Auckland Council Investments Limited

STATEMENT OF INTENT

For the period from 1 July 2012 to 30 June 2015

Contents

1. INTRODUCTION

Auckland Council Investments Limited (ACIL) owns Ports of Auckland Limited (POAL), Auckland Film Studios Limited (AFSL), a large equity holding in Auckland International Airport Limited (AIAL); and manages the diversified financial assets portfolio (DFAP) on behalf of the Auckland Council.

The purpose of ACIL is to support the Council's vision and to bring a strong commercial focus to the ownership and management of the Auckland Council's investments in POAL, AIAL, AFSL and the DFAP and to provide an efficient structure for the ownership of these assets.

Sound commercial governance of these assets, within the parameters set by the Auckland Council (while acknowledging that Auckland Council/ACIL will be in a position of some influence, but not control, of AIAL), is important. ACIL's role is to endeavour to maximise their contribution to the Auckland economy, provide substantial financial returns to the Council, and endeavour to ensure that these investments are financially sustainable in the long term.

Simon Allen
Chairman

Gary Swift
Chief Executive

2. STRATEGIC DIRECTION

ACIL holds equity interests in POAL, AIAL, AFSL and manages the DFAP for the long-term benefit of the region. These assets contribute to the council's delivery of Auckland Plan outcomes by:

- Playing an important role in the delivery of the following specific outcomes:
  - An Auckland of prosperity and opportunity (POAL, AFSL and AIAL)
  - A well-connected and accessible Auckland (POAL and AIAL)
- Influencing the delivery of other Auckland Plan outcomes (such as those associated with transformation of the Auckland Waterfront)
- Providing the council with a financial return, which is a source of funding for council activities and investments

Purpose of ACIL

ACIL was established to provide an efficient structure for the Council's ownership of these assets, being principally strategic assets. The council expects ACIL to provide strong commercial governance, and strategic focus to the ownership and management of the councils' major investments. In doing so it will seek to achieve the following three impacts:

1. Relative to Auckland Council's level of investment POAL, AIAL and AFSL make significant contributions to "an Auckland of prosperity and opportunity", and "a well-connected and accessible Auckland"

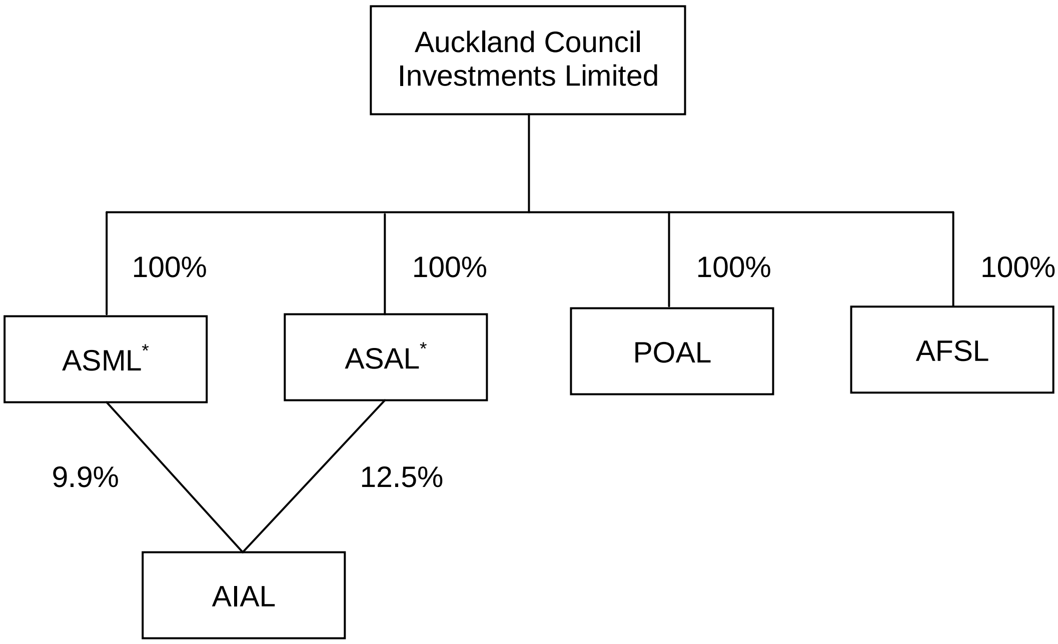
2. ACIL governance is responsive to the council's delivery of all relevant Auckland Plan outcomes

3. The investments owned and managed by ACIL provide both short and long-term financial returns to the Auckland Council.

3. NATURE AND SCOPE OF ACTIVITIES

This SOI covers Auckland Council Investments Limited and its subsidiaries. ACIL is a Public Benefit Entity for financial reporting purposes as it manages key strategic assets of Auckland Council for the long term economic benefit of the Auckland region.

The ownership of ACIL's equity investments by companies within the ACIL Group as at 1 July 2012 is shown in the following diagram:



* ASML – Airport Shares (Manukau) Limited,
ASAL – Airport Shares (Auckland) Limited

In order to support the first and the second impacts, ACIL will endeavour to:

- Appoint directors to POAL and AFSL and exercise voting rights in AIAL to support Auckland Council's objectives
- Be accountable for prudent governance and management of these investments
- Assess the future of Auckland Council's investment in AFSL

In order to support the third impact, ACIL will endeavour to:

- Require POAL to continue to develop and implement its long-term strategy to improve its profitability
- Manage ACIL's portfolio to maximise the return on investment but also maintain or increase the value of Auckland Council's equity
- Distribute available income and other returns in a cost-effective manner (as agreed with Auckland Council)
- Manage the DFAP in accordance with the Statement of Investment Policy and Objectives (SIPO) and the Operating Investment Policies and Objectives (OIPO)

