

**METEOROLOGICAL SERVICE
OF NEW ZEALAND
LIMITED**

2011-2013

STATEMENT OF CORPORATE INTENT

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INTRODUCTION

This Statement of Corporate Intent is submitted by Meteorological Service of New Zealand Limited (MetService), and outlines the direction of the Company for the three years ending 30 June 2013.

CORE AND RELATED ACTIVITIES

Nature and Scope of Activities

MetService provides weather and information presentation services, both in New Zealand and abroad, to:

- The general public;
- The media;
- Land and marine based commercial users;
- The aviation community, including civil and military aviation, air traffic control and regulatory organisations; and
- Government agencies at central, regional and local levels.

To achieve this, the Company engages in:

- The collection of basic weather information through the operation of its observing network in New Zealand and through arrangements with overseas agencies;
- The analysis, forecasting and dissemination of weather information;
- The development of software-based tools for the presentation and interpretation of weather and other information; and
- The provision of meteorological consultancy services.

Core Activities

MetService's core business activities include:

- The provision of New Zealand's National Meteorological Service under contract to the Minister of Transport;
- The provision of weather services to domestic and international aviation; and
- Other domestic weather forecasting services.

Related Activities

MetService's related business activities include:

- The provision of specialised weather services to the energy sector, both domestic and international;
- The provision of television weather graphics services and supporting data, both domestic and international;
- The sale of advertising space on its metservice.com website; and
- Other overseas weather forecasting services.

STRATEGIC CONTEXT

MetService will continue with its programme of increased capital expenditure which aims to modernise infrastructure to improve New Zealand weather forecasting services. Key areas of focus are the expansion and modernisation of the weather observing network and improvements in IT infrastructure, with emphasis on improving business continuance capability.

MetService's capital investment plan will result in an increase in depreciation and interest costs that will keep after-tax profit growth relatively flat throughout the period. Strong growth in EBITDA is expected, starting from a base of \$6.8m in 2007 and growing to \$13.0m projected by 2013. The Board will continue to monitor these investments to ensure the financial health of the business remains strong and the expected productivity gains and business continuance improvements are achieved.

Commercial Value of the Crown's Investment

In accordance with section 14(3) of the SOE Act, the Board estimates the value of the Crown's investment in MetService to be \$43.9 million. The approach used is the Discounted Cash Flow (DCF) method and replaces the multiples based approach used in the 2010-12 Statement of Corporate Intent..

The valuation methodology has been chosen based on a number of factors including the future prospects of the business, the stage of development of the business and the valuation practice or benchmark usually adopted by purchasers of this type of business. MetService has a profitable trading history and is forecast to operate profitably in the future. In these circumstances, a valuation based on future cash flows or earnings has been independently advised as the most appropriate basis on which to assess the value of the MetService business

The DCF method assesses the Enterprise Value ("EV") of the business. The EV is based on the net present value of the operating business. The value of the business is equal to the value of future free cash flows ("FCF") discounted at MetService's weighted average cost of capital of 9.03% and adjusted for interest bearing debt ("IBD").

The valuation is a 25% increase over last year's multiples based valuation of \$35m. The DCF valuation is supported by a multiples based approach using current data and multiples of comparable publicly listed companies. The valuation calculation has been externally reviewed.

ORGANISATIONAL GOALS

Vision

A global leader in local weather

Purpose

To provide social and economic benefits to our stakeholders

Mission

By engaging our people's expertise and innovation to make a difference

Corporate Objectives

To make a return on investment exceeding our cost of capital.

To enhance the safety and wellbeing of New Zealanders, protection of property and infrastructure, and economic benefit to the nation, through reliable and timely forecasting of weather and associated impacts.

To develop new and innovative services that will enable MetService to grow as a leader in valuable weather and presentation services internationally.

To operate in a socially responsible manner, with particular regard to MetService employees, the environment, the community, and our customers.

Ratio of Consolidated Shareholders' Funds to Total Assets

The business plan projects a 45.0% equity ratio as at 30 June 2013. In this context, *Consolidated Shareholders' Funds* means the total paid-up capital together with retained surpluses and reserves. *Total Assets* means the sum of all current and fixed assets owned by MetService, to the extent that these have been attributed value in the Company's financial statements.

Capital Structure

The Board of Directors annually re-assesses the capital structure of the Company to ensure that it continues to be appropriate for the circumstances, including the need to retain financial flexibility. The Board considers that the current growth strategy and significant planned infrastructure investment support the maintenance of a debt to debt plus equity ratio of 40-60%. This will be achieved by striking a balance between the use of external funding to support our capital expenditure programme and application of the existing dividend policy.

