



STATEMENT OF INTENT 2015/2018

INTRODUCTION

This Statement of Intent for 2013/2018 is submitted by the Board of Directors of the Company. It sets out the Board's overall intentions and objectives for the Company for the year ending 31 March 2014 and the four succeeding financial years.

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THE POWER COMPANY LIMITED

CORE BUSINESS

To commercially manage all Assets, Business Units, Products and Investments within the Electrical Energy Sector as a successful Business for the Shareholders of The Power Company Limited (“the Company”).

VISION STATEMENT

To be recognised as the top performing trust owned rural line company and an excellent corporate citizen.

CRITICAL SUCCESS FACTORS

- Maintaining and enhancing the long-term value of assets, business units, products and investments.
- Delivery to customers of an efficient, economic and quality power supply to match their requirements.
- Compliance with and maximising opportunities from the increasing regulatory intervention on the business.
- Optimising the balance between regulatory, environmental, social and commercial drivers.
- Delivery of all aspects of the Statement of Intent.

COMMERCIAL OBJECTIVES

The Company intends to:

1. Manage its operations in a progressive and commercial manner.
2. Investigate new investments, which are:
 - ❑ Relevant to the core business.
 - ❑ Aimed at yielding a return acceptable for the degree of risk.
 - ❑ Undertaken in a manner which will maximise the commercial value of the business.
3. Strive to become an efficient and effective operation within the electricity industry and provide its customers with competitive prices and above average levels of service by:
 - ❑ Ensuring through PowerNet, and Otago Power Services, that sufficient resources are available long term to satisfy its service requirements.
 - ❑ Achieving an increased return for all its network assets nearer to the Weighted Average Cost of Capital (WACC) prior to consumer discounts.
 - ❑ Achieving an acceptable commercial return on its investment in OtagoNet Joint Venture.
 - ❑ Continuing to develop its commercial relationship with its joint venture partners, Electricity Invercargill Limited and Pioneer Generation Limited.
 - ❑ Continuing to strengthen relationships with appropriate companies with a view to achieving economies of scale through strategic alliances or associations.
 - ❑ Investigating non-regulatory activities or investments to increase shareholder value including smart metering and generation.
 - ❑ Pursuing alternative technologies and energy forms within the current regulatory requirements.
4. Ensure workplace safety is paramount and that its network assets and operations do not present a safety risk to members of the public, or their property.

PERFORMANCE TARGETS

FINANCIAL

Listed below are the Group forecast returns for the next three years:-

EBIT% - PERCENTAGE EARNINGS BEFORE TAX AND INTEREST ON ASSETS EMPLOYED

	2016	2017	2018
NPBT	9,736,752	9,224,872	9,908,599
Interest	9,864,901	10,285,714	10,456,614
Net Profit Before Interest & Tax	19,601,653	19,510,586	20,365,212
Total Assets	547,611,910	559,140,765	571,523,823
EBIT %	3.58%	3.49%	3.56%
EBIT % (excluding Discount)	4.79%	4.62%	4.60%

NPAT% - PERCENTAGE TAX PAID PROFIT ON EQUITY

	2016	2017	2018
NPAT	9,404,451	8,821,333	9,118,487
Equity	267,487,027	276,605,397	286,051,203
NPAT %	3.52%	3.19%	3.19%
NPAT % (excluding Discount)	5.50%	5.19%	5.22%

PERCENTAGE OF CONSOLIDATED EQUITY TO TOTAL ASSETS

	2016	2017	2018
Equity	267,487,027	276,605,397	286,051,203
Total Assets	547,611,910	559,140,765	571,523,823
% Equity/ Total Assets	48.85%	49.47%	50.05%

SUPPLY QUALITY TARGETS

SAIFI - SYSTEM AVERAGE INTERRUPTION FREQUENCY INDEX (THE AVERAGE NUMBER OF TIMES EACH CUSTOMER CONNECTED TO THE NETWORK IS WITHOUT SUPPLY)

2016	2017	2018	
2.68	2.62	2.57	Under new weighting
2.86	2.80	2.75	Under previous weighting

SAIDI - SYSTEM AVERAGE INTERRUPTION DURATION INDEX (THE AVERAGE TOTAL TIMES IN MINUTES EACH CUSTOMER CONNECTED TO THE NETWORK IS WITHOUT SUPPLY)

2016	2017	2018	
155.99	152.14	149.58	Under new weighting
191.73	187.8	185.32	Under previous weighting

These reliability projections take into account the new default price path calculation methodology, including new extreme event normalising boundaries and a 50% weighting for planned outages. (Figures if done under previous regime shown in red).

