



Nau mai, welcome

Welcome to the Orion Group Annual Report for 2023.

You'll notice this year's report is a little different from our previous Annual Reports.

We have started our journey to embrace a more integrated reporting approach – one that recognises the broad range of Orion Group's contributions to the community we serve.

This change is reflected in a range of ways.

We have refreshed the Group strategy we formed in 2020, to be clearer about our priorities.

We have five key focus areas to concentrate Orion's capabilities and expertise on the most urgent and effective ways to achieve our Purpose.

This report provides an overview of our key achievements over the year in these focus areas, aligned to six capitals to tell our value creation story.

We have also provided an insight into the risks and opportunities Orion Group faces – another aspect of integrated reporting we have embraced. This provides a deeper picture of the dynamic environment in which Orion Group operates.

If you would like to know more about us and how we are planning for the future, our 2023 **Asset Management Plan**, and **Statement of Intent** are available on our website.

Cover: The Burson family enjoying their warm home, with help from Community Energy Action insulation, supported by Orion. Richard is one of the designers of this Annual Report.

Capitals

Assets



Know-how



Community



People



Environment



Financial



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Highlights

Facilitating decarbonisation and hosting capacity at lowest cost

661MW

network maximum demand
60MW below last year



61%

Load Factor - utilisation of our network



Investing to maintain a safe, reliable, resilient network, at lowest total lifecycle cost

220,800

customer connections
5,100 more than last year



3,521

gigawatt hrs of electricity delivered
105 more than last year



Being a force for good in the community we serve

615

households supported to be more
energy efficient



20

community groups supported by
Orion Group



+35

Net Promoter Score from
residential customers



20,662 tCO₂e

Group carbon emissions
see page 83 for more detail



Creating the preferred workplace

16.5%

Group employee turnover
first time reported by Group



63%

Group employee engagement score
first time reported by Group



Fit for purpose capital structure

\$22m

profit after tax
\$14m below last year



\$32m

Fully-imputed dividends
\$1m above last year



The Orion Group

Orion



ENERGY
ACADEMY

Orion Group Strategy



Refreshed in 2022 to be clearer around our priorities, the Orion Group Strategy continues to be the cornerstone of our daily conversations and sets the direction of our vision for the future.

The Orion Group is focused on ensuring we are ready to enable our community to transition to a low carbon economy.

Our Purpose – powering a cleaner and brighter future with our community talks to the impacts we want to make on regional prosperity through energy equity, energy security and sustainability.

Our priority for the next five years is to get 'match fit'. This means our network will be ready for the increased demand as electricity plays a crucial role in decarbonising Aotearoa New Zealand.

Our five year Focus Areas are:

- Facilitating decarbonisation and hosting capacity at the lowest cost – while giving our customers choice on how they access our network
- Investing to maintain a safe, reliable, resilient network at lowest total lifecycle cost
- Being a force for good in the community, enabling the net zero transition
- Creating the preferred workplace – our people are at the heart of what we do
- Fit for purpose capital structure – funding our future

Chair's Report

Bringing the future into sharper focus



Paul Munro, Chair

Tēnā koutou

There is a growing consensus on the importance of the electricity sector for Aotearoa New Zealand's future and this has heightened the Orion Group's focus on where we need to be to meet our community's needs in a fast-evolving landscape.

The increased urgency to decarbonise our economy, climate change precipitating severe weather events across the motu and sustained customer growth in our region have prompted us to refresh our strategy and make a step-change in our network investment plans. Globally many countries face significantly larger challenges than we face in Aotearoa New Zealand however we can't let this relative advantage create complacency – we need to act now to ensure that we can deliver a sustainable future.

The future is electric

At the Orion Group, we are taking a proactive, positive approach to the need for urgency and the increasing pace of change as our sector evolves. We are not alone in recognising our traditional, incremental, business-as-usual approach will no longer cut it - it is acknowledged sector-wide. Sector-wide alignment around what is required has been a positive catalyst for increased collaboration across not just our distribution sector, but the wider electricity industry in Aotearoa New Zealand. Continuing to unlock these collaboration opportunities will be critical to support the delivery of an electric energy future.

Orion is a respected contributor to a range of high-level forums establishing the shape of the energy sector's contribution to the transition to a low-carbon economy, moving Aotearoa New Zealand away from fossil fuels towards renewable energy. **The Future is Electric** - a recently released report by Boston Consulting Group in which Orion participated - coincides with a consensus being reached across the sector and more broadly: that the future is indeed electric, and the electricity sector has a key role to play to decarbonise Aotearoa New Zealand. This report also highlighted the urgency for action, the unprecedented level of investment required and the lead role electricity distributors such as Orion must play, with distributors accounting for the majority of the \$40B investment estimated to be required in the 2020s.

Our investment thesis

Decarbonisation, resilience and population growth are the key drivers of investment in our business. Decarbonisation is one of the biggest mega trends in our lifetime and our investment plans reflect the Group's critical role in meeting Aotearoa New Zealand's emissions targets.

We are also investing in smart virtual infrastructure and the necessary ramp up in customer participation in energy markets that will enable communities to meet their electrification needs and provide resilience.

We are gearing up for a very different future that is fast approaching and are forecasting a significant increase in our network spending over the next 10 years to transform the Orion network.

Supporting our investment

Orion is investing to transform our network in order to meet future needs. This investment will be supported by:

- Regulatory acknowledgement of the investment required and an appropriate pricing framework to be put in place.
- We will expand the customer contribution required for user-specific network development.
- We have a strong balance sheet which can absorb the increased capital expenditure through an appropriately calibrated capital structure which necessarily finds the 'right' balance between debt and equity, and also between dividends and increased network investment.

Economic challenges this year

As with most businesses in Aotearoa New Zealand, FY23 was a challenging year for the Group economically as a result of general CPI increases that created pressure on labour and material costs, together with delivery delays and significant cost increases in equipment sourced internationally. In addition, Orion bore increased interest rates on the unhedged portion of our debt. These factors negatively impacted our profit this year.

Notwithstanding market challenges, the value of our asset base grew by approximately 7% and we are proud to have provided an 10% total shareholder return on investment this year.

Helping hand for colleagues in the aftermath of Cyclone Gabrielle

In March, I received a call from the Chair of Top Energy thanking Orion Group for our mahi to help them restore power to communities in the Far North that were devastated by Cyclone Gabrielle. Our people stepped up to help many North Island electricity businesses restore services in affected areas. Our skilled drone operator helped assess damage to lines in the Coromandel, network controllers helped orchestrate field work safely for NorthPower, and field crews from Connetics were quick to put their hand up to assist Top Energy's local crews. Orion's Customer Support team stepped in to help respond to calls to Unison from often distressed people wanting to know when their power would be restored. It was good to be able to support our colleagues from Top Energy, Northpower, Powerco, and Unison in a time of need.

Farewell to board member

This year Bruce Gemmill stepped down from his role as an Orion director and chair of the Audit and Risk Committee and I would like to take a moment to appreciate the tremendous impact he has had on the organisation since his appointment in September 2016. A professional director and a former senior partner of international accounting firm EY, Bruce brought invaluable financial expertise and strategic vision to Orion Group. During his tenure, Bruce's leadership greatly contributed to the company's growth and success. We wish Bruce the very best in all his future endeavors.

Shareholder acknowledgement

Finally, I would like to acknowledge the support of our two shareholders over the past 12 months. Both Selwyn District Council and Christchurch City Council, through Christchurch City Holdings Ltd, provide professional, respectful, and supportive interaction with our board and leadership team. We are proud to make a positive contribution to their investment in infrastructure that supports the well-being and growth of the communities in our region.

Maintaining our momentum

I look forward to continuing to work with my fellow board members and the Group's leadership team as we navigate the opportunities and challenges in these evolving times and grow the Group's value across all capitals.

Ngā mihi nui

A handwritten signature in blue ink, appearing to read 'P. Munro'.

Paul Munro
Chair

Chief Executive's Report

A year of solid performance and ambitious planning for the future



Nigel Barbour, Group Chief Executive

Tēnā koutou

Decarbonisation is one of the biggest mega trends of our lifetime. As steward of the electricity distribution network serving Aotearoa's second largest city and fastest growing district, Orion has a critical role to play in delivering New Zealand's decarbonisation objectives.

Orion is well positioned to play its critical role in the transition:

- We have a dedicated, clever, and passionate group of people who bring an impressive range of expertise and perspectives to delivering our Purpose of "powering a cleaner brighter future with our community"
- We are one of the sector leaders in this transition
- We have access to low-cost capital to finance capital-intensive development projects — due to our historic solid financial profile backed by a top-notch balance sheet

We are planning for this exciting future, including improving and maturing our business systems and processes to get ourselves 'match fit' to meet the challenges and opportunities of our evolving environment. Across a range of forums we took a seat at the national decision-making table to contribute our perspective and expertise, and shape our sector's role in the future of energy in Aotearoa New Zealand.

We are gearing our business up to meet the challenges and opportunities presented by a more connected and interactive energy future.

Being part of sector decision-making

Orion has always been a respected party in the electricity sector and this year we contributed to a growing range of sector forums that harness new levels of collaboration to address the most important issues and priorities facing our industry. We established a programme of work to explore ways Orion Group can contribute to meeting energy challenges and opportunities, and were a founding partner in establishing FlexForum; initiated the Resi-Flex project with Wellington Electricity; and partnered in the development of EECA-EEA Distributed Energy Resources communications protocols. Orion also joined major industry companies in the Energy Collective Group to raise public awareness of the sector's preparedness for the future. Alongside many of my Orion colleagues who actively participate in Electricity Network Association (ENA) Working Groups, I was proud to be appointed Chair of the ENA in December.

Group strategy refined

With technology and trends in our sector evolving and changing rapidly, our Integrated Leadership Team interrogated the underlying assumptions and direction of the strategy we set for Orion Group two years ago. We asked ourselves if the Group remained focussed on what was most important to serving our community in a rapidly changing energy environment.

Our answer was yes, our Purpose and the impacts we seek to achieve remain as relevant today as they were when we first established our strategic framework in 2021. At its heart, our commitment to our Purpose remains unwavering. Naturally, some aspects have become more clear or urgent as technology, the operating environment and our community's needs have evolved over time.

The board endorsed a refreshed strategy which reflects our evolving context. Our Key Focus areas more sharply focus our efforts on areas of most importance and benefit to our stakeholders, and ensure our actions contribute productively to the impacts we strive to achieve and deliver on our Purpose.

Step-change in how we manage our assets

Over the next 10 years, we will make a step-change in how we approach management of the Orion network, and expand the energy design, construction and maintenance services Connetics provides.

In our Asset Management Plan released in March 2023, we considered the direction and magnitude of the challenges and opportunities to meet Aotearoa New Zealand's increasing reliance on electricity, the impacts of climate change and new customer expectations. Based on our best estimate of the direction and magnitude of future changes in our sector, we have forecast to increase capital expenditure by 260% and operating expenditure by 140% over the next 10 years.

Strong operational performance

Despite the demanding economic conditions of the past twelve months, I am proud to report Orion substantially delivered its programme of network maintenance and development to support growth and a sustainable electricity supply to the people and businesses of our region. Connetics developed new business opportunities and expanded its capabilities. We largely achieved the performance targets set out in our Statement of Intent and completed or made excellent progress on the key initiatives we committed to undertake in FY23.

We also challenged ourselves to increase our operational efficiency through improved performance management and capability development programmes, and took significant steps towards moving our business from analogue to digital.

Thank you to our board and our people

The Orion Group is fortunate to have a dedicated, clever, and passionate group of people who bring an impressive range of expertise and perspectives to our business and to our board table. I and the leadership team would like to thank the wider Orion whānau for all their mahi and the board for their guidance and supportive approach to working with us, and clear vision for the Group's future.

Our strong network performance, the esteem in which Orion is held in sector discussions and our readiness to take change and opportunities in our stride are testament to the calibre of the people in the Orion Group. Of all the challenges we face, continuing to support the retention, capability development and growth of our people is possibly our greatest.

For me, and I'm confident this is shared by other Orion Group people, it's a cool time to be part of an industry that is growing in importance in people's lives - to deliver on our Purpose:

Powering a cleaner and brighter future with our community

Nāku, nā

Nigel Barbour
Group Chief Executive

Meadow Mushrooms has moved to an electric boiler, significantly reducing greenhouse gas emissions at their main mushroom growing site in Hornby.



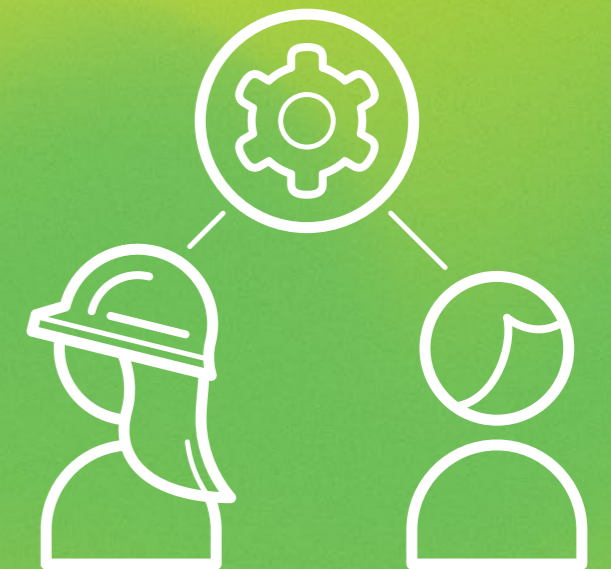
Focus on:

Facilitating decarbonisation and hosting capacity at lowest cost

Assets



Know-how



The future is electric

The electricity sector has a key role to play to decarbonise Aotearoa New Zealand, and the need for action is urgent.

The heavy costs of climate change are becoming increasingly visible to all, strengthening the already compelling case for our transition to a low-carbon future powered by renewable energy.

The Orion Group is on a path to transform our network and services to meet our community's increasing reliance on electricity, the impacts of climate change and new technology.

Here we talk about some of the ways we are helping our customers to decarbonise and give them choice in how they manage their power needs.

Network transformation

We have set Orion on a path to gear-up for a very different energy future. Completed in May 2022, our **Network Transformation Roadmap** sets out how we are developing our network to handle increasing electricity demand and the transition from traditional one-way electricity flow from the national grid, to host the efficient integration of distributed energy resources into our electricity network. Growing demand for electricity and our transformation to a two-way open access network requires significant increased investment which we explain in detail in our **2023 Asset Management Plan**, available on our website.

Flexibility is critical for the transition

Building new infrastructure to service growth can be expensive and this year Orion launched a trial in Lincoln to explore customer-led alternatives – flexibility initiatives which could help defer network investment to manage peak demand as the population climbs in this thriving town. These alternatives to building additional infrastructure could include tapping into the power stored in customers' EVs or home batteries, or large industrial sized containerised batteries. 17 parties responded to our request for Expressions of Interest, and we are exploring the value of a range of proposed options.

Decarbonising mushrooms

Orion is working with more and more local businesses seeking our expertise in the planning of infrastructure to support decarbonising the creation of heat in their manufacturing processes.

In 2022, we worked with the largest producer of fresh mushrooms in New Zealand, Meadow Mushrooms, to make a big leap forward in its goal to reduce its carbon footprint and de-carbon its business. With Meadow Mushrooms accessing financial support from the Government Investment in Decarbonising Industry Fund (GIDI), Orion provided the electrical infrastructure to support replacing their current diesel fired boiler with a low carbon electric option. The move to an electric boiler significantly reduced greenhouse gas emissions at the company's main mushroom growing and packing site in Hornby.

Connetics shines a light on the Port

In August, Connetics completed a programme of electrical work fitting new floodlighting and security camera systems as part of an extensive upgrade of the DryDock at Lyttelton Port Company. The upgraded lighting system features new directional, floodlighting columns with LED lights which use less power and last longer than the previous halogen bulbs. Also, in a welcome benefit to the Lyttelton community, the new directional lights have less light spill into the wider community environment.

25%



of people's lives rely on electricity in 2023, by 2050 it will be 80% – estimated by Orion's Chief Executive

687 MW



utility scale solar projects being considered on Orion's network in FY23

Making waves at Orion

Evie Trolove is no stranger to a challenge, so when asked to take the lead on tackling one of the energy sector's biggest challenges, she immediately said yes.

After 11 years as a surf lifesaver Evie is now making waves in the energy sector by pioneering network solutions to enable cost-effective decarbonisation for consumers.

Evie leads several New Zealand-first initiatives focused on ensuring the electricity distribution network will support people to have more flexibility and choice in how they manage their energy needs.

"Working with a wide range of people across Orion, the wider energy sector and the community is helping us develop inclusive and scalable solutions at pace. The energy transition challenge is too big a challenge to go it alone." says Evie.

After launching the Orion Innovation Pipeline in April 2022, Evie has helped surface 40 innovative ideas.

Eleven of those are now in planning or delivery, including Orion's involvement in the Electricity Engineers' Association **FlexTalk** project which seeks to connect with electric vehicle chargers connected across the Orion network to enable efficient management of power at peak times.

Evie has also initiated our partnership with Wellington Electricity on **Resi-Flex**, a project exploring a range of incentives to encourage households to power energy-hungry devices at off-peak times, to even out the load on the network. Evie says research asking consumers what they think about this idea has been critical.

"Each household has different routines and priorities which impact their energy use. By understanding their perspectives and partnering with industry stakeholders, we can enable greater customer choice over how people power their lives."

"It has reinforced that one size doesn't fit all and that we need to be flexible to get customers on-board."

Above: Evie Trolove
Head of Market & Customer Innovation

Connetics and Isaac Construction are installing new, more resilient underground electric cabling in Orion's network.



