

CHRISTCHURCH CITY COUNCIL GROUP ACCOUNTING POLICIES

Purpose:

(a) General

These accounting policies are intended to comply with New Zealand International Financial Reporting Standards ('NZ IFRS') and to be applicable to the following entities and their subsidiaries and associates, namely:

| | |
|--|--------------------------------|
| Canterbury Technology Park | Christchurch City Council |
| Christchurch City Facilities Ltd | Christchurch City Holdings Ltd |
| City Care Limited | Jade Stadium Limited |
| Christchurch International Airport Ltd | Jet Engine Facility Ltd |
| Lyttelton Port Co Ltd | Orion Group Ltd |
| Red Bus Ltd | Selwyn Plantation Board Ltd |
| Transwaste Canterbury Ltd | Travis Finance Ltd |

These policies are intended as guidelines for financial accounting and also as the base for preparation of the notes to the financial statements. They presume the entity prepares consolidated statements.

(b) Entity Specific

Each entity should comply with these policies, but may wish to modify the wording of the general policy to suit their specific situation. Certain policies will not apply to all entities.

(c) Monitoring

The NZ IFRS regime will be reviewed on an on-going basis, and changes to these accounting policies proposed as necessary when changes to NZ IFRS are adopted.

(b) Basis of financial statement preparation

The consolidated financial statements are prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

The preparation of financial statements in conformity with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

[The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, will be detailed in the notes to the financial statements for each entity.]

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.

The accounting policies set out below will be applied consistently to all periods presented in the financial statements and in preparing an opening IFRS balance sheet at 1 July 2005 for the purposes of the transition to IFRS.

(c) Principles of consolidation

(i) Subsidiaries

Subsidiaries are all those entities (including special purpose entities) over which <REPORTING ENTITY> 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 <REPORTING ENTITY> controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to <REPORTING ENTITY>. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries.

Intercompany transactions, balances and unrealised gains on transactions are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted <REPORTING ENTITY>.

Minority interests in the results and equity of subsidiaries are shown separately in the consolidated income statement and balance sheet respectively.

(ii) Associates

Associates are all entities over which <REPORTING ENTITY> has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in associates are accounted for in the parent entity financial statements using the cost method and in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost. <REPORTING ENTITY'S> investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

<REPORTING ENTITY'S> share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the parent entity's income statement, while in the consolidated financial statements they reduce the carrying amount of the investment.

When <REPORTING ENTITY'S> share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, <REPORTING ENTITY> does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between <REPORTING ENTITY> and its associates are eliminated to the extent of <REPORTING ENTITY'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 <REPORTING ENTITY>.

(iii) Joint ventures

Joint venture operations

The proportionate interests in the assets, liabilities and expenses of joint venture operations are incorporated in the financial statements under the appropriate headings. Details of joint ventures are set out in the notes to the financial statements.

Joint venture entities

The interest in a joint venture partnership is accounted for in the consolidated financial statements using the equity method and is carried at cost by the parent entity. Under the equity method, the share of the profits or losses of the partnership is recognised in the income statement, and the share of movements in reserves is recognised in reserves in the balance sheet. Details relating to the partnership are set out in the notes to the financial statements.

Profits or losses on transactions establishing the joint venture partnership and transactions with the joint venture are eliminated to the extent of <REPORTING ENTITY'S> ownership interest until such time as they are realised by the joint venture partnership on consumption or sale, unless they relate to an unrealised loss that provides evidence of the impairment of an asset transferred.

(d) Foreign currency transactions

The functional and presentation currency is New Zealand dollars.

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to New Zealand dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to New Zealand dollars at foreign exchange rates ruling at the dates the fair value was determined.

(e) Derivative financial instruments

<REPORTING ENTITY> uses derivative financial instruments to hedge its exposure to interest rate and foreign exchange risks arising from operational, financing and investment activities. In accordance with the treasury policies of the respective group entities, <REPORTING ENTITY> does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see accounting policy (f)).

The fair value of interest rate swaps is the estimated amount that the group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

(f) Hedging

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. <REPORTING ENTITY> designates certain derivatives as either; (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (2) hedges of highly probable forecast transactions (cash flow hedges).

