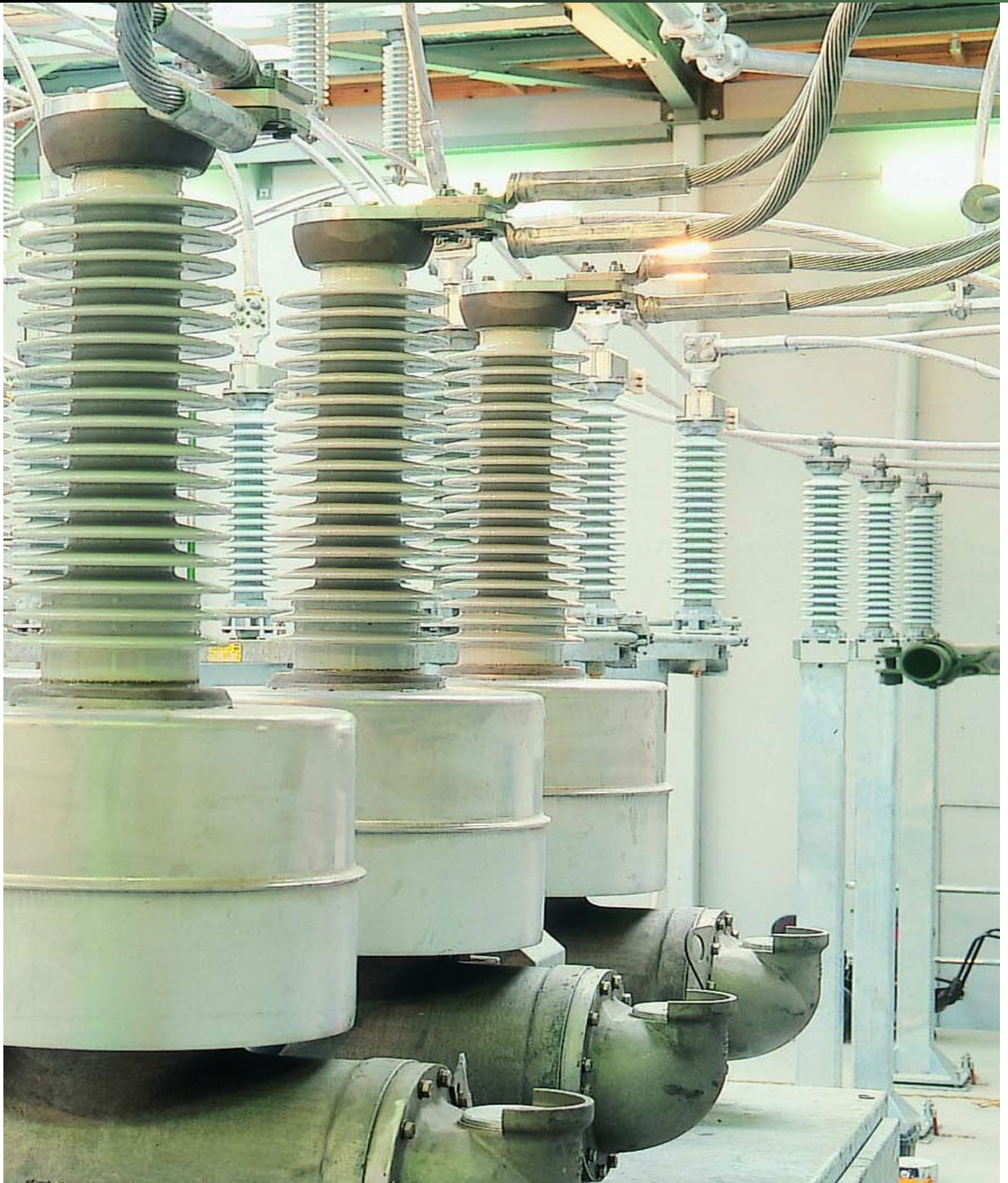


Annual Report 2001



Company Profile

Orion New Zealand owns and operates the electricity network between Canterbury's Waimakariri and Rakaia Rivers.

As an electricity distributor (also known as a network or lines company) Orion is responsible for the construction and maintenance of an efficient and safe electricity network.

The network covers 8,000 square kms, delivers 2,800 GWh p.a., and supplies a maximum demand of up to 540 MW.

In approximate terms, the network currently comprises:

- 46 major substations
- 11,500 km of lines and cables
- 9,300 distribution substations
- 167,500 customer connections.

Orion transports electricity from nine Transpower grid exit points to homes and businesses within Orion's network area. Orion charges electricity retailers for delivering that electricity.

Electricity retailers bundle up the charges for electricity generation, transmission, distribution and retailing, and invoice end users. There are seven electricity retailers operating on Orion's network with four supplying 97% of customers.

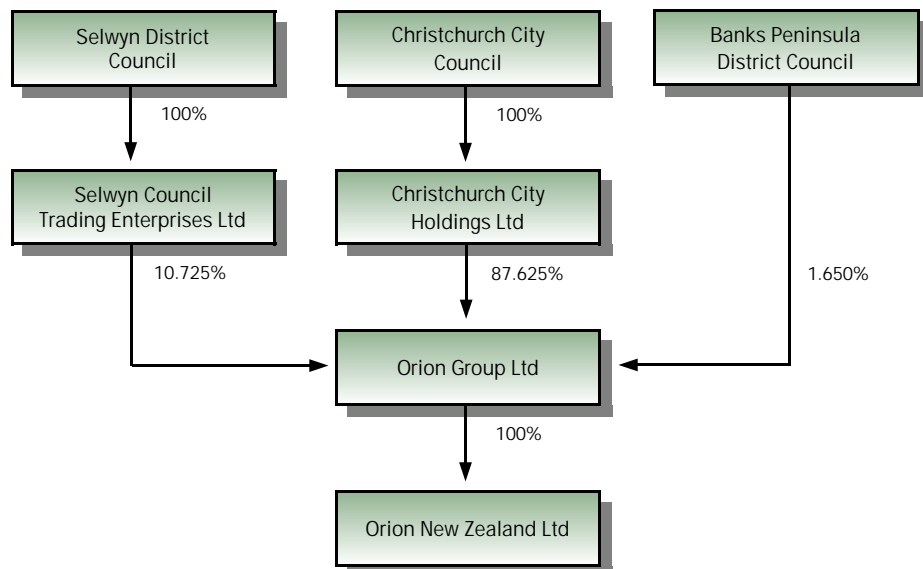
Orion aims to provide a high level of performance in all areas of network management by employing skilled staff and using innovative technologies.

Orion also has investments in a number of energy-related technology companies.

Orion was launched in December 1998 following the separation of the network and energy retailing functions of Southpower Limited. The Southpower name and retailing business were sold in late 1998 as a result of government legislation passed during the year. The network business was renamed Orion.

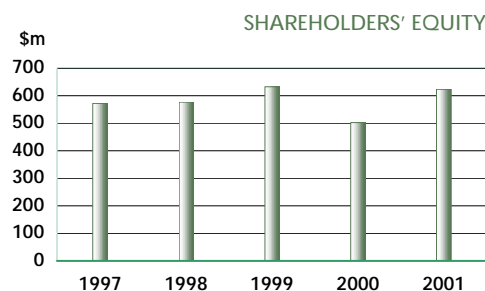
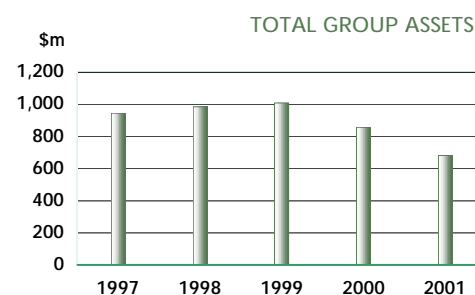
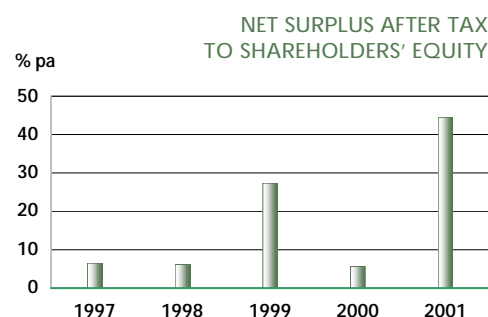
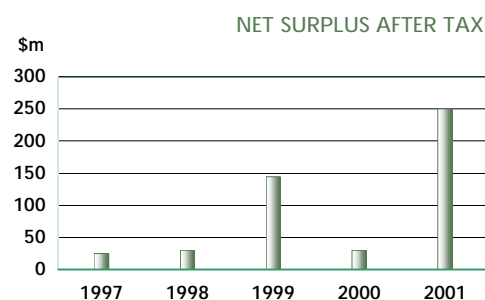
During 1999, after taking over the North Island gas network formerly known as Enerco, Orion ran an integrated electricity and gas network business. The gas business was sold in 2000.

The company ultimately is owned by the Christchurch City Council (87.625%), Selwyn District Council (10.725%) and Banks Peninsula District Council (1.650%).



Performance Highlights

- Achieved a net surplus for the year of \$250.5m. This was \$34.6m ahead of the Statement of Corporate Intent target.
- Paid fully imputed dividends of \$90m in May 2000 and \$12.8m in November 2000.
- Completed the sale of the gas assets, returning a surplus of more than \$200m.
- Announced a further \$200m capital repatriation to shareholders to take place in July 2001 (subject to an IRD binding ruling). Once this is paid, total cash distributions since corporatisation in 1993 will be more than \$650m.
- Announced two price reductions: 3.5% on 1 July 2000 and 5% on 1 April 2001.
- Eliminated fixed line charges for all residential, small and medium sized business customers from 1 April 2001.
- Reduced operating costs from \$133 per customer to \$127 - 22% below the industry average.
- Continued the programme of investing in network upgrades to improve reliability and security.
- Continued a seven year trend of improved electricity network performance.
- Won the EECA Energy-Wise Award for Energy Efficiency at the Canterbury Resource Management Awards 2000.
- Completed a strategic review and began a structured search process for new investments.





Linda Constable
Chairman

Chairman's Review

This has been a year where once again the financial results have exceeded forecast, where two price decreases took place and where Orion was the first electricity network company to remove fixed charges to residential and medium-sized business customers.

The sale of the gas assets owned by Orion has enabled the company to announce it will be returning a further \$200 million to shareholders. This will bring the return to shareholders over the last seven years to more than \$650 million.

We have also maintained high standards of electricity network performance and reliability and invested carefully for continued future performance.

Financial performance

Orion's net surplus for the year of \$250m was \$35m above the Statement of Corporate Intent (SCI) forecast. Excluding abnormal items, the ordinary post tax surplus was \$40m (\$15m above the SCI forecast).

The result is not easily comparable with last year's because both years include a significant number of abnormal items. This year's abnormal items (post tax) were:

- a \$216m surplus on the sale of all the North Island gas activities (\$25m ahead of the SCI forecast). This included the sale of the central Auckland property which although sold on 28 March 2001, was not settled until just after balance date
- a \$4m tax credit following a favourable IRD binding ruling from the 1998 sale of electricity retailing (this was not forecast in the SCI)
- a \$6m benefit from prior year over provisions made for income tax
- a change of accounting policy, to the comprehensive basis of accounting for

deferred tax, which reduced the surplus by \$5m

- a write off of all of last year's gas/oil exploration net carrying value of \$10m (not forecast in the SCI).

The ordinary surplus included favourable variances of \$15m – which were roughly evenly split between electricity delivery revenue, net interest, the impact of the installation of the Telstra Saturn communications network on the Orion network, internal costs, taxation, and a strong performance from Orion's contracting subsidiary, Connetics.

