Christchurch City Holdings Limited is a wholly-owned subsidiary of Christchurch City Council

cchl
Christchurch City Holdings

2011

Annual Review

Infrastructure. Recovery. The Facts.

10 year summary

CCHL Group Year ended 30 June	2002 Old GAAP $m	2003 Old GAAP $m	2004 Old GAAP $m	2005 Old GAAP $m	2006 NZ IFRS $m	2007 NZ IFRS $m	2008 NZ IFRS $m	2009 NZ IFRS $m	2010 NZ IFRS $m	2011 NZ IFRS $m
Financial performance and position										
Total revenue	348	367	387	449	492	501	524	592	595	750
Profit for the period	62	51	34	66	79	99	91	79	55	77
Total assets	992	1,216	1,286	1,496	1,592	2,156 [3]	2,219	2,211	2,286	2,321
Shareholders' equity	599	741	762	963	854	1,368	1,405	1,414	1,367 [4]	1,309 [5]
Payments to Christchurch City Council										
Ordinary dividends paid	31	29	26	30	29	30	33	37	36	35
Special dividends paid	154 [1]	3	39 [2]	–	18	–	–	–	78	8
Capital repaid	–	–	–	–	–	–	–	–	–	–
	184	32	64	30	47	30	33	37	114	43
Ratios										
Ratio of net debt to net debt plus equity	28%	30%	33%	27%	35%	23%	23%	22%	27%	30%
Return on average equity	9.6%	7.6%	4.6%	7.7%	9.3%	8.9%	6.6%	5.6%	4.0%	5.9%

Notes

1. CCHL paid special dividends to Christchurch City Council of $154 million in the 2002 financial year following the sale by Orion of its interest in Enerco.
2. In the 2004 financial year CCHL paid special dividends of $39 million to Christchurch City Council, reflecting the receipt of an equivalent special dividend from Orion.
3. Group assets and equity increased significantly in the 2007 financial year, mainly as a result of asset revaluations by Christchurch International Airport Ltd and Orion New Zealand Ltd.
4. Group equity fell in the 2010 financial year, primarily as the result of the CCHL parent company paying a special dividend of $78 million.
5. The reduction in group equity in 2011 was primarily the result of a downward revaluation of Orion's electricity distribution network.

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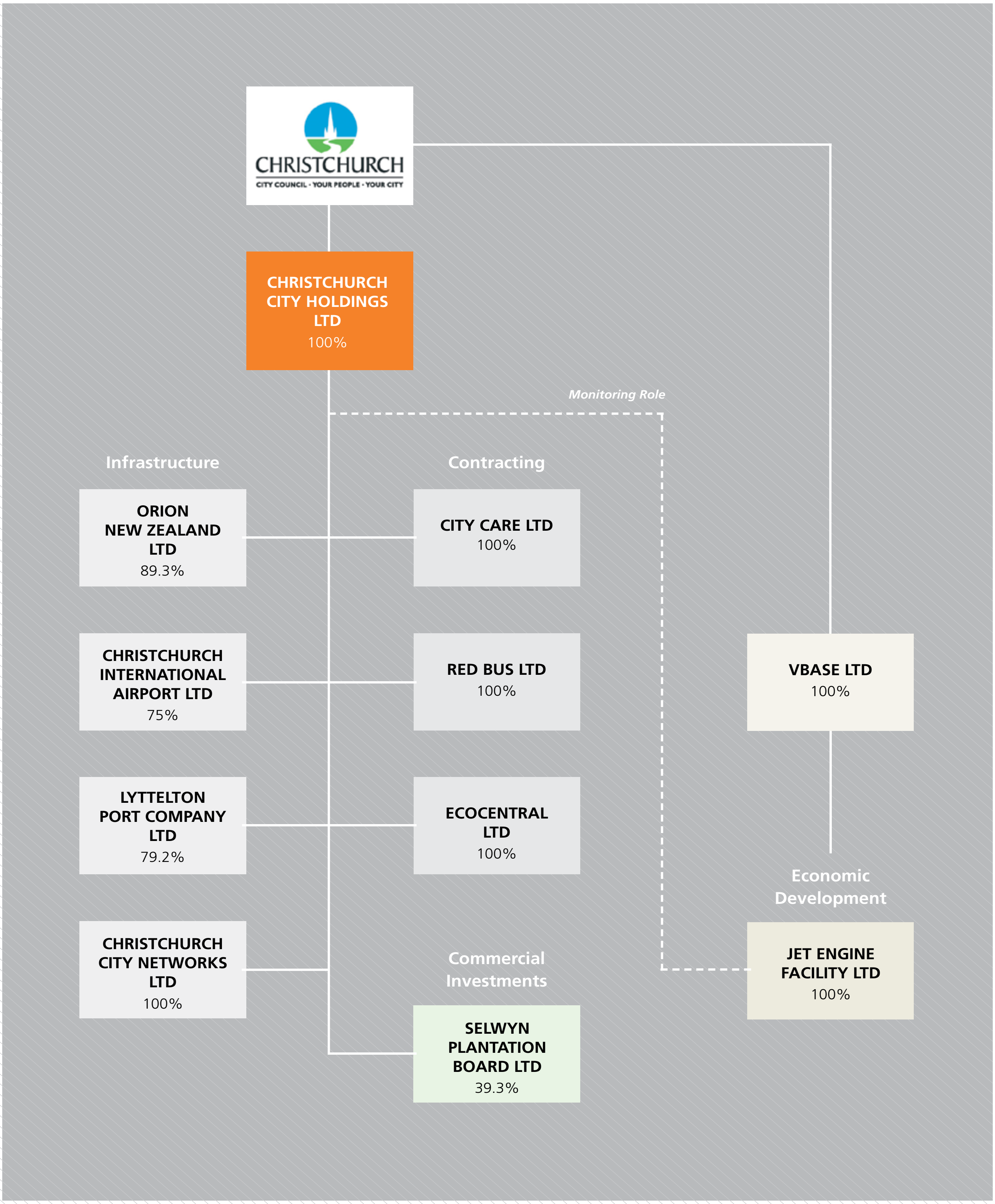
The CCHL Group



About CCHL

About CCHL

Christchurch City Holdings Ltd (CCHL) is the commercial and investment arm of Christchurch City Council. The company is responsible for managing the Council's investment in eight fully or partly-owned council-controlled trading organisations – Orion New Zealand Ltd, Christchurch International Airport Ltd, Lyttelton Port Company Ltd, Christchurch City Networks Ltd (trading as Enable Networks), City Care Ltd, Red Bus Ltd, EcoCentral Ltd and Selwyn Plantation Board Ltd.

In addition, until 2011, CCHL monitored Council-owned company Vbase Ltd (which owns and manages AMI Stadium, the Christchurch Convention Centre, the Christchurch Town Hall for the Performing Arts and the CBS Canterbury Arena), as well as Jet Engine Facility Ltd and Civic Building Ltd. Following the Canterbury earthquakes, however, responsibility for managing Vbase Ltd and Civic Building Ltd was assumed by Christchurch City Council, and CCHL's role with these two companies ended with effect from July 2011.

CCHL subsidiaries own a significant amount of Christchurch's strategic infrastructure, and almost all have been impacted by the earthquakes. Some (such as the Port and Orion) have experienced increased costs in repairing assets (some of which will be covered by insurance) to ensure they can continue to deliver services to the Christchurch community. City Care has experienced a significant increase in business as a result of earthquake repairs, while others (the Airport and Red Bus) are managing a reduction in business due to the disruption caused. However, the earthquakes have not impacted CCHL's core function: to invest in the City's infrastructure.

Investing in the City's infrastructure

CCHL's key purpose is to invest in and promote the establishment of key infrastructure, and this now extends to assisting the Council in the rebuild and redevelopment of Christchurch following the Canterbury earthquakes. CCHL will continue to invest in existing and new infrastructural assets such as the electricity distribution network, the airport, port, transport and high speed broadband.

CCHL's strategic approach is to identify infrastructural needs that either are not or cannot be filled by the private sector or existing Council operations, then take a role in helping to meet those needs through joint ventures, public-private partnerships, establishing new entities or simply acting as a catalyst for others.

CCHL also encourages and, if necessary will facilitate, appropriate investment by its trading companies when significant upgrades are required to existing infrastructural assets – recent examples being the funding of Enable Networks, and the provision of some of the funding requirements for the construction of the new airport terminal. CCHL is supportive of its companies as they deal with post-earthquake repairs and rebuild of assets and markets.

Financial contribution

Christchurch City Council's decision in 1993 to retain its key infrastructural assets through the establishment of CCHL has created a public ownership model that is the envy of many councils nationwide. The model has enabled CCHL to make $980 million of capital and dividend payments to the Council since 1995, allowing major investments in community assets, while reducing the impact on rates from such investments.

Over the same period, the asset value of CCHL through its trading companies has grown from some $400 million to $2.3 billion. Total group equity has risen from $261 million in 1995 to some $1.3 billion today. This growth in both value and cash returns represents an average shareholder return to ratepayers of over 15% per annum since 1995.

CCHL's dividend to the Council for the 2012 year is forecast at $34.2 million.

CCHL currently has an AA/A-1+ credit rating from credit rating agency Standard & Poor's. An AA rating means that CCHL is considered to have a very strong capacity to meet its financial commitments.

Independent governance of trading companies

One reason for such a strong growth and return rate is the independent and commercial approach taken by the board and management of the trading companies. All companies made a positive contribution to the group results and to the annual dividend paid to Christchurch City Council.

CCHL places a great deal of emphasis on ensuring the group has first class governance processes in place. Through a structured, independent process, CCHL recommends director appointments to subsidiary companies and monitors those companies on behalf of the Council. Further detail regarding the company's corporate governance polices is set out on page 12.

Accountability to the Council

CCHL is accountable to the Council through a number of mechanisms, including:

- Approval of CCHL's annual Statement of Intent;
- Council appointment of CCHL directors (four councillors and four external);
- Regular reporting to the Council; and
- Publication of six monthly and annual reports.

The CCHL Group subsidiaries

Orion New Zealand LIMITED

89.3% owned by Christchurch City Holdings Limited

Value in CCHL's balance sheet **$664** million

Orion New Zealand Ltd owns and operates the electricity distribution network in Central Canterbury between the Waimakariri and Rakaia Rivers, and as far inland as Arthur's Pass.

The electricity network covers 8,000 square kilometres of diverse geography, including Christchurch city, Banks Peninsula, farming communities and high country.

Orion's network delivers electricity to more than 192,000 homes and businesses. Electricity retailers pay Orion for this network delivery service and in turn charge homes and businesses for it.

Orion also owns the electrical contracting business Connetics Ltd. Connetics is a contracting service provider to utility network operators, local authorities, developers and commercial/industrial customers.

The other 10.7% shareholder in Orion is Selwyn Investment Holdings Ltd, a wholly-owned subsidiary of Selwyn District Council.

Christchurch International Airport LIMITED

75% owned by Christchurch City Holdings Limited

Value in CCHL's balance sheet **$544** million

The international gateway to the South Island, Christchurch International Airport Ltd (CIAL) hosted just over 6 million passengers in the 2010 year, arriving or departing on over 79,000 aircraft servicing destinations as close as Timaru and as distant as Tokyo.

Eight airlines arrive from ten international and 16 domestic airports, meaning a wide range of direct services available to the city's travellers.

The company is embarking on a major project to build a new combined domestic and international terminal.

With a new terminal including integrated check-in facilities, large passenger lounges, extra seating, improved passenger flows and enhanced retail and food and beverage areas, the new terminal will offer a top-class airport experience.

The remaining 25% shareholding in CIAL is owned by the Government.

Lyttelton Port Company
LIMITED

79.2% owned by Christchurch City Holdings Limited

Value in CCHL's balance sheet **$189** million

Lyttelton Port Company Ltd (LPC) is the South Island's largest deep-water port in terms of tonnage and the third-largest in New Zealand. Handling the majority of Canterbury's sea trade, it is a major driver of regional economic growth and wellbeing.

The port offers full shipping services around the clock, including 24-hour security.

The container terminal provides specialised cargo-handling and stevedoring services, managed via a high-tech computerised container management system. The inland port, CityDepot, provides a container repair, wash and storage facility.

The coal facility is the country's largest, exporting over two million tonnes a year.

Facilities in the inner harbour provide for vehicles and bulk products such as petroleum, fertiliser, cement, logs and fish; and include the South Island's only dry dock.

Marine services include tugs, pilots and lines staff.

The company has embarked on a 10 hectare reclamation for additional cargo-handling space, providing both for future growth and for the environmentally sensible disposal of clean earthquake hard-fill from Christchurch CBD demolitions.

LPC is listed on the New Zealand Stock Exchange.

Christchurch City Networks
LIMITED (Trading as ENABLE NETWORKS)

100% owned by Christchurch City Holdings Limited

Value in CCHL's balance sheet **$21** million

Enable Networks owns the largest open access fibre network in Christchurch and one of the largest in New Zealand.
The fibre network connects to many hundreds of businesses, health and education entities.

The company's 350km network provides 80% coverage of the commercial areas around Christchurch. Enable's cabling technology is 100% underground and was not damaged in the series of earthquakes over the last 9 months.

A full range of Ethernet and fibre service are available on a wholesale basis to a wide range of telecommunications companies, IT integrators and ISPs. Demand for services has continued to exceed forecast for four straight years.
Enable was recognised in the top 10 of the Deloitte Fast 50 awards and was the fastest growing technology company in the South Island.

In May 2011, the Crown awarded Enable the Ultrafast Broadband contract covering 182,000 businesses and homes in Christchurch and the surrounding areas. This project will see an investment in partnership with the Crown of $440m over the next 8 years and will contribute significantly to economic growth in Christchurch.

The CCHL Group subsidiaries CONTD.

