Timaru District Holdings Limited

Statement of Intent

2019/20

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1 Preamble

Timaru District Holdings Limited (TDHL) is a council-controlled organisation as defined by Section 6 of the Local Government Act 2002.

This Statement of Intent sets out the overall intentions and objectives for TDHL for the period 1 July 2019 to 30 June 2020 and the two succeeding financial years.

TDHL contracts its administration from the Timaru District Council (the Council) and as such does not employ staff.

2 Objectives Of The Company

Section 59 of the Local Government Act 2002 requires that the principal objectives of TDHL are to:

a) achieve the objectives of its shareholder, both commercial and non-commercial, as specified in the statement of intent; and

b) be a good employer and promote a strong health and safety culture; and

c) exhibit a sense of social, environmental and cultural responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate or encourage these when able to do so; and

d) if the council-controlled organisation is a council-controlled trading organisation, conduct its affairs in accordance with sound business practice.

Mission Statement

To be a successful and growing business increasing the value of the Company and its return to its shareholder, while taking into account the special needs of the shareholder.

General objectives are: -

2.1 To maximise the returns from, and the value of, the subsidiary and associate and joint venture trading companies to the Council, as the shareholder in TDHL.

2.2 To ensure insofar as it is lawfully able, that the Statements of Intent of each of TDHL's subsidiaries and associates reflects the policies and objectives of the Council and TDHL in the area of activity or operation of that subsidiary or associate.

2.3 To monitor the activities of the companies, comprising the group, to ensure that the respective Statements of Intent are adhered to.

2.4 To keep the TDC informed of matters of substance affecting the group.

2.5 To ensure that regular reporting of results from the subsidiaries and associates occurs to the holding company.
2.6 To approve Statements of Intent, after reference to the Council, for each of TDHL's subsidiaries and associates through which the performance (particularly the financial performance) will be monitored, and to confer with each company on their long term strategic direction.
2.7 To undertake strategic asset purchases, partner with external parties, or assist future developments in the district.
2.8 To obtain a commercial return and build long term strategic value from the port property portfolio, but to have regard to working in conjunction with PrimePort to ensure operations contribute to the port business as far as practicable.

Specific Objectives for 2019/20 are:

2.9 To liaise with Alpine Energy Ltd and PrimePort Timaru Ltd and the other shareholders in these companies on the development of strategic options for the future of these companies.
2.10 To achieve a return on investment of 7% or greater on the leasable port property portfolio and ensure that all lease renewals are completed in a timely manner.
2.11 To review the TDHL investment portfolio for options to diversify and de-risk its exposure to any single industry.
2.12 To continue debt reduction subject to no major investments being undertaken.

3 Nature And Scope Of Activities To Be Undertaken

TDHL's business is that of an investor for the benefit of the district and to provide a commercial return to the Council.

Its investment portfolio includes:

Local companies providing significant economic and community benefits; specifically Alpine Energy Ltd – 47.5% shareholding, PrimePort Timaru Ltd – 50.0% shareholding and Hunter Downs Water Ltd - 6.9% shareholding.

Properties investments providing portfolio of investment properties including:

- Properties located in the vicinity of PrimePort Timaru that are targeted for leasing to port related operations to achieve an overall set rate of return; and
- Strategic properties such as the "Showgrounds" site on State Highway 1.

TDHL, with the approval of the Council, can also undertake developments of properties to benefit the district and company.

4 Governance

TDHL oversees the governance of the associate trading companies of Alpine Energy Ltd, and PrimePort Timaru Ltd through monitoring the individual company's compliance with their Statement of Intent (as per 2.6 above); regular monthly reporting against the company's budgets; regular reports on the property portfolio; and meetings between representatives of the companies and TDHL, at both Board and officer level.

5 Ratio Of Consolidated Shareholders' Funds To Total Assets

5.1 This ratio shows the proportion of total assets financed by shareholders funds.

5.2 TDHL will ensure that the ratio of Shareholders Funds to Total Assets remains above 25.00%.

5.3 For the purposes of this ratio shareholders' funds are defined as the paid-up capital plus any tax paid profits earned and less any dividends distributed to shareholders. They include undistributed profits, which have been accumulated to equity.

