



ANNUAL REPORT

2013/14



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FOREWORD



Introduction

Our purpose is to achieve the best possible outcomes in competitive and regulated markets for the long-term benefit of New Zealanders.

Competition is a key driver for delivering greater productivity and growth in the economy. It incentivises firms to innovate, and rewards efficiencies in business. Through regulation we seek to achieve the same outcomes in markets with little or no competition.

An effective competition agency and regulator helps to ensure:

- there is a level playing field for competitors
 - the rules are known and players are monitored
- market power is not abused
- the level of competition in a market is not substantially lessened by amalgamation
- consumers are protected, and clear and accurate information is provided to them
- regulated businesses face incentives to perform, invest and provide long-term benefits for consumers.

Our 2013/14 annual report is designed to provide an overview of the Commission's activity for the past financial year. The document measures our performance against our strategic framework, as set out in our 2013-2016 statement of intent (SOI). This framework outlines our three outcomes, the impacts we seek to achieve, and our day-to-day activities (our outputs).





Report from our Chairman

The Commission achieved a number of major milestones as part of a significant work-load during the 2013/14 year. We have been able to deliver some major achievements across the range of our activities, working towards greater predictability through achieving major regulatory milestones, advancing our advocacy and education roles, and delivering millions in compensation to wronged parties through our enforcement activities.

At the same time, we have been gearing up to meet the significant changes in consumer law, as well as further legislative change in other areas. We are also continuing to adapt and respond to meet the changing needs of the markets, to ensure we make the very best use of our smart people and finite resources and remain well placed to meet future demands.

We know our work touches the lives of every New Zealander every day, whether monitoring aspects of the cost of electricity distribution and the price of raw milk, supporting competitive construction and health sectors, or stopping dishonest salespeople or misleading behaviour.

More generally, as defenders of competition, we help improve the price and quality of goods and services for New Zealand consumers, and ensure a level playing field for businesses.

Our achievements

Competition and Consumer Enforcement activities

Looking back over the last financial year, we have had a large work programme in the consumer area, with a number of key successes. Cases such as that of Love Springs, a company selling water

filters door-to-door while claiming New Zealand's tap water caused cancer, and the four companies misleading tourists by falsely claiming imported alpaca products were New Zealand made, are both examples of the harmful impact false information can have on New Zealand consumers and our international reputation. These are some of several successful prosecutions that came to a conclusion this year, with a key priority being to target conduct aimed at vulnerable consumers.

Two long-running international cartel cases were concluded during the year – the freight forwarding case and the trans-Tasman cardboard packaging proceedings. On a domestic note, Carter Holt Harvey was convicted for price fixing with Fletcher Distribution Limited in the Auckland commercial timber market.

A new approach to targeting consumer harm

The Commission has started using a new approach to target consumer harm, using data to identify and then target high-risk sectors and those who cause the greatest levels of consumer harm.

Our intelligence unit is collecting data from a wide range of sources and putting that together with the Commission's information to identify the sectors, industries and traders with the greatest level of non-compliance with the laws we are responsible for enforcing. The approach is proactive, intelligence-led and evidence-based. It will allow us to focus our limited resources on areas where we can have maximum impact and protect New Zealanders.

Education and advocacy

We also know that most businesses want to follow the law, and that some of the legislation that we enforce can seem complicated. We put a lot of effort into education and advocacy to help explain rights and obligations, and we are focusing on high-risk sectors to support their understanding of the law. We see the need for user-friendly guidance to help business and workers understand and comply with the laws we enforce.

Supporting legislative change

There has been some significant legislative change in the last year, with more expected in the future. The Commission has been working hard to provide expert input to policy makers and the select committees, as well as developing guidance and information sheets for businesses and the public, to ensure the new laws deliver maximum benefits.

The consumer law reform, which saw the majority of changes come into effect in June 2014, is the largest change to consumer law in over 20 years. In addition to introducing new provisions to protect consumers, it strengthens our powers to investigate and sanction breaches of the Act. We have created comprehensive materials to inform consumers and other stakeholders about the changes, including our communications campaign 'Know Your Rights', which has been translated into four languages in addition to English.

We have seen the Credit Contracts and Financial Services Law Reform Bill pass. It will take effect next year. We are also working to prepare for the review of the Commerce (Cartels and Other Matters) Amendment Bill and support the review of the Telecommunications Act and the Telecommunications Services Obligations.

These changes are significant and making sure that consumers and businesses understand their rights and obligations is a vital part of gaining the maximum benefits from the changes.

International ranking

We were pleased to receive a fifth-equal ranking, out of 70 countries, in an international comparison of merger review systems, equal to the United States and well ahead of Australia, the United Kingdom, Canada, France and Germany. The Centre for European Law and Economics annual evaluation of merger review systems around the world looks at 16 aspects of performance, including timeliness, transparency, precision, efficiency, resourcing and independence. Our results demonstrate that our merger clearance process compares very favourably on an international basis.

The timeliness of our investigations and processes is important to us. At the same time, we are receiving applications with increasingly complex issues and with significant implications for all parties and for markets overall, so we put a lot of effort into making sure we get it right.

Regulation

Some major milestones were achieved in the regulation area this year, the most significant being the conclusion in the High Court of three years of litigation over our input methodologies.

This decision has provided greater certainty and a clear direction for key elements of the regulatory framework for the future. It means we are now well placed to move forward with the Part 4 regulatory regime, with more regulatory predictability.

In telecommunications, our November 2013 decision on setting cost-based prices for the unbundled bitstream access (UBA) service was challenged by Chorus in the High Court and the Court of Appeal. The Commission was successful in both cases with the High Court upholding our decision and the Court of Appeal dismissing Chorus' appeal.

Activity across all regulated sectors

We released a large number of determinations and reports across all regulated sectors including electricity, gas, airports, telecommunications and dairy.

We achieved another major milestone in setting new information disclosure requirements for Transpower. This was the last regulatory instrument required under Part 4 of the Commerce Act. In the dairy sector, we successfully completed the first statutory review of Fonterra's 2013/14 milk price manual and its 2013/14 base milk price

calculation. In the airports sector, we completed our two remaining reports on the effectiveness of information disclosure regulations for airports.

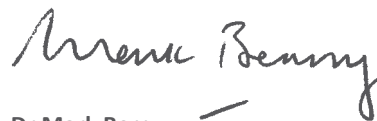
Looking forward to another five years

On a personal note, I am delighted to have had my term as Chairman extended for another five years, and I am equally pleased that our Deputy Chair, Sue Begg, has also had her term extended. We are looking forward to using our next term to continue to build on the Commission's capability and achievements.

We welcome a new Commissioner, Anna Rawlings, who joins us from Minter Ellison Rudd Watts where she was a partner in the dispute resolution division. Anna replaces Anita Mazzoleni, who left us in March. We are grateful for Anita's hard work during her tenure with the Commission.

Change, of course, is constant, and while much of our work is focused on delivering increasing transparency and certainty for consumers and markets, we are also committed to continuing to adapt to meet ever-changing demands. We have a great team, and our focus is to make the most of them, using our resources wisely for the greatest benefit of New Zealanders.

I am proud of what we have achieved in the last 12 months, and in the last five years that I have been Chairman. I am proud of the smart and dedicated people that I work with. And I look forward to the next five years.



Dr Mark Berry
Chairman

Report from our Chief Executive

As we strive to achieve our goal of promoting competition in New Zealand and ensuring the performance of regulated suppliers provides long-term benefits to consumers, we are ever aware that we can only do this with the right people.

A competition agency and regulator is, at its core, essentially its people. Making sure we have the right team for the task has been a key focus for us, and one of our greatest achievements.

We hold an unstinting focus on attracting, developing and retaining high-quality people who share our values. We continue to attract top applicants from their fields from both the public and private sectors. This has allowed us to continue to build a high-calibre team.

Empowering our people

For me, a key indicator that we have got the right people in the role is that we are able to let them get on and do the job. We trust their work and value their contribution. We also recognise the importance of professional development for our employees, so we continue to provide training to help them grow in their roles.

Skilled leaders, an engaged workforce

We recognised early on that one of the most important factors in any employee's engagement is their direct manager. How well you are managed affects your productivity, your willingness to work hard, and how happy you are in your work. This year, we have completed a full management

development programme, and have plans in place to put all of our Tier 3 managers through 360-degree feedback surveys and a coaching programme to develop their leadership skills.

We believe we are seeing results in the employee survey that we use; we moved from middle of the state sector benchmark group three years ago to having the fourth most engaged state sector workforce this year. We have seen an overall improvement in the assessment of the 'person I report to' section of the engagement survey this year, suggesting real improvement in our management team. We are now rolling similar training out to our team leaders to ensure every people manager holds the right skills for the job.

Overall, our annual employee engagement surveys continue to show year-on-year improvement, and we remain committed to learn and improve from them. We create an annual action plan from each survey, with each team identifying priority tasks to improve upon based on survey feedback.

Connecting with our stakeholders

We continue to strive to improve our relationships and connections with stakeholders, listening to them and sharing information in a way that is easy to understand.

We held two stakeholder engagement days, one in Auckland and one in Wellington, this year, and we have increased our analyst briefings to help ensure the sector has the opportunity to understand our decisions. We have also revamped our electronic newsletter (Bulletin) to make it more relevant and easy to read.

We continue our drive for plain English in all our communications, and we are continuing to use the new imagery we introduced in our previous annual report, across all our external communications, to make what we do more accessible.

We held our first and very successful Commerce Commission conference 'Competition Matters' last October, helping to ensure we are engaging not only to advocate, adjudicate and enforce, but also to foster thinking and engage in debate about key issues. We were delighted by the uptake of the conference, which was a sell-out, and have another planned for July 2015.

Continuing to grow and improve

New Zealanders win when competition flourishes. We know that competition is linked with innovation, efficiency, and economic growth. When we are doing our job properly, competition is able to thrive and the country benefits from that.

When competition is limited, consumers may not receive goods and services at the price and quality that may have occurred if the market was competitive. Regulation can help mimic the outcomes seen in competitive markets so that consumers benefit in the long term.

We know that we achieve our outcomes not only by what we do as an organisation, but also by the way we do it. We have worked hard to ensure we have the right environment, tools, support and leadership to enable our people to do their jobs well.

We continue to be open to change, to challenge ourselves to continually review and improve how we do things, and to ensure we continue to achieve a high standard as efficiently as possible.



Brent Alderton
Chief Executive

"New Zealanders win when competition flourishes. We know that competition is linked with innovation, efficiency, and economic growth."



AN OVERVIEW OF THE COMMISSION



Our role

The Commerce Commission is New Zealand's competition authority and regulatory agency. We are responsible for enforcing laws relating to competition, fair trading, and consumer credit contracts, and have regulatory responsibilities in the electricity lines, gas pipelines, telecommunications, dairy and airport sectors. Our purpose is to achieve the best possible outcomes in competitive and regulated markets for the long-term benefit of New Zealanders.

We are an independent Crown entity, with some quasi-judicial functions established under the Commerce Act. We are primarily accountable to the Minister of Commerce for our performance and our outputs are delivered under an Output Agreement with the Minister of Commerce and the Minister for Communications and Information Technology. These outputs are funded through Vote Commerce and Vote Communications.

We work cooperatively with relevant government agencies to ensure that we achieve our goals without duplication or conflict, and we share information and expertise where required. Internationally, we are actively involved with our counterpart agencies through forums such as the Organisation for Economic Co-operation and Development (OECD) and the International Competition Network.

We are not subject to direction from the Government in carrying out our enforcement and regulatory control activities. This independence requires us to be an impartial promoter and enforcer of the law. Where relevant, we use our experience to provide advice on policy development and legislative reviews.



What we do

Competition and consumer

Consumer legislation is designed to help protect the interests of consumers and promote fair competition.

As a competition authority, the Commission enforces, and provides information and guidance on, three key pieces of legislation:

Commerce Act 1986 (Parts 2, 3 and 5)	Fair Trading Act 1986	Credit Contracts and Consumer Finance Act 2003 (CCCF Act)
Prohibits anti-competitive behaviour and acquisitions that substantially lessen competition in markets.	Prohibits false and misleading behaviour by businesses. It also specifies when consumers must be given information about certain products and promotes product safety. The Act was amended in late 2013 to progressively introduce new provisions such as substantiation and unfair contract terms.	Protects the interests of consumers in relation to consumer credit contracts, consumer leases and buyback transactions of land. It includes provisions relating to disclosure and unforeseen hardship, and sets out rules about interest, payments and credit fees. The Act was amended in 2014 to include provisions such as Lender Responsibility Principles and repossession rules. Most new provisions come into effect in June 2015.

Regulation

We play a key role in regulating markets where competition is limited and there is little prospect of future competition. When competition is limited, there is the risk that consumers are overcharged or do not receive the appropriate quality of service they would expect in a competitive market.

As a regulatory agency, the Commission has responsibility under three key pieces of legislation:

Commerce Act 1986 (Part 4)	Telecommunications Act 2001	Dairy Industry Restructuring Act 2001 (DIRA)
Part 4 provides for the regulation of price and quality of goods and services in markets where there is little or no likelihood of a substantial increase in competition. Sectors that are currently subject to the provisions of Part 4 are electricity distribution and transmission, gas pipelines and airport services.	Regulates the supply of Telecommunications services in New Zealand.	Promotes the efficient operation of dairy markets in New Zealand by regulating the activities of Fonterra to ensure New Zealand markets for dairy goods and services are contestable.

Our values

EXCELLENCE

- > We produce excellent work that stands up to scrutiny
- > We continually look for ways to improve
- > We recruit and retain excellent people and support their development

INTEGRITY

- > Our independence inspires the trust and confidence of New Zealanders
- > We are fair, honest and impartial

ACCOUNTABILITY

- > We answer to New Zealanders for the work we do and the money we spend
- > We take individual responsibility to deliver what we say we will

RESPECT

- > We work together, and support and respect each other
- > We value the diversity of people and their opinions

GOOD JUDGEMENT

- > We understand the environment in which we operate and the impact of our actions
- > What we do is relevant and useful
- > We are proactive and flexible and look for common-sense solutions

Year in review

Competition and Consumer

When it comes to protecting consumers, we use the best tools to get the best outcomes. We work hard to educate businesses and consumers on their rights and obligations, and monitor and approve merger clearance applications. When businesses do not comply, we will move to consider more serious action, including negotiated settlements or prosecutions to seek compensation for affected consumers.

Major legislative changes

The long-awaited Consumer Law Reform Bill, passed in December 2013, heralds a major change. It overhauled the Fair Trading Act and extended what is covered, and the Commerce Commission's powers to investigate and sanction breaches of the Act.

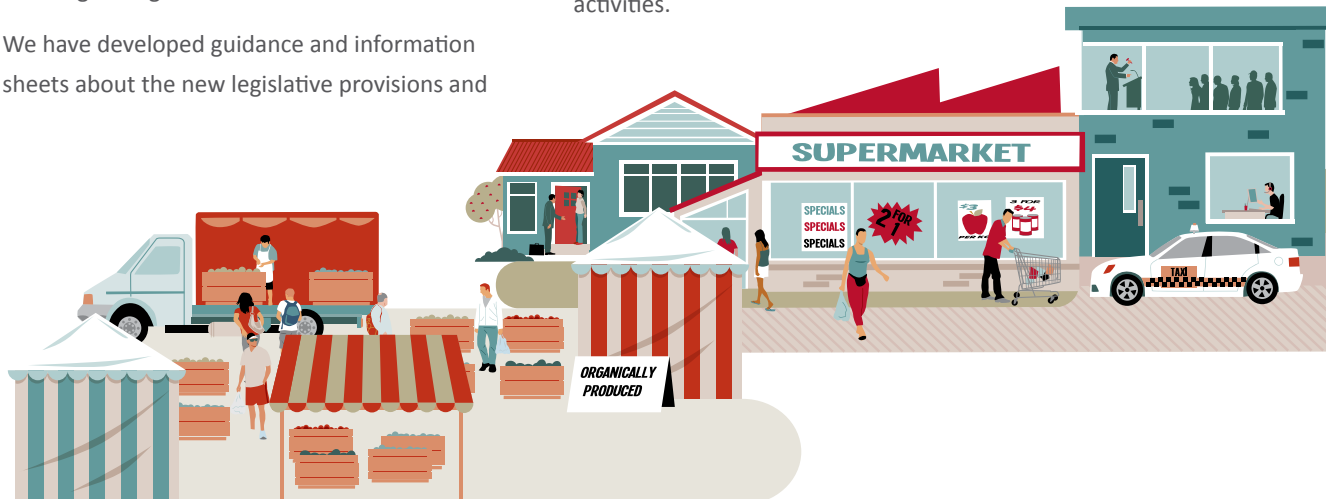
The Commission is already making the most of the modernised legislation and has used new compulsory interview powers to speak to both current and former employees of organisations under investigation. This has improved our timeliness and efficiency as we have spent less time organising interviews.

We have developed guidance and information sheets about the new legislative provisions and

draft guidelines for Unfair Contract Terms were developed and released for public consultation ahead of the introduction of that provision in March 2015.

We were also involved in the Credit Contracts and Financial Services Law Reform Bill, which strengthens consumer protection in relation to credit contracts. The Bill was passed on 6 June 2014 and almost all of its provisions will come into effect on 6 June 2015. We worked with officials to contribute to effective legislation that will ensure consumers are protected, and we continue to work with officials as the Responsible Lending Code is developed.

We are expecting further change to our legislative framework with the Commerce (Cartels and Other Matters) Amendment Bill, which would criminalise cartel conduct. We have been working to ensure we are ready to implement any changes arising from the Bill and to provide guidance for stakeholders. We published draft Competitor Collaboration guidelines for public consultation and met with key external stakeholders (including the shipping industry) to discuss the implications of the provisions in the Bill relating to collaborative activities.



Know your rights

The way we shop has changed a lot over the years, and so have the products and services we are buying. A raft of changes to the Fair Trading Act under a package of consumer law reform came into effect on 17 June 2014. The changes provide new protections to consumers – and the Commission undertook a major work plan to ensure it achieved the maximum effect.

Aimed at better reflecting the commercial, and often digital, world New Zealanders operate in, the Fair Trading Act now extends to online buying and selling. The reform also includes changes to laws relating to extended warranties, unsolicited goods and services, unsubstantiated claims and both door-to-door and telemarketing sales.

It provides the Commission with some new tools such as compulsory interview powers, product safety monitoring and enforcement powers, management banning orders, and increased fines, with some penalties more than tripling.



We have undertaken a detailed communication campaign to ensure consumers are aware of the changes. As part of this we developed a major communications campaign 'Know your Rights' which included a website www.knowyourrights.co.nz and a series of fact sheets. The fact sheets and brochure have been translated into Māori, Samoan, Tongan and Chinese. We worked with businesses throughout the process to provide guidance and ensure they understand their obligations under the new law.

Advocacy

Businesses that understand the law are more likely to comply with it, so we put a lot of effort into helping both businesses and consumers to understand the laws we enforce and their obligations and rights.

We produced 25 fact sheets and guidelines including 14 relating to consumer law reform, held regular meetings with industry groups, and contributed to industry publications. Publicising and explaining our enforcement decisions and determinations also helps improve public understanding of our approach.

We have stepped up our early intervention to try to stop harm as early as possible. For example, we issued a media release warning consumers to be aware of a particular penny auction site that we had received a number of complaints about. The release received solid media pick up, and since then we have received no additional complaints.

With finite resources, we focus our efforts where we can have the greatest impact. We target our education and advocacy efforts at specific high-risk industry sectors where we see emerging issues or have on-going concerns. This allows us to prioritise our efforts to where there is the greatest opportunity to improve compliance and minimise harm to consumers.

In the past year, we have continued to provide significant support to the construction sector, a sector we have focused on since 2010. Construction is a growing area, and one that can be subject to anti-competitive behaviour (see case study). We also built up our health sector advocacy, publishing six fact sheets for health professionals to increase awareness about competition and consumer law risks. We maintained our focus on the telecommunications sector from a consumer protection perspective, and noted increased compliance from the sector.

In the area of credit advocacy, we have continued our programme of lower-tier lender visits to check lenders are complying with their disclosure obligations. We have translated our guidance materials on the CCCF Act into Māori, Samoan, Tongan and Chinese and worked on guidance for lawyers that provide

advice on buy-back schemes under the CCCF Act. We have also appointed a dedicated credit advocacy adviser, whose role is to help us connect with vulnerable communities, gather information and develop strong connections with non-governmental organisations and other consumer stakeholders.

Construction sector microsite

As the country entered what might be the largest construction boom in 40 years, the Commerce Commission launched a new website to help the construction industry better understand competition and consumer laws.

The Commission had been working with the sector for several years, and saw the need for a user-friendly guide to help businesses and workers understand and comply with the laws.

Overseas experience shows the construction sector is particularly susceptible to cartel, or price-fixing behaviour, mainly because of the way the markets are structured. We knew the earthquakes in Canterbury also provide further opportunity for anti-competitive behaviour, as it has been shown internationally that natural disasters often bring a rise in cases of fraud, corruption, and anti-competitive practices (eg, price fixing, bid rigging, and market sharing).

With New Zealand's construction sector booming, both as a result of the Canterbury rebuild and the high levels of activity in Auckland, the Commission hopes the website will help improve awareness and compliance. We tried to make the language on the website easy to understand, with lots of examples to make the concepts more relevant.



Investigations and enforcement

Our education and advocacy approach goes hand-in-hand with a clear and firm response to breaches of the law. Our focus is on stopping harmful behaviour, dealing with it appropriately, and seeking redress for consumers where we can.

This year we received over 6,000 enquiries in the competition and consumer areas. Enquiries that indicate possible breaches are assessed against our published enforcement criteria.

Our prosecutions and enforcement action resulted in total penalties of \$9.3 million and compensation for affected consumers of \$5.1 million.

The Commission continues to prioritise conduct that targets vulnerable consumers. We brought a prosecution against three people who were

convicted and ordered to pay \$140,000 for promoting a pyramid selling scheme in South Auckland. In another case, a vehicle finance company was prosecuted for misleading claims about the repossession of cars used as security for its loans. The Love Springs case involved a company selling water filters door-to-door to people in disadvantaged areas telling them local drinking water could cause cancer and have a bad effect on their health. After preying on their fears, the company then sold its water filters at a cost of \$1,600 each. The Commission took Love Springs and its director to court, and fines of \$555,000 were imposed. After initially appealing, both the director and the company have subsequently withdrawn their appeal (as at 12 September 2014). Finance company Tiny Terms was fined \$77,200 for its part in the sale of the water filters by Love

Springs. These cases send a very clear message to traders to think carefully about the promotional claims they make.

We resolved the Sky Television investigation, issuing Sky with a warning letter for historical breaches of section 27 of the Commerce Act. We continue to monitor Sky's contracts and conduct.

In the fair trading area we resolved a wide variety of cases including shill bidding during the sale of cars on the Trade Me website, misleading environmental claims, falsely labelled goods, misleading country of origin claims and selling unnecessary warranties.

In one environmental claim case we took prosecutions against two companies (Pacrite Industries Limited and Eco-Pal Ltd) for misleading claims about plastic rubbish bags. Both companies' advertising stated or implied that their bags were environmentally friendly, when in fact the bags were not markedly better for the environment than conventional bags. The two companies were fined a total of \$90,000 for the breaches of the Fair Trading Act.

There was an unprecedented number of appeals in the fair trading area during the year. Eight appeals related to convictions for false claims about the origin of imported alpaca goods and the composition of alpaca or merino wool duvets. These appeals were dismissed in August 2014. The parties involved were Hyeon Company, Premium Alpaca NZ, Duvet 2000, and JM Wool, and four directors.

In the credit area we issued stop now letters to finance companies repossessing, or asserting a right to repossess, consumer goods where the applicable

loan contracts did not provide them with a right to do so. The Commission also settled with Baycorp in relation to practices that may have been in breach of the company's obligations under the Credit Repossession Act. As a result, over \$4 million was credited to customer accounts or refunded.

The High Court's endorsement of our decision that the fees charged by MTF Sportzone were excessive has provided clarity around provisions for charging fees under the CCCF Act. The decision has been appealed, with the Court of Appeal hearing set down for 19 and 20 November 2014. Once this is finalised we will undertake some work with the finance industry about the law including the new amendment acts.

Sonia Klair, a company director of NZ Look Ltd, pleaded guilty to 64 charges relating to false billing practices (pro-forma invoicing) in the first case the Commission has ever brought under the Crimes Act. On appeal her home detention sentence was reduced from 10 months to 5 months.

We announced our intention to file proceedings against ANZ, ASB and Westpac in relation to the marketing and sale of interest rate swaps to rural customers.

