



“I had no idea there was so much to think about power.

Technology is really changing the way we can use power more efficiently.”

— Karen Erceg
Customer

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Cover: Christchurch's Level 6 band plays at weddings, corporate events and local bars.

With electric guitars, microphones, amplifiers and stage lighting, their performance comes to life with the help of electricity.

Financial

\$182melectricity distribution
revenue

↑ \$5m

\$58mnetwork operating
expenditure

↓ \$2m

\$53m

profit after tax

↑ \$1.5m

\$55m

fully-imputed dividends

same as
2017**\$80m**

group capital expenditure

↑ \$10m

\$275m

borrowings

↑ \$26m

\$1,180m

group assets

↑ \$23m

Network

201,000customer
connections

↑ 3,000

3,309gigawatt hours of
electricity delivered

↑ 100

633MWnetwork maximum
demand

↑ 33MW

79minutes of network
outages per customer

↓ 1

Chairman and Chief Executive's report



Geoff Vazey
Chairman



Rob Jamieson
Chief Executive

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

Every moment of every day, our 201,000 customers rely on electricity delivered by the Orion network – across 8,000 square kilometres in Christchurch and the Selwyn District.

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

A year of strong performance – with a focus on our customers

2018 was another year of strong performance by Orion. We continued to focus on providing a safe, reliable and resilient network service to support a thriving region and a healthy environment for our customers. We are pleased to have delivered on our key performance targets.

This year marks more than seven years since the Canterbury earthquakes and we are pleased to report our earthquake recovery programme is now complete, a year ahead of our 2019 target. Our work to restore and rebuild electricity services to quake damaged Christchurch has delivered a revitalised and resilient network.

Our seven year earthquake recovery programme involved:

- repair or replacement of 30km of our 66kV cables that were damaged – 50% of the total
- assessing all 6,622 underground 11kV cables and repairing all known faults in more than 400 cables
- assessing and completing repairs to 3,248km of our 11kV overhead network
- assessing and completing repairs to 3,392 street kiosks
- assessing and completing repairs to 3,059km of our 400V overhead network
- building two new zone substations, at Rawhiti and Waimakariri
- repairing 313 substations
- relocating our central city office and control room to Wairakei Road
- re-housing our Lancaster Zone substation 66kV switchgear inside a new building. This substation is one of three crucial feeders for the Christchurch Central Business District (CBD)
- relocating our subsidiary Connetics' base to a new, more resilient facility in Waterloo Business Park that also provides greater operational efficiency

We also undertook work on our infrastructure supplying Lyttelton to increase the reliability and resilience of the power service to this community and vital gateway for the goods that keep our region moving.

We are seeing unprecedented change in our industry. Customers want more choice and control, and to be confident we are planning for the future. It is critical that we continue to focus on understanding how our customers think and what they want.

This year we embarked on an ambitious programme of customer engagement to seek our customers' views and give them a voice in our decision making. To find out what was on our customers' minds, we provided a variety of opportunities for a diverse range of people in our community to interact with Orion, enlisting their help in guiding our investment decisions and customer service.

The long-term sustainability of our network also means thinking of smarter ways to provide our services, including understanding new technologies that our customers are looking to adopt, and will enhance the service we provide to them.

Our new technology investments included:

- installing 17 new electric vehicle (EV) public charging stations in strategic locations around our network region. This brings our total EV charger network to 25 giving EV drivers more confidence when travelling distances
- joining with Contact Energy to trial the latest electricity technology in Christchurch, turning 10 ordinary households in Cashmere into virtual power stations
- installing our region's first electronic voltage support unit, servicing Southbridge School
- continuing to develop our "PowerOn" digital network management system that gives us a real time view of what's happening on our network, and enhanced network management capability

Customers want more choice and control, and to be confident we are planning for the future.



We are working with others in our industry to understand and manage the impacts of emerging technologies on networks and our customers. We co-sponsored an independent report from Concept Consulting on the issues and opportunities of mass electric vehicle uptake in New Zealand. We hope the report stimulates thinking and discussion on how we can make it cheaper and easier for customers to charge their vehicles while avoiding significant network investment as the uptake of EVs increases.

Our focus on emerging technology supports our commitment to sustainability. New Zealand is blessed with renewable, low carbon electricity generation and we look to encourage our customers' use of it through:

- excellent network service
- encouraging, with our partners, the uptake of EVs through our network of public charging stations and our own fleet of electric and hybrid vehicles
- ensuring our network and people enable customers to adopt new technologies such as solar and battery storage, and can maximise the value of that technology by, for example, two-way power flow enabling sharing of surplus energy

Sustained customer growth, particularly in the first half of the year, saw us welcome more than 3,000 new customers to our network. By year's end, the rate of connections in new subdivisions in Wigram, Prestons, Lincoln and Rolleston stabilised as Christchurch entered a consolidation phase after several busy years of residential construction.

Our geographical footprint has also changed, and growth in new outer-lying suburbs such as Rolleston, Lincoln, Burwood and Darfield means we now service a larger urban residential area than before.

We currently have more than 201,000 customers.

The growth in our customer numbers is reflected in a small increase in the amount of electricity we delivered, partially off-set by a mild winter and the increasing number of more energy efficient households.

Canterbury's regeneration has meant the growing importance of our role as an enabler for our region, and we continue to invest for the long-term interest of our community.

Christchurch's CBD was a key area of focus for us again this year. As the revival of the city centre gathered pace, we livened new retail developments, office blocks, parking buildings and entertainment venues in the Avon River Precinct. Reflecting the life they brought to the city, these new connections spurred an 18% increase in the amount of electricity we delivered to the city's heart from the previous year. Power consumption in the CBD now exceeds 50% of pre quake levels and with further development this growth is forecast to continue. Importantly, new, more energy efficient buildings are providing direct, sustainable benefits to the business and wider community.

The CBD isn't our only focus. Other significant projects to provide network capacity to support growth across our region included:

- installing new equipment and upgrading our network to provide increased capacity and resilience for the Christchurch Hospital redevelopment
- upgrading and installing network services for the Christchurch Schools Rebuild Programme, including Rolleston School and Waitaha Learning Centre, Hornby Primary School and Christchurch Boy's High School
- providing new infrastructure to service Housing New Zealand's social housing developments in Worcester Street and Eveleyn Cousins Place



Connect

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

Create

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

Collaborate

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

“If I have no power,
I have no donuts.”

— Bree Scott
Owner, Glamour Cake, Lyttelton

Financial performance

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

We are pleased to have delivered another year of strong financial performance.

Our \$53m profit was \$6m above our Statement of Intent (SOI) target, driven largely by three factors:

- below budget operating expenses, partly because an absence of significant weather events meant less emergency work on our network
- below budget interest expense
- we now capitalise some project-related employee remuneration due to a change in accounting treatment

These positive factors were partly offset by:

- lower than SOI network delivery volumes and revenues due to a mild winter

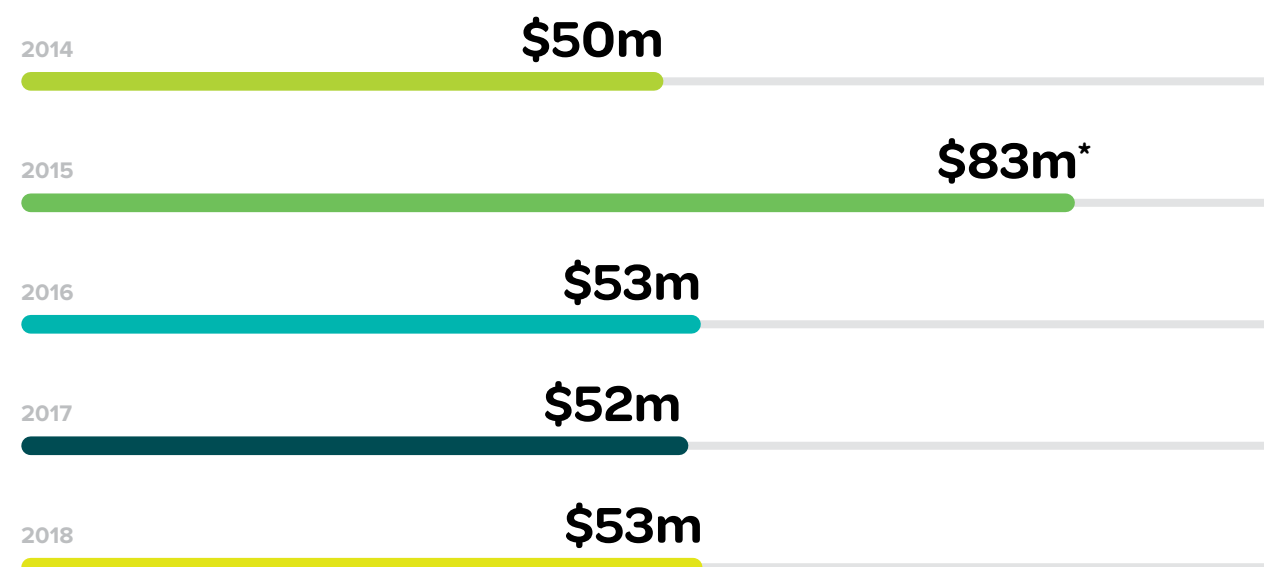
This year's profit was \$1.5m higher than last year's. Growth in customer connections contributed to higher electricity distribution revenue and higher profit.

