

20



“We did a lot of baking during lockdown. It was good to teach my son something new, and not worry at all about the power.”

— Annie Chua
Customer

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Highlights

Financial

\$185m

electricity distribution revenue



↓ \$1m

\$66m

network operating expenditure



↑ \$2m

\$48m

profit after tax



same as 2019

\$47m

fully-imputed dividends



↓ \$6m

\$75m

group capital expenditure



↓ \$3m

\$1,243m

group assets



↑ \$34m

Network

207,500

customer connections



↑ 3,000

3,419

gigawatt hours of electricity delivered



↑ 101

610MW

network maximum demand



↑ 22MW

68

minutes of network outages per customer



↓ 8

Community

\$400k

supporting community activities



3,200

tonnes of CO2e reduction in our carbon footprint



TOP 20%

of our industry for safety



1,140

customers contributed their views via formal research



Chair and Chief Executive's report



Jane Taylor
Chair



Rob Jamieson
Group Chief Executive

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

Our **Vision** is to lead progress, sustainability and liveability within our region and across New Zealand.

The world faces unprecedented challenges and opportunities. Orion is focussed on helping our community realise its dreams for a future that is new, better, and more sustainable over the long term.

We are changing the shape of Orion's contribution – to use the skills of our people to meet the changing needs of our community today and tomorrow. And that's exciting.

Poised to power our purpose

Orion had a strong year of financial performance matched with exciting progress charting the future of our organisation through a purpose-led lens. Together, these place us ready to be a vital and committed partner for our region as New Zealand moves to a low-carbon future.

2020 was a successful year of consistently delivering a safe, reliable and resilient service to the people and businesses of our region. While we provided our community with confidence in their energy supply, we also challenged ourselves to think about what a changed future would hold, and how Orion should adapt to remain relevant and proactively harness opportunities in a fast evolving energy landscape. It has been a stimulating year as our people thought outside their comfort zone, explored options that were unfamiliar, and expanded their views beyond the traditional construct that is the current Orion network.

Out of this was born an aspiration to position Orion to deliver on our purpose, determined by Orion people invigorated by this fresh approach, and the opportunities it presents to contribute to an exciting and sustainable future.

The interim goals we have set and our progress this year in realising our aspirations are set out on pages 12 and 13 of this report.

Key performance indicators

While we looked to the horizon, we welcomed three independent reviews this year that verified Orion's position as one of the top performing electricity distributors in New Zealand. These reviews affirmed that we have the fundamentals of our business right, and are in a good position to meet the needs of our customers.

We have learned from our customers that they value reliability in their power network above all else. That is why we're pleased this year to have achieved the stringent performance targets for reliability set by regulators. This result maintains Orion's position in the top four of all New Zealand electricity distributors for reliability.

Orion again commissioned an independent assessment of our asset management strategy, planning and management processes against the internationally recognised standard using the Asset Management Maturity Assessment Tool (AMMAT). We bettered our 2018 score

in 13 elements, reflecting our commitment to innovation and continuous improvement across the organisation. The review concluded that it was "...a very good result for a company with a very appropriate asset management culture and focus."

We exceeded all previous ratings for public safety practices and education in the annual assessment of our Public Safety Management System by Telarc, the independent expert in assessment and certification of New Zealand businesses against legislative requirements. We were awarded a rating of "Fully Attained" across all seven elements of the assessment.

This positive evaluation is testament to the fundamental importance we place on putting safety at the core of all we do. Not complacent or easing back satisfied with a good result, we can always do better, and we'll continue to develop new ways to ensure our team and the community can be confident of their safety around electricity.

Being flexible and agile more important than ever

We have been working to increase our network's resilience – not surprisingly a highly valued attribute for our customers in Christchurch and central Canterbury.

Being flexible and agile are key to ensuring our network contends well with the unexpected. Good crisis planning and the flexibility and agility of our people in adapting to radically changed circumstances helped us continue to operate efficiently and support our community during the COVID-19 pandemic and will be an important part of our response going forward during the recovery.

"We're proud our
clothing is made by
Kiwis, for Kiwis."

— Michelle Procter-Panzer
Cactus Outdoor



Sustainability is not a new concept at Orion – it is built into the work we do every day to ensure our business contributes to our region's future prosperity.

As we move forward on our sustainability journey, we are looking at how we are aligned to the United Nations Sustainable Development Goals. In canvassing their views on what sustainability means for Orion, the goals that we found resonate most strongly for our customers and stakeholders are: working towards more sustainable communities and cities, acting on climate change, fostering good health and wellbeing in our community and being responsible in the consumption and production of our business.

In developing our response to the direction our customers and stakeholders have told us they would like us to take, our approach is both inward and outward looking. We have taken steps to measure and reduce our own carbon footprint. At the same time, we are looking for ways to help our customers reduce theirs. We built some solid foundations for our sustainability work this year by signing off our first sustainability framework, which outlines how we will achieve our vision to manage the economic, environmental and social effects of our business to achieve strong connected communities, a healthy environment and a prosperous economy. This year, we have put tools and systems in place to measure our impact and identify areas where we can improve.

Soon we will publish our first report disclosing the impacts climate change could have on our business in line with the Financial Stability Board Task Force on Climate-related Financial Disclosures (TCFD) requirements. This report will detail the material physical risks and opportunities related to our assets and business, together with the transitional risks and opportunities associated with the shift towards a low carbon economy.

Commerce Commission decision

Part of being sustainable is ensuring Orion remains a viable business in the long term. In November, the Commerce Commission released its final decisions on new Default Price-Quality Paths for Electricity Distribution Businesses (EDBs) for the next five years.

The Commission validated our programme of network maintenance and development and associated expenditure, set out in our ten-year Asset Management Plan. This outcome endorses our approach to the management of our assets, and supports our ability to deliver the service our community expects, now and into the future.

Powering growth

For the fifth consecutive year, Orion welcomed more than 3000 new customers to our network, reflecting the growing vitality of our region as more families and businesses make central Canterbury their home.

We completed several major projects during the year to support the evolving needs of our region, including:

- installing monitoring devices on our low voltage, "street level" network in approximately 100 suburban locations, to **prepare for future changes** in power consumption as people adopt new technologies
- installing a **new 11kV electricity cable through the Lyttelton Road Tunnel**. The 2.2km cable provides an alternative power supply that boosts the capacity, resilience and reliability of the power service to the Lyttelton, Corsair Bay and Cass Bay community, and the vital Lyttelton Port. To allow for future growth, the new cable has a power rating of 10 Megawatts, 3 Megawatts greater than the current average demand
- building a **new 66kV switching station on Prestons Road** to meet the future needs of the rapidly growing community north of Christchurch. The building will house switchgear for Orion's high voltage 66kV cable that delivers electricity from its Waimakariri and Rawhiti zone substations to the north of Christchurch, providing Orion with greater flexibility to switch between multiple alternative sources of power for this area
- **replacing the aging outdoor 33kV switchgear** at our Islington substation with a modern indoor equivalent including a new building
- connecting power services to **new venues** continuing the renewal of Christchurch's central city, including the Spark building facing Cathedral Square and the **Riverside Market on Oxford Terrace**





As New Zealand transitions to a low-carbon economy, the energy sector has a critical part to play. Orion is developing an aspirational purpose-led strategy to be a vital player in that transition for our community and our region.

This year, we have made significant progress in building the strong foundations we need towards achieving our preliminary programme targets. We have implemented a new way of working that brings together people from different areas of the business into cross-functional teams to harness the diversity of thinking and experience across Orion.



Delivering on our purpose

Our interim goals are that, by 2025:

We are among the most trusted organisations in our region

Trust is a core reflection of our mission to provide a safe, reliable and resilient service. Customer research this year showed we are one of the most highly trusted organisations in our community – second only to Fire and Emergency New Zealand. But that doesn't mean we get it right all the time. This year, we continued our community conversations and customer journey mapping to build our understanding of our customer's needs where they interact with us and identify where we could meet them more effectively.

We are a leader of sustainability in our region

By acting ethically, transparently and responsibly, we can create long-term value for Orion, its shareholders and our wider community. Our first ever sustainability commitment and framework were signed off by the board this year. We took our first step towards managing our impact on the environment by having our carbon footprint measured and certified by Certified Emissions Management And Reduction Scheme (CEMARS), the internationally accredited greenhouse gas certification programme. We began to measure our waste and the impact of our purchases. We also looked at ways to help our community and customers reduce their carbon footprint.

We are a leading platform operator

Adapting to change is a key part of providing a resilient service to our customers. A national guideline was created by the industry last year to help networks be ready for a changing future that enables our customers to have more choice for how they manage their energy needs. From this roadmap, Orion has created new streams of work around two themes - the future operation of our network and the future of asset management.

We have transformed industry capability and development in New Zealand

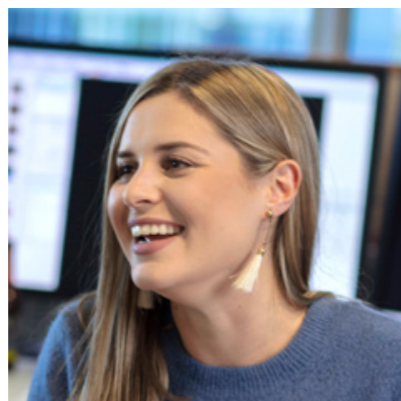
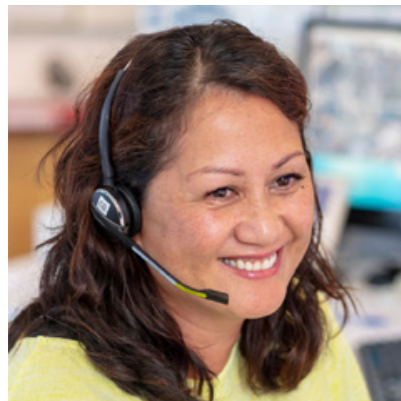
People are at the core of our industry and we need to work with our industry counterparts to build the skills and capabilities required for the future. We are working with the wider industry to establish an industry capability academy that focuses on how to help people develop the skills for our vital industry. This year we established a project scope for the academy and engaged with industry partners to work towards an industry that doesn't compete for talent but works together to grow talent.

Our core performance objectives

Along the way, we have maintained our unrelenting focus on the commitment we have to our customers - to provide a safe, reliable, resilient and financially sustainable network every moment of every day. This was especially vital during the COVID-19 response when having a reliable energy supply was of paramount importance to support people working from home.

The three key objectives that underpin and sustain our purpose as a vital service to the community are:

- **To be resilient and reliable:** as a lifelines utility we will be prepared to support our community in the event of natural disasters, and for the long-term impacts of climate change.
- **To be financially sustainable:** we will provide our shareholders with appropriate long-term returns on their investment and achieve our performance targets.
- **To have world-class health and safety:** we will have safe worksites and network infrastructure for our employees, contractors, visitors, customers and the public.



