Pro forma
Auckland Council Group
Interim Report

31 December 2016

Auckland Council
Te Kaunihera o Tāmaki Makaurau

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Mayor
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Financial commentary

Auckland Council Group (the Group) continues to manage its finances prudently in line with the prior year and with close oversight over operational and capital expenditure.

Comparison of results to the six months ending 31 December 2015

Comparison to statement of financial position at 30 June 2016

Statement of comprehensive revenue and expenditure

For the six months ended 31 December 2016

$million	Note	Unaudited 6 months to 31 Dec 2016	Unaudited 6 months to 31 Dec 2015	Audited 12 months to 30 Jun 2016
Revenue				
Rates			1,565	1,564
Fees and user charges			551	1,083
Grants and subsidies			200	404
Development and financial contributions			68	131
Other revenue			119	260
Vested assets			130	247
Finance revenue			7	16
Total revenue excluding other gains	2	**-**	**2,640**	**3,705**
Expenditure				
Employee benefits			398	803
Depreciation and amortisation			402	828
Grants, contributions and sponsorship			94	126
Other operating expenses			588	1,281
Finance costs			210	417
Total expenditure excluding other losses		**-**	**1,692**	**3,455**
Operating surplus before gains and losses		**-**	**948**	**250**
Net other losses	3		(87)	(552)
Share of surplus in associates and joint ventures			28	63
Surplus/(deficit) before income tax		**-**	**889**	**(239)**
Income tax expense/(benefit)			9	(8)
Surplus/(deficit) after income tax		**-**	**880**	**(231)**
Surplus/(deficit) after income tax is attributable to:				
Ratepayers of Auckland		-	880	(231)
Other comprehensive revenue/(expenditure)				
Net gain on revaluation of property, plant and equipment			-	1,626
Tax on revaluation of property, plant and equipment			-	(4)
Movement in cash flow hedge reserve			-	(9)
Tax on movement in cash flow hedges			-	2
Share of associates and joint ventures' reserves			-	171
Net unrealised gains/(loss) on revaluation of financial assets classified as available-for-sale			-	2
Realised gains/(losses) on revaluation of financial assets classified as available-for-sale recycled through surplus/(deficit)		-	-	-
Total other comprehensive revenue/(expenditure)		**-**	**-**	**1,788**
Total comprehensive revenue/(expenditure)		**-**	**880**	**1,557**
Total comprehensive revenue is attributable to:				
Ratepayers of Auckland		-	880	1,557

The accompanying notes to the financial statements form part of, and are to be read in conjunction with, these financial statements.

Statement of financial position

As at 31 December 2016

$million	Note	Unaudited as at 31 Dec 2016	Unaudited as at 31 Dec 2015	Audited as at 30 Jun 2016
Assets				
Current assets				
Cash and cash equivalents			269	137
Receivables and prepayments	2		975	275
Other financial assets			369	389
Derivative financial instruments	4		2	-
Inventories			24	28
Tax receivables			-	1
Non-current assets held-for-sale			27	43
Total current assets		**-**	**1,666**	**873**
Non-current assets				
Receivables and prepayments	2		27	24
Other financial assets			114	128
Derivative financial instruments	4		163	263
Property, plant and equipment			39,154	41,156
Intangible assets			488	478
Biological assets			2	2
Investment property			571	681
Investment in associates and joint ventures			899	1,074
Total non-current assets		**-**	**41,418**	**43,806**
Total assets		**-**	**43,084**	**44,679**
Liabilities				
Current liabilities				
Bank overdraft			5	9
Payables and accruals			497	607
Employee entitlements			87	90
Borrowings			880	1,447
Derivative financial instruments	4		34	7
Provisions			97	101
Total current liabilities		**-**	**1,600**	**2,261**
Non-current liabilities				
Payables and accruals			43	45
Employee entitlements			5	5
Borrowings			6,530	6,164
Derivative financial instruments	4		575	1,207
Provisions			295	290
Deferred tax liabilities			1,077	1,055
Total non-current liabilities		**-**	**8,482**	**8,721**
Total liabilities		**-**	**10,082**	**10,982**
Net assets		**-**	**33,002**	**33,697**
Equity				
Contributed capital			26,728	26,728
Accumulated funds			1,404	290
Reserves			4,827	6,634
Total equity		**-**	**32,959**	**33,652**

The accompanying notes to the financial statements form part of, and are to be read in conjunction with, these financial statements.