This enforcement activity provides a strong reminder to businesses of their obligations, and can also provide more clarity about the law.

Our publication of new Criminal Prosecution Guidelines, as part of our revised Enforcement Response Guidelines (ERG), also provides more clarity to the circumstances in which the Commission will initiate a criminal prosecution.



Focusing on priority sectors

The Commission continued to prioritise both proactive and reactive work in the telecommunications industry. Regular meetings with traders to review complaints the Commission has received about them have been held. Complaints to the Commission under the Fair Trading Act about the telecommunications industry have fallen significantly this year.

Two historic matters have been concluded this year. Slingshot was fined \$250,000 for marketing practices that breached the Fair Trading Act either by misleading customers about the service provided or by switching customers to Slingshot's services without their consent in 2010 and 2011. In another case the Commission settled with Vodafone in relation to the company's promotion of its Broadband Lite service during the 2009–2011 period. As part of that settlement the company paid \$273,519 in compensation to affected consumers.



Cartels

Cartels can lead to higher prices, less choice, lower-quality products and lack of innovation by businesses.

Cartel behaviour remains a focus of our investigation work, coming to our attention either through our cartel leniency programme or through our own detection. We are still seeing an increase in domestic cartel investigations. This is likely due to several factors: our efforts in educating about cartels; the publicity about successful cases; intelligence-gathering efforts by the Commission; and the potential criminalisation of cartel behaviour.

We continue to cooperate closely with overseas competition agencies in relation to international cartels, and agencies are increasingly using waivers to coordinate and exchange information about international investigations.

A number of large cartel cases concluded this last year, and we achieved \$8.6 million in penalties in total. The freight forwarding case concluded in the High Court, imposing fines of \$3.1 million against Kuehne + Nagel International AG, which was the last of six freight forwarding companies charged with breaches of the Commerce Act in 2007. Total penalties of \$11.95 million were imposed over the life of the case. The trans-Tasman cardboard packaging proceedings involving a cartel between Visy Board Pty Ltd and Amcor Ltd were also

completed, with Amcor being ordered to pay a penalty of \$60,000 and costs of \$38,352. Carter Holt Harvey was fined \$1.85 million for price fixing with Fletcher Distribution Limited in the Auckland commercial timber market. A former manager, Dean Dodds, was fined \$5,000 for his involvement.

Cases like these are a reminder to companies that it is important to have effective compliance programmes in place to help identify and prevent anti-competitive behaviour, and send a strong message that we will not hesitate to take action to protect the interests of New Zealand consumers.

Mergers and acquisitions

In the 2013/14 year we received 15 merger clearance applications, the highest number of applications we have received since 2007/08. This may reflect an increased confidence in the economy. We completed the processing of 13 applications, three of which concerned international mergers, and we continue to liaise with overseas competition agencies in those cases.

We also started a programme to analyse cleared mergers to evaluate our assessment of the likely state of competition after the merger. The purpose of this research is not to determine whether the merger clearance decision was correct – which would be challenging given the myriad of forces that can affect market outcomes – but rather

to evaluate the strength and accuracy of the Commission's prediction's in regard to specific market outcomes, such as the likelihood of entry.

We will carry out these evaluations every year to look at whether there are factors we systematically get wrong or right and ensure we continue to improve. This programme does not replace

the Commission's more detailed case studies. Such detailed studies are still to be undertaken if suitable cases are identified and resourcing is available.

We also published new Mergers and Acquisitions Guidelines and new Authorisations Guidelines during the year.

New risk-based approach in our intelligence unit

The Commission put in place a new risk-based approach in our intelligence unit to target high-risk sectors and those who cause the greatest harm to consumers.

The unit is collecting data from a wide range of sources and putting that together with the Commission's information to develop an evidence-based assessment of consumer harm in New Zealand. Each year this assessment will identify the sectors, industries and traders that are causing consumer harm through non-compliance. It will allow us to focus our limited resources on areas where we can have maximum impact, and protect vulnerable and disadvantaged consumers.

The assessment is not about finding matters to investigate and prosecute; it is about taking a holistic approach to prioritising our work. We will use the assessment as a planning tool to align our work programmes – improve screening and case selection, offer greater education and advocacy in those areas of most need. We may choose to use existing tools, including prosecution, or be required to design new interventions to ensure we have the necessary impact.

Using this new approach, our Major Trader programme will be overhauled to address the small number of traders causing a disproportionate level of harm. These are usually large companies, who by the nature of their size generate a lot of complaints, and potentially, a lot of consumer harm.

The top 25 traders complained about last year represent 25% of Fair Trading Act complaints. That is significant, given that we received complaints about 1,600 traders in the last year. The intelligence unit will also look at creating communities of interest to discuss the findings and help develop a shared knowledge to enable organisations to work collectively to address problems.

The unit has already collected information from nine organisations, including the Ministry of Business, Innovation and Employment, the Insurance and Savings Ombudsman, the Banking Ombudsman, Financial Services Complaints Limited, and Consumer NZ.

While this work has only just begun, our goal over coming years is to be offering a country-wide assessment of consumer harm.



International engagement

We actively participated in the OECD Competition Committee, the International Competition Network and the International Consumer Protection Enforcement Network. We presented at key competition and regulatory overseas events,

such as the ABA Antitrust Conference in Beijing. We regularly held discussions with key agencies on areas of mutual interest.

We have made contributions to several international publications such as the Global Competition Review's *Asia-Pacific Antitrust Review*.

We have published guidance on our website on how we deal with overseas requests for compulsorily acquired information and investigative assistance. Our close and productive relationship with the Australian Competition and Consumer Commission (ACCC) is further strengthened with legislative change that allows us to share compulsorily acquired information with the ACCC and assist one another with investigations.

Capacity building included a secondment to the Cook Islands Ministry of Consumer Affairs to provide assistance on the application of their consumer protection legislation.

We continue to work with the ACCC and the Ministry of Foreign Affairs and Trade to help with capacity-building initiatives for the Association of Southeast Asian Nations countries.

Use of our cooperation powers

We obtained permission from the ACCC to inspect protected information under section 155AAA of the Australian Competition and Consumer Act. This related to a cartel investigation into potential breaches of sections 27 and 30 of the Commerce Act. The ACCC undertook a very similar investigation, which resulted in legal proceedings being issued.

Regulation

We have continued to focus on achieving regulation that is better targeted and more effective across the sectors we have regulatory oversight for.

Electricity, Gas and Airports (Part 4)

Input methodologies

We achieved several milestones on the path towards greater regulatory predictability under Part 4 of the Commerce Act this year, and now have all the

regulatory instruments fully in place. This includes input methodologies, price-quality paths, and information disclosure requirements.

In December 2013 the High Court ended three years of litigation by ruling in favour of our input methodologies decisions. Input methodologies are set by the Commission to provide regulated sectors with more predictability about how we will measure and monitor the valuation of assets, the treatment of taxation, the allocation of costs, and the cost of capital.

Twelve parties appealed 58 aspects of the methodologies, and the High Court ruled in favour of the Commission's decisions on all but two relatively minor points. The Major Electricity Users Group (MEUG) sought to appeal one point (cost of capital range), but leave was declined by the Court.

The decision brings some relief for the Commission, as the challenges required significant effort that we are now able to direct into other areas. The decision means we are now well placed to move forward with the Part 4 regulatory regime, with greater regulatory predictability.

Weighted average cost of capital

One of the input methodologies is the weighted average cost of capital (WACC) estimate, which is used in the price-quality path and information disclosure regimes for regulated businesses. The WACC estimate is an important part of setting the maximum revenues that Transpower, electricity lines companies and gas pipeline businesses can earn under their price-quality paths.



After stakeholder consultation, in March 2014 we issued a notice of intention to do further work on the WACC (the same cost of capital range point MEUG had sought to appeal). The decision to do this was taken in the context of comments in the merits review judgment from the High Court. These stated that the Commission's 2010 decision, while supported by experts, lacked analytical/empirical support and that the choice of the 75th percentile may therefore be at odds with the objective of Part 4 to limit the ability of suppliers to earn excessive profits. We also received submissions from consumer stakeholders (including major corporates) requesting that we undertake this work.

An extensive stakeholder consultation process was undertaken, with a draft decision being issued in July 2014. A final decision on the WACC percentile is due by November 2014 and will apply to electricity distributors and Transpower from April 2015 and gas pipeline businesses from 2017. Any reduction in the WACC estimate has the potential to have a significant impact, lowering prices to consumers and reducing regulated businesses profits.

Information disclosure requirements and a customised price path

We completed the first customised price path (CPP) for Orion, which was seeking to address the extra costs required for it to invest in repairing damage to the network following the Christchurch earthquakes. In our view this was a good outcome for both Orion and Christchurch consumers, allowing Orion to invest in repairing the network, but minimising the impact on prices for consumers. The final decision allowed Orion to increase prices by up to 8.4% from 1 April 2014. Further annual increases at CPI plus 1% will be allowed until 2019. This is just over half of what Orion had requested.

We achieved another major milestone when we set the information disclosure requirements for Transpower, which was the last regulatory instrument required under Part 4 of the Commerce Act. Under the new requirements, Transpower will publicly disclose information about its investment and innovation, financial performance, pricing and network management. The new requirements mean that people will have access to a comprehensive set of information about how Transpower is performing. We are now on track to set Transpower's individual price-quality path for 2015-2020 during this 2014/15 financial year.



The impact of information disclosure at airports

Wellington, Christchurch and Auckland airports are subject to an information disclosure (ID) regime under Part 4 of the Commerce Act. As part of this the Commission is required to produce a report (known as an s56G Report) on how effectively information disclosure regulation is promoting the purpose of Part 4 in respect of a specified airport service. The final reports for Auckland and Wellington airports were released in the last year. This was the first time the Commission had undertaken s56G Reports, which are a one-off requirement.

As to the effectiveness of ID, the reports showed mixed results. In the case of Auckland the report showed that ID has had a positive influence on the airport's behaviour. In particular, ID has been effective in limiting their ability to extract excessive profits.

In contrast, the reports for Wellington and Christchurch indicated that ID had not limited their ability to extract excessive profits. However, in response to our report, Wellington Airport has said it will review its prices, and Christchurch has indicated a willingness to review its prices during the next price-setting process.

A key measure of service quality for airports is on-going increases in passenger satisfaction. Passenger satisfaction surveys at all three airports this year were good and within targeted levels. Both Auckland and Wellington airports are planning terminal improvements, which may bring increases in passenger satisfaction.

Telecommunications

We set a cost-based price for the unbundled bitstream access (UBA) service in November 2013. We set the price by international benchmarking as required by the Telecommunications Act. The decision was controversial (the benchmarked price is \$10 per line per month less than the prevailing price) but was upheld in the High Court in April 2014 and more recently in the Court of Appeal after challenges by Chorus.

Industry participants have applied to the Commission to calculate prices for UBA and Unbundled Copper Local Loop (UCLL) services using a replacement cost approach. This work is well underway, and we will publish draft decisions for both prices in early December 2014.

In this financial year we also bedded down the rules and procedures for collecting the Telecommunications Development Levy from telecommunications companies, the \$50 million per year funding stream used by the government for improving rural networks, emergency services, and services for the hearing impaired.

Dairy

In the dairy sector, we successfully completed the statutory review of Fonterra's 2013/14 milk price manual and its 2013/14 base milk price calculation. The Commission is required to undertake these two reviews every milk season under the Dairy Industry Restructuring Act. Our reports concluded that the manual was largely consistent with the purpose of the milk monitoring regime, and that Fonterra's calculation of the base milk price calculation largely met the statutory tests.



Building understanding

We are continuing to work to build understanding about how we approach compliance (and non-compliance). We have been clear through our enforcement responses that we expect businesses to comply with their regulatory obligations, but we also want to make it easy for them and to help them understand these obligations.

With every decision we issue, we try to provide ample context and reasoning to help people understand how and why we reached those decisions.

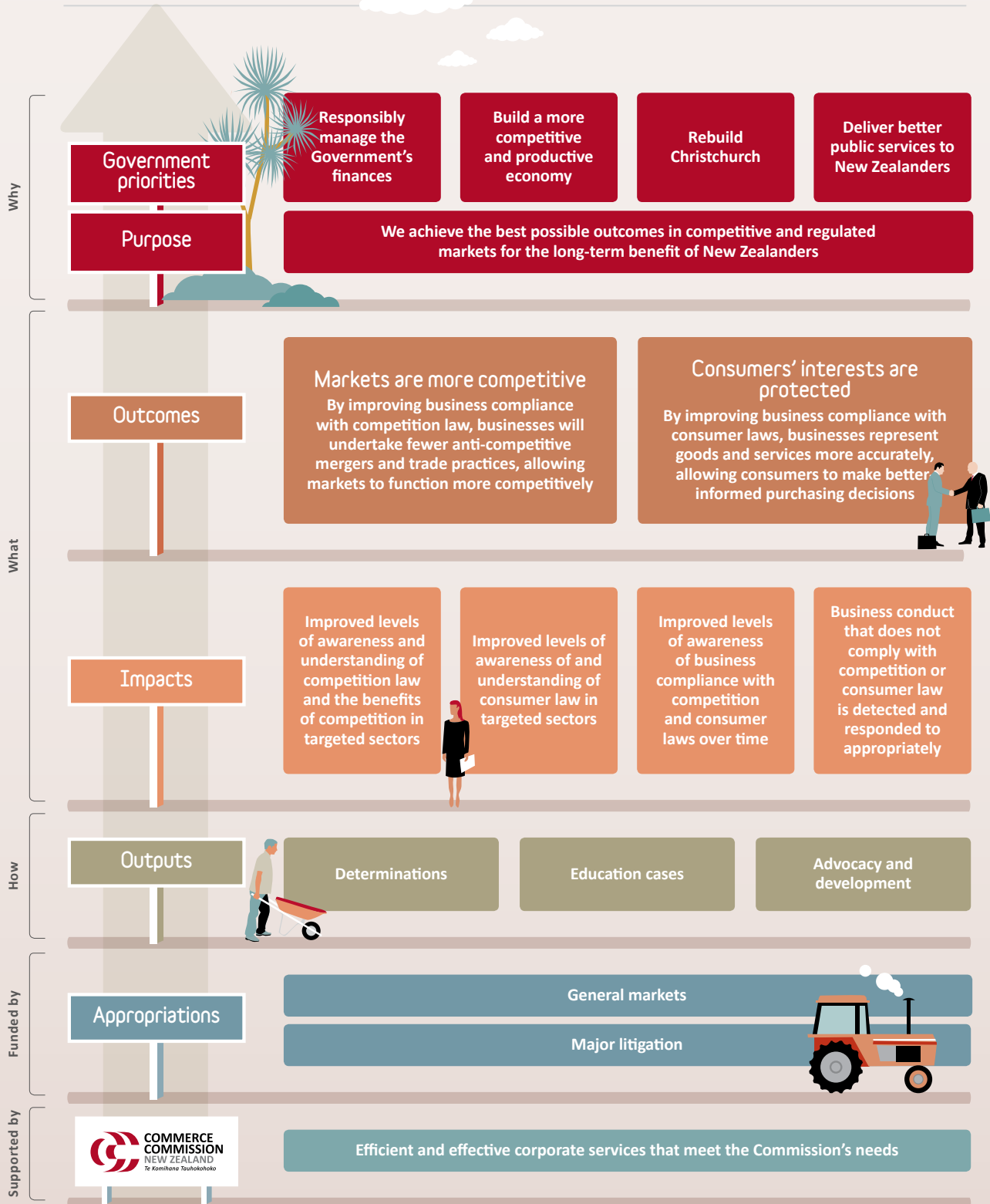
We also run regular workshops for the industry to help people understand their obligations under the information disclosure regime, and provide good quality information. Our stakeholder surveys show this has resulted in increased understanding of the regulatory requirements.



PERFORMANCE



Competition and consumer Strategic framework



*Please note that the strategic framework has been amended for the 2014/15 year as shown in the 2014-2018 Statement of Intent. This annual report sets out our performance against the 2013/14 strategic framework above.

Competition and Consumer

The Commission helps promote competition and helps ensure consumers' interests are protected. We are responsible for administering and enforcing the Commerce Act, the Fair Trading Act and the Credit Contracts and Consumer Finance Act.

Outcomes, impacts and outputs

Within the competition and consumer areas, we aim to achieve two clear outcomes for New Zealanders:

- Markets are more competitive
- Consumers' interests are protected.

These high-level outcomes guide all our work, and we measure four direct impacts of our work, which demonstrate how we are contributing to our outcomes.

- Improved levels of awareness of and understanding of competition law and the benefits of competition in targeted sectors.
- Improved levels of awareness of and understanding of consumer law in targeted sectors.
- Improved levels of business compliance with competition and consumer laws over time.
- Business conduct that does not comply with competition or consumer laws is detected and responded to appropriately.

We measure these impacts using a range of impact measures, listed on pages 27-31.

How do we achieve these impacts?

To deliver on our two outcomes and four impacts, our work in the competition and consumer area is made up of three key areas:

- Determinations
- Advocacy and development
- Enforcement cases.

These three areas cover our day-to-day activities – our outputs. Page 32-34 reports on our output measures for general markets.

How we performed against our statement of intent

Measuring our impacts

We have seven measures to help us understand whether our work meets our impacts, and increases businesses' understanding and awareness of the Acts we enforce.

Outcome 1: Markets are more competitive

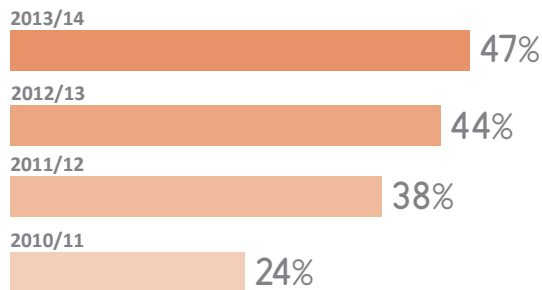
By improving business compliance with competition law, businesses will undertake fewer anti-competitive mergers and trade practices, allowing markets to function more competitively.

Impacts

- Improved levels of business compliance with competitive laws over time
- Improved levels of awareness of and understanding of competition law in targeted sectors

1a. The percentage of businesses that have an active compliance programme under the Commerce Act increases over time.

Target 2013/14: 45%



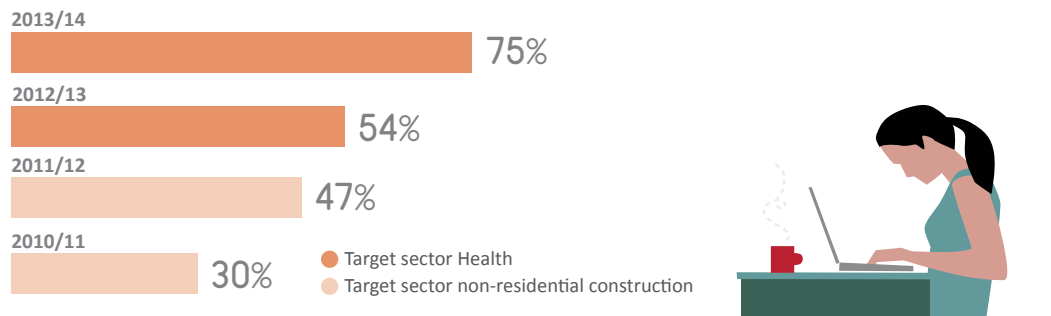
This measure has increased every year since we began measuring in 2010/11, and has almost doubled in that time. This shows that businesses are seeing the importance of having a compliance programme.

When businesses develop compliance programmes and use them to educate their employees, the result is greater knowledge about how to comply and in turn higher levels of compliance.

This is the first year we set a percentage target (45%) rather than aiming for a year-on-year increase and we slightly exceeded it. We sent a survey to 749 businesses and received 128 responses (a 17% response rate). This response rate is too low to be considered a representative sample. We will review the way we conduct this survey to ensure we obtain more meaningful results.

1b. Targeted sector surveys indicate that a higher proportion of businesses are aware of and understand competition law than before the intervention.¹

Target 2013/14: an increase in awareness and understanding in the targeted sector.



Surveying sectors before and after our targeted education and advocacy enables us to measure how successful we have been in improving businesses' awareness and understanding. As we move from one focus sector to another, we can improve awareness and understanding across a range of sectors in the economy.

We target our education and advocacy efforts at specific industry sectors where we see emerging issues or have ongoing areas of concern.

In our follow-up survey, we contacted the same groups as we had surveyed in 2012. The survey was emailed to approximately 2,050 recipients. We had 328 responses in total, or 16%, again a sample that is not representative. Of the 328 responses, 202 were from those with business interests, and 75% of those with business interests who responded were aware that the Commerce Act applies to them, compared with 54% who responded in 2012.

Outcome 2: Consumers' interests are protected

By improving business compliance with consumer laws, businesses will represent goods and services more accurately, allowing consumers to make better-informed purchasing decisions.

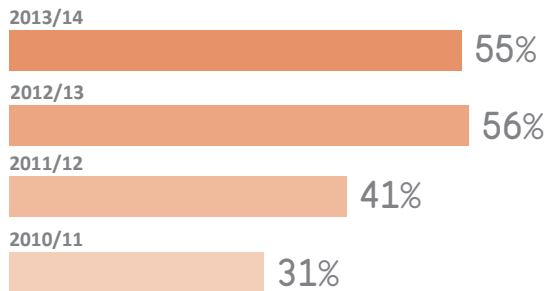
Impacts

- Improved levels of business compliance with consumer laws over time
- Improved levels of awareness of and understanding of consumer laws in targeted sectors
- Business conduct that does not comply with competition or consumer law is detected and responded to appropriately.

1. Interventions include engaging with key stakeholders, presenting to business/industry groups, providing guidelines and fact sheets and placing articles about competition/consumer issues in industry publications.

2a. The percentage of businesses that have an active compliance programme under the Fair Trading Act increases over time.

Target 2013/14: 45%



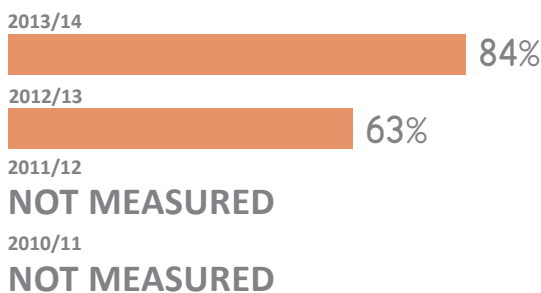
While the percentage has not increased over the last year, this measure has increased significantly since we began measuring in 2010/11, and has almost doubled in that time. This shows that businesses are seeing the importance of having a compliance programme.

When businesses develop compliance programmes and use them to educate their employees, the result is greater knowledge about how to comply and in turn higher levels of compliance and fewer contraventions of the Act.

This is the first year we set a percentage target of (45%) rather than aiming for a year-on-year increase and we exceeded it by 10%. The survey is for businesses with 100 or more employees. We sent the survey to 749 businesses and we had 128 responses (a 17% response rate). This response rate is too low to be considered a representative sample. We will review the way we conduct this survey to ensure we obtain more meaningful results.

2b. Targeted sector surveys indicate that more businesses are aware of and understand consumer law than before the intervention.²

Target 2013/14: *an increase in awareness and understanding in the targeted sector.*



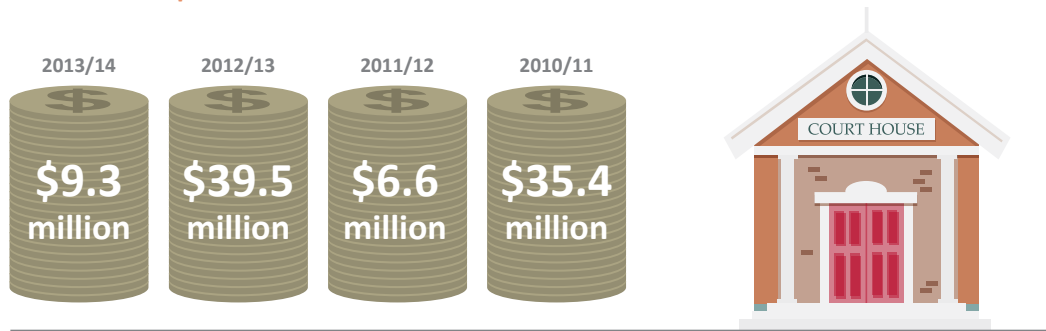
While we had a 21% increase in awareness and understanding in the non-bank lenders sector, only 7% of those surveyed answered the questions that make up this measure. These 21 responses cannot be considered to be a representative sample. We will review the way we conduct this survey to ensure we obtain more meaningful results.

Surveying sectors before and after our targeted education and advocacy enables us to measure how successful we have been in improving businesses' awareness and understanding. As we move from one focus sector to another, we can improve awareness and understanding across a range of sectors in the economy.