Financial performance

When we do well financially, the benefits are felt throughout our community, through Orion's ultimate shareholders - Christchurch City Council and Selwyn District Council.

We are pleased to have delivered a strong financial performance for the year.

Favourable weather conditions meant below-budget electricity distribution revenue and below-budget profit for Connetics, our contracting subsidiary which was unfavourably impacted by low demand for emergency work.

Despite this reduction in income, our \$48m profit was \$6m above our Statement of Intent (SOI) target, driven largely by two factors:

- below-budget network maintenance and emergency works, mostly due to few significant weather events
- a \$5m deferred tax adjustment largely due to the reintroduction of tax depreciation on commercial and industrial buildings as part of the Government's response to COVID-19

Our result enabled us to pay \$47m of fully-imputed dividends to our shareholders this year, in line with our SOI target.

At \$60m, our network capital expenditure was around \$2m lower than our budget for the year. This was due to two projects in north Christchurch that were deferred to FY22 in response to changing customer requirements. Our strong focus on our customer and community needs means capital expenditure continues to be significant as we meet the demands of growth and resilience.

Late in 2019, we independently reviewed our capital structure. This confirmed that our current and expected future debt levels are appropriate, and consistent with our stated aim of retaining a shadow S&P rating of at least A-. This keeps us in a prudent financial position as we invest in our strategy to deliver on our purpose.

In mid-2019, we adopted and implemented a regulatory interest rate hedging strategy. We fixed most of our interest expense through to March 2025, using interest rate swaps. These swaps were placed in the same period that the Commerce Commission determined WACC for FY21 to FY25. Our exposure to interest rate risk is now significantly reduced for the next five years.

We adopted NZ IFRS hedge accounting in June 2019, so FY20 should be the last year we observe significant interest rate swap revaluation movements through profit.

Our interest rate swaps are revalued to fair value at balance date. The net movement in the fair value for FY20 was an expense of \$10m pre-tax, with \$1.2m expensed in net profit and \$8.8m loss in other comprehensive income.

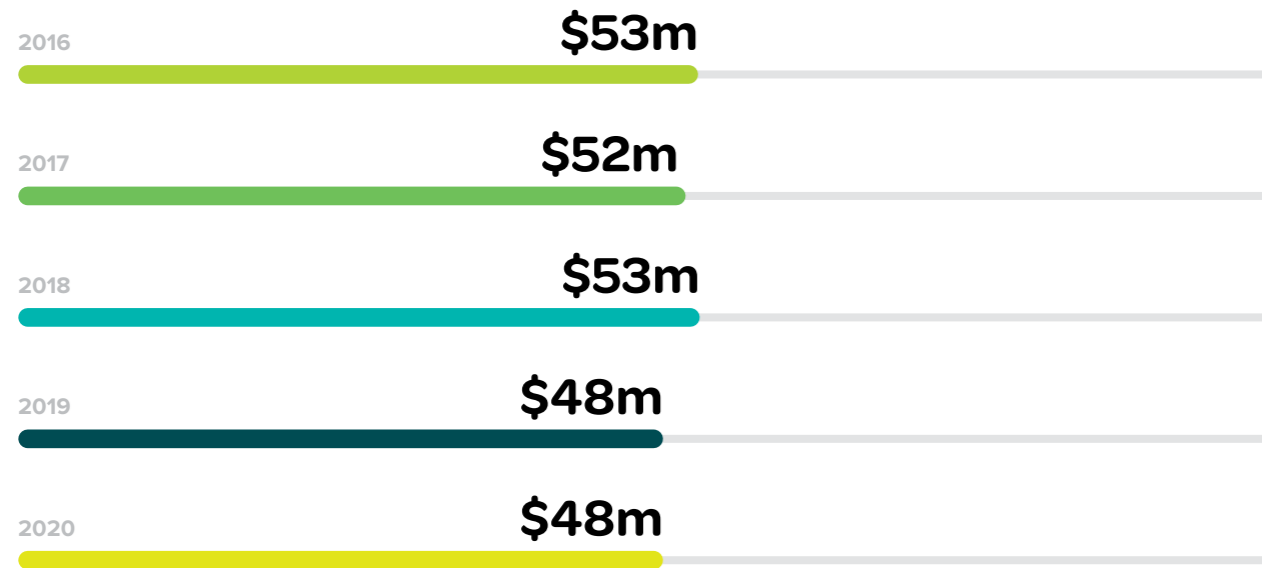
We engaged independent valuers to value our land, buildings, and electricity distribution network this year. We booked:

- an upwards revaluation of \$11.8m pre-tax to other comprehensive income
- a downwards revaluation of \$0.6m pre-tax to profit

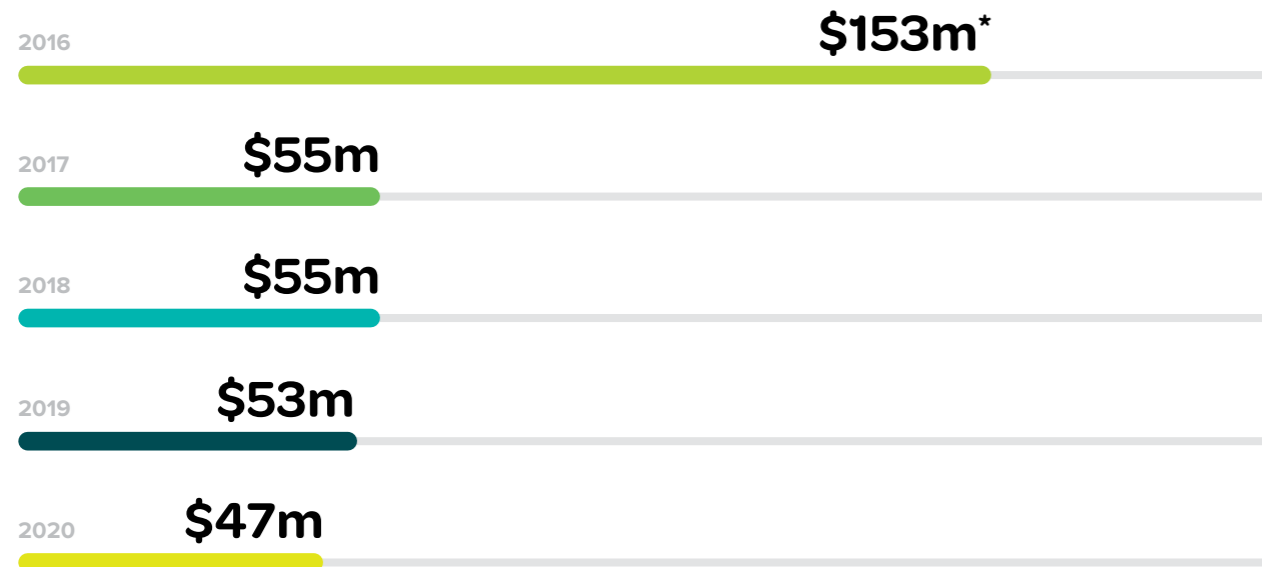
Although Connetics had a challenging year in a competitive market it remains an extremely important contributor to the reliable service we provide our community.



Net profit



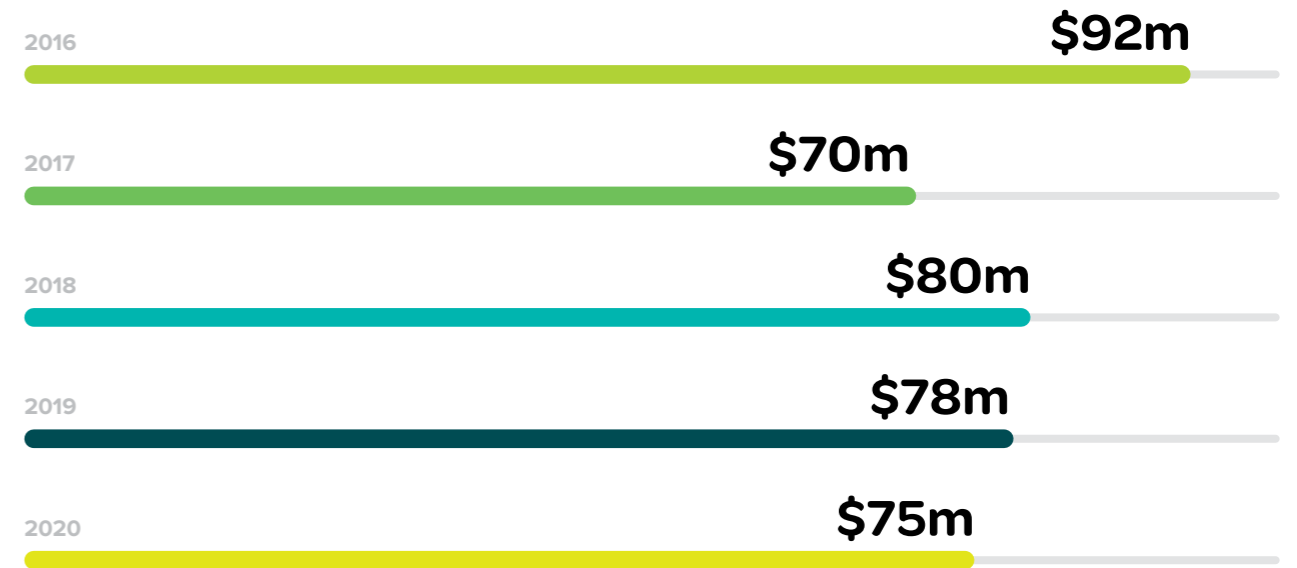
Cash distributions to shareholders



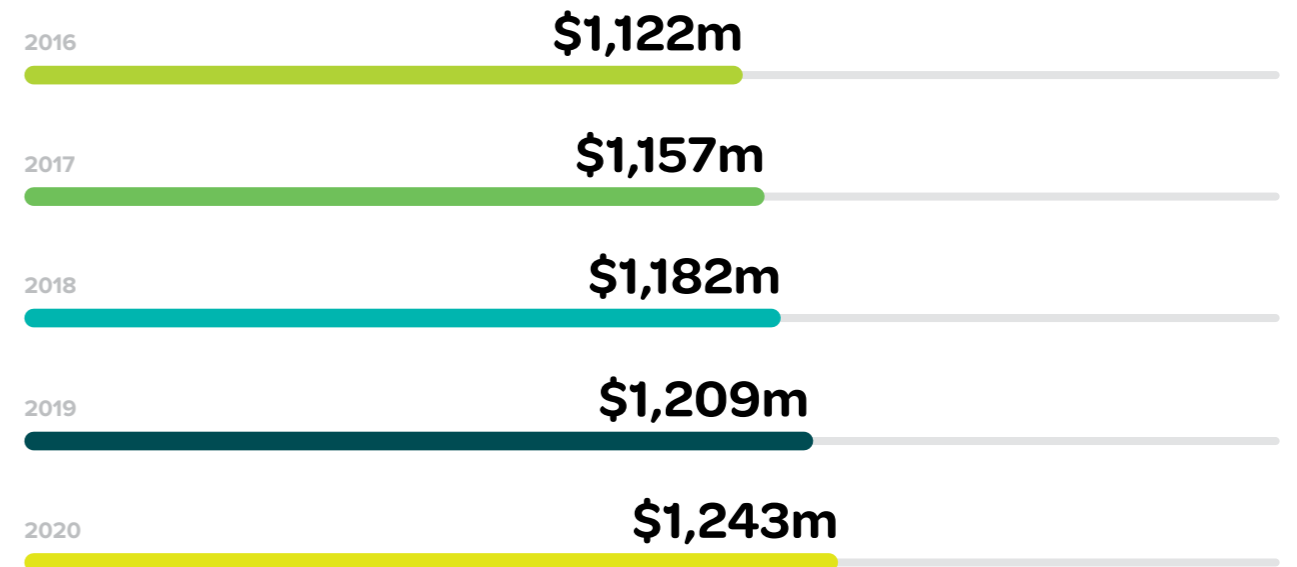
*Includes our \$90m share buy-back and a \$15m special dividend.



