Orion

Orion New Zealand Limited
Annual Report FY16

"Electricity is becoming more and more relevant to us as a business. Working with Orion and Air New Zealand we can save many millions of tonnes of carbon going into the atmosphere every year by using electricity in a smart way."

– **Malcolm Johns,**
CEO Christchurch International Airport

Financial

$179m electricity distribution revenue ↑ $12m

$60m network operating expenses ↑ $4m

$53m profit after tax ↓ $29m

$153m dividends and share buy-back ↑ $97m

$92m group capital expenditure ↑ $5m

$228m interest bearing debt ↑ $143m

$1,122m group assets ↑ $38m

2016 highlights

Network

195k

customer connections

↑4k

3.3k

gigawatt hours of electricity delivered

↑19

618MW

network maximum demand

↑28

Chairman and Chief Executive Officer's report

Connecting communities, igniting innovation.

Jeremy Smith
Chairman

Rob Jamieson
Chief Executive Officer

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

Every moment of every day, our 195,000 customers rely on electricity delivered by the Orion network – across 8,000 square kilometres in Christchurch and central Canterbury.

Keeping this vital infrastructure operating safely and sustainably all day, every day is our top priority and one that requires the expertise and dedication of our staff.

The future – and our changing landscape

We strive to provide a safe, reliable and cost-effective electricity network service providing customers the capacity they need when they need it. We remain focussed on restoring the resilience and reliability of our network by 2019 and we're continuing to support the wider post-quake recovery and rebuild.

As part of our strategy we look for ways to create value through maintaining the relevance of our core network through a deep understanding of customer technology trends.

Technology will continue to shape and influence our future. Whether it's new technology on our network or in the home, it's an exciting time for our customers and the wider industry. We're responding to these new technologies and innovations and adapting our service in a variety of ways. Our initiatives include:

- a comprehensive assessment of how emerging technologies might impact our business here in Canterbury and when that might occur. We don't see a 'cliff' where our network becomes redundant in the decades ahead. On the contrary, our network remains vital for customers although it may be used in some different ways
- cost reflective network pricing. This provides a solid foundation of peak-demand pricing for large businesses and off-peak pricing for homes. It's expensive and resource intensive to build additional networks to meet short demand peaks – so pricing that rewards customers to shift demand away from peak periods adds value for Orion and our customers
- encouraging the uptake of electric vehicles (EVs). With our high level of renewable electricity generation, New Zealand is well positioned to deliver substantially reduced carbon emissions by switching to electric vehicles. In support of the long-term benefits an electric vehicle fleet would deliver to the country, environmentally and economically, Orion has made a commitment to better enable the uptake of EVs in our region by:
  - taking the lead by installing five fast chargers during this coming year, along with a number of level-2 chargers. Our view is that access to charging stations will reduce range anxiety for local EV drivers and promote uptake
  - purchasing seven plug-in hybrid vehicles for Orion's operational fleet
  - continued sponsorship of Evolocity – an annual competition for young people to design, build and race their own EVs.

"We are working harder to better understand the requirements of our customers as we power a vibrant and energised region, now and into the future. We have made significant steps in this area and are challenging ourselves to do even better in the future."

We are seeing a small but steadily increasing number of solar arrays on our network, representing less than 1% in total of our maximum network demand. We expect that customer-owned batteries will grow in popularity.

We play a key role in helping customers understand their current and future energy choices. We appreciate that people choose emerging technologies, such as solar panels, for a number of reasons and we encourage all customers to complete due diligence, and to understand the options available.

As part of our long-term commitment to energy efficiency, we are proud sponsors of Community Energy Action, who continue to provide energy efficiency advice to customers and insulate homes.

Energy efficiency not only helps our customers reduce their power bills and have warmer and healthier homes, it also reduces New Zealand's electricity peaks, and therefore our levels of expenditure. Energy efficiency initiatives have the added advantage of complementing New Zealand's existing renewable sources of electricity. Nationally, 80% of electricity is from renewable sources with almost all the electricity on the Orion network originating from the South Island's own hydro power stations.

"Nationally, 80% of electricity is from renewable sources with almost all the electricity on the Orion network originating from the South Island's own hydro power stations."

“Whether it’s new technology on our network or in the home, it’s an exciting time for our customers and the wider industry.”


58%
start
stop

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.

"It's in our community's best interest to have a vibrant, buzzy city and Orion plays such an integral part in that."

— **Philip Carter,**
Property Developer

Financial performance

We are pleased to report another year of strong financial performance. We have surpassed our Statement of Intent profit targets and met our regulated network reliability limits.

Orion's long-term financial sustainability benefits the local community through our shareholders – the Christchurch City Council and Selwyn District Council.

We're therefore pleased to have been able to use the strength of our balance sheet to pay the following to our shareholders during the year:

- $90m via a planned one-off share buy-back
- $63m via imputed dividends – $15m ahead of target and $7m ahead of last year.

These distributions and our current high capital expenditure programme mean that our borrowings increased by $143m this year to almost $230m. However, with assets valued at over $1.1 billion and an expected return to more normal levels of capital expenditure by 2018, we believe that our borrowings will remain prudent and sustainable.

This year's profit of $53m is not directly comparable with last year's due to:

- $24m of revenue (after tax) last year for our final quake insurance settlement
- a new $5m impairment expense (after tax) this year. We now recognise this impairment because capital contribution receipts reduce our regulatory asset value, and this in turn reduces our future regulatory price resets.

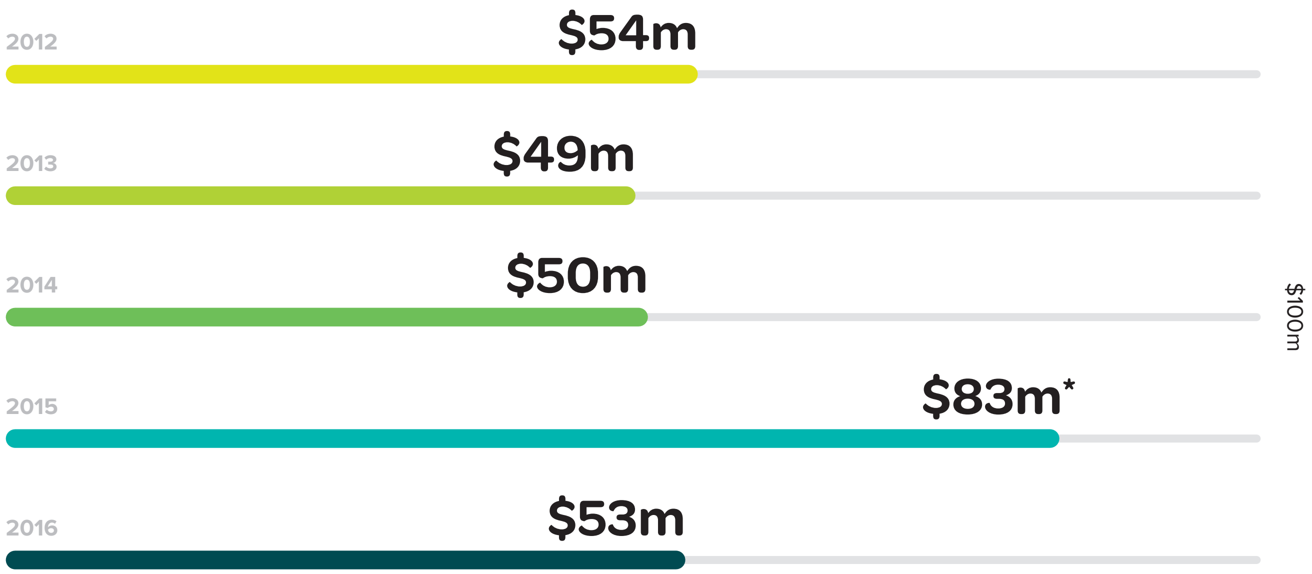
Adjusting for these differences, this year's profit is $10m above our statement of intent target and virtually the same as last year's. This is pleasing, given that we had higher interest expense following our $90m share buy-back in September.

