Timaru District Holdings Limited
Statement of Intent
2020/21

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 2020 to 30 June 2021 and the two succeeding financial years. It has been prepared after taking into account the letter of expectations provided by Council.

TDHL was incorporated on 29 October 1997 with the intent to manage the commercial assets and investments of Timaru District Council. In particular, this related to the Council's shareholding in PrimePort Timaru Limited and Alpine Energy Limited.

In 2014, the Board took the opportunity after consultation with its shareholder to sell half its shares in PrimePort Timaru Limited to the Port of Tauranga Limit. This was done with the intention of securing the long-term future of the port by becoming a domestic port base for a larger port operation. The funds from the sale of PrimePort shares enabled TDHL to purchase a substantial commercial property portfolio based around the port area. The company has since added to the property portfolio with additional port property purchases, attracted significant new value add tenants to Timaru such as Timaru Oil Services Ltd, and undertaken strategic purchase including the Showgrounds site on Evans Street Timaru and commercial properties situated at the southern end of Stafford Street.

TDHL's intention is to be a long-term holder of its investment in Alpine Energy, PrimePort and Port properties, all of which benefit the community. Alpine Energy owns and manages infrastructure to provide secure reliable electricity supply in South Canterbury. PrimePort owns and operates the port, cargo and marine services and facilities supporting and enabling the growth of our local economy. The port properties owned by TDHL provide premises, on a commercial basis, for businesses that support the operation of the Port or provide ancillary services.

TDHL's intention is also to be profitable, to enable reinvestment in the business, deliver a return on investment to Council, and repay debt.

Since its inception the company has consistently paid a dividend to its Shareholder while also minimising debt levels.

Following a recent TDHL review, Council and TDHL are working together to implement the recommendations from that review.

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

2 Operating Environment

The prevalent operating environment for 2020/21 includes:

a. COVID-19 – navigating the adverse economic, commercial and social impacts of COVID-19
b. Alpine Energy – together with the other shareholders, monitoring and engaging with the company as it navigates regulatory changes in particular the default price path limiting the revenue it can generate.
c. TDHL review – working to newly defined expectations, director recruitment, a change in Board structure, and new framework for engagement with Council.

In relation to COVID-19, TDHL will continue to monitor the potential impact of COVID-19 on its commercial activities including lease arrangements. TDHL's own programme of work continues and through this TDHL contributes to local economic activity, with a significant portion of its expenditure spent within the district.

3 Objectives Of The Company

Pursuant to Section 59 of the Local Government Act 2002, as a Council Controlled Organisation, 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
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. conduct its affairs in accordance with sound business practice.

Purpose and Mission Statement

The purpose of TDHL is to hold and manage the commercial assets and investments of Timaru District Council.

It seeks 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: -

a. 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.

b. To ensure insofar as it is reasonably and 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.

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

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

e. To ensure that regular reporting of results from the subsidiaries and associates to TDHL occurs to the holding company.

f. To provide feedback on Statements of Intent, for each of TDHL's subsidiaries and associates through which the performance (including the financial performance) will be monitored, and to confer with each company on their long term strategic direction.

g. To undertake strategic asset purchases, partner with external parties, or assist future developments in the district.

h. To obtain a commercial return and build long term strategic value from the port property portfolio, but to have regard to the broader port economy including working in conjunction with PrimePort to ensure operations contribute to the port business as far as practicable.

i. To ensure activities around TDHL's property portfolio mitigate risk to the Company and its Shareholders.

Specific Objectives and performance targets for 2020/21 are:

Objective	Performance Target
Effectively and prudently manage TDHL's property assets, obtaining a satisfactory return on investment on commercial properties Property held for non-financial reasons shall achieve good community outcomes over the medium term.	To achieve a return on investment of 7% or greater on the leasable port property portfolio held for investment purposes. Annual review of property held for non-financial reasons and related strategy. Community outcomes to be defined and monitored. Ensure that all lease renewals are completed in a timely manner.
To review the TDHL investment portfolio for strategic opportunities.	Annual deep dive on each investment by TDHL Board. Update shareholder on outcomes through quarterly workshops and AGM.
To continue debt reduction and shareholder distributions subject to no major investments being undertaken and available cashflow.	The current intention is to maintain $3m of reserves, provide a dividend to Timaru District Council as indicated below, with any remaining surplus to be used for debt reduction. The above is subject to the solvency test and no new major investments being undertaken.
To work with Council in relation to the implementation of the recommendations from the 2019 TDHL review.	• Together with Council, document the roles and responsibilities between Council, TDHL and council officers (provide feedback to Council). • Refresh the TDHL constitution (Council led). • Develop and implement an appointments process (Council led) • Hold periodic joint "deep dives" to discuss TDHL's • performance and direction

Additional financial performance targets are included below.

TDHL will report to Council on progress on a quarterly basis.

4 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:

a. Shareholding in local companies providing significant economic and community benefits; specifically Alpine Energy Ltd – 47.5% shareholding, PrimePort Timaru Ltd – 50.0% shareholding.

