PrimePort Timaru Annual Report

2019

Tug *Te Maru* attached to a fertiliser vessel *Nong Lyla* on arrival.

Chairman and Chief Executive's Review 2018/2019

Highlights

PrimePort has been making good progress with its development plans outlined a year ago.

Roger Gower
Chairman

Phil Melhopt
Chief Executive

The capital expenditure is in line with the plan along with an extensive programme of repairs and maintenance for its key wharf assets.

This strategic renovation will continue for some time as the Port's capability, capacity and resilience are improved as we develop a sustainable business for the company, its stakeholders and the community. These plans help ensure PrimePort is able to service its customers and the wider community in an economically and environmentally sustainable way.

As we outlined:

- $2 million project to widen the shipping channel by making a 45 metre reduction of the inner breakwater and associated dredging was completed during the year.
- We took delivery of a new $8 million tug, Tug *Hinewai*. The 60 tonne bollard pull tug is a significant addition to our marine fleet, improving safety and capability as the ships we handle get bigger. She joins our 16 metre Pilot Launch *Kiwa*, delivered in 2017.
- The channel widening and new tug have enabled us to handle the largest container ships calling in the South Island, like Maersk's Rio Class ships. This class of vessel is capable of carrying around 5,900 TEUs[1] and can now safely access the Port; adding Timaru as a weekly call on the Southern Star Service, connecting South Canterbury shippers with South East Asia, Africa and Europe, through our hub at the Port of Tauranga.
- Significant works on No. 1 Wharf are due for completion before the summer cruise season, with five sets of on-shore storm bollards being installed, as well as renovations to piles, beams, fenders and the deck. Commissioning following the extensive rebuild will enable the company to handle bulk cargoes as well as cruise at the wharf, relieving congestion at our other wharves, in particular No. 1 Extension Wharf.
- Planning and design is underway for pile strengthening of the North Mole Wharf, and replacement of its timber deck with concrete. This will improve the container wharf's capacity and extend its life for another two decades.
- The plan to seal four hectares of the existing log storage yard is at the design stage. This project will make log storage and handling, more operationally efficient, improve safety and help ensure we can meet international and New Zealand biosecurity regulations for pathogens, organic matter and insect contamination.

A significant new customer, Timaru Oil Services Limited is constructing a fuel tank farm adjacent to the Port on land owned by our shareholder Timaru District Holdings Limited. This project is due for completion next year and is widely anticipated by the region as it will add the first new and additional fuel capacity to the market for several decades.

We have undertaken a feasibility study 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 Port's future traffic. The plan is to build the wharf to the latest seismic and hydrological standards which will add to the resilience and sustainability of the Port in the event of major seismic events. As a lifeline provider this is an essential component of the region's civil defence capability. The completed project will cost approximately $75 million and will require additional debt funding.

[1] TEUs = 20 foot equivalent units (a standard measure of shipping containers)

PrimePort Timaru's Leadership Team.

Our People

PrimePort's team is small and highly skilled. Our workforce numbers 56 full time employees – one more than last year – and staff turnover is very low. We thank our staff for their dedication, commitment and for the high level of service they provide our customers and stakeholders.

We appointed a new Port Engineering Manager to the senior leadership team, reflecting the ongoing investment in our infrastructure and our development plans for the future. Ben Kleinjan joined PrimePort in August 2018 from Opus International Consultants Limited. While at Opus, Ben provided asset inspections and structural assessments of PrimePort's wharf structures, so he already had a significant understanding of our business.

PrimePort has a strong health and safety culture, shared with other Port Users through our Port Users Health & Safety Forum. Despite the focus on injury prevention, we still had a disappointing five lost time injuries during the 12 month period – one more than last year. All of the injuries were classed as non-serious and involved slips, trips and musculoskeletal injuries. Increasing health and safety engagement among staff, contractors and all Port Users is a top priority.

Roger Gower
Chairman

Steve Gray
Director

Phil Melhopt
Chief Executive

Nick Donaldson
Finance Manager

Damon Odey
Director

David Pilkington
Director

Kevin Beeby
Operations Manager

Ben Kleinjan
Port Engineering Manager

Tony Reynish
Director

Onno Mulder
Director

Steve Wills
Health, Safety & Security Manager

Grant Bicknell
Marine Manager

Bulk vessel unloading fertiliser on the North Mole.

Our Financial Performance

Operating revenue increased to $22.9 million a 3.1% increase on the previous year.

Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) on adjusted profits (after impairment and the gains and losses on operational fixed asset disposal) was $8.3 million, which was similar to the previous year.

Growth in logs, marine recoveries and other revenue led to an operating revenue increase of 3.1% to $22.9 million for the year to June 2019.

As PrimePort continues to build its capability and capacity, operational expenditure increased in line with the higher spending on infrastructure repairs and maintenance. Operating expenditure, excluding impairment costs, increased 4.2% to $17.3 million for the year. This led to a Net Profit After tax of $4.0 million.

Total equity increased 7.2% to $58.0 million. Total assets increased 10.7% to $90.0 million. These included PrimePort's new Tug *Hinewai*, the widened shipping channel and the value of our old Tug *Aoraki*, which has since been sold.

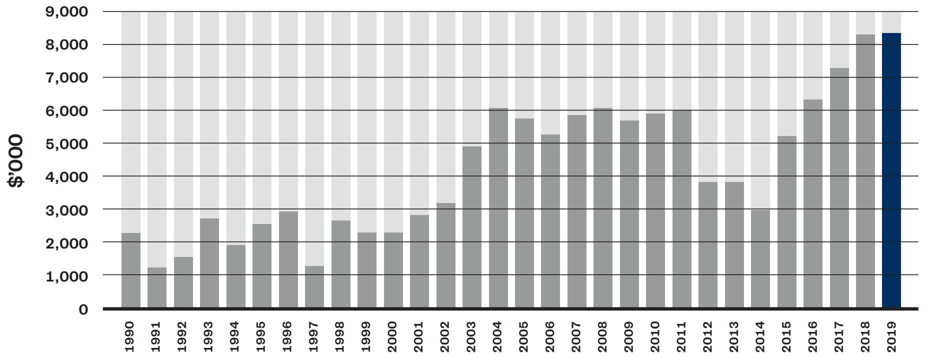
A dividend of $1.3 million from last year's profits was paid to our shareholders, Timaru District Holdings Limited and Port of Tauranga Limited.

