Hawke's Bay Regional Investment Company Limited

Annual Report
for the year ended 30 June 2022

Contents

Chairman's report

I am pleased to present our Annual Report for the 2022 financial year.

During the year HBRIC has focused on four key priorities:

- Monitoring the investment in Napier Port, our largest strategic asset;
- Monitoring and managing the future investment fund, our other strategic asset, in collaboration with the HBRC and their SIPO;
- Advancing the pre-construction phase of Foodeast;
- Putting the necessary mechanisms in place to enable HBRIC to proactively seek significant new investment opportunities.

Our operating results have been solid with the final audited annual result for the year to 30 June 2022 being a net profit after tax of $8.057m (2021: $8.049m).

Dividends paid to Council were $9.025m, which met the target of $8-11m outlined in the Statement of Intent.

The year has been a difficult one for investments and the carry values of HBRIC's core investment holdings have not been immune to these challenges. Some of the well documented head winds include global supply chain disruptions, elevated inflation, rising interest rates, an energy crisis in Europe, labour shortages and weak financial markets.

The equity of the Company at 30 June 2022 was $369 million (last year $445.7 million). This change was primarily driven by a decrease in share market price of Napier Port shares over the twelve-month period (down from $3.40 to $2.75 per share representing $71.5m).

This key investment is a long term strategic one for HBRIC and the Council and while the share price fell over the year reflecting general market conditions we note it remains above the 2019 IPO listing price and well above pre IPO valuations. Our board remains positive about the future value of our Napier Port shareholdings.

HBRIC is fortunate that in recent years that it made moves to improve its resilience by broadening and diversifying its investments and portfolio risk. We are well positioned for the future.

Napier Port

Napier Port is a vital contributor to the regional economy and a valuable strategic asset. Like all businesses in New Zealand over the year Napier Port was exposed to the residual operational and financial impacts of Covid-19 and in particular the challenges that resulted from severely disrupted global supply chains.

Notwithstanding this, the Port has continued to provide essential services and support the importers and exporters of the region. Strategically the Port has had a successful year. A major highlight of the year was the opening of 6 Wharf – Te Whiti, a multi-generational asset for Hawkes Bay and the New Zealand supply chain. This major circa $170m capital project was delivered ahead of schedule and under budget and the Port has delivered on the commitments made around this project in the 2019 IPO offer. The company continues to commit on its delivery on health and safety, sustainability and building diversity and inclusion into the workforce.

The Port's trading performance and prices for key primary industry cargoes has continued to be solid despite decreased cargo volumes. The 30 September 2022 annual financial statements have recently been released and we attach some highlights in the annual report pack.

We note that the Port is a commercial operation that carries risk. It continues to have the following strategic challenges to balance its operating performance, growth and exposure to risk:

- Covid-19 related impacts on trade, including shipping and supply chain disruptions and inflation, including effects of these on importers and exporters;
- Increasing competitive pressures and risks from other ports around the country;
- Risk of damage from seismic activity;
- Increasing costs and deductibles for insurance cover and restricted availability supply of cover;
- The increased cost of borrowing.

Despite uncertainties the Napier Port expects underlying result from operating activities for the year to 30 September 2023 to increase to between $42 million and $48 million (2021: $40.1m).

I was pleased to be appointed to the Napier Port Holdings Board in August 2022 as a non-independent director.

Managed Fund Investments

In November 2021 it was agreed to divest $1.3m of managed funds allowing for protection of the capital value of the funds in compliance with the statement of investment policy and objectives. However, in the following months the value of the managed funds decreased with the weaker markets resulting in negative returns. The managed funds value as at 30 June 2022 was $43.2m (2021: $48.5m), a movement of approximately -$5.3m (including divestments of $1.3m during the year). The managed funds are managed to align with the Hawkes Bay Regional Council SIPO policies.

FoodEast

In 2021 HBRIC agreed to invest alongside Hastings District Council and Progressive Meats in Foodeast, a new food hub for Hawke’s Bay to be built at Hastings.

The total forecast cost for the hub project is $18m which is significantly funded by a crown grant of $12m from Kanoa. This allows for construction, establishment costs and operating losses during initial years. In the past twelve months the board of the new Limited Partnership entity chaired by Craig Foss has been primarily focused on revalidating and confirming concept design, detail design, consenting, costing and contractor procurement. Inflationary impacts on the construction and materials sectors have presented challenges which have necessitated some material design adjustments from the original proposal which have resulted in frustrating time delays - but the Foodeast team is confident that it will deliver on its key objectives on this exciting project.

HBRIC Governance and Management

During the year there were no changes to the Board of Directors.

Chair: Dan Druzianic

Directors: Rick Barker, Neil Kirton, Craig Foss.

All HBRIC corporate administration and finance functions are undertaken by Council under contract and briefly under sub-contract to cover a HBRC vacancy.

The Board would like to thank Blair O’Keefe who stepped down from his contract management role in March 2022. Blair has made an immense contribution to HBRIC – particularly in leading the IPO process for the successful Napier Port IPO in 2019. We were delighted to secure the contract management services of Tom Skerman to succeed Blair in that role. All project work is undertaken by independent contractors. HBRIC has no permanent employees.

I would like to thank Hawke’s Bay Regional Council and particularly the outgoing Chair Rick Barker for his great contribution on the HBRIC and Napier Port Boards over recent years. I would like to acknowledge the professionalism and support of my fellow directors Neil Kirton and Craig Foss and I would also like to thank the teams at Napier Port, HBRIC, Food East and Council who have supported HBRIC throughout the year.

With Council support the HBRIC continues to explore commercial opportunities which support growth of the local economy and provide suitable returns.

Dan Druzianic
(Chairman)

Directors' report

The Directors hereby present their report and financial statements of the Hawke's Bay Regional Investment Company Limited for the year ended 30 June 2022.

Reporting entity

The Hawke's Bay Regional Investment Company Limited ('the Company', or 'the Parent') was incorporated in New Zealand on 21 February 2012 and is 100% owned by Hawke's Bay Regional Council ('Council'). The Company is domiciled in New Zealand.

The Group financial statements are for the Company and its subsidiaries (together 'the Group'). The subsidiaries are Port of Napier Limited ('Napier Port'), Napier Port Holdings Limited ('NPHL') and Foodeast GP Limited ('Foodeast').

Registered office

159 Dalton Street
Napier South
Napier 4110
New Zealand

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at and for the year ended 30 June 2022.

Principal activities

Parent company

The Company owns 55% (2021: 55%) of Napier Port Holdings Limited, who is the 100% owner of the Port of Napier Limited. Napier Port Holdings Limited is listed on the New Zealand Stock Exchange (NZX).

The Company currently owns 67% of Foodeast GP Limited, who is a limited partner in the HB Food Innovation Hub Limited Partnership.

Subsidiary companies

Port of Napier Limited's principal activities are the commercial operation of Napier Port.
Napier Port Holdings Limited was incorporated 12 June 2019 to act as a holding company of the Port of Napier.

Foodeast GP Limited is a council-controlled organisation (CCTO) for the purposes of the Local Government Act 2002. The company was incorporated on 1 July 2021.

Remuneration of directors

Remuneration paid to directors during the year was as follows:

	2022 $
Parent company	
D W Druzianic (Chairman)	**45,000**
R J Barker	**-**
N Kirton	**-**
C R R Foss	**-**

Directors' report (continued)

	2022 $
Subsidiary companies - Port of Napier Limited and Napier Port Holdings Limited	
A J MacLeod (Chairman)	**140,400**
S Moir	**83,202**
D Puketapu	**83,202**
J E Harvey	**72,798**
V Tremaine	**83,202**
R Barker	**72,798**
B O'Keeffe	**83,202**
Subsidiary companies - Foodeast GP Limited	
C R R Foss	**45,000**
A T Gray	**35,000**

Board committees

As at 30 June 2022 the Board of the parent company had no separate committees.

Directors' interests

The Company maintains an interests register in which particulars of certain transactions and matters involving the directors are recorded. These are requirements under the Companies Act 1993. The following notices have been received from directors disclosing their interests in other companies.

Parent company

Director	Interest declared (as at reporting date)
D W Druzianic (Chairman)	Consultant, Moore Markhams Hawke's Bay Limited
	Director, Bostok New Zealand Limited
	Director, Hawke's Bay Independent Brewery Limited
	Director, Hawke's Bay Community Fitness Centre Trust
	Director, Unison Networks
	Trustee of trusts associated with various directors of companies which may from time to time have interests to be noted
R J Barker	Councillor, Hawke's Bay Regional Council
	Director, Napier Port Holdings Limited
	Director, Port of Napier Limited
	Director, Fifteen Two Limited
	Principal, Rick Barker Consulting
	Chief Crown Negotiator
N Kirton	Councillor, Hawke's Bay Regional Council
	Director, Good Shepherd Transport Limited
	Employment, Hohepa Services Limited

Directors' report (continued)

Parent company (continued)

Director	Interest declared (as at reporting date)
C R R Foss	Councillor, Hawke's Bay Regional Council
	Director, Nikau One Limited
	Director, Magpie Investments Limited
	Director, Foss Limited
	Director, Aftrimat Australasia Limited
	Director, Trusted Foods Limited
	Director, Hawke's Bay Tourism
	Director, Foodeast GP Limited
	Chair, CarbonClick Limited
	Associated with an entity which owns 5,384 shares in Napier Port

Subsidiary companies - Port of Napier Limited and Napier Port Holdings Limited

Director	Interest declared (as at reporting date)
A J MacLeod (Chairman)	Chair / Shareholder, Silverstripe Limited
	Chair, Hold Fast Investments Limited
	Member, IHC-Board Appointments Committee
	Director, Silverstripe Trustee Limited
	Trustee, Big Brothers Big Sisters Hawke's Bay
	Chair, Trade Window Holdings Limited
S Moir	Director, Todd Family Office Limited
	Director, IJAP Limited
	Advisor, ASB Bank Investment Committee
	Director, Cigna Life Insurance New Zealand Limited
D Puketapu	Director, Manawanui Support Limited
	Director, Ngati Porou Holding Company Limited & subsidiaries
	Director, Tamaki Redevelopment Company Limited & subsidiaries
	Director, New Zealand Cricket
	Director, New Zealand Olympic Committee
	Director, DNA Designed Communications Limited
	Director, Trade Window Holdings Limited
	Shareholder of Napier Port Holdings Limited

Directors' report (continued)

Subsidiary companies - Port of Napier Limited and Napier Port Holdings Limited (continued)

Director	Interest declared (as at reporting date)
V Tremaine	Chair / Director, Riverland Water Holdings Pty Limited (ACN 074 419 846)
	Director, Statewide Superannuation Pty Limited (ACN 008 099 223)
	Chair / Director, SouthernLaunch.Space Pty Limited (ACN 621 420 504)
	Director, Green Industries SA (SA Government Body Corporate)
	Chair / Director, Ports Pty Limited (ACN 073 772 077)
	Chair / Director, Geelong Port Pty Limited (ACN 003 996 594)
	Consultant, Sentient Hubs Pty Limited (ACN 3 662 085 154)
J E Harvey	Director, Heartland Bank Limited
	Director, Investore Property Limited
	Director, Stride Property Limited
	Director, Stride Investment Management Services Limited
	Director, Kathmandu Holdings Limited
B O’Keeffe	Director, Z Energy Limited
	Director, Central Air Ambulance Rescue Limited
	Chair, Hawke’s Bay Rescue Helicopter Trust
	Managing Director, Endzone Commercial Limited (“ECL”)
R Barker	Chair, Hawke’s Bay Regional Council
	Director, Hawke’s Bay Regional Investment Company Limited

Subsidiary companies - Foodeast GP Limited

Director	Interest declared (as at reporting date)
C R R Foss	Councillor, Hawke’s Bay Regional Council
	Director, Nikau One Limited
	Director, Magpie Investments Limited
	Director, Foss Limited
	Director, Aftrimat Australasia Limited
	Director, Trusted Foods Limited
	Director, Hawke’s Bay Tourism
	Director, Hawke's Bay Regional Investment Company Limited
	Associated with an entity which owns 5,384 shares in Napier Port

Directors' report (continued)

Subsidiary companies - Foodeast GP Limited (continued)

Director	Interest declared (as at reporting date)
A T Gray	Director, Electricity Ashburton Limited
	Director, Artemis Nominees Limited
	Director, Ngati Pukenga Investments Limited
	Director, Quality Roading and Services (Wairoa) Limited
	Director, Nga Hua O Ngati Pukenga Limited
	Director, Centralines Limited
	Director, Te Turapa Wai Ariki Limited

Directors' insurance

The Company has arranged policies of directors' liability insurance, which together with a deed of indemnity ensures that as far as possible, directors will not personally incur any monetary loss as a result of actions undertaken by them as directors. The insurance does not cover liabilities arising from criminal actions.