We target our education and advocacy efforts at specific industry sectors where we see emerging issues or have ongoing areas of concern.

2. Interventions include engaging with key stakeholders, presenting to business/industry groups, providing guidelines and fact sheets and placing articles about competition/consumer issues in industry publications.

2c. We obtain penalties in court for breaches of the Acts we enforce.

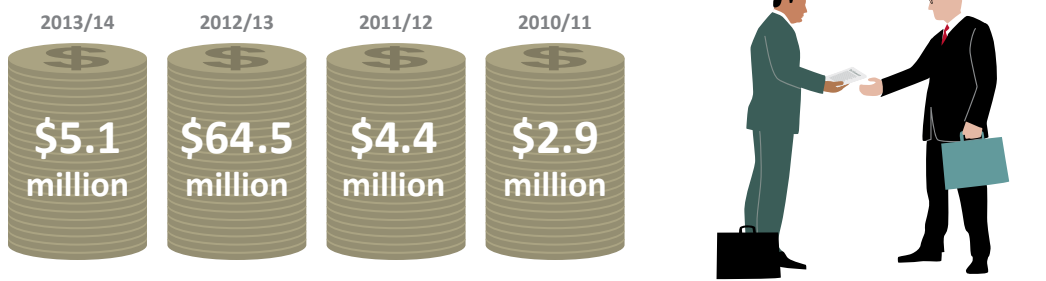


Our education and advocacy approach goes hand-in-hand with a clear and firm response to any breaches of the law. Our focus is on stopping harmful behaviour, dealing with it appropriately, and seeking redress for consumers where we can.

While we have chosen to report the amount of penalties arising from the breaches of Acts we enforce as an indicator for meeting our impacts, we do not set targets, so the amounts we achieve will depend on the cases that come before us and whether we decide to go through the courts.

The total of \$9.3 million is made up of a number of cases. Please refer to our website for further details and a breakdown of each case.

2d. We achieve refunds or compensation for affected consumers either in court or by settlement.

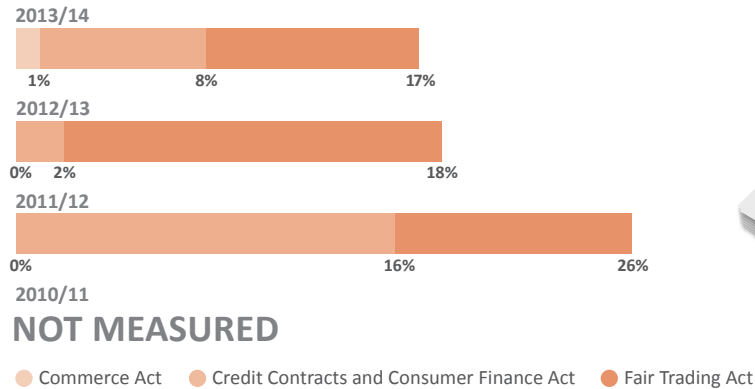


Our approach to this measure is the same as explained above in the penalties measure.

2e. As a result of our interventions, the number of businesses that receive more than one enforcement response decreases over time.³

Targets 2013/14:

Commerce Act 0%. Credit Contracts and Consumer Finance Act 15%. Fair Trading Act 20%.



The Commerce Act calculation includes pharmacies and other parties sent a warning or compliance advice as a result of the 2012 Community Pharmacy Services Agreement (CPSA) 'no discounting' investigation. Because of the large number of pharmacies involved, they account for 8 of the 10 multiple enforcement outcomes. If we exclude these parties from the calculation, then we have two multiple enforcement outcomes out of 45, giving a result of 4% rather than 1%.

This measure helps us understand whether the information we provide through compliance advice, warnings, settlements or prosecutions helps businesses understand the law and comply with it. We seek to decrease the level of repeated enforcement outcomes over time by using the appropriate intervention, and providing the right information to those involved. This will lead to businesses representing goods and services more accurately, allowing consumers to make better-informed purchasing decisions.

3. This measure looks at enforcement responses in the preceding three years. An enforcement response can include compliance advice, warning, settlement or prosecution.

Measuring our outputs

As discussed, our work in the competition and consumer area is made up of three broad categories: Determinations, Enforcement cases and Advocacy.

We measure our work within these outputs in the following tables:

General Markets	2013/14 SOI target	2013/14 Actual	2012/13 Actual	2011/12 Actual
Determinations				
Quantity				
Number of clearance applications processed	10-22	13	9	8
Number of authorisation applications processed	0-4	0	0	3
Quality and timeliness				
Percentage of successful defended determinations appeals over 5 years	100%	100%	100%	100%
Average number of working days from date of registration to date of decision for merger clearance applications	40 days	59.58 days	66.75 days	63.70 days
Average number of working days from date of decision to date of publication of reasons for declined clearance applications	10 days	N/A no declines	25.50 days	N/A no declines

Clearance applications

We had a mix of both reasonably straightforward and more complex clearance applications this year. The more complex cases extend the average working days, these were:

- Telecom spectrum (159 days) a multipart transaction. The first round of the auction was held in October 2013 and the second round of the auction concluded in January 2014. Spectrum assignment options were decided by the Government in May 2014.
- Vodafone spectrum which was withdrawn after 60 days.
- Baxter International / Gambro AB (93 days) – a large global merger that included divestment proposals and required considerable coordination with other jurisdictions.
- Property IQ / Terralink (97 days) – this application concerned a number of different markets and involved complex technical issues.

The average number of working days to reach a decision for all other applications was 39.5 days.

General Markets	2013/14 SOI target	2013/14 Actual	2012/13 Actual	2011/12 Actual
Enforcement cases				
Quantity				
Number of market structure cases	0-5	1	2	3
Number of coordinated behaviour cases	8-14	11	10	9
Number of unilateral conduct cases	2-6	3	1	2
Number of Fair Trading Act cases	300-400	259	412	462
Number of product safety and information standards cases	60-100	68	48	56
Number of CCCF Act cases	40-60	40	47	49
Quality and timeliness				
Percentage of investigations undecided for more than 18 months (at any point during the year)	0%	3%	3%	2%
Percentage of investigations decided within 12 months (Commerce Act, Fair Trading Act, Product Safety and CCCF Act investigations)	90%	91%	95%	Commerce Act: 92% Fair Trading Act, Product Safety and CCCF Act: 98%
Percentage of stakeholders that rate our investigation process as transparent and fair	Target not set	89% ⁴	Baseline to be set	Not measured
Percentage of surveyed businesses that have received a compliance advice or warning letter from the Commission in the last 12 months that report that the Commission's communications and guidance are clear and useful ⁵	95%	70%	84%	95%

4. We sent the survey to 39 businesses and their lawyers who were party to a merger or acquisition application in the last year. We had 10 responses (26% response rate). Of the nine people who rated our openness and transparency, eight considered it good or very good.

5. It is important to note that while our measure refers to clarity and usefulness we question these two measures separately and amalgamate the results. This makes the results more meaningful but there is not necessarily a link between those who rate the clarity highly and those who rate the usefulness highly.

Fair Trading Act cases

Complex cases such as interest rate swaps required significant resource. We are using complaint data and other intelligence to help us understand the areas of greatest risk to consumers and undertaking proactive projects to address those risks, protect consumers, and reduce the number of complaints we receive.

Investigations undecided for more than 18 months

The second half of the year saw an increased focus on timeliness and better resourcing decisions. The results of our work in this area are already showing, with a reduction in investigations undecided for more than 18 months from 5% to 3% in the last four months of the 2013/14 year.

Compliance advice or warning letter

We sent the survey to 1,324 businesses and had 116 responses, a very low response rate. Thirty-one rated the clarity and 30 rated the usefulness, giving an overall result of 70%. Included in the 1,324 businesses were the 994 parties (all New Zealand District Health Boards and all pharmacies in New Zealand, plus the Pharmacy Guild) that received a warning as a result of the 2012 Community Pharmacy Services Agreement (CPSA) 'no discounting' investigation. Pharmacy Brands Limited received a compliance advice letter.

General Markets	2013/14 SOI target	2013/14 Actual	2012/13 Actual	2011/12 Actual
Advocacy and development				
Quantity				
Number of Commission guidelines or fact sheets published	5-20	25	16	20
Number of substantial pieces of advice provided to inform policy design	5-20	8	11	20
Quality and timeliness				
Percentage of stakeholders that find our publications clear and useful	92%	92% ⁶	Not measured	Not measured
Quality measure for all outputs				
Number of successful legal challenges of the Commission's processes	0	0	0	0

6. We sent the survey to 561 people on our consumer law reform and competitor collaboration guidelines databases and received 93 responses (response rate 17%). Of those 93, 80 answered the clarity question and 78 answered the usefulness question.



The following table outlines the income and expenditure relating to the delivery of the general market outputs:

Vote Commerce – enforcement of general market regulation

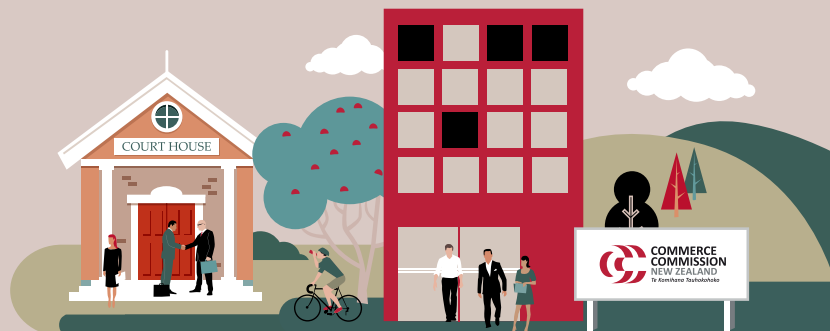
	2013/14 Actual \$000	2013/14 Budget \$000
Income		
Crown revenue	16,435	16,435
Other income	1,572	773
Total income	18,007	17,208
Operating expenditure		
Determinations	2,752	3,558
Enforcement cases	8,497	8,394
Advocacy and development	2,477	2,616
Reports to ministers	24	0
Total general market expenditure	13,750	14,568
Internal major litigation expenditure		
Competitive markets	1,662	2,130
Fair Trading Act	813	593
CCCF Act	200	241
Input methodologies	81	103
Regulation	45	53
Total internal major litigation expenditure	2,801	3,120
Total expenditure	16,551	17,688
SURPLUS/(DEFICIT)	1,456	(480)

The surplus for the General Markets output class was significantly higher than budget.

The output class received higher than expected other revenue, mainly as a result of unbudgeted cost awards received.

Determinations expenditure is demand driven, and overall expenditure over the last few years is significantly greater as the economic recovery has flowed through to increased business merger and collaboration activity. However, because fewer clearance applications were completed than we anticipated when setting our budget, and no authorisation applications were received, there was a significant underspend against budget for this year.

Internal major litigation expenditure was also lower than budget. This was as a result of being able to secure settlements in several cases which reduced the amount of litigation expenditure required.



The following table presents the major litigation income and expenditure for 2013/14:

Vote Commerce - Commerce Commission litigation fund

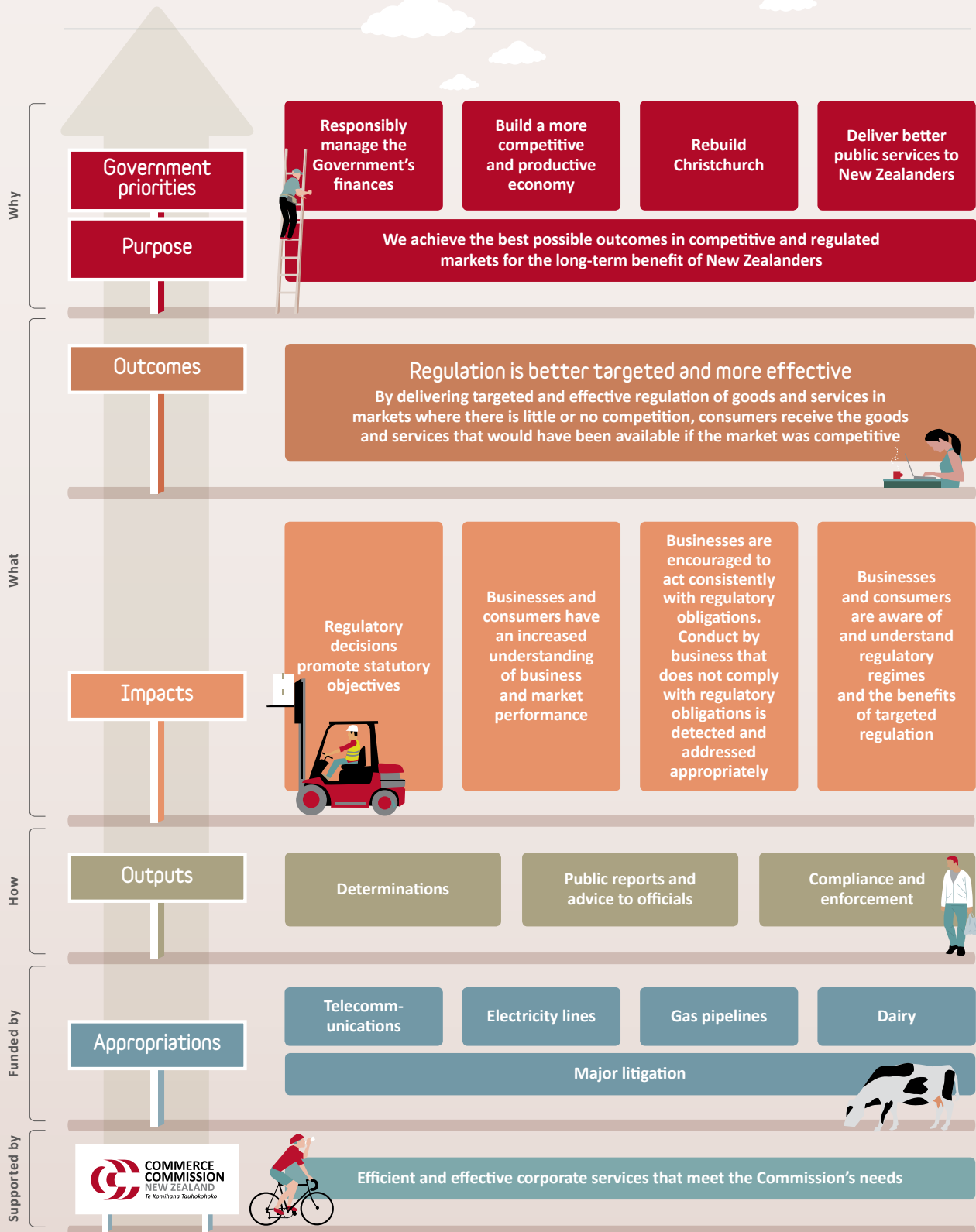
	2013/14 Actual \$000	2013/14 Budget \$000
Income		
Crown revenue	2,671	7,118
Total income	2,671	7,118
Operating expenditure		
Competitive markets	820	4,031
Fair Trading Act	861	760
CCCF Act	133	457
Input methodologies	30	1,020
Regulation	327	350
Total expenditure	2,171	6,618
SURPLUS	500	500

Litigation costs were significantly less than budget as several litigation cases were concluded through settlements rather than lengthy legal processes. These include the cardboard packaging cartel litigation and Kuehne + Nagel in the freight forwarding proceedings.

The High Court judgments in the input methodologies merits appeals resulted in less expenditure than expected.

The Crown revenue for the Litigation Fund includes additional funding (above operating expenditure) of \$0.5 million to establish a litigation cost reserve to manage the impact of adverse costs awards that may be awarded against the Commission in the future. The additional funding will be rolled over to subsequent years until the reserve reaches a cap of \$3.0 million. At 30 June 2014 the balance of the fund was \$2.089 million, with the fund expected to reach a balance of \$3.0 million in 2015/16 (subject to any adverse cost awards reducing the balance of the fund).

Regulation Strategic framework



*Please note that the strategic framework has been amended for the 2014/15 year as shown in the 2014-2018 Statement of Intent. This annual report sets out our performance against the 2013/14 strategic framework above.

Regulation

When competition in a market is limited, consumers may not receive goods and services at the price and quality that may have occurred if the market was competitive. Regulation can help mimic the outcomes seen in competitive markets so that consumers benefit in the long term.

The Commission is responsible for administering regulatory regimes under Part 4 of the Commerce Act (electricity lines, gas pipelines and specified airport services), the Telecommunications Act and the Dairy Industry Restructuring Act.

Electricity lines

Electricity lines services are subject to information disclosure. Non-consumer-owned electricity distribution businesses and Transpower are also subject to default/customised price-quality regulation.

Gas pipelines

Gas pipelines services are subject to information disclosure and default/customised price-quality regulation.

Airports

Auckland, Christchurch and Wellington international airports are subject to information disclosure regulation.

Telecommunications

The Telecommunications Act 2001 regulates the supply of certain telecommunications services in New Zealand.

Dairy

The Dairy Industry Restructuring Act 2001 provides for the disclosure of information and adjudication of disputes of the dairy industry.

Outcomes, impacts and outputs

Within the regulation area, we have one outcome:

- Regulation is better targeted and more effective.

We have identified four impacts we wish to have through our work, to ensure we are achieving our outcome.

- Regulatory decisions promote statutory objectives.
- Businesses and consumers have an increased understanding of business and market performance.
- Businesses are encouraged to act consistently with regulatory obligations. Conduct by businesses that does not comply with regulatory obligations is detected and addressed appropriately.
- Businesses and consumers are aware of and understand regulatory regimes and the benefits of targeted regulation.

We measure these impacts using a range of impact measures, listed on pages 39-47.

How do we achieve these impacts?

To deliver on our outcome and four impacts, we focus our work on three areas:

- Determinations
- Public reports and advice to officials
- Compliance and enforcement.

These three areas cover our day-to-day activities – our outputs. Pages 48-50 reports on our output measures for general markets.

How we performed against our statement of intent

Measuring our impacts

In the regulation area, we have selected 13 measures to help us understand whether our work meets our outcome and the four impacts that we have set out to achieve. These 13 measures are each targeted to one of the four impacts and they apply across all regulated sectors – Telecommunications, Electricity lines, and Gas pipelines, Airports and Dairy.

Outcome 3: Regulation is better targeted and more effective

When we deliver targeted and effective regulation of goods and services in markets where there is little or no competition, consumers receive the goods and services at a price and quality similar to that which would have been available if the market were competitive.

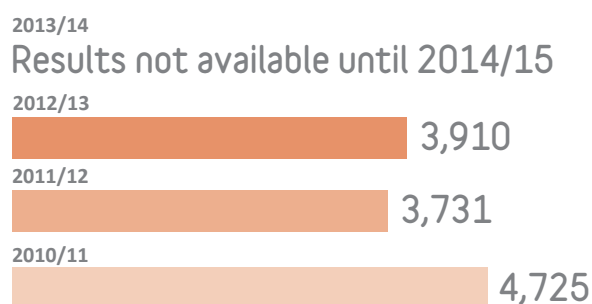
Telecommunications

Impact

→ Regulatory impacts promote statutory objectives.

3a. The fixed telephone retail market concentration by connection as measured by the Herfindahl-Hirschman Index (HHI).

Target 2013/14: *ongoing improvement.*



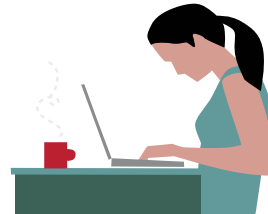
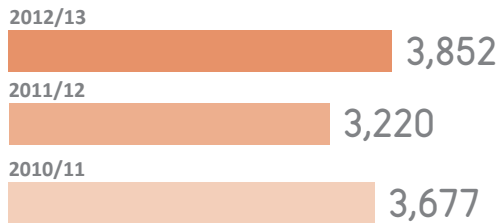
We are responding to our performance for the 2012/13 year, as these results were not available in time for last year's annual report. Market concentration as measured by the HHI is one measure of the level of competition in the market; however it must be viewed in a broader context. The Commission is able to contribute to a competitive market by setting some prices in the wholesale market.

Market consolidation (as represented by an increased score in the HHI) increased in 2012/13 as a result of Vodafone's acquisition of TelstraClear. We are seeing consolidation in the fixed line market, which is a trend worldwide. This consolidation has not, however, had a negative effect on consumers. Our Annual Telecommunications Monitoring Report has found that the telecommunications market is delivering more to consumers in the fixed line market through increased availability of fibre services. The full report can be found on our website.

3b. The fixed broadband line retail market concentration by connection as measured by the HHI.

Target 2013/14: ongoing improvement.

2013/14
Results not available until 2014/15



The retail broadband market is changing rapidly, driven by technology innovation and ultra-fast broadband (UFB). We expect the market concentration will increase again next year as a result of CallPlus purchasing Orcon. Our Annual Telecommunications Monitoring Report shows that industry investment has increased significantly from \$1.24 billion in 2011 to \$1.58 billion in 2013, providing more customers with access to the UFB fibre network.

3c. The fixed mobile retail market concentration by connection as measured by the HHI.

Target 2013/14: ongoing improvement.

2013/14
Results not available until 2014/15

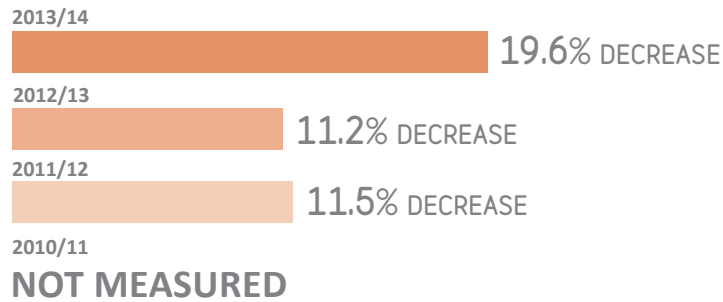


Given there are only three players in the market, market concentration is an important indicator of competition in the mobile retail market. There was a mild decrease in market concentration. Further detail is available in our monitoring report.

Our Annual Telecommunications Monitoring Report shows that spending on telecommunications services is about the same in real terms as it was 10 years ago, yet consumers are getting far more for their money, particularly in the mobile market.

3d. A decrease in the difference in prices between mobile on-net and off-net calls.

Target 2013/14: year-on-year cumulative decrease.



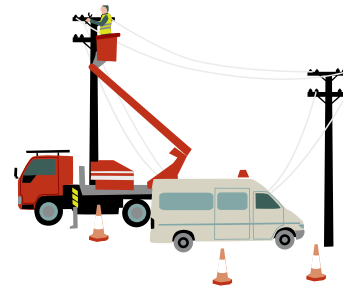
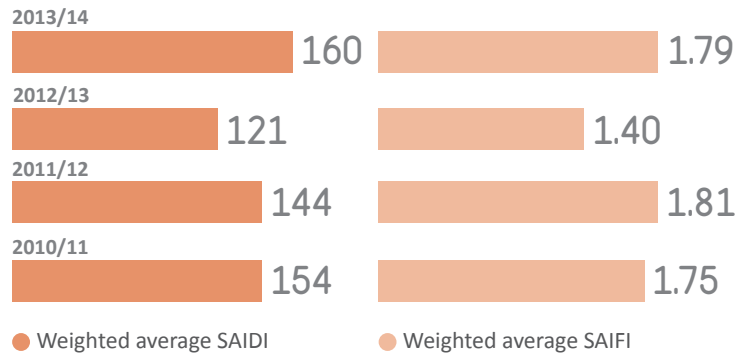
A high differential between on-net and off-net prices was seen as a possible impediment to competition.

In 2013/14, off-net prices fell faster than on-net so they are continuing to converge. This measure has become less relevant and will be removed in the future.

Electricity

3e. No deterioration in the quality of electricity distribution services, for businesses on a default price-quality path (DPP), as indicated by aggregate industry SAIDI and SAIFI measures.

Target 2013/14: aggregate industry SAIDI and SAIFI do not increase.



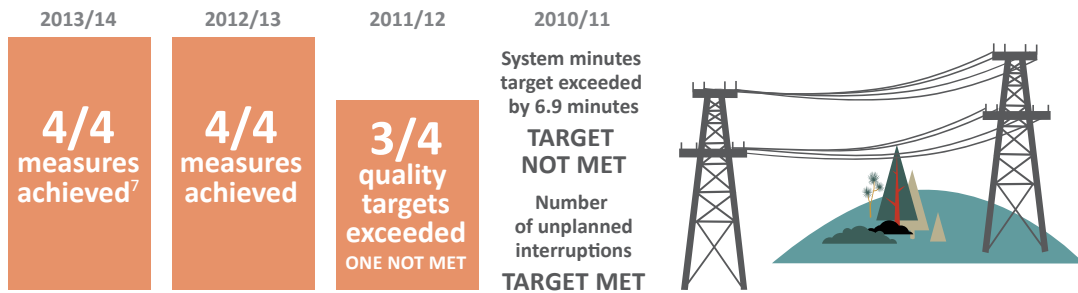
SAIDI and SAIFI are measures of the number and duration of outages. These results show that the aggregate SAIDI and SAIFI performance by electricity distribution businesses (EDBs) got worse in the last financial year.