<REPORTING ENTITY> documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. <REPORTING ENTITY> also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

(i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(ii) 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 equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(iii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

(g) Property, plant and equipment

The following assets (except for investment properties - refer to note 1(s)) are shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation:

- Land
- Buildings
- Electricity distribution network
- Airport sealed surfaces
- Harbour structures
- Infrastructure assets
- Heritage assets
- Works of art

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Revalued assets must be carried at a value not materially different from fair value.

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

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

Increases in the carrying amounts arising on revaluation of an asset class are credited to other reserves in shareholders' equity. To the extent that the increase reverses a decrease previously recognised in profit or loss, the increase is first recognised in profit and loss. Decreases that reverse previous increases of the same asset class are first charged against revaluation reserves directly in equity to the extent of the remaining

reserve attributable to the class; all other decreases are charged to the income statement.

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

| | |
|---|---------------------------------|
| Buildings | INSERT USEFUL LIVES HERE |
| Meters and local control equipment | |
| Leasehold land improvements | |
| Library books | |
| Infrastructure assets | |
| Historic buildings | |
| Artworks | |
| Heritage assets | |
| Electricity distribution system and building structures | |
| Airport sealed surfaces | |
| Airport terminal buildings | |
| Airport roading | |
| Harbour structures | |
| Container cranes | |
| Vessels | |
| Buses | |
| Coaches | |
| Electronic ticketing equipment | |
| Plant, equipment and vehicles | |
| Computer and office equipment | |

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

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. When revalued assets are sold, the amounts included in other reserves in respect of those assets are transferred to retained earnings.

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

Non-current assets (or disposal groups) are classified as held for sale and stated at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. An impairment loss is recognised for any initial or subsequent write down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of de-recognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

(i) Intangible assets

(i) Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries, associates and joint ventures. In respect of business acquisitions that have occurred since 1 July 2004, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

In respect of acquisitions prior to this date, goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous GAAP. The classification and accounting treatment of business combinations that occurred prior to 1 July 2004 has not been reconsidered in preparing <REPORTING ENTITY'S> opening IFRS balance sheet at 1 July .

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortised but is tested annually for impairment (see accounting policy (o)). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Negative goodwill arising on an acquisition is recognised directly in the income statement.

(ii) Computer software

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

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

Computer software development costs recognized as assets are amortised over their estimated useful lives.

(iii) Other intangible assets

Other intangible assets that are acquired by <REPORTING ENTITY> are stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy (o)).

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

(iv) Subsequent expenditure

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

(v) Amortisation

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

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

(j) Biological assets and agricultural produce

A biological asset is a living animal or plant.

Biological assets that are the subject of agricultural activity (i.e., the management by an entity of the biological transformation of biological assets for sale, into agricultural produce, or into additional biological assets) are stated at fair value less estimated point-of-sale costs, with any resultant gain or loss recognised in the income statement, and are revalued annually. Point-of-sale costs include all costs that would be necessary to sell the assets, excluding costs necessary to get the assets to market.

All other biological assets are measured at the lower of cost and net realisable value.

Agricultural produce is the harvested product of the entity's biological assets. Agricultural produce is measured at fair value less estimated point-of-sale costs at the point of harvest.

(i) Standing timber

The fair value of standing timber older than 10 years, being the age at which it becomes marketable, is based on the market price of the estimated recoverable wood volumes, net of harvesting costs. The fair value of younger standing timber is based on the present value of the net cash flows expected to be generated by the plantation at maturity.

[PWC recommend this valuation methodology be reviewed for IFRS compliance.]

(k) Investments

<REPORTING ENTITY> classifies its investments in the following categories:

- (a) Financial assets or financial liabilities at fair value through profit or loss
This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges
- (b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.
- (c) Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity.
- (d) Available-for-sale financial assets
Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(i) Parent company investment in subsidiaries

For the purposes of the parent company financial statements, <REPORTING ENTITY'S> equity investments in its subsidiary companies are stated at fair value, based on periodic, but at least triennial, valuations by external independent valuers.

