Hawke's Bay Regional Investment Company Ltd

2013-14 Annual Report

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Chairman and Chief Executive's Report

The Hawke's Bay Regional Investment Company Ltd (HBRIC Ltd) currently has two main investments. An investment in the Ruataniwha Water Storage Scheme (RWSS), which is still in its development phase, and the 100% ownership of the Port of Napier Ltd (Napier Port).

Ruataniwha Water Storage Scheme

The main focus for HBRIC Ltd in 2013-14 year has been progressing the RWSS. To date HBRIC Ltd has funded two thirds of the development costs, with the balance funded by other parties, therefore spreading the burden and risk. This ratio is likely to reduce slightly by financial close. The development and administrative costs for construction and infrastructure projects is often budgeted between 5-10% of total capital expenditure depending on project complexity. For the RWSS, which in our views falls in the complex project category the HBRIC Ltd contribution is forecast at 5% of the total, including Tukituki plan change costs, all of which will form part of its total equity should the scheme proceed.

Five work streams have been invested in through the 2013/14 financial year:

- Negotiating and refining the design and construction offer from OHL/Hawkins.
- Gaining resource consent for the RWSS through the Environmental Protection Authority's Board of Inquiry (BoI) process.
- Engaging with the farming community around signing up to take water from the scheme and negotiating land acquisitions to accommodate the infrastructure.
- Engaging with institutional investors and Crown Irrigation Investments Ltd (CIIL).
- Assisting Hawke's Bay Regional Council with its conditional investment decision through:
    - Preparation of a business case.
    - Providing information and analysis to the Council's Financial and Legal Advisors.
    - Assisting the Council, as required, in its Local Government Act special consultative process around its potential investment in the RWSS.

Three major milestones were reached by the end of June 2014:

- Negotiation of a Design and Construction offer within an acceptable capital cost. This allows for the construction of a reservoir capable of storing 93 million cubic metres of water (and supplying 104 million cubic metres per year), and the distribution of pressurised water to the farm gate through a piped network to over 25,000 hectares. The estimated capital cost of the entire scheme including development and land acquisitions costs is $275 million.
- The decision by Hawke's Bay Regional Council to invest up to $80 million in the RWSS, subject to four conditions.
- The final decision by the Board of Inquiry to grant the RWSS consents, in line with the framework proposed by HBRIC Ltd.

Looking forward the material aspects of the development programme that must be achieved to enable the RWSS to progress to construction include:

- Confirmed resource consents, clear of the current three appeals made to the High Court
- Sufficient contracted water by farmers
- Finalisation of the capital structure (who the co-investors will be)
- Completing all the legal documentation for the RWSS to the point where all contractual arrangements are unconditional.

The main factor which will affect the ability to reach financial close by March 2015 is the outcome of the High Court hearings on the appeals, which are set down for November 2014. While HBRIC Ltd is confident of an outcome that is favourable for the RWSS, there is some risk that the legal process may slow progress or alter the Board of Inquiry's final decision.

Napier Port

Napier Port has recorded another very strong year, having moved a record number of containers. This has been driven by expanding apple exports, strong volumes of dairy product from Fonterra and record volumes of forest products. Much of the product going through Napier Port is being driven by market demand, especially from China and supply expansion in the pipfruit and forestry sectors. The Board, management and staff of Napier Port have performed strongly in improving both top and bottom line financial results as consequence of expanding out of region business, maintaining an excellent health and safety record, and actively dealing with some logistical challenges emerging as the business expands.

Looking forward, competition in the port sector continues at pace and to adapt Napier Port needs to remain strongly customer focused, proactive and nimble. HBRIC Ltd notes that the continuing expansion of product flow through Napier Port is very positive. However this growth has the following challenges:

- 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.

A key task for HBRIC Ltd in the 2014/15 year is to review the risk framework and risk appetite for the Port Asset in consultation with the Council. This approach is consistent with the shareholder's requirement for preparation of a strategic plan.

Andrew Newman

ANDREW PEARCE
CHAIRMAN
HBRIC LTD

ANDREW NEWMAN
CHIEF EXECUTIVE
HBRIC LTD

Directors' Report

The Directors take pleasure in presenting their report and Financial Statements of the Hawke's Bay Regional Investment Company Limited for the year ended 30 June 2014.

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'). The shares of Napier Port were transferred from Hawke's Bay Regional Council as at 25 June 2012. The consideration for the share transfer was by way of subscription to 177,400,000 ordinary shares in the capital of HBRIC Ltd at the value of $1 per share.

Registered Office

159 Dalton Street
Napier South
Napier 4110
New Zealand

Basis of Consolidation

The consolidated financial statements comprise the financial statements HBRIC Ltd and its subsidiaries as at and for the year ended 30 June 2014.

Principal activities

Parent company

The company's principal activity during the year was to operate as an investment company of Hawke's Bay Regional Council. The major project of the company is the sponsorship of 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)	$ 62,125	F Wilson	$ -
J Scotland	$ 33,750	A Dick	$ -
S Robinson	$ 33,750	C Scott	$ -
D Dinsdale	$ 15,000	A Newman *	$ -
D Faulkner	$ 15,000		

* From 1 July 2013 Mr A Newman has been seconded full time to HBRIC Ltd as Chief Executive and is no longer undertaking his duties as Chief Executive of Hawke's Bay Regional Council. This arrangement was reviewed by Council on 25 June 2014 and it was agreed that the secondment would be extended until financial close of the Ruataniwha Water Storage Scheme.

Mr Newman's salary is paid by Council with reimbursement of this salary cost met by HBRIC Ltd through an hourly charge from Council. Mr Newman was also paid a higher duties allowance as part of his full time secondment which was funded by HBRIC Ltd. The full remuneration details are set out in Council's Annual Report for the year ended 30 June 2014.

The Board of the Parent is a Transition Board and currently comprises five Independent Directors. In December 2013 Ms D Dinsdale and Mr D Faulkner were appointed as Independent Directors, replacing the three Councillor Directors Mr F Wilson, Mr A Dick, and Mrs C Scott. It is intended that the Transition Board be replaced with an ongoing Board after financial close of the Ruataniwha Water Storage Scheme, with the Transition Board Directors being eligible for re-appointment.