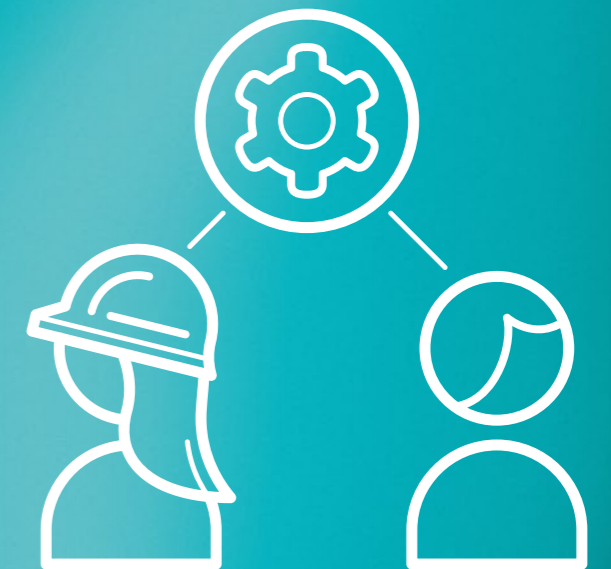
Focus on:

Investing to maintain a safe, reliable, resilient network at lowest total lifecycle cost

Assets



Know-how



Investment to keep pace with change

Three factors drove our major investments in Orion's network in FY23: growth in electricity demand, improving reliability, and increasing network resilience.

We are maintaining and developing our network to keep pace with changing community needs and embracing new opportunities to enhance our performance. That's what makes Orion's network one of the most reliable, and cost-effective electricity networks in New Zealand.

More power from the grid

Rising levels of energy consumption driven by decarbonisation and customer growth mean more power is needed from the national grid. In August 2022, Orion and Transpower began building a new \$58m Grid Exit Point (GXP) to meet record growth in Central Canterbury's electricity demand. It is the largest single network investment project in Orion's 10 year Asset Management Plan. The new Norwood GXP will increase Orion's capacity to draw down power from the national grid by 200MW, or 25 per cent. Maintaining network reliability and resilience are also key factors driving the build. The new GXP is expected to be commissioned by December 2023.

Pole replacement programme boosts reliability and safety

90,000 power poles are the workhorses of Orion's power distribution network. These iconic structures span the suburban streets and rural roads of our region.

Making timely decisions about pole maintenance and replacement is critical to maintaining the reliability of our network and protecting the safety of the community and crews working on them. A high percentage of Orion's timber poles were installed during the 1960s and 1970s and are coming to the end of their life.

In 2022 we began a more comprehensive, systematic inspection process including new below ground checks.

Our accelerated pole replacement programme began in earnest in FY23, replacing those identified as past their useful life. 748 Orion power poles were replaced with new poles - a 140 per cent increase on the number of poles replaced in FY22.

Happy to share our know-how with others, we presented our **Comprehensive Data Collection for Poles** paper at the 2022 Electricity Engineers' Association conference in September and won the best paper award.

Improving resilience

In December, Orion started a programme to replace its oil filled 66kV cable network with modern new cables less susceptible to damage in major earthquakes. Oil filled cables are aging technology, are difficult and expensive to repair and can pose a threat to the environment if punctured. Starting with the stretch of cable from Bromley to our Milton substation, eventually more than 40km of cables will be replaced, removing a significant risk to the power supply for a large number of customers in Ōtautahi Christchurch. With the high risk of a severe Alpine Fault earthquake, this investment in network resilience makes good sense.

Shifting the operating model from analogue to digital

Our ability to invest in our network at lowest total lifecycle cost depends to a large extent on having the data to make the right investment choices in the first place and being able to keep a close eye on on-going operational performance.

We are upgrading and developing new systems and processes to gear up for the future. Our replacement plan for Orion's network information systems includes implementation of an Integrated Asset Management platform which will digitise and automate end-to-end asset lifecycle management. Work has commenced on extending our centralised data intelligence and analytics platform to provide deeper insights and observations on the activity, capacity and flows on our network to enable and assist forecasting.

And our progressive implementation of a Customer Relationship Management system is already delivering efficiency benefits by processing around 4,500 requests for consent to work on or around our network each year.

93%



residential customers satisfied with the reliability of their power supply

0.5



average number of power outages per customer, per annum

Our man of the trees

It takes a lot to fire up 6' 4" Bruce Marshall unless you are talking about trees damaging power lines or his wife's cooking. With around 80 per cent of power outages in severe weather events caused by trees colliding with power lines, he's right to be passionate about his job.

Bruce is in the team responsible for Orion's tree management programme and reckons he just about knows all the trees that threaten Orion's power service in our region.

In his ten years on the job, what works Bruce up most is people not taking responsibility for their trees, "People assume it is someone else's problem and just don't think about the consequences of their trees bringing lines down.

"Their neighbours can be out of power for days, which is no joke at any time, much less in winter when the storms tend to happen."

While Orion regularly surveys and works with tree owners to reduce the threat, Bruce says that's not enough.

"We've put in a lot of hard yards over the last ten years, but we can't do it alone. People who own the tree, need to own the risk, and manage their hazards, as they do with other risks."

Bruce supports the call for tree regulations to be reviewed.

"The current tree regulations are way too complicated and difficult to enforce. They need to give lines companies some teeth."

As people's dependence on electricity grows, and extreme weather events are more likely with climate change, keeping trees well away from power lines is a no-brainer.

Above: Bruce Marshall, Contract Manager - Vegetation

Young members of Wairewa Rūnanga join in signing an agreement with Orion to recloak Te Kaio farm, near Little River.



Focus on:

Force for good

Community

Environment



Contributing to healthy community outcomes

We support people, their ideas, actions, and aspirations for a cleaner and brighter future. From insulating cold homes and fitting energy-efficient light bulbs to partnering with local Rūnanga to reforest land, here we talk about some of the ways as a responsible business, we are making a positive contribution to the health and wellbeing of our community.

Helping to create warmer, dryer, more energy efficient homes

For more than 25 years Orion has supported **Community Energy Action (CEA)**, an organisation helping some of the most vulnerable in our community with practical, sustainable, energy efficient ways to make their homes warmer, dryer and save on their power bills. This relationship is increasingly relevant in a world that is creating more pressure on households to save on costs and be mindful of their carbon emissions.

Reaching out further to help people who are struggling with their power bills, Orion supported 200 energy assessments for Christchurch households in partnership with Christchurch City Council and Christchurch-based energy-efficient lightbulb producers **Ecobulb**. Personalised advice on energy-saving, 3,156 energy saving LED light bulbs and 196 low-flow showerheads were supplied. This programme is expected to deliver an estimated \$975 in annual energy savings per home.

Reclaiming the land

Orion's native forest carbon offsetting programme has now been launched thanks to two historic partnerships with local landowners committed to bringing new life to their land in Banks Peninsula.

On the whenua in Purau Bay we planted 21,000 kanuka seedlings this year. With additional planting of various other native species in subsequent years, this forest will sequester an average 95 tonnes of carbon dioxide per year over the next 50 years. It is also a win for biodiversity which is important for healthy ecosystems.

In February, Wairewa Rūnanga and Orion Group signed an agreement to recloak Te Kaio farm, a 280-hectare block of ex-farmland near Wairewa, Little River, belonging to the Rūnanga. Orion is bringing forestry expertise, capital, and personnel to the project, with Te Kete o Wairewa, the legal entity of the Rūnanga, supplying the land and a mātauranga Māori lens.

Native species will be planted to restore the whenua, adding to the significant local efforts to return the Peninsula to its former forested state. Once the replanting is completed, both parties will enter the carbon farming market together and receive a share of the carbon credits issued via the New Zealand Emissions Trading Scheme.

Orion Group began to offset our emissions in 2022 and we will use carbon credits generated from these forests to offset our residual emissions out to 2050.

Creating fuel from sludge

Two energy startups with novel ways to convert waste to engine fuel won the **Orion Energy Accelerator** competition. CIRCLR, a matchmaker for commercial green waste and bioenergy producers won the 'Orion Innovation Award', and Alimentary Systems, a startup converting wastewater sludge into biofuel, claimed the 'Orion Impact Award'. Increasing the use of sustainable biofuels as a zero carbon alternative to fossil fuels for transport would be a big step in Aotearoa New Zealand's decarbonisation journey. Orion has adapted many of its emergency relief generators to run on biofuel.

When a pole is not just a pole

Visitors to Te Nukutai o Tapoa – Naval Point will benefit from a range of smart technologies installed as part of a new Christchurch City Council trial of smart systems technology to help with future resource planning. The Kōtuitui smart poles and systems integration were designed, procured and constructed by Connetics.

The two Kōtuitui Smart Poles are equipped with a range of features including a free Wi-Fi network, CCTV cameras to help keep the area safe for all to enjoy, pedestrian counters, and speakers for public alerts.

Smart cities design is an expertise Connetics has been developing for several years, and this is the first project of its kind for Christchurch.

21,000



native trees planted to help offset the Group's operational carbon emissions

304



solar panels installed to power Connetics' Islington office

Walking the talk

Over time, Pip has seen a cultural shift on sustainability at Orion.

"As a Group, we've really matured the way we think about sustainability and reducing our carbon emissions. Now, people are asking for a carbon budget for their business unit, and turning up in droves to plant trees.

"From people feeling a bit uncomfortable about having to add new sustainability considerations into their process and purchase decisions, we now have a much stronger collegial approach to problem solving.

"Within the Group and externally, the partnership approach that typifies the working style of sustainability has really helped to solve shared problems and come to a collaborative solution quickly."

Pip Newland walks the talk on sustainability, literally. Equipped with a carbon tracking app, an ebike, a new family EV, and living in an energy efficient house she and her husband had built six years ago, she's making a big personal commitment to reducing her carbon emissions.

As the mother of two active young children, Orion's Head of Sustainability and Risk is used to negotiating solutions around sometimes conflicting agendas.

"Sustainability can often present quite wicked problems with no simple, quick solutions," observes Pip.

"The payoff from a more sustainable practice can be 30 or so years, so it is important to take the long-term view.

Above: Pip Newland, Head of Sustainability and Risk

Orion team members in a lively discussion about their work.



Focus on:

Creating the preferred workplace

People



A cool place to work

The electricity sector has become a cool place to work. We're a passionate group of people helping to solve one of the greatest threats to the world's existence – global warming.

We are focused on ensuring we understand the Group's capability needs for the future and developing our talent profile to meet the needs of tomorrow's workforce. This focus will ensure our people thrive in our new environment and we attract and source the right people to enable our future growth.

We are attracting, developing, and retaining a skilled and motivated team that feels included and reflects the diverse communities we serve.

Workforce development is key

Workforce development is an essential component of the energy transition, and it is vital we take our people along the journey with us and retain the rich talent we have in our team.

Orion Group is addressing employee attraction, retention and development through a broad framework that meets changing workplace needs and embraces modern approaches to people management. We are evolving our workplace policy to meet new needs and circumstances; taking a proactive approach to education and skills training; have a dynamic recruitment process; are proactive in adopting diversity and inclusion strategies; and have implemented a performance management programme that enables our people to flourish and succeed.

Gender diversity and inclusion

This year Orion implemented a diversity and inclusion policy and embarked on a journey to understand the factors that go into the gender make-up of our business which is male dominated, and address gender inequities. To help us on our journey, Orion has received **GenderTick Accreditation**, paving the way for further work to eliminate gender inequity.

We have published our gender pay gap and are working on reducing it. We are working towards a time-bound target of at least 40 per cent female representation across the organisation, and have introduced additional parental leave and benefits, and flexible working arrangements.

Orion Group aspires to develop a workforce that reflects and supports the rich diverse community we live in. We are growing an inclusive culture where all our people feel a sense of belonging and safety to be their whole self at work.

Inspiring female role model

Having a role model who inspires women to expand their vision of what's possible and demonstrate what it takes to grow, encourages women to aim higher. When our Network Planning Engineer Yuyin Kueh was awarded **2022 Young Energy Professional of the Year** at the New Zealand Energy Excellence Awards we felt proud and fortunate to have a strong role model for women engineers in our business.

Flexible working

Our people enjoy the flexibility of having the option to work from home and remain productive while finding it easier to balance life's multiple needs. Cutting back on commute time is a big plus for some. In FY23 Orion established satellite administration offices in Ferrymead and Rolleston to support flexible working options for our people living near those locations and reduce our people's carbon emissions associated with commuting to work.

Energy Academy focusses on the sector workforce

Orion has spearheaded wider industry initiatives to encourage entrants to the energy sector through the Energy Academy. Its online platform, **LUMO364**, connects more than 600 energy sector workers, enabling them to share knowledge and mentor each other. The Academy's **Global Energy Quest** brought together energy sector workers from 22 nations on a 9 week human centered design programme where teams from around the globe collaborated and shared ideas to decarbonise.

The Academy has also been contracted by the Ministry of Social Development to map employment opportunities and roles currently existing across the energy sector and the roles that will be required in the next one to three years.

70+162

Orion Connetics

safety observation visits by our Leadership Teams



12.6%

gender pay gap at Orion - down from 16.9% in FY22



Becoming Sarah Davis

In 2012 Heath Davis joined the Orion Group and in 2021 made the courageous decision to become the person she dreamed of being since childhood, Sarah Davis.

As a trainer in the QHS/Training team, Sarah has never been afraid of standing up in front of an audience, and chose to take the Orion kaimahi on her transition journey. What began tentatively with bright, delicately manicured nails, she openly shares what is going on with the changes in her life, and the challenges of LGBTQIA+ people in the workplace.

Sarah chose to make the changes she had wished for since she was very young when she came to Orion. "The culture and environment here was safe. I had good people around me and this allowed me after five decades of hiding to become my authentic self.

"I try to live by a couple of phrases I have tattooed on my arms. 'Let your faith be bigger than your fear' and

'Show up and be seen'. These words remind me that I need to keep going and keep showing up not just for myself but for others struggling too. Orion has provided me with an amazing opportunity to grow who I am and to share that inclusivity with the people I interact with."

At Orion, and in the wider CCHL Group, Sarah leads in LGBTQIA+ advocacy and her focus is on making Orion a safe place for everyone to be themselves, her end goal.

As an advocate for diversity, inclusion, equality, equity and belonging (DIEEB), Sarah has helped Orion's Inclusion Council to raise the profile of minorities, increased their feeling of belonging and helped develop policies to assist others in finding themselves.

"I love that Orion has empowered me to speak about DIEEB both with my Orion Group kaimahi and the wider CCHL Group."

Above: Sarah Davis, QHS Network Trainer

Orion and Transpower are building a new Grid Exit Point in Norwood to support growth and network resilience.



Focus on:

Fit for purpose capital structure

Financial



Sustainable investment for the future

Our “fit for purpose” capital structure enables Orion to ensure we are financially sustainable over the long term, while also having the capacity to invest in our core energy infrastructure assets and sustain growth to fulfil our Purpose.

At a time of rapid technology advancement, customer growth and climate change, it has never been more important for us to have a capital structure that sustains our vital service to our community.

A year of solid performance

Orion Group delivered another year of solid financial performance. In FY23 we were fortunate to suffer relatively few significant weather events impacting our ability to supply power to our customers.

Our electricity distribution revenues were \$167m, \$2m below FY22 due to mild weather conditions in winter and a wet summer requiring less irrigation.

We have restated FY22’s profit, adding \$2.9m post tax to the profit we reported in 2022 – see Note 11 on page 60. This is due to a change in our treatment of impairment expense. The change has no impact on the carrying value of our assets or on total shareholders’ equity.

Our \$22m profit after tax was \$0.5m below our Statement of Intent (SOI) target, driven by:

- a reduction in impairment expense due to our change in accounting treatment, as above - \$2.4m
- above-budget depreciation expense, primarily due to our 31 March 2022 asset revaluation - \$2.0m

Our FY23 profit after tax was \$14m below our restated FY22 profit, primarily due to:

- higher operating costs, in part due to CPI growth—\$4m
- higher depreciation expense due to our investment in our capital programme and our March 2022 asset revaluation—\$4m
- higher interest expense with increased borrowing to fund our capital programme—\$3m
- minimal change in delivery revenue under our regulatory price path.

Dividends

The Group’s financial performance enabled us to pay \$32m of dividends to our community through our ultimate shareholders – Christchurch City Council (CCC) and Selwyn District Council – in line with our SOI target, and \$1m above last year. A change in legislation allowed the Group to make a subvention payment of \$2.9m to the CCC allowing the CCC to access their tax losses. This payment had no effect on our net profit after tax, customers or dividends paid.

Network capital expenditure

The high number of new connections this year and significant increases in our labour and material costs for our network development programme were reflected in network capital expenditure of \$110m, \$21m higher than last year.

Network assets revalued

We reviewed the carrying value of our electricity distribution network as at 31 March 2023. Directors considered that in accordance with New Zealand Financial Reporting Standards, Orion’s electricity distribution network should be revalued upwards by \$81m to \$1.4b.

Connetics

We are pleased to report Connetics generated a profit of \$2m. Connetics has heightened its focus on developing new revenue streams and opportunities to utilise their expertise in the new energy environment, as well as implementing ways to increase operational efficiency.

Debt to Regulatory Asset Base (RAB)

The percentage of debt to RAB is a measure of financial strength routinely applied to Electricity Distribution Businesses (EDBs). Orion’s estimated percentage for FY23 is 34%, comfortably below the Commerce Commission’s assessment of 42% for an EDB debt gearing ratio.



Working smarter delivers big benefits

Chris Linton says this year’s been the best in his 20 plus career in the electricity sector, thanks to a new approach to working being implemented at Connetics.

Connetics’ **agile workforce** programme has been working with teams to explore ways they can undertake repair and construction projects more efficiently and quickly, without sacrificing safety and the quality of the work.

The result has moved some teams from a one person, one job approach to crew members using a wider range of their skills to multitask when on a job. The approach, which has ramped up over the past six months, is providing huge benefits to Connetics’ financial bottom line and the people in the teams themselves.

“Our people want to be kept busy, and feel like they’ve made a difference in their day when they get home from work.

“We look at what skills they have that can cross-over to other tasks, providing training to upskill as needed. Being able to do more on the job and make a bigger contribution has really increased people’s job satisfaction,” says Chris.