EBITDA
1%
TO
8.340 MILLION

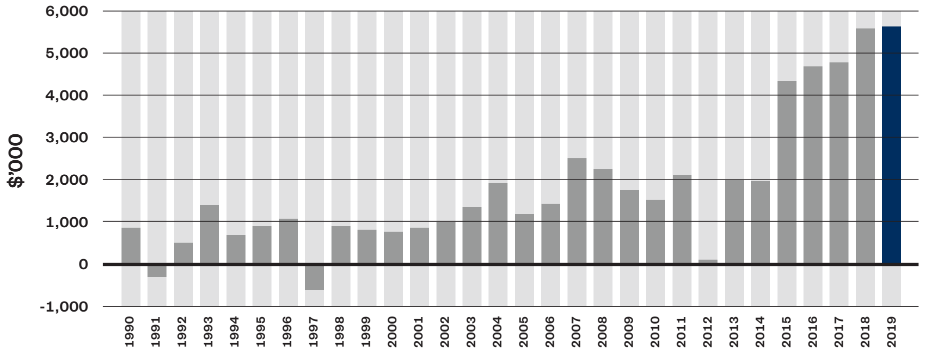
AFTER TAX PROFIT
35%
TO
4.042 MILLION

TOTAL EQUITY
7%
TO
57.956 MILLION

TOTAL ASSETS
11%
TO
90.208 MILLION



EBITDA Using Normal Port Operating Profits



Normal Port Operating Profits

Our Operations

Cargo Trends

Bulk cargo volumes reached 1.73 million tonnes in line with last year's volume. Log exports rose 6.4% on the previous year to 523,000 jas m³. Container volumes were down slightly but a new service is expected to boost numbers in the coming year.

Bulk cargo volumes remained consistent with the previous year despite a 9% decrease in ship visits to 436 over the year.

The increase in log exports was the main driver of the export trade and fertiliser imports also increased.

A good grass-growing season in the mid and south Canterbury regions led to a drop in stock feed imports. Cement volumes through Holcim's cement terminal, opened in 2016, were down slightly on last year.

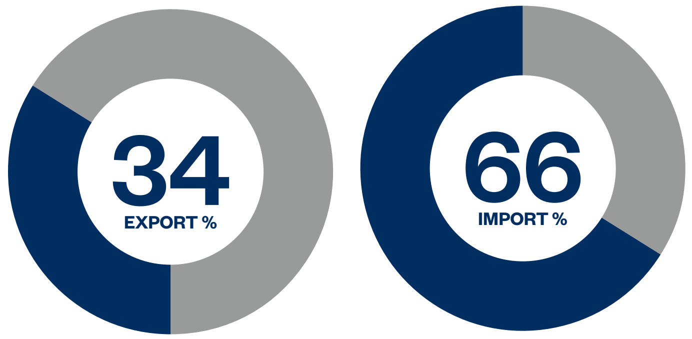
Timaru Container Terminal saw a small downturn in volumes, reducing by 9,800 TEUs to 79,384 TEUs following the withdrawal of Maersk's Tasman Star Service in 2018. Container volumes are expected to grow in the year ahead with the arrival of the Southern Star Service, and an increase in calls on Maersk's OC1/USA service from fortnightly to weekly.

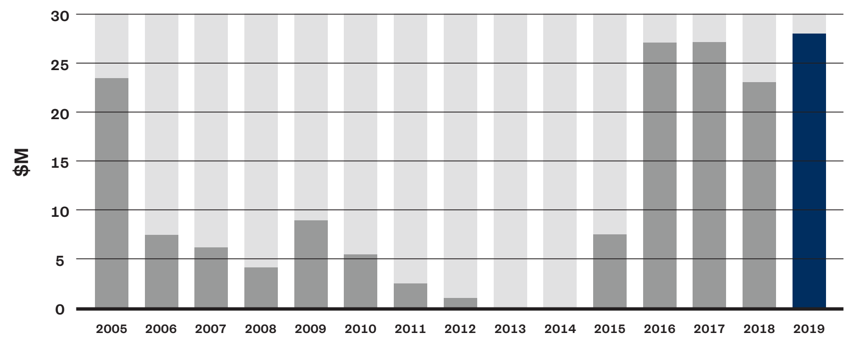
There were no cruise ship visits during the summer, while we upgraded No. 1 Wharf following a safety review. The review was prompted by an incident in 2017 where a passenger vessel broke its moorings in high winds and collided with a cement carrier.

There are four cruise ships booked to visit in the 2019/2020 season once the upgrades are complete. Each will carry between 500 and 600 passengers.

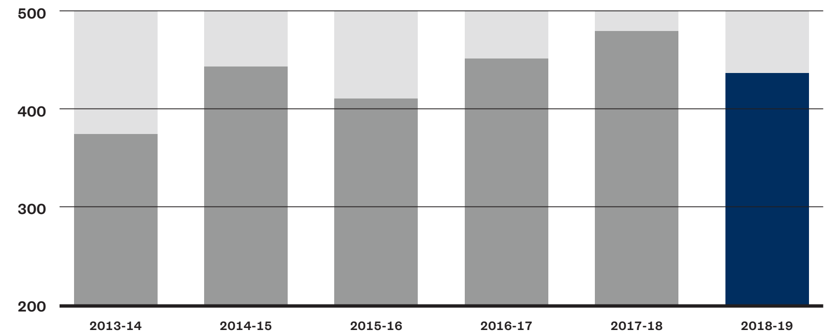
The 80 metre trawler *Dong Won 701*, extensively damaged by fire in April 2018, remains tied up at the Port as the ship's owners, insurer and the Environmental Protection Agency work through a disposal plan for the vessel. Meanwhile, the *MV Rangitira*, abandoned at the Port in July 2015, has been scrapped on site.