PROPOSED DISTRIBUTIONS

DIVIDEND

The operating expenditure of the Company's shareholder is offset at year end by the interest payable by the Company to a Loan from the Shareholder, it is therefore not intended to make any dividend payments.

INFORMATION TO BE REPORTED

The Company will report on a six-month and annual basis, in the form set down by legislation. An audited Annual Report is required to be delivered to the Shareholder with the opportunity to assess the performance of the Company, and the value of the investment.

Un-audited half-yearly accounts will include Statement of Comprehensive Income and Financial Position, together with such other supporting information as may be required to enable an informed assessment of the Company's performance during the reporting period, as agreed between the Shareholder and the Directors.

In addition, a monthly Consolidated Summary report will be provided to the Shareholder showing the Financial Performance of the Group together with The Power Company Limited's Lines Interruptions Reports.

Transactions with related parties primarily consist of administration and management services.

All related party transactions are eliminated in the preparation of the Annual Financial Statements.

ACQUISITION PROCEDURES

Except by a special resolution of shareholders the Company may not enter into a major transaction.

A major transaction includes the acquisition of, or an agreement to acquire assets, the value of which are more than half the value of The Power Company Limited's assets before the acquisition.

BOARD ESTIMATE OF THE VALUE OF SHAREHOLDER'S INVESTMENT

The Directors estimate the commercial value of the shareholder's investment in the group to be at least the value of shareholder's equity reported in The Power Company Limited's financial statements and Statement of Intent.

Each year as part of the financial reporting process the Board considers its investments for signs of impairment. Presently there are no signs of impairment, however this may be subject to future adverse consequences of any central government decision to place the company under the regulatory provisions of Part 4 of the Commerce Act.

STATEMENT OF ACCOUNTING POLICIES

1. Statement of Accounting Policies

Reporting Entity

The Parent Entity, The Power Company Limited, is a profit oriented limited liability company that was incorporated on 30 October 1990 and the address of its registered office is 251 Racecourse Road, Invercargill. The Company is wholly owned by a Consumer Trust (Southland Electric Power Supply Consumer Trust) and is registered under the Companies Act 1993. The Group consists of The Power Company Limited, its subsidiaries, and its interest in associates and jointly controlled entities referred to in Notes 9, 10 and 11.

The principal activity of The Power Company Limited is the provision of electricity distribution services.

The financial statements were approved by the Board of Directors on 25 June 2014.

Basis of Preparation

These financial statements are presented in New Zealand dollars, rounded to the nearest thousand.

These financial statements have been prepared in accordance with the requirements of the Energy Companies Act 1992, the Companies Act 1993, and the Financial Reporting Act 1993. They follow New Zealand Generally Accepted Accounting Practice (NZ GAAP) and comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS). These financial statements also comply with International Financial Reporting Standards.

These financial statements have been prepared on the basis of historical cost except for the revaluation of certain financial instruments as outlined in Note 23 and property, plant and equipment as outlined in Note 13.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

New Standards Adopted

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 April 2013;

NZ IFRS 10: Consolidated Financial Statements (amendment from May 2011)

The amendment to NZ IFRS 10 from May 2011 is effective for the financial statements issued for the accounting periods beginning on or after 1 January 2013.

The amendment builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard provides additional guidance to assist in determining control where this is difficult to assess.

Application of this standard has not had a material effect on the entities consolidated in The Power Company Limited Group.

NZ IFRS 13: Fair Value Measurement (amendment from May 2011)

The amendment to NZ IFRS 13 from May 2011 is effective for the financial statements issued for the accounting periods beginning on or after 1 January 2013.