Our strong result enabled us to pay our shareholders \$55m of fully-imputed dividends this year, \$3m above our SOI target.

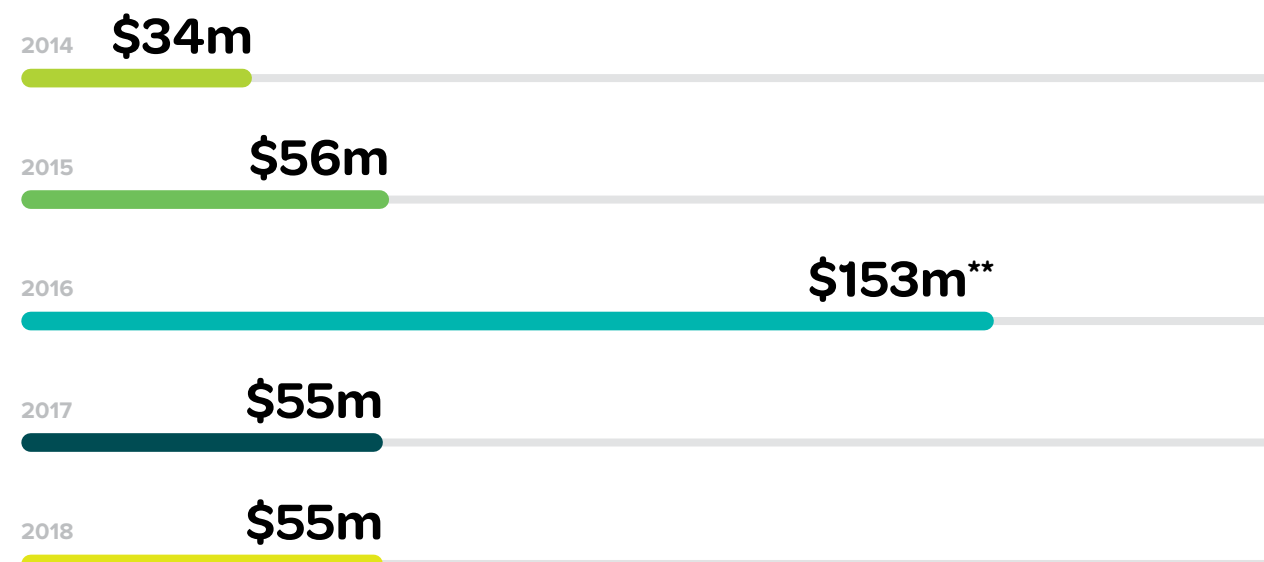
Our borrowings increased by \$26m to \$275m this year – largely as a result of capital expenditure for construction of our Connetics facility at Waterloo Business Park and the post-earthquake rebuild of our Lancaster substation. Now that our earthquake recovery projects are complete, we expect our capital expenditure over the next few years to be slightly lower than in recent years. However, our continued focus on resilience means our capital expenditure program remains strong and we expect our borrowings will continue to increase as this expenditure will be funded by debt. Our debt levels will remain well within prudent levels given the value of our assets.

Connetics had a strong year in a competitive market and incurred one-off costs related to exiting its site at Chapman's Road and moving to their new base at Waterloo Business Park. It remains profitable and a strong and vital contributor to the Orion Group.

Net profit



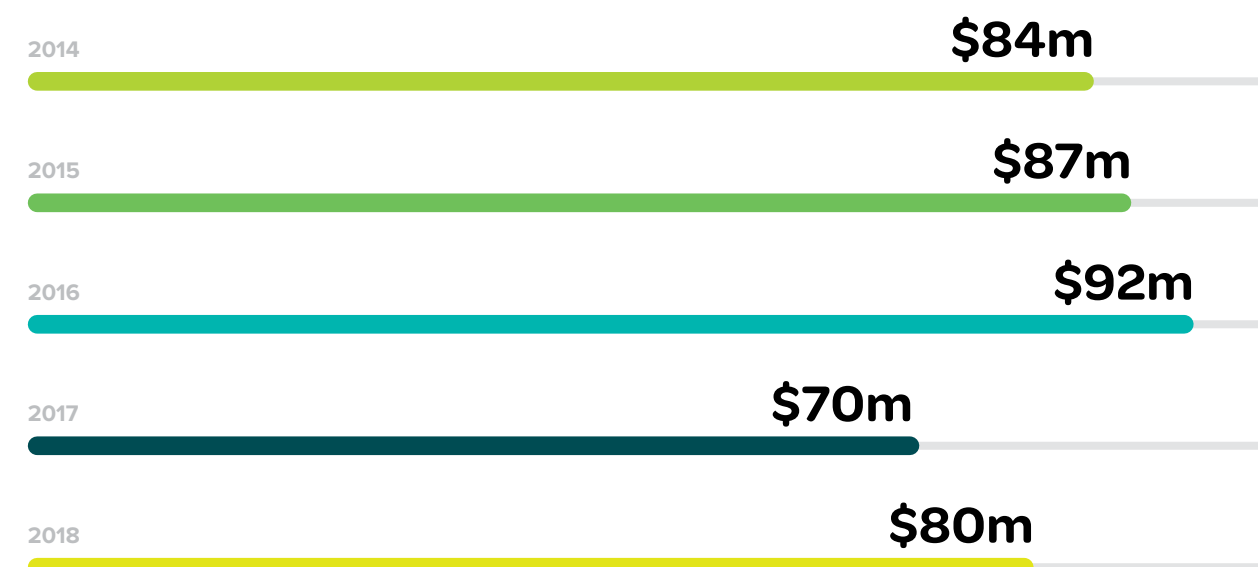
Cash distributions to shareholders



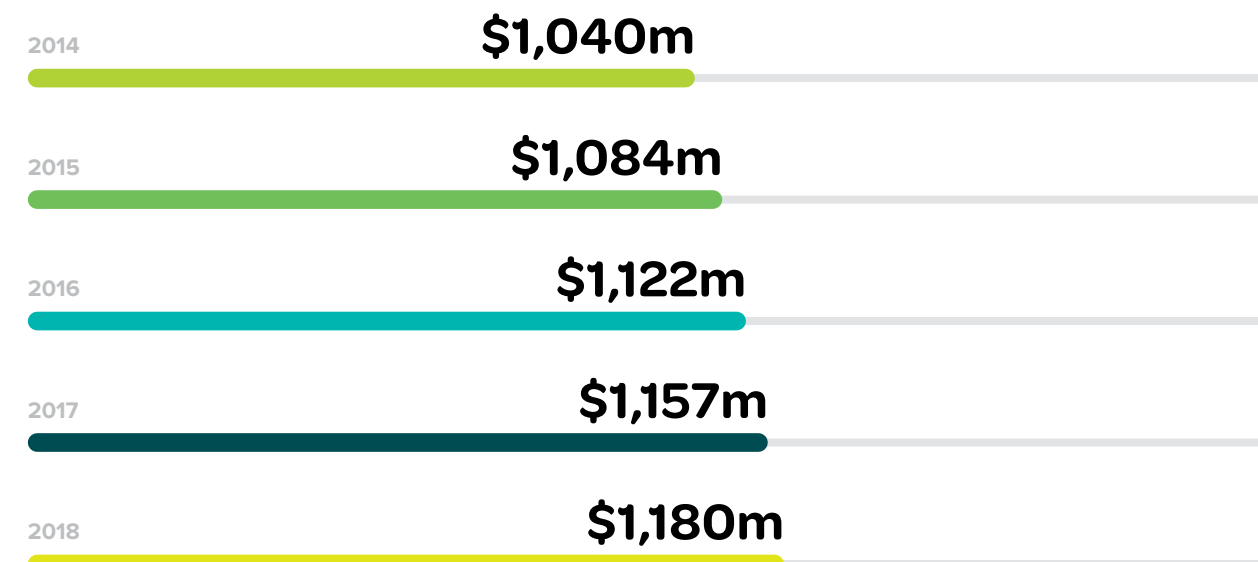
*2015 net profit includes a \$24 million earthquake insurance settlement.

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

Capital expenditure



Total assets



Network maximum demand

633_{MW} 

MW Year	619 2014	590 2015	618 2016	599 2017
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Network volumes

3,309_{GWh} 

GWh Year	3,162 2014	3,277 2015	3,296 2016	3,227 2017
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Network connections

201_k 

(000) Year	189 2014	191 2015	195 2016	198 2017
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The power of our customers



It is critical for us to continue to understand the needs of customers and the community to ensure we are providing them with the services they want, not just now but also in the future. We sought our customers' views in a variety of forums:

- we held “**Powerful Conversations**” workshops with customers exploring their views on network investment decisions that affect reliability, resilience and safety; and sought their opinions on future technology options
- **surveyed** more than 800 residential and business customers to verify what we had heard at our workshops
- established the Orion **Customer Advisory Panel** where we host lively and informative discussions quarterly on a range of topics
- conducted a series of **Focus Groups** seeking customers' views on pricing options and our customer communications
- conducted our annual **Residential Customer Perceptions** survey to measure satisfaction with our performance and communications
- held two **Major Customer Seminars** on key matters of relevance to people who operate intensive power dependent businesses

We were reassured to find customers are generally satisfied with our approach to safety, the reliability of our network and our level of investment in resilience. Customers encouraged us to look pro-actively to the future to make sure we are ready to enable them to take advantage of new technology.

We are taking what we learned in these conversations into our future planning.