2019 Total Cargo Mix (Tonnes)

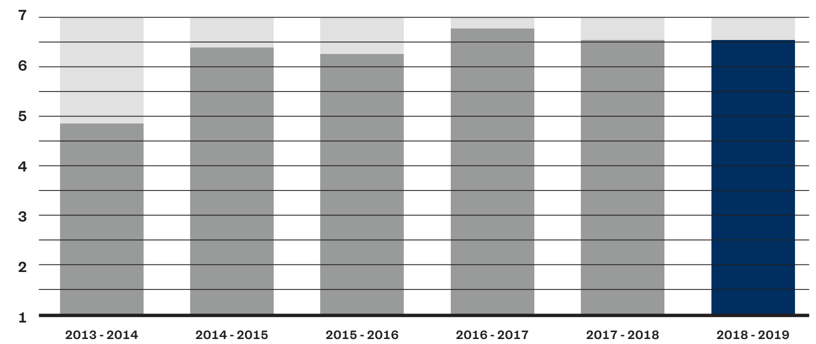




Borrowings

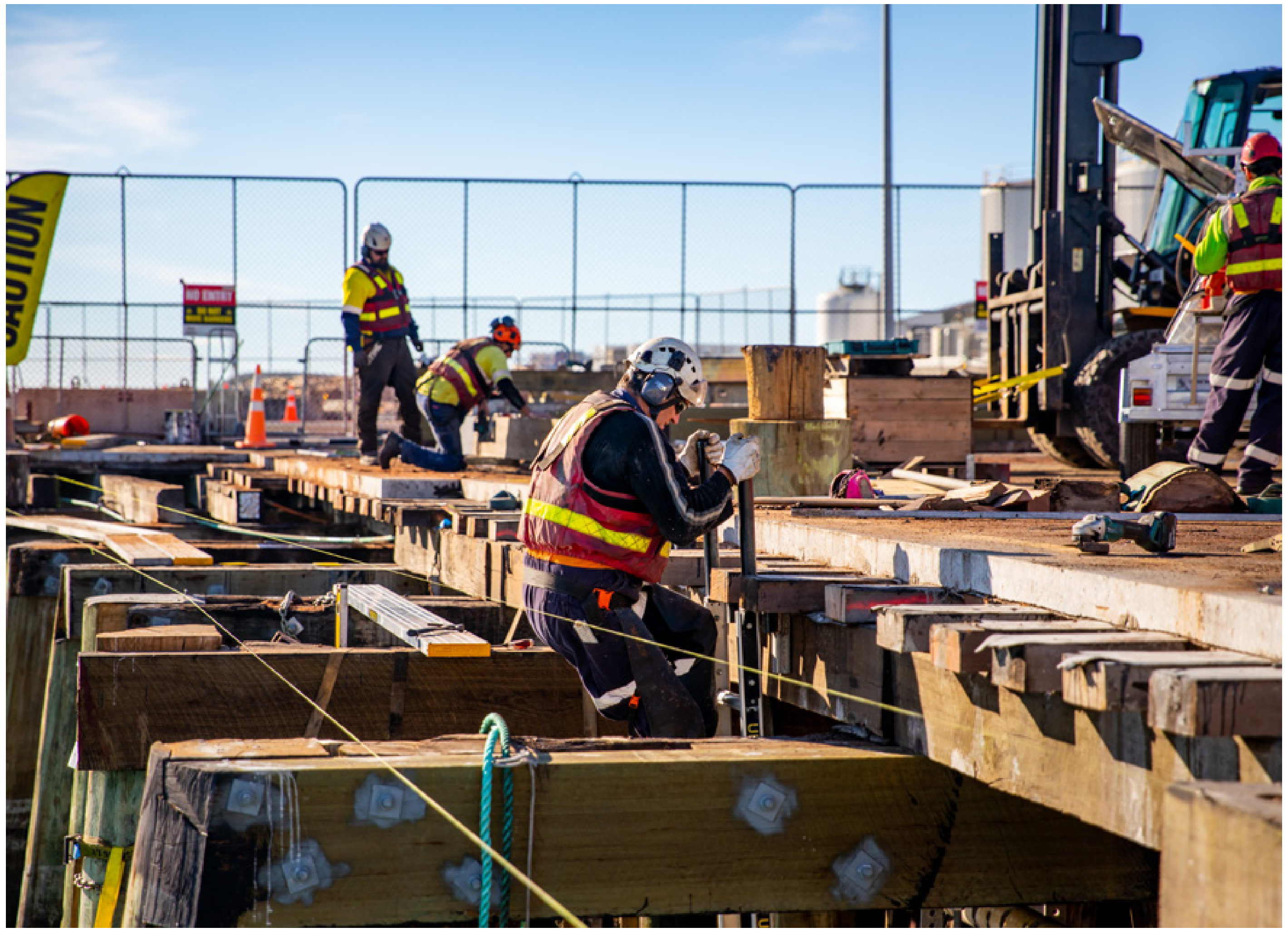


Ship Numbers



Ships Gross Registered Tonnes (Millions)

PrimePort Timaru with The Hunter Hills in the background.



Workmen reconstructing No. 1 Wharf.

Our Property and Infrastructure

Our extensive repairs and maintenance programme continues apace to improve the longevity and resilience of our essential infrastructure.

The repairs and rebuild of No. 1 Wharf is due for completion before the summer cruise season, while planning and design is under way for pile strengthening of the North Mole Wharf, and replacement of its timber deck with concrete, to improve the container wharf's capacity and extend its life.

The Port's four bulk cargo hoppers were upgraded and two additional hoppers were commissioned during the year. The extra capacity will improve the efficiency of bulk cargo discharges.

GPK dredge deepening the North Mole inner berth pocket.

Competitors at the start of the PrimePort Ocean Swim.

Our Community

The region's hardy swimmers turned out for the fourth annual PrimePort Ocean Swim in January 2019. Around 80 competitors braved the sea for 1.5 km and 2.5 km races.

In February 2019, we opened No. 1 Extension Wharf for a family fishing day. It was a trip down memory lane for local fishers, who used to be able to cast a line from the Port's wharves before rules and regulations required security fencing.

One of the community's favourite events of the year, the PrimePort Christmas Parade, was another success and we are pleased to continue our support.

Thank you to our community, our customers, our suppliers, our shareholders, Port of Tauranga Limited and Timaru District Holdings Limited, and our dedicated staff for helping to make PrimePort a success.

We are confident of a bright future for PrimePort.

PrimePort Christmas Parade.

Container vessel *Rio De Janeiro* on departure.

PrimePort Timaru Limited

Statement of Comprehensive Income

for the year ended 30 June 2019

	Note	2019 $000	2018 $000
Operating revenue	20	**22,917**	**22,218**
Operating expenditure			
Staff		6,707	6,178
Port operating		6,142	5,721
Depreciation	7	1,711	1,743
Finance		1,018	970
Dredging		1,351	1,616
Impairment of operating fixed assets		-	1,608
Director fees		245	226
Operating leases		65	59
Audit services - audit		60	60
Loss on disposal of operational fixed assets		-	33
		17,299	**18,214**
Operating profit/(loss) before tax and port investment property revaluations		**5,618**	**4,004**
Port investment property revaluations	8	-	93
Profit /(loss) before tax		**5,618**	**4,097**
Taxation	2	(1,576)	(1,108)
Profit /(loss) for the year	3	**4,042**	**2,989**
Other comprehensive income			
Operating land revaluations	7	1,983	676
Financial instrument hedging	5	(1,162)	(140)
Income tax relating to financial instrument hedging	5	325	39
Other comprehensive income for the year		**1,146**	**575**
Total comprehensive income for the year attributable to equity holders		**5,188**	**3,564**