Statement of changes in equity

For the six months ended 31 December 2016

1 July 2016 to 31 December 2016 Unaudited $million	Contributed capital	Accumulated funds	Reserves	Total equity
Balance as at 1 July 2016	**26,728**	**290**	**6,634**	**33,652**
Surplus after income tax	-	-	-	**-**
Other comprehensive revenue/(expenditure)	-	-	-	**-**
Total comprehensive revenue/(expenditure)	**-**	**-**	**-**	**-**
Transfers to/(from) reserves	-	-	-	-
Balance as at 31 December 2016	**26,728**	**290**	**6,634**	**33,652**

1 July 2015 to 31 December 2015 Unaudited $million	Contributed capital	Accumulated funds	Reserves	Total equity
Balance as at 1 July 2015	**26,728**	**517**	**4,834**	**32,079**
Surplus after income tax	-	880	-	880
Other comprehensive revenue/(expediture)	-	-	-	-
Total comprehensive revenue/(expenditure)	**-**	**880**	**-**	**880**
Transfers to/(from) reserves	-	7	(7)	**-**
Balance as at 31 December 2015	**26,728**	**1,404**	**4,827**	**32,959**

1 July 2015 to 30 June 2016 Audited $million	Contributed capital	Accumulated funds	Reserves	Total equity
Balance as at 1 July 2015	**26,728**	**517**	**4,834**	**32,079**
Deficit after income tax	-	(231)	-	(231)
Other comprehensive revenue	-	-	1,788	1,788
Total comprehensive (expediture)/revenue	**-**	**(231)**	**1,788**	**1,557**
Found Asset	-	16	-	**16**
Transfers (from)/to reserves	-	(12)	12	**-**
Balance as at 30 June 2016	**26,728**	**290**	**6,634**	**33,652**

The accompanying notes to the financial statements form part of, and are to be read in conjunction with, these financial statements.

Statement of cash flows

For the six months ended 31 December 2016

$million	Note	Unaudited 6 months to 31 Dec 2016	Unaudited 6 months to 31 Dec 2015	Audited 12 months to 30 Jun 2016
Cash flows from operating activities				
Receipts from customers, rates, grants and other services			1,699	3,453
Interest received			6	13
Dividends received			35	49
Payments to suppliers and employees			(1,085)	(2,324)
Interest paid			(218)	(420)
Net cash inflow from operating activities	8	**-**	**437**	**771**
Cash flows from investing activities				
Sale of property, plant and equipment, investment property and intangible assets			9	22
Purchase of property, plant and equipment, investment property and intangible assets			(644)	(1,340)
Acquisition of other financial assets			(39)	(76)
Proceeds from sale of other financial assets			57	59
Advances to external parties			(15)	(3)
Net cash outflow from investing activities		**-**	**(632)**	**(1,338)**
Cash flows from financing activities				
Proceeds from borrowings			952	1,994
Repayment of borrowings			(830)	(1,635)
Repayment of finance lease principal			-	(1)
Net cash inflow from financing activities		**-**	**122**	**358**
Net increase in cash and cash equivalents and bank overdraft		**-**	**(73)**	**(209)**
Opening cash and cash equivalents and bank overdraft		128	337	337
Closing cash and cash equivalents and bank overdraft		**128**	**264**	**128**

The accompanying notes to the financial statements form part of, and are to be read in conjunction with, these financial statements.