Distributions to shareholders

During the year two fully imputed dividends were paid to shareholders:

- \$90m on 1 May 2000
- \$12.8m on 30 November 2000.

In line with new accounting standards there is no provision for a final dividend.

"Orion's net surplus for the year of \$250m was \$35m above the SCI forecast."

During the year a further \$200m capital repatriation was announced and, subject to a favourable IRD binding ruling, this will be paid in July 2001.

Sale of gas interests

The excellent result achieved from Orion's purchase and subsequent sale of North Island gas assets has played a significant part in our ability to provide capital returns to shareholders. We first invested in the gas business (then called Enerco) in late 1993 and invested further in 1994 and 1999.

In all, \$332m was invested in the gas assets. These have since been sold for more than \$580m.

The key assets sold were:

- the gas networks for \$550m
- industrial gas trading for \$10m
- the central Auckland property for \$14m
- the 5% interest in the Southdown power station for \$9m.

Over all, the investment in the gas business has returned a surplus of more than \$200m. The success of this investment reflects the timing of the initial investment, the value Orion added to the gas business during our ownership and the timing of a well run sales process.

Changes to company valuation

As required by industry regulations, the company undertook the three-yearly Optimised Deprival Valuation (ODV) of its electricity network fixed assets as at 31 March 2000, the result being a downward revaluation of \$42m.

These fluctuations in valuation were caused by changes in the industry's ODV Handbook. In the near future the Commerce Commission will recalibrate line company asset valuations (under the new regulatory regime which is to be put in place by the Government during 2001) which may alter the asset valuation again. For this reason we are using the lower 2000 asset valuation for accounting purposes.

During the year Orion made two price reductions - 8.5% in total.

Two price reductions from Orion

During the year two price decreases for residential and medium sized business customers were announced – a 3.5% decrease effective from 1 July 2000 and a 5% decrease effective from 1 April 2001.

These price decreases were possible because of internal cost reductions and price reductions from the national grid operator, Transpower.

It is pleasing that in most cases energy retailers passed on the savings to customers. Four out of five residential energy retailers passed on the first decrease and three out of five passed on the second.

Similar price reductions have also been introduced for major customers, of which there are about 300 in the Orion network area.

Changes to irrigation pricing

While Orion's prices have decreased overall, a price increase for irrigators is now unfortunately unavoidable.

In recent years the significant increase in electricity use for irrigation has meant investment of more than \$9m in the rural network (see later in the Managing



An increase in electricity use for irrigation on the north bank of the Rakaia river led to the \$4m upgrade of the network supplying local customers.

We were also required to do a further revaluation as at 31 March 2001. This resulted in an upward revaluation of some \$21m.

Director's review). The electricity demand for irrigation continues to increase and the current irrigation pricing is no longer sustainable.



As Orion's wholly-owned contracting company, Connetics provides construction and maintenance services both to Orion and other utility companies.

Consultation with irrigators began in 1998 and the increase is being implemented over a period to March 2003. At the end of this period irrigators will pay prices which are similar to other customers.

Elimination of fixed charges

Orion became the first electricity network company to eliminate fixed charges for residential, small and medium-sized business customers. Since 1 April this year we have had no fixed charges for these customers.

Further Government reforms announced

The Ministerial inquiry into the electricity industry, completed in June 2000, led to the Government implementing further industry reforms which are expected to pass into law in the near future.

Key features include:

- the establishment of an overall industry governance body and framework. The new body's role is principally to set industry rules where co-ordination between industry participants is required

- the establishment of a customer complaints resolution system
- the establishment of certain controls on electricity retailers in regard to fixed charges, customer switching protocols, prepayment meters and the application of the Consumer Guarantees Act
- the establishment of further controls on network distribution companies
 - ◆ restrictions on rural line charge increases
 - ◆ development of model non-binding delivery service agreements
 - ◆ development of model non-binding delivery pricing methodologies
 - ◆ the Commerce Commission becomes responsible for future network asset valuation, price control and regulatory information disclosure
 - ◆ the Commerce Commission has the power to set thresholds and place line companies in breach of these thresholds under price control.

Orion supports these reforms in principle as they promote the continued use of sound economic principles in areas such as pricing. The industry is currently taking the initiative by establishing a self-governing regime consistent with the Government's objectives.

"Orion became the first electricity network company to eliminate fixed charges"

The future

Orion completed a strategic review of its operations in November 2000. During that process consultation with shareholders was invaluable. As a result of the review Orion is seeking new investment opportunities in the infrastructure, energy and technology sectors and will make the \$200m capital return to shareholders in July.

While the company's core business remains the efficient and reliable operation of the electricity network, the significant skills we have in managing investments in infrastructure, energy and technology businesses are also being employed to grow the shareholders' investment into the future.

A structured search process for new investments is being undertaken. It is a challenging task. However, additional investments will only be undertaken if the board believes shareholder value can be added and captured. Investments will not be made if they threaten the financial and operational integrity of the electricity network.

Conclusion

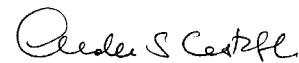
It has been yet another excellent year for shareholders and customers, both in terms of financial returns, pricing and quality of services provided.

It appears that there is no such thing as a 'normal' year in the energy industry, be it

dealing with on-going industry reorganisation or the vagaries of the weather.

It is a credit to the continued dedication and skill of management, staff and board directors alike that among continual change, Orion continues to achieve such significant results. I thank all involved for their contribution.

Finally, I extend a heartfelt thank you to Don Sollitt who leaves the board at the end of his three year term. Don's enthusiasm for the task and his knowledge of technology-related business has been a real asset to the board. I wish him well.



Linda Constable
Chairman



Orion's control room is the hub of the company's network operations and is overseen by the network operations manager, Gaeme Messervy.



Chris Laurie
Managing Director

Managing Director's Review

The performance of Orion's electricity network in the past year demonstrates the value of robust asset management planning and sound operational processes. The Chairman has outlined the company's financial achievements during the last year, but the operational and network enhancements are no less notable.

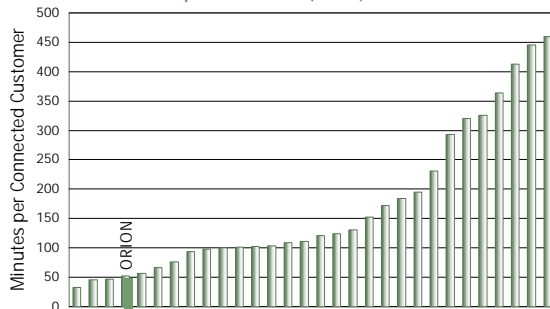
Network performance has continued to improve. Additional investment and ongoing efficiency gains will ensure the present high performance of the network will be maintained.

High network reliability

Orion's network performed well last year and a high level of reliability was maintained. The average time a customer was without power was 62 minutes, compared with the target of 75 minutes.

In addition, the average number of interruptions per customer was 0.6 compared with the target of 1.1. Particularly pleasing was an improvement in reliability in rural areas, with 3.2 interruptions per customer, down from 4.0 the previous year. The improvement is due in part to the increased use of live line maintenance.

Orion's Position Relative to Other NZ Lines Businesses
Minutes Lost per Customer (SAIDI)



Operating costs compare favourably

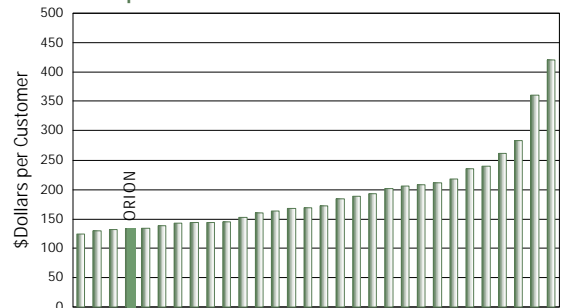
Operating costs reduced during the year from \$133 per customer to \$127. This was

22% less than the 2000 industry average of \$163 per customer per year.

One of the reasons Orion controls its operating costs so well is our commitment to using contractors for network construction, scheduled and emergency maintenance and the installation of new connections.

Orion's experience in efficiently managing both electricity and gas infrastructure assets using this business model means we also have the skills to manage other infrastructure assets.

Orion's Position Relative to Other NZ Lines Businesses
Cost per Customer



New investment in the network

We are committed to ensuring the electricity network is reliable and up-to-date and during the year we made a number of significant investments in the network so our excellent record in these areas is maintained.

Where significant network investment is planned, we undertake consultation with relevant industry and customer groups. During the year we discussed a number of plans with energy retailers, customer and business groups.

Our priorities are outlined in the company's comprehensive asset management plan, which looks out 10 years at the network's needs. Some examples of the network investments made in the last year are outlined on the following page.

Ripple control system upgrade planned

We are about to invest \$4m to upgrade our ripple control system. The current system was introduced 12 years ago to encourage efficient use of the network but now needs upgrading to ensure its continued reliable operation.

Ripple systems send signals which switch meters and send pricing signals over the network to be received at customers' premises. The ripple system forms an important part of our demand-management efforts as it is used to reduce load at peak times.



More than \$8m is being invested to upgrade the rural network in the next 3 years. The growth of electricity use for irrigation is driving the investment.

Our system has always been flexible so electricity retailers can differentiate themselves by the way they control their customer's electrical load. The new system will continue to provide retailers with the ability to customise their services.

Central business district security enhanced

Another major commitment for Orion has been the \$13m investment catering for growth in electrical load and upgrading the security of supply to central Christchurch.

Orion has continued a strong investment program to improve network performance.

The two-year project will be completed by July 2001 and involves laying a 160MVA, 66kV cable from Transpower's substation at Bromley to a new substation in Armagh Street. The project has also included building the new Lancaster substation opposite Jade Stadium.

This is by far the largest capacity 66kV cable installed in the Orion network and for the first time employs solid plastic insulated cables.

Rural network upgraded

The introduction of a 66kV rural transmission network this year was also a first for Orion.

An increase in irrigation associated with dairy conversions on the North Rakaia River bank accelerated plans to upgrade the existing 33kV network to 66kV transmission lines and substations.

The \$4m project started in November 2000 and will be completed in November 2001. The new 66kV network connects to Transpower's grid exit point at Hororata. Further rural investment is planned during 2002 and 2003.

These projects are in addition to the \$1.5m spent over the last two years increasing capacity in the rural areas for irrigation loads.

New Transpower Investment at Islington

Work has begun on this project to increase the capacity of supply to Wigram, Hornby, Sockburn, Middleton and the airport, to meet the increase in industrial customer load.

At the same time we are eliminating some historical network constraints that prevented load from being connected to alternative grid exit points. This will provide enhanced security of supply for the areas concerned.

Pole replacement accelerated for Telstra Saturn

The installation of Telstra Saturn's wide-band communication network in Christchurch has accelerated Orion's multi-year pole replacement programme.

A significant portion of the new network is overhead cabling attached to Orion's poles. The additional loading on poles means a significant portion of poles require replacement to safely support the Telstra Saturn cable.

About one-third of the city's 25,000 poles are being replaced over two years as part of an attachment and cost-share agreement with Telstra Saturn.