Subsidiary company - Port of Napier Limited

J Scotland (Chairman)	$ 78,000
J Nichols (Chair Audit & Risk Committee)	$ 42,501
P Harper	$ 39,501
J Loughlin	$ 39,501
J Shaskey	$ 39,501
S Reindler	$ 29,250
W Harvey	$ 10,251

Mr S Reindler retired in December 2013 and Mrs W Harvey took up her Directorship from December 2013.

Board Committees

As at 30 June 2014 the Board of the Parent Company had established the following committees:

Audit and Risk Management Committee
Governance, Appointments & Remuneration Committee
Ruataniwha Water Storage Board Committee, including Professor Roger Maaka

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.

Director	Interests declared
A Pearce (Chairman)	Chairman - Focus Genetics Limited Partnership Chairman - Environment Canterbury Regional Water Management Committee Director - Bank of New Zealand Director - Christchurch City Holdings Ltd Director - FAUNA Ltd (Australia) Director and Shareholder - Seon Pearce & Associates Ltd Shareholder - Migco Pharmaceuticals Ltd Trustee - Seon Pearce Family Trust Trustee - Weber Pearce Family Trust
J Scotland	Chairman - Port of Napier Ltd Chairman - 3R Group Ltd Director - Hawke's Bay Airport Ltd Director and Shareholder - Scotland Services Ltd Director and Shareholder - Crown Hotel (2006) Ltd Director and Shareholder - Landmac Holdings Ltd Director and Shareholder - Ahuriri Properties Ltd
S Robinson	Chairman - AgResearch Ltd Chairman - Centralines Ltd Chairman Trustee - Food and Agribusiness Market Experience (FAME) Director - The Co-operative Bank Ltd Director and Shareholder - Tourere Water Supply Ltd Director and Shareholder - Tourere Asset Management Ltd Director and Shareholder - Opihi Ltd Shareholder - Silver Fern Farms Ltd Shareholder - Ravensdown Trustee - Kereru Station
D Dinsdale	Director - Medical Assurance Society NZ Ltd Director - Medical Insurance Society Ltd Director - Medical Life Assurance Society Ltd Director - Crown Fibre Holdings Ltd Director - Ultrafast Fibre Ltd
D Faulkner	Chairman - Port Otago Ltd Chairman - Solar City Ltd Director - Gough Group Holdings Ltd Shareholder - Brightwater Group Ltd Shareholder - Fulton Hogan Ltd

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:

Remuneration bands	Group	Parent
$100,000 - 109,999	23	-
$110,000 - 119,999	7	-
$120,000 - 129,999	6	-
$130,000 - 139,999	1	-
$140,000 - 149,999	2	-
$160,000 - 169,999	2	-
$170,000 - 179,999	1	-
$180,000 - 189,999	3	-
$190,000 - 199,999	1	-
$200,000 - 209,999	1	-
$210,000 - 219,999	1	-
$220,000 - 229,999	2	-
$310,000 - 319,999	1	-
$520,000 - 529,999	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.

Donations

The parent company and subsidiary made no donations during the year (2013: nil).

Dividends

During the year the parent company paid fully-imputed ordinary dividends of $6,654,275 (2013: $5,700,000).

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 2014 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.

Andrew Pearce (Chairman)

8 September 2014

Danelle Dinsdale (Director)

8 September 2014

Income Statement
For the year ended 30 June 2014

	Note	Group Actual 13/14 $000	Parent Actual 13/14 $000	Group Actual 12/13 $000	Parent Actual 12/13 $000
Income					
Income from Port operations		67,023	0	59,947	0
Other income		13	0	16	0
Dividend income		0	6,993	0	6,082
Operating income	3	**67,036**	**6,993**	**59,963**	**6,082**
Expenditure					
Employee benefit expenses		17,371	0	15,589	0
Maintenance expenses		6,820	0	7,415	0
Depreciation & amortisation expense		7,343	0	6,806	0
Other operating expenses	4	12,524	547	12,857	334
Operating expenditure		**44,058**	**547**	**42,667**	**334**
Operating profit before net financing costs		**22,978**	**6,446**	**17,296**	**5,748**
Finance income	5	(13)	(12)	(26)	(12)
Finance expenses	5	3,573	0	3,447	0
Net finance costs		**3,560**	**(12)**	**3,421**	**(12)**
Profit before taxation		**19,419**	**6,459**	**13,875**	**5,760**
Income tax expense	6	5,347	(149)	3,887	(109)
Total tax expense		**5,347**	**(149)**	**3,887**	**(109)**
Profit for the period attributable to the Shareholder of the Company		**14,072**	**6,608**	**9,988**	**5,869**

The accompanying notes form part of these financial statements.

Statement of Comprehensive Income
For the year ended 30 June 2014

	Note	Group Actual 13/14 $000	Parent Actual 13/14 $000	Group Actual 12/13 $000	Parent Actual 12/13 $000
Profit after tax attributable to the Shareholder of the Company		14,072	6,608	9,988	5,869
Other Comprehensive Income					
Asset revaluation	9	0	0	62,007	0
Net effective portion of changes in fair value of cashflow hedges	9	2,210	0	(602)	0
Effect on consolidation	21	695	0	103	0
Total Comprehensive Income		**16,977**	**6,608**	**71,496**	**5,869**

The accompanying notes form part of these financial statements.

Statement of Changes in Equity
For the year ended 30 June 2014

	Note	Group Actual 13/14 $000	Parent Actual 13/14 $000	Group Actual 12/13 $000	Parent Actual 12/13 $000
Equity as at beginning of year		171,934	177,601	106,138	177,432
Profit after tax attributable to the Shareholder of the Company		14,072	6,608	9,988	5,869
Other comprehensive income		2,905	0	61,508	0
Dividends	8	(6,654)	(6,654)	(5,700)	(5,700)
Share issues		0	0	0	0
Equity as at end of year		**182,257**	**177,555**	**171,934**	**177,601**

The accompanying notes form part of these financial statements.