Remuneration of employees

The number of employees for the Group and Parent, whose total annual remuneration was in the specified bands, is as follows:

Remuneration bands	Group	Parent
$100,000 - 109,999	**28**	-
$110,000 - 119,999	**40**	-
$120,000 - 129,999	**26**	-
$130,000 - 139,999	**33**	-
$140,000 - 149,999	**11**	-
$150,000 - 159,999	**10**	-
$160,000 - 169,999	**5**	-
$170,000 - 179,999	**3**	-
$180,000 - 189,999	**3**	-
$190,000 - 199,999	**4**	-
$200,000 - 209,999	**2**	-
$210,000 - 219,999	**1**	-
$260,000 - 269,999	**1**	-
$270,000 - 279,999	**2**	-
$280,000 - 289,999	**1**	-
$370,000 - 379,999	**1**	-
$380,000 - 389,999	**3**	-
$400,000 - 410,000	**1**	-
$420,000 - 429,999	**1**	-
$440,000 - 449,999	**1**	-
$560,000 - 569,999	**1**	-
$900,000 - 910,000	**1**	-

The annual remuneration specified in the above bands includes payments made to staff under both short term and long term staff incentive schemes and redundancy benefits.

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.

Board operation

Operation of the Board is governed by the Constitution of the Company, and the rules, procedures and guidelines adopted by the Board.

Directors' report (continued)

Auditors

The Office of the Auditor-General is appointed as auditor under Section 15 of the Public Audit Act 2001 and Section 70 of the Local Government Act 2002. Ernst and Young New Zealand has been appointed to provide these services. Audit fees are disclosed within the financial statements.

Donations

The Company and subsidiaries made no donations during the year (2021: nil).

Dividends

During the year the Company paid fully imputed ordinary dividends of $9,025,000 (2021: $5,200,000).

Directors' responsibility statement

The directors are responsible for ensuring that the financial statements give a true and fair view of the financial position of the Company and the Group as at 30 June 2022 and their financial performance and cash flows for the year ended on that date.

The directors consider that the financial statements of the Company and the Group have been prepared using appropriate accounting policies consistently applied and supported by reasonable judgements and estimates and that all relevant financial reporting and accounting standards have been followed.

Dan Druzianic
(Chairman)

Neil Kirton
(Director)

Statements of profit or loss

For the year ended 30 June 2022

	Notes	**Group 2022 $'000**	Group 2021 $'000	**Parent 2022 $'000**	Parent 2021 $'000
Income					
Port operations		**109,176**	104,453	**-**	-
Other income		**2,413**	2,365	**-**	-
Dividend income		**219**	543	**8,469**	9,123
Operating income	3	**111,808**	107,361	**8,469**	9,123
Expenditure					
Employee benefit expenses		**(39,229)**	(34,300)	**-**	-
Maintenance expenses		**(14,586)**	(10,850)	**-**	-
Depreciation, amortisation and impairment	15,16	**(13,026)**	(13,108)	**-**	-
Transaction costs arising on the proposed issuance of shares		**-**	84	**-**	-
Other operating expenses	4	**(16,675)**	(17,935)	**(490)**	(473)
Operating expenditure		**(83,516)**	(76,109)	**(490)**	(473)
Operating profit before net finance income		**28,292**	31,252	**7,979**	8,650
Finance expenses	5	**(64)**	(57)	**-**	-
Finance income	5	**466**	368	**451**	338
Net finance income		**402**	311	**451**	338
Operating profit after net finance income		**28,694**	31,563	**8,430**	8,988
(Loss) / gain from sale of investments		**(339)**	365	**(339)**	365
Profit before subvention		**28,355**	31,928	**8,091**	9,353
Subvention payment		**(121)**	(1,055)	**(121)**	(1,055)
Profit before income tax		**28,234**	30,873	**7,970**	8,298
Income tax (expense) / benefit	6	**(9,708)**	(6,891)	**159**	(249)
Total tax expense		**(9,708)**	(6,891)	**159**	(249)
Profit after tax		**18,526**	23,982	**8,129**	8,049
Profit for the period attributable to the					
Equity holders of the Parent		**8,993**	14,033	**8,129**	8,049
Non-controlling interests		**9,533**	9,949	**-**	-
		18,526	23,982	**8,129**	8,049

The above statements of profit or loss should be read in conjunction with the accompanying notes.

Statements of comprehensive income

For the year ended 30 June 2022

	Notes	**Group 2022 $'000**	Group 2021 $'000	**Parent 2022 $'000**	Parent 2021 $'000
Profit after tax attributable to the shareholder of the Company		**18,526**	23,982	**8,129**	8,049
Other comprehensive income:					
Items that will be reclassified to profit or loss:					
Asset revaluation	10(a)(i)	**(3,766)**	5,761	**(75,268)**	(16,239)
Changes in fair value of cash flow hedges	10(a)(ii)	**5,454**	44	**-**	-
Deferred tax on changes in fair value of cash flow hedges	10(a)(ii)	**(1,456)**	17	**-**	-
Cash flow hedges transferred to the statements of profit or loss	10(a)(ii)	**(255)**	(105)	**-**	-
		(23)	5,717	**(75,268)**	(16,239)
Items that will not be reclassified to profit or loss:					
Changes in fair value of cash flow hedges	10(a)(ii)	**(76)**	-	**-**	-
Deferred tax on changes in fair value of cash flow hedges	10(a)(ii)	**21**	-	**-**	-
Revaluation of sea defences	10(a)(i)	**29,988**	-	**-**	-
Deferred tax on revaluation of sea defences	10(a)(i)	**(1,856)**	-	**-**	-
Movement in other reserves	10(a)(iv)	**367**	(736)	**-**	-
		28,444	(736)	**-**	-
Other comprehensive income / (loss) for the year, net of tax		**28,421**	4,981	**(75,268)**	(16,239)
Total comprehensive income / (loss) for the year		**46,947**	28,963	**(67,139)**	(8,190)
Profit for the period attributable to the					
Equity holders of the Parent		**8,993**	14,033	**8,129**	8,049
Non-controlling interest		**9,533**	9,949	**-**	-
		18,526	23,982	**8,129**	8,049
Total comprehensive income / (loss) for the year is attributable to:					
Equity holders of the Parent		**22,928**	19,367	**(67,139)**	(8,190)
Non-controlling interest		**24,019**	9,596	**-**	-
		46,947	28,963	**(67,139)**	(8,190)

The above statements of comprehensive income should be read in conjunction with the accompanying notes.

Statements of financial position

As at 30 June 2022

	Notes	**Group 2022 $'000**	Group 2021 (restated*) $'000	**Parent 2022 $'000**	Parent 2021 $'000
ASSETS					
Current assets					
Cash and cash equivalents	21	**7,619**	10,062	**5,253**	7,545
Trade and other receivables	11	**14,546**	16,659	**185**	128
Derivative financial instruments	26	**1,216**	99	**-**	-
Current tax receivables	6	**819**	2,402	**-**	-
Financial assets	17	**600**	-	**-**	-
Total current assets		**24,800**	29,222	**5,438**	7,673
Non-current assets					
Property, plant and equipment	16	**520,483**	420,223	**-**	-
Intangible assets	15	**1,084**	1,281	**-**	-
Financial assets	17	**59,871**	65,145	**364,072**	439,145
Derivative financial instruments	26	**3,990**	-	**-**	-
Investment properties	19	**14,885**	10,400	**-**	-
Deferred tax assets	6	**-**	-	**256**	-
Total non-current assets		**600,313**	497,049	**364,328**	439,145
Total assets		**625,113**	526,271	**369,766**	446,818
LIABILITIES					
Current liabilities					
Trade and other payables	12	**17,503**	25,006	**228**	1,144
Taxation payable		**-**	1,538	**28**	-
Derivative financial instruments	26	**12**	126	**-**	-
Lease liabilities	7	**197**	217	**-**	-
Total current liabilities		**17,712**	26,887	**256**	1,144
Non-current liabilities					
Provisions for employee entitlements	13	**493**	490	**-**	-
Borrowings	20	**129,380**	58,718	**-**	-
Derivative financial instruments	26	**147**	37	**-**	-
Deferred tax liabilities	6	**20,761**	16,406	**-**	-
Lease liabilities	7	**249**	359	**-**	-
Deferred income	14	**500**	-	**-**	-
Total non-current liabilities		**151,530**	76,010	**-**	-
Total liabilities		**169,242**	102,897	**256**	1,144
EQUITY					
Share capital	9	**177,500**	177,500	**177,500**	177,500
Reserves	10	**175,263**	161,222	**19,028**	94,296
(Accumulated losses) / retained earnings	10	**(72,526)**	(72,532)	**172,982**	173,878
Equity attributable to equity holders of the Company		**280,237**	266,190	**369,510**	445,674
Non-controlling interests		**175,634**	157,184	**-**	-
Total equity		**455,871**	423,374	**369,510**	445,674
Total liabilities and equity		**625,113**	526,271	**369,766**	446,818

* Refer to note 28 for details of restatement.

The above statements of financial position should be read in conjunction with the accompanying notes.

Statements of changes in equity

For the year ended 30 June 2022

		Attributable to equity holders of the Group					
Consolidated		**Share capital**	**Reserves**	**Accumulated losses**	**Total**	**Non-controlling interest**	**Total equity**
	Notes	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Balance as at 1 July 2020		404,867	71,217	(69,960)	406,124	-	406,124
Correction of prior period error	28	(227,367)	84,609	(11,951)	(154,709)	154,709	-
Balance as at 1 July 2020 (restated)		177,500	155,826	(81,911)	251,415	154,709	406,124
Comprehensive income							
Profit for the year		-	-	14,033	14,033	9,949	23,982
Reserves	10(a)	-	5,334	-	5,334	(353)	4,981
Total comprehensive income		-	5,334	14,033	19,367	9,596	28,963
Transactions with owners							
Business reorganisation reserve		-	-	541	541	(155)	386
Share-based payment reserve		-	62	-	62	50	112
Dividends	8	-	-	(5,195)	(5,195)	(7,016)	(12,211)
Total transactions with owners		-	62	(4,654)	(4,592)	(7,121)	(11,713)
Balance as at 30 June 2021 (restated)		177,500	161,222	(72,532)	266,190	157,184	423,374
Balance as at 1 July 2021		177,500	161,222	(72,532)	266,190	157,184	423,374
Comprehensive income							
Profit for the year		-	-	8,993	8,993	9,533	18,526
Reserves	10(a)	-	13,935	-	13,935	14,486	28,421
Total comprehensive income		-	13,935	8,993	22,928	24,019	46,947
Transactions with owners							
Share-based payment reserve	10(a)	-	106	-	106	87	193
Dividends	8	-	-	(8,987)	(8,987)	(6,719)	(15,706)
Non-controlling interest arising on investment in limited partnership		-	-	-	-	1,063	1,063
Total transactions with owners		-	106	(8,987)	(8,881)	(5,569)	(14,450)
Balance as at 30 June 2022		177,500	175,263	(72,526)	280,237	175,634	455,871

The above statements of changes in equity should be read in conjunction with the accompanying notes.