(ii) Investments in debt and equity securities

Financial instruments held for trading are classified as current assets and are stated at fair value, with any resultant gain or loss recognised in the income statement.

Where <REPORTING ENTITY> has the positive intent and ability to hold government bonds to maturity, they are stated at amortised cost less impairment losses (see accounting policy (o)).

Community loans are held-to-maturity assets and are stated at fair value.

Other financial instruments held by <REPORTING ENTITY> are classified as being available-for-sale and are stated at fair value, with any resultant gain or loss being recognised directly in equity, except for impairment losses and, in the case of monetary items such a debt securities, foreign exchange gains and losses. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised the income statement. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss.

The fair value of financial instruments classified as available-for-sale is their quoted bid price at the balance sheet date.

Financial instruments classified as available-for-sale investments are recognised / derecognised by <REPORTING ENTITY> on the date it commits to purchase / sell the investments. Securities held-to-maturity are recognised / derecognised on the day they are transferred to / by <REPORTING ENTITY>.

(iii) Investment property

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are stated at fair value. An external, independent valuation company, having an appropriate recognised professional qualification and recent experience in the location and category of property being valued, values the portfolio every year. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

The valuations are prepared by considering the aggregate of the net annual rents receivable from the properties and where relevant, associated costs. A yield which reflects the specific risks inherent in the net cash flows is then applied to the net annual rentals to arrive at the property valuation. A table showing the range of yields applied for each type of property is included below:

Valuations reflect, where appropriate; the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting of vacant accommodation and the market's general perception of their credit-worthiness;

the allocation of maintenance and insurance responsibilities between lessor and lessee; and the remaining economic life of the property. It has been assumed that whenever rent reviews or lease renewals are pending with anticipated reversionary increases, all notices and where appropriate counter notices have been served validly and within the appropriate time.

Any gain or loss arising from a change in fair value is recognised in the income statement.

Rental income from investment property is accounted for as described in accounting policy (u).

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

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment and its fair value at the date of reclassification becomes its cost for accounting purposes of subsequent recording. When <REPORTING ENTITY> begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property, which is measured based on fair value model, and is not reclassified as property, plant and equipment during the re-development.

A property interest under an operating lease is classified and accounted for as an investment property on a property-by-property basis when <REPORTING ENTITY> holds it to earn rentals or for capital appreciation or both. Any such property interest under an operating lease classified as an investment property is carried at fair value. Lease payments are accounted for as described in accounting policy (v).

[PWC recommend this valuation methodology be reviewed for IFRS compliance.]

(l) Trade and other receivables

(i) Construction work in progress

Construction work in progress is stated at cost plus profit recognised to date (see accounting policy (u)) less a provision for foreseeable losses and less progress billings. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in <REPORTING ENTITY'S> contract activities based on normal operating capacity.

(ii) Other trade and other receivables

Trade and other receivables are stated at their cost less impairment losses (see accounting policy (o)).

(m) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Inventories held for distribution at no charge, or for a nominal amount, are stated at the lower of cost and current replacement cost.

The cost of other inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

(n) Cash and cash equivalents

Cash and cash equivalents comprises cash balances and call deposits, and other short-term highly liquid investments with maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of <REPORTING ENTITY'S> cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows, and in current liabilities on the balance sheet.

(o) Impairment

The carrying amounts of <REPORTING ENTITY'S> assets, other than investment property (see accounting policy (k)), inventories (see accounting policy (m)) and deferred tax assets (see accounting policy (w)), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement. Impairment losses on revalued assets offset any balance in the asset revaluation reserve, with any remaining impairment loss being posted to the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Goodwill and indefinite-lived intangible assets were tested for impairment at 1 July 2005, the date of transition to IFRS, even though no indication of impairment existed.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

(i) Calculation of recoverable amount

The recoverable amount of <REPORTING ENTITY'S> investments in held-to-maturity securities and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price 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 an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

An impairment loss in respect of a held-to-maturity security or receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as available for sale is not reversed through profit or loss. If 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 profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(p) Share capital

(i) Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are included in the cost of the acquisition as part of the purchase consideration.