Notes to the financial statements (unaudited)

1 Statement of significant accounting policies

Reporting entities

Auckland Council (the council) is a local authority domiciled in New Zealand and governed by the Local Government Act 2002, the Local Government (Auckland Council) Act 2009 and the Local Government (Rating) Act 2002. The council is a FMC Reporting Entity under the Financial Market Conducts Act (FMCA) 2013. The council's principal address is 135 Albert Street, Auckland Central, New Zealand.

The Auckland Council Group (the Group) consists of the council, its council-control organisations (CCOs), associates and joint ventures. All entities are domiciled in New Zealand. The substantive CCOs of the group comprise of:

- Auckland Council Investments Ltd
- Auckland Tourism, Events and Economic Development Ltd
- Auckland Transport
- Development Auckland Ltd
- Regional Facilities Auckland
- Watercare Services Ltd

The primary objective of the Group is to provide services and facilities to the Auckland community for social benefit rather than to make a financial return. Accordingly, Auckland Council has designated itself and the Group as public benefit entities (PBEs) and applies New Zealand Tier 1 Public Sector Public Benefit Entity accounting standards (PBE Accounting Standards). These standards are based on International Public Sector Accounting Standards (IPSAS), with amendments for the New Zealand environment.

Statement of compliance

These interim financial statements are for the six months ended 31 December 2016 and have been prepared for the Group only and are to be read in conjunction with the annual report for the year ended 30 June 2016. They are prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP) and they comply with PBE IAS 34 *Interim Financial Reporting*. The financial results for the six month period ended 31 December 2016 are unaudited however they have been subject to a review by the auditors, pursuant to the New Zealand Standard on Review Engagements 2410.

Basis of preparation

The interim financial statements have been prepared on a going concern basis and the accounting policies applied are consistent with those used at 30 June 2016.

The interim financial statements are presented in New Zealand dollars (NZD), which is the functional currency of each of the Group's entities, and are rounded to the nearest million dollars, unless otherwise stated. All items in the interim financial statements are stated exclusive of Goods and Services Tax (GST), except for receivables and payables, which include GST invoiced.

Accounting judgments, estimates and assumptions

The judgements, estimates and assumptions used to prepare these interim financial statements are consistent with those used at 30 June 2016.

Notes to the financial statements (unaudited)

2 Exchange and non-exchange transactions

Revenue is classified as exchange or non-exchange based on the funding of the underlying activity which generates the revenue.

The split of exchange and non-exchange transactions for revenue and receivables is disclosed below.

Revenue

$million	6 months to 31 Dec 2016	6 months to 31 Dec 2015	12 months to 30 Jun 2016
Revenue from non-exchange transactions:			
Revenue from rates			
General		1,390	1,391
Targeted		172	172
Penalties		9	15
Rates remissions		(3)	(11)
Discounts		(3)	(3)
Total revenue from rates	**-**	**1,565**	**1,564**
Revenue from transfers			
Sale of goods and services		119	194
Vested assets		130	247
Fines and infringements		17	32
Consents, licences and permits		88	157
Capital grants		70	153
Operating grants		130	251
Other transfer revenue		19	94
Total revenue from transfers	**-**	**573**	**1,128**
Total revenue from non-exchange transactions	**-**	**2,138**	**2,692**
Revenue from exchange transactions:			
Water and wastewater		220	443
Sales of goods and services		4	51
Port operations		103	204
Development and financial contributions		68	131
Finance revenue		7	16
Dividends received		14	27
Other exchange revenue		86	141
Total revenue from exchange transactions	**-**	**502**	**1,013**

Receivables and prepayments

$million	As at 31 Dec 2016	As at 31 Dec 2015	As at 30 Jun 2016
Current			
Receivables from non-exchange transactions		820	128
Receivables from exchange transactions		155	147
Total current receivables and prepayments	**-**	**975**	**275**
Non-current			
Receivables from non-exchange transactions		7	3
Receivables from exchange transactions		20	21
Total non-current receivables and prepayments	**-**	**27**	**24**

