

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

**cchl** *2013* **ANNUAL**  
Christchurch City Holdings

# REPORT

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







# DIRECTORS' RESPONSIBILITY STATEMENT

The directors are responsible for ensuring that the financial statements give a true and fair view of the financial position of the company and group as at 30 June 2013, and the financial performance and cash flows for the year ended on that date.

The directors consider that the financial statements of the company and group have been prepared using appropriate accounting policies, consistently applied and supported by reasonable judgments and estimates, and that all relevant financial reporting and accounting standards have been followed.

The directors consider that proper accounting records have been kept, which enable, with reasonable accuracy, the determination of the financial position of the company and group and facilitate compliance of the financial statements with the Financial Reporting Act 1993.

The directors consider they have taken adequate steps to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors have the pleasure in presenting the financial statements, set out on pages 2 to 67, of Christchurch City Holdings Limited for the year ended 30 June 2013.

The Board of Directors of Christchurch City Holdings Limited authorises these financial statements for issue on 18 September 2013.

For and on behalf of the Board

**Bruce Irvine**

Chairman

Christchurch

18 September 2013

**Sarah Smith**

Director

Christchurch

18 September 2013

# CHRISTCHURCH CITY HOLDINGS LIMITED

## FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

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# STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2013	Note	Group 2013 \$'000	Group 2012 \$'000	Parent 2013 \$'000	Parent 2012 \$'000
Operating and other revenue	2	945,372	893,679	42,379	54,744
Finance income	3	3,260	4,308	7,021	7,143
Other gains	4	9,563	5,431	13,119	-
<b>Total income</b>		958,195	903,418	62,519	61,887
Depreciation, amortisation and impairment	5	96,160	83,727	-	-
Finance costs	6	38,349	35,261	15,944	15,547
Personnel costs	7	223,091	190,795	591	552
Other expenses	8	494,754	462,278	1,531	1,062
Other losses	4	2,168	2,789	533	-
<b>Total operating expenses</b>		854,522	774,850	18,599	17,161
Share of (losses)/profits of associates	20	(2,365)	(920)	-	-
<b>Profit before income tax expense</b>		101,308	127,648	43,920	44,726
Income tax expense/(credit)	11	30,596	30,367	(91)	-
<b>Profit for the year</b>		70,712	97,281	44,011	44,726
<b>Other comprehensive income</b>					
<i>Items that will not be recycled to profit or loss:</i>					
Revaluation of assets		27,585	29,322	-	-
<i>Items that may be recycled to profit or loss in future:</i>					
Fair value through equity financial assets		-	-	50,573	85,658
Cash flow hedges		18,067	(14,854)	6,299	(5,427)
Share of other comprehensive income of associates		-	71	-	-
		45,652	14,539	56,872	80,231
Income tax relating to other comprehensive income		3,448	(3,928)	-	-
<b>Other comprehensive income for the year, net of tax</b>		49,100	10,611	56,872	80,231
<b>Total comprehensive income for the year, net of tax</b>		119,812	107,892	100,883	124,957
<b>Profit for the year attributable to:</b>					
Owners of the parent		57,393	83,023	44,011	44,726
Non-controlling interest		13,319	14,258	-	-
		70,712	97,281	44,011	44,726
<b>Total comprehensive income attributable to:</b>					
Owners of the parent		96,031	90,078	100,883	124,957
Non-controlling interest	35	23,781	17,814	-	-
		119,812	107,892	100,883	124,957

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

# BALANCE SHEET

As at 30 June 2013

	Note	Group 2013 \$'000	Group 2012 \$'000	Parent 2013 \$'000	Parent 2012 \$'000
<b>Current assets</b>					
Cash and cash equivalents	12	(2,838)	5,442	1,774	13,110
Debtors and other receivables	13(a)	152,463	132,497	1,434	1,231
Derivative financial instruments	15(a)	34	252	-	-
Other financial assets	16(a)	17,858	3,071	11,450	5,000
Prepayments		9,653	7,047	197	96
Inventories	17	16,810	17,205	-	-
Current tax assets	11(c)	404	-	-	-
Non-current assets classified as held for sale	18	3,234	-	-	-
Other	19(a)	24	24	-	-
Total current assets		197,642	165,538	14,855	19,437
<b>Non-current assets</b>					
Debtors and other receivables	13(b)	-	25	-	-
Investments in associates	20	34,599	50,821	-	16,144
Derivative financial instruments	15(b)	1,962	-	1,962	-
Other financial assets	16(b)	21,466	26,592	1,772,726	1,677,602
Prepayments		8,200	9,128	-	-
Property, plant and equipment	22	2,068,363	2,013,491	-	-
Investment property	23	178,187	136,895	-	-
Intangible assets	24	14,239	12,321	-	-
Deferred tax assets	11(f)	11,821	18,919	-	-
Goodwill	25	39,152	38,902	-	-
Other	19(b)	-	24	-	-
Total non-current assets		2,377,989	2,307,118	1,774,688	1,693,746
Total assets		2,575,631	2,472,656	1,789,543	1,713,183
<b>Current liabilities</b>					
Creditors and other payables	26	82,340	71,031	1,537	1,460
Borrowings	27(a)	113,197	170,430	88,000	102,000
Derivative financial instruments	15(c)	1,277	1,384	82	-
Employee entitlements	29(a)	25,198	25,108	42	61
Current tax liabilities	11(c)	-	3,992	-	91
Other	30(a)	1,692	1,685	-	-
Total current liabilities		223,704	273,630	89,661	103,612
<b>Non-current liabilities</b>					
Borrowings	27(b)	585,761	496,228	230,000	200,000
Derivative financial instruments	15(d)	25,082	38,582	7,723	11,970
Employee entitlements	29(b)	2,000	1,561	-	-
Deferred tax liabilities	11(f)	284,547	284,833	-	-
Other	30(b)	4,158	5,161	-	-
Total non-current liabilities		901,548	826,365	237,723	211,970
Total liabilities		1,125,252	1,099,995	327,384	315,582
Net assets		1,450,379	1,372,661	1,462,159	1,397,601
<b>Equity</b>					
Capital and other equity instruments	31	71,435	71,435	71,435	71,435
Reserves	33	319,729	281,112	1,094,762	1,037,890
Retained earnings	34	784,623	763,549	295,962	288,276
Parent entity interests		1,175,787	1,116,096	1,462,159	1,397,601
Non-controlling interests	35	274,592	256,565	-	-
Total equity		1,450,379	1,372,661	1,462,159	1,397,601

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

# STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2013

Group	Note	Share capital	Asset revaluation reserve	Hedging reserve	Retained earnings	Attributable to equity holders of parent	Non-controlling interests	Total
		<sup>31</sup> \$'000	<sup>33</sup> \$'000	<sup>33</sup> \$'000	<sup>34</sup> \$'000	\$'000	<sup>35</sup> \$'000	\$'000
Balance as at 1 July 2011		71,435	288,357	(14,233)	716,040	<b>1,061,599</b>	247,218	<b>1,308,817</b>
Profit for the year		–	–	–	83,023	<b>83,023</b>	14,258	<b>97,281</b>
Other comprehensive income for year (net of tax)		–	15,855	(8,959)	159	<b>7,055</b>	3,556	<b>10,611</b>
Transfers		–	92	–	(92)	–	–	–
Dividends paid or provided for	32	–	–	–	(35,449)	<b>(35,449)</b>	(7,940)	<b>(43,389)</b>
Adjustment to non-controlling interests for share acquisitions		–	–	–	(132)	<b>(132)</b>	(527)	<b>(659)</b>
<b>Balance as at 30 June 2012</b>		<b>71,435</b>	<b>304,304</b>	<b>(23,192)</b>	<b>763,549</b>	<b>1,116,096</b>	<b>256,565</b>	<b>1,372,661</b>
Profit for the year		–	–	–	57,393	<b>57,393</b>	13,319	<b>70,712</b>
Other comprehensive income for year (net of tax)		–	27,748	10,893	(3)	<b>38,638</b>	10,462	<b>49,100</b>
Transfers		–	(24)	–	24	–	–	–
Deferred tax transferred to equity		–	–	–	–	–	–	–
Dividends paid or provided for	32	–	–	–	(36,325)	<b>(36,325)</b>	(5,644)	<b>(41,969)</b>
Adjustment to non-controlling interests for share acquisitions		–	–	–	(15)	<b>(15)</b>	(110)	<b>(125)</b>
<b>Balance as at 30 June 2013</b>		<b>71,435</b>	<b>332,028</b>	<b>(12,299)</b>	<b>784,623</b>	<b>1,175,787</b>	<b>274,592</b>	<b>1,450,379</b>

Parent	Note	Share capital	Fair value through equity reserve	Hedging reserve	Retained earnings	Total
		<sup>31</sup> \$'000	<sup>33</sup> \$'000	<sup>33</sup> \$'000	<sup>34</sup> \$'000	\$'000
Balance as at 1 July 2011		71,435	964,918	(7,259)	278,999	1,308,093
Profit for the year		–	–	–	44,726	44,726
Other comprehensive income for year (net of tax)		–	85,658	(5,427)	–	80,231
Dividends paid or provided for	32	–	–	–	(35,449)	(35,449)
<b>Balance as at 30 June 2012</b>		<b>71,435</b>	<b>1,050,576</b>	<b>(12,686)</b>	<b>288,276</b>	<b>1,397,601</b>
Profit for the year		–	–	–	44,011	44,011
Other comprehensive income for year (net of tax)		–	50,573	6,299	–	56,872
Transfers		–	–	–	–	–
Dividends paid or provided for	32	–	–	–	(36,325)	(36,325)
<b>Balance as at 30 June 2013</b>		<b>71,435</b>	<b>1,101,149</b>	<b>(6,387)</b>	<b>295,962</b>	<b>1,462,159</b>

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

# CASH FLOW STATEMENT

For the year ended 30 June 2013	Note	Group 2013 \$'000	Group 2012 \$'000	Parent 2013 \$'000	Parent 2012 \$'000
<b>Cash flows from operating activities</b>					
Receipts from customers and other sources		884,614	844,752	3	102
Interest received		2,909	4,655	6,687	7,162
Dividends received		–	–	42,377	65,455
Proceeds from insurance		17,394	–	–	–
Payments to suppliers and employees		(711,401)	(683,995)	(2,240)	(1,742)
Interest and other finance costs paid		(39,071)	(35,750)	(15,739)	(15,958)
Income tax paid		(17,812)	(8,599)	–	–
Subvention payments		(7,471)	(12,176)	–	–
Net cash provided by/(used in) operating activities	36	129,162	108,887	31,088	55,019
<b>Cash flows from investing activities</b>					
Proceeds from sale of investment securities		1,818	10	–	–
Proceeds from return of capital of associated company		20,793	–	20,793	–
Payment for equity investment in subsidiaries/associates		–	(2,300)	(8,123)	(659)
Advances made		(6,814)	–	(6,814)	–
Proceeds from repayment of related party loans		44	12,550	5,044	13,550
Amounts advanced to related parties		–	–	(33,000)	(14,500)
Payment for property, plant and equipment		(146,874)	(146,278)	–	–
Proceeds from sale of property, plant and equipment		1,480	872	–	–
Proceeds from insurance		12,110	17,200	–	–
Payment for goodwill		(250)	(3,391)	–	–
Payment for intangible assets		(5,985)	(3,473)	–	–
Payment for investment properties		(3,735)	(14,025)	–	–
Payment for investment in term deposits		(3,250)	(3,000)	–	–
Net cash (used in)/provided by investing activities		(130,663)	(141,835)	(22,100)	(1,609)
<b>Cash flows from financing activities</b>					
Proceeds from borrowing		136,350	86,614	16,000	6,000
Repayment of borrowings		(100,515)	(4,080)	–	–
Repayment of finance leases		(334)	(298)	–	–
Capitalised bond issue costs		(312)	–	–	–
Dividends paid		(36,324)	(52,774)	(36,324)	(52,774)
Dividends paid – non-controlling interests		(5,644)	(7,940)	–	–
Net cash provided by/(used in) financing activities		(6,779)	21,522	(20,324)	(46,774)
Net decrease in cash and cash equivalents		(8,280)	(11,426)	(11,336)	6,636
Cash and cash equivalents at beginning of year		5,442	16,868	13,110	6,474
Cash and cash equivalents at end of year	12	(2,838)	5,442	1,774	13,110

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



## 1. Critical judgements, estimates and assumptions

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.

Estimates and underlying assumptions are regularly reviewed. Any change to estimates is recognised in the period if the change affects only that period, or into future periods if it also affects future periods.

In the process of applying the 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:

- Management of the subsidiary companies assess whether individual assets or groupings of related assets (which generate cash flows co-dependently) 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 flows are required. Following the Canterbury earthquakes, these assumptions have a higher degree of sensitivity than would normally be the case. A movement in the fair value of an asset is recorded through profit or loss or other comprehensive Income, depending on the asset classification.
- Management of the parent and subsidiary companies determine whether goodwill is impaired on at least an annual basis. This requires an estimation of the recoverable amount of its cash-generating units, using a value in use discounted cash flow methodology. This value is then compared with the existing book value of the assets combined with the goodwill allocated to those assets. If the value in use is higher, then there has been no impairment of goodwill.
- Management of the subsidiary companies determine useful lives for particular assets. In making this assessment, they make judgements 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 ceasing to use the asset in its business operations.

In addition to the above factors, the following areas requiring critical judgements, estimates and assumptions that are specific to individual companies within the Group are as follows:

- Orion New Zealand Ltd has estimated the impacts of the Canterbury earthquakes 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 review of the carrying value of the company's electricity distribution network.

- The identification by Christchurch International Airport Ltd of which components of property, plant & equipment are to be reclassified to investment property involves the use of judgement. The main deciding factor for this classification is that the property is not used for aircraft-related activities. The classification has implications as to whether revaluation gains and losses are recognised through profit or loss or through other comprehensive income.
- Lyttelton Port Company Ltd has identified areas of estimation uncertainty in relation to the carrying value of land, building and harbour structures; depreciation rates and the estimation of useful lives; amortisation of intangible assets such as resource consents, easement and software, and the quantification of contingent liabilities.
- Enable Services Ltd's investment in Enable Networks Ltd represents an investment in a start-up infrastructure company. The investment is recognised as an investment in an associate and as such is not revalued in the financial statements. The company is required to assess the value of the investment for impairment. Assessment of the value of Enable Networks Ltd requires significant assumptions including levels of uptake, average rates of sales, operating cost levels, depreciation rates and financing costs. In addition to the company's own assessment of the value of Enable Networks Ltd, the value has also been assessed by Ernst & Young. The valuations indicate no indication of impairment in the investment.
- Enable Services Ltd is contracted to build the UFB network for Enable Networks Ltd over a build programme concluding by December 2019. A project of this nature has a number of up-front costs, including initial design, resourcing of staff, and investment in total project infrastructure. These costs are required to be recovered throughout the build programme. The company has exercised its judgement as to whether these costs will be recoverable through the life of the project.
- Christchurch City Holdings Ltd values its investments in subsidiary and associated companies at fair value. This has a material impact on the amounts recognised in these financial statements and involves a significant amount of judgement. Independent valuers are commissioned to perform these valuations on a periodic basis, at intervals sufficient to ensure that the fair value of these investments does not differ materially from their carrying value. In intervening years, valuations are reviewed to determine whether there are any factors present that would indicate the possibility of a significant value change. If such factors are present, a full valuation is performed and reflected in the financial statements.



	Note	Group 2013 \$'000	Group 2012 \$'000	Parent 2013 \$'000	Parent 2012 \$'000
<b>2. Operating and other revenue</b>					
Sale of goods		30,739	32,701	–	–
Rendering of services		630,601	611,864	2	2
Construction contract revenue		175,491	121,336	–	–
Donated and subsidised assets		4,406	4,188	–	–
Capital contributions		4,241	4,099	–	–
Electricity transmission rental rebates		7,081	5,605	–	–
Rental income from investment properties		12,279	9,149	–	–
Other rental revenue		52,208	54,202	–	–
Dividends from subsidiaries		–	–	42,377	54,742
Insurance receipts		17,952	43,664	–	–
Other		10,374	6,871	–	–
		945,372	893,679	42,379	54,744

### 3. Finance income

Interest income – bank deposits	1,172	780	448	253
Interest income – related party loans	1,767	2,616	6,567	6,890
Interest income – finance lease	4	6	–	–
Interest income – other	317	906	6	–
	3,260	4,308	7,021	7,143

### 4. Other gains and losses

#### Other gains

##### Non-financial instruments

Gains on disposal of fair value through equity investments	1,788	10	13,119	–
Gains on revaluation of investment property	7,775	5,421	–	–
Other gains	9,563	5,431	13,119	–

##### Other losses

##### Non-financial instruments

Losses on disposal of property, plant and equipment	81	153	–	–
Losses on assets written off	1,532	1,340	–	–
	1,613	1,493	–	–

##### Financial instruments

Ineffectiveness on fair value hedges – loss	4	1,222	–	–
Ineffectiveness on cash flow hedges – loss	533	–	533	–
Fair value through profit or loss financial assets fair value change	18	74	–	–
	555	1,296	533	–
Other losses	2,168	2,789	533	–

#### Gain on disposal of fair value through equity investments

Selwyn Plantation Board Ltd, an associated company of the CCHL parent company, was placed into liquidation prior to balance date, and the net assets of the company distributed to the shareholders. Accordingly, at balance date, CCHL has de-recognised its investment in Selwyn Plantation Board Ltd. The accumulated balance of \$13.1m in CCHL's fair value through equity reserve relating to Selwyn Plantation Board Ltd was therefore recycled to profit and loss, resulting in a gain for the parent company of \$13.1m (2012: Nil).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2013

	Note	Group 2013 \$'000	Group 2012 \$'000	Parent 2013 \$'000	Parent 2012 \$'000
<b>5. Depreciation, amortisation and impairment</b>					
Depreciation of non-current assets	22	90,629	78,448	–	–
Amortisation of intangible assets	24	3,897	3,031	–	–
Impairment of property, plant & equipment	22	1,634	65	–	–
Impairment of goodwill	25	–	3,200	–	–
Impairment of other assets		–	1,223	–	–
Reversals of impairment losses on revaluation		–	(2,240)	–	–
		96,160	83,727	–	–
<b>6. Finance costs</b>					
<b>Interest expense</b>					
Interest on bank borrowings		19,907	22,120	103	2,833
Interest on debt instruments		18,036	12,678	15,841	12,678
Interest on finance leases		382	435	–	–
Other interest		24	28	–	36
		38,349	35,261	15,944	15,547
<b>Interest capitalised</b>					
Property, plant & equipment		2,572	3,932	–	–
Intangible assets		–	1	–	–
		2,572	3,933	–	–
<b>7. Personnel costs</b>					
Salaries and wages		217,630	185,614	585	552
Defined contribution plan employer contributions		2,391	2,108	6	–
Defined benefit plan employer contributions		109	344	–	–
Other		2,961	2,729	–	–
		223,091	190,795	591	552
<b>8. Other expenses</b>					
Audit fees	10	1,116	792	46	45
Directors' fees		2,067	1,956	328	332
Donations		79	62	–	3
Net foreign exchange (gains)/losses		(58)	85	–	–
Provision expenses		–	(74)	–	–
Minimum lease payments under operating leases		9,566	7,734	–	–
Orion network maintenance and transmission expenses		84,863	70,554	–	–
Raw materials and consumables used		57,717	43,678	–	–
Other operating expenses		339,404	337,491	1,157	682
		494,754	462,278	1,531	1,062
<b>9. Key management personnel compensation</b>					
Short term benefits		601	598	601	598
Other benefits		–	–	–	–
		601	598	601	598

	Note	Group 2013 \$'000	Group 2012 \$'000	Parent 2013 \$'000	Parent 2012 \$'000
<b>10. Remuneration of auditors</b>					
<b>Audit New Zealand</b>					
Audit of the financial statements		633	612	46	45
Other audit and assurance engagements		354	56	-	-
		987	668	46	45
<b>Other auditor – KPMG</b>					
Audit of the financial statements		86	109	-	-
Internal control review		-	15	-	-
Other non-audit services		43	-	-	-
		129	124	-	-
<b>Total</b>	8	1,116	792	46	45

The auditor of Christchurch City Holdings Limited and the rest of the Group, excluding Lyttelton Port Company Ltd, is Audit New Zealand, on behalf of the Auditor-General. The auditor of Lyttelton Port Company Ltd is KPMG, on behalf of the Auditor-General.

