impairment of receivables was increased in the previous year largely because of some large unpaid invoices which arose from damage to the company's electricity distribution system. The allowance for impairment of receivables relates to debts past due by more than 60 days and is based on an analysis of individual debtors' balances.

Bad debts written off relate to debtors who have damaged the parent company's network assets and in the year ended 31 March 2012 also included $319,000 (2013:nil) of interest receivable on loans which were not expected to be recovered.

The group has not renegotiated the terms of any financial assets other than some trade receivables.

The company has debtors who have damaged the company's electricity distribution network assets. Some of these debtors are unable to settle their accounts immediately and 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 "past due greater than 60 days" category above.

Trade receivables are non interest bearing. The carrying value of trade receivables approximates their fair value.

11. Current financial assets

	Group 2013 $000	Group 2012 $000	Parent 2013 $000	Parent 2012 $000
At fair value				
Foreign currency forward contracts	-	1	-	1
Available-for-sale – Enertech Capital Partners II LP	15	-	-	-
At amortised cost				
Loan advanced to Connetics Limited	-	-	4,617	3,421
Loan advanced to Orion New Zealand Ventures Limited	-	-	24	81
	15	1	4,641	3,503

Receivables from entities related to the company are included within the parent company financial statements in accordance with funding arrangements in place with those parties. These arrangements may include a charge for interest. Receivables from subsidiaries are repayable on demand and are not overdue. The carrying value of the company's advance to its subsidiary, Orion New Zealand Ventures Limited, is calculated after the deduction of a $5.3m (2012: $5.4m) allowance for impairment, as the net recoverable assets of the borrower are assessed as insufficient to cover the debt. During the year the allowance for impairment on this advance was decreased by $48,000 (2012: increased by $1,206,000).

12. Inventories

	Group 2013 $000	Group 2012 $000	Parent 2013 $000	Parent 2012 $000
Goods for sale	2,347	1,850	8	8
Maintenance items	2,559	2,932	219	169
Allowance for impairment	(25)	(41)	-	-
	4,881	4,741	227	177

Certain inventories are subject to security interests created by retention of title clauses.

13. Construction contracts

	Group 2013 $000	Group 2012 $000	Parent 2013 $000	Parent 2012 $000
Construction costs incurred plus estimated recognised profits less estimated recognised losses to date	11,650	6,467	-	-
Less progress billings	(11,287)	(6,003)	-	-
	363	464	-	-

14. Subsidiaries

	Group 2013 $000	Group 2012 $000	Parent 2013 $000	Parent 2012 $000
Connetics Limited			6,551	6,551
Orion New Zealand Ventures Limited			-	-
			6,551	6,551

The subsidiaries are incorporated in New Zealand and were 100% owned by Orion New Zealand Limited during the year ended 31 March 2013 (and 2012). The balance date for both subsidiaries is 31 March. The carrying values of the investments in subsidiaries, as shown in the parent company, are at cost less impairment.

15. Property, plant and equipment

Group

	Freehold land at fair value $000	Buildings at fair value $000	Electricity distribution network at fair value $000	Leasehold improvements, plant and equipment at cost $000	Total $000
Gross carrying amount					
Balance as at 1 April 2011	27,746	323	756,703	26,336	811,108
Additions	745	146	49,303	5,330	55,524
Disposals	-	-	(1,345)	(1,488)	(2,833)
Assets decommissioned due to earthquake	-	-	(516)	-	(516)
Revaluation	2,260	255	-	-	2,515
Balance as at 31 March 2012	30,751	724	804,145	30,178	865,798
Additions	6,666	8,824	50,358	4,994	70,842
Transfer from investment property	691	-	-	-	691
Disposals	-	-	(2,149)	(2,269)	(4,418)
Impairment	(1,634)	-	-	-	(1,634)
Balance as at 31 March 2013	36,474	9,548	852,354	32,903	931,279
Accumulated depreciation, amortisation and impairment					
Balance as at 1 April 2011	-	32	606	16,309	16,947
Disposals	-	-	(266)	(1,040)	(1,306)
Assets decommissioned due to earthquake	-	-	(122)	-	(122)
Depreciation expense	-	9	27,840	2,797	30,646
Balance as at 31 March 2012	-	41	28,058	18,066	46,165
Disposals	-	-	(551)	(1,642)	(2,193)
Depreciation expense	-	28	29,276	2,927	32,231
Balance as at 31 March 2013	-	69	56,783	19,351	76,203
Net book value as at 31 March 2012	30,751	683	776,087	12,112	819,633
Net book value as at 31 March 2013	36,474	9,479	795,571	13,552	855,076

	2013 $000	2012 $000
Capital work in progress included above, is as follows:		
Buildings	8,611	-
Plant and equipment	478	359
Electricity distribution network	22,123	17,269
	31,212	17,628
Electricity distribution network assets included above which are subject to finance leases	5,130	4,935

15. Property, plant and equipment continued

Parent

	Freehold land at fair value $000	Buildings at fair value $000	Electricity distribution network at fair value $000	Leasehold improvements, plant and equipment at cost $000	Total $000
Gross carrying amount					
Balance as at 1 April 2011	27,746	323	756,703	11,337	796,109
Additions	745	146	51,241	3,370	55,502
Disposals	-	-	(1,345)	(1,140)	(2,485)
Assets decommissioned due to earthquake	-	-	(516)	-	(516)
Revaluation	2,260	255	-	-	2,515
Balance as at 31 March 2012	30,751	724	806,083	13,567	851,125
Additions	6,666	8,824	50,322	2,526	68,338
Transfer from investment property	691	-	-	-	691
Disposals	-	-	(2,149)	(1,776)	(3,925)
Impairment	(1,634)	-	-	-	(1,634)
Balance as at 31 March 2013	36,474	9,548	854,256	14,317	914,595
Accumulated depreciation, amortisation and impairment					
Balance as at 1 April 2011	-	32	606	6,856	7,494
Disposals	-	-	(266)	(797)	(1,063)
Assets decommissioned due to earthquake	-	-	(122)	-	(122)
Depreciation expense	-	9	27,840	1,478	29,327
Balance as at 31 March 2012	-	41	28,058	7,537	35,636
Disposals	-	-	(551)	(1,281)	(1,832)
Depreciation expense	-	28	29,276	1,487	30,791
Balance as at 31 March 2013	-	69	56,783	7,743	64,595
Net book value as at 31 March 2012	30,751	683	778,025	6,030	815,489
Net book value as at 31 March 2013	36,474	9,479	797,473	6,574	850,000

	2013 $000	2012 $000
Capital work in progress included above, is as follows:		
Buildings	8,611	-
Plant and equipment	416	316
Electricity distribution network	22,123	17,269
	31,150	17,585
Electricity distribution network assets included above which are subject to finance leases	5,130	4,935

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

15. Property, plant and equipment continued

	Group 2013 $000	Group 2012 $000	Parent 2013 $000	Parent 2012 $000
Aggregate depreciation expense during the year was as follows:				
Buildings	28	9	28	9
Electricity distribution network	29,024	27,652	29,024	27,652
Plant and equipment and leasehold improvements	2,927	2,797	1,487	1,478
Equipment under finance lease	252	188	252	188
	32,231	30,646	30,791	29,327

Revaluations and impairment review

Electricity distribution network and substation buildings (the network)

The network was revalued to fair value of $756m as at 31 March 2011 by independent valuers Ms Lynne Taylor, a director, and Mr Chris Taylor, a partner, of PricewaterhouseCoopers (the valuers) in accordance with NZ IAS 16 – Property, Plant and Equipment.

The valuers used a discounted cash flow methodology, and based their forecast cash flows on the company's forecasts.

The valuers' key assumptions were that:

- network revenues would be lower than the company's pre-earthquake forecasts
- network operating costs and capital expenditure would be higher than the company's pre-earthquake forecasts
- network prices would continue to increase equivalent to the consumer price index up to 31 March 2015, consistent with the Commerce Commission's default price path (DPP) settings
- network prices would rise on 1 April 2015 to a level which would generate regulatory returns equivalent to the Commission's cost of capital benchmark, and network prices would increase equivalent to the consumer price index thereafter
- the discount rate was 8.0% (pre-tax equivalent 11.2%).

The valuers reviewed the carrying value of the network as at 31 March 2012 in accordance with NZ IAS 36 – Impairment of Assets and NZ IAS 16 – Property, Plant and Equipment. The valuers concluded that there was no evidence of material impairment and that the network carrying value was not materially different to fair value.

Mr Bruce Gemmell, a director of Ernst & Young Transaction Advisory Services Limited, reviewed the carrying value of the network as at 31 March 2013 in accordance with NZ IAS 36 – Impairment of Assets and NZ IAS 16 – Property, Plant and Equipment. Mr Gemmell concluded that there was no evidence of material impairment and that the network carrying value was not materially different to fair value.

Freehold land

The company's freehold land was revalued by Mr Marius Ogg, a director of CBRE Limited, to fair value as at 31 March 2012, in accordance with NZ IAS 16 – Property, Plant and Equipment.

Mr Ogg selected a representative sample of the company's substation sites and revalued the company's land at those sites using sales comparisons and unit metre frontage methodology. Mr Ogg then compared his revaluations against their respective current rateable value valuations and he developed standard adjustment multipliers, which he then applied over the company's total substation land population of around 2,000 sites.

Mr Ogg reviewed the carrying value of freehold land as at 31 March 2013 in accordance with NZ IAS 36 – Impairment of Assets and NZ IAS 16 – Property, Plant and Equipment. Mr Ogg concluded that there was a $1.6m impairment of the company's new head office site land at Wairakei Road, and the company has impaired this land and expensed the impairment in the year ended 31 March 2013. Mr Ogg concluded that there was no evidence of material impairment of the company's other land and that the carrying value was not materially different to fair value.

As at 31 March 2013, $32.1m of the group's freehold land was held for the company's network substations (2012: $30.1m).

16. Investment property

	Group 2013 $000	Group 2012 $000	Parent 2013 $000	Parent 2012 $000
Opening balance	7,915	8,055	7,915	8,055
Additions	186	508	186	508
Transfer to property, plant and equipment	(691)	-	(691)	-
Fair value adjustment	1,395	(648)	1,395	(648)
Closing balance	8,805	7,915	8,805	7,915

Investment property comprises the majority of the land and buildings at the company's office site in the Christchurch CBD (the CBD site).

In the current year, approximately 864 square metres of the CBD site was transferred to property, plant and equipment at carrying value (approximately $0.7m). This transfer related to an increase in the proportion of land required for the company's Armagh zone substation on the CBD site.

On 2 May 2012, the company announced its plans to build new offices at 565 Wairakei Road, around 9km north west of the CBD. The company completed its move to the new site on 31 May 2013.