Parent	Notes	Attributable to equity holders of the Company Share capital $'000	 Revaluation reserve $'000	 Retained earnings $'000	Total equity $'000
Balance as at 1 July 2020		177,500	110,535	171,029	459,064
Comprehensive income					
Profit for the year		-	-	8,049	8,049
Loss on the revaluation of investments	10(a)	-	(16,239)	-	(16,239)
Total comprehensive income		-	(16,239)	8,049	(8,190)
Transactions with owners					
Dividends	8	-	-	(5,200)	(5,200)
Total transactions with owners		-	-	(5,200)	(5,200)
Balance as at 30 June 2021		177,500	94,296	173,878	445,674
Balance as at 1 July 2021		177,500	94,296	173,878	445,674
Comprehensive income					
Profit for the year		-	-	8,129	8,129
Loss on the revaluation of investments	10(a)	-	(75,268)	-	(75,268)
Total comprehensive income		-	(75,268)	8,129	(67,139)
Transactions with owners					
Dividends	8	-	-	(9,025)	(9,025)
Total transactions with owners		-	-	(9,025)	(9,025)
Balance as at 30 June 2022		177,500	19,028	172,982	369,510

The above statements of changes in equity should be read in conjunction with the accompanying notes.

Hawke's Bay Regional Investment Company Limited
Statements of cash flows
For the year ended 30 June 2022

	Notes	**Group 2022 $'000**	Group 2021 $'000	**Parent 2022 $'000**	Parent 2021 $'000
Cash flows from operating activities					
Cash was provided from:					
Receipts from customers		**112,884**	104,840	**-**	-
Dividends received		**-**	449	**8,250**	9,029
GST received (net)		**133**	166	**84**	74
Interest received		**366**	336	**304**	336
		113,383	105,791	**8,638**	9,439
Cash was applied to:					
Payments to suppliers and employees		**(73,800)**	(61,435)	**(1,604)**	(597)
Interest paid		**(6)**	(27)	**-**	-
Refund of COVID-19 wage subsidy		**-**	(2,036)	**-**	-
Taxes paid		**(8,531)**	(9,358)	**-**	47
		(82,337)	(72,856)	**(1,604)**	(550)
Net cash inflow from operating activities	22	**31,046**	32,935	**7,034**	8,889
Cash flows from investing activities					
Cash was provided from:					
Sale of assets		**1,522**	2,783	**1,300**	3,099
		1,522	2,783	**1,300**	3,099
Cash was applied to:					
Purchase of assets		**(88,044)**	(91,191)	**-**	-
Investment in associate		**-**	(80)	**-**	-
Investment in subsidiary		**-**	-	**(1,601)**	-
Payments for investment properties		**(1,778)**	-	**-**	-
Payments for held-to-maturity investments		**(600)**	-	**-**	-
		(90,422)	(91,271)	**(1,601)**	-
Net cash outflow from investing activities		**(88,900)**	(88,488)	**(301)**	3,099
Cash flows from financing activities					
Cash was provided from:					
Proceeds from loans and borrowings	32	**70,000**	60,000	**-**	-
Repayment of fair share loans by employees		**120**	87	**-**	-
Proceeds from grants	14	**500**	-	**-**	-
Proceeds from partnership capital		**793**	-	**-**	-
		71,413	60,087	**-**	-
Cash was applied to:					
Transaction costs arising on share issuances		**-**	(822)	**-**	-
Repayment of lease liability	32	**(220)**	(210)	**-**	-
Dividends paid		**(15,706)**	(12,152)	**(9,025)**	(5,200)
		(15,926)	(13,184)	**(9,025)**	(5,200)
Net cash inflow / (outflow) from financing activities		**55,487**	46,903	**(9,025)**	(5,200)
Net movement in cash and cash equivalents		**(2,367)**	(8,650)	**(2,292)**	6,788
Cash and cash equivalents at the beginning of the financial year		**10,062**	18,712	**7,545**	757
Effects of exchange rate changes on cash and cash equivalents		**(76)**	-	**-**	-
Cash and cash equivalents at end of year		**7,619**	10,062	**5,253**	7,545

The above statements of cash flow should be read in conjunction with the accompanying notes.

1 General information

(a) Reporting entity

The Hawke's Bay Regional Investment Company Limited (`the Company') is a wholly owned subsidiary of Hawke's Bay Regional Council formed for the purpose of holding investments in subsidiary organisations. The Company was incorporated on 21 February 2012.

The Group financial statements comprise the financial statements of the Company and its subsidiaries, the Port of Napier Limited ('Napier Port'), Napier Port Holdings Limited ('NPHL') and Foodeast Limited Partnership ('Foodeast').

The Company is considered a Council Controlled Trading Organisation on the basis that it operates for the purpose of making a profit, and is therefore classified for accounting purposes as a for-profit entity.

The financial statements of the Company and the Group are for the year ended 30 June 2022.

(b) Basis of preparation

The financial statements of the Company and the Group have been prepared in accordance with generally accepted accounting practice in New Zealand (`NZ GAAP'). They comply with International Financial Reporting Standards (`IFRS'), New Zealand equivalents to International Financial Reporting Standards (`NZ IFRS'), and other applicable financial reporting standards, as appropriate for for-profit entities.

The statements have been prepared on a historic cost basis, except for fair value investments, sea defences, admin buildings, investment properties and derivative financial instruments which are measured at fair value.

The Company and each of the Group's entities' functional currency is New Zealand dollars ($), and the statements have been presented in thousands of dollars ($'000) exclusive of Goods and Services Tax (GST) except for trade accounts payable and receivable, which are stated at GST inclusive amounts.

(c) New standards adopted

No new standards have been adopted in the current reporting period.

(d) New standards and interpretations not yet adopted

There are no standards that are not yet effective that have not been early adopted by the Company and Group and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

(e) Use of judgements and estimates

In the application of NZ IFRS, the Board is required 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.

In particular, information about significant areas of estimation and critical judgements in applying accounting policies that have a significant effect on the amount recognised in the financial statements are as follows:

- Valuation of sea defences (note 16)
- Valuation of financial instruments (note 26)
- Estimation of useful lives (note 2(g)).

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below.

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of Hawke's Bay Regional Investment Company Limited (`the Company') and its subsidiaries (as outlined in note 18).

(i) Subsidiaries

A subsidiary is an entity over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

2 Summary of significant accounting policies (continued)

(b) Trade receivables

Trade receivables are recognised initially at fair value and subsequently remeasured each balance date at amortised cost using the effective interest method less any lifetime expected credit losses.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

(c) Property, plant and equipment

(i) *Operational assets*

Tugs, cranes and cargo buildings (all Napier Port assets) are stated at deemed cost based on valuations performed as at 30 September 2005 and subsequent additions at cost, less subsequent accumulated depreciation. All other operational assets are accounted for at the historical cost of purchased property, plant and equipment less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Sea defences and administration buildings are measured at fair value, based on periodic valuations by suitably qualified and experienced professionals, less subsequent accumulated depreciation.

The costs of an asset constructed by the Group include the cost of all materials used in construction, direct labour on the project and an appropriate amount of directly attributed costs. Costs cease to be capitalised as soon as the asset is ready for productive use.

Work in progress are costs incurred in the course of bringing assets to the location and condition necessary for their intended service and includes costs of obtaining resource consents where required to proceed with capital projects.

(ii) *Subsequent costs*

Subsequent costs are added to the carrying amount of an item of property, plant and equipment when the cost is incurred if it is probable that future economic benefits embodied with the item will flow to the Company or the Group and the cost can be measured reliably. All other costs are recognised in the statements of profit or loss as an expense during the financial period in which they are incurred.

(iii) *Revaluation adjustments*

Increases in carrying amounts arising from revalued assets are credited to revaluation reserves in equity. Decreases that offset previous increases of the same asset category are charged against revaluation reserves in equity. All other decreases are charged to the statements of profit or loss.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

(iv) *Other adjustments*

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statements of profit or loss. When revalued assets are sold, the amounts included in revaluation reserves are transferred to the accumulated balance in equity.

(d) Investment property

Investment property is residential and commercial land and buildings held to earn rental income and for capital appreciation. Such property is initially recognised at cost. At each balance date investment property is measured at fair value, representing open market value determined annually by independent, professionally qualified valuers. A gain or loss in value is recorded in the statements of profit or loss for the period in which it arises.

2 Summary of significant accounting policies (continued)

(e) Financial assets

(i) Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company and Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company and Group has applied the practical expedient, the Company and Group initially 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. Trade receivables that do not contain a significant financing component or for which the Company and Group has applied the practical expedient are measured at the transaction price.

(ii) Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments);
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments), and
- Financial assets at fair value through profit or loss.

(iii) Financial assets at amortised cost.

NZ IFRS 9.4.1.2 Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The Company and Group's financial assets at amortised cost includes trade receivables and related party loans.

(iv) Financial assets at fair value through OCI (debt instruments)

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

(v) Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Company and Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under NZ IAS 32 Financial Instruments. The classification is determined on an instrument-by instrument basis. Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised in the statement of profit or loss when the right of payment has been established, except when the Company and Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment. The Company and Group elected to classify irrevocably its equity investments under this category.

(vi) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss. This category includes derivative instruments and listed equity investments which the Company and Group had not irrevocably elected to classify at fair value through OCI. Dividends on listed equity investments are recognised as other income in the statement of profit or loss when the right of payment has been established.

(f) Intangible assets

(i) Software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their useful lives of between 3 to 10 years.

2 Summary of significant accounting policies (continued)

(f) Intangible assets (continued)

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company and Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use.

(g) Depreciation and amortisation

Depreciation is provided on all tangible property, plant and equipment other than freehold land capital dredging, at rates calculated to allocate the assets' cost less estimated residual value over their useful lives.

- Site improvements	10 - 50 years
- Vehicles, plant and equipment	3 - 25 years
- Floating plant	30 years
- Maintenance dredging	8 years
- Wharves and jetties	10 - 80 years
- Buildings	10 - 60 years
- Sea defences	100 - 200 years

Depreciation on crane assets is calculated on a unit-of-production basis with estimated useful lives of 33,000-36,000 operating hours.

Land and capital dredging are not depreciated as they are considered to have indefinite useful lives.

(i) *Impairment*

Assets that have an indefinite useful life are not subject to depreciation and are tested annually for impairment. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds the recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Impairment losses directly reduce the carrying amount of assets and are recognised in the statements of profit or loss.

(h) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statements of financial position.

2 Summary of significant accounting policies (continued)

(i) Borrowings

On initial recognition all borrowings are recognised at the fair value of consideration received less directly attributed transactions costs. Borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of the loan facility are amortised over the term of the loan.

Borrowings are classified as current liabilities unless the Company and Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance date.

Borrowing costs are recognised as an expense when incurred except to the extent that they are capitalised. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset are capitalised as a part of the cost of that asset.