4. PERFORMANCE MEASUREMENT

<table>
<tr><th>Performance Target</th><th>Performance Measure</th><th>Output (What our customer receives)</th><th>Impact (What difference does output make)</th><th>Auckland Plan Outcomes</th></tr>
<tr><td>Auckland Council is kept fully informed and consulted in advance about proposed appointments and exercise of voting rights</td><td>Timely provision of information</td><td>Appoint directors to POAL and AFSL and exercise voting rights in AIAL</td><td rowspan="6">Relative to Auckland Council’s level of investment, POAL, AIAL and AFSL make significant contributions to “an Auckland of prosperity and opportunity” and a “well-connected and accessible Auckland”</td><td rowspan="6">This impact will contribute to “an Auckland of prosperity and opportunity” by facilitating sound investment decisions by POAL, AIAL and AFSL

This impact will contribute to “a well-connected and accessible Auckland” through the sound governance of the Council’s investments in POAL and AIAL and associated infrastructure</td></tr>
<tr><td>The council is advised of implications of all major proposals</td><td>Timely provision of information</td><td>Provide information to Auckland Council in relation to any major proposals relating to ACIL assets</td></tr>
<tr><td>Increase POAL’s ROE to 12.0% by 30 June 2016[1]</td><td>POAL’s ROE[2]</td><td rowspan="3">Require POAL to continue to develop and implement its long-term strategy for POAL to improve POAL’s profitability</td></tr>
<tr><td>Increase POAL’s crane rate to 31.6 by 30 June 2014</td><td>POAL’s crane rate[3]</td></tr>
<tr><td>Increase POAL’s ship rate to 67.60 by 30 June 2014</td><td>POAL’s ship rate[4]</td></tr>
<tr><td>Increase POAL’s vessel rate to 59.3 by 30 June 2014</td><td>POAL’s vessel rate[5]</td><td>Provide guidance to POAL regarding the long-term interests of the region and its economy</td></tr>
</table>

[1] ACIL’s expectation is that this performance target could be achieved under a new collective agreement for the operation of the container terminal
[2] POAL’s ROE is calculated as normalised net profit after tax divided by closing equity
[3] Crane rate is the number of containers a crane lifts on and off a container ship in an hour (as reported by the Ministry of Transport)
[4] Ship rate is the number of containers moved on and off a container ship in an hour (as reported by the Ministry of Transport)
[5] Vessel rate is the number of containers moved on and off a container ship in an hour of labour (as reported by the Ministry of Transport)

Performance Target	**Performance Measure**	**Output (What our customer receives)**	**Impact (What difference does output make)**	**Auckland Plan Outcomes**
Options are identified and assessed and the Council is advised	Assess the future of Auckland Council's investment in AFSL	Require AFSL to develop and implement its long-term strategy		
The studios are occupied for 150 days per annum for screen productions	Utilisation of AFSL for screen production	Provide commercial governance of AFSL so that it operates on a commercial basis without recourse to ACIL for funds for operations		
Initiatives are communicated, issues are resolved	Report as needed to the Auckland Council on initiatives and issues	Encourage POAL , AIAL, and AFSL to act as good neighbours and good corporate citizens		
The Auckland Council is kept fully informed of the implications for POAL of any conflicts between POAL's operational requirements and other waterfront activities and plans POAL board considers options to resolve conflicts	Timely provision of information Level of guidance to POAL's Board	Provide guidance (to POAL and council) in the management of boundary issues associated with the broader development aspirations of the Waterfront Auckland and the Waterfront Development Masterplan	ACIL's governance of its investments is responsive and sensitive to the council's delivery of all Auckland Plan outcomes	This impact may contribute to the achievement of multiple Auckland Plan outcomes by: • assisting in the management of adverse effects from investment activities. • helping to identify opportunities and synergies.
Prepare response on implications to ACIL of Council's Maori Responsiveness Framework and associated strategies within 4 months of the framework and strategies being completed	Response prepared to Council's Maori Responsiveness Framework and associated strategies	Review the Council's Maori Responsiveness Framework and associated strategies to identify any implications for ACIL		

Performance Target	**Performance Measure**	**Output (What our customer receives)**	**Impact (What difference does output make)**	**Auckland Plan Outcomes**
POAL and AIAL operate in such a way that they contribute to the Council's short-term target of 10-20% reduction by 2020 (based on 1990 levels) and the long-term target of a 50% reduction by 2050	Level of POAL's and AIAL's contribution	Encourage POAL and AIAL to operate in such a way that they contribute to the Council's target of reducing Greenhouse emissions		
Report as appropriate	Level of communication	Communicate with the Auckland council and its other CCOs regarding opportunities and synergies between Auckland Council investments and Auckland Plan outcomes		
All Auckland Council accountability requirement are met	Degree of compliance with accountability requirements	Be accountable for prudent governance and management of the Auckland Council's investments		
Surplus after tax for the ACIL semi-group[6] over a three year period meets or exceeds $113 million measured prior to any change in the value of equity investments	Operating surplus	Act commercially, within the constraints of the Accountability Policy, in the management of ACIL's investment portfolio.	The investments owned and managed by ACIL provide both short and long-term financial returns to the Auckland Council.	This impact will contribute to all Auckland Plan outcomes by providing the council with revenue to fund its activities and investments

[6] ACIL semi-group includes the consolidation of Airport Shares (Manukau) Ltd and Airport Shares (Auckland) Ltd but does not include the consolidation of POAL and AFSL and equity accounting for AIAL.

