Orion

Orion New Zealand Limited
Annual Report 2021

2021

“I just want the future to be normal, because they say that when I’m going to be 20, it could be really bad.”

Cover: Frankie Hanssen, age 10

Contents

Highlights

Financial

$169m

electricity distribution revenue
$16m below last year

$33m

profit after tax
$15m below last year

$84m

group capital expenditure
$9m above last year

$1,281m

group assets
$38m above last year

$71m

network operating expenses
$5m above last year

$30m

fully-imputed dividends
$17m below last year

Network

211,600

customer connections
4,100 above last year

3,384

gigawatt hours of electricity delivered
35 below last year

629 MW

network maximum demand
20 above last year

57 minutes

network outage duration per customer
10 below last year

Community

$400,000

supporting community activities

14,440 tCO_2e

16% reduction in our carbon footprint from 2018

TOP 20%

within industry for safety

1,000

customers gave their views on our performance via formal research

Chair's Report

We're at the start of the most exciting chapter in our history.

Jane Taylor, Chair

Tēnā koutou.

This has been a significant year in the life of the Orion Group. COVID-19 challenged so many businesses and I'm proud of how we adapted and developed creative solutions to ensure the power stayed on and people could go about their daily lives, as difficult and different as that often was.

As an essential service provider, maintaining service to the community was vital and I would like to extend the Board's thanks to the Orion and Connetics' teams who worked without hesitation through the lockdown, many at personal risk to themselves and their families to keep our community safe and functioning. It was an extraordinary 12 months for us as we faced unprecedented changes in our world and developed our new Group Strategy.

The next chapter in our history

The Orion Group has been at the forefront of utility reliability and resilience in Aotearoa/New Zealand for more than 20 years. We have set the standard for a safe, reliable and resilient electricity network and are very proud of that foundation. But being a safe, reliable and resilient network is not where our story ends. It's the prequel for the next chapter in our history.

At a time when the world is facing challenges and disruption on an extraordinary scale, we have grasped the opportunity – and the responsibility – to step up and play our part. To explore the possibilities beyond our traditional role. This year we made a bold start on this journey by charting an exciting, vibrant future for the Orion Group with our new Group Strategy.

At its heart, our Purpose to *Power a cleaner and brighter future for our communities* indicates our commitment to confronting the climate emergency. The solutions offered by the energy sector are clear and within reach and the Orion Group is ideally positioned to be a catalyst and facilitator of the enormous change that is required.

In July we published our first Climate Risks and Opportunities report, the first electricity distribution company in New Zealand to do so. It outlines what we are doing to reduce our carbon footprint and prepare our network to be ready for a future that will bring more extreme climate events. I'm proud that in December we announced our pledge to achieve carbon neutrality for our corporate emissions by June 2022, the first electricity company in New Zealand to commit to this ambitious target.

We have a vital role to play and want to leave a legacy for future generations that is much greater than simply keeping lights on.

For an electricity network operator and service provider like the Orion Group, the projected uptake in electricity usage as New Zealand decarbonises is a huge opportunity — but only if we respond in a way that meets our customers and our community's expectations, preferences and needs and which embraces new technologies and innovation.

The Government has set out ambitious and necessary goals if we're to get serious as a nation about transitioning to a low emissions economy. Our new Orion Group Strategy starts us on the journey to do our part. We have no appetite to be bystanders on this journey. We have a vital role to play and want to leave a legacy for future generations that is much greater than simply keeping lights on.

Welcome to our new board member
In August we welcomed a new board member, Sally Farrier, who brings 20 years' experience as a non-executive director with specialist expertise in economic regulation and governance of energy, utilities and infrastructure. She also provides a Trans-Tasman perspective as director of an electricity transmission and distribution network in Victoria, Australia.

Appointment of new Group Chief Executive
Rob Jamieson's decision to step down as CEO after 26 years with Orion marked the end of an era and the board would like to thank him for steadfastly guiding the company through the post Canterbury earthquakes challenges and a period of sustained improvement in network reliability and resilience.

We'd also like to thank our Interim Group Chief Executive, Jono Brent, and our leadership teams for maintaining the Group's focus and momentum until our new Group Chief Executive, Nigel Barbour takes up the role on 1 July 2021. We look forward to Nigel bringing fresh impetus to the Group's evolution and leadership to bring the Group Strategy to life.

Our evolutionary journey
I would like to extend my thanks to the Orion Group Board, the leadership teams, and everyone in the Orion Group for their commitment to the demanding journey that led us to our new Group Strategy. We've had some tough conversations along the way about what we are here for, how we can add value to our community, and why our need to change is necessary. The outcome is all the better for it.

Our financial performance
Throughout what has been a challenging year for the Orion Group and our customers, the call on our energy services remained steady and we were fortunate to have achieved another year of solid financial performance.

Excited about our future
By giving life to our Purpose the Orion Group can be a major force in not only achieving our vision to lead progress, sustainability, and livability across our region but to continue to enable New Zealand to achieve its aspiration to transition to a low emissions economy.

We're at the start of the most exciting chapter yet in the history of the Orion Group, and I am full of hope and the belief that we can make the world better for future generations.

Ngā mihi nui,

Jane Taylor
Chair

Interim Group Chief Executive's Report

Taking challenges and change in our stride

Jono Brent, Interim Group Chief Executive

Tēnā koutou.

Over the last twelve months I've had the privilege of being Connetics' Chief Executive, Orion Group Transformation Lead and Interim Orion Group Chief Executive. This has given me a unique vantage point on the year.

Wherever I look, I see an invigorated team absolutely committed to two things. I see a dedication to providing our community with the safe, reliable and resilient electricity service they depend on, and an air of challenge and change as our people look to make a broader contribution to our community.

Operating under COVID-19

The Orion Group has a proud history of dealing with emergencies. As a lifeline utility, the Group's vigilance in managing its operations during the COVID-19 pandemic has been vital.

During lockdown, and throughout the subsequent levels, the Group instituted extra layers of protection for our people and business operations to ensure the power remained on and everyone in the community could go about their daily lives.

COVID-19 presented new challenges and opportunities to employ creative solutions and exercise agility in swiftly changing circumstances.

We are proud that throughout all alert levels, Orion continued to operate a safe and reliable network, and provide reassurance to the community that there was no heightened risk to the supply of power. We achieved this while connecting a record number of 4,100 new customers.

COVID-19's impacts on overseas manufacturers and shipping issues continue to delay the arrival of key components, impacting project timelines and creating uncertainty in our planning. We are also seeing an increase in component costs and are adjusting some of our projects' scope and budgets to accommodate these.

With some judicious adjustments, by year's end I am pleased to report Orion had largely completed its scheduled programme of maintenance and network development work, except for two major projects which we carried over to the next financial year.

Igniting the imagination of our people

A key achievement this year has been the progress we've made in bringing our people on board with the new Group Strategy.

I see a dedication to providing our community with the safe, reliable and resilient electricity service they depend on, and an air of challenge and change as our people look to make a broader contribution to our community.

There is general understanding of the need for change and eager anticipation of new initiatives to bring it to life. Across the Group we have invested in programmes to inspire our leaders and develop their leadership capability.

We're also trialing new ways of working, encouraging collaboration across the Group and with our colleagues in Christchurch City Holdings Limited (CCHL). Through Te Whāriki, 'The Woven Mat', a new online opportunities platform, people from across the CCHL group have shared skills and interests, taken up mentoring opportunities and contributed to 68 projects ranging from Connetics and Citycare knowledge-sharing on the installation of lighting tower foundations for a roading project, to bringing together participants in Wāhine tū tahi, wāhine kaha, CCHL's Women and Leadership Series.

As with any major change in direction and way of thinking, building a new, future-fit culture across the Group takes time, and while it continues to be a work in progress we are already reaping benefits in openness to new ideas, experiencing new flexible ways of working and being more agile.

Energy Academy
I've been proud to see our instigation of the Energy Academy hit its stride this year. Together with other industry partners the Academy is reimagining the system of human capability development in the energy sector, to ensure it has the capability it needs for a sustainable future.

Playing a bigger part in our community
In the past we've been happy to operate "behind the scenes", but *Powering a cleaner and brighter future for our communities* requires us to take on a bigger role, so we are stepping out to become more involved in our community in a variety of ways.

Feedback through Orion's Customer Survey helped us understand people would prefer to see us supporting "grass roots" activities in the local community rather than large "corporate style" events and venues. Our long standing support of Community Energy Action sits squarely in this space, and this year we're proud to have helped 450 of our most vulnerable customers' homes to be warmer, healthier and more energy efficient.

New this year, Orion's Community Fund Sponsorship programme provides support for the community organisations our people are part of and has provided practical assistance to 25 community organisations, ranging from gardening gloves for volunteers to Canterbury Community Gardens Association to funding a de-sexing programme for Christchurch Bull Breed Dog Rescue. Connetics' long standing support of secondary school football and hockey leagues helped young people resume playing their favourite sports in a new and safe format later in the year.

We're fronting up to more community group meetings than ever before, and engaging with those affected by our projects, at street level. These day to day interactions, and our lively Customer Advisory Panel discussions help keep us grounded in what's important to our community. They also contribute to our decision making, from how to best divert traffic while we do our work, to which United Nations Sustainable Development Goals we should focus on.

Health and safety
Health and safety are always top of mind for us, and throughout the year we maintained our unrelenting focus on ensuring the wellbeing of our people, our service providers and the public.

While we did not have any events that resulted in serious injuries during the year, we conducted investigations into five notifiable events to uncover what we could have done better, to avoid these happening in future. Ensuring our people can undertake their work safely continues to be priority for us, and we are building the learnings into our operational practices.

It has been an invigorating year in which we successfully adapted to unprecedented challenges. At the same time, across the Group we have proceeded at pace in our transformational journey to bring our new strategy to life. I am confident we are on the right path to deliver on our communities' needs, now and into the future.

Nāku, nā,

Jono Brent
Interim Group Chief Executive

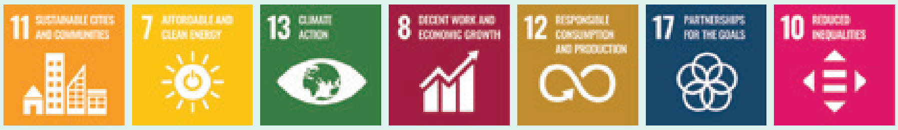
The Orion Group

Orion

connetics
ALL WAYS CONNECTING

ENERGY
ACADEMY

Orion Group Strategy

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

Climate change is recasting the vital role the energy sector plays in sustaining our world. With growing urgency, communities are looking for ways to use clean energy sustainably and wisely. At the same time, people are seeking greater flexibility and control over how they manage their energy needs. For the Orion Group, this offers exciting new possibilities. We have challenged ourselves to consider how the Orion Group needs to adapt to continue to deliver value for our community and proactively harness opportunities in this fast-evolving energy landscape.

As New Zealand transitions to a low-carbon economy, the energy sector has a critical part to play. Orion Group has established its Purpose to ensure it is a vital player in that transition for our community, our region and New Zealand. We developed our new Group Strategy to respond to the challenges facing our industry and New Zealand, and to position the Orion Group for a new, purpose-led future.

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

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

Sustainable Development Goals
Our key stakeholders helped us choose the seven United Nations Sustainable Development Goals most relevant to Orion Group, and where we could have the most impact.

Impacts
We aim to make a clear, measurable long-term impact in three areas:

- **Strategic Leadership** – we will expand and harness capabilities across the Group to deliver on our Purpose in a dynamic and complex environment.
- **Regional Prosperity** – we will lead our region through an equitable transition to a carbon neutral economy. We will become a catalyst for economic and social development for the region.
- **Sector Transformation** – we will collaborate with others to ensure the sustainability and viability of the electricity sector. We will transform the way our industry develops capability.

Strategic themes
Our Group Strategy is focussed on five themes to fulfil our Purpose:

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

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

Our Enablers
The building blocks that will enable us to achieve our Group Strategy.

New homes in Christchurch are making better use of New Zealand's renewable energy.

Re-imagining our Future Network

We are focussed on how our network can be re-configured and engineered into one that provides the services our customers need in a changing energy landscape.