The standard provides guidance on how fair value should be applied where its use is already required or permitted by other standards within IFRS, including a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS.

Application of this standard has not had a material effect on the Company or Group.

IAS 28: Investments in Associates and Joint Ventures.

This amendment to IAS 28 is effective for the financial statements issued for the accounting periods beginning on or after 1 January 2013.

Amendments to IAS 28 provide clarification that an entity continues to apply the equity method and does not re-measure its retained interest as part of ownership changes where a joint venture becomes an associate and vice versa. The amendment also introduces a "partial disposal" concept. This amendment has not had an effect on the Company and Group as they currently do not expect to have any changes in ownership.

IFRS 11: Joint Ventures

The new standard is effective for the financial statements issued for the accounting periods beginning on or after 1 January 2013.

A distinction has been made between joint ventures and joint operations. The proposals require the accounting to reflect the contractual rights and obligations agreed by the parties. Therefore, a venture recognises the individual assets to which it has rights and the liabilities for which it is responsible regardless of the legal form of the joint arrangement. If a venture only has a right to a share of the outcome of the activities of the joint arrangement (that is, a joint venture), this interest is recognised using the equity method. The option to apply the proportional consolidation method when accounting for jointly controlled entities has been removed.

Accounting for joint arrangements is not driven by the legal form in which the activities take place. The accounting that applies to a joint arrangement in certain circumstances is similar to the accounting that might have applied using proportionate consolidation under the current IAS 31: Interests in Joint Ventures.

The new standard has had an impact on the Group as they had joint venture arrangements that were accounted for using the proportional consolidation method. These are now consolidated using the equity accounting method, with comparatives restated also using the equity accounting method. This has resulted in the joint ventures' profit after tax being recognised in the Statement of Financial Performance as share of profit of associates and joint ventures, and the Company's share of the net assets of the joint venture showing under investments in the Statement of Financial Position.

Standards or Interpretations not yet Effective

Various standards, amendments and interpretations have been issued by the External Reporting Board (XRB) but not yet adopted by The Power Company Limited as they are not yet effective.

NZ IFRS 9: Financial Instruments – Phase 1: Classification and Measurement

NZ IFRS 9 Phase 1 was issued in November 2009 and is effective for the financial statements issued for the fiscal years beginning on or after 1 January 2015.

The new standard simplifies the classification criteria for financial assets, compared to the current requirements of NZ IAS 39, which results in a reduced number of categories of financial assets and some consequential amendments to disclosures required by NZ IAS 1 “Presentation of Financial Statements” and NZ IFRS 7 “Financial Instruments: Disclosures”. The Company and Group’s financial assets and liabilities currently fall into the category of “Loans” and “Receivables” within the NZ IAS 39 classification. If NZ IFRS 9 was adopted, these assets would fall into the definition of the category of “Financial assets and liabilities measured at amortised cost”. However, their measurement and disclosure would not be affected. The Company and Group would not have any transactions to disclose under the NZ IAS 1 and NZ IFRS 7 disclosure requirements relating to gains or losses arising on derecognition of financial assets measured at amortised cost. This standard will be adopted when it is effective. There is no intention to adopt earlier.

Financial statement presentation – presentation of other comprehensive income (amendment to IAS1)

This amendment is effective for the financial statements issued for the fiscal years beginning on or after 1 January 2014.

The amendment requires profit or loss and other comprehensive income (OCI) to be presented, either in a single continuous statement or in two separate but consecutive statements. There is little noticeable change from the current requirements. However, the format of the OCI section is required to be changed to separate items that might be recycled from items that will not be recycled. The changes do not effect the measurement of net profit or earnings per share; however, they change the way items of OCI are presented.

This amendment has minimal effect on the Company and Group as they currently have only one immaterial other comprehensive income transaction. This standard will be adopted when it is effective. There is no intention to adopt earlier.

IFRS 15: Revenue from Contracts with Customers

This is effective for financial statements issued for the fiscal years beginning on or after 1 January 2017.