For 2013/14 we have reported on a different basis from that used in previous years to ensure results are available in time for publication of the annual report. The previously calculated results are as follows:

2012/13	SAIDI: 138	SAIFI: 1.57
2011/12	SAIDI: 190	SAIFI: 2.0
2010/11	SAIDI: 174	SAIFI: 1.92

These results show we have achieved our target for 2012/13.

3f. Transpower meets or exceeds established quality targets as detailed in the Individual Price-Quality Path Determination of 22 December 2010.



Network performance has been relatively stable. With effect from 2015, Transpower’s quality targets will be linked to revenue.

This measure ensures Transpower delivers services at a level of quality that reflects consumer demands, and that it is not incentivised to reduce the quality of its services to improve profits.

Electricity and Gas

3g. Regulated suppliers that do not breach the price-quality path achieve at least normal returns over a regulatory period, but do not achieve excessive profits. Excessive profits exclude above normal returns achieved as a result of efficiency gains.

Limiting excessive profits is important to ensure electricity and gas prices are more reasonable for consumers (eg, businesses and residential customers) while still being sufficient to encourage investment in the network(s).

The Commission is unable to report on this until the end of July 2015. Early evidence for electricity distributors suggests that the target was met; however, we need further data to determine the returns actually earned during the regulatory period.

7. This result is provisional and still subject to external audit.

3h. Airports: suppliers of specified services maintain or improve the quality of services provided to passengers.

Target 2013/14: passenger satisfaction scores are 4 out of 5 or higher.

2013/14	2012/13	2011/12	2010/11
Christchurch Domestic: 4.2/5 International: 4.3/5	Christchurch Domestic: 4.1/5 International: 4.2/5	Christchurch Domestic: 3.9/5 International: 4.1/5	Not measured
Auckland Domestic: 4.0/5 International: 4.1/5	Auckland Domestic: 4.1/5 International: 4.2/5	Auckland Domestic: 4.0/5 International: 4.1/5	
Wellington Domestic: 4.0/5 International: 4.1/5	Wellington Domestic: 4.1/5 International: 4.1/5	Wellington Domestic: 4.1/5 International: 4.0/5	



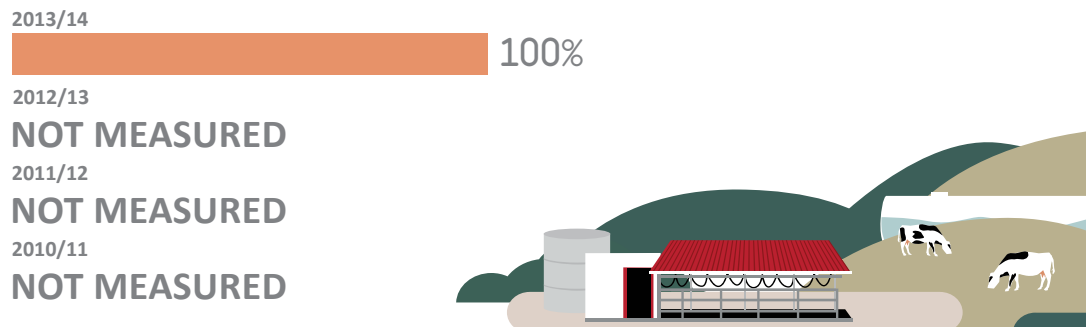
Passenger satisfaction is a key measure of service quality at airports.

These results indicate that passenger satisfaction at all three airports is good and meets the target.

Dairy

3i. Assumptions, inputs and processes identified as inconsistent with the legislative purpose in our review of the base milk price calculation are no longer identified as inconsistent in the following year's review.

Target 2013/14: 100% of material inconsistencies identified in the previous year have been addressed.



A key policy assumption of the Dairy Industry Restructuring Act regime is that Fonterra will respond to any significant negative findings of the Commission's reviews by amending its approach to setting the base milk price so it is consistent with the legislative purpose. Although we cannot require Fonterra to change its approach, we consider it is important to assess whether Fonterra does respond to any findings that its approach is inconsistent with the legislative purpose. If Fonterra does not respond, the regime may not be achieving its intended purpose.

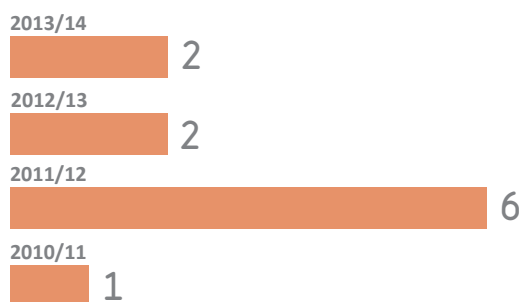
Breaches

Impact

→ Businesses are encouraged to act consistently with regulatory obligations. Conduct by businesses that does not comply with regulatory obligations is detected and addressed appropriately.

3j. Breaches of the regulatory requirements by businesses reduce over time: number of default price path breaches.

Target 2013/14: six (6)



Price-quality regulation is designed to ensure that EDBs have similar incentives and pressures to suppliers operating in competitive markets to innovate, invest and improve their efficiency. It also aims to limit the ability of suppliers to earn excessive profits, while also ensuring that consumer demands on service quality are met.

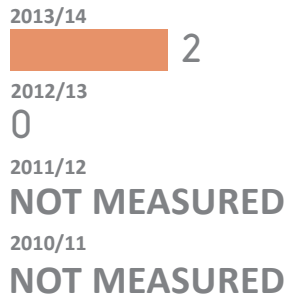
Business may be assessed non-compliant with the price-path and the quality standards.

- In 2013/14 and 2012/13, 2 EDB's were identified as non-compliant with the DPP quality standard. No EDB's for these years were identified as non-compliant with the DPP price-path.
- For 2011/12 in addition to 4 EDB's identified as non-compliant with the DPP quality standard, 2 EDB's were identified as non-compliant with the DPP price-path.

Reducing the level of non-compliance with price-quality regulation over time has a greater likelihood of delivering the desired outcomes to consumers.

3k. Breaches of the regulatory requirements by businesses reduce over time: information disclosure breaches.

Target 2013/14: six (6)



Information disclosure enables interested persons to assess whether the purpose of Part 4 is being met.

Where information disclosed is not consistent with the requirements (breach) the ability for interested persons to perform an accurate assessment of whether the purpose of Part 4 is being met is diminished.

Instances of non-compliance meeting the requirement for being recorded are in line with expectations.

New information disclosure requirements were recently established for electricity distribution and Gas Pipeline services. As this was the first year of assessing against the new requirements, there was an expectation that some EDBs and gas pipeline businesses (GPBs) would not meet their information disclosure obligations.

An increasing trend in identification of non-compliance with the information disclosure requirements can be attributed to two factors; 1) an increase in non-compliance 2) revised assessment practices, which are identifying non-compliance that has occurred historically but has not been addressed.

The current measure is also based on our enforcement response rather than an absolute assessment of compliance, so a trend may reflect our revised approach to responding to non-compliance.

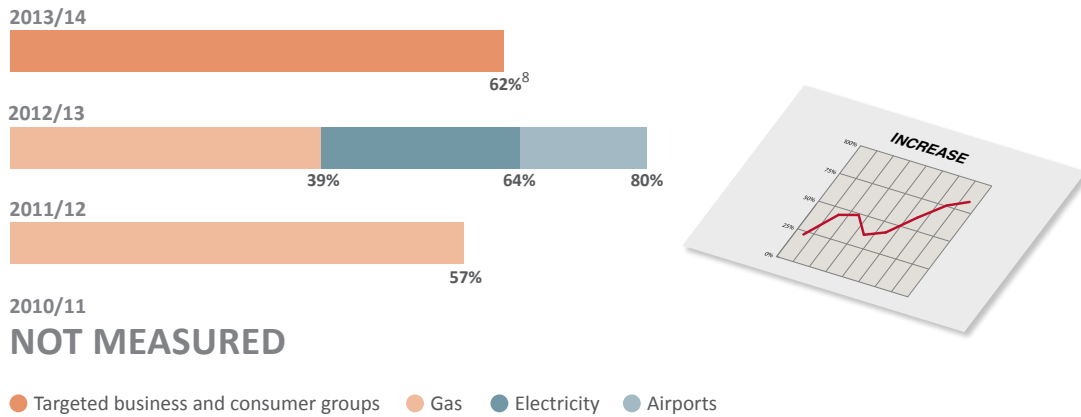
Understanding performance

Impact

→ Business and consumers have an increased understanding of business and market performance.

3I. Understanding of the performance of regulated services by targeted business and consumer groups increases over time.

Target 2013/14: 65%.



The response rate from this survey was very low (19%), meaning that we do not have a representative sample from across the sectors. In total we sent the survey to 240 participants and received 45 responses. We had the following number of participants answer this survey question (broken down by sector): Airports: 3, Dairy: 4, Gas: 11, Electricity: 26, Telecommunications: 13.

8. Because of low response rates for our survey we have not been able to report on individual sector results.

Impact

→ Businesses and consumers are aware of and understand regulatory regimes and the benefits of targeted regulation.

3m. Understanding and awareness by stakeholders, of the regulatory regimes and the benefits of regulation, increases over time.

Target 2013/14: 75%.

2013/14	2012/13	2011/12	2010/11
Percentage of sector stakeholders that correctly identified the forms of regulation that applied to their sectors: 66% ⁹	Percentage of sector stakeholders that correctly identified the forms of regulation that applied to their sectors: Electricity: 83% Gas: 87% Airports: 100%	Percentage of sector stakeholders that correctly identified the forms of regulation that applied to their sectors: Electricity: 73% Gas: 68% Airports: 88%	Not measured
Percentage of sector stakeholders that understood regulation that applied to their sectors: 90% ¹⁰	Percentage of sector stakeholders that understood regulation that applied to their sectors: Electricity: 92% Gas: 78% Airports: 92%		
Percentage of sector stakeholders that understood the benefits of information disclosure regulation that applied to their sectors: 75% ¹¹	Percentage of sector stakeholders that understood the benefits of information disclosure regulation that applied to their sectors: Electricity: 73% Gas: 73% Airports: 92%		
Percentage of sector stakeholders that understood the benefits of price-quality regulation that applied to their sectors: 79% ¹²	Percentage of sector stakeholders that understood the benefits of price-quality regulation that applied to their sectors: Electricity: 85% Gas: 85%		

The response rate from this survey was very low (19%) meaning that we do not have a representative sample from across the sectors. In total we sent the survey to 240 participants and received 45 responses.

9. We had the the following number of participants answer this survey question (broken down by sector): Airports: 3, Dairy: 4, Gas: 12, Electricity: 27, Telecommunications: 15.

10. We had the following number of participants answer this survey question (broken down by sector): Airports: 3, Dairy: 4, Gas: 12, Electricity: 27, Telecommunications: 15.

11. We had the following number of participants answer this survey (broken down by sector): Airports: 3, Dairy: 3, Gas: 11, Electricity: 26, Telecommunications: 15.

12. We had the following number of participants answer this survey (broken down by sector): Airports: 2, Dairy: 3, Gas: 11, Electricity: 26, Telecommunications: 5.

Measuring our outputs

Our work in the regulatory area is made up of three broad categories: Determinations, public reports and advice to officials, and compliance and enforcement.

Our work in each of these three areas is set out in the following tables:

Part 4, Telecommunications and Dairy	2013/14 SOI target	2013/14 Actual	2012/13 Actual	2011/12 Actual
Determinations				
Quantity				
Number of determinations (includes determinations, clarifications, reviews and amendments)	23-53	24	24	31
Quality and timeliness				
Percentage of Part 4 determinations completed by statutory deadlines	100%	100%	100%	100%
Average time to complete telecommunications determinations	10 months	10 months	7 months	5.35 months
Average time taken to complete dairy determinations	120 working days	N/A – no determinations	N/A – no determinations	N/A – no determinations
Percentage of stakeholders who find the Commission determinations and supporting reasons clear	75%	70%	74%	Not measured

Clarity of determinations and supporting reasons

The response rate for this survey was 19% and we only had only 27 responses for this specific question in the survey. This is not a representative sample and may account for why we have not been able to meet the target.

Part 4, Telecommunications and Dairy	2013/14 SOI target	2013/14 Actual	2012/13 Actual	2011/12 Actual
Public reports and advice to officials				
Quantity				
Number of reports completed (monitoring reports, summary and analysis reports, information disclosure reports, ministerial reports)	10-23	12	9	10
Number of substantial pieces of advice provided to officials to inform policy design	4-23	3	6	14
Quality and timeliness				
Percentage of stakeholders who rate our reports as good or above	75%	59%	42%	Not measured
Percentage of reports completed by the set date	100%	100%	100%	100%

Substantial pieces of advice

The target for this measure is demand driven and we had fewer than expected requests by officials this year.

Our reports

The response rate for this survey was 19% and we only had only 32 responses for this specific question in the survey. This is not a representative sample and may account for why we have not been able to meet the target. However, our results this year are significantly improved when compared with the 2012/13 year.

Part 4, Telecommunications and Dairy	2013/14 SOI target	2013/14 Actual	2012/13 Actual	2011/12 Actual
Compliance and enforcement				
Quantity				
Number of compliance assessments completed	61-65	54	69	33
Number of enforcement cases taken	0-6	0	0	1
Quality and timeliness				
Percentage of compliance assessments completed by the set date	100%	95%	90%	60%
Quality measure for all outputs				
Number of successful legal challenges of the Commission's processes	0	0	0	2

Compliance assessments

We deferred work to the next financial year on some less urgent compliance assessments because of the need to prioritise work on price-quality path resets and s56G reviews of the effectiveness of information disclosure for airports.



Consolidated financial output table (all Regulation output classes)

	2013/14 Actual \$000	2013/14 Budget \$000
Income		
Crown revenue	15,823	15,370
Other income	921	399
Total income	16,744	15,769
Operating expenditure		
Determinations	9,069	8,158
Compliance and enforcement	1,611	2,235
Public reports and advice to officials	3,997	4,794
Total expenditure	14,677	15,187
SURPLUS	2,067	582

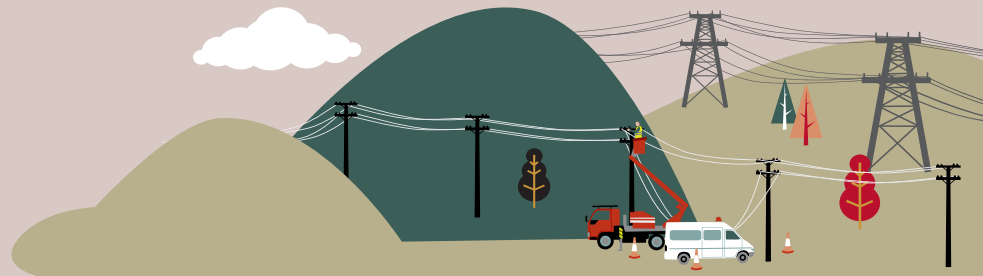


Vote Communications – enforcement of telecommunications sector regulations

	2013/14 Actual \$000	2013/14 Budget \$000
Income		
Crown revenue	6,000	6,000
Other income	100	16
Total income	6,100	6,016
Operating expenditure		
Determinations	2,675	2,832
Compliance and enforcement	276	328
Public reports and advice to officials	1,951	2,335
Total expenditure	4,902	5,495
SURPLUS	1,198	521

Expenditure in the Telecommunications output class was less than budget in all areas.

The majority of the under-spend was a result of less external spend on Telecommunications Service Obligations (TSO) cost determinations and resolutions, broadband testing and trans-Tasman roaming. These savings were partially offset by costs associated with the requests for UBA and UCLL final pricing principles.



Vote Commerce – regulation of electricity lines businesses

	2013/14 Actual \$000	2013/14 Budget \$000
Income		
Crown revenue	6,392	5,939
Other income	811	373
Total income	7,203	6,312
Operating expenditure		
Determinations	5,566	4,389
Compliance and enforcement	1,046	1,252
Public reports and advice to officials	553	656
Total expenditure	7,165	6,297
SURPLUS	38	15

Both income and expenditure for the Electricity output class were higher than budget.

Crown revenue was higher because of additional revenue transferred from the previous financial year. Additional other income was received for assessing Orion’s request for a customised price-quality path (CPP).

Determinations expenditure was higher than budget primarily as a result of the costs incurred in assessing the Orion CPP proposal. Significant costs were also incurred evaluating the Transpower RCP2 individual price-quality path. Higher determinations costs were offset by savings in the compliance and public reports work streams.



Vote Commerce - regulation of natural gas services

	2013/14 Actual \$000	2013/14 Budget \$000
Income		
Crown revenue	1,586	1,586
Other income	5	5
Total income	1,591	1,591
Operating expenditure		
Determinations	702	828
Compliance and enforcement	254	297
Public reports and advice to officials	313	457
Total expenditure	1,269	1,582
SURPLUS	322	9

Gas expenditure was less than budget in all areas.

Determinations expenditure was lower than budget despite additional external costs relating to the input methodologies weighted average cost of capital. There was also less time and cost attributed to the compliance and enforcement and public reports work streams than expected.

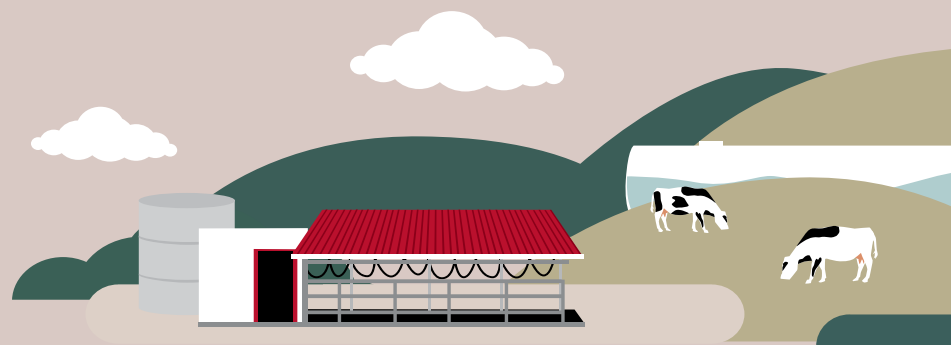


Vote Commerce – regulation of airport services

	2013/14 Actual \$000	2013/14 Budget \$000
Income		
Crown revenue	600	600
Other income	2	2
Total income	602	602
Operating expenditure		
Determinations	126	88
Compliance and enforcement	35	77
Public reports and advice to officials	383	414
Total expenditure	544	579
SURPLUS	58	23

Expenditure in the Airports output class was less than budget.

Determinations expenditure was higher than budget as a result of additional unbudgeted work performed on input methodologies weighted average cost of capital. This was offset by lower expenditure on compliance and enforcement, and on reports about the effectiveness of the information disclosure regulation.



Vote Commerce – enforcement of dairy sector regulation and auditing of milk price setting

	2013/14 Actual \$000	2013/14 Budget \$000
Income		
Crown revenue	1,245	1,245
Other income	3	3
Total income	1,248	1,248
Operating expenditure		
Determinations	0	21
Compliance and enforcement	0	281
Public reports and advice to officials	797	932
Total expenditure	797	1,234
SURPLUS	451	14

Dairy expenditure was significantly below budget.

The majority of the under-spend was due to no determinations or investigations work being required during the financial year. Efficiencies were also made in completing the review of Fonterra’s milk price manual and base milk price calculation.

Organisational capability and health

Last year we refocused our organisational work into three capability themes: people, connect, and efficiency.

We know we can only achieve our goals if we have the right people, leadership and tools to do our jobs, and have a clear focus on how we will connect and communicate, both internally and externally. These three themes provide a clear framework to target improvements in our organisational health and capability to ensure we deliver to the highest standard and with the greatest efficiency we can.

People

To ensure we have the capability to achieve our outcomes, we aim to attract, develop and retain great people.

We run an annual employee engagement survey to gather feedback from our employees and ensure we continue to meet their expectations. Our survey this year demonstrated on-going improvement in our engagement scores. In the survey we use, the Commission's engagement score has improved from 68.8% in 2012, our first survey, to 73.4% in 2014. The public sector agencies using the same survey have had median engagement scores of 69.3% in 2012 declining to 68.1% in 2014. The Commission's engagement score has moved significantly ahead of the public sector median over this period and we are committed to improving this further by working with our employees to identify and respond to opportunities to make the Commission a great place to work. We are continuing to nurture a positive work culture and are investing in ongoing professional development.

All managers completed a manager development programme to ensure consistently high leadership across the organisation. We saw tangible improvements in the 'person I report to' section of our survey, which asked employees to assess their manager's communication, leadership, values and interpersonal skills, demonstrating the value of the programme. We will be offering similar training to our team leaders in the next year.

One of the most pleasing results from our survey was the significant gain (more than 6%) over last year's result for the response to: "this organisation cares about the wellbeing of its people."

Connect

If we want to continue to improve the way we do our job, we need to continue to improve how we connect with stakeholders, and how we share information and knowledge. This was a major focus for the year.

With external engagement, our focus continues to be on advocacy and education for both businesses and the public, and we use targeted sector-specific advocacy where known issues exist. We have continued our regular programme of analysts' meetings and presentations, building transparent and robust consultation processes and maintaining high levels of engagement with market analysts and advisers. We held two major stakeholder events, one in Auckland and one in Wellington, to update our stakeholders on our performance and the areas we are focusing on in the coming months. In addition, we held our inaugural conference *Competition Matters*.

Competition Matters

Last October, the Commission held its inaugural conference, Competition Matters, in Wellington, inviting experts from around the world and locally.

The conference provided an opportunity to share information and debate key topics among the sector.

The event was very well supported largely because of the range of topics on discussion and the quality of the keynote speakers, both domestic and international, who presented over the two days.

The feedback we have received from the delegates who attended confirmed that we got most aspects of the conference right. It also means we have set a benchmark for future events. We plan to hold our next conference in July 2015.

We also undertook extensive consultation to work towards creating a new Te Reo name for the Commission, an important step for us as a New Zealand entity. The new Te Reo name, Te Komihana Tauhokohoko, was introduced in June 2014.

We have continued to build our online tools, our website, e-newsletter and social media presence to provide information where and when people need it. We have maintained our resolute focus on plain English, doing our best to present as simply and clearly as possible the complicated and often technical subjects we deal with. We introduced new imagery to help to tell the story of what we do.

Efficiency

Simplifying our processes and the way we work makes it easier to do business with the Commission and ensures we are delivering value for money services for New Zealanders.

Better public services

We continued to contribute to the Government's priority for better public services by ensuring we take opportunities to use or provide shared services with other agencies where it makes good business sense to do so.

We have adopted many of the initiatives within the Government ICT roadmap and will continue to assess opportunities on a case-by-case basis.

We have been active participants in the all-of-government procurement programme to take advantage of the government's collective purchasing power in areas such as mobile voice and data, external legal services, vehicles, travel management services and air travel.

We have worked cooperatively with other government agencies to ensure we achieve our goals without duplication and to share information and expertise where it is possible to increase value for money for the taxpayer. For example, we entered into a Memorandum of Understanding with the Financial Markets Authority (FMA) to clarify our respective roles in enforcing the Fair Trading Act in the financial sector.

During the Commission's investigation into the marketing and sale of interest rate swaps, we have liaised with the Financial Conduct Authority in the United Kingdom (UK). We wanted to get a better understanding of the circumstances and actions taken by that agency and its predecessor, the Financial Services Authority, in relation to its enquiry and settlement reached with 11 major banks over the selling practices of interest rate hedging products to small business operators in the UK. We also liaised closely with the FMA in New Zealand including sharing information and expertise in our respective investigations, such as undertaking joint visits to interview affected farmers.

We worked with the Commission for Financial Literacy and Retirement Income to promote knowledge of credit law more widely to consumers. We have worked closely with the Electricity Authority and both agencies are making savings from the Commission providing IT services to the Authority including infrastructure hosting and helpdesk services. And as part of our new investigations unit, we are sharing intelligence with other agencies to inform our knowledge of where to focus our resources. In the last year, we used data from the Ministry of Business, Innovation and Employment, FMA, Insurance and Savings Ombudsman, Banking Ombudsman, Financial Dispute Resolution Services, Financial Services Complaints Ltd, New Zealand Federation of Family Budgeting Services and Consumer NZ. We also received information for our risk assessment from ACCC.