The Crown is negotiating to purchase the CBD site as part of the planned CBD eastern frame. The terms and conditions of the sale (including sale price) have not yet been agreed, however the company believes that the sale will be agreed and occur before 31 March 2014. The company will retain ownership of the Armagh zone substation land and buildings, but the rest of the CBD site will be sold to the Crown.

Mr Marius Ogg, a director of CBRE Limited, revalued the company's investment property to fair value as at 31 March 2013 in accordance with NZ IAS 40 – Investment Property. Mr Ogg prepared the equivalent valuation as at 31 March 2012.

Mr Ogg valued individual components of the site, reflecting the highest and best use for each. Mr Ogg valued land on a cleared land value (redevelopment) basis and other land and buildings on the site using discounted cash flow and capitalisation approaches. Mr Ogg assumed that the CBD site land is sound, with minimal soil contamination.

Mr Ogg's revaluation resulted in an increase in the carrying value of investment property by $1.6m to $8.8m (2012: $0.6m decrease to $7.9m).

17. Intangible assets

	Group software $000	Parent software $000
Gross carrying amount		
Balance as at 1 April 2011	11,421	10,534
Additions	2,763	1,532
Additions from internal developments	504	165
Balance as at 31 March 2012	14,688	12,231
Additions	1,536	885
Additions from internal developments	135	135
Disposals	(1,770)	(1,770)
Balance as at 31 March 2013	14,589	11,481
Accumulated amortisation and impairment		
Balance as at 1 April 2011	7,200	6,729
Amortisation expense	1,655	1,635
Balance as at 31 March 2012	8,855	8,364
Amortisation expense	1,970	1,755
Disposals	(1,770)	(1,770)
Balance as at 31 March 2013	9,055	8,349
Net book value as at 31 March 2012	5,833	3,867
Net book value as at 31 March 2013	5,534	3,132
Capital work in progress included above as at 31 March 2012	2,037	112
Capital work in progress included above as at 31 March 2013	494	327

There are no restrictions over the title of the parent and group's intangible assets, nor are any intangible assets pledged as security for liabilities.

18. Goodwill

	Group 2013 $000	Group 2012 $000	Parent 2013 $000	Parent 2012 $000
Gross carrying amount	250	-	-	-
Accumulated impairment losses	-	-	-	-
	250	-	-	-

19. Current trade and other payables

	Group 2013 $000	Group 2012 $000	Parent 2013 $000	Parent 2012 $000
Trade payables	22,382	19,865	21,290	18,070
Interest payable	81	83	81	83
Employee entitlements	5,007	4,897	2,061	2,106
GST payable	1,500	2,701	617	2,427
Other	216	234	216	234
	29,186	27,780	24,265	22,920

Trade and other payables are non interest bearing and are normally settled on the 20th of the month following invoicing. Therefore the carrying value of trade and other payables approximates their fair value.

	Group 2013 $000	Group 2012 $000	Parent 2013 $000	Parent 2012 $000
20. Current borrowings				
Unsecured at amortised cost				
Finance lease liability (refer to note 28)	153	96	153	96
21. Current provisions				
Employee benefits – long service leave (refer to note 24)	169	163	92	85
22. Current financial liabilities				
At fair value				
Interest rate swaps	-	151	-	151
Foreign currency forward contracts	17	-	-	-
	17	151	-	151
23. Non current borrowings				
Unsecured at amortised cost				
Bank loans	55,600	48,100	55,600	48,100
Finance lease liability (refer to note 28)	5,488	5,259	5,488	5,259
	61,088	53,359	61,088	53,359

All parent company bank debt is unsecured against the company, however a deed of negative pledge and guarantee requires the company to comply with certain covenants.

Interest bearing debt by the parent and group comprise New Zealand dollar borrowings.

Interest rates for all draw downs on the facilities are floating, based on bank bill rates plus a margin. As at 31 March 2013 this rate (including margin) averaged 3.28% (2012: 3.36%). The company has entered into derivative contracts to hedge its exposure to bank bill interest rate fluctuations (refer to note 29). Daily commitment fees are also payable on the facilities.

24. Non current provisions

	Group 2013 $000	Group 2012 $000	Parent 2013 $000	Parent 2012 $000
Employee benefits – long service leave	1,200	1,084	739	649

The provision for long service leave is an actuarial assessment of entitlements that may become due to employees in the future. The provision is affected by a number of estimates, including the experience of employee departure, expected length of service of employees and the timing of benefits being taken. While most of the liability is expected to be incurred over the next five years, the liability covers a period up to 40 years as employees complete service entitling them to long service leave benefits.

Key assumptions in the calculation of the provision include:

- risk-free rate 3.5% (2012: 4.1%)
- salary inflation 3.0% (2012: 3.0%)
- discount rate 1.0% (2012: 1.0%).

	Group 2013 $000	Group 2012 $000	Parent 2013 $000	Parent 2012 $000
25. Non current financial liabilities				
Interest rate swaps	1,402	2,283	1,402	2,283
26. Share capital				
Fully paid ordinary shares	120,000	120,000	120,000	120,000

Eighty million ($1.50) ordinary shares were issued in April 1993 pursuant to the approved establishment plan (under the Energy Companies Act 1992) and sale and purchase agreement, and are fully paid up. There were no issues or redemptions of shares during the year (2012: nil).

	2013 cents per share	2012 cents per share	2013 $000	2012 $000
27. Dividends				
Recognised amounts				
Dividends paid on fully paid ordinary shares (fully imputed)	40.0	42.5	32,000	34,000

28. Leases

	Group 2013 $000	Group 2012 $000	Parent 2013 $000	Parent 2012 $000
Operating lease commitments				
No later than one year	917	730	66	76
Later than one year and not later than five years	1,553	395	230	234
Later than five years	463	560	463	560
	2,933	1,685	759	870
Non-cancellable operating lease receivables				
No later than one year	173	104	121	104
Later than one year and not later than five years	122	162	109	162
Later than five years	-	43	-	43
	295	309	230	309

Operating lease commitments

The company leases a number of sites for electrical kiosks and substations. Most lease payments are indexed to changes in the consumer price index. Leases which extend in perpetuity have been reported to a maximum of 15 years. A group company leases its head office property and other sites under operating leases. These leases have various fixed term commitments of one to four years, with optional rights of renewal until 31 January 2024.

Non-cancellable operating lease receivables

Until the earthquake on 22 February 2011, the company leased some of its land and buildings at its head office site in the CBD to a variety of tenants, on a range of different lease terms. Due to the severe damage caused to the buildings by the earthquake and a lack of access to the CBD, the leases were effectively cancelled on the date of the earthquake. The group leases some land adjacent to some substation and operational sites to a range of tenants. These leases are incidental to the group's principal business.

	Minimum future lease receivables 2013 $000	Minimum future lease receivables 2012 $000	Present value of minimum future lease receivables 2013 $000	Present value of minimum future lease receivables 2012 $000
Finance lease receivable				
No later than one year	26	26	25	22
Later than one year and not later than five years	-	26	-	25
Minimum future lease payments	26	52	25	47
Less unearned finance income	(1)	(5)	-	-
Present value of minimum lease payments	25	47	25	47
Included in these financial statements as:				
Current trade and other receivables			25	22
Non current trade and other receivables			-	25
			25	47

28. Leases continued

	Minimum future lease payables 2013 $000	Minimum future lease payables 2012 $000	Present value of minimum future lease payables 2013 $000	Present value of minimum future lease payables 2012 $000
Finance lease liability				
No later than one year	534	465	153	96
Later than one year and not later than five years	2,045	1,827	674	439
Later than five years	8,938	10,305	4,814	4,820
Minimum lease payments	11,517	12,597	5,641	5,355
Less future finance charges	(5,876)	(7,242)	-	-
Present value of minimum lease payments	5,641	5,355	5,641	5,355
Included in these financial statements as:				
Current borrowings (refer to note 20)			153	96
Non current borrowings (refer to note 23)			5,488	5,259
			5,641	5,355

Finance lease receivable

The finance lease receivable relates to equipment leased for a total term of 10 years, whereby the lessee owns the equipment at the end of the term. The company has security over the equipment, which is registered on the Personal Property Securities Register. The residual value at the end of the lease is nil. The company is the only entity in the group which has a finance lease receivable.

Finance lease liability

The finance lease liability above relates to agreements with Transpower New Zealand Limited (Transpower) for Transpower to construct assets at its local grid exit points. The agreements are for terms of 10, 20 and 35 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 annually by Transpower and the assessed risk-free portion of the lease interest rate may be adjusted. The company is the only entity in the group which has a finance lease liability.

29. 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.

Details of 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 to these financial statements.

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 group recognises the need to maintain a balance between the higher returns that might be possible with greater interest bearing debt levels relative to capital, and the advantages and security afforded by a sound capital position.

The allocation of capital between the group's specific business segment operations and activities is, to a large extent, driven by risk-adjusted optimisation of the returns achieved on capital allocated. The process of allocating capital to specific business segments and activities is undertaken independently of those responsible for the operations and activities.

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

The company is not subject to any externally imposed capital requirements, however it has provided certain convenants 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 convenants restricting 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 also places other specific 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 convenants during the years ended 31 March 2013 and 31 March 2012.

29. Financial instruments continued

Classification of financial instruments

The following tables classify the financial assets and liabilities of the group and parent between the various categories set out in NZ IAS 39 – Financial Instruments: Recognition and Measurement and NZ IFRS 7 – Financial Instruments: Disclosures.

	Group 2013 $000	Group 2012 $000	Parent 2013 $000	Parent 2012 $000
Financial assets				
Fair value through profit or loss:				
Derivative financial instruments	-	1	-	1
Loans and receivables at cost less impairment:				
Cash and cash equivalents	1,362	632	1,122	321
Trade and other receivables	10,194	19,518	3,807	13,108
Advances to subsidiaries	-	-	4,641	3,502
Available-for-sale at fair value:				
Enertech Capital Partners II LP	15	45	-	-
Total financial assets	11,571	20,196	9,570	16,932
Financial liabilities				
Fair value through profit or loss:				
Derivative financial instruments	1,419	2,434	1,402	2,434
Amortised cost:				
Trade and other payables	24,179	22,883	22,204	20,814
Borrowings	61,241	53,455	61,241	53,455
Total financial liabilities	86,839	78,772	84,847	76,703

Fair value of financial instruments

The group considers that the carrying amounts of financial assets and financial liabilities recorded in these financial statements approximate their fair values.