Capital expenditure



Total assets



The power of our customers



We engage with our customers to learn more about their needs and that of our community so we can continue to improve their experience with us, today and in the future.

Feedback from customers informs our plans and decisions. Our work this year included:

- running three **Powerful Conversations** workshops in October with city people, small to medium business owners and rural customers to seek their views on issues we face including who should be responsible for trimming trees away from powerlines, what they think our priorities should be to contribute effectively to our region's sustainability and their preferences for the duration of power outages while we do our planned maintenance work
- recruiting new members to our **Customer Advisory Panel** to speak for people in our community who have disabilities or face financial hardship as well as people in the aged care, health, farming and business sectors. The Panel met three times throughout the year
- **interviewing a range of our service providers** to find out how we could further develop our relationship with people critical to the delivery of Orion's service
- starting work on building a **customer strategy**, which has been developed through workshops involving more than 120 Orion people, to find out what we can do to streamline and improve customers' experience with us
- overhauling our community **advertising campaigns** promoting tree trimming and safety around electricity to improve their effectiveness and utilise increasingly popular online channels
- enhancing the **information provided on our website's** power outages page to provide customers with updates on the cause of outages, and our progress with restoration

We are proud that research conducted in December showed our customer satisfaction was high, with 96% of residential respondents and 90% of business respondents saying they were satisfied with the reliability of their power supply. All key perceptions of Orion were up on the previous year, and we were rated one of the most trusted organisations in our region.

We are grateful to our customers and stakeholders for sharing their time and their insight. The relationships we are building with customers help us better understand and meet their expectations for the future.



8,000

square kilometres
network coverage

11,500

kilometres of lines
and cables

390

major business customers
with loads from 0.2MVA

90,000

Orion power poles



50

zone substations



11,700

distribution substations



120

new sub-stations
built in 2020

The power of our network



With more than 207,500 customers, Orion is the third largest of New Zealand's 29 electricity distribution businesses, servicing a dynamic, diverse region.

Sustained growth in the number of customers this year was reflected in the total volume of power we delivered at more than 3,400 GWh, a three per cent increase on the previous year and the second highest volume of power delivered by Orion on record.

Another mild winter meant we did not need to undertake a significant level of repair work from storm events. We are conscious the risk of adverse weather events is likely to increase with climate change, and a well maintained network comes into its own at testing times.

While the weather was kind to us, we continued our focus on network maintenance and upgrade projects, including:

- working on our **continuous power pole assessment and replacement programme**, inspecting 20,000 poles and replacing more than 700, to ensure the ongoing reliability, resilience and safety of the above ground backbone of Orion's network
- achieving our **ambitious targets for replacement of switchgear nearing end of life**, installing more than 54 new modern switches across our 11kV and 66kV network. The new switches allow us to isolate the fault and re-route service during power outages, reducing both the number of customers impacted, and time it takes us to restore power
- installing **120 new substation kiosks** to support growth across the region. This is fewer than previous years when we prepared new suburbs to be ready for new homes and businesses. We are now moving back to our more usual rates of substation builds, reflecting a levelling off of the extraordinary growth in development of new subdivisions in outer areas of Christchurch during the previous five years

We've instigated a number of new initiatives or trials this year to improve our operational efficiency, including:

- improving the accuracy of the estimated restoration times for power outages listed on our website by 40 per cent, giving customers more certainty and the ability to plan ahead
- initiating helicopter and drone inspections of damage to overhead lines. Especially in rural areas, this has proven to be a fast and effective way to locate faults and get the power back on more quickly
- using helicopters to get repair crews onsite more quickly to remote locations, and reducing the time the power is off for people living rurally
- installing more than 20 new line fault indicators, especially for our less reliable rural feeders, to reduce the duration of power outages

The power of our community



Our purpose is all about making a meaningful contribution to the lives of people in our region.

Our longest-standing community partner is Community Energy Action, which helps make the homes of our most vulnerable warmer, healthier and more energy-efficient. This important work has been at the top of our community partnerships for more than 20 years.

A thriving business community is vital to our region's wellbeing and we work with the Canterbury Employers' Chamber of Commerce to make sure we understand the needs of local businesses. It was through this partnership and the support of the Energy Efficiency and Conservation Authority (EECA) that in May we launched our EV Experience, offering free electric vehicle test drives. Businesses can try out the latest Hyundai Kona for a week to see how they might fit into their business fleet.

This year, we partnered with the Department of Conservation to protect native species through pest control. On Banks Peninsula, where power outages are often caused by possums, this work also protects our network. Orion team members also volunteered to assemble 100 rat and stoat traps for deployment by DOC in the furthest reaches of our network, Arthur's Pass.

We reached out to our community this year by attending A&P shows. This was an opportunity to hear from our rural community and update them on everything from which trees to plant near power lines to how to work safely around electricity.

And our people this year generously donated their staff Christmas gift to their favourite community organisations. The Orion Christmas Charity donation supported five charities in our region that need extra help - Air Rescue, SPCA, St John, Cancer Society Christchurch and Aviva.

This year, we are looking for new opportunities to contribute meaningfully to our community in our area of expertise and in ways that are aligned with our sustainability goals. We are also looking to work with organisations where our people can take an active role.

A man wearing a dark cap and a plaid shirt stands in a field of tall grass. Behind him is a green tractor with a vertical pole attached. The background shows a line of trees under a cloudy sky.

The power

of keeping safe

Keeping people safe is the most important job we do. This year was one of steady and continuous improvement for our safety management programmes.

We have continued work on defining what world-class health and safety looks like for Orion.

The success of our culture of innovation and continuous improvement was confirmed in a review by independent assessment firm, Telarc, where we exceeded all previous ratings for public safety practices and education.

In the annual Asset Management Maturity Assessment independent reviewers also commended us on our management processes as well as training, awareness and competence, which are key contributors to the safety of our operations.

We continued our work defining critical safety risks and controls.

This year we reviewed the channels and messages we use to educate our community on safety. We energised our presence at A&P shows throughout our region to stimulate greater engagement with the public and encourage people to work safely around our power lines and cables. To support our new advertising campaigns, we created videos to encourage people to be aware of farm safety around power lines, and keep trees well away from power lines. We promoted these on popular video channels such as YouTube.

While we did not have any events that resulted in serious injury during the year, we have conducted full investigations into five sentinel incidents and are incorporating what we learned in our future practices. We remain committed to keeping safety at the heart of everything we do.

Orion Group has a great safety record, with very low rates of notifiable events and injury rates - well below industry standard.

As COVID-19 evolved, the safety of our people and supporting the community during lockdown became paramount. We swiftly implemented a broad range of protocols that enabled us to keep our people safe while continuing our responsibility to maintain vital power services to our community.

The power of our people



This year has seen a real focus on our people. Together, we've been evolving our culture, building a trusting relationship and adapting the way we work to create a motivated and engaged team ready to take on future challenges.

We developed our guiding work principles that enable and encourage us to strive for a new way of being that will see us leading a brighter future for our community.

Our work principles lay the foundation of our commitment to be a truly inclusive team. Our diversity and inclusion journey has begun and through our people-driven Inclusion Council, we seek to learn and understand what inclusion really means; uncover biases in our systems and processes and build strong partnerships with our community so we can lead change together. Supporting women and Maori youth into science, technology, engineering and mathematics careers is just one of the initiatives we are excited to be working on.

Our people are at the heart of everything we do and we remain committed to supporting them to be the best they can be. Experimenting and discovering new ways to learn, uncovering hidden talents and sharing skills across the Orion Group are new ways that will enable us to transform our people's capability to meet future needs of our industry and our community.


Evolving our leadership to be adaptive, authentic and empowering will enable us to respond to new ways of working and achieve the aspirations we set for ourselves, our Group and our community.

We would like to thank Dr Nicola Crauford for her five years of service as an Orion board member and the contributions she made to the growth and vitality of the company. We thank all directors for their commercial insights, hard work, and commitment to meeting the needs of our community, now and into the future.

We thank all of our passionate people for the hard work that has seen so much progress this year.

Stop Press

In the final week of the period covered by this report, the world was wracked by COVID-19, an unprecedented global pandemic, and New Zealand went into Alert Level 4 lockdown. Orion had thorough plans in place that helped us respond quickly, but we know that many people in our community have been adversely affected. Supporting the wellbeing of our people through this time is of utmost importance to us. Though the future feels uncertain for so many, we look forward to being a trusted partner in enabling our region's recovery.


Jane Taylor
Chair


Rob Jamieson
Chief Executive

Leadership team



Brendan Kearney
GM Governance & Risk

Brendan heads Orion's governance and risk framework. He is a chartered accountant with Chartered Accountants Australia and New Zealand.



Craig Kerr
GM Information Solutions

Craig's team delivers information solutions infrastructure, enhancing information systems to support Orion's business processes.



Steve Macdonald
GM Infrastructure

Steve leads the safe construction, maintenance, engineering and operation of Orion's network.



Rob Jamieson
Group Chief Executive

Rob has been Chief Executive since late 2011. He has worked for Orion since 1994 in various capacities, including as GM Commercial.



David Freeman-Greene
GM Commercial

David leads Orion's commercial team, which manages regulatory matters and compliance, industry relationships, pricing, billing, investment analysis and customer relationships.



Vaughan Hartland
Chief Financial Officer

Vaughan is responsible for Orion's finance function and business assurance. He is a chartered accountant with Chartered Accountants Australia and New Zealand.



Andy Miller
GM QHSE

Andy manages QHSE governance, advice, support and expertise to the business, our customers and other stakeholders.



Nikki Woosnam
GM People & Capability

Nikki leads the People and Capability team, which provides support and advice to the business on everything people related.