   Activities to be undertaken regarding TDHL's investment in Alpine Energy and PrimePort, in addition to the above objectives, include:

   - Acting as a diligent, constructive and inquiring Shareholder
   - Commenting on their statement of intent.

b. Property 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 and Stafford Street South.

   Activities to be undertaken regarding TDHL's property investments, in addition to the above objectives, include:

   - Ensuring appropriate leases are in place and lessees are compliant with the terms of those leases,
   - Having appropriate insurance in place,
   - Having appropriate asset management plans in place that comply with TDHL's obligations as a Lessor under the Health and Safety at Work Act.

   TDHL, may undertake development of properties that will benefit the district or the company. TDHL will inform the shareholder prior to committing or undertaking property development (this does not apply to the improvement or development of its port properties).

5 Governance

The TDHL Board meets monthly and receives regular reporting in relation to its financials and property portfolio.

TDHL monitors the performance of associate companies Alpine Energy Ltd, and PrimePort Timaru Ltd through:

- monitoring each company's compliance with their Statement of Intent (as per 2.6 above);
- regular monthly reporting on performance and against budget;
- regular reports on the property portfolio; and
- the AGM between each company and shareholders, as well as additional shareholder and Board to Board meetings on an as needed basis.

A Board competency matrix is being developed, and Board succession and development planning for the TDHL Board (in conjunction with Council) and its associate companies (where TDHL has a right to appoint directors) will be managed on an ongoing basis.

6 Ratio of Consolidated Shareholders' Funds To Total Assets

This ratio shows the proportion of total assets financed by shareholders funds.
TDHL will ensure that the ratio of Shareholders Funds to Total Assets remains above 25.00%.

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.

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

7 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.

8 Performance Targets (Parent)

The performance targets are based on the financial forecasts and the associated assumptions.

TDHL expects to have a gross income of $2.7m excluding valuations and share of associate surpluses and to pay an ordinary dividend of $2m for 2020/21, decreasing to $1m in 2021/22 and 2022/23,

Performance targets

	2018/19 Actual	2019/20 Projected	2020/21 Budget	2021/22 Budget	2022/23 Budget
EBITDA (Earnings before Interest Tax Depreciation and Amortisation	$ 6,417,598	$ 6,775,575	$ 3,634,017	$ 2,418,702	$ 2,457,493
Net profit after tax to shareholders funds (ROE)	5%	5%	3%	1%	2%
Net tangible assets per share	$ 3.45	$ 3.54	$ 3.57	$ 3.59	$ 3.61
Earnings per full paid share	$ 0.18	$ 0.19	$ 0.09	$ 0.05	$ 0.06
Dividends per fully paid share	$ 1.06	$ 0.09	$ 0.06	$ 0.03	$ 0.03
Shareholder funds to total assets	74%	76%	80%	81%	81%

9 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.

	2018/19 Actual	2019/20 Projected	2020/21 Budget	2021/22 Budget	2022/23 Budget
Property Revenue	2,543,504	2,610,000	2,713,959	2,777,958	2,843,748
Other Revenue	9,083,163	5,571,861	2,315,337	709,492	704,798
Total Income	11,626,667	8,181,861	5,029,297	3,487,450	3,548,546
Expenses	2,522,146	2,405,669	2,250,347	1,835,815	1,818,120
Total Comprehensive Income excluding Revaluations and Share of Associate Surplus	9,104,521	5,776,192	2,778,950	1,651,636	1,730,426

	2018/19 Actual	2019/20 Projected	2020/21 Budget	2021/22 Budget	2022/23 Budget
TOTAL EQUITY	107,014,807	109,820,077	110,599,027	111,250,662	111,981,088
Current Assets					
Bank	1,967,982	2,735,243	3,792,950	3,442,786	3,171,412
Other Current Assets	2,075,066	2,049,287	156,529	158,329	160,129
TOTAL CURRENT ASSETS	4,043,048	4,784,529	3,949,479	3,601,115	3,331,541
TOTAL CURRENT LIABILITIES	1,367,081	1,303,306	1,293,306	1,293,306	1,293,306
Working Capital	2,675,967	3,481,223	2,656,173	2,307,809	2,038,235
TOTAL NON CURRENT ASSETS	140,565,906	140,565,906	134,269,906	134,269,906	134,269,906
TOTAL NON CURRENT LIABILITIES	36,227,066	34,227,053	26,327,053	25,327,053	24,327,053
NET ASSETS	107,014,807	109,820,076	110,599,026	111,250,662	111,981,088

10 Financial Projections

It is forecast that term debt within the company be repaid in each of the years. External debt will continue to be repaid over the three year period of this SOI. This is assuming that alternative investment opportunities necessitating funds are not required.

It is expected that there will be a substantial reduction of dividends received from Alpine Energy Limited, largely attributable to regulations that limit the amount of revenue lines companies can earn. These regulations are put in place by the Commerce Commission and exist to protect the consumer (in monopoly markets) and to incentivise efficiencies within the industry.

