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Annual Report 2016

NEXT GENERATION
PORT OTAGO

Port Otago Limited Annual Report 2016

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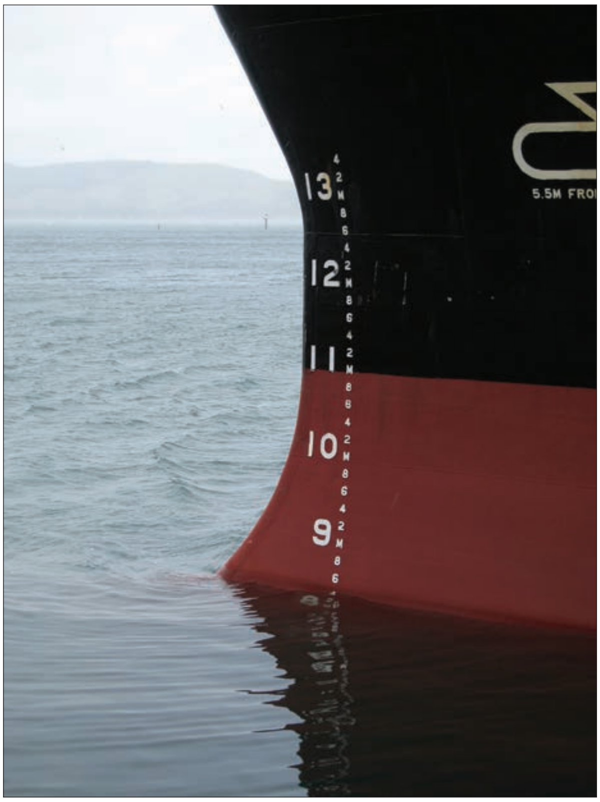
Cover photo: Courtesy of the Department of Conservation webcam at The Royal Albatross Centre, Otago Peninsula, Dunedin.

OVERVIEW OF GROUP RESULTS

	2016 $million	2015 $million
Revenue	77.8	76.8
Operating profit before non-operating income and expenses and income tax	21.1	24.0
Profit for the year	34.1	52.4
Total assets	497.1	461.8
Shareholders' equity	401.7	375.2
Equity ratio	81%	81%
Trade		
Container throughput (teu)	172,400	172,800
Conventional cargo volume (000's tonnes)	1,343	1,408
Number of vessel arrivals	461	508



FIVE YEAR SUMMARY

Trade and operational analysis	2016	2015	2014	2013	2012
Cargo vessel arrivals	391	432	423	427	441
Cruise vessel arrivals	70	76	78	84	83
Total ship calls	461	508	501	511	524
Container throughput (teu)	172,400	172,800	181,300	195,400	172,100
Bulk cargo tonnes (000's)	1,343	1,408	1,326	1,312	1,271
Warehousing capacity (m²)	65,800	52,500	48,500	48,500	48,500
Employee's	309	310	293	290	278

Financial comparisons	2016 $000	2015 $000	2014 $000	2013 $000	2012 $000
Revenue #	77,824	76,840	77,273	78,026	70,148
EBITDA from operations #	31,341	33,200	33,950	34,439	30,069
Surplus from operations (EBIT) #					
Port operations	10,592	12,643	14,767	15,939	11,791
Investment property	12,622	11,624	11,378	10,944	10,560
Total group EBIT #	23,214	24,267	26,145	26,883	22,351
Unrealised net change in value of investment property	19,957	10,678	14,977	23,545	2,361
Profit for the year	34,099	52,435	31,824	38,092	12,789
Dividends for financial year *	7,300	7,250	7,100	12,000	11,750
Shareholders' equity	401,706	375,199	344,838	314,309	272,340
Total assets					
Port operations	197,247	193,100	176,518	167,778	159,947
Shares in listed companies	-	-	50,642	45,103	31,649
Investment property	299,874	268,726	267,220	230,167	205,548
Total group	497,121	461,826	494,380	443,048	397,144
Cash flows from operating activities	18,188	28,750	20,639	21,143	17,411
Port operations capital expenditure	(30,653)	(6,863)	(15,719)	(13,464)	(4,284)
Investment property purchases and improvements	(8,424)	(24,165)	(31,748)	(1,347)	(84)
Shareholders' equity	81%	81%	70%	71%	69%
Return on equity **					
Before unrealised revaluations	4.0%	12.0%	5.3%	4.8%	3.7%
After unrealised revaluations	8.8%	14.6%	9.7%	13.0%	4.6%
EBIT return on assets #					
Port operations	5.4%	6.5%	8.5%	9.7%	7.2%
Investment property	4.2%	4.3%	4.6%	5.0%	5.2%
Total group	4.7%	10.8%	5.6%	6.4%	5.6%

