

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

cchl
Christchurch City Holdings

ANNUAL REPORT 2012

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



The directors are pleased to present
the audited financial statements of
Christchurch City Holdings Limited
for the year ended 30 June 2012



Bruce Irvine

Chairman

Christchurch

19 September 2012



Sarah Smith

Director

Christchurch

19 September 2012

OUR PROGRESS: THE FIGURES



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STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2012

| | Note | Group 2012 \$'000 | Group 2011 \$'000 | Parent 2012 \$'000 | Parent 2011 \$'000 |
|---|------|----------------------|----------------------|-----------------------|-----------------------|
| Operating and other revenue | 2 | 893,679 | 745,530 | 54,744 | 42,637 |
| Finance income | 3 | 4,308 | 3,437 | 7,143 | 6,387 |
| Other gains | 4 | 5,431 | 984 | – | 616 |
| Total income | | 903,418 | 749,951 | 61,887 | 49,640 |
| Depreciation, amortisation and impairment | 5 | 83,727 | 116,838 | – | – |
| Finance costs | 6 | 35,261 | 27,395 | 15,547 | 15,724 |
| Personnel costs | 7 | 190,795 | 168,821 | 552 | 542 |
| Other expenses | 8 | 462,278 | 323,016 | 1,062 | 1,188 |
| Other losses | 4 | 2,789 | 6,891 | – | – |
| Total operating expenses | | 774,850 | 642,961 | 17,161 | 17,454 |
| Share of (losses)/profits of associates | 21 | (920) | 1,841 | – | – |
| Profit before income tax expense | | 127,648 | 108,831 | 44,726 | 32,186 |
| Income tax expense | 11 | 30,367 | 31,499 | – | 91 |
| Profit for the year | | 97,281 | 77,332 | 44,726 | 32,095 |
| Other comprehensive income | | | | | |
| Revaluation of assets | | 29,322 | (118,651) | – | – |
| Gains/losses from: | | | | | |
| Fair value through equity financial assets | | – | – | 85,658 | 30,930 |
| Cash flow hedges | | (14,854) | (3,258) | (5,427) | (1,663) |
| Translation of foreign operations | | – | – | – | – |
| Share of other comprehensive income of associates | | 71 | (760) | – | – |
| Income tax relating to components of other comprehensive income | | (3,928) | 38,478 | – | – |
| Other comprehensive income for the year, net of tax | | 10,611 | (84,191) | 80,231 | 29,267 |
| Total comprehensive income for the year, net of tax | | 107,892 | (6,859) | 124,957 | 61,362 |
| Profit for the year attributable to: | | | | | |
| Owners of the parent | 36 | 83,023 | 63,773 | 44,726 | 32,095 |
| Non-controlling interest | | 14,258 | 13,559 | – | – |
| | | 97,281 | 77,332 | 44,726 | 32,095 |
| Total comprehensive income attributable to: | | | | | |
| Owners of the parent | | 90,078 | (14,444) | 124,957 | 61,362 |
| Non-controlling interest | 37 | 17,814 | 7,585 | – | – |
| | | 107,892 | (6,859) | 124,957 | 61,362 |

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

BALANCE SHEET

As at 30 June 2012

| | Note | Group 2012 \$'000 | Group 2011 \$'000 | Parent 2012 \$'000 | Parent 2011 \$'000 |
|--|-------|----------------------|----------------------|-----------------------|-----------------------|
| Current assets | | | | | |
| Cash and cash equivalents | 12 | 5,442 | 16,868 | 13,110 | 6,474 |
| Debtors and other receivables | 13(a) | 132,497 | 95,532 | 1,231 | 11,761 |
| Derivative financial instruments | 15(a) | 252 | 39 | – | – |
| Other financial assets | 16(a) | 3,071 | 54 | 5,000 | – |
| Prepayments | | 7,047 | 5,385 | 96 | 68 |
| Inventories | 18 | 17,205 | 13,053 | – | – |
| Non-current assets classified as held for sale | 19 | – | 27,572 | – | – |
| Other | 20(a) | 24 | 132 | – | – |
| Total current assets | | 165,538 | 158,635 | 19,437 | 18,303 |
| Non-current assets | | | | | |
| Debtors and other receivables | 13(b) | 25 | 47 | – | – |
| Investments in associates | 21 | 50,821 | 19,550 | 16,144 | 16,144 |
| Other financial assets | 16(b) | 26,592 | 40,788 | 1,677,602 | 1,595,336 |
| Prepayments | | 9,128 | 9,277 | – | – |
| Property, plant and equipment | 23 | 2,013,491 | 1,934,586 | – | – |
| Investment property | 24 | 136,895 | 96,207 | – | – |
| Intangible assets | 25 | 12,321 | 10,244 | – | – |
| Deferred tax assets | 11(f) | 18,919 | 12,806 | – | – |
| Goodwill | 26 | 38,902 | 38,711 | – | – |
| Other | 20(b) | 24 | 48 | – | – |
| Total non-current assets | | 2,307,118 | 2,162,264 | 1,693,746 | 1,611,480 |
| Total assets | | 2,472,656 | 2,320,899 | 1,713,183 | 1,629,783 |
| Current liabilities | | | | | |
| Creditors and other payables | 27 | 71,031 | 102,274 | 1,460 | 19,108 |
| Borrowings | 28(a) | 170,430 | 141,378 | 102,000 | 91,000 |
| Derivative financial instruments | 15(c) | 1,384 | 1,557 | – | 416 |
| Employee entitlements | 30(a) | 25,108 | 22,998 | 61 | 39 |
| Current tax liabilities | 11(c) | 3,992 | 4,502 | 91 | – |
| Provisions | 31(a) | – | 296 | – | – |
| Other | 32(a) | 1,685 | 1,658 | – | – |
| Total current liabilities | | 273,630 | 274,663 | 103,612 | 110,563 |
| Non-current liabilities | | | | | |
| Borrowings | 28(b) | 496,228 | 442,487 | 200,000 | 205,000 |
| Derivative financial instruments | 15(d) | 38,582 | 22,098 | 11,970 | 6,127 |
| Employee entitlements | 30(b) | 1,561 | 1,251 | – | – |
| Deferred tax liabilities | 11(f) | 284,833 | 264,428 | – | – |
| Provisions | 31(b) | – | 74 | – | – |
| Other | 32(b) | 5,161 | 7,081 | – | – |
| Total non-current liabilities | | 826,365 | 737,419 | 211,970 | 211,127 |
| Total liabilities | | 1,099,995 | 1,012,082 | 315,582 | 321,690 |
| Net assets | | 1,372,661 | 1,308,817 | 1,397,601 | 1,308,093 |
| Equity | | | | | |
| Capital and other equity instruments | 33 | 71,435 | 71,435 | 71,435 | 71,435 |
| Reserves | 35 | 281,112 | 274,124 | 1,037,890 | 957,659 |
| Retained earnings | 36 | 763,549 | 716,040 | 288,276 | 278,999 |
| Parent entity interests | | 1,116,096 | 1,061,599 | 1,397,601 | 1,308,093 |
| Non-controlling interests | 37 | 256,565 | 247,218 | – | – |
| Total equity | | 1,372,661 | 1,308,817 | 1,397,601 | 1,308,093 |

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 2012

| Group | Note | Share | Asset | Hedging | Retained | Attributable | Non- | Total |
|---|------|---------|-------------|----------|----------|--------------|-------------|-----------|
| | | capital | revaluation | reserve | earnings | to equity | controlling | |
| | | 33 | 35 | 35 | 36 | holders of | interests | |
| | | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Balance as at 1 July 2010 | | 71,435 | 364,897 | (11,937) | 695,252 | 1,119,647 | 246,889 | 1,366,536 |
| Profit for year | | – | – | – | 63,773 | 63,773 | 13,559 | 77,332 |
| Other comprehensive income for year (net of tax) | | – | (76,540) | (2,296) | 619 | (78,217) | (5,974) | (84,191) |
| Transfers | | – | – | – | – | – | – | – |
| Dividends paid or provided for | 34 | – | – | – | (43,325) | (43,325) | (6,782) | (50,107) |
| Adjustment to non-controlling interests for share acquisitions | | – | – | – | (279) | (279) | (474) | (753) |
| Balance as at 30 June 2011 | | 71,435 | 288,357 | (14,233) | 716,040 | 1,061,599 | 247,218 | 1,308,817 |
| Profit for year | | – | – | – | 83,023 | 83,023 | 14,258 | 97,281 |
| Other comprehensive income for year (net of tax) | | – | 15,855 | (8,959) | 159 | 7,055 | 3,556 | 10,611 |
| Transfers | | – | 92 | – | (92) | – | – | – |
| Dividends paid or provided for | 34 | – | – | – | (35,449) | (35,449) | (7,940) | (43,389) |
| Adjustment to non-controlling interests for share acquisitions | | – | – | – | (132) | (132) | (527) | (659) |
| Balance as at 30 June 2012 | | 71,435 | 304,304 | (23,192) | 763,549 | 1,116,096 | 256,565 | 1,372,661 |

| Parent | Note | Share | Fair value | Hedging | Retained | Total |
|---|------|---------|------------|----------|----------|-----------|
| | | capital | through | reserve | earnings | |
| | | 33 | equity | 35 | 36 | |
| | | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Balance as at 1 July 2010 | | 71,435 | 933,988 | (5,596) | 290,229 | 1,290,056 |
| Profit for year | | – | – | – | 32,095 | 32,095 |
| Other comprehensive income for year (net of tax) | | – | 30,930 | (1,663) | – | 29,267 |
| Dividends paid or provided for | 34 | – | – | – | (43,325) | (43,325) |
| Balance as at 30 June 2011 | | 71,435 | 964,918 | (7,259) | 278,999 | 1,308,093 |
| Profit for year | | – | – | – | 44,726 | 44,726 |
| Other comprehensive income for year (net of tax) | | – | 85,658 | (5,427) | – | 80,231 |
| Dividends paid or provided for | 34 | – | – | – | (35,449) | (35,449) |
| Balance as at 30 June 2012 | | 71,435 | 1,050,576 | (12,686) | 288,276 | 1,397,601 |

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 2012

| | Note | Group 2012 \$'000 | Group 2011 \$'000 | Parent 2012 \$'000 | Parent 2011 \$'000 |
|--|------|----------------------|----------------------|-----------------------|-----------------------|
| Cash flows from operating activities | | | | | |
| Receipts from customers and other sources | | 844,752 | 649,790 | 102 | 7 |
| Interest received | | 4,655 | 3,400 | 7,162 | 6,402 |
| Dividends received | | – | – | 65,455 | 31,923 |
| Insurance proceeds net of earthquake-related costs | | – | (10,375) | – | – |
| Payments to suppliers and employees | | (683,995) | (451,600) | (1,742) | (1,643) |
| Interest and other finance costs paid | | (35,750) | (27,010) | (15,958) | (15,726) |
| Income tax paid | | (8,599) | (25,628) | – | (100) |
| Subvention payments | | (12,176) | (8,615) | – | – |
| Net cash provided by/(used in) operating activities | 38 | 108,887 | 129,962 | 55,019 | 20,863 |
| Cash flows from investing activities | | | | | |
| Proceeds from sale of investment securities | | 10 | 437 | – | – |
| Proceeds from return of capital of associated company | | – | 10,268 | – | 10,268 |
| Payment for equity investment in subsidiaries/associates | | (2,300) | – | (659) | (12,927) |
| Proceeds from repayment of related party loans | | 12,550 | 2,663 | 13,550 | 3,663 |
| Amounts advanced to related parties | | – | – | (14,500) | (18,000) |
| Payment for property, plant and equipment | | (146,278) | (176,837) | – | – |
| Proceeds from sale of property, plant and equipment | | 872 | 9,003 | – | – |
| Proceeds from insurance | | 17,200 | 35,540 | – | – |
| Payment for goodwill | | (3,391) | (11,741) | – | – |
| Payment for intangible assets | | (3,473) | (4,524) | – | – |
| Payment for investment properties | | (14,025) | (8,834) | – | – |
| Proceeds from sale of investment properties | | – | 248 | – | – |
| Cash acquired in business combinations | | – | 881 | – | – |
| Payment for investment in term deposits | | (3,000) | – | – | – |
| Net cash (used in)/provided by investing activities | | (141,835) | (142,896) | (1,609) | (16,996) |
| Cash flows from financing activities | | | | | |
| Proceeds from borrowing | | 86,614 | 156,050 | 6,000 | 45,000 |
| Repayment of borrowings | | (4,080) | (94,160) | – | (30,000) |
| Repayment of finance leases | | (298) | (389) | – | – |
| Dividends paid | | (52,774) | (26,000) | (52,774) | (26,000) |
| Dividends paid – non-controlling interests | | (7,940) | (6,782) | – | – |
| Net cash provided by/(used in) financing activities | | 21,522 | 28,719 | (46,774) | (11,000) |
| Net decrease in cash and cash equivalents | | (11,426) | 15,785 | 6,636 | (7,133) |
| Cash and cash equivalents at beginning of year | | 16,868 | 1,083 | 6,474 | 13,607 |
| Cash and cash equivalents at end of year | 12 | 5,442 | 16,868 | 13,110 | 6,474 |

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

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 some of the subsidiary companies have had to determine the carrying value of earthquake insurance proceeds receivable. This involves a significant degree of judgement, and has a material impact on the reported result for the year. Further information is provided in Note 42.
- 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 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.
- Management of some of the subsidiary companies have estimated, for tax purposes, the depreciation recovered on the disposal of assets arising from the receipt of insurance proceeds. For income tax purposes, this depreciation recovered may be deferred for offset against the acquisition cost of new replacement assets and this creates a deferred tax liability. Detailed analysis is required to allocate the relevant insurance proceeds against the relevant tax assets, and the final depreciation recovered calculated may differ from the original estimates in these financial statements.

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 up to and including 31 March 2012 on the future cash flows of the business. These estimates contain some uncertainty as the company is still assessing the impacts and not all data is to hand. These estimates have been relied upon in the 31 March 2012 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.
- Christchurch International Airport Ltd has had to estimate whether there has been any impairment of the ongoing value of capitalised expenditure on the integrated terminal project, due to the continuous development of the design. This assessment is subject to review by quantity surveyors and project managers.
- 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. Earthquake damage has further increased the significance of these areas of estimation uncertainty.
- 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.
- EcoCentral Ltd determines 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.

- 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 2012 \$'000 | Group 2011 \$'000 | Parent 2012 \$'000 | Parent 2011 \$'000 |
|--|-------------------------|-------------------------|--------------------------|--------------------------|
| 2. Operating and other revenue | | | | |
| Sale of goods | 32,701 | 18,652 | – | – |
| Rendering of services | 611,864 | 573,690 | 2 | 1 |
| Construction contract revenue | 121,336 | 31,296 | – | – |
| Donated and subsidised assets | 4,188 | 3,829 | – | – |
| Capital contributions | 4,099 | 2,808 | – | – |
| Electricity transmission rental rebates | 5,605 | 5,015 | – | – |
| Rental income from investment properties | 9,149 | 7,501 | – | – |
| Other rental revenue | 54,202 | 45,428 | – | – |
| Dividends from subsidiaries | – | – | 54,742 | 42,636 |
| Insurance receipts | 43,664 | 53,149 | – | – |
| Other | 6,871 | 4,162 | – | – |
| | 893,679 | 745,530 | 54,744 | 42,637 |

3. Finance income

| | | | | |
|---------------------------------------|-------|-------|-------|-------|
| Interest income – bank deposits | 780 | 680 | 253 | 258 |
| Interest income – related party loans | 2,616 | 2,697 | 6,890 | 6,129 |
| Interest income – finance lease | 6 | 8 | – | – |
| Interest income – other | 906 | 52 | – | – |
| | 4,308 | 3,437 | 7,143 | 6,387 |

4. Other gains and losses

Other gains

Non-financial instruments

| | | | | |
|--|-------|-----|---|---|
| Gains on disposal of property, plant and equipment | – | 61 | – | – |
| Gains on disposal of investments | 10 | 307 | – | – |
| Gains on revaluation of investment property | 5,421 | – | – | – |
| | 5,431 | 368 | – | – |

Financial instruments

| | | | | |
|---------------------------------|-------|-----|---|-----|
| Cash flow hedge ineffectiveness | – | 616 | – | 616 |
| Other gains | 5,431 | 984 | – | 616 |

Other losses

Non-financial instruments

| | | | | |
|---|-------|-------|---|---|
| Losses on disposal of property, plant and equipment | 153 | – | – | – |
| Losses on assets written off | 1,340 | 4,573 | – | – |
| Losses on revaluation of investment property | – | 1,086 | – | – |
| | 1,493 | 5,659 | – | – |

Financial instruments

| | | | | |
|---|-------|-------|---|---|
| Ineffectiveness on fair value hedges – loss | 1,222 | 1,195 | – | – |
| Fair value through profit or loss financial assets fair value change | 74 | 37 | – | – |
| | 1,296 | 1,232 | – | – |
| Other losses | 2,789 | 6,891 | – | – |

NOTES TO THE FINANCIAL STATEMENTS Contd.

| | Note | Group 2012 \$'000 | Group 2011 \$'000 | Parent 2012 \$'000 | Parent 2011 \$'000 |
|---|------|-------------------------|-------------------------|--------------------------|--------------------------|
| 5. Depreciation, amortisation and impairment | | | | | |
| Depreciation of non-current assets | 23 | 78,448 | 74,661 | – | – |
| Amortisation of intangible assets | 25 | 3,030 | 2,956 | – | – |
| Impairment of property, plant & equipment | 23 | 65 | 35,424 | – | – |
| Impairment of goodwill | 26 | 3,200 | 2,066 | – | – |
| Impairment of other assets | | 1,224 | 1,731 | – | – |
| Reversals of impairment losses on revaluation of property, plant and equipment | | (2,240) | – | – | – |
| | | 83,727 | 118,838 | – | – |

The impairment expense in the 2011 year in relation to property, plant and equipment largely resulted from earthquake damage. Further information is provided in Note 42.

6. Finance costs

Interest expense

| | | | | |
|------------------------------|--------|--------|--------|--------|
| Interest on bank borrowings | 22,120 | 14,115 | 2,833 | 2,903 |
| Interest on debt instruments | 12,678 | 12,821 | 12,678 | 12,821 |
| Interest on finance leases | 435 | 459 | – | – |
| Other interest | 28 | – | 36 | – |
| | 35,261 | 27,395 | 15,547 | 15,724 |

Interest capitalised

| | | | | |
|-----------------------------|-------|-------|---|---|
| Property, plant & equipment | 3,932 | 9,056 | – | – |
| Intangible assets | 1 | – | – | – |
| | 3,933 | 9,056 | – | – |

7. Personnel costs

| | | | | |
|--|---------|---------|-----|-----|
| Salaries and wages | 185,614 | 164,218 | 552 | 542 |
| Defined contribution plan employer contributions | 2,108 | 1,845 | – | – |
| Defined benefit plan employer contributions | 344 | 297 | – | – |
| Other | 2,729 | 2,461 | – | – |
| | 190,795 | 168,821 | 552 | 542 |

8. Other expenses

| | | | | | |
|---|----|---------|---------|-------|-------|
| Audit fees | 10 | 792 | 697 | 45 | 43 |
| Directors' fees | | 1,956 | 1,712 | 332 | 310 |
| Donations | | 62 | 156 | 3 | 100 |
| Net foreign exchange losses | | 85 | 14 | – | – |
| Provision expenses | | (74) | 84 | – | – |
| Minimum lease payments under operating leases | | 7,734 | 5,422 | – | – |
| Orion network maintenance and transmission expenses | | 70,554 | 66,680 | – | – |
| Raw materials and consumables used | | 43,678 | 39,914 | – | – |
| Other operating expenses | | 337,491 | 208,337 | 682 | 735 |
| | | 462,278 | 323,016 | 1,062 | 1,188 |

| | Note | Group 2012 \$'000 | Group 2011 \$'000 | Parent 2012 \$'000 | Parent 2011 \$'000 |
|---|------|-------------------------|-------------------------|--------------------------|--------------------------|
| 9. Key management personnel compensation | | | | | |
| Short term benefits | | 598 | 542 | 598 | 542 |
| Other benefits | | – | – | – | – |
| | | 598 | 542 | 598 | 542 |

10. Remuneration of auditors

Audit New Zealand

| | | | | |
|---------------------------------------|-----|-----|----|----|
| Audit of the financial statements | 612 | 550 | 45 | 43 |
| Special audits required by regulators | 56 | 57 | – | – |
| | 668 | 607 | 45 | 43 |

Other auditor – KPMG

| | | | | |
|-----------------------------------|-----|----|---|---|
| Audit of the financial statements | 109 | 90 | – | – |
| Internal control review | 15 | – | – | – |
| | 124 | 90 | – | – |

| | | | | | |
|-------|---|-----|-----|----|----|
| Total | 8 | 792 | 697 | 45 | 43 |
|-------|---|-----|-----|----|----|

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-related assurance services principally comprised reviews of regulatory disclosures by Orion New Zealand Ltd and Christchurch International Airport Ltd, and an internal control review for Lyttelton Port Company Ltd.