IFRS 15 addresses recognition of revenue from contracts with customers. It replaces the current revenue recognition guidance in IAS 18 “Revenue” and IAS 11 “Construction contracts” and is applicable to all entities with revenue. It sets out a five step model for revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company and Group have yet to assess IFRS 15’s full impact. The Company and Group will apply this standard from 1 April 2017.

Use of Estimates and Judgements

The preparation of financial statements to conform to NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The estimates and associated assumptions have been based on historical experience and other factors that are believed to be reasonable under the circumstances.

In particular estimates and assumptions have been used in the following areas:

- Property, Plant and Equipment
- Value of Donated Assets
- Employee Benefits
- Recoverable Amount from Cash Generating Units
- Onerous Contract
- Joint Arrangement Classification

In the process of applying the Group's accounting policies, management has made the following judgements, estimates and assumptions that have the most significant impact on the amounts recognised in these financial statements.

The Group operates extensive integrated electricity distribution networks comprising large numbers of relatively minor individual network asset components. These components are replaced over time as part of an ongoing maintenance/refurbishment programme, consistent with the Group's approved network asset management plans. The costs associated with recording and tracking all individual components replaced and removed from the networks substantially outweigh the benefits of doing so. Management has estimated the quantities and the carrying values of components removed from the networks in each reporting period. Any errors in the estimates of such removals are corrected at the next asset revaluation, and are not considered to be material on either an annual or a cumulative basis with respect to either reported net surpluses or carrying values of the networks.

Every five years, the company obtains a valuation of their electricity distribution network, determined by independent valuers, in accordance with their accounting policy. The valuation of the Company's electricity distribution network was performed as at 31 March 2012. The best evidence of fair value is discounted cash flow methodology. The major presumptions used include discount rate, growth rate and future cash flows. Changes in future cash flows arising from changes in regulatory review may result in the fair value of the electricity distribution network being different from previous estimates.

The Group invoices its customers (predominantly electricity retailers) monthly for electricity delivery services on the basis of an estimation of usage, adjusted for the latest wash-up data available from the electricity wholesale market and certain metering data from electricity retailers. Management has made an allowance in revenue and in current assets/liabilities for any amounts which are estimated to be under/over charged during the reporting period. However, as final wash-up metering data is not available for in excess of twelve months, it is possible the final amounts payable or receivable may vary from that calculated.

Other areas where judgement has been exercised in preparing these financial statements are in relation to calculating the recoverable amounts from Cash Generating Units and the amounts of employee entitlements.

Specific Accounting Policies

The following specific accounting policies which materially affect the measurement of financial performance and financial position have been applied:

(a) Principles of Consolidation

(i) Subsidiaries

Subsidiaries are all entities over which the Group has the power directly or indirectly to govern the financial and operating policies of an entity so as to obtain benefits from its activities. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired, exceeds the cost of acquisition, the difference is credited to the Profit and Loss in the period of acquisition. The financial statements of subsidiaries are included in the financial statements from the date that control commences until the date that control ceases.

Minority interests in the results and equity of subsidiaries are shown separately in the Profit and Loss and Balance Sheet.

(ii) Associates

Associates are those entities over which the Group has significant influence, but not control, over the financial and operating policies. The financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases.

(iii) Joint Ventures

Joint Ventures are those entities over which the Group has joint control established by contractual agreement. The financial statements include the Group's share of the joint venture entities' total recognised gains and losses on an equity accounted basis, from the date that joint control commences to the date that joint control ceases.

(iv) Transactions eliminated on consolidation

All significant inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation. Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the assets transferred.

(v) Parent Investments

Investments in subsidiaries, associates and joint ventures are accounted for at cost in the Parent financial statements.

(b) Revenue

Revenue is measured at the fair value of the consideration given for the sale of goods and services, net of Goods and Services Tax. Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of the goods can be estimated reliably and there is no continuing management involvement with the goods.

(i) Network Charges

Revenue comprises the amounts received and receivable for goods and services supplied to customers in the ordinary course of business.

