

Timaru District Holdings Limited

Annual Report for the Year Ended 30 June 2017

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2017 ANNUAL REPORT

The directors are pleased to present the annual report for Timaru District Holdings Limited for the year ended 30 June 2017.

On behalf of the Board:

Damon Odey
Chairperson
4 September 2017

Richard Lyon
Director
4 September 2017

DIRECTORY

Directors

Damon J. Odey (Chairman)

Ian R. Fitzgerald (Deputy Chairman)

Steven A. Earnshaw (until October 2016)

Richard L. Lyon

Richie J. Smith

Kerry M. Stevens (From December 2016)

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

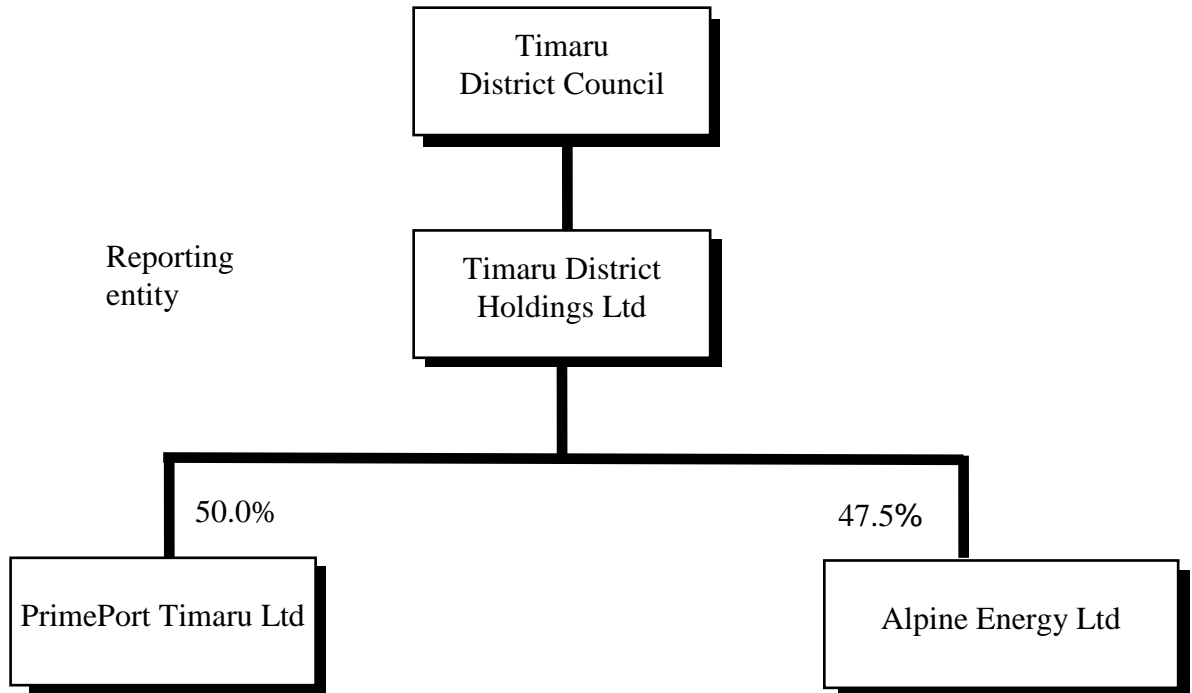
*Bank of New Zealand
Stafford Street
TIMARU*

*ANZ
Riccarton Road
CHRISTCHURCH*

Solicitors

*Buddle Findlay
CHRISTCHURCH*

ORGANISATIONAL STRUCTURE



TIMARU DISTRICT HOLDINGS LIMITED

ANNUAL REPORT 2016/17

CHAIRMAN'S REPORT

I have pleasure in presenting the Annual Report of Timaru District Holdings Limited (TDHL) for the year ended 30 June 2017.

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 \$5.0 million for the year which has 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 \$13.4 million compared to \$17.05 million the previous year with the majority of the financial targets being achieved.

FINANCIAL PERFORMANCE

The operating surplus after tax was \$12.2 million for the year ended 30 June 2017.