11. Income taxes

11(a) Components of tax expense

| | | | | |
|---|--------|--------|---|----|
| Current tax expense | 20,411 | 31,049 | – | 91 |
| Adjustments to current tax of prior years | (478) | 69 | – | – |
| Deferred tax expense | 10,398 | 315 | – | – |
| Deferred tax expense relating to use of prior year losses | 240 | 33 | – | – |
| Impairment of deferred tax asset | – | – | – | – |
| Deferred tax income from change in tax rates/other | (204) | 33 | – | – |
| Total tax expense | 30,367 | 31,499 | – | 91 |

NOTES TO THE FINANCIAL STATEMENTS Contd.

| Note | Group 2012 \$'000 | Group 2011 \$'000 | Parent 2012 \$'000 | Parent 2011 \$'000 |
|--|-------------------------|-------------------------|--------------------------|--------------------------|
| 11. Income taxes contd. | | | | |
| 11(b) Reconciliation of prima facie income tax: | | | | |
| Profit before tax | 127,648 | 108,831 | 44,726 | 32,186 |
| Income tax expense calculated at standard tax rate | 35,741 | 32,649 | 12,523 | 9,656 |
| Non-deductible expenses | 1,925 | 668 | – | 9 |
| Non-assessable income and deductible items | (4,953) | (2,876) | (15,597) | (9,574) |
| <i>Effect on deferred tax balances of:</i> | | | | |
| Change in tax rate | (212) | 33 | – | – |
| Removal of building depreciation | 40 | 848 | – | – |
| Assets no longer depreciable | (1,835) | – | – | – |
| Tax loss not recognised as deferred tax asset | – | 74 | 3,074 | – |
| Previously unrecognised and unused tax losses now recognised as deferred tax assets | – | 33 | – | – |
| (Over)/under provision of income tax in previous year | (339) | 70 | – | – |
| | 30,367 | 31,499 | – | 91 |

The tax rate used in the above reconciliation is the corporate tax rate of 28% (2011: 30%) 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 \$11.0m will be transferred to other entities within the Christchurch City council group.

11(c) Current tax payables

| | | | | |
|--------------------|-------|-------|----|---|
| Income tax payable | 3,992 | 4,502 | 91 | – |
|--------------------|-------|-------|----|---|

11(d) Unrecognised tax losses

The following tax losses have not been brought to account as assets:

| | | | | |
|------------|-----|-----|---|---|
| Tax losses | 148 | 266 | – | – |
| Tax effect | 41 | 74 | – | – |

11(e) Imputation credit account balances

| | | | | |
|--|--|--|----------|----------|
| Balance at beginning of year | | | 11,452 | 14,143 |
| Attached to dividends received | | | 22,751 | 10,923 |
| Attached to dividends paid | | | (20,523) | (11,143) |
| Other | | | – | 100 |
| | | | 13,680 | 14,023 |
| Attached to accrued dividends | | | 2,571 | (2,571) |
| Balance at end of year | | | 16,251 | 11,452 |
| Available to shareholders of CCHL | | | | |
| Through direct shareholding in the company | | | 16,251 | 11,452 |
| Indirectly through interests in subsidiaries | | | 25,938 | 33,225 |
| | | | 42,189 | 44,677 |
| Imputation credits available for use in subsequent reporting periods | | | 42,189 | 44,677 |

11. Income taxes contd.

Taxable and deductible temporary differences arise from the following:

11(f)

| Group 30 June 2012 | Opening balance \$'000 | Recognised in: | | Closing balance \$'000 |
|--------------------------------------|------------------------------|-----------------------|--|------------------------------|
| | | Profit/loss \$'000 | Other comprehensive income \$'000 | |
| Deferred tax liabilities: | | | | |
| Cash flow hedges | – | – | – | – |
| Property, plant and equipment | 254,949 | 5,549 | 8,104 | 268,602 |
| Intangible assets | 740 | (36) | – | 704 |
| Other | 8,739 | 6,788 | – | 15,527 |
| | 264,428 | 12,301 | 8,104 | 284,833 |
| Deferred tax assets: | | | | |
| 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 |
| Group 30 June 2011 | | | | |
| Deferred tax liabilities: | | | | |
| Cash flow hedges | – | – | – | – |
| Property, plant and equipment | 294,330 | (1,541) | (37,840) | 254,949 |
| Intangible assets | 592 | 148 | – | 740 |
| Other | 5,951 | 2,788 | – | 8,739 |
| | 300,873 | 1,395 | (37,840) | 264,428 |
| Deferred tax assets: | | | | |
| Cash flow hedges | 5,571 | 19 | 835 | 6,425 |
| Fair value hedges | 49 | 214 | (77) | 186 |
| Provisions and employee entitlements | 4,823 | 77 | – | 4,900 |
| Doubtful debts and impairment losses | 160 | (98) | – | 62 |
| Tax losses | 189 | 706 | – | 895 |
| Other | 362 | 96 | (120) | 338 |
| | 11,154 | 1,014 | 638 | 12,806 |
| Net deferred tax liability/(asset) | 289,719 | 381 | (38,478) | 251,622 |

Parent company

A deferred tax asset has not been recognised in the parent company for temporary differences of \$12.0m (tax effect \$3.4m) (2011: temporary differences of \$6.4m (tax effect \$1.8m). 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.

NOTES TO THE FINANCIAL STATEMENTS Contd.

| | Note | Group 2012 \$'000 | Group 2011 \$'000 | Parent 2012 \$'000 | Parent 2011 \$'000 |
|--|-------|-------------------------|-------------------------|--------------------------|--------------------------|
| 12. Cash and cash equivalents | | | | | |
| Cash and cash equivalents denominated in: | | | | | |
| New Zealand dollars | | 5,441 | 16,863 | 13,110 | 6,474 |
| American dollars | | – | 3 | – | – |
| Euros | | 1 | 2 | – | – |
| | | 5,442 | 16,868 | 13,110 | 6,474 |
| 13. Debtors and other receivables | | | | | |
| 13(a) Current asset portion | | | | | |
| Trade receivables (before impairment) | 13(c) | 62,530 | 66,185 | – | – |
| Chargeable work in progress | | 28,703 | 13,167 | – | – |
| Interest receivable | | 306 | 352 | 816 | 872 |
| Contract retentions | | 753 | 771 | – | – |
| Finance lease receivable | | 22 | 20 | – | – |
| Dividends receivable | | – | – | – | 10,713 |
| GST receivable | | – | – | 7 | 27 |
| Insurance receivables | | 40,132 | 15,560 | – | – |
| Other | | 523 | 140 | 408 | 149 |
| | | 132,969 | 96,195 | 1,231 | 11,761 |
| Provision for impairment – trade receivables | | (472) | (663) | – | – |
| | | 132,497 | 95,532 | 1,231 | 11,761 |
| 13(b) Non-current asset portion | | | | | |
| Finance lease receivable | | 25 | 47 | – | – |
| | | 25 | 47 | – | – |
| Provision for impairment | | – | – | – | – |
| | | 25 | 47 | – | – |
| Total debtors and other receivables | | 132,522 | 95,579 | 1,231 | 11,761 |

Included in trade receivables are amounts due from the ultimate shareholder, Christchurch City Council, and from subsidiaries, as disclosed in Note 43.

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 | 49,481 | 53,007 | – | – |
| Past due 0-30 days | 8,129 | 7,190 | – | – |
| Past due 31-60 days | 2,192 | 3,274 | – | – |
| Past due more than 60 days | 2,728 | 2,714 | – | – |

13(a)

Impairment

| | | | | |
|----------------------------|-------|-------|---|---|
| Not past due | – | – | – | – |
| Past due 0-30 days | – | – | – | – |
| Past due 31-60 days | – | (80) | – | – |
| Past due more than 60 days | (472) | (583) | – | – |
| | (472) | (663) | – | – |

Gross trade receivables

Individual impairment

Collective impairment

Trade receivables (net)

13(d)

| | | | | |
|--|--------|--------|---|---|
| | 62,530 | 66,185 | – | – |
| | (472) | (663) | – | – |
| | – | – | – | – |
| | 62,058 | 65,522 | – | – |

| | Note | Group 2012 \$'000 | Group 2011 \$'000 | Parent 2012 \$'000 | Parent 2011 \$'000 |
|---|-------|-------------------------|-------------------------|--------------------------|--------------------------|
| 13. Debtors and other receivables contd. | | | | | |
| 13(d) Movements in provision for impairment of receivables | | | | | |
| Balance at start of year | | 663 | 379 | – | – |
| Additions from business combinations | | 89 | 261 | – | – |
| Provisions made during year | | 91 | 333 | – | – |
| Provisions reversed during year | | (283) | (40) | – | – |
| Receivables written off during year | | (88) | (270) | – | – |
| Balance at end of year | 13(c) | 472 | 663 | – | – |

14. Finance lease receivables

| | | | | |
|--|-----|------|---|---|
| No later than one year | 26 | 26 | – | – |
| Later than one year and not later than five years | 26 | 52 | – | – |
| Later than five years | – | – | – | – |
| Minimum lease payments | 52 | 78 | – | – |
| Less future finance charges | (5) | (11) | – | – |
| Present value of minimum lease payments | 47 | 67 | – | – |
| Present value of future minimum lease receivables | | | | |
| No later than one year | 22 | 20 | – | – |
| Later than one year and not later than five years | 25 | 47 | – | – |
| Later than five years | – | – | – | – |
| | 47 | 67 | – | – |
| Represented by | | | | |
| Current portion | 22 | 20 | – | – |
| Non-current portion | 25 | 47 | – | – |
| | 47 | 67 | – | – |

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

| | | | | |
|---|-----|----|---|---|
| Interest rate swaps – fair value hedges | – | – | – | – |
| Forward foreign exchange contracts | | | | |
| – fair value hedges | 252 | 39 | – | – |
| | 252 | 39 | – | – |

15(b) Non-current asset portion

| | | | | |
|--|-----|----|---|---|
| Interest rate swaps – fair value hedges | – | – | – | – |
| Interest rate swaps – cash flow hedges | – | – | – | – |
| | – | – | – | – |
| Total derivative financial instrument assets | 252 | 39 | – | – |

NOTES TO THE FINANCIAL STATEMENTS Contd.

| Note | Group 2012 \$'000 | Group 2011 \$'000 | Parent 2012 \$'000 | Parent 2011 \$'000 |
|--|-------------------------|-------------------------|--------------------------|--------------------------|
| 15. Derivative financial instruments contd. | | | | |
| 15(c) Current liability portion | | | | |
| Interest rate swaps – fair value hedges | 151 | – | – | – |
| Interest rate swaps – cash flow hedges | 928 | 1,557 | – | 416 |
| Forward foreign exchange contracts – cash flow hedges | 305 | – | – | – |
| | 1,384 | 1,557 | – | 416 |
| 15(d) Non-current liability portion | | | | |
| Interest rate swaps – fair value hedges | 2,283 | 1,212 | – | – |
| Interest rate swaps – cash flow hedges | 36,299 | 20,886 | 11,970 | 6,127 |
| | 38,582 | 22,098 | 11,970 | 6,127 |
| Total derivative financial instrument liabilities | 39,966 | 23,655 | 11,970 | 6,543 |

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.

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:

| | Average contracted fixed interest rate | | Notional principal amount | | Fair value | |
|-------------------------------------|---|-------|------------------------------|---------|------------|----------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| | | | \$'000 | \$'000 | \$'000 | \$'000 |
| Group | | | | | | |
| Floating for fixed contracts | | | | | | |
| Less than 1 year | 4.84% | 5.49% | 34,000 | 58,000 | (1,079) | (1,559) |
| 1 to 2 years | 5.01% | 4.02% | 39,000 | 24,000 | (1,256) | (862) |
| 2 to 5 years | 5.21% | 5.09% | 215,000 | 201,000 | (12,855) | (9,508) |
| More than 5 years | 5.70% | 5.95% | 214,000 | 167,000 | (24,471) | (11,726) |
| | | | 502,000 | 450,000 | (39,661) | (23,655) |
| Parent | | | | | | |
| Floating for fixed contracts | | | | | | |
| Less than 1 year | – | 7.29% | – | 30,000 | – | (416) |
| 1 to 2 years | 3.83% | – | 9,000 | – | (199) | – |
| 2 to 5 years | 4.96% | 4.41% | 60,000 | 39,000 | (1,883) | (891) |
| More than 5 years | 5.59% | 6.31% | 100,000 | 50,000 | (9,888) | (5,236) |
| | | | 169,000 | 119,000 | (11,970) | (6,543) |

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 41.

| | Note | Group 2012 \$'000 | Group 2011 \$'000 | Parent 2012 \$'000 | Parent 2011 \$'000 |
|--|-------|-------------------------|-------------------------|--------------------------|--------------------------|
| 16. Other financial assets | | | | | |
| 16(a) Current portion | | | | | |
| Advances to Red Bus Ltd | | – | – | 5,000 | – |
| Other advances | | 57 | 54 | – | – |
| Term deposits | | 3,014 | – | – | – |
| Total current financial assets | | 3,071 | 54 | 5,000 | – |
| 16(b) Non-current portion | | | | | |
| Interest-bearing loans advanced to: | | | | | |
| Christchurch International Airport Ltd | (ii) | – | – | 50,000 | 50,000 |
| Enable Services Ltd | (iii) | – | – | 19,500 | 6,000 |
| Red Bus Ltd | (iv) | – | – | – | 5,000 |
| EcoCentral Ltd | (v) | – | – | 14,000 | 14,000 |
| Total advances to subsidiaries | | – | – | 83,500 | 75,000 |
| Advances to Christchurch City Council | (i) | 25,981 | 38,531 | 25,981 | 38,531 |
| Total advances to related parties | | 25,981 | 38,531 | 109,481 | 113,531 |
| Other advances | | 566 | 994 | – | – |
| Total non-current loans and advances | | 26,547 | 39,525 | 109,481 | 113,531 |
| Investment in Enertech Capital Partners 11 LP | | 45 | 1,263 | – | – |
| Shares held by CCHL in subsidiary companies | (vi) | – | – | 1,568,121 | 1,481,805 |
| Total non-current financial assets | | 26,592 | 40,788 | 1,677,602 | 1,595,336 |
| Total other financial assets (current and non-current) | | 29,663 | 40,842 | 1,682,602 | 1,595,336 |

(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. On 29 June 2012, the Council repaid \$12.55m to CCHL following the sale by Vbase Ltd, a wholly-owned subsidiary of the Council, of its 100% shareholding in Jet Engine Facility Ltd to the Christchurch Engine Centre (pursuant to this sale, Jet Engine Facility Ltd repaid a loan of \$12.55m to the Council). A further \$11.45m will be repaid by the Council to CCHL over time in relation to this sale. On 29 June 2012, CCHL entered into a separate loan agreement with Christchurch Engine Centre to advance up to US\$17m, effectively replacing the Council's combined equity/debt investment in Jet Engine Facility Ltd with a new loan agreement. A number of pre-conditions have to be met by Christchurch Engine Centre before any amounts can be drawn down under this loan agreement.

(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 \$19.5m (2011: \$6m) to subsidiary Enable Services Ltd on a subordinated basis under a \$25m facility. The facility matures in October 2014, although it is intended to enter into a revised facility in the 2013 year to accommodate increased borrowing levels resulting from the UFB project. Interest is charged quarterly on a floating rate basis, based on the 90 bank bill bank rate, and includes an agreed margin.

(iv) Red Bus Ltd optional convertible notes

CCHL holds a \$5m investment in convertible notes issued by subsidiary Red Bus Ltd with an effective interest rate of 6.87 per cent. The notes were issued between 22 May 2001 and 27 May 2002 and mature in 15 years, unless converted into preference shares at the option of the noteholder on the basis of one preference share for every one unit of convertible notes. Interest is charged at CCHL's borrowing cost plus a small margin. Subsequent to balance date, CCHL and Red Bus Ltd agreed to terminate the convertible notes and replace them with a new subordinated loan agreement.

NOTES TO THE FINANCIAL STATEMENTS Contd.

16. Other financial assets contd.

(v) Subordinated advance to EcoCentral Ltd

CCHL has advanced \$14m (2011: \$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 any hedging entered into by CCHL with the prior agreement of EcoCentral Ltd, and includes an agreed margin. Subsequent to balance date, CCHL agreed to convert \$5m of the outstanding debt to redeemable preference shares.

(vi) 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 |
|--|---------------------|-------|--------------------------|----------|
| | 2012 | 2011 | | |
| Subsidiaries | | | | |
| 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 | 79.5% | 79.2% | 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 | Parent company carrying value 2012 \$'000 | Parent company carrying value 2011 \$'000 |
|---|---------------------|--|---|---|
| Orion New Zealand Ltd | June 2011 | Discounted cash flow | 663,800 | 663,800 |
| Christchurch International Airport Ltd | June 2011 | Capitalisation of earnings | | |
| | | Separate property portfolio valuation | 544,200 | 544,200 |
| Lyttelton Port Company Ltd | June 2012 | Listed share price | 162,621 | 188,686 |
| Enable Services Ltd | June 2012 | Net asset value (Enable Services Ltd) | 31,400 | 21,436 |
| | | Discounted cash flow (investment in Enable Networks Ltd) | | |
| City Care Ltd | June 2012 | Discounted cash flow | 136,300 | 26,229 |
| | | Separate valuation of Springs Rd site | | |
| Red Bus Ltd | June 2012 | Orderly realisation of assets | 23,000 | 28,284 |
| EcoCentral Ltd | June 2012 | Discounted cash flow | 6,800 | 9,170 |
| Investment in subsidiaries | | | 1,568,121 | 1,481,805 |
| Selwyn Plantation Board Ltd | June 2009 | Net asset value based on | | |
| | | independent property valuations | 16,144 | 16,144 |
| Total investment in subsidiaries and associates | | | 1,584,265 | 1,497,949 |

16. Other financial assets contd.

The investments in Orion New Zealand Ltd and Christchurch International Airport Ltd were reviewed by independent valuers Ernst & Young as at 30 June 2012 to determine whether there were any significant indicators of material value change since their last full valuations at 30 June 2011. It was concluded that there were no such indicators.

The investments in the remaining subsidiaries were revalued as at 30 June 2012. The investment in associate company Selwyn Plantation Board Ltd was left at its existing book value.

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 2012, the following steps were undertaken:

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

It was determined from the review that Orion's forecast free cash flows have reduced, due mainly to an increase in capital expenditure. Partially offsetting this was an improvement in margin as a result of the removal of certain earthquake provisions contained in last year's forecasts.

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 6.56%. 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.

