PrimePort Timaru Annual Report

2016

The flexibility of the Company's operating structure, the new cement trade and the diverse import and export trade mix across all the Port's customers all contributed to the record year for the company.

Deck Officer undertaking mooring operations.

Foreword

The Board and Management are pleased to present another record year result wise as the Company continues to develop its infrastructure, operations and services for its customers and wider stakeholder group.

The year also marks the culmination of a period of considerable investment across the Port, including a new multi-purpose bulk trade wharf and cement storage and handling facility for Holcim who have started their new cement trade through PrimePort.

Our strategic partner, Timaru Container Terminal Limited has handled increased volumes of containers and with PrimePort, is well positioned to develop its feeder and hub port strategy with Port of Tauranga; especially when the 'big ships' commence operations through Tauranga to North Asia in October 2016. These developments highlight the value of the strategic alliance agreed with Port of Tauranga in August 2013.

The new investment in and around the Port of Timaru and the feeder and hub port strategy will provide additional competitive service options for Canterbury customers, along with long term operational resilience for the supply chains of the region and its various stakeholders.

The flexibility of the Company's operating structure, the new cement trade and the diverse import and export trade mix across all the Port's customers all contributed to the record year for the company.

In the 12 months to June 2016, operational profit before tax increased by 18% to $4,706,000, up from $3,991,000 the previous year.

It was the second full year of trading since the creation of the strategic alliance with Port of Tauranga Limited, which is a 50% shareholder alongside Timaru District Holdings Limited.

Overview

Total revenue increased 5% on last year despite slightly lower trade revenue. Strong log exports and cement trade helped offset reductions in both stock feed and fuel imports.

In December 2015 we celebrated the opening of the new Holcim cement terminal. The new operation handles Holcim's cement import, storage and distribution for the South Island and lower North Island. Since the facility was commissioned, Holcim has imported 100,300 tonnes of cement. Volumes are expected to reach around 350,000 tonnes per annum.

In support of the Holcim cement operation, PrimePort rebuilt the No. 2 Wharf, replacing the timber wharf with a modern concrete and steel construction.

In March 2016, PrimePort purchased 2.1 hectares of land and buildings for $8.15 million, strategically located within the Port. The property is adjacent to a KiwiRail yard and within close proximity of the wharves. The buildings are fully tenanted by a mix of customers with import and export connections to the Port. While there are no immediate development plans for the land, the site offers future strategic growth opportunities.

As our 38-year-old pilot launch Ohau reaches the end of its economic life, we have ordered a new 16-metre pilot vessel. The $2.5 million launch offers many new features and is being built by Hart Marine in Melbourne, Australia, and is due for delivery in July 2017.


Roger Gower
Chairman


Bill Baylis
Director


Phil Melhopt
Chief Executive


Nick Donaldson
Finance Manager


Nigel Gormack
Director


Damon Odey
Director


Keith Michel
Operations Manager


Tony Cooper
Infrastructure Manager


David Pilkington
Director


Tony Reynish
Director


Kerry Elstone
Health & Safety Manager

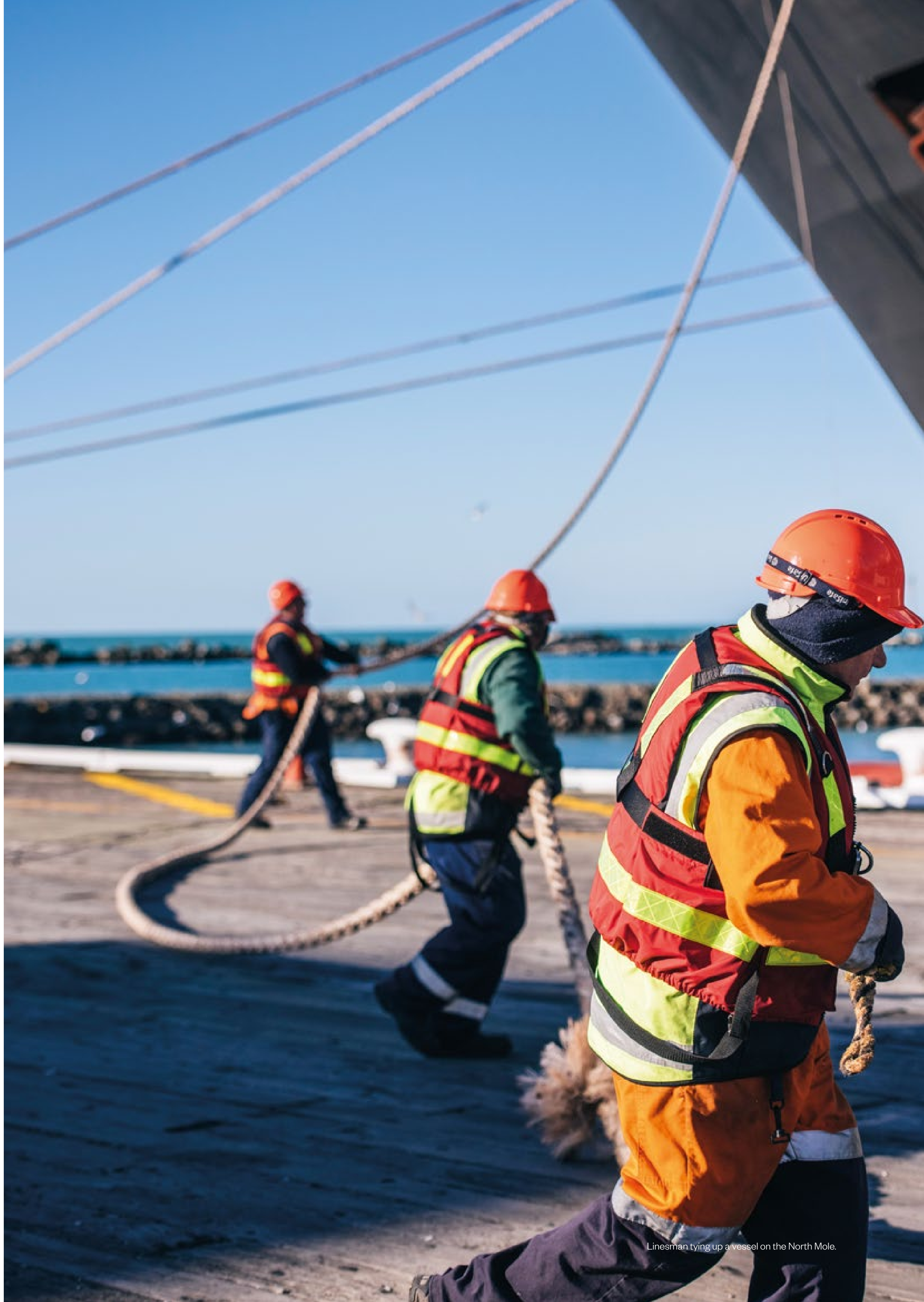

Arun Chaudhari
Marine Manager

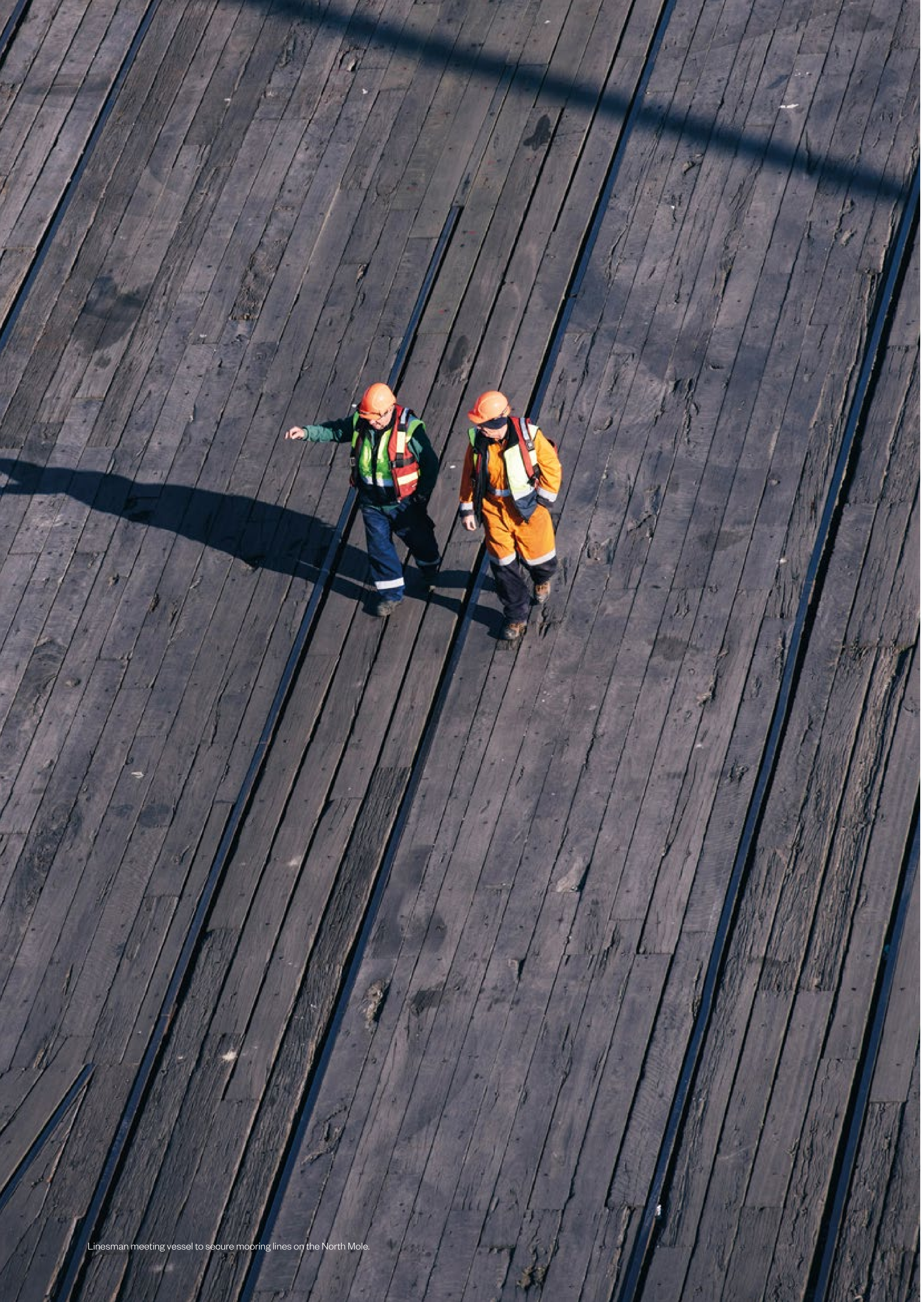
Our People

The 2016 year saw appointments of Marine Manager and Infrastructure Manager, both reporting to the Chief Executive.