Statement of Financial Position
As at 30 June 2014

	Note	Group Actual 13/14 $000	Parent Actual 13/14 $000	Group Actual 12/13 $000	Parent Actual 12/13 $000
EQUITY					
Share capital	9	177,500	177,500	177,500	177,500
Reserves	9	63,615	0	61,405	0
Retained earnings		(58,858)	55	(66,971)	101
Total Equity		**182,257**	**177,555**	**171,934**	**177,601**
LIABILITIES					
Non-Current Liabilities					
Derivative financial instruments	20	212	0	2,309	0
Borrowings	20	64,500	0	58,300	0
Deferred tax liabilities	6	17,361	0	16,674	0
Provisions for Employee Entitlements	12	353	0	287	0
Total Non-Current Liabilities		82,426	0	77,570	0
Current Liabilities					
Cash and cash equivalents	17,20	181	0	14	0
Derivative financial instruments	20	766	0	1,533	0
Taxation payable		1,437	0	212	0
Advances from shareholder	18	9,853	9,853	5,857	5,857
Trade & other payables	11	7,548	958	8,419	1,931
Total Current Liabilities		19,785	10,811	16,035	7,788
TOTAL LIABILITIES		**102,211**	**10,811**	**93,605**	**7,788**
TOTAL EQUITY & LIABILITIES		**284,467**	**188,365**	**265,539**	**185,389**
ASSETS					
Non-Current Assets					
Property, plant & equipment	14	253,616	400	241,406	400
Investment property	16	6,660	0	6,285	0
Intangible assets	13	10,459	9,553	5,745	5,443
Financial assets	15	0	177,400	0	177,400
Derivative financial instruments	20	358	0	0	0
Total Non-Current Assets		271,093	187,353	253,436	183,243
Current Assets					
Inventories		209	0	295	0
Trade & other receivables	10	12,610	458	11,035	1,411
Cash and cash equivalents	17,20	398	397	623	622
Current tax asset	6	157	157	113	113
Derivative financial instruments	20	0	0	37	0
Total Current Assets		13,374	1,012	12,103	2,146
TOTAL ASSETS		**284,467**	**188,365**	**265,539**	**185,389**

The accompanying notes form part of these financial statements.

Statement of Cash Flows
For the year ended 30 June 2014

	Note	Group Actual 13/14 $000	Parent Actual 13/14 $000	Group Actual 12/13 $000	Parent Actual 12/13 $000
CASH FLOW FROM OPERATING ACTIVITIES					
Cash was provided from:					
Receipts from customers		65,413	0	62,395	0
Dividends received		695	6,993	102	6,082
GST received (net)		0	0	0	0
Subvention received		0	109	0	0
Interest received		12	12	26	12
		66,120	7,114	62,523	6,094
Cash was applied to:					
Payments to suppliers & employees		(38,528)	(542)	(37,324)	(216)
Interest paid		(3,656)	0	(3,411)	0
GST paid (net)		68	122	(352)	(159)
Taxes paid		(3,475)	0	(3,971)	0
		(45,591)	(420)	(45,058)	(375)
Net Cash Flows from Operating Activities	17	**20,529**	**6,694**	**17,465**	**5,719**
CASH FLOWS FROM INVESTING ACTIVITIES					
Cash was provided from:					
Sale of assets		215	0	1,605	0
Third party contributions for purchase of intangibles		3,384	3,384	1,105	1,105
		3,599	3,384	2,710	1,105
Cash was applied to:					
Purchase of assets		(19,597)	0	(10,585)	0
Purchase of intangibles		(3,485)	(2,665)	(1,497)	(1,317)
Purchase of intangibles on behalf of third parties		(3,384)	(3,384)	(1,105)	(1,105)
		(26,466)	(6,049)	(13,187)	(2,422)
Net Cash Flows from Investing Activities		**(22,867)**	**(2,665)**	**(10,477)**	**(1,317)**
CASH FLOWS FROM FINANCING ACTIVITIES					
Cash was provided from:					
Proceeds from loans		13,500	0	0	0
Advances from shareholder *		2,400	2,400	1,820	1,820
Issuing of shares		0	0	0	0
		15,900	2,400	1,820	1,820
Cash was applied to:					
Repayment of loans		(7,300)	0	(2,400)	0
Dividends paid		(6,654)	(6,654)	(5,700)	(5,700)
		(13,954)	(6,654)	(8,100)	(5,700)
Net Cash Flows from Financing Activities		**1,946**	**(4,254)**	**(6,280)**	**(3,880)**
Net Increase / (Decrease) in Cash & Cash Equivalents		**(392)**	**(225)**	**708**	**522**
Opening cash & cash equivalents		609	622	(99)	100
Closing Cash & Cash Equivalents		**217**	**397**	**609**	**622**

* 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 2014 was $9,853,105 (2013: $5,856,588).

Advances were made by way of cash advances of $2,400,000 (2013: $1,820,333) and through non cash advances of $1,596,517 (2013: $4,036,255).

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 2014 and were authorised for issue by the HBRIC Ltd Board of directors on 8 September 2014.

1.2 Basis of Preparation

The financial statements of HBRIC Ltd 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

The Group has not elected to early adopt any new standards or interpretations that are issued but 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 1 July 2013. 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 will supersede in part NZ IAS 39 and specifies how an entity should classify and measure financial assets. The standard is effective for the year ended 30 June 2016. 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 20)
- 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 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 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 2.6.4 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:

(2.6.1) 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.

(2.6.2) 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.

(2.6.3) 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.

(2.6.4) 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.

2.7 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.

2.8 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.

2.9 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:

Asset Category	***Years***
Cargo & Administration Buildings	10 - 60
Site Improvements	10 - 40
Wharves & Jetties	10 - 80
Vehicles, Plant & Equipment	3 - 25
Cranes	20
Tugs	30
Computer Software & Licences	3 - 10
Other Buildings	10 - 25
Soft Dredging	8
Sea Defences	100 - 200

2.10 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.

2.11 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.

2.12 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.

2.13 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.

2.14 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.

2.15 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.

2.16 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 in not required for financial instruments subject to credit risk.

2.17 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.

(2.17.1) 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.

(2.17.2) 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.

2.18 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.

2.19 Changes in Accounting Policies

NZ IFRS 13 Fair Value Measurement became effective from 1 July 2013. While the standard required a change to the valuation methodology of the interest rate swaps, the change was not material as at 30 June 2014.