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 2011 using a combination of methods – a capitalisation of earnings approach for the core airport operations (comprising the aeronautical land, sealed surfaces and infrastructure, and the terminal facilities) and a net asset value approach for the airport's property portfolio assets. In respect of:

- the core airport operations, the EBITDA (earnings before interest, tax, depreciation and amortisation) for the 2009, 2010 and 2011 financial years was used to determine the range of future maintainable earnings. In selecting this base, the company's recent growth history, the current state of the airport industry in New Zealand, the company's business and investment plan and the effects of the recent earthquakes were all taken into account. Applying the mid-point of the assessed future maintainable earnings EBITDA margins to the value of the operational assets results in an implied EBITDA multiple of 11.5 times. The reasonableness of this EBITDA multiple was confirmed by comparing it to external evidence (with particular weight given to the EBITDA multiples of Auckland International Airport Ltd and Wellington International Airport Ltd).
- the property portfolio, commercial land revaluations performed by Seagar & Partners as at 30 June 2011 were considered. The value of the construction work in progress on the new terminal was classified as a property asset, although on completion it will be used in the operation of the airport and valued as part of the core airport operations. The valuation of the core airport operations did not include any income or expenditure associated with the new terminal.

To determine whether there had been any indicators of material change in value for 2012, the following steps were undertaken:

- Review any key changes in business and 2012 performance
- Review updated forecasts
- Review property valuations
- Review movements in market earnings multiples

The review indicated that aeronautical revenues have remained on budget, whereas commercial activities have been trading well ahead of budget, partly as a result of acquisitions and partly as a result of increased demand for commercial property following the Canterbury earthquakes. While expenses have increased, overall EBITDA is ahead of budget.

It was observed that the current EBITDA multiple of Auckland International Airport Ltd had increased from 13.9 times in 2011 to 16.5 times. A similar movement applied to Christchurch International Airport Ltd would result in a value uplift of some \$66m. However, this needs to be seen in the context of general economic uncertainty following the Canterbury earthquakes and the speed of recovery of passenger numbers.

The majority of the property portfolio was not revalued in 2012. It was noted that the impact of the earthquakes on the CBD may lead to increased property and development opportunities for the airport and a potential positive impact on the property portfolio in the future.

Overall, however, it was considered unlikely that the value of

NOTES TO THE FINANCIAL STATEMENTS Contd.

16. Other financial assets contd.

CCHL's investment in Christchurch International Airport Ltd as at 30 June 2012 had increased materially.

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

| Change in | Increase (\$m) | Decrease (\$m) |
|-------------------------------|-------------------|-------------------|
| EBITDA multiple (+ or – 1x) | 30 | (31) |
| EBITDA (+ or – 5%) | 19 | (18) |
| Overhead expenses (+ or – 5%) | 13 | (13) |

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 2012 for shares in the company.

During the year, CCHL acquired a further 329,301 shares (2011: 335,215) in Lyttelton Port Company Ltd for consideration of \$0.7m (2011: \$0.7m), taking its ownership interest up to 79.51% (2011: 79.19%). 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. Accordingly, a decrease in contributed equity of \$0.2m has been recorded for the year ended 30 June 2012 (2011: \$0.3m).

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.

From a valuation perspective, 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 as summarised in the following table, was used to discount its future cash flows.

| Parameters | Low | High |
|-------------------------|--------------|------|
| Asset beta | 0.6 | 0.5 |
| Debt/equity ratio | 1.2 | 1.2 |
| Equity beta | 1.2 | 1.1 |
| WACC | 10.2% | 9.8% |
| WACC (mid-point) | 10.0% | |

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) |

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 as summarised in the following table, was used to discount its future cash flows.

| Parameters | Low | High |
|-------------------------|--------------|-------|
| Asset beta | 0.6 | 0.7 |
| Debt/equity ratio | 0.5 | 0.3 |
| Equity beta | 0.9 | 0.9 |
| WACC | 10.4% | 12.1% |
| WACC (mid-point) | 11.3% | |

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) |

Red Bus Ltd

The investment in Red Bus Ltd as at 30 June 2009 was based on a capitalisation of earnings methodology rather than as discounted cash flow basis, as it was considered that the uncertainty regarding future tender rounds and the need for further capital expenditure made the latter method less reliable. The average EBITDA for the last five financial years was considered representative of the company's future earnings, with no significant adjustments required. The earnings multiple applied to EBITDA of 3.0 to 3.5 was determined on the basis of comparable companies, with an appropriate discount for the smaller size of Red Bus Ltd.

For the purposes of the 2012 valuation, it was concluded that a realisation of assets methodology was more appropriate. 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 has been 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 has been assessed at a mid-point of **\$23.0m**.

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 WACC of 16.3% was assessed as follows:

| Parameters | Low | High |
|-------------------------|--------------|-------|
| Asset beta | 0.55 | 0.65 |
| Debt/equity ratio | 0.7 | 1.0 |
| Equity beta | 0.9 | 1.3 |
| WACC | 16.4% | 16.1% |
| WACC (mid-point) | 16.3% | |

After adjusting the resulting enterprise for net debt, the value of CCHL's equity investment in EcoCentral Ltd has been assessed at a mid-point of **\$6.8m**.

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) |

NOTES TO THE FINANCIAL STATEMENTS Contd.

17. Assets and liabilities acquired through business combinations

| | Fair value at acquisition | |
|---------------------------------------|---------------------------|----------------|
| | 2012 \$'000 | 2011 \$'000 |
| Cash and cash equivalents | 2 | 881 |
| Debtors and other receivables | – | 1,466 |
| Prepayments | – | 113 |
| Inventories | 376 | 253 |
| Total current assets | 378 | 2,713 |
| Property, plant and equipment | 2,343 | 14,346 |
| Intangible assets | – | 89 |
| Total non-current assets | 2,343 | 14,435 |
| Creditors and other payables | 225 | 2,854 |
| Employee entitlements | – | 615 |
| Total current liabilities | 225 | 3,469 |
| Borrowings | – | 16,250 |
| Total non-current liabilities | – | 16,250 |
| Net assets | 2,496 | (2,571) |
| Cash consideration paid for shares | 5,887 | 9,170 |
| Fair value of identifiable net assets | (2,496) | 2,571 |
| Goodwill arising on acquisition | 3,391 | 11,741 |

On 16 November 2011 Christchurch International Airport Limited purchased the assets and business of Antarctic Attraction Limited, a tourism attraction. The acquisition was accounted for using the acquisition method. The provisional fair value of the identifiable assets and liabilities at acquisition date is shown above. The goodwill arising of \$3.4m is attributed to the synergies and complementary nature of the acquired business to the overall operations of Christchurch International Airport Limited. Since acquisition, Antarctic Attraction Limited has contributed \$3.7m of revenue and \$0.2m to the net profit before tax of the Group.

The assets and liabilities acquired in the 2011 year arose from CCHL's acquisition of the shares in EcoCentral Ltd. The acquisition contributed \$18.6m of revenue and \$0.8m net profit to the Group. Key factors contributing to the goodwill arising on acquisition were the value of the long term contracts entered into with Christchurch City Council for the operation of the EcoSort and EcoDrop operations of EcoCentral Ltd. Subsequent to acquisition, CCHL recognised an impairment of goodwill in the 2011 financial year in relation to EcoCentral Ltd of \$1.8m, reducing the carrying value of goodwill in Ecocentral as at 30 June 2011 to \$9.9m (Note 26).

| Note | Group 2012 \$'000 | Group 2011 \$'000 | Parent 2012 \$'000 | Parent 2011 \$'000 |
|---|-------------------------|-------------------------|--------------------------|--------------------------|
| 18. Inventory | | | | |
| Current | | | | |
| Inventory – raw materials and maintenance items | 14,159 | 10,370 | – | – |
| Inventory – work in progress | 912 | 890 | – | – |
| Inventory – finished goods | 2,220 | 1,851 | – | – |
| | 17,291 | 13,111 | – | – |
| Inventory – allowance for impairment | (86) | (58) | – | – |
| Total inventory | 17,205 | 13,053 | – | – |

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

| Note | Group 2012 \$'000 | Group 2011 \$'000 | Parent 2012 \$'000 | Parent 2011 \$'000 |
|---|-------------------------|-------------------------|--------------------------|--------------------------|
| 19. Non-current assets classified as held for sale | | | | |
| Enable Services Ltd network assets | – | 27,572 | – | – |
| | – | 27,572 | – | – |

On 31 May 2011 Enable Services Ltd was awarded the government contract to install an open access fibre optic network to every premise in the Greater Christchurch urban areas, as part of a broader Ultra-Fast Broadband (UFB) project contracted by the Crown.

The UFB contract involves a partnership with Crown Fibre Holdings Limited (CFH) which is the Government entity negotiating and administering the contract. The partnership is through a joint venture entity called Enable Networks Limited (ENL) in which both Enable Services Ltd and CFH are investing.

Pursuant to the UFB project, Enable Services Ltd was required to sell its existing fibre network to ENL. The transaction, which took place in February 2012, was at net book value. The network, previously included in property, plant and equipment, was accordingly re-classified as a current asset held for sale as at 30 June 2011.

20. Other assets

20(a) Current portion

Capitalised contract set-up costs
Construction contract work in progress

| | | | |
|----|-----|---|---|
| 24 | 132 | – | – |
| – | – | – | – |
| 24 | 132 | – | – |

20(b) Non-current portion

Capitalised contract set-up costs
Construction contract work in progress

| | | | |
|----|----|---|---|
| 24 | 48 | – | – |
| – | – | – | – |
| 24 | 48 | – | – |

21. Associated companies

Parent

Balance at start of year
Share capital repaid

| | |
|--------|----------|
| 16,144 | 26,412 |
| – | (10,268) |
| 16,144 | 16,144 |

Group

Balance at start of year
Acquisitions
Share of total recognised revenues and expenses
Dividends from associates
Share capital repaid
Share of revaluations

| | |
|--------|----------|
| 19,550 | 28,083 |
| 32,246 | – |
| (920) | 1,841 |
| – | – |
| – | (10,268) |
| (55) | (106) |
| 50,821 | 19,550 |

Group's investment analysed as:

Selwyn Plantation Board Ltd
Enable Networks Ltd:

| | |
|--------|--------|
| 20,225 | 19,550 |
| 30,596 | – |
| 50,821 | 19,550 |

NOTES TO THE FINANCIAL STATEMENTS Contd.

21. Associated companies contd.

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

| Entity name | Effective ownership | | Principal activity | Year end |
|-----------------------------|---------------------|------|--------------------|----------|
| | 2012 | 2011 | | |
| Selwyn Plantation Board Ltd | 39% | 39% | Asset realisation | 30 June |
| Enable Networks Ltd | 33% | N/A | Broadband network | 30 June |

| Summarised financial statements of associates | Group | Group |
|---|--------|--------|
| | 2012 | 2011 |
| | \$'000 | \$'000 |
| Assets | 89,735 | 65,134 |
| Liabilities | 7,431 | 19,331 |
| Revenue | 5,643 | 34,062 |
| Net profit/(loss) | 92 | 1,299 |

There is no goodwill included in the carrying value of equity-accounted investees (2011: Nil).

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 Enable Networks Ltd 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 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 essentially is the electronics required to light the fibre.

The agreement details how Enable Networks Ltd is funded by CFH and Enable Services Ltd. The purchase of each part of the network is funded differently within Enable Networks Ltd. The funding obligations on Enable Services Ltd to Enable Networks Ltd 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 Enable Networks Ltd as a non-cash transaction. Approximately 67% remaining is funded by CFH to Enable Networks Ltd and on paid to Enable Services Ltd in cash.

B Shares

B shares have dividend rights but do not have voting rights. Where free cash flow in Enable Networks Ltd is not sufficient to purchase UFB network, the Layer Two Communal Infrastructure, all End User Specific Infrastructure and working capital requirements in Enable Networks Ltd are funded by Enable Services Ltd. This is done 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 Enable Networks Ltd 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 2012 no debt had been drawn down and \$2.3m of B shares had been acquired due to Enable Networks Ltd working capital requirements.

In addition to these B shares Enable Services Ltd also received B shares for the sale of the existing fibre network to Enable Networks Ltd 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 2012 no B shares for existing fibre network had been transferred to A shares.

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

| Note | Group 2012 \$'000 | Group 2011 \$'000 | Parent 2012 \$'000 | Parent 2011 \$'000 |
|---|-------------------------|-------------------------|--------------------------|--------------------------|
| 22. Construction contracts and joint venture | | | | |
| For contracts in progress at balance date: | | | | |
| Contract costs incurred | 73,586 | 52,009 | – | – |
| Progress billings | 57,095 | 45,554 | – | – |
| Gross amounts due from customers | 8,612 | 6,455 | – | – |
| Retentions included in progress billings | 358 | 458 | – | – |

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:

| | | | | |
|-------------|--------|---|---|---|
| Assets | 9,531 | – | – | – |
| Liabilities | 1,215 | – | – | – |
| Revenue | 56,289 | – | – | – |
| Expenses | 50,256 | – | – | – |

Enable Services Ltd has incurred costs of \$8.7m (2011: Nil) to date with no profit recognised. Construction contract work in progress is determined on a stage of completion basis. The company has received payment for the first four UFB network stages to a total of \$3.4m (2011: Nil). No payment in advance has been received nor are retentions held in relation to the contract at balance date.

23. Property, plant & equipment

Property, plant and equipment is summarised below.

| Group | Freehold land \$'000 | Buildings \$'000 | Plant & equipment \$'000 | Electricity distribution system \$'000 | Specialised assets \$'000 | Work in progress \$'000 | Total \$'000 |
|---|----------------------------|---------------------|--------------------------------|---|---------------------------------|-------------------------------|-----------------|
| Gross carrying amount | | | | | | | |
| Cost/valuation at 1 July 2010 | 409,243 | 190,201 | 277,602 | 968,494 | 297,503 | 134,878 | 2,277,921 |
| Additions | 10,773 | 147,080 | 22,411 | 35,572 | 12,462 | – | 228,298 |
| Additions from business combinations | – | 3,594 | 10,657 | – | – | 95 | 14,346 |
| Disposals | – | (472) | (14,640) | (5,534) | (1,305) | – | (21,951) |
| Net movements in work in progress | – | – | – | – | – | (42,795) | (42,795) |
| Re-classified as held for sale | – | – | – | – | (24,846) | (4,212) | (29,058) |
| Net revaluation increments/(decrements) | 9,351 | (38,163) | (1) | (257,859) | 9,150 | – | (277,522) |
| Transfers | (2,366) | 143 | – | – | 1,350 | – | (873) |
| Cost/valuation at 30 June 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 and other | (28,113) | 43,620 | 649 | – | 9,350 | – | 25,506 |
| Cost/valuation at 30 June 2012 | 401,893 | 347,059 | 316,669 | 786,876 | 325,239 | 107,247 | 2,284,983 |

NOTES TO THE FINANCIAL STATEMENTS Contd.

23. Property, plant & equipment contd.

| Group | Freehold land \$'000 | Buildings \$'000 | Plant & equipment \$'000 | Electricity distribution system \$'000 | Specialised assets \$'000 | Work in progress \$'000 | Total \$'000 |
|---|----------------------------|---------------------|--------------------------------|---|---------------------------------|-------------------------------|-----------------|
| Accumulated depreciation and impairment | | | | | | | |
| Accumulated depreciation and impairment at 1 July 2010 | (10) | (28,215) | (127,839) | (90,956) | (20,107) | (5,003) | (272,130) |
| Disposals | – | 102 | 5,559 | 723 | 1,694 | – | 8,078 |
| Net adjustments from revaluation increments | – | 29,370 | – | 127,896 | 1,605 | – | 158,871 |
| Re-classified as held for sale | – | – | – | – | 1,486 | – | 1,486 |
| Impairment losses charged to income statement | – | (1,571) | (726) | (6,288) | (26,839) | – | (35,424) |
| Depreciation expense | – | (10,974) | (19,475) | (31,981) | (12,231) | – | (74,661) |
| Transfers and other | – | (5,003) | – | – | – | 5,003 | – |
| Accumulated depreciation/impairment at 30 June 2011 | (10) | (16,291) | (142,481) | (606) | (54,392) | – | (213,780) |
| Disposals | – | 653 | 4,269 | 388 | – | – | 5,310 |
| Net adjustments from revaluation increments | – | – | – | – | 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 |
| Accumulated depreciation/impairment at 30 June 2012 | (10) | (33,806) | (159,213) | (28,058) | (50,405) | – | (271,492) |
| Carrying amount at 30 June 2011 | 426,991 | 286,092 | 153,548 | 740,067 | 239,922 | 87,966 | 1,934,586 |
| Carrying amount at 30 June 2012 | 401,883 | 313,253 | 157,456 | 758,818 | 274,834 | 107,247 | 2,013,491 |

Orion New Zealand Ltd

Electricity distribution network and substation buildings – 2011 valuation

The company's electricity distribution network and substation buildings were revalued as at 31 March 2011 to a fair value of \$756m by independent valuers PricewaterhouseCoopers. The fair values were established in accordance with NZ IAS 16 – Property, Plant and Equipment.

In the year ended 31 March 2011 the regulatory framework for electricity distribution businesses developed under Part 4 of the Commerce Act 1986 and the company's prices are now regulated via a default price-quality path. The valuers believed that a depreciated replacement cost based value was unlikely to align with either the Commerce Commission's regulatory asset base (RAB) valuation and input methodologies under Part 4, or the present value of the future cash flows that would be generated by the electricity distribution network. Accordingly, the basis of the fair value valuation at 31 March 2011 was changed to a discounted cash flow analysis of the assets, based on 10 years of forecast information provided by the company and reviewed and adjusted by the valuers, with a terminal valuation at year 10.

The key assumptions used in the valuation as at 31 March 2011 include forecasts of future demand for electricity distribution services, electricity distribution prices, operating and capital expenditure associated with existing assets, and the discount rate.

The valuation assumed that there was no starting price adjustment (SPA) during the current regulatory period; that the company's revenues would be able to rise in line with changes in electricity demand plus annual price increases equivalent to the consumer price index (CPI) during the current regulatory period; and that the company would not apply to the Commerce Commission for a customised price path during the current regulatory period.

For the second regulatory period (five years commencing 1 April 2015), the valuation assumed that an upwards SPA of around 19% (approximately \$4m) will be made effective 1 April 2015 to align the company's actual regulatory profits with the Commission's weighted average cost of capital benchmark. A small upwards SPA is assumed for the start of the third regulatory period (from 1 April 2021 onwards).

The average post-tax discount rate is 8.0% (pre-tax equivalent 11.2%).

The 31 March 2011 valuation was \$141m below the company's pre-revaluation carrying value of the electricity distribution network assets. This reduction is attributable to two key factors as follows:

- approximately \$68m was due to the new Commerce Act Part 4 regulatory price controls, which effectively limit the company's profits to the Commission's regulatory weighted

23. Property, plant & equipment contd.

average cost of capital (WACC) on the RAB valuation calculated on a prescribed basis

- approximately \$73m was due to the impacts of the Canterbury earthquakes up to and including 31 March 2011 and the abnormal levels of expenses and reduced revenues as a result of the earthquakes for the period up to 31 March 2015.

Electricity distribution network and substation buildings – 2012 valuation

The company engaged PricewaterhouseCoopers to undertake a review of the carrying value of the distribution network and substation buildings as at 31 March 2012. The valuers concluded that the carrying value of \$778m for the electricity distribution network, substation and kiosk buildings, leased assets and capital work in progress as at 31 March 2012 represented fair value in accordance with NZ IAS 16 – Property, Plant and Equipment.

Substation land - 2011 and 2012 valuations

The company's sub-station land was revalued to fair value as at 31 March 2012 by independent registered valuers CB Richard Ellis Ltd in accordance with NZ IAS 16, using an independently determined methodology, adopting land rating valuations and applying indices and multipliers over the land to determine current fair value. A randomly selected sample of the population was individually valued, using sales comparisons and a unit metre frontage methodology. The concluding multiplier and adjustments from the land rating indices were then recast over the total population to determine a fair value for all the substation sites. This methodology was consistent with the 2011 valuation. The revaluation resulted in a small increase in the carrying value of the company's substation land of \$2.2m.