The group uses various methods in estimating the fair value of its financial instruments. The methods comprise:

- Level 1: Fair values are calculated using quoted prices in active markets. Quoted market price represents the fair value determined based on quoted prices in active markets as at the reporting date without any deduction for transaction costs. The group does not have any financial instruments classified as level 1
- Level 2: Fair values are estimated using inputs other than quoted prices included in level 1 that are observable for each asset or liability, either directly (as prices) or indirectly (derived from prices). Financial instruments that use valuation techniques with only observable market inputs or unobservable inputs that are not significant to the overall valuation include interest rate swaps and foreign exchange contracts not traded on a recognised exchange. The fair values are estimated using a discounted cash flow model using Bloomberg's SWPM model for swaps, and inputs obtained from Bloomberg for foreign currency derivatives. The inputs used in the valuations are observable market inputs from a range of banks. The yield curve inputs are made up of cash rates, futures, forward rate agreements and swap rates and their composition changes to ensure the inputs produce the most appropriate yield curve. Rates are interpolated using a piecewise linear method
- Level 3: Fair values are estimated using inputs for the asset or liability that are not based on observable market data. The fair values of unlisted investments that do not have an active market are based on valuation techniques that use market data that is not observable. The Enertech investment is made with a US based venture capital limited liability partnership, which invests in individual high technology and start-up type entities. Individual investments remain in the name of the venture capital partnership. The Enertech investment held is not publicly traded and is revalued annually. The valuation is based on the group's share of the partnership's net assets less an allowance for impairment.

29. Financial instruments continued

The fair value of the financial instruments and the methods used to estimate the fair value are summarised as follows:

	Year ended 31 March 2013			Year ended 31 March 2012		
	Valuation technique (level 2) $000	Valuation technique (level 3) $000	Total $000	Valuation technique (level 2) $000	Valuation technique (level 3) $000	Total $000
Group						
Financial assets						
Derivative instruments:						
Foreign exchange contracts	-	-	-	1	-	1
Available-for-sale investments:						
Enertech Capital Partners II LP	-	15	15	-	45	45
	-	15	15	1	45	46
Financial liabilities						
Derivative instruments:						
Interest rate swaps	1,402	-	1,402	2,434	-	2,434
Foreign exchange contracts	17	-	17	-	-	-
	1,419	-	1,419	2,434	-	2,434
Parent						
Financial assets						
Derivative instruments:						
Foreign exchange contracts	-	-	-	1	-	1
Financial liabilities						
Derivative instruments:						
Interest rate swaps	1,402	-	1,402	2,434	-	2,434

Interest rate risk

Interest rate risk is the risk that the value of the group's assets and liabilities will fluctuate due to changes in market interest rates.
The company has interest bearing debt which is subject to interest rate variations in the market. Interest rate swaps are employed to manage the company's interest rate exposure on long term floating rate borrowings. The company has entered into interest rate swaps with various New Zealand registered bank counterparties with such credit ratings and within dollar limits set by the board of directors. The company does not require collateral or other security to support interest rate swaps with credit risk. While the company may be subject to credit losses up to the notional principal or contract amounts in the event of non-performance by its counterparties, it does not expect such losses to occur.
For interest rate swaps the cash requirements are limited to the contracted fixed interest rates.

29. Financial instruments continued

Exposure to New Zealand fixed and floating interest rates

	Floating 2013 $000	Fixed 2013 $000	Non interest bearing 2013 $000	Floating 2012 $000	Fixed 2012 $000	Non interest bearing 2012 $000
Group						
Financial assets						
Cash and cash equivalents	1,353	-	9	620	-	12
Trade and other receivables	-	-	10,169	-	-	19,471
Finance lease receivables	-	25	-	-	47	-
Foreign currency forward contracts	-	-	-	-	-	1
Venture capital investment	-	-	15	-	-	45
	1,353	25	10,193	620	47	19,529
Financial liabilities						
Trade payables	-	-	23,963	-	-	22,649
Other payables	-	-	216	-	-	234
Bank loans	55,600	-	-	48,100	-	-
Finance lease liabilities	5,574	67	-	5,272	83	-
Interest rate swaps	-	-	1,402	-	-	2,434
Foreign currency forward contracts	-	-	17	-	-	-
	61,174	67	25,598	53,372	83	25,317
Net financial liabilities	59,821	42	15,405	52,752	36	5,788
Parent						
Financial assets						
Cash and cash equivalents	1,113	-	9	309	-	12
Trade and other receivables	-	-	3,782	-	-	13,061
Finance lease receivables	-	25	-	-	47	-
Foreign currency forward contracts	-	-	-	-	-	1
Related party loans	4,617	-	24	3,421	-	81
	5,730	25	3,815	3,730	47	13,155
Financial liabilities						
Trade payables	-	-	21,988	-	-	20,580
Other payables	-	-	216	-	-	234
Bank loans	55,600	-	-	48,100	-	-
Finance lease liabilities	5,574	67	-	5,272	83	-
Interest rate swaps	-	-	1,402	-	-	2,434
	61,174	67	23,606	53,372	83	23,248
Net financial liabilities	55,444	42	19,791	49,642	36	10,093

29. Financial instruments continued

Interest rate swap contracts outstanding at balance date

Under interest rate swap contracts, the company agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. The economic effect of such contracts is to convert a portion of the company's floating rate debt into fixed rate debt. All swap contracts within the group 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 has not designated any swap contracts as hedges and has not adopted hedge accounting for its interest rate swap contracts.

The following table details the notional principal amounts, the remaining terms and the company's estimates of fair values of interest rate swap contracts outstanding as at the reporting date:

	Average contracted fixed interest rate 2013 %	2012 %	Notional principal amount 2013 $000	2012 $000	Fair value asset/(liability) 2013 $000	2012 $000
Outstanding floating for fixed contracts:						
Less than 1 year	-	3.95	-	14,000	-	(151)
1 to 2 years	3.42	-	40,000	-	(401)	-
2 to 3 years	-	3.91	-	20,000	-	(385)
3 to 4 years	5.28	-	15,000	-	(1,001)	-
4 to 5 years	-	5.14	-	30,000	-	(1,898)
			55,000	64,000	(1,402)	(2,434)

Interest rate sensitivity

In managing interest rate risks, the group aims to reduce the impacts of short term fluctuations on the group's earnings and cash flows. Over the longer term, however, permanent changes in interest rates will impact on profit and cash flows.

The company considers that a reasonably possible movement in New Zealand interest rates is a 1% movement in either direction and this is the range that has been used in the group's sensitivity analysis.

The company estimates as at 31 March 2013 that a general increase of 1% in interest rates on the group's borrowings would increase the group's profit before income tax by approximately $515,000 (2012: increase by $1,227,000). A decrease in interest rates of 1% would decrease the group's profit before income tax by approximately $545,000 (2012: decrease by $1,294,000). When interest rates rise, the benefit from the revaluation of the company's existing interest rate swap contracts significantly outweighs the additional interest expense on the unhedged portion of the company's debt. The opposite applies to a decrease in interest rates.

The impact on profit or loss of a general increase of 1% in interest rates on the group's other financial assets and liabilities would be immaterial. There would be no impact on other comprehensive income.

Significant assumptions used in the interest rate sensitivity analysis include:

- reasonably possible movements in interest rates were determined based on the group's implied credit rating and mix of debt, relationships with finance institutions and economic forecasters' expectations
- a price sensitivity of derivatives has been based on a reasonably possible movement of interest rates at balance dates by applying the change as a parallel shift in the forward curve
- the net exposure at balance date is not necessarily representative of what the group is expecting to borrow in the 12 months from balance date.

29. Financial instruments continued

Foreign currency risk

Foreign currency risk is the risk that the value of the group's assets and liabilities or revenues and expenses will fluctuate due to changes in foreign exchange rates. The group is exposed to currency risk as a result of transactions that are denominated in a currency other than New Zealand dollars. These currencies are primarily Australian dollars and Euros. The group's policy is to hedge any material foreign currency exposure, usually with forward rate agreements.

	AUD $000	EURO $000
Exposure to foreign currency transactions 31 March 2013		
Foreign currency risk		
Trade receivables	17	-
Prepayments	-	200
Trade payables	(225)	(35)
Net balance sheet exposure before hedging activity	(208)	165
Estimated forecast purchases	-	(199)
Net cash flow exposure before hedging activity	(208)	(34)
Hedged by:		
Forward exchange contracts – notional amounts	201	199
Foreign currency on hand	-	-
Net (unhedged exposure)/surplus assets	(7)	165
Exposure to foreign currency transactions 31 March 2012		
Foreign currency risk		
Prepayments	-	200
Trade payables	(1)	-
Net balance sheet exposure before hedging activity	(1)	200
Estimated forecast purchases	-	(73)
Net cash flow exposure before hedging activity	(1)	127
Hedged by:		
Forward exchange contracts – notional amounts	-	93
Foreign currency on hand	-	1
Net (unhedged exposure)/surplus assets	(1)	221

29. Financial instruments continued

Forward foreign exchange currency contracts outstanding at balance date

The group's policy is to enter into forward foreign exchange contracts to cover specific foreign currency payments and receipts where the committed exposure is greater than NZ$50,000.

The following table details the forward foreign currency contracts outstanding as at the reporting date:

	Average exchange rate		Foreign currency		Contract value		Fair value	
	2013	2012	2013 FC000	2012 FC000	2013 NZ$000	2012 NZ$000	2013 NZ$000	2012 NZ$000
Buy EURO less than 3 months	0.62	-	102	-	164	-	(7)	-
Buy EURO 3 to 6 months	0.63	0.61	97	93	156	151	(6)	1
Buy AUD less than 3 months	0.79	-	201	-	254	-	(4)	-
							(17)	1

As at 31 March 2013, the aggregate amount of unrealised gains under forward foreign exchange contracts relating to anticipated future transactions was $16,962 (2012: $1,224). The group has not designated any forward foreign exchange contracts as hedges.

Foreign exchange sensitivity

In managing foreign currency risks, the group aims to reduce the impacts of short term fluctuations on the group's earnings and cash flows. Over the longer term, however, permanent changes in foreign exchange rates will impact on profit and cash flows.

The group considers that a reasonably possible movement in the value of the New Zealand dollar against other foreign currencies is a 10% movement in either direction.

The group estimates that a 10% movement in the value of the New Zealand dollar against other foreign currencies would have the following impacts on the group's profit before income tax:

	2013 $000	2012 $000
Decrease of 10%	62	17
Increase of 10%	(51)	(14)

There would be no impact on other comprehensive income.

Significant assumptions used in the foreign currency exposure sensitivity analysis include:

- reasonably possible movements in foreign exchange rates were determined based on economic forecasters' expectations
- the reasonably possible movement was calculated by taking the foreign currency spot rate as at balance date, moving this spot rate by the reasonably possible movements and then re-converting the foreign currency into NZD with the 'new spot-rate'. This methodology reflects the translation methodology undertaken by the group
- a price sensitivity of derivatives is not considered material
- the net exposure at balance date is reasonably representative of what the group expects to be exposed to in the 12 months from balance date.