City Care
LIMITED

100% owned by Christchurch City Holdings Limited

Value in CCHL's balance sheet **$26** million

City Care Ltd is a leading provider of construction, maintenance and management services across New Zealand's infrastructure.

City Care's employees work around the clock maintaining parks, gardens, sportsfields and cemeteries, waterways and coastal areas, buildings and public facilities, roading networks and water, wastewater and stormwater networks.
The company keeps an eye on the future, working with its clients to create new infrastructure for the wellbeing and enjoyment of people throughout the country. City Care also has a national construction operation creating new infrastructue for New Zealanders.

City Care employs over 1,100 staff across 15 operational offices in Rodney, Auckland, Hamilton, New Plymouth, Hawera, Tauranga, Whakatane, Hastings, Feilding, Masterton, Wellington, Christchurch (3) and Timaru.

Clients include local and central government authorities, commercial businesses and other major owners of infrastructure. City Care also undertakes work for other contracting companies and private individuals.

Red Bus
LIMITED

100% owned by Christchurch City Holdings Limited

Value in CCHL's balance sheet **$28** million

Red Bus operates contracted and commercial urban public transport services, regional transport services and a broad base of charter services in the Canterbury region. The contracted urban services are delivered under contract to Environment Canterbury.

The company carried approximately 5.5 million passengers in Christchurch City this year and the fleet has travelled 8.2 million kilometres.

Red Bus is one of the city's largest urban passenger transport businesses with approximately 260 staff and 150 buses.
Its urban buses are all modern low-floor, single-step entry with disability access and low exhaust emissions.

Red Bus urban public transport system operates 20 hours a day, 7 days a week to deliver efficient and friendly urban services across Christchurch.

The company continues to invest in driver training with 80% of drivers qualified at a National certificate level.

EcoCentral
LIMITED

100% owned by Christchurch City Holdings Limited

Value in CCHL's balance sheet **$9** million

EcoCentral Ltd oversees the processing of refuse and recycling collections of waste from households and commercial premises throughout the Canterbury region.

EcoCentral Ltd manages:

- Three EcoDrop transfer stations for refuse received from the household red-bin collection and directly from commercial waste streams and from the public. EcoDrop aims to recycle as much of this waste as possible and, since the earthquakes, has successfully diverted away from landfill 47% of the material collected.
- EcoSort, a large and semi-automated plant on Parkhouse Road, which processes the recycled product received from the yellow recycling bins for Christchurch and surrounding Canterbury region.
- EcoShop, on Bleheim Road, which receives saleable goods from the EcoDrops and then retails these products to the public, thereby diverting material from landfill. EcoShop was previously known as the SuperShed and was located on Pages Road.

EcoCentral Ltd has been wholly owned by CCHL since January 2011 and was purchased from Christchurch City Council, which acquired the operation in August 2009 under the name of CCC Two Limited.

Selwyn Plantation Board
LIMITED

39.3% owned by Christchurch City Holdings Limited

Value in CCHL's balance sheet **$16** million

CCHL has a minority 39.3% shareholding in Selwyn Plantation Board (SPBL), with the majority ownership held by Selwyn Investment Holdings Ltd.

SPBL is responsible for managing its holding of forests, farms and land using the most environmentally and commercially sustainable methods.

In recent years, SPBL has been undertaking a planned realisation of its assets, with the intention of winding up the company within the next year and returning all proceeds to its two shareholders.

Chairman's and Chief Executive's Report

The year was dominated by the major earthquakes that hit Christchurch and Canterbury on 4 September 2010, 22 February 2011 and 13 June 2011. As with most businesses in Christchurch, the impact on the CCHL group was significant, and this is described further in this report.

On the other side of the ledger, a highlight for the year was the success of Christchurch City Networks Ltd in winning the Government's Ultra-Fast Broadband tender for the rollout of broadband in the Greater Christchurch area. This will be a major project for the next few years, and make a major contribution to the redevelopment of Christchurch. It will also provide significant profitability to the CCHL group in future years.

CCHL welcomed recycling company EcoCentral Ltd to the group following the purchase of its shares from Christchurch City Council effective from 1 January 2011.

Financial

Group

The reported consolidated profit for the year was $77.3 million, compared with $55.0 million in the 2010 financial year. There were a number of one-off factors in both years, including in particular earthquake impacts and deferred tax changes that make a simple comparison of the results difficult.

Two companies – Lyttelton Port Company Ltd and Red Bus Ltd – have recognised insurance receivables. Accounting rules require that they be recorded as income in the year they are recognised. Further insurance receivables will be recognised in the current year as the companies progress their claims.

The following table adjusts the reported group profits of 2011 and 2010 for the above-noted factors to arrive at a normalised profit figure:

	Jun 11 Group $'000	**Jun 10 Group** $'000
Profit for period as reported	77,332	54,990
Adjust for direct earthquake impacts on profit:		
Insurance proceeds recognised	(53,152)	-
Impairment of property, plant and equipment	36,366	-
Repair and clean up provisions	12,606	-
Other direct costs of earthquakes	18,539	-
Net earthquake impacts (excluding volume changes)	14,359	-
Adjust for one-off deferred tax impact of:		
Change to depreciation on buildings	848	36,327
Tax rate change	33	(11,850)
Net impact of one-off deferred tax changes	881	24,477
Normalised profit for period	**92,572**	**79,467**

The normalised profit for the year has increased by some $13 million from the 2010 result, whereas the reported profit has increased by $22 million.

The principal reasons for the improved profit are:

- A significant increase in the City Care Ltd profit as a result of earthquake-related work volumes
- An improvement in Lyttelton Port Company Ltd's underlying trading results as a result of increased trading volumes
- The acquisition of EcoCentral part way through the year.

The parent company recorded a $31 million increase in the value of its investments, of which $13m related to Orion New Zealand Ltd (valued on a discounted cash flow basis). In contrast, there was a net $81m (after deferred tax adjustments) reduction in asset value recorded in the group accounts, principally as a result of network asset write-downs by Orion. A significant portion of the latter was the result of a change in valuation methodology by Orion, with discounted cash flow now being the preferred method. Both Orion's network assets and CCHL's equity investment in Orion are therefore now valued on a discounted cash flow basis.

Further information regarding the financial results and position of the parent company and group is provided in the "Financial overview" section on pages 15 to 21, and in the reviews of the individual companies on pages 22 to 37.

Parent company

The parent company's net profit after tax of $32.1 million was lower than the previous year's result of $41.0 million, principally as a result of lower dividends from subsidiaries following the succession of earthquakes. Bucking the trend was City Care Ltd, who were able to pay a significantly increased dividend in view of the extra work the company had undertaken as a result of the earthquakes.

Other comprehensive income for the parent company was $29 million, arising primarily from revaluations of the company's investments in Orion New Zealand Ltd and Christchurch International Airport Ltd.

The company paid an ordinary dividend to Christchurch City Council of $35.3 million which, when combined with subvention receipts voluntarily foregone, equated to the budgeted $38.0 million in CCHL's Statement of Intent. In addition the company paid a fully imputed special dividend of $8.0 million.

Earthquakes

Life in Christchurch changed dramatically on 4 September 2010 when a 7.1 magnitude earthquake struck near Darfield. The city was beginning to recover when a 6.3 magnitude earthquake on 22 February 2011 caused major damage, with some of the most violent ground shaking in an urban area ever recorded globally. Further damage was incurred by two 5.7 and 6.3 magnitude earthquakes on 13 June 2011.

In addition to the impact on the city, these earthquakes and associated aftershocks significantly affected the CCHL companies. Orion New Zealand Ltd and Lyttelton Port Company Ltd incurred the most significant physical damage, but all companies were impacted in one way or another.

A common theme throughout the group, however, was the outstanding way in which each company responded to the crisis.

Our shareholder, Christchurch City Council, has produced a plan for the rebuild of the central city, and the Canterbury Earthquake Recovery Authority (CERA) has taken responsibility for the redevelopment of the greater Christchurch area. The CCHL group is committed to contributing towards this process through appropriate investment in infrastructure that will complement and support the city's future plans.

Electricity network

The earthquakes dominated Orion's year, starting in September 2010, when Orion restored power to 90% of all households on the same day as the earthquake. Following the February earthquake, which caused ten times more damage, power was restored to 90% of households within 10 days. Over a three month period, Orion repaired more than 600 quake-related faults – more than it would normally do in a decade. Orion also built a 2.5 km 66,000-volt temporary overhead line in five days to provide power to 20,000 customers in the North East of Christchurch following serious damage to underground cables.

While Orion incurred extensive damage in some areas, in general its network performed well due to forward planning and risk protection work. Without the seismic protection work and building of resilience into the network in the mid-1990s, Orion management estimate that the projected $50 million repair bill would have more than doubled, and there would have been weeks or months of continuous power cuts across Christchurch.

Orion will work constructively with the regulatory authorities to ensure an outcome that enables the investment necessary to support the rebuild of Christchurch.

Airport

Christchurch International Airport Ltd also had a challenging year, dealing not only with earthquakes but also the Chilean volcanic ash cloud and a slow start to the ski season. Until February 2011, the airport had been on track to record its best ever financial performance, but these issues dealt a severe blow to its aeronautical revenues in the latter part of the year.

Notwithstanding these issues, the airport achieved a number of major milestones including completion of Stage 1 of the new terminal with new check-in hall, regional lounge, baggage hall and retail, food and beverage area; securing a new long-haul service via AsiaAir X; contracting three tenants for the Dakota Park development; and recording an excellent performance by the commercial and property divisions.

Planning for the Spitfire Square retail development is progressing well, with (subject to satisfactory planning outcomes) commencement of development envisaged for early 2012. Following the earthquakes, the airport has also embarked on a Temporary Office Park development, and is also considering the development of a new airport campus hotel.

Chairman's and Chief Executive's Report CONTD.

Port

As with Orion, Lyttelton Port Company Ltd (LPC)'s year was dominated by earthquakes. The port suffered extensive damage to wharves and infrastructure, and has been carrying out major repairs while at the same time processing record volumes of containers, and coal and log exports.

The port was well-insured for the earthquake damage, but there will inevitably be a lengthy period of negotiation with the insurers before final insurance proceeds are received.

The port is making good progress with its land reclamation project, using clean earthquake hardfill that would otherwise have been sent to landfill. This has saved the city very significant sums in dumping charges, and also saved the port from spending millions on quarrying and transporting rock.

Despite the difficulties of the year, the outlook for the port is positive. Two new shipping services commenced in the new financial year, indicating the confidence of its customers and stakeholders.

Broadband

The highlight for the year was Christchurch City Networks Ltd's (trading as Enable Networks) success in winning the Government's Ultra-Fast Broadband (UFB) tender. This was an outstanding result, and reflected the very hard work and dedication of the Enable board and management team.

The UFB project will be a major investment for Enable and CCHL over the next few years, and will establish a platform for the economic and social development of our city as well as generate a significant future dividend stream.

Enable came through the earthquakes largely unscathed. Its cabling technology proved extremely flexible and did not suffered any damage. In some locations the fibre ducting moved several metres underground without damaging the fibre optic cables. Communications for priority locations including hospitals, Police, Civil Defence HQ and schools were therefore able to continue to operate over Enable's fibre without issue.

Contracting

City Care Ltd was another good news story, with an outstanding performance following the earthquakes and a huge increase in workload and revenues through its role as long-term maintenance contractor for Christchurch City's water networks and a number of other assets.

At the height of the February earthquake, some 1,250 of City Care's Canterbury-based and New Zealand-wide employees and subcontractors worked tirelessly to restore essential services to the people of Christchurch.

City Care is a member of the Interim Alliance Agreement for the rebuild of Christchurch's infrastructure. The Alliance will be responsible for restoring Christchurch's roads, sewerage system, water supply pipes and parks damaged in the earthquakes.

Nationally, City Care began four new significant long term contracts, including a national facilities management contract on behalf of Z Energy (formerly Greenstone Energy), and re-won an existing contract.

Public transport

Red Bus Ltd had a difficult year, with operating margins under pressure as a result of business downsizing and restructuring following the cessation of some service contracts in November. The curtailment of services following the earthquakes has further impacted on business results.

Notwithstanding these challenging circumstances, the company has managed to expand the business since February. It won a contract to provide the Ministry of Education with emergency school transport to help keep the Canterbury education system operating while schools and classrooms were being repaired after the earthquakes. Red Bus Ltd also successfully acquired the Akaroa shuttle and established a new commercial service to Darfield.

Recycling

With effect from 1 January 2011, CCHL acquired 100% of the shares in CCC Two Ltd – subsequently renamed EcoCentral Ltd – from Christchurch City Council. EcoCentral operates three refuse transfer stations (EcoDrops) and a materials recovery plant (EcoSort) on behalf of the Council, and a retail outlet (EcoShop) for recovered goods.

EcoCentral had a vital role to play in assisting the city's recovery from the earthquakes. Despite a massive increase in EcoDrop volumes, EcoCentral successfully diverted 47% of the material collected to other uses, thus saving it from going to landfill.

Since acquisition, the company has completed a successful rebranding exercise, and has continued to focus on streamlining and improving the efficiency of its operations.

Forestry

CCHL has a minority stake in Selwyn Plantation Board Ltd; Selwyn Investment Holdings Ltd has the controlling shareholding. With the agreement of its shareholders, SPBL has largely completed an orderly realisation of its assets with a view to returning the capital invested to its shareholders.

The first capital return was made to shareholders in January 2011. Following the expected sale of the forest estate in the 2011 calendar year, the company will be wound up with all final proceeds being returned to shareholders

Venues

CCHL has been responsible for monitoring Vbase Ltd, a company that owns and manages key city venues including AMI Stadium, CBS Canterbury Arena, Christchurch Convention Centre and the Christchurch Town Hall for the Performing Arts. Vbase Ltd is wholly-owned by the Council and hence not part of the CCHL group.