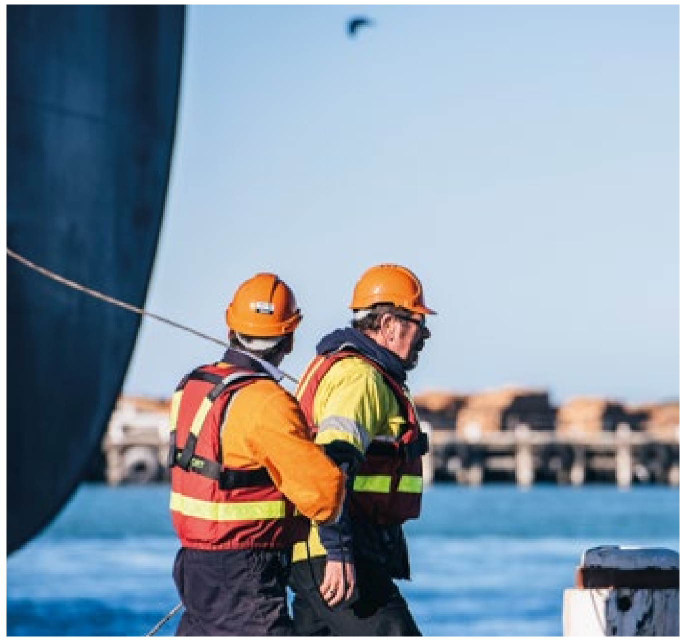
Full time staff numbers are 39 and we also operate a pool of causal employees who support marine operations on an as required basis.

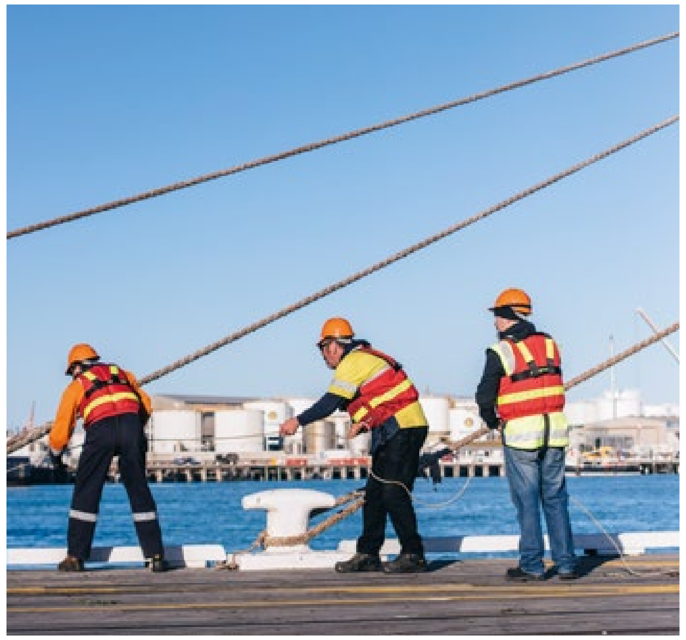
We thank our team members' dedication and commitment to the organisation and for the high level of service they provide our customers and stakeholders.


Linesman tying up a vessel on the North Mole.



Linesman meeting vessel to secure mooring lines on the North Mole.





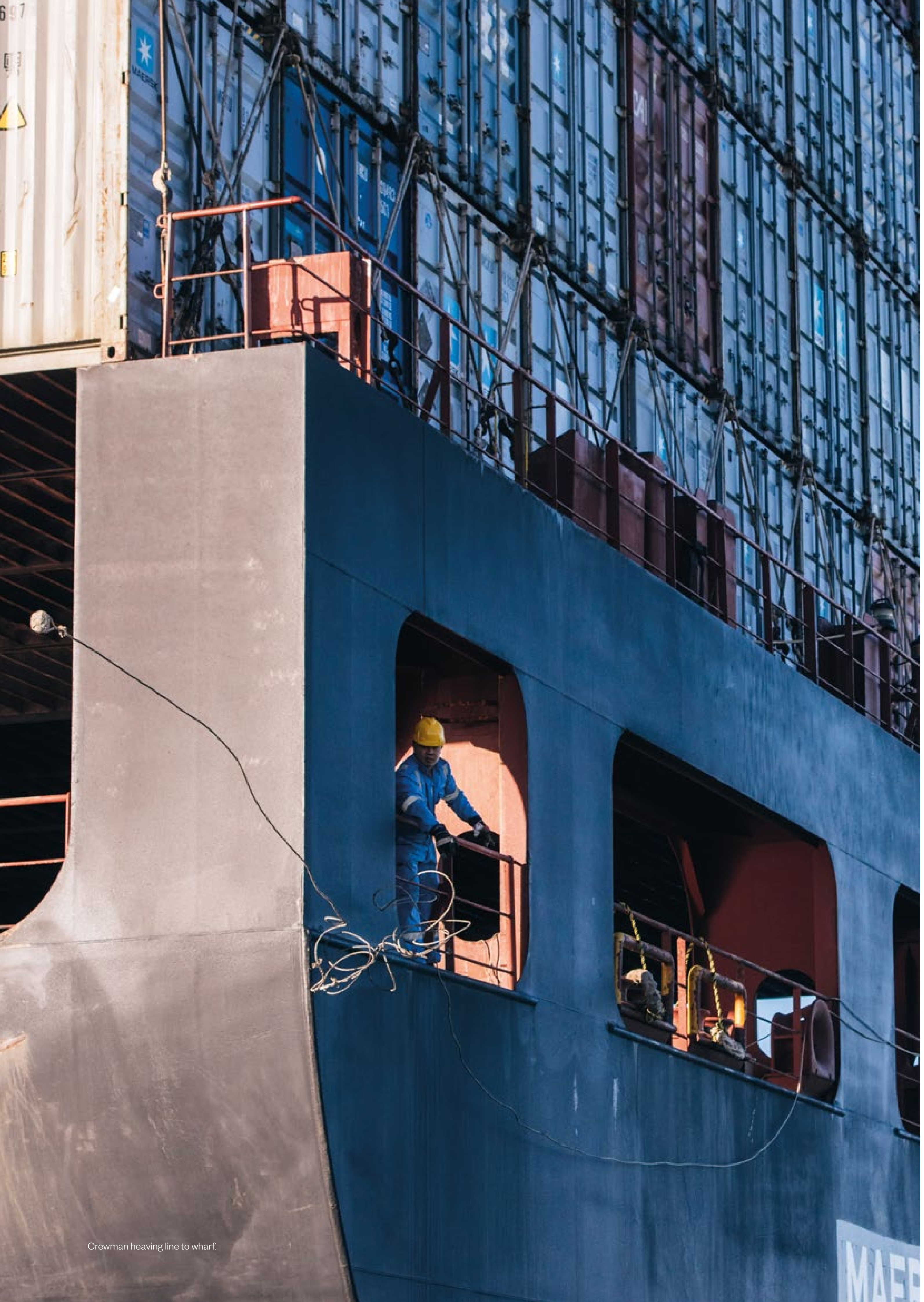
Health and Safety

The new Health and Safety at Work Act 2015 has renewed our focus on risk assessment, versus traditional hazard identification and control. Our staff have been fully engaged in the process of developing risk analyses and standard operating procedures and proactive safety-related observations have increased as a result.

The Port Users Health and Safety Forum, involving all of the companies operating across the port, meets quarterly and has recently developed and adopted port common user safety rules that apply to all port users.

We have made significant investments in security infrastructure during the year. Access to most PrimePort facilities is now via automated swipe card access gates, which gives us much more control over access to operational areas.

Regretfully PrimePort Timaru did experience three lost-time injuries during the year. None of the injuries were classified as serious harm incidents and the staff returned to work with no lasting effects.



Crewman heaving line to wharf.

AFTER TAX PROFIT
12%
3.542 TO MILLION

EBITDA
21%
6.319 TO MILLION

TOTAL ASSETS
40%
77.546 TO MILLION

TOTAL EQUITY
6%
48.342 TO MILLION

Financial

We report a strong result for 2016 with an after tax profit of $3,542,000, up 12% from $3,155,000 the previous year.

This result reflects ongoing growth in key trade areas and the new commercial arrangements with Holcim.

Although trade volumes were up slightly on last year, Port operational revenue decreased from $13,101,000 to $13,061,000 given the mix of trades. Despite the lower trade revenue, total revenue was up 5% on last year.

Total operating expenses at $11,359,000 were slightly down on $11,375,000 the prior year. Increased staff, depreciation and finance costs were partially offset by savings in dredging and lease costs.

Property rental income increased 31% from $2,183,000 to $2,849,000. This is expected to continue to grow with the Hayes Street tenanted buildings being added to the Port's operational assets.

Capital expenditure on the No. 2 Wharf as part of the Holcim project, now completed, totalled $12,900,000 in the 2016 financial year.