(ii) Customer Contributions

Contributions from customers in relation to the construction of new lines for the network and donated assets are accounted for as income when the asset is connected to the network.

(iii) Government Grants

Government grants that compensate the Group for the cost of an asset are recognised initially in the Balance Sheet as deferred income and then recognised in the Profit and Loss as other operating income on a systematic basis over the useful life of the asset.

(iv) Financial Income

Financial income comprises interest income on funds invested, dividend income and changes in the fair value of financial assets through the Profit and Loss. Interest income is recognised as it accrues, using the effective income method. Dividend income is recognised on the date the Group's right to receive payment is established.

(c) Finance Costs

Finance costs comprise interest expense on borrowings, changes in the fair value of financial assets through the Profit and Loss and impairment losses recognised on financial assets (except for trade receivables). All borrowing costs are recognised in the Profit and Loss using the effective interest method, unless they are directly related to the construction of a qualifying asset, when they are capitalised.

(d) Inventories

Inventories are stated at the lower of cost using weighted average cost price, and net realisable value. Obsolete items of inventory (if any) are written off as identified.

(e) Property, Plant and Equipment

All property, plant and equipment is recognised at cost less accumulated depreciation and impairment losses. The cost of purchased property, plant and equipment is the fair value of the consideration given to acquire the assets and the value of other attributable costs including borrowing costs which have been incurred in bringing the assets to the location and condition necessary for their intended service.

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item if, when that cost is incurred, it is probable that the future economic benefits embodied within the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the Profit and Loss as an expense as incurred.

The electricity distribution network is valued at fair value. Fair value is determined on the basis of a periodic valuation at a maximum of every five years, based on discounted cash flow methodology. The fair values are recognised in the financial statements of the Group and are reviewed at the end of each reporting period to ensure that the carrying amount of the distribution network is not materially different from its fair value.

Any revaluation increase arising on the revaluation of assets is credited to the Asset Revaluation Reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense in the Profit and Loss, in which case the increase is credited to the Profit and Loss to the extent of the decrease previously charged. A decrease in carrying amount arising on revaluation is charged as an expense in the Profit and Loss to the extent that it exceeds the balance, if any, held in the Asset Revaluation Reserve relating to a previous revaluation of that asset.

When a revalued asset is sold or retired the attributable revaluation surplus remaining in the Asset Revaluation Reserve, net of any related deferred taxes, is transferred directly to Retained Earnings.

Easements

Easements obtained in relation to access, construction and maintenance of network assets are capitalised. Such easements represent a right in perpetuity and are not depreciated.

(f) Depreciation

Depreciation is charged to the Profit and Loss on a combination of straight line and diminishing value bases on all property, plant and equipment with the exception of land, at rates calculated to allocate the assets' fair value, less any residual value, over their useful lives. The primary annual rates used are:

Buildings	2.0-4.8%	Straight line/Diminishing value
Network Assets (excluding land)	1.82-16.67%	Straight line/Diminishing value
Metering Assets	6.7-14.4%	Straight line/Diminishing value
Plant and Office Equipment	5.0-50.0%	Straight line/Diminishing value

(g) Impairment

At each reporting date the Group reviews the carrying amounts of its assets and assesses them for indications of impairment. If indications of impairment exist, then the assets' recoverable amounts are estimated in order to determine the extent of the impairment. The recoverable amounts are the higher of fair value (less costs to sell) and value in use. In assessing value in use, the estimated future pre-tax cash flows are discounted to their present value using a pre-tax discount rate that reflects the market assessments of the time value of money and the risks specific to the assets involved. If the estimated recoverable amount of the asset is less than its carrying amount, the asset is written down to its recoverable amount and an impairment loss is recognised in the Profit and Loss, except to the extent that the impairment loss reverses a previous revaluation increase for that asset to the extent of that revaluation increase. When the asset does not generate cash flows independent of other assets, the cash generating unit (CGU) to which the asset belongs is tested for impairment.

Goodwill is tested for impairment annually and whenever there is an indication that it may be impaired. Any impairment of goodwill can not subsequently be reversed.

