PrimePort Timaru Annual Report 2018

North Mole container terminal.

Chairman and Chief Executive's Review 2017/2018

Highlights

PrimePort Timaru is pleased to report increases in both bulk cargos and container volumes handled in the 12 months ending 30 June 2018.

The net profit after tax for the year dipped 17.5% to $2,989,000 compared to last year's record result as a result of a $1.6 million impairment of Tug *Aoraki*, storm damage repairs to our channels and other increased costs. Increased repairs and maintenance to our aging infrastructure comprised of $2.4 million, an increase of 39.8%. These repair costs are exacerbated by having to work around operations in a growing port.

The Timaru Container Terminal, operated by PrimePort's strategic partner Port of Tauranga, handled another record number of containers. Volumes increased 5% on the previous year to 89,184 TEU[1]. Our strategic alliance with 50% shareholder Port of Tauranga continues to benefit South Canterbury importers and exporters.

Bulk trade volumes reached 1.73 million tonnes, a 14.7% increase on the previous year.

Log exports were again the star performer, with volumes increasing 19.1% to 491,000 jas m^3. Overall, ship visits increased 6.2% to 479 vessels, up from 451 the previous year.

PrimePort's new 16 metre Pilot Launch *Kiwa*, delivered in August 2017, is performing better than expectations. *Kiwa* with its state of the art safety features, including self-righting capability, is a welcome addition to our floating plant as ship calls and activity increase.

The Company has also ordered a new tug boat to replace Tug *Aoraki* which will be sold. The new 60 tonne bollard pull vessel will cost $8 million and is expected to be delivered in December 2018. The new tug is essential to maintaining efficient and safe operations as ship sizes continue to grow.

Following on from the investments in tugs and pilot vessels and the increased repairs and maintenance cost of the existing infrastructure it is clear the Company needs to undertake significant new capital investment to ensure PrimePort can service its customers and their growing needs.

The Company has commissioned a 45 metre reduction to the inner breakwater. This $2.5 million project will increase the width of the channel entrance and ensure safer and more efficient navigation of larger vessels.

PrimePort is also planning major renovations to the North Mole wharf and investigating construction of a new wharf at Evans Bay to service bulk cargo customers. To help support the construction of a new berth, we have submitted an expression of interest to the Provincial Growth Fund for up to $100 million.

These new investments in marine plant, new berths, capacity increases and renovations are expensive though necessary. As well as improving our resilience, the investments will provide a better, safer, sustainable and more efficient service to our customers and ultimately their customers. Our plans are these will be funded through additional debt, shareholder loans, tariff increases and if successful, a Provincial Growth Fund application.

1 TEU = Twenty Foot Equivalent Units, a standard measure of container numbers.


Mooring crew securing ship gangway.


Workman gas cutting under the North Mole.


Roger Gower
Chairman


Steve Gray
Director


Phil Melhopt
Chief Executive


Nick Donaldson
Finance Manager


Damon Odey
Director


David Pilkington
Director


Kevin Beeby
Operations Manager


Tony Cooper
Infrastructure Manager


Tony Reynish
Director


Onno Mulder
Director


Kerry Elstone
Health & Safety Manager


Grant Bicknell
Marine Manager

Our People

PrimePort is operated by a small, highly skilled team with a strong health and safety culture. A Port Users' Health & Safety Forum ensures any issues and improvements are identified and dealt with collaboratively.

We thank our staff for their dedication, commitment and for the high level of service they provide our customers and stakeholders.

Unfortunately, we had four lost time injuries during the year. All four were non-serious injuries relating to musculoskeletal strains. As a result, we implemented a "Safe Moves @Work" training programme.

Full time staff increased to 55 during the year (up from 49) due to our increased maintenance and marine activity. Staff turnover remains very low.

We welcomed a new Marine Manager to the team. Grant Bicknell joined PrimePort in October 2017 after a distinguished 18 year career in the Royal New Zealand Navy.

Our Directors

During the year, Bill Baylis and Ian Fitzgerald retired as directors and the Board notes with thanks their contribution to the performance of the Company.

Two new directors joined the Board during the year with Steve Gray appointed in October 2017 and Onno Mulder appointed in January 2018.

Workmen driving a pile on No. 1 Wharf.

EBITDA
14%
TO 8.271 MILLION

AFTER TAX PROFIT
18%
TO 2.989 MILLION

TOTAL ASSETS
1%
TO 81.459 MILLION

TOTAL EQUITY
4%
TO 54.068 MILLION

Our Finances

Operating revenue increased to $22.2 million an 18.0% increase on the previous year.

The growth in trade volumes has led to increased operational revenue as well as increased costs. Additional expenses included storm damage repairs, increased dredging of the channel and berth pockets and a higher spend across the port on repairs and maintenance.

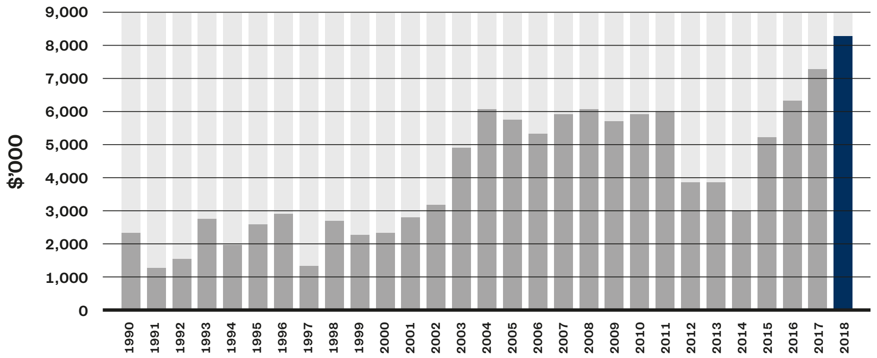
Operating expenditure increased 29.6% to $18.2 million for the year ended 30 June 2018. This reflects increased infrastructure repairs and maintenance and higher depreciation expenditure as a result of recent asset acquisitions.

Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) on adjusted profits (after adjusting for impairment and the gains and losses on disposal of operational fixed assets) was $8.3 million compared to the previous year of $7.3 million.

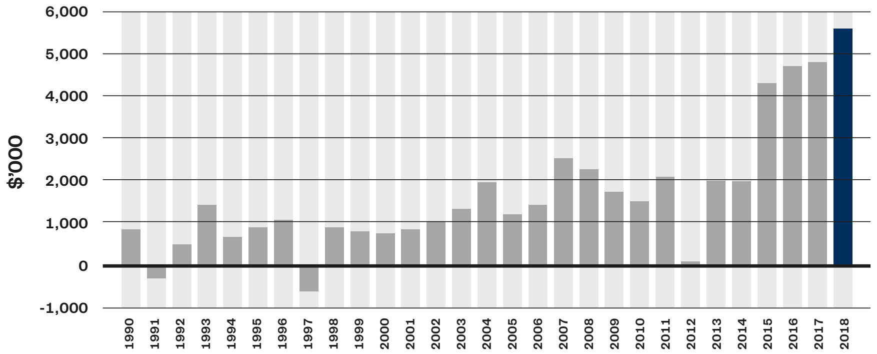
Net profit after tax was $2.99 million, a 17.5% decrease from the previous year.

Total equity increased 4.2% to $54.1 million and total assets increased 1.0% to $81.5 million. Total assets include assets classified as held for sale which is the written down value of Tug *Aoraki* as it was identified for disposal.

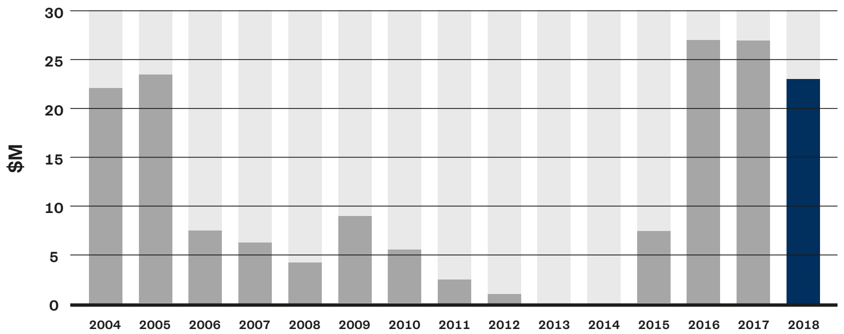
A dividend of $1.4 million was paid to the shareholders from last year's profits.



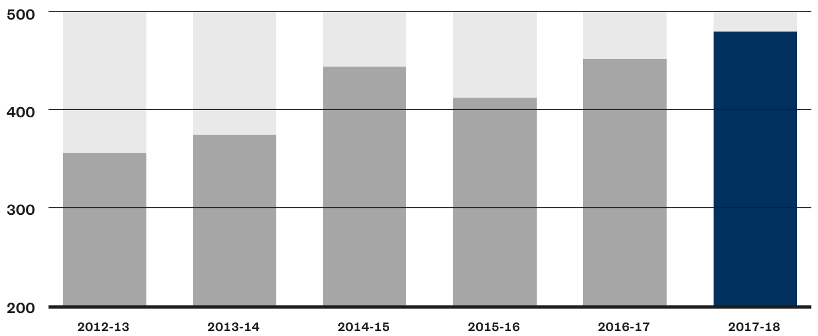
EBITDA Using Normal Port Operating Profits



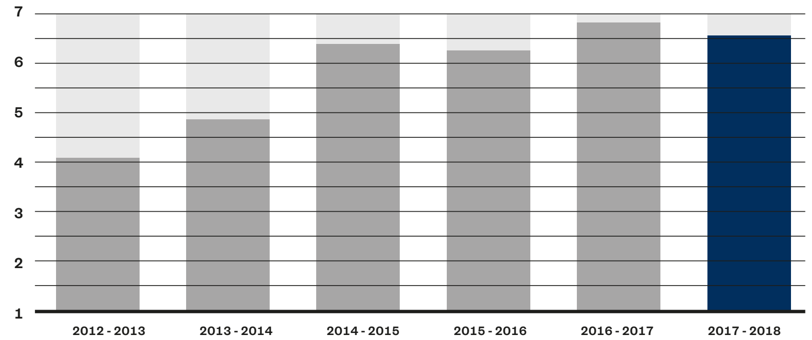
Normal Port Operating Profits



Borrowings



Ship Numbers



Ships Gross Registered Tonnes (Millions)

Our Operations

Cargo Trends

Demand for berth space is up as a result of the increase in bulk trade volumes and ship visits.

Solid growth continued across most cargo categories, including export logs, imported stock feeds and fertiliser. The buoyancy of the dairy industry was also reflected in increased export volumes through the Timaru Container Terminal.

The Holcim cement terminal, opened in early 2016, is running smoothly and volumes were consistent with the previous year. Holcim welcomed a new coastal vessel, *Buffalo*, to Timaru as its home port.

