

Timaru District Holdings Limited

Annual Report for the Year Ended 30 June 2016

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2016 ANNUAL REPORT

The directors are pleased to present the annual report for Timaru District Holdings Limited for the year ended 30 June 2016.

On behalf of the Board:



Damon Odey
Chairperson
2 September 2016



Richard Lyon
Director
2 September 2016

DIRECTORY

Directors

Damon J. Odey (Chairman)

Ian R. Fitzgerald (Deputy Chairman)

Steven A. Earnshaw

Richard L. Lyon

Richie J. Smith

Registered Office

2 King George Place

TIMARU

Postal Address

P O Box 522

TIMARU

Telephone: (03) 687 7200

Auditor

Audit New Zealand, Christchurch

On behalf of the Auditor-General

Bankers

Bank of New Zealand

Stafford Street

TIMARU

ANZ

Riccarton Road

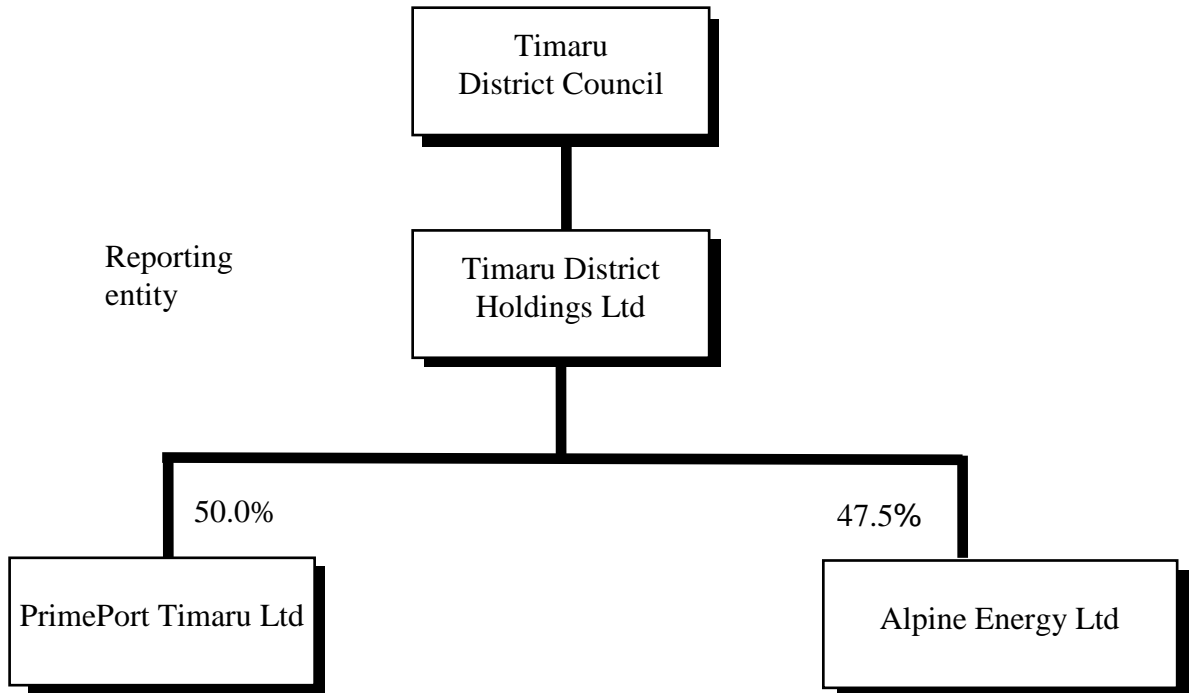
CHRISTCHURCH

Solicitors

Buddle Findlay

CHRISTCHURCH

ORGANISATIONAL STRUCTURE



TIMARU DISTRICT HOLDINGS LIMITED

ANNUAL REPORT 2015/16

CHAIRMAN'S REPORT

I have pleasure in presenting the Annual Report of Timaru District Holdings Limited (TDHL) for the year ended 30 June 2016.

Timaru District Council established the Company in October 1997 with the prime objective of providing an improved level of governance on behalf of the Council in respect of investment in various companies.

In the years following the company divested itself of some of the companies and now Timaru District Holdings Limited has investments in PrimePort Timaru Limited (PrimePort) and Alpine Energy Limited (Alpine Energy) which are both considered to be very important to the economic growth of South Canterbury. TDHL has recently invested into the Hunter Downs Irrigation scheme. TDHL also contributed to Te Ana Whakairo Limited which established and now operates the Te Ana Ngai Tahu Rock Art centre in Timaru.

In 2013, TDHL reduced its shareholding in PrimePort to 50%, with the other 50% being held by Port of Tauranga. TDHL also acquired a number of commercial properties located at the port at this time. Through this alliance with the Port of Tauranga, we have seen the port flourish. PrimePort is now well positioned with a growing container trade, and able to concentrate on building the bulk trades through the Port.

PrimePort achieved a before tax profit of \$4.1 million for the year which exceeded the previous year which had been a record year. The year's results continue to reflect a strong growth in bulk trades and improved margins resulting from the business transformation.

Alpine Energy experienced an after tax profit of \$17.05 million compared to \$16.69 million the previous year with the majority of the financial targets being achieved.

FINANCIAL PERFORMANCE

The operating surplus after tax was \$7.6 million for the year ended 30 June 2016. This is lower than the previous year of \$10.2 million due to the write off and removal of damaged earthquake prone buildings.

Results for the Year Ended 30 June 2016

	Actual 2016 \$000	Budget 2016 \$000	Actual 2015 \$000
<i>Operating Income</i>			
Alpine Energy Limited Dividend	4,024	3,985	3,789
PrimePort Timaru Limited Dividend	653	400	300
Property Rentals	1,908	1,734	1,848
Share of Associate Surplus	4,988	0	5,203
Other	286	1,249	2,601
	<u>11,859</u>	<u>7,368</u>	<u>13,741</u>
Financial costs	1,795	2,071	2,085
Other Operating Expenditure	2,333	783	1,355
Operating Surplus	7,731	4,514	10,301

Tax charge / (benefit)	85	36	105
Net Surplus after Income Tax attributable to Shareholders	7,646	4,478	10,196

The principal activity of TDHL is to operate as a successful business. It does this through its own Statement of Intent negotiated each year with its sole shareholder the Timaru District Council and through its Statements of Corporate Intent negotiated with its associated entities.

One of its prime objectives is to maximise the return from, and the value of the associated trading companies to the Timaru District Council.

The directors of TDHL monitor the activities of PrimePort and Alpine Energy during the year to ensure that those companies adhere to their respective Statements of Corporate Intent.

All Statements of Corporate Intent were reviewed to ensure that they reflected the policies and objectives of the Timaru District Council, the sole shareholder of TDHL.