One area customers told us they'd like better service was communication around power outages. We took this feedback on board in our approach to an eight hour outage proposed for a major project to upgrade the power supply to Lyttelton.

We briefed the local Community Board, held face to face conversations with local businesses and letterbox dropped around 1,600 affected households. Considering feedback on the impact an eight hour power cut would have on the community, we made the decision to put in two large generators so the power could remain on in Lyttelton throughout the day.

We would like to take this opportunity to thank our stakeholders and customers for your thoughtful feedback and support.



8,000

square kilometres
network coverage

11,350

kilometres of lines
and cables

445

major business connections
with loads ranging from
0.3MW–11MW

90,000

Orion power poles



51

zone substations



11,564

distribution substations



177

new substations
built in FY18

The power of our network

We continue to focus on providing a safe, reliable and resilient energy network in our region.

The weather was kind to us throughout the year, particularly during winter which despite being cold and wet, was largely without extreme weather conditions that can really test networks.

At 1pm on 12 July, the coldest day in the year for Christchurch with a high of just 4°C, rain and during the school holidays, we supplied 633MW, our highest ever maximum network demand.

New connections to our network remain high, with more than 3,000 new connections in FY18. As well as carrying out work to provide capacity to accommodate growth, our teams have worked hard to maintain, plan and build the infrastructure that powers Orion's day to day service.

Maintaining our network infrastructure is fundamental to providing the people and businesses of our region with a service they can depend on. Our customers tell us that reliability and resilience need to be at the heart of our business. We are proud to have met increasingly challenging reliability limits for the frequency and duration of power outages. Orion's reliability achievements rank in the top 20% of New Zealand lines company's. Orion is committed to providing a reliable service, and we continue to ensure we do so.

Projects to improve reliability included:

- upgrading the infrastructure delivering power to Lyttelton by installing new, more resilient termination poles on both sides of the Port Hills
- installing larger transformers with greater capacity in the Annat substation
- implementing our Rural Township Reliability Improvement Programme in Darfield, Hororata and Templeton, installing remotely controlled switches to deliver faster restoration times in the event of power outages
- installing 66kV cables under the new Southern Motorway at Rolleston
- putting extra focus on property owner education to support our tree trimming programme that keeps tree branches a safe distance from power lines

“The insulation put into our home with Orion and CEA’s help has given me peace of mind.”

— Ross Clapp
Customer

The power of our community



Our core purpose is to keep Orion's vital infrastructure operating safely and reliably to enable our community to thrive.

We contribute to the vitality of the community through our sponsorship programmes. We support a variety of organisations that make a positive difference.

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

This year we sponsored the Canterbury Polyfest cultural performance festival for the first time, supporting pacific youth to celebrate the rich cultural diversity of our region.

We continued to sponsor the Canterbury Rams basketball team which plays a significant role in encouraging participation in community health and wellbeing.

Our new partnership with the Canterbury Employers' Chamber of Commerce provided opportunities for us to be involved in the local business community.

Other organisations we support include the Christchurch Stadium, the Selwyn Gallery, the Akaroa Powerhouse Gallery and the EVelocity electric vehicle competition for schools, ensuring Orion contributes to a broad range of community interests.

The power of keeping safe

Ensuring our people can work safely and the community can go about its daily life in a healthy, sustainable environment is not simply a matter of compliance, it is embedded in our culture.

We continue to strengthen our health, safety and environmental focus. Across the Group we had three notifiable injuries this year, and that is too many. We are implementing measures to do better.

We're working hard to identify risk, and continually improve our health, safety and environmental processes and outcomes.

This year we have:

- ensured a collaborative, learnings based focus into our safety incident investigations both internally and with our contractors
- improved our risk management by being more rigorous in our risk assessment and mitigation processes
- incorporated environment and quality assurance oversight into our health and safety team to provide a better overview of these interrelated factors
- introduced a formal quality, health, safety and environment internal audit programme
- further improved our reporting process, resulting in better visibility of the number of actual and potential incidents reported
- worked with the construction industry and related trades to encourage safer practices when working around Orion infrastructure
- further developed our asbestos management programme and completed assessment of all Orion buildings that house substations

The power of our people

Our people determine our success, both through their skills and commitment to delivering a robust, safe and resilient network, and through our relationships with our customers and our community.

Our journey to build more effective relationships and provide the best outcomes for our community continues. Our focus is on building a responsive, change-ready workforce who can readily respond to the evolving environment we operate in.

Our commitment to employee wellbeing is fundamental to our success and will contribute to ensuring our people are engaged, productive and drive successful business and customer outcomes.

We seek a culture of innovation and learning, where we strive to be the best we can be, and continue to develop and improve. This is supported by our commitment to educating our employees about diversity and inclusion, and cultural awareness, and we look forward to progressing on this journey and building a team who really can realise our vision of connecting communities and igniting innovation.

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

In April 2018, we said farewell to outgoing Orion Chairman, Nick Miller, and congratulate him on his appointment to CEO of Broadspectrum, in Australia. We thank Nick for his service to Orion and the contributions he made to the performance of the company. We thank all directors for their commercial perspectives, hard work, and support.

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



Geoff Vazey
Chairman



Rob Jamieson
Chief Executive

“As a growth company, we need partners who can help us maintain the reliability of our sites. Orion is a key partner of Synlait Dunsandel and we’re proud to work with the team.”

— Neil Betteridge
Director Operations, Synlait Milk

Board of directors



Geoff Vazey
BEng (Hons)

Geoff was appointed as an Orion board director in April 2009 and as chairman in April 2018. He is a professional director with strong commercial and governance experience, including 20 years involvement in infrastructure at the Ports of Auckland. Geoff is a fellow of the Institution of Professional Engineers New Zealand.



John Austin
BCom, LLB, MBA, CA

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



Dr Nicola Crauford
BSc, PhD, FAICD, FEngNZ, CPEng, CFIInstD

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



Bruce Gemmell
BBS, CA (NZ and AU)

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



Jason McDonald
BE Elec (Hons), MBA

Jason was appointed as an Orion director in August 2017. Jason is an independent consultant and he is a director of Mevo. Jason has previously held senior executive positions in Meridian Energy and the former Electricity Corporation of New Zealand, and several governance and advisory roles in the energy sector – including with Arc Innovations, Powershop, RightHouse and WhisperTech.



Jane Taylor
LLB (Hons), LLM, B.For.Sc (Hons), Dip Acc, FCA

Jane was appointed as an Orion director in June 2018. She is a professional director with strong commercial, legal, regulatory and governance experience. Jane chairs NZ Post Limited and Landcare Research NZ Limited, and she is a director of Radio NZ Limited, Kiwibank Limited and Silver Fern Farms Limited. Jane is a barrister and solicitor of the High Court, a Fellow of Chartered Accountants Australia and New Zealand and a Chartered Fellow of the Institute of Directors.

Audited financial statements

Audited financial statements

The board of directors is pleased to present the audited financial statements of Orion New Zealand Limited and its subsidiaries for the year ended 31 March 2018.

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

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

Authorised for issue on 15 June 2018.

For and on behalf of the board of directors:

Geoff Vazey
Director

Bruce Gemmell
Director

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Statement of comprehensive income

	Notes	2018 \$000	2017 \$000
Operating revenues	2	321,888	309,718
Operating expenses	3	(181,322)	(175,802)
Depreciation, amortisation and other impairment expenses	4	(56,515)	(54,220)
Earnings before net interest expense and tax (EBIT)		84,051	79,696
Interest income		122	53
Interest expense	5	(10,442)	(10,660)
Net change in fair value of derivatives income		303	2,093
Profit before income tax		74,034	71,182
Income tax expense	7	(20,734)	(19,412)
Net profit		53,300	51,770
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Gain on revaluation of property, plant and equipment	11	-	18,433
Deferred tax expense on revaluation of property, plant and equipment	7	-	(2,602)
		-	15,831
Total comprehensive income		53,300	67,601

Statement of changes in equity

Notes	Share capital \$000	Retained earnings \$000	Asset revaluation reserve \$000	Total equity \$000
Balance as at 1 April 2016	105,000	449,967	105,173	660,140
Net profit	-	51,770	-	51,770
Other comprehensive income	-	-	15,831	15,831
Total comprehensive income	-	51,770	15,831	67,601
Transfers between reserves:				
Realised gain on disposal	-	158	(158)	-
Deferred tax on realised gain	-	(44)	44	-
Dividends paid	-	(55,000)	-	(55,000)
Balance as at 31 March 2017	105,000	446,851	120,890	672,741
Net profit	-	53,300	-	53,300
Other comprehensive income	-	-	-	-
Total comprehensive income	-	53,300	-	53,300
Transfers between reserves:				
Realised gain on disposal	-	220	(220)	-
Deferred tax on realised gain	-	(62)	62	-
Dividends paid	-	(55,000)	-	(55,000)
Balance as at 31 March 2018	105,000	445,309	120,732	671,041

