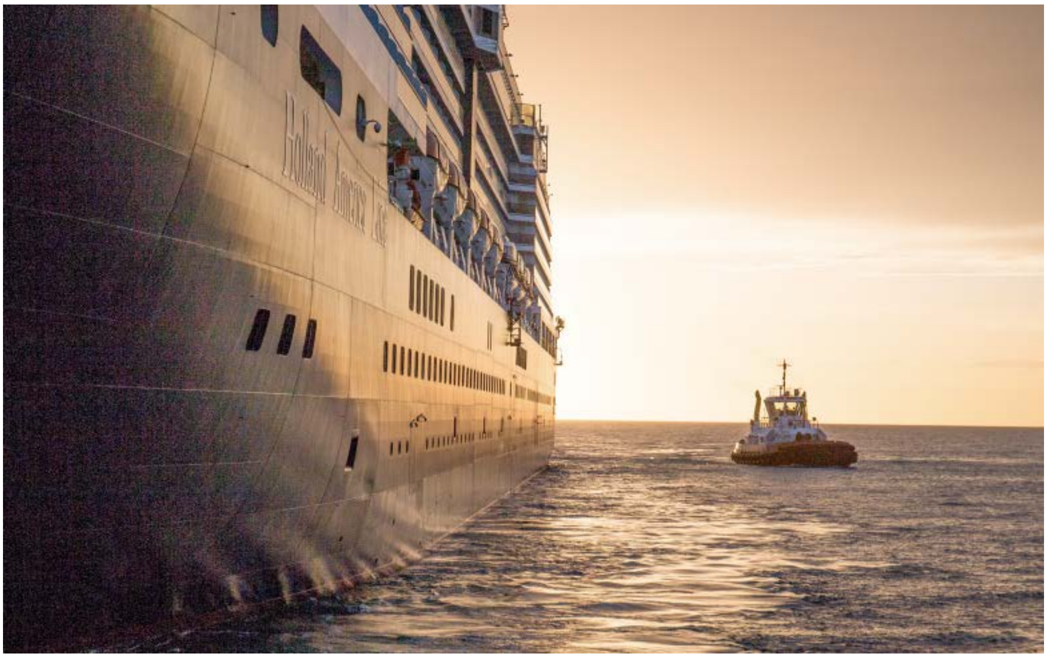
Hawke's Bay Regional Investment Company Ltd

2017-18

Annual Report



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Chairman and Chief Executive's Report

The Hawke's Bay Regional Investment Company Ltd (HBRIC) embarked on a significant change process in 2018 with a restructure of the Board, sale of the Ruataniwha Scheme assets, and major review of the capital structure of Napier Port.

Ruataniwha Water Storage Scheme

In July 2017, the Supreme Court ruled that the exchange of conservation land required for the Ruataniwha dam footprint was not permitted, creating uncertainty about how to progress the Scheme.

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 also passed a resolution to write-off $14 million advanced to HBRIC for investment into the Scheme.

Following a public expression of interest process, the intellectual property and assets of the Scheme were sold to Central Hawke's Bay company Water Holdings CHB Limited on 29 June 2018.

Napier Port

Napier Port continues to perform strongly and has also maintained a good 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

During the year a comprehensive assessment of the capital structure and ownership model for Napier Port was conducted, with the findings made public. A key finding of the review was that Napier Port needs a large injection of capital in the short term to support continued growth. Several options to achieve this were reviewed, with recommendations made to Council on preferred options including a long term lease of the Port to a third party, sale of a minority share to an investment partner, and sale of a minority share on the NZ stock exchange.

As at the time of writing, Council has determined that it should consult the community on its preferred option(s) for the capital structure for Napier Port, which is likely to occur in October 2018.

Extensive valuation work has been undertaken on the Port this year. Reflecting the ongoing growth of the Port, the carrying value of the asset has been increased to $291m.

The final result for company for this year is a net profit after tax of $15.6m.

Dividends paid were $10m, in line with the Statement of Intent.

Governance

During 2018 the Board of HBRIC was restructured, with a reduction of the Board from 8 to 3 members, being Rex Graham (Chair), Peter Beaven and Dan Druzianic.

Councillor directors Rex Graham and Peter Beaven receive no directors fees.

The year ahead

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

HBRIC is also undertaking an assessment of the foresty sector with a view to developing a business case for investment in this sector.

REX GRAHAM
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 2018.

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 2018.

Principal activities

Parent company

The Hawke’s Bay Regional Investment Company Ltd (HBRIC) has one main investment, the 100% ownership of the Port of Napier Ltd (Napier Port). HBRIC also had an investment in the Ruataniwha Water Storage Scheme which was sold in June 2018.

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

C Tremain (Chairman - 10 months)	Resigned April 2018		$	39,167
S Robinson	Resigned April 2018		$	19,167
J Scotland	Resigned April 2018		$	19,167
D Dinsdale	Resigned April 2018		$	19,167
D Hewitt	Resigned April 2018	HBRC Councillor	$	8,333
P Beaven		HBRC Councillor	$	8,333
D Druzianic			$	22,500
T Randell	Resigned April 2018		$	19,167
R Graham (Chairman - 2 months)	Appointed April 2018	HBRC Chairman	$	-

Subsidiary company - Port of Napier Limited

A MacLeod (Chairman)	$	86,125
J Nichols (Chair Audit & Risk Committee)	$	23,500
W Harvey (Chair Health & Safety Committee)	$	47,963
S Bradford	$	44,563
C Abeywickrama	$	44,563
S Moir	$	46,063
D Puketapu	$	22,563

Mr J Nichols retired and Mrs D Puketapu was appointed in December 2017.

Board committees

As at 30 June 2018 the Board of the Parent Company had no separate committees.

