

The Orion Group - unaudited interim review, 29 April 2024

We are pleased to present this report providing our shareholders with an overview of our recent activities and progress against our FY24 SOI targets.

We will provide a full update over the next few months within our FY24 annual report.

As mentioned in our last quarterly update, we remain focussed on the Commerce Commission's reset of our prices, which will take effect on 1 April 2025.

We await the Commerce Commission's draft (due late May) and final (due November/December) Default Price-quality Path (DPP) decisions for the five years starting 1 April 2025. We appreciate it is a challenge for the Commission as part of its pan-industry DPP decisions, to tailor to the unique circumstances of each business and the community they serve. While we are hopeful of a DPP decision that provides sufficient scope for investment and flexibility to adequately serve our customers and region – in the event it doesn't, we will consider applying to the Commerce Commission for a Customised Price-quality Path.

Our asset management plan (AMP) was released in early April and is available on our website - refer [Orion AMP 2024](#). The AMP outlines our strategy and growth expectations for the next decade and provides our associated capex and opex forecasts.

Progress on our FY24 projects and initiatives

The balance of this report focuses on the five areas set out in our FY24 Statement of Intent and specific projects or initiatives:

Facilitating decarbonisation and hosting capacity at lowest cost

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

Being a force for good in the community we serve, enabling the net zero transition

Creating the preferred workplace

Fit for purpose capital structure

Progress against our SOI measures is shown in the attached dashboard. We have achieved most of our SOI measures. We have commented in the dashboard on any measures we have not been able to achieve. Our annual report will provide a more detailed update on these measures.

Facilitating decarbonisation and hosting capacity at lowest cost

Maximising flexibility

SOI measure: Number of sites we take to tender for flexibility services

KPI: 2 (including Lincoln)

We formally announced our partnership with Ecotricity on a flexibility trial for the fast-growing Lincoln area in late 2023. The project explores whether batteries can be used to reduce peak electricity demand in the area in 2024 and 2025 and we are pleased to be ready to launch in May 2024 as planned. Based on updated modelling there is currently no identified capacity constraint suitable for a second flexibility tender this financial year.

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

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SOI measure: Milton zone substation and replacement of 66kV cables from Milton to Bromley

KPI: Nearly complete

We have completed construction on the Milton zone substation, with the installation of the new 66kV underground cable from Bromley to Milton due for completion by the end of June. Completion has been delayed due to difficulty in finalising approvals from KiwiRail. The Bromley to Milton cable project has included extensive community engagement to try and minimise disruption to residents, commuters and the public. The local community and road users affected by the works have been patient and accommodating, given the significant construction activities. The crews have worked hard to keep the community informed about the works and the impacts on traffic.

Being a force for good in the community we serve, enabling the net zero transition

Being a force for good in the community we serve, enabling the net zero transition

SOI measure: Empowering our customers and communities

KPI: Customer Satisfaction (formerly Net Promoter Score)

We received overall positive results from our annual Customer Perceptions Survey. We interviewed 773 customers across urban and rural areas, as well as businesses. The key findings are:

- 89% satisfied with reliability.
- 78% believe Orion is trustworthy.
- 8.3/10 satisfaction with Orion (30% of respondents gave a score of 10/10).
- 8.9/10 rating of ease of doing business with us.
- 8.8/10 rating of service received.

It's important to note that this financial year we have moved away from Net Promoter Score (NPS) as a measure, as it fails to predict behaviour. NPS is also a measure of loyalty, which our customers have no control over. Customer Satisfaction scoring gives us much more useful data.

We are working with Christchurch International Airport and a joint venture party to deliver the Kōwhai Park Project, to develop a 300-hectare solar farm near Christchurch Airport. The joint venture party - Lightsource BP (50%) and Contact Energy (50%) - will develop and build the solar farm and the load connection. Once completed, Orion will receive the electricity export of 150MW at its point of connection. Once all contracts are signed the build is expected to take 18 to 21 months to energisation.

Creating the preferred workplace

Future skills and capability development

SOI measure: Organisational capability

KPI: Complete assessment/study of current organisational capability and future competency needs.

This quarter, our focus on organisational capability has seen some great results. We successfully completed our first pilot programme to enhance commercial acumen across the group. We introduced a centralised learning library to improve access to digital learning resources and learning opportunities and have continued to introduce digital learning solutions to supporting learning in the flow of work across the business. Our Future Network project has advanced, consolidating common capabilities essential for future success.

Fit for purpose capital structure

Financial performance

We paid our shareholders a final dividend of \$12.5m in December. We've paid total dividends of \$25m in FY24, in line with our SOI target.