The new approach means projects run more smoothly and with leaner teams - saving on costs that can be reflected in sharper quotes for projects in a competitive industry.

“We are now working with one team of people multitasking instead of three teams for a project.”

Decarbonisation and growth in our region are putting increasing pressure on the availability of skilled people to undertake a rising number of energy infrastructure projects. This is an important Connetics initiative that’s enabling greater productivity in our precious operational workforce.

Above: Chris Linton, Delivery Supervisor, Connetics

Strategic risks



Decarbonisation	Our network could be a barrier to decarbonisation due to insufficient visibility of how our customers use our low voltage network, uncertainty around future decarbonisation paths, and network capacity constraints that may hinder decarbonisation efforts. Overinvestment may also result in unnecessary costs and excess network capacity.
Regulatory	Regulatory settings and policy may not align with our Purpose and strategy, impacting our ability to achieve our objectives and meet stakeholder, customer, and community expectations.
Climate change impacts on network resilience	The physical impact of climate change poses a risk to Orion's infrastructure and operations, impacting our ability to provide a reliable service, increasing maintenance and repair costs, and potentially leading to regulatory penalties.
External disruptive change	External unanticipated or disruptive change which we are unable to adequately respond to in a timely manner, may result in high costs to customers, customers leaving the network and reducing stakeholder value.
Customer and community	Our customers and communities may not equitably engage or participate in the transition, resulting in higher overall cost of decarbonisation / lower affordability; slow or stalled decarbonisation; increasing energy inequity and hardship; lower community energy resilience; and missed opportunities for regional / community economic development.
Workforce and capability	The lack of workforce availability and capability poses a risk to our ability to meet customer demand, maintain a reliable service and comply with regulatory requirements.
Organisational culture	Failure to deliver organisational culture change to support the Group strategy and respond to the changing external environment.
Business capacity for change	The capacity of the business to meet the range of changes required, including process redesign, automation, digital transformation, service development, and shifting customer demands, all while the industry undergoes transformation.
Financial	The risk of rising costs of infrastructure maintenance and upgrades, changes in interest rates, reduction in capital availability, financial instability, regulatory funding, scale of investment required to execute our strategy.

Operational risks



Health and safety	Fatality or permanent disability to a worker, service provider or other person.
Natural disaster	Major earthquake, tsunami triggered by a major earthquake or severe storm.
Weather event	Weather event that results in significant business disruption – becoming more frequent due to climate change.
Serious cyber security breach	Security breach that especially affects our network control systems.
Pandemic	Pandemic that caused business continuity issues; impacts on costs, the supply chain, people capacity.
Significant network asset failure	Extensive network asset damage and/or extended outages to many customers.

Opportunities



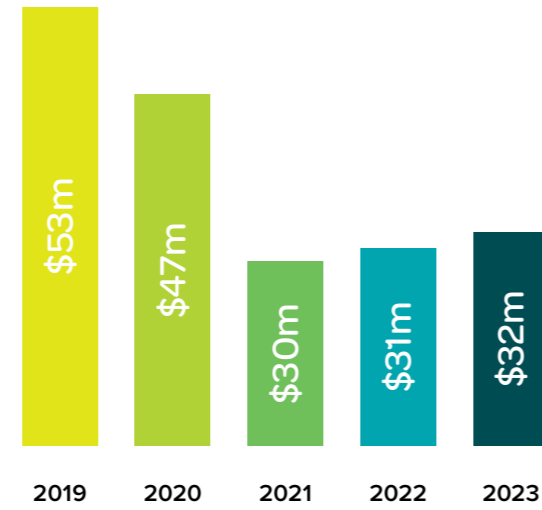
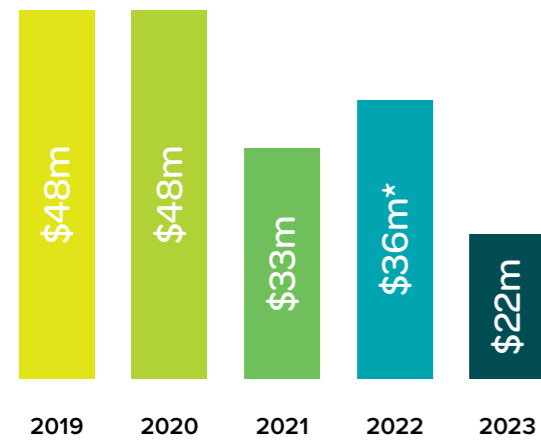
Help our community to decarbonise	Enable our community to decarbonise efficiently, and provide a network that facilitates choice, at lowest cost.
Empower customers	Giving people the opportunity and access to manage their own needs, lifestyle choices.
Upgrade infrastructure	With change comes the opportunity to update aging, equipment with modern, more efficient, and intelligent infrastructure.
Improve operational efficiency	By streamlining systems and processes and introducing efficiencies.
Improve safety	Through remote switching operation and skilled oversight of new connections, the safety of those who work on and are connected to our network will be ensured.
Reduce costs	Data and digitalisation give us the opportunity to reduce costs in some areas through better informed decision-making and greater operational efficiency.
Enrich our workforce with greater diversity	Orion Group can benefit from new perspectives, a wider talent pool, more innovation, better employee performance and increased profits.

Five year comparisons

Net profit



Cash distributions to shareholders

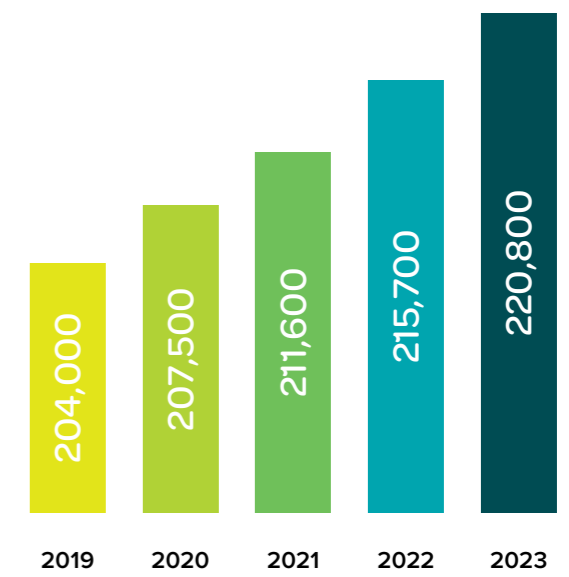
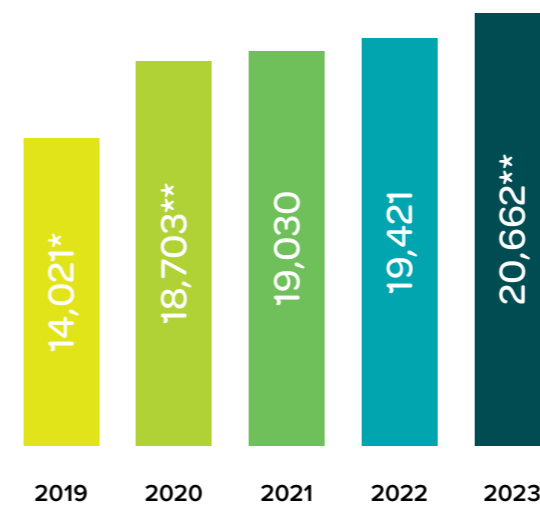


*2022 restated, see Note 11, page 60

Greenhouse gas emissions for Orion Group tCO2e



Customer growth customer connections

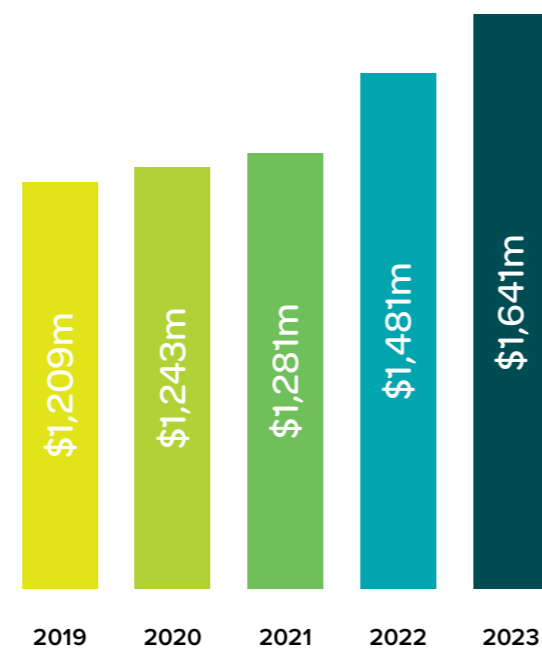
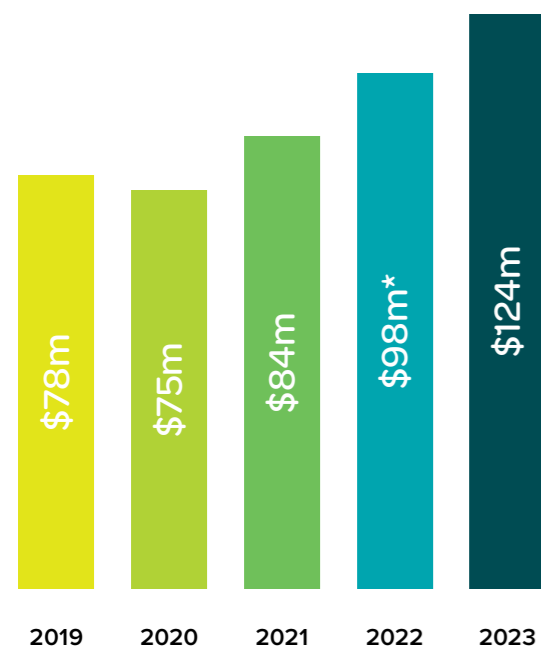


*Orion only ** See page 83
FY20-23 new reporting methodology

Group capital expenditure



Total Group assets

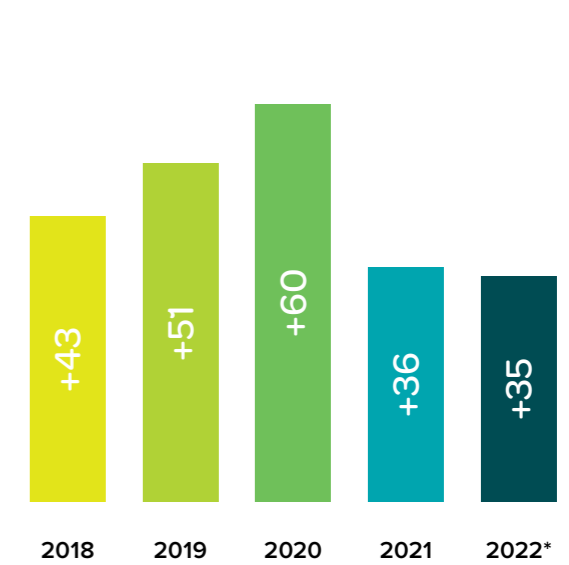
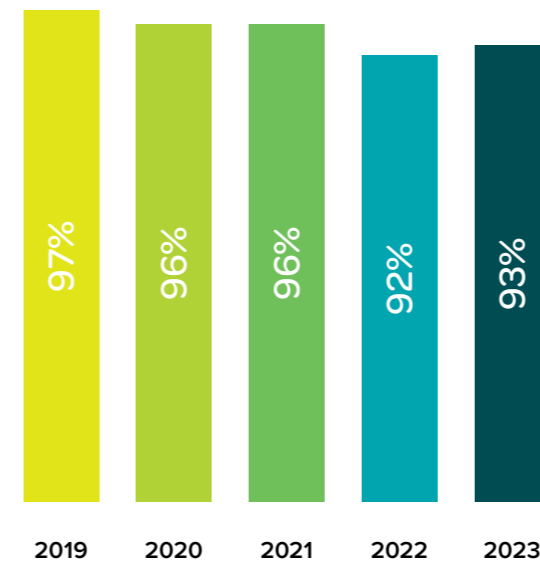


*2022 restated

Residential customer satisfaction with reliability



Residential customer Net Promoter Score



*Methodology changed to provide a more representative sample of our community

Our Integrated Leadership Team



Nigel Barbour
Orion Group Chief Executive



David Freeman-Greene
GM Future Network



Sam Elder
GM Energy Futures



Vaughan Hartland
GM Value Optimisation



Steve Macdonald
GM Electricity Network



Duane Makin
GM Data, Digital
and Technology



John Thompson
Chief Executive of Connetics



Alice van den Hout
GM Purpose and Performance



Nick Wong
GM Growth and Development



Karen Wiese
Company Secretary

Board of Directors

Paul Munro

B.Com (Finance & Accounting), FCA, CFInstD

Paul joined the Orion board for the second time as a director in February 2022 and was appointed as Interim Chair on 1 April 2022, and chair on 31 August 2022. He was Chief Executive of Christchurch City Holdings Limited for almost six years until March 2022. Prior to CCHL, Paul was a Corporate Finance Partner with Deloitte for 24 years. He was a director of Orion from 2012 to 2016, and is currently a director of EA Networks, Toitū Envirocare, Online Distribution, Lynn River, and MHV Water. He is a Chartered Accountant Fellow of CAANZ and a Chartered Fellow of the IoD.

Sally Farrier

BE (Hons), MBA, GDipAppFin

Sally was appointed as an Orion director in August 2020. She has more than 20 years' experience as non-executive director with specialist expertise in economic regulation and governance of energy, utilities and infrastructure. Sally is a director of AusNet Services Ltd which owns and operates an electricity distribution network in Victoria, Australia, and is a former director of Meridian Energy. She has served on Ministerial panels, determination and review bodies related to pricing, planning and reform. She is an active angel investor and was a member of the team that founded Patientrack in the early 2000s.

Mike Sang

BCA

Mike was appointed as an Orion director in August 2021. He has a finance background with a career in a variety of sectors including roles as CEO of Ngai Tahu Holdings and CFO of PGG Wrightson. He is a professional director and has had a number of directorships with current roles including Government Super Fund Authority and BRANZ. Mike is a Chartered Member of the IOD and a Chartered Accountant with CAANZ.

Jen Crawford

BA (Hons), LLB, CFInstD

Jen was appointed as an Orion director in August 2021. She is a professional director with a background in resource management and infrastructure projects. Jen has governance experience in a range of sectors and practiced for more than 20 years as a specialist lawyer in New Zealand and the UK, including as a Partner at Anderson Lloyd. Jen is currently a director of ChristchurchNZ, Nelmac, MHV Water and Chair of Rangitata Diversion Race Management Limited. Jen is a Chartered Fellow of the IoD and a Barrister and Solicitor of the High Court of New Zealand.

Jason McDonald

BE Elec (Hons), MBA (Technology Management)

Jason was appointed as an Orion director in August 2017 and is a director of Orion's subsidiary Connetics. He is an independent energy consultant and professional director. He is currently a director on the First Gas group of companies (including Firstlight Network, formerly Eastland Network) and is a director of Helios Energy. He was previously a director of Mevo, Top Energy and Red Bus. Jason has 30 years' experience in the energy sector including a number of executive roles at Meridian. He is a Chartered Member of the NZ Institute of Directors.

David Cooper

Associate Director

David is an associate director. He has been part of the Enable Networks team since June 2021 and leads their Commercial Team. David has an extensive telecommunications background having held a raft of various roles both in the UK for Virgin Media and O2 and here in New Zealand for Vodafone. David's key areas of experience cover Commercial, Marketing, Sales, and Strategy. CCHL runs an associate director programme offering emerging directors the opportunity to accelerate their boardroom experience with participants assigned as an Associate Director, for an 18-month term, on a board in the CCHL group of companies or entities within the wider CCC whānau.



Above: (Left to right)
Standing: Jen Crawford, Mike Sang, Paul Munro;
Seated: Jason McDonald, Sally Farrier,
David Cooper.

Audited financial statements

The board of directors is pleased to present the audited financial statements of Orion New Zealand Limited and its subsidiaries for the year ended 31 March 2023.

The Group's audited information includes financial statements and performance information.

Performance information comprises:

Our performance targets:

- Financial
- Network Reliability
- Health and Safety
- Customer Inspired

Our key initiatives:

- Re-imagining the Future Network
- Customer Inspired
- Lead and Grow
- Accelerating Capability
- Powering the Low Carbon Economy
- Our Key Projects

Authorised for issue on 29 June 2023.