Performance Target	**Performance Measure**	**Output (What our customer receives)**	**Impact (What difference does output make)**	**Auckland Plan Outcomes**
ACIL's ROE of: 5.8% in 2012/13 6.6% in 2013/14 13.1%[7] in 2014/15	ACIL's ROE[8]			
Dividend distributions over a three year period meets or exceeds $113 million	Dividend distribution	Distribute available income and other returns in a cost-effective manner (as agreed with Auckland Council)		
Cash distributed to Auckland Council from the DFAP is not lower than the OCR Return on the DFAP meets or exceeds the performance benchmarks specified in the SIPO	Performance relative to the reference portfolio	Manage the DFAP in accordance with the SIPO and OIPO.		

[7] The ROE target for 2014/15 is higher than that for the other two years because of the triennial revaluation of property, plant and equipment in the ACIL Group in that year.
[8] ACIL's ROE calculated as total comprehensive income of the ACIL Group divided by its closing equity

Financial Performance

The ACIL Semi-group[6] budgeted financial targets for the three years are:

Target	30 June 2013	30 June 2014	30 June 2015
Surplus after tax	$30.7 million	$38.1 million	$44.3 million
Dividend distributed to the Council	$30.7 million	$38.1 million	$44.3 million
Shareholder’s funds	$783.6 million	$783.6 million	$783.6 million
Total Assets	$1,083.6 million	$1,083.6 million	$1,083.6 million
The ratio of shareholder’s funds to total assets	72%	72%	72%

The board’s estimate of the commercial value of the shareholders’ investment is at least equal to the book value of the ACIL Group’s Shareholders Funds at 30 June 2011 as shown in the audited financial statements. The Board has not assessed the commercial value of the shareholding in POAL but is confident it is not less than the value shown in those financial statements.

ACIL has developed the financial targets using a number of assumptions about the future and the achievement of these targets is dependant on events and actions that have not yet occurred and may not occur. The majority of the assumptions are outside of our control.

Auckland Council Investments Limited (Semi-Group)

Prospective summary income statement

for the year ended 30 June

$000	Plan 2012/13	Plan 2013/14	Plan 2014/15
Income			
Opex funding from Auckland Council	0	0	0
Capex funding from Auckland Council	0	0	0
Revenue from services	104	104	104
Other revenue to fund capital expenditure	0	0	0
Revenue from vested assets	0	0	0
Finance income	0	0	0
Dividend Income	48,745	56,131	62,541
Other gains/(losses)	0	0	0
Total income	**48,849**	**56,235**	**62,645**
Expenditure			
Personnel Costs	930	954	977
Depreciation and amortisation	0	0	0
Finance costs	16,513	16,460	16,601
Other expenditure	687	710	733
Total operating expenditure	**18,131**	**18,124**	**18,312**
Surplus/(deficit) before tax	**30,718**	**38,111**	**44,333**
Dividend returned to Auckland Council	30,718	38,111	44,333
Net surplus/(deficit) after dividend distribution	**(0)**	**0**	**0**
Income tax credit / (expense)	0	0	0
Net surplus/(deficit) after tax	**(0)**	**0**	**0**
Gains/(losses) recognised directly in equity	0	0	0
Total surplus/(deficit)	**(0)**	**0**	**0**

Auckland Council Investments Limited (Semi-Group)

Prospective summary funding statement

for the year ended 30 June

$000	Plan 2012/13	Plan 2013/14	Plan 2014/15
Total operating expenditure	18,131	18,124	18,312
Opex funding to Auckland Council	30,718	38,111	44,333
Operating expenditure to be funded	**48,849**	**56,235**	**62,645**
Operating expenditure funded by:			
Opex funding from Auckland Council	0	0	0
Revenue from services	104	104	104
Other revenue	48,745	56,131	62,541
Total opex funding	**48,849**	**56,235**	**62,645**
Retained Surplus	**(0)**	**0**	**0**
Total capital expenditure	0	0	0
Capital expenditure to be funded	**0**	**0**	**0**
Capital Expenditure funded by			
Capex funding from Auckland Council	0	0	0
Investment by Auckland Council	0	0	0
Funded Depreciation	0	0	0
External Loans	0	0	0
Grants and subsidies	0	0	0
Development and financial contributions	0	0	0
Total capex funding	**0**	**0**	**0**

Auckland Council Investments Limited (Semi-Group)

Prospective Statement of Financial Position

As at 30 June

	Plan 2012/13	Plan 2013/14	Plan 2014/15
Assets			
Current assets			
Cash and cash equivalent	165	165	165
Other current assets	131	131	131
Total current assets	**296**	**296**	**296**
Property plant and equipment	0	0	0
Investment property	0	0	0
Other non current assets	1,083,618	1,083,618	1,083,618
Total non- current assets	**1,083,618**	**1,083,618**	**1,083,618**
Total assets	**1,083,914**	**1,083,914**	**1,083,914**
Liabilities			
Current liabilities			
Trade and other payables	292	292	292
Borrowings	0	0	0
Other current liabilities	1,053	1,053	1,053
Total current liabilities	**1,345**	**1,345**	**1,345**
Non-current liabilities			
Borrowing from parent	174,000	174,000	174,000
Other borrowing	0	0	0
Other non-curent liabilities	125,000	125,000	125,000
Total non-current liabilities	**299,000**	**299,000**	**299,000**
Total liabilities	**300,345**	**300,345**	**300,345**
Net assets	**783,569**	**783,569**	**783,569**
Equity			
Contributed equity	658,728	658,728	658,728
Reserves	114,954	114,954	114,954
Retained earnings	9,887	9,887	9,887
Total equity	**783,569**	**783,569**	**783,569**

5. APPROACH TO GOVERNANCE

In undertaking its activities, ACIL will exhibit and ensure:

a) Sound business practice in its commercial undertakings;
b) Sustainable business practice;
c) Ethical and good behaviour in dealing with all parties;
d) An open and transparent approach to decision-making, while respecting the need for commercially sensitive information to be protected;
e) An active partnership approach with Auckland Council, other CCOs and key stakeholders
f) An active partnership approach with iwi, where applicable;
g) Adherence to the Auckland Council's branding policy;
h) Actions are in accordance with relevant statutory provisions referring to the Treaty of Waitangi; and
i) Use its best endeavours to act consistently with shareholder expectations as reflected in the Auckland Council's Shareholder's Expectation Guide (SEG)

The Board's goal generally, is to operate according to the best practice statements produced from time to time by the Institute of Directors in New Zealand.

