Guidance Note: Disclosing non-GAAP financial information

September 2012

About this guidance note

This guidance note is intended for issuers, their directors and preparers of financial information. It sets out the Financial Market Authority’s (FMA) expectations on the use of financial information in corporate documents, such as transaction documents and market communications, where that financial information is not presented in accordance with generally accepted accounting practice (GAAP) or is presented as an alternative to the statutory profit. We describe this as non-GAAP financial information.

This guidance note does not replace GAAP or the law. Disclosure of financial information that does not follow this guidance note will not necessarily breach the law. However, in our view, following this guidance note will increase the likelihood of compliance with regulatory requirements. FMA will assess non-GAAP financial information disclosures against this guidance from 1 January 2013.

The examples we use in this guidance note are for illustration only. The examples are not exhaustive and do not impose or imply particular rules or requirements.

Every issuer must comply with all regulatory requirements for financial reporting. We do not repeat all regulatory requirements in this guidance note, although we refer to some where this is appropriate.

This guidance note does not constitute legal advice. We encourage you to seek your own professional advice to find out how any applicable laws apply to you, as it is your responsibility to determine your obligations.

This guidance note is based on regulatory requirements as at September 2012.
Contents

Section A: Overview .................................................................................................................. 3

Section B: What is non-GAAP financial information? .............................................................. 5

Section C: Presenting non-GAAP financial information in investor communications other than financial statements and transaction documents ........................................... 7

Section D: Presenting non-GAAP financial information in transaction documents ........... 12

Glossary of terms ..................................................................................................................... 16

Appendix 1 Illustrative example ............................................................................................. 17
Section A: Overview

Key points:

- Financial information presented other than in accordance with generally accepted accounting practice (GAAP), described in this guidance note as non-GAAP financial information, can be useful for investors and other users of this information in certain circumstances. However, in some cases non-GAAP financial information has the potential to be misleading.

- This guidance note sets out:
  - our definition of non-GAAP financial information and related terms (see Section B); and
  - our views on presenting non-GAAP financial information.

Background and scope

1. Financial information that is presented other than in accordance with GAAP (non-GAAP financial information) is being used increasingly in public documents, such as transaction documents, management commentary and market announcements.

2. One of the most common forms of non-GAAP financial information, and dealt with in this guide, is non-GAAP profit information. This is often referred to as ‘alternative performance measures’, such as ‘underlying profit’ or ‘normalised profit’. For further guidance about what does and does not constitute non-GAAP financial information for the purposes of this guide, see Section B.

3. In this guidance note, we set out FMA’s views on when non-GAAP financial information should or should not be used and what additional disclosure should be made so that the information is not misleading. The purpose of our guidance is to:
   - promote more meaningful communication of financial information to investors and other users of financial statements;
   - increase the likelihood that financial information is disclosed in a way that is not misleading; and
   - provide greater certainty in the market about FMA’s views on disclosure of non-GAAP financial information, and how FMA will assess such disclosures.

4. This guidance note focuses on the disclosure of non-GAAP financial information in:
   - transaction documents, such as prospectuses, amalgamation proposal documents and compromise proposal documents; and
   - market communications (eg directors’ or management commentary and other documents accompanying financial statements, market announcements, press releases, interviews, presentations to investors and briefings to analysts).
This guidance note does not specifically address financial information that is disclosed within statutory financial statements. This is because the disclosure requirements and obligations for statutory financial statements are clearly provided within the Financial Reporting Act 1993 and applicable financial reporting standards. For example, NZ IAS 1 Presentation of Financial Statements (NZ IAS 1) and NZ IAS 34 Interim Financial Reporting (NZ IAS 34) for half-year reports, set out the minimum requirements for financial statements prepared under the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS). Sections 11(2) and 14(2) of the Financial Reporting Act also contemplate there could be situations where compliance with financial reporting standards does not result in a true and fair view of the financial position and performance of an entity. In these rare circumstances, directors are required to exercise their judgment and additional information must be disclosed in the financial statements to give a true and fair view.