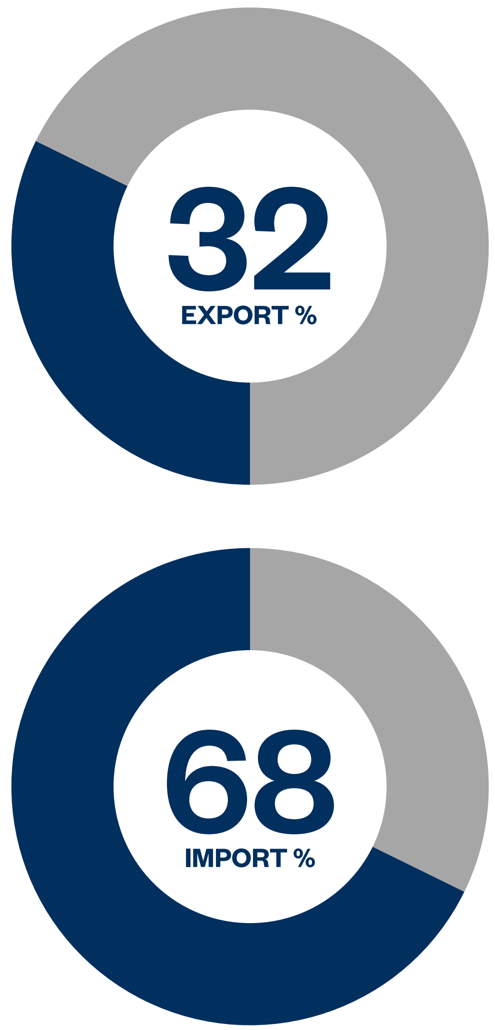
There were no cruise vessel visits during the summer season following PrimePort's decision to suspend calls until the installation of new high capacity storm bollards. Cruise ship visits will resume in the 2018/2019 season, with four vessels already booked.

The abandoned ship *MV Rangatira* was sold to a scrap metal merchant by order of the High Court. Deconstruction of the vessel is under way.

A 80 metre trawler, the *Dong Won 701*, was extensively damaged by fire in April 2018. Fire and Emergency New Zealand was on site for 11 days before the fire was officially out. The firefighting crews did a great job in managing what could have been a much worse situation. Our staff also handled the emergency well and the Company is thankful to all those involved.

The *Dong Won 701* remains in port awaiting a decision on its future by its owners.

2018 Total Cargo Mix (Tonnes)



Fuel vessel *British Cadet* entering the inner harbour.


Fertiliser being unloaded from *Coreship OL* on the North Mole.

Log vessel *African Heron* being loaded on No. 1 Extension Wharf.

Tug *Te Maru* passing No. 2 Wharf.

Our Property and Infrastructure

PrimePort's current focus is to improve the sustainability and resilience of our infrastructure.

Two southerly storms during the year caused damage to the Eastern Extension Breakwater and filled in shipping channels, requiring increased dredging. We entered into a new dredging contract during the year with several other ports as parties and a new dredge Albatross began operating. The new dredge has a higher capability than the previous operation.

An ongoing repairs and maintenance programme continues with the port's main wharves. This catch up maintenance involves the North Mole, No. 1 and No. 1 Extension Wharves and will add significant costs for the next several years.

North Mole's aging timber deck will be replaced with a concrete deck. This $12 million project is expected to extend the life of the container wharf by 20 to 25 years.

To provide a resilient and sustainable port that meets the future needs of our customers, a feasibility study is under way on the construction of a new multipurpose berth at Evans Bay, to the east of the existing wharves. This new wharf would provide additional port capacity and a modern quay to handle the ships of today and tomorrow. The completed project will be circa $100 million and will require shareholder, customer and Provincial Growth Fund support.

To improve safety, increasing log volumes and to meet new regulations for soil contamination by importing countries, the Company is planning to seal the existing log yard. This is expected to cost around $7 million.

Meanwhile, a capital upgrade of the port's four bulk cargo hoppers has continued. Two new hoppers will be brought into service to manage increased demand and improve efficiency when unloading dry cargos.

PrimePort employee competing in the Hadlow to Harbour run.


Competitors at the start of the 2018 PrimePort Ocean Swim.

Pilot launch *Kiwa* blessing ceremony.
Featuring Timaru Girls High School who won the vessel naming competition.

Our Community

The team at PrimePort is very appreciative of the support received from our community.

PrimePort sponsors the annual Christmas Parade through the main streets of Timaru on the first weekend of December.

The third PrimePort Ocean Swim was held in January 2018, with perfect conditions for the 90 competitors.

Maasdam cruise ship on departure.

PrimePort Timaru Limited

Statement of Comprehensive Income

for the year ended 30 June 2018

	Note	2018 $000	2017 $000
Operating revenue			
Port operational		17,382	14,281
Property rentals	20	4,749	4,541
Interest/other revenue		-	-
Surplus on disposal of operational fixed assets		87	4
		22,218	**18,826**
Operating expenditure			
Staff		6,178	5,329
Port operating		5,721	5,048
Depreciation	7	1,743	1,553
Finance		970	968
Dredging		1,616	690
Impairment of operating fixed assets		1,608	-
Director fees		226	211
Operating leases		59	66
Audit services - audit		60	59
Bad debts incurred	9	-	134
Loss on disposal of operational fixed assets		33	-
		18,214	**14,058**
Operating profit/(loss) before tax and port investment property revaluations		**4,004**	**4,768**
Port investment property revaluations	8	93	215
Profit /(loss) before tax		**4,097**	**4,983**
Taxation	2	(1,108)	(1,359)
Profit /(loss) for the year	3	**2,989**	**3,624**
Other comprehensive income			
Operating land revaluations	7	676	991
Financial instrument hedging	5	(140)	419
Income tax relating to financial instrument hedging	5	39	(117)
Other comprehensive income for the year		**575**	**1,293**
Total comprehensive income for the year attributable to equity holders		**3,564**	**4,917**