Dividend Policy

Funds surplus to MetService's investment and operating requirements will be distributed to shareholders. It is anticipated that 60% of tax-paid surpluses will be distributed by way of dividend over the period of the Plan.

In determining surplus funds, consideration will be given to:

- The medium term capital expenditure programme;
- The working capital requirements; and
- The sustainable financial structure of the business.

If the Board of Directors believes that the anticipated dividend requirement cannot be sustained in any particular year (e.g., because of significant new investment required to enhance the return to shareholders, or because it could endanger the financial structure of MetService), it will set an appropriate and prudent dividend.

KEY PERFORMANCE INDICATORS

Financial KPIs

The following KPIs provide a representative view of the projected financial performance of MetService over the planning period.

Financial KPI	2008/09 (Actual)	2009/10 (Forecast)	2010/11 (BP)	2011/12 (BP)	2012/13 (BP)
1. Shareholder Returns					
Total Shareholder Return	10.9%	28.6%	N/A	N/A	N/A
Dividend yield	1.5%	2.8%	5.0%	4.0%	4.0%
Dividend payout	10.4%	17.1%	22.6%	15.2%	14.0%
Return on equity	32.5%	23.6%	21.6%	19.9%	21.1%
Return on funds employed	34.4%	22.9%	19.1%	17.9%	19.0%
2. Profitability / Efficiency					
NPAT	3,248	2,898	2,926	2,918	3,412
EBIT	5,151	4,619	4,811	5,163	5,913
EBITDA	8,778	8,832	10,475	11,960	13,050
Return on capital employed	34.4%	22.9%	19.1%	17.9%	19.0%
Asset turnover	1.63	1.42	1.31	1.23	1.21
Operating margin (EBITDAF)	23.8%	23.4%	25.5%	27.7%	29.0%
Operating margin (EBIT)	14.0%	12.2%	11.7%	11.9%	13.1%
3. Leverage / Solvency					
Gearing ratio (net)	30.3%	40.4%	46.9%	48.5%	44.8%
Interest cover	23.8	18.5	16.6	12.0	12.6
Solvency	1.16	0.99	1.02	1.00	1.02
Debt coverage ratio	1.16	2.14	2.76	2.92	2.47
4. Growth / Investment					
Revenue growth	5.3%	2.5%	8.8%	5.2%	4.0%
EBITDAF growth	12.5%	0.6%	18.6%	14.2%	9.1%
NPAT growth	12.3%	-10.8%	1.0%	-0.3%	16.9%
Capital renewal	2.12	2.57	1.72	1.48	1.16
Capital expenditure (\$000s)	7,784	10,833	9,727	10,034	8,307

Notes on the Financial KPIs:

Table 1: Shareholder Returns

Measure	Description	Calculation
Total shareholder return	Performance from an investor perspective – dividends and investment growth.	$(\text{Commercial value}_{\text{end}} \text{ less } \text{Commercial value}_{\text{beg}} \text{ plus dividends paid less equity injected}) / \text{Commercial value}_{\text{beg}}$
Dividend yield	The cash return to the shareholder.	$\text{Dividends paid} / \text{Average commercial value}$.
Dividend payout	Proportion of net operating cash flows less allowance for capital maintenance paid out as a dividend to the shareholder.	$\text{Dividends paid} / \text{Net cash flow from operating activities less depreciation expense}$.
Return on equity (ROE)	How much profit a company generates with the funds the shareholder has invested in the company.	$\text{Net profit after tax} / \text{Average equity}$.
Return on funds employed (ROFE)		$\text{Ratio of EBIT} \text{ to average debt plus equity over the period}$

Table 2: Profitability/Efficiency

Measure	Description	Calculation
Return on capital employed	The efficiency and profitability of a company's capital from both debt and equity sources.	$\text{EBIT adjusted for IFRS fair value movements} / \text{Average capital employed}$.
Asset Turnover	The amount of revenue generated for every dollars worth of assets	$\text{Revenue} / \text{Assets}$
Operating margin (EBITDAF)	The profitability of the company per dollar of revenue.	$\text{EBITDAF} / \text{Revenue}$.
Operating margin (EBIT)	The profitability of the company per dollar of revenue.	$\text{EBIT} / \text{Revenue}$.