FMA notes that although additional line items or sub-totals included in an entity’s income statement can comply with GAAP, if the same line items or sub-totals are included in documents other than financial statements and are presented as an alternative to the GAAP profit, then for the purposes of this guidance note they are considered to be non-GAAP profit information.

Currently GAAP for all issuers in New Zealand is NZ IFRS which is based on International Financial Reporting Standards (IFRS). FMA views its broad and consistent application as helping to promote confidence internationally in New Zealand’s capital markets. FMA will continue to monitor and review issuer financial statements for compliance with GAAP and the Financial Reporting Act.

**Transaction documents**

Non-GAAP financial information presented as pro forma financial information may be useful in transaction documents or necessary to meet disclosure obligations under the Securities Act 1978 and the Companies Act 1993.

Where non-GAAP financial information is included, it should not be presented in a misleading manner. When including pro forma financial information in transaction documents, the guidance in Section D will help reduce the risk of users being misled.

**Documents other than financial statements and transaction documents**

It may be necessary or appropriate to include non-GAAP financial information in documents other than financial statements and transaction documents.

Such information can provide meaningful insights into the financial condition or performance of a business. FMA is not seeking to prohibit the use of non-GAAP financial information in documents related to the financial result, but considers the guidance set out in Section C will reduce the risk that such information is misleading.
Section B: What is non-GAAP financial information?

Key points:

- Non-GAAP financial information is any financial information that is presented other than in accordance with all relevant GAAP.

- Non-GAAP profit information is a type of non-GAAP financial information. It is profit information calculated on a basis other than GAAP or calculated in accordance with GAAP and then adjusted.

- Pro-forma financial information is non-GAAP financial information that is intended to show the effects of proposed or completed transactions for illustrative purposes, and is often used in transaction documents.

Definition of non-GAAP financial information and related terms

**Non-GAAP financial information**

12. Non-GAAP financial information is financial information that is presented other than in accordance with all relevant GAAP.

13. Non-GAAP financial information may be presented in a form that is similar to:
   - a statement of financial position;
   - an income statement;
   - a statement of comprehensive income;
   - a statement of changes in equity; or
   - a statement of cash flows;

   but it has not been prepared in accordance with statutory financial reporting requirements applicable to those statements.

14. Non-GAAP financial information may exclude certain transactions, or present transactions or balances on a different recognition and measurement basis from that required or permitted by GAAP.

**Non-GAAP profit financial information**

15. Non-GAAP profit information is a common type of non-GAAP financial information. It is any measure of profit other than the ‘profit or loss’ as defined in paragraph 7 of NZ IAS 1. Entities calculate non-GAAP profit information in different ways and use different labels. It is a financial measure that is not standardised by GAAP but which may nevertheless be appropriate for inclusion in transaction documents and market communications.
16. Common terms used to identify non-GAAP profit information include ‘underlying earnings’, ‘normalised profit’, ‘pro forma earnings’, ‘cash earnings’, ‘earnings before interest, tax, depreciation and amortisation (EBITDA)’, ‘adjusted earnings’, and ‘earnings before non-recurring items’. These terms generally lack standard meanings. Different issuers may use the same term to refer to different calculations.

Pro forma financial information

17. Pro forma financial information is non-GAAP financial information that is intended to show the effects of proposed or completed transactions for illustrative purposes. It is often used in transaction documents, such as prospectuses, product disclosure statements, scheme of arrangement documents and takeover documents.

Scope of guidance on non-GAAP financial information

18. This guidance note focuses on how users should present non-GAAP financial information in market communications to minimise the risk of the information being misleading. This guidance does not apply to the following types of information:

- non-financial information such as numbers of employees or numbers of subscribers;
- statutory information required by another regulator (for example, capital adequacy information required by the Reserve Bank of New Zealand);
- prescribed forms or documents provided for disclosure of information from a registered exchange that are completed based on information contained within statutory financial statements (for example, the NZX Appendix 1 disclosures);
- more granular information calculated in accordance with GAAP and presented in an operating and financial review, such as quarterly information (provided that information for all periods is disclosed with equal prominence);
- separate analysis on individual components of statutory profit, such as impairment losses;
- information to explain compliance with the terms of an agreement or a legislative requirement, provided the information is not represented as being an alternative to the GAAP profit result or another GAAP measure or given undue prominence relative to the GAAP measure; and
- comparisons of GAAP financial information to non-financial information (eg sales revenue per unit).