**Audit New Zealand** Other audit and assurance services principally comprised:

*Orion New Zealand Limited*

- Review of the schedules of required information prepared in accordance with Commerce Commission requirements issued by notice in writing under section 53ZD of the Commerce Act 1986;
- Reporting on the extent to which a Customised Price-Quality Path Proposal prepared by the company complied with the Electricity Distribution Services Input Methodologies Determination 2012;
- Issuing a report on the company's disclosure information prepared under the Electricity Distribution Information Disclosure Requirements 2008; and
- Issuing a report on the Annual Compliance Statement prepared under the Electricity Distribution Services Default Price-Quality Path Determination 2010.

*Christchurch International Airport Limited*

- Audit of the company's disclosures pursuant to the Commerce Act (Specified Airport Services Information Disclosure) Determination 2010; and
- Audit of the company's bond prospectus.

**KPMG**

Other non-audit related services provided to Lyttelton Port Company Limited comprised:

- A review assignment; and
- Providing the company with general accounting services.

## 11. Income taxes

### 11(a) Components of tax expense

Current tax expense/(income)	21,527	20,411	-	-
Adjustments to current tax of prior years	(1,197)	(478)	(91)	-
Deferred tax expense/(income)	12,098	10,398	-	-
Deferred tax expense relating to use of prior year losses	419	240	-	-
Deferred tax income from change in tax rates/other	(2,251)	(204)	-	-
Total tax expense/(income)	30,596	30,367	(91)	-

### 11(b) Reconciliation of prima facie income tax:

Profit before tax	101,308	127,648	43,920	44,726
Tax at 28%	28,366	35,741	12,298	12,523
Non-deductible expenses	1,566	1,925	-	-
Non-assessable income and deductible items	2,789	(4,953)	(15,296)	(15,597)
Effect on deferred tax balances of:				
Change in tax rate	-	(212)	-	-
Removal of building depreciation	(957)	40	-	-
Assets no longer depreciable	(1,095)	(1,835)	-	-
Tax loss not recognised as deferred tax asset	-	-	2,907	3,074
(Over)/under provision of income tax in previous year	(73)	(339)	-	-
	30,596	30,367	(91)	-

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2013

## 11. Income taxes *continued*

### 11(b) Reconciliation of prima facie income tax: *contd*

The tax rate used in the above reconciliation is the corporate tax rate of 28% (2012: 28%) payable by New Zealand companies on taxable profits under New Zealand tax law.

Last year's parent company losses were subsequently utilised through loss offsets within the Christchurch City Council group. The current year's tax loss of \$10.4m (2012: \$11.0m) will be transferred to other entities within the Christchurch City council group and the group tax payable has been reduced accordingly.

	Note	Group 2013 \$'000	Group 2012 \$'000	Parent 2013 \$'000	Parent 2012 \$'000
<b>11(c) Current tax receivables/(payables)</b>					
Income tax		404	(3,992)	–	(91)
		404	(3,992)	–	(91)
<b>11(d) Unrecognised tax losses</b>					
<i>The following tax losses have not been brought to account as assets:</i>					
Tax losses		181	148	–	–
Tax effect		51	41	–	–

### 11(e) Imputation credits

The amount of imputation credits available for use in subsequent reporting periods by:

- The CCHL parent company is \$16,163,000 (2012: \$16,252,000)
- The CCHL Group is \$43,332,000 (2012: \$42,189,000)

No adjustments have been made for credit/debits associated with tax payable/receivable due to uncertainty regarding the utilisation of group losses.

### 11(f) Deferred tax

Taxable and deductible temporary differences arise from the following:

Group 30 June 2013	Opening balance \$'000	Recognised in:		Closing balance \$'000
		Profit/loss \$'000	Other comprehensive income \$'000	
<b>Deferred tax liabilities:</b>				
Cash flow hedges	–	–	–	–
Fair value hedges	–	56	–	56
Property, plant and equipment	268,602	6,533	(8,538)	266,597
Intangible assets	704	(102)	–	602
Insurance claim receivable	7,492	(204)	–	7,288
Other	8,035	1,969	–	10,004
	284,833	8,252	(8,538)	284,547
<b>Deferred tax assets:</b>				
Cash flow hedges	10,496	(6)	(4,627)	5,863
Fair value hedges	689	(232)	(457)	–
Provisions and employee entitlements	4,953	398	–	5,351
Doubtful debts and impairment losses	72	103	–	175
Tax losses	2,302	(2,251)	–	51
Other	407	(26)	–	381
	18,919	(2,014)	(5,084)	11,821
Net deferred tax liability/(asset)	265,914	10,266	(3,454)	272,726



Group 30 June 2012	Recognised in:			Closing balance \$'000
	Opening balance \$'000	Profit/loss \$'000	Other comprehensive income \$'000	
<b>11. Income taxes</b> <i>continued</i>				
<b>11(f) Deferred tax</b> <i>contd</i>				
<b>Deferred tax liabilities:</b>				
Cash flow hedges	-	-	-	-
Property, plant and equipment	254,949	5,549	8,104	268,602
Intangible assets	740	(36)	-	704
Insurance claim receivable	3,178	4,314	-	7,492
Other	5,561	2,474	-	8,035
	264,428	12,301	8,104	284,833
<b>Deferred tax assets:</b>				
Cash flow hedges	6,425	(14)	4,085	10,496
Fair value hedges	186	342	161	689
Provisions and employee entitlements	4,900	53	-	4,953
Doubtful debts and impairment losses	62	10	-	72
Tax losses	895	1,407	-	2,302
Other	338	69	-	407
	12,806	1,867	4,246	18,919
Net deferred tax liability/(asset)	251,622	10,434	3,858	265,914

**Parent company**

A deferred tax asset has not been recognised in the parent company for temporary differences of \$5.8m (tax effect \$1.6m) (2012: temporary differences of \$12.0m (tax effect \$3.4m). These temporary differences have been recognised in the Group.

A deferred tax liability has not been recognised on taxable temporary differences relating to undistributed profits of subsidiaries and associates.

Note	Group 2013 \$'000	Group 2012 \$'000	Parent 2013 \$'000	Parent 2012 \$'000
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**12. Cash and cash equivalents**

Cash and cash equivalents denominated in:

New Zealand dollars	(2,838)	5,441	1,774	13,110
Euros	-	1	-	-
	(2,838)	5,442	1,774	13,110

**13. Debtors and other receivables**

**13(a) Current asset portion**

Trade receivables (before impairment)	13(c)	68,514	62,530	155	-
Chargeable work in progress		53,850	28,703	-	-
Interest receivable		148	306	994	816
Contract retentions		2,267	753	-	-
Finance lease receivable		25	22	-	-
GST receivable		-	-	13	7
Insurance receivables		27,684	40,132	-	-
Other		385	523	272	408
		152,873	132,969	1,434	1,231
Provision for impairment – trade receivables		(410)	(472)	-	-
		152,463	132,497	1,434	1,231

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2013

	Note	Group 2013 \$'000	Group 2012 \$'000	Parent 2013 \$'000	Parent 2012 \$'000
<b>13. Debtors and other receivables</b> <i>continued</i>					
<b>13(b) Non-current asset portion</b>					
Finance lease receivable		–	25	–	–
Provision for impairment		–	–	–	–
		–	25	–	–
Total debtors and other receivables		152,463	132,522	1,434	1,231

Included in trade receivables are amounts due from the ultimate shareholder, Christchurch City Council, and from subsidiaries, as disclosed in Note 40.

An allowance has been made for estimated irrecoverable amounts from sales, determined by reference to past default experience. The net movement in the allowance was recognised in the profit or loss for the current financial year.

### 13(c) Credit risk – aging of receivables

#### Gross receivables

Not past due		53,761	49,481	155	–
Past due 0-30 days		8,135	8,129	–	–
Past due 31-60 days		3,804	2,192	–	–
Past due more than 60 days		2,814	2,728	–	–

	13(a)	68,514	62,530	155	–
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#### Impairment

Not past due		–	–	–	–
Past due 0-30 days		–	–	–	–
Past due 31-60 days		(2)	–	–	–
Past due more than 60 days		(408)	(472)	–	–
		(410)	(472)	–	–

Gross trade receivables		68,514	62,530	155	–
Individual impairment	13(d)	(410)	(472)	–	–
Collective impairment		–	–	–	–
Trade receivables (net)		68,104	62,058	155	–

### 13(d) Movements in provision for impairment of receivables

Balance at start of year		472	663	–	–
Additions from business combinations		–	89	–	–
Provisions made during year		13	91	–	–
Provisions reversed during year		(45)	(283)	–	–
Receivables written off during year		(30)	(88)	–	–
Balance at end of year	13(c)	410	472	–	–

Note	Group 2013 \$'000	Group 2012 \$'000	Parent 2013 \$'000	Parent 2012 \$'000
<b>14. Finance lease receivables</b>				
No later than one year	26	26	–	–
Later than one year and not later than five years	–	26	–	–
Later than five years	–	–	–	–
Minimum lease payments	26	52	–	–
Less future finance charges	(1)	(5)	–	–
Present value of minimum lease payments	25	47	–	–
<b>Present value of future minimum lease receivables</b>				
No later than one year	25	22	–	–
Later than one year and not later than five years	–	25	–	–
Later than five years	–	–	–	–
	25	47	–	–
Represented by				
Current portion	25	22	–	–
Non-current portion	–	25	–	–
	25	47	–	–

The finance lease receivable above relates to equipment leased by Orion New Zealand Ltd for a total term of 10 years, whereby the lessee owns the equipment at the end of the term. The company has security over the equipment. The residual value at the end of the lease is nil.

#### **15. Derivative financial instruments**

##### **15(a) Current asset portion**

Forward foreign exchange contracts - fair value hedges	34	252	–	–
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##### **15(b) Non-current asset portion**

Interest rate swaps – cash flow hedges	1,962	–	1,962	–
Total derivative financial instrument assets	1,996	252	1,962	–

##### **15(c) Current liability portion**

Interest rate swaps – fair value hedges	–	151	–	–
Interest rate swaps – cash flow hedges	1,260	928	82	–
Forward foreign exchange contracts – cash flow hedges	17	305	–	–
	1,277	1,384	82	–

##### **15(d) Non-current liability portion**

Interest rate swaps – fair value hedges	5,388	2,283	485	–
Interest rate swaps – cash flow hedges	19,694	36,299	7,238	11,970
	25,082	38,582	7,723	11,970
Total derivative financial instrument liabilities	26,359	39,966	7,805	11,970

Derivative financial instruments are used by the Group in the normal course of business in order to hedge exposure to fluctuations in interest and foreign currency rates, and commodity prices. The non-current liabilities of the Group and parent company have decreased from the previous year, representing an increase in prevailing interest rates and hence an improvement in the Group and parent swap positions.

# NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 June 2013

## 15. Derivative financial instruments *continued*

### *Interest rate swap contracts*

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on debt held. The fair value of interest rate swaps are based on market values of equivalent instruments at the reporting date and are disclosed below. The average interest rate is based on the outstanding balances at the start of the financial year.

Interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated and effective as cash flow hedges.

The following tables detail the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at reporting date:

### 15(e) Interest rate swap contracts

	Average contracted fixed interest rate		Notional principal amount		Fair value	
	2013	2012	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>Group</b>						
<b>Floating for fixed contracts</b>						
Less than 1 year	5.04%	4.84%	39,000	34,000	(1,260)	(1,079)
1 to 2 years	4.79%	5.01%	185,000	39,000	(6,273)	(1,256)
2 to 5 years	4.82%	5.21%	152,000	215,000	(5,876)	(12,855)
More than 5 years	4.92%	5.70%	247,000	214,000	(7,448)	(24,471)
			623,000	502,000	(20,857)	(39,661)
<b>Fixed for floating contracts</b>						
More than 5 years	N/A	N/A	81,814	–	(3,523)	–
			81,814	–	(3,523)	–
<b>Parent</b>						
<b>Floating for fixed contracts</b>						
Less than 1 year	3.83%	–	9,000	–	(82)	–
1 to 2 years	4.99%	3.83%	30,000	9,000	(772)	(199)
2 to 5 years	4.92%	4.96%	30,000	60,000	(278)	(1,883)
More than 5 years	5.06%	5.59%	175,000	100,000	(4,689)	(9,888)
			244,000	169,000	(5,821)	(11,970)
<b>Fixed for floating contracts</b>						
More than 5 years	N/A	N/A	6,814	–	(22)	–
			6,814	–	(22)	–

The interest rate swap settlement dates coincide with the dates on which interest is payable on the underlying debt. The majority of swaps are matched directly against the appropriate loans and interest expense and as such are considered highly effective. They are settled on a net basis. The swaps are measured at fair value and all gains and losses attributable to the hedged risk are recognised in other comprehensive income and reclassified into profit or loss when the interest expense is recognised.

### *Forward currency contracts – cash flow hedges*

The Group has entered into forward currency contracts to mitigate currency risk in relation to plant, equipment and inventory purchased from overseas. Details of these contracts, and the related exposures, are provided in Note 39.



	Note	Group 2013 \$'000	Group 2012 \$'000	Parent 2013 \$'000	Parent 2012 \$'000
<b>16. Other financial assets</b>					
<b>16(a) Current portion</b>					
Advances to Red Bus Ltd		–	–	–	5,000
Advances to Christchurch City Council	(i)	11,450	–	11,450	–
Term deposits		6,307	3,014	–	–
Other		101	57	–	–
Total current financial assets		17,858	3,071	11,450	5,000
<b>16(b) Non-current portion</b>					
Interest-bearing loans advanced to:					
Christchurch International Airport Ltd	(ii)	–	–	50,000	50,000
Enable Services Ltd	(iii)	–	–	52,500	19,500
Red Bus Ltd	(iv)	–	–	5,000	–
EcoCentral Ltd	(v)	–	–	9,000	14,000
Total advances to subsidiaries		–	–	116,500	83,500
Advances to Christchurch City Council	(i)	14,487	25,981	14,487	25,981
<b>Total advances to related parties</b>		14,487	25,981	130,987	109,481
Other advances	(vi)	6,979	566	6,453	–
Total non-current loans and advances		21,466	26,547	137,440	109,481
<i>Other investments:</i>					
Investment in Enertech Capital Partners 11 LP		–	45	–	–
Total other investments		–	45	–	–
<i>Shares in subsidiaries:</i>					
Shares held by CCHL in subsidiary companies	(vii)	–	–	1,635,286	1,568,121
Total non-current financial assets		21,466	26,592	1,772,726	1,677,602
Total other financial assets (current and non-current)		39,324	29,663	1,784,176	1,682,602

**(i) CCHL parent company advances to Christchurch City Council**

Until 2007, the CCHL parent company made advances to Christchurch City Council to fund the Council's ongoing borrowing requirements. The Council now funds its own requirements, and the existing advances will be repaid as they mature.

**(ii) Subordinated advances to Christchurch International Airport Ltd**

CCHL has advanced \$50m of subordinated debt to subsidiary Christchurch International Airport Ltd. The advance was made in two tranches of \$25m each, made in October 2009 and February 2010 respectively. Tranche 'A' matures in October 2016 and Tranche 'B' in February 2015. Interest is charged quarterly on a floating rate basis, based on the three month bank bill FRA settlement rate plus an agreed margin.

**(iii) Subordinated advances to Enable Services Ltd**

CCHL has advanced \$52.0m (2012: \$19.5m) to subsidiary Enable Services Ltd on a subordinated basis under a \$220m facility. The facility matures in 2021. Interest is charged quarterly on a floating rate basis. The interest rate charged is based on the average funding cost, including the impact of any hedging, incurred by CCHL on its borrowing for the purposes of on-lending to Enable Services Ltd, and includes an agreed margin.

**(iv) Subordinated advance to Red Bus Ltd**

CCHL has advanced \$5m to subsidiary Red Bus Ltd under a subordinated loan agreement (2012: \$5m convertible notes). The facility matures in April 2016. Interest is charged quarterly on a floating rate basis, based on the 90 bank bill bank rate and subject to any hedging entered into by CCHL with the prior agreement of Red Bus Ltd, and includes an agreed margin.

**(v) Subordinated advance to EcoCentral Ltd**

CCHL has advanced \$9m (2012: \$14m) to subsidiary EcoCentral Ltd under a subordinated loan agreement. The facility matures in April 2016. Interest is charged quarterly on a floating rate basis, based on the 90 bank bill bank rate and subject to any hedging entered into by CCHL with the prior agreement of EcoCentral Ltd, and includes an agreed margin. During the year, CCHL agreed to convert \$5m of the outstanding debt to redeemable preference shares.

# NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 June 2013

## 16. Other financial assets *continued*

### (vi) Other advances

On 29 June 2012, CCHL entered into a loan agreement with Christchurch Engine Centre to advance up to US\$17m, effectively replacing the Council's previous combined equity/debt investment in Jet Engine Facility Ltd. In June 2013, the necessary pre-conditions for drawdowns had been satisfied by Christchurch Engine Centre, and the first drawdown of NZ \$6.8m (equivalent) was made prior to balance date. The loan is expected to be fully drawn down by the end of the 2013 calendar year. CCHL has entered into a cross currency interest rate swap to achieve a fixed interest rate on the US\$ loan – further information is provided in Note 39.

### (vii) Shares in subsidiary companies

CCHL's subsidiary and associate investments, all of which were incorporated in New Zealand, as at 30 June were as follows:

Entity name	Effective ownership		Principal activity	Year end
	2013	2012		
<b>Subsidiaries</b>				
Orion New Zealand Ltd	89.3%	89.3%	Electricity network	31 Mar
Christchurch International Airport Ltd	75.0%	75.0%	Airport	30 Jun
Lyttelton Port Company Ltd	79.6%	79.5%	Port	30 Jun
Enable Services Ltd	100%	100%	Broadband infrastructure	30 Jun
City Care Ltd	100%	100%	Contracting	30 Jun
Red Bus Ltd	100%	100%	Passenger transport	30 Jun
EcoCentral Ltd	100%	100%	Waste recycling	30 Jun
CCHL 3 Ltd	100%	100%	Dormant	30 Jun
CCHL 4 Ltd	100%	100%	Dormant	30 Jun
CCHL 5 Ltd	100%	100%	Dormant	30 Jun
CCHL 6 Ltd	100%	100%	Dormant	30 Jun
Christchurch City Networks Ltd	100%	100%	Dormant	30 Jun

Orion New Zealand Ltd's balance date of 31 March differs from the group balance date of 30 June. The principal reason for this is that the electricity industry, including the regulatory regime, in New Zealand is based on a universal 31 March balance date. Additionally, seasonal factors make it more appropriate for Orion to report at 31 March rather than 30 June. The costs and disadvantages associated with changing Orion's balance date would outweigh any benefits arising.

CCHL's investments in its subsidiary and associated companies are stated at fair value in the parent company's balance sheet. Fair value is determined by independent valuation, 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. Further detail is provided below.

The following table summarises the valuation dates and methodology for each subsidiary and associated company:

Entity name	Last full valuation	Prime valuation methodology	2013 \$'000	2012 \$'000
Orion New Zealand Ltd	June 2011	Discounted cash flow	663,800	663,800
Christchurch International Airport Ltd	June 2013	Discounted cash flow Separate property portfolio valuation	534,200	544,200
Lyttelton Port Company Ltd	June 2013	Listed share price	231,786	162,621
Enable Services Ltd	June 2012	Net asset value (Enable Services Ltd) Discounted cash flow (Enable Networks Ltd)	34,400	31,400
City Care Ltd	June 2012	Discounted cash flow Separate valuation of Springs Rd site	136,300	136,300
Red Bus Ltd	June 2012	Net asset value	23,000	23,000
EcoCentral Ltd	June 2012	Discounted cash flow	11,800	6,800
<b>Investment in subsidiaries</b>			<b>1,635,286</b>	<b>1,568,121</b>
Selwyn Plantation Board Ltd	June 2009	Not applicable	–	16,144
<b>Total investment in subsidiaries and associates</b>			<b>1,635,286</b>	<b>1,584,265</b>

## 16. Other financial assets *continued*

The investments in all subsidiaries, other than Christchurch International Airport Ltd and Lyttelton Port Company Ltd, were reviewed by independent valuers Ernst & Young as at 30 June 2013 to determine whether there were any significant indicators of material value change since their last full valuations at 30 June 2012 (or 30 June 2011 in the case of Orion New Zealand Ltd). It was concluded that there were no such indicators.

The investments in the remaining subsidiaries were revalued as at 30 June 2011 (Orion New Zealand Ltd) and 30 June 2012. The investment in associate company Selwyn Plantation Board Ltd was liquidated prior to balance date, with all funds distributed to its shareholders.

