

7. **DRAFT STATEMENT OF INTENT FOR THE COUNCILS SUBSIDIARY AND ASSOCIATED COMPANIES FOR YEAR ENDING 30 JUNE 2012 AND CHRISTCHURCH CITY HOLDINGS HALF YEAR REPORT TO DECEMBER 2011**



General Manager responsible:	General Manager Regulation and Democracy Services, DDI 941-8462
Officer responsible:	General Manager Regulation and Democracy Services
Author:	Peter Mitchell

PURPOSE OF REPORT

1. The purpose of this report is to present to the Council:
 - (a) the draft Statement of Intent (SOI) for Council's subsidiary and associated companies for review and comment (**Attachment A**)
 - (b) the half year financial statements of the Christchurch City Holdings Limited (CCHL) parent company and group to 31 December 2011 (**Attachment B**).
2. SOIs from the following companies are attached for information:
 - Christchurch City Holdings Ltd
 - Orion New Zealand
 - Christchurch International Airport Ltd
 - Lyttelton Port Company Ltd
 - Enable Services Ltd
 - City Care
 - Red Bus Ltd
 - Eco Central Ltd
 - Selwyn Plantation Board Ltd.
3. The CCHL board has reviewed the SOIs of the subsidiary and associated companies, and will relay its comments (summarised in this report under the appropriate company heading) to the companies, together with any from the Council, following the Council's review.
4. The Council's and CCHL's subsidiary companies are required by statute (or, in the case of Lyttelton Port Company Ltd, the terms of its constitution) to submit an annual SOI to their shareholders. An SOI must set out the entity's objectives and performance measures, as well as certain other information.
5. The subsidiary companies are required by the Local Government Act to deliver to their shareholders a draft statement of intent on or before 1 March. They must then consider comments on their SOI from their shareholder(s) received by 1 May, and then to issue a final SOI by 30 June.
6. There are no major surprises or changes in direction signalled in the attached documents. Specific comments on each company are provided in **Attachment A**. Any comments agreed by the Council will be relayed to the companies, who will consider them before issuing a final SOI prior to 30 June.
7. The Local Government Act provides that the Council, as 100 percent shareholder of CCHL, must make any comments on the CCHL SOI by 1 May 2012. CCHL must then consider these comments and deliver its completed Statement of Intent to the Council by 30 June 2012.
8. With regard to the statement of intent for CCHL subsidiaries and associate companies the Council has been asked to provide comment to CCHL which has the statutory role under the Local Government Act 2002 of providing comments, or not as the case may be, to those subsidiary and associate companies by 1 May 2012. The Council's role with those companies is in the nature of providing informal comment to CCHL. CCHL's practice is to forward all Council comments to the subsidiary companies.
9. The Chief Executive Officer of Christchurch City Holdings Limited will be at the meeting to answer questions.

7 Cont'd

STAFF RECOMMENDATION

It is recommended that the Council:

- (a) Review the draft Statements of Intent, and advise Christchurch City Holdings Limited whether it wishes to make any comment to the companies on the content of the Statements of Intent.
- (b) Agree to the Statements of Intent if it does not wish to make any formal comment.
- (c) Receive, for information, the half year report and financial statements of the Christchurch City Holdings Limited parent company and group to 31 December 2011.

To: Chief Executive Officer, Christchurch City Council

From: Bob Lineham, Chief Executive, CCHL

Date: 10 April 2012

Subject: **Statements of Intent**

Christchurch City Holdings Ltd (CCHL)

Main changes to Sol from previous year

Page 4 Additional words “to support the establishment and maintenance of resilient infrastructure in Christchurch and Canterbury” under the first objective.

Page 5 Updated group structure chart reflecting Enable Services Ltd’s new name, and its investment in local fibre company Enable Networks Ltd.

Pages 6-8 Updated overview of each subsidiary.

Page 11 Updated financial forecasts, with improved dividend projections.

Orion New Zealand Ltd

Main changes to Sol from previous year

Page 1 New diagram showing planning and governance framework

Page 2 New objective to review network architecture

Page 3 New reference to Kestrel Group review and related performance target

Page 4 New reference to CERA recovery strategy and central city recovery plan

Page 6 New comments in “Our people” section re importance of attracting and retaining staff through appropriate staff engagement levels and building new head office

Page 10 New comment that debt will continue to rise for foreseeable future

Page 13 Comment re move to temporary premises for next four years, but with preference for new permanent offices to be located in CBD.

Page 12-14	New/updated earthquake recovery targets
Page 15	Network reliability targets re-analysed between affected/non-affected by earthquakes and new targets set. Targets that rely on Transpower performance deleted.
Page 16	New demand side initiative to develop the role of a local system operator, funded by annual grants of \$1.5m from Transpower over next three years
Page 20	Profit and dividend targets are higher
Page 29	New accounting policy re recognition of earthquake proceeds

Christchurch International Airport Ltd (CIAL)

Main changes to Sol from previous year

Page 4	Reference to new South Island tourism initiative - "South"
Page 5	CIAL will commence pricing consultation with airlines to take effect after the ITP is commissioned, seeking maximum amounts allowed by the market
Page 6	Emphasis on customer service performance as ITP is completed
Page 7	Reference to earthquakes' impact on CIAL's ability to attract and retain staff, and focus on maintaining staff engagement levels
Page 7	Increased focus on property developments to meet short term accommodation needs of businesses
Page 10	New discussion re CIAL's involvement in CERA's and the Council's recovery initiatives
Page 15	Forecast commercial aircraft movements and international pax lower than last year's forecasts
Page 20	Section re value of CIAL to be updated after completion of business plan

Lyttelton Port Company Ltd (LPC)

Main changes to Sol from previous year

As usual, LPC is constrained by its listed company status as to what it can disclose in its Sol. There are virtually no changes to the content compared with the existing Sol, other than:

Page 3	Comment that dividends have been suspended while insurance issues remain unresolved.
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Page 4 New section re regional and city planning issues.

Page 4 New comment re “no surprises” policy.

Enable Services Ltd (previously Christchurch City Networks Ltd)

Main changes to Sol from previous year

Page 4 New sections entitled “Retention of key staff” and “Regional and city planning”.

Page 6 New ESL board role to appoint three directors to ENL.

Page 8 Some new financial performance targets incorporating cost of sales, and accompanying financial commentary.

City Care Ltd (CCL)

Main changes to Sol from previous year

Page 2 New objective to “grow a sustainable national operation”.

Page 5 New para under “governance” detailing the indemnity given to directors.

Page 5 New Board committee – the Earthquake Rebuild Committee – established, and responsibilities detailed.

Page 6 Significant improvement in forecast results compared with last year’s Sol. Additional commentary provided re the financial performance targets.

Page 8 New section on operational challenges, under headings of management resources, field staff and partnerships.

Page 8 Forecast dividends have more or less doubled since last year.

Page 9 New section headed “Regional and City Planning”.

Red Bus Ltd (RBL)

Main changes to Sol from previous year

Page 6 Forecast debt for FY13 and FY14 is \$5m, representing CCHL’s intra-group loan. All external debt is forecast to be repaid due to sale of surplus buses, cessation of dividends and relatively good cash flows compared with profit (depreciation charges are high).

- Page 6 No accounting policies have been attached.
- Page 7 Passenger target is 3.2 million – last year 7 million.
- Page 11 New section entitled “Post 2011 earthquake responses”.

EcoCentral Ltd (ECL)

Main changes to Sol from previous year

- Page 9 New commentary re the impact of lower commodity prices and high exchange rate and the need for operating efficiencies to improve margins.
- Page 9 New comment that cash generated from operations will be used to retire debt.
- Page 10 The first performance target in this table is somewhat meaningless.
- Page 11 No dividends forecast for next year (note top para on this page is inconsistent and should be amended or deleted).

Selwyn Plantation Board Ltd (SPBL)

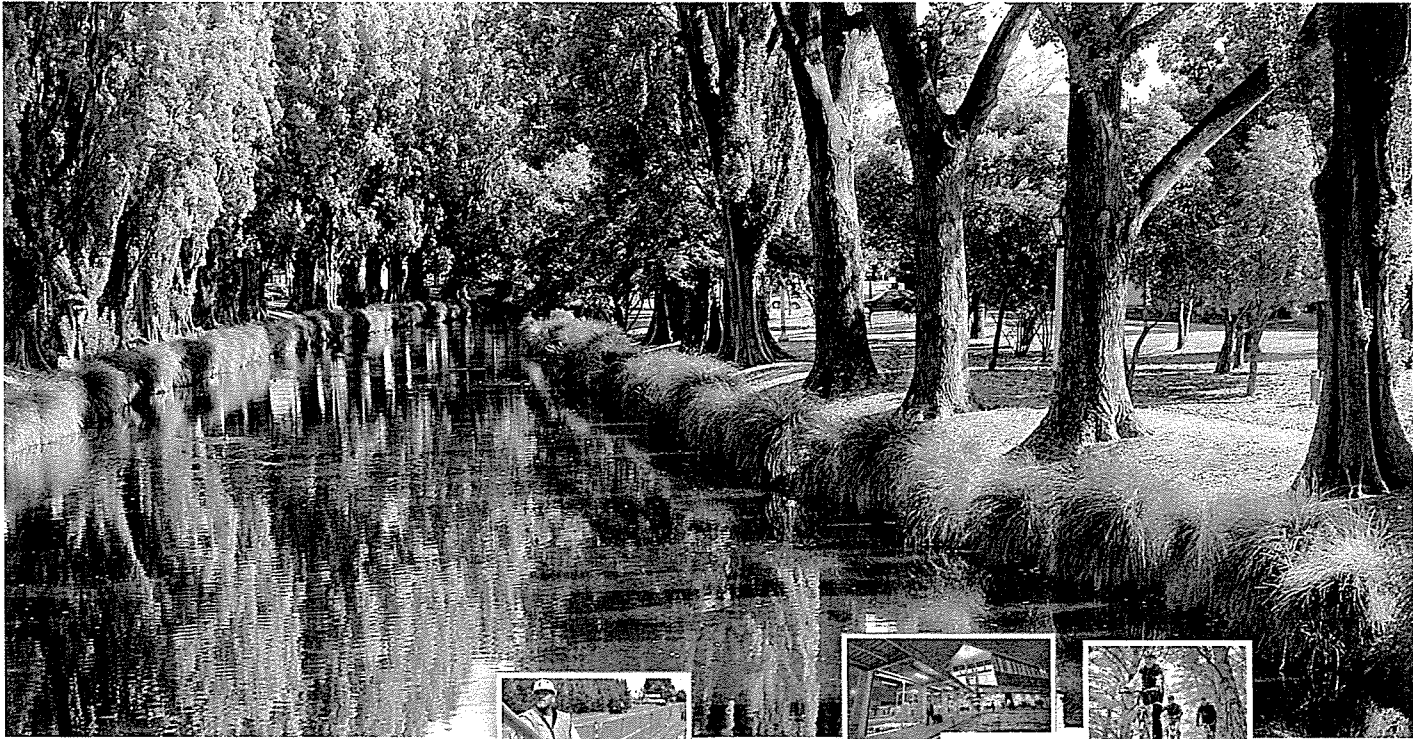
Points to note

The company has substantially completed its asset realisation process, and is expected to be wound up in the 2013 calendar year.

cchl

Christchurch City Holdings

STATEMENT OF INTENT 13-15



For the year ending
30 June 2013



Statement of Intent (Sol)
for the year ending 30 June 2013

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Attachment – statement of accounting policies

Directory

Address:	Christchurch City Holdings Ltd PO Box 73016 Christchurch 8154
Registered office:	53, Hereford St Christchurch
Board:	Bruce Irvine (Chair) Tim Carter Barry Corbett Bill Dwyer Bob Parker Andy Pearce Sarah Smith Sue Wells
Chief Executive:	Bob Lineham
Contact:	Telephone – (64 3) 941 8475 Fax – (64 3) 941 8572 Email – info@cchl.co.nz Web – www.cchl.co.nz

Introduction

This Statement of Intent ("Sol") is prepared in accordance with Section 64(1) of the Local Government Act 2002.

The Sol specifies for Christchurch City Holdings Limited ("CCHL") and its subsidiaries the objectives, the nature and scope of the activities to be undertaken, and the performance targets and other measures by which the performance of the group may be judged in relation to its objectives, amongst other requirements.

The process of negotiation and determination of an acceptable Sol is a public and legally-required expression of the accountability relationship between the company and its shareholder, the Christchurch City Council.

The Sol is reviewed annually with the Council and covers a three year period.

CCHL is a council-controlled trading organisation ('CCTO') for the purposes of the Local Government Act 2002.

Mission Statement

CCHL's mission is to support the Council's vision for the city by:

"investing in, and promoting the establishment of, key infrastructure assets in a commercially viable manner to assist the development and recovery of Christchurch".

Following the series of damaging earthquakes since September 2010, the need for effective infrastructure investment in the Christchurch region has become paramount, and the CCHL group will play a significant role in this process.

Objectives

A core role of CCHL is to monitor the Council's existing investments, which largely service the region's existing infrastructure needs. .

CCHL will also review, and where appropriate invest in, the infrastructure required to support the earthquake recovery process and the regional economic direction envisaged in the Urban Development Strategy,. Such infrastructure includes, but is not restricted to, high speed telecommunications, integrated transport systems, water and security of energy supply.

CCHL is mindful of the significant investment by the Council in its operations, and of the need to preserve and grow shareholder value and the level of dividends to the Council.

In light of the above, CCHL's objectives are as follows:

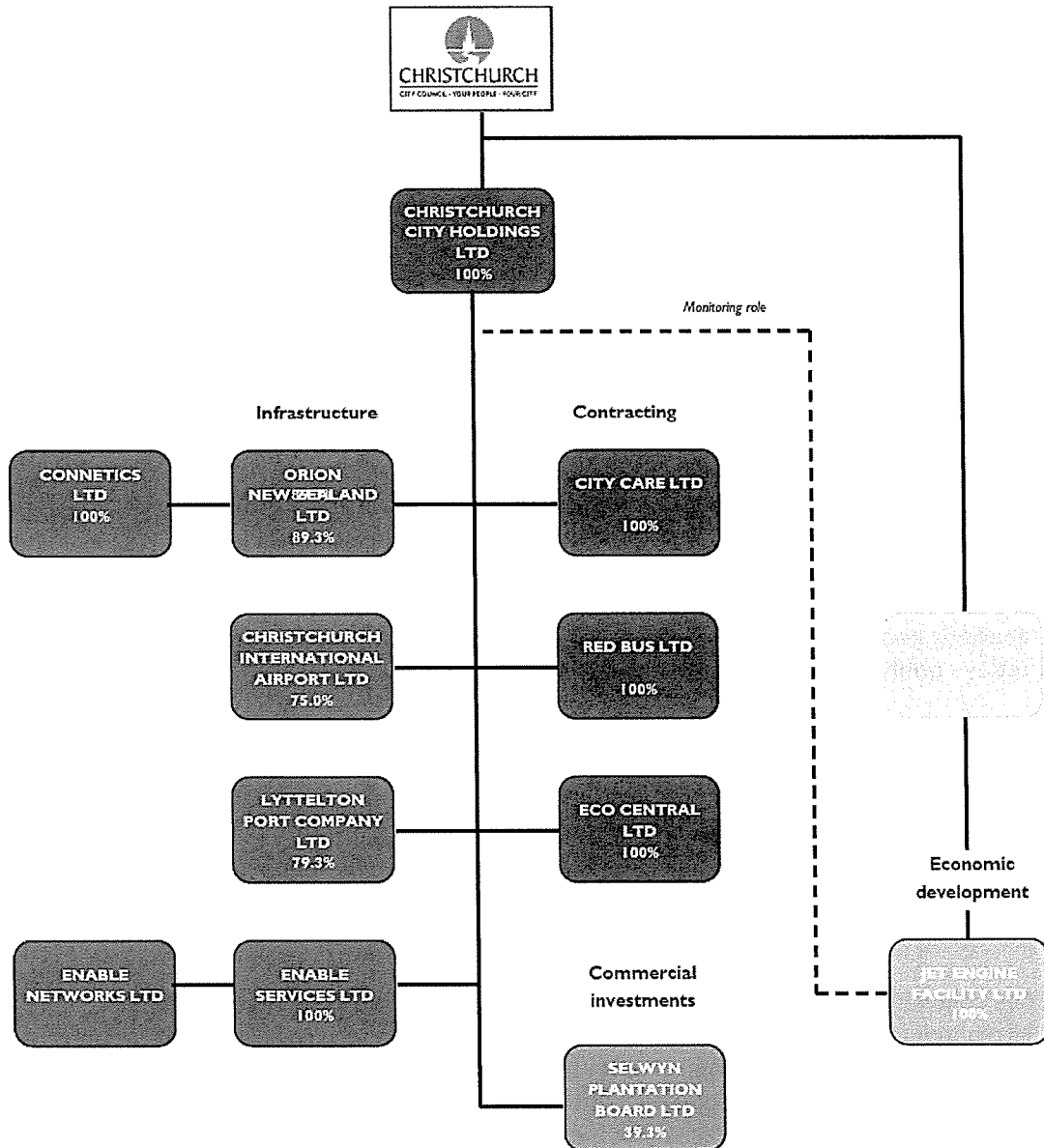
- To identify, in conjunction with relevant parties, present and future regional infrastructural needs, and to support the establishment and maintenance of resilient infrastructure in Christchurch and Canterbury.
- To seek, on behalf of the Council, and if material report at the appropriate time on, investment opportunities that have the potential to enhance the economic well-being of the region, and provide an adequate return. In order to balance these objectives, CCHL may in appropriate circumstances accept a lower return or slower route to profitability.
- To build the financial strength of CCHL through appropriately directed commercial investment, in a manner consistent with the approach set out in the acquisition/divestment policy on pages 12-13, and through efficient financial practices.
- To encourage and facilitate the subsidiary and associated companies to increase shareholder value and regional prosperity through growth, investment and dividend payments.
- To ensure that best practice governance procedures are applied to the city's key regional infrastructure and financial investments that are under CCHL's ownership or review.
- To advise the Council on strategic issues relating to its trading investments including, but not limited to, ownership structures, capital structures and rates of return.
- To encourage intra-group cooperation.
- To monitor the performance of each subsidiary and associated company against their stated economic, environmental and social performance objectives and against relevant benchmarks, and ensure that they have proper governance procedures in place.
- To perform financial, custodial and other functions required by the Council which include:
 - Grouping together the Council's ownership of its subsidiary companies;
 - Separation of the subsidiary companies from the ordinary operations of the Council;
 - Smoothing the cash flows to the Council from its subsidiary companies;
 - Enabling diversification of the City's income streams for the benefit of ratepayers;
 - Monitoring of other subsidiary companies owned directly by the Council.
- To promote sustainable business practices.
- Taking other initiatives at the request of the Council.

The recent success of Enable Services Ltd in the Government's Ultra Fast Broadband tender means that a key priority for CCHL in the 2012 financial year will be a restructuring of its borrowing programme to meet the required investment over the next ten years.

Nature and scope of activities

The company was established in May 1993 to act as the holding company for the Council's commercial investments.

The CCHL group structure is summarised as follows:



CCHL also holds 100% of the shares in five shelf companies. These companies have no assets or liabilities and are non-trading, but may be activated in the future. There is no intention to utilise a shelf company for a project without the Council being consulted.

CCHL exercises its role in relation to the objectives outlined on page 3 through a variety of means, including reviewing Statements of Intent provided by the subsidiary companies, reviewing periodic financial reporting by the subsidiaries and reporting to the Council, capital structure reviews, developing new investments, monitoring business developments, liaising

with subsidiary boards as necessary, recommending director appointments and dealing with other issues as they arise.

CCHL will work in conjunction with the Council and, where appropriate, invest on a commercial basis to assist the Council in meeting its wider objectives.

Activities of the subsidiary and monitored companies are as follows:

Orion New Zealand Ltd

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

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

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

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

Rebuilding and reinforcing the network, which suffered extensive earthquake damage, will be the key priority for Orion over the next few years.

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

Christchurch International Airport Ltd:

The international gateway to the South Island, Christchurch International Airport Ltd (CIAL) hosted just over 5.7 million passengers in the 2011 year, arriving or departing on over 75,000 aircraft servicing destinations as close as Timaru and as distant as Tokyo.

The company is undertaking a major project to build a new combined domestic and international terminal. With a new terminal including integrated check in facilities, large passenger lounges, extra seating, improved passenger flows and enhanced retail and food and beverage areas, the new terminal will offer a top class airport experience. The entire project is scheduled for completion by the end of the 2012 calendar year.

The company is also undertaking an expansion of its property portfolio, with new developments at Dakota Park and Spitfire Square either planned or already in progress.

The airport suffered little direct damage from the earthquakes, but will feel the impact in the form of reduced tourist numbers for the next year or two.

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

Lyttelton Port Company Ltd

Lyttelton Port Company Ltd (LPC), the South Island's major deep-water port, is a hub of international trade.

In 2011 the port handled approximately 9.6 million tonnes of cargo.

The container terminal provides specialised cargo handling and stevedores in excess of 270,000 container (TEU) units.

On the water, full marine services are provided, including tugs, pilots, and service staff. Over 900 ships visit the port every year.

Lyttelton has the largest export coal facility in New Zealand, currently handling over two million tonnes a year for Solid Energy.

The port has been significantly impacted by damage from the series of earthquakes since 4 September 2010. LPC has working closely with its insurers to measure the damage to the assets, and determine the appropriate steps for reinstatement. The company has insurance cover for asset replacement to current standards, along with business interruption insurance.

LPC is currently listed on the New Zealand Stock Exchange, although CCHL's intention is ultimately to de-list the company.

Enable Services Ltd

Enable Services Ltd (previously Christchurch City Networks Ltd) was established by CCHL in the 2007 financial year, and now owns the largest open access fibre network in Christchurch which is purpose-built for direct connection to the customer.

In 2011 Enable was the successful bidder in the Government's Ultra Fast Broadband initiative. The objective of the project is to accelerate the roll-out of Ultra-Fast Broadband to 75 percent of New Zealanders over ten years, concentrating in the first six years on priority broadband users such as businesses, schools and health services, plus green field developments and certain tranches of residential areas. Urban and suburban residential areas will get access to Ultra Fast Broadband through a staged roll-out to 2019

Up to 182,000 businesses, schools and homes in Christchurch and its surrounding centres will be able to connect to the network under the UFB initiative. The Halswell and Aidanfield phase of the construction – passing more than 4,300 premises – will be completed in May 2012, followed quickly by deployment to 3,100 premises in Papanui.

In accordance with the terms of CFH's approval of the bid, Enable and CCHL will enter into discussions with Chorus to determine whether a joint approach to the network rollout is commercially feasible.

The company suffered minimal earthquake damage.

City Care Ltd

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

City Care's main functions are maintaining parks, gardens, sportsfields and cemeteries, waterways and coastal areas, buildings and public facilities, roading networks and water, wastewater and stormwater networks. The company's strategy is to work with its clients to create and maintain new infrastructure for the wellbeing and enjoyment of people throughout the country.

City Care employs over 1,000 staff across 15 operational offices in Rodney, Auckland, Hamilton, New Plymouth, Hawera, Tauranga, Whakatane, Masterton, Wellington, Christchurch, Timaru and Dunedin.

The recent earthquakes have significantly increased City Care's workload, with a resulting positive impact on its financial performance. It is one of five contracting companies in the Alliance for the re-build of Christchurch infrastructure.

Red Bus Ltd

Red Bus Ltd is a significant public transport provider in Christchurch. Its urban public transport services are predominantly contracted to Environment Canterbury, which plans and regulates the city's public transport. The company also delivers a broad base of charter services and operates some commercial urban services.

Following the loss of some tendered services in 2010, the company has restructured and reduced staff numbers. Earthquakes have also significantly impacted scheduled urban services, placing further pressure on the company.

EcoCentral Ltd

CCHL acquired 100% ownership of EcoCentral Ltd (previously CCC Two Ltd) from Christchurch City Council with effect from 1 January 2011.

EcoCentral Ltd operates a large recycling facility (EcoSort) at Parkhouse Road that processes all of the city's yellow bin collections, three EcoDrops (at Parkhouse Road, Bromley and Styx Mill) which receive domestic and commercial waste, green waste and recyclables, and a retail outlet in Blenheim Road (EcoShop) selling second hand and recycled goods.

The earthquakes did not cause any material damage to EcoCentral, and in fact had a positive impact on the company's volumes and revenues in the 2011 financial year.

Selwyn Plantation Board Ltd

Selwyn Plantation Board Ltd (SPBL) is in the process of winding up its activities and returning capital to its shareholders. The winding up process is expected to be largely complete by April 2012. CCHL owns a 39.3% stake in SPBL.

Corporate Governance

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

Role of the Board of Directors

The Board is responsible for the proper direction and control of the company's activities. The Board guides and monitors the business and affairs of CCHL on behalf of the shareholder, Christchurch City Council ('the Council'), to whom it is accountable, within the framework of the mission and objectives that are set out in this Statement of Intent.

The Chief Executive has been delegated responsibility for the day to day management of the company. He is assisted by staff as required. The company may make use of external advisers from time to time.

All directors are required to comply with a formal Code of Conduct, which is based on the New Zealand Institute of Directors' Principles of Best Practice.

The Chairperson conducts a formal performance review for each director biennially.

Responsibility to shareholder

Statement of Intent

In accordance with the Local Government Act 2002, the company submits a draft Statement of Intent (Sol) for the coming financial year for consideration by CCHL's shareholder, the Council. The Sol sets out the company's overall objectives, intentions and financial and performance targets. Having considered any comments on the Sol by the Council, the company issues its Sol in final form.

Information flows

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 from 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 subsidiary Sols.

Board composition and fees

The Board comprises eight directors - four Councillors and four external directors.

All Councillor directors are required to retire by rotation within three months following the triennial local government elections, but are eligible to be re-appointed. Where there are four or more non-Councillor directors, two of those directors must retire by rotation annually, but may offer themselves for re-appointment. Appointments to CCHL are made directly by the Council.

Fees for the CCHL Board are set triennially. The CCHL Board recommends fee levels to the Council, based on commercial norms, but discounted to reflect a public service element. Where a director provides professional services over and above the normal role of a director, he or she is entitled to charge for those services at commercial rates provided the conditions of the Board's Conflict of Interest policy are met.

The Board generally meets at monthly intervals, and more often when required.

Board Committees

Audit and Risk Management Committee

The responsibilities of the audit and risk management committee include reviewing the company's accounting policies, reporting practices and resultant financial statements. The committee will also consider external audit reports, external audit appointments, audit relationship matters and fees, and risk management issues. The CCHL Chairperson cannot be the chair of the Audit and Risk Management Committee.

Governance, Appointments and Remuneration Committee

A key objective of this committee, which is led by the CCHL Chairperson, is to assist in developing, reviewing and formalising the company's governance procedures.

Additionally the committee is responsible for recommending director appointments to CCTOs and other subsidiaries.

Other committees

The board establishes other committees on an as needed basis to deal effectively with issues as they arise.

Subsidiary and monitored companies

Monitoring

Each subsidiary and monitored company submits annually a draft Statement of Intent, which is evaluated initially by CCHL. CCHL reviews the Sol, suggests any changes that may be considered necessary, and then forwards the Sol to the Council for consideration. The Council may also request changes.

It is established practice for representatives of the subsidiary board and management to meet with CCHL at least twice each year, to discuss the company's strategic direction and any significant issues that arise. The Board also receives such other reports as are necessary to perform its monitoring function. However, CCHL does not involve itself in the management of the subsidiary companies.

Board appointments

All directors of subsidiary companies are selected for their commercial expertise and aptitude in accordance with the Council's appointments policy.

Financial results

Directors receive and review parent company financial and other reports monthly, and provide formal consolidated and parent company financial statements to the shareholder twice annually – for the half year to 31 December and for the year ended 30 June.

Ratio of shareholder's funds to total assets¹

The forecast ratio of shareholder's funds to total assets and capital structure for the next three years is:

	2012/13	2013/14	2014/15
Shareholder's funds/total assets	79%	78%	78%
Net debt (\$m)	330	363	363
Equity (\$m)	1,336	1,338	1,341

Accounting policies

CCHL has adopted accounting policies that are consistent with New Zealand International Financial Reporting Standards, generally accepted accounting practice and the policies adopted by the Christchurch City Council group. The policies set out in the 2011 annual report are attached as an Appendix to this Sol.

Performance targets and measures

Financial

The key performance targets of CCHL (parent and group) are to achieve or better the financial results set out in the following table:

¹ "Shareholders' funds" are defined as the sum of paid up capital, capital reserves and revenue reserves of the parent company. "Total assets" are defined as the total book value of all assets of the parent company as disclosed in the statement of financial position.

	2012/13	2013/14	2014/15
CCHL parent			
Net profit after tax (\$m)	36.8	39.0	45.4
Net debt/net debt plus equity	19.6%	21.3%	21.3%
Interest cover (EBIT/interest)	2.7	2.5	2.7
Ordinary dividend (\$m)	35.8	36.9	43.1
Special dividend (\$m)	4.2	3.8	0.0
Consolidated			
Net profit after tax (\$m)	63.6	71.4	90.3
Net debt/net debt plus equity	32.7%	34.9%	36.3%
Interest cover (EBIT/interest)	2.9	2.8	3.1
Return on average equity	4.5%	5.0%	6.0%

The above forecasts are provisional, and will be updated on the receipt of updated forecasts from the subsidiary companies.

Other performance measures

In addition to the above financial performance measures, the CCHL Board will use the following measures to assess its performance over the 2012/13 financial year:

Governance

Objective	Performance target
1. CCHL maintains a strategic direction that is consistent with that of 100% shareholder Christchurch City Council (CCC).	CCHL develops and maintains appropriate communication lines with the Council to ensure CCHL remains aware of CCC's strategic priorities. CCHL also establishes a relationship with CERA and works closely with CDC/Recover Canterbury. CCHL will submit a draft Sol for approval to CCC by 1 March 2013.
2. CCHL keeps CCC informed of all significant matters relating to CCHL and its subsidiaries, within the constraints of commercial sensitivity.	CCHL submits at least four written reports to CCC in the financial year, and presents at least three seminars to Councillors. Major matters of urgency are reported to CCC at the earliest opportunity.
3. Corporate governance procedures are appropriate, documented and reflect best practice.	The company's policies will be reviewed in accordance with a schedule approved by the Board. Policies due for review in the 2012 and 2013 calendar years include the Board Charter,

		treasury policy, fraud policy and various governance and staff policies.
4.	Directors make an effective contribution to the CCHL board, and their conduct is in accordance with generally accepted standards.	<p>The Chair conducts a formal biennial performance evaluation for each CCHL director with the next one being due in the 2013 calendar year.</p> <p>The Governance committee will review the training needs of individual CCHL directors, and ensure training is provided where required.</p>
5.	CCHL's process for the selection and appointment of directors to the boards of subsidiary and monitored companies is rigorous and impartial.	The process followed for each appointment to a subsidiary or monitored company board is transparent, fully documented and in line with approved policies and procedures.
6.	Subsidiary and monitored companies complete, on a timely basis, Statements of Intent that meet best practice standards.	<p>CCHL will engage with subsidiary and monitored companies prior to the 2013 Sol round regarding the structure and content of the group Sols.</p> <p>Subsidiary companies submit draft Statements of Intent to CCHL by 1 March 2013.</p> <p>CCHL will review Statements of Intent and respond to the subsidiaries and make recommendations to CCC within six weeks of receipt.</p>
7.	Subsidiary and monitored companies that are CCTOs comply with the Local Government Act's requirements that their principal objectives be: <ul style="list-style-type: none"> • achieving the objectives of its shareholders as set out in the Sol; • being a good employer; • exhibiting a sense of social and environmental responsibility; and • conducting their affairs in accordance with sound business practice. 	CCHL will review the companies' performance in the context of these statutorily required objectives.
8.	CCHL maintains contact with subsidiary and monitored company boards, and remains aware of their strategic and	CCHL will endeavour to strengthen ties throughout the wider Council group, so that there is improved understanding of each other's key priorities and issues.

business issues.

CCHL meets subsidiary and monitored company boards, or representatives thereof, on a formal basis at least two times in the 2013 financial year.

CCHL receives an appropriate level of reporting from subsidiary and monitored company boards.

Group strategic, financial and sustainability objectives

Objective	Performance target
<p>1. Subsidiary companies have sufficient (but not excessive) financial flexibility, whether through their own capital structures or through the availability of capital from CCHL, to undertake growth and investment initiatives.</p>	<p>CCHL will review the capital structure of each subsidiary company against external benchmarks on a rolling triennial basis.</p>
<p>2. Subsidiary and monitored companies adopt strategies that are compatible with the strategic direction of CCHL and CCC, including the CERA Recovery Strategy, the Central City Plan and the Urban Development Strategy.</p>	<p>CCHL will engage with subsidiary and monitored companies prior to the 2013 Sol round regarding key shareholder strategies and, subsequently, review their Sols for compatibility with those strategies.</p>
<p>3. Subsidiary and monitored companies adopt strategies that contribute to regional growth.</p>	<p>CCHL will encourage subsidiary and monitored companies to seek opportunities that are both commercially sound and are capable of enhancing regional growth, and actively engage them with regard to specific opportunities that may arise.</p> <p>CCHL will monitor the ongoing impact of the 2010 and 2011 earthquakes on its subsidiaries, and their progress in recovering and planning for the future.</p> <p>CCHL will work closely with Enable Services as it undertakes the rollout of the network under the Government's Ultra Fast Broadband initiative.</p>
<p>4. Subsidiary and monitored companies set and attain environmental and social performance objectives that are</p>	<p>CCHL will engage with subsidiaries and monitored companies regarding the progressive development and inclusion of relevant and appropriate social and environmental objectives and performance</p>

<p>compatible with their activities, commercial nature and other objectives.</p>	<p>targets in their respective Sols.</p> <p>CCHL will perform an annual review of the performance of the subsidiaries and monitored companies against their stated objectives and assess and report on the success of group sustainability initiatives.</p>
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Parent company financial objectives

Objective	Performance target
<p>1. CCHL financial and distribution performance meets the shareholder's expectations.</p>	<p>CCHL pays a dividend for the 2013 financial year that meets or exceeds budget, and achieves the other budgeted key performance measures set out on page 8.</p>
<p>2. CCHL's capital structure is appropriate for the nature of its business.</p>	<p>CCHL will review the level and composition of its debt facilities and may request the Council to consider increasing the level of CCHL's uncalled capital.</p>
<p>3. CCHL's investments provide an appropriate return in relation to their business risk, and against external benchmarks.</p>	<p>CCHL will periodically review the performance of subsidiary companies and other investments against external benchmarks, and assess the value of the investment in the individual company in relation to its inherent business risk and community benefits.</p>
<p>4. CCHL's treasury management policies and practices are consistent with best practice.</p>	<p>CCHL's treasury management policy will be reviewed in the 2013 calendar year.</p>

Distributions to shareholder

CCHL will pay dividends to the shareholder after taking into account its profitability and future investment requirements. The dividends payable to the shareholder will be determined by the Board after consideration of the company's funding requirements and the requirement to meet the solvency test under the provisions of the Companies Act 1993.

The dividends are forecast to be paid in three instalments in June, October and December of each financial year, and are also forecast to be fully imputed for tax purposes.

To assist the shareholder with budgeting, forecast dividend payments (excluding any adjustments relating to subvention payments) are set out in the "Performance Targets and Measures" section.

Information to be provided

Statutory information requirements

The company will provide an annual Statement of Intent in accordance with Section 64(1) of the Local Government Act 2002. The directors will include any other information they consider appropriate. Where appropriate, revised forecasts will be submitted to the shareholder.

CCHL will submit an annual report to the shareholder. The annual report will include audited financial statements and such other details as are necessary to permit an informed assessment of the company's performance and financial position during the reporting period, and to comply with the requirements of the Companies Act and Financial Reporting Act.

The company will also prepare interim consolidated and parent company financial statements to 31 December, and a review of the period, that comply with NZ IAS 34 "Interim Financial Reporting" by 28 February.

Other information to meet the needs of the Council

The company will provide regular reports to the Council on its activities and the results of its subsidiary companies. It will operate on a "no surprises" basis in respect of significant shareholder-related matters, to the fullest extent possible in the context of commercial sensitivity and confidentiality agreements.

Acquisition/divestment policy

CCHL will adhere to the following shareholder protocol in respect of new equity investments:

1. CCHL may acquire additional equity in an existing Council group subsidiary or associated company without the prior approval of the Council, provided such investments do not exceed 2% in any one financial year of CCHL's total assets at the start of that financial year.
2. CCHL may acquire new equity investments in entities outside the Council group, or physical assets, without the prior approval of the Council, provided such investments do not exceed 1% of CCHL's total assets at the start of that financial year. In evaluating such opportunities, the CCHL Board will avoid any potential conflicts with the aims and activities of the Council, and will not make investments that the Board considers to be unethical or which may reflect adversely on the Council. Such investments will be expected to add commercial value to CCHL. CCHL may also dispose of assets acquired under this clause (which, for the avoidance of doubt, do not include assets that appear on the Council's list of strategic assets) without the prior approval of the Council, provided the sale value does not exceed the 1% limit referred to in the first sentence.

3. Any acquisitions or disposals made under 1. and 2. will be reported to the Council subsequently, and CCHL will keep the Council informed under its “no surprises” policy, as far as is commercially practicable.
4. Equity investments falling outside the parameters of 1. and 2. will not be made without the prior consent of the Council.

CCHL will periodically review its investments to ensure that continued ownership represents the best option for CCHL and the Council. It will consult with the Council prior to any divestment or major restructuring of a subsidiary company.

As previously advised, Selwyn Plantation Board Ltd, in which CCHL holds a minority interest, is in the process of divesting its assets with a view to returning capital to its shareholders.

Activities for which compensation is sought from any local authority

Currently there are no activities for which compensation will be sought from any local authority.

It is noted that the Council has a contingent liability to the extent of \$350 million in respect of unpaid issued capital in CCHL. There is no current intention to make a call on this capital. It is possible that CCHL will request the Council to consider an increase in the level of uncalled capital.

Commercial value of shareholder’s investment

CCHL’s shareholder’s equity of \$1.3 billion as at 30 June 2011 is considered to be a conservative estimate of the commercial value of the Council’s investment in CCHL, based on independent valuations of CCHL and its subsidiaries.

Role in the Christchurch City Council group and regional economy

CCHL’s objectives with regard to commercial relationships within the Christchurch City Council group, and its role in the growth of the regional economy, are set out in the “performance measures and targets” section on pages 13 to 15.

The following accounting policies were included in the 2011 annual report of CCHL.

1. STATEMENT OF ACCOUNTING POLICIES

Corporate information

Christchurch City Holdings Limited ('CCHL') is a wholly owned subsidiary of Christchurch City Council formed for the purpose of holding investments in subsidiary organisations. The company was incorporated on 12 May 1993 and commenced trading operations on 14 May 1993.

The financial statements of CCHL are for the year ended 30 June 2011. The financial statements were authorised for issue by the CCHL Board of directors on 14 September 2011.

Summary of significant accounting policies

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(i) Basis of preparation

The financial statements of CCHL have been prepared in accordance with generally accepted accounting practice in New Zealand ('NZ GAAP'). They comply with New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS'), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The financial statements comply with International Financial Reporting Standards (IFRS).

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

The financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments.

The reporting currency used in the preparation of these financial statements is New Zealand dollars, rounded to the nearest thousand, unless otherwise stated.

(ii) New accounting standards and interpretations

(a) Changes in accounting policy and disclosures.

The accounting policies adopted are consistent with those of the previous financial year except as follows:

There have been no changes in accounting policies in comparison with the prior year, except that the group has adopted the following new and amended New Zealand equivalents to International Financial Reporting Standards as of 1 July 2010.

- NZ IAS 27 Consolidated and Separate Financial Statements (Amendment) effective 1 July 2009
- NZ IFRS 3 Business Combinations (Revised) effective 1 July 2009
- NZ IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (Amendment) effective 1 July 2009
- NZ IFRIC 17 Distributions of Non-cash Assets to Owners effective 1 July 2009
- NZ IFRIC 18 Transfers of Assets from Customers
- NZ IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (Amendment) effective 1 February 2010.

Adoption of the above standards did not have a material impact on the financial statements of the group.