Our Future Networks Programme began in earnest mid-year to facilitate Orion's transition to a distribution system operator.

Traditionally, power distribution networks have provided a one-way, linear flow of electricity from the source to individual households and businesses. Technologies such as solar panels and batteries now give consumers choices in how they source, store and share power.

Orion has begun the process of preparing its network to enable people to manage their power and de-carbonise their consumption in whatever way they choose.

We've taken our first steps in facilitating this greater consumer flexibility with two major projects.

Low voltage monitoring underway
Orion is installing new equipment in Christchurch residential areas that enables us to monitor the use of power in near real time, at street level. This low voltage monitoring will sample power flows and voltage at 10 minute intervals, generating a wealth of data that will allow us to see and respond to changes of activity on the network.

Having visibility of how our network is being used at this granular level will also help us provide customers with a more flexible, dynamic range of choices for managing their energy needs.

Scenario planning
To help identify where to install this monitoring and guide our future network investment, we have undertaken scenario planning to identify those areas in our network that could be vulnerable to changes in usage patterns.

With greater "eyes on" our network, our network planning and operation will have a stronger focus on customer needs at a neighbourhood level.

Orion has begun the process of preparing its network to enable people to manage their power and de-carbonise their consumption in whatever way they choose.

210

LV monitors installed, covering 16,000 customer connections

Eyes on our network

Future Networks Strategic Lead Dayle McDrury has seen it all, literally. He's been with Orion for 10 years and was our Control Centre Manager before taking up his new role. Seeing everything major that happens on our network, Dayle is acutely aware of the importance of having good visibility of events down at street and premise level.

"We need to know what's happening with energy use at a micro level, to be ready for a time in the not so distant future when we reach a critical mass of people who adopt new technology to consume, store and share energy.

"It has huge bearing on our network strategy and investment if big numbers of EVs are taken up in a particular area, or someone wants to share energy with their neighbours.

"How do we continue to provide a reliable and affordable network while incorporating increasing levels of solar panels, batteries and EVs at the edge of our network?"

These questions might not keep Dayle awake at night, but charting Orion's Future Network Strategy does stimulate his days as he leads the programme to ensure Orion continues to meet its customers' needs.

Above:
Dayle McDrury

Customer Inspired

We are focussed on ensuring we engage with our customers in our decision making, and actively seek out new systems and services to provide an exceptional customer experience.

As new technology creates more choice for customers and people increasingly look to decarbonise their lives, the services the Group provides are becoming more diverse.

At the same time, people want simple and easy interactions with their service providers and want us to recognise who they are when they call, know what was said in our last conversation, and have good visibility of how they use our services.

Building the foundation for improved customer service

With more than 211,000 customers, each with differing needs, Orion has started its journey to establish the foundations of a new Customer Relationship Management tool (CRM). This technology, informed by a deep understanding of what our customers want from us, will help us put their needs at the centre of our operations and provide a high level of service in a more complex future.

Customers are increasingly reliant on their electricity supply, and tell us they want to hear more from us when power isn't going to be available, so they can plan ahead. Building off the establishment of a CRM, Orion has worked with customers to co-create and pilot a facility to subscribe to planned power outage notifications via text or email for work on the network directly impacting them.

As outage work progresses, we will keep subscribed customers informed of outage timeframes, changes to work and restoration of power. When outages on our network are necessary, this will allow customers to better plan their personal and working lives.

Customer satisfaction high

We were pleased to find our annual customer satisfaction research again revealed high trust and confidence in Orion and how we manage our network.

Key results show 96 per cent of residents are satisfied with the reliability of their power supply; 84 per cent agree Orion carries out its duties very well and of the organisations evaluated, Orion is the second most trusted organisation in the region, after Fire and Emergency New Zealand.

There's always room for improvement, and we will be extending our interaction with the community to hear more of what they expect from us, and how they would like us to prepare for a very different energy future.

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55,000

calls, conversations, and personal contacts with our customers

Good conversations at A&P shows

Getting out of the office and talking with everyday people who rely on electricity gives us the chance to get some great ideas for how we can improve our service. Lloyd Clausen, our Public Safety Advisor, has been setting up the Orion Marquee at local A&P shows and Field Days for 10 years, and reckons there's no better way to connect with our rural customers.

"There's always plenty to talk about. It's a relaxed atmosphere and we get the chance to talk about any service issues, what's coming up with local network development projects and how things such as the drought are affecting the local community.

"It's a chance for us to hear what's on people's minds and speak about safety around power lines."

At this year's Field Days in Kirwee we set up a power line with a tractor mounted post driver to show just how easy it can be for farmers to "come a cropper" with our power lines.

"It was amazing how many people hadn't thought about that as a big safety issue, and the set-up was a graphic reminder of the dangers."

Above:
Lloyd Clausen

New 66kV electricity cables are being laid by Connetics to a new substation in Belfast to service growth in the north of the city.

Lead and Grow

We aim to be a forerunner in our field, providing strategic infrastructure leadership that contributes to the development of our industry, in an evolving energy future.

Orion has consistently rated amongst the top electricity distribution businesses in New Zealand for the reliability of its network, safety of the public and its teams, customer satisfaction and for our leadership in asset management policy and practices.

We are never complacent about being a forerunner in our field. Across the business, we're challenging traditional ways of working and have a culture of continuous improvement.

Changing the way we manage our projects

This year we are changing the procurement model for work on our network. Our new model will incentivise key areas of sustainable procurement such as quality, safety and capability development. Our service provider's achievements in these key areas will drive efficiency and sustainability over the long term.

We will use Connetics as our Primary Service Delivery Partner to plan and procure the delivery of work from Connetics or a number of other service providers through a dedicated Project Management Office (PMO). The PMO's aim is to deliver our works in a way that is more sustainable for our industry, and in the long term interests of our customers.

Industry first upgrade

Increasingly, we are using data, digitisation and automation to operate more efficiently and deliver service improvements for our community.

Orion manages its network with real-time network information via an Advanced Distribution Management System and will be the first electricity distribution business in New Zealand to upgrade to GE's PowerOn Advantage later this year.

This upgrade will deliver increased reliability, productivity and efficiency with the capacity for automated switching to "self-heal" the network when outages occur, substantially reducing the time customers are without power, down from sometimes 30 minutes to just one minute.

The savings we make as a result of improving the efficiency of the Group's operations will translate into greater affordability for our customers.

Customer numbers continue to grow

Sustained growth in Orion's customer numbers with more than 4,100 new connections this year continues to stimulate the expansion of our network.

Connetics too has expanded its operations through its new depot in Cromwell, with a team of 40 working on network maintenance and upgrades for Electricity Distribution Businesses in the southern region.

With every new network development project, the Group looks for ways to increase the reliability, resilience and efficiency of its operations.

In the transition to a low carbon economy, cost is a key factor. The savings we make as a result of improving the efficiency of the Group's operations will translate into greater affordability for our customers.

3rd largest

electricity network in New Zealand by customer numbers

Connetics establishes new depot in Cromwell

Connetics' new depot in Cromwell proves getting closer to your customers literally, pays off. The team is working with Aurora Energy as it embarks on a programme of significant investment in its network which supplies electricity to 91,000 homes, farms and businesses in Dunedin, Central Otago and Queenstown Lakes.

Connetics' Interim Chief Executive John Thompson says being on the ground, close to customers is important.

"Being there, living locally as part of the community gives us a much better understanding of the local environment and conditions. It also helps build good working relationships.

"Being down the road means you can respond quickly to changes in plans and have a much better feel for what's needed. It is great to be working with Aurora and be part of a major network upgrade."

Above:
John Thompson

Members of the Connetics team
connecting in their office at Islington.

Accelerating Capability

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

New Zealand's energy sector is changing and with it the need to develop future capabilities that are flexible and adapt as new technology and our community's needs evolve.

Developing a concerted approach to industry capability

Through a new initiative called the **Energy Academy**, Orion Group is stepping up to be part of changes in capability development to ensure people in our industry are "match fit".

In collaboration with local and national partners across the industry, the Energy Academy is introducing new ways of training and capability development and creating a shared and collaborative industry approach.

Orion Energy Accelerator calls for big ideas

Now more than ever, we need innovative approaches to decarbonising New Zealand - to do it faster, smarter, and get more minds onto this challenge. There are many talented people with ground-breaking thinking in the energy space we'd like to help succeed. To make that happen, in March, Orion Group and The Ministry of Awesome teamed up to launch the **Orion Energy Accelerator**, a national competition calling for new ideas to reduce New Zealand's carbon emissions. The Accelerator offers two grants to the most promising energy start-ups who'll be guided through a programme to validate and commercialise their energy innovations through 2021.

Expanding our own capabilities

A priority for the Orion Group is to energise our leaders, encourage them to be agile, to approach the way they do things differently and to think beyond their current horizons.

To inspire and develop their leadership capability, 68 people leaders from across the Group participated in a nine day programme to equip them with the skills and tools they need to confidently lead our people on the organisation's evoluntionary journey.

To develop as a Group, we've also come to recognise the importance of fostering a more diverse and inclusive workplace. That's why this year we established the Orion Inclusion Council. Our people have enthusiastically supported the Council's cultural celebrations, and taken part in challenging conversations addressing unconscious bias.

A priority for the Orion Group is to energise our leaders, encourage them to be agile, to approach the way they do things differently and to think beyond their current horizons.

Online tools stimulate connection

A critical element of building our capability and motivating cultural change has been the adoption of new online communications tools to share ideas, stimulate conversations and make connections.

Our adoption of a new online resource sharing platform, **Te Whāriki**, has enabled CCHL organisations to post large-scale and micro projects, knowledge sharing sessions, mentoring and other development opportunities to optimise Group capability and provide our people with ways to contribute outside the sphere of their own entities. Te Whāriki is now being used by the majority of CCHL companies and is contributing to a more collaborative group culture, and promoting smarter ways of working for all entities.

Our launch of **Workplace** from Facebook has revolutionised internal communications. Our people have enthusiastically embraced the platform, and Workplace is now the leading online internal communications tool for the Group. Its easy, immediate and interactive nature has helped build an internal community by getting people to talk and share news and views on everything from group strategy to adored pet antics.

3,400

Workplace posts since launch in FY21

Leadership development programme boosted my effectiveness

Correna Rodrigues helps lead our Customer Support team of 14 who work 24/7 and respond to more than 2500 customer calls a month. People often call us in times of stress, so it can be a challenging role. She found the leadership development programme strengthened her work relationships and personal development as a leader.

“I learnt that the magic often happens outside of our comfort zone. We were called to be authentic and vulnerable. Speaking up in the group was a big one for me.

“The programme really gave me the confidence to help coach and empower the team, so they are in the best position to assist our customers and our colleagues.

“There isn’t a day that goes by where I don’t use some of the skills I gained there, both professionally and personally.”

Above:
Correna Rodrigues

Clayton Wallwork, our Forest and Biodiversity Lead, planting a native tree as part of our carbon off-set programme.

Powering the Low Carbon Economy

We are a passionate advocate for clean energy, and a proactive enabler of those seeking help to reduce their carbon footprint through more efficient use of low carbon energy sources.

The electricity sector has a key role in supporting New Zealand's transition to a low carbon economy. At the Orion Group our commitment to helping our customers make the most of this country's low carbon energy source is fundamental to delivering on our Purpose and Group Strategy. We've challenged ourselves to respond with urgency to the climate change emergency and help others on the journey to reduce their carbon footprint.

Climate change impacts

The need to understand more about the impacts of climate change on our operations prompted us to produce our first report on the climate change opportunities and risks for Orion this year. The report provides our community with an understanding of how climate risks and opportunities might impact our business and what we are doing to prepare for a changed future. It is the first step in our journey to assess the impact of climate change on Orion and it is the baseline by which we will measure our future efforts.

Walking the talk on climate action

Holding ourselves accountable for action that is both urgent and game-changing drove us to commit to achieving carbon neutrality for the Orion Group's corporate emissions by June 2022. We are the first electricity company in New Zealand to commit to this ambitious target.