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

Director	**Interests declared (as at reporting date)**		
R Graham	Hawkes Bay Regional Council	100% Owner of HBRIC	Chairman and Councillor
	Graham Greene Limited		Director
	RGA Holdings Limited		Director
	Fresh New Zealand Limited		Director
	John Morton Limited		Chairman
	Shennong Variety Management Limited		Chairman
	NZ Fruit Tree Company Limited		Director
	Gladeye Limited		Chairman
	Hawkes Bay Regional Sports Park		Chairman
	Te Aranga Marae		Trustee
P Beaven	Hawkes Bay Regional Council	100% Owner of HBRIC	Councillor
	Waterplus 2008 Limited		Director and Shareholder
	100 Percent Pure NZ Limited		Director and Shareholder
	Pearl Aporo Limited		Director and Shareholder
	Lagoon Trust		Trustee
	NZ Apples and Pears Incorporated		Director
	NZ Pink Lady Growers Association		Director
	International Pink Lady Alliance Limited		Director
D Druzianic	Moore Stephens Markhams Hawkes Bay Limited		Director
	Bostock New Zealand Limited		Director
	Hawkes Bay District Health Board		Director
	Hawkes Bay Wine Investments Limited		Director
	Hawkes Bay Independent Brewery Limited		Director
	Elwood Road Holdings Limited		Director
	Trustee in numerous trusts with shareholdings in companies which may from time to time have interests to be noted.		

Subsidiary company - Port of Napier Limited

Director	Interests declared (as at reporting date)	
A Macleod	Optimal Product Limited	Chairman
	Silverstripe Limited	Chairman and Shareholder
	Hold Fast Investments Limited	Chairman
	IHC Board Appointments Committee	Member
	Radium NZ Advisory Board	Member
	Silverstripe Trustee Limited	Director
	Big Brothers Big Sisters Hawke's Bay	Trustee
W Harvey	Excellence in Business Solutions Limited	Director and Shareholder
	Quality Roading and Services (Wairoa) Limited	Director
	Centralines Limited	Director
	Electrical Training Company	Director
	Hawke’s Bay Airport Limited.	Director
	Tangihanga Joint Venture	Director
	Eastern Institute of Technology	Council Member
	Fire and Emergency NZ	Director
S Bradford	Tarrawanna PTY Limited	Director and Shareholder
	Yarrawonga Court PTY Limited	Director
	Tasmanian Ports Corporation Pty Limited	Chairman
	Australian Cruise Association	Chairman
	Flagstaff Partners	Senior Advisor
C Abeywickrama	Netlogix Group Holdings Ltd & subsidiaries / associates	Director and Shareholder
S Moir	The Guardians of NZ Superannuation Fund	Director
	Todd Family Office	Director
	IJAP Limited	Director
D Puketapu	Manawanui in Charge	Chair
	Ngati Porou Holding Company & subsidiaries	Director
	Tamaki Redevelopment Company & subsidiaries	Director
	New Zealand Cricket	Director
	New Zealand Olympic Committee	Director
	Netball Northern Zone	Director
	Amanti Tourism & subsidiary	Director

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	28	-
$110,000 - 119,999	21	1
$120,000 - 129,999	18	-
$130,000 - 139,999	14	-
$140,000 - 149,999	4	-
$150,000 - 159,999	1	-
$160,000 - 169,999	1	
$180,000 - 189,999	2	
$190,000 - 199,999	1	-
$220,000 - 229,999	1	-
$230,000 - 239,999	2	-
$240,000 - 249,999	4	-
$260,000 - 269,999	1	-
$270,000 - 279,999	2	-
$290,000 - 299,999	1	-
$560,000 - 569,999	1	
$680,000 - 689,999	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 (2017: nil).

Dividends

During the year the parent company paid fully-imputed ordinary dividends of $10,000,000 (2017: $9,538,746).

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 2018 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.

Rex Graham (Chairman)	**Dan Druzianic (Director)**
30 September 2018	30 September 2018

HAWKE'S BAY REGIONAL INVESTMENT COMPANY LIMITED
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For the year ended 30 June 2018

Income Statement
For the year ended 30 June 2018

	Note	Group Actual 17/18 $000	Parent Actual 17/18 $000	Group Actual 16/17 $000	Parent Actual 16/17 $000
Income					
Income from Port operations		89,930	0	82,021	0
Other income		0	0	12	0
Dividend income		0	10,000	0	10,700
Operating income	**3**	**89,930**	**10,000**	**82,033**	**10,700**
Expenditure					
Employee benefit expenses		25,937	0	23,424	0
Maintenance expenses		8,877	0	7,997	0
Depreciation & amortisation expense		11,931	0	10,547	0
Other operating expenses	**4**	16,727	517	15,089	637
Operating expenditure		**63,472**	**517**	**57,057**	**637**
Operating profit before net financing costs		**26,458**	**9,483**	**24,976**	**10,063**
Finance income	**5**	0	0	-7	-3
Finance expenses	**5**	4,353	213	4,095	0
Net finance costs		**4,353**	**213**	**4,088**	**-3**
Operating profit after net financing costs		**22,105**	**9,270**	**20,889**	**10,066**
Advance written off by HBRC	**19**	13,956	13,956		
Loss on sale / impairment of intangible asset	**13**	-7,755	-7,755	-11,740	-11,740
Loss on sale of land		-70	-70	0	0
Share of gain/(loss) from equity accounted investees		-171	0	-40	0
Profit before taxation		**28,066**	**15,401**	**9,109**	**-1,674**
Income tax expense	**6**	5,466	-224	5,811	-178
Total tax expense		**5,466**	**-224**	**5,811**	**-178**
Profit for the period attributable to the Shareholder of the Company		**22,600**	**15,625**	**3,296**	**-1,496**

The accompanying notes form part of these financial statements.

Statement of Comprehensive Income
For the year ended 30 June 2018

	Note	Group Actual 17/18 $000	Parent Actual 17/18 $000	Group Actual 16/17 $000	Parent Actual 16/17 $000
Profit after tax attributable to the Shareholder of the Company		22,600	15,625	3,296	-1,496
Other Comprehensive Income					
Asset revaluation	**9**	12,629	52,600	0	0
Deferred tax on revaluation of sea defences	**9**	-3,134			
Changes in fair value of cash flow hedges		-711			
Deferred tax on changes in fair value of cashflow hedges	**9**	199	0	1,237	0
Effect on consolidation	**22**	-1,723	0	2,824	0
Total Comprehensive Income		**29,860**	**68,225**	**7,358**	**-1,496**

The accompanying notes form part of these financial statements.