* Includes the final dividend for the financial year declared after balance date, as disclosed in Note E4.
** Profit, divided by average shareholders' equity.
# Excludes gain on sale of investment property, property, plant and equipment and restructuring costs.

CHAIRMAN AND CHIEF EXECUTIVE'S REVIEW

The Port Otago Group has delivered another solid trading result with a strong second half in the financial year. Consistent cargo volumes and increases in investment property valuations led to a Group profit for the year of $34.1 million. This compares with the previous year's tax-paid profit of $52.4 million which included a gain of $27.9 million associated with the sale of the Lyttelton Port Company Limited (LPC) share investment.

This year's Group operating profit before unrealised revaluations and tax was $21.1 million compared to $20.8 million last year, excluding the dividend income received from LPC.

Highlights

The highlights during the year include:

- Steady decline in Total Recordable Injury Frequency Rate (TRIFR) to 12 per million hours worked
- Stage one deepening of the shipping channel to Port Chalmers to 13.5 metres completed
- Stage two deepening to 14 metres commenced
- 6% growth in export container volumes
- Lower log volumes, containerised imports and less cruise vessels impacted result
- Warehouse storage capacity increased by 25% at Port Chalmers and Sawyers Bay to 65,800 square metres
- Commenced stage two of the industrial land development in Hamilton to have a suitable variety of sections available to meet increasing demand.

Health and Safety

The beginning of the financial year was marred by the injury to a staff member on 1 July 2015 following one of Port Otago's 4-over-3 straddle carriers toppling over. While it is fortunate the employee has made a full recovery and returned to work the incident highlights the need to carefully manage the risks within our operations.

Port Otago's approach to health and safety is to provide a strong commitment from management through visible leadership, a high level of staff engagement, good safety systems, operating procedures and training and a permanent workforce. Underlying this commitment, the Board's Health and Safety Governance Committee, under the Chairmanship of Paul Rea, continued to meet on a regular basis and included site visits by all Directors to the many different activities undertaken by the business.

The execution of our health and safety strategy has delivered a steady decrease in the Total Recordable Injury Frequency Rate (TRIFR) to 12 per million hours worked compared to 30 per million hours worked last year. While this is an excellent improvement the safety journey will continue as we seek to pursue our goal of a zero harm workplace.

Next Generation Development Projects

Deepening of the shipping channel to Port Chalmers has been split into two stages with stage one to 13.5 metres chart datum completed during the year. Following a channel survey, vessel operators immediately took advantage of the deeper draft to maximise their loadings from Port Chalmers and across other New Zealand ports. Stage two deepening to 14 metres chart datum is currently being undertaken by Port Otago's dredge, the *New Era*, with completion scheduled for September 2017. This requires a further 1.1 million cubic metres to be dredged over and above the 380,000 cubic metres dredged to achieve the 13.5 metre chart datum.

Port Otago's suction dredge the *New Era*

Tenders will shortly be called for the construction of the planned $15 million, 140 metre wharf extension at Port Chalmers. Construction of the reinforced concrete deck supported by steel piles will take

CHAIRMAN AND CHIEF EXECUTIVE'S REVIEW

approximately a year to complete and will extend the existing 300 metre outer wharf to 440 metres. This will see the container cranes having ready access to reach bow and stern containers on vessels more than 280 metres in length and will allow unrestricted use of the container wharf when larger cruise vessels are in the Port at the same time.

