

WANGANUI DISTRICT COUNCIL HOLDINGS LIMITED

STATEMENT OF INTENT FOR YEAR COMMENCING 1 JULY 2015

This statement is submitted by the Directors of Wanganui District Council Holdings Limited in accordance with section 64 of the Local Government Act 2002. It sets the overall intentions and objectives of the Company for the three financial years beginning on 1 July 2015.

1 Definitions

"Company" means Wanganui District Council Holdings Limited

"the Board" means the Board of Directors of Wanganui District Council Holdings Limited

"WDC" means Wanganui District Council and the shareholder

"WGL" means Wanganui Gas Limited

2 Objectives

- 2.1 The Board intends to operate as a successful business in relation to its investments to the monitoring roles assigned to it under contract by WDC.
- 2.2 The Company aims to improve the long term value and financial return that WDC receives from its trading undertakings:
 - 2.2.1 Optimising financial and physical resources through close scrutiny of potential areas of inefficiency, waste or under-utilisation of capital.
 - 2.2.2 Providing prudent management of investments and timely, constructive professional advice regarding its position as shareholder in WGL, and any other subsidiary companies or undertakings.
 - 2.2.3 Meeting the expectations of WDC for quality, competitively priced strategic planning advice on investments and trading undertakings.
 - 2.2.4 Reviewing and advising on the strategies and plans of any subsidiary company, business unit or asset as requested by WDC.
 - 2.2.5 Being a good corporate citizen and exercising the appropriate level of social responsibility toward the community and the environment, consistent with the conduct of a sustainable and profitable business.

3 Governance

- 3.1 The Board governs the activities of the Company in accordance with the requirements of the Wanganui District Council.

4 Nature and scope of activities

- 4.1 The Company's business will primarily be to hold shares in WGL and other subsidiaries or undertakings transferred to the Company, to provide strategic planning advice to WDC when required and to undertake such other matters as shall be determined by the Board, in conjunction with WDC.

5 Consolidated shareholders' funds

- 5.1 For the year ended 30 June 2014, consolidated shareholders' funds as a ratio to total assets was 56%. Per the Company's Annual Report 2014 equity was \$25.773M and total assets were \$46.057M.
- 5.2 The target ratio of consolidated shareholders' funds to total assets shall not significantly alter to that stated in 5.1 for the period covered by this SOI. This target ratio does not take into account unusual or one-off type transactions that impact this ratio. The appropriateness of this target ratio will be reviewed annually by the Directors.

6 Accounting policies

- 6.1 The Statement of accounting policies for the year ended 30 June 2014 is attached in Appendix 1.

7 Performance targets

- 7.1 The Company's intended performance targets for the period are:
- 7.1.1 To break even.
 - 7.1.2 To facilitate WGL and WDC to achieve its investment objectives per clause 2 and the performance targets identified in their Statements of Intent.

8 Distributions to shareholders

- 8.1 The Board will comply with the procedures and requirements as they relate to dividends pursuant to the Companies Act 1993.
- 8.2 Recommendations to WDC will be based on:
- 8.2.1 The retention of an appropriate level of earnings before reinvestment in the business and capitalisation needs;
 - 8.2.2 Maintenance of the desired ratio of the shareholders funds to total assets.
- 8.3 The Shareholder has requested a dividend of \$800k. This dividend is to be paid after taking into account the Company's working capital needs.

9 Information to be provided to shareholders

- 9.1 To enable WDC to make an informed assessment of the operation of the Company and its investment in the Company, any information that would normally be supplied to a controlling private shareholder will be made available. In addition, the Company will meet all the requirements for information disclosure in the relevant legislation.
- 9.2 The Company will produce monthly management reports in accordance with Wanganui District Council management reporting systems. This includes monthly reports on the performance of its subsidiaries.
- 9.3 A half yearly report in accordance with Section 66 (Half-yearly report) and Section 71 (Protection from disclosure of sensitive information) of the Local Government Act 2002. The report will contain the following financial information:
- (a) a statement of financial position as at the end of the period;
 - (b) a statement of comprehensive income for the period.
- 9.4 By 30 September each year the Board will deliver to WDC and make available to the public; an audited Annual Report prepared in accordance with generally accepted accounting practice and the Local Government Act 2002.