Notes to the financial statements (unaudited)

3 Net other gains and losses

$million	6 months to 31 Dec 2016	6 months to 31 Dec 2015	12 months to 30 Jun 2016
Net (decrease)/increase in fair value of investment property		(4)	62
Net decrease in financial instruments designated at fair value through surplus/(deficit)		-	(15)
Net decrease in derivative financial instruments		(155)	(661)
Net foreign exchange gains/(losses) recognised in surplus/(deficit) on financial instruments held at amortised cost		80	122
Net losses on disposal of property, plant and equipment and intangible assets		(8)	(49)
Impairment of property, plant and equipment and intangible assets		-	(10)
Impairment of investment in subsidiaries, associates and joint ventures		-	(1)
Total net other gains/(losses)	**-**	**(87)**	**(552)**

4 Derivative financial instruments

The Group has entered into derivative financial instrument contracts to hedge exposure to fluctuations in interest rates and foreign exchange rates in accordance with approved financial risk management policies.

	Notional			Fair Value		
$million	As at 31 Dec 2016	As at 31 Dec 2015	As at 30 Jun 2016	As at 31 Dec 2016	As at 31 Dec 2015	As at 30 Jun 2016
Derivative assets						
Interest rate swaps						
Cash flow hedge		-	-		-	-
Fair value through surplus/deficit		1,560	1,475		26	57
Forward foreign currency contracts						
Cash flow hedge		12	-		-	-
Fair value through surplus/deficit		4	1		-	-
Cross currency interest rate swaps						
Fair value through surplus/deficit		-	1,022		139	206
Total derivative assets	**-**	**1,576**	**2,498**	**-**	**165**	**263**
Derivative liabilities						
Interest rate swaps						
Cash flow hedge		210	225		7	12
Fair value through surplus/deficit		7,859	9,098		539	1,163
Forward foreign currency contracts						
Cash flow hedge		3	54		-	3
Fair value through surplus/deficit		4	45		-	2
Cross currency interest rate swaps						
Fair value through surplus/deficit		1,543	535		63	34
Total derivative liabilities	**-**	**9,619**	**9,957**	**-**	**609**	**1,214**

Notes to the financial statements (unaudited)

5 Property, plant and equipment

$million	6 months to 31 Dec 2016	6 months to 31 Dec 2015	12 months to 30 Jun 2016
Additions		650	1,455
Net disposals and transfers to non-current assets held-for-sale		(26)	(75)
Capital commitments		943	1,073

There have been no material changes in fair value for all property, plant and equipment asset classes between 30 June 2016 and 31 December 2016.

6 Investment in other entities

There have been no material changes in the Group's investments in associates and joint ventures during the six months to 31 December 2016.

7 Net tangible assets

Net tangible assets per $1,000 of listed bonds at 31 December 2016 is $35,105 (31 December 2015: $35,105).

8 Reconciliation of surplus/(deficit) after income tax to net cash inflow from operating activities

$million	6 months to 31 Dec 2016	6 months to 31 Dec 2015	12 months to 30 Jun 2016
Surplus/(deficit) after income tax	**-**	**880**	**(231)**
Add/(less) non-cash items:			
Depreciation and amortisation		402	829
Reversal of previously recognised impairment		-	-
Net (increase)/decrease in fair value of investment property		4	(62)
Net unrealised decrease in financial assets held at fair value through surplus/(deficit)		75	554
Time value adjustments		7	13
Net loss on disposal of property, plant and equipment and intangible assets		8	49
Impairment of property, plant and equipment, receivables and other assets		-	28
Vested assets		(130)	(247)
Other non-cash revenue		(1)	(22)
Share of surplus in associates and jointly-controlled entities (net of dividends received)		(7)	(18)
Less items classified as investing or financing activities		(13)	(58)
Add/(less) movements in working capital items		(788)	(64)
Net cash inflow from operating activities	**-**	**437**	**771**