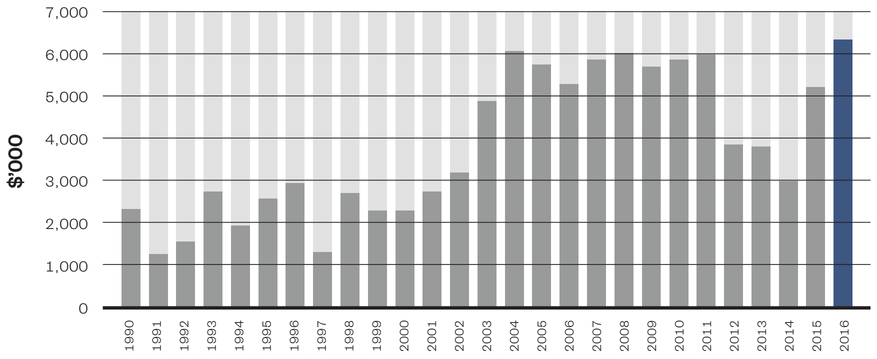
Net cash flows from operating activities increased from $3,843,000 to $5,088,000.

Earnings before interest, tax, depreciation and amortisation (EBITDA) was $6,319,000, up from $5,229,000 the previous year.

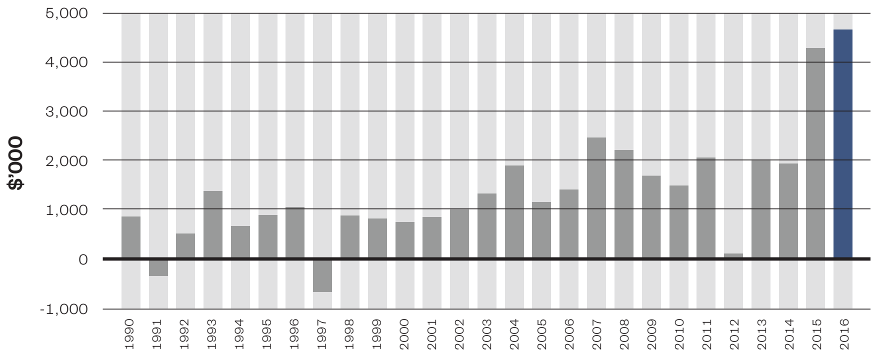
Land values increased $993,800, with an increase of $840,000 in operational land and $153,800 in investment property land.

A dividend of $1,305,900 was paid this financial year from last year's profits.

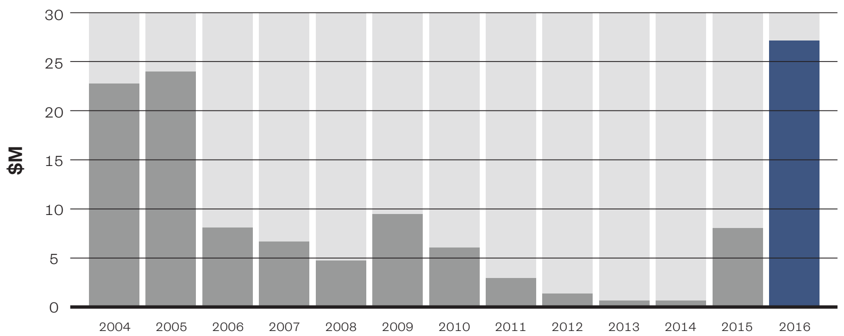
EBITDA Using Normal Port Operating Profits



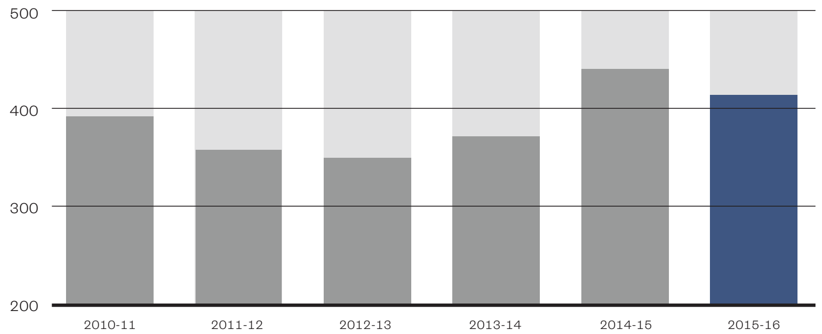
Normal Port Operating Profits



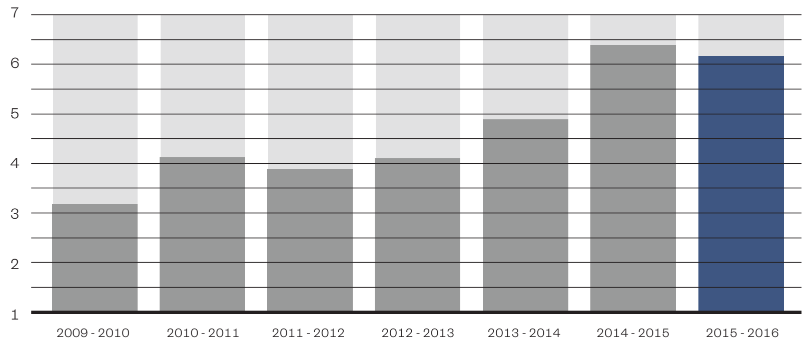
Borrowings



Ship Numbers



Gross Registered Tonnes (Millions)



Tug Te Maru alongside a large shipment of logs being exported through PrimePort Timaru.

PrimePort Operations

Cargo Trends

Cargo volumes, excluding containers, increased 3% from 1,295,300 tonnes to 1,335,100 tonnes.

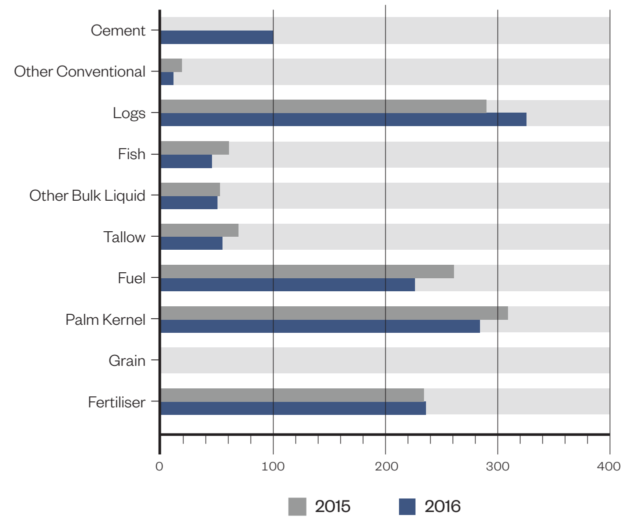
The 2016 non containerised cargo graph and pie charts show key cargo statistics for the year.

Log exports increased 12% in volume on the back of favourable market conditions. This growth helped balance decreases in dairy industry-related imports, including an 8% reduction in stock feed imports. Fertiliser imports remained fairly steady with less than 1% growth on the previous year.

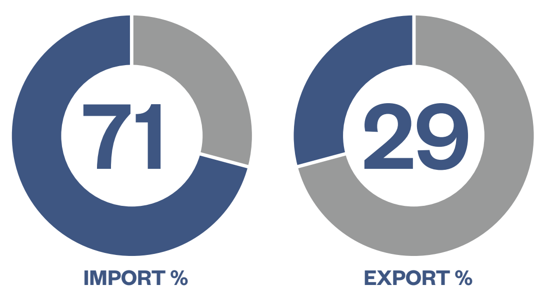
Fuel imports decreased 14% in volume as 98 octane volume reverted to refurbished storage facilities in Christchurch post-earthquake.

Container volumes, handled independently by Timaru Container Terminal Limited, achieved an all-time record volume of 84,400 TEU (twenty-foot equivalent units) in the 2016 financial year, up from 71,000 TEU the previous year.

Non Containerised Cargo - '000s Tonnes

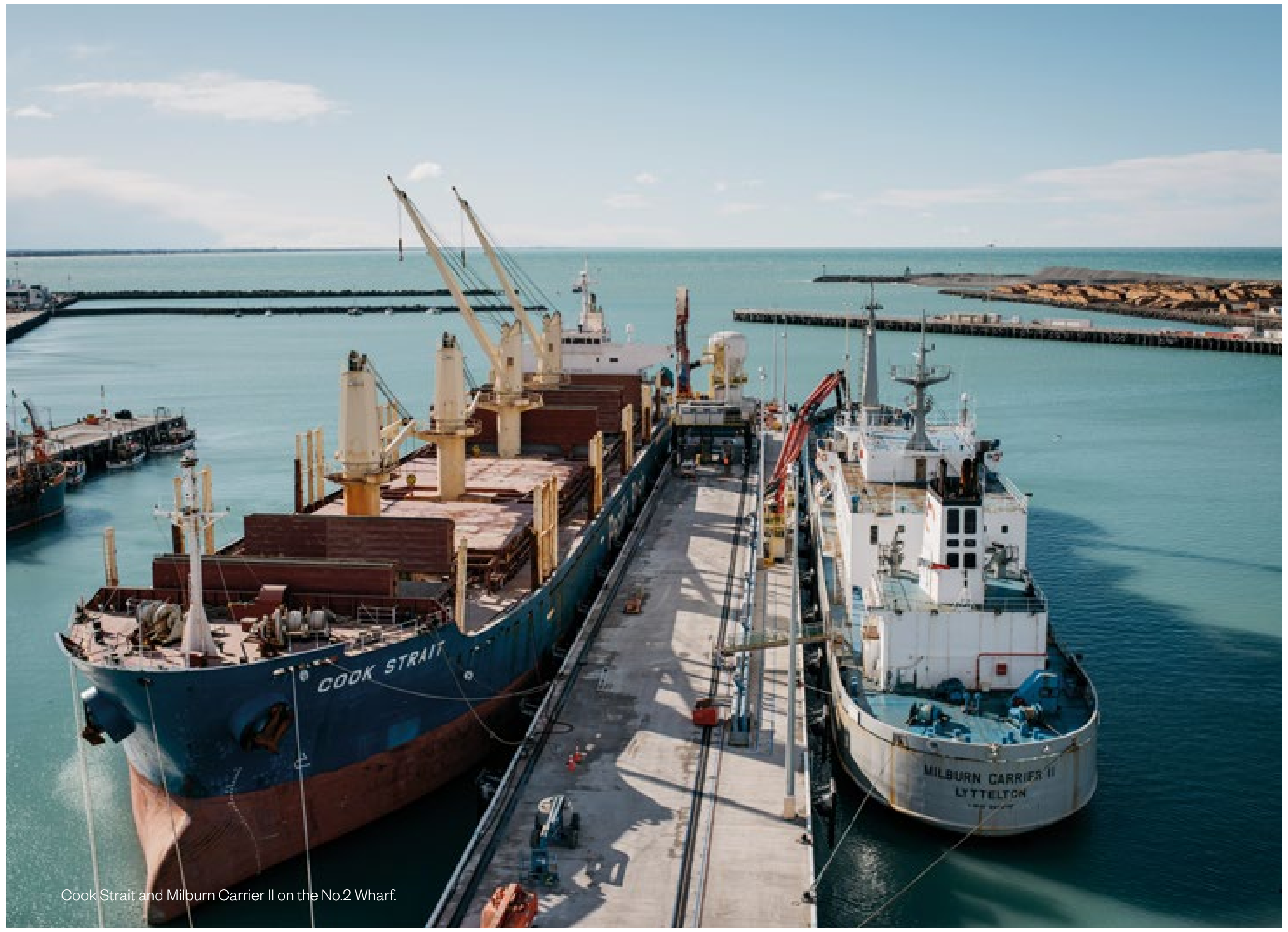


2016 Total Cargo Mix (Tonnes)



Container vessel entering the inner harbour.