The accompanying notes form part of these financial statements

Statement of financial position

Notes	2018 \$000	2017 \$000
Current assets		
Cash and cash equivalents	1,694	390
Trade and other receivables	8 12,102	11,789
Inventories	9 8,407	7,928
Prepayments	2,180	2,085
Property held for sale	-	1,010
Total current assets	24,383	23,202
Non current assets		
Prepayments	234	77
Goodwill	250	250
Intangible assets	10 3,491	2,522
Property, plant and equipment	11 1,151,685	1,130,052
Interest rate swaps	187	642
Total non current assets	1,155,847	1,133,543
Total assets	1,180,230	1,156,745
Current liabilities		
Trade and other payables	12 30,125	30,566
Borrowings	15 53,675	36,897
Income tax	7 5,924	6,260
Employee entitlements	13 7,134	7,120
Provisions	14 407	-
Interest rate swaps	16 897	553
Total current liabilities	98,162	81,396
Non current liabilities		
Borrowings	15 221,233	212,318
Employee entitlements	13 1,572	1,440
Interest rate swaps	16 635	1,736
Deferred tax	7 187,587	187,114
Total non current liabilities	411,027	402,608
Shareholders' equity	17 671,041	672,741
Total liabilities and equity	1,180,230	1,156,745

The accompanying notes form part of these financial statements

Statement of cash flows

	2018 \$000	2017 \$000
Cash flows from operating activities		
Receipts from customers	323,204	307,798
Interest received	122	251
Payments to suppliers and employees	(182,402)	(175,082)
Payments for interest and other finance costs	(11,090)	(10,696)
Payments for income tax	(20,595)	(21,856)
Net cash provided from operating activities	109,239	100,415
Cash flows from investing activities		
Proceeds from the sale of investment property	-	2,500
Proceeds from the sale of property, plant and equipment	1,961	485
Proceeds from sale of investment	-	495
Payments for property, plant and equipment	(79,318)	(69,770)
Payments for intangible assets	(1,271)	(390)
Net cash used in investing activities	(78,628)	(66,680)
Cash flows from financing activities		
Proceeds from bank loans	26,700	22,650
Repayment of finance leases	(1,007)	(1,187)
Dividends paid	(55,000)	(55,000)
Net cash used in financing activities	(29,307)	(33,537)
Net increase/(decrease) in cash and cash equivalents	1,304	198
Summary		
Cash and cash equivalents at beginning of year	390	192
Net increase/(decrease) in cash and cash equivalents	1,304	198
Cash and cash equivalents at end of year	1,694	390

Statement of cash flows continued

	2018 \$000	2017 \$000
Reconciliation of net profit to net cash provided from operating activities		
Net profit	53,300	51,770
Adjustments		
Depreciation, amortisation and impairment of property, plant and equipment	56,515	54,220
Internal costs allocated to property, plant and equipment and intangible assets	(2,607)	-
Gain on disposal of investment	-	(494)
Change in fair value of derivatives	(303)	(2,093)
Increase/(decrease) in deferred tax	473	(2,096)
Other	(5)	97
	54,073	49,634
(Increase)/decrease in assets		
Trade and other receivables	87	(2,559)
Inventories	(533)	(79)
Prepayments	(252)	41
Increase/(decrease) in liabilities		
Trade and other payables	2,347	1,449
Employee entitlements	146	504
Income tax	(336)	(345)
Provisions	407	-
	1,866	(989)
Net cash provided from operating activities	109,239	100,415

Notes to the financial statements

1. Statement of accounting policies

Corporate information

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

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

Statement of compliance

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

Basis of financial statement preparation

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

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

Significant judgements, estimates and assumptions

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

Electricity delivery revenue

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

Electricity distribution network valuation

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

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

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

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

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

Capitalisation of costs and impairment

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

Notes to the financial statements continued

Other areas of judgement

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

Significant accounting policies

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

(a) Basis of consolidation

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

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

(b) Revenue recognition

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

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

(c) Capital contributions

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

(d) Borrowing costs

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

(e) Income tax

Income tax expense comprises current tax and deferred tax.

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

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

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

(f) Financial instruments

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

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

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

Notes to the financial statementscontinued

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

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

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

(g) Inventories

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

(h) Property, plant and equipment

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

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

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

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

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

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

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

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

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

Notes to the financial statementscontinued

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

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

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

(i) Impairment of assets

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

The recoverable amounts are the higher of fair value (less costs to sell) or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

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

(j) Leased assets and lease liabilities

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

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

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

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

(k) New accounting standards and interpretations

No new accounting standards or interpretations that became effective for the period had a material impact on the group. NZ IFRS 15, Revenue from Contracts with Customers, may have an impact on the timing of revenue recognition for the group. The group has not yet finalised its assessment of the impact of the new standard (effective 1 April 2018). No other new accounting standards or interpretations that will become effective after the period are expected to have a material impact on the group.

Notes to the financial statements continued

	2018 \$000	2017 \$000
2. Operating revenues		
Electricity delivery services	251,610	247,436
Transmission rental rebates	4,994	3,796
Contracting	40,503	33,750
Sale of goods and services	10,345	11,373
Consumer capital contributions	10,882	9,856
Gain on disposal of investment	-	494
Other	3,554	3,013
	<u>321,888</u>	<u>309,718</u>

3. Operating expenses

Transmission	69,861	70,692
Transmission rental rebates	4,994	3,796
Employee benefits	49,820	51,590
Network maintenance	25,703	26,004
Operating lease payments	1,724	1,207
Other	29,220	22,513
	<u>181,322</u>	<u>175,802</u>

Employee benefits in FY18 is net of \$2.6m allocated to capital projects (2017: nil).

4. Depreciation, amortisation and impairment expenses

Depreciation of property, plant and equipment	43,795	42,871
Impairment of property, plant and equipment	10,882	9,856
Reversal of impairment loss on revaluation of property, plant and equipment	-	(821)
Amortisation of intangible assets	823	849
Property, plant and equipment disposed and written off	1,015	1,465
	<u>56,515</u>	<u>54,220</u>

5. Interest expense

Bank loans	9,510	9,094
Finance leases	1,068	1,416
Other	(136)	150
	<u>10,442</u>	<u>10,660</u>

No interest expense was capitalised during the year (2017: nil)

6. Remuneration of the auditor

Audit of the financial statements	259	242
Audit-related services	47	32
	<u>306</u>	<u>274</u>

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

Notes to the financial statements continued

	2018 \$000	2017 \$000
7. Income tax and deferred tax		
Income tax expense comprises:		
Current income tax charge	22,028	21,048
Adjustments to prior years	(1,767)	460
Temporary differences	473	(2,096)
	<u>20,734</u>	<u>19,412</u>
Reconciliation of profit before income tax with income tax expense:		
Profit before income tax	74,034	71,182
Prima facie income tax expense calculated at 28%	20,730	19,931
Other permanent differences	4	(519)
Income tax expense	<u>20,734</u>	<u>19,412</u>

	Property, plant and equipment \$000	Earthquake insurance proceeds \$000	Provisions \$000	Other \$000	Total \$000
Deferred tax liability					
Balance as at 1 April 2016	188,480	1,853	(1,598)	(2,127)	186,608
Charged/(credited) to income	(2,687)	(305)	12	884	(2,096)
Charged to comprehensive income	2,602	-	-	-	2,602
Balance as at 31 March 2017	188,395	1,548	(1,586)	(1,243)	187,114
Charged/(credited) to income	919	(247)	(81)	(118)	473
Balance as at 31 March 2018	189,314	1,301	(1,667)	(1,361)	187,587

The group's current income tax liability as at 31 March 2018 is \$5.9m (2017: \$6.3m). The liability mainly comprises the group's third instalment of provisional income tax for the year ended 31 March 2018 (31 March 2017).

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

The group's imputation credits available for use in subsequent reporting periods total \$7.1m as at 31 March 2018 (2017: \$8.2m), which includes the income tax liability of \$5.9m (2017: \$6.3m).

Notes to the financial statements continued

8. Trade and other receivables

	2018 \$000	2017 \$000
Trade receivables	8,753	10,451
Chargeable work in progress	3,539	1,484
Allowance for impairment of trade receivables	(190)	(146)
	<u>12,102</u>	<u>11,789</u>

Trade receivables before allowance for impairment:

Current	6,229	9,131
1 month overdue	1,072	547
2 months overdue	769	92
3 months overdue	683	681
	<u>8,753</u>	<u>10,451</u>

9. Inventories

Goods for sale	5,065	4,456
Electricity distribution network stock	3,505	3,629
Allowance for impairment	(163)	(157)
	<u>8,407</u>	<u>7,928</u>

10. Intangible assets

Capitalised at cost	15,386	16,328
Accumulated amortisation	(11,895)	(13,806)
	<u>3,491</u>	<u>2,522</u>

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

Notes to the financial statements continued

11. Property, plant and equipment

Gross carrying amount

	Freehold land at fair value \$000	Buildings and land improvements at fair value \$000	Electricity distribution network at fair value \$000	Plant and equipment at cost \$000	Total \$000
Balance as at 1 April 2016	57,545	15,140	1,086,908	42,508	1,202,101
Additions	267	4,795	60,803	3,990	69,855
Reclassified assets	(248)	170	(47)	125	-
Transferred to held for sale	(1,010)	-	-	-	(1,010)
Disposals	(4)	(1)	(2,309)	(2,541)	(4,855)
Revaluation	10,585	(1,557)	(117,416)	-	(108,388)
Balance as at 31 March 2017	<u>67,135</u>	<u>18,547</u>	<u>1,027,939</u>	<u>44,082</u>	<u>1,157,703</u>

Additions	393	14,211	57,725	5,507	77,836
Reclassified assets	-	-	-	(1,555)	(1,555)
Disposals	(43)	(48)	(2,386)	(2,409)	(4,886)
Balance as at 31 March 2018	<u>67,485</u>	<u>32,710</u>	<u>1,083,278</u>	<u>45,625</u>	<u>1,229,098</u>