To meet the target, the Group is implementing initiatives to reduce its corporate emissions such as those from vehicles and buildings and investing in natural climate initiatives that will provide carbon offsets.

We will plant more than 200 hectares of native forestry in our region. While this takes time to be planted and grow, we will purchase carbon reduction units associated with New Zealand and international carbon reduction projects.

These nature-based solutions have additional benefits by encouraging biodiversity, providing environments for our native insect and bird wildlife, and helping with fire and erosion control.

We will be creating places for future generations to use for recreation and wellbeing and that is a win all round.

We will plant more than 200 hectares of native forestry in our region.

More chargers to overcome EV range anxiety

We bolstered the public EV charging network in our region's rural areas with 9 more EV chargers, either installed by us or in partnership with others.

This brings the number of public EV chargers the Orion Group supports to 35 and adds welcome confidence to EV motorists traveling around Dunsandel, Lincoln, Springfield, Castle Hill and Arthur's Pass.

Helping businesses reduce their carbon footprint

The Orion Group is also helping local government and businesses to reduce their energy consumption and switch to clean energy sources. Connetics' work for Christchurch City Council to replace 29,000 of the city's sodium vapor street lights with LED lamps is one example. This work is expected to save more than 60 per cent of the power used by Christchurch's street lights each year.

320 tco2e

carbon emissions avoided using our EV chargers

Generators run on chip fat

Our 15 generators are life-savers when the power goes out in an emergency but aren't doing great things for the planet as they run on diesel. Thinking outside the square, Zain Kader, Sustainability Project Engineer and Daniel Freeman, Network Operator took up the challenge to find a low carbon alternative fuel.

They conducted a proof of concept trial to see if our generators could be powered by biodiesel, a clean-burning diesel replacement made from recycled vegetable oil.

Their trial using 300 litres of waste vegetable oil from fast-food outlets in one of our 440kW generators was successful, generating a steady flow of acceptable power quality.

Zain said, "It has been a privilege to work on this project, drawing on my background as a chemical and process engineer to help make a real difference to the community and beyond."

Above:
Zain Kader

Residential growth in new subdivisions, such as this one in Rolleston, account for much of our record number of 4,100 new connections this year.

Aspiring to be New Zealand's Most Advanced Electricity Network

Underpinning all we do, it is critical we continue to perform our core network role exceptionally. Aspiring to be New Zealand's most advanced electricity network reflects our focus on continuous improvement to ensure we are future fit.

Consistently mild weather conditions, and few weather-related emergency repairs enabled Orion to pick up the pace on its programme of work after the COVID-19 lockdown hiatus. Heavy rain and flooding in May not withstanding, the benign weather conditions are predicted to continue in the coming year. For the community this means fewer power outages, and for us, more time to maintain and upgrade the network.

Ambitious programme of work

COVID-19 related supply chain issues willing, we look forward to working with our service providers, including Connetics, to deliver an ambitious programme of work in the coming year. Our plans for network builds and development will extend the sophistication of our management of the network, support sustained growth in customer numbers and meet the evolving needs of our community.

Our next steps in Orion's journey to become New Zealand's most advanced electricity network include:

- Our project to build a new substation in Belfast and install a new 66kV underground cable to link this into our network to serve the needs of this growing area commenced in January and is on target for completion in June 2022
- Building extra capacity into our network to accommodate load growth, via a new Grid Exit Point in Norwood
- Replacing our end of life, oil filled 66kV cables with modern cables that are more resilient and environmentally friendly
- Installing more automated switches which sense trouble on the network and shut off the power, instantly reducing the impact of local issues
- Continuing to install our low voltage network monitoring equipment to give us a street level view to help us prepare for changes in how our customers use energy
- Enhancing our data gathering and analysis of network use and flows, to better inform our decision making
- Reviewing our Group's risk profiling to reflect the impacts of climate change and new data on earthquake likelihood
- Implementing sustainable procurement processes across the Group

We're challenging old thinking, and above all else, we're excited at the prospect of opening the door to new ideas, and participating in a much more fluid, networked exchange of energy than ever before.

Asset Management strategy review

We have reflected on the very changed energy future that is emerging, powerful shifts in the physical and social environment we operate in and changes in the expectations of our customers. This has prompted us to start a review of our Asset Management Strategy.

Safety, reliability and resilience have traditionally been the key drivers of our asset management decision making and these factors remain at its core. However, it is now time for us to consider other factors to help us deliver on our Group Purpose and Strategy; factors such as sustainability in all its forms, deployment of distributed generation, affordability and the need for climate action.

We're challenging old thinking, and above all else, we're excited at the prospect of opening the door to new ideas, and participating in a much more fluid, networked exchange of energy than ever before.

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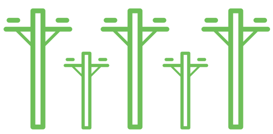


power poles replaced in FY21

Power pole paradigm shift

Above:
Josh Pope

Our pole replacement programme is an example of our network upgrades being increasingly driven by challenges to traditional thinking and data analysis to deliver efficiencies. Network Lifecycle Manager Josh Pope talks about the project:

”A 1970s boom in new poles means many are now coming to the end of their life and are due for replacement. To smooth out our replacement programme, we’ve used data to identify and target the most at risk poles.

“We’ve overhauled our pole inspection and data collection processes to become one of the most robust in the country. We’re now more accurately identifying those that need to be replaced, and that’s increased our operational efficiency and improved public safety.

“We have also made the replacement work on the street more efficient for our crews by grouping at risk poles geographically and by feeder. This means shorter travel time for our pole replacement crews and less downtime for customers.”

Financial Performance

FY21 was an extraordinary year that impacted the lives and livelihoods of many of our customers. As an essential service provider, it was important the Orion Group maintained power services to our community throughout the COVID-19 pandemic. We were less impacted financially than many other businesses which were not so fortunate. Our region's relatively short COVID-19 lockdown period had no appreciable impact on the Group's network revenues.

We are thankful to have delivered another year of strong financial performance, in line with expectations.

As forecast, our electricity distribution revenues were $169m, $16m below last year's actual primarily due to the start of the Commerce Commission's new Default Price-Quality Path which sets our revenue framework for the five-year period from 1 April 2020.

Despite this reduction in income, our $33m profit after tax, while $15m below last year's, was $6m above our Statement of Intent (SOI) target, driven largely by:

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

We were pleased our financial performance enabled us to pay $30m of fully-imputed dividends to our community through our ultimate shareholders – Christchurch City Council and Selwyn District Council – in line with our SOI target.

A record number of new connections this year and ongoing development of our network are reflected in network capital expenditure of $76m, $14m higher than budgeted.

COVID-19 related supply chain issues impacted a small number of our project timings however we were able to make judicious adjustments to our scheduling to bring some projects forward and we maintained our programme of capital investment in our network.

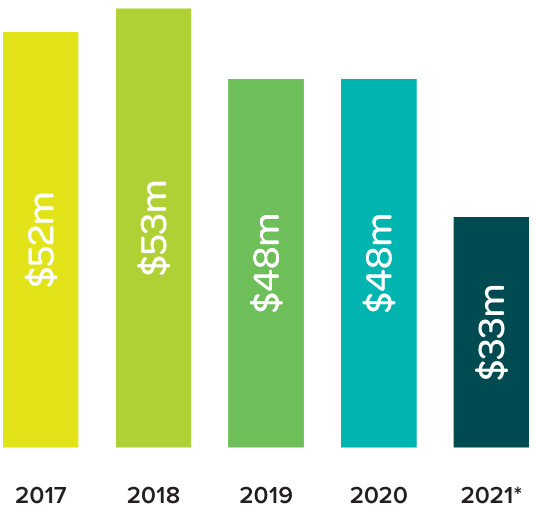
During the year we invested $1m in carbon emission off-set units as part of the Group's commitment to achieving carbon neutrality for our corporate emissions by June 2022. We will utilise these units to off-set carbon emissions in future years until our carbon reduction initiatives reduce our net corporate emissions to zero.

This year we engaged independent valuers to assess the carrying value of the Group's land, buildings and electricity distribution network. They confirmed these assets are carried at fair value.

Connetics had a challenging start to the year with revenues below budget due to the COVID-19 lockdown, although this was partially offset by the receipt of a small COVID-19 wage subsidy. The company had an improved second half year and we are pleased to report Connetics generated a small profit by year's end. Connetics operates in a highly competitive market and remains an extremely important contributor to the reliable service we provide our community.

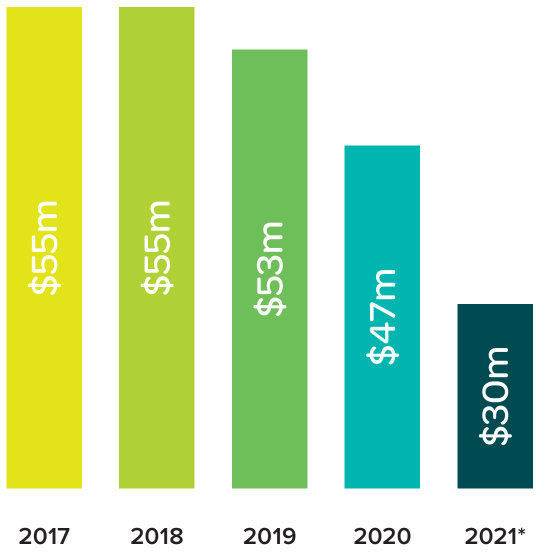
Five Year Comparisons

Net Profit



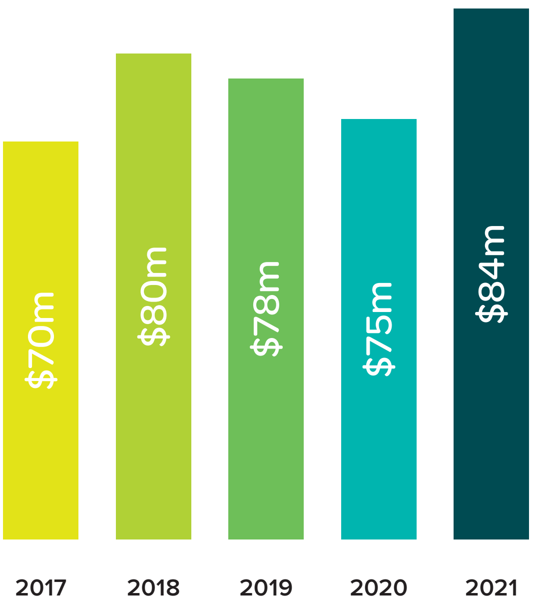
*Delivery revenue was significantly below the prior year due to the Commerce Commission's price reset effective 1 April 2020.

Cash Distributions to Shareholders

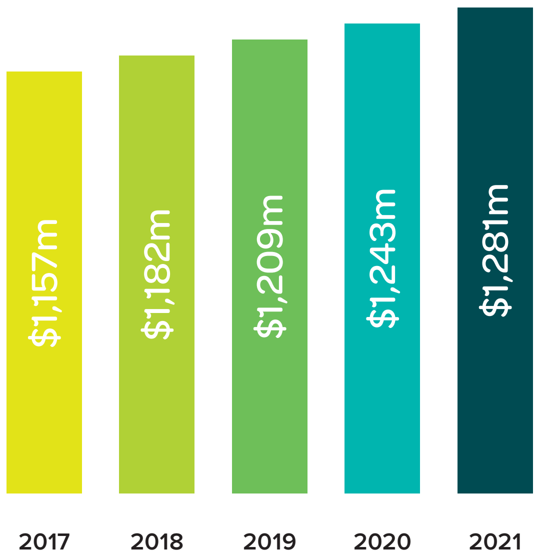


*Distributions to shareholders were below the prior year largely due to the impact of the Commerce Commission's price reset on net profit.

