

HAWKE'S BAY REGIONAL INVESTMENT COMPANY LTD

2016-17

Annual Report



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## Chairman and Chief Executive's Report

The Hawke's Bay Regional Investment Company Ltd (HBRIC) currently has two main investments, the 100% ownership of the Port of Napier Ltd (Napier Port) and an investment in the Ruataniwha Water Storage Scheme.

### Napier Port

A valuation review of HBRIC's shares in Napier Port was undertaken as at 30 June 2017 to determine whether the investment is appropriately valued at fair value. The HBRIC Board of Directors resolved that no revaluation of the investment in Napier Port was required as the current carrying value of \$238.4m sits within the updated valuation range as developed by Deloitte.

Napier Port continues to perform strongly and has also maintained its exceptional Health & Safety record.

The Port continues to have the following strategic challenges to balance its operating performance, growth and exposure to risk:

- An expanding capital requirement
- Increasing exposure to key customers
- Increasing competitive pressures and risks from other ports around the country
- Volatility and exposure of the export sector to the NZ dollar cross rate
- Risk of damage from seismic activity, as recently evidenced by two other ports in New Zealand
- Increasing costs and deductibles for insurance cover and restricted availability supply of cover

### Ruataniwha Water Storage Scheme (RWSS or the Scheme)

At the start of the financial year, the Scheme had received shareholder approval to proceed to financial close, subject to final funding. At this point, the High Court had ruled that the land exchange with the Department of Conservation was lawful and could proceed.

This matter was subsequently taken to the Court of Appeal and Supreme Court for further rulings.

During the year, Hawkes Bay Regional Council also completed an extensive review of the Scheme, confirming its merits, with the addition of a new environmental condition precedent.

In July 2017, the Supreme Court ruled that the land exchange could not proceed. The Supreme Court ruling has effectively blocked access to the reservoir site for the Scheme and created uncertainty about its ability to proceed in the near-term future.

At the time of writing, the Crown has stated a desire to modify the legislation which led to the Supreme Court ruling, noting that it is unclear. The process and timetable to consider this has not been determined.

Due to the undetermined delay, HBRIC is impairing the holding value of the intangible assets in the Scheme. The Directors of HBRIC received advice from the auditor that a qualified audit opinion would be issued, associated with the value of the RWSS intangible assets recorded in the financial statements. After a complex review, including consideration of fiduciary responsibilities to protect shareholder value, the directors determined that there continues to be residual value in the Scheme, and not to fully impair the asset at balance date. HBRIC is impairing the holding value of the intangible assets in the Scheme by \$11.74m.

In August 2017, Council resolved to suspend further investment in the RWSS and authorised HBRIC to sell the intellectual property and assets of the Scheme to another party. Council has also passed a resolution to write-off \$14 million advanced to HBRIC for investment in the Scheme.

Our auditors advise that to comply with accounting standards the financial impact of the forgiveness of the advance must be recorded in our financial statements for the year ending June 2018.

*The final result for company for this year is therefore a net loss after tax of \$1.5m.*

*Dividends paid were \$9.5m, in line with the Statement of Intent.*

## **Governance and Management**

During 2017, the Board and Management of HBRIC were restructured.

Blair O'Keeffe assumed the role of part time Chief Executive in October 2016, replacing full time Chief Executive Andrew Newman. A small part time administration team was appointed in January 2017, replacing full and part time Council seconded staff.

Andy Pearce resigned as director and Chair in December 2017. Existing director Sam Robinson assumed the role of interim Chair from January – June 2017. Chris Tremain joined the Board in May 2017 and assumed the role of Chair in July 2017.

HBRIC Councilors Peter Beaven and Debbie Hewitt were appointed to the Board in January 2017.

In May 2017, Dan Druzianic and Taine Randell also joined the Board.

## **The Year Ahead**

Continued growth of Napier Port and finalising next steps for the RWSS are two key priorities for HBRIC in the year ahead.

During 2017, Council initiated a capital review exercise to evaluate the capital and funding needs of Council, HBRIC and Napier Port, with a view to optimising the use and performance of Council funds. This item will be another key stream of work in the year ahead and will be reported on during 2018.



**CHRIS TREMAIN**  
**CHAIRMAN**



**BLAIR O'KEEFFE**  
**CHIEF EXECUTIVE**

## Directors' Report

The Directors hereby present their report and Financial Statements of the Hawke's Bay Regional Investment Company Limited for the year ended 30 June 2017.

### Reporting entity

The Hawke's Bay Regional Investment Company Ltd ('HBRIC Ltd') was incorporated in New Zealand on 21 February 2012 and is 100% owned by Hawke's Bay Regional Council ('Council'). The company is domiciled in New Zealand.

The Group financial statements comprise the financial statements of HBRIC Ltd and its subsidiary, the Port of Napier Limited ('Napier Port').

### Registered office

159 Dalton Street  
Napier South  
Napier 4110  
New Zealand

### Basis of consolidation

The consolidated financial statements comprise the financial statements of HBRIC Ltd and its subsidiary as at and for the year ended 30 June 2017.

### Principal activities

#### **Parent company**

The Hawke's Bay Regional Investment Company Ltd (HBRIC) currently has two main investments, the 100% ownership of the Port of Napier Ltd (Napier Port) and an investment in the Ruataniwha Water Storage Scheme.

#### **Subsidiary company**

Port of Napier Limited's principal activities are the commercial operation of Napier Port.

### Remuneration of Directors

Remuneration paid to Directors during the year was as follows:

#### **Parent company**

A Pearce (Chairman - 6 months)	\$	27,000
S Robinson (Director - 6 months, Chairman - 6 months)	\$	42,000
J Scotland	\$	30,000
D Dinsdale	\$	30,000
D Hewitt	\$	5,000
P Beaven	\$	5,000
C Tremain	\$	5,000
D Druzianic	\$	5,000
T Randell	\$	5,000

Dr Andy Pearce resigned in December 2016, and Mr Sam Robinson was appointed interim Chairman. HBRIC Councillors Mrs Debbie Hewitt and Mr Peter Beaven were appointed in January 2017, and Mr Chris Tremain, Mr Dan Druzianic and Mr Taine Randell were appointed in May 2017. Mr Chris Tremain was appointed Chairman in July 2017.

#### **Subsidiary company - Port of Napier Limited**

A MacLeod (Chairman)	\$	82,000
J Nichols (Chair Audit & Risk Committee) W	\$	47,000
Harvey (Chair Health & Safety Committee) J	\$	47,000
Loughlin	\$	33,000
S Bradford	\$	44,000
C Abeywickrama	\$	44,000
S Moir	\$	11,000

Mr J Loughlin retired and Mr S Moir was appointed in December 2016

### **Board committees**

As at 30 June 2017 the Board of the Parent Company had established the following committees:

Audit and Risk Management Committee  
Governance, Appointments & Remuneration Committee

### **Directors' interests**

The company maintains an interests register in which particulars of certain transactions and matters involving the Directors are recorded. These are requirements under the Companies Act 1993. The following notices have been received from Directors disclosing their interests in other companies.

#### ***Parent company***

<b>Director</b>	<b>Interests declared (as at reporting date)</b>	
C Tremain	Tremain Capital Limited Tremain Capital Management Limited Bank of China (NZ) Limited Cranford Foundation Trust Repton Trust CI & AK Tremain Trust	Director Director Director Trustee Trustee Trustee
S Robinson	Te Marie Limited Tourere Water Supply Company Tourere Asset Management Opihi Limited Silver Fern Farms Ravensdown Kereru Station Brownrigg Agriculture	Director and Shareholder Director and Shareholder Director and Shareholder Director and Shareholder Shareholder Trustee Director
J Scotland	3R Group Limited Scotland Services Limited Landmac Holdings Limited Ahuriri Properties Limited Hawke's Bay Wine Investments Limited Te Awanga Estate Limited J A Scotland Trust	Director Director and Shareholder Director and Shareholder Director and Shareholder Director Director Trustee
D Dinsdale	Medical Assurance Society NZ Limited Medical Insurance Society Limited Medical Life Assurance Society Limited Crown Infrastructure Partners Limited	Director Director Director Director
D Hewitt	Hewitt Agribusiness Limited Hewitt Family Trust Hewitt Livestock Limited	Director and Shareholder Trustee Shareholder
P Beaven	Shareholder, Waterplus 2008 Limited 100 Percent Pure NZ Limited Pearl Aporo Limited Lagoon Trust Pipfruit NZ Inc NZ Pink Lady Growers Association Pink Lady Alliance Limited	Director and Shareholder Director Director and Shareholder Trustee Director Director Director
D Druzianic	Moore Stephens Markhams Hawkes Bay Limited Bostock New Zealand Limited Hawkes Bay District Health Board Hawkes Bay Wine Investments Limited StockX Systems Limited Hawkes Bay Independent Brewery Limited Elwood Road Holdings Limited	Director Director Director Director Director Director Director
T Randell	Fiordland Lobster Company Limited Hawkes Bay Airport Limited Kahungunu Asset Holding Company Kaitaiki Land Services ZSB Holdings Limited Kiwigarden Limited	Director Director Director Director and Shareholder Director and Shareholder Director and Shareholder

**Subsidiary company - Port of Napier Limited**

<b>Director</b>	<b>Interests declared</b>	
A Macleod	Optimal Product Limited	Chairman
	Silverstripe Limited	Chairman and Shareholder
	Hold Fast Investments Limited	Chairman
	Tomatoes NZ	Chairman
	IHC Board Appointments Committee	Member
	Radium Technology NZ Advisory Board	Member
W Harvey	Excellence in Business Solutions Limited	Director and Shareholder
	Quality Rooding and Services (Wairoa) Limited	Director
	Centralines Limited	Director
	Electrical Training Company	Director
	Hawke's Bay Airport Limited.	Director
	Hohepa Hawke's Bay Board	Member
S Bradford	Tarrawanna PTY Limited	Director and Shareholder
	Yarrowonga Court PTY Limited	Director
	Tasmanian Ports Corporation Pty Limited	Chairman
	Australian Cruise Association	Chairman
	Flagstaff Partners	Senior Advisor
J Nichols	Nichols Consulting Limited	Director and Shareholder
	Centralines Limited	Chairman
	Palmerston North Airport Limited	Director
	Hastings District Council, Audit & Risk Sub-Committee	Member
	Maungahuru Tangitu Trust, Audit & Risk Committee	Chairman
J Loughlin	Augusta Capital Limited & subsidiaries / associates	Director and Shareholder
	Chairman / Shareholder	Chairman and Shareholder
	Askerne Estate Winery Limited	Chairman and Shareholder
	Loughlin Viticulture and Consulting Limited	Chairman and Shareholder
	Powerco Limited	Chairman
	EastPack Limited	Director
	Havelock North Fruit Company Limited	Chairman and Shareholder
	Meat Industry Association Inc.	Chairman
	Bay Venues Limited	Director
C Abeywickrama	Netlogix Limited & subsidiaries / associates	Director and Shareholder

**Directors' insurance**

The Company has arranged policies of Directors' Liability Insurance, which together with a Deed of Indemnity ensures that as far as possible, Directors will not personally incur any monetary loss as a result of actions undertaken by them as Directors. The insurance does not cover liabilities arising from criminal actions.