Accumulated depreciation and impairment

Balance as at 1 April 2016	-	1,162	78,316	25,657	105,135
Disposals	-	-	(291)	(2,277)	(2,568)
Reclassified assets	-	-	(16)	16	-
Depreciation expense	-	563	38,053	4,255	42,871
Asset impairment	-	-	9,856	-	9,856
Revaluation	-	(1,725)	(125,918)	-	(127,643)
Balance as at 31 March 2017	<u>-</u>	<u>-</u>	<u>-</u>	<u>27,651</u>	<u>27,651</u>

Disposals	-	(7)	(1,130)	(2,223)	(3,360)
Reclassified assets	-	-	-	(1,555)	(1,555)
Depreciation expense	-	757	38,845	4,193	43,795
Asset impairment	3	30	10,849	-	10,882
Balance as at 31 March 2018	<u>3</u>	<u>780</u>	<u>48,564</u>	<u>28,066</u>	<u>77,413</u>

Net book value as at 31 March 2017	<u>67,135</u>	<u>18,547</u>	<u>1,027,939</u>	<u>16,431</u>	<u>1,130,052</u>
Net book value as at 31 March 2018	<u>67,482</u>	<u>31,930</u>	<u>1,034,714</u>	<u>17,559</u>	<u>1,151,685</u>

Capital work in progress included above:

As at 31 March 2017	49	6,441	47,239	130	53,859
As at 31 March 2018	81	275	41,675	194	42,225

Assets subject to finance leases included above:

As at 31 March 2017	-	-	13,340	-	13,340
As at 31 March 2018	-	-	12,047	-	12,047

Notes to the financial statements continued

11. Property, plant and equipment continued

Electricity distribution network

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

Including capital work in progress, EY's valuation resulted in a total network valuation of \$1,028m.

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

EY's key valuation assumptions were that:

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

EY performed sensitivity analysis as follows:

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

The company considered that there were no indicators that the network carrying value as at 31 March 2018 was materially different from fair value as at that date.

In the year ended 31 March 2018, the company impaired the carrying value of its electricity distribution network and substation buildings on the basis that capital contributions reduce the value of the company's regulatory asset base, and this in turn reduces the company's future revenues from future regulatory price resets. The company has recognised:

- \$10.9m (2017: \$9.9m) of capital contribution revenue during the year
- \$10.9m (2017: \$9.9m) of associated impairment expense during the year.

Notes to the financial statements continued

11. Property, plant and equipment continued

Land and non-substation buildings

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

Mr Ogg's valuations resulted in a total land and non-substation buildings valuation of \$86m. Mr Ogg:

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

The company considered that there were no indicators that the company's carrying values for land and non-substation buildings were materially different to fair value as at that date.

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

Restrictions over title

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

	2018 \$000	2017 \$000
12. Trade and other payables		
Trade payables	28,219	28,699
GST payable	1,412	1,506
Other	494	361
	<u>30,125</u>	<u>30,566</u>
13. Employee entitlements		
Current	7,134	7,120
Non current	1,572	1,440
	<u>8,706</u>	<u>8,560</u>

Employee entitlements include a provision for employee long service leave. Key assumptions in the actuarial assessment of the provisions include the risk-free rate 2.76% (2017: 3.24%) and salary inflation 3.0% (2017: 2.0%).

14. Provisions

Onerous lease

An onerous lease is considered to exist where the unavoidable costs of meeting the obligations under the lease exceed the economic benefits expected to be received from it. A provision for onerous lease costs, relating to the net rental costs for two leased properties for the period April 2018 to March 2019, has been made of \$407,000 (2017: nil).

Notes to the financial statements continued

15. Borrowings

	2018 \$000	2017 \$000
Current		
Finance lease	975	897
Bank loans	52,700	36,000
Total current borrowings	53,675	36,897
Non current		
Finance lease	11,233	12,318
Bank loans	210,000	200,000
Total non current borrowings	221,233	212,318

The finance lease liabilities relate to agreements with Transpower New Zealand Limited (Transpower) for Transpower to install new assets at or near its local grid exit points. The agreements have remaining terms of between two and 30 years (2017: between three and 31 years). The company does not own the assets at the end of the lease term and there is no residual value. There is no security provided for the arrangements. The monthly payment amounts are reviewed periodically by Transpower based on prevailing interest rates and agreed margins. The company is the only entity in the group which has a finance lease liability.

16. Financial instruments

Introduction

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

Capital management

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

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

All bank loans are unsecured against the group. The group provides certain covenants to its key lenders, by way of a negative pledge deed, that it will not create any material security interest over its assets to any party, except under certain agreed circumstances. The deed has other covenants that restrict certain asset disposals, the lending of money to other parties, non-commercial transactions with related parties, the alteration of share capital where this would have a material adverse effect and any material change of business. The deed includes an EBIT interest coverage requirement and an obligation that the guaranteeing group will comprise at least 75% of the group in terms of assets and earnings. The deed places other undertakings and obligations on the company – for example the obligation to provide relevant lenders with information, comply with the law and to pay taxes as they fall due. The company has complied with all covenants during the two years ended 31 March 2018.

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

Notes to the financial statements continued

16. Financial instruments continued

Liquidity risk management

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

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

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

	2018 \$000	2017 \$000
Unsecured bank overdraft facility, payable at call:		
Amount used at reporting date	-	-
Amount unused at reporting date	500	500
	500	500

Unsecured bank loan facilities as at 31 March 2018 mature as follows:

\$100m on 25 September 2018

\$100m on 25 September 2020

\$110m on 1 November 2022

Amount used at reporting date	262,700	236,000
Amount unused at reporting date	47,300	54,000
	310,000	290,000

The company has commenced negotiations for a new facility to replace the bank loan facility which matures in September 2018.

Interest rate risk management

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

Interest rates on the group’s bank loans are based on market rates for bank bills plus a margin. As at 31 March 2018, interest rates (including margins) on the group’s bank loans averaged 2.57% (2017: 2.66%). Daily commitment fees are also payable on the bank loan facilities.

Interest rates on the group’s finance lease liabilities are at rates set by Transpower plus, for some contracts, a margin. As at 31 March 2018, interest rates on the group’s finance lease liabilities averaged 9.4% (2017: 9.5%).The group’s other financial liabilities are non interest bearing.

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

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

Notes to the financial statements continued

16. Financial instruments continued

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

Swap maturity dates	Average contracted fixed interest rates	Notional principal swap amounts		Carrying value asset/(liability)	
		2018 \$000	2017 \$000	2018 \$000	2017 \$000
February 2018	3.9	-	30,000	-	(553)
October 2018	3.2	100,000	100,000	(897)	(1,736)
March 2020	2.2	40,000	-	7	-
October 2020	2.3	70,000	30,000	19	642
June 2021	2.8	40,000	-	(473)	-
		250,000	160,000	(1,344)	(1,647)

The group considers that a reasonably possible movement in New Zealand interest rates is a 1% movement in either direction. For bank loans, an increase of 1% in interest rates as at 31 March 2018 would increase the group’s profit before income tax by approximately \$3,699,000 (2017: \$2,612,000). A decrease of 1% would decrease the group’s profit before income tax by approximately \$3,858,000 (2017: \$2,703,000). When interest rates rise, the benefit from the revaluation of the company’s multi-year interest rate swaps outweighs the additional one-year interest expense on the company’s floating rate debt. The converse applies when interest rates decrease. For the group’s other financial assets and liabilities, an increase/decrease of 1% in interest rates would have an immaterial impact on the group’s profit before income tax.

Credit risk management

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

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

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

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

Notes to the financial statements continued

16. Financial instruments continued

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

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

Carrying values of financial instruments

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

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

17. Shareholders’ equity

The company has 70 million fully-paid ordinary shares on issue with a par value of \$1.50 per share.

18. Information about subsidiaries

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

	2018 \$000	2017 \$000
19. Commitments		
Capital expenditure	18,923	27,636
Operating leases	2,179	3,810

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

20. Contingent assets and liabilities

On 13 February 2017, two fires started on the Port Hills near Christchurch. The fires spread over 1,600 hectares on the Port Hills over several days.

On 30 January 2018, Fire and Emergency New Zealand:

- released its investigation reports into the causes of the fires, with an ‘undetermined’ cause for both
- stated that it believes that both fires were deliberately lit and that the matter is in the hands of the Police
- stated that its investigations are now closed and will only reopen if new evidence comes to light.

IAG Insurance on behalf of a number of its clients affected by the fires, has filed a claim in the High Court alleging that the company’s electricity network caused the fires. The company has filed a statement of defence denying IAG’s allegations and any liability. The company insures for liability risks, in line with good industry practice.

Other than this potential issue, the group had no contingent assets or liabilities as at 31 March 2018 (2017: nil).

21. Significant events after balance date

The group is not aware of any significant events between the preparation and authorisation of these financial statements on 15 June 2018.