Table 3: Leverage/Solvency

Measure	Description	Calculation
Gearing ratio (net)	Measure of financial leverage - the ratio of debt (liabilities on which a company is required to pay interest) less cash, to debt less cash plus equity.	$\text{Net debt} / \text{Net debt plus equity}$.
Interest cover	The number of times that earnings can cover interest.	$\text{EBITDAF} / \text{Interest paid}$.
Solvency	Ability of the company to pay its debts as they fall due.	$\text{Current assets} / \text{Current liabilities}$.
Debt coverage ratio	Level of bank debt in relation to earnings	$\text{Bank debt} / \text{EBIT}$

Table 4: Growth / Investment

Measure	Description	Calculation
Revenue growth	Measure of whether the company is growing revenue	$\% \text{ change in revenue}$
EBITDAF growth	Measure of whether the company is growing earnings	$\% \text{ change in EBITDAF}$
NPAT growth	Measure of whether the company is growing profits	$\% \text{ change in NPAT}$
Capital renewal	Measure of the level of capital investment being made by the company	$\text{Capital expenditure} / \text{Depreciation expense}$

Non-Financial KPIs

Non-financial KPIs are based on a sustainability impacts analysis of MetService's business activities, and reflect our key drivers in the areas of economic, environmental and social sustainability.

Non-Financial KPI	2008/09 (Actual)	2009/10 (Forecast)	2010/11 Target	2011/12 Target	2012/13 Target
1. Economic:					
POD Heavy Rain	92%	93%	> 83%	> 85%	> 87%
POD Severe Gales	97%	92%	> 79%	> 81%	> 83%
POD Heavy Snow	91%	92%	> 79%	> 81%	> 83%
FAR Heavy Rain	12%	16%	< 32%	< 30%	< 28%
FAR Severe Gales	20%	19%	< 36%	< 34%	< 32%
FAR Heavy Snow	25%	19%	< 36%	< 34%	< 32%
RC/MCDEM Survey Score	86%	86%	80%	80%	80%
Tmax % Within 2 °C	n/a	78%	75%	75%	80%
Tmin % Within 4 °C	n/a	89%	85%	85%	90%
Precipitation % Correct	n/a	83%	75%	75%	80%
Radar % Uptime	98.3%	98.1%	97%	97%	97%
AWS % Uptime	99.4%	99.5%	98%	98%	98%
Forecasting Capability Investment	7.9%	7.2%	> 5.0%	> 5.0%	> 5.0%
Observing Capability Investment	5.8%	5.9%	> 5.0%	> 5.0%	> 5.0%
% Experienced Forecasters	54%	54%	> 40%	> 40%	> 40%
Forecast Improvement Score	6.5	4.0	> 0	> 0	> 0
ISO Audit Non-Conformances	0	0	≤ 1	≤ 1	≤ 1
CAA Audit Non-Conformances	0	0	≤ 1	≤ 1	≤ 1
2. Environmental / Social					
Electricity Consumption	3.1%	n/a	YoY ↓	YoY ↓	YoY ↓
Gallup Q12 Survey			Annual Survey Completed		
Workplace Accidents Lost Time	15	115	< 40 hr	< 40 hr	< 40 hr
Unique Website Visitors (000s)	560	687	965	1,158	1,332
WMO Staff Participation	12	12	10	10	10
Staff Community Service Days	40.5	50	50	60	70

Notes on the non-financial KPIs:

Table 1: Economic

Measure	Description / Calculation
Probability of Detection (POD)	The ratio of correctly forecast events to actual events observed.
False Alarm Rate (FAR)	The ratio of forecast events that didn't occur (false alarms) to the number of events forecast.
	The POD and FAR for heavy rain events is reported as a 12-month running mean. For heavy snow and high wind events the POD and FAR are reported as a 24-month running mean, reflecting the relative infrequency of these events.
The RC/MCDEM Survey Score	An aggregate score across a set of survey questions addressing accuracy, timeliness and usefulness of our forecasts and warnings. The survey is run annually, targeting the Ministry of Civil Defence and Emergency Management and all Regional Councils.
Tmax (Tmin) % Within 2 (4) °C	The percentage of maximum (minimum) temperature forecasts for tomorrow that verify within 2 (4) °C of the observed temperature, averaged over 34 urban sites across New Zealand.
Precipitation % Correct	The percentage of forecasts of precipitation (yes/no) for tomorrow that verify against observed precipitation, averaged over 34 urban sites across New Zealand.
Radar % Uptime	The percentage of time that radar data is available within MetService's Kelburn office, averaged over all radar sites.
AWS % Uptime	The percentage of time that Automated Weather Station data is available within MetService's Kelburn office, averaged over all AWS sites.
Forecasting Capability Investment	The total expenditure on our New Zealand weather forecasting capability expressed as a percentage of core revenue. It reflects activities such as R&D in modelling and forecasting techniques, professional training and development of forecaster tools.
Observing Capability Investment	The total capital investment in our New Zealand weather observing network expressed as a percentage of core revenue.
% Experienced Forecasters	The percentage of MetService forecasters with 10 years or more of operational experience. This is the typical amount of experience required before a forecaster is capable of playing a senior role in the forecasting team.
Forecast Improvement Score	The change over the past 5 years of an aggregate POD score. The aggregate score is the mean of the POD scores for heavy rain, snow and wind warnings, weighted by sample size, and taken over a 3-year running mean. It reflects the long-term improvement in warning performance resulting from our investment in forecasting and observing capability.
ISO Audit Non-Conformances	The number of non-conformances remaining unresolved for longer than two months arising from ISO audits in the past 12 months.
CAA Audit Non-Conformances	The number of non-conformances arising from CAA audits in the past 12 months.

Table 2: Environmental / Social

Measure	Description / Calculation
<i>Electricity Consumption</i>	The ratio of electricity (kWh) consumed to total revenue over the past 12 months.
<i>Workplace Accidents Lost Time</i>	The number of hours of time lost to workplace accidents in the past 12 months.
<i>Unique Website Visitors</i>	The number of monthly unique visitors to metservice.com, averaged over the past 12 months.
<i>WMO Staff Participation</i>	The number of employees who have taken part either in a WMO Working Group or formal meeting in the past 12 months.
<i>Staff Community Service Days</i>	The number of work days contributed to community service in the past 12 months.

RELATIONSHIP WITH SHAREHOLDING MINISTERS

Information to be Provided

To enable Shareholding Ministers to assess the value of their investment in MetService, any information that would normally be supplied to a controlling private sector shareholder will be made available. In particular:

- Annual Reports will be submitted in accordance with Section 15 of the SOE Act;
- Half Yearly Reports will be submitted in accordance with Section 16 of the SOE Act, and will include unaudited statements of financial performance, financial position, and cash flows, along with such other details as are necessary to permit an informed assessment of MetService's performance during the period;
- Quarterly reports will be submitted within one month of completion of the quarter, indicating actual performance against key financial and operating performance targets during the period, and reasons for any significant departure from forecasts;
- Shareholding Ministers will be advised of any changes to the treasury management policies and procedures applied by MetService, including the Board's approved limits for currency, interest rates, and credit exposure;
- A Business Plan for the next three financial years will be made available to shareholding Ministers for discussion prior to the commencement of each financial year; and
- MetService will fully comply with Section 18 of the Act in providing to Shareholding Ministers such additional information as may from time to time be requested.

Consultation

MetService undertakes to consult with Shareholding Ministers when specific business opportunities exceed the following thresholds:

- Core Activities: Opportunities where the proposed transaction exceeds \$3M.
- Related Activities: Opportunities where the proposed transaction exceeds \$2M.
- In all other cases where the transaction exceeds \$0.25M.

MetService supports the concept of “no surprises” for its Shareholding Ministers.

PROCEDURE FOR ACQUISITION OF SHARES

MetService will not invest in the shares of another entity unless the securities acquired are likely to bring added value to MetService. In any instance where MetService intends to subscribe for, or otherwise acquire (whether at the same time or over a period of time), 20% or more of the shares of any company, it will give prior written notice of its intention to Shareholding Ministers.

ACTIVITIES FOR WHICH COMPENSATION IS SOUGHT

Where the Government wishes MetService to undertake activities, or assume obligations, which will, or could, result in a reduction in the surplus or net worth of MetService, the Board of Directors of MetService will seek compensation sufficient to allow MetService's financial position to be preserved.

MetService does not currently seek compensation for any non-commercial activities under Section 7 of the Act.

ACCOUNTING POLICIES

MetService adopts the accounting policies recognised by the New Zealand Institute of Chartered Accountants as appropriate for the measurement and reporting of financial performance, financial position and cash flows. Accounting records are to be maintained in conformity with the requirements of the Companies Act 1993, and the Financial Reporting Act 1993.