(iii) New accounting standards and interpretations issued and not yet adopted

The following new standards, interpretations and amendments may have an impact on CCHL's future financial statements, but are not yet effective for the year ended 30 June 2011, and have not been applied in preparing these consolidated financial statements:

Standard, Amendment or Interpretation, and effective date	Summary of requirements
1 January 2011 <i>IAS 24 Related Party Disclosures (revised 2009)</i>	The revised IAS 24 amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities.
1 January 2011 <i>Improvements to IFRSs 2010 – IFRS 7 Financial Instruments: Disclosures</i>	The amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments. In addition, the IASB amended and removed existing disclosure requirements.
1 January 2011 <i>Improvements to IFRSs 2010 – IFRS 7 Financial Instruments: Disclosures</i>	The amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments. In addition, the IASB amended and removed existing disclosure requirements.
1 January 2011 <i>Improvements to IFRSs 2010 – IAS 1 Presentation of Financial Statements</i>	The amendments clarify that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income also is required to be presented, but may be presented either in the statement of changes in equity or in the notes.
1 January 2011 <i>Improvements to IFRSs 2010 – IAS 34 Interim Financial Reporting</i>	The amendments add examples to the list of events or transactions that require disclosure under IAS 34 and remove references to materiality in IAS 34 that describes other minimum disclosures.
1 July 2011 <i>Disclosures – Transfers of Financial Assets (Amendments to IFRS 7)</i>	The amendments introduce new disclosure requirements about transfers of financial assets including disclosures for: <ul style="list-style-type: none"> • financial assets that are not derecognised in their entirety; and • financial assets that are derecognised in their entirety but for which the entity retains continuing involvement.
1 July 2011 <i>FRS 44 New Zealand additional disclosures</i>	FRS 44 is a consequence of the Joint Trans-Tasman Convergence project of the Australian Accounting Standards Board (AASB) and Financial reporting Standards Board (FRSB). This standard relocates New Zealand-specific disclosures from other standards to one place and revised disclosures in the following areas: - compliance with NZ IFRS; the statutory basis or reporting framework for financial statements; audit fees; imputation credits; reconciliation of net operating cash flow to

	profit/loss; prospective financial statements; and elements in the statement of service performance.
1 January 2012 <i>Deferred Tax: Recovery of Underlying Assets (Amendments to IAS 12)</i>	The amendments introduce an exception to the general measurement requirements of IAS 12 <i>Income Taxes</i> in respect of investment properties measured at fair value. The measurement of deferred tax assets and liabilities, in this limited circumstance, is based on a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale. The presumption can be rebutted only if the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset.
1 July 2012 <i>Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)</i>	The amendments: <ul style="list-style-type: none"> • require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss; • do not change the existing option to present profit or loss and other comprehensive income in two statements; and • change the title of the statement of comprehensive income to the statement of profit or loss and other comprehensive income. However, an entity is still allowed to use other titles.
1 January 2013 <i>IFRS 9 Financial Instruments</i>	IFRS 9 (2009) is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 (2009) retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Prior periods need not be restated if an entity adopts the standard for reporting periods beginning before 1 January 2012. IFRS 9 (2010) adds the requirements related to the classification and measurement of financial liabilities, and de-recognition of financial assets and liabilities to the version issued in November 2009.
1 January 2013 <i>IFRS 10 Consolidated Financial Statements</i>	IFRS 10 introduces a new approach to determining which investees should be consolidated and provides a single model to be applied in the control analysis for all investees. An investor controls an investee when: <ul style="list-style-type: none"> • it is exposed or has rights to variable returns from its involvement with that investee; • it has the ability to affect those returns through its power over that investee; and • there is a link between power and returns. Control is reassessed as facts and circumstances change. IFRS 10 supersedes IAS 27 (2008) and SIC-12 Consolidation—Special Purpose Entities.
1 January 2013 <i>IFRS 11 Joint Arrangements</i>	IFRS 11 focuses on the rights and obligations of joint arrangements, rather than the legal form (as is currently the case). It: <ul style="list-style-type: none"> • distinguishes joint arrangements between joint operations and joint ventures; and • always requires the equity method for jointly controlled entities that are now called joint ventures; they are stripped of the free choice of using the equity method or proportionate consolidation. IFRS 11 supersedes IAS 31 and SIC-13 <i>Jointly Controlled Entities—Non-Monetary Contributions by Venturers</i> .

<p>1 January 2013 <i>IFRS 12 Disclosure of interests in other entities</i></p>	<p>IFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities, aiming to provide information to enable users to evaluate:</p> <ul style="list-style-type: none"> • the nature of, and risks associated with, an entity's interests in other entities; and • the effects of those interests on the entity's financial position, financial performance and cash flows.
<p>1 January 2013 <i>IFRS 13 Fair Value Measurement</i></p>	<p>IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other IFRSs. It does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.</p>

Other than for the general descriptions provided above, the Group has not yet determined the potential impact of the new standards, interpretations and amendments.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Christchurch City Holdings Ltd (CCHL) and its subsidiaries (as outlined in Note 17) as at and for the period ended 30 June each year (the Group).

Interests in associates are equity accounted and are not part of the consolidated Group (see note (ii) below).

(i) Subsidiaries

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity.

The financial statements of the subsidiaries (other than Orion New Zealand Ltd – see Note 17) are prepared for the same reporting period as the parent company, using consistent accounting policies. In preparing the consolidated financial statements, all inter-company balances and transactions, income and expenses and profit and losses resulting from intra-group transactions are eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to CCHL and cease to be consolidated from the date control ceases.

The purchase method of accounting is used to account for the consolidation of subsidiaries.

Intra-group transactions, balances and unrealised gains on transactions are eliminated. Unrealised losses are also eliminated, unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries are changed where necessary to ensure consistency with the policies adopted by CCHL.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income and balance sheet.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values.

The difference between the above items and the fair value of the consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or a discount on acquisition.

A change in the ownership interest of a subsidiary that does not result in a loss of control, is accounted for as an equity transaction. (Prior to 1 January 2009, acquisitions of non-controlling interests were accounted for using the parent entity

extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired was recognised in goodwill).

Non-controlling interests are allocated their share of net profit after tax in the statement of comprehensive income and are presented within equity in the consolidated balance sheet, separately from the equity of the owners of the parent.

(ii) Associates

Associates are entities over which CCHL has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in associates are accounted for in the parent's financial statements at fair value in accordance with NZ IAS 39 and in the consolidated financial statements using the equity method, after initially being recognised at cost.

CCHL's share of its associates' post-acquisition profits or losses is recognised through profit or loss, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the parent's statement of comprehensive income, while in the consolidated financial statements they reduce the carrying amount of the investment.

When CCHL's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, CCHL does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between CCHL and its associates are eliminated to the extent of CCHL's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates are either changed where necessary to ensure consistency with the policies adopted by CCHL, or appropriate adjustments made in the consolidation.

(iii) Joint ventures

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement. The Group's share of the assets, liabilities, revenues and expenses of any joint venture is incorporated into the Group's financial statements on a line by line basis using the proportionate method.

Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling on the day of the transaction.

Foreign currency monetary assets and liabilities at the balance date are translated to NZ dollars at the rate ruling at that date. Foreign exchange differences arising on translation are recognised through profit or loss, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to NZ dollars at rates ruling at the dates the fair value was determined.

Derivative financial instruments

The Group uses derivative financial instruments to hedge its risks associated with interest rate, foreign exchange and commodity price fluctuations. In accordance with the treasury policies of the respective group entities, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially and carried at fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

The gain or loss on re-measurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see Hedging policy).

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price. The fair value of commodity contracts is determined using a discounted cash flow valuation technique using cash flow estimates based on observable and unobservable forward prices for the commodity.

Hedging

Derivatives are first recognised at fair value on the date a contract is entered into and are subsequently re-measured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (i) hedges of exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability or to a forecast transaction and that could affect profit and loss (cash flow hedges); or (ii) hedges of the fair value of recognised assets or liabilities or an unrecognised firm commitment (fair value hedge)

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

(i) Cash flow hedge

To the extent that the hedge is effective, changes in the fair value of derivatives designated as hedging instruments in cash flow hedges are recognised in other comprehensive income and included within the cash flow hedge reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately through profit or loss.

Amounts accumulated in equity are recycled through profit or loss in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold or cancelled, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised through profit or loss.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statement of comprehensive income.

(ii) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded through profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation.

(iii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately through profit or loss.

Property, plant and equipment

The following assets (except for investment properties – refer to note 23, and for land and buildings owned by Lyttelton Port Company Ltd and EcoCentral Ltd)) are shown at fair value, based on valuations by external independent valuers, less subsequent depreciation:

- Land
- Buildings

- Electricity distribution network
- Airport sealed surfaces
- Car parking building
- Infrastructure assets

Airport sealed surfaces, car parking building, car parks, harbour structures, telecommunications infrastructure and other infrastructure assets are aggregated and disclosed as specialised assets in Note 22.

Valuations are performed with sufficient regularity to ensure that the fair value of the assets does not vary materially from their carrying value.

Any revaluation increase arising on the revaluation of these assets is credited to the asset revaluation reserve included in other comprehensive income, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense through profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of these assets is charged as an expense through profit or loss to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Additions are recorded at historical cost less depreciation until the next revaluation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

All other property, plant and equipment is stated at historical cost less depreciation.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives.

Assets to be depreciated include:

Buildings	1-100 yrs
Car park	50 yrs
Office and computer equipment	1-10 yrs
Mobile plant including vehicles	2-30 yrs
Buses	17-26 yrs
Sealed surfaces (other than roads)	9-100 yrs
Container cranes	30 yrs
Harbour structures	3-50 yrs
Electricity distribution system	60 yrs
Airport infrastructure and roads	15-50 yrs
Telecommunications infrastructure	12-50 yrs
Active telecommunications equipment	5 yrs
Vessels	5-25 yrs
Seawalls	100 yrs

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Capital work in progress is not depreciated until commissioned.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are recognised through profit or loss. When revalued assets are sold, any revaluation reserve relating to the particular asset is transferred to retained earnings.

Distinction between capital and revenue expenditure

Capital expenditure is defined as all expenditure incurred in the creation of a new asset and any expenditure that results in a significant restoration or increased service potential for existing assets. Constructed assets are included in property, plant and equipment as each becomes operational and available for use. Revenue expenditure is defined as expenditure that is incurred in the maintenance and operation of the property, plant and equipment of the Group.

Investment properties

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties generate cash flow largely independent of other assets held by the Group.

Properties leased to third parties under operating leases are generally classified as investment property unless:

- The occupants provide services that are integral to the operation of the Group's business and/or these services could not be provided efficiently and effectively by the lessee in another location;
- The property is being held for future delivery of services;
- The lessee uses services of the Group and those services are integral to the reasons for the lessee's occupancy of the property.

Properties that are held for a currently undetermined future use, or that are vacant but held to be leased out under one or more operating leases, are classified as investment properties.

The classification of properties is done at the lowest possible level. Thus, where part of a property is occupied by a party other than the Group, consideration is given to whether that portion of the building could be classified as an investment property. Classification as an investment property will be indicated if the section of the building could be separately sold or leased under a finance lease. If the section of the property occupied by a party other than the Group is unable to be sold or leased separately from the rest of the building, the building is assessed as a whole and will usually only be classified as investment property if the Group occupies an insignificant portion of the total building.

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are measured at fair value, which is based on active market prices, adjusted if necessary, for any difference in the nature, location or condition of the specific asset at the reporting date. An external, independent valuer, having an appropriate recognised professional qualification and recent experience in the location and category of property being valued, values the portfolio every year. Gains or losses arising from changes in the fair values of investment properties are recognised in profit or loss in the year in which they arise.

Rental income from investment property is accounted for as described in the Revenue policy below.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.

When an item of property, plant and equipment is transferred to investment property following a change in its use, any differences arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is recognised directly in other comprehensive income if it is a gain. Upon disposal the gain is transferred to retained earnings. Any loss arising in this manner is recognised immediately through profit or loss.

Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as held for sale and measured at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. They are not depreciated or amortised. For an asset or disposal group to be classified as held for sale, it must be available for immediate sale in its present condition and its sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of de-recognition.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the statement of comprehensive income and the assets and liabilities are presented separately on the face of the balance sheet.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Goodwill and intangible assets

(i) Goodwill

Goodwill acquired in a business combination is initially measured at cost of the business combination being the excess of the consideration transferred over the fair value of the Group's net identifiable assets acquired and liabilities assumed. If this consideration transferred is lower than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised in profit or loss.

In respect of acquisitions prior to the transition to NZ IFRS on 1 July 2005, goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous GAAP.

After initial recognition, goodwill is measured at the amount recognised at acquisition date less any accumulated impairment losses.

Goodwill is allocated to cash-generating units and is tested annually for impairment (see Impairment policy). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

(ii) Computer software

Acquired computer software licenses are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives (see (v) below).

(iii) Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (see below) and impairment losses (see Impairment policy).

(iv) Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates, and it meets the definition of, and recognition criteria for, an intangible asset. All other expenditure is expensed as incurred.

(v) Amortisation

An intangible asset with a finite useful life is amortised over the period of that life. The asset is reviewed annually for indicators of impairment, and tested for impairment if these indicators exist. The asset is carried at cost less accumulated amortisation and accumulated impairment losses. Estimated useful lives are:

Software	1-10 years
Resource consents	5-10 years
Patents, trademarks and licences	10-20 years

An intangible asset with an indefinite useful life is not amortised, but is tested for impairment annually, and is carried at cost less accumulated impairment losses.

Investments

(i) Classification

Investments and financial assets in the scope of NZ IAS 39 Financial Instruments: Recognition and Measurement are categorised as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets (the latter category is referred to as fair value through equity in these financial statements – see (d) below). The classification depends on the purpose for which the investments were acquired or originated. Designation is re-evaluated at each reporting date, but there are restrictions on reclassifying to other categories.

The Group classifies its investments in the following categories:

(a) *Financial assets at fair value through profit or loss*

A financial asset is classified at fair value through profit or loss if acquired principally for the purpose of selling in the short term with the intention of making a profit. Derivatives are also categorised as held for trading unless they are designated as effective hedging instruments. Gains or losses on financial assets held for trading are recognised in profit or loss.

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired. These are included in current assets, except for those with maturities greater than 12 months after balance date, which are classified as non-current.

(c) *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are intended to be held to maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

(d) *Fair value through equity assets*

Fair value through equity assets are non-derivative financial assets, principally equity securities, that are either designated in this category or do not qualify for inclusion in any other categories of financial assets. NZ IAS 39 uses the terminology “available for sale” for this class of assets – however, the CCHL Board considers that this is a misleading description given the nature of its business, and hence the term “fair value through equity” is used in these financial statements. The Group’s fair value through equity assets include the investments in the Group’s subsidiary and associated companies and certain other equity investments.

For the purposes of the parent company financial statements, CCHL’s equity investments in its subsidiaries are classified as fair value through equity assets. They are measured at fair value, with valuations performed by an independent, external valuer with sufficient regularity to ensure no investments are included at a valuation that is materially different from fair value. The valuation changes are held in a revaluation reserve until the subsidiary is sold.

After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognised in other comprehensive income (reserves) until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in reserves is reclassified to profit or loss.

The fair values of investments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business on the reporting date. For investments with no active market,

fair values are determined using valuation techniques. Such techniques include: discounted cash flow analysis; using recent arm's length market transactions; and reference to the current market value of another instrument that is substantially the same; making as much use of available and supportable market data as possible and keeping judgemental inputs to a minimum.

(ii) **Reclassification of financial instruments at fair value through profit or loss**

Financial assets that are no longer held for trading, other than those designated as fair value through profit or loss on initial recognition or derivatives, can be reclassified out of this category to the following categories:

(a) Loans and receivables – if the financial asset has fixed or determinable payments, are not quoted in an active market and contain no features which could cause the holder not to recover substantially all of its investment except through credit deterioration, and the intention is to hold them for the foreseeable future;

(b) Held to maturity – if the intention is to hold them to maturity and only in rare circumstances;

(c) Fair value through equity – only in rare circumstances.

Rare circumstances arise from a single event that is unusual and unlikely to recur in the near term.

Trade and other receivables

(i) **Trade and other receivables**

Trade and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

Collectability of trade receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 60 days overdue are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

(ii) **Construction work in progress**

Construction work in progress is stated at cost plus profit recognised to date (see Revenue policy) less a provision for foreseeable losses and less progress billings. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

Prepayments

A prepayment is recognised where expenditure is incurred in the period and where the benefit of that expenditure will be recognised in future periods. For example, maintenance dredging costs are recorded as a prepayment and expensed over the period of the benefit, which has been assessed as five years.

Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of other inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits, and other short-term highly liquid investments with maturities of three months or less, and which are subject to an insignificant risk of changes in value.

For the purpose of the statement of cash flows, bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents. Bank overdrafts are included within interest-bearing loans and borrowings in current liabilities on the balance sheet.

Impairment

The carrying amounts of the Group's assets, other than investment property (see Investments policy), trade and other receivables (see Trade and other receivables policy), inventories (see Inventories policy) and deferred tax assets (see Income tax policy), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount (see (i) below) is estimated.

For goodwill, other intangible assets that have an indefinite useful life and assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

Impairment losses are recognised through profit or loss. Impairment losses on revalued assets offset any balance in the asset revaluation reserve, with any remaining impairment loss being posted to profit or loss.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

When a decline in the fair value of a fair value through equity financial asset has been recognised directly in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in other comprehensive income is recognised through profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised through profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised through profit or loss.

(i) Calculation of recoverable amount

The recoverable amount of the Group's investments in held-to-maturity securities and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their market value less cost to sell and fair value.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

An impairment loss in respect of a held-to-maturity security or receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as fair value through equity is not reversed through profit or loss. If the fair value of a debt instrument classified as fair value through equity increases and the increase can be objectively related to an event occurring after the impairment loss was recognised through profit or loss, the impairment loss is reversed, with the amount of the reversal recognised through profit or loss.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Share capital

(i) Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are included in the cost of the acquisition as part of the purchase consideration.

(ii) Preference share capital

Preference share capital is classified as equity if it is non-redeemable and any dividends are discretionary, or is redeemable but only at the company's option. Dividends on preference share capital classified as equity are recognised as distributions within equity.

Preference share capital is classified as a liability if it provides for mandatory redemption by the issuer for a specific amount at a specific date (or gives the holder the right to requires such redemption from the issuer), or if it gives the holder the right to put it back to the issuer for cash or another financial asset. Dividends thereon are recognised through profit or loss as interest expense.

(iii) Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a decrease in equity.

Repurchased shares are classified as treasury shares and presented as a deduction from total equity.

(iv) Dividends

Dividends are recognised as a liability in the period in which they are declared.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less directly attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised through profit or loss over the period of the borrowings on an effective interest basis.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) are capitalised as part of the cost of that asset in accordance with NZ IAS 23 *Borrowing costs* (revised). All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Trade and other payables

Trade and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are usually paid within 30 days of recognition.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits, the amount of which can be reliably estimated, will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Employee entitlements

The Group's employee compensation policy is generally based on Total Cash Remuneration: a single cash payment in compensation for work, where the employee is responsible for and able to individually decide how best to use their remuneration to meet their needs over time in the mix and type of benefits purchased.

Provision is made in respect of the Group's liability for the following short and long-term employee entitlements.

(i) Short-term entitlements

Liabilities for annual leave and time off in lieu are accrued at the full amount owing at the pay period ending immediately prior to the balance sheet date.

Liabilities for accumulating short-term compensated absences (e.g., sick leave) are measured as the amount of unused entitlement accumulated at the pay period ending immediately prior to the balance sheet date, that the entity anticipates employees will use in future periods, in excess of the days that they will be entitled to in each of those periods.

(ii) Long-term entitlements

Provisions made in respect of employee benefits that are not expected to be settled within 12 months, such as long service leave, are measured as the present value of the estimated future cash flows to be made by the Group in respect of services provided by employees up to reporting date taking into account years of service, years to entitlement and the likelihood of staff reaching the point of entitlement.

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

(i) As lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

(ii) As lessor

Leases in which substantially all of the risks and rewards of ownership transfer to the lessor are classified as finance leases. Amounts due from lessees under finance leases are recorded as receivables. Finance lease payments are allocated between interest revenue and reduction of the lease receivable over the term of the lease in order to reflect a constant periodic rate of return on the net investment outstanding in respect of the lease.

Leases in which the Group retains substantially all the risks and benefits of ownership of the leased asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as rental income.

Revenue recognition

(i) Services rendered and goods sold

Revenue from services rendered is recognised through profit or loss in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed. Revenue from the sale of goods is recognised through profit or loss when the significant risks and rewards of ownership

have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods or continuing management involvement with the goods.

(ii) Construction contracts

As soon as the outcome of a construction contract can be estimated reliably, contract revenue and expenses are recognised through profit or loss in proportion to the stage of completion of the contract. The stage of completion is assessed by reference to surveys of work performed.

An expected loss on a contract is recognised immediately through profit or loss.

(iii) Interest revenue

Interest revenue comprises interest receivable on funds invested and on loans advanced. Interest revenue is recognised through profit or loss as it accrues, using the effective interest method.

(iv) Rental income

Rental income from investment property is recognised through profit or loss on a straight-line basis over the term of the lease. Contingent rental income is recognised as income in the periods in which it is earned. Lease incentives granted are recognised as an integral part of the total rental income.

(v) Government grants

Grants from the government are recognised as income at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

(vi) Dividend income

Dividend income is recognised when the shareholder's right to receive payment is established.

Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised through profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly-controlled entities to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Research and development costs

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and costs can be measured reliably. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs with a finite useful life that have been capitalised are amortised from the commencement of the commercial production of the product on a straight-line basis over the period of its expected benefit, not exceeding five years.

Goods and Services Tax

The financial statements are prepared exclusive of GST with the exception of receivables and payables that are shown inclusive of GST. Where GST is not recoverable as an input tax it is recognised as part of the related asset or expense.

Orion New Zealand Limited

Statement of intent

For the 3 years ending 31 March
2013, 2014 and 2015

Approved by the board after consultation with shareholders
23 March 2012



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A Introduction

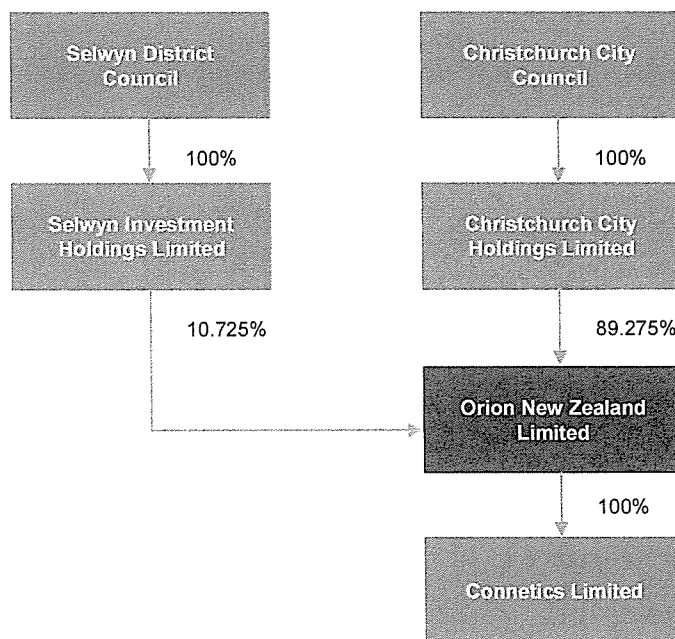
This statement of intent (SOI) sets out Orion New Zealand Limited's (Orion's) overall intentions and objectives for the three financial years ending 31 March 2013, 2014 and 2015. This SOI has been prepared in accordance with section 39 of the Energy Companies Act 1992 and Orion's constitution. Orion New Zealand Limited is an energy company pursuant to the Energy Companies Act 1992.

All "years" referred to in this document are financial years ending 31 March.

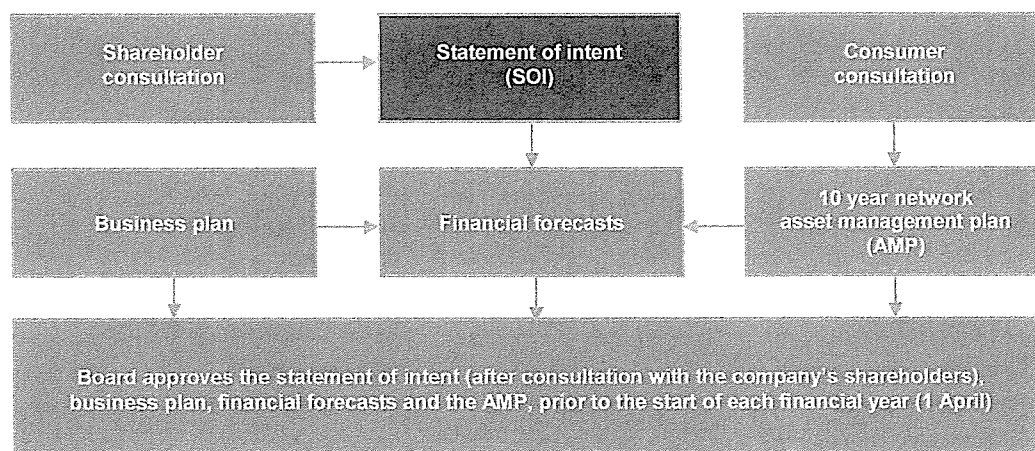
This SOI covers the activities of Orion and its wholly-owned subsidiary companies, Connetics Limited and Orion NZ Ventures Limited, and sets out the nature and scope of our activities we will undertake, our objectives, our key performance targets and other measures by which our performance may be judged in relation to our objectives and other requirements.

Our SOI is a public expression of the accountability relationship between Orion and its shareholders – Christchurch City Holdings Limited and Selwyn Investment Holdings Limited. Our SOI is reviewed annually in consultation with our shareholders and covers a three year period.

Our group structure is as follows:



The following diagram shows how this SOI sits within Orion's planning and governance framework:



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

We will seek to:

- achieve our objectives, both commercial and non-commercial, as specified in this SOI
- be a good employer
- exhibit a sense of social and environmental responsibility by having regard to the interests of the community in which we operate
- conduct our affairs in accordance with sound business practice.

Our top priority is the efficient and effective management of our electricity distribution network. We aim to provide customers with a high level of service, a reliable and secure supply and competitive prices. We also aim to provide our shareholders with an attractive risk adjusted return on their investment.

B Nature and scope of activities to be undertaken

We will undertake activities to:

- plan, construct and maintain a reliable and secure electricity distribution network in the Christchurch and central Canterbury region
- provide efficient processes that support competition among electricity retailers and generators
- seek investment/acquisition opportunities in the infrastructure and energy sectors
- manage, grow and if appropriate, realise our other subsidiary and associate company interests.

C Impact of recent earthquakes

The 22 February 2011 earthquake caused damage to significant parts of our electricity distribution network. The most extensive damage was to our underground cables in the north east suburbs of Christchurch. Our four 66kV underground cables in this area were damaged beyond repair and our 11kV underground cables in the area suffered hundreds of faults. Our New Brighton zone substation on Pages Road also suffered damage from liquefaction. Some damage to our underground cables may not become apparent for some time.

The 22 February 2011 earthquake caused around ten times more damage to our network than that caused by the 4 September 2010 earthquake.

The majority of our network repair and enhancement responses to the earthquakes are completed or underway. Our priority over the next three years is to return our network to an acceptable level of resiliency and security.

The earthquakes have shaped many of our intentions and objectives during the three year forecast period of this SOI. Our response to the earthquakes is the driver of many of our targets within this SOI. Appendix 1 has our key specific targets related to our earthquake recovery.

D Objectives of the group

Security of supply and system reliability

A secure supply of energy is critical to our customers.

We will seek to maintain, upgrade and expand our electricity distribution network as appropriate to comply with our published network security of supply standard. Where appropriate, we will also seek to meet our security of supply standard through innovative demand side initiatives such as smart pricing signals and load interruptibility agreements with our customers. Such initiatives aim to reduce system peak demands to enhance the overall economic and environmental wellbeing of Orion, Christchurch and Canterbury. We formally reviewed our network security of supply standard in our 2008 financial year and, after customer consultation, implemented relatively minor changes to that standard.

As a result of some lessons from the 22 February 2011 earthquake, in the next 12 months we will again formally review our network security of supply standard and also our network 'architecture' (by architecture we particularly

mean how much of our urban network should be interlinked, or 'meshed', and how much should be radial). We have set a specific target related to this review in Appendix 1 of this SOI.

Our approach to the operation and management of our electricity network, including our network security of supply standard, is included in our 10-year network asset management plan (AMP). Our AMP is typically published in April each year, however, as a result of the 22 February 2011 earthquake, we did not publish our 1 April 2011 version. This year we have set a target to formally review our electricity distribution network security of supply standard in light of the recent earthquakes – see Appendix 1.

Our 1 April 2012 AMP is publicly available on request and it is also on our website in accordance with the Commerce Commission's electricity information disclosure requirements. Our AMP includes initiatives to significantly mitigate the impacts of any major outages due to major events. We aim to ensure that our contingency plans and practices are relevant and robust.

We will seek to ensure that we add new network capacity to match actual and forecast market demand as prudently as possible.

We will use all reasonable endeavours to ensure that Transpower provides our region with cost effective transmission services – including the provision of adequate, ongoing and planned security of supply, consistent with good industry practice and the long-term interests of our customers.

Earthquake recovery

The 4 September 2010 and 22 February 2011 earthquakes, and the many aftershocks, have tested our security of supply standards, our policies, our investments and our procedures. We believe that the relative lack of earthquake-related damage to our key substations, and our effective responses to the earthquakes, have confirmed our asset management practices.

As we note in Appendix 1, Kestrel Group has independently reviewed our preparedness for our response to the earthquakes and has endorsed our approach. A full copy of Kestrel's report is available on our website and we have set a specific performance target related to that report in that appendix.

The local infrastructure lifelines risk analysis carried out in the mid 1990s provided the impetus for us to reinforce and strengthen key components of our electricity network – in particular our major substations. Following a subsequent 15 year reinforcement programme very few of our major substations suffered severe damage in the earthquakes and so supply was able to be restored in good time to the majority of our customers. The significant delays in restoration of power after the 22 February 2011 earthquake were primarily due to severe damage caused to our underground cable network, particularly in the eastern suburbs of Christchurch, due to ground liquefaction.

Our preparation for, and response to, earthquakes and other natural hazards is subject to ongoing review, with a focus on where we can improve. We will continue with a prudent risk-based approach to our network planning and management.

Our responses to the earthquake damage involve:

- repairs where economic
- replacement where repairs are not economic or where repairs cannot occur quickly. For example, we have built a new substation in Rawhiti Domain to replace the damaged and now decommissioned New Brighton zone substation
- temporary alternatives where replacement cannot occur quickly. For example, we have built a number of temporary 66kV overhead lines in the north east of Christchurch
- planned projects brought forward to improve network capacity and security of supply to areas where our network is still vulnerable (ie where our security of supply standards are not being met)
- new (relocatable) diesel generator sets at our already-consented site at Belfast
- purchase of diesel generator sets located at the QEII site to provide backup power supply to the north-east area
- purchase or rental of a number of other mobile standby diesel generators. Many of our repair and enhancement projects are already underway, and are highlighted in our 10 year network AMP (see our website). Some of our more important targets are highlighted as targets in Appendix 1 of this SOI.

For the decade prior to the earthquakes, we had one of the most reliable electricity distribution networks in New Zealand. Inevitably our network reliability statistics were adversely affected in our 2011 financial year. Assuming no further major earthquakes or other disasters, we expect that our customers will on average enjoy a level of reliability of electricity supply relatively close to pre-earthquake levels over the next three financial years, although reliability is likely to be lower than usual on our urban network. See Appendix 2 for our network reliability targets.

Regional and city planning

Following the earthquakes, the two key city and regional recovery strategy documents are:

- the Canterbury Earthquake and Recovery Authority's (CERA) draft recovery strategy for greater Christchurch. Public consultation on CERA's draft document closed on 30 October 2011
- the CCC's draft central city recovery plan which, following public consultation, was submitted to CERA for review in December 2011. This plan must be consistent with CERA's overall recovery strategy (once finalised).

Both of the above documents must now be reviewed and finalised by CERA and approved by the Minister for the Canterbury Earthquake Recovery and both documents may be altered by the Minister prior to approval.

Our principal roles under the strategies (once finalised and approved by the Minister) will continue to be to:

- protect and enhance our electricity network, restore network resiliency and support future growth
- co-operate with property developers, local authorities and other agencies to ensure timely provision of network services
- make it easy for consumers to connect to our network
- support growth and the provision of on-site and distributed electricity generation such as solar power and wind generation where this is economically justifiable.

Our targets related to this are shown in Appendices 1, 2 and 4.

Commercial

We aim to operate as a successful business and we also aim to provide our shareholders with appropriate returns on their investment. We will pursue strategies that aim to ensure Orion's long-term success as a business.

To achieve this, we will seek to:

- achieve our specific financial, operational, environmental, community and employment performance targets referred to in section E
- understand and meet our customers' needs in terms of network reliability and security of supply
- improve the efficiency of our operations, including efficient ongoing investment in the network
- ensure our network delivery contracts with customers meet the requirements and objectives of relevant industry legislation and regulation
- undertake new investments in the infrastructure and energy sectors which (taken as a whole) over their life are expected to:
 - yield a return at least equal to those investments' risk-adjusted weighted average cost of capital, and
 - increase the commercial value of the business
- if appropriate, realise investments over time.

Profitability and return on investment

Our revenues are a function of our prices and customer demand. The 22 February 2011 earthquake caused a significant reduction in load demand and the timing and extent of economic recovery in Christchurch and therefore our ongoing network line revenues, are highly uncertain. The earthquake has also caused us to incur additional operating costs and capital expenditure, some of which will be offset by insurance proceeds.

Our network line prices are subject to price control administered by the Commerce Commission under Part 4 of the Commerce Act 1986. We may only increase our network line prices each year up to the rate of consumer price index inflation (this is known as CPI minus 0%). We will continue to work constructively with regulators on options to ensure our pricing allows us to address the adverse effects of the earthquakes on our business.

As we have no certainty on how our prices will be regulated in the next few years our work with regulatory agencies will aim to ensure that our delivery pricing is adequate, so we can invest in and operate our network in a way that meets our customers' long term interests in terms of reliability and security of supply, and is appropriate for our shareholders. We will seek innovative ways to reduce our costs, for example we are a national leader in signalling the long-term economic costs of providing our network services to our customers – this signalling is designed to stimulate

customer demand side load shedding at peak times, which in turn reduces the need for us to invest in expensive network equipment. We also carefully plan our network capital and operating expenditures and, where appropriate, competitively tender all substantive work and procurement.

We are responsible for a key community infrastructure asset – the local electricity distribution network. As such, we are committed to continue our policy, as stated in section A of this SOI, to provide our customers with a high level of service, a reliable and secure supply and competitive prices. This policy will inevitably restrict the size of any possible ongoing cost savings, but we believe that the wider and long term economic costs of lower levels of network security, service and reliability outweigh the short term benefits of related cost savings. Our ability to continue with this policy in the next few years will, however, be dependent on regulatory decisions regarding our pricing.

We will also seek new business opportunities and investments that meet our investment criteria – consistent with our overriding objective to operate as a successful business.

Our financial performance targets are shown in Appendix 5.

Pricing

No increase in our network line prices is included in our financial forecasts on 1 April 2012, consistent with the existing regulatory default price path framework. Future increases from 1 April 2013 are assumed at forecast CPI minus 0%.

Any changes in Transpower's pricing for electricity transmission will be passed on to our network customers (principally electricity retailers). For example, we have passed on a 20% increase in Transpower's prices effective 1 April 2012.

We will seek to be exempted from the current default price path regulatory regime for our network pricing for a period of time. This may result in additional price increases above the current assumed CPI minus 0%. Any such exemption would involve a memorandum of understanding with the Commerce Commission – with the Commission having the right to 'claw back' any undue increases.

Our network delivery (line and transmission) prices seek to reflect our economic costs and are relatively simple and low-cost to operate. Our pricing also seeks to ensure a fair rate of return on the assets employed. We will seek to efficiently recover the full economic costs of our services.

Social responsibility and community interest

Our key role in our community is to ensure that our electricity network capacity continues to match actual and forecast demand as prudently as possible.

Orion is charged with being a successful business. The benefits to the public of community ownership result from the dividends paid by the company to our shareholders. Our shareholders and their respective shareholding councils then use those dividends in the manner specified in their respective plans and budgets. As a provider of monopoly network delivery services, we consider that achieving a fair return on capital for our business is socially responsible and we have adopted such a policy.

In making our commercial decisions, we act in a socially responsible way and as a good corporate citizen - with empathy for the communities of interest which we serve. In many of our key decisions we actively consult with customers and key stakeholders.

We are waiving connection fees for buildings damaged in the earthquakes that require reconnection to our network. For our major customers we have waived capacity and equipment charges for the period they either did not have network supply or were, or are, not able to take supply.

Our social responsibility and community targets are shown in Appendix 4.

Our people

We aim to be a good, socially responsible employer. Our ability to recruit and retain competent, motivated and committed employees and contractors is essential to our efficiency and effectiveness. We are an equal opportunity employer.

We aim to provide a work environment that enables professional and personal growth for our employees and we recognise our responsibility to ensure our people achieve the best mix of skills they can acquire while they are here. An ageing workforce and an industry shortage of skilled employees together with attraction and retention of employees in post earthquake Christchurch are issues for us. To ensure that we are not left short of skilled employees in the future, we will continue with our initiatives that focus on recruitment, training and retention.

A key component of our earthquake recovery and ongoing performance is our ability to attract and retain our people. We will continue to maintain and improve our staff engagement levels where this is appropriate.

Our employment targets are shown in Appendix 4.

Our target to build a new head office building in Appendix 1 is also an important element of our aim to be an employer of choice.

Health and safety

We aim to provide a safe, reliable network and a safe and healthy work environment for all employees, contractors, visitors and the public. This commitment extends to taking all practicable steps to ensure that our operations do not place the community at undue risk of injury or illness. Our health and safety targets are shown in Appendix 4.

CCC sustainable energy strategy for Christchurch

The Christchurch City Council (CCC) published a sustainable energy strategy, after public consultation, in 2007. The strategy is seen as a support for the urban development strategy in terms of managing future growth in the region in a sustainable manner. We have a role to play in this strategy.

Overall, the CCC's strategy is for the region to:

- reduce overall energy use
- become more energy efficient
- replace non-renewable with renewable energy sources
- fuel switch to lower-carbon energy sources
- increase solar hot water heating
- increase wind power generation
- increase pellet fuel for heating
- increase use of heat pumps
- increase use of biofuel for transport
- constantly evaluate new technologies and their potential to assist.

Our targets related to the CCC's sustainable energy strategy are shown in Appendix 3. We are a member of the Christchurch Agency for Energy that was established as part of the CCC's sustainable energy strategy.

The focus of the sustainable energy strategy may be modified as a result of the earthquakes. We note that with the likely demolition and rebuild of thousands of homes and business premises, there is an opportunity to significantly improve the community's overall energy efficiency.

Environmental commitment

We are committed to working towards a sustainable environment. To that end we have adopted and published environmental sustainability policies under the following headings:

- stakeholder consultation
- protection of the biosphere
- sustainable use of natural resources
- reduction and disposal of waste
- wise use of energy
- risk reduction
- restoration of the environment
- disclosure
- commitment of management resources
- review.

Our environmental sustainability policies are publicly available on our website. We formally review our policies annually.

In 2007 and 2008 we engaged an independent environmental expert, MWH, to determine our impact on the environment and identify where we can improve our environmental performance. This 'mapping' exercise was very wide ranging and went beyond the factors normally considered in carbon footprint exercises. MWH could not identify any other network company in the world that had undertaken a similarly comprehensive environmental study. As a result of MWH's report on our environmental performance, we set six targets in addition to other environmental targets. Five of these targets were subsequently successfully met and the other, relating to our demand side management initiatives, is ongoing in nature – see Appendix 3.

Other aspects of our operations that support our environmental commitment include:

- we facilitate the easy connection of renewable and low-carbon electricity generation (for example wind power) to our network
- we signal load peaks in our network pricing to encourage efficient use of our network
- we maintain and operate an efficient water cylinder load control system so that significant loads can be shifted away from peak times to less expensive off peak times, at minimal inconvenience to our customers.

The impact of deep-well irrigation pumping for dairy farm conversions has required large investment in rural network upgrades in recent years. Further load growth and therefore investment by us in the rural area is dependent on issues such as commodity prices, and the continuing availability of water supplies to support increased dairying, horticulture and lifestyle residential land use.

We will actively contribute to the local debate on plains irrigation developments by ensuring that decision making parties and interested groups have an appreciation of the likely impacts of any major proposals on Orion's and Transpower's electricity network costs and prices.

Our environmental targets are shown in Appendix 3.

Undergrounding

Our council shareholders have agreed that it is their responsibility to determine the priority for discretionary undergrounding projects and to pay for such work on an agreed basis. This is a commercially sound arrangement which puts the correct incentives on the parties and is appropriate for both shareholders and Orion.

Our policy of undergrounding most urban extensions to our network will be reviewed post the earthquakes. In rural areas it is often up to the developer to decide whether reticulation is underground or overhead. A portion of our system reinforcement, safety and improvement projects will continue to include undergrounding of overhead reticulation.

Compliance

We will continue our comprehensive legislative compliance programmes and we will aim to ensure we meet our obligations under relevant legislation and regulations.

E Governance

Introduction

Our directors are appointed by the shareholders to govern and direct the company's activities. The board is the overall and final body responsible for all decision-making within the company.

Role of the board

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

- commercial performance
- business plans and budgets
- corporate policies
- financial and dividend policies
- management oversight and development

- delegations of authority
- identification and management of business risks
- identification and management of business opportunities
- internal control systems
- integrity of management information systems
- relationships with stakeholders and external parties
- compliance with relevant law
- reports to shareholders.

In accordance with section 36 of the Energy Companies Act 1992, the company's principal objective is to operate as a successful business.

Code of conduct

The board has adopted a code of conduct. The purposes of the code are to clarify how the board and directors shall define and deal with:

- the role and fundamental obligations of the board
- independence and conflicts of interest, including any conflicts with management
- insider trading
- board procedures, including the role of the chairman and interaction with the chief executive officer
- reliance on information and independent advice
- confidentiality of company information
- shareholder participation
- training and continuing education
- board and director performance review and development.

Board performance review and development

The board regularly reviews its own performance and the performance of the chief executive officer. The principal purposes of the reviews are to identify opportunities for performance development and improvement and set in place plans to achieve those opportunities.

Board committees

While the board may delegate some responsibilities and tasks to a board committee, it cannot avoid the ultimate accountability for any committee's actions or inactions. The board has two standing committees as follows.

The audit and risk management committee of the board liaises with the company's auditor and provides additional assurance regarding the quality and reliability of internal controls and financial information used by and issued by the board. The committee also oversees the company's insurance practices and monitors the effectiveness of the company's risk and loss control activities.

The remuneration committee of the board assists the board to establish remuneration policies and practices and set and review remuneration of the company's chief executive officer and other senior executives.

Statement of intent

In accordance with section 39 of the Energy Companies Act 1992 and the company's constitution, the board submits a draft statement of intent (SOI) to shareholders for comment for the coming financial year. This SOI sets out the company's overall objectives, intentions, and financial and performance targets. After due consultation with the company's shareholders, and after considering any comments from those shareholders, the final SOI is approved by the company's board, is delivered to the company's shareholders and is placed on the company's publicly available website.