Notes to the financial statements (unaudited)

9 Treasury management

$million	As at 31 Dec 2016	As at 31 Dec 2015	As at 30 Jun 2016
Borrowings	-	7,410	7,611
Add bank overdraft	-	5	9
Less cash and cash equivalents	-	(269)	(137)
Total borrowings and bank overdraft less cash and cash equivalents	**-**	**7,146**	**7,483**

The following table demonstrates the Group's debt maturity profile.

Debt Maturity	As at 31 Dec 2016	As at 31 Dec 2015	As at 30 Jun 2016
< 3 years		32%	39%
3-6 years		24%	27%
6-10 years		23%	21%
> 10 years		21%	13%
Total	**0%**	**100%**	**100%**

To provide certainty of future interest payments, the Group has entered into both medium and long term interest rate swaps.

There were no defaults or breaches on any borrowing arrangement during the period (31 December 2015: nil; 30 June 2016: nil).

10 Provisions

There have been no material changes in provisions between 30 June 2016 and 31 December 2016.

11 Contingencies

There have been no material changes in contingencies between 30 June 2016 and 31 December 2016, including the Group's estimated obligation for weathertightness claims.

12 Related parties

There have been no significant related party transactions that were not on an arm's length basis between 1 July 2016 and 31 December 2016.

13 Events after the reporting period

There were no material events after the reporting period that would require adjustment or disclosure for the Group.

Audit report 1/2.

Audit report 2/2

Summary of Waivers Granted by NZX

NZX Limited (NZX) has granted Auckland Council various waivers, being waivers related to:

- Listing Rule 5.1.2(j) (decision published by NZX on 26 August 2010);
- Listing Rule 6.3.2 and 11.1.1 (decision published by NZX on 10 December 2012);
- Listing Rule 5.2.3 (decision published on 12 March 2015);
- Listing Rule 5.2.3 (decision published by NZX on 9 March 2015);
- Listing Rule 10.4.1(b) and 10.4.4 (decision published by NZX on 3 October 2014); and
- Listing Rule 3.2.1(d) (decision published by NZX on 3 March 2015).

Listing Rule 5.2.3

This waiver allows the group to have fewer than 500 bondholders for a period of one year from the quotation date of its initial offer of bonds (which are part of a series of bond offers under its bond programme). NZX considered the waiver appropriate given disclosure in the offer documentation and that debt securities are not subject to the same degree of trading activity as equity securities. The March 2014 waiver was extended in March 2015 for a further 12 months.

On 29 September 2015, NZX released a decision that for Rule 5.2.3, generally a Class of Debt Securities will not be considered for Quotation on the NZDX unless those Securities are held by at least 100 Members of the Public holding at least 25% of the number of Securities of that Class issued, with each Member of the Public holding at least a Minimum Holding. Provided Auckland Council continues to maintain the requirements, Auckland Council will no longer need to apply for the waiver under Rule 5.2.3.

For details of other waivers, please refer to the 30 June 2015 annual report.

Other exchange listings

In addition to NZX, Auckland Council Group also has foreign bonds listed on the following exchanges:

- Swiss Exchange
- Singapore Stock Exchange

The Swiss Exchange requires a summary of main differences between IFRS and PBE Accounting Standards to be provided. The key differences are highlighted on the following pages.

Main differences between IFRS and PBE Accounting Standards

Introduction

Under the New Zealand Accounting Standards Framework, public sector public benefit entities (PBEs) apply PBE Accounting Standards. The New Zealand Accounting Standards Framework defines public benefit entities (PBEs) as reporting entities "whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders". Many public sector entities are classified as PBEs. Auckland Council Group (the Group) is classified as a public sector PBE for financial reporting purposes and therefore the financial statements of the Group have been prepared in accordance with PBE Accounting Standards.