"About one-third of the city's 25,000 poles are being replaced over two years"

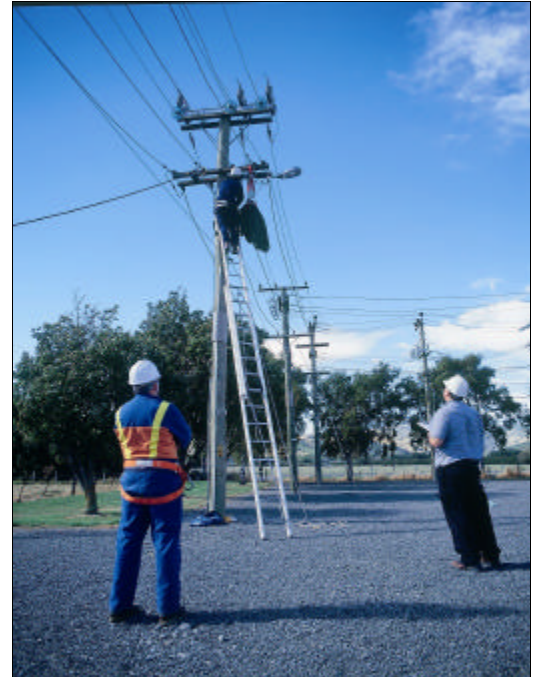
Commitment to safety and training

During the year we extended our commitment to safety by opening a training facility in association with the Electricity Supply Industry Training Organisation (ESITO).

The training area enables contractors who maintain and upgrade the Orion electricity

network to be kept up-to-date with the latest techniques and equipment.

It's important to us that we ensure people working on the Orion network are well trained and work safely. We are proud of our excellent safety record.



A demonstration of Orion's commitment to training and safety was the establishment, with the industry training organisation ESITO, of a training facility at the Halswell switchyard.

The facility at Orion's Halswell switchyard includes overhead electricity lines and underground cables and can be livened with electricity so training can be undertaken in a 'live' environment.

Energy efficiency achievements recognised

Over the last decade Orion has consistently worked to promote energy efficiency for both asset management and environmental reasons. That effort was publicly recognised when the company won the EECA Energy-Wise Award for Energy Efficiency at the Canterbury Resource Management Awards 2000.

We entered the awards based on work started in 1990 to reshape Canterbury's electricity load curve. This work featured a range of initiatives including direct load

management through ripple control, promotion of energy efficiency and innovative 'time of use' pricing signals. The work was initiated to limit the growth of maximum electricity demand and limit the environmental impact of additional network, transmission and electricity generation infrastructure.

Orion has worked consistently over the last ten years to promote energy efficiency

Because of those efforts we estimate we saved 1,000 tonnes of copper, 1,800 tonnes of aluminium and more than 3,600 tonnes of steel. In addition, electricity peak demand stabilised at a time when Canterbury's economy continued to grow.

If electricity usage continued to grow at the same pace as the Canterbury economy since 1990, then the equivalent of an additional power station at least the size of the Coleridge power station would have been needed to meet the demand, together with a new 220kV transmission line from Twizel to Christchurch.

The initiatives also have had a direct impact on customer pricing, reducing delivery charges by an estimated 12%.

Bringing the video screen to Jade Stadium

Orion has been involved in Canterbury almost as long as rugby and cricket have been played at Jade Stadium and so it was with great pleasure that Orion entered a 10-year sponsorship of the video replay screen at Jade Stadium.

Some 350,000 people visit Jade Stadium each year to enjoy a variety of entertainment and so this sponsorship is an opportunity for Orion to support a valuable community asset.

Supporting innovation in Canterbury

During the year Orion helped fund the establishment of the Canterbury Innovation Incubator (Cii).

Cii assists new innovative companies to get established, and learn and grow in a supportive and professional environment. The aim is to help them maximise the market potential of new ideas and technology.

Cii, which is located in one of Orion's Armagh St buildings, is the result of collaboration between Orion, the Christchurch City Council's economic development arm (the Canterbury Development Corporation), the University of Canterbury, the Christchurch Polytechnic Institute of Technology and Lincoln University.



We helped fund Cii's establishment and developed and refurbished the building. Staff have also assisted with mentoring and providing business introductions.

Orion supports Community Energy Action

As a company we are proud to continue our support for Community Energy Action. This charitable trust provides energy efficiency measures for people on low incomes.

The state-of-the-art LED screen is 11 metres long, 6.4 metres high and weighs more than 9,000 kg.

We have supported the trust since its establishment in 1992. Our current involvement includes providing premises and other practical support.

While CEA started by operating a free curtain bank and installing hot water cylinder wraps, it now offers whole house solutions including insulation and draught proofing. At peak times it employs up to 28 people, showing that energy efficiency can also provide worthwhile jobs.

In May this year Community Energy Action won first prize in the inaugural residential section of the EECA EnergyWise Awards. There were 18 entries in the category.

Outlook and thanks

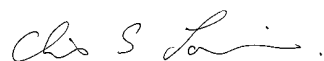
The coming year will present us with continuing challenges as the industry moves to implement the latest round of industry reforms.

It is important Orion continues to play an active role in this process to ensure shareholder value is preserved.

We also have the opportunity to grow the company by investing in energy, infrastructure and technology businesses.

We have a track record of success in this area and we're looking forward to building on the successes achieved so far.

But what is success without the contribution of all the staff involved at Orion? We operate in a highly skilled industry challenged by constant change. Without each one of the staff keeping their eye on the ball and pulling together, we would not continue to achieve. My thanks go out to each and every member of the Orion team.



Chris Laurie
Managing Director

Investments

While Orion's core business is the management of its electricity network, for the last decade the company has managed and developed a portfolio of investments which complement Orion's involvement in the electricity industry.

These strategic investments include businesses which provide access to leading edge technology that can add value to the network and provide opportunities for new revenue. A new investment during the year was in 4RF, a wireless microwave technology company.

Investments are pursued where Orion can add value to the company through its skills, business contacts and market knowledge. The sectors targeted are the energy, infrastructure and technology sectors, as part of Orion's strategy to increase shareholder value.

A summary of investments follows.



Orion's wholly-owned contracting company, Connetics Limited, services customers throughout New Zealand, with a primary focus on Canterbury. Its core business is the construction and maintenance of overhead and underground lines and associated equipment used to deliver utility services.

While Connetics tenders for work with a range of customers, during the last year the company also successfully completed a number of significant projects for Orion. These included the installation of the Lancaster to Armagh 66kV cable and the construction of the new Lancaster substation.

Success in these projects, in conjunction with productivity in all other areas of

Connetics' business, has resulted in exceptional financial performance that exceeded budget for the financial year.

The company's most significant diversification since it was corporatised in 1996 has been into telecommunications, with its involvement in the construction of the Telstra Saturn network: it was awarded both half of the residential build and the central business district build contracts.



Whisper Tech develops and manufactures small-scale domestic co-generation systems.

This year was an exciting one for Whisper Tech. Significant orders for the WhisperGen engine totalling several million dollars came from Japan, Europe and the US. The company is continuing to work on a unit specifically for the European residential market.

Whisper Tech continues to grow in terms of manufacturing and employment. It is in the process of building a significant new manufacturing facility on Orion's Manchester Street site to house the growing company.

During the year the WhisperGen engine was listed by Popular Science Magazine as one of the 10 technologies most likely to change the world.



Energetics provides services associated with energy, energy efficiency, minimizing green house gas emissions and energy benchmarking. It has offices in the US, Australia and Europe.

The company's business revolves around consulting, software development, and energy benchmarking solutions. Its head office is in Sydney and the consulting arm is the leading energy consulting and green house gas specialist in Australasia.

In the last year it has made major inroads into the US market, selling its One-2-Five Energy™ software to many of America's largest utility companies, as well as developing software packages for other large companies, the US Environmental Protection Agency and the Department of Energy.

In the coming year Energetics aims to take advantage of the business opportunities which have resulted from US-wide energy shortages.



CIC Global

CIC Global is an international company providing customer information and communication technologies.

CIC Global has grown from a company which focuses solely on pre-payment systems to one which supplies intelligent metering and vending technology. The vending technology has the ability for pre- and post- payment options as and when the market requires them.

The company anticipates strong increases in revenue in New Zealand as the Government's energy policy, which requires energy retailers to offer pre-payment solutions, takes effect. In Australia, significant revenue growth is also expected.

To support its expanding business the company established a 24 hour, seven day a week, computer server and development operation in Christchurch during the year.

In the US opportunities continue to be identified. The Nashville office secured contracts with three new utilities during the year and is exploring larger deployments during the next 12 months. Small US utility companies have a similar customer base to the largest New Zealand energy retailers.



TransFlux manufactures and markets an innovative fluid heater.

TransFlux has identified South America as an area where the market potential for the innovative technology is significant.

A new compact domestic product has been developed for the South American market. Opportunities are being explored to manufacture significant quantities for this market, and for markets where pollution is an issue and instant water heating is essential.



EnerTech Capital Partners is a US based USD\$265 million venture capital fund focused on investing in energy, communications and related technologies internationally.

Orion has a USD\$5m investment in an EnerTech fund. The investments made by EnerTech are performing very well despite the downturn in US-listed technology stocks. The fund's first liquidity event in 2000 gave Orion a significant return from the investment made at that time. The fund continues to show an unrealised rate of return on investment above 50%.

While it is still early days with this investment, it has already given Orion-sponsored technologies access to other major investors. This opens up new contacts and markets for the company's existing technology investments.

For example, during the year an Enertech venture partner was appointed to the board of Whisper Tech. He has since facilitated introductions to key utilities internationally. Orion's other investments stand to benefit in a similar way.



Orion is involved in three joint ventures exploring for oil and gas.

During the year Orion took a 10% stake in the Canterbury exploration licences held by Indo-Pacific. The joint venture drilled two onshore wells in Canterbury, one near Timaru, and the other near Oxford. While neither well found hydrocarbons, the geological data gathered during drilling is being reviewed to help identify other prospects.

Orion is also involved in two joint ventures with licences on the East Coast of the North Island.



4RF is focused on the development, manufacture and delivery of wireless, microwave, land-based communication access and transport systems for all types of network operators internationally.

Orion invested in Wellington-based 4RF in early 2001. 4RF was established in 1998 to develop original, high performance wireless microwave radio systems that quickly deliver cost-effective digital bandwidth for telecommunication and telemetry network operators and end users.

Orion's expertise in network operations and telemetry, together with its international alliances, are valuable to 4RF and should assist it to grow during the next few years.

The technology being developed by 4RF is leading edge and exponential growth in the market sector is anticipated as finite bandwidth becomes more valuable. Orion looks forward to substantial growth in 4RF as it plans for a US - IPO listing in the next three to five years.

Board of Directors

Linda S Constable LLM (Hons)

Chairman from August 1999 and a director since February 1989. She is also a director of Orion Exploration Limited, Kaupapa Taiao Manager for Te Runanga o Ngai Tahu and chairman of Carter Group Limited and its subsidiaries.

Peter Rae FCA, AFNZIM

Director since August 1998 and deputy chairman from August 1999. He is also chairman of the audit and risk management committee. He is managing director of investment company, Peter Rae Industries Limited, and a director of its various associate companies. He is also a director of The National Property Trust Limited and WH Collins Limited.

Chris S Laurie BE (Elect), Reg Eng, AFNZIM

Managing director and director since February 1989. He is a member of the audit and risk management committee. He is chairman of Energetics Pty Limited and Connetics Limited and a director of Orion Exploration Limited, TransFlux Developments Limited and 4RF Communications Limited.

Philip M Carter JP, BE (Hons), Reg Eng, Dip Bus Admin (Cant)

Director since November 1989 and deputy chairman between 1993 and 1998. He is managing director of Carter Group Limited and its subsidiaries and a former member of the Christchurch City Council.

John H Gray CBE, ED, JP, FCA, FCIS, FCCM, FNZIM, F Inst D

Director since April 1993 and chairman from 1993 to August 1999. He is chairman of Orion Exploration Limited. He was Christchurch City Manager from 1973 to 1993. He is a life member and former vice-president of the International City Management Association.