Statement of Changes in Equity
For the year ended 30 June 2018

	Note	Group Actual 17/18 $000	Parent Actual 17/18 $000	Group Actual 16/17 $000	Parent Actual 16/17 $000
Equity as at beginning of year		185,180	227,504	187,361	238,539
Profit after tax attributable to the Shareholder of the Company		22,600	15,625	3,296	-1,496
Other comprehensive income		7,260	52,600	4,061	0
Dividends	**8**	-10,000	-10,000	-9,539	-9,539
Equity as at end of year	**9**	**205,041**	**285,729**	**185,180**	**227,504**

The accompanying notes form part of these financial statements.

Statement of Financial Position
As at 30 June 2018

	Note	Group Actual 17/18 $000	Parent Actual 17/18 $000	Group Actual 16/17 $000	Parent Actual 16/17 $000
EQUITY					
Share capital	9	177,500	177,500	177,500	177,500
Reserves	9	69,772	113,600	60,791	61,000
Retained earnings	9	-42,231	-5,371	-53,111	-10,996
Total Equity		**205,041**	**285,729**	**185,180**	**227,504**
LIABILITIES					
Non-Current Liabilities					
Derivative financial instruments	21	4,723	0	3,319	0
Borrowings	21	86,586	0	64,400	5,400
Deferred tax liabilities	6	21,028	0	18,980	0
Provisions for Employee Entitlements	12	421	0	374	0
Total Non-Current Liabilities		112,758	0	87,073	5,400
Current Liabilities					
Cash and cash equivalents	18,21	0	0	0	0
Derivative financial instruments	21	476	0	1,316	0
Borrowings	21	5,700	5,700	18,800	0
Taxation payable		1,396	0	1,238	0
Advances from shareholder	19,23	0	0	13,956	13,956
Trade & other payables	11	8,703	176	9,033	325
Total Current Liabilities		16,275	5,876	44,343	14,281
TOTAL LIABILITIES		**129,033**	**5,876**	**131,416**	**19,681**
TOTAL EQUITY & LIABILITIES		**334,074**	**291,605**	**316,596**	**247,185**
ASSETS					
Non-Current Assets					
Property, plant & equipment	14	310,343	0	288,210	400
Investment property	16	7,285	0	2,860	0
Investment in joint venture	17	823	0	884	0
Intangible assets	13	1,483	0	9,613	7,826
Financial assets	15	0	291,000	0	238,400
Derivative financial instruments	21	0	0	0	0
Total Non-Current Assets		319,934	291,000	301,567	246,626
Current Assets					
Inventories		0	0	0	0
Trade & other receivables	10	13,651	281	14,295	38
Cash and cash equivalents	18,21	265	100	381	341
Current tax asset	6	224	224	180	180
Derivative financial instruments	21	0	0	173	0
Total Current Assets		14,140	605	15,029	559
TOTAL ASSETS		**334,074**	**291,605**	**316,596**	**247,185**

The accompanying notes form part of these financial statements.

Statement of Cash Flows
For the year ended 30 June 2018

	Note	Group Actual 17/18 $000	Parent Actual 17/18 $000	Group Actual 16/17 $000	Parent Actual 16/17 $000
CASH FLOW FROM OPERATING ACTIVITIES					
Cash was provided from:					
Receipts from customers		89,456	0	78,360	0
Dividends received		0	10,000	2,824	10,700
GST received (net)		16	16	-198	20
Taxes received		2	2	0	0
Subvention received		0	177	0	139
Interest received		0	0	3	3
		89,474	10,195	80,989	10,862
Cash was applied to:					
Payments to suppliers & employees		-52,840	-631	-44,248	-603
Interest paid		-4,583	-226	-4,111	0
GST paid (net)		-192	0	0	0
Taxes paid		-6,321	0	-4,292	-1
		-63,936	-857	-52,651	-604
Net Cash Flows from Operating Activities	**18**	**25,538**	**9,338**	**28,338**	**10,258**
CASH FLOWS FROM INVESTING ACTIVITIES					
Cash was provided from:					
Sale of assets		387	200	0	0
Third party contributions for purchase of intangibles		0	0	0	0
		387	200	0	0
Cash was applied to:					
Purchase of assets		-21,374	0	-8,184	0
Purchase of intangibles		-79	-79	-4,590	-4,590
Purchase of intangibles on behalf of third parties		0	0	0	0
Capitalised interest		-228	0	-144	0
Investment in associate		-60	0	-289	0
		-21,741	-79	-13,207	-4,590
Net Cash Flows from Investing Activities		**-21,354**	**121**	**-13,207**	**-4,590**
CASH FLOWS FROM FINANCING ACTIVITIES					
Cash was provided from:					
Proceeds from external loans		5,700	300	5,400	5,400
Proceeds from shareholder loan		0	0	4,500	4,500
Advances from shareholder		0	0	0	0
		5,700	300	9,900	9,900
Cash was applied to:					
Repayment of external loans		0	0	-9,300	0
Repayment of shareholder loan		0	0	-6,000	-6,000
Dividends paid		-10,000	-10,000	-9,539	-9,539
		-10,000	-10,000	-24,839	-15,539
Net Cash Flows from Financing Activities		**-4,300**	**-9,700**	**-14,939**	**-5,639**
Net Increase / (Decrease) in Cash & Cash Equivalents		**-116**	**-241**	**192**	**29**
Opening cash & cash equivalents		381	341	189	312
Closing Cash & Cash Equivalents		**265**	**100**	**381**	**341**

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 2018 and were authorised for issue by the HBRIC Ltd Board of directors on 18 September 2018.

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 2017.

There are a number of new standards, amendments to standards and interpretations, which have been issued but are not yet effective. The Company has not yet determined the potential impact of the following standards which will both be effective for the Company’s 2019 financial statements:

- NZ IFRS 9 Financial Instruments
- NZ IFRS 15 Revenue from Contracts with Customers

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.