(h) Capital Work in Progress

Capital Work in Progress is stated at cost and is not depreciated. It includes an accrual for the proportion of work completed at the end of the period.

(i) Intangible Assets

(i) Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill (if it exists) has been recognised in the acquisitions of subsidiaries, associates and joint ventures. In respect of business acquisitions since 1 April 2006, Goodwill represents the difference between the cost of the acquisition and the fair value of the net 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 NZ GAAP at the transition date. The classification and accounting treatment of business combinations that occurred prior to transition have not been reconsidered in preparing the Group's opening NZ IFRS Balance Sheet as at 1 April 2006.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to CGUs and is no longer amortised but tested annually for impairment. 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 Profit and Loss. Impairment relating to Goodwill is not able to be reversed.

(ii) Computer Software

Under NZ IFRS computer software is classified as an intangible asset and amortised on a straight line/diminishing value basis over its estimated useful life.

(iii) Research and Development

Research costs are expensed in the year in which they are incurred. Development costs are capitalised to the extent that future benefits (exceeding the costs) are expected to accrue.

(iv) Amortisation

Amortisation is charged to the Profit and Loss on a straight line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated amortisation rates for current and comparative periods are as follows:

Software line/Diminishing value	12.5-48%	Straight
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(j) Goods and Services Tax (GST)

All amounts in the financial statements are shown exclusive of GST, with the exception of receivables and payables which are shown inclusive of GST.

(k) Taxation

Income tax on the profit or loss for the period presented comprises current tax and additional or reversed deferred tax. Income tax is recognised in the Profit and Loss 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 Balance Sheet date, and any adjustments to tax payable in respect of previous years.

Deferred tax is recognised using the Balance Sheet liability method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxation profit or loss.

Deferred tax is recorded using tax rates enacted or substantially enacted at the Balance Sheet date and which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(l) Operating Leases

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased items are classified as operating leases. Payments under these leases are recognised in the periods when they are incurred.

(m) Employee Entitlements

Provision is made for benefits accruing to employees in respect of salaries and wages, annual leave and long service leave when it is probable that they will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected at the time of settlement.

Provisions made in respect of employee benefits that are not expected to be settled within 12 months are measured at the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to balance date.

(n) Seasonality

The Group's revenues and profits are generally evenly distributed throughout the year hence the results are not subject to seasonality.

(o) Financial Assets

Where applicable the Group classifies its investments in the following categories:

Financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

(i) Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit or loss are financial assets held for trading which are acquired principally for the purpose of selling in the short term with the intention of making a profit. Derivatives are also categorized as held for trading unless they are designated as hedges.

(ii) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the Balance Sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the Balance Sheet.

(iii) Held-to-Maturity Investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity.

(iv) Available-for-Sale Financial Assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the Balance Sheet date.

Available-for-sale financial assets and financial assets at fair value through profit and Loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category, including interest and dividend income, are presented in the Profit and Loss within Other Income or Other Expenses in the period in which they arise.

(p) Financial Instruments

(i) Derivative Financial Instruments

The Group enters into interest rate swaps. These transactions are undertaken within board approved policies and limits for the primary purpose of managing exposure to fluctuations in interest rates arising from financing activities. While these financial instruments are subject to the risk that market rates may change subsequent to the acquisition of the financial instrument, such changes would generally be offset by opposite effects on the items being hedged. The Group does not engage in speculative transactions or hold derivative financial instruments for trading purposes.

The Group has not designated any derivatives as hedges. Derivatives are initially recognised at fair value on the date the derivative is entered into. Subsequent to any initial recognition derivatives are revalued to their fair value at each reporting date. The resulting gain or loss is recognised in the Profit and Loss.

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 credit worthiness of the swap counterparties.

(ii) Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant amount of risk of changes in value.

(iii) Trade and Other Payables

Trade and other payables are stated at fair value.

(iv) Receivables

Trade and other receivables are recognised initially at fair value. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

(v) Borrowings

Borrowings are recognised initially at fair value, net of any transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Profit and Loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability at least 12 months after balance date.