Heavy haulage truck transporting a dump truck deck.



Cook Strait and Milburn Carrier II on the No.2 Wharf.

Fertiliser being unloaded from Dl Lilac on the North Mole.

Property and Infrastructure

As highlighted earlier, PrimePort purchased 2.1 hectares of adjacent land, bringing the port's total land holdings to 39.64 hectares.

The Eastern Extension Breakwater was extended by 30 metres at a cost of just under $484,000. This extension helps prevent migrating gravels entering the harbour and potentially increases operational port land.

With an increased focus on critical asset condition analysis and asset service levels, repairs and maintenance programs on both the North Mole and No. 1 Wharf have been escalated.

Directors

During the year, Philip Wareing and Mark Cairns retired as directors and the Board notes with thanks their contribution to the performance of the Company. Two new directors joined the Board in 2016, with Damon Odey appointed in January 2016 and Tony Reynish appointed in March 2016.

Outlook

Notwithstanding the challenges presented by current dairy sector returns, PrimePort Timaru has performed well and the medium to long-term outlook for the region's primary sector remains encouraging.

The diversity of PrimePort's cargoes and customers will assist us in weathering the fluctuations in any particular industry.

PrimePort will continue to invest in the people, property and equipment we need to support Timaru's development as a feeder port and hub for the South Island.

Milburn Carrier II and Champion Bay alongside the cement terminal.

PrimePort Timaru Ltd

Statement of Comprehensive Income

for the year ended 30 June 2016

	Note	2016 $000	2015 $000
Operating revenue			
Port operational		13,061	13,101
Property rentals	20	2,849	2,183
Interest/other revenue		118	62
Surplus on disposal of operational fixed assets		37	20
		16,065	**15,366**
Operating expenditure			
Staff	22	4,726	4,156
Port operating		3,747	3,896
Depreciation	7	1,187	851
Finance		463	82
Dredging		730	1,162
Director fees		221	214
Operating leases		29	633
Audit services - audit		58	56
Bad debts incurred	9	198	-
Loss on disposal of operational fixed assets		-	325
		11,359	**11,375**
Operating profit/(loss) before tax and port investment property revaluations		**4,706**	**3,991**
Port investment property revaluations	8	154	253
Profit /(loss) before tax		**4,860**	**4,244**
Taxation	2	(1,318)	(1,089)
Profit /(loss) for the year	3	**3,542**	**3,155**
Other comprehensive income			
Operating land revaluations	7	840	818
Financial instrument hedging	5	(386)	-
Income tax relating to financial instrument hedging	5	108	-
Other comprehensive income for the year		**562**	**818**
Total comprehensive income for the year attributable to equity holders		**4,104**	**3,973**

PrimePort Timaru Ltd

Statement of Changes in Equity

for the year ended 30 June 2016

	Note	Issued Shares	Hedging Reserve	Revaluations	Retained Earnings	Total
Equity at the beginning of the year		8,450	-	16,317	20,777	45,544
Total comprehensive income for year attributable to equity holders	4+5	-	(278)	840	3,542	4,104
Distributions - share buyback	4+6	-	-	-	-	-
Distributions - dividends paid	4+6	-	-	-	(1,306)	(1,306)
Equity at the end of the year 2016		**8,450**	**(278)**	**17,157**	**23,013**	**48,342**
Comparatives for 2015						
Equity at the beginning of the year		8,450	-	15,499	18,222	42,171
Total comprehensive income for year attributable to equity holders	4+5	-	-	818	3,155	3,973
Distributions - share buyback	4+6	-	-	-	-	-
Distributions - dividends paid	4+6	-	-	-	(600)	(600)
Equity at the end of the year 2015		**8,450**	**-**	**16,317**	**20,777**	**45,544**

The accompanying policies and notes form part of and should be read in conjunction with these financial statements.

PrimePort Timaru Ltd

Statement of Financial Position

as at 30 June 2016

	Note	2016 $000	2015 $000
Equity			
Issued shares	6	8,450	8,450
Retained earnings	4	23,013	20,777
Reserves	5	16,879	16,317
Total equity		**48,342**	**45,544**
Represented by long term assets			
Operational fixed assets	7	67,056	32,899
Operational fixed assets under construction	17	2,016	13,076
Port related investment properties	8	3,674	3,520
Deferred taxation	2	801	1,473
Total long term assets		**73,547**	**50,968**
Current assets			
Cash and cash equivalents	11	1,393	1,368
Trade and other receivables	9	2,012	2,788
Inventory	19	594	226
Total current assets		**3,999**	**4,382**
Total assets		**77,546**	**55,350**
Term liabilities			
Money market loans	10	27,000	7,450
Derivative financial instruments	11	212	-
Current liabilities			
Trade and other payables	13	1,301	1,616
Employee entitlements	14	523	517
Tax payable/(receivable)		(5)	223
Derivative financial instruments	11	173	-
Total current liabilities		**1,992**	**2,356**
Total liabilities		**29,204**	**9,806**
Net assets		**48,342**	**45,544**

For and on behalf of the Board of Directors
25 August 2016

Roger Gower
Chairman

Nigel Gormack
Director

The accompanying policies and notes form part of and should be read in conjunction with these financial statements.

PrimePort Timaru Ltd

Statement of Cash Flows

for the year ended 30 June 2016

	Note	2016 $000	2015 $000
Cash flows from operating activities			
Sources			
Cash received from customers		16,673	14,889
Interest/other revenue received		118	67
Disbursements			
Payments to suppliers		5,257	4,488
Payments to employees		4,720	4,208
Net GST movements		(440)	537
Income tax		765	857
Finance cost payments		409	82
Dredging		992	941
		11,703	11,113
Net cash from operating activities	3	**5,088**	**3,843**
Cash flows from investing activities			
Sources			
Proceeds from disposal of fixed assets		40	57
Proceeds from sale of investment property		-	-
Disbursements			
Purchase of fixed assets		23,347	13,865
Net cash used in investing activities		**(23,307)**	**(13,808)**
Cash flows from financing activities			
Sources			
Loans raised		19,550	7,450
Disbursements			
Loans repaid		-	-
Dividends paid		1,306	600
		1,306	600
Net cash used in financing activities		**18,244**	**6,850**
Net increase (decrease) in cash		**25**	**(3,115)**
Opening cash and cash equivalents balances		1,368	4,483
Closing cash and cash equivalents balances		**1,393**	**1,368**
Represented by			
Cash and cash equivalents		1,393	1,368

Linesman attending to a mooring line.

The accompanying policies and notes form part of and should be read in conjunction with these financial statements.

Bulk vessel unloading on the No.1 Extension Wharf.

Ohau pilot launch passing No.1 Extension Wharf.

Tugs Te Maru and Aoraki attached to a container vessel on arrival.

Notes to the Financial Statements
for the year ended 30 June 2016

1. Statement of Accounting Policies

Reporting Entity

PrimePort Timaru Limited is a company registered under the New Zealand Companies Act 1993. PrimePort Timaru Limited and its non-trading subsidiaries which are all 100% owned are domiciled in New Zealand.

Statement of Compliance

The financial statements of PrimePort Timaru Limited are prepared in accordance with the Companies Act 1993 and with New Zealand equivalents to International Financial Reporting Standards. PrimePort Timaru Limited is a Port Company within the provisions of the Port Companies Act 1988.

The company is a profit-orientated entity. The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice. They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities.

These financial statements of PrimePort Timaru Limited are for the year ended 30 June 2016. The financial statements were authorised for issue by the Board on 25 August 2016.

The Company has adopted External Reporting Board Standard A1 Accounting Standards Framework (For-profit Entities Update) (XRB A1). XRB A1 establishes a for-profit tier structure and outlines which suite of accounting standards entities in different tiers must follow. The Company is eligible and has elected to report in accordance with Tier 2 For-profit Accounting Standards (NZ IFRS RDR). There were no other impacts on the current or prior financial statements of the Company.

Measurement Base

The financial statements are presented in New Zealand dollars. The accounting principles recognised as appropriate for the measurement and reporting of earnings and financial position on a historical cost basis are followed by the group, with the exception that the following assets and liabilities are stated at their fair value: derivative financial instruments, investment property, financial instruments held for trading, and operational land. Non-current assets held for sale are valued at the lower of carrying amount and fair value less costs to sell.

Use of Estimates and Judgements

The preparation of financial statements requires management 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. Estimates and underlying assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period on which the estimate is revised and in any future periods affected. Our key assumptions are outlined in the following accounting policies.

Specific Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

A. Basis of Consolidation

The financial statements are for PrimePort Timaru Limited. The financial statements show no investment in subsidiaries as no share capital has been issued for the non-trading subsidiaries.