19. While this guidance note does not apply to these categories of information, the general principles in this note (eg relating to relative prominence) may be useful to preparers of this information.

* Also refer paragraph 6.
Section C: Presenting non-GAAP financial information in investor communications other than financial statements and transaction documents

Key points:

- There are cases where non-GAAP financial information in documents accompanying the financial statements, market announcements, presentations to investors and briefings to analysts, is necessary or useful to investors and other users of the information.

- This information must not be misleading. In this regard, important considerations include that:
  - non-GAAP financial information should not be given undue prominence, emphasis or authority; and
  - non-GAAP financial information should:
    - be explained and reconciled to the GAAP financial information;
    - be calculated consistently from period to period; and
    - be unbiased and not used to remove or disguise ‘bad news’.

Use of non-GAAP financial information

20. There may be demands from users of financial statements for information to better understand aspects of the performance of an entity, including information on the drivers of the business and external influences, and more information on the items comprising the reported result. This information may be included in documents accompanying the financial statement (eg the directors’ report), market announcements, presentations to investors, briefings to analysts, advertisements and financial reviews sent to shareholders.

21. Financial reporting standards are intended to ensure consistent and comparable reporting of historical financial information over time and between entities. GAAP does not necessarily apply to information presented outside financial statements, but users may reasonably expect that it has been.

22. Therefore, there is a risk that non-GAAP financial information will be misleading unless it is appropriately presented and explained.
23. There are a number of legislative provisions that deal with misleading information including:
   - section 11 of the Securities Markets Act 1988 (false or misleading statement or information)
   - section 13 of the Securities Markets Act (misleading or deceptive conduct)
   - section 58 of the Securities Act (misstatement in an advertisement or registered prospectus)
   - section 377 of the Companies Act (false statements)

Guidance on presenting information

24. Table 1 sets out our guidance to help reduce the risk of non-GAAP financial information being misleading. An illustrative profit announcement is included in Appendix 1.

Table 1: Guidance on presentation of non-GAAP information

<table>
<thead>
<tr>
<th>Guidance</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Why information is useful</td>
<td>A statement should be included disclosing the reasons directors believe that presentation of the non-GAAP financial measure provides useful information to investors regarding the financial condition and results of operations. This statement should be clear and understandable and specific to the non-GAAP financial information used, the entity, the nature of the business and industry and explain how the non-GAAP financial information is used internally. *</td>
</tr>
<tr>
<td>Prominence</td>
<td>Non-GAAP financial information should not be presented with undue prominence, emphasis or authority. When preparing and presenting financial information directors should exercise judgment when determining the appropriate level of prominence that is given to any non-GAAP financial information. Refer to the Undue prominence, emphasis or authority section of this guidance note for further guidance regarding prominence.</td>
</tr>
<tr>
<td>Appropriate label</td>
<td>Non-GAAP financial information should be clearly labelled in a way that distinguishes it from the corresponding GAAP financial information. Any term used to describe the information should be appropriate having regard to the nature of the information. The term or label should not cause confusion with GAAP information. The term or label should accurately describe the measure.</td>
</tr>
<tr>
<td>Calculation</td>
<td>A clear narrative explanation about how the non-GAAP financial information is calculated should be provided.* This explanation should be supported by a more fulsome internal policy, authorised by the directors, that specifically addresses the consistency, completeness and accuracy of any adjustments made to reported GAAP measures.</td>
</tr>
</tbody>
</table>
## Guidance