PrimePort Timaru Limited

Statement of Changes in Equity

for the year ended 30 June 2018

	Note	Issued Shares	Hedging Reserve	Revaluations	Retained Earnings	Total
Equity at the beginning of the year		8,450	24	18,148	25,282	51,904
Total comprehensive income for year attributable to equity holders	4+5	-	(101)	676	2,989	3,564
Distributions - dividends paid	4+6	-	-	-	(1,400)	(1,400)
Equity at the end of the year 2018		**8,450**	**(77)**	**18,824**	**26,871**	**54,068**
Comparatives for 2017						
Equity at the beginning of the year		8,450	(278)	17,157	23,013	48,342
Total comprehensive income for year attributable to equity holders	4+5	-	302	991	3,624	4,917
Distributions - dividends paid	4+6	-	-	-	(1,355)	(1,355)
Equity at the end of the year 2017		**8,450**	**24**	**18,148**	**25,282**	**51,904**

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

PrimePort Timaru Limited

Statement of Financial Position

as at 30 June 2018

	Note	2018 $000	2017 $000
Equity			
Issued shares	6	8,450	8,450
Retained earnings	4	26,871	25,282
Reserves	5	18,747	18,172
Total equity		**54,068**	**51,904**
Represented by long term assets			
Operational fixed assets	7	66,489	67,929
Operational fixed assets under construction	17	2,656	2,735
Port related investment properties	8	3,922	3,829
Derivative financial instruments	11	-	156
Deferred taxation	2	736	498
Total long term assets		**73,803**	**75,147**
Current assets			
Cash and cash equivalents		1,828	2,548
Trade and other receivables	9	3,394	2,604
Assets classified as held for sale	7	2,000	-
Inventory	19	434	510
Total current assets		**7,656**	**5,662**
Total assets		**81,459**	**80,809**
Term liabilities			
Money market loans	10	23,000	27,000
Derivative financial instruments	11	88	-
Current liabilities			
Trade and other payables	13	3,158	859
Employee entitlements	14	598	604
Tax payable/(receivable)		528	319
Derivative financial instruments	11	19	123
Total current liabilities		**4,303**	**1,905**
Total liabilities		**27,391**	**28,905**
Net assets		**54,068**	**51,904**

For and on behalf of the Board of Directors
28 August 2018

Roger Gower
Chairman

Steve Gray
Director

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

PrimePort Timaru Limited

Statement of Cash Flows

for the year ended 30 June 2018

	Note	2018 $000	2017 $000
Cash flows from operating activities			
Sources			
Cash received from customers		21,912	18,409
Interest/other revenue received		-	-
Disbursements			
Payments to suppliers		5,650	5,668
Payments to employees		6,363	5,248
Net GST movements		(128)	(210)
Income tax		1,098	846
Finance cost payments		983	949
Dredging		1,915	1,183
		15,881	13,684
Net cash from operating activities	3	**6,031**	**4,725**
Cash flows from investing activities			
Sources			
Proceeds from disposal of fixed assets		160	4
Disbursements			
Purchase of fixed assets		1,511	2,219
Net cash used in investing activities		**(1,351)**	**(2,215)**
Cash flows from financing activities			
Sources			
Loans raised		-	-
Disbursements			
Loans repaid	3	4,000	-
Dividends paid		1,400	1,355
		5,400	1,355
Net cash used in financing activities		**(5,400)**	**(1,355)**
Net increase/(decrease) in cash		**(720)**	**1,155**
Opening cash and cash equivalents balances		2,548	1,393
Closing cash and cash equivalents balances		**1,828**	**2,548**
Represented by			
Cash and cash equivalents		1,828	2,548

Tug *Te Maru* in front of the cement terminal.

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

Pilot launch *Kiwa* and the dredge *Albatross* in the outer harbour.

Bulk vessel *Coreship OL* unloading fertiliser on the North Mole.

PrimePort Timaru Limited

Notes to the Financial Statements

for the year ended 30 June 2018

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 2018. The financial statements were authorised for issue by the Board on 28 August 2018.

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. Money Market Loans

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 2017, 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.

Reclassification

A sum of $500,000 is provided for in the lease agreement between PrimePort Timaru Limited and Timaru Container Terminal Limited for the maintenance of the container terminal at the port of Timaru. As per the requirements of NZ IAS 1.41 a reclassification has occurred in the comparative years for recovery of PrimePort Timaru maintenance expenditures for the leased area.

The amounts of each class of item that have been reclassified in the statement of comprehensive income are increases of $500,000 for port operational revenue, $125,000 for staff operating expenditure and $375,000 for port operating expenditure. In the statement of cash flows the following increases have occurred; $500,000 for cash received from customers, $125,000 for payments to employees and $375,000 for payments to suppliers.

The reason for the reclassification is to provide for the gross effect of the transactions between PrimePort Timaru Limited and Timaru Container Terminal Limited.

