Orion

Orion New Zealand Limited
Annual Report 2022

"I love playing my new electric drums. It has me excited about the future."

Cover: Ava Gurnsey, age 12

Contents

Highlights

Financial

$169m

electricity distribution revenue
The same as last year

$33m

profit after tax
The same as last year

$90m

Group capital expenditure
$6m above last year

$1,481m

group assets
$200m above last year

$73m

network operating expenses
$2m above last year

$31m

fully-imputed dividends
$1m above last year

Network

215,700

customer connections
4,100 above last year

3,416

gigawatt hours of electricity delivered
32 more than last year

721MW

network maximum demand
92MW above last year

78 minutes

average outage duration per customer
21 above last year, due to storms

Community

$400,000

supporting community activities

14,554 tCO2e

16% reduction in our carbon footprint from 2018

+36

Net Promoter Score from residential customers

800

customers gave their views on our performance via formal research

The Orion Group

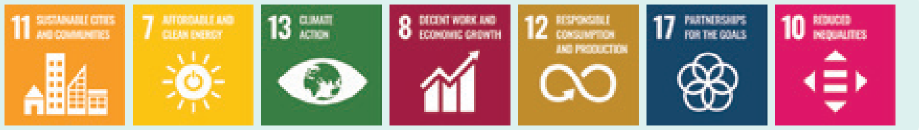
Orion

connetics

ALL WAYS CONNECTING

ENERGY ACADEMY

Orion Group Strategy

PURPOSE	**Powering a cleaner and brighter future for our community**				
Sustainable Development Goals					
Impacts	Strategic Leadership	Regional Prosperity	Sector Transformation		
Strategic themes	Re-imagining the Future Network	Customer Inspired	Lead & Grow	Accelerating Capability	Powering the Low Carbon Economy
FOUNDATION	**New Zealand's most advanced electricity network**				
Enablers	Leadership & Culture	Data & Digitisation	Strategic Agility	Re-defining Value	

At Orion Group, we continue to focus on our aspiration to be New Zealand's most advanced electricity network. At the same time, we are excited to be exploring new opportunities that are setting a new, dynamic direction for our future contribution to a cleaner and brighter future for our community.

Our Group Strategy and Purpose set the direction for our future in FY22, and our commitment to this strategy is unwavering. We are adapting to rapidly evolving customer needs fuelled by technology that is opening a world of new options for powering their lives and businesses. The climate emergency is also compelling us to better understand our role and expand our contribution to supporting the urgent need for New Zealand to transition to a low carbon economy.

While we look to new horizons, we remain strongly focused on our core electricity network which is the foundation of the service we provide to our community. This too will evolve as a new era in the energy sector unfolds.

Our Group Purpose
Powering a cleaner and brighter future for our community encapsulates the contribution we want to make to our community's future wellbeing and prosperity.

- **Powering** – conveys our commitment to taking action and reinforces our focus on energy
- **Cleaner** – speaks to our commitment to assisting our region and New Zealand's transition to a low carbon future and being environmentally sustainable
- **Brighter** – reflects our contribution to social and economic prosperity
- **Our Communities** – reflects our holistic view that includes our people, our region and New Zealand

Sustainable Development Goals
Key stakeholders helped us choose the seven United Nations Sustainable Development Goals (SDG) most relevant to Orion, and where we could have the most impact. These SDGs underpin our Purpose and link to the Impacts we seek to make.

Impacts
We aim to make a clear, measurable long-term impact in providing Strategic Leadership to support Regional Prosperity and Sector Transformation. These impacts will be achieved through our focus on our Strategic themes.

Strategic themes
Our Group Strategy is focussed on five themes to fulfil our Purpose and deliver the Impacts we aim to make:

- **Re-imagining the Future Network** – ensuring our network provides the services our customers need in a changing energy landscape
- **Customer Inspired** – enabling the choices our customers make
- **Lead and Grow** – being a forerunner in our field by providing strategic infrastructure leadership
- **Accelerating Capability** – ensuring our Group and our sector can respond to the challenges ahead
- **Powering the Low Carbon Economy** – being a proactive enabler of those seeking help to reduce their carbon footprint

Our Foundation
Underpinning all we do, it is critical we continue to perform our core network role exceptionally, and safely.

Our Enablers
These are the building blocks enabling us to achieve our Group Strategy.

Chair's Report

We are in good shape for the future.

Paul Munro, Interim chair

Tēnā koutou

Rejoining the Orion board in March 2022 was something of a home coming, although in various capacities I have been part of the Orion Group family for more than ten years.

I first got to know Orion when I was appointed to the board in 2012 as the company rebuilt vital infrastructure to serve a revitalised future for Ōtautahi Christchurch. For four years, I was fortunate to be part of an unforgettable period of dynamic, sound decision making that created the groundwork for the safe, reliable, resilient electricity network that Orion operates today.

Subsequently, as Chief Executive of Christchurch City Holdings Limited for almost six years until March 2022, I supported the Orion Group's growth and achievements from a shareholder perspective.

A time of change and challenge

On 1 April 2022 I was honoured to be appointed as Orion board interim chair during another period of immense change and challenge as the Group continues to evolve to meet our customer's changing needs now, and into the future.

I look forward to working with my fellow board members and the Group's leadership team to maintain this successful organisation's momentum and deliver on our Purpose: To power a cleaner and brighter future for our community.

Another year of solid performance
2022 was another year of solid performance for the Orion Group, and we are in good shape for the future with a refreshed Board and leadership team working together to execute the Orion Group Strategy.

I would like to thank our previous chair, Jane Taylor, for her inspired leadership of the Group. In her almost four years with the board, three as chair, Jane led the development of the Orion Group Strategy, opened up new horizons and was unfailingly supportive of our endeavours and she provided purpose led leadership for the organisation throughout her tenure. Jane stepped down from the Orion Group board on 31 March 2022 leaving a legacy in the clear strategic direction for the Orion Group which we are excited to continue to execute as we move forward. We wish Jane well in her new path in life.

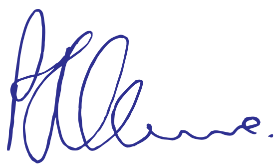
Welcome to new board members and chief executive
This year the board also welcomed two new directors, Jen Crawford and Mike Sang, who are bringing a valuable perspective and energy to delivering on our Group Strategy. Orion NZ board members Geoff Vazey and John Austin stood down after 12 and 7 years respectively as directors and we thank them for their dedicated and committed stewardship of the company, particularly throughout the challenging period of the Christchurch rebuild. Geoff continues to chair Orion subsidiary, Connetics, as an independent director. I would like to acknowledge and thank all our board members for their dedication and insightful contribution to the Group's achievements this year.

In July, we welcomed our new Chief Executive Nigel Barbour who is bringing fresh impetus to the Group's evolution and leadership to bring our Group Strategy to life.

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 continue to highly value their ongoing engagement to help us continue to support both shareholders' objectives to promote the social, economic, environmental, and cultural well-being of our community in the present and for the future.

Maintaining our momentum
I look forward to working with my fellow board members and the Group's leadership team to maintain this successful organisation's momentum and deliver on our Purpose: To power a cleaner and brighter future for our community.

Ngā mihi nui,



Paul Munro
Interim chair

Chief Executive's Report

A year of solid achievement and focus on the future

Nigel Barbour, Group Chief Executive

Tēnā koutou

I'm proud that the Orion Group has delivered another solid year in challenging times.

Re-shaped organisational structure
This year we have been preparing for a different future. While placing our feet firmly on the ground, we're excited to be exploring options that will set a new, dynamic direction for our future contribution to powering a cleaner and brighter future for our community.

We've implemented a new organisational design to deliver our Group Strategy and prepare our network transformation roadmap for an environment that has many fresh and different challenges. In February we completed appointments to our new Integrated Leadership Team, bringing a diverse range of people with the experience and strengths to equip the Orion Group for the next phase in our company's history.

New initiatives are driving change
Over the following pages of this report, we outline just some of the new initiatives that are driving change for the Group. Aligned to our Strategic Themes and Foundation, we tell our stories of self-challenge, innovation and achievement that are redefining who we are, how we grow to become more efficient and effective and ensure our actions deliver on our strategic Impacts and Purpose.

Our aspirations
We have set ourselves three key aspirations for the Orion Group to deliver on our Purpose. They are:

- We have a core network that is relevant for today, and tomorrow
- We make a meaningful contribution to support community and business decarbonisation
- We empower our customers to make the energy choices they need

Across the Orion Group, I'm inspired to see our people working hard to play their part in achieving these aspirations.

Our new ways of approaching what we can and might do are beginning to be evident in our achievements for FY22, as we gather pace in our transformational journey. I am excited about delivering on our aspirations for the future as the coming years unfold.

Taking COVID-19 and storms in our stride
Like most businesses, we've continued to adapt how we operate to keep the power on during disruptions that remain doggedly with us. The COVID-19 pandemic has impacted our world in ways we wouldn't have thought possible a few years ago. We've become adept at operating safely and productively within this pandemic environment. I'm proud Orion largely completed its planned programme of network maintenance and development, and Connetics underwent significant organisational change and growth and delivered a profitable year. I'm also proud of the creative ways the Energy Academy worked around COVID restrictions that often thwarted its plans.

This year we weathered three major storms and a flooding event which caused significant damage to our network, and long periods when the power was out for our rural customers and people in isolated bays in Banks Peninsula. These events are reflected in this year's increase in the number of minutes of outages per customer. We are always very conscious of how stressful it is for people to be without power, and it was heartening to see our crews do the mahi over long hours in difficult conditions to safely get the power back on as quickly as they did.

Throughout a year that defied convention in so many ways, our people's resilience and willingness to adapt the way they work to keep everyone safe and going about their daily lives has been remarkable.

Thank you to our board and our people
I would like to thank our outgoing chair Jane Taylor and our board for their leadership and support throughout the year.

They helped us to lift our sights beyond simply keeping the lights on, challenged our thinking and provided us with the direction to deliver on our Purpose now and into the future. I would also like to recognise and thank the people of Orion, Connetics and the Energy Academy for their unwavering dedication to serving the community during uncertain, evolving times.

It has been a year of change for the Orion Group - both dictated by circumstances beyond our control and proactively taken on as we reshape our organisation to meet the challenges and opportunities of the future. For me, it has been a stimulating first year at Orion Group. Our new ways of approaching what we can and might do are beginning to be evident in our achievements for FY22, as we gather pace in our transformational journey. I am excited about delivering on our aspirations for the future as the coming years unfold.

Nāku, nā,

Nigel Barbour
Group Chief Executive

People in the Future Network team in discussion.

Re-imagining our Future Network

We are ensuring our network provides the services our customers need in a changing energy landscape.

Standing still in a changing world is not an option for us. We have welcomed the chance to innovate and seek out ways to support Central Canterbury's rapid growth, deliver on our commitment to confronting the climate emergency and respond to our customers' increasing desire for control over their energy choices.

Team of future thinkers

To sharpen our focus on what the future might look like for our network, we have established a dedicated team of engineers and "out of the box" thinkers who explore future energy possibilities. Their task is to ensure our network is ready to support customers' evolving needs. Being creative and open to new ideas is key to Orion achieving its ambitions.

Supporting future growth and adding resilience

Looking ahead, we predict continued growth in our customer numbers. Decarbonisation of transport and process heat will also place increasing demands on our infrastructure.

In the biggest investment of its type in Orion's history, we are working with Transpower to build a new Grid Exit Point (GXP) at Norwood, in the Selwyn District to support record growth and increase network resilience. This major investment was given the green light through design and consenting in March, and construction will start in June 2022. Expected to be operational by November 2023, the new GXP will increase our network capacity by 200MW, or 25 per cent.

The new GXP is a two way pipe, capable of uploading as well as downloading power - as new grid-scale solar farm developments are increasingly expected to contribute power to the national grid.

Being creative and open to new ideas is key to Orion achieving its ambitions.

Collaboration with energy innovators

Very often Orion has part of the solution to a bigger energy opportunity. We actively seek out collaborative partnerships to realise new ideas, and provide mentoring to those entering unfamiliar power territory.