**Remuneration of employees**

The number of employees for the Group and Parent, whose total annual remuneration was in the specified bands, is as follows:

<b>Remuneration bands</b>	<b>Group</b>	<b>Parent</b>
\$100,000 - 109,999	26	-
\$110,000 - 119,999	16	1
\$120,000 - 129,999	11	-
\$130,000 - 139,999	9	-
\$140,000 - 149,999	3	-
\$150,000 - 159,999	1	-
\$210,000 - 219,999	2	-
\$220,000 - 229,999	5	-
\$230,000 - 239,999	2	-
\$240,000 - 249,999	2	-
\$250,000 - 259,999	1	-
\$600,000 - 609,999	1	-

The annual remuneration specified in the above bands includes payments made to staff under both short term and long term staff incentive schemes and redundancy benefits.

### **Use of company information**

During the year the Board received no notices from Directors of the Company requesting to use Company information received in their capacity as Directors, which would not otherwise have been available to them.

### **Board operation**

Operation of the Board is governed by the Constitution of the Company, and the rules, procedures and guidelines adopted by the Board.

### **Auditors**

The Office of the Auditor-General is appointed as auditor under Section 15 of the Public Audit Act 2001 and Section 70 of the Local Government Act 2002. Audit New Zealand has been appointed to provide these services. Audit fees are disclosed within the financial statements.

### **Donations**

The parent company and subsidiary made no donations during the year (2016: nil).

### **Dividends**

During the year the parent company paid fully-imputed ordinary dividends of \$9,538,746 (2016: \$7,502,534).

### **Directors' responsibility statement**

The Directors are responsible for ensuring that the financial statements give a true and fair view of the financial position of the Company and the Group as at 30 June 2017 and their financial performance and cash flows for the year ended on that date.

The Directors consider that the financial statements of the Company and the Group have been prepared using appropriate accounting policies consistently applied and supported by reasonable judgements and estimates and that all relevant financial reporting and accounting standards have been followed.



**Chris Tremain (Chairman)**

30 September 2017



**Jim Scotland (Director)**

30 September 2017



**HAWKE'S BAY REGIONAL INVESTMENT  
COMPANY LIMITED  
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For the year ended 30 June 2017**

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**Income Statement**  
For the year ended 30 June 2017

	Note	Group Actual 16/17 \$000	Parent Actual 16/17 \$000	Group Actual 15/16 \$000	Parent Actual 15/16 \$000
<b>Income</b>					
Income from Port operations		82,021	0	71,400	0
Other income		12	0	8	0
Dividend income		0	10,700	0	7,876
<b>Operating income</b>	<b>3</b>	<b>82,033</b>	<b>10,700</b>	<b>71,408</b>	<b>7,876</b>
<b>Expenditure</b>					
Employee benefit expenses		23,424	0	21,946	0
Maintenance expenses		7,997	0	6,942	0
Depreciation & amortisation expense		10,547	0	8,493	0
Other operating expenses	<b>4</b>	15,089	637	12,679	503
<b>Operating expenditure</b>		<b>57,057</b>	<b>637</b>	<b>50,060</b>	<b>503</b>
<b>Operating profit before net financing costs</b>		<b>24,976</b>	<b>10,063</b>	<b>21,348</b>	<b>7,373</b>
Finance income	<b>5</b>	-7	-3	-18	-5
Finance expenses	<b>5</b>	4,095	0	4,282	0
<b>Net finance costs</b>		<b>4,088</b>	<b>-3</b>	<b>4,264</b>	<b>-5</b>
<b>Operating profit after net financing costs</b>		<b>20,888</b>	<b>10,066</b>	<b>17,084</b>	<b>7,378</b>
Impairment of intangible asset	<b>13,23</b>	-11,740	-11,740		
Share of gain/(loss) from equity accounted investees		-40	0	-39	0
<b>Profit before taxation</b>		<b>9,108</b>	<b>-1,675</b>	<b>17,045</b>	<b>7,378</b>
Income tax expense	<b>6</b>	5,811	-178	4,799	-139
<b>Total tax expense</b>		<b>5,811</b>	<b>-178</b>	<b>4,799</b>	<b>-139</b>
<b>Profit for the period attributable to the Shareholder of the Company</b>		<b>3,296</b>	<b>-1,496</b>	<b>12,246</b>	<b>7,517</b>

*The accompanying notes form part of these financial statements.*

**Statement of Comprehensive Income**  
**For the year ended 30 June 2017**

	Note	Group Actual 16/17 \$000	Parent Actual 16/17 \$000	Group Actual 15/16 \$000	Parent Actual 15/16 \$000
Profit after tax attributable to the Shareholder of the Company		3,296	-1,496	12,246	7,517
<b>Other Comprehensive Income</b>					
Asset revaluation	9	0	0	0	0
Net effective portion of changes in fair value of cashflow hedges	9	1,237	0	-1,416	0
Effect on consolidation	22	2,824	0	277	0
<b>Total Comprehensive Income</b>		<b>7,358</b>	<b>-1,496</b>	<b>11,107</b>	<b>7,517</b>

*The accompanying notes form part of these financial statements.*

**Statement of Changes in Equity**  
**For the year ended 30 June 2017**

	Note	Group Actual 16/17 \$000	Parent Actual 16/17 \$000	Group Actual 15/16 \$000	Parent Actual 15/16 \$000
<b>Equity as at beginning of year</b>		187,361	238,539	183,757	238,525
Profit after tax attributable to the Shareholder of the Company		3,296	-1,496	12,246	7,517
Other comprehensive income	23	4,061	0	-1,139	0
Dividends	8	-9,539	-9,539	-7,503	-7,503
<b>Equity as at end of year</b>		<b>185,180</b>	<b>227,504</b>	<b>187,361</b>	<b>238,539</b>

*The accompanying notes form part of these financial statements.*

**Statement of Financial Position**  
As at 30 June 2017

	Note	Group Actual 16/17 \$000	Parent Actual 16/17 \$000	Group Actual 15/16 \$000	Parent Actual 15/16 \$000
<b>EQUITY</b>					
Share capital	9	177,500	177,500	177,500	177,500
Reserves	9	60,791	61,000	59,554	61,000
Retained earnings		-53,111	-10,996	-49,693	39
<b>Total Equity</b>		<b>185,180</b>	<b>227,504</b>	<b>187,361</b>	<b>238,539</b>
<b>LIABILITIES</b>					
<b>Non-Current Liabilities</b>					
Derivative financial instruments	21	3,319	0	4,905	0
Borrowings	21	64,400	5,400	87,100	0
Deferred tax liabilities	6	18,980	0	17,976	0
Provisions for Employee Entitlements	12	374	0	381	0
<b>Total Non-Current Liabilities</b>		<b>87,073</b>	<b>5,400</b>	<b>110,362</b>	<b>0</b>
<b>Current Liabilities</b>					
Cash and cash equivalents	18,21	0	0	124	0
Derivative financial instruments	21	1,316	0	1,308	0
Borrowings	21	18,800	0	1,502	1,502
Taxation payable		1,238	0	0	0
Advances from shareholder	19,23	13,956	13,956	13,956	13,956
Trade & other payables	11	9,033	325	7,277	998
<b>Total Current Liabilities</b>		<b>44,343</b>	<b>14,281</b>	<b>24,167</b>	<b>16,456</b>
<b>TOTAL LIABILITIES</b>		<b>131,416</b>	<b>19,681</b>	<b>134,529</b>	<b>16,456</b>
<b>TOTAL EQUITY &amp; LIABILITIES</b>		<b>316,596</b>	<b>247,185</b>	<b>321,890</b>	<b>254,995</b>
<b>ASSETS</b>					
<b>Non-Current Assets</b>					
Property, plant & equipment	14	288,210	400	290,052	400
Investment property	16	2,860	0	2,850	0
Investment in joint venture	17	884	0	675	0
Intangible assets	13	9,613	7,826	17,155	15,526
Financial assets	15	0	238,400	0	238,400
Derivative financial instruments	21	0	0	0	0
<b>Total Non-Current Assets</b>		<b>301,567</b>	<b>246,626</b>	<b>310,732</b>	<b>254,326</b>
<b>Current Assets</b>					
Inventories		0	0	0	0
Trade & other receivables	10	14,295	38	10,553	216
Cash and cash equivalents	18,21	381	341	313	312
Current tax asset	6	180	180	286	141
Derivative financial instruments	21	173	0	6	0
<b>Total Current Assets</b>		<b>15,029</b>	<b>559</b>	<b>11,158</b>	<b>669</b>
<b>TOTAL ASSETS</b>		<b>316,596</b>	<b>247,185</b>	<b>321,890</b>	<b>254,995</b>