<table>
<thead>
<tr>
<th>Guidance</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reconciliation</td>
<td>A reconciliation between the non-GAAP and GAAP financial information should be provided, separately itemising and explaining each significant adjustment. Where reconciling items are components of GAAP information, they should be able to be identified in the financial statements. Where a reconciling item cannot be extracted directly from the financial statements, the reconciliation should show how the number is calculated. Where comparative non-GAAP financial information is presented for a previous period, a reconciliation to the corresponding GAAP financial information should be provided for that previous period. *</td>
</tr>
<tr>
<td>Consistency</td>
<td>A consistent approach should be adopted from period to period. If there has been a change in approach from the previous period, an explanation about the nature of the change, the reasons for the change, and the financial impact of the change should be provided.</td>
</tr>
<tr>
<td>Adjustments</td>
<td>For each adjustment made to GAAP financial information, corresponding items should be adjusted in any comparative information.</td>
</tr>
<tr>
<td>Unbiased</td>
<td>Non-GAAP financial information should be unbiased and not used to avoid presenting ‘bad news’ to the market, or to over-emphasise ‘good news.’</td>
</tr>
<tr>
<td>One-off items</td>
<td>Items that have occurred in the past or are likely to occur in a future period should not be described as ‘one-off’ or ‘non-recurring’.</td>
</tr>
<tr>
<td>Audited or reviewed</td>
<td>If aspects of the non-GAAP financial information have been extracted from audited or reviewed financial statements then a clear statement should be made to that effect.</td>
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</table>

* This information should be clearly labelled and provided at least once in each document where non-GAAP financial information is disclosed. Where non-GAAP financial information is presented, clear reference should be made to where in the document this information is located.

25. NZ IFRS 8 Operating Segments requires disclosure of profit or loss for segments based on the measure reported internally to management. This may be different to the profit calculated in accordance with statutory financial reporting requirements. In most cases, we expect that any non-GAAP profit information disclosed will not differ from the segment reporting disclosures in the financial statements. If non-GAAP profit information is disclosed and it differs from the segment reporting disclosures in the financial statements, an explanation should be included justifying this difference. No explanation is required if the differences comprise only normal inter-segment eliminations or corporate expense allocations.

### Undue prominence, emphasis or authority

26. Determining whether undue prominence, emphasis or authority is given to non-GAAP financial information is a matter of judgement for directors and preparers of financial information, taking into account the overall document or commentary and the nature and performance of the entity.

27. Consideration should be given to factors such as:
• the order and manner in which the GAAP and non-GAAP figures (eg profit) are presented; and

• providing a similar level of attention to reconciling items between GAAP and non-GAAP figures as is given to components of non-GAAP figures, having regard to their relevance and materiality.

28. While the GAAP figure and a reconciliation should appear in every document containing a non-GAAP figure, giving due prominence to the GAAP figure does not mean the GAAP figure or a reconciliation must appear every time a non-GAAP figure is mentioned in a document.

29. The following are examples of giving undue prominence, emphasis or authority to non-GAAP financial information compared to the corresponding GAAP financial information:

• Where commentary on the entity’s performance relates only to non-GAAP profit information, with little or no analysis of the reconciling items from the GAAP profit figure.

• Where the GAAP profit figure is shown only in a footnote to the non-GAAP profit information.

• Changing the emphasis given to the GAAP profit information and non-GAAP profit information from period to period (eg emphasising whichever profit figure gives the most favourable outcome for a period).

• Not presenting the GAAP profit figure and associated reconciliation at least once in every document containing non-GAAP profit information.

30. The following are examples which give due prominence to GAAP financial information compared to non-GAAP financial information and are therefore unlikely to be misleading:

• Giving prominence to the GAAP profit figure on the first page of a document and analysing components of the non-GAAP profit figure by division or segment on subsequent pages of the document. Often the non-GAAP profit is a subset of the GAAP profit. It will still be necessary to give a similar prominence to the analysis of the adjustments between the non-GAAP profit figure and GAAP profit figure as are given to components of the non-GAAP profit figure, having regard to the relevance and materiality of the adjustments and components.

• Where the non-GAAP profit figure is included in the headline of an announcement also include the GAAP profit figure in the headline where practical, or if impractical, at the fore-front of any accompanying commentary.

• Providing a summary of the reconciling items between the non-GAAP profit figure and GAAP profit figure on the first page of the market announcement, cross-referred to a more detailed reconciliation at the end of the document, provided that the summary aggregates similar items.