In 2021, Orion took a completely new approach to incubating the innovation the energy sector needs. The **Orion Energy Accelerator** programme was New Zealand's first business mentor-based incubator for the energy sector and helped 10 energy startups to take their ideas closer to reality.

Teaming up with others broadens our perspective and yields new commercial opportunities for Orion – we continue to work with the Orion Energy Accelerator's co-winners Empower Energy and Red Phase Technologies, as they perfect their energy solutions.

by 2050

Electricity consumption is expected to increase by 70% as electrification grows

The Orion Energy Accelerator – an entire ecosystem of innovation for New Zealand's future

Above:
Michael Fitzgerald

Working with Canterbury's startup incubator, the Ministry of Awesome, Orion designed and launched the Orion Energy Accelerator. It was a call for big ideas to reduce New Zealand's carbon emissions.

Ōtautahi Christchurch charity, Empower Energy, won the "Impact Award" for its promising solution to energy poverty. Co-founder Michael Fitzgerald says the programme propelled the social enterprise closer to reality.

"We are a small team consisting of myself and my brother-in-law Brian Stephens but we had a big dream to use solar energy to assist families struggling to pay their electricity bills.

"The Accelerator programme was invaluable and the best thing I have done in the last ten years. The connections that we made within Orion, with other energy sector partners and with the other accelerator participants challenged us, helped refine our thinking and our structure."

The programme also encouraged Empower to research potential donors on their willingness to be participate. They were encouraged to find 80 per cent of those surveyed willing to donate their unused power.

As a result of the Accelerator, Empower is now established as a registered charitable entity. It is developing an app to enable owners of residential solar panels to donate their unused power to be sold to the grid and the monies distributed to charities assisting people with their energy expenses in winter months.

Connetics crew working on the
Akaroa pole refurbishment project.

Customer Inspired

We are enabling the choices our customers make.

For the Orion Group, customers come with an immense range of individual needs and priorities.

Through research and listening to our customers first hand, we've learned that while a power service they can rely on is top of everyone's list, each customer and each community has different concerns and priorities. And these can change over time. How we respect each customer's needs and enable their choices comes in many forms.

How we respect each customer's needs and enable their choices comes in many forms.

What matters to our stakeholders
This year we added a materiality study into our research mix to find out what a cross-section of our stakeholders would like the Orion Group to focus on.

The areas stakeholders rated the highest were:

- Health, safety and wellbeing
- Sustainable financial performance
- Climate change
- Quality management
- Customer experience

This materiality assessment is providing valuable insights that are being used to inform our decisions and strategic direction.

Powering up poles to Akaroa
For the people of Akaroa, what's most important is closer to home. Relative isolation and a single line delivering power into the town understandably makes them nervous, especially in winter. To address their concerns, we undertook our largest line refurbishment project for the year.

We refurbished or replaced the 115 power poles of the 6.6km line delivering power from our substation at Duvauchelle to the township. Deploying multiple crews and a fleet of generators kept outages during the work to a minimum, and enabled us to complete the project efficiently and in record time. As winter sets in, the line is now more reliable and resilient than ever, giving the people of Akaroa greater confidence in their power service.

Digitising our business processes
People who request an Orion person to be present when digging around our 33kV and 66kV underground network; route checks for loads over 4.9m high or consent to work near our network have a different range of needs. They want an easy online application process, quick turnaround and to know they can safely do their work. If they need to contact us about the process, they like us to have all the background and history at our finger tips.

Launched in March, our new online Customer Relationship Management (CRM) system now provides the foundation to meet our customer's needs for these interactions. As new services are progressively added, our CRM will grow to become a cornerstone system for digitising our business processes and a key platform to manage and deliver services to our customers, as well as creating new opportunities.

4.8%

Selwyn District's population growth in FY21 - NZ's fastest growing district

Managing the boom in connections

Kane Tamou and his team are at the pointy end of Canterbury's building boom. Last year they continued to handle a record number of requests for connection to our network – more than 6,000 additional new connections as more households and businesses made Central Canterbury their home. And there is no sign the pressure is about to let up soon.

"I call it the Connections group pressure cooker," says Kane, Customer Connections Manager.

"With a changing new build landscape and a consistently high volume of new applications of all shapes and sizes, it's fair to say the team has really been under the pump this year. More multi-unit dwellings and in-fill housing creates complexity for a network not designed for that intensity of load.

Streamlining processes and integrating new ways of doing things is key to keep the machine moving and adapting to the changing environment.

"The Connections team has a very diverse range of responsibilities, balancing the needs of our customers with what's needed to ensure the Orion network can supply the power required.

"Innovations we've made to our database and electronic platforms have helped us to be more efficient. We've also learned to be more adaptable in the way we approach new connections as it is not one-size-fits-all anymore."

Above:
Kane Tamou

Jeremiah Torres, an Orion Network Contoller.

Lead and Grow

We aim to be a forerunner in our field by providing strategic infrastructure leadership.

Across the Group, we are unlocking the potential of new ways to do things. We are identifying ways to streamline processes, adopting new technology and exploring prospects to improve safety, efficiency and customer service.

This year we rolled out significant initiatives that are accelerating our industry leadership.

Connetics expands services
Connetics is moving into the renewable energy services market spearheading its ambition to deliver not just traditional electricity services, but to support the Group's Purpose to Power a cleaner and brighter future for our community.

Central to this capability evolution is Connetics' Design + Engineering Team which is becoming a major player in the ideation and design of renewable energy generation, transmission and distribution and future energy solutions. The team has grown from 27 to 37 people over the past 18 months, with several projects in progress for grid-scale solar farm design, EV charging station design and construction, decarbonisation projects and wind farm design.

Critical to this work has been the adoption of a new set of tools allowing Connetics to design in new ways.

Orion can see when equipment is nearing its capacity with greater accuracy and resolve outages faster after upgrading our Advanced Distribution Management System (ADMS) from GE Digital this year.

Using artificial intelligence
Orion can see when its network equipment is nearing capacity with greater accuracy and resolve outages faster after upgrading our Advanced Distribution Management System (ADMS) from GE Digital this year. We were the first electricity distribution business in New Zealand to upgrade to this generation of the system.

The ADMS is the workhorse of Orion's suite of network management tools and interacts with a wide range of systems, allowing us to generate switching instructions for our field staff, undertake power flow analysis and provide outage information on our website in near real time.

Artificial intelligence and adaptive algorithms allow us to build a 'digital twin' replica of our high-voltage network, combining historic data with simulation learning and human expertise.

This twin allows us to experiment with different scenarios and variables without risking the physical network. We will use the digital twin network in real time, for diagnostics to optimise the performance and utilisation of the network.

New contract delivery framework
In the 12 months of FY22, Orion invested more than $114m to maintain and develop our network. For the good of our community and our people, it is important we manage delivery of this massive infrastructure work programme efficiently and effectively, sustainably and above all, safely. In October, we switched to managing the delivery of our overhead, substation and underground assets work programme through a new delivery framework. We established a Connetics-based Project Management Office (PMO), and appointed Connetics as our Primary Service Delivery Partner.

Early indications are the PMO is achieving greater collaboration across our service providers which helped deliver our Akaroa pole refurbishment project ahead of schedule with reduced power outages for the community. Regular tracking of the expected benefits of our new delivery framework is expected to show improved safety and quality outcomes, greater development of capability in the industry, and consistency in work practices.

30,000

transactions per day via our Advanced Distribution Management System

LUMO lights up online

2021 was the year of the ‘pivot’ for Deanna Anderson, Establishment Lead of the Energy Academy.

Her plan was to run a major event that would bring more than 400 people together at the Christchurch Town Hall to explore the intersection of humanity, technology and energy in New Zealand.

LUMO: Energy Reimagined Symposium was to feature panels and keynote speakers, in a festival-style event with interactive workshops, ‘breakouts on boats’, speed mentoring and spinoff networking opportunities.

Then COVID’s Omicron and another lockdown hit. Deanna and her team had to come up with another way to harness the excitement already generated without hosting an in-person event.

“Making our event free by turning it into a series of online conversations, meant we could still meet our objectives of ensuring the energy sector was listening to a diverse group of people.

“The upside was this meant more people could be part of the conversation.”

In March LUMO became a freely-accessible series of online content - including podcasts, live Zoom panels, interactive workshops and ‘LUMO Lounges’.

“We created LUMO to bring a diverse voice to the big ideas facing the future of energy. The tremendous support we’ve had for it tells us people are looking for answers to big questions.”

Running until the end of July 2022, LUMO covers topics including energy and humanity, just transition, decarbonisation, energy tomorrow, energy’s future story and more.

The line-up of contributors includes 50+ esteemed speakers from a range of disciplines, sectors, cultures and generations.

For LUMO content and opportunities, visit energyacademy.co.nz/lumo

Above:
Deanna Anderson

Orion team members in a planning meeting.

Accelerating Capability

We invest in human capability to ensure our Group and our sector can respond to the challenges ahead.

It has been a year of dynamic change in the workplace for the Group. Many of our people have adapted to working from home or in isolated situations as part of our Pandemic Response Plan. We've readily embraced technology that facilitates remote working, but the changes for Orion people don't stop at the computer screen.

The changes in our culture are beginning to make the bigger difference at the heart of the Orion Group whānau. We are accelerating our human capability by embracing the diversity of our people, and encouraging our team to aspire beyond their comfort zone.

Diversity and inclusion

Our new diversity and inclusion programme, **Ubuntu**, and our **Inclusion Council** are helping to unlock the potential that an inclusive and diverse workplace offers. Opportunities to listen to the voices of those with alternative views and life experiences and appreciate different cultures have enriched our work culture and people's sense of belonging.

We have started to build a closer relationship with our iwi partners, and through Christchurch City Holding's **He Huanui Māori Pathways Programme** to embed Te Ao Māori, Tikanga Maori, Mātauranga Maori and the principles of Te Tiriti o Waitangi within the Group.

Our diversity and inclusion journey has begun. In the coming two years we have ambitious plans to drive diversity and inclusion priorities throughout the Group, including a gender pay gap review, a review of our recruitment processes and determining measures and targets.

Helping our people succeed

As an organisation in the midst of change it is important our people know where to focus their time and energies and what's expected of them. It is also important their development and opportunities within the Group help to achieve their career aspirations.

We've readily embraced technology that facilitates remote working, but the changes for Orion people don't stop at the computer screen.

To help achieve that, Orion implemented a new performance management programme, **EmPowered**, to drive performance, engagement and capability development. With this conversation-based programme, our people are enabled to flourish and succeed at work and contribute value to our overall performance in order to achieve our strategy.

Building innovation capability and culture

We are stimulating innovation to help achieve our Group Purpose through our **Innovation Pipeline**, launched at the end of FY22. The Pipeline helps people progress their innovative ideas through a simple framework that includes access to advice, funding, resources and sponsorship of our senior leaders. Already, 13 projects have started their journey through the Pipeline.

The Energy Academy is also developing courses to stimulate the thinking that supports innovation. The first is **The Art of Adaptability** programme which is designed to develop the essential skills needed for work today: collaboration, communication, problem solving and judgement, creativity and cultural awareness.

642

people in the Orion Group

On his “A” game with Empowered

Above:
Shaun Allan

Shaun Allan says being a high performing sports player helped him make the most of the new Empowered programme.

A scratch golfer, Shaun is the first to be picked for the company team in corporate golf challenges. An electrical engineer, he’s also acing it off the course as Orion’s newly appointed Secondary Systems Lead.

“In sport, setting goals is a massive part of the process of trying to improve.

“I’ve always been big on setting goals for myself with my golf and cricket and that aspect really worked for me with Empowered.

“Setting the bar high gives me a sense of challenge and the good thing with Empowered was it’s not just about performance, it’s also about how I turn up for the job.

“Having the right attitude is a big part of doing well in sport.”

Shaun says he’s never been shy when it comes to having conversations with his manager, but recognizes that can be a handicap for others.

“The regular koreros with my manager are great informal check-ins to talk about how I’m going or whether I need further coaching to reach my goals.

“For me the koreros are an important part of Empowered which keeps me accountable for the progress towards my goals.”