The manufacture in Turkey of the 30 tonne bollard pull tug, *Arihi*, was completed on time and on budget with Port Otago taking delivery after balance date. The *Arihi* will assist with the dredging operation but is also being integrated into the towage operation and will provide additional capacity as Port Otago's other tugs undergo regular maintenance. The *Arihi* will tow the *Hapuka*, a second-hand split-hopper barge with a capacity of 750m^3 which was also purchased to support the channel deepening project and future maintenance dredging.

Arihi undertaking sea trials – Istanbul, Turkey

The extension to the Back Beach dairy warehouse and construction of the second Sawyers Bay warehouse were also completed. These two warehouses provide an additional 13,300m^2 and bring Port Otago's total warehouse capacity to 65,800m^2.

Port operations capital expenditure for the year was $30.7 million compared to $6.9 million last year. Major items included the channel deepening, purchase of the tug *Arihi*, sheetpiling of the main container wharf prior to deepening and warehouse extensions.

The year's capital expenditure was largely funded from cash on hand and port operational cash flows with only a $1.1 million increase in borrowings. An additional $6.6 million of borrowings was applied to purchases and improvements of investment property.

Financial Results

Operating profit before non-operating income and expenses and income tax was $21.1 million compared to $20.8 million excluding the LPC dividend received last year. Revenue was 1% higher at $77.8 million with total operating costs increasing to $58 million. Staff costs were up $2 million to $29.3 million offset by lower interest costs down 48% to $2.2 million. This was due to the full year effect of lower borrowings and the benefit of lower interest rates as historical debt is re-financed.

Shareholder equity at June 2016 increased to $402 million from $375 million last year with the equity ratio maintained at 81%. Total assets for the group increased to $497 million.

Dividends

Dividends of $7.3 million, up from $7.25 million last year, have been paid or declared for the year ended 30 June 2016.

Port Operations

EBITDA from port operations of $18.8 million was 11% lower than last year. The lower earnings were due to a slight reduction in cargo volumes and vessel calls and higher maintenance costs with the five yearly survey requirements of the *New Era* and other plant maintenance costs. The lower earnings were offset by lower interest costs.

Trade

Container throughput of 172,400 teu (twenty foot equivalent units) was similar to the previous year's volume of 172,800 teu with a strong second half of the financial year. Export full container volumes

CHAIRMAN AND CHIEF EXECUTIVE'S REVIEW

were up 6% compared to last year which is a good outcome considering that dairy exports were down by 5%. The increased export volumes were offset by lower full imports and tranship containers.

Log exports from Dunedin and Port Chalmers were 813,000 tonnes compared to last year's record volume of 840,000 tonnes. Log volumes still make up approximately 60% of the total conventional tonnage of 1.3 million tonnes which was down 5% compared to last year.

There were 461 vessel arrivals during the year compared to 508 the previous year. The lower conventional cargo tonnes compared to last year, particularly the log trade, resulted in 12 less conventional cargo vessels calling. The volume of logs exported over the wharf increased on average by 14% per log vessel.

While the number of cruise vessels hosted was down 6 from last season to 70 vessels, there are 87 cruise vessels confirmed for the upcoming 2016/17 season. This includes the 348 metre long *Ovation of the Seas* which is scheduled to make its first New Zealand port call at Port Chalmers on 22 December 2016. It will return for a further two visits during the season. This is the largest cruise vessel to call on the New Zealand coast and it requires Port Otago to increase the mooring capacity of the bollards on the Beach Street wharf due to the increased size of the vessel.

Chalmers Properties Limited (CPL)

Rental income from the CPL investment property portfolio was in line with the previous year at $14.0 million. The operating profit before valuation gains, fair value adjustments and tax increased 9% to $11.0 million with lower financing costs, amortisation and depreciation.