5.4 Total assets are defined as the sum of all current, fixed and investment assets of the group.

6 Statement Of Accounting Policies

TDHL is registered under the Companies Act 1993. The Company's accounting policies comply with the legal requirements of the Companies Act 1993.
The financial statements are prepared in accordance with the Financial Reporting Act 1993, and section 69 of the Local Government Act 2002.
Details of the current accounting policies and their application are contained in Appendix A.

7 Performance Targets (Parent)

The performance targets are based on the financial forecasts and the associated assumptions.
TDHL expects to have total comprehensive income of $9,297,000 and to pay an ordinary dividend of $2,750,000 for 2018/2019, increasing to $2.85m in 2019/20, $2.85m in 2020/21 and 2021/22.

	2017/18 Actual	2018/19 Forecast	2019/20 Forecast	2020/21 Forecast	2021/22 Forecast
Operating Surplus after Tax to Shareholders Funds (excl. investment revaluations)	8%	8%	7%	7%	7%
Net Assets per $ of share capital	10.05	10.81	11.53	12.27	13.03
Earnings per $ of share capital	8.54	8.51	8.23	8.41	8.61
Dividend per $ of share capital	2.65	2.75	2.85	2.85	2.85
Shareholder Funds to Total Assets	72%	74%	77%	80%	83%

8 Financial Forecasts

The financial forecasts are based on estimated revenue flows and estimated capital structures. The forecasts are based on the current operating environment and are subject to no major investments being undertaken.

Note: the financial forecasts are based on the latest PrimePort Timaru Ltd, and Alpine Energy Ltd financial forecasts available at the time.

	2017/18 Actual $000's	2018/19 Forecast $000's	2019/20 Forecast $000's	2020/21 Forecast $000's	2021/22 Forecast $000's
Property Revenue	2,054	2,462	2,516	2,562	2,608
Share of Associate Surplus	2,945	3,000	3,000	3,000	3,000
Other Revenue	6,261	5,532	5,523	5,539	5,534
Total Income	**11,260**	**10,994**	**11,039**	**11,101**	**11,142**
Expenses	2,605	2,279	2,561	2,380	2,140
Operating Surplus before Tax	**8,655**	**8,715**	**8,478**	**8,721**	**9,002**
Income Tax Expense	115	208	246	314	392
Operating Surplus after Tax	**8,540**	**8,507**	**8,233**	**8,408**	**8,610**
Investment Property Revaluations	5,687	790	806	822	838
Total Comprehensive Income	**14,227**	**9,297**	**9,039**	**9,230**	**9,448**
Dividend to TDC	2,650	2,750	2,850	2,850	2,850
Operating Surplus after Tax to Shareholders Funds (excl. investment revaluations)	**8%**	**8%**	**7%**	**7%**	**7%**
Share Capital	1,000	1,000	1,000	1,000	1,000
Retained Earnings	99,539	107,086	114,274	121,654	129,252
Total Shareholder Funds	**100,539**	**108,086**	**115,275**	**122,654**	**130,253**
Current Assets	4,788	6,909	7,292	6,850	6,610
Non-Current Assets	134,507	138,297	142,103	145,925	149,763
Total Assets	**139,295**	**145,206**	**149,395**	**152,775**	**156,373**
Current Liabilities	1,347	3,710	3,710	3,710	3,710
Non-Current Liabilities	37,409	34,159	30,659	27,659	24,659
Total Liabilities	**38,756**	**37,120**	**34,120**	**30,120**	**26,120**

Financial Projections

It is forecast that term debt within the company be repaid in each of the years. External debt is forecast to reduce by $11 million, over the 3 year period from 2019/20 to 2021/22. This is assuming that alternative investment opportunities necessitating funds are not required.

It is assumed that funds in excess of $3,000,000 will continue to be used for external debt repayments and this has been incorporated in the forecasts.

9 Reporting To Shareholder

The following information will be available to the Council based on an annual balance date of 30 June.

9.1 Draft Statement of Intent

By the 1st of March each year, the directors, deliver a draft Statement of Intent for the following financial year which fulfils the requirements of Section 64 of the Local Government Act 2002.

9.2 Completed Statement of Intent

By the 30th June each year the directors shall deliver to the shareholder the final Statement of Intent for the following financial year which fulfils the requirements of Section 64 of the Local Government Act 2002.