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

Note 3: Income

	Note	Group Actual 13/14 $000	Parent Actual 13/14 $000	Group Actual 12/13 $000	Parent Actual 12/13 $000
Operating income					
Income from Port operations		67,023	0	59,947	0
Property operations		13	0	16	0
Dividend income		0	6,993	0	6,082
Total operating income		**67,036**	**6,993**	**59,963**	**6,082**

Note 4: Other Expenses

	Note	Group Actual 13/14 $000	Parent Actual 13/14 $000	Group Actual 12/13 $000	Parent Actual 12/13 $000
Items included within Other Operating Expenses					
Auditors' fees paid to Audit New Zealand		11	11	5	5
Auditors' fees paid to Ernst & Young		107	0	103	0
Directors' fees		439	160	315	52
Operating leases		205	0	162	0
Bad debts		0	0	2	0
Fair value (gain)/loss on investment property		(375)	0	0	0
Net (profit)/loss on sale of property, plant and equipment		46	0	(69)	0
Write-down of storage shed on demolition		0	0	919	0

Note 5: Finance Income and Expenses

	Note	Group Actual 13/14 $000	Parent Actual 13/14 $000	Group Actual 12/13 $000	Parent Actual 12/13 $000
Interest income		(13)	(12)	(26)	(12)
Total finance income		**(13)**	**(12)**	**(26)**	**(12)**
Interest expense on borrowings		3,687	0	3,470	0
Fair value (gain)/loss on interest rate swaps		(114)	0	(23)	0
Total finance expenses		**3,573**	**0**	**3,447**	**0**
Net finance costs		**3,560**	**(12)**	**3,421**	**(12)**

Note 6: Taxation

	Note	Group Actual 13/14 $000	Parent Actual 13/14 $000	Group Actual 12/13 $000	Parent Actual 12/13 $000
Income tax expense					
Net profit before taxation		19,419	6,459	13,875	5,760
Income tax on the surplus for the year @ 28%		5,437	1,808	3,885	1,613
Adjustment to prior year taxation		(3)	0	3	0
Tax effect of income not recognised for accounting		0	762	0	662
Prior year losses previously not recognised		0	0	(19)	(19)
Exempt dividends received		0	(2,719)	0	(2,365)
Taxation effect of non deductible items		(87)	0	18	0
Income tax expense		**5,347**	**(149)**	**3,887**	**(109)**
The taxation charge is represented by:					
Current taxation		5,518	(149)	3,631	(109)
Deferred taxation		(171)	0	256	0
Income tax expense reported in income statement		**5,347**	**(149)**	**3,887**	**(109)**
Deferred tax liability					
Opening balance		(16,674)	0	(6,381)	0
Adjustment prior year provision		1	0	(41)	0
Deferred portion of current year tax expense		171	0	(256)	0
Deferred tax for removal of building tax depreciation		0	0	0	0
Deferred tax relating to changes in tax rate		0	0	0	0
Amounts charged or credited direct to equity		(859)	0	(9,996)	0
Closing balance		**(17,361)**	**0**	**(16,674)**	**0**
Deferred taxation is represented by:					
Accelerated tax depreciation		(18,198)	0	(18,274)	0
Fair value gains/(losses) on derivatives		158	0	1,018	0
Other		679	0	582	0
		(17,361)	**0**	**(16,674)**	**0**
Current tax asset					
Current tax assets is represented by:					
Tax receivable		8	8	4	4
Subvention receivable		149	149	109	109
Current tax asset reported in balance sheet		**157**	**157**	**113**	**113**
Imputation credit account					
Imputation credits available for use in subsequent periods		20,383	179	16,589	152

Note 7: Operating leases

	Note	Group Actual 13/14 $000	Parent Actual 13/14 $000	Group Actual 12/13 $000	Parent Actual 12/13 $000
Leases as a lessee					
At reporting date the Company had the following operating lease commitments:					
Payable within one year		128	0	54	0
Between one and two years		101	0	17	0
Between two and five years		33	0	0	0
Over five years		0	0	0	0
		262	**0**	**71**	**0**

Note 8: Dividends

	Note	Group Actual 13/14 $000	Parent Actual 13/14 $000	Group Actual 12/13 $000	Parent Actual 12/13 $000
2013 additional dividend paid - 0.057 cents per share		101	101	0	0
2014 interim dividend paid - 1.634 cents per share (2013: 1.606 cps)		2,900	2,900	2,850	2,850
2014 final dividend paid - 2.058 cents per share (2013: 1.606 cps)		3,653	3,653	2,850	2,850
Dividends paid		**6,654**	**6,654**	**5,700**	**5,700**

Note 9: Capital and Reserves

	Note	Group Actual 13/14 $000	Parent Actual 13/14 $000	Group Actual 12/13 $000	Parent Actual 12/13 $000
Share Capital					
Issued and paid up capital					
177,500,000 ordinary shares (2013: 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.

	Group Actual 13/14 $000	Parent Actual 13/14 $000	Group Actual 12/13 $000	Parent Actual 12/13 $000
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.	1,608	0	(602)	0
Revaluation Reserve				
The revaluation reserve relates to the revaluation of the port sea defences.	62,007	0	62,007	0

Note 10: Trade and Other Receivables

	Note	Group Actual 13/14 $000	Parent Actual 13/14 $000	Group Actual 12/13 $000	Parent Actual 12/13 $000
Trade and other receivables					
Trade receivables		11,836	331	9,532	526
Accruals and prepayments		774	127	1,503	885
Total trade and other receivables		**12,610**	**458**	**11,035**	**1,411**
The ageing of trade receivables at reporting date is set out below:					
Not past due		10,034	331	8,535	526
Past due 0 - 30 days		1,384	0	736	0
Past due 30 - 60 days		186	0	184	0
Past due > 60 days		232	0	77	0
		11,836	**331**	**9,532**	**526**

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 13/14 $000	Parent Actual 13/14 $000	Group Actual 12/13 $000	Parent Actual 12/13 $000
Trade and other payables					
Trade payables		3,430	712	4,204	1,683
Trade accruals		2,065	246	2,646	248
Employee entitlement accruals		2,053	0	1,569	0
Total trade and other payables		**7,548**	**958**	**8,419**	**1,931**

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 13/14 $000	Parent Actual 13/14 $000	Group Actual 12/13 $000	Parent Actual 12/13 $000
Non-current					
Provisions for employee entitlements		353	0	287	0
Provisions for employee entitlements		**353**	**0**	**287**	**0**
Provisions for non-current employee entitlement					
Balance at beginning of year		287	0	270	0
Additional provision made		115	0	51	0
Amount utilised		(49)	0	(34)	0
Balance at end of year		**353**	**0**	**287**	**0**