TDHL directors were kept well informed of all matters relating to the activities of Alpine Energy and PrimePort. At the same time TDHL kept its sole shareholder, Timaru District Council, informed of all matters of substance affecting the company as associate companies by way of quarterly reports to the Council.

TDHL owns and operates the portfolio of commercial properties located surrounding the Timaru port. During the year, structural assessments have been undertaken on all buildings. A number were identified as being 'earthquake prone' and these buildings have been demolished. This has also enabled TDHL to have sites available for future developments.

Timaru District Holdings Limited was able to pay the forecast dividends to its shareholder and maintains a strong balance sheet.

Alpine Energy Limited

TDHL has a 47.5% shareholding in Alpine Energy Limited.

The principal activity of Alpine Energy is ownership of its electricity distribution network. The group, comprising Alpine Energy Limited and its subsidiary and associated entities also undertakes asset management and contracting services. Alpine Energy achieved an excellent result for the year ended 31 March 2016, and continues to maintain a very strong balance sheet. The volume of energy delivered in the 2015/16 year over Alpine's distribution network was 1.51% higher than the previous year. Installation Control Points (ICP's), a measure of the number of connections on the network. Increased by 0.83% to 31,936. After tax earnings were higher the previous year and dividend levels were increased. Network capital expenditure was \$14.47 million for the year. The financial performance for the Alpine group exceeded most performance targets set in the Statement of Corporate Intent for the 2015/16 year.

Growth is expected to remain positive over the coming years as Alpine Energy continues to pursue their vision as an integrated energy delivery solutions provider in the strengthening the core distribution business, along with securing opportunities utilising new technologies and establishing commercial partnerships.

A valuation of the shares in Alpine Energy Limited was undertaken as at 31 March 2016. This valuation assessed the value of the shares held by Timaru District Holdings Limited as being \$181 million. This compares very favourably compared to the \$60.4 million currently recorded as the value of Alpine Energy in the Statement of Financial Position.

The summarised results for the year are noted below. A more detailed review of Alpine Energy's performance can be found in its published Annual Report for the year ended 31 March 2016.

RESULTS FOR THE YEAR ENDED 31 MARCH 2016

	Group	
	2016	2015
	\$000	\$000
Operating Surplus Before Tax	23,622	22,153
Income Tax	(6,568)	(5,461)
Net Surplus after Income Tax attributable to the Shareholders	17,054	16,692

PrimePort Timaru Limited

TDHL has a 50% shareholding in PrimePort Timaru Limited with the other 50% shareholding held by Port of Tauranga Limited. The principal activity of PrimePort is the efficient and cost effective transfer of commodities between land and water transport systems.

PrimePort had another record year result wise as the Company continues to develop its infrastructure, operations for its customers and wider stakeholder group. Highlights for the year included the refurbishment of the number 2 wharf, the commencement of the Holcim cement trade, the purchase of additional land and buildings adjoining the port and increased container volumes processed the port.

Non containerised cargo volumes increased by 3% over the previous year. Log exports increased, which along with the new cement trade, offset reduced volumes for fuel and stock feed imports.

The summarised results for the year are set out below. A more detailed review of the PrimePort's performance can be found in its published Annual Report for the year ended 30 June 2016.

	Group	
	2016	2015
	\$000	\$000
Revenue	16,065	15,366
Operating expenses	11,359	11,375
Net Surplus before taxation	4,706	3,991
Port Investment Property revaluations	154	253
Taxation	(1,318)	(1,089)
Net Surplus after taxation	3,542	3,155

Conclusion

The 2015/16 year has been a successful year for Timaru District Holdings Limited. Excellent results have been achieved by both PrimePort and Alpine Energy and the TDHL property portfolio is generating positive returns for the company.



Damon Odey
Chairman

**TIMARU DISTRICT HOLDINGS LIMITED
STATUTORY INFORMATION**

For the year ended 30 June 2016

Directors

Timaru District Holdings Limited
Damon J. Odey (Chairman)
Ian R. Fitzgerald
Steven A. Earnshaw
Richard L. Lyon
Richie J. Smith

Entries made in the interests register

The following entries were recorded in the interests registers of the Company:

Damon J Odey

Timaru District Council – Mayor
PrimePort Timaru Limited - Director
Parr and Co Limited – Director
Diverse Investments Limited – Director
The Pool and Leisure Centre Limited - Director
Yedo Investments Limited – Director
Parr Lift Limited – Director
Air and Power Industrial Limited – Director
Parr Dairy Limited – Director
Hunter Downs Water Limited - Director

Ian R Fitzgerald

Burleigh Evatt – Director
Ngai Apa kit e Ra To Investments – Chairman
Matavai Niue Limited – Chairman
Niue Development Bank – Chairman
Telecom Niue - Chairman
Niue Commercial Enterprises – Director
University of Waikato Council – Member
NZ Customs Joint Border Management Project Board – Member
Ministry of Foreign Affairs and Trade Audit and Risk Committee - Member
Ministry of Social Development Simplification Programme – Member
Land Information NZ Advanced Survey and Title Services Programme Board - Member

Steven A Earnshaw

Timaru District Council – Councillor
Earnshaw Surgical Ltd – Director
Earnshaw Family Trust - Trustee

Richard L Lyon

Timaru District Council – Councillor

Richie J Smith

Hilton Haulage Limited – Director
Richie Smith Limited – Director
Lands and Survey South Limited – Director
Lands and Survey Auckland Limited – Director
Lands and Survey Queenstown Limited - Director
Ngai Tahu Farming Limited – Director
Maniototo Holdings Limited – Director
West Coast Fresh Limited – Director
Pacific Biocomposites Limited – Director
Biocomposites Limited – Director

Tonhil Investments Limited – Director
 Major Hornblower Holdings Limited – Director
 New Zealand Post Group Limited – Director
 Land and Survey Limited – Director
 Lake Tekapo Village Motel Limited – Director
 Walk On Limited - Director
 Pivot Software Limited – Advisory Board Member
 Tekapo Springs Limited – Advisory Board Member
 Nott Family Trust - Independent Trustee

- Interest in transactions
 All transactions with Directors were entered into during the normal course of business and at normal terms and condition
- Use of company information
 During the year there were no notices from Directors of the Company requesting to use Company information received in their capacity as Directors, which would otherwise have been available to them.
- Shareholding by directors
 There are no shareholdings held by directors.
- Remuneration and other benefits to directors.

Timaru District Holdings Limited	<u>2016</u>	<u>2015</u>
Damon J Odey (Chairman)	\$31,414	\$31,414
Richard L Lyon	\$17,946	\$17,946
Richie J Smith	\$18,000	\$18,000
Ian R Fitzgerald (Deputy Chairman)	\$21,542	\$21,542
Steven A Earnshaw	\$17,946	\$17,946
	<hr/> \$106,848	<hr/> \$106,848

- Indemnity and Insurance: Directors and Employees
 Timaru District Holdings Limited
 The Company has entered into an agreement to indemnify all Directors, Company Secretary, and Executive Officer, against loss resulting from the actions which arise out of the performance of their normal duties as director or advisor.