In previous years, the financial statements of Napier Port had a financial year ending on 30 September with reports produced to 31 March for consolidation. This year, in order to consolidate the subsidiary, a reporting package with a financial year ending on 30 June was produced. All significant inter-entity transactions are eliminated and some adjustments have been made in relation to fixed assets and depreciation for the period 1 April 2017 to 30 June 2017.

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:

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

Asset Category	*Years*
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 includes components relating to current tax and deferred tax.

Current tax is the amount of income tax payable based on the taxable profit for the current year, and any adjustments to income tax payable in respect of prior years.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

Deferred tax is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of an asset or liability in a transaction that affects neither accounting profit nor taxable profit.

Current tax and deferred tax are measured using tax rates (and tax laws) that have been enacted or substantively enacted at balance date.

Current and deferred tax is recognised against the profit or loss for the period, except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

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 in 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 17/18 $000	Parent Actual 17/18 $000	Group Actual 16/17 $000	Parent Actual 16/17 $000
Operating income					
Income from Port operations		89,865	0	82,021	0
Property operations		65	0	12	0
Dividend income		0	10,000	0	10,700
Total operating income		**89,930**	**10,000**	**82,033**	**10,700**

Note 4: Other Expenses

	Note	Group Actual 17/18 $000	Parent Actual 17/18 $000	Group Actual 16/17 $000	Parent Actual 16/17 $000
Items Included within Other Operating Expenses					
Auditors' fees paid to Audit New Zealand		20	20	20	20
Auditors' fees paid to Ernst & Young		106	0	111	5
Directors' fees		469	153	462	154
Operating leases		166	0	192	0
Bad debts		0	0	0	0
Fair value (gain)/loss on investment property		-474	0	-10	0
Asset retirement expenses		135	0	0	0
Net (profit)/loss on sale of property, plant and equipment		193	0	100	0

Note 5: Finance Income and Expenses

	Note	Group Actual 17/18 $000	Parent Actual 17/18 $000	Group Actual 16/17 $000	Parent Actual 16/17 $000
Interest income		0	0	-7	-3
Total finance income		**0**	**0**	**-7**	**-3**
Interest expense on borrowings		4,581	213	4,239	0
Less: Interest expense capitalised to PPE		-228	0	-144	0
		4,353	213	4,095	0
Fair value (gain)/loss on interest rate swaps		0	0	0	0
Total finance expenses		**4,353**	**213**	**4,095**	**0**
Net finance costs		**4,353**	**213**	**4,088**	**-3**

Note 6: Taxation

	Note	Group Actual 17/18 $000	Parent Actual 17/18 $000	Group Actual 16/17 $000	Parent Actual 16/17 $000
Income tax expense					
Net profit before taxation		28,066	15,401	9,108	-1,676
Income tax on the surplus for the year @ 28%		7,858	4,312	2,538	-469
Adjustment to prior year taxation		-150	0	-2	0
Tax effect of income not recognised for accounting		-3,908	-3,908	0	1,165
Exempt dividends received		0	-2,800	0	-4,161
Tax effect of non-assessable items		-569	0	0	0
Taxation effect of non deductible items		2,234	2,171	3,275	3,287
Income tax expense		**5,466**	**-224**	**5,811**	**-178**
The taxation charge is represented by:					
Current taxation		6,482	-224	5,302	-178
Deferred taxation		-1,016	0	509	0
Income tax expense reported in income statement		**5,466**	**-224**	**5,811**	**-178**
Deferred tax liability					
Opening balance		-18,980	0	-17,976	0
Adjustment prior year provision		5	0	-14	0
Deferred portion of current year tax expense		882	0	-509	0
Amounts charged or credited direct to equity		-2,935	0	-481	0
Closing balance		**-21,028**	**0**	**-18,980**	**0**
Deferred taxation is represented by:					
Accelerated tax depreciation		-23,138	0	-20,794	0
Fair value gains/(losses) on derivatives		1,455	0	1,256	0
Other		655	0	558	0
		-21,028	**0**	**-18,980**	**0**
Current tax asset					
Current tax asset is represented by:					
Tax receivable		0		2	2
Subvention receivable		224	224	178	178
Current tax asset reported in balance sheet		**224**	**224**	**180**	**180**
Imputation credit account					
Imputation credits available for use in subsequent periods		23,623	1,109	22,053	1,110

At the date of these financial statements, the company cannot determine the amount of tax deductions available in relation to the $19.495 million loss on sale of the RWSS intangible asset. As a result, it has not recognised any deductions for this loss in the calculation of its tax balances.
The company lodged an application for a binding ruling on this matter with the Inland Revenue Department in September 2018, seeking a full deduction for the loss on sale. However, at this stage, it is unclear whether this tax treatment meets the probable threshold for financial reporting purposes. The potential tax benefit ranges in value from zero to $5.458 million, but is dependent on technical interpretations of taxation legislation that will be considered during the binding ruling process.

Note 7: Operating leases

	Note	Group Actual 17/18 $000	Parent Actual 17/18 $000	Group Actual 16/17 $000	Parent Actual 16/17 $000
Leases as a lessee					
At reporting date the Company had the following operating lease commitments:					
Payable within one year		232	0	10	0
Between one and two years		232	0	0	0
Between two and five years		614	0	0	0
Over five years		183	0	0	0
		1,261	**0**	**10**	**0**

Note 8: Dividends

	Note	Group Actual 17/18 $000	Parent Actual 17/18 $000	Group Actual 16/17 $000	Parent Actual 16/17 $000
2017 additional dividend paid - 0.0 cents per share (2017: 0.0218 cps)		0	0	39	39
2018 interim dividend paid - 1.6901 cents per share (2017: 1.6901 cps)		3,000	3,000	3,000	3,000
2018 final dividend paid - 3.9437 cents per share (2017: 3.662 cps)		7,000	7,000	6,500	6,500
Dividends paid		**10,000**	**10,000**	**9,539**	**9,539**

Note 9: Capital and Reserves

	Note	Group Actual 17/18 $000	Parent Actual 17/18 $000	Group Actual 16/17 $000	Parent Actual 16/17 $000
Share Capital					
Issued and paid up capital					
177,500,000 ordinary shares (2017: 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 17/18 $000	Parent Actual 17/18 $000	Group Actual 16/17 $000	Parent Actual 16/17 $000
Retained Earnings				
Opening Balance	-53,111	-10,996	-49,693	39
Profit for the period	20,880	15,625	6,121	-1,496
Dividends	-10,000	-10,000	-9,539	-9,539
Closing Balance	-42,231	-5,371	-53,111	-10,996
Hedging Reserve				
Opening Balance	-1,216		-2,453	
Changes in fair value net of deferred tax	-514		1,237	
Closing Balance	-1,730	0	-1,216	0

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.