(j) Income tax

Income tax expense includes components relating to current tax and deferred tax.

Current tax is the amount of income tax payable based on the taxable profit for the current year, and any adjustments to income tax payable in respect of prior years.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable 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 or tax losses can be utilised.

Deferred tax is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of an asset or liability in a transaction that affects neither accounting profit nor taxable profit.

Current tax and deferred tax are measured using tax rates (and tax laws) that have been enacted or substantively enacted at balance date.

Current and deferred tax is recognised against the profit or loss for the period, except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

(k) Employee benefits

Short-term employee benefits including salaries and wages, annual leave and contributions to superannuation schemes are recognised when they accrue to employees and are measured at undiscounted cost.

The liability for long service leave is recognised and measured at the present value of the expected future entitlements to be made in respect of services provided by employees up to the reporting date. Consideration is given to the expected future wage and salary levels, experience of employee departures and periods of service.

(l) Provisions

Provisions are recognised when:

- the Company and Group has a present legal or constructive obligation as a result of past events;
- it is more likely than not that an outflow of resources will be required to settle the obligation, and
- the amount has been reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects the current market assessments of the time value of money and risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense

Provisions are not recognised for future operating losses.

2 Summary of significant accounting policies (continued)

(m) Revenue recognition

Port operations services are a series of distinct performance obligations for the provision of marine, berthage and port infrastructure services to the Group's shipping customers as vessels berth which are accounted for as a single performance obligation. Revenue is recognised over time using the percentage of completion method.

Revenue is measured based on the service price specified in the relevant tariffs or specific customer contract. The contract price for the services performed reflects the value transferred to the customer.

Dividend income is recognised when the right to receive payment is established.

(n) Financial risk management

The Company and Group's activities expose it to a variety of financial risks, including foreign currency risk, liquidity risk, credit risk and cash flow interest rate risk. The Company and Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company and Group's financial performance.

(o) Accounting for derivative financial instruments and hedging activities

Where all relevant criteria are met, hedge accounting is applied to remove the accounting mismatch between the hedging instrument and the hedged item.

(i) Classification of derivatives

Derivatives are only used for economic hedging purposes and not as speculative investments.

(ii) Hedge ineffectiveness

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument.

<u>Forward contracts</u>

For hedges of foreign currency purchases, the Company and Group enters into hedge relationships where the critical terms of the hedging instrument match the terms of the hedged item. The Company and Group therefore performs a qualitative assessment of effectiveness. If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match exactly with the critical terms of the hedging instrument, the Company and Group uses the hypothetical derivative method to assess effectiveness.

In hedges of foreign currency purchases, ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated, or if there are changes in the credit risk of the Company and Group or the derivative counterparty.

<u>Interest rate swaps</u>

The Company and Group enters into interest rate swaps that have similar critical terms as the hedged item, such as reference rate, reset dates, payment dates, maturities and notional amount. The Company and Group does not hedge 100% of its loans, therefore the hedged item is identified as a proportion of the outstanding loans up to the notional amount of the swaps. As all critical terms matched during the year, the economic relationship was considered to be 100% effective. Hedge ineffectiveness for interest rate swaps is assessed using the same principles as for hedges of foreign currency purchases. It may occur due to:

- the credit / debit value adjustment on the interest rate swaps which is not matched by the loan, and
- differences in critical terms between the interest rate swaps and loans.

(iii) Measurement of derivatives

Forward exchange contracts and options and interest rate swaps are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value at balance date. The fair value of interest rate swaps is determined by reference to market values for similar instruments. The fair value of forward exchange contracts and options is determined by reference to current forward exchange rates for contracts with similar maturity profiles.

2 Summary of significant accounting policies (continued)

(p) Foreign currencies

Transactions in foreign currencies are translated at the New Zealand rate of exchange ruling at the date of the transaction. At balance date foreign monetary assets and liabilities are translated at the closing rate and exchange variations arising from these are included in the statements of profit or loss.

(q) Trade and other payables

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

Liabilities for wages, salaries and performance payments, including annual leave, expected to be settled within 12 months of the reporting date are recognised in respect of employee services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

(r) Share-based payments

The cost of share-based payment transactions are spread over the period in which the employees provide services and become entitled to the awards.

The cost of the equity-settled share-based transactions are measured by reference to the fair value of the equity instruments at the date at which they are granted. The cost of equity settled transactions is recognised in the statements of profit or loss, together with a corresponding increase in the share-based payment reserve in equity.

(s) Share capital

All ordinary shares have no par value, equal voting rights and share equally in dividends and surplus on winding up. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

(t) Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

(u) Leases

The Company and Group recognises a right-of-use asset and a lease liability at the commencement date of a lease except for short-term operating leases, where the lease term is less than 12 months, or related to low value assets, which are expensed on a straight-line basis over the term of the lease.

On initial recognition lease liabilities are recognised at the net present value of the lease payments discounted using the interest rate implicit in the lease. Lease liabilities are subsequently measured at amortised cost.

Right-of-use assets are initially measured at cost, which comprises the initial amount of the lease liability. Right-of-use assets are included within property, plant and equipment in the statement of financial position and are subsequently measured on the same basis.

Lease income from operating leases is recognised as income on a straight-line basis over the term of the lease.

2 Summary of significant accounting policies (continued)

(v) Comparatives

Certain immaterial adjustments have been made to prior year comparatives to align with the current year disclosure.

(w) Changes in accounting policies

There have been no significant changes in accounting policies during the current year. Accounting policies have been applied on a basis consistent with the prior year.

3 Income

	Group 2022 $'000	Group 2021 $'000	**Parent 2022 $'000**	Parent 2021 $'000
Operating income				
Port operations	**109,176**	104,453	**-**	-
Property operations	**2,413**	2,365	**-**	-
Dividend income	**219**	543	**8,469**	9,123
Total operating income	**111,808**	107,361	**8,469**	9,123

Rental income on investment properties within property operations was $44,000 (2021: $54,000) during the year.

4 Other expenses

	Group 2022 $'000	Group 2021 $'000	**Parent 2022 $'000**	Parent 2021 $'000
Items Included within other operating expenses:				
Auditors' fees paid to Audit New Zealand for audit of financial statements	**4**	34	**4**	34
Auditors' fees paid to Ernst & Young for audit of financial statements	**44**	-	**44**	-
Auditors' fees paid to Ernst & Young for audit of subsidiary's financial statements*	**209**	218	**61**	53
Auditors' fees paid to Ernst & Young for other services	**-**	1	**-**	-
Directors' fees	**744**	592	**45**	30
Credit loss allowance	**(107)**	(41)	**-**	-
Fair value gain on investment property	**(2,714)**	(2,200)	**-**	-
Asset retirement expenses	**54**	7	**-**	-
Net profit on sale of property, plant and equipment	**8**	69	**-**	-

Auditor remuneration - non audit services comprises a limited assurance engagement.

*The Company contributed $61,000 (2021: $53,000) towards the audit of NPHL's special purpose financial statements.

5 Finance income and expenses

	Group 2022 $'000	Group 2021 $'000	**Parent 2022 $'000**	Parent 2021 $'000
Interest expense on borrowings	**(4,831)**	(582)	**-**	-
Lease imputed interest	**(28)**	(41)	**-**	-
Less: Interest expense capitalised to PPE	**4,795**	566	**-**	-
Total finance expenses	**(64)**	(57)	**-**	-
Interest income	**466**	368	**451**	338
Total finance income	**466**	368	**451**	338
Net finance income	**402**	311	**451**	338

6 Taxation

	Group 2022 $'000	Group 2021 $'000	**Parent 2022 $'000**	Parent 2021 $'000
(a) Income tax expense				
Net profit before taxation	**28,234**	30,873	**7,970**	8,298
Income tax on the surplus for the year @ 28%	**7,906**	8,644	**2,232**	2,324
Adjustment to prior year taxation	**2,402**	21	**-**	(6)
Tax effect of income not recognised for accounting	**270**	591	**1,168**	591
Reinstatement of tax depreciation on buildings	**-**	858	**-**	-
Recognise tax benefit of imputation credits on dividends received	**-**	(2,416)	**(3,231)**	(2,416)
Tax effect of non-assessable items	**(886)**	(1,438)	**(267)**	(252)
Taxation effect of non deductible items	**81**	631	**4**	8
Tax effect of loss offsets	**(70)**	-	**(70)**	-
Foreign tax credits	**5**	-	**5**	-
Income tax expense / (benefit)	**9,708**	6,891	**(159)**	249
The taxation charge is represented by:				
Current taxation	**8,643**	6,333	**97**	95
Deferred taxation	**1,065**	537	**(256)**	160
Adjustments to current tax in prior periods	**-**	(272)	**-**	(6)
Adjustment for deferred tax of prior periods	**-**	293	**-**	-
Income tax reported in the statements of profit or loss	**9,708**	6,891	**(159)**	249
Deferred tax (liability) / asset				
Opening balance	**(16,406)**	(15,599)	**-**	154
Adjustment prior year provision	**-**	(287)	**-**	6
Deferred deduction on PIE loss through tax expense	**(1,065)**	(537)	**256**	(160)
Amounts charged or credited direct to equity	**(3,290)**	17	**-**	-
Closing balance	**(20,761)**	(16,406)	**256**	-
Deferred taxation is represented by:				
Accelerated tax depreciation	**(9,159)**	(8,638)	**-**	-
Fair value gains / (losses) on derivatives	**(1,434)**	17	**-**	-
Revaluation of sea defences	**(11,107)**	(9,302)	**-**	-
Other	**939**	1,517	**256**	-
	(20,761)	(16,406)	**256**	-
Current tax asset / (liability)				
Current tax asset is represented by:				
Tax payable	**(125)**	(96)	**(125)**	(96)
Tax credits utilised to offset current tax	**97**	96	**97**	96
Tax receivable	**847**	2,402	**-**	-
Current tax asset reported in the statements of financial position	**819**	2,402	**(28)**	-
Imputation credit account				
Imputation credits available for use in subsequent periods	**12,548**	12,902	**2,171**	2,414

7 Leases

As a lessee

	Group 2022 $'000	Group 2021 $'000	**Parent 2022 $'000**	Parent 2021 $'000
Right-of-use assets included in plant and equipment				
Balance at 1 July	**538**	751	**-**	-
Additions	**90**	-	**-**	-
Depreciation	**(213)**	(213)	**-**	-
Balance at 30 June	**415**	538	**-**	-
Lease liabilities				
Balance at 1 July	**576**	785	**-**	-
Additions	**90**	-	**-**	-
Interest expense	**28**	41	**-**	-
Lease payments - cash	**(248)**	(250)	**-**	-
Balance at 30 June	**446**	576	**-**	-
Lease liabilities				
Current	**197**	217	**-**	-
Non-current	**249**	359	**-**	-
	446	576	**-**	-

The Group leases plant and equipment for port operations typically for fixed periods of 5 to 7 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

As lessor

The Group leases land and buildings to port users for terms of 1-105 years. The Group manages the risk associated with leased land and buildings by having formal contracts which include obligations on tenants to observe relevant laws, regulations, port operating requirements, and the right to conduct contaminant testing and require reinstatement to agreed standards.