Christchurch International Airport Ltd

On 30 June 2012 buildings, car parking assets, sealed surface and infrastructure assets were revalued by independent valuers Seagar and Partners (building and car park assets) and Opus International Limited (sealed surfaces and infrastructure assets).

The land and terminal assets were reviewed for impairment as at 30 June 2012 by Seagar and Partners, with no adjustment for impairment being deemed necessary.

The methods of valuation applied by the independent valuers were:

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

Buildings are valued 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. This would be based on 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

Terminal facilities are 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.

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.

Lyttelton Port Company Ltd

Assets or partial assets with a cost of \$Nil (2011: \$49.4m) and book value of \$Nil (2011: \$29.0m) have been de-recognised as a result of the Canterbury earthquakes.

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

Applying the provisions of NZ IAS 36 Impairment of Assets, the company determined that the earthquakes on 23 December 2011 were an indicator of impairment. Management undertook an impairment review to determine the recoverable amount of its remaining recognised assets as at 30 June 2012. The result of this analysis was that the recoverable amount remained above the book value and that no impairment of the asset carrying values had occurred.

City Care Ltd

An independent valuation of the company's land was performed by registered valuers Colliers International, Christchurch, to determine the fair value of the land. The valuation, which conforms to NZ IAS 16 and New Zealand Property Institute

NOTES TO THE FINANCIAL STATEMENTS Contd.

23. Property, plant & equipment contd.

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 7.5%. 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 2011. The valuation was updated as at 30 June 2012 and was not materially different to the carrying value. In the Directors' opinion, there was insufficient evidence of movement to support a full valuation exercise and, accordingly, the land carrying value remains unchanged.

24. Investment property

| Note | Group 2012 \$'000 | Group 2011 \$'000 | Parent 2012 \$'000 | Parent 2011 \$'000 |
|--|-------------------------|-------------------------|--------------------------|--------------------------|
| Balance at beginning of financial year | 96,207 | 85,510 | – | – |
| Transfer (to)/from property, plant & equipment | 21,242 | 873 | – | – |
| Additional capitalised expenditure | 14,025 | 10,910 | – | – |
| Net gain/(loss) from fair value adjustments | 5,421 | (1,086) | – | – |
| Balance at end of financial year | 136,895 | 96,207 | – | – |

Of the above investment property, \$103.5m (2011: \$88.2m) is held by Christchurch International Airport Ltd. The balance is owned by Orion New Zealand Ltd.

Orion New Zealand Ltd

Investment property comprises land and buildings at the company's main administration and head office site in the Christchurch CBD. The land and buildings were reclassified as investment property as at 31 March 2011 as the company considered that new office accommodation would be required either at its existing site or elsewhere. On 2 May 2012 the company announced plans to move to a new temporary site for a period of some years. The company plans to eventually return to the CBD site. The company also announced plans to demolish the major buildings on the existing site.

The valuation of the company's investment property to fair value as at 31 March 2012 was prepared by an independent valuer, CB Richard Ellis Ltd (CBRE), in accordance with NZ IAS 40 – Investment Property and NZ IAS 16 – Property, Plant and Equipment. CBRE prepared the equivalent valuation in 2011. CBRE's valuation comprised valuations of the individual components of the CBD site, with concluding values determined under a hypothetical subdivision approach. The overall valuation was then apportioned between property, plant and equipment for the Armagh district substation site and investment property for the balance of the site. The values for individual components of the site were assessed under differing bases, reflecting the highest and best use for each. For cleared land, values were concluded on a land value (redevelopment) basis. Given the significant earthquake damage sustained by the main administration buildings, value was determined on a land value only less associated building demolition costs. This was consistent with the methodology adopted in 2011.

Red Bus Ltd

Registered valuers Simes Limited were contracted by Red Bus Ltd to assess the fair value of the company's land and buildings at 30 June 2010. 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. The valuations are completed on a three yearly cycle, with the next one due in 2013.

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

Parent company

The parent company has no property, plant and equipment.

Fair values for other buildings on the CBD site were determined using both discounted cash flow and capitalisation approaches. CBRE assumed notional leases on occupied space with terms of three years, an assumed capitalisation rate of 10.50%, a discount rate of 10.25% and market rental growth rates of 0.0% to 2.5% over the investment horizon.

CBRE's valuation assumed that the physical condition of the land on the CBD site is sound and that the Canterbury earthquakes have not had a significant adverse impact on the physical condition of the land. It was difficult for CBRE to determine market values as at 31 March 2012 and as at 31 March 2011, as the impacts of the earthquakes on the market in the CBD continue to be difficult to quantify. Accordingly there is considerable volatility risk associated with the valuation.

CBRE's valuation resulted in a write-down of the company's investment property by \$0.6m to \$7.9m (2011: \$5.5m write-down including land and buildings subsequently transferred to investment property, of which \$2.9m was expensed in profit and \$2.6m was recognised as an impairment loss in the statement of comprehensive income).

Christchurch International Airport Ltd

The valuation as at 30 June 2012 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.

| | Easements & resource consents \$'000 | Parent Software \$'000 | Parent Other \$'000 | Total \$'000 |
|---|--|------------------------------|---------------------------|-----------------|
| 25. Intangible assets | | | | |
| Group | | | | |
| Gross carrying amount | | | | |
| Gross carrying amount at 1 July 2010 | 1,120 | 26,643 | 2,403 | 30,166 |
| Additions | 30 | 3,411 | 922 | 4,363 |
| Additions from internal developments | – | (540) | – | (540) |
| Disposals | – | (121) | (846) | (967) |
| Gross carrying amount at 30 June 2011 | 1,150 | 29,393 | 2,479 | 33,022 |
| Additions | 429 | 4,001 | (304) | 4,126 |
| Additions from internal developments | – | 504 | 477 | 981 |
| Disposals | – | – | – | – |
| Gross carrying amount at 30 June 2012 | 1,579 | 33,898 | 2,652 | 38,129 |
| Accumulated amortisation and impairment | | | | |
| Accumulated depreciation and impairment at 1 July 2010 | (455) | (17,347) | (2,108) | (19,910) |
| Amortisation expense | (389) | (2,567) | – | (2,956) |
| Impairment | – | – | (23) | (23) |
| Disposals | – | 111 | – | 111 |
| Accumulated depreciation and impairment at 30 June 2011 | (844) | (19,803) | (2,131) | (22,778) |
| Amortisation expense | (36) | (2,994) | – | (3,030) |
| Impairment | – | – | – | – |
| Disposals | – | – | – | – |
| Accumulated depreciation and impairment at 30 June 2012 | (880) | (22,797) | (2,131) | (25,808) |
| Carrying amount | | | | |
| Carrying amount at 30 June 2011 | 306 | 9,590 | 348 | 10,244 |
| Carrying amount at 30 June 2012 | 699 | 11,101 | 521 | 12,321 |

Included in intangible assets is work in progress of \$0.9m (2011: \$0.3m).

The parent company has no intangible assets.

26. Goodwill

| Note | Group 2012 \$'000 | Group 2011 \$'000 | Parent 2012 \$'000 | Parent 2011 \$'000 |
|--|-------------------------|-------------------------|--------------------------|--------------------------|
| Gross carrying amount | | | | |
| Balance at beginning of financial year | 41,334 | 27,748 | – | – |
| Additional amounts recognised from business combinations | 3,391 | 13,586 | – | – |
| Balance at end of financial year | 44,725 | 41,334 | – | – |
| Accumulated impairment losses | | | | |
| Balance at beginning of financial year | (2,623) | (557) | – | – |
| Impairment losses for the year | (3,200) | (2,066) | – | – |
| Balance at end of financial year | (5,823) | (2,623) | – | – |
| Carrying amount | | | | |
| At beginning of financial year | 38,711 | 27,191 | – | – |
| At end of financial year | 38,902 | 38,711 | – | – |

NOTES TO THE FINANCIAL STATEMENTS Contd.

| Note | Group 2012 \$'000 | Group 2011 \$'000 | Parent 2012 \$'000 | Parent 2011 \$'000 |
|--|-------------------------|-------------------------|--------------------------|--------------------------|
| 26. Goodwill contd. | | | | |
| Amount of goodwill allocated to cash-generating units: | | | | |
| Orion New Zealand Ltd | 2,398 | 2,398 | – | – |
| Christchurch International Airport Ltd | 5,131 | 1,740 | – | – |
| Lyttelton Port Company Ltd | 21,749 | 21,749 | – | – |
| City Care Ltd | 2,850 | 2,850 | – | – |
| Red Bus Ltd | – | 105 | – | – |
| EcoCentral Ltd | 6,774 | 9,869 | – | – |
| | 38,902 | 38,711 | – | – |

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.

In the 2012 year, Christchurch International Airport Ltd acquired the assets and business of Antarctic Attraction Limited, a tourism attraction, resulting in an increase in goodwill of \$3.4m. Further information is provided in Note 17.

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.

EcoCentral Ltd has two CGUs – (a) the EcoSort recycling plant located at Parkhouse Rd, Christchurch; and (b) the EcoDepots, EcoShop and other commercial activities. During the 2012 financial year the directors of EcoCentral Limited reviewed the trading performance of the EcoSort business unit and determined

due to the market conditions that the goodwill of \$3.1m attributed to this business combination was fully impaired, and wrote it down to zero. The directors of EcoCentral Limited determined that the goodwill of \$1.0m relating to the EcoDrop CGU was not impaired.

Red Bus Ltd determined that the goodwill of \$0.1m relating to the acquisition of the Akaroa Shuttle business in December 2010 was impaired, and this was written off during the year.

Goodwill on consolidation in respect of the remaining companies listed above is not considered to be impaired for the following reasons:

- The investment in City Care Ltd was revalued by independent valuers Ernst & Young as at 30 June 2012 (see Note 16). The company has continued to be profitable since then, and forecasts indicate this trend to continue.
- A report was commissioned from independent valuers, Ernst & Young, reviewing the carrying value of CCHL's investments in Orion New Zealand Ltd and Christchurch International Airport Ltd as at 30 June 2012 (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 2012 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.

27. Creditors and other payable

| | | | | |
|-------------------------------------|--------|---------|-------|--------|
| Trade payables and accrued expenses | 61,453 | 80,517 | 122 | 264 |
| GST payable | 6,244 | 2,066 | – | – |
| Interest payable | 2,900 | 2,038 | 1,338 | 1,482 |
| Dividend payable | – | 17,325 | – | 17,325 |
| Income received in advance | – | – | – | 37 |
| Retentions | 200 | – | – | – |
| Deposits held | 234 | 328 | – | – |
| | 71,031 | 102,274 | 1,460 | 19,108 |

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

| Note | Group 2012 \$'000 | Group 2011 \$'000 | Parent 2012 \$'000 | Parent 2011 \$'000 |
|---|-------------------------|-------------------------|--------------------------|--------------------------|
| 28. Borrowings | | | | |
| 28(a) Current portion | | | | |
| Unsecured: | | | | |
| Commercial paper | 97,000 | 91,000 | 97,000 | 91,000 |
| Bonds | 5,000 | – | 5,000 | – |
| Loans from external parties | 68,000 | 48,000 | – | – |
| Finance lease liabilities | 96 | 80 | – | – |
| | 170,096 | 139,080 | 102,000 | 91,000 |
| Secured: | | | | |
| Loans from external parties | – | 2,000 | – | – |
| Finance lease liabilities | 334 | 298 | – | – |
| | 334 | 2,298 | – | – |
| Total current portion of borrowings | 170,430 | 141,378 | 102,000 | 91,000 |
| 28(b) Non-current portion | | | | |
| Unsecured: | | | | |
| Bonds | 70,000 | 75,000 | 70,000 | 75,000 |
| Floating rate notes | 130,000 | 130,000 | 130,000 | 130,000 |
| Loans from external parties | 217,100 | 220,352 | – | – |
| Finance lease liabilities | 5,259 | 4,797 | – | – |
| | 422,359 | 430,149 | 200,000 | 205,000 |
| Secured: | | | | |
| Loans from external parties | 73,825 | 11,960 | – | – |
| Finance lease liabilities | 44 | 378 | – | – |
| | 73,869 | 12,338 | – | – |
| Total non-current portion of borrowings | 496,228 | 442,487 | 200,000 | 205,000 |

Except as disclosed in Note 41, 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 2012 comprised:

- Bonds and floating rate notes totalling \$205m (2011: \$205m) in five tranches ranging from \$5m to \$70m. These borrowings mature at various intervals until November 2018. Bond coupon rates are between 6.21% and 6.87%.
- Commercial paper of \$97m (2011: \$91m). This is short term debt on a 90 day rollover period. The average rate during the year was 3.1% (2011: 3.2%);
- The company also has an undrawn \$50m standby facility. This matures in June 2015.

The borrowings were put in place under a \$350m debt issuance programme. 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 16 and 41).

Orion New Zealand Ltd

The company's bank debt of \$48.1m (2011: \$31.6m) is unsecured against the company. However, a deed of negative pledge and guarantee requires the company to comply with certain covenants. In November 2011, the company renegotiated additional bank debt facilities of \$60m to bring its total facilities to \$150m.

Interest rates for all borrowings are floating, based on bank bill rates plus a margin. At balance date, this rate averaged 3.36% (2011: 3.22%). The company has entered into derivative contracts to hedge its exposure to interest rate fluctuations (refer to Notes 15 and 41). Daily commitment fees are also payable on the facilities.

Christchurch International Airport Ltd

The company has a \$300m funding facility with five banks and a subordinated loan of \$50m from CCHL to fund the ongoing business and the terminal development. In addition, the company has an overdraft facility of \$1m (2011: \$300m bank funding facility, a subordinated loan of \$50m from CCHL and an overdraft facility of \$1m).

All borrowings under the bank facility and overdraft facility are unsecured and supported by a negative pledge deed. Interest rates paid during the year, including offsetting interest rate swaps, ranged from 5.2% to 6.8% (2011: 6.9% to 7.2%).

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 borrowed against a negative pledge deed where Westpac ranks equally with other creditors. The facility is in A and B tranches of \$95m and \$55m respectively with

NOTES TO THE FINANCIAL STATEMENTS Contd.

28. Borrowings contd.

renewal dates of 15 July 2013. There was no difference between the face value and carrying amount of these loans and borrowings at 30 June 2012 or 30 June 2011. The current drawings are against Tranche A of the facility. The company's total debt is \$55.9m (2011: \$40.8m). Average effective interest rates were 7.0% (2011: 6.4%).

Enable Services Ltd

As at 30 June 2012 Enable Services Ltd had borrowings of \$19.5m (2011: \$6.0m). These borrowings were made under a \$25m facility with CCHL to fund future development initiatives. Interest is charged on a floating rate basis plus an agreed margin. The facility matures in October 2014. Discussions are taking place between CCHL and Enable with regard to implementing a new facility to accommodate increased borrowing as a result of Enable's UFB project.

City Care Ltd

Bank loans of \$17.90m (2011: \$9.96m) are secured by a debenture over the assets and undertakings of the company. The loans were made under a committed cash advance facility of \$40m (2011: \$30m). The facility is structured as a two year rolling facility with a current maturity date of 28 February 2014. Interest rates on the floating rate debt are based on bank bill rates plus a margin and averaged 3.60% for the year (2011: 3.89%).

The company also has a \$0.5m (2011: \$0.5m) overdraft facility (undrawn as at 30 June 2012 and 2011), again secured by a debenture over the assets and undertakings of the company.

Red Bus Ltd

At 30 June 2011 the company had a \$13.0m bank facility, secured by a negative pledge deed, and drawn to \$4.0m with an effective interest rate of 6.96%. The facility was subsequently reduced to \$9.0m, and then in December 2011, closed completely, with all term debt being repaid to the bank.

The company's bank overdraft facility (undrawn as at 30 June 2012 and 2011) is secured by a registered first and only debenture over the company's assets and undertaking.

At 30 June 2012 Red Bus Ltd also had on issue 5m \$1 convertible notes to the CCHL parent company. The notes have a coupon rate of 6.12% (2011: 6.12%). Subsequent to balance date, by agreement between CCHL and Red Bus Ltd, the convertible notes were cancelled and replaced with a loan agreement.

EcoCentral Ltd

As at 30 June 2012 EcoCentral Ltd had borrowings of \$14.0m (2011: \$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. Subsequent to balance date, by agreement between CCHL and EcoCentral Ltd, \$5.0m of the borrowings were replaced by an issue of 5m \$1 redeemable preference shares.

29. Finance lease liabilities

| Note | Group 2012 \$'000 | Group 2011 \$'000 | Parent 2012 \$'000 | Parent 2011 \$'000 |
|---|-------------------------|-------------------------|--------------------------|--------------------------|
| No later than one year | 831 | 806 | – | – |
| Later than one year and not later than five years | 1,872 | 2,174 | – | – |
| Later than five years | 10,305 | 9,903 | – | – |
| Minimum lease payments* | 13,008 | 12,883 | – | – |
| Less future finance charges | (7,275) | (7,330) | – | – |
| Present value of minimum lease payments | 5,733 | 5,553 | – | – |
| Minimum future lease payments | | | | |
| No later than one year | 430 | 378 | – | – |
| Later than one year and not later than five years | 483 | 778 | – | – |
| Later than five years | 4,820 | 4,397 | – | – |
| Total present value of minimum lease payments | 5,733 | 5,553 | – | – |
| Represented by | | | | |
| Current portion | 430 | 378 | – | – |
| Non-current portion | 5,303 | 5,175 | – | – |
| | 5,733 | 5,553 | – | – |

*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.

| Note | Group 2012 \$'000 | Group 2011 \$'000 | Parent 2012 \$'000 | Parent 2011 \$'000 |
|--|-------------------------|-------------------------|--------------------------|--------------------------|
| 30. Employee entitlements | | | | |
| 30(a) Current portion | | | | |
| Accrued pay | 3,985 | 3,108 | – | – |
| Annual leave | 15,167 | 14,212 | 61 | 39 |
| Sick leave | 178 | 193 | – | – |
| Retirement and long service leave | 1,737 | 1,517 | – | – |
| Bonuses and other | 4,041 | 3,968 | – | – |
| | 25,108 | 22,998 | 61 | 39 |
| 30(b) Non-current portion | | | | |
| Retirement and long service leave | 1,340 | 1,251 | – | – |
| Bonuses and other | 221 | – | – | – |
| | 1,561 | 1,251 | – | – |
| Total employee entitlements | 26,669 | 24,249 | 61 | 39 |
| 31. Provisions | | | | |
| 31(a) Current portion | | | | |
| Restructuring provision | – | – | – | – |
| Onerous contract provision | – | 296 | – | – |
| | – | 296 | – | – |
| 31(b) Non-current portion | | | | |
| Onerous contract provision | – | 74 | – | – |
| | – | 74 | – | – |
| Total provisions | – | 370 | – | – |
| 31(c) Movements in restructuring provision | | | | |
| Opening balance | – | 700 | – | – |
| Amounts used | – | (414) | – | – |
| Unused amounts reversed | – | (286) | – | – |
| Closing balance | – | – | – | – |
| 31(d) Movements in onerous contract provision | | | | |
| Opening balance | 370 | – | – | – |
| Additional provisions made | – | 370 | – | – |
| Amounts used | (296) | – | – | – |
| Reduction from re-measurement or settlement without cost | (74) | – | – | – |
| Closing balance | – | 370 | – | – |

City Care Ltd onerous contracts provision

In 2011, the company held a contract in which the unavoidable costs to meet the obligations under the contract exceeded the economic benefits expected to be received under it. In accordance with NZ IAS 37 a provision was made to recognise the liability which arises for the remainder of the life of the contract. In 2012 the contract underwent a variation for the remaining term, with the revised (reduced) services re-priced and becoming profitable. Accordingly the provision was no longer required at year end.

Red Bus Ltd restructuring provision

Red Bus Ltd established a restructuring provision as at 30 June 2010 following the loss of a number of Environment Canterbury bus contracts. The restructuring was completed in the 2011 financial year, and the unused balance of the provision written back.