Results for the Year Ended 30 June 2017

	Actual 2017 \$000	Budget 2017 \$000	Actual 2016 \$000
<i>Operating Income</i>			
Alpine Energy Limited Dividend	4,417	4,319	4,024
PrimePort Timaru Limited Dividend	678	650	653
Property Rentals	1,869	1,860	1,908
Share of Associate Surplus	4,307	0	4,988
Other	3,151	1,203	286
	<u>14,422</u>	<u>8,032</u>	<u>11,859</u>
Financial costs	1,555	1,832	1,795
Other Operating Expenditure	577	851	2,333
Operating Surplus	12,290	5,349	7,731
Tax charge / (benefit)	81	106	85

Net Surplus after Income Tax attributable to Shareholders	12,209	5,243	7,646
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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.

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

Commercial property portfolio

TDHL owns and operates the portfolio of commercial properties located surrounding the Timaru port. These properties are utilised to compliment the activities of the port and its users. During the year, TDHL purchased a commercial block of land on Evans Street (SH1) in Timaru. Future options for this site are currently being considered.

A number of buildings have been demolished during the year as they were deemed to be earthquake prone which has resulted in one off costs and short term reduced rentals. However, this has allowed greater scope for new long term opportunities which are currently being pursued.

Property portfolio for the year ended 30 June	2017	2016
	\$000	\$000
Rental revenue	1,869	1,908
Direct Operating expenses	755	692
Contribution to Net Surplus before taxation	1,114	1,216
Value of Investment Property portfolio	30,704	22,174

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 satisfactory result for the year ended 31 March 2017, and continues to maintain a very strong balance sheet. The wet summer period significantly impacted on the volume of energy delivered, which was down 5% on the previous 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 2017. This valuation assessed the value of the shares held by Timaru District Holdings Limited as being \$186.72 million, up from \$181 million the previous year. 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 2017.

RESULTS FOR THE YEAR ENDED 31 MARCH 2017		
	Group	
	2017	2016
	\$000	\$000
Operating Surplus Before Tax	18,677	23,622
Income Tax	(5,233)	(6,568)
Net Surplus after Income Tax attributable to the Shareholders	13,444	17,054

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 a 9.7% increase in ship visits and 13% increase in bulk trade volumes compared with the previous year.

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 2017.

	Group	
	2017	2016
	\$000	\$000
Revenue	18,826	16,065
Operating expenses	14,058	11,359
Net Surplus before taxation	4,768	4,706
Port Investment Property revaluations	215	154
Taxation	(1,359)	(1,318)
Net Surplus after taxation	3,624	3,542

Conclusion

The 2016/17 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 2017

Directors

Timaru District Holdings Limited
Damon J. Odey (Chairman)
Ian R. Fitzgerald
Steven A. Earnshaw (until October 2016)
Richard L. Lyon
Richie J. Smith
Kerry M. Stevens (from December 2016)

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
Public Trust – Chairman
PrimePort Timaru Ltd – Director
University of Waikato Council – Member
Ministry of Foreign Affairs and Trade Audit and Risk Committee - Member
Land Information NZ Advanced Survey and Title Services Programme Board – Member
New Zealand Transport Agency ICT Governance Group - 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
New Zealand Post Group Limited – Director
Land and Survey Limited – Director

Lake Tekapo Village Motel Limited – Director
 Walk On Limited - Director
 Pivot Software Limited – Director
 Puketeraki Limited – Director
 M2M NZ Limited - Director

Kerry M Stevens

Timaru District Council – Councillor

- 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	2017	2016
Damon J Odey (Chairman)	\$31,414	\$31,414
Richard L Lyon	\$17,975	\$17,946
Richie J Smith	\$18,000	\$18,000
Ian R Fitzgerald (Deputy Chairman)	\$21,541	\$21,542
Kerry M. Stevens	\$9,692	\$0
Steven A Earnshaw	\$5,522	\$17,946
	\$104,144	\$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 202.40 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 50.0 cents per share be paid to shareholders on 31 July 2017.

Employee's remuneration

The company does not have any employees.

Donations

During the year Timaru District Holdings Limited made no donations. (2016: \$Nil).

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 2017

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 steady result for the 2016/17 financial year, despite wet weather conditions which had a significant impact on revenue.

