ORION CHRISTCHURCH INTERNATIONAL AIRPORT
LYTTELTON PORT COMPANY ENABLE SERVICES
CITY CARE RED BUS ECOCENTRAL

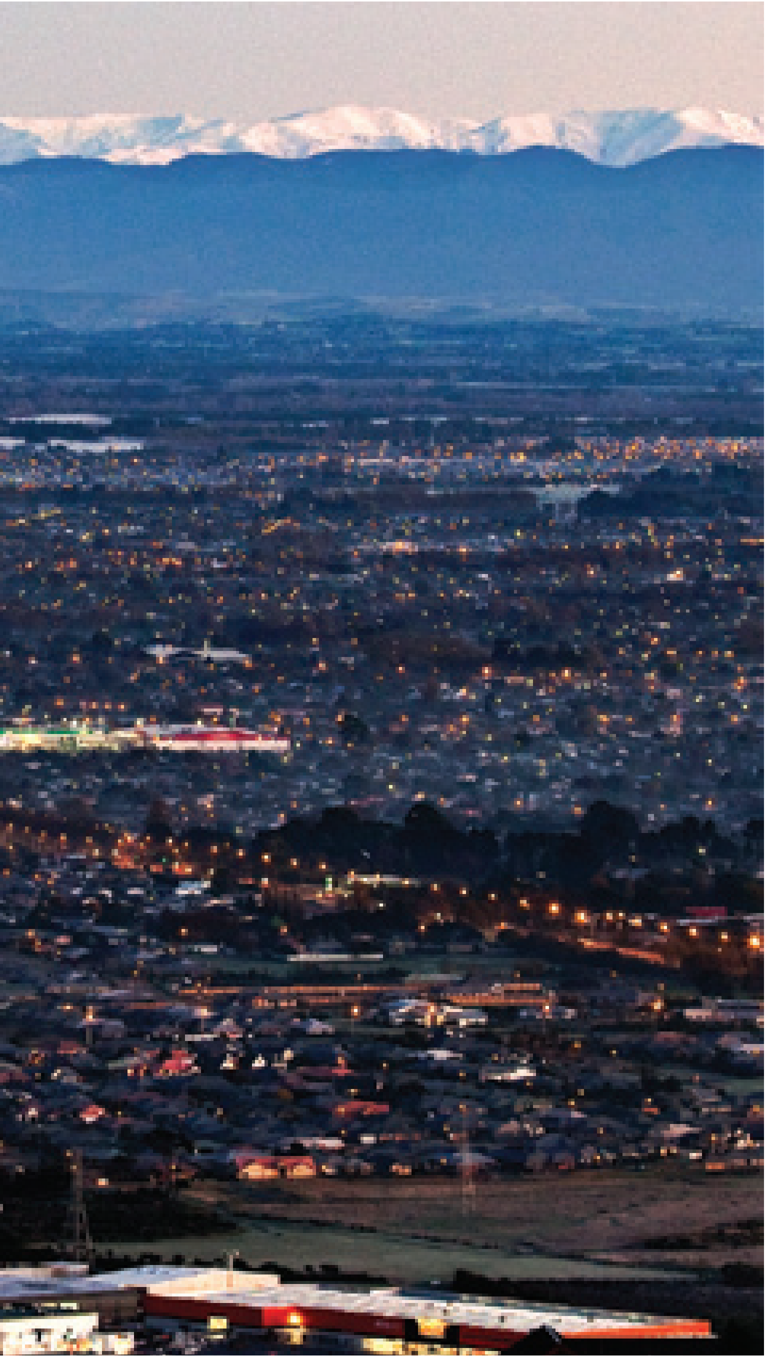
cchl
Christchurch City Holdings

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

ANNUAL REVIEW 2012

… more important than the immediate financial return to the group, is its continuing focus on rebuilding the region's infrastructure so that the people of Christchurch and Canterbury can have confidence that they have reliable infrastructure available to facilitate their own future investment decisions.

OUR PROGRESS: THE FACTS



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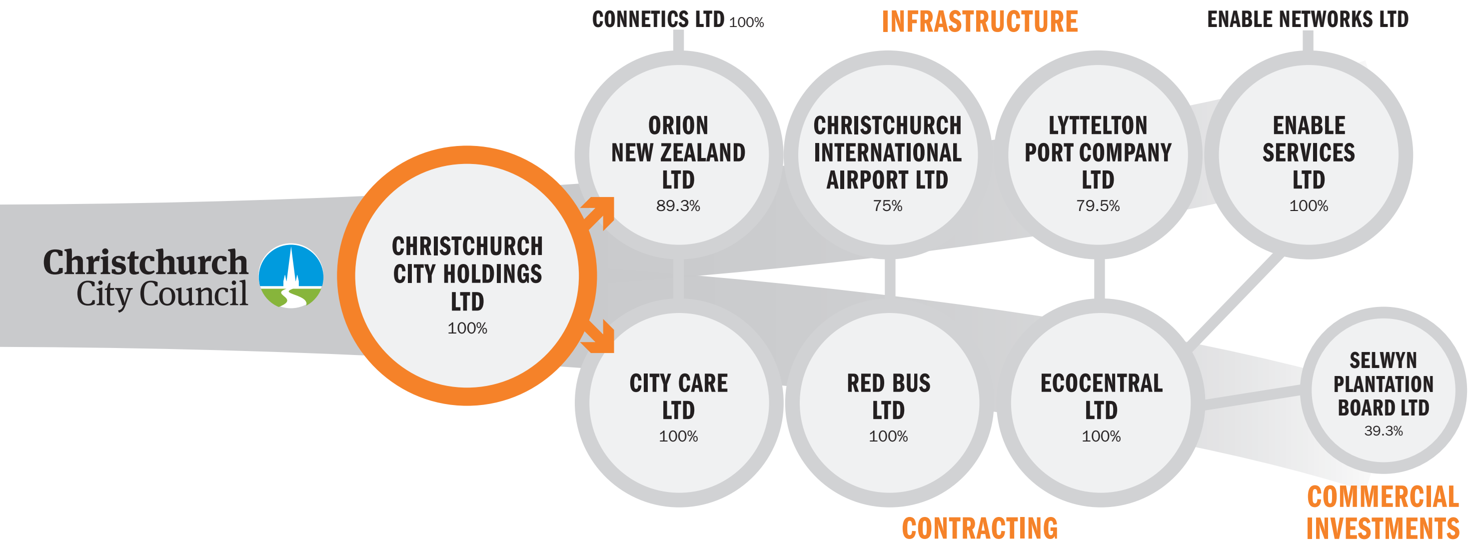


THE CCHL GROUP

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 trading companies – Orion New Zealand Ltd, Christchurch International Airport Ltd, Lyttelton Port Company Ltd, Enable Services Ltd, City Care Ltd, Red Bus Ltd, EcoCentral Ltd and Selwyn Plantation Board Ltd.

CCHL subsidiaries own a significant amount of Christchurch's strategic infrastructure, and almost all have been affected by the earthquakes in one way or another. 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 affected 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 are either not being filled 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 Services Ltd, 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 more than $1 billion 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 $2.5 billion. Total group equity has risen from $261 million in 1995 to some $1.4 billion today. The combination of cash returns and growth in value represents an average shareholder return to ratepayers of 15% per annum since 1995.

CCHL's dividend to the Council for the 2013 year is forecast at $40 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 boards and management of the trading companies.

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 23.

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

89.3% OWNED BY CHRISTCHURCH CITY HOLDINGS LIMITED

ORION NEW ZEALAND LTD

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

Orion New Zealand Ltd owns and operates one of the largest electricity distribution networks in New Zealand. Its network covers 8,000 square kilometres in central Canterbury between the Waimakariri and Rakaia rivers and from the Canterbury coast to Arthur's Pass. This diverse geographic area stretches from rural Banks Peninsula to Christchurch City and to farming towns on the plains and into the hills and high country.

This year Orion continued to work alongside its shareholders to recover from our region's biggest natural disaster.

Orion's network delivers electricity to around 190,000 homes and businesses. This number has reduced from previous years because of earthquake-related demolitions.

Electricity retailers pay Orion for the network delivery service and include this in their retail charges to homes and businesses.

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.

Pictured above: **Installing large diesel generators in QEII Park to provide backup power supply.**

75% OWNED BY CHRISTCHURCH CITY HOLDINGS LIMITED

CHRISTCHURCH INTERNATIONAL AIRPORT LTD

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

The international gateway to the South Island, Christchurch International Airport Ltd (CIAL) hosted 5.6 million visitors in the 2012 year, and 73,000 aircraft movements.

The company is coming to the completion of its major project to build a new integrated domestic and international terminal. When completed, the terminal will showcase new development in several areas, including baggage handling and 'swing gates' which service domestic and/or international flights with ease.

The new terminal also includes integrated check-in facilities, larger passenger lounges, extra seating, improved passenger flows and new retail and food and beverage areas, including a 24/7 café. All in all a top-class airport experience.

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

Pictured above: **Recently completed, Dakota Park freight and logistics subdivision.**

79.5% **OWNED BY** CHRISTCHURCH CITY HOLDINGS LIMITED

LYTTELTON PORT COMPANY LTD

Value in CCHL's balance sheet **$163** million

Lyttelton Port of Christchurch (LPC) is New Zealand's third-largest deep-water port. It provides a vital link in international trade routes and plays a key role in the global transport network.

As the South Island's biggest port, handling over 330,000 TEUs of containerised cargo a year, LPC is the preferred trade gateway for the exports and imports of Canterbury and beyond.

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

Lyttelton Container Terminal provides specialised cargo-handling and stevedoring services for general and refrigerated containers. CityDepot, the inland port at Woolston, provides an extensive container repair, wash and storage facility.

The coal facility is the largest in New Zealand and currently exports 2.5 million tonnes annually.

The Port has the South Island's only dry dock. In the Inner Harbour, it caters for bulk products such as petroleum, fertiliser, gypsum, cement, logs, conventional break-bulk, imported vehicles and the fishing industry.

LPC is by far the largest employer in the Lyttelton Harbour basin, with over 450 permanent and part-time staff with a wide variety of skill sets and backgrounds.

LPC is listed on the New Zealand Stock Exchange.

Pictured above: **An overview of the container terminal operations at Lyttelton Port of Christchurch.**

100% **OWNED BY** CHRISTCHURCH CITY HOLDINGS LIMITED

Delivering new possibilities

ENABLE SERVICES LTD

FORMERLY CHRISTCHURCH CITY NETWORKS LTD

Value in CCHL's balance sheet **$31** million

Enable Services Ltd (ESL) is a leading infrastructure provider specialising in building and operating open access fibre networks. In May 2011, it was awarded the contract to partner with the Government to provide Ultra Fast Broadband (UFB) to Christchurch and surrounding centres.

At the beginning of the year, ESL already owned the most extensive (350 kilometre) fibre network in Christchurch. It covered 80% of Christchurch's commercial areas and provided services to hundreds of businesses, schools and healthcare facilities.