*The accompanying notes form part of these financial statements.*

**Statement of Cash Flows**  
For the year ended 30 June 2017

	Note	Group Actual 16/17 \$000	Parent Actual 16/17 \$000	Group Actual 15/16 \$000	Parent Actual 15/16 \$000
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>					
<i>Cash was provided from:</i>					
Receipts from customers		78,360	0	73,824	0
Dividends received		2,824	10,700	277	7,876
GST received (net)		-198	20	321	49
Taxes received		0	0	4	4
Subvention received		0	139	0	127
Interest received		3	3	5	5
		<u>80,989</u>	<u>10,862</u>	<u>74,431</u>	<u>8,061</u>
<i>Cash was applied to:</i>					
Payments to suppliers & employees		-44,248	-603	-41,375	-508
Interest paid		-4,111	0	-4,311	0
GST paid (net)		0	0	0	0
Taxes paid		-4,292	-1	-3,852	0
		<u>-52,651</u>	<u>-604</u>	<u>-49,538</u>	<u>-508</u>
<b>Net Cash Flows from Operating Activities</b>	<b>18</b>	<b><u>28,338</u></b>	<b><u>10,258</u></b>	<b><u>24,893</u></b>	<b><u>7,553</u></b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
<i>Cash was provided from:</i>					
Sale of assets		0	0	249	0
Third party contributions for purchase of intangibles		0	0	511	511
		<u>0</u>	<u>0</u>	<u>760</u>	<u>511</u>
<i>Cash was applied to:</i>					
Purchase of assets		-8,184	0	-22,110	0
Purchase of intangibles		-4,590	-4,590	-3,888	-2,832
Purchase of intangibles on behalf of third parties		0	0	-511	-511
Capitalised interest		-144	0	-337	0
Investment in associate		-289	0	-121	0
		<u>-13,207</u>	<u>-4,590</u>	<u>-26,967</u>	<u>-3,343</u>
<b>Net Cash Flows from Investing Activities</b>		<b><u>-13,207</u></b>	<b><u>-4,590</u></b>	<b><u>-26,207</u></b>	<b><u>-2,832</u></b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
<i>Cash was provided from:</i>					
Proceeds from external loans		5,400	5,400	8,800	0
Proceeds from shareholder loan		4,500	4,500	1,500	1,500
Advances from shareholder *		0	0	1,370	1,370
		<u>9,900</u>	<u>9,900</u>	<u>11,670</u>	<u>2,870</u>
<i>Cash was applied to:</i>					
Repayment of external loans		-9,300	0	0	0
Repayment of shareholder loan		-6,000	-6,000	0	0
Dividends paid		-9,539	-9,539	-7,503	-7,503
		<u>-24,839</u>	<u>-15,539</u>	<u>-7,503</u>	<u>-7,503</u>
<b>Net Cash Flows from Financing Activities</b>		<b><u>-14,939</u></b>	<b><u>-5,639</u></b>	<b><u>4,167</u></b>	<b><u>-4,633</u></b>
<b>Net Increase / (Decrease) in Cash &amp; Cash Equivalents</b>		<b><u>192</u></b>	<b><u>29</u></b>	<b><u>2,853</u></b>	<b><u>88</u></b>
Opening cash & cash equivalents		189	312	-2,664	224
<b>Closing Cash &amp; Cash Equivalents</b>		<b><u>381</u></b>	<b><u>341</u></b>	<b><u>189</u></b>	<b><u>312</u></b>

\* Hawke's Bay Regional Council has made advances to the HBRIC Ltd parent company to fund its share of the development expenditure for the Ruataniwha Water Storage Scheme. The balance outstanding at 30 June 2017 was \$13,956,201 (2016: \$13,956,201). Refer to Note 23 for events after balance date.

The loan advance of \$6,000,000 from Hawkes Bay Regional Council was repaid during the year.

The balance at 30 June 2016 was \$1,500,000 with further advances of \$4,500,000 made during the year before repayment.

*The accompanying notes form part of these financial statements.*

## **Note 1: General Information**

### **1.1 Reporting Entity**

The Hawke's Bay Regional Investment Company Limited ('HBRIC Ltd') is a wholly owned subsidiary of Hawke's Bay Regional Council formed for the purpose of holding investments in subsidiary organisations. The company was incorporated on 21 February 2012.

The Group financial statements comprise the financial statements of HBRIC Ltd and its subsidiary, the Port of Napier Limited ('Napier Port').

HBRIC Ltd is considered a Council Controlled Trading Organisation on the basis that it operates for the purpose of making a profit, and is therefore classified for accounting purposes as a for-profit entity.

The financial statements of HBRIC Ltd and the Group are for the period ended 30 June 2017 and were authorised for issue by the HBRIC Ltd Board of directors on 30 September 2017.

### **1.2 Basis of Preparation**

The financial statements of HBRIC Ltd and the group have been prepared in accordance with generally accepted accounting practice in New Zealand ('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 entities. These financial statements comply with International Financial Reporting Standards.

The statements have been prepared on a historic cost basis, except for sea defences, investment properties and derivative financial instruments which are measured at fair value.

The Group's functional currency is New Zealand dollars and the statements have been presented in thousands of dollars (\$'000) exclusive of New Zealand Goods and Services Tax (GST) except for trade accounts payable and receivable, which are stated at GST inclusive amounts.

### **1.3 New Standards Adopted and Pronouncements Not Yet Adopted**

No new, revised or amended standards were applicable for the year beginning 1 July 2016.

The Group has not elected to early adopt any new standards or interpretations that are issued but not yet effective and no amendments or revisions to NZ IFRS have had a material impact on these financial statements.

There are a number of new standards, amendments to standards and interpretations, which have been issued but are not effective until after 30 June 2017. None of these are expected to have any significant effect on the financial statements of the Group other than by way of additional disclosure, they include:

- NZ IFRS 9 Financial Instruments. The standard becomes mandatory for the Group's 2019 financial statements and could change the classification and measurement of financial assets. The Group has not yet determined the potential impact of this standard.
- NZ IFRS 15 Revenue From Contracts With Customers. This new standard applies to contracts with customers and is currently effective for annual periods after 1 January 2018. The Group has not yet determined the potential impact of this standard.

### **1.4 Use of Judgements and Estimates**

In the application of NZ IFRS the Board is required to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In particular, information about significant areas of estimation and critical judgements in applying accounting policies that have a significant effect on the amount recognised in the financial statements are as follows:

- Valuation of sea defences (Note 14)

- Valuation of investment property (Note 16)
- Valuation of financial instruments (Note 21)
- Provisions (Note 12)
- Estimation of useful lives (policy on depreciation)
- Intangible assets (Note 13)

## **Note 2: Summary of Significant Accounting Policies**

The principal accounting policies applied in the preparation of these group financial statements are set out below.

### **2.1 Basis of Consolidation**

The consolidated financial statements comprise the financial statements of Hawke's Bay Regional Investment Company Ltd ('HBRIC Ltd') and its subsidiary (as outlined in Note 15) as at and for the period ended 30 June each year ('the Group').

#### ***(2.1.1) Subsidiary***

A subsidiary is an entity over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity.

The financial statements of Napier Port have a financial year ending on 30 September. In order to consolidate the subsidiary, a reporting package with a financial year ending on 31 March is produced. All significant inter-entity transactions are eliminated and significant transactions occurring during the period 1 April to 30 June are adjusted for.

### **2.2 Inventories**

Inventories are stated at the lower of cost (using the weighted average cost method) and net realisable value.

### **2.3 Trade Receivables**

Trade receivables are recognised initially at fair value and subsequently remeasured each balance sheet date at amortised cost using the effective interest method less provision for impairment.

### **2.4 Plant, Property and Equipment**

#### ***(2.4.1) Operational Assets***

Tugs, cranes and cargo and administration buildings (all Napier Port assets) are stated at deemed cost based on valuations performed as at 30 September 2005 and subsequent additions at cost, less subsequent accumulated depreciation. All other operational assets are accounted for at the historical cost of purchased Property, Plant and Equipment less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Sea Defences are measured at fair value, based on periodic valuations by suitably qualified and experienced professionals.

The costs of asset constructed by the group include the cost of all materials used in construction, direct labour on the project and an appropriate amount of directly attributed costs. Costs cease to be capitalised as soon as the asset is ready for productive use.

#### ***(2.4.2) Subsequent Costs***

Subsequent costs are added to the carrying amount of an item of property, plant and equipment when the cost is incurred if it is probable that future economic benefits embodied with the item will flow to HBRIC Ltd or the group and the cost can be measured reliably. All other costs are recognised in the income statement as an expense during the financial period in which they are incurred.



### **(2.4.3) Revaluation Adjustments**

Increases in carrying amounts arising from revalued assets are credited to revaluation reserves in equity. Decreases that offset previous increases of the same asset category are charged against revaluation reserves in equity. All other decreases are charged to the income statement.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

### **(2.4.4) Other Adjustments**

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. When revalued assets are sold, the amounts included in revaluation reserves are transferred to the accumulated balance in equity.

## **2.5 Investment Property**

Investment property is residential and commercial land and buildings held to earn rental income and for capital appreciation. Such property is initially recognised at cost. At each balance sheet date investment property is measured at fair value, representing open market value determined annually by independent, professionally qualified valuers. A gain or loss in value is recorded in the income statement for the period in which it arises.

## **2.6 Investment in Joint Venture**

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The Company accounts for its joint venture interest in the financial statements using the equity method which requires the initial investment to be recognised at cost and adjusted thereafter for the post acquisition change in the Company's share of the net assets of the investee. The profit or loss of the Company includes its share of the profit or loss of the investee.

## **2.7 Financial Assets**

Investments and financial assets in the scope of NZ IAS 39 *Financial Instruments: Recognition and Measurement* are categorised as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets (the latter category is referred to as fair value through equity in the financial statements – see 2.7.4 below). The classification depends on the purpose for which the investments were acquired or originated. Designation is to be re-evaluated at each reporting date, but there are restrictions on reclassifying to other categories.

The Group classifies its investments in the following categories:

### **(2.7.1) Financial Assets at Fair Value through Profit or Loss**

A financial asset is classified at fair value through the income statement if acquired principally for the purpose of selling in the short term with the intention of making a profit. Derivatives are also categorised as held for trading unless they are designated as effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the income statement.

### **(2.7.2) Loans and Receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired. These are included in current assets, except for those with maturities greater than 12 months after balance date, which are classified as non-current.

### **(2.7.3) Held-to-Maturity Investments**

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group have the positive intention and ability to hold to maturity.

Financial assets in this category are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or use. At each balance sheet date these financial assets are measured at amortised cost using the effective interest method. Realised and unrealised gains or losses in value are recorded in the income statement for the period in which they arise.

### **(2.7.4) Fair Value Through Equity Assets**

Fair value through equity assets are non-derivative financial assets, principally equity securities, that are either designated in this category or do not qualify for inclusion in any other categories of financial assets. NZ IAS 39 uses the terminology “available for sale” for this class of assets – however, the HBRIC Ltd Board considers that this is a misleading description given the nature of its business, and hence the term “fair value through equity” is used in these financial statements. The Group’s fair value through equity assets includes the investment in the Group’s subsidiary company.