B. Operational Property, Plant and Equipment

Except for land and capital dredging all owned items of property, plant and equipment are initially recorded at cost less depreciation and impairment losses. Initial cost includes the purchase consideration and those costs directly attributable in bringing the asset to the location and condition necessary for its intended use. Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future benefits or service potential will flow and the cost of the item can be measured reliably. Costs cease to be capitalised when substantially all the activities necessary to bring an asset to the location and condition for its intended use are complete.

Operational land is stated at valuation as determined annually. The basis of valuation is fair value as determined by an independent registered valuer. Any increase or decrease in the value of land is recognised directly in other comprehensive income and is accumulated to an asset revaluation reserve account in equity for that asset. Where this would result in a debit balance in the relevant asset revaluation reserve, the balance is not recognised in other comprehensive income but is recognised in profit or loss. Any subsequent increase on revaluation that reverses a decrease recognised in the profit or loss, will be recognised first in the profit or loss up to the amount previously expensed and then recognised in other comprehensive income.

C. Depreciation

Depreciation is calculated on a straight line basis to allocate the cost of an asset, less any residual value, over its useful life. The estimated useful lives of property, plant and equipment are as follows:

Land	Indefinite
Foreshore, sidings and breakwaters	Indefinite
Capital dredging	Indefinite
Wharves	20 - 50 years
Floating plant	10 - 15 years
Buildings and roading	20 - 50 years
Plant, machinery and equipment	2 - 25 years

D. Port Related Investment Properties

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

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

E. Dredging

Dredging expenditure is categorised into maintenance dredging and capital dredging.

Maintenance dredging is expenditure incurred to restore the channel to a previous condition and depth. On average the Port dredges the channel every 10 months. At the completion of maintenance dredging the channel has an average service potential of 10 months. Maintenance dredging expenditure is recorded as a prepayment and amortised evenly over this period.

Capital dredging is expenditure which deepens or extends either the channel or the swing basin. This expenditure is not amortised as our maintenance programme ensures that channel and swing basin depth remains at dredged levels.

All dredging is reviewed for impairment when it is felt by management that events occurring may have diminished the depth of any previous dredging.

F. Trade and Other Receivables

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

G. Non-Current Assets Intended For Sale

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

Any impairment losses for write-downs of non-current assets held for sale are recognised in the profit or loss. Any increases in fair value (less costs to sell) are recognised up to the level of any impairment losses that have previously been recognised. Non-current assets held for sale are not depreciated or amortised while they are classified as held for sale.

H. Inventory

All inventory on hand is recorded at cost price, less any impairment losses.

I. Taxation

Taxation comprises current tax and deferred tax.

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

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

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

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

J. Foreign Currencies

Transactions in foreign currencies are converted at the New Zealand rate of exchange ruling at the date of the transaction. Transactions covered by foreign currency forward exchange contracts are measured and reported at the forward rates specified in those contracts.

At balance date foreign monetary assets and liabilities are translated at the closing rate and exchange variations arising from these translations are included in the profit or loss.

K. Financial Instruments

The Company uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from its activities. Derivative financial instruments are stated at fair value. The gain or loss on re-measurement to fair value is recognised in the profit or loss. Where the derivatives qualify for hedge accounting, they are accounted for as set out in accounting policy 'O'.

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

Non-derivative financial instruments comprise bank deposits 'M', receivables and prepayments 'F', borrowings 'R' and accounts payable 'T'. Financial assets and liabilities are measured in accordance with their respective policies identified in parenthesis.

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

L. Goods and Services Tax (GST)

All items in the financial statements are exclusive of GST, with the exception of receivables and payables, which are stated as GST inclusive. Where GST is not recoverable as an input tax, it is recognised as part of the related asset or expense.

M. Statement of Cash Flows

Cash and cash equivalents includes cash on hand, funds within our cheque account, deposits held on call with banks, and bank overdrafts.

Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment and investments.

Financing activities are those activities that result in changes in the size and composition of the capital structure of PrimePort Timaru Limited. This includes both equity and debt. Dividends paid are included in financing activities. Loans raised and paid are netted off when they are part of the roll-over of money market borrowings covered in the Company's long-term finance facilities.

Operating activities includes all transactions and other events that are not investing or financing.

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

N. Employee Entitlements

Provision is made in respect of the Company's liability for annual leave, long service leave and sick leave. The key leave provisions have been calculated on an actual entitlement basis at current rates of pay. Long service leave accrued for but not yet earned and sick leave provisions have been estimated based on management assumptions of expected tenure of employment for long service and estimated sick days taken over normal entitlements for sick leave. Obligations for contributions to KiwiSaver and superannuation schemes are recognised as an expense in the profit or loss as incurred. All employer contributions made are to defined contribution schemes.

O. Hedging

Where a derivative financial instrument is designated as a cash flow hedge that is a hedge of the exposure to variability in cash flows that is (i) attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecast transaction and (ii) could affect profit or loss, the effective part of any movement in fair value is recognised directly in equity. When the forecasted transaction subsequently results in a non-financial asset or liability the associated gains or losses are included in the carrying value of the non-financial asset or liability. If the hedge subsequently results in a financial asset or liability the associated gains or losses that were recognised in other comprehensive income are reclassified into the profit or loss in the same period. However, if it is expected that all or a portion of a loss recognised in other comprehensive income will not be recovered in one or more future periods, the amount that is not expected to be recovered is reclassified to the profit or loss.

P. Impairment

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

For revalued assets the impairment loss is recognised against the revaluation reserve for that asset. Where that results in a debit balance in the revaluation reserve, the balance is recognised in profit or loss.

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

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

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

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

Q. Dividends

Dividends are recognised as a liability in the period in which they are declared.

R. Interest-Bearing Borrowings

Interest-bearing borrowings are recognised initially at fair value less any transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised costs with any difference between cost and redemption value being recognised in the profit or loss over the period of the borrowings on an effective interest rate. Except for borrowing costs that are capitalised on qualifying assets with a commencement date on or after 1 July 2014, all other borrowing costs are recognised as an expense in the period in which they are incurred. A qualifying asset is defined as a separate asset where the construction period exceeds twelve months and costs in excess of one million dollars.

S. Provisions

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

T. Trade and Other Payables

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

U. Revenue

Revenue from the rendering of services is recognised in the profit or loss at the stage of completion of transactions at balance date. Revenue from sale of goods is recognised when ownership is transferred.

Property leases and sub-leases revenue are deemed as operating leases. Revenue from these is recognised on a straight line basis over the term of the lease.

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

V. Expenses

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

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

W. Leases

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

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

X. Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, funds within our cheque account, deposits held at call with banks and bank overdrafts.

Changes in Accounting Policies

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

2. Taxation

	2016 $000	2015 $000
Profit/(loss) before taxation and port investment property revaluations	4,706	3,991
Port investment property revaluations	154	253
Profit before taxation	4,860	4,244
Tax at 28%	1,361	1,188
Plus/(less) tax effect of:		
Non-taxable income	(43)	(71)
Non-deductible expenditure	-	-
Prior year adjustment	-	(28)
Release of overprovision of deferred tax provided under NZ IAS 12	-	-
	1,318	**1,089**
Components of taxation:		
Current taxation	537	701
Deferred taxation	781	388
Prior year adjustment	-	-
	1,318	**1,089**

Deferred tax asset/(liability)	Long Term Assets	Employee Entitlements	Other	Hedge Reserve	Total
Balance at 1 July 2014	1,705	156	-	-	1,861
Credit/(charge) to profit or loss	(305)	(10)	(73)	-	(388)
Prior year adjustment	-	-	-	-	-
Credit/(charge) to comprehensive income	-	-	-	-	-
Balance at 30 June 2015	**1,400**	**146**	**(73)**	**-**	**1,473**
Credit/(charge) to profit or loss	(722)	9	(67)	-	(780)
Prior year adjustment	-	-	-	-	-
Credit/(charge) to comprehensive income	-	-	-	108	108
Balance at 30 June 2016	**678**	**155**	**(140)**	**108**	**801**

The utilisation of the deferred tax asset of $801,000 is dependent on future taxable profits. This asset has been mainly created from the impairment of operational fixed assets because of the expected cash flow impacts on the port from losing their dedicated container line customers from September 2012. The profit forecasts without this container business indicate accounting profits over the next five years that exceed tax depreciation levels on those assets that have been impaired. It is the Directors view that this deferred tax asset will be utilised over the next 5 to 10 years.

Imputation credit account		
Imputation credits available for use in subsequent reporting periods.	**1,082**	**1,053**

3. Reconciliation of Cash Flow with Operating Surplus

	2016 $000	2015 $000
Profit/(loss) after taxation	3,542	3,155
Depreciation	1,187	851
Investment property revaluation	(154)	(253)
Movements in deferred tax	673	388
Loss/(surplus) on disposal of long term assets	(37)	(20)
	5,211	**4,121**
Working capital movements relating to cash from operating activities		
(Increase)/decrease in accounts receivable	608	(308)
(Increase)/decrease in inventory	(369)	173
Increase/(decrease) in trade and other payables and employee entitlements	(134)	(22)
Increase/(decrease) in tax payable	(228)	(121)
Net cash flow from operating activities	**5,088**	**3,843**

4. Retained Earnings

Opening balance	20,777	18,222
Profit after tax	3,542	3,155
Less dividends paid	(1,306)	(600)
Closing balance	**23,013**	**20,777**

5. Reserves

Reserves are represented by:		
Asset revaluation reserve	17,157	16,317
Cash flow hedge reserve	(278)	-
Closing balance	**16,879**	**16,317**

5(a). Asset Revaluation Reserve

Opening balance	16,317	15,499
Revaluation increase	840	818
Closing balance	**17,157**	**16,317**

5(b). Cash Flow Hedge Reserve

Opening balance	-	-
Financial instrument hedging	(386)	-
Tax effect of financial instrument hedging	108	-
Closing balance	**(278)**	**-**

6. Share Capital

	2016 $000	2015 $000
Ordinary shares	8,450	8,450
Opening balance	8,450	8,450
Share buyback	-	-
Closing balance	**8,450**	**8,450**

All shares have equal voting rights and share equally in dividends and any distribution. Dividends of $1,305,900 were paid during this financial year (2015 $600,000).