2. Taxation

	2018 $000	2017 $000
Profit/(loss) before taxation and port investment property revaluations	4,004	4,768
Port investment property revaluations	93	215
Profit before taxation	4,097	4,983
Tax at 28%	1,147	1,395
Plus/(less) tax effect of:		
Non-taxable income	(26)	(60)
Non-deductible expenditure	-	-
Prior year adjustment	(13)	24
Release of overprovision of deferred tax provided under NZ IAS 12	-	-
	1,108	**1,359**
Components of taxation:		
Current taxation	1,307	1,174
Deferred taxation	(199)	185
Prior year adjustment	-	-
	1,108	**1,359**

Deferred tax asset/(liability)	Long Term Assets	Employee Entitlements	Other	Hedge Reserve	Total
Balance at 1 July 2016	678	155	(140)	108	801
Credit/(charge) to profit or loss	(177)	16	(25)	-	(186)
Prior year adjustment	-	-	-	-	-
Credit/(charge) to comprehensive income	-	-	-	(117)	(117)
Balance at 30 June 2017	**501**	**171**	**(165)**	**(9)**	**498**
Credit/(charge) to profit or loss	300	(14)	(87)	-	199
Prior year adjustment	-	-	-	-	-
Credit/(charge) to comprehensive income	-	-	-	39	39
Balance at 30 June 2018	**801**	**157**	**(252)**	**30**	**736**

Imputation credit account		
Imputation credits available for use in subsequent reporting periods.	**2,493**	**1,728**

3. Reconciliation of Cash Flow with Operating Surplus

Profit/(loss) after taxation	2,989	3,624
Depreciation	1,743	1,553
Investment property revaluation	(93)	(215)
Movements in deferred tax	(199)	186
Loss/(surplus) on disposal of long term assets	1,554	(4)
	5,994	**5,144**
Working capital movements relating to cash from operating activities		
(Increase)/decrease in accounts receivable	(790)	(592)
(Increase)/decrease in inventory	76	84
Increase/(decrease) in trade and other payables and employee entitlements	542	(235)
Increase/(decrease) in tax payable	209	324
Net cash flow from operating activities	**6,031**	**4,725**

Changes in liabilities arising from financing activities	2017 Opening	Cash Flows	Non Cash Changes			2018 Closing
			Acquisitions	Foreign Exchange	Fair Value	
	$000	$000	$000	$000	$000	$000
Long term borrowings	27,000	(4,000)	-	-	-	23,000
	27,000	**(4,000)**	**-**	**-**	**-**	**23,000**

4. Retained Earnings

	2018 $000	2017 $000
Opening balance	25,282	23,013
Profit after tax	2,989	3,624
Less dividends paid	(1,400)	(1,355)
Closing balance	**26,871**	**25,282**

5. Reserves

Reserves are represented by:		
Asset revaluation reserve	18,824	18,148
Cash flow hedge reserve	(77)	24
	18,747	**18,172**

5(a). Asset Revaluation Reserve

Opening balance	18,148	17,157
Revaluation increase	676	991
Closing balance	**18,824**	**18,148**

5(b). Cash Flow Hedge Reserve

Opening balance	24	(278)
Financial instrument hedging	(140)	419
Tax effect of financial instrument hedging	39	(117)
Closing balance	**(77)**	**24**

6. Share Capital

	2018 $000	2017 $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 $1,400,000 were paid during this financial year (2017 $1,335,200).

7. Operational Fixed Assets

2018	Plant and Equipment	Freehold Building	Wharves	Breakwater/ Channel	Improvements to Land	Freehold Land at Valuation	Total
Balance as at 1 July 2017							
At fair value						22,904	22,904
At cost	18,361	9,824	39,506	6,450	1,659	-	75,800
Accumulated impairment	(2,163)	(472)	(7,191)	-	(416)	-	(10,242)
Accumulated depreciation	(11,121)	(2,206)	(6,293)	(299)	(614)	-	(20,533)
	5,077	**7,146**	**26,022**	**6,151**	**629**	**22,904**	**67,929**
Additions	3,172	2	133	-	30	-	3,337
Revaluation	-	-	-	-	-	676	676
Reclassifications from investment property	-	-	-	-	-	-	-
Disposal - cost	(442)	-	-	-	-	-	(442)
Disposal - accumulated depreciation	340	-	-	-	-	-	340
Impairment	(1,608)	-	-	-	-	-	(1,608)
Depreciation expense	(847)	(238)	(615)	-	(43)	-	(1,743)
Movement to 30 June 2018	**615**	**(236)**	**(482)**	**-**	**(13)**	**676**	**560**
Balance as at 30 June 2018							
At fair value	-	-	-	-	-	23,580	23,580
At cost	21,091	9,826	39,639	6,450	1,689	-	78,695
Accumulated impairment	(3,771)	(472)	(7,191)	-	(416)	-	(11,850)
Accumulated depreciation	(11,628)	(2,444)	(6,908)	(299)	(657)	-	(21,936)
	5,692	**6,910**	**25,540**	**6,151**	**616**	**23,580**	**68,489**
Comparatives for 2017							
Balance as at 1 July 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**
Additions	757	-	(294)	494	419	-	1,376
Revaluation	-	-	-	-	-	991	991
Reclassifications from investment property	-	-	-	-	-	60	60
Disposal - cost	(1,044)	-	-	-	-	-	(1,044)
Disposal - accumulated depreciation	1,043	-	-	-	-	-	1,043
Depreciation expense	(664)	(241)	(612)	-	(36)	-	(1,553)
Movement to 30 June 2017	**92**	**(241)**	**(906)**	**494**	**383**	**1,051**	**873**
Balance as at 30 June 2017							
At fair value	-	-	-	-	-	22,904	22,904
At cost	18,361	9,824	39,506	6,450	1,659	-	75,800
Accumulated impairment	(2,163)	(472)	(7,191)	-	(416)	-	(10,242)
Accumulated depreciation	(11,121)	(2,206)	(6,293)	(299)	(614)	-	(20,533)
	5,077	**7,146**	**26,022**	**6,151**	**629**	**22,904**	**67,929**

Operational land held by the company has been independently valued as at 30 June 2018 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.