The following section provides more detail about the valuation methodology for each company:

### **Orion New Zealand Ltd**

The investment in Orion New Zealand Ltd was valued as at 30 June 2011 using the discounted cash flow methodology. The company's forecast cash flows for the next five years were assessed, and discounted back to the valuation date, using a discount rate that reflected not only the time value of money but also risk associated with the business's future operations. A terminal cash flow, to allow for cash flows beyond the explicit forecast period, was also assessed and discounted back to the valuation date. In assessing the terminal value, allowance was made for a conservative price adjustment to enable Orion to maintain a market return on its assets and maintain its investment in the network. Orion's weighted average cost of capital (WACC), assessed at 7.3% post-tax, was used to discount its future cash flows.

To determine whether there had been any indicators of material change in value for 2013, the following steps were undertaken:

- Review forecasts compared with the 2011 forecasts
- Review the current regulatory environment
- Review the WACC calculation

It was noted that forecast revenue had increased between the 2011 and 2013 forecasts, reflecting expected increased activity as a consequence of the rebuild programme. At the same time, forecast capital expenditure has increased substantially, as have forecast asset management and asset maintenance costs.

It was also noted that Orion New Zealand Ltd has applied to the Commerce Commission to increase its prices from April 2014 to enable the company to recover its costs from the earthquake and to enable it to continue to invest into a strong resilient electricity distribution network. The Commerce Commission is expected to make its final decision in November 2013 following a period of public consultation. As the result of this is uncertain, no account of this has been taken in the review of Orion New Zealand Ltd's valuation.

It was also noted that the risk free rate had fallen over the past 12 months and the Commerce Commission's assessment for a regulatory WACC had fallen from 7.11% to 6.14%. Despite this, most market observers have not seen this translate into a lower cost of equity or a general rise in share prices. Accordingly, it is not perceived that a material movement in WACC from the 2011 valuation is likely to have occurred.

In view of the above factors, it was considered that the 2012 value of **\$663.8m** was still an appropriate carrying value for CCHL's investment in Orion New Zealand Ltd.

A sensitivity analysis of the impact of different assumptions on Orion's enterprise value was performed as at 30 June 2011 as follows:

Change in	Increase (\$m)	Decrease (\$m)
WACC (+ or - 0.1%)	23	(23)
Nominal terminal growth (+ or - 0.1%)	19	(19)
Capital expenditure (+ or - 5%)	15	(15)
EBITDA (+ or - 5%)	18	(18)

### **Christchurch International Airport Ltd**

The investment in Christchurch International Airport Ltd was valued as at 30 June 2013 using a combination of methods – a discounted cash flow approach for the core airport operations (comprising the aeronautical land, sealed surfaces and infrastructure, and the terminal facilities), a net asset value approach for the airport's property portfolio assets and a cost basis for various recently-acquired trading activities including the International Antarctic Centre, the Wash and Craddocks.

#### *Core airport operations*

The company's forecast cash flows for the next ten years were assessed, and discounted back to the valuation date, using a discount rate that reflected not only the time value of money but also risk associated with the business's future operations. A terminal cash flow, to allow for cash flows beyond the explicit forecast period, was also assessed and discounted back to the valuation date. The company's weighted average cost of capital (WACC), assessed at 7.0% post-tax, was used to discount its future cash flows. A valuation cross-check, comparing the implied EBITDA multiple with other airport companies and with recent airport transactions, supported the discounted cash flow valuation of the core airport operations of \$541m.

A sensitivity analysis of the impact of different assumptions on the value of Christchurch International Airport Ltd's core airport operations was performed as at 30 June 2013 as follows:

Change in	Increase (\$m)	Decrease (\$m)
Revenue (+ or - 5%)	120	(120)
WACC (+ or - 5%)	70	(55)
Capital expenditure (+ or - 5%)	45	(45)
Operating expenditure (+ or - 5%)	20	(20)

## 16. Other financial assets *continued*

### *Property portfolio*

The airport's property portfolio, which comprises land and buildings not associated with the core airport operations, the car parking building, and properties classified as investment properties, was valued on a net asset basis, on the grounds that:

- a ready market exists for property and hence direct valuation methods for individual assets are available;
- hypothetically these assets could be sold without materially affecting the core airport operations; and
- some assets are held for strategic purposes and hence their value under an earnings approach may be understated.

Christchurch International Airport Ltd has engaged an independent valuer to undertake the valuation of the property portfolio. Based on the valuation figures provided, the value of the property portfolio was assessed at \$464m.

In relation to other factors affecting the value of CCHL's investment in the company, a premium for control and a discount for lack of marketability were considered. It was concluded that a premium for control would be at the lower end of the range, given that Christchurch International Airport Ltd operates in a regulated environment, and was assessed at 10%. In relation to a marketability discount, again this was assessed to be at the lower end of the range – 10% – given that there are numerous sophisticated infrastructure investors in Australasia and the company is of sufficient size to list on the New Zealand Stock Exchange. These two factors therefore net off and no further adjustment is considered to be required. After deducting the company's net debt as at 30 June 2013, the value of CCHL's 75% shareholding was assessed at **\$534.2m**.

### ***Lyttelton Port Company Ltd***

The value of CCHL's investment in Lyttelton Port Company Ltd was based on the quoted price on the New Zealand Stock Exchange as at 30 June 2013 for shares in the company.

During the year, CCHL acquired a further 60,917 shares (2012: 329,301) in Lyttelton Port Company Ltd for consideration of \$0.1m (2012: \$0.7m), taking its ownership interest up to 79.57% (2012: 79.51%). The difference between the carrying value of the non-controlling interests and the consideration paid is recognised directly in equity attributable to the parent, in accordance with the requirements of NZ IAS 27 Consolidated and Separate Financial Statements (revised 2008), effective 1 July 2009.

### ***Enable Services Ltd***

The investment in Enable Services Ltd was valued as at 30 June 2012 using a two stage process. Enable Services Ltd is in the slightly unusual position of being both a shareholder in, and contractor to, associate company Enable Networks Ltd, which is partly owned by Crown Fibre Holdings Ltd and partly by Enable Services Ltd. Enable Services Ltd is contracted to build a fibre optic network for Enable Networks Ltd and sell it to Enable Networks Ltd. Enable Services Ltd receives funding

from CCHL which it then invests in Enable Networks Ltd in the form of non-voting equity and notes. Enable Networks uses the proceeds from this funding to pay Enable Services Ltd for its contracting services. Hence Enable Services Ltd's major assets are construction work in progress and its investment in Enable Networks Ltd. Enable Networks Ltd also receives equity funding from Crown Fibre Holdings Ltd in the form of 'A' shares, which carry voting rights. To date, it has not incurred any debt.

CCHL's investment in Enable Services Ltd has been valued on a net asset, going concern basis, reflecting the nature of that company. Included in the net assets of Enable Services Ltd is its investment in Enable Networks Ltd, which has been separately valued using the discounted cash flow methodology. The net asset valuation of Enable Services Ltd therefore incorporates the discounted cash flow valuation of Enable Networks Ltd.

Enable Networks Ltd's forecast cash flows for the next twenty years were assessed, and discounted back to the valuation date, using a discount rate that reflected not only the time value of money but also risk associated with the business's future operations. A terminal cash flow, to allow for cash flows beyond the explicit forecast period, was also assessed and discounted back to the valuation date.

The company's weighted average cost of capital, assessed at 10.0% post-tax, was used to discount its future cash flows.

From the resulting enterprise value was deducted the value attributed to Crown Fibre Holdings Ltd's 'A' shares and the single Government share to arrive at a mid-point value of Enable Services Ltd's interest in Enable Networks Ltd of \$38.5m. To this was then added the other assets and liabilities of Enable Services Ltd (including \$19.5m of debt) to arrive at an overall value for CCHL's investment in Enable Services Ltd of **\$31.4m**.

A sensitivity analysis of the impact of different assumptions on Enable Networks Ltd's equity value was performed as at 30 June 2012 as follows:

Change in	Increase (\$m)	Decrease (\$m)
Revenue (+ or – 5%)	28	(28)
WACC (– or + 5%)	26	(20)
Capital expenditure – or + 5%)	13	(13)
Operating expenses (+ or – 5%)	6	(6)

A review of the value of Enable Services Ltd as at 30 June 2013 was performed by comparing the current forecasts with those used in the 2012 valuation. It was noted that forecast revenues and EBITDA had both increased, as had forecast capital expenditure.

There were no indications of a material change in value and, given the company is still in an expansion phase, it was considered that a new valuation was not required and the value of CCHL's investment in Enable Services Ltd should remain at its previous value of \$31.4m, plus the \$3m of new shares acquired during **2013 – total value \$34.4m**.



## 16. Other financial assets *continued*

### **City Care Ltd**

The investment in City Care Ltd was valued as at 30 June 2012 using the discounted cash flow methodology. The company's forecast cash flows for the next five years were assessed, and discounted back to the valuation date, using a discount rate that reflected not only the time value of money but also risk associated with the business's future operations. A terminal cash flow, to allow for cash flows beyond the explicit forecast period, was also assessed and discounted back to the valuation date.

City Care Ltd's work volumes have increased significantly since the Canterbury earthquakes, and are expected to continue at a high level for a number of years. The company has also continued its successful expansion into the North Island. This has had a significant positive impact on the company's forecast cash flows, and its resultant value, although offset to an extent by increased capital expenditure and working capital requirements.

The company's weighted average cost of capital, assessed at 11.3% post-tax, was used to discount its future cash flows.

The company's land and asphalt plant at the Springs Road site was separately valued, based on an independent property valuation by Colliers International in June 2011.

After adjusting the enterprise value for surplus assets and net debt, the value of CCHL's equity investment in City Care Ltd was assessed at a mid-point of **\$136.3m**.

A sensitivity analysis of the impact of different assumptions on City Care Ltd's enterprise value was performed as at 30 June 2012 as follows:

Change in	Increase (\$m)	Decrease (\$m)
Gross margin (+ or - 5%)	15.7	(15.5)
WACC (- or + 5%)	12.8	(11.2)
Capital expenditure - or + 5%)	5.1	(4.9)

To determine whether there had been any indicators of material change in value for 2013, the current forecasts were compared with the 2012 forecasts, and the WACC calculation reviewed. While the June 2013 result was below original expectations, the 2012 forecasts are still considered to be relevant. It is considered that the impact of the actual 2013 result on the existing valuation is not material for CCHL and accordingly the carrying value of CCHL's investment in City Care Ltd of \$136.3m has been retained.

### **Red Bus Ltd**

The investment in Red Bus Ltd was valued as at 30 June 2012 using the realisation of assets methodology. The Christchurch market was significantly affected by the Canterbury earthquakes, with reduced traffic flow into the CBD, relocation of businesses to the suburbs, a decrease in population and a greater reliance on private motor vehicles. Moreover, the loss of contracts by Red Bus Ltd and the move by Environment Canterbury to impose gross contracts have significantly impacted the company's ability to rebuild profits. For these reasons, there is considered to be greater value at this stage in the assets of the company than in its short term earning potential.

In valuing the company on a net asset basis, account was taken of the likely selling costs and discounts if the assets were realised in an orderly manner. Allowance was also made for an incentive that a purchaser would require before undertaking the risk of an orderly realisation – assessed in this case at 20%. A notional liquidation or fire sale approach was considered inappropriate, as the company still has a strong balance sheet and is in no danger of being insolvent in the short to medium term.

Taking the above factors into account, the value of CCHL's equity investment in Red Bus Ltd as at 30 June 2012 was assessed at a mid-point of **\$23.0m**.

The company's net asset position as at 30 June 2013 was compared to the position at 30 June 2012. It was noted that there was an increase in value of net assets of some \$3m, due mainly to a revaluation of the company's land and buildings. This is not considered to be a material movement and hence the existing value of CCHL's investment of **\$23.0m** has been retained.

### **EcoCentral Ltd**

The investment in EcoCentral Ltd was valued as at 30 June 2012 using the discounted cash flow methodology. The company's forecast cash flows for the next five years were assessed, and discounted back to the valuation date, using a discount rate that reflected not only the time value of money but also risk associated with the business's future operations. A terminal cash flow, to allow for cash flows beyond the explicit forecast period, was also assessed and discounted back to the valuation date. The company's weighted average cost of capital was assessed at 16.3%.

A sensitivity analysis of the impact of different assumptions on EcoCentral Ltd's equity value was performed as at 30 June 2012 as follows:

Change in	Increase (\$m)	Decrease (\$m)
Gross margin (+ or - 5%)	4.1	(4.1)
WACC (- or + 1%)	1.3	(1.1)
Capital expenditure (- or + 5%)	0.2	(0.2)

A review of current forecasts compared with the 2012 forecasts did not reveal any material indicators of value change, and accordingly the carrying value of CCHL's equity investment in EcoCentral Ltd has been retained at \$6.8m, plus the \$5m of new shares acquired during 2013 – total value **\$11.8m**.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2013

Note	Group 2013 \$'000	Group 2012 \$'000	Parent 2013 \$'000	Parent 2012 \$'000
<b>17. Inventory</b>				
<b>Current</b>				
Inventory – raw materials and maintenance items	14,046	14,159	–	–
Inventory – work in progress	–	912	–	–
Inventory – finished goods	2,789	2,220	–	–
	16,835	17,291	–	–
Inventory – allowance for impairment	(25)	(86)	–	–
Total inventory	16,810	17,205	–	–

Certain inventories are subject to security interests created by retention of title clauses.

## 18. Non-current assets classified as held for sale

Christchurch International Airport Ltd sundry buildings	3,234	–	–	–
	3,234	–	–	–

## 19. Other Assets

### 19(a) Current portion

Capitalised contract set-up costs	24	24	–	–
	24	24	–	–

### 19(b) Non-current portion

Capitalised contract set-up costs	–	24	–	–
	–	24	–	–

Note	Group 2013 \$'000	Group 2012 \$'000	Parent 2013 \$'000	Parent 2012 \$'000
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## 20. Associated companies

### Parent

Balance at start of year			16,144	16,144
Revaluation			4,651	–
Proceeds from liquidation			(20,795)	–
			–	16,144

### Group

Balance at start of year	50,821	19,550
Further investment	6,726	32,246
Share of total recognised revenues and expenses	(2,047)	(920)
Proceeds from liquidation	(20,795)	–
Share of revaluations	(106)	(55)
	34,599	50,821

### Group investment analysed as:

Selwyn Plantation Board Ltd	–	20,225
Enable Networks Ltd	34,599	30,596
	34,599	50,821

The following entities are equity-accounted by the CCHL Group:

	Entity name 2013	Effective ownership 2012	Principal activity	Year end
Selwyn Plantation Board Ltd	39%	39%	Now in liquidation	30 June
Enable Networks Ltd	33%	N/A	Broadband network	30 June

	Group 2013 \$'000	Group 2012 \$'000
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### Summarised financial statements of associates

Assets	109,182	89,735
Liabilities	21,823	7,431
Revenue	8,461	5,643
Net profit/(loss)	(1,319)	92

There is no goodwill included in the carrying value of equity-accounted investees (2012: Nil).

### Selwyn Plantation Board Ltd

Following the completion of its programme of asset realisation in the 2013 financial year, Selwyn Plantation Board Ltd was placed into liquidation by its two shareholders. All funds were distributed to the shareholders prior to 30 June 2013. CCHL's share of these distributions was \$20.8m. (An earlier distribution of \$10.3m was received by CCHL in the 2011 financial year).

In the 2013 financial year, the value of CCHL's investment in Selwyn Plantation Board Ltd was increased to the expected level of the capital distributions via a credit of \$4.6m to the fair value through equity reserve. The resulting balance in the reserve of \$13.1m was recycled to profit and loss as the asset has effectively been de-recognised. The proceeds of the capital distribution were credited against the carrying value of the investment to write it down to nil value.

### Enable Services Ltd

CCHL's 100%-owned subsidiary Enable Services Ltd entered into an agreement with Crown Fibre Holdings Limited (CFH) and Enable Networks Limited on 31 May 2011 relating to the construction, deployment and operation of the UFB network for the Christchurch (which includes Kaiapoi and Rolleston areas) and Rangiora Candidate Areas.

Enable Services Ltd has contractual obligations to build the UFB network and sell it to ENL for a fixed price. The build requirements are split into Communal Infrastructure which is the UFB network on public land to the edge of private boundaries. The End User Specific

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2013

## 20. Associated companies *continued*

Infrastructure is the network built on private land connecting users from the boundary to their premise. The End User Specific Infrastructure is only built when a user requests connection.

Both Communal Infrastructure and End User Specific Infrastructure have two different components being Layer One which is the unlit fibre, and Layer Two which is the electronics required to light the fibre.

The agreement details how ENL is funded by CFH and Enable Services Ltd. The purchase of each part of the network is funded differently within ENL. The funding obligations on Enable Services Ltd to ENL are as follows:

### A Shares

A shares have voting rights but do not receive dividends. Enable Services Ltd funds approximately 33% of the cost of the Layer One Communal Infrastructure in return for A shares in ENL as a non-cash transaction. Approximately 67% remaining is funded by CFH to ENL and paid on to the company in cash.

### B Shares

B shares have dividend rights but do not have voting rights. Where free cash flow in ENL is not sufficient to purchase UFB network, the Layer Two Communal Infrastructure, all End User Specific Infrastructure and working capital requirements in ENL are funded by Enable Services Ltd using a hierarchy of specified equity, then debt through note instruments to certain debt/equity ratios and if required through B shares. Where funding to ENL is provided through B shares the transaction occurs as a non-cash transaction in return for the relevant part of the Network or in return for cash in the case of working capital requirements. At 30 June 2013 no debt had been drawn down.

In addition to these B shares Enable Services Ltd also received B shares for the sale of the existing fibre network to ENL in February 2012. These B shares are able to convert to A shares to the extent that Enable Services Ltd does not hold more than 49% of voting rights through A shares during the UFB network build period. At 30 June 2013 no B shares for existing fibre network had been converted to A shares.

All A shares and B shares in ENL convert to ordinary shares 10 years from 31 May 2011.

### Associate status

Although Enable Services Ltd holds the substantial majority of total shares issued in ENL, it only holds approximately 33% of the voting shares and does not control ENL. It is deemed to hold significant influence over ENL through its holding of A and B shares and therefore accounts for ENL as an associate.

Note	Group 2013 \$'000	Group 2012 \$'000	Parent 2013 \$'000	Parent 2012 \$'000
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## 21. Construction contracts and joint venture

### For contracts in progress at balance date:

Contract costs incurred	238,220	73,586	–	–
Progress billings	195,472	57,095	–	–
Gross amounts due from customers	14,094	8,612	–	–
Advances received for contract work	420	357	–	–
Retentions included in progress billings	1,836	358	–	–

### City Care Ltd

City Care Ltd has an interest in the Stronger Christchurch Infrastructure Rebuild Team (SCIRT) Joint Venture, which is accounted for as a jointly-controlled operation. The company's interests in the jointly-controlled operation were as follows:

### City Care Ltd's interest in the Stronger Christchurch Infrastructure Rebuild Team joint venture

Assets	7,538	9,531	–	–
Liabilities	1,661	1,215	–	–
Revenue	104,076	56,289	–	–
Expenses	93,229	50,256	–	–

### Enable Services Ltd

Enable Services Ltd has incurred costs to date under the network build contract with Enable Networks Ltd of \$66.4m (2012: 8.7m), with no profit recognised. Construction contract work in progress is determined on a stage of completion basis. The company has received payment for UFB network stages to a total of \$20.1m (2012: \$3.4m). No payment in advance has been received nor are retentions held in relation to the contract at balance date.