Don Sollitt

Director since August 1998 and a member of the audit and risk management committee. He is chairman of NIWA (a CRI - National Institute of Water & Atmospheric Research Ltd), Learning Media Ltd (an SOE in the publishing business) and Canterprise Limited (the commercial arm of the University of Canterbury). He is a shareholder and managing director of HTS (High Technology Systems Ltd) with offices in New Zealand and Australia. He is a director of Chartwell Holdings Ltd and Highford Holdings Ltd. Mr Sollitt has interests in the primary sector through Timberline International Ltd and Westwood Beef (NZ) Ltd.

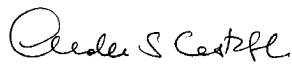
Ken Sparrow

Director since August 2000. He is Regional Managing Director for Australasia of Invacare Corporation, a US-based health equipment business with a turnover of \$1 billion. The Christchurch subsidiary of Invacare is Dynamic Controls Limited, which makes electronic components for wheelchairs and other health products. Prior to joining Invacare in 1998 he was with the Lyttelton Port Company and Skellerup.

Financial Statements

The directors are pleased to present
the financial statements of
Orion New Zealand Limited and its
subsidiaries for the year ended
31 March 2001.

For and on behalf of directors:



Linda Susan Constable
Chairman
Christchurch
22 May 2001



Christopher Stephen Laurie
Managing Director
Christchurch
22 May 2001

Statement of Financial Performance

For the year ended 31 March	Notes	Group 2001 \$000's	Group 2000 \$000's	Parent 2001 \$000's	Parent 2000 \$000's
Operating revenues	2 & 4	400,400	272,903	384,596	260,973
Operating surplus before taxation	3	262,632	55,209	275,232	59,966
Taxation expense	5	11,772	25,073	16,034	20,097
Operating surplus after taxation		250,860	30,136	259,198	39,869
Share of retained surpluses less losses of subsidiaries		-	-	(8,338)	(9,733)
Share of retained surpluses less losses of associates		(359)	295	(359)	295
Net surplus attributable to parent company shareholders	4	250,501	30,431	250,501	30,431

The accompanying notes form part of and are to be read in conjunction with these financial statements

Statement of Movements in Equity

For the year ended 31 March	Notes	Group 2001 \$000's	Group 2000 \$000's	Parent 2001 \$000's	Parent 2000 \$000's
Equity at the start of the period		502,660	631,897	502,660	631,963
Net surplus attributable to: - parent entity shareholders		250,501	30,431	250,501	30,431
Decrease in revaluation reserves	13	-	(41,634)	-	(41,634)
Deferred tax liability likely to reverse in the foreseeable future		(26,712)	(18,100)	(26,712)	(18,100)
Total recognised revenues and expenses for the period		223,789	(29,303)	223,789	(29,303)
Minority interests sold		-	66	-	-
Distributions paid or provided to shareholders during the period - ordinary dividend - special dividend		(12,800) (90,000)	(24,000) -	(12,800) (90,000)	(24,000) -
Repayment of mandatory subordinated convertible notes		-	(76,000)	-	(76,000)
Equity at the end of the period		623,649	502,660	623,649	502,660

The accompanying notes form part of and are to be read in conjunction with these financial statements

Statement of Financial Position

As at 31 March	Notes	Group 2001 \$000's	Group 2000 \$000's	Parent 2001 \$000's	Parent 2000 \$000's
Assets:					
Current Assets					
Bank and short term deposits		164,990	17,820	164,990	17,799
Accounts receivable	6	27,223	17,797	23,927	15,757
Inventories	7	4,495	3,862	147	396
Income tax		23,711	14,400	24,740	14,490
Fixed assets held for sale	8	3,970	286,988	3,970	286,611
Inter-company balances		3,937	(31)	4,525	3,716
Goodwill		-	64,155	-	64,155
		228,326	404,991	222,299	402,924
Non-Current Assets					
Subsidiaries and associates		8,377	3,254	15,240	18,455
Other long term investments		1,029	16,906	134	674
Fixed assets	8	445,569	432,707	442,014	429,919
Future tax benefits		-	346	-	-
		454,975	453,213	457,388	449,048
Total assets		683,301	858,204	679,687	851,972

The accompanying notes form part of and are to be read in conjunction with these financial statements

Statement of Financial Position (continued)

As at 31 March	Notes	Group 2001 \$000's	Group 2000 \$000's	Parent 2001 \$000's	Parent 2000 \$000's
Liabilities:					
Current Liabilities					
Bank overdraft		282	-	-	-
Accounts payable and accruals	9	27,894	49,239	23,842	47,952
Interest bearing debt	10	260	271,260	260	271,260
Provision for ordinary dividend		-	12,000	-	12,000
Deferred tax liability	5	-	18,100	-	18,100
		28,436	350,599	24,102	349,312
Non-Current Liabilities					
Deferred tax liability	5	31,216	4,945	31,936	-
		31,216	4,945	31,936	349,312
Total external liabilities		59,652	355,544	56,038	349,312
Shareholders' Equity					
Paid up capital		120,000	120,000	120,000	120,000
Retained earnings		302,526	129,144	302,526	129,144
Revaluation reserve	13	201,123	253,516	201,123	253,516
		623,649	502,660	623,649	502,660
Total liabilities and equity		683,301	858,204	679,687	851,972

The accompanying notes form part of and are to be read in conjunction with these financial statements

Statement of Cash Flows

For the year ended 31 March	Notes	Group 2001 \$000's	Group 2000 \$000's	Parent 2001 \$000's	Parent 2000 \$000's
Cash Flows From Operating Activities					
Cash was provided from:					
Cash receipts from customers		174,645	272,777	160,838	262,033
Interest received		14,983	2,477	15,066	2,708
		189,628	275,254	175,904	264,741
Cash was applied to:					
Non capitalised payments to suppliers and employees		93,429	135,151	82,339	124,162
Income tax paid (net of refunds)		38,491	38,936	38,349	39,794
Subvention payment		12,886	10,006	18,388	23,667
Interest paid		2,524	24,063	2,522	24,071
		147,330	208,156	141,598	211,694
Net cash inflow from operating activities	12	42,298	67,098	34,306	53,047
Cash Flows From Investing Activities					
Cash was provided from:					
Repayment of loans		540	3,777	540	3,777
Sale of fixed assets		531,098	12,379	530,287	12,348
Sale of gas activities goodwill		6,852	-	6,352	-
Sale of Southdown interests		-	8,500	-	8,500
Sale of gas retailing activities		-	100,500	-	100,500
Proceeds from investments		154	-	18	209
		538,644	125,156	537,197	125,334
Cash was applied to:					
Purchase of fixed assets		32,474	37,990	30,848	37,125
Purchase of investments		6,856	1,558	6,856	526
Exploration expenditure		4,957	13,590	-	-
		44,287	53,138	37,704	37,651
Net cash inflow from investing activities		494,357	72,018	499,493	87,683

The accompanying notes form part of and are to be read in conjunction with these financial statements

Statement of Cash Flows (continued)

For the year ended 31 March	Notes	Group 2001 \$000's	Group 2000 \$000's	Parent 2001 \$000's	Parent 2000 \$000's
Cash Flows From Financing Activities					
Cash was provided from:					
Proceeds of long term debt		-	35,000	-	35,000
Proceeds from Orion Southdown JV interests		-	302	-	-
		-	35,302	-	35,000
Cash was applied to:					
Decrease/(increase) in current accounts		3,967	(4,200)	808	(2,554)
Dividends paid		114,800	26,100	114,800	26,100
Long term debt repaid		271,000	63,998	271,000	63,998
Subsidiary bank account sold or not included in consolidation		-	822	-	-
Mandatory subordinated convertible notes repaid		-	76,000	-	76,000
		389,767	162,720	386,608	163,544
Net cash outflow from financing activities		(389,767)	(127,418)	(386,608)	(128,544)
Cash Flow Summary and Reconciliation					
Opening bank and short term investments		17,820	6,122	17,799	5,613
Inflow from operating activities		42,298	67,098	34,306	53,047
Inflow from investing activities		494,357	72,018	499,493	87,683
Outflow from financing activities		(389,767)	(127,418)	(386,608)	(128,544)
Net closing bank and short term investments		164,708	17,820	164,990	17,799

The accompanying notes form part of and are to be read in conjunction with these financial statements

Notes to Financial Statements

1. Statement of Accounting Policies

Reporting entity

Orion New Zealand Limited is a company registered under the Companies Act 1993. The group consists of Orion New Zealand Limited and its subsidiaries (refer to Note 17).

Orion New Zealand Limited is a reporting entity for the purposes of the Financial Reporting Act 1993. The financial statements include the group financial statements of Orion New Zealand Limited and have been prepared in accordance with the Financial Reporting Act 1993 and Section 44 of the Energy Companies Act 1992.

Measurement base

The accounting principles recognised as appropriate for the measurement and reporting of financial performance, cash flows and financial position on an historical cost basis are followed by the group, with the exception that certain fixed assets and investments have been revalued.

Specific accounting policies

The following specific accounting policies which materially affect the measurement of financial performance, cash flows and financial position are applied:

- (a) **Basis of consolidation - purchase method**
The group financial statements include the parent company, its subsidiaries and its in-substance subsidiaries using the purchase method. All significant inter-company transactions have been eliminated on consolidation.
- (b) **Capital contributions**
Capital contributions which are refundable to customers are treated as current liabilities until refunded. Non-refundable contributions are credited to income when received.
- (c) **Research and development costs**
Research and development costs are expensed in the period incurred. Development costs are deferred where future benefits are expected to exceed those costs, otherwise such costs are expensed in the period incurred. Deferred development costs are amortised over future periods in relation to expected future revenue.
Unamortised costs are reviewed at each balance date to determine the amount (if any) that is no longer recoverable and any amounts, so identified, are expensed.
- (d) **Distinction between capital and revenue expenditure**
Capital expenditure is defined as all expenditure incurred in the creation of a new asset and any expenditure which results in a significant restoration or increased service potential for existing assets. Constructed assets are included in fixed assets as each becomes operational and available for use. Revenue expenditure is defined as expenditure which is incurred in the maintenance and operation of the fixed assets of the group.
- (e) **Accounts receivable**
Accounts receivable are valued at their expected realisable value. All known bad debts are written off during the financial year. Hire purchase debtors exclude unearned interest (calculated using the "Rule of 78" method).

- (f) **Inventories**
Stocks and inventories are valued at the lower of cost (FIFO or weighted average) and net realisable value, with additional allowances for obsolescence where necessary. Chargeable work in progress includes direct materials and labour and an allocation of overheads that directly relate to the contract.
- (g) **Investments**
Investments are initially recorded at cost. In the parent company financial statements, subsidiaries and associates are accounted for on an equity accounting basis which shows the company's share of retained surpluses and its share of post acquisition increases / decreases in net assets less goodwill write offs. Where, in the opinion of the directors, there has been a permanent diminution in the carrying value of investments, this has been recognised in the current period. Dividend income is recognised in the statement of financial performance when received.
- (h) **Depreciation**
Depreciation has been provided on fixed assets using the straight line method at rates which amortise the cost or valuation less estimated residual value over their economic lives.

The main bases are periods not exceeding:

Electricity distribution system	70 years
Gas distribution system	80 years
Meters and load control equipment	30 years
Leasehold land	14 years
Buildings	50 years
Cars and vans	5 years
Trucks	7 years
Plant and equipment	10 years
Computer equipment and software	3 years

The electricity distribution system economic lives have been set consistent with the Ministry of Commerce's revised ODV Handbook. The economic lives range from 15 - 70 years for the different components of the distribution system.