Notes to the financial statements continued

22. Related party transactions

Group structure		
The parent is Orion New Zealand Limited, which is owned by Christchurch City Holdings Limited (CCHL) (89.275%) and the Selwyn District Council (SDC) (10.725%). CCHL is owned by the Christchurch City Council (CCC).		
Related parties include:		
<ul style="list-style-type: none">CCC and SDCthe subsidiaries of CCC and SDCthe group’s key management personnel.		
The group undertakes many transactions with the CCC and SDC and their related parties, which are carried out on a commercial and arms-length basis. The group utilises the Electricity Act 1992 and historical arrangements to determine the capital contributions required from CCC and SDC towards underground conversion projects. These contributions may not recover all costs incurred. No material transactions, other than the payment of dividends to CCHL and SDC, were entered into with related parties during the year.		
Transactions during the year	2018 \$000	2017 \$000
Dividends paid to CCHL and SDC	55,000	55,000
Purchases from CCC/SDC	4,765	3,790
Underground conversion contributions from CCC/SDC	681	1,020
Other sales to CCC/SDC	8,922	7,627
Purchases from other related parties	1,138	1,174
Sales to other related parties	3,644	2,882
Outstanding balances as at 31 March		
Accounts payable to CCC/SDC	24	38
Accounts receivable from CCC/SDC	1,222	1,302
Accounts payable to other related parties	194	115
Accounts receivable from other related parties	161	468
Key management personnel compensation		
Salaries and short term employee benefits	2,886	2,777
Post-employment benefits	194	199
Other transactions involving related parties		
The group paid directors’ fees totalling \$361,000 during the year (2017: \$375,000). One director received a retirement gift during the year totalling \$515 (2017: two directors, \$1,100). No other transactions were entered into with any of the company’s directors, other than the payment of directors’ fees and the reimbursement of valid company-related expenses such as travel costs to board meetings.		

Key management personnel is defined as the company’s directors, the company’s chief executive officer and the company’s managers who directly report to the chief executive officer. Key management personnel purchased goods and services from group companies during the year which in total did not exceed \$2,000 for any individual (2017: all less than \$2,000). A total of nil was due from key management personnel as at 31 March 2018 (2017: nil). All transactions were conducted on standard commercial terms. Close family members of certain key management personnel are employed by the group. The terms and conditions of those arrangements are no more favourable than those that the group would have adopted if there was no relationship to key management personnel.

Performance statement – financial

	Notes	Actual 2018	Target 2018	Actual 2017
Net profit (\$m)	1, 2	53.3	46.8	51.8
Net profit to average shareholders’ equity (%)	1, 2	7.9	7.2	7.8
Debt to debt plus equity (%)	3	29	30	27
Equity to debt plus equity (%)	3	71	70	73
Equity to total assets (%)	3	57	56	58
Fully imputed dividends (\$m)		55	52	55
Variances post-tax \$m				
Note 1				
Net profit was \$6.5m above the statement of intent target because of:				
Below-budget expenses		3.7		
Below-budget interest expense		2.2		
Above-budget capitalised labour		1.9		
Above-budget tax adjustments		0.5		
Below-budget Connetics profit		(0.5)		
Below-budget network distribution revenue		(1.6)		
Other		0.3		
		6.5		
Note 2				
Net profit was \$1.5m above last year’s because of:				
Higher network distribution revenue		3.6		
Higher capitalised internal labour		1.9		
Higher sundry revenues		0.6		
Lower gain on investment		(0.5)		
Lower Connetics profit		(0.5)		
Lower revaluation through profit		(1.0)		
Higher expenses		(1.1)		
Lower interest rate swap revaluation revenue		(1.3)		
Other		(0.2)		
		1.5		
Note 3				
Debt is defined as interest bearing group borrowings, net of cash and cash equivalents. Equity is defined as shareholders’ equity.				

Performance statement – network reliability

	Approx number of connections 31 March 2018	Actual 2018 *	Target 2018	Actual 2017 *	Industry average 2017 *
Orion network interruptions:					
Duration of supply interruptions in minutes per year per connected customer (SAIDI)					
- urban	170,000	29	24	34	
- rural	31,000	354	408	335	
- overall	201,000	79	82	80	233
Number of supply interruptions per year per connected customer (SAIFI)					
- urban	170,000	0.6	0.7	0.4	
- rural	31,000	3.1	2.7	2.9	
- overall	201,000	1.0	1.0	0.8	2.0

Important notes:

1. Natural disasters and other catastrophic events can cause significant numbers and/or durations of network supply interruptions. The future occurrence and/or severity of these events cannot be predicted.
2. The Commerce Commission has set performance limits for our network reliability, pursuant to our customised price-quality path (CPP). The Commission assesses our actual performance against those limits, after ‘normalising’ for the impacts of ‘major events’. Our overall targets above are consistent with our CPP limits for FY18. After applying the Commission’s normalisation methodology, we achieved our network reliability limits in FY15 – FY18.
3. Columns marked with an asterisk (*) are stated gross – before normalisation.
4. The industry averages are weighted averages for all 29 electricity distribution networks in New Zealand.
5. SAIDI and SAIFI are standard industry measures of network reliability performance. They include planned and unplanned interruptions, but exclude interruptions that:
 - are caused by electricity generators or Transpower
 - are caused in the low voltage (400V) network
 - last for less than one minute.

Performance statement – network development

1. Work with the Christchurch City Council (CCC), Government agencies and property developers to support the Christchurch central city rebuild

Target date: Ongoing

Status: Achieved

We continue to work with CCC, Government agencies, building owners and property developers on an ongoing basis.

Our 66kV and 11kV underground cables in the CBD sustained relatively little damage from the quakes and we aim to provide a resilient and reliable network to CBD businesses and residents in the years ahead. Each new development in the CBD needs to be individually assessed.
2. Support the key regional quake recovery planning documents

Target date: Ongoing

Status: Achieved

Our key roles here are to restore network resilience and reliability and to support customer load growth and new connections. Our key network planning and accountability document is our ten-year network asset management plan (AMP). We will aim to ensure that our AMP remains up to date and consistent with good industry practice, while taking approved regional recovery documents fully into account.
3. Substantively complete our post-quake repair/recovery projects

Target date: 31 March 2018

Status: Achieved

We have successfully completed many large and small post-quake recovery projects over the last six years. Our objectives have been to:
 - restore our electricity distribution network to near pre-quake levels of resilience and reliability by 2019
 - support the city’s and region’s wider rebuild.

We have completed all substantive remediation to our underground cable and overhead lines and we have worked closely with regulatory agencies and developers.

In FY18 we completed our two remaining large recovery projects, the repair of our Lancaster zone substation and a new fit for purpose and resilient depot for Connetics. We commenced these projects in late 2016. We expect to complete our minor remaining substation repairs in FY19.
4. Undertake network reinforcements to facilitate completion of the Sheffield irrigation scheme.

Target date: 30 November 2017

Status: Achieved

This irrigation scheme was developed by Central Plains Water Limited (CPW) to supply farmers in the Sheffield and Annat areas. The scheme became operational last summer. To facilitate the scheme we upgraded our 11kV lines in the area and our Annat zone substation, with the work partly funded by CPW.

Performance statement – environment

Introduction

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

1. Comply with applicable environmental legislation

Target date: Ongoing

Status: Achieved

We are committed to being environmentally responsible, consistent with our principal objective to operate as a successful business. The board approves our overarching environmental policy, and we publish it on our website.

Our most significant impacts, or potential environmental impacts, are:

- our carbon footprint
- sulphur hexafluoride (SF6) gas losses to the atmosphere from our network equipment
- uncontained oil spills from our network transformers.

Our targets for these three key issues are below.

2. Undertake and encourage demand side management (DSM)

Target date: Ongoing

Status: Achieved

Our DSM initiatives aim to reduce network peaks so as to reduce electrical losses, prevent overinvestment in network assets and reduce the need for fossil fuel (especially coal and gas) generation during peak demand periods. These issues account for over 90% of our carbon footprint and our DSM initiatives reduce that footprint.

Key elements of our DSM initiatives are:

- our cost-reflective network pricing – which aims to reflect the economic costs of providing our network delivery service. Our pricing structure helps our customers to make efficient decisions about which form of energy to use and when to use it, which contributes to overall economic welfare and long term carbon savings
- our residential hot water cylinder load control system – which helps us shift demand to off-peak periods
- our assistance to local businesses to install standby generation – which can help reduce demand during peak periods
- our collaboration with other electricity distributors on the upper South Island centralised load management control system.

3. Keep annual SF6 gas losses below 1% per year

Target date: Ongoing

Status: Achieved

Most of our 66kV circuit breakers use SF6 gas as the interruption medium. We have not yet found a viable vacuum option for this voltage. In our memorandum of understanding with the Ministry for the Environment, we commit to keeping annual SF6 gas losses below 1% of the total contained in our network equipment. We have documented procedures to assist us to achieve that commitment. Our SF6 losses in FY18 were less than 0.1% (last year: less than 0.4%).

Performance statement – environmentcontinued

4. Keep non-contained transformer oil spills to nil

Target date: Ongoing

Status: Achieved

We have installed oil containment bunding at our zone substations that have oil-filled transformers. We also have documented oil spill mitigation procedures to quickly and effectively deal with incidents should they occur.

During the year we had no significant adverse oil spill incidents (last year: nil).

5. Support and sponsor Community Energy Action (CEA)

Target date: Ongoing

Status: Achieved

We have sponsored and supported CEA since its inception in 1994. We currently make financial sponsorship grants to CEA of \$200,000 per year and we are continuing that level of financial sponsorship in FY18. More than 20,000 local homes have so far benefited from CEA’s services.

6. Work with partners to expand the number of public electric vehicle (EV) charge stations in our region

Target date: 31 March 2018

Status: Achieved

New Zealand’s electricity generation is largely renewable, so it makes sense to facilitate the take-up of EVs and hybrid vehicles in our region.