Group	Freehold land \$'000	Buildings \$'000	Plant & equipment \$'000	Electricity distribution system \$'000	Specialised assets \$'000	Work in progress \$'000	Total \$'000
<b>22. Property, plant and equipment</b>							
<b>Gross carrying amount</b>							
Cost/valuation at 1 July 2011	427,001	302,383	296,029	740,673	294,314	87,966	2,148,366
Additions	745	1,498	25,335	48,064	7,990	-	83,632
Disposals	-	(697)	(5,344)	(1,861)	(12)	-	(7,914)
Net movements in work in progress	-	-	-	-	-	19,281	19,281
Net revaluation increments/(decrements)	2,260	255	-	-	13,597	-	16,112
Transfers	(28,113)	43,620	649	-	9,350	-	25,506
<b>Cost/valuation at 30 June 2012</b>	<b>401,893</b>	<b>347,059</b>	<b>316,669</b>	<b>786,876</b>	<b>325,239</b>	<b>107,247</b>	<b>2,284,983</b>
Additions	6,666	1,820	36,315	45,504	7,180	-	97,485
Disposals	-	(5,603)	(19,463)	(2,149)	-	-	(27,215)
Re-classified as held for sale	-	(3,479)	-	-	-	-	(3,479)
Net movements in work in progress	-	-	-	-	-	(38,475)	(38,475)
Net revaluation increments/(decrements)	31,706	989	-	-	(6,832)	-	25,863
Transfers and other	(24,283)	46,339	2,434	-	42,541	-	67,031
<b>Cost/valuation at 30 June 2013</b>	<b>415,982</b>	<b>387,125</b>	<b>335,955</b>	<b>830,231</b>	<b>368,128</b>	<b>68,772</b>	<b>2,406,193</b>
<b>Accumulated depreciation and impairment</b>							
Accumulated depreciation and impairment at 1 July 2011	(10)	(16,291)	(142,481)	(606)	(54,392)	-	(213,780)
Disposals	-	653	4,269	388	-	-	5,310
Net adjustments from revaluation increments/(decrements)	-	-	-	-	15,450	-	15,450
Impairment losses charged to income statement	-	-	(65)	-	-	-	(65)
Depreciation expense	-	(18,168)	(20,977)	(27,840)	(11,463)	-	(78,448)
Transfers and other	-	-	41	-	-	-	41
<b>Accumulated depreciation/impairment at 30 June 2012</b>	<b>(10)</b>	<b>(33,806)</b>	<b>(159,213)</b>	<b>(28,058)</b>	<b>(50,405)</b>	<b>-</b>	<b>(271,492)</b>
Disposals	-	5,601	17,764	551	-	-	23,916
Net adjustments from revaluation increments/(decrements)	-	-	-	-	1,722	-	1,722
Re-classified as held for sale	-	245	-	-	-	-	245
Impairment losses charged to income statement	(1,634)	-	-	-	-	-	(1,634)
Depreciation expense	-	(19,877)	(23,765)	(29,277)	(17,710)	-	(90,629)
Transfers and other	-	151	(109)	-	-	-	42
<b>Accumulated depreciation/impairment at 30 June 2013</b>	<b>(1,644)</b>	<b>(47,686)</b>	<b>(165,323)</b>	<b>(56,784)</b>	<b>(66,393)</b>	<b>-</b>	<b>(337,830)</b>
Carrying amount at 30 June 2012	401,883	313,253	157,456	758,818	274,834	107,247	2,013,491
Carrying amount at 30 June 2013	414,338	339,439	170,632	773,447	301,735	68,772	2,068,363

## 22. Property, plant and equipment *continued*

Property, plant and equipment is summarised on the preceding page.

### Orion New Zealand Ltd

Revaluations and impairment review

#### *Electricity distribution network and substation buildings (the network)*

The network was revalued to fair value of \$756m as at 31 March 2011 by independent valuers PricewaterhouseCoopers (the valuers) in accordance with NZ IAS 16 – Property, Plant and Equipment.

The valuers used a discounted cash flow methodology, and based their forecast cash flows on the company's forecasts.

The valuers' key assumptions were that:

- network revenues would be lower than the company's pre-earthquake forecasts
- network operating costs and capital expenditure would be higher than the company's pre-earthquake forecasts
- network prices would continue to increase equivalent to the consumer price index up to 31 March 2015, consistent with the Commerce Commission's default price path (DPP) settings
- network prices would rise on 1 April 2015 to a level which would generate regulatory returns equivalent to the Commission's cost of capital benchmark, and network prices would increase equivalent to the consumer price index thereafter
- the discount rate was 8.0% (pre-tax equivalent 11.2%).

The valuers reviewed the carrying value of the network as at 31 March 2012 in accordance with NZ IAS 36 – Impairment of Assets and NZ IAS 16 – Property, Plant and Equipment. The valuers concluded that there was no evidence of material impairment and that the network carrying value was not materially different to fair value.

EY Transaction Advisory Services Limited (EY) reviewed the carrying value of the network as at 31 March 2013 in accordance with NZ IAS 36 – Impairment of Assets and NZ IAS 16 – Property, Plant and Equipment. EY concluded that there was no evidence of material impairment and that the network carrying value was not materially different to fair value.

#### *Freehold land*

The company's freehold land was revalued by CBRE Ltd, to fair value as at 31 March 2012, in accordance with NZ IAS 16 – Property, Plant and Equipment.

CBRE Ltd (CBRE) selected a representative sample of the company's substation sites and revalued the company's land at those sites using sales comparisons and unit metre frontage methodology. CBRE then compared their revaluations against their respective current rateable value valuations and developed standard adjustment multipliers, which they then applied over the company's total substation land population of around 2,000 sites.

CBRE reviewed the carrying value of freehold land as at 31 March 2013 in accordance with NZ IAS 36 – Impairment of Assets and NZ IAS 16 – Property, Plant and Equipment. They concluded that

there was a \$1.6m impairment of the company's new head office site land at Wairakei Road, and the company has impaired this land and expensed the impairment in the year ended 31 March 2013. CBRE concluded that there was no evidence of material impairment of the company's other land and that the carrying value was not materially different to fair value.

As at 31 March 2013, \$32.1m of Orion New Zealand Ltd's freehold land was held for the company's network substations (2012: \$30.1m).

### Christchurch International Airport Ltd

The methods of valuation applied by independent valuers are as follows:

#### *Land*

- Specialised assets: where there is no market based evidence of the sale of such land the value has been determined taking into account:
  - its existing zoning and use as an airport
  - benchmark selling prices for land in the local commercial, industrial, service, residential and rural markets
  - adjustments to reflect the unique features of the land which includes its size, location, titles, easements and services
  - the overall land use plan for Christchurch Airport.
- Commercial portfolio: with valuations taking reference to the wider market for sales evidence of land zoned for similar permitted activities, with adjustments made for the size, location and physical characteristics of these assets.

#### *Buildings*

At market value based on the estimated amount for which a property would exchange on the date of valuation between a willing buyer and willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion, but with the explicit assumption that the existing use of the asset is ignored.

#### *Terminal facilities*

Valued at optimised depreciated replacement cost (ODRC). ODRC measures the minimum cost of replacing or replicating the service potential embodied in the assets with modern equivalent assets in the most efficient way practicable, given the service requirements, the age and condition of the existing assets and replacement in the normal course of business. Optimisation is not applied to land.

#### *Car parking assets*

Car parking assets are valued using a discounted cash flow valuation approach, using a forecast ten year discount period and an allowance for an appropriate terminal value reflecting an estimate of their residual estimated life. The approach to the allocation of the car park valuation is to assess the pro-rata share of an ODRC based valuation of the car parking assets, and then apportion the additional value over and above this to the underlying land value.



## **22. Property, plant and equipment** *continued*

### *Sealed surfaces and infrastructure assets*

The ODRC approach is utilised to value sealed surfaces and infrastructure assets. The optimisation process minimises the cost of replacing the services offered, given the age and condition of the existing assets and recognising the incremental process (brownfield) associated with airport development. Costs reflect the replacement of current assets with modern equivalents, an optimised construction sequence and adjustment to allow for the difficulties associated with a "brownfield" environment. Where appropriate, adjustments have been made to eliminate surplus assets, obsolescence and over design. The valuation methodology considers the asset inventory (description and quantity of assets), relevant optimisation, estimation of the current replacement cost and depreciation to reflect remaining life expectancy.

On 30 June 2013 car parking assets and land assets were revalued by Independent Valuers, Seagar and Partners. Sealed surfaces and infrastructure were last valued by Opus International Limited at 30 June 2012. Terminal facilities and building assets were last valued at 30 June 2011 by Opus International Limited and Seagar and Partners respectively.

The buildings, infrastructure, sealed surfaces and terminal assets were reviewed for impairment as at 30 June 2013 by Seagar and Partners (building assets), and Opus International Limited (sealed surfaces, infrastructure and terminal assets), with no adjustment for impairment being deemed necessary.

The valuation methodologies used in the revaluation as at 30 June 2012 were consistent with those used in the previous valuation. Land was last revalued on 30 June 2011. During the year, car parking assets of \$11.4m were capitalised as part of the Integrated Terminal Project capitalisation. The valuation of the car parking assets at 30 June 2013 was \$91.8m (2012: \$87.2m). This resulted in a loss on revaluation after depreciation of \$5.1m

### **Lyttelton Port Company Ltd**

During the course of the 2013 year company management assessed that there was no change in the useful economic lives of major items of property, plant and equipment (2012: Nil).

### **City Care Ltd**

An independent valuation of the company's land was performed by independent registered valuer Gary Sellars, a director of Colliers International, Christchurch, to determine the fair value of the land. The valuation, which conforms to NZ IAS 16 and New Zealand Property Institute Practice Standard 3, Valuations for Financial Reporting Purposes, was determined by reference to the asset's highest and best use, without deducting disposal costs. The valuation was based on an assessed market rental for the property and a capitalisation rate of 8%. Under the New Zealand Property Institute Practice Standard 1, which came into force from 1 May 2004, all valuations must be assessed as at the date of inspection of the property, except where the valuation instructions are to assess the value at a retrospective date. The effective date of the valuation was 30 June 2013.

### **Red Bus Ltd**

Registered valuers Knight Frank Ltd were contracted by Red Bus Ltd to assess the fair value of the company's land & buildings at 30 June 2013. The land & buildings were valued at fair value using market-based evidence on its highest and best use with reference to comparable sales and market rents.

Caveats are registered against certain property titles under section 40 of the Public Works Act 1981.

### **EcoCentral Ltd**

The company reviewed the valuation of the Material Recovery Facility as at 30 June 2013 and concluded that the carrying value was equal to the fair value. A valuation was undertaken by Mr William Blake (ANZIV, SPINZ) of Knight Frank Limited in May 2012. Buildings & plant were assessed for impairment subsequent to each large earthquake and no impairment factors were noted.

There are no restrictions over the title of EcoCentral Ltd's property, plant and equipment.

### **Parent company**

The parent company has no property, plant or equipment.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2013

Note	Group 2013 \$'000	Group 2012 \$'000	Parent 2013 \$'000	Parent 2012 \$'000
<b>23. Investment property</b>				
Balance at beginning of financial year	136,895	96,207	–	–
Transfer (to)/from property, plant & equipment	29,782	21,242	–	–
Additional capitalised expenditure	3,735	14,025	–	–
Net gain/(loss) from fair value adjustments	7,775	5,421	–	–
Balance at end of financial year	178,187	136,895	–	–

Of the above investment property, \$169.4m (2012: \$103.5m) is held by Christchurch International Airport Ltd. The balance is owned by Orion New Zealand Ltd.

### Orion New Zealand Ltd

Investment property comprises the majority of the land and buildings at the company's office site in the Christchurch CBD (the CBD site).

In the current year, approximately 864 square metres of the CBD site was transferred to property, plant and equipment at carrying value (approximately \$0.7m). This transfer related to an increase in the proportion of land required for the company's Armagh zone substation on the CBD site.

On 2 May 2012, the company announced its plans to build new offices at 565 Wairakei Road, around 9km north west of the CBD. The company completed its move to the new site on 31 May 2013.

The Crown is negotiating to purchase the CBD site as part of the planned CBD eastern frame. The terms and conditions of the sale (including sale price) have not yet been agreed, however the company believes that the sale will be agreed and occur before 31 March 2014. The company will retain ownership of the Armagh zone substation land and buildings, but the rest of the CBD site will be sold to the Crown.

CBRE Ltd (CBRE) revalued the company's investment property to fair value as at 31 March 2013 in accordance with NZ IAS 40 – Investment Property. CBRE prepared the equivalent valuation as at 31 March 2012.

CBRE valued individual components of the site, reflecting the highest and best use for each. They valued land on a cleared land value (redevelopment) basis and other land and buildings on the site using discounted cash flow and capitalisation approaches. CBRE assumed that the CBD site land is sound, with minimal soil contamination. CBRE's revaluation resulted in an increase in the carrying value of investment property by \$1.6m to \$8.8m (2012: \$0.6m decrease to \$7.9m).

### Christchurch International Airport Ltd

The valuation as at 30 June 2013 was completed by Seagar and Partners, registered valuers and member of the New Zealand Property Institute. The basis of valuation is fair value, being the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion.

The valuation methodologies used were a direct sales comparison or a direct capitalisation of rental income using market comparison of capitalisation rates, supported by a discounted cash flow approach. The valuation methodologies are consistent with the prior year.

Principal assumptions used in establishing the valuations were:

- Average rental yield rate 9.58%
- Average market capitalisation rate 9.78%
- Weighted average lease term 4.74 years.

Group	Easements & resource consents \$'000	Software \$'000	Other \$'000	Total \$'000
<b>24. Intangible assets</b>				
<b>Gross carrying amount</b>				
Gross carrying amount at 1 July 2011	1,150	29,393	2,479	33,022
Additions	429	4,001	(304)	4,126
Additions from internal developments	–	504	477	981
Gross carrying amount at 30 June 2012	1,579	33,898	2,652	38,129
Additions	441	5,715	–	6,156
Additions from internal developments	–	135	–	135
Transfers	–	(338)	–	(338)
Disposals	–	(5,831)	–	(5,831)
Gross carrying amount at 30 June 2013	2,020	33,579	2,652	38,251
<b>Accumulated amortisation and impairment</b>				
Accumulated depreciation and impairment at 1 July 2011	(844)	(19,803)	(2,131)	(22,778)
Amortisation expense	(36)	(2,994)	–	(3,030)
Accumulated depreciation and impairment at 30 June 2012	(880)	(22,797)	(2,131)	(25,808)
Amortisation expense	(43)	(3,853)	(1)	(3,897)
Disposals	–	5,693	–	5,693
Accumulated depreciation and impairment at 30 June 2013	(923)	(20,957)	(2,132)	(24,012)
<b>Carrying amount</b>				
Carrying amount at 30 June 2012	699	11,101	521	12,321
Carrying amount at 30 June 2013	1,097	12,622	520	14,239

Included in intangible assets is work in progress of \$1.0m (2012: \$0.9m).

The parent company has no intangible assets.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2013

Note	Group 2013 \$'000	Group 2012 \$'000	Parent 2013 \$'000	Parent 2012 \$'000
<b>25. Goodwill</b>				
<b>Gross carrying amount</b>				
Balance at beginning of financial year	44,725	41,334	–	–
Additional amounts recognised from business combinations	250	3,391	–	–
Balance at end of financial year	44,975	44,725	–	–
<b>Accumulated impairment losses</b>				
Balance at beginning of financial year	(5,823)	(2,623)	–	–
Impairment losses for the year	–	(3,200)	–	–
Balance at end of financial year	(5,823)	(5,823)	–	–
<b>Carrying amount</b>				
At beginning of financial year	38,902	38,711	–	–
At end of financial year	39,152	38,902	–	–
<b>Amount of goodwill allocated to cash-generating units:</b>				
Orion New Zealand Ltd	2,648	2,398	–	–
Christchurch International Airport Ltd	5,131	5,131	–	–
Lyttelton Port Company Ltd	21,749	21,749	–	–
City Care Ltd	2,850	2,850	–	–
EcoCentral Ltd	6,774	6,774	–	–
	39,152	38,902	–	–

After initial recognition, goodwill acquired in a business combination is measured at cost less any accumulated impairment losses. Goodwill is not amortised, but is subject to impairment testing on an annual basis or whenever there is an indication of impairment.

#### Impairment

NZ IAS 36 Impairment of Assets requires that an impairment charge be recognised when the book value of the asset exceeds its recoverable amount. Recoverable amount is the higher of the asset's net fair value less cost to sell, or its value in use. Value in use requires entities to make estimates of the future cash flows to be derived from the asset, and discount them using a pre-tax market rate that reflects current assessments of the time value of money and the risk specific to the asset. Assets are able to be grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups thereof (eg. a plant or division). Such a group of assets is referred to as a cash generating unit (CGU) in the standard.

No impairment losses were determined to be required for the 2013 financial year (2012: EcoCentral Ltd \$3.1m in relation to the EcoSort division, Red Bus Ltd \$0.1m in relation to the Akaroa Shuttle business).

Goodwill on consolidation in respect of Orion New Zealand Ltd, Christchurch International Airport Ltd, City Care Ltd and EcoCentral Ltd is not considered to be impaired given that independent valuers Ernst & Young have valued all of these companies at least within the last two years, and reviewed those values as at 30 June 2013 (see Note 16). This review concluded that there had no material change in the value of these assets.

The investment in Lyttelton Port Company Ltd was revalued at 30 June 2013 on the basis of its quoted NZX price. While the company suffered significant damage from the Canterbury earthquakes, the consequent replacement costs and business interruption are largely covered by insurance, and the market capitalisation of this company significantly exceeds its original acquisition value.

	Note	Group 2013 \$'000	Group 2012 \$'000	Parent 2013 \$'000	Parent 2012 \$'000
<b>26. Creditors and other payables</b>					
Trade payables and accrued expenses		73,831	61,453	131	122
GST payable		5,289	6,244	–	–
Interest payable		2,584	2,900	1,406	1,338
Retentions		420	200	–	–
Deposits held		216	234	–	–
		82,340	71,031	1,537	1,460

Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

## 27. Borrowings

### 27(a) Current portion

#### Unsecured:

Commercial paper	88,000	97,000	88,000	97,000
Bonds	–	5,000	–	5,000
Loans from external parties	25,000	68,000	–	–
Finance lease liabilities	153	96	–	–
	113,153	170,096	88,000	102,000

#### Secured:

Finance lease liabilities	44	334	–	–
	44	334	–	–
Total current portion of borrowings	113,197	170,430	88,000	102,000

### 27(b) Non-current portion

#### Unsecured:

Bonds	141,353	70,000	70,000	70,000
Floating rate notes	160,000	130,000	160,000	130,000
Loans from external parties	210,600	217,100	–	–
Finance lease liabilities	5,488	5,259	–	–
	517,441	422,359	230,000	200,000

#### Secured:

Loans from external parties	68,320	73,825	–	–
Finance lease liabilities	–	44	–	–
	68,320	73,869	–	–
Total non-current portion of borrowings	585,761	496,228	230,000	200,000

Except as disclosed in Note 39, the carrying amount of the Group's current and non-current borrowings approximates their fair value.

#### CCHL parent company

CCHL's borrowings at 30 June 2013 comprised:

- Bonds and floating rate notes totalling \$230m (2012: \$205m) in five tranches ranging from \$5m to \$70m. These borrowings mature at various intervals until November 2018. Interest on floating rate bonds is based on bank bill rates plus the relevant issue margin. Bond coupon rates are at 6.87%.
- Commercial paper of \$97m (2012: \$97m). This is short term debt on a 90 day rollover period. The average rate during the year was 3.1% (2012: 3.1%);

- The company also has an undrawn \$150m standby facility. This matures in December 2015.
- CCHL's weighted average cost of borrowing at balance date was 5.07% (2012: 5.04%).

The borrowings have been put in place under a \$650m debt issuance programme (increased from \$350m during the 2013 financial year). The borrowings are unsecured, but the loan documentation imposes certain covenants and restrictions on CCHL. The company has entered into derivative contracts to hedge its exposure to interest rate fluctuations (refer Notes 15 and 39).

## 27. Borrowings *continued*

### Orion New Zealand Ltd

Orion New Zealand Ltd's bank debt of \$55.6m (2012: \$48.1m) is unsecured against the company. However, a deed of negative pledge and guarantee requires the company to comply with certain covenants. The company has total bank facilities of \$110m (2012: \$150m) maturing as follows: December 2014 \$40m; November 2015 \$20m; December 2015: \$50m and November 2016: \$Nil (2012: \$40m, \$20m, \$50m and \$40m respectively).

Interest rates for all borrowings are floating, based on bank bill rates plus a margin. At balance date, this rate averaged 3.28% (2012: 3.36%). The company has entered into derivative contracts to hedge its exposure to interest rate fluctuations (refer to Notes 15 and 39). Daily commitment fees are also payable on the facilities.

### Christchurch International Airport Ltd

The company has a \$230m funding facility with five banks and a subordinated loan of \$50m from majority shareholder, CCHL, to fund the on-going business and future property and commercial development. In addition, the company has an overdraft facility of \$1m (2012: \$300m bank funding facility, a subordinated loan of \$50m from majority shareholder, CCHL, and an overdraft facility of \$1m).

The company completed a \$75m retailable bond issue in December 2012. The bonds have an interest rate of 5.15% and maturity of seven years. The funds raised from this issuance were used to refinance the company's maturing debt facilities. Costs of \$0.3m directly related to the bond issue were capitalised and will be amortised over the duration of the bond. The bond is held at fair value in the balance sheet, as it is subject to a fair value hedge relationship.