We increased our network maintenance spend this year by $1.3m, to $26m, due to:

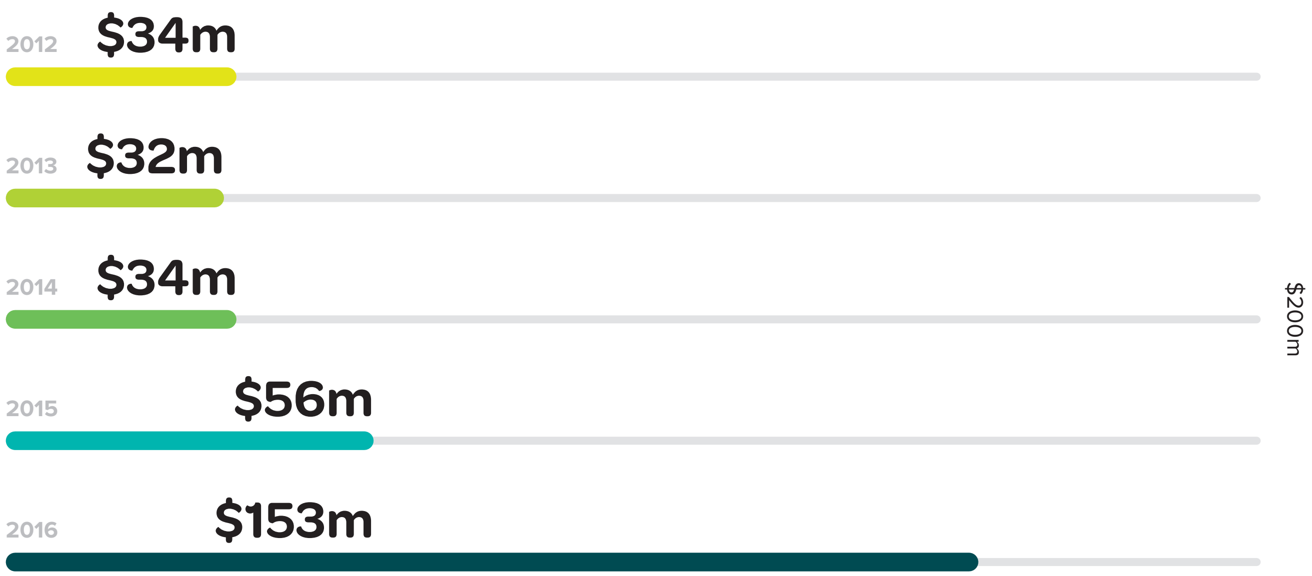
- a snow storm in June and several wind storms
- planned maintenance that we had deferred while we focused on our quake recovery work and supporting the wider rebuild.

Connetics continues to contribute strongly to the group's financial performance. Its profit was close to last year's, and workloads remain strong.

Net profit

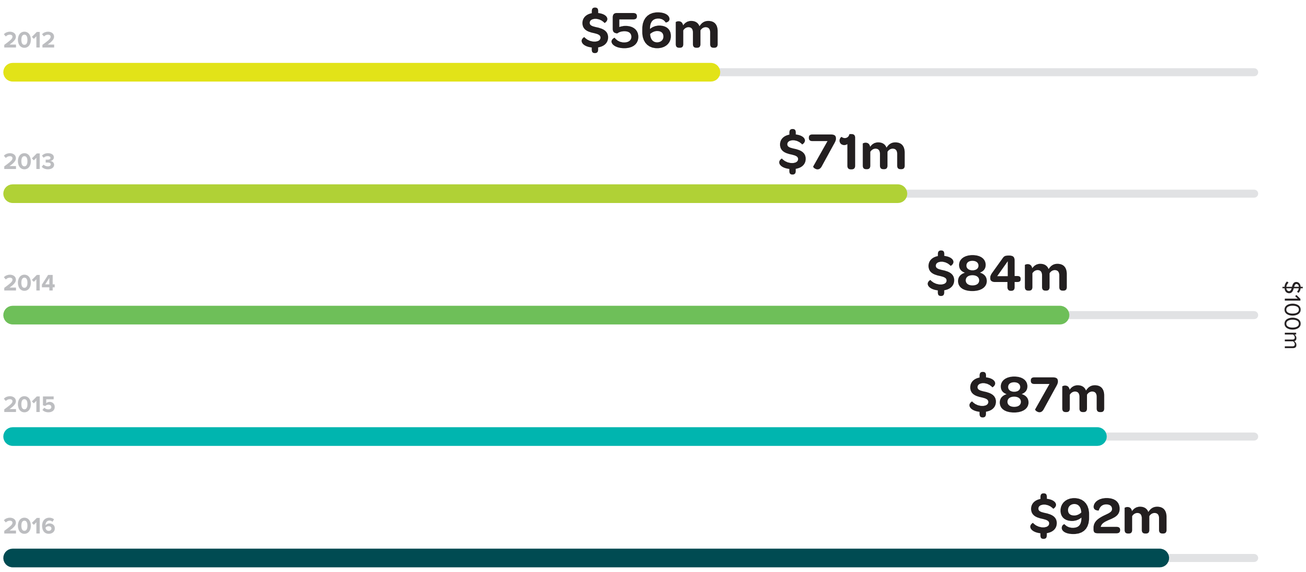


Cash distributions to shareholders

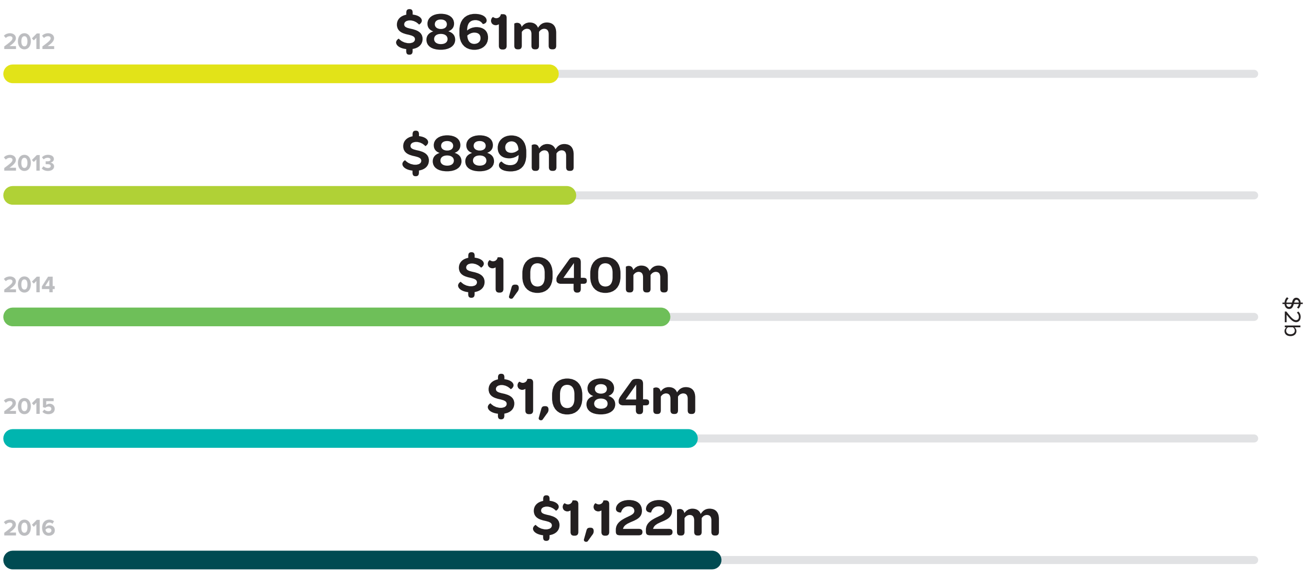


*2015 net profit includes a $24 million earthquake insurance settlement.

Capital expenditure



Total assets



Network maximum demand

618MW

MW	633	592	619	590
Year	2012	2013	2014	2015

Network volumes

3,296GWh

GWh	3,070	3,165	3,162	3,277
Year	2012	2013	2014	2015

Network connections

195k

(000)	191	189	189	191
Year	2012	2013	2014	2015


10:50
Radar - Christchurch
Christchurch
Loop:
On
Off
Speed:
Legend
Orion Weather
Default Title
Hills Road
Kimberley
Te Pirita

The power of relationships

We are working harder to better understand the requirements of our customers as we power a vibrant and energised region, now and into the future. We have made significant steps in this area and are challenging ourselves to do even better in the future.

Steps we have taken include:

- reviewing our Christchurch CBD network architecture. We needed to understand what level of resilience and reliability our customers require to help inform the degree of network investment we should make. To do this we conducted an independent phone survey of 380 CBD customers and drilled down further with a focus group of 10 businesses. That feedback was considered in our CBD infrastructure decision-making
- an independent survey of 800 urban and rural residential customers. That gave us valuable insight of their awareness of Orion, perceptions of power price changes, views on network reliability and awareness of and interest in new technologies.