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

Legislative compliance

We have a comprehensive approach to compliance with relevant law. Compliance manuals and training are made available to all employees. Where appropriate, we engage external experts to advise us on appropriate policies and practices to ensure compliance. The board receives regular updates from management on compliance. Areas of relevant law include corporate, taxation, financial and regulatory reporting, commercial, environmental, human resources, health and safety and privacy.

Investments in other companies

The board receives regular updates on, and monitors the performance of, each investee company. Our most significant trading investment is Connetics Limited and this company has two non-executive Orion New Zealand Limited directors on its board.

Policies

The board formally reviews the company's key policies and any recommendations for changes from management at least annually.

F Performance targets

Our earthquake recovery targets are shown in Appendix 1.

Our network reliability targets are shown in Appendix 2.

Our environmental targets are shown in Appendix 3.

Our community, employment and health and safety targets are shown in Appendix 4.

Our financial performance targets are shown in Appendix 5.

Our key assumptions used in our financial performance targets are shown in Appendix 6.

G Dividends

We will pay dividends to our shareholders after taking into account the company's financial position, profitability and future investment requirements. The dividends payable to the shareholders will be determined by the board after consideration of the company's funding requirements and the requirement to meet the solvency test under the provisions of the Companies Act 1993. Our dividends are forecast to be paid in two equal instalments in June and December of each financial year. Our forecasts are close to the maximum that we forecast can be paid as fully imputed dividends for tax purposes. To assist the shareholders with budgeting, our ordinary fully imputed dividend forecasts are shown in Appendix 5.

H Capital structure

In seeking new investments, we plan to ensure that explicitly or implicitly the company retains a rating agency credit rating of at least "strong capacity to pay". Although no material acquisitions, other than the purchase of local spur grid assets from Transpower, have been included in our financial forecasts and targets, we may undertake new investments as long as they are consistent with our objectives (see Section C).

Orion is a key 'lifelines' infrastructure provider to our local community. It is very important that the capital structure of the company is managed prudently so that the company has sufficient financial flexibility to cope with any future civil defence shocks – such as further significant earthquakes. We believe that our community needs to have confidence that we can cope with any such future shocks in an efficient and effective manner. Our ability to get on and restore power and our network's resilience quickly in such emergencies is vital to the community's short term health, safety and welfare, and also the region's recovery.

Significant earthquake aftershocks are continuing and there is still a material risk of another local earthquake above magnitude 6 within the next 12 months and beyond.

We currently insure our corporate buildings and our key network substations. It has not been economic to insure our network underground cables and overhead lines and there is no certainty as to whether the insurances we currently have will remain economically sustainable in the future.

We therefore believe that the company should be conservatively geared with debt and that the company's capital structure should be managed in a prudent manner. We forecast that debt levels will continue to rise for the foreseeable future due to relatively high levels of network investment, our dividend policy and reduced profitability post-earthquakes. Our debt/equity forecasts are shown in Appendix 5. We will continue to review the company's capital structure on an ongoing basis.

I Accounting policies

We will continue to adopt accounting policies consistent with the Financial Reporting Act 1993 and the policies adopted by the Christchurch City Council group.

Our accounting policies are based on NZ IFRS standards and interpretations applicable at 31 March 2012. Accounting standards and interpretations are subject to change and therefore our accounting policies are also subject to change during the three year period for this SOI to 31 March 2015.

Our key current and proposed accounting policies are shown in Appendix 7.

J Information to be reported to shareholders

We will submit our draft SOI to our shareholders for consultation annually, as required under the Energy Companies Act 1992 and the company's constitution. Where appropriate, we will submit revised forecasts to our shareholders.

We will submit an annual report to our shareholders. Our annual report will include audited financial statements and such other details as are necessary to permit an informed assessment of the company's performance and financial position during the reporting period. We will also provide half-yearly reports to our shareholders. These reports will contain unaudited information similar in content to the annual report and will comply with accounting standard NZ IAS 34.

Our reports will outline our objectives and performance in terms of:

- financial
- environment, and
- social inputs, outputs and outcomes.

We will also publish a separate annual report on the quality and reliability performance of our electricity distribution network.

We will operate on a 'no surprises' basis in respect of significant shareholder-related matters, to the extent possible in the context of commercial sensitivity and confidentiality obligations.

We will provide information requested by the shareholders in accordance with the requirements of the Energy Companies Act 1992. The books, records and accounts maintained by, or on behalf of, the company will be made available in accordance with the Companies Act 1993 and the Energy Companies Act 1992.

K Acquisitions/divestments

The subscription or acquisition of securities in any company or organisation, or a divestment of part of the existing business, will only be considered where it is consistent with our long-term commercial objectives. When our subscription, acquisition or divestment is considered by directors to be significant to the company's business operations, we will consult with our shareholders.

Major transactions as defined in section 129(2) of the Companies Act 1993, will be subject to shareholders' approval by special resolution. Notwithstanding the above, when we are considering a significant acquisition or disposal of assets or securities, we will consult with our shareholders with as much lead-time as is commercially practicable in the prevailing circumstances. Where we decide to incorporate or subscribe for shares in subsidiaries to undertake our commercial activities, we will ensure effective management. Board control of any subsidiary is exercised by our directors and staff.

L Intercompany transactions

No material intercompany transactions are forecast to take place during the three years ending 31 March 2015, except:

- payment of dividends on our ordinary shares
- provision of services, such as street lighting maintenance for local authorities, on an arms length commercial basis, and services received from our shareholders, such as services covered by rates and chargeable services, on an arms length commercial basis. It is impracticable to quantify the extent of most of these transactions
- dividends and intercompany interest on current accounts to be received from our subsidiary companies.

M Compensation sought from local authorities

At the request of our shareholders, or our shareholders' shareholding councils, we may undertake activities that are not consistent with our normal commercial objectives. Specific financial arrangements will be entered into to meet the full commercial cost of undertaking such activities. At present, the only such material activities undertaken involve discretionary conversions of overhead network reticulation to underground as described in section C above. Due to the discretionary nature of these projects it is difficult to forecast the extent of these transactions over the next three years but the extent of such charges to councils is likely to be less than \$0.5m per annum.

N Commercial relationships within the CCC group

Orion is an 89.275% subsidiary of Christchurch City Holdings Limited (CCHL) which is itself a wholly-owned subsidiary of the Christchurch City Council (CCC). It may be possible to develop commercial opportunities with other group companies to benefit Orion, the CCC group and the Canterbury region. We will continue to work with other group companies to explore such opportunities and develop new business opportunities as appropriate.

O Growth in the regional economy

Orion owns and manages a key local and regional infrastructure asset – the Christchurch and central Canterbury electricity network distribution system.

Our group of companies is also a significant employer, with over 350 employees. We have annual operating and capital expenditures of over \$100m. Orion is one of the leading electricity distribution companies in New Zealand in the promotion of energy efficiency and we will continue to develop that activity. Our key role is to prudently manage our electricity distribution network in the long-term interests of our shareholders and customers. Success in doing so means that local individuals and companies can continue to invest for growth with confidence that the "lights will go on when the switch is flicked".

We may also be able to assist to leverage the value of the Christchurch City Holdings Limited group of companies to further enhance regional growth. This is an initiative from Christchurch City Holdings Limited. We will liaise with those group companies as appropriate and seek and pursue material and worthwhile opportunities – consistent with our principal objective to operate as a successful business.

We will continue to support energy efficiency initiatives, especially those with the extra benefit of driving economic efficiency and growth.

P Commercial value of the shareholders' investment

The Orion directors estimate that the commercial value of the shareholders' investment in the group is at least that which is stated as "shareholders' equity" in the latest available audited financial statements. This value is reassessed annually as part of the preparation of the audited financial statements. The directors' estimate is subject to any future adverse consequences arising from the outcome of the Commerce Commission's current work on developing a targeted price control regime for the industry under Part 4 of the Commerce Act and the impacts of the recent earthquakes.

Appendix 1 Earthquake recovery and disaster resilience targets

The earthquakes, particularly the 22 February 2011 earthquake, caused significant damage to our electricity distribution network.

In our SOI for the three years ending 31 March 2014, we set eight earthquake recovery targets work that we considered the most important to restore capacity and security of supply to our network. Five of those targets have been successfully completed, one target was not scheduled for completion during the year to 31 March 2012 and the two remaining targets will remain ongoing for a number of years.

The first three targets listed below are the uncompleted targets from our SOI for the three years ending 31 March 2014. The other targets below are new targets that we have developed. These targets are a continuation of earthquake recovery work and targets that seek to improve our ability to maintain electricity supply during any disaster.

1. Repair our damaged underground cables

Target date: Ongoing

Comments: Our 11kV and low voltage underground cable network was extensively damaged in the earthquakes, especially in the eastern suburbs. All known 11kV cable faults have been repaired, however it is likely to take three to five years for all underground cable damage to be found and repaired. Much of the actual damage to the cables can only be found when cable faults occur in the future.

2. Lay and commission permanent 66kV feed from the Bromley grid exit point to the Dallington and Rawhiti Domain substations. Then remove the temporary 66kV overhead lines installed after the February 2011 earthquake

Target date: 31 March 2014

Comments: In the days after the 22 February 2011 earthquake, new temporary 66kV overhead lines were urgently built from the Bromley grid exit point to our Dallington substation and our new Rawhiti Domain substation. These overhead lines replaced severely damaged 66kV underground cables that previously supplied the eastern suburbs.

The new lines are temporary as they were authorised and installed under emergency powers to provide power to the eastern suburbs of Christchurch. Our long term solution to ensure there is sufficient network capacity to this area may involve 66kV underground cables along with some 66kV overhead lines. In 2012 we will begin consultation with the community over a long term solution. Our target date of 31 March 2014 for completion of the permanent solution remains.

3. Work with the Canterbury Earthquake Recovery Authority (CERA) and the Christchurch City Council to re-establish power and network resiliency to the central business district (CBD) according to agreed priorities and timeframes

Target date: Ongoing

Comments: We are working with CERA on an ongoing basis to ensure the CBD cordon area can be reduced over time as CERA deems appropriate. Our involvement is to decommission and reliven connection points as necessary. It is not yet certain how the CBD will be repopulated/redeveloped or over what time period.

Our CBD assets sustained relatively little damage in the earthquakes and we expect to provide a resilient network to CBD businesses and residents in the years ahead.

Many of our substations in the CBD are housed in damaged buildings that belong to third parties. As these buildings are demolished, we face challenges maintaining continuous power supply. We are working with the authorities, building owners and demolition contractors to minimise outages and to protect and recover our network assets as appropriate. Our underground cables in the CBD area are largely undamaged and will be reused as/when the CBD is redeveloped.

4. Construct and move into a new head office building built to level 4 standard (lifelines) and develop a backup 'hotsite' emergency location

Target date: 31 March 2016

Comments: The 22 February 2011 earthquake badly damaged our Manchester Street office, so our employees relocated to other buildings on our office site in the CBD (200 Armagh Street). A new office permanent (lifelines-standard) building is to be constructed. As a lifeline utility we are required under the Civil Defence Emergency Management Act 2002 to "ensure that we are able to function to the fullest possible extent, even though this may be at a reduced level, during and after an emergency". Our operations are therefore required to be in a building constructed to with services provided to, a lifelines standard.

In addition to the construction of a new office, we will develop an emergency backup location. This 'hotsite' will include a separate SCADA management and data centre.

We plan to move to temporary alternative office accommodation outside the CBD in the 2013 financial year. We plan to be at that alternative site for up to four years while our permanent lifelines-standard offices are built. Our preference is for that permanent office new-build to occur back within the CBD area.

5. Consider the recommendations of the Kestrel Group independent review into our performance during the earthquakes and readiness for them, and adopt practical recommendations within our 10 year network asset management plan (AMP) for the 10 years commencing 1 April 2013

Target date: 31 March 2013

Comments: As part of our post earthquake review processes we commissioned the Kestrel Group to independently review our preparation for, and our response to, the 4 September 2010 and 22 February 2011 earthquakes, and to recommend improvements. Kestrel is a Wellington/Christchurch based consultancy that specialises in risk management, business continuity, and emergency and crisis management.

Kestrel concluded that:

- we actively integrate risk management and emergency preparedness into our management approach, treating them as core business
- our longstanding commitment to resilience served Christchurch well following the earthquakes
- investment in seismic mitigation, integration of emergency management responsibilities into day-to-day management, and building a security conscious workforce were all vital to electricity restoration that was rapid and effective given the damage that occurred.

Kestrel recognised that since the September 2010 earthquake we have demonstrated ongoing work process self-improvement.

We have already acted on a number of recommendations from Kestrel for further improvement. Some of Kestrel's recommendations will need further study and careful prioritisation over the year ahead.

The full Kestrel report is available on our website.

6. Undertake a review of our network architecture and network security of supply standard

Target date: 31 March 2012

Comments: We undertook a network (excluding 400V) architecture and security of supply standard review in 2006 which resulted in some material changes to our 11kV architecture and subtle changes to our security of supply standard. The earthquakes have increased our understanding of HILP (high impact low probability) events and the flexibility of our current network architecture to restore power following major disruptive events. It is prudent to take these learnings into account and determine if our network architecture standards need further revision.

Also since 2006, technology has progressed, power quality has become more important for our customers, construction costs have changed and there is an even stronger community focus on safety. Furthermore, the Electricity Authority is soon to release the results of a new VOLL (Value of Lost Load) survey in New Zealand and the Electricity Engineers Association (EEA) has instigated a review of their Security of Supply Guideline.

We will consult with key stakeholders (for example electricity retailers) as part of this review and we will incorporate any changes in our 10 year network asset management plan commencing 1 April 2013.

7. Align our 10 year network asset management plan (AMP) with the National Infrastructure Plan

Target date: 31 March 2013

The National Infrastructure Plan 2011 was released by the Government on 4 July 2011 - infrastructure.govt.nz/plan. The plan aims to reduce uncertainty for businesses by outlining the Government's intentions for infrastructure development over a 20 year timeframe. The plan is directional rather than directive, that is, it provides a framework for infrastructure development rather than a detailed list of projects. The plan sets out a vision that, by 2030, New Zealand's infrastructure is resilient, coordinated and contributes to economic growth and increased quality of life. Its overall message is that New Zealand's infrastructure is performing well, but there are areas where improved performance would accelerate economic performance. The plan sets out six guiding principles to respond to these infrastructure challenges. It also outlines infrastructure issues in five key sectors (transport, telecommunications, energy, water and social infrastructure). Finally, the plan sets out a programme of action to drive change leading to the next edition, to be published in 2014.

8. Continue to support the key regional earthquake recovery planning documents

Target date: Ongoing

Comments: The two key regional earthquake recovery planning documents are both in draft form and have yet to be finalised by CERA and submitted to the Minister for final approval. The draft documents are as follows:

- CERA's draft recovery strategy for the greater Christchurch area
- the CCC's draft recovery plan for the CBD.

Our key role here is to restore resilience to our electricity distribution network and to anticipate and plan for future customer load growth and new connections in our network area. Our key network planning and accountability document is our 10 year network asset management plan (AMP) and we will continue to ensure that our plan remains up to date and consistent with good industry practice while taking final approved regional recovery documents fully into account.

Appendix 2 Network reliability targets

	Affected by earthquakes			Unaffected by earthquakes			Gazetted NZ weighted average 2011
	Approx no of connections 31 March 2012	Target 3 years average to 31 March 2015	Latest forecast actual 1 year to 31 March 2012	Unaudited actual 1 year to 31 March 2011	Actual 1 year to 31 March 2010	Actual 5 year average to 31 March 2010	

Reliability – Orion network interruptions

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

- urban	170,000	100	215	4,155	21	18	
- rural	23,000	412	376	1,455	342	493	
- overall	193,000	137	237	3,816	61	75	166

Number of supply interruptions per year per connected customer (SAIFI)

- urban	170,000	1.6	2.1	2.8	0.2	0.3	
- rural	23,000	3.6	4.0	4.5	2.9	3.4	
- overall	193,000	1.8	2.3	3.0	0.6	0.6	1.8

Important notes:

- The Canterbury earthquakes and aftershocks have had a significantly adverse impact on the company's electricity distribution network reliability. The company's 2011 and 2012 SAIDI/SAIFI 'actuals' above will be audited and published in the company's audited financial statements for the year ended 31 March 2012.
- All figures in the three "affected by earthquakes" columns above are stated gross – that is, they exclude "major event day" adjustments allowed under the Commerce Commission's default price quality path.
- For SAIDI the company has assumed that all outages caused by the 22 February 2011 earthquake were successfully resolved by 31 March 2011. This applies to the "unaudited actual" figures above for the year ended 31 March 2011. The only ongoing outages as at that date were due to circumstances beyond the company's control – this especially applies to the cordoned off CBD area (around 2,000 mainly business customer connections).
- The gazetted NZ weighted average figures above exclude Orion's so as not to 'skew' the wider industry comparative data for the year ended 31 March 2011.
- The company's targets for the three years ending 31 March 2015 above assume that there are no further major earthquakes or other natural disasters.
- SAIDI and SAIFI measures are international industry standards which enable assessment of network performance. The gazetted industry averages noted above are for all New Zealand electricity distribution networks and include rural and urban networks. Our network includes a significant rural component.
- SAIDI: system average interruption duration index – an international index which measures the average duration of interruptions to supply that a consumer experiences in a given period.

SAIDI = $\frac{\text{Sum of (number of interrupted consumers x interruption duration)}}{\text{Average number of connected consumers}}$

SAIFI: system average interruption frequency index – an international index which measures the average number of interruptions that a consumer experiences in a given period.

SAIFI = $\frac{\text{Sum of (number of interrupted consumers)}}{\text{Average number of connected consumers}}$

Appendix 3 Environmental targets

1. Continue to undertake and encourage demand side management

Target date: Ongoing

Comments: Environmental consulting firm, MWH, completed a report for us on our overall carbon impact in 2009. MWH's report found that over 90% of our annual carbon footprint came from electrical losses, a natural phenomena that is caused by the heating of equipment as electricity passes through it, and from carbon embedded in our physical electricity distribution network assets. MWH found that we can do little to significantly reduce our carbon footprint from either of the above two sources.

MWH concluded that carbon savings can be achieved through demand side management (DSM) and that we already achieve significant carbon savings through our existing DSM initiatives. However, further savings through increased DSM may be possible. Carbon savings include one-off embedded asset savings and annual electricity generation savings. Indeed, MWH found that even peak load lopping through the use of local diesel generation can result in carbon savings despite the increased use of diesel.

We will continue with our current DSM initiatives and encourage greater response to our peak pricing, both by businesses and electricity retailers. We will also work with local businesses to assist them to install peak load lopping diesel generation.

More specifically, we will continue to promote and enable DSM through the following initiatives:

- continued in co-operation with other upper South Island distributors to implement an upper South Island centralised load management control system. This system enables the benefits of co-ordinated control to be quantified and provides a platform for future DSM initiatives. The system is transferable to other regions within New Zealand, potentially bringing further environmental gains. The company is presently in negotiations with Transpower for a four year contract to help fund this project
- investigated the trialling of smart meters in the company's substations to better understand the performance of the distribution network. It may be that some peak demand savings are possible if the company's low voltage network can be further optimised
- recently met with Transpower and regulators over the development of a local system operator. The company will continue to pursue this opportunity which it believes will lead to better coordination of New Zealand's DSM resources
- secured \$1.5m of cash grants for the project over the next 3 financial years. These grants will come from Transpower and they have been approved by the Commerce Commission.

2. Continue our support for and sponsorship of Community Energy Action (CEA)

Target date: Ongoing

Comments: We have sponsored CEA since its inception in 1994. As well as providing financial sponsorship we assist CEA with information technology and other issues that arise in its day-to-day operations. From 1994 CEA resided rent-free at our head office premises. Due to significant increases in demand for its services, CEA relocated to new premises in our 2011 financial year

Because the needs of our community will likely have changed as a result of the earthquakes, CEA is currently undertaking a strategic review of its operations. While that review is being undertaken we will continue to offer financial and administrative support to CEA on a month by month basis. Over 15,000 local homes have already benefited from CEA's services. We view CEA's services as very important for our local community.

3. Support the Christchurch City Council's sustainable energy strategy

Target date: Ongoing

Comments: Our specific targets are to:

- participate in Christchurch Agency for Energy (CAfE). We are a founding member of CAfE, which began its work in late 2010. Our Chief Executive, Rob Jamieson, is a trustee of CAfE. Financially we have committed \$100,000 per annum to CAfE until 2014 and we look forward to working with the CCC and other organisations to develop and implement the energy efficiency initiatives outlined in the CCC's sustainable energy strategy

- continue to seek ways to reduce peak loads on our network and increase our network load factor
- obtain better, more accurate real-time data of our network loadings. This allows for more efficient network planning so that our spending to meet load growth is efficient.

Our policies for the connection of distributed generation to our network enable the safe and efficient connection of a range of local generation. Our policies and procedures in this area are rated very highly in terms of ease of connection relative to the rest of the industry and we will continue to lead the industry in this regard. Our policies therefore promote the provision of economic renewable energy sources.

Appendix 4 Community and employment targets

1. Zero work related lost time accidents for our employees and contractors

Target date: March 2013

Comments: This target covers both Orion New Zealand Limited and its contractors (including Connetics) and is an extremely challenging one due to the physical nature of the work required on our electricity distribution network. Care is needed with this target as we do not want to create a climate where accidents are not reported and/or harm is compounded through inappropriate policies to force people back to work too early.

2. Zero number of injury accidents (excluding car versus pole traffic accidents) involving members of the public

Target date: March 2013

Comments: Amendments to the Electricity Act 1993 mean that electricity network companies have greater responsibilities in this area. We have excluded car versus pole accidents at this stage as it is very difficult to be sure of the completeness and accuracy of any data we gather in this area.

3. Continue with our local public safety education and awareness programme in the safe use of electricity

Target date: March 2013

Comment: Our programme covers issues such as tree owner responsibilities near lines, close approach to lines with irrigators and other operators of plant, scaffolding near lines, householder maintenance near lines, digging near underground cables and safety and security near electricity equipment. Our messages are delivered through a series of community shows, presentations to targeted groups and through regular media outlets such as local newspapers and radio.

With the large amount of demolition and repair work required in Christchurch following the earthquakes, there are now many additional contractors working in close proximity to our assets. We are concentrating on educating this group on electrical safety as they are at significant risk of harm.

4. Undertake our annual formal employee survey and follow up on the results

Target date: November 2012

Comments: We have undertaken these surveys since 2001. In July 2011 our employees rated their overall satisfaction at an average of 77 out of 100 (2010: 80).

While scores were generally consistent with 2010, in 2011 we scored lower in areas of safety (92 reduced to 85) and physical working conditions (75 reduced to 67). Approximately 76% of the company's employees participated in the survey (2010: 84%). Employees also indicated they need more performance feedback, they have less flexibility in how they do their jobs and we need to continue to better manage poor performance. Despite these results, fewer employees are disengaged (4.5% reduced to 2.5%) and engagement has increased from 43% to 46%. 2011 was a unique year with many additional challenges. We continue to put in place strategies to help improve employee engagement and working conditions for our team.

5. Achieve voluntary staff turnover of less than 5% for Orion and less than 10% for Connetics for the year

Target date: March 2013

Comments: These targets exclude the impacts of employees leaving for reasons of retirement, redundancy or on completion of a fixed term (or casual) employment contract or disciplinary related. Orion's turnover was 2.8% and 1.7% in our 2010 and 2011 financial years respectively, and Connetics' was 4.7% and 4.6%.

6. Continue with our Orion engineering development programme

Target date: Ongoing

Comments: Our engineering development programme has been very successful in placing talented individuals into key positions within our business. Several employees are placed on this programme annually and are developed into areas where we consider there may be existing or future skill shortages over a number of years. We recognise the need to develop talent internally - this is a key strategy for us to ensure we adequately plan to manage turnover and to ensure replacement of our ageing workforce. As at 28 February 2012, we had five employees on this programme. Note: We are currently recruiting. Over the next two years we will continue to appoint several new trainees each year into this programme.

7. Continue to develop our Connetics apprentice scheme

Target date: March 2013

Comments: We continue with this scheme to ensure our key contracting subsidiary sustainably develops and improves its overall competencies. As at 28 February 2012, Connetics employed 15 apprentices.

8. Continue to support the CPIT Trades Innovation Centre

Target date: Ongoing

Comments: In 2003, the Christchurch Polytechnic Institute of Technology (CPIT) set up an advisory board to align trades training with industry needs. An Orion manager is a member of this board and was instrumental in proposing the development of a simulated subdivision where trades trainees can be trained in real life situations. Electricity distribution is a significant part of the simulated subdivision. The subdivision and the training facility as a whole at the Sullivan Avenue site provides training facilities to contractors to help ensure a sustainable contracting work force into the future.

Orion is the major sponsor for this project, the Government has also supported this initiative on a dollar for dollar basis. Orion and Connetics will also maintain their respective memberships of the Electricity Supply Industry Training Organisation (ESITO) and will endeavour to influence ESITO's direction for the long-term benefit of the industry.

Appendix 5 Financial performance targets

	2013	2014	2015
Profit after tax (\$m)	34.0	35.2	38.6
Profit after tax/average shareholders' equity (%)	5.4	5.6	6.1
Fully imputed dividends (\$m)	32	33	33
Debt (%)	13	19	25
Equity (%)	87	81	75

Notes:

"Profit after tax" above is as defined under NZ IAS1.

"Profit after tax/average shareholders' equity" represents the return on the shareholders' equity of our business as a whole and not just our electricity distribution network.

"Debt" is defined as interest bearing debt (including bank debt and debt associated with new investment agreements with Transpower) and after deduction of cash/short-term investments.

"Equity" is defined as all shareholders' equity.

"Total assets" is defined as the total book value of all assets of the parent company, excluding investments in technology companies.

Our financial performance targets above are subject to:

- our key assumptions – see Appendix 6
- our key accounting policies – see Appendix 7.

Appendix 6 Key assumptions used in our financial targets

The major assumptions we have used in calculating our financial targets for the company are as follows:

- our targets are for financial years ending 31 March
- our targets are for the consolidated results of Orion New Zealand Limited and its subsidiaries
- all figures are in nominal terms reflecting estimated forecast inflation
- our accounting policies are based on NZ IFRS and are consistent with those shown in Appendix 7
- our ongoing line price increases are forecast to comply with the Commerce Commission's current default price path regime settings. No significant 'P₀' (one-off) line price adjustments are forecast
- we have estimated reduce line revenues from reduced customer demand due to the recent earthquakes – an estimated total of \$25m to \$30m over the next three financial years
- no decisions by the Government, Commerce Commission or Electricity Authority that materially adversely affect Orion's shareholder value
- all price changes from Transpower will be 'passed through' to customers
- expenditures and practices in line with our current approved and published 10-year electricity distribution network asset management plan
- no significant revaluations (upwards or downwards) of our:
 - electricity distribution network
 - investment properties
 - financial instruments (for example our interest rate swaps) and other investments
- no major investments/divestments
- no cash distributions to shareholders other than our forecast fully imputed dividends noted in Appendix 5no major earthquake recovery cash contributions from either the Government
- no cash contributions from industry wide levies and no special price increases authorised by the Commerce Commission
- no further major earthquakes.

Appendix 7 Key accounting policies

1. Statement of accounting policies

Statement of compliance

Orion New Zealand Limited (the company) is a profit-oriented company incorporated in New Zealand under the Companies Act 1993 and the Energy Companies Act 1992. The group consists of Orion New Zealand Limited and its subsidiaries (refer also to note 42). The company is a reporting entity for the purposes of the Financial Reporting Act 1993 and its financial statements comply with that Act and section 44 of the Energy Companies Act 1992.

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards as appropriate for profit-oriented entities.

The parent and group financial statements comply with International Financial Reporting Standards (IFRS).

Basis of financial statement preparation

The financial statements are presented in New Zealand dollars, rounded to the nearest thousand.

The financial statements have been prepared on the basis of historical cost, except for the revaluation of certain financial instruments as outlined in note 1(e), property, plant and equipment as outlined in note 1(k), and investment property as outlined in note 1(l). Cost is based on the fair value of the consideration given in exchange for assets.

Accounting policies have been selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported. The accounting policies set out below were applied in preparing the financial statements for the year ended 31 March 2013 and the comparative information presented in the financial statements for the year ended 31 March 2012.

Critical judgements, estimates and assumptions in applying the entity's accounting policies

Preparing financial statements to conform with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions have been based on historical experience and other factors that are believed to be reasonable under the circumstances. These estimates and assumptions have formed the basis for making judgements about the carrying values of assets and liabilities, where these are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are regularly reviewed. Any change to estimates is recognised in the year if the change affects only that year, or into future years if it also affects future years. In the process of applying the company's and group's accounting policies, management has made the following judgements, estimates and assumptions that have had the most significant impact on the amounts recognised in these financial statements.

The company operates an extensive integrated electricity distribution network comprising large numbers of relatively minor individual network asset components. These components are replaced over time as part of an ongoing maintenance/refurbishment programme, consistent with the company's approved network asset management plan. The costs associated with recording and tracking all individual components replaced and removed from the network substantially outweigh the benefits of doing so. Management has estimated the quantities and the carrying values of components removed from the network in each reporting period and also the value of the 66kV underground cables decommissioned as a result of the 22 February 2011 earthquake. Any errors in the estimates of such removals are corrected at the next asset revaluation and are not considered to be material on either an annual or a cumulative basis with respect to either reported net profits or carrying values of the electricity distribution network. Refer also to note 1(k) regarding revaluations of property, plant and equipment.

The company has estimated the impacts of the Canterbury earthquakes up to and including 31 March 2012 on the future cash flows of the business. These estimates contain some uncertainty as the company is still assessing the impacts and not all data is to hand. These estimates have been relied upon in the 31 March 2013 review of the carrying value of the company's electricity distribution network (refer to note 19 – property, plant and equipment, and note 40 – impact of the Canterbury earthquakes).

The company has certain key assumptions and estimates in its discounted cash flow valuation of its electricity distribution network – these include the relevant discount rate and the amounts and timing of future cash flows – these are described in note 19.

On initial recognition of items of property, plant and equipment and intangible assets with finite lives, management makes judgements about whether costs incurred relate to bringing an asset to working condition for its intended use, and therefore are appropriate for capitalisation as part of the asset cost, or whether they should be expensed as incurred. Thereafter, management's judgement is required to assess whether subsequent expenditure increases the future economic benefits to be obtained from that asset and is therefore also appropriate for capitalisation or whether such expenditure should be treated as maintenance and expensed.

Management has determined appropriate useful lives for particular assets. Management has made judgement about the expected length of service potential of the asset, the likelihood of the asset becoming obsolete as a result of technological advances and the likelihood of the company and group ceasing to use the asset in its business operations.

Management assesses whether individual assets or a grouping of related assets (which generate cash flows independently) are impaired by estimating the future cash flows that those assets are expected to generate. Assumptions such as rates of expected revenue growth or decline, expected future margins and the selection of an appropriate discount rate for discounting future cash flow are required. Following the Canterbury earthquakes these assumptions are of a higher degree of sensitivity than would normally be the case. Extensive notes have been made to disclose key assumptions.

The company enters into arrangements with customers to purchase new network assets at below current replacement costs. Management has estimated the difference between the cash costs and the replacement costs of these assets and the differences are reported within revenue as non-cash vested assets. Any errors in estimating the carrying values of these assets are corrected at the next asset revaluation and are not considered to be material on either an annual or a cumulative basis with respect to either reported net profits or carrying values of the network.

The company invoices its customers (predominantly electricity retailers) monthly for electricity delivery services on the basis of an estimation of usage, adjusted for later (more accurate) data available from the electricity wholesale market and certain metering data from electricity retailers. Management has made an allowance in revenue and in current assets/liabilities for any amounts which are estimated to be under/over charged during the reporting period. However, as final metering data is not available for up to 12 months, it is possible that the final amounts payable or receivable may vary from that calculated.

Other areas where judgement has been exercised in preparing the financial statements are in relation to calculating provisions for doubtful debts, assessing the level of any unrecoverable work in progress and calculating provisions for employee benefits.

Significant accounting policies

The following significant accounting policies have been adopted in the preparation and presentation of these financial statements:

(a) Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the group (refer to note 42).

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the company (the parent entity) and its subsidiaries. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired exceed the cost of acquisition, the difference is credited to the statement of comprehensive income in the year of acquisition. The consolidated financial statements include the information and results of each subsidiary from the date on which the group obtains control until such time as the group ceases to control the subsidiary. In preparing the consolidated financial statements, all intra-group balances and transactions, and unrealised profits arising within the group, are eliminated in full.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income and balance sheet.

Associates

Associates are entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in associates are accounted for in the consolidated financial statements using the equity method, after initially being recognised at cost. The group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The group's share of its associates' post-acquisition profits or losses is recognised in the profit or loss. Its share of post-acquisition movements in reserves is recognised in other comprehensive income (reserves). The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the parent's profit or loss, while in the consolidated financial statements they reduce the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the group and its associates are eliminated to the extent of the group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Parent company

Investments in associates are accounted for in the parent's financial statements at cost less impairment.

Investments in subsidiaries held by the parent are accounted for at cost less any impairment charges in the separate financial statements of the parent entity. Dividends received from subsidiaries are recorded as a component of other revenues and do not impact the recorded cost of the investment in the separate balance sheet of the parent entity. Upon receipt of dividend payments from subsidiaries, the parent will assess whether any indicators of impairment of the carrying value of the investment in the subsidiary exist. Where such indicators exist, to the extent that the carrying value of the investment exceeds its recoverable amount, an impairment loss is recognised. Details of the impairment tests performed are disclosed in note 1(j).

(b) Goods and services tax

Revenues, expenses, cash flows and assets are recognised net of the amount of goods and services tax (GST), except for receivables and payables which are recognised inclusive of GST. Where GST is not recoverable as an input tax it is recognised as part of the related asset or expense. Cash flows in respect of payments to and receipts from the Inland Revenue Department are shown net in the statement of cash flows.

(c) Foreign currency

The functional and presentation currency is New Zealand dollars. Transactions in foreign currencies are translated at the foreign exchange rate ruling on the day of the transaction. Foreign currency monetary items at balance date are translated at the exchange rate ruling at that date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates ruling at the date when the fair value was determined. Exchange differences are recognised in the profit or loss in the year in which they arise.

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks (including bank overdrafts) and investments in money market instruments with maturities of three months or less. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

(e) Financial assets

Investments are recognised and derecognised on trade date where purchase or sale of an investment is under contractual terms that require delivery of the investment within the timeframe established by the market concerned.

The classification into the following categories depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

Financial assets at fair value through profit or loss

The group has certain derivatives which are stated at fair value and the movements are recognised in the profit or loss (refer to note 1(i)).

Available-for-sale financial assets

Certain shares and convertible notes held by the group are classified as being available-for-sale and are stated at fair value. Gains and losses arising from changes in fair value are recognised directly in the available-for-sale revaluation reserve (except for impairment losses that are recognised in the profit or loss), until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in the available-for-sale revaluation reserve is included in the profit or loss for the year.

Loans and receivables

Accounts receivable are stated at cost less an allowance for impairment. All known bad debts are written off during the financial year. Hire purchase debtors exclude unearned interest (calculated using the effective interest rate method).

Intra-group balances due from subsidiaries and associates are stated at cost less impairment losses.

Details of the impairment tests performed are disclosed in note 1(j).

(f) Inventories and work in progress

Inventories are valued at the lower of cost (first in first out (FIFO) or weighted average) and net realisable value, with additional allowances for obsolescence where necessary. The cost of finished goods comprises direct materials and where applicable, direct labour and other direct variable costs incurred in order to bring inventories to their present location and condition. Costs are assigned to individual items of inventory on a weighted average cost basis. The cost of chargeable work in progress includes direct materials and labour and an allocation of overheads that directly relate to the work performed. Net realisable value is the estimated amount the inventories are expected to realise in the ordinary course of business less an estimate of any costs to completion and applicable variable selling expenses.

(g) Income tax

Income tax expense in relation to the profit or loss for the year comprises current tax and deferred tax.

Current tax is the amount of income tax payable based on the taxable profit for the current year, plus any adjustments to income tax payable in respect of prior years. Current tax is calculated using rates that have been enacted or substantively enacted by balance date.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised. Deferred tax is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of an asset and liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit. Deferred tax is recognised on taxable temporary differences arising on investments in subsidiaries and associates, except where the company can control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, using tax rates that have been enacted or substantively enacted by balance date.

Current tax and deferred tax are charged or credited to the profit or loss. When deferred tax relates to items charged or credited to other comprehensive income then deferred tax is also recognised in other comprehensive income.

(h) Leased assets and lease liabilities

Leases are classified as finance leases whenever the lease terms transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Group as lessor

Amounts due from lessees under finance leases are recorded as receivables. Finance lease payments are allocated between interest revenue and reduction of the lease receivable over the term of the lease in order to reflect a constant periodic rate of return on the net investment outstanding in respect of the lease.

Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Finance leases, which transfer to the group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in the profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the group will obtain ownership by the end of the lease term.

(i) Derivative financial instruments

The group enters into swaps, foreign currency forward rate agreements and foreign currency options transactions. Such transactions are undertaken within board-approved policies and limits for the primary purpose of managing exposure to fluctuations in interest rates and foreign exchange rates arising from operational, financing and investing activities. While these financial instruments are subject to the risk that market rates may change subsequent to the acquisition of the financial instrument, such changes would generally be offset by opposite effects on the items being hedged. For the forward rate agreements, the differential to be paid or received is accrued as rates change and is recognised over the life of the agreements. The group does not engage in speculative transactions or hold derivative financial instruments for trading purposes.

The group has not designated any derivatives as hedges for financial reporting purposes. Derivatives are initially recognised at fair value on the date a derivative contract is entered into. Subsequent to initial recognition, derivatives are revalued to their fair value at each reporting date. The resulting gain or loss is recognised in the profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the profit or loss depends on the nature of the hedge relationship. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative and they are offset against each other if the company has a legal right of offset.

The fair value of interest rate swaps is the estimated amount the group would receive or pay to terminate the swap at balance date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward rate agreements is their quoted market price at balance date, being the present value of the quoted forward price.

(j) Impairment of assets

The carrying amounts of the group's assets, other than inventory, investment property and deferred tax assets are reviewed at each balance date to determine whether there is any indication of impairment. If any such indication exists for an asset, the asset's recoverable amount is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent of other assets, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amounts are the higher of fair value (less costs to sell) and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

A cash-generating unit is defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Goodwill is tested for impairment annually, and whenever there is an indication that it may be impaired. An impairment of goodwill is not subsequently reversed.

If a revalued asset is determined to be impaired, then the impairment is firstly applied against the revaluation reserve related to that asset, with any remaining impairment loss expensed in the profit or loss. If the impairment loss is subsequently reversed, the reversal is firstly applied to the profit or loss to the extent of previously expensed impairment losses relating to that asset, with any further increase taken to the revaluation reserve.

For assets which are not revalued, an impairment loss is expensed immediately in the profit or loss. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

Equity instruments are deemed to be impaired whenever there is a significant or prolonged decline in fair value below the original purchase price. Any subsequent recovery of an impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through the profit or loss.

(k) Property, plant and equipment

Land and buildings are measured at fair value. Fair value is determined on the basis of a periodic independent market valuation prepared by external valuers, based on discounted cash flows or capitalisation of net income (as appropriate). The fair values are recognised in these financial statements of the group, and are reviewed at the end of each reporting period to ensure that the carrying value of land and buildings is not materially different from fair value.

The electricity distribution network is measured at fair value. Fair value has previously been determined on the basis of a periodic independent valuation prepared by external valuers, based on a depreciated replacement cost methodology. The fair values have been recognised in the financial statements of the group and have been reviewed at the end of each reporting period to assess whether the carrying value of the electricity distribution network is not materially different from fair value. Consideration has been given to whether the electricity distribution network is impaired as detailed in note 1(j). From 31 March 2011 onwards fair value has been determined on the basis of an independent valuation prepared by expert valuers using a discounted cash flow methodology (DCF).

Capital expenditure is defined as all expenditure incurred in the creation of a new asset and any expenditure that results in a significant restoration or increased service potential for existing assets.

Revenue expenditure is defined as expenditure that does not meet the definition of capital expenditure.

Constructed assets are included in property, plant and equipment as each becomes operational and available for use.

Any revaluation increase arising on the revaluation of land and buildings and the electricity distribution network is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense in profit or loss, in which case the increase is credited to the profit or loss to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of land and buildings and the electricity distribution network is charged as an expense in the profit or loss to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation on revalued buildings and the electricity distribution network is charged to the profit or loss.

On the subsequent sale or retirement of a revalued item, the attributable revaluation surplus remaining in the asset revaluation reserve, net of any related deferred taxes, is transferred directly to retained earnings.

Other plant and equipment and leasehold improvements are recognised at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. The cost of self-constructed assets includes the cost of materials and direct labour and an allowance for overheads.

Depreciation is calculated on a straight-line basis to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight-line method. The estimated useful lives, residual values and depreciation method is reviewed at the end of each annual reporting period.

The main bases for the calculation of depreciation are periods not exceeding:

	Years
Electricity distribution network	60
Building structures	70
Building services	30
Building fit-out	20
Cars and vans	5
Trucks	10
Plant and equipment	10
Computer equipment	3

The carrying amount for an item of property, plant and equipment is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These gains and losses are included in the profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve in respect of those assets are transferred to retained earnings.

(l) Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation (including property held for a currently undetermined future use), is measured at its fair value at the reporting date. Gains or losses arising from changes in the fair value of investment property are included in the profit or loss in the year in which those gains or losses arise.

(m) Intangible assets

Internally generated intangible assets with a finite life are stated at cost less accumulated amortisation and impairment and are amortised on a straight-line basis over their useful lives.

Computer software

Acquired computer software licences are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives. This period does not usually exceed three years – however for some significant projects, estimated useful lives may be assessed as up to five years.

Costs associated with developing or maintaining computer software programmes are recognised as expenses as incurred. Costs directly associated with the production of identifiable and unique software products controlled by the group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets.

Direct costs include the software development employee costs and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised over their estimated useful lives. Usually this period does not exceed three years – however for some significant projects, estimated useful lives may be assessed as up to five years.