Paul Deavoll
GM Customer & Stakeholder

Paul is responsible for Orion's external relationships including communications, stakeholder and customer relationships, and sustainability.

Board of directors



Jane Taylor

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

Jane was appointed as an Orion director in June 2018 and as board chair in February 2019. She is a professional director with strong commercial, legal, regulatory and governance experience. Jane chairs Landcare Research NZ Limited and Predator Free 2050 Limited, is deputy chair of the External Reporting Board (XRB) and a director of Silver Fern Farms Limited, Ontario Teachers Pension Plan, NZ Forest investments Limited and Port Otago Limited. Jane is also a guardian of The Aotearoa Circle.



Geoff Vazey

BEng (Hons)

Geoff was appointed as an Orion board director in April 2009 and chaired the board from April 2018 to January 2019. He also serves on the board of Orion's subsidiary Connetics. He is a professional director with strong commercial and governance experience, including 20 years involvement in infrastructure at the Ports of Auckland. Geoff is a fellow of the Institution of Professional Engineers New Zealand, and a director of Cook Islands Port Authority and HEB Construction Limited.



John Austin

BCom, LLB, MBA, CA

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



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, and a Trustee of the Lincoln University Foundation Trust and the Lincoln University Centennial Trust. He is also a Director of the Highlanders rugby franchise, Miramar Consolidated Limited, Destination Westland, Lincoln Agritech Limited, and Planz Consultants Limited. Bruce also consults to corporates on matters of value, capital raising and restructuring.



Jason McDonald

BE Elec (Hons), MBA

Jason was appointed as an Orion director in August 2017. Jason is an independent consultant, chairman of Mevo Limited, and is a director of Top Energy Limited. He also serves on the board of Orion's subsidiary Connetics. Jason previously held senior executive positions in Meridian Energy.

Audited financial statements

Audited financial statements

The board of directors is pleased to present the audited financial statements of Orion New Zealand Limited and its subsidiaries for the year ended 31 March 2020.

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

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

Authorised for issue on 30 June 2020.

For and on behalf of the board of directors:



Jane Taylor
Director



Bruce Gemmell
Director

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Statement of comprehensive income

	Notes	2020 \$000	2019 \$000
Operating revenues	2	307,663	325,621
Operating expenses	3	(181,719)	(192,012)
Depreciation, amortisation and other impairment expenses	4	(52,336)	(52,999)
Earnings before net interest expense and tax (EBIT)		73,608	80,610
Interest income		32	109
Interest expense	5	(12,253)	(11,627)
Net change in fair value of derivatives income/(expense)	15	(1,164)	(2,980)
Profit before income tax		60,223	66,112
Income tax expense	7	(11,908)	(18,249)
Net profit		48,315	47,863
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Gain on revaluation of property, plant and equipment	11	11,830	-
Deferred tax effect	7	(1,222)	-
		10,608	-
Items that may be reclassified to profit or loss in future			
Change in fair value of cash flow hedges (loss)	15	(8,802)	-
Deferred tax effect	7	2,464	-
		(6,338)	-
Other comprehensive income net of tax		4,270	-
Total comprehensive income		52,585	47,863

Statement of changes in equity

	Notes	Share capital \$000	Retained earnings \$000	Asset revaluation reserve \$000	Cash flow hedge reserve \$000	Total Equity \$000
Balance as at 1 April 2018		105,000	445,309	120,732	-	671,041
Net profit		-	47,863	-	-	47,863
Other comprehensive income		-	-	-	-	-
Total comprehensive income		-	47,863	-	-	47,863
Transfers between reserves:						
Realised gain on disposal		-	390	(390)	-	-
Deferred tax on realised gain		-	(109)	109	-	-
Dividends paid		-	(53,000)	-	-	(53,000)
Balance as at 31 March 2019		105,000	440,453	120,451	-	665,904
Net profit		-	48,315	-	-	48,315
Other comprehensive income		-	-	10,608	(6,338)	4,270
Total comprehensive income		-	48,315	10,608	(6,338)	52,585
Transfers between reserves:						
Realised gain on disposal		-	293	(293)	-	-
Deferred tax on realised gain		-	(82)	82	-	-
Dividends paid		-	(47,000)	-	-	(47,000)
Balance as at 31 March 2020	16	105,000	441,979	130,848	(6,338)	671,489

The accompanying notes form part of these financial statements

Statement of financial position

	Notes	2020 \$000	2019 \$000
Current assets			
Cash and cash equivalents		1,552	1,828
Trade and other receivables	8	11,842	13,865
Inventories	9	10,385	8,964
Prepayments		2,927	2,689
Total current assets		26,706	27,346
Non current assets			
Prepayments		468	579
Goodwill		250	250
Intangible assets	10	2,773	3,096
Property, plant and equipment	11	1,213,009	1,177,293
Total non current assets		1,216,500	1,181,218
Total assets		1,243,206	1,208,564
Current liabilities			
Trade and other payables	12	32,640	33,825
Borrowings	14	101,623	1,080
Income tax	7	5,937	6,436
Employee entitlements	13	8,634	7,655
Interest rate swaps	15	829	191
Total current liabilities		149,663	49,187
Non current liabilities			
Borrowings	14	228,014	301,620
Employee entitlements	13	2,760	1,881
Interest rate swaps	15	13,461	4,133
Deferred tax	7	177,819	185,839
Total non current liabilities		422,054	493,473
Shareholders' equity		671,489	665,904
Total liabilities and equity		1,243,206	1,208,564

The accompanying notes form part of these financial statements

Statement of cash flows

	2020 \$000	2019 \$000
Cash flows from operating activities		
Receipts from customers	310,428	322,637
Interest received	32	109
Payments to suppliers and employees	(186,394)	(194,162)
Payments for interest and other finance costs	(11,756)	(12,042)
Payments for income tax	(19,181)	(19,486)
Net cash provided from operating activities	<u>93,129</u>	<u>97,056</u>
Cash flows from investing activities		
Proceeds from the sale of property, plant and equipment	477	500
Proceeds from sale of investment	-	218
Payments for property, plant and equipment	(67,730)	(72,232)
Payments for intangible assets	(460)	(201)
Net cash used in investing activities	<u>(67,713)</u>	<u>(71,715)</u>
Cash flows from financing activities		
Proceeds from bank loans	22,600	-
Proceeds from US Private Placement notes	-	140,000
Repayment of bank loans	-	(111,100)
Repayment of lease liabilities	(1,292)	(1,107)
Dividends paid	(47,000)	(53,000)
Net cash used in financing activities	<u>(25,692)</u>	<u>(25,207)</u>
Net increase / (decrease) in cash and cash equivalents	<u>(276)</u>	<u>134</u>
Summary		
Cash and cash equivalents at beginning of year	1,828	1,694
Net increase / (decrease) in cash and cash equivalents	(276)	134
Cash and cash equivalents at end of year	<u>1,552</u>	<u>1,828</u>

The accompanying notes form part of these financial statements

Statement of cash flows continued

	2020 \$000	2019 \$000
Reconciliation of net profit to net cash provided from operating activities		
Net profit	48,315	47,863
Adjustments		
Depreciation, amortisation and impairment of property, plant and equipment	52,336	52,999
Internal costs allocated to property, plant and equipment and intangible assets	(3,149)	(2,607)
Gain on disposal of investment	-	(218)
Change in fair value of derivatives	1,164	2,980
Decrease in deferred tax liability	(6,778)	(1,748)
Other	(192)	(202)
	<u>43,381</u>	<u>51,204</u>
(Increase)/decrease in assets		
Trade and other receivables	2,023	(1,338)
Inventories	(1,421)	(575)
Prepayments	(127)	(854)
Increase/(decrease) in liabilities		
Trade and other payables	(401)	(179)
Employee entitlements	1,858	830
Income tax	(499)	512
Provisions	-	(407)
	<u>1,433</u>	<u>(2,011)</u>
Net cash provided from operating activities	<u>93,129</u>	<u>97,056</u>

The accompanying notes form part of these financial statements

Notes to the financial statements

1. Statement of accounting policies

Corporate information

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

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

Statement of compliance

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

Basis of financial statement preparation

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

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

Significant judgements, estimates and assumptions

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

Electricity delivery revenue

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

Electricity distribution network valuation

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

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

Notes to the financial statements continued

Land and buildings valuation

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

Capitalisation of costs and impairment

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

Impact of COVID-19

The group assesses that COVID-19 has had minimal impact on the group's operational results for the year ended 31 March 2020, as the lockdown restrictions were only implemented in late March 2020. Note 11 details the assumptions used in the valuation of property, plant and equipment and note 20 provides further detail on the event and the impact on the group.

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 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 adoption of NZ IFRS 15 in FY19 resulted in a change in recognition for capital contributions received from directly contracted customers. Capital contributions had previously been recognised when construction had been completed. The transition impact of this change in revenue recognition policy was not considered material and no changes were made to opening retained earnings, current or prior year revenue recognised as a result of the change in policy.

Notes to the financial statements continued

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 prices.

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.

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.

(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.

Notes to the financial statements continued

(e) Income tax

Income tax expense comprises current tax and deferred tax.

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

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

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

(f) Financial instruments

From 1 April 2018, the group classified 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, 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.

Notes to the financial statements continued

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.

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 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 or 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.

Notes to the financial statements continued

(h) Property, plant and equipment

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

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

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

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

Depreciation is provided on property, plant and equipment, including freehold buildings 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.

(i) 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-

Notes to the financial statements continued

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

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

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

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

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

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.

(j) 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.

(k) New accounting standards and interpretations

The group changed its accounting policies following the adoption of NZ IFRS 16 Leases. No other new accounting standards or interpretations that became effective for the period had a material impact on the group.

NZ IFRS 16 Leases became effective on 1 April 2019. NZ IFRS 16 results in almost all leases being recognised on the balance sheet as the distinction between operating and finance leases is removed. The only exceptions are short term and low value leases. The group elected to apply the practical expedient to not reassess whether a contract is, or contains, a lease at the date of initial application. Contracts entered into before the transition date that were not identified as leases under NZ IAS 17 and NZ IFRIC 4 were not reassessed. The definition of a lease under NZ IFRS 16 was applied only to contracts entered into or changed on or after 1 April 2019. The adoption of NZ IFRS 16 has not had a material impact on the group.

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

(l) Change in accounting policies

The group adopted hedge accounting during the year ended 31 March 2020. Refer to note 1 (f) for the details of the changes relating to the adoption of hedge accounting on the group's financial instruments.