Relationship with Local Boards

While ACIL is accountable to the Governing Body as shareholder, it also has relationships with Local Boards who share the decision-making responsibilities of the Auckland Council with the Governing Body. ACIL will:

- Prepare a Local Board Engagement Plan in accordance with the requirements of the SEG.
- Report to Local Boards as specified in its Local Board Engagement Plan.
- Adequately resource liaison with and reporting to Local Boards.
- Keep informed of local board priorities and objectives in Local Board plans and ensure that these are considered when:
    - preparing budgets
    - undertaking activities within local board areas.
- Ensure that business cases seeking Auckland Council funding, take into account Local Board priorities and objectives.

Reporting to shareholders

ACIL will report quarterly to the Governing Body of the Auckland Council, or the appropriate committee or sub-committee of the Governing Body, and will provide the information specified in the template provided by CCO Governance and Monitoring.

Management of strategic assets

The assets held by ACIL that are strategic by definition under Auckland Council's accountability policy are:

- Shares in POAL
- Shares in AIAL
- Freehold interest in waterfront land held by POAL
- Scheduled buildings or structures owned by ACIL or its subsidiaries

ACIL will comply with the provisions of Auckland Council's Accountability Policy for Substantive CCOs in relation to the strategic assets.

ACIL will comply with and take all reasonable steps to promote the Council's Auckland Airport Shareholding Policy. In particular, ACIL will not make any decisions that are inconsistent with that policy.

Procedures for purchasing shares in other companies

Where ACIL identifies investment opportunities and considers that Auckland Council will benefit from them, ACIL will evaluate the options, present them to the Governing Body and seek approval to proceed with the purchase.

6. ENGAGEMENT WITH THE PUBLIC

ACIL is committed to transparency, particularly in regard to holding as many board meetings in public as practical in accordance with the guidelines provided by the Mayor.

In addition, ACIL will hold two specific public meetings. These are for the purpose of considering comments from the Council on ACIL's draft SOI and reviewing ACIL's performance against the previous financial year's SOI.

These two meetings are to be held on:

- 6 June 2012
- 3 October 2012

The meeting dates for 2013 have not yet been set.

The meetings will be advertised on Auckland Council's website and through the public notices section of the New Zealand Herald five days prior to the meeting date. Documents to be tabled at these meetings will be available on the website and from ACIL on request.

7. ORGANISATIONAL HEALTH AND CAPABILITY

ACIL will commit to building and maintaining itself as an enduring and resilient organisation.

Even though ACIL is a relatively small organisation, the importance of its staff well-being and professional development is recognised.

ACIL will participate in Auckland Council's staff satisfaction surveys to monitor its organisational health and capability.

ACIL will operate a personnel policy that complies with the principle of being a good employer.

For the purposes of section 59(1)(b) of the Local Government Act 2002, a good employer means an employer who operates a personnel policy containing provisions generally accepted as necessary for the fair and proper treatment of employees in all aspects of their employment, including provisions requiring—

- (a) good and safe working conditions; and
- (b) an equal employment opportunities programme; and
- (c) the impartial selection of suitably qualified persons for appointment; and
- (d) recognition of—
  - (i) the aims and aspirations of Māori; and
  - (ii) the employment requirements of Māori; and
  - (iii) the need for greater involvement of Māori in local government employment; and
- (e) opportunities for the enhancement of the abilities of individual employees; and
- (f) recognition of the aims and aspirations, and the cultural differences, of ethnic or minority groups; and
- (g) recognition of the employment requirements of women; and
- (h) recognition of the employment requirements of persons with disabilities.

ACIL will endeavour to ensure that its personnel policy and good employer obligations, including the definition of a good employer, are also complied with by its wholly owned subsidiaries Auckland Film Studios Limited and Ports of Auckland Limited.

In addition to these requirements, ACIL,—

(a) when making an appointment, must give preference to the person who is best suited to the position; and

(b) must ensure that all employees maintain proper standards of integrity, conduct, and concern for the public interest.

8. ACCOUNTING POLICIES

ACIL’s accounting policies are outlined in **Attachment 1**.

ACIL's accounting policies are consistent with those of Auckland Council (as disclosed in the 2011 Annual Report) with the following exception:

- Auckland Council has taken advantage of transitional provisions available to public benefit entities and has elected to defer the adoption of NZ IAS 23 Borrowing Costs (Revised 2007) and all borrowing costs are recognised as an expense in the period in which they are incurred. However, companies in the ACIL Group capitalise borrowing costs which are incurred for the construction of a qualifying asset.

Accounting policies

(a) Basis of preparation

Statement of compliance

The financial statements of the Company and its subsidiaries (together the Group) for the period ended 30 June 2011 have been prepared in accordance with New Zealand generally accepted accounting practice (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable New Zealand Financial Reporting Standards as appropriate for public benefit entities.