PrimePort Timaru Limited

Statement of Changes in Equity

for the year ended 30 June 2019

	Note	Issued Shares	Hedging Reserve	Revaluations	Retained Earnings	Total
Equity at the beginning of the year		8,450	(77)	18,824	26,871	54,068
Total comprehensive income for year attributable to equity holders		-	(837)	1,983	4,042	5,188
Distributions - dividends paid		-	-	-	(1,300)	(1,300)
Equity at the end of the year 2019	4+5+6	**8,450**	**(914)**	**20,807**	**29,613**	**57,956**
Comparatives for 2018						
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		-	(101)	676	2,989	3,564
Distributions - dividends paid		-	-	-	(1,400)	(1,400)
Equity at the end of the year 2018	4+5+6	**8,450**	**(77)**	**18,824**	**26,871**	**54,068**

PrimePort Timaru Limited

Statement of Financial Position

as at 30 June 2019

	Note	2019 $000	2018 $000
Equity			
Issued shares	6	8,450	8,450
Retained earnings	4	29,613	26,871
Reserves	5	19,893	18,747
Total equity		**57,956**	**54,068**
Represented by long term assets			
Operational fixed assets	7	82,473	66,489
Intangible assets	7	108	-
Operational fixed assets under construction	17	1,119	2,656
Port related investment properties	8	-	3,922
Deferred taxation	2	1,038	736
Total long term assets		**84,738**	**73,803**
Current assets			
Cash and cash equivalents		808	1,828
Trade and other receivables	9	2,313	3,394
Assets classified as held for sale	7	2,000	2,000
Inventory	19	349	434
Total current assets		**5,470**	**7,656**
Total assets		**90,208**	**81,459**
Term liabilities			
Money market loans	10	2,500	23,000
Derivative financial instruments	11	1,092	88
Current liabilities			
Money market loans	10	25,500	-
Trade and other payables	13	1,553	3,158
Employee entitlements	14	715	598
Tax payable/(receivable)		715	528
Derivative financial instruments	11	177	19
Total current liabilities		**28,660**	**4,303**
Total liabilities		**32,252**	**27,391**
Net assets		**57,956**	**54,068**

For and on behalf of the Board of Directors
26 August 2019

Roger Gower
Chairman

Steve Gray
Director

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

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PrimePort Timaru Limited

Statement of Cash Flows

for the year ended 30 June 2019

	Note	2019 $000	2018 $000
Cash flows from operating activities			
Sources			
Cash received from customers		23,063	21,912
Disbursements			
Payments to suppliers		(6,559)	(5,650)
Payments to employees		(6,573)	(6,363)
Net GST movements		(16)	128
Income tax		(1,366)	(1,098)
Finance cost payments		(1,019)	(983)
Dredging		(673)	(1,915)
		(16,206)	(15,881)
Net cash inflow from operating activities	3	**6,857**	**6,031**
Cash flows from investing activities			
Sources			
Proceeds from disposal of fixed assets		7	160
Disbursements			
Purchase of fixed assets		(11,584)	(1,511)
Total net cash used in investing activities		**(11,577)**	**(1,351)**
Cash flows from financing activities			
Sources			
Loans raised		7,000	-
Disbursements			
Loans repaid	3	(2,000)	(4,000)
Dividends paid		(1,300)	(1,400)
		(3,300)	(5,400)
Net cash from/(used) in financing activities		**3,700**	**(5,400)**
Net increase/(decrease) in cash held		**(1,020)**	**(720)**
Opening cash and cash equivalents balances		1,828	2,548
Closing cash and cash equivalents balances		**808**	**1,828**
Represented by			
Cash and cash equivalents		808	1,828

Workmen placing a beam on No. 1 Wharf.


Diver carrying out a pile inspection.

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

Notes to the Financial Statements

for the year ended 30 June 2019

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 2019. The financial statements were authorised for issue by the Board on 26 August 2019.

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).

Standards and Interpretations Issued and Not Yet Adopted

PrimePort Timaru Limited has applied all new and revised accounting standards and interruptions that are effective in the year. This did not result in a material impact on the financial statements.

Other new and amended accounting standards and interpretations not yet effective that will be adopted by PrimePort Timaru Limited when they become mandatory include NZ IFRS 16 Leases. NZ IFRS 16 will be effective for the financial year ending 30 June 2020.

Changes in Accounting Policies and Disclosures

The accounting polices detailed have been applied in the preparation of these financial statements for the year ended 30 June 2019 and have been consistently applied throughout the year.

New Standards and Interpretations Adopted

In the current year, PrimePort Timaru Limited has applied NZ IFRS 9 Financial Instruments, effective 1 July 2018. NZ IFRS 9 replaces NZ IAS 39 and introduces new requirements for:

- the classification and measurement of financial assets and financial liabilities,
- impairment of financial assets, and
- general hedge accounting.

Details of these new requirements as well as their impact on the Company's financial statements are summarised below:

(i) Classification and Measurement of Financial Assets and Financial Liabilities

NZ IFRS 9 includes revised guidance on the classification and measurement of financial instruments. The standard divides all financial assets that are currently in the scope of NZ IAS 39 into two classifications, those measured at amortised cost and those measured at fair value.

As a result of the adoption of this standard, financial assets previously classified as loans and receivables are now classified as amortised cost. The Company has no financial assets measured at fair value. There is no impact on the Company's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Company does not have such liabilities.

(ii) Impairment of Financial Assets

NZ IFRS 9 requires a new impairment model with impairment provisions based on expected credit losses rather than incurred credit losses under NZ IAS 39. The expected credit loss model requires the Company to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. The simplified approach has been applied to trade receivables to determine expected credit losses. The transitional increase/decrease in the impairment allowance as a result of this change in accounting policy is immaterial.

(iii) General Hedge Accounting

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting. In accordance with NZ IFRS 9's transition provisions for hedge accounting, PrimePort Timaru Limited has applied the NZ IFRS 9 hedge accounting requirements from the date of initial application on 1 July 2018.

Apart from changes to the financial statement disclosures, the adoption of NZ IFRS 9 has had no impact on the financial position and/or financial performance of PrimePort Timaru Limited for the current and prior years.

In the current year, PrimePort Timaru Limited has applied NZ IFRS 15 Revenue from Contracts with Customers. NZ IFRS 15 introduces a 5-step approach to revenue recognition. The more prescriptive guidance has been added in NZ IFRS 15 to deal with specific scenarios. The new revenue recognition model recognises revenue either at a point in time or over time. It is based on the principle that revenue is recognised when control of a good or service transfers to the customer and is based on the fulfilment of performance obligations.

PrimePort Timaru Limited has applied the modified approach on transitioning to NZ IFRS 15 and has applied the standard on initial application being 1 July 2018. No material impact on these financial statements has been recognised as a result of adopting this standard.

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 three yearly. 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
Sidings and breakwaters	Indefinite
Capital dredging	Indefinite
Improvements	10 - 50 years
Wharves	20 - 70 years
Floating plant	10 - 15 years
Buildings	7 - 50 years
Plant, machinery and equipment	2 - 50 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.