Notes to the financial statements continued

	2020 \$000	2019 \$000
2. Operating revenues		
Revenue from contracts		
– recognised over time		
Electricity delivery services	242,450	256,477
Contracting services	40,994	42,712
Consumer capital contributions	145	62
– recognised at a point in time		
Sale of goods and services	12,172	12,544
Contracting services	4,113	2,721
Consumer capital contributions	1,010	4,880
Other income		
Transmission rental rebates	3,974	3,307
Gain on disposal of investment	-	218
Other	2,805	2,700
	307,663	325,621
3. Operating expenses		
Transmission	57,158	70,184
Transmission rental rebates	3,974	3,307
Employee benefits	59,605	54,778
Network maintenance	27,809	28,086
Operating lease payments	856	505
Other	32,317	35,152
	181,719	192,012
Employee benefits in FY20 is net of \$3.1m allocated to capital projects (2019: \$2.6m).		
4. Depreciation, amortisation and other impairment expenses		
Depreciation of property, plant and equipment	47,408	45,096
Depreciation of right-of-use assets	268	-
Impairment of property, plant and equipment	1,946	5,500
Amortisation of intangible assets	1,103	1,118
Impairment loss on revaluation of property, plant and equipment	563	-
Property, plant and equipment disposed and written off	1,048	1,285
	52,336	52,999
5. Interest expense		
Bank and USPP debt	11,173	10,524
Lease liabilities	1,075	1,103
Other	5	-
	12,253	11,627
No interest expense was capitalised during the year (2019: nil).		

Notes to the financial statements continued

	2020 \$000	2019 \$000
6. Remuneration of the auditor		
Audit of the financial statements	280	251
Audit-related services	40	55
	320	306

Audit-related 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**Income tax expense comprises:**

Current income tax charge	18,371	20,342
Adjustments to prior years	315	(345)
Temporary differences	(1,748)	(1,748)
Deferred tax benefit from reinstatement of depreciation on buildings	(4,555)	-
Deferred tax correction for land	(475)	-
	11,908	18,249

Reconciliation of profit before income tax with income tax expense:

Profit before income tax	60,223	66,112
Prima facie income tax expense calculated at 28%	16,862	18,512
Other permanent differences	76	(263)
Deferred tax benefit from reinstatement of depreciation on buildings	(4,555)	-
Deferred tax correction for land	(475)	-
Income tax expense	11,908	18,249

	Property, plant and equipment \$000	Earthquake insurance proceeds \$000	Provisions \$000	Other \$000	Total \$000
Deferred tax liability					
Balance as at 1 April 2018	189,314	1,301	(1,667)	(1,361)	187,587
Charged/(credited) to income	(1,064)	(173)	(179)	(332)	(1,748)
Balance as at 31 March 2019	188,250	1,128	(1,846)	(1,693)	185,839
Charged/(credited) to income	(6,049)	(146)	(521)	(62)	(6,778)
Charged/(credited) to other comprehensive income	1,222	-	-	(2,464)	(1,242)
Balance as at 31 March 2020	183,423	982	(2,367)	(4,219)	177,819

Notes to the financial statements continued

7. Income tax and deferred tax continued

The group's current income tax liability as at 31 March 2020 is \$5.9m (2019: \$6.4m). The liability mainly comprises the group's third instalment of provisional income tax for the year ended 31 March 2020 (31 March 2019).

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 \$6.8m as at 31 March 2020 (2019: \$6.5m), which includes the income tax liability of \$5.9m (2019: \$6.4m).

	2020 \$000	2019 \$000
8. Trade and other receivables		
Trade receivables and accruals	8,238	11,297
Contract assets	3,748	2,685
Allowance for impairment of trade receivables	(144)	(117)
	11,842	13,865

Trade receivables before allowance for impairment:

Current	6,682	10,050
1 month overdue	502	578
2 months overdue	194	139
3 months overdue	860	530
	8,238	11,297

9. Inventories

Goods for sale	5,858	5,598
Electricity distribution network stock	4,704	3,625
Allowance for impairment	(177)	(259)
	10,385	8,964

10. Intangible assets

Capitalised at cost	16,593	16,093
Accumulated amortisation	(13,820)	(12,997)
	2,773	3,096

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

Notes to the financial statements continued

	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
11. Property, plant and equipment					
Gross carrying amount					
Balance as at 1 April 2018	67,485	32,710	1,083,278	45,625	1,229,098
Additions	521	419	71,299	5,550	77,789
Reclassified assets	-	(2)	-	2	-
Disposals	-	(31)	(3,420)	(2,989)	(6,440)
Balance as at 31 March 2019	68,006	33,096	1,151,157	48,188	1,300,447
Additions	1,881	6,918	60,149	6,458	75,406
Disposals	-	(6)	(2,669)	(2,229)	(4,904)
Revaluation	7,269	(1,043)	(130,988)	-	(124,762)
Balance as at 31 March 2020	77,156	38,965	1,077,649	52,417	1,246,187
Accumulated depreciation and impairment					
Balance as at 1 April 2018	3	780	48,564	28,066	77,413
Disposals	-	(2)	(2,100)	(2,753)	(4,855)
Reclassified assets	-	(2)	-	2	-
Depreciation expense	-	707	39,833	4,556	45,096
Asset impairment	-	-	5,500	-	5,500
Balance as at 31 March 2019	3	1,483	91,797	29,871	123,154
Disposals	-	(3)	(1,621)	(1,945)	(3,569)
Depreciation expense	-	1,602	41,157	4,917	47,676
Asset impairment	15	-	1,864	67	1,946
Revaluation	(18)	(2,814)	(133,197)	-	(136,029)
Balance as at 31 March 2020	-	268	-	32,910	33,178
Net book value as at 31 March 2019	68,003	31,613	1,059,360	18,317	1,177,293
Net book value as at 31 March 2020	77,156	38,697	1,077,649	19,507	1,213,009
Capital work in progress included above:					
As at 31 March 2019	88	196	48,579	69	48,932
As at 31 March 2020	83	85	34,796	276	35,240

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 \$1,044.6m as at 31 March 2020, 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 \$1,080.1m.

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 2030 estimated network revenues follow the Commerce Commission's building blocks approach, but exclude growth assumptions related to expansionary growth
- for the five 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 WACC on regulatory investment value)
- the estimated DCF mid-point discount rate is 5.0% (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 starting 1 April 2020.

Deloitte performed sensitivity analysis as follows:

- a capital expenditure increase/(decrease) of 5% would decrease/(increase) fair value by \$7m/(\$7m)
- an operating expenditure increase/(decrease) of 5% would decrease/(increase) fair value by \$20m/(\$20m)
- a discount rate increase/(decrease) of 0.5% would decrease/(increase) fair value by \$49m/(\$47m)
- an increase/(decrease) in distribution revenue of 0.5% would increase/(decrease) fair value by \$5m/(\$5m).

Deloitte considered the impact of COVID-19 within its valuation, and:

- made no specific adjustments to cash flows as delivery revenues are regulated and electricity is an essential service, and therefore any impact is expected to be relatively short-term with respect to long-life assets
- 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, which equates 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.

In the year ended 31 March 2020, 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:

- \$1.2m (2019: \$4.9m) of capital contribution revenue during the year
- \$1.9m (2019: \$5.5m) of associated impairment expense during the year.

Notes to the financial statements continued

11. Property, plant and equipment continued

The network was previously revalued to fair value of \$980.7m as at 31 March 2017, by independent valuer Ernst & Young Transaction Advisory Services Limited (EY), in accordance with NZ IAS 16 – Property, Plant and Equipment, NZ IAS 36 – Impairment of Assets, and NZ IFRS 13 – Fair Value Measurement. Subsequent additions were added at cost less associated impairment and depreciation applied to determine carrying values as at 31 March 2018 and 2019. The company considered there were no indicators that the network carrying value at these dates was materially different from fair value.

Land and non-substation buildings

The company's land and non-substation buildings were revalued to fair value as at 31 March 2020, by Marius Ogg, in accordance with NZ IAS 16 – Property, Plant and Equipment, NZ IAS 36 – Impairment of Assets, and NZ IFRS 13 – Fair Value Measurement. Mr Ogg is a registered valuer and a senior director of Colliers International Limited. Mr Ogg used significant observable inputs (level 2, as defined in NZ IFRS 13).

Mr Ogg's valuations resulted in a total land and non-substation buildings valuation of \$108m. Mr Ogg:

- selected a representative sample of the company's substation sites and valued land at those sites using sales comparisons and unit metre frontage methodologies (level 2). Mr Ogg compared his values with their respective rateable values. He used these comparisons to develop standard site multipliers, which he applied to rateable land values for approximately 2,500 substation sites
- valued the company's head office land and building using a market rental assessment and a capitalisation rate of 7.0% 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 5.75% and compared his result with recent market transactions (level 2).

Mr Ogg considered 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 is of the order of 3-4%.

The company's land and non-substation buildings were previously revalued to fair value as at 31 March 2017, by Marius Ogg, in accordance with NZ IAS 16 – Property, Plant and Equipment, NZ IAS 36 – Impairment of Assets, and NZ IFRS 13 – Fair Value Measurement. Mr Ogg was at that time a director of CBRE Limited. Subsequent additions were added at cost less associated impairment and depreciation applied to determine carrying values as at 31 March 2018 and 2019. The company considered there were no indicators that the network carrying value at these dates was materially different from fair value.

	2020 \$000	2019 \$000
Right-of-use assets		
Right-of-use assets are included in property, plant and equipment at fair value as follows:		
• Electricity distribution network	9,413	10,755
• Buildings and land improvements	5,363	-
Additions to right-of-use assets were:		
• Electricity distribution network	-	-
• Buildings and land improvements	5,631	-

Notes to the financial statements continued

11. Property, plant and equipment continued**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.

	2020 \$000	2019 \$000
12. Trade and other payables		
Trade payables and accruals	27,191	28,858
GST payable	1,846	1,607
Other	3,603	3,360
	<u>32,640</u>	<u>33,825</u>

13. Employee entitlements

Current	8,634	7,655
Non current	2,760	1,881
	<u>11,394</u>	<u>9,536</u>

Employee entitlements include a provision for employee long service leave. Key assumptions in the actuarial assessment of the provisions include the risk-free rate 1.06% (2019: 1.77%) and salary inflation 0 to 2.5% (2019: 3.0%), and an assessment of the probability of employees receiving each long service leave entitlement.

14. Borrowings**Current**

Lease liabilities	1,623	1,080
Bank loans	100,000	-
Total current borrowings	<u>101,623</u>	<u>1,080</u>

Non current

Lease liabilities	13,814	10,020
Bank loans	74,200	151,600
USPP Private Placement floating rate notes	140,000	140,000
Total non current borrowings	<u>228,014</u>	<u>301,620</u>

The group has lease liabilities which relate to agreements with Transpower New Zealand Limited (Transpower) for Transpower to install new assets at or near its local grid exit points, and for the lease of properties in the Wellington and Central Otago areas.

The Transpower agreements have remaining terms of between one and 28 years (2019: between one and 29 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

	Minimum future lease payables		Present value of minimum future lease payables	
	2020 \$000	2019 \$000	2020 \$000	2019 \$000
14. Borrowings continued				
Lease liabilities				
No later than one year	2,480	2,053	1,623	1,080
Later than one year and not later than five years	6,008	5,019	2,957	2,011
Later than five years	23,983	18,591	10,857	8,009
Minimum lease payments	32,471	25,663	15,437	11,100
Less future finance charges	(17,034)	(14,563)	-	-
Present value of minimum lease payments	15,437	11,100	15,437	11,100
Current			1,623	1,080
Non current			13,814	10,020
			15,437	11,100

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 2020.