29. Financial instruments continued

Credit risk

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, loans to subsidiaries 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) rating of 'A' are accepted. The group limits the amount of 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 all customers requiring credit wherever practicable and continuously monitoring credit exposures to individual customers.

Since 1999 the company has generally required collateral security (such as bank letters of credit from an'A' rated bank) from its electricity retailer customers to protect against credit risk. Recent changes to the Electricity Industry Participation Code significantly reduce the prudential securities that the electricity distribution businesses (EDBs) may require from their electricity retailer customers. From 1 May 2012, EDBs may only require such securities from their electricity retailer customers if those customers do not have a Standard & Poor's (or equivalent) minimum credit rating of 'BBB minus'. To comply with this regulatory change, in April 2012 the company cancelled $19m of prudential securities it held from its electricity retailer customers.

Collateral security is not generally required from the group's other customers.

The company's loans to subsidiaries are in accordance with the funding arrangements in place with those parties. The subsidiaries do not have credit ratings. The carrying values of those loans are at net realisable value.

The carrying values are the maximum exposure to credit risk for bank balances, accounts receivable, loans to subsidiaries and derivative financial instrument assets and are as follows:

	Group 2013 $000	Group 2012 $000	Parent 2013 $000	Parent 2012 $000
Cash and cash equivalents	1,362	632	1,122	321
Trade and other receivables	10,194	19,518	3,807	13,108
Related party loans	-	-	4,641	3,502
Derivative financial instruments	-	1	-	1
	11,556	20,151	9,570	16,932

The credit quality of financial assets is as follows:

	Counterparties' credit ratings	Group 2013 $000	Group 2012 $000	Parent 2013 $000	Parent 2012 $000
Cash and cash equivalents	AA-	1,362	632	1,122	321
Derivative financial instruments	AA-	-	1	-	1
Related party loans	Unrated	-	-	4,641	3,502

The credit ratings above are based on the equivalent Standard & Poor's ratings of the counterparties with whom the financial assets are held, rather than the ratings of the financial assets themselves.

29. Financial instruments continued

Liquidity risk

Liquidity risk represents the risk that the group may not have the financial ability to meet its contractual obligations. Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

In meeting its liquidity requirements, the group manages its borrowing in accordance with its board approved treasury policy. This policy requires that the company must have access to funds by securing, as a minimum, sufficient committed financing facilities to cover at least 110% of the anticipated peak borrowing requirement as determined by the monthly rolling 12 months cash flow forecast. The sum of interest bearing debt maturing in any 12 month period is not to exceed 33% of total debt – however, as the company's debt to debt-plus-equity ratio is very low (less than 10%), the company has determined that it has not necessarily been in its best interests to comply with this particular aspect of its treasury policy at all times.

In general, the group generates sufficient cash flows from its operating activities to meet its obligations arising from its financial liabilities and has funding arrangements in place to cover potential shortfalls. The company evaluates its liquidity requirements on an ongoing basis.

The company's current five year 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 five year forecast period). These forecasts take into account the company's estimates of the financial impacts of the recent Canterbury earthquakes on the company.

	Group 2013 $000	Group 2012 $000	Parent 2013 $000	Parent 2012 $000
Financing facilities				
Unsecured bank overdraft facility, reviewed annually and payable at call:				
Amount used	-	-	-	-
Amount unused	500	500	500	500
	500	500	500	500
Unsecured bank loan facilities maturing:				
17 December 2014 - $40m (2012: $40m)				
16 November 2015 - $20m (2012: $20m)				
17 December 2015 - $50m (2012: $50m)				
16 November 2016 - $nil (2012: $40m)				
Amount used	55,600	48,100	55,600	48,100
Amount unused	54,400	101,900	54,400	101,900
	110,000	150,000	110,000	150,000

29. Financial instruments continued

Contractual cash flows and maturity analysis

The following tables analyse the group and parent company contractual cash flows for financial assets and liabilities into relevant maturity groupings based on the remaining period at year end to the contractual maturity date. The amounts disclosed in the tables are the contractual undiscounted cash flows:

	Balance sheet $000	Contractual cash flows $000	Less than 1 year $000	1 to 2 years $000	2 to 5 years $000	More than 5 years $000
Group as at 31 March 2013						
Financial assets						
Cash and cash equivalents	1,362	1,362	1,362	-	-	-
Trade and other receivables	10,169	10,169	10,169	-	-	-
Finance lease receivable	25	26	26	-	-	-
Total financial assets	11,556	11,557	11,557	-	-	-
Financial liabilities						
Trade and other payables	24,179	24,179	24,179	-	-	-
Finance lease liability	5,641	11,517	534	534	1,511	8,938
Unsecured loans	55,600	55,600	-	27,800	27,800	-
Interest on unsecured loans	-	4,028	1,824	1,558	646	-
Interest rate swaps	1,402	1,741	711	600	397	33
Forward foreign exchange contract	17	-	-	-	-	-
Total financial liabilities	86,839	97,065	27,248	30,492	30,354	8,971
Group as at 31 March 2012						
Financial assets						
Cash and cash equivalents	632	632	632	-	-	-
Trade and other receivables	17,776	17,776	17,776	-	-	-
Finance lease receivable	47	52	26	26	-	-
Forward foreign exchange contract	1	-	-	-	-	-
Total financial assets	18,456	18,460	18,434	26	-	-
Financial liabilities						
Trade and other payables	22,883	22,883	22,883	-	-	-
Finance lease liability	5,355	12,597	465	465	1,362	10,305
Unsecured loans	48,100	48,100	-	-	48,100	-
Interest on unsecured loans	-	5,187	1,616	1,616	1,955	-
Interest rate swaps	2,434	3,773	1,134	974	1,665	-
Total financial liabilities	78,772	92,540	26,098	3,055	53,082	10,305

29. Financial instruments continued

	Balance sheet $000	Contractual cash flows $000	Less than 1 year $000	1 to 2 years $000	2 to 5 years $000	More than 5 years $000
Parent as at 31 March 2013						
Financial assets						
Cash and cash equivalents	1,122	1,122	1,122	-	-	-
Trade and other receivables	3,782	3,782	3,782	-	-	-
Finance lease receivable	25	26	26	-	-	-
Related party loans	4,641	4,641	4,641	-	-	-
Total financial assets	9,570	9,571	9,571	-	-	-
Financial liabilities						
Trade and other payables	22,204	22,204	22,204	-	-	-
Finance lease liability	5,641	11,517	534	534	1,511	8,938
Unsecured loans	55,600	55,600	-	27,800	27,800	-
Interest on unsecured loans	-	4,028	1,824	1,558	646	-
Interest rate swaps	1,402	1,741	711	600	397	33
Total financial liabilities	84,847	95,090	25,273	30,492	30,354	8,971
Parent as at 31 March 2012						
Financial assets						
Cash and cash equivalents	321	321	321	-	-	-
Trade and other receivables	13,061	13,061	13,061	-	-	-
Finance lease receivable	47	52	26	26	-	-
Related party loans	3,502	3,502	3,502	-	-	-
Forward foreign exchange contract	1	-	-	-	-	-
Total financial assets	16,932	16,936	16,910	26	-	-
Financial liabilities						
Trade and other payables	20,814	20,814	20,814	-	-	-
Finance lease liability	5,355	12,597	465	465	1,362	10,305
Unsecured loans	48,100	48,100	-	-	48,100	-
Interest on unsecured loans	-	5,187	1,616	1,616	1,955	-
Interest rate swaps	2,434	3,773	1,134	974	1,665	-
Total financial liabilities	76,703	90,471	24,029	3,055	53,082	10,305

30. Notes to the statement of cash flows

Reconciliation of profit for the year to net cash flows from operating activities

	Group 2013 $000	Group 2012 $000	Parent 2013 $000	Parent 2012 $000
Net profit	48,991	54,154	48,124	52,753
Adjustments				
Loss on disposal of property, plant and equipment	129	133	166	101
Property, plant and equipment replaced and written off	1,532	1,472	1,532	1,472
Impairment/(reversal) of property, plant and equipment	1,634	(2,240)	1,634	(2,240)
Depreciation and amortisation of non current assets	34,201	32,301	32,546	30,962
Non-cash vested assets revenue	(4,406)	(4,188)	(4,406)	(4,188)
Insurance proceeds relating to non current assets	(1,185)	(22,302)	(1,185)	(22,302)
Fair value adjustment of investment property	(1,395)	648	(1,395)	648
Gain on disposal of investments	(1,788)	(10)	(1,714)	(10)
Impairment/(reversal) of financial assets	-	1,218	(48)	1,206
Net change in fair value of derivatives	(144)	1,235	(161)	1,235
Other	250	-	250	-
	28,828	8,267	27,219	6,884
Changes in tax balances				
Increase/(decrease) in current tax liability	459	(416)	612	(388)
Increase in deferred tax liability	1,913	2,221	1,947	2,753
(Increase)/decrease in assets				
Current receivables	(986)	3,795	(672)	978
Current inventories	(140)	(735)	(50)	285
Other current assets	(294)	(481)	44	(623)
Non current receivables	25	22	25	22
Other non current assets	114	(229)	114	(229)
Increase/(decrease) in liabilities				
Current payables	(1,133)	(5,990)	(1,206)	(3,843)
Current provisions	6	68	7	34
Non current provisions	116	139	90	65
	80	(1,606)	911	(946)
Net cash from operating activities	77,899	60,815	76,254	58,691

31. Related party transactions

Group structure

The parent is Orion New Zealand Limited, which is owned by Christchurch City Holdings Limited (CCHL) (89.275%) and Selwyn Investment Holdings Limited (SIHL) (10.725%).

CCHL is owned by the Christchurch City Council and SIHL is owned by the Selwyn District Council.

Other related parties include:

- subsidiaries (refer to note 14)
- the various subsidiaries of the Christchurch City Council (CCC) and the Selwyn District Council (SDC)
- the group's key management personnel (refer to note 32).

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. During the year no material transactions, other than the payment of dividends to CCHL and SIHL, were entered into with related parties.

The company undertakes many transactions with its subsidiary, Connetics Limited, all of which are carried out on a commercial basis.