PrimePort Timaru Limited invoices for services as they are performed. They are non interest bearing and have payment terms of generally 30 days from the date of invoice.

The provision for Expected Credit Loss represents impairment losses on contracts with customers.

PrimePort Timaru Limited measures the loss allowance for trade receivables at an amount equal to lifetime expected credit losses. The allowance is estimated by reference to past default experience of the debtor, an analysis of the debtor's current financial position as well as forward looking information. PrimePort Timaru Limited writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. None of the trade receivables that have been written off are subject to enforcement activities.

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 2018, 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 12 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 contracts with customers is recognised in revenue when control of a good or service transfers to a customer. The Port Operations revenue mainly consists of wharfage, marine services, wharf licence fees and maintenance services. Revenue is recognised over time as the services are produced by the Port and consumed by the customer simultaneously. Progress towards complete satisfaction is measured based on percentage of completion of the service performed, being quantity of goods moved for wharfage, time at berth for marine services, months provided of wharf availability (out of total months per the contract) for wharf licence fees and months of maintenance services provided for maintenance revenue (out of total months per the contract).

Wharf licence fee revenue is payable monthly in advance. All other revenue from contracts with customers has payment terms of within 30 days from the date of invoice.

Rental income from property is recognised in revenue on a straight line basis over the term of the lease (Note this is not revenue under NZ IFRS 15).

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.

Y. Intangible Assets

Intangible assets acquired by PrimePort Timaru Limited, which have a finite useful life are amortised on a straight line basis over their estimated useful lives of one to 10 years.

Subsequent to initial recognition, intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses.

Changes in Accounting Policies

Changes in accounting policies due to the new accounting standards have been applied in the preparation of these financial statements for the year ended 30 June 2019.

2. Taxation

	2019 $000	2018 $000
Profit/(loss) before taxation and port investment property revaluations	5,618	4,004
Port investment property revaluations	-	93
Profit before taxation	5,618	4,097
Tax at 28%	1,573	1,147
Plus/(less) tax effect of:		
Non-taxable income	-	(26)
Prior year adjustment	3	(13)
	1,576	**1,108**
Components of taxation:		
Current taxation	1,552	1,307
Deferred taxation	24	(199)
	1,576	**1,108**

Deferred tax asset/(liability)	Long Term Assets	Employee Entitlements	Other	Hedge Reserve	Total
Balance at 1 July 2017	501	171	(165)	(9)	498
Credit/(charge) to profit or loss	300	(14)	(87)	-	199
Credit/(charge) to comprehensive income	-	-	-	39	39
Balance at 30 June 2018	**801**	**157**	**(252)**	**30**	**736**
Credit/(charge) to profit or loss	(236)	26	186	-	(24)
Credit/(charge) to comprehensive income	-	-	-	326	326
Balance at 30 June 2019	**565**	**183**	**(66)**	**356**	**1,038**

	2019 $000	2018 $000
Imputation credit account		
Imputation credits available for use in subsequent reporting periods.	**3,552**	**2,493**

3. Reconciliation of Cash Flow with Operating Surplus

Profit/(loss) after taxation	4,042	2,989
Depreciation	1,711	1,743
Investment property revaluation	-	(93)
Movements in deferred tax	23	(199)
Loss/(surplus) on disposal of long term assets	(7)	1,554
	5,769	**5,994**
Working capital movements relating to cash from operating activities		
(Increase)/decrease in accounts receivable	1,081	(790)
(Increase)/decrease in inventory	85	76
Increase/(decrease) in trade and other payables and employee entitlements	(265)	542
Increase/(decrease) in tax payable	187	209
Net cash flow from operating activities	**6,857**	**6,031**

Changes in liabilities arising from financing activities	2018 Opening	Cash Flows	Non Cash Changes			2019 Closing
			Acquisitions	Foreign Exchange	Fair Value	
	$000	$000	$000	$000	$000	$000
Long term borrowings	23,000	(2,000)	7,000	-	-	28,000
	23,000	**(2,000)**	**7,000**	**-**	**-**	**28,000**

4. Retained Earnings

	2019 $000	2018 $000
Opening balance	26,871	25,282
Profit after tax	4,042	2,989
Less dividends paid	(1,300)	(1,400)
Closing balance	**29,613**	**26,871**

5. Reserves

Reserves are represented by:		
Asset revaluation reserve	20,807	18,824
Cash flow hedge reserve	(914)	(77)
	19,893	**18,747**

5(a). Asset Revaluation Reserve

Opening balance	18,824	18,148
Revaluation increase	1,983	676
Closing balance	**20,807**	**18,824**

5(b). Cash Flow Hedge Reserve

Opening balance	(77)	24
Financial instrument hedging	(1,162)	(140)
Tax effect of financial instrument hedging	325	39
Closing balance	**(914)**	**(77)**

6. Share Capital

Ordinary shares	8,450	8,450
Opening balance	8,450	8,450
Closing balance	**8,450**	**8,450**

All shares have equal voting rights and share equally in dividends and any distribution. Dividends of $1,300,000 were paid during this financial year (2018 $1,400,000).

7. Operational Fixed Assets

2019	Plant and Equipment	Freehold Building	Wharves	Breakwater/ Channel	Improvements to Land	Freehold Land at Valuation	Total
Balance as at 1 July 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**
Additions	9,321	23	-	2,308	92	-	11,744
Revaluation	-	-	-	-	-	1,983	1,983
Reclassifications from investment property	-	-	-	-	-	3,922	3,922
Reclassifications to assets held for sale	(2,000)	-	-	-	-	-	(2,000)
Disposal - cost	21	(53)	-	-	-	-	(32)
Disposal - accumulated depreciation	12	20	-	-	-	-	32
Impairment	-	-	-	-	-	-	-
Depreciation expense	(771)	(239)	(615)	(2)	(38)	-	(1,665)
Movement to 30 June 2019	**6,583**	**(249)**	**(615)**	**2,306**	**54**	**5,905**	**13,984**
Balance as at 30 June 2019							
At fair value	-	-	-	-	-	29,485	29,485
At cost	30,433	9,796	39,639	8,758	1,781	-	90,407
Accumulated impairment	(5,771)	(472)	(7,191)	-	(416)	-	(13,850)
Accumulated depreciation	(12,387)	(2,663)	(7,523)	(301)	(695)	-	(23,569)
	12,275	**6,661**	**24,925**	**8,457**	**670**	**29,485**	**82,473**
Comparatives for 2018							
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**

Operational land held by the company has been independently valued as at 30 June 2019 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 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 August 2019. There were no impairment losses during the year (2018 $1,608,000). There are no operational fixed assets where title is restricted.