- (i) **Fixed assets**
The group's fixed assets are revalued on a cyclic basis at least once every three years by independent valuers to net current value. Any subsequent fixed asset additions are initially recorded at cost until the next revaluation.
- (j) **Goodwill**
Goodwill represents the excess of the purchase consideration over the fair value of net tangible and identifiable intangible assets acquired at the time of the acquisitions of the shares in subsidiaries. Goodwill is amortised by the straight line method over the period during which benefits are expected to be received. This is a maximum of 20 years.
- (k) **Income tax**
The income tax expense charged to the statement of financial performance includes both the current year's provision and the income tax effect of timing differences calculated using the liability method.

Tax effect accounting is applied on a comprehensive basis to all timing differences. A debit balance in the deferred tax account, arising from timing differences or income tax benefits from income tax losses, is only recognised if there is virtual certainty of realisation.

- (l) **Foreign currencies**
Transactions in foreign currencies are converted at the New Zealand rate of exchange ruling at the date of the transaction.
- Short-term transactions covered by forward exchange contracts are measured and reported at the forward rates specified in those contracts.
- At balance date, foreign monetary assets and liabilities are translated at the closing rate, and exchange variations arising from these translations are included in the Statement of Financial Performance.
- The exchange difference on hedging transactions undertaken to establish the price of particular sales or purchases, together with any costs associated with hedging transactions, are deferred and included in the measurement of the purchase or sale transaction.
- (m) **Financial instruments**
Orion New Zealand Limited has entered into swaps transactions for the primary purpose of reducing exposure to fluctuations in interest rates. While these financial instruments are subject to the risk that market rates may change subsequent to the acquisition of the financial instrument, such changes would generally be offset by opposite effects on the items being hedged. For the swap agreements, the differential to be paid or received is accrued as interest rates change and is recognised as a component of interest expense over the life of the agreement.
- (n) **Employee entitlements**
Provision is made in respect of the company's liability for annual and long service leave. The annual leave liability has been calculated on an actual entitlement basis at current rates of pay. The long service leave liability has been assessed on an actuarial basis.
- (o) **Exploration expenditure**
Exploration expenditure is accounted for using the Successful Efforts Method. Under this method, capitalised exploration costs are immediately written off when it becomes apparent that the activity will not result in the discovery of economically recoverable reserves.

Changes in Accounting Policies

Taxation

During the 2001 year the company changed its method of accounting for deferred tax from the partial basis to the comprehensive basis (liability method) and now accounts for deferred tax on all timing differences. The implementation of this change has resulted in the following impact on the financial statements for the current year: surplus after tax has decreased by \$5,223,000 and shareholders' equity has decreased by \$31,936,000.

There have been no other changes in accounting policies.

2. Operating Revenues

A summary of operating revenue is as follows:

	Group 2001 \$000's	Group 2000 \$000's	Parent 2001 \$000's	Parent 2000 \$000's
Energy and line revenue	142,292	241,790	142,292	241,790
Appliances	-	895	-	895
Bad debts recovered	246	250	245	250
Changes in bad debt provisions	903	993	903	993
Contracting	15,503	12,321	-	-
Interest	16,902	2,470	16,967	2,701
Other	8,797	14,184	9,318	14,344
Goodwill from sale of gas activities	6,852	-	6,352	-
Profit on sale of fixed assets	208,905	-	208,519	-
	400,400	272,903	384,596	260,973

3. Operating Surplus Before Tax

Operating surplus before tax includes the following expense items:

Audit fees- parent company auditor	105	93	76	69
Other fees- parent company auditor	18	9	18	9
Bad debts written off	467	1,152	462	1,136
Changes in bad debt provisions	21	23	-	-
Depreciation	18,031	30,241	17,258	29,351
Directors' fees	216	220	210	210
Donations	76	45	76	45
Foreign exchange losses	-	(92)	-	(92)
Goodwill amortisation	1,356	3,462	1,356	3,462
Interest expense - MCN's	-	3,098	-	3,098
Interest expense - other	(19)	20,301	(61)	20,301
Leasing and rental	394	678	60	287
Loss on disposal of fixed assets	1,376	1,162	1,362	1,164
Research and development	79	16	79	16
Severance and restructuring	102	541	102	541
Subvention payments	12,886	9,988	18,388	23,649
Write-off exploration expenditure	20,986	18,638	-	-

	Group 2001 \$000's	Group 2000 \$000's	Parent 2001 \$000's	Parent 2000 \$000's
4. Continuing and Discontinued Activities				
Continuing activities				
Operating revenue	180,746	159,559	165,788	150,402
Net surplus	34,373	14,992	34,373	14,992
Discontinued activities				
Operating revenue	219,654	113,344	218,808	110,571
Net surplus	216,128	15,439	216,128	15,439
5. Taxation				
The taxation provisions are subject to Inland Revenue Department assessment.				
Taxation Expense				
Surplus before taxation	262,632	55,209	275,232	59,966
Prima facie taxation at 33%	86,669	18,219	90,827	19,789
ADD/(LESS) taxation effect of:				
Timing differences	(2,991)	(202)	(3,120)	(5,147)
Permanent differences	(66,938)	5,083	(66,705)	5,078
Under/(over) provisions in prior years	(10,191)	184	(10,191)	254
Deferred tax written off	-	1,789	-	123
Deferred tax from timing differences expected to reverse	5,223	-	5,223	-
Taxation as per Statement of Financial Performance	11,772	25,073	16,034	20,097
Deferred Tax Liability				
Opening balance	23,045	-	18,100	-
Future tax benefits reclassified	(346)	-	-	-
Current year movement through Statement of Movements in Equity	26,712	18,100	26,712	18,100
Current year movement expensed/ (revenue)	(18,195)	4,945	(12,876)	-
Closing balance	31,216	23,045	31,936	18,100

Imputation Credit Account (Parent Company)

	2001 \$000's	2000 \$000's
Opening balance	46,144	19,147
Opening balance adjustment	74	37
	46,218	19,184
Income tax paid	38,048	39,729
Use of money interest received	344	-
Imputation credits attached to dividends paid	(56,543)	(12,855)
Tax transferred to related companies	-	(21)
Imputation credits from amalgamating companies	-	107
Closing balance	28,067	46,144

6. Accounts Receivable

A summary of accounts receivable is as follows:

	Group 2001 \$000's	Group 2000 \$000's	Parent 2001 \$000's	Parent 2000 \$000's
Trade receivables	27,038	19,601	23,657	17,479
Interest receivable	1,109	2	1,113	24
Provision for doubtful debts	(924)	(1,806)	(843)	(1,746)
	27,223	17,797	23,927	15,757

7. Inventories

A summary of inventories is as follows:

Chargeable work in progress	564	548	111	380
Goods for sale	1,488	765	36	16
Maintenance items	2,596	2,645	-	-
Provision for stock write-off	(153)	(96)	-	-
	4,495	3,862	147	396

Certain inventories are subject to retention of title clauses.

8. Fixed Assets

	Group 2001 \$000's	Group 2000 \$000's	Parent 2001 \$000's	Parent 2000 \$000's
Land and Buildings (at valuation)	24,694	24,957	24,576	24,872
Land and Buildings (at cost)	1,365	212	1,328	212
Accumulated depreciation	(602)	-	(591)	-
	25,457	25,169	25,313	25,084
Distribution system (at valuation)	390,468	391,782	390,468	391,782
Distribution system (at cost)	38,060	9,759	38,060	9,759
Accumulated depreciation	(14,787)	-	(14,787)	-
	413,741	401,541	413,741	401,541
Other (at valuation)	5,591	5,997	3,027	3,294
Other (at cost)	2,866	-	1,272	-
Accumulated depreciation	(2,086)	-	(1,339)	-
	6,371	5,997	2,960	3,294
Total fixed assets	445,569	432,707	442,014	429,919
Capital work in progress included at balance date	14,124	9,988	14,116	9,971

Revaluation

The company's electricity distribution system was revalued to net current value as at 31 March 2000. The valuation, on an optimised deprival value basis, was certified by independent valuers, Ernst and Young. Land and buildings were revalued to net current value as at 31 March 2000 by the registered valuers, Ernst and Young. All other fixed assets of the company and its wholly owned subsidiary, Connetics Limited, were revalued to net current value on the basis of net book values as at 31 March 2000.

Depreciation has been applied to the assets for the year ended 31 March 2001 in accordance with the group's accounting policies.

Fixed assets held for sale

Assets held for sale were revalued to net current value as at 31 March 2000 and were not revalued on 31 March 2001. Depreciation has been applied to these assets consistent with the group's accounting policies.

Fixed assets held for sale at 31 March were as follows:

	Group 2001 \$000's	Group 2000 \$000's	Parent 2001 \$000's	Parent 2000 \$000's
Assets held for sale:				
At cost/valuation	4,286	317,888	4,286	317,325
Accumulated depreciation	(316)	(30,900)	(316)	(30,714)
	3,970	286,988	3,970	286,611
Capital work in progress included at balance date	-	5,296	-	5,296

9. Accounts Payable and Accruals

A summary of accounts payable and accruals is as follows:

Trade creditors and accruals	25,264	43,932	22,515	43,676
Employee entitlements	2,630	2,724	1,327	1,693
Interest accrued on term liabilities	-	2,583	-	2,583
	27,894	49,239	23,842	47,952

10. Interest Bearing and Other Debt

The closing balance is made up as follows:

Clean air loan advance	260	260	260	260
Other interest bearing debt	-	271,000	-	271,000
	260	271,260	260	271,260

The loan maturities are made up as follows:

Current	260	271,260	260	271,260
> 2 years	-	-	-	-
	260	271,260	260	271,260

All debt is unsecured against the group, however loan documents require the company to comply with certain covenants.

Interest rates for almost all borrowings are floating based on 90 day bank bill rates plus a margin. These rates varied between 6.206% and 6.865% as at 31 March 2000. Offsetting these rates, the group had entered into interest rate swaps to hedge its exposure to interest rate fluctuations (as disclosed in Note 11). The company had no interest bearing borrowings at 31 March 2001.

11. Financial Instruments

The estimated fair values of Orion New Zealand Limited's financial instruments are as follows:

Group	Carrying Amount 2001 \$000's	Fair Value 2001 \$000's	Carrying Amount 2000 \$000's	Fair Value 2000 \$000's
Cash and short term investments	164,990	164,990	17,820	17,820
Long term investments	9,406	9,406	20,160	20,160
Bank overdraft	(282)	(282)	-	-
Interest bearing debt - current	(260)	(260)	(271,260)	(271,260)
Interest rate swaps and FRA's	-	-	-	1,227
Parent Company				
Cash and short term investments	164,990	164,990	17,799	17,799
Long term investments	15,374	15,374	19,129	19,129
Interest bearing debt - current	(260)	(260)	(271,260)	(271,260)
Interest rate swaps and FRA's	-	-	-	1,227

The company anticipates that long term debt will be held to maturity.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Cash, short term investments, bank overdraft and short term debt. The carrying amounts of these balances are equivalent to their fair value.

Long term investments. It was not practicable to estimate fair values of non-current investments as there are no quoted market prices for these or similar investments. The investments are carried at valuation and are considered redeemable at their carrying amount.

The fair value of notes receivable is estimated based on current market interest rates available to the company for an investment of similar terms and maturities.

Long term debt. The fair value of long term debt is estimated based on current market interest rates available to the company for debt of similar maturities.

Interest rate swaps and forward rate agreements (FRA's). The fair value of interest rate swaps and FRA's, is estimated based on quoted market prices of those instruments.

Off-Balance Sheet Risk

Interest Rate Hedge Contracts

Fluctuations in interest rates give rise to market risk.