31. The examples listed in the above paragraphs are not exhaustive and are provided to assist in understanding the approach in this guide.
Other examples of potentially misleading disclosures

32. Other potentially misleading disclosures of non-GAAP financial information in documents other than the financial statements and transaction documents include:

- **Hypothetical figures** – presenting a hypothetical profit figure that does not reflect actual historical performance or non-GAAP profit information based on an average of prior period profits without prominent and adequate explanation of the basis adopted.

- **No or inadequate explanation** – presenting non-GAAP profit information without providing a detailed explanation or reconciliation to the GAAP profit (e.g., disclosing non-GAAP profit information with a footnote to say that it excludes ‘one-off’ items and not detailing or explaining the ‘one-off’ items).

- **‘Non-recurring’ items** – describing items such as impairment losses and restructuring costs as ‘non-recurring’ or ‘unusual’ when they are generally of a recurring nature in many businesses and can usually occur over a life of a business (albeit they may only arise in some years).

- **Inconsistent exclusions** – excluding from non-GAAP profit information some of the return on a class of financial assets, such as excluding unrealised losses or realised losses, but not excluding unrealised gains or realised gains.

- **Confusion** – providing multiple non-GAAP profit measures in the same reporting period where that may cause confusion. Labelling a measure inaccurately; for example, it is not appropriate to label a measure as EBITDA if it excludes items which are not interest, tax, and depreciation or amortisation amounts.
Section D: Presenting non-GAAP financial information in transaction documents

Key points:

- It is often necessary or appropriate to include non-GAAP financial information in the form of pro forma financial information in transaction documents to fulfil disclosure obligations.
- Pro forma financial information should not be misleading.
- When including pro forma financial information in transaction documents, certain guidelines should be followed to minimise the risk of the information being misleading.

Financial information in transaction documents

33. Our guidance in this section applies to disclosure of financial information in the following documents (referred to collectively in this guide as ‘transaction documents’):

- prospectuses;
- investment statements;
- advertisements;
- amalgamation proposal documents;
- scheme of arrangement documents;
- compromise proposal documents; and
- notices of meetings.

Compliance with GAAP

34. Legislation specifies when financial information in a transaction document must comply with GAAP. Transaction documents often contain other financial information in addition to this. In our view, users of transaction documents and market announcements reasonably expect financial information for an entity to be presented in accordance with GAAP because:

- where past and/or future financial statements of an entity are required to comply with GAAP, financial information in transaction documents should permit useful comparisons to be made by users of that information;
- users are accustomed to financial information prepared on the basis of GAAP; and
• disclosure of financial information prepared in accordance with statutory financial reporting requirements enables users to make comparisons with other entities reporting on that basis.

35. There may be some circumstances where an entity is unable to disclose information in accordance with GAAP. For example, there may be practical impediments to providing information prepared in accordance with GAAP in a bidder’s statement in a takeover. In a hostile takeover situation, the bidder may not have sufficient information from the target’s underlying records to determine the adjustments that would be made to the target’s financial statements to produce pro forma financial information. If the impact of adjustments cannot be determined, the bidder’s statement should include a statement to that effect and the reason such a determination is not possible. The target may have an obligation to disclose the information in the target’s statement.

36. If a particular financial reporting standard is not followed, the nature of, reasons for and financial effect of the departure should be prominently disclosed to ensure the information is not misleading.

Use of pro forma information

37. There are instances where providing non-GAAP financial information in the form of pro forma financial information in transaction documents may be useful or necessary to fulfil disclosure obligations. For example, it may help users deciding on a business combination to present pro forma financial information showing how the business would appear based on historical information for the combining entities had the transaction occurred at the start of the last financial year.

38. Pro forma financial information should be presented in accordance with the recognition and measurement requirements of GAAP, subject to assumptions relevant to the notional acquisition and combination of the entities or other adjustments made that are consistent with the basis of preparation.

39. There is potential for pro forma financial information to be misleading, particularly if there is no disclosure, or inadequate disclosure, of the basis of its preparation or the differences between it and corresponding statutory financial information.

Guidance on presenting information

40. Table 2 provides guidance on how to disclose pro forma financial information in a manner that:

• enables users to properly assess the information; and

• is less likely to be misleading.