This UFB partnership resulted in the creation in 2011 of a new central/local government joint venture Local Fibre Company (LFC). The establishment of the LFC included the purchase of ESL's existing network assets. ESL accounts for its investment in the LFC as an associated company. As the UFB build programme progresses the respective shareholdings of ESL and Crown Fibre Holdings Ltd's (CFH's) will vary in line with their investment into the LFC.

ESL is also the contractor to the LFC to build, operate and maintain the UFB network, and provide fibre broadband to 180,000 homes, schools and businesses in Christchurch, Rangiora, Kaiapoi, Woodend, Lincoln, Prebbleton and Rolleston over the next 10 years.

Pictured above: **Fibre optic broadband being laid outside a Halswell home.**

THE CCHL GROUP SUBSIDIARIES CONTD.

100% OWNED BY CHRISTCHURCH CITY HOLDINGS LIMITED

CITY CARE LTD

Value in CCHL's balance sheet **$136** million

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

The company delivers a one-stop-shop contracting solution to its clients, who benefit from the improved efficiencies, economies of scale and reduced costs derived through strategic bundling of infrastructure projects. Through its industry-leading technology platforms and smart management systems, City Care is able to offer a level of service that truly sets it apart from its competitors.

City Care is known for the calibre and dedication of its people, who are proud to work around the clock in their communities to keep things working 24/7.

City Care employs over 1,300 people operating from 16 locations throughout New Zealand. Its clients comprise local and central government authorities and other major owners of infrastructure, commercial businesses, other contracting companies and private individuals.

Pictured above: **The City Care brand is a pervasive presence on the streets and open spaces of Christchurch.**

100% OWNED BY CHRISTCHURCH CITY HOLDINGS LIMITED

RED BUS LTD

Value in CCHL's balance sheet **$23** million

Red Bus Ltd operates one of the largest passenger transport businesses in Christchurch City and its surrounding districts with approximately 230 employees and 140 buses. Its modern urban and school bus fleet all have super low floor with single step entry. The kneeling buses have wheelchair access to provide first class urban passenger services.

This last year, the company carried approximately 3.7 million passengers and the bus fleet travelled 6.3 million kilometres delivering an average of 10,000 passenger trips each day on services that operate 20 hours a day, 7 days a week.

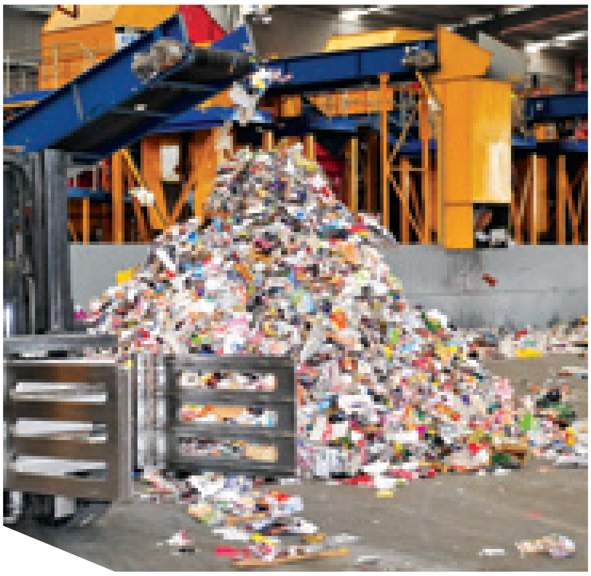
Red Bus provides urban contracted and commercial urban public transport services, regional services and extensive charter services across Canterbury. The urban contracted services are under contract to Environment Canterbury (ECan).

Red Bus continues to be a recognised leader in urban driver training with 71% of drivers holding a National Certificate level driving qualification.

Pictured above: **Red Bus Red Zone tours through Christchurch's cordoned central city.**

ECOCENTRAL LTD

Value in CCHL's balance sheet **$7** million



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

The company works to reduce the amount of waste going to landfill and finds ways to ensure Christchurch is a leader in recycling.

EcoCentral Ltd manages:

- EcoSort, a large facility that receives all the Yellow Bin recycling from Christchurch and surrounding areas where it is automatically sorted, baled and sold as a reclaimed material. Some of the materials are shipped overseas and some is sent for reuse within New Zealand.
- Three EcoDrop transfer stations for managing Christchurch's recycling and refuse for both domestic and commercial waste. Each station has a recycling centre, household hazardous waste drop off area and a refuse area for general waste, green waste and hardfill.
- EcoShop, on Blenheim Road, is the retail outlet for the recycled goods rescued from the three EcoDrops, thereby diverting material from landfill. Goods are inspected by workshop staff before they are sold on.

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

The CCHL group continues to play a vital role in the recovery of Christchurch and Canterbury since the impact of the earthquakes that have struck the region over the last two years.

The group has continued its recovery from the Canterbury earthquakes, with some companies experiencing very strong demand for their services, but others dealing with a fall-off in volumes.

Overall the group is in good heart and in strong financial shape.

However, more important than the immediate financial return to the group, is its continuing focus on rebuilding the region's infrastructure so that the people of Christchurch and Canterbury can have confidence that they have reliable infrastructure available to facilitate their own future investment decisions.

CCHL remains ready to assist its 100% shareholder Christchurch City Council as it addresses the multitude of challenges in rebuilding Christchurch.

CHAIRMAN'S AND CHIEF EXECUTIVE'S REPORT

Financial

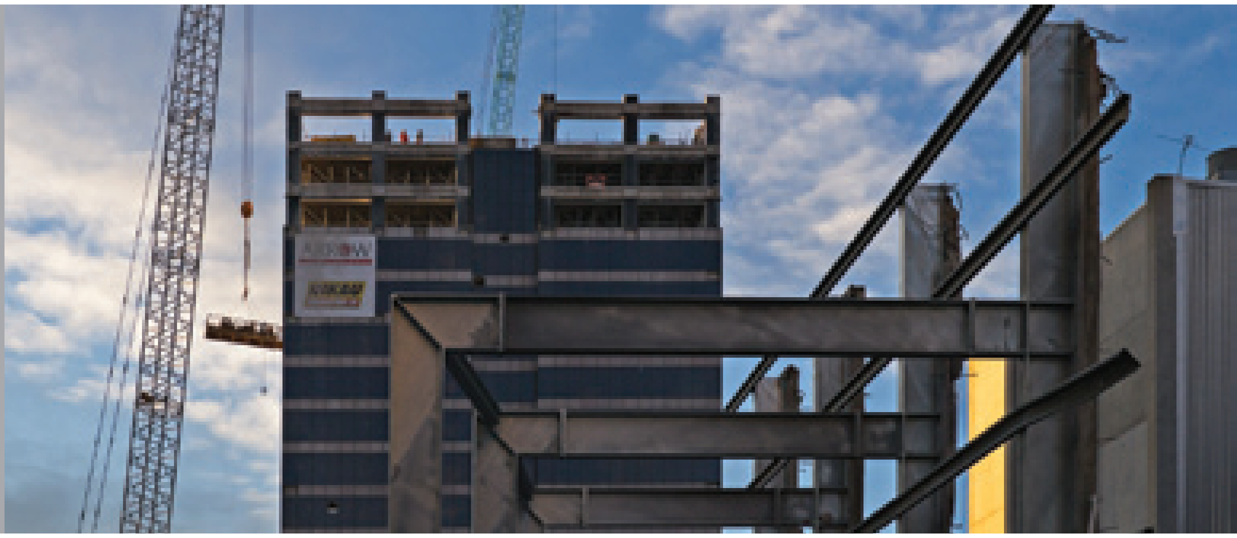
Group

The reported consolidated profit for the year was $97.3 million, compared with $77.3 million in the 2011 financial year. There were a number of one-off factors in both years – in particular earthquake impacts – that make a simple comparison of the results difficult.

A number of the group companies 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 pre-tax group profits of 2012 and 2011 for the above-noted factors to arrive at a normalised profit figure:

	Group 2012 $'000	**Group 2011** $'000
Profit before tax as reported	**127,648**	**108,831**
Earthquake impacts:		
Insurance proceeds recognised	(43,664)	(53,149)
Impairment/(reversal) of assets	(1,524)	36,366
Repair and clean up provisions	17,644	12,606
Other direct costs of earthquakes	16,571	18,539
Net earthquake impacts	(10,973)	14,362
Other non-cash items:		
Goodwill impairment	3,200	2,066
Investment property (gains)/losses	(5,421)	1,086
	(2,221)	3,152
Total "non-trading" items	(13,194)	17,514
Underlying profit before tax	114,454	126,345



The earthquake impacts included in the table on page 8 relate to specific write-offs and impairments, and cash flows associated with repair and rebuild costs and insurance proceeds. They do not include less quantifiable factors such as volume-related changes in revenue, although these are significant in several cases.

The normalised profit before tax for the year has reduced by some $12 million from the 2011 result. The principal reasons for this are: a significant increase in Christchurch International Airport Ltd's interest and depreciation costs following completion of the main stages of the terminal expansion; lower trading profits from Red Bus Ltd (reduced patronage) and EcoCentral Ltd (adverse commodity prices and exchange rate); and increased costs as Enable Services Ltd embarks on its UFB broadband project.

Conversely, Lyttelton Port Company Ltd reported a strong improvement in underlying trading with record container and coal volumes, and City Care Ltd continued its very strong post-earthquake performance.

Further information regarding the financial results and position of the group and parent company is provided in the "Financial overview" section on pages 14 to 22, and in the reviews of the individual companies on pages 26 to 39.

Parent company

The parent company's net profit of $44.7 million for the year was higher than the previous year's result of $32.1 million, principally as a result of a catch up of a dividend by Christchurch International Airport Ltd deferred from 2011 and a further improvement in the dividend from City Care Ltd. Partially offsetting this was the suspension of dividends by Lyttelton Port Company Ltd pending clarification of its insurance position.

Other comprehensive income for the parent company was $80 million, arising primarily from a revaluation of the company's investment in City Care Ltd, partially offset by a lower carrying value for the investment in Lyttelton Port Company Ltd. The latter value is based on the NZX share price and, in the CCHL Board's opinion, does not necessarily reflect the true underlying value of the investment to CCHL as a majority holder of the shares.

The company paid an ordinary dividend to Christchurch City Council of $27.4 million which, when adjusted for group subvention receipts, substantially exceeded the budgeted $26.2 million in CCHL's Statement of Intent. In addition the company paid a fully imputed special dividend of $8 million.

Electricity network

The continuing focus for Orion New Zealand Ltd was the security of the network and the continuing recovery from earthquake-related damage. An important milestone was reached in late 2011 when all major emergency repairs were completed. However, several more years of checks and repairs lie ahead of Orion, and the company will also engineer and build a robust power supply into the eastern suburbs to replace temporary overhead lines built after the February 2011 earthquake.

Due to an anomaly in the price control regulations, Orion was unable to increase its prices for 2012/13 in line with inflation, let alone to help fund the network rebuild. At the same time, the company's customer base has shrunk, with a corresponding reduction in revenue. Load levels on the network are around 10% below pre-earthquake levels. Orion will continue to work constructively with the regulatory authorities to ensure an equitable outcome.