The Group has transitioned to the PBE Accounting Standards for periods beginning on or after 1 July 2014 with comparative information restated as if the Group had always applied PBE Accounting Standards. Prior to the transition, the financial statements of the Group were prepared in accordance with New Zealand Equivalents to International Financial Reporting Standards (IFRS) as applicable to PBEs (NZ IFRS PBE). NZ IFRS PBE were based on IRFS with modifications and exemptions from certain requirements of IFRS.

The PBE Accounting Standards are mainly based on International Public Sector Accounting Standards (IPSAS). IPSAS are based on IFRS but adapted to a public sector context where appropriate by using more appropriate terminology and additional explanation where required. For example, IPSAS introduces the concept of service potential in addition to economic benefits in the asset recognition rules, and provides more public sector specific guidance where appropriate. This is in contrast with IFRS that are written for the for-profit sector with capital markets in mind.

Set out below are the key differences in recognition and measurement between PBE Accounting Standards applicable to the Group and IFRS (applicable to annual periods beginning on or after 1 July 2015). Differences that impact only on presentation and disclosure have not been identified.

PBE Accounting Standards with comparable IFRS equivalent

	PBE	**IFRS**	**Impact**
Formation of Auckland Council Group	PBE IFRS 3 *Business Combinations* contains a scope exemption for business combinations arising from local authority reorganisations. This scope exemption is carried forward in NZ IFRS 3 (PBE) *Business Combinations*, the standard that was applicable to the Group at the time it was formed on 1 November 2010 as a result of the amalgamation of eight predecessor Auckland local authorities. Under the exemption, all assets and liabilities of the predecessor local authorities were recognised by the Group using the predecessor values of those assets and liabilities. The initial value at which those assets and liabilities were recognised by the Group is deemed to be their cost for accounting purposes.	Without the scope exemption, the dissolution of the predecessor local authorities into the Group would have been accounted for as a business combination under IFRS 3 applying the acquisition method. Under the acquisition method, an acquirer would have been identified and all of the identifiable assets and liabilities of the acquired predecessor local authorities assumed by the acquirer would have been recognised at fair value as at the date of acquisition.	The impact of the above accounting treatment of the 2010 local authority reorganisation is that the carrying value of the assets and liabilities received as part of the reorganisation were not re-measured to fair value and no additional assets and liabilities such as goodwill and contingent liabilities were recognised as would have been required if the transaction is accounted for as a business combination under IFRS 3.

Main differences between IFRS and PBE Accounting Standards (continued)

PBE Accounting Standards with comparable IFRS equivalent (continued)