	Group Actual 17/18 $000	Parent Actual 17/18 $000	Group Actual 16/17 $000	Parent Actual 16/17 $000
Revaluation Reserve				
Opening Balance	62,007	61,000	62,007	61,000
Revaluation net of deferred tax	9,495	52,600		
Closing Balance	71,502	113,600	62,007	61,000

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.

	Group Actual 17/18 $000	Parent Actual 17/18 $000	Group Actual 16/17 $000	Parent Actual 16/17 $000
Total Reserves	69,772	113,600	60,791	61,000
Total Equity	**205,041**	**285,729**	**185,180**	**227,504**

Note : Some adjustments have been made to the movement in hedging reserves and retained earnings for the historic effect on consolidation of transfer of the Port of Napier Limited to the Parent and previous period timing adjustments. See also note 22.

Note 10: Trade and Other Receivables

	Note	Group Actual 17/18 $000	Parent Actual 17/18 $000	Group Actual 16/17 $000	Parent Actual 16/17 $000
Trade and other receivables					
Trade receivables		13,277	265	13,394	20
Accruals and prepayments		375	17	901	18
Total trade and other receivables		**13,651**	**281**	**14,295**	**38**
The ageing of trade receivables at reporting date is set out below:					
Not past due		10,367	265	10,512	20
Past due 0 - 30 days		2,415	0	1,354	0
Past due 30 - 60 days		397	0	869	0
Past due > 60 days		98	0	659	0
		13,277	**265**	**13,394**	**20**

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 17/18 $000	Parent Actual 17/18 $000	Group Actual 16/17 $000	Parent Actual 16/17 $000
Trade and other payables					
Trade payables		4,025	157	3,739	255
Trade accruals		1,994	20	2,354	70
Employee entitlement accruals		2,685		2,940	
Total trade and other payables		**8,703**	**176**	**9,033**	**325**

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 17/18 $000	Parent Actual 17/18 $000	Group Actual 16/17 $000	Parent Actual 16/17 $000
Non-current					
Provisions for employee entitlements		421	0	374	0
Provisions for employee entitlements		**421**	**0**	**374**	**0**
Provisions for non-current employee entitlement					
Balance at beginning of year		374	0	381	0
Additional provision made		88	0	62	0
Amount utilised		-41	0	-69	0
Balance at end of year		**421**	**0**	**374**	**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/ Impairment $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 2018									
Computer software	6,190	416	0	6,606	4,403	720	0	5,123	1,483
Development expenditure	7,826	29	-7,855	0	0	0	0	0	0
	14,016	**445**	**-7,855**	**6,606**	**4,403**	**720**	**0**	**5,123**	**1,483**
Year ended 30 June 2017									
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
	21,083	**4,673**	**-11,740**	**14,016**	**3,928**	**475**	**0**	**4,403**	**9,613**

	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
Parent									
Year ended 30 June 2018									
Computer software	0	0	0	0	0	0	0	0	0
Development expenditure	7,826	29	-7,855	0	0	0	0	0	0
	7,826	**29**	**-7,855**	**0**	**0**	**0**	**0**	**0**	**0**
Year ended 30 June 2017									
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
	15,526	**4,040**	**-11,740**	**7,826**	**0**	**0**	**0**	**0**	**7,826**

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.
The assets of the Ruataniwha Water Storage Scheme were sold in June 2018 for $100,000. A $7.755m loss on sale of intangible assets has been recognised.

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 2018									
Land	34,809	4,247	-400	38,656	0	0	0	0	38,656
Sea defences	76,711	11,288	0	87,999	1,467	471	-1,630	308	87,691
Buildings	27,769	870	0	28,639	9,455	912	0	10,367	18,272
Site improvements	58,891	2,407	0	61,298	19,664	2,155	0	21,819	39,479
Dredging	14,891	1,732	0	16,623	4,222	905	556	5,683	10,940
Wharves & jetties	45,186	1,423	0	46,609	8,373	736	0	9,109	37,500
Vehicles, plant & equipment	102,303	14,928	-2,096	115,135	36,008	8,378	-1,594	42,792	72,343
Work in progress	6,839	-1,377	0	5,462	0	0	0	0	5,462
	367,399	**35,518**	**-2,496**	**400,421**	**79,189**	**13,557**	**-2,668**	**90,078**	**310,343**
Year ended 30 June 2017									
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
	359,778	**13,235**	**-5,614**	**367,399**	**69,726**	**9,745**	**-282**	**79,189**	**288,210**

During the year, the Company borrowed funds for the acquisition of new property, plant & equipment. Interest was capitalised during the acquisition period of $185,000 at rates of 4.03% to 4.61% (2017: $268,000).

Sea defences were revalued to fair value as at 30 June 2017 by AECOM New Zealand Ltd and the revalued amounts included in the statement of financial position as at 30 September 2017. The valuation has been prepared on an optimised depreciated replacement cost basis and in accordance with the NZ Infrastructure Asset Valuation and Depreciation Guidelines published by the NAMS group of IPWEA and Public Benefit Entity International Public Sector Accounting Standard 17.

The valuation of sea defences is subject to assumptions and judgements which materially affect the resulting valuation. Such factors include replacement quantities and unit values, the condition and performance of assets, estimated total and remaining effective lives of 70 to 156 years and 5 to 62 years and estimated residual values of 20% of replacement cost. Other inputs incorporated into the valuation process include Statistics NZ Indices and an allowance for project on-costs of 10-12%.

The fair value measurement has been categorised as a Level 3 fair value based on inputs which are not based on observeable market data (refer to note 21 for the fair value measurement hierarchy).