Whether our customers are considering the use of new technologies, or are part of the ongoing post earthquake revitalisation, they need to know that we understand their requirements and are well placed to deliver to them.

Orion doesn't just provide a network – we give vital advice and support to customers seeking to connect to our network. We work with our customers who are looking into their energy choices. This has been critical in working with our Christchurch developers who have major projects underway in the CBD. We need to fully understand their needs to be able to provide cost-effective energy and network solutions that meet their capacity and reliability requirements.

We're also there when the going gets tough – whether it's a storm or a seismic event. We prepare and invest for the worst so our customers can be confident they will have electricity when they need it.

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

5	38	115	141	123	36
Years to complete	km circuit	kms of high voltage cable	Cable drums used	Cable joints installed	Cable terminations installed

The power of our network

We have completed a number of significant network projects over the last year. The most significant of which is our Northern Loop Cable Project, completed in March 2016. This $60m project is a key element of our post-quake repair and resilience programme that began in the weeks following the February 2011 quake. It is one of the largest and most complex projects delivered by Orion.

The Northern Loop provides us with more options for routing power around and across the city to businesses and homes in case of any future emergency. As well as improving the reliability across our urban network, the new cable will support the significant residential and business growth in the northern parts of Christchurch since the quakes.

It's not just the big projects that make a difference for customers, however. We are constantly seeking incremental improvements in our service and operations. We are investing in new technology to more quickly identify and isolate faults in remote rural areas. For example, we are accelerating the installation of a number of smart switches in the Banks Peninsula area that will allow us to respond to outages more quickly.

“Orion has been playing a part in a bigger picture than even Orion realise. Orion funds us to be able to give advice out to the community and that advice changes behaviours.”

— **Caroline Shone,**
CEO Community Energy Action

The power of keeping safe

Resilient and reliable electricity distribution is vital to keeping our community not only warm but safe.

Safety is all encompassing in the running of the network and involves the safety of our employees, contractors and the public. We encourage all of these parties to take their own safety, and that of their colleagues, seriously, every day. We are pleased to report that Orion staff had no notifiable injuries this year and a reduction in lost time injuries.

Our contractors had two notifiable injuries, and we are working closely with them to improve safety outcomes. It is pleasing to see more information being provided by staff and contractors on near miss events, something we expect to continue under our new processes.

The health of the team at Orion is also important. We have an active wellness programme that engages our people and helps them focus on their individual health and wellbeing. All employees have membership to Tracksuit.inc which provides health and wellbeing research and information on healthy eating, sleep and exercise. Our onsite health checks, health seminars, counselling support and pedometer challenges provide employees with opportunities to actively participate in initiatives to support their own wellbeing.

The power of community

We support our local communities through a variety of programmes.

Our long-standing relationship with Community Energy Action (CEA) is our principal partnership with our community. CEA is a charitable trust that provides insulation and energy advice services to the most vulnerable in our community. Its overriding objective is to create warmer, healthier and more energy efficient homes. A recent study showed a 30% reduction in hospital nights for those recipients of CEA's initiatives. We're proud to have sponsored and supported CEA for over 20 years and we're committed to continuing this in the years to come.

We continued to sponsor the Canterbury Rams basketball team, together with the Christchurch Arts Festival and the Chinese Lantern Festival, one of the city's most popular cultural events.

The power of our people

Development of our employees is key to our current and future success. We are proud of the new employees we develop through our Engineering Development Programme, who after a period of time, move into permanent roles within the business. This programme supports us to manage retirements and succession, and the high calibre of these employees may see them as future leaders in our business.

Orion also participates in professional development at the board level through the Aspiring Director programme, an initiative of Christchurch City Holdings Ltd. Connetics also has an intern director, appointed as part of a CCHL and Institute of Directors programme. These are great opportunities for those who are looking to develop their governance capability and we enjoy the fresh perspective they bring to discussions.

Overall, our success is due to the dedication of our employees and contractors and their commitment to delivering a robust, safe and secure network that supports the homes, businesses and industries within the region. Our people will continue to determine our success, both through their skills and capability, and the relationships they have with our customers and our community. As we continue to work to connect, create and collaborate, we build a more agile, responsive workforce who can more readily respond to the changing industry we work in. Our people connect communities and ignite innovation and through them we will achieve our vision. On behalf of the Orion board – thank you.

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

"Orion has undertaken a significant programme of seismic strengthening, a significant investment in the future, which has paid off enormously. Thank you Orion for future-proofing our city and our region."

– **Lianne Dalziel,**
Christchurch Mayor


Orion
GMN568

Board of directors

Jeremy Smith
BSc BCom LLB CMInstD

Jeremy was appointed as an Orion director in August 2013 and chairman in August 2014. He is also chairman of Holmes Group Limited. Jeremy has broad experience in a variety of senior executive and corporate governance roles. Jeremy was formerly Managing Director and then a director of Holcim New Zealand Limited. Before that, he practiced as a commercial lawyer.

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 has recently 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

Nicola was appointed as an Orion director in August 2014. She has over 25 years of experience in the oil, electricity and gas sectors in the UK and NZ, including as a member of Transpower's executive team and a director of Genesis Energy. Nicola is a director of Watercare Services Limited, the Environmental Protection Authority, Wellington Water Limited and the Wellington Rural Fire Authority. Nicola chairs GNS Science and is a member of the Local Government Risk Management Agency Establishment Board. She has formerly been chief executive of the Institute of Directors and deputy chief executive of the Institution of Professional Engineers New Zealand.

Board of directors

Paul Munro
BCom CA (PP) CMinstD

Paul was appointed as an Orion director in August 2012. He is a partner and director at Deloitte and leads Deloitte's corporate finance practice in the South Island. Paul is a director of Central Plains Water Limited and a member of the University of Canterbury Students' Association Advisory Board.

Bob Simpson
M.E. FIPENZ CPEng FIET CEng

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

Geoff Vazey
BEng (Hons)

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

Audited financial statements

Audited consolidated financial statements

The board of directors is pleased to present the audited consolidated financial statements of Orion New Zealand Limited and its subsidiaries for the year ended 31 March 2016.

The company's audited consolidated financial statements include five audited performance statements:

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

Authorised for issue on 10 June 2016.

For and on behalf of the board of directors:

Jeremy Smith
Director

Paul Munro
Director

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For the year ended 31 March 2016

Consolidated statement of comprehensive income

For the year ended 31 March 2016

	Notes	2016 $000	2015 $000
Operating revenues	2	307,295	334,072
Operating expenses	3	(170,729)	(175,708)
Depreciation, amortisation and other impairment expenses	4	(50,953)	(41,981)
Earnings before net interest expense and tax (EBIT)		85,613	116,383
Interest income		145	194
Interest expense	5	(8,618)	(5,781)
Net change in fair value of derivatives expense		(2,896)	(751)
Profit before income tax		74,244	110,045
Income tax expense	7	(20,798)	(27,430)
Net profit		53,446	82,615
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Gain on revaluation of property, plant and equipment	11	-	116
Deferred tax expense on revaluation of property, plant and equipment	7	-	(33)
		-	83
Total comprehensive income		53,446	82,698

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

Consolidated statement of changes in equity

For the year ended 31 March 2016

	Notes	Share capital $000	Retained earnings $000	Asset revaluation reserve $000	Total equity $000
Balance as at 1 April 2014		120,000	507,605	105,391	732,996
Net profit		-	82,615	-	82,615
Other comprehensive income		-	-	83	83
Total comprehensive income		-	82,615	83	82,698
Transfers between reserves:					
Realised gain on disposal of property, plant and equipment		-	149	(149)	-
Deferred tax reversed on sale of property, plant and equipment		-	(42)	42	-
Dividends paid		-	(56,000)	-	(56,000)
Balance as at 31 March 2015		120,000	534,327	105,367	759,694
Net profit		-	53,446	-	53,446
Other comprehensive income		-	-	-	-
Total comprehensive income		-	53,446	-	53,446
Transfers between reserves:					
Realised gain on disposal of property, plant and equipment		-	267	(267)	-
Deferred tax reversed on sale of property, plant and equipment		-	(73)	73	-
Share buy-back	16	(15,000)	(75,000)	-	(90,000)
Dividends paid		-	(63,000)	-	(63,000)
Balance as at 31 March 2016		105,000	449,967	105,173	660,140