At balance date the following operating lease payments were receivable by the Group:

	Group 2022 $'000	Group 2021 $'000	**Parent 2022 $'000**	Parent 2021 $'000
Receivable within one year	**2,087**	1,995	**-**	-
Between one and two years	**2,087**	1,908	**-**	-
Between two and five years	**5,228**	4,913	**-**	-
Over five years	**9,890**	8,829	**-**	-
	19,292	17,645	**-**	-

8 Dividends

	Group 2022 $'000	Group 2021 $'000	**Parent 2022 $'000**	Parent 2021 $'000
Interim dividend paid	**4,521**	8,500	**2,000**	4,000
Final dividend paid	**11,185**	3,711	**7,025**	1,200
Dividends paid	**15,706**	12,211	**9,025**	5,200

9 Share capital

	Group 2022 $'000	Group 2021 (restated) $'000	**Parent 2022 $'000**	Parent 2021 $'000
Ordinary shares issued	**177,500**	177,500	**177,500**	177,500

All ordinary shares have equal voting rights and share equally in dividends and surplus on winding up.

10 Reserves and retained earnings

	Group 2022 $'000	Group 2021 (restated) $'000	**Parent 2022 $'000**	Parent 2021 $'000
(a) Reserves				
Revaluation reserve	**56,671**	44,966	**19,028**	94,296
Share-based payments reserve	**374**	268	**-**	-
Cash flow hedge reserve	**2,003**	(25)	**-**	-
Other reserves	**116,215**	116,013	**-**	-
	175,263	161,222	**19,028**	94,296

Movements:

(i) Revaluation reserve

	Group 2022 $'000	Group 2021 (restated) $'000	**Parent 2022 $'000**	Parent 2021 $'000
Opening balance	**44,966**	39,205	**94,296**	110,535
Attributable to non-controlling interest	**(12,660)**	-	**-**	-
Revaluation net of deferred tax	**24,365**	5,761	**(75,268)**	(16,239)
Balance at 30 June	**56,671**	44,966	**19,028**	94,296

The revaluation reserve for the Parent relates to the revaluation of the shares in Napier Port Holdings Limited and shares held through fund managers.

The revaluation reserve for the Group includes the revaluation of the port sea defences and investment properties.

(ii) Hedging reserve

	Group 2022 $'000	Group 2021 (restated) $'000	**Parent 2022 $'000**	Parent 2021 $'000
Opening balance	**(25)**	-	**-**	-
Attributable to non-controlling interest	**(1,660)**	21	**-**	-
Changes in fair value net of deferred tax	**3,688**	(46)	**-**	-
Closing balance	**2,003**	(25)	**-**	-

10 Reserves and retained earnings (continued)

The hedging reserve comprises the effective portion of the cumulative net change in fair value of cash flow hedging instruments, related to hedged transactions that have not yet occurred.

	Group 2022 $'000	Group 2021 (restated) $'000	**Parent 2022 $'000**	Parent 2021 $'000
(iii) Share-based payments reserve				
Opening balance	**268**	205	**-**	-
Attributable to non-controlling interest	**(87)**	(51)	**-**	-
Share-based payments	**193**	114	**-**	-
Closing balance	**374**	268	**-**	-
(iv) Other reserves				
Balance at 1 July	**116,013**	116,416	**-**	-
Attributable to non-controlling interest	**(166)**	332	**-**	-
Changes in value	**368**	(735)	**-**	-
Balance at 30 June	**116,215**	116,013	**-**	-

Other reserves reflects the difference between the fair value of the proportion of share capital in Port of Napier Limited attributed to the Company following the issue of shares to non-controlling interests, and the proportion of share capital originally recognised by the Company before the entity listed in August 2019.

(e) (Accumulated losses) / retained earnings

	Group 2022 $'000	Group 2021 (restated) $'000	**Parent 2022 $'000**	Parent 2021 $'000
Opening balance	**(72,532)**	(81,911)	**173,878**	171,029
Net profit for the year	**8,993**	14,033	**8,129**	8,049
Dividends	**(8,987)**	(5,195)	**(9,025)**	(5,200)
Business reorganisation	**-**	541	**-**	-
Closing balance	**(72,526)**	(72,532)	**172,982**	173,878

11 Trade and other receivables

	Group 2022 $'000	Group 2021 $'000	**Parent 2022 $'000**	Parent 2021 $'000
Trade and other receivables				
Trade receivables	**13,314**	14,769	**-**	-
Receivables from related parties (note 23)	**84**	-	**83**	-
Accruals and prepayments	**1,148**	1,890	**102**	128
Total trade and other receivables	**14,546**	16,659	**185**	128

11 Trade and other receivables (continued)

	Group 2022 $'000	Group 2021 $'000	**Parent 2022 $'000**	Parent 2021 $'000
The ageing of trade receivables at reporting date is set out below:				
Not past due	**12,561**	13,216	**-**	-
Past due 0 - 30 days	**342**	1,416	**-**	-
Past due 30 - 60 days	**94**	118	**-**	-
Past due > 60 days	**34**	19	**-**	-
	13,031	14,769	**-**	-

The carrying value of trade and other receivables includes an expected credit loss allowance of $191,000 in respect of trade receivable balance at 30 June 2022 (2021: $299,000). To measure the expected credit loss allowance amount, historical loss rates are adjusted to reflect forward-looking information. Trade receivables are grouped in accordance with their shared credit risk characteristics and global credit rating historical industry information applied to estimate future default and loss percentage rates. There have been no specific trade receivable balances written-off during the period.

12 Trade and other payables

	Group 2022 $'000	Group 2021 $'000	**Parent 2022 $'000**	Parent 2021 $'000
Trade and other payables				
Trade payables	**6,928**	14,382	**121**	1,072
Employee entitlement accruals	**5,137**	5,190	**-**	-
Trade accruals	**5,438**	5,434	**107**	72
	17,503	25,006	**228**	1,144

The trade payables carrying value is equivalent to the current fair value.

Employee entitlement accruals also include staff performance incentive payments due.

13 Provisions for employee entitlements

	Group 2022 $'000	Group 2021 $'000	**Parent 2022 $'000**	Parent 2021 $'000
Non-current				
Provisions for employee entitlements	**493**	490	**-**	-
Provisions for employee entitlements	**493**	490	**-**	-
Provisions for non-current employee entitlement				
Balance at beginning of year	**490**	477	**-**	-
Additional provision made	**92**	68	**-**	-
Amount utilised	**(89)**	(55)	**-**	-
Balance at end of year	**493**	490	**-**	-

14 Deferred income

For the year ended 30 June 2022, total deferred grant income from the Provincial Growth Fund amounted to $500,000 (2021: $nil).

The Group entered into a funding agreement with the Ministry of Business, Innovation and Employment for the develoment and establishment of the Hawke's Bay Food Innovation Hub. Through the Provincial Development Unit, the Ministry is responsible for administering the Provincial Growth Fund. The total available funding under the agreement with the Provincial Growth Fund is $12,000,000. The funding will be made available to the Group over a period of time as specific milestones are met.

15 Intangible assets

	Group 2022 $'000	Group 2021 $'000	**Parent 2022 $'000**	Parent 2021 $'000
Opening book value at 1 July				
Computer software at cost	**7,994**	7,304	**-**	-
Accumulated amortisation	**(6,713)**	(6,111)	**-**	-
Net book amount	**1,281**	1,193	**-**	-
Current year movement				
Opening net book amount	1,281	1,193	-	-
Additions	335	843	-	-
Transfer / disposals / impairment	-	(153)	-	-
Current year amortisation	(532)	(753)	-	-
Amortisation transfer / disposals	-	151	-	-
Amount left to allocate:	1,084	1,281	-	-
Closing book value at 30 June				
Computer software costs at cost	**8,329**	7,994	**-**	-
Accumulated amortisation	**(7,245)**	(6,713)	**-**	-
Net book amount	**1,084**	1,281	**-**	-

16 Property, plant and equipment

Group	Land $'000	Sea Defences $'000	Buildings $'000	Site improve-ments $'000	Vehicles, plant and equipment $'000	Work in progress $'000	Wharves and jetties $'000	Dredging $'000	Total $'000
At 1 July 2020									
Cost	38,656	88,121	28,526	63,802	130,653	39,084	47,867	19,780	456,489
Accumulated depreciation	-	(6,806)	(11,723)	(26,162)	(55,972)	-	(10,352)	(7,187)	(118,202)
Net book amount	38,656	81,315	16,803	37,640	74,681	39,084	37,515	12,593	338,287
At 30 June 2021									
Cost	38,656	82,407	30,921	69,900	134,003	117,110	51,591	19,786	544,374
Accumulated depreciation	-	(1,288)	(12,607)	(28,355)	(63,000)	-	(11,064)	(7,837)	(124,151)
Net book amount	38,656	81,119	18,314	41,545	71,003	117,110	40,527	11,949	420,223
Year ended 30 June 2022									
Opening net book amount	38,656	81,119	18,314	41,545	71,003	117,110	40,527	11,949	420,223
Revaluations	-	28,453	-	-	-	-	-	-	28,453
Additions	-	-	155	3,356	7,132	70,842	197	1,368	83,050
Transfer / disposals	-	-	-	(1,373)	(1,244)	-	(138)	-	(2,755)
Depreciation charge	-	(343)	(806)	(2,366)	(7,530)	-	(785)	(664)	(12,494)
Depreciation - transfer / disposals / impairment	-	-	-	1,373	1,018	-	80	-	2,471
Depreciation - revaluation	-	1,535	-	-	-	-	-	-	1,535
Closing net book amount	38,656	110,764	17,663	42,535	70,379	187,952	39,881	12,653	520,483
At 30 June 2022									
Cost	38,656	110,860	31,076	71,883	139,891	187,952	51,650	21,154	653,122
Accumulated depreciation	-	(96)	(13,413)	(29,348)	(69,512)	-	(11,769)	(8,501)	(132,639)
Net book amount	38,656	110,764	17,663	42,535	70,379	187,952	39,881	12,653	520,483

Plant and equipment includes right-of-use assets relating to leased plant and equipment.

Sea defence assets were revalued to fair value as at 31 March 2022 by AECOM New Zealand Limited. The valuation has been prepared on an optimised depreciated replacement cost basis and in accordance with the NZ Infrastructure Asset Valuation and Depreciation Guidelines published by the NAMS group of IPWEA.

16 Property, plant and equipment (continued)

Significant estimates – valuation of sea defences

The valuation of sea defences is subject to assumptions and judgements which materially affect the resulting valuation. Such factors include replacement quantities and unit values, the condition and performance of assets, estimated total and remaining effective lives of 70 to 161 years and 5 to 80 years, respectively, and estimated residual values of 20% of replacement cost. Other inputs incorporated into the valuation process include an allowance for project on-costs of 5-6%. An increase in the remaining useful life, the residual value assumption, or in replacement quantities and unit values for sea defence assets will result in an increase in the valuation and vice versa.

The historical cost of the sea defence asset class is $4,696,000 (2021: $4,696,000).

The fair value measurement has been categorised as a Level 3 fair value based on inputs which are not based on observable market data.

17 Financial assets

	Group 2022 $'000	Group 2021 $'000	**Parent 2022 $'000**	Parent 2021 $'000
Financial assets at 30 June				
Equity investments	**-**	-	**304,201**	374,000
Investments in managed funds	**43,208**	48,482	**43,208**	48,482
Loan receivables	**16,663**	16,663	**16,663**	16,663
Held-to-maturity investments	**600**	-	**-**	-
Total	**60,471**	65,145	**364,072**	439,145
Financial assets for the year ended 30 June				
At beginning of year	**65,145**	62,201	**439,145**	458,201
Additions	**6,838**	384	**7,939**	384
Revaluation surpluses / (deficits)	**(3,974)**	5,761	**(75,474)**	(16,239)
Disposals	**(7,538)**	(3,201)	**(7,538)**	(3,201)
At end of year	**60,471**	65,145	**364,072**	439,145
Financial assets include:				
Shares in Napier Port Holdings Limited	**-**	-	**302,500**	374,000
Partnership equity in FoodEast Limited Partnership	**-**	-	**1,701**	-
Investment in managed funds	**43,208**	48,482	**43,208**	48,482
Loan receivable from Hawke's Bay Regional Council	**16,663**	16,663	**16,663**	16,663
Term deposit	**600**	-	**-**	-
	60,471	65,145	**364,072**	439,145

(a) Commitments

At year end the Company had committed $4 million (2021: $4 million) towards equity investments.