Performance Measure	Target	Achieved
Ratio of shareholders equity to total assets	55%	54.4%
Ratio of net profit after tax to shareholders equity	11.8%	10.1%
Net Tangible assets per share	\$6.10	\$6.07
Earnings per fully paid share	38.7 cps	32.5 cps
Dividend per fully paid share	22.5 cps	22.5 cps

(ii) **PrimePort Timaru Limited**

PrimePort Timaru continues to grow in the changing operating environment. They achieved an increased operating surplus for the 2016/17 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	4.50%	Yes
Ratio of net profit after tax to shareholders equity	6.97%	Yes
Net Tangible assets per share	\$5.85	Yes
Earnings per fully paid share	41 cps	Yes
Dividend per fully paid share (proposed)	0.0 cps	Yes

Objective

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

Achievement:

Returns, in the form of dividends, from Alpine Energy and PrimePort increased from the previous year. In addition, the fair value of the investment in Alpine Energy increased.

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 group.

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 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: During the year, an additional property was purchased in Timaru. The "Showgrounds" site on Evans Street was purchased and options for this site are to be developed.

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 achieve a Return on Investment of at least 7% on the leasable port property portfolio and ensure that all lease renewals are completed in a timely manner.

Achievement: Average return for the leasable port properties exceeded 8%. All lease renewals were completed in a timely manner.

Objective

To develop a Risk Management Framework for the company, incorporating strategic risks associated with the investments in Alpine Energy, PrimePort Timaru and Hunter Downs Irrigation along with the property portfolio .

Achievement: Risk Management Policy has been approved by the board during the period.

Timaru District Holdings Limited performance targets**Performance Targets (excluding asset revaluations and before associates included)**

	Target	Actual
Net profit after tax to shareholders funds	9.34%	10.41%
Net tangible assets per share	\$56.16	\$54.45
Earnings per fully paid share	\$5.24	\$5.67
Dividends paid per full paid share	\$2.60	\$2.60
Shareholder funds to total assets	62.16%	57.74%

Timaru District Holdings Limited

Statement of Comprehensive Income

For the year ended 30 June 2017

	Notes	2017 \$000	2016 \$000
Revenue			
Dividends			
Alpine Energy Limited		4,417	4,024
PrimePort Timaru Limited		678	653
Interest		132	177
Subvention Income			
Timaru District Council interest on loan		785	928
Property rentals	2	1,869	1,908
Investment property revaluations		2,234	(819)
Share of Associate Surplus	8	4,307	4,988
		14,422	11,859
Expenses			
Operational expenses	1	941	914
Interest on Timaru District Council loan		785	928
External finance costs		770	867
Loss/(gain) on changes in fair value of derivative financial instruments		(364)	404
Impairment/assets written off on demolition		0	1,015
Depreciation		0	0
		2,132	4,128
OPERATING SURPLUS/(DEFICIT) BEFORE TAX		12,290	7,731
Tax Expense/(Benefit)	3	81	85
OPERATING SURPLUS/(DEFICIT) AFTER TAX		12,209	7,646
<i>Operating Surplus/ (Deficit) attributable to:</i>			
Timaru District Holdings Limited		12,209	7,646
TOTAL COMPREHENSIVE INCOME		12,209	7,646
<i>Total Comprehensive Income attributable to:</i>			
Timaru District Holdings Limited		12,209	7,646

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 2017

	2017	2016
	\$000	\$000
Total Comprehensive income	12,209	7,646
Dividends declared	(2,600)	(2,326)
Transaction with owners	(2,600)	(2,326)
Equity at the beginning of year	79,353	74,033
Equity at end of year	88,962	79,353