Patents, trademarks and licences

Patents, trademarks and licences are finite life intangibles and are recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight-line basis over their estimated useful lives of 20 years. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period.

(n) Goodwill

Goodwill, representing the excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired, is recognised as an asset and is not amortised, but it is tested for impairment annually and whenever there is an indication that the goodwill may be impaired. Any impairment is recognised immediately in the profit or loss and is not subsequently reversed. Refer also to note 1(j).

(o) Payables

Trade payables and other accounts payable are recognised when the group becomes obliged to make future payments resulting from the purchase of goods and services. Trade payables are recognised at cost.

(p) Borrowings

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in the profit or loss over the period of the borrowing using the effective interest rate method.

(q) Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of a past event, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

(r) Business combinations

Business combinations involving entities that are under common control are accounted for using the pooling of interest method. This involves assets being transferred at their carrying value at the time of the transaction.

(s) Employee benefits

Provisions made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Provisions made in respect of employee benefits which are not expected to be settled within 12 months, such as long service leave, are measured as the present value of the estimated future cash outflows to be made by the group in respect of services provided by employees up to the reporting date, taking into account years of service, years to entitlement and the likelihood that staff will reach the point of entitlement.

Contributions to multi-employer defined benefit schemes are expensed when incurred.

(t) Financial instruments issued by the group

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement. Interest and dividends are classified as expenses or as distributions of profit consistent with the statement of financial position classification of the related debt or equity instruments or component parts of compound instruments.

(u) Revenue recognition

Revenue from the sale of goods is recognised when the group has transferred to the buyer the significant risks and rewards of ownership of the goods. Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract at the balance date, as measured by progress invoices raised to customers in conjunction with an assessment of costs incurred to date.

Earthquake insurance proceeds are recognised as revenues in the financial statements when they are received or when it is probable or virtually certain that they will be received under the company's insurance contracts and the amounts can be reliably measured or estimated. If insurance cash receipts relate partially to business interruption and partially to property, plant and equipment, the cash flows are allocated between cash flows from operating activities (for example for the business interruption portion of the claim) and cash flows from investing activities (for example for the property, plant and equipment portion of the claim). Insurance cash receipts that relate to property, plant and equipment claims are classified as cash flows from investing activities. Insurance cash receipts that do not relate to property, plant and equipment (for example for increased operating cost or loss of revenue claims) are classified as operating activities.

Dividend revenue from investments is recognised when the shareholders' rights to receive payment have been established. Interest revenue is recognised in the profit or loss as it accrues, using the effective interest rate method.

(v) Capital contributions and grants

Capital contributions that are refundable to customers are treated as current liabilities until refunded. Non-refundable cash contributions from customers, relating to assets, are credited directly to income when the asset is connected to the network.

The group acquires certain distribution assets for less than their replacement cost. Such assets are capitalised at their replacement cost to the group, and the difference between the cash cost and the replacement cost is recognised as revenue in the year of acquisition.

(w) Borrowing costs

Borrowing costs are expensed using the effective interest rate method. Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. A qualifying asset is defined as a separate asset where the construction period exceeds 12 months and the cost is in excess of \$3m.

Changes in accounting policies and disclosures

The accounting policies detailed above have been applied in the preparation of these financial statements for the year ended 31 March 2012 and have been consistently applied throughout the year. There have been no changes in accounting policies in comparison with the prior year, except that the group has adopted a new revenue recognition policy related to the recognition of insurance proceeds (see u above) and the following new and amended New Zealand equivalents to International Financial Reporting Standards as of 1 April 2011:

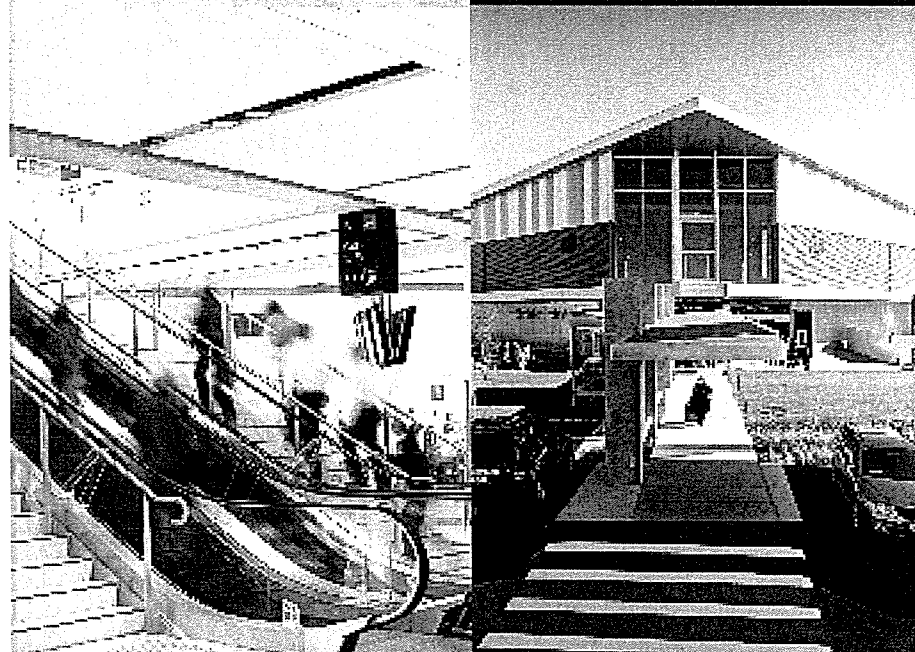
- NZ IFRS1 First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative NZ IFRS 7 Disclosures for First-time Adopters effective 1 July 2010
- NZ IFRIC18 Transfers of Assets from Customers
- NZ IFRIC 14 Prepayments of Minimum Funding Requirements (Amendments) effective 1 January 2011
- NZ IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments effective 1 July 2010
- Improvements to International Financial Reporting Standards (2010) effective 1 January 2011
- NZ IAS 24 Related Party Disclosures (Revised).

Adoption of the above standards did not have a material impact on the financial statements of the group.

The amendments to the following standards and interpretations are not expected to have a significant impact on the group's operations:

	Effective for the financial year ending 31 March
• NZ IAS 28 Investments in Associates and Joint Ventures	2014
• FRS 44 NZ Additional Disclosures	2013
• Harmonisation Amendments	2013
• NZ IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine (not relevant to Orion)	2014
• NZ IFRS 1 First-time Adoption of International Financial Reporting Standards (Amendment) - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters	2013
• NZ IAS 12 Income Taxes: Deferred Tax Recovery of Underlying Assets (Amendments)	2014
• NZ IFRS 7 Disclosures – Transfers of Financial Assets (Amendments)	2013
• NZ IFRS 9 Financial Instruments – Classification and Measurement	2016
• NZ IFRS 10 Consolidated Financial Statements	2014
• NZ IFRS 11 Joint Arrangements	2014
• NZ IFRS 12 Disclosure of Interests in Other Entities	2014
• NZ IFRS 13 Fair Value Measurement	2014
• NZ IAS 1 Presentation of Items of Other Comprehensive Income – Amendment to NZ IAS 1	2014
• NZ IAS 19 Employee Benefits (Revised)	2014





Statement of Intent
YEAR ENDING 30 JUNE 2013

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INTRODUCTION

This Statement of Intent ("SoI") is prepared in accordance with Section 64(1) of the Local Government Act 2002.

It sets out

- the nature and scope of activities to be undertaken,
- the Board's overall intentions and objectives, and
- the performance targets and other measures for the year ending 30 June 2012 and succeeding two financial years,

by which the performance of the CIAL Group (comprising Christchurch International Airport Ltd and its non-trading subsidiaries CIAL Holdings No. 1-5), may be judged.

The process of negotiation and determination of an acceptable SoI is a public and legally required expression of the accountability relationship between CIAL and its shareholders, Christchurch City Holdings Ltd, and the Minister of Finance and Minister for State Owned Enterprises (on behalf of the New Zealand Government).

The SoI is reviewed annually with Shareholders and covers a three-year period.

Christchurch International Airport Ltd is a council-controlled trading organisation (CCTO) for the purposes of the Local Government Act 2002.

OBJECTIVES

Christchurch International Airport Ltd's principal objective is to operate as a successful business, and to that end its vision is:

"To be the BEST Airport"

This means that:

Christchurch Airport will be a leading airport by delivering world-class passenger experiences, being an innovative business partner and delivering excellent economic returns through sustainable management practises.

To realise this vision and deliver sustainable growth in long-term value to our shareholders, CIAL will focus on 5 strategic objectives:

- Maintain an engaged workforce which performs strongly
- Deliver outstanding airport and airport-related services and aeronautical growth
- Maximise economic value through commercial opportunities
- Maximise economic value through property development and management
- Deliver robust business enablers to ensure success

To deliver these strategic objectives, Christchurch International Airport will continue to enhance its position as the gateway to the South and actively support the development of the South Island regional economy.

This will require a focus on improving aeronautical returns and maximising business performance as an airport, which includes the

- diversification of revenue through expanded commercial activities and new revenue opportunities, while containing operating cost growth;
- drive to improve the overall performance of the company, delivering improvements in service delivery and business efficiency;
- enhancement of South Island Tourism through a targeted initiative - "South"; and
- continued focus on the engagement of our people.

In particular, performance improvement will be achieved through:

- incremental growth through existing, emerging and new aeronautical markets, aiming to minimise market constraint in the short term and grow new air services over the medium to long term;
- working collaboratively with promotional organisations whose strategic objectives support regional development, and with organisations seeking to establish or enhance tourist attractions in Christchurch, Canterbury and the South Island;
- the development of infrastructure that is fit-for-purpose, timely, meets customer needs and achieves the required returns, specifically including the completion of the Integrated Terminal development by late 2012 with final airside works by early 2013;
- improving service delivery to all our customers, ensuring that by doing so we are operating a safe and secure operating environment, are spending efficiently and have a workforce aligned and engaged to achieve the desired objectives and outcomes;
- the diversification of business activity, both directly and indirectly, through commercial arrangements and property developments to protect against volatility in the core aviation markets;
- optimising and pursuing opportunities for the development of airport land (including the interim use of land not immediately required for airport operations) and facilities to enable the company to expand and enhance value through its core capability as an Airport Operator, and to that end have regard to local authority planning rules and objectives applicable in the active pursuit of the planning requirements to enable the development and expansion of the Airport Commercial horizon;
- pursuing the sustainable management and development of all aspects of the company's operations, and being socially responsible through having regard to the interests and concerns of the community in which we operate;
- proactively facilitating Christchurch as the gateway base of choice to the both the South Island Tourism market and to the Antarctic;
- a continuing focus on control of costs; and
- taking such other strategic and operational measures as CIAL considers appropriate to best protect and grow the value of the shareholders' investment in CIAL.

NATURE AND SCOPE OF ACTIVITIES

Christchurch International Airport's core business is being an efficient airport operator. This encompasses providing appropriate landside and airside facilities for the Airport and airport users, including both commercial and non-commercial aviation users, and pursuing commercial opportunities with wider complementary products, services and business solutions.

Consistent with these principal activities, Christchurch International Airport will:

- operate the airport in accordance with the terms of its aerodrome licences, which define standards and conditions laid down by the Civil Aviation Authority of New Zealand
- provide well-designed and maintained runways, taxiways, turnouts and aprons in co-operation with the Airways Corporation of New Zealand and other airport users
- provide airfield and terminal facilities and infrastructure that deliver the required outcomes for CIAL and existing / potential operators, with an emphasis on efficient airside activities
- pursue activities designed to ensure the safe and effective utilisation of its assets and human resources
- ensure the prudent management of its business risks across markets and locations
- ensure the Company adopts an environmentally responsible attitude to the operation of the business, including land use, storm water runoff and noise management; and pursue a commitment to the sustainable management and development of the natural, physical and human resources utilised in the business
- pursue opportunities to diversify revenue streams and increase the value of commercial and non-aeronautical business streams
- pursue initiatives to grow shareholder value and provide a sustainable revenue stream through maximising the investment in, and development of, the company's property holdings
- actively market Christchurch, Canterbury and the South Island as a major destination for overseas visitors, in order to strengthen the position of Christchurch International Airport as the aviation and tourism hub to the South Island.

In striving to achieve these outcomes, emphasis will be placed on the pursuit of essential initiatives over the coming year that are important to the long-term commercial and operational success of the company. These are:

- *Economic Performance* – The prevailing economic environment continues to have a marked impact on tourism activity and airline financial performance globally. CIAL is actively pursuing initiatives to minimise market contractions, and to expand trans-Tasman markets presently under/un-serviced by Christchurch. It will also pursue opportunities to expand new long-haul routes to the wider Asia and North American markets destinations.

This is necessary not only to grow overall passenger and aircraft movements in total, but also to counterbalance the combined effects of the September 2010 and February 2011 earthquakes which have resulted in Christchurch not experiencing the level of international passenger growth experienced by other major New Zealand tourist destinations.

CIAL will commence consultation with the airlines for the reset of airline charges post the commissioning of ITP and will strive to achieve the maximum level allowed by the

market. Commercial initiatives not directly related to aeronautical activity will also be actively pursued to provide the best possible economic offset to the constrained aviation market conditions and to provide improved cash flow to finance necessary capital investment. Capital investment will be carefully scrutinised to ensure that investment is necessary having taken consideration of the constrained economic environment.

Initiatives will be further progressed with the Canterbury Development Corporation and other partners to identify opportunities where CIAL can contribute to the economic growth of Canterbury, including through a cargo freight strategy that will increase the direct handling of freight through Christchurch and diminish the leakage of cargo volume to northern ports.

- *Integrated Terminal Project (ITP)* – The completion of the integrated terminal is planned for late 2012 with final airside works by early 2013. The construction programme is being actively managed to ensure delivery by the due date. The completion of Stage 1 of this development has led to a significant improvement in Customer service performance and the continuing improvements in such service standards is critical and will be further enhanced through a coordinated service performance ethos across the total campus titled “one team best airport”.

Enhancement of the retail experience remains an imperative to the achievement of commercial revenue growth; accordingly, a focus on both the range of offerings available and the quality of service remains a priority.

- *Ability to operate 24/7* - The ability to operate under a 24/7 operating environment is essential to the financial and economic well-being of both CIAL and the regional economy. Planning for future growth, within the recently reviewed noise contours, will be actively communicated and pursued with all planning, regulatory and community bodies to ensure this capability is maintained. CIAL is committed to work with key stakeholders and partners on matters impacting its operations and future commercial development strategies, including actions that will meet the needs of Regional Policy Statement and Urban Development Strategy.

- *Property/Commercial Strategy* - The continuing advancement of our Strategic Property Plan to improve return on airport landholdings, with a continuing focus on creating the planning environment to expedite and implement value-enhancing investment initiatives.

The delivery of CIAL’s Commercial Strategy requires the development of land currently not used for aeronautical purposes. CIAL will further the discussions already held with CCC Planning staff to seek compatibility with CCC’s planning strategy and vision for the city and with the overall Urban Development Strategy.

Earthquake Response – The impact of the February 22nd earthquake and the continuing aftershocks has had a significant and continuing impact on CIAL and its future commercial outlook. The focus of activity over the coming year will address both the Aeronautical and the Commercial property issues, with particular reference to:

- *Aeronautical* – This will involve significant interaction with the airlines to maintain Christchurch as an aviation hub for the South Island and to ensure through appropriate commercial arrangements that, as a minimum, actions are taken to maintain the existing levels of services and progress initiatives to grow services to additional trans-Tasman destinations and grow new services to the rapidly expanding Asian and Indian long haul tourism markets.

In addition to this activity, CIAL will progress through a focussed tourism development programme ("South") to partner with the major tourism entities, including Christchurch and Canterbury Tourism and the other South Island regional tourism organisations, to ensure that tourism remains and grows as a significant and vibrant contributor to the overall economic growth of Christchurch, Canterbury and the South Island. This will include positioning Christchurch as the gateway hub to the South Island and lead the development of a coordinated partnership approach with the Regional Tourism organisations and accommodation providers to progress solutions to the severe depletion of accommodation arising from the February earthquake and to stimulate new tourism opportunities as catalysts to total tourism activity growth.

The earthquakes have also had a significant influence on our staff and our ability to recruit new personnel for positions. A targeted programme to ensure staff engagement continues its positive trend has been developed to ensure CIAL continues to be regarded as an employer of choice and is seen as a "great place to work".

- *Property Development* – The continuing aftershocks have led CIAL to carry out an independent in depth structural review of all building infrastructure. The conclusions will provide solid information on which to base judgement on the need for any future remediation activity.

In addition 22nd February 2011 changed the outlook for property development, both in terms of the type of development and the location. The earthquake created new opportunities to provide short-term accommodation needs for those companies displaced from the centre of the city, thereby improving medium term property rental returns. In addition CIAL will pursue opportunities for future freight and logistics opportunities in Dakota Park and Commercial development of the Spitfire Square precinct. Access enhancement to the western part of the city by NZTA through their Road of National Significance development should also provide medium to longer term property development opportunities for the western side of the airport campus.

- *Financial Performance* – The impact of the earthquake is having significant effects on aircraft and passenger movements, with a noticeable reduction in aircraft movement being experienced over the current period. However it is envisaged that this reduction is likely to continue over the near term as delays to the reinstatement of Christchurch accommodation capacity occur though the impacts of the extended aftershocks and their effects on the new city plan. CIAL will make maximum effort through development initiatives with the airlines to ensure that this trend is returned to the norm.

The company is also carrying out work to identify possible actions to further enhance revenue and reduce costs to partially offset the downturn in financial performance arising as a consequence of the earthquakes, with diversification opportunities such as the acquisition of the International Antarctic Attraction being such an example of value growing initiatives.

CIAL will continue seek to grow the scale and scope of the business, actively pursuing commercial opportunities to diversify non-aeronautical revenue, and having regard to its core functions, services and activities which are complementary, and, where appropriate, CIAL's location.

GOVERNANCE

COMMITMENT

Directors and management are committed to effective governance. As with safety and quality, governance includes a set of systems and processes, supported by people with the appropriate competencies and principles. This provides shareholders and other stakeholders with the assurance that CIAL has the ability to deliver its programmes and performance, and in a satisfactory manner.

Governance by its very nature is on-going; it does not have a finite end. It continually evolves to meet changing commercial circumstances; new techniques are developed, learnings are gained from past experiences and other organisations and, if deemed necessary, incorporated into our systems.

REGULATORY FRAMEWORK

CIAL operates in New Zealand and is governed by a range of legislation and regulations. It is subject to regulatory control under the Airport Authorities Act with future monitoring of aeronautical economic performance reverting to the Commerce Commission from 1 January 2011 following the passing of the Commerce Amendment Act 2008. In addition, it is regulated as an Airport under the Civil Aviation Act, Part 139, in terms of operational performance. CIAL aims to make sufficient disclosure so that the reader of the Annual Report will be able to assess the effectiveness of the company's corporate governance.

Governance objectives

The Board has adopted the following governance objectives:

- Approve Corporate Strategy and direction, laying down solid foundations for management and oversight
- Structure itself to utilize the expertise of Directors to add value at a governance level
- Promote ethical and responsible decision-making
- Safeguard the integrity of its financial reporting and make timely and balanced disclosure
- Recognise and manage risk and encourage enhanced performance
- Remunerate fairly and responsibly
- Respect the rights, and recognise the legitimate interests, of stakeholders.

These objectives are reflected in the Board's management of Board and Committee activities, CIAL's policies and governance practices.

Role of the Board of Directors

The Board is ultimately responsible for

- approving CIAL's strategic direction
- oversight of the management of the company
- achievement of its business strategy, and

- increasing shareholder value while sustaining and ensuring the obligations of the company are properly met.

The Board is accountable to shareholders for CIAL's performance. In carrying out its principal function, the Board's specific responsibilities include:

- providing strategic direction for, and approving, CIAL's business strategies and objectives
- adopting appropriate procedures to ensure compliance with all laws, governmental regulations, applicable codes and accounting standards
- ensuring that CIAL's internal decision-making and compliance policies and procedures are adhered to, to ensure that the business of the Company is conducted in an open and ethical manner
- ensuring that CIAL's goals are clearly established, and that strategies are in place for achieving them (such strategies being expected to originate, in the first instance, from management)
- establishing policies for strengthening CIAL's performance, including ensuring that management is proactively seeking to build the business through innovation, initiative, technology, service excellence and the development of its business capital
- establishing performance criteria for CIAL and monitoring the performance of the Chief Executive Officer (CEO) and management against these
- appointing the CEO, setting the terms of the CEO's employment contract and, where necessary, terminating the CEO's employment with the company
- deciding necessary actions to protect CIAL's financial position and the ability to meet its debts and other obligations when they fall due, and ensuring that such actions are taken
- ensuring that CIAL'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 CIAL has appropriate risk management/regulatory compliance policies in place and that these are monitored on a regular basis.

In the normal course of events, day-to-day management of CIAL will be delegated to management.

All Directors are required to comply with a formal Code of Conduct, which is based on the New Zealand Institute of Directors' Code of Proper Practice for Directors.

Responsibility to Shareholders

Statement of Intent

In accordance with the Local Government Act 2002, the company submits a draft SoI for the coming financial year to Shareholders. The SoI sets out the company's overall objectives, intentions and financial and performance targets. After due consultation and discussion, the SoI is accepted by the Shareholders.

Information Flows

The Board aims to ensure that Shareholders are informed of all major developments affecting the company's state of affairs, while at the same time recognising that commercial sensitivity may preclude certain information from being made public. Within this constraint, information is communicated to the Shareholders through periodic reports, occasional briefings, and both the annual report and the half-yearly report, and a "no surprises" update on issues of importance as they may arise.

In addition, CIAL will develop positive and proactive relationships with stakeholders, to ensure effective communication of the initiatives being pursued through the implementation of the ten year strategic plan.

Consistency with wider objectives of Shareholder(s)

The Majority shareholder, Christchurch City Holdings Ltd, seeks to support its ultimate Shareholder's (Christchurch City Council) objective of developing the greater Christchurch and the Canterbury region through pursuing an integrated Urban Development Strategy (UDS). Christchurch International Airport will seek to support the wider initiatives of the UDS where it relates to its business, including any amendments that arise as a consequence of the February 2011 earthquake and the CERA Recovery Strategy and the Central City Development Plan developed in response to the earthquake consequences. In considering these items we note the following points;

The revision by CERA in 2011 to make the revised airport noise contours operative and strengthened the objectives, policies and rules that govern development opportunities in areas that can be expected to be exposed to increased aircraft noise as traffic numbers recover and grow was a positive move to assure the continuation of the very essential 24/7 airport operating status.

CIAL is supportive of the proposed objectives and the manner in which these objectives are expected to be delivered, but in considering the need to stimulate the tourism economic recovery in Canterbury CIAL has proposed several amendments to achieve this outcome including;

- "Priorities and opportunities for early wins", to which CIAL requested that Christchurch Airport be considered a strategic facility alongside Lyttleton Port
- The need for the tourism industry to be reinvigorated as part of 'early wins' particularly the Convention Centre and visitor accommodation facilities.
- The critical need for the recovery Strategy to enable growth and development of and investment in the Airport that does not adversely affect or impede the Airport's future.
- Not undermine the Airport's ability to support Christchurch and the Region by reinvesting in infrastructure and by attracting more business and tourism industries to Christchurch Airport.

CIAL is committed to the region's recovery. There are a number of work streams being established by CERA and the Christchurch City Council to drafting the Economic Recovery Plan and the Building and Infrastructure Recovery Plan. CIAL will seek to ensure that the Airport is included in these deliberations to ensure the interests of the airport as a critical component of the regions recovery are included.

Roading and highway development is essential to the Airport Campus development and an accord has been developed with New Zealand Transit Authority for their Roads of National Significance initiative in Christchurch to support two outcomes:

- 1) improved access and passenger flow to the airport
- 2) greater commercial density at the airport through land use that cannot be supported in a central business district environment.

Board Composition and Fees

The Board comprises six Directors, four appointed by CCHL and two appointed by the NZ Government.

Directors' appointments are for periods determined by the relevant shareholder, but shall not exceed three years. Retiring Directors may be reappointed by the relevant shareholder by way of notice prior to the Annual General Meeting.

Fees for the Board are reviewed annually by the shareholders using independent advice.

The Board generally meets at monthly intervals, and at other times as required. To enhance efficiency, the Board has delegated some of its powers to Board Committees and other powers to the Chief Executive Officer and senior executives. The terms of the delegation by the Board to the Chief Executive Officer are clearly documented. The Chief Executive Officer has, in some cases, formally delegated certain authorities to his direct reports and has established a formal process for his direct reports to sub-delegate certain authorities.

The Board has four formally constituted committees: the Risk, Audit and Finance Committee, the Remuneration Committee, the Property Committee and the Aeronautical Committee. All committees have a Board-approved charter outlining the committee's authority, duties and responsibilities, and its relationship with the Board. Additional committees may be established on the basis of need.

Risk Audit and Finance Committee

The Risk, Audit & Finance Committee consists of three board members who have appropriate financial experience and understanding of the company's industry. The Board requires that at least one member of the Audit Committee be a "financial expert".

The role of the Risk, Audit and Finance Committee is to assist the Board of Directors to discharge its responsibility to exercise due care, diligence and skill in relation to:

- Risk management systems and the internal control system
- Business policies and practices
- Protection of the Company's assets
- Compliance with applicable laws, regulations, standards and rules
- Reporting of financial information and disclosure requirements
- Financial management.

The Board authorises and empowers the Audit Committee to:

- Review and approve accounting policies and practices as they apply to the company
- Approve the annual business assurance plan, and regularly monitor business assurance findings
- Approve the external auditor's fee
- Appoint and remove internal and external auditors

- Recommend approval of the Annual Report
- Seek any information it may require from any employee or external party that it requires to fulfil its objectives
- Seek any outside external advice it may require.

In order to fulfil this role, the Committee meets independently with both the business assurance and external auditors to provide a forum for open discussion regarding management's integrity and performance. The external auditors are only permitted to engage in assurance work.

Remuneration Committee

The Remuneration Committee's role is to assist the Board in overseeing the management of CIAL's human resources activities. The responsibilities of the Committee are as follows:

- To review the remuneration and human resources strategy, structure and policy for the company and review remuneration practices to ensure that they are consistent with such policies
- To oversee CIAL's recruitment, retention and termination policies and procedures for senior management, and the succession planning for senior management and the Chief Executive Officer
- To review the performance of the Chief Executive Officer, the engagement agreement and benefit structure for the Chief Executive Officer and Executive Management group, and to recommend to the Board senior executive incentive remuneration plans, other employee benefits, and key performance objectives of the Chief Executive Officer and Executive Management group.

Property Committee

The Property Committee's role is to assist the Board in overseeing the development and implementation of the property portfolio development and investment strategies, and implementation of investment initiatives within that portfolio to maximise the value of CIAL's property holdings.

The responsibilities of the Committee are as follows:

- To review the company's property strategy and priorities regularly to ensure that it remains appropriate, having regard to all relevant matters. Such matters shall include the company's financial position, maintenance of a balanced property portfolio, property market conditions, regulatory planning issues, strategic focus and priorities, timetabling of investments, and any other matters considered relevant by the Committee
- To review from time to time, and at least annually, the company's progress in implementing the approved property strategy, in respect of both its property investment and property management activities
- To report the outcome of reviews undertaken under this heading to the Board, with any necessary analysis, commentary, and reports, and to make resulting recommendations to the Board.

Aeronautical Committee

The Aeronautical Committee's role is to assist the Board in overseeing aeronautical activity to ensure that CIAL obtains the best level of return that aeronautical business is reasonably able to produce, while ensuring aeronautical operations are safe and efficient, and represent best aviation practice.

The responsibilities of the Committee are as follows:

- Review strategies regarding the provision of aeronautical facilities and wider aeronautical business development, including specific proposals relating to marketing, pricing and commercial arrangements to support route development initiatives
- Make recommendations to the board on aeronautical strategies, proposals and initiatives, including the outcome of post-project reviews of specific aeronautical business cases
- Periodic review of the returns being achieved by CIAL's aeronautical business to ensure it is in line with the overall objectives of CIAL's business strategy
- Periodic review of CIAL's aeronautical market position, and consideration of proposals or initiatives, where that may assist CIAL's market position
- Reporting to the board annually, or as required, on:
 - the safety, effectiveness and operational bench-marking of CIAL's aeronautical operations;
 - the market position (NZ stand-alone as well as Australasian position) of its aeronautical business;
 - the returns being achieved on individual aeronautical initiatives; and
 - the effectiveness and the implementation of CIAL's aeronautical strategies.

Ratio of shareholders' funds to total assets

The forecast Capital Structure, ratio of shareholders' funds to total assets, and gearing ratios for the next three years are:

Period	Total Liabilities	Equity	Total Assets	Equity Ratio	EBITDA Interest Cover	FFO Interest Cover
30 June 2012 f	427,700	591,400	1,019,100	58.0%	3.00	2.70
30 June 2013 f	455,600	589,100	1,044,700	56.4%	3.10	2.80
30 June 2014 f	468,300	603,800	1,072,100	56.3%	3.60	3.10
30 June 2015 f	471,000	625,100	1,096,100	57.0%	4.30	3.60

Period	Equity	Debt	Total Debt +Equity	Gearing (debt : debt+equity)	Net Asset Backing
30 June 2012 f	591,400	305,500	896,900	34%	10.27
30 June 2013 f	589,100	323,700	912,800	35%	10.23
30 June 2014 f	603,800	340,900	944,700	36%	10.48
30 June 2015 f	625,100	345,100	970,200	36%	10.85

- Long term, the company will endeavour to operate within an optimal capital structure of shareholders' funds to total assets of between 50% and 60%
- The target ratio of debt-to-debt plus equity is to be within a range of 30% to 40%

- The target minimum floor for free funds from operations interest cover is to be no less than 2.5x.

Accounting Policies

CIAL has adopted accounting policies that are consistent with New Zealand International Financial Reporting Standards, generally accepted accounting practice and the policies adopted by the Christchurch City Council group.

The company's current accounting policies are attached to this Statement of Intent.

The Company has also adopted the following policy, which is in addition to the policy framework described above:

Capitalisation of Interest

The capital cost of all Projects in excess of one year in duration and with a total capital cost in excess of \$10,000,000 shall include the additional charge of interest on funds employed during the construction phase through to the date of commissioning.

Performance Targets

CIAL's key objectives are to operate as a successful business and through that deliver sustainable growth in long-term value to our shareholders. Within that scope our strategic objectives are detailed below, identifying the key performance indicators that measure the progress toward achievement of these objectives.

<u>Objective</u>	<u>Measure</u>
Deliver sustainable growth in revenue and earnings	a, b, c, d(2/3)
Grow South Island tourism and position CIAL as a shaper of future tourism growth	a, b
Deliver superior customer service	b, d(2/5)
Provide "fit for purpose" infrastructure with the flexibility to meet future growth	b, c, d(1/2/5)
Provide an environment where staff are high-performing and fully engaged	a, b, c, d(4/5)
Operate in a sustainable manner and be recognised as a positive contributor to the community	a, b, c, d(1-5)

It is recognised an uplift is required to achieve acceptable rates of return. The forecast performance below identifies the improvement to be made over the ensuing three years, but in light of the prevailing economic conditions and also the fact that the company is commissioning

significant infrastructure, it must be accepted that it will take some time to achieve the required returns due to two factors:

- the land bank can only be developed at a rate that planning requirements and market demand allow; and
- returns on new infrastructure development, such as the new terminal project which will be determined by the market conditions of the aviation sector and the company's ability to negotiate price increases to achieve the required economic return. Reduced airline yields significantly influence the timing and period over which the substantially increased return on capital requirement arising from new infrastructure can be recovered from increased airline charges.

a) Financial performance targets

\$m	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast
Operating Revenue	110,596	121,700	137,100	158,400
EBITDA	62,500	72,200	88,000	107,700
Net Surplus After Tax	15,959	14,700	24,200	37,400
EBITDA as % Revenue	56.5%	59.3%	64.2%	68.0%
Net Surplus After Tax* to Average Equity	2.7%	2.5%	4.1%	6.1%
Return on Assets (NPAT* as % average total assets)	1.6%	1.4%	2.3%	3.4%
Note: NPAT earnings from 2012 onward are reduced by the increased cost of interest which up to 30 June 2012 had been capitalised to the ITP Project				

Note: The above estimates exclude any provision for building remediation that may arise out of the independent Structural Review.

b) Operational Movement targets

	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast
a. Aircraft				
Commercial Aircraft Movements	67,211	67,748	68,320	69,192
b. Passengers				
Domestic	4,197,684	4,376,601	4,447,650	4,494,939
International	1,409,773	1,365,553	1,489,315	1,666,450
Total Passengers	5,607,457	5,742,154	5,936,965	6,161,389

c) Operational Performance targets

	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast
Total Operating Revenue per Passenger	\$ 19.72	\$ 21.19	\$ 23.09	\$ 25.71
<i>Aeronautical Revenue per pax</i>	\$6.94	\$7.42	\$8.17	\$9.62
<i>Commercial Revenue per paX</i>	\$12.78	\$13.78	\$14.92	\$16.08
NPAT per Passenger \$m	\$ 3.75	\$ 2.05	\$ 2.15	\$ 3.76
Total Assets per Passenger	\$ 176.87	\$ 179.71	\$ 178.27	\$ 175.95
Net Debt per Passenger	\$ 49.18	\$ 54.79	\$ 55.97	\$ 55.67
Ratio of Aeronautical Revenue to Commercial Revenue	35.2%	35.0%	35.4%	37.4%

d) Corporate Social Responsibility Performance targets

Performance target	Performance Measures		
	2013	2014	2015
1. To minimise the impact of airport activities on groundwater quality through cost-effective measures to avoid or mitigate the risks of contamination	<ul style="list-style-type: none"> ▪ Completion of the Public Risk and Management Plan for Managing Potable Water and regular monitoring of potable drinking groundwater supply. ▪ Continue Environmental Compliance and Monitoring Programme with existing airport operators and new operators on airport land. ▪ Label storm water drainage systems in all new developments ▪ Provide environmental training to all airport operators 	<ul style="list-style-type: none"> ▪ Ensure on-going compliance with NZ Drinking Water Standards through implementation of the Public Risk and Management Plan for Managing Potable Water and regular monitoring of potable drinking groundwater supply ▪ Continue Environmental Compliance and Monitoring Programme with existing airport operators and new operators on airport land. ▪ Ensure that all new operators are provided with Environmental Training. Label storm water drainage systems in all new developments 	<ul style="list-style-type: none"> ▪ Ensure on-going compliance with NZ Drinking Water Standards through implementation of Public Risk and Management Plan for Managing Potable Water and regular monitoring of potable drinking groundwater supply. ▪ Continue Environmental Compliance and Monitoring Programme with existing airport operators and new operators on airport land. ▪ Ensure that all new operators are provided with Environmental Training ▪ Label storm water drainage systems in all new developments
2. To investigate and implement cost-effective ways in which to progressively reduce the amount of solid waste arising from airport activities being disposed of to landfill through the development of waste minimisation and recovery measures	<ul style="list-style-type: none"> ▪ Progressively increase amount of material being diverted from landfill from 32% to 40% of total waste produced by CIAL by 2013. 	<ul style="list-style-type: none"> ▪ Continue to investigate and implement waste minimisation initiatives that ensure landfill diversion rates are sustained or increased. 	<ul style="list-style-type: none"> ▪ Continue to investigate and implement waste-minimisation initiatives that ensure landfills diversion rates are sustained or increased.
3. To minimise the	<ul style="list-style-type: none"> ▪ Maintain carbon-neutral status for CIAL's operational activities 	<ul style="list-style-type: none"> ▪ Maintain carbon-neutral status for CIAL's operational 	<ul style="list-style-type: none"> ▪ Maintain carbon-neutral status for CIAL's operational

<p>energy consumption by airport activities through the pursuit of efficient energy practices</p>	<ul style="list-style-type: none"> ▪ Achieve a further 5% (Kwh/m2) energy consumption reduction over 2010 levels, by 2013 	<p>activities.</p> <ul style="list-style-type: none"> ▪ Continue to investigate and implement energy saving initiatives that ensure energy consumption is reduced. 	<p>activities</p> <ul style="list-style-type: none"> ▪ Continue to investigate and implement energy-saving initiatives that ensure energy consumption is reduced.
<p>4. To deliver on our corporate social responsibility and community interest obligations</p>	<ul style="list-style-type: none"> ▪ Be a key sponsor of a major city event (such as the Christchurch Airport Marathon) and one other cultural event in the city ▪ Support various community organisations through the CIAL Xmas Fund and other donations through the year ▪ Continue an information and engagement program for stakeholders and the community, involving sharing information on airport issues, regular speaking engagements and Q&A sessions for the CEO and GMs, offering members of the public opportunities to carry out volunteers tasks at the airport 	<ul style="list-style-type: none"> ▪ To sponsor key events which bring visitors to Christchurch (including the Christchurch Airport Marathon) and other cultural events important to the city. ▪ Support community initiatives and organisations through the CIAL Xmas Fund and other donations through the year ▪ Take opportunities to engage with stakeholders and the community through public speaking by the CEO and GM's, offering members of the public opportunities to carry out volunteer tasks at the airport. 	<ul style="list-style-type: none"> ▪ Continue to be a key sponsor of meaningful events which attract visitors to Christchurch and the city's residents to attend and/or take part and contribute to the growing city ▪ Support community initiatives and organisations through the CIAL Xmas Fund, and other donations through the year ▪ Take opportunities to engage with stakeholders and the community through public speaking by the CEO and GM's, offering members of the public opportunities to carry out volunteer tasks at the airport.
<p>5. To manage Operational Risk</p>	<ul style="list-style-type: none"> ▪ Achieve a Bird Strike incidence rate of 3<5/10,000 aircraft movements on a 12 month rolling average basis, in line with levels set for airports of a similar scale. ▪ Work with territorial authorities and other stakeholders to implement management strategies for pest birds which pose bird strike hazard risks ▪ Work with statutory authorities and the community to achieve general acceptance of noise contours and associated policies and rules in regional and district plans to protect the 24/7 airport operating status 	<ul style="list-style-type: none"> ▪ Achieve a Bird Strike incidence rate of 3<4/10,000 aircraft movements on a 12 month rolling average basis in line with level set for airports of a similar scale. ▪ Work with territorial authorities and other stakeholders to implement management strategies for pest birds which pose bird strike hazard risks ▪ Work with statutory authorities and the community to achieve general acceptance of noise contours and associated policies and rules in regional and district plans to protect the 24/7 airport operating status 	<ul style="list-style-type: none"> ▪ Achieve a Bird Strike incidence rate of 3<4/10,000 aircraft movements, on a 12 month rolling average basis, in line with the level set for airports of a similar scale. ▪ Work with territorial authorities and other stakeholders to implement management strategies for pest birds which pose bird strike hazard risks ▪ General acceptance of noise contours and associated policies and rules in regional and district plans to protect the 24/7 airport operating status
<p>6. To minimise the effects of noise and vibration associated with aircraft and airport operations and to comply with relevant noise rules</p>	<ul style="list-style-type: none"> ▪ Develop Noise Management Plans with respect to overnight aircraft maintenance ▪ Work with airlines and air traffic control authorities to implement agreed policies on Required Navigation Procedures (RNP) approach and departure flight paths 	<ul style="list-style-type: none"> ▪ Adhere to new noise contours in the Regional Policy Statement 	<ul style="list-style-type: none"> ▪ Refresh Environmental Policy and Strategy with respect to noise management
<p>7. To deliver an environment for staff that is supportive, stimulating and engaging</p>	<ul style="list-style-type: none"> ▪ Support staff during and post earthquakes 	<ul style="list-style-type: none"> ▪ Support staff and proactively seek to consolidate staff after organisational change 	<ul style="list-style-type: none"> ▪ Refresh strategies aligned with employee attraction, engagement and talent development

Distributions

CIAL will distribute funds surplus to its investment and operating requirements, subject to meeting the solvency requirements of the Companies Act 1993. The actual dividends payable are subject to an annual review by the Directors of CIAL, taking into account the prevailing financial and economic circumstances in which Christchurch International Airport is operating.

In determining the level of funds available for dividend, the directors will take into consideration:

- Working capital requirements, the investment required for the Integrated Terminal Project, the medium-term asset investment requirements and the property development programme
- A sustainable financial structure having regard to the risks from predicted short-term and medium-term economic conditions and predicted financial performance
- The requirement to make any prudential provision as a consequence of the detrimental impact on revenues, or any increased costs, from any major/natural disaster event, and
- The CIAL-targeted credit rating.

The dividends are forecast to be paid in two instalments each year, with the interim dividend payment being made after the half year meeting of Shareholders in March of each year and the final dividend payment after the annual meeting in October of each year.

To assist shareholders with budgeting, the following ordinary dividend payments to shareholders based on a projection of 60% of Net Operating Profit after tax (after excluding:

- revaluation gains/losses on investment properties
- The deferred tax impact arising from the removal, or reinstatement post-June 2010 for the terminal, of the ability to claim depreciation on Buildings for tax purposes, including both the one-off deferred tax adjustment at 30 June 2010 and any annual write-back that may occur post 2010 for the building assets in question).

The payout amounts are forecast to be as follows:

	Forecast	Plan Forecast		
	2011/12	2012/13	2013/14	2014/15
		\$'000		
Forecast Net Profit After Tax	15,959	14,700	24,200	37,400
<i>Less</i>				
Revaluation gains/(losses) (net of tax)	1,000	2,504	3,148	3,577
Deferred tax adjustment	852	700	700	700
Net Profit after tax base for dividend	14,107	11,496	20,352	33,123
Dividend forecast (@ 60%)	8,464	6,898	12,211	19,874
Periods Paid				
Interim Dividend	4,322	3,449	6,106	9,937
Final Dividend	<i>Note 1</i> 12,853	4,142	3,449	6,106
Forecast Dividends to be paid	17,175	7,591	9,555	16,043
<i>Note 1 - Final dividend for 2010/11</i>				

If the company is successful in implementing actions to improve the forecast financial performance, as noted on page 7 - "Financial Performance", these dividends may be increased.