7. Operational Fixed Assets

2016	Plant and Equipment	Freehold Building	Wharves	Breakwater/ Channel	Improvements to Land	Freehold Land at Valuation	Total
Balance as at 1 July 2015							
At fair value	-	-	-	-	-	18,283	18,283
At cost	18,294	4,397	14,673	5,147	1,223	-	43,734
Accumulated impairment	(2,163)	(472)	(7,191)	-	(416)	-	(10,242)
Accumulated depreciation	(10,949)	(1,818)	(5,261)	(299)	(549)	-	(18,876)
	5,182	**2,107**	**2,221**	**4,848**	**258**	**18,283**	**32,899**
Additions	394	5,427	25,127	809	17	2,730	34,504
Revaluation	-	-	-	-	-	840	840
Disposal - cost	(40)	-	-	-	-	-	(40)
Disposal - accumulated depreciation	40	-	-	-	-	-	40
Depreciation expense	(591)	(147)	(420)	-	(29)	-	(1,187)
Movement to 30 June 2016	**(197)**	**5,280**	**24,707**	**809**	**(12)**	**3,570**	**34,157**
Balance as at 30 June 2016							
At fair value	-	-	-	-	-	21,853	21,853
At cost	18,648	9,824	39,800	5,956	1,240	-	75,468
Accumulated impairment	(2,163)	(472)	(7,191)	-	(416)	-	(10,242)
Accumulated depreciation	(11,500)	(1,965)	(5,681)	(299)	(578)	-	(20,023)
	4,985	**7,387**	**26,928**	**5,657**	**246**	**21,853**	**67,056**
COMPARATIVES FOR 2015							
Balance as at 1 July 2014							
At fair value	-	-	-	-	-	16,947	16,947
At cost	19,534	4,330	14,604	5,147	1,148	-	44,763
Accumulated impairment	(2,163)	(472)	(7,191)	-	(416)	-	(10,242)
Accumulated depreciation	(12,045)	(1,669)	(5,109)	(299)	(521)	-	(19,643)
	5,326	**2,189**	**2,304**	**4,848**	**211**	**16,947**	**31,825**
Additions	415	67	69	-	75	518	1,144
Revaluation	-	-	-	-	-	818	818
Disposal - cost	(1,655)	-	-	-	-	-	(1,655)
Disposal - accumulated depreciation	1,618	-	-	-	-	-	1,618
Depreciation expense	(522)	(149)	(152)	-	(28)	-	(851)
Movement to 30 June 2015	**(144)**	**(82)**	**(83)**	**-**	**47**	**1,336**	**1,074**
Balance as at 30 June 2015							
At fair value	-	-	-	-	-	18,283	18,283
At cost	18,294	4,397	14,673	5,147	1,223	-	43,734
Accumulated impairment	(2,163)	(472)	(7,191)	-	(416)	-	(10,242)
Accumulated depreciation	(10,949)	(1,818)	(5,261)	(299)	(549)	-	(18,876)
	5,182	**2,107**	**2,221**	**4,848**	**258**	**18,283**	**32,899**

Operational land held by the company has been independently valued as at 30 June 2016 by GR Sellars FNZIV, FNZPI, a registered valuer with Colliers International. The valuation is based on fair value which is equivalent to freehold land value.

Operational fixed assets, other than land, which form part of the Port infrastructure are stated at cost or at the value they were acquired from the Timaru Harbour Board in 1988. Interest of $290,000 was capitalised during the year as part of the capital investment of the construction of No.2 Wharf.

There were no impairment losses during the year (2015 nil). There are no operational fixed assets where title is restricted.

8. Port Related Investment Properties

	2016 $000	2015 $000
Opening balance	3,520	3,267
Revaluation increase	154	253
Closing balance	**3,674**	**3,520**
Investment properties are represented by:		
Land at valuation	3,674	3,520
Building at valuation	-	-
	3,674	**3,520**

Investment property held by the Company was independently valued as at 30 June 2016 by GR Sellars FNZIV, FNZPI, a registered valuer with Colliers International. The valuation is based on fair value. The valuations have been completed by an experienced valuer with extensive market knowledge in the types of investment property owned by PrimePort Timaru Limited. In determining fair value Mr Sellars has used the rental capitalisation approach. This method uses significant unobservable inputs (level 3 as defined by NZ IFRS 13). This method is based upon assumptions including future rental income and appropriate discount rates.

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

There are no investment properties where title is restricted. There are no current contractual obligations to purchase, construct or develop investment property. There are also no current contractual obligations for repairs, maintenance or enhancements to any investment property.

9. Trade and Other Receivables

	2016	2015
Trade debtors	1,278	1,711
GST	73	459
Prepayments	661	618
	2,012	**2,788**

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

	2016			2015		
	Gross $000	Impairment $000	Net $000	Gross $000	Impairment $000	Net $000
Not past due - under 30 days	1,210	-	1,210	1,667	-	1,667
Past due - 30 to 60 days	55	-	55	46	-	46
Past due - 60 to 90 days	14	-	14	7	-	7
Past due - over 90 days	10	(11)	(1)	2	(11)	(9)
	1,289	**(11)**	**1,278**	**1,722**	**(11)**	**1,711**

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

	2016 $000	2015 $000
Balance as 1 July	11	11
Additional provisions made during the year	198	-
Trade debtors written off during period	(198)	-
Balance as 30 June	**11**	**11**

10. Money Market Loans

Repayment as follows:		
One to two years	1,500	7,450
Two to three years	25,500	-
	27,000	**7,450**

Money Market

The company has arranged money market facilities with Bank of New Zealand for a maximum amount of $27.5 million (2015 $25.5 million). The $2.0 million facility ends in 2018 and the $25.5 million facility ends in 2019. To date $27.0 million has been drawn. Maturity dates of interest rate instruments within the facilities are:

Within one year	15,000	7,450
Two to three years	5,000	-
Three to four years	3,000	-
Four to five years	4,000	-
	27,000	**7,450**

Security

Security for the above loans is by way of a registered mortgage over the property situated at Hayes Street, Timaru and a negative pledge agreement between Bank of New Zealand and PrimePort Timaru Limited. The Hayes Street property is valued at $8,150,000.

Risk Management

PrimePort Timaru Limited is exposed to business risks that include market and liquidity risks. Information used to measure and manage risk includes staff experience, market commentary, strategic planning, financial planning and forecasting, financial reporting, operating and management systems and risk management audits from external consultants.

11. Financial Instruments

Liquidity Risk

Liquidity risk is the risk that PrimePort will have difficulty raising funds to meet commitments as they fall due. PrimePort's short term liquidity is managed by ensuring that there is sufficient committed financing facilities to cover at least $1 million in excess of the anticipated peak borrowing requirement as determined by cash flow forecasts. The maximum amount that can be drawn down against our borrowing facility is $27.5 million (2015 $25.5 million). There are no restrictions on this with the exception of a registered mortgage over the property situated at Hayes Street, Timaru and a negative pledge.

Interest Rate Risk

The financial instruments at reporting date which are exposed to interest rate risk consist of a bank overdraft, interest rate swaps, forward exchange contracts and wholesale money market borrowings. The company manages its interest rate risk by using interest rate hedging instruments.

There were $27.0 million of money market borrowings at reporting date.

PrimePort's treasury policy requires set limits for interest rate maturity profile. Hedging instruments are used to manage this profile which is based on projected borrowing requirements. As at balance date $15.0 million was at call (2015 $7.45 million).

As at balance date three swaps for a total of $12.0 million (2015 nil) have been entered to manage interest rate fluctuation risks. The following table details outstanding interest rate swaps as at the reporting date:

	Contracted Fixed Interest Rates	Notional Principal Swap Amounts		Carrying Value Asset/(liability)	
	%	2016 $000	2015 $000	2016 $000	2015 $000
Swap maturity dates					
October 2018	2.88	5,000	-	(69)	-
December 2019	3.00	3,000	-	(71)	0
February 2021	3.13	4,000	-	(139)	0
		12,000	**-**	**(280)**	**-**

Fair Value

The carrying value of the company's financial assets and liabilities are recorded at estimated fair value as described in the accounting policies and note. PrimePort carries certain financial assets and financial liabilities at fair value. In accordance with NZ IFRS 13 – Fair Value Measurement, PrimePort uses various methods in estimating the fair value of its financial instruments. The methods comprise:

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

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

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

The company's interest rate swaps and foreign exchange contracts are valued in accordance with the Level 2 valuation category.

Credit Risk

Financial instruments which potentially subject the company to credit risk consist principally of bank deposits and accounts receivable. No collateral is required in respect of these assets. Only reputable financial institutions are used for bank deposits. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. The maximum exposure to credit risk at the 30 June 2016 is equal to the carrying amount of these financial assets. The company continuously monitors the credit quality of its major customers and does not anticipate non-performance by those customers. Due to the nature of the business, the company is exposed to a concentration of credit risk. As at 30 June 2016 15% (2015 19%) of trade receivables were due from one customer which provides 19% (2015 16%) of the company's trade revenue. These receivables are considered fully recoverable.

Currency Risk

PrimePort Timaru Limited has exposure to foreign exchange risk as a result of transactions denominated in foreign currencies, arising from normal trading activities. PrimePort Timaru Limited uses foreign currency forward exchange contracts to manage these exposures. At balance date the principal or contract amounts of foreign currency forward exchange contracts were $1,766,000 (2015 nil). PrimePort's treasury policy provides for currency management to be restricted to hedging underlying business exposures only.

Cash Flow Hedging

Cash flow hedges cover:

Foreign exchange – foreign exchange contracts were taken out during the financial year to purchase a pilot launch in Australian dollars for delivery in July 2017. PrimePort's treasury policy provides that all purchases of items in foreign currency with an equivalent spot rate greater than NZ$250,000 are to be hedged.

Interest rate swaps – as at balance date three interest rate swaps had been entered into.