NOTES TO THE FINANCIAL STATEMENTS Contd.

| Note | Group 2012 \$'000 | Group 2011 \$'000 | Parent 2012 \$'000 | Parent 2011 \$'000 |
|---------------------------------|-------------------------|-------------------------|--------------------------|--------------------------|
| 32. Other liabilities | | | | |
| 32(a) Current portion | | | | |
| Deferred income | 867 | 867 | – | – |
| Income in advance | 720 | 705 | – | – |
| Hire purchase agreement | 98 | 86 | – | – |
| | 1,685 | 1,658 | – | – |
| 32(b) Noncurrent portion | | | | |
| Deferred income | 3,637 | 4,504 | – | – |
| Hire purchase agreement | 34 | 136 | – | – |
| Income in advance | 1,490 | 2,423 | – | – |
| Lease incentive liability | – | 18 | – | – |
| | 5,161 | 7,081 | – | – |
| Total other liabilities | 6,846 | 8,739 | – | – |

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 the company to receive a \$13m prepayment of agreement charges. Should Lyttelton Port Company Ltd 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.

Income in advance (non-current portion)

During the 2012 year, Enable Services Ltd transferred \$0.8m (2011: Nil) of indefeasible rights of use contracted in relation to certain parts of its optical fibre network. These were transferred to Enable Networks Ltd as part of the network sale during 2012 (see note 19).

33. 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 |
| 33(a) Fully paid ordinary shares | | | | |
| 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 |
| 33(b) Partly paid redeemable preference shares | | | | |
| Balance at beginning of financial year | 1 | 1 | 1 | 1 |
| Issue of shares | – | – | – | – |
| Balance at end of financial year | 1 | 1 | 1 | 1 |

CCHL 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.
- 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.

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.

33. Capital and other equity instruments contd.

Management monitor capital through the gearing ratio (net debt : net debt + equity) and a strong credit rating (currently AA/A-1+ from Standard & Poor's). The gearing ratio at balance date is disclosed in Note 45.

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 2012 \$'000 | Group 2011 \$'000 | Parent 2012 \$'000 | Parent 2011 \$'000 |
|--|-------------------------|-------------------------|--------------------------|--------------------------|
| 34. Dividends | | | | |
| Ordinary dividends declared on fully paid ordinary shares | 27,414 | 35,290 | 27,414 | 35,290 |
| Special dividends declared on fully paid ordinary shares | 8,035 | 8,035 | 8,035 | 8,035 |
| Cents per share – ordinary dividends | 108 | 139 | 108 | 139 |
| Cents per share – special dividends | 32 | 32 | 32 | 32 |
| 35. Reserves | | | | |
| Asset revaluation reserve | 304,304 | 288,357 | – | – |
| Fair value through equity reserve | – | – | 1,050,576 | 964,918 |
| Hedging reserve | (23,192) | (14,233) | (12,686) | (7,259) |
| | 281,112 | 274,124 | 1,037,890 | 957,659 |
| Asset revaluation reserve | | | | |
| Balance at beginning of financial year | 288,357 | 364,897 | – | – |
| Gain/(loss) on revaluation of assets | 22,031 | (108,600) | – | – |
| Tax associated with revaluation movements | (6,091) | 33,410 | – | – |
| Reversal of deferred tax liability on realisation of assets | 28 | 297 | – | – |
| Transfer (to)/from retained earnings | (92) | (887) | – | – |
| Share of decrement in reserves attributable to associates | 71 | (760) | – | – |
| Balance at end of financial year | 304,304 | 288,357 | – | – |
| Fair value through equity reserve | | | | |
| Balance at beginning of financial year | – | – | 964,918 | 933,988 |
| Gain/(loss) on revaluation of fair value through equity assets | – | – | 85,658 | 30,930 |
| Balance at end of financial year | – | – | 1,050,576 | 964,918 |
| Hedging reserve | | | | |
| Balance at beginning of financial year | (14,233) | (11,937) | (7,259) | (5,596) |
| <i>Gain/(loss) recognised on cash flow hedges:</i> | | | | |
| Interest rate swaps | (12,692) | (2,564) | (5,427) | (1,663) |
| Forward foreign exchange contracts | 226 | (270) | – | – |
| Income tax | 3,507 | 538 | – | – |
| Balance at end of financial year | (23,192) | (14,233) | (12,686) | (7,259) |

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.

NOTES TO THE FINANCIAL STATEMENTS Contd.

| | Note | Group 2012 \$'000 | Group 2011 \$'000 | Parent 2012 \$'000 | Parent 2011 \$'000 |
|---|-------|-------------------------|-------------------------|--------------------------|--------------------------|
| 36. Retained earnings | | | | | |
| Balance at beginning of financial year | | 716,040 | 695,252 | 278,999 | 290,229 |
| Net profit for the year | | 83,023 | 63,773 | 44,726 | 32,095 |
| Dividends paid or provided for | | (35,449) | (43,325) | (35,449) | (43,325) |
| Income tax transferred | | (25) | (263) | – | – |
| Transfer from reserves | | 92 | 887 | – | – |
| Adjustment to controlling interests on purchase of shares | | (132) | (284) | – | – |
| Balance at end of financial year | | 763,549 | 716,040 | 288,276 | 278,999 |
| 37. Non-controlling interests | | | | | |
| Balance at beginning of financial year | | 247,218 | 246,889 | – | – |
| Share of comprehensive income for the year | | 17,814 | 7,585 | – | – |
| Dividends paid or provided for | | (7,940) | (6,782) | – | – |
| Adjustment to non-controlling interests for share acquisitions | | (527) | (474) | – | – |
| Balance at end of financial year | | 256,565 | 247,218 | – | – |
| 38. Reconciliation of profit to operating cash flows | | | | | |
| Profit for the year | | 97,281 | 77,332 | 44,726 | 32,095 |
| Add/(less) non-cash items | | | | | |
| Depreciation, amortisation and impairment expense | 5 | 83,727 | 116,838 | – | – |
| Donated and subsidised assets | 2 | (4,188) | (3,829) | – | – |
| (Gains)/losses in fair value of investment property | 24 | (5,421) | 1,086 | – | – |
| (Gains)/losses in fair value of derivative financial instruments | | 1,296 | 616 | – | (616) |
| Share of associates' loss/(profit) (less dividends) | 21 | 920 | (1,841) | – | – |
| Net foreign exchange (gains)/losses | 8 | 85 | 14 | – | – |
| Deferred tax charged/(credited) to income | 11(f) | 10,434 | 381 | – | – |
| Other | | (2,783) | (4,990) | – | (1) |
| | | 84,070 | 108,775 | – | (617) |
| Add/(less) items classified as investing or financing activities | | | | | |
| (Gain)/loss on disposal of non-current assets | | 1,483 | 2,966 | – | – |
| Dividend payable at year end | | 17,325 | (17,325) | 17,325 | (17,325) |
| Insurance proceeds | | (17,200) | (35,540) | – | – |
| | | 1,608 | (49,899) | 17,325 | (17,325) |
| Add/(less) movement in working capital items | | | | | |
| Current trade and other receivables | | (37,811) | (49,403) | 10,530 | (10,547) |
| Current inventories | | (4,152) | (2,815) | – | – |
| Current prepayments | | (1,662) | (1,371) | (28) | 35 |
| Income tax receivable | | – | – | 91 | – |
| Other current assets | | 693 | (558) | – | – |
| Non-current receivables | | 22 | 20 | – | – |
| Non-current prepayments | | 149 | 589 | – | – |
| Other non-current assets | | 285 | (130) | – | – |
| Current payables | | (31,243) | 46,562 | (17,648) | 17,225 |
| Current provisions | | (296) | (404) | – | – |
| Current employee benefits | | 2,110 | 3,619 | 23 | (3) |
| Income tax payable | | (510) | (1,890) | – | – |
| Other current liabilities | | 27 | 705 | – | – |
| Non-current provisions | | (74) | 74 | – | – |
| Non-current employee benefits | | 310 | 153 | – | – |
| Other non-current liabilities | | (1,920) | (1,397) | – | – |
| Net changes in net assets and liabilities | | (74,072) | (6,246) | (7,032) | 6,710 |
| Net cash from operating activities | | 108,887 | 129,962 | 55,019 | 20,863 |

| Note | Group 2012 \$'000 | Group 2011 \$'000 | Parent 2012 \$'000 | Parent 2011 \$'000 |
|---|-------------------------|-------------------------|--------------------------|--------------------------|
| 39. Capital commitments and operating leases | | | | |
| Capital commitments | | | | |
| Property, plant & equipment | 42,247 | 67,040 | – | – |
| Electricity distribution network | 18,654 | 10,468 | – | – |
| Intangible assets | 293 | 2,092 | – | – |
| | 61,194 | 79,600 | – | – |
| Non-cancellable operating leases as lessee | | | | |
| No later than one year | 3,358 | 4,990 | – | – |
| Later than one year and not later than five years | 5,874 | 10,352 | – | – |
| Later than five years | 1,084 | 2,422 | – | – |
| | 10,316 | 17,764 | – | – |
| Non-cancellable operating leases as lessor | | | | |
| No later than one year | 45,803 | 46,238 | – | – |
| Later than one year and not later than five years | 153,021 | 157,311 | – | – |
| Later than five years | 113,599 | 176,265 | – | – |
| | 312,423 | 379,814 | – | – |

Capital commitments

In addition to the capital commitments shown above, Enable Services Ltd has entered into agreements to build, operate and maintain a UFB network on behalf of Enable Networks Ltd as described in Note 21. 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 have been passed by December 2019. Upon each stage of the network being completed, and subject to that stage satisfactorily passing user acceptance testing, Enable Networks Ltd 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 in the built UFB network. These connections are to be paid for by the Enable Services Ltd at agreed rates. The profile and value of the connections is dependent on the actual profile of connections requested on the network.

As at 30 June 2012 the estimated cost of the UFB network including connections, central office construction and other components of the network, to December 2019 is as follows:

| | Financial Year 2013 | Financial Year 2014 | Financial Year 2015 | Financial Year 2016 | Financial Year 2017 | Financial Year 2018 | Financial Year 2019 | Total |
|-------------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|-------|
| Estimated cost of UFB network (\$m) | 47.5 | 47.0 | 49.5 | 52.1 | 55.2 | 62.0 | 43.8 | 357.1 |

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.

In June 2011 Enable Services Ltd entered a construction contract with Transfield Services NZ Ltd to be the company's civil construction partner under the UFB contract. The contract mirrors many of the obligations placed on Enable Services Ltd in the ultra-fast broadband contract. The construction contract is a ten year contract with a value of approximately \$260m.

Operating lease receivables

Orion New Zealand Ltd

Non-cancellable operating lease receivables \$0.1m (2011: \$0.4m). 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.

NOTES TO THE FINANCIAL STATEMENTS Contd.

39. Capital commitments and operating leases contd.

Christchurch International Airport Ltd

Non-cancellable operating lease receivables \$307.0m (2011: \$309.3m). The company has a number of property leases that generate rental income. The leases are for terms between 1 month and 55 years, and the majority of the lease agreements are renewable at the end of the lease period at market rates.

Lyttelton Port Company Ltd

Non-cancellable operating lease receivables \$58.7m (2011: \$59.5m). The company 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 \$4.2m (2011: \$10.8m). Enable Services Ltd sold its existing fibre network to associated company 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 Enable Services Ltd's 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 2012 reflect remaining customer contracts. These are fulfilled by ESL acquiring UFB product from ENL under a Wholesale Services Agreement which it in turn provides to customers.

| Note | Group 2012 \$'000 | Group 2011 \$'000 | Parent 2012 \$'000 | Parent 2011 \$'000 |
|---|-------------------------|-------------------------|--------------------------|--------------------------|
| 40. Contingent liabilities and contingent assets | | | | |
| 40(a) Quantifiable contingent liabilities | | | | |
| Performance bonds | 54,626 | 57,638 | 47,500 | 50,000 |
| Irrevocable right to use contracts | – | 443 | – | – |
| Port noise mitigation | 1,226 | 1,160 | – | – |
| | 55,852 | 59,241 | 47,500 | 50,000 |

The Group has the following contingent liabilities:

Contract performance bonds

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

- CCHL \$47.5m (2011: \$50m);
- City Care Ltd \$5.6m (2011: \$6.1m);
- Red Bus Ltd \$0.9m (2011: \$0.8m); 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 – contract dispute

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

Enable Services Ltd – indefeasible right of use contracts

Enable Services Ltd had contingent liabilities at 30 June 2011 of \$0.4m relating to a number of indefeasible right of use contracts acquired with the CFNL network purchase in 2008. These were transferred to Enable Networks Ltd as part of the sale of the existing network in February 2012 and no longer represent a contingent liability for the company.

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.

40. Contingent liabilities and contingent assets contd.

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. These 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.

The agreements recognised the need for the company and the community to co-exist and provided for the installation, at the company's expense, of acoustic treatment for identified affected dwellings in accordance with desired District Plan amendments. The desired District Plan amendments have been made operative provisions through a successful application to the Environment Court under section 293 of the Resource Management Act. A Port Noise Liaison Committee, composed of representatives of the various parties, has been established to administer the terms of the new operative provisions in the District Plan.

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 (2011: \$1.3m) in total over the next nine years.

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.

40(b) Contingent assets

The Group has lodged several material damage and business interruption insurance claims in relation to damage and losses from the Canterbury earthquakes, and will lodge further ones. As at 30 June 2012, the Group has, in addition to claim proceeds already received, recognised receivables in respect of insurance claims of \$29.5m (2011: \$15.6m). The group expects to reach agreement with insurers for claims significantly in excess of the amounts already recognised – however, the amount and timing of these future insurance payments cannot be reliably estimated.

Other than for the above, the Group had no material or significant contingent liabilities or contingent assets as at 30 June 2012 or 30 June 2011.

41. 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 45 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.

NOTES TO THE FINANCIAL STATEMENTS Contd.

| Note | Group 2012 \$'000 | Group 2011 \$'000 | Parent 2012 \$'000 | Parent 2011 \$'000 |
|---|-------------------------|-------------------------|--------------------------|--------------------------|
| 41. Financial instruments contd. | | | | |
| 41(a) Classification of financial assets and liabilities | | | | |
| Financial assets | | | | |
| Fair value through profit or loss – held for trading | | | | |
| Derivative financial instrument assets | 1 | 14 | – | – |
| Derivatives that are hedge accounted | | | | |
| Derivative financial instrument assets | 251 | 25 | – | – |
| Loans and receivables | | | | |
| Cash and cash equivalents | 5,442 | 16,868 | 13,110 | 6,474 |
| Term deposits | 3,014 | – | – | – |
| Debtors and other receivables | 132,522 | 94,666 | 1,231 | 11,753 |
| Other financial assets | | | | |
| – loans | 623 | 1,047 | – | – |
| – loans to related parties | 25,981 | 38,531 | 114,481 | 113,531 |
| – other | – | 67 | – | – |
| | 167,582 | 151,179 | 128,822 | 131,758 |
| Held to maturity | | | | |
| Other financial assets | – | – | – | – |
| Fair value through equity | | | | |
| Other financial assets | | | | |
| CCHL shares in subsidiary and associated companies | – | – | 1,584,265 | 1,497,948 |
| | – | – | 1,584,265 | 1,497,948 |
| Other unlisted shares | 45 | 1,264 | – | – |
| | 45 | 1,264 | 1,584,265 | 1,497,948 |
| Total financial assets | 167,879 | 152,482 | 1,713,087 | 1,629,706 |
| Financial liabilities | | | | |
| Fair value through profit or loss – held for trading | | | | |
| Derivative financial instrument liabilities | 2,739 | 1,212 | – | – |
| Derivatives that are hedge accounted | | | | |
| Derivative financial instrument liabilities | 37,227 | 22,443 | 11,970 | 6,543 |
| Financial liabilities at amortised cost | | | | |
| Creditors and other payables | 71,031 | 102,275 | 1,460 | 19,110 |
| Borrowings | 666,658 | 583,865 | 302,000 | 296,000 |
| | 737,689 | 686,140 | 303,460 | 315,110 |
| Total financial liabilities | 777,655 | 709,795 | 315,430 | 321,653 |

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.

41. Financial instruments contd.

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 59% (2011: 80%) of trade receivables due from 10 customers. City Care Ltd also has a concentration of credit risk in respect of its transactions with ultimate shareholder Christchurch City Council, with 53% (2011: 61%) of its revenue derived from this source. Red Bus Ltd has a concentration of credit risk with Environment Canterbury, which provides 79% (2011: 64%) of the company's revenue. Notwithstanding this concentration of credit risk, all of these major customers are considered to be of high credit quality.

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, and this will have the effect of reducing the security held by Orion New Zealand Ltd in the future.

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:

| | Group 2012 \$'000 | Group 2011 \$'000 | Parent 2012 \$'000 | Parent 2011 \$'000 |
|---|-------------------------|-------------------------|--------------------------|--------------------------|
| 41(b) Maximum exposure to credit risk | | | | |
| Cash at bank, term deposits and foreign currency | 8,456 | 16,868 | 13,110 | 6,474 |
| Debtors and other receivables | 132,522 | 94,733 | 1,231 | 11,753 |
| Loans | 26,604 | 39,578 | 114,481 | 113,531 |
| Derivative financial instrument assets | 252 | 39 | – | – |
| | 167,834 | 151,218 | 128,822 | 131,758 |
| Counterparties | | | | |
| Cash at bank, term deposits and foreign currency AA | 8,456 | 16,868 | 13,110 | 6,474 |
| | 8,456 | 16,868 | 13,110 | 6,474 |
| Loans AA | 25,981 | 38,531 | 25,981 | 38,531 |
| A | – | – | 50,000 | 50,000 |
| Lower than BBB or unrated | 623 | 1,047 | 38,500 | 25,000 |
| | 26,604 | 39,578 | 114,481 | 113,531 |
| Derivative financial instrument assets AA | 252 | 39 | – | – |
| | 252 | 39 | – | – |

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

41(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.

NOTES TO THE FINANCIAL STATEMENTS Contd.