10 Procedure for acquisition or sale of shares and property

- 10.1 Before the Company or any subsidiary subscribes for, purchases or acquires shares in any other company, or acquires any interest in any business or property whatsoever the Directors shall give at least 21 days notice to WDC of such proposals prior to the Directors deciding whether or not to proceed.
- 10.2 The Company shall not proceed to purchase without an ordinary shareholders resolution first being completed by WDC.
- 10.3 The Company under clause 11 of its constitution cannot sell shares of any company in which it has a shareholding or divest of any asset without a resolution of WDC.

11 Compensation

- 11.1 Other than remuneration for services provided to WDC there are no activities for which the Board will be seeking compensation from any local authority.

12 Commercial value

- 12.1 The Board estimates the commercial value of the Company is \$7.845,700. The investment is made up by way of subscribed share capital.
- 12.2 The Directors, upon request from WDC, will provide within their Annual Report an assessment of the then current commercial value of the shareholding.

13 External transactions requiring disclosure

- 13.1 The Company has financing arrangements with the shareholder for short and long term borrowings and this is unlikely to change during the financial year ending 30 June 2015.

14 Other matters

- 14.1 The Directors and WDC have agreed prudent governance practices including that the Company should:
- 14.1.1 Monitor the performance of WGL by:
 - 14.1.1.1 Considering the draft Statement of Intent
 - 14.1.1.2 Analysing the financial reports of WGL
 - 14.1.1.3 Regular review of the investment in WGL
 - 14.1.1.4 Regular review of WDC's commercial investments as agreed with WDC
 - 14.1.2 Facilitate the informed relationship between WGL and WDC by:
 - 14.1.2.1 Preserving the operating autonomy of WGL
 - 14.1.2.2 Applying business disciplines to professional management of WGL
 - 14.1.2.3 Acting as a channel of communication between WDC and WGL
 - 14.1.2.4 Promoting best practices in corporate governance
 - 14.1.2.5 Providing a source of information and analysis
 - 14.1.3 Notify WDC in advance of any endeavour, or other matter known to the Company, that may have political relevance in relation to its activities
 - 14.1.4 Provide advice as to the composition of the Company and its subsidiaries
 - 14.1.5 Consider WDC's shareholder expectations which may include desired financial outcomes (both capital and income), social outcomes, employment outcomes, environmental outcomes, cultural outcomes or such other outcomes as may from time to time be decided.

Matthew Doyle
Chairman
9 February 2015

APPENDIX 1

Statement of accounting policies

For the year ended 30 June 2014

REPORTING ENTITY

Wanganui District Council Holdings Limited (WDCHL) is a company formed in accordance with and registered under the Companies Act 1993. WDCHL is controlled by Wanganui District Council (the Council) and is a Council Controlled Trading Organisation as defined under section 6 of the Local Government Act 2002, by virtue of the Council's right to appoint the Board of Directors. WDCHL is domiciled in New Zealand.

The group financial statements include its subsidiary, Wanganui Gas Limited which is also domiciled in New Zealand. On 1 July 2008 the two independent trading divisions of Wanganui Gas Limited, GasNet and Energy Direct NZ, were established as separate companies. Both companies are 100% owned by Wanganui Gas Limited. During 2013, the assets of Energy Direct NZ Ltd were sold and the company ceased to operate as an energy retailer. The operations of Energy Direct NZ Ltd have been presented as a discontinued operation.

The primary objective of WDCHL is to operate as a successful business in relation to its investments and the monitoring roles assigned to it under contract by the Council. The Company aims to improve the long term value and financial return that the Council receives from its trading undertakings.

WDCHL is a profit oriented entity for the purposes of New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

The financial statements of WDCHL are for the year ended 30 June 2014. The financial statements were authorised for issue by the Board of Directors on 30 September 2014.

BASIS OF PREPARATION

Statement of compliance

The financial statements of WDCHL have been prepared in accordance with the requirements of the Local Government Act 2002, which includes the requirement to comply with New Zealand generally accepted accounting practice (NZ GAAP).

These financial statements have been prepared in accordance with NZ GAAP. They comply with NZ IFRS, and other applicable Financial Reporting Standards, as appropriate.

For the purposes of complying with NZ GAAP, the WDCHL is eligible to apply Tier 2 For-profit Accounting Standards (New Zealand equivalents to International Financial Reporting Standards – Reduced Disclosure Regime ('NZ IFRS RDR')) on the basis that it does not have public accountability and is not a large for-profit public sector. The WDCHL has elected to report in accordance with NZ IFRS RDR and has applied disclosure concessions.

Measurement base

The financial statements are prepared using the historical cost basis, modified by the revaluation of certain financial instruments (including derivative instruments).