Auckland Council Investments Limited is a company registered under the Companies Act 1993.

The financial statements have been prepared in accordance with the Financial Reporting Act 1993, the Companies Act 1993, the Local Government (Tamaki Makaurau Reorganisation) Act 2009 and the Local Government Act 2002.

The Company and the Group are designated as public benefit entities for financial reporting purposes. The Company and Group have taken advantage of all reporting concessions available to them as public benefit entities except for the option to defer adoption of NZ IAS 23 Borrowing Costs (Revised 2007). The Company and Group have fully complied with NZ IAS 23 (Revised).

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain property, plant and equipment, financial assets measured at fair value through other comprehensive income, derivative instruments and investment property.

Functional and presentation currency

The consolidated financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars ($000) except where otherwise stated. The functional currency of the Company and Group is New Zealand dollars.

Changes in accounting policy and disclosures

The Company is a new entity created and commencing operations on 1 November 2010 and this is the first reporting period. Accordingly there are no comparative figures and no accounting policy changes. Opening values at 1 November 2010 are shown in the statement of financial position representing certain assets and liabilities transferred to the Company. On the date of transfer, these assets and liabilities were recorded at their previous 31 October 2010 carrying values in the financial statements of the predecessor Councils with adjustments made where necessary to ensure that the assets and liabilities were recorded using consistent accounting policies adopted by the Group. Adopting this approach means the Company has no retained reserves, such as asset revaluation reserves, held by the previous Councils (note 37).

Standards, amendments and interpretations that are not yet effective and have not been early adopted

The following standards and amendment to existing standards have been published, but the Company and Group have not early adopted them.

- Amendments to NZ IAS 24 'Related Party Disclosures' (effective for financial reporting periods commencing on or after 1 January 2011).
- Amendments to NZ IFRS 7 'Financial Instruments: Disclosures' (effective for financial reporting periods commencing on or after 1 July 2011).
- Amendments to NZ IAS 12 'Incomes Taxes' - Deferred tax: Recovery of Underlying Assets (effective for financial reporting periods on or after 1 January 2012).
- NZ IFRS 10 'Consolidated Financial Statements' (effective for financial periods commencing on or after 1 January 2013).
- NZ IFRS 11 'Joint Arrangements'(effective for financial periods commencing on or after 1 January 2013).
- NZ IFRS 12 'Disclosures of Interests in Other Entities' (effective for financial periods commencing on or after 1 January 2013).
- NZ IFRS 13 'Fair Value Measurements' (effective for financial periods commencing on or after 1 January 2013).
- NZ IAS 27 'Separate Financial Statements' - revised 2011 (effective for financial periods commencing on or after 1 January 2013).
- NZ IAS 28 'Investments in Associates and Joint Ventures' - revised 2011 (effective for financial periods commencing on or after 1 January 2013).
- Amendments to New Zealand Equivalents to International Financial Reporting Standards to Harmonise with International Financial Reporting Standards and Australian Accounting Standards (effective for financial periods commencing on or after 1 July 2011).
- FRS 44 'New Zealand Additional Disclosures' (effective for financial periods commencing on or after 1 July 2011).
- Improvements to International Financial Reporting Standards 2010 (effective for financial reporting periods commencing on or after 1 January 2011).
- Amendments to NZ IAS 19 'Employee Benefits' (effective for financial periods commencing on or after 1 January 2013).
- NZ IFRS 9 'Financial Instruments' (effective for financial periods commencing on or after 1 January 2013).
- Amendments to NZ IAS 1 'Presentation of Financial Statements' - Presentation of items of other comprehensive income (effective for financial periods commencing on or after 1 July 2012).

The new standards, amendments and interpretations are unlikely to have a material impact on the Group's accounts and therefore have not been analysed in detail.

(b) Consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at balance date and the results of all subsidiaries for the 8 month period ended at balance date.

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The results of subsidiaries acquired or disposed of during the period are included in profit or loss from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The Company financial statements show the investment in subsidiaries at cost.

Inter-entity transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Transactions and non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases of non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded as equity. Gains or losses on disposals of non-controlling interests where control is not relinquished are also recorded in equity.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interest's proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, non-controlling interests consist of the amount attributed to such interests at initial recognition and the non-controlling interest's share of changes in equity since the date of the combination. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

(ii) *Associates*

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture, generally accompanying a shareholding between 20% and 50% of the voting rights. The investment in an associate is initially recognised at cost or deemed cost under merger accounting (note 37). Subsequently, the Company's investments in associates are carried at cost. The investment in associates in the Group financial statements is recognised using the equity method. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

Post acquisition the carrying amount is increased or decreased to recognise the Group's share of the surplus or deficit and other comprehensive income of the associate after the date of acquisition. The Group's share of the surplus or deficit of the associate is recognised in the Group's statement of comprehensive income. Distributions received from an associate reduce the carrying amount of the investment in the consolidated financial statements.

If the Group's share of deficits of an associate equals or exceeds its interest in the associate, the Group discontinues recognising its share of further deficits unless it has incurred obligations or made payments on behalf of the associate. After the Group's interest is reduced to zero, additional deficits are provided for, and a liability is recognised, only to the extent that the Group has incurred legal or constructive obligations made on behalf of the associate. If the associate subsequently reports surpluses, the Group will resume recognising its share of those surpluses only after its share of surpluses equals or exceeds the share of deficits not recognised.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated, unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group. Dilution gains and losses arising in investments in associates are recognised in the statement of comprehensive income.