41. Financial instruments contd.

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:

| Group 30 June 2012 | Balance sheet \$'000 | Contractual cash flows \$'000 | Less than 1 year \$'000 | 1-2 years \$'000 | 2-5 years \$'000 | 5 years + \$'000 |
|--------------------------------------|----------------------------|-------------------------------------|-------------------------------|---------------------|---------------------|---------------------|
| Financial liabilities: | | | | | | |
| 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 |
| Financial assets: | | | | | | |
| 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 (external) | 623 | 1,061 | 183 | 172 | 174 | 532 |
| Loans and advances (CCC) | 25,981 | 30,038 | 1,746 | 11,802 | 16,490 | – |
| 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 |
| Group 30 June 2011 | | | | | | |
| Financial liabilities: | | | | | | |
| Creditors and other payables | 102,275 | 102,275 | 102,275 | – | – | – |
| Net settled derivative liabilities | 23,655 | 23,421 | 9,312 | 6,652 | 6,701 | 756 |
| Commercial paper | 91,000 | 91,000 | 91,000 | – | – | – |
| Bonds and other fixed rate borrowing | 75,000 | 99,467 | 5,090 | 14,759 | 79,618 | – |
| Floating rate notes | 130,000 | 173,939 | 5,992 | 15,308 | 97,726 | 54,913 |
| Loans from external parties | 282,312 | 299,700 | 57,427 | 82,929 | 159,344 | – |
| Finance lease liabilities | 5,553 | 12,882 | 806 | 806 | 1,367 | 9,903 |
| | 709,795 | 802,684 | 271,902 | 120,454 | 344,756 | 65,572 |
| Financial assets: | | | | | | |
| Cash and cash equivalents | 16,868 | 16,868 | 16,868 | – | – | – |
| Debtors and other receivables | 67,307 | 67,307 | 67,307 | – | – | – |
| Related party receivables | 27,359 | 27,359 | 27,359 | – | – | – |
| Loans and advances (external) | 1,047 | 1,549 | 275 | 257 | 664 | 353 |
| Loans and advances (CCC) | 38,531 | 47,434 | 2,632 | 28,417 | 16,385 | – |
| Finance lease receivables | 67 | 78 | 26 | 26 | 26 | – |
| Net settled derivative assets | 39 | 25 | 25 | – | – | – |
| | 151,218 | 160,620 | 114,492 | 28,700 | 17,075 | 353 |

41. Financial instruments contd.

| Parent 30 June 2012 | Balance sheet \$'000 | Contractual cash flows \$'000 | Less than 1 year \$'000 | 1-2 years \$'000 | 2-5 years \$'000 | 5 years + \$'000 |
|---|-------------------------------------|--|--|-----------------------------|-----------------------------|-----------------------------|
| Financial liabilities: | | | | | | |
| Creditors and other payables | 1,460 | 1,460 | 1,460 | – | – | – |
| Net settled derivative liabilities | 11,970 | (109) | 1,085 | 475 | (50) | (1,619) |
| 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 |
| | 315,430 | 360,124 | 116,204 | 13,332 | 177,294 | 53,294 |
| Financial assets: | | | | | | |
| Cash and cash equivalents | 13,110 | 13,110 | 13,110 | – | – | – |
| Debtors and other receivables | 1,231 | 1,231 | 1,231 | – | – | – |
| Related party loans (subsidiaries) | 88,500 | 110,459 | 10,518 | 7,129 | 92,812 | – |
| Related party loans (Christchurch City Council) | 25,981 | 30,038 | 1,746 | 11,802 | 16,490 | – |
| | 128,822 | 154,838 | 26,605 | 18,931 | 109,302 | – |
| Parent 30 June 2011 | | | | | | |
| Financial liabilities: | | | | | | |
| Creditors and other payables | 19,108 | 19,110 | 19,110 | – | – | – |
| Net settled derivative liabilities | 6,543 | 4,248 | 2,050 | 1,301 | 837 | 60 |
| Commercial paper | 91,000 | 91,000 | 91,000 | – | – | – |
| Bonds | 75,000 | 99,467 | 5,090 | 14,759 | 79,618 | – |
| Floating rate notes | 130,000 | 173,939 | 5,992 | 15,308 | 97,726 | 54,913 |
| | 321,651 | 387,764 | 123,242 | 31,368 | 178,181 | 54,973 |
| Financial assets: | | | | | | |
| Cash and cash equivalents | 6,474 | 6,474 | 6,474 | – | – | – |
| Debtors and other receivables | 1,048 | 1,040 | 1,040 | – | – | – |
| Related party receivables | 10,713 | 10,713 | 10,713 | – | – | – |
| Related party loans | 75,000 | 140,721 | 6,681 | 38,542 | 95,498 | – |
| Related party loans (Christchurch City Council) | 38,531 | 47,434 | 2,632 | 28,417 | 16,385 | – |
| | 131,766 | 206,382 | 27,540 | 66,959 | 111,883 | – |

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 \$16.3m (2011: \$18.9m). 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.

Lyttelton Port Company Ltd's treasury policy requires that fuel price exposures are assessed on a quarterly basis and may be hedged within pre-approved thresholds by fixing prices in order to provide greater certainty. The company uses swaps to manage these exposures. No hedges were entered into in 2012 (2011: Nil).

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.

NOTES TO THE FINANCIAL STATEMENTS Contd.

41. Financial instruments contd.

The parent company has not entered into any foreign exchange transactions, and does not have any direct exposure to foreign exchange risk (2011: Nil).

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

41(d) Foreign currency exchange risk

Group

30 June 2012

| In thousands of New Zealand dollars | USD | AUD | EURO |
|--|---------|-------|-------|
| Foreign currency risk | | | |
| 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) |
| Forward exchange contracts | | | |
| Notional amounts | (6,022) | – | 5,215 |
| Foreign currency on hand | – | – | 1 |
| Net unhedged exposure | (387) | (152) | 4,861 |

Group

30 June 2011

Foreign currency risk

| | | | |
|--|-------|---------|---------|
| Trade receivables | 375 | – | 222 |
| Trade payables | (7) | (92) | (41) |
| Net balance sheet exposure before hedging activity | 368 | (92) | 181 |
| Estimated forecast sales | 1,369 | – | – |
| Estimated forecast purchases | (260) | (920) | (1,441) |
| Net cash flow exposure before hedging activity | 1,109 | (920) | (1,441) |
| Forward exchange contracts | | | |
| Notional amounts | (859) | – | 472 |
| Foreign currency on hand | 3 | – | 2 |
| Net unhedged exposure | 621 | (1,012) | (786) |

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):

| | Group | Group | Parent | Parent |
|--|--------------------------|-------------------------------------|--------------------------|-------------------------------------|
| | -10% | Movement in exchange rates -10% | +10% | -10% |
| | Pre-tax profit \$'000 | Other compr. income \$'000 | Pre-tax profit \$'000 | Other compr. income \$'000 |
| 41(e) Foreign exchange sensitivity | | | | |
| 30 June 2012 | | | | |
| Derivatives – held for trading | 17 | – | (14) | – |
| Total sensitivity to foreign exchange risk | 17 | – | (14) | – |
| 30 June 2011 | | | | |
| Derivatives – held for trading | 68 | 86 | (30) | (86) |
| Total sensitivity to foreign exchange risk | 68 | 86 | (30) | (86) |

41. Financial instruments contd.

41(f) Interest rate risk

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.

| Group | Fixed | Variable | Non-interest |
|---|---------------|-----------------|---------------------|
| 30 June 2012 | \$'000 | \$'000 | bearing |
| | | | \$'000 |
| Financial assets | | | |
| 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 | 623 | – | – |
| Finance lease receivables | 47 | – | – |
| Derivatives | – | – | 252 |
| Related party loans (Christchurch City Council) | 25,700 | 281 | – |
| Other | – | – | 45 |
| | 29,384 | 5,711 | 132,784 |
| Financial liabilities | | | |
| 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) | – |
| | (481,561) | (185,097) | – |
| | (452,177) | (179,386) | 132,784 |
| Group | | | |
| 30 June 2011 | | | |
| Financial assets | | | |
| Cash and cash equivalents | – | 16,852 | 16 |
| Debtors and other receivables | – | – | 67,307 |
| Related party receivables | – | – | 27,359 |
| Loans and advances | 1,047 | – | – |
| Finance lease receivables | 67 | – | – |
| Related party loans (Christchurch City Council) | 38,531 | – | – |
| Other | – | – | 1,263 |
| | 39,645 | 16,852 | 95,945 |
| Financial liabilities | | | |
| Commercial paper | – | (91,000) | – |
| Bonds and other fixed rate borrowing | (75,000) | – | – |
| Floating rate notes | (80,000) | (50,000) | – |
| Loans from external parties | (235,000) | (47,312) | – |
| Finance lease liabilities | (773) | (4,780) | – |
| | (390,773) | (193,092) | – |
| | (351,128) | (176,240) | 95,945 |

NOTES TO THE FINANCIAL STATEMENTS Contd.

41. Financial instruments contd.

| Parent 30 June 2012 | Fixed \$'000 | Variable \$'000 | Non-interest bearing \$'000 |
|---|-------------------------------|----------------------------------|--|
| Financial assets | | | |
| 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 |
| Financial liabilities | | | |
| Commercial paper | (9,000) | (88,000) | – |
| Bonds and other fixed rate borrowing | (75,000) | – | – |
| Floating rate notes | (80,000) | (50,000) | – |
| | (164,000) | (138,000) | – |
| | (124,300) | (50,109) | 1,231 |
| Parent 30 June 2011 | | | |
| Financial assets | | | |
| Cash and cash equivalents | – | 6,474 | – |
| Debtors and other receivables | – | – | 1,040 |
| Related party receivables | – | – | 10,713 |
| Related party loans – subsidiaries | 14,000 | 61,000 | – |
| Related party loans – Christchurch City Council | 38,531 | – | – |
| | 52,531 | 67,474 | 11,753 |
| Financial liabilities | | | |
| Commercial paper | – | (91,000) | – |
| Bonds and other fixed rate borrowing | (75,000) | – | – |
| Floating rate notes | (80,000) | (50,000) | – |
| | (155,000) | (141,000) | – |
| | (102,469) | (73,526) | 11,753 |

41(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 | | Decrease in interest rates | |
|---|-----------------------------------|---------------|-----------------------------------|---------------|
| | 1.00% | 1.00% | –1.00% | –1.00% |
| | | Other | | Other |
| | Pre-tax | compr. | Pre-tax | compr. |
| Group | profit | income | profit | income |
| 30 June 2012 | \$'000 | \$'000 | \$'000 | \$'000 |
| Floating rate notes | (500) | – | 500 | – |
| Commercial paper | (880) | – | 880 | – |
| Finance lease liabilities | (53) | – | 53 | – |
| Bank loans | (418) | – | 418 | – |
| Cash and cash equivalents | 54 | – | (54) | – |
| Bank deposits | 30 | – | (30) | – |
| Related party loans | 3 | – | (3) | – |
| Interest rate swap derivatives | 1,970 | 12,897 | (2,037) | (13,621) |
| Total sensitivity to interest rate risk | 206 | 12,897 | (273) | (13,621) |

41. Financial instruments contd.

| Group | Pre-tax profit \$'000 | Other compr. income \$'000 | Pre-tax profit \$'000 | Other compr. income \$'000 |
|---|---|---|--|---|
| 30 June 2011 | | | | |
| Floating rate notes | (500) | – | 500 | – |
| Commercial paper | (910) | – | 910 | – |
| Finance lease liabilities | (48) | – | 48 | – |
| Bank loans | (473) | – | 473 | – |
| Cash and cash equivalents | 169 | – | (169) | – |
| Interest rate swap derivatives | 365 | 14,793 | (2,861) | (15,759) |
| Total sensitivity to interest rate risk | (1,397) | 14,793 | (1,099) | (15,759) |
| | | | | |
| | Increase in interest rates 1.00% | 1.00% | Decrease in interest rates –1.00% | –1.00% |
| | | Other | | Other |
| Parent | Pre-tax | compr. | Pre-tax | compr. |
| 30 June 2012 | profit | income | profit | income |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Floating rate notes | (500) | – | 500 | – |
| Commercial paper | (880) | – | 880 | – |
| Cash and cash equivalents | 131 | – | (131) | – |
| Related party loans | 748 | – | (748) | – |
| Interest rate swap derivatives | 18 | 3,671 | (18) | (3,894) |
| Total sensitivity to interest rate risk | (483) | 3,671 | 483 | (3,894) |
| | | | | |
| Parent | Pre-tax | Other | Pre-tax | Other |
| 30 June 2011 | profit | compr. | profit | compr. |
| | \$'000 | income | \$'000 | income |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Floating rate notes | (500) | – | 500 | – |
| Commercial paper | (910) | – | 910 | – |
| Cash and cash equivalents | 65 | – | (65) | – |
| Related party loans | 610 | – | (610) | – |
| Interest rate swap derivatives | (27) | 4,064 | 34 | (4,344) |
| Total sensitivity to interest rate risk | (762) | 4,064 | 769 | (4,344) |

Insurance risk

There is a risk that the group will have insufficient coverage for its assets and operations in the event of another natural disaster. Following the Canterbury earthquakes, insurance companies have been reluctant to provide full insurance cover. It is likely that, when insurance policies are renewed, some companies within the Group may not be able to obtain cover for natural disasters. These companies are currently assessing what risk mitigation measures are available.

Commodity price and demand risk

EcoCentral'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.

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.

NOTES TO THE FINANCIAL STATEMENTS Contd.

41. Financial instruments contd.

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

| | Group 2012 \$'000 | Group 2011 \$'000 | Parent 2012 \$'000 | Parent 2011 \$'000 |
|--|----------------------------------|----------------------------------|-----------------------------------|-----------------------------------|
| Total carrying value of fixed rate borrowing | 75,000 | 75,000 | 75,000 | 75,000 |
| Total fair value of fixed rate borrowing | 81,415 | 79,503 | 81,415 | 79,503 |

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.

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 are 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:

41(h) Fair value measurement basis

| Group 30 June 2012 | Carrying value \$'000 | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 |
|---|--------------------------------------|---------------------------|---------------------------|---------------------------|
| Financial assets at fair value through profit or loss | | | | |
| Derivative financial instrument assets | 1 | – | 1 | – |
| Derivatives that are hedge-accounted | | | | |
| Derivative financial instrument assets | 251 | – | 251 | – |
| Fair value through equity financial assets | | | | |
| Investment in Enertech Capital Partners 11 LP | 45 | – | – | 45 |
| Financial liabilities at fair value through profit or loss | | | | |
| Derivative financial instrument liabilities | 2,414 | – | 2,414 | – |
| Derivatives that are hedge accounted | | | | |
| Derivative financial instrument liabilities | 37,552 | – | 37,552 | – |
| Net financial assets and liabilities | (39,669) | – | (39,714) | 45 |

41. Financial instruments contd.

| Group 30 June 2011 | Carrying value \$'000 | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 |
|---|--------------------------------------|---------------------------|---------------------------|---------------------------|
| Financial assets at fair value through profit or loss | | | | |
| Derivative financial instrument assets | 14 | – | 14 | – |
| Derivatives that are hedge-accounted | | | | |
| Derivative financial instrument assets | 25 | – | 25 | – |
| Fair value through equity financial assets | | | | |
| Investment in Enertech Capital Partners 11 LP | 1,263 | – | – | 1,263 |
| Financial liabilities at fair value through profit or loss | | | | |
| Derivative financial instrument liabilities | 1,210 | – | 1,210 | – |
| Derivatives that are hedge accounted | | | | |
| Derivative financial instrument liabilities | 22,445 | – | 22,445 | – |
| Net financial assets and liabilities | (22,353) | – | (23,616) | 1,263 |
| Parent 30 June 2012 | | | | |
| Fair value through equity financial assets | | | | |
| Shares in subsidiaries and associates | 1,584,265 | 162,621 | – | 1,421,644 |
| Derivatives that are hedge accounted | | | | |
| Derivative financial instrument liabilities | 11,970 | – | 11,970 | – |
| Net financial assets and liabilities | 1,572,295 | 162,621 | (11,970) | 1,421,644 |
| Parent 30 June 2011 | | | | |
| Fair value through equity financial assets | | | | |
| Shares in subsidiaries and associates | 1,497,948 | 188,686 | – | 1,309,262 |
| Financial liabilities at fair value through profit or loss | | | | |
| Derivative financial instrument liabilities | 18 | – | 18 | – |
| Derivatives that are hedge accounted | | | | |
| Derivative financial instrument liabilities | 6,525 | – | 6,525 | – |
| Net financial assets and liabilities | 1,491,405 | 188,686 | (6,543) | 1,309,262 |

NOTES TO THE FINANCIAL STATEMENTS Contd.

41. Financial instruments contd.

| Reconciliation of movements in Level 3 fair value though equity financial assets | Note | Group 2012 \$'000 | Group 2011 \$'000 | Parent 2012 \$'000 | Parent 2011 \$'000 |
|--|------|-------------------------|-------------------------|--------------------------|--------------------------|
| Shares in subsidiaries and associates | | | | | |
| Opening carrying value | | – | – | 1,309,262 | 1,277,260 |
| Shares acquired during the year | | – | – | – | 12,170 |
| Capital repaid | | – | – | – | (10,267) |
| Valuation movements | | – | – | 112,382 | 30,099 |
| Closing carrying value of Level 3 assets | | – | – | 1,421,644 | 1,309,262 |

42. Impact of the Canterbury earthquakes

| | | | | |
|--|---------|--------|---|---|
| Revenue | | | | |
| Insurance proceeds recognised | 43,664 | 53,149 | – | – |
| Expenses | | | | |
| Impairment/(reversal) of property, plant and equipment | (1,524) | 36,366 | – | – |
| Repair and clean up provisions | 17,644 | 12,606 | – | – |
| Other direct costs of earthquake | 16,571 | 18,539 | – | – |
| Balance sheet | | | | |
| Insurance receivables recognised | 40,132 | – | – | – |
| Impairment written off against revaluation reserves | – | 76,137 | – | – |

Christchurch has been impacted by a series of major earthquakes and smaller aftershocks since September 2010, causing widespread damage to parts of the city. The purposes of this note are to disclose the:

- estimated material impacts of the earthquake on the financial performance and financial position of the company and group
- significant areas of estimation uncertainty
- contingent insurance assets that exist at balance date.

With regard to the \$43.7m of insurance proceeds recognised through profit or loss, and the \$40.1m of insurance receivables at balance date, the large majority relates to Orion New Zealand Ltd and Lyttelton Port Company Ltd, as do the expenses relating to repair and clean up provisions (\$19.1m) and other direct costs of the earthquake (\$16.6m).

Orion New Zealand Ltd

Network reliability performance

The company's network reliability was severely affected in the year ended 31 March 2011. On 4 September 2010, over 90% of all of the company's customers had supply by nightfall. Following the 22 February 2011 earthquake, it took over a week to have supply to over 90% of all of the company's customers. Due to the severity of the earthquakes last year, the company was unable to calculate its SAIDI/SAIFI performance for the year ended 31 March 2011 in time for last year's audited performance statement. The company was also unable to set meaningful SAIDI/SAIFI performance targets for the year ended 31 March 2012.

Financial impacts – the damage

The estimated major impacts on the company's electricity distribution network were as follows:

- high voltage and low voltage overhead lines were relatively undamaged, with relatively minor repairs required

- high voltage underground cables were severely damaged in some city areas, particularly in the eastern suburbs of the city, due to ground movement. Many of the company's 11kV underground cables in those areas needed urgent repairs, including new cable joints in order to restore supply. The company's four key 66kV high voltage underground cables (these cables feed the eastern suburbs from Transpower's Bromley grid exit point) were extensively and severely damaged and the company has permanently decommissioned these cables rather than attempt to repair them. The carrying value of these cables was \$3.3m which was derecognised and expensed in the year ended 31 March 2011. The company built an emergency temporary 66kV overhead line to replace the decommissioned cables, at a cost of approximately \$1.6m. The company plans to replace (and decommission) this temporary line with a permanent 66kV high voltage supply to the area by 31 March 2014. The company's proposed route and design for this new supply will be subject to community consultation during calendar 2012.
- substations were relatively undamaged, however two of the company's smaller substations were destroyed (Sumner and Mt Pleasant) and one major substation (Brighton) suffered ground subsidence and liquefaction but its equipment survived. The company's Brighton zone substation has been rebuilt 1.5km away in Rawhiti Domain (Keyes Road) and this new substation was commissioned in September 2011. The company also moved its Pages Road switchgear to the new site. The temporary 66kV overhead line was extended a further 1.5km to Rawhiti and nearby damaged 11kV cables were repaired and reconnected to the new substation. The company also secured access and long term land use rights for the new site. The total cost of these projects was approximately \$8m. It is uncertain how much of this cost will be covered by the company's insurance underwriters.

42. Impact of the Canterbury earthquakes contd.

The company's assessments of damage and required remedial action for the company's electricity distribution network continue. It will be several months before this work is completed and findings collated. Any estimates and forecasts contained in these audited financial statements are therefore subject to change.

The company's main head office buildings suffered significant damage. The company has reached agreement to cash settle with its insurers on three of its significant buildings on its head office site and their unrecoverable contents and its overall earthquake deductibles for the 22 February and 13 June earthquakes. The company has recognised \$22.3m as insurance revenues in the 2012 financial year (2011: nil).

Due to estimation uncertainty, no other insurance proceeds have been recognised as revenue in these financial statements in either the current year or the prior year.

Immediately following the insurance cash settlements, the company decided to demolish its severely damaged main administration office buildings, as they were uneconomic to repair and are a potential hazard to the company's continued operations on the site. The demolitions will occur in the year ended 31 March 2013. In May 2012, the company also made announcements related to its proposal to build new office accommodation for all of its employees in north-west Christchurch.