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 $000	Closing Cost $000	Opening Accum Amortisation $000	Current Year Amortisation $000	Transfer/ Disposals $000	Closing Accum Amortisation $000	Book Value $000
Group									
Year ended 30 June 2014									
Computer software	3,513	820	0	4,333	3,211	216	0	3,427	906
Development expenditure	5,443	4,110	0	9,553	0	0	0	0	9,553
	8,956	**4,930**	**0**	**13,886**	**3,211**	**216**	**0**	**3,427**	**10,459**
Year ended 30 June 2013									
Computer software	3,333	180	0	3,513	2,831	380	0	3,211	302
Development expenditure	0	5,443	0	5,443	0	0	0	0	5,443
	3,333	**5,623**	**0**	**8,956**	**2,831**	**380**	**0**	**3,211**	**5,745**

	Opening Cost $000	Additions $000	Transfer/ Disposals $000	Closing Cost $000	Opening Accum Amortisation $000	Current Year Amortisation $000	Transfer/ Disposals $000	Closing Accum Amortisation $000	Book Value $000
Parent									
Year ended 30 June 2014									
Computer software	0	0	0	0	0	0	0	0	0
Development expenditure	5,443	4,110	0	9,553	0	0	0	0	9,553
	5,443	**4,110**	**0**	**9,553**	**0**	**0**	**0**	**0**	**9,553**
Year ended 30 June 2013									
Computer software	0	0	0	0	0	0	0	0	0
Development expenditure	0	5,443	0	5,443	0	0	0	0	5,443
	0	**5,443**	**0**	**5,443**	**0**	**0**	**0**	**0**	**5,443**

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

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
Group									
Year ended 30 June 2014									
Land	30,343	0	0	30,343	0	0	0	0	30,343
Sea defences	76,527	0	0	76,527	163	326	0	489	76,038
Cargo & Admin buildings	12,269	5,232	0	17,501	4,881	895	0	5,776	11,725
Tugs	24,100	0	0	24,100	1,614	395	2	2,011	22,089
Site improvements	43,035	730	0	43,765	13,858	1,212	0	15,070	28,695
Hard dredging	4,814	0	0	4,814	0	0	0	0	4,814
Soft dredging	4,613	0	0	4,613	2,058	477	0	2,535	2,078
Other buildings	3,537	64	0	3,601	1,668	118	0	1,786	1,815
Wharves & jetties	42,458	146	0	42,604	6,130	547	0	6,677	35,927
Cranes	13,643	11,473	(1,500)	23,616	6,832	1,064	(1,300)	6,596	17,020
Vehicles, plant & equipment	31,223	4,525	(295)	35,453	15,123	2,093	(233)	16,983	18,470
Work in progress	7,171	20,418	(22,987)	4,602	0	0	0	0	4,602
	293,733	**42,588**	**(24,782)**	**311,539**	**52,327**	**7,127**	**(1,531)**	**57,923**	**253,616**
Year ended 30 June 2013									
Land	29,943	0	400	30,343	0	0	0	0	30,343
Sea defences	0	72,311	4,216	76,527	0	163	0	163	76,364
Cargo & Admin buildings	13,629	0	(1,360)	12,269	4,629	693	(441)	4,881	7,388
Tugs	24,381	0	(281)	24,100	1,499	396	(281)	1,614	22,486
Site improvements	45,912	1,491	(4,368)	43,035	12,718	1,210	(70)	13,858	29,177
Hard dredging	2,600	2,214	0	4,814	0	0	0	0	4,814
Soft dredging	2,352	2,261	0	4,613	1,574	484	0	2,058	2,555
Other buildings	3,537	0	0	3,537	1,550	118	0	1,668	1,869
Wharves & jetties	42,458	0	0	42,458	5,576	554	0	6,130	36,328
Cranes	13,212	431	0	13,643	5,910	922	0	6,832	6,811
Vehicles, plant & equipment	27,524	3,823	(124)	31,223	13,317	1,886	(80)	15,123	16,100
Work in progress	6,715	10,855	(10,399)	7,171	0	0	0	0	7,171
	212,263	**93,386**	**(11,916)**	**293,733**	**46,773**	**6,426**	**(872)**	**52,327**	**241,406**

Note 14: Property, Plant and Equipment continued

	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
Parent									
Year ended 30 June 2014									
Land	400	0	0	400	0	0	0	0	400
Sea defences	0	0	0	0	0	0	0	0	0
Cargo & Admin buildings	0	0	0	0	0	0	0	0	0
Tugs	0	0	0	0	0	0	0	0	0
Site improvements	0	0	0	0	0	0	0	0	0
Hard dredging	0	0	0	0	0	0	0	0	0
Soft dredging	0	0	0	0	0	0	0	0	0
Other buildings	0	0	0	0	0	0	0	0	0
Wharves & jetties	0	0	0	0	0	0	0	0	0
Cranes	0	0	0	0	0	0	0	0	0
Vehicles, plant & equipment	0	0	0	0	0	0	0	0	0
Work in progress	0	0	0	0	0	0	0	0	0
	400	**0**	**0**	**400**	**0**	**0**	**0**	**0**	**400**
Year ended 30 June 2013									
Land	0	0	400	400	0	0	0	0	400
Sea defences	0	0	0	0	0	0	0	0	0
Cargo & Admin buildings	0	0	0	0	0	0	0	0	0
Tugs	0	0	0	0	0	0	0	0	0
Site improvements	0	0	0	0	0	0	0	0	0
Hard dredging	0	0	0	0	0	0	0	0	0
Soft dredging	0	0	0	0	0	0	0	0	0
Other buildings	0	0	0	0	0	0	0	0	0
Wharves & jetties	0	0	0	0	0	0	0	0	0
Cranes	0	0	0	0	0	0	0	0	0
Vehicles, plant & equipment	0	0	0	0	0	0	0	0	0
Work in progress	0	0	0	0	0	0	0	0	0
	0	**0**	**400**	**400**	**0**	**0**	**0**	**0**	**400**

As at 30 September 2012 the Napier Port chose to revalue the sea defences of the Port. The sea defences are classified as specialised assets and as such were valued on a depreciated replacement cost basis. The value increased by $72,311,000 and this valuation was undertaken by independent valuer Rob Kilgour of AECOM as sub consultant to Darroch Ltd.

The significant assumptions applied in the valuation of these assets are:

Replacement unit cost: were calculated taking into account:

- Napier Port's historic cost data including any recent competitively tendered construction works.
- An AECOM valuation data-base.
- An allowance for project on costs for planning, design, contract supervision and commissioning of 10% for seawalls and rock breakwaters and 12% for concrete breakwaters.