(iii) *Joint ventures*

Joint ventures are contractual arrangements whereby two or more parties undertake an economic activity that is subject to joint control. Joint ventures take many different forms and structures. For accounting purposes joint ventures are distinguished into three types of categories, those being jointly controlled operations, jointly controlled assets and jointly controlled entities. The following characteristics are common to all joint ventures:

(a) two or more venturers are bound by a contractual arrangement; and

(b) the contractual arrangement establishes joint control.

The interest in a jointly controlled entity is accounted for in the consolidated financial statements using the equity method. Under the equity method, the share of profits or losses of the jointly controlled entity is recognised in the statement of comprehensive income, and the share of movements in reserves is recognised in reserves in the statement of financial position.

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

Unrealised gains on transactions between the Group and its jointly controlled entity are eliminated to the extent of the Group's interest in the jointly controlled entity. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of jointly controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities are recognised in the statement of comprehensive income.

(d) Property, plant and equipment

Property, plant and equipment are stated at cost or fair value less accumulated depreciation and impairment losses. Items of property, plant and equipment are initially recognised at cost, which includes purchase price plus directly attributable costs of bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended. Major asset classes are revalued on a regular basis not exceeding three years and these are noted below.

The cost of assets constructed by the company includes the cost of all materials used in construction, associated borrowing costs, direct labour on the project and an appropriate proportion of variable and fixed overheads. The company capitalises borrowing costs where they are directly attributable to the acquisition, construction or production of a qualifying asset. A qualifying asset is deemed as having significant expenditure and takes a substantial period, greater than six months, to complete and prepare the asset for its intended use. Costs cease to be capitalised as soon as the asset is ready for productive use.

Property, plant and equipment consists of:

(i) *Operational assets*

These include land, buildings, plant and equipment and wharves.

(ii) *Infrastructural assets*

These include pavements.

Initial recognition

Property, plant and equipment are initially shown at cost or at fair value in the case where an asset is acquired at no cost or for a nominal cost. Cost includes any costs that are directly attributable to the acquisition of the items. Note in the case of the assets acquired by the Company and Group on establishment at 1 November 2010 cost was the carrying value of the asset by the previous owning council or CCO.

Subsequent measurement

The classes of assets below are subsequently measured at fair value less depreciation. The methods used to determine fair value are also disclosed below. All other classes of assets are measured at historical cost less accumulated depreciation and accumulated impairment.

Revaluations of property, plant and equipment are accounted for on a class of asset basis.

Land, buildings and infrastructural assets are revalued with sufficient regularity to ensure that their carrying amount does not differ materially from fair value and at least every 3 years. Each year, the Company considers the adequacy of the valuation of its assets to ensure the carrying value reflects fair value.

Class of asset measured at fair value	Method applied to determine fair value
• Land and buildings	Market-based evidence/income
• Wharves	Depreciated Replacement Cost

For the assumptions used when applying the methods above please refer to note 17.

Increases in asset carrying amounts due to revaluation, increase revaluation reserves in equity. Decreases in asset carrying amounts, decrease revaluation reserves in equity only to the extent that the asset has sufficient revaluation reserves to absorb the reduction. All other decreases are charged to the statement of comprehensive income.

If a revaluation increase reverses a decrease previously recognised in the statement of comprehensive income, the increase is recognised first in the statement of comprehensive income to reverse previous decreases. Any residual increase is applied to revaluation reserves in equity.

Additions

The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the Group and the cost of the item can be measured reliably.

In most instances, an additional item of property, plant and equipment is recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value as at the date of acquisition.

Disposals

Gains and losses on disposal are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are reported net in the statement of comprehensive income. When revalued assets are sold, the amounts included in asset revaluation reserves in respect of those assets are transferred to accumulated funds.

Depreciation

Land is not depreciated. Depreciation on assets is provided on a straight line basis at rates that will write off the cost of the assets to their estimated residual values over their useful lives. The useful lives of major classes of assets have been estimated as follows:

Class of asset depreciated	Estimated useful life in years
Operational	
• Buildings	20-50
• Plant and machinery	5-20
• Wharves	50-100
Infrastructural	
• Pavement	25-85

The residual value and remaining useful life of an asset is reviewed, and adjusted if applicable, at each financial period end.

Capital work in progress

Capital work in progress is recognised at cost less impairment and is not depreciated. The total cost of a project is transferred to the relevant asset class on its completion and then depreciated.

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 (refer to note 2(g)).

(e) Investment properties

Land, buildings and wharves, which are not rented or intended for operation purposes and are rented with the principal objective to earn rental and/or capital appreciation, are accounted for as investment property. Investment property is measured initially at its cost, including transaction costs. After initial recognition, investment property is carried at fair value, representing open market value determined annually by external independent valuers. Changes in fair values are recorded in the statement of comprehensive income as part of other income. Investment properties are not depreciated for financial accounting purposes.

(f) Intangible assets

Intangible assets are initially recorded at cost. Where acquired in a business combination, the cost is their fair value at the date of acquisition. The cost of an internally generated intangible asset represents expenditure incurred in the development phase only.

Subsequent to initial recognition, intangible assets with finite useful lives are recorded at cost, less any amortisation and impairment losses, and are reviewed annually for impairment losses. Assets with indefinite useful lives are not amortised but are tested, at least annually, for impairment, and are carried at cost less accumulated impairment losses.

Realised gains and losses arising from the disposal of intangible assets are recognised in the statement of comprehensive income in the period in which the disposal occurs.

Where an intangible asset's recoverable amount is less than its carrying amount, it will be reported at its recoverable amount and an impairment loss will be recognised. Impairment losses resulting from impairment are reported in the statement of comprehensive income.

Computer software

Computer software licences are capitalised based on the costs incurred to acquire and bring to use the software. Costs are amortised using the straight line method over their estimated useful lives (3 to 5 years).