Dividends

Interim dividends of 175.00 cents per share were paid during the year.

Having considered the solvency of the company, the directors resolved that a fully imputed final dividend of 57.6 cents per share be paid to shareholders on 29 July 2016.

Employee's remuneration

The company does not have any employees.

Donations

During the year Timaru District Holdings Limited made no donations. (2015:\$3,000 to Te Ana Whakairo Ltd).

Changes in Accounting Policies

All policies have been applied on a consistent basis with the previous year.

Auditors' Remuneration

During the year the following amounts were payable to the auditors of the company:

<u>Company</u>	<u>Audit Work</u>	<u>Other Services</u>
Timaru District Holdings Limited	\$13,500	\$0

STATEMENT OF OBJECTIVES AND PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2016

The principal activity of the company is to operate as a successful business.

The objectives of the company for this financial year are specified in the Statement of Intent which was approved by the shareholders. These objectives are listed below and the performance achieved during the financial year.

Objective

To maximise the return from, and the value of, the associate trading companies to the Timaru District Council, as the shareholder in Timaru District Holdings Limited.

Achievement:

(i) **Alpine Energy Limited**

The Alpine Energy Group produced a better than expected result for the 2015/16 financial year, with very strong earnings. Some of the financial performance targets as stated in their Statement of Intent were increased from previous years and most of these were met.

Performance Measure	Target	Achieved
Ratio of shareholders equity to total assets	59%	59.3%
Ratio of net profit after tax to shareholders equity	12.0%	13.4%
Net Tangible assets per share	\$5.42	\$5.34
Earnings per fully paid share	38.4 cps	41.3 cps
Dividend per fully paid share	20.5 cps	20.5 cps

(ii) **PrimePort Timaru Limited**

PrimePort Timaru continues to grow in the changing operating environment. They achieved an increased operating surplus for the 2015/16 year and the majority of the performance targets as stated in their Statement of Intent were achieved.

Performance Measure	Target	Achieved
Return on total assets	4.49%	Yes
Ratio of net profit after tax to shareholders equity	6.52%	Yes
Net Tangible assets per share	\$5.47	Yes
Earnings per fully paid share	36 cps	Yes
Dividend per fully paid share (proposed)	0.0 cps	Yes

Objective

To ensure insofar as it is lawfully able, that the Statements of Intent of each of the Company's subsidiaries and associates reflects the policies and objectives of the Timaru District Council and Timaru District Holdings Limited in the area of activity or operation of that subsidiary or associate.

Achievement:

All Statements of Intent were reviewed and considered to be in line with Timaru District Council policies and objectives.

Objective

To monitor the activities of the companies to ensure that the respective Statements of Intent are adhered to.

Achievement:

All Statements of Intent were adhered to during the year.

Objective

To keep the Timaru District Council informed of matters of substance affecting the company.

Achievement: The Timaru District Council was informed on a quarterly basis on the performance of the Company and its associates. Presentations were also made to the Council on various matters.

Objective

To ensure that regular reporting of results from the associate companies occurs to the Holding Company.

Achievement: Monthly summary reports were received from Alpine Energy Limited and PrimePort Timaru Ltd.

Objective

To approve Statements of Intent, after reference to Council, for each of TDHL's associates through which the performance (particularly the financial performance) will be monitored, and to confer with each company on their long term strategic direction.

Achievement: Timaru District Holdings Limited has after reference to the Timaru District Council approved all Statements of Intent.

Timaru District Holdings Limited has been kept informed of Alpine Energy Limited's and PrimePort Timaru Limited's long term strategic direction.

Objective

To liaise with Alpine Energy Ltd and PrimePort Timaru Ltd and Te Ana Whakairo Limited and the other shareholders in these companies on the development of strategic options for the future of these companies.

Achievement: Timaru District Holdings Limited has held discussions with these companies regarding strategic options.

Objective

To make other investments that will benefit the district.

Achievement: No new investments were made during the year.

Objective

To obtain a commercial return and build long term strategic value from the port property portfolio, but to have regard to working in conjunction with PrimePort to ensure operations contribute to the Port business as far as practicable.

Achievement: All new leases and lease renewals during the year were reviewed to ensure commercial returns and contribution to the Port operations wherever possible. Ongoing discussions with PrimePort occurred to develop strategic plans for the port properties.

Objective

To further develop performance objectives for the port property portfolio and commence reporting against these objectives.

Achievement: Specific performance objectives were developed for inclusion in the 2016/17 Statement of Intent.

Timaru District Holdings Limited performance targets

Performance Targets (excluding asset revaluations and buildings written off on demolition, and before associates included)

	Target	Actual
Net profit after tax to shareholders funds	8.57%	8.74%
Net tangible assets per share	\$52.26	\$51.38
Earnings per fully paid share	\$4.48	\$4.49
Dividends paid per full paid share	\$2.25	\$2.33
Shareholder funds to total assets	58.36%	57.85%

Timaru District Holdings Limited
Statement of Comprehensive Income

For the year ended 30 June 2016

	Notes	2016 \$000	2015 \$000
Revenue			
Dividends			
Alpine Energy Limited		4,024	3,789
PrimePort Timaru Limited		653	300
Interest		177	201
Subvention Income			
Timaru District Council interest on loan		928	1,112
Property rentals	2	1,908	1,848
Investment property revaluations		(819)	1,288
Share of Associate Surplus	8	4,988	5,203
		11,859	13,741
Expenses			
Operational expenses	1	914	706
Employee benefit expenses		0	0
Interest on Timaru District Council loan		928	1,112
Redeemable Preference Share dividends		0	0
External finance costs		867	973
Loss/(gain) on changes in fair value of derivative financial instruments		404	649
Impairment/assets written off on demolition		1,015	0
Depreciation		0	0
		4,128	3,440
OPERATING SURPLUS/(DEFICIT) BEFORE TAX		7,731	10,301
Tax Expense/(Benefit)	3	85	105
OPERATING SURPLUS/(DEFICIT) AFTER TAX		7,646	10,196
<i>Operating Surplus/ (Deficit) attributable to:</i>			
Timaru District Holdings Limited		7,646	10,196
Other Comprehensive Income			
Operating land revaluations		0	0
Other Comprehensive Income for the year		0	0
TOTAL COMPREHENSIVE INCOME		7,646	10,196
<i>Total Comprehensive Income attributable to:</i>			
Timaru District Holdings Limited		7,646	10,196

The accompanying accounting policies and notes form part of these financial statements.

Timaru District Holdings Limited

Statement of changes in Equity

For the year ended 30 June 2016

	2016	2015
	\$000	\$000
Total Comprehensive income	7,646	10,196
Dividends declared	(2,326)	(1,599)
Transaction with owners	(2,326)	(1,599)
Equity at the beginning of year	74,033	65,436
Equity at end of year	79,353	74,033

The accompanying accounting policies and notes form part of these financial statements.