	2016 $000	2015 $000
Financial assets and liabilities		
The carrying amount of financial assets and liabilities are as follows:		
Cash & cash equivalents	1,393	1,368
Trade debtors	1,278	1,711
GST	73	459
Total loans and receivables	**2,744**	**3,538**
Trade and other payables	1,301	1,616
Money market loans	27,000	7,450
Derivative financial instruments	386	-
Total financial liabilities measured at cost	**28,687**	**9,066**

12. Bank Overdrafts

The bank overdraft facility of $200,000 is secured by way of a negative pledge.
The current interest rate at balance date is 10.70% per annum (2015 10.95%). This is a floating rate set by the Bank.

13. Trade and Other Payables

	2016 $000	2015 $000
Trade creditors	237	649
Other accrued expenses	1,064	967
	1,301	**1,616**

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

14. Employee Entitlements

Accrued pay	140	181
Accrued leave provision	359	331
Long service provision	1	-
Sick leave provision	23	5
	523	**517**

15. Related Party Transactions

Timaru District Holdings Limited is a shareholder of PrimePort Timaru Limited. Timaru District Holdings Limited is a partly owned subsidiary of the Timaru District Council. A dividend of $652,950 (2015 $300,000) was paid to Timaru District Holdings Limited during this financial year. PrimePort Timaru Limited has provided property management services to Timaru District Holdings Limited in the past but in 2016 this amounted to nil (2015 $49,583). During the year PrimePort Timaru Limited leased land from Timaru District Holdings Limited. This amounted to $29,344 including outgoings (2015 $32,281).

Port of Tauranga Limited is a shareholder of PrimePort Timaru Limited. A dividend of $652,950 (2015 $300,000) was paid to Port of Tauranga Limited during this financial year.

During the year PrimePort Timaru Limited provided services to Philip Wareing Limited in which Mr P W Wareing is a director and was also a director of PrimePort Timaru Limited until 31 December 2015. The services amounted to $40,002 (2015 $40,178) of total operations revenue.

PrimePort Timaru Limited leased land to Timaru Container Terminal Limited, a 50.10% owned subsidiary of Port of Tauranga Limited, a shareholder of PrimePort Timaru Limited. The lease amounted to $1,054,688 (2015 $716,146).

In the past PrimePort Timaru Limited have purchased services from Quantum Advantage Limited, a company in which Mr N J Gormack is a director and also a director of PrimePort Timaru Limited, that amounted to nil in 2016 (2015 $5,180).

During the year PrimePort Timaru Limited purchased services from Parr and Company Limited and Air & Power Industrial Limited, companies in which Mr D J Odey is a director and also a director of PrimePort Timaru Limited from 1 January 2016. The services amounted to $78,034 and $403 respectively.

During the year PrimePort Timaru Limited purchased services from the Timaru District Council. The services amounted to $161,450 (2015 $178,179) of total operating expenses. A large percentage of this relates to rates.

The outstanding balances owed by related parties at 30 June 2016 are:

Philip Wareing Limited	$3,757 (2015 $2,235)
Timaru Container Terminal Limited	$193,330 (2015 $321,843)
Timaru District Holdings Limited	nil (2015 nil)

The outstanding balances owed to related parties at 30 June 2016 are:

Timaru District Council	$2,316 (2015 nil)
Port of Tauranga Limited	$8,625 (2015 nil)
Timaru District Holdings Limited	$86 (2015 $1,664)
Parr and Company Limited	$6,399

These balances have been paid since balance date. No related party debts have been written off or forgiven during the year (2015 nil).

Total key management personnel compensation totalled $1,338,118 (2015 $1,357,701). This included salaries and other short-term employee benefits $1,298,181 (2015 $1,320,992), superannuation benefits $39,938 (2015 $36,709) and termination benefits of nil (2015 nil). Key management personnel include Directors, Chief Executive and the remaining members of the management team. All remuneration is classified as salaries and other short-term employee benefits.

16. Contingent Assets and Liabilities

No contingent assets exist at balance date (2015 nil). No contingent liabilities exist at balance date (2015 nil).

17. Operational Fixed Assets Under Construction

Operational fixed assets under construction are those assets whose activities to bring the asset to the location and condition for its intended use are not complete. At balance date the amount of operational fixed assets under construction were $2,016,000 (2015 $13,076,000).
The 2016 balance represents the capital investment at balance date associated with the pilot launch progress payments, Eastern Extension Breakwater and southern area site development.

18. Commitments

	2016 $000	2015 $000
Capital commitments	1,871	11,499

The commitments relate to a new pilot launch and other plant and equipment during the financial year (2015 $11,499,000).

	2016 $000	2015 $000
Operating lease commitments		
Non cancellable operating lease payables:		
Not later than 1 year	34	2
Later than 1 year but not later than two years	34	-
Later than 2 years but not later than five years	22	-
Later than 5 years	-	-
	90	2

Operating lease commitments are based on current rentals being paid.

19. Inventory

Inventory includes consumable stocks, timber and fuel. Purchases made during the year not held in inventory at year end are included in port operations expenditure. Inventory at year end is recorded at cost price, less any impairment losses. There is no inventory where title is restricted.

20. Property Rentals

	2016 $000	2015 $000
Port related investment rentals	2,578	2,118
Other property rentals	271	65
	2,849	**2,183**

Yields currently range from 7-7.25% on freehold land value determined at the time of rent review for port related investment land leases. Ground lease terms and conditions vary between 1 year to 25 years. Direct operating expenses relating to port related investment properties amounts to $90,000 (2015 $688,000). There were no direct operating expenses arising from investment property that did not generate rental income during the year (2015 nil).

	2016 $000	2015 $000
Operating lease receivables		
Non cancellable operating lease receivables:		
Not later than one year	2,291	1,051
Later than one year but not later than two years	1,864	903
Later than two years but not later than five years	4,596	2,625
Later than five years	11,761	10,769
	20,511	**15,349**

21. Capital Management

PrimePort's capital is its equity, which comprises of issued shares, retained earnings, hedge reserve and revaluation reserve. Equity is represented by net assets. Section 5 of the Port Companies Act 1988 states that the principal objective of every port company shall be to operate as a successful business. PrimePort's principal objective is to operate as a successful business, exploiting opportunities and managing risk thereby ensuring the maintenance and growth in equity. PrimePort manages its equity as a by-product of prudently managing risks, revenues, expenses, assets, liabilities and general financial dealings to ensure it achieves its objectives and purpose, whilst remaining a going concern. These financial statements have been prepared on a going concern basis and the Directors assessment is that PrimePort Timaru Limited will continue to operate as a going concern. The company has complied with its bank covenants which include maintaining shareholder funds at a minimum level to total tangible assets.

22. Staff Expenses

There were no redundancy payments included in staff expense in 2016 (2015 nil). Included in staff expenses are employer contributions for employee superannuation funds. Payments for the year amounted to $184,772 (2015 $174,000).

23. Events After Balance Date

The directors are not aware of the existence of any post balance date events.

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Independent Auditor's Report

**To the readers of
PrimePort Timaru Limited's financial statements
for the year ended 30 June 2016**

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

Opinion

We have audited the financial statements of the company on pages 17 to 34, that comprise the statement of financial position as at 30 June 2016, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

In our opinion, the financial statements of the company:

- present fairly, in all material respects:
  - its financial position as at 30 June 2016; and
  - its financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand in accordance with New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime.

Our audit was completed on 25 August 2016. This is the date at which our opinion is expressed.

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

Basis of opinion

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

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

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

An audit also involves evaluating:

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

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

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

Responsibilities of the Board of Directors

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

The Board of Directors' responsibilities arise from the Port Companies Act 1988.

