

ORION GROUP LIMITED

Cost of Service	
1998/99 BUDGET	1999/00 BUDGET
\$	\$
(284,500,000) Operating Revenues	(246,000,000)
<hr style="border-top: 1px dashed black;"/>	
(34,390,000) Operating Surplus Before Taxation	(47,471,000)
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11,900,000 Taxation Expense and Subvention Payment	14,796,000
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(22,490,000) Operating Surplus After Taxation	(32,675,000)
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(2,549,000) Share of Retained Surpluses of Subsidiary Companies less Goodwill Write-off	2,830,000
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263,000 Share of Retained Surpluses less Losses of Associate Companies	(250,000)
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(24,776,000) Net Surplus Attributable to Parent Company Shareholders	(30,095,000)
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Net Profit After Taxation

Projected Surplus After Taxation for 2000/01	(32,250,000)
Projected Surplus After Taxation for 2001/02	(30,667,000)

The forecasts reflect the decision to repatriate \$150 million of share capital and mandatory convertible notes. The final \$75 million of this repatriation is forecast to occur in the 1999/00 year.

The net surplus also reflects the set up of \$180 million of subordinated optional convertible notes held in the same proportions by Orion's shareholders. The notes are interest bearing. Of these, \$70 million of the notes are forecast to be repaid in the 1999/00 year.

Planned Services

Orion's core business is the provision of network services to 160,000 electricity and over 110,000 gas customer connections. It achieves this by providing and maintaining an electricity reticulation system currently comprising 5,000 km of overhead line, 3,000 km of underground cable and 9,000 distribution substations and pole mounted transformers.

Orion is run as a commercial business, meeting and developing market-led demand for energy and related services. It undertakes investments which yield a commercial rate of return and increase the commercial value of the company.

Collectively, these activities contribute towards the achievement of Orion's mission and thereby maintain and enhance the social and economic well-being of the Canterbury community.

Relationship to the Council

Orion New Zealand Limited (formerly Southpower Limited) was established as an energy company on 30 April 1993, as required by the Energy Companies Act 1992.

In late 1998, as part of settlement proceedings with the Commerce Commission, the shareholders changed their ordinary shares in Orion New Zealand Limited for ordinary shares, redeemable preference shares and subordinated optional convertible notes in a new holding company, Orion Group Limited. Orion New Zealand Limited (formerly Southpower

Limited) is a 100% subsidiary of Orion Group Limited and remains the main operating company.

The shareholders are as follows: 87.6%, Christchurch City Holdings Ltd; 10.7%, Selwyn Council Trading Enterprises Ltd; 1.7%, Banks Peninsula District Council.

The shareholders hold the above proportions in the following securities: 266 million \$1.00 Ordinary Shares issued (\$266 million), 120 million \$1.00 redeemable preference shares (\$120 million) and 180 million subordinated optional convertible notes (\$180 million). The number of shares and convertible notes issued may change as part of the planned capital repatriations during 1999/00.

The shareholders exercise influence on the company through the negotiation of the annual Statement of Corporate Intent.

The Council's interest in this Company is in accordance with its Strategic Objective F4 (see page 34).

Overall Service Objective

1. To deliver high quality network services while operating as an innovative and successful business by:
 - earning profits which are commercial and sustainable;
 - adopting competitive and sustainable pricing policies;
 - having due regard to ensuring the efficient use of energy and the network;
 - continually improving all aspects of its business for the benefit of customers and the shareholders.

Objectives for 1999/00

2. Achieve projected overall financial performance.

Performance Indicators

- 2.1 Net after tax surplus to average owners' equity, at least 7.9% (based on estimated revalued average ordinary owners' equity of \$380M) for the year ending 31 March 2000.
- 2.2 Dividend payments on the ordinary shares of \$24.0M for the year ending 31 March 2000. (Christchurch City Holdings Ltd 87.6% share is \$21.0M.)
- 2.3 Interest payments on the subordinated optional convertible notes paid on time in full.
- 2.4 Return capital to shareholders in accordance with the SCI forecasts.

Sources of Funding