CHAIRMAN'S & CHIEF EXECUTIVE'S REPORT CONTD.

Airport

Christchurch International Airport Ltd recorded a creditable performance for 2012, notwithstanding a reduction in passenger numbers following the earthquakes. The commercial and property sectors of the business performed particularly well.

The company is focusing considerable effort on improving aeronautical revenues, with growth seen as coming from new international routes, increased capacity on existing international routes and from domestic traffic.

The airport is seeking to introduce a pricing reset, in consultation with the airlines, to reflect the investment that the company has made in the new terminal.

During the year, two further stages of the new terminal were completed, and the overall project remains on target for completion in early 2013.

The company's property portfolio has continued to develop, particularly in Dakota Park. Resource consent has been obtained for the new Spitfire Square retail development, and planning and design is well under way. Commercial revenues have also been strong. During the year, the company acquired the Christchurch International Antarctic Centre business, and this has been performing well.

Port

Despite significant earthquake damage, Lyttelton Port Company Ltd had an extremely successful trading year, with record container and coal volumes moving through the port.

During the year, the Te Awaparahi Bay land reclamation, using earthquake rubble from the city, expanded to 2.7 hectares, and is already providing valuable storage space for imported vehicles at a time when paved and hardstand areas are at a premium.

The company is continuing to work with its insurers, and is now discussing a methodology to be adopted for arriving at an indemnity valuation of key structures, which will form the basis for a further indemnity progress payment to be made by the insurers. A reinstatement and development plan is in place which prioritises and programmes the reinstatement of the port's harbour structures, buildings and utilities.

Broadband

The focus for Enable Services Ltd (previously known as Christchurch City Networks Ltd) during the year was the commencement of the Ultra Fast Broadband (UFB) project. This project is being undertaken through a joint venture company Enable Networks Ltd, in partnership with Government-owned Crown Fibre Holdings Ltd.

Enable has grown significantly to undertake the UFB rollout, with 55 staff now employed, and over 300 staff and contractors working on the project.

Since the UFB build programme began in November, Enable has laid network past 5,905 premises in Christchurch. This means fibre-to-the-home services will soon be available to the first suburb in Christchurch (Halswell) – resulting in 16,000 homes and businesses having access to fibre broadband in total.

New mass market wholesale residential and small business fibre broadband services will be launched in Christchurch in 2012 – making high performing fibre broadband extremely affordable to homes and businesses of all sizes. To date 29 retail service providers are signed up to retail fibre broadband services.

Contracting

City Care Ltd had another outstanding year, with a record profit, nine new contracts throughout the country won or re-won, staff numbers increasing to over 1,300 and offices and depots increasing to 16.

The company's focus transitioned during the year from emergency response to recovery, construction and growth. The acquired capability in disaster recovery work has raised the company's standing and supported its strategic activities of securing new business, retaining existing contracts and expanding its geographical footprint.

Despite the significantly increased level of activity, often in very trying circumstances, the company recorded its best ever health and safety results.

The company restructured during the year to capitalise on the new capabilities gained and to more effectively define and promote its specialised skills on a national basis. This included the formation of a national Construction division to grow the construction business nationally, deliver the company's Stronger Christchurch Infrastructure Rebuild Team (SCIRT) contracts in Christchurch, expand the national roading maintenance business and to maximise rebuild opportunities in Christchurch.

Public transport

Red Bus Ltd had another difficult year, with operating margins under pressure after the curtailment of services following the earthquakes. The company also reluctantly terminated its two commercial airport services during the year as passenger numbers fell away with reduced tourism and commuter activity.

Patronage has slowly started to recover after falling to 46% of pre-earthquake levels immediately after the February earthquake to some 65%.

Environment Canterbury is developing a full recovery programme with proposals to reduce services significantly and restructure them to meet the new transport demands. The company has continued to advocate for radical changes to the current delivery model, and CCHL is supportive of its stance.

Recycling

EcoCentral Ltd experienced a relatively challenging year, with the double impact of the high New Zealand dollar and falling commodity prices having a negative impact on revenue.

However, the business is a cyclical one, and the company has put in place a number of initiatives that will stand it in good stead for the forthcoming year. These include changes to the EcoSort product line, enhancements to the glass extraction process, the securing of significant new commercial and out of town volumes, and cost control initiatives. There is increased demand for EcoCrystal products – engineered sands made from a 100%-reclaimed source (predominantly bottles and containers) collected from Christchurch, including the Yellow Bin kerbside collection service.

Selwyn Plantation Board Ltd

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 undertaken an orderly realisation of its forestry and other 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 disposal of a few residual assets, the company will be wound up with all final proceeds being returned to shareholders.

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

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 as they continue to recover and rebuild in this post-earthquake environment.

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.

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

CCHL GROUP 10 YEAR SUMMARY

Year ended 30 June.

	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	2012 NZ IFRS $m
Financial performance and position										
Total revenue	367	387	449	492	501	524	592	595	750	903
Profit for the year	51	34	66	79	99	91	79	55	77	97
Total assets	1,216	1,286	1,496	1,592	2,156[2]	2,219	2,211	2,286	2,321	2,473
Shareholders' equity	741	762	963	854	1,368	1,405	1,414	1,367[3]	1,309[4]	1,373
Payments to Christchurch City Council										
Ordinary dividends paid	29	26	30	29	30	33	37	36	35	27
Special dividends paid	3	39[1]	–	18	–	–	–	78	8	8
	32	65	30	47	30	33	37	114	43	35
Ratios										
Ratio of net debt to net debt plus equity	30%	33%	27%	35%	23%	23%	22%	27%	30%	33%
Return on average equity	7.6%	4.6%	7.7%	9.3%	8.9%	6.6%	5.6%	4.0%	5.9%	7.3%

Notes

1. 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.
2. 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.
3. Group equity fell in the 2010 financial year, primarily as the result of the CCHL parent company paying a special dividend of $78 million.
4. The reduction in group equity in 2011 was primarily the result of a downward revaluation of Orion's electricity distribution network.

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

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

BOARD OF DIRECTORS

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.

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 Chairman of the Eureka Trust, a director of the Theatre Royal Charitable Foundation, and a trustee of the Christchurch Casino Charitable 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 trustee of the Wavertree Trust.

Bob Parker

Bob Parker, the Mayor of Christchurch, became a director of CCHL in December 2007. He is also Chairman of the Canterbury Development Corporation Trust, Christchurch Agency for Energy Trust, and Civic Building Ltd, and a director of Vbase Ltd, Parker New Media Ltd 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, Hawke's Bay Regional Investment Company Ltd and 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 Environment Canterbury Regional Water Management Committee.

Sarah Smith

BCom, CA, AF.Inst.D

Sarah Smith 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 Ohinetahi Charitable Trust and Warren Architects Education Charitable Trust.

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.

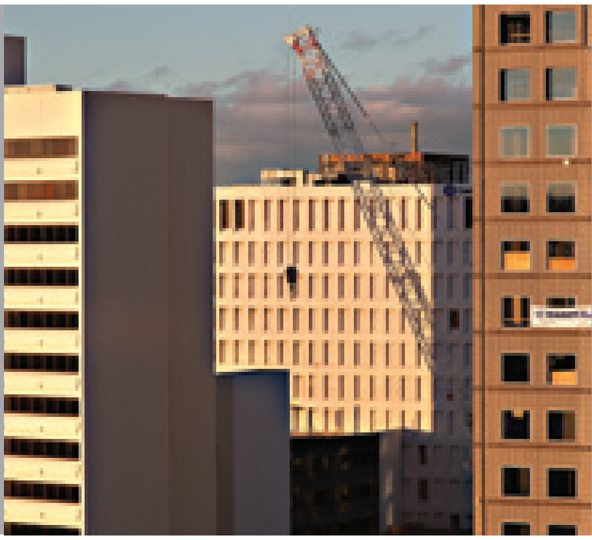
Bob Lineham

BCom, FCA, FNZIM, MinstD (Chief Executive)

Bob Lineham has been the Chief Executive of CCHL since it was established in 1993. He is a director of 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.

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 2012 and 2011.

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.



FINANCIAL OVERVIEW

Overview

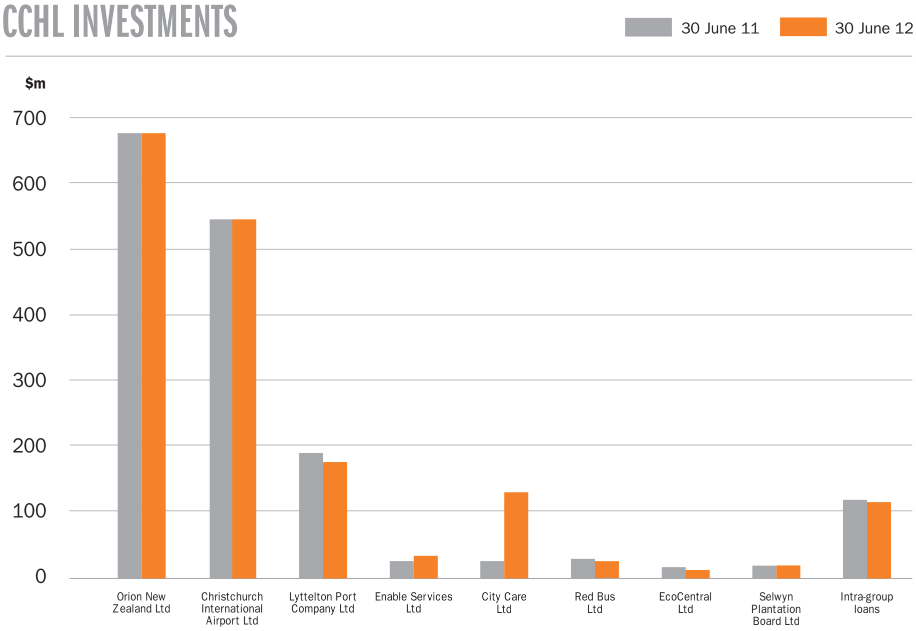
The CCHL parent company does not undertake trading operations in its own right. Its primary assets are its investments in its operating subsidiaries and associated companies, and advances to its subsidiaries and shareholder Christchurch City Council.

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 as at balance date, and compares them to the carrying value at the previous year end:

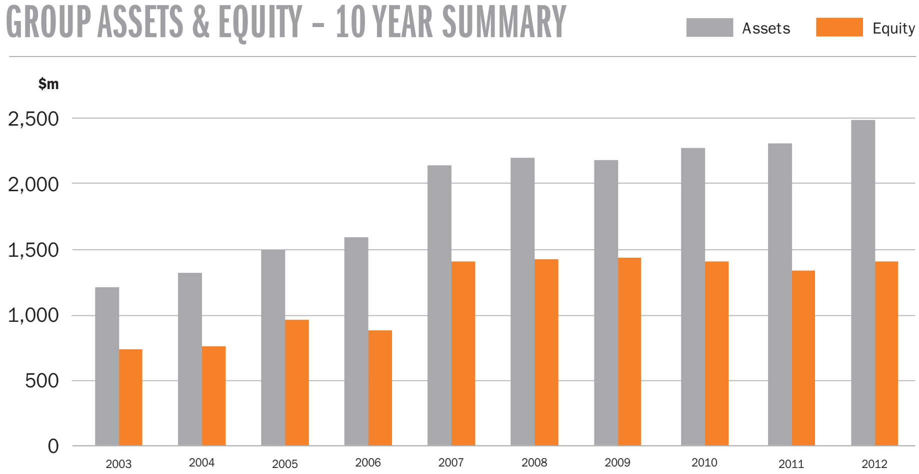
CCHL INVESTMENTS



Commentary on the 2012 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 in addition to the payment of $465 million of dividends to the Council over the same period.