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

Costs directly associated with the development of identifiable and unique software products are recognised as an asset.

Computer software development costs recognised as assets are amortised using the straight line method over their estimated useful lives (not exceeding 3 years).

Staff training costs are recognised as an expense when incurred.

Goodwill

Goodwill arising on the acquisition of a subsidiary is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the acquiree over the fair value of the identifiable net assets recognised.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the acquiree, then the excess is recognised immediately in surplus or deficit as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units expected to benefit from the synergies of the combination. Cash generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. The recoverable amount is the higher of fair value less cost to sell and value in use. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss is recognised immediately in surplus or deficit and is not subsequently reversed.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the surplus or deficit on disposal.

Other intangible assets

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;

- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

(g) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment and, whenever there is an indication of impairment. At each balance date the Group reviews the carrying amounts of its other tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash generating units; otherwise, they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation can be identified.

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

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable value. An impairment loss is recognised immediately in surplus or deficit, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognised immediately in surplus or deficit, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(h) Investments and other financial assets

Financial assets

The Group classifies financial assets in the following categories:

- financial assets at fair value through surplus or deficit
- loans and receivables
- available-for-sale financial assets

The classification depends on the nature and purpose for which the financial assets were acquired. The Group determines the classification of financial assets when they are acquired.

Financial assets are initially measured at fair value plus transaction costs unless they are carried at fair value through surplus or deficit in which case the transaction costs are recognised in the statement of comprehensive income.

Purchases and sales of financial assets are recognised at trade date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(i) Financial assets at fair value through surplus or deficit

This category has two subcategories: financial assets held for trading and those designated at fair value through surplus or deficit on initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. They are classified as current assets if they are held for trading or expected to be realised within 12 months of the period end date.

After initial recognition financial assets at fair value through surplus or deficit continue to be measured at fair value. Realised and unrealised gains and losses arising from the changes in the fair value of the financial assets at fair value through surplus or deficit category are included in surplus or deficit in the statement of comprehensive income in the period in which they arise.

(ii) Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the period end date, which are classified as non-current assets.

After initial recognition loans and receivables are carried at amortised cost using the effective interest rate method.

(iii) Available-for-sale financial assets

Available for sale financial assets are non derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non current assets unless the investment matures or the Group intends to dispose of them within 12 months of the end of the reporting period.

After initial recognition they are measured at fair value, with gains and losses recognised in other comprehensive income except for impairment losses, which are recognised in surplus or deficit in the statement of comprehensive income.

(i) Impairment of financial assets

(i) Assets carried at amortised cost

The Group reviews at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are recognised only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

  a) Adverse changes in the payment status of borrowers in the portfolio; and

  b) National or local economic conditions that correlate with defaults on the assets in the portfolio.

The amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted using the financial asset's original effective interest rate. The asset's carrying amount is reduced and the loss is recognised in the statement of comprehensive income in "other expenses". If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the statement of comprehensive income.

(ii) *Assets classified as available for sale*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. For debt securities, the Group uses the criteria referred to in (i) above. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the asset is impaired.

The Group currently has no intention of selling any assets classified as available for sale.

If any such evidence exists for impact of impairment on available-for-sale financial assets, the cumulative loss which has been recognised directly in other comprehensive income – measured as the difference between acquisition cost and the current fair value, less any impairment loss on the financial asset previously recognised in surplus/deficit in the statement of comprehensive income – is removed from equity and recognised in surplus/deficit in the statement of comprehensive income.

Impairment losses recognised in surplus/deficit in the statement of comprehensive income on equity instruments are not reversed through surplus/deficit.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in surplus/deficit in the statement of comprehensive income, the impairment loss is reversed through surplus/deficit.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(j) Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at balance date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge) or hedges of exposure to variability in cash flows that is attributable to a particular risk associated with an asset or liability or to highly probable forecast transactions (cash flow hedges).

At the inception of the transaction the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Group also documents their 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) Derivatives that qualify for hedge accounting

When a derivative is designated as a hedging instrument, the Group documents a hedge relationship as either a cash flow hedge (hedge of a forecast transaction) or a fair value hedge (hedge of the fair value of a recognised asset or liability). Also documented are the nature of the risk being hedged, its risk-management objective, strategy for hedge transactions, identification of the hedging instrument and hedged item, and how the hedging instrument's effectiveness is to be assessed.

(ii) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in surplus or deficit in the statement of comprehensive income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The Group applies fair value hedge accounting for hedging fixed interest risk on borrowings. The gain or loss relating to the effective portion of the interest-rate swaps that hedge fixed-rate borrowings is recognised in the statement of comprehensive income within “finance costs”. The gain or loss relating to the ineffective portion is recognised in the statement of comprehensive income within “other gains/(losses)”. Changes in the fair value of the hedged fixed-rate borrowings attributable to interest-rate risk are recognised in the statement of comprehensive income within “finance costs”.

Hedge accounting is discontinued, when the Group revokes the hedging instrument, it expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date over the period to maturity.

(iii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the “hedging reserve” within other comprehensive income. The gain or loss relating to the ineffective portion is recorded in the statement of comprehensive income within “other gains/(losses)”.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets hedge accounting criteria, any cumulative gain or loss in equity at that time remains in equity and is recognised when the forecast transaction is recorded in the statement of comprehensive income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss reported in the “hedging reserve” transfers to “other gains/(losses)” within the statement of comprehensive income.

When a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, or a forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, then the associated gains and losses that were recognised directly in equity will be included in the initial cost or carrying amount of the asset or liability.