Connetics installing LED street lights in Christchurch, with 25,000 replaced to date.

Powering the Low Carbon Economy

We are a proactive enabler of those seeking help to reduce their carbon footprint.

We have challenged ourselves to respond with urgency to the climate change emergency and be a key enabler of the transition to a low-carbon future. Building our resilience to the impacts of climate change and helping others to do the same is a priority.

Building our resilience to the impacts of climate change and helping others to do the same is a priority.

Walking the talk
Through a range of initiatives from using biofuel in our generators to increased electrification of our vehicle fleet, we are on track to meet our target to be carbon neutral – excluding electricity line losses – for our Group corporate carbon emissions by June 2022. We will be the first electricity company in New Zealand to achieve this ambitious target.

Toitū certification
We are proud to have been granted Carbon Reduce Certification from Toitū Envirocare – proof Orion Group is taking affirmative, meaningful action on climate change. Certification by this prestigious organisation tells us we are on the right track by accurately measuring and reducing the greenhouse gas footprint of our business.

Turning up the heat on process heat
To guide our network planning, we joined a multi-functional team of energy experts to meet with 18 major industrial customers in our region to discuss their plans to move away from using fossil fuels in their high temperature industrial processes. Part of the national **Carbon Roadmap to 2050** project by DETA Consulting, these conversations identified a potential 350MW of extra power required if industrial users in our region made the switch to electricity to decarbonise their process heat.

We also learned our customers are keen to explore flexible opportunities and are open to switching to alternative fuels. The need to develop our network design capability to support changes coming in the industrial sector is evident. This engagement with our customers provided valuable insights for assessing our future network capacity requirements and future-proofing our network through integrated load management. The benefits of these conversations were mutual as the expert team shared their knowledge to help customers make their own informed energy choices.

3,000

litres of biofuel used in our generators instead of diesel, saving 8.07tCO2e

Knowledge is power

Worrying about how they are going to pay their power bill is something many of our customers grapple with each month.

At Orion we are exploring ways to help our customers who are exposed to energy hardship. In a trial started in 2021, we're using knowledge to help people use their power more cost effectively.

We have teamed up with Ōtautahi Community Housing Trust to install electricity and environmental sensors in 17 homes owned by the trust.

Ed Leeson, Trust General Manager Property and Development says householders get real-time information that can help them power their home more efficiently.

"For example, people can now see how efficient it is to use their heat pump to keep their home warm and dry, and how a household's habits might affect how much electricity they use.

"Combined with the environmental data, people can see how using ventilation fans, cracking a window and drying washing outside can keep a home dry and cut the cost of heating.

"This'll help tenants find new ways to cost effectively manage a healthy home – it's positive and empowering."

The project continues to help tenants understand the effect their choices have on the health of their home. It will help OCHT and Orion identify ways we can work together to be part of the energy-equity solution.

Above:
Ed Leeson

Drone powered thermal imaging locates equipment faults.

New Zealand's Most Advanced Electricity Network

Underpinning all we do, it is critical we continue to perform our core network role exceptionally, and safely.

Despite disruptions from COVID-19, we advanced our network capacity and introduced ways to operate more efficiently and effectively. We also proved our mettle in the biggest challenge to national network security in more than 20 years – a grid emergency.

Powering up Belfast
Orion's largest infrastructure development project for the year has been to increase the capacity and resilience of the network to support future growth in the Northwood and Belfast area.

Due for completion mid-2022, the multi-million dollar project involves building a new zone substation on Blakes Road and laying an underground 66kV power cable connecting the new substation to the network at our Marshland Zone substation in Prestons Road.

Laying the new 4.1 kilometre cable involved trenching along busy local roads, with significant impacts on traffic in the area and those passing through. We undertook extensive community engagement to listen to the concerns of the impacted community, and where we could, adjusted our work programme to keep road closures to a minimum, and complete stages that were particularly hard on commuters ahead of schedule.

Flying high with drones
Orion's aerial fleet of ten drones is revolutionising the way we locate equipment faults on our overhead lines network in an emergency.

In a use that is unique to Orion, our rural field response team are flying in an emergency, equipped with a hi-spec'd, electric powered drone as standard issue amongst the tools they carry in their vans.

These drones help the operators find a fault on a rural line by flying quickly and safely over hills and valleys, across forestry blocks, over banks, rivers and boggy land, in rain or snow, and across areas with sensitive stock – bulls! This cuts the time taken to walk the line to find a fault down from what can be an hour to a five-minute job, without the safety risks.

Orion's aerial fleet of ten drones is revolutionising the way we locate equipment faults on our overhead lines network in an emergency.

Equipped with a thermal imaging camera to provide another perspective, the heat signal shows faults the human eye cannot see.

The drone's high-resolution footage also provides useful information for the crew undertaking the repair. As well as identifying faulty equipment, it can provide a visual indication of the best access to the fault's location – saving many crucial minutes tramping over difficult terrain.

Grid emergency response
Sophisticated load management techniques helped Orion avoid turning the power off for our customers during Transpower's grid emergency on one of the coldest nights of the year. In the early evening of 9 August, we put our provisions to reduce load in a managed way into action when electricity demand exceeded national capacity. Using our investment in ripple control of hot water heaters, as well as the arrangements we have with major industrial power users we managed our way through a system crisis event not seen for more than 20 years – without plunging our customers into the cold and dark.

92%

Residential customers satisfied with network reliability

Making sure our LV network is match fit

29-year-old Yuyin Kueh is too humble to tell you this but she has three superpowers – meticulous attention to detail and data, vision of the big picture and curiosity to create new solutions.

Yuyin, Orion Network Planning Engineer, is leading our response to a major challenge – ensuring our low voltage (LV) network is ready for a projected 20 per cent increase in load from electric vehicles in the future.

Her pioneering research with the University of Canterbury's Electric Power Engineering Centre has been used to deliver a high-level strategy for a $12 million, eight-year major reinforcement programme for Orion's LV network.

"Getting the go-ahead for this programme was a real buzz for me.

"I've been head down in the data, and to see that producing real results and making the work we do focussed on where it's needed is so rewarding."

As well as load forecasting by area, and identifying areas that need capacity upgrades, the programme will give Orion greater visibility of the existing loading of the low voltage network.

"This means we can monitor changes in consumer use through data analytics in real-time, giving us a much better understanding of how and when people want their power."

With Yuyin's work, Orion can focus on the areas where demand will have greatest impact – investing in network upgrades where it counts.

Above:
Yuyin Kueh

Financial Performance

As an essential services provider the Orion Group was proud to have supported its customers by maintaining power services through the second year of the COVID-19 pandemic.

Our region's relatively short COVID-19 lockdown period of seven days in August had no significant impact on the Group's financial performance, or network revenues. We delivered another year of solid financial performance despite the challenges posed by operating safely and productively in the COVID-19 environment.

Our electricity distribution revenues were $169m, in line with FY21 and slightly above target.

Our $33m profit after tax, the same as last year's, was $8m above our Statement of Intent (SOI) target, driven largely by:

- above budget electricity distribution revenue – $3m
- an above budget profit from our subsidiary Connetics' operations – $1m
- a favourable change in the fair value of our interest rate swaps – $2m

Our financial performance enabled us to pay $31m of fully-imputed dividends to our community through our ultimate shareholders – Christchurch City Council and Selwyn District Council – in line with our SOI target, and $1m above last year.

The sustained high number of new connections this year and strong growth in our material and equipment costs for our ongoing network development programme are reflected in network capital expenditure of $84m, $8m higher than last year.

Supply chain issues impacted some of our project delivery timings. Judicious adjustments to our project planning meant we largely completed our scheduled programme of capital investment in our network to meet growing customer demand and evolving customer needs.

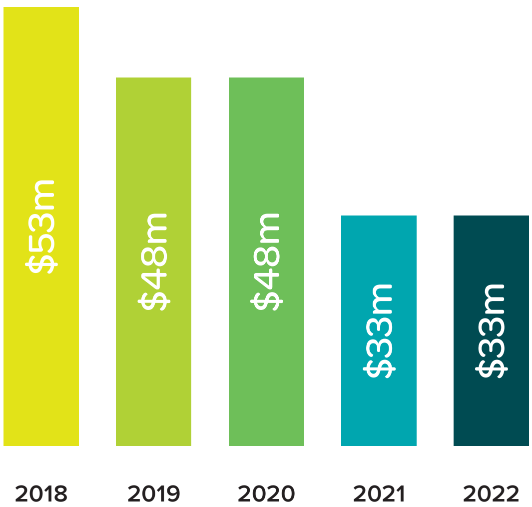
We engaged independent valuers to assess the carrying value of the Group's land, buildings and electricity distribution network. The valuers assessed that in accordance with NZ Financial Reporting Standards the Group's:

- land and buildings should be revalued upwards by $35m
- electricity distribution network should be revalued upwards by $86m

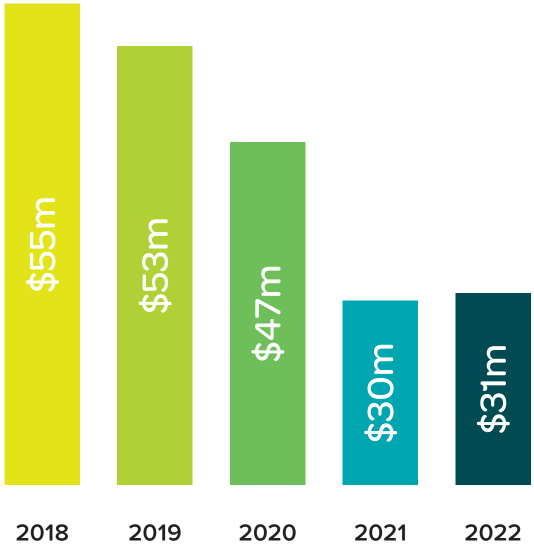
Connetics' revenue was impacted by the COVID-19 lockdown during Alert Levels 4 and 3 in August and September. Following the return to Alert Level 2, Connetics maintained a strong performance through the remainder of the fiscal year. We are pleased to report Connetics generated a profit of $2m by year's end.