Timaru District Holdings Limited

Statement of Financial Position

As at 30 June 2016

	Notes	2016 \$000	2015 \$000
EQUITY			
Share capital	4	1,000	1,000
Retained Earnings	4	<u>78,353</u>	<u>73,033</u>
Total Equity		<u><u>79,353</u></u>	<u><u>74,033</u></u>
REPRESENTED BY:			
ASSETS			
Current assets			
Cash and cash equivalents	6	3	1,999
Other financial assets	6	3,950	2,450
Receivables and Prepayments	5	2,635	2,723
Taxation refund		0	0
Inventories		<u>0</u>	<u>0</u>
Total current assets		<u><u>6,588</u></u>	<u><u>7,172</u></u>
Non current assets			
Other financial assets	6	141	141
Future tax benefits	3	75	160
Property, plant and equipment		0	0
Investment properties	7	22,174	24,084
Investments in associates	8	<u>87,824</u>	<u>82,836</u>
Total non current assets		<u><u>110,214</u></u>	<u><u>107,221</u></u>
Total assets		<u><u>116,802</u></u>	<u><u>114,393</u></u>
LIABILITIES			
Current liabilities			
Payables and accruals	10	1,234	1,349
Taxation payable		0	0
Derivative financial instruments		275	143
Current portion of term loans	11	<u>0</u>	<u>0</u>
Total current liabilities		<u><u>1,509</u></u>	<u><u>1,492</u></u>
Non current liabilities			
Term loans	11	35,080	38,280
Derivative financial instruments		860	588
Total non current liabilities		<u><u>35,940</u></u>	<u><u>38,868</u></u>
Total liabilities		<u><u>37,449</u></u>	<u><u>40,360</u></u>
NET ASSETS		<u><u>79,353</u></u>	<u><u>74,033</u></u>



Damon Odey
Chairman
2 September 2016



Richard Lyon
Director
2 September 2016

The accompanying accounting policies and notes form part of these financial statements.

Timaru District Holdings Limited

Statement of Cash Flows

For the year ended 30 June 2016

	Notes	2016 \$000	2015 \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from:			
Receipts from customers		2,042	2,057
Subvention receipt		1,112	934
Dividends received		4,583	4,010
Interest received		178	179
		7,915	7,180
Cash was disbursed to:			
Payments to suppliers and employees		889	603
Taxes and Subvention payments		0	0
Interest Paid		1,988	1,887
Redeemable Preference Share dividends paid		0	0
GST (net)		84	183
		2,961	2,673
Net cash inflow/(outflow) from operating activities	12	4,954	4,507
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from:			
Proceeds from sale of fixed assets		76	0
Proceeds from sale of investment property		0	0
Proceeds from realisation of investments		0	0
		76	0
Cash was applied to:			
Purchase of fixed assets		0	322
Purchase of investments		1,500	1,098
		1,500	1,420
Net cash inflow/(outflow) from investing activities		(1,424)	(1,420)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from:			
Issue of shares		0	0
Proceeds from term loan		0	0
		0	0
Cash was applied to:			
Dividends paid		2,326	2,193
Redemption of redeemable preference shares		0	0
Repayment of loans		3,200	900
		5,526	3,093
Net cash inflow/(outflow) from financing activities		(5,526)	(3,093)
Net increase in cash held		(1,996)	(6)
Add opening cash		1,999	2,005
Closing cash balance		3	1,999
Made up of:			
Cash and cash equivalents		3	1,999
Closing cash balance		3	1,999

The accompanying accounting policies and notes form part of these financial statements.

TIMARU DISTRICT HOLDINGS LIMITED

STATEMENT OF ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2016

Reporting entity

Timaru District Holdings is a Council Controlled Organisation as defined in section 6 of the Local Government Act 2002. The company is wholly owned by Timaru District Council. The company began operation on 29 October 1997.

The entity consists of Timaru District Holdings Limited, and associated entities, PrimePort Timaru Limited (50%) and Alpine Energy Limited (47.50%). All entities are incorporated in New Zealand.

The financial statements of Timaru District Holdings Limited have been prepared in accordance with the requirements of the Companies Act 1993, the Local Government Act 2002 and New Zealand International Financial Reporting Standards.

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. Compliance with NZ IFRS ensures that the financial statements also comply with International Financial Reporting Standards (IFRS). The company is a Tier 2 reporting entity. The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$000). The functional currency of Timaru District Holdings Limited is New Zealand dollars.

Measurement base

The accounting principles recognised as appropriate for the measurement and reporting of earnings and financial position on an historical cost basis are followed.

Accounting policies

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

Associate companies

These are companies in which Timaru District Holdings Limited has a significant influence over commercial and financial policy decisions.

Timaru District Holdings Limited holds a 50% shareholding in PrimePort Timaru Limited and a 47.50% shareholding in Alpine Energy Limited, and participates in their commercial and financial policy decisions. The investments are included in the parent entity at cost less any impairment losses.

The interest in the associate companies has been reflected in the financial statements on an equity accounting basis, which shows the share of surplus/deficits in the statement of comprehensive income and the share of post acquisition increases/decreases in net assets in the statement of financial position.

Goods and Services Tax

All items in the financial statements are exclusive of goods and services tax (GST) with the exception of receivables and payables which are stated with GST included. Where GST is irrecoverable as an input tax then it is recognised as part of the related asset or expense. Timaru District Holdings Limited became registered for GST in January 2007 and all parent transactions prior to this time are recorded inclusive of any GST.

Revenue

Revenue from the rendering of services is recognised in the profit or loss at the completion of transactions at balance date. Revenue from sale of goods is recognised when ownership is transferred. Rental and sub-lease income is recognised on a straight line basis over the term of the lease.

No revenue is recognised if there are significant uncertainties regarding recovery of consideration due.

Dividends are recognised net of imputation credits when the right to receive payments has been established.

Expenses

Operating lease payments are recognised in the profit or loss on a straight line basis over the term of the lease.

All borrowing costs, except for those relating to a qualifying asset, are recognised as an expense in the period they are incurred using the effective interest rate method.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

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

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences. Deferred tax liabilities are generally recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in associates, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised.

Current tax and deferred tax is charged or credited to the profit or loss, except when it relates to items charged or credited directly to equity or other comprehensive income, in which case the deferred tax is also dealt with in equity or other comprehensive income respectively.

Cash and cash equivalents

Cash and cash equivalents means cash balances on hand, held in bank accounts, demand deposits and other highly liquid investments in which the company invests as part of its day-to-day cash management.

Accounts receivable

Accounts receivable are initially measured at fair value and subsequently measured at amortised cost using the effective interest method less any provision for impairment.

Investments

Investments, including those in associate companies, are stated at cost less any impairment losses. Any decreases are recognised in the profit or loss.