All borrowings under the bank facility and overdraft facility are unsecured and supported by a negative pledge deed. The negative pledge deed requires that no security interest is provided over any assets for borrowings, unless an equivalent security interest is created for the borrowing group and bond holders. Interest rates paid during the year, including offsetting interest rate swaps, ranged from 5.8% to 6.2% (2012: 5.2% to 6.8%). The bond constitutes direct, unsecured, unsubordinated obligations and will rank equally with all other unsecured, unsubordinated indebtedness.

### Lyttelton Port Company Ltd

Bank overdraft and term advances have been raised pursuant to a multi-currency facility agreement with Westpac Banking Corporation. Those funds have been lent against a negative pledge deed where Westpac ranks equally with other creditors. The facility is for \$150m with a renewal date of 19 December 2015. There was no difference between the face value and carrying amount of these loans and borrowings at 30 June 2013 or 30 June 2012.

The company's total debt is \$30.6m (2012: \$55.9m). Average effective interest rates were 6.9% (2012: 7.0%).

### Enable Services Ltd

Enable Services Ltd has entered into a subordinated loan agreement with CCHL. The loan is unsecured and interest is charged at a base rate plus a margin. At 30 June 2013 the base rate was 4.10% (2012: 3.99%). The line of credit is for \$220m (2012: \$25m) of which ESL has drawn down \$52.5m to date (2012: \$19.5m).

### City Care Ltd

Bank loans of \$37.7m (2012: \$17.9m) are secured by a debenture over the assets and undertakings of the company. The loans were made under a committed cash advance facility of \$50m (2012: \$40m). The facility is structured as a two year rolling facility with a current maturity date of 28 February 2015. Interest rates on the floating rate debt are based on bank bill rates plus a margin and averaged 3.6% for the year (2012: 3.6%).

The company also has a \$0.5m (2012: \$0.5m) overdraft facility (undrawn as at 30 June 2013 and 2012), again secured by a debenture over the assets and undertakings of the company.

### Red Bus Ltd

The company's bank overdraft facility (undrawn as at 30 June 2013 and 2012) is secured by a registered first and only debenture over the company's assets and undertaking.

Red Bus Ltd also has a fully drawn \$5m loan facility with CCHL. Interest rates are set quarterly, and include a margin payable to CCHL. This facility replaced 5m of \$1 convertible notes issued to CCHL which, by agreement between CCHL and Red Bus Ltd, were cancelled and replaced with the aforementioned loan agreement in July 2012.

### EcoCentral Ltd

As at 30 June 2013 EcoCentral Ltd had borrowings of \$9.0m (2012: \$14.0m). These borrowings were made under a \$15m facility with CCHL. Interest is charged on a floating rate basis plus an agreed margin, except where interest rate swaps have been entered into in which case the rate charged is the interest swap rate plus the agreed margin. The facility matures in April 2016.



	Note	Group 2013 \$'000	Group 2012 \$'000	Parent 2013 \$'000	Parent 2012 \$'000
<b>28. Finance lease liabilities</b>					
No later than one year		579	831	-	-
Later than one year and not later than five years		2,045	1,872	-	-
Later than five years		8,938	10,305	-	-
Minimum lease payments*		11,562	13,008	-	-
Less future finance charges		(5,877)	(7,275)	-	-
Present value of minimum lease payments		5,685	5,733	-	-
<b>Minimum future lease payments</b>					
No later than one year		197	430	-	-
Later than one year and not later than five years		674	483	-	-
Later than five years		4,814	4,820	-	-
Total present value of minimum lease payments		5,685	5,733	-	-
<b>Represented by</b>					
Current portion		197	430	-	-
Non-current portion		5,488	5,303	-	-
		5,685	5,733	-	-

\* Minimum future lease payments include the aggregate of all lease payments and any guaranteed residual.

The finance lease liability above primarily relates to agreements between Orion and Transpower New Zealand Limited (Transpower) for Transpower to construct assets at Transpower grid exit points. The agreements are for terms of 10, 20 and 35 years. The company does not own the assets at the end of the lease term and there is no residual value. There is no security provided for the arrangements. The monthly payment amounts are reviewed annually by Transpower and the risk free portion of the interest rate may be adjusted.

Also included above are agreements by City Care Ltd in respect of motor vehicles. The company does not have an option to purchase the leased assets at the expiry of the lease period and there are no renewal rights.

## 29. Employee entitlements

### 29(a) Current portion

Accrued pay	4,219	3,985	-	-
Annual leave	16,706	15,167	42	61
Sick leave	175	178	-	-
Retirement and long service leave	1,647	1,737	-	-
Bonuses and other	2,451	4,041	-	-
	25,198	25,108	42	61

### 29(b) Non-current portion

Retirement and long service leave	1,518	1,340	-	-
Bonuses and other	482	221	-	-
	2,000	1,561	-	-
Total employee entitlements	27,198	26,669	42	61

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2013

Note	Group 2013 \$'000	Group 2012 \$'000	Parent 2013 \$'000	Parent 2012 \$'000
<b>30. Other liabilities</b>				
<b>30(a) Current portion</b>				
Deferred income	867	867	–	–
Income in advance	825	720	–	–
Hire purchase agreement	–	98	–	–
	1,692	1,685	–	–
<b>30(b) Non-current portion</b>				
Deferred income	2,769	3,637	–	–
Hire purchase agreement	–	34	–	–
Income in advance	1,389	1,490	–	–
	4,158	5,161	–	–
Total other liabilities	5,850	6,846	–	–

## Deferred income

On 11 September 2002 shareholders of Lyttelton Port Company Ltd approved entry into a 15-year coal handling agreement with Solid Energy New Zealand Limited which provided for Lyttelton Port Company to receive a \$13m prepayment of agreement charges. Should Lyttelton Port Company fail to meet its material obligations in respect of the agreement and Solid Energy exercises its right of termination then the company would be required to repay to Solid Energy a proportion of the value of its agreement charge prepayment up to a maximum of \$13m. Deferred lease income received is recognised in the statement of comprehensive income on a straight line basis over the 15 year term of the agreement.

## 31. Capital and other equity instruments

Fully paid ordinary shares	71,434	71,434	71,434	71,434
Partly paid redeemable preference shares	1	1	1	1
	71,435	71,435	71,435	71,435
<b>31(a) Fully paid ordinary shares</b>				
Balance at beginning of financial year	71,434	71,434	71,434	71,434
Issue of shares	–	–	–	–
Balance at end of financial year	71,434	71,434	71,434	71,434
<b>31(b) Partly paid redeemable preference shares</b>				
Balance at beginning of financial year	1	1	1	1
Issue of shares	–	–	–	–
Balance at end of financial year	1	1	1	1

CHL has on issue:

- 25,381,528 fully paid ordinary shares to Christchurch City Council. Fully paid ordinary shares carry one vote per share and carry the right to dividends.
- 650,139,000 (2012: 350,139,000) redeemable preference shares, paid to \$1,390, to Christchurch City Council. No further calls have been made on these shares. Dividends are only payable to the extent that the shares are paid up. CCHL may elect to redeem the whole or any part of the shares. The shares do not carry any right to conversion into ordinary shares in CCHL.

### 31. Capital and other equity instruments *continued*

#### Capital management

The Group's capital includes share capital, reserves and retained earnings. The Group's policy is to maintain a strong capital base so as to maintain public, shareholder, investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

Management monitors capital through the gearing ratio (net debt: net debt + equity) and a strong credit rating (currently A+/A-1 (negative outlook) from Standard & Poor's). The gearing ratio at balance date is disclosed in Note 42.

The parent company is not subject to any externally-imposed capital requirements. However, it has provided certain covenants to its key lenders by way of a negative pledge deed that it will not create any security interest over its assets, except under certain agreed circumstances. The deed also imposes financial covenants from its lenders relating to equity levels and interest cover.

Note	Group 2013 \$'000	Group 2012 \$'000	Parent 2013 \$'000	Parent 2012 \$'000
<b>32. Dividends</b>				
Dividends declared on fully paid ordinary shares	36,325	35,449	36,325	35,449
Cents per share	143	140	143	140
<b>33. Reserves</b>				
Asset revaluation reserve	332,028	304,304	–	–
Fair value through equity reserve	–	–	1,101,149	1,050,576
Hedging reserve	(12,299)	(23,192)	(6,387)	(12,686)
	319,729	281,112	1,094,762	1,037,890
<b>Asset revaluation reserve</b>				
Balance at beginning of financial year	304,304	288,357	–	–
Gain/(loss) on revaluation of assets	21,417	22,031	–	–
Tax associated with revaluation movements	(2,479)	(6,091)	–	–
Deferred tax liability arising on revaluation of assets	8,806	–	–	–
Reversal of deferred tax liability on realisation of assets	9	28	–	–
Transfer (to)/from retained earnings	(29)	(92)	–	–
Share of decrement in reserves attributable to associates	–	71	–	–
Balance at end of financial year	332,028	304,304	–	–
<b>Fair value through equity reserve</b>				
Balance at beginning of financial year	–	–	1,050,576	964,918
Gain/(loss) on revaluation of fair value through equity assets	–	–	63,692	85,658
Transfer to profit on liquidation of associated company	–	–	(13,119)	–
Balance at end of financial year	–	–	1,101,149	1,050,576
<b>Hedging reserve</b>				
Balance at beginning of financial year	(23,192)	(14,233)	(12,686)	(7,259)
<i>Gain/(loss) recognised on cash flow hedges:</i>				
Interest rate swaps	15,320	(12,692)	6,299	(5,427)
Forward foreign exchange contracts	(157)	226	–	–
Income tax	(4,270)	3,507	–	–
Balance at end of financial year	(12,299)	(23,192)	(6,387)	(12,686)

# NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 June 2013

## 33. Reserves *continued*

### Nature and purpose of reserves

#### *Asset revaluation reserve*

The asset revaluation reserve is used to record increases and decreases in the fair value of land and buildings, the electricity distribution network and certain other specialised assets, to the extent that they offset one another.

#### *Fair value through equity reserve*

This reserve records movements in the fair value of fair value through equity assets. In the parent company's case, these assets are the investments in subsidiaries and associates.

#### *Hedging reserve*

The hedging reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.

Note	Group 2013 \$'000	Group 2012 \$'000	Parent 2013 \$'000	Parent 2012 \$'000
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## 34. Retained earnings

Balance at beginning of financial year	763,549	716,040	288,276	278,999
Net profit for the year	57,393	83,023	44,011	44,726
Dividends paid or provided for	(36,325)	(35,449)	(36,325)	(35,449)
Income tax transferred	(8)	(25)	–	–
Transfer from reserves	29	92	–	–
Adjustment to controlling interests on purchase of shares	(15)	(132)	–	–
Balance at end of financial year	784,623	763,549	295,962	288,276

## 35. Non-controlling interests

Balance at beginning of financial year	256,565	247,218	–	–
Share of comprehensive income for the year	23,781	17,814	–	–
Dividends paid or provided for	(5,644)	(7,940)	–	–
Deferred tax transfer	–	–	–	–
Adjustment to non-controlling interests for share acquisitions	(110)	(527)	–	–
Balance at end of financial year	274,592	256,565	–	–

	Note	Group 2013 \$'000	Group 2012 \$'000	Parent 2013 \$'000	Parent 2012 \$'000
<b>36. Reconciliation of profit to operating cash flows</b>					
Profit for the year		70,712	97,281	44,011	44,726
<b>Add/(less) non-cash items</b>					
Depreciation, amortisation and impairment expense	5	96,160	83,727	–	–
Donated and subsidised assets	2	(4,406)	(4,188)	–	–
(Gains)/losses in fair value of investment property	23	(7,775)	(5,421)	–	–
(Gains)/losses in fair value of derivative financial instruments		555	1,296	533	–
Share of associates' losses	20	2,365	920	–	–
Net foreign exchange (gains)/losses	8	(58)	85	–	–
Deferred tax charged/(credited) to income	11(f)	10,266	10,434	–	–
Realisation of available for sale asset revaluation reserve		–	–	(13,119)	–
Shares in Enable Networks Ltd received as consideration for UFB network build		(6,726)	–	–	–
Other		(2,949)	(2,783)	1	–
		87,432	84,070	(12,585)	–
<b>Add/(less) items classified as investing or financing activities</b>					
(Gain)/loss on disposal of non-current assets		(175)	1,483	–	–
Movement in capital creditors		(1,943)	–	–	–
Dividend payable at year end		–	17,325	–	17,325
Insurance proceeds		(12,110)	(17,200)	–	–
		(14,228)	1,608	–	17,325
<b>Add/(less) movement in working capital items</b>					
Current trade and other receivables		(19,966)	(37,811)	(203)	10,530
Current inventories		395	(4,152)	–	–
Current prepayments		(2,606)	(1,662)	(101)	(28)
Income tax receivable		(404)	–	–	91
Other current assets		–	693	–	–
Non-current receivables		25	22	–	–
Non-current prepayments		928	149	–	–
Other non-current assets		24	285	–	–
Current payables		11,309	(31,243)	75	(17,648)
Current provisions		–	(296)	–	–
Current employee benefits		90	2,110	(18)	23
Income tax payable		(3,992)	(510)	(91)	–
Other current liabilities		7	27	–	–
Non-current provisions		–	(74)	–	–
Non-current employee benefits		439	310	–	–
Other non-current liabilities		(1,003)	(1,920)	–	–
Net changes in net assets and liabilities		(14,754)	(74,072)	(338)	(7,032)
Net cash from operating activities		129,162	108,887	31,088	55,019

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2013

Note	Group 2013 \$'000	Group 2012 \$'000	Parent 2013 \$'000	Parent 2012 \$'000
<b>37. Capital commitments and operating leases</b>				
<b>Capital commitments</b>				
Property, plant & equipment	9,507	42,247	–	–
Electricity distribution network	36,167	18,654	–	–
Intangible assets	535	293	–	–
	46,209	61,194	–	–
<b>Non-cancellable operating leases as lessee</b>				
No later than one year	6,935	3,358	–	–
Later than one year and not later than five years	13,862	5,874	–	–
Later than five years	5,080	1,084	–	–
	25,877	10,316	–	–
<b>Non-cancellable operating leases as lessor</b>				
No later than one year	54,217	51,279	–	–
Later than one year and not later than five years	202,681	171,695	–	–
Later than five years	146,842	148,161	–	–
	403,740	371,135	–	–

#### Capital commitments

##### Orion New Zealand Ltd

Orion New Zealand Ltd has total capital commitments of \$39.8m (2012: \$18.9m) – most of which are expected to be incurred in the 2014 financial year.

##### Enable Services Ltd

Enable Services Ltd has entered into agreements to build, operate and maintain an ultra fast broadband (UFB) network on behalf of Enable Networks Ltd. The agreements require Enable Services Ltd to have built the UFB network past all priority premises (business, health, schools and government) by December 2015 and all premises to be passed by December 2019. Upon each stage of the network being completed and subject to that stage satisfactorily passing user acceptance testing ENL will purchase that stage.

The actual number and placement of premises to be built is agreed in detail in a Network Deployment Plan. In addition, the agreements require Enable Services Ltd to connect, on request, any entity within the built UFB network. These connections are to be paid for by Enable Services Ltd at agreed rates. The actual profile and value of the connections is dependent on the actual profile of connections requested on the network.

As at 30 June 2013 the estimated cost of the UFB network including connections, central office construction and other components of the network, to December 2021 was \$401m (2012: \$337m).

The CCHL parent company has committed the necessary funding to Enable Services Ltd to meet the costs of building the network prior to sale to Enable Networks Ltd, and its share of the funding obligations to Enable Networks Ltd.

##### Christchurch International Airport Ltd

Included in the above table is a forecast contracted total cost to complete for the integrated terminal project of \$7.4m (2012: \$34.0m). This does not include an estimate of the final costs to be paid but which are presently under discussions with the contractor.

#### Operating lease receivables

##### Orion New Zealand Ltd

Non-cancellable operating lease receivables \$0.3m (2012: \$0.3m). Until the earthquake on 22 February 2011, the company leased land and buildings at its head office site in the CBD to a variety of tenants, on a range of different terms. Due to the severe damage caused to the buildings by the earthquake and a lack of access to the CBD, the leases were effectively cancelled on the date of the earthquake. The company also leases some land adjacent to substation sites to a range of tenants. These leases are incidental to the company's principal business.

##### Christchurch International Airport Ltd

Non-cancellable operating lease receivables \$347m (2012: \$307m). The company has a number of property leases that generate rental income. The leases are for terms between 1 month and 86 years, and the majority of the lease agreements are renewable at the end of the lease period at market rates.



### 37. Capital commitments and operating leases *continued*

#### Lyttelton Port Company Ltd

Non-cancellable operating lease receivables \$54m (2012: \$59m). The Group leases a range of land, buildings and equipment to a number of customers. A number of leases include rights of renewal for further periods including “in perpetuity”. There were no contingent rents recognised as income in the year.

#### Enable Services Ltd

Non-cancellable operating lease receivables \$3m (2012: \$4m). Enable Services Ltd sold its existing fibre network to Enable Networks Ltd in February 2012. Prior to that time it had contracted with a number of customers to provide fibre network services with a standard contract period of two years but ranging from 12 months to 10 years. Under the agreement for transfer of the existing fibre network to Enable Networks Ltd, Enable Services Ltd will not extend the existing contracts with customers. As contracts with customers reach the end of the contracted period they are transferred to Enable Networks Ltd through a Retail Services Provider. The lease obligations in 2013 reflect remaining customer contracts. These are fulfilled by Enable Services Ltd acquiring UFB service from Enable Networks Ltd under a Wholesale Services Agreement which it in turn provides to customers.

	Note	Group 2013 \$'000	Group 2012 \$'000	Parent 2013 \$'000	Parent 2012 \$'000
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### 38. Contingent liabilities and contingent assets

(a) Quantifiable contingent liabilities				
Performance bonds	56,780	54,626	45,000	47,500
Port noise mitigation	1,200	1,226	–	–
	57,980	55,852	45,000	47,500

The Group has the following contingent liabilities:

#### Contract performance bonds

The following contingent liabilities exist in respect of contract performance bonds:

- CCHL \$45.0m (2012: \$47.5m);
- City Care Ltd \$9.9m (2012: \$5.6m);
- Red Bus Ltd \$0.9m (2012: \$0.9m); and
- Orion New Zealand Ltd \$0.7m (2011: \$0.7m).

CCHL entered into a \$50m performance bond with ANZ bank in June 2011 in support of Enable Services Ltd’s successful bid under the Government’s Ultra Fast Broadband initiative. The amount of the bond decreases annually and terminates in 2022.

None of the above companies expect to have these contingent liabilities called upon by external parties and hence no provision has been made.

#### Enable Services Ltd – Transfield Services (NZ) Ltd (TSL)

Enable Services Ltd is currently in dispute with Transfield Services (NZ) Ltd, its main contractor for build of the UFB network, over contractual terms and conditions. Enable Services Ltd is unable to quantify the financial impact of this dispute at present. There is currently no perceived material impact on the contract with Enable Networks Ltd.

#### Enable Services Ltd – liquidated damages

The Network Infrastructure Project Agreement signed between Enable Services Ltd, Enable Networks Ltd, Crown Fibre Holdings Ltd and CCHL provides that, if Enable Services Ltd fails to achieve any milestone to which liquidated damages (LDs) apply on or before the applicable milestone Date, Enable Networks Ltd will be entitled to claim the LDs applicable to that milestone for each day (or part thereof) that any such milestone is not met.

It is clear that LDs are potentially payable to Enable Networks Ltd, but to date this demand for LDs payment has not been made. Legal advice has confirmed that Transfield Services (NZ) Ltd would likely be subject to a general damages claim regardless of whether or not the LDs provisions in the TSL contract are enforceable. However, the timing and quantum of this would be subject to a legal process.

## **38. Contingent liabilities and contingent assets** *continued*

### **Lyttelton Port Company Ltd – dry dock contaminants**

Contaminants arising from dry dock and slipway operations have been identified in seabed sediments in that area of the inner harbour. The Company has been working with Environment Canterbury and the Department of Conservation on the issues for a number of years. An interim monitoring and management plan is in place to manage any adverse effects and to minimise any disturbance of the contaminated sediments while further investigations are carried out into the environmental risks associated with the contamination. The Ministry for the Environment's Contaminated Sites Remediation Fund has contributed to ongoing investigation costs.

At this time the Lyttelton Port Company Ltd directors have not determined what liability, if any, would accrue to the company. In any event the directors are confident that any liability attaching to the company will not be a material liability.

### **Lyttelton Port Company Ltd – Port Noise Working Agreement**

Lyttelton Port Company Ltd is party to a deed, along with Christchurch City Council, Environment Canterbury, Lyttelton Harbour Residents' Association and other interested parties (collectively the Port Noise Working Party), which committed the various parties to the process of seeking amendments to the District Plan to reflect the agreements reached between the parties on future port noise levels, future mitigation measures required on the part of Lyttelton Port Company Ltd and land use restrictions on affected areas.