For the purposes of the parent company financial statements, HBRIC Ltd’s equity investment in its subsidiary is classified as fair value through equity assets. It is measured at fair value, with valuations performed by an independent, external valuer with sufficient regularity to ensure no investments are included at a valuation that is materially different from fair value.

After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised in other comprehensive income (reserves) until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in reserves is reclassified to the income statement.

## **2.8 Intangible Assets**

Intangible assets comprise acquired computer software licences and development expenditure. All intangible assets with finite lives are carried at the historical cost incurred to acquire and bring into use the specific software less accumulated amortisation. Development expenditure is carried at cost less any assessed impairment.

## **2.9 Impairment of Non-Financial Assets**

Assets that have an indefinite useful life are not subject to amortisation and are tested for impairment at each balance sheet date. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the comprehensive income statement for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

## **2.10 Depreciation and Amortisation**

Land and hard dredging are not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives. Assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Major depreciation and amortisation periods are as follows:

<b>Asset Category</b>	<b>Years</b>
Cargo & Administration Buildings	10 - 60
Site Improvements	10 - 40
Wharves & Jetties	10 - 80
Vehicles, Plant & Equipment	3 - 25

<b>Asset Category</b>	<b>Years</b>
Cranes	20
Tugs	30
Computer Software & Licences	3 - 10
Other Buildings	10 - 25
Soft Dredging	8
Sea Defences	100 - 200

## 2.11 Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

## 2.12 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs are recognised as an expense when incurred except to the extent that they are capitalised. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset are capitalised as a part of the cost of that asset.

## 2.13 Income Tax

Income tax expense charged to the statement of comprehensive income includes both current and deferred tax and is calculated after allowing for non-assessable income and non-deductible costs.

Deferred income tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for where the initial recognition of assets and liabilities does not affect either accounting or taxable profit. The amount of deferred tax provided is based on tax rates enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred tax liability is settled.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

## 2.14 Employee Benefits

Short-term employee benefits including salaries and wages, annual leave and contributions to superannuation schemes are recognised when they accrue to employees and are measured at undiscounted cost.

Long-term employee benefits including long service leave and retirement gratuities are recognised at the present value of the Group's obligation at balance sheet date.

## 2.15 Provisions

Provisions are recognised when:

- the Group has a present legal or constructive obligation as a result of past events, and
- it is more likely than not that an outflow of resources will be required to settle the obligation, and
- the amount has been reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects the current market assessments of the time value of money and risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense

Provisions are not recognised for future operating losses.

## **2.16 Revenue Recognition**

Revenue comprises the fair value for the sale of goods and services, net of GST, rebates and discounts and after elimination of sales within the Group. Revenue is recognised as follows:

- Sales of goods are recognised when a product is sold to a customer. The recorded revenue is the gross amount of the sales.
- Sales of services are recognised in the accounting period in which the services are rendered, by reference to the completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total service provided.
- Interest income is recognised on a time proportion basis using the effective interest method.
- Dividend income is recognised when the right to receive payment is established.
- Government grants are recognised as income when eligibility has been established by the grantor agency.

## **2.17 Financial Risk Management**

The Group's activities expose it to a variety of financial risks, including foreign currency risk, liquidity risk, credit risk and cash flow interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments such as foreign exchange contracts and interest rate swaps to hedge certain exposures.

The Group enters into foreign currency forward exchange contracts to hedge foreign currency transactions, when purchasing major property, plant and equipment and when payment is denominated in foreign currency.

Interest rate swaps are entered into to manage interest rate risk exposure.

The Group has no significant concentrations of credit risk. It has policies in place to ensure that services are provided to customers with an appropriate credit history.

Collateral or other security is not required for financial instruments subject to credit risk.

## **2.18 Accounting for Derivative Financial Instruments and Hedging Activities**

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at the fair value at each balance sheet date.

Where the Group determines that it will hedge a transaction the Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions.

The Group also documents its assessment, both at inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

### ***(2.18.1) Cash Flow Hedge***

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the comprehensive income statement. The Group accounts for hedges of foreign currency risk of a firm commitment as cash flow hedges.

Interest rate swaps are entered into to manage interest rate exposure.

***(2.18.2) Derivatives that Do Not Qualify for Hedge Accounting***

Certain derivative instruments do not qualify for hedge accounting and changes in the fair value of these instruments are recognised immediately in the comprehensive income statement.

Any changes in the fair value of interest rate swaps due to changes in interest rates are recognised in the comprehensive income statement in the period in which they occur.

**2.19 Foreign Currencies**

Transactions in foreign currencies are translated at the New Zealand rate of exchange ruling at the date of the transaction. At balance sheet date foreign monetary assets and liabilities are translated at the closing rate and exchange variations arising from these are included in the income statement.

**2.20 Changes in Accounting Policies**

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

### Note 3: Income

Note	Group Actual 16/17 \$000	Parent Actual 16/17 \$000	Group Actual 15/16 \$000	Parent Actual 15/16 \$000
<b>Operating income</b>				
Income from Port operations	82,021	0	71,400	0
Property operations	12	0	8	0
Dividend income	0	10,700	0	7,876
<b>Total operating income</b>	<b>82,033</b>	<b>10,700</b>	<b>71,408</b>	<b>7,876</b>

### Note 4: Other Expenses

Note	Group Actual 16/17 \$000	Parent Actual 16/17 \$000	Group Actual 15/16 \$000	Parent Actual 15/16 \$000
<b>Items Included within Other Operating Expenses</b>				
Auditors' fees paid to Audit New Zealand	20	20	15	15
Auditors' fees paid to Ernst & Young	111	5	108	0
Directors' fees	462	154	462	174
Operating leases	192	0	215	0
Bad debts	0	0	0	0
Fair value (gain)/loss on investment property	-10	0	-10	0
Net (profit)/loss on sale of property, plant and equipment	100	0	178	0

### Note 5: Finance Income and Expenses

Note	Group Actual 16/17 \$000	Parent Actual 16/17 \$000	Group Actual 15/16 \$000	Parent Actual 15/16 \$000
Interest income	-7	-3	-18	-5
<b>Total finance income</b>	<b>-7</b>	<b>-3</b>	<b>-18</b>	<b>-5</b>
Interest expense on borrowings	4,239	0	4,620	0
Less: Interest expense capitalised to PPE	-144	0	-338	0
	4,095	0	4,282	0
Fair value (gain)/loss on interest rate swaps	0	0	0	0
<b>Total finance expenses</b>	<b>4,095</b>	<b>0</b>	<b>4,282</b>	<b>0</b>
<b>Net finance costs</b>	<b>4,088</b>	<b>-3</b>	<b>4,264</b>	<b>-5</b>

## Note 6: Taxation

Note	Group Actual 16/17 \$000	Parent Actual 16/17 \$000	Group Actual 15/16 \$000	Parent Actual 15/16 \$000
<b>Income tax expense</b>				
Net profit before taxation	9,108	-1,675	17,045	7,378
Income tax on the surplus for the year @ 28%	2,538	-469	4,783	2,066
Adjustment to prior year taxation	-2	0	-5	0
Tax effect of income not recognised for accounting	0	1,165	0	858
Exempt dividends received	0	-4,161	0	-3,063
Taxation effect of non deductible items	3,275	3,287	21	0
<b>Income tax expense</b>	<b>5,811</b>	<b>-178</b>	<b>4,799</b>	<b>-139</b>
The taxation charge is represented by:				
Current taxation	5,302	-178	3,297	-139
Deferred taxation	509	0	1,502	0
<b>Income tax expense reported in income statement</b>	<b>5,811</b>	<b>-178</b>	<b>4,799</b>	<b>-139</b>
<b>Deferred tax liability</b>				
Opening balance	-17,976	0	-17,030	0
Adjustment prior year provision	-14	0	6	0
Deferred portion of current year tax expense	-509	0	-1,502	0
Amounts charged or credited direct to equity	-481	0	550	0
<b>Closing balance</b>	<b>-18,980</b>	<b>0</b>	<b>-17,976</b>	<b>0</b>
Deferred taxation is represented by:				
Accelerated tax depreciation	-20,794	0	-20,381	0
Fair value gains/(losses) on derivatives	1,256	0	1,738	0
Other	558	0	667	0
	<b>-18,980</b>	<b>0</b>	<b>-17,976</b>	<b>0</b>
<b>Current tax asset</b>				
Current tax asset is represented by:				
Tax receivable	2	2	147	2
Subvention receivable	178	178	139	139
<b>Current tax asset reported in balance sheet</b>	<b>180</b>	<b>180</b>	<b>286</b>	<b>141</b>
<b>Imputation credit account</b>				
Imputation credits available for use in subsequent periods	22,053	1,110	20,728	658

At the date of these financial statements, the company cannot determine the amount of deductible temporary differences in relation to the \$11.740 million impairment of the RWSS development expenditure intangible asset.

## Note 7: Operating leases

Note	Group Actual 16/17 \$000	Parent Actual 16/17 \$000	Group Actual 15/16 \$000	Parent Actual 15/16 \$000
<b>Leases as a lessee</b>				
At reporting date the Company had the following operating lease commitments:				
Payable within one year	10	0	44	0
Between one and two years	0	0	10	0
Between two and five years	0	0	0	0
	<b>10</b>	<b>0</b>	<b>54</b>	<b>0</b>

## Note 8: Dividends

Note	Group Actual 16/17 \$000	Parent Actual 16/17 \$000	Group Actual 15/16 \$000	Parent Actual 15/16 \$000
2016 additional dividend paid - 0.0218 cents per share (2016: 0.014 cps)	39	39	25	25
2017 interim dividend paid - 1.690 cents per share (2016: 1.690 cps)	3,000	3,000	3,000	3,000
2017 final dividend paid - 3.662 cents per share (2016: 2.279 cps)	6,500	6,500	4,478	4,478
<b>Dividends paid</b>	<b>9,539</b>	<b>9,539</b>	<b>7,503</b>	<b>7,503</b>

## Note 9: Capital and Reserves

Note	Group Actual 16/17 \$000	Parent Actual 16/17 \$000	Group Actual 15/16 \$000	Parent Actual 15/16 \$000
<b>Share Capital</b>				
Issued and paid up capital				
177,500,000 ordinary shares (2015: 177,500,000 shares)	177,500	177,500	177,500	177,500

All ordinary shares have equal voting rights and share equally in dividends and surplus on winding up.