	Group 2013 $000	Group 2012 $000	Parent 2013 $000	Parent 2012 $000
Transactions during the year				
Dividends paid by Orion New Zealand Limited to CCHL and SIHL	32,000	34,000	32,000	34,000
Purchases from CCC/SDC	5,274	2,193	5,267	2,188
Revenues from CCC/SDC	5,314	4,586	936	544
Purchases from subsidiaries	-	-	25,265	40,151
Revenues from subsidiaries (including interest and excluding reimbursements of payments made on behalf of the subsidiaries)	-	-	454	318
Dividends from subsidiaries	-	-	-	500
Subvention payment to subsidary	-	-	34	29
Purchases from other related parties	1,228	1,131	1,087	798
Revenues from other related parties	1,278	1,146	885	618
Outstanding balances as at 31 March				
Accounts payable to CCC/SDC	538	26	537	26
Accounts receivable from CCC/SDC	331	589	-	18
Accounts payable to subsidiaries	-	-	3,552	3,500
Accounts receivable from subsidiaries	-	-	56	159
Accounts payable to other related parties	91	108	80	70
Accounts receivable from other related parties	204	141	64	98
Loans outstanding from subsidiaries	-	-	4,641	3,502

Orion New Zealand Ventures Limited

In the year ended 31 March 2013, the company reversed $48,000 of earlier year's impairments of the value of its intercompany advance to Orion New Zealand Ventures Limited (2012: impairment of $1,206,000).

31. Related party transactions continued

Other transactions involving related parties

The group paid directors' fees totalling $285,000 (2012: $293,000).

During the year two directors received retirement gifts totalling $4,000. Other than these gifts, no 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 of the group purchased goods and services from group companies during the year which in total did not exceed $2,000 for any individual, with the exception of one employee who purchased a second-hand vehicle from the group for $22,174 (2012: all less than $2,000). A total of $nil was due from key management personnel as at 31 March 2013 (2012: $68). All transactions were conducted on standard commercial terms.

Close family members of 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.

32. Key management personnel

The compensation of the directors and executives, being the key management personnel of the entity, is set out below:

	Parent 2013 $000	Parent 2012 $000
Salaries and short term employee benefits	2,549	2,741
Post employment benefits	150	136

Executive staff remuneration comprises salary and other short term benefits. Orion executives appointed to the boards of related companies do not receive directors' fees.

33. Commitments for expenditure

	Group 2013 $000	Group 2012 $000	Parent 2013 $000	Parent 2012 $000
Capital expenditure commitments				
Buildings	3,117	-	3,117	-
Electricity distribution network	36,167	18,654	36,167	18,654
Intangible assets	535	290	425	-
Lease commitments (refer to note 28)				

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

34. Contingent liabilities and contingent assets

	Group 2013 $000	Group 2012 $000	Parent 2013 $000	Parent 2012 $000
Contingent liabilities				
Performance bonds in relation to contract work	1,007	707	-	-

The group is a participating employer in the National Provident Fund's Defined Benefit Plan Contributors Scheme (the scheme) which is a multi-employer defined benefit superannuation scheme. If the other participating employers ceased to participate in the scheme, the group could be responsible for the entire deficit of the scheme (refer to note 35). Similarly, if a number of employers ceased to participate in the scheme, the group could be responsible for an increased share of the deficit. The group estimates that during the next financial year the group's contribution to the scheme will be nil as employer contributions have been suspended by the Fund's actuary from 1 April 2011 (2012: nil).

The company is subject to a claim from a contractor for work purported to have been done between 2005 and 2011 which the contractor alleges the company has not paid for. The claim is for approximately $0.5m. The company disputes the claim.

Contingent assets

The group has lodged several material damage and business interruption insurance claims in relation to damage and losses from the Canterbury earthquakes. In the year ended 31 March 2013, the group has recognised $1.8m (2012: $22.4m) of insurance cash settlement proceeds it has so far received from insurers as revenue. The group expects to reach several more such agreements with insurers in the year ended 31 March 2014 for most of the remaining parts of its earthquake claims, however the amounts and timing of these future cash settlement agreements cannot be reliably estimated.

Other than those described above, the group had no material or significant contingent liabilities or contingent assets as at 31 March 2013 or 31 March 2012.

35. Defined benefit superannuation scheme

As outlined in note 34, the group contributes to a multi-employer defined benefit superannuation scheme (the scheme) operated by the National Provident Fund. The Fund has advised that insufficient information is available to use defined benefit accounting as it is not possible to determine, from the terms of the scheme, the extent to which the deficit will affect future contributions by employers, as there is no prescribed basis for allocation.

As at 31 March 2012, the scheme had a past service surplus of $19.8m (8.3% of the estimated liabilities). This amount excludes employer superannuation contribution withholding tax. This surplus was calculated by the actuary to the scheme using a discount rate equal to the expected return on the assets, but otherwise the assumptions and methodology were consistent with the requirements of NZ IAS 19 – Employee Benefits. The actuary to the scheme has recommended that employer contributions are suspended with effect from 1 April 2011, which the company has done. The equivalent information as at 31 March 2013 is not available at the date of preparation of these financial statements.

Refer also to accounting policy 1(r) – employee benefits.

36. Significant events after balance date

The group is unaware of any significant events between the preparation and authorisation of these financial statements on 12 June 2013.

Performance statement – financial

For the year ended 31 March 2013

	Notes	Actual 2013	Target 2013	Actual 2012
Net profit ($m)	1, 2	49.0	34.0	54.2
Net profit to average shareholders' equity (%)	1, 2	7.8	5.4	8.9
Debt (%)	3	9	13	8
Equity (%)	4	91	87	92
Dividends ($m)	5	32.0	32.0	34.0

Notes:

	Favourable/ (unfavourable) variance 2013 $m
1. Net profit was $15.0m above the company's statement of intent target because of (all figures post tax):	
Below-budget expenses	6.0
Above-budget electricity distribution network delivery revenue	3.1
Above-budget connection revenue and capital contribution revenue	2.6
Above-budget proceeds from 4RF Communications Limited (in receivership)	1.8
Other net differences	1.5
	15.0
2. Net profit was $5.2m below last year's net profit because of (all figures post tax):	
Electricity distribution network delivery revenue was above last year	8.2
Expenses were below last year	5.4
The receipt from 4RF Communications Limited (in receivership) didn't occur last year	1.8
Insurance cash settlement proceeds were below last year's proceeds	(19.2)
Other net differences	(1.4)
	(5.2)

3. Debt is defined as group borrowings, net of cash and cash equivalents. The percentage disclosed is debt to debt plus equity.
4. Equity is defined as shareholders' equity of the group. The percentage disclosed is equity to debt plus equity.
5. The company pays dividends to its shareholders after taking into account the company's financial position, profitability and future investment requirements. Any dividends paid to shareholders are determined by the board after consideration of the company's funding requirements and the requirement to meet the solvency test under the provisions of the Companies Act 1993. The company paid fully imputed dividends of $16.0m on 20 June 2012 and $16.0m on 20 December 2012, consistent with the company's SOI target.

Performance statement - network reliability

For the year ended 31 March 2013

		Affected by earthquakes				Unaffected by earthquakes	
	Number of consumer connections 31 March 2013	Actual 2013	Target 2013	Actual 2012	Actual 2011	Actual 5 year average to 2010	Gazetted NZ weighted average 2012
Orion network interruptions:							
Duration of supply interruptions in minutes per year per connected customer (SAIDI)							
• urban	165,913	33	100	208	4,155	18	
• rural	23,341	536	412	389	1,442	493	
• overall	189,254	94	137	231	3,812	75	177
Number of supply interruptions per year per connected customer (SAIFI)							
• urban	165,913	0.5	1.6	2.0	2.8	0.3	
• rural	23,341	4.4	3.6	3.6	4.5	3.3	
• overall	189,254	1.0	1.8	2.2	3.0	0.6	1.9

Comments:

1. Orion network interruptions exclude those caused by transmission grid and electricity generation interruptions. All figures in the "affected by earthquakes" columns above are stated gross – that is, they are not adjusted for "major event days" as otherwise allowed under the Commerce Commission's default price quality path regulatory information disclosures.
2. For SAIDI, the company has assumed that all network outages caused by the 22 Feburary 2011 earthquake were network fault-related outages only up until 31 March 2011. This applies to the figures above for the year ended 31 March 2011. The only ongoing outages as at that date were due to circumstances beyond the company's control – this especially applies to the cordoned off CBD area (approximately 2,000 mainly business customer connections).
3. SAIDI and SAIFI measures are international industry standards which enable assessment of network performance. The gazetted industry averages noted above are for all New Zealand electricity distribution networks and include rural and urban networks. Our network includes a significant rural component.
4. SAIDI: system average interruption duration index – an international index which measures the average duration of interruptions to supply that a consumer experiences in a given period.

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

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

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

Performance statement – earthquake recovery and disaster resilience

For the year ended 31 March 2013

Introduction

The Canterbury earthquakes, particularly the 22 February 2011 earthquake, caused significant damage to the company's electricity distribution network and to its office buildings.

The company set eight earthquake-related targets in its statement of intent in April 2011. Five of those targets were successfully achieved in the year ended 31 March 2012. The first three targets listed below are the other three.

A further five targets (targets 4 to 8 below) were set in the company's approved statement of intent in April 2012.

1. Repair the company's damaged underground cables

   Target date: Ongoing

   Status: On track

   The company's 11kV and low voltage underground cable network was extensively damaged in the earthquakes, especially in the eastern suburbs of Christchurch. All known 11kV cable faults have been repaired, however it is likely to take up to another five years before all underground cable damage is found and repaired. Much of the actual damage to the underground cables can only be found when cable faults occur in the future.

2. Lay and commission a permanent 66kV feed from the Bromley grid exit point to the Dallington and Rawhiti zone substations. Then remove the temporary 66kV overhead lines that the company installed after the 22 February 2011 earthquake

   Target date: 31 March 2014

   Status: Likely to be delayed by up to 12 months

   After the 22 February 2011 earthquake, the company urgently built new temporary 66kV overhead lines from the Bromley grid exit point to the company's Dallington zone substation and to the new Rawhiti zone substation. These high voltage overhead lines replaced the four severely damaged 66kV underground cables that previously supplied the severely damaged (now decommissioned and demolished) Brighton zone substation.

   The 66kV overhead lines are temporary. They were authorised under emergency Civil Defence powers so that the company could restore power to the eastern suburbs of Christchurch.

   The company is replacing the 66kV overhead lines with 66kV underground cables in three stages:

   - stage 1 – McFaddens zone substation to Dallington zone substation
   - stage 2 – Dallington zone substation to the Bromley grid exit point
   - stage 3 – Bromley zone substation to the Rawhiti zone substation.

   Stage 1 is likely to be complete by 30 July 2013. Cable laying for stage 2 has not started yet because the route depends on the CCC confirming the fate of a damaged road bridge across the Avon River. Due to the stage 2 delays, the company is progressing stage 3. The company expects to begin the actual cable laying for stage 3 in late 2013.

   Under a Canterbury Earthquake Recovery Act order in council, the company has a resource consent for the temporary 66kV overhead lines in the eastern suburbs. The resource consent ends in 2014.