Construction of the new Steel and Tube warehouse in the Dunedin industrial precinct is underway with completion projected for February 2017. This 4,600m^2 warehouse and office with trade showroom development continues the existing strategy of undertaking quality new developments in the Dunedin industrial area. CPL completed the $4 million expansion of the Ronwood Centre in Manukau constructing three new retail stores. It also acquired 1.8 hectares of industrial land in Wiri adjoining two other properties it owns for future development. During the financial year, a retail property tenant in Auckland, Dick Smith Electronics, was placed into receivership and vacated the leased premises. This space has subsequently been leased to a new tenant.


New retail stores completed, Ronwood Centre, Manukau

The second stage of the civil works in the Te Rapa Gateway industrial park development in Hamilton is also nearing completion which will yield a further 10.5 hectares of developed land for sale. Chalmers Properties is developing a multi-unit warehouse project and a larger stand-alone warehouse in the Hamilton development and will likely retain the buildings as long term property investments. During the year 5 contracts were signed for the sale of lots across stages 1 and 2 with strong interest continuing into the new financial year.

CHAIRMAN AND CHIEF EXECUTIVE'S REVIEW

The total investment property portfolio has been valued at $296 million, an increase of $32 million from the previous year. This increase in the portfolio includes a valuation increase of $19.9 million. The location of the investment property portfolio is detailed in the following table with 50% of the value of the portfolio in Dunedin:

	2016 $m	2015 $m	% Increase
Dunedin	148	140	6%
Auckland	112	90	24%
Hamilton	36	34	5%
	296	264	12%

New leases, developments and lease extensions have increased the weighted average lease term of the Auckland and Dunedin investment properties to 10.6 years compared to 8.2 years at the start of the year. This reflects the Board's deliberate strategy to improve the overall quality of the investment property portfolio.

Community Relations

The Port Environment Liaison Committee, chaired by Port Otago Director Paul Rea continued to meet throughout the year. We thank Paul for his contribution and also those members of the public who give their time to contribute to the committee which ensures a positive setting for voicing local concerns.

A resource consent application has been lodged to stabilise the base of Flagstaff Hill at Port Chalmers. The work is not expected to change the hill's profile nor will anything be done to its mid or upper sections but the aim is to restore two-way traffic and move the train track back within the port boundary. Timing of the earth works will be confirmed following receipt of the resource consent.

Directors

Pat Heslin from Dunedin and Tim Gibson from Wellington were appointed to the Board during the year following the retirement of Ross Black. Ross had a 21 year involvement with the Company and we acknowledge his significant contribution as Director and Deputy Chairman during a time of many changes to the Port Otago business. Ross's sound strategic view and his governance leadership has been instrumental to the ongoing success of Port Otago.

Staff

On behalf of the Board we thank all staff for delivering a key part of our strategy in providing superior customer service for the benefit of the region's cargo owners and shipping lines that use the port. We also acknowledge that it is only through the full engagement of our staff that our health and safety strategy can be delivered.

Outlook

The deepening of the channel to Port Chalmers to 14 metres is essential to be able to handle larger vessels and increased export container volumes from the lower South Island. Growth in container volumes will necessitate the development of capacity for offsite container storage and the upgrading of empty containers over the coming year.

Chief Executive

During the year, Geoff Plunket the Chief Executive advised that he wished to retire late in 2017, after twelve years in the role. The Board have appointed an executive recruitment consultant to assist them in finding a new Chief Executive.

CHAIRMAN AND CHIEF EXECUTIVE'S REVIEW

In the current low yield environment, Chalmers Properties is focussing on new property development opportunities, rather than acquisitions of existing investment property. The timing of the next stage of the development of the Hamilton industrial land will be determined by market demand which is currently strong so may well be required in late 2017.

We can confidently look forward to another successful year for Port Otago.

