

WELLINGTON CABLE CAR LIMITED

REVIEW OF 2010/11 ANNUAL REPORT

Wellington Cable Car Limited (WCCL or the Company) presents its Annual Report including audited financial statements and performance measures.

Highlights for the year

- Wellington Cable Car reported a net surplus of \$1.8m for 2010/11; however, this included a number of non-operational adjustments, primarily on the valuation of the overhead network.
- Excluding these non-operational adjustments, the underlying result net of tax was approximately \$648k compared to the budget of \$378k.
- Passenger numbers of 1,056,718 were 7.8% below target and 1.7% below last year. The Company attributes this to the economic environment. Passenger fare income was above budget due to unbudgeted fare increases during the year.
- The annual cable car safety assessment was carried out in February 2011. It raised a small number of conditions and recommendations, of an administrative and fairly minor nature. Following consideration of WCCL's responses, full clearance was provided by NZTA.
- Significant overhead network projects were undertaken during the year, including the Manners Mall development and the Troy St / Cobham Dve intersection reconfiguration.
- A funding agreement was entered into with Greater Wellington Regional Council effective 1 February 2011 for an initial term until 30 June 2012, which is renewable until 30 June 2017.

Performance

1. Financial

Statement of Comprehensive Income

\$ '000	2010/11 FY Actual	2010/11 FY Budget	2009/10 Actual
Income	8,927	11,575	6,351
Expenditure	6,444	11,035	5,867
Operating Surplus	2,483	541	484
Subvention Payment / Tax	(650)	(162)	(52)
Net Surplus	1,833	378	431
Total Comprehensive Income	137	378	483
Net Underlying Result (excl. non-operational adjustments)	648	378	339

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Statement of Financial Position

\$ '000	2010/11 FY Actual	2010/11 FY Budget	2009/10 Actual
Current assets	3,809	2,170	2,425
Non current assets	5,148	6,386	6,012
Current liabilities	1,420	850	848
Non current liabilities	522	745	764
Equity	7,015	6,961	6,825
Current ratio	2.7 : 1	2.6 : 1	2.9 : 1
Equity ratio	78%	81%	81%

Statement of Cash Flows

\$ '000	2010/11 FY Actual	2010/11 FY Budget	2009/10 Actual
Operating	2,638	1,360	310
Investing	(1,649)	(1,155)	(40)
Financing	-	(389)	(203)
Net	989	(185)	68
Closing balance	1,894	1,070	905

Note: the Company's financial statements have been prepared using NZ IFRS.

A review of the Company's financial statements highlights the following:

- The treatment of third party revenue (as required by IFRS) and the overhead network revaluation mean the Company's accounts for 2010/11 are very difficult to follow.
- The reported net surplus of \$1.8m includes a \$1.6m extraordinary item arising from the accounting treatment of non-taxable revenue received for the Manners Mall project, the cost of which was capitalised.
- This surplus is then reduced by an adjustment for the carrying value of the overhead network worth \$1.7m. This is attributable to the full write-off of the capital cost of the Manners Mall project (\$1.1m net of tax) and a reduction (\$0.6m net of tax) relating to updated revenue forecasts in the valuation.
- As a result, reported net comprehensive income was \$137k.
- Excluding the non-operational adjustments, the Company's comprehensive income net of tax would have been approximately \$648k.
- This 'underlying' figure of \$648k is materially higher than the budgeted net surplus of \$378k for 2010/11 and the equivalent figure of \$339k last year.
- The higher than budgeted underlying result was a result of a number of factors. Passenger fare income was \$1.95m (6% above budget) due to unbudgeted fare increases during the year. Cable car operational and maintenance costs were below budget, including a deferral of some bridge strengthening work. Administration costs were also below budget and external activities income was above budget.
- The current ratio of 2.7x remains healthy.
- At year end, the Company's cash balance was \$1.9m, with debt facilities available of \$350k.