For and on behalf of the board of directors:



Paul Munro
Director



Mike Sang
Director

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Statement of comprehensive income

	Notes	2023 \$000	2022 *Restated \$000
Operating revenues	2	322,617	310,562
Operating expenses	3	(219,356)	(199,950)
Earnings before interest, tax, depreciation and amortisation (EBITDA)		103,261	110,612
Depreciation, amortisation and impairment expenses*	4	(57,162)	(52,444)
Earnings before net interest expense and tax (EBIT)*		46,099	58,168
Interest income		38	3
Interest expense	5	(16,411)	(12,113)
Net change in fair value of derivatives income	15	770	2,452
Subvention expense	21	(2,827)	-
Profit before income tax*		27,669	48,510
Income tax expense	7	(6,051)	(12,984)
Net profit*		21,618	35,526
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Gain on revaluation of property, plant and equipment*	11	80,647	118,097
Deferred tax effect	7	(22,173)	(26,391)
(Loss)/gain on revaluation of carbon emissions units	10	(571)	1,035
Deferred tax effect	7	160	(290)
		58,063	92,451
Items that may be reclassified to profit or loss in future:			
Change in fair value of cash flow hedges gain	15	2,886	24,275
Deferred tax effect	7	(808)	(6,797)
		2,078	17,478
Other comprehensive income net of tax*		60,141	109,929
Total comprehensive income*		81,759	145,455

* See Note 11 for details regarding the prior year restatement

The accompanying notes form part of these financial statements

Statement of changes in equity

	Share capital \$000	Retained earnings *Restated \$000	Asset revaluation reserve *Restated \$000	Cash flow hedge reserve \$000	Carbon revaluation reserve \$000	Total Equity *Restated \$000
Balance as at 1 April 2021*	105,000	471,746	104,268	(2,836)	(4)	678,174
Net profit*	-	35,526	-	-	-	35,526
Other comprehensive income	-	-	91,706	17,478	745	109,929
Total comprehensive income*	-	35,526	91,706	17,478	745	145,455
Transfers between reserves:						
Realised gain on disposal	-	802	(802)	-	-	-
Deferred tax on realised gain	-	(133)	133	-	-	-
Dividends paid	-	(31,000)	-	-	-	(31,000)
Balance as at 31 March 2022*	105,000	476,941	195,305	14,642	741	792,629
Net profit	-	21,618	-	-	-	21,618
Other comprehensive income	-	-	58,474	2,078	(411)	60,141
Total comprehensive income	-	21,618	58,474	2,078	(411)	81,759
Transfers between reserves:						
Realised gain on disposal	-	532	(532)	-	-	-
Deferred tax on realised gain	-	(110)	110	-	-	-
Dividends paid	-	(32,000)	-	-	-	(32,000)
Balance as at 31 March 2023	105,000	466,981	253,357	16,720	330	842,388

* See Note 11 for details regarding the prior year restatement

The accompanying notes form part of these financial statements

Statement of financial position

	Notes	2023 \$000	31 March 2022 *Restated \$000	1 April 2021 *Restated \$000
Current assets				
Cash and cash equivalents		585	611	2,967
Trade and other receivables	8	38,163	34,632	12,973
Inventories	9	20,675	16,327	11,356
Prepayments		3,964	3,693	34.39
Assets held for sale	11	-	-	1,000
Interest rate swaps		1,451	-	-
Total current assets		64,838	55,263	31,735
Non-current assets				
Prepayments		695	449	462
Goodwill		-	-	250
Intangible assets	10	8,698	7,945	4,500
Property, plant and equipment	11	1,543,935	1,397,937	1,243,672
Interest rate swaps	15	23,220	18,982	93
Total non-current assets		1,576,548	1,425,313	1,248,977
Total assets		1,641,386	1,480,576	1,280,712
Current liabilities				
Trade and other payables	12	48,237	39,290	42,224
Borrowings	14	150,829	185,813	1,008
Income tax	7	906	3,326	3,237
Employee entitlements	13	8,740	7,669	6,625
Interest rate swaps	15	-	-	240
Total current liabilities		208,712	236,098	53,334
Non-current liabilities				
Borrowings	14	346,805	233,945	358,343
Employee entitlements	13	2,808	2,730	2,866
Interest rate swaps	15	2,032	-	7,598
Deferred tax	7	238,641	215,174	180,397
Total non-current liabilities		590,286	451,849	549,204
Shareholders' equity				
Share capital	16	105,000	105,000	105,000
Retained earnings*		466,981	476,941	471,746
Reserves*		270,407	210,688	101,428
Total equity		842,388	792,629	678,174
Total liabilities and equity		1,641,386	1,480,576	1,280,712

* See Note 11 for details regarding the prior year restatement

The accompanying notes form part of these financial statements

Statement of cash flows

	2023 \$000	2022 \$000
Cash flows from operating activities		
Receipts from customers	311,847	285,273
Interest received	37	3
Payments to suppliers and employees	(223,121)	(208,867)
Payments for interest and other finance costs	(16,065)	(11,772)
Payments for income tax	(7,826)	(11,596)
Subvention expense	-	-
Net cash provided from operating activities	<u>64,872</u>	<u>53,041</u>
Cash flows used in investing activities		
Proceeds from the sale of property, plant and equipment	488	2,358
Payments for property, plant and equipment	(108,647)	(86,432)
Payments for intangible assets	(2,505)	(2,205)
Payments for carbon emissions units	-	(340)
Payments for forestry investment	(247)	(101)
Net cash used in investing activities	<u>(110,911)</u>	<u>(86,720)</u>
Cash flows from financing activities		
Proceeds from bank loans	86,500	70,000
Repayment of bank loans	(107,800)	(6,850)
Proceeds from intragroup borrowing	100,000	-
Repayment of lease liabilities	(687)	(827)
Dividends paid	(32,000)	(31,000)
Net cash provided from financing activities	<u>46,013</u>	<u>31,323</u>
Net decrease in cash and cash equivalents	<u>(26)</u>	<u>(2,356)</u>
Summary		
Cash and cash equivalents at beginning of year	611	2,967
Net decrease in cash and cash equivalents	(26)	(2,356)
Cash and cash equivalents at end of year	<u>585</u>	<u>611</u>

The accompanying notes form part of these financial statements

Statement of cash flows continued

	2023 \$000	2022 *Restated \$000
Reconciliation of net profit to net cash provided from operating activities		
Net profit*	21,618	35,526
Adjustments		
Gain on disposal of property, plant and equipment	(123)	-
Property, plant and equipment disposed and written off	293	-
Impairment reversal of intangible assets	62	-
Depreciation, amortisation and impairment of property, plant and equipment*	56,807	52,444
Internal costs allocated to property, plant and equipment and intangible assets	(8,633)	(6,301)
Change in fair value of derivatives	(770)	(2,452)
Increase in deferred tax liability	646	1,299
Impairment of financial assets	(32)	-
Other	47	(81)
	<u>48,297</u>	<u>47,841</u>
Increase in assets		
Trade and other receivables	(19,786)	(21,659)
Inventories	(4,348)	(4,971)
Prepayments	(269)	(140)
Increase/(decrease) in liabilities		
Trade and other payables	20,763	(1,621)
Employee entitlements	1,017	908
Income tax	(2,420)	89
	<u>(5,043)</u>	<u>(27,394)</u>
Net cash provided from operating activities	<u>64,872</u>	<u>53,041</u>

* See Note 11 for details regarding the prior year restatement

The accompanying notes form part of these financial statements

Notes to the financial statements

1. Statement of accounting policies

Corporate information

Orion New Zealand Limited (the company) is a for-profit company incorporated in New Zealand under the Companies Act 1993 and the Energy Companies Act 1992. The consolidated financial statements are for the group comprising the company and its subsidiaries (Connetics Limited and Orion New Zealand Ventures Limited).

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 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.

Some of the amounts reported for the previous period have been restated to correct an error. Detailed information about these adjustments can be found in Note 11.

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 actual 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. Key assumptions are outlined in Note 11.

The Commerce Commission has authorised the company to implement specific network delivery price increases for the five years commencing 1 April 2020 consistent with the Commission's 2020-2025 Default Price-Quality Path (DPP).

There is less certainty in forecasting the company's future revenue cash flows from 1 April 2025 as the company enters the subsequent DPP period, which will determine the allowable revenues and reliability limits that will apply from 1 April 2025 to 31 March 2030.

The company acquires certain electricity distribution assets for less than their replacement cost, sometimes at nil cash cost. The company considers that the cash consideration for these assets represents fair value. Only the cash consideration generates additional future cash inflows under the regulatory price control regime.

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

Notes to the financial statements continued

Land and buildings valuation

The company values its land and buildings using various valuation techniques, including sales comparisons and capitalisation of assessed market rentals for equivalent properties. Key assumptions are outlined in Note 11.

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, and network reliability (SAIDI/SAIFI) measures.

Significant accounting policies

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

(a) Basis of consolidation

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

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

(b) Revenue recognition

Revenues from contracts with customers primarily come from the provision of electricity delivery services, customer capital contributions, contracting services and the sale of goods and services.

Electricity delivery service revenue relates to the provision of electricity distribution services to both electricity retailers and directly contracted customers. Electricity retailer delivery services are performed on a daily basis and considered as a series of distinct services provided over time. Prices are regulated and retailers are charged through a combination of fixed charges and variable charges based on the quantities delivered. Revenue is recognised over time using an output method based on the actual delivery services provided on a daily basis.

In applying NZ IFRS 15 *Revenue from Contracts with Customers* to directly contracted customers, the group has determined that the individual construction contracts and individual delivery service agreements were negotiated as a package with a single commercial objective, to provide the required delivery capacity to the customer. The performance obligation has been assessed as being satisfied over time based on the duration of the contractual arrangement. The contract term is the period during which the parties have present and enforceable rights and obligations. A term of ten years has been determined based on the requirements of the contract and the group's business practice. The transaction price includes customer contributions and delivery charges based on an estimate of quantities delivered. Revenue is recognised over time based on an output method, as the performance obligation is satisfied on a straight-line basis over the term of the contract.

The group derives contracting service revenue from the construction and maintenance of overhead and underground lines for the delivery of utility and infrastructure services across New Zealand. The contracts are typically determined to have one single performance obligation which is integrated and is fulfilled over time.

However, some contracts can be entered into for a construction job including the supply of significant materials. In this case the group will identify the multiple performance obligations and allocate the total transaction price across each performance obligation based on stand-alone selling price. The transaction price is normally fixed at the start of the project. However, changes to job scope and bonuses or penalties, based on performance criteria, result in elements of variable consideration.

Notes to the financial statements continued

Revenue from contracting services where the output is easily measurable is recognised on the output method by reference to the direct measurements of the value to the customer of the goods or services transferred to date relative to the remaining goods or services promised under the contract. The output method is also used for maintenance contracts, where regular maintenance services are provided to a customer at regular intervals.

Revenue from all other contracting services is recognised on the measured input by reference to recoverable costs incurred during the financial year plus the percentage of forecast profit earned. Percentage of fees earned is measured by the proportion that costs incurred to date bear to the estimated total costs of the contract.

The group derives revenue from supply and logistics services which require it to provide either a) a specified quantity of distinct goods or services or b) to make available an undefined quantity of goods or services over the duration of the contract period. There is typically one performance obligation (sale of goods). The contractual arrangement includes a requirement for the group to hold a certain level of inventory for a customer in which case there are two performance obligations (sale of goods and inventory/storage service). Revenue from the supply of goods is recognised at the point in time when sales are invoiced on despatch which is when the control of the goods has transferred to the buyer. Inventory/storage service recognises revenue over time on a straight-line basis.

Government grants are recognised where there is reasonable assurance that the grant will be received, and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

(c) Capital contributions

Customer contribution revenue relates to contributions received from customers - other than delivery service customers who are directly contracted - towards the cost of new connections and network extensions. The customer's supply of electricity is contracted separately, interposed through a retailer, and is therefore not considered to impact the assessment of the customer or performance obligations of the connection contracts. Pricing is fixed and contributions are paid in advance for new connections. Capital contributions are recognised as revenue at the point in time of livening the connection to the network. Capital contributions that are refundable to customers are treated as a contract liability until refunded or applied.

The group also receives capital contributions from customers towards the relocation of existing assets and the construction of assets specific to that customer. Revenue is recognised over time on a contractual milestone basis.

The group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the group does not adjust any of the transaction prices for the time value of money, unless it is specifically provided for in the construction contract.

Where distribution assets are constructed by electricity users and transferred to the group at below full replacement cost, the group recognises the transfer price as being fair value.

(d) 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 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.

Notes to the financial statements continued

(e) 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.

(f) Financial instruments

The group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through Other Comprehensive Income (OCI) or through profit or loss), and
- those to be measured at amortised cost

The classification depends on the group's business model for managing the financial assets and the contractual terms of the cash flows.

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

Subsequent measurement of debt instruments depends on the group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the group classifies its debt instruments:

- **amortised cost** – assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are recognised in the statement of profit or loss
- **Fair Value through Other Comprehensive Income (FVOCI)** – assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest and measured at fair value, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses and interest income which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method
- **Fair Value through Profit or Loss (FVPL)** – assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss in the period in which it arises

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method, less impairment.

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 uses derivative financial instruments, such as interest rate swaps, to hedge its interest rate risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. 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 financial statements continued

For the purpose of hedge accounting an interest rate swap is classified as a cash flow hedge when hedging the exposure to variability in cash flows that is attributable to movements in interest rates on existing or forecast debt. At the inception of a hedge relationship, the group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument
- the effect of credit risk does not dominate the value changes that result from that economic relationship
- the hedge ratio in the hedge relationship is the same as the quantity of the hedged item and of the hedge instrument that the group actually uses for hedging purposes

The group designates all interest rate swaps as cash flow hedging instruments. Existing swaps with a non-zero value at designation will have a portion of ineffectiveness until their maturity. The effective portion of the gain or loss on the hedging instrument is recognised in Other Comprehensive Income (OCI), while any ineffective portion is recognised immediately in net profit. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in the fair value of the hedged item. The amount accumulated in OCI is reclassified to net profit as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss. Prior to 31 March 2020 the group had not designated any derivatives as hedges for financial reporting purposes.

The group applies the NZ IFRS 9 *Financial instruments* simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets. The expected loss rates are based on historical experience, external indicators and forward-looking information.

(g) Inventories

Inventories are valued at the lower of cost and net realisable value, with an allowance for obsolescence where necessary. 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) Intangible assets

Computer software assets

Computer software assets have a finite life. Carrying values are amortised over their estimated useful lives, usually not exceeding three years. However, for significant projects, estimated useful lives may be assessed as up to 10 years.

Carbon emissions units

The asset class, New Zealand Units (NZUs) purchased by the group are initially recognised at cost on the date of acquisition. NZUs have an indefinite useful life and are subsequently measured using a fair value model based on observable market prices. Any increase in the fair value of the NZUs is recognised in other comprehensive income and the carbon revaluation reserve to the extent that it does not reverse a previous impairment. Any decrease in the fair value of the NZUs is recognised in other comprehensive income to the extent that it does not exceed the carbon revaluation reserve for that asset.

The asset class, Verified Emission Reductions (VERs) are initially recognised at cost on the date of acquisition. VERs have no established secondary market and therefore are subsequently measured at cost. VERs have an indefinite useful life. At each balance date VERs are assessed for indicators of impairment. Any impairment loss is recognised as an expense. Cancelled VERs are recognised as an expense.

The group is aiming to achieve carbon neutrality for corporate emissions. The NZUs and VERs are held to offset corporate carbon emissions. Excess units may be sold if no longer required by the group.

Notes to the financial statements continued

(i) 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 a discounted cash flow methodology, using periodic valuations prepared by an external valuer or a management internal assessment. Fair value is reviewed at the end of each reporting period to assess whether the carrying value is materially different to fair value.

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

Depreciation is provided on property, plant and equipment, including freehold buildings and right-of-use assets 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
Building 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 financial statements continued**(j) Impairment of assets**

The carrying amounts of the group's assets, other than inventory 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 group's integrated electricity distribution network is treated as a single cash-generating unit for the purposes of impairment assessment.

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.

(k) Right-of-use assets and lease liabilities

Leases are classified as leases of right-of-use assets 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.

Lease payments that are short-term or low value are recognised as an expense on a straight-line basis over the lease term.

Lease liability payments are allocated between expense and reduction of the lease liability over the term of the lease.

Capitalised right-of-use 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.

(l) New accounting standards and interpretations

No new accounting standards or interpretations that became effective for the year ended 31 March 2023 had an impact on the group.

Certain new accounting standards and amendments have been issued that are not mandatory for the year ended 31 March 2023 and have not been early adopted by the group. The group has assessed that these are not likely to have an effect on its financial statements.

(m) Change in accounting policies

The accounting policies detailed above have been applied in the preparation of these financial statements for the year ended 31 March 2023 and have been consistently applied throughout the year.

There have been no changes in accounting policies in comparison with the prior year.

Notes to the financial statements continued

	2023	2022
	\$000	\$000
2. Operating revenues		
Revenue from contracts		
Recognised over time		
Electricity delivery services	230,080	230,365
Contracting services	56,838	49,702
Consumer capital contributions	156	156
Recognised at a point in time		
Sale of goods and services	15,088	12,961
Contracting services	318	3,924
Consumer capital contributions	3,314	3,645
Other income		
Transmission rental rebates received from Transpower	13,394	6,915
Ministry of Social Development wage subsidy	104	467
Other	3,325	2,427
	322,617	310,562

3. Operating expenses

Transmission	62,696	61,475
Transmission rental rebates passed to retailers	13,394	6,915
Employee benefits	69,625	63,534
Network maintenance	29,428	29,614
Operating lease payments	727	632
Other	43,486	37,780
	219,356	199,950

Employee benefits in 2023 are net of \$8.6m allocated to capital projects (2022: \$6.3m).

4. Depreciation, amortisation and impairment expenses

Depreciation of property, plant and equipment*	54,077	49,460
Depreciation of right-of-use assets	847	1,067
Impairment of property, plant and equipment*	-	-
Impairment of intangible assets	62	-
Amortisation of intangible assets	1,883	1,361
Impairment loss on revaluation of property, plant and equipment	-	19
Property, plant and equipment disposed and written off	293	287
Impairment of goodwill	-	250
	57,162	52,444

* See Note 11 for details regarding the prior year restatement

5. Interest expense

Interest bearing floating rate debt	15,813	11,428
Lease liabilities	598	685
	16,411	12,113

No interest expense was capitalised during 2023 (2022: nil).

Notes to the financial statements continued

	2023 \$000	2022 \$000
6. Income tax and deferred tax		
Income tax expense comprises:		
Current income tax charge	5,420	12,100
Adjustments to prior years	(15)	(415)
Temporary differences*	646	1,299
	6,051	12,984
Reconciliation of profit before income tax with income tax expense:		
Profit before income tax*	27,669	48,510
Prima facie income tax expense calculated at 28%*	7,747	13,583
Tax group loss offset in respect of current year	(2,035)	-
Other permanent differences*	339	599
Income tax expense*	6,051	12,984

* See Note 11 for details regarding the prior year restatement

	Property, plant and equipment \$000	Derivatives \$000	Provisions \$000	Other \$000	Total \$000
Deferred tax liability					
Balance as at 1 April 2021	184,150	(2,169)	(2,343)	759	180,397
Charged/(credited) to income	1,011	687	(140)	(259)	1,299
Charged to other comprehensive income	26,391	6,797	-	290	33,478
Balance as at 31 March 2022	211,552	5,315	(2,483)	790	215,174
Charged/(credited) to income	86	216	(153)	497	646
Charged/(credited) to other comprehensive income	22,173	808	-	(160)	22,821
Balance as at 31 March 2023	233,811	6,339	(2,636)	1,127	238,641

The group's current income tax liability as at 31 March 2023 is \$0.9m (2022: \$3.3m). The liability mainly comprises the group's third instalment of provisional income tax for the year due in the following year.