All venues other than the CBS Canterbury Arena suffered severe damage in the earthquakes, resulting in their closure for indefinite periods. In view of this, the Council has taken over management of Vbase Ltd, and a number of the senior management team of Vbase have departed.

This is a disappointing outcome, due to events beyond anyone's control, to what had been a very successful business model.

Governance

The CCHL Board recognises that good governance is critical to the ongoing success of the group, and this continues to be a key focal point of its activities.

CCHL remains committed to the ownership and monitoring role entrusted to it by its shareholder, Christchurch City Council.

CCHL has a governance committee whose role is to recommend director appointments, review governance policies and ensure that good succession policies are in place for key governance positions on both the parent and subsidiary companies.

The quality of governance that results from this focus has been recognised by the business community in Christchurch, and by local authorities elsewhere in New Zealand which seek to emulate the CCHL model. In particular, we are delighted at the number and calibre of the experienced and talented people who continue to put their names forward for consideration as directors within the group.

Acknowledgements

In what has been an enormously difficult year, the CCHL Board and management are particularly appreciative of the unprecedented contribution made by the boards, management and all the staff of our subsidiary companies. Without their willingness to work tirelessly around the clock to repair essential infrastructure and contribute to the city's recovery, Christchurch would have been without essential services for much longer.
The high quality decision-making and disaster-preparedness of our companies is undoubtedly a major strength of the group and we value the very positive relationships we have with each one of them.

We would also like to record our sincere appreciation of the Vbase Ltd board and management team, who over recent years created an outstanding company .

The CCHL Board would also like to acknowledge the continuing support of its 100% shareholder, the Christchurch City Council.

Bruce Irvine
Chairman

Bob Lineham
Chief Executive

Corporate governance statement

This statement gives readers an overview of the company's main corporate governance policies, practices and processes adopted or followed by the CCHL Board.

Role of the Board

The primary role of the Board is the governance of the company. The Board undertakes stewardship on behalf of the shareholders to ensure the ongoing health and viability of the company.

The Board effectively represents, and promotes the interests of the shareholders with a view to adding long-term value to the company's shares.

The Board has all the powers necessary for managing, and for directing and supervising the management of the business and affairs of the company.

Having regard to its role, the Board directs and overviews the business and affairs of the company, including in particular:

- Ensuring that the company goals are clearly established, and that strategies are in place for achieving them;
- Establishing policies for strengthening the performance of the company and subsidiaries, to ensure enhancement of shareholder value;
- Overviewing the role the company and its subsidiaries can play in the provision of essential infrastructure services for the region;
- Monitoring the performance of subsidiaries;
- Deciding on whatever steps are necessary to protect the company's financial position and the ability to meet its debts and other obligations when they fall due, and ensuring that such steps are taken;
- Ensuring that the company's financial statements are true and fair and otherwise conform with law;
- Ensuring that the company adheres to high standards of ethics and corporate behaviour;
- Ensuring that the company has appropriate risk management/regulatory compliance policies in place;
- Approving and implementing the business plan and Statement of Intent of the company, and
- Reviewing and approving the company's capital investments and distributions.

The Board monitors economic, political, social and legal issues and other relevant external matters that may influence or affect the development of the business or the interests of the shareholder and, if thought appropriate, will take outside expert advice on these matters.

Board relationship with shareholder

The Board uses its best endeavours to familiarise itself with issues of concern to the shareholder.

The Board aims to ensure that the Council is informed of all major developments affecting the company's and group's state of affairs, while at the same time recognising that commercial sensitivity may preclude certain information being made public. Within this constraint, information is communicated to the Council through periodic reports to the Council, occasional seminars and through both the annual report and the half yearly report.

The Board recommends to the Council the appointment of directors to subsidiary companies and the adoption of the subsidiary Statements of Intent.

Conduct of Directors

The conduct of directors is required to be consistent with their duties and responsibilities to the company and, indirectly, to the shareholder. In carrying out its role the Board places emphasis on strategic issues and policy.

Directors are expected to keep themselves abreast of changes and trends in the business and in the company's environment and markets.

Directors use their best endeavours to attend Board meetings and to prepare thoroughly and are expected to participate fully, frankly and constructively in Board discussions and other activities and to bring the benefit of their particular knowledge, skills and abilities to the Board table.

Directors are entitled to have access, at all reasonable times, to all relevant company information and to management.

Directors are expected to strictly observe the provisions of the Companies Act 1993 applicable to the use and confidentiality of company information.

Board Chairperson

The shareholder appoints from among the directors a Chairperson.

The Chairperson is responsible for representing the Board to the shareholder, and for ensuring the integrity and effectiveness of the governance process of the Board.

The Chairperson is responsible for maintaining regular dialogue with the CEO over all operational matters and consults with the remainder of the Board promptly over any matter that gives him or her cause for major concern.

The Chairperson acts as facilitator at meetings of the Board to ensure that discussion results in logical and understandable outcomes.

The Chairperson leads a Board and director evaluation exercise every two years.

The Deputy Chairperson may fulfil the Chairperson's responsibilities in the absence of the latter.

Board committees

The Board has two standing committees namely the Audit and Risk Management Committee and the Governance and Appointments Committee. Other committees are formed for specific purposes and disbanded as required.

The purposes of the standing committees are as follows:

- The Audit & Risk Management Committee provides a forum for effective communication between the Board and the auditors. The Committee reviews the annual and half-yearly financial statements prior to their approval by the Board, the effectiveness of management information and systems of internal control, the efficiency and effectiveness of the external audit functions and the financial role of management and policy. The Committee also keeps under review risk management issues and practices of CCHL and its subsidiaries.
- The Governance & Appointments Committee reviews the policies of the Board and conducts an annual review and appointment process regarding the directors of the subsidiaries and advises on appointment of the best people to meet the companies' needs.

Board composition and mix

The composition of the Board reflects the duties and responsibilities it has to discharge and perform in the interests of shareholders, and in setting the company's strategy and seeing that it is implemented.

The Board comprises eight directors: four councillors and four appointed external to the Council. This mix is to ensure that the Board has the confidence of the Council and has strong commercial expertise so that it can effectively carry out its role as a buffer between the Council and its commercial trading entities.

Generally, the requirements for Board membership are the ability and experience to make sensible business decisions and recommendations, entrepreneurial talent for contributing to the creation of shareholder value, the ability to see the wider picture, the ability to ask the hard questions, high ethical standards, sound practical sense, and a total commitment to furthering the interests of the shareholder and the achievement of the company goals.

Directors' remuneration

The Board recommends to the shareholder at the time of the triennial Council elections the level of remuneration paid to directors.

Protocol on conflicts of interest

The Board maintains a separate policy on conflicts of interest which meets all current legislative requirements.

The Board maintains a full and updated interest register which is available at all Board meetings.

Board and director evaluations

The Board, every two years, evaluates its own performance, and its own processes and procedures to ensure that they are not unduly complex, that each director is performing adequately and that the Board as a whole is effectively fulfilling its role.

Indemnities and insurance

The company provides directors with, and pays the premiums for, directors and officers liability insurance cover while acting in their capacities as directors, to the fullest extent permitted by the Companies Act 1993.

The company indemnifies all directors and the CEO to the fullest extent allowed for, and in compliance with the requirements of the Companies Act 1993.

The Chief Executive

The CEO is an employee of the company and employed in terms of a contract between the CEO and the company.

On an annual basis the Chairperson will undertake a performance appraisal with the CEO and set appropriate key performance targets for the year ahead.

Board – management relationship

The Board delegates management of the day to day affairs, and management responsibility of the company, to the executive team under the leadership of the CEO to deliver the strategic direction and goals determined by the Board.

All Board authority conferred on management is delegated through the CEO.

The CEO is responsible to the Board to provide advice and implement Board policy.

The CEO:

- Ensures that appropriate, relevant reporting systems are in place and maintained to provide relevant, complete, accurate and timely information to the Board;
- Provides day to day management of the company;
- Acts as a spokesperson for the company unless the Chairperson has specifically adopted this role for a particular issue; and
- Meets business plan and Statement of Intent targets set by the Board.

When the Board agrees with the CEO to achieve specific results directed towards the company goals, the CEO is authorised to make any decision and take any action directed at achieving those specific results.

The CEO is expected to act within all specific authorities delegated to him or her by the Board.

Board of directors

Back row – left to right: **Tim Carter, Bill Dwyer, Andy Pearce, Bob Lineham (Chief Executive), Barry Corbett**

Front row – left to right: **Sarah Astor, Bruce Irvine (Chairman), Bob Parker, Sue Wells**

Bruce Irvine

BCom, LLB, FCA, F.Inst.D (Chairman)

Bruce Irvine was first appointed to the CCHL Board in November 2003, and became Chairman in November 2007. Bruce is also Chairman of Heartland New Zealand Ltd and the Canterbury Earthquake Recovery Group, and a director of a number of other companies. Bruce is also a trustee of the Canterbury Earthquake Recovery Trust, Christchurch Art Gallery Trust and Christchurch Symphony Trust.

Sarah Astor

BCom, CA, AF InstD

Sarah Astor was appointed to the CCHL Board in November 2007. She is the Chairperson of Meteorological Service of NZ Ltd and Metra Information Ltd, and director of a number of other companies. Sarah is also a trustee of Church Property Trustees, Ohinetahi Charitable Trust and Warren Architects Education Charitable Trust.

Tim Carter

BE Hons, MEM

Tim Carter is a City Councillor, and was appointed to the CCHL Board in December 2010. Tim is also a director of Chelsea UK Investments Ltd.

Barry Corbett

Barry Corbett has been a City Councillor since October 1998, joining the CCHL Board in 2004. He is a director of the Theatre Royal Charitable Foundation, a trustee of the Christchurch Casino Charitable Trust and chairman of the Eureka Trust.

Bill Dwyer

LLB (Hons), B,Ed

Bill Dwyer joined the CCHL Board in 2005. Until June 2011 he was a partner of Lane Neave Lawyers and director of a number of health-related companies and companies associated with Lane Neave. Bill is now employed by Solid Energy Ltd, and is a director of Christchurch City Networks Ltd and EcoCentral Ltd, and a trustee of the Wavertree Trust.

Bob Parker

Bob Parker, the Mayor of Christchurch, became a director of CCHL in December 2007. He is also a director of Canterbury Development Corporation and the Canterbury Museum Board.

Andy Pearce

BSc (Hons), MSc, Phd, FNZIM

Andy Pearce was appointed to the CCHL Board in 2006. He is Chairman of Focus Genetics Ltd and the Energy Efficiency and Conservation Authority, and a director of Bank Of New Zealand and a number of other companies. Andy is also the Chairman of the Regional Committee, Canterbury Water Management Strategy.

Sue Wells

BA

Sue Wells has been a City Councillor since 1998, and Community Board member since 1995. She joined the CCHL Board in 2004. Until August 2007 she was a director of Christchurch City Networks Ltd, and served on the Board of Orion Group Ltd prior to her appointment to the CCHL Board.

Bob Lineham

BCom, FCA, FNZIM (Chief Executive)

Bob Lineham has been the Chief Executive of CCHL since it was established in 1993. He is a director of Christchurch City Networks Ltd, Enable Networks Ltd, Civic Assurance and Local Government Finance Corporation Ltd. Bob is also a member of the Canterbury District Health Board Quality, Finance, Audit and Risk Committee.

Financial overview

Introduction

The purpose of this section is to provide a financial overview of the parent company and group, and explain movements in the financial statements between 2011 and 2010.

The full, audited financial statements, which provide further information on the matters outlined in this section, are available on request or can be found on CCHL's website.

Overview

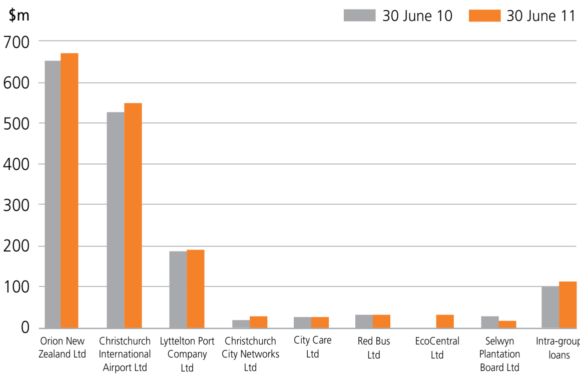
The CCHL parent company does not undertake trading operations in its own right. Its primary assets are its investments in its operating subsidiaries and associated companies, and advances to the shareholder, Christchurch City Council, and subsidiaries.

CCHL records investments in subsidiaries at fair value, and reviews them annually for material changes in value. The Board considers that recording assets at fair value rather than historical cost ensures greater accountability for its custodianship of these investments.

The subsidiary and associated companies are independent profitable businesses, and not subsidised in any way by CCHL or the Council.

The following table summarises the value of CCHL's main investments, including loans to Christchurch City Council, as at balance date, and compares them to the carrying value at the previous year end:

CCHL Investments

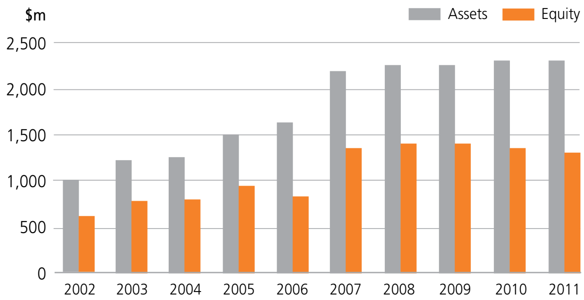


Commentary on the 2011 valuations of these investments is provided further on in this review and in the separate financial statements.

The following chart shows the growth in group assets and equity over the last 10 years. This growth has been achieved despite the payment of $331 million in ordinary dividends and $300 million in the form of special dividends and capital repayments to the Council over the same period.