Depreciation: the calculated remaining effective lives of assets were reviewed, taking into account:

- Condition, performance and utilisation of the assets.
- Future use of the asset.
- Expected changes in technology.
- The NZ Infrastructure Asset Valuation Guidelines - Version 2.0.

Having considered these points, Napier Port has determined that components of sea defence assets will have an economic life between 100 and 200 years and in accordance with its accounting policy for such assets, they will be depreciated over their economic life. Residual values of between 20% and 50% of replacement cost have been determined based on the nature of the construction asset.

Napier Port has created a seperate asset class for sea defence assets and will revalue this class on a regular basis. The sea defences asset class would have a historical cost of $4,216,000 if they had not been revalued.

The increased property, plant and equipment carrying value at year end has been assessed for impairment utilising an independent business valuation undertaken during the year. No impairment has been deemed necessary.

Note 15: Financial Assets

	Note	Group Actual 13/14 $000	Parent Actual 13/14 $000	Group Actual 13/14 $000	Parent Actual 12/13 $000
Financial assets					
Fair value through equity investments	15(a)	0	177,400	0	177,400
Total	15(b)	**0**	**177,400**	**0**	**177,400**
Less current portion		0	0	0	0
Non-current portion		**0**	**177,400**	**0**	**177,400**
15(a) Fair value through equity investments					
At beginning of year		0	177,400	0	177,400
Additions		0	0	0	0
Revaluation surpluses / (deficits)		0	0	0	0
(Disposals)		0	0	0	0
At end of year		**0**	**177,400**	**0**	**177,400**
Less current portion		0	0	0	0
Non - current portion		**0**	**177,400**	**0**	**177,400**
Fair value through equity investments include:					
Shares in Port of Napier Limited	15(c)	0	177,400	0	177,400
		0	**177,400**	**0**	**177,400**

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 cost based on the independent valuation approved by its Board of Directors on 19 March 2012.

Note 16: Investment Properties

	Note	Group Actual 13/14 $000	Parent Actual 13/14 $000	Group Actual 12/13 $000	Parent Actual 12/13 $000
Investment properties					
Land and building		6,660	0	6,285	0
Total investment properties		**6,660**	**0**	**6,285**	**0**
Balance at beginning of year		6,285	0	6,285	0
Disposals		0	0	0	0
Net gain/(loss) from fair value adjustments		375	0	0	0
Balance at end of year		6,660	0	6,285	0

As at 30 September 2013 the Napier Port's interest in investment properties was valued at $6,660,000 resulting in an increase of $375,000 over the last 12 months. This valuation was undertaken by Frank Spencer a registered valuer with Logan Stone Limited using the fair value basis under the highest and best use scenario. Mr Spencer is a member of the New Zealand Institute of Valuers.

The following amounts have been recognised in the income statement:

	Group Actual 13/14 $000	Parent Actual 13/14 $000	Group Actual 12/13 $000	Parent Actual 12/13 $000
Rental Income	13	0	16	0
Direct operating expenses arising from investment properties that generate rental income	(17)	0	(15)	0

Note 17: Cash and Cash Equivalents

	Note	Group Actual 13/14 $000	Parent Actual 13/14 $000	Group Actual 12/13 $000	Parent Actual 12/13 $000
Cash and cash equivalents					
Cash and cash equivalents		398	397	623	622
Bank overdraft		(181)	0	(14)	0
Reconciled to Cash Flow Statement		**217**	**397**	**609**	**622**
Reconciliation of Surplus after Taxation to Net Cash Flows from Operating Activities					
Surplus after taxation		14,072	6,608	9,988	5,869
Add non-cash items:					
Fair value (gains)/losses		(1,349)	0	158	0
Depreciation and amortisation		7,343	0	6,806	0
Deferred tax		686	0	41	0
Total non-cash items		6,680	0	7,005	0
(Deduct)/add other adjustments:					
Net (profit)/loss on sale of PPE		46	0	(69)	0
Write-down of storage shed on demolition		0	0	919	0
Effect on consolidation		695	0	102	0
(Decrease)/increase in non-current provisions		66	0	17	0
Total other adjustments		807	0	969	0
Movements in working capital:					
Increase/(decrease) in accounts payable		1,215	(111)	(97)	332
(Increase)/decrease in receivables		(2,287)	241	(326)	(373)
(Increase)/decrease in tax receivables		(44)	(44)	(109)	(109)
(Increase)/decrease in inventories		86	0	35	0
Total movements in working capital		(1,030)	86	(497)	(150)
Net Cash Inflow from Operating Activities		**20,529**	**6,694**	**17,465**	**5,719**

Note 18: 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 who 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:

	13/14 $000	12/13 $000
Sales of goods and services	282	184
Purchases of goods and services	1,469	5,528
Payment of dividends	6,654	5,700

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.

	13/14 $000	12/13 $000
Subvention payments	24	368

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

	13/14 $000	12/13 $000
Intrabusiness receivables	234	162
Intrabusiness payables	(204)	(1,147)

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

HBRC 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 2014 was $9,853,105 (2013: $5,856,588). Advances were made by way of cash advances of $2,400,000 (2013: $1,820,333) and through non cash advances of $1,596,517 (2013: $4,036,255) for intellectual property connected with the Ruataniwha Water Storage Scheme.

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:

	13/14 $000	12/13 $000
Dividends received	6,993	6,082

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:

	13/14 $000	12/13 $000
Subvention payments	109	0

Key management compensation

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

	Group Actual 13/14 $000	Parent Actual 13/14 $000	Group Actual 12/13 $000	Parent Actual 12/13 $000
Short term employee benefits	945	160	872	52

Note 19: Capital Expenditure Commitments & Contingencies

	Note	Group Actual 13/14 $000	Parent Actual 13/14 $000	Group Actual 12/13 $000	Parent Actual 12/13 $000
Capital commitments					
Capital expenditure contracted for at balance sheet date but not yet incurred as follows:					
Property, plant and equipment		7,804	0	12,986	0
Intangible assets		0	0	0	0
Investment property		0	0	0	0
Total capital commitments		**7,804**	**0**	**12,986**	**0**

On 29 October 2012 the Napier Port entered into a contract with Gottwald Port Technology GmbH for the purchase and supply of two mobile harbour cranes at a cost of $10,016,452. These cranes were delivered to the Napier Port in September 2013 and went into service in December 2013. The Napier Port had put in place foreign exchange contracts to mitigate exchange rate risk.