(ii) Preference share capital

Preference share capital is classified as equity if it is non-redeemable and any dividends are discretionary, or is redeemable but only at the company's option. Dividends on preference share capital classified as equity are recognised as distributions to owners.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders or if dividend payments are not discretionary. Dividends thereon are recognised in the income statement as interest expense.

(iii) Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a decrease in equity.

Repurchased shares are classified as treasury shares and presented as a deduction from total equity.

(iv) Dividends

Dividends on redeemable preference shares are recognised as a liability and expressed on an accrual basis. Other dividends are recognised as a liability in the period in which they are declared.

(q) Convertible notes

Convertible notes that can be converted to share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments.

Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds. The equity component of the convertible notes is calculated as the excess of the issue proceeds over the present value of the future interest and principal payments, discounted at the market rate of interest applicable to similar liabilities that do not have a conversion option. The interest expense recognised in the income statement is calculated using the effective interest rate method.

(r) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

(s) Provisions

A provision is recognised in the balance sheet when the group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits, the amount of which can be reliably estimated, will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(t) Employee entitlements

Provision is made in respect of <REPORTING ENTITY'S> liability for retiring gratuity allowances, annual and long service leave, and sick leave.

[PWC comment: if there are any other employee benefits, such as TOIL or superannuation contributions, the manner in which they are accounted for should be described.]

The retiring gratuity liability is assessed on an actuarial basis using current rates of pay taking into account years of service, years to entitlement and the likelihood staff will reach the point of entitlement. These estimated amounts are discounted to their present value using an interpolated 10 year government bond rate.

Liabilities for accumulating short-term compensated absences (e.g., annual and sick leave) are measured as the amount of unused entitlement accumulated at the balance sheet date that the entity anticipates employees will use in future periods in excess of the days that they will be entitled to in each of those periods.

(u) Revenue

(i) Goods sold and services rendered

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods also continuing management involvement with the goods.

(ii) Construction contracts

As soon as the outcome of a construction contract can be estimated reliably, contract revenue and expenses are recognised in the income statement in proportion to the stage of completion of the contract. The stage of completion is assessed by reference to surveys of work performed.

An expected loss on a contract is recognised immediately in the income statement.

(iii) Rental income

Rental income from investment property is recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

(iv) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and <REPORTING ENTITY> will comply with all attached conditions.

(v) Expenses

(i) Leases

Leases in which substantially all of the risks and rewards of ownership transfer to the lessee are classified as finance leases. At inception, finance leases are recognized as assets and liabilities on the balance sheet at the lower of the fair value of the leased property and the present value of the minimum lease payments. Any additional direct costs of the lessee are added to the amount recognized as an asset. Subsequently, assets leased under a finance lease are depreciated as if the assets are owned.

(ii) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

(iii) Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(iii) Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, dividends on redeemable preference shares, interest receivable on funds invested, dividend income, foreign exchange gains and losses, and gains and losses on hedging instruments that are recognised in the income statement (see accounting policy f).

Interest income is recognised in the income statement as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the

entity's right to receive payments is established which in the case of quoted securities is usually the ex-dividend date. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method.

(w) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(x) Research and development costs

Research costs are expensed in the period incurred. Development costs are capitalised where it is probable that future benefits will exceed those costs. Deferred development costs are amortized over future periods in relation to expected future revenue.

[PWC comment: include criteria for capitalisation of development costs.]

(y) Third party transfer payment agencies

<REPORTING ENTITY> collects monies for many organizations. Where collections are processed through <REPORTING ENTITY'S> books, any monies held are shown as Accounts Payable in the Statement of Financial Position. Amounts collected on behalf of third parties are not recognised as revenue, but commissions earned from acting as agent are recognised in revenue.

(z) Council-specific policies disclosed in the annual report:

- Donated goods and services
- Cost allocations
- Budgets/estimates disclosed
- Debt servicing costs
- Landfill after care
- GST

[CIAL – adopting alternate treatment under NZ IAS 23:

Borrowing costs are recognized as an expense in the period in which they are incurred, except to the extent they are directly attributable to the acquisition, construction or production of a qualifying asset, in which case the borrowing costs will be capitalised as part of the cost of the asset.]