In May 2018, directors approved the purchase of a new tug to replace the Tug *Aoraki* which will be sold. Tug *Aoraki* is classified as held for sale for $2,000,000 with the disposal of the tug expected to occur in December 2018 when the new tug is delivered. There was $1,608,000 (2017 nil) of impairment losses during the year. Operating fixed assets have been impaired because of a valuation report being completed on the Tug *Aoraki*. There are no operational fixed assets where title is restricted.

8. Port Related Investment Properties

	2018 $000	2017 $000
Opening balance	3,829	3,674
Revaluation increase	93	215
Reclassifications to property, plant and equipment	-	(60)
Closing balance	**3,922**	**3,829**
Investment properties are represented by:		
Land at valuation	3,922	3,829
Building at valuation	-	-
	3,922	**3,829**

Investment property held by the Company was independently valued as at 30 June 2018 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

	2018	2017
Trade debtors	2,312	1,848
GST	-	-
Prepayments	1,082	756
	3,394	**2,604**

Trade debtors are shown net of impairment losses arising from the likely non payment of a small number of customers. As at 30 June 2018 all overdue receivables had been assessed for impairment and appropriate provisions applied. The ageing of receivables are as follows:

	2018			2017		
	Gross $000	Impairment $000	Net $000	Gross $000	Impairment $000	Net $000
Not past due - under 30 days	1,532	-	1,532	1,733	-	1,733
Past due - 30 to 60 days	643	-	643	82	-	82
Past due - 60 to 90 days	62	-	62	43	-	43
Past due - over 90 days	86	(11)	75	1	(11)	(10)
	2,323	**(11)**	**2,312**	**1,859**	**(11)**	**1,848**

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:

	2018 $000	2017 $000
Balance as 1 July	11	11
Additional provisions made during the year	-	134
Trade debtors written off during period	-	(134)
Balance as 30 June	**11**	**11**

10. Money Market Loans

Current facility ends as follows:		
Less than one year	23,000	2,000
One to two years	-	25,000
Two to three years	-	-
	-	-
	23,000	**27,000**

Money Market

The company has arranged money market facilities with Bank of New Zealand for a maximum amount of $25.5 million (2017 $27.5 million). The $25.5 million facility ends in 2019. The facility is able to be renewed at the discretion of PrimePort Timaru Limited and therefore is shown as a term liability in the Statement of Financial Position. To date $23.0 million has been drawn. Maturity dates of interest rate instruments within the facilities are:

Within one year	16,000	15,000
One to two years	3,000	5,000
Two to three years	4,000	3,000
Three to four years	-	4,000
Four to five years	-	-
	23,000	**27,000**

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 $8,150,466.

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 $25.5 million (2017 $27.5 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 $23.0 million of money market borrowings at reporting date (2017 $27.0 million).

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 $11.0 million was at call (2017 $15.0 million).

As at balance date six swaps for a total of $24.0 million (2017 $17.0 million) have been entered to manage interest rate fluctuation risks including three swaps that are forward starting (indicated by an *) below. 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)	
	%	2018 $000	2017 $000	2018 $000	2017 $000
Swap maturity dates					
October 2018	2.88	5,000	5,000	(14)	(47)
December 2019	3.00	3,000	3,000	(39)	(40)
February 2021	3.13	4,000	4,000	(92)	(64)
October 2024*	2.64	5,000	5,000	31	200
December 2026*	3.44	3,000	-	(60)	-
February 2027*	3.49	4,000	-	(43)	-
		24,000	**17,000**	**(218)**	**49**

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 2018 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.

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 $5,848,000 (2017 $253,000). 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 in the 2018 financial year to purchase a tug in United States dollars for delivery in December 2018. PrimePort's treasury policy provides that purchases of items in foreign currency with an equivalent at spot rate greater than NZ$250,000 are to be hedged.

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

	2018 $000	2017 $000
Financial assets and liabilities		
The carrying amount of financial assets and liabilities are as follows:		
Cash & cash equivalents	1,828	2,548
Trade debtors	2,312	1,848
GST	-	-
Derivative financial instruments	-	156
Total loans and receivables	**4,140**	**4,552**
Trade and other payables	3,158	859
GST	408	219
Money market loans	23,000	27,000
Derivative financial instruments	19	123
Total financial liabilities measured at cost	**26,585**	**28,201**

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 10.45% per annum (2017 10.45%). This is a floating rate set by the Bank.

13. Trade and Other Payables

	2018 $000	2017 $000
Trade creditors	1,689	157
Other accrued expenses	1,469	702
	3,158	**859**

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	180	183
Accrued leave provision	369	404
Long service provision	34	5
Sick leave provision	15	12
	598	**604**

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 $700,000 (2017 $677,600) was paid to Timaru District Holdings Limited during this financial year. During the year PrimePort Timaru Limited leased land and buildings from Timaru District Holdings Limited. This amounted to $58,862 including outgoings (2017 $57,429). Other services amounted to nil (2017 $234).

Port of Tauranga Limited is a shareholder of PrimePort Timaru Limited. A dividend of $700,000 (2017 $677,600) was paid to Port of Tauranga Limited during this financial year. During the year PrimePort Timaru Limited purchased services from Port of Tauranga Limited, that amounted to $29,635 (2017 $336).