Five Year Comparisons

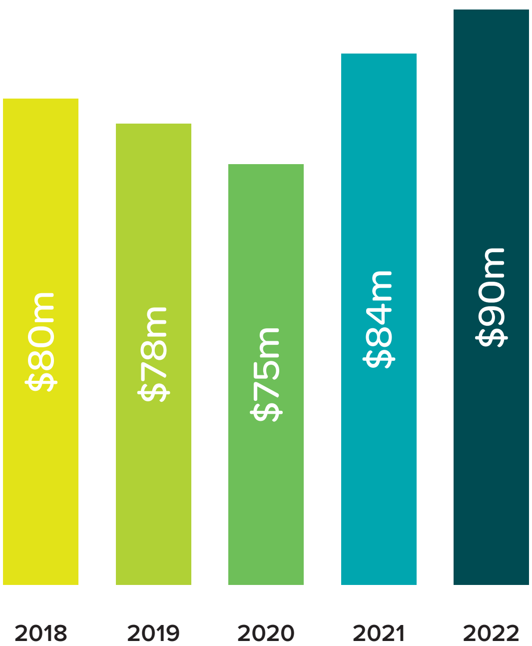
Profit After Tax



Cash Distributions to Shareholders

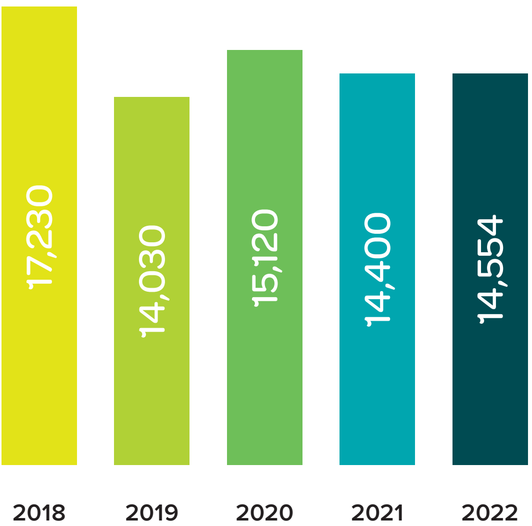


Group Capital Expenditure

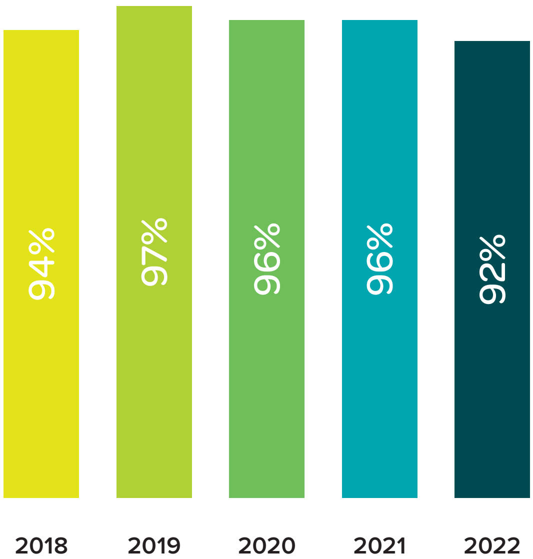


Total Group Assets

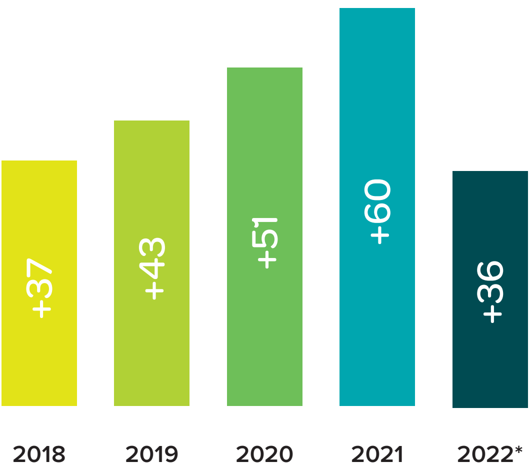
Greenhouse Gas Emissions tCO2e



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 and Digitisation

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. 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, CMinstD

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 MHV Water, Mahaanui Kurataiao, Nelmac and Rangitata Diversion Race Management Limited. Jen is a Chartered Member of the IoD and a Barrister and Solicitor of the High Court of New Zealand.

Bruce Gemmell
BBS, CA (NZ and AU)

Bruce was appointed as an Orion director in September 2016. He is a professional director. Bruce was formerly a senior partner of international accounting firm EY. Bruce is Chancellor of Lincoln University. He is also either a director or trustee of the Highlanders rugby franchise, Miramar Consolidated Limited, Planz Consultants Limited, Central Plains Water Limited, Lincoln Agritech Limited and other companies. Bruce also consults to corporates on matters of value, capital raising and restructuring.

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. Jason is an independent energy consultant and professional director. He is currently a director of Helios Energy and a governor of Scots College and is formerly 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.

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

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 2022.

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

Performance information comprises:
Performance targets

- Financial
- Network Reliability
- Health and Safety

Key initiatives

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

Authorised for issue on 23 June 2022.

For and on behalf of the board of directors:

Paul Munro
Director

Bruce Gemmell
Director

Contents

Statement of comprehensive income

	Notes	2022 $000	2021 $000
Operating revenues	2	310,562	301,736
Operating expenses	3	(199,950)	(192,495)
Earnings before interest, tax, depreciation and amortisation (EBITDA)		110,612	109,241
Depreciation, amortisation and impairment expenses	4	(55,376)	(53,170)
Earnings before net interest expense and tax (EBIT)		55,236	56,071
Interest income		3	4
Interest expense	5	(12,113)	(11,345)
Net change in fair value of derivatives income	15	2,452	1,681
Profit before income tax		45,578	46,411
Income tax expense	7	(12,984)	(13,218)
Net profit		32,594	33,193
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Gain/(loss) on revaluation of property, plant and equipment	11	121,029	(8)
Deferred tax effect	7	(26,391)	2
Gain/(loss) on revaluation of carbon emissions units	10	1,035	(4)
Deferred tax effect	7	(290)	-
		95,383	(10)
Items that may be reclassified to profit or loss in future:			
Change in fair value of cash flow hedges gain	15	24,275	4,864
Deferred tax effect	7	(6,797)	(1,362)
		17,478	3,502
Other comprehensive income net of tax		112,861	3,492
Total comprehensive income		145,455	36,685

Statement of changes in equity

	Share capital $000	Retained earnings $000	Asset revaluation reserve $000	Cash flow hedge reserve $000	Carbon revaluation reserve $000	Total Equity $000
Balance as at 1 April 2020	105,000	441,979	130,848	(6,338)	-	671,489
Net profit	-	33,193	-	-	-	33,193
Other comprehensive income	-	-	(6)	3,502	(4)	3,492
Total comprehensive income	-	33,193	(6)	3,502	(4)	36,685
Transfers between reserves:						
Realised gain on disposal	-	106	(106)	-	-	-
Deferred tax on realised gain	-	(30)	30	-	-	-
Dividends paid	-	(30,000)	-	-	-	(30,000)
Balance as at 31 March 2021	105,000	445,248	130,766	(2,836)	(4)	678,174
Net profit	-	32,594	-	-	-	32,594
Other comprehensive income	-	-	94,638	17,478	745	112,861
Total comprehensive income	-	32,591	94,638	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	447,511	224,735	14,642	741	792,629

The accompanying notes form part of these financial statements

Statement of financial position

	Notes	2022 $000	2021 $000
Current assets			
Cash and cash equivalents		611	2,967
Trade and other receivables	8	34,632	12,973
Inventories	9	16,327	11,356
Prepayments		3,693	3,439
Assets held for sale	11	-	1,000
Total current assets		55,263	31,735
Non current assets			
Prepayments		449	462
Goodwill		-	250
Intangible assets	10	7,945	4,500
Property, plant and equipment	11	1,397,937	1,243,672
Interest rate swaps	15	18,982	93
Total non current assets		1,425,313	1,248,977
Total assets		1,480,576	1,280,712
Current liabilities			
Trade and other payables	12	39,290	42,224
Borrowings	14	185,813	1,008
Income tax	7	3,326	3,237
Employee entitlements	13	7,669	6,625
Interest rate swaps	15	-	240
Total current liabilities		236,098	53,334
Non current liabilities			
Borrowings	14	233,945	358,343
Employee entitlements	13	2,730	2,866
Interest rate swaps	15	-	7,598
Deferred tax	7	215,174	180,397
Total non current liabilities		451,849	549,204
Shareholders' equity			
Share capital	16	105,000	105,000
Retained earnings		447,511	445,248
Reserves		240,118	127,926
Total equity		792,629	678,174
Total liabilities and equity		1,480,576	1,280,712

Statement of cash flows

	2022 $000	2021 $000
Cash flows from operating activities		
Receipts from customers	285,273	300,615
Interest received	3	4
Payments to suppliers and employees	(208,867)	(197,865)
Payments for interest and other finance costs	(11,772)	(11,748)
Payments for income tax	(11,596)	(14,703)
Net cash provided from operating activities	53,041	76,303
Cash flows from investing activities		
Proceeds from the sale of property, plant and equipment	2,358	345
Payments for property, plant and equipment	(86,432)	(73,375)
Payments for intangible assets	(2,205)	(524)
Payments for carbon emissions units	(340)	(1,000)
Payments for forestry investment	(101)	-
Net cash used in investing activities	(86,720)	(74,554)
Cash flows from financing activities		
Proceeds from bank loans	70,000	131,150
Repayment of bank loans	(6,850)	(100,000)
Repayment of lease liabilities	(827)	(1,484)
Dividends paid	(31,000)	(30,000)
Net cash provided from/(used in) financing activities	31,323	(334)
Net increase/(decrease) in cash and cash equivalents	(2,356)	1,415
Summary		
Cash and cash equivalents at beginning of year	2,967	1,552
Net increase/(decrease) in cash and cash equivalents	(2,356)	1,415
Cash and cash equivalents at end of year	611	2,967

Statement of cash flows continued

	2022 $000	2021 $000
Reconciliation of net profit to net cash provided from operating activities		
Net profit	32,594	33,193
Adjustments		
Depreciation, amortisation and impairment of property, plant and equipment	55,376	53,170
Internal costs allocated to property, plant and equipment and intangible assets	(6,301)	(4,227)
Change in fair value of derivatives	(2,452)	(1,681)
Increase in deferred tax liability	1,299	1,218
Other	(81)	(137)
	47,841	48,343
(Increase)/decrease in assets		
Trade and other receivables	(21,659)	(1,131)
Inventories	(4,971)	(971)
Prepayments	(140)	(506)
Increase/(decrease) in liabilities		
Trade and other payables	(1,621)	1,203
Employee entitlements	908	(1,128)
Income tax	89	(2,700)
	(27,394)	(5,233)
Net cash provided from operating activities	53,041	76,303

Notes to the financial statements

1. Statement of accounting policies

Corporate information

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

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

Statement of compliance

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

Basis of financial statement preparation

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

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

Significant judgements, estimates and assumptions

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

Electricity delivery revenue

The company initially invoices electricity retailers monthly for electricity delivery services on the basis of 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 non-cash portions of these asset acquisitions are valued at nil on acquisition because they are not recognised under the regulatory price control regime and therefore these assets do not generate additional future cash inflows.

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

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.

Notes to the financial statements continued

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.

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.

Notes to the financial statements continued

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.

Distribution assets constructed by electricity users and transferred to the group below their full cost are recognised as revenue at their deemed fair value. The fair values of these vested assets are nil as the Commerce Commission regulations prevent the group receiving a return on the vested assets received.

(d) Borrowing costs

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

(e) Income tax

Income tax expense comprises current tax and deferred tax.

Current tax is the income tax payable based on the taxable profit for the current year, plus adjustments to income tax payable for prior years. Current tax is calculated using rates 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

(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

Prior to FY20 the group had not designated any derivatives as hedges for financial reporting purposes. The group now 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.

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. There have been no changes to the initial or subsequent measurement of financial assets or liabilities as a result of adopting NZ IFRS 9.

(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 by June 2022. 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 periodic independent valuations prepared by an external valuer. Fair value is based on a discounted cash flow methodology. Fair value is reviewed at the end of each reporting period to assess whether the carrying value is materially different to fair value.

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

Depreciation is provided on property, plant and equipment, including freehold buildings 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
Buildings structures	70	Trucks	10
Building services	30	Plant and equipment	10
Building fit-out	20	Computer equipment	3

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

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

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

(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.

Notes to the financial statements continued

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.

Assets towards which customers have paid capital contributions are initially measured at the cost of construction but are subsequently impaired by the amount of the capital contribution received in the year the corresponding asset is commissioned.

(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 2022 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 2022 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 2022 and have been consistently applied throughout the year.

New accounting policies relating to government grants and carbon emissions units were adopted in the year ended 31 March 2021.

Other than the above, there have been no changes in accounting policies in comparison with the prior year.

Notes to the financial statements continued

	2022 $000	2021 $000
2. Operating revenues		
Revenue from contracts		
Recognised over time		
Electricity delivery services	230,365	229,508
Contracting services	49,702	40,717
Consumer capital contributions	156	156
Recognised at a point in time		
Sale of goods and services	12,961	10,900
Contracting services	3,924	6,537
Consumer capital contributions	3,645	2,127
Other income		
Transmission rental rebates received from Transpower	6,915	6,493
Ministry of Social Development wage subsidy	467	2,690
Other	2,427	2,608
	310,562	301,736

3. Operating expenses

	2022 $000	2021 $000
Transmission	61,475	60,702
Transmission rental rebates passed to retailers	6,915	6,493
Employee benefits	63,534	61,358
Network maintenance	29,614	30,297
Operating lease payments	632	813
Other	37,780	32,832
	199,950	192,495

Employee benefits in FY22 is net of $6.3m allocated to capital projects (2021: $4.2m).