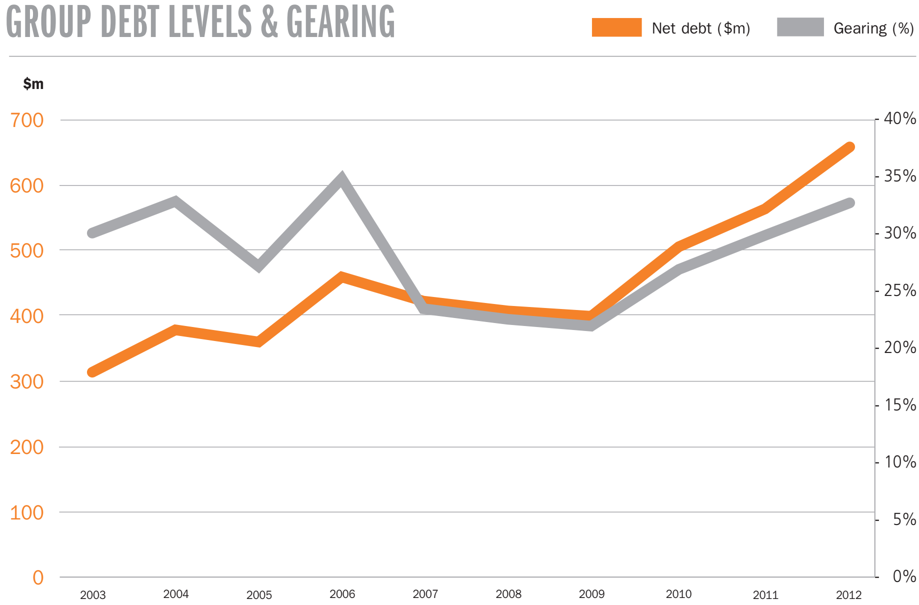
GROUP ASSETS & EQUITY – 10 YEAR SUMMARY



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 & 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 increase in debt in the last few years is largely the result of Christchurch International Airport Ltd's terminal redevelopment programme and the continued expansion of Enable Services Ltd's broadband construction programme. The relatively low level of gearing has served the group well in the aftermath of the Canterbury earthquakes and the current difficult economic climate.

FINANCIAL OVERVIEW CONTD.

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 2012.

SUMMARISED STATEMENT OF COMPREHENSIVE INCOME

	Note	Group 2012 $'000	Group 2011 $'000	Parent 2012 $'000	Parent 2011 $'000
Operating and other revenue	*(i), (x)*	893,679	745,530	54,744	42,637
Finance income		4,308	3,437	7,143	6,387
Other gains	*(ii)*	5,431	984	–	616
Total income		903,418	749,951	61,887	49,640
Depreciation and amortisation	*(iii)*	83,727	116,838	–	–
Finance costs	*(iv)*	35,261	27,395	15,547	15,724
Other operating costs	*(v)*	653,073	491,837	1,614	1,730
Other losses		2,789	6,891	–	–
Total operating expenses		774,850	642,961	17,161	17,454
Share of profits/(losses) of associates	*(vi)*	(920)	1,841	–	–
Profit before income tax expense		127,648	108,831	44,726	32,186
Income tax expense	*(xi)*	30,367	31,499	–	91
Profit for the year	*(vii)*	97,281	77,332	44,726	32,095
Other comprehensive income					
Revaluation of assets	*(viii)*	29,322	(118,651)	–	–
Revaluation of investments	*(xii)*	–	–	85,658	30,930
Cash flow hedges	*(ix)*	(14,854)	(3,258)	(5,427)	(1,663)
Share of asset revaluations of associates		71	(760)	–	–
Income tax		(3,928)	38,478	–	–
Other comprehensive income		10,611	(84,191)	80,231	29,267
Total comprehensive income for the year		**107,892**	**(6,859)**	**124,957**	**61,362**

The following commentary provides explanations for significant movements between the 2012 and 2011 financial years.

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. Other contributing factors include the recognition of earthquake insurance receipts by Orion New Zealand Ltd, improved commercial and property revenues generated by Christchurch International Airport Ltd and the inclusion of the first full year of trading of EcoCentral Ltd.

(ii) Other gains

Other gains have increased by $4 million, primarily reflecting revaluation gains on investment properties owned by Christchurch International Airport Ltd.

(iii) Depreciation and amortisation

Depreciation and amortisation expense has decreased significantly. This is attributable to $35 million of impairment costs being recognised in the 2011 year as a result of the earthquakes – predominantly in Lyttelton Port Company Ltd but also Orion New Zealand Ltd.

(iv) Finance costs

Finance costs have increased by $8 million, reflecting an increase in Christchurch international Airport Ltd's interest costs following the completion of the main stages of the new terminal. During construction, interest was capitalised to the project, but is now being fully expensed. Other than for the airport, there was little change in the interest costs of the other companies.

(v) Other operating costs

Other operating costs have increased by $161 million, primarily as a result of the scaling up of City Care Ltd's operations referred to above. There were also general increases in costs in most of the companies, including earthquake recovery costs and increased insurance premiums.

(vi) 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, and Enable Networks Ltd, in which 100% subsidiary Enable Services Ltd holds a 33% interest. Enable Networks Ltd is jointly-owned with Crown Fibre Holdings Ltd. In the 2011 financial year, Selwyn Plantation Board Ltd's results included some gains on sale of property.

(vii) Profit for the year

The reported group profit for the year has increased by some $20 million, from $77 million to $97 million. The movement in the group result has been affected by a number of one-off items, in particular earthquake costs and insurance recoveries, and also investment property revaluations. After allowing for these items, the underlying group trading profitability has reduced slightly – this is discussed further in the Chairman's/CEO's review.

(viii) Revaluation of assets

See comment on page 22

(ix) Cash flow hedges

See comment on page 22

Parent company

(x) Operating and other revenue

The parent company's operating revenue increased from $43 million to $55 million, reflecting higher dividend income from Orion New Zealand Ltd, Christchurch International Airport Ltd (due to a catch up from a deferred interim dividend in 2011 due to the earthquakes) and City Care Ltd (due to the higher volumes of trading referred to above).

(xi) Income tax

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.

(xii) Revaluation of investments in subsidiaries and associates

See comment on page 22.

FINANCIAL OVERVIEW CONTD.

SUMMARISED BALANCE SHEET

	Note	Group 2012 $'000	Group 2011 $'000	Parent 2012 $'000	Parent 2011 $'000
Current assets					
Cash and cash equivalents		5,442	16,868	13,110	6,474
Debtors, other receivables, prepayments	*(i), (viii)*	139,568	128,621	1,327	11,829
Other financial assets	*(ii), (ix)*	3,323	93	5,000	–
Inventories		17,205	13,053	–	–
Total current assets		165,538	158,635	19,437	18,303
Non-current assets					
Debtors, inventories and other receivables		9,177	9,372	–	–
Financial assets, associates and derivatives	*(x)*	77,413	60,338	1,693,746	1,611,480
Property, plant & equipment, investment property	*(iii)*	2,150,386	2,030,793	–	–
Intangible assets and goodwill	*(iv)*	51,223	48,955	–	–
Deferred tax assets		18,919	12,806	–	–
Total non-current assets		2,307,118	2,162,264	1,693,746	1,611,480
Total assets		2,472,656	2,320,899	1,713,183	1,629,783
Current liabilities					
Creditors and other payables	*(v), (xi)*	103,200	133,285	1,612	19,563
Borrowings	*(vi)*	170,430	141,378	102,000	91,000
Total current liabilities		273,630	274,663	103,612	110,563
Non-current liabilities					
Borrowings	*(vi)*	496,228	442,487	200,000	205,000
Deferred tax liabilities		284,833	264,428	–	–
Other non-current liabilities	*(vii)*	45,304	30,504	11,970	6,127
Total non-current liabilities		826,365	737,419	211,970	211,127
Total liabilities		1,099,995	1,012,082	315,582	321,690
Net assets		1,372,661	1,308,817	1,397,601	1,308,093
Equity					
Capital and other equity instruments		71,435	71,435	71,435	71,435
Retained earnings and reserves		1,044,661	990,164	1,326,166	1,236,658
Non-controlling interests		256,565	247,218	–	–
Total equity		1,372,661	1,308,817	1,397,601	1,308,093

The following commentary provides explanations for significant movements between the 2012 and 2011 financial years.

Group

(i) Debtors, other receivables, prepayments

- This line item has increased by $11 million, despite the fact that the 2011 figure was unusually high due to:
- the transfer of Enable Services Ltd's network assets to current assets (in recognition of the imminent transfer of those assets to Enable Networks Ltd);
- 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.

2012 receivables also include the recognition of insurance receivables (Lyttelton Port Company Ltd and Orion New Zealand Ltd), a continuation of the increased levels of trade debtors in City Care Ltd and an increase in Enable Services Ltd trade debtors.

(ii) Other financial assets

Other current financial assets have increased by some $3 million. This line item principally relates to term deposits held by Red Bus Ltd following the receipt of insurance monies.

(iii) Property, plant and equipment, investment property

Group fixed assets have increased by $119 million, mainly reflecting the continued development of Christchurch International Airport Ltd's new terminal. Increased capital expenditure by Orion New Zealand Ltd and Lyttelton Port Company Ltd as they restore earthquake-damaged infrastructure also contributed to the increase.

(iv) Intangible assets and goodwill

Group intangible assets and goodwill have increased by $2 million, reflecting increased investment by Orion New Zealand Ltd in software projects. While Christchurch International Airport Ltd recognised goodwill of $3 million on the acquisition of the Antarctic visitor attraction, this was offset on a group basis by a $3 million impairment of goodwill in EcoCentral Ltd in relation to its EcoSort operation.

(v) Creditors and other payables

Group creditors and others payables have decreased from $133 million to $103 million. The decrease mainly arises from a provision in the 2011 balance sheet for the payment of CCHL's final dividend (which in the 2012 financial year was paid prior to balance date). There were also decreases in the level of Christchurch International Airport Ltd's and City Care Ltd's trade creditors.

(vi) Current and non-current borrowings

Current borrowings have increased by $29 million, reflecting increased borrowing through the CCHL parent company's commercial paper programme, and an increase in the level of Christchurch International Airport Ltd's short term funding.

Non-current borrowings have increased by $54 million, reflecting in the main: an increase in Orion New Zealand Ltd's and Lyttelton Port Company Ltd's debt as they incur post-earthquake capital expenditure; an increase in Christchurch International Airport Ltd's debt to fund the new terminal; and an increase in the CCHL parent company's debt to fund Enable Services Ltd's broadband project.