(k) Inventories

Inventories held for use in the production of goods and services on a commercial basis are valued at the lower of cost and net realisable value. The cost of purchased inventory is determined using the weighted average method.

The amount of any write down in the value of inventories is recognised in surplus or deficit in the statement of comprehensive income.

(l) Receivables

Receivables are amounts due from trade debtors and other customers. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non current assets.

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

For information on impairment of receivables refer to note 12. Furthermore, when a receivable for which the provision for impairment has been recognised becomes uncollectible in a subsequent period, it is written off against the provision for impairment of receivables. Subsequent recoveries of amounts previously written off are credited against “other expenses” in the statement of comprehensive income.

(m) Cash and cash equivalents

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

Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

(n) Payables

Payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are classified as current liabilities if payment is due within one year or less. If not, they are presented as non current liabilities.

Payables are initially measured at fair value and subsequently measured at amortised cost, using the effective interest method.

(o) Equity

Equity is the Auckland Council's interest in the Company, being a council controlled organisation, as measured by total assets less total liabilities. Equity has been classified into various components to identify those portions of equity held for specific purposes. These components of equity are:

- Reserves and accumulated funds
- Equity contributed by disestablished councils
- Equity contributed by disestablished CCOs

Equity contributed by disestablished councils and CCOs represents the transfer of assets on establishment of the company.

The Company's objectives, policies and processes for managing capital are discussed in note 38.

(p) Dividends

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

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

(q) Borrowings

Borrowings are initially recognised at fair value (net of transaction costs) and subsequently measured at amortised cost. Any difference between the proceeds and amortised cost is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

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 year-end date.

(r) Borrowing costs

Borrowing costs are expensed, except for costs incurred for the construction of any qualifying asset which are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale.

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity’s outstanding borrowings during the year.

Facility fees

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

(s) Current and deferred income tax

Income tax expense comprises both current tax and deferred tax, and is calculated using tax rates (and tax laws) that have been enacted or substantively enacted by balance date. Income tax expense is charged or credited to the statement of comprehensive income, except when it relates to items charged or credited directly to equity or other comprehensive income.

Current tax is the amount of income tax payable based on the taxable surplus for the current period, plus any adjustments to income tax payable in respect of prior periods.

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

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the entity expects to recover or settle the carrying amount of its assets and liabilities.

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

Deferred tax is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of an asset and liability in a transaction that is not a business combination and at the time of the transaction affects neither accounting surplus nor taxable surplus.

Deferred tax is recognised on taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group can control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

(t) Goods and Services Tax (GST)

All items in the financial statements are stated exclusive of GST, except for debtors and other receivables and creditors and other payables, which are presented on a GST inclusive basis.

The net amount of GST recoverable from, or payable to, the Inland Revenue ("IR") is included as part of receivables or payables in the statement of financial position.

(u) Employee benefits

Short-term employee entitlements

Employee benefits that the Group expects to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay. These include salaries and wages accrued up to balance date, annual leave earned to, but not yet taken at balance date, retirement gratuities and long service entitlements expected to be settled within 12 months, and sick leave.

The Group recognises a liability for sick leave to the extent that absences in the coming period are expected to be greater than the sick leave entitlements earned in the coming period. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date, to the extent that the Group anticipates it will be used by staff to cover those future absences.

The Group recognises a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

Long-term employee entitlements

Entitlements that are payable beyond 12 months, such as long service leave and retirement gratuities, have been calculated on an actuarial basis. The calculations are based on:

- Likely future entitlements accruing to staff, based on periods of service, periods to entitlement, the likelihood that staff will reach the point of entitlement and contractual entitlement information; and
- The present value of the estimated future cash flows.

The discount rate is based on the weighted average of interest rates for government stock with terms to maturity similar to those of the relevant liabilities. The inflation factor is based on the expected long term increase in remuneration for employees.

Superannuation schemes

(i) Defined contribution schemes

Obligations for contributions to defined contribution superannuation schemes are recognised as an expense in the surplus/(deficit) as incurred.

(v) Provisions

The Group recognises a provision for future expenditure of uncertain amount or timing when:

- the Group has a present obligation (legal or constructive) as a result of past events;
- it is probable that expenditures will be required to settle the obligation; and
- reliable estimate can be made of the amount of the obligation.

Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

The increase in the provision due to the passage of time is recognised as an interest expense and is included in “finance costs”.

(w) Insurance contracts

The Group is a partner in the Accident Compensation Commission (ACC) Partnership Programme. Under the Partnership Programme the Group is liable for all its claim costs for a period of two years up to a specified maximum. At the end of the two year period, the Company pays a premium to ACC for the value of residual claims, and the liability for ongoing claims from that point passes back to ACC.

The liability for ACC Partnership Programme is recognised in provisions and measured as the present value of expected future payments to be made in respect of the employee injuries and claims up to the reporting date using acturial techniques. Consideration is given to expected future wage and salary levels and experience of employee claims and injuries. Expected future payments are discounted using market yields at the reporting date on national government stock with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(x) Revenue recognition

Revenue is measured at the fair value of consideration received or receivable.

- Revenue from rendering of services is recognised by reference to the stage of completion of the transaction at balance date, based on the actual service provided as a percentage of the total services to be provided.
- Interest income is recognised using the effective interest method.
- Dividends are recognised when the right to receive payment has been established.
- Rental income is recognised on a straight line basis over the lease term.

(y) Leases

(i) Lessee

The Group leases certain property, plant and equipment.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight line basis over the period of the lease.

(ii) Lessor

Assets leased to third parties under operating leases are included in investment property and property, plant and equipment in the statement of financial position. Rental income (net of any incentives given to lessees) is recognised on a straight line basis over the lease term.