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

Consolidated statement of financial position

As at 31 March 2016

	Notes	2016 $000	2015 $000
Current assets			
Cash and cash equivalents		192	428
Trade and other receivables	8	8,730	11,657
Sale proceeds held in trust account		2,698	2,622
Inventories	9	7,938	7,451
Prepayments		2,042	2,209
Total current assets		21,600	24,367
Non current assets			
Prepayments		161	96
Goodwill		250	250
Intangible assets	10	2,981	3,731
Property, plant and equipment	11	1,096,966	1,055,498
Total non current assets		1,100,358	1,059,575
Total assets		1,121,958	1,083,942
Current liabilities			
Trade and other payables	12	28,576	32,414
Borrowings	14	967	2,013
Income tax liability	7	6,605	9,459
Employee entitlements	13	6,677	6,378
Interest rate swaps	15	340	-
Total current liabilities		43,165	50,264
Non current liabilities			
Borrowings	14	227,265	83,605
Employee entitlements	13	1,379	1,405
Interest rate swaps	15	3,401	845
Deferred tax	7	186,608	188,129
Total non current liabilities		418,653	273,984
Shareholders' equity	16	660,140	759,694
Total liabilities and equity		1,121,958	1,083,942

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

Consolidated statement of cash flows

For the year ended 31 March 2016

	2016 $000	2015 $000
Cash flows from operating activities		
Receipts from customers	308,152	303,692
Proceeds from earthquake insurance claims	-	10,876
Interest received	65	117
Payments to suppliers and employees	(171,840)	(173,860)
Payments for interest and other finance costs	(7,822)	(5,730)
Payments for income tax	(25,172)	(20,908)
Net cash provided from operating activities	103,383	114,187
Cash flows from investing activities		
Proceeds from earthquake insurance claims	-	18,124
Proceeds from the sale of investment property	-	1,000
Proceeds from the sale of property, plant and equipment	571	690
Payments for property, plant and equipment	(91,872)	(87,670)
Payments for intangible assets	(330)	(238)
Net cash used in investing activities	(91,631)	(68,094)
Cash flows from financing activities		
Proceeds from bank loans	143,350	11,200
Repayment of finance leases	(2,338)	(1,481)
Dividends paid	(63,000)	(56,000)
Share buy-back	(90,000)	-
Net cash used in financing activities	(11,988)	(46,281)
Net decrease in cash and cash equivalents	(236)	(188)
Summary		
Cash and cash equivalents at beginning of year	428	616
Net decrease in cash and cash equivalents	(236)	(188)
Cash and cash equivalents at end of year	192	428

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

Consolidated statement of cash flows continued

For the year ended 31 March 2016

	2016 $000	2015 $000
Reconciliation of net profit to net cash provided from operating activities		
Net profit	53,446	82,615
Adjustments		
Property, plant and equipment disposed and written off	930	1,000
Impairment of property, plant and equipment	7,353	-
Depreciation of property, plant and equipment	41,586	39,658
Amortisation of intangible assets	1,080	1,312
Earthquake insurance cash settlement – investing activity	-	(18,124)
Change in fair value of derivatives	2,896	751
Employee costs allocated to intangible assets	-	(308)
Other	(204)	(63)
	53,641	24,226
Changes in tax balances		
Increase/(decrease) in current tax liability	(2,854)	4,292
Increase/(decrease) in deferred tax liability	(1,521)	2,229
(Increase)/decrease in assets		
Trade and other receivables	2,927	(2,343)
Inventories	(315)	(361)
Prepayments	102	174
Increase/(decrease) in liabilities		
Trade and other payables	(2,316)	3,059
Employee entitlements	273	296
	(3,704)	7,346
Net cash provided from operating activities	103,383	114,187

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

Notes to the consolidated financial statements

For the year ended 31 March 2016

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. There is less certainty in forecasting the company's future revenue cash flows from 1 April 2019.

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.

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.

Notes to the consolidated financial statements continued

For the year ended 31 March 2016

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.

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.

Notes to the consolidated financial statements continued

For the year ended 31 March 2016

(g) Inventories

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

(h) Property, plant and equipment

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

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

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

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

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

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

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

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

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

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.

Notes to the consolidated financial statements continued

For the year ended 31 March 2016

(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) Change in prior year comparatives

Other operating revenue and network maintenance expenditure for the year ended 31 March 2015 have both increased by $1.2m to recognise revenue which was previously netted against expense. This change has no impact on net profit.

Statement of financial position and notes 12 and 13. Employee entitlements of $6.2m have been separately stated. The amounts have been previously recorded within trade and other payables and provisions.

(l) New accounting standards and interpretations

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

Notes to the consolidated financial statements continued

For the year ended 31 March 2016

	2016 $000	2015 $000
2. Operating revenues		
Electricity delivery services	247,173	242,010
Transmission rental rebates	4,230	2,908
Contracting	32,819	38,069
Sale of goods and services	11,938	10,610
Consumer capital contributions	7,054	6,467
Earthquake insurance proceeds	-	29,000
Other	4,081	5,008
	307,295	334,072

3. Operating expenses

	2016 $000	2015 $000
Transmission	67,808	74,590
Transmission rental rebates	4,230	2,908
Employee benefits	49,725	46,336
Network maintenance	26,126	24,824
Operating lease payments	1,530	1,333
Other	21,310	25,717
	170,729	175,708

4. Depreciation, amortisation and other impairment expenses

	2016 $000	2015 $000
Depreciation of property, plant and equipment	41,586	39,658
Impairment of property, plant and equipment	7,353	-
Amortisation of intangible assets	1,080	1,312
Property, plant and equipment disposed and written off	930	1,000
Impairment of financial assets	4	11
	50,953	41,981

5. Interest expense

	2016 $000	2015 $000
Bank loans	7,142	4,101
Finance leases	1,476	1,680
	8,618	5,781

No interest expense was capitalised during the year (2015: nil)

6. Remuneration of the auditor

	2016 $000	2015 $000
Audit of the financial statements	227	251
Audit-related services	60	55
	287	306

Audit-related services comprise assurance reviews of the company's annual:

- customised price-quality path (CPP) compliance statement
- regulatory information disclosures.

Notes to the consolidated financial statements continued

For the year ended 31 March 2016

7. Income tax and deferred tax

	2016 $000	2015 $000
Income tax expense comprises:		
Current income tax charge	23,162	25,565
Adjustments to prior years	(843)	(364)
Temporary differences	(1,521)	2,229
	20,798	27,430
Reconciliation of profit before income tax with income tax expense:		
Profit before income tax	74,244	110,045
Prima facie income tax expense calculated at 28%	20,788	30,812
Non-assessable earthquake insurance proceeds	-	(3,112)
Other permanent differences	10	(270)
Income tax expense	20,798	27,430
Income tax expense on earthquake insurance proceeds included above:		
Current tax	276	2,513
Deferred tax	-	2,495
	276	5,008

	Property, plant and equipment $000	Earthquake insurance proceeds $000	Provisions $000	Other $000	Total $000
Deferred tax liability					
Balance as at 1 April 2014	185,807	-	(1,420)	1,480	185,867
Charged to income	2,423	2,495	(186)	(2,503)	2,229
Charged to comprehensive income	33	-	-	-	33
Balance as at 31 March 2015	188,263	2,495	(1,606)	(1,023)	188,129
Charged to income	217	(642)	8	(1,104)	(1,521)
Balance as at 31 March 2016	188,480	1,853	(1,598)	(2,127)	186,608

The group's current income tax liability as at 31 March 2016 is $6.6m (2015: $9.5m). The liability mainly comprises the group's third instalment of provisional income tax for the year ended 31 March 2016 (31 March 2015).

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

The group's imputation credits available for use in subsequent reporting periods total $8,110,000 as at 31 March 2016 (2015: $13.4m), which includes the income tax liability of $6,605,000 (2015: $9.5m).