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

Timaru District Holdings Limited

Statement of Financial Position

As at 30 June 2017

	Notes	2017 \$000	2016 \$000
EQUITY			
Share capital	4	1,000	1,000
Retained Earnings	4	87,962	78,353
Total Equity		88,962	79,353
REPRESENTED BY:			
ASSETS			
Current assets			
Cash and cash equivalents	6	980	3
Other financial assets	6	2,000	3,950
Receivables and Prepayments	5	2,763	2,635
Taxation refund		0	0
Inventories		0	0
Total current assets		5,743	6,588
Non current assets			
Other financial assets	6	250	141
Future tax benefits	3	0	75
Property, plant and equipment		0	0
Investment properties	7	30,704	22,174
Investments in associates	8	92,131	87,824
Total non current assets		123,085	110,214
Total assets		128,828	116,802
LIABILITIES			
Current liabilities			
Payables and accruals	10	1,009	1,234
Taxation payable		6	0
Derivative financial instruments		249	275
Current portion of term loans	11	0	0
Total current liabilities		1,264	1,509
Non current liabilities			
Term loans	11	38,080	35,080
Derivative financial instruments		522	860
Total non current liabilities		38,602	35,940
Total liabilities		39,866	37,449
NET ASSETS		88,962	79,353

For and on behalf of the Board

Damon Odey
Chairman
4 September 2017

Richard Lyon
Director
4 September 2017

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 2017

	Notes	2017 \$000	2016 \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from:			
Receipts from customers		1,809	2,042
Subvention receipt		0	1,112
Dividends received		4,937	4,583
Interest received		137	178
		6,883	7,915
Cash was disbursed to:			
Payments to suppliers and employees		945	889
Taxes and Subvention payments		0	0
Interest Paid		770	1,988
GST (net)		136	84
		1,851	2,961
Net cash inflow/(outflow) from operating activities	12	5,032	4,954
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from:			
Proceeds from sale of fixed assets		0	76
Proceeds from sale of investment property		0	0
Proceeds from realisation of investments		1,950	0
		1,950	76
Cash was applied to:			
Purchase of fixed assets		6,296	0
Purchase of investments		109	1,500
		6,405	1,500
Net cash inflow/(outflow) from investing activities		(4,455)	(1,424)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from:			
Issue of shares		0	0
Proceeds from term loan		6,000	0
		6,000	0
Cash was applied to:			
Dividends paid		2,600	2,326
Repayment of loans		3,000	3,200
		5,600	5,526
Net cash inflow/(outflow) from financing activities		400	(5,526)
Net increase in cash held		977	(1,996)
Add opening cash		3	1,999
Closing cash balance		980	3
Made up of:			
Cash and cash equivalents		980	3
Closing cash balance		980	3

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 2017

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 2017

Note 1: Operational expenses

	2017	2016
	\$000	\$000
Directors' fees	104	107
Audit fees - annual accounts audit	14	14
- Other	0	0
Operating lease costs	0	0
Holding company operating costs	817	793
Bad debts written off	6	0
Donations	0	0
	941	914

Note 2: Property rentals

	2017	2016
	\$000	\$000
Investment property rentals	1,869	1,908
	1,869	1,908

Yields currently range from 6.5 – 9.5% 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 \$720,351 (2016: \$642,057). Included in these figures are \$52,440 (2016: \$0) of direct operating expenses arising from investment property that did not generate rental income during the year.

	2017	2016
	\$000	\$000
Operating lease receivables		
Non cancellable operating lease receivables		
Not later than one year	1,377	1,406
Later than one year but not later than 2 years	1,087	1,242
Later than 2 years but not later than 5 years	1,858	3,046
Later than 5 years	6,243	6,839
	10,565	12,533

Note 3: Taxation

	2017	2016
	\$000	\$000
Surplus/(deficit) before taxation	12,290	7,731
Prima facie taxation at 28%	3,441	2,165
Plus/(less) taxation effect of:		
Non taxable income	(3,258)	(2,477)
Non taxable expenditure	(102)	397
Prior period adjustment	0	0
Tax expense/ (Benefit)	<u>81</u>	<u>85</u>

	2017	2016
	\$000	\$000
Comprising:		
Current tax	0	0
Deferred tax	81	85
Prior Period adjustment	0	0
	<u>81</u>	<u>85</u>

Future tax benefit /(deferred taxation)		
Opening balance	75	160
Temporary Differences		
Long Term assets	0	0
Employee entitlements	0	0
Prior period adjustment	0	0
Others	81	85
Closing balance	<u>(6)</u>	<u>75</u>

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

Long Term assets	0	0
Employee entitlements	0	0
Tax losses	(6)	75
Others	0	0
Closing balance	<u>(6)</u>	<u>75</u>