Functional and presentation currency

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars. The Company's functional currency is New Zealand dollars.

Changes in accounting policies

New and amended standards adopted by the Company

The following new standards and amendments to standards relevant to WDCHL have been adopted as of 1 July 2013 and have been applied in the preparation of these financial statements.

NZFRS 10 – Consolidated financial statements – builds on existing principles by identifying the concept of control as the determining principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard has not had a material impact on WDCHL.

NZ IFRS 12 Disclosure of Interests in Other Entities / NZ IAS 27, 28 and 31 issued in June 2011. NZ IFRS 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structures entities. New

disclosures have been introduced regarding judgements made by management to determine whether control exists and information to be disclosed. The standard has not had a material impact on WDCHL.

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

At the date of authorisation of the financial report, a number of standards and interpretations were issued but not yet effective.

Standards, amendments and interpretations issued that are not yet effective and have not been early adopted, and which are relevant to WDCHL and Group include:

NZIFRS 9 Financial Instruments will eventually replace NZ IAS 39 Financial Instruments: Recognition and Measurement. NZ IAS 39 is being replaced through 3 main phases: Phase 1 Classification and Measurement; Phase 2 Impairment Methodology; and Phase 3 Hedge Accounting. Phase 1 has been completed and has been published in the new financial instrument standard NZ IFRS 9.

NZ IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value. The approach is based upon how an entity manages its financial assets and the contractual cash flow characteristics of the financial assets. The financial liability requirements are the same as those in NZ IAS 39 except for when an entity elects to designate a financial liability at fair value through the surplus/deficit. The new standard is to be adopted for reporting periods beginning on or after 1 January 2017. The standard is not expected to have a material effect on WDCHL.

SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The purchase method is used to prepare the consolidated financial statements, which involves adding together like items of assets, liabilities, equity, income and expenses on a line-by-line basis. All significant intergroup balances, transactions, income and expenses are eliminated on consolidation.

Subsidiaries

WDCHL consolidates as subsidiaries in the group financial statements all entities where WDCHL has the capacity to control their financing and operating policies so as to obtain benefits from the activities of the entity. This power exists where WDCHL controls the majority voting power on the governing body or where such policies have been irreversibly predetermined by WDCHL or where the determination of such policies is unable to materially impact the level of potential ownership benefits that arise from the activities of the subsidiary.

WDCHL measures the cost of a business combination as the aggregate of:

- the consideration transferred, which is generally measured at acquisition date fair value;
- the amount of any non-controlling interest measured at either fair value or the non-controlling interest in the fair value of the net identifiable assets of the acquiree; and
- the acquisition date fair value of the previously held equity interest in the acquiree, if any.

Any excess of the cost of the business combination over WDCHL's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognised as goodwill. If WDCHL's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised exceeds the cost of the business combination, the difference will be recognised immediately in the surplus or deficit.

Investments in subsidiaries are carried at cost in WDCHL's own "parent entity" financial statements.

Revenue

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

Revenue is derived from port operations, gas network distribution services, and the sale of energy. Such revenue is recognised when earned and is reported in the financial period to which it relates. Energy sales include an accrual for energy supplied but not billed at the end of the financial period.

Interest income is accrued on a time basis, by reference to the principal outstanding and the effective interest rate applicable.

Dividends are recognised when the shareholder's rights to receive payment has been established and are recognised net of imputation credits.

Borrowing costs

Borrowing costs are capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset, otherwise borrowing costs are recognised as an expense in the period in which they are incurred.

Income Tax

Income tax expense is the aggregate of current period movements in relation to both current and deferred tax.

Current tax is the amount of income tax payable based on the taxable surplus for the current year, plus any adjustments to income tax payable in respect of prior years. Current tax is calculated using tax rates (and tax laws) that have been enacted or substantively enacted at balance date.

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

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

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

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

Current and deferred tax is recognised against the surplus or deficit for the period, except to the extent that it relates to a business combination, or to transactions recognised in other comprehensive income or directly in equity.

Leases

Finance leases

A finance lease is a lease that transfers to the lessee substantially all the risks and rewards incidental to ownership of an asset, whether or not title is eventually transferred.

At the commencement of the lease term, WDCHL recognises finance leases as assets and liabilities in the statement of financial position at the lower of the fair value of the leased item or the present value of the minimum lease payments.

The finance charge is charged to the surplus or deficit over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability.