PrimePort Timaru Limited provided services to 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. The services amounted to $235 (2017 $991) and nil (2017 $104) respectively. During the year PrimePort Timaru Limited leased land to Odey Fishing Company Limited, a family business of Mr D J Odey. The lease amounted to $5,000 (2017 $5,000). Other services amounted to $9,254 (2017 $8,904).

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 $1,250,000 (2017 $1,250,000). Other services amounted to $1,934,329 (2017 $1,879,716).

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. The services amounted to $112,739 (2017 $91,507) and $3,478 (2017 $6,523) respectively. Mr N J G Donaldson is Finance Manager of PrimePort Timaru Limited and also a director of Parr and Company Limited. During the year PrimePort Timaru Limited purchased services from Odey Fishing Company Limited, a family business of Mr D J Odey, that amounted to nil (2017 $1,600). During the year PrimePort Timaru Limited purchased services from City Care Limited, a company in which Mr C N O Van Florenstein Mulder is Chief Executive Officer and also a director of PrimePort Timaru Limited. The services amounted to $40,405 for the year.

During the year PrimePort Timaru Limited purchased services from the Timaru District Council. The services amounted to $185,895 (2017 $170,824) of total operating expenses. A large percentage of this relates to rates.

During the year PrimePort Timaru Limited purchased services from Timaru Container Terminal Limited. The services amounted to $2,768 (2017 $10,060). The outstanding balances owed by related parties at 30 June 2018 are:

Timaru Container Terminal Limited	$208,508 (2017 $214,912)
Parr and Company Limited	nil (2017 $90)
Odey Fishing Company Limited	$2,593 (2017 $2,560)

The outstanding balances owed to related parties at 30 June 2018 are:

Timaru District Council	$3,130 (2017 $4,451)
Port of Tauranga Limited	$29,635 (2017 nil)
Timaru District Holdings Limited	$2,836 (2017 $4,739)
Parr and Company Limited	$575 (2017 $3,561)
City Care Limited	$9,227

These balances have been paid since balance date. No related party debts have been written off or forgiven during the year (2017 nil).

Total key management personnel compensation totalled $1,372,946 (2017 $1,428,804). This included salaries and other short-term employee benefits $1,332,638 (2017 $1,395,033), superannuation benefits $40,309 (2017 $33,771) and termination benefits of nil (2017 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 (2017 nil).

The following contingent liability exists at balance date resulting from the Seabourn Encore collision on 12 February 2017 (2017 $1.850 million).

The contingent liability relates to the Seabourn Encore cruise liner, which broke its mooring and collided with the Milburn Carrier II at PrimePort on 12 February 2017.

The total estimated cost for which PrimePort should note as a contingent liability is $1.850 million plus an as yet unsubstantiated or formulated claim for consequential loss relating to loss of reputation. Any reimbursement is fully insured through the TT Club, one of the world's leading P&I Clubs (Insurer).

The outflow is expected to occur within the next two years however this is subject to litigation between the parties as at this stage PrimePort has not admitted liability and if proceedings are commenced there will be a contributory negligence claim against the Seabourn Encore.

Reimbursement by the TT Club is extremely high due to the reputation and financial standing of the TT Club and it has been confirmed to PrimePort that TT Club will reimburse all claims and costs. This has been advised to PrimePort by P&I Services Limited, the New Zealand Agent for the TT Club.

The financial effect on PrimePort is that the TT Club have already paid 90% of all legal costs to date and it is expected that the only financial outlay will be a $30,000 excess/deductible that needs to be paid by PrimePort.

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 $2,656,000 (2017 $2,735,000). The 2018 balance represents the capital investment at balance date associated with the new tug, security infrastructure upgrades to No. 1 Extension Wharf and log yard, hopper upgrades and wharf and bollard improvements.

18. Commitments

	2018 $000	2017 $000
Capital commitments	6,380	258

The commitments relate to a new tug and other plant and equipment during the financial year (2017 $258,000).

	2018 $000	2017 $000
Operating lease commitments		
Non cancellable operating lease payables:		
Not later than 1 year	24	34
Later than 1 year but not later than two years	-	22
Later than 2 years but not later than five years	-	-
Later than 5 years	-	-
	24	**56**

Operating lease commitments are based on current rentals being paid.

19. Inventory

Inventory includes consumable stocks, timber and fuel. Inventory is measured using FIFO. 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

	2018 $000	2017 $000
Port related investment rentals	4,749	4,500
Other property rentals	-	41
	4,749	**4,541**

Yields currently range from 7-7.25% on freehold land value determined at the time of rent review for port related investment land leases. Leases are a range of land and buildings to a number of customers. A number of leases include rights of renewal for further periods. Ground lease terms and conditions vary between 1 year to 25 years. Direct operating expenses relating to port related investment properties amounts to $278,000 (2017 $147,000).

	2018 $000	2017 $000
Operating lease receivables		
Non cancellable operating lease receivables:		
Not later than one year	2,369	1,963
Later than one year but not later than two years	1,815	1,608
Later than two years but not later than five years	4,620	4,675
Later than five years	8,893	10,397
	17,697	**18,643**

21. Capital Management

PrimePort's capital is its equity, which comprises of issued shares, retained earnings, hedge reserve and revaluation reserves. Equity is represented by net assets. Section 5 of the Port Companies Act 1988 states that the principal objective of every port company shall be to operate as a successful business. PrimePort'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 2018 (2017 nil). Included in staff expenses are employer contributions for employee superannuation funds. Payments for the year amounted to $248,402 (2017 $205,560).

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 2018

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 his 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 2018, 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 2018; 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 28 August 2018. This is the date at which our opinion is expressed.