Information to be provided to shareholders

An annual report will be submitted to the shareholders. The annual report will include audited financial statements and other details which permit an informed assessment of the company's performance and financial position during the reporting period provided to the shareholders.

Half-yearly reports will also be provided to the shareholders. These reports will contain unaudited information and comply with NZ IAS 34.

Annual reports will be produced, consistent with the company's objective to be a long-term sustainable and responsible business. The reports will outline the company's objectives and performance in terms of its economic, environmental and social outcomes.

The Statement of Intent will be submitted to the shareholders for consultation annually, as required by the Local Government Act 2002. The directors will include any other information they consider appropriate. Where appropriate, revised forecasts will be submitted to shareholders.

The company will operate on a "no surprises" basis in respect of significant shareholder-related matters, to the extent possible in the context of commercial sensitivity and confidentiality obligations.

The company will provide information requested by the shareholders in accordance with the requirements of the Local Government Act 2002.

Acquisition/divestment procedures

The subscription or acquisition of securities in any company or organisation, or a divestment of part of the existing business, will only be considered where it is consistent with the long-term commercial objectives of Christchurch International Airport Ltd.

When the subscription, acquisition or divestment is considered by directors to be significant to the company's business operations, it will be subject to consultation with the shareholders.

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

Notwithstanding the above, if CIAL is considering a significant acquisition or disposal of assets or securities, the shareholders will be consulted with as much lead-time as is commercially practicable in the prevailing circumstances.

Where the company decides to incorporate, or subscribe to, shares in subsidiaries to undertake its commercial activities, the company will ensure effective management, with Board control of any subsidiary being exercised by CIAL's directors and staff.

Compensation sought from Shareholders

At the request of the shareholders, the company may undertake activities that are not consistent with normal commercial objectives. Where necessary, a specific subsidy will be sought to meet the full commercial cost of providing such activities.

Currently, CIAL provides dedicated facilities and infrastructure to the New Zealand Antarctic operations at lower rates than those charged to commercial airlines and tenants. This service provides an economic benefit to the Christchurch region but at an annual concession cost to CIAL estimated at approximately \$1 million per annum. CIAL has communicated with shareholders on this issue, who have confirmed their acceptance of the lower commercial return resulting as a consequence of this concession.

Estimate of commercial value

The Board's current estimate of the commercial value of Christchurch International Airport is \$696 million. **(TO BE UPDATED POST COMPLETION OF 2013 BUSINESS PLAN)**

Key factors taken into consideration in determining this valuation were;

- The valuation was calculated at 30 June 2011, and was undertaken independently by Northington Partners Limited.
- In determining this valuation the most appropriate basis of preparation was considered to be the sum of the parts of the business, with the total valuation being comprised of the sum of;
 - *Specified Airport Activities*- as determined by the Commerce Commission under the Information Disclosure Determination, effective 1 January 2011,
 - *Development Land* – being land held for future airport and commercial development, and
 - *Contestable Activities* – comprising all commercial and property investment activities.
- Given the different characteristics of these individual components, the valuations were assessed using a range of valuation methodologies;
 - The primary valuation approach for assets used for Specified Airport Activities reflected the asset-based valuation methodology adopted as part of the Commerce Commission regulatory regime;
 - Development Land is included at the values assessed by independent registered valuations;
 - Contestable Activities were valued using a discounted cash flow model based on a 20 year earnings projection. Future earnings were discounted at a mid-point required return of 8.95% (expressed on a post-tax nominal basis), with an assumed terminal growth rate of 2.5%;
 - All assessed values were benchmarked against the implied earnings multiples for comparative New Zealand Airports and as derived from other relevant market data;

- The current commercial value of the Shareholders investment of \$696 million (often referred to as the equity value) was calculated by taking the midpoint range of the enterprise value of \$942 million and deducting net debt of \$246 million.
- Other material factors that are relevant to the determination of this valuation have been consideration of the impact of the Christchurch earthquakes on both short-medium passenger numbers, as well as property yields and the consequential carrying value of land.

The valuation compares with total Shareholders' Funds as detailed in the 30 June 2011 Financial Statements of \$601 million.

The key reasons for the change in commercial value from 2010 (\$718 million) to the \$696 million at 30 June 2011 were;

- A change in the method of valuation from being purely a discounted cash flow of future revenue streams for the business as a whole (2010) to being a sum of the parts of the business taking account of the relative risks of the different business streams (2011).
- On-going investment in the new integrated terminal buildings and the increase in debt to fund the development
- A reduction in the forward passenger and aircraft movement forecast, particularly international movements, owing to the uncertainty of future tourism activity created by the September 2011 and February 2012 earthquakes, and
- The impact of the earthquakes on property yields and land values.

The directors note that the commercial value a shareholder may realise on any sale of its investment in CIAL may differ from this value, depending on the particular circumstances of sale, the identity of the buyer, and market conditions applicable or forecast at the time. This value is reassessed annually.

Role in the Christchurch City Council group and regional economy

a) Commercial relationships within the CCC group

Christchurch International Airport acknowledges, as a majority-owned subsidiary of Christchurch City Holdings Ltd, that there may be commercial opportunities within, or in partnership with, other group companies that may be able to be developed to benefit Christchurch International Airport, CCHL and the Canterbury region. These opportunities will and are being considered as part of the strategic initiatives being developed to progressively grow commercial revenues as the company endeavours to improve operating efficiency, and to diversify and offset the volatility of aeronautical revenues.

These include;

- Joint purchasing arrangements
- Communication network development
- Operational service delivery opportunities.

b) Role in the growth of the regional economy

Christchurch International Airport is the tourism gateway to the South Island and provides a significant contribution to both the Canterbury region and the South Island as a whole, with the total airport operation employing over 4,500 employees across a diverse range of companies. An Economic Impact Assessment review in 2008 identified that Christchurch Airport contributed to the generation of \$1.5 billion in regional GDP, with its indirect contribution representing 7.2% of annual GDP in the Canterbury region and 8.8% of employment.

CIAL is seeking to grow the economic development of both the region and the South Island through pursuing growth in airlines visiting Christchurch and international passengers holidaying in the South Island and through being a catalyst to growing the wider South Island Tourism market. Such growth will provide a flow-on effect through increasing tourism revenue and activities. In addition, the on-going development of our property portfolio will create value through construction and the provision of a greater range of commercial services to all users of the airport campus.

Appendix 1: Statement of Accounting Policies

The accounting policies as set out below form the basis of preparation of CIAL's NZ IFRS financial statements and forecasts.

a) Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. The Company has introduced a policy on goodwill, following the acquisition of a business – see (y).

Entity reporting

The financial statements are for Christchurch International Airport Limited. The wholly owned subsidiaries:

- CIAL Holdings Number 1 Limited
- CIAL Holdings Number 2 Limited
- CIAL Holdings Number 3 Limited
- CIAL Holdings Number 4 Limited
- CIAL Holdings Number 5 Limited

As the wholly owned subsidiaries were not trading and held no assets and liabilities during and at the end of the period of review, the financial statements for the group are the same as that of the parent.

The Company is designated as a profit-oriented entity for financial reporting purposes.

Statutory base

Christchurch International Airport Limited is a company registered under the Companies Act 1993.

The financial statements have been prepared in accordance with the requirements of the Airports Authorities Act 1966, the Local Government Act 2002, the Financial Reporting Act 1993 and the Companies Act 1993.

Functional and presentation currency

These financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$1,000). The functional currency of the Company is New Zealand dollars.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain assets as identified in specific accounting policies.

Critical accounting estimates and assumptions

The preparation of financial statements requires the use of certain critical accounting estimates and assumptions. It also requires the company to exercise its judgement in the process of applying the accounting policies. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below.

i. Identification of Property, Plant and Equipment to be reclassified to Investment Property.

The Company makes a decision on the assets to be included in Investment Properties by using a predetermined method of classification. The main factor of this classification is that the property is not used for aircraft related activities.

ii. Estimated life of the existing domestic terminal

The Company has estimated the remaining life of the existing domestic terminal for valuation purposes. This period equals the estimated build time for the new terminal.

iii. Impairment assessment of ITP work in progress expenditure

The Company estimates whether there has been any impairment of the on-going value of ITP expenditure due to the continuous development of the design. This impairment is subject to Quantity Surveyor and Project Managers' review.

New and amended standards adopted by the company

The following standards, interpretations and amendments have become effective during the annual period:

- IFRIC 19 'Extinguishing liabilities with equity instruments'
- IAS 36 (amendment) 'Impairment of assets'
- IFRS 2 (amendment) 'Group cash-settled share-based payment transactions'
- IAS 32 (amendment) 'Classification of rights issues'

These pronouncements are not considered to have a material effect on the Company.

Standards issued and not yet adopted

- NZ IFRS 9 'Financial Instruments' - effective for annual periods beginning on or after 1 January 2013. This standard will eventually replace NZ IAS 39. It requires an entity to classify its financial assets on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset, and subsequently measures the financial assets as either at amortised cost or fair value. Management are still determining the impact NZ IFRS 9 will have on the company.
- NZ IAS 1 'Presentation of financial statements' - effective for annual periods beginning on or after 1 January 2011. The revised standard clarifies that an entity may present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. As the change in accounting policy only impacts presentation aspects, there is no impact on net assets.
- NZ IAS 24 'Related parties' - effective for annual periods beginning on or after 1 January 2011. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government related entities to disclose details of all transactions with the government and other government-related entities. As the change in accounting policy only impacts presentation aspects, there is no impact on net assets.
- NZ IAS 12 'Deferred tax' - effective for annual periods beginning on or after 1 January 2012. The revised standard applies to all entities holding investment properties, measured at fair value in territories where the capital gains tax rate is different from the income tax rate. It introduces a rebuttable presumption that investment properties measured at fair value are recovered entirely by sale. Management are still determining the impact NZ IAS 12 will have on the company.
- NZ IFRS 13 'Fair value measurement' - effective for annual periods beginning on or after 1 January 2013. The new standard outlines a single, unified definition of fair value and requires significant additional disclosures where fair values are used. Management are still determining the impact NZ IFRS 13 will have on the company.

b) Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Financial Performance, except when deferred in equity as qualifying cash flow hedges.

c) Revenue recognition

Revenue comprises the fair value of the sale of goods and services, excluding Goods and Services Tax, rebates and discounts. Revenue is recognised as follows:

i. Sales of goods

Sales of goods are recognised when the company has delivered a product to the customer.

ii. Sales of services

Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Interest income is recognised on a time proportion basis using the effective interest method.

iii. Interest income

Interest is recognised on a time-proportion basis using the effective interest method.

iv. Rental income

Rental income is recognised on an accruals basis in accordance with the substance of the relevant agreements.

d) Income tax

Income tax expense in relation to the surplus or deficit for the period comprises current tax and deferred tax.

Current tax is the amount of income tax payable based on the taxable profit for the current year, plus any adjustments to income tax payable in respect of prior years. Current tax is calculated using the rates that have been enacted or substantively enacted by balance date.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, using tax rates that have been enacted or substantively enacted by balance date.

Current tax and deferred tax is charged or credited to the Statement of Financial Performance, except when it relates to items charged or credited directly to other comprehensive income, in which case the tax is dealt with in the Statement of Comprehensive Income.

e) Goods and Services Tax (GST)

The Statement of Financial Performance and the Statement of Cash Flows have been prepared so that all components are stated exclusive of GST. All items in the Statement of Financial Position are stated net of GST, with the exception of receivables and payables, which include GST invoiced. Commitments and contingencies are stated exclusive of GST.

f) Leases

Operating Leases

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset to the lessee. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

g) Impairment

Non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Financial assets

Assets are reviewed for impairment on a regular basis and any possible loss is recognised when the carrying amount exceeds its recoverable amount.

h) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held on call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within the current liabilities on the Statement of Financial Position.

i) Trade receivables

Trade receivables are recognised at fair value and subsequently measured at amortised cost, using the effective interest method, less provision for doubtful debts.

Collectability of trade receivables is reviewed on an on-going basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the Statement of Financial Performance.

j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis, and includes cost of materials. Net realisable value is the estimated selling price in the ordinary course of business.

k) Other financial assets

Investments are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned.

The classification into the following category depends on the purpose for which the investment was acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

I) Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at balance date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The company designates certain derivatives as either:

- i. hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or
- ii. hedges of highly probable forecast transactions (cash flow hedges).

The company documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The company also documents its assessment, both at hedge inception and on an on-going basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

i. Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Statement of Financial Performance, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

ii. Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the Statement of Financial Performance. Amounts accumulated in other comprehensive income are recycled in the Statement of Financial Performance in the periods when the hedged item will affect profit or loss (for instance when the forecast transaction that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, asset purchase) or a non-financial liability, the gains and losses previously deferred in other comprehensive income are transferred from other comprehensive income and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive

income at that time remains in other comprehensive income and is recognised when the forecast transaction is ultimately recognised in the Statement of Financial Performance or is capitalised on the recognition of a non-financial asset. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the Statement of Financial Performance.

iii. Derivatives that do not qualify for hedge accounting

Where derivative instruments do not qualify for hedge accounting or for which hedge accounting has not been adopted, changes in the fair value of these derivative instruments will be recognised immediately in the Statement of Financial Performance.

m) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments is valued using market rates at balance date. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance date.

For further information refer to note 27.

n) Property, plant and equipment

The following assets are shown at fair value, based on periodic, but at least every five years, valuations by external independent valuers, less subsequent depreciation:

- Land
- Buildings
- Terminal facilities
- Airport sealed surfaces
- Infrastructure assets
- Car park

The last valuation was performed by Seagar and Partners (Land, Buildings, Investment properties and carpark assets) and Opus International Limited (International terminal facilities) as at 30 June 2011. Sealed surfaces and infrastructural assets were valued by Opus International Ltd, as at 30 June 2010.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment is stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance is charged to the Statement of Financial Performance during the financial year in which they are incurred.

Increases in the carrying amounts arising on revaluation of land, buildings, airport sealed surfaces and infrastructure assets are credited to reserves in shareholders' equity through the Statement of Comprehensive Income. To the extent that the increase reverses a decrease previously recognised in the Statement of Financial Performance, the increase is first recognised in the Statement of Financial Performance. Decreases that reverse previous increases of the same asset are first charged against revaluation reserves directly in equity to the extent of the remaining reserve attributable to the asset; all other decreases are charged to the Statement of Financial Performance.

Depreciation

Land is not depreciated. Depreciation of property, plant and equipment is calculated on a straight line basis so as to expense the cost of the assets over their estimated useful lives. The useful lives are as follows:

- Terminal 40 years
- Other buildings 10 to 40 years
- Sealed surfaces 9 to 100 years
- Roothing 50 years
- Plant and equipment 3 to 25 years
- Motor vehicles 5 to 16 years
- Office and computer equipment 3 to 9 years
- Carpark assets (excluding land) 50 years
- Infrastructure 15 years

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. These are included in the Statement of Financial Performance.

o) Investment property

Land is held by the Company for long term and strategic purposes and is not held for resale. Investment properties are land and buildings where the building is built to maximise the return on land, and buildings as an "interim use", are held for long term rental yield and are not occupied by the company. Investment property also includes property that is being constructed or developed for future use as investment property.

Properties leased to third parties under operating leases are generally classified as investment property unless:

- The occupants provide services that are integral to the operation of the company's business
- The property is being held for future delivery of services

Properties that are held for a currently undetermined future use, or that are vacant but held to be leased out under one or more operating leases, are classified as investment properties.

The classification of properties is done at the lowest possible level. Thus, where part of a property is occupied by a party other than the company, consideration is given to whether that portion of the building could be classified as an investment property. Classification as an investment property will be indicated if the section of the building could be separately sold or leased under a finance lease. If the section of the property occupied by a party other than the company is unable to be sold or leased separately from the rest of the building, the building is assessed as a whole and will usually only be classified as investment property if the company occupies an insignificant portion of the total building.

Investment property is carried at fair value, based on discounted cash flow projections, and is determined annually by external valuers. Gains or losses arising from a change in fair value are recorded in the Statement of Financial Performance.

Fair value measurement on property under construction is only applied if the fair value is considered to be reliably measurable.

If it is determined that the fair value of an investment property under construction is not reliably determinable but the company has an expectation that the fair value of the property will be reliably determinable when construction is complete, the investment property under construction will be measured at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier).

p) Intangible assets

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These have a finite useful life and are amortised on a straight line basis over the useful economic life of 2 to 5 years. Computer software licences are carried at cost less accumulated depreciation.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred.

q) Trade and other payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. These amounts represent liabilities for goods and services provided to the company prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

r) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Statement of Financial Performance over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities, unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs that are directly attributable to the acquisition or construction of an item of property, plant and equipment (qualifying asset) has been capitalised where the construction exceeds \$10 million and is greater than 12 months in duration.

Borrowing costs that are not capitalised are expensed as incurred.

s) Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

t) Provisions

The company recognises a provision for future expenditure of an uncertain amount or timing when there is a legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation.

u) Employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave, long service leave and accumulating sick leave and other contractual payments expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

v) Dividends

Provision is made for the amount of any dividend declared on or before the end of the financial year but not distributed at balance date.

Dividend distribution to the company shareholders is recognised as a liability in the company's financial statements in the period in which the dividends are approved by the directors and notified to the company's shareholders.

w) Lease inducements

Lease inducements are incentives provided for the agreement of a new or renewed operating lease with a lessee. Lease inducements are recognised as an integral part of the net consideration agreed for the use of the leased asset and are recognised over the lease term, on a straight line basis unless another systematic basis is representative of the time pattern over which the benefit of the leased asset is diminished.

x) Financial instruments*Financial assets*

The company classifies its financial assets in the following categories: financial assets at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value.

Financial assets at fair value through profit or loss

This category comprises financial assets held for trading which have been acquired principally for the purpose of selling in the short term. Derivatives also fall within this category unless they are designated as hedges and the hedge is effective for accounting purposes.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and with no intention of trading. They are included in current assets, except for maturities greater than 12 months after the Balance Sheet date, which are classified as non-current assets.

Financial liabilities

The company classifies its financial liabilities in the following categories: financial liabilities at fair value through the profit and loss and other financial liabilities at amortised cost. The classification depends on the purpose for which the financial liabilities were incurred. Management determines the classification of its financial liabilities at initial recognition and re-evaluates this designation at every reporting date.

y) Goodwill

All business combinations are accounted for by the purchase method. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment.

Negative goodwill arising on acquisition is recognised directly in the income statement.

Goodwill is disclosed as part of Intangible assets and is stated at cost.

Statement of Intent for the year ending 30 June 2013

Introduction

The Statement of Intent (Sol) specifies for Lyttelton Port Company Ltd and its subsidiaries the objectives, the nature and scope of the activities to be undertaken, and the performance targets and other measures by which the performance of the group may be judged in relation to its objectives, amongst other requirements.

The process of negotiation and determination of an acceptable Sol is a public expression of the accountability relationship between the company and its shareholders.

The Sol is reviewed annually and covers a one year period.

Lyttelton Port Company Ltd's registered office is at Christchurch.

Contact details for both the Chairperson and Chief Executive are:

Address	Private Bag 501, Lyttelton, 8841
Telephone	(03) 328 8198
Website	www.lpc.co.nz

Objectives

- a) Lyttelton Port Company Ltd's vision is
"To be the South Island Port of Choice"
- b) Lyttelton Port Company Ltd's key objectives are:
 - **To be profitable over the long term**
 - to optimise long term shareholder returns
 - to protect and grow LPC's share of port services in target markets
 - to pursue expansion opportunities in the Transport Supply Chain that add value in both customer service levels and shareholder returns
 - to practice a continuous improvement cycle that will ensure the cost and performance competitiveness of LPC's services
 - **To provide outstanding customer service**
 - to deliver efficient services and infrastructure which exceed customer expectations
 - to build relationships with customers based on trust and mutual benefit.
 - **To be an employer of choice**
 - to provide a challenging and rewarding work environment which develops trust and encourages both teamwork and development to full potential
 - to continually improve the safety of LPC's work environment.
 - **To be environmentally and socially responsible**
 - to minimise any adverse effects of LPC's activities and facilities on the environment
 - to be a responsible corporate citizen
 - to maintain strong links and regard for the community.

Nature and scope of activities

Lyttelton Port Company Ltd will be involved in providing land, facilities, plant and labour for the receiving, delivery, stockpiling, stacking and shipment of a wide range of products; the ownership of land and facilities necessary to maintain the company's commercial assets; and the provision of facilities associated with the repair and servicing of vessels.

Governance

Lyttelton Port Company Ltd continues to strive for best practice in corporate governance.

Role of the Board

The Board is elected by Shareholders to create value and have overall responsibility for management of the company.

The Board carries out its responsibilities by setting the Company's strategic direction, providing leadership to put this into effect, appointing a Chief Executive, agreeing targets and objectives, and monitoring performance. The Chief Executive has been delegated responsibility for the day-to-day management of the company. He has an executive team of four to assist him.

Corporate decisions are made at Shareholder, Director or Management level, depending on statutory requirements, New Zealand Stock Exchange Listing Rule or Board Policy relating to the value of transactions.

Ratio of shareholders' funds to total assets

We are unable to disclose the forecast ratio of shareholders' funds to total assets for the next three years.

The long term target for the ratio of debt to debt plus equity is 50%, to a maximum of 65%.

Accounting policies

Lyttelton Port Company Ltd has adopted accounting policies that are consistent with New Zealand International Financial Reporting Standards, generally accepted accounting practice and the policies adopted by the Christchurch City Council group.

The company's current accounting policies are attached to this Statement of Intent.

Performance targets

Lyttelton Port Company Ltd is a publicly listed entity. It provides information to shareholders via the New Zealand Stock Exchange on a formal basis, predominantly in the form of half and full year announcements. It is a requirement of the New Zealand Stock Exchange that material information is released to all shareholders concurrently.

With this background, the information that Lyttelton Port Company Ltd can provide in the Sol is limited to that which is in the public domain.

Performance targets for 2010/11

The performance achieved by the company for the 2010/11 year was as follows:

	2010/11
<i>Cargo</i>	9.6m manifest tonnes
<i>Earthquake-adjusted profit after tax</i>	\$12.1m
<i>NPAT</i>	\$24.1m

Distributions

Lyttelton Port Company Ltd will pay dividends to the shareholders after taking into account its profitability and future investment requirements. The dividends payable to the shareholders will be determined by the Board after consideration of the company's funding requirements and the requirement to meet the solvency test under the provisions of the Companies Act 1993.

The dividends are forecast to be paid in two instalments in March and of each financial year and are also forecast to be fully imputed for tax purposes.

To assist the shareholders with budgeting, the current dividend policy is to pay a minimum of 50% of tax paid profit.

The payment of dividends has been suspended until the Directors are comfortable with progress being made on the insurance claim. Whilst some insurance payments have been received, matters with our insurers are not yet finalised and the total financial impact of the earthquake damage remains unclear. The Directors see no reason why the Company would not revert back to its dividend policy once these matters have been resolved.

Information to be provided to shareholders

An annual report will be submitted to the shareholders. The annual report will include audited financial statements and such other details as are necessary to permit an informed assessment of the company's performance and financial position during the reporting period provided to the shareholders.

Half-yearly reports will also be provided to the shareholders. These reports will contain unaudited information and comply with NZ IAS 34.

The statement of intent will be submitted to the shareholders annually. The Directors will include any other information they consider appropriate.

Where appropriate, revised financial forecasts will be submitted to the shareholders.

The company will operate on a "no surprises" basis in respect of significant shareholder-related matters, to the extent possible in the context of commercial sensitivity and confidentiality obligations.

Acquisition/divestment procedures

The subscription or acquisition of securities in any company or organisation, or a divestment of part of the existing business, will only be considered where it is consistent with the long-term commercial objectives of Lyttelton Port Company Ltd.

When the subscription, acquisition or divestment is a major transaction as defined in the Companies Act 1993, s129 (2), the transaction will be subject to shareholders' approval by special resolution.

Where the company decides to incorporate or subscribe for shares in subsidiaries to undertake its commercial activities, the company will ensure effective management. Board control of any subsidiary is exercised by LPC's directors and staff.

Compensation sought from local authority

At the request of the shareholder[s], the Company may undertake activities that are not consistent with normal commercial objectives. Specific financial arrangements will be entered into to meet the full commercial cost of providing such activities.

Currently, no such activities are undertaken.

Estimate of commercial value of shareholder's investment

The book value of shareholders' funds as at 31 December 2011 was \$ 157.5m. The market capitalisation as at 31 December 2011 was \$ 204.5m.

Role in the Christchurch City Council group and regional economy

a) Commercial relationships within the CCC group

We have the following commercial relationships within the CCC group as present:

- Orion – conduit for electricity suppliers to the Port
- CityCare – facilities management, and civil construction works

b) Role in the growth of the regional economy

Lyttelton Port Company Ltd recognises it has an important role to play in supporting the economic performance and development of the Canterbury region. Lyttelton Port Company Ltd needs to ensure that the exporter and importers in the region are receiving a highly competitive and quality service at the port.

Regional and City Planning

LPC wishes to provide input into CERA's plan, which will address some of the significant issues around the Port. LPC is providing CERA staff an understanding of these issues through site visits and meetings on planning matters relating to Lyttelton.

The Company has submitted to Christchurch City Council on two occasions, and pointed out that the roading changes proposed could be detrimental to the Port.

Earthquake recovery and enhancement opportunities

Following the earthquakes, the company embarked on a process of quantifying the extensive damage to the port's assets. This process is still continuing.

LPC carries insurance cover for restoring and reinstating assets to current standards as a result of events like the recent earthquakes, along with business interruption insurance. LPC continues to work closely with its insurers assessing the damage to its assets from the September 2010, February 2011, and June 2011 earthquakes determining the appropriate steps for their restoration or reinstatement and to finalise its claim. The Company expects finalisation of these matters will take some time.

LPC will continue to keep the market informed on progress in the rebuild of the port.

"No "surprises" relationship

The Company confirms its intention to operate on a 'no-surprises' basis.

Appendix to Statement of Intent for the year ending 30 June 2011 – Accounting Policies

Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements. The accounting policies have been applied consistently by Group entities.

(a) Basis of Consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Transactions Eliminated on Consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(iii) Investments in Equity Securities

Investments in equity securities of subsidiaries are measured at cost in the separate financial statements of the Company.

(b) Foreign Currency

(i) Foreign Currency Transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date.

(c) Financial Instruments

(i) Non-Derivative Financial Instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through the income statement, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset.

Purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Other

Subsequent to initial recognition, other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and Other Receivables

Trade and other receivables are stated at their cost less impairment losses.

Trade and Other Payables

Trade and other payables are stated at cost.

(ii) Derivative Financial Instruments

The Group uses derivative financial instruments to hedge its exposure to foreign exchange, commodity price and interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading

purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value and transaction costs are expensed immediately.

Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the income statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedging relationship (see below).

Cash Flow Hedges

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in the income statement.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in equity is transferred to the income statement in the same period that the hedged item affects the income statement.

(d) Property, Plant and Equipment

(i) Recognition and Measurement

Items of property, plant and equipment are measured at cost, less accumulated depreciation and impairment losses.

The cost of land, certain buildings and certain harbour structures at 1 July 2005, was determined by reference to fair value as at 30 June 2005. Fair value at that date was determined by independent registered valuers. The basis of valuation is the highest and best use and disposal costs are not deducted. These fair values were adopted as deemed cost on 1 July 2005.

Increases and decreases in the value of assets were recognised as transitional adjustments to equity.

The cost of other assets was determined by reference to historical cost at that date.

Subsequent additions are recorded at cost which includes expenditures that are directly attributable to the acquisition of the asset including financing costs. The cost of self-constructed assets includes the cost of materials and direct labour, borrowing costs on qualifying assets, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

(ii) Subsequent Costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

(iii) Depreciation

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment except for capital work in progress. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

- buildings 1-50 years.
- harbour structures and land improvements 3-50 years.
- container cranes 30 years.
- plant equipment and vehicles 3-30 years.
- vessels 5-25 years.
- seawalls 100 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(e) Intangible Assets

(i) Resource Consents and Easements

Resource consents and easements over land provide an enduring benefit for the Company and the Group's operations. These are recorded at cost and are amortised to the Income Statement on a straight line basis over periods of 5-10 years (being the periods of assessed benefit). Resource consents and easements are stated at cost less amortisation provided to date.

(ii) Other Intangible Assets

Other intangible assets including software that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) Subsequent Expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in the income statement when incurred.

(iv) Amortisation

Amortisation is recognised in the income statement on a straight-line basis over the estimated useful lives of finite intangible assets, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

- computer software 3-10 years.
- resource consents and easements 5-10 years

(f) Leased Assets

(i) Group as Lessee

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's balance sheet.

(ii) Group as Lessor

Assets leased under operating leases are recorded as Property, Plant and Equipment.

(g) Inventories

Inventories, consisting of fuel stocks, maintenance parts and consumable supplies are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(h) Impairment

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any objective evidence of impairment.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses directly reduce the carrying amount of assets and are recognised in the income statement.

(i) Impairment of Receivables

The recoverable amount of the Group's receivables carried at amortised cost is calculated as the present value of expected future cash flows. Receivables with a short duration are not discounted.

Impairment losses on an individual basis are determined by an evaluation of the exposures on each individual receivable. All receivables that are considered significant are subject to this approach.

(ii) Non-Financial Assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units

are used to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(i) Employee Benefits

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement when they are due. The Group is party to a multi-employer defined benefit pension plan in respect of certain individuals.

As sufficient information is not available for the Group to account for this plan as a defined benefit plan, it is accounted for as a defined contribution plan, with obligations for contributions recognised as an expense in the income statement when they are due. See note 16 for additional information.

(i) Long-Term Employee Benefits

The Group's net obligation in respect of long term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations.

(ii) Short-Term Benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(j) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(k) Revenue

Revenue is measured at the fair value of the consideration received or receivable, net of allowances, trade discounts and volume rebates.

(i) Services

Revenue from services is recognised in the income statement when the service is performed. Where services are in progress at the reporting date, revenue is recognised in the income statement in proportion to the stage of completion of the service at that date.

(ii) Rental Income

Rental income from property is recognised in the income statement on a straight-line basis over the term of the lease.

(iii) Deferred Lease Income

Deferred lease income is revenue received in advance which is recorded as a liability and amortised to income on a straight line basis over the period to which the lease income relates.

(l) Lease Payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(m) Finance Income and Expenses

Finance income comprises interest income on funds invested and gains on hedging instruments that are recognised in the income statement. Interest income is recognised as it accrues, using the effective interest method.

Finance expenses comprise interest expense on borrowings and the ineffective portions on hedging instruments that are recognised in the income statement. All borrowing costs are recognised in the income statement using the effective interest method, except with regards to borrowing costs on qualifying assets which are capitalised as part of the cost of those assets, as allowed by NZ IAS 23 Borrowing Costs.

(n) Dredging Costs

Maintenance dredging costs are recorded as a prepayment and expensed over the period of benefit, which has been assessed as one to five years.

(o) Income Tax Expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit; and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(p) Earnings Per Share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders with the average number of ordinary shares outstanding, for the effects of all dilutive potential ordinary shares.

(q) Segment Reporting

As of 1 July 2009 the Group determines its operating segments based on the information provided to the Board of Directors who are the Group's chief operating decision maker. This change in accounting policy is due to the adoption of NZIFRS 8 Operating Segments. Previously operating segments were determined in accordance with NZ IAS 14 Segment Reporting.

The Group has one reportable business segment providing and managing port and associated facilities in Christchurch, New Zealand.

(r) New Standards and Interpretations Not Yet Adopted

A number of new standards and interpretations are not yet effective for the year ended 30 June 2009, and have not been applied in preparing these consolidated financial statements.

NZ IAS 1 Presentation of Financial Statements will become mandatory for the Group's 2010 financial statements.

The Group has not yet determined the potential effect of these changes.

The following new standards and interpretations are not expected to have any material impact on the Group's financial statements when they become effective:

- NZ IFRS 2 Amendments to Share Based Payments: Vesting Conditions and Cancellations.
- NZ IFRS 3 Business Combinations (revised)
- NZ IAS 23 Borrowing Costs (revised)
- NZ IAS 27 Consolidated and Separate Financial Statements (amended)
- NZ IAS 32 Amendment to Puttable Financial Instruments and Obligations Arising on Liquidation

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and nonfinancial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about

the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Enable Services Limited

STATEMENT OF INTENT

For the year ending 30 June 2013

Approved as final by Christchurch City Council: XX XXXX 2012



DIRECTORY

Address	PO Box 9228, Christchurch
Registered office	1 Show Place, Tower Junction, Christchurch
Board	William James Luff (Chair) William John Dwyer Mark Bowman Brett Gamble Craig Richardson Charlotte Walshe
Chief Executive	Steve Fuller
Telephone no.	03 335 1765
Web	www.enablenetworks.co.nz
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INTRODUCTION

This Statement of Intent ("Sol") is submitted by the Board of Directors of Enable Services Limited (ESL) and is prepared in accordance with Section 64(1) of the Local Government Act 2002.

The Sol specifies the objectives, the nature and scope of the activities to be undertaken, and the performance targets and other measures by which the performance of the company may be judged in relation to its objectives, amongst other requirements. The Sol covers the activities of ESL and its newly established subsidiary Enable Networks Limited (ENL).

The process of negotiation and determination of an acceptable Sol is a public and legally-required expression of the accountability relationship between the company and its shareholder, Christchurch City Holdings Ltd (CCHL). The Sol is reviewed annually with CCHL and covers a three year period.

ESL's registered office is at 1 Show Place, Tower Junction, Christchurch.

ESL is a council-controlled trading organisation ('CCTO') for the purposes of the Local Government Act 2002.

OBJECTIVES

ESL's primary objectives are:

- Successful implementation of the Ultra-Fast Broadband network in Christchurch consistent with Crown requirements and in a way that will create world leading 'open access' ultra-fast broadband capability for every premise in Christchurch, Rangiora and Rolleston.
 - Drive uptake onto the new Ultra-Fast Broadband infrastructure ensuring ENL is successful and sponsorship of demand aggregation resources in sectors where a collective approach can bring substantial benefits to the consumers, eg, schools and health.
 - Encourage and support the development of policy and design standards for making telecommunications ducting mandatory for new building and subdivision consents by Christchurch City Council.
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NATURE AND SCOPE OF ACTIVITIES

Establishment

In January 2007 ESL was incorporated as a company and commenced operations in June 2007. The initial investment of a metropolitan open access fibre optic network has been completed and the company has been actively growing market share in the business broadband market.

ESL's parent company, Christchurch City Holdings Ltd ('CCHL'), has stated its intent "to own and manage key infrastructure investments" that make Christchurch internationally competitive. The economic and social development of Christchurch is a key priority which a world class open access broadband network supports.

UFB Contract

In May 2011 ESL was awarded the government contract to install an open access fibre optic network to every premise in the Greater Christchurch Urban areas, including Christchurch City, Rangiora, Rolleston, Woodend, Kaiapoi, Lincoln and Prebbleton. This is part of a broader Ultra-Fast Broadband (UFB) project contracted by the Crown to provide open access fibre optic network throughout all urban areas in New Zealand.

The ESL UFB contract involves a partnership with Crown Fibre Holdings Limited (CFH) which is the Government entity negotiating and administering the contract. The partnership is through a subsidiary entity called Enable Networks Limited (ENL) which both ESL and CFH will hold investments in. The Board of ENL is made up of three delegates each from ESL and CFH plus an independent chair. The percentage of shares and level of voting control held by each entity will change through the lifecycle of the project.

Under the UFB project, ESL takes on an obligation to build the network within eight years which it will sell to ENL upon requirements being met. The agreement includes a requirement to build to priority users including health, education and business areas by the end of 2015.

ENL is only able to offer wholesale services on the network and both ENL and ESL are prohibited from providing retail services or to have a related party that is a vertically integrated telecommunications provider.

ENL will proactively secure customer demand through its ever expanding array of business partners and it will continue to seek and evaluate opportunities that provide the city with 'open access broadband capability' which are compatible with the company's objectives and the contract obligation of ENL.

POST EARTHQUAKE ENVIRONMENT

Social Transformation and Development

ESL recognises the significant social and environmental benefits that can be gained for Christchurch through the successful implementation of the UFB project. These benefits are especially important given the numerous impacts on the Greater City area from the recent earthquakes.

ESL will conduct its business paying close attention to these areas including:

- Assisting relocating businesses by providing efficient access to new network connections
- Focus future investment to ensure new green field developments have access to Ultra-fast broadband capability where possible
- Maximising the co-ordination with the rebuilding of Christchurch and the establishment of the new network
- Minimising environmental impacts by ensuring all network infrastructure will be deployed in a way that minimises the impact to the environment, ie, underground.

In addition, ENL will work closely with the education and health sectors in Christchurch ensuring broadband capability investments are targeted in these areas for the wider good of the community.

Finally, ENL will ensure its broadband capability plays a significant role in ensuring Christchurch has a safe community, ie, continual support and expansion of community based services such as crime prevention camera capability.

All activities will be carried out with the objective of protecting and growing shareholder value.

Retention of Key Staff

Retention and attraction of talented employees is vital to ESL's success. During the earthquake recovery process and in a very competitive job market, this is even more apparent. ESL intends to achieve the retention and attraction of talented employees by:

- Remunerating employees at a competitive market rate
- Ensuring ESL's culture stimulates and motivates employees to perform and enjoy their work environment
- Putting in place policies and procedures that support employees' health, safety and wellbeing
- Providing development opportunities
- Ensuring our leadership team is effective, united and supportive

Regional and City Planning

ENL's business of building an open access fibre optic network aligns with and supports the CERA Recovery Strategy and the Christchurch City Council's Central City Plan.

In the Central City ENL has assisted with the Re-start project in Cashel Mall by providing sponsored fibre to enable the free ultra-fast wireless connection in the area. ENL's existing fibre optic network

remains in full working order and will be immediately available for entities as they re-enter the Central City area. ENL is also building to all remaining business, health, education and government premises as a priority.

ESL is a member of the CERA Infrastructure Group which allows it to plan infrastructure installation in tandem with other infrastructural assets where this makes commercial sense. It also contributes to discussion and planning on the infrastructural rebuild.

ENL is prioritising the network build in areas adjacent to known Greenfield development sites and will be available to new subdivisions as they come on stream. ENL is focused on delivering high quality ultra-fast broadband to the Greater Christchurch area as part of a compelling lifestyle proposition for residents.

ENL looks forward to taking an active part in the recovery of Christchurch.

GOVERNANCE

Commitment

Directors and management are committed to effective governance. Governance requires competent people with a commitment to good governance and an effective set of systems and processes. This provides shareholders and other stakeholders with the assurance that the Company is appropriately governed.

Good governance will continually change to meet the changing dynamics of the business and its context. This is particularly the case with ESL following the recent awarding of the UFB contract. The company is experiencing rapid growth and new systems, processes and people are being established in order to meet the future needs of the business.

The Directors and management are very conscious of the need to implement these effectively in order to provide governance of the highest order.

Role of the Board

The Board is ultimately responsible for setting the strategic direction of the Company, oversight of the management of the Company and direction of its business strategy, with the ultimate aim being an increase in shareholder value and the development of telecommunications infrastructure in Christchurch for economic development purposes. The Board is accountable to shareholders for the performance of the Company.

Responsibilities of the Board

In carrying out its principal function, the Board's specific responsibilities include:

1. providing strategic direction for, and approving the company's business strategies and objectives;
2. reviewing and approving the company's budgets and business plans and monitoring the management of the Company's capital, including the progress of any major capital expenditure, acquisitions or divestments;
3. providing leadership of the company within a framework of prudent and effective controls which enables risk to be assessed and managed;

4. identifying the principal risks faced by the company and taking reasonable steps designed to ensure that appropriate internal controls and monitoring systems are in place to manage and, to the extent possible, reduce the impact of these risks;
5. monitoring the operational and financial position and performance of the company;
6. requiring that financial and other reporting mechanisms are put in place by the executive which result in adequate, accurate and timely information being provided to the Board and the company's shareholders being fully informed of all material developments relating to the Company;
7. appointing and removing members of the executive team, planning for executive succession and monitoring the performance of the executives having regard to the company's strategic direction and goals;
8. reviewing and approving the company's remuneration policies;
9. establishing procedures to ensure that financial results are appropriately and accurately reported on a timely basis in accordance with all legal and regulatory requirements;
10. adopting appropriate procedures to ensure compliance with all laws, governmental regulations and accounting standards;
11. approving and regularly reviewing the company's internal decision making and compliance policies and procedures, including any codes of conduct, the Board Charter and the charters of the Board's committees; and
12. ensuring that the company's internal decision making and compliance policies and procedures are adhered to, to ensure that the business of the company is conducted in an open and ethical manner; and
13. appointing three directors for the Board of ENL, as company representatives.

Delegation of responsibilities to management

The Board has delegated management of the day-to-day affairs and management responsibilities of the company to the executive team to deliver the strategic direction and goals determined by the Board.

The Board has also developed a statement of their 'Reserved Powers'.

Delegation of responsibilities to committees

The Board may, from time to time, establish committees to assist it in carrying out its responsibilities. For each committee the Board adopts a formal charter that sets out the delegated functions and responsibilities for, and the composition and any administrative matters relating to, that committee.

An Audit and Risk Committee has been established.

The Board is responsible for the oversight of its committees. This oversight includes, in relation to each committee, determining and reviewing its composition and structure and regularly reviewing its performance against its charter.

RATIO OF SHAREHOLDERS' FUNDS TO TOTAL ASSETS

The forecast ratio of shareholders' funds to total assets and capital structure for the next three years is:

ESL - Y/e 30 June \$m	2013	2014	2015
Debt	39.6	62.96	89.9
Total Liabilities	41.8	65.1	92.2
Equity	29.3	35.5	38.1
Total Assets	71.1	100.6	130.3
Shareholder's Funds to Total Assets Ratio	41%	35%	29%

The above ratios are based on financial projections based on the continuing rollout of the UFB project.