The general accounting policies adopted by MetService in the preparation of financial statements are as follows:

- The measurement base is historical cost, modified to include the revaluation of certain assets, and the amortisation of those assets acquired from the Crown.
- Reliance is placed on the assumption that MetService will continue as a going concern.
- Income earned and expenses incurred are matched in accordance with accrual accounting principles.

The particular accounting policies to be applied by MetService are described below. The financial statements indicate annually whether or not the general or particular accounting policies are applied on bases consistent with previous years. An explanation will be provided for any change in policy.

Particular Accounting Policies

The general accounting policies recognised as appropriate for the measurement and reporting of results, cash flows and the financial position under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss, are followed in the preparation of this Business Plan.

The following particular accounting policies, which significantly affect the measurement of financial performance, financial position and cash flows, are applied. These policies have been consistently applied to all years presented unless otherwise stated.

Principles of Consolidation

Subsidiaries

The consolidated financial statements are prepared from the financial statements of the Parent and its subsidiaries using the purchase method. Subsidiaries are all entities over which the Group has control. Control is achieved where the Parent has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of any subsidiary acquired or disposed of during the year are included in the Income Statement from the effective date of acquisition or disposal. All significant transactions between Group companies are eliminated on consolidation. Investments in subsidiaries are recorded at cost in the Parent company's financial statements.

Jointly Controlled Entities

The Group's interest in jointly controlled entities is accounted for using the equity method of accounting. Investments in jointly controlled entities are initially recognised at cost. The Group's investment in jointly controlled entities includes goodwill identified on acquisition, net of any accumulated impairment loss. The Group's share of post-acquisition profits or losses of jointly controlled entities is recognised in the Income Statement. All significant transactions between Group companies and the Group's jointly controlled entities are eliminated to the extent of the Group's interest in the jointly controlled entities.

Revenue

Revenue is measured at the fair value for the sale of goods and services. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Sale of Goods

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of Services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is determined as follows:

- installation fees are recognised by reference to the stage of completion of the installation, determined as the proportion of the total time expected to install that has elapsed at the balance sheet date;

- servicing fees included in the price of products sold are recognised by reference to the proportion of the total cost of providing the servicing for the product sold, taking into account historical trends in the number of services actually provided on past goods sold; and
- revenue from time and material contracts is recognised at the contractual rates as labour hours are delivered and direct expenses are incurred.

Interest Income

Interest income is accounted for using the effective interest rate method.

Government Grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received. Government grants relating to assets are treated as deferred income and recognised in the Income Statement over the expected useful lives of the assets concerned

Inventories

Inventories are valued at the lower of cost, on a weighted average cost basis of inventory on hand calculated at the time of the last purchase, and net realisable value. Net realisable value represents the estimated selling price for inventories less costs necessary to make the sale.

Property, Plant and Equipment

The cost of purchased property, plant and equipment is valued at the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for the intended service. Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses.

The costs of assets constructed by the Parent and Group include the costs of all materials used in construction and direct labour on the project. Costs are capitalised as soon as the asset is capable of productive use.

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 Parent and Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Income Statement during the financial period in which they are incurred.

Depreciation

Depreciation of property, plant and equipment, other than freehold land, is calculated using the straight-line method to allocate the historical cost over the estimated useful life of the asset, after due allowance has been made for the expected residual value.

The cost of improvements to leasehold property are capitalised, disclosed as leasehold property and amortised over the unexpired period of the lease, or the estimated useful life of the improvements, whichever is shorter.

The annual depreciation rates are shown below for each classification of asset:

Buildings	2.5% -	10.0%
Computer Equipment	20.0%-	33.3%
Furniture & Fittings	20.0%-	33.3%
Leasehold Property	3.1% -	5.0%
Meteorological Equipment	10.0%-	33.0%
Motor Vehicles	15.0%-	20.0%
Office Equipment	20.0%-	33.0%
Plant & Equipment	10.0%-	33.0%

The remaining useful lives of assets are reviewed periodically, and the annual depreciation charge is adjusted where necessary.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset and are recognised in the Income Statement.

Intangible Assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired jointly controlled entity at the date of acquisition. Goodwill on acquisition of jointly controlled entities is included in "Investments in Jointly Controlled Entities" and is tested for impairment as part of the overall balance on an annual basis. Impairment losses on goodwill are recognised in the Income Statement and are not reversed.