(b) Impairment

There were no impairment provisions on investments in the current period.

(c) Shares in Napier Port Holdings Limited

The Company acquired 100% of the shares in Port of Napier Limited from Hawke's Bay Regional Council effective from 25 June 2012 for total consideration of $177.5 million, paid for by way of a subscription to 177,500,000 ordinary shares in the capital of the Company at the value of $1 per share.

In August 2019, 45% of the Company's shareholding in Napier Port was listed on the NZX resulting in the Company owning 55% of the Napier Port through its shareholding in Napier Port Holdings Limited. The investment in Napier Port Holdings Limited is measured at fair value based on NZX prices.

(d) Categories

Financial assets designated at fair value through OCI (FVOCI)
- Equity investment in Napier Port Holdings Limited
- Equity investments held through fund managers (Mercer and Jarden)

Financial assets at amortised cost
- Trade receivables
- Related party loans

Financial assets at fair value through profit or loss
- Term deposits

18 Investments in subsidiaries

The Group's principal subsidiaries at 30 June 2022 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. The country of incorporation or registration is also their principal place of business.

The Group had the following subsidiaries at 30 June 2022:

Name	Country of incorporation and place of business	Nature of business	Proportion of shares held by the Group 2022 %	Proportion of shares held by the Group 2021 %
Napier Port Holdings Limited	New Zealand	Holding company	55	55
Port of Napier Limited	New Zealand	Port operator	55	55
Foodeast GP Limited	New Zealand	Governance vehicle for Foodeast Limited Partnership	67	-

When Foodeast Limited Partnership ('Foodeast') was incorporated on 1 July 2021, the Company contributed a further $1.6 million, on top off $100,000 initially contributed in 2020, in line with the capital contribution requirement. Foodeast's only purpose is to act as the general partner of the HB Food Innovation Hub Limited Partnership. Foodeast is developing a commercial and industrial property for the food industry. At 30 June 2022, the development of the investment property was still underway.

19 Investment properties

	Group 2022 $'000	Group 2021 $'000	**Parent 2022 $'000**	Parent 2021 $'000
Investment properties				
Land and buildings	**14,885**	10,400	**-**	-
Total investment properties	**14,885**	10,400	**-**	-
Balance at beginning of year	**10,400**	8,200	**-**	-
Net gain from fair value adjustments	**2,436**	2,200	**-**	-
Acquisitions	**1,500**	-	**-**	-
Capitalised subsequent expenditure	**549**	-	**-**	-
Balance at end of year	**14,885**	10,400	**-**	-

Napier Port Holdings Limited

Investment properties were externally valued at 31 March 2022 by William Lawler of Logan Stone Limited, a registered valuer with relevant experience of the property type and location (2021: at 30 June 2021 by William Lawler (registered valuer) of Logan Stone Limited).

The fair value has been determined by the valuer using a market approach based on comparable property sales within the area. The fair value measurement has been categorised as a Level 2 fair value based on inputs which are observable but not quoted prices.

Foodeast Limited Partnership

Investment properties were externally valued at 30 June 2022 by Sam Glover of TelferYoung, a registered valuer with relevant experience of the property type and location.

The fair value has been determined by the valuer using a market approach based on comparable property sales within the area. The fair value measurement has been categorised as a Level 2 fair value based on inputs which are observable but not quoted prices.

20 Loans and borrowings

Napier Port Holdings Limited (NPHL)

2022	**Committed Facilities $'000**	**Undrawn Facilities $'000**	**Capitalised Loan Costs $'000**	**Carrying Value $'000**
Non-current				
Bank facilities (coupon: floating)	180,000	50,000	620	129,380
Total non-current	180,000	50,000	620	129,380

2021	**Committed Facilities $'000**	**Undrawn Facilities $'000**	**Capitalised Loan Costs $'000**	**Carrying Value $'000**
Non-current				
Bank facilities (coupon: floating)	**180,000**	120,000	**1,282**	58,718
Total non-current	**180,000**	120,000	**1,282**	58,718

The Group has entered into three facilities with Westpac New Zealand Limited, Industrial and Commercial Bank of China (New Zealand) Limited (ICBC New Zealand) and Industrial and Commercial Bank of China (Asia) Limited (ICBC Asia) which provide total available facilities of $180 million, to fund the completion of the 6 wharf expansion project and general corporate purposes. Of the total facilities, $60 million matures July 2023 and $120 million matures September 2024. Establishment and line fees paid on the facilities are included as a prepayment within trade and other receivables until the facilities are drawn down.

The facility agreements require that certain covenants are met and will require the Group to maintain or better specified debt coverage, interest coverage, equity and group coverage ratios.

Security for the facilities with the banks is by way of negative pledge over the assets of the Group in respect of both the sale of assets and other security interests.

Hawke's Bay Regional Investment Company Limited (the Company)

The Company has no borrowings as at 30 June 2022 (2021: none).

21 Cash and cash equivalents

	Group 2022 $'000	Group 2021 $'000	**Parent 2022 $'000**	Parent 2021 $'000
Cash and cash equivalents				
Cash and cash equivalents	**7,619**	10,062	**5,253**	7,545
Reconciled to cash flow statement	**7,619**	10,062	**5,253**	7,545

22 Reconciliation of surplus after taxation to net cash flows from operating activities

	Group 2022 $'000	Group 2021 $'000	**Parent 2022 $'000**	Parent 2021 $'000
Surplus after taxation	**18,526**	23,982	**8,129**	8,049
Add non-cash items:				
Fair value gains	**(2,436)**	(2,200)	**-**	-
Depreciation and amortisation	**13,027**	13,108	**-**	-
Impairment of assets	**54**	-	**-**	-
Loss / (gain) on sale of assets	**347**	59	**339**	(17)
Share of loss of equity accounted investee	**-**	80	**-**	-
Share based payments	**192**	113	**-**	-
Other non cash items	**(346)**	250	**(490)**	249
Deferred tax	**1,065**	670	**-**	-
Total non-cash items	**11,903**	12,080	**(151)**	232
(Deduct) / add other adjustments:				
(Decrease) / increase in non-current provisions	**3**	13	**-**	-
Total other adjustments	**3**	13	**-**	-
Movements in working capital:				
Increase / (decrease) in accounts payable	**(20)**	2,564	**(916)**	896
(Increase) / decrease in receivables	**588**	(1,976)	**(56)**	21
(Increase) / decrease in tax receivables	**46**	(3,726)	**28**	(309)
Total movements in working capital	**614**	(3,138)	**(944)**	608
Net cash inflow from operating activities	**31,046**	32,937	**7,034**	8,889

23 Related party disclosures

The Company is 100% owned by Hawke's Bay Regional Council (HBRC). Other related parties include Port of Napier Limited, Napier Port Holdings Limited, and Foodeast GP Limited which are all subsidiaries of the Company.

The Company and Group undertakes transactions with HBRC and its related parties, all of which are carried out on a commercial basis. During the period, no material transactions were entered into with related parties except as disclosed below.

(a) Transactions with related parties

Transactions between the Group and HBRC

The Group entered into the following transactions with HBRC:

	2022 $'000	2021 $'000
Sales of goods and services	**-**	41
Interest payments received	**333**	333
Purchases of goods and services	**130**	135
Payment of dividends	**9,025**	5,200

23 Related party disclosures (continued)

The Group entered into the following subvention payments with HBRC, noting that subvention payments were made for the tax effect of the losses transferred.

	2022 $'000	2021 $'000
Subvention payments	**121**	-

The Group have the following year end balances arising from sales / purchases of goods and services with HBRC:

	2022 $'000	2021 $'000
Intrabusiness receivables	**84**	-
Intrabusiness payables	**33**	3

Balance at year end for loan provided by the Company to HBRC:

	2022 $'000	2021 $'000
Loan to HBRC	**16,663**	16,663

Transactions between the Parent and subsidiaries

The following transactions were entered into between the Parent and its subsidiary, Napier Port Holdings Limited:

	2022 $'000	2021 $'000
Dividends received	**8,250**	8,580

	2022 $'000	2021 $'000
Accounts payable	**45**	53

During the year ended 30 June 2021, Napier Port Holdings Limited paid cash proceeds for the purchase of PONL shares to the Company of $0.3 million.

The amounts owing to related parties are paid in accordance with the Group's normal commercial terms of trade.

K. Ali-Dawson is a close family member of a member of key management personnel and has provided communications consultancy services to the Group during the period totalling $nil (2021: $4,000).

Moore Markhams, a company in which Dan Druzianic (the Chairman of the Board) is a director, provided consultancy services to the Company totalling $nil (2021: $4,000).

23 Related party disclosures (continued)

(b) Key management compensation

Compensation of the directors and executives, being the key management personnel for group reporting purposes is as follows:

	Group 2022 $'000	Group 2021 $'000	**Parent 2022 $'000**	Parent 2021 $'000
Board members				
Remuneration	**744**	619	**45**	30
Leadership team				
Short term employee benefits	**3,926**	2,505	**-**	-
Share based payments	**192**	113	**-**	-
Total key management personnel remuneration	**4,862**	3,237	**45**	30

24 Commitments

(a) Capital commitments

Capital expenditure contracted for at the end of the reporting period but not yet incurred is as follows:

	Group 2022 $'000	Group 2021 $'000	**Parent 2022 $'000**	Parent 2021 $'000
Property, plant and equipment	**12,365**	60,907	**-**	-
Total capital commitments	**12,365**	60,907	**-**	-

25 Contingencies

Contingent liabilities:

As at 30 June 2022 the Parent and Group had no contingent liabilities (2021: none).

Financial guarantees

The Group has financial performance guarantees in place, the maximum callable under the guarantees at 30 June 2022 is $121,000 (2021: $101,000).

26 Financial instruments

(a) Credit risk

In the normal course of its business the Company and Group incurs credit risk from accounts receivable, related party loans, bank balances and interest rate swap agreements. There is no significant concentration of credit risk and the Company and Group has a policy of assessing the credit risk of significant new customers and monitors the credit quality of existing customers. Counterparties to cash and derivative financial assets are major banks, approved by the directors. The related party loan is to a regional council with a strong statement of financial position that has no history of default. The Company and Group's maximum credit risk exposure is as disclosed in the statement of financial position and there is no collateral or other security held.

The Company and Group has trade receivables as financial assets that are subject to the expected credit loss model under NZ IFRS 9. For trade receivables the Company and Group applies the NZ IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

The Company and Group has a loan receivable from Hawke's Bay Regional Council (HBRC) which is subject to the expected credit loss model under NZIFRS 9. The Company and Group has applied the 12 month expected credit loss allowance approach to measure the expected credit losses for this loan. As at 30 June 2022 the net carrying value of the loan amounted to $16.6 million (2021: $16.6 million) and there was no collateral held as security. Due to the strong statement of financial position of HBRC and the nature of the relationship between the group and HBRC, the Company and Group has not recognised any credit losses against this loan as at 30 June 2022 (2021: none).