ACCOUNTING POLICIES

ESL has adopted accounting policies that are consistent with New Zealand International Financial Reporting Standards, generally accepted accounting practice and the policies adopted by the Christchurch City Council group.

The company's current accounting policies are attached to this Statement of Intent.

PERFORMANCE TARGETS

In an infrastructure sense ESL is a relatively new entity with the major part of its CBD and business network build having been completed over the last four years. The numbers of customers and revenues have been strongly growing at rates above initially targeted. The company is profitable and meeting operational objectives.

However, under the UFB project the scale of the network and the value of the ESL investments in ENL will be substantially increased. In a performance target sense ESL is essentially a new business.

By its nature, investment in infrastructure, particularly the fibre optic network, requires substantial upfront investment with a long term focus on returns. The network will hold a strong market position with consistent dependable cash flows being received over many years.

Return profiles on the investment in ENL for UFB have been set at 30 year levels and through the initial eight year build period ENL will not be profitable. ENL is expected to become EBITDA positive in 2017 and achieve profit after tax in 2020 (nine years). Thereafter profitability increases substantially.

While profitability may not be apparent for a number of years the successful completion of a high quality network build at the most efficient pricing has major ramifications on future profitability.

The performance of ESL in building the network and the performance of ENL in obtaining and growing customers through the eight year build period is fundamental to future performance.

ESL builds the network for the purpose of sale to ENL. The financial statements of ESL reflect the sale of the network to ENL as revenue and the network build costs as inventory. ENL will capitalise the network on purchase from ESL.

a) Financial performance targets

The financial performance targets for the company show the significant growth path the company is expected to take. However, as the company is undertaking the build and focused on the long term return from the investment in ENL, the three year level of profitability is low and continues to remain low.

ESL - Y/e 30 June \$m	2013	2014	2015
Operating Revenue	54.6	52.6	49.3
Cost of Sales – Network Build	47.6	44.9	41.0
Cost of Sales - Other	1.5	1.5	1.6
Net Revenue after Cost of Sales	5.5	6.2	6.7
EBITDA	0.5	0.6	1.3
Net Profit After Tax	(0.3)	(0.3)	(0.4)

The company has a high turnover with low profitability as it is in the process of constructing a fibre-optic network which it sells to ENL, an associate, on revenue account. Costs associated with the network build are reflected as expenses meaning low EBITDA and Profit results during the build period. As uptake by customers on the network occurs over the next ten years the profitability of the company increases.

Profitability ratios are not included as the project return is based on a longer term profile than the three year period.

The forecasts for ESL show the investment in ENL at cost.

b) Operational performance targets

Y/e 30 June	2013	2014	2015
Number of premises passed (cumulative)	44,550	68,704	87,951
Number of priority premises passed (cumulative)	8,910	9,481	9,675
Number of premises connected (cumulative)	2,220	5,469	10,031
Number of priority premises connected (cumulative)	1,286	2,110	2,743
Schools connected	85	105	125

c) Corporate social responsibility performance targets

Performance target	Performance measure 2012/13
Aggregate demand from schools in order assist in the transformation of educational services	Continue the leadership position in aggregating demand from schools with greater than 75 schools connected to the network
Achieve environmentally friendly design standards	All ducting and optical fibre to be undergrounded for greater than 70% of the city
Continued support for providing capability for crime prevention cameras	Further requests received by the CCC to be evaluated on commercial terms and executed accordingly.

DISTRIBUTIONS

ESL will pay dividends to the shareholders after taking into account its profitability and future investment requirements. The dividends payable to the shareholders will be determined by the Board after consideration of the company's funding requirements and the requirement to meet the solvency test under the provisions of the Companies Act 1993.

No dividends are forecast to be payable in the three year planning period which is consistent with expectations when entering the UFB contract.

INFORMATION TO BE PROVIDED TO SHAREHOLDERS

An annual report will be submitted to the shareholders. The annual report will include audited financial statements and such other details as are necessary to permit an informed assessment of the company's performance and financial position during the reporting period provided to the shareholders.

Half-yearly reports will also be provided to the shareholders. These reports will contain unaudited information and comply with NZ IAS 34.

Annual reports will be produced consistent with the "triple bottom line" (or "sustainability") reporting philosophy. The reports will outline the company's objectives and performance in terms of:

- financial
- environmental and
- social inputs, outputs and outcomes.



The statement of intent will be submitted to the shareholders for consultation annually, as required by the Local Government Act 2002. The directors will include any other information they consider appropriate. Where appropriate, revised forecasts will be submitted to the shareholders.

The company will operate on a "no surprises" basis in respect of significant shareholder-related matters, to the extent possible in the context of commercial sensitivity and confidentiality obligations.

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

ACQUISITION /DIVESTMENT PROCEDURES

The subscription or acquisition of securities in any company or organisation, or a divestment of part of the existing business, will only be considered where it is consistent with the long-term commercial objectives of ESL.

When the subscription, acquisition or divestment is considered by directors to be significant to the company's business operations, it will be subject to consultation with the shareholders.

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

Notwithstanding the above, if ESL is considering a significant acquisition or disposal of assets or securities, the shareholders will be consulted with as much lead-time as is commercially practicable in the prevailing circumstances.

Where the company decides to incorporate or subscribe for shares in subsidiaries to undertake its commercial activities, the company will ensure effective management.

COMPENSATION SOUGHT FROM SHAREHOLDERS

At the request of the shareholder, the company may undertake activities that are not consistent with normal commercial objectives. Specific financial arrangements will be entered into to meet the full commercial cost of providing such activities.

Currently, no such activities are undertaken.

ESTIMATE OF COMMERCIAL VALUE

At this preliminary stage of the company's investment in UFB life cycle, the estimated commercial value of the company is considered by the directors to be equivalent to the amount of shareholder's equity recorded in the financial statements.

ROLE IN THE CHRISTCHURCH CITY COUNCIL GROUP AND REGIONAL ECONOMY

a) *Commercial relationships within the wider Christchurch City Council group*

ESL recognises that, as a wholly-owned subsidiary of CCHL, there may be commercial opportunities with other group companies that can be developed to benefit ESL, the wider Christchurch City Council group and the greater Christchurch region.

ESL will make an effort to make contact with other group companies to explore such opportunities, and to develop new business, as appropriate.

b) *Role in the growth of the regional economy*

The establishment of an ultra-fast open access broadband network has the potential to provide substantial benefits to the regional economy in terms of facilitating communication and making Christchurch an attractive place in which to do business.

Appendix One - STATEMENT OF ACCOUNTING POLICIES

The accounting policies as set out below form the basis of preparation of ESL's NZ IFRS financial statements and forecasts.

STATEMENT OF ACCOUNTING POLICIES

Reporting entity

Enable Services Limited ('ESL') is a wholly owned subsidiary of Christchurch City Holdings Limited formed for the purpose of development of telecommunications infrastructure in Christchurch.

The financial statements of ESL are for the year ended 30 June 2011. The financial statements were authorised for issue by the ESL board of directors on 12 September 2011.

Basis of preparation

The financial statements of ESL have been prepared in accordance with generally accepted accounting practice in New Zealand ('NZ GAAP'). They comply with International Financial Reporting Standards ('IFRS'), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

The financial statements have been prepared on the basis of historical cost.

The reporting currency used in the preparation of these financial statements is New Zealand dollars, rounded to the nearest thousand.

New standards and interpretations issued and not yet adopted

The following new standards, interpretations and amendments may have an impact on ESL's future financial statements, but are not yet effective for the year ended 30 June 2011, and have not been applied in preparing these financial statements:

	Effective for annual reporting periods commencing on or after
NZ IFRS 9 Financial Instruments	1 January 2013
NZ IFRS 13 Fair Value Measurement	1 January 2013
NZ IFRS 12 Disclose Interest in Other Entities	1 January 2013

The company has not yet determined the potential impact of the new standards, interpretations and amendments.

Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling on the day of the transaction.

Foreign currency monetary assets and liabilities at the balance date are translated to NZ dollars at the rate ruling at that date. Foreign exchange differences arising on translation are recognised in the profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to NZ dollars at rates ruling at the dates the fair value was determined.

Property, plant and equipment

Assets are shown at historical cost less depreciation. Historical costs include expenditure that is directly attributable to the acquisition of the items, including labour and other costs.

At this stage, ESL considers the carrying value equates to fair value. ESL will perform valuations of its network assets with sufficient regularity to ensure that their fair value does not vary significantly from the carrying value.

Subsequent costs are included in the assets carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to ESL and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the profit or loss during the financial period in which they are incurred.

Depreciation is calculated using the straight line method to allocate the cost or revalued amounts, net of their residual values, over their estimated useful lives.

Depreciation is on the following basis:

- | | |
|---|------------|
| • Main Distribution Frames | 12.5 years |
| • Fibre (Lead-In, Distribution, Feeder) | 15.5 years |
| • Ducts and In-Ground Conduits | 50 years |

- | | |
|----------------------------|--------------|
| • Chambers and Access Pits | 50 years |
| • Active Equipment | 5 years |
| • Office Equipment | 5 years |
| • Plant and Equipment | 3 – 25 years |
| • Leasehold Improvements | 6 years |
| • Motor Vehicles | 5 years |

Trade and other receivables

Trade and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of other inventories is based on average cost and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

Construction contracts

On 31 May 2011 the company was awarded the government contract to install an open access fibre optic network to every premise in the Greater Christchurch Urban areas. Under this contract the company takes on an obligation to build the network within eight years which it will sell to ENL upon requirements being met. The contract is within the scope of NZ IAS 11 Construction Contracts.

When the outcome can be assessed reliably, contract revenue and associated costs are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the reporting date. Revenue is measured at the fair value of consideration received or receivable in relation to that activity.

When the company cannot measure the outcome of a contract reliably, revenue is recognised only to the extent of contract costs that have been incurred and are recoverable. Contract costs are recognised in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately in profit or loss.

The stage of completion of any construction contract is assessed by management by taking into consideration all information available at the reporting date including milestones for the project work to be carried out.

The maximum amount of revenue to be recognised for each milestone is determined by estimating relative contract fair values of each project phase; that is by comparing overall revenue that the company expects from its construction contract with the profit expected to be made on fulfilling the corresponding milestone. Progress and related contract revenue in-between milestones is determined by comparing costs incurred to date with the total estimated costs estimated for that particular milestone (this procedure is sometimes referred to as the "cost-to-cost" method).

The gross amount due from customers for contract work is presented as an asset as "Construction contracts work in progress" for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceeds progress billings. The gross amount due to customers for contract work is presented as a liability within "other liabilities" for all contracts in progress for which progress billings exceed costs incurred plus recognised profits.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits, and other short-term highly liquid investments with maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of ESL's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows, and in current liabilities on the statement of financial position.

Intangible assets

Intangible assets comprise development costs incurred in relation to the product and design of its fibre to the home project. Costs spent to date are categorised as product, design and business case. These costs are non monetary assets without physical substance. The costs relating to the project can be reliably measured from invoices. They are accounted for using the cost model whereby capitalised costs are amortised on a straight line basis over their estimated useful lives, from when the asset is available for use. They are reviewed at each reporting date to determine whether there is any indication of impairment.

Non-current assets held for sale

Non-current assets held for sale are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Any impairment losses for write-downs of non-current assets held for sale are recognised in the surplus or deficit.

Any increases in fair value (less costs to sell) are recognised up to the level of any impairment losses that have been previously recognised.

Non-current assets held for sale (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale.

Impairment

The carrying amounts of ESL's assets, other than inventories (see Inventories policy) and deferred tax assets (see Income Tax policy), are reviewed at each balance date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. Values are primarily assessed on the basis of fair value less cost to sell.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the profit or loss. Impairment losses on revalued assets offset any balance in the asset revaluation reserve, with any remaining impairment loss being posted to the profit or loss.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Assessment of potential impairment may involve the use of a number of significant assumptions including approximations of specific asset impairment based on average asset costs and estimates of likely future losses based on current circumstances. In addition, the condition of the actual fibre network laid in the ground cannot be physically inspected and the condition of the asset is estimated by reference to areas of physical access to the network and by the performance characteristics of the network.

(i) Calculation of recoverable amount

The recoverable amount of ESL's investments in receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their market value less cost to sell and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Trade and other payables

Trade and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Provisions

A provision is recognised in the statement of financial position when the company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits, the amount of which can be reliably estimated, will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Employee entitlements

ESL's employee compensation policy is based on Total Cash Remuneration: a single cash payment in compensation for work, where the employee is responsible for and able to individually decide how best to use their remuneration to meet their needs over time in the mix and type of benefits purchased.

Provision is made in respect of ESL's liability for the following short-term employee entitlements.

(i) Short-term entitlements

Liabilities for annual leave and time off in lieu are accrued at the full amount owing at the pay period ending immediately prior to balance date.

Liabilities for accumulating short-term compensated absences (e.g., sick leave) are measured as the amount of unused entitlement accumulated at the pay period ending immediately prior to balance date, that the entity anticipates employees will use in future periods, in excess of the days that they will be entitled to in each of those periods.

Loans and Borrowings

Borrowings are recognised initially at the transaction price and are subsequently stated at amortised cost. Interest expense is recognised on the basis of the effective interest rate method and is included in finance costs.

Borrowings are classified as current liabilities unless ESL has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Revenue

(i) Goods sold and services rendered

Revenue from the sale of goods is recognised in the statement of comprehensive income when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognised in the profit or loss in proportion to the stage of completion of the transaction at balance date. The stage of completion is assessed by reference to surveys of work performed. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods or continuing management involvement with the goods. Revenue obtained from a contract, which provides an indefeasible right to use the network, is spread equally over the term of the contract and recognised in the profit or loss accordingly.

(ii) Interest income

Interest income is recognised using the effective interest method.

(iii) Rental income

Rental income from the telecommunications infrastructure is recognised in the statement of comprehensive income on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

Borrowing Costs

Borrowing costs primarily comprise interest on ESL's borrowings. Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is necessary to complete and prepare the asset for its intended use or resale. Other borrowing costs are expensed in the period in which they are incurred and reported in finance costs.

Operating Leases

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Lease payments under an operating lease are recognised as an expense on a straight line basis over the lease term.

Lease incentives received are recognised in the surplus or deficit over the lease term as an integral part of the total lease expense.

Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at balance date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at balance date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Goods and Services Tax

The financial statements are prepared exclusive of GST with the exception of receivables and payables that are shown inclusive of GST. Where GST is not recoverable as an input tax it is recognised as part of the related asset or expense.

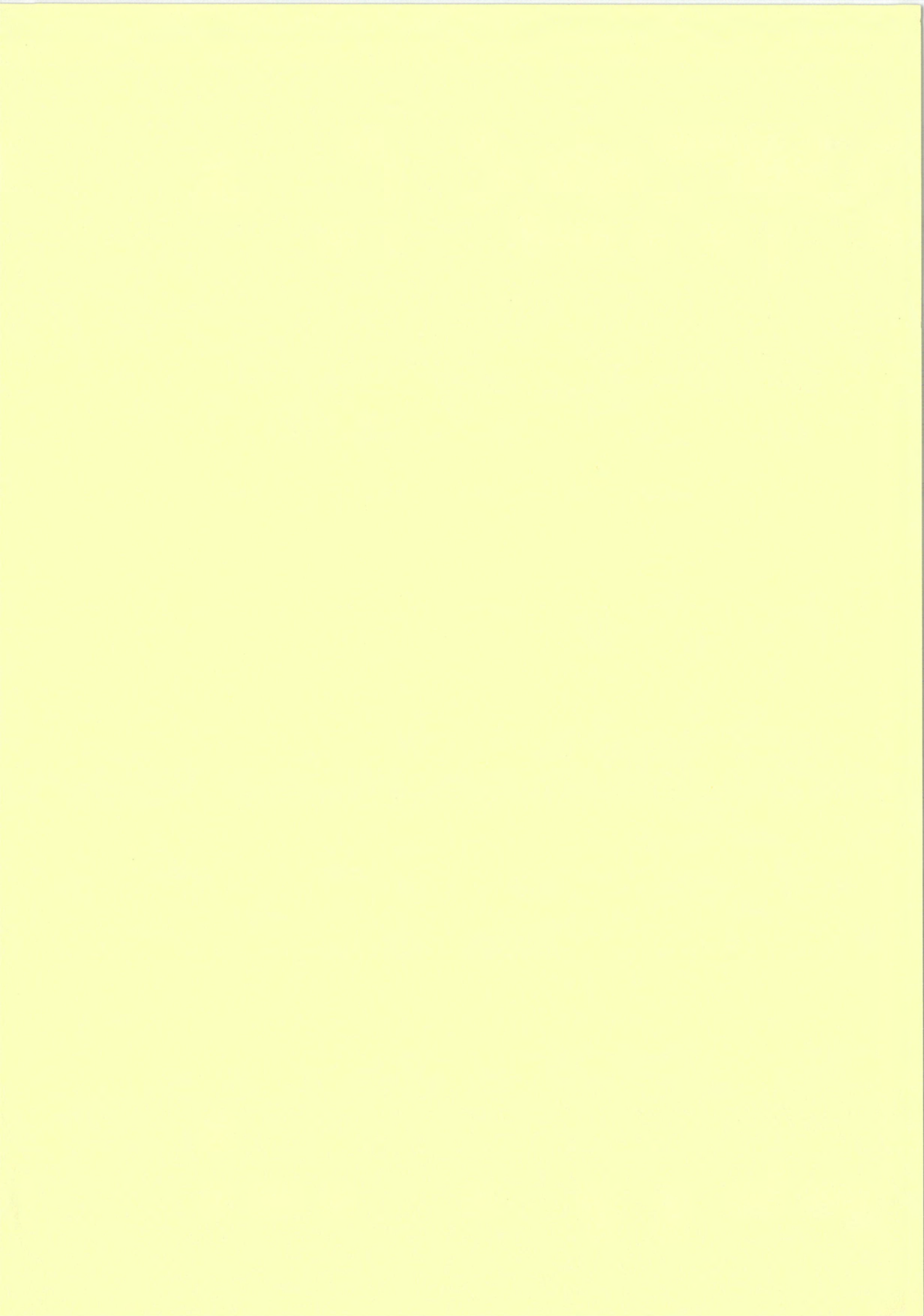
Critical judgements, estimates and assumptions in applying ESL's accounting policies

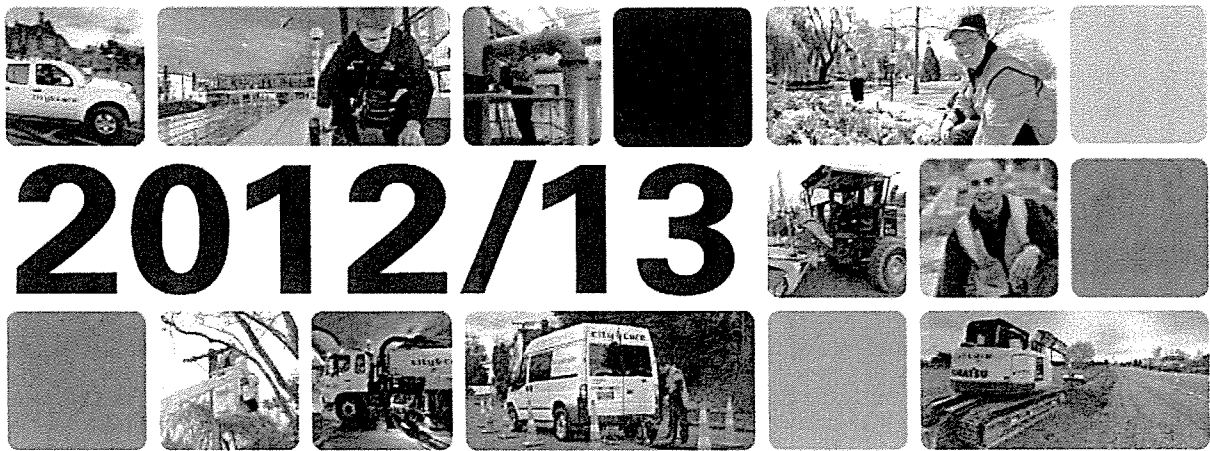
Preparing financial statements to conform with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions have been based on historical experience and other factors that are believed to be reasonable under the circumstances. These estimates and assumptions have formed the basis for making judgements about the carrying values of assets and liabilities, where these are not readily apparent from other sources. Actual results may differ from these estimates.

In the process of applying the company's accounting policies, management has made the following judgements, estimates and assumptions that have had the most significant impact on the amounts recognised in these financial statements:

Judgement has been exercised in preparing these financial statements in relation to the following:

- calculating provisions for doubtful debts
- calculating provisions for employee benefits
- likelihood of recovery of deferred tax assets
- calculating general accruals
- determining the useful life of assets for accounting depreciation
- assessing the level of fair value to assess whether assets are impaired
- capitalisation of intangible assets
- specific assumptions in relation to impairment of assets resulting from the 22 February 2011 earthquake including assumptions on the likely final number of building disconnections and an estimate of connection cost for these buildings based on average connection costs
- calculating the stage of completion of construction contracts and estimation of contract revenue





**STATEMENT OF INTENT
FOR THE YEAR ENDING 30 JUNE 2013**

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1 INTRODUCTION

This Statement of Intent (SOI) is prepared in accordance with Section 64(1) of the Local Government Act 2002. The SOI specifies for City Care Limited (City Care) the objectives, the nature and scope of the activities to be undertaken, and the performance targets and other measures by which the performance of the company may be judged in relation to its objectives.

The SOI is a public and legally required document, reviewed and agreed annually with CCHL and covers a three year period. This SOI covers the period from 1 July 2012 to 30 June 2015.

Contact details for both the Chairman and Chief Executive are City Care's registered office:

Address: 226 Antigua Street, Christchurch
PO Box 7669, Christchurch

Telephone: (03) 941 7200

Web: www.citycare.co.nz

Email: citycare@citycare.co.nz

City Care is a Council-Controlled Trading Organisation (CCTO) for the purposes of the Local Government Act 2002.

2 OBJECTIVES

City Care is a leading provider of construction, maintenance and management services for infrastructure and amenity assets.

At City Care we work around the clock building, maintaining and managing parks, gardens, sportsfields, cemeteries, waterways and coastal areas, water, wastewater and stormwater networks, buildings and public facilities, and roading networks.

2.1 Vision

City Care's vision is:



**OUR VISION IS TO BE
RECOGNISED AS THE LEADER IN
INFRASTRUCTURE SERVICE PROVISION**

2.2 Objectives

City Care's key objectives are:

To operate a profitable, sustainable, growing and innovative business so as to maintain a strong market presence in the areas of construction, maintenance and management of infrastructure and amenity assets

To operate the business in a way that generates appropriate financial returns and dividend streams to the Shareholder

To continue to compete in the Christchurch market and aggressively target a significant share of work offered for tender by Christchurch City Council

To grow a sustainable national operation

To deliver operational excellence that meets clients' expectations and maintains contract longevity

To be a good corporate citizen by adopting responsible social, environmental and value-adding approaches to all aspects of the business

To be a good employer in providing a work environment that recruits, fosters and retains competent, motivated, committed and productive employees
To achieve excellence in health and safety management
To ensure business activities comply with all legal requirements
Provide emergency support services for natural disaster events nationwide
To operate as a proactive member of the CCHL group

3 NATURE AND SCOPE OF ACTIVITIES

City Care is in the business of constructing, maintaining and managing amenity and infrastructure assets for local and central government clients and other major owners of infrastructure.

City Care's current area of operations is New Zealand. The company is open to considering opportunities in Australia and the Pacific where they are advantageous and will enhance the company's financial position.

4 GOVERNANCE

City Care's Board of Directors is responsible for the corporate governance of the company. The Board and management are committed to ensuring the company operates to the recognised principles of best practice governance and adheres to high ethical standards.

This statement presents an overview of the main corporate governance policies of the company.

4.1 Board Role and Responsibility

City Care's Board of Directors is appointed by the Shareholder, CCHL, and is responsible for the direction and control of the company's activities. The primary objective of the Board is to build long-term Shareholder value with due regard to other stakeholder interests. The Board does this by setting strategic direction and context and focusing on issues critical for its successful execution.

The role and responsibilities of the Board are formalised in the Board Charter, which is reviewed periodically. The purpose of the Board Charter is to provide high standards of corporate governance and clarify the Board's role and responsibilities. Some of the Board's responsibilities are delegated to Board Committees. The roles of the committees are described below.

The Board has delegated to the Chief Executive Officer the day-to-day leadership and management of the company. The Chief Executive Officer has formally delegated certain authorities to direct reports and has established a formal delegated authority framework for those direct reports to sub-delegate as appropriate.

All members of the Board are independent non-executive Directors.

The Board endorses and adheres to the principles of the Institute of Directors of New Zealand Inc 'Principles of Best Practice for New Zealand Directors 2007'.

4.2 Responsibility to Shareholder

In accordance with Section 64 of the Local Government Act 2002, each February the company submits to the Shareholder a draft SOI for the coming financial year. The SOI sets out the objectives, activities, intentions, financial and performance targets.

After due consideration and discussion with the Shareholder and completion of the annual business planning and budgeting, the final SOI is approved by the Board of Directors and delivered to the Shareholder in May.

4.3 Board Composition

The company's Constitution provides that the Board will consist of a maximum of seven Directors. Currently the Board comprises five independent non-executive Directors. With the prior approval of the Shareholder, the Board may appoint one full-time executive as a Director of the company.

Directors retire by rotation every three years. Retiring Directors are eligible for re-election.

The Shareholder has the right to appoint a Chairman and if it considers fit, a Deputy Chairman for such periods as it sees fit. If the Shareholder does not exercise that right, then the Board may elect their own Chairman or Deputy Chairman. The Board currently does not have a Deputy Chairman.

The Board supports the separation of the role of Chairman and Chief Executive Officer. The Chairman's role is to manage and provide leadership to the Board and to facilitate the Board's interface with the Chief Executive Officer.

4.4 Conflicts of Interest

The Board is conscious of its obligations to ensure that Directors avoid conflicts of interest (both real and apparent) between the company and their own interests. The Board Charter outlines the Board's policy on conflicts of interest. Where conflicts of interest do exist at law, then the Director/s concerned must disclose their interest, excuse themselves from any Board discussions and not receive any Board papers in respect of those interests.

The Company maintains a Board and Management Interests Register and reviews this register at each Board meeting.

4.5 Nominations and Appointment of New Directors

The procedures for appointing and removing Directors are governed by the company's Constitution. When considering candidates to act as Director, the Shareholder considers such factors as it deems appropriate, including the experience, qualifications, availability and judgment of a candidate, and the candidate's ability to work alongside other Directors.

4.6 Board Meetings

Each year there are 12 scheduled meetings of the Board. The Board also meets as required between the scheduled meetings.

The Chairman and Chief Executive Officer establish meeting agendas to ensure adequate coverage of all key issues. The Directors generally receive Board papers one week in advance of Board meetings, except in the case of special meetings for which the time period may be shorter.

The Board encourages scheduled presentations at Board meetings by managers who can furnish additional insight into items being discussed, or have future potential that could or should be demonstrated to the Board.

Directors are entitled to have access, at all reasonable times, to all relevant company information and to the company's management team. Any Director is entitled to obtain independent professional advice relating to the affairs of the company or to his or her other responsibilities as a Director. If a Director considers such advice necessary, the Director shall first gain the approval of the Chairman, and having done so, shall be free to proceed.

The Board meet regularly in Director-only sessions, without the Chief Executive Officer or other management present.

4.7 Director Induction and Education

Upon appointment to the Board, all new Directors undergo a tailored induction programme appropriate to their experience to familiarise them with City Care's business and strategy. The programme includes one-on-one meetings with management and visits to key company sites.

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

All Directors undertake continuous education so that they may appropriately and effectively perform their duties.

4.8 Board Performance Review

The Board reviews its own performance regularly, and the performance of the Chief Executive Officer. The process includes one-on-one meetings between the Chairman and each Director, as well as regular Board discussions on governance and performance issues.

4.9 Chief Executive Officer Performance Review

The Board reviews the performance of the Chief Executive Officer against his key performance objectives at least once a year.

4.10 Insurance

The company has arranged liability insurance for Directors and officers. This insurance ensures that, generally, Directors will incur no monetary loss as a result of actions undertaken by them as Directors of the company arising out of acts or omissions of Directors and employees in their capacity as such. Insurance is not provided for dishonest, fraudulent, malicious or wilful acts or omissions.

The company indemnifies the Directors and holds them harmless, to the extent possible by law and as allowed under the company's constitution, against any proceedings incurred, suffered or expended by or threatened against the Directors with respect to any act or omission in their capacity as a Director. The indemnity excludes gross negligence or wilful default, deliberate action outside the scope of the delegated authority, criminal liability, breaches of duty under section 131 of the Companies Act 1993 and any other liability for which giving an indemnity is prohibited by law.

4.11 Board Committees

The Board has two formally constituted committees, the Audit Committee and the Earthquake Rebuild Committee. The committees have Board-approved Charters outlining the committees' authority, duties, responsibilities and relationship with the Board. Other committees may be established as needed.

Audit Committee

The Audit Committee is chaired by a Director who is not the Board Chairman. It comprises all independent non-executive members of the Board. The Chief Executive Officer and the Chief Financial Officer also attend meetings in an ex-officio capacity.

Meetings are scheduled during the year to coincide with the timing of the various responsibilities of the Committee. The Committee has direct communication with and unrestricted access to the external and contracted internal auditors.

The Audit Committee's main responsibilities are to:

- ✦ Oversee compliance with statutory financial reporting requirements
- ✦ Ensure that adequate internal controls are in place
- ✦ Review the scope and extent of the external audit
- ✦ Review annual and half-yearly financial statements prior to approval by the Board
- ✦ Oversee of legislative and statutory compliance

In fulfilling its responsibilities, the Audit Committee receives regular reports from management as well as the internal and external auditors. The Audit Committee meets at least annually with the external auditor without the presence of management.

Earthquake Rebuild Committee

The Earthquake Rebuild Committee is chaired by a Director who is not the Board Chairman. The Committee is comprised of two Directors. The Chief Executive Officer, the General Manager – National Construction and the Chief Financial Officer also attend meetings in an ex-officio capacity.

The Earthquake Rebuild Committee's main responsibilities are to:

- ✦ Assist with the development of operational plans for the rebuild business streams
- ✦ Assist with business development opportunities
- ✦ Maintain an oversight of the earthquake rebuild work
- ✦ Make recommendations to the Board regarding processes to be followed

- ⚡ Make recommendations to the Board and Management with respect to individual initiatives
- ⚡ Maintain an overview of the selection and use of specialist advisors

In fulfilling its responsibilities, the Earthquake Rebuild Committee receives regular reports from management, as well as external parties if required.

4.12 Controlling and Managing Risk

The company has implemented a formal risk management framework which identifies the key risks and outlines the appropriate risk management plans. These plans are reviewed by the Board on a regular basis.

The Board participates in developing strategic plans, approves budgets and monitors company performance monthly.

The Board satisfies itself that adequate insurance is in place for the company's size and risk profile and that adequate health, safety and environmental protection policies and hazard assessments are in place and monitors their performance.

5 FINANCIAL

5.1 Profitability

Strong growth is projected over the next three years from involvement in rebuilding Christchurch, both through the infrastructure alliance and other rebuild activity. The company is also targeting ongoing growth throughout the country in its established fields of operation.

The financial targets as set out in Section 5.2 of this document reflect the strong growth opportunities for the company. This growth will improve the company profitability and increase shareholder dividends and long term value.

5.2 Financial Performance Targets

The financial performance targets as detailed in Table 1 of this report, show strong growth and profit expectation for the next three years:

Table 1 - Financial targets

	2012/13	2013/14	2014/15
Revenue	\$318m	\$362m	\$401m
Net Profit After Tax	\$14.6m	\$17.1m	\$18.0m
Return on Average Equity	28.4%	28.9%	26.3%
Shareholder funds/total assets	45%	45%	45%
Interest Bearing Debt	\$29m	\$35m	\$42m
Equity	\$54.7m	\$63.9m	\$73.2m
Debt to Debt plus Equity	34.7%	35.5%	36.4%

The financial performance targets reflect significant investment in order to capitalise on the earthquake rebuild and other opportunities, along with resulting revenues, profits and dividends. The capital investment manifests itself in increased borrowings and an increase in the debt to debt plus equity ratio as the company leverages its strong balance sheet in order to optimise the available opportunities.

Funding the company growth through retained earnings and borrowings results in a return on average equity of 28.4% in 2012/13, while maintaining dividend payments at the historic rate of 50% of net profit after tax.

The Directors consider that maintaining a dividend policy of 50% provides a good balance between maximising the short term dividend returns and providing capital for business growth to maximise medium and long term dividend returns.

6 Operational

6.1 Company Operations Post-earthquakes

City Care did not sustain any significant damage to plant or property as a result of the many earthquakes. However, the company has experienced a significant increase in volumes of work due to the company's contractual obligations for the maintenance of the water, wastewater, roading and building infrastructure for Christchurch City Council.

High, but progressively decreasing, levels of maintenance activities will continue into the future until the horizontal infrastructure is fully rebuilt. This, along with the alliance rebuild contract, means the company will continue to experience high levels of work activities.

6.2 Emergency Response

Due to the ongoing aftershocks, City Care will be required to respond to emergency events and call-outs as they occur. In order to meet its contractual obligations the company has invested in systems and processes and people over the last 18 months.

The company has in the Christchurch region some 650 field staff, administrative support, project support and management staff, along with associated plant and equipment available to work on emergency related tasks. The company has a further 450 staff around New Zealand to call on for emergency support should the need arise again.

6.3 Commercial Relationship with the Christchurch City Council Group

City Care acknowledges, as a wholly owned subsidiary of CCHL, that there may be commercial opportunities within, or in partnership with, other group companies that can be developed to benefit City Care, CCHL and the Canterbury region. City Care will work actively with other group companies to explore any opportunities that could provide value to either party, and to develop new business as appropriate.

6.4 Operational Performance Targets

The operational targets identified in Table 2 reflect the post-earthquake environment with a view of staff retention and engagement along with continued growth around New Zealand. Growth, both geographically and in existing locations continues to be a key strategy. Any reduction in City Care's drive to continue to grow strategically will impact on future dividend streams and company value.

Table 2 - Operational targets

Target	Performance measure 2012/13
Growth	Secure new long-term maintenance work in excess of \$2m per annum
Client satisfaction	Maintain current client satisfaction levels through annual survey
ISO 14001 Environment Management	Maintain accreditation
NZS 4801 Health and Safety Management	Maintain accreditation
ISO 9001 Quality Management	Maintain accreditation
ISO 14064 Greenhouse Gas Reporting	Maintain accreditation
Quality	Develop a behavioural based quality system
Health and Safety	10% reduction in lost time incident frequency rate
	10% reduction in work-related injury hours lost / 1 million hours worked
	Commence measurement of TRIF (Total Recordable Incident Frequency) accident rates
Staff engagement	Maintain current level of staff satisfaction through annual survey
Staff skills	Maintain number of staff qualifications

6.5 Operational Challenges

The future challenge for City Care will be capitalising on the many opportunities available to the company due to the rebuild. The management of this is detailed below:

Management resources – To meet the increased demand in workload, the management structure was split into maintenance activities and construction activities. This ensures that the various components of the business focus on their areas of speciality and that all opportunities are optimised and the contractual obligations are met.

In order to ensure the organisation has the correct level of resources, additional people are being engaged through a combination of full time permanent employment, short-term contracts and consultancy arrangements.

Field staff – Over the next five years significant focus will be required to retain and attract new staff to City Care. The management of this will be a key competitive advantage and will determine the extent of the company's ability to operate and grow, both locally and nationally.

Partnerships – Building partnerships with new clients, suppliers and subcontractors will be key to the company's future strategy. The company has been actively working on developing these relationships.

7 DISTRIBUTIONS

To assist the Shareholder with budgeting and due to the increased profitability of the company as detailed in Table 1, which has been driven by the company's growth around New Zealand and the significant involvement in the Christchurch rebuild, the company is forecasting ordinary dividends payable to the Shareholder as detailed in Table 3.

Any dividends will be paid to the Shareholder after taking into account the company's profitability and future investment requirements. The Board will determine the dividends payable after considering the company's funding requirements and the requirement to meet the solvency test under the provisions of the Companies Act 1993.

The dividends are forecast to be paid in two instalments in March and October of each financial year.

Table 3 - Shareholder Dividend Distribution

2011/12	2012/13	2013/14
\$M	\$M	\$M
7.3	8.1	7.9

8 INFORMATION TO BE PROVIDED TO THE SHAREHOLDER

The company will operate on a 'no surprises' basis in respect of significant Shareholder-related matters, to the extent possible in the context of commercial sensitivity and confidentiality obligations.

8.1 Statement of Intent

The SOI will be submitted to the Shareholder for consultation annually, as required by the Local Government Act 2002. The Directors will include any other information they consider appropriate. Where appropriate, revised forecasts will be submitted to the Shareholder.

8.2 Annual Report

An Annual Report will be submitted to the Shareholder and will include audited financial statements and such other information as necessary to permit an informed assessment of the company's performance and financial position during the reporting period.

Annual reports will be produced consistent with 'triple bottom line' reporting philosophy. The reports will outline the company's objectives and performance in terms of financial, environmental and social inputs, outputs and outcomes.

City Care will provide information requested by the Shareholder in accordance with the requirements of the Local Government Act 2002.

9 ACQUISITION/DIVESTMENT PROCEDURES

The subscription or acquisition of securities in any company or organisation, or a divestment of part of the existing business, will only be considered where it is consistent with the long-term commercial objectives of City Care.

When the subscription, acquisition or divestment is considered by Directors to be significant to the company's business operations, it will be subject to consultation with the Shareholder. Major transactions as defined by the Companies Act 1993, Section 129(2), will be subject to the Shareholder's approval by special resolution.

Where the company decides to incorporate or subscribe for shares in subsidiaries to undertake its commercial activities, the company will ensure effective management. Board control of any subsidiary is exercised by City Care's Directors and staff.

10 COMPENSATION SOUGHT FROM LOCAL AUTHORITY

At the request of the Shareholder, the company may undertake activities that are not consistent with normal commercial objectives. Specific financial arrangements will be entered into to meet the full commercial cost of providing such activities. However, currently, no such activities are undertaken or contemplated.

11 ESTIMATE OF COMMERCIAL VALUE OF SHAREHOLDER'S INVESTMENT

Effective 30 June 2009, City Care's value was assessed by independent valuers, Ernst & Young, based on a full discounted cash flow of future maintainable earnings valuation and a separate valuation for the Springs Road land, at \$26.229 million.

12 REGIONAL AND CITY PLANNING

City Care has given consideration to the draft Christchurch City Council City Plan and the draft CERA Recovery Strategy and the implications they have for the company's long term strategy.

The most significant effect these plans will have on City Care will be through the company being part of the city rebuild activity.

City Care is a participant in the Stronger Christchurch Infrastructure Rebuild Team (SCIRT) alliance, along with CERA, Christchurch City Council, NZTA and four other contractors. Over the next several years this alliance is tasked with rebuilding the city's horizontal infrastructure – primarily water, wastewater and roading networks.

The alliance participants will work closely in a co-ordinated manner in the interests of the Christchurch rebuild. The Christchurch City Council City Plan and the CERA Recovery Strategy will form an integral part of the alliance activities.

City Care's participation in the alliance is an important part of the company's growth strategy. This strategy involves commitment to significant investment in resources including plant, people and systems. The company strategy also includes rebuild work outside the SCIRT infrastructure alliance, including working for the insurance industry. This work will also be guided by and consistent with both plans.

At the same time, City Care remains responsible for the ongoing maintenance of Christchurch's infrastructure and amenities, including water, wastewater, stormwater, roads, parks, gardens, cemeteries, waterways, buildings and public facilities. Of these, the most significant ongoing impact from the earthquakes is on the water and wastewater networks. Keeping the damaged networks operational during the rebuild will involve co-ordination with the rebuild activity and will be consistent with the recovery strategy.

In Christchurch, City Care has offices and depots at Antigua Street, Milton Street, Springs Road and Pages Road. At different times consideration has been given to consolidating operations at Springs Road. The company will be cognisant of city plans when considering any changes.

13 ACCOUNTING POLICIES

City Care has adopted accounting policies consistent with New Zealand International Financial Reporting Standards, generally accepted accounting practice and the policies adopted by the Christchurch City Council group.

The company's current accounting policies are attached in Appendix 14.1.

14 APPENDIX

14.1 City Care: Statement of Accounting Policies

Basis of Preparation

The financial statements are prepared under the historical cost convention, as modified by the revaluation of certain classes of property, plant and equipment. The reporting currency is New Zealand dollars, rounded to the nearest thousand.

Preparing financial statements to conform to NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances. These estimates and assumptions form the basis for making judgements about the carrying values of assets and liabilities, where these are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are regularly reviewed. Any changes to estimates are recognised in the period if the change affects only that period, or into future periods if it also affects future periods.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

Significant Accounting Policies

(a) Borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings using the effective interest basis.

(b) Borrowing Costs

Borrowing costs are interest and other costs incurred by the company in connection with the borrowing of funds and expensed as incurred.

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method and interest receivable on funds invested.

(c) Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances, call deposits and other short-term highly liquid investments with maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows and in current liabilities on the balance sheet.

(d) Construction Contracts

Construction work in progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date less progress billings and recognised losses. Costs include all expenditure related directly to the specific projects.

Once the outcome of a construction contract can be estimated reliably, construction revenue and costs are recognised on the basis of the percentage of completion of the contract at balance date. The stage of completion is assessed by carrying out surveys of work performed.

An expected loss on a contract is recognised immediately in the income statement.

Construction contracts are defined as those in which progress claims are made under the Construction Contracts Act 2002.

(e) Employee Benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured at the present value of the estimated future cash outflows to be made by the entity in respect of services provided by employees up to the reporting date.

Defined Benefit Scheme (the Scheme)

The company participates in the National Provident Defined Benefit Scheme, which is a multi-employer defined benefit plan. Because it is not possible to determine, from the terms of the Scheme, the extent to which any deficit will affect future contributions by employers, the company participation in the Scheme is accounted for as if the Scheme were a defined contribution plan.