	PBE	IFRS	Impact
Property, Plant and Equipment	PBE IPSAS 17 *Property, Plant and Equipment*, PBEs are required to account for revaluation increases and decreases on an asset class basis rather than on an asset by asset basis.	IFRS requires asset revaluation decreases to be recognised in operating surplus except to the extent there is sufficient asset revaluation reserves surplus relating to the same asset.	This could result in lower operating results under IFRS where there is a decrease in the carrying value of an asset. This is because, to the extent that there is sufficient revaluation surplus in respect of the same asset class (as opposed to the same asset), the Group recognises a revaluation decrease in asset revaluation reserves.
Borrowing Costs	PBE IPSAS 5 *Borrowing Costs* permits PBEs to either capitalise or expense borrowing costs incurred in relation to qualifying assets. A qualifying asset is defined in PBE IPSAS 5 "as an asset that necessarily takes a substantial period of time to get ready for its intended use or sale". The Group's accounting policy is to expense all borrowing costs. As a consequence, borrowing costs on qualifying assets are expensed and are not built into the original costs or revaluations of physical assets.	IAS 23 Borrowing Costs requires capitalisation of borrowing costs incurred in relation to a qualifying asset. The definition of a qualifying asset is identical to that definition in PBE IPSAS 5.	This difference between the Group's accounting policy to expense all borrowing costs under PBE IPSAS 5 and the IAS 23 requirement to capitalise all borrowing costs results in the Group's property, plant and equipment value, and subsequent depreciation expense, being lower than those would be under IFRS. In addition, there is higher interest expense in the periods in which construction costs on qualifying assets are incurred.
Impairment of Assets	To determine whether a non-financial asset is impaired, PBEs apply PBE IPSAS 21 *Impairment of Non-Cash-Generating Assets* or PBE IPSAS 26 *Impairment of Cash-Generating Assets*, as appropriate. PBEs are therefore required to designate non-financial assets as either cash-generating or non-cash-generating. Cash-generating assets are those that are held with the primary objective of generating a commercial return. Non-cash-generating assets are assets other than cash-generating assets. The PBE Accounting Standards require the value in use of non-cash-generating assets to be determined as the present value of the remaining service potential using one of the following: the depreciated replacement cost approach; the restoration cost approach; or the service units approach. Under the PBE Accounting Standards property, plant and equipment measured at fair value is not required to be reviewed and tested for impairment.	IFRS does not provide specific guidance for the impairment of non-cash-generating assets. The value in use of an asset or a cash generating unit is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. The guidance in IAS 36 Impairment of Assets applies to all property, plant and equipment, including those measured at fair value	Assets whose future economic benefits are not primarily dependent on the asset's ability to generate cash and which might not be impaired under PBE Accounting Standards might be impaired under IFRS due to limited generation of cash flows. The Group asset values may therefore be higher than under IFRS because some impairment may not be required under PBE Accounting Standards when impairment would be recognised under IFRS. The use of different methods may result in differences in the amount of value in use. The fact that property, plant and equipment measured at fair value is not required to be reviewed and tested for impairment under the PBE Accounting Standards has no significant impact because these assets are subject to sufficiently regular revaluations to ensure that their carrying amount does not differ materially from fair value.

Main differences between IFRS and PBE Accounting Standards (continued)

PBE Accounting Standards that have no IFRS equivalent

	PBE	IFRS	Impact
Revenue from non-exchange transactions	The PBE Accounting Standards require revenue to be classified as revenue from exchange or non-exchange transactions. Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange. Non-exchange transactions are transactions that are not exchange transactions. PBE IPSAS 23 *Revenue from Non-Exchange Transactions* deals with revenue from non-exchange transactions. The Group's non-exchange revenue includes revenue from general rates and grants and subsidies received. Fees and user charges derived from activities that are partially funded by general rates are also considered to be revenue arising from non-exchange transactions. The Group recognises an inflow of resources from a non-exchange transaction as revenue except to the extent that a liability is also recognised in respect of the same inflow. A liability is recognised when a condition is attached to the revenue that requires that revenue to be returned unless it is consumed in the specified way. As the conditions are satisfied, the liability is reduced and revenue is recognised.	IFRS does not contain a specific standard that deals with revenue from non-exchange transactions. IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* contains guidance relating to the accounting for government grants. Under IAS 20, government grants are recognised in profit or loss on a systematic basis over the periods in which the entity recognises expenses for the related costs for which the grants are intended to compensate. In the case of grants related to assets, IAS 20 results in setting up the grant as deferred income or deducting it from the carrying amount of the asset.	Compared to IAS 20, the Group's accounting policy may lead to earlier recognition of revenue from non-exchange transactions; and may also result in differences in asset values in relation to grants related to assets. As a result of adopting PBE IPSAS 23, the timing of recognising the group's rates revenue has changed to recognise annual general rates revenue as at the date of issuing the rating notices for the annual general rate charge resulting in the entire rates revenue being recognised in the interim financial statements of the group. This is contrary to the group's previous accounting policy under NZ IFRS PBE to recognise general rates revenue throughout the annual period. The impact of this difference increases the reported general rates revenue and net assets in the interim financial statements of the group however it has minimal impact on the recognition of revenue and net assets reported in the group's annual financial statements.
Service Concession Arrangements (also known as Public Private Partnership Arrangements)	PBE IPSAS 32 *Service Concession Arrangements* deals with the accounting for service concession arrangements from the grantor's perspective. Service concession arrangements are more commonly known as Public Private Partnership (PPP) arrangements. Broadly, service concession arrangements are arrangements between the public and private sectors whereby public services are provided by the private sector using public infrastructure (service concession asset). PBE IPSAS 32 requires the grantor (public entity) to recognise the service concession asset and a corresponding liability on its statement of financial position. The liability can be a financial or other liability or a combination of the two depending on the nature of the compensation of the operator. A financial liability is recognised if the grantor compensates the operator by the delivery of cash or another financial asset. A non-financial liability is recognised if a right is granted to the operator to charge the users of the public service related to the service concession asset (liability for unearned revenue).	IFRS contains no specific guidance addressing the accounting by the grantor (public entity) in a service concession arrangement. However IFRS contains guidance for the operator's accounting (private entity) and NZ practice has been for the grantor (public entity) to 'mirror' the accounting treatment of the private entity.	Applying IFRS to service concession arrangements would not result in a significant impact on the Group's financial position or financial performance as, in absence of specific guidance in NZ IFRS, NZ practice has been to 'mirror' the accounting treatment of the private entity under IFRS which is consistent with the requirements of the PBE Accounting Standards.