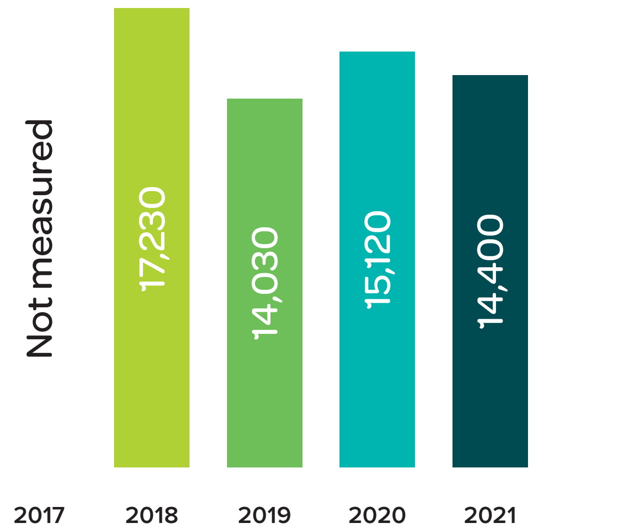
Capital Expenditure



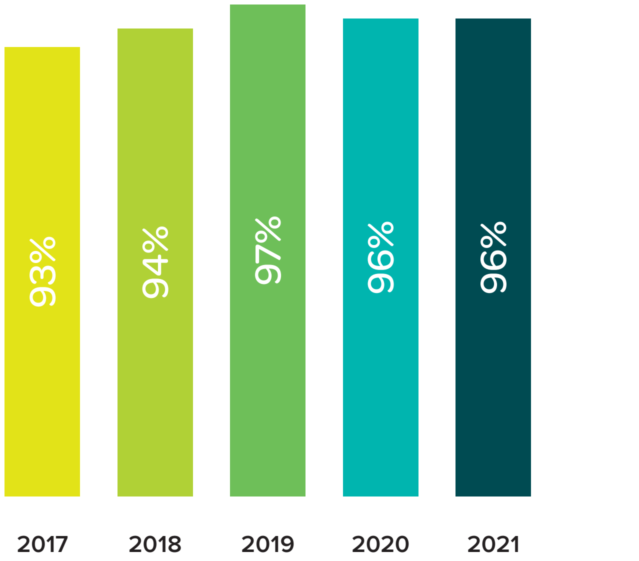
Total Assets



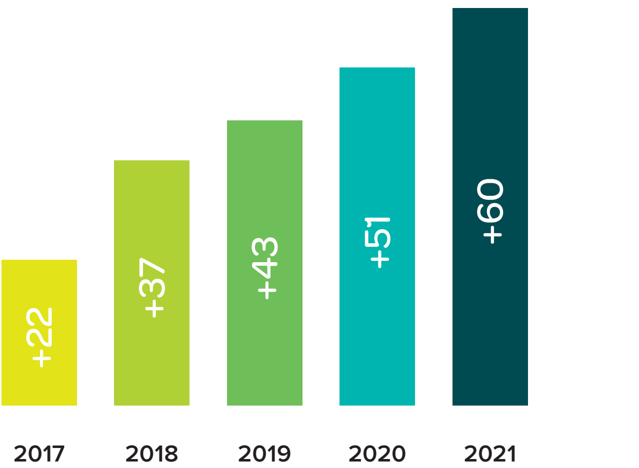
Greenhouse Gas Emissions tCO_2e



Residential Customer Satisfaction with Reliability



Residential Customer Net Promotor Score



Our Leadership Team

Orion

Jono Brent
Interim Orion Group Chief Executive

David Freeman-Greene
Interim Orion Network Chief Executive

Paul Deavoll
GM Customer & Stakeholder

Vaughan Hartland
Orion Group Implementation Lead

Craig Kerr
GM Information Solutions

Steve Macdonald
GM Infrastructure

Andy Miller
GM QHSE

Dayle Parris
Interim GM Commercial

Sue Teague
Executive Assistant

Karen Wiese
Strategic Programme Lead

Graeme Wilson
Interim Chief Financial Officer

Nikki Woosnam
GM People & Capability

Connetics

John Thompson
Interim Chief Executive

Lee Gardiner
Head of Human Potential

Nic Wong
Enterprise Growth, Commercialisation, Design and Engineering Manager

Stephen Spence
Acting GM Infrastructure and Performance

John Willetts
Enterprise Development Manager

Tony Walker
Enterprise Technical Performance Manager

Graham Fairbrass
Canterbury Regional Manager

Daniel Woollaston
Nothern Regional Manager

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 Manaaki Whenua Landcare Research and is currently a director of Port Otago, Ontario Teachers Plan Forest Investments and Silver Fern Farms. She is also Deputy Chair of the External Reporting Board (XRB) and a Guardian of the Aotearoa Circle.

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. Prior to his appointment to the Orion board, he headed 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. In addition to his investment and governance roles, he is an active deer farmer.

Sally Farrier
BE (Hons), MBA, GDipAppFin

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

Bruce Gemmell
BBS, CA (NZ and AU)

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

Jason McDonald
BE Elec (Hons), MBA (Technology Management), MInstD

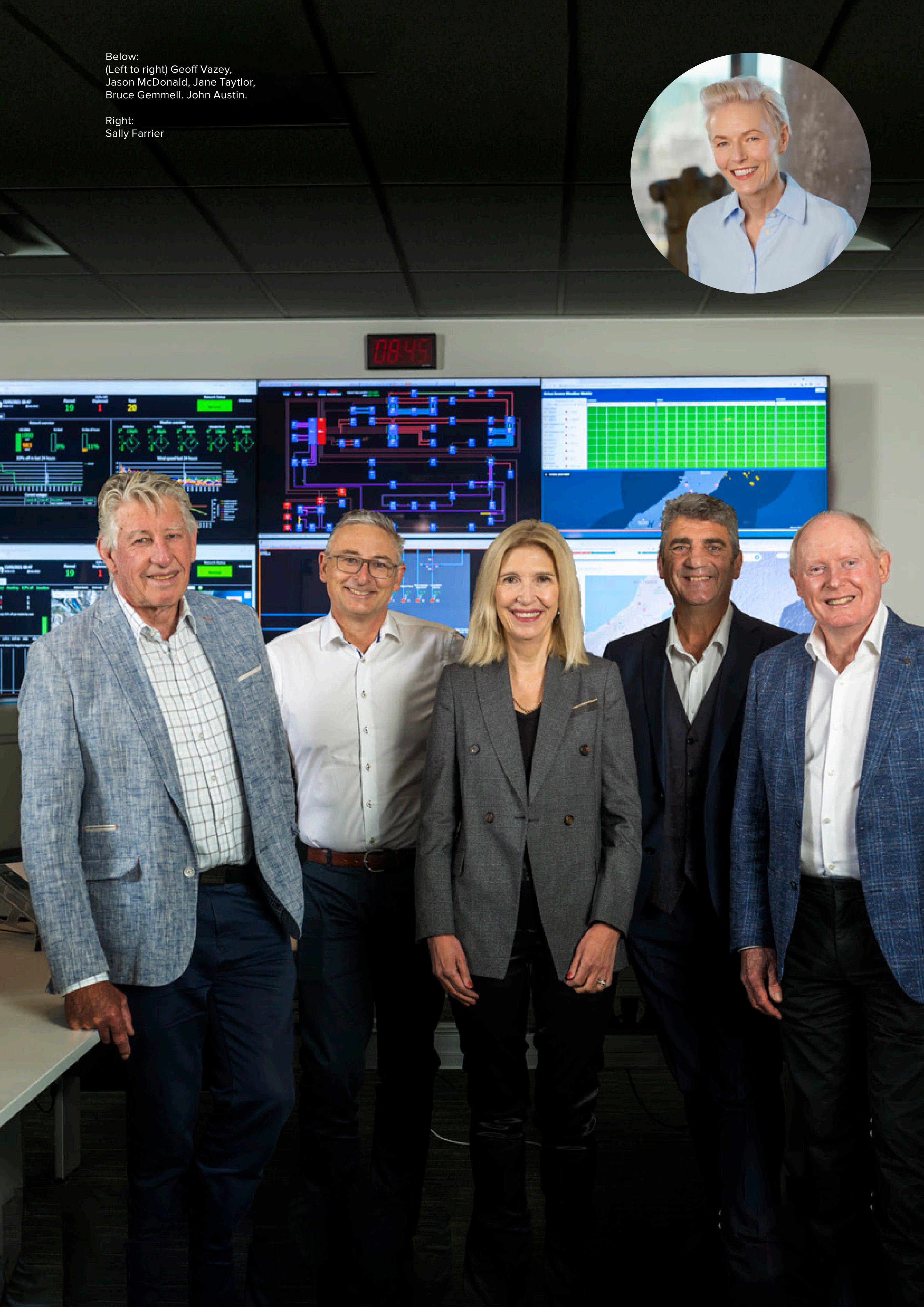
Jason was appointed as an Orion director in August 2017. Jason is now an independent consultant in the energy sector following various executive roles within Meridian Energy, and is a professional director. He has 30 years' experience in renewable energy and electricity retailing. Jason is chair of Mevo Limited and a director of Top Energy Limited, Helios Energy Limited and Orion's subsidiary Connetics Limited, and a governor of Scots College in Wellington.

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 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. He is a director of Orion's subsidiary, Connetics Limited.

Below:
(Left to right) Geoff Vazey,
Jason McDonald, Jane Taytlor,
Bruce Gemmell. John Austin.

Right:
Sally Farrier



Audited Financial Statements

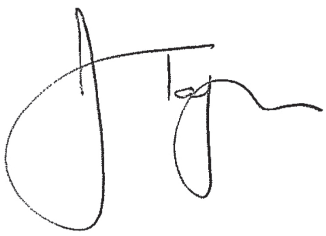
The board of directors is pleased to present the audited financial statements of Orion New Zealand Limited and its subsidiaries for the year ended 31 March 2021.

The group's audited financial statements include seven audited performance statements:

- financial
- network reliability
- network development
- sustainability
- new technologies
- health and safety
- people

Authorised for issue on 22 June 2021.

For and on behalf of the board of directors:



Jane Taylor
Director

Bruce Gemmell
Director

Contents

Statement of comprehensive income

	Notes	2021 $000	2020 $000
Operating revenues	2	301,736	307,663
Operating expenses	3	(192,495)	(181,719)
Depreciation, amortisation and impairment expenses	4	(53,170)	(52,336)
Earnings before net interest expense and tax (EBIT)		56,071	73,608
Interest income		4	32
Interest expense	5	(11,345)	(12,253)
Net change in fair value of derivatives income/(expense)	15	1,681	(1,164)
Profit before income tax		46,411	60,223
Income tax expense	7	(13,218)	(11,908)
Net profit		33,193	48,315
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Gain/(loss) on revaluation of property, plant and equipment	11	(8)	11,830
Deferred tax effect	7	2	(1,222)
Loss on revaluation of carbon emissions units	10	(4)	-
		(10)	10,608
Items that may be reclassified to profit or loss in future:			
Change in fair value of cash flow hedges gain/(loss)	15	4,864	(8,802)
Deferred tax effect	7	(1,362)	2,464
		3,502	(6,338)
Other comprehensive income net of tax		3,492	4,270
Total comprehensive income		36,685	52,585

Statement of changes in equity

	Share capital $000	Retained earnings $000	Asset revaluation reserve $000	Cash flow hedge reserve $000	Carbon revaluation reserve	Total Equity $000
Balance as at 1 April 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	105,000	441,979	130,848	(6,338)	-	671,489
Net profit	-	33,193	-	-	-	33,193
Other comprehensive income	-	-	(6)	3,502	(4)	3,492
Total comprehensive income	-	33,193	(6)	3,502	(4)	36,685
Transfers between reserves:						
Realised gain on disposal	-	106	(106)	-	-	-
Deferred tax on realised gain	-	(30)	30	-	-	-
Dividends paid	-	(30,000)	-	-	-	(30,000)
Balance as at 31 March 2021	105,000	445,248	130,766	(2,836)	(4)	678,174