The company has short term investments which are subject to interest rate variations in the market.

Interest rate swaps, FRA's and options, are employed to manage interest rate exposure on long term borrowings.

Contracts have been entered into with various counterparties having such credit ratings and in accordance with such dollar limits as set by the Board of Directors. The company does not require collateral or other security to support financial instruments with credit risk. While the company may be subject to credit losses up to the notional principal or contract amounts in the event of non performance by its counterparties, it does not expect such losses to occur.

	Group 2001 \$000's	Group 2000 \$000's	Parent 2001 \$000's	Parent 2000 \$000's
Interest rate swaps and FRA's	-	290,000	-	290,000

For interest rate swaps, FRA's and options contracts, the cash requirements are limited to interest payable or receivable which was a net payable amount of nil as at 31 March 2001 (\$413,502 payable in 2000) and was included as part of net current liabilities as at that date.

Following the repayment of all external debt on 28 April 2000, as disclosed in note 10, the company subsequently unwound the borrower swaps in place so as to be in a neutral hedge position.

Concentration of Credit Risk

Financial instruments which potentially subject the company to concentrations of credit risk consist principally of cash and short term investments, trade and notes receivable and various off-balance sheet instruments. The company places its cash and short term investments with high credit quality financial institutions and sovereign bodies and limits the amount of credit exposure to any one financial institution in accordance with its treasury policy.

12. Reconciliation of Surplus After Taxation with Net Cash Flow from Operating Activities

	Group 2001 \$000's	Group 2000 \$000's	Parent 2001 \$000's	Parent 2000 \$000's
Net surplus from the Statement of Financial Performance	250,501	30,431	250,501	30,431
ADD/(LESS) non cash items:				
Depreciation	18,031	30,241	17,258	29,351
Assets written off	1,367	-	1,362	-
Change in deferred tax liability via expense/(revenue)	(18,195)	4,928	(12,876)	-
Foreign exchange difference	-	(80)	-	(80)
Amortisation of goodwill	1,356	3,462	1,356	3,462
Non dividend equity accounted earnings from subsidiaries and associates	359	(295)	8,697	9,438
	2,918	38,256	15,797	42,171
ADD/(LESS) movements in other working capital items:				
(Increase)/decrease in debtors	6,963	8,865	8,080	10,331
(Increase)/decrease in interest receivable	(1,107)	7	(1,089)	7
(Increase)/decrease in stocks	(633)	546	249	553
Increase/(decrease) in creditors	(9,669)	(3,592)	(11,528)	(3,489)
Increase/(decrease) in interest payable	(2,583)	(672)	(2,583)	(672)
Increase/(decrease) in taxation payable	(9,335)	(18,809)	(10,250)	(19,715)
	(16,364)	(13,655)	(17,121)	(12,985)
ADD/(LESS) items classified as an investing activity:				
Write off exploration expenditure	20,986	18,638	-	-
(Profit)/loss on sale of fixed assets	(208,891)	1,162	(208,519)	1,164
Goodwill from sale of North Island gas activities	(6,852)	-	(6,352)	-
Profit on sale of Southdown interests	-	(7,734)	-	(7,734)
	(194,757)	12,066	(214,871)	(6,570)
Net cash inflow from operating activities	42,298	67,098	34,306	53,047

13. Revaluation Reserve

	Group 2001 \$000's	Group 2000 \$000's	Parent 2001 \$000's	Parent 2000 \$000's
Opening balance	253,516	313,250	253,516	313,250
Realisation of revaluation reserve	(40,290)	-	(40,290)	-
Revaluation—31 March 2000	-	(41,634)	-	(41,634)
Deferred tax liability reversed on sale of the gas network	18,100	-	18,100	-
Deferred tax liability likely to reverse in the foreseeable future	(30,203)	(18,100)	(30,203)	(18,100)
	201,123	253,516	201,123	253,516

14. Contingent Assets and Liabilities

There were no material contingent assets or contingent liabilities at 31 March 2001 or at 31 March 2000.

15. Commitments

At balance date, capital commitments were as follows:

Distribution system	18,908	2,484	18,908	2,484
Other	10,705	9,014	10,705	9,000
	29,613	11,498	29,613	11,484

All of the above capital commitments are due to be met in the next financial year, with the exception of up to \$9 million committed by Orion NZ Ventures Limited for which there is not an established timeframe.

At balance date, lease commitments were as follows:

2002	395	501	48	245
2003	393	473	48	218
2004	393	473	48	218
2005	303	728	48	473
2006 and beyond	739	-	484	-

Note: commitments which extend beyond 2006 have been assessed for a maximum period of 10 years.

16. Segmental Reporting

Orion New Zealand Limited and its subsidiaries operate predominantly in the electricity distribution network sector. The gas operation was sold in April 2000. The Australian and USA operations are not material in relation to Orion's overall operations.

17. Subsidiary and Associated Companies at 31 March 2001

All group companies have a 31 March year end except for the Manchester Holdings/CIC group who have a 31 December year end. The operating subsidiary and in substance subsidiary companies of Orion New Zealand Limited, its associated companies and their activities were as follows:

Company name	Effective ownership	Principal activities
Connetics Limited	100%	Contracting
Convertech Group Limited ("Convertech")	1%	Biomass energy licensing
Convertech subsidiary companies	24%	Biomass energy development
Energetics Pty Ltd	36%	Energy consultancy joint venture
4RF Communications Limited	14%	High performance radio systems
Manchester Holdings, Inc.	100%	Registered in USA- holding company
CIC Global, LLC	50%	Power metering systems
Orion Exploration Limited	100%	Gas exploration
Orion New Zealand Ventures Limited	100%	Investment
Transflux Holdings Limited	50%	Induction heating licensing
Transflux Developments Limited	100%	Induction heating development
Whisper Tech Limited	34%	Micro cogeneration systems

18. Significant Events After Balance Date

On 12 April 2001, the Beaumont Street property sale was settled in cash for \$14.2m plus GST, less the deposit received in October 2000. The settlement amount was included as part of accounts receivable as at 31 March 2001.

19. Related Parties

Christchurch City Holdings Limited (CCHL) is an 87.625% shareholder in the holding company. CCHL is 100% owned by the Christchurch City Council (CCC).

Selwyn Council Trading Enterprises Limited (SCTEL) is a 10.725% shareholder in the holding company. SCTEL is 100% owned by the Selwyn District Council (SDC).

Banks Peninsula District Council (BPDC) is a 1.650% shareholder in the holding company.

The company has been 100% owned by Orion Group Limited (the holding company) since 23 October 1998. Prior to that date its shares were owned in the above proportions by CCHL, SCTEL and BPDC.

The company and its subsidiaries undertake many transactions with the shareholders and their related parties, all of which are carried out on a commercial and arms length basis.

During the year no material transactions, other than the capital repatriation and the payment of dividends, were entered into with such parties.

During the year no transactions were entered into with any of the directors, except for the following transactions with a subsidiary of the Carter Group Limited relating to subdivision power reticulation:

Purchase	\$137,000
Liability at 31 March 2001	\$233,000

These transactions were conducted on an arms length commercial basis.

Chartwell Holdings Limited received \$6,500 during the year for consultancy services in relation to Manchester Holdings Limited and CIC Global, Inc.

	Group 2001 \$000's	Group 2000 \$000's	Parent 2001 \$000's	Parent 2000 \$000's
Transactions during the year				
Purchases from CCC, SDC, BPDC and their subsidiaries	1,418	597	404	416
Revenues from CCC, SDC, BPDC and their subsidiaries	4,606	3,253	2,074	1,292
Dividend payments	114,800	26,100	114,800	26,100
MCN interest payments	-	2,438	-	2,438
Outstanding balances as at 31 March				
Accounts payable to CCC, SDC, BPDC and their subsidiaries	25	42	1	35
Accounts receivable from CCC, SDC, BPDC and their subsidiaries	895	631	645	381
Dividends payable to Orion Group Ltd	-	12,000	-	12,000

Statement of Performance

	2001 Actual	2001 Target	2000 Actual
Customers (Electricity Network)			
All interruptions:			
• Duration of supply interruptions per connected customer (SAIDI) - minutes per year:			
(a) Urban	18	60	16
(b) Rural	404	420	328
• Number of supply interruptions per connected customer (SAIFI) - times per year:			
(a) Urban	0.3	0.9	0.4
(b) Rural	3.2	5.5	4.1
Note: The above targets include interruptions sourced from the Orion network, Transpower network and the generation companies			
Orion network interruptions only:			
• Duration of supply interruptions per connected customers (SAIDI) - minutes per year :			
(a) Urban	18	54	16
(b) Rural	403	378	324
• Number of supply interruptions per connected customer (SAIFI) - times per year:			
(a) Urban	0.3	0.8	0.4
(b) Rural	3.2	5.0	3.9
Note: The above targets include interruptions sourced from the Orion network only.			
Network load factor:	61.3%	59.1%	57.7%
Financial			
Electricity network regulatory return on investment (ROI)	*9.4%	7.9%	(0.90%)

* Note: including the 31 March 2001 revaluation, this number is 14.5%.



Audit New Zealand

REPORT OF THE AUDIT OFFICE

TO THE READERS OF THE FINANCIAL STATEMENTS OF ORION NEW ZEALAND LIMITED AND GROUP FOR THE YEAR ENDED 31 MARCH 2001

We have audited the financial statements and performance information on pages 2 to 22. The financial statements provide information about the past financial performance of Orion New Zealand Limited and group and its financial position as at 31 March 2001. The performance information specifies the performance targets and other measures by which the performance of Orion New Zealand Limited and group can be judged in relation to its objectives. This information is stated in accordance with the accounting policies set out on pages 8 to 10.

Responsibilities of the Board of Directors

The Energy Companies Act 1992 and the Financial Reporting Act 1993 require the Board of Directors (the Board) to prepare financial statements which comply with generally accepted accounting practice and give a true and fair view of the financial position of Orion New Zealand Limited and group as at 31 March 2001 and the results of its operations and cash flows for the year ended 31 March 2001. The Energy Companies Act 1992 also requires the Board to report the performance targets and other measures by which the performance of Orion New Zealand Limited and group can be judged in relation to its objectives.

Auditor's responsibilities

Section 45(1) of the Energy Companies Act 1992 requires the Audit Office to audit the financial statements and the performance information presented by the Board. It is the responsibility of the Audit Office to express an independent opinion on the financial statements and the performance information and report its opinion to you.

The Controller and Auditor-General has appointed K J Boddy, of Audit New Zealand, to undertake the audit.

Basis of opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements and performance information. It also includes assessing:

- ▲ the significant estimates and judgements made by the Board in the preparation of the financial statements and performance information; and
- ▲ whether the accounting policies are appropriate to Orion New Zealand Limited and group's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards, including the Auditing Standards issued by the Institute of Chartered Accountants of New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

We have carried out two audit related assignments for Orion New Zealand Limited. These involve issuing audit certificates pursuant to the Electricity (Information Disclosure) Regulations 1999. Other than these assignments and in our capacity as auditor acting on behalf of the Controller and Auditor-General, we have no other relationship with or interests in Orion New Zealand Limited or its subsidiaries.

Unqualified opinion

We have obtained all the information and explanations we have required.

In our opinion:

- ▲ proper accounting records have been kept by Orion New Zealand Limited and group as far as appears from our examination of those records; and
- ▲ the financial statements of Orion New Zealand Limited and group on pages 2 to 22:
 - comply with generally accepted accounting practice; and
 - give a true and fair view of:
 - the financial position as at 31 March 2001; and
 - the results of its operations and cash flows for the year ended on that date; and
- ▲ the performance information of Orion New Zealand Limited and group on page 22 gives a true and fair view of the achievements in relation to the performance targets and other measures adopted for the year ended 31 March 2001.