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 \$12.4m as at 31 March 2023 (2022: \$6.9m), which includes the income tax liability of \$0.9m (2022: \$3.3m).

Notes to the financial statements continued

	2023 \$000	2022 \$000
7. Remuneration of the auditor		
Audit of the financial statements – current year	338	282
Audit of the financial statements – prior year	33	19
Assurance services	175	75
	546	376
Assurance services comprise assurance reviews of the company's annual default price-quality path (DPP) compliance statement and regulatory information disclosures.		
8. Trade and other receivables		
Trade receivables and accruals	32,926	31,533
Contract assets	5,489	3,243
Allowance for impairment of trade receivables	(252)	(144)
	38,163	34,632
Trade receivables before allowance for impairment:		
Current	31,833	29,957
1 month overdue	171	470
2 months overdue	218	520
3 months overdue	704	586
	32,926	31,533
9. Inventories		
Goods for sale	10,465	9,582
Electricity distribution network stock	10,467	6,872
Allowance for impairment	(257)	(127)
	20,675	16,327

Notes to the financial statements continued

10. Intangible assets**Computer software**

Capitalised at cost	13,674	12,573
Accumulated amortisation	(6,708)	(6,977)
	6,966	5,596

Carbon emissions units

Capitalised at cost	1,272	1,318
Accumulated revaluation gain	460	1,031
	1,732	2,349
Net book value	8,698	7,945

Details of carbon emissions units

	NZUs \$000	VERs \$000
Balance as at 1 April 2021	985	156
Emissions units purchased	-	184
Carbon credits cancelled	(11)	-
Revaluation gains through other comprehensive income	1,035	-
Balance as at 31 March 2022	2,009	340
Emissions units purchased	-	-
Emissions units retired	-	(40)
Carbon credits transferred	5	-
Carbon credits cancelled	(11)	-
Revaluation loss through other comprehensive income	(571)	-
Balance as at 31 March 2023	1,432	300
Gross carrying amount	2,003	300
Accumulated impairment	(571)	-
	1,432	300

As at 31 March 2023 the group is holding 26,522 NZUs (2022: 26,605) and 24,874 VERs (2022: 28,000).

Notes to the financial statements continued

11. Property, plant and equipment**Gross carrying amount**

	Freehold land at fair value \$000	Buildings and land improvements at fair value \$000	Electricity distribution network at fair value* \$000	Plant and equipment at cost \$000	Total* \$000
Balance as at 1 April 2021*	77,979	39,153	1,186,949	57,436	1,361,517
Additions*	1,318	212	89,826	4,717	96,073
Disposals	(1,035)	(73)	(1,018)	(2,241)	(4,367)
Reclassified assets	-	-	(39)	39	-
Subsequent measurement of right of use asset	-	(1,916)	-	-	(1,916)
Revaluation*	26,873	4,970	(44,082)	-	(12,239)
Balance as at 31 March 2022*	105,135	42,346	1,231,636	59,951	1,439,068
Additions	3,356	559	111,356	6,548	121,819
Disposals	(207)	(141)	(1,028)	(2,783)	(4,159)
Reclassified assets	-	292	-	(1,814)	(1,522)
Subsequent measurement of right of use asset	-	37	-	-	37
Revaluation	75	-	33,086	-	33,086
Balance as at 31 March 2023	108,359	43,093	1,374,975	61,902	1,588,329

Accumulated depreciation and impairment

Balance as at 1 April 2021	54	2,080	43,477	36,865	82,476
Disposals	-	(14)	(773)	(1,879)	(2,666)
Depreciation expense*	-	1,802	43,619	5,106	50,527
Asset impairment*	-	-	-	-	-
Revaluation*	(54)	(2,829)	(86,323)	-	(89,206)
Balance as at 31 March 2022*	-	1,039	-	40,092	41,131
Disposals	-	-	68	(2,633)	(2,565)
Depreciation expense	-	2,281	47,506	5,137	54,924
Reclassified assets	-	(1,267)	-	(255)	(1,522)
Revaluation	-	-	(47,574)	-	(47,574)
Balance as at 31 March 2023	-	2,053	-	42,341	44,394
Net book value as at 31 March 2022	105,135	41,307	1,231,636	19,859	1,397,937
Net book value as at 31 March 2023	108,359	41,040	1,374,975	19,561	1,543,935

Capital work in progress included above:

As at 31 March 2022	9	55	51,237	752	52,053
As at 31 March 2023	-	114	62,833	1,435	64,382

* Prior year restatement

Notes to the financial statements continued

11. Property, plant and equipment continued

Electricity distribution network

The electricity distribution network, including substation buildings and easements, (the network) was revalued to fair value of \$1,182.5m as at 31 March 2022, based on a valuation range provided by independent valuer Deloitte Limited (Deloitte), in accordance with NZ IAS 16 *Property, Plant and Equipment*, NZ IAS 36 *Impairment of Assets*, and NZ IFRS 13 *Fair Value Measurement*. Deloitte has significant experience in undertaking valuations of unlisted entities and assets for unit pricing, accounting and commercial purposes.

Including capital work in progress, Deloitte's valuation resulted in a total network valuation of \$1,233.8m. Of this total the fair value of easements as at 31 March 2023 of \$2.1m (2022: \$1.9m) is included in freehold land at fair value.

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

Deloitte's key valuation assumptions were that:

- for the ten years ending 31 March 2032 estimated network revenues follow the Commerce Commission's building blocks approach, but exclude growth assumptions related to expansionary growth
- for the three years ending 31 March 2025 network revenues will be below the company's default price-quality path (DPP) limit as a result of excluding expansionary revenue and expenditure
- for the five years ending 31 March 2030 network revenues will be reset to achieve returns based on the new expected regulatory parameters - reset regulatory Weighted Average Cost of Capital (WACC) - on regulatory investment value), adjusted for any known or estimated wash-up amounts carried forward from the current regulatory period
- the estimated DCF mid-point discount rate is 5.5% (nominal, post-tax). The discount rate is a matter of professional judgement. Deloitte has used the ten-year NZ government bond rate as at the valuation date as the basis of risk-free rate. This has been used in conjunction with a view of an appropriate post tax market risk premium. Deloitte has used the same level of asset beta and similar level of leverage to that set by the Commerce Commission for the five-year regulatory period which started on 1 April 2020
- no specific adjustment for COVID-19 is required at this time

Deloitte performed sensitivity analysis as follows:

- a capital expenditure increase/(decrease) of 5% would decrease/(increase) fair value by \$14.4m/(\$14.4m)
- an operating expenditure increase/(decrease) of 5% would decrease/(increase) fair value by \$12.6m/(\$12.6m)
- a discount rate increase/(decrease) of 0.5% would decrease/(increase) fair value by \$56.0m/(\$58.9m)
- an increase/(decrease) in distribution revenue of 0.5% would increase/(decrease) fair value by \$10.1m/(\$10.1m)

As at 31 March 2023 management updated the Deloitte 2022 valuation using updated cash flow forecasts and an identical methodology. The management team has an extensive background in valuation, finance, electricity regulation and financial modelling, and has a good understanding of the current regulatory and commercial environment.

Management used a mid-point nominal post-tax WACC of 6.0% and determined a fair value of \$1,314.7m for the electricity distribution network, including substation buildings and easements (the network).

Management's key valuation assumptions were that:

- for the ten years ending 31 March 2033 estimated network revenues follow the Commerce Commission's building blocks approach, but exclude growth assumptions related to expansionary growth

Notes to the financial statements continued

11. Property, plant and equipment continued

- for the two years ending 31 March 2025 network revenues will be below the company's Default Price-Quality Path (DPP) limit as a result of excluding expansionary revenue and expenditure
- for the five years ending 31 March 2030 network revenues will be reset to achieve returns based on expected regulatory parameters – a reset regulatory WACC on an updated regulatory investment value and reset regulatory opex, capex and revenue allowances
- the estimated DCF mid-point discount rate is 6.0% (nominal, post-tax). The discount rate is a matter of judgement. Management used the ten-year NZ government bond rate as at the valuation date as the basis of risk-free rate. This has been used in conjunction with a view of an appropriate post tax market risk premium. Management used the same level of asset beta and similar level of leverage to that set by the Commerce Commission for the five-year regulatory period which started on 1 April 2020.

Management performed sensitivity analysis as follows:

- a capital expenditure increase/(decrease) of 5% would decrease/(increase) fair value by \$40.1m/(\$40.1m)
- an operating expenditure increase/(decrease) of 5% would decrease/(increase) fair value by \$27.6m/(\$27.6m)
- a discount rate increase/(decrease) of 0.5% would decrease/(increase) fair value by \$64.0m/(\$67.3m)
- an increase/(decrease) in distribution revenue of 0.5% would increase/(decrease) fair value by \$9.1m/(\$9.1m)

Land and non-substation buildings

The majority of the company's land and non-substation buildings were revalued to fair value as at 31 March 2022, by John Pryor, in accordance with NZ IAS 16, NZ IAS 36, and NZ IFRS 13. John Pryor is a registered valuer and a director of Colliers International Limited. John Pryor used significant observable inputs (level 2, as defined in NZ IFRS 13).

John Pryor determined a fair value of \$140.6m for the parent company's land and non-substation building assets. He:

- 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). He compared his values with their respective rateable values and used these comparisons to develop standard site multipliers, which he applied to rateable land values for approximately 2,500 substation sites
- valued the company's head office land and building using a market rental assessment and a capitalisation rate of 5.75% and compared his result with recent market transactions (level 2)
- valued the company's Waterloo Road using a market rental assessment and a capitalisation rate of 4.75% and compared his result with recent market transactions (level 2)

From 1 April 2022 the company processed asset additions at cost, removed assets on disposal and depreciated assets to determine carrying values as at 31 March 2023.

At 31 March 2023 the company reviewed the fair value of its land and non-substation buildings in accordance with NZ IAS 16, NZ IAS 36, and NZ IFRS 13. Based on a review by management which considered price movements in the prior twelve months in the residential, commercial and industrial sectors, Directors formed a view that the carrying value of the company's land and non-substation buildings is materially at fair value.

Minor land and building assets are carried at a combination of depreciated cost or government valuation totalling \$1.0m as at 31 March 2023 (2022: \$1.0m). The carrying value of freehold land also includes \$2.1m (2022: \$2.1m) of easements, valued as part of the electricity distribution network.

Notes to the financial statements continued

11. Property, plant and equipment continued**Asset impairment**

As at 31 March 2023 the company considered whether any assets showed indicators that their carrying value should be impaired. No indications of impairment were identified. Of note:

- the carrying value of the company's electricity distribution network and substation buildings are materially in line with the Regulatory Asset Base (RAB) allowed by the New Zealand Commerce Commission. The RAB is a key determinant of the cash flows that assets generate
- land and non-substation buildings were reviewed, as described above
- other assets are sold at market values close to their carrying value

Correction of a material error in recognising asset impairment

In the year ended 31 March 2023 the company identified an error in its previous financial statements, resulting from a change in accounting treatment in the year ended 31 March 2016. During the years ended 31 March 2016 to 31 March 2022, customers paid capital contributions towards assets initially measured at the cost of construction. The company impaired the carrying value of its electricity distribution network by the amount of capital contributions received as capital contributions reduce the value of the company's regulatory asset base, which in turn reduce the company's future revenue from future regulatory price resets. The associated impairment expense was recognised as impairment of property, plant and equipment expense.

During the year ended 31 March 2023, the company reviewed the carrying amounts of the electricity distribution network assets to determine whether there was any indication of impairment. For the purposes of impairment, where an asset does not generate cash flows independent of other assets, the company considers the asset as belonging to the electricity distribution network, which is a single Cash-Generating Unit (CGU).

As the carrying amounts of electricity distribution network assets are reviewed at balance date to determine if there are any indicators of impairment for the CGU, there is no requirement to separately assess the individual components previously impaired for capital contributions and therefore, no separate impairment was, or is, required. In future years, any adjustments attributable to future capital contributions will be considered within the company's valuation cycle.

Opening balances in the statement of financial position as at 1 April 2021, as well as prior year balances were restated to improve year-on-year comparability of the financial statements.

Consequential changes to other notes are identified in the relevant note disclosure. Comparative trends and the Statement of Performance – Financial have been adjusted and identified.

The error has been corrected by restating each of the affected line items for prior periods as follows:

	As reported 2022 \$000	Adjustment increase/ (decrease) \$000	*Restated \$000
31 March 2022			
Statement of comprehensive income (extract)			
Depreciation, amortisation and impairment expenses	55,376	(2,932)	52,444
Profit before income tax	45,578	2,932	48,510
Net profit	32,594	2,932	35,526
Other comprehensive income:			
Gain/(loss) on revaluation of property, plant and equipment	121,029	(2,932)	118,097
Other comprehensive income net of tax	112,861	(2,932)	109,929
Total comprehensive income	145,455	-	145,455

Notes to the financial statements continued

11. Property, plant and equipment continued**31 March 2022****Statement of changes in equity (extract)****Retained earnings**

Net profit	32,594	2,932	35,526
Total comprehensive income	32,954	2,932	35,526

Asset revaluation reserve

Other comprehensive income	94,638	(2,932)	91,706
Total comprehensive income	94,638	(2,932)	91,706

Total equity

Net profit	32,594	2,932	35,526
Other comprehensive income	112,861	(2,932)	109,929
Total comprehensive income	145,455	-	145,455
Total equity	792,629	-	792,629

Statement of financial position (extract)**1 April 2021**

Retained earnings	445,248	26,498	471,746
Reserves	127,926	(26,498)	101,428
Total equity	678,174	-	678,174

31 March 2022

Property, plant and equipment	1,397,937	-	1,397,937
Total assets	1,480,576	-	1,480,576

Retained earnings	447,511	29,430	476,941
Reserves	240,118	(29,430)	210,688
Total equity	792,629	-	792,629

Statement of cash flows (extract)

Reconciliation of net profit to net cash provided from operating activities (extract)

Net profit	32,594	2,932	35,526
Depreciation, amortisation and impairment of property, plant and equipment	55,376	(2,932)	52,444

Notes to the financial statements continued

11. Property, plant and equipment continued

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.

	2023	2022
	\$000	\$000

Right-of-use assets

Right-of-use assets are included in property, plant and equipment at fair value as

• Electricity distribution network	7,729	8,130
• Buildings and land improvements	2,137	2,676
• Plant and equipment	26	36

Additions to right-of-use assets were:

• Buildings and land improvements	-	-
• Plant and equipment	-	-

The remeasurement of a lease liability during the year ended 31 March 2023 resulted in an increase of \$37,000 in the carrying value of the associated right-of-use asset (2022: decrease of \$1,916,000).

Other assets

Other assets are carried at cost less accumulated depreciation. The group undertakes an annual impairment test for non-revalued assets and has determined that these assets are not impaired.

Notes to the financial statements continued

12. Trade and other payables

	2023	2022
	\$000	\$000
Trade payables and accruals	39,046	34,231
GST payable	124	1,025
Subvention payable	2,827	-
Other	6,240	4,034
	<u>48,237</u>	<u>39,290</u>

13. Employee entitlements

Current	8,740	7,669
Non-current	2,808	2,730
	<u>11,548</u>	<u>10,399</u>

Employee entitlements include a provision for employee long service leave. Key assumptions in the actuarial assessment of the provision as at 31 March 2023 include the risk-free rate 4.2% to 4.3% (2022: 3.3%) and salary inflation 4.3% to 4.9% (2022: 3.5% to 5.0%), and an assessment of the probability of employees receiving each long service leave entitlement.

14. Borrowings

Current

Lease liabilities	829	813
Bank loans	150,000	185,000
Total current borrowings	<u>150,829</u>	<u>185,813</u>

Non-current

Lease liabilities	9,605	10,445
Bank loans	97,200	83,500
Intra Group Funding Facility loans	100,000	-
US Private Placement floating rate notes	140,000	140,000
Total non-current borrowings	<u>346,805</u>	<u>233,945</u>

The group has lease liabilities which relate to agreements with Transpower New Zealand Limited (Transpower) for Transpower to install new assets at or near its local grid exit points, and for the lease of properties in the Wellington and Central Otago areas. At 31 March 2023, the Transpower agreements have remaining terms of between two and 25 years (2022: between three and 26 years). The group 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.

Notes to the financial statements continued

	Minimum future lease payables		Present value of minimum future lease payables	
	2023 \$000	2022 \$000	2023 \$000	2022 \$000
14. Borrowings continued				
Lease liabilities				
No later than one year	1,306	1,327	830	813
Later than one year and not later than five years	3,838	4,195	1,914	2,350
Later than five years	13,308	13,828	7,690	8,095
Minimum lease payments	18,452	19,350	10,434	11,258
Less future finance charges	(8,018)	(8,092)	-	-
Present value of minimum lease payments	10,434	11,258	10,434	11,258
Current			829	813
Non-current			9,605	10,445
			10,434	11,258

15. Financial instruments

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

Capital management

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

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

All bank loans are unsecured against the group. The group provides certain covenants to its key lenders, by way of a negative pledge deed, that it will not create any material security interest over its assets to any party, except under certain agreed circumstances. The deed has other covenants that restrict certain asset disposals, the lending of money to other parties, non-commercial transactions with related parties, the alteration of share capital where this would have a material adverse effect and any material change of business. The deed includes an EBIT interest coverage requirement and an obligation that the guaranteeing group will comprise at least 75% of the group in terms of assets and earnings. The deed places other undertakings and obligations on the company – for example the obligation to provide relevant lenders with information, comply with the law and to pay taxes as they fall due. The company has complied with all covenants during the two years ended 31 March 2023.