9.3 Quarterly Report

Within 40 days after the end of the quarter, the directors shall deliver to the shareholder an unaudited report containing the following information as a minimum in respect of the quarter under review: -

a) Statement of Comprehensive Revenue and Expense disclosing actual revenue and expenditure including a comparison of actual against budget, and comparative figures
b) Statement of Changes in Equity
c) Statement of Financial Position
d) Cashflow Statement
e) A commentary on the results for the quarter, together with a report on the outlook for the following quarter with reference to any significant factors that are likely to have an effect on TDHL's performance, including an estimate of the financial results for the year based on that outlook.

9.4 Half Yearly Report

Within two months after the end of the first half of each financial year, the directors shall deliver to the shareholder an unaudited report containing the following information as a minimum in respect of the half year under review:

a) A Statement of Comprehensive Income disclosing actual revenue and expenditure including a comparison of actual against budget, and comparative figures
b) A Statement of Changes in Equity
c) A Statement of Financial Position
d) A Cashflow Statement
e) A commentary on the results for the first six months, together with a report on the outlook for the second six months, with reference to any significant factors that are likely to have an effect on the company's performance, including an estimate of the financial results for the year based on that outlook.
f) Overview of business risks and risk management processes.

9.5 Annual Report

9.5.1 Within eight weeks after the end of each financial year, the directors shall deliver to the shareholder unaudited financial statements in respect of that financial year, containing the following information as a minimum: -

a) A Statement of Comprehensive Income disclosing actual revenue and expenditure including a comparison of actual against budget, and comparative figures
b) A Statement of Changes in Equity
c) A Statement of Financial Position
d) A Statement of Cashflow.

9.5.2 Within three months after the end of each financial year, the directors shall deliver to the shareholder, and make available to the public, an annual report and audited financial statements of that financial year, containing the following information as a minimum: -

a) A directors' report including a summary of the financial results, a review of operations, a comparison of performance in relation to objectives and any recommendation as to dividend;
b) A Statement of Comprehensive Income disclosing actual revenue and expenditure including a comparison of actual against budget, and comparative figures;
c) A Statement of Changes in Equity
d) A Statement of Financial Position
e) A Statement of Cashflow
f) Summarised list of Intercompany transactions for the year
g) A Statement of Objectives and Performance
h) An Auditor's report on the above statements and the measurement of performance in relation to objectives.

In addition to the formal reporting noted above, it is anticipated that two workshops will be held annually with the Council.

10 Dividend Policy

The company will distribute a dividend of no more than 100% of the tax paid profit.
It is the intention of TDHL to pay out interim dividends as cashflows allow.
How this is distributed will be determined by the shareholder.

11 Procedures For Acquisition Of Other Interests

The company will only purchase an interest in another business or invest in the shares of another company or organisation on the basis set out in its constitution.

12 Activities For Which Compensation Is Sought From Any Local Authority

It is not anticipated that the Company will seek compensation from any local authority otherwise than in the context of normal commercial contractual relationships.

13 Estimate Of Commercial Value Of The Shareholders Investment

The commercial value of the shareholders' investment in Timaru District Holdings Limited is considered by the directors to be no less than the shareholders' funds of the company as shown in the Statement of Financial Position. This will be considered annually when the Statement of Intent is completed.

The shares held in Alpine Energy Limited were independently valued between 86.6 and 97.9 million as at 31 March 2018 whereas the cost and recorded value of these shares is $68 million. A review of this valuation, along with a valuation of PrimePort Timaru Limited, will be undertaken periodically.

The shares held in PrimePort Timaru Limited are recorded at fair value. No independent valuation has been completed at this time.

The investment properties are revalued annually, at 30 June 2018 these were valued at $39.4 million.

Appendix A

Timaru District Holdings Limited - Statement Of Accounting Policies

Reporting entity

Timaru District Holdings is a Council Controlled Organisation as defined in section 6 of the Local Government Act 2002. The company is wholly owned by Timaru District Council. The company began operation on 29 October 1997.

The entity consists of Timaru District Holdings Limited, and associated entities, PrimePort Timaru Limited (50%) and Alpine Energy Limited (47.50%). All entities are incorporated in New Zealand.

The financial statements of Timaru District Holdings Limited have been prepared in accordance with the requirements of the Companies Act 1993, the Local Government Act 2002 and New Zealand International Financial Reporting Standards.