The major impact of the earthquakes on the company's capital expenditure for 2012 was the \$8m Rawhiti substation project as noted above. A further \$1m was spent on standby diesel generators. No significant capital projects were cancelled in the year, although a number were postponed until future years.

It is difficult to be definitive regarding the material stand alone incremental financial impacts which have arisen as a consequence of the earthquakes, as:

- it is not known what delivery and other revenues would have been without the earthquakes
- 'normal' operational expenditure has been postponed or permanently replaced by earthquake-focused activities
- some valuation movements are directly attributable to earthquakes whereas others reflect local economic conditions
- the earthquakes have 'shifted' load from some areas, typically eastern suburbs and the CBD, to other areas and so some projects will be postponed indefinitely and other new projects commenced in response to changes in local demand
- as time goes by, it becomes less clear what is 'earthquake' and 'non-earthquake' expenditure.

Estimation uncertainty

Three key areas of estimation uncertainty arise from the earthquakes. They are to:

- determine the fair value of the company's electricity distribution network assets – due to the uncertainty around future electricity delivery revenues, future capital expenditure and future operating expenses resulting from the earthquake
- determine the carrying value of the insurance proceeds receivable, the details of which are discussed below
- determine the material stand alone incremental financial impacts as disclosed above.

Contingent asset in respect of insurance proceeds

The company has two key insurance policies relevant to the recent earthquakes as follows:

- material damage – this is a full replacement policy and covers the group's corporate properties and most of its key substations (not those substations sited in customers' premises). Network overhead lines and underground cables have not been insured as it has not been economic to do so
- business interruption – lost revenues and additional costs are claimable if they arise "... as a consequence of ..." damage to the group's insured assets and occur within the first eighteen months following the earthquake.

The company is virtually certain to continue to receive insurance proceeds on both policies as its detailed claims processes progress, but the quantum of the likely proceeds cannot be reliably measured, because of the wide range of possible outcomes that will be negotiated with the group's insurers following completion of detailed engineering and financial assessments. Hence, no insurance proceeds receivable have been recognised as assets within these financial statements other than those that have been formally agreed and settled with the group's insurers.

It is still relatively early in the group's insurance claims process. There are currently no disputes with the group's underwriters or their assessors. Over the next financial year, as the quantity and quality of the various engineering assessments and financial information available to the group improves, there is likely to be a material upwards adjustment to the carrying amount of insurance proceeds receivable, currently \$10.0m, (2011: nil).

Christchurch International Airport Ltd

Christchurch International Airport incurred some damage from the earthquakes, but this did not cause major disruptions to the day to day operations.

The directors have assessed the recoverable amount of fixed assets damaged in the earthquake and compared this to the carrying value of those assets, and have assessed there was no need to make any allowance for value impairment.

Costs associated with earthquake damage in the current year were \$1.1m, with total costs to date of \$3.8m. In the current year, \$1.6m of insurance proceeds were received. No earthquake insurance claims are currently outstanding.

The disruptions caused by the ongoing impact of the earthquakes continue to have a detrimental impact on the short to medium term international tourism visitors. This will continue to have an impact on short term earnings but the going concern assumption remains appropriate.

Lyttelton Port Company Ltd

The earthquakes have extensively damaged the Port and its infrastructure. The most damaging quakes occurred in September 2010, February 2011 and June 2011. The effects of these quakes are reflected in the company's financial statements for the years ended 30 June 2011 and 30 June 2012.

On 23 December 2011, there were two further significant earthquakes. Operations were restored within 24 hours and LPC undertook extensive independent technical and engineering assessments to determine any impact on the company's assets. These assessments showed that there had only been minor additional damage to infrastructure.

NOTES TO THE FINANCIAL STATEMENTS Contd.

42. Impact of the Canterbury earthquakes contd.

De-recognition of assets

Following each significant earthquake, the company's key infrastructural assets are subject to independent technical and engineering assessments. If new significant damage is identified, the assets are assessed for whether they were partly or completely damaged and therefore need to be de-recognised. The only significant seismic activity during the 2012 year occurred on 23 December 2011. The assessments following these earthquakes confirmed only minor additional damage. Consequently no assets were de-recognised in the year ended 30 June 2012. The table below identifies the categories of the assets concerned.

| | 30 June 2012 \$'000 | 30 June 2011 \$'000 |
|--|------------------------|------------------------|
| Buildings | – | 1,571 |
| Land improvements & harbour structures | – | 26,691 |
| Plant, equipment and vehicles | – | 726 |
| Total | – | 28,988 |

Impairment of assets

The company determined that the earthquakes on 23 December 2011 were an indicator of impairment as per NZ IAS 36 Impairment of Assets. In accordance with NZ IAS 36, the company has undertaken an impairment review to determine the recoverable amount of its remaining recognised assets as at 31 December 2011. There were no further indicators of impairment. The result of this analysis was that the recoverable amount remained above the book value and that no impairment of the asset carrying values had occurred.

On 2 November 2011, the company elected to evacuate its administration building due to the risks highlighted in an engineering report. Further engineering assessments were commissioned to determine if remediation was possible and economically feasible. At 30 June 2012, no decision had been reached whether this building was repairable. The company is currently unable to assess whether the building had suffered any impairment. The building had a net book value of \$1.2m as at 30 June 2012.

Insurance receivable & claims paid

The insurance receivable as at 30 June 2012 represents the amounts due from its insurers which the company can reliably measure based on the costs incurred and the revenue lost to date. The company has recognised a \$29.0m insurance receivable as at 30 June 2012 which represents a portion of what will be significant claims for both business interruption and material damage. The company has not received any payments during the current year from its insurers, but remains confident of the receipt of the insurance receivable.

| | 30 June 2011 | 30 June 2012 | Payments received | Total accrued |
|-----------------------|-----------------|-----------------|----------------------|------------------|
| Material Damage | 33,696 | 40,376 | (33,695) | 6,680 |
| Business Interruption | 12,592 | 21,906 | (2,000) | 19,906 |
| Contract works | – | 2,385 | – | 2,385 |
| Total | 46,288 | 64,667 | (35,696) | 28,971 |

The company has a Material Damage claim with its insurer in relation to the reinstatement of its assets. The company has generally elected to reinstate its damaged or destroyed assets, though significant physical works are yet to commence.

The company is entitled to lodge claims for payments under the policy when:

- Indemnity values have been established, and/or
- Reinstatement costs have been incurred.

Following independent expert advice the company is now liaising with its insurers on establishing the indemnity values. This will form the basis of a further indemnity progress payment to be made by the insurers.

It will take the company a number of years to complete the reinstatement of its damaged and destroyed assets. The ultimate quantum of the material damage claim cannot currently be reliably measured on the basis that there is significant uncertainty around the range of possible outcomes and insufficient information to form a reasonable judgement. The claim process is highly complex and over the next financial year, the company will continue to collate the necessary engineering and financial information for the insurers and their assessors.

Ongoing earthquake related expenditure

In addition to the \$15.2m of earthquake related additional costs noted in the statement of comprehensive income, the company has spent significant further amounts on asset repairs. Some of these activities were incomplete as 30 June 2012 and are included in capital work in progress as they met the recognition criteria under NZ IAS 16 Plant, Property & Equipment.

Enable Services Ltd

Enable Services Ltd suffered little physical damage from the earthquakes, and the roll out of the UFB project continues as planned.

City Care Ltd

City Care Ltd suffered no material earthquake damage. The company's workstream and revenues increased significantly after the earthquakes, and hence has resulted in increased profitability.

Red Bus Ltd

The majority of the company's building and equipment escaped major damage from the earthquakes, with the notable exception of the workshop building which was damaged beyond repair in the February 2011 earthquake.

The company's financial statements include \$1.24m (2011: \$6.36m) of insurance income and an insurance receivable of \$1.1m (2011: \$4.9m). No impairment or de-recognition of assets was recorded in 2012 (2011: \$0.3m).

The earthquakes have also had a major impact on public transport, with significant damage to roading and public transport infrastructure. This has had a flow on effect to patronage and the level of passenger transport services in the city, and the profitability of the company.

EcoCentral Ltd

EcoCentral Ltd has not sustained any significant or ongoing damage to plant or property as a result of the earthquakes. The company received additional volumes of refuse and hardfill in the 2011 year following two of the major earthquakes but these were managed within existing operational capacity.

43. 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 21
- 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 (2011: Nil), and no bad or doubtful debts expense was recognised in relation to related parties during the period.

The Group paid directors' fees totalling \$1,954,000 (2011: \$1,712,000).

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:

| Transactions between CCHL group and CCC | Note | 2012 \$'000 | 2011 \$'000 |
|---|------|----------------|----------------|
| Dividends paid/payable to CCC | | 35,449 | 43,325 |
| Interest received from CCC | | 2,624 | 2,697 |
| Services provided to CCC | | 258,562 | 149,389 |
| Services provided by CCC (including rent and rates) | | 18,255 | 10,495 |

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

| Subvention payments | | Paid to: | | | |
|--|--|---------------------|--------------------|---------------------------|-----------------|
| 2012 | | CCC | Vbase group | Civic Building Ltd | Tuam Ltd |
| | | \$'000 | \$'000 | \$'000 | \$'000 |
| Paid by: | | | | | |
| Christchurch International Airport Ltd | | 5,162 | 1,438 | – | – |
| City Care Ltd | | – | 2,593 | 1,867 | 267 |
| Red Bus Ltd | | – | 165 | – | – |
| EcoCentral Ltd | | 684 | – | – | – |
| Tax loss offsets: | | Offset with: | | | |
| 2012 | | | | | |
| Losses provided by: | | | | | |
| Christchurch International Airport Ltd | | 1,094 | 3,355 | – | – |
| City Care Ltd | | – | 6,050 | 4,356 | 623 |
| Red Bus Ltd | | – | 387 | – | – |
| EcoCentral Ltd | | 1,596 | – | – | – |
| Subvention payments | | Paid to: | | | |
| 2011 | | CCC | Vbase group | Civic Building Ltd | Tuam Ltd |
| | | \$'000 | \$'000 | \$'000 | \$'000 |
| Paid by: | | | | | |
| Christchurch International Airport Ltd | | 4,027 | 1,342 | 1,094 | – |
| City Care Ltd | | – | 1,865 | – | – |
| Red Bus Ltd | | – | – | 287 | – |

NOTES TO THE FINANCIAL STATEMENTS Contd.

43. Related parties contd.

| Tax loss offsets: | Offset with: | | | |
|--|---------------------|---------------|-----------------|---------------|
| 2011 | | | | |
| | CCC | Vbase | Civic | Tuam |
| Losses provided by: | \$'000 | group | Building | Ltd |
| | | \$'000 | Ltd | \$'000 |
| Christchurch International Airport Ltd | 364 | 3,131 | 2,553 | – |
| City Care Ltd | – | 4,352 | – | – |
| Red Bus Ltd | – | – | 669 | – |

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 2011 was \$25,981,000 (2011: \$38,531,289), with \$12,550,000 being repaid by CCC to CCHL during the year (2011: \$2,662,511). 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 \$12,697,000 in relation to the disposal of waste (2011: payments \$7,929,000; sales \$588,000), to Transwaste Canterbury Ltd, a company in which the ultimate shareholder, CCC, has a 38.9% shareholding.
- Christchurch International Airport Ltd received payments of \$Nil (2011: \$71,233) in relation to ground rental and rates from Jet Engine Facility Ltd, a wholly-owned subsidiary of Vbase Ltd, itself a wholly-owned subsidiary of CCC.

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 | 2012 | 2011 |
|---|-------------|---------------|---------------|
| | | \$'000 | \$'000 |
| Dividends received from subsidiaries | 2 | 54,742 | 42,636 |
| Interest received from subsidiaries | | 4,266 | 3,990 |
| Advances to Enable Services Ltd | 16 | (13,500) | (3,000) |
| Loan repayment from EcoCentral Ltd | 16 | 1,000 | 1,000 |
| Advance to EcoCentral Ltd | 16 | (1,000) | (15,000) |
| Purchase of shares in Enable Services Ltd | | Nil | (3,000) |
| Loss offsets – Christchurch International Airport Ltd | | 10,952 | 9,033 |

The loss offsets in 2012 relate to the 2011 tax year (2011: relate to the 2010 tax year).

During the 2012 financial year, the CCHL parent company also advanced \$13,500,000 to Enable Services Ltd (2011: \$3,000,000). Further information on these advances is provided in Note 16.

In addition, the CCHL parent company entered into loss offsets with Christchurch International Airport Ltd of \$10,952,000 (2011: \$9,033,000).

The CCHL parent company acquired a further 329,301 shares (2011: 335,215) in Lyttelton Port Company Ltd for consideration of \$0.7m (2011: \$0.7m), taking its ownership interest up to 79.51% (2011: 79.19%).

Transactions of the CCHL group with associates

During the period, Enable Services Ltd sold UFB and fibre network assets to associated company Enable Networks Ltd, and received shares in Enable Networks Ltd and cash as set out in Note 21. This includes the sale to Enable Networks Ltd of the existing fibre network at book value on 10 February 2012, for \$29.6m, and sale of new UFB network assets of \$3.4m.

In addition, Enable Services Ltd provides support services to the associate under a management services agreement and an operations and maintenance agreement. The company charged \$2.6m (2011: Nil) for these services. At balance date \$0.9m was outstanding (included within creditors and other provisions), and payable under normal commercial terms.

Following sale of the existing fibre network to Enable Networks Ltd, Enable Services Ltd purchased 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 \$1.0m with no balance payable at year end.

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

There were no transactions in the 2012 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.

Until 30 June 2011, Bill Dwyer, a director of CCHL, was a partner in Lane Neave Lawyers. In the 2011 year, the CCHL parent company paid \$4,535 to Lane Neave Lawyers, and the CCHL Group \$338,752 for legal services, all on commercial terms.

43. Related parties contd.

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

| Loan balances with related parties | Note | 2012 \$'000 | 2011 \$'000 |
|--|------|----------------|----------------|
| Christchurch City Council | 16 | 25,981 | 38,531 |
| Christchurch International Airport Ltd | 16 | 50,000 | 50,000 |
| Enable Services Ltd | 16 | 19,500 | 6,000 |
| Red Bus Ltd | 16 | 5,000 | 5,000 |
| EcoCentral Ltd | 16 | 14,000 | 14,000 |

44. Events after the balance sheet date

Adjudication notice from Transfield Services NZ Limited

Enable Services Ltd received an adjudication notice from Transfield Services NZ Limited on 17 August 2012. The notice sets out Transfield Services NZ Limited matters of dispute in relation to the UFB network build contract include variations on architecture, pricing methodology and the contractual relationship.

Enable Services Ltd is currently compiling the formal response to the adjudication notice. The notice will be vigorously defended but at the moment the company cannot make an estimate of the financial impact of the notice. Any decision from the adjudicator will be available towards the end of October 2012. There is currently no perceived material impact on the contract with Enable Networks Ltd. At this time all parties are proceeding in line with the requirements of the formal contracts.

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

45. Performance against Statement of Intent targets

The Statement of Intent ('Sol') issued by CCHL last year in respect of the 2011/12 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 2012 with the financial targets contained within the Sol:

| | Note | Group Actual | Group Target | Parent Actual | Parent Target |
|---|------|-----------------|-----------------|------------------|------------------|
| Profit for the year | | 97,281 | 47,800 | 44,726 | 32,400 |
| Net debt/net debt plus equity | | 32.5% | 37.6% | 17.1% | 21.5% |
| Interest cover | | 4.6 | 2.7 | 3.9 | 2.9 |
| Ordinary dividends to Christchurch City Council | | N/A | N/A | 27,414 | 26,200 |
| Special dividends to Christchurch City Council | | N/A | N/A | 8,035 | 8,035 |
| Return on average equity | | 7.3% | 4.1% | N/A | N/A |

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 is that Orion New Zealand Ltd and Lyttelton Port Company Ltd have recognised significant insurance receivables in their financial statements. Further information on the performance of the Group and the parent company is provided in the Annual Review.

Parent company dividends

CCHL exceeded its targeted ordinary dividends to the Council of \$26.2m through a combination of dividends paid of \$27.4m and subvention payments to the value of \$3.3m that CCHL was entitled to, but voluntarily elected not to receive at the request of Christchurch City Council. In addition it paid a special dividend of \$8.0m.

Parent company profit for the period

The CCHL parent company's profit for the period was higher than forecast primarily as a result of an additional dividend payment by Orion New Zealand Ltd during the 2012 financial year, and a catch up by Christchurch International Airport Ltd of an interim dividend postponed in the previous financial year while the impacts of the earthquakes were being evaluated.

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 the net \$86m increase in the value of CCHL's equity investments, and also an unbudgeted \$12.5m debt repayment by Christchurch City Council (see Note 16).

Interest cover is higher than forecast in the Sol, reflecting the improved parent company profitability referred to above.

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

NOTES TO THE FINANCIAL STATEMENTS Contd.

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 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. |
| | CCHL will submit a draft Sol for approval to CCC by 1 March 2012. | 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. | CCHL made 13 written reports to the Council and held three seminars for Councillors. |
| | Major matters of urgency are reported to CCC at the earliest opportunity. | 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 2011 and 2012 calendar years include the treasury policy, fraud policy and various governance and staff policies. | These policies were reviewed and updated as required. |
| 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 2011 calendar year. | Achieved. |
| | The Governance committee will review the training needs of individual CCHL directors, and ensure training is provided where required. | 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. |

Performance Statement

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 2012 Sol round regarding the structure and content of the group Sols. | CCHL wrote to all subsidiaries in December 2011 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 2012. | Achieved, other than for one minor exception. |
| | 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"> • achieving the objectives of its shareholders as set out in the Sol; • being a good employer; • exhibiting a sense of social and environmental responsibility; and • conducting their affairs in accordance with sound business practice. | CCHL will review the companies' performance in the context of these statutorily required objectives. | The CCHL Board satisfactorily completed this review for the 2011 annual reports. This year's review will be performed on receipt of the published 2012 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. | Limited progress was made with regard to this target, given that each company was strongly focused on its own earthquake recovery strategy. |
| | CCHL meets subsidiary and monitored company boards, or representatives thereof, on a formal basis at least two times in the 2012 financial year. | Achieved. |
| | CCHL receives an appropriate level of reporting from subsidiary and monitored company boards. | Achieved. |

NOTES TO THE FINANCIAL STATEMENTS Contd.

Performance Statement

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 Urban Development Strategy. | CCHL will engage with subsidiary and monitored companies prior to the 2012 Sol round regarding key shareholder strategies and, subsequently, review their Sols for compatibility with those strategies. | CCHL wrote to each subsidiary in December 2011 requesting that their Sols specifically address the implications of the CERA recovery plan and the Council's Central City Plan. It is considered that the Sols addressed these adequately. |
| Objective | Performance target | Performance |
| 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 Networks as it commences the rollout of the network under the Government's Ultra Fast Broadband initiative.</p> | <p>CCHL has actively encouraged subsidiaries to consider investment opportunities, although understandably earthquake recovery has been the main focus for 2011/12</p> <p>CCHL has actively engaged with the subsidiaries regarding their earthquake recovery strategies.</p> <p>CCHL has liaised closely with Enable during the commencement of its UFB rollout, and has established a joint negotiating team to undertake discussions with Chorus.</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 2011 annual reports. This year's review will be performed on receipt of the published 2012 annual reports from each subsidiary.</p> |

Performance Statement

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 2012 financial year that meets or exceeds budget, and achieves other budgeted key performance measures. | Achieved – CCHL paid an ordinary dividend of \$27.41m (effectively \$30.70m after adding back subvention payment adjustments) and a special dividend of \$8.03m. Performance against other targets is described in Note 45. |
| 2. CCHL's capital structure is appropriate for the nature of its business. | Following the successful UFB bid by Enable Networks, 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. | CCHL has formally requested the Council to increase the level of CCHL's uncalled capital 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 the major subsidiaries was benchmarked against comparable entities, 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 2011 calendar year. | The review was commenced in 2011 with the revised policy being completed in 2012. |

NOTES TO THE FINANCIAL STATEMENTS Contd.

