

6. REPORT FROM CHRISTCHURCH CITY HOLDINGS LTD

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The purpose of this report is to comment briefly on the annual reports of Orion New Zealand Ltd and Selwyn Plantation Board Limited, which have recently been released.

ORION NEW ZEALAND LTD – ANNUAL REPORT FOR THE YEAR ENDED 31 MARCH 2004

The Orion New Zealand Ltd annual report for the year ended 31 March 2004 has been separately circulated.

The company reported a net surplus of \$0.2 million, compared with \$19.6 million forecast in their Statement of Intent. The main reason for the shortfall was a \$13 million write-down of the investment in Energy Developments Ltd, an Australian listed company in which Orion holds a 13% stake. The write-down resulted from a change in accounting policy, whereby the investment is now valued at the share market price as at balance date. It should be noted that the share price has since increased to a level such that nearly all of this write-off would be reversed if the investment were revalued today.

Other factors contributing to the reduced surplus include \$3 million in respect of increased depreciation charges, resulting from an upwards revaluation of the network last year, and \$5 million of additional write downs on Orion's technology investments. Orion consider that all of their non-network investments are now conservatively and prudently valued.

All of the above factors are non-cash in nature, and Orion's core operations continue to operate successfully and profitably. The net profit from the electricity network was \$35 million (albeit down from the previous year mainly as a result of the increased depreciation charge referred to above).

Orion paid a special dividend of \$40 million during the year, of which CCHL's share was paid to the Council in March 2004, and the company's financial position remains very strong.

Operationally, the company had a successful year, with reliability results just short of the best ever. Orion continues to operate one of the most reliable networks in the country. It has an extensive capital reinvestment programme, with \$33 million of capital expenditure and \$11 million of maintenance scheduled for the year ending 31 March 2005.

The regulatory environment continues to develop. Earlier this year, the Commerce Commission imposed a "CPI-X" pricing restriction on lines companies, whereby they are not permitted to increase their prices over the next five years by more than the rate of inflation, less an 'X' factor that is determined on a company by company basis. For Orion, the 'X' was set at 1%. Orion's price increase at 1 April 2004 (excluding Transpower and Electricity Commission costs) was 1.1% and within the imposed threshold.

The Commission has also imposed reliability thresholds on lines companies. The Commission is continuing work on developing a robust valuation methodology for electricity networks – a critical element in the regulatory structure in terms of ensuring the appropriate incentives for companies to reinvest in their networks.

SELWYN PLANTATION BOARD LTD – ANNUAL REPORT FOR THE YEAR ENDED 31 MARCH 2004

The Selwyn Plantation Board Ltd ('SPBL') annual report for the year ended 31 March 2004 has been separately circulated.

The net surplus for the year was \$3.4 million, compared with \$2.9 million in the previous year. The improved result was principally driven by increased harvest volumes, improved marketing initiatives and operating efficiencies.

Domestic sawmill demand remained firm, driven by strong construction activity in Australasia. Export log demand also remained relatively strong, although margins were adversely affected by the strong NZ dollar and significant increases in sea freight rates.

The company harvested a total of 205,353 tonnes, including third party contract harvesting, up 10% on the previous year.

Jaakko Poyry, international forestry consultants, undertook a comprehensive valuation of the forest estate at the previous balance date. This year an internal valuation reduced that value by some 4%, although this was more than offset by an independent valuation of land and buildings resulting in a 50% uplift in value, reflecting the significant increase in land values in the region.

The company is seeking to purchase additional land for afforestation, and recently acquired a 735ha property at Te Oka Bay on Banks Peninsula. In the interim period, it will be farmed, with planting undertaken over the coming three to five year period. Hill plantations in Canterbury generally produce significantly better quality timber than those located on the plains.

The company has invested significant effort into analysing the covenants held over a significant portion of the plains land, and has made substantial submission to the Commissioner of Crown Lands seeking the removal of all covenants on land owned by the company. This would allow the company flexibility in developing a plan for the future of its plains land resource.

Committee

Recommendation: That the annual reports for Orion New Zealand Ltd and Selwyn Plantation Board Ltd for the year ended 31 March 2004 be received.