	2017	2016
	\$000	\$000
Imputation credit account		
Balance as at 1 July	10,683	9,806
Credits attached to dividends received	1,920	1,782
Credits attached to dividends paid	(1,047)	(905)
Income tax payments	0	0
Income tax refunds	0	0
Balance at 30 June	<u>11,556</u>	<u>10,683</u>

Note 4: Equity

◇ (a) Share capital

	2017	2016
	\$000	\$000
Opening balance	1,000	1,000
Issues during the year	0	0
Balance at 30 June	<u>1,000</u>	<u>1,000</u>

At 30 June 2017 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

	2017	2016
	\$000	\$000
Retained earning at 1 July	78,353	73,033
Net operating surplus/(deficit)	12,209	7,646
Dividends Declared	(2,600)	(2,326)
Retained earnings at 30 June	<u>87,962</u>	<u>78,353</u>

As at 30 June 2017, no dividends have been declared that have not yet been paid (2016: \$nil).

Note 5: Receivables and prepayments

	2017	2016
	\$000	\$000
Trade debtors	194	98
Prepayments	17	0
	<u>211</u>	<u>98</u>
Amount owing by Timaru District Council	785	927
Amount owing by associates	1,767	1,610
Total receivables and prepayments	<u>2,763</u>	<u>2,635</u>

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 2017 all overdue receivables had been assessed for impairment and appropriate provisions applied. The ageing of receivables for the company is as follows:

	2017			2016		
	Gross \$000	Impairment \$000	Net \$000	Gross \$000	Impairment \$000	Net \$000
Not past due – under 30 days	2,734	0	2,734	2,626	0	2,626
Past due – 30 to 60 days	15	0	15	1	0	1
Past due – 60 to 90 days	12	0	12	1	0	1
Past due – over 90 days	2	0	2	7	0	7
	<u>2,763</u>	<u>0</u>	<u>2,763</u>	<u>2,635</u>	<u>0</u>	<u>2,635</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:

	2017 \$000	2016 \$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

	2017 \$000	2016 \$000
Cash and cash equivalents		
Cash	18	3
Short term investments	962	0
	<u>980</u>	<u>3</u>

	2017 \$000	2016 \$000
Other financial assets		
Short term investments	2,000	3,950
Investment in Hunter Downs Irrigation – non current	250	141
	<u>2,250</u>	<u>4,091</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

	2017	2016
	\$000	\$000
Opening balance	22,174	24,084
Revaluation	2,234	(819)
Write offs – demolitions	0	(1,015)
Sales	0	(76)
Purchases	6,296	0
	<u>30,704</u>	<u>22,174</u>
Land at valuation	28,871	20,346
Building at valuation	1,833	1,828
	<u>30,704</u>	<u>22,174</u>

Investment property held by the company was independently valued as at 30 June for the 2017 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.

Note 8: Investments in associate companies

PrimePort Timaru Ltd

Principal activity: Port operator

Ownership: 50.0% (2016: 50.0%)

Balance date: 30 June

Results of Associate

	2017	2016
	\$000	\$000
Share of Operating Surpluses before tax	2,492	2,430
Taxation	(680)	(659)
Share of Operating Surplus	1,812	1,771
Share of Other Comprehensive Income	647	281
Share of Total Recognised Revenues and Expenses	<u>2,459</u>	<u>2,052</u>

Interest in Associate

	2017	2016
	\$000	\$000
Balance at Beginning of Year	23,792	22,393
Fair value at time of recognition	0	0
Recognised Revenues and Expenses	2,459	2,052
Dividends	(678)	(653)
Balance at End of Year	<u>25,573</u>	<u>23,792</u>
Movements in Reserves		
Share of Recognised Revenues and Expenses	<u>2,459</u>	<u>2,052</u>
	2,459	2,052
Dividends Paid	<u>(678)</u>	<u>(653)</u>
Share of Retained Surpluses	<u>1,781</u>	<u>1,399</u>

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

	2017	2016
	\$000	\$000
Current Assets	5,622	3,999
Non Current Assets	75,147	73,547
Current Liabilities	1,905	1,992
Non Current Liabilities	27,000	27,212
Revenues	18,826	16,065
Profit or loss from continuing operations	3,624	3,542
Other Comprehensive Income	1,293	562
Total Comprehensive Income	4,917	4,104