Information systems strategy

Our information systems strategic plan (ISSP) provides clarity about what we need from our information systems to support our business and guide our investments. Our investments during 2013/14 have supported improved business processes for managing knowledge and information, and have also focused on ensuring the Commission's information systems infrastructure is robust and will support the evolving needs of our users.

Reducing our administration and support costs

To monitor our efficiency, we benchmark our human resources, finance, procurement, information and communications technology, and corporate and executive services functions and identify strengths and areas for improvement.

We continue to use the Benchmarking Administrative and Support Services (BASS) framework, although we are not one of the agencies directly involved in the programme. We aim to see an ongoing decrease in the percentage of our total organisation running costs spent on administration and support year on year, and to keep the proportion of this spend in line with the median for the BASS small agency cohort.

Being a good employer

We maintain a clear focus on leadership, workforce development, management of people and performance, and engagement with our employees. We have also made the most of the diverse talent pool currently at the Commission by promoting equal employment opportunities (EEO).

To ensure we continue to be a good employer, we have an integrated strategy that includes:

- attracting and retaining capable employees with specialist skills both locally and globally
- providing flexible working arrangements to suit personal needs and circumstances
- completing an annual employee survey to identify areas for improvements
- continuing to reinforce and promote our organisational values
- reviewing and implementing new policies to continue to support our people and culture, and our Code of Conduct and our values
- continuing work in the people leadership area to strengthen leadership capability
- providing opportunities for employees to participate in developing and maintaining a positive, safe, professional and enjoyable workplace.

This table outlines our achievements against the seven key elements of being a good employer, as set out by the New Zealand Human Rights Commission:

Elements	Initiatives
Leadership, Accountability and Culture	<p>We conducted our third annual employee engagement survey in March. This showed an on-going improvement in our engagement score.</p> <p>All managers completed a management development programme.</p> <p>We have developed an EEO programme and Policy which links to our Values</p>
Recruitment, Induction and Selection	<p>We continue to ensure we attract and retain high-calibre people. We are focussed on making strategic hiring decisions to enable us to be well placed for the future. We are working with universities to source talented graduate level employees.</p> <p>We have updated our Induction programme to ensure it meets our current and future needs.</p>
Employee Development, Promotion and Exit	<p>Our learning and development framework continues to support our organisational capability. Our Commission-wide training programme provides development opportunities for all employees. This is supplemented with targeted development programmes for individuals.</p> <p>As part of our capability process, all employees have a development plan which is agreed annually.</p> <p>We have developed a People Leader programme which all team leaders will attend this year.</p> <p>We have created additional career path opportunities for specialist roles.</p>
Flexibility and Work Design	<p>We continue to accommodate and support flexible working arrangements.</p>
Remuneration, Recognition and Conditions	<p>We adhere to the Government's expectations for Pay and Employment Conditions in the State Sector. Our remuneration strategy is reviewed each year to ensure this supports our recruitment and retention strategies.</p>
Harassment and Bullying Prevention	<p>Our Values, together with our Code of Conduct and our Harassment Policy, detail our expected behaviours. We have a zero tolerance of harassment and bullying.</p>
Safe and Healthy Work Environment	<p>We have processes in place that ensure the Commission provides a healthy and safe work environment. Our induction programme, trained health and safety representatives, and ongoing health and safety education programmes ensure all employees are well informed about their health and safety.</p> <p>We have initiatives in place that support wellness in our work place and we are always looking to introduce other options.</p>

Profile of our people

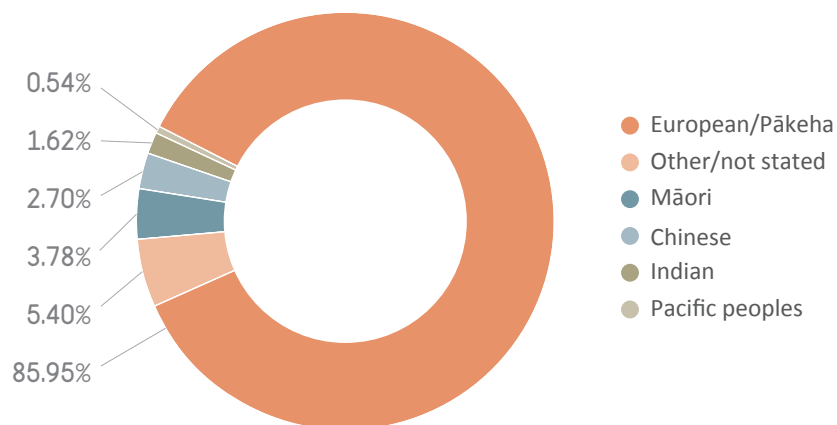
At 30 June 2014

	2013/14	2012/13	2011/12
Number of employees (FTE)	184	173	169
Percentage of employees on flexible working arrangements	11%	14%	11%
Male	55%	54%	50%
Female	45%	46%	50%

Disability profile:

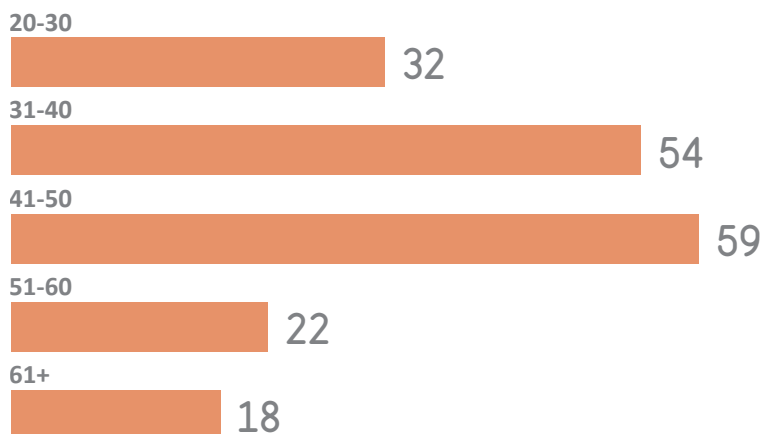
We are currently supporting staff with disabilities and a disability register is held in case of emergency.

Ethnicity profile:

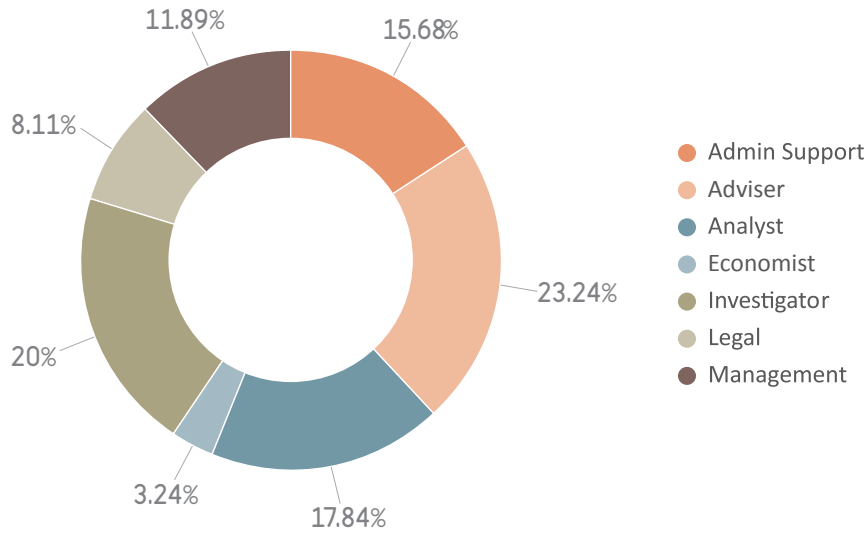


Age profile:

Age groups / Number of employees



Occupation profile:



How we performed against our statement of intent

	2013/14 Actual	2012/13 Actual	2011/12 Actual
Overall level of employee engagement shows an improvement year on year	73.4% SSBM: 68.1%	71.7% SSBM: 68.8%	68.8% SSBM: 69.3%
The percentage of total organisation running costs spent on administrative and support functions decreases year on year	Results not available until 2015	13.7%	13.2%
Employee turnover	13%	15%	16%
The average number of years of experience of our employees	5.3	6	5.2

Our employee engagement score can be evaluated by comparison with the State Sector Benchmark (SSBM) results. The SSBM represents the median score of the public sector agencies that use the same survey as the Commission.

The Commission self-assesses our administrative and support costs annually using the Benchmarking Administrative and Support Services framework. Results are not available until after the annual report is published.

Sustainability

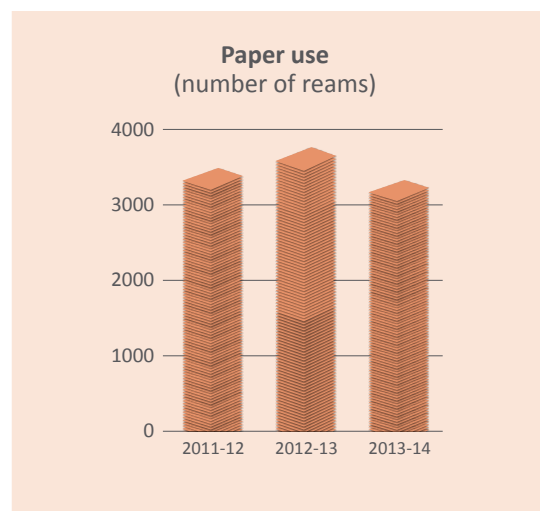
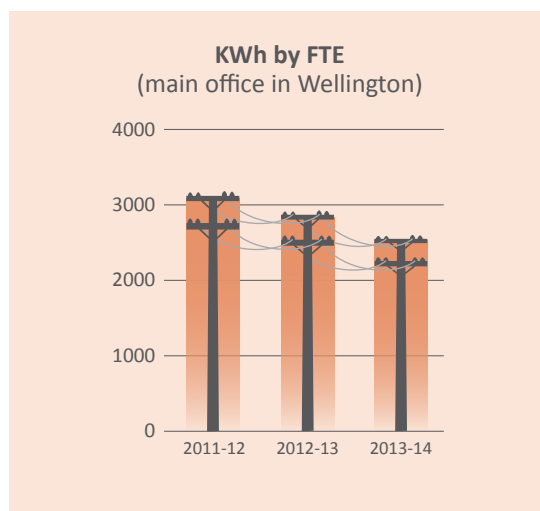
We are committed to sustainability and to minimising our impact on the environment. We have implemented or are planning initiatives with sustainability benefits.

Reducing energy use

We have made changes to the set-up of our after-hours air conditioning system, which works on demand when employees are in the office outside normal hours, but switches off when the building is unoccupied. These changes decreased electricity use by reducing the length of time the system runs once employees have left the premises. We consider energy efficiency when we buy new technology, and we use video conferencing, where possible, to have face-to-face meetings without needing to travel. We have also reduced the energy usage of our information technology infrastructure. We are currently considering our options to reduce electricity use on lighting.

Minimising waste

We choose the eco-option for stationery wherever it is a similar price to others, and we fix equipment where economic rather than replacing it. We are also planning to implement technology that will make it easier for staff and Commissioners to access and review documents online, reducing the need to print documents.



Risk management

Identifying and managing risk is integral to any organisation. We actively manage risk at the Commission to increase the likelihood of achieving our objectives.

Identifying risk

The Board is responsible for reviewing and approving our risk management strategy (framework and policy). The Board regularly reviews and discusses key organisational risks at its meetings. The Divisions of the Board consider risks relating to their area of specialty.

The Audit, Finance and Risk Management Committee reviews the reports of management, external auditors, and any assurance reviews, on the effectiveness of systems for internal control and financial reporting. The committee oversees an internal assurance programme.

Managing risk

The Board delegates day-to-day management of risk to the Chief Executive. This delegation ensures that the day-to-day responsibility for risk management is at the branch level, where risk is seen as part of the overall business process, and a robust framework of identification, evaluation, monitoring and control exists.

Looking to the future

The Commission is in the process of finalising a revised risk management policy, which the Board will consider during the 2014/15 financial year.

Our plans for the next 12 months

Competition and Consumer

A major focus for the next financial year is to protect consumers through advocacy and enforcement, actively deploying the new consumer laws and increasing our work promoting product safety. We will use our enhanced consumer risk assessment to help identify and address priority areas. We have identified major traders to focus on, and will provide them with information and tools to raise levels of compliance.

Other focus areas include:

- continuing to aim to complete current and future investigations and enforcement cases promptly and efficiently
- refreshing our cartel policies, processes and guidance in readiness for criminalisation
- consumer credit – we will continue our programme of lower-tier lender visits and build closer and more effective relationships with agencies that work with people in debt, particularly vulnerable consumers. We will also hold roundtables to build relationships with credit stakeholders – community organisations, government agencies and lenders. These roundtables are designed to increase engagement and develop a community of interest in credit markets. The first was held on 31 July 2014.

Regulation

In the electricity sector we will be focussing on setting incentives for Transpower and electricity distribution businesses for the next five years.

We will set the individual price-quality path for Transpower by the end of the 2014 calendar year. This will include an asset health incentive scheme relating to replacement and refurbishment

expenditure, incentives to promote efficiency, and the introduction of quality performance measures linked to revenue. We will be setting the default price-quality path for electricity distribution businesses. The default price-quality path will put in place incentives to improve energy efficiency and quality. We will also make an important determination in relation to the cost of capital for electricity lines and gas pipelines following on from the merits appeals decision in the High Court. This decision will provide increased certainty for regulated businesses and consumers.

In the airport sector we will review the revised prices set by Wellington International Airport Limited following the release of our report to the Minister of Commerce and the Minister of Transport, on the effectiveness of information disclosure. This will allow us to update our assessment of whether or not Wellington Airport is constrained from achieving excessive profits in its next pricing period.

The major focus in the telecommunications sector will be completing the final pricing principle reviews of the UCLL and UBA services. These decisions will involve ensuring the prices of copper broadband services are aligned with the long run costs. This will be one of the more complex cost modelling exercises the Commission has completed. We will also initiate work on monitoring broadband performance to improve consumers' and internet service providers' understanding of the performance of broadband in New Zealand.

We will provide input into the Government's review of the dairy industry. As part of the Government's review, which must be commenced by 1 June 2015, the Commission may be asked to report on the state of competition in the New Zealand dairy industry.

GOVERNANCE



Board and Commissioner responsibilities

The Governor-General, on the recommendation of the Minister of Commerce, appoints Commission Members for their knowledge of, and experience in, areas relevant to the Commission's responsibilities. The Telecommunications Commissioner is appointed on the recommendation of the Minister for Communications and Information Technology.

The Board and Commissioners exercise a wide range of functions and powers conferred and limited by legislation. The Board, as a governance body, provides high-quality, effective guidance and is required to comply with the Crown Entities Act 2004 and other applicable legislation.

Decision making

The Commission's functions and powers are conferred and limited by legislation. In performing our functions, we have a wide range of formal decision-making powers. The Board makes decisions and determinations that determine or otherwise significantly affect the legal rights, duties and interests of others. This includes formal decisions made by the Board or Commission Division, such as:

- regulating the supply of electricity lines services, gas pipeline services (distribution and transmission) and specified airport services under Part 4 of the Commerce Act
- making determinations in respect of designated access and specified services under the Telecommunications Act
- giving a clearance or authorising a business acquisition or trade practice under the Commerce Act
- reviewing Fonterra's milk price manual and taking enforcement action and issuing determinations to resolve disputes under the Dairy Industry Restructuring Act.

The Board or Commission Division also makes decisions about whether to commence (or discontinue or settle) legal proceedings or to take other action in relation to matters before them.

Governance of the organisation

The Board discharges the functions and requirements of the Commission in several ways, including:

- monitoring the Commission's performance, considering performance improvements, managing risks and planning our strategic direction
- the Chairman establishing sub-groups of the Board (Commission Divisions) that administer and enforce discrete statutes
- using delegations to make our work more efficient, including delegating authority to the Chief Executive
- using advisory committees to the Board, such as the Audit, Finance and Risk Management Committee (AFRM)
- managing any conflicts of interest through robust procedures
- overseeing a broad variety of strategies, policies, processes, systems, frameworks and analytical approaches that help ensure effective decision making
- holding regular Board meetings.

Conflicts of interest

The Commission Board maintains a register of interests. The register ensures Board members are aware of their obligation to declare interests in accordance with the relevant provisions of the Crown Entities Act and reflects recent developments in case law and government policy in relation to the management of conflicts of interest.

Ministerial directions

The Commission acts independently of the Government. This independence requires us to be impartial in our administration and enforcement of the law. We are primarily accountable to the Minister of Commerce for our performance (with the delegation for oversight of the Commerce Commission as ownership minister). Under the Commerce Act and the Telecommunications Act, Ministers can communicate statements of economic policy to the Commission. We are required to have regard to such statements when exercising our statutory functions under the Commerce Act and Schedule 3 of the Telecommunications Act. We are currently required to have regard to statements relating to New Zealand's international commitments in relation to telecommunications.

The Minister for Communications and Information Technology communicated a statement of economic policy from the Government to the Commission in October 2011. The Government economic policy statement relates to the incentives of businesses to invest in ultra-fast broadband infrastructure. The statement was communicated to the Commission under section 19A of the Telecommunications Act.

(New Zealand Gazette, Issue 155: 13 October 2011, p.4440 (New Zealand Department of Internal Affairs)).

The Minister of State Services and the Minister of Finance communicated a direction to complement Procurement Functional Leadership in support of a whole-of-government approach to procurement policy and practice in April 2014. This direction requires the Commission to apply the Government Rules of Sourcing with effect from 1 February 2015. The direction was communicated to the Commission under section 170(2) and 170(2A) of the Crown Entities Act.

(New Zealand Gazette, Issue 65: 19 June 2014, p.1866 (New Zealand Department of Internal Affairs)).

Commission Member profiles

The Board is made up of Commission Members, appointed by the Governor-General on the recommendation of the Minister of Commerce or, in the case of the Telecommunications Commissioner, on the recommendation of the Minister for Communications and Information Technology. Associate Commissioners are appointed by the Minister of Commerce. At least one Commission Member must be a barrister or solicitor

As at 30 June 2014, the Commissioners were: Dr Mark Berry (Chairman), Sue Begg (Deputy Chair), Dr Stephen Gale (Telecommunications Commissioner), Pat Duignan, Elisabeth Welson and Anna Rawlings. Dr Jill Walker is an Associate Commissioner.

There were several changes during the year with Donal Curtin leaving the Commission in July 2013 and Anita Mazzoleni leaving in March 2014. Elisabeth Welson was appointed a Commissioner in August 2013 and Anna Rawlings was appointed Commissioner in June 2014.

Within the period there were also cross-appointments between the Commission and the ACCC – Dr Jill Walker as a member of the ACCC appointed to the Commerce Commission and Dr Mark Berry as an Associate Member of the ACCC.



Dr Mark Berry

Chairman

Dr Mark Berry was appointed Chairman in April 2009 for a term of 18 months; this was extended to five years, expiring in 2014. In April 2014 Mark's term was renewed for a further five years, expiring in March 2019. Mark is a former partner of law firm Bell Gully and former consultant with Chapman Tripp. Mark has been in practice as a barrister sole since 2002 and holds a doctorate from Columbia University, New York. He is a former member of the faculty at Otago University Law School, and is a member of the International Advisory Board at the Institute for Consumer Antitrust Studies at Loyola University Chicago School of Law.



Sue Begg

Deputy Chair

Sue Begg was appointed a Commissioner in June 2009, and in July 2010 the Minister of Commerce announced her appointment as Deputy Chair of the Commerce Commission for a four-year term. She has been reappointed for a further five year term, which expires in June 2019. Sue is an economist. Her previous roles include director of the consultancy company Impetus Group Limited, Vice-President and head of the economic advisory unit of the investment banking division of Credit Suisse First Boston NZ Limited (and its predecessor companies) and manager of the Macroeconomic Policy section at the Treasury.



Pat Duignan

Commissioner

Pat Duignan was appointed in June 2009 as an Associate Commissioner and in June 2010 as a Commissioner. He was reappointed for a further year in July 2014. Pat is an economist and corporate financier. His previous roles include General Manager Finance for Telecom Corporation, Director in the Investment Banking Division of CS First Boston NZ Limited, Treasurer of the New Zealand Debt Management Office, and Director Policy Coordination and Development at the Treasury.



Dr Stephen Gale

Telecommunications Commissioner

Dr Stephen Gale was appointed as the Telecommunications Commissioner in July 2012. Prior to that, he was an Associate Commissioner since July 2010. He has specialised for some years in infrastructure economics and competition proceedings at the infrastructure consulting firm Castalia, and before that at the New Zealand Institute of Economic Research.



Anna Rawlings

Commissioner

Anna Rawlings was appointed a Commissioner in June 2014. She was previously a partner in the dispute resolution division of Minter Ellison Rudd Watts where she specialised in contentious and non-contentious aspects of competition, regulatory and consumer law. Anna holds a BA/LLB (Hons) from the University of Auckland and an LLM from the University of Toronto where her work was focused in law and economics.



Elisabeth Welson

Commissioner

Elisabeth Welson was appointed in September 2012 as Associate Commissioner and as a Commissioner on 19 August 2013. Before joining the Commission, Elisabeth was a senior commercial partner at Simpson Grierson, where she co-led the competition and regulatory group and headed the energy, natural resources and utilities market group. She holds an LLB (Hons) from the University of Auckland and has practised as a Barrister and Solicitor in New Zealand as well as a Solicitor of the Supreme Court of Queensland and Solicitor of the Supreme Court of New South Wales.



Dr Jill Walker

Associate Commissioner

Dr Jill Walker was appointed as Associate Commissioner in November 2010. She is also a Commissioner of the Australian Competition and Consumer Commission and Chair of the International Air Services Commission in Australia. Before joining the ACCC, Jill was a member of the Australian Competition Tribunal and worked as an economic consultant. She holds a Bachelor of Arts in Economics and a PhD in Land Economy from the University of Cambridge. She also holds a Masters degree in Economics from the University of Massachusetts.

The Hon. Sir Bruce Robertson KNZM and Michael Behrens QC are Cease and Desist Commissioners.

In April 2014 Fred Hutchings (FCA) was appointed as our first external Convenor of the Audit, Finance and Risk Management Committee, a role formerly performed by a Commission Member. Fred was a partner with PricewaterhouseCoopers and now holds several governance roles including Chairman of Seeka Kiwifruit Industries Ltd, Chairman of the OAG Audit and Risk Committee, and Chairman of the MFAT Audit and Risk Committee. He is also President of NZICA and Vice President designate of Chartered Accountants Australia and New Zealand.



Pictured left to right: Dr John Hamill, *General Manager Regulation*; Kate Morrison, *General Manager Competition*; Brent Alderton, *Chief Executive*; Geoff Williamson, *General Manager Organisation Performance*.

Senior leadership team profiles

The Chief Executive is responsible for managing the Commission's operations, supported by a senior leadership team. Our employees have a wide range of skills and experience to ensure the organisation's effective functioning, including people with backgrounds in economics, finance, engineering, business and law, and with a mix of both private and public sector experience.

Brent Alderton

Chief Executive

Brent Alderton is the Chief Executive of the Commerce Commission in New Zealand, a role he has held since January 2011. Brent joined the Commission in 2009 and held the role of General Manager Regulation immediately prior to becoming Chief Executive. Before joining the Commission, Brent gained a broad range of business experience in both the private and public sector in New Zealand. This includes a variety of finance, strategy, policy and analysis roles at organisations such as New Zealand Oil and Gas Limited, Deloitte, the Electricity Corporation, the Treasury and the Department of Social Welfare. Brent has a BA (Hons) in Economics and an MA in Political Studies from the University of Otago.

Dr John Hamill

General Manager Regulation

Dr John Hamill has been the General Manager Regulation since January 2011. John had been the Manager for Airports and Input Methodologies in the Regulation Branch for the previous two years. John is an experienced manager with a strong public sector background. He previously worked at the Ministry of Justice and has demonstrable experience in strategy, policy development and organisational/sector performance. John has a PhD in English Literature from Victoria University of Wellington.

Kate Morrison

General Manager Competition

Kate Morrison heads the Competition Branch. She joined the Commission as the first General Manager Enforcement in December 2009. Kate previously had a London-based career in financial services compliance and was Executive Director, Global Head of Compliance for Mergers and Acquisitions, Equity Capital Markets and Global Control Room at ABN AMRO. She also held a similar role at Deutsche Bank. Kate has a law degree, a BA in English Literature from Wellington's Victoria University and a Masters degree in International Economic Law from the University of Edinburgh.