For and on behalf of the Board

David Faulkner
Chairman

Geoff Plunket
Chief Executive

PERFORMANCE TARGETS

Performance targets

A comparison of actual performance with the targets in the Statement of Corporate Intent is as follows:

	Actual	Target	Outcome
Trade			
Container throughput	172,400 teu$^{\varnothing}$	188,800 teu$^{\varnothing}$	Target not achieved
Conventional cargo throughput	1.343 million tonnes	1.400 million tonnes	Target not achieved
Number of vessel arrivals	461 vessels	515 vessels	Target not achieved
Container terminal productivity			
Gross container crane productivity	27.3 lifts per crane hour	28.8 lifts per crane hour	Target not achieved
Environmental			
Incidents leading to pollution of harbour	Nil	Nil	Target achieved
Full compliance with all resource consent conditions	One breach of the resource consent conditions relating to the use of the A0 offshore dredging disposal site	Nil breaches of resource consent conditions	Target not achieved

The disposal of dredged material to the A0 offshore disposal grounds was temporarily suspended in November 2015 when Port Otago become aware that the resource consent condition relating to the completion of a baseline kelp forest monitoring study had not been completed. Disposal of dredged material to the A0 disposal site recommenced in April 2016, 3 months after completion of the baseline kelp forest monitoring study. A subsequent review of all other consent conditions has also been undertaken to ensure that all conditions of the resource consent are adhered to.

	Actual	Target	Outcome
Health & Safety			
Lost Time Injury Frequency Rate (LTIFR)	8.5	0.0	Target not achieved
Total Recordable Injury Frequency Rate (TRIFR)	12.0	20.0	Target achieved
(frequency rate per 1 million work hours)			

Financial performance

	Port Otago Group		
	Actual	Target	Outcome
EBIT* return on assets	4.7%	6.5%	Target not achieved
Return on shareholders' funds	8.8%	5.2%	Target achieved
Equity ratio	81%	79%	Target achieved
Debt servicing ratio (times)#	7.6	8.0	Target not achieved

	Port operations		
	Actual	Target	Outcome
EBIT* return on assets	5.4%	7.0%	Target not achieved
Return on shareholders' funds	7.6%	8.8%	Target not achieved
Equity ratio	80%	79%	Target achieved
Debt servicing ratio (times)#	12.3	17.0	Target not achieved

	Chalmers Properties Limited		
	Actual	Target	Outcome
EBIT* return on assets	4.2%	5.9%	Target not achieved
Return on shareholders' funds	11.6%	4.5%	Target achieved
Equity ratio	81%	79%	Target achieved
Debt servicing ratio (times)#	5.7	5.0	Target achieved

$^{\varnothing}$teu = twenty foot equivalent units
*EBIT = Earnings before interest and taxation
#Debt servicing ratio = number of times interest is covered by the profit before tax, interest and unrealised fair value movements.

GROUP INCOME STATEMENT

For the year ended 30 June 2016

	Notes	2016 $000	2015 $000
Revenue	B1		
Port operations		63,851	62,852
Investment property rentals		13,973	13,988
		77,824	76,840
Other income			
Dividend income		-	3,165
Gain on sale of investment property and property, plant and equipment		228	1,579
Sale of investment property inventories		2,950	-
Total revenue and other income		**81,002**	**81,584**
Operating expenses	B2		
Staff costs		(29,292)	(27,259)
Restructuring costs		(174)	(135)
Purchased materials and services		(15,480)	(14,634)
Fuel and electricity		(2,587)	(2,960)
Cost of sales of investment property inventories		(2,353)	-
Depreciation and amortisation		(8,127)	(8,739)
Total operating expenses		(58,013)	(53,727)
Operating profit before finance costs, equity accounted investments, non-operating income and expenses and income tax		**22,989**	**27,857**
Financing costs	B3	(2,191)	(4,226)
Share of profit from equity accounted investment	C7(c)	279	324
Operating profit before non-operating income and expenses and income tax		**21,077**	**23,955**
Non-operating income and expenses			
Gain on sale of available-for-sale investments		-	24,713
Subvention payment	E5	(98)	(95)
Unrealised net change in the value of investment property	C1, C2	19,957	10,678
Unrealised net change in value of interest rate swaps		(122)	(653)
		19,737	34,643
Profit before income tax		**40,814**	**58,598**
Income tax expense	B4	(6,715)	(6,163)
Profit for the year		**34,099**	**52,435**

The accompanying notes form part of these financial statements.