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

Responsibilities of the Auditor

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

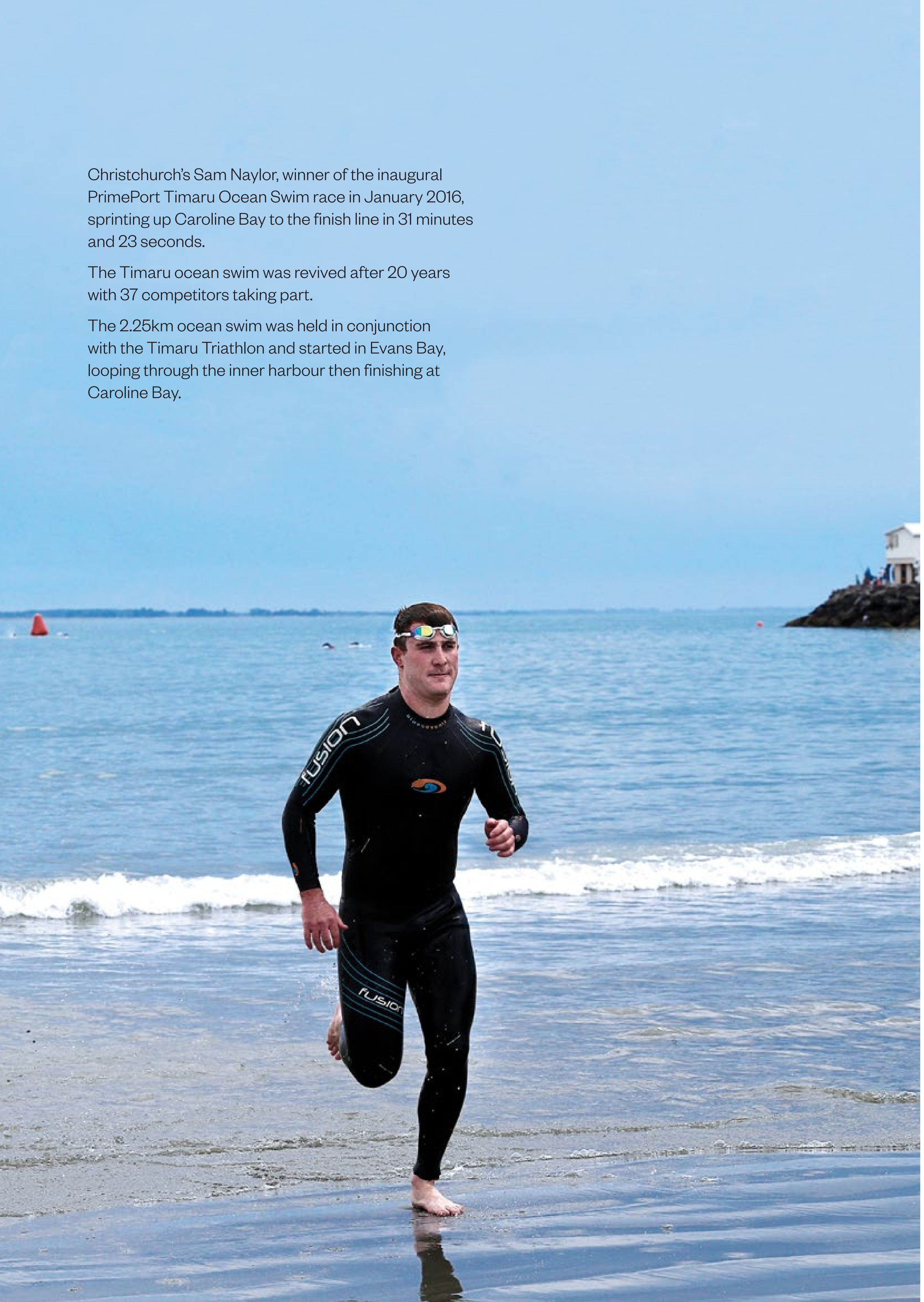
Independence

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

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

Ian Lothian

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



Christchurch's Sam Naylor, winner of the inaugural PrimePort Timaru Ocean Swim race in January 2016, sprinting up Caroline Bay to the finish line in 31 minutes and 23 seconds.

The Timaru ocean swim was revived after 20 years with 37 competitors taking part.

The 2.25km ocean swim was held in conjunction with the Timaru Triathlon and started in Evans Bay, looping through the inner harbour then finishing at Caroline Bay.

Statutory Information for the Year Ended 30 June 2016

Principal Operations

PrimePort Timaru Limited operates a commercial port and its activities include ship handling, cargo handling, transit storage and ancillary services to the shipping and freight industries. The company provides quality services to shipping and freight businesses at its centrally located multipurpose and bulk handling port.

Changes in Accounting Policies

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

Auditors

On their behalf, the Office of the Auditor-General has appointed Audit New Zealand to undertake the audit of the company.

Directors

During the year Mr PW Wareing and Mr MC Cairns ceased as directors. Mr DJ Odey was appointed to the Board in January and Mr AP Reynish was appointed in March.

Directors and Remuneration – Authorised and Paid Directors Fees

A.W. Baylis	$31,000
M.C. Cairns	$23,000
N.J. Gormack	$36,000
R.H. Gower (Chairman)	$62,000
D.J. Odey	$15,000
D.A. Pilkington	$31,000
A.P. Reynish	$8,000
P.W. Wareing	$15,000

Disclosure of Interest by Directors

The following current director's entries were recorded in the interests' registers of the company:

(A) General Disclosures

Mr A.W. Baylis

Director	Edincorp Equities Ltd
Director	Edincorp Business Services Ltd
Director	Port of Tauranga Ltd
Director	Tenby Estate Ltd
Director	Melbourne St Developments Ltd
Director	Palmer & Son Ltd
Director	Palmer Oliver Holdings Ltd
Director	Grandview Farm Ltd

Mr M.C. Cairns

Chief Executive	Port of Tauranga Ltd
Director	Northport Ltd
Director	Quality Marshalling (Mount Maunganui) Ltd
Director	Meridian Energy Ltd
Director	Port of Tauranga Trustee Company Ltd
Director	CODA GP Ltd
Shareholder	Port of Tauranga Ltd
Shareholder	Meridian Energy Ltd

Mr N.J. Gormack

Director	Opuha Water Ltd
Director	Quantum Advantage Ltd
Director	The Greenvale Group Ltd
Director	Hilton Nominees Ltd
Advisory	Hassle-Free Tours Ltd
Shareholder	Quantum Advantage Ltd

Mr R.H. Gower

Director	Gower Management Group Ltd
Director	Mitsui Credit Ltd
Director	CSM Group Ltd
Director	Arno Investments Ltd
Director	NXT Fuels Ltd
Director	New Zealand Food Innovation Auckland Ltd
Director	Roger Gower & Associates Ltd
Director	Quintessential Life Designs Ltd
Shareholder	Gower Management Group Ltd
Shareholder	Mitsui Credit Ltd
Shareholder	Arno Investments Ltd
Shareholder	Roger Gower & Associates Ltd

Mr D.J. Odey

Chairman	Timaru District Holdings Ltd
Mayor	Timaru District Council
Director	Parr and Company Ltd
Director	Air & Power Industrial Ltd
Shareholder	Parr and Company Ltd
Shareholder	Air & Power Industrial Ltd

Mr D.A. Pilkington

Chairman	Port of Tauranga Ltd
Chairman	Hellers Ltd
Chairman	Rangatira Ltd
Director	Excelsa Associates Ltd
Director	Douglas Pharmaceuticals Ltd**
Director	Northport Ltd
Director	Tuatara Brewing Company Ltd
Director	ZESPRI Group Ltd**
Trustee	New Zealand Community Trust
Shareholder	Excelsa Associates Ltd

Mr A.P. Reynish

Director	Stallion Plastics Ltd
Director	Port Nelson Ltd
Director	MetroBox Ltd
Director	Timaru Container Terminal Ltd
Director	Quality Marshalling (Mount Maunganui) Ltd
Shareholder	Stallion Plastics Ltd

Mr P.W. Wareing

Director	Philip Wareing Ltd
Director	NZ Express Transport (2006) Ltd
Shareholder	Philip Wareing Ltd

** Includes Subsidiary Companies

(B) Specific Disclosures

Nil.

(C) Directors' Indemnity and Insurance

The company has insured all its directors against liabilities to other parties (except the company or a related party of the company) that may arise from their positions as directors. The insurance does not cover liabilities arising from criminal actions.

(D) Share Dealings by Directors

Nil.

(E) 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.

Employees' Remuneration

During the year the following numbers of employees received remuneration of at least $100,000:

			Number of Employees
$350,001	-	$360,000	1
$210,001	-	$220,000	2
$200,001	-	$210,000	1
$170,001	-	$180,000	1
$160,001	-	$170,000	1
$150,001	-	$160,000	2
$130,001	-	$140,000	1
$120,001	-	$130,000	1
$110,001	-	$120,000	3
$100,001	-	$110,000	1

Donations

During the year the company made donations of $800.

Auditors' Remuneration

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

	Audit of the Financial Statements
PrimePort Timaru Limited	$58,419

Review of Past Year

The review of activities of the company during the financial year is contained in the Chairman and Chief Executive's review.

Dividend

Directors declared dividends of $1,305,900 to be paid during the financial year.

State of Affairs

The directors are of the opinion that the state of affairs of the company is satisfactory.

Statement of Corporate Intent Performance

It is the directors' view that objectives have been met this year with the exception of:

- *Vessel arrivals – finishing of a coastal container service and general conventional vessels falling below budget meant that our vessel target was not obtained.*
- *Ratio of shareholders funds to total assets – the original target ratio of 0.69 did not include the purchase of the Hayes Street property for $8,150,000 on 30 June 2016, which was largely funded from borrowings.*
- *Lost time injury frequency rate – staff and management remain committed to maintaining high safety standards. The percentage increase relates to three incidents that required periods off work.*

Objective/outcome	Target	Achieved
(a) To continue the expansion of profitable cargo volume through the Port being the preferred South Island Port in selected segments.		
Cargo Tonnage	**1,153,300**	**Yes**
Vessel Arrivals	**481**	**No**
(b) To manage and operate PrimePort Timaru Ltd to enhance shareholder wealth through continuously improving performance.		
Earnings (after tax) per share	**$0.36**	**Yes**
Dividends (proposed) per share	**$0.00**	**Yes**
Net Assets per share	**$5.47**	**Yes**
Return (after tax) on total assets	**4.49%**	**Yes**
Return (after tax) on shareholders funds	**6.52%**	**Yes**
Ratio of shareholders funds to total assets	**0.69**	**No**
(c) To employ the best people and develop staff to their full potential in a safe working environment.		
Lost time injury frequency rate	**2.00**	**No**
(d) To ensure activities are effectively communicated to stakeholders		
Monthly reports	**12**	**Yes**
Chairman/Chief Executive meet with shareholders	**2**	**Yes**
(e) To accept responsibility as a user of the coastline and recognise the importance of the environment for future generations.		
Incidents leading to pollution of harbour	**Nil**	**Yes**
Compliance with all resource consent conditions	**Yes**	**Yes**
Compliance with NZ Maritime Safety Standards	**Yes**	**Yes**

Directory

Board of Directors

A. W. Baylis	**Director**
N. J. Gormack	**Director**
R. H. Gower	**Chairman**
D. J. Odey	**Director**
D. A. Pilkington	**Director**
A. P. Reynish	**Director**

Shareholders as at 30 June 2016

Timaru District Holdings Ltd **50%**

Port of Tauranga Ltd **50%**

Auditors

Audit New Zealand for the Office of the Auditor-General

Registered Office

Marine Parade
Timaru
New Zealand

PO Box 544
Timaru
New Zealand

Telephone +64 3 687 2700
Facsimile +64 3 687 2709
Website www.primeport.co.nz

Leadership Team

P.R. Melhopt	**Chief Executive**
N.J.G. Donaldson	**Finance Manager**
K.W. Michel	**Operations Manager**
T. Cooper	**Infrastructure Manager**
K.J. Elstone	**Health & Safety Manager**
A. M. Chaudhari	**Marine Manager**

Solicitors

RSM LAW – Timaru

Buddle Findlay – Christchurch

Bankers

Bank of New Zealand

The Directors are pleased to present the Annual Report of PrimePort Timaru Limited for the year ended 30 June 2016.

For and on behalf of the Board of Directors.

R. H. Gower
Chairman

25 August 2016

N. J. Gormack
Director

25 August 2016

Our Mission, Customers First.

PrimePort Timaru Annual Report

2016

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PrimePort Timaru