The amount recognised as an asset is depreciated over its useful life. If there is no certainty as to whether WDCHL will obtain ownership at the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

Operating leases

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

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

Debtors and other receivables

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

Impairment of a receivable is established when there is objective evidence that WDCHL will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, receivership or liquidation, and default in payments are considered indicators that the debt is impaired. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the surplus or deficit. When the receivable is uncollectible, it is written off against the allowance account for receivables. Overdue receivables that have been renegotiated are reclassified as current (that is, not past due).

Electricity Contracts for Differences (CFDs)

CFDs are not traded on an active market so the fair values of CFDs are based on the discounted values of future cash flows with assumptions based on publically available forecasted prices and models maintained by an external consultant.

Changes in the fair values of CFDs are recognised in the Statement of Comprehensive Income within the Operating Profit.

Financial assets

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

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

WDCHL classifies its financial assets into the following categories: fair value through surplus or deficit, held-to-maturity investments, loans and receivables and fair value through other comprehensive income. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

Financial assets at fair value through profit or loss

Financial assets at fair value through surplus or deficit include financial assets held for trading. A financial asset is categorised in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. WDCHL's financial assets at fair value through profit and loss include derivatives that are not designated as hedges.

Financial assets acquired principally for the purpose of selling in the short-term are classified as a current asset.

After initial recognition, financial assets are measured at their fair values with gains or losses on remeasurement are recognised in the surplus or deficit.

Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance date, which are included in non-current assets. WDCHL's loans and receivables comprise cash and cash equivalents, debtors and other receivables, term deposits, and related party loans.

After initial recognition they are measured at amortised cost using the effective interest method less impairment. Gains and losses when the asset is impaired or derecognised are recognised in the surplus or deficit.

Held to maturity investments

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that WDCHL has the positive intention and ability to hold to maturity. They are included in current assets, except for maturities greater than 12 months after the balance date, which are included in non-current assets.

After initial recognition they are measured at amortised cost using the effective interest method less impairment. Gains and losses when the asset is impaired or derecognised are recognised in the surplus or deficit.

Fair value through other comprehensive income

Financial assets at fair value through other comprehensive income are those that are designated into the category at initial recognition or are not classified in any of the other categories above. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance date or if the debt instrument is not expected to be realised within 12 months of balance date. WDCHL's financial assets at fair value through other comprehensive income comprise investments in quoted and unquoted shares. WDCHL includes in this category:

- investments that it intends to hold long-term but which may be realised before maturity; and
- shareholdings that it holds for strategic purposes.

WDCHL's investments in its subsidiary is not included in this category as they are held at cost (as allowed by NZ IAS 27 Consolidated and Separate Financial Statements and NZ IAS 28 Investments in Associates) whereas this category is to be measured at fair value.

After initial recognition these investments are measured at their fair value, with gains and losses recognised in other comprehensive income, except for impairment losses, which are recognised in surplus or deficit. On derecognition, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to the surplus or deficit.

Fair value

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. WDCHL uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as discounted expected cash flows, are used to determine fair value for the remaining financial instruments.

Impairment of financial assets

Financial assets are assessed for objective evidence of impairment at each balance date. Impairment losses are recognised in the surplus or deficit.

Loans and other receivables, and held-to-maturity investments

Impairment is established when there is objective evidence that WDCHL will not be able to collect amounts due according to the original terms of the debt. Significant financial difficulties of the debtor/issuer, probability that the debtor/issuer will enter into bankruptcy, and default in payments are considered indicators that the asset is impaired. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. For debtors and other receivables, the carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the surplus or deficit. When the receivable is uncollectible, it is written off against the allowance account. Overdue receivables that have been renegotiated are reclassified as current (i.e. not past due). For term deposits, impairment losses are recognised directly against the instruments carrying amount.

Impairment of term deposits and related party loans is established when there is objective evidence that the WDCHL will not be able to collect amounts due to the original terms of the instrument. Significant financial difficulties of the issuer, probability the issuer will enter into bankruptcy, and default in payments are considered indicators that the instrument is impaired.

Financial assets at fair value through other comprehensive income

For equity investment, a significant or prolonged decline in the fair value of the investment below its cost is considered objective evidence of impairment.

For debt investments, significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, and default in payments are considered objective indicators that the asset is impaired.

If such evidence exists for investments at fair value through other comprehensive income, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the surplus or deficit) recognised in other comprehensive income is reclassified from equity to the surplus or deficit.

Derivative financial instruments and hedge accounting

WDCHL uses derivative financial instruments to hedge exposure to interest rate risks arising from financing activities. In accordance with its treasury policy, WDCHL does not hold or issue derivative financial instruments for trading purposes.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value at each balance date.