There has been steady growth in group assets since 2002, although growth has slowed in the last few years.

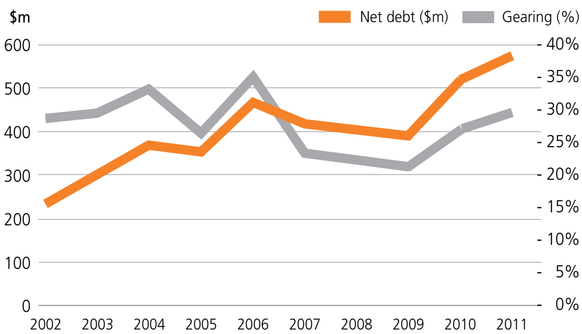
Group assets and equity



Equity fell in 2006 as a result of one-off adjustments when the group adopted international financial reporting standards. There was also a reduction in equity in the 2010 financial year following the payment of special dividends by CCHL to Christchurch City Council, and in 2011 as a result of asset devaluations by Orion New Zealand Ltd.

The following chart shows the level of the CCHL group's debt and gearing levels over the last 10 years:

Group debt levels and gearing



Parent and group debt levels remain relatively low for a group that predominantly comprises stable infrastructure businesses, and interest cover ratios are correspondingly conservative. The relatively low level of gearing has served the group well in the aftermath of the Canterbury earthquakes and the current difficult economic climate. The increase in debt in the 2011 year was largely the result of Christchurch International Airport Ltd's terminal redevelopment programme, the acquisition of EcoCentral Ltd and the continued expansion of Enable Networks' broadband network.

The following section provides an overview of the CCHL parent company's and group's financial results and position for the year ended 30 June 2011.

Financial overview CONTD.

Summarised statement of Comprehensive Income	Note	June 11 Group $'000	June 10 Group $'000	June 11 Parent $'000	June 10 Parent $'000
Operating and other revenue	*(i)*	745,530	583,637	42,637	47,691
Finance income	*(ii)*	3,437	5,978	6,387	6,538
Other gains	*(iii)*	984	5,839	616	2,573
Total income	*(vii)*	749,951	595,454	49,640	56,802
Depreciation and amortisation		118,077	77,016	–	–
Finance costs		27,395	27,323	15,724	14,141
Other operating costs		491,837	372,595	1,730	1,512
Other losses	*(iii)*	5,652	160	–	132
Total operating expenses	*(viii)*	642,961	477,094	17,454	15,785
Share of profits/(losses) of associates	*(iv)*	1,841	(1,019)	–	–
Profit before income tax expense		108,831	117,341	32,186	41,017
Income tax expense	*(v), (ix)*	31,499	62,351	91	–
Profit for the period	*(vi)*	**77,332**	**54,990**	**32,095**	**41,017**
Other comprehensive income					
Revaluation of assets		(118,651)	25,188	–	–
Revaluation of investments	*(x)*	–	–	30,930	(25,555)
Cash flow hedges		(3,258)	(5,308)	(1,663)	(2,602)
Translation of foreign exchange differences/other		–	(187)	–	–
Share of asset revaluations of associates		(760)	(1,441)	–	–
Income tax		38,478	940	–	–
Other comprehensive income		(84,191)	19,192	29,267	(28,157)
Total comprehensive income for the period		**(6,859)**	**74,182**	**61,362**	**12,860**

Group

(i) Operating and other revenue

Group operating and other revenue has increased significantly, mainly as a result of the extra work taken on by City Care Ltd following the Canterbury earthquakes, insurance receipts and receivables in Lyttelton Port Company Ltd and Red Bus Ltd, and the acquisition of EcoCentral Ltd part way through the year.

(ii) Finance income

Group finance income reduced by $2.6 million, largely as a result of the repayment of advances by Christchurch City Council (in particular $42 million in April 2010), and lower cash holdings in the CCHL parent company. The reduction is not so apparent in the parent company figures, because 2011 was the first full year it received interest income from a $50 million advance to Christchurch International Airport Ltd. Additionally CCHL made a further $3 million advance to Enable Networks (the interest on parent company advances to subsidiaries of course eliminates on consolidation).

(iii) Other gains/Other losses

Other gains have decreased by $4.0 million. This decrease primarily relates to two transactions recorded in 2010 - a $2.1 million revaluation gain on investment properties owned by Christchurch International Airport Ltd, and a $2.6 million non-cash gain realised by the CCHL parent company on the transfer of an interest rate swap to Christchurch City Council. Conversely there was a $5.5 million increase in other losses as a result of asset write-offs and investment property revaluations by Orion New Zealand Ltd and Christchurch international Airport Ltd, and hedging losses in Orion New Zealand Ltd.

(iv) Share of profits/(losses) of associates

This line item comprises the group's share of the results of Selwyn Plantation Board Ltd, in which CCHL holds a 39% interest. In the 2010 financial year, Selwyn Plantation Board Ltd's results included losses relating to the revaluation of its farmland, whereas 2011 includes some gains on sale of property.

(v) Income tax expense

The group income tax expense for the 2010 financial year was significantly affected by a $36.3 million charge to deferred tax expense, as a result of a change in tax rules announced in the 2010 Budget relating to depreciation on buildings. The expense was partially offset by a credit to deferred tax of $11.8 million reflecting the announced reduction in company tax rate from 30% to 28%.

(vi) Profit for the period

The group profit for the period has increased by $22.3 million, from $55.0 million to $77.3 million. The movement in the group result has been affected by a number of one-off items, in particular earthquake costs and insurance recoveries, the 2010 deferred tax expense referred to above, and also investment property revaluations and interest rate swap movements. After allowing for these items, the underlying group trading profitability has improved – this is discussed further in the Chairman's/CEO's review.

Parent company

(vii) Total income

The parent company's total income decreased from $56.8 million to $49.6 million, reflecting lower dividend income from most of its subsidiaries (primarily as a result of a cautious approach following the Canterbury earthquakes). City Care Ltd, on the other hand, paid a significantly increased dividend following the additional work volumes it received as a result of the earthquakes. Additionally, in the 2010 financial year, CCHL recorded a $2.6 million non-cash gain on the transfer of an interest rate swap to Christchurch City Council.

(viii) Total operating expenses

Total operating expenses, of which the main component is interest costs, increased from $15.8 million to $17.5 million, mainly as a result of increased borrowings following the payment of last year's special dividend to Christchurch City Council and an increase in advances to subsidiaries. The impact of the increased borrowing was mitigated by low interest rates on the increased debt.

(ix) Income tax expense

The CCHL parent company normally incurs tax losses on an annual basis, as the majority of its income is in the form of fully-imputed dividends. These losses are made available to other profit-making companies within the group. In 2011, however, due to the timing of the Orion dividend, CCHL made a small taxable profit.

(x) Revaluation of investments

As at balance date, CCHL revalued its investments in Orion New Zealand Ltd and Christchurch International Airport Ltd, on the basis of independent valuations by consulting firm Ernst & Young, and in Lyttelton Port Company Ltd on the basis of its quoted share price at balance date. There was an overall uplift in value of some $31 million.

Financial overview CONTD.

Summarised Balance Sheet	Note	June 11 Group $'000	June 10 Group $'000	June 11 Parent $'000	June 10 Parent $'000
Current assets					
Cash and cash equivalents	*(i)*	16,868	1,083	6,474	13,607
Debtors, other receivables, prepayments	*(ii)*	128,360	49,456	11,829	1,316
Other financial assets	*(iii)*	93	4,482	–	2,663
Inventories		13,053	10,238	–	–
Total current assets		158,374	65,259	18,303	17,586
Non-current assets					
Debtors, inventories and other receivables		9,633	10,112	–	–
Financial assets, associates and derivatives		60,338	70,847	1,611,480	1,560,973
Property, plant & equipment, investment property		2,030,793	2,091,301	–	–
Intangible assets and goodwill	*(iv)*	48,955	37,447	–	–
Deferred tax assets		12,806	11,154	–	–
Total non-current assets		2,162,525	2,220 ,861	1,611,480	1,560,973
Total assets		2,320,899	2,286,120	1,629,783	1,578,559
Current liabilities					
Creditors and other payables	*(v)*	133,285	84,047	19,563	1,924
Borrowings	*(vi)*	141,378	189,704	91,000	106,000
Total current liabilities		274,663	273,751	110,563	107,924
Non-current liabilities					
Borrowings	*(vii)*	442,487	316,410	205,000	175,000
Deferred tax liabilities	*(viii)*	264,428	300,873	–	–
Other non-current liabilities		30,504	28,550	6,127	5,579
Total non-current liabilities		737,419	645,833	211,127	180,579
Total liabilities		1,012,082	919,584	321,690	288,503
Net assets		1,308,817	1,366,536	1,308,093	1,290,056
Equity					
Capital and other equity instruments		71,435	71,435	71,435	71,435
Retained earnings and reserves		990,164	1,048,212	1,236,658	1,218,621
Minority interest		247,218	246,889	–	–
Total equity		1,308,817	1,366,536	1,308,093	1,290,056

The following commentary provides explanations for significant movements between the 2011 and 2010 financial years.

Group

(i) Cash and cash equivalents

Group cash has increased from $1 million last year to $17 million. This principally relates to the timing of CCHL's dividend which was paid on the day after balance date (1 July 2011) rather than in June as is normally the case.

(ii) Debtors, other receivables, prepayments

This line item has increased by $79 million, primarily as a result of the transfer of Christchurch City Networks Ltd's network assets to current assets (in recognition of the imminent transfer of those assets to Enable Networks Ltd – a joint venture company established to undertake the Government's Ultra-Fast Broadband project in Christchurch). It also reflects insurance receivables recognised by Lyttelton Port Company Ltd and Red Bus Ltd, and an increase in City Care Ltd trade receivables as a result of its increased work volumes following the Canterbury earthquakes.

(iii) Other financial assets

Other current financial assets have reduced by some $4 million. This line item principally relates to the current portion of loans made by CCHL to Christchurch City Council, and advances made by Lyttelton Port Company Ltd. These advances were repaid during the 2011 financial year.

(iv) Intangible assets and goodwill

Group intangible assets and goodwill have increased by $12 million, principally as the result of the acquisition of 100% of the shares in EcoCentral Ltd, which gave rise to goodwill on consolidation of some $10 million.

(v) Creditors and other payables

Group creditors and other payables have increased significantly from $84 million to $133 million. This includes a higher level of creditors in City Care Ltd following the post-earthquake step-up in activity referred to previously, higher creditors in Orion New Zealand Ltd and Lyttelton Port Company Ltd as a result of earthquake repair work and provision for the payment of CCHL's final dividend (which in the 2010 financial year was paid prior to balance date).

(vi) Current borrowings

Current borrowings have decreased from $190 million to $141 million. The decrease arises primarily from a refinancing of debt by both CCHL and Orion New Zealand Ltd.

(vii) Non-current borrowings

Non-current borrowings have increased from $316 million to $442 million, reflecting in part the refinancing of current debt as at 30 June 2010 to debt with a longer maturity, as noted in (vi) above. In total, group net debt has increased by $62 million from $505 million to $567 million. This increase has principally arisen from an increase in Christchurch International Airport Ltd's debt to fund the new terminal and in CCHL's debt, partially offset by reductions in borrowing in Orion New Zealand Ltd, Lyttelton Port Company Ltd and Red Bus Ltd.

(viii) Deferred tax liabilities

Deferred tax liabilities have reduced from $301 million to $264 million. The principal reason for this is a $42 million decrease in Orion New Zealand's deferred tax liability following a devaluation of its electricity distribution network assets.

Parent company

(ii) Debtors, other receivables, prepayments

The increase of some $10 million relates to a receivable recognised for Orion New Zealand Ltd's interim dividend which, this year, was paid in July rather than June.

(v) Creditors and other payables

This line item has increased by a net $17 million, and reflects a change in timing of CCHL's final dividend from the normal month of June to July.

Financial overview CONTD.

Summarised Statement of Cash Flows

	Note	June 11 Group $'000	June 10 Group $'000	June 11 Parent $'000	June 10 Parent $'000
Cash flows from operating activities					
Receipts from customers and other sources	*(i)*	649,790	579,337	7	2
Interest received		3,400	5,969	6,402	6,754
Dividends received		–	–	31,923	47,690
Payments to suppliers and employees	*(i)*	(451,600)	(381,737)	(1,641)	(1,364)
Interest and other finance costs paid		(27,010)	(27,076)	(15,726)	(14,528)
Income tax paid		(25,628)	(26,869)	(100)	–
Other operating receipts and payments	*(ii)*	(18,990)	(8,378)	(2)	–
Net cash provided by/(used in) operating activities		129,962	141,246	20,863	38,554
Cash flows from investing activities					
Payment for assets	*(iii)*	(201,936)	(168,957)	(12,927)	(3,216)
Sale of assets/repayment of advances	*(iv)*	22,619	43,976	13,931	42,000
Other investing receipts and payments	*(ii), (v)*	36,421	(238)	(18,000)	(52,997)
Net cash (used in)/provided by investing activities		(142,896)	(125,219)	(16,996)	(14,213)
Cash flows from financing activities					
Net borrowing/(repayment of borrowing)	*(vi)*	61,501	89,502	15,000	84,000
Dividends paid	*(vii)*	(32,782)	(121,569)	(26,000)	(113,846)
Net cash provided by/(used in) financing activities		28,719	(32,067)	(11,000)	(29,846)
Net increase in cash and cash equivalents		15,785	(16,040)	(7,133)	(5,505)
Cash and cash equivalents at beginning of year		1,083	17,123	13,607	19,112
Cash and cash equivalents at end of year	*(v)*	16,868	1,083	6,474	13,607

The following commentary provides explanations for significant movements between the 2011 and 2010 financial years.