Our draft summarised financial statements for the full year are attached.

These are unaudited and are subject to further change.

Our draft net profit after tax (NPAT) for the full year is \$12.8m, \$3.4m below our budget for the year.

The significant change in full year NPAT from our last forecast is due to the inclusion of a deferred tax expense of \$4.1m. This arises due to the substantive enactment of the Bill¹ removing tax depreciation on commercial buildings, which passed its third reading on 27 March. Audit NZ's expectation is that we will reflect the associated deferred tax expense in our March financial statements. The current deferred tax expense is subject to audit review, although we have sought Audit NZ and EY input prior to assessing this amount. The entry essentially reverses the \$4.6m deferred tax benefit we recognised in FY20 when the government re-introduced building depreciation as a business-friendly initiative in the midst of the COVID pandemic. Deferred tax is of course non-cash, and is not paid to the IRD.

Without the \$4.1m deferred tax expense we would have been above our NPAT target by around \$0.7m.

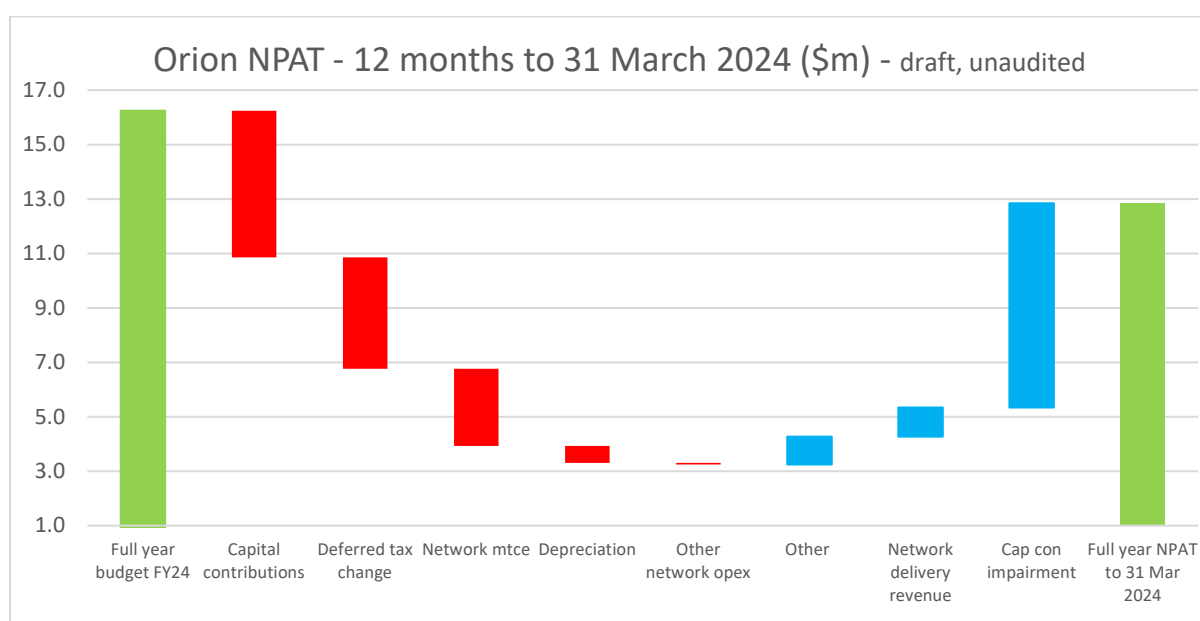
We have also included an agreed \$2m subvention payment to the CCC within these statements (nil profit impact).

Other key matters are:

- we have processed an upwards land and buildings revaluation in FY24. The revaluation increased carrying values by a net \$5.1m although \$0.4m was written down through our P&L
- we are working through a draft network valuation with Deloitte. We expect an uplift in our carrying value
- below budget capital contribution revenue from customers. Although revenue from new connections is above budget YTD, capital contributions from major projects are significantly below budget for the year

¹ Taxation (Annual Rates for 2023-24, Multinational tax, and Remedial Matters) Bill. The Bill will be enacted when Royal Assent is given, effective for the 2024-25 and later income years.

- however, because of the way we now account for capital contributions², the lower capital contributions are largely offset by a reduction in associated impairment expense
- above budget maintenance expenditure. This has been significantly impacted by theft of cables (in excess of \$1m), and repair costs following a windstorm and a failure in a 66kV cable
- income tax expense is lower than budget due to:
 - the presentation of \$2m tax as a subvention payment, and
 - significantly higher levels of line refurbishment expenditure than included in our FY24 tax expense budget.