3. Work with the Canterbury Earthquake Recovery Authority (CERA) and the Christchurch City Council to re-establish power and network resiliency to the central business district (CBD) according to agreed priorities and timeframes

   Target date: Ongoing

   Status: On track

   The company is working with CERA on an ongoing basis to ensure that the CBD cordon area can be reduced as CERA deems appropriate. The company's key involvement at present is to decommission and reliven connection points as necessary. The company is also providing comprehensive information about the process to connect to the network so that developers know what to expect.

   The company's CBD assets have sustained relatively little damage in the earthquakes. A resilient network will be provided to CBD businesses and residents in the years ahead.

   Many of the company's substations in the CBD were housed in damaged buildings that belonged to third parties. As these buildings are demolished, the company faces challenges maintaining continuous power supply. The company is working with the authorities, building owners and demolition contractors to minimise outages and to protect and recover network assets as appropriate.

4. Construct and move into a new office building built to level 4 (lifelines) standard and develop a back-up 'hot site' emergency location

   Target date: 31 March 2016

   Status: On track

   The 22 February 2011 earthquake badly damaged the company's Manchester Street offices, so employees relocated to other buildings on its office site in the CBD (200 Armagh Street). The Manchester Street offices have now been demolished. A new (lifelines-standard) building is now being constructed at 565 Wairakei Road. As a lifelines utility, the company is required under the Civil Defence Emergency Management Act 2002 to 'ensure that it is able to function to the fullest possible extent, even though this may be at a reduced level, during and after an emergency'. The company's operations are therefore required to be in a building constructed to, and with services provided to, a lifelines standard.

   The company purchased the Wairakei Road land in June 2012 and completed its move to the new site on 31 May 2013. The company's initial emergency 'hot site' will remain at its existing Armagh substation site, and the company will review its longer term hot site options after its move to Wairakei Road.

   The company's preference is to eventually move back to the CBD area.

5. Consider the recommendations of the Kestrel Group independent review into the company's readiness for and performance during the earthquakes, and adopt practical recommendations in the company's 10-year network asset management plan (AMP) for the 10 years commencing 1 April 2013

   Target date: 31 March 2013

   Status: Achieved

   As part of the company's post earthquake reviews, the company commissioned Kestrel Group to independently review its readiness for, and response to, the 4 September 2010 and 22 February 2011 earthquakes, and to recommend improvements. Kestrel is a Wellington/Christchurch based consultancy that specialises in risk management, business continuity, and emergency and crisis management.

   Kestrel concluded that:

   - the company actively integrated risk management and emergency preparedness into its management approach, treating them as core business
   - the company's longstanding commitment to resilience served Christchurch well following the earthquakes
   - investment in seismic mitigation, integration of emergency management responsibilities into day-to-day management, and building a security conscious workforce were all vital to electricity restoration that was rapid and effective given the damage that occurred.

   Kestrel recognised that since the September 2010 earthquake the company has continued to demonstrate an ongoing work process of self-improvement.

   The company has set priorities and implemented most of Kestrel's recommendations. Some recommendations require further consideration of the costs and benefits of implementation, particularly in light of the company's earthquake recovery work over the next several years.

   The full Kestrel report is available on the company's website.

6. Undertake a review of the company's network architecture and network security of supply standard

   Target date: 31 March 2013

   Status: Achieved

   The company undertook a high voltage network (excluding 400V) architecture and security of supply standard review in 2006 which resulted in some material changes to its 11kV architecture and subtle changes to the company's security of supply standard. The earthquakes have increased the company's understanding of HILP (high impact low probability) events and the flexibility of the current 11kV network architecture to restore power following major events. It was prudent to take these lessons into account to determine if the company's network architecture standards needed further revision.

   Since 2006, technology has progressed, power quality has become more important for customers, construction costs have changed and there is an even stronger community focus on safety. Furthermore, the Electricity Authority has released preliminary results of a new VOLL (Value of Lost Load) survey in New Zealand and the Electricity Engineers' Association (EEA) is undertaking a review of its Security of Supply Guideline.

   The company's review in the year ended 31 March 2013 resulted in several changes. The most significant was the decision to move away from largely radial feeds from grid exit points to urban zone substations, to more closed-ring feeds – effectively providing a more interconnected and inherently resilient urban network over time. The changes are described in more detail in the company's 10-year network asset management plan (AMP) effective from 1 April 2013. The company's network AMP is on the company's website.

Performance statement – earthquake recovery and disaster resilience continued

For the year ended 31 March 2013

7. **Align the company's 10-year network asset management plan (AMP) with the National Infrastructure Plan (NIP)**

   Target date: 31 March 2013

   Status: Achieved

   The NIP was released by the Government on 4 July 2011 and is available online at infrastructure.govt.nz/plan. The NIP aims to reduce uncertainty for businesses by outlining the Government's intentions for infrastructure development over a 20-year timeframe.

   The NIP is aspirational rather than directive. It provides a framework for New Zealand's infrastructure development rather than a detailed list of projects. The plan sets out a vision that, by 2030, New Zealand's infrastructure is resilient, coordinated and contributes to economic growth and increased quality of life.

   The NIP's overall message is that New Zealand's infrastructure is performing well, but there are areas where improved performance would accelerate economic performance. The NIP sets out six guiding principles for these infrastructure challenges. It outlines infrastructure issues in five key sectors (transport, telecommunications, energy, water and social infrastructure). Finally, the NIP sets out a programme of action to drive change for the next edition, to be published in 2014.

   The company believes that its 10-year network AMP is consistent with the NIP's objectives – especially as the NIP now has an increased emphasis on infrastructure resilience. Network resilience overlays how the company analyses its key initiatives and issues – for example the company's network architecture and security of supply reviews in 2012 noted above.

8. **Continue to support the key regional earthquake recovery planning documents**

   Target date: Ongoing

   Status: On track

   'The Recovery Strategy for Greater Christchurch' was released by the Government in May 2012. The Christchurch Central Development Unit (part of CERA) released 'The Christchurch Central Recovery Plan' in July 2012. CERA also released 'An Accessible City' in November 2012. These are three of the Government's key earthquake recovery planning documents.

   The region's local authorities – the Christchurch City Council, the Selwyn District Council and Environment Canterbury – also develop, administer and enforce key regional and city planning documents that are relevant to regional earthquake recovery.

   The company's key role in regional earthquake recovery is to restore capacity and resilience to its electricity distribution network and to anticipate and plan for future customer load growth and new connections. The company's key network planning and accountability document is its 10-year network AMP and the company will continue to ensure that its 10-year network AMP remains up to date and consistent with good industry practice while taking final approved regional recovery documents and developers' plans fully into account.

Performance statement – environment

For the year ended 31 March 2013

1. **Continue to undertake and encourage consumer demand side management**

   Target date: Ongoing

   Status: Achieved

   Environmental consulting firm, MWH, completed its report on the company's carbon impact in March 2009. The full report is available on the company's website – oriongroup.co.nz. In the company's statement of intent for the three years commencing 1 April 2009, the company set six environmental targets after consultation with MWH. Five of those targets have been successfully completed. This is the remaining target.

   MWH found that approximately 17% of the company's total carbon footprint is due to carbon embedded in the company's network assets. MWH found that carbon savings can be achieved through demand side management (DSM) and that the company already achieves significant carbon savings through existing DSM initiatives.

   In the year ended 31 March 2013 the company has, among other initiatives:

   - continued to co-operate with other upper South Island EDBs to manage and operate an upper South Island centralised load management system. This system enables the benefits of co-ordinated load management to be quantified and provides a platform for future DSM initiatives. The system is transferable to other regions within New Zealand, potentially bringing further environmental gains. The company has a contract in place with Transpower to continue this initiative to March 2015
   - continued to investigate trials of distributed smart meters in the company's electricity distribution network to better understand the performance of the network. It may be that some peak demand savings are possible if the company's 11kV and low voltage network can be further optimised
   - continued to develop a local system operator concept. One of the company's managers has been appointed to the recently established Electricity Networks Association Load Control Working Group, which will investigate and report on Electricity Authority load control initiatives and on issues that are relevant to the security and efficiency of electricity networks.

2. **Continue support for and sponsorship of Community Energy Action (CEA)**

   Target date: Ongoing

   Status: Achieved

   CEA is a Christchurch-based charitable trust that focuses on improving energy efficiency – particularly for the low income housing sector. The company has sponsored CEA since its inception in 1994. As well as providing financial sponsorship, the company assists CEA with information technology and other issues that arise in its day-to-day operations. The company views CEA's services as very important for the local Christchurch and central Canterbury community, particularly given the impact of the earthquakes on many homes. The company provided CEA with cash sponsorship of $150,000 in the year ended 31 March 2013 and assistance with governance and administration.

3. **Support the Christchurch City Council's sustainable energy strategy**

   Target date: Ongoing

   Status: Achieved

   The company:

   - continues to seek ways to reduce peak loads on the company's network and increase its network load factor
   - continues to seek better, more accurate real-time data of the company's network loadings. This allows for more efficient network planning and investment to meet load growth.

   The company's policies for the connection of distributed generation to its network enable the safe and efficient connection of a range of local generation. The company's policies and procedures in this area are rated very highly in terms of ease of connection relative to the rest of the industry. The company's distributed generation policies continue to be industry leading and these policies promote the provision of economic renewable energy sources.

Performance statement – community and employment
For the year ended 31 March 2013

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

   Target date: 31 March 2013

   Status: Not achieved

   This target covers both Orion and its contractors (including Connetics) and is an extremely challenging one due to the physical nature of the work required on the company's electricity distribution network. Care is needed with this target as the company does not want to create a climate where accidents are not reported and/or harm is compounded through inappropriate policies to force people back to work too early.

   In the year ended 31 March 2013 the company had two employee lost time accidents (2012: three) resulting in 43 days of lost time (2012: 28).

   Nine employees of the company's contractors had an injury accident resulting in 116 days of lost time (2012: 10 with 112 days of lost time).

2. **Zero number of injury accidents (excluding car versus pole traffic accidents) involving members of the public**

   Target date: 31 March 2013

   Status: Achieved

   In the year ended 31 March 2013 no members of the public suffered injuries from the company's activities (2012: nil).

3. **Continue with a local public safety education and awareness programme in the safe use of electricity**

   Target date: 31 March 2013

   Status: Achieved

   The company's programme covers issues such as tree owner responsibilities near lines, close approach to lines with irrigators and other operators of plant, scaffolding near lines, householder maintenance near lines, digging near underground cables and safety and security near electrical equipment. The company's messages are delivered through a series of community shows, presentations to targeted groups and through regular media outlets such as local newspapers and radio.