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 2020.

All interest bearing bank loans, US Private Placement debt and lease liabilities are in New Zealand dollars.

Notes to the financial statements continued

15. Financial instruments continued**Liquidity risk management**

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

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

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

	2020 \$000	2019 \$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 2020 mature as follows:

\$100m on 25 September 2020

\$110m on 1 November 2022

Amount used at reporting date	174,200	151,600
Amount unused at reporting date	35,800	58,400
	210,000	210,000

Unsecured US Private Placement floating rate notes as at 31 March 2020 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

The group has commenced negotiations for a new facility to replace the bank loan facility which matures in September 2020.

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 2020, interest rates (including margins) on the group's bank loans averaged 1.72% (2019: 2.58%). Daily commitment fees are also payable on the bank loan facilities.

Notes to the financial statements continued

15. Financial instruments continued

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 2020, interest rates (including margins) on the group's floating rate notes averaged 2.24% (2019: 3.44%).

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 2020, interest rates on the group's Transpower lease liabilities averaged 9.0% (2019: 9.3%).

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 2020, interest rates on the group's property lease liabilities averaged 4.75% (2019: no leases).

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		Carrying value asset/(liability)	
		2020 \$000	2019 \$000	2020 \$000	2019 \$000
March 2020	2.2	-	40,000	-	(191)
October 2020	2.3	70,000	70,000	(829)	(812)
June 2021	2.8	40,000	40,000	(1,090)	(1,006)
December 2023	2.5	70,000	70,000	(4,790)	(2,315)
March 2025	1.3	230,000	-	(4,054)	-
April 2025	1.5	100,000	-	(3,527)	-
		510,000	220,000	(14,290)	(4,324)

Notes to the financial statements continued

15. Financial instruments continued

Disclosed as:

	2020 \$000	2019 \$000
Current liabilities	(829)	(191)
Non current liabilities	(13,461)	(4,133)
	<u>(14,290)</u>	<u>(4,324)</u>

Change in fair value recognised in:

Profit and loss income/(expense)	(1,164)	(2,980)
Other comprehensive income	(8,802)	-
	<u>(9,966)</u>	<u>(2,980)</u>

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:

Increase of 1% in interest rates as at reporting date		
Profit before income tax	1,356	5,031
Other comprehensive income	12,568	-
Decrease of 1% in interest rates as at reporting date		
Profit before income tax	-	(5,250)
Other comprehensive income	(14,825)	-

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'. The company invoices electricity retailers and its direct major customers on the 10th day of the month of usage (based on an estimation of usage) with payment due on the 20th of that month. Invoiced amounts are subject to subsequent adjustments for later (more accurate) metering data as outlined under critical judgements, estimates and assumptions in note 1. Collateral security is not generally required from the group's other customers.

Notes to the financial statements continued

15. Financial instruments continued

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

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

Carrying values of financial instruments

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

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

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 (2019: \$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

	2020 \$000	2019 \$000
Capital expenditure	17,097	18,428
Operating leases	120	1,610

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

19. Contingent assets and liabilities

On 13 February 2017, two fires started on the Port Hills near Christchurch and eventually spread to over 1,600 hectares. On 30 January 2018, Fire and Emergency New Zealand released its independent reports into the causes of the fires, with an official 'undetermined' cause for both fires, but it believes that both were deliberately lit and it will only investigate further if new evidence comes to light. IAG Insurance, on behalf of a number of its clients, has filed a statement of claim in the High Court with two key claims 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. The company has filed a statement of defence in the High Court denying IAG's claims and any liability. The Court has set a trial start date for August 2020. The company insures for liability risks, in line with good industry practice.

Other than the potential issue above, the group had no significant contingent assets or liabilities as at 31 March 2020 (2019: nil).

Notes to the financial statements continued

20. Impact of COVID-19

On 31 December 2019 China alerted the World Health Organisation to the outbreak of a virus, now commonly referred to as COVID-19, with the outbreak declared a pandemic on 11 March 2020. The New Zealand Government declared a State of National Emergency on 25 March 2020. The next day the country was put into Alert Level 4 and effectively lockdown. On 28 April 2020, the Alert Level was reduced to Level 3, and then further reduced to Level 2 on 14 May 2020. The country moved to Level 1 on 9 June 2020.

Our business activity during Level 4 was restricted to emergency works response, some essential preventative maintenance and high priority capital work. Most of our staff were working from home. During Level 2, most of our business activity resumed with the required health and safety protocols in place and our staff returned to their usual place of work. Level 1 predominantly saw a return to pre COVID-19 activity.

As the Level 4 lockdown occurred in the last week of March there was minimal impact on the group's operational result for FY20. Electricity delivery service revenue for March was only slightly reduced and the network maintenance and other expenditure impacts were negligible. There was no impact on our SAIDI and SAIFI measures.

Note 11 details the increased uncertainty due to the impact of COVID-19 on our revaluation of property, plant and equipment as at 31 March 2020. Deloitte assessed that our electricity distribution network would have been valued around \$29m higher if not for the impact of COVID-19. Mr Ogg assessed that our land and buildings would have been around \$4m higher if not for the impact of COVID-19.

The lockdown and potential future impacts of COVID-19 may negatively impact the group's future financial performance and position, however the group assesses that the impact will not be substantial. The industry regulator allows price-regulated electricity distribution businesses to recover revenue shortfalls from approved regulatory revenue allowances in future years (within specified limits).

In May 2020, the group reassessed its draft Statement of Intent for FY21 to FY23 in light of the estimated impact of COVID-19. FY21 forecast profit after tax reduced by \$3.5m to allow for estimated reductions in delivery revenue during the first quarter, potential bad debts either directly incurred or passed on by retailers, an overall small reduction in network opex and a negative impact on Connetics' contribution to the group result during the first quarter. The company assessed that \$3m of capex could be deferred to FY22. A reduction in forecast profit has resulted in a reduction in forecast dividends in FY21.

21. Significant events after balance date

Other than the events relating to COVID-19 described in note 20, the group is not aware of any other significant events between the preparation and authorisation of these financial statements on 30 June 2020.

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:

- 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

	2020 \$000	2019 \$000
22. Related party transactions continued		
Transactions during the year		
Dividends paid to CCHL and SDC	47,000	53,000
Purchases from CCC/SDC	4,507	4,524
Underground conversion contributions from CCC/SDC	70	308
Other sales to CCC/SDC	11,643	12,486
Purchases from other related parties	1,048	1,063
Sales to other related parties	1,905	1,408
Outstanding balances as at 31 March		
Accounts payable to CCC/SDC	7	9
Accounts receivable from CCC/SDC	2,301	2,024
Accounts payable to other related parties	97	67
Accounts receivable from other related parties	54	69
Key management personnel compensation		
Salaries and short term employee benefits	3,444	3,199
Post-employment benefits	156	159
Termination benefits	327	-

Other transactions involving related parties

The group paid directors' fees totalling \$369,000 during the year (2019: \$373,000). No directors received retirement gifts during the year (2019: nil). No other transactions were entered into with any of the company's directors, other than the payment of directors' fees and the reimbursement of valid company-related expenses such as travel costs to board meetings.

Key management personnel is defined as the company's directors, the company's chief executive officer and the company's managers who directly report to the chief executive officer. Key management personnel purchased goods and services from group companies during the year which in total did not exceed \$3,000 for any individual, with the exception of an employee who purchased a second-hand vehicle from the group for \$41,000 (2019: all less than \$2,000). A total of nil was due from key management personnel as at 31 March 2020 (2019: nil). All transactions were conducted on standard commercial terms.

Performance statement – financial

	Notes	Actual 2020	Target 2020	Actual 2019
Network delivery revenue (\$m)	1, 2	242	244	256
Profit after tax (\$m)	1, 2	48	42	48
Profit after tax to average equity (%)	1, 2	7.2	6.3	7.2
Debt to debt plus equity (%)	3	33	33	31
Equity to total assets (%)	3	54	55	55
Fully imputed dividends (\$m)		47	47	53

Note 1

Net profit was \$6.3m above the statement of intent target because of:

Deferred tax adjustment due to reinstatement of depreciation on commercial buildings	5.0
Below-budget expenses	3.4
Below-budget Connetics profit	(2.0)
Other	(0.1)
	<u>6.3</u>

Note 2

Net profit was \$0.5m above last year because of:

Deferred tax adjustment due to reinstatement of depreciation on commercial buildings	5.0
Lower interest rate swap revaluation expense	1.3
Lower Connetics profit	(1.1)
Higher expenses	(1.6)
Lower sundry revenues	(2.5)
Other	(0.6)
	<u>0.5</u>

Note 3

Debt is defined as interest bearing group borrowings, net of cash and cash equivalents. Equity is defined as shareholders' equity.

Performance statement – network reliability

	Approx number of connections 31 March 2020	Actual 2020 *	Target 2020 *	Actual 2019 *	Industry weighted average 2019 *
Orion network interruptions:					
Duration of supply interruptions in minutes per year per connected customer (SAIDI)					
- Region A	174,000	25	22	27	
- Region B	33,500	290	357	336	
- Overall	207,500	68	73	76	299
Number of supply interruptions per year per connected customer (SAIFI)					
- Region A	174,000	0.3	0.6	0.4	
- Region B	33,500	2.4	2.3	2.6	
- Overall	207,500	0.7	0.9	0.8	2.0

Important notes:

- Natural disasters and other major events can cause significant numbers and/or durations of network supply interruptions. The future occurrence and/or severity of these events cannot be predicted.
- SAIDI and SAIFI are standard industry measures of network reliability performance. They include planned and unplanned interruptions, but exclude interruptions that are caused by electricity generators or Transpower, or are caused by the low voltage (400V) network, or last for less than one minute.
- The Commerce Commission has set 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'. Our overall targets above are consistent with our DPP limits for FY20. After applying the Commission's normalisation methodology, we achieved our network reliability limits in FY15 – FY18 and FY20 but slightly exceeded our SAIDI limit in FY19 (74 actual against a target of 73).
- Columns marked with an asterisk (*) are stated gross – before normalising for major events.
- As Christchurch has spread west post-earthquake, it has become difficult to define a split between urban and rural. We have therefore changed to two regions. *Region A* is largely supplied from Transpower's Islington and Bromley grid exit points. *Region B* is largely supplied from other grid exit points.



Performance statement – network development

1. Work with the CCC, government agencies and property developers to support the CBD rebuild

Target date: Ongoing

Status: Achieved

We work with these parties on an ongoing basis. Each development needs to be individually assessed. Our aims are to provide great customer service, to minimise network outages and to protect the integrity of our network.