Notes to the consolidated financial statements continued

For the year ended 31 March 2016

	2016 $000	2015 $000
8. Trade and other receivables		
Trade receivables	7,362	11,205
Chargeable work in progress	1,436	525
Allowance for impairment of trade receivables	(68)	(73)
	8,730	11,657
Trade receivables before allowance for impairment:		
Current	6,062	9,431
1 month overdue	530	1,078
2 months overdue	138	118
3 months overdue	632	578
	7,362	11,205

9. Inventories

	2016 $000	2015 $000
Goods for sale	4,241	3,722
Electricity distribution network stock	3,893	3,955
Allowance for impairment	(196)	(226)
	7,938	7,451

10. Intangible assets

	2016 $000	2015 $000
Capitalised at cost	16,294	15,964
Accumulated amortisation	(13,313)	(12,233)
	2,981	3,731

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 consolidated financial statements continued

For the year ended 31 March 2016

11. Property, plant and equipment

	Freehold land at fair value $000	Buildings and land improvements at fair value $000	Electricity distribution network at fair value $000	Plant and equipment at cost $000	Total $000
Gross carrying amount					
Balance as at 1 April 2014	43,474	11,645	938,633	37,627	1,031,379
Additions	11,186	494	71,111	3,824	86,615
Disposals	(209)	(31)	(1,205)	(1,882)	(3,327)
Revaluation	-	-	116	-	116
Balance as at 31 March 2015	54,451	12,108	1,008,655	39,569	1,114,783
Additions	2,924	3,037	80,518	5,517	91,996
Reclassified assets	217	-	(217)	-	-
Disposals	(47)	(5)	(2,048)	(2,578)	(4,678)
Balance as at 31 March 2016	57,545	15,140	1,086,908	42,508	1,202,101
Accumulated depreciation and impairment					
Balance as at 1 April 2014	-	84	-	21,181	21,265
Disposals	-	(3)	(50)	(1,585)	(1,638)
Depreciation expense	-	453	35,529	3,676	39,658
Balance as at 31 March 2015	-	534	35,479	23,272	59,285
Disposals	-	(1)	(823)	(2,265)	(3,089)
Reclassified assets	-	(6)	6	-	-
Depreciation expense	-	437	36,798	4,351	41,586
Asset impairment	-	198	6,856	299	7,353
Balance as at 31 March 2016	-	1,162	78,316	25,657	105,135
Net book value as at 31 March 2015	54,451	11,574	973,176	16,297	1,055,498
Net book value as at 31 March 2016	57,545	13,978	1,008,592	16,851	1,096,966
Capital work in progress included above:					
As at 31 March 2015	-	264	60,137	8	60,409
As at 31 March 2016	16	1,775	28,075	317	30,183
Assets subject to finance leases included above:					
As at 31 March 2015	-	-	16,384	-	16,384
As at 31 March 2016	-	-	15,434	-	15,434

Notes to the consolidated financial statements continued

For the year ended 31 March 2016

11. Property, plant and equipment continued

Electricity distribution network

The electricity distribution network was revalued to fair value of $904m as at 31 March 2014, 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, this resulted in a total network valuation of $939m.

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 cash flow 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) settings for the five years commencing 1 April 2014 and network revenues will return to the Commerce Commission's default price-quality path (DPP) from 1 April 2019, with prices thereafter forecast to increase at CPI
- non-expansionary "infill" growth will be 0.3% per annum
- the appropriate DCF discount rate is 6.7% post-tax.

The valuer performed a sensitivity analysis on a number of variables as follows:

- a capital expenditure increase/(decrease) of 5% would decrease/(increase) the network's fair value by $24m respectively
- a discount rate increase of 0.25% would decrease the network's fair value by $37m
- a discount rate decrease of 0.25% would increase the network's fair value by $40m
- an operating expense increase/(decrease) of 10% would decrease/(increase) the network's fair value by $16m respectively
- a 0.7% decrease in the Commerce Commission's post-tax regulatory cost of capital (from the 75th percentile to the 50th percentile estimate) would decrease the network's fair value by $79m, if it is applied to the company's network revenues from 1 April 2019 onwards. The Commission is investigating whether it should make such a change to the regulatory cost of capital.

EY reviewed the carrying value for the electricity network as at 31 March 2015 and 31 March 2016, using a similar methodology in both years to that described above, based on the company's updated financial forecasts, and updated DCF discount rates. EY concluded that there were no indicators that the carrying value for the electricity distribution network as at 31 March 2015 and 31 March 2016 were materially different from fair value as at those dates.

In the year ended 31 March 2016, the company has impaired the carrying value of its electricity distribution network and substation buildings. The company has recognised $7,054,000 of capital contributions received as revenue during the year. The impairment expense of $7,054,000 during the year reflects that capital contribution receipts 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.

In the year ended 31 March 2016, the company ceased supplying builders temporary supply boxes. The company has since disposed of its remaining boxes and has written off their carrying value. This resulted in a $299,000 impairment expense in the year ended 31 March 2016.

Land and non-substation buildings

The company's land and non-substation buildings were revalued to fair value as at 31 March 2014, by Marius Ogg, in accordance with NZ IAS 16 – Property, Plant and Equipment, NZ IAS 36 – Impairment of Assets, and NZ IFRS 13 – Fair Value Measurement. Mr Ogg is a registered valuer and a director of CBRE Limited. Mr Ogg used significant observable inputs (Level 2, as defined in NZ IFRS 13) and significant unobservable inputs (Level 3, as defined in NZ IFRS 13).

Mr Ogg 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. Mr Ogg used these comparisons to develop standard site multipliers, which he applied to rateable land values for approximately 2,200 substation sites. Fair values for approximately 35% 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).

Mr Ogg valued land at the company's two largest substations using discounted cashflow and/or sales comparison approaches, reflecting the highest and best use of each (Level 3).

Notes to the consolidated financial statements continued

For the year ended 31 March 2016

11. Property, plant and equipment continued

Mr Ogg valued the company's head office land and building using a market rental assessment and a capitalisation rate of 7.75% (Level 3), and concluded that the fair value of the company's head office building was $10.4m, confirming its carrying value. Mr Ogg concluded that the fair value of the company's head office land was $3.6m confirming its carrying value.

Mr Ogg reviewed the group's carrying value for land and non-substation buildings as at 31 March 2015 and 31 March 2016, using a similar methodology in both years to that described above, in accordance with NZ IAS 16, NZ IAS 36 and NZ IFRS 13. Mr Ogg concluded that there were no indicators that the group's carrying value for land and non-substation buildings as at 31 March 2015 and 31 March 2016 were materially different to fair value as at those dates.

Restrictions over title

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

12. Trade and other payables

	2016 $000	2015 $000
Trade payables	27,330	30,919
GST payable	1,065	1,326
Other	181	169
	28,576	32,414

13. Employee entitlements

	2016 $000	2015 $000
Current	6,677	6,378
Non current	1,379	1,405
	8,056	7,783

Employee entitlements include a provision for employee long service leave.

Key assumptions in the actuarial assessment of the provisions include:

- risk-free rate 3.00% (2015: 3.26%)
- salary inflation 2.00% (2015: 3.00%).

14. Borrowings

	2016 $000	2015 $000
Current – finance lease liability	967	2,013
Non current – finance lease liability	13,915	13,605
Non current – bank loans	213,350	70,000
Non current – total	227,265	83,605

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 less than one and 32 years (2015: two and 33 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.

Notes to the consolidated financial statements continued

For the year ended 31 March 2016

15. Financial instruments

Introduction

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

Capital management

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

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

The group is not subject to externally imposed capital requirements. 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 2016.

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

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).

	2016 $000	2015 $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 2016 mature as follows:		
$60m on 27 November 2017		
$100m on 25 September 2018		
$100m on 25 September 2020		
Amount used at reporting date	213,350	70,000
Amount unused at reporting date	46,650	60,000
	260,000	130,000

Notes to the consolidated financial statements continued

For the year ended 31 March 2016

15. Financial instruments continued

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 2016, interest rates (including margins) on the group's bank loans averaged 3.22% (2015: 4.24%). 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 2016, interest rates on the group's finance lease liabilities averaged 9.57% (2015: 9.94%).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 three 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.

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

	Average contracted fixed interest rates	Notional principal swap amounts		Carrying value asset/(liability)	
		2016	2015	2016	2015
Swap maturity dates	%	$000	$000	$000	$000
April 2016	5.3	15,000	15,000	(37)	(283)
October 2016	4.0	30,000	30,000	(303)	(230)
February 2018	3.9	30,000	30,000	(989)	(332)
October 2018	3.2	100,000	-	(2,412)	-
		175,000	75,000	(3,741)	(845)

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 2016 would increase the group's profit before income tax by approximately $944,000 (2015: $644,000). A decrease of 1% would decrease the group's profit before income tax by approximately $1,033,000 (2015: $681,000). 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.

Notes to the consolidated financial statements continued

For the year ended 31 March 2016

15. Financial instruments continued

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.

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.

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.

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.

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.