### Hedge Reserve

The hedging reserve comprises the effective portion of the cumulative net change in fair value of cash flow hedging instruments, related to hedged transactions that have not yet occurred.

Note	Group Actual 16/17 \$000	Parent Actual 16/17 \$000	Group Actual 15/16 \$000	Parent Actual 15/16 \$000
	-1,216	0	-2,453	0

### Revaluation Reserve

The revaluation reserve for the Parent relates to the revaluation of the shares in Port of Napier Limited. The revaluation reserve for the Group relates to the revaluation of the port sea defences.

Note	Group Actual 16/17 \$000	Parent Actual 16/17 \$000	Group Actual 15/16 \$000	Parent Actual 15/16 \$000
	62,007	61,000	62,007	61,000



## Note 10: Trade and Other Receivables

Note	Group Actual 16/17 \$000	Parent Actual 16/17 \$000	Group Actual 15/16 \$000	Parent Actual 15/16 \$000
<b>Trade and other receivables</b>				
Trade receivables	13,394	20	9,840	135
Accruals and prepayments	901	18	713	81
<b>Total trade and other receivables</b>	<b>14,295</b>	<b>38</b>	<b>10,553</b>	<b>216</b>
The ageing of trade receivables at reporting date is set out below:				
Not past due	10,512	20	8,079	135
Past due 0 - 30 days	1,354	0	1,663	0
Past due 30 - 60 days	869	0	98	0
Past due > 60 days	659	0	0	0
	<b>13,394</b>	<b>20</b>	<b>9,840</b>	<b>135</b>

The receivables carrying value is equivalent to the current fair value given their short term nature.

No receivables past due are considered impaired.

## Note 11: Trade and Other Payables

Note	Group Actual 16/17 \$000	Parent Actual 16/17 \$000	Group Actual 15/16 \$000	Parent Actual 15/16 \$000
<b>Trade and other payables</b>				
Trade payables	3,739	255	3,476	795
Trade accruals	2,354	70	1,766	203
Employee entitlement accruals	2,940		2,035	0
<b>Total trade and other payables</b>	<b>9,033</b>	<b>325</b>	<b>7,277</b>	<b>998</b>

The accounts payable carrying value is equivalent to the current fair value.

Employee entitlement accruals also include staff performance incentive payments due.

## Note 12: Provisions for Employee Entitlements

	Note	Group Actual 16/17 \$000	Parent Actual 16/17 \$000	Group Actual 15/16 \$000	Parent Actual 15/16 \$000
<b>Non-current</b>					
Provisions for employee entitlements		374	0	381	0
<b>Provisions for employee entitlements</b>		<b>374</b>	<b>0</b>	<b>381</b>	<b>0</b>
<b>Provisions for non-current employee entitlement</b>					
Balance at beginning of year		381	0	332	0
Additional provision made		62	0	85	0
Amount utilised		-69	0	-36	0
<b>Balance at end of year</b>		<b>374</b>	<b>0</b>	<b>381</b>	<b>0</b>

The provision for employee entitlements relates to employee benefits such as gratuities and long service leave.

The provision is affected by a number of estimates, including the expected length of service of employees, the timing of benefits being taken and also the expected increase in remuneration and inflation effects.

Most of the liability is expected to be incurred over the next 2-3 years.

## Note 13: Intangible Assets

	Opening Cost \$000	Additions \$000	Transfer/ Disposals/ Impairment \$000	Closing Cost \$000	Opening Accum Amortisation \$000	Current Year Amortisation \$000	Transfer/ Disposals \$000	Closing Accum Amortisation \$000	Book Value \$000
<b>Group</b>									
<b>Year ended 30 June 2017</b>									
Computer software	5,557	633	0	6,190	3,928	475	0	4,403	1,787
Development expenditure	15,526	4,040	-11,740	7,826	0	0	0	0	7,826
	<b>21,083</b>	<b>4,673</b>	<b>-11,740</b>	<b>14,016</b>	<b>3,928</b>	<b>475</b>	<b>0</b>	<b>4,403</b>	<b>9,613</b>
<b>Year ended 30 June 2016</b>									
Computer software	4,501	1,056	0	5,557	3,629	299	0	3,928	1,629
Development expenditure	11,568	3,958	0	15,526	0	0	0	0	15,526
	<b>16,069</b>	<b>5,014</b>	<b>0</b>	<b>21,083</b>	<b>3,629</b>	<b>299</b>	<b>0</b>	<b>3,928</b>	<b>17,155</b>

	Opening Cost \$000	Additions \$000	Transfer/ Disposals/ Impairment \$000	Closing Cost \$000	Opening Accum Amortisation \$000	Current Year Amortisation \$000	Transfer/ Disposals \$000	Closing Accum Amortisation \$000	Book Value \$000
<b>Parent</b>									
<b>Year ended 30 June 2017</b>									
Computer software	0	0	0	0	0	0	0	0	0
Development expenditure	15,526	4,040	-11,740	7,826	0	0	0	0	7,826
	<b>15,526</b>	<b>4,040</b>	<b>-11,740</b>	<b>7,826</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>7,826</b>
<b>Year ended 30 June 2016</b>									
Computer software	0	0	0	0	0	0	0	0	0
Development expenditure	11,568	3,958	0	15,526	0	0	0	0	15,526
	<b>11,568</b>	<b>3,958</b>	<b>0</b>	<b>15,526</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>15,526</b>

In accordance with Note 2.8 assets, such as development expenditure incurred in developing the Ruataniwha Water Storage Scheme, that have an indefinite life are tested for impairment at each balance sheet date. If the asset is considered impaired, it must be written down to its recoverable value immediately against income.

On 6 July 2017, the Supreme Court ruled that the proposed exchange of Department of Conservation land required for the RWSS reservoir is not legal. The Supreme Court's decision has significantly reduced the probability of gaining access to the land required in the near term. This has created uncertainty for the RWSS in its current form, resulting in an impairment of \$11.740m. Refer to note 23 for events after balance date.

**Note 14: Property, Plant and Equipment**

	Opening Cost \$000	Reval/ Additions \$000	Transfer/ Disposals \$000	Closing Cost \$000	Opening Accum Depreciation \$000	Current Year Depreciation \$000	Transfer/ Disposals \$000	Closing Accum Depreciation \$000	Book Value \$000
<b>Group</b>									
<b>Year ended 30 June 2017</b>									
Land	34,809	0	0	34,809	0	0	0	0	34,809
Sea defences	76,711	0	0	76,711	1,141	326	0	1,467	75,244
Buildings	26,433	1,336	0	27,769	8,757	698	0	9,455	18,314
Site improvements	57,528	1,363	0	58,891	17,963	1,701	0	19,664	39,227
Dredging	14,891	0	0	14,891	3,534	688	0	4,222	10,669
Wharves & jetties	44,801	385	0	45,186	7,800	573	0	8,373	36,813
Vehicles, plant & equipment	100,972	1,450	-119	102,303	30,531	5,759	-282	36,008	66,295
Work in progress	3,633	8,701	-5,495	6,839	0	0	0	0	6,839
	<b>359,778</b>	<b>13,235</b>	<b>-5,614</b>	<b>367,399</b>	<b>69,726</b>	<b>9,745</b>	<b>-282</b>	<b>79,189</b>	<b>288,210</b>
<b>Year ended 30 June 2016</b>									
Land	34,809	0	0	34,809	0	0	0	0	34,809
Sea defences	76,527	184	0	76,711	815	326	0	1,141	75,570
Cargo & Admin buildings	17,501	5,278	0	22,779	6,270	498	0	6,768	16,011
Tugs	24,100	0	0	24,100	2,406	396	0	2,802	21,298
Site improvements	56,015	1,513	0	57,528	16,290	1,673	0	17,963	39,565
Hard dredging	4,814	2,933	0	7,747	0	0	0	0	7,747
Soft dredging	4,613	2,531	0	7,144	2,943	591	0	3,534	3,610
Other buildings	3,663	1	-10	3,654	1,894	105	-10	1,989	1,665
Wharves & jetties	43,683	1,118	0	44,801	7,236	564	0	7,800	37,001
Cranes	23,649	11,126	-2,490	32,285	7,726	1,318	-2,260	6,784	25,501
Vehicles, plant & equipment	40,195	5,303	-911	44,587	18,937	2,723	-715	20,945	23,642
Work in progress	13,370	21,308	-31,045	3,633	0	0	0	0	3,633
	<b>342,939</b>	<b>51,295</b>	<b>-34,456</b>	<b>359,778</b>	<b>64,517</b>	<b>8,194</b>	<b>-2,985</b>	<b>69,726</b>	<b>290,052</b>

During the year the Company borrowed funds for the acquisition of new Property, Plant & Equipment. Interest incurred during the acquisition period of \$144,000 at rates of 3.30% to 4.53% (2016: \$338,000) was capitalised.

Sea defences were revalued in 2012 by independent valuer Rob Kilgour (MTech, BE, CPEng, MIPENZ) of AECOM as sub consultant to Darroch Ltd. As at September 2015 the Company commissioned Beca Ltd to complete a visual condition assessment of the eastern and northern breakwater and provide an updated replacement cost estimate of the selected assets. Having taken into consideration the outcomes of the review the Company deemed that no impairment of the asset had occurred over the past 3 years and that the carrying value in the financial accounts was not materially different than the current depreciated replacement value.

	Opening Cost \$000	Reval/ Additions \$000	Transfer/ Disposals \$000	Closing Cost \$000	Opening Accum Depreciation \$000	Current Year Depreciation \$000	Transfer/ Disposals \$000	Closing Accum Depreciation \$000	Book Value \$000
<b>Parent</b>									
<b>Year ended 30 June 2017</b>									
Land	400	0	0	400	0	0	0	0	400
	<b>400</b>	<b>0</b>	<b>0</b>	<b>400</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>400</b>
<b>Year ended 30 June 2016</b>									
Land	400	0	0	400	0	0	0	0	400
	<b>400</b>	<b>0</b>	<b>0</b>	<b>400</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>400</b>

## Note 15: Financial Assets

	Note	Group Actual 16/17 \$000	Parent Actual 16/17 \$000	Group Actual 15/16 \$000	Parent Actual 15/16 \$000
<b>Financial assets</b>					
Fair value through equity investments	15(a)	0	238,400	0	238,400
<b>Total</b>	15(b)	<b>0</b>	<b>238,400</b>	<b>0</b>	<b>238,400</b>
Less current portion		0	0	0	0
<b>Non-current portion</b>		<b>0</b>	<b>238,400</b>	<b>0</b>	<b>238,400</b>

### Note 15(a)

#### Fair value through equity investments

<b>At beginning of year</b>		0	238,400	0	238,400
Additions		0	0	0	0
Revaluation surpluses / (deficits)		0	0	0	0
(Disposals)		0	0	0	0
<b>At end of year</b>		<b>0</b>	<b>238,400</b>	<b>0</b>	<b>238,400</b>
Less current portion		0	0	0	0
<b>Non - current portion</b>		<b>0</b>	<b>238,400</b>	<b>0</b>	<b>238,400</b>
<b>Fair value through equity investments include:</b>					
Shares in Port of Napier Limited	15(c)	0	238,400	0	238,400
		<b>0</b>	<b>238,400</b>	<b>0</b>	<b>238,400</b>

### Note 15(b)

There were no impairment provisions on investment financial assets in the current period.