Contingent Liabilities:

There were no material contingent liabilities at reporting date (2013: nil)

Note 20: 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 are 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:

Contractual Maturity Analysis	Carrying Amount	Cash flows To Maturity	Less than 1 Year	1 - 2 Years	2 - 5 Years	More than 5 Years
Group	$000	$000	$000	$000	$000	$000
2014						
Trade and other payables	7,548	7,548	7,548	0	0	0
Bank borrowings	64,500	71,234	2,593	7,033	61,608	0
Interest rate swaps	611	530	783	225	(172)	(306)
Forward exchange contracts	9	9	9	0	0	0
	72,668	79,321	10,933	7,258	61,436	(306)
2013	$000	$000	$000	$000	$000	$000
Trade and other payables	8,419	8,419	8,419	0	0	0
Bank borrowings	58,300	61,675	2,250	59,425	0	0
Interest rate swaps	3,379	3,579	1,087	904	1,291	297
Forward exchange contracts	463	463	463	0	0	0
	70,561	74,136	12,219	60,329	1,291	297

Contractual Maturity Analysis	Carrying Amount	Cash flows To Maturity	Less than 1 Year	1 - 2 Years	2 - 5 Years	More than 5 Years
Parent	$000	$000	$000	$000	$000	$000
2014						
Trade and other payables	958	958	958	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
	958	958	958	0	0	0
2013	$000	$000	$000	$000	$000	$000
Trade and other payables	1,931	1,931	1,931	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
	1,931	1,931	1,931	0	0	0

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 13/14 $000	Parent Actual 13/14 $000	Group Actual 12/13 $000	Parent Actual 12/13 $000
Less than 1 Year	10,000	0	5,500	0
1 - 2 Years	0	0	10,000	0
2 - 3 Years	6,000	0	0	0
Greater than 3 Years	58,500	0	45,000	0
	74,500	0	60,500	0

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.

	Profit or Loss		Other Comprehensive Income	
Interest Rate	100bp Increase $000	100bp Decrease $000	100bp Increase $000	100bp Decrease $000
Interest rate Swaps	37	(37)	2,320	(2,473)
Year End 2014	37	(37)	2,320	(2,473)
Interest rate Swaps	85	(87)	1,952	(2,085)
Year End 2013	85	(87)	1,952	(2,085)

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

2014	NZD Amount $000	Currency Amount $000	Less than 1 Year $000	1 - 2 Years $000	2 - 5 Years $000
EUR	329	200	200	0	0
AUD	0	0	0	0	0
	329				

2013	$000	$000	$000	$000	$000
EUR	7,917	4,838	4,838	0	0
AUD	710	564	564	0	0
	8,627				

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.

Foreign Currency	Profit or Loss 10% NZD Increase $000	Profit or Loss 10% NZD Decrease $000	Other Comprehensive Income 10% NZD Increase $000	Other Comprehensive Income 10% NZD Decrease $000
Year End 2014	0	0	(29)	35
Year End 2013	0	0	(741)	907

Credit Facilities

	Group Actual 13/14 $000	Parent Actual 13/14 $000	Group Actual 12/13 $000	Parent Actual 12/13 $000
At reporting date total bank facilities were:				
Overdraft	1,000	0	1,000	0
Multi option credit facilities	110,000	0	80,000	0
Total	111,000	0	81,000	0
At reporting date usage of the bank facilities were:				
Overdraft	182	0	14	0
Multi option credit facilities	64,500	0	58,300	0
Total	64,682	0	58,314	0

The Napier Port has two multi option credit facilities with Westpac, one for $50 million expiring in December 2015 and the other for $60m expiring in December 2016. The facility gives 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.

Financial Assets and Liabilities

	Group Actual 13/14 $000	Parent Actual 13/14 $000	Group Actual 12/13 $000	Parent Actual 12/13 $000
Financial Assets				
Financial Assets at Fair Value - Cashflow Hedges				
Interest rate swaps	358	0	37	0
Forward foreign exchange contracts	0	0	0	0
	358	0	37	0
Loans and Receivables				
Cash	398	397	623	622
Receivables	11,836	331	9,536	530
	12,234	728	10,159	1,152
Total Financial Assets	**12,592**	**728**	**10,196**	**1,152**

Financial Liabilities				
Financial Liabilities at Fair Value - Cashflow Hedges				
Current				
Interest rate swaps	756	0	1,070	0
Forward foreign exchange contracts	10	0	463	0
	766	0	1,533	0
Non-current				
Interest rate swaps	212	0	2,309	0
Forward foreign exchange contracts	0	0	0	0
	212	0	2,309	0
Financial Liabilities at Amortised Cost				
Overdraft	182	0	14	0
Trade payables	7,548	958	7,446	1,931
Borrowings	64,500	0	58,300	0
	72,230	958	65,760	1,931
Total Financial Liabilities	**73,208**	**958**	**69,602**	**1,931**

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 the specific requirements that interest cover is to be maintained at a minimum of three times, that the debt to debt plus equity ratio is to be maintained within a range of 20% to 40% and total committed funding to maximum debt over the next 12 months should not fall below a minimum of 110 percent.

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 21: 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 22: Events After Balance Sheet Date (Parent & Group)

There were no significant events after balance date. (2013: nil)

Note 23: Performance Against Statement of Intent Targets

	Note	Group Actual	Group Target	Parent Actual	Parent Target
Net debt to net debt plus equity		29%	<40%	5%	<10%
Interest cover (EBIT / interest paid)		6x	>3x	n/a	>3x
EBITDA / total assets		11%	8%	3%	3%
Return on shareholders' funds		8%	5%	4%	3%

Parent company dividends

HBRIC Ltd exceeded its targeted ordinary dividends to the Council of $6.55 million as set out in the 2013/14 Statement of Intent. Ordinary dividends paid to Council for the financial year totalled $6.65 million.

Parent company interest ratio

The parent company's interest cover ratio does not apply for the financial year as the company did not pay any interest during the financial year.

HBRIC Ltd's performance against non-financial performance measures set out in its 2013/14 Statement of Intent is described in the following Performance Statement.