Defined Contribution Schemes

The company participates in other schemes in addition to the Defined Benefit Scheme which are all defined contribution plans, and contributions to the plans are expensed as incurred.

(f) Trade and Other Receivables

Trade and other receivables are stated at their cost less impairment losses.

(g) Financial Instruments

Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are included in the cost of the acquisition as part of the purchase consideration.

Preference share capital

Preference share capital is classified as equity if it is non-redeemable and any dividends are discretionary, or is redeemable but only at the company's option. Dividends on preference share capital classified as equity are recognised as distributions within equity.

Interest and dividends

Interest and dividends are classified as expenses or as distributions of profit consistent with the balance sheet classification of the related debt or equity instruments or component parts of compound instruments.

(h) Goods and Services Tax (GST)

The financial statements are prepared exclusive of GST with the exception of receivables and payables that are shown inclusive of GST. Where GST is not recoverable as an input tax it is recognised as part of the related asset or expense.

(i) Goodwill

All business combinations are accounted for by applying the purchase method. In respect of business acquisitions that have occurred since 1 July 2005, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

In respect of acquisitions prior to this date, goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous GAAP. The classification and accounting treatment of business combinations that occurred prior to 1 July 2005 was not reconsidered in the preparation of the company's opening NZ IFRS balance sheet at 1 July 2005.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment.

Negative goodwill arising on an acquisition is recognised directly in the income statement.

(j) Impairment of Assets

The carrying amounts of the company's assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated.

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement. Impairment losses on re-valued assets offset any balance in the asset revaluation reserve, with any remaining impairment loss being posted to the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Calculation of recoverable amount

The recoverable amount of assets is the greater of their market value less cost to sell and value in use. Receivables with a short duration are not discounted.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment

An impairment loss in respect of an asset carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(k) Income Tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The temporary differences of goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit are not provided for.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(l) Intangible Assets

Computer software

Acquired computer software licenses are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives on a straight line basis. Usually this period does not exceed five years.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the company, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets.

Computer software development costs recognised as assets are amortised over their estimated useful lives. Usually this period does not exceed five years.

Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates, and it meets the definition of, and recognition criteria for, an intangible asset. All other expenditure is expensed as incurred.

Amortisation

An intangible asset with a finite useful life is amortised over the period of that life. The asset is reviewed annually for indicators of impairment and tested for impairment if these indicators exist. The asset is carried at cost less accumulated amortisation and accumulated impairment losses.

An intangible asset with an indefinite useful life is not amortised, but is tested for impairment annually and is carried at cost less accumulated impairment losses.

(m) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

(n) Leased Assets

Leases in which substantially all of the risks and rewards of ownership transfer to the lessee are classified as finance leases. All other leases are classified as operating leases. At inception, finance leases are recognised as assets and liabilities on the balance sheet at the lower of the fair value of the leased property and the present value of the minimum lease payments, using the discount rate provided by the leasing company where available, or the company's marginal cost of borrowing. Any additional direct costs of the lessee are added to the amount recognised as an asset. Subsequently, assets leased under a finance lease are depreciated as if the assets are owned. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method.

(o) Payables

Trade payables and other accounts payable are recognised when the entity becomes obliged to make future payments resulting from the purchase of goods and services.

(p) ACC Partnership Programme

The company belongs to the ACC Partnership Programme whereby the company accepts the management and financial responsibility for employee-related illnesses and accidents. Under the program the company is liable for all its claims costs for a period of two years up to a specified maximum. At the end of the two year period the liability for ongoing claims passes to ACC at no further cost to the company.

The liability for the ACC Partnership Programme is measured using actuarial techniques at the present value of expected future payments to be made in respect of the employee injuries and claims up to the reporting date. Consideration is given to anticipated future wage and salary levels and experience of employee claims and injuries. Expected future payments are discounted using market yields on government bonds at balance date with terms to maturity that match, as closely as possible, the estimated future cash outflows.

(q) Property, Plant and Equipment

Land is shown at fair value, based on periodic valuations by external independent valuers. Valuations are performed with sufficient regularity to ensure revalued assets are carried at a value that is not materially different from fair value.

All other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Any revaluation increase arising on the revaluation of land is credited to the asset revaluation reserve except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense in profit or loss, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in the carrying amount arising on the revaluation of land is charged as an expense in profit or loss to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset.

On the subsequent sale or retirement of a re-valued item, the attributable revaluation surplus remaining in the asset revaluation reserve, net of any related deferred taxes, is transferred directly to retained earnings.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives.

Assets to be depreciated include:

✦ Buildings	5–25 years
✦ Plant and equipment	2–15 years
✦ Motor vehicles	4–15 years
✦ Office and computer equipment	1–10 years

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the income statement. When re-valued assets are sold, the amounts included in other reserves in respect of those assets are transferred to retained earnings.

(r) Provisions

A provision is recognised in the balance sheet when the company has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits, the amount of which can be reliably estimated, will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

(s) Revenue Recognition

Goods sold and services rendered

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance date. The stage of completion is assessed by reference to the proportion that costs incurred to date bear to the estimated total costs of the transaction. No revenue is recognised if there is significant uncertainty regarding recovery of the consideration due, associated costs, the possible return of goods, or continuing management involvement with the goods.

Rental revenue

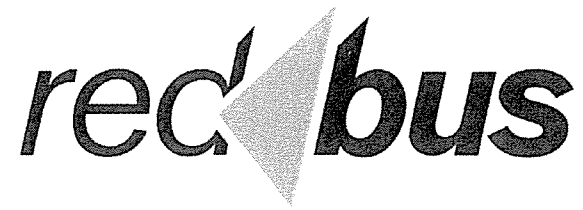
Rental revenue is recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

Interest income

Interest income recognised in the income statement as it accrues, using the effective interest method.

(t) Capitalisation of Contract Set-up Costs

New contract set up costs are capitalised from the point at which there is certainty the contract has been won, in accordance with NZIAS 11. These capitalised costs are internally generated, have a finite life and are amortised over the minimum term of the contract on a straight-line basis.



RED BUS LIMITED

STATEMENT OF INTENT

2012/13

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Statement of Intent for the year ending 30 June 2013

Introduction

This Statement of Intent ("Sol") is prepared in accordance with Section 64(1) of the Local Government Act 2002.

The Sol specifies for Red Bus Ltd the objectives, the nature and scope of the activities to be undertaken, and the performance targets and other measures by which the performance of the company may be judged in relation to its objectives, amongst other requirements.

The process of negotiation and determination of an acceptable Sol is a public and legally-required expression of the accountability relationship between the company and its shareholder Christchurch City Holdings Ltd (CCHL).

The Sol is reviewed annually with CCHL and covers a three year period.

Red Bus Ltd's registered office is at 120 Ferry Road, Christchurch.

Contact details for both the Chairperson and Chief Executive are:

Address:	120 Ferry Road, Christchurch
Telephone No:	03 379 4260
Web site:	www.redbus.co.nz
Email:	redbus@redbus.co.nz

Red Bus Ltd is a Council-Controlled Trading Organisation ('CCTO') for the purposes of the Local Government Act 2002.

Objectives

a) Red Bus Ltd's Vision is

"To be recognised as Leading the way in Passenger Transport"

The achievement of this vision will result in Red Bus being recognised as:

- The preferred urban passenger service operator by the Regional Council
- The people's choice for urban passenger transport
- The employer of choice for staff in the passenger transport industry
- A leading advocate for high quality, efficient and effective public transport
- A good corporate citizen in terms of social impacts and environmental impacts with a positive financial contribution to our shareholder and therefore into the wider community.

b) Red Bus Ltd's key objectives are to:

- Operate and grow a successful, sustainable and innovative business in providing passenger transport and associated infrastructural ownership and services. (Performance targets - asset and revenue growth)
- Manage and appropriately develop assets and property owned or occupied by Red Bus to maximise its business value while acknowledging the land use and transport strategies within the Urban Development and Regional Land Transport Strategies. (Performance target – Dividend)
- Build strong and positive relationships with the Regional and local Councils to support contractual commitments, improve service reliability and encourage appropriate investment in passenger transport services and infrastructure. . (Performance targets – Trip compliance)
- Deliver reliable and efficient services within an ethical and environmentally appropriate framework that aims to reduce environmental effects. (Performance targets – trip compliance, fleet utilization, fleet composition, emission test results,)
- Achieve ongoing improvement in customer service through staff development to promote and encourage the use of public transport in our operational regions. (Performance targets – Safety management and Qualified staff)
- Promote a prosperous economy in the greater Christchurch area and Canterbury through effective and efficient passenger transport services. . (Performance targets - trip compliance, patronage growth)
- Support Council's vision to achieve an effective and reliable transport system through collaboration and an integrated leadership approach with other organisations, including the CCHL group.

Nature and scope of activities

Red Bus is in the business of passenger transport and associated infrastructural ownership and services. These activities include the management and operation of:

- contracted urban passenger transport services
- passenger transport charter services
- commercial passenger transport services
- mobile billboards and advertising
- complementary ancillary services
- property and asset management
- fleet maintenance and management
- fleet refuelling and cleaning
- driver training and development

Governance

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

Role of the Board of Directors

The Board is responsible for the proper direction and control of the company's activities. The Board guides and monitors the business affairs of Red Bus on behalf of the shareholder, Christchurch City Holdings Limited (CCHL), to whom it is accountable, within the framework of the mission and objectives that are set out in this Statement of Intent.

All directors are required to comply with a formal Code of Conduct, which is based on the New Zealand Institute of Directors' Code of Proper Practice for Directors.

The Chairperson conducts a formal annual performance review for directors.

Responsibility to the Shareholder

Statement of Intent

In accordance with the Local Government Act 2002, the company submits a Statement of Intent for the coming financial year to CCHL. The Sol sets out the company's overall objectives, intentions and financial and performance targets.

Information Flows

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

Board Composition

The directors of Red Bus Ltd are appointed by the shareholder CCHL for terms of up to three years. Board membership currently consists of four non-executive directors.

Board Committees

Audit and Risk Management Committee

Membership of the committee consists of all members of the board, and the committee is regulated by approved terms of reference that address membership, functions and responsibilities, authorities and reporting procedures. The committee is chaired by a director who is not the Board Chairman. The Red Bus Audit and Risk Management Committee monitors risk management processes, oversees the findings of external auditors and monitors legislative compliance.

CE Review and Remuneration Committee

Membership of the committee consists of the Board Chairman, who also chairs the committee, and one other director. The committee convenes at least annually to review the performance of the Chief Executive and make recommendations to the board on the Chief Executive's remuneration package. In considering remuneration policy, the committee has regard to performance and comparable market rates.

Other Committees

The board establishes other committees on an as needed basis to deal with issues as they arise.

Ratio of shareholder' funds to total assets

The forecast ratio of shareholder' funds to total assets for the next three years are:

2012/13	2013/14	2014/15
78.9%	78.2%	77.7%

The long-term target for the ratio of debt to debt plus equity is within a range of 15% to 30%.

The forecast capital structure for the next three years is:

	2012/13	2013/14	2014/15
	\$m	\$m	\$m
<i>Equity</i>	36.0	34.9	33.7
<i>Loans¹</i>	5.0	5.0	5.0

Accounting policies

Red Bus Ltd has adopted accounting policies that are consistent with New Zealand International Financial Reporting Standards, generally accepted accounting practice and the policies adopted by the Christchurch City Council group.

The company's current accounting policies are attached to this Statement of Intent.

¹ Including Convertible Notes of \$5m

Performance targets

a) Financial performance targets

The financial performance targets for the company are as follows:

	2012/13	2013/14	2014/15
	\$m	\$m	\$m
Revenue	16.0	16.0	16.0
Interest coverage ratio	(4.2 times)	(4.4 times)	(4.4 times)

b) Operational performance targets

Target	Performance measure 2012/13
No. of passengers	At least 3.2 million passengers
Minimum fleet utilization in peak	At least 85%
Percentage of service trips not run	Less than 1%
Percentage of service trips starting on time	At least 97%

c) Environmental and Social performance targets

Environmental

- Maintaining the fleet in good operational condition
- Monitoring and mitigating our business environmental impact
- Evaluating alternative fuels and technologies with the practical potential to reduce emissions or reliance on non-renewable resources.
- Recycling used lubricants and components wherever practicable
- Purchasing replacement buses with the highest emission standard that are able to be financially supported by service contracts

Carbon Neutrality Approach

Fossil fuels are the primary energy source for any heavy transport activity. The present fossil fuel carbon footprint is unavoidable without the development of large scale carbon neutral fuel sources and the availability of appropriate engine technology at an acceptable cost. The highly cost competitive nature of urban public transport means that there is little scope to accommodate any cost premium through direct carbon offsetting within the present Environment Canterbury contract arrangements.

Social

- Encouraging all staff to achieve an NZQA qualification
- Ensuring health and safety performance exceeds compliance requirements
- Maintain good employer practices with an active EEO policy
- Provide an Employee Assistance Programme for staff and their family
- Support and/or sponsorship of various community and school programmes

Performance target - Environmental	Performance measure 2012/13
Bus fleet composition	At least 85% of the bus fleet have engines that meet Euro 2 or higher emission standards
Exhaust emission testing	Annual exhaust emission tests (95% pass rate)

Performance target – Social/Community	Performance measure 2012/13
Workplace Safety Management	Maintain at least Secondary ACC accreditation
No of staff with NZQA qualifications	More than 55% of staff hold a NZQA qualification

Distributions

Red Bus Ltd will pay dividends to the shareholder after taking into account its profitability and future investment requirements. The dividends payable to the shareholder will be determined by the Board after consideration of the company's funding requirements and the requirement to meet the solvency test under the provisions of the Companies Act 1993.

Earthquake damage to the business and residential property has reduced public transport demands causing an adverse affect on financial performance in the medium to long term. In view of this situation no future dividends are forecast at this time.

Dividend policy will be reviewed following a period of trading experience and known outcomes under the new tender and pricing regime.

Information to be provided to shareholder

An annual report will be submitted to the shareholder. The annual report will include audited financial statements and such other details as are necessary to permit an informed assessment of the company's performance and financial position during the reporting period provided to the shareholder.

Half-yearly reports will also be provided to the shareholder. These reports will contain unaudited information and comply with NZ IAS 34.

An annual report will be produced consistent with the "triple bottom line" (or sustainability) reporting philosophy. Annual reports will outline the company's objectives and performance in terms of financial, environmental and social outcomes.

The Statement of Intent will be submitted to the shareholder for consultation annually, as required by the Local Government Act 2002. The directors will include any other information they consider appropriate. Where appropriate, revised forecasts will be submitted to the shareholder.

The company will operate on a "no surprises" basis in respect of significant shareholder-related matters, to the extent possible in the context of commercial sensitivity and confidentiality obligations.

The company will provide information requested by the shareholders in accordance with the requirements of the Local Government Act 2002.

Acquisition/divestment procedures

The subscription or acquisition of securities in any company or organisation, or a divestment of part of the existing business, will only be considered where it is consistent with the long-term commercial objectives of Red Bus Ltd.

When the subscription, acquisition or divestment is considered by directors to be significant to the company's business operations, it will be subject to consultation with the shareholder.

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

Notwithstanding the above, if Red Bus Ltd is considering a significant acquisition or disposal of assets or securities, the shareholder will be consulted with as much lead-time as is commercially practicable in the prevailing circumstances.

Where the company decides to incorporate or subscribe for shares in subsidiaries to undertake its commercial activities, the company will ensure effective management. Board control of any subsidiary is exercised by Red Bus's directors and staff.

Compensation sought from local authority

At the request of the shareholder, the company may undertake activities that are not consistent with normal commercial objectives. Specific financial arrangements will be entered into to meet the full commercial cost of providing such activities.

Currently, no such activities are undertaken.

Estimate of commercial value of shareholder's investment

The major assets of Red Bus are the vehicle fleet and the property at 120 Ferry Road.

The property was purchased at market value on 28 October 1996. Land and buildings are typically revalued every three years and were last valued at 30 June 2010.

Forecasts and recent actuals for shareholder equity in Red Bus are:

Financial Year end	Shareholder equity (\$m)	Notes
30 June 2009	31.1	Actual
30 June 2010	31.4	Actual
30 June 2011	37.6	Actual
30 June 2012	37.1	Forecast
30 June 2013	36.1	Forecast
30 June 2014	35.0	Forecast

Role in the Christchurch City Council group and regional economy

a) Commercial relationships within the CCHL group

Recognising that there are potential synergies with the CCHL group, Red Bus will liaise with other CCHL companies as appropriate seeking material and worthwhile joint initiatives, including knowledge sharing and procurement opportunities within a successful business framework.

b) Role in the growth of the regional economy

The direct economic contributions by Red Bus to the Canterbury economy are:

- As a major local employer (currently of more than 230 people), the direct contribution from employees wages, and the resultant economic multiplier effect within the local economy.
- Shareholder dividend payments.
- Local supplier payments for plant and equipment, consumables and other services.
- Increasing the value of CCHL's investment in Red Bus.
- The 're-cycling' back into the Canterbury economy of a portion of the various taxes paid by Red Bus.

Red Bus also contributes by providing:

- A viable and efficient passenger transport service in partnership with ECan, Christchurch City Council, NZTA and other stakeholders.
- Christchurch residents experience safe, reliable and convenient transport on Red Bus services.
- Efficient transport services to students (who tend to be strong users of public transport) to support the Canterbury education sector in attracting and retaining students.
- A lower environmental impact transport option through the use of the latest environmental-friendly engine technology in new vehicles and low emissions fuels leading to improved air quality and a lower overall carbon footprint for Christchurch City.
- A user friendly, efficient and affordable alternative to car travel that assists in reducing peak traffic volumes and congestion in the city. Lower traffic volumes means the potential to eliminate or defer significant infrastructural investment in roading network development.

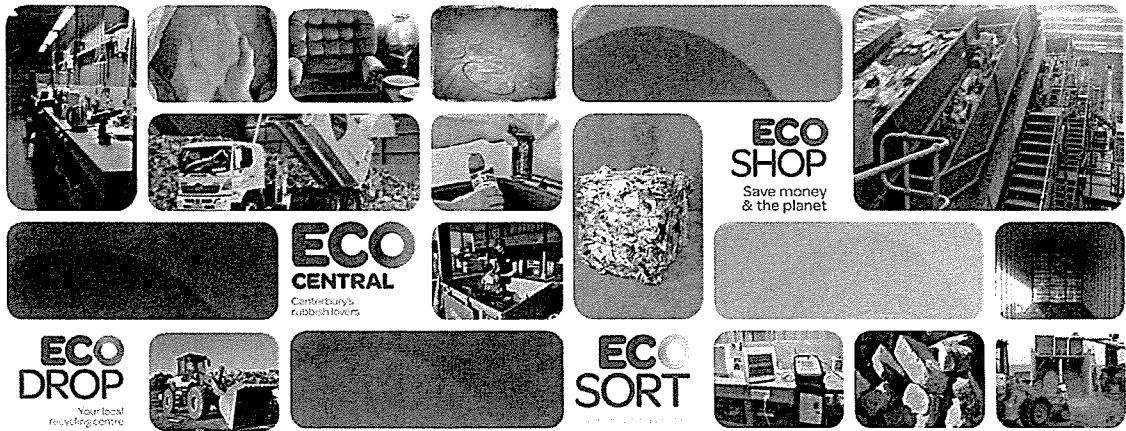
c) Urban Development Strategy implications

Red Bus is not directly able to action or advance the Urban Development Strategy because ECan's tendering process and the highly competitive nature of Canterbury public transport do not provide Red Bus with a legitimate role within the UDS implementation strategy other than an advisory or influential capacity. Red Bus has a business objective to remain a positive and effective voice for development of Public Transport in Canterbury.

Red Bus is prepared to pursue any public transport related opportunities that may arise from the development and implementation of the Urban Development Strategy.

d) Post 2011 Earthquake Responses

The 2011 earthquakes and subsequent aftershock sequence has severely disrupted work locations and transport demands. Since ECan has responsibility and control of the public transport with CCC providing the infrastructure Red Bus has little influence on the shape, size and content of public transport other than the effective delivery of contracted services. Passenger numbers on Christchurch's public transport network have reduced approximately 50% and show no indication of recovering in the medium term. Further reductions of service are anticipated this year as ECan endeavours to meet the changed public transport demand within their available budget. Red Bus will continue to monitor this situation with the view to responding rapidly as opportunities arise.



ECO CENTRAL

Canterbury's
rubbish lovers

Statement of Intent For the year ended 30 June 2013

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- Appendix 1 Statement of Significant Accounting Policies

1. Introduction

This Statement of Intent (SOI) is prepared in accordance with Section 64(1) of the Local Government Act 2002 (LGA).

The SOI specifies for EcoCentral Limited (EcoCentral), the objectives, the nature and scope of the activities to be undertaken, and the performance targets and other measures by which the performance of the company may be judged in relation to its objectives, amongst other requirements.

The process of negotiation and determination of an acceptable SOI is a public and legally required expression of the accountability relationship between the company and its Shareholder, Christchurch City Holdings Limited (CCHL) & its ultimate owner, being the Christchurch City Council (CCC)..

EcoCentral Limited owns and operates

1. The Materials Recovery Facility (MRF) at Parkhouse Road, which processes Paper, Glass, Plastics and Metals and sells the output product commercially to external parties from recyclable materials collected from the wider Canterbury Region. Ownership of the facility passes back to CCC in 2024.

EcoCentral Limited operates on behalf of CCC:

2. The Parkhouse, Metro & Styx EcoDrops (solid waste transfer stations). The operation uses appropriate mobile plant to enable efficient achievement of its operation.
3. The EcoShop operation – This provides a Reuse warehouse which runs in conjunction with the EcoDrops. All types of second-hand goods are collected from various sources, carefully sorted, priced and then sold to the Christchurch public at their location on 191 Blenheim Road.

The SOI is reviewed annually with CCHL & CCC, and covers a three-year period. EcoCentral Ltd is a Council Controlled Trading Organisation (CCTO) for purposes of the Local Government Act 2002.

2. Directory

Address

Level 1, No 9 Baigent Way
Middleton
Christchurch 8442

Registered Office:

53 Hereford Street, Christchurch

Chairperson:

KERR David **1 August 2011**
25 Woodford Terrace, Ilam, Christchurch 8053

Directors

ANDERSON, Paul Joseph **25-Jun-2008**
157a Ilam Road, Christchurch 8041

SMITH, Sarah Louise **1-Jan-2011**
276 Memorial Avenue, Burnside, Christchurch 8053

KERR David **1 August 2011**
25 Woodford Terrace, Ilam, Christchurch 8053

CAMPBELL, Gregory Shane **1-Jun-2011**
9 Swanleigh Place Ilam, Christchurch 8041

General Manager:

GERRIE, Robert Douglas

Company Secretary:

GERRIE, Robert Douglas

3. Objectives

EcoCentral Limited is responsible for the operation of the MRF and the refuse and recycling EcoDrops which includes drop-off centres that assist in the handling, separating and disposal of all waste types. These facilities receive refuse and have recycling collection operations throughout the city for both households and commercial premises.

EcoCentral Limited also operates the EcoShop on 191 Blenheim Road. This facility receives material from the transfer stations, prepares that material for sale and retails products to the public, thereby diverting material from landfill.

The objectives of EcoCentral are:

- ***Sustainability objectives*** - to receive and process a high proportion of CCC controlled waste into usable resources, with a target of minimizing the residual waste to landfill. To ensure that the Recycling Centre, EcoShops and EcoDrops are available & fully operational throughout the entire year to achieve this objective.
- ***Environmental objectives*** - encourage sustainable resource use and provide facilities to divert waste from the landfill that can be economically converted into resources and products that can be reused with minimal environmental impact. To operate all facilities in compliance with consents governing their operation.
- ***Economic objectives*** - ensure that the operation returns annual operating and cash surpluses, before the repayment of debt or distributions to shareholders, and makes a positive contribution against the capital employed. To provide sound strategic & financial planning to ensure that capacity is available to meet the recycling processing needs of the Christchurch City in a viable commercial manner.
- ***Social objectives*** - to assist CCC in empowering and encouraging the community in recycling surplus resource and waste in the community. To provide safe and clean facilities at all times. Also, to work with CCC in encouraging the users of the systems operated by EcoCentral Limited in Christchurch to understand and embrace the concept of waste minimization and resource recovery and assist in the development of a more sustainable community.

4. Nature and Scope of Activities

EcoCentral Limited is a Council Controlled Trading Organisation (CCTO) for the purposes of the Local Government Act 2002 and the Companies Act 1993.

EcoCentral is the company to which the Christchurch City Council (CCC) holds a long term contract with CCC to operate the Material Recovery Facility. This facility transfers back to council ownership at the end of the contract term in 2024.

EcoCentral Limited is the company awarded a long term operational contract to run the Christchurch City Council owned three EcoDrops at Styx Mill, Metro Place and Parkhouse Road.

EcoCentral Limited also operates the EcoShop at 191 Blenheim Road which receives material from the Recycling Centre's in combination with the EcoDrop sites. The EcoShop site is leased long term from a commercial third party.

EcoCentral Limited is regarded as a 'for profit' CCTO.

5. Governance

EcoCentral's Board of Directors is responsible for the corporate governance of the company. The Board and management are committed to ensuring the company operates to the recognized principles of best practice governance and adheres to high ethical standards.

This Statement presents an overview of the main corporate governance policies of the company.

Role of the Board of Directors

The Board is responsible for the proper direction and control of the company's activities. The Board guides and monitors the business and affairs of the company on behalf of the Shareholder, Christchurch City Holdings Limited (CCHL) to whom it is accountable.

The primary function of the Board is to ensure that the company meets its objectives and requirements as listed in the SOI. Additionally, the Board has obligations under the Local Government Act 2002 to deliver an annual Statement of Intent and relevant half-yearly and annual reports to the Shareholder.

Conflict of Interest

The Board is conscious of its obligations to ensure that Directors avoid conflicts of interest (both real and apparent) between the company and their interests. Where conflicts do exist at law, then the Director/s concerned must disclose their interest, excuse themselves from any Board discussions and not receive any Board papers in respect of those interests.

Nominations and appointments of new Directors

The procedures for appointing and removing Directors are governed by the company's constitution. When considering candidates to act as Director, the Shareholder considers such factors as it deems appropriate, including the experience, qualifications, availability and judgment of a candidate, and the candidate's ability to work alongside other Directors.

Board Meetings

Each year there are 11 scheduled meetings of the Board. The Board also meets as required between the scheduled meetings.

The Chairman and the General Manager establish meeting agendas to ensure adequate coverage of all key issues.

Directors are entitled to have access, at all reasonable times, to all relevant company information and to the company's management team. Any Director is entitled to obtain independent professional advice relating to the affairs of the company or to his or her other responsibilities as a Director. If a Director considers such advice necessary, the Director shall first gain the approval of the Chairman, and having done so, shall be free to proceed.

Information Flows

The Board aims to ensure that CCHL is informed of developments affecting the company's state of affairs, while at the same time recognizing that commercial sensitivity may preclude certain information from being made public. Within this constraint, information is communicated to CCHL through periodic reports to CCHL and through the annual and half yearly reports.

All Directors endorse and are required to comply with the New Zealand Institute of Directors' Code of Proper Practice for Directors.

The Board has delegated to the General Manager the day-to-day leadership and management of the company. The General Manager has formally delegated certain authorities to direct reports and has established a formal delegated authority framework for those direct reports to sub-delegate as appropriate.

The company may also make use of external advisors from time to time.

The Board is responsible for reviewing the company's accounting policies, reporting practices and resultant financial statements. It also considers external audit reports, audit relationship matters and fees as well as delegated authorities.

Insurance

The company has arranged liability insurance for the Directors & Officers. This insurance ensures that, generally, Directors will incur no monetary loss as a result of actions undertaken by them as Directors of the Company arising out of acts or omissions of Directors and employees in their capacity as such. Insurance is not provided for dishonest, fraudulent, malicious or willful acts or omissions or for negligence.

Controlling and managing risk

The Board participates in developing strategic plans, approves budgets and monitors company performance monthly.

The Board satisfies itself that adequate insurance is in place (if available) for the company's size and the risk profile and that adequate health, safety and environmental protection policies and hazard assessments are in place and monitors their performance.

EcoCentral has insurance cover in place to cover all known perils except those as a result of natural disasters. EcoCentral is seeking cover for natural disaster from other insurance entities at acceptable commercial terms.

6. Performance Targets

Financial Performance Targets

The financial performance targets for the company are as follows

	2013	2014	2015
	(\$000)	(\$000)	(\$000)
Income			
Sales	31,861	32,568	33,187
Net Profit after Tax	1,722	1,829	1,864
Return on Equity	41%	31%	24%

EcoCentral is focusing on improving margins with its recycled products given the lower commodity prices and high exchange rate. Improved efficiencies of operation will contribute to better margins being achieved. Gains in volumes processed have also had a positive impact on the forecasted profitability.

The forecast ratio of Shareholders' funds to total assets for the next three years is:

	2013	2014	2015
Shareholders funds to Total Assets	20.5%	29.6%	38.7%

This is calculated as the equity of EcoCentral Limited divided by the total assets of EcoCentral Limited expressed as a percentage as at the end of the Financial Year. This will be the 30th June each year. Cash generated from operations will be used to reduce the term loan

The forecast capital structure for the next three years is:

	2013	2014	2015
	(\$000)	(\$000)	(\$000)
Equity	4,169	5,998	7,862
Debt to CCHL	12,355	10,526	8,662
Total Assets	20,294	20,294	20,294

Operational Performance Targets

In addition to the above financial performance measures, EcoCentral Ltd will use the following measures to assess its performance of the 2011/12 financial year:

Performance Targets	Performance Measure 2011 / 12
Ensure EcoCentral meets the financial targets contained within this SOI	Budgeted key performance indicators outlined above are achieved
The company meets all relevant legislative and contractual requirements. The company ensures it has in place all required Resource Consents to meet contractual requirements	No breaches of legislative or contractual requirements are recorded. The company has through its contractual arrangements with CCC the required Resources Consents to legally operate.
The company obtains and retains secondary accreditation by ACC and then tertiary level.	The company achieves secondary accreditation by March 2012 & tertiary accreditation by March 2013.
Residual Waste from the Material Recovery Facility	The percentage of residual waste removed to landfill from the MRF is less than 6% of the total weight of material received by the MRF
The amount of diverted waste from the EcoDrops	The EcoDrops divert from landfill 25% or more of the total materials received at the EcoDrops each year.

7. Accounting Policies

EcoCentral Ltd has adopted accounting policies that are consistent with New Zealand International Financial Reporting Standards, generally accepted accounting practice and the policies adopted by the Christchurch City Holdings group. The company's current accounting policies are attached to this Statement of Intent.

8. Distributions

EcoCentral Ltd will pay dividends to the shareholder CCHL after taking into account its profitability and future investment requirements. The dividends payable to the shareholder CCHL will be determined by the EcoCentral Board after consideration of the company's funding requirements and the requirement to meet the solvency test under the provisions of the Companies Act 1993.

The dividends are forecast to be paid in two instalments in March and October of each financial year and are also forecast to be fully imputed for tax purposes.

To assist the shareholder with budgeting, it is important to note that EcoCentral Ltd Board sees as a high priority the repayment of debt. To this end, it is proposed that's no dividend be paid during the next three years in order that shareholders funds are increased and debt levels reduced.

2012/13 (\$000)	2013/14 (\$000)	2014/15 (\$000)
0	0	0

9. Information to be provided to the Shareholder

An annual report will be submitted to the Shareholders. The annual report will include audited financial statements and such other details as are necessary to permit an informed assessment of the company's performance and financial position during the reporting period provided to the Shareholders.

Half-yearly reports will also be provided to the Shareholders. These reports will contain unaudited information and comply with NZ IAS 34.

Annual reports will be produced and will provide

- a comparison of the performance of the EcoCentral Limited with the statement of intent; and
- an explanation of any material variances between that performance and the statement of intent;

The statement of intent will be submitted to the Shareholders for consultation annually, as required by the Local Government Act 2002. The Directors will include any other information they consider appropriate. Where it is appropriate, revised forecasts will be submitted to the Shareholders.

The company will operate on a “no surprises” basis in respect of significant Shareholder-related matters, to the extent possible in the context of commercial sensitivity and confidentiality obligations.

The company will provide information requested by the Shareholders in accordance with the requirements of the Local Government Act 2002.

10. Acquisition/Divestment Policy

The company will not subscribe to or acquire securities in any company or organisation, or divest any part of the existing business prior to 30 June 2013.

11. Compensation Sought from Local Authority

At the request of the Shareholder, the company may undertake activities that are not consistent with normal commercial objectives. Specific financial arrangements will be entered into to meet the full commercial cost of providing such activities.

Currently, no such activities are undertaken or envisaged.

12. Estimate of Commercial Value

The Shareholder has recorded the value of its investment in EcoCentral Ltd in its accounts as \$9.1 m.

13. Impact of the Canterbury Earthquakes

Impact on operations

EcoCentral did not sustain any significant damage to plant or property during the recent earthquakes. This was minor disruption to the operations in the eastern suburbs for a period of days after both major earthquakes. EcoCentral did receive additional volumes of refuse and hardfill following the earthquakes but managed this volume within existing capacity of its operation.

Appendix 1

Statement of Significant Accounting Policies

A. Reporting Entity

These are the Accounting Policies of EcoCentral Limited. EcoCentral Limited is registered under the Companies Act 1993 and is domiciled in New Zealand. The company is a Council-Controlled Trading Organisation as defined by Section 6 of the Local Government Act 2002.

The primary objective of the company is to manage the Transfer Stations, Material Recovery Facility & SuperShed. Accordingly, the company has designated itself as a profit orientated entity for the purposes of New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS).

The Accounting Policies were authorised for by the Board of Directors for the Accounts for the Accounting Period ending 30th June 2010.

B. Statement of Compliance

The financial statements of EcoCentral Limited (the 'Company') have been prepared in Accordance with New Zealand generally accepted accounting practice. They comply with NZ IFRS.

C. Basis of Financial Statement Preparation

The financial statements are prepared under the historical cost convention, as modified by the revaluation of investment properties.

The functional and presentation currency is New Zealand dollars, and all values are Rounded to the nearest thousand dollars (\$, 000).

In preparing these financial statements EcoCentral Ltd has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations or future events that are believed to be reasonable under the circumstances. There are no estimates and Assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

D. Property, Plant & Equipment

(i) Owned assets

Items of property, plant and equipment acquired from the Meta group of companies in August 2009 are stated at fair value at acquisition less accumulated depreciation and impairment losses. Other items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and impairment losses.

When parts of an item of property, plant and equipment have different useful lives, those assets are accounted for on a component basis.

(ii) Leased assets

Leases in terms of which EcoCentral assumes substantially all of the risks and rewards of ownership are classified as finance leases. Other leases are operating leases and are not recognised on the Group's balance sheet.

(iii) Subsequent costs

EcoCentral recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic Benefits embodied within the item will flow to the Company and the cost of the item can be measured reliably. All other costs are recognised in profit or loss as an expense as incurred.

(iv) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

- Buildings – 15 to 50 years depending on the type of construction
- Leasehold improvements – The lesser period of the lease and their estimated useful life
- Plant, vehicles and other equipment – 3 to 25 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

E. Intangible Assets

(i) Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill has been recognised in the acquisition of the operations, assets, and liabilities of the Meta group of companies.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment.

(ii) Other intangible assets

Intangible assets other than goodwill that are acquired by EcoCentral are stated as cost less accumulated amortisation and impairment losses.

(iii) Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

(iv) Amortisation

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill and intangible assets with an indefinite useful life are tested systematically for impairment at each annual balance sheet date. Other intangible assets are amortised from the date that they are available for use.

The estimated useful lives are as follows:

- Software – 3 years
- Restrictive covenants – The lesser period of the covenant and its estimated useful life

F. Borrowing Costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

G. Income Tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

H. Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances and call deposits, and other short term highly liquid investments with maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows, and in current liabilities on the balance sheet.

I. Trade and Other Receivables

Trade and other receivables are initially measured at fair value and subsequently measured at amortised cost less impairment provision.

J. Inventory

Inventories are stated at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. In the case of manufactured inventories and work in progress, cost includes a share of overheads based on normal operating capacity.

K. Impairment

The carrying amounts of the Company's assets, other than deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

L. Trade and Other Payables

Creditors and other payables are initially measured at fair value and subsequently measured at amortised cost.

M. Interest-Bearing Borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

N. Equity

Share Capital

Ordinary shares and redeemable preference shares are classified as equity.

O. Goods and Services Tax

The financial statements are prepared exclusive of GST with the exception of receivables and payables that are shown inclusive of GST. Where GST is not recoverable as an input tax it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the statement of financial position. The net GST paid to, or received from the IRD, including the GST relating to investing and financing activities, is classified as an operating cash flow in the statement of cash flows. Commitments and contingencies are disclosed exclusive of GST.

SELWYN PLANTATION BOARD LTD

STATEMENT OF INTENT

FOR THREE YEARS ENDING 30 JUNE 2015

1. MISSION STATEMENT

- 1.1 To liquidate the Company through a well managed and staged realisation consistent with Shareholders' expectations.

2. OBJECTIVES

- 2.1 The principle objective is to maximise value to Shareholders. During the realisation process the Company will continue to prudently manage the remaining assets. In doing this, we will:
 - 2.1.1. Structure an appropriate sales process for all assets through a considered and orderly process, endeavouring to maximise value.
 - 2.1.2. Protect and enhance the Company's position throughout the realisation process.
 - 2.1.3. Be a good corporate citizen in the community and promote and encourage open communication with stakeholders, about land management.

3. RELATIONSHIPS

- 3.1 Selwyn Plantation Board Limited will continue to maintain the relationships between itself and the wider community.

4. NATURE AND SCOPE OF ACTIVITIES

- 4.1 The core business of the Company is to liquidate the Company's assets through a well managed and staged realisation. It is expected that this process will be completed during the 2013 calendar year.
- 4.2 To manage all land holdings through the realisation process to best practice standards and actively pursue the highest possible economic returns from these properties until sold.
- 4.3 To manage the cash assets of the business to ensure that a competitive market return from investments is achieved, while at the same time mitigating risks through investment spread in a number of bank term deposits.

5. SHAREHOLDING

- 5.1 The Company is a CCTO (Council Controlled Trading Organisation)
- 5.2 The Shareholders are:
 - 5.2.1. Selwyn Investment Holdings Limited 60.68%
 - 5.2.2. Christchurch City Holdings Limited 39.32%

6. PERFORMANCE MEASURES

6.1 Achievement of the performance measures is subject to the realisation process.

6.2 Financial

	<u>Target</u> <u>2012/13</u>
Ratio of equity to total assets	95%
Return before interest and Tax to total assets	1.0%
Return after tax to equity	1.0%

7. GOVERNANCE STATEMENT

7.1 Role of the Board of Directors (Board)

The Board is the essential link between the Shareholders and management.

The Board directs the affairs of the Company and directs the management of the business through the Contract Administrator. They see their prime responsibility as setting the strategic direction of the Company, establishing goals and monitoring performance towards achieving the companies' mission statement.

The Board discharges this responsibility through effective leadership, by being enabling, encouraging an environment for innovation and being responsive to the need for "change".

The Board seeks to maintain a balance between conformance and performance; dynamic strategic leadership, and governance best practise systems, procedures, policies and guidelines being in place that ensures:

- Business strategies and plans reflect short term horizons and encompass the Company's vision
- The performance of the Company is monitored against the strategic goals set by the Board
- Significant business risks are identified, monitored and mitigated
- The multitude of laws that affect the Company and its business activities are complied with
- Matters such as significant transactions and disposals, are reviewed and approved
- All matters of importance are brought to its attention through a system of prompt and comprehensive reporting
- The preparation of financial statements in accordance with generally accepted accounting practice that give a true and fair view of the financial position of the Company as at each balance date and results of its operations and cash flows for the year ended on that date are prepared
- The assets of the Company are safeguarded by ensuring that internal control procedures are in place in order to provide a reasonable assurance that the Company will function in a business-like and lawful manner

- Maintaining policies that provide guidance for action in a broad range of circumstances including; risk management, code of ethics and conduct and Shareholder, public stakeholder relations

All Directors subscribe to the principles of good governance and code of best practice on corporate governance

In discharging its responsibilities, the Board exercises on behalf of the Shareholders which have appointed it, all the powers of the Company not otherwise required by law or the constitution to be exercised by Shareholders.

Responsibility for the day to day operation and administration of the Company is delegated by the Board to the Contract Administrator, who is directly accountable to the Board through the Chairman.

The Board is particularly concerned to ensure that the principles, policies and guidelines which it adopts from time to time are maintained through the activities of the Company and in the transactions carried out by the Company.

7.2 Social, Ethical and Environmental Policies

The Board seeks to minimise the impact of its activities on the environment and comply with all relevant environmental laws and regulations.

In addition to carrying out its responsibilities to its Shareholders, the Company will be recognised as committed to the local communities and environments in which we operate.

7.3 Composition of the Board

The Board at present comprises four Directors, two of whom are appointed by Selwyn Investment Holdings Limited which holds all the A shares issued in the Company and two of whom are appointed by Christchurch City Holdings Limited who hold all the B shares issued in the Company.

The constitution of the Company requires that at no time may there be any more than two Directors who are also members or employees of a local authority which is a Shareholder.

The current Directors as at 1 February 2012 are:

- Ray Polson (Chairman)
- Sarah Astor
- Allan Berge
- John Morten

Board Meetings

The Board meets on a regular basis throughout the year but also meets as and when required to deal with any specific matters that may arise between scheduled meetings.

The Board maintains overall accountability and has reserved certain items for its review and approval, including the annual and interim results; annual management plans, significant transactions, external audit, legislative compliance, business risk profile and Shareholder, public and media relations.

The Board is supplied, in a timely manner, with information in a form and of a quality appropriate to enable it to discharge its duties.

7.4 Relations with Shareholders

The Company reports its financial results on a regular basis to its Shareholders and seeks to maintain a regular dialogue with Shareholders.