The Intra Group Funding Facility loans are unsecured against the group. The loan facility agreement with CCHL has terms which are substantially similar to those in the negative pledge deed referred to above. The loan agreement was executed 30 August 2022.

The US Private Placement floating rate notes are unsecured against the group. The Note Purchase agreement with the US investors has terms which are substantially similar to those in the negative pledge deed referred to above. The company has complied with all terms of the agreement during the two years ended 31 March 2023.

All interest-bearing bank loans, Intra Group Funding Facility and US Private Placement debt and 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.

Notes to the financial statements continued

15. Financial instruments continued

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 management's best overall judgement in conjunction with the board, and based on prudent cash flow forecasts.

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 for the next 12 months.

	2023 \$000	2022 \$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 2023 mature as follows:

\$100m on 31 July 2023⁽ⁱ⁾

\$50m on 1 December 2023

\$60m on 20 September 2024

\$20m on 1 December 2024

\$75m on 20 September 2025

⁽ⁱ⁾ A three-year extension to the \$100m facility has been agreed post balance date.

Amount used at reporting date	247,200	268,500
Amount unused at reporting date	57,800	86,500
	305,000	355,000

Unsecured CCHL Intra Group Funding Facility floating rate notes as at 31 March 2023 mature as follows:

\$150m on 30 June 2038

Amount used at reporting date	100,000	-
Amount unused at reporting date	50,000	-
	150,000	-

Unsecured US Private Placement floating rate notes as at 31 March 2023 mature as follows:

\$45m on 20 September 2028

\$95m on 20 September 2030

Amount used at reporting date	140,000	140,000
Amount unused at reporting date	-	-
	140,000	140,000

Notes to the financial statements continued

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 2023, interest rates (including margins) on the group's bank loans averaged 5.83% (2022: 2.12%). Daily commitment fees are also payable on the bank loan facilities.

Interest rates on the group's Intra Group Funding Facility floating rate loans are based on market rates for bank bills plus a margin. As at 31 March 2023, interest rates (including margins) on the company's intra group funding facility loans averaged 6.20% (2022: not applicable).

Interest rates on the group's US Private Placement floating rate notes are based on market rates for bank bills plus a margin. As at 31 March 2023, interest rates (including margins) on the group's floating rate notes averaged 6.70% (2022: 3.13%).

Interest rates on the group's Transpower lease liabilities are at rates set by Transpower plus, for some contracts, a margin. As at 31 March 2023, interest rates on the group's Transpower lease liabilities averaged 5.75% (2022: 5.77%).

Interest rates on the group's property lease liabilities are assessed at the incremental borrowing rate for the entity at inception of the lease. As at 31 March 2023, interest rates on the group's property lease liabilities averaged 7.25% (2022: 3.98%).

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 based on the five-year regulatory price reset periods (regulatory hedge strategy). The group aims to hedge as close as practicable to 80% of each year's forecast average interest-bearing debt for each regulatory period. This approach creates an effective partial hedge between the group fixing interest costs on part of its forecast debt and the Commerce Commission fixing regulatory WACC and applying that to the company's forecast regulatory asset value during the five-year regulatory period.

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 six 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. These swaps are designated as cash flow hedges. There is an economic relationship between the interest rate swaps and the group's debt as the terms of the interest rate swaps match the terms of the debt, as regards notional amounts and interest reset dates. The group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the interest rate swaps contracts are identical to the risks of the debt and are expected to move in opposite directions. To test the hedge effectiveness, the group uses the hypothetical derivative / match terms method and compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risks. The group expects that its hedges will be highly effective, however some ineffectiveness may arise from the credit value adjustment of the bank counterparty and from existing swaps with a non-zero value at designation during the period to maturity of those swaps.

The fair values of interest rate swaps are based on market values of equivalent instruments at the reporting date and are disclosed below.

Notes to the financial statements continued

15. Financial instruments continued

Outstanding interest rate swaps as at the reporting date:

Swap maturity dates	Average contracted fixed interest rates	Notional principal swap amounts		Carrying value asset/(liability)	
		2023 \$000	2022 \$000	2023 \$000	2022 \$000
December 2023	2.5	70,000	70,000	1,451	822
March 2025	1.3	265,000	265,000	15,894	12,861
April 2025	1.5	100,000	100,000	7,326	5,299
April 2027	4.8	150,000	-	(2,032)	-
		<u>585,000</u>	<u>435,000</u>	<u>22,639</u>	<u>18,982</u>

Disclosed as:

Current assets	1,451	-
Non-current assets	23,220	18,982
Non-current liabilities	(2,032)	-
	<u>22,639</u>	<u>18,982</u>

Change in fair value recognised in:

Profit and loss income	770	2,452
Other comprehensive income	2,886	24,275
	<u>3,656</u>	<u>26,727</u>

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.

The group considers that a reasonably possible movement in New Zealand interest rates is a 1% movement in either direction. The group assesses that the impact on the fair value of interest rate swaps which hedge bank loans, Intra Group Funding Facility loans and USPP floating rate notes is as follows:

	2023 \$000	2022 \$000
Increase of 1% in interest rates as at reporting date		
Increase in profit before income tax	-	-
Increase in other comprehensive income	10,082	8,526
Decrease of 1% in interest rates as at reporting date		
Decrease in profit before income tax	-	-
Decrease in other comprehensive income	10,041	8,958

When interest rates rise, the benefit from the revaluation of the group'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 financial statements continued

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. There are no significant concentrations of credit risk within trade receivables. Trade receivables are non-interest bearing. The carrying value of trade receivables approximates their estimated fair value.

Pursuant to the electricity participation code, the group 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 group invoices electricity retailers and its direct major customers by the 10th working day of the month following the month 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.

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

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

Carrying values of financial instruments

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

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

16. Share capital

At 31 March 2023, the group has 70 million fully paid ordinary shares on issue with a par value of \$1.50 per share, total \$105m (2022: \$105m).

17. Information about subsidiaries

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

18. Commitments

Capital expenditure	69,866	72,685
Operating leases	74	83

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

Notes to the financial statements continued

19. Contingent assets and liabilities

Port Hills fires

On 13 February 2017, two fires started on the Port Hills near Christchurch and eventually spread to over 1,600 hectares. Fire and Emergency New Zealand released its independent reports into the fires and found that the causes of both fires were 'undetermined'.

IAG Insurance, on behalf of a number of its clients, brought proceedings in the High Court claiming that the company's electricity network caused the first fire on Early Valley Road. On 15 September 2020 the company reached a confidential commercial settlement with IAG. The settlement was without any admission of liability by the company.

In 2023, FMG Insurance and Insurance Facilitators (NZ) Limited filed proceedings on behalf of their clients making similar allegations and seeking damages of approximately \$4 million. The proceedings are at an early stage and no hearing has been set down.

The group insures for liability risks, in line with good industry practice.

Revenue above and below maximum allowable revenue

The group is permitted to receive a Maximum Allowable Revenue (MAR) for its electricity distribution services under the Commerce Commission's default price path regime. Due to differences between quantity estimates and CPI estimates used in price setting and actual quantities and actual CPI during the year ended 31 March 2023, the group estimates that it charged customers \$13.35m below its MAR (2022: estimated \$1.93m below MAR). This amount is still subject to wash-ups as improved information becomes available. The group will adjust the final amount plus interest when it sets delivery prices for the year ending 31 March 2025 (2022: recovered within delivery prices in the year ending 31 March 2024).

Other than the potential issues above, the group had no significant contingent assets or liabilities as at 31 March 2023 (2022: nil).

20. Significant events after balance date

The group is not aware of any other significant events between the preparation and authorisation of these financial statements on 29 June 2023.

21. Related party transactions

Group structure

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

Related parties include:

- subsidiaries (Connetics Limited and Orion New Zealand Ventures Limited)
- CCC and SDC
- the subsidiaries of CCC and SDC
- the group's key management personnel

The group undertakes many transactions with the CCC and SDC and their related parties, which are carried out on a commercial and arms-length basis. The group utilises the Electricity Act 1992 and historical arrangements to determine the capital contributions required from CCC and SDC towards underground conversion and asset relocation projects. These contributions may not recover all costs incurred. No material transactions, other than the payment of dividends to CCHL and SDC and subvention payments payable to CCC, were entered into with related parties during the year. The group's dividend policy is outlined in its FY23 Statement of Intent approved by the Orion Board on 30 May 2022.

Notes to the financial statements continued

	2023	2022
	\$000	\$000
22. Related party transactions continued		
Transactions during the year		
Dividends paid to CCHL and SDC	32,000	31,000
Subvention expense payable to CCC	2,827	-
Group loss offset	7,269	-
CCHL Intra Group Funding Facility interest expense	1,335	-
Purchases from CCC/SDC	5,252	4,950
Underground conversion and asset relocation contributions from CCC/SDC	777	1,205
Other sales to CCC/SDC	8,238	10,701
Purchases from subsidiaries for network related services	70,175	42,742
Payment to subsidiary to maintain emergency response capability during COVID-19 lockdown period	-	518
Sales to subsidiaries (including interest and excluding rent and reimbursements of payments made on behalf of the subsidiaries)	1,315	1,013
Rent of premises to subsidiary	1,901	1,864
Rent relief provided due to the impact of COVID-19	-	37
Purchases from other related parties	579	1,140
Sales to other related parties	4,411	1,376
Outstanding balances as at 31 March		
Accounts payable to CCC/SDC	9	3
Subvention payable to CCC	2,827	-
Group loss offset payable to CCC	7,269	-
Interest expense payable to CCHL	234	-
Accounts receivable from CCC/SDC	1,352	1,643
Accounts payable to subsidiaries	12,869	8,476
Accounts receivable from subsidiaries	207	109
Accounts payable to other related parties	-	76
Accounts receivable from other related parties	710	316
Loans outstanding from subsidiaries	17,478	10,567
Commitments for capital expenditure		
Contracts with subsidiary	18,275	6,241
Key management personnel compensation		
Salaries and short-term employee benefits	3,847	3,842
Post-employment benefits	91	75
Termination benefits	-	386
	<u>3,938</u>	<u>4,303</u>

Notes to the financial statements continued**22. Related party transactions continued****Other transactions involving related parties**

Some members of the CCC group are grouped for tax purposes. As a nominated member of the CCC group, the group intends to reduce part of its current year income tax liability by making a subvention payment of \$2,827,000 payable to CCC (2022: nil) and tax loss offset of \$7,269,000 (2022: nil).

The group paid directors' fees totalling \$425,000 during the year ended 31 March 2023 (2022: \$434,000). No directors received retirement gifts during the year ended 31 March 2023 (2022: total \$1,277). No other transactions were entered into with any of the group's directors, other than the payment of directors' fees, the reimbursement of valid company-related expenses such as travel costs to board meetings and in the year ended 31 March 2022, a \$10,000 payment to board director, Jason McDonald, for chairing the appointment committee for the Group Chief Executive.

Key management personnel are defined as:

- the company's directors
- for the period 1 April 2021 to 30 June 2021 the company's Interim Chief Executive and the company's senior leadership team
- for the period 1 July 2021 to 10 October 2021 the Group Chief Executive and the company's senior leadership team
- for the period 11 October 2021 to 31 March 2023 the Group Chief Executive and the newly established integrated leadership team

Key management personnel purchased goods and services from group companies during the year which in total did not exceed \$2,000 for any individual (2022: \$2,000). A total of nil was due from key management personnel as at 31 March 2023 (2022: nil). All transactions were conducted on standard commercial terms, except as noted above.

Performance targets – Financial

	Notes	Actual 2023	Target 2023	Actual 2022*
Profitability				
Electricity delivery revenue (\$m)	1, 2	230	232	230
Other revenue (\$m)		93	96	81
Revenue growth (%)		3.9	6.5	2.9
Operating margin (%)		8.1	9.7	9.8
Earnings before interest, tax, depreciation & amortisation (\$m)*		103	112	111
EBITDA growth (%)		(6.6)	(4.1)	1.3
Debt to EBITDA (times)		4.4	4.1	3.5
Earnings before interest and tax (\$m)		46.1	47.7	58.2
Profit after tax (\$m)*	1, 2	21.6	22.1	35.5
Capital structure				
Interest expense (\$m)		16.4	14.8	12.1
Debt (including Transpower finance leases) (\$m)	14	498	508	420
Equity (\$m)		842	682	793
Equity to total assets (%)	3	51	49	54
Net gearing (%)		37	43	35
Interest cover (times)*		2.8	3.2	4.8
Returns to shareholders				
Dividends (\$m)	22	32.0	32.0	31
Dividend yield (%)	22	3.9	4.7	4.2
Return on invested capital (%)*		3.6	4.2	5.2
Profit after tax to average equity (%)*	1, 2	2.6	3.2	4.8

*Note that some measures from FY22 have been restated due to the restatement of prior year profit from \$32.6m to \$35.5m. Refer to Note 11 for more information.

Performance targets – Financial continued

	Variations post-tax \$m
Note 1	
Net profit was \$0.5m below the Statement of Intent target because of:	
Below budget impairment expense – due to change in accounting treatment, refer to Note 11	2.4
Favourable change in fair value of interest rate swaps due to increased floating interest rates	0.6
Below budget distribution revenue – primarily due to below-budget winter peaks	(1.3)
Above budget depreciation expense – primarily due to our March 2022 asset revaluation	(2.0)
Other (net)	(0.2)
	<u>(0.5)</u>
Note 2	
Net profit was \$13.9m below last year's restated profit because of:	
Reduction in delivery gross margin	(1.1)
Reduction in favourable movement in fair value of interest rate swaps	(1.2)
Higher interest expense – increased borrowings and higher interest rates on unhedged debt	(2.6)
Higher depreciation expense – due to significant capital expenditure and our March 2022 revaluation	(4.1)
Higher operating expenses – in part due to a significant CPI increase	(4.2)
Other (net)	(0.7)
	<u>(13.9)</u>
Note 3	
Debt is defined as interest bearing group borrowings, net of cash and cash equivalents. Equity is defined as shareholders' equity.	
Both of these measures are impacted by the revaluation of property, plant and equipment.	

Performance targets - Customer Inspired

Customer inspired performance target

Target – Net Promoter Score is >40

Status: Not achieved

We achieved a Net Promoter Score of 35.

Performance targets – Network Reliability

	Actual 2023*	Target 2023	Actual 2022*	DPP Normalised 2023	DPP Normalised 2022	Industry weighted average 2022
Orion network Interruptions						
Duration of supply interruptions in minutes per year per connected customer (SAIDI)						
• planned	25.93	39.68	24.92	19.97	24.91	-
• unplanned	43.37	84.71	52.95	43.28	42.90	-
• total SAIDI	69.30	124.39	77.87	63.25	67.81	258
Number of supply interruptions per year per connected customer (SAIFI)						
• planned	0.0731	0.1496	0.0744	0.0734	0.0744	-
• unplanned	0.5059	1.0336	0.6016	0.5056	0.6016	-
• total SAIFI	0.5790	1.1832	0.6760	0.5790	0.6760	2.0

Approximate number of connections at 31 March 2023 was 220,800 (2022: 215,700)

Notes:

- The SAIDI and SAIFI network reliability targets are regulated limits.
- Natural disasters and other major events can cause significant numbers and/or durations of network supply interruptions. The future occurrence and/or severity of these events cannot be predicted.
- SAIDI and SAIFI are standard industry measures of network reliability performance. They include planned and unplanned interruptions but exclude interruptions that are caused by electricity generators or Transpower or are caused by the low voltage (400V) network, or last for less than one minute.
- The Commerce Commission sets performance limits for our network reliability, pursuant to our default price-quality path (DPP). The Commission assesses our actual performance against those limits, after 'normalising' for the impacts of 'major events' and allowing for a set of incentive-based adjustments.
- Columns marked with an asterisk (*) are stated gross – before normalising for major events.

Performance targets – Health and Safety

1. Events that did or could have resulted in serious injury to Orion Group employees

Target: ≤ 4

Actual: 4

Status: Achieved

This target covers both Orion and Connetics

We had four events during the year, none of which resulted in serious injury.

- Three events were cable strikes by Connetics' employees.
- In the fourth event a Connetics employee was struck on his hard hat by an object falling from height.

We are focussed on continuous improvement of our safety management systems. We investigate all events and take actions to prevent recurrence.

2. Events that did or could have resulted in serious injury to Orion service providers

Target: ≤ 4

Actual: 2

Status: Achieved

This target covers contractors working for Orion on or near the Orion network.

During the year there were two events that did or could have resulted in serious injury to our service providers. The two events were:

- A contractor was observed using an un-insulated tool while pruning vegetation inside the minimum approach distance.
- An arborist carrying out vegetation management around our lines fell approximately 6m to rocky ground. The arborist sustained broken bones.

These incidents were fully investigated, and learnings have been applied.

3. Events that did or could have resulted in serious injury to the public, excluding car vs pole incidents

Target: Nil

Actual: 1

Status: Not achieved

We had one incident involving the public, where an electrician received an electric shock due to incorrect work being completed by an Orion contractor. The contractor involved notified Worksafe of this incident. No further action was taken by Worksafe and the contractor and Orion each completed an internal investigation into this.

We maintain an active public education programme that is designed to assist any member of the public interacting on or near our fixed assets.

Key initiatives – Re-imagining the Future Network

1. Gain access to customers' smart meter data

Target – Contract in place for access to data for more than over 90 per cent of smart meters on our network: 31 March 2023

Status: Not Complete

Our provider has indicated that it will be able to provide data to us by July 2023. This will provide us with access to data for over 90% of smart meters on our network. We are currently progressing the contract with them.

2. Integrate data from our low voltage network into our systems

Target – Integration commenced: 31 March 2023

Status: Complete

Our Low Voltage (LV) network initiatives are important as over 99% of our customers connect to our LV network and we currently have very little information about customer electricity usage patterns and the utilisation of our LV assets. Currently the lowest level of real-time monitoring we have is at the Zone Substation 11kV feeder circuit breaker level, but this information is far too aggregated.