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.	The HBRIC Ltd Chairman and Managing Director have met with Councillors on a number of occasions to ensure the strategic direction of HBRIC Ltd is consistent with that of Council.
	HBRIC Ltd will submit a draft SoI for approval to Council by 1 March 2014.	HBRIC Ltd submitted a draft SoI to Council for approval on 26 February 2014.
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.	HBRIC Ltd submitted five written reports to Council and presented at two workshops to Councillors.
	Major matters of urgency are reported to Council at the earliest opportunity.	All major matters of urgency, especially those relating to the Ruataniwha Water Storage Scheme were reported to Council at the earliest opportunity either through the regular reporting process or via formal written 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.	The HBRIC Ltd company policies are currently being developed in conjunction with those adopted by Council. The company is working with Council staff to ensure that there is alignment between its policies and those of the Council.
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 with the first one being in the 2013 calendar year.	This evaluation was undertaken in the 2013 calendar year and discussed with Council on 26 February 2014.
	The Governance, Appointments & Remuneration Committee will review training needs of individual HBRIC Ltd directors, and ensure training is provided where required.	The HBRIC Ltd Board has approved all training requests from HBRIC Ltd directors.
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 and monitored companies prior to the 2014 SoI round regarding the structure and content of the group SoI's.	The HBRIC Ltd Chief Executive met with the Napier Port Chief Executive prior to the 2014 SoI round in which the content of the SoI was discussed.
	Subsidiary companies submit draft Statements of Intent to HBRIC Ltd by 1 March 2014.	The Napier Port draft Statement of Intent was submitted on 6 September 2013.
	HBRIC Ltd will review Statements of Intent and respond to the subsidiaries and make recommendations to Council within six weeks of receipt.	The Napier Port draft Statement of Intent was reviewed by the Board on 16 September 2013 with a response sent from the HBRIC Ltd to Napier Port within six weeks.

Objective	Performance target	Performance
7. Subsidiary companies that are CCTO's comply with the Local Government Act's requirements that their principal objectives be: - achieving the objectives of its shareholders as set out in the SoI; - being a good employer; - exhibiting a sense of social and environmental responsibility; and - conducting their affairs in accordance with sound business practice.	HBRIC Ltd will review the companies' performance in context of these statutorily required objectives.	There are no subsidiary companies that are classified as CCTO's.
8. Investment Policy	The HBRIC Ltd Board will develop an investment policy to achieve the objectives contained in Section 3 of the SoI, subject to the requirement to comply with Council's overarching investment policy as written in the LTP 2012-2022, and the constraints imposed by asset classifications and support for Council's strategic objectives. 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.	This policy will be developed in the 2014/15 financial year as part of the Strategic Planning process.
9. Strategic Planning	HBRIC Ltd will by 31 December 2014 prepare a two year strategic plan for its business, together with annual operating and capital expenditure budgets, for approval by its Board. The detailed two year plan will be accompanied by an overview of the longer term investment environment (5 years) and strategy options for achieving its objectives taking into account the long term nature of many of its assets. The strategic plan will be tabled with Council and must be consistent with Council's Long Term Plan (LTP) taking account of the assets owned and managed by HBRIC Ltd and its discretion to manage its own portfolio.	This plan is currently being developed and it is anticipated that this will be completed by 31 December 2014.

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 2014 SoI round regarding key shareholder strategies and, subsequently, review their SoI's for compatibility with those strategies.	No formal engagement with the Napier Port was entered into regarding key shareholder strategies prior to the 2014 SoI round.
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.	HBRIC Ltd has actively encouraged the Napier Port to consider investment opportunities.

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 2014 financial year that meets or exceeds budget, and achieves the other budget key performance measures set out in Section 7 of the SoI.	The HBRIC Ltd dividends paid to Council for the 2014 financial year were $104,275 over the budget set out as part of Council's 2013/14 Annual Plan. All other budgeted key performance measures set out in Section 7 of the SoI were met.
2. HBRIC Ltd's capital structure is appropriate for the nature of its business.	HBRIC Ltd will review the structure of its balance sheet and may request Council to consider (based on specific business case proposals) shareholder advances or equity injections to fund the progress of the Ruataniwha Water Storage Scheme.	HBRIC Ltd has regularly reviewed the structure of its balance sheet and has made requests to Council to provide shareholder advances to fund the progress of the Ruataniwha Water Storage Scheme.
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.	A review of the performance of the Napier Port will be benchmarked against comparable companies upon receipt of the 2014 annual report.

Independent Auditor's Report

To the readers of Hawke's Bay Regional Investment Company Limited and group's financial statements and statement of service performance for the year ended 30 June 2014

The Auditor-General is the auditor of Hawke's Bay Regional Investment Company Limited (the company) 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 statement of service performance of the company and group on her behalf.

We have audited:

- the financial statements of the company and group on pages 6 to 33, that comprise the statement of financial position as at 30 June 2014, 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 statement of service performance of the company and group on pages 34 to 36.

Opinion

Financial statements and statement of service performance

In our opinion:

- the financial statements of the company and group on pages 6 to 33:
  - comply with generally accepted accounting practice in New Zealand;
  - give a true and fair view of the company and group's:
    - financial position as at 30 June 2014; and
    - financial performance and cash flows for the year ended on that date; and

- the statement of service performance of the company and group on pages 34 to 36:
  - complies with generally accepted accounting practice in New Zealand; and
  - gives a true and fair view of the company and group's service performance achievements measured against the performance targets adopted for the year ended 30 June 2014.

Other legal requirements

In accordance with the Financial Reporting Act 1993 we report that, in our opinion, proper accounting records have been kept by the company and group as far as appears from an examination of those records.

Our audit was completed on 8 September 2014. This is the date at which our opinion is expressed.

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

Basis of opinion

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

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

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

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the adequacy of all disclosures in the financial statements and statement of service performance; and
- the overall presentation of the financial statements and statement of service performance.

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

In accordance with the Financial Reporting Act 1993, we report that we have obtained all the information and explanations we have required. We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board of Directors

The Board of Directors is responsible for preparing financial statements and a statement of service performance that:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the company and group's financial position, financial performance and cash flows; and
- give a true and fair view of the company and group's service performance.

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

The Board of Directors' responsibilities arise from the Local Government Act 2002 and the Financial Reporting Act 1993.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and statement of service performance and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and section 69 of the Local Government Act 2002.

Independence

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

Other than the audit, we have no relationship with or interests in the company or its subsidiary.

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