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. Compliance with NZ IFRS ensures that the financial statements also comply with International Financial Reporting Standards (IFRS). The company is a Tier 2 reporting entity. The accounting policies set out below have been applied consistently to all periods presented in these financial statements. The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars ($000). The functional currency of Timaru District Holdings Limited is New Zealand dollars.

Measurement base

The accounting principles recognised as appropriate for the measurement and reporting of earnings and financial position on an historical cost basis are followed.

Accounting policies

The following particular accounting policies which materially affect the measurement of financial results and financial position have been applied:

Associate companies

These are companies in which Timaru District Holdings Limited has a significant influence over commercial and financial policy decisions.

Timaru District Holdings Limited holds a 50% shareholding in PrimePort Timaru Limited and a 47.50% shareholding in Alpine Energy Limited, and participates in their commercial and financial policy decisions. The investments are included in the parent entity at cost less any impairment losses.

The interest in the associate companies has been reflected in the financial statements on an equity accounting basis, which shows the share of surplus/deficits in the statement of comprehensive income and the share of post acquisition increases/decreases in net assets in the statement of financial position.

Goods and Services Tax

All items in the financial statements are exclusive of goods and services tax (GST) with the exception of receivables and payables which are stated with GST included. Where GST is irrecoverable as an input tax then it is recognised as part of the related asset or expense. Timaru District Holdings Limited became registered for GST in January 2007 and all parent transactions prior to this time are recorded inclusive of any GST.

Revenue

Revenue from the rendering of services is recognised in the profit or loss at the completion of transactions at balance date. Revenue from sale of goods is recognised when ownership is transferred. Rental and sub-lease income 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.
Dividends are recognised net of imputation credits when the right to receive payments has been established.

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 those relating to a qualifying asset, are recognised as an expense in the period they are incurred using the effective interest rate method.

Taxation

The tax expense represents the sum of the tax currently payable 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 liabilities are recognised for taxable temporary differences arising on investments in associates, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Cash and cash equivalents
Cash and cash equivalents means cash balances on hand, held in bank accounts, demand deposits and other highly liquid investments in which the company invests as part of its day-to-day cash management.

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

Investments
Investments, including those in associate companies, are stated at cost less any impairment losses. Any decreases are recognised in the profit or loss.

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.

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

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 to sell 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 been previously recognised.

Non-current assets held for sale are not depreciated or amortised while they are classified as held for sale.

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

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 the risks specific to the liability.

Financial instruments
The company is party to non-derivative financial instruments as part of its normal operations. These financial instruments include bank accounts, short term deposits, debtors, prepayments, creditors and loans. All financial instruments are recognised in the Statement of Financial Position and all revenues and expenses in relation to financial instruments are recognised in the profit or loss.

Except for loans, which are recorded at cost, and those items covered by a separate accounting policy, all financial instruments are shown at their estimated fair value.
The company uses derivative financial instruments to hedge its exposure to 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.
The fair value of interest derivatives is based on market factors the issuer believes to be relevant and in accordance with their policies.

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 of ownership associated with the instruments. Fair values are determined at balance date when required.

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 based over the term.

Interest-bearing borrowings
Interest-bearing borrowings are recognised initially at fair value less any transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised costs with any difference between cost and redemption value being recognised in the profit or loss over the period of the borrowings on an effective interest rate. Except for borrowing costs that are capitalised on qualifying assets with a commencement date on or after 1 January 2009, 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.

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 amount, 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.

Statement of cash flows
Cash and cash equivalents means cash balances on hand, held in bank accounts, demand deposits and other highly liquid investments in which the company invests as part of its day-to-day cash management.

Operating activities include cash received from all income sources of the company and records the cash payments made for the supply of goods and services.
Investing activities are those activities relating to the acquisition and disposal of non-current assets.

Financing activities comprise the change in equity and debt capital structure of the company. Dividends paid are included in financing activities. Loans raised and paid are netted off when they are part of the rollover of money market borrowings covered in the company's long-term finance facilities.

The 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.

Critical accounting estimates and assumptions

In preparing these financial statements, Timaru District Holdings Limited has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations or future events that are believed to be reasonable under the circumstances.

Changes in accounting policies

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