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

Basis for our opinion

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

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

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

Responsibilities of the Board of Directors for the financial statements

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

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

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

The Board of Directors' responsibilities arise from the Port Companies Act 1988 and the Companies Act 1993.

Responsibilities of the Auditor for the audit of the financial statements

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

Reasonable assurance is a high level of assurance, but it 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.

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

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, 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 one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty

exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

- We evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Our responsibilities arise from the Public Audit Act 2001.

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 1 to 14 and 40 to 44, but does not include the financial statements, and our auditor's report thereon.

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

Independence

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

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

Ian Lothian

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

Tug *Te Maru* passing the *Buffalo* on No. 2 Wharf.

Container vessel on departure.

Statutory Information for the Year Ended 30 June 2018

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 AW Baylis and Mr IR Fitzgerald resigned as directors. Mr SG Gray and Mr CNO Van Florenstein Mulder were appointed to the Board in October 2017 and January 2018 respectively.

Directors and Remuneration – Authorised and Paid Directors Fees

A.W. Baylis	$8,000
I.R. Fitzgerald	$17,000
R.H. Gower (Chairman)	$67,000
S.G. Gray	$29,000
D.J. Odey	$34,000
D.A. Pilkington	$34,000
A.P. Reynish	$20,000
C.N.O. Van Florenstein Mulder	$17,000

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 I. R. Fitzgerald

Chairman	Ngati Apa Ki Te Ra To Investments Ltd
Chairman	Matavai Niue
Chairman	Niue Development Bank
Chairman	NZ Customs Joint Border Management Project
Chairman	Telecom Niue
Director	Public Trust
Director	Burleigh Evatt Ltd
Director	Timaru District Holdings Ltd
Member	Land Information NZ ASaTS Project
Member	University of Waikato Council
Member	Ministry of Foreign Affairs & Trade Audit & Risk Committee

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 **
Director	New Zealands Best Food & Beverage Ltd
Shareholder	Gower Management Group Ltd
Shareholder	Mitsui Credit Ltd
Shareholder	Arno Investments Ltd
Shareholder	Roger Gower & Associates Ltd
Shareholder	Quintessential Life Designs Ltd**
Shareholder	New Zealands Best Food & Beverage Ltd

Mr S. G. Gray

Director	Quality Marshalling Ltd
Director	Coda GP Ltd
Director	Timaru Container Terminal Ltd
Director	Port of Tauranga Trustee Company 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
Family Business	Odey Fishing Company Ltd

Mr D. A. Pilkington

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

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 C. N. O. Van Florenstein Mulder

Chief Executive	City Care Ltd
Director	Habitat for Humanity (Christchurch) Ltd
Trustee	VFM Family Trust

** Includes Subsidiary Companies

(B) Specific Disclosures

Nil.

(C) Directors' and Officers Liability Insurance

The company has insured all its directors and officers against liabilities to other parties (except the company or a related party of the company) that may arise from their positions as directors and officers. 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:

Remuneration	No. of Employees
$360,001 - $370,000	1
$270,001 - $280,000	1
$240,001 - $250,000	1
$190,001 - $200,000	1
$180,001 - $190,000	1
$170,001 - $180,000	2
$160,001 - $170,000	1
$150,001 - $160,000	2
$130,001 - $140,000	2
$120,001 - $130,000	1
$110,001 - $120,000	6
$100,001 - $110,000	2

Donations

During the year the company made donations of $11,350.

Auditors' Remuneration

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

	Audit of the Financial Statements
PrimePort Timaru Limited	$59,856

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 $1,400,000 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 – termination of a container shipping service meant that our vessel target was not obtained.*
- *The after tax earnings per share, return on total assets and return on shareholders funds objectives were not met mainly because of increased dredging expenditure and the impairment of operational fixed assets as a result of a valuation report being completed on the Tug Aoraki.*
- *Lost time injury frequency rate – staff and management remain committed to maintaining high safety standards. The percentage increase relates to four 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	1,580,000	Yes
Vessel Arrivals	506	No
(b) To manage and operate PrimePort Timaru Limited to enhance shareholder wealth through continuously improving performance.		
Earnings (after tax) per share	$0.37	No
Dividends (proposed) per share	$0.00	Yes
Net Assets per share	$6.16	Yes
Return (after tax) on total assets	3.83%	No
Return (after tax) on shareholders funds	5.98%	Yes
Ratio of shareholders funds to total assets	0.64	Yes
(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** *Resigned 19 October 2017*
I. R. Fitzgerald	**Director** *Resigned 31 December 2017*
R. H. Gower	**Chairman**
S. G. Gray	**Director**
D. J. Odey	**Director**
D. A. Pilkington	**Director**
A. P. Reynish	**Director**
C. N. O. Van Florenstein Mulder	**Director**

Shareholders as at 30 June 2018

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 7910
New Zealand

PO Box 544
Timaru 7940
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. P. Beeby	**Operations Manager**
T. Cooper	**Infrastructure Manager**
K. J. Elstone	**Health & Safety Manager**
G. C. Bicknell	**Marine Manager**

Solicitors

Buddle Findlay – Christchurch

Oceanlaw New Zealand – Nelson

Bankers

Bank of New Zealand

The Directors are pleased to present the Annual Report of PrimePort Timaru Limited for the year ended 30 June 2018.

For and on behalf of the Board of Directors.

Roger Gower
Chairman
28 August 2018

Steve Gray
Director
28 August 2018


Our Mission, Customers First.
PRIMEPORT
TIMARU

PrimePort Timaru Annual Report

2018

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PrimePort Timaru