We have managed to obtain access to a sample to test our systems and integration. One thousand smart meters have been commissioned in the data lake based on the data being provided to date by our service provider.

540 LV monitor sites have been commissioned in the data lake and 400 LV monitor sites have been commissioned in Advanced Distribution Management System.

Work is underway with Gridsight and ANSA to improve our understanding of bulk LV data analytic techniques. We are experimenting to determine what network and customer insights are currently achievable with LV circuit monitoring data versus household smart meter data. This work will be completed in December 2023.

3. Trial non-traditional network solutions

Target – Trials identified: 1 December 2022

Status: Complete

During the year we issued an Expression of Interest (EOI) to the flexibility market for the opportunity to defer a network upgrade in the Lincoln area. From 17 EOI respondents, we will shortly issue a more detailed request for proposal to six parties. The alternate non-network solutions (e.g., batteries) are intended to be implemented for use in winter 2024 and winter 2025. We have identified 2 further possible options for a trial.

Key initiatives - Customer Inspired

1. Continue to develop our new Customer Relationship Management platform (CRM)

Target – Outage Notifications, Major Customer Management and Customer Connections Process integrated into the CRM platform: 31 March 2023

Status: Partially Complete

Close Approach Consent and Outage Notification modules have been released, and our Customer Support team is actively processing planned outage notifications to our customers. Implementation of the Customer Connections process is continuing apace with detailed design sessions. We are on budget and on track to revised timing following understanding of requirements from our discovery phase.

2. Further develop our customer and community engagement programme to give greater voice to our stakeholders' views in our decision making

Target – Engagement programme in place: 1 April 2022

Status: Ongoing

We have completed our annual survey of residential customers, with new methodology to gain a more demographically representative sample of our customer base. Although our Customer Advisory Panel did not meet this year, we have:

- established an online engagement platform that will help us develop an alternative channel for engagement with our community
- communicated significant projects to affected communities
- continued to engage with our communities via social media and community groups
- established regular briefings to community boards and community groups to update them on our network developments and to seek feedback on local needs

3. Build genuine relationships with local rūnanga

Target – Iwi Engagement Strategy programme underway: 1 April 2022

Status: Ongoing

We are continuing to actively participate in the He Huanui Māori Pathways programme led by CCHL. Along with Wairewa Rūnanga we have signed a 35-year native forestry carbon sharing agreement based near Little River.

4. Continue our community support and align with our Group Strategy

Target – FY22 Programme complete: 31 March 2023

Status: Complete

We continue to focus support on actions that support our strategy including involvement with Community Energy Action, EcoBulb, Canterbury Employers Chamber of Commerce, University of Canterbury, and the Orion Energy Accelerator awards.

Key initiatives - Lead and Grow

1. Establish an Energy Hub and Energy Futures Lab to facilitate sector collaboration

Target – Energy Futures Lab model established and a minimum of three collaborative initiatives underway: 31 March 2023

Status: Ongoing

We have focused on developing relationships with local and national partners to find the priority areas for the Energy Futures Lab model to collaboratively experiment on energy's Just Transition – a strategy to move our region toward a low carbon future to make the transition more fair, equitable and inclusive. The main initiatives that are underway include:

- Home Energy Living Lab – to better understand the implications of changing household energy profiles and knowledge needs of our residential customers, and trial products or services that support the low carbon energy transition.
- Energy hardship/wellbeing collaboration – to explore how we might get greater impact from collaboration towards an equitable energy transition in mid-Canterbury, including opportunity for better data sharing on household energy efficiency interventions, and supporting Empower Energy to develop and trial their platform in collaboration with others in the sector.
- Community Energy – the supporting discovery phase of several community level energy transition initiatives.

2. Review and enhance the Orion Energy Accelerator programme to run for a second year

Target – Programme underway: 31 March 2023

Status: Complete

The programme is complete for 2023. A Demo Night was held 22 February 2023 and two companies were awarded. We continue to explore opportunities to work with teams from the FY22 and FY23 Cohorts.

3. Establish a renewable energy service and advisory offerings

Target – Programme in place: 31 July 2022

Status: Complete

Through utilising existing and introducing new expertise into the group, we have successfully established our renewable energy advisory service to our customers. We will continue our work in FY24 with our pre-existing clients as they progress their respective opportunities, and as we launch our offering to a wider market, we will look to broaden the number of customers we are able to support in their energy transition journey.

4. Connetics to deliver new products and services

Target – Project in place: 31 March 2023

Status: Complete

Connetics has taken its first step towards entering the Grid Scale Solar market with a solar installation on its Waterloo Rd building. Connetics has purchased and commissioned a pile driver that is now ready for site investigation, pile testing and pile installation work. Connetics has established a Green Grids team who design in the renewables space. Connetics collaborated with Christchurch City Council Smart Cities to deliver the first smart pole on the CCC network.

Key initiatives - Accelerating Capability

1. Enhance our remuneration framework

Target – GenderTick accreditation achieved: 31 October 2022

Status: Complete

We have completed our Remuneration framework refresh and achieved Gender Tick Accreditation.

2. Support our leaders - Orion

Target – Phase two of our leadership development programme complete: 31 March 2023

Status: Ongoing

Our 5 Powerful Conversations series has been piloted and a plan is in place to roll the programme out across the rest of the business over the next year.

3. Support our leaders - Connetics

Target – Surveys complete: 31 March 2023

Status: Complete

Connetics continued to deliver the "How to lead @ Connetics" program with a further three cohorts progressing, including inviting new leaders from Orion to join one session. The current focus is on increasing the use of our employee experience platform, CultureAmp, for meaningful one-on-ones. Connetics developed and committed to a new operational workforce planning strategy with a programme of work to be underway in FY24, this will set Connetics up to attract, build and retain a skilled workforce to meet future demands.

4. Create opportunities for our people to grow

Target – Talent management programme complete: 31 March 2023

Status: Ongoing

In FY23 we created opportunities for our people to grow by promoting mentoring opportunities and moving development goal planning into CultureAmp. The Talent management programme itself has been delayed and our learning & development framework and Talent management programmes are now being aligned to our refreshed strategy for FY24 deployment.

5. Support CCHL's Future of Activity initiative

Target – Future of Activity strategies in place: 31 March 2023

Status: Incomplete

This is a wider group activity that has not yet commenced.

Key initiatives - Accelerating Capability continued

6. Energy Academy to accelerate industry capability development

Target – Four key programmes underway: 31 May 2022 to 31 December 2022.

Status: Complete

Our online platform LUMO364 connects over 600 Energy Sector workers enabling them to share knowledge and mentor each other. Energy Academy's 'LUMO, Energy Reimagined' podcast series has over 1,700 downloads and is now being broadcast on PlainsFM.

The Global Energy Quest brought together energy sector workers from 22 nations on a 9-week human centred design programme where teams from around the globe collaborate and share ideas to decarbonise faster. The pitch event was held in May 2022 with judges including the Hon. Dr Megan Woods. These initiatives are in service of enhancing the community of energy sector workers and providing them opportunities to self-develop. These initiatives have been supported by EECA, Ara Ake, Genesis, Ministry for Social Development, ChristchurchNZ, Northpower, and Ara.

Our Energy Academy received a significant grant from the Infrastructure Education and Charitable Trust to develop an online educational gaming platform where rangatahi immerse themselves in learning about Aotearoa's energy systems.

We are still in the process of developing this platform with the goal of awarding NCEA credits to learners. This initiative has also been supported by Powerco, Unison, Aurora, Wel Network and Northpower.

Our Energy Academy partnered with Te Pūkenga and Waihanga Ara Rau to experiment with Industry-led qualification design. It has also been contracted by the Ministry of Social Development to map employment opportunities and roles that exist across the energy sector as it presently exists, and roles that will be required in the next one to three years. The Energy Academy is currently mapping development pathways for the group and Northpower.

Key initiatives - Powering the Low Carbon Economy

1. Achieve our carbon reduction targets

Target:

- In June 2022 we expect to fulfil our ambition to establish an Orion Group audited carbon footprint and achieve carbon neutrality for our corporate greenhouse gas emissions, which excludes scope 2 distribution losses. We will continue our carbon reduction journey by reducing our Group corporate emissions to at least 2761 tCO2e during FY23
- Orion Group reduction target: FY30* corporate emissions reduced to 1640 tCO2e (*incorrectly stated in SOI as F20)
- FY23* carbon reduction achieved: 31 March 2023 (*incorrectly stated in SOI as 2022)

*Note that our targets above differ from our FY23 SOI due to some drafting errors.

Status: Not achieved

In 2022 Orion Group measured its FY22 greenhouse gas (GHG) emissions in accordance with Toitū Envirocare programme guidelines, which are aligned to the ISO 14064:2018 standard. Following review by independent parties appointed by Toitū Envirocare, Orion received Toitū Envirocare Carbonreduce certification and Connetics received Toitū Envirocare CarboNZero certification for FY22 GHG emissions.

The FY23 Toitū Envirocare certification process is still underway, however, Orion Group has measured its FY23 emissions using the same methodology as in previous years. Our provisional measurement is based on the best information available and we do not expect the reported result to materially change following the certification process.

Our actual FY23 GHG corporate emissions were 3,363 tCO2e, compared to a target of 2,761 tCO2e, as set out in the table below.

Approach to measurement and reporting

We use an equity share consolidation approach. This approach includes consolidating emissions from our wholly owned subsidiary Connetics.

For reporting purposes, we have focused on ensuring our reported category 1 and 2 emissions are materially complete. However, we exclude our intractable scope 2 distribution losses from our corporate emissions reduction targets as, although these are significant, they are largely outside of our control at the present time. This allows us to focus our reduction efforts on the areas of operations where we can actively make a difference. However, we do separately measure the quantity of these distribution losses as shown in the table. We have also excluded emissions associated with any properties leased to third parties by Orion New Zealand as we do not have any control or influence over these properties.

We only partially measure our scope 3 emissions, which means we have excluded emissions that are likely to be significant. Toitū Envirocare describes Scope 3 emissions as 'mandatory' or 'additional'. Emissions classed as 'additional' are excluded from our corporate baseline until we are satisfied data quality is sufficient to include them. We currently measure our full organisational footprint with Scope 3 mandatory sources and some additional sources. We are working towards improving and adding our value chain data into our Scope 3 additional footprint in the next few years.

The scope 1 to 3 emissions sources included in our reporting are described below.

Additional detail on Orion Group GHG emissions and our reduction journey can be found in our Climate Statement and on our website.

Key initiatives - Powering the Low Carbon Economy continued

	Scope 1 tCO2e	Scope 2 tCO2e	Scope 3 tCO2e	Total tCO2e
Corporate emission sources	Vehicle fuels (diesel, petrol), generator diesel, rental car use, refrigerants, LPG, SF6	Electricity used in Orion controlled buildings and EV chargers around our network	Taxi use, air travel, freight, waste, staff private car claims	-
FY20 (base year)* corporate emissions	2,979	174	295	3,448
FY23 corporate carbon budget	2,369	171	221	2,761
FY23** corporate emissions	2,824	222	317	3,363
	Increase predominantly in SF6 & diesel	General increase in use	Number of flights higher than expected	-

Emissions not included in SOI target

FY20 non-corporate excluded from baseline	-	15,255 Distribution losses	- 'Additional' scope 3 emissions not measured	-
FY23 non-corporate excluded from target	-	17,280 Distribution losses. The increase in emissions from distribution losses since the baseline is mainly due to differences in emissions factors as the losses have not changed significantly between the periods.	19 Working from home, accommodation measured. Other 'additional' scope 3 emissions not measured (which included emissions from contractor fuel, waste and electricity, staff commuting, embodied carbon and all emissions associated with purchased goods and construction).	- New sources of scope 3 emissions have been measured in FY23. However, as these were not included in the base year totals or FY23 target, we have similarly excluded these when reporting against the target. The impact of these new sources is not material.

*These figures are materially correct but may change due to a correction made in our FY20 Inventory. This Inventory is undergoing recertification at the time of publishing

**These figures are materially correct but may change slightly as our FY23 Inventory is undergoing certification at the time of publication

Restatements and changes between years

Our FY20 base year emissions have been restated to include a correction to sulphur hexafluoride (SF6) emissions and an adjustment to the MfE electricity emissions factor, creating a material change in our transmission and distribution losses (>5%). Previous annual reports reported results used emissions factors sourced through Toitū Envirocare in those periods. The restated results in this report use the most recently published emissions factors for a given period, sourced directly from the Ministry for the Environment 2022 guidance document, recommended by Toitū Envirocare. This has resulted in the FY20 total value of corporate emissions increasing from 3276 to 3448 tCO2e.

Key initiatives - Powering the Low Carbon Economy continued

Estimation uncertainty

There is a level of inherent uncertainty in the quantification of GHG emissions because the scientific knowledge and methodologies to determine the emissions factors and processes to calculate or estimate quantities of GHG sources is still evolving, as are GHG reporting and assurance standards.

To help mitigate this uncertainty, we have calculated our emissions based on the most up to date emission factors available, which are predominantly those issued by the Ministry for the Environment using input from national emissions data from the 2020 calendar year for distribution losses. Wherever possible the source data used to calculate our footprint has been obtained directly from suppliers.

The distribution losses uses the purchases grid-average electricity emission factor. This factor comes with some assumptions and uncertainties as the energy mix will vary depending on geographical location, time of day and time of year. We improve the quality of data for distribution losses by using a specific loss factor, opposed to the loss factor from the national grid, and therefore require the use of the electricity generation emission factor.

4. Measure and reduce our Scope 3 carbon emissions

Target:

- We recognise our need to continually expand our understanding and measure the impact of our business decisions on our emissions footprint. To that end, during 2022 we will build capability to measure and reduce indirect (Scope three) greenhouse gas emissions associated with our employee commute and design of our network
- Scope three emissions measured and reduced: 31 March 2023

Status: Partially achieved

We have built capability to measure additional Scope 3 emissions by completing a pilot project on the measurement of embodied carbon in a substation and 11kV overhead feeder, with both projects set up in the Moata platform to allow future designs to be compared in terms of emission savings. Twelve months of commuting emissions have been tracked using the EcoFixa app.

Our Scope 3 emissions which we have currently measured are summarised below. These are subject to the same uncertainties specified in our general GHG disclosure.

	FY23** tCO ₂ e	FY20 tCO ₂ e
Flights	210	198
Freight	41	17
Accommodation	13	0*
Private staff car	5	7
Taxi	2	3
Waste	58	62
Working from home	6	0*
	<u>335</u>	<u>287</u>

*Not considered in our FY20 baseline as not material

**These figures are materially correct but may change slightly as our FY23 Inventory is undergoing certification at the time of publication. The table in Measure 1 lists some of the significant sources of Scope 3 emissions which we do not currently measure.

Key initiatives - Powering the Low Carbon Economy continued

3. Migrate process heat users away from fossil fuels

Target – Model Measured: 31 March 2023

Status: Ongoing

We have identified the majority of customers within our network with large process heat loads, totalling in excess of 233MW. This includes at least 206 MW of process heat from coal, LPG, diesel, or other forms of process heat which intends/plans to transition to electricity or biomass prior to 2035.

We are working in collaboration with these customers and their consultants to understand the customer's energy journey; the impact that electrification will have on their sites and our network; and to explore and co-create innovative solutions to enable electrification. This will inform the customer's energy transition needs and at the same time allow us to optimise how we develop our network to ensure timely and cost-effective investment. In parallel we are collaborating with EECA on the Regional Energy Transition Accelerator Programme (North Canterbury) to develop collective insights, maximise local access to Government Investment in Decarbonising Industry (GIDI) funding, and ensure a joined-up and holistic approach for our customers, our region, and Aotearoa, New Zealand.

4. Plant indigenous forest to offset emissions

Target – 60ha Forest area secured: 31 March 2023

Status: Complete

Agreement to recloak 280ha of land belonging to Wairewa Rūnanga signed, this includes areas of regenerating native forest. We planted 21,000 seedlings over 4.5ha this planting season.

5. Connetics to establish a robust environmental management system

Target – Discovery Phase complete: 31 March 2023

Status: Complete

Establishing a robust Environmental Management System (EMS) is a journey progressing into FY24. Group gap analysis against ISO 140001 is complete and this report is currently being reviewed ahead of confirming initiatives for the coming year.

6. Produce Task Force on Climate-related Financial Disclosures (TCFD) report

Target – TCFD report produced: 30 August 2022

Status Delayed delivery

Our TCFD report has been completed for FY23 however publication has been postponed to align with our Annual Report reporting cycle. The August 2022 deadline was not achieved.

Key initiatives - Key Projects

1. Construct a new Grid Exit Point and zone substation at Norwood and associated 66kV lines

Target – Project complete: 31 March 2024

Status: Ongoing

We are on track with this project, with completion of the Grid Exit Point planned for December 2023 and the necessary associated 66kV lines to be completed by March 2024.

2. Replace our end-of-life 11kV switchgear at Heathcote zone substation with modern vacuum breakers

Target – Project complete: 31 March 2023

Status: Incomplete

The size and complexity of this site meant this will be completed in July 2023.

3. Build and commission a new zone substation at Milton St and connect it with new 66kV XLPE cables to existing 66kV sub-transmission network at Bromley zone

Target – Project complete: 31 March 2024

Status: Ongoing

We have started on the critical projects that enable this. We are on track to deliver by 31 March 2024.

Audit New Zealand independent auditor's report

Independent Auditor's Report

To the readers of Orion New Zealand Limited's Group financial statements and performance information for the year ended 31 March 2023

The Auditor-General is the auditor of Orion New Zealand Limited and its controlled entities (collectively referred to as 'the Group'). The Auditor-General has appointed me, Dereck Ollsson, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and the performance information of the Group on his behalf.

Opinion

We have audited:

- the financial statements of the Group on pages 41 to 71, that comprise the statement of financial position as at 31 March 2023, 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 72 to 86.