In addition the residual values and useful economic lives adopted for depreciation purposes are key assumptions in determining the quantum of depreciation charged in any period. Following the revaluation of the sea defence assets management has re-assessed the resifual values and use lives applied to each asset, such that residual values have increased by approximately $15m from those asusmed prior to the revaluation, now being based on 25-50% of estimated replacement cost, and the useful life of each asset has been revised to align with management's latest expectation.

	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 2018									
Land	400	0	-400	0	0	0	0	0	0
	400	**0**	**-400**	**0**	**0**	**0**	**0**	**0**	**0**
Year ended 30 June 2017									
Land	400	0	0	400	0	0	0	0	400
	400	**0**	**0**	**400**	**0**	**0**	**0**	**0**	**400**

Note 15: Investment in Port of Napier Limited

	Note	Group Actual 17/18 $000	Parent Actual 17/18 $000	Group Actual 16/17 $000	Parent Actual 16/17 $000
Financial assets					
Fair value through equity investments	**15(a)**	0	291,000	0	238,400
Total	**15(b)**	**0**	**291,000**	**0**	**238,400**
Less current portion		0	0	0	0
Non-current portion		**0**	**291,000**	**0**	**238,400**

Note 15(a)

	Note	Group Actual 17/18 $000	Parent Actual 17/18 $000	Group Actual 16/17 $000	Parent Actual 16/17 $000
Fair value through equity investments					
At beginning of year		0	238,400	0	238,400
Additions		0	0	0	0
Revaluation surpluses / (deficits)		0	52,600	0	0
(Disposals)		0	0	0	0
At end of year		**0**	**291,000**	**0**	**238,400**
Less current portion		0	0	0	0
Non - current portion		**0**	**291,000**	**0**	**238,400**
Fair value through equity investments include:					
Shares in Port of Napier Limited	**15(c)**	0	291,000	0	238,400
		0	**291,000**	**0**	**238,400**

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 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 2018. Having reviewed this report the HBRIC Ltd Directors considered that a revaluation of its shareholding in the Port of Napier Ltd was required, resulting in an increase of $52.6m to $291.0m.

Note 16: Investment Properties

	Note	Group Actual 17/18 $000	Parent Actual 17/18 $000	Group Actual 16/17 $000	Parent Actual 16/17 $000
Investment properties					
Land and building		7,285	0	2,860	0
Total investment properties		**7,285**	**0**	**2,860**	**0**
Balance at beginning of year		2,860	0	2,850	0
Additions		3,951			
Disposals		0	0	0	0
Transfer to property, plant & equipment		0	0	0	0
Net gain/(loss) from fair value adjustments		474	0	10	0
Balance at end of year		7,285	0	2,860	0

Investment properties were independently valued at 30 September 2017 by a registered valuer with relevant experience of the property type and location.

Note 17: Investment in Joint Venture

	Note	Group Actual 17/18 $000	Parent Actual 17/18 $000	Group Actual 16/17 $000	Parent Actual 16/17 $000
Investment in joint venture		**823**	**0**	**675**	**0**
Movements in the carrying value of joint venture					
Opening balance		884	0	675	0
New investment		110	0	249	0
Share of recognised revenues and expenditure		-39	0	-8	0
Provision		-132		-32	
Balance at end of year		**823**	**0**	**884**	**0**
Summarised financial information of joint venture					
Assets		3,292	0	2,923	0
Liabilities		-236	0	-175	0
Net Assets 100%		3,056	0	2,748	0
Port of Napier Limited share (33.3%)		1,019	0	916	0
Less provision		-196	0	-32	0
		823	0	884	0
Revenues		226	0	0	0
Net profit after tax		-21	0	-24	0
Port of Napier Limited share (33.3%)		-7	0	-8	0

Longburn Intermodal Freight Hub Limited has been set up as a joint venture to develop a facility at Longburn near Palmerston North to provide container storage and logistics solutions.

Note 18: Cash and Cash Equivalents

	Note	Group Actual 17/18 $000	Parent Actual 17/18 $000	Group Actual 16/17 $000	Parent Actual 16/17 $000
Cash and cash equivalents					
Cash and cash equivalents		265	100	381	341
Bank overdraft		0	0	0	0
Reconciled to Cash Flow Statement		**265**	**100**	**381**	**341**

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

	Group Actual 17/18 $000	Parent Actual 17/18 $000	Group Actual 16/17 $000	Parent Actual 16/17 $000
Surplus after taxation	22,600	15,625	3,297	-1,496
Add non-cash items:				
Fair value (gains)/losses	-474		-537	0
Depreciation and amortisation	11,509	0	9,529	0
Advance written off by HBRC	-13,956	-13,956	0	0
Impairment of assets	555	0	12,595	11,740
Loss on sale of assets	7,825	7,825	0	0
Adjustment for sale of assets in receivables	230	230		
Share of loss of equity accounted investee	171	0	79	0
Deferred tax	-1,016	0	1,051	0
Total non-cash items	4,843	-5,902	22,717	11,740
(Deduct)/add other adjustments:				
Net (profit)/loss on sale of PPE	146	0	100	0
Effect on consolidation	201	0	2,824	0
(Decrease)/increase in non-current provisions	-397	0	-7	0
Total other adjustments	-50	0	2,917	0
Movements in working capital:				
Increase/(decrease) in accounts payable	283	-111	3,105	-62
(Increase)/decrease in receivables	-2,094	-230	-3,659	115
(Increase)/decrease in tax receivables	-44	-44	-39	-39
(Increase)/decrease in inventories	0		0	0
Total movements in working capital	-1,855	-385	-593	14
Net Cash Inflow from Operating Activities	**25,538**	**9,338**	**28,338**	**10,258**

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:

	17/18 $000	16/17 $000
Sales of goods and services	0	100
Purchases of goods and services	55	467
Payment of dividends	10,000	9,539

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.

	17/18 $000	16/17 $000
Subvention payments	5	5

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

	17/18 $000	16/17 $000
Intrabusiness receivables	0	0
Intrabusiness payables	-59	-153

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 and was written off by HBRC resolution on 30 August 2017. This has been recognised in the Income Statement.