No liability has been recognised in the financial statements for any future obligations under the agreement as it is considered to be a contingent liability. The directors have estimated that the maximum amount payable by Lyttelton Port Company Ltd under this agreement would be \$1.2m (2012: \$1.2m) in total over the next eight years.

### **City Care Ltd – SCIRT alliance**

The Stronger Christchurch Infrastructure Alliance agreement contains provision for sharing gains and/or losses against budget on the conclusion of the contract, expected to be of five years duration. Any gain or loss does not crystallise until the conclusion of the contract and cannot be reliably measured in the interim.

### **National Provident Fund's Defined Benefit Plan Contributors Scheme**

Some members of the Group are participating employers in the National Provident Fund's Defined Benefit Plan Contributors Scheme (the scheme) which is a multi-employer defined benefit superannuation scheme. In the unlikely event that the other participating employers ceased to participate in the scheme, the Group could be responsible for the entire deficit of the scheme (see below). Similarly, if a number of employers ceased to participate in the scheme, the Group could be responsible for an increased share of the deficit.

The Fund has advised that insufficient information is available to use defined benefit accounting as it is not possible to determine, from the terms of the scheme, the extent to which the deficit will affect future contributions by employers, as there is no prescribed basis for allocation.

Other than for the above, the Group had no material or significant contingent liabilities or contingent assets as at 30 June 2013 or 30 June 2012.

### 39. Financial instruments

#### Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, and the basis of measurement applied in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 43 to the financial statements.

#### Classification of financial assets and liabilities

The following tables classify the Group's and company's financial assets and liabilities between the various categories set out in NZ IAS 39 and IFRS 7. The parent company's investments in subsidiaries and associates are accounted for as fair value through equity, a category of assets that falls within the "available for sale" classification of NZ IAS 39. As noted in the statement of Accounting Policies, the CCHL board considers that "available for sale" is a misleading description, and hence the heading "fair value through equity" has been used in the following tables.

	Note	Group 2013 \$'000	Group 2012 \$'000	Parent 2013 \$'000	Parent 2012 \$'000
<b>39(a) Classification of financial assets and liabilities</b>					
<b>Financial assets</b>					
<b>Fair value through profit or loss – held for trading</b>					
Derivative financial instrument assets		–	1	–	–
<b>Derivatives that are hedge accounted</b>					
Derivative financial instrument assets		1,996	251	1,962	–
<b>Loans and receivables</b>					
Cash and cash equivalents		(2,838)	5,442	1,774	13,110
Term deposits		6,307	3,014	–	–
Debtors and other receivables		152,463	132,522	1,434	1,231
<i>Other financial assets</i>					
– loans		7,065	623	6,453	–
– loans to related parties		25,937	25,981	142,437	114,481
– other		–	–	–	–
		188,934	167,582	152,098	128,822
<b>Fair value through equity</b>					
<i>Other financial assets</i>					
CCHL shares in subsidiary and associated companies		–	–	1,635,286	1,584,265
Unlisted shares and other		15	45	–	–
Total financial assets		190,945	167,879	1,789,346	1,713,087
<b>Financial liabilities</b>					
<b>Fair value through profit or loss – held for trading</b>					
Derivative financial instrument liabilities		1,419	2,739	–	–
<b>Derivatives that are hedge accounted</b>					
Derivative financial instrument liabilities		24,940	37,227	7,805	11,970
<b>Financial liabilities at amortised cost</b>					
Creditors and other payables		82,340	71,031	1,537	1,460
Borrowings		698,958	666,658	318,000	302,000
		781,298	737,689	319,537	303,460
Total financial liabilities		807,657	777,655	327,342	315,430

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2013

## 39. Financial instruments *continued*

### Financial risk management objectives

The parent company and Group have a series of policies to manage the risk associated with financial instruments.

The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The use of financial derivatives is governed by the Group's policies, which provide written principles on the use of financial derivatives.

### Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the entity. Financial instruments that potentially subject the Group to concentrations of credit risk consist principally of cash and short-term investments, trade receivables, loans and interest rate swaps. The Group places its cash and short-term investments with high credit quality financial institutions and sovereign bodies and limits the amount of credit exposure to any one financial institution in accordance with the treasury policies of the respective group companies. The Group does not hold any credit derivatives to offset its credit exposure.

Orion New Zealand Ltd has a concentration of credit risk with regard to its trade receivables, as it only has a small number of electricity retailer customers. Christchurch International Airport Ltd also has a concentration of credit risk on a small number of customers, with 70% (2012: 59%) of trade receivables due from 10 customers, and continuously monitors its credit exposure. No more than 15% of Lyttelton Port Company Ltd's revenue results from transactions with any one customer. City Care Ltd also has a concentration of credit risk in respect of its transactions with ultimate shareholder Christchurch City Council, with 60% (2012: 53%) of its revenue derived from this source. Red Bus Ltd has a concentration of credit risk with Environment Canterbury, which provides 81% (2012: 79%) of the company's revenue. Notwithstanding this concentration of credit risk, all of these major customers are considered to be of high credit quality. Geographically there is no significant credit risk concentration for the Group outside New Zealand.

The Group manages its exposure to credit risk arising from trade receivables by performing credit evaluations on all significant customers requiring credit, wherever practicable, and continuously monitors the outstanding credit exposure to individual customers. With the exception of Orion New Zealand Ltd, which has generally required collateral security (such as bank letters of credit) from its electricity retailer customers against credit risk, the Group does not generally require collateral security from its customers. Recent changes to the Electricity Industry Participation Code significantly reduce the prudential securities that that electricity distribution businesses may require from their electricity retail customers (now restricted to entities with a credit rating of less than BBB-), and this has had the effect of reducing the security held by Orion New Zealand Ltd.

The carrying value is the maximum exposure to credit risk for bank balances, accounts receivable and interest rate swaps. No collateral is held in respect of these financial assets.

The Group has not renegotiated the terms of any financial assets which would result in the carrying amount no longer being past due or avoid a possible past due status other than trade receivables.

The following table summarises the status of receivables as at balance date:

	Note	Group 2013 \$'000	Group 2012 \$'000	Parent 2013 \$'000	Parent 2012 \$'000
<b>39(b) Maximum exposure to credit risk</b>					
Cash at bank, term deposits and foreign currency		3,469	8,456	1,774	13,110
Debtors and other receivables		152,463	132,522	1,434	1,231
Loans		33,002	26,604	148,890	114,481
Derivative financial instrument assets		1,996	252	1,962	–
		190,930	167,834	154,060	128,822
<b>Counterparties</b>					
Cash at bank, term deposits and foreign currency	AA	3,469	8,456	1,774	13,110
		3,469	8,456	1,774	13,110
Loans	AA	25,937	25,981	25,937	25,981
	A	–	–	–	50,000
	BBB	–	–	50,000	–
	Lower than BBB or unrated	7,065	623	72,953	38,500
		33,002	26,604	148,890	114,481
Derivative financial instrument assets	AA	1,996	252	1,962	–
		1,996	252	1,962	–

Further information on the ageing of debtors and movements in the impairment provision is provided in Note 13.

### 39. Financial instruments *continued*

#### 39(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty raising liquid funds to meet commitments as they fall due. Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

In meeting its liquidity requirements, the Group manages its investments and borrowings in accordance with its written investment policies. In general the Group generates sufficient cash flows from its operating activities to meet its obligations arising from its financial liabilities and has funding arrangements in place to cover potential shortfalls.

The following tables analyse the parent company's and Group's contractual cash flows for its financial assets and liabilities into relevant maturity groupings based on the remaining period at year end to the contractual maturity date. The amounts disclosed in the tables are the contractual undiscounted cash flows:

	Balance sheet \$'000	Contractual cash flows \$'000	Less than 1 year \$'000	1–2 years \$'000	2–5 years \$'000	5 years + \$'000
<b>Group 30 June 2013</b>						
<b>Financial liabilities:</b>						
Creditors and other payables	82,340	82,340	82,340	–	–	–
Net settled derivative liabilities	26,359	21,283	10,007	7,435	3,715	126
Commercial paper	88,000	88,000	88,000	–	–	–
Bonds and other fixed rate borrowing	141,353	165,221	4,809	4,809	74,809	80,794
Floating rate notes	160,000	203,853	9,020	35,121	74,540	85,172
Loans from external parties	303,920	346,744	69,574	184,564	92,606	–
Finance lease liabilities	5,685	11,561	578	534	1,511	8,938
	807,657	919,002	264,328	232,463	247,181	175,030
<b>Group 30 June 2013</b>						
<b>Financial assets:</b>						
Cash and cash equivalents	(2,838)	(2,838)	(2,838)	–	–	–
Term deposits	6,307	6,307	6,307	–	–	–
Debtors and other receivables	126,004	126,541	126,541	–	–	–
Related party receivables	26,434	26,434	26,434	–	–	–
Loans and advances	33,002	38,361	13,045	1,228	16,254	7,834
Finance lease receivables	25	26	26	–	–	–
Net settled derivative assets	1,996	9,291	321	110	3,096	5,764
	190,930	204,122	169,836	1,338	19,350	13,598
<b>Group 30 June 2012</b>						
<b>Financial liabilities:</b>						
Creditors and other payables	71,031	71,031	71,031	–	–	–
Net settled derivative liabilities	39,966	30,675	9,125	6,900	12,037	2,613
Commercial paper	97,000	97,000	97,000	–	–	–
Bonds and other fixed rate borrowing	75,000	94,377	9,950	4,809	79,618	–
Floating rate notes	130,000	167,396	6,709	8,048	97,726	54,913
Loans from external parties	358,925	386,545	78,789	105,748	202,008	–
Finance lease liabilities	5,733	13,008	831	510	1,362	10,305
	777,655	860,032	273,435	126,015	392,751	67,831
<b>Group 30 June 2012</b>						
<b>Financial assets:</b>						
Cash and cash equivalents	5,442	5,442	5,442	–	–	–
Term deposits	3,014	3,014	3,014	–	–	–
Debtors and other receivables	106,516	106,516	106,516	–	–	–
Related party receivables	25,959	25,959	25,959	–	–	–
Loans and advances	26,604	31,099	1,929	11,974	16,664	532
Finance lease receivables	47	52	26	26	–	–
Net settled derivative assets	252	251	251	–	–	–
	167,834	172,333	143,137	12,000	16,664	532

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2013

	Note	Group 2013 \$'000	Group 2012 \$'000	Parent 2013 \$'000	Parent 2012 \$'000
<b>39. Financial instruments</b> <i>continued</i>					
<b>39(c) Liquidity risk</b> <i>contd</i>					
<b>Parent 30 June 2013</b>					
<b>Financial liabilities:</b>					
Creditors and other payables	1,537	1,537	1,537	-	-
Net settled derivative liabilities	7,805	1,806	909	423	474
Commercial paper	88,000	88,000	88,000	-	-
Bonds and other fixed rate borrowing	70,000	84,427	4,809	4,809	74,809
Floating rate notes	160,000	203,853	9,020	35,121	74,540
	327,342	379,623	104,275	40,353	149,823
					85,172
<b>Parent 30 June 2013</b>					
<b>Financial assets:</b>					
Cash and cash equivalents	1,774	1,774	1,774	-	-
Debtors and other receivables	1,434	1,434	1,434	-	-
Loans and advances	32,854	37,749	12,959	1,126	15,830
Loan to subsidiaries	116,500	168,961	7,607	33,176	55,027
	152,562	209,918	23,774	34,302	70,857
					80,985
<b>Parent 30 June 2012</b>					
<b>Financial liabilities:</b>					
Creditors and other payables	1,460	1,460	1,460	-	-
Net settled derivative liabilities	11,970	(109)	1,085	475	(50)
Commercial paper	97,000	97,000	97,000	-	-
Bonds	75,000	94,377	9,950	4,809	79,618
Floating rate notes	130,000	167,396	6,709	8,048	97,726
	315,430	360,124	116,204	13,332	177,294
					53,294
<b>Parent 30 June 2012</b>					
<b>Financial assets:</b>					
Cash and cash equivalents	13,110	13,110	13,110	-	-
Debtors and other receivables	1,231	1,231	1,231	-	-
Loans to subsidiaries	88,500	110,459	10,518	7,129	92,812
Loans and advances	25,981	30,038	1,746	11,802	16,490
	128,822	154,838	26,605	18,931	109,302
					-

## Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices. The parent company is exposed to equities securities price risk on its investment in Lyttelton Port Company Ltd, a company listed on the New Zealand Stock Exchange. The investment in Lyttelton Port Company Ltd is classified as a financial asset held at fair value through equity, and revalued annually on the basis of its quoted share price. A 10% movement in share price would increase/decrease the CCHL's parent company's equity by \$23.2m (2012: \$16.3m). While the share price can and does fluctuate, the investment is held as a long term asset with no intention of sale, and such fluctuations do not impact on CCHL's profits.

## Foreign currency risk

Foreign currency risk is the risk that the value of the Group's assets and liabilities or revenues and expenses will fluctuate due to changes in foreign exchange rates. The Group is exposed to foreign currency risk as a result of transactions that are denominated in a currency other than New Zealand dollars. These currencies are primarily Australian dollars, US dollars and Euros. The Group's policy is to hedge any material foreign currency exposure, usually with forward exchange contracts.

The parent company has entered into a US\$17m dollar loan agreement with Christchurch Engine Centre, of which NZ\$6.8m had been drawn down at balance date. The loan agreement is fully hedged with a cross currency interest rate swap, and CCHL has no exposure to foreign exchange fluctuations (2012: Nil).



### 39. Financial instruments *continued*

#### 39(d) Foreign currency exchange risk

The following table summarises the Group's exposure to foreign currency transactions:

In thousands of New Zealand dollars	USD	AUD	EURO
<b>Group 30 June 2013</b>			
<b>Foreign currency risk</b>			
Trade receivables	140	21	305
Loan balances	6,814	-	-
Trade payables	-	(281)	(53)
Net balance sheet exposure before hedging activity	6,954	(260)	252
Estimated forecast sales	4,313	-	-
Estimated forecast purchases	-	-	(304)
Net cash flow exposure before hedging activity	4,313	-	(304)
<b>Foreign exchange derivatives</b>			
Forward exchange contracts - notional amounts	(2,926)	251	304
Cross currency interest rate swap	(6,814)	-	-
	(9,740)	251	304
Foreign currency on hand	-	-	-
Net unhedged exposure	<b>1,527</b>	<b>(9)</b>	<b>252</b>
<b>Group 30 June 2012</b>			
<b>Foreign currency risk</b>			
Trade receivables	47	-	355
Trade payables	-	(1)	-
Net balance sheet exposure before hedging activity	47	(1)	355
Estimated forecast sales	5,975	-	-
Estimated forecast purchases	(387)	(151)	(710)
Net cash flow exposure before hedging activity	5,588	(151)	(710)
<b>Forward exchange contracts</b>			
Notional amounts	(6,022)	-	5,215
Foreign currency on hand	-	-	1
Net unhedged exposure	<b>(387)</b>	<b>(152)</b>	<b>4,861</b>
<b>Parent 30 June 2013</b>			
<b>Foreign currency risk</b>			
Loan balances	6,814	-	-
<b>Forward exchange contracts</b>			
Cross currency interest rate swap	(6,814)	-	-
Foreign currency on hand	-	-	-
Net unhedged exposure	-	-	-

CCHL had no foreign exchange exposure in 2012.

# NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 June 2013

## 39. Financial instruments *continued*

### 39(e) Foreign exchange sensitivity

The following table summarises the estimated impact on the Group's pre-tax profit and equity (excluding retained earnings) to reasonably possible changes in foreign exchange rates (a 10% variance either way):

	Movement in exchange rates			
	-10% Pre-tax profit \$'000	+10% Other compr. income \$'000	-10% Pre-tax profit \$'000	+10% Other compr. income \$'000
<b>Group 30 June 2013</b>				
Trade receivables	18	-	(18)	-
Loans	50	-	(50)	-
Derivatives	12	(293)	(1)	293
<b>Total sensitivity to foreign exchange risk</b>	<b>80</b>	<b>(293)</b>	<b>(69)</b>	<b>293</b>
<b>Group 30 June 2012</b>				
Derivatives – held for trading	17	(14)	-	-
<b>Total sensitivity to foreign exchange risk</b>	<b>17</b>	<b>(14)</b>	<b>-</b>	<b>-</b>
<b>Parent 30 June 2013</b>				
Loans	50	-	50	-
Derivatives	(50)	-	(50)	-
<b>Total sensitivity to foreign exchange risk</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>30 June 2012</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

### 39(f) Interest rate risk management

The Group and parent company are exposed to interest rate risk as they borrow funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings, by the use of interest rate swaps, options and forward interest rate contracts.

At balance date the Group and parent company had a mix of financial assets and liabilities exposed to New Zealand fixed and variable interest rates as set out in the following tables. To the extent assets and liabilities exposed to variable interest rate risk are designated in cash flow hedges, they are classified as fixed.

	Fixed \$'000	Variable \$'000	Non-interest bearing \$'000
<b>Group 30 June 2013</b>			
<b>Financial assets</b>			
Cash and cash equivalents	-	(2,847)	9
Term deposits	6,307	-	-
Debtors and other receivables	-	-	126,004
Related party receivables	-	-	26,434
Loans and advances	32,765	237	-
Finance lease receivables	25	-	-
Derivatives	485	1,477	34
	<b>39,582</b>	<b>(1,133)</b>	<b>152,481</b>
<b>Financial liabilities</b>			
Commercial paper	(9,000)	(79,000)	-
Bonds and other fixed rate borrowing	(141,353)	-	-
Floating rate notes	(80,000)	(80,000)	-
Loans from external parties	(235,000)	(68,920)	-
Finance lease liabilities	(111)	(5,574)	-
Derivatives	-	(26,359)	-
	<b>(465,464)</b>	<b>(259,853)</b>	<b>-</b>
	<b>(425,882)</b>	<b>(260,986)</b>	<b>152,481</b>

	Fixed \$'000	Variable \$'000	Non-interest bearing \$'000
<b>39. Financial instruments</b> <i>continued</i>			
<b>39(f) Interest risk management</b> <i>contd</i>			
<b>Group 30 June 2012</b>			
Cash and cash equivalents	–	5,430	12
Term deposits	3,014	–	–
Debtors and other receivables	–	–	106,516
Related party receivables	–	–	25,959
Loans and advances	26,323	281	–
Finance lease receivables	47	–	–
Derivatives	–	–	252
Other	–	–	45
	29,384	5,711	132,784
<b>Financial liabilities</b>			
Commercial paper	(9,000)	(88,000)	–
Bonds and other fixed rate borrowing	(75,000)	–	–
Floating rate notes	(80,000)	(50,000)	–
Loans from external parties	(317,100)	(41,825)	–
Finance lease liabilities	(461)	(5,272)	–
Derivatives	–	(39,966)	–
	(481,561)	(225,063)	–
	<b>(452,177)</b>	<b>(219,352)</b>	<b>132,784</b>
<b>Parent 30 June 2013</b>			
<b>Financial assets</b>			
Cash and cash equivalents	–	1,774	–
Debtors and other receivables	–	–	1,434
Loans and advances	6,917	–	–
Related party loans – subsidiaries	9,000	107,500	–
Related party loans – Christchurch City Council	25,700	237	–
Derivatives	–	1,498	–
	41,617	111,009	1,434
<b>Financial liabilities</b>			
Commercial paper	(9,000)	(79,000)	–
Bonds and other fixed rate borrowing	(70,000)	–	–
Floating rate notes	(80,000)	(80,000)	–
Derivatives	–	(7,805)	–
	(159,000)	(166,805)	–
	<b>(117,383)</b>	<b>(55,796)</b>	<b>1,434</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2013

	Fixed \$'000	Variable \$'000	Non-interest bearing \$'000
<b>39. Financial instruments</b> <i>continued</i>			
<b>39(f) Interest risk management</b> <i>contd</i>			
<b>Parent 30 June 2012</b>			
Cash and cash equivalents	–	13,110	–
Debtors and other receivables	–	–	1,231
Related party loans – subsidiaries	14,000	74,500	–
Related party loans – Christchurch City Council	25,700	281	–
	39,700	87,891	1,231
<b>Financial liabilities</b>			
Commercial paper	(9,000)	(88,000)	–
Bonds and other fixed rate borrowing	(75,000)	–	–
Floating rate notes	(80,000)	(50,000)	–
Derivatives	–	(11,970)	–
	(164,000)	(149,970)	–
	<b>(124,300)</b>	<b>(62,079)</b>	<b>1,231</b>

### 39(g) Interest rate sensitivity

In managing interest rate risks, the Group aims to reduce the impact of short term fluctuations on the Group's earnings. Over the longer term, however, changes in interest rates will affect reported profits.