4. Depreciation, amortisation and impairment expenses

	2022 $000	2021 $000
Depreciation of property, plant and equipment	48,747	47,692
Depreciation of right-of-use assets	1,067	1,589
Impairment of property, plant and equipment	3,645	2,127
Amortisation of intangible assets	1,361	1,139
Impairment loss on revaluation of property, plant and equipment	19	238
Property, plant and equipment disposed and written off	287	385
Impairment of goodwill	250	-
	55,376	53,170

5. Interest expense

	2022 $000	2021 $000
Bank and United States Private Placement debt	11,428	10,664
Lease liabilities	685	681
	12,113	11,345

No interest expense was capitalised during the year (2021: nil).

Notes to the financial statements continued

6. Remuneration of the auditor

	2022 $000	2021 $000
Audit of the financial statements	282	270
Assurance services	75	51
Other recoveries	19	19
	376	340

Assurance services comprise assurance reviews of the company's annual default price-quality path (DPP) compliance statement and regulatory information disclosures.

7. Income tax and deferred tax

	2022 $000	2021 $000
Income tax expense comprises:		
Current income tax charge	12,100	12,134
Adjustments to prior years	(415)	(134)
Temporary differences	1,299	1,218
	12,984	13,218
Reconciliation of profit before income tax with income tax expense:		
Profit before income tax	45,578	46,411
Prima facie income tax expense calculated at 28%	12,762	12,995
Other permanent differences	222	223
Income tax expense	12,984	13,218

	Property, plant and equipment $000	Derivatives $000	Provisions $000	Other $000	Total $000
Deferred tax liability					
Balance as at 1 April 2020	183,423	(4,001)	(2,367)	764	177,819
Charged/(credited) to income	729	470	24	(5)	1,218
Charged/(credited) to other comprehensive income	(2)	1,362	-	-	1,360
Balance as at 31 March 2021	184,150	(2,169)	(2,343)	759	180,397
Charged/(credited) to income	1,011	687	(140)	(259)	1,299
Charged/(credited) 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

Notes to the financial statements continued

7. Income tax and deferred tax continued

The group's current income tax liability as at 31 March 2022 is $3.3m (2021: $3.2m). The liability mainly comprises the group's third instalment of provisional income tax for the year ended 31 March 2022 (31 March 2021).

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 $6.9m as at 31 March 2022 (2021: $7.2m), which includes the income tax liability of $3.3m (2021: $3.2m).

	2022 $000	2021 $000
8. Trade and other receivables		
Trade receivables and accruals	31,533	11,248
Contract assets	3,243	1,854
Allowance for impairment of trade receivables	(144)	(129)
	34,632	12,973
Trade receivables before allowance for impairment:		
Current	29,957	8,827
1 month overdue	470	898
2 months overdue	520	476
3 months overdue	586	1,047
	31,533	11,248
9. Inventories		
Goods for sale	9,582	6,776
Electricity distribution network stock	6,872	4,953
Allowance for impairment	(127)	(373)
	16,327	11,356

Notes to the financial statements continued

10. Intangible assets

	2022 $000	2021 $000
Computer software		
Capitalised at cost	12,573	18,284
Accumulated amortisation	(6,977)	(14,925)
	5,596	3,359
Carbon emissions units		
Capitalised at cost	1,318	1,145
Accumulated revaluation gain/(loss)	1,031	(4)
	2,349	1,141
Net book value	7,945	4,500

	NZUs $000	VERs $000
Details of carbon emissions units		
Balance as at 1 April 2020	-	-
Emissions units purchased	1,000	156
Carbon credits cancelled	(11)	-
Revaluation loss through other comprehensive income	(4)	-
Balance as at 31 March 2021	985	156
Emissions units purchased	-	184
Carbon credits cancelled	(11)	-
Revaluation gain through other comprehensive income	1,035	-
Balance as at 31 March 2022	2,009	340
Gross carrying amount	2,013	340
Accumulated impairment	(4)	-
	2,009	340

As at 31 March 2022 the group is holding 26,505 NZUs (2021: 26,762) and 28,000 VERs (2021: 12,000).

Notes to the financial statements continued

11. Property, plant and equipment

	Freehold land at fair value $000	Buildings and land improvements at fair value $000	Electricity distribution network at fair value $000	Plant and equipment at cost $000	Total $000
Gross carrying amount					
Balance as at 1 April 2020	77,156	38,965	1,077,649	52,417	1,246,187
Additions	823	201	76,331	6,544	83,899
Disposals	-	(13)	(1,080)	(1,525)	(2,618)
Transfer to assets held for sale	-	-	(1,320)	-	(1,320)
Balance as at 31 March 2021	77,979	39,153	1,151,580	57,436	1,326,148
Additions	1,318	212	84,084	4,717	90,331
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	(2,971)	-	28,872
Balance as at 31 March 2022	105,135	42,346	1,231,636	59,951	1,439,068
Accumulated depreciation and impairment					
Balance as at 1 April 2020	-	268	-	32,910	33,178
Disposals	-	(6)	(684)	(1,346)	(2,036)
Depreciation expense	-	1,809	42,210	5,262	49,281
Asset impairment	54	9	2,271	39	2,373
Transfer to assets held for sale	-	-	(320)	-	(320)
Balance as at 31 March 2021	54	2,080	43,477	36,865	82,476
Disposals	-	(14)	(773)	(1,879)	(2,666)
Depreciation expense	-	1,802	42,906	5,106	49,814
Asset impairment	-	-	3,645	-	3,645
Revaluation	(54)	(2,829)	(89,255)	-	(92,138)
Balance as at 31 March 2022	-	1,039	-	40,092	41,131
Net book value as at 31 March 2021	77,925	37,073	1,108,103	20,571	1,243,672
Net book value as at 31 March 2022	105,135	41,307	1,231,636	19,859	1,397,937
Capital work in progress included above:					
As at 31 March 2021	12	-	60,649	495	61,156
As at 31 March 2022	9	55	51,237	752	52,053

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 IRFS 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 2022 of $2.1m (2021: $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 2020 the electricity distribution network, including substation buildings and easements, ('the network') was revalued to fair value of $1,044.6m, 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 IRFS 13 – Fair Value Measurement.

Deloitte considered the impact of COVID-19 within its 2020 valuation and allowed a specific equity risk premium of 0.5% in its WACC calculation to allow for increased uncertainty in market conditions at the date of the valuation. This equated to 0.3% of total WACC. If this premium was changed/removed Deloitte would expect to consider a range of other assumptions. However, if a single point change was made to remove this, the valuation would have been $29m higher.

From 1 April 2020 to 31 March 2021 the company processed asset additions at cost, removed assets on disposal and depreciated assets to determine a carrying value as at 31 March 2021.

Notes to the financial statements continued

11. Property, plant and equipment continued

As at 31 March 2021 the company engaged Deloitte to review the valuation of the electricity distribution network undertaken in the previous year. The 31 March 2021 review was also undertaken in accordance with NZ IAS 16, NZ IAS 36 and NZ IFRS 13. Deloitte used updated cash flow forecasts prepared by the company. Deloitte used a similar methodology to that outlined above and determined that the fair value of the electricity distribution network was materially the same as carrying value at that date.

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)

As at 31 March 2020 the company engaged Marius Ogg of Colliers International Limited to value its land and non-substation buildings in accordance with NZ IAS 16, NZ IAS 36, and NZ IFRS 13. He used a similar methodology as that outlined above while also considering the impact of COVID-19 within his valuation, and:

- applied various discounts to assessed market values to reflect the movements in those markets due to COVID-19
- allowed a margin in his derived capitalisation rates for the various properties of between 0.25% and 0.50% to reflect the current market uncertainty
- issued his valuation report as being subject to "material valuation uncertainty". The overall reduction in value due to COVID-19 adjustments was of the order of 3-4%

Marius Ogg determined a fair value of $108m for the company's land and non-substation buildings.

From 1 April 2020 the company processed asset additions at cost, removed assets on disposal and depreciated assets to determine carrying values as at 31 March 2021.

As at 31 March 2021 the company engaged Marius Ogg to review the valuation of its land and non-substation building assets. He updated values using a similar methodology to that outlined above and determined that the fair values of the company's land and non-substation buildings were close to carrying value at that date.

Minor land and building assets are carried at a combination of depreciated cost or government valuation totalling $1.0m as at 31 March 2022 (2021: $1.0m). The carrying value of freehold land also includes $2.1m (2021: $1.9m) of easements, valued as part of the electricity distribution network.

The carrying value of buildings and land improvements includes $2.7m (2021: $5.0m) of right-of-use assets.

Notes to the financial statements continued

	2022 $000	2021 $000
11. Property, plant and equipment continued		
Right-of-use assets		
Right-of-use assets are included in property, plant and equipment at fair value as follows:		
• Electricity distribution network	8,130	8,204
• Buildings and land improvements	2,676	4,985
• Plant and equipment	36	46
Additions to right-of-use assets were:		
• Buildings and land improvements	-	-
• Plant and equipment	-	48

The remeasurement of a lease liability in 2022 resulted in a decrease of $1,916,000 in the carrying value of the associated right-of-use asset.

Asset impairment

In the year ended 31 March 2021, the company impaired the carrying value of its electricity distribution network and substation buildings on the basis that capital contributions reduce the value of the company's regulatory asset base, and this in turn reduces the company's future revenues from future regulatory price resets. The company has recognised:

- $3.8m (2021: $2.3m) of capital contribution revenue during the year
- $3.6m (2021: $2.1m) of associated impairment expense during the year

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.

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.

Notes to the financial statements continued

	2022 $000	2021 $000
12. Trade and other payables		
Trade payables and accruals	34,231	37,121
GST payable	1,025	662
Other	4,034	4,441
	39,290	42,224

13. Employee entitlements

	2022 $000	2021 $000
Current	7,669	6,625
Non current	2,730	2,866
	10,399	9,491

Employee entitlements include a provision for employee long service leave. Key assumptions in the actuarial assessment of the provisions include the risk-free rate 3.3% (2021: 1.79%) and salary inflation 3.5% to 5.0% (2021: 2.5% to 3.0%), and an assessment of the probability of employees receiving each long service leave entitlement.

14. Borrowings

	2022 $000	2021 $000
Current		
Lease liabilities	813	1,008
Bank loans	185,000	-
Total current borrowings	185,813	1,008
Non current		
Lease liabilities	10,445	12,993
Bank loans	83,500	205,350
United States Private Placement floating rate notes	140,000	140,000
Total non current borrowings	233,945	358,343

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.

The Transpower agreements have remaining terms of between three and 26 years (2021: between three months and 27 years). The company does not own the assets at the end of the lease term and there is no residual value. There is no security provided for the arrangements. The monthly payment amounts are reviewed periodically by Transpower based on prevailing interest rates and agreed margins.

Notes to the financial statements continued

14. Borrowings continued

	Minimum future lease payables 2022 $000	Minimum future lease payables 2021 $000	Present value of minimum future lease payables 2022 $000	Present value of minimum future lease payables 2021 $000
Lease liabilities				
No later than one year	1,327	1,509	813	1,008
Later than one year and not later than five years	4,195	4,577	2,350	2,617
Later than five years	13,828	18,939	8,095	10,376
Minimum lease payments	19,350	25,025	11,258	14,001
Less future finance charges	(8,092)	(11,024)	-	-
Present value of minimum lease payments	11,258	14,001	11,258	14,001
Current			813	1,008
Non current			10,445	12,993
			11,258	14,001

15. Financial instruments

Introduction

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

Capital management

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

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

All bank loans are unsecured against the group. The group provides certain covenants to its key lenders, by way of a negative pledge deed, that it will not create any material security interest over its assets to any party, except under certain agreed circumstances. The deed has other covenants that restrict certain asset disposals, the lending of money to other parties, non-commercial transactions with related parties, the alteration of share capital where this would have a material adverse effect and any material change of business. The deed includes an EBIT interest coverage requirement and an obligation that the guaranteeing group will comprise at least 75% of the group in terms of assets and earnings. The deed places other undertakings and obligations on the company – for example the obligation to provide relevant lenders with information, comply with the law and to pay taxes as they fall due. The company has complied with all covenants during the two years ended 31 March 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 2022.

All interest bearing bank loans, 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.

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.

Notes to the financial statements continued

15. Financial instruments continued

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.