Our research tells us that the vast majority of EV charging will be done at home. Research also tells us that EV ‘range anxiety’ is an impediment to customers converting to EVs. In order to reduce range anxiety, we and our partners have as at 31 March 2018 installed:

- 18 charge stations at our head office site at 565 Wairakei Road that the public may use free of charge during weekday work hours
- 25 public charge stations around Christchurch, Banks Peninsula and central Canterbury.

We continue to collaborate with our partners to install more public EV charge stations around our region.

Our EV charger sites are easy to locate on the popular EV app – [plugshare](#).

7. Convert 30% of our operation passenger vehicle fleet to electric drive capability

Target date: 31 March 2019

Status: On track

We are well on our way to meeting this target, with around 27% of our operational passenger fleet already converted. As at 31 March 2018 we have one Nissan Leaf EV, two Hyundai Ioniq EVs and 16 Mitsubishi Outlander hybrids in our fleet.

8. Support the Christchurch City Council’s sustainable energy strategy

Target date: Ongoing

Status: Achieved

We continue to seek ways to reduce peak loads on our network and increase our network load factor via our DSM initiatives.

We continue to enable the safe and efficient connection of a range of distributed electricity generation, including renewables, throughout our region.

We are working closely with the CCC on how to promote EVs in our region.

Performance statement – environmentcontinued

9. Obtain global resource consents for earthworks in Christchurch

Target date: 31 March 2018

Status: Not achieved

We sought global consents from the CCC and Ecan for earthworks associated with our underground network projects in Christchurch. The councils’ consent requirements to manage environmental risks will be included in all of our job specifications for our contractors. Our aims are improved environmental outcomes and reduced costs from this new approach. We received a global consent from the CCC in April 2018 and from Ecan in May 2018.

Performance statement – health and safety

1. No serious safety events impacting our employees

Target date: Ongoing

Status: Not achieved

This target covers Orion’s and Connetics’ employees. We define a serious event as a notifiable event, as per section 25 of the Health and Safety at Work Act 2015.

We had three notifiable events during the year, resulting in 91 days of lost time (last year: one event and three days lost time). The three injured employees have fully recovered and have returned to work. We fully investigated the events and as a result have implemented some changes in our equipment and our work procedures. Worksafe did not further investigate or proceed with enforcement action for the three events.

The group’s key safety objectives are to prevent serious injury, to have fit-for-purpose health and safety management systems and to continuously improve.

2. No serious safety events impacting our contractors

Target date: Ongoing

Status: Achieved

This target covers the group’s external contractors, while they work for Orion and Connetics. We define a serious event as a notifiable event, as per section 25 of the Health and Safety at Work Act 2015.

Our contractors had no notifiable events during the year (last year: one event and 12 days lost time).

3. No accidents (excluding car versus pole traffic accidents) involving members of the public

Target date: Ongoing

Status: Not achieved

Two members of the public received a minor electric shock at 25 volts (felt as a tingling sensation) from a construction site boundary fence, but were not injured. The source of the electric current was an Orion boundary box at the worksite where the neutral phase had not been connected in error. The worksite was not under Orion’s control at the time of the incident and multiple parties had access to the boundary box. We investigated but were unable to determine responsibility. Worksafe did not further investigate or proceed with enforcement action for this event. There were no accidents in this category last year.

Performance statement – health and safety continued

4. Promote our local public safety education and awareness programme in the safe use of electricity

Target date: Ongoing

Status: Achieved

Our public safety programme covers issues such as:

- tree owner responsibilities near overhead lines
- close approach to lines with irrigators and other operators of plant
- scaffolding near lines
- householder maintenance near lines
- digging near underground cables
- moving high loads such as houses or boats
- safety and security near electrical equipment.

We especially target contractors and their principals because they are exposed to significant hazards in the field – especially those involved in the wider post-quake rebuild. We deliver our messages through our website, community shows, presentations to targeted groups and through regular media outlets such as local newspapers and radio.

WorkSafe has a mandatory code of practice for working within four metres of overhead networks and there are industry best practice guides for working near our underground network and for transport of high loads. Orion’s written consent is required to allow such work to be undertaken near our network.

Performance statement – community and employment

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

Target date: Ongoing

Status: Not achieved

These targets exclude the impacts of employees leaving for reasons of retirement, redundancy or on completion of a fixed term (or casual) employment contract or disciplinary related.

During the year employee turnover was:

- 5.6% for Orion (last year: 2.6%)
- 12.2% for Connetics (last year: 6.9%).

There is increased competition in our industry for employees, with most turnover to other EDBs, contractors and consultants.

2. Ensure sustainable network asset management competence via our Orion engineering development programme

Target date: Ongoing

Status: Achieved

Our programme continues to successfully develop and place talented and motivated people into key positions in our business. We advertise internally and externally for candidates. Successful candidates are selected on merit.

Engineering trainees are trained and gain work experience in the business, with a view to placing them in areas where there are current or forecast skill shortages and/or succession opportunities. Trainees usually complete the programme in three to four years, and are then offered roles in the company.

As at 31 March 2018, six employees were in the Orion engineering development programme (last year: five).

3. Ensure sustainable contracting skills competence via our Connetics apprentice scheme

Target date: Ongoing

Status: Achieved

Connetics will continue with this scheme to ensure that our key contracting subsidiary company sustainably develops and improves its industry competencies.

As at 31 March 2018, Connetics employed 27 apprentices (last year: 31) as follows:

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

4. Support the Ara Institute of Canterbury trades innovation centre

Target date: Ongoing

Status: Achieved

Ara has a simulated subdivision at its Sullivan Avenue site, where trades trainees can be trained in real life situations. The facility is fully operational for electricity distribution – including overhead lines, underground cables and substations – and it’s an important part of our competence training for our employees, for our contractors and for the industry.

Audit New Zealand independent auditor’s report



Independent Auditor’s Report

To the readers of Orion New Zealand Limited group’s financial statements and performance information for the year ended 31 March 2018

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

Opinion on the financial statements and the performance information

We have audited:

- the financial statements of the group on pages 38 to 60, that comprise the statement of financial position as at 31 March 2018, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the group on pages 61 to 69.

In our opinion:

- the financial statements of the group:
 - present fairly, in all material respects:
 - its financial position as at 31 March 2018; and
 - its financial performance and cash flows for the year then ended; and
 - comply with generally accepted accounting practice in New Zealand in accordance with New Zealand equivalents to International Financial Reporting Standards; and
- the performance information of the group presents fairly, in all material respects, the group’s achievements measured against the performance targets adopted for the year ended 31 March 2018.

Our audit was completed on 15 June 2018. This is the date at which our opinion is expressed.

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

Basis for our opinion

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

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

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

Responsibilities of the Board of Directors for the financial statements and the performance information

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

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

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

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

The Board of Directors’ responsibilities arise from the Energy Companies Act 1992.

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

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

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

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

Audit New Zealand independent auditor’s report continued

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

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

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 2 to 37 and 72 onwards, but does not include the financial statements and the performance information, and our auditor’s report thereon.

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

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

Independence

We are independent of the company in accordance with the independence requirements of the Auditor-General’s Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

In addition to this audit, we have carried out other audit and assurance engagements for the group. These audit and assurance engagements, as described in note 6 on page 50, are compatible with those independence requirements.

Other than the audit, and these assignments, we have no relationship with or interests in the group.

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

Governance

Shareholders

Our shareholders are:

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

Principal objective and principal activities

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

The group’s principal activities during the year were to:

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

Statement of intent

In accordance with section 39 of the Energy Companies Act 1992 and the company’s constitution, the board submits a draft SOI to the company’s shareholders in February each year. After considering comments from those shareholders, the board approves the final SOI. A copy of the final SOI is placed on the company’s website.

The board of directors

The board is the overall body responsible for the proper direction and control of the group’s activities and decision-making. The board’s responsibilities include the group’s overall objectives, strategies, stewardship, management, performance and reporting. The board is committed to best practice governance, as is appropriate for a community-owned lifelines utility.

The company’s shareholders appoint the directors to govern and direct the company’s activities. Pursuant to the company’s constitution:

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

New directors undertake an induction process to familiarise them with matters related to the company. At least one third of the directors retire by rotation each year and the shareholders may appoint one or more of those directors for a further term.

The board elects the board chairman, who leads the conduct of the board and its relationship with shareholders and other major stakeholders. The chairman maintains a close professional relationship with the chief executive officer and through him, the senior management team.

The board acts within the company’s constitution and the board’s code of conduct. The code sets out how the board and directors shall undertake their activities.

Board meetings

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

Board committees

The board delegates some responsibilities and tasks to board committees, however the board retains the ultimate responsibility and accountability for any committee’s actions or inactions. All directors receive the agenda papers for committee meetings and any director may attend a committee meeting, unless there is a conflict of interest that prevents this. The board’s two standing committees are:

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

The following directors served as committee members during the year ended 31 March 2018:

Audit committee	Remuneration committee
Bruce Gemmell – chairman	Geoff Vazey – chairman
John Austin	Nick Miller
Nicola Crauford	
Nick Miller	

Governance statement continued

Performance management

The board reviews the group’s performance, the board’s performance and the chief executive’s performance at regular intervals. The reviews aim to identify opportunities and set plans for performance development and improvement. The board also reviews key policies at regular intervals.