Our audit was completed on 24 May 2001 and our unqualified opinion is expressed as at that date.

K J Boddy
Audit New Zealand
On behalf of the Controller and Auditor-General
Christchurch, New Zealand

Statutory Information

Ownership

The company has, since 23 October 1998, been 100% owned by Orion Group Limited (the holding company).

The holding company is owned in the following proportions:

• by Christchurch City Holdings Limited (which is 100% owned by the Christchurch City Council)	87.625%
• by Selwyn Council Trading Enterprises Limited (which is 100% owned by the Selwyn District Council)	10.725%
• by the Banks Peninsula District Council	1.650%
	<hr/> 100.000% <hr/>

There have been no changes in the above beneficial interests during the financial year.

Principal Activities

The company's principal activities during the year were:

- to provide network distribution services to electricity retailers on behalf of consumers
- to provide other services such as contracting in the energy sector.

The gas network and related activities were sold to UnitedNetworks Limited just prior to 31 March 2000. The effective date was 1 April 2000 and settlement occurred on 28 April 2000. The industrial gas retailing activities were sold after balance date in April 2000.

Directors

Sir Allan Wright retired as a director on 22 August 2000. Ken Sparrow was appointed as a new director on the same date.

The following directors retire by rotation at the Annual Meeting:

- Peter Rae, being eligible, offers himself for reappointment
- Don Sollitt retires after three years as an Orion director. His term, representing the minority shareholders, ends at the Annual Meeting in August 2001.

Entries in the Interests Register

The company maintains an interests register in which particulars of certain transactions and matters involving the directors are recorded. These are requirements under the Companies Act 1993. The following entries were recorded in the interests register during the year ended 31 March 2001.

Director	Company	Position
Philip M Carter	Carter Charitable Trust	Trustee
	Carter Group Limited and subsidiaries in hotel and property	Director
Linda S Constable	Carter Group Limited and subsidiary companies	Chairman
	Te Runanga O Ngai Tahu	Kaupapa Taiao Manager
John H Gray	Pukeariki Holdings Limited (until September 2000)	Chairman
Christopher S Laurie	Energetics Pty Limited	Chairman
Peter Rae	Peter Rae Industries Limited	Chairman
	The National Property Trust Limited	Director
	Waitaki Transport Limited	Chairman
	W H Collins Limited	Director
Don Sollitt	Canterprise Limited	Chairman
	CER Technology Limited	Director
	Chartwell Holdings Limited	Director
	Contact United Machinery Limited (until March 2001)	Director
	Highford Holdings Limited	Director
	Highford Marketing Limited (until August 2000)	Director
	High Technology Systems Limited	Director
	Highlands Venison Estate Limited (until September 2000)	Director
	Learning Media Limited	Chairman
	NIWA Limited	Chairman
	Timberline Int. Limited	Director
	Trans Tasman Technologies Limited	Director
Westwood Beef (NZ) Limited	Director	
Ken Sparrow	Invacare NZ Limited	Director
	Hatfield Mobility Limited	Director
	Dynamic Controls Limited	Director
	Bird Investments Limited	Director

Directors' Remuneration

During the year the total of the remuneration and value of other benefits received by the directors of the company was as follows:

	Orion NZ Ltd Directors' Fees \$000's
Philip Carter	31
Linda Constable (Chairman)	54
John Gray	31
Peter Rae	34
Don Sollitt	31
Ken Sparrow	18
Sir Allan Wright	11
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	210
	<hr style="width: 100%; border: 0.5px solid black;"/>

The remuneration of Chris Laurie (Managing Director) for the year was \$621,000, principally salary, and a performance bonus relating to the year ended 31 March 2000.

Directors' Insurance

The company has arranged insurance policies for directors' liability insurance within the limits and requirements as set out in the Act.

Loans to Directors

There were no loans made to directors.

Subsidiary Companies

The following persons held office of subsidiary companies at the end of the year or in the case of those persons with the letter (R) after their name ceased to hold office during the year. Except where shown below and above, no director of any subsidiary company within the Orion group receives directors' fees or other benefits as a director. The remuneration of employees acting as directors of subsidiary companies is disclosed at the relevant bandings in the Group Employee Remuneration section following.

Orion New Zealand Ventures Limited	C Laurie, I McInnes
Orion Exploration Limited	J Gray, L Constable, C Laurie
Connetics Limited	B Kearney, C Laurie, P Rae \$6,500
TransFlux Developments Limited	I McInnes, B Kearney, C Laurie
Manchester Holdings, Inc	C Laurie, I McInnes, D Sollitt, J Thomas
TransFlux Holdings Limited	P Bodger, I McInnes, B Kearney, C Laurie, K Longden, R Walker

There were no changes in accounting policies made by Orion's subsidiary companies during the year except that Orion Exploration Limited has adopted the comprehensive method of accounting for taxation. Other than those entries disclosed above, there were no further entries made in the subsidiary companies' interests registers.

Group Employee Remuneration

The number of group employees and former employees, other than directors of Orion New Zealand Limited, whose remuneration and benefits fall within specified bands is listed below. Remuneration includes all non-cash benefits and redundancy payments where applicable.

Remuneration \$000's	No. of current and former employees
100 - 110	4
110 - 120	1
120 - 130	3
130 - 140	1
140 - 150	1
160- 170	1
170 - 180	1
250 - 260	1
260 - 270	2
290—300	1
340 – 350	1

Auditor

In accordance with Section 45 of the Energy Companies Act 1992, The Audit Office will remain as auditor of the company.

Five Year Trends

	2001	2000	1999	1998	1997
Group operating revenues (gross) (\$m)	400	273	576	507	467
Net surplus after tax attributable to parent company shareholders (\$m)	250.5	30.4	144.2	30.2	25.2
Net surplus attributable to parent company shareholders per share (cents)	313.1	38.0	180.3	37.8	31.5
Net surplus attributable to parent company shareholders to average ordinary shareholders' equity (%)	44.5	5.7	27.4	6.1	6.5
Ordinary dividends per share (cents)	16.0	30.0	30.0	20.0	16.8
Total group assets (\$m)	683	858	1,007	983	946
Total group liabilities (\$m)	60	356	375	313	284
Orion shareholders' equity (\$m)	624	503	632	578	572
External debt:debt plus equity ratio (parent) (%)	-	35.0	32.2	24.3	24.4
Net tangible asset backing per share (\$)	7.80	5.48	6.10	6.02	5.94
Electricity deliveries into the network (GWh)	2,822	2,735	2,690	2,727	2,672
Electricity maximum demand (MW)	526	542	517	529	543

Corporate Governance Statement

The directors are pleased to present the company's Corporate Governance Statement. This statement provides an overview of the company's main corporate governance practices.

Role of the Board

The Board is responsible for the proper direction and control of the company's activities. This responsibility includes such areas of stewardship as:

- commercial performance
- identification and control of business risks
- internal control
- integrity of management information systems
- compliance with relevant law
- reports to shareholders.

Board Committees

The Board has a standing committee that meets several times a year.

The Audit and Risk Management Committee liaises with the company's auditors and provides additional assurance regarding the quality and reliability of internal controls and financial information used by and issued by the Board. The Committee also oversees the company's insurance practices and monitors the effectiveness of the company's risk and loss control activities.

Statement of Corporate Intent

In accordance with Section 39 of the Energy Companies Act, the Board submits a draft Statement of Corporate Intent (SCI) for the coming financial year. This SCI sets out the company's overall objectives, intentions, and financial and performance targets. After due consultation and agreement with the holding company's three shareholders, a summary of the draft SCI is included in their respective draft Annual Plans which are available for public submissions. The final SCI is approved by the holding company's three shareholders.

The Board also aims to ensure that the shareholders are informed on all major developments affecting the company's state of affairs.

Legislative Compliance

The company has a comprehensive approach to compliance with relevant law. Compliance manuals and staff training are made available to all employees. Where appropriate, external experts are engaged to advise the company on the appropriate practices to ensure compliance. The Board receives monthly updates from management on compliance. Areas of relevant law include corporate, taxation, financial reporting, commercial, environmental, human resources, health and safety and privacy.

Subsidiary Companies

Each of the significant trading subsidiary companies has at least one non-executive Orion New Zealand director on its Board. The Orion Board receives regular updates on and monitors the performance of each of those subsidiary companies.

Statement of Corporate Intent

for the year ended 31 March 2002

A. Introduction

This Statement of Corporate Intent is submitted by the Board of Orion Group Limited in accordance with Section 39 of the Energy Companies Act. It sets out Orion's overall intentions and objectives for the financial year ending 31 March 2002. This document covers the activities of all the group companies as detailed in the latest published annual report.

Section 36 of the Energy Companies Act 1992 requires Orion, as its principal objective, to operate as a successful business.

Orion's network customers are its top priority. The company aims to provide customers with a high level of service, a reliable and secure supply and competitive prices.

B. Government industry reforms

The passing of the Electricity Industry Reform Act 1998, resulted in major changes in the electricity industry:

- Network distribution businesses:
 - must have different owners from retailers and generators
 - no longer have a 'front window' for consumers
 - face an increased risk of price control
- low cost arrangements to enable consumers to change electricity retailer were introduced on 1 April 1999
- ECNZ was split into three competing entities, enhancing competition.

As a result of the reforms, Orion sold its electricity retailing activities using a contestable process. Those activities were sold to TransAlta NZ Limited effective 30 November 1998.

Orion sold its North Island gas distribution assets and 5% interest in the Southdown cogeneration plant in March 2000 and Orion sold its industrial gas trading interests in April 2000. Orion has retained its investments in electricity distribution and in gas exploration.

Further electricity industry reforms were announced by the Government on 3 October 2000. The reforms are expected to be implemented over the next several months. Key features of the reforms include:

- establishment of an overall industry governance body and framework. The new body's role is principally to set industry rules where co-ordination between industry participants is required
- establishment of a consumer complaints resolution system
- establishment of certain controls on electricity retailers in regard to fixed charges, customer switching protocols, prepayment meters and the application of the Consumer Guarantees Act

- establishment of further controls on network distribution businesses
 - restriction on rural line charge increases
 - development of "model" non binding delivery services agreements
 - development of "model" non binding delivery pricing methodologies
 - the Commerce Commission is to become responsible for future network asset valuations, price control and regulatory information
 - the Commerce Commission is to have the power to set thresholds and place line companies in breach of those thresholds under price control.

C. Nature and scope of activities to be undertaken

Orion will undertake activities to:

- plan, construct and maintain a reliable and secure electricity distribution network in the Christchurch/central Canterbury region
- facilitate competition among retailers within Orion's network area
- seek other investment/acquisition opportunities in the infrastructure, energy and technology sectors
- optimise the value of Orion's gas exploration activities
- manage and grow its other subsidiary and associate company interests.

D. Objectives of the Group

Commercial

Orion operates as a successful business and will provide shareholders with appropriate returns on their investment. Orion will pursue strategies that ensure its long-term success as a business.

To achieve this, Orion will:

- seek to achieve the specific commercial performance forecasts outlined in section E
- ensure its network delivery contracts with retail traders meet the requirements and objectives of the new legislation
- undertake new investments in the infrastructure, energy and technology sectors which over their life are expected to:
 - yield a return at least equal to those investments' risk-adjusted weighted average cost of capital, and
 - increase the commercial value of the business.