Investment properties

Land and buildings held to earn rental income or for capital appreciation or both are deemed port related investment property. This includes land held for a currently undetermined use that is not owner-occupied property or for short term sale.

Investment property is valued at the end of each financial year. Valuation is at fair value as determined by a qualified independent valuer. They are recorded at valuation and are not subject to annual depreciation. Variation in value is recorded in the profit or loss.

Non Current assets intended for Sale

Non-current assets held for sale are classified as held for sale if their carrying amount will be recovered principally through a sale transaction within the next financial year. Non-current assets held for sale are valued at the lower of carrying amount and fair value to sell less costs to sell.

Any impairment losses for write-downs of non-current assets held for sale are recognised in the profit or loss. Any increases in fair value (less costs to sell) are recognised up to the level of any impairment losses that have been previously recognised.

Non-current assets held for sale are not depreciated or amortised while they are classified as held for sale.

Accounts Payable

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

Provisions

A provision is recognised when the company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market rates and the risks specific to the liability.

Financial instruments

The company is party to non-derivative financial instruments as part of its normal operations. These financial instruments include bank accounts, short term deposits, debtors, prepayments, creditors and loans. All financial instruments are recognised in the Statement of Financial Position and all revenues and expenses in relation to financial instruments are recognised in the profit or loss.

Except for loans, which are recorded at cost, and those items covered by a separate accounting policy, all financial instruments are shown at their estimated fair value.

The company uses derivative financial instruments to hedge its exposure to interest rate risks arising from its activities. Derivative financial instruments are stated at fair value. The gain or loss on re-measurement to fair value is recognised in the profit or loss.

The fair value of interest derivatives is based on market factors the issuer believes to be relevant and in accordance with their policies.

Financial instruments are recognised once the company becomes a party to the contractual provisions of the instrument. Financial instruments are derecognised once the contractual rights expire or are transferred to another party without retaining control or substantially all risks or rewards of ownership associated with the instruments. Fair values are determined at balance date when required.

Leases

A finance lease is a lease that transfers to the lessee substantially all the risks and rewards incidental to ownership of an asset. Financial leases are recognised as assets and liabilities in the Statement of Financial Position at the lower of the fair value of the leased item or the present value of the minimum base payments. The amount recognised as an asset is depreciated over its useful life.

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

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less any transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised costs with any difference between cost and redemption value being recognised in the profit or loss over the period of the borrowings on an effective interest rate. Except for borrowing costs that are capitalised on qualifying assets with a commencement date on or after 1 January 2009, all other borrowing costs are recognised as an expense in the period in which they are incurred. A qualifying asset is defined as a

separate asset where the construction period exceeds twelve months and costs in excess of one million dollars.

Impairment

The carrying amount of the company's assets are reviewed each balance date to determine whether there is any indication of impairment. If any such indication exists, the assets recoverable amount is estimated. If the estimated recoverable amount of an asset not carried at devalued amount, is less than its carrying amount, the asset is written down to its estimated recoverable amount and an impairment loss is recognised in profit or loss.

For revalued assets the impairment loss is recognised against the revaluation reserve for that asset. Where that results in a debit balance in the revaluation reserve, the balance is recognised in profit or loss. Estimated recoverable amount of receivables is calculated as the present value of estimated cash flows discounted at their original effective interest rate. Receivables with short duration are not discounted. Other assets estimated recoverable amount is the greater of fair value less costs to sell and value in use. Value in use is determined by estimating future cash flows from the use and ultimate disposal of the asset and discounting these to their present value using a pre-tax discount rate that reflects current market rates and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Impairment losses are reversed when there is a change in the estimates used to determine the recoverable amount.

For assets not carried at revalued amount, the reversal of an impairment is recognised in the profit or loss.

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

Statement of cash flows

Cash and cash equivalents means cash balances on hand, held in bank accounts, demand deposits and other highly liquid investments in which the company invests as part of its day-to-day cash management.

Operating activities include cash received from all income sources of the company and records the cash payments made for the supply of goods and services.

Investing activities are those activities relating to the acquisition and disposal of non-current assets.

Financing activities comprise the change in equity and debt capital structure of the company. Dividends paid are included in financing activities. Loans raised and paid are netted off when they are part of the rollover of money market borrowings covered in the company's long-term finance facilities.

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

Critical accounting estimates and assumptions

In preparing these financial statements, Timaru District Holdings Limited has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations or future events that are believed to be reasonable under the circumstances.

Changes in accounting policies

All policies have been applied on a consistent basis with the previous year.

TIMARU DISTRICT HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED
30 JUNE 2016

Note 1: Operational expenses

	2016	2015
	\$000	\$000
Directors' fees	107	107
Audit fees - annual accounts audit	14	14
- Other	0	0
Operating lease costs	0	0
Holding company operating costs	793	582
Bad debts written off	0	0
Donations	0	3
	914	706

Note 2: Property rentals

	2016	2015
	\$000	\$000
Investment property rentals	1,908	1,848
	1,908	1,848

Yields currently range from 7 – 7.5% on freehold land value determined at the time of rent review for investment land leases. Ground lease terms and conditions vary widely with a number of perpetually renewable leases. Rent review terms also vary between 1 year to 21 years. Direct operating expenses related to investment properties amounts to \$642,057 (2015: \$498,635). Included in these figures are \$0 (2015: \$2,252) of direct operating expenses arising from investment property that did not generate rental income during the year.

	2016	2015
	\$000	\$000
Operating lease receivables		
Non cancellable operating lease receivables		
Not later than one year	1,406	1,180
Later than one year but not later than 2 years	1,242	1,315
Later than 2 years but not later than 5 years	3,046	4,361
Later than 5 years	6,839	6,075
	12,533	12,931

Note 3: Taxation

	2016	2015
	\$000	\$000
Surplus/(deficit) before taxation	7,731	10,301
Prima facie taxation at 28%	2,165	2,884
Plus/(less) taxation effect of:		
Non taxable income	(2,477)	(2,962)
Non taxable expenditure	397	183
Prior period adjustment	0	0
Tax expense/ (Benefit)	<u>85</u>	<u>105</u>

	2016	2015
	\$000	\$000
Comprising:		
Current tax	0	0
Deferred tax	85	105
Prior Period adjustment	0	0
	<u>85</u>	<u>105</u>

Future tax benefit /(deferred taxation)		
Opening balance	160	265
Temporary Differences		
Long Term assets	0	0
Employee entitlements	0	0
Prior period adjustment	0	0
Others	85	105
Closing balance	<u>75</u>	<u>160</u>

Future tax benefit /(deferred taxation) is represented by:

Long Term assets	0	0
Employee entitlements	0	0
Tax losses	75	160
Others	0	0
Closing balance	<u>75</u>	<u>160</u>

The utilisation of the deferred tax asset of \$75,000 is dependent on future taxable profits.