The Company noted that it did not meet its LGA obligation to have its financial statements ready by 30 September 2011. The Board has instructed management to take all necessary steps to ensure that the processes leading to

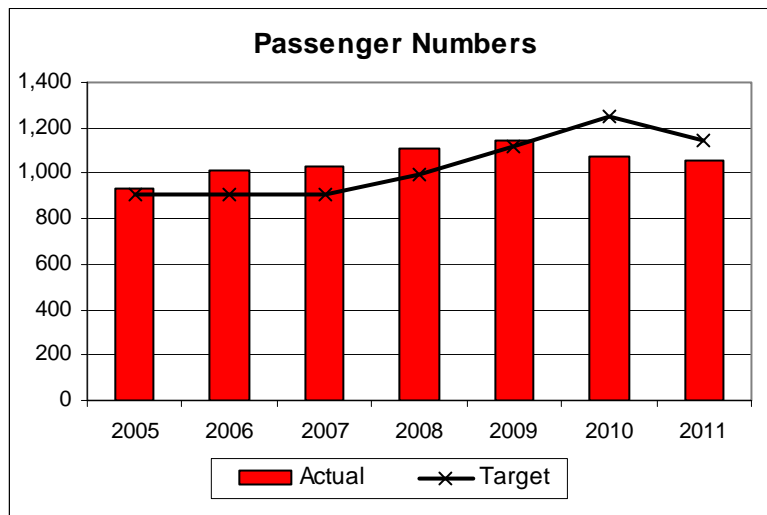
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the completion of the audited annual report are sufficient to avoid this occurring again.

2. KPIs

Some of the key results include:

- Passenger numbers of 1,056,718 were 7.8% below target and 1.7% below last year. The Company attributes this to the economic environment.
 - Passengers using multi-trip tickets (a proxy for commuters and students) were below budget by 21% and below last year by approximately 4%.
 - Cash tickets (a proxy for tourists) were below budget by 2% and about 1% below last year.
- The Company reported a high level of reliability – in excess of 99%.



Passenger Numbers per Quarter:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Target passenger numbers on the Cable Car	248,200	289,700	362,300	245,800	1,146,000
Actual passenger numbers on the Cable Car	228,800	257,166	351,451	219,301	1,056,718
Actual compared to Target	-7.8%	-11.2%	-3.0%	-10.8%	-7.8%

Residents Satisfaction Survey:

Question	Target	Actual
Have you used the Cable Car in the last 12 months?	30%	46%
How do you rate the standard and operational reliability of the Cable Car? (Good/Very Good)	95%	94%

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Other KPIs:

2010/11 Performance Indicator	Target	Result
Cable car vehicles, track, tunnels, bridges, buildings and equipment are maintained to required safety standards	Approval by NZTA	Achieved
Cable car service reliability	Greater than 99%	Achieved
Cable car service has Qualmark endorsement to confirm it meets established tourism standards	Qualmark endorsement obtained	Application being made in 2011
Inspection, maintenance and repair of trolley bus overhead network are carried out to provide appropriate levels of reliability	No network failures due to inadequate maintenance	None from inadequate maintenance activities. Failures still occur due to backlog of maintenance not yet remedied, but rate is decreasing
Trolley bus overhead network asset management plan prepared	Annual 2011/12 AMP prepared by 31 August 2010	2011/12 draft AMP is continuation of cycle of initial 2008/09 plan; Drafting of new edition for 2012/13 underway
Trolley bus network poles identified as requiring urgent and critical replacement are programmed	Pole replacement programme completed	Achieved
Overhead components identified as requiring replacement or repair are programmed	Component programme completed	Achieved
WCCL pole occupants have formal contracts and appropriate pole user charges are being paid	All 'existing works' users have signed contracts by 30 June 2012	Pole occupants without existing user rights have paid rental charges in accordance with contracts; Occupants claiming existing user rights do not yet have contracts due to unresolved differences in legislation interpretation
GWRC funding agreement compliance	Nil breaches by WCCL	Nil breaches (funding agreement in effect from 1 Feb 2011)
Performance requirements in GWRC funding agreement	Payments made in accordance with agreed funding levels and no complaints from GWRC	Achieved
Compliance with appropriate regulations and statutes	No adverse comments from relevant regulatory authorities	Achieved
Budgetary requirements approved by the WCCL Board are met	Within 10% or Board approved variance	Higher than budgeted surplus
Board delegations are adhered to	Board and management approvals of commitments and	Achieved