The accompanying notes form part of these financial statements

Statement of financial position

	Notes	2021 $000	2020 $000
Current assets			
Cash and cash equivalents		2,967	1,552
Trade and other receivables	8	12,973	11,842
Inventories	9	11,356	10,385
Prepayments		3,439	2,927
Assets held for sale	11	1,000	-
Total current assets		31,735	26,706
Non current assets			
Prepayments		462	468
Goodwill		250	250
Intangible assets	10	4,500	2,773
Property, plant and equipment	11	1,243,672	1,213,009
Interest rate swaps	15	93	-
Total non current assets		1,248,977	1,216,500
Total assets		1,280,712	1,243,206
Current liabilities			
Trade and other payables	12	42,224	33,415
Borrowings	14	1,008	101,623
Income tax	7	3,237	5,937
Employee entitlements	13	6,625	7,859
Interest rate swaps	15	240	829
Total current liabilities		53,334	149,663
Non current liabilities			
Borrowings	14	358,343	228,014
Employee entitlements	13	2,866	2,760
Interest rate swaps	15	7,598	13,461
Deferred tax	7	180,397	177,819
Total non current liabilities		549,204	422,054
Shareholders' equity			
Share capital	16	105,000	105,000
Retained earnings		445,248	441,979
Reserves		127,926	124,510
Total equity		678,174	671,489
Total liabilities and equity		1,280,712	1,243,206

Statement of cash flows

	2021 $000	2020 $000
Cash flows from operating activities		
Receipts from customers	300,615	310,428
Interest received	4	32
Payments to suppliers and employees	(197,865)	(186,394)
Payments for interest and other finance costs	(11,748)	(11,756)
Payments for income tax	(14,703)	(19,181)
Net cash provided from operating activities	76,303	93,129
Cash flows from investing activities		
Proceeds from the sale of property, plant and equipment	345	477
Payments for property, plant and equipment	(73,375)	(67,730)
Payments for intangible assets	(524)	(460)
Payments for carbon emissions units	(1,000)	-
Net cash used in investing activities	(74,554)	(67,713)
Cash flows from financing activities		
Proceeds from bank loans	131,150	22,600
Repayment of bank loans	(100,000)	-
Repayment of lease liabilities	(1,484)	(1,292)
Dividends paid	(30,000)	(47,000)
Net cash used in financing activities	(334)	(25,692)
Net increase/(decrease) in cash and cash equivalents	1,415	(276)
Summary		
Cash and cash equivalents at beginning of year	1,552	1,828
Net increase/(decrease) in cash and cash equivalents	1,415	(276)
Cash and cash equivalents at end of year	2,967	1,552

Statement of cash flows continued

	2021 $000	2020 $000
Reconciliation of net profit to net cash provided from operating activities		
Net profit	33,193	48,315
Adjustments		
Depreciation, amortisation and impairment of property, plant and equipment	53,170	52,336
Internal costs allocated to property, plant and equipment and intangible assets	(4,227)	(3,149)
Change in fair value of derivatives	(1,681)	1,164
Increase/(decrease) in deferred tax liability	1,218	(6,778)
Other	(137)	(192)
	48,343	43,381
(Increase)/decrease in assets		
Trade and other receivables	(1,131)	2,023
Inventories	(971)	(1,421)
Prepayments	(506)	(127)
Increase/(decrease) in liabilities		
Trade and other payables	1,203	(401)
Employee entitlements	(1,128)	1,858
Income tax	(2,700)	(499)
	(5,233)	1,433
Net cash provided from operating activities	76,303	93,129

Notes to the financial statements

1. Statement of accounting policies

Corporate information

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

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

Statement of compliance

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

Basis of financial statement preparation

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

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

Significant judgements, estimates and assumptions

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

Electricity delivery revenue

The company initially invoices electricity retailers monthly for electricity delivery services on the basis of 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.

Land and buildings valuation

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

Notes to the financial statements continued

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

Impact of COVID-19
The group assesses that COVID-19 had a minimal impact on the group's operational results for the years ended 31 March 2020 and 31 March 2021, as the lockdown restrictions implemented in late March 2020 remained in place for a relatively short period. 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 – Revenue from Contracts with Customers to directly contracted customers, the group has determined that the individual construction contracts and individual delivery service agreements were negotiated as a package with a single commercial objective, to provide the required delivery capacity to the customer. The performance obligation has been assessed as being satisfied over time based on the duration of the contractual arrangement. The contract term is the period during which the parties have present and enforceable rights and obligations. A term of ten years has been determined based on the requirements of the contract and the group's business practice. The transaction price includes customer contributions and delivery charges based on an estimate of quantities delivered. Revenue is recognised over time based on an output method, as the performance obligation is satisfied on a straight line basis over the term of the contract.

The 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.

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

(c) Capital contributions

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

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

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

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

(d) Borrowing costs

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

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 and measured at fair value, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses and interest income which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method
- fair value through profit or loss (FVPL): Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss in the period in which it arises

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

Notes to the financial statements continued

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 – Financial instruments simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets. The expected loss rates are based on historical experience, external indicators and forward looking information. There have been no changes to the initial or subsequent measurement of financial assets or liabilities as a result of adopting NZ IFRS 9.

(g) Inventories

Inventories are valued at the lower of cost and net realisable value, with an allowance for obsolescence where necessary. Net realisable value is the amount inventories are expected to realise in the ordinary course of business. Individual stock items are valued on a weighted average cost basis.

(h) Intangible assets

Computer software assets

Computer software assets have a finite life. Carrying values are amortised over their estimated useful lives. 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

Carbon emissions units

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

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

The group is aiming to achieve carbon neutrality for corporate emissions by June 2022. The NZUs and VERs are held to offset corporate carbon emissions. Excess units may be sold if no longer required by the group.

(i) Property, plant and equipment

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

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

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

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

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

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

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

Notes to the financial statements continued

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

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

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

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

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

(j) Impairment of assets

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

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

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

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

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

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

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

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

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

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

Capitalised right-of-use assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the group will obtain ownership by the end of the lease term.

Notes to the financial statements continued

(l) New accounting standards and interpretations

The group changed its accounting policies following the adoption of NZ IFRS 16 leases in the year ended 31 March 2020. No new accounting standards or interpretations that became effective for the year ended 31 March 2021 had an impact on the group.

Certain new accounting standards and amendments have been issued that are not mandatory for the year ended 31 March 2021 and have not been early adopted by the group. The group has assessed that these are not likely to have an effect on its financial statements.

(m) Change in accounting policies

The accounting policies detailed above have been applied in the preparation of these financial statements for the year ended 31 March 2021 and have been consistently applied throughout the year.

New accounting policies relating to government grants and carbon emissions units have been adopted in the current year.

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

Notes to the financial statements continued

	2021 $000	2020 $000
2. Operating revenues		
Revenue from contracts		
Recognised over time		
Electricity delivery services	229,508	242,450
Contracting services	40,717	40,994
Consumer capital contributions	156	145
Recognised at a point in time		
Sale of goods and services	10,900	12,172
Contracting services	6,537	4,113
Consumer capital contributions	2,127	1,010
Other income		
Transmission rental rebates received from Transpower	6,493	3,974
Ministry of Social Development wage subsidy	2,690	-
Other	2,608	2,805
	301,736	307,663

3. Operating expenses

	2021 $000	2020 $000
Transmission	60,702	57,158
Transmission rental rebates passed to retailers	6,493	3,974
Employee benefits	61,358	59,605
Network maintenance	30,297	27,809
Operating lease payments	813	856
Other	32,832	32,317
	192,495	181,719

Employee benefits in FY21 is net of $4.2m allocated to capital projects (2020: $3.1m).

4. Depreciation, amortisation and impairment expenses

	2021 $000	2020 $000
Depreciation of property, plant and equipment	47,692	46,130
Depreciation of right-of-use assets	1,589	1,546
Impairment of property, plant and equipment	2,127	1,946
Amortisation of intangible assets	1,139	1,103
Impairment loss on revaluation of property, plant and equipment	238	563
Property, plant and equipment disposed and written off	385	1,048
	53,170	52,336

5. Interest expense

	2021 $000	2020 $000
Bank and United States Private Placement debt	10,664	11,173
Lease liabilities	681	1,075
Other	-	5
	11,345	12,253

No interest expense was capitalised during the year (2020: nil).

Notes to the financial statements continued

6. Remuneration of the auditor

	2021 $000	2020 $000
Audit of the financial statements – current year	270	280
Audit of the financial statements – prior year recovery	19	-
Assurance services	51	40
	340	320

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

7. Income tax and deferred tax

	2021 $000	2020 $000
Income tax expense comprises:		
Current income tax charge	12,134	18,371
Adjustments to prior years	(134)	315
Temporary differences	1,218	(1,748)
Deferred tax benefit from reinstatement of depreciation on buildings	-	(4,555)
Deferred tax correction for land	-	(475)
	13,218	11,908
Reconciliation of profit before income tax with income tax expense:		
Profit before income tax	46,411	60,223
Prima facie income tax expense calculated at 28%	12,995	16,862
Other permanent differences	223	76
Deferred tax benefit from reinstatement of depreciation on buildings	-	(4,555)
Deferred tax correction for land	-	(475)
Income tax expense	13,218	11,908

	Property, plant and equipment $000	Earthquake insurance proceeds $000	Provisions $000	Other $000	Total $000
Deferred tax liability					
Balance as at 1 April 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
Charged/(credited) to income	729	(543)	24	1,008	1,218
Charged/(credited) to other comprehensive income	(2)	-	-	1,362	1,360
Balance as at 31 March 2021	184,150	439	(2,343)	(1,849)	180,397

Notes to the financial statements continued

7. Income tax and deferred tax continued

The group's current income tax liability as at 31 March 2021 is $3.2m (2020: $5.9m). The liability mainly comprises the group's third instalment of provisional income tax for the year ended 31 March 2021 (31 March 2020).

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

The group's imputation credits available for use in subsequent reporting periods total $7.2m as at 31 March 2021 (2020: $6.8m), which includes the income tax liability of $3.2m (2020: $5.9m).

	2021 $000	2020 $000
8. Trade and other receivables		
Trade receivables and accruals	11,248	8,238
Contract assets	1,854	3,748
Allowance for impairment of trade receivables	(129)	(144)
	12,973	11,842
Trade receivables before allowance for impairment:		
Current	8,827	6,682
1 month overdue	898	502
2 months overdue	476	194
3 months overdue	1,047	860
	11,248	8,238
9. Inventories		
Goods for sale	6,776	5,858
Electricity distribution network stock	4,953	4,704
Allowance for impairment	(373)	(177)
	11,356	10,385

Notes to the financial statements continued

10. Intangible assets

	2021 $000	2020 $000
Computer software		
Capitalised at cost	18,284	16,593
Accumulated amortisation	(14,925)	(13,820)
	3,359	2,773
Carbon emissions units		
Capitalised at cost	1,145	-
Accumulated revaluation loss	(4)	-
	1,141	-
	4,500	2,773

	NZUs $000	VERs $000
Details of carbon emissions units		
Balance as at 1 April 2020	-	-
Emissions units purchased	1,000	156
Carbon credits cancelled	(11)	-
Revaluation loss through other comprehensive income	(4)	-
Balance as at 31 March 2021	985	156
Gross carrying amount	989	156
Accumulated impairment	(4)	-
	985	156

As at 31 March 2021 the group is holding 26,762 NZUs (2020: nil) and 12,000 VERs (2020: nil).

Notes to the financial statements continued

11. Property, plant and equipment

	Freehold land at fair value $000	Buildings and land improvements at fair value $000	Electricity distribution network at fair value $000	Plant and equipment at cost $000	Total $000
Gross carrying amount					
Balance as at 1 April 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
Additions	823	201	76,331	6,544	83,899
Disposals	-	(13)	(1,080)	(1,525)	(2,618)
Transfer to assets held for sale	-	-	(1,320)	-	(1,320)
Balance as at 31 March 2021	77,979	39,153	1,151,580	57,436	1,326,148
Accumulated depreciation and impairment					
Balance as at 1 April 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
Disposals	-	(6)	(684)	(1,346)	(2,036)
Depreciation expense	-	1,809	42,210	5,262	49,281
Asset impairment	54	9	2,271	39	2,373
Transfer to assets held for sale	-	-	(320)	-	(320)
Balance as at 31 March 2021	54	2,080	43,477	36,865	82,476
Net book value as at 31 March 2020	77,156	38,697	1,077,649	19,507	1,213,009
Net book value as at 31 March 2021	77,925	37,073	1,108,103	20,571	1,243,672
Capital work in progress included above:					
As at 31 March 2020	83	85	34,796	276	35,240
As at 31 March 2021	12	-	60,649	495	61,156

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

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

As at 31 March 2021 the company engaged Deloitte to review the valuation of the electricity distribution network undertaken in the previous year. The 31 March 2021 review was also undertaken in accordance with NZ IAS 16, NZ IAS 36 and NZ IFRS 13. Deloitte used updated cash flow forecasts prepared by the company.