In our opinion:

- the financial statements of the Group:
 - present fairly, in all material respects:
 - its financial position as at 31 March 2023; and
 - its financial performance and cash flows for the year then ended; and
 - comply with generally accepted accounting practice in New Zealand in accordance with New Zealand equivalents to International Financial Reporting Standards; and
- the performance information of the Group presents fairly, in all material respects, the Group's achievements measured against the performance targets adopted for the year ended 31 March 2023.

Our audit was completed on 29 June 2023. This is the date at which our opinion is expressed.

The basis for our opinion is explained below and we draw your attention to inherent uncertainties in the measurement of greenhouse gas emissions. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements and the performance information, we comment on other information, and we explain our independence.

Emphasis of Matter – Inherent uncertainties in the measurement of greenhouse gas emissions

The Group has chosen to include measures of its greenhouse gas (GHG) emissions in its performance information. Without modifying our opinion and considering the public interest in climate change related information, we draw attention to page 84 of the performance information (Key Initiatives section), which outlines the inherent uncertainty in the reported GHG emissions. Quantifying GHG emissions is subject to inherent uncertainty because the scientific knowledge and methodologies to determine the emissions factors and processes to calculate or estimate quantities of GHG sources is still evolving, as are GHG reporting and assurance standards.

Basis for our opinion

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

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

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

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

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

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

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

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

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

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

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

Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of

amounts or disclosures and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these financial statements and performance information.

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

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

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

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

Our responsibilities arise from the Public Audit Act 2001.

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 1 to 40 and 89 to 98 but does not include the financial statements and the performance information, and our auditor's report thereon.

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

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

Independence

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

In addition to the audit, we have carried out assurance engagements pursuant to the Electricity Distribution Information Disclosure Determination 2012 – (consolidated in 2021) and the Electricity Distribution Services Default Price-Quality Path Determination 2020. These assurance engagements are compatible with those independence requirements. Other than the audit and these assurance engagements, we have no relationship with or interests in the Group.



Dereck Ollsson
Audit New Zealand
On behalf of the Auditor-General
Christchurch, New Zealand

Governance

Shareholders

Our shareholders are:

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

Principal objective and principal activities

In accordance with section 36 of the Energy Companies Act 1992, the group's principal objective is to operate as a successful business. The group's principal activities during the year were to provide electricity distribution services to Ōtautahi Christchurch and central Canterbury and to provide contracting services in the utilities sector.

Statement of Intent

In accordance with section 39 of the Energy Companies Act 1992 and the company's constitution, the Orion board submits a draft SOI to shareholders in March each year. After due consultation with the shareholders and after considering their comments (and board approval) the final SOI is delivered to shareholders by the end of June. A copy of the SOI is available on our website.

Board of Directors

Our shareholders appoint the directors to govern the Orion group. The group has two boards, one for Orion New Zealand Limited and one for Connetics Limited. The boards are the overall and final body responsible for the direction and control of the companies' activities and decision-making.

The boards' responsibilities include the overall strategy, objectives, stewardship, performance and reporting of the relevant entities and Group.

Our boards are committed to best practice governance. Our boards' operations are subject to the group's constitutions and the board charter. The charter sets out how the boards and directors shall undertake their responsibilities.

The Orion chair leads the Orion board and its relationship with shareholders and other major stakeholders. The chair maintains a close professional relationship with the Group Chief Executive and leadership teams.

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

Board meetings and committees

Each board meets approximately eight times per year. Additional meetings are convened as and when required. The boards' annual work programmes are set by each board before the start of each calendar year. The boards receive formal agenda papers and regular reports, generally a week in advance of meetings. The Integrated Leadership Team (ILT) and other business leaders in the group are regularly involved in board discussions. Directors also have other opportunities to obtain information and may seek independent expert advice.

The boards delegate some responsibilities and tasks to board committees, but the boards retain the ultimate responsibility and accountability for any committee's actions or inactions. Subject to any conflict issues, all directors receive agenda papers for committee meetings and all directors may attend committee meetings.

Governance continued

The Orion board has two standing committees:

- **Audit Risk committee:** liaises with the company's independent external auditor and reviews the effectiveness of internal controls, financial and regulatory information, and operational risk management
- **People and Culture committee:** reviews the company's remuneration policies and practices and reviews and sets the remuneration of the company's chief executives and integrated leadership team as well as providing guidance and feedback on succession planning, talent development, inclusion and diversity and other people and culture policies and practices

The following directors served as standing committee members during the year ended 31 March 2023:

Audit Risk committee

Bruce Gemmell – chair (to 30 August 2022)
Sally Farrier
Paul Munro (from 1 April 2022)
Mike Sang – chair (from 31 August 2022)

People and Culture committee

Jen Crawford – chair
Jason McDonald
Paul Munro (from 1 April 2022)

The board may convene special purpose committees for specific tasks.

Performance management

The boards regularly review their performance and the performance of the Group Chief Executive. The reviews aim to identify opportunities and set plans for performance development and improvement.

Risk management

Risk management at Orion group provides a flexible and purpose-built approach to the application of risk management and is consistent with ISO31000:2018 Risk Management Guideline. Our risk management processes and tools are embedded within our business operations, to drive consistent and accountable decision-making through an Enterprise Risk Management (ERM) approach. This ensures we have a complete, integrated, group-wide focus on managing our strategic and operational risks and enables the group to make clear decisions around opportunities.

Liability insurance and indemnity

The group arranges comprehensive liability insurance policies within the limits and requirements as set out in the Companies Act 1993 and the group's constitution. The group also indemnifies directors and employees within the limits and requirements set out in the Act.

Legislative compliance

As a purpose driven group our aspiration is to accelerate Aotearoa New Zealand's transition to a low-carbon, affordable, equitable economy. To ensure we deliver on our purpose we need to balance what is in the best interest of our community while managing our compliance under relevant legislation and regulation.

The board receives regular updates and representations from management on legislative compliance. Compliance manuals are updated at least annually, training is made available to all employees and the group engages independent experts for advice on some issues.

Governance continued**Matatika code of ethics, conflicts of interest policy and reporting serious wrongdoing (whistle-blower) policy**

These three policies require all directors and employees to:

- act with integrity, honesty, transparency, openness and in good faith
- comply with the law, apply good judgement and proactively identify, disclose and manage conflicts of interest
- promptly disclose or report any significant potential or perceived conflicts of interest or wrongdoing
- protect those who report suspected wrongdoing in good faith

All directors and employees are made aware of the above policies and other supporting policies.

Group reporting

The board delivers a publicly available group integrated annual report to shareholders before 30 June each year, which includes:

- audited financial statements
- performance relative to SOI targets
- how the group otherwise contributes to community aspirations
- other information to enable an informed assessment of the group's governance, performance and financial position

The board also delivers half-year reports to shareholders that contain summarised unaudited information similar in content to annual reports, in compliance with financial reporting standard NZ IAS 34 *Interim Financial Reporting*. The company also provides regular updates to shareholders on financial, strategic, risk and operational issues.

The group's accounting policies comply with applicable NZ IFRS standards and interpretations and are consistent with the accounting policies adopted by the CCC group.

Loans to directors

The group does not make loans to directors.

Donations

The group made \$4,000 of donations to charitable causes during the year ended 31 March 2023 (2022: \$8,623).

Auditor

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

Subsidiary companies

The following persons served as directors of the company's subsidiaries during the year ended 31 March 2023:

Connetics Limited	Geoff Vazey (chair) Nigel Barbour Jason McDonald
Orion New Zealand Ventures Limited	Vaughan Hartland

Governance continued

Financial Market Authority’s good governance guidelines

The FMA’s guidelines promote eight principles of good governance. The company’s governance practices compare as follows:

FMA principle	Orion relative to the FMA principle
Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for delivering these standards throughout the organisation.	<p>Directors are required to comply with the board charter and company policies. Employees are also required to comply with company policies – including the code of ethics, conflicts of interest, fraud and theft, reporting serious wrongdoing (whistle-blower), sustainability and diversity and inclusion policies.</p> <p>The board regularly reviews the company’s key policies for alignment with the company’s purpose and objectives, and monitors compliance with policies and legislative requirements – including via liaison with the company’s independent auditors.</p>
To ensure an effective board, there should be a balance of skills, knowledge, experience, independence and perspectives.	The board has a good degree of such a balance. Achieving that balance is the responsibility of the company’s shareholders, who appoint all directors. The shareholders usually consult with the board chair in that process. All directors are independent non-employees.
The board should use committees where this will enhance its effectiveness in key areas, while still retaining board responsibility.	The board charter specifies the terms of reference and delegated authorities for the audit risk and people and culture committees. Both committees are chaired by a director other than the board chair. The board may also establish committees for other specific tasks. The board charter specifies that delegations to board committees do not absolve the board from the overall responsibility for a committee’s actions or inactions.
The board should demand integrity in financial and non-financial reporting, and in the timeliness and balance of corporate disclosures.	<p>The board scrutinises internal and external reporting and liaises closely with the company’s independent auditors to ensure integrity in reporting.</p> <p>The board has an independent internal audit programme to further assist assurance in this area.</p> <p>As an electricity distribution business, the company is subject to significant ongoing regulatory information disclosure requirements. The group’s annual financial and performance statements and certain regulatory information disclosures are subject to director certification and independent audit. Annual Reports include financial and non-financial disclosures.</p>
The remuneration of directors and executives should be transparent, fair and reasonable.	<p>The company’s shareholders review and approve the total pool of directors’ fees by way of shareholder resolution, which currently applies for the three years to 30 June 2024. The board allocated the total pool to per-director positions and for board committee members. The Orion board reviews and approves directors’ fees for Connetics. Orion executives do not receive fees as Connetics directors.</p> <p>The people and culture committee oversees the Group Chief Executive’s, company executives’ and other employees’ remuneration policies and practices and it reviews relevant market information as part of that process. The overall policy for employee remuneration is for the group to meet the relevant market, subject to employee performance.</p>

Governance continued

Financial Market Authority’s good governance guidelines continued

Directors should have a sound understanding of the key risks faced by the business and should regularly verify there are appropriate processes to identify and manage these.	The board receives regular reports on and reviews the company’s: <ul style="list-style-type: none"> • risk context and key risks – which include, strategic, natural disasters (especially a major earthquake), health and safety, cyber security, climate risk, critical network equipment failure and global pandemic • risk treatments – including risk reduction and risk transfer (insurance)
The board should ensure the quality and independence of the external audits process.	The board and the board audit risk committee have a good professional relationship with the group’s independent internal and external auditors. Audits can be financial and/or non-financial, including for regulatory information disclosures. Audit committee meetings have staff-excluded time to ensure auditors’ independence from management.
The board should respect the rights of shareholders and foster constructive relationships with shareholders and stakeholders. Shareholders should be encouraged to engage with the entity.	The board charter requires this principle and the group’s Statement of Intent also commits the group to this. The board chair and the Group Chief Executive lead this process for the board but given the nature of the group’s business and its community ownership, such respect and constructive relationships with shareholders occur at many levels of the group. The company operates on a proactive ‘no surprises’ basis with its shareholders and key stakeholders.

Governance continued**Interests register**

Directors recorded the following in the interests register during the year ended 31 March 2023:

Jen Crawford

Anderson Lloyd		Consultant
ChristchurchNZ Limited	From 15 January 2023	Director
Jen Crawford Limited		Director and shareholder
Koparima Family Trust		Trustee
MHV Water Limited		Director
Mahaanui Kurataiao Limited	To 30 September 2022	Director
Nelmac Limited		Director
Rangitata Diversion Race Management Ltd		Director

Sally Farrier

Ergocorp Pty Limited		Director
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Jason McDonald

Connetics Limited		Director
First Gas Limited		Director
First Gas Midco Limited		Director
First Gas Topco Limited		Director
First Renewables Limited		Director
First Sunrise Bidco Limited	From 31 March 2023	Director
First Sunrise Topco Limited	From 31 March 2023	Director
First Sunrise Midco Limited	From 31 March 2023	Director
First Sunrise Holdco Limited	From 31 March 2023	Director
Firstlight Network Limited	From 31 March 2023	Director
Gas Services NZ Limited		Director
Gas Services Midco Limited		Director
Rockgas Limited		Director
Helios Energy Limited		Director and shareholder
Jason McDonald Consulting Limited		Director and shareholder
Jaspen Ventures Limited		Director and shareholder
Scots College Wellington – board of governors	To 5 December 2022	Member

Paul Munro

Black Peak Ventures Limited		Director and shareholder
Cambridge Partners Limited	From 26 July 2022	Director
CCHL (5) Limited	To 16 April 2022	Director
CCHL (4) Limited	To 16 April 2022	Director
CCHL (2) Limited	To 16 April 2022	Director
Christchurch City Networks Limited	To 16 April 2022	Director
Enviro-Mark Solutions Limited		Director
Electricity Ashburton Limited		Director
Lynn River Limited		Director
McKenzie Balfour & Associates Limited		Director
MHV Water Limited		Director
Southern Eye Specialists Limited	From 3 October 2022	Director
Tait International Limited	From 21 March 2023	Director

Governance continued**Interests register continued****Mike Sang**

Building Research Assn. of NZ (BRANZ)	Director
Government Super Fund Authority	Board member
Sangwards Limited	Director and shareholder

	Orion \$000	Connetics \$000
Directors' remuneration		
Jen Crawford	54	-
Sally Farrier	53	-
Bruce Gemmell	24	-
Jason McDonald	51	30
Paul Munro	107	-
Mike Sang	57	-
Geoff Vazey	-	49
	346	79

Governance continued**Employee remuneration**

The group aims to attract, retain, develop and motivate high calibre employees. The group's employee remuneration approach aims for consistency, fairness and alignment with the group's principal objective, to operate as a successful business. The group regularly compares employee remuneration against relevant 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 Orion board approves the Group Chief Executive's employment terms and conditions, and the board remuneration committee approves those of the Group Chief Executive's direct reports. Three collective employment agreements cover approximately 36% of the group's employees.

The number of group employees and former employees, whose total remuneration fell within specified bands:

\$000	2023	2022	\$000	2023	2022
100 - 110	58	72	250 - 260	2	2
110 - 120	79	69	260 - 270	1	2
120 - 130	63	33	270 - 280	1	-
130 - 140	30	33	280 - 290	1	-
140 - 150	27	29	330 - 340	1	-
150 - 160	26	11	340 - 350	1	1
160 - 170	17	8	360 - 370	2	2
170 - 180	12	6	370 - 380	1	-
180 - 190	5	1	390 - 400	-	1
190 - 200	4	2	400 - 410	1	1
200 - 210	-	1	410 - 420	1	-
210 - 220	5	4	420 - 430	1	-
220 - 230	1	3	590 - 600	-	1
230 - 240	5	3	610 - 620	-	1
240 - 250	2	-	790 - 800	1	-

The board determines the Group Chief Executive's remuneration, after taking independent expert advice and considering relevant market data. The board reviews the Group Chief Executive's remuneration annually. Nigel Barbour's total remuneration as Group Chief Executive for the year ended 31 March 2023 was \$799,000 (1 July 2021 to 31 March 2022 \$613,000).

Five year trends

	2023 \$m	2022 \$m	2021 \$m	2020 \$m	2019 \$m
Statement of comprehensive income					
Operating revenue	323	311	302	308	326
EBITDA	103	111	109	126	134
EBIT*	46	58	56	74	81
Profit before income tax*	28	49	46	60	66
Net profit*	22	36	33	48	48
Other comprehensive income*	61	110	4	4	-
Total comprehensive income	83	145	37	52	48

Statement of financial position

Current assets	66	55	32	27	28
Non-current assets	1,574	1,425	1,249	1,216	1,181
	1,640	1,480	1,281	1,243	1,209
Current liabilities	56	50	52	48	48
Current borrowings	151	186	1	102	1
Non-current borrowings	347	234	358	228	302
Deferred tax liability	239	215	180	178	186
Other non-current liabilities	5	2	12	16	6
Shareholders' equity	842	793	678	671	666
Total liabilities and shareholders' equity	1,640	1,480	1,281	1,243	1,209

Statement of cash flows

Operating cash flows	65	53	76	93	97
Investing cash flows	(111)	(87)	(75)	(68)	(72)
Financing cash flows	46	31	-	(25)	(25)

Financial measures

Dividends paid	32	31	30	47	53
EBITDA margin %	32.0	35.6	36.2	40.9	41.0
EBITDA margin excluding transmission %	42.5	45.7	46.6	51.1	53.0
Net profit to average shareholders' equity %*	2.6	4.8	4.9	7.2	7.2
Net interest-bearing debt to debt-plus-equity %	37	35	35	33	31

Other measures

Electricity maximum demand (MW)	661	721	629	610	587
Electricity deliveries into the network (GWh)	3,521	3,416	3,384	3,419	3,317
Number of customer connections (000)	221	216	212	208	204

*Note that some measures from FY22 have been restated due to the restatement of prior year profit from \$32.6m to \$35.5m. Refer to Note 11 for more information.

Directory

As at 29 June 2023

Directors

Paul Munro – Chair
Jen Crawford
Sally Farrier
Jason McDonald
Mike Sang
David Cooper – Associate Director

Leadership team

Nigel Barbour
Group Chief Executive
Sam Elder
GM Energy Futures
David Freeman-Greene
GM Future Network
Vaughan Hartland
GM Value Optimisation
Steve Macdonald
GM Electricity Network
Duane Makin
GM Digital, Data and Technology
John Thompson
Connetics Chief Executive
Alice van den Hout
GM Purpose and Performance
Karen Wiese
Company Secretary
Nic Wong
GM Growth and Development

Orion main office

565 Wairakei Road
PO Box 13896
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P: + 64 3 363 9898
E: info@oriongroup.co.nz
W: oriongroup.co.nz

Auditor

Dereck Ollsson
Audit New Zealand
On behalf of the Auditor-General
Christchurch, New Zealand

Other sources of information

Christchurch City Council – ccc.govt.nz
Christchurch City Holdings Limited – cchl.co.nz
Selwyn District Council – selwyn.govt.nz

Connetics main office

11 Islington Avenue
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Our Purpose is to power a cleaner and brighter future with our community