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2010/11 Performance Indicator	Target	Result
	expenditure are in accordance with policy	
Company risks and vulnerabilities are maintained at an acceptable limit and identified in the Risk and Vulnerability register	No risks and vulnerabilities not identified (and where possible mitigated to an acceptable limit)	Achieved

3. Council Strategies

Wellington Cable Car Ltd contributed to a number of Council strategies during 2010/11, with the primary ones being:

Transport – The cable car is a significant link in the transport infrastructure of Wellington and contributes to the Council's aim of a well-planned, efficient transport system allowing for the easy movement of people and goods to and through the city. WCCL's maintenance of the overhead trolley bus network is an integral part of the city's transport network, assisting in its aims of being better connected and more sustainable. WCCL also played a key role in this strategy during 2010/11 with its part in the Manners Mall redevelopment.

Economic Development – WCCL plays a material role in the city's economic development in many ways, including as an employer, as a transport provider, and as a facilitator for visitors to get to a number of key visitor attractions.

4. Operations

During the year, the Company:

- Continued replacing the exterior panels of the cable cars (work is scheduled to be completed by December 2011).
- Replaced 120 trolley bus overhead poles as part of the urgent and critical maintenance programme. Ten special aerial switches (for changing buses to a different track) and five roadside DC feeder pillars were also replaced.
- Undertook planned replacement of significant lengths of thin contact wire on the overhead network in the Brooklyn, Island Bay and Lyall Bay areas.

The bridge over the cable car track providing private access to a property in Everton Tce was replaced by the owner of the property.

The introduction of the electric shuttle bus service between the lower Botanic Garden and the Kelburn terminal was delayed by NZTA administrative matters and will be ready for the 2011/12 tourist season.

The Technical Review Group produced a report on the effect of a provision in the power supply contract between Wellington Electricity Lines Ltd and GO Wellington that, in the event of a substation supply failure, supply would be restored to the overhead network by closing WCCL's overhead network open points. WCCL rejects this contractual provision as it is not party to this contract and to implement it without specific technical evaluation and approval by WCCL

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could adversely affect operational performance and safety. This report has been submitted to WCC and GWRC.

Governance

The Directors during the year were:

Roger Drummond (Chair)
Jeremy Ward
Christine Southey (expired 31 December 2010)

Since 1 July 2011, Nicki Crauford has joined the board. Jeremy Ward's and Roger Drummond's terms expire on 31 December 2011.

Key issues going forward

1. Passenger numbers

Passenger numbers continued to decline slightly in 2010/11, particularly in the student/commuter categories. In 2011 the Company undertook passenger survey work to try and determine the cause of the slowing trend; however, these results were inconclusive in terms of any one factor causing the drop.

This result compares to an increase of 1.5% in international visitor room nights and a decrease of 3.6% in domestic visitor room nights (for the year to April 2011), relative to the prior year. As a comparison, visitors to the Cable Car Museum were 238,310 (6% lower than the year before) and visitors to Carter Observatory were 46,124.

From a local perspective, per the Council's residents' survey, 46% of Wellingtonians have used the cable car in the past 12 months. This compares to 75% of Wellingtonians who have used the Botanic Gardens in the past 12 months.

Officers consider that the Company should continue to work on improving the attractiveness of the cable car offering to passengers, including tourists. This should include how the cable car experience can be better integrated with the full range of tourist and visitor experiences at the top of the cable car in Kelburn. It should also include some relative pricing analysis.

2. Kelburn terminal redevelopment

The Company is continuing work on the replacement of the Kelburn terminal. Consideration of design is now underway and construction is planned to commence in April 2012. The Board is cognisant of minimising passenger disruption during the construction period. This redevelopment, including how it fits within the broader Kelburn precinct area, the progress of budget and timing milestones, and how project and customer risk is managed, will be a key focus for the Company over the coming year.

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Conclusion

Wellington Cable Car Limited had a good year in 2010/11. On an underlying basis, the Company exceeded its budget forecast and is making progress on plans for the redevelopment of the Kelburn terminal. However, passenger numbers were below budget and last year.