The Company will endeavour to operate on a “no surprises” basis with regard to all issues of relevance to Shareholders.

7.5 Committees of the Board

The Board is responsible for ensuring that a system of internal controls to safeguard Shareholders’ investments and the business assets are being maintained and are subject to regular review.

The Board has one standing committee – an Audit and Risk Committee. The Audit and Risk Committee purpose is assisting Directors by providing a reasonable basis for them to make proper judgements as to the financial position, compliance and prospects of the business.

The Audit and Risk Committee comprises three Directors, and as per its Terms of Reference meets at least twice a year and reviews the business planning process, annual and half-yearly financial statements and the other financial documents before they are submitted to the full Board for approval. The Committee considers the appointment of auditors, receives their report and ensures that appropriate actions are taken and relationships are maintained with the auditors.

7.6 Code of Ethics

An important goal of the Company is to develop and maintain a culture built around honesty and integrity of all Directors, and contractors.

These values underpin a number of policies that the Company has across many areas.

8. REPORTING INFORMATION

8.1 The Company will maintain regular reporting to the Shareholders in accordance with statutory requirements of the Local Government Act 2002, Companies Act 1993 and the Financial Reporting Act 1993 and in particular will:

8.1.1. Within three months after the end of each financial year produce an annual audited financial report. The annual audited financial report will be made available to the Shareholders prior to being made available to the public.

8.1.2. Within forty five days of the end of the half year produce interim financial statements.

8.1.3. Produce other information as may be agreed between the Shareholders and the Company or such other information as may significantly affect the specific objectives.

8.2 Triple Bottom Line reporting means that we will report on aspects of our social, environmental and economic performance.

9. DIVIDEND POLICY

9.1 A no dividend policy is proposed by the Directors due to the realisation objective

10. ACCOUNTING POLICY

10.1 The Company has adopted accounting policies that are consistent with the New Zealand

International Financial Reporting Standards issued by the New Zealand Institute of Chartered Accountants and in accordance with the Financial Reporting Act 1993 and the Companies Act 1993.

The Company adopted the NZ IFRS for the accounting period commencing 1 April 2006.

11. ACQUISITION, DISPOSAL, PURCHASE OR TRANSFER OF SHARES OR ASSETS

- 11.1 Should the Company wish to subscribe for, acquire, or purchase securities or assets in another company or organisation/business, this will be achieved by a simple majority vote of the Board subject to the Companies Act 1993 and its amendments.
- 11.2 When the subscription or acquisition, or disposal, of any other business or company or organisation by the way of shares or assets is considered by the Directors to be significant to the Company's business operations, it will be subject to consultation with the Shareholders. (Significant is defined as a limit of \$5 million or 10% of total assets, whichever is the lower.)
- 11.3 The disposal of SPBL's McHugh's property requires Shareholder approval. All other SPBL assets can be disposed of without Shareholder approval.
- 11.4 Should a Shareholder wish to sell all or part of its holding to a third party, pre-emptive rights will apply.

12. VALUATION OF SHAREHOLDERS' INVESTMENT

- 12.1 On an ongoing basis, the commercial value of the Shareholders' investment is estimated to be the Equity as shown in the latest audited accounts of the Company.
- 12.2 Each 3 years, the Directors or Shareholders, at their cost, may request a confirmation of the Shareholders' investment by an independent assessment. The manner and timing of the assessment will be determined by the purpose for which it is undertaken, or by the terms of the request of the Shareholders.
- 12.3 As at 30 June 2011, Net Assets were valued for accounting purposes at \$49,580,157.
- 12.4 On 14 January 2011 Selwyn Plantation Board Ltd paid \$26,113,111 to shareholders to complete a pro rata buy back of 3,659,839 shares .

13. TARGET EQUITY TO TOTAL ASSETS RATIO

- 13.1 The gearing ratio of the Company shall not extend beyond 40% debt and 60% Shareholders equity without Shareholders' approval.

14. URBAN DEVELOPMENT STRATEGY

- 14.1 The Company will take the objectives of the Urban Development Strategy into account through its land realisation strategy.

Statement of Accounting Policies for the Year Ended 30 June 2011

Reporting Entity

Selwyn Plantation Board Ltd (SPBL) is registered under the Companies Act 1993 and incorporated in 1989. SPBL is a Council Controlled Trading Organisation as defined by section 6 of the Local Government Act 2002.

SPBL is a limited liability company incorporated and domiciled in New Zealand. It is a subsidiary of Selwyn Investment Holdings Limited and carries out a forestry, farming and land utilisation business on the plains and foothills of Canterbury. The company has designated itself as a surplus orientated entity for the purposes of New Zealand equivalents to International Financial Reporting Standards (NZ IFRS). The shareholders are: Selwyn Investment Holdings Limited (60.68%) and Christchurch City Holdings Limited (39.32%).

The financial statements of SPBL are for the year ended 30 June 2011. The financial statements were authorised for issue by the Directors on 7 September 2011.

Basis of Preparation

Statement of compliance

The financial statements of SPBL have been prepared in accordance with the requirements of the Local Government Act 2002, the Companies Act 1993, the Financial Reporting Act 1993 and Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with the New Zealand equivalent to IFRS.

Compliance with NZ IFRS ensures that the financial statements comply with International Financial Reporting Standards (IFRS).

Functional and presentation currency

The financial statements are presented in New Zealand dollars and the functional currency of SPBL is New Zealand dollars.

Preparation of Financial Statements

The financial statements of SPBL have been prepared on a realisation basis. In previous years the financial statements were prepared on a going concern basis. In April 2010 shareholders approved the Board's Strategic Plan for the company, which provided for the sale of all of the company's assets and for the proceeds of sale to be returned to shareholders. In the later part of the financial year the company was in transition from forestry and farming operations to the realisation of assets.

The company no longer adopting the going concern assumption for accounting purposes has consequences for the classification of assets within the statement of financial position, the valuation of assets, and statement of comprehensive income disclosures.

All assets are expected to be realised within 24 months of the year end, therefore have been classified as current assets. Property, plant and equipment and forest assets have been classified as assets held for sale.

All assets have been recognised at their expected realisable value, this being the proceeds expected to be received on sale of the assets.

NZ IFRS 5 *Non-current Assets Held for Sale and Discontinued Activities*, requires separate disclosure in the statement of comprehensive income, in respect of the discontinued operations, including restatement of the previous year. However, as the whole company is a discontinued operation, separate disclosure is not relevant.

Changes in accounting policies

The statement of financial position as at 30 June 2011 has been prepared on a realisation basis, whereby all assets at 30 June 2011 have been recognised at their expected realisable value. The accounting policies set out below have been consistently applied to all transactions occurring up to statement of financial position date, and to the comparatives.

The company has adopted the following revisions to accounting standards during the financial year, which have had only a presentational or disclosure effect:

- NZ IAS 1 *Presentation of Financial Statements (Revised 2007)* replaces NZ IAS 1 *Presentation of Financial Statements (Issued 2004)*. The revised standard requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income. The statement of comprehensive income will enable readers to analyse changes in equity resulting from non owner changes separately from transactions with owners. The company has decided to prepare a single statement of comprehensive income for the year ended 30 June 2011 under the revised standard. Financial statement information for the year ended 30 June 2010 has been restated accordingly. Items of other comprehensive income presented in the statement of comprehensive income were previously recognised directly in the statement of changes in equity.

Standards and Interpretations Issued and not yet Adopted

There are no standards, interpretations, and amendments that have been issued, but are not yet effective other than NZ IFRS 9 and NZ IAS 24 that SPBL have not yet applied.

It has not been determined what, if any, implications these have on the financial statements.

Significant Accounting Policies

The following significant accounting policies have been adopted in the preparation and presentation of the financial report.

Revenue

Revenue is measured at the fair value of consideration received.

Revenue from sale of goods is recognised when the company has transferred to the buyer the significant risks and rewards of ownership of the goods.

Revenue from a contract to provide services is recognised by reference to stage of completion of the contract at year end balance date.

Interest income is recognised using the effective interest method.

Dividends are recognised when the right to receive payment has been established.

Borrowing costs

Borrowing costs are expensed in the period in which they are incurred, unless they are capitalised as part of the cost of an asset. Borrowing costs are capitalised only to assets that take more than 1 year to construct and are cash-generating.

Income tax

Income tax expense in relation to the surplus or deficit for the period comprises current tax and deferred tax.

Current tax is the amount of income tax payable based on the taxable surplus for the current period, plus any adjustments to income tax payable in respect of prior years. Current tax is calculated using rates that have been enacted or substantively enacted by balance date.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable surplus.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable surpluses will be available against which the deductible temporary differences or tax losses can be utilised.

Deferred tax is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of an asset and liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting surplus nor taxable surplus.

Deferred tax is recognised on taxable temporary differences arising on investments except where the company can control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, using tax rates that have been enacted or substantively enacted by balance date.

Current tax and deferred tax is charged or credited to the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the tax is dealt with in equity.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

Trade and other receivables

Trade and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

A provision for impairment of receivables is established when there is objective evidence that they will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the effective interest method.

Inventory

Inventory held for use in the production of goods and services are valued at the lower of cost and net realisable value. The cost of purchased inventory is determined using the FIFO method. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to value the rate.

The write-down from cost to net realisable value is recognised in the surplus or deficit in the period of write-down.

Financial assets

SPBL classify their financial assets into the following categories: financial assets at fair value through surplus or deficit, held-to-maturity investments, loans and receivables and financial assets at fair value through other comprehensive income. The classification depends on the purpose for which the investments were acquired. Management determine the classification of investments at initial recognition and re-evaluates this designation at every reporting date.

Financial assets and liabilities are initially measured at fair value plus transaction costs unless they are carried at fair value through surplus or deficit in which case the transaction costs are recognised in the surplus or deficit.

Purchases and sales of investments are recognised on trade-date, the date on which SPBL commit to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and SPBL have transferred substantially all the risks and rewards of ownership.

(i) Financial assets at fair value through surplus or deficit.

This category has two sub-categories: financial assets held for trading and those designated at fair value through surplus or deficit at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance date.

After initial recognition, they are measured at their fair values. Gains or losses on re-measurement are recognised in the surplus or deficit.

Currently, SPBL does not hold any financial assets in this category.

(ii) Loans and receivables.

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

After initial recognition, they are measured at amortised cost using the effective interest method. Gains and losses when the asset is impaired or derecognised are recognised in the surplus or deficit. Loans and receivables are classified as 'trade and other receivables' in the statement of financial position.

Currently, SPBL has trade and other receivables, tax refund and short-term deposits in this category.

(iii) Held to maturity investments.

Held to maturity investments are assets with fixed or determinable payments and fixed maturities that SPBL have the positive intention and ability to hold to maturity.

After initial recognition they are measured at amortised cost using the effective interest method. Gains and losses when the asset is impaired or derecognised are recognised in the surplus or deficit.

Currently, SPBL does not hold any financial assets in this category.

(iv) Fair value through other comprehensive income.

Financial assets at fair value through other comprehensive income are those that are designated into the category or are not classified in any of the other categories above.

This category encompasses:

- Investments that SPBL intends to hold long-term but which may be realised before maturity; and
- Shareholdings that SPBL holds for strategic purposes.

After initial recognition, these investments are measured at their fair value.

Gains and losses are recognised directly in other comprehensive income, except for impairment losses, which are recognised in the surplus or deficit. In the event of impairment, any cumulative deficits previously recognised in other comprehensive income are reclassified from equity to surplus or deficit even though the asset has not been derecognised.

Currently SPBL has unlisted shares in this category.

Impairment of financial assets

At each balance date, SPBL assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired. Any impairment losses are recognised in the surplus or deficit.

Current assets held for sale

Current assets held for sale are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. Current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Any impairment losses for write-downs of current assets held for sale are recognised in the surplus or deficit.

Any increases in fair value (less costs to sell) are recognised up to the level of any impairment losses that have been previously recognised.

Current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale.

Property, Plant and Equipment

Property, plant and equipment of SPBL consist of:

- Farm land, other land, buildings, improvements, plant and machinery, motor vehicles, furniture and fittings and computer equipment.

Property, plant and equipment is shown at cost or valuation, less accumulated depreciation and impairment losses. Farm land and other land are not depreciated.

Additions

The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to SPBL and the cost of the item can be measured reliably.

In most instances, an item of property, plant and equipment is recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value as at the date of acquisition.

Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the surplus or deficit. When revalued assets are sold, the amounts included in asset revaluation reserves in respect of those assets are transferred to retained earnings.

Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment other than land, at rates that will write-off the cost (or valuation) of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

Buildings:		
Wooden	40 years	(2.5%)
Brick	50 years	(2.0%)
Improvements	10-50 years	(2.0%-10.0%)
Heavy plant and machinery	2-10 years	(10.0%-48.0%)
Other plant and machinery	5-10 years	(10.0%-20.0%)
Motor vehicles	5 years	(20.0%)
Furniture and fittings	5-10 years	(10.0%-20.0%)
Computer equipment	5 years	(20.0%)

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year end.

Revaluation

Those asset classes that are revalued are valued either on a three yearly or yearly valuation cycle on the basis described below. All other asset classes are carried at depreciated historical cost. The carrying values of revalued items are reviewed at each balance date to ensure that those values are not materially different to fair value.

If there is a material difference, then the relevant asset classes are revalued.

Farm Land - Farm land is revalued annually at fair value as determined from market-based evidence by an independent valuer. The current valuation was performed by Property Advisory Ltd, Registered Valuers and the valuation is effective as at 30 June 2011.

Other Land and Buildings - Other land and buildings are valued on a three yearly basis at fair value as determined from market-based evidence by an independent valuer. The most recent valuation of SPBL Other Land & Buildings was performed by Property Advisory Ltd, Registered Valuers and the valuation is effective as at 30 June 2011.

Accounting for Revaluations - SPBL account for revaluations of property, plant and equipment on an asset by asset basis.

The results of revaluing are credited or debited to an asset revaluation reserve for each asset. Where this results in a debit balance in the asset revaluation reserve, this balance is recognised in surplus or deficit. Any subsequent increase on revaluation that off-sets a previous decrease in value recognised in the surplus or deficit will be recognised first in the surplus or deficit up to the amount previously expensed, and then credited to the revaluation reserve for that asset and recognised in other comprehensive income.

Forestry assets

Forestry assets are revalued annually at fair value less estimated point of sale costs in accordance with NZIAS41. Fair value is determined based on the present value of expected net cash flows discounted at a current market determined pre-tax rate. Some significant assumptions regarding log prices and interest rates are made in performing this valuation. The forest is independently revalued every year with the most recent valuation being effective as at 30 June 2010 and completed by PF Olsen Ltd.

Gains or losses arising on initial recognition of biological assets at fair value less estimated point of sale costs and from a change in fair value less estimated point of sale costs are recognised in the surplus or deficit.

The costs to maintain the forestry assets are included in the surplus or deficit.

Intangible Assets

Software acquisition

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use, the specific software.

Costs associated with maintaining computer software are recognised as an expense when incurred.

Amortisation

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each period is recognised in the surplus or deficit.

The useful lives and associated amortisation rates for software have been estimated as follows:

Software	5 years	20%
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Impairment of Non-financial Assets

Non-financial assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

The value in use for cash-generating assets is the present value of expected future cash flows.

If an asset's carrying amount exceeds its recoverable amount, the asset is impaired and the carrying amount is written down to the recoverable amount. For revalued assets, the impairment loss is recognised against the revaluation reserve for that asset. Where that results in a debit balance in the revaluation reserve, the balance is recognised in the surplus or deficit.

For assets not carried at a revalued amount, the total impairment loss is recognised in the surplus or deficit.

For assets not carried at a revalued amount (other than goodwill), the reversal of impairment loss is recognised in the surplus or deficit.

Goods and Service Tax (GST)

All items in the financial statements are stated exclusive of GST, except for receivables and payables, which are stated on a GST inclusive basis. Where GST is not recoverable as input tax, then it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the statement of financial position.

The net GST paid to, or received from the IRD, including the GST relating to the investing and financing activities, is classified as an operating cash flow in the statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

Employee Benefits

Short-term benefits

Employee benefits that SPBL expect to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to balance date, annual leave earned to, but not yet taken at balance date, bonus accruals, and sick leave.

SPBL recognise a liability for sick leave to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date, to the extent that SPBL anticipate it will be used by staff to cover those future absences.

SPBL recognise a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

Provisions

SPBL recognise a provision for future expenditure of uncertain or timing when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that expenditure will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating deficits.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense.

Leases

Operating leases – An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

Critical accounting estimates and assumptions

In preparing these financial statements SPBL has made estimates and assumptions concerning the future. These estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Forest valuation

The forest valuation is calculated based on assumptions of current costs and revenues discounted to present value. The valuation conforms with NZ IAS 41 Agricultural Standards.



Unaudited financial statements

The directors are pleased to present the unaudited financial statements of Christchurch City Holdings Ltd for the six months ended 31 December 2011

A handwritten signature in black ink, appearing to be 'B. Blair', written in a cursive style.

Director
22 February 2011

A handwritten signature in black ink, appearing to be 'S. Smith', written in a cursive style.

Director
22 February 2011

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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

Bankers

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

Auditors

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

Ownership

100% owned by Christchurch City Council

Chairman's review

Attached are the unaudited financial statements of the CCHL group and parent company for the six months ended 31 December 2011.

Financial

Group

The group recorded a profit for the six months ended 31 December 2011 of \$31.3 million, compared with \$24.1 million in the previous equivalent period.

Both periods were affected by significant earthquake –related expenses. In particular, Orion New Zealand Ltd incurred some \$9 million in the period under review, and the previous period included a \$16 million asset write-off by Lyttelton Port Company Ltd (LPC) following the Canterbury earthquake in September 2010 (all figures post-tax).

Orion and LPC are the two CCHL companies that incurred the most physical damage from the earthquakes. The other companies escaped relatively unscathed, other than for the loss of Red Bus Ltd's (fully-insured) workshops.

Notwithstanding the earthquake damage, it is pleasing to note that the underlying trading performance of most of the group companies has remained strong. This is discussed further below.

Parent

The parent company's profit for the period was \$19.4 million, compared with \$21.2 million recorded in the previous half year.

During the period CCHL acquired a small number of additional shares in Lyttelton Port Company Ltd, increasing its holding from 79.2% to 79.4%.

Operations

Orion New Zealand Ltd

Orion recorded a profit for the period of \$14.7 million, compared with \$25.3 million in the previous equivalent period. As noted above, most of this reduction in profitability arose from earthquake-related expenses, although there was also a negative impact arising from reduced customer load demand in the central city area. Partially offsetting this was a significant increase in the revenue of its contracting subsidiary Connetics Ltd.

The company has continued to make good progress in recovering from the impacts of the earthquakes. It will be some time, however, before pre-earthquake levels of network resilience are fully restored. Key earthquake recovery projects and their current status are summarised as follows:

Project	Status
• Repair damaged 11kV and low voltage cables in Eastern suburbs	11kV complete, low voltage ongoing
• Build/commission new zone substation to replace the New Brighton substation	Complete
• Build/connect new 1.5km temporary 66kV overhead line from the	Complete

damaged New Brighton sub-station to the new zone substation

- Build/connect new 4.5km temporary 66kV overhead line from Brimley grid exit point to Dallington substation Complete
- Purchase/lease up to 25 100kW to 440kW mobile diesel generator sets as contingency measure for next three years Complete
- Install up to 4MW of temporary diesel generators at QE11 Complete
- Lay permanent 66kV underground cables from Bromley grid exit point to Dallington and Rawhiti substations, then remove temporary overhead lines Ongoing
- Work with CERA and Christchurch City Council to re-establish power and network resiliency to the CBD according to agreed priorities and timeframes Ongoing

Orion has yet to finalise its insurance claims, and has not recognised any insurance revenue to date.

Christchurch International Airport Ltd

Christchurch International Airport Ltd ('CIAL') recorded a net profit for the six months to 31 December 2011 of \$8.0 million, compared with \$13.4 million in the previous period. The principal reason for the reduced profitability is an increase in interest and depreciation costs. The former reflects both an increase in debt to fund the terminal expansion and other capital projects, and also a reduction in the amount of interest capitalised into the terminal project.

CIAL suffered minimal physical damage from the earthquakes and, despite a reduction in passenger numbers following the earthquakes, CIAL has managed to increase revenues and maintain EBITDA levels, primarily as a result of its strongly performing commercial and property activities.

The terminal expansion project continues to progress well, with ultimate completion due in early 2013. The company continues to develop its property portfolio, with its new 80-hectare freight and logistics precinct, Dakota Park progressing well, and development opportunities being identified for the new Spitfire Square retail development. Opportunities for a hotel development are also being explored.

The company is placing a major emphasis on route development, with a view to attracting new long haul services into Christchurch. Visits to key Asian markets, accompanied by the Mayor of Christchurch, will be undertaken in early 2012.

Lyttelton Port Company Ltd

Lyttelton Port Company Ltd (LPC) achieved an earthquake-adjusted profit after tax of \$9.5 million for the six months ended 31 December 2011. This compares to a \$6.1 million earthquake-adjusted profit for the same period to 31 December 2010, an increase of 55.5%.

Increased volumes were achieved for containers, log exports and bulk imports compared to the six months to 31 December 2010. Total container volumes rose 11.9% to a record 165,231 TEUs, while containers moved through the Container Terminal rose 14.1%. Coal exports reduced 1.9%, reflecting the significant temporary repairs undertaken on the coal loading infrastructure. Log exports grew 19.7% to 161,020 tonnes.

With regard to earthquake insurance, the company has reported as follows:

“We advised at the Annual Meeting in November 2011 that our insurers were disputing an \$11 million progress claim made in August 2011, which had grown to \$20 million with additional expenditure over the following months.

A total of \$35.7 million has been received in relation to the insurance claims to date. Total losses and costs committed to 31 December 2011 are in excess of \$50 million and it is important that this negative cash flow position is resolved. To that end, discussions are ongoing with insurers, and we are continuing to provide further information in support of both the Business Interruption and Material Damage claims. However, our difference of opinion with insurers as to the extent to which our assets are insured for reinstatement as well as the extent to which repairs are temporary or permanent remain unresolved. We have committed significant resources to these matters and we remain confident that the cashflows will be restored as these issues are resolved.

In accordance with our policies, we are progressing the Material Damage claims on an asset by asset basis, as the restoration and/or reinstatement plans are finalised and rebuilding commences. The Company expects that the repair and rebuild programme will be completed over a number of years.”

Trade volumes are expected to continue their strong growth in the second half of the current financial year. The Company’s current expectation for the full year earthquake-adjusted profit after tax is between \$16 million and \$18 million.

Enable Services Ltd

The year to date for Enable Services Ltd (previously Christchurch City Networks Ltd) has been dominated by a build up in staff and resources to commence the rollout of the Government’s Ultra Fast Broadband contract, which it successfully tendered for earlier in 2011.

As part of the broadband rollout, in early 2012 Enable Services Ltd will transfer its network assets to joint venture company Enable Networks Ltd (ENL), which is jointly-owned by Enable Services Ltd and Crown Fibre Holdings Ltd.

Crown Fibre Holdings Ltd will initially fund ENL to build the public aspects of the new fibre network (eg. laying fibre down a street), then Enable Services Ltd will build and fund the connections to individual premises. As premises are connected, Enable Services Ltd will buy shares in ENL back from Crown Fibre Holdings Ltd.

The city has been divided into a number of areas for the purposes of the broadband rollout, which is scheduled to take eight years. As at 31 December 2011, work had commenced in the Halswell area, and this will be extended into other areas over the coming months.

City Care Ltd

City Care Ltd continued its very strong post-earthquake performance, with a net profit for the period of \$9.7 million, an increase of \$7.6 million over the previous equivalent period. Revenue has increased from \$81 million to \$177 million. Employee numbers (full time equivalents) are over 1,100.

Christchurch water-related work has been the main driver of the company’s high workloads, although all parts of the business have performed well. The company has established a new construction division to ensure effective delivery of earthquake reconstruction work, and ultimately to develop the construction business outside Canterbury. City Care will undertake the rebuild work through the SCIRT (Stronger Christchurch Infrastructure Rebuild Team) alliance.

City Care is also active in other areas of the country, and is currently bidding for new work (or to maintain existing work) in various centres.

Red Bus Ltd

Red Bus Ltd has continued to experience difficult trading conditions following the earthquakes, and recorded a loss of \$(0.2) million, compared with a break even result for the previous half year.

Overall patronage had fallen to about 50% of pre-earthquake levels, although it has now risen to about 60% following the opening of the new Central City bus interchange in October 2011.

The Environment Canterbury (ECAN) contracting regime is now in place, with all urban contracted services now under the gross contract model. This provides little opportunity for the company to grow its business unless the overall volume of services increases.

The outlook for public transport, and hence Red Bus, remains challenging, and there are doubts about its commercial sustainability in the current environment.

EcoCentral Ltd

EcoCentral Ltd, which was acquired by CCHL in January 2011, recorded a profit of \$0.3 million for the half year.

In general volumes were strong, but sales and profitability were negatively impacted by the high value of the New Zealand dollar relative to the US dollar (the currency in which EcoCentral's overseas sales are made) and falling commodity prices reflecting a softening in the South East Asian economies.

Selwyn Plantation Board Ltd

Selwyn Plantation Board Ltd, in which CCHL has a minority interest, has liquidated the large majority of its assets with a view to winding up the company and returning capital to its shareholders. In January 2011, CCHL received a payment of \$10.2 million, and a final capital repayment is expected in the first half of the 2012 calendar year.

Outlook

We expect the group to continue its strong recovery from the impact of the earthquakes and to continue to grow profits both for reinvestment back into the development of the individual businesses, and to increase dividend payments to assist the City's rebuild programme.

Acknowledgments

I would like to acknowledge the excellent performance of each of the CCHL group companies. Their response to the difficult conditions following the earthquakes, and their continued focus on growing their businesses, has made an invaluable contribution to the City's recovery efforts.



Bruce Irvine
Chairman

Income statement

For the six months ended 31 December 2011

	6 months 31 Dec 11	6 months 31 Dec 10	Full year 30 Jun 11	6 months 31 Dec 11	6 months 31 Dec 10	Full year 30 Jun 11
	Group	Group	Group	Parent	Parent	Parent
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Operating and other revenue	422,002	306,709	745,530	23,461	26,784	42,637
Finance income	1,671	1,435	3,437	3,477	3,251	6,387
Other gains	131	442	984	-	-	616
Total income	423,804	308,586	749,951	26,938	30,035	49,640
Depreciation and amortisation	40,993	41,199	118,077	-	-	-
Finance costs	18,390	14,657	27,395	7,639	8,136	15,724
Personnel costs	92,149	81,302	168,821	301	393	542
Operating and other expenses	228,260	136,421	328,668	(354)	335	1,188
Total operating expenses	379,792	273,579	642,961	7,586	8,864	17,454
Share of profits of associates	300	974	1,841	-	-	-
Profit before income tax expense	44,312	35,981	108,831	19,352	21,171	32,186
Income tax expense	13,028	11,899	31,499	-	-	91
Profit for the period	31,284	24,082	77,332	19,352	21,171	32,095
Attributable to:						
Owners of the parent	27,128	20,145	63,773	19,352	21,171	32,095
Non-controlling interests	4,156	3,937	13,559	-	-	-
	31,284	24,082	77,332	19,352	21,171	32,095

The accompanying notes form part of these financial statements

Statement of comprehensive income

For the six months ended 31 December 2011

	6 months 31 Dec 11 Group \$'000	6 months 31 Dec 10 Group \$'000	Full year 30 Jun 11 Group \$'000	6 months 31 Dec 11 Parent \$'000	6 months 31 Dec 10 Parent \$'000	Full year 30 Jun 11 Parent \$'000
Profit for the period	31,284	24,082	77,332	19,352	21,171	32,095
Other comprehensive income						
<i>Revaluation of assets</i>						
Revaluation of property, plant & equipment	-	-	(118,651)	-	-	-
	-	-	(118,651)	-	-	-
<i>Available-for-sale financial assets</i>						
Revaluation of investment in subsidiaries	-	-	-	(26,724)	(5,646)	30,930
	-	-	-	(26,724)	(5,646)	30,930
<i>Cash flow hedges</i>						
Effective portion of gains and losses on cash flow hedging instruments	(12,341)	2,557	(3,258)	(5,315)	1,706	(1,663)
Net change in cash flow hedges transferred to income statement	-	-	-	-	-	-
	(12,341)	2,557	(3,258)	(5,315)	1,706	(1,663)
<i>Other</i>						
Share of other comprehensive income of associates	-	-	(760)	-	-	-
	-	-	(760)	-	-	-
<i>Income tax</i>						
Income tax - other comprehensive income	-	-	38,478	-	-	-
	-	-	38,478	-	-	-
Other comprehensive income for the period net of tax	(12,341)	2,557	(84,191)	(32,039)	(3,940)	29,267
Total comprehensive income for the period net of tax	18,943	26,639	(6,859)	(12,687)	17,231	61,362
Total comprehensive income is attributable to:						
Owners of the parent	16,837	22,370	(14,444)	(12,687)	17,231	61,362
Non-controlling interests	2,106	4,269	7,585	-	-	-
	18,943	26,639	(6,859)	(12,687)	17,231	61,362

The accompanying notes form part of these financial statements

Statement of changes in equity

For the six months ended 31 December 2011

	6 months 31 Dec 11 Group \$'000	6 months 31 Dec 10 Group \$'000	Full year 30 Jun 11 Group \$'000	6 months 31 Dec 11 Parent \$'000	6 months 31 Dec 10 Parent \$'000	Full year 30 Jun 11 Parent \$'000
Opening equity	1,308,817	1,366,536	1,366,536	1,308,093	1,290,057	1,290,056
Total comprehensive income for the period	18,943	26,639	(6,859)	(12,687)	17,231	61,362
<i>Equity transactions</i>						
Dividends paid/payable	(18,500)	(30,873)	(50,107)	(14,000)	(26,000)	(43,325)
Adjustment to controlling and non- interests for share acquisitions	(338)	(276)	(753)	-	-	-
Closing equity	<u>1,308,922</u>	<u>1,362,026</u>	<u>1,308,817</u>	<u>1,281,406</u>	<u>1,281,288</u>	<u>1,308,093</u>

The accompanying notes form part of these financial statements

Balance sheet

As at 31 December 2011

	31 Dec 11	31 Dec 10	30 Jun 11	31 Dec 11	31 Dec 10	30 Jun 11
	Group	Group	Group	Parent	Parent	Parent
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Current assets						
Cash and cash equivalents	13,945	(4,617)	16,868	14,058	4,759	6,474
Debtors and other receivables	97,795	53,145	95,403	1,687	1,224	11,761
Derivative financial instruments	(5)	7	39	-	-	-
Other financial assets	5,754	3,575	54	5,044	2,550	-
Prepayments	9,094	3,888	5,385	145	142	68
Inventories	14,978	11,275	13,053	-	-	-
Current tax assets	3,338	(118)	-	-	-	-
Non-current assets held for sale (Note 3)	29,573	-	27,572	-	-	-
Total current assets	174,472	67,155	158,374	20,934	8,675	18,303
Non-current assets						
Debtors and other receivables	1,070	316	356	-	-	-
Investments in associates	20,150	29,057	19,550	16,144	26,412	16,144
Other financial assets	33,486	40,697	40,788	1,569,905	1,533,107	1,595,336
Prepayments	8,983	9,572	9,277	-	-	-
Property, plant and equipment	2,001,684	2,054,808	1,934,586	-	-	-
Investment property	87,831	85,510	96,207	-	-	-
Intangible assets	11,501	9,515	10,244	-	-	-
Deferred tax assets	3,281	1,026	12,806	-	-	-
Goodwill	36,989	27,296	38,711	-	-	-
Total non-current assets	2,204,975	2,257,797	2,162,525	1,586,049	1,559,519	1,611,480
Total assets	2,379,447	2,324,952	2,320,899	1,606,983	1,568,194	1,629,783
Current liabilities						
Creditors and other payables	69,995	54,196	102,274	1,421	2,236	19,108
Borrowings	113,092	110,727	141,378	113,000	76,000	91,000
Derivative financial instruments	586	820	1,557	-	-	416
Employee entitlements	21,911	20,004	22,998	53	39	39
Current tax liabilities	11,967	6,073	4,502	-	-	-
Provisions and other	1,274	1,491	1,954	91	-	-
Total current liabilities	218,825	193,311	274,663	114,565	78,275	110,563
Non-current liabilities						
Borrowings	554,562	459,049	442,487	200,000	205,000	205,000
Derivative financial instruments	39,609	15,988	22,098	11,012	3,631	6,127
Employee entitlements	1,012	839	1,251	-	-	-
Deferred tax liabilities	251,412	286,256	264,428	-	-	-
Other	5,105	7,483	7,155	-	-	-
Total non-current liabilities	851,700	769,615	737,419	211,012	208,631	211,127
Total liabilities	1,070,525	962,926	1,012,082	325,577	286,906	321,690
Net assets	1,308,922	1,362,026	1,308,817	1,281,406	1,281,288	1,308,093
Equity						
Capital and other equity instruments	71,435	71,435	71,435	71,435	71,435	71,435
Reserves	263,709	354,985	274,124	925,620	924,452	957,659
Retained earnings	729,126	689,470	716,040	284,351	285,401	278,999
Parent entity interest	1,064,270	1,115,890	1,061,599	1,281,406	1,281,288	1,308,093
Non-controlling interests	244,652	246,136	247,218	-	-	-
Total equity	1,308,922	1,362,026	1,308,817	1,281,406	1,281,288	1,308,093

The accompanying notes form part of these financial statements

Cash flow statement

For the six months ended 31 December 2011

	6 months 31 Dec 11	6 months 31 Dec 10	Full year 30 Jun 11	6 months 31 Dec 11	6 months 31 Dec 10	Full year 30 Jun 11
	Group \$'000	Group \$'000	Group \$'000	Parent \$'000	Parent \$'000	Parent \$'000
Cash flows from operating activities						
Receipts from customers and other sources	425,993	300,682	649,790	1	(16)	7
Interest received	1,589	1,628	3,400	3,337	3,217	6,402
Dividends received	-	-	-	34,174	26,784	31,923
Insurance proceeds net of earthquake-related costs	182	-	(10,375)	-	-	-
Payments to suppliers and employees	(347,374)	(201,544)	(451,600)	(865)	(878)	(1,643)
Interest and other finance costs paid	(19,365)	(16,272)	(27,010)	(8,400)	(7,791)	(15,726)
Income tax paid	(7,993)	(17,664)	(25,628)	-	-	(100)
Subvention payments	-	-	(8,615)	-	-	-
Net cash provided by operating activities	53,032	66,830	129,962	28,247	21,316	20,863
Cash flows from investing activities						
Payment for investment securities	-	-	-	(338)	(2,276)	(12,927)
Proceeds from sale of investment securities	-	437	437	-	-	-
Proceeds from return of capital from associated company	-	-	10,268	-	-	10,268
Proceeds from repayment of related party loans	-	112	2,663	-	112	3,663
Amounts advanced to related parties	-	-	-	(6,000)	(2,000)	(18,000)
Payment for property, plant and equipment	(102,425)	(107,361)	(176,837)	-	-	-
Proceeds from sale of property, plant and equipment	673	1,632	9,003	-	-	-
Proceeds from insurance	6	-	35,540	-	-	-
Payment for intangible assets	(853)	(713)	(4,524)	-	-	-
Payment for goodwill	-	-	(11,741)	-	-	-
Payment for investment properties	(389)	-	(8,834)	-	-	-
Payment for acquisition of business	-	(240)	-	-	-	-
Other	(958)	-	1,129	-	-	-
Net cash used in investing activities	(103,946)	(106,133)	(142,896)	(6,338)	(4,164)	(16,996)
Cash flows from financing activities						
Proceeds from borrowing	88,003	71,849	156,050	17,000	-	45,000
Repayment of borrowings	(4,187)	(7,373)	(94,160)	-	-	(30,000)
Repayment of finance leases	-	-	(389)	-	-	-
Dividends paid	(31,325)	(26,000)	(26,000)	(31,325)	(26,000)	(26,000)
Dividends paid - non-controlling interests	(4,500)	(4,873)	(6,782)	-	-	-
Net cash used in financing activities	47,991	33,603	28,719	(14,325)	(26,000)	(11,000)
Net increase in cash and cash equivalents	(2,923)	(5,700)	15,785	7,584	(8,848)	(7,133)
Cash and cash equivalents at start of year	16,868	1,083	1,083	6,474	13,607	13,607
Cash and cash equivalents at end of year	13,945	(4,617)	16,868	14,058	4,759	6,474

The accompanying notes form part of these financial statements

Notes to the financial statements

Note 1. Reporting entity

Christchurch City Holdings Ltd ('CCHL') is a wholly-owned subsidiary of Christchurch City Council, formed for the purpose of holding investments in subsidiary organisations. The company was incorporated on 12 May 1993, and commenced operations on 14 May 1993.

CCHL is a reporting entity for the purposes of the Financial Reporting Act 1993 and its financial statements comply with that Act. The reporting currency used in the preparation of these financial statements is New Zealand dollars.

The consolidated financial statements comprise CCHL, its subsidiaries ("the group") and the group's interest in associates and joint ventures.

Note 2. Basis of preparation

The financial statements for the period ended 31 December 2011 are unaudited.

The financial statements have been prepared in accordance with New Zealand Equivalents to International Financial Reporting Standards 34, Interim Financial Reporting, as adopted by the New Zealand Institute of Chartered Accountants, and should be read in conjunction with the audited financial statements for the year ended 30 June 2009.

The balance date of all subsidiary companies, other than Orion New Zealand Ltd which has a balance date of 31 March, is 30 June. This interim report therefore includes the results of Orion New Zealand Ltd for the six months to 30 September 2011, and the results of other subsidiaries for the six months to 31 December 2011.

The accounting policies as published in the annual report for the year ended 30 June 2011 have been consistently applied in determining the earnings and cash flows for the six months ended 31 December 2011, and the financial position as at that date.

Note 3. Non-current assets classified as held for sale

On 31 May 2011 Enable Services Ltd was awarded the government contract to install an open access fibre optic network to every premise in the Greater Christchurch urban areas. This is part of a broader Ultra-Fast Broadband (UFB) project contracted by the Crown to provide open access fibre optic network throughout all urban areas in New Zealand.

The UFB contract involves a partnership with Crown Fibre Holdings Limited (CFH) which is the Government entity negotiating and administering the contract. The partnership is through a subsidiary entity called Enable Networks Limited (ENL) in which both the company and CFH will invest.

Under the UFB project, Enable Services Ltd takes on an obligation to build the network within eight years, which it will sell to ENL upon requirements being met.

As part of the UFB project the company has an agreement to sell its existing fibre network to ENL. The transaction will occur in February 2012 at net book value. The network, previously included in property, plant and equipment, has accordingly been re-classified as a non-current asset held for sale.

Note 4. Reconciliation of profit for the period with operating cash flows

	6 months 31 Dec 11 Group \$'000	6 months 31 Dec 10 Group \$'000	Full year 30 Jun 11 Group \$'000	6 months 31 Dec 11 Parent \$'000	6 months 31 Dec 10 Parent \$'000	Full year 30 Jun 11 Parent \$'000
Profit for the period	31,284	24,082	77,332	19,352	21,171	32,095
Add/(less) non-cash items						
Depreciation, amortisation and impairment	40,993	41,199	118,077	-	-	-
Donated and subsidised assets	(1,072)	(1,972)	(3,829)	-	-	-
(Gains)/losses in fair value of investment property	-	-	1,086	-	-	-
(Gains)/losses in fair value of derivative financial instruments	(266)	941	616	(845)	(159)	(616)
Share of associates' loss/(profit)	(300)	(974)	(1,841)	-	-	-
Net foreign exchange (gains)/losses	7	-	14	-	-	-
Deferred tax charged/(credited) to income	1,251	(7,799)	381	-	-	-
Gain on disposal of investment	-	(307)	-	-	-	-
Other	5,549	645	(5,729)	-	-	(1)
	46,162	31,733	108,775	(845)	(159)	(617)
Add/(less) items classified as investing or financing activities						
Gain on disposal of non-current assets	(73)	149	2,966	-	-	-
Dividends payable at period end	17,325	-	(17,325)	-	-	(17,325)
Insurance proceeds	-	-	(35,540)	-	-	-
Movement in capital creditors	-	22,603	-	-	-	-
	17,252	22,752	(49,899)	-	-	(17,325)
Add/(less) movement in working capital items						
Current trade and other receivables	(3,109)	(7,862)	(49,403)	10,066	(10)	(10,547)
Current inventories	(1,925)	(1,037)	(2,815)	-	-	-
Current prepayments	(3,709)	126	(1,371)	(77)	(39)	35
Income tax receivable	(3,338)	118	-	-	-	-
Other current assets	717	159	(558)	-	-	-
Non-current receivables	(909)	10	20	-	-	-
Non-current prepayments	294	294	589	-	-	-
Other non-current assets	195	(80)	(130)	-	-	-
Current payables	(32,279)	(1,516)	46,562	(364)	354	17,225
Current provisions	(1,292)	268	(404)	15	(1)	-
Current employee benefits	-	-	3,619	-	-	(3)
Income tax payable	7,465	(319)	(1,890)	100	-	-
Other current liabilities	(475)	195	705	-	-	-
Non-current provisions	(1,325)	(1,098)	74	-	-	-
Non-current employee benefits	-	-	153	-	-	-
Other non-current liabilities	(1,976)	(995)	(1,397)	-	-	-
Net changes in net assets and liabilities	(41,666)	(11,737)	(6,246)	9,740	304	6,710
Net cash from operating activities	53,032	66,830	129,962	28,247	21,316	20,863

Note 5. Impact of seasonality on results

There are no material cyclicity impacts in the group.

Note 6. Contingent liabilities

The contingent liabilities of the group as disclosed in Note 39 of the annual report for the year ended 30 June 2011 are materially the same as at 31 December 2011.

Note 7. Events subsequent to balance date

There were no significant events subsequent to balance date requiring disclosure up to the date of authorisation of these financial statements.