	2022 $000	2021 $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 2022 mature as follows:		
$110m on 1 November 2022		
$75m on 30 November 2022		
$100m on 31 July 2023		
$50m on 1 December 2023		
$20m on 1 December 2024		
Amount used at reporting date	268,500	205,350
Amount unused at reporting date	86,500	79,650
	355,000	285,000
Unsecured US Private Placement floating rate notes as at 31 March 2022 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

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 2022, interest rates (including margins) on the group's bank loans averaged 2.12% (2021: 1.16%). Daily commitment fees are also payable on the bank loan facilities.

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 2022, interest rates (including margins) on the group's floating rate notes averaged 3.13% (2021: 1.92%).

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 2022, interest rates on the group's Transpower lease liabilities averaged 5.77% (2021: 5.44%).

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 2022, interest rates on the group's property lease labilities averaged 3.98% (2021: 4.75%).

Notes to the financial statements continued

15. Financial instruments continued

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.

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

Swap maturity dates	Average contracted fixed interest rates %	Notional principal swap amounts 2022 $000	Notional principal swap amounts 2021 $000	Carrying value asset/(liability) 2022 $000	Carrying value asset/(liability) 2021 $000
June 2021	-	-	40,000	-	(240)
December 2023	2.5	70,000	70,000	822	(3,540)
March 2025	1.3	265,000	230,000	12,861	(1,517)
April 2025	1.5	100,000	100,000	5,299	(2,448)
		435,000	440,000	18,982	(7,745)

	2022 $000	2021 $000
Disclosed as:		
Non current assets	18,982	93
Current liabilities	-	(240)
Non current liabilities	-	(7,598)
	18,982	(7,745)
Change in fair value recognised in:		
Profit and loss income	2,452	1,681
Other comprehensive income	24,275	4,864
	26,727	6,545

Notes to the financial statements continued

15. Financial instruments continued

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 and USPP floating rate notes is as follows:

	2022 $000	2021 $000
Increase of 1% in interest rates as at reporting date		
Increase in profit before income tax	-	-
Increase in other comprehensive income	8,958	7,337
Decrease of 1% in interest rates as at reporting date		
Decrease in profit before income tax	-	-
Decrease in other comprehensive income	8,526	15,546

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.

Credit risk management

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

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

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

Pursuant to the electricity participation code, the company may only require collateral securities from its electricity retailer customers if those customers do not have a Standard & Poor's (or equivalent) minimum credit rating of 'BBB-minus'. During the year ended 31 March 2021 the company invoiced electricity retailers and its direct major customers on the 10th day of the month of usage (based on an estimation of usage) with payment due on the 20th of that month. Under default distributor agreements effective from 1 April 2021 the company 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.

Notes to the financial statements continued

15. Financial instruments continued

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

The company has 70 million fully-paid ordinary shares on issue with a par value of $1.50 per share, total $105m (2021: $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

	2022 $000	2021 $000
Capital expenditure	72,685	22,365
Operating leases	83	199

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

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 was 'undetermined'.

IAG Insurance, on behalf of a number of its clients, brought proceeding in the High Court claiming that the company's electricity network caused the first fire on Early Valley Road, that in turn caused $4.6m of losses for its clients. On 15 September 2020 the company reached a confidential commercial settlement with IAG. The settlement was without any admission of liability by the company.

Over the last three years other parties have indicated they may claim losses from the Port Hills fires from the company. To date, none of these claims have progressed to formal proceedings.

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

Revenue above and below maximum allowable revenue

The company 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 FY22, the company estimates that it charged customers $1.93m below its MAR (2021: estimated $2.18m above MAR). This amount is still subject to wash-ups as improved information becomes available. The company will adjust the final amount plus interest when it sets delivery prices for FY24 (2021: offset against FY23 delivery prices).

Notes to the financial statements continued

19. Contingent assets and liabilities continued

Other than the potential issues above, the group had no significant contingent assets or liabilities as at 31 March 2022 (2021: nil).

20. Impact of COVID-19

COVID-19 had minimal impact on the group during the year ended 31 March 2022, similar to the previous year. The Canterbury region was affected by a three week level 4 and 3 lockdown during August / September 2021 due to the presence of the Delta variant. During this time staff health and safety was paramount with most staff working from home again and business activity predominantly restricted to emergency works response, some essential preventative maintenance and high priority capital work. The group remained vigilant throughout the remainder of the year as the Omicron variant also became present in the community.

Electricity delivery service revenue during the period was largely unaffected and the network maintenance and other expenditure impacts were negligible with most scheduled work still undertaken during the year. The company made support payments to three emergency works contractors and also provided rent relief to a contractor. There was minimal impact on our SAIDI and SAIFI measures. In the long term the industry regulator allows price-regulated electricity distribution businesses to recover any current year revenue shortfalls from approved regulatory revenue allowances in future years (within specified limits).

The group has continued to observe increases in commodity prices due in part to the continuing economic impacts of COVID-19. Consequently, there has been upwards cost pressure on our future capex and opex programmes. The group is monitoring the situation and reviewing its capex and opex priorities.

21. 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 23 June 2022.

22. Related party transactions

Group structure

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

Related parties include:

- 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 projects. These contributions may not recover all costs incurred. No material transactions, other than the payment of dividends to CCHL and SDC, were entered into with related parties during the year.

Notes to the financial statements continued

22. Related party transactions continued

	2022 $000	2021 $000
Transactions during the year		
Dividends paid to CCHL and SDC	31,000	30,000
Purchases from CCC/SDC	4,950	4,736
Underground conversion contributions from CCC/SDC	944	312
Other sales to CCC/SDC	10,962	14,545
Purchases from subsidiaries for network related services	42,742	37,978
Payment to subsidiary to maintain emergency response capability during COVID-19 lockdown period	518	1,207
Sales to subsidiaries (including interest and excluding rent and reimbursements of payments made on behalf of the subsidiaries)	1,013	528
Rent of premises to subsidiary	1,864	1,647
Rent relief provided due to the impact of COVID-19	37	153
Purchases from other related parties	1,140	1,630
Sales to other related parties	1,376	1,097
Outstanding balances as at 31 March		
Accounts payable to CCC/SDC	3	-
Accounts receivable from CCC/SDC	1,643	2,170
Accounts payable to subsidiaries	8,476	5,539
Accounts receivable from subsidiaries	109	97
Accounts payable to other related parties	76	83
Accounts receivable from other related parties	316	645
Loans outstanding from subsidiaries	10,567	7,345
Commitments for capital expenditure		
Contracts with subsidiary	6,241	5,312
Key management personnel compensation		
Salaries and short term employee benefits	3,842	3,741
Post-employment benefits	75	119
Termination benefits	386	802
	4,303	4,662

Notes to the financial statements continued

22. Related party transactions continued

Other transactions involving related parties

The group paid directors' fees totalling $434,000 during the year (2021: $393,000). Three directors received retirement gifts during the year totalling $1,277 (2021: nil). No other transactions were entered into with any of the company'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 2021 a $10,000 payment to board director, Jason McDonald, for chairing the appointment committee for the Group Chief Executive.

Key management personnel is 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 2022 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 (2021: nil except for a senior manager who purchased a second-hand vehicle from the group for $34,000 as part of an exit package negotiated with the board). A total of $nil was due from key management personnel as at 31 March 2022 (2021: $100). All transactions were conducted on standard commercial terms, except as noted above.

Performance targets – Financial

	Notes	Actual 2022	Target 2022	Actual 2021
Electricity delivery revenue ($m)	1, 2	230	228	230
Profit after tax ($m)	1, 2	33	25	33
Profit after tax to average equity (%)	1, 2	4.4	3.7	4.9
Debt to debt plus equity (%)	3	35	38	35
Equity to total assets (%)	3	54	51	53
Fully imputed dividends ($m)		31	31	30

Note 1	**Variances post-tax $m**
Net profit was $7.5m above the Statement of Intent target because of:	
Above-budget distribution revenue	2.0
Below-budget depreciation and impairment	2.0
Favourable change in fair value of interest rate swaps	1.8
Above-budget Connetics profit	0.9
Below-budget interest expense	0.7
Other	0.1
	7.5

Note 2

Net profit was $0.6m below last year because of:	
Higher sundry revenues	1.4
Favourable change in fair value of interest rate swaps	0.6
Higher Connetics profit	0.4
Higher interest expense	(0.6)
Higher expenses	(1.0)
Higher depreciation and impairment	(1.3)
Other	(0.1)
	(0.6)

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 – Network Reliability

	Actual 2022 *	Target 2022	Actual 2021 *	DPP Normalised 2022	DPP Normalised 2021	Industry weighted average 2021
Orion network interruptions						
Duration of supply interruptions in minutes per year per connected customer (SAIDI)						
- planned	24.92	39.68	28	24.91	28.87	
- unplanned	52.95	84.71	30	42.90	29.70	
- total SAIDI	77.87	124.39	57	67.81	58.57	183
Number of supply interruptions per year per connected customer (SAIFI)						
- planned	0.0744	0.1496	0.09	0.0744	0.09	
- unplanned	0.6016	1.0336	0.50	0.6016	0.50	
- total SAIFI	0.6760	1.1832	0.59	0.6760	0.59	1.7

Approximate number of connections at 31 March 2022 was 215,700 (2021: 211,600)

Notes:

1. The SAIDI and SAIFI network reliability targets are regulated limits.
2. 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.
3. 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.
4. 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.
5. 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

Status: Achieved

This target covers both Orion and Connetics employees.

We had three serious events during the year, none of which resulted in serious injury. The three events were:

- A Connetics employee received an electric shock from contact with a low voltage cable
- A Connetics employee received an electric shock while testing circuit breakers at a zone substation
- An Orion network operator received a minor electric shock while replacing a distribution box cover

We are focused 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

Status: Achieved

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

We had one serious event that did not result in serious injury. An employee of one of our contractors received an electric shock while relocating a distribution cabinet.

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

Target: Nil

Status: Not achieved

We had one incident involving the public. The civil contractor (not engaged by Orion) came into contact with our low voltage network. We engaged with the contractor's Health and Safety team to assist us to understand how this event occurred and prevent any further incidents.

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

Notes:
Events that did or could have resulted in serious injury are events defined in section 25 of the Health and Safety at Work Act 2015 as Notifiable Events.

Key initiatives – Re-imagining the Future Network

1. Increase the real time 'visibility' of the state of our low voltage network

Target - Project complete: 30 June 2021

Status: Complete

We have completed the significant upgrade of our advanced distribution management system (ADMS), which has been focused on our high voltage network – 11kV, 33kV and 66kV.

This project has enabled us to develop our ability to monitor our low voltage (LV) network (400V), in real time. Low voltage networks around the world have typically been built without this capability because power flows have overwhelmingly been one-way – from large, centralised electricity generators to consumers.

We now have 349 LV monitors installed, with installations ongoing. Data is now being presented in our real time operating system.

2. Develop a live operating model of our low voltage network

Target - Project complete: 30 September 2022

Status: Partially complete

We have embarked on a significant upgrade of our Advanced Distribution Management System (ADMS), which will enable us to include low voltage network monitoring and operation.

Our aim is to integrate the LV network (400V) in real time into our current operating system. This will enhance operational response, decision making and customer communications; increase our safety outcomes and allow real time analysis of two-way power flows and demands.

We have developed the prototype and learnings have been documented and shared with stakeholders and suppliers.

Our PowerOn upgrade in November 2021 has enabled a rollout of our low voltage network into this model. We will now consider how and when this is completed as it will be dependent on several end of life (EOL) systems. We will need to revisit this timeframe once these systems have been upgraded and systems integration has taken place. Rolling out a network wide ADMS is likely to span over a few years.

3. Undertake a trial of non-network alternatives to low voltage constraint management

Target - Trial in place: 31 March 2022

Status: Complete

We have successfully completed a trial of the use of a low voltage statcom (voltage compensators) to maintain supply quality where previously we would have reinforced the low voltage network at greater cost and disruption to customers.

This trial was completed in Southbridge where a local industry was looking to move to electric heating. We were able to offset traditional network investment with this solution.

We are in the process of identifying other areas which could benefit from this and other new technologies. As these technologies emerge and develop, we will start to see changes in the traditional usage patterns on our low voltage network.