	2016	2015
	\$000	\$000
Imputation credit account		
Balance as at 1 July	9,806	9,099
Credits attached to dividends received	1,782	1,560
Credits attached to dividends paid	(905)	(853)
Income tax payments	0	0
Income tax refunds	0	0
Balance at 30 June	<u>10,683</u>	<u>9,806</u>

Note 4: Equity

◇ (a) Share capital

	2016	2015
	\$000	\$000
Opening balance	1,000	1,000
Issues during the year	0	0
Balance at 30 June	1,000	1,000

At 30 June 2016 the company has issued 1,000,000 shares which are fully paid, and 18,550,000 shares at an issue price of \$1.35 per share. Calls to date on these 18,550,000 shares amount to \$185.50. All ordinary shares carry equal voting rights and the right to share in any surplus on winding up of the company. None of the ordinary shares carry fixed dividend rights.

◇ (b) Retained earnings

	2016	2015
	\$000	\$000
Retained earning at 1 July	73,033	64,436
Net operating surplus/(deficit)	7,646	10,196
Dividends Declared	(2,326)	(1,599)
Retained earnings at 30 June	78,353	73,033

As at 30 June 2016, no dividends have been declared that have not yet been paid (2015: \$nil).

Note 5: Receivables and prepayments

	2016	2015
	\$000	\$000
Trade debtors	98	73
Prepayments	0	23
	98	96
Amount owing by Timaru District Council	927	1,112
Amount owing by associates	1,610	1,515
Total receivables and prepayments	2,635	2,723

Trade debtors are non-interest bearing and receipt is normally on 30 day terms, therefore their carrying value approximates their fair value.

Trade debtors are shown net of impairment losses arising from the likely non-payment of a small number of customers. As at 30 June 2016 all overdue receivables had been assessed for impairment and appropriate provisions applied. The ageing of receivables for the company is as follows:

	2016			2015		
	Gross \$000	Impairment \$000	Net \$000	Gross \$000	Gross \$000	Gross \$000
Not past due – under 30 days	2,626	0	2,626	2,678	0	2,678
Past due – 30 to 60 days	1	0	1	12	0	12
Past due – 60 to 90 days	1	0	1	32	0	32
Past due – over 90 days	7	0	7	1	0	1
	<u>2,635</u>	<u>0</u>	<u>2,635</u>	<u>2,723</u>	<u>0</u>	<u>2,723</u>

The provision for impairment has been determined on an analysis of bad debts in previous periods and review of specific debtors. The movement in the provision for impairment is as follows:

	2016 \$000	2015 \$000
Balance as at 1 July	0	0
Additional provisions made during the year/(provisions released)	0	0
Trade debtors written off during period	0	0
	<u>0</u>	<u>0</u>

Note 6: Cash and cash equivalents and other financial assets

	2016 \$000	2015 \$000
Cash and cash equivalents		
Cash	3	49
Short term investments	0	1,950
	<u>3</u>	<u>1,999</u>

	2016 \$000	2015 \$000
Other financial assets		
Short term investments	3,950	2,450
Investment in Hunter Downs Irrigation – non current	141	141
	<u>4,091</u>	<u>2,591</u>

Other financial assets are short term deposits with terms over 90 days. The carrying amount of short term deposits approximates their fair value. There were no impairment provisions for other financial assets. None of the financial assets are either past due or impaired.

Note 7: Investment Property

Investment Properties

	2016	2015
	\$000	\$000
Opening balance	24,084	22,471
Revaluation	(819)	1,288
Write offs – demolitions	(1,015)	0
Sales	(76)	0
Purchases	0	325
	<u>22,174</u>	<u>24,084</u>
Land at valuation	20,346	21,209
Building at valuation	1,828	2,875
	<u>22,174</u>	<u>24,084</u>

Investment property held by the company was independently valued as at 30 June for the 2016 financial year by Ian Fairbrother VP (Urban) FNZIV, FPINZI, a registered valuer with Telfer Young (Canterbury) Limited. The valuation is based on fair value. In determining fair value, Mr Fairbrother has used the rental capitalisation approach. This method uses unobservable inputs (level 3 as defined by NZ IFRS 13). This method is based upon assumptions including future rental income and appropriate discount rates. The valuations have been completed in accordance with International valuation standards by an experienced valuer with extensive market knowledge in the types of investment property owned by the company.

Where property is leased as land and buildings generally on short term lease terms, the property has been valued at freehold land value. Where land is subject to a ground lease, the property has been valued at the lessor's interest in the land.

There are no investment properties where title is restricted. There are no current contractual obligations to purchase, construct or develop investment property. There is a contract commitment to complete the demolition of one building.

Note 8: Investments in associate companies

PrimePort Timaru Ltd

Principal activity: Port operator
Ownership: 50.0% (2015: 50.0%)
Balance date: 30 June

Results of Associate

	2016	2015
	\$000	\$000
Share of Operating Surpluses before tax	2,430	2,122
Taxation	(659)	(545)
Share of Operating Surplus	<u>1,771</u>	<u>1,577</u>
Share of Other Comprehensive Income	281	409
Share of Total Recognised Revenues and Expenses	<u>2,052</u>	<u>1,986</u>

Interest in Associate

	2016	2015
	\$000	\$000
Balance at Beginning of Year	22,393	20,707
Fair value at time of recognition	0	0
Recognised Revenues and Expenses	2,052	1,986
Dividends	(653)	(300)
Balance at End of Year	<u>23,792</u>	<u>22,393</u>
Movements in Reserves		
Share of Recognised Revenues and Expenses	<u>2,052</u>	<u>1,986</u>
	2,052	1,986
Dividends Paid	<u>(653)</u>	<u>(300)</u>
Share of Retained Surpluses	<u>1,399</u>	<u>1,686</u>

Summarised financial information of PrimePort Timaru Limited presented on a gross basis

	2016	2015
	\$000	\$000
Current Assets	3,999	4,382
Non Current Assets	73,547	50,968
Current Liabilities	1,992	2,356
Non Current Liabilities	27,212	7,450
Revenues	16,065	15,366
Profit or loss from continuing operations	3,542	3,155
Other Comprehensive Income	562	818
Total Comprehensive Income	4,104	3,973

Alpine Energy Ltd

Principal activity: Electricity Distribution

Ownership: 47.50% (2015: 47.50%)

Balance date: 31 March

Results of Associate

	2016	2015
	\$000	\$000
Share of Operating Surpluses before tax	11,221	10,523
Taxation	<u>(3,120)</u>	<u>(2,594)</u>
Share of Operating Surplus	8,101	7,929
Revaluation Reserve movements	<u>(488)</u>	<u>(623)</u>
Share of Total Recognised Revenues and Expenses	<u>7,613</u>	<u>7,306</u>

Interest in Associate

	2016	2015
	\$000	\$000
Balance at Beginning of Year	60,443	56,926
Recognised Revenues and Expenses	7,613	7,306
Dividends	(4,024)	(3,789)
Balance at End of Year	<u>64,032</u>	<u>60,443</u>
Movements in Reserves		
Share of Recognised Revenues and Expenses	<u>7,613</u>	<u>7,306</u>
	7,613	7,306
Dividends Paid	<u>(4,024)</u>	<u>(3,789)</u>
Share of Retained Surpluses	<u>3,589</u>	<u>3,517</u>

Summarised financial information of Alpine Energy Limited presented on a gross basis

	2016	2015
	\$000	\$000
Current Assets	7,978	9,420
Non Current Assets	213,314	192,642
Current Liabilities	12,327	12,034
Non Current Liabilities	77,914	66,532
Revenues	63,851	63,749
Profit or loss from continuing operations	17,054	16,692
Other Comprehensive Income	(1,027)	(1,312)
Total Comprehensive Income	16,027	15,380

Dividends of \$3,710,123 were received during the year including \$1,515,498, which related to 2015. A further \$1,609,726 was receivable at the end of the year.