7(a). Intangible Assets

	Computer Software $000	Total $000
Cost		
Balance at 1 July 2017	-	-
Additions	-	-
Balance at 30 June 2018	**-**	**-**
Additions	154	154
Balance at 30 June 2019	**154**	**154**
Accumulated Amortisation and Impairment Losses		
Balance at 1 July 2017	-	-
Amortisation expense	-	-
Balance at 30 June 2018	**-**	**-**
Amortisation expense	(46)	(46)
Balance at 30 June 2019	**(46)**	**(46)**
Carrying Amounts		
Net book value as at 30 June 2018	**-**	**-**
Net book value as at 30 June 2019	**108**	**108**

Amortisation is recognised on a straight line basis over the estimated useful lives of one to 10 years of finite intangible assets, from the date they are available for use.

8. Port Related Investment Properties

	2019 $000	2018 $000
Opening balance	3,922	3,829
Revaluation increase	-	93
Reclassifications to property, plant and equipment	(3,922)	-
Closing balance	**-**	**3,922**
Investment properties are represented by:		
Land at valuation	-	3,922
	-	**3,922**

Port related investment property has been reclassified to property, plant and equipment during the year due to all Port land used for operational purposes. Operational property held by the Company was independently valued as at 30 June 2019 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 operational 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

	2019 $000	2018 $000
Trade debtors	1,898	2,312
Allowance for impairment of receivables	-	-
Prepayments	415	1,082
	2,313	**3,394**

The company measures the provision for expected credit losses (ECL) using the simplified approach to measuring ECL, which uses a lifetime loss allowance for all trade receivables. The company determines lifetime expected credit losses using a provision matrix of trade receivables that is applied customers with shared credit risk characteristics. Groupings are based on customer, trading terms and ageing.

Trade debtors are shown net of impairment losses arising from the likely non payment of a small number of customers. As at 30 June 2019 all overdue receivables had been assessed for impairment and appropriate provisions applied. The ageing of receivables are as follows:

	2019			2018		
	Gross $000	Impairment $000	Net $000	Gross $000	Impairment $000	Net $000
Not past due - under 30 days	1,765	-	1,765	1,532	-	1,532
Past due - 30 to 60 days	116	-	116	643	-	643
Past due - 60 to 90 days	1	-	1	62	-	62
Past due - over 90 days	27	(11)	16	86	(11)	75
	1,909	**(11)**	**1,898**	**2,323**	**(11)**	**2,312**

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:

	2019 $000	2018 $000
Balance as 1 July	11	11
Balance as 30 June	**11**	**11**

10. Money Market Loans

Current facility ends as follows:		
Less than one year	25,500	23,000
One to two years	-	-
Two to three years	2,500	-
	28,000	**23,000**

Money Market

The company has arranged money market facilities with Bank of New Zealand for a maximum amount of $30.0 million (2018 $25.5 million). The $25.5 million facility ends in 2019. Subsequent to balance date PrimePort Timaru Limited has renewed the $25.5 million facility until September 2022 and therefore is shown as a current liability in the Statement of Financial Position at balance date. The $4.5 million facility ends in December 2021. To date $28.0 million has been drawn.

Maturity dates of interest rate instruments within the facilities are:

	2019 $000	2018 $000
Within one year	16,000	16,000
One to two years	4,000	3,000
Two to three years	-	4,000
Three to four years	3,000	-
Four to five years	5,000	-
	28,000	**23,000**

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 $30.0 million (2018 $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. Interest rate risk is the risk of financial loss, or impairment to cash flows in current or future periods, due to adverse movements in interest rates on borrowings or investments. The company uses interest rate derivatives to manage its exposure to variable interest rate risk by converting variable rate debt to fixed rate debt. The total nominal value of interest rate derivatives outstanding is $22.0 million. The average interest rate on interest rate derivatives is 2.90%.

There were $28.0 million of money market borrowings at reporting date (2018 $23.0 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 $13.0 million was at call (2018 $11.0 million).

As at balance date six swaps for a total of $22.0 million (2018 $24.0 million) have been entered to manage interest rate fluctuation risks including two swaps that are forward starting (indicated by an asterisk) 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)	
	%	2019 $000	2018 $000	2019 $000	2018 $000
Swap maturity dates					
October 2018	2.88	-	5,000	-	(14)
December 2019	3.00	3,000	3,000	(21)	(39)
February 2021	3.13	4,000	4,000	(119)	(92)
June 2023	1.71	3,000	-	(41)	-
October 2024	2.64	5,000	5,000	(313)	31
December 2026*	3.44	3,000	3,000	(373)	(60)
February 2027*	3.49	4,000	4,000	(414)	(43)
		22,000	**24,000**	**(1,281)**	**(218)**

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 2019 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.

The company recognises an allowance for the expected credit losses (ECL) for all financial assets. ECL are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the company expects to receive, discounted at an approximation of the original effective interest rate.

For trade receivables, the company applies a simplified approach in calculating ECL. Therefore, the company does not track changes in credit risk, but instead, recognises a loss allowance based on lifetime ECL at each reporting date. The company has established a provision matrix that is based on its historical credit loss experience.

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. PrimePort's treasury policy provides for currency management to be restricted to hedging underlying business exposures only. At balance date the principal or contract amounts of foreign currency forward exchange contracts were $388,500 (2018 $5,848,000). The carrying value asset/(liability) of the foreign currency forward exchange contracts shown in the Statement of Financial Position at year end was $12,000 (2018 $111,000).

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 January 2019. 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.

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in the cash flow hedge reserve to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in the Statement of Comprehensive Income.

The hedging ratio is 1:1 and is determined by the quantity of the hedging instrument and hedged item. The notional amount of the hedging instrument will match the designated amount of the hedged item.

Sources of hedge ineffectiveness are:

Material changes in credit risk that affect the hedging instrument but do not affect the hedged item.
Drawn liabilities that fall below the hedging amount, causing the hedge ratio to exceed 100%.

If the hedging instrument no longer meets the criteria for hedge accounting, expires, or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in the hedging reserve remains there until the highly probable forecast transaction, upon which the hedging was based, occurs. When the hedged item is a non financial asset, the amount recognised in the hedging reserve is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in the hedging reserve is transferred to the Statement of Comprehensive Income in the same period that the hedged item affects the Statement of Comprehensive Income.

	2019 $000	2018 $000
Financial assets and liabilities		
The carrying amount of financial assets and liabilities are as follows:		
Cash & cash equivalents	808	1,828
Trade debtors	1,898	2,312
Total loans and receivables	**2,706**	**4,140**
Trade and other payables	1,553	3,158
GST	319	408
Money market loans	28,000	23,000
Derivative financial instruments	177	19
Total financial liabilities measured at cost	**30,049**	**26,585**

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 4.72% per annum (2018 10.45%). This is a floating rate set by the Bank.