Geoff Williamson

General Manager Organisation Performance

Geoff Williamson joined the Commission in July 2011 and leads the Organisation Performance Branch. Geoff was previously Director Corporate Services at the Tertiary Education Commission and his previous work experience includes Chief Financial Officer at the National Library of New Zealand and a range of roles with Deloitte. Geoff has a BCA from Victoria University of Wellington and a Masters in Public Administration through the Australia and New Zealand School of Government, and is a Chartered Accountant.

FINANCIAL PERFORMANCE



Financial statements overview

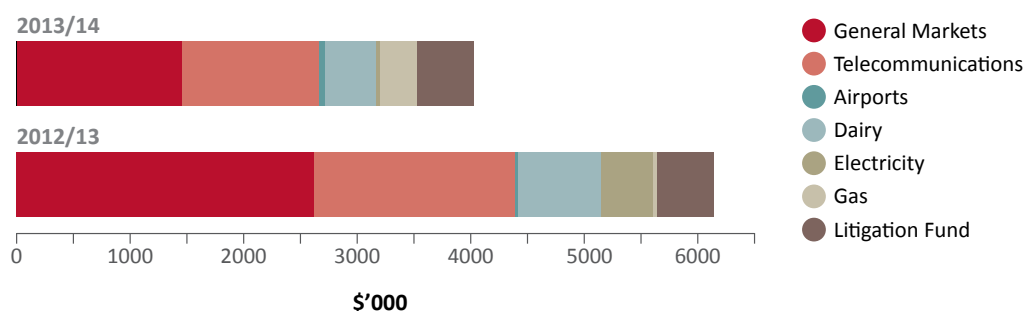
The Commission's financial results and our financial position show that we remain in good financial health, and we continue to operate sustainably. This section provides an overview of our financial statements for the year ended 30 June 2014.

Net surplus

The Commission recorded a net surplus of \$4.0 million for the 2013/14 financial year, compared to a budgeted surplus of \$602,000. Last year, our surplus was \$6.1 million. We explain the \$3.4 million difference between our budgeted and actual results below.

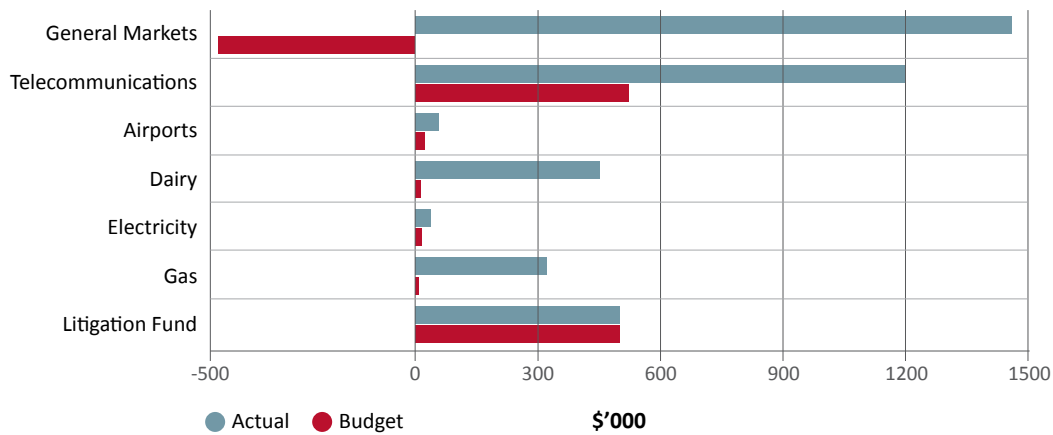
The following graph demonstrates how the surplus for each output class cumulatively adds to the Commission's surplus for the previous and current financial years ended 30 June 2013 and 2014.

Breakdown of surplus by output class



Last year the Commission benefited from several large "one-off" income receipts from cost awards in successful litigation cases which boosted our General Market surplus. In addition, expenditure in General Markets and Telecommunications increased this year despite unchanged Crown revenue, resulting in lower surpluses for these output classes for the year ended 30 June 2014.

Output class surplus compared to Budget



When we compare the Commission’s surplus by output class to the budgeted surplus (or deficit in the case of General Markets), we see which output classes contributed to the surplus for the year when compared to budget. The graph above shows that the most significant contributors were our General Market (\$1.9 million over budget) and Telecommunications (\$677,000 over budget) output classes.

The results for each output class, with tables showing a breakdown of income and expenditure, are discussed in our non-financial performance information on pages 35-36 and 51-56.

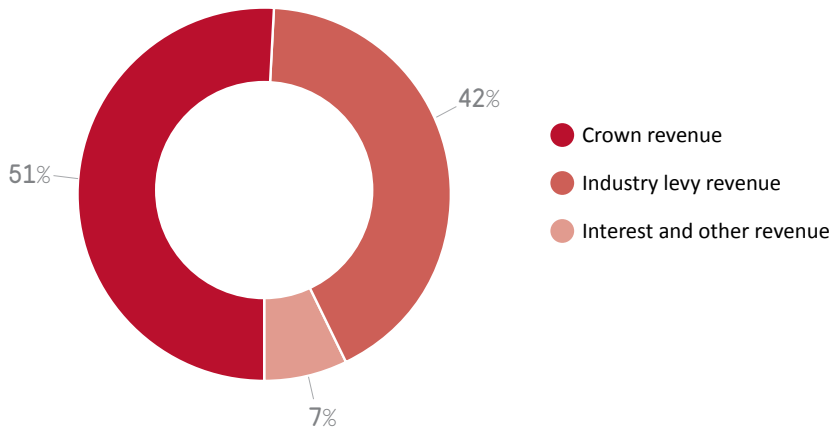
Income

This year our total operating income was \$37.4 million, compared to budgeted income of \$40.1 million. Most of this difference is due to less major litigation activity occurring this year, reducing our Litigation Fund revenue by \$4.5 million. However, we also recorded an additional \$453,000 in Electricity revenue, \$251,000 in interest revenue, \$477,000 of fees and recoveries, and \$593,000 of other income than we budgeted.

Our additional revenue in the Electricity output class came from a one off transfer from 2012/13 to meet the costs of work delayed by processing the Orion customised price-quality path application. The other three of these categories are difficult to budget for by nature, as they are affected by outside factors like interest rates, businesses applying for determinations, or cost awards awarded by the courts in successful litigation cases.

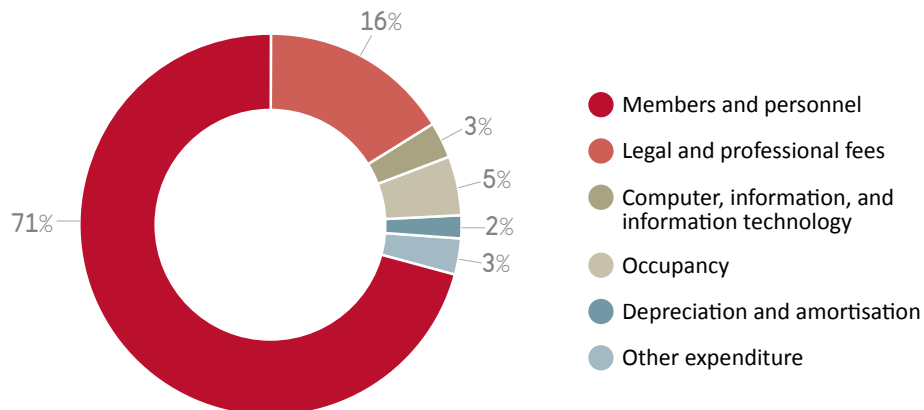
This year we received approximately 51% of our income directly from the Crown, 42% ultimately funded directly by regulated industries through levies, and 7% of our income came from interest revenue, determination applications, and cost recoveries. This differs from our budgeted income breakdown of Crown revenue 59%, industry levy revenue 38%, and interest and other revenue 3%. This demonstrates the effect that peaks and troughs in our litigation programme can have on our income, as well as expenditure.

Income by source



Expenditure

Expenditure breakdown

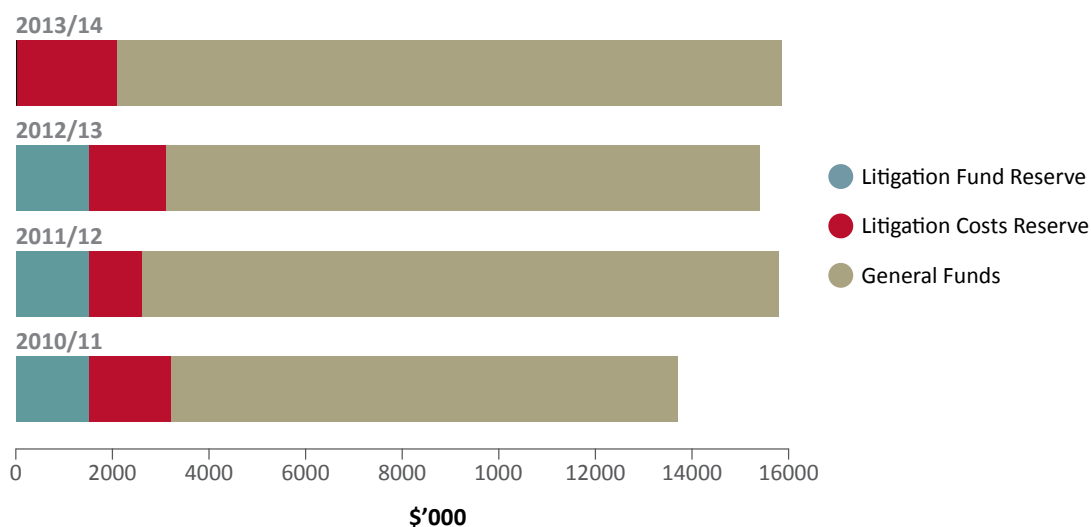


Our expenditure this year of \$33.4 million was \$6.1 million less than budgeted, and \$678,000 less than 2012/13. The largest contributor to both reductions is the effect of a smaller and differently composed litigation programme than we budgeted for 2013/14, and compared to prior years. Litigation fund expenditure falls almost entirely into the legal and other professional fees category, in which we spent \$5.3 million less than budget and \$2.1 million less than in 2012/13. Our expenditure on Commission members and staff was close to our 2013/14 budget. All of our other expenditure groups also came in close to or under budget.

The graph above shows the percentage breakdown of our main items of expenditure for the 2013/14 year. Less expenditure on external legal counsel, while our other expenditure groups were much closer to budget, resulted in legal and other professional fees making up 16% of our total expenditure. Members and personnel expenditure made up 71% of Commission costs for the year, while the remaining 13% of our expenditure for the year included computer and IT costs, office costs, depreciation, amortisation, and other.

Financial position

Commission reserves



The Commission's equity (or reserves) at 30 June 2014 was \$15.9 million, a net increase of \$456,000 from 30 June 2013. This year we repaid a \$1.5 million Litigation Fund reserve held in our equity. This reserve acted as working capital which we used to pay litigation costs until the Crown reimbursed us for these costs. We now receive funding for litigation in advance, based on our forecast of litigation expenditure. Offsetting this return of reserves to the Crown was a further increase of \$500,000 in our Litigation Costs Reserve (for paying cost awards if we lose a major litigation case), and a \$1.5 million surplus in our General Market output class.

We maintain reserves at a level which allows us to manage litigation risks and other financial risks. These risks are diverse, but can involve large unanticipated expenditures in a relatively short timeframe. For instance, if we lose a large multi-party litigation case, we may have to pay large adverse cost awards to the winning parties. Alternatively, we may have to incur unplanned expenditure on a Part 4 inquiry, or a large merger clearance while continuing to deliver our business as usual activities.

We must hold a level of reserves so that we can take cases that may incur significant litigation cost for the long-term benefit of New Zealanders. We regularly review our reserves levels to ensure we hold sufficient funds to manage risks over the medium to long term. As the graph above shows, our reserves have been relatively stable over the last few years in line with our assessed risks. It is not our intention to build up reserves beyond the assessed risk as any excess is returned to the Crown.

Financial statements

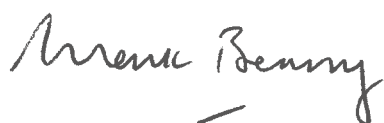
Statement of responsibility

Under the Crown Entities Act 2004, the Board of the Commerce Commission is responsible for the preparation of the Commission's financial statements and statement of service performance, and for the judgements made in them.

The Board of the Commission is also responsible for establishing, and has established, a system of internal controls designed to provide reasonable assurance of the integrity and reliability of the Commission's financial reporting.

In the Board's opinion, these financial statements and the statement of service performance reflect a true and fair view of the financial position, and results of the operations of the Commission, for the year ended 30 June 2014.

Signed on behalf of the Board:



Dr Mark Berry
Chairman – Commerce Commission

16 October 2014



Pat Duignan
Member – Commerce Commission

16 October 2014

Independent auditor's report

To the readers of the Commerce Commission's financial statements and statement of service performance for the year ended 30 June 2014.

The Auditor-General is the auditor of Commerce Commission (the Commission). The Auditor-General has appointed me, Ajay Sharma, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and non-financial performance information of the Commission on her behalf.

We have audited:

- the financial statements of the Commission on pages 83 to 114, that comprise the statement of financial position as at 30 June 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and notes to the financial statements that include accounting policies and other explanatory information; and
- the non-financial performance information of the Commission that comprises the statement of service performance on pages 26 to 56 and the report about outcomes in the tables on pages 27 to 31 and 39 to 47.

Opinion

In our opinion:

- the financial statements of the Commission on pages 83 to 114:
 - > comply with generally accepted accounting practice in New Zealand; and
 - > fairly reflect the Commission's:
 - financial position as at 30 June 2014; and
 - financial performance and cash flows for the year ended on that date.
- the non-financial performance information of the Commission in the tables on pages 27 to 31 and 39 to 47:
 - > complies with generally accepted accounting practice in New Zealand; and
 - > fairly reflects the Commission's service performance and outcomes for the year ended 30 June 2014, including for each class of outputs:
 - its service performance compared with forecasts in the statement of forecast service performance at the start of the financial year; and
 - its actual revenue and output expenses compared with the forecasts in the statement of forecast service performance at the start of the financial year.

Our audit was completed on 16 October 2014. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Commissioners and our responsibilities, and we explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and non-financial performance information are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements and non-financial performance information. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and non-financial performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and non-financial performance information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Commission's financial statements and non-financial performance information that fairly reflect the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Commissioners;
- the appropriateness of the reported non-financial performance information within the Commission's framework for reporting performance;
- the adequacy of all disclosures in the financial statements and non-financial performance information; and
- the overall presentation of the financial statements and non-financial performance information.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and non-financial performance information. Also we did not evaluate the security and controls over the electronic publication of the financial statements and non-financial performance information.

We have obtained all the information and explanations we have required and we believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Commissioners

The Commissioners are responsible for preparing financial statements and non-financial performance information that:

- comply with generally accepted accounting practice in New Zealand;
- fairly reflect the Commission's financial position, financial performance and cash flows; and
- fairly reflect its service performance and outcomes.

The Commissioners are also responsible for such internal control as is determined necessary to enable the preparation of financial statements and non-financial performance information that are free from material misstatement, whether due to fraud or error. The Commissioners are also responsible for the publication of the financial statements and non-financial performance information, whether in printed or electronic form.

The Commissioners' responsibilities arise from the Crown Entities Act 2004.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and non-financial performance information and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and the Crown Entities Act 2004.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

Other than the audit, we have no relationship with or interests in the Commission.



Ajay Sharma

Audit New Zealand

On behalf of the Auditor-General
Wellington, New Zealand

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Financial Statements

Statement of comprehensive income for the year ended 30 June 2014

	Notes	2013/14 Actual \$000	2013/14 Budget \$000	2012/13 Actual \$000
Operating income				
Crown revenue	1	34,929	38,923	37,533
Fees and recoveries		882	405	632
Interest		858	607	787
Other income		753	160	1,269
Total operating income		37,422	40,095	40,221
Operating expenditure				
Members and personnel	2	23,677	23,875	22,289
Legal and other professional fees	3	5,393	10,702	7,465
Computer, information, and information technology		577	602	524
Occupancy	4	1,651	1,677	1,613
Depreciation and amortisation		588	896	663
Other expenditure	5	1,513	1,741	1,523
Total operating expenditure		33,399	39,493	34,077
Surplus/(deficit)		4,023	602	6,144
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		4,023	602	6,144

The accompanying statement of accounting policies and notes to the financial statements on pages 87-114 form part of the financial statements.

Statement of changes in equity

for the year ended 30 June 2014

	2013/14 Actual \$000	2013/14 Budget \$000	2012/13 Actual \$000
Balance at 1 July	15,435	13,202	15,814
Comprehensive income/(loss)			
Surplus/(deficit)	4,023	602	6,144
Total comprehensive income/(loss)	4,023	602	6,144
Transactions with owner			
Return of reserves to the Crown	(1,500)	0	(3,500)
Repayment of surplus to the Crown	(2,067)	(582)	(3,023)
Total transactions with owner	(3,567)	(582)	(6,523)
BALANCE AT 30 JUNE	15,891	13,222	15,435

The accompanying statement of accounting policies and notes to the financial statements on pages 87-114 form part of the financial statements.

Statement of financial position

as at 30 June 2014

	Notes	2013/14 Actual \$000	2013/14 Budget \$000	2012/13 Actual \$000
Equity				
General funds	6	13,802	9,633	12,346
Litigation costs reserve	6	2,089	2,089	1,589
Litigation fund reserve	6	0	1,500	1,500
Total equity		15,891	13,222	15,435
Current assets				
Cash and cash equivalents	7	3,568	6,969	10,310
Fees and recoveries receivable	8	381	95	960
Crown revenue receivable	9	0	3,144	653
Short-term investments		18,500	6,000	12,500
Prepayments		317	110	326
Total current assets		22,766	16,318	24,749
Non-current assets				
Fees and recoveries receivable	8	0	0	100
Property, plant and equipment	10	737	740	900
Intangibles	11	660	1,675	335
Total non-current assets		1,397	2,415	1,335
Total assets		24,163	18,733	26,084
Current liabilities				
Creditors and other payables	12	863	1,404	719
Accrued expenses		1,226	1,538	714
Penalties and cost awards held in trust	13	145	0	3,241
Crown funding to be repaid	14	3,559	582	3,023
Revenue received in advance		0	0	586
Employee entitlements	15	2,216	1,707	2,088
Total current liabilities		8,009	5,231	10,371
Non-current liabilities				
Provision for reinstatement of lease occupancy	16	236	253	236
Other non-current liability		27	27	42
Total non-current liabilities		263	280	278
Total liabilities		8,272	5,511	10,649
NET ASSETS		15,891	13,222	15,435

The accompanying statement of accounting policies and notes to the financial statements on pages 87-114 form part of the financial statements.

Statement of cash flows

for the year ended 30 June 2014

	Notes	2013/14 Actual \$000	2013/14 Budget \$000	2012/13 Actual \$000
Cash flows from operating activities				
Government funding received		36,989	37,769	38,650
Fees and recoveries received		166	565	1,580
Receipts and payment of penalties and cost awards (net)		(1,488)	0	(11,148)
Interest received		809	637	721
Member and employee payments		(23,496)	(24,005)	(22,005)
Supplier payments		(8,579)	(14,650)	(12,216)
Goods and services tax (net)		128	(170)	76
Net cash inflow (outflow) from operating activities	17	4,529	146	(4,342)
Cash flows from investing activities				
Short-term investments receipts/(deposits)		(6,000)	(1,000)	(7,500)
Property, plant and equipment sale proceeds		2	0	0
Property, plant and equipment purchases		(301)	(225)	(208)
Intangible asset purchases		(449)	(1,534)	(271)
Net cash inflow/(outflow) from investing activities		(6,748)	(2,759)	(7,979)
Cash flows from financing activities				
Government funding repaid		(3,023)	(3,218)	(4,798)
Reserves returned to the Crown		(1,500)	0	(3,500)
Net cash inflow/(outflow) from financing activities		(4,523)	(3,218)	(8,298)
Net increase/(decrease) in cash and cash equivalents		(6,742)	(5,831)	(20,619)
Opening cash and cash equivalents		10,310	12,800	30,929
CLOSING CASH AND CASH EQUIVALENTS	7	3,568	6,969	10,310

The GST (net) component of operating activities reflects the net GST paid and received from the Inland Revenue Department. We have presented the GST (net) component on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes.

We have presented Receipts and payment of penalties and cost awards as a net item because the Commission holds these funds in Trust in accordance with agreements.

The accompanying statement of accounting policies and notes to the financial statements on pages 87-114 form part of the financial statements.

Statement of accounting policies

for the year ended 30 June 2014

Reporting entity

The Commerce Commission is a Crown entity (as defined by the Crown Entities Act 2004), established under the Commerce Act 1986, and operating solely within New Zealand. The ultimate parent of the Commission is the New Zealand Crown.

The Commission's main objective is to provide public services to the New Zealand public, instead of making a financial return. We provide public services to meet our responsibilities under the Commerce Act 1986, the Fair Trading Act 1986, the Dairy Industry Restructuring Act 2001, the Telecommunications Act 2001, and the Credit Contracts and Consumer Finance Act 2003.

We have designated ourselves as a public benefit entity for the purposes of New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), due to our role as a public service provider.

Measurement base and statement of compliance

We have prepared these financial statements to comply with the requirements of the Crown Entities Act 2004. We prepared these financial statements on a historical cost basis for a going concern to comply with New Zealand Generally Accepted Accounting Practice (GAAP). The Commission authorised the financial statements for issue on 16 October 2014.

The financial statements comply with NZ IFRS and other applicable financial reporting standards as appropriate for a public benefit entity. We have adopted all available reporting exemptions allowed under NZ IFRS for public benefit entities.

Functional and presentation currency

The Commission's functional currency is the New Zealand dollar, so we have presented these financial statements in New Zealand dollars (rounded to the nearest thousand).

Significant accounting policies

We have applied the significant accounting policies that significantly affect the measurement of comprehensive income, financial position and cash flows consistently for all reporting periods covered by these financial statements, including the comparative (prior year and budget) information. The significant accounting policies are:

Revenue – Revenue is measured at the fair value of consideration (eg, money) received or receivable. We earn revenue from providing specific services (known as outputs) for the Crown, for services to other third

parties, court cost award recoveries and interest income. We record revenue received before we provide the service as revenue received in advance on our Statement of financial position, and recognise the revenue when we provide the service.

Crown revenue – The Commission receives crown funding via appropriations administered by MBIE. These are restricted in their use to the purpose of meeting the Commission’s objectives, as outlined in the Statement of Intent. Crown revenue we receive but do not spend is refunded to the Crown after year end for all output classes except Vote Commerce – General Markets, which the Commission is allowed to retain as reserves. Also, we may retain specific ring-fenced revenue provided to build up our ability to meet the cost of adverse cost awards.

Revenue from the Crown is recognised when earned. We treat surpluses on output classes which we must return as a creditor and show in the Statement of financial position as a provision for the refund of surpluses to the Crown.

Expenditure – All expenditure we incur in providing services for the Crown or other third parties is recognised in the Statement of comprehensive income when an obligation to pay arises on an accruals basis.

Foreign currency transactions – Transactions in foreign currencies are converted into the Commission’s functional currency (New Zealand Dollars) at exchange rates on the dates of the transactions. Monetary liabilities in foreign currencies at the reporting date are converted to New Zealand Dollars at the exchange rate on that date. Any gain or loss on monetary liabilities is the difference between the cost in the functional currency at the beginning of the period and payments during the period, and is recognised in the Statement of comprehensive income during that period.

Leases – The Commission is party to various operating leases as a lessee. As the lessors retain substantially all of the risk and rewards of ownership of the leased property, plant and equipment, the operating lease payments are recognised in the Statement of comprehensive income only in the period in which they arise. Any lease incentives received or obligations to reinstate the condition of leased premises are recognised in the Statement of comprehensive income over the term of the lease. At balance date, any unamortised lease incentive and outstanding obligation for reinstatement is recognised as a liability in the Statement of financial position.

The Commission does not enter into, and is not allowed to enter into, any finance leases.

Depreciation and impairment – Depreciation (and amortisation for intangible assets) is provided on a straight-line basis on all assets to allocate the cost of the asset (less any estimated residual value) over its useful life. The residual values and remaining useful lives of property, plant and equipment components are reviewed at least annually. All property, plant and equipment are subject to an annual test of impairment to test the recoverable amount. Any impairment losses are recorded as an expense in the Statement of comprehensive income in the period in which they are first identified.

The estimated useful lives of the major asset classes are:

Computer and office equipment	3-4 years
Furniture and fittings	Up to 5 years
Leasehold improvements	For the period of the lease
Motor vehicles	Up to 5 years
Software and other intangible assets	Up to 5 years

Taxation – The Commission is exempt from income tax under section CW 38 of the Income Tax Act 2007.