46. 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 2012. The financial statements were authorised for issue by the CCHL Board of directors on 19 September 2012.

(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 2011.

- **NZ IFRIC 19**

Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments

- **Improvements to NZ IFRSs**

Amendments to NZ IFRSs arising from the Annual Improvements Project (2010) [NZ IFRS 1, 3, 7, NZ IAS 1, 27, 34, NZ IFRIC 13]

- **NZ IAS 24**

Related Party Disclosures (Revised 2009). The revised NZ IAS 24 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition, including:

- (a) the definition now identifies a subsidiary and an associate with the same investor as related parties of each other;

- (b) entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other; and

- (c) the definition now identifies that, whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other.

The amendment explicitly adds disclosure requirements for commitments (including executory contracts) with related parties.

- **NZ IFRS 8**

NZ IAS 24 Related Party Disclosures (as revised in 2009) amendment to NZ IFRS 8.

- **NZ IFRS 7**

Amendments to NZ IFRS 7 Financial Instruments: Disclosures.

- **FRS 44**

New Zealand Additional Disclosures. FRS 44 is a consequence of the joint Trans-Tasman Convergence project of the Australian Accounting Standards Board (AASB) and Financial Reporting Standards Board (FRSB). This standard relocates New Zealand specific disclosures from other standards to one place and revises disclosures in the following areas:

- (a) compliance with NZ IFRS
- (b) the statutory basis or reporting framework for financial statements
- (c) audit fees
- (d) imputation credits
- (e) reconciliation of net operating cash flow to profit/(loss)
- (f) prospective financial statements
- (g) elements in the statement of service performance.

- **Harmonisation amendments**

Amendments to NZ IFRS to Harmonise with IFRS and Australian Accounting Standards [NZ IAS 1, 7, 8, 12, 16, 20, 28, 31, 34 & 40]. These amendments;

- (a) remove the disclosures which have been relocated to FRS 44.
- (b) harmonise audit fee disclosure requirements in NZ IAS 1 with AASB 101
- (c) harmonise imputation/franking credits' disclosure requirements in NZ IAS 12 with AASB 101
- (d) introduce the option to use the indirect method of reporting cash flows in NZ IAS 7
- (e) introduce an accounting policy choice to use the cost model for investment property under NZ IAS 40
- (f) remove the requirement to use an independent valuer and the related disclosure requirements currently in NZ IAS 16 and NZ IAS 40; and
- (g) remove some New Zealand specific disclosures.

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

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

The following new standards, interpretations and amendments may have an impact on CCHL's future financial statements, but are not yet effective for the year ended 30 June 2012, and have not been applied in preparing these consolidated financial statements:

| Standard, Amendment or Interpretation, and effective date | Summary of requirements |
|--|---|
| NZ IAS 12 Amendments to NZ IAS 12 <i>Income Taxes</i> — Deferred Tax: Recovery of Underlying Assets 1 July 2012 | <p>These amendments update NZ IAS 12 to include:</p> <ul style="list-style-type: none"> • 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 • 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 <p>The amendments incorporate NZ SIC-21 <i>Income Taxes</i> — <i>Recovery of Revalued Non-Depreciable Assets</i> into NZ IAS 12 for non-depreciable assets measured using the revaluation model in NZ IAS 16 <i>Property, Plant and Equipment</i>.</p> |
| NZ IAS 1 Amendments to NZ IAS 1 <i>Presentation of Financial Statements</i> — Presentation of Other Comprehensive Income 1 July 2012 | <p>This Standard requires entities to group items presented in other comprehensive income on the basis of whether they are potentially re-classifiable to profit or loss in subsequent periods (reclassification adjustments).</p> |
| NZ IAS 27 <i>Separate Financial Statements</i> 1 July 2013 | <p>NZ IAS 27 <i>Separate Financial Statements</i> (as amended in 2011) removes the accounting and disclosure requirements for consolidated financial statements, as a result of the issue of NZ IFRS 10 <i>Consolidated Financial Statements</i> and NZ IFRS 12 <i>Disclosures of Interests in Other Entities</i>, which establish new consolidation and disclosure standards.</p> <p>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.</p> |
| NZ IAS 28 <i>Investments in Associates and Joint Ventures</i> 1 July 2013 | <p>NZ IAS 28 <i>Investments in Associates and Joint Ventures</i> (as amended in 2011) supersedes NZ IAS 28 <i>Investments in Associates</i> (2004), as a result of the issue of NZ IFRS 11 <i>Joint Arrangements</i> and NZ IFRS 12 <i>Disclosure of Interests in Other Entities</i>.</p> <p>NZ IAS 28 (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 requires relating to these investments are now contained in NZ IFRS 12.</p> |
| NZ IFRS 7 Amendments to NZ IFRS 7 <i>Financial Instruments: Disclosures</i> — Offsetting Financial Assets and Financial Liabilities 1 July 2013 | <p>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.</p> |
| NZ IFRS 7 Amendments to NZ IFRS 7 <i>Financial Instruments: Disclosures</i> — Transition Disclosures 1 July 2013 | <p>These amendments to NZ IFRS 7 remove the requirement for the restatement of comparative period financial statements upon initial application of the classification and measurement requirements of NZ IFRS 9.</p> <p>Instead, the amendments introduce additional disclosures on transition from the classification and measurement requirements of NZ IAS 39 <i>Financial Instruments: Recognition and Measurement</i> to those of NZ IFRS 9.</p> |
| NZ IFRS 10 <i>Consolidated Financial Statements</i> 1 July 2013 | <p>NZ IFRS 10 establishes a new control model. It replaces parts of NZ IAS 27 <i>Consolidated and Separate Financial Statements</i> dealing with the accounting for consolidated financial statements and SIC-12 <i>Consolidation</i> — <i>Special Purpose Entities</i>.</p> <p>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. This could lead to more entities being consolidated.</p> |

NOTES TO THE FINANCIAL STATEMENTS Contd.

46. Statement of accounting policies contd.

| | |
|--|--|
| NZ IFRS 11 <i>Joint Arrangements</i> 1 July 2013 | NZ IFRS 11 replaces NZ IAS 31 <i>Interests in Joint Ventures</i> and SIC-13 <i>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 the determination of whether joint control exists may change. 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. Joint operations that give the venturers a right to the underlying assets and obligations themselves are accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets are accounted for using the equity method. This may result in a change in the accounting for joint arrangements. |
| NZ IFRS 12 <i>Disclosure of Interests in Other Entities</i> 1 July 2013 | NZ IFRS 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured 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> 1 July 2013 | 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. 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. |
| Annual Improvements to NZ IFRSs 2009 — 2011 Cycle Amendments to NZ IFRSs arising from the Annual Improvements Project (2009-2011) [NZ IFRS 1, NZ IAS 1, 16, 32, 34] 1 July 2013 | The following standards are amended by this standard; NZ IAS 1 Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. NZ IAS 32 Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with NZ IAS 12 Income Taxes. |
| NZ IFRS 9 (2010) <i>Financial Instruments</i> 1 July 2015 | NZ IFRS 9 (2010) supersedes NZ IFRS 9 (2009). The requirements for classifying and measuring financial liabilities were added to NZ IFRS 9 as issued in 2009. The existing NZ IAS 39 Financial Instruments: Recognition and Measurement requirements for the classification of financial liabilities and the ability to use the fair value option have been retained. However, where the fair value option is used for financial liabilities, the change in fair value is accounted for as follows: The change attributable to changes in credit risk are presented in other comprehensive income (OCI) The remaining change is presented in profit or loss 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. |
| NZ IFRS 9 (2009) <i>Financial Instruments</i> 1 July 2015 | NZ IFRS 9 (2009) includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace NZ IAS 39. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of NZ IAS 39. The revised Standard introduces a number of changes to the accounting for financial assets, the most significant of which includes: <ul style="list-style-type: none"> • Two categories for financial assets, being amortised cost or fair value • Removal of the requirement to separate embedded derivatives in financial assets • 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 • 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 de-recognition • Reclassifications between amortised cost and fair value no longer permitted unless the entity's business model for holding the asset changes • Changes to the accounting and additional disclosures for equity instruments classified as fair value through other comprehensive income. |

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

Basis of consolidation

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

46. Statement of accounting policies contd.

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 24, and for land and buildings owned by Lyttelton Port Company Ltd and EcoCentral Ltd)) are shown at fair value, based on valuations by external independent valuers, less subsequent depreciation:

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

Airport sealed surfaces, car parking building, car parks, harbour structures, telecommunications infrastructure and other infrastructure assets are aggregated and disclosed as specialised assets in Note 23.

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

Any revaluation increase arising on the revaluation of these assets is credited to the asset revaluation reserve included in other comprehensive income, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense through profit or loss, in which case the increase is credited to profit or loss to the extent of the

decrease previously charged. A decrease in carrying amount arising on the revaluation of these assets is charged as an expense through profit or loss to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset.

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

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

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

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

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

Assets to be depreciated include:

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

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

Capital work in progress is not depreciated until commissioned.

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

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

Distinction between capital and revenue expenditure

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

equipment as each becomes operational and available for use. Revenue expenditure is defined as expenditure that is incurred in the maintenance and operation of the property, plant and equipment of the Group.

Investment properties

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

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

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

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

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

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

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

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

46. Statement of accounting policies contd.

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

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

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

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

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

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

Goodwill and intangible assets

(i) Goodwill

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

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

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

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

(ii) Computer software

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

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

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

(iii) Other intangible assets

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

(iv) Subsequent expenditure

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

(v) Amortisation

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

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

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

Investments

(i) Classification

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

The Group classifies its investments in the following categories:

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

A financial asset is classified at fair value through profit or loss if acquired principally for the purpose of selling in the short term with the intention of making a profit. Derivatives are also categorised as held for trading unless

they are designated as effective hedging instruments. Gains or losses on financial assets held for trading are recognised in profit or loss.

(b) *Loans and receivables*

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

(c) *Held-to-maturity investments*

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

(d) *Fair value through equity assets*

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

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

After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognised in other comprehensive income (reserves) until the investment is derecognised or until the investment is

determined to be impaired, at which time the cumulative gain or loss previously reported in reserves is reclassified to profit or loss.

The fair values of investments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business on the reporting date. For investments with no active market, fair values are determined using valuation techniques. Such techniques include: discounted cash flow analysis; using recent arm’s length market transactions; and reference to the current market value of another instrument that is substantially the same; making as much use of available and supportable market data as possible and keeping judgemental inputs to a minimum.

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

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

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

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

Trade and other receivables

(i) Trade and other receivables

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

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

(ii) Construction work in progress

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

Prepayments

A prepayment is recognised where expenditure is incurred in the period and where the benefit of that expenditure will be recognised in future periods. For example, maintenance dredging

NOTES TO THE FINANCIAL STATEMENTS Contd.

46. Statement of accounting policies contd.

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 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

NOTES TO THE FINANCIAL STATEMENTS Contd.

46. Statement of accounting policies contd.

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 2012:

| Director | Interests declared |
|---------------------------------|--|
| Bruce Irvine (Chairman) | Chairman – Heartland New Zealand Ltd Director – Godfrey Hirst Ltd & subsidiaries Director – House of Travel Holdings Ltd Director – PGG Wrightson Director – MG Marketing Ltd subsidiaries Director – Rakon Ltd Director – Retail Adventures Pty Ltd Director – Scenic Circle Hotels Ltd Director – Skope Industries Ltd Chairman – Canterbury Earthquake Recovery Group Trustee – Canterbury Earthquake Recovery Trust Trustee – Christchurch Art Gallery Trust Trustee – Christchurch Symphony Trust |
| Tim Carter | Councillor – Christchurch City Council Director – Chelsea UK Investments Ltd |
| Barry Corbett (Deputy Chair) | Councillor – Christchurch City Council Chairman – Eureka Trust Director – Theatre Royal Charitable Foundation Trustee – Christchurch Casino Charitable Trust |
| Bill Dwyer | Trustee – Wavertree Trust |
| Bob Parker | Mayor – Christchurch City Council Chair – CDC Trust Chair – Christchurch Agency for Energy Trust Chair – Civic Building Ltd Trustee – Canterbury Museum Trust Board Director – Parker New Media Ltd Director – Vbase Ltd |
| Andy Pearce | Chairman – Focus Genetics Ltd Chairman – Hawke's Bay Regional Investment Company Ltd Chairman – Energy Efficiency and Conservation Authority (EECA) Chairman – Regional Water Management Committee, Environment Canterbury Director – Bank of New Zealand Director and Shareholder – Seon Pearce and Associates Ltd Shareholder – Migco Pharmaceuticals Ltd |

| | |
|-------------|--|
| Sarah Smith | Chair – Meteorological Service of New Zealand Ltd Chair – Metra Information Ltd Director – Cashel Properties Ltd Director – Devon Chambers Ltd Director – EcoCentral Ltd Director – Oxford Estates Ltd Director – Sasco Holdings Ltd Director – Selwyn Plantation Board Ltd Director – Verification NZ Ltd Trustee – Warren Architects Education Charitable Trust Trustee – Ohinetahi Charitable Trust |
| Sue Wells | Councillor – Christchurch City Council |

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 43 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 2012:

| | Board meetings | Audit and risk management committee meetings | Governance and appointments committee meetings |
|---------------------------|----------------|--|--|
| Number of meetings | 10 | 2 | 4 |
| Bruce Irvine | 10 | * | 4 |
| Tim Carter | 9 | 2 | * |
| Barry Corbett | 10 | * | 3 |
| Bill Dwyer | 9 | * | 3 |
| Bob Parker | 6 | * | – |
| Andy Pearce | 10 | 2 | * |
| Sarah Smith | 10 | 2 | * |
| Sue Wells | 10 | – | * |

* 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 | 67,748 |
| T Carter | 39,356 |
| B Corbett | 37,554 |
| W Dwyer | 37,275 |
| R Parker | 37,691 |
| A Pearce | 37,275 |
| S Smith | 37,275 |
| S Wells | 37,554 |

STATUTORY INFORMATION Contd.

The above-noted directors' fees for the year ended 30 June 2012 include correction of underpayments from the previous financial year. All directors (other than the Chairman) are remunerated equally.

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 | 81,000 |
| M Andrews | 61,000 |
| J Dobson | 47,000 |
| G Gould | 43,000 |
| G Jewell | 42,000 |
| G Vazey | 50,000 |

| Christchurch International Airport Ltd | \$ |
|---|-----------|
| D McKenzie | 79,850 |
| P Carter | 48,100 |
| C Drayton | 43,996 |
| G Gould | 41,001 |
| J Murray | 41,000 |
| C Paulsen | 27,334 |

| Lyttelton Port Company Ltd | \$ |
|-----------------------------------|-----------|
| R Fisher | 79,000 |
| T Burt | 52,000 |
| R Carr | 42,000 |
| L Crossen | 42,000 |
| A Grant | 14,326 |
| K Smith | 28,000 |
| B Wood | 42,000 |

| Enable Services Ltd | \$ |
|----------------------------|-----------|
| W Luff | 73,833 |
| M Bowman | 28,125 |
| W Dwyer | 33,885 |
| B Gamble | 28,125 |
| C Richardson | 37,500 |
| C Walsh | 28,125 |

| City Care Ltd | \$ |
|----------------------|-----------|
| A King | 64,343 |
| D Crombie | 39,047 |
| M Devlin | 39,047 |
| H Martyn | 32,171 |
| T Thornton | 38,142 |

| Red Bus Ltd | \$ |
|--------------------|-----------|
| P Rae | 57,000 |
| T Keenan | 35,667 |
| R McRobie | 28,533 |
| A Mountford | 28,600 |

| EcoCentral Ltd | \$ |
|-----------------------|-----------|
| D Kerr | 47,209 |
| P Anderson | 25,687 |
| S Smith | 25,687 |
| G Campbell | 25,687 |

Donations

The parent company made donations of \$3,000 during the year (2011: \$100,000). Donations of \$59,000 (2011: \$56,000) were made by subsidiaries.

Dividends

The company has paid or provided fully-imputed ordinary dividends of \$27,414,000 and a fully-imputed special dividend of \$8,035,000.

Employee remuneration

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

| Salary bands | Group 2012 | Parent 2012 |
|---------------------|-----------------------|------------------------|
| \$'000 | | |
| 100-110 | 83 | – |
| 110-120 | 66 | – |
| 120-130 | 38 | – |
| 130-140 | 29 | – |
| 140-150 | 19 | – |
| 150-160 | 8 | – |
| 160-170 | 5 | – |
| 170-180 | 10 | – |
| 180-190 | 5 | 1 |
| 190-200 | 5 | – |
| 200-210 | 8 | – |
| 210-220 | 3 | – |
| 220-230 | 2 | – |
| 230-240 | 2 | – |
| 240-250 | 3 | – |
| 250-260 | 2 | – |
| 260-270 | 3 | 1 |
| 270-280 | 1 | – |
| 280-290 | 1 | – |
| 320-330 | 1 | – |
| 330-340 | 1 | – |
| 350-360 | 1 | – |
| 370-380 | 1 | – |
| 430-440 | 2 | – |
| 440-450 | 1 | – |
| 460-470 | 1 | – |
| 520-530 | 1 | – |
| 540-550 | – | – |
| 550-560 | 1 | – |
| 610-620 | 1 | – |
| 1,020-1,030 | 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.

REPORT OF THE AUDITOR-GENERAL

Independent Auditor's Report

**To the readers of Christchurch City Holdings Limited and group's
financial statements and statement of service performance for the year ended 30 June 2012**

AUDIT NEW ZEALAND

Mana Arotake Aotearoa

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 68, that comprise the balance sheet as at 30 June 2012, the statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended on that date and the notes to the financial statements that include the statement of accounting policies and other explanatory information; and
- the statement of service performance of the company and group on pages 53 to 57.

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 68:
- 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 2012; 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 53 to 57:
 - complies with generally accepted accounting practice in New Zealand; and
 - gives a true and fair view of the company's service performance achievements measured against the performance targets adopted for the year ended 30 June 2012.

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 19 September 2012. 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 would affect a reader's 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.

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;

REPORT OF THE AUDITOR-GENERAL Contd.

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

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 statement of service performance and reporting that opinion to you based on our audit. Our responsibility arises from section 69 of the Local Government Act 2002 and section 15 of the Public Audit Act 2001.

Independence

When carrying out the audit, we followed the independence requirements of the AuditorGeneral, which incorporate the independence requirements of the New Zealand Institute of Chartered Accountants.

In addition to the audit of the financial statements, we carried out other assurance engagements for the company's subsidiaries. These involved issuing reports pursuant to the Electricity Distribution Services Default Price-Quality Path Determination 2010 and the Commerce Act (Specified Airport Services Information Disclosure) Determination 2010. These engagements are compatible with those independence requirements.

Other than the audit and these 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

Matters relating to the electronic presentation of the audited financial statements and statement of service performance

This audit report relates to the financial statements and statement of service performance of the company for the year ended 30 June 2012 included on the company's website. The board of directors is responsible for the maintenance and integrity of the company's website. We have not been engaged to report on the integrity of the company's website. We accept no responsibility for any changes that may have occurred to the financial statements and statement of service performance since they were initially presented on the website.

The audit report refers only to the financial statements and statement of service performance named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements or statement of service performance. If readers of this report are concerned with the inherent risks arising from electronic data communication, they should refer to the published hard copy of the audited financial statements, statement of service performance and the related audit report dated 19 September 2012 to confirm the information included in the audited financial statements and statement of service performance presented on this website.

Legislation in New Zealand governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.



DIRECTORY

Registered Office

53 Hereford Street
Christchurch

Directors

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

Management Team

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

Bankers

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

Auditors

Audit New Zealand
on behalf of the
Auditor-General
Christchurch

Photography on front, inside and back covers and page 73, provided courtesy of Richard Simmonds, Chief Financial Officer of CCHL. (www.rsphotos.co.nz)



Christchurch City Holdings

www.cchl.co.nz