13. Trade and Other Payables

	2019 $000	2018 $000
Trade creditors	139	1,689
Other accrued expenses	1,414	1,469
	1,553	**3,158**

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	164	180
Accrued leave provision	468	369
Long service provision	39	34
Sick leave provision	44	15
	715	**598**

15. Related Party Transactions

Timaru District Holdings Limited is a shareholder of PrimePort Timaru Limited. Timaru District Holdings Limited is a wholly owned subsidiary of the Timaru District Council. A dividend of $650,000 (2018 $700,000) 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 $62,078 including outgoings (2018 $58,862). Other services amounted to nil (2018 nil).

Port of Tauranga Limited is a shareholder of PrimePort Timaru Limited. A dividend of $650,000 (2018 $700,000) 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 $35,532 (2018 $29,635).

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 $130 (2018 $235) and nil (2018 nil) 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 (2018 $5,000). Other services amounted to $4,606 (2018 $9,254).

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 (2018 $1,250,000). Other services amounted to $1,770,562 (2018 $1,934,329).

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 $174,530 (2018 $112,739) and nil (2018 $3,478) 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 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 $62,055 (2018 $40,405) for the year.

During the year PrimePort Timaru Limited purchased services from the Timaru District Council. The services amounted to $165,894 (2018 $185,895) 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 $2,658 (2018 $2,768).

The outstanding balances owed by related parties at 30 June 2019 are:

Timaru Container Terminal Limited	$209,648 (2018 $208,508)
Parr and Company Limited	$90 (2018 nil)
Odey Fishing Company Limited	$1,329 (2018 $2,593)
Port of Tauranga Limited	$1,651 (2018 nil)

The outstanding balances owed to related parties at 30 June 2019 are:

Timaru District Council	$3,860 (2018 $3,130)
Timaru District Holdings Limited	$2,414 (2018 $2,836)
City Care Limited	$6,287 (2018 $9,227)
Port of Tauranga Limited	$3,827 (2018 $29,635)
Parr and Company Limited	$10,979 (2018 $575)

These balances have been paid since balance date. No related party debts have been written off or forgiven during the year (2018 nil).

Total key management personnel compensation totalled $1,543,608 (2018 $1,372,946). This included salaries and other short-term employee benefits $1,497,784 (2018 $1,332,638), superannuation benefits $45,824 (2018 $40,309) and termination benefits of nil (2018 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 (2018 nil).
No contingent liabilities exist at balance date (2018 $1.850 million).

17. Operational Fixed Assets Under Construction

	2019 $000	2018 $000
Operational Fixed Assets Under Construction	**1,119**	**2,656**

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. The 2019 balance represents the capital investment at balance date associated with the concrete deck on No 1 Wharf, shore bollards on No 1 and No1 extension wharves, hopper upgrades and other wharf improvements.

18. Commitments

Capital commitments	**389**	**6,380**

The commitments relate to a new tug during the financial year (2018 $6,380,000).

Operating lease commitments		
Non cancellable operating lease payables:		
Not later than 1 year	41	24
Later than 1 year but not later than two years	41	-
Later than 2 years but not later than five years	29	-
	111	**24**

Operating lease commitments are based on current rentals being paid.

19. Inventory

	2019 $000	2018 $000
Inventory	**349**	**434**

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. Revenue

Port Operations	20,326	19,579
Port related investment rentals	-	2,552
Other property rentals	2,584	-
Gain on sale of assets	7	87
	22,917	**22,218**

Revenue from contracts with customers
The above revenue includes the following amounts, which are revenue from contracts with customers.

Revenue from port operational contracts	17,594	16,882
Revenue from maintenance recovery contracts	500	500
Revenue from licence agreements	2,232	2,197
	20,326	**19,579**

All revenue from contracts with customers is measured over time. No revenue is measured at point of time.

Rental revenue
Yields currently range from 7-7.25% on freehold land value determined at the time of rent review for port related 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 properties amounts to $242,000 (2018 $278,000).

Operating lease receivables		
Non cancellable operating lease receivables:		
Not later than one year	2,020	2,369
Later than one year but not later than two years	1,558	1,815
Later than two years but not later than five years	4,511	4,620
Later than five years	7,444	8,893
	15,533	**17,697**

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 2019 (2018 nil). Included in staff expenses are employer contributions for employee superannuation funds. Payments for the year amounted to $270,707 (2018 $248,402).

23. Events After Balance Date

On 31 July 2019 Tug *Aoraki* was sold with settlement to occur in August 2019.

Independent Auditor's Report

To the readers of PrimePort Timaru Limited's financial statements for the year ended 30 June 2019

The Auditor-General is the auditor of PrimePort Timaru Limited (the company). The Auditor-General has appointed me, John Mackey, 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 35, that comprise the statement of financial position as at 30 June 2019, 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 2019; 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 26 August 2019. 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 an 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 42 to 46, 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.

John Mackey
Audit New Zealand
On behalf of the Auditor-General
Christchurch, New Zealand


Log vessel being loaded on No. 1 Extension Wharf.

GPK dredge shortening the inner breakwater.


Pilot boarding an inbound container vessel.

Statutory Information for the Year Ended 30 June 2019

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

Apart from the changes associated with the two new accounting standards, NZ IFRS 9 Financial Instruments and NZ IFRS 15 Revenue from Contracts with Customers, all accounting policies detailed have been applied in the preparation of these financial statements for the year ended 30 June 2019 on a consistent basis throughout the year.

Auditors

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

Directors

There were no changes to the Board of Directors during the year.

Directors and Remuneration – Authorised and Paid Directors Fees

R.H. Gower (Chairman)	$69,000
S.G. Gray	$40,000
D.J. Odey	$34,000
D.A. Pilkington	$34,000
A.P. Reynish	$34,000
C.N.O. Van Florenstein Mulder	$34,000

Disclosure of Interest by Directors

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

(A) General Disclosures

Mr 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	RF Project Ltd
Director	New Zealand Food Innovation Auckland Ltd
Director	Roger Gower & Associates Ltd
Director	Clever Nutrition Ltd
Director	New Zealand's Best Food & Beverage Ltd
Director	Nord Trading Ltd
Director	Utility Security Ltd
Director	CER Trustee Company Ltd
Director	REC No. 2 Ltd
Director	REC No. 3 Ltd
Director	Rangitata Trustee Ltd
Director	Ika Nui Charters Ltd
Shareholder	Gower Management Group Ltd
Shareholder	Mitsui Credit Ltd
Shareholder	Arno Investments Ltd
Shareholder	Roger Gower & Associates Ltd
Shareholder	Clever Nutrition Ltd
Shareholder	New Zealand's Best Food & Beverage Ltd
Shareholder	CER Trustee Company Ltd
Shareholder	Rangitata Trustee Ltd
Trustee	Apprentice Training Trust

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

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

Mr C. N. O. Van Florenstein Mulder

Chief Executive	City Care 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
$370,001 - $380,000	1
$250,001 - $260,000	1
$240,001 - $250,000	2
$190,001 - $200,000	1
$170,001 - $180,000	1
$160,001 - $170,000	1
$150,001 - $160,000	2
$140,001 - $150,000	1
$130,001 - $140,000	4
$120,001 - $130,000	4
$110,001 - $120,000	4
$100,001 - $110,000	3

Donations

During the year the company made donations of $1,550.