For and on behalf of the board:

Paul Munro

Chair

29 April 2024

² Refer to note 11 in our FY23 audited financial statements.

Orion New Zealand Limited
Statement of comprehensive income
Twelve months to 31 March 2024
(Draft, unaudited)

	YTD Actual \$000	YTD Budget \$000	Variance fav/(unfav) \$000	%	12 Month budget \$000	12 Month Forecast \$000
Network delivery revenue	238,033	236,561	1,472	1	236,561	238,033
LESS transmission costs	56,117	55,056	(1,061)	(2)	55,056	56,117
Gross margin	181,916	181,505	411	0	181,505	181,916
Sundry revenue	8,496	16,383	(7,887)	(48)	16,383	8,496
Network opex	90,011	86,000	(4,011)	(5)	86,000	90,011
Subvention payment	2,000	-	(2,000)	-	-	2,000
Depreciation & impairment expense	58,836	68,401	9,565	14	68,401	58,836
Network profit before tax	39,565	43,487	(3,922)	(9)	43,487	39,565
Deferred tax expense	3,520	1,299	(2,221)	171	1,299	3,520
Deferred tax expense - building depreciation	4,100	-	(4,100)	-	-	4,100
Income tax expense	6,177	11,746	5,570	47	11,746	6,177
Network profit after tax	25,768	30,442	(4,674)	(15)	30,442	25,768
Add other income - post tax						
Connetics profit (equity-accounted)	2,537	3,698	(1,161)	31	3,698	2,537
Change in fair value of hedges - net of deferred tax	418	950	(532)	56	950	418
Less other expenses - post tax						
Interest expense	15,926	18,143	2,217	12	18,143	15,926
Capitalised interest - net of def tax	(752)	-	752	-	-	(752)
Eliminate internal Connetics profit on capex	701	701	-	-	701	701
Profit after tax	12,848	16,246	(3,398)	(21)	16,246	12,848
Plus / (less) other comprehensive income / (loss)						
Movement in fair value of hedges - net of def tax	(6,807)	-	(6,807)	-	-	(6,807)
Impairment of connection assets - net of def tax	-	(1,313)	1,313	100	(1,313)	-
Revaluation of land and buildings - net of def tax	5,507	-	5,507	-	-	5,507
Other movements in OCI - net of def tax	148	-	148	-	-	148
Total comprehensive income	11,696	14,933	(8,743)	(22)	14,933	11,696

Statement of changes in equity

Twelve months to 31 March 2024

(Draft, unaudited)

	YTD Actual \$000	YTD Budget \$000	Variance fav/(unfav) \$000
Opening balance - 1 April 2023	842,388	852,779	(10,391)
Total comprehensive income	11,696	14,933	(3,237)
Dividends paid	(25,000)	(25,000)	-
Closing balance	829,084	842,712	(13,628)

12 Month budget \$000	12 Month forecast \$000
852,779	842,388
14,933	11,696
(25,000)	(25,000)
842,712	829,084

Statement of financial position

As at 31 March 2024

(Draft, unaudited)

	Actual Mar 24 \$000	Budget Mar 24 \$000
Accounts receivable	30,499	27,400
Connetics	41,007	38,242
Carbon credits (NZUs and VERs)	2,448	3,450
Interest rate swaps	13,770	27,539
Property plant and equipment	1,614,476	1,655,820
Total assets	1,702,200	1,752,451
Accounts payable & accruals	57,397	38,547
Interest rate swaps	-	-
Transpower finance lease	7,803	42,804
Bank and USPP debt	574,604	582,556
Deferred tax	233,313	245,832
Shareholders' equity	829,084	842,712
Total liabilities and equity	1,702,200	1,752,451

Orion New Zealand Ltd

Summary of performance against statement of intent targets

Twelve months to:

31 March 2024 - PROVISIONAL

On track
Uncertain
Will not be achieved
Paused agreed to stop
Annual performance to be assessed at year-end