The following table summarises the estimated impact of movements in interest rates on the Group's and parent company's pre-tax profit and equity (excluding retained earnings), taking into account the effect of interest rate swaps. It is considered that a reasonably possible movement in New Zealand interest rates is a 1% movement in either direction, and this is the range that has been used in the following sensitivity analysis:

	Increase in interest rates 1.00%		Decrease in interest rates –1.00%	
	Pre-tax profit \$'000	Other compr. income \$'000	Pre-tax profit \$'000	Other compr. income \$'000
<b>Group 30 June 2013</b>				
Cash and cash equivalents	(28)	–	28	–
Loans and advances (external)	–	–	–	–
Loans and advances (CCC)	2	–	(2)	–
Commercial paper	(790)	–	790	–
Floating rate notes	(800)	–	800	–
Loans from external parties	(689)	–	689	–
Finance lease liabilities	(56)	–	56	–
Interest rate swap derivatives	696	6,643	(718)	(7,187)
Total sensitivity to interest rate risk	(1,665)	6,643	1,643	(7,187)
<b>Group 30 June 2012</b>				
Cash and cash equivalents	54	–	(54)	–
Bank deposits	30	–	(30)	–
Related party loans	3	–	(3)	–
Commercial paper	(880)	–	880	–
Floating rate notes	(500)	–	500	–
Finance lease liabilities	(53)	–	53	–
Bank loans	(418)	–	418	–
Interest rate swap derivatives	1,970	12,897	(2,037)	(13,621)
Total sensitivity to interest rate risk	206	12,897	(273)	(13,621)

Increase in interest rates		Decrease in interest rates	
1.00%	1.00%	-1.00%	-1.00%
Pre-tax profit	Other compr. income	Pre-tax profit	Other compr. income
\$'000	\$'000	\$'000	\$'000

### 39. Financial instruments *continued*

#### 39(g) Interest rate sensitivity *contd*

##### Parent 30 June 2013

Cash and cash equivalents	18	–	(18)	–
Loans and advances (related parties excl CCC)	1,075	–	(1,075)	–
Loans and advances (CCC)	2	–	(2)	–
Commercial paper	(790)	–	790	–
Floating rate notes	(800)	–	800	–
Finance lease liabilities	(78)	–	78	–
Interest rate swap derivatives	–	6,205	8	(6,748)
Total sensitivity to interest rate risk	(573)	6,205	581	(6,748)

##### Parent 30 June 2012

Cash and cash equivalents	131	–	(131)	–
Related party loans	748	–	(748)	–
Commercial paper	(880)	–	880	–
Floating rate notes	(500)	–	500	–
Interest rate swap derivatives	18	3,671	(18)	(3,894)
Total sensitivity to interest rate risk	(483)	3,671	483	(3,894)

#### Commodity price and demand risk

EcoCentral Ltd's operations can be significantly impacted by fluctuations in commodity prices and international demand for certain of its products. This risk is mitigated to an extent by tendering and entering into supply contracts.

#### 39(h) Fair value of financial instruments

The directors consider that the carrying amounts of all financial assets and financial liabilities, other than fixed rate borrowing, recorded in the financial statements approximate their fair values. The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.

The estimated fair values of fixed rate borrowing, together with their carrying values, are as follows:

Note	Group 2013 \$'000	Group 2012 \$'000	Parent 2013 \$'000	Parent 2012 \$'000
Total carrying value of fixed rate borrowing	141,353	75,000	70,000	75,000
Total fair value of fixed rate borrowing	148,140	81,415	76,787	81,415

The Group uses various methods in estimating the fair value of a financial instrument. The methods comprise:

##### Level 1

The fair value is calculated using quoted prices in active markets. Quoted market price represents the fair value determined based on quoted market prices in active markets as at the reporting date without any deduction for transaction costs.

##### Level 2

The fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices). Financial instruments that use valuation techniques with only observable market inputs include interest rate swaps and foreign exchange contracts not traded on a recognised exchange. The fair values are estimated using a discounted cash flow model from observed market rates using a Visual Risk software package. Visual Risk uses market rates i.e. BKBM and the market quoted swap rates to construct a zero curve. The zero curve is then used to calculate the forward rates and the discount factors which are used in the calculation of the fair value of the swaps and debt by discounting future cash flows. Rates between set dates are calculated using interpolation methodologies.

# NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 June 2013

## 39. Financial instruments *continued*

### 39(h) Fair value of financial instruments *contd*

#### Level 3

The fair value is estimated using inputs for the asset or liability that are not based on observable market data. The fair values of unlisted investments that do not have an active market are based on market data that is not observable. Further information on the valuation techniques employed by the Group is provided in Note 16.

#### Transfer between categories

There were no transfers between Level 1 and Level 2 during the year.

The fair values of the financial instruments are summarised in the table below:

	Carrying value \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
<b>Group 30 June 2013</b>				
<b>Financial assets at fair value through profit or loss</b>				
Derivative financial instrument assets	–	–	–	–
<b>Derivatives that are hedge-accounted</b>				
Derivative financial instrument assets	1,996	–	1,996	–
<b>Fair value through equity financial assets</b>				
Investment in Enertech Capital Partners 11 LP	15	–	–	15
<b>Financial liabilities at fair value through profit or loss</b>				
Fixed rate bond	71,353	–	71,353	–
Derivative financial instrument liabilities	1,419	–	1,419	–
	72,772	–	72,772	–
<b>Derivatives that are hedge accounted</b>				
Derivative financial instrument liabilities	24,940	–	24,940	–
Net financial assets and liabilities	<b>(95,701)</b>	–	<b>(95,716)</b>	<b>15</b>
<b>Group 30 June 2012</b>				
<b>Financial assets at fair value through profit or loss</b>				
Derivative financial instrument assets	1	–	1	–
<b>Derivatives that are hedge-accounted</b>				
Derivative financial instrument assets	251	–	251	–
<b>Fair value through equity financial assets</b>				
Investment in Enertech Capital Partners 11 LP	45	–	–	45
<b>Financial liabilities at fair value through profit or loss</b>				
Derivative financial instrument liabilities	2,414	–	2,414	–
<b>Derivatives that are hedge accounted</b>				
Derivative financial instrument liabilities	37,552	–	37,552	–
Net financial assets and liabilities	<b>(39,669)</b>	–	<b>(39,714)</b>	<b>45</b>

	Carrying value \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
<b>39. Financial instruments</b> <i>continued</i>				
<b>39(h) Fair value of financial instruments</b> <i>contd</i>				
<b>Parent 30 June 2013</b>				
<b>Fair value through equity financial assets</b>				
Shares in subsidiaries and associates	1,635,286	231,786	–	1,403,500
<b>Derivatives that are hedge accounted</b>				
Derivative financial instrument assets	1,962	–	1,962	–
<b>Derivatives that are hedge accounted</b>				
Derivative financial instrument liabilities	7,805	–	7,805	–
Net financial assets and liabilities	<b>1,629,443</b>	<b>231,786</b>	<b>(5,843)</b>	<b>1,403,500</b>
<b>Parent 30 June 2012</b>				
<b>Fair value through equity financial assets</b>				
Shares in subsidiaries and associates	1,584,265	162,621	–	1,421,644
<b>Financial liabilities at fair value through profit or loss</b>				
Derivative financial instrument liabilities	–	–	–	–
<b>Derivatives that are hedge accounted</b>				
Derivative financial instrument liabilities	11,970	–	11,970	–
Net financial assets and liabilities	<b>1,572,295</b>	<b>162,621</b>	<b>(11,970)</b>	<b>1,421,644</b>
	Note	Group 2013 \$'000	Group 2012 \$'000	Parent 2013 \$'000
				Parent 2012 \$'000

**Reconciliation of movements in Level 3 fair value through equity financial assets**

**Shares in subsidiaries and associates**

Opening carrying value	–	–	1,421,644	1,309,262
Shares acquired during the year	–	–	8,000	–
Capital repaid	–	–	(20,794)	–
Valuation movements	–	–	(5,350)	112,382
Closing carrying value of Level 3 assets	–	–	1,403,500	1,421,644



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2013

## 40. Related parties

The parent entity in the group structure is CCHL, which is 100% owned by Christchurch City Council (CCC). Other related parties include:

- Subsidiaries – refer note 16
- Associates – refer note 20
- The various subsidiaries of CCC

The Group undertakes transactions with CCC and its related parties, all of which are carried out on a commercial basis. During the period, no material transactions were entered into with related parties except as disclosed below.

During the period, no transactions were entered into by CCHL with any of the company's directors other than the payment of directors' fees and the reimbursement of valid company-related expenses. Some minor transactions were entered into with companies in which some directors held directorships and with other related parties. These transactions were carried out on a commercial and arm's length basis.

No provisions were made for doubtful debts relating to the amount of outstanding balances (2012: Nil), and no bad or doubtful debts expense was recognised in relation to related parties during the period.

The Group paid directors' fees totalling \$2,066,895 (2012: \$1,954,000).

Key management personnel of the parent company purchased sundry goods and services from group companies during the period which in total did not exceed \$1,000 for any individual. All transactions were conducted on standard commercial terms.

### Transactions between the CCHL Group and parent entity CCC

CCHL group entities entered into the following transactions with CCC as follows:

	2013 \$'000	2012 \$'000
Dividends paid/payable to CCC	36,325	35,449
Interest received from CCC	1,768	2,624
Services provided to CCC	223,615	258,562
Services provided by CCC (including rent and rates)	16,737	18,255

The CCHL parent company offset tax losses with the following group entities:

Christchurch International Airport Ltd	4,744	10,952
Enable Services Ltd	2,092	–
City Care Ltd	2,628	–
EcoCentral Ltd	78	–
	9,542	10,952

CCHL group entities entered into the following subvention payments and loss offsets with CCC and other members of the CCC group:

Subvention payments Year ended 30 June 2013	Paid to:	CCC \$'000	Vbase group \$'000	Civic Building Ltd \$'000	Tuam Ltd \$'000
<b>Paid by:</b>					
Christchurch International Airport Ltd		1,845	–	–	–
Enable Services Ltd		813	–	–	–
City Care Ltd		1,022	2,742	913	105
EcoCentral Ltd		31	–	–	–
<b>Tax loss offsets</b>					
<b>Profits provided by:</b>	<b>Offset with:</b>				
City Care Ltd		–	7,051	2,348	271
<b>Subvention payments Year ended 30 June 2012</b>	<b>Paid to:</b>	<b>CCC \$'000</b>	<b>Vbase group \$'000</b>	<b>Civic Building Ltd \$'000</b>	<b>Tuam Ltd \$'000</b>
<b>Paid by:</b>					
Christchurch International Airport Ltd		5,162	1,438	–	–
City Care Ltd		–	2,593	1,867	267
Red Bus Ltd		–	165	–	–
EcoCentral Ltd		684	–	–	–
<b>Tax loss offsets</b>					
<b>Profits provided by:</b>	<b>Offset with:</b>				
Christchurch International Airport Ltd		1,094	3,355	–	–
City Care Ltd		–	6,050	4,356	623
Red Bus Ltd		–	387	–	–
EcoCentral Ltd		1,596	–	–	–

#### 40. Related parties *continued*

Other transactions between members of the CCHL Group and CCC or its subsidiaries were as follows:

- The CCHL parent company has in the past made advances to CCC to fund CCC's ongoing borrowing requirements. The balance outstanding at 30 June 2013 was \$25,937,000 (2012: \$25,981,000), with \$44,000 being repaid by CCC to CCHL during the year (2012: \$12,550,000). The advances were made under a cash advance facility and are unsecured. Interest rates charged to CCC are based on the company's marginal cost of borrowing plus a small margin.
- EcoCentral Ltd made payments of \$15,238,000 in relation to the disposal of waste (2012: \$12,697,000), to Transwaste Canterbury Ltd, a company in which the ultimate shareholder, CCC, has a 38.9% shareholding.

At balance date, balances owing by CCC to members of the CCHL Group totalled \$19,749,000 (2012: \$25,921,000). Included in these totals were City Care Ltd balances of \$18,513,000 (2012: \$24,224,000). Balances owing by members of the Group to CCC totalled \$2,213,000 (2012: \$1,445,000).

Additionally, members of the CCHL group had the following balances at balance date with other entities owned or related to CCC:

- Owing to Vbase Ltd – \$62,000 (2012: Nil)
- Owing by Vbase Ltd – \$54,000 (2012: \$47,000)

#### Transactions between the parent company and subsidiaries and associates

The following transactions were entered into between the CCHL parent company and members of the CCHL Group:

Transactions with subsidiaries and associates	Note	2013 \$'000	2012 \$'000
Dividends received from subsidiaries		42,377	54,742
Interest received from subsidiaries		4,800	4,266
Advances to Enable Services Ltd	16	(33,000)	(13,500)
Loan repayment from EcoCentral Ltd	16	5,000	1,000
Purchase of shares in EcoCentral Ltd	16	(5,000)	–
Advance to EcoCentral Ltd	16	–	(1,000)
Purchase of shares in Enable Services Ltd		(3,000)	Nil

The loss offsets in 2013 relate to the 2012 tax year (2012: relate to the 2011 tax year).

During the 2013 financial year, the CCHL parent company also advanced \$32,500,000 to Enable Services Ltd (2012: \$13,500,000). Further information on these advances is provided in Note 16.

The CCHL parent company acquired a further 60,917 shares (2012: 329,301) in Lyttelton Port Company Ltd for consideration of \$0.1m (2012: \$0.7m), taking its ownership interest up to 79.57% (2012: 79.51%).

#### Transactions of the CCHL group with associates

##### *Selwyn Plantation Board Ltd*

Following the completion of its programme of asset realisation in the 2013 financial year, Selwyn Plantation Board Ltd was placed into liquidation by its two shareholders. All funds were distributed to the shareholders prior to 30 June 2013. CCHL's share of these distributions was \$20.8m.

##### *Enable Services Ltd*

During 2013, Enable Services Ltd sold UFB assets to its associate, Enable Networks Ltd, of \$16.8m (2012: \$3.4m).

During the 2012 period, Enable Services Ltd sold fibre network assets to the associate, and received shares in the associate and cash as set out in Note 20. This includes the sale to Enable Networks Ltd of the existing fibre network at book value on 10 February 2012, for \$29.6m.

In addition, Enable Services Ltd provides support services to the associate under a management services agreement and an operations and maintenance agreement. Enable Services Ltd charged \$5.6m (2012: \$2.6m) during the period for these services. At balance date \$6.7m (2012: \$0.9m) was outstanding, and is receivable under normal commercial terms.

Following sale of the existing fibre network to Enable Networks Ltd, Enable Services Ltd purchases UFB product from Enable Networks Ltd in order to fulfil its remaining customer contracts. This is a transitional arrangement that will reduce as remaining Enable Services Ltd customer contracts expire. The total UFB product purchased from Enable Networks Ltd for the year was \$1.6m (2012: \$1.0m) with no balance payable at year end.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2013

## 40. Related parties *continued*

### Transactions of the CCHL group with other related parties

During the period Port Otago Limited (a shareholder in Lyttelton Port Company Ltd) provided services to the Group to the value of \$1.9m (2012: \$1.9m). These services were provided on an arm's length basis.

### Transactions between CCHL directors (and entities in which they have an interest) and members of the CCHL Group

There were no transactions in the 2013 year between CCHL directors (and entities in which they have an interest) and members of the CCHL group, other than for minor transactions carried out on a commercial and arm's length basis.

Bill Dwyer, a director of CCHL, is a partner in Lane Neave Lawyers, having rejoined the firm in 2012. In the 2013 year, the CCHL parent company paid \$1,513 to Lane Neave Lawyers, and the CCHL Group \$179,828 for legal services, all on commercial terms (2012: N/A).

### Balances between CCHL parent company and related parties at end of year

Loan balances with related parties	Note	2013 \$'000	2012 \$'000
Christchurch City Council	16	25,937	25,981
Christchurch International Airport Ltd	16	50,000	50,000
Enable Services Ltd	16	52,500	19,500
Red Bus Ltd	16	5,000	5,000
EcoCentral Ltd	16	9,000	14,000
		142,437	114,481
Debtor balances with related parties			
Christchurch City Council		155	153
Christchurch International Airport Ltd		454	454
Enable Services Ltd		337	33
Red Bus Ltd		39	63
EcoCentral Ltd		159	103
		1,144	806

## 41. Events after the balance sheet date

There were no events subsequent to balance date requiring disclosure or adjustment in these financial statements.

## 42. Performance against Statement of Intent targets

Note	Group Actual	Group Target	Parent Actual	Parent Target
Profit for the year	70,712	63,600	44,011	36,800
Net debt/net debt plus equity	32.6%	32.7%	17.8%	19.6%
Interest cover	3.6	2.9	3.8	2.7
Dividends to Christchurch City Council	N/A	N/A	36,325	40,000
Return on average equity	5.0%	4.5%	N/A	N/A

The Statement of Intent ('Sol') issued by CCHL last year in respect of the 2012/13 financial year included a number of financial and non-financial performance measures. The following table compares the actual financial results for the year ended 30 June 2013 with the financial targets contained within the Sol:

### Group profit for the period and return on average equity

The Group's profitability and return on average equity are higher than budgeted. The principal reason for this was Orion New Zealand Ltd and Lyttelton Port Company Ltd performing well ahead of budget expectations. This was partially offset by a lower than budget result from City Care Ltd. Further information on the performance of the Group and the parent company is provided in the Annual Review.

### Parent company dividends

CCHL met its targeted ordinary dividends to the Council of \$40.0m through a combination of dividends paid of \$36.3m and subvention payments to the value of \$3.7m that CCHL was entitled to, but voluntarily elected not to receive at the request of Christchurch City Council.

## 42. Performance against Statement of Intent targets *continued*

### Parent company profit for the period

The CCHL parent company's profit for the period was higher than forecast due to a \$13m profit on the realisation of its investment in Selwyn Plantation Board Ltd. Excluding this factor, the underlying profit was lower than forecast, primarily as a result of a dividend from Lyttelton Port Company Ltd being budgeted but not materialising due to the company's need to resolve issues with its insurers following the Canterbury earthquakes.

### Parent company gearing ratio and interest cover

The parent company's gearing ratio is lower than forecast in the Sol, primarily as a result of an increase in the value of CCHL's equity investments.

CCHL's performance against the non-financial performance measures set out in its Sol is described in the following Performance Statement.

### Governance

Objective	Performance target	Performance
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.	CCHL has met with Council management on an occasional basis to ensure strategic directions are aligned. Contact has been retained with key CERA and CDC/Recover Canterbury personnel.  Achieved.
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.	CCHL made five written reports to the Council and held two seminars for Councillors. A third update seminar was provided to Councillors in August 2013.  None arising.
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.	These policies were either reviewed and updated as required, or will be reviewed in the remainder of the 2013 calendar year.
4. Directors make an effective contribution to the CCHL board, and their conduct is in accordance with generally accepted standards.	The Chair conducts a formal biennial performance evaluation for each CCHL director with the next one being due in the 2013 calendar year.  The Governance committee will review the training needs of individual CCHL directors, and ensure training is provided where required.	To be completed in the 2013 calendar year.  The Board has approved a policy on director training, and this was followed.
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.	Director appointments made during the year complied with Council/CCHL policies.

# NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 June 2013

## 42. Performance against Statement of Intent targets *continued*

### Governance *contd*

Objective	Performance target	Performance
6. Subsidiary and monitored companies complete, on a timely basis, Statements of Intent that meet best practice standards.	CCHL will engage with subsidiary and monitored companies prior to the 2013 Sol round regarding the structure and content of the group Sols.	CCHL wrote to all subsidiaries in November 2012 requesting them to consider certain matters in their draft Sols. It is considered the Sols adequately reflect these matters.
	Subsidiary companies submit draft Statements of Intent to CCHL by 1 March 2013.	Achieved.
	CCHL will review Statements of Intent and respond to the subsidiaries and make recommendations to CCC within six weeks of receipt.	Achieved.
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"> <li>• achieving the objectives of its shareholders as set out in the Sol;</li> <li>• being a good employer;</li> <li>• exhibiting a sense of social and environmental responsibility; and</li> <li>• conducting their affairs in accordance with sound business practice.</li> </ul>	CCHL will review the companies' performance in the context of these statutorily required objectives.	The CCHL Board satisfactorily completed this review for the 2012 annual reports. This year's review will be performed on receipt of the published 2013 annual reports from each subsidiary.
8. CCHL maintains contact with subsidiary and monitored company boards, and remains aware of their strategic and business issues.	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.	Networking functions have been held at director and management level to foster intra-group relationships.
	CCHL meets subsidiary and monitored company boards, or representatives thereof, on a formal basis at least two times in the 2013 financial year.	Achieved.
	CCHL receives an appropriate level of reporting from subsidiary and monitored company boards.	Achieved.