Key initiatives – Re-imagining the Future Network continued

4. Data and digitisation strategy

Target - Strategy in place: 31 March 2022

Status: Delayed

Data and digitisation will enable us to deliver a better experience to customers and employees, achieved through developing a smart network that will improve asset and operational performance.

This strategy was delayed due to a delay in employment of our new General Manager for Data and Digitalisation (employed March 2022).

5. Non-network supply procurement

Target - Options in place: 31 March 2022

Status: Not complete

Future demands on our network may be less predictable and may not be best addressed through traditional network services. We need to be adaptive to be able to offer solutions that are not necessarily traditional "poles and wires".

No opportunities have presented themselves yet to explore for the provision of services from the open market We will continue to explore, to enable solutions that are customer inspired and power the low carbon economy.

6. Design for new field data collection method in place

Target - Project complete: 30 September 2021

Status: Complete

Good asset management and decision making relies on good data, on which we implemented to make decisions. Our in-field data collection of asset condition and maintenance was enhanced. The scope of our work was changed to address design flaws and enhance our current solutions. We greatly improved the flow of data from the field back into the business. Enhanced field capture for our new pole inspection regime, and vegetation management are successes in this area.

7. Development of publicly available network constraint maps

Target - Trial complete: 31 March 2022

Status: Complete

We enable true and open access to our network for our customers and suppliers of non-network solutions. We publish information about where our network is constrained or where it can accept technologies freely.

8. Install a new digital voice radio network in Banks Peninsula

Target - Installation complete: 30 September 2021

Status: Ongoing

The installation of our new radio network is the first of its type, for New Zealand. It will significantly increase coverage of previous 'black spots' around the many hills and gullies of Banks Peninsula. These shortcomings, if not addressed, can hinder the safety of our people, our service, and our operational efficiency/effectiveness.

The main architecture is now complete and commissioned. The sub network remains to be built, with completion in FY23. COVID-19 has negatively impacted the supply of equipment.

Key initiatives - Customer Inspired

1. Implement a new Customer Relationship Management platform (CRM)

Target - CRM foundation complete: 31 March 2022

Status: Complete

Our CRM is live for three customer interactions - close approach, high load and observation stand over audit. These customer journeys were used as the proof of the concept for our CRM. We are now building further business processes into the new CRM.

2. Launch a new Outage Notifications service to our community

Target - Outage notifications in place: 31 March 2022

Status: Partially complete

We have launched and refined an outage notification system. Our customers can now subscribe on an individual customer basis to receive planned outages notifications direct from our Customer Support team. Delays in the initial CRM launch mean this is not yet fully integrated into the new CRM platform. The work to complete this is being undertaken in the first part of FY23.

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

Target - Programme in place: 31 December 2021

Status: Complete

We appointed a Community Engagement Lead in April 2021, who conducted our annual survey of customers, hosted three Customer Advisory Panel events and launched our social media presence. This enabled us to share our work with our community and engage with community boards and groups where our work impacted those communities.

COVID restrictions meant we were unable to host the "in person" Powerful Conversation workshops. For FY23 we have launched an online community engagement platform to address that challenge.

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

Target - FY22 Programme complete: 31 March 2022

Status: Complete

We maintained our partnership with the Canterbury Employers' Chamber of Commerce and worked to support delivering several online forums, aimed to assist local businesses in reducing their environmental impact.

We maintained our longstanding partnership with Community Energy Action, supporting the insulation of more than 560 local homes.

Our Community Fund Sponsorship continued, and we encouraged the wider engagement of Orion people in their community. We supported activities that aligned with our strategy, including those focussed on environmental sustainability and the safety and wellbeing of our community in general.

Customer inspired performance target

Target - Net Promoter Score is >50%

Status: Change in methodology

We achieved a Net Promoter Score (NPS) of 36, reflecting a change in our survey methodology to canvas a broader demographic, noting that 36 is "Great" on the NPS scale.

Going forward we aspire to an NPS score >40 due to the changed methodology

Key initiatives - Lead and Grow

1. Continuous improvement of our works delivery

Target - Model measured: 31 March 2022

Status: Ongoing

We have transitioned to a "Primary Service Delivery Partner" contracting model between Orion and Connetics for contract work which delivers improved safety, quality, and capability development.

The success of this new contracting model will continue to be measured against newly developed KPIs. These KPIs will measure our performance in safety, quality, and our focus on investment in capability development. Our Asset Management Plan will continue to be delivered on time and on budget.

2. Connetics will shift its Southern operations from establishment phase to performance phase

Target - Metrics in place: 31 March 2022

Status: Complete

Connetics partnered with its key customer in the region, Aurora Energy, to deliver a significant programme of network maintenance and development works into the future. Successful operations within the Southern Region will continue to grow in FY23 and future years.

3. We have a clear three-year programme to continually optimise in service of our Group strategy

Target - Programme in place: 31 March 2022

Status: Partially complete

Our optimisation plans will continue in FY23, following on-boarding capability and development of our operating model.

Key initiatives - Accelerating Capability

1. Enhance employee engagement

Target - Survey in place: 31 March 2022

Status: Complete

Our engagement survey took place in July 2021 with an 87% participation rate and 60% engagement. Following the analysis of the results, Recognition and Reward was chosen as an area of focus and several initiatives have been put in place to improve the rating. Our next Pulse check is planned for July 2022.

2. Continue to embed and evolve leadership development

Target - Programme on-going: 31 March 2022

Status: Ongoing

Our aim was to continue developing our leaders, so they can lead strategic initiatives with intent and velocity. Our programmes are tailored to context and objectives and focus on what we are seeking to achieve with our Group Strategy. Leadership development was identified as an area to further develop confirm our Learning and Development programme.

3. Complete the next major phase of our diversity and inclusion programme

Target - Programme phase complete: 31 March 2022

Status: Complete

Orion's Diversity and Inclusion programme (D&I), Ubuntu, was agreed and launched in late 2022. We are progressing with initiatives to obtain the Gender Tick and to embed the D&I programme. Our aim is to build an inclusive culture of belonging. As we continue to adopt more inclusive behaviours, we will shift our focus to targeting systemic barriers that may exist within our systems and processes.

4. Complete the first major phase of initiatives for the Energy Academy

Target - Phase one initiatives complete: 31 March 2022

Status: Complete

We have evolved the Energy Academy into a function where we provide services for fees charged in a research and development capacity for government and industry partners. We introduced a capability sharing platform currently represented by more than 70 organisations across the sector.

We are completing two innovation based learning programmes and have contributed to a national sector-wide future workforce planning project with the workforce development council, Waihanga Ara Rau.

5. Continue to champion the Wāhine tū tahi, wāhine kaha - CCHL's Women & Leadership series

Target - Sessions complete: 30 September 2021.

Status: Complete

Wāhine tū tahi, wāhine kaha, CCHL's Women & Leadership series, is a series of events run by volunteers from across the CCHL group. The series helps build relationships and collaboration and break down biases. All six sessions for 2022 took place.

Key initiatives - Powering the Low Carbon Economy

1. Prepare to offset our Group corporate carbon emissions, to become carbon neutral by June 2022

Target - Group corporate carbon emissions neutral: 30 June 2022

Status: Ongoing

We have purchased approximately 27,000 Verified Emission Reduction units from projects aligned with Orion's sustainable development goals (SDG) ambitions, to cover the period while our indigenous forest matures.

Following an audit of our carbon footprint, Orion will surrender an amount to offset its group corporate emissions in June 2022 which will be certified by Toitu. The expected pre-audit surrender requirement is 3,110 tCO2e.

2. Halve our Group benchmark corporate emissions by 2030. Obtain Group carbon reduce (previously CEMARS) certification

Target - Group carbon reduce certification obtained: 31 March 2022

Status: Complete

In 2021 Connetics was formally included in Orion's ISO 14064:2006 audited carbon footprint. The inclusion was a material change in our footprint, resulting in our base year changing to FY20 (1 April 2019 to 31 March 2020), with total emissions of 17,210 tCO2e and corporate emissions of 3,280 tCO2e. Carbon reduce certification for Orion group was obtained in 2021 following an audit process.

Orion Group worked with the Planetary Accounting Network during 2021 to ensure our reduction ambition was in line with keeping warming within 1.5 degrees. Our ambition to reduce our corporate emissions to 1,640 tCO2e by 2030 continues to align with this goal.

In 2022, Orion Group will comply with the new ISO 14064:2018 standard. We have measured working from home emissions to recognise the changes in the way people work since COVID 19. For clarity of comparison with our 2019 base year, we have separated these working from home emissions of 75 tCO2e from our from comparisons below.

In FY22, Orion Group emitted 3,110tCO2e associated with its corporate activities (excluding losses), a reduction of approximately 170 tonnes from our new FY20 base year.

Orion's portion of the benchmark network corporate emissions total 885 tCO2e in FY22, down 115 tonnes from our previous 2018 base year and 305 tonnes from our new FY20 base year. This is an increase of 140 tonnes from our FY21 emissions, resulting from increased air travel since FY21, in addition to some SF6 emissions and generator emissions from our significant works near Akaroa.

3. Undertake initial scenario modelling of physical risks to our network from climate change

Target - Scenario modelling complete: 30 September 2021

Status: Complete

In 2021 we partnered with NIWA to model the impact of four Representative Concentration Pathway (RCP) scenarios on our network. The results confirmed our understanding that inland areas of our network would experience hotter, windier conditions more frequently. Ongoing work is underway to understand the interaction of these changes with design standards. Further detail on this work will be provided in our climate risk report associated with our FY22 financial disclosures to be published August 2022.

Key initiatives - Powering the Low Carbon Economy continued

4. Partner with local landowners to create a native forest resource

Target - Partnerships in place: 31 March 2022

Status: Partially complete

In 2021 Orion engaged a forest ecologist to commence scoping and identifying potential sites for our indigenous planting. So far, they have identified 23 prospective sites. Eco-sourced seed was collected from around the region and struck, with approximately 16,000 seedlings ready to be planted.

Two sites have been identified as good immediate prospects for the planting project. Discussions are ongoing to agree the carbon partnering arrangement that will allow planting to commence.

5. Set a business environmental budget aligned with the planetary boundaries

Target - Business environmental budget in place: 31 March 2022

Status: Ongoing

In 2021 Orion Group worked with the Planetary Accounting Network to identify 2030 environmental targets for the group in areas material to its activities, specifically carbon, deforestation, air quality, water quality, biodiversity, and waste to landfill.

In 2021 we took the first steps in translating these targets into annual and departmental budgets, beginning with carbon emissions, through the identification of 17 key carbon drivers across the group. Work is ongoing to embed this approach in the business and expand the metrics to include our other environmental targets.

6. Partnerships to promote the effective use of electricity in the region

Target - Partnerships established: 31 March 2022

Status: Complete

During 2021 two Memorandums of Understanding were signed with Otautahi Community Housing Trust (OCHT) and Kia Kotahi Ako. Both collaborations were developed with the intent of improving the effective use of electricity in buildings.

Late 2021, Orion, Kia Kotahi Ako and Ao Tawhiti worked together to bring the 'We Share Solar' solar suitcase into the Ao Tawhiti classroom. This allowed students to build their own solar panel and understand the energy generated in the context of the amount of electricity consumed by the school as a whole. This was a pilot project, with the intent to further develop content as part of an offering within the Climate Campus.

Orion partnered with OCHT to install electricity and internal environment monitors in 17 tenant properties. The intent is to understand and quantify the benefit of different building envelopes to tenant wellbeing and to allow tenants to understand how their activities directly impact the living environment within their properties.

7. Access to data on thermal fuel boilers

Target - Data collection underway: 30 June 2021

Status: Complete

Our thermal fuel survey commenced in June 2021 and concluded in March 2022. In the process of engagement, 124 boilers were identified, totalling 360MW of thermal load in our network area. Work is ongoing to identify future flexibility opportunities associated with the transition of these sites from fossil fuels to renewable sources.