Main differences between IFRS and PBE Accounting Standards (continued)

PBE Accounting Standards where the IFRS equivalent is not comparable

The following standards provide guidance on the same topic but are not directly comparable. The comparison below identifies the key recognition and measurement differences.

	PBE	**IFRS**	**Impact**
Consolidated Financial Statements	PBE IPSAS 6 *Consolidated and Separate Financial Statements* includes guidance on assessing control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company and specifies the accounting treatment for interests in other entities in the separate parent financial statements.	IFRS 10 *Consolidated Financial Statements* contains guidance on assessing control based on principles similar to those in PBE IPSAS 6 and provides additional guidance to assist in the determination of control where this is difficult to assess. IAS 27 *Separate Financial Statements* specifies the accounting treatment for interests in other entities in the separate parent financial statements.	The Group does not believe that the application of IFRS 10 would result in more or fewer entities being consolidated than under PBE IPSAS 6.
Joint Arrangements	PBE IPSAS 8 *Joint Ventures* defines three types of joint ventures: jointly controlled assets, jointly controlled operations and joint ventures.	IFRS 11 *Joint Arrangements* focuses on the rights and obligations of the parties to the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures.	The Group does not believe that the application of IFRS 11 would result in a material change to the Group's results and net assets.
Fair Value Measurement	There is no specific standard in the PBE Accounting Standards, however a number of PBE Accounting Standards contain guidance on the measurement of fair value in specific context (for example PBE IPSAS 17 *Property, Plant and Equipment* and PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*).	IFRS 13 *Fair Value Measurement* does not extend the use of fair value accounting but provides guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.	The application of IFRS 13 may result in differences in the measurement of certain property, plant and equipment compared to PBE IPSAS 17 and financial assets and liabilities compared to PBE IPSAS 29.
Employee Benefits	PBE IPSAS 25 *Employee Benefits* is based on IPSAS 25. IPSAS 25 is based on IAS 19 *Employee Benefits* (2004).	IAS 19 *Employee Benefits* (2011) introduces changes to the recognition, measurement, presentation and disclosure of post-employment benefits compared to IAS 19 (2004). The standard also requires net interest expense/income to be calculated as the product of the net defined benefit liability/asset and the discount rate as determined at the beginning of the year.	The Group has no defined benefit obligations and therefore there is no impact on its financial performance and financial position.

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