

## 7. REPORT FROM CHRISTCHURCH CITY HOLDINGS LIMITED

<b>Officer responsible</b> Chairperson, Christchurch City Holdings Ltd	<b>Authors</b> Bob Lineham, DDI 3711-411, Richard Simmonds, DDI 3711-817
---	---

The purpose of this report is to provide information to the Council on recent activities of Christchurch City Holdings Limited ('CCHL'), and to make recommendations on any matters arising.

### CCHL

#### Financial Statements for the six months ended 31 December 2001

The CCHL half year report and financial statements for the six months ended 31 December 2001 have been circulated to Councillors, and an explanation of the results and operations for the year is contained therein.

The group net profit for the six months ended 31 December 2001 was \$42.5 million, compared with \$215.0 million in the previous period. The previous period's result included a \$182 million surplus on the sale of Orion's interests in its North Island gas network. The results and financial position of the most recent six month period are therefore not directly comparable. Further details regarding the sale of the North Island gas activities are provided in CCHL's annual report for the year ended 30 June 2001, and Orion's annual report for the year ended 31 March 2001.

On 7 March 2002, Orion completed its awaited \$200 million capital repatriation to shareholders, of which CCHL's share is \$175 million. CCHL has today paid a special dividend to the Council of \$135.8 million, and will shortly execute a sale and purchase agreement with the Council to acquire the Council's shares in Selwyn Plantation Board Limited and City Care Limited for a combined market value of \$39.4 million to complete the repatriation process to the Council.

### ORION GROUP LIMITED ('ORION')

#### Statement of Corporate Intent ('SCI') for the three years to 31 March 2005

Orion have presented their draft SCI (circulated separately) for shareholder approval. CCHL has considered the SCI, and met with Orion directors to discuss it and various underlying issues. CCHL has requested that Orion make a minor amendment in the wording in Section D, Natural Environment, to clarify that, provided clean air initiatives are phased in by Environment Canterbury in a progressive way, there should be no adverse impacts on the electricity network. CCHL recommends that the SCI be approved by the Council with this minor amendment.

A letter from Orion was tabled at the Committee meeting advising that two changes will be recommended to the Orion Board on 26 March as follows:

#### 1. Section D - Natural Environment

A new sentence at the end of the second to last paragraph as follows:

*"Orion is of the view that a measured and gradual phase out of solid fuel heating options, along with properly designed and implemented incentive programme that promotes fluid gas heating and energy efficiency over electric heating will significantly mitigate Orion's future network expansion costs and therefore mitigate future network price rises."*

#### 2. Section H - Returns to Shareholders

Alter the following sentence as follows:

*"These forecasts are less than certain mainly due to the regulatory risks inherent in the industry and the assumed 80% dividend payout ratio."*

The reason for the above change is that the 80% ratio is no longer relevant or applied. For instance, this year's ratio (after adding back deferred tax) is 88%. As the forecast dividends are explicitly stated in the SCI forecasts, a ratio no longer serves a useful purpose.

The Orion Board's decision on the proposed changes will be available in time for the Council meeting on 28 March.

**Recommendation:** That the Orion SCI be approved by the Council with the requested amendment.