Notes to the financial statements continued

11. Property, plant and equipment continued

The major change in Deloitte's methodology from the 31 March 2020 revaluation was a DCF mid-point discount rate of 4.5% (nominal, post-tax). The discount rate is a matter of professional judgement. Deloitte has used the ten year NZ government bond rate as at the valuation date as the basis of risk free rate.

Deloitte used a similar methodology to that outlined above and determined that the fair value of the electricity distribution network was materially the same as its carrying value at that date.

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, NZ IAS 36, and NZ IFRS 13. 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%

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

As at 31 March 2021 the company engaged Mr Ogg to review the valuation of land and non-substation buildings undertaken in the previous year. The 31 March 2021 review was also undertaken in accordance with NZ IAS 16, NZ IAS 36 and NZ IFRS 13.

Mr Ogg updated values using a similar methodology to that outlined above and determined that the fair values of the company's land and non-substation buildings were materially the same as its carrying value at that date.

Notes to the financial statements continued

11. Property, plant and equipment continued

Right-of-use assets

	2021 $000	2020 $000
Right-of-use assets are included in property, plant and equipment at fair value as follows:		
• Electricity distribution network	8,204	9,413
• Buildings and land improvements	4,985	5,363
• Plant and equipment	46	-
Additions to right-of-use assets were:		
• Electricity distribution network	-	-
• Buildings and land improvements	-	5,631
• Plant and equipment	48	-

Asset impairment

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

- $2.3m (2020: $1.2m) of capital contribution revenue during the year
- $2.1m (2020: $1.9m) of associated impairment expense during the year

Other assets

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

Restrictions over title

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

Notes to the financial statements continued

12. Trade and other payables

	2021 $000	2020 $000
Trade payables and accruals	37,121	27,966
GST payable	662	1,846
Other	4,441	3,603
	42,224	33,415

13. Employee entitlements

	2021 $000	2020 $000
Current	6,625	7,859
Non current	2,866	2,760
	9,491	10,619

Employee entitlements include a provision for employee long service leave. Key assumptions in the actuarial assessment of the provisions include the risk-free rate 1.79% (2020: 1.06%) and salary inflation 2.5% to 3.0% (2020: 0 to 2.5%), and an assessment of the probability of employees receiving each long service leave entitlement.

14. Borrowings

	2021 $000	2020 $000
Current		
Lease liabilities	1,008	1,623
Bank loans	-	100,000
Total current borrowings	1,008	101,623
Non current		
Lease liabilities	12,993	13,814
Bank loans	205,350	74,200
United States Private Placement floating rate notes	140,000	140,000
Total non current borrowings	358,343	228,014

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

The Transpower agreements have remaining terms of between three months and 27 years (2020: between one and 28 years). The company does not own the assets at the end of the lease term and there is no residual value. There is no security provided for the arrangements. The monthly payment amounts are reviewed periodically by Transpower based on prevailing interest rates and agreed margins.

Notes to the financial statements continued

14. Borrowings continued

	Minimum future lease payables 2021 $000	Minimum future lease payables 2020 $000	Present value of minimum future lease payables 2021 $000	Present value of minimum future lease payables 2020 $000
Lease liabilities				
No later than one year	1,509	2,480	1,008	1,623
Later than one year and not later than five years	4,577	6,008	2,617	2,957
Later than five years	18,939	23,983	10,376	10,857
Minimum lease payments	25,025	32,471	14,001	15,437
Less future finance charges	(11,024)	(17,034)	-	-
Present value of minimum lease payments	14,001	15,437	14,001	15,437
Current			1,008	1,623
Non current			12,993	13,814
			14,001	15,437

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 2021.

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 2021.

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

Liquidity risk management

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

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

Notes to the financial statements continued

15. Financial instruments continued

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

	2021 $000	2020 $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 2021 mature as follows:		
$110m on 1 November 2022		
$75m on 30 November 2022		
$100m on 31 July 2023		
Amount used at reporting date	205,350	174,200
Amount unused at reporting date	79,650	35,800
	285,000	210,000
Unsecured US Private Placement floating rate notes as at 31 March 2021 mature as follows:		
$45m on 20 September 2028		
$95m on 20 September 2030		
Amount used at reporting date	140,000	140,000
Amount unused at reporting date	-	-
	140,000	140,000

Interest rate risk management

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

Interest rates on the group's bank loans are based on market rates for bank bills plus a margin. As at 31 March 2021, interest rates (including margins) on the group's bank loans averaged 1.16% (2020: 1.72%). Daily commitment fees are also payable on the bank loan facilities.

Interest rates on the group's US Private Placement floating rate notes are based on market rates for bank bills plus a margin. As at 31 March 2021, interest rates (including margins) on the group's floating rate notes averaged 1.92% (2020: 2.24%).

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 2021, interest rates on the group's Transpower lease liabilities averaged 5.44% (2020: 9.0%).

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 2021, interest rates on the group's property lease labilities averaged 4.75% (2020: 4.75%).

The group's other financial liabilities are non interest bearing.

Notes to the financial statements continued

15. Financial instruments continued

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:

	Average contracted fixed interest rates	Notional principal swap amounts		Carrying value asset/(liability)	
		2021	2020	2021	2020
Swap maturity dates	%	$000	$000	$000	$000
October 2020	2.3	-	70,000	-	(829)
June 2021	2.8	40,000	40,000	(240)	(1,090)
December 2023	2.5	70,000	70,000	(3,540)	(4,790)
March 2025	1.3	230,000	230,000	(1,517)	(4,054)
April 2025	1.5	100,000	100,000	(2,448)	(3,527)
		440,000	510,000	(7,745)	(14,290)

	2021	2020
Disclosed as:		
Non current assets	93	-
Current liabilities	(240)	(829)
Non current liabilities	(7,598)	(13,461)
	(7,745)	(14,290)
Change in fair value recognised in:		
Profit and loss income/(expense)	1,681	(1,164)
Other comprehensive income	4,864	(8,802)
	6,545	(9,966)

Notes to the financial statements continued

15. Financial instruments continued

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

	2021 $000	2020 $000
Increase of 1% in interest rates as at reporting date		
Increase in profit before income tax	-	1,356
Increase in other comprehensive income	7,337	12,568
Decrease of 1% in interest rates as at reporting date		
Decrease in profit before income tax	-	-
Decrease in other comprehensive income	15,546	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'. During the year ended 31 March 2021 the company invoiced electricity retailers and its direct major customers on the 10th day of the month of usage (based on an estimation of usage) with payment due on the 20th of that month. Under default distributor agreements effective from 1 April 2021 the company will invoice electricity retailers and its direct major customers by the 10th working day of the month following the month of usage with payment due on the 20th of that month. Invoiced amounts are subject to subsequent adjustments for later (more accurate) metering data as outlined under critical judgements, estimates and assumptions in Note 1. Collateral security is not generally required from the group's other customers.

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

Notes to the financial statements continued

15. Financial instruments continued

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

Carrying values of financial instruments

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

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

16. Share capital

The company has 70 million fully-paid ordinary shares on issue with a par value of $1.50 per share, total $105m (2020: $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

	2021 $000	2020 $000
Capital expenditure	22,365	17,097
Operating leases	199	120

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

19. Contingent assets and liabilities

Port Hills fires

On 13 February 2017, two fires started on the Port Hills near Christchurch and eventually spread to over 1,600 hectares. 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, 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 trial started in August 2020 and on 15 September 2020 the company reached a confidential commercial settlement with IAG on behalf of its insured customers that brought to an end the High Court proceeding against it in relation to the Port Hills fires. The settlement was without any admission of liability by the company.

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

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

Revenue above maximum allowable revenue

The company is permitted to receive a maximum allowable revenue (MAR) for its electricity distribution services under the Commerce Commission's default price path regime. Due to differences between quantity estimates used in price setting and actual quantities which arose during FY21, the company estimates that it charged customers $2.18m above its MAR. This amount is still subject to wash-ups as improved information becomes available. The company will offset the final amount plus interest when it sets delivery prices for FY23.

Notes to the financial statements continued

19. Contingent assets and liabilities continued

Other than the potential issues above, the group had no significant contingent assets or liabilities as at 31 March 2021 (2020: nil).

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.

In April and early 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 group assessed that $3m of capex could be deferred to FY22. A reduction in forecast profit resulted in a reduction in forecast dividends in FY21.

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

Overall, as the Level 3 and 4 lockdowns were of relatively short duration there was minimal impact on the company's operational results for FY21 and FY20. Electricity delivery service revenue for April 2020 was only slightly reduced and the network maintenance and other expenditure impacts were negligible with most scheduled work able to be undertaken later in the year. The company made support payments to its two emergency works contractors and also provided rent relief to a contractor. There was minimal impact on our SAIDI and SAIFI measures.

Note 11 details the increased uncertainty due to the impact of COVID-19 on the company's revaluation of property, plant and equipment as at 31 March 2020. Potential future impacts of COVID-19 may negatively impact the company's future financial performance and position; however the company 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).

During FY21 the company observed some increases in commodity prices due in part to the continuing economic impacts of COVID-19. If these increases are sustained there will be upwards cost pressure on our future capex and opex programmes. The company is monitoring the situation and will review its capex programme if necessary.

Connetics' revenue for April and May 2020 was 35% below its pre-COVID-19 budget, with only limited operations possible during the period. The company committed to paying its people during the lockdown period, and to partially offset the cost it utilised a government wage subsidy of $2.7m.

Notes to the financial statements continued

21. Significant events after balance date

The group is not aware of any other significant events between the preparation and authorisation of these financial statements on 22 June 2021.

22. Related party transactions

Group structure

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

Related parties include:

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

The group undertakes many transactions with the CCC and SDC and their related parties, which are carried out on a commercial and arms-length basis. The group utilises the Electricity Act 1992 and historical arrangements to determine the capital contributions required from CCC and SDC towards underground conversion projects. These contributions may not recover all costs incurred. No material transactions, other than the payment of dividends to CCHL and SDC, were entered into with related parties during the year.

	2021 $000	2020 $000
Transactions during the year		
Dividends paid to CCHL and SDC	30,000	47,000
Purchases from CCC/SDC	4,736	4,507
Underground conversion contributions from CCC/SDC	312	70
Other sales to CCC/SDC	14,545	11,643
Purchases from subsidiaries for network related services	37,978	34,312
Payment to subsidiary to maintain emergency response capability during COVID-19 lockdown period	1,207	-
Sales to subsidiaries (including interest and excluding rent and reimbursements of payments made on behalf of the subsidiaries)	528	688
Rent of premises to subsidiary	1,647	1,800
Rent relief provided due to the impact of COVID-19	153	-
Purchases from other related parties	1,630	1,048
Sales to other related parties	1,097	1,905

Notes to the financial statements continued

22. Related party transactions continued

	2021 $000	2020 $000
Outstanding balances as at 31 March		
Accounts payable to CCC/SDC	-	7
Accounts receivable from CCC/SDC	2,170	2,301
Accounts payable to subsidiaries	5,539	5,945
Accounts receivable from subsidiaries	97	115
Accounts payable to other related parties	83	97
Accounts receivable from other related parties	645	54
Loans outstanding from subsidiaries	7,345	7,475
Commitments for capital expenditure		
Contracts with subsidiary	5,312	4,235
Key management personnel compensation		
Salaries and short term employee benefits	3,741	3,444
Post-employment benefits	119	156
Termination benefits	802	327
	4,662	3,927

Other transactions involving related parties

The group paid directors' fees totalling $393,000 during the year (2020: $369,000). No directors received retirement gifts during the year (2020: nil). No other transactions were entered into with any of the company's directors, other than the payment of directors' fees, the reimbursement of valid company-related expenses such as travel costs to board meetings and a $10,000 payment to board director, Jason McDonald, for chairing the appointment committee for the group chief executive officer.