Group and parent

(i) Receipts from customers and other sources/Payments to suppliers and employees (group)

Both operating receipts and payments have increased significantly over the previous financial year. This primarily reflects the increase in City Care Ltd's revenues and expenses as it deals with the aftermath of the Canterbury earthquakes. It also reflects the acquisition of EcoCentral Ltd part way through the 2011 financial year.

(ii) Other operating receipts and payments/ other investing receipts and payments (group)

The main factor behind the $11 million increase in this line item is the receipt of a net $10 million of preliminary earthquake insurance proceeds by Lyttelton Port Company Ltd. In addition to this, Lyttelton Port Company Ltd received $34 million of insurance payments which have been classified as investing cash flows, and Red Bus Ltd some $2 million.

(iii) Payment for assets (group and parent)

Group payments for assets have increased from $169 million to $202 million. Most of this increase is attributable to Christchurch International Airport Ltd's terminal expansion project, with the balance relating to increased capital expenditure by Lyttelton Port Company Ltd following substantial earthquake damage to its wharves and other infrastructure.

Parent company payments for assets in the 2011 financial year primarily relate to the acquisition of 100% of the shares in EcoCentral Ltd with effect from 1 January 2011, and a further $3 million of shares in Enable Networks.

(iv) Sale of assets/ repayment of advances (group and parent)

This line item includes proceeds from the sale of surplus buses by Red Bus Ltd, and the receipt by CCHL of some $10 million from the repayment of share capital by Selwyn Plantation Board Ltd and $3 million from the repayment of debt by Christchurch City Council. The main reason for the reduction in both the group and parent company figures is that in the 2010 financial year Christchurch City Council repaid $42 million of intra-group advances to the CCHL parent company.

(v) Other investing receipts and payments (parent)

The parent company investing cash outflows primarily relate to a $15 million advance to EcoCentral Ltd and a further $3 million advance to Enable Networks. The 2010 financial year included a $50 million subordinated advance made to Christchurch International Airport Ltd and a $3 million advance to Enable Networks.

(vi) Net borrowing/repayment of borrowing (group and parent)

The $61 million of net borrowing in the 2011 financial year mainly relates to Christchurch International Airport Ltd's terminal redevelopment and borrowing by CCHL to fund the intra-group advances noted above. The reduction in parent company borrowing reflects the fact that CCHL paid a special dividend of $78.2 million in the 2010 financial year.

(vii) Dividends paid

In the 2010 financial year, CCHL paid a fully imputed special dividend of $78.2 million in addition to its ordinary dividend.

(viii) Cash and cash equivalents at end of year

Group cash has increased from $1 million last year to $17 million. This principally relates to the timing of CCHL's dividend which was paid after balance date on 1 July rather than before balance date in June as is normally the case.

Summarised Statement of Changes in Equity

	Note	June 11 Group $'000	June 10 Group $'000	June 11 Parent $'000	June 10 Parent $'000
Equity at beginning of year		1,366,536	1,414,140	1,290,056	1,391,042
Profit for the period	(i)	77,332	54,990	32,095	41,017
Other comprehensive income	(ii)	(84,191)	19,192	29,267	(28,157)
Other movements	(iii)	(753)	(217)	–	–
Dividends	(iv)	(50,107)	(121,569)	(43,325)	(113,846)
Equity at end of year		1,308,817	1,366,536	1,308,093	1,290,056

Group and parent

(i) Profit for the period

See page 17 and the Chairman's/Chief Executive's review for explanation of movements in group and parent company profit.

(ii) Other comprehensive income

Other comprehensive income of the group has changed from a positive $19 million in the 2010 financial year to a negative $84 million in 2011. The latter movement primarily reflects a $101 million downward movement in Orion New Zealand Ltd's asset revaluation reserve following the revaluation of its electricity distribution network, partially offset by an upward $19 million asset revaluation by Christchurch International Airport Ltd.

The 2010 movements related to an upwards asset revaluation by Christchurch International Airport Ltd, partially offset by downwards movements in the value of interest rate swaps held by the CCHL parent company, Christchurch International Airport Ltd and Lyttelton Port Company Ltd. The swaps are held to hedge existing or forecast debt commitments.

The $29 million movement recorded for the CCHL parent company in the 2011 financial year relates primarily to revaluations of CCHL's investments in Orion New Zealand Ltd and Christchurch International Airport Ltd.

(iii) Other movements

These movements primarily relate to adjustments to the carrying value of non-controlling interests (previously known as minority interests) following the on-market acquisition of shares in Lyttelton Port Company Ltd by the CCHL parent company.

(iv) Dividends

The parent company paid an ordinary dividend to Christchurch City Council of $35.3 million which, when combined with subvention receipts voluntarily foregone, equated to the budgeted $38.0 million in CCHL's Statement of Intent. In addition the company paid a fully imputed special dividend of $8.0 million. In the 2010 financial year, CCHL paid a fully imputed special dividend of $78.2 million in addition to its ordinary dividend.

To ensure the city's power was restored as quickly as possible, Orion's staff and contractors worked long hours in difficult circumstances, leaving family and friends to report for duty even when their own homes were badly damaged and evacuating their Manchester Street offices to a back-up site nearby, where it continues to operate.

Above:
Ike Francisco, from Counties Power in Pukekohe, repairs damaged power cables in Madras Street, Christchurch.

Left:
Orion control centre staff working out of the company's temporary offices in the CBD red zone.

The February earthquake caused further extensive damage to parts of the electricity network, particularly to crucial high-voltage underground cables supplying power to the eastern suburbs and central city. During the immediate quake response more than 700 electricity sector workers from Orion, its subsidiary Connetics, local contracting companies and many more companies around New Zealand and Australia helped with the recovery effort.

Each of the 600-plus cable faults from the February quake took more than 12 hours to find and repair. Almost all of this work was completed by the end of April, and work is well underway to repair cables damaged in the 13 June quakes.

89.3% owned by Christchurch City Holdings Limited

Orion New Zealand
LIMITED

Financial performance

Orion New Zealand Ltd recorded a net profit for the year of $28.4 million, compared with $46.8 million in the previous year. The Canterbury earthquakes dominated Orion's year from an operational perspective, and also impacted on its result, with the profit being directly affected by $20 million of additional costs being incurred in relation to earthquake repairs and asset write-downs. The company's key earthquake insurance policies cover the head office buildings, most substations and loss of profits. It has been uneconomic for some years to insure underground cables and overhead lines.

No insurance receipts have been recognised in the accounts so far, as it is too early to estimate claims reliably.

Earthquake preparation

While Orion incurred extensive damage in some areas, in general its network performed exceptionally well due to forward planning and risk protection work. In the mid-1990s Orion participated in a study into how natural disasters would affect Christchurch. As a result of this, Orion spent over $6 million on seismic protection work and a further $35 million building resilience into the network.

Orion management estimate that, without this strengthening work, the projected $70 million repair bill would have more than doubled. Moreover, in terms of hours without power, the impact would have been much worse with weeks and possibly months of continuous power cuts across Christchurch.

Earthquake impacts

Massive earth movement from each earthquake stretched some underground cables by up to a metre, and caused more faults than would normally be seen over the course of a decade. In February, the four large underground cables which take power into North East Christchurch were damaged beyond repair. However, only four of the 341 substations were severely damaged and in general the overhead line network stood up well.

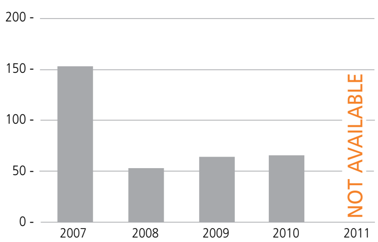
Earthquake response

Each of the 600 plus cable faults from the February earthquake took more than 12 hours to find and repair – a huge task for the cable crews who rallied from around the country and Australia. Almost all of this work was completed by April. Orion's subsidiary, Connetics Ltd, did an outstanding job of coordinating and carrying out these repairs. Orion's response also included building a new substation in New Brighton, and building two temporary 66,000-volt overhead lines to maintain supply to North East Christchurch for the three years it will take to design and build a permanent supply. At the height of the earthquake response Orion deployed 24 diesel generators to supply electricity to 10,000 customers city-wide.

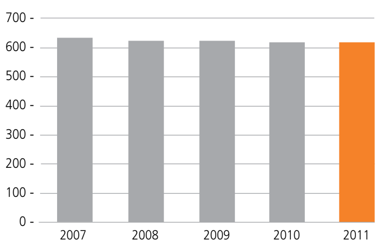
Looking ahead

The existing regulatory framework has limited applicability to the current extraordinary situation in Christchurch. Orion is facing challenges that will require a flexible and pragmatic regulatory approach to encourage investment in essential infrastructure. Orion intends to work constructively with relevant authorities to develop a thorough understanding of the investment necessary to support the rebuild of Christchurch and engage with regulators to develop positive and practical solutions to the challenges ahead.

SAIDI *(Avge customer minutes of interruption)*



ELECTRICITY MAXIMUM DEMAND *(MW)*



FIVE YEAR SUMMARY

Orion New Zealand Ltd	2007 $m	2008 $m	2009 $m	2010 $m	2011 $m
Operating Revenue	193.5	208.7	231.3	222.4	**222.1**
Profit for the year	60.6	65.5	49.9	46.8	**28.4**
Total assets	955.0	961.1	967.2	967.3	**821.4**
Shareholders' equity	676.7	700.0	697.4	706.2	**599.6**

Following the amalgamation of Orion Group Ltd and Orion New Zealand Ltd as at 31 March 2009, the above comparatives have been restated to reflect the results and financial position of Orion New Zealand Ltd.

*Above:
An AirAsia X plane takes off on the Christchurch International Airport runway.*

*Left:
The new airport terminal behind the control tower.*

Christchurch Airport has repeatedly put its emergency response plans into action for the seismic events of September 4, Boxing Day, February 22 and June 13. These four earthquakes required terminal evacuations and closure of the airport while safety checks were carried out.

In the days that followed February 22, it is estimated 25 to 30 lives were saved by the swift reopening of the airport, which allowed medical supplies and emergency personnel to come into the city and medical patients to be taken out to other centres. Ensuring the terminals and runways were undamaged and safe for use was a critical part of the response. With each significant aftershock, management, operations, engineering infrastructure and fire staff were involved in completing checks of key facilities. CIAL ensured a dedicated emergency channel was available 24/7 on handheld radios for all key stakeholders to monitor. After the September quake, it purchased an accelerometer, which gives instant measurements of the force of an earthquake or aftershock at the airport site, to guide future emergency responses.

For its work in developing these and other systems, CIAL was the first airport in New Zealand to receive the Jim Collins Award for exceptional contribution to aviation safety. Along with processes and systems, airport and campus worked tirelessly to keep the facility open and functioning and travellers cared for.

75% owned by Christchurch City Holdings Limited

Christchurch International Airport
LIMITED

Financial performance

The company recorded a net profit for the year of $21.8 million, compared with a result of $26.8 million (excluding deferred tax adjustments) in the previous year. This is considered a creditable result given the significant impacts of the earthquakes, the Chilean ash cloud and the late start to the ski season on visitor numbers.

The airport has placed a strong emphasis on cost control, and this has become even more important given the challenges to its revenue streams over the next couple of years.

Market growth and performance

Passenger numbers were down on the previous year (international 1.488 million, domestic 4.287 million versus 1.622 million and 4.378 million respectively), reflecting the above-noted challenges. Disappointingly, but understandably, a number of services on the trans-Tasman route were reduced by Air New Zealand, Pacific Blue and Jetstar. However, the commencement of services by AirAsia X was a major positive for the year, and the airport understands that the airline is pleased with the level of patronage to date. At the current time the airport believes it will take around two years to recover traffic levels to the level being achieved prior to the September 2010 earthquake.

Terminal development

The Integrated Terminal Project, which provides for one check-in and baggage-handling facility to service both domestic and international services, commenced in mid-2009. Stage 1 of the project – the check-in hall, regional lounge, baggage-handling facility and the retail, food and beverage hall – was completed in early 2011, after delays caused by the September and February earthquakes. The response from the public and the airport's commercial partners has been uniformly positive, and the performance of the facility to date has been well in line with expectations.

Work is now proceeding on the next stages, with the entire project due for completion by late 2012. The work now being undertaken sees the demolition of the old international check-in hall and then the existing domestic terminals, with the construction of new airside facilities progressing as the demolition occurs. The final piece of work will be the demolition of the airside pier (where the existing Air New Zealand air bridges are) followed by the reinstatement of the tarmac apron areas.

Commercial revenues and property

Commercial revenues are important to the airport to diversify its revenues. Several significant new concessions commenced during the year, including JR Duty Free, Travelex, HMS Host and Relay. The strong performance of the airport's commercial business was one of the major highlights of the year.

The airport commenced development of the first stage of its Dakota Park freight and logistics development, and a new warehouse development for Recall was completed. Two additional tenancies for Dakota Park were secured with Landpower and Hewlett Packard. Planning for the Spitfire Square retail development is also progressing satisfactorily. The airport has also embarked on a Temporary Office Park development to provide commercial premises for business displaced by the earthquakes.

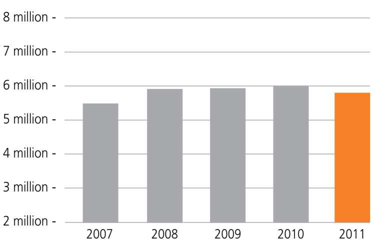
Looking ahead

The coming year will be challenging, and the airport is responding with a number of initiatives, such as its significant commitment to tourism through its direct support of Christchurch and Canterbury Tourism, its leadership role in whole-of-South-Island tourism initiatives undertaken with regional tourism entities and its tangible support of the ski industry.