(b) Liquidity risk

Liquidity risk is the risk that the Company and Group will not be able to meet its financial obligations as and when they fall due. The Company and Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient cash and borrowing facilities available to meet its liabilities when due, under both normal and adverse conditions. The Company and Group's cash flow requirements and the utilisation of borrowing facilities are continuously monitored.

The following table sets out the contractual cash flows for all financial liabilities and derivatives:

Contractual Maturity Analysis

Group	**Carrying amount $'000**	**Cash flows to maturity $'000**	**Less than 1 year $'000**	**1 - 2 years $'000**	**2 - 5 years $'000**	**More than 5 years $'000**
2022						
Trade and other payables	6,928	6,928	6,928	-	-	-
Lease liabilities	446	446	197	209	40	-
Loans and bank borrowings	129,380	140,072	5,809	63,453	70,810	-
Interest rate swaps	(5,047)	(5,047)	(1,191)	(1,102)	(2,785)	32
Forward exchange contracts	-	-	-	-	-	-
	131,707	142,399	11,743	62,560	68,065	32
2021						
Trade and other payables	14,382	14,382	14,382	-	-	-
Lease liabilities	576	627	244	175	208	-
Loans and bank borrowings	58,718	63,422	1,053	1,053	61,316	-
Interest rate swaps	161	161	15	27	92	27
Forward exchange contracts	2	2,312	2,312	-	-	-
	73,839	80,904	18,006	1,255	61,616	27

26 Financial instruments (continued)

Parent	Carrying amount	Cash flows to maturity	Less than 1 year	1 - 2 years	2 - 5 years	More than 5 years
2022						
Trade and other payables	121	121	121	-	-	-
Bank borrowings	-	-	-	-	-	-
Interest rate swaps	-	-	-	-	-	-
Forward exchange contracts	-	-	-	-	-	-
	121	121	121	-	-	-
2021						
Trade and other payables	1,072	1,072	1,072	-	-	-
Bank borrowings	-	-	-	-	-	-
Interest rate swaps	-	-	-	-	-	-
Forward exchange contracts	-	-	-	-	-	-
	1,072	1,072	1,072	-	-	-

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company and Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

(d) Interest rate risk

The Company and Group utilises interest rate caps and swaps to manage interest rate exposures for future periods. The Company and Group’s main interest rate risk arises from loans and borrowings with variable rates, which expose the Company and Group to cash flow interest rate risk. Generally, the Company and Group enters into long-term borrowings at floating rates and swaps them into fixed rates. The Company and Group’s treasury policy defines the use of approved hedging instruments to manage interest rate exposures within minimum and maximum bands of fixed interest rate cover.

The notional principal amounts (including forward starting swaps) and the expiry period of interest rate swaps at the end of the reporting period were:

	Group 2022 $'000	Group 2021 $'000	**Parent 2022 $'000**	Parent 2021 $'000
Interest rate swaps				
Less than 1 year	**15,000**	-	**-**	-
1 - 2 years	**-**	15,000	**-**	-
2 - 5 years	**50,000**	-	**-**	-
Greater than 5 years	**30,000**	50,000	**-**	-
	95,000	65,000	**-**	-

The effects of the interest rate swaps on the Company and Group’s financial position and performance are as follows:

	Group 2022 $'000	Group 2021 $'000	**Parent 2022 $'000**	Parent 2021 $'000
Carrying amount (liability)	**(5,047)**	161		
Hedge ratio	**1:1**	1:1		
Change in fair value of outstanding hedging instruments	**5,047**	(161)		
Change in value of hedged item used to determine hedge	**(5,047)**	161		
Weighted average hedged (index) rate	**2.22%**	1.32%		

26 Financial instruments (continued)

Interest rate sensitivity analysis

At reporting date, if bank interest rates had been 100 basis points higher / lower with all other variables held constant, it would increase / (decrease) post tax profit or loss and other comprehensive income by the amounts shown below.

	Profit or loss		**Other comprehensive income**	
	100bp increase $'000	100bp decrease $'000	**100bp increase $'000**	100bp decrease $'000
2022				
Variable rate loans	**(1,300)**	1,300	**-**	-
Interest rate swaps	**616**	(656)	**2,591**	(2,762)
Cash and cash equivalents	**-**	-	**-**	-
	(684)	644	**2,591**	(2,762)
2021				
Variable rate loans	**(600)**	600	**-**	-
Interest rate swaps	**292**	(308)	**904**	(969)
	(308)	292	**904**	(969)

(e) Foreign exchange rate risk

The Company and Group undertakes transactions denominated in foreign currencies from time to time which exposes the Company and Group to changes in foreign exchange rates until such transactions are settled. It is the Company and Group's policy to hedge highly probable foreign currency risks above a certain value threshold as they arise and use forward foreign exchange contracts or foreign currency cash purchases to manage these exposures.

The Group’s exposures to financial instrument foreign currency risk at the end of the reporting period were:

	NZD Amount $'000	Currency Amount $'000
2022		
EUR cash balances held	**669**	400

	NZD Amount $'000	**Currency Amount $'000**
2021		
EUR forward foreign exchange contracts	**2,312**	1,360

26 Financial instruments (continued)

	Group 2022 $'000	Group 2021 $'000	**Parent 2022 $'000**	Parent 2021 $'000
Foreign exchange contracts				
Carrying amount (liability)	**-**	2	**-**	-
Notional amount - EUR	**-**	1,360	**-**	-
Hedge ratio	**-**	1:1	**-**	-
Maturity Date	**-**	Jul-21	**-**	-
Change in fair value of outstanding hedging instruments	**-**	2	**-**	-
Change in value of hedged item used to determine hedge effectiveness	**-**	(2)	**-**	-
Weighted average hedged rate (including forward points)	**-**	EUR 0.59:NZD 1	**-**	-

Sensitivity:

At the reporting date, a 10% strengthening or weakening of the New Zealand dollar against the relevant foreign currencies with all other variables held constant, would increase / (decrease) profit or loss and other comprehensive income by the amounts shown below.

	Profit or loss		**Other comprehensive income**	
	10% NZD increase $'000	10% NZD decrease $'000	**10% NZD increase $'000**	10% NZD decrease $'000
30 June 2022	**-**	-	**-**	-
30 June 2021	**-**	-	**(212)**	255

(f) Commodity price risk

The Group utilises commodity swap contracts to reduce the impact of market price changes on fuel costs used in operations.

The effects of commodity swap contracts on the Group's financial position and performance are as follows:

	Group 2022 $'000	Group 2021 $'000	**Parent 2022 $'000**	Parent 2021 $'000
Foreign exchange contracts				
Carrying amount asset	**-**	99	**-**	-
Notional amount - (litres)	**-**	450,000	**-**	-
Hedge ratio	**-**	1:1	**-**	-
Maturity date	**-**	July 21 - Sept 21	**-**	-
Change in value of hedged item used to determine hedge effectiveness	**-**	(99)	**-**	-
Weighted average hedged rate (NZD / litre)	**-**	$0.50	**-**	-

26 Financial instruments (continued)

(g) Fair values

Financial assets and liabilities

Financial assets

	Group 2022 $'000	Group 2021 $'000	**Parent 2022 $'000**	Parent 2021 $'000
Financial assets at fair value - level 1				
Investments in managed funds	**43,208**	48,482	**43,208**	48,482
Investment in Napier Port Holdings Limited	**-**	-	**302,500**	374,000
	43,208	48,482	**345,708**	422,482
Financial assets at fair value - level 2				
Fuel commodity swaps	**-**	99	**-**	-
Interest rate swaps	**5,206**	-	**-**	-
	5,206	99	**-**	-
Financial assets at amortised cost				
Cash	**7,619**	10,062	**5,253**	7,545
Receivables	**13,400**	14,769	**83**	-
Loan receivable	**16,663**	16,663	**16,663**	16,663
Term deposit	**600**	-	**-**	-
	38,282	41,494	**21,999**	24,208
Total financial assets	**86,696**	90,075	**367,707**	446,690
Financial liabilities				
Financial liabilities at fair value (level 2) - cashflow hedges				
Interest rate swaps	**159**	161	**-**	-
Forward foreign exchange contracts	**-**	2	**-**	-
	159	163	**-**	-
Financial liabilities at amortised cost				
Trade payables	**6,928**	14,382	**121**	1,072
Borrowings	**129,380**	58,718	**-**	-
Lease liabilities	**446**	576	**-**	-
	136,754	73,676	**121**	1,072
Total financial liabilities	**136,913**	73,839	**121**	1,072

The carrying value of all financial assets and liabilities approximates their fair value.

Estimation of fair value of financial instruments

The fair value of financial instruments is determined on a hierarchical basis that reflects the significance of the inputs used in making the measurements. The fair value hierarchy is:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

27 Share-based payments

Fair share plan

At the time of the initial public offering employees of the Group were offered an interest-free limited recourse loan to purchase up to $5,000 worth of ordinary shares at the price that the shares initially listed on the NZX. The shares are held in trust on behalf of the employees until the employees' loans are settled in full. The employee loans are repayable on the earlier of the 10th anniversary of Napier Port Holdings Limited listing on the NZX, the date an employee ceases employment with the Group, or when an employee repays their loan balance. Any dividends paid by the Group while the employee loans are outstanding are credited against the employees’ loan balance. If at the time employees are required to repay their loans the shares are worth less than the loan, the employees are not required to repay the loan balance but they will forfeit their shares.

As the conditions of the fair share plan give the employee the right, but not necessarily the obligation, to subscribe to shares the arrangement is considered for accounting purposes, an in-substance share option plan, and is accounted for under NZ IFRS 2 Share-Based Payments. Because the employees can leave at any time and repay their loans, or early repay their loans at any time, and take legal ownership of their shares, there is no vesting period and the full amount of the fair value of the award has been recognised at the grant date and there will be no further adjustment.

The fair value of the options at the grant date was determined using the Black Scholes option pricing model, taking into account the terms and conditions under which the options were granted. The following tables lists the inputs used at the time the options were granted.

	2019
Black Scholes option pricing model	
Exercise price	$2.60
Dividend yield	2.32%
Expected volatility	18.7%
Risk free interest rate	0.86% - 1.92%
Expected life of the options	9.1 years

During the year ended 30 June 2020, 472,288 shares were granted under the fair share plan with an option fair value of $0.68 per share. During the year ended 30 June 2022, no expense has been recognised in the group statement of profit or loss in respect of the fair share plan (2021: $nil).

Executive long-term incentive (LTI) plan

In August 2019, the Group introduced an equity-settled executive long-term incentive (LTI) plan. Under this LTI plan, share rights are issued to participating executives with a three year vesting period. The vesting of share rights entitle the executive to the receipt of one Napier Port Holdings Limited ordinary share per share right at nil cost, plus additional shares to the value of any dividends which would have been paid on the underlying shares during the vesting period. Vesting is subject to the executive remaining employed by the Group during the vesting period, the achievement of total shareholder return (TSR) hurdles over the vesting period and, for the initial grant, the achievement of certain EBITDA targets over the prospective financial information period (2 years).

The proportion of share rights that vests depends on the Group's TSR performance ranking relative to the NZX50 index.

To the extent that performance hurdles are not met or executives leave employment of the Group prior to vesting, the share rights are forfeited.