An independent valuation of the Shares in Alpine Energy Limited was undertaken by Deloitte as at 31 March 2016. This valuation assessed the value of 100% of the shares in Alpine Energy Limited to be in the range of \$376.8 million to \$394.1 million as at 31 March 2016. Based on this valuation, Deloitte also provided a Fair Value of a 47.5% shareholding in Alpine Energy Limited as at 31 March 2016 to Timaru District Holdings Limited which was \$181 million.

Note 9: Bank overdraft

There is no bank overdraft facility in place.

Note 10: Payables and accruals

	2016	2015
	\$000	\$000
Trade creditors and accruals	161	80
Interest payable	939	1,131
Revenue in advance	134	133
Dividends payable	0	0
Directors fees payable	0	5
Total payables and accruals	<u>1,234</u>	<u>1,349</u>

Trade creditors are non-interest bearing and are normally settled on a 30 day basis, therefore the carrying value approximates their fair value.

Note 11: Term loans

	2016	2015
	\$000	\$000
Commercial Bills	12,900	16,100
Loans from Timaru District Council	22,180	22,180
Other loans	0	0
	<u>35,080</u>	<u>38,280</u>
Less current portion	0	0
	<u>35,080</u>	<u>38,280</u>

Effective Interest rates

Loans from Timaru District Council	3.71% to 4.61% (2015: 4.98% to 5.04%)
Wholesale Money Market	3.02% to 3.93% (2015: 3.93% to 5.47%)

Wholesale money market borrowing of \$11,500,000 is on fixed interest rates. The fixed term borrowings are for up to a 5 year term remaining at interest rates of between 5.26% and 5.47%. The average interest rate on wholesale money market borrowings at year end is 5.16%.

Loans from Timaru District Council have no fixed repayment terms.

Maturity dates of the interest rate instruments within the long term facility are:

	2016	2015
	\$000	\$000
Less than one year	0	0
One to two years	0	0
Three to four years	3,000	3,000
Four to five years	8,500	0
Greater than 5 years	0	8,500

Security

Timaru District Holdings Limited commercial bills are secured by a first ranking general security agreement over all property of the company. Loan from Timaru District Council to the Company is secured by Debenture over the company's assets.

Liquidity Risk

Liquidity risk is the risk that the company will have difficulty raising funds to meet commitments as they fall due. The company's short term liquidity is managed by ensuring that there are sufficient committed financing facilities to cover at least \$1 million in excess of anticipated peak borrowing requirement as determined by cashflow forecasts. The maximum amount that can be drawn against borrowing facilities is \$19 million (2015: \$19 million).

Note 12: Reconciliation of net surplus/(deficit) after taxation with net cash flow from operating activities

	2016	2015
	\$000	\$000
Net surplus/(deficit) after taxation	7,646	10,196
Associated entity surpluses	(4,988)	(5,203)
	<u>2,658</u>	<u>4,993</u>
<i>Add/(less) non-cash items:</i>		
Depreciation	0	0
Impairment loss	1,015	0
Loss on fair value of derivatives	404	648
Increase/(decrease) in deferred taxation	85	105
	<u>1,504</u>	<u>753</u>
	<u>4,162</u>	<u>5,746</u>
<i>Add/(less) items classified as investment activity:</i>		
(Gain) on fair value of Investment property	819	(1,288)
Total investing activity items	<u>819</u>	<u>(1,288)</u>
<i>Add/(less) movements in working capital items:</i>		
(Increase)/decrease in receivables and prepayments	88	(73)
(Increase)/decrease in inventories	0	0
Increase/(decrease) in payables and employee entitlements	(115)	122
Increase/(decrease) in provisions	0	0
Working capital movement – net	<u>(27)</u>	<u>49</u>
Net cash (outflow)/inflow from operating activities	<u>4,954</u>	<u>4,507</u>

Note 13: Contingent assets and liabilities

	2016	2015
	\$000	\$000
Contingent assets and liabilities	0	0
Share of contingent liabilities in Associate	0	0
	<u>0</u>	<u>0</u>

Note 14: Commitments

	2016	2015
	\$000	\$000
Equity commitments	0	0
Capital commitments	0	0
Non-cancellable	2016	2015
Operating lease commitments	\$000	\$000

Less than one year	0	0
One to two years	0	0
Two to five years	0	0
Over five years	0	0
Total commitments	0	0

Note 15: Related parties transactions

Timaru District Holdings Limited, PrimePort Timaru Limited and Alpine Energy Limited are considered to be related parties of Timaru District Council.

Related party transactions and balances

Shareholder	2016 \$000	2015 \$000
Services provided to Timaru District Council	929	1,113
Services received from Timaru District Council	1,126	1,168
Rates paid to Timaru District Council	223	265
Amounts owing to Council (interest)	928	1,112
Amounts owing to Council (other)	21	36
Loan owing to Council	22,181	22,181
Amounts receivable from Council	928	1,112

Timaru District Holdings Limited paid dividends of \$2,326,000 to Timaru District Council during the year (2015: \$2,192,700).

Remuneration paid to Timaru District Holdings Limited key management personnel totalled \$106,848 (2015: \$106,848). Key management personnel are directors.

The amounts owing to associates are disclosed in Note 10. The amounts receivable from associates are disclosed in Note 5.

Timaru District Holdings Limited is a wholly owned subsidiary of the Timaru District Council.

Parties Associated with Directors

No directors or senior management have entered into related party transactions with the company. No related party debts have been written off or forgiven during the year.