Risk management

The group aims to identify, assess and manage its significant risks, consistent with good industry practice and the international risk management standard ISO 31000:2018. The board oversees and reviews the group’s overall risk context and risk management. As appropriate for a community-owned (lifelines) electricity distribution business, the group has a cautious (relatively risk-averse) risk appetite.

The group insures for potential liability and non-liability loss exposures, in line with good industry practice, however it is not practicable or cost-effective to insure for all potential loss exposures. The group’s liability insurance policies also cover directors and officers, within the limits and requirements of the Companies Act 1993 and the company’s constitution.

Social responsibility, sustainability and people

The group aims to:

- act in a socially responsible way and as a good corporate citizen
- consult with key stakeholders on key decisions as appropriate
- focus on areas that have the greatest sustainability impacts for the wider community.

The group’s greatest sustainability contribution is connecting customers with New Zealand’s renewable, low-carbon electricity generation.

The group aims to attract, retain, develop and motivate high calibre employees at all levels – to support the group’s principal objective to operate as a successful business. The group is a socially responsible and equal opportunities employer and aims to have an inclusive environment where diversity is valued and embraced.

Health and safety is everyone’s responsibility. The group aims to have safe worksites and a safe network – for employees, contractors, visitors, customers and the wider community.

Legislative compliance

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

Conflicts of interest

The company’s conflicts of interest policy requires directors and employees to act with integrity, honesty, transparency, openness and good faith. The policy requires directors and senior management to observe and promote high standards of ethical behaviour. All persons are required to comply with the law, apply good judgment and proactively identify, disclose and manage conflicts of interest.

The company maintains an interests register, which is reviewed at the start of every scheduled board meeting. The board’s code of conduct requires directors to:

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

Employees may not become involved in activities 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.

The group does not make loans to directors.

Donations

The group made \$1,000 of donations to charitable causes in the year ended 31 March 2018 (2017: \$1,000).

Auditor

Audit New Zealand on behalf of the Auditor-General is the group’s independent auditor.

Governance statementcontinued

Interests register

Directors recorded the following in the interests register during the year ended 31 March 2018.

John Austin	Thomas Austin Securities Limited	Director and shareholder
Nicola Crauford	Co-operative Bank Limited – electoral authority	Member
	Environmental Protection Authority	Director
	Fire and Emergency New Zealand	Director
	GNS Science and subsidiaries/associates	Director
	Martin Crauford Limited	Director and shareholder
	New Zealand Fire Service Commission	Director
	Riposte Consulting Limited	Director and shareholder
	Watercare Services Limited	Director
	Wellington Water Limited	Director
	WorleyParsons New Zealand Limited	Specialist advisor
Bruce Gemmell	ATT Australia Limited	Director
	ATT Trustee Limited	Director
	CSO Foundation Trust	Trustee
	Fortress Information Systems Limited advisory board	Member
	Gemmell and Associates Limited	Director and shareholder
	Gemmell Group Limited	Director and shareholder
	Highlanders GP Limited	Director
	Lincoln University	Councillor
	Miramar Consolidated Limited	Director
	Planz Consultants Limited	Director
	PRT Limited	Director
	The Second Little Pig Was Right Limited	Director and shareholder
	Taylor Preston Limited	Director
	University of Canterbury	Councillor
Jason McDonald	X-Tend Life Natural Products Limited	Director
	X-Tend Life Holdings Limited	Director
	Lighting Lab Electric advisory board	Member
	Mevo Limited	Director
Nick Miller	Scotts College Wellington board of governors	Member
	Annavale Limited	Director
	Australian Constructors Association Pty Limited	Director
	Broadspectrum Pty Limited	CEO and managing director
	Coleridge Downs Limited	Director
	Fulton Hogan Limited and subsidiaries/associates	Director and shareholder
	Halerose Limited	Director and shareholder
	Magnolia Farm Limited	Director and shareholder
	Quake Core advisory board	Member
	Rangi Ruru Girls’ School board of governors	Member
Bob Simpson	Southbase Construction Limited and subsidiaries	Director
	Electricity Engineers Association	Director
	New Zealand Engineering Diploma	Director
	Simpson and Associates Limited	Director and shareholder
Geoff Vazey	Business Mentors New Zealand Limited and subsidiaries	Director
	Consult GV Limited	Director and shareholder
	Cook Islands Port Authority	Director
	HEB Construction Limited	Director

Governance statementcontinued

Subsidiary companies

The following served as directors of subsidiary companies during the year ended 31 March 2018:

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

Directors’ remuneration

		Orion \$000	Connetics \$000
John Austin		49	-
Nicola Crauford		49	-
Bruce Gemmell		55	-
Jason McDonald	From 16 Aug 2017	28	-
Nick Miller		94	-
Bob Simpson	To 15 Aug 2017	17	-
Geoff Vazey		50	20
		342	20

Employee remuneration

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

All individual employment agreement terms and conditions are subject to ‘one-up’ approval. For example, the board approves the chief executive officer’s employment terms and conditions and the board remuneration committee approves those of the chief executive’s direct reports. Three collective employment agreements cover approximately 37% of the group’s employees.

The number of group employees and former employees, whose total remuneration fell within specified bands in the last two financial years was:

\$000	2018	2017	\$000	2018	2017
100 - 110	48	49	220 - 230	4	1
110 - 120	32	29	230 - 240	-	1
120 - 130	33	30	240 - 250	2	1
130 - 140	18	14	250 - 260	1	2
140 - 150	12	9	320 - 330	1	1
150 - 160	8	10	390 - 400	-	1
160 - 170	4	5	400 - 410	1	-
170 - 180	6	2	420 - 430	1	-
180 - 190	1	1	470 - 480	1	-
190 - 200	1	1	480 – 490	-	2
200 - 210	1	3	620 – 630	-	1
210 - 220	-	1	640 – 650	1	-

Chief executive officer’s remuneration

The board appointed Mr Jamieson as chief executive officer in August 2011. The board negotiates the chief executive officer’s remuneration, after taking independent expert advice and considering relevant market data. The board reviews the chief executive officer’s remuneration annually and Mr Jamieson’s total remuneration was \$645,000 in the year ended 31 March 2018 (2017: \$628,000). Mr Jamieson’s employment agreement has no deferred payment component.

Five-year trends

	2018 \$m	2017 \$m	2016 \$m	2015 \$m	2014 \$m
Statement of comprehensive income					
Operating revenue	322	310	307	334	270
EBIT	84	80	86	116	73
Profit before income tax	74	71	74	110	69
Net profit	53	52	53	83	50
Other comprehensive income	-	16	-	-	79
Total comprehensive income	53	68	53	83	130

Statement of financial position					
Current assets	24	23	22	24	25
Non current assets	1,156	1,134	1,100	1,060	1,015
	1,180	1,157	1,122	1,084	1,040
Current liabilities	44	44	42	48	43
Current borrowings	54	37	1	2	2
Non current borrowings	221	212	227	84	74
Deferred tax liability	188	187	187	188	186
Other non current liabilities	2	4	5	2	2
Shareholders' equity	671	673	660	760	733
Total liabilities and shareholders' equity	1,180	1,157	1,122	1,084	1,040

Statement of cash flows					
Operating cash flows	109	100	103	114	85
Investing cash flows	(79)	(67)	(91)	(68)	(52)
Financing cash flows	(29)	(33)	(12)	(46)	(34)

Financial measures					
Dividends paid	55	55	63	56	34
Share buy-back	-	-	90	-	-
Net profit to average shareholders' equity (%)	7.9	7.8	7.5	11.1	7.4
Net interest bearing debt to debt-plus-equity (%)	29	27	26	10	9

Other measures					
Electricity maximum demand (MW)	633	599	618	590	619
Electricity deliveries into the network (GWh)	3,309	3,227	3,296	3,277	3,162
Number of customer connections (000)	201	198	195	191	189

Directory
As at 15 June 2018

Directors

Geoff Vazey - chairman
John Austin
Nicola Crauford
Bruce Gemmell
Jason McDonald
Jane Taylor

Senior management

Rob Jamieson
Chief Executive Officer
David Freeman-Greene
GM Commercial
Vaughan Hartland
Chief Financial Officer
Brendan Kearney
GM Governance and Risk
Craig Kerr
GM Information Solutions
Steve Macdonald
GM Infrastructure
Andy Miller
GM Quality, Health, Safety and Environment
Adrienne Sykes
GM People and Strategy

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Website oriongroup.co.nz
Twitter twitter.com/orionnz

Auditor

Audit New Zealand, on behalf of the Auditor-General

Other sources of information

Christchurch City Council
ccc.govt.nz
Christchurch City Holdings Limited
cchl.co.nz
Commerce Commission
comcom.govt.nz
Community Energy Action
cea.co.nz
Connetics Limited
connetics.co.nz
Consumer electricity information
powerswitch.org.nz and whatsmynumber.org.nz
Development Christchurch Limited
dcl.org.nz
Electricity Authority
ea.govt.nz
Electricity Networks Association
electricity.org.nz
Energy Efficiency and Conservation Authority
eeca.govt.nz
Environment Canterbury
ecan.govt.nz
Ōtākaro Limited
otakaroltd.co.nz
Regenerate Christchurch
regeneratechristchurch.nz
Selwyn District Council
selwyn.govt.nz
Utilities Disputes Limited
utilitiesdisputes.co.nz

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22 Orion customers - Powerful Conversations workshop, by Dean Mackenzie
24 Orion customer's son, by Dean Mackenzie
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