   With the large amount of demolition and repair work required in Christchurch following the earthquakes, there are now many additional contractors working in close proximity to the company's assets. The company is concentrating on educating this group on electrical safety as they are at significant risk of harm. Since the earthquakes, the company has:
   - developed and grown constructive and mutually beneficial relationships with contractor companies and established relationships with the Stronger Christchurch Infrastructure Rebuild Team (SCIRT), surveyors and Enable Networks to promote safety around our electricity network assets
   - maintained a working relationship and rapport with managers at the Fletcher EQR "hubs" – the main contractors to the Earthquake Commission for house repairs in the $15,000 to $100,000 range
   - run process and safety meetings for approximately 3,000 contractor employees, during and outside of normal working hours
   - developed and run further safety advertising, radio and print messages
   - developed an electronic safe approach consents process
   - developed capability and capacity to handle the expected increase in minimum safe approach consent applications.

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

   Target date: 30 November 2012

   Status: Achieved

   Approximately 79% of the company's employees participated in the survey in mid 2012 (previous year: 76%).

   Employees rated their overall satisfaction at an average of 75% (previous year: 77%).

   Employees rated communication and co-operation, wellbeing and performance management slightly lower than in 2011. Some employees want more learning and development and career opportunities, and some want more focus on managing performance and interactions across teams. Disengagement levels were at 5.2% (previous year: 2.5%) and high engagement levels were at 41% (previous year: 46%).

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

   Target date: 31 March 2013

   Status: Achieved for Orion. Not achieved for Connetics.

   In the year ended 31 March 2013:
   - Orion had staff turnover of 3.5% (2012: 5.6%)
   - Connetics had staff turnover of 12.4% (2012: 8.1%).

   Voluntary turnover excludes employees who leave for reasons of retirement, redundancy, on completion of a fixed term (or casual) employment or disciplinary related.

6. **Continue with the engineering development programme**

   Target date: Ongoing

   Status: On track

   As at 31 March 2013, the company had six employees (2012: six) in the programme.

   The engineering development programme has successfully placed talented individuals into key positions within the company's business. A number of employees are placed on this programme annually and over several years are developed into areas where the company considers there may be existing or future skill shortages. The company's programme ensures that there is a prudent and ongoing plan for replacement of its ageing workforce.

7. **Continue to develop the Connetics apprentice scheme**

   Target date: 31 March 2013

   Status: Achieved

   As at 31 March 2013, Connetics had 31 apprentices (2012: 21):
   - fourteen were electrical – including substations, streetlighting and wider electrician units and experience
   - sixteen were "multi-skill" – overhead lines and underground cable jointing
   - one was "multi-skill" – overhead lines and electrician.

   The Connetics apprentice programme aims to ensure that it sustainably develops and improves its overall competencies.

8. **Continue to support the CPIT Trades Innovation Centre**

   Target date: Ongoing

   Status: On track

   In 2003, the Christchurch Polytechnic Institute of Technology (CPIT) set up an advisory board to align trades training with industry needs. A company manager is a member of this board and was instrumental in proposing the development of a simulated subdivision where trades trainees can be trained in real life situations. Electricity distribution is a significant part of the simulated subdivision and the company's operational network access training is now performed at the site. The centre helps to ensure a sustainable contracting work force into the future.

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

INDEPENDENT AUDITOR'S REPORT
TO THE READERS OF ORION NEW ZEALAND LIMITED AND GROUP'S
FINANCIAL STATEMENTS AND PERFORMANCE STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2013

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

We have audited:

- the financial statements of the company and group on pages 1 to 45, that comprise the statement of financial position as at 31 March 2013, 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 statements of the company and group on pages 46 to 53.

Opinion

Financial statements and the performance statements

In our opinion,

- the financial statements of the company and group on pages 1 to 45:
  - comply with generally accepted accounting practice in New Zealand; and
  - give a true and fair view of the company's and group's:
    - financial position as at 31 March 2013; and
    - financial performance and cash flows for the year ended on that date;
- the performance statements of the company and group on pages 46 to 53:
  - comply with generally accepted accounting practice in New Zealand; and
  - give a true and fair view of the company's and group's achievements measured against the performance targets adopted for the year ended 31 March 2013.

Other legal requirements

In accordance with the Financial Reporting Act 1993 we report that, in our opinion, proper accounting records have been kept by the company and group as far as appears from an examination of those records.

Our audit was completed on 12 June 2013. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities, and explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and performance statements are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements and performance statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and performance statements. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and performance statements whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the company and group's financial statements and performance statements that give a true and fair view of the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the company and group's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the adequacy of all disclosures in the financial statements and performance statements; and
- the overall presentation of the financial statements and performance statements.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and performance statements. Also we did not evaluate the security and controls over the electronic publication of the financial statements and performance statements.

In accordance with the Financial Reporting Act 1993, we report that we have obtained all the information and explanations we have required. We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board of Directors

The Board of Directors is responsible for preparing financial statements and performance statements that:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the company and group's financial position, financial performance and cash flows; and
- give a true and fair view of the company and group's service performance achievements.

The Board of Directors is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements and performance statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is also responsible for the publication of the financial statements and performance statements, whether in printed or electronic form.

The Board of Directors' responsibilities arise from the Energy Companies Act 1992 and the Financial Reporting Act 1993.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and section 45(1) of the Energy Companies Act 1992.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

In addition to the audit, we have carried out four assurance engagements for the company. These engagements were in respect of the schedules of required information prepared by the company in accordance with the Commerce Commission requirements issued by notice in writing to the company under section 53ZD of the Commerce Act 1986, reporting on the extent to which the Customised Price-Quality Path Proposal prepared by the company complied with the Electricity Distribution Services Input Methodologies Determination 2012, in respect of the company's disclosure information prepared under the Electricity Distribution Information Disclosure Requirements 2008, and in respect of the Annual Compliance Statement prepared under the Electricity Distribution Services Default Price-Quality Path Determination 2010. These assignments are compatible with those independence requirements.

Other than the audit and these assignments, we have no relationship with or interests in the company or any of its subsidiaries.

Scott Tobin
Audit New Zealand
On behalf of the Auditor-General
Christchurch, New Zealand

Corporate governance statement

Ownership

The company is owned by:

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

Principal activities

The company's principal activities during the year were to:

- provide network distribution services to customers on behalf of electricity retailers
- respond effectively to the Canterbury earthquakes and aftershocks
- provide other services such as contracting in the utilities sector
- seek investment opportunities in the infrastructure and energy sectors.

Role of the board

The company's shareholders appoint the 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 within the company. This 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 section 36 of the Energy Companies Act 1992, the company's principal objective is to operate as a successful business.

Statement of intent

In accordance with section 39 of the Energy Companies Act 1992 and the company's constitution, in February each year the board submits a draft statement of intent (SOI) to its shareholders. The draft SOI sets out the company's overall objectives and intentions, as well as financial, earthquake recovery, network reliability, environmental, community, employment and health and safety performance targets.

After due consultation with the company's shareholders and after considering any comments from those shareholders, the final SOI is approved by the board, delivered to the company's shareholders and placed on the company's publicly available website.

The board also aims to ensure that shareholders are informed of all major developments and issues affecting the company.

Board membership

The board currently consists of five non-executive directors. Under the company's constitution:

- four have been appointed by the company's majority shareholder, Christchurch City Holdings Limited
- one has been appointed by the company's minority shareholder, Selwyn Investment Holdings Limited.

The board chairman is elected by the board.

Board operation

The operation of the board is governed by the company's constitution and the board's code of conduct.

The board chairman has a leadership role in the conduct of the board and its relationship with the company's shareholders and other major stakeholders. The chairman maintains a close professional relationship with the company's 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 has adopted a code of conduct. The purposes of the code are to clarify 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.

The board formally reviews the code of conduct, along with the company's other significant policies, every year and changes the code and policies to reflect good practice.

Board performance and review

The board regularly reviews its own performance and the performance of the chief executive officer. The principal purposes of the reviews are to identify opportunities for performance development and improvement and to set in place plans to achieve those opportunities.

Board meetings

The board meets approximately 10 times per year and additional meetings are convened as and when required. The board's planned annual programme is set by the board before the start of each calendar year.

Directors receive formal agenda papers and regular reports, generally a week in advance of board meetings and committee meetings.

Executive managers are regularly involved in board discussions. The board also obtains independent expert advice when it is prudent to do so.

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 as follows:

- the audit committee liaises with the company's external independent auditor and provides additional assurance regarding the quality and reliability of internal controls and financial information used by and issued by the board
- the remuneration committee assists the board to establish remuneration policies and practices, and to set and review remuneration of the company's chief executive officer and other senior executives.

The following directors served as standing committee members during the year ended 31 March 2013:

AUDIT COMMITTEE	REMUNERATION COMMITTEE
Paul Munro (from 11 Sep 2012) – chairman	George Gould – chairman
Michael Andrews	Craig Boyce
Craig Boyce	
John Dobson (resigned 8 Aug 2012)	
Gail Jewell (resigned 8 Aug 2012)	

Corporate governance statement continued

Board and committee attendance

The following table is a summary of meeting attendance for the year ended 31 March 2013:

	Board	Audit committee	Remuneration committee
Number of meetings held	**16**	**6**	**1**
Craig Boyce	14	6	1
Michael Andrews	13	4	*
John Dobson (resigned 8 August 2012)	6	3	*
George Gould	15	*	1
Gail Jewell (resigned 8 August 2012)	4	3	*
Paul Munro (appointed 8 August 2012)	11	3	*
Geoff Vazey	15	*	*

* Not a member of this committee

Subsidiary companies

The following served as directors of subsidiary companies during the year ended 31 March 2013:

Connetics Limited	Rob Jamieson (appointed 3 April 2012, chairman from 10 September 2012), Michael Andrews (chairman until 10 September 2012), Brendan Kearney, Tasman Scott (resigned 3 April 2012), Geoff Vazey
Orion New Zealand Ventures Limited	Brendan Kearney

Legislative compliance

The company takes a risk-based approach to 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. Independent experts are also engaged for advice on some issues.

The board receives regular formal updates from management on legislative compliance.

Directors' insurance

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

Loans to directors

No loans were made to directors.

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 remains as auditor of the company.

Conflicts of interest

The board operates a formal directors' interests register and this register is formally 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 a 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 a transaction will occur in which they have an interest
- comply with the requirements of sections 139 to 149 of the Companies Act 1993
- not generally provide business or professional services of an ongoing nature to the company.

Employees are also required to 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.