### Note 15(c)

HBRIC Ltd acquired 100% of the shares in Port of Napier Ltd from Hawke's Bay Regional Council effective from 25 June 2012 for total consideration of \$ 177.4 million, paid for by way of a subscription to 177,400,000 ordinary shares in the capital of HBRIC Ltd at the value of \$1 per share.

The investment in Port of Napier Ltd is measured at fair value based on the independent valuation approved by the HBRIC Ltd Board of Directors on 22 July 2015.

A review of this valuation was commissioned to determine whether the investment in Port of Napier Ltd is appropriately valued at fair value as at 30 June 2017. Having reviewed this report the HBRIC Ltd Directors considered that no revaluation of its shareholding in the Port of Napier Ltd was required as at 30 June 2017.

## Note 16: Investment Properties

Note	Group Actual 16/17 \$000	Parent Actual 16/17 \$000	Group Actual 15/16 \$000	Parent Actual 15/16 \$000
<b>Investment properties</b>				
Land and building	2,860	0	2,850	0
<b>Total investment properties</b>	<b>2,860</b>	<b>0</b>	<b>2,850</b>	<b>0</b>
Balance at beginning of year	2,850	0	2,840	0
Disposals	0	0	0	0
Transfer to property, plant & equipment	0	0	0	0
Net gain/(loss) from fair value adjustments	10	0	10	0
Balance at end of year	2,860	0	2,850	0

## Note 17: Investment in Joint Venture

Note	Group Actual 16/17 \$000	Parent Actual 16/17 \$000	Group Actual 15/16 \$000	Parent Actual 15/16 \$000
<b>Investment in joint venture</b>	<b>884</b>	<b>0</b>	<b>675</b>	<b>0</b>
<b><u>Movements in the carrying value of joint venture</u></b>				
Opening balance	675	0	554	0
New investment	249	0	160	0
Share of recognised revenues and expenditure	-8	0	-39	0
Provision	-32	0		0
<b>Balance at end of year</b>	<b>884</b>	<b>0</b>	<b>675</b>	<b>0</b>
<b><u>Summarise financial information of joint venture</u></b>				
Assets	2,923	0	2,025	0
Liabilities	-175	0	0	0
Net Assets 100%	2,748	0	2,025	0
Port of Napier Limited share (33.3%)	916	0	675	0
Less provision	-32	0	0	0
	884	0	675	0
Revenues	0	0	0	0
Net profit after tax	-24	0	-118	0
Port of Napier Limited share (33.3%)	-8	0	-39	0

On 13 August 2014 Port of Napier Limited acquired a 33.3% shareholding in Longburn Intermodal Freight Hub Ltd, with Ports of Auckland Ltd 33.3% and Icepak NZ Ltd holding the remaining 33.3%. Longburn Intermodal Freight Hub Ltd has been set up as a joint venture by the parties to develop and operate a facility at Longburn near Palmerston North to provide container storage and logistics solutions. The joint venture agreement provides for development funding by way of shareholder advances approved by general resolutions.

## Note 18: Cash and Cash Equivalents

Note	Group Actual 16/17 \$000	Parent Actual 16/17 \$000	Group Actual 15/16 \$000	Parent Actual 15/16 \$000
<b>Cash and cash equivalents</b>				
Cash and cash equivalents	381	341	313	312
Bank overdraft	0	0	-124	0
<b>Reconciled to Cash Flow Statement</b>	<b>381</b>	<b>341</b>	<b>189</b>	<b>312</b>

### Reconciliation of Surplus after Taxation to Net Cash Flows from Operating Activities

Surplus after taxation	3,297	-1,496	12,246	7,517
Add non-cash items:				
Fair value (gains)/losses	-537	0	540	0
Depreciation and amortisation	9,529	0	8,493	0
Impairment of assets	12,595	11,740		
Share of loss of equity accounted investee	79	0		
Deferred tax	1,051	0	945	0
Total non-cash items	22,717	11,740	9,978	0
(Deduct)/add other adjustments:				
Net (profit)/loss on sale of PPE	100	0	178	0
Effect on consolidation	2,824	0	277	0
(Decrease)/increase in non-current provisions	-7	0	49	0
Total other adjustments	2,917	0	504	0
Movements in working capital:				
Increase/(decrease) in accounts payable	3,105	-62	1,458	62
(Increase)/decrease in receivables	-3,659	115	633	-16
(Increase)/decrease in tax receivables	-39	-39	-10	-10
(Increase)/decrease in inventories	0	0	84	0
Total movements in working capital	-593	14	2,165	36
<b>Net Cash Inflow from Operating Activities</b>	<b>28,338</b>	<b>10,258</b>	<b>24,893</b>	<b>7,553</b>

## Note 19: Related-Party Disclosures

The parent entity in the group structure is HBRIC Ltd, which is 100% owned by Hawke's Bay Regional Council (HBRC). Other related parties include Napier Port which is a 100% subsidiary of HBRIC Ltd.

The group undertakes transactions with HBRC and its related parties, all of which are carried out on a commercial basis. During the period, no material transactions were entered into with related parties except as disclosed below.

Certain directors of the group companies are also directors of other companies with whom the group companies transact. All such transactions are carried out on a commercial basis.

### Transactions between the HBRIC Ltd Group and parent entity HBRC

HBRIC Ltd group entities entered into the following transactions with HBRC:

	<b>16/17</b>	<b>15/16</b>
	<b>\$000</b>	<b>\$000</b>
Sales of goods and services	100	40
Purchases of goods and services	467	1,267
Payment of dividends	9,539	7,503

HBRIC Ltd group entities entered into the following subvention payments with HBRC, noting that subvention payments were made for the tax effect of the losses transferred.

	<b>16/17</b>	<b>15/16</b>
	<b>\$000</b>	<b>\$000</b>
Subvention payments	5	4

HBRIC Ltd group entities have the following year end balances arising from sales/purchases of goods and services with HBRC:

	<b>16/17</b>	<b>15/16</b>
	<b>\$000</b>	<b>\$000</b>
Intrabusiness receivables	0	0
Intrabusiness payables	-153	-544

Other transactions between members of the HBRIC Ltd group entities and HBRC were as follows:

HBRC has made advances to HBRIC Ltd to fund its share of the development expenditure for the Ruataniwha Water Storage Scheme. The total balance advanced as at 30 June 2017 was \$13,956,201 (2016: \$13,956,201). Refer to note 23 for events after balance date.

HBRC has also made a loan to HBRIC Ltd to fund further development expenditure for the Ruataniwha Water Storage Scheme. The balance outstanding at 30 June 2016 was \$1,501,966. Further cash advances were made during the year bringing the total to \$6,000,000, which was then fully repaid on 3 May 2017.

### Transactions between the parent company and subsidiary

The following transactions were entered into between the HBRIC Ltd parent company and its subsidiary the Napier Port:

	<b>16/17</b>	<b>15/16</b>
	<b>\$000</b>	<b>\$000</b>
Dividends received	10,700	7,876

The HBRIC Ltd parent company entered into the following subvention payments with its subsidiary the Napier Port, noting that subvention payments were made for the tax effect of losses transferred:

	<b>16/17</b>	<b>15/16</b>
	<b>\$000</b>	<b>\$000</b>
Subvention payments	139	127

### Key management compensation

Compensation of the Directors and chief executive, being the key management personnel for group reporting purposes is as follows:

	<b>Group Actual</b>	<b>Parent Actual</b>	<b>Group Actual</b>	<b>Parent Actual</b>
	<b>16/17</b>	<b>16/17</b>	<b>15/16</b>	<b>15/16</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Short term employee benefits	2,778	346	2,750	493
Termination benefits	450			
	<b>3,228</b>	<b>346</b>	<b>2,750</b>	<b>493</b>

## Note 20: Capital Expenditure Commitments & Contingencies

	Note	Group Actual 16/17 \$000	Parent Actual 16/17 \$000	Group Actual 15/16 \$000	Parent Actual 15/16 \$000
<b>Capital commitments</b>					
Capital expenditure contracted for at balance sheet date but not yet incurred as follows:					
Property, plant and equipment		12,500	0	0	0
Intangible assets		0	0	0	0
Investment property		0	0	0	0
<b>Total capital commitments</b>		<b>12,500</b>	<b>0</b>	<b>0</b>	<b>0</b>

As at the reporting date there were commitments in respect of contracts for capital expenditure of \$12.5m (2016: nil).



## Note 21: Financial Instruments

### Credit Risk

In the normal course of its business the Group incurs credit risk from accounts receivable, bank balances and interest rate swap agreements. There is no significant concentration of credit risk and the Group has a policy of assessing the credit risk of significant new customers and monitors the credit quality of existing customers. Counterparties to cash and derivative financial assets are major banks, approved by the Directors. The Group's maximum credit risk exposure is as disclosed elsewhere in the statement of financial position and there is no collateral held.

### Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as and when they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient cash and borrowing facilities available to meet its liabilities when due, under both normal and adverse conditions. The Group's cash flow requirements and the utilisation of borrowing facilities are continuously monitored.