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:

	17/18 $000	16/17 $000
Dividends received	10,000	10,700

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:

	17/18 $000	16/17 $000
Subvention payments	177	139

Key management compensation

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

	Group Actual 17/18 $000	Parent Actual 17/18 $000	Group Actual 16/17 $000	Parent Actual 16/17 $000
Short term employee benefits	3,050	269	2,777	345
Termination benefits	278		450	
	3,328	269	3,227	345

Note 20: Capital Expenditure Commitments & Contingencies

	Note	Group Actual 17/18 $000	Parent Actual 17/18 $000	Group Actual 16/17 $000	Parent Actual 16/17 $000
Capital commitments					
Capital expenditure contracted for at balance sheet date but not yet incurred as follows:					
Property, plant and equipment		1,514	0	12,500	0
Intangible assets		0	0	0	0
Investment property		0	0	0	0
Total capital commitments		**1,514**	**0**	**12,500**	**0**

Contingent Liabilities:

At balance date, there were no contingent liabilities (2017 : 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 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**
2018						
Trade and other payables	4,044	4,044	4,044	0	0	0
Bank borrowings	92,286	99,178	8,272	45,487	45,419	0
Interest rate swaps	5,199	5,199	476	1,064	1,649	2,010
Forward exchange contracts	0	0	0	0	0	0
	101,529	108,421	12,792	46,551	47,068	2,010
2017	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
Trade and other payables	9,033	9,033	9,033	0	0	0
Bank borrowings	83,200	88,528	21,072	7,146	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
	96,720	102,590	31,553	8,351	62,376	310

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**
2018						
Trade and other payables	176	176	176	0	0	0
Bank borrowings	5,700	5,700	5,700	0	0	0
Interest rate swaps	0	0	0	0	0	0
Forward exchange contracts	0	0	0	0	0	0
	5,876	5,876	5,876	0	0	0
2017	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
Trade and other payables	325	325	325	0	0	0
Bank borrowings	5,400	5,400	0	5,400	0	0
Interest rate swaps	0	0	0	0	0	0
Forward exchange contracts	0	0	0	0	0	0
	5,725	5,725	325	5,400	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 17/18 $000	Parent Actual 17/18 $000	Group Actual 16/17 $000	Parent Actual 16/17 $000
Less than 1 Year	20,000	0	6,000	0
1 - 2 Years	40,000	0	40,000	0
2 - 3 Years	2,000	0	0	0
Greater than 3 Years	62,500	0	84,500	0
	124,500	0	130,500	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	
<u>Interest Rate</u>	100bp Increase $000	100bp Decrease $000	100bp Increase $000	100bp Decrease $000
Interest rate Swaps	0	0	2,300	-2,444
Year End 2018	0	0	2,300	-2,444
Interest rate Swaps	0	0	2,847	-3,039
Year End 2017	0	0	2,847	-3,039

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 balance date and the contracted terms are as follows:

Foreign exchange contracts maturity analysis	NZD Amount $000	Currency Amount 000's	Less than 1 Year 000's
2018			
There were no foreign exchange contracts at June 2018	-	-	-
2017			
EUR	2,591	1,658	1,658

Foreign exchange sensitivity analysis

At the reporting date, a 10% strengthening or weakening of the New Zealand dollar against the relevant foreign currencies with all other variables held constant, would increase/(decrease) profit or loss and other comprehensive income by the amounts shown below.

Profit or Loss		Other Comprehensive Income	
10% NZD Increase $000	10% NZD Decrease $000	10% NZD Increase $000	10% NZD Decrease $000

30 June 2018	**-**	**-**	-	-
30 June 2017	**-**	**-**	(82)	100

Foreign exchange sensitivity analysis

At the reporting date, a 10% strengthening or weakening of the New Zealand dollar against the relevant foreign currencies with all other variables held constant, would increase/(decrease) profit or loss and other comprehensive income by the amounts shown below.

	Profit or Loss		**Other Comprehensive Income**	
	10% NZD Increase $000	**10% NZD Decrease $000**	**10% NZD Increase $000**	**10% NZD Decrease $000**
30 June 2018	**-**	**-**	-	-
30 June 2017	**-**	**-**	(118)	144

Credit Facilities

	Group Actual 17/18 $000	**Parent Actual 17/18 $000**	**Group Actual 16/17 $000**	**Parent Actual 16/17 $000**
At reporting date total bank facilities were:				
Overdraft	1,000	0	1,000	0
Multi option credit facilities	126,000	6,000	113,500	6,000
Total	127,000	6,000	114,500	6,000
At reporting date usage of the bank facilities were:				
Overdraft		0		0
Multi option credit facilities	92,300	5,700	83,200	5,400
Total	92,300	5,700	83,200	5,400

During the period, Port of Napier Limited amended its Westpac New Zealand Ltd multi-option facilities to an amount of $65m and expiry date of 30 June 2021. They also entered into a new $42.5m facility agreement with ASB Bank Limited, expiring 31 October 2019.
The Westpac facility gives Port of Napier Limited 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 dates.
Security for facilities with banks is by way of a negative pledge over the assets of the Company in respect of both sale of such assets and other security interests.
of a negative pledge over the assets of Napier Port in respect of both sale of such assets and other security interests.

During the 2017 financial 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 17/18 $000	**Parent Actual 17/18 $000**	**Group Actual 16/17 $000**	**Parent Actual 16/17 $000**
Financial Assets				
Investment in Port of Napier Limited	0	291,000	0	238,400
Financial Assets at Fair Value - Cashflow Hedges				
Interest rate swaps	0	0	148	0
Foreign exchange option	0	0	25	0
Forward foreign exchange contracts	0	0	0	0
	0	0	173	0
Loans and Receivables				
Cash	265	100	381	341
Receivables	13,277	265	13,394	20
	13,542	365	13,776	362
Total Financial Assets	**13,542**	**291,365**	**13,949**	**238,762**

Financial Liabilities

Financial Liabilities at Fair Value - Cashflow Hedges				
Current				
Interest rate swaps	476	0	1,312	0
Forward foreign exchange contracts	0	0	4	0
	476	0	1,316	0
Non-current				
Interest rate swaps	4,723	0	3,319	0
Forward foreign exchange contracts	0	0	0	0
	4,723	0	3,319	0
Financial Liabilities at Amortised Cost				
Overdraft	0	0	0	0
Trade payables	8,703	176	9,033	325
Borrowings	92,286	5,700	83,200	5,400
	100,989	5,876	92,233	5,725
Total Financial Liabilities	**106,188**	**5,876**	**96,868**	**5,725**

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.