Carrying values of financial instruments

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

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

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

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

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

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

Notes to the consolidated financial statements continued

For the year ended 31 March 2016

17. Related party transactions

Group structure

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

Related parties include:

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

The group undertakes many transactions with CCC and SDC and their related parties, all of which are carried out on a commercial and arms-length basis. During the year the company repurchased 10,000,000 of its ordinary shares from its shareholders, in proportion to both shareholders' respective shareholding. No material transactions, other than the payment of dividends to CCHL and SDC, and the share buy-back, were entered into with related parties during the year.

Transactions during the year	2016 $000	2015 $000
Dividends paid to CCHL and SDC	63,000	56,000
Share buy-back from CCHL and SDC	90,000	-
Purchases from CCC/SDC	3,498	3,184
Sales to CCC/SDC	6,074	7,869
Purchases from other related parties	2,123	1,279
Sales to other related parties	1,197	2,016
Outstanding balances as at 31 March		
Accounts payable to CCC/SDC	23	52
Accounts receivable from CCC/SDC	871	2,112
Accounts payable to other related parties	106	245
Accounts receivable from other related parties	173	58
Key management personnel compensation		
Salaries and short term employee benefits	2,646	2,606
Post-employment benefits	191	174

Other transactions involving related parties

The group paid directors' fees totalling $348,000 during the year (2015: $313,000). No directors received a retirement gift during the year (2015: one director $935). 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 with the exception of two employees who purchased second-hand vehicles from the group for $8,696 and $21,152 respectively (2015: all less than $2,000). A total of nil was due from key management personnel as at 31 March 2016 (2015: $110). 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.

Notes to the consolidated financial statements continued

For the year ended 31 March 2016

18. Information about subsidaries

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

19. Commitments

	2016 $000	2015 $000
Capital expenditure	7,658	26,047
Operating leases	2,564	1,419

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

20. Contingent assets and liabilities

The group had no contingent assets or liabilities as at 31 March 2016 (2015: nil)

21. Significant events after balance date

The group is unaware of any significant events between the preparation and authorisation of these financial statements on 10 June 2016.

Performance statement – consolidated financial

For the year ended 31 March 2016

	Notes	Actual 2016	Target 2016	Actual 2015
Net profit ($m)	1, 2	53.4	48.8	82.6
Net profit to average shareholders' equity (%)	1, 2	7.5	6.9	11.1
Debt to debt plus equity (%)	3	26	29	10
Equity to debt plus equity (%)	3	74	71	90
Equity to total assets (%)	3	59	58	70
Fully imputed dividends ($m)		63	48	56
Share buy-back ($m)		90	90	-

Note 1

Net profit was $4.6m above the statement of intent target because of:	Variances post-tax $m
Below-budget expenses	3.6
Below-budget interest expense	2.1
Above-budget network delivery revenue	1.9
Above-budget other revenues	1.7
Above-budget capital contribution revenues	1.2
Above-budget Connetics net profit	0.8
Below-budget depreciation expense	0.5
Above-budget interest rate swap revaluation expense	(2.1)
Above-budget impairment expense	(5.1)
	4.6

Note 2

Net profit was $29.2m below last year's because of:

Higher network delivery revenues	8.6
Higher capital contribution revenues	0.4
Lower Connetics net profit	(0.3)
Lower other revenues	(0.8)
Higher depreciation expense	(1.3)
Higher interest rate swap revaluation expense	(1.5)
Higher interest expense	(2.2)
Higher operating expenses	(2.7)
Impairment expense	(5.1)
One-off earthquake insurance claim proceeds last year	(24.0)
Other	(0.3)
	(29.2)

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

For the year ended 31 March 2016

	Approx number of consumer connections 31 March 2016	Actual 2016 *	Target 2016	Actual 2015 *	Gazetted NZ weighted average 2015 *
Orion network interruptions:					
Duration of supply interruptions in minutes per year per connected customer (SAIDI)					
- urban	166,000	32	31	69	
- rural	29,000	585	475	468	
- overall	195,000	113	95	126	292
Number of supply interruptions per year per connected customer (SAIFI)					
- urban	166,000	0.6	0.8	0.6	
- rural	29,000	4.4	3.4	4.3	
- overall	195,000	1.2	1.2	1.2	1.9

Important notes:

1. Major storms, natural disasters and other catastrophic events can cause significant numbers and/or significant durations of network supply interruptions. The future occurrence and severity of 'major events' cannot be predicted.
2. The Commerce Commission sets limits for and assesses the industry's network reliability performance. The Commission assesses the industry's actual performance, after 'normalising' for the impacts of 'major events'.
3. The targets above are consistent with the Commission's network reliability limits for the company for the year ended 31 March 2016, pursuant to the company's customised price-quality path (CPP). The Commission's limits are for the company's overall network, there is no urban/rural split. After applying the Commission's normalisation methodology, the company achieved the overall SAIDI and SAIFI targets above in 2016.
4. The columns marked with an asterisk (*) above are stated gross – before normalising for major events using the Commission's methodology.
5. The gazetted industry averages are for all 29 New Zealand electricity distribution networks, and include a mixture of rural and urban networks. The company's electricity distribution network includes a significant rural component.
6. SAIDI and SAIFI are standard international industry measures of network reliability performance. They include planned and unplanned interruptions.

   SAIDI: system average interruption duration index – the average duration of supply interruptions that each consumer experiences.

   SAIFI: system average interruption frequency index – the average number of supply interruptions that each consumer experiences.
7. A severe snow storm in June 2015 added network interruptions as follows (before normalisation):
   - SAIFI – 0.04 interruptions
   - SAIDI – 32 minutes

   A bird strike in October 2015 added network interruptions as follows (before normalisation):
   - SAIFI – 0.1 interruptions
   - SAIDI – 7 minutes.

Performance statement – network development

For the year ended 31 March 2016

1. **Lay and commission a permanent 66kV high voltage underground feed from Transpower's Bromley grid exit point to the McFaddens, Dallington and Rawhiti Domain zone substations. Then remove the temporary 66kV overhead lines we installed after the February 2011 quake**

   Target date: 31 August 2015

   Status: Achieved in early December 2015

   Following the 22 February 2011 quake, we urgently built temporary 66kV overhead lines from the Bromley grid exit point to our Dallington and Rawhiti zone substations in order to restore power to the eastern suburbs. Our temporary lines were initially authorised by Civil Defence and then subsequently by resource consents approved by the CCC.

   We commissioned and tested our new 66kV underground cables in the eastern suburbs, and we removed the temporary overhead lines before their resource consents expired in mid-December 2015.

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

   Target date: Ongoing

   Status: Achieved

   We continue to work with CERA, CCC, SCIRT and developers on an ongoing basis. We decommission and commission connection points and network equipment as necessary and we provide comprehensive information and advice so that developers and their advisors know what to expect and can plan accordingly.

   Our 66kV and 11kV underground cable assets in the CBD sustained relatively little damage from the quakes. Our aim is to provide a resilient and reliable electricity distribution network to CBD businesses and residents in the years ahead.

   In order to ensure network resilience and safety, we no longer house new substations in building basements that are prone to flooding in the CBD. Good access in the event of an emergency is a priority.

3. **Continue to support the key regional quake recovery planning documents**

   Target date: Ongoing

   Status: Achieved

   Our key role here is to restore network resilience and reliability and to plan for future customer load growth and new connections. Our key planning and accountability document is our ten-year network asset management plan (AMP).

   We 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.

Performance statement – environment

For the year ended 31 March 2016

Introduction

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

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

1. Continue to undertake and encourage demand side management (DSM)

Target date: Ongoing

Status: Achieved

Over 90% of our annual carbon footprint comes from:

- electrical losses, a natural phenomenon caused by heating as electricity passes through network equipment
- carbon that's embedded in our electricity distribution network.

Electrical losses increase considerably when network assets are highly loaded during peak demand periods. It therefore makes sense to try to reduce system peaks via demand side management (DSM) initiatives where practicable. Our DSM initiatives also aim to prevent over investment in network assets.

Our network price structures aim to reflect the long run economic costs of providing our network delivery service. The aim is for consumers to make efficient decisions about when to use (and not use) electricity, in order to reduce system peaks and reduce the long run costs of our network. We also help local businesses to install standby generation and we send them real-time price signals in order to reduce system peaks. In many cases, standby generation helps reduce system peaks and this reduces electrical losses and the need for additional network assets. We continue to co-operate with other electricity distributors on the upper South Island centralised load management control system – this assists with reducing system peaks on the South Island transmission grid.