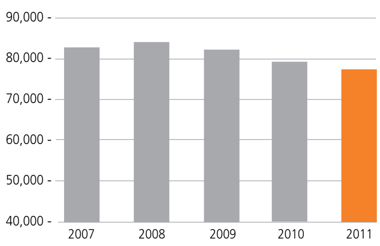
Building existing, and developing new, long-haul connections from Christchurch remain a priority for the airport, and it continues to press ahead with its commercial and property initiatives.

The airport hopes to recover to former levels by 2014.

TOTAL PASSENGERS



TOTAL AIRCRAFT MOVEMENTS



FIVE YEAR SUMMARY

Christchurch International Airport Ltd	2007 $m	2008 $m	2009 $m	2010 $m	2011 $m
Revenue	83.7	89.4	86.8	96.1	**97.4**
Profit/(loss) for the year	24.0	23.4	14.7	(0.3)	**21.8**
Total assets	729.3	756.9	743.0	852.0	**964.5**
Shareholders' equity	552.8	563.3	560.1	570.1	**601.1**

Above:
LPC tugs escort the Beilun Whale, the first coal ship to visit Lyttelton after the February earthquake, into port on 15 March.

Left (top):
One of the port's two 1,000 tonne container cranes is lifted back onto its tracks after being dislodged in both the February and June earthquakes.

Left (bottom):
The historic 1878 lighthouse at the end of the eastern mole at the entrance to Lyttelton Inner Harbour was removed for repairs after the February earthquake.

Lyttelton Port of Christchurch proved its resilience in terms of people, facilities and infrastructure in the face of high-magnitude seismic events during the past year.

Wharves were structurally damaged and paved cargo-handling areas badly cracked in the September, February and June quakes. In February and June, two container cranes were jolted off their rails. At CityDepot, the company's inland port at Woolston, paving cracked and buildings were structurally damaged.

However, after each major shock, LPC staff and technical advisors worked around the damage to ensure that essential supplies such as water, food and fuel got through to Christchurch and Canterbury, and that customer services were up and running as quickly as possible. Extensive earthquake damage also affected coal exports for a time, and the cruise season was brought to an early end because of berth damage and safety concerns.

A positive development after months of emergencies and recovery work was the commencement of the 10-hectare Te Awaparahi Bay Reclamation to the east of Cashin Quay. The project provides an environmentally sensible disposal area for clean demolition hard-fill. This solution is saving Christchurch people and businesses over $100 million in dumping fees, and is saving LPC millions of dollars on quarrying and transporting rock.

79.2% owned by Christchurch City Holdings Limited

Lyttelton Port Company
LIMITED

Financial performance

The company's reported result, which includes earthquake effects such as additional costs, insurance proceeds and revenues lost, was an after-tax profit of $24.1 million.

Perhaps more relevantly, despite the most destructive events in the history of the port, the company achieved an earthquake-adjusted profit after tax of $12.1 million for the year ended June 2011, compared with $9.0 million in the previous year. The after-tax result is proof of the underlying strength of the business and reflects solid business growth, particularly in container, logs and coal volumes.

Write-downs of port assets following the September 2010 and February and June 2011 earthquakes totalled $29 million. A total of $33 million has so far been approved by the port's board to enable urgent repair and remediation works from the 22 February and 13 June earthquakes. These urgent temporary repairs are ensuring that the port remains operative. There will be significant further expenditure required to rebuild the infrastructure over a number of years.

Record trade results

Record volumes were achieved during the year for containers, and coal and log exports. Total container volumes rose 6.2% to 290,842 TEUs, while containers moved through the Container Terminal rose 7.4%. Coal exports rose 5.2% to over 2.1 million tonnes. Log exports grew 8.7% compared to the previous year. CityDepot, the inland port located in Woolston, handled record numbers of empty containers, with a corresponding increase in services such as surveys, repairs, wash, pre-trip inspections and storage.

Insurance Update

Up to 1 July 2011, LPC carried significant insurance cover for restoring and reinstating assets to current standards as a result of events such as earthquakes, along with business interruption insurance.

The company has been formally advised by its lead insurer that it accepts the earthquake damage to the company's assets is insured.

To date the company has received progress payments of $35.7 million for both business interruption and material damage expenditure as a result of the earthquakes, and has made a further progress claim of $18 million.

LPC continues to work with its lead insurer on damage assessments and the appropriate next steps for reinstatement of the damaged structures. It is the company's view that the total insurance claims will be significant and will materially impact on future financial statements.

The company has been successful in obtaining limited insurance cover for the Port going forward, with 100% of the cover required for assets under its material damage policy being provided except for wharves, breakwaters, pavements and other assets which are already more than 50% damaged. However, this excludes cover for natural disasters including earthquakes. The Port has been unable to secure business interruption cover. LPC is continuing to work with its brokers and insurers to build on this position.

All other policies have been renewed.

Land reclamation

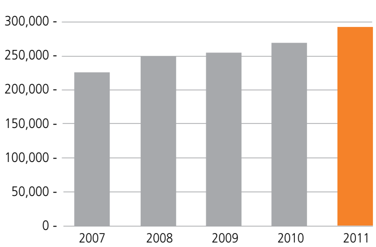
With the need for additional land, the port applied for and obtained emergency consents for the 10-hectare Te Awaparahi Bay Reclamation to the east of Cashin Quay. The reclamation is now larger than a football field. It will be completed in four stages over two years, and the company expects the first stage to be ready for vehicles and logs, at least, within a year. The new land will need time to settle before it can be used for container storage.

The project is providing an environmentally sensible disposal area for clean demolition hard-fill that would otherwise go to landfill. This solution is saving Christchurch people and businesses very large sums in dumping fees, and is saving the port many millions of dollars on quarrying and transporting rock.

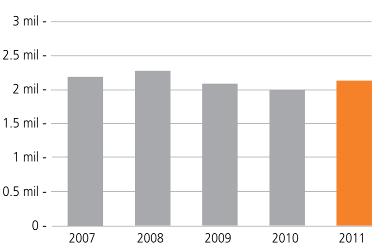
Looking ahead

The company is well placed for growth while at the same time improving customer service, productivity and safety performance. Two new container shipping services commenced in the new financial year, which is a significant expression of support into the future. Exports of dairy and coal are expected to remain strong. The port's recovery planning is underway, and with solid business fundamentals the port is working along a clear pathway for the future.

TOTAL CONTAINER THROUGHPUT *(TEUs)*

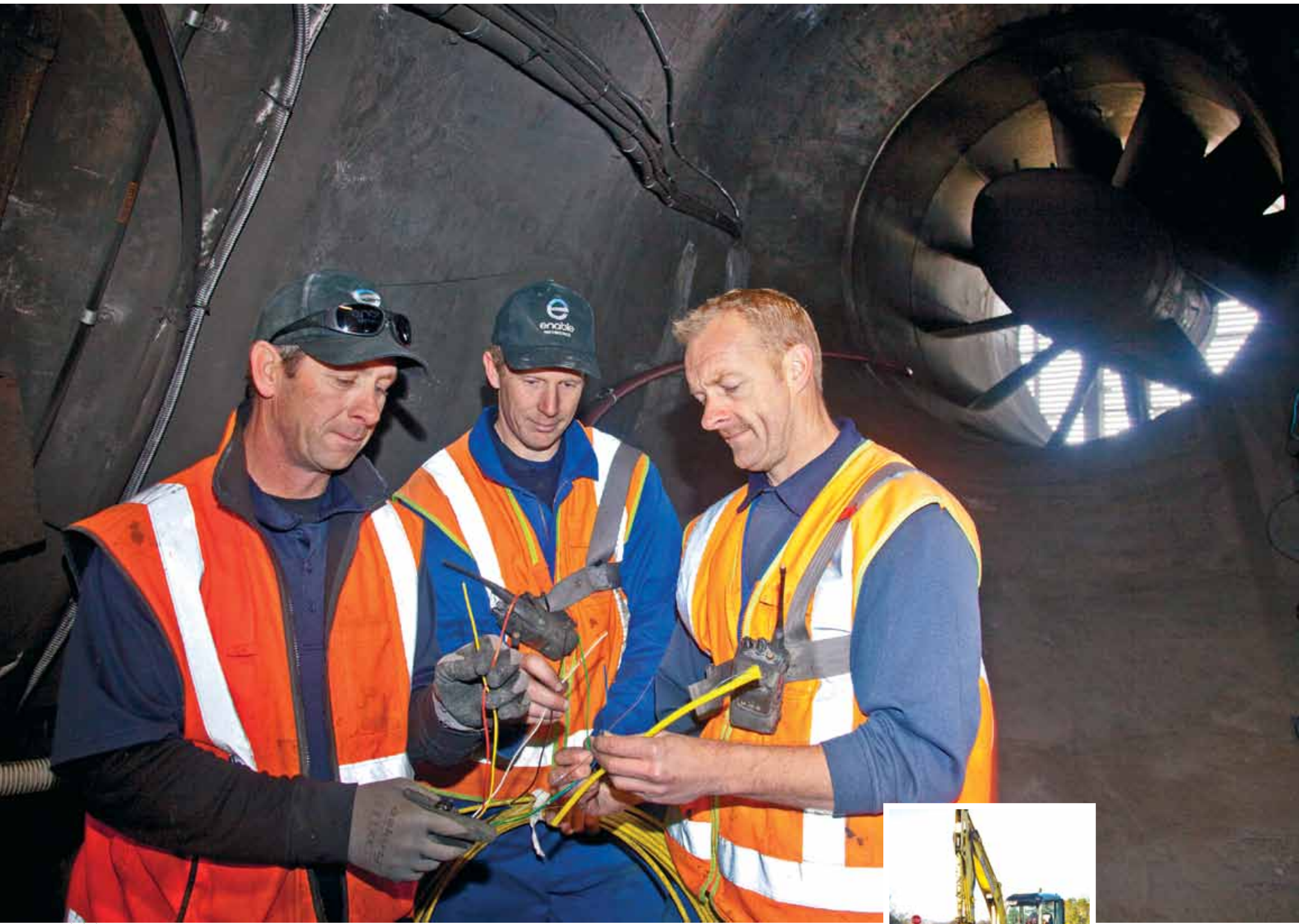


COAL VOLUMES *(Tonnes)*



FIVE YEAR SUMMARY

Lyttelton Port Company Ltd	2007 $m	2008 $m	2009 $m	2010 $m	2011 $m
Revenue	76.4	83.4	84.4	87.3	**91.6**
Profit for the year	9.6	10.3	10.1	9.0	**24.1**
Total assets	219.7	225.6	227.4	232.5	**236.9**
Shareholders' equity	122.6	128.0	129.9	133.8	**155.2**



Above: Enable contractors splicing fibre cables to connect Lyttelton to Christchurch.

Left: Enable contractors clear a fibre chamber that sank into soft ground in the Christchurch earthquake.

Enable Networks' 350km of underground fibre optic cable covers most commercial areas in Christchurch, including some of the worst damaged areas of Bromley, Lyttelton and the CBD and many of the most damaged residential areas.

The cabling technology chosen by Enable proved extremely flexible and has not suffered any damage. In some locations the fibre ducting has moved several metres underground without damaging the fibre optic cables. Communications for priority locations including hospitals, Police, Civil Defence HQ and schools therefore continued to operate over Enable's fibre without issue.

The main focus after the earthquakes for Enable staff and their contractors has been to assist businesses move their communications and IT out of damaged buildings in the CDB. In many cases, fibre connections were relocated into other commercial buildings mainly to the West of the CBD. In some cases Enable's high speed fibre allowed data to be recovered remotely, however in many cases IT systems had to be rebuilt at new locations. Another priority was to move fibre connections from the TVNZ building (now demolished), where many television and telecommunications providers' nodes were located, to other buildings – a construction exercise compressed into two days instead of the usual four weeks.

The need to shift fibre connections also required Enable's contractors to enter buildings and splice fibre in chambers inside the Red Zone, under Civil Defence staff supervision. In one situation, a reinforced shield was constructed and placed over a major cable chamber in Hereford Street to protect workers against the risk of nearby buildings collapsing onto the work area.

100% owned by Christchurch City Holdings Limited

Christchurch City Networks

LIMITED (Trading as ENABLE NETWORKS)

Financial performance

The company recorded a net profit for the year of $0.5, compared with $0.4 million in the preceding year. Enable achieved growth in profitability in spite of earthquake expenses and costs incurred in bidding for and winning the Ultra-Fast Broadband (UFB) contract. These factors have hidden an underlying growth in profitability of over 60%.

Ultra Fast Broadband

Over the last year, considerable resource and effort was invested in bidding to become the Crown's partner to construct and operate the UFB network in Christchurch and the surrounding areas. The bid received unanimous support from CCHL and from the Mayor and Councillors.

In May 2011, Enable was selected as the Crown's partner to construct the UFB network - an outstanding outcome for the company and group, and ultimately for the people and businesses of Christchurch. The reputation and achievement of our company over the last four years, and the challenges of rebuilding Christchurch after the earthquakes has been recognised by the Crown. The company can now work closely with the Council, CERA and other Christchurch utilities to build the future city.

Enable will invest $440M to construct and operate the 3,500km fibre network over 10 years. The Crown will part-fund the initial construction costs and Enable (via CCHL) will fund the rest as well as funding the connection of businesses and homes as they migrate off copper networks and connect to the UFB fibre network. The investment will establish a platform for the economic and social development of our city as well as generate a significant future dividend stream. Enable will wholesale the UFB services in a non-discriminatory arrangement to retail service providers who will deliver internet, voice, TV and other services that consumers demand. The company will shortly be renaming itself Enable Services Ltd to reflect its new role as described below.

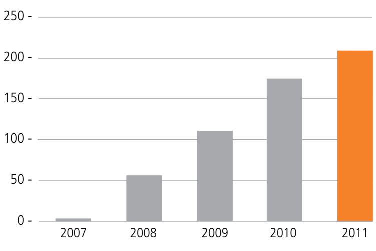
Under the UFB contract, the company takes on the dual role of a contractor who will build the network and on-sell it to Enable Networks Limited, and a partner who invests in Enable Networks Limited (jointly owned by the company and the Crown).