Key management personnel is defined as the company's directors, the group and company chief executive officers and the company's managers who directly report to the group and company chief executive officers. Key management personnel purchased goods and services from group companies during the year which in total did not exceed $2,000 for any individual, with the following exception. As part of an exit package negotiated with the board, a senior manager purchased a second-hand vehicle from the group for $34,000. (2020: all less than $3,000 with the exception of an employee who purchased a second-hand vehicle from the group for $41,000). A total of $100 was due from key management personnel as at 31 March 2021 (2020: nil). All transactions were conducted on standard commercial terms, except as noted above.

Performance statement – financial

	Notes	Actual 2021	Target 2021	Actual 2020
Network delivery revenue ($m)	1, 2	230	226	242
Profit after tax ($m)	1, 2	33	27	48
Profit after tax to average equity (%)	1, 2	4.9	4.1	7.2
Debt to debt plus equity (%)	3	35	34	33
Equity to total assets (%)	3	53	54	54
Fully imputed dividends ($m)		30	30	47

Note 1	**Variances post-tax $m**
Net profit was $6.2m above the Statement of Intent target because of:	
Above-budget distribution revenue	2.5
Favourable change in fair value of interest rate swaps	1.2
Above-budget Connetics profit	1.2
Below-budget depreciation	1.2
Below-budget interest expense	0.6
Other	(0.5)
	6.2

Note 2

Net profit was $15.1m below last year because of:	
Favourable change in fair value of interest rate swaps	2.0
Higher Connetics profit	2.0
Lower interest expense	0.7
Higher sundry revenues	0.6
Higher depreciation	(0.4)
Higher expenses	(3.2)
Deferred tax adjustment due to reinstatement of depreciation on commercial buildings in FY20	(5.0)
Lower delivery revenue gross margin*	(11.9)
Other	(0.1)
	(15.1)

* Delivery revenue is significantly below the prior year due to the Commerce Commission's price reset effective 1 April 2020.

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

	Actual 2021	Target 2021	Actual 2020	Industry weighted average 2020
Orion network interruptions				
Duration of supply interruptions in minutes per year per connected customer (SAIDI)				
- planned	28	40	22	
- unplanned	30	85	46	
- total SAIDI	57	125	68	196
Number of supply interruptions per year per connected customer (SAIFI)				
- planned	0.09	0.15	0.1	
- unplanned	0.50	1.00	0.6	
- total SAIFI	0.59	1.10	0.7	1.9

Approximate number of connections at 31 March 2021 was 211,600 (2020: 207,500)

Important notes:

1. 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.
2. 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.
3. The Commerce Commission sets performance limits for our network reliability, pursuant to our default price-quality path (DPP). The Commission assesses our actual performance against those limits, after 'normalising' for the impacts of 'major events' and allowing for a set of incentive-based adjustments. Our actual and target results above are stated without the application of these adjustments.
4. Figures are stated gross – before normalising for major events.

Performance statement – network development

1. Upgrade our sub-transmission supply to Hawthornden zone substation

Target date: 31 March 2021

Status: Delayed

The purpose of this project is to interconnect Hawthornden with our higher capacity 66kV circuits between the Islington GXP and our Papanui zone substation and to retire the existing 66kV radial feed from the Islington GXP. This project will enhance our supply resilience and our operational flexibility at Hawthornden and Ilam zone substations. Due to delays with equipment supply we expect the project will be completed in June 2021.

2. Undertake a trial of new 11kV fault indication equipment on our underground cable network

Target date: 31 March 2021

Status: Complete

In this trial, our aim was to learn whether this relatively new technology can cost-effectively enhance our ability to respond to and restore power following faults on our underground cable network.

The trial has demonstrated that the indication equipment will operate down to relatively low fault levels, that previous equipment was not able to. We are now proceeding to determine the cost benefit for installation.

3. Upgrade our 11kV underground network in the Springston and Lincoln areas

Target date: 31 March 2021

Status: Complete

These projects are necessary to support continuing customer demand growth in these areas.

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 2022

Status: On Target

This is a two-year project to support significant customer and demand growth in the north and north-east of Christchurch, and we are on track to complete this project by 31 March 2022 We also forecast a follow-on project to interconnect Belfast with our McFaddens zone substation by 31 March 2022.

Performance statement – sustainability

1. Set reduction targets for Orion's operational carbon emissions, including our plans and timeframes to achieve them

Target date: 31 March 2021

Status: Complete

Our tCO_2e emissions were :

	2018	2019	2020
Scope 1			
Petrol, diesel, SF_6, air conditioning gases, rental cars	710	740	953
Scope 2			
Purchased electricity, electricity lost as it travels along our lines	16,340	13,100	14,019
Scope 3			
Landfill waste, staff travel	185	190	145

In 2020 we set reduction and neutrality targets for the corporate emissions of Orion group. These are aligned with what science tells us needs to happen to keep warming within 1.5 degrees. Our corporate emissions are those set out above, excluding emissions associated with electricity lost as it travels along our lines.

We aim to:

- have neutral corporate emissions by June 2022
- reduce our group corporate emissions 50% by 2030
- reduce our group corporate emissions 80% by 2050

In 2021 we will have our first audited group measurement, which will shift our benchmark year from 2018 to 2021. Part of that process will be checking that our reduction targets are science aligned, to do our part in keeping warming within 1.5 degrees.

2. Report on our climate-related risk exposures

Target date: 31 December 2020

Status: Complete

As an electricity lifelines utility, we need to understand and be prepared for potential future climate change impacts. We issued our first Climate Risks and Opportunities report in August 2020 and intend to build and expand on this reporting as time progresses.

Performance statement – sustainability continued

3. Support initiatives that help our community's long-term sustainability

Target date: 31 March 2021

Status: Complete

We continue to partner with like minded organisations to improve the sustainability of our community. Currently the majority of these partnerships target how effectively our customers use the electricity in their buildings. By partnering in this way we aim to improve the liveability of buildings, reduce costs for electricity users, reduce carbon emissions and developed new ways to manage peak loads on our network.

4. Investigate how to bring our network resource consumption footprint into our business decisions

Target date: 31 March 2021

Status: Complete

This year we continued to expand our knowledge of the impacts of our network design decisions on our network. We tested the use of life cycle analysis in our decisions, starting with overhead poles to inform our pole replacement programme.

Based on the utility of the poles LCA, we are carrying out a desktop analysis of LCA information available globally for distribution assets.

5. Keep our annual SF_6 gas losses below 0.8% per year

Target date: 31 March 2021

Status: Complete

We continue to remove legacy 11kV switchgear that uses SF_6 search for safe, reliable and cost-efficient alternatives to SF_6 as an interruption medium for our 66kV switchgear.

Performance statement – new technologies

1. Build a data warehouse and implement data marts

Target date: 31 March 2021

Status: Complete

Our aim for this project was to be more efficient with our data so that we can provide more and better services to our customers. We aimed to centralise data from a range of our operational, asset management and financial systems. We created new opportunities for analytics, sophisticated reporting and information 'dashboards' to assist our decision makers.

2. Automate the enabling/disabling of our network auto-reclose functions

Target date: 30 September 2021

Status: Complete

Our aim for this project was to automatically enable/disable our auto-reclosers by network segment in response to changing data during fire seasons, and by doing so we have:

- reduced fire risk in network segments where authorities assess the fire risk as high to extreme; and also
- reduced supply interruptions by permitting the continued use of our auto-reclosers in network segments where authorities assess the fire risk as not high to extreme

Auto-reclosers enable segments of our overhead lines to be automatically re-livened following certain types of faults. If the fault source is no longer on the overhead line (for example: a tree branch), the re-livened power stays on for that segment. If the fault source is still present on the line, the auto-recloser 'trips' again and we despatch our work crews to resolve the supply interruption on-site. If the trip is an earth fault (as opposed to a phase-to-phase fault), sparks could occur.

We now use near real time data that is available from NIWA and FENZ which shows fire risk levels for specific locations in our region, but our system is not yet fully automated and integrated with our 24-hour network control systems. This will be completed by 30 September 2021.

3. Install a new digital voice radio network on Banks Peninsula

Target date: 30 September 2021

Status: On track

Our primary aim for this project is to improve the safety of our operational people and contractors who work on Banks Peninsula, especially if they work in the more remote parts of that area. We also improved the efficiency and effectiveness of our teams and reduced the length of supply interruptions there too.

Our current analogue voice radio network had a limited range and has significant coverage 'black spots' around the many hills and gullies of the peninsula. In 2019, we successfully trialled a new type of digital radio equipment for Banks Peninsula. In the trial, we demonstrated that we can upgrade our voice radio network to achieve almost total high-quality digital coverage for the whole peninsula.

Our approach in this project, which used third party mobile equipment to test our modelling, was the first of its kind in New Zealand. Our trial has gained attention from several large voice radio user organisations throughout New Zealand.

Performance statement – new technologies continued

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

Target date: 30 June 2021

Status: On track

We embarked on a significant upgrade of our advanced distribution management system (ADMS), which is focused on our high voltage network – 11kV, 33kV and 66kV.

Our aim with this project is to develop our ability to also monitor and centrally operate (switch) our low voltage network (400V), in real time. Low voltage networks around the world have typically been built without this capability because power flows have overwhelmingly been one-way – from large centralised electricity generators to consumers.

Low voltage networks will increasingly need to support new and more complex two-way power flows, as customers increasingly adopt innovative technologies such as electric vehicles, home storage batteries, energy management systems and solar PV.

Performance statement – health and safety

1. Fewer than four events that did or could have resulted in serious injury to our employees or our contractors

Target date: 31 March 2021

Status: Not achieved

This target covers Orion and Connetics. A serious event is defined in 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 events.

We had three serious events during the year involving our employees, two of which did not result in an injury and one which resulted in injury. A Connetics vehicle rolled while being set up at a worksite resulting in three employees receiving minor injuries.

We employed 632 people across the group on average during the year.

Our contractors had two serious events during the year, which did not result in an injury.

Investigations were taken for all events with corrective actions undertaken. Worksafe requested Duty Holder Reviews of two events which have been completed and appropriate corrective/preventable actions were undertaken.

2. No event that did or could have resulted in serious injury to members of the public

Target date: 31 March 2021

Status: 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 we had no events (excluding car versus pole traffic accidents) which have involved members of the public (last year: two events).

3. Improve how we manage our critical health and safety risks

Target date: 31 March 2021

Status: Achieved

We aim to assess the effectiveness of our risk treatments to ensure we are taking all reasonably practicable steps to ensure the health and safety of our employees, contractors, visitors, customers and the public in relation to our critical risks.

We have mapped our critical risk activities using the BowTie methodology and are assessing effectiveness of risk treatments when analysing all events relating to critical risks to identify control failures and implement corrective actions.

Performance statement - people

1. Continue to develop our future capability via our Orion development programmes

Target date: 31 March 2021

Status: Ongoing

Our technical development programme continues to successfully develop and place talented and motivated people into key positions in our business. Trainees receive formal training and work experience in our business, with a view to placing them in areas where we forecast current or future skill shortages and/or succession opportunities. Trainees usually complete the programme in four to five years.

Our work experience and graduate development programmes provide opportunities for secondary and tertiary students to experience life in the workplace as well as gain knowledge of our industry. These streams are new for us and we will aim to continually evolve them as we explore and trial new opportunities.

As at 31 March 2021, five employees (last year: six employees) were in our technical stream with a rotating technical stream programme lead to continue emerging leadership opportunity.

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

Target date: 31 March 2021

Status: Ongoing

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

As at 31 March 2021, Connetics employed 37 apprentices and 4 electrical cadets to gain industry qualification licences (last year: 29 apprentices and 11 others in training). Apprentices are employed in the following areas:

- 13 electrical – including substations, street lighting and wider electrician units
- 24 multi skill – overhead lines and underground cables

3. Complete the first major phase of our people leadership programme

Target date: 31 December 2020

Status: Complete

Our aim for this programme is to equip our leaders so they can lead our initiatives with intent and velocity. This programme is tailored to our context and our objectives and on what we are seeking to achieve with our work principles from a leadership perspective. We had around 55 people participate in the first phase during 2020.