The following table sets out the contractual cash flows for all financial liabilities and derivatives:

<b>Contractual Maturity Analysis</b>	<b>Carrying Amount</b>	<b>Cash flows To Maturity</b>	<b>Less than 1 Year</b>	<b>1 - 2 Years</b>	<b>2 - 5 Years</b>	<b>More than 5 Years</b>
<u>Group</u>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>2017</b>						
Trade and other payables	9,033	9,033	9,033	0	0	0
Bank borrowings	83,200	88,528	26,472	1,746	60,310	0
Interest rate swaps	4,483	4,908	1,327	1,205	2,066	310
Forward exchange contracts	4	121	121	0	0	0
	<b>96,720</b>	<b>102,590</b>	<b>36,953</b>	<b>2,951</b>	<b>62,376</b>	<b>310</b>
<b>2016</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Trade and other payables	7,277	7,277	7,277	0	0	0
Bank borrowings	87,100	91,411	2,874	88,537	0	0
Interest rate swaps	6,209	7,081	1,322	1,265	3,306	1,188
Forward exchange contracts	-3	147	147	0	0	0
	<b>100,583</b>	<b>105,916</b>	<b>11,620</b>	<b>89,802</b>	<b>3,306</b>	<b>1,188</b>

<b>Contractual Maturity Analysis</b>	<b>Carrying Amount</b>	<b>Cash flows To Maturity</b>	<b>Less than 1 Year</b>	<b>1 - 2 Years</b>	<b>2 - 5 Years</b>	<b>More than 5 Years</b>
<u>Parent</u>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>2017</b>						
Trade and other payables	325	325	325	0	0	0
Bank borrowings	5,400	5,400	5,400	0	0	0
Interest rate swaps	0	0	0	0	0	0
Forward exchange contracts	0	0	0	0	0	0
	<b>5,725</b>	<b>5,725</b>	<b>5,725</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>2016</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Trade and other payables	998	998	998	0	0	0
Bank borrowings	0	0	0	0	0	0
Interest rate swaps	0	0	0	0	0	0
Forward exchange contracts	0	0	0	0	0	0
	<b>998</b>	<b>998</b>	<b>998</b>	<b>0</b>	<b>0</b>	<b>0</b>

### Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

### Interest Rate Risk

The Group from time to time utilises interest rate caps and swaps to manage interest rate exposures for future periods. As at year end the notional principal amounts (including forward starting swaps), and the expiry period of the contracts, are as follows:

	Group Actual 16/17 \$000	Parent Actual 16/17 \$000	Group Actual 15/16 \$000	Parent Actual 15/16 \$000
Less than 1 Year	6,000	0	6,000	0
1 - 2 Years	40,000	0	4,000	0
2 - 3 Years	0	0	40,000	0
Greater than 3 Years	84,500	0	84,500	0
	<u>130,500</u>	<u>0</u>	<u>134,500</u>	<u>0</u>

Interest rate swaps are recognised in the statement of financial position at their fair value, which includes any accrued interest at that date. The effective portion of the changes in the fair value of an interest rate swap is initially recognised in the hedging reserve, and subsequently transferred to the income statement at the point at which time the swap is settled.

Any ineffective portion of an interest rate swap is recognised immediately in the income statement.

### Interest Rate Sensitivity Analysis

At reporting date, if bank interest rates had been 100 basis points higher/lower with all other variables held constant, it would increase/(decrease) post tax profit or loss and other comprehensive income by the amounts shown below.

<u>Interest Rate</u>	Profit or Loss		Other Comprehensive Income	
	100bp Increase \$000	100bp Decrease \$000	100bp Increase \$000	100bp Decrease \$000
Interest rate Swaps	0	0	2,847	-3,039
<b>Year End 2017</b>	<u>0</u>	<u>0</u>	<u>2,847</u>	<u>-3,039</u>
Interest rate Swaps	0	0	3,341	-3,600
<b>Year End 2016</b>	<u>0</u>	<u>0</u>	<u>3,341</u>	<u>-3,600</u>

### Currency Risk

The Group undertakes transactions denominated in foreign currencies from time to time and exposure in foreign currencies arise resulting from these activities. It is the Group's policy to hedge foreign currency risks as they arise. The Group uses forward and spot foreign exchange contracts to manage their exposures.

Foreign exchange contracts are recognised in the statement of financial position at their fair value. The effective portion of the changes in the fair value of foreign exchange contracts is initially recognised in the hedging reserve, and subsequently transferred to the income statement at the point at which the purchase and associated creditor are recorded. Any ineffective portion of foreign exchange contracts is recognised immediately in the income statement.

The summary of foreign exchange instruments outstanding at reporting date and the contracted terms are as follows:

#### Foreign Exchange Contracts Maturity Analysis

	NZD Amount \$000	Currency Amount \$000	Less than 1 Year \$000	1 - 2 Years \$000	2 - 5 Years \$000
<b>2017</b>					
EUR	121	76	76	0	0
	<u>121</u>				
<b>2016</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
EUR	90	58	58	0	0
CAD	57	49	49	0	0
	<u>147</u>				

### Foreign Exchange Sensitivity Analysis

Foreign exchange sensitivity is intended to show what a 10% strengthening or weakening of the New Zealand dollar, with all other variables held constant, would increase/(decrease) other comprehensive income by the amounts shown below. There would be no material changes to profit and loss values.

<u>Foreign Currency</u>	Profit or Loss		Other Comprehensive Income	
	10% NZD Increase \$000	10% NZD Decrease \$000	10% NZD Increase \$000	10% NZD Decrease \$000
Year End 2017	0	0	-11	13
Year End 2016	0	0	-14	17

### Credit Facilities

	Group Actual 16/17 \$000	Parent Actual 16/17 \$000	Group Actual 15/16 \$000	Parent Actual 15/16 \$000
At reporting date total bank facilities were:				
Overdraft	1,000	0	1,000	0
Multi option credit facilities	113,500	6,000	110,000	0
Total	114,500	6,000	111,000	0
At reporting date usage of the bank facilities were:				
Overdraft		0	124	0
Multi option credit facilities	83,200	5,400	87,100	0
Total	83,200	5,400	87,224	0

During the period, Napier Port had two multi option credit facilities with Westpac, one for \$50 million and the other for \$60 million. On 31 March 2017, the Company repaid and cancelled the \$50m facility and extended the other to \$65m with a new expiry date of 31 December 2019. Also on 31 March 2017, the Company entered into a new \$42.5m facilities agreement with ASB Bank Limited, expiring 31 March 2018.

The facilities give Napier Port the option to raise money on the money market, through wholesale advances or a fixed rate advance for all or any part of the commitment expiring on a date no later than the termination date. Security is by way of a negative pledge over the assets of Napier Port in respect of both sale of such assets and other security interests. During the year, HBRIC entered into a \$6m credit facility with Bank of New Zealand Limited. Security is by way of a negative pledge over the assets of HBRIC Limited in respect of both sale of such assets and other security interests.

### Financial Assets and Liabilities

	Group Actual 16/17 \$000	Parent Actual 16/17 \$000	Group Actual 15/16 \$000	Parent Actual 15/16 \$000
<b>Financial Assets</b>				
Financial Assets at Fair Value - Cashflow Hedges				
Interest rate swaps	148	0	0	0
Foreign exchange option	25	0	0	0
Forward foreign exchange contracts	0	0	6	0
	173	0	6	0
Loans and Receivables				
Cash	381	341	313	312
Receivables	13,394	20	9,840	135
	13,776	362	10,153	447
<b>Total Financial Assets</b>	<b>13,949</b>	<b>362</b>	<b>10,159</b>	<b>447</b>

<b>Financial Liabilities</b>				
Financial Liabilities at Fair Value - Cashflow Hedges				
<u>Current</u>				
Interest rate swaps	1,312	0	1,305	0
Forward foreign exchange contracts	4	0	3	0
	<u>1,316</u>	<u>0</u>	<u>1,308</u>	<u>0</u>
<u>Non-current</u>				
Interest rate swaps	3,319	0	4,095	0
Forward foreign exchange contracts	0	0	0	0
	<u>3,319</u>	<u>0</u>	<u>4,095</u>	<u>0</u>
Financial Liabilities at Amortised Cost				
Overdraft	0	0	124	0
Trade payables	9,033	325	7,277	998
Borrowings	83,200	5,400	88,602	1,502
	<u>92,233</u>	<u>5,725</u>	<u>96,003</u>	<u>2,500</u>
<b>Total Financial Liabilities</b>	<b><u>96,868</u></b>	<b><u>5,725</u></b>	<b><u>101,406</u></b>	<b><u>2,500</u></b>

The fair value of all derivatives are based on indicative market valuations provided by the Group's bankers.

The carrying value of all financial assets and liabilities is equal to the fair value.

#### Estimation of fair value of financial instruments

The fair value of financial instruments is determined on a hierarchical basis that reflects the significance of the inputs used in making the measurements. The fair value hierarchy is:

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

#### Fair value measurements recognised in the Statement of Financial Position

All financial instruments recognised on the Group's statement of financial position at fair value sit within Level 2.

#### Capital Management

The Group's policy is to maintain a strong capital base, which is defined as total shareholders equity, so as to maintain shareholder and banker confidence, and to sustain the future business development of the Group. The Group has established policies in capital management, including minimum requirements for interest cover, debt to debt plus equity ratio and total committed funding to maximum debt over the next 12 months.

Napier Port is required to comply with certain financial covenants in respect of external borrowings namely that interest cover is to be maintained at a minimum of three times, shareholders funds as a percentage of total tangible assets must exceed 45% at all times and debt must not exceed 3.5 times Earnings before interest, tax, depreciation and amortisation (EBITDA).

Napier Port has met all the covenants throughout the current reporting period.

## Note 22: Effect on Consolidation

The consolidation adjustment arises through the transfer of the Napier Port shares from Hawke's Bay Regional Council, and reflects the elimination of Napier Port dividends paid to HBRIC Ltd noting there is a timing difference associated with the differing year end balance dates for consolidation purposes.

## Note 23: Events After Balance Sheet Date (Parent & Group)

On 6 July 2017, the Supreme Court ruled that the proposed exchange of Department of Conservation land required for the RWSS reservoir is not legal.

The Supreme Court's decision has significantly reduced the probability of gaining access to the land required in the near term. This has created uncertainty for the RWSS in its current form, resulting in an impairment of \$11.740m.

HBRC have subsequently resolved that HBRIC is authorised to sell the asset to a third party.

The advance of \$13.956m from HBRC which was provided as funding for the RWSS has, by Council resolution on 30 August 2017, been written off by HBRC. Accounting standards mean that the elimination of this liability cannot be considered an adjusting subsequent event in these financial statements and therefore it will be included in the financial statements for the year ended 30 June 2018.