The guidance in Section C may also be relevant.
Table 2: Guidance on presenting pro forma financial information

<table>
<thead>
<tr>
<th>Guidance</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assumptions</strong></td>
<td>Disclosure of pro forma financial information should be accompanied by full details of the assumptions (including their quantum) used to prepare the information.</td>
</tr>
<tr>
<td><strong>Explanation</strong></td>
<td>Disclosure of pro forma financial information should include an explanation of how financial information was calculated and the reasons for any departures from GAAP.</td>
</tr>
</tbody>
</table>
| **Reconciliation**            | The amount and nature of all material adjustments that have been made to the statutory financial information to derive the pro forma financial information should be disclosed by way of a reconciliation, together with the reasons for those adjustments. The reconciliation may be:  
  - a line-by-line reconciliation of pro forma financial statements prepared with significant reconciling items shown in a separate column and described through footnotes; or  
  - a reconciliation of key items such as profit after tax and net assets (or perhaps also other items such as current assets, non-current assets, current liabilities, non-current liabilities, revenue and expenses). This option would usually only be used when there are a limited number of reconciling items, and each significant reconciling item is separately described. |
| **Statement of comprehensive income** | Preparers should carefully consider whether it is appropriate to stop a pro forma statement of comprehensive income (or similar) at the level of earnings before interest and tax (EBIT), earnings before interest, tax, depreciation and amortisation (EBITDA) or funds from operations (FFO). Pro forma financial information is often prepared to show what the financial statements would have looked like, had an acquisition/merger occurred at the beginning of the reporting period. It is important that users have sufficient information to understand the impact of a transaction on the funding and tax position of the entity.  
In deciding whether the pro forma statement should stop before net profit after tax (NPAT) preparers should consider the benefits to users, and matters such as the stability of the business (before and after the transaction) and the impact of the transaction on the level of debt. Where the statement does not extend to NPAT, the reasons and sufficiently prominent narrative explanations should be given to explain the likely impact of the transaction on funding, tax, amortisation and other income/expense items excluded from the pro forma statement. |
<p>| <strong>Statement of financial position</strong> | A pro forma statement of financial position should, wherever possible, include details of equity, in addition to assets and liabilities. |
| <strong>Disclosure of a range</strong>     | When a range of pro forma financial information is disclosed, a more favourable figure or fact within that range should not be given greater prominence. |
| <strong>Whole transaction</strong>         | Where pro forma financial information is provided to reflect a particular transaction such as an acquisition or sale of an entity or operation, the information should reflect the full transaction and not selected aspects of it. |</p>
<table>
<thead>
<tr>
<th>Guidance</th>
<th>Explanation</th>
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<tbody>
<tr>
<td>Overseas entities</td>
<td>If presenting financial information for overseas entities, a ‘convenience translation’ into New Zealand currency may be acceptable with adequate disclosure, if the actual translation is impractical. If presenting financial information for overseas entities prepared under a foreign GAAP, that departs materially from that prepared under New Zealand GAAP, the corresponding financial information prepared in accordance with New Zealand GAAP should also be presented. This is particularly important for schemes of arrangement or takeovers where existing investors receive financial statements in accordance with New Zealand GAAP or will receive such financial statements in the future. In some circumstances, such as where there are few line items affected or the transaction is a fundraising by a foreign entity that only produces financial statements under a foreign GAAP, it may be sufficient to reconcile net assets and profit after tax. This will provide information for New Zealand investors to make a comparison with other investment opportunities in New Zealand. If there is no material difference between applying foreign GAAP and New Zealand GAAP, a statement to that effect should be provided.</td>
</tr>
<tr>
<td>Inclusion of historical financial information</td>
<td>Generally, we would expect as a minimum that where historical pro forma financial information in the form of a statement of financial position is disclosed, the most recent statutory statement of financial position would be used as the basis (either half year or full year that has been reviewed or audited as applicable). Where presentation of historical statements of comprehensive income is required to be presented under regulatory requirements, consideration should be given to presenting historical pro forma financial information in the form of a statement of comprehensive income for the same period.</td>
</tr>
<tr>
<td>Hypothetical information</td>
<td>Pro forma financial information could potentially be misleading to investors if it is based on a hypothetical scenario that does not reflect actual historical performance without prominent and adequate explanation of the basis adopted eg an average of prior period profits.</td>
</tr>
<tr>
<td>Audited or reviewed</td>
<td>If aspects of the non-GAAP financial information have been extracted from audited or reviewed financial statements then a clear statement should be made to that effect.</td>
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</tbody>
</table>
# Glossary of terms