SOI targets for FY24		FY24	Tracking	Comments	
All targets are to 31 March 2024 unless stated otherwise					
Financial					
FFO over debt (%)	13.2		Our draft unaudited NPAT is \$12.8m, \$3.4m below full year budget. Of this, \$4.1m is an additional deferred tax expense due to the removal of tax depreciation on buildings. Without this expense, our NPAT would have been \$0.7m above full year budget. We are yet to process a revaluation of our distribution network, which we expect will increase both assets and equity.		
Debt over RAB (%)	39				
Interest cover ratio (EBITDA / Interest) (times)	4.9x				
Profit after tax (\$m)	16				
Dividends (\$m)	25				
Indexation increase in RAB (\$m)	56				
Total Shareholder Return (%)	9.4%				
Supplementary performance measures					
Electricity delivery revenue (\$m)	237		Red as lower-than-budgeted capital contributions which reduces EBIT but not profit. Will be diluted with lower NPAT and asset revalued upwards. Will be diluted with lower NPAT and asset revalued upwards.		
Earnings before interest and tax (\$m)	51.3				
Interest cover ratio (EBIT / Interest) (Covenant is >1.5x) (times)	2.0x				
Debt over (Debt + equity) (%)	41%				
Equity to total assets (%)	48%				
Return on equity (PAT / Average Equity) (%)	1.9%				
Return on assets (PAT / Average Assets) (%)	1.0%				
Network reliability					
SAIDI -- planned	39.68				
SAIDI -- unplanned	84.71				
SAIDI -- total minutes per customer	124.39				
SAIFI -- planned	0.15				
SAIFI -- unplanned	1.03				
SAIFI -- total number of interruptions per customer	1.18				
Resilience of our rural and urban network					
Construction of Norwood Grid Exit Point	Complete		We are progressing with all civil works in Brougham Street now complete. We are slightly behind with completion expected end of June 2024, with the risk of the last section is under Kiwirail corridor. The team is working hard to mitigate this.		
Construction of Dunsandel to Norwood 66kV line	Complete				
Construction of Brookside to Norwood 66kV line FY25	Underway				
Milton zone substation and replacement of 66kV cables from Milton to Bromley	Complete				
Health, safety and wellbeing					
Events that did or could have resulted in serious injury to employees (notified events)	≤4			We did not meet our target due to two events that have had significant risk to the public during FY24. Neither resulted in serious harm.	
Events that did or could have resulted in serious injury to service providers (notified events)	≤4				
Events that did or could have resulted in serious injury to the public, excluding car versus pole incidents	≤1				
Connetics					
Number of Health and Safety Interactions	100% to target				
Number of Senior Leadership Safety Observations	84				
Number of Board Safety Observations	12				
Orion					
Number of Board Safety Observations	10		Nine undertaken. Due to unforeseen circumstances two visits were postponed.		
Number of Senior Leadership Safety Observations	90				
Facilitating decarbonisation and hosting capacity at lowest cost					
Network Transformation					
RAB/Maximum System Coincident Demand.	≤ Lower Quartile		For the year to March 2023, which is the latest year for which numbers for all EDBs are available, we placed 11th out of 29 EDBs (need to be 8th or better). This metric is about efficiency. Effectively we are looking to achieve this metric through delivering our strategy and focus areas - eg, through creating a more highly utilised network, developing smart systems or through optimal timing of asset renewals. Initiatives are in play to deliver on this.		

Low Voltage network visibility %of transformers monitored across the LV network	9%		
Accuracy of operational/day ahead load forecast used for network peak demand management	>=80%		
Maximising Flexibility			
Market led flexible capacity: Number of sites we assess the feasibility of flexibility	4 zone substation sites		We completed 2 business cases (Lincoln & Halswell) and a high-level assessment of Norwood. Others identified but assessment not required at this stage.
Number of sites we take to tender for flexibility services	2 (including Lincoln)		A tender for Lincoln was issued in July. We are evaluating options for Halswell which will likely be tendered in FY25.

Being a force for good in the communities we serve enabling the net zero transition - *communities and environment*

Collaborative local energy planning			
Local future energy scenarios published	Complete		
Empowering our customers and communities			
Net Promoter Score	>40		
Reducing the environmental impact of our operations			
Group operational carbon emissions	2,620		We are projecting to come in below FY20 and last year's emissions, but we will likely exceed our target due to heavy vehicle diesel, air travel and fugitive SF6 emissions.
Planting of native forest in partnership with Wairewa Rūnanga	45,000 seedlings planted		

Creating the preferred workplace - *people*

Engagement Score	> 65% positive		
Voluntary Turnover	< 16%		
Organisational capability	Complete assessment/study		Tools have been developed but assessment was not completed by March 2024.
Orion			
Improve gender balance at all levels (people leaders and team members)	35:40:25 (female: male: any gender)		Gender balance remains reasonably static with Q3 levels at 33.3%: 58.0%: 8.7%. Highly unlikely to meet FY24 target (Note: Relatively small workforce numbers results in big shifts). Programmes underway to improve this.
Reduce gender pay gap (see page 10 for further details)	< 15.9%		
Connetics			
Reduce gender pay gap (see page 10 for further details)	Publish gender pay gap		