GROUP STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2016

	Notes	2016 $000	2015 $000
Profit for the year		34,099	52,435
Other comprehensive income			
Available-for-sale financial assets			
Increase/(decrease) in the value of share investments reclassified to the income statement		-	(13,697)
Cash flow hedges			
Unrealised movement in hedging interest rate swaps (net of tax) that will be reclassified to the income statement in subsequent periods		(342)	23
Total comprehensive income for the year		**33,757**	**38,761**

GROUP STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2016

	Notes	2016 $000	2015 $000
Equity at the beginning of the year		375,199	344,838
Total comprehensive income for the year		33,757	38,761
Distribution to owners			
Dividends paid	E4	(7,250)	(8,400)
Equity at the end of the year		**401,706**	**375,199**

The accompanying notes form part of these financial statements

GROUP BALANCE SHEET

As at 30 June 2016

	Notes	2016 $000	2015 $000
Current assets			
Cash and cash equivalents		1,093	20,743
Trade and other receivables	D2	12,520	8,924
Inventories	C8	1,216	1,092
Investment property inventories	C2	20,618	13,409
Property held for sale	C3	2,046	2,046
Derivative financial instruments	D1(d)	-	7
Finance leases	C9	155	189
		37,648	46,410
Non-current assets			
Investment property	C1	273,325	248,810
Property, plant and equipment	C5	179,183	158,643
Intangible assets	C6	5,438	6,379
Equity accounted investments	C7(c)	1,475	1,358
Other financial assets		52	71
Finance leases	C9	-	155
		459,473	415,416
Total assets		**497,121**	**461,826**
Current liabilities			
Trade and other payables	D3	6,625	7,548
Employee entitlements	E1	4,273	3,926
Derivative financial instruments	D1(d)	623	713
Income tax		1,509	1,288
		13,030	13,475
Non-current liabilities			
Borrowings	D4	62,400	54,700
Employee entitlements	E1	1,419	1,311
Derivative financial instruments	D1(d)	1,207	526
Deferred tax liabilities	B4	17,359	16,615
		82,385	73,152
Total liabilities		**95,415**	**86,627**
Equity			
Share capital	E2	20,000	20,000
Reserves	E3	381,706	355,199
Total equity		401,706	375,199
Total equity and liabilities		**497,121**	**461,826**

For and on behalf of the Board of Directors

D J Faulkner
Chairman

E J Harvey
Director

The accompanying notes form part of these financial statements.

GROUP CASH FLOW STATEMENT

For the year ended 30 June 2016

	Notes	2016 $000	2015 $000
Cash flows from operating activities			
Cash was provided from:			
Receipts from port operations		61,528	64,764
Rental income		13,335	13,944
Sale of investment property inventories		2,293	-
Dividends received		-	3,165
Interest received		332	762
Cash was applied to:			
Payments to employees and suppliers		(48,419)	(42,479)
Expenditure on investment property inventories		(3,589)	-
Net GST received/(paid)		34	(425)
Interest paid		(1,611)	(4,612)
Subvention payments		(98)	(95)
Income tax paid		(5,617)	(6,274)
Net cash flows from operating activities		**18,188**	**28,750**
Cash flows from investing activities			
Cash was provided from:			
Proceeds from sale of available-for-sale investments		-	61,657
Sale of property, plant and equipment		1,770	532
Sale of investment property		-	33,746
Repayment of lessee improvements		189	171
Cash was applied to:			
Purchase of property, plant and equipment		(30,653)	(6,863)
Purchase and improvements to investment property		(8,424)	(24,165)
Advances to related parties		(316)	(163)
Interest capitalised	B3	(854)	(207)
Net cash flows from investing activities		**(38,288)**	**64,708**
Cash flows from financing activities			
Cash was provided from:			
Proceeds from borrowings		17,650	40,933
Cash was applied to:			
Repayment of borrowings		(9,950)	(105,816)
Dividends paid	E4	(7,250)	(8,400)
Net cash flows from financing activities		**450**	**(73,283)**
Increase (decrease) in cash held		(19,650)	20,175
Cash held at beginning of period		20,743	568
Cash held at end of period		**1,093**	**20,743**