Intangible assets acquired separately

Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Internally-generated intangible assets - computer software

Costs associated with developing or maintaining computer software programmes are recognised as an expense as 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 of 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 the Income Statement 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.

The annual amortisation rate shown below is considered appropriate for each classification of intangible asset:

Internally Generated Software	20.0%
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Leases

Operating lease payments, where lessors retain substantially all the risk or benefit of ownership of the leased items, are recognised as an expense in the income statement on a straight-line basis over the period of the lease.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

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

Restoration provision

Restoration costs include the dismantling and demolition of infrastructure and the removal of residual materials and remediation of disturbed areas. The restoration costs are based on management's best estimate of the amount required to settle the obligation. Movements in the restoration provision are recognised in the Income Statement.

Employee Benefits

i) Wages and Salaries and Annual Leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave, long service leave and alternative days leave expected to be settled within 12 months of the reporting date are recognised in payables in respect of employees' service up to the reporting date and are measured at the amounts expected to be paid when it is probable that the liabilities will be settled.

ii) Long Service Leave

The liability for long service leave, not expected to be settled within 12 months of the reporting date, is recognised in non-current liabilities and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the Income Statement because it excludes items of income or expense that are

taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or where they arise from the initial accounting for a business combination. In

the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination.

Foreign Currencies

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). These financial statements are presented in New Zealand dollars, which is the Parent's functional and presentation currency.

Transactions and balances

Transactions denominated in foreign currency are converted to New Zealand dollars using the exchange rate at the date of the transaction. At balance date, foreign monetary assets and liabilities are recorded at the closing exchange rate. Gains or losses due to currency fluctuations, both realised and unrealised, are recognised in the Income Statement.

Financial Instruments

Financial instruments carried on the Balance Sheet include cash and cash equivalents, trade and other receivables, amounts owing from subsidiaries, other financial assets, income tax receivable, trade and other payables, Directors fees payable, employee entitlements, income tax payable, provision for dividend, and borrowings.

Financial assets

Financial assets are recognised and derecognised on trade date where the purchase or sale of an asset is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned. Financial assets are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following categories: financial assets at fair value through profit or loss (FVTPL), held-to-maturity investments, available-for-sale (AFS) financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. The Group only holds financial assets categorised as financial asset at FVTPL or as loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the

financial asset or liability, or, where appropriate, a shorter period to the net carrying amount of the financial asset or liability.

Financial assets at FVTPL

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL. A financial asset is classified in this category if acquired principally for selling in the short term. Derivatives are also classified as held for trading.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in the Income Statement. The net gain or loss recognised in incorporates any dividend or interest earned on the financial asset.

The only financial assets at FVTPL are derivatives held for trading (note 20). All other financial assets are classified as loans and receivables.

Loans and receivables

Trade receivables, other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest method.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been reduced.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account.

Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the Income Statement.

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, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial Liabilities

Classification

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL. Derivatives are also classified as held for trading. A financial liability is classified in this category if it has been incurred principally for the purpose of repurchasing in the short term.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in the Income Statement. The net gain or loss recognised incorporates any interest paid on the financial liability.

The only financial liabilities at FVTPL are derivatives (note 20). All other financial liabilities are at amortised cost.

Other financial liabilities

Other financial liabilities, including trade and other payables, and borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised by applying the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Derivatives

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in the Income Statement immediately.

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Statement of Cash Flows

For the purpose of the cash flow statement, cash and cash equivalents include cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. The following terms are used in the statement of cash flows:

Operating activities: are the principal revenue producing activities of the Group and other activities that are not investing or financing activities.

Investing activities: are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Financing activities: are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

Goods and Services Tax

All items included in the financial statements are reported exclusive of Goods and Services Tax, except for accounts payables and accounts receivable, which include GST invoiced.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Impairment of Tangible and Intangible Assets Excluding Goodwill

At each balance sheet date, the Group reviews the carrying amounts of its 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, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

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 the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the Income Statement.

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 the Income Statement.

Share Capital

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

Critical Accounting Judgments and Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

- (i) Note 9: Employee Benefits - measurement of amounts recognised in respect of long service leave
- (ii) Note 10: Provisions - measurement of restoration provisions
- (iii) Note 14: Investment in Jointly Controlled Entities - measurement of the recoverable amount of the investment in jointly controlled entities

- (iv) Note 18: Other Intangible Assets - measurement of the recoverable amount of internally developed intangible assets.
- (v) Note 26: Financial Instruments - valuation of financial instruments