Cost allocation – Direct costs are charged directly to outputs. Personnel costs are allocated to outputs based on time records. The indirect costs of support groups, and corporate overhead costs are charged to outputs based on the budgeted relative time records of each output.

Goods and services tax (GST) – All items in the financial statements are presented exclusive of GST, except for receivables, payables, and unearned Crown revenue received in advance (and repayable) for Vote Commerce – Litigation Fund, which are presented on a GST-inclusive basis. Where we cannot claim a portion of GST, we recognise the GST portion as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or creditors in the Statement of financial position. The net GST paid to, or received from, the IRD, including the GST relating to investing and financial activities, is classified as an operating cash flow in the Statement of cash flows. Commitments and contingencies are disclosed exclusive of GST.

Equity – Equity is the Crown’s ownership interest in the Commission and is measured as the difference between total assets and total liabilities. We have classified equity into components and disclosed these separately to allow clearer recognition of the specified uses that we have for our equity. The components of equity are general funds and restricted funds (litigation fund reserve and litigation costs reserve). Restricted funds are reserves where the Commission must meet specific conditions of use that are agreed with the Crown.

Cash and cash equivalents – Cash and cash equivalents are our cash on hand, transactional cash balances in bank accounts, and some term deposits held with New Zealand registered banks. Term deposits are included in cash and cash equivalents when they are easily turned into cash, will mature within three months of the date they were purchased (eg, a 90 day term deposit), and are used as part of our day-to-day cash management.

Receivables – Receivables are stated at their estimated net realisable value, after providing for doubtful and bad debts. All known bad debts are written off and charged to the Statement of comprehensive income in the period in which we first identified them.

Investments – Investments are term deposits issued by New Zealand registered banks and are classified as loans and receivables. Term deposits which meet the definition of a cash equivalent (see above) are excluded from this definition. Loans and receivables are initially measured at fair value plus any transaction costs. After initial recognition, investments are re-measured at amortised cost using the effective interest rate method. Any gains or losses arising from impairment or writing off an investment are recognised in the Statement of comprehensive income in the period in which they are first identified.

Property, plant and equipment – All items of property, plant and equipment owned are recorded at historical cost of purchase, less accumulated depreciation and any impairment losses. An item of property, plant and equipment acquired in stages is not depreciated until the item of property, plant and equipment is in its final state and ready for its intended use. Any later expenditure that extends the useful life or enhances the service potential of an existing item of property, plant and equipment is also capitalised and depreciated.

All other costs we incur in maintaining the useful life or service potential of an existing item of property, plant and equipment is recognised in the Statement of comprehensive income as expenditure when incurred. Any gain or loss arising from the sale or disposal of an item of property, plant and equipment is recognised in the Statement of comprehensive income in the period in which the item of property, plant and equipment is sold or disposed of.

Intangible assets – Computer software that is not integral to the operation of the hardware is recorded as an intangible asset, less accumulated amortisation. We amortise software on a straight-line basis over its estimated useful life, to a maximum of three years.

Financial instruments – The Commission is naturally a party to financial instruments as part of its day-to-day operations. Financial instruments are monetary assets (eg, cash) and liabilities and are initially recognised at their fair value. We subsequently measure them at their amortised cost, less any impairment losses. All revenue and expenditure arising from the financial instruments are recognised in the Statement of comprehensive income when earned or when an obligation exists.

Employee entitlements – Employee entitlements are unpaid salaries, bonuses, and annual leave which we owe to our personnel. At balance date, any unpaid employee entitlements are recognised as a liability in the Statement of financial position and charged to the Statement of comprehensive income. Entitlements are calculated on an actual entitlement basis at our personnel's current salary rates.

Cash flows – Operating, investing and financing cash flows are prepared using the direct method subject to the netting of certain cash flows. The cash flows in respect of bank deposits that have been rolled over under arranged banking facilities have been netted in order to ensure meaningful disclosures. Penalties which are received by the Commission and then paid to the Crown are netted, as the Commission is acting as an agent in collecting these penalties, must pass them on within a week of receipt, and does not benefit (eg, by earning interest) from receiving the penalties on behalf of the Crown.

Operating cash flows include all cash received from all operating revenue sources and all cash payments for all operating expenditure items. Investing cash flows reflect the payments for property, plant and equipment or intangible asset purchases, proceeds from the sale of property, plant and equipment or intangible assets, and the net movement in bank deposits (excluding bank deposits treated as cash and cash equivalents).

The Commission reconciles its surplus/deficit with the net cash flows from operating activities using the direct method.

Contingencies – As the Commission is a quasi-judicial body, it is engaged in litigation activity which may result in costs being ordered against or in favour of the Commission. The outcome of an order for costs may not be certain until all appeal processes are completed. Therefore, the possibility of a costs award being incurred or received is disclosed firstly as either a contingent liability or contingent asset respectively. An award for costs, whether for or against the Commission, is only recognised in the Statement of comprehensive income when it is probable that there will be a payment or receipt of resources (eg, cash) and we can measure the amount reliably.

Comparatives – To ensure consistency with the current year, all comparative information including the Budget (Statement of Intent) has been restated or reclassified where appropriate. The budget comparatives are those approved by the Commission at the beginning of the year for inclusion as prospective financial statements in our Statement of Intent. We prepared the budget to comply with GAAP, and used accounting policies consistent with what we have used to prepare these financial statements.

Changes in accounting policies

We have changed our policy on the maximum allowable useful life (and resulting amortisation) for intangible assets to up to five years, from up to three years, to recognise that some intangible assets we intend to invest in have a longer useful life than three years. There is no effect on the estimates applied to existing intangible assets from this change in policy. We have also clarified further our recognition of revenue and GST. Otherwise, the accounting policies adopted are consistent with the previous year.

Changes to applicable reporting standards and interpretations

The Commission has not adopted any revisions to accounting standards during the financial year.

Standards, amendments, and interpretations issued but not yet effective that have not been early adopted and are relevant to the Commission are:

- NZ IFRS 9 Financial Instruments will eventually replace NZ IAS 39 Financial Instruments: Recognition and Measurement. NZ IAS 39 is being replaced through the following three main phases: Phase 1 Classification and Measurement, Phase 2 Impairment Methodology, and Phase 3 Hedge Accounting. Phase 1 on the classification and measurement of financial assets has been completed and has been published in the new financial instrument standard NZ IFRS 9.

NZ IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in NZ IAS 39. The approach in NZ IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the many different impairment methods in NZ IAS 39. The standard must be adopted for the year ended 30 June 2016, but early adoption is permitted. The Commission has not assessed the effect of the new standard and will not early adopt it. The adoption of a new set of accounting standards (see below) mean the Commission is not required to adopt this standard in the future.

- The Minister of Commerce has approved a new Accounting Standards Framework (developed and recommended by the External Reporting Board (XRB)) which differentiates its reporting requirements between entities on the basis of whether they are for-profit or public benefit entities, and their size. Under the new framework, the Commission will transition to a new set of accounting standards for public benefit entities developed and issued in May 2013 by the XRB based primarily upon International Public Sector Accounting Standards (IPSAS). We are classified as a Tier 1 reporting entity under the new framework, so we will not have any reduced disclosure requirements under the new framework and set of accounting standards.

The effective date for the new standards for public sector entities (including the Commission) is for reporting periods beginning on or after 1 July 2014. Early adoption of the new accounting standards is not allowed. The Commission will transition to the new set of accounting standards for the year ended 30 June 2015. The transition to the new accounting standards will not have a significant effect on the Commission's financial statements and reporting, but will alter some of our revenue recognition policies.

- As a related effect of the decision to migrate public benefit entities to a new set of accounting standards, all new NZ IFRS and amendments to existing NZ IFRS will not apply to public benefit entities. As a result, the XRB has effectively frozen the financial reporting requirements for public benefit entities until we transition to the new suite of public sector accounting standards. Therefore, we have not made any further disclosures about new or amended NZ IFRS that exclude public benefit entities from their scope.

Notes to the financial statements

for the year ended 30 June 2014

1. Crown revenue

	2013/14 Actual \$000	2012/13 Actual \$000
Vote Commerce – enforcement of general market regulation	16,435	16,435
Vote Commerce – litigation fund	2,671	5,536
Vote Communications – enforcement of telecommunications sector regulations	6,000	6,000
Vote Commerce – regulation of electricity lines businesses	6,392	4,844
Vote Commerce – regulation of natural gas services	1,586	2,156
Vote Commerce – enforcement of dairy sector regulation and auditing of milk price setting	1,245	1,543
Vote Commerce – regulation of airport services	600	1,019
TOTAL CROWN REVENUE	34,929	37,533

The Crown and the Commission are related parties. The Members (Commissioners) of the Commission are appointed by the Crown. The Commission has specific regulatory responsibilities in the dairy processing, electricity lines, gas pipelines, airports, and telecommunications industries which are ultimately funded by industry levies payable to the Crown.

The Commission's major source of revenue is Crown revenue. The Commission must repay any surplus revenue received for its levy-funded appropriations. We may retain any surplus generated in Vote Commerce – enforcement of general market regulation, and a small ring-fenced revenue amount which is part of Vote Commerce – litigation fund.

Amounts owed to and from the Crown for Crown revenue due or repayable at each balance date are recognised in the Statement of financial position as Crown revenue receivable or a Provision for Crown funding to be repaid.

The Commission is also a party to transactions with other entities within the Crown as part of its day-to-day operations. For more details of the transactions which we must disclose, please see note 23 – Related party transactions.

2. Members and personnel

	2013/14 Actual \$000	2012/13 Actual \$000
Key management personnel remuneration and termination benefits	3,000	2,923
All other employees' remuneration	18,292	17,131
All other employees – redundancy and other cessation payments	46	32
Total short-term employee and termination benefits	21,338	20,086
Recruitment	193	330
Professional development	462	410
Other employment-related costs	1,684	1,463
TOTAL MEMBERS AND PERSONNEL EXPENDITURE	23,677	22,289

Our key management personnel are all Commissioners, the Chief Executive Officer, and the other three members of the Senior Leadership Team. More detail on compensation of key management personnel is disclosed in note 23 – Related party transactions. More detail on compensation of Commissioners is disclosed in note 24 – Members' remuneration.

Personnel costs include specified employer contributions to defined contribution plans. At balance date defined contribution payments were contributions to KiwiSaver and the State Sector Retirement Savings Scheme.

The Commission had redundancy and other cessation expenditure of \$46,000 during the year in relation to one employee, who was not a member of our key management personnel (2012/13: \$32,000, two employees, none part of our key management personnel).



Employee annual remuneration bands over \$100,000

	2013/14 Actual \$000	2012/13 Actual \$000
\$100,000 – \$110,000	9	10
\$110,001 – \$120,000	15	14
\$120,001 – \$130,000	9	8
\$130,001 – \$140,000	7	7
\$140,001 – \$150,000	8	9
\$150,001 – \$160,000	8	8
\$160,001 – \$170,000	5	1
\$170,001 – \$180,000	3	3
\$180,001 – \$190,000	2	1
\$190,001 – \$200,000	1	2
\$200,001 – \$210,000	2	1
\$210,001 – \$220,000	1	2
\$220,001 – \$230,000	1	0
\$230,001 – \$240,000	0	3
\$250,001 – \$260,000	2	0
\$260,001 – \$270,000	1	0
\$350,001 - \$360,000	0	1
\$360,001 - \$370,000	1	0

3. Legal and other professional fees

	2013/14 Actual \$000	2012/13 Actual \$000
Cost awards	0	0
Legal consultants	2,777	5,113
Other consultants and experts	2,223	1,685
Specialist support services	374	632
Other expenses	19	35
TOTAL LEGAL AND OTHER PROFESSIONAL FEES	5,393	7,465

4. Occupancy

	2013/14 Actual \$000	2012/13 Actual \$000
Operating leases – rent	1,336	1,289
Other occupancy expenses	315	324
TOTAL OCCUPANCY	1,651	1,613

5. Other expenditure

	2013/14 Actual \$000	2012/13 Actual \$000
Telecommunications	350	320
Travel	516	546
Operating leases – photocopiers and printers	39	81
Postage, photocopying, and stationery	165	211
Publications and knowledge sharing	318	145
Loss on disposal of assets	0	10
Audit fees for financial statement audit	43	43
Other expenses	82	167
TOTAL OTHER EXPENDITURE	1,513	1,523

6. Equity

The Commission's Total comprehensive income for the year of \$4.023 million (2012/13: \$6.144 million) flows to both our General funds and our Litigation costs reserve. The respective increase or decreases in both reserves equal the Commission's Total comprehensive income for the year.

General funds

	2013/14 Actual \$000	2012/13 Actual \$000
Balance at 1 July	12,346	13,225
Total comprehensive income attributable to General funds	3,523	5,644
Provision for repayment of surplus to the Crown	(2,067)	(3,023)
Return of reserves to the Crown	0	(3,500)
BALANCE AT 30 JUNE	13,802	12,346

The Commission's General funds are funds held in reserve as a result of past surpluses in certain output classes, plus an initial capital contribution from the Crown. The Commission is allowed to retain surpluses from our General Market output class. The surpluses the Commission may not keep are recognised as a provision for repayment to the Crown, and are offset against items of Total comprehensive income attributable to General funds.

Litigation costs reserve

	2013/14 Actual \$000	2012/13 Actual \$000
Balance at 1 July	1,589	1,089
Total comprehensive income attributable to Litigation costs reserve	500	500
BALANCE AT 30 JUNE	2,089	1,589

As a quasi-judicial body, the Commission undertakes major litigation for alleged breaches of legislation, and also defends regulations and rulings it sets under the Acts it administers. The Litigation costs reserve is a contingency fund established to manage the impact of adverse cost awards from these cases. The Commission receives \$0.5 million in funding per year to build a contingency fund of up to \$3.0 million to help meet adverse cost awards. The Commission offsets this funding against any adverse cost awards it must pay to other parties during the year.

During the 2013/14 year, the Commission did not have to pay any adverse cost awards (2012/13: the Commission did not have to pay any adverse cost awards), resulting in an increase in the Litigation costs reserve of \$0.500 million (2012/13: \$0.500 million increase).

Litigation fund reserve

	2013/14 Actual \$000	2012/13 Actual \$000
Balance at 1 July	1,500	1,500
Return of reserves to the Crown	(1,500)	0
BALANCE AT 30 JUNE	0	1,500

The Litigation fund reserve was an operating balance retained by the Commission on its Statement of financial position. The Litigation fund reserve balance allowed for the Commission to cover in advance costs for litigation under Vote Commerce – litigation fund, which was drawn down tri-annually in arrears from the Crown. During the 2013/14 financial year, the Commission transitioned to receiving revenue for litigation costs in advance, in exchange for returning this reserve to the Crown.

7. Cash and cash equivalents

	2013/14 Actual \$000	2012/13 Actual \$000
Cash on hand and at bank	3,465	5,113
Cash held in trust	103	3,197
Term deposits with maturities less than three months	0	2,000
TOTAL CASH AND CASH EQUIVALENTS	3,568	10,310

The carrying value of short-term deposits with maturity dates of three months or less approximates their fair value.

8. Fees and recoveries receivable

	2013/14 Actual \$000	2012/13 Actual \$000
Current portion:		
Recoveries receivable	11	20
Cost awards receivable	141	759
Accrued interest	202	153
Other receivables	27	28
Total current portion	381	960
Non-current portion:		
Cost awards receivable	0	100
TOTAL FEES AND RECOVERIES RECEIVABLE	381	1,060

The carrying value of receivables approximates their fair value.

We assessed all overdue recoveries receivable at 30 June 2014 and 30 June 2013 for impairment and appropriate provisions, and did not apply any provisions. The ageing profile of recoveries receivable at year end is detailed below:

As at 30 June 2014:

	Gross \$000	Impairment \$000	Net \$000
Current (1-30 days)	10	0	10
Outstanding 31-60 days	1	0	1
Outstanding 61-90 days	0	0	0
Outstanding > 91 days	0	0	0
TOTAL AS AT 30 JUNE 2014	11	0	11

As at 30 June 2013:

	Gross \$000	Impairment \$000	Net \$000
Current (1-30 days)	20	0	20
Outstanding 31-60 days	0	0	0
Outstanding 61-90 days	0	0	0
Outstanding > 91 days	0	0	0
TOTAL AS AT 30 JUNE 2013	20	0	20

As at 30 June 2014, we expect to fully recover all receivables (2012/13: all receivables were fully recovered).

9. Crown revenue receivable

	2013/14 Actual \$000	2012/13 Actual \$000
Vote Commerce – litigation fund	0	653
TOTAL CROWN REVENUE RECEIVABLE	0	653

10. Property, Plant and Equipment

Cost and valuation:

	Computer and office equipment \$000	Furniture and fittings \$000	Leasehold improvements \$000	Motor vehicles \$000	Total \$000
Balance at 1 July 2012	1,710	832	1,597	44	4,183
Additions	129	10	69	0	208
Disposals	(117)	0	0	0	(117)
BALANCE AT 30 JUNE 2013	1,722	842	1,666	44	4,274

	Computer and office equipment \$000	Furniture and fittings \$000	Leasehold improvements \$000	Motor vehicles \$000	Total \$000
Balance at 1 July 2013	1,722	842	1,666	44	4,274
Additions	233	27	20	21	301
Disposals	(138)	(7)	0	(20)	(165)
BALANCE AT 30 JUNE 2014	1,817	862	1,686	45	4,410

Property, Plant and Equipment not yet commissioned at 30 June 2014 totalled \$139,000 (2012/13: \$38,000).

Depreciation and impairment losses:

	Computer and office equipment \$000	Furniture and fittings \$000	Leasehold improvements \$000	Motor vehicles \$000	Total \$000
Balance at 1 July 2012	966	773	1,185	44	2,968
Depreciation expense	334	31	149	0	514
Eliminate on disposal	(108)	0	0	0	(108)
BALANCE AT 30 JUNE 2013	1,192	804	1,334	44	3,374

	Computer and office equipment \$000	Furniture and fittings \$000	Leasehold improvements \$000	Motor vehicles \$000	Total \$000
Balance at 1 July 2013	1,192	804	1,334	44	3,374
Depreciation expense	300	21	140	3	464
Elimination on disposal	(138)	(7)	0	(20)	(165)
BALANCE AT 30 JUNE 2014	1,354	818	1,474	27	3,673

Carrying amounts:

	Computer and office equipment \$000	Furniture and fittings \$000	Leasehold improvements \$000	Motor vehicles \$000	Total \$000
At 1 July 2012	744	59	412	0	1,215
At 30 June and 1 July 2013	530	38	332	0	900
AT 30 JUNE 2014	463	44	212	18	737

11. Intangibles

Cost:

	Acquired software \$000	Total \$000
Balance at 1 July 2012	1,548	1,548
Additions	271	271
Disposals	(10)	(10)
BALANCE AT 30 JUNE 2013	1,809	1,809

	Acquired software \$000	Total \$000
Balance at 1 July 2013	1,809	1,809
Additions	449	449
Disposals	(6)	(6)
BALANCE AT 30 JUNE 2014	2,252	2,252

Intangible assets not yet commissioned at 30 June 2014 totalled \$415,000 (2012/13: \$172,000)

Accumulated amortisation and impairment losses:

	Acquired software \$000	Total \$000
Balance at 1 July 2012	1,333	1,333
Amortisation expense	149	149
Disposals	(8)	(8)
Impairment losses	0	0
BALANCE AT 30 JUNE 2013	1,474	1,474

	Acquired software \$000	Total \$000
Balance at 1 July 2013	1,474	1,474
Amortisation expense	124	124
Disposals	(6)	(6)
Impairment losses	0	0
BALANCE AT 30 JUNE 2014	1,592	1,592

Carrying amounts:

	Acquired software \$000	Total \$000
At 1 July 2012	215	215
At 30 June and 1 July 2013	335	335
AT 30 JUNE 2014	660	660

The Commission holds licenses for use of certain software applications for which it does not hold title.

For other software applications, there is no restriction over the title of the Commission's assets.

No intangible assets are pledged as security for liabilities.

12. Creditors and other payables

	2013/14 Actual \$000	2012/13 Actual \$000
Creditors	314	257
PAYE and other taxes withheld for payment to the Crown	282	229
Goods and services tax payable to the Crown	252	218
Other current liability	15	15
TOTAL CREDITORS AND OTHER PAYABLES	863	719

Creditors and other payables are non-interest bearing and are normally settled within 30 days.

Therefore the carrying value of creditors and other payables approximates their fair value.

13. Penalties and cost awards held in trust

	2013/14 Actual \$000	2012/13 Actual \$000
Balance at the beginning of the year	3,241	14,420
Court cost awards compensation received (or recognised as receivable), and interest earned	786	3,632
Penalties received and paid to the Crown (net)	0	(12,000)
Court cost awards, compensation, and interest paid out	(3,882)	(2,811)
BALANCE AT THE END OF THE YEAR	145	3,241

Penalties and cost awards held in trust are penalties and cost awards received by the Commission but payable to another party. This is generally the Crown, but can also be compensation received for third parties, or penalties and cost awards held in trust while a litigation case continues. The Commission may also be entitled to a portion of court cost awards received. The Commission is not entitled to any of the penalties received, but acts as an agent for the Crown in collecting and forwarding the penalties received.

The Commission receives cost awards and compensation for third parties through our investigations and litigation activities. Cost awards are split between the Crown and the Commission, in proportion to the funding each contributes to the costs of pursuing the investigation or litigation. This split occurs once the investigation or litigation is complete and we know the total cost of the case. Interest is earned and paid on all cost awards and settlements received.

Components of penalties and cost awards held in trust:

	2013/14 Actual \$000	2012/13 Actual \$000
Provision for court cost awards due to the Commission or the Crown	93	458
Court cost awards and compensation due to Crown or other parties	52	2,783
COURT COST AWARDS AND COMPENSATION RECEIVED	145	3,241

In general, penalties received by the Commission must be paid to the Crown within seven days of receipt, unless the penalties received are subject to an arrangement while litigation continues.

Where there are cases involving a number of parties, we can receive settlements from some parties while others continue to defend. As a result, we are unable to reliably estimate what amount of total cost awards or settlements are due to the Crown, as this estimate can change substantially as the case progresses. In these situations, the Commission records a provision for the cost awards due to the Commission or the Crown which equals any cost awards received for that case. Once a case is finished and we know the total cost of the case and funds to distribute, we recognise the amount receivable by us and the remainder becomes a payable due to the Crown, instead of a provision.

If we receive compensation settlements to pay to a number of third parties (eg, customers of a business we investigate), we recognise the whole amount as a payable to third parties when we receive the settlement.

14. Crown funding to be repaid

	2013/14 Actual \$000	2012/13 Actual \$000
Provision to repay surpluses to the Crown by output class:		
Telecom Vote Commerce – regulation of airport services	58	22
Vote Commerce – enforcement of dairy sector regulation and auditing of milk price setting	451	737
Vote Commerce – regulation of electricity lines businesses	38	453
Vote Commerce – regulation of gas pipeline businesses	322	44
Vote Communications – enforcement of telecommunications sector regulations	1,198	1,767
Total provision to repay surpluses to the Crown	2,067	3,023
Unearned revenue received in advance to repay to the Crown:		
Vote Commerce – Commerce Commission Litigation fund	1,492	0
TOTAL CROWN FUNDING TO BE REPAID	3,559	3,023

The provision to repay surpluses to the Crown above is exclusive of GST, while the balance of unearned revenue received in advance to repay to the Crown is GST inclusive.

15. Employee entitlements

	2013/14 Actual \$000	2012/13 Actual \$000
Accrued salaries and wages	712	687
Annual leave	1,158	1,073
Accrued performance and at-risk incentives	346	328
TOTAL EMPLOYEE ENTITLEMENTS	2,216	2,088

16. Provision for reinstatement of lease occupancy

	2013/14 Actual \$000	2012/13 Actual \$000
Balance at the beginning of the year	236	253
Reinstatement costs incurred during the year	0	0
Reinstatement provision released during the year	0	(17)
Charge for increased estimate to reinstate premises	0	0
BALANCE AT THE END OF THE YEAR	236	236

The Commission has entered into leases on its premises in Auckland, Wellington, and Christchurch. As part of the lease agreements, the Commission is required to reinstate the premises to their original condition at the end of the leases.

In June 2013 the Commission decided to vacate its Christchurch office. We reached an agreement with the Christchurch office landlord that no reinstatement of our leased office space was required. As a result, we released the provision relating to the Christchurch office in the 2012/13 financial year. The Commission moved to a new Christchurch office location at the beginning of the 2013/14 year.