2. Upgrade our Highfield zone substation from 33kV to 66kV

Target date: 31 March 2020

Status: Achieved

This project supports ongoing customer and load growth to the west of Christchurch, including in the Lincoln, West Melton and Rolleston areas.

3. Upgrade our Dunsandel zone substation to restore 'N minus 1' firm capacity

Target date: 31 March 2020

Status: Achieved

This upgrade supports Synlait's rapid expansion of its milk processing operation. This follows our initial upgrades to this substation in FY19. Synlait and other large industrial heat users will increasingly choose electricity for their heat requirements over the coming decades, and we expect to see continuing load growth and network investment to support this.

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

Target date: 31 March 2021

Status: Deferred to FY22 in line with customer requirements

This is a major two-year project to support significant customer and demand growth in the north and north-east of Christchurch. Belfast is a growth priority area for the CCC. We are also forecasting a separate two-year follow-on project to interconnect Belfast with our McFaddens zone substation by 31 March 2022.

5. Install at least 100 low voltage monitoring devices around our electricity distribution network

Target date: 31 March 2020

Status: Materially achieved

We installed 96 monitoring devices around our network during the year. This is the start of a multi-year project to understand the changing needs of our customers so that we ensure that our ongoing operating and capital expenditure is efficient and in the long-term interests of our customers. Customer needs are changing and will continue to change due to a variety of factors – including emerging technologies and innovations such as electric vehicles, solar PV, battery storage systems and more two-way power flows with the grid.

Performance statement – sustainability

1. Cost options to reduce or offset our carbon footprint and choose an initial reduction/offset strategy

Target date: 31 March 2020

Status: Partially achieved

We commissioned an independent audit of Orion’s carbon emissions by Toitu (previously EnviroMark) and obtained CEMARS certification in June 2019.

Our carbon footprint for the company is as follows (rounded):

	Approximate tonnes of CO2 equivalent	
	FY19 unaudited	FY18 audited
Scope 1 – <i>direct emissions</i> from sources that the company owns or controls	740	710
Scope 2 – <i>indirect emissions</i> from electricity the company purchases and from electrical losses from electricity that naturally occurs as it passes through our network	13,100	16,340
Scope 3 – mandatory emissions from sources that the company doesn’t own or control	190	180
Total (excluding embodied)	14,030	17,230

We plan to audit our FY19 and FY20 emissions in early FY21. We achieved some small reductions in Scope 1 although this was offset by an increase in our reported SF6 emissions – refer target 4 below. Our Scope 2 reductions are primarily due to New Zealand using more renewable energy, which has reduced the emissions associated with electricity lost in transmission and used in our offices.

Connetics has measured its FY18 and FY19 emissions but these were not audited through the CEMARS process. Connetics’ FY19 emissions were approximately 1,900 tCO2e, slightly lower than in FY18.

Approximately 95% of Orion’s emissions were from electricity lost in transmission, and there are few options to reduce these emissions.

In FY20 we commissioned an independent investigation into options and costs to offset our emissions through forestry, and we have been investigating a number of options for emission reduction, including the use of biodiesel in our generators. We have also introduced a green waste scheme to divert organics from landfill and have encouraged video-conferencing as an alternative to travel.

We will continue to focus on emission reduction and offset initiatives in future years.

Performance statement – sustainability continued

2. Measure our electricity distribution network resource consumption footprint

Target date: Ongoing

Status: Achieved

Our aim is to understand the main resource impacts, from cradle to grave. We install, maintain, operate and decommission many network assets each year – such as poles, cables, substation equipment and network monitoring and control systems.

During FY20 we undertook a comprehensive review of many of our business assets to identify the information we have on their life cycle and determine where we can improve our knowledge and management.

This work confirmed that poles were a good candidate for detailed life cycle analysis (LCA) and we have engaged a consultant to produce an LCA report for our softwood, hardwood and concrete poles. We expect to receive this report during early FY21.

3. Comply with applicable environmental legislation

Target date: Ongoing

Status: Achieved

Our aim is to continue to improve our environmental management procedures, and to keep any significant Resource Management Act breaches to nil. We had no significant breaches of the Resource Management Act during FY20.

4. Keep annual SF6 gas losses below 0.8% per year

Target date: Ongoing

Status: Not achieved

We continue to search for safe, reliable and cost-efficient alternatives to SF6 as an interruption medium for our 66kV switchgear as SF6 is recognised as a greenhouse gas. Our losses in FY20 amounted to 0.86%. We have also engaged a contractor to assist us to manage and record our SF6 stocks, and this had led to improved recording of our actual losses.

5. Support initiatives that are good for our community’s sustainability

Target date: 31 March 2020

Status: Achieved

We continue to support these initiatives. In FY20, we:

- continued our 25 year involvement with Community Energy Action
- supported Bread & Circus, helping them to lower carbon emissions associated with their event
- supported the Department of Conservation with pest control initiatives on Banks Peninsula, which also reduces supply interruptions
- initiated the EV experience through the Canterbury Employers’ Chamber of Commerce.

Performance statement – sustainability continued

6. Encourage the adoption of electric vehicles around our region

Target date: 31 March 2020

Status: Partially achieved

New Zealand's electricity generation is largely renewable, so it makes sense to encourage EVs in our region. We have already installed 18 public chargers at our head office and a further 26 around our region to help reduce the risk of EV range anxiety. The Plugshare app shows the locations of our public chargers.

In FY20, our target was to install at least a further six public chargers around our region, to bring our total to at least 50. We did not add any additional chargers in FY20 but expect to add the planned six by 31 December 2020. We will be assisted with funding from EECA.

In partnership with the Canterbury Employers' Chamber of Commerce, during the year we implemented the Orion EV Experience, which allows businesses to use an EV for week at no cost. This has been very popular with businesses as they seek to understand the potential for EVs in their vehicle fleets. This initiative will continue in FY21.

We have also continued to investigate the impact of EV charging on our network, and in FY20 we modelled the capacity and voltage impacts of different home EV charging scenarios so as to better understand the likely impacts at different levels of EV uptake.

Performance statement – health and safety

1. No serious safety events involving our employees or our contractors

Target date: Ongoing

Status: Not achieved

This target covers Orion and Connetics. A serious event is defined as a notifiable event, as per section 25 of the Health and Safety at Work Act 2015. We are focused on continuous improvement of our safety management systems, especially preventing serious safety events.

We had one serious event during the year involving our employees, which did not result in an injury.

We employed 583 people across the group on average during the year.

Our contractors had three serious events during the year, two of which resulted in an injury. A trip by a contractor while working on scaffolding led to the replacement of a prosthetic hip joint. A contractor was assaulted by a member of the public resulting in a minor facial injury and a delayed concussion.

Investigations were undertaken for all events with corrective actions undertaken. Worksafe has not investigated the events further.

2. No serious events involving members of the public

Target date: Ongoing

Status: Not achieved

This target excludes car versus pole accidents, because it is not possible to ensure the completeness and accuracy of car versus pole accident data.

During the year there were two non-injury events (excluding car versus pole traffic accidents) involving members of the public (last year: no events). Investigations were undertaken for all events with corrective actions undertaken. Worksafe has not investigated the events further.

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

Target date: Ongoing

Status: Achieved

Our public safety programme covers issues such as tree owner responsibilities near overhead lines, close approach to lines with irrigators and other operators of plant, scaffolding near lines, householder maintenance near lines, digging near underground cables, moving high loads such as houses or large boats and safety and security near electrical equipment. We especially target contractors and their principals who, through their varied work activities, are exposed to significant hazards in the field.

We deliver our messages through our website, community shows and presentations to targeted groups and through regular media outlets such as local newspapers and radio.

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

Performance statement – health and safety continued

4. Review and improve how we manage our critical health and safety risks

Target date: 31 March 2020

Status: Achieved

We regularly review our health and safety risks and our risk treatments. New issues and risks can and do arise from numerous causes – for example, due to changes to our operating environment. We also review all significant health and safety events to assess our risk management effectiveness and to identify how we can improve.

We have commenced critical risk workshops to analyse and review our critical risks and associated controls with a focus on improving the effectiveness of those controls. This will be ongoing in FY21.

Performance statement – community and employment

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

Target date: Ongoing

Status: Achieved

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

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

As at 31 March 2020, six employees were in the Orion engineering development programme (last year: six).

2. Ensure that Connetics has sustainable industry competence via its apprentice and electrical training schemes

Target date: Ongoing

Status: Achieved

Electricity distribution networks are complex (and increasingly so given technological change), so having relevant employee competence is vital for Orion, Connetics and the wider industry.

As at 31 March 2020, Connetics employed 29 apprentices and 11 other employees in training to gain industry qualification licences (last year: 34 apprentices and 4 others in training). Apprentices are employed in the following areas:

- 19 electrical – including substations, street lighting and wider electrician units
- 15 multi skill – overhead lines and underground cables.

3. Establish a formal programme for secondary and tertiary students to gain work experience at Orion

Target date: 30 November 2019

Status: Achieved

Our objectives for this programme have been to help local students (mostly during their holidays):

- learn about our industry, business and career options
- gain valuable work experience
- consider Orion as a future employer.

We have taken on students during the summer holiday period and are in the process of developing a formal graduate programme.

4. Support the wellbeing of employees

Target date: Ongoing

Status: Achieved

This target covers Orion and Connetics employees. Each company aims to have a wellbeing support programme that is appropriate to that company's context. An important component is employee engagement on design and improvement. Another important component is that each employee is primarily responsible for their wellbeing – however we endeavour to support that wellbeing in reasonably practicable and creative ways.

Audit New Zealand independent auditor's report



Independent Auditor's Report

To the readers of Orion New Zealand Limited group's financial statements and performance statements for the year ended 31 March 2020

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 statements of the group on his behalf.

Opinion on the financial statements and the performance statements

We have audited:

- the financial statements of the group on pages 33 to 60, and page 78, that comprise the statement of financial position as at 31 March 2020, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance statements of the group on pages 61 to 69.

In our opinion:

- the financial statements of the group:
 - present fairly, in all material respects:
 - its financial position as at 31 March 2020; 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 statements of the group present fairly, in all material respects, the group's achievements measured against the performance targets adopted for the year ended 31 March 2020.

Our audit was completed on 30 June 2020. This is the date at which our opinion is expressed.

The basis for our opinion is explained below, and we draw your attention to the impact of the COVID-19 pandemic. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements and the performance statements, we comment on other information, and we explain our independence.

Emphasis of Matter – COVID-19 pandemic

Without modifying our opinion, we draw attention to notes 11 and 20 to the financial statements, which explain the impact of the COVID-19 pandemic on the group. Note 11, on page 50, details the increased uncertainty due to the impact of the COVID-19 related to estimating the fair values of Network assets. Note 20, on page 59, also details the impact of COVID-19 on the group's business activities, network reliability measures, and potential impacts on the group's future financial performance and position.