## 42. Performance against Statement of Intent targets *continued*

### Group strategic, financial and sustainability objectives

Objective	Performance target	Performance
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.	CCHL will review the capital structure of each subsidiary company against external benchmarks on a rolling triennial basis.	The capital structure of the major subsidiaries was compared with external benchmarks, indicating average or below average gearing levels.
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.	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.	CCHL wrote to each subsidiary in November 2012 requesting that their Sols specifically address the implications of the Christchurch Transport Strategic Plan – the Council's 30-year vision to develop the city's transport network, and also the Council's draft Community Outcomes for Christchurch. It is considered that the Sols addressed these adequately.
3. Subsidiary and monitored companies adopt strategies that contribute to regional growth.	<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>CCHL has encouraged subsidiaries to invest in opportunities where appropriate. Christchurch International Airport Ltd and Enable Services Ltd in particular have been investing extensively in growing their business.</p> <p>CCHL has actively engaged with the subsidiaries regarding their earthquake recovery strategies.</p> <p>CCHL has worked closely with Enable during the year on a range of strategic, governance, contractual and valuation matters.</p>
4. Subsidiary and monitored companies set and attain environmental and social performance objectives that are compatible with their activities, commercial nature and other objectives.	<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 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>	<p>CCHL has actively encouraged subsidiaries to continue improving their environmental and social reporting. All Sols now contain specific measurable targets, which will be reported against in the respective annual reports.</p> <p>The CCHL Board satisfactorily completed this review for the 2012 annual reports. This year's review will be performed on receipt of the published 2012 annual reports from each subsidiary.</p>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2013

## 42. Performance against Statement of Intent targets *continued*

### Parent company financial objectives

Objective	Performance target	Performance
1. CCHL financial and distribution performance meets the shareholder's expectations.	CCHL pays a dividend for the 2013 financial year that meets or exceeds budget, and achieves other budgeted key performance measures.	Achieved – CCHL paid an ordinary dividend of \$36.3m (effectively \$40.0m after adding back subvention payment adjustments). Performance against other targets is described in Note 42.
2. CCHL's capital structure is appropriate for the nature of its business.	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.	During the year, the Council approved a request from CCHL to increase the level of CCHL's uncalled capital to \$650m to accommodate the future borrowing requirements of the UFB project.
3. CCHL's investments provide an appropriate return in relation to their business risk, and against external benchmarks.	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.	The performance of two of the major subsidiaries was benchmarked against comparable entities (the third will be reviewed subsequent to balance date following the receipt of benchmarking data), and profitability is regularly compared to a risk-free benchmark.
4. CCHL's treasury management policies and practices are consistent with best practice.	CCHL's treasury management policy will be reviewed in the 2013 calendar year.	A review will be completed before the end of the 2013 calendar year.



## 43. 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 2013. The financial statements were authorised for issue by the CCHL Board of directors on 18 September 2013.

### (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 relevant new and amended New Zealand equivalents to International Financial Reporting Standards as of 1 July 2012.

Reference	Summary and impact
Amendments to NZ IAS 1	<i>Presentation of Financial Statements</i> This Standard requires entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss in subsequent periods (reclassification adjustments).
NZ IAS 12 Amendments to NZ IAS 12 Income Taxes –	<i>Deferred Tax: Recovery of Underlying Assets</i> These amendments update NZ IAS 12 to include: <ul style="list-style-type: none"><li>• A rebuttable presumption that deferred tax on investment property measured using the fair value model in NZ IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.</li><li>• A requirement that deferred tax on non-depreciable assets, measured using the revaluation model in NZ IAS 16, should always be measured on a sale basis.</li></ul>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2013

## 43. Statement of accounting policies *continued*

### (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 2013, and have not been applied in preparing these consolidated financial statements:

Reference	Summary and impact
NZ IAS 19 <i>Employee Benefits</i>	Revised accounting for defined benefit plans. The amendment removes the options for accounting for the liability, and requires that the liabilities arising from such plans are recognised in full with actuarial gains and losses being recognised in other comprehensive income. It also revised the method of calculating the return on plan assets.
NZ IAS 27 <i>Separate Financial Statements</i>	NZ IAS 27 (as amended in 2011) contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.
NZ IAS 28 <i>Investments in Associates and Joint Ventures</i>	NZ IAS 28 <i>Investments in Associates and Joint Ventures</i> (as amended in 2011) prescribes the accounting for investments in associates and joint ventures, and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. Disclosure requirements relating to these investments are now contained in NZ IFRS 12.
NZ IFRS 7 <i>Amendments to NZ IFRS 7 Financial Instruments:</i>	<i>Disclosures – Offsetting Financial Assets and Financial Liabilities</i> These amendments introduce disclosures, which provide users with information that is useful in evaluating the effect or potential effect of netting arrangements on an entity's financial position.
NZ IFRS 7 <i>Amendments to NZ IFRS 7 Financial Instruments:</i>	<i>Disclosures – Transition Disclosures</i> The amendments introduce additional disclosures on transition from the classification and measurement requirements of NZ IAS 39 Financial Instruments: Recognition and Measurement to those of NZ IFRS 9.
NZ IFRS 10 <i>Consolidated Financial Statements</i>	NZ IFRS 10 establishes a new control model. The new control model broadens the situations when an entity is considered to control another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control.
NZ IFRS 11 <i>Joint Arrangements</i>	NZ IFRS 11 replaces NZ IAS 31 <i>Interests in Joint Ventures and SIC-13 Jointly-controlled Entities – Non-monetary Contributions by Ventures</i> . NZ IFRS 11 uses the principle of control in NZ IFRS 10 to define joint control, and therefore may change the determination of whether joint control exists. In addition NZ IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. This may result in a change in the accounting for joint arrangements.

### 43. Statement of accounting policies *continued*

#### (iii) New accounting standards and interpretations issued and not yet adopted *contd.*

Reference	Summary and impact
NZ IFRS 12 <i>Disclosure of Interests in Other Entities</i>	NZ IFRS 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structures entities. New disclosures have been introduced about the judgments made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.
NZ IFRS 13 <i>Fair Value Measurement</i>	<p>NZ IFRS 13 establishes a single source of guidance under NZ IFRS for determining the fair value of assets and liabilities. NZ IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value under NZ IFRS when fair value is required or permitted by NZ IFRS. Application of this guidance may result in different fair values being determined for the relevant assets.</p> <p>NZ IFRS 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.</p>

#### Effective for Group accounting period beginning 1 July 2014

NZ IFRS 10, NZ IFRS 11 NZ IFRS 12 and NZ IAS 27 Amendments <i>Investment Entities</i>	The amendments define an investment entity and introduce an exception to consolidating particular subsidiaries for investment entities. These amendments require an investment entity to measure those subsidiaries at fair value through profit or loss in accordance with NZ IFRS 9 Financial Instruments in its consolidated and separate financial statements. The amendments also introduce new disclosure requirements for investment entities in NZ IFRS 12 and NZ IAS 27. It is not considered that these changes will have a direct impact on the Group.
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#### Effective for Group accounting period beginning 1 July 2015

NZ IFRS 9 (2009) <i>Financial Instruments</i>	<p>NZ IFRS 9 (2009) improves and simplifies the approach for classification and measurement of financial assets compared with the requirements of NZ IAS 39. Changes include:</p> <ul style="list-style-type: none"><li>• two categories for financial assets, being amortised cost or fair value;</li><li>• removal of the requirement to separate embedded derivatives in financial assets;</li><li>• strict requirements to determine which financial assets can be classified as amortised cost or fair value. Financial assets can only be classified as amortised cost if (a) the contractual cash flows from the instrument represent principal and interest and (b) the entity's purpose for holding the instrument is to collect the contractual cash flows;</li><li>• an option for investments in equity instruments which are not held for trading to recognise fair value changes through other comprehensive income with no impairment testing and no recycling through profit or loss on derecognition;</li><li>• reclassifications between amortised cost and fair value no longer permitted unless the entity's business model for holding the asset changes; and</li><li>• changes to the accounting and additional disclosures for equity instruments classified as fair value through other comprehensive income.</li></ul>
NZ IFRS 9 (2010) <i>Financial Instruments</i>	<p>NZ IFRS 9 (2010) supersedes NZ IFRS 9 (2009). Where the fair value option is used for financial liabilities, the change in fair value is accounted for as follows:</p> <ul style="list-style-type: none"><li>• The change attributable to changes in credit risk are presented in other comprehensive income (OCI)</li><li>• The remaining change is presented in profit or loss</li></ul> <p>If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.</p> <p>Due to the nature and credit rating of counterparties with whom the Group trades, it is not expected that this change will have a major impact on reported results.</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.

## 43. Statement of accounting policies *continued*

### Basis of consolidation

The consolidated financial statements comprise the financial statements of Christchurch City Holdings Ltd (CCHL) and its subsidiaries (as outlined in Note 16) 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 16) 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 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.

## 43. Statement of accounting policies *continued*

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
Building fit-out/services	30-70 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
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



## 43. Statement of accounting policies *continued*

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 require such redemption from the issuer), or if it gives the holder the

## 43. Statement of accounting policies *continued*

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.

# STATUTORY INFORMATION

## Ownership

The company is owned 100% by Christchurch City Council.

## Principal activities

The company's principal activity during the year was to operate as an investment company of Christchurch City Council.

## Directors' interests

The company maintains an interests register in which particulars of certain transactions and matters involving the directors are recorded. These are requirements under the Companies Act 1993. The following entries were recorded in the interests register as at 30 June 2013:

Director	Interests declared
Bruce Irvine (Chairman)	<ul style="list-style-type: none"> <li>Chairman – Heartland New Zealand Ltd</li> <li>Director – Godfrey Hirst Ltd &amp; subsidiaries</li> <li>Director – House of Travel Holdings Ltd</li> <li>Director – PGG Wrightson</li> <li>Director – MG Marketing Ltd &amp; subsidiaries</li> <li>Director – Rakon Ltd</li> <li>Director – Scenic Circle Hotels Ltd</li> <li>Director – Skope Industries Ltd</li> <li>Chairman – Canterbury Earthquake Recovery Group</li> <li>Trustee – Canterbury Earthquake Recovery Trust</li> <li>Trustee – Christchurch Art Gallery Trust</li> <li>Trustee – Christchurch Symphony Trust</li> </ul>
Tim Carter	<ul style="list-style-type: none"> <li>Councillor – Christchurch City Council</li> <li>Director – Chelsea UK Investments Ltd</li> </ul>
Barry Corbett (Deputy Chair)	<ul style="list-style-type: none"> <li>Councillor – Christchurch City Council</li> <li>Chairman – Eureka Trust</li> <li>Director – Theatre Royal Charitable Foundation</li> <li>Trustee – Christchurch Casino Charitable Trust</li> </ul>
Bill Dwyer	<ul style="list-style-type: none"> <li>Trustee – Wavertree Trust</li> </ul>
Bob Parker	<ul style="list-style-type: none"> <li>Mayor – Christchurch City Council</li> <li>Chair – Christchurch Agency for Energy Trust</li> <li>Chair – Civic Building Ltd</li> <li>Director – Canterbury Museum Board</li> <li>Director – Parker New Media Ltd</li> <li>Director – Vbase Ltd</li> </ul>

Andy Pearce	<ul style="list-style-type: none"> <li>Chairman – Focus Genetics Management Ltd</li> <li>Chairman – Hawke's Bay Regional Investment Company Ltd</li> <li>Chairman – Regional Committee, Canterbury Water Management Strategy</li> <li>Director – Bank of New Zealand</li> <li>Director and Shareholder – Seon Pearce and Associates Ltd</li> <li>Shareholder – Migco Pharmaceuticals Ltd</li> </ul>
Sarah Smith	<ul style="list-style-type: none"> <li>Chair – Meteorological Service of New Zealand Ltd</li> <li>Chair – Metra Information Ltd</li> <li>Director – Cashel Properties Ltd</li> <li>Director – Devon Chambers Ltd</li> <li>Director – EcoCentral Ltd</li> <li>Director – Oxford Estates Ltd</li> <li>Director – Sasco Holdings Ltd</li> <li>Director – SLI Systems Ltd</li> <li>Director – Verification NZ Ltd</li> <li>Trustee – Warren Architects Education Charitable Trust</li> <li>Trustee – Ohinetahi Charitable Trust</li> </ul>
Sue Wells	<ul style="list-style-type: none"> <li>Councillor – Christchurch City Council</li> <li>Trustee – Wells Family Trusty</li> </ul>

The company has indemnified all directors and the CEO through a Deed of Indemnity executed on 22 November 2006.

Transactions between CCHL and entities with whom certain directors are associated are described in Note 40 to the financial statements.

## Directors

There were no changes in directors during the year.

## Board and Committee attendance

The Board and the two standing committees have a number of scheduled meetings each financial year. The following table is a summary of attendance for the company's financial year ended 30 June 2013:

	Board meetings	Audit and risk management committee meetings	Governance and appointments committee meetings
<b>Number of meetings</b>	<b>11</b>	<b>2</b>	<b>2</b>
Bruce Irvine	11	*	2
Tim Carter	11	1	*
Barry Corbett	10	*	2
Bill Dwyer	10	*	2
Bob Parker	7	*	1
Andy Pearce	11	1	*
Sarah Smith	10	2	*
Sue Wells	11	1	*

\* Not a member of this committee

## Remuneration of directors

Remuneration and other benefits paid or due and payable to directors for services as a director during the year were as follows:

Parent company directors' fees	\$
B Irvine	67,075
T Carter	37,275
B Corbett	37,275
W Dwyer	37,275
R Parker	37,275
A Pearce	37,275
S Smith	37,275
S Wells	37,275

### Directors' insurance

The company has arranged directors' liability insurance for all directors and indemnified each of the directors by agreement in writing.

### Loans to directors

There were no loans made to directors.

## Subsidiary companies directors' fees

Orion New Zealand Ltd	\$
C Boyce	87,000
M Andrews	62,000
J Dobson	17,000
G Gould	46,000
G Jewell	15,000
P Munro	32,000
G Vazey	55,000

Christchurch International Airport Ltd	\$
D McKenzie	85,398
P Carter	51,066
C Drayton	50,058
G Gould	42,541
J Murray	41,004
C Paulsen	44,813

Lyttelton Port Company Ltd	\$
R Fisher	80,967
T Burt	56,033
R Carr	44,750
L Crossen	44,750
K Smith	44,750
B Wood	44,750

Enable Services Ltd	\$
M Bowman	38,016
C Birkett	27,102
B Gamble	41,319
W Luff	70,906
C Richardson	11,089
O Scott	27,102
C Walsh	37,985

City Care Ltd	\$
A King	70,039
D Crombie	12,082
M Devlin	36,165
H Martyn	35,020
C Price	24,189
T Thornton	41,610
M Todd	26,479

Red Bus Ltd	\$
P Rae	57,600
T Keenan	36,000
R Lineham	–
R McRobie	28,800
A Mountford	28,800

EcoCentral Ltd	\$
D Kerr	57,521
P Anderson	28,670
S Smith	28,760
G Campbell	28,760



# STATUTORY INFORMATION Continued

## Donations

The parent company made donations of \$Nil during the year (2012: \$3,000). Donations of \$79,000 (2012: \$59,000) were made by subsidiaries.

## Dividends

The company has paid or provided fully-imputed dividends of \$36,325,000.

## Employee remuneration

Details of remuneration ranges for employees of the Group and parent company are:

<b>Salary bands \$'000</b>	<b>Group 2013</b>	<b>Parent 2013</b>
100-110	122	-
110-120	79	-
120-130	53	-
130-140	43	-
140-150	25	-
150-160	17	-
160-170	5	-
170-180	5	-
180-190	4	-
190-200	11	1
200-210	3	-
210-220	7	-
220-230	5	-
230-240	2	-
240-250	1	-
250-260	3	-
260-270	3	-
270-280	4	1
280-290	2	-
290-300	2	-
300-310	1	-
310-320	1	-
420-430	1	-
440-450	1	-
490-500	1	-
540-550	1	-
560-570	1	-
570-580	1	-
590-600	3	-
1,040-1,050	1	-

## Use of company information

During the year the board received no notices from directors of the company requesting to use company information received in their capacity as directors which would not otherwise have been available to them.

## Auditors

The Auditor-General is appointed as auditor under Section 14 of the Public Audit Act 2001 and Section 70 of the Local Government Act 2002. Audit New Zealand has been appointed to provide these services.



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# REPORT OF THE AUDITOR-GENERAL

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## **Independent Auditor's Report**

**AUDIT NEW ZEALAND**

Mana Arotake Aotearoa

### **To the readers of Christchurch City Holdings Limited and group's financial statements and statement of service performance for the year ended 30 June 2013**

The AuditorGeneral is the auditor of Christchurch City Holdings Limited (the company) and group. The AuditorGeneral has appointed me, Julian Tan, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and statement of service performance of the company and group on her behalf.

We have audited:

- the financial statements of the company and group on pages 2 to 67, that comprise the balance sheet as at 30 June 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the statement of service performance of the company and group on pages 52 to 56.

### **Opinion on the financial statements and statement of service performance**

In our opinion:

- the financial statements of the company and group on pages 2 to 67:
- comply with generally accepted accounting practice in New Zealand;
  - give a true and fair view of the company and group's:
    - financial position as at 30 June 2013; and
    - financial performance and cash flows for the year ended on that date; and
- the statement of service performance of the company and group on pages 52 to 56:
  - complies with generally accepted accounting practice in New Zealand; and
  - gives a true and fair view of the company and group's service performance achievements measured against the performance targets adopted for the year ended 30 June 2013.

### **Other legal requirements**

In accordance with the Financial Reporting Act 1993 we report that, in our opinion, proper accounting records have been kept by the company and group as far as appears from an examination of those records.

Our audit was completed on 18 September 2013. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities, and explain our independence.

### **Basis of opinion**

We carried out our audit in accordance with the AuditorGeneral's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and statement of service performance are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements and statement of service performance. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and statement of service performance. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and statement of service performance whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the company and group's financial statements and statement of service performance that give a true and fair view of the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the company and group's internal control.

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# REPORT OF THE AUDITOR-GENERAL Continued

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An audit also involves evaluating:

the appropriateness of accounting policies used and whether they have been consistently applied;  
the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;  
the adequacy of all disclosures in the financial statements and statement of service performance; and  
the overall presentation of the financial statements and statement of service performance.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and statement of service performance. Also we did not evaluate the security and controls over the electronic publication of the financial statements and statement of service performance.

In accordance with the Financial Reporting Act 1993, we report that we have obtained all the information and explanations we have required. We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

## **Responsibilities of the Board of Directors**

The Board of Directors is responsible for preparing financial statements and a statement of service performance that:  
comply with generally accepted accounting practice in New Zealand;  
give a true and fair view of the company and group's financial position, financial performance and cash flows; and  
give a true and fair view of the company and group's service performance.

The Board of Directors is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements and a statement of service performance that are free from material misstatement, whether due to fraud or error. The Board of Directors is also responsible for the publication of the financial statements and statement of service performance, whether in printed or electronic form.

The Board of Directors' responsibilities arise from the Local Government Act 2002 and the Financial Reporting Act 1993.

## **Responsibilities of the Auditor**

We are responsible for expressing an independent opinion on the financial statements and the statement of service performance and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and section 69 of the Local Government Act 2002.

## **Independence**

When carrying out the audit, we followed the independence requirements of the AuditorGeneral, which incorporate the independence requirements of the External Reporting Board.

In addition to the audit, we carried out other audit and assurance engagements for subsidiary companies in compliance with regulatory requirements. These audit and assurance engagements, as described in note 10 on page 9, are compatible with those independence requirements.

Other than the audit and these other audit and assurance engagements, we have no relationship with or interests in the company or any of its subsidiaries.



Julian Tan  
Audit New Zealand  
On behalf of the AuditorGeneral  
Christchurch, New Zealand

# DIRECTORY

## Registered Office

53 Hereford Street  
Christchurch

## Directors

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

## Management Team

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

## Bankers

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

## Auditors

Audit New Zealand,  
on behalf of the  
Auditor-General  
Christchurch

**Photography on front, inside front and back covers, provided courtesy of Richard Simmonds, Chief Financial Officer of CCHL. ([www.rsphotos.co.nz](http://www.rsphotos.co.nz))**



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Christchurch City Holdings

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