Alpine Energy Ltd

Principal activity: Electricity Distribution

Ownership: 47.50% (2016: 47.50%)

Balance date: 31 March

Results of Associate

	2017	2016
	\$000	\$000
Share of Operating Surpluses before tax	8,872	11,221
Taxation	<u>(2,486)</u>	<u>(3,120)</u>
Share of Operating Surplus	6,386	8,101
Revaluation Reserve movements	557	(488)
Share of Total Recognised Revenues and Expenses	<u>6,943</u>	<u>7,613</u>

Interest in Associate

	2017	2016
	\$000	\$000
Balance at Beginning of Year	64,032	60,443
Recognised Revenues and Expenses	6,943	7,613
Dividends	(4,417)	(4,024)
Balance at End of Year	<u>66,558</u>	<u>64,032</u>
Movements in Reserves		
Share of Recognised Revenues and Expenses	6,943	7,613
	<u>6,943</u>	<u>7,613</u>
Dividends Paid	(4,417)	(4,024)
Share of Retained Surpluses	<u>2,526</u>	<u>3,589</u>

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

	2017	2016
	\$000	\$000
Current Assets	17,795	7,978
Non Current Assets	237,053	213,314
Current Liabilities	22,045	12,327
Non Current Liabilities	96,434	77,914
Revenues	63,655	63,851
Profit or loss from continuing operations	13,444	17,054
Other Comprehensive Income	1,173	(1,027)
Total Comprehensive Income	14,617	16,027

Dividends of \$4,259,885 were received during the year including \$1,609,726, which related to 2016. A further \$1,766,772 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 2017. This valuation assessed the value of 100% of the shares in Alpine Energy Limited to be in the range of \$362.5 million to \$423.7 million as at 31 March 2017. Based on this valuation, Deloitte also provided a Fair Value of a 47.5% shareholding in Alpine Energy Limited as at 31 March 2017 to Timaru District Holdings Limited which was \$186.7 million.

Note 9: Bank overdraft

There is no bank overdraft facility in place.

Note 10: Payables and accruals

	2017	2016
	\$000	\$000
Trade creditors and accruals	91	161
Interest payable	796	939
Revenue in advance	122	134
Dividends payable	0	0
Directors fees payable	0	0
Total payables and accruals	<u>1,009</u>	<u>1,234</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

	2017	2016
	\$000	\$000
Commercial Bills	15,900	12,900
Loans from Timaru District Council	22,180	22,180
Other loans	0	0
	<u>38,080</u>	<u>35,080</u>
Less current portion	0	0
	<u>38,080</u>	<u>35,080</u>

Effective Interest rates

Loans from Timaru District Council	3.36% to 3.79% (2016: 3.71% to 4.61%)
Wholesale Money Market	2.65% to 3.02% (2016: 3.02% to 3.93%)

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:

	2017	2016
	\$000	\$000
Less than one year	0	0
One to two years	3,000	0
Three to four years	8,500	3,000
Four to five years	0	8,500
Greater than 5 years	0	0

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 (2016: \$19 million).

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

	2017	2016
	\$000	\$000
Net surplus/(deficit) after taxation	12,209	7,646
Associated entity surpluses	(4,307)	(4,988)
	<u>7,902</u>	<u>2,658</u>
<i>Add/(less) non-cash items:</i>		
Depreciation	0	0
Impairment loss	0	1,015
Loss/(gain) on fair value of derivatives	(364)	404
Increase/(decrease) in deferred taxation	81	85
	<u>(283)</u>	<u>1,504</u>
	<u>7,619</u>	<u>4,162</u>
<i>Add/(less) items classified as investment activity:</i>		
(Gain) on fair value of Investment property	(2,234)	819
Total investing activity items	<u>(2,234)</u>	<u>819</u>
<i>Add/(less) movements in working capital items:</i>		
(Increase)/decrease in receivables and prepayments	(128)	88
(Increase)/decrease in inventories	0	0
Increase/(decrease) in payables and employee entitlements	(225)	(115)
Increase/(decrease) in provisions	0	0
Working capital movement – net	<u>(353)</u>	<u>(27)</u>
Net cash (outflow)/inflow from operating activities	<u>5,032</u>	<u>4,954</u>