(vii) Other non-current liabilities

The main component of this line item is the liability recognised in respect of interest rate hedges held by the CCHL parent company and Christchurch International Airport Ltd. The liability has increased from 2011, reflecting a reduction in prevailing interest rates.

Parent company

(viii) Debtors, other receivables, prepayments

The decrease of some $11 million relates to a receivable recognised for Orion New Zealand Ltd's interim dividend which, in 2011, was paid in July (ie. subsequent to CCHL's balance date) rather than in June as is normally the case.

(ix) Other financial assets

The $5 million asset relates to a loan receivable from Red Bus Ltd, which matured in July 2012. The loan was subsequently replaced with a new five year loan agreement.

(x) Financial assets, associates and derivatives

The increase of $83 million primarily relates to an upwards movement in the value of City Care Ltd.

(xi) Creditors and other payables

This line item has decreased by a net $18 million, and reflects the fact that CCHL's final dividend in the 2011 year was paid in July 2011 (and accrued at balance date) rather than the normal month of June.

FINANCIAL OVERVIEW CONTD.

SUMMARISED STATEMENT OF CASH FLOWS

	Note	Group 2012 $'000	Group 2011 $'000	Parent 2012 $'000	Parent 2011 $'000
Cash flows from operating activities					
Receipts from customers and other sources	*(i)*	844,752	649,790	102	7
Interest received		4,655	3,400	7,162	6,402
Dividends received	*(ii)*	–	–	65,455	31,923
Payments to suppliers and employees	*(i)*	(683,995)	(451,600)	(1,742)	(1,643)
Interest and other finance costs paid		(35,750)	(27,010)	(15,958)	(15,726)
Income tax paid		(8,599)	(25,628)	–	(100)
Other operating receipts and payments		(12,176)	(18,990)	–	–
Net cash provided by/(used in) operating activities		108,887	129,962	55,019	20,863
Cash flows from investing activities					
Payment for assets	*(iii)*	(169,467)	(201,936)	(659)	(12,927)
Repayment of advances/other	*(iv)*	13,432	22,619	13,550	13,931
Other investing receipts and payments	*(v)*	14,200	36,421	(14,500)	(18,000)
Net cash (used in)/provided by investing activities		(141,835)	(142,896)	(1,609)	(16,996)
Cash flows from financing activities					
Net borrowing	*(vi)*	82,236	61,501	6,000	15,000
Dividends paid	*(vii)*	(60,714)	(32,782)	(52,774)	(26,000)
Net cash provided by/(used in) financing activities		21,522	28,719	(46,774)	(11,000)
Net increase in cash and cash equivalents		(11,426)	15,785	6,636	(7,133)
Cash and cash equivalents at beginning of year		16,868	1,083	6,474	13,607
Cash and cash equivalents at end of year		5,442	16,868	13,110	6,474

The following commentary provides explanations for significant movements between the 2012 and 2011 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 an improvement in the operating cash flows of most of the other companies following the earthquake-impacted 2011 year, and also the first full year of trading of EcoCentral Ltd.

(ii) Dividends received

The increase in dividends received by the CCHL parent company reflects a timing difference in dividends received from Orion New Zealand Ltd. In 2011 Orion paid its interim dividend in July 2011 (after CCHL's balance date) rather than in June as normal, hence CCHL's cash flows for the 2012 year include the payment of this dividend as well as the normal payments relating to the 2012 year. Orion New Zealand Ltd also paid an additional dividend for 2012, and Christchurch International Airport Ltd paid an increased dividend in 2012 to catch up on a deferred dividend payment from 2011.

(iii) Payment for assets (group and parent)

Group payments for assets have decreased from $202 million to $169 million. Most of this decrease is attributable to a particularly high level of capital expenditure in 2011 arising from Christchurch International Airport Ltd's terminal redevelopment project, and Lyttelton Port Company Ltd's expenditure following substantial earthquake damage to its wharves and other infrastructure. Decreases in these amounts were partially offset by an increase in Orion New Zealand Ltd's expenditure as it rebuilds its electricity distribution network.

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) Repayment of advances/other (group and parent)

This line item includes proceeds from the repayment by Christchurch City Council to the CCHL parent company of $13 million of advances. The 2011 year included: the sale of surplus buses by Red Bus Ltd; 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.

(v) Other investing receipts and payments (group and parent)

This line item in relation to the group principally relates to earthquake insurance proceeds. In the 2012 year Orion New Zealand Ltd received $12 million and Red Bus Ltd $5 million. There was also a $3 million investment into a term deposit by another company. In 2011, Lyttelton Port Company Ltd received $34 million of insurance payments classified as investing cash flows, and Red Bus Ltd some $2 million.

The parent company investing cash outflows primarily relate to advances made to Enable Services Ltd to fund the broadband rollout. The 2011 financial year included a $15 million advance to EcoCentral Ltd and a further $3 million advance to Enable Services Ltd.

(vi) Net borrowing

The $82 million of net borrowing in the 2012 financial year mainly relates to Christchurch International Airport Ltd's terminal redevelopment, expenditure by Orion New Zealand Ltd and Lyttelton Port Company Ltd on earthquake recovery and other projects, and Enable Services Ltd's broadband rollout. The parent company's net borrowing is lower mainly as a result of a $13 million loan repayment by Christchurch City Council.

(vii) Dividends paid

The 2012 dividend paid figures for group and parent are higher mainly due to the CCHL parent final and special dividend for 2011 being paid just after balance date (ie. In the 2012 financial year) rather than prior to balance date as is normally the case.

SUMMARISED STATEMENT OF CHANGES IN EQUITY

	Note	Group 2012 $'000	Group 2011 $'000	Parent 2012 $'000	Parent 2011 $'000
Equity at beginning of year		1,308,817	1,366,536	1,308,093	1,290,056
Profit for the year	*(i)*	97,281	77,332	44,726	32,095
Other comprehensive income	*(ii)*	10,611	(84,191)	80,231	29,267
Other movements	*(iii)*	(659)	(753)	–	–
Dividends	*(iv)*	(43,389)	(50,107)	(35,449)	(43,325)
Equity at end of year		1,372,661	1,308,817	1,397,601	1,308,093

Group and parent

(i) Profit for the year

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

Group

Other comprehensive income of the group, comprising asset revaluations and hedging movements, has changed from a negative $84 million in 2011 to a positive $11 million.
The 2012 year included an asset revaluation gain by Christchurch International Airport Ltd, offset by adverse hedging movements in both the airport and the CCHL parent company. The 2011 year 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 asset revaluation by Christchurch International Airport Ltd.

Parent company

As at balance date, CCHL revalued its investments in Enable Services Ltd, City Care Ltd, Red Bus Ltd and EcoCentral 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 $86 million. This was partially offset by downwards movements in the value of interest rate swaps, held to hedge existing or forecast debt commitments. The $29 million movement recorded for the CCHL parent company in 2011 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 $27.4 million which, combined with subvention receipts voluntarily foregone, significantly exceeded the budgeted $26.2 million in CCHL's Statement of Intent.
In addition the company paid a fully imputed special dividend of $8 million.

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

CORPORATE GOVERNANCE STATEMENT

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.

Despite more quakes in June 2011 and some of the heaviest snowfalls in Christchurch in two decades during July and August, Orion and its contractors completed major earthquake repairs by September 2011.

Thank you messages from over 1,600 eastern suburbs residents, grateful for Orion's efforts to keep the power on, were presented to Orion on a giant scarf and hat by New Brighton Catholic School that same month.

Orion's repair bill will likely top $70 million. This bill would have been much higher if Orion hadn't spent $40 million over the past 15 years to strengthen key substations and build resilience into the network, and there would have likely been weeks and months of ongoing power cuts.

Orion's earthquake response was very effective – an independent review found relatively little to improve on. Most importantly, Orion had no major safety incidents or accidents during its earthquake response.

Orion's employees and contractors, including Connetics, continued to give their best for the region despite further aftershocks and their own challenges with damaged homes, insurance claims and land rezoning announcements.

Orion network operator, Gilbert Cantin, closes switches to reroute power supply.

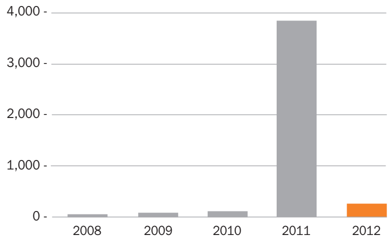
89.3% OWNED BY CHRISTCHURCH CITY HOLDINGS LIMITED

FIVE YEAR SUMMARY

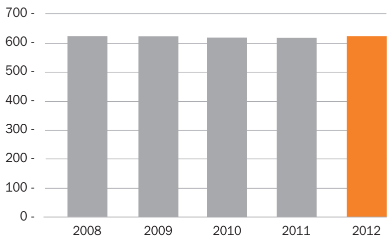
	2008	2009	2010	2011	2012
Orion New Zealand Ltd	$m	$m	$m	$m	$m
Operating revenue	208.7	231.3	222.4	222.1	**222.9**
Profit for the year	65.5	49.9	46.8	28.4	**54.2**
Total assets	961.1	967.2	967.3	821.4	**861.2**
Shareholders' equity	700.0	697.4	706.2	599.6	**619.9**

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.

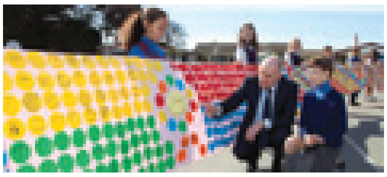
SAIDI *(Average customer minutes of interruption)*



ELECTRICITY MAXIMUM DEMAND *(MW)*



ORION NEW ZEALAND LTD



Financial performance

Orion's results were affected by a number of one-offs. In particular, several significant non-recurring insurance receipts increased the reported profit this year. As well as $21 million in insurance receipts, Orion's post tax profit of $54 million was positively affected by $4 million in deferred operational expenses and a $2 million part reversal of the previous year's downwards revaluations. The one-off insurance receipts related to Orion's CBD offices that have now been demolished.

Electricity network delivery revenue was $21 million below Orion's pre-quake forecasts and the company incurred around $20 million in cash costs related to the earthquakes. These costs contributed to a $6 million increase in network cash expenses to $57 million. Orion still has a lot to do to restore resiliency to its electricity network and so its 10-year network asset management plan has a very large capital expenditure programme. This will see the company's debt levels rise considerably over the next few years.

Emergency repairs

On 1 September 2011 Orion reached an important milestone when it completed its major emergency repairs following February's devastating quake. The intensive, six-month repair programme included some 700 electricity sector workers from throughout New Zealand and Australia, and over 200,000 people hours, focused on delivering a stable power supply across the city. The final stage saw Orion commission a new substation in Rawhiti Domain in New Brighton to replace the damaged zone substation on Pages Road.

Rebuilding our city

With that milestone completed, Orion is now working on longer-term solutions for the city's electricity supply. Ahead of the company is a large programme of underground cable assessments and repairs. Orion will also need to engineer and build a robust power supply into the eastern suburbs to replace the temporary overhead high voltage lines built after the quake. Those lines are scheduled to be removed in 2014.