17. Reconciliation of operating surplus for the year to net cash inflows from operating activities

	2013/14 Actual \$000	2012/13 Actual \$000
Operating surplus for the year	4,023	6,144
Plus non-cash items:		
Depreciation and amortisation	588	663
Loss/(gain) on sale of property, plant and equipment	(2)	11
Other current and non-current liability	(15)	(15)
Change in estimate of reinstatement costs for premises	0	(17)
Employee entitlements	128	251
Total non-cash items	699	893
Plus change in working capital items:		
Fees and recoveries receivable	679	(944)
Crown revenue receivable	653	1,285
Prepayments	9	(172)
Creditors	126	(667)
Accrued expenses	530	(288)
Revenue received in advance	(586)	586
Received but unearned Crown funding repayable	1,492	0
Penalties and cost awards held in trust	(3,096)	(11,179)
Total change in working capital items	(193)	(11,379)
NET CASH INFLOWS FROM OPERATING ACTIVITIES	4,529	(4,342)

18. Critical accounting judgements and estimates

In authorising these financial statements for issue, the Commission has ensured that:

- we have disclosed the specific accounting policies needed to properly understand these financial statements
- all of our adopted accounting policies are appropriate for our activities
- our accounting policies were applied consistently throughout the year.

When applying the accounting policies, the Commission is required to make certain judgements and estimates. The Commission has considered the following critical judgements and estimates to be appropriate.

Contingencies

The Commission is party to several significant litigation cases and appeals as a result of its enforcement and quasi-judicial role. In undertaking significant litigation the Commission is faced with the risk of losing, and as a result having to pay a multi-million dollar cost award.

The Commission has assessed the likelihood of the appeals being successful and the likelihood of costs being awarded against, or in favour of, the Commission.

Cost awards that are likely to result in a future receipt or payment of cost awards have been recognised as at 30 June 2014 in the Statement of comprehensive income. The Commission has also disclosed its contingent liabilities and assets as a result of cost awards that may possibly result in a future receipt or payment of costs as at 30 June 2014 (please see note 19). We continue to monitor all our current litigation cases, and assess whether they give rise to contingent liabilities or assets.

19. Contingent liabilities and assets

Contingent liabilities as at 30 June 2014:

There are no contingent liabilities.

Contingent liabilities as at 30 June 2013:

There were no contingent liabilities.

Contingent assets as at 30 June 2014:

Motor Trade Finance Limited and Others

In September 2013, the Court released its decision in the Commission's favour, holding that the fees challenged by the Commission were unreasonable. Motor Trade Finance Limited and Sportzone appealed the decision, with the Commission lodging a cross-appeal in respect of its Fair Trading Act cause of action. The Court of Appeal hearing is set down for 19 and 20 November 2014. The Commission is disclosing a contingent asset for costs and disbursements that may be awarded following the High Court win.

Input Methodologies litigation

Input methodologies involve setting upfront regulatory rules, processes and requirements that apply to the regulatory instruments under Part 4 of the Commerce Act. Twelve parties appealed against various aspects of the Commission's input methodologies. Three parties subsequently withdrew their appeals. A High Court judgement was issued on 11 December 2013, which dismissed all these appeals, ruling in favour of the Commission's decisions on all but two relatively minor points out of at least fifty eight challenges. High Court costs have been reserved, but the Commission expects costs to be awarded, and therefore is recognising a contingent asset for these costs. The Major Electricity Users Group (MEUG) applied for leave to appeal the 75th percentile WACC range decision to the Court of Appeal. On 29 July, the High Court declined to grant leave. MEUG announced on 25 August 2014 that it would not be applying to the Court of Appeal for leave.

Contingent assets as at 30 June 2013:

The Commission disclosed a contingent asset for the Freight forwarding litigation case, dependent on the ultimate trial outcome against Kuehne + Nagel International AG.

20. Financial instruments

The carrying amounts of each class of financial assets and liabilities are:

Monetary assets:

	2013/14 Actual \$000	2012/13 Actual \$000
Loans and receivables		
Cash and cash equivalents	3,568	10,310
Fees and recoveries receivable	381	1,060
Short-term investments	18,500	12,500
Crown revenue receivable	0	653
TOTAL MONETARY ASSETS	22,449	24,523

Monetary liabilities:

	2013/14 Actual \$000	2012/13 Actual \$000
Other liabilities		
Creditors	848	704
Penalties and cost awards held in trust	52	2,783
Crown revenue repayable	3,559	3,023
TOTAL MONETARY LIABILITIES	4,459	6,510

Net monetary assets:

	2013/14 Actual \$000	2012/13 Actual \$000
Total monetary assets	22,449	24,523
Less total monetary liabilities	4,459	6,510
NET MONETARY ASSETS	17,990	18,013

Financial instruments include cash and cash equivalents, receivables, investments and payables resulting from day-to-day operations. There are risks inherent with all financial instruments and risk management policies are used to mitigate the exposure to market risk comprising liquidity risk, credit risk, interest rate risk and currency risk.

Liquidity risk

Liquidity risk is the risk arising from unmatched cash outflows (ie, expenditure and other payments) and maturities of financial instruments (eg, bank accounts, term deposits) leading to difficulty in making debt payments on their due date. As Crown revenue is received quarterly in advance, the Commission does not have a material risk in meeting its day-to-day obligations as they fall due. The Commission's ratio of monetary assets to liabilities as at 30 June 2014 is 5.0:1 (2012/13: 3.8:1). Excluding the penalties held in trust at 30 June 2013, the Commission's ratio was 3.9:1.

The Commission is not permitted any form of debt borrowings and has an aggregate credit card limit of \$37,500 (2012/13: \$37,500).

The tables below break down the Commission's financial liabilities into relevant maturity groupings based on the remaining period at the Statement of Financial Position date to the contractual maturity date.

2013/14:

	Less than 6 months \$000	Between 6 months and 1 year \$000	Greater than 1 year \$000
Creditors	848	0	0
Penalties and cost awards held in trust	52	0	0
Crown revenue repayable	3,559	0	0
TOTAL FINANCIAL LIABILITIES	4,459	0	0

2012/13:

	Less than 6 months \$000	Between 6 months and 1 year \$000	Greater than 1 year \$000
Creditors	704	0	0
Penalties and cost awards held in trust	2,783	0	0
Crown revenue repayable	3,023	0	0
TOTAL FINANCIAL LIABILITIES	6,510	0	0

Credit risk

Credit losses result from a counterparty defaulting on its obligations owed to the Commission resulting in a financial loss to the Commission. Financial instruments which potentially subject the Commission to risk consist of cash and bank balances, receivables and investments (bank deposits). The maximum credit risk exposure is represented by the carrying amount of each monetary asset on the Statement of financial position.

The Commission does not have a material credit risk for receivables due from third parties. All other receivables are due from the Crown. Cash not immediately needed to settle obligations as they fall due is invested with New Zealand registered banks with appropriate credit ratings. Limits are in place restricting deposit terms, individual deposit amounts, currency and the level of deposits with any one registered bank. The Commission is not exposed to any concentrations of credit risk, other than an exposure to the New Zealand banking sector. No collateral is required to be held as security against amounts owed to the Commission.

Interest rate risk

As interest rates change, the fair value of interest-bearing bank deposits may change and future cash inflows will fluctuate. In accordance with the Commission's cash management policy, there are limits on the terms of all interest-bearing deposits, ensuring that deposits mature within six months (short-term). There are no other market risks.

The financial instruments' carrying amount closely approximates their fair values as at 30 June 2014 and 30 June 2013. The average interest rate on interest-bearing deposits over the year was 4.08 per cent (2012/13: 4.23 per cent). A 1 per cent change in interest rates, with all other factors unchanged, would change interest earnings by \$151,000 (2012/13: \$120,000).

Currency risk

Currency risk results from fluctuations in the value of future cash outflows because of changes in foreign exchange rates. The Commission engages overseas experts and purchases specialist goods and services from foreign suppliers, requiring payment in a range of foreign currencies. The transactions are not hedged and are translated into New Zealand dollars at the exchange rate (spot) obtained when the invoices are paid. A 10 per cent change in exchange rates, with all other factors unchanged, would change expenditure by \$37,600 (2012/13: \$39,900).

21. Operating (non-cancellable) leases

Operating (non-cancellable) lease payments due:

	2013/14 Actual \$000	2012/13 Actual \$000
Within one year	1,354	1,370
Within one to two years	1,355	1,295
Within two to five years	1,057	2,044
After five years	0	0
TOTAL OPERATING (NON-CANCELLABLE) LEASES DUE	3,766	4,709

The future operating (non-cancellable) lease payments consists of the contractual amounts due for leased office equipment and premises. The Commission leases three offices, with the Christchurch lease expiring 2015/16, Wellington finally expiring in 2016/17 and Auckland finally expiring in 2017/18. We negotiated an early exit from our previous (as at 30 June 2013) Christchurch lease due to the requirement for earthquake strengthening of the building.

The Commission is participating in the Christchurch Integrated Government Accommodation project, which aims to relocate government employees back into the Christchurch CBD. As this project progresses, the Commission expects to enter into a long-term lease commitment. The timing of when this lease would begin is uncertain, but likely to be during the 2015/16 financial year. The lease term and payments due are not yet known and we are not able to provide a reliable estimate of the cost of the commitment.

Under each lease, there are rights of renewal of up to six years. The Commission is required to reinstate certain premises to their original condition at the end of the lease and maintains a provision for these costs, reviewed over the life of the leases (see note 16).

22. Capital expenditure commitments

	2013/14 Actual \$000	2012/13 Actual \$000
Property, plant and equipment	30	0
Intangible assets	631	0
TOTAL CAPITAL EXPENDITURE COMMITMENTS	661	0

23. Related party transactions

The Commission is an independent Crown entity, primarily monitored by the Ministry of Business, Innovation, and Employment on behalf of the Minister of Commerce and the Minister for Telecommunications.

Significant transactions with government-related entities

The Crown has provided the Commission with funding of \$36.226 million (2012/13: \$37.533 million) for specific purposes as set out in the relevant applicable legislation, the scope of the relevant appropriations provided to the Commission via MBIE, and the output agreement between the Commission and the Crown.

Collectively, but not individually, significant transactions with government-related entities

In conducting its activities, the Commission is required to pay various taxes and levies (such as GST, PAYE, and ACC levies) to the Crown and entities related to the Crown. The payment of these taxes and levies, other than income tax, is based on the standard terms and conditions that apply to all tax and levy payers. The Commission is exempt from paying income tax under section CW 38 of the Income Tax Act 2007.

The Commission purchases goods and services from entities controlled, significantly influenced, or jointly controlled by the Crown. Purchases from these government-related entities for the year ended 30 June 2014 totalled \$0.482 million (2012/13: \$1.563 million). These purchases included electricity from Genesis, Meridian Energy, and Mighty River Power, air travel from Air New Zealand, legal services from Crown Law, and postal and courier services from New Zealand Post.

The following transactions were carried out with related parties other than those described above:

2013/14: There were no other related party transactions during the year.

2012/13: There were no other related party transactions during the year.

Key management personnel

Remuneration of key management personnel is disclosed below. No other transactions than those recorded below occurred with Key Management Personnel or their close family members (2012/13: None). No transactions with the responsible Crown Ministers or their close family members occurred during the year (2012/13: None).

	2013/14 Actual \$000	2012/13 Actual \$000
Members' salary and other short-term employee benefits	1,851	1,817
Senior management salary and other short-term employee benefits	1,149	1,106
Total key management personnel short-term employee benefits	3,000	2,923
TOTAL KEY MANAGEMENT PERSONNEL REMUNERATION	3,000	2,923

Key management personnel comprise all members of the Board, the Chief Executive Officer, and the members of the Senior Leadership Team.

24. Members' remuneration

	2013/14 Actual \$000	2012/13 Actual \$000
M Berry (Chairman)	533	518
S Begg (Deputy Chair)	349	349
D Curtin (Commissioner until 27 July 2013)	6	78
A Mazzoleni (Commissioner until 31 March 2014)	78	117
S Gale (Associate until 11 July 2012, Telecommunications Commissioner from 12 July 2012)	355	350
P Duignan (Commissioner)	219	204
E Welson (Associate from 20 September 2012 until 18 August 2013, Commissioner from 19 August 2013)	296	189
A Rawlings (Commissioner from 9 June 2014)	15	0
G Pickering (Associate until 24 June 2012)	0	3
R Patterson (Telecommunications Commissioner until 11 July 2012)	0	9
TOTAL MEMBERS' REMUNERATION	1,851	1,817

The Chairman, Dr Mark Berry, and the Telecommunications Commissioner, Dr Stephen Gale, are in full-time positions. All other Commissioners are paid for service on a daily rate set by the Remuneration Authority as follows:

Members' daily rates:

	2013/14	2012/13
Deputy Chair	1,700	1,643
Commissioners and Associates	1,465	1,450
Cease and Desist Commissioners	1,485	1,470

Members' additional remuneration

Most Members are entitled to additional pay of up to 50 per cent of the daily rate to the extent the number of hours worked on any day exceeds eight hours. The daily rate includes any annual and sick leave entitlement, and no additional payments are made on account of annual leave or sick leave. The Chairman and Telecommunications Commissioner are salaried appointments, and receive annual leave and sick leave entitlements in addition to their salary. The Chairman and Telecommunications Commissioner are not entitled to additional pay for additional hours worked.

Other payments in respect of Members

The Commission paid \$3,000 to an Audit, Finance and Risk Management Committee member appointed by the Board who is not a Board member during the year (2012/13: no non-Board committee members appointed or paid).

The Commission has provided a Deed of Indemnity to Members for certain activities undertaken in the performance of the Commission's functions.

The Commission has taken out Directors' and Officers' Liability and Professional Indemnity insurance cover during the financial year in respect of the liability or costs of Members and employees.

No Members received compensation or other benefits in relation to cessation (2012/13: \$Nil).

25. Capital management

The Commission's capital is its equity, which is made up of general funds and other reserves as disclosed in note 6 above. Equity is represented by net assets.

The Commission is subject to the financial management and accountability provisions of the Crown Entities Act 2004, which impose restrictions on borrowings, acquisition of securities, issuing guarantees and indemnities, and the use of derivatives.

The Commission manages its equity as a by-product of prudently managing revenues, expenses, assets, liabilities, investments and general financial dealings to ensure the Commission effectively achieves its objectives and purpose, while remaining a going concern.

26. Significant events after balance date

There were no significant events after balance date.

27. Explanation of significant variances against budget

Explanations for significant variations from the budgeted figures in the 2013-2016 Statement of Intent are:

Statement of comprehensive income

Crown revenue

Crown revenue was \$3.994 million less than budget. This is primarily due to significantly less Litigation Fund revenue received because of settlements and favourable court judgments in the Commission's cases, reducing litigation expenditure on external counsel and experts.

Legal and other professional fees

Legal and other professional fees were \$5.309 million under budget primarily due to reduced expenditure on litigation related costs arising from settlements and favourable judgments in several major litigation cases, and less expenditure than budgeted on external consultants within our other output classes.

Total comprehensive income

Total comprehensive income was \$3.421 million greater than budget due to the additional income and lower legal and other professional fees expenditure noted above, as well as additional other income received and overall cost savings which were greater than budgeted.

Statement of financial position

Total equity

Total equity was \$2.669 million greater than budget due to a greater than budgeted opening equity balance, and a greater than budgeted surplus in our General Market output class, offset by an unbudgeted \$1.5 million return of Commission reserves to the Crown.

Cash and cash equivalents

Cash and cash equivalents were \$3.401 million less than budgeted due to reduced payments to suppliers resulting in unexpected surpluses in various output classes, allowing us to place funds on longer term deposits.

Crown revenue receivable

Crown revenue receivable was \$3.144 million less than budget. This is due to a change in our funding from the Litigation Fund appropriation, with funding now received from MBIE in advance of expenditure instead of in arrears.

Short-term investments

Short term investments were \$12.5 million greater than budget due to changes in our current and expected expenditure allowing us to place funds on to longer term deposits for cash management purposes.

Intangibles

Intangible assets were \$1.015 million less than budget due to delays in the start of a number of projects, and a delay in the start of building a Telecommunications final pricing principle model.

Crown funding to be repaid

Crown funding to be repaid was \$2.977 million greater than budgeted due to surpluses across all our levied output classes which were greater than expected, and funding received in advance from the Litigation Fund appropriation which remained unearned and repayable at year end.

Statement of cash flows

Supplier payments

Payments to suppliers were \$6.071 million less than budgeted, due to lower than budgeted expenditure as reflected in the Statement of comprehensive income.



Financial Statements Glossary

The following table provides definitions for some terms which are used in our financial statements. Please note that these definitions are only provided as a help to readers, and are not part of the financial statements, nor do they necessarily reflect the way that we interpret and apply accounting standards.

Accounts payable	Debts owed to somebody (eg, a company) for goods or services provided to us which we have not yet paid at balance date.
Accounts receivable	Debts owed to us by somebody (eg, a company) for a service we have provided, where we have not been paid at balance date.
Amortisation	Amortisation is basically the same as depreciation (see below), except that it is applied to intangible assets (eg, software).
Asset	An asset is something that we own, expect to receive in the future, or control.
Balance date	The date at which a set of accounts is prepared. For the Commission, that date is 30 June of each year.
Cash equivalents	Cash equivalents are assets like term deposits that share most of the characteristics of cash. They are cash equivalent because we can quickly turn them into cash, but they are technically not cash in a bank account or in the hand.
Comprehensive income	Comprehensive income is a broader concept of income which includes a surplus (or loss) from an entity's operations, and movements in parts of equity that are not the result of surpluses or owner transactions. An example is a revaluation gain on the value of assets, which increases equity by increasing the value of an asset revaluation reserve.
Current asset (or liability)	A current asset is an asset which can be converted into cash or used to pay a liability within twelve months. A current liability is a liability which we expect to repay within twelve months.
Depreciation	Depreciation is the charge of an asset's cost over a certain time period. Depreciation recognises that assets decline in their value and usefulness over time.
Equity	Equity represents the value of an entity to its owners, and is the amount left over after deducting all liabilities from all assets. It is also known as net assets.

Financial instruments	Financial instruments are assets or liabilities which are tradable in some way, such as cash, shares, or loans. Other financial instruments include “derivatives,” which are traded securities that get their value from an underlying asset (like a future oil shipment or a future foreign currency purchase).
Generally accepted accounting practice (GAAP)	GAAP is short-hand for the series of standards, interpretations, and concepts which are followed by accountants. NZ GAAP is defined by law to include standards issued by the External Reporting Board, and where that (or a specific law) does not cover a matter, accounting policies considered authoritative by the accounting profession in New Zealand.
Going concern	An assumption made by an entity that it will continue to operate into the foreseeable future. If this is incorrect, then the entity has to prepare its accounts as if it was being wound up.
Intangible assets	Intangible assets are assets which do not have a physical substance, and are not cash.
Liability	A liability is something we owe, expect to pay in the future, or may have to pay in the future.
Monetary assets	Monetary assets are assets which are cash, or will become cash in a short time-frame; eg, bank account balances, term deposits, accounts receivable.
Monetary liabilities	Monetary liabilities are debts owed to another party, such as accounts payable, loans, or unpaid salaries.
Non-current asset (or liability)	A non-current asset is an asset which we cannot ordinarily turn into cash within twelve months. A non-current liability is a liability which we would not ordinarily have to repay within twelve months.
Output class	An output class is a grouping of similar outputs. In other words a grouping of activities with similar objectives. The Commission’s output classes are primarily funded by appropriations via MBIE.
Provision	An estimate of an amount that an entity may (or will) have to pay as a result of an obligation the entity has to another party.
Public benefit entity	An entity which aims to provide goods or services to the general public to meet a specific need, rather than to make a profit for its owners.
Related party	Another person or entity which is related to us because of, for example, a common owner or person in a position of authority (eg, director, senior management).
Statement of cash flows	A statement which shows how much cash we have received from various sources (investments, operating activities, cash injections received from the Crown) and cash payments we have made (expenses, salaries, repayment of money to the Crown).
Statement of comprehensive income	A statement which shows our surplus or deficit from our operating activities, plus or less any movements in non-owner equity items (see comprehensive income above).
Statement of financial position	A statement which shows what assets we own or control, what liabilities we have, and the remainder (equity) at the balance date.

Commonly used terms

Cartel	A cartel involves illegal agreements between competitors not to compete with each other, such as price fixing; the restriction of outputs; the allocation of customers, suppliers or territories; and bid rigging.
CCCF Act cases	Investigations into possible breaches of the Credit Contracts and Consumer Finance Act by creditors. Potential breaches include a creditor failing to provide the debtor with adequate disclosure of the terms of the consumer credit contract, consumer lease or buy-back transaction; and a creditor charging consumer credit contract fees that may be unreasonable.
Coordinated behaviour cases	Investigations into agreements between competitors not to compete with each other such as: price fixing; the restriction of outputs; the allocation of customers, suppliers or territories; and bid rigging.
Determination	A formal and binding decision made by the Commerce Commission under the legislation it administers.
Electricity distribution business (EDB)	Electricity distribution businesses (or lines businesses) transport electricity to homes and businesses. Part of their charge goes towards maintaining and investing in the network. The Commerce Commission regulates EDBs under the Commerce Act.
Fair Trading Act cases	Investigations into possible breaches of the Fair Trading Act. Potential breaches include traders providing consumers with false, misleading or incomplete information relating to the supply of goods and services. Investigations under the Act may also involve employment advertising, pyramid selling, and the supply of products covered by Product Safety and Consumer Information Standards.
Gas pipeline business (GPB)	Suppliers of gas pipeline services –including transmission and distribution services.
Herfindahl-Hirschman Index (HHI)	A commonly accepted measure of market concentration calculated by squaring the market share of each market participant that has a material number of subscribers and adding these together. The maximum possible score is 10,000 which would be one seller with 100% market share. A low market concentration might be a score of 2,000.
Information disclosure	Under Part 4 of the Commerce Act 1986 (subpart 4), sufficient information is to be readily available to interested persons so that they can assess whether the purpose of Part 4 is being met.
Input methodologies	This involves setting upfront regulatory rules, processes and requirements applying to regulation under Part 4, and for undertaking Part 4 inquiries (eg, rules for valuing assets and calculating the cost of capital).
Major trader programme	A programme using our risk-based approach that identifies major traders to focus on. It provides them with information and tools to help raise their levels of compliance.

Market definition	The process of identifying the relevant market for goods or services as well as other goods or services that, as a matter of fact and commercial common sense, is substitutable for them. The market so defined will be the area of close competition between firms.
Market structure cases	Investigations into mergers that might substantially lessen competition in a market and that do not have the protection of a clearance.
Merger	A merger is a combination of two or more business enterprises into a single enterprise. Colloquially, mergers also include business acquisitions that involve the acquisition of assets or shares of a business.
Mobile Termination Access Service (MTAS)	The hand-over of calls or text messages to a mobile service provider. For the purposes of the Commission's recent MTAS investigation, MTAS included mobile-to-mobile termination, fixed-to-mobile termination and termination of SMS messages.
Price-quality path	Under Part 4 of the Commerce Act 1986 (subparts 9 and 10), non-exempt suppliers of electricity lines services and suppliers of gas pipeline services are subject to default/customised price-quality regulation.
Product safety and information standards cases	Investigations of products such as bikes, cots and children's toys that might be unsafe, as well as the incorrect labelling of footwear and clothing, and failure to display required information on motor vehicles offered for sale.
Substantially lessening competition	Substantial lessening of competition concerns a real or substantial impact on a market in the way of a lessening, hindering or preventing of the process of workable or effective competition.
System Average Interruption Duration Index (SAIDI)	This is the average outage duration for each customer served, and is calculated as the sum of all customer duration interruptions divided by the total number of customers served.
System Average Interruption Frequency Index (SAIFI)	This is the average number of interruptions that a customer experiences and is calculated as the total number of customer interruptions divided by the total number of customers served.
Telecommunications Service Obligations (TSO)	This is an obligation to supply certain telecommunications services to groups of end-users who may not otherwise be supplied on a commercial basis or at a price that is considered to be affordable.
Ultra-Fast Broadband (UFB) Initiative	The Government has contracted with Chorus, WEL Networks, Northpower and Enable Networks to build and operate fibre-to-the-premises networks in 75% of New Zealand.
Unbundled bitstream access (UBA)	This is a regulated service giving wholesale access to Telecom's DSL full speed broadband service. Commercial variants are also available.
Unbundled copper local loop (UCLL)	This is wholesale access to the copper line connecting a phone user to the local exchange.
Unilateral conduct cases	Investigations into prohibited conduct by a person or a business, including taking advantage of their dominant position in a market for an anti-competitive purpose, or specifying a minimum price at which its goods or services can be sold by another.



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