Auditors' Remuneration

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

	Audit of the Financial Statements
PrimePort Timaru Limited	$60,529

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 $1,300,000 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:

- *Lost time injury frequency rate – staff and management remain committed to maintaining high safety standards. The percentage increase relates to five incidents that required periods off work.*

Objective/Outcome	Target	Achieved
(a) To manage and operate PrimePort Timaru Limited to enhance shareholder wealth through continuously improving performance.		
Earnings (after tax) per share	$0.39	Yes
Dividends (proposed) per share	$0.00	Yes
Net Assets per share	$6.64	Yes
Return (after tax) on total assets	3.83%	Yes
Return (after tax) on shareholders funds	5.90%	Yes
Ratio of shareholders funds to total assets	0.65	Yes
(b) 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
(c) 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

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**

Leadership Team

P. R. Melhopt	**Chief Executive**
N. J. G. Donaldson	**Finance Manager**
K. P. Beeby	**Operations Manager**
B.J. Kleinjan	**Port Engineering Manager**
S.A. Wills	**Health, Safety & Security Manager**
G. C. Bicknell	**Marine Manager**

Shareholders as at 30 June 2019

Timaru District Holdings Ltd **50%**

Port of Tauranga Ltd **50%**

Solicitors

Buddle Findlay – Christchurch

Oceanlaw New Zealand – Nelson

Auditors

Audit New Zealand for the Office of the Auditor-General

Bankers

Bank of New Zealand

Registered Office

Marine Parade
Timaru 7910
New Zealand

PO Box 544
Timaru 7940
New Zealand

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

The Directors are pleased to present the Annual Report of PrimePort Timaru Limited for the year ended 30 June 2019.

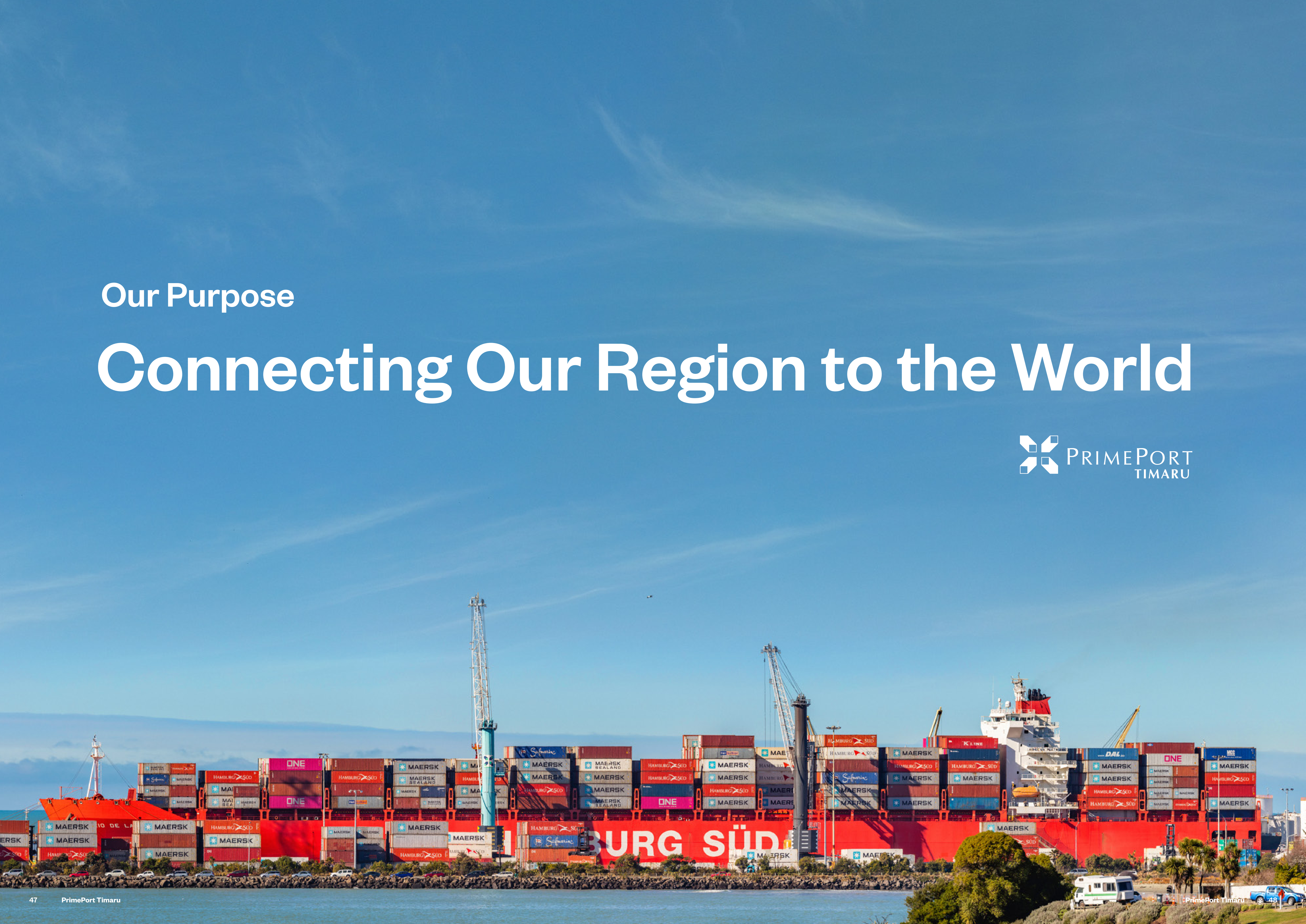
For and on behalf of the Board of Directors.

Roger Gower
Chairman
26 August 2019

Steve Gray
Director
26 August 2019

Our Purpose

Connecting Our Region to the World



PrimePort Timaru Annual Report

2019

PO Box 544
Timaru 7940
New Zealand
Telephone +64 3 687 2700
www.primeport.co.nz