The accompanying notes form part of these financial statements.

Reconciliation of profit for the year to net cash flows from operating activities

For the year ended 30 June 2016

	2016 $000	2015 $000
Profit for the year	34,099	52,435
Plus/(less) non-cash items:		
Unrealised net change in the value of investment property	(19,957)	(10,678)
Depreciation and amortisation	8,127	8,739
Movement in the fair value of interest rate swaps and forward exchange contracts	122	653
Movement in non-current employee entitlements	108	187
Movement in deferred tax	878	(158)
Plus/(less) items classified as investing activities:		
Gain on sale of available-for-sale investments	-	(24,713)
Gain on sale of property, plant and equipment	(168)	(504)
Gain on sale of investment property	(597)	(1,074)
Share of surpluses retained by joint ventures	(279)	(324)
Movement in working capital items:		
Trade and other receivables	(3,513)	1,260
Trade and other payables	(924)	1,371
Current employee entitlements	348	348
Income tax	220	47
Inventories	(1,420)	(353)
Movement in working capital items classified as investing activities	1,144	1,514
Net cash flows from operating activities	**18,188**	**28,750**

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Reporting entity

Port Otago Limited ("the Company") is a limited company incorporated and domiciled in New Zealand. The address of its registered office and principal place of business is disclosed in the directory of the annual report.

The financial statements presented are those of Port Otago Limited, its subsidiaries, and share of joint ventures and joint operations ("the Group"). The ultimate parent of the Group is the Otago Regional Council. Port Otago Limited operates a full service container port at Port Chalmers and provides wharf facilities in Dunedin. The principal activities of the Group are further described in note C7.

In accordance with the Companies Act 1993, because group financial statements are prepared and presented for the Company, its subsidiaries and share of joint ventures and joint operations, separate financial statements for the Parent are no longer required to be prepared and presented.

These financial statements have been prepared to comply with the Companies Act 1993, the Financial Reporting Act 1993 and the Port Companies Act 1988.

The financial statements of Port Otago Limited are for the year ended 30 June 2016 and were issued by the Board on 6 September 2016.

Basis of preparation

These financial statements of Port Otago Limited have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand.

Accounting policies applied in these financial statements comply with NZ IFRS standards issued and are effective as at the time of preparing these statements (August 2016) as applicable to Port Otago Limited as a profit-oriented entity. In complying with NZ IFRS Port Otago Limited is simultaneously in compliance with International Financial Reporting Standards (IFRS).

Under the Accounting Standards Framework developed by the External Reporting Board (XRB) the Company has elected to report as a Tier 1 entity for group reporting purposes.

The preparation of financial statements in accordance with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The financial statements are presented in New Zealand dollars, which is the Group's functional currency.

Measurement base

These annual financial statements have been prepared under the historical cost convention except for the revaluation of certain assets and the recognition at fair value of certain financial instruments (including derivative financial instruments).

Critical estimates and assumptions

The Group makes estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results and are continually being evaluated based on historical experience and other factors, including expectations of future events that are expected to be reasonable under the circumstances. There are no estimates or assumptions in the view of Directors that have a risk of causing a significant adjustment to the carrying amounts of assets or liabilities within the next financial year.