Associated Entities

Alpine Energy Limited

	2016 \$000	2015 \$000
Services provided to associate by Timaru District Council	39	28
Services provided by associate to Timaru District Council	440	308
Amounts owing by associate to Timaru District Council	1	1
Amounts owing by Timaru District Council	44	17

PrimePort Timaru

	2016	2015
	\$000	\$000
Services provided to associate by Timaru District Council	12	51
Services provided by associate to Timaru District Council	0	0
Amounts owing by associate to Timaru District Council	2	0
Amounts owing by Timaru District Council	0	0
Services provided to associate by Timaru District Holdings Ltd	29	32
Services provided by associate to Timaru District Holdings Ltd	0	51
Amounts owing by associate to Timaru District Holdings Ltd	0	2
Amounts owing by Timaru District Holdings Ltd	0	0

Note 16: Financial instruments

Timaru District Holdings Limited is party to financial instruments as part of its everyday operations. These include instruments such as bank balances, investments, accounts receivable, trade creditors, shares in associate companies, and loans.

The company has a series of policies providing risk management for interest rates and the concentration of credit.

The company is risk averse and seeks to minimise exposure from its treasury activities. Its policies do not allow any transactions that are speculative in nature to be entered into. Information used to measure and manage risk includes staff experience, market commentary, strategic planning, financial planning and forecasting, financial reporting, operating and management systems, and risk management audits.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. This could particularly impact on the cost of borrowing or the return on investments.

The weighted average interest rate on the company's investment is:

		2016	2015		
Short term deposits		3.37%	4.03%		
Repricing maturities (\$000)	Less than 6 mths	6-12 mths	1-2 yrs	2-5 yrs	Total
Short term deposits	3,950	0	0	0	3,950

The directors do not consider there is any significant exposure to interest rate risk on its investments.

Term loan liabilities are shown in note 11.

The company has variable rate long term borrowings to fund ongoing activities. Swaps have been entered to manage interest rate fluctuation risks. The principal or contract amounts of interest rate swaps outstanding as at 30 June are as follows:

Interest rate swaps	2016 \$000	2015 \$000
One to two years	0	0
Two to three years	0	0
Three to four years	3,000	3,000
Four to five year	8,500	0
Greater than five years	0	8,500

The carrying value of the financial assets and liabilities are recorded at estimated fair value as described in the accounting policies and notes. The Mark to Market valuation is determined by the bank at the close of business at balance date.

Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Cash flow hedging

Cash flow hedges cover:

Foreign exchange – No significant foreign exchange transactions took place in the financial year.

Interest rate swaps – managing interest rate risks up to 5 years with the impact of the hedge taken up in the profit or loss as they occur.

Interest rate swaps are taken up to lock in interest rates over future periods avoiding interest rate fluctuations.

Credit Risk

Credit risk is the risk that a third party will default on its obligation to the company causing the company to incur a loss.

Financial instruments, which potentially subject the company to risk, consist principally of cash and short-term investments and trade receivables.

The company invests in high credit quality financial institutions, local and government stock and limits the amount of credit exposure to any one financial institution. Accordingly, the company does not require any collateral or security to support financial instruments with organisations it deals with.

Note 17: Financial assets and liabilities

Fair Value

The company carries certain financial assets and financial liabilities at fair value. In accordance with NZ IFRS 13 – Fair Value Measurement, the company uses various methods in estimating the fair value of its financial instruments. The methods comprise:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The fair value measurement of Investment Properties is Level 3 as per Note 7.

The carrying value of financial assets and liabilities are as follows:

	2016	2015
	\$000	\$000
<u>Loans and Receivables</u>		
Cash and cash equivalents	3	1,999
Other financial assets – short term deposits	3,950	2,450
Receivables and prepayments	2,635	2,723
Total financial assets	<u>6,588</u>	<u>7,172</u>
<u>Financial liabilities at amortised cost</u>		
Payables and accruals	1,234	1,349
Term loans	35,080	38,280
Total financial liabilities	<u>36,314</u>	<u>39,629</u>

Note 18: Capital Management

The company's capital is its equity, which comprises issued shares, retained earnings and revaluation reserves. Equity is represented by net assets. Section 5 of the Port Companies Act 1988 states that the principal objective of every port company shall be to operate as a successful business. PrimePort Timaru's principal objective is to operate as a successful business, exploiting opportunities and managing risk thereby ensuring the maintenance and growth in equity. Alpine Energy's objective when managing capital is to safeguard the ability to continue as a going concern in order to provide returns to shareholders, consumers and other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Note 19: NZ IFRS issued but not yet effective

The following standards and amendments to existing standards have been published and are mandatory for accounting periods beginning on or after 1 January 2016, but the company has not early adopted them:

1. NZ IFRS 9 Financial Instruments – Classification and Measurement
2. NZ IFRS 15 – Revenue from Contracts with Customers
3. NZ IFRS 16 - Leases

The company expects to adopt these new or amended standards and interpretations in the period that application of the standard is required, however, they are not expected to have a significant impact on the company's financial statements.

Independent Auditor's Report

To the readers of Timaru District Holdings Limited's financial statements and statement of objectives and performance for the year ended 30 June 2016

The Auditor-General is the auditor of Timaru District Holdings Limited (the company). The Auditor-General has appointed me, Ian Lothian, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and statement of objectives and performance of the company on her behalf.

Opinion on the financial statements and the statement of objectives and performance

We have audited:

- the financial statements of the company on pages 13 to 33, that comprise the statement of financial position as at 30 June 2016, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the statement of objectives and performance of the company on pages 10 to 12.

In our opinion:

- the financial statements of the company:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2016; and
 - its financial performance and cash flows for the year then ended; and
 - comply with generally accepted accounting practice in New Zealand in accordance with the New Zealand equivalents to International Financial Reporting Standards with reduced disclosure requirements.
- the statement of objectives and performance of the company presents fairly, in all material respects, the company's actual performance compared against the performance targets and other measures by which performance was judged in relation to the company's objectives for the year ended 30 June 2016.

Our audit was completed on 2 September 2016. 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 Board of Directors and our responsibilities, and 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 the statement of objectives and performance 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 the statement of objectives and performance. 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 in the statement of objectives and performance. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and the statement of objectives and performance, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the company's financial statements and statement of objectives and performance 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 company'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 Board of Directors;
- the appropriateness of the reported performance information within the company's framework for reporting performance;
- the adequacy of the disclosures in the financial statements and in the statement of objectives and performance; and
- the overall presentation of the financial statements and the statement of objectives and performance.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and the statement of objectives and performance.

We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board of Directors

The Board of Directors is responsible for the preparation and fair presentation of financial statements for the company that comply with generally accepted accounting practice in New Zealand. The Board of Directors is also responsible for the preparation of the statement of objectives and performance for the company.

The Board of Directors' responsibilities arise from the Local Government Act 2002.

The Board of Directors is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements and the statement of objectives and performance that are free from material misstatement, whether due to fraud or error. The Board of Directors is also responsible for the publication of the financial statements and the statement of objectives and performance, whether in printed or electronic form.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and the statement of objectives and performance and reporting that opinion to you based on our audit. Our responsibility arises from the Public Audit Act 2001.

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 company.



Ian Lothian
Audit New Zealand
On behalf of the Auditor-General
Christchurch, New Zealand