4. Complete the first major phase of our diversity and inclusion programme

Target date: 31 March 2021

Status: Ongoing

Our aim for this programme is to ensure that our work principles become a reality through our behaviours. Our approach included three pathways: engage the hearts and minds of our people so they adopt more inclusive behaviours, target our systemic barriers to diversity and inclusion and develop key partnerships throughout our community to increase our attraction of people from diverse groups over time.

The first phase has been launched with the implementation of an Inclusion Council and we have completed education sessions for all employees.

Performance statement - people continued

5. Support the wellbeing of employees

Target date: Ongoing

Status: Ongoing

This target covers Orion and Connetics employees. Each company aims to have physical and mental wellbeing support programmes that are appropriate to their contexts. An important component is employee engagement in design and improvement. Another important component is that each employee is primarily responsible for their wellbeing, however we will aim to support that wellbeing in reasonably practicable and creative ways.

Audit New Zealand independent auditor's report

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Independent Auditor's Report

To the readers of Orion New Zealand Limited group's financial statements and performance statements for the year ended 31 March 2021

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 45 to 74 that comprise the statement of financial position as at 31 March 2021, 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 75 to 84.

In our opinion:

- the financial statements of the group:
    - present fairly, in all material respects:
        - its financial position as at 31 March 2021; 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 2021.

Our audit was completed on 22 June 2021. This is the date at which our opinion is expressed.

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

Basis for our opinion

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

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

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

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

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

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

The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare the financial statements and performance 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.

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

Audit New Zealand independent auditor's report continued

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

- We identify and assess the risks of material misstatement of the financial statements and the performance 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 information within the group's framework for reporting its performance.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and performance 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 consolidated 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 1 to 44 and 87 to 98 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: International Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

In addition to the audit, we have carried out assurance engagements pursuant to the Electricity Distribution Information Disclosure Determination 2012 - (consolidated in 2018) and the Electricity Distribution Services Default Price-Quality Path Determination 2020. These assurance engagements are compatible with those independence requirements. Other than the audit and these assurance engagements, we have no relationship with or interests in the group.

John Mackey

Audit New Zealand

On behalf of the Auditor-General

Christchurch, New Zealand

Governance

Shareholders

Our shareholders are:

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

Principal objective and principal activities

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

Statement of Intent

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

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

The Orion board has two standing committees:

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

The following directors served as standing committee members during the year ended 31 March 2021:

Audit committee
Bruce Gemmell – chair
John Austin
Sally Farrier (from 31 August 2020)
Jane Taylor

Remuneration committee
Geoff Vazey – chair
Jason McDonald
Jane Taylor

The board may convene special purpose committees for specific tasks. In September 2020 the board convened an appointments committee to recruit a new Group Chief Executive.

The appointments committee comprised:
Jason McDonald – chair
Sally Farrier
Jane Taylor
Geoff Vazey

Performance management

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

Risk management

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

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

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

Legislative compliance

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

Governance continued

Matatika code of ethics, conflicts of interest policy and reporting serious wrongdoing (whistle-blower) policy
These three policies require all directors and employees to:

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

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

Group reporting
The board delivers a publicly-available group annual report to shareholders before 30 June each year, which includes: audited financial statements, performance relative to SOI targets, how the group otherwise contributes to community aspirations and other information to enable an informed assessment of the group's governance, performance and financial position.

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

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

Loans to directors
The group does not make loans to directors.

Donations
The group made $28,841 of donations to charitable causes in the year ended 31 March 2021 (2020: $41,360).

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 2021:

Connetics Limited	Geoff Vazey (chairman) Jason McDonald Rob Jamieson (resigned 24 April 2020) Brendan Kearney (resigned 24 April 2020) Vaughan Hartland (resigned 24 April 2020)
Orion New Zealand Ventures Limited	Vaughan Hartland

Governance continued

Financial Market Authority's good governance guidelines

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

FMA principle	Orion relative to the FMA principle
Boards should set high standards of ethical behaviour and hold management to account to deliver those standards throughout the organisation.	Directors are required to comply with the board charter and company policies. Employees are also required to comply with company policies – including the code of ethics, conflicts of interest, fraud and theft, reporting serious wrongdoing (whistle-blower), sustainability and diversity and inclusion policies. The board regularly reviews the company's key policies for alignment with the company's purpose and objectives, and monitors compliance with policies and legislative requirements – including via liaison with the company's independent auditors.
Boards should have a balance of skills, knowledge, experience, independence and perspectives.	The board has a good degree of such a balance. Achieving that balance is the responsibility of the company's shareholders, who appoint all directors. The shareholders usually consult with the board chair in that process. All directors are independent non-employees.
Boards should use committees where this will enhance its effectiveness in key areas, while still retaining board responsibility.	The board charter specifies the terms of reference and delegated authorities for the audit 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.
Boards should require integrity in financial and non-financial reporting, and timeliness and balance of corporate disclosures.	The board scrutinises internal and external reporting and liaises closely with the company's independent auditors to ensure integrity in reporting. 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.
Director and executive remuneration should be transparent, fair and reasonable.	The company's shareholders review and approve the total pool of directors' fees by way of shareholder resolution, which currently applies for the three years to 30 June 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.	The board receives regular reports on and reviews the company's: • 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.	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.
Boards should respect the rights of shareholders and foster constructive relationships with shareholders and stakeholders.	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.

Governance continued

Interests register

Directors recorded the following in the interests register during the year ended 31 March 2021:

John Austin

Thomas Austin Securities Limited		Director and shareholder

Sally Farrier

Ausnet Services Limited		Director
Ergocorp Pty Limited		Director

Bruce Gemmell

ATT Trustee Limited and subsidiaries/associates		Director
Central Plains Water Limited	From November 2020	Director
Destination Westland Limited	To 21 May 2020	Director
Gemmell Finance Limited		Director
Gemmell Group Limited		Director and shareholder
Highlanders GP Limited		Director
Lincoln Agritech Limited		Director
Lincoln University		Chancellor
Lincoln University Centennial Trust		Trustee
Lincoln University Foundation Trust		Trustee
Miramar Consolidated Limited		Director
Planz Consultants Limited		Director
Second Little Pig Was Right Limited		Director and shareholder

Jason McDonald

Connetics Limited		Director
Helios Energy Limited	From February 2021	Director and shareholder
Jason McDonald Consulting Limited	From November 2020	Director and shareholder
Jaspen Ventures Limited	From June 2020	Director
Mevo Limited		Director and shareholder
Red Bus Limited	To 30 April 2020	Director
Scots College Wellington – board of governors		Member
Top Energy Limited		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		Director
Predator Free 2050 Limited	To 28 February 2021	Director
Silver Fern Farms Limited and subsidiaries		Director
Tassenberg Limited		Director and shareholder
The Aotearoa Circle		Guardian

Geoff Vazey

Connetics Limited		Director
Consult GV Limited		Director and shareholder
Cook Islands Port Authority		Director
HEB Construction Limited	To 30 September 2020	Director

Governance continued

	Orion $000	Connetics $000
Directors' remuneration		
John Austin	50	-
Sally Farrier (from 31 August 2020)	29	-
Bruce Gemmell	57	-
Jason McDonald	49	20
Jane Taylor	98	-
Geoff Vazey	52	38
	335	58

Employee remuneration

The group aims to attract, retain, develop and motivate high calibre employees. The group's employee remuneration approach aims for consistency, fairness and alignment with the group's principal objective, to operate as a successful business. The group regularly compares employee remuneration against relevant market data. In general, the group aims to meet the market, subject to employee performance.

All individual employment agreement terms and conditions are subject to 'one-up' approval. For example, the Orion board approves the Group Chief Executive's employment terms and conditions and the board remuneration committee approves those of the Group Chief Executive's direct reports. Three collective employment agreements cover approximately 36% of the group's employees.

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

$000	2021	2020	$000	2021	2020
100 - 110	65	66	240 - 250	1	-
110 - 120	68	60	260 - 270	1	2
120 - 130	25	24	270 - 280	2	1
130 - 140	35	30	300 - 310	-	1
140 - 150	26	19	330 - 340	-	3
150 - 160	7	9	340 - 350	2	-
160 - 170	6	9	360 - 370	3	-
170 - 180	7	4	370 - 380	-	1
180 - 190	7	6	390 - 400	1	-
190 - 200	5	1	430 - 440	1	2
200 - 210	1	1	450 - 460	-	1
210 - 220	1	-	490 - 500	1	-
220 - 230	2	2	700 - 710	-	1
230 - 240	3	2	1,080 - 1,090	1	-

The board determines the Group Chief Executive's remuneration, after taking independent expert advice and considering relevant market data. The board reviews the Chief Executive's remuneration annually. Mr Jamieson's total remuneration, including termination benefits, as Chief Executive for the period 1 April 2020 to 18 September 2020 was $1,089,000 (2020: $708,000). Mr Brent's total remuneration as Interim Group Chief Executive for the period 19 September 2020 to 31 March 2021 was $290,000.

Five-year trends

	2021 $m	2020 $m	2019 $m	2018 $m	2017 $m
Statement of comprehensive income					
Operating revenue	302	308	326	322	310
EBIT	56	74	81	84	80
Profit before income tax	46	60	66	74	71
Net profit	33	48	48	53	52
Other comprehensive income	4	4	-	-	16
Total comprehensive income	37	52	48	53	68
Statement of financial position					
Current assets	32	27	28	26	23
Non current assets	1,249	1,216	1,181	1,156	1,134
	1,281	1,243	1,209	1,182	1,157
Current liabilities	52	48	48	46	44
Current borrowings	1	102	1	54	37
Non current borrowings	358	228	302	221	212
Deferred tax liability	180	178	186	188	187
Other non current liabilities	12	16	6	2	4
Shareholders' equity	678	671	666	671	673
Total liabilities and shareholders' equity	1,281	1,243	1,209	1,182	1,157
Statement of cash flows					
Operating cash flows	76	93	97	109	100
Investing cash flows	(75)	(68)	(72)	(79)	(67)
Financing cash flows	-	(25)	(25)	(29)	(33)
Financial measures					
Dividends paid	30	47	53	55	55
Net profit to average shareholders' equity %	4.9	7.2	7.2	7.9	7.8
Net interest bearing debt to debt-plus-equity %	35	33	31	29	27
Other measures					
Electricity maximum demand (MW)	629	610	587	633	599
Electricity deliveries into the network (GWh)	3,384	3,419	3,317	3,309	3,227
Number of customer connections (000)	212	208	204	201	198

Directory

As at 22 June 2021

Directors

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

Leadership team

Jono Brent
Interim Group Chief Executive

David Freeman-Greene
Interim Orion Chief Executive

Vaughan Hartland
Group Implementation Lead

John Thompson
Interim Connetics Chief Executive

Paul Deavoll
GM Customer and Stakeholder

Craig Kerr
GM Information Solutions

Steve Macdonald
GM Infrastructure

Andy Miller
GM Quality, Health, Safety and Environment

Dayle Parris
Interim GM Commercial

Sue Teague
Executive Assistant

Karen Wiese
Strategic Programme Lead

Graeme Wilson
Interim Chief Financial Officer

Nikki Woosnam
GM People and Capability

Other sources of information

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

Orion head office

565 Wairakei Road
PO Box 13896
Christchurch 8141
New Zealand
P: + 64 3 363 9898
E: info@oriongroup.co.nz
W: oriongroup.co.nz

Connetics head office

11 Islington Avenue
PO Box 2237
Christchurch 8140
New Zealand
P: + 64 3 353 7200
E: enquiries@connetics.co.nz
W: connetics.co.nz

Auditor

Audit New Zealand, on behalf of the Auditor-General

The Mander family enjoying
“movie night” on the couch.

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

Orion New Zealand Limited
565 Wairakei Road

PO Box 13896
Christchurch 8141

+64 3 363 9898
oriongroup.co.nz