2. Keep annual SF_6 gas losses below 1% per year

Target date: Ongoing

Status: Achieved

Sulphur hexafluoride is an excellent electrical insulator. It's inorganic, colourless, odourless and non-flammable. But it's a potent greenhouse gas. SF_6 is mainly a legacy network equipment issue for the industry. Our recent purchases of Transpower spur assets means that we now have over 1 tonne of the gas in our network – so we are now part of the Environmental Protection Agency's mandatory compliance regime for SF_6. In our memorandum of understanding with the Ministry for the Environment, we commit to keeping our annual SF_6 gas losses below 1% of the total contained in our network equipment. Our SF_6 gas losses were below 0.1% in FY16.

3. Keep non-contained transformer oil spills to nil

Target date: Ongoing

Status: Achieved

We have installed oil containment bunding at our zone substations. We also have oil spill mitigation procedures to quickly and effectively deal with incidents should they occur. During the year we had no significant oil spills.

4. Continue to 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. We also enable the safe and efficient connection of a range of distributed electricity generation, including renewables.

Performance statement – community and employment

For the year ended 31 March 2016

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

   Target date: 31 March 2016

   Status: Not achieved

   Our aim is zero harm.

   This target covers Orion and its contractors (including Connetics). This is a challenging target, due to the physical nature of the work required on our electricity distribution network.

   In the year to 31 March 2016, we had three employee lost time accidents, resulting in 63 days of lost time (equivalent period last year: four accidents and 46 days of lost time).

   In the year to 31 March 2016, our contractors had seven lost time accidents, resulting in 84 days of lost time (equivalent period last year: nine accidents and 54 days of lost time).

2. **Comply with health and safety legislation**

   Target date: 31 March 2016

   Status: Achieved

   We aim to have safe worksites and a safe network – for our employees, contractors, visitors and the public. Electricity and electricity distribution are inherently high risk. The electricity industry has specific health and safety legislative and regulatory requirements.

   Orion and Connetics are well underway with risk-based safety improvement programmes, in advance of new health and safety legislation taking effect in April 2016. Key programme initiatives include:

   - increased profile and leadership of the importance of safety and what we want to achieve – safe outcomes
   - effective engagement at all levels – the board of directors, management, all employees, contractors and suppliers
   - increased use of lead and lag indicators
   - effective and timely investigation, analysis and corrective actions for accidents and near miss incidents.

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

   Target date: Ongoing

   Status: Achieved

   This target covers all accidents on our network, except for car versus pole accidents.

   In the year to 31 March 2016, no members of the public had an injury accident related to our electricity distribution network or work sites (equivalent period last year: nil)

Performance statement – community and employment continued

For the year ended 31 March 2016

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

Target date: Ongoing

Status: Achieved

Our public safety education programme covers issues such as tree owners' 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, and safety and security near electricity equipment. We deliver our safety messages through community shows, presentations to targeted groups and media outlets such as local newspapers and radio.

We especially target contractors and their principals because they are exposed to network hazards in the field – especially those involved in the wider post-quake recovery and rebuild. The fact that many contractors are expanding and experiencing high employee turnover, mean that safety risks for those working near our network assets remain high.

The Ministry of Business, Innovation and Employment has published a mandatory code of practice for working within four metres of overhead networks and there is an industry best practice guide for working near underground networks.

We continue to:

- develop and grow constructive and mutually beneficial relationships with contractors, their principals and other interested parties to promote safety around our network. This has included safety briefings for over 5,000 contractor employees, during and outside of normal working hours
- process safe-approach consent applications in a timely and effective manner
- work with the Electricity Engineers' Association (EEA) and representatives from across the electricity industry on a public safety working group – to develop resource of educational and promotional material on electricity safety. This will enable all sectors of the industry to deliver consistent safety information to the public. A 12 month national safety radio advertising pilot scheme is underway
- advertise safety messages via local radio, print and rural A&P shows.

5. Run a staff culture survey, and follow up on the results

Target date: 31 March 2016

Status: Achieved

We ran this survey in September. The survey measures employees' perceptions of workplace culture attributes. We're now working through the results with work teams.

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

Target date: Ongoing

Status: Achieved

During the year, employee turnover was:

- 4.4% for Orion (equivalent period last year: 3.3%)
- 8.5% for Connetics (equivalent period last year: 6.7%).

Performance statement – community and employment continued

For the year ended 31 March 2016

7. Continue with our Orion engineering development programme

Target date: Ongoing

Status: Achieved

As at 31 March 2016, we employed seven employees in our engineering development programme (equivalent date last year: six). During the year two employees were appointed to permanent roles with Orion.

Our programme continues to successfully develop and place talented and motivated people into key positions in our business. Positions in the programme are advertised internally and externally. 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 with skill shortages and/or succession opportunities. Trainees usually complete the programme in three years, and are then placed in permanent roles in the company.

8. Continue to develop our Connetics apprentice scheme

Target date: Ongoing

Status: Achieved

As at 31 March 2016, Connetics employed 29 apprentices (equivalent date last year: 31) as follows:

- 19 electrical – including substations, streetlighting and wider electrician units
- 9 multi-skill – overhead lines and underground cables
- 1 overhead lines.

9. Continue to support the CPIT Trades Innovation Centre

Target date: Ongoing

Status: Achieved

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

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

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 2016

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 consisting of Orion New Zealand Limited and its subsidiaries, on her behalf.

Opinion on the financial statements and the performance information

We have audited:

- the financial statements of the Group on pages 41 to 62, that comprise the statement of financial position as at 31 March 2016, 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 63 to 69.

In our opinion:

- the financial statements of the Group:
  - present fairly, in all material respects:
    - its financial position as at 31 March 2016; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand in accordance with New Zealand equivalents to International Financial Reporting Standards.
- the performance information of the Group presents fairly, in all material respects, the Group's achievements measured against the performance targets adopted for the year ended 31 March 2016.

Our audit was completed on 10 June 2016. This is the date at which our opinion is expressed.

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

Basis of opinion

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

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

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and in the performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and the performance information whether due to

fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Group's financial statements and performance information 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.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the appropriateness of the performance information within the Group's framework for reporting performance;
- the adequacy of the disclosures in the financial statements and in the performance information; and
- the overall presentation of the financial statements and the performance information.

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

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

Responsibilities of the Board of Directors

The Board of Directors is responsible for the preparation and fair presentation of financial statements in accordance with New Zealand equivalents to International Financial Reporting Standards and generally accepted accounting practice, and for the preparation and fair presentation of performance information for the Group.

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

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

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and the performance information and reporting that opinion to you based on our audit. Our responsibility arises from the Public Audit Act 2001.

Independence

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

In addition to the audit, we have carried out two assurance engagements for the company. These engagements were in respect of the company's disclosure information prepared under the Electricity Distribution Information Disclosure Determination 2012 and the Compliance Statement prepared under the Orion New Zealand Limited Customised Price-Quality Path Determination 2013. These assignments are compatible with the 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

Corporate governance statement

Ownership

The company is owned by:

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

Principal activities

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

- provide electricity distribution network services to customers in the Christchurch and central Canterbury region
- provide contracting services in the utilities sector
- seek investment opportunities in the infrastructure and energy sectors.

Role of the board

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

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

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

Statement of intent

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

After due consultation with the company's shareholders and after considering comments from those shareholders, the board approves the final SOI and delivers it to the company's shareholders. A copy is also placed on the company's public website.

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

Board membership

Pursuant to the company's constitution:

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

The board chairman is elected by the board.

Board operation

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

The board chairman has a leadership role in the conduct of the board and its relationship with the shareholders and other major stakeholders. The chairman maintains a close professional relationship with the company's chief executive officer, and through him, the senior management team.

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

Corporate governance statement continued

Code of conduct

The board has adopted a code of conduct. The code clarifies how the board and directors shall undertake their responsibilities, including:

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

The board reviews the code of conduct every year.

Policies

The board reviews the company's key policies, and any recommendations for changes from management.

Board performance and review

The board regularly reviews its performance and the performance of the chief executive officer. The reviews aim to identify opportunities and set plans for performance development and improvement.

Board meetings

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

The board receives formal agenda papers and regular reports, generally a week in advance of meetings.

Senior managers are regularly involved in board discussions. Directors also have opportunities to obtain further information and seek independent expert advice.

Board committees

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

The board's two standing committees are as follows:

- 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 standing committee members during the year ended 31 March 2016:

Audit committee	Remuneration committee
Paul Munro – chairman	Geoff Vazey – chairman
John Austin	Jeremy Smith
Nicola Crauford	
Jeremy Smith	

Corporate governance statement continued

Subsidiary companies

The following served as directors of subsidiary companies during the year ended 31 March 2016:

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

Legislative compliance

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

Directors' insurance

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

Loans to directors

The group does not make loans to directors.