Interests register

The following entries were recorded by the company's directors in the interests register during the year ended 31 March 2013:

Michael Andrews	Tenon Limited	Director
	Bio-Protection Research Centre	Board member
Craig Boyce	Combined Rural Traders Society Limited	Director
	Farmlands Co-Operative Society Limited	Director
	Datacom Group Limited	Director
	Equipment Hire Company Limited	Director
	Extra Strength No.164 Limited	Director
	Horizon Farming Limited	Director
	Ovation New Zealand Limited	Director
	Progressive Leathers Limited	Director
	Smiths City Group Limited and subsidiaries	Director
	Snowy Peak Limited	Director
	Transdiesel Limited	Director
John Dobson	Anderson Lloyd	Board member
	NZ Express Transport 2006 Limited	Director
	Rural Transport Limited	Director
	Smiths City Group Limited and subsidiaries	Director
	Wilson Bulk Transport	Director
George Gould	Christchurch International Airport Limited	Director
	George Gould Limited	Director
	Gloucester Cambridge Holdings Limited	Director
	Gould Holdings Limited and subsidiaries	Director
	PGG Wrightson Limited and subsidiaries	Director
Gail Jewell	Lifestyle Trust	Trustee
	Pegasus Bay Charitable Trust	Trustee
	Sunshine Trust	Trustee
Paul Munro	Deloitte Limited	Director
	Central Plains Water Limited	Director
Geoff Vazey	Consult GV Limited	Director
	HEB Construction Limited	Director

Corporate governance statement continued

Directors' remuneration

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

	Orion directors' fees $000	Subsidiary company directors' fees $000
Craig Boyce	87	-
Michael Andrews	45	17
John Dobson	17	-
George Gould	46	-
Gail Jewell	15	-
Paul Munro	32	-
Geoff Vazey	42	13
	284	30

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	2013	2012	2011
100 - 110	29	26	34
110 - 120	23	22	13
120 - 130	16	12	12
130 - 140	7	10	5
140 - 150	8	8	3
150 - 160	6	-	-
170 - 180	-	2	5
180 - 190	1	1	-
190 - 200	1	3	1
200 - 210	1	2	1
210 - 220	1	-	-
220 - 230	3	-	-
240 - 250	-	1	-
270 - 280	1	-	-
290 - 300	1	-	-
300 - 310	-	-	1
310 - 320	-	-	1
330 - 340	-	1	-
350 - 360	-	1	-
380 - 390	-	-	1
420 - 430	1	-	-
430 - 440	-	1	-
440 - 450	-	1	1
460 - 470	-	1	-
490 - 500	1	-	-
540 - 550	1	-	-
620 - 630	-	-	1
680 - 690	-	-	1

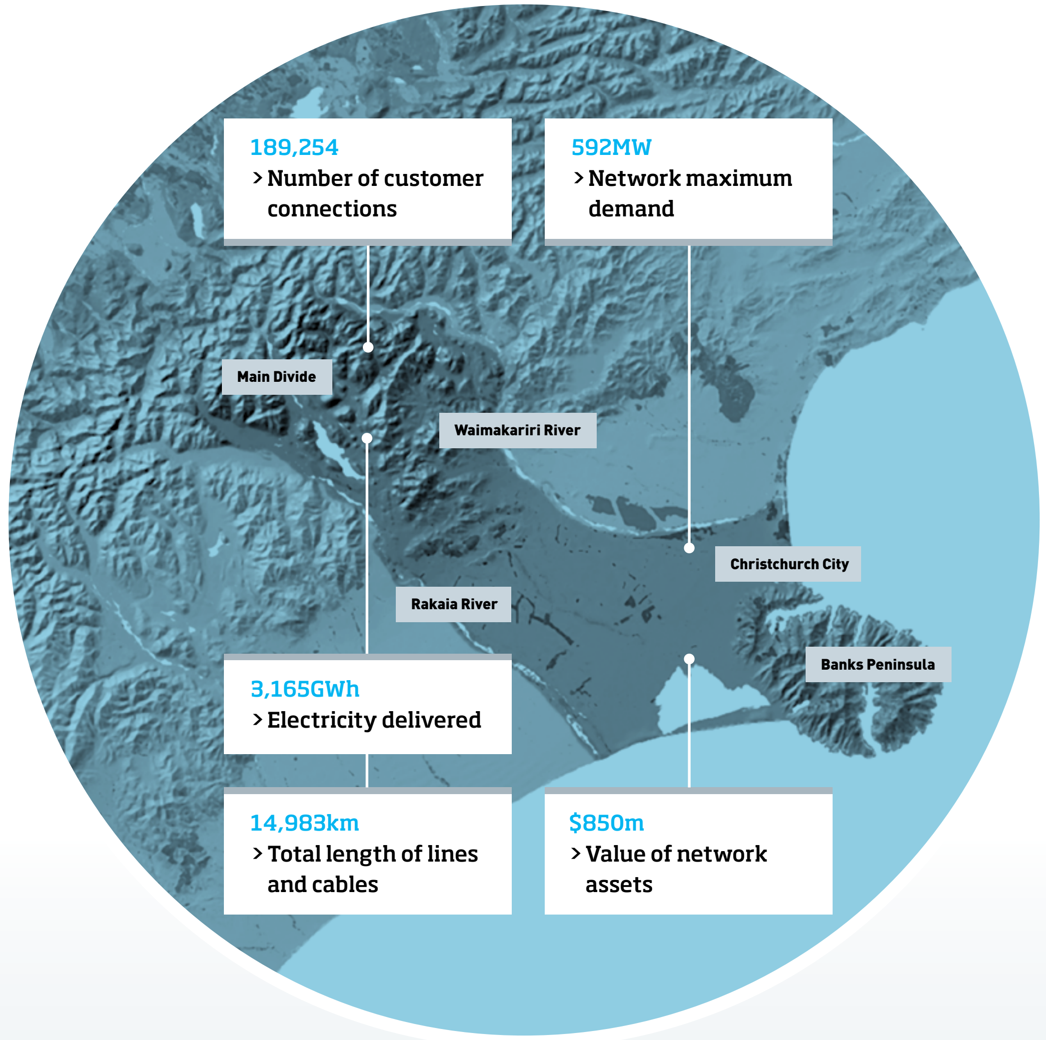
Five-year trends

	2013 $m	2012 $m	2011 $m	2010 $m	2009 $m
Income statement					
Operating revenue	261	245	222	222	231
EBIT	70	73	49	68	73
Profit before income tax	66	68	45	66	70
Net profit	49	54	28	47	50
Balance sheet					
Current assets					
Cash and cash equivalents	1	1	-	-	1
Trade and other receivables	10	19	6	5	8
Investment property	9	-	-	-	-
Other	8	7	7	6	6
Total current assets	28	27	13	11	15
Non current assets					
Property, plant and equipment	855	820	794	944	940
Investment property	-	8	8	5	6
Other	6	6	6	7	6
Total non current assets	861	834	808	956	952
Total assets	889	861	821	967	967
Current liabilities					
Trade and other payables	29	28	29	20	23
Borrowings	-	-	-	37	-
Other	4	3	3	5	3
Total current liabilities	33	31	32	62	26
Non current liabilities					
Borrowings	61	53	36	5	51
Deferred tax	155	153	151	193	191
Other	3	4	2	1	2
Total non current liabilities	219	210	189	199	244
Equity					
Issued capital	120	120	120	120	120
Reserves	26	26	26	124	125
Retained earnings	491	474	454	462	452
Total equity attributable to parent equity holders	637	620	600	706	697
Total liabilities and equity	889	861	821	967	967
Cash flow statement					
Operating cash flow	78	61	76	84	77
Investing cash flow	(53)	(43)	(33)	(38)	(36)
Financing cash flow	(25)	(17)	(43)	(47)	(40)
Net increase/(decrease) in cash	-	1	-	(1)	1
Opening cash	1	-	-	1	-
Closing cash	1	1	-	-	1

Five-year trends continued

	2013 $m	2012 $m	2011 $m	2010 $m	2009 $m
Financial performance indicators					
Dividends paid	32	34	38	37	44
Net profit to average shareholders' equity (%)	7.8	8.9	4.3	6.7	7.1
Net interest bearing debt to debt-plus-equity (%)	9	8	6	6	7
Non financial measures					
Electricity maximum demand (MW)	592	633	616	618	624
Electricity deliveries into the network (GWh) includes embedded generation	3,165	3,070	3,308	3,430	3,402
Number of customer connections (000)	189	191	193	192	190

Snapshot of Orion's network in the year to 31 March 2013



Directory as at 12 June 2013

Directors

Craig Boyce
CHAIRMAN

Michael Andrews

George Gould

Paul Munro

Geoff Vazey

Corporate management

Rob Jamieson
CHIEF EXECUTIVE OFFICER

Gina Clarke
COMMUNICATIONS AND ENGAGEMENT MANAGER

David Freeman-Greene
GENERAL MANAGER COMMERCIAL

Brendan Kearney
GENERAL MANAGER CORPORATE SERVICES

Craig Kerr
GENERAL MANAGER INFORMATION SOLUTIONS

John O'Donnell
CHIEF OPERATING OFFICER

Adrienne Sykes
HUMAN RESOURCES MANAGER

Contact us

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Email	info@oriongroup.co.nz
Website	oriongroup.co.nz
Twitter	twitter.com/orionnz

Auditor

Audit New Zealand, on behalf of the Auditor-General

Principal solicitors

Chapman Tripp
Christchurch

Sources of information

A range of information about our policies and operations is available on our website at oriongroup.co.nz. Paper copies are available on request. Information includes:

- details on our pricing
- summary of daily load management
- guide to connecting distributed generation
- safety guidelines for working on our network
- discussion on environmental issues.

Other websites which contain information of interest include:

- Canterbury Earthquake Recovery Authority
  cera.govt.nz
- Christchurch City Council
  ccc.govt.nz
- Commerce Commission
  comcom.govt.nz
- Community Energy Action
  cea.co.nz
- Connetics
  connetics.co.nz
- Consumer electricity information
  powerswitch.org.nz and whatsmynumber.org.nz
- Electricity and Gas Complaints Commission
  egcomplaints.co.nz
- Electricity Authority
  ea.govt.nz
- Electricity Networks Association
  electricity.org.nz
- Environment Canterbury Regional Council
  ecan.govt.nz
- Energy Efficiency and Conservation Authority
  eeca.govt.nz
- Ministry of Economic Development
  med.govt.nz
- Selwyn District Council
  selwyn.govt.nz

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Clockwise from top left: This year we worked in temporary offices alongside our earthquake damaged buildings as they were demolished. The company and its predecessors had worked from the central Christchurch site on the corner of Manchester and Armagh Streets since 1903;

In June 2013 we moved to new premises in west Christchurch so that our previous site could become part of the 'green frame' bordering the new central city;

External view of our new offices;

The temporary offices in central Christchurch where we worked in the 'red zone' in the aftermath of the Canterbury earthquakes.

oriongroup.co.nz