Then of course, there is the CBD and the Christchurch Central Recovery Plan. Orion's current site in the city will become part of the CBD blueprint's "frame", while the company's major substation in Armagh Street will remain.

In 2013 Orion will move to temporary purpose-built premises on Wairakei Road that will meet the stringent building and loading standards needed for an essential lifelines company.

To assist with the rebuild of the city Orion is engaging with developers and property owners to help them understand how to connect power supply to their buildings. Owners and planners need to navigate their way through a variety of electricity-related issues, and Orion is there to provide information and certainty where possible.

As a critical infrastructure service provider, Orion plays a crucial role in our city but more than that, it is a committed partner in the rebuild, eager to help bring the vision for Christchurch and the Christchurch Central Recovery Plan to life.

Safety

The earthquakes tested the safety focus and preparedness of Orion employees and contractors and the thousands of people working in and around building demolitions and construction. Pleasingly, Orion had no major safety incidents or accidents during this difficult year.

As the demolitions continue and the rebuild gathers momentum, it is important that safety is kept top of mind. Orion is working with demolition and construction crews throughout the city to make sure they know how to stay safe around electricity. This safety role is a key extension of what Orion does.

Future focus

Orion plans to spend $870 million on its electricity network over the next 10 years. Some of this expenditure is to restore resiliency to the network and Orion's operations and some is to support the city rebuild and wider demand growth in the region.

The company is also planning for events that we could all face in the next 20 to 40 years – especially emergency situations.

Power lines look very much as they have for decades, but how and where we all use the power they distribute is changing. Orion is planning for this.

With a projected repair bill to top $70 million, and reduced revenues, Orion will work constructively with regulators to ensure that it continues to operate as a successful business, one which continues to provide a great service for customers and a fair and reasonable return on investment for its shareholders.

Pictured above: **Joshua Bull, a year four student at New Brighton Catholic School, presents Orion Chief Executive Rob Jamieson with a giant scarf covered in thank you messages from 1,600 eastern suburbs residents grateful for Orion's efforts to keep the power on this year.**

As the gateway for Christchurch and the South Island, Christchurch International Airport Ltd (CIAL) is a major hub and the busiest, most strategic air connection to the world's trade and tourism markets.

In the 2012 year, CIAL hosted 5.6 million passengers and 73,000 total aircraft movements. Continuing income diversification and post-earthquakes business planning ensured the airport's earnings remained relatively steady, despite the inevitable fall in passenger numbers.

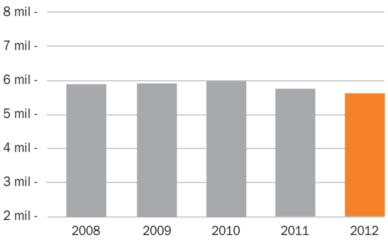
As well as CIAL's aeronautical foundations, the company continues to develop its property portfolio and this year the company acquired the International Antarctic Centre.

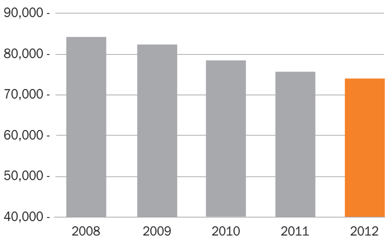
During the year, CIAL completed three new developments in its Dakota Park freight and logistics subdivision and is well advanced towards the commencement of three additional developments for the 2013 year. In addition, the company completed the development of a new McDonald's Restaurant on Memorial Avenue. Resource consents were obtained for CIAL's Memorial Avenue retail complex, with construction expected to commence in early 2013.

Christchurch International
Airport's new terminal.

FIVE YEAR SUMMARY

Christchurch International Airport Ltd	2008 $m	2009 $m	2010 $m	2011 $m	2012 $m
Revenue	89.4	89.4	96.1	97.4	**119.8**
Profit for the year	23.4	14.7	(0.3)	21.8	**19.6**
Total assets	756.9	743.0	852.0	964.5	**1,036.1**
Shareholders' equity	563.3	560.1	570.1	601.1	**618.0**





CHRISTCHURCH INTERNATIONAL AIRPORT LTD

Financial performance

CIAL recorded a net profit after tax for the year of $19.6 million. The reported profit includes a net after tax gain on the revaluation of investment property of $4.1 million (after the write-off of the value of a building assessed as unstable after the quakes). Excluding the impact of this greater than budgeted revaluation gain, in terms of operating profit after tax the company traded $3.6 million positive to budget.

This positive result was a reflection of very satisfactory returns from CIAL's commercial operations including car parking, property, terminal concessions and its more recent acquisition of the International Antarctic Centre.

This confirmed the value of revenue diversification, highlighted by a sharp rise in commercial and property revenue.

Market growth and performance

When compared to the year ended 30 June 2010 (the last full year prior to the earthquake of September that year) passenger numbers have fallen by 7.5% to 5,551,600. While the company earns only 36% of its revenue from aeronautical charges, a large percentage of its income is earned from commercial revenues associated with passenger throughput. Therefore the loss of 7.5% of its passenger base has cost the company revenue in terms of its terminal concessions and car parking in particular.

CIAL envisages the full recovery of aeronautical revenues as a result of the loss of passenger numbers will take a number of years, as Christchurch and Canterbury rebuilds and recovers. In the meantime, the company continues to concentrate on the development of existing and new commercial revenue opportunities

The loss of a significant portion of Christchurch's hotel accommodation, its convention centre and much of its sporting infrastructure were the significant factors in the fall in passenger numbers. The company is encouraged by the recent announcement of plans for the rebuild and recovery of central Christchurch.

The suspension of services to Christchurch by AirAsia X after 14 months' operations was disappointing for CIAL. The loss will cost the company an estimated 118,000 passenger movements a year in both arrivals and departures, primarily as a result of the continuing increase in the price of aviation fuel (up almost 30%).

A major positive during the year has been the decision by Singapore Airlines to increase its services to seven days per week year round, rather than reducing to five days per week in the off-season.

Economic impact

A recent assessment by Business and Economic Research Ltd (BERL) underlines the airport's contribution to the local economy. In 2010, almost 6000 people were employed on the airport campus in full time, part time or casual roles, making it the largest single centre of employment in the South Island. The airport created employment for another 20,300 full time equivalents on and off campus.

In mid-2009, CIAL began the development of a project known as the "Integrated Terminal Development". The project was to be completed in mid-2012, but delays, primarily caused by the earthquakes, have meant the project is now on track to be completed by March 2013.

Notably, given the delays and the moderate amount of quake damage to the construction project, the development will likely be completed within one to two % of its budgeted cost.

'South'

CIAL has recognised that until hotel accommodation and tourism activities recover in Christchurch City, the airport needs to concentrate on marketing the whole South Island as a tourism destination. It has taken the lead in developing an initiative to work collectively with the 13 regional tourism organisations.

'South', as it is called, emphasises the strong points of the South Island, including its low population, stunning scenery and friendly people.

Looking ahead

CIAL believes the Christchurch city blueprint will be the catalyst for the rebirth of the city, assisting in bringing expertise and equipment into the city, followed by more visitors as the city takes shape.

The International Air Transport Policy Statement is also a significant change in thinking, with likely impact on Christchurch Airport. The new policy gives favourable consideration to airlines offering new services to and from Christchurch, to assist with the region's recovery from the earthquakes. CIAL views that as effectively creating 'Open Skies' over Christchurch until 2017 and anticipates it being useful in moving the region's rebuild forward.

Lyttelton Port of Christchurch (LPC) has again stepped up to demonstrate its vital role in the economic growth of Canterbury. During the 2012 year, the company achieved an outstanding result, despite earthquake disruptions, with record volumes of containers and coal, and increases in almost every other form of cargo. This was due to the continued strength of Canterbury's economy, with its resilient businesses and a large rural engine.

Despite the disruptive and challenging work conditions imposed by the earthquakes, LPC staff continued to show resilience and commitment. The increased cargo volumes are a testament to their hard work and determination. LPC's workforce is stable and skilled. During the 2012 year, LPC staff gained a greater understanding of the interconnectivity among the many different roles across the port and CityDepot in driving results and achieving customer satisfaction.

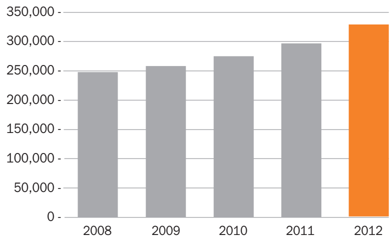
The Port remains a critical component of Canterbury's strategic infrastructure and is essential in the rebuild of the Canterbury region. For the year ahead, LPC's focus is on customer service, productivity, operational improvements, and safety, while dealing with insurance and the rebuild of the Port.

Inner harbour and snow covered hills, Lyttelton.

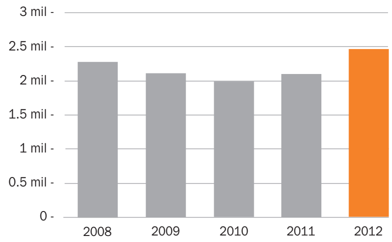
FIVE YEAR SUMMARY

	2008	2009	2010	2011	2012
Lyttelton Port Company Ltd	$m	$m	$m	$m	$m
Revenue	83.4	84.4	87.3	91.6	**104.5**
Profit for the year	10.3	10.1	9.0	24.1	**17.2**
Total assets	225.6	227.4	232.5	234.5	**273.5**
Shareholders' equity	128.0	129.9	133.8	155.2	**172.0**

TOTAL CONTAINER THROUGHPUT *(TEUs)*



COAL VOLUMES *(Tonnes)*



LYTTELTON PORT COMPANY LTD

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 $17.2 million.

Following a strong first half to the year, the company achieved an earthquake-adjusted profit after tax of $17.0 million for the year ended 30 June 2012. This is an increase of 40.0% compared with last year's adjusted result of $12.1 million. This after-tax result reflects the continuing strength of business fundamentals as well as strong business growth.

Record trade results

Containers continued to drive the increase in port business with rapid growth. Volumes surpassed the 300,000 TEU mark for the first time in the Port's history, rising 15.6% to 336,182 TEUs. Containers moved through the Container Terminal rose 16.8%. Coal exports achieved record volumes, rising 15.6% to just under 2.5 million tonnes. Dry bulk imports were up 17.4% on last year, a rise driven by significant increases in fertiliser and cement. Log exports continued to grow by 8.8% compared with the previous year.

CityDepot, the inland port located in Woolston, again handled record numbers of empty containers, with a corresponding increase in services such as surveys, repairs, wash, pre-trip inspections and storage.

Cruise ships are an important part of the Canterbury tourism mix. However, with the earthquake damage to wharves, LPC was obliged to suspend cruise ship services for the 2012 year. The coming season will see a number of smaller cruise ships accommodated in the Inner Harbour.

Temporary repairs

During the year, LPC staff and contractors carried out extensive temporary post-quake repairs across the Port and CityDepot to enable the continuation of operations while the long-term remediation is planned.