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged.

The associated gains or losses of derivatives that are not hedge accounted are recognised in the surplus or deficit.

WDCHL designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or
- hedges of highly probable forecast transactions (cash flow hedge).

Inventories

Inventories (such as spare parts and other items) held for distribution or consumption in the provision of services that are not supplied on a commercial basis are measured at the lower of cost, adjusted when applicable, for any loss of service potential. Where inventories are acquired at no cost or for nominal consideration, the cost is the current replacement cost at the date of acquisition.

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

The amount of any write-down for the loss of service potential or from cost to net realisable value is recognised in the surplus or deficit in the period of the write-down.

Capital contributions

Capital contributions received from customers are netted from the cost of the asset.

Impairment of assets

At each balance date WDCHL assesses whether there is any objective evidence that any asset has been impaired. Any impairment losses are recognised in the surplus or deficit.

Property, plant and equipment

Property, plant and equipment consists of:

Operational assets – these include land, buildings, motor vehicles and plant and equipment.

Infrastructure assets – these include the fixed utility systems comprising the distribution and measurement systems. Each asset type includes all items that are required for the network to function.

Property, plant and equipment is shown at cost or valuation, less accumulated depreciation and impairment losses.

Revaluation

Land, buildings and infrastructural assets are revalued with sufficient regularity to ensure that their carrying amount does not differ materially from fair value and at least every three years. All other asset classes are carried at depreciated historical cost.

WDCHL assesses the carrying values of its revalued assets annually to ensure that they do not differ materially from the assets' fair values. If there is a material difference, then the off-cycle asset classes are revalued.

WDCHL accounts for revaluations of property, plant and equipment on an asset by asset basis.

The results of revaluing are credited or debited to other comprehensive income and are accumulated to an asset revaluation reserve in equity for that class of asset. Where this results in a debit balance in the asset revaluation reserve, this balance is not recognised in other comprehensive income but is recognised in the surplus or deficit. Any subsequent increase on revaluation that reverses a previous decrease in value recognised in the surplus or deficit will be recognised first in the surplus or deficit up to the amount previously expensed, and then recognised in other comprehensive income.

Additions

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

Work in progress is recognised at cost less impairment and is not depreciated.

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

Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the surplus or deficit. When revalued assets are sold, the amounts included in asset revaluation reserves in respect of those assets are transferred to retained earnings.

Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment other than land and art works, at rates that will write off the cost (or valuation) of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

Asset type	Depreciation rate
Distribution Network Mains and Services	1-15% SL
Distribution Network Condition Renewals	2% SL
Gas Measurement Systems and Distribution Network Customer Stations	1-10% SL
Buildings	2% SL
Vehicles, Plant, Office Equipment and Furniture and Fittings	4-33 % SL
Computer Hardware	20-33% SL
Leasehold Improvements	2-20% SL

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

Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of WDCHL's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisition of subsidiaries is included in "intangible assets". Goodwill on acquisition of associates is included in "investments in associates" and is tested for impairment as part of the overall balance.

Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. An impairment loss recognised for goodwill is not reversed in any subsequent period.

Goodwill is allocated to cash generating units for the purposes of impairment testing. The allocation is made to those cash generating units or groups of cash generating units that are expected to benefit from the business combination, in which the goodwill arose.

Software acquisition and development

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs that are directly associated with the development of software for internal use by WDCHL, are recognised as an intangible asset. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Staff training costs are recognised in the surplus or deficit when incurred.

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

Customer List

The cost of the acquisition of the gas and electricity customers gained during the financial year has been capitalised. These are valued at cost and are amortised at 20% per annum.

Amortisation

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each period is recognised in the surplus or deficit.

The useful lives and associated amortisation rates of major classes of intangible assets have been estimated as follows:

Computer software	3 years	33%
Customer list	5 years	20%

Impairment of property, plant and equipment and intangible assets

Intangible assets that have an indefinite useful life, or not yet available for use, are not subject to amortisation and are tested annually for impairment. Assets that have a finite useful life are reviewed for indicators of impairment at each balance date. When there is an indicator of impairment the asset's recoverable amount is estimated. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Value in use is depreciated, replacement cost for an asset where the future economic benefits or service potential of the asset are not primarily dependent on the asset's ability to generate net cash inflows and where the entity would, if deprived of the asset, replace its remaining future economic benefits or service potential.

The value in use for cash-generating assets and cash generating units is the present value of expected future cash flows.