The Board has a policy of retaining $3 million in cash reserves. Funds in excess of this will be prioritised for shareholder dividends and debt repayment as per the company's objectives. This has been incorporated into the forecasts.

11 Reporting To Shareholder

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

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 is informed by the Letter of Expectation from Council and fulfils the requirements of Section 64 of the Local Government Act 2002.

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.

Quarterly Report – First and Third Quarters

Within 2 months of 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 estimated forecast of the financial results for the year based on that outlook.

f) Notice of and the reasons for any material changes to the dividend payments.

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 estimated forecast of the financial results for the year based on that outlook.

f) Notice of and the reasons for any material changes to the dividend payments

g) Risk management:

- Overview of business risks and risk management processes.
- TDHL's approach to managing its current investments (including the opportunities and risks with TDHL's investments).
- The actions that will be taken to maximise opportunities and mitigate risks.

Annual Report

Annual Management Report: 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.
e. Legislative compliance.
f. Risk management:
   - Overview of business risks and risk management processes.
   - TDHL's approach to managing its current investments (including the opportunities and risks with TDHL's investments).
   - The actions that will be taken to maximise opportunities and mitigate risks.

Audited Annual Report: 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.

Periodic workshops: Strategic or targeted workshops will be offered to Council as needed to improve Council's understanding of TDHL's business to workshop matters of mutual interest or concern, and to discuss TDHL's performance and direction. Workshops are intended to be held three times a year in addition to the AGM.

No surprises: TDHL will use its reasonable endeavours to operate on a no surprises basis, particularly on matters where there is political, financial or other risk.

12 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.

Dividends are to be disclosed along with the dividend payout policies, where applicable. Where there are material changes to the dividend payments notice of this and the reasons for it should be disclosed in its reporting to Council.

13 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.

14 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.

15 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 25 October 2018 whereas the cost and recorded value of these shares is $68 million. A subsequent desktop valuation carried out in July 2019 confirmed the independent valuation. 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 portfolio is revalued annually, at 30 June 2019 the portfolio had a valuation of $45.5 million.

16 Capital expenditure and asset management intentions:

TDHL will update Timaru District Council on its capital expenditure and asset management intentions as part of its periodic reporting and workshops.

17 Other

Land: Activities on TDHL's land will have appropriate consents and leases in place, and TDHL will use all reasonable endeavours to ensure lessees comply with their leases and consent conditions.

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:

Changes in Accounting Policies
New and amended standards adopted by the Group
Timaru District Holdings Limited has applied the following standards and amendments for the first time for their annual reporting period commencing 1 July 2019 (*1 July 2019*):

- NZ IFRS 16 *Leases*

The group had to change its accounting policies and make certain retrospective adjustments following the adoption of NZ IFRS 16. These are disclosed in note 1.

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
GST.

Revenue
Revenue comprises the fair value of the consideration received or receivable for the provision of services, excluding Goods and Services Tax, rebates and discounts. Revenue is recognised as follows:

i. *Sales of goods*
Revenue from sale of goods is recognised when ownership is transferred.
ii. *Sales of Services*
Revenue from the rendering of services is recognised in the profit or loss at the completion of transactions at balance date.
iii. *Rental and Sub-lease income*
Rental and sub-lease income is recognised on a straight line basis over the term of the lease.
iv. *Interest Income*
Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables are recognised using the original effective interest rate
v. *Dividend Income*
Dividend income is recognised net of imputation credits when the right to receive payment is established.

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

Expenses
From 1 July 2019, lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the term of the lease.
Prior to 1 July 2019, operating lease payments were 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.

The company applies the NZ IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.
To measure the expected credit losses trade receivables have been grouped based on shared credit risk characteristics and days past due.

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, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount can be reliably measured. 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 classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity’s business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether the group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

The Company reclassifies debt investments when and only when its business model for managing those assets changes.

i. Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the profit or loss.

Debt instruments
Subsequent measurement of debt instruments depends on the group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.
- Fair value through other comprehensive income (FVOCI): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains and losses and impairment expenses in other expenses.

- Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented net in the statement of profit or loss within other gains/(losses) in the period in which it arises.

ii. *Impairment*

The group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Accounting policies applied prior to 30 June 2019 Leases
From 1 July 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the entity.

Prior to 1 July 2019, leases of property, plant and equipment were classified as either finance leases or operating 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.

Lease income from operating leases where the entity is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The entity did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting NZ IFRS 16 *Leases* from 1 July 2019.

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 revalued 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.

TIMARU DISTRICT HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

Note 1: Changes in Accounting Policies

This note explains the impact of the adoption of NZ IFRS 16 Leases on the Group's financial statements.

i. NZ IFRS 16 Leases

Timaru District Holdings Limited has adopted the requirements of NZ IFRS 16 in the year to 30 June 2020. NZ IFRS 16 replaces the principles of NZ IAS 17. The entity did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of NZ IFRS 16. The entity has elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the entity relied on its assessment made applying NZ IAS 17 and Interpretation 4 Determining whether an Arrangement contains a Lease.