Enable Networks Limited will be the entity which owns the network and sells the fibre services to retail service providers. The company will also provide operating and maintenance services and management services to Enable Networks Limited.

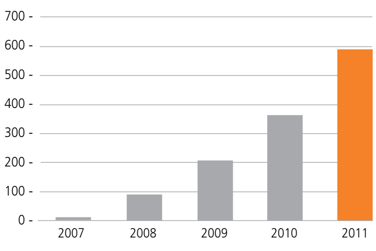
Looking ahead

The year ahead is primarily about building internal capability and partnerships to construct and market UFB wholesale services to Christchurch businesses and homes. Details of the deployment plan will be made public and Enable will create new communication channels to keep our community and retail partners informed. Enable has announced a $260 million contract with Transfield Services Limited who will be the primary construction partner. Transfield have been constructing and maintaining copper and fibre networks around New Zealand for over 15 years and will provide Enable with scalable capability and a commitment to utilise local resources and contractors where possible.

TOTAL DUCTED NETWORK DEPLOYED *(kms)*



EQUIVALENT CONTRACTED CIRCUITS



FIVE YEAR SUMMARY

Christchurch City Networks Ltd	2007 $m	2008 $m	2009 $m	2010 $m	2011 $m
Revenue	-	0.6	3.5	2.9	**4.9**
Profit/(loss) for the year	(0.3)	(0.3)	1.4	0.4	**0.5**
Total assets	0.4	10.1	19.1	25.1	**32.4**
Shareholder's equity	0.2	8.9	16.2	19.7	**23.1**

At the height of the February earthquake, approximately 1,250 City Care New Zealand-wide employees, sub-contractors and consultants worked tirelessly to bring essential services back to the people of Christchurch.

City Care contractors:

- Carried out continuous repairs on the water and wastewater networks
- Moved more than 75,000 tonnes of silt from the northern roading network of the city and repaired the network to keep traffic flowing safely
- Managed more than 90 temporary water sites around the city to enable residents to collect water
- Removed silt from drains and streams using excavators and hand tools.

The focus for City Care, as part of the Christchurch Infrastructure Rebuild Alliance, now shifts from emergency response to making permanent repairs to give normality back to the residents of Christchurch.

Above:
City Care crew works on jetting a sewer line and then sucking the silt from the sewer as it is drawn back to the manhole.

Left:
One of many emergency pipe repairs undertaken following the Christchurch and Canterbury earthquakes.

100% owned by Christchurch City Holdings Limited

City Care
LIMITED

Financial performance

City Care Ltd achieved a strong financial performance for the year ended 30 June 2011, returning a net profit after tax of $11.3 million. This is a substantial increase on the previous year's profit of $4.0 million, reflecting the high volume of work undertaken after Christchurch's earthquakes and aftershocks. In view of the increased profitability, City Care paid an additional $4 million dividend to CCHL for the 2011 year.

Canterbury earthquakes

City Care's role as long-term maintenance contractor for Christchurch City's water networks and other infrastructure meant it was called on to undertake a substantial amount of work to restore services and repair assets after the earthquakes.

At the height of the February earthquake, approximately 1,250 of City Care's Canterbury-based and New Zealand-wide employees and subcontractors worked tirelessly to restore essential services to the people of Christchurch. This involved removing silt from drains and streams, checking and where necessary evacuating and boarding up Council housing complexes and commercial buildings, repairing the wastewater and water networks, removing liquefaction silt from and repairing the northern roading network.

City Care was proud to see its people from all over the country join forces and work so effectively together under such challenging and demanding situations. In addition to City Care's national resources, the company received outstanding support from its clients and local and national contractors.

In May 2011, City Care joined four other contractors and the New Zealand Transit Authority, Christchurch City Council and the Canterbury Earthquake Recovery Authority in signing an Interim Alliance Agreement for the rebuild of Christchurch's infrastructure. The Alliance will be responsible for restoring Christchurch's roads, sewerage system, water supply pipes and parks damaged in the earthquakes.

Contracts

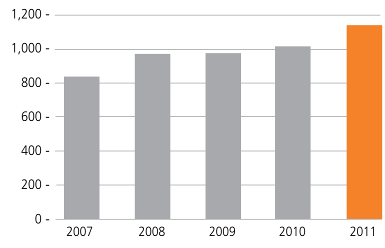
City Care was successful in securing a water, wastewater and stormwater network maintenance contract with Manawatu District Council. This new strategic success means City Care will open a new branch in Feilding, which will bring the number of its locations to 15 throughout New Zealand.

During the year, City Care began four new significant long term contracts and re-won an existing contract. In July 2010, the company began the Masterton District Council water and wastewater utilities maintenance services contract, and two general mowing contracts on behalf of Upper Hutt City Council in August. In October, City Care began a national facilities management contract on behalf of Z Energy (formerly Greenstone Energy). This contract involves managing maintenance activities at Z Energy's network of 225 national retail service stations and truck stops. City Care's Tauranga Branch also re-won the Tauranga Reserves Maintenance Contract for Tauranga City Council.

Looking ahead

City Care will continue to build on its strategic direction of seeking new clients, achieving new contracts, retaining existing business and expanding City Care's geographical footprint, and will work successfully in Christchurch within the Alliance agreement.

STAFF NUMBERS



FIVE YEAR SUMMARY

City Care Ltd	2007 $m	2008 $m	2009 $m	2010 $m	2011 $m
Revenue	101.8	115.2	141.5	145.5	**237.5**
Profit for the year	2.1	3.3	3.7	4.0	**11.3**
Total assets	45.0	50.2	52.9	53.9	**86.4**
Shareholder's equity	25.7	27.4	29.6	31.8	**37.6**

The Canterbury earthquakes have significantly affected Red Bus in the past year, with a large reduction in patronage.

September's earthquake damaged the Red Bus service workshop, however it remained usable while repairs were done to stabilise the building. All services continued as normal throughout 2010, with the exception of the restructured routes, which were implemented in November. However, February 22 brought far greater challenges for Red Bus. The earthquakes have engendered exceptional staff performance. All staff have shown phenomenal resilience in such difficult times.

Tragically in the February quake, a bus driver and several passengers died from falling masonry in Colombo Street. Buses and their passengers were in difficulties all over the city. But in the midst of the chaos, several drivers bravely drove people out of the destruction – one driver even completed a three-point turn on Gloucester Street to retrieve more than 70 children from the Canterbury Museum and to take them to safety.

Buses were out of action in Christchurch for almost two weeks following February 22. Two temporary bus exchanges were set up, and patronage was down 70% in March 2011 compared to March 2010. Current passenger numbers are around 50% of that before the February quake and route frequency has been reduced to reflect the conditions.

On a more positive note, Red Bus has assisted the Ministry of Education in providing daily services for school students who have been relocated to other schools.

Above:
Students from St Paul's Dallington board the bus for their week-day transfer to Champion Street, St Albans. Red Bus provided transport for displaced students when their classes were transferred to other schools.

Left:
Buses lined up at the new temporary bus exchange on Bealey Avenue.

100% owned by Christchurch City Holdings Limited

Red Bus
LIMITED

Financial performance

The company achieved a net tax paid profit of $6.2 million, significantly up from the $1.1 million recorded in the previous financial year. However, the 2011 result includes the recognition of insurance proceeds following the Canterbury earthquakes, and thus is not directly comparable with the previous year.

Operating margins came under pressure as a result of business downsizing and restructuring when some service contracts ended in November. The curtailment of services following earthquakes and aftershocks has further impacted on business results.

Notwithstanding these challenging circumstances, the company has managed to expand the business since February. It was successful in gaining the opportunity to provide the Ministry of Education with emergency school transport to assist in keeping the Canterbury education system operating while schools and classrooms were being repaired after the earthquakes. Red Bus Ltd also successfully acquired the Akaroa shuttle and established a new commercial service to Darfield.

Patronage

Prior to the February earthquake patronage growth was slow to static. While, following the 4 September earthquake, patronage dipped and then recovered quickly, after the 22 February earthquake patronage declined by approximately 54% compared with the 1.2% patronage reduction in 2010.

Regulatory changes

The Public Transport Management Act review is generating a new Public Transport Operating Model (PTOM) that aims to provide a partnership between regional councils and operators to increase the commercialisation of public transport and improve the overall value for money. Auckland Transport and Auckland operators are leading the development of PTOM with good progress towards this new method of delivering partnership-oriented public transport services.

The New Zealand Transport Agency continues its development of an operator safety rating system for implementation in 2012. Red Bus management believes that the rating system is a positive move and will raise industry safety standards.

Outlook

In the short term, contracted services are expected to be reduced around 5%, but the future affordability of the services for Environment Canterbuty (ECan) following the large patronage reduction may necessitate further service reductions.

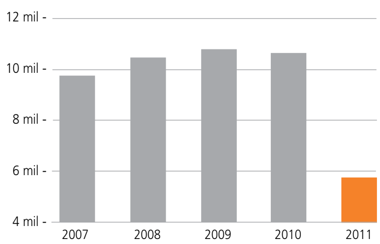
Currently ECan is expected to roll over contracts that were due to go to tender in the coming year, as a recovery plan is implemented.

As well as seeking growth in allied markets, the company intends to focus on enhancing operational efficiency, maintaining its high standards of customer service and protecting the asset base.

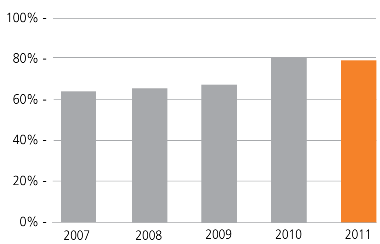
The strategic issue for public transport is responding quickly to service customer needs where the previously well understood transport routes and needs have been massively disrupted by the earthquakes. Business recovery, inner city redevelopment, restarting a single bus interchange point, meeting the new transport demands and external factors such as fuel prices will all impact on the recovery of passenger transport in the coming months and years.

Rebuilding patronage and growing market share in the ultra-competitive urban tender market are expected to be the central challenges in the year ahead.

PASSENGERS CARRIED

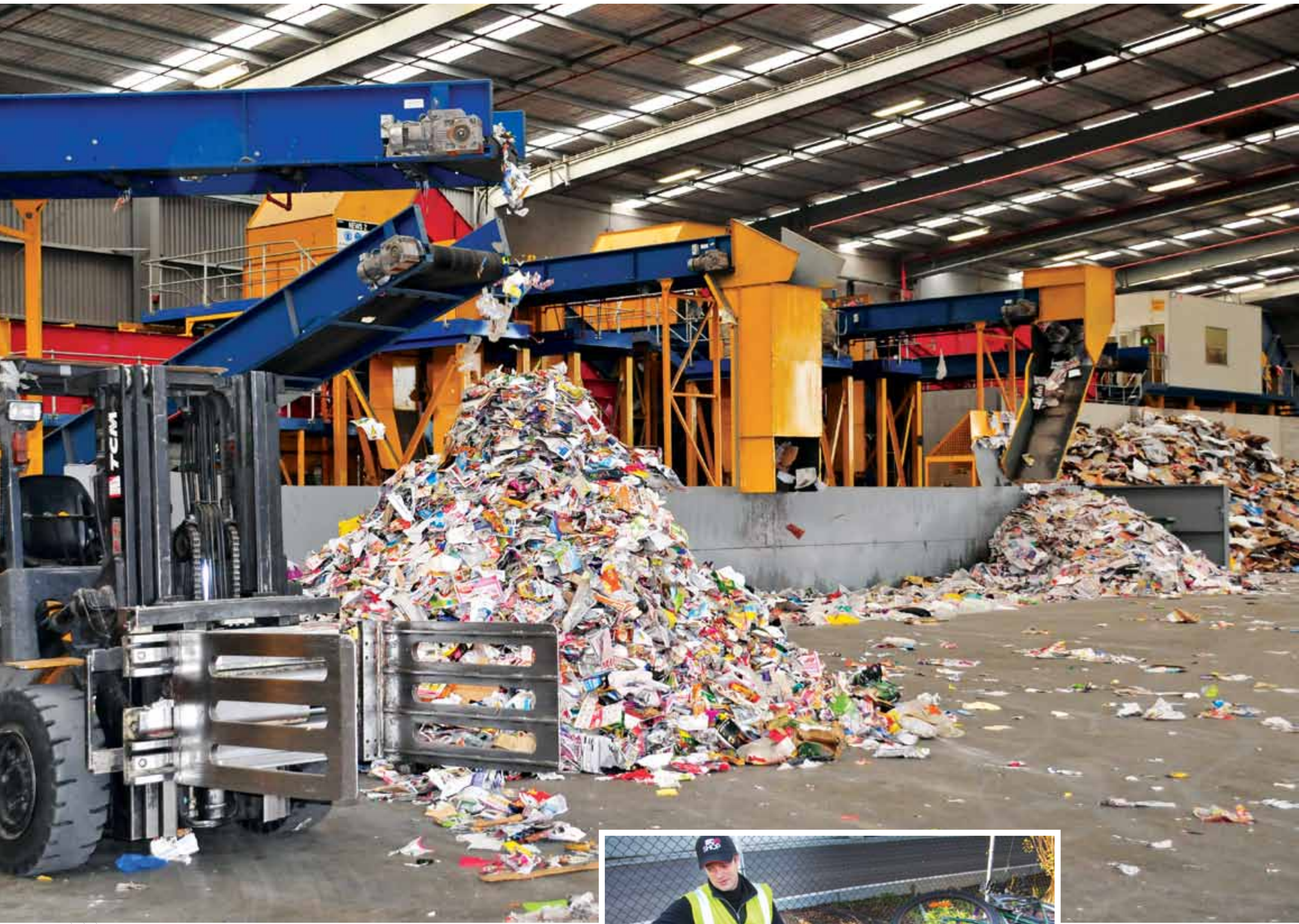


FLEET STANDARD *(Euro 2 and above)*



FIVE YEAR SUMMARY

Red Bus Ltd	2007 $m	2008 $m	2009 $m	2010 $m	2011 $m
Revenue	31.5	33.5	36.8	33.4	**30.4**
Profit for the year	1.9	2.7	4.1	1.1	**6.2**
Total assets	40.8	41.5	44.5	52.4	**51.9**
Shareholder's equity	26.6	28.3	31.1	31.4	**37.6**



*Above:
Recyclable material collected from yellow bins is sorted at the Parkhouse Road EcoSort plant.*

*Left:
Bicycles are recycled for sale at the Blenheim Road EcoShop.*

EcoCentral played a significant part in the recovery after the September 2010 earthquake. In the weeks subsequent to September 4, the company increased its recycling volumes to 5,000-6,000 tonnes per week (previously 2,000 tonnes per week).