27 Share-based payments (continued)

	2022	2021
Number of share rights issued:		
Grant Date	**30 November 21**	2 December 20
Vesting Date	**30 November 24**	2 December 23
Balance at 1 July	**300,590**	139,613
Granted During the Year	**203,642**	160,977
Lapsed During the Year	**(32,519)**	-
Balance at 30 June	**471,713**	300,590

Share rights are valued as zero cost in-substance options at the date at which they are granted, using the Monte Carlo option pricing model. The following table lists the key inputs into the valuation:

	2022	2021
Monte Carlo option pricing model		
Grant date	**30-Nov-21**	2-Dec-20
Vesting date	**30-Nov-24**	2-Dec-23
Grant date share price	**$3.08**	$3.61
Risk free interest rate	**0.94%**	0.94%
Expected dividends	**$0.26**	$0.26
Valuation per share right	**$1.49**	$1.75

The weighted average remaining contractual life of the options at 30 June 2022 is 1.44 years (2021: 1.83 years)

During the year ended 30 June 2022, an expense of $192,000 (2021: $113,000) has been recognised in respect of the LTI plan in the group statement of profit or loss.

28 Correction of prior period errors

In 2022, the Group discovered an error in the presentation and disclosure of the separate components of equity. The error relates to the accounting for the IPO of 45% of the Napier Port Holdings Limited shares. In accounting for this transaction share capital was overstated and the non-controling interest not recorded as a component of equity. In addition, the reconciliation disclosed in the statement of changes in equity was required to show movements for each component of equity rather than a single reconciliation for total equity as was reported. The error resulted in an overstatement of share capital and a corresponding understatement of reserves and retained earnings. The error has been corrected by restating the affected components of equity in the statements of financial position and the statements of changes in equity for the Group as at 30 June 2021 and 2020. The resulting restatements have a nil impact on total equity but has adjusted equity attributable to the parent.

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included.

Consolidated statement of financial position (extract)	**As reported $'000**	**Adjustments $'000**	**As restated $'000**
At 30 June 2021			
Equity			
Share capital	404,132	(226,632)	177,500
Reserves	77,046	84,176	161,222
Retained earnings	(57,804)	(14,728)	(72,532)
Non-controlling interests	-	157,184	157,184
Total equity	423,374	-	423,374
At 1 July 2020			
Equity			
Share capital	404,867	(227,367)	177,500
Reserves	71,217	84,609	155,826
Retained earnings	(69,960)	(11,951)	(81,911)
Non-controlling interests	-	154,709	154,709
Total equity	406,124	-	406,124

29 Events occurring after the reporting period

There were no events occurring subsequent to balance date which require adjustment to or disclosure in the financial statements.

30 Performance against statement of intent targets

	Group Actual	Group Target	Parent Actual	Parent Target
For the year ended 30 June 2022				
Net debt to net debt plus equity	**22%**	<40%	**0%**	<10%
Interest cover (EBIT / interest paid)	**6x**	>3x	**N/A**	>3x
EBITDA / total assets	**7%**	9%	**2%**	3%
Return on shareholders' funds	**4.06%**	5%	**2%**	3%
Ordinary dividends	**-**	-	**$8.25m**	$10.1m
For the year ended 30 June 2021				
Net debt to net debt plus equity	**12%**	<40%	**0%**	<10%
Interest cover (EBIT / interest paid)	**50x**	>3x	**N/A**	>3x
EBITDA / total assets	**8%**	9%	**2%**	3%
Return on shareholders' funds	**6%**	5%	**2%**	3%
Ordinary dividends	**-**	-	**$8.58m**	$6m

During the year ended 30 June 2021, due to the uncertainty to revenue streams as a result of COVID-19, the dividend target for 2020/21 was reduced to $3m in agreement with Council, and reflected Council's annual plan.

31 Legislative compliance

Section 67 of the Local Government Act 2002 requires the Board of Directors to complete the Company's annual report within 3 months after the end of each financial year.

However, as a result of the COVID-19 pandemic parliament passed legislation to extend the statutory reporting time frames by up to two months in order to ensure that there is no reduction in the quality of the financial reporting and the audit of the annual reports. The Company's new reporting deadline is 30 November 2022.

The report was completed on <Date>.

32 Net debt reconciliation

This reconciliation sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	Group 2022 $'000	Group 2021 $'000
Net debt		
Cash and cash equivalents (note 21)	**7,619**	10,062
Borrowings (note 20)	**(129,380)**	(58,718)
Lease liabilities (note 7)	**(446)**	(576)
	(122,207)	(49,232)

	Other assets	**Liabilities from financing activities**		
	Cash $'000	**Borrowings $'000**	**Leases $'000**	**Total $'000**
Net debt as at 1 July 2020	18,712	-	(785)	17,927
Financing cash flows	(8,650)	(60,000)	250	(68,400)
Other changes				
Interest expense	-	(566)	(41)	(607)
Interest capitalised	-	566	-	566
Other	-	1,282	-	1,282
Net debt as at 30 June 2021	10,062	(58,718)	(576)	(49,232)
Financing cash flows	(2,443)	(70,000)	248	(72,195)
New leases	-	-	(90)	(90)
Other changes				
Interest expense	-	(4,795)	(28)	(4,823)
Interest capitalised	-	4,795	-	4,795
Other	-	(662)	-	(662)
Net debt as at 30 June 2022	7,619	(129,380)	(446)	(122,207)

Other changes include non-cash movements and interest payments which are presented as operating cash flows in the statement of cash flows.

Performance statement

Governance

	Objective	Performance target	Performance
1	The Company maintains a strategic direction that is consistent with that of 100% shareholder Hawke's Bay Regional Council (Council)	The Company develops and maintains appropriate communication lines with Council to ensure the Company remains aware of Council's strategic priorities.	The Company has presented to Council on a number of occasions to ensure the strategic direction of the Company is consistent with that of Council.
		By 1 March each year (unless otherwise agreed), the Company will submit a draft SoI for the forthcoming year for review and approval by Council.	The Draft SoI was submitted to council on 24 February 2022.
2	The Company keeps Council informed of all significant matters relating to the Company and its subsidiaries, within the constraints of commercial sensitivity.	The Company submits regular written reports to Council in the financial year and presents seminars to Councillors when appropriate.	Satisfied.
		Major matters of urgency are reported to Council at the earliest opportunity.	All major matters of urgency were reported to Council at the earliest opportunity.
3	Corporate governance procedures are appropriate, documented and reflect best practice.	The Company's policies will be developed and reviewed in accordance with a schedule approved by the Board, and the Company will work with and assist Council to ensure that there is alignment between Council and company policies.	A review of policies was performed during the 2022 year along with updates to policies as needed.
4	Directors make an effective contribution to the Company board, and their conduct is in accordance with generally accepted standards.	The Board will conduct a formal biennial performance evaluation for each director of the Company.	Not achieved.
		The Governance committee will review the training needs of individual directors of the Company, and ensure training is provided where required.	Ongoing. This will be reassessed upon appointment of new Directors following Council elections.
5	The Company's process for the selection and appointment of directors to the boards of subsidiary and monitored companies is rigorous and impartial.	The process followed for each appointment to a subsidiary or monitored company board is transparent, fully documented and in line with Council's approved policies and procedures.	Director appointments made during the year complied with Council / the Company policies.

	Objective	Performance target	Performance
6	Subsidiary companies complete, on a timely basis, Statements of Intent that meet best practice standards.	The Company will engage with subsidiary companies prior to the SoI round in each year regarding the structure and content of their SoI.	Satisfied in respect of FoodEast. Not required under section 71A of Local Government Act 2002.
		In each year, subsidiary companies submit draft Statements of Intent to the Company in sufficient time for the Company to submit a Final SOI by 30 June.	Satisfied in respect of FoodEast. Not required under section 71A of Local Government Act 2002 for NPHL.
		The Company will review Statements of Intent and respond to the subsidiaries and make recommendations to Council, including on any material changes that are proposed, within six weeks of receipt.	Satisfied in respect of FoodEast. Not required under section 71A of Local Government Act 2002 for NPHL.
7	Subsidiary companies that are CCTOs comply with the Local Government Act's requirements that their principal objectives be: - achieving the objectives of its shareholders as set out in the SoI; - being a good employer; - exhibiting a sense of social and environmental responsibility; and - conducting their affairs in accordance with sound business practice.	The Company will review the companies' performance in the context of these statutorily required objectives.	Satisfied - the Company receives regular investor updates published by the Port of Napier Limited.

Group strategic, financial and sustainability objectives

	Objective	Performance target	Performance
1	Subsidiary companies adopt strategies that are compatible with the strategic direction of the Company and Council.	The Company will review the strategic direction and outcomes published by the Napier Port Holdings Limited to ensure that they align with those of the Company. Foodeast will submit annual Statements of Intent which will be reviewed by the Company's Board of Directors.	Satisfied. Foodeast SOI submitted and reviewed by the Company's Board of Directors 24 February 2021.
2	Subsidiary companies adopt strategies that contribute to regional growth.	The Company will encourage subsidiary companies to seek opportunities that are both commercially sound and are capable of enhancing regional growth, and actively engage them with regard to specific opportunities that may arise.	Satisfied - Napier Port continues to focus on increased trade growth with the recently completed new 6 wharf enabling it to expand its operations. Foodeast investment is centered around regional growth through collaboration and technology.

Parent company financial objectives

	Objective	Performance target	Performance
1	The Company financial and distribution performance meets the shareholder's expectations.	The Company pays a dividend for the 2022 financial year that meets or exceeds the forecast dividend, and achieves other performance targets set out in section 7.	Satisfied.
2	The Company's investments provide an appropriate return in relation to their business risk, and against external benchmarks.	The Company will periodically review the performance of subsidiary companies and other investments against external benchmarks, and assess the value of the investment in the individual company in relation to its inherent business risk and community benefits.	Satisfied.

INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF HAWKE'S BAY REGIONAL INVESTMENT COMPANY LIMITED'S GROUP FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2022

The Auditor-General is the auditor of Hawke's Bay Regional Investment Company Limited and its controlled entities (collectively referred to as 'the Group'). The Auditor-General has appointed me, David Borrie, using the staff and resources of Ernst & Young, to carry out the audit of the financial statements and the performance information of the Group, on his behalf.

Opinion

We have audited:

- the financial statements of the Group on pages 10 to 48, that comprise the statement of financial position as at 30 June 2022, the statement of profit or loss, 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; and
- the performance information of the Group on pages 47 and 49 to 51.

In our opinion:

- the financial statements of the Group on pages 10 to 48:
    - present fairly, in all material respects:
        - its financial position as at 30 June 2022; 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; and
- the performance information of the Group on pages 47 and 49 to 51 presents fairly, in all material respects, the Group's actual performance compared against the performance targets and other measures by which performance was judged in relation to the Group's objectives for the year ended 30 June 2022.

Our audit was completed on 21 November 2022. 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 and the performance information, 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 and the performance information

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

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

In preparing the financial statements and the performance information, the Board of Directors is responsible on behalf of the Group for assessing the Group'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 the Board of Directors intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors' responsibilities arise from the Local Government Act 2002.

Responsibilities of the auditor for the audit of the financial statements and the performance information

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, 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 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 and the performance information.

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

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 and the performance information, 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 for 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 Group'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 evaluate the appropriateness of the reported performance information within the Group's framework for reporting its performance.

- 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 Group'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 and the performance information 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 Group to cease to continue as a going concern.

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

- We obtain sufficient appropriate audit evidence regarding the financial statements and the performance information of the entities or business activities within the Group to express an opinion on the consolidated financial statements and the performance information. We are responsible solely for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 in 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 9, but does not include the financial statements and the performance information, and our auditor's report thereon.

Our opinion on the financial statements and the performance information 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 and the performance information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the performance information 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 the fact. We have nothing to report in this regard.

Independence

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

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

David Borrie
Ernst & Young
Chartered Accountants
On behalf of the Auditor-General
Wellington, New Zealand