Note 13: Contingent assets and liabilities

	2017	2016
	\$000	\$000
Contingent assets and liabilities	0	0
Share of contingent liabilities in Associate	4,098	0
	<u>4,098</u>	<u>0</u>

Note 14: Commitments

	2017	2016
	\$000	\$000
Equity commitments	0	0
Capital commitments	0	0

Non-cancellable Operating lease commitments	2017 \$000	2016 \$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	2017 \$000	2016 \$000
Services provided to Timaru District Council	786	929
Services received from Timaru District Council	949	1,126
Rates paid to Timaru District Council	208	223
Amounts owing to Council (interest)	785	928
Amounts owing to Council (other)	30	21
Loan owing to Council	22,181	22,181
Amounts receivable from Council	785	928

Timaru District Holdings Limited paid dividends of \$2,600,000 to Timaru District Council during the year (2016: \$2,326,000).

Remuneration paid to Timaru District Holdings Limited key management personnel totalled \$104,144 (2016: \$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	2017 \$000	2016 \$000
Services provided to associate by Timaru District Council	20	39
Services provided by associate to Timaru District Council	571	440
Amounts owing by associate to Timaru District Council	1	1
Amounts owing by Timaru District Council	20	44

PrimePort Timaru

	2017	2016
	\$000	\$000
Services provided to associate by Timaru District Council	20	12
Services provided by associate to Timaru District Council	0	0
Amounts owing by associate to Timaru District Council	0	2
Amounts owing by Timaru District Council	0	0
Services provided to associate by Timaru District Holdings Ltd	58	29
Services provided by associate to Timaru District Holdings Ltd	0	0
Amounts owing by associate to Timaru District Holdings Ltd	4	0
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:

		2017	2016		
Short term deposits		3.06%	3.37%		
Repricing maturities (\$000)	Less than 6 mths	6-12 mths	1-2 yrs	2-5 yrs	Total
Short term deposits	1,000	1,000	0	0	2,000

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	2017 \$000	2016 \$000
One to two years	0	0
Two to three years	3,000	0
Three to four years	8,500	3,000
Four to five year	0	8,500
Greater than five years	0	0

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:

	2017	2016
	\$000	\$000
<u>Loans and Receivables</u>		
Cash and cash equivalents	980	3
Other financial assets – short term deposits	2,000	3,950
Receivables and prepayments	2,763	2,635
Total financial assets	<u>5,743</u>	<u>6,588</u>
<u>Financial liabilities at amortised cost</u>		
Payables and accruals	1,009	1,234
Term loans	38,080	35,080
Total financial liabilities	<u>39,089</u>	<u>36,314</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.

Independent Auditor's Report

To the readers of Timaru District Holdings Limited's financial statements and performance information for the year ended 30 June 2017

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 performance information of the company on his behalf.

Opinion

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 2017, 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 performance information of the company on pages 10 to 12.

In our opinion:

- the financial statements of the company on pages 13 to 33:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2017; 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 New Zealand equivalents to International Financial Reporting Standards.
- the performance information of the company on pages 10 to 12 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 2017.

Our audit was completed on 4 September 2017. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements and the performance information, we comment on other information, and we explain our independence.

Basis for opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

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

Responsibilities of the Board of Directors for the financial statements and the performance information

The Board of Directors is responsible on behalf of the company for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand. The Board of Directors is also responsible for preparing the performance information for the company.

The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the Board of Directors is responsible on behalf of the company for assessing the company's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the Board of Directors intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

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

Responsibilities of the auditor for the audit of the financial statements and the performance information

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of these financial statements and the performance information.

For the budget information reported in the performance information, our procedures were limited to checking that the information agreed to the company's statement of intent.

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit 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.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We evaluate the appropriateness of the reported performance information within the company's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 4 to 9, but does not include the financial statements and the performance information, and our auditor's report thereon.

Our opinion on the financial statements and the performance information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the performance information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the performance information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independence

We are independent of the company in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1(Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards 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