If an asset's carrying amount exceeds its recoverable amount, the asset is impaired and the carrying amount is written down to the recoverable amount. For revalued assets the impairment loss is recognised against the revaluation reserve for that asset. Where that results in a debit balance in the revaluation reserve, the balance is recognised in the surplus or deficit.

For assets not carried at a revalued amount, the total impairment loss is recognised in the surplus or deficit.

The reversal of an impairment loss on a revalued asset is credited to the revaluation reserve. However, to the extent that an impairment loss for that class of asset was previously recognised in the surplus or deficit, a reversal of the impairment loss is also recognised in the surplus or deficit.

For assets not carried at a revalued amount (other than goodwill) the reversal of an impairment loss is recognised in the surplus or deficit.

Creditors and other payables

Creditors and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings

Borrowings are initially recognised at their fair value net of transaction costs incurred. After initial recognition, all borrowings are measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless WDCHL has an unconditional right to defer settlement of the liability for at least 12 months after the balance date or if the borrowings are expected to be settled within 12 months of balance date.

Employee entitlements

Short-term employee entitlements

Employee benefits that WDCHL expects to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to balance date, annual leave earned to, but not yet taken at, balance date, retiring and long service leave entitlements expected to be settled within 12 months, and sick leave.

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

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

Long-term employee entitlements

Entitlements that are payable beyond 12 months after the end of the period in which the employee renders the related service, such as long service leave and retiring leave, have been calculated on an actuarial basis. The calculations are based on likely future entitlements accruing to staff, based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement and contractual entitlements information; and the present value of the estimated future cash flows. The discount rate is based on the weighted average of interest rates for government stock with terms to maturity similar to those of the relevant liabilities. The inflation factor is based on the expected long-term increase in remuneration for employees.

Presentation of employee entitlements

Sick leave, annual leave, vested long service leave, and non-vested long service leave and retirement gratuities expected to be settled within 12 months of balance date, are classified as a current liability. All other employee entitlements are classified as a non-current liability.

Equity

Equity is the community's interest in WDCHL and is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified into a number of reserves.

The components of equity are:

- retained earnings
- property, plant and equipment reserves
- fair value through other comprehensive reserves

WDCHL's objectives, policies and processes for managing capital are described in note 27.

Goods and Service Tax (GST)

All items in the financial statements are stated exclusive of GST, except for receivables and payables, which are stated on a GST inclusive basis. Where GST is not recoverable as input tax then it is recognised as part of the related asset or expense.

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

The net GST paid to, or received from the IRD, including the GST relating to investing and financing activities, is classified as an operating cash flow in the Statement of Cash Flows.

Commitments and contingencies are disclosed exclusive of GST.

Critical accounting estimates and assumptions

In preparing these financial statements WDCHL has made estimates and assumptions concerning the future which may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations or future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

At each balance date WDCHL reviews the useful lives and residual values of its property, plant and equipment. Assessing the appropriateness of useful life and residual value estimates of property, plant and equipment requires WDCHL to consider a number of factors such as the physical condition of the asset, expected period of use of the asset by WDCHL, and expected disposal proceeds from the sale of the asset.

An incorrect estimate of the useful life or residual value will impact on the depreciable amount of an asset, therefore impacting on the depreciation expense recognised in the surplus and deficit, and carrying amount of the asset in the statement of financial position. WDCHL minimises the risk of this estimation uncertainty by:

- an annual review by an independent contractor of the value of the infrastructure assets
- physical inspection of assets
- asset replacement programmes
- review of second hand market prices for similar assets
- analysis of prior assets sales; and
- completing a revaluation of the infrastructure assets every third year

WDCHL has not made significant changes to past assumptions concerning useful lives and residual values.

The carry amounts of property, plant and equipment are disclosed in note 12.

WDCHL Group's customer acquisition programme has incurred unprecedented costs during the year relating to the marketing and switching activities. Accordingly the Company has chosen to value these customers as an intangible asset at the cost of acquisition less amortisation at the rate of 20% per annum.

An incorrect estimate of the residual value will impact on the amortisable amount of an intangible asset impacting on the amortisation expense recognised in the profit and loss statement and the carrying amount of the intangible asset in the balance sheet. WDCHL minimises the risk of this estimation uncertainty to its intangible assets by:

- an annual review of the value of the intangible assets to determine if any material changes exist.
- a review of any prices for trades of similar intangible assets.
- an annual review of the appropriateness of the amortisation rate.
- analysis of prior intangible asset sales.