Key initiatives - Key Projects

1. **Improve how we manage our critical health and safety risks**

   Target - Programme in place: 31 March 2022

   Status: Complete

   The purpose of this project was to identify the critical health and safety risks as they relate to our business. Using a bottom-up approach, we have identified and mapped the threats that lead to our critical risks, as well as the controls we use to mitigate the risk. The aim of this programme is to ensure we are taking all practicable steps to ensure the health and safety of our Group employees, contractors, and members of the public.

2. **Construct a new 66kV line between Highfield zone substation and Norwood GXP**

   Target - Project complete: 31 March 2022

   Status: Ongoing

   Our existing commercial customers in this area are growing their businesses and placing constraint on our existing network. This project will provide these customers with the opportunity for growth by increasing the capacity of our network now, ahead of the planned full GXP to be installed in this area in following years.

   This project was delayed due to the lengthy land purchase and consenting process. We have since secured the land at Norwood and received resource consents from SDC. We can now begin construction of this line with confidence in FY23.

3. **Replace our end-of-life 11kV switchgear at Oxford Tuam zone substation with modern vacuum breakers**

   Target - Project complete: 31 December 2021

   Status: Complete

   This project was necessary as the current bulk oil filled breakers were near their end of life. Replacement of these breakers enables us to take advantage of modern safety and protection systems, with remote operation. It has delivered enhanced operational benefits to ongoing developments in the Christchurch central business district.

4. **Build and commission a new zone substation at Belfast and connect it with our existing 66kV sub-transmission network and a new switching station to be built and commissioned at Marshland**

   Target - Project complete: 31 March 2022

   Status: Ongoing

   The civil construction of the Belfast substation is complete, and the secondary (11kV) electrical fit out has progressed well, with completion expected June 2022. Completion will also include the livening of the 66kV Marshland to Belfast cable, which was installed and terminated at both ends, in early 2021. The completion of this project will provide capacity to a growing industrial and commercial zone in Belfast, as well as providing support to the neighbouring zone substations by being able to supply additional power to Belfast and Marshland area.

Audit New Zealand independent auditor's report

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

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 2022

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

Opinion on the financial statements and the performance information

We have audited:

- the financial statements of the Group on pages 45 to 73, that comprise the statement of financial position as at 31 March 2022, 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 74 to 84.

In our opinion:

- the financial statements of the Group:
  - present fairly, in all material respects:
    - its financial position as at 31 March 2022; 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 2022.

Our audit was completed on 23 June 2022. This is the date at which our opinion is expressed.

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

Basis for our opinion

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

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

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

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

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

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

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

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

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

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

Audit New Zealand independent auditor's report continued

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

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- We evaluate the appropriateness of the reported performance information within the Group's framework for reporting its performance.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial statements 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 44 and 87 to 96 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 2018) 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.

John Mackey
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%
	100.000%

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 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 board submits a draft Statement of Intent (SOI) to the company's shareholders in February each year. After considering comments from those shareholders, the board approves the final SOI and a copy is placed on the company's website by the end of June each year.

Board of directors

The board is the overall body responsible for the proper direction and governance of the group. The board's responsibilities include the group's overall objectives, strategies, stewardship, management, performance and reporting. The board acts within the company's constitution and a board charter that sets out how the board and directors shall undertake their responsibilities. The directors are committed to best practice governance, as is appropriate for a community-owned lifelines utility, and as part of this the company may provide financial assistance to directors' ongoing professional development.

The company's shareholders appoint the directors to govern the company's activities. Pursuant to the company's constitution one director is appointed by the Selwyn District Council. Christchurch City Holdings Limited appoints all other directors, one in consultation with the Selwyn District Council.

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

Pursuant to the company's constitution, one third of the directors retire by rotation each year and the shareholders may appoint one or more of those directors for a further term.

The board elects the board chair, who leads the conduct of the board and its relationship with shareholders and other major stakeholders. The board chair maintains a close professional relationship with the Group Chief Executive (CE) and, through the CE, the leadership team.

Board meetings

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

Governance continued

Board committees

The board delegates some responsibilities and tasks to board committees, but the board retains 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.

The Orion board has two standing committees:

- the audit risk committee liaises with the company's external auditors, reviews the effectiveness of internal controls, reviews key company governance policies and recommends approval of certain regulatory information disclosures and reports to shareholders
- the people and culture committee reviews the company's remuneration policies and practices, and it recommends and sets the remuneration of the group's chief executive officer and their direct reports respectively

The following directors served as standing committee members during the year ended 31 March 2022:

Audit Risk committee	People and Culture committee
Bruce Gemmell – chair	Geoff Vazey – chair (to 23 August 2021)
John Austin (to 23 August 2021)	Jen Crawford – chair (from 29 September 2021)
Sally Farrier	Jason McDonald
Jane Taylor	Jane Taylor

The board may convene special purpose committees for specific tasks.

Performance management

The board reviews the group's, the board's and the group chief executive's performance at regular intervals. The reviews aim to identify and set plans for performance development and improvement.

Risk management

The group aims to identify, assess and manage its key strategic and operational risks, consistent with good industry practice and the international risk management standard ISO 31000: 2018. The board oversees and reviews the group's overall risk context and risk management.

This includes providing our community with an understanding of how climate risks and opportunities might impact our business through our Climate Change Opportunities and Risk reporting.

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

Legislative compliance

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 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, and
- 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 $8,623 of donations to charitable causes in the year ended 31 March 2022 (2021: $28,841).

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 2022:

Connetics Limited	Geoff Vazey (chair) Jason McDonald Nigel Barbour (from 23 August 2021)
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.	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. 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.
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.	The board scrutinises internal and external reporting and liaises closely with the company's independent auditors to ensure integrity in reporting. The board has an independent internal audit programme to further assist assurance in this area. 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.
The remuneration of directors and executives should be transparent, fair and reasonable.	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. 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.

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: • 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 2022:

John Austin		
Thomas Austin Securities Limited		Director and shareholder
Jen Crawford		
Anderson Lloyd		Consultant
Jen Crawford Limited		Director and shareholder
Koparima Family Trust		Trustee
MHV Water Limited		Director
Mahaanui Kurataiao Limited	From 01 June 2021	Director
Nelmac Limited	From 1 October 2021	Director
Rangitata Diversion Race Management Ltd	From 27 October 2021	Director
Sally Farrier		
Ausnet Services Limited	To 16 February 2022	Director
Ergocorp Pty Limited		Director
Bruce Gemmell		
ATT Trustee Limited and subsidiaries/associates		Director
Buller Electricity Limited and subsidiaries	From 1 September 2021	Director
Central Plains Water Limited		Director
Gemmell Finance Limited		Director and shareholder
Gemmell Group Limited		Director and shareholder
Highlanders GP Limited		Director
Lincoln Agritech Limited		Director
Lincoln University		Chancellor
Lincoln University Centennial Trust		Trustee
Lincoln University Foundation Trust		Trustee
Miramar Consolidated Limited		Director
Nexia Limited		Director
Nitrolabs Limited and subsidiaries	From 16 September 2021	Director
Planz Consultants Limited		Director
Second Little Pig Was Right Limited		Director and shareholder
Jason McDonald		
Connetics Limited		Director
Helios Energy Limited		Director and shareholder
Jason McDonald Consulting Limited		Director and shareholder
Jaspen Ventures Limited		Director and shareholder
Mevo Limited	To 2 March 2022	Director and shareholder
Scots College Wellington – board of governors		Member
Top Energy Limited	To 14 December 2021	Director

Governance continued

Interests register continued

Paul Munro

Black Peak Ventures Limited	From 4 October 2021	Director and shareholder
CCHL (5) Limited		Director
CCHL (4) Limited		Director
CCHL (2) Limited		Director
Christchurch City Networks Limited		Director
Development Christchurch Limited	To 22 March 2022	Director
Enviro-Mark Solutions Limited		Director
Electricity Ashburton Limited		Director
Lynn River Limited		Director
McKenzie Balfour & Associates Limited		Director
MHV Water Limited		Director

Mike Sang

Building Research Assn. of NZ (BRANZ)	From 20 August 2021	Director
Government Super Fund Authority		Board member
Sangwards Limited	From 18 November 2021	Director and shareholder

Jane Taylor

Aspen Institute New Zealand Limited		Director
External Reporting Board (XRB)		Board member
Landcare Research New Zealand Limited	To 30 June 2021	Director
OTTP New Zealand Forest Investments Limited		Director
Port Otago Limited and subsidiaries		Director
Silver Fern Farms Limited and subsidiaries		Director
Tassenberg Limited	To 10 June 2021	Director and shareholder
The Aotearoa Circle		Guardian

Geoff Vazey

Connetics Limited		Director
Consult GV Limited		Director and shareholder
Cook Islands Port Authority		Director

Governance continued

	Orion	Connetics
	$000	$000
Directors' remuneration		
John Austin	21	-
Jen Crawford	31	-
Sally Farrier	51	-
Bruce Gemmell	58	-
Jason McDonald	50	26
Mike Sang	30	-
Jane Taylor	100	-
Geoff Vazey	22	45
	363	71

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	2022	2021	$000	2022	2021
100 - 110	72	65	240 - 250	-	1
110 - 120	69	68	250 - 260	2	-
120 - 130	33	25	260 - 270	2	1
130 - 140	33	35	270 - 280	-	2
140 - 150	29	26	340 - 350	1	2
150 - 160	11	7	350 - 360	-	-
160 - 170	8	6	360 - 370	2	3
170 - 180	6	7	390 - 400	1	1
180 - 190	1	7	400 - 410	1	-
190 - 200	2	5	430 - 440	-	1
200 - 210	1	1	490 - 500	-	1
210 - 220	4	1	590 - 600	1	-
220 - 230	3	2	610 - 620	1	-
230 - 240	3	3	1,080 – 1,090	-	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 period 1 July 2021 to 31 March 2022 was $613,000. Jono Brent's total remuneration as Interim Group Chief Executive for the period 1 April to 30 June 2021 was $149,000.

Five-year trends

	2022 $m	2021 $m	2020 $m	2019 $m	2018 $m
Statement of comprehensive income					
Operating revenue	311	302	308	326	322
EBITDA	111	109	126	134	141
EBIT	55	56	74	81	84
Profit before income tax	46	46	60	66	74
Net profit	33	33	48	48	53
Other comprehensive income	113	4	4	-	-
Total comprehensive income	145	37	52	48	53
Statement of financial position					
Current assets	55	32	27	28	26
Non current assets	1,425	1,249	1,216	1,181	1,156
	1,480	1,281	1,243	1,209	1,182
Current liabilities	50	52	48	48	46
Current borrowings	186	1	102	1	54
Non current borrowings	234	358	228	302	221
Deferred tax liability	215	180	178	186	188
Other non current liabilities	2	12	16	6	2
Shareholders’ equity	793	678	671	666	671
Total liabilities and shareholders’ equity	1,480	1,281	1,243	1,209	1,182
Statement of cash flows					
Operating cash flows	53	76	93	97	109
Investing cash flows	(87)	(75)	(68)	(72)	(79)
Financing cash flows	31	-	(25)	(25)	(29)
Financial measures					
Dividends paid	31	30	47	53	55
EBITDA margin %	35.6	36.2	40.9	41.0	43.7
EBITDA margin excluding transmission %	45.7	46.6	51.1	53.0	56.9
Net profit to average shareholders’ equity %	4.4	4.9	7.2	7.2	7.9
Net interest bearing debt to debt-plus-equity %	35	35	33	31	29
Other measures					
Electricity maximum demand (MW)	721	629	610	587	633
Electricity deliveries into the network (GWh)	3,416	3,384	3,419	3,317	3,309
Number of customer connections (000)	216	212	208	204	201

Directory

As at 23 June 2022

Directors

Paul Munro – interim chair
Jen Crawford
Sally Farrier
Bruce Gemmell
Jason McDonald
Mike Sang

Other sources of information

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

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 Data and Digital

John Thompson
Connetics Chief Executive

Alice van den Hout
GM Purpose and Performance

Karen Wiese
Company Secretary

Nic Wong
GM Growth and Development

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Auditor

Audit New Zealand, on behalf of the Auditor-General

Our Purpose is to power a cleaner and brighter future for our community

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