Donations

The group made $1,200 of donations to charitable causes during the year (2015: $2,000).

Auditor

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

Conflicts of interest

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

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

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

Corporate governance statement continued

Interests register

Directors recorded the following interests in the interests register during the year ended 31 March 2016.

John Austin	Thomas Austin Securities Limited	Director
Nicola Crauford	Co-operative Bank Limited – electoral authority	Member
	Crauford Robertson Consulting Limited	Director
	Environmental Protection Authority	Director
	GNS Science	Director
	Local Government Risk Management Agency Establishment Board	Member
	Martin Crauford Limited	Director
	Riposte Consulting Limited	Director
	Watercare Services Limited	Director
	Wellington Rural Fire Authority	Director
	Wellington Water Limited	Director
	WorleyParsons New Zealand Limited	Consultant
Paul Munro	Central Plains Water Limited	Director
	Deloitte Limited	Director
	University of Canterbury Students Association	Advisory board
Bob Simpson	Electricity Engineers Association	Director
	New Zealand Board of Engineering Diploma	Director
	Simpson & Associates Limited	Director
Jeremy Smith	Atlas Resources Limited	Director
	Barhill Chertsey Irrigation Limited	Director
	Farra Engineering Limited	Director
	Holcim (New Zealand) Limited	Director
	Holmes Group Limited	Director
	McDonald's Lime Limited	Director
	NZ Portland Cement Association Limited	Director
	Port Hills Leisure Limited	Director
	Seamount Advisory Limited	Director
	South Pacific Cement Limited	Director
	Water Utilities Ashburton Limited	Director
Geoff Vazey	Business Mentors New Zealand Limited	Chairman
	Consult GV Limited	Director
	HEB Construction Limited	Director
	Cook Islands Port Authority	Director
	Maphona Farms Limited	Director
	Green Valley Dairies Limited	Director
	Green Valley Distribution Limited	Director

Corporate governance statement continued

Directors' remuneration

The group's directors received the following remuneration during the year was as follows:

	Orion $000	Connetics $000
John Austin	47	-
Nicola Crauford	47	-
Paul Munro	53	-
Bob Simpson	44	-
Jeremy Smith	91	-
Geoff Vazey	48	17
	330	17

Employee remuneration

The group aims to attract, retain, develop and motivate high calibre employees at all levels of the organisation. The group's employee remuneration strategy aims for consistency, fairness and alignment with the group's principal objective – to operate as a successful business. The group regularly compares its employee remuneration against market data. In general, the group aims 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's employment terms and conditions and the board remuneration committee approves those of the direct reports to the chief executive. Four collective employment agreements cover around 45% of the group's employees.

Chief executive officer's remuneration

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

The company employed Mr Jamieson as chief executive officer in August 2011. Mr Jamieson's employment agreement provided for a one-off deferred payment at the end of three years, subject to achieving performance objectives throughout those three years, and subject to Mr Jamieson remaining in the role. The one-off deferred payment was the equivalent of six months' total remuneration.

In early 2014, the Orion board carefully considered Mr Jamieson's performance and confirmed that Mr Jamieson had achieved the requirements to earn the deferred one-off payment. In taking the company's overall best interests into account, the board decided to:

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

Following the final payment above, Mr Jamieson's employment agreement now has no deferred payment component to it.

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

	2016 $000	2015 $000
Fixed remuneration	613	597
One-off deferred payment	79	79
One-off holiday pay effect	23	29
	715	**705**

In accordance with the Holidays Act 2003, Mr Jamieson's holiday pay has been paid at his average daily pay rate, calculated by reference to his gross taxable earnings for the previous 12 months. The one-off deferred payments noted above have therefore increased Mr Jamieson's holiday pay in the years ended 31 March 2015 and 2016.

Corporate governance statement continued

Group employee remuneration

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

Remuneration $000	2016	2015
100 - 110	41	33
110 - 120	27	21
120 - 130	25	27
130 - 140	17	14
140 - 150	9	6
150 - 160	9	8
160 - 170	5	5
170 - 180	2	1
180 - 190	1	-
190 - 200	1	1
210 - 220	2	2
220 - 230	-	1
230 - 240	3	2
240 - 250	1	-
250 - 260	1	1
300 - 310	1	1
310 - 320	1	-
370 - 380	-	1
380 - 390	1	-
440 - 450	-	1
470 - 480	1	1
480 - 490	1	-
700 - 710	-	1
710 - 720	1	-

Five-year trends – group

	2016 $m	2015 $m	2014 $m	2013 $m	2012 $m
Statement of comprehensive income					
Operating revenue	307	334	270	261	245
EBIT	86	116	73	70	73
Profit before income tax	74	110	69	66	68
Net profit	53	83	50	49	54
Other comprehensive income	-	-	79	-	-
Total comprehensive income	53	83	130	49	54
Statement of financial position					
Current assets					
Cash and cash equivalents	-	-	1	1	1
Trade and other receivables	9	12	11	10	19
Investment property	-	-	-	9	-
Other	13	12	13	8	7
	22	24	25	28	27
Non current assets					
Property, plant and equipment	1,097	1,055	1,010	855	820
Investment property	-	-	-	-	8
Other	3	5	5	6	6
	1,100	1,060	1,015	861	834
Total assets	1,122	1,084	1,040	889	861
Current liabilities					
Trade and other payables	35	39	38	29	28
Borrowings	1	2	2	-	-
Other	7	9	5	4	3
	43	50	45	33	31
Non current liabilities					
Borrowings	227	84	74	61	53
Deferred tax	187	188	186	155	153
Other	5	2	2	3	4
	419	274	262	219	210
Equity					
Share capital	105	120	120	120	120
Asset revaluation reserve	105	105	105	26	26
Retained earnings	450	535	508	491	474
	660	760	733	637	620
Total liabilities and equity	1,122	1,084	1,040	889	861
Statement of cash flows					
Operating cash flows	103	114	85	78	61
Investing cash flows	(91)	(68)	(52)	(53)	(43)
Financing cash flows	(12)	(46)	(34)	(25)	(17)

Five-year trends – group continued

	2016 $m	2015 $m	2014 $m	2013 $m	2012 $m
Financial performance indicators					
Dividends paid	63	56	34	32	34
Share buy-back	90	-	-	-	-
Net profit to average shareholders' equity (%)	7.5	11.1	7.4	7.8	8.9
Net interest bearing debt to debt-plus-equity (%)	26	10	9	9	8

Non financial measures					
Electricity maximum demand (MW)	618	590	619	592	633
Electricity deliveries into the network – including from embedded electricity generation (GWh)	3,296	3,277	3,162	3,165	3,070
Number of customer connections (000)	195	191	189	189	191

Directory
As at 10 June 2016

Directors
Jeremy Smith - chairman

John Austin

Nicola Crauford

Paul Munro

Bob Simpson

Geoff Vazey

Corporate management
Rob Jamieson
CHIEF EXECUTIVE OFFICER

David Freeman-Greene
GENERAL MANAGER COMMERCIAL

Brendan Kearney
GENERAL MANAGER CORPORATE SERVICES

Craig Kerr
GENERAL MANAGER INFORMATION SOLUTIONS

John O'Donnell
CHIEF OPERATING OFFICER

Adrienne Sykes
GENERAL MANAGER HUMAN RESOURCES

Rachel Walker
GENERAL MANAGER SAFETY AND RISK

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Auditor
Audit New Zealand, on behalf of the Auditor-General

Sources of information
Other organisations and websites of interest include:

- Christchurch City Council
  ccc.govt.nz
- Commerce Commission
  comcom.govt.nz
- Community Energy Action
  cea.co.nz
- Connetics
  connetics.co.nz
- Consumer electricity information
  powerswitch.org.nz and whatsmynumber.org.nz
- Electricity and Gas Complaints Commission
  egcomplaints.co.nz
- Electricity Authority
  ea.govt.nz
- Electricity Networks Association
  electricity.org.nz
- Environment Canterbury Regional Council
  ecan.govt.nz
- Energy Efficiency and Conservation Authority
  eeca.govt.nz
- Regenerate Christchurch
  regeneratechristchurch.nz
- Otakaro Limited
  otakaroltd.co.nz
- Selwyn District Council
  selwyn.govt.nz

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