At Cashin Quay, significant temporary on-wharf and under-wharf repairs kept the coal conveyors and shiploader operating. While production rates were restored over the period, the conveyors require further work.

Paving works continued throughout Lyttelton Container Terminal and CityDepot, along with further rock stabilisation above the coal stockyard, and on-going temporary repairs in the Inner Harbour.

Te Awaparahi Bay reclamation

The Te Awaparahi Bay reclamation, to the east of Cashin Quay, progressed well and has grown to 2.7 hectares. At a time when the Port is squeezed for paved and hardstand areas, the reclamation is already providing valuable storage space for imported vehicles. The new land will need time to settle before it can be used for containers.

As earthquake-related repair works are rolled out through the Port, the reclamation will provide much-needed additional infrastructure and cargo-handling space to support the company's rebuild programme.

Insurance update

An additional insurance accrual of $18.4 million has been recognised, taking the total carrying value of insurance receivables as at 30 June 2012 to $29 million. Approximately $52 million of claimable business interruption losses and preliminary material damage costs have been incurred as a result of the earthquakes since September 2010. Progress payments of $35.7 million have been received from insurers to date and a claim of $10 million has been recently lodged. As costs and losses crystallise, the process of lodging progress payment claims will continue.

LPC's insurers have confirmed reinstatement insurance for the assets the company chose to insure. Following independent expert advice, the company is now liaising with its insurers on the methodology to be adopted for arriving at an indemnity valuation of key structures. This will form the basis for a further indemnity progress payment to be made by the insurers.

Looking ahead

A reinstatement and development plan is in place which prioritises and programmes the reinstatement of LPC's harbour structures, buildings and utilities. Design work has commenced on a number of those assets. This plan is on the basis that LPC has been advised that the seismic environment has settled down sufficiently to enable the significant rebuild of core assets to proceed as planned. As such LPC needs to now undertake reinstatement projects as soon as practically possible. Further, LPC must ensure that it is able to function to the fullest possible extent, even though this may be at a reduced level, during and after an emergency.

Throughout the course of the reinstatement of assets, it is anticipated that there will be many complex issues. However, LPC is committed to working constructively with its insurers to resolve matters expeditiously as they arise.

The last year was primarily about establishing the new partnership with Crown Fibre Holdings Ltd (CFH) and laying the foundations to deliver ultra-fast broadband (UFB) - a once-in-50-year infrastructure initiative.

Large-scale infrastructure projects require considerable upfront capital, operating costs and planning before long-term returns can be realised. The UFB initiative is no exception.

Enable Services Ltd (ESL) has grown its business and established all the contractor relationships needed to deliver UFB to greater Christchurch – and employed this greater scale to begin delivering the network.

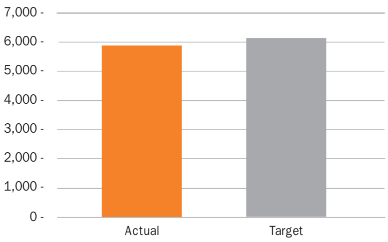
It has grown from 17 staff to having 55 in its team, with over 300 people working on the UFB project. Significantly more new jobs are expected to be created over the seven-year network build programme.

Since the UFB build programme began in November, ESL has laid network past 5,905 premises in the city. This means fibre-to-the-home services will soon be available to the first suburb in Christchurch (Halswell) – resulting in 16,000 homes and businesses having access to fibre broadband in total.

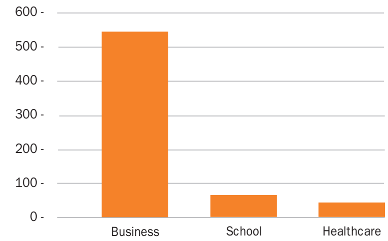
Enable technician in the field.

FIVE YEAR SUMMARY	2008	2009	2010	2011	2012
Enable Services Ltd	$m	$m	$m	$m	$m
Revenue	0.6	3.5	2.9	4.9	**11.9**
Profit (loss) for the year	(0.3)	1.4	0.4	0.5	**(0.9)**
Total assets	10.1	19.1	25.1	32.4	**47.6**
Shareholder's equity	8.9	16.2	19.7	23.1	**22.3**

UFB BUILD PROGRAMME ***(premise passed)***



TOTAL CUSTOMERS CONNECTED



ENABLE SERVICES LTD

FORMERLY **CHRISTCHURCH CITY NETWORKS LTD**

Financial performance

The past year was focused on commencing the UFB project, resourcing the company and creating the environment that will promote a successful shift from a start-up fibre provider to a large infrastructural company.

ESL does not expect to make a profit during the UFB build programme, due to conclude in December 2019, as it invests in the future growth of the Local Fibre Company (LFC).

In this context, the ESL result was ahead of expectation assisted by higher fibre revenue in the period to the sale of the network to the LFC and strong cost efficiency.

The final result is also impacted by ESL's share of the LFC's losses of $1.6 million although expectation is that the value of its investment in Enable has actually increased. The LFC is expected to take seven years to achieve profitability.

Pictured above: **Enable contractor showing students in Halswell how UFB is deployed.**

Establishing the LFC (Enable Networks Ltd)

ESL/CFH's joint venture was established to build and own the UFB network in greater Christchurch.

The Shareholder Agreement between the two partners established the company with a thin company structure – with strategic and operational services provided by ESL under contract.

Agreements were also finalised governing the responsibilities of the new company and both partners in creating and managing the UFB network; and the transfer of ESL's existing fibre network.

Once the LFC was established, attention immediately shifted to meeting its customer connection and financial targets. At year end, the LFC had 637 customer connections, including 59 schools and 41 healthcare customers. Increasing connections by 72 since February and meeting its target. It performed well financially in its first year also – with revenue $66,000 ahead of target, $2 million fewer expenses than budgeted and net profit almost $2 million above target.

ESL's performance as UFB build contractor

ESL also performed well in its first year as UFB build contractor.

The network build target was 6,088 premises passed, and 97% of this target was delivered. This is considered a good result in an environment where civil construction resource is very scarce. The completed build included 5,000 homes and businesses in Halswell, and the start of network construction in Papanui, Bishopdale, Middleton, Hornby and Woolston.

ESL's central office (core network equipment) programme was well advanced by the end of the year. Plans to construct 12 central office buildings to house the local fibre terminations and electronic equipment are well under way with the first four sites already completed. The business also started a significant operational transformation programme, to be ready to manage exponential connection growth in the new year.

Looking ahead

In the coming year, ESL and the LFC will be focused on accelerating the UFB network build in line with deployment targets, launching services to more customers and driving uptake.

New mass market wholesale residential and small business fibre broadband services will be launched in Christchurch in the first quarter of the year – making high performing fibre broadband extremely affordable to homes and businesses of all sizes. To date, 29 retail service providers are signed up to retail fibre broadband services.

These products will change how telecommunications, IT and entertainment services are delivered to both homes and businesses. The price of the services offered by retailer service providers is expected to be about the same as much slower copper services. ESL's expectation is that the release of these products, supported by a significant wholesale/retail marketing effort, will grow the number of users of our network exponentially.

City Care's reputation and profile were boosted during a year in which its immediate priority of the emergency response in Christchurch moved into a focus on the city's recovery, reconstruction and growth.

The company's tireless work in earthquake-stricken communities has further raised its profile and supported its strategic objective of securing new business, retaining existing contracts and expanding its geographical footprint. City Care's experience gained from repairing and reconstructing catastrophically-damaged infrastructure assets in Christchurch has provided an opportunity to capitalise on its expanded operations to launch a new National Construction Division, which is charged with rolling out City Care's construction service offerings nationally.

The company achieved an outstanding financial result in a year that saw nine new contracts won or re-won and it is pleased to have boosted its return to the shareholder through the payment of an additional interim dividend.

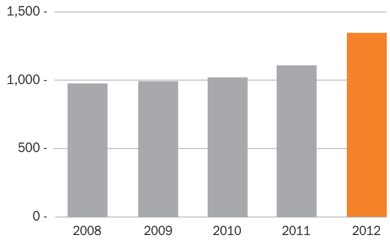
City Care now provides infrastructure services to over half the population of New Zealand, employs 1,337 team members (as at 30 June 2012) and operates from 16 depots and offices throughout the country.

A City Care team uses an aquadam to contain water while undertaking remedial work on the quake-damaged Avon River.

FIVE YEAR SUMMARY

	2008	2009	2010	2011	2012
City Care Ltd	$m	$m	$m	$m	$m
Revenue	115.2	141.5	145.5	237.5	**354.0**
Profit for the year	3.3	3.7	4.0	11.3	**16.5**
Total assets	50.2	52.9	53.9	86.4	**96.3**
Shareholder's equity	27.4	29.6	31.8	37.6	**46.2**

STAFF NUMBERS



CITY CARE LTD

Key highlights of the 2011/12 year:

- Joined the Stronger Christchurch Infrastructure Rebuild Team (SCIRT) alliance to help rebuild Christchurch city's infrastructure
- Achieved an average return on equity of 39.4%
- Restructured the company to create three operating divisions
- Number of Lost Time Incidents decreased 89% on last year's figure
- Paid a dividend of $7.9 million to Christchurch City Holdings Limited
- Opened a new depot in Hastings
- Won or re-won nine significant long-term contracts valued at $43 million
- Launched a joint initiative with the Ministry of Social Development to hire 70 unemployed people in trainee positions and pre-apprenticeships
- Launched a nationwide employee numeracy and literacy programme

Financial performance

City Care achieved a strong financial performance for the year ended 30 June 2012, returning a net profit after tax of $16.5 million. This is a substantial increase on the previous year's profit of $11.3 million. Revenue for the year increased considerably from $237 million in 2011 to $354 million, a rise of 48%. The increase in revenue is largely as a result of the work undertaken after Christchurch's earthquakes and aftershocks.

In keeping with the dividend policy of previous years, City Care paid dividends of 50% of net profit after tax, with payments in November 2011 and March 2012 totalling $5.4 million. Because of a significant increase in profit, and the desire to maximise the return to the shareholder, the Directors declared and paid an additional interim dividend to Christchurch City Holdings of $2.5 million on 3 November 2011, taking City Care's total payments during the year to $7.9 million.

Canterbury earthquakes

In September, City Care joined four other contractors plus the Christchurch City Council, New Zealand Transit Authority (NZTA) and Canterbury Earthquake Recovery Authority (CERA) in signing the Stronger Christchurch Infrastructure Rebuild Team (SCIRT) agreement to rebuild the city's broken infrastructure.
City Care's participation in this collaborative and historic venture represents a landmark juncture in the company's construction operation.