## Table 3: Glossary of terms

<table>
<thead>
<tr>
<th>Term</th>
<th>Meaning in this document</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBIT</td>
<td>Earnings before interest and tax</td>
</tr>
<tr>
<td>EBITDA</td>
<td>Earnings before interest, tax, depreciation and amortisation</td>
</tr>
<tr>
<td>financial reporting standard</td>
<td>Has the meaning given to it by section 2 of the Financial Reporting Act</td>
</tr>
<tr>
<td>financial statements</td>
<td>Has the meaning given to it by section 8 of the Financial Reporting Act</td>
</tr>
<tr>
<td>GAAP</td>
<td>Generally accepted accounting practice, which has the meaning given to it by section 3 of the Financial Reporting Act</td>
</tr>
<tr>
<td>GAAP profit</td>
<td>Is the ‘profit or loss’ as defined in paragraph 7 of NZ IAS 1</td>
</tr>
<tr>
<td>market announcements</td>
<td>Any announcements made to a securities exchange or FMA</td>
</tr>
<tr>
<td>non-GAAP financial information</td>
<td>Has the meaning set out in paragraph 12</td>
</tr>
<tr>
<td>non-GAAP profit information</td>
<td>Has the meaning set out in paragraph 15</td>
</tr>
<tr>
<td>NZ IAS 1 and NZ IFRS 1 (for example)</td>
<td>A New Zealand financial reporting standard issued by the External Reporting Board under the Financial Reporting Act</td>
</tr>
<tr>
<td>NZ IFRS</td>
<td>New Zealand equivalents to International Financial Reporting Standards</td>
</tr>
<tr>
<td>operating and financial review</td>
<td>Also known as management commentary or management discussion and analysis which often accompanies financial statements in annual or interim reports</td>
</tr>
<tr>
<td>pro forma financial information</td>
<td>Has the meaning set out in paragraph 17</td>
</tr>
<tr>
<td>transaction documents</td>
<td>Prospectuses, investment statements, disclosure statements, takeover bidder’s statements, takeover target statements, other relevant takeover documents, scheme of arrangement documents and related party documents</td>
</tr>
</tbody>
</table>
Appendix 1 Illustrative example

Disclaimer:
The example used is for illustration purposes only. The example is not exhaustive and directors must use their judgement when considering the application of this guidance. Where an adjustment is applicable for one business or industry, this does not necessarily mean it is applicable for another and as such could mislead investors. Directors must also consider their obligations under other financial markets legislation and applicable listing rules.

XY announces 2012 full year results

Overview

XY today announced a reported profit after tax of $59.813 million for the financial year ended 31 March 2012 (“FY12”), down 17% on last year. Underlying profit after tax remained relatively unchanged, down 1% to $61.724 million.

The reduction in reported profit after tax is largely due to previous year gains not occurring in FY12; the sale of a joint venture (JV) of $5.261 million and the revaluation of investment properties of $7.358 million. A reconciliation between the reported and underlying profit is attached.

FY12 has been challenging for XY. The relatively stable underlying profit is due to the prevailing low growth opportunities in New Zealand as the market is relatively saturated and our market share of 75%.

XY is looking forward to implementing projects in the Australian market and the growth opportunities which exist for the 2013 year.

In view of the current market conditions and effects the global financial crises had on our industry the management team consider XY’s performance as resilient. With the upcoming Australian projects, along with the continuing improvement in the market conditions, we remain optimistic about future growth...