While staff experienced loss in a personal manner, the Feburary 22 earthquake did not affect EcoCentral negatively. Despite the logistical challenges, the company succeeded in diverting 47 percent of the earthquake rubble and waste material to other uses, thus reducing the amount going to landfill.

During the February 22 response phase, it is estimated that EcoCentral saw between a 200 and 250 percent increase in volume with Civil Defence long-term estimates of about 8 million tonnes of rubble and 500,000 tonnes of silt and sand. It is expected to take up to six years to sort and recycle, with the goal to recycle as much as two-thirds.

The three EcoDrops, located at Parkhouse Road, Bromley and Styx Mill, continued to perform strongly, assisted by the significant increase in volumes following the earthquakes. EcoSort experienced reduced volumes following the earthquakes, but recovered well with additional volumes from outside the region.

100% owned by Christchurch City Holdings Limited

EcoCentral
LIMITED

Financial performance

The company, which was acquired by CCHL from Christchurch City Council on 1 January 2011, recorded a net profit for the year of $1.5 million, ($0.8 million for the six months from 1 January 2011, the date of aquisition), compared with a loss of $0.7 million in the previous full year. The improved performance was a result of a new strategic focus to streamline and improve the efficiency of the company's operations and focus on its core operations.

The surplus generated enabled EcoCentral Ltd to repay $3.8 million of its long-term debt.

The Canterbury earthquakes provided EcoCentral Ltd with a massive increase in general refuse volumes. Despite the logistical challenges, the company succeeded in diverting 47% of the material to other uses, thus reducing the amount going to landfill. While the volume increase enhanced overall profitability, the quality of materials arriving at the EcoSort was lower given the earthquakes – this increased the cost of sorting the materials for recycling and lowered EcoSort's gross margin.

New name

One of the company's most significant changes this year was a complete organisational rebrand in January 2011. The company's name was changed to EcoCentral Ltd, and the 'Eco' prefix has been used for each of the operating divisions – the Material Recovery Facility is now known as EcoSort, the EcoDepots are now EcoDrops and the Supershed is now EcoShop.

Operations

EcoSort had a disrupted year, with reduced volumes following the September and February earthquakes, but recovered well due to additional volumes received from outside the region. The main focus of management has been, and will be, to improve product quality.

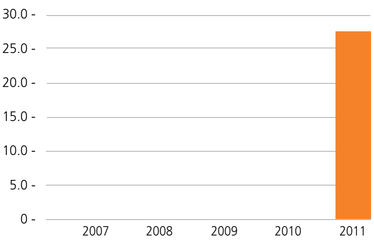
The three EcoDrops, located at Parkhouse Road, Bromley and Styx Mill, continued to perform strongly, assisted by the significant increase in volumes following the earthquakes.

EcoShop underwent a successful brand transformation and relocation in May 2011. The new location at 191 Blenheim Road offers a significantly enhanced shopping experience, with 100% of product under cover. Employee conditions have also improved, with the product sorting and testing facility areas now also fully under cover.

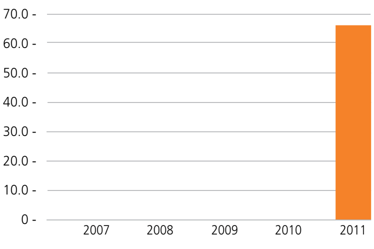
Looking ahead

The company plans to focus on product quality in the coming year, with a number of initiatives planned to ensure EcoCentral Ltd's product sales are of the highest standard. The company also remains committed to furthering the programme of health and safety improvements to all company sites, as well as completing the efficiency initiatives that were interrupted by the earthquakes.

ECOSORT VOLUMES*
(tonnes)



DIVERTED FROM LANDFILL*
(tonnes)



FIVE YEAR SUMMARY*

EcoCentral Ltd	2007 $m	2008 $m	2009 $m	2010 $m	2011 $m
Revenue	-	-	-	-	**18.6**
Profit for the period	-	-	-	-	**0.8**
Total assets	-	-	-	-	**21.6**
Shareholder's equity	-	-	-	-	**1.9**

* The 2011 results are those for the 6 months to 30 June 2011 – ie. the period the company has been under CCHL ownership.

Above:
Cyclists enjoy the newly reopened cycleway at Bottle Lake Plantation.

Left:
Liquefaction is trucked into the landfill area at Bottle Lake Plantation.

While Selwyn Plantation Board (SPBL) was not directly affected by the Canterbury earthquakes, it has played a part in the recovery action.

Within just days of February 22, an area of the Board's Bottle Lake Forest Park was identified under the Civil Defence Emergency Management Act as a recycling site for earthquake rubble and silt.

Three days after the quake, Bottle Lake had seen more than 1,000 truckloads of liquefaction deposited in one of its central areas. Close to both the badly-hit eastern suburbs and the Christchurch CBD, Bottle Lake has continued to be used as part of the Burwood Resource Recovery Park operation.

A number of tracks at Bottle Lake have been rerouted and an exclusion area put in place around the Burwood Resource Recovery Park for public health and safety reasons. Alternative walking and cycleway tracks were then reopened several weeks after the February quake.

SBPL has not experienced any immediate financial loss owing to the recovery operation. A direct loss, however, has been of the two-year-old plantation, part of the area used, and its establishment costs. This land will be possibly usable again in approximately five years and in the meantime some loss of forest production opportunity will result.

39.3% owned by Christchurch City Holdings Limited

Selwyn Plantation Board
LIMITED

Financial performance

The net profit for the year was $4.3 million, compared with a loss of $2.6 million in the previous year. This result includes a forest revaluation increase, a land and building revaluation increment, a reversal of land conversion impairment from previous years and losses/gains on sale of assets and shares.

The trading results prior to these provisions, revaluations, gains/losses on sale of assets, shares and carbon credits, and impairment was a pre-tax profit of approximately $2.3 million (2010: profit of $1.8 million). This represents an excellent result from the forest operations on the back of some very good export selling prices.

For the majority of properties which were sold during the year, valuation expectations were met or exceeded.

A share buyback transaction of 3,659,839 shares for a total consideration of $26.1 million was completed in January 2011, funded with the proceeds of land sales already completed by that stage of the realisation process. CCHL's share of the share buy back was $10.3 million.

Forestry

The forestry component of the business commenced the financial year in a challenging and volatile market environment, as domestic log demand remained weak. The export sector also entered a period of low returns for logs as offshore demand slowed.

The export sector however quickly recovered in September, with demand increasing for all grades of logs, and month on month upward price movement, which then prevailed for the remainder of the year. These high export log prices have been the most significant contributor in the strong financial result at year end.

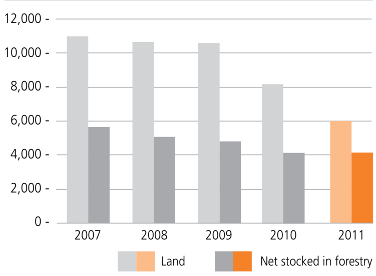
Farming

The start of the financial year bought with it a further reduction in farm operations, as farm land sales concentrated on the Plains were progressively completed. Farm staff numbers were adjusted accordingly as the workload declined. Of significance in the divestment of the farm properties was the successful marketing and sale of the large irrigated finishing property at Burnham in September. Other large farm areas in the Burnham area were leased in November pending sale, which enabled the cessation at that time of all farm operations.

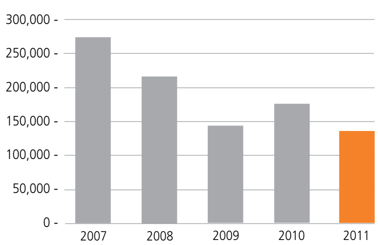
Looking ahead

With a conditional contract signed in June for the purchase of the forest estate, it now appears likely that the company's business objectives can be concluded by the end of the current calendar year. Survey work and the issue of new titles have delayed the settlement of some properties which are sold, albeit conditional on this work being completed. The outcome of hearings associated with applications to rezone two areas of land adjoining Rolleston is also awaited. This will influence the sale options relating to this land area, as it will either remain in its current status or be available for further development into rural residential allotments.

LAND *(hectares)*



HARVESTED



FIVE YEAR SUMMARY

Selwyn Plantation Board Ltd	2007 $m	2008 $m	2009 $m	2010 $m	2011 $m
Revenue	16.5	16.0	21.5	20.5	**17.1**
Profit/(loss) for the year	2.3	(5.4)	5.8	(2.6)	**4.3**
Total assets	80.8	78.8	81.9	76.8	**56.3**
Shareholders' equity	78.3	75.0	77.6	71.4	**49.6**

Above:
The Ten Tenors concert at the CBS Canterbury Arena mid-year.

Left:
The busy Tuck Shop Cafe at CBS Canterbury Arena.

All Vbase venues – AMI Stadium, CBS Canterbury Arena, Town Hall and Christchurch Convention Centre – came away from the September 2010 earthquake unscathed. But when the February quake hit, three of Vbase's four sites were seriously damaged and their future remains uncertain.

CBS Canterbury Arena was able to swiftly reopen and provided support services to the EQC, Civil Defence and the Salvation Army through to March during the Civil Defence Emergency. CBS Canterbury Arena remains the only Vbase facility in use and was the site of Christchurch's first post-quake concert, featuring violinist Andre Rieu, which almost sold out with an audience of 7000 people. The arena has configured a smaller arena for orchestral and other concerts that would ordinarily be held at the Town Hall.

In May it opened the Tuck Shop Cafe, which was initially set up to support business hubs and has become a destination for the Addington business community. CBS Canterbury Arena was also used for the USA vs. Canada ice hockey event in August.

Catering services became a core responsibility for Vbase, providing meals to the Art Gallery, Civil Defence and Orion. Such support continues today when staffers require lunches in the field while working to recover Canterbury.

100% owned by Christchurch City Council

Vbase
LIMITED (and related companies)

Vbase Ltd is a fully owned subsidiary of Christchurch City Council and until the end of the 2011 financial year was monitored by CCHL.

Vbase owned four premier event venues, Christchurch Convention Centre, Christchurch Town Hall for Performing Arts, CBS Canterbury Arena and AMI Stadium. The purpose of Vbase was to manage these venues for community benefit.

The February 2011 earthquake had a severe adverse impact on the Vbase venues and business. AMI Stadium, Christchurch Town Hall for Performing Arts and Christchurch Convention Centre all sustained severe damage and have been closed since the date of the earthquake.

As a result of the impact of the earthquake on the Vbase business, Christchurch City Council made the decision to assume direct control of the governance and management of Vbase. This structure represents the lowest cost option for the operation of the Vbase venues during the period that the repair of the venues is undertaken.

This decision was approved by Council on 24 June 2011 and resulted in the resignation of Vbase directors on 29 July 2011, Council appointment of new directors, and implementation of a staffing change proposal resulting in the disestablishment of 45 full-time roles (including the Vbase leadership team).

These changes mean that CCHL is no longer responsible for monitoring Vbase and will not report on the company as part of its annual report in the future.

Before the earthquake, Vbase was poised to have its most successful year ever. Revenues and EBITDA were ahead of target and hosting seven Rugby World Cup matches would have been a highlight. Achieving the vision of being ‘A Great Stage and a Great Host’ was within grasp and the company was poised to shine on the international stage during RWC2011. The Convention Centre expansion project funding approval was imminent and this exciting project would have resulted in the next step-change to the Vbase business. This all changed in February after the earthquake.

Vbase then focused on operating the CBS Canterbury Arena to the highest standard possible and preserving capability until other venues became operational.

Vbase also managed related company Civic Building Ltd (CBL). CBL was a 50% shareholder of the Christchurch Civic Building Joint Venture with Ngai Tahu Property Ltd that carried out the redevelopment of the NZ Post building in Hereford Street as the new Civic Offices for the Christchurch City Council. The building opened in August 2010 on time and under budget.

The Civic Building also suffered damage as a result of the earthquake, but the Council is expected to reoccupy the building progressively from the end of the year. Lost rental revenues are covered by business interruption insurance.

The governance and management of Civic Building Ltd have also been changed by the Council and new directors are currently in the process of being appointed.

Directory

Registered Office

53 Hereford Street
Christchurch

Directors

B R Irvine *(Chairman)*
S L Astor
T M P Carter
B A Corbett
W J Dwyer
R J Parker
A J Pearce
S A Wells

Management Team

R Lineham (*Chief Executive)*
R Simmonds (*Chief Financial Officer)*
N Halstead (*Executive Officer)*

Bankers

Bank of New Zealand, Christchurch
Westpac Institutional Bank, Auckland
ANZ National Bank Ltd, Wellington

Auditors

Audit New Zealand
on behalf of the
Controller and Auditor-General
Christchurch





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Website: www.christchurch-airport.co.nz

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Website: www.lpc.co.nz

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Website: www.enablenetworks.co.nz

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cchl
Christchurch City Holdings

cchl

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