Contracts

During the year City Care won or re-won nine contracts:-

- The water, wastewater and stormwater utilities and maintenance contract for the Hastings District Council for a nine-year term. City Care also opened a Hastings depot in September of last year.
- Auckland Council's West Parks full facility maintenance contract for a term of 10 years. This contract necessitated a reallocation of City Care resources, with the Rodney office relocating to Waitakere.
- The Franklin water and wastewater contract for Watercare for a seven-year term. This win means City Care now has two-thirds of Watercare's Southern Region contracts.
- The company negotiated the long term maintenance of Wellington City Council's drainage infrastructure. This now means that City Care services all three waters maintenance activities for Wellington City Council, Hutt City Council and Upper Hutt City Council under a single contract with Capacity Infrastructure Services.
- In April, Christchurch City Council awarded the combined Central and Northern road maintenance contract to City Care for a term of five years.
- City Care successfully renegotiated the retention of the Christchurch City Council Urban Parks contract, the Waterways and Land Drainage contract and the Road Landscape contract. All three contracts are for a potential 10-year term.
- City Care also re-won the New Plymouth District Council three water contract for a further 10-year term.

Looking ahead

City Care will continue to grow and diversify into new markets and to devise expanded and enhanced service offerings to benefit its existing and future clients. The company's drive to achieve constant improvement will be supported by a clear focus on providing a safe and healthy workplace for its people and a commitment to enrich the lives of New Zealanders.

Christchurch City's public transport network emerged from the Canterbury earthquakes as one of the sectors hardest hit by the disaster, requiring the company to deal with a number of major operational issues. Two significant commercial services to Christchurch Airport were terminated in early 2012 due to a sustained drop in passenger numbers, although the Darfield commercial service remains operating successfully.

An immediate effect of the earthquakes was a large fall in passenger volumes which are now 65% of those pre-earthquake. Encouragingly, passenger numbers are beginning to rise at a rate of around 3% annually, as the city's business activity begins to improve. Full recovery to previous patronage levels will depend on how quickly the rebuild and recovery of the Central City progresses, with a substantial recovery some years away.

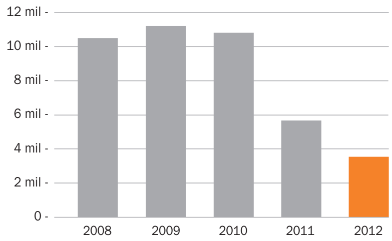
The city's education sector also suffered major disruption, and Red Bus played a major role during 2011 in transporting large numbers of school children between schools for the Ministry of Education, while repairs were completed and alternative classrooms established.

Red Bus Red Zone tours through Christchurch's cordoned central city.

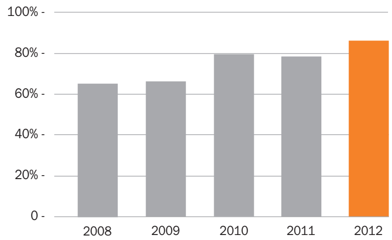
FIVE YEAR SUMMARY

	2008	2009	2010	2011	2012
Red Bus Ltd	$m	$m	$m	$m	$m
Revenue	33.5	36.8	33.4	30.4	**19.0**
Profit for the year	2.7	4.1	1.1	6.2	**0.1**
Total assets	41.5	44.5	53.2	51.9	**47.7**
Shareholder's equity	28.3	31.1	31.4	37.6	**37.7**

PASSENGERS CARRIED



FLEET STANDARD ***(Euro 2 and above)***



RED BUS LTD

Financial performance

Reflecting the adverse trading conditions, Red Bus achieved a profit of $0.1 million, down from the previous year's tax-paid profit of $6.2 million. The earthquake-related insurance payments received during the year are taken as income and masked the underlying slow trading conditions this year.

Operating margins continue to come under pressure after the curtailment of services following earthquakes and aftershocks, and this has adversely impacted on the trading results for the year.

The two commercial airport services were reluctantly terminated in February as passenger numbers based on both the reduction in tourists and in commuter activity fell away.

Red Bus was further affected by having to accept a major change from ECan to the contract structures in advance of the October service changes.

Patronage

The past 12 months have been a hugely challenging time for Canterbury, Red Bus and the public transport network as businesses and people have moved out of the central city and damaged residences, and into new and often temporary locations. The net effect of these massive changes on the city's public transport network was a major disconnection between people and the existing public transport network, with patronage initially falling to 46% of pre-earthquake activity. The opening of a new central city bus interchange in October 2012 had a positive impact on passenger numbers which have since recovered to approximately 65% of the pre-earthquake passenger numbers.

During the year the company helped address the difficult issue of meeting the need for both Christchurch people and visitors to see and understand what the earthquakes had done to the people and the fabric of the Central City and its recovery process. Red Bus was successful with its expression of interest to CERA for bus tours inside the Central City cordon. These tours delivered in partnership with Canterbury Museum have been highly commended by customers for their understanding and sympathetic treatment of the earthquake story.

Regulatory changes

Nationally, the 2009 Public Transport Management Act review is progressing with the development of a new Public Transport Operating Model (PTOM) that enables partnership between regional councils and operators in order to increase the commercialisation of public transport and improve the overall value for money. Auckland Transport and its public transport providers in association with Ministry of Transport and New Zealand Transport Agency are leading this development.

A publicly available operator safety rating is anticipated to be available from the New Zealand Transport Agency early in 2013. Red Bus believe that the rating system is a positive move and will encourage a rise in industry safety standards.

Looking ahead

ECan continues to develop a full recovery programme with proposals to significantly reduce services and restructure the services to meet the new transport demands. Phase one of the recovery programme implemented in October 2011 reduced service kilometres and bus numbers by approximately 13%. The phase two proposal would see a further reduction of a similar magnitude. Full recovery of patronage and services is considered to be many years away and highly dependent on the timing and success of the Central City rebuild and recovery process.

The core strategic issue for Christchurch public transport is determining its future regulatory and delivery structure.
The creation of CERA with its leadership role alongside Christchurch City Council and ECan with their respective earthquake recovery plans and programmes provides an opportunity to refocus the delivery of public transport within a new structure.
A fall in passenger numbers across all the public transport services providers similarly creates challenges to viability and business efficiency that needs attention.
The pre-earthquake model was three companies servicing greater Christchurch, but the market is expected to end up at approximately two thirds of its previous size, with little prospect of growth in the near term.

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.

During the year, the strong NZ dollar combined with dramatically lower commodity prices for recovered recyclable materials reduced demand for EcoCentral products and affected income. The volumes attributed to post-earthquake activity diminished to a consistent level with a substantial reduction in waste volumes in the red zone areas affecting the East and Northern EcoDrop sites. EcoCentral continues to see increased demand for EcoCrystal products. These are engineered sands made from a 100% reclaimed source (predominantly bottles and containers) collected from Christchurch, including the Yellow Bin kerbside collection service. EcoCentral receives the recovered glass from the EcoSort facility in Sockburn, where it is separated to make a range of crystal products.

After more than a full year at the new site on Blenheim Road, the EcoShop has become a hive of retail activity with regulars queuing at the door before opening to get the 'bargains of the day'.

The 2012 financial year marked EcoCentral's first full year under CCHL ownership, and while the financial results are not as they would have hoped, there has been a lot of work in setting up the correct policies, procedures, and processes to enable the company to achieve well in future years.

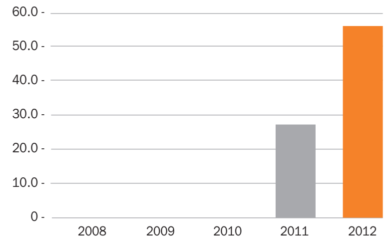
EcoShop on Blenheim Road.

FIVE YEAR SUMMARY*

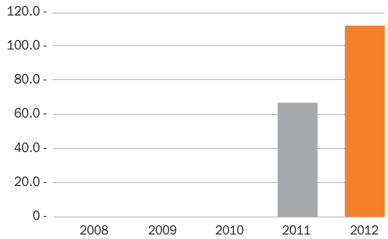
	2008	2009	2010	2011	2012
EcoCentral Ltd	$m	$m	$m	$m	$m
Revenue	-	-	-	18.6	**30.2**
Profit for the year	-	-	-	0.8	**(3.2)**
Total assets	-	-	-	21.6	**17.9**
Shareholder's equity	-	-	-	1.9	**(1.2)**

*CCHL aquired 100% of the shares in EcoCentral Ltd on 1 January 2011.
This table shows the results and position of EcoCentral Ltd since this aquisition.

ECOSORT VOLUMES* *(tonnes)*



DIVERTED FROM LANDFILL* *(tonnes)*



ECOCENTRAL LTD

Financial performance

Total sales fell by 10% to $30.2 million as a result of difficult market conditions. These included a strong NZ dollar combined with low commodity prices for recovered recyclable materials. Prices are regarded as cyclical and the company has taken the opportunity to achieve efficiency initiatives in order to perform well when commodity prices improve.

The refuse volumes attributed to post-earthquake activity reduced to a more consistent level with a substantial reduction in waste volumes in the areas hit hard with the 'red zone' category affecting the East and Northern EcoDrop sites.

Although expenditure increased by 7% to $33.4 million, much of this was due to a prudent $3.1 million write-down of the goodwill on the EcoSort component of the company's operation. This resulted in an after-tax loss of $3.2 million, compared with a profit of $1.7 million in the previous year.

Operations

EcoDrop

The three facilities have traded well post- earthquakes generating consistent revenue levels for the company. Residents have recognised the opportunity to deliver unwanted items in good condition to the EcoDrop with a noticeable increase in quality and volume as earthquake affected residents prepare to relocate temporarily due to repairs or move permanently from a red zone affected property. Volumes of hardfill climbed in the early part of the financial year tailed off in the winter as demolition tapered on the smaller commercial sites.

EcoSort

Whilst the commodity and exchange rate forces worked against this business unit, the volumes of recyclable material from the kerbside collections in the greater Canterbury area and beyond, coupled with additional commercial volumes has poised EcoCentral well for the price recovery. The contamination levels continue to be Australasian record lows with further refinements within the EcoSort facility to enhance the value of the recovered product streams. A conscious decision to combine two commodity streams (Old Newspaper and Mixed Paper) to one has poised the facility to maintain commodity value whilst removing cost. The full benefit of this change will be recognised in 2013.
The demand for the high quality EcoCrystal products has continued to increase with exciting uses including sand bunkers at golf courses, pool filtration, and sand blasting mediums to name but a few. Further enhancements to the glass extraction from the plant will increase the feedstock to increase the available supply and innovative uses of quality recycled glass.

EcoShop

Many residents have become regular shoppers at the well laid out, well stocked 'pre-loved' goods shop. The strong customer focus and desire for a genuine friendly retail experience is supported by a great team in the shop.

Looking ahead

EcoCentral is well poised for the new financial year to grow earnings, focus on cost control to improve margins, and to develop new opportunities while maintaining a strong emphasis on our existing customers.

Additional volumes of recyclable material from areas other than metropolitan Christchurch have been sourced and attention is now being applied to both the quality of the product EcoCentral sell, and the prices they achieve.

DIRECTORY

Registered Office

53 Hereford Street

Christchurch

Directors

B R Irvine *(Chairman)*

T M P Carter

B A Corbett

W J Dwyer

R J Parker

A J Pearce

S L Smith

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

Auditor-General

Christchurch

Photography on front, inside and back covers and pages 2, 9, 12, 14, 23, 40, provided courtesy of Richard Simmonds, Chief Financial Officer of CCHL. (www.rsphotos.co.nz)

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