Port of Napier Limited is required to comply with certain financial covenants in respect of external borrowings namely that a minimum interest cover is maintained, minimum shareholder's funds as a percentage of total tangible assets, and maximum debt in relation to earnings before interest, tax, depreciation and amortisation.

Port of Napier Limited 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.

Further adjustments have been made in the 2018 year to account for the change in the Port of Napier reporting date to align with the parent company balance date.

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

The company received an advance of $6.0m from Hawkes Bay Regional Council on 30 July 2018.
The advance is intended to be short term arrangement with an interest rate of 4.50% to be charged.
This advance was used to repay the loan from Bank of New Zealand.

Note 24: Performance Against Statement of Intent Targets

	Note	Group Actual	Group Target	Parent Actual	Parent Target
Net debt to net debt plus equity		31%	<40%	0%	<10%
Interest cover (EBIT / interest paid)		6x	>3x	45x	>3x
EBITDA / total assets		12%	9%	3%	3%
Return on shareholders' funds		11%	5%	5%	3%

Note - EBIT does not include the advance written off by HBRC, loss on sale and/or impairment of assets and share of gain/(loss) from equity accounted investees.

Parent company dividends

HBRIC Ltd exceeded its targeted dividends to the Council of $9.98 million as set out in the 2017/18 Statement of Intent. Dividends of $10 million were paid during the year.

HBRIC Ltd's performance against non-financial performance measures set out in its 2017/18 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 28 September 2018.

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 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.
		By 1 March each year, HBRIC Ltd will submit a draft SoI for the forthcoming year for review and approval by Council.	Because of the uncertainty arising from the capital review, it was agreed that HBRC would issue a "Letter of Expectation" by 1 April to enable the company to consider how to incorporate these expectations into a draft SoI to be presented to HBRC on 5 May. The final SoI was submitted to council on June 6.
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.	Satisfied.
		Major matters of urgency are reported to Council at the earliest opportunity.	All major matters of urgency were reported to Council at the earliest opportunity.
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.	Not completed.
		The Governance committee will review the training needs of individual HBRIC Ltd directors, and ensure training is provided where required.	Not completed.
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 SoI round in each year regarding the structure and content of their SoIs.	Satisfied.
		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.	Satisfied.
		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.
7	Subsidiary companies that are CCTOs 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;	HBRIC Ltd will review the companies' performance in the context of these statutorily required objectives.	Satisfied - HBRIC Ltd receives regular updates on performance from Port of Napier Limited.

	· exhibiting a sense of social and environmental responsibility; and · conducting their affairs in accordance with sound business practice.		
8	Investment Policy	The HBRIC Ltd Board will develop an investment policy to achieve the objectives contained in Section 3 of this SoI, 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.	Work on this policy was initiated during the 2017 year and deferred with the formation of the 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.
		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.	Included in capital review process.
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 due to capital review process, delays to the RWSS scheme and changes to the board of HBRIC.

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 2018 SoI round regarding key shareholder strategies and, subsequently, review their SoI'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 2018 financial year that meets or exceeds the forecast dividend, and achieves the financial performance targets set out in the SoI.	Satisfied - $10m of dividends paid to Council during the year.
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 was initiated to consider this matter. The RWSS project was sold in June 2018.
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.	As part of the capital review process, two independent reports were completed to assess the performance and value of Port of Napier Limited. HBRIC and the capital review recommended reducing risk exposure to Port of Napier Limited with a view to re-investing released funds into high yielding investments.

Independent Auditor's Report

To the readers of Hawke's Bay Regional Investment Company Limited and group's financial statements and performance information for the year ended 30 June 2018

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 the performance information of the company and group, on his behalf.

We have audited:

- the financial statements of the on pages 10 to 45 and page 47, that comprise the statement of financial position as at 30 June 2018, 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 the company and group on page 46 and pages 48 to 49.

Qualified opinion – Our work was limited due to insufficient evidence to determine the tax effects of Ruataniwha Water Storage Scheme expenditure

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

- the financial statements of the company and group on pages 10 to 45 and page 47:
  - present fairly, in all material respects:
    - their financial position as at 30 June 2018; 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; and
- the performance information of the company and group on page 46 and pages 48 to 49 presents fairly, in all material respects, the company and group's actual performance compared against the performance targets and other measures by which performance was judged in relation to the company and group's objectives for the year ended 30 June 2018.

Our audit was completed on 30 September 2018. 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

The company has previously incurred expenditure developing the Ruataniwha Water Storage Scheme (the Scheme). The company disposed of the Scheme assets and recognised a loss on disposal of $7.76 million for the year ended 30 June 2018. This loss is in addition to an impairment loss of $11.74 million recognised for the Scheme in the prior year. As explained in note 6 on taxation, the company cannot determine the amount of deductible expenditure in relation to losses arising from the disposal of the Scheme and so cannot determine whether there is a tax asset to recognise at 30 June 2018. We have been unable to obtain sufficient appropriate audit evidence to determine the tax balances, if any, that may arise from the disposal of the Scheme.

For the year ended 30 June 2017, which is presented as comparative information, we were unable to obtain sufficient appropriate audit evidence to support the carrying value of the Scheme assets or determine the associated tax balances.

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 the company 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 the company 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 the company and group for assessing the company 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 the company 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 the company 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 the company 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 the company 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 the company 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 the company or 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 9, but does not include the financial statements and the performance information, and our auditor's report thereon.

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

In connection with our audit of the financial statements and the performance information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the performance information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report the fact. As described in the *Basis for our qualified opinion* section above, we were unable to obtain sufficient appropriate evidence in relation to the tax effects of Scheme expenditure. 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 the company 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, the company and group.

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