## Note 24: Performance Against Statement of Intent Targets

	Note	Group Actual	Group Target	Parent Actual	Parent Target
Net debt to net debt plus equity		34%	<40%	8%	<10%
Interest cover (EBIT / interest paid)		6x	>3x	n/a	>3x
EBITDA / total assets		11%	9%	4%	3%
Return on shareholders' funds *		2%	5%	-1%	3%

\* Refer to note 23 for events after balance date, which have impacted negatively on this measure.

### Parent company dividends

HBRIC Ltd achieved its targeted ordinary dividends to the Council of \$9.5 million as set out in the 2016/17 Statement of Intent.

### Parent company interest ratio

The parent company's interest cover ratio does not apply for the financial year as the interest paid was capitalised as part of the RWSS expenditure.

HBRIC Ltd's performance against non-financial performance measures set out in its 2016/17 Statement of Intent is described in the following Performance Statement.

## Note 25: Legislative compliance

Section 67 of the Local Government Act 2002 requires the Board of Directors to complete company's annual report within 3 months after the end of each financial year.

The report was completed on 30 September 2017.

# Performance Statement

## Governance

	Objective	Performance target	Performance
1	HBRIC Ltd maintains a strategic direction that is consistent with that of 100% shareholder Hawke's Bay Regional Council (Council).	HBRIC Ltd develops and maintains appropriate communication lines with Council to ensure HBRIC Ltd remains aware of Council's strategic priorities.  By 1 March each year, HBRIC Ltd will submit a draft Sol for the forthcoming year for review and approval by Council.	The HBRIC Ltd Chairman and Chief Executive have presented to Councillors on a number of occasions to ensure the strategic direction of HBRIC Ltd is consistent with that of Council. During the year, a capital review process has been initiated to consider the strategic direction and capital structure of HBRC, HBRIC Ltd and Port of Napier Ltd.  Satisfied.
2	HBRIC Ltd keeps Council informed of all significant matters relating to HBRIC Ltd and its subsidiaries, within the constraints of commercial sensitivity.	HBRIC Ltd submits regular written reports to Council in the financial year and presents seminars to Councillors when appropriate.  Major matters of urgency are reported to Council at the earliest opportunity.	Satisfied.  All major matters of urgency, especially those relating to the Ruataniwha Water Storage Scheme were reported to Council at the earliest opportunity through the regular reporting process and via informal Chair to Chair communication.
3	Corporate governance procedures are appropriate, documented and reflect best practice.	The company's policies will be developed and reviewed in accordance with a schedule approved by the Board, and the company will work with and assist Council to ensure that there is alignment between Council and company policies.	HBRIC Ltd policies are scheduled for regular review. The company is working with Council to ensure that there is alignment between Council and company policies.
4	Directors make an effective contribution to the HBRIC Ltd board, and their conduct is in accordance with generally accepted standards.	The Board will conduct a formal biennial performance evaluation for each HBRIC Ltd director. The next performance evaluation is due for completion by 31 December 2017.  The Governance committee will review the training needs of individual HBRIC Ltd directors, and ensure training is provided where required.	Scheduled for completion by 31 December 2017.  Scheduled for completion by 31 December 2017.
5	HBRIC Ltd's process for the selection and appointment of directors to the boards of subsidiary and monitored companies is rigorous and impartial.	The process followed for each appointment to a subsidiary or monitored company board is transparent, fully documented and in line with Council's approved policies and procedures.	Director appointments made during the year complied with Council/HBRIC Ltd policies.
6	Subsidiary companies complete, on a timely basis, Statements of Intent that meet best practice standards.	HBRIC Ltd will engage with subsidiary companies prior to the Sol round in each year regarding the structure and content of their Sols.  In each year, subsidiary companies submit draft Statements of Intent to HBRIC Ltd in sufficient time for HBRIC Ltd to submit a Final SOI by 30 June.  HBRIC Ltd will review Statements of Intent and respond to the subsidiaries and make recommendations to Council, including on any material changes that are proposed, within six weeks of receipt.	Satisfied.  Satisfied.  Satisfied.
7	Subsidiary companies that are CCTOs comply with the Local Government Act's requirements that their principal objectives be: <ul style="list-style-type: none"> <li>· achieving the objectives of its shareholders as set out in the Sol;</li> <li>· being a good employer;</li> </ul>	HBRIC Ltd will review the companies' performance in the context of these statutorily required objectives.	There are no subsidiary companies that are classified as CCTOs.

- exhibiting a sense of social and environmental responsibility; and
- conducting their affairs in accordance with sound business practice.

8	Investment Policy	<p>The HBRIC Ltd Board will develop an investment policy to achieve the objectives contained in Section 3 of this Sol, subject to the requirement to comply with Council's overarching investment policy as written in the LTP 2015-2025, and the constraints imposed by asset classifications and support for Council's strategic objectives.</p> <p>HBRIC Ltd's investment policy will be subject to Council approval before it is adopted as the policy of the company. This investment policy will be reviewed by HBRIC Ltd from time to time and in any case whenever Council's own investment policy is revised, and in the course of Council's preparation of its future Long Term Plans. All such changes will be subject to Council approval.</p>	<p>Work on this policy was initiated during the year and deferred with the formation of a Group capital review committee. It will be finalised once the capital review is complete. The capital review committee includes HBRIC, Council and Port of Napier Ltd representatives.</p> <p>Included in capital review process.</p>
9	Strategic Planning	The strategic plan prepared and reviewed with Council in 2015 will be further developed and reviewed with Council at an appropriate date after completion of the RWSS project.	Deferred following delays to the RWSS scheme.

### Group strategic, financial and sustainability objectives

	Objective	Performance target	Performance
1	Subsidiary companies adopt strategies that are compatible with the strategic direction of HBRIC Ltd and Council.	HBRIC Ltd will engage with subsidiary companies prior to the 2017 Sol round regarding key shareholder strategies and, subsequently, review their Sol's for compatibility with those strategies.	Satisfied.
2	Subsidiary companies adopt strategies that contribute to regional growth.	HBRIC Ltd will encourage subsidiary companies to seek opportunities that are both commercially sound and are capable of enhancing regional growth, and actively engage them with regard to specific opportunities that may arise.	Satisfied - Port of Napier Ltd continues to deliver increased trade growth and plan for the needs of the future.

### Parent company financial objectives

	Objective	Performance target	Performance
1	HBRIC Ltd financial and distribution performance meets the shareholder's expectations.	HBRIC Ltd pays a dividend for the 2017 financial year that meets or exceeds the forecast dividend, and achieves the financial performance targets set out in the Sol.	Satisfied - \$9.5m of dividends paid to Council during year, along with the repayment of the \$6.0m loan.
2	HBRIC Ltd's capital structure is appropriate for the nature of its business.	HBRIC Ltd will review the structure of its balance sheet to ensure that it is appropriate for implementation of the Ruataniwha Water Storage project, and provides sufficient flexibility to develop and undertake other approved investments.	During 2017 a capital review process has been initiated to consider this matter.
3	HBRIC Ltd's investments provide an appropriate return in relation to their business risk, and against external benchmarks.	HBRIC Ltd will periodically review the performance of subsidiary companies and other investments against external benchmarks, and assess the value of the investment in the individual company in relation to its inherent business risk and community benefits.	To be included in the capital review.

## Independent Auditor's Report

### To the readers of Hawke's Bay Regional Investment Company Limited's and group's financial statements and performance information for the year ended 30 June 2017

The Auditor-General is the auditor of Hawke's Bay Regional Investment Company Limited (HBRIC) and group. The Auditor-General has appointed me, Stephen Lucy, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and the performance information of HBRIC and group, on his behalf.

We have audited:

- the financial statements of HBRIC and group on pages 10 to 37 that comprise the statement of financial position as at 30 June 2017, the income statement, 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 HBRIC and group on pages 38 to 39.

#### **Qualified opinion – Our work was limited due to insufficient evidence to support the carrying value of the development expenditure intangible asset and related taxation effects**

In our opinion, except for the matters described in the *Basis for our qualified opinion* section of our report:

- the financial statements of HBRIC and group on pages 10 to 37:
  - present fairly, in all material respects:
    - their financial position as at 30 June 2017; and
    - their 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 and International Financial Reporting Standards.
- the performance information of HBRIC and group on pages 38 to 39 presents fairly, in all material respects, HBRIC and group's actual performance compared against the performance targets and other measures by which performance was judged in relation to HBRIC and group's objectives for the year ended 30 June 2017.

Our audit was completed on 30 September 2017. This is the date at which our qualified opinion is expressed.



The basis for our qualified 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 our qualified opinion**

As disclosed in note 13, HBRIC has incurred expenditure developing the Ruataniwha Water Storage Scheme (the Scheme), which is recognised as an intangible asset. The progress of the Scheme has been subject to litigation and an unfavourable Supreme Court decision on 6 July 2017 has created significant uncertainty over the ability to proceed with the Scheme in its current form. Consequently, the Directors have impaired the intangible asset by \$11.74 million based on their assessment of its recoverable value of \$7.83 million. In addition, as explained in note 6 on taxation, HBRIC cannot determine the amount of deductible temporary differences in relation to the impairment of the intangible asset and so is unable to determine the effect on the deferred tax balances.

We have been unable to obtain sufficient appropriate audit evidence that the \$7.83 million carrying value of the intangible asset is recoverable, or to determine the deferred tax balances that should arise from the impairment of the intangible asset.

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 qualified opinion.

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

The Board of Directors is responsible on behalf of HBRIC and group 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 HBRIC and group.

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 HBRIC and group for assessing HBRIC and group'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 HBRIC and group 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 HBRIC and group'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 HBRIC and group'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 HBRIC and group'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 HBRIC and group'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 HBRIC and group 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 obtain sufficient appropriate audit evidence regarding the financial statements and the performance information of the entities or business activities within the group to express an opinion on the consolidated financial statements and the consolidated performance information. We are responsible solely for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 in 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 3 to 8, 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 the fact. As described in the *Basis for our qualified opinion* section above, we were unable to obtain sufficient appropriate evidence that the carrying value of an intangible asset is recoverable, or to determine the deferred tax balances that should arise from the impairment of this asset. Accordingly, we are unable to conclude whether or not the other information is materially misstated with respect to these matters.

## Independence

We are independent of HBRIC and group 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 New Zealand Auditing and Assurance Standards Board.

Other than the audit, we have no relationship with, or interests in, HBRIC and group.



S B Lucy  
Audit New Zealand  
On behalf of the Auditor-General  
Wellington, New Zealand