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 statements

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

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

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

In preparing the financial statements and the performance statements, 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 statements

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance statements, 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 statements.

Audit New Zealand independent auditor's report continued

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

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 statements, 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 statements 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 statements 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 statements, including the disclosures, and whether the financial statements and the performance statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial statements of the entities or business activities within the group to express an opinion on the group's financial statements and performance statements. 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 2 to 32, 72 to 77, and pages 79 to 82, but does not include the financial statements and the performance statements, and our auditor's report thereon.

Our opinion on the financial statements and the performance statements 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 statements, 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 statements 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 (Revised): 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 2015) and the Electricity Distribution Services Default Price-Quality Path Determination 2015, which are compatible with those independence requirements. Other than the audit and these 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	<u>10.725%</u>
	<u>100.000%</u>

Principal objective and principal activities

In accordance with section 36 of the Energy Companies Act 1992, the group's principal objective is to operate as a successful business. The group's principal activities during the year were to provide electricity distribution 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 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.

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 activities. 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 appoints one director. 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 chief executive officer and through the CEO, the senior leadership team.

Board meetings

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

Governance continued

Board committees

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

- the audit committee liaises with the company's independent internal and 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 remuneration committee reviews the company's remuneration policies and practices, and it recommends and sets the remuneration of the company's chief executive officer and his direct reports respectively.

The following directors served as standing committee members during the year ended 31 March 2020:

Audit committee

Bruce Gemmell – chair
John Austin
Jane Taylor
Nicola Crauford – to 16 September 2019

Remuneration committee

Geoff Vazey – chair
Jason McDonald
Jane Taylor

Performance management

The board reviews the group's, the board's and the 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 significant risks, consistent with good industry practice and the international risk management standard ISO 31000: 2018. The board oversees and reviews the group's overall risk context and risk management.

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.

Social responsibility, sustainability and people

The group aims to:

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

The group is a socially responsible and equal opportunities employer and aims to have an inclusive environment where diversity is valued and embraced. Health and safety is everyone's responsibility. The group aims to have safe worksites and a safe network – for employees, contractors, visitors, customers and the wider community. The group aims to attract, retain, develop and motivate high calibre employees at all levels – to support the group's principal objective to operate as a successful business.

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

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 \$41,360 of donations to charitable causes in the year ended 31 March 2020 (2019: \$15,000).

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 2020:

Connetics Limited	Rob Jamieson (chair), Vaughan Hartland, Brendan Kearney, Jason McDonald and Geoff Vazey
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

Boards should set high standards of ethical behaviour and hold management to account to deliver those standards throughout the organisation.

Boards should have a balance of skills, knowledge, experience, independence and perspectives.

Boards should use committees where this will enhance its effectiveness in key areas, while still retaining board responsibility.

Boards should require integrity in financial and non-financial reporting, and timeliness and balance of corporate disclosures.

Director and executive remuneration should be transparent, fair and reasonable.

Orion relative to the FMA principle

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.

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 charter specifies the terms of reference and delegated authorities for the audit and remuneration committees. Both committees are chaired by a director other than the board chair. The board may also establish committees for other specific tasks – but this happens relatively rarely. 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 scrutinises internal and external reporting and liaises closely with the company's independent auditors to ensure integrity in reporting. In late 2018, the board approved a three-year 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 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 2020. 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 remuneration committee oversees the chief executive officer's, 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 performance.

Governance continued

Financial Market Authority's good governance guidelines continued

Boards should know the key risks faced by the business, and should regularly verify there are appropriate processes to identify and manage these.	<p>The board receives regular reports on and reviews the company's:</p> <ul style="list-style-type: none"> • risk context and key risks – which include natural disasters (especially a major earthquake), health and safety, cyber security, climate change, critical network equipment failure and global pandemic • risk treatments – including risk reduction and risk transfer (insurance).
Boards should ensure the quality and independence of external audits.	<p>The board and the board audit 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.</p>
Boards should respect the rights of shareholders and foster constructive relationships with shareholders and stakeholders.	<p>The board charter requires this principle and the group's statement of intent also commits the group to this. The board chair and the chief executive officer 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 aims to operate on a proactive 'no surprises' basis with its shareholders and key stakeholders.</p>

Governance continued

Interests register

Directors recorded the following in the interests register during the year ended 31 March 2020:

John Austin			
Thomas Austin Securities Limited			Director and shareholder
Nicola Crauford		To 17 September 2019	
Chorus/Visionstream UFB Connect – governance board			Director
Co-operative Bank Limited – electoral authority			Member
Environmental Protection Authority			Director
Fire and Emergency New Zealand			Director
GNS Science and subsidiaries/associates			Director
OMV Great Southbasin marine discharge consent application			EPA decision committee
Riposte Consulting Limited			Director and shareholder
Watercare Services Limited			Director
Bruce Gemmell			
ATT Trustee Limited and subsidiaries/associates			Director
Christchurch Symphony Foundation Trust			Trustee
Destination Westland Limited		From 13 January 2020	Director
Fortress Information Systems Limited – advisory board			Member
Gemmell Finance Limited			Director
Gemmell Group Limited			Director and shareholder
Highlanders GP Limited			Director
Lincoln University			Chancellor
Lincoln Argitech Limited		From 28 May 2019	Director
Lincoln University Centennial Trust			Trustee
Lincoln University Foundation Trust			Trustee
Miramar Consolidated Limited			Director
Planz Consultants Limited			Director
Second Little Pig Was Right Limited			Director and shareholder
Jason McDonald			
Mevo Limited			Director and shareholder
Red Bus Limited			Director
Scots College Wellington – board of governors			Member
Top Energy Limited		From 17 June 2019	Director
Jane Taylor			
Aspen Institute New Zealand Limited			Director
External Reporting Board (XRB)			Board member
Landcare Research New Zealand Limited			Director
OTTP New Zealand Forest Investments Limited			Director
Port Otago Limited and subsidiaries		From 10 June 2019	Director
Predator Free 2050 Limited			Director
Radio New Zealand Limited		To 30 April 2019	Director
Silver Fern Farms Limited and subsidiaries			Director
Tassenberg Limited			Director and shareholder
The Aotearoa Circle			Guardian
Geoff Vazey			
Consult GV Limited			Director and shareholder
Cook Islands Port Authority			Director
HEB Construction Limited			Director

Governance continued

	Orion \$000	Connetics \$000
Directors' remuneration		
John Austin	50	-
Nicola Crauford – to 17 September 2019	25	-
Bruce Gemmell	56	-
Jason McDonald	49	20
Jane Taylor	97	-
Geoff Vazey	52	20
	<u>329</u>	<u>40</u>

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 board approves the chief executive officer's employment terms and conditions and the board remuneration committee approves those of the chief executive's direct reports. Three collective employment agreements cover approximately 36% of the group's employees.

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

\$000	2020	2019	\$000	2020	2019
100 - 110	66	54	240 - 250	-	1
110 - 120	60	47	250 - 260	-	2
120 - 130	24	34	260 - 270	2	1
130 - 140	30	26	270 - 280	1	-
140 - 150	19	12	280 - 290	-	1
150 - 160	9	14	300 - 310	1	-
160 - 170	9	10	320 - 330	-	2
170 - 180	4	4	330 - 340	3	1
180 - 190	6	2	370 - 380	1	-
190 - 200	1	-	430 - 440	2	1
200 - 210	1	2	450 - 460	1	-
210 - 220	-	2	470 - 480	-	1
220 - 230	2	2	670 - 680	-	1
230 - 240	2	-	700 - 710	1	-

The board determines the chief executive officer's remuneration, after taking independent expert advice and considering relevant market data. The board reviews the chief executive officer's remuneration annually. Mr Jamieson's total remuneration was \$708,000 in the year ended 31 March 2020 (2019: \$675,000). Mr Jamieson's employment agreement has no deferred payment component.

Five-year trends

	2020 \$m	2019 \$m	2018 \$m	2017 \$m	2016 \$m
Statement of comprehensive income					
Operating revenue	308	326	322	310	307
EBIT	74	81	84	80	86
Profit before income tax	60	66	74	71	74
Net profit	48	48	53	52	53
Other comprehensive income	4	-	-	16	-
Total comprehensive income	<u>52</u>	<u>48</u>	<u>53</u>	<u>68</u>	<u>53</u>

Statement of financial position

Current assets	27	28	26	23	22
Non current assets	1,216	1,181	1,156	1,134	1,100
	<u>1,243</u>	<u>1,209</u>	<u>1,182</u>	<u>1,157</u>	<u>1,122</u>
Current liabilities	48	48	46	44	42
Current borrowings	102	1	54	37	1
Non current borrowings	228	302	221	212	227
Deferred tax liability	178	186	188	187	187
Other non current liabilities	16	6	2	4	5
Shareholders' equity	671	666	671	673	660
Total liabilities and shareholders' equity	<u>1,243</u>	<u>1,209</u>	<u>1,182</u>	<u>1,157</u>	<u>1,122</u>

Statement of cash flows

Operating cash flows	93	97	109	100	103
Investing cash flows	(68)	(72)	(79)	(67)	(91)
Financing cash flows	(25)	(25)	(29)	(33)	(12)

Financial measures

Dividends paid	47	53	55	55	63
Share buy-back	-	-	-	-	90
Net profit to average shareholders' equity %	7.2	7.2	7.9	7.8	7.5
Net interest bearing debt to debt-plus-equity %	33	31	29	27	26

Other measures

Electricity maximum demand (MW)	610	587	633	599	618
Electricity deliveries into the network (GWh)	3,419	3,317	3,309	3,227	3,296
Number of customer connections (000)	208	204	201	198	195

Directory

Directors

Jane Taylor – chair
John Austin
Bruce Gemmell
Jason McDonald
Geoff Vazey

Leadership team

Rob Jamieson
Group Chief Executive Officer
Jono Brent
Group Transformation Lead
Paul Deavoll
GM Customer and Stakeholder
David Freeman-Greene
GM Commercial
Vaughan Hartland
Chief Financial Officer
Brendan Kearney
GM Governance and Risk
Craig Kerr
GM Information Solutions
Steve Macdonald
GM Infrastructure
Andy Miller
GM Quality, Health, Safety and Environment
Sue Teague
Executive Assistant
John Thompson
Connetics Acting Chief Executive Officer
Karen Wiese
Strategic Programme Lead
Nikki Woosnam
GM People and Capability

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Auditor

Audit New Zealand, on behalf of the Auditor-General

Other sources of information

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

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12 & 13 Various Orion people, most by Dean MacKenzie
18 Powerful Conversations workshop, by Dean MacKenzie
20 Calum Scott, Network Operator, by Dean MacKenzie
22 Puppy, courtesy of SPCA
24 Malcolm Amyes, Leeston, by Dean MacKenzie
26 Tom Smith, Reticulation Works Mgr, by Dean MacKenzie
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