

3. REPORT FROM CHRISTCHURCH CITY HOLDINGS LIMITED

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The purpose of this report is to provide information to the Council on recent activities of the Christchurch City Holdings Limited ('CCHL') group.

ORION GROUP LIMITED

Orion New Zealand Limited has released its annual report for the year ended 31 March 2002.

The net profit for the year was \$31.5 million, compared with \$250.5 million in the previous year. The previous year included a gain on sale of the North Island gas network and related activities.

The result was \$3.4 million higher than the Statement of Corporate Intent forecast and reflected a strong performance from contracting subsidiary Connetics Limited, below budget expenses and capital contributions from TelstraClear for pole replacement capital expenditure. The result also included \$3.7 million of goodwill amortisation, and other write-downs of \$3.3 million.

Orion has implemented triple bottom line or sustainable development reporting for the first time in its published annual report. The result is an informative and readable overview of the business and its impacts on stakeholders.

Page 29 of the annual report contains two graphs that show a steadily improving trend in network reliability since 1997, and page 31 demonstrates that Orion performs very well in relation to other network companies.

On page 38 the potential impact of ECan's clean air initiatives is reviewed. Orion conclude that some \$45 million may need to be spent on the network to ensure supply.

On page 44, Orion note that if it had not adopted peak demand pricing and other initiatives, it is likely that inherent growth in the Canterbury economy would have required an additional power station the size of Coleridge to supply the additional demand at peak times.

LYTTELTON PORT COMPANY LIMITED ('LPC')

LPC have recently released their annual report for the year ended 30 June 2002. The company recorded a good result, with a net surplus after tax of \$16.3 million, up 19.4% on the previous year.

The sound result reflected increased volumes in all of the ports main trades – containers through the terminal were up 10%, coal exports increased by 10%, car volumes 9%, bulk fuel 4% and dry bulk goods 37%. Additionally, costs continued to be tightly controlled, with only a 1% rise occurring despite the significantly increased activity in the port.

However, the outlook is more uncertain, particularly in the container trade, with the recent loss of the Maersk container business to Timaru (representing 10% of the business through the container terminal) and the substantial P&O Nedlloyd business under threat.

On the positive side, the company recently signed a long-term coal supply agreement with Solid Energy, and this was ratified by shareholders as a major transaction in September 2002. Solid Energy has ambitious plans to expand their business and export earnings, and the agreement will enable a multi-million dollar upgrade of the coal handling facilities to proceed.

The agreement is considered to very beneficial for the company, as well as having flow on effects to the wider region.

Coal volumes during the year increased from 1.7 million tonnes to 1.8 million tonnes, a record high. Following the upgrade to the coal handling facilities, Solid Energy are forecasting gradual increases in volumes up to 4 million tonnes per annum within five years.

CITY CARE LIMITED

The 2001/02 financial year was the second full year of trading since the major acquisition of the Works Operations business from Christchurch City Council in December 1999. The company recorded a net surplus of \$2.9 million, up 17% on the previous year. This was a pleasing result, achieved despite the loss of a major amenity cleaning contract at the start of the financial year, and reflects continued improvements in operating efficiencies and growth in other areas. The excellent working partnership of the CEO and the Chairman of the Board of the company has been noted by CCHL.

The company is strong financially, and since balance date has repaid \$2.9 million of redeemable preference shares.

In April 2002, City Care acquired the staff and assets of Auckland-based Stargate Services Ltd, a company with experience in water and waste water network maintenance. Diversification and growth into new markets is considered essential for the company's long-term viability and success. However, City Care have re-affirmed their commitment to compete in the Christchurch markets and aggressively target a significant share of work offered for tender by the Council.

SELWYN PLANTATION BOARD LIMITED ('SPBL')

SPBL has released its annual report for the year ended 31 March 2002. The net surplus for the year was \$2.6 million, compared with \$2.1 million in the previous year. The improved result was principally driven by increased harvest volumes and performance improvement initiatives, and was aided by both a domestic and international recovery in demand in the second half of the year.

The company harvested a total of 158,853 tonnes, including third party contract harvesting, up 14% on the previous year.

During the year, the company commissioned Jaakko Poyry, international forestry consultants, to undertake a detailed evaluation of the forests' sustainable yield. This resulted in an assessment of an ongoing recoverable volume of 151,000 m³ per year. The sustainable yield analysis has provided a clearer analysis of the company's forest asset volume/quality and earning potential.

The company's plains forestry blocks are adversely affected by lower growth rates and log grade yields, their 'shelterbelt' configuration, their susceptibility to wind damage, and restrictive land covenants. Consequently their potential financial yield is lower than that of the company's hill country blocks (although the latter's yields will also be adversely affected by a lack of pruning and thinning in the early years).

The company has identified an opportunity to capitalise on growing international demand for wood from environmentally friendly sources. Wood from New Zealand's radiata pine plantation forests as a farmed renewable resource is able to satisfy this demand, and the company is working to achieve accreditation from the Forest Stewardship Council, a world body promoting sustainable forest practices.

The company planted 474 hectares during the year, comprising 262 hectares of new planting at Flagpole, and the balance in replanting of harvested areas.

All Councillors have received copies of the above reports.

In receiving the above reports the Committee acknowledged the efforts of the City Care Board and staff in achieving an excellent result for the year under review.

Recommendation: That the 2001/02 annual reports for Orion New Zealand Limited, Lyttelton Port Company Limited, City Care Limited and Selwyn Plantation Board Limited be received.