Key adjustments

Certain transactions such as the sale of a joint venture, as well as revaluations of investment properties can make the comparisons of profits between years difficult. Management and directors monitor underlying profit measurements as a key indicator of XY’s performance, use it as the basis for determining dividends and believe they help investors to understand what is happening in the business.

Joint venture
The joint venture sale was part of XY’s growth plan for 2013 with the $5.261 million proceeds from the sale budgeted to be spent in 2013 for growth into the Australian market. The JV operations were not in line with XY’s core investment strategy.
Hedge adjustments
XY issued foreign debt in April 2010. To hedge interest rate risk XY entered into derivative financial instruments. While these instruments are economically effective they do not qualify for hedge accounting. To reflect this unrealised fair value movements on these instruments have been adjusted for in determining underlying profit.

Investment property
There was no material change in the fair value of XY’s investment property recorded in FY12. This has had the largest impact on reported profit after tax year on year with a fair value gain of $7.358 million during the financial year ended 31 March 2011 (“FY 11”).

Christchurch
XY owns one Christchurch industrial property which has been permanently damaged by earthquakes. XY has insurance for the reinstatement costs of this property. The value of the property has been impaired by $6.44 million and income includes $7.44 million of insurance proceeds.

Looking ahead to 2013
As advised to shareholders at the 2011 Annual General Meeting, the Board is actively considering growth opportunities in Australia.

New Zealand
The New Zealand sector is continuing to experience consolidation of competitors who are attempting to attract new business. XY continues to focus on maintaining its strong customer relationships and keeping costs under control.

Australia
The Australian market represents strong growth opportunities for XY in 2013. We continue to attract potential customers and pursue new business in this market.

Conclusion
XY’s reported profit after tax FY12 is down on the prior year due to gains from proceeds from the sale of JV and fair value gains on investment properties obtained in FY11. However, XY’s underlying profit has delivered a resilient full year result that is consistent with the prior year. This result demonstrates the positive features of the industry XY operates in.

The directors acknowledge the outstanding work and on-going dedication of the XY team throughout New Zealand.
Reconciliation of reported profit to underlying profit

<table>
<thead>
<tr>
<th></th>
<th>31 March 2012</th>
<th>31 March 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$000</td>
<td>$000</td>
</tr>
<tr>
<td>Profit after tax</td>
<td>59,813</td>
<td>72,205</td>
</tr>
<tr>
<td>Gain on sale of Joint Venture</td>
<td>-</td>
<td>(5,261)</td>
</tr>
<tr>
<td>Derivative fair value decrease/(increase)</td>
<td>3,641</td>
<td>(1,426)</td>
</tr>
<tr>
<td>Investment property fair value decrease/(increase)</td>
<td>13</td>
<td>(7,358)</td>
</tr>
<tr>
<td>Christchurch impairment and insurance proceeds</td>
<td>(1,000)</td>
<td>-</td>
</tr>
<tr>
<td>Taxation adjustment</td>
<td>(743)</td>
<td>3,933</td>
</tr>
<tr>
<td>Underlying profit</td>
<td>61,724</td>
<td>62,093</td>
</tr>
</tbody>
</table>

1 The reported profit information has been prepared in accordance with New Zealand generally accepted accounting practice and comply with New Zealand Equivalents to International Financial Reporting Standards. The reported profit information has been extracted from audited financial statements.

2 The sale of XY’s joint venture investment resulted in a gain of $5.621 million during the year ended 31 March 2011.

3 The fair valuation movement of the derivative financial instruments that do not qualify for hedge accounting put in place in conjunction with the foreign currency debt issuance in April 2010. The current year derivative fair value decrease is $3.641 million (2011 increase of $1.426 million).

4 The current year fair value decrease of XY’s investment property portfolio was $0.013 million (2011 fair value gain of $7.358 million).

5 XY owns one Christchurch industrial property, the property has been damaged by earthquakes. The company has insurance in place for the reinstatement costs of the property. The adjustment is the net of the impairment and the insurance proceeds.

6 Taxation adjustments as a result of adjustments 2 to 5 above.

7 The adjustments have been the subject of a review by the auditors pursuant to New Zealand Institute of Chartered Accountants (NZICA) Review Engagement Standards RS-1.