Security of supply

A secure supply of energy is critical to customers. Orion will maintain, upgrade and expand Orion's electricity distribution network as appropriate to ensure the continued high reliability of supply (reliability forecasts are outlined in Appendix 2. Orion will ensure that the addition of new capacity is matched as closely as possible to actual and forecast market demand. Orion will enhance the CBD's security of supply consistent with the current security of supply standard. The company's electricity network asset management plan is published in accordance with the electricity information disclosure regulations by 31 March each year. The asset management plan is available to the public on request and is also on the company's website.

Pricing

A three year line price freeze was announced in April 1999 – ending in March 2002. Under this freeze overall line prices will not increase. Any changes in Transpower's pricing will be passed on to retailers. Orion's pricing reflects economic costs, is simple and low-cost to operate and ensures a fair rate of return. A \$9m per annum reduction in delivery pricing is was implemented effective 1 April 2001. This reduction passed on the full Transpower price reduction and eliminated fixed charges for general connections (including residential).

Social responsibility and community interest

Orion is charged with being a successful business. The benefits to the public of community ownership result from the dividends paid by the company to Council shareholders. The Councils then use the dividends in the manner specified in their respective annual plans and budgets. As a provider of monopoly network delivery services, Orion considers that achieving no more than a fair return on capital for that monopoly business is socially responsible and has adopted such a policy.

In making its commercial decisions, Orion will use its best endeavours to act in a socially responsible way as a good corporate citizen with empathy for the community of interest which it serves.

Natural environment

Orion is committed to minimising the impact of its operations on the environment. Orion's policy is to:

- comply with all relevant environmental law
- take all practical steps to minimise the adverse effects of its activities on the environment
- implement pollution prevention measures and have contingency plans in place should pollution accidentally occur
- facilitate the distribution of electricity generated from natural and renewable resources across its network
- continually improve environmental performance.

Environment Canterbury wishes to improve air quality by significantly reducing the use of coal, open fires and non-complying wood burners over time. If consumers choose to replace these forms of heating with on-peak electric heating, this will have an impact on the Orion network. While much of the network has spare capacity, some areas will require upgrading to meet increased demand. Despite the extra costs, the company is confident that with appropriate demand side management initiatives and prudent levels of capital investment in the network, the integrity of the network will be maintained.

Undergrounding

The local authority shareholders have agreed that it is their responsibility to determine the priority for discretionary undergrounding projects and to pay for such work on an agreed basis. This is a commercially sound arrangement and one which is appropriate for both shareholders and Orion. Orion will continue its policy of undergrounding most urban extensions to the network. In rural areas it is often up to the developer to decide whether reticulation is underground or above ground. A portion of system reinforcement, safety and improvement projects will continue to involve undergrounding overhead reticulation.

Compliance

Orion will continue its comprehensive compliance programmes to ensure the company meets its obligations under relevant legislation and regulations. Programmes are in place to ensure compliance with all relevant legislation.

Directors

The board of Orion Group Limited will have the same directors as Orion New Zealand Limited, its wholly-owned subsidiary.

Human Resources

Orion intends to be a good, socially responsible employer. Orion's ability to recruit and retain competent, motivated and committed staff is essential to its efficiency and effectiveness as a business. Orion is an equal opportunity employer. It aims to ensure all staff have a safe working environment.

E. Commercial performance forecasts

Financial performance forecasts

Orion's financial performance forecasts for the parent company for the years ended 31 March are as follows:

- to aim for a level of surplus after tax of \$28.1m in 2002.
- to aim for post tax returns as follows:

	Surplus after tax	Electricity Network ROI
2002	7.0%	9.3%
2003	7.5%	9.0%
2004	6.7%	8.2%

A list of the major assumptions used in these forecasts is contained in Appendix 1.

The surplus after tax forecasts represent the return on the equity of the business as a whole and not just the network.

The ROI (return on investment) forecasts relate to the annual gazetted regulatory information disclosures which assess the returns of the network on the network assets employed, which in turn are valued based on the Government's ODV methodology.

The electricity network ROI's are slightly higher in 2002 and 2003 due to the one off impact of capital expenditure contributions from Telstra Saturn being booked to revenue to comply with GAAP.

System reliability forecasts

Orion's electricity network reliability performance forecasts for the parent company for the three years ended 31 March 2004 are contained in Appendix 2.

The SAIDI and SAIFI measures are international industry standards which enable assessment of network performance. The gazetted industry average is for all New Zealand electricity distribution networks and includes rural and urban networks. The Orion network includes a significant rural component.

F. Procedures for the subscription, acquisition and disposal of securities in other companies/organisations

The subscription or acquisition of securities in any company or organisation will only be considered where it is consistent with the long-term commercial objectives of Orion. When the subscription or acquisition is considered by directors to be significant to the company's business operations, it will be subject to consultation with the shareholders.

Major transactions as defined in the Companies Act 1993, s129(2), will be subject to shareholders' approval by resolution.

Notwithstanding the above, if Orion is considering a significant acquisition or disposal of securities, the shareholders will be consulted with as much lead-time as is commercially practicable in the prevailing circumstances. Where Orion decides to incorporate or subscribe for shares in subsidiaries to undertake its commercial activities, the company will ensure effective management. Board control of any subsidiary is exercised by Orion's directors and staff.

G Capital structure

The capital structure of the Orion parent company is forecast as follows (preliminary only):

	31 March 2002	31 March 2003	31 March 2004
Debt ¹	8	8	7
Equity ²	92	92	93
Equity/Total Assets ³	100	100	100

¹ Debt is defined as interest bearing debt and excludes cash/short term investments.

² Equity is defined as all shareholders' equity and excludes the subordinated optional convertible notes.

³ Total Assets is defined as the total book value of all assets of the parent company.

The above capital structure forecasts assume:

- repayment of the \$180m of OCN's in July 2001 (subject to a favourable IRD binding ruling)
- payment of a special one-off \$20m fully imputed dividend in July 2001
- no further major investments or divestments. Note that as per Section C above, Orion is seeking new investment opportunities.

In seeking new investments Orion plans to ensure that explicitly or implicitly it retains a rating agency credit rating of at least "strong capacity to pay".

H Returns to shareholders

Orion will pay dividends to the shareholders after taking into account its profitability and future investment requirements. The dividends payable to the shareholders will be determined by Orion after consideration of Orion's funding requirements. The dividends are forecast to be paid in two instalments in June and December of each financial year and are also forecast to be fully imputed for tax purposes. To assist the shareholders with budgeting, the following ordinary dividends are forecast:

2002	2003	2004
\$m	\$m	\$m
24.2	23.6	23.7

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

Dividends may also be paid on the Redeemable Preference Shares. These are at the discretion of the Board. No dividends are forecast to be paid on these shares.

When the holding company structure was set up in October 1998, there were \$180 million of OCN's. Interest is payable quarterly in arrears. No interest will be payable once the OCN's are repaid in July 2001.

I Accounting

Accounting policies consistent with the Financial Reporting Act 1993 will be adopted by Orion.

J Information to be reported

To enable the shareholders to assess the value of their investment in Orion, books, records and accounts maintained by, or on behalf of, the company will be made available as required by the Companies Act 1993.

An annual report will be submitted to the shareholders. The annual report will include audited financial statements and such other details as are necessary to permit an informed assessment of the company's performance and financial position during the reporting period. Half-yearly and quarterly reports will also be provided to the shareholders. These reports will contain unaudited information, similar in content to the annual report.

The Statement of Corporate Intent will be submitted to the shareholders for consultation, as required by the Energy Companies Act 1992. Where appropriate, revised forecasts will be submitted to the shareholders.

The company will provide information requested by the shareholders in accordance with the requirements of Section 223D of the Local Government Act 1974.

K Intercompany transactions

There are no material transactions forecast to take place during the three years ended 31 March 2004, except:

- payment of dividends on the ordinary shares
- payment of interest on the OCN's
- provision of services, such as street lighting maintenance for local authorities, on an arms length commercial basis. Services received from shareholders, such as services covered by rates and chargeable services, on an at arms length commercial basis. It is impracticable to quantify the extent of most of these transactions.
- dividends and intercompany interest on current accounts to be received from Orion's subsidiary companies
- subvention payments made pursuant to a subvention agreement with Christchurch City Holdings Limited to utilise available tax losses
- repayment of the \$180m of OCN's in July 2001 (subject to a favourable IRD binding ruling)
- a fully imputed special dividend of \$20m to be paid to shareholders in July 2001.

L Commercial value of the shareholders' investment

The directors estimate that the commercial value of the shareholders' investment in the group is at least that which is stated as "shareholders' equity" in the latest available audited financial statements. This value is reassessed annually as part of the preparation of the audited financial statements.

Appendix 1

Key assumptions used in the financial forecasts

The major assumptions used in calculating the financial forecasts for the parent company are as follows:

- the forecasts are for the Orion Group Limited
- accounting policies adopted are as outlined in the latest annual report with the exception of a change in the deferred tax policy to adopt the "comprehensive basis" (previously the "partial basis"). The change in policy increases liabilities by approximately \$35m as at 31 March 2001 and increases tax expense and liabilities by approximately \$2.5m for every year thereafter
- electricity network deliveries growth of 1.0 percent per annum
- an electricity network line price freeze is in place until March 2002
- a \$9m per annum delivery price reduction is implemented on 1 April 2001
- expenditures and practices in line with the current published electricity network asset management plan
- no additional major investments/divestments
- repayment of the \$180m of OCN's in July 2001 (subject to a favourable IRD binding ruling)
- a fully imputed special dividend of \$20m to be paid to shareholders in July 2001
- no further capital repatriations to shareholders/noteholders
- \$15m downward revaluation on 31 March 2001 due to the October 2000 revisions to the ODV Handbook
- no further major adverse changes to the ODV methodology currently used for valuation of electricity industry network assets
- no major adverse changes in the regulatory control of the industry or resulting from the implementation of the Government's 3 October 2000 regulatory announcements
- all figures are in nominal terms reflecting estimated inflation.

Appendix 2

	Forecast 3 years to 31 March 2004	Actual 1 year to 31 March 2001	Actual 1 year to 31 March 2000	Gazetted NZ Average 2000
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Orion has one of the most reliable electricity networks in New Zealand.

Reliability - all outages:

Note: The following forecasts include outages as a result of faults on the Orion network, Transpower network and the generators.

Duration of supply interruptions per connected customer (SAIDI) - minutes per year:

(a) Urban	38	18	16	-
(b) Rural	375	404	328	-
(c) Overall	76	82	52	125

Number of supply interruptions per connected customer (SAIFI) - times per year:

(a) Urban	0.8	0.3	0.4	-
(b) Rural	3.8	3.2	4.1	-
(c) Overall	1.1	0.6	0.8	2.0

Reliability - Orion network interruptions only:

Note: The following forecasts include outages caused by faults on the Orion network only.

Duration of supply interruptions per connected customer (SAIDI) - minutes:

(a) Urban	34	18	16	-
(b) Rural	340	403	324	-
(c) Overall	69	62	52	118

Number of supply interruptions per connected customer (SAIFI) - times per year:

(a) Urban	0.7	0.3	0.4	-
(b) Rural	3.4	3.2	3.9	-
(c) Overall	1.0	0.6	0.8	118

Important note:

The above forecasts are averages for the 3 year period and actual performance in individual years may vary.

Directory

Directors

Linda S Constable (Chairman)
Peter Rae (Deputy Chairman)
Philip M Carter
John H Gray
Christopher S Laurie (Managing Director)
Don Sollitt
Ken Sparrow

Senior Management

Christopher S Laurie (Managing Director)
Brendan P Kearney (General Manager Corporate Services)
Ian J W McInnes (General Manager Information & Systems Development)
Tasman L Scott (General Manager Network)
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Auditors

Audit NZ on behalf of the Controller and Auditor General

Principal Solicitors

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