Information about significant areas of estimation uncertainty that have the most significant effect on the amount recognised in the financial statements is disclosed in the relevant notes:

- Fair value measurements of property portfolio assets (note C4)
- Property, plant and equipment (note C5)

NOTES TO THE FINANCIAL STATEMENTS continued

Comparatives

Certain prior period revenue and expenditure has been reclassified between functional categories for consistency with the current period.

Standards and interpretations issued and not yet adopted

At the date of authorisation of these financial statements the following Standards and Interpretations were in issue but not yet effective, which are not expected to have a material impact but may affect presentation and disclosure:

NZ IFRS 9 Financial Instruments (effective for the financial year ending 30 June 2019)
NZ IFRS 15 Revenue from contracts with customers (effective for the financial year ending 30 June 2018)
NZ IFRS 16 Leases (effective for the financial year ending 30 June 2020)

The Group does not intend to early adopt these standards.

Other Standards and Interpretations in issue but not yet effective are not expected to have an impact in the financial statements of the Group in the period of initial application.

The Group did not early adopt any new or amended standards in 2016.

NOTES TO THE FINANCIAL STATEMENTS continued

A. COMMITMENTS AND CONTINGENCIES

A1. Operating lease commitments as lessor

The Group has entered into commercial property leases. These leases have remaining non-cancellable lease terms of up to 21 years. Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and rewards incidential to ownership. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. The Group has determined that it retains all significant risks and rewards of ownership of the commercial property leases and has therefore classified the leases as operating leases. Property leased out under operating leases is included in investment property and property, plant and equipment in the Balance Sheet.

Future minimum rentals receivable under non-cancellable commercial property leases are:

	2016 $000	2015 $000
Rentals receivable		
Receivable within one year	19,273	17,195
Receivable after one year but not more than five years	63,782	55,517
Receivable after more than five years	99,596	74,301
Minimum future lease receivable	**182,651**	**147,013**

A2. Operating lease commitments as lessee

Future minimum rental lease payments for all non-cancellable operating leases are:

	2016 $000	2015 $000
Payable within one year	184	250
Payable after one year but not more than five years	196	304
Payable after more than five years	-	-
Minimum future lease payable	**380**	**554**

A3. Capital expenditure commitments

At 30 June 2016 the Group had commitments/approvals for capital expenditure of $11.47 million (2015: $13.55 million) which relates to purchases and refurbishments of port assets and investment property.

A4. Contingencies

Apart from the matters noted below, there are no contingent liabilities at 30 June 2016 (30 June 2015: nil) other than those arising in the normal course of business.

Dredging and reclamation works performance security bond

Port Otago has entered into a contract to provide dredging services to Lyttelton Port Company Limited for a five year period. A $300,000 performance bond has been provided by Port Otago Limited, the principal, to Lyttelton Port Company Limited, the beneficiary, for the due performance of all obligations and liabilities under the contract. The expiry date of the performance bond is 21 December 2017. As at 30 June 2016, no claim under this bond has been received by the Guarantor, ANZ Bank New Zealand Limited.

OneSteel Recycling PTY Limited in receivership

In April 2016 One Steel Recycling PTY Limited, a commercial property tenant in Auckland was placed into voluntary administration. A proof of debt claim has been made for $692,915 (excluding GST) for rentals and outgoings from April 2016 until the lease expiry of March 2017. A provision for doubtful debts of $51,438 has been made for the net lease payments outstanding to 30 June 2016. As part of the property is sub leased by One Steel Recycling PTY Limited the estimated net rental loss is $400,000.

A5. Significant events after balance date

Dividends

On 6 September 2016 the Directors declared a final dividend of $0.8 million for the year ended 30 June 2016. As the final dividend was approved after balance date, the financial effect of the dividend payable of $0.8 million has not been recognised in the Balance Sheet.

NOTES TO THE FINANCIAL STATEMENTS continued

B. REVENUE AND EXPENSES

B1. Revenue

Port operations revenue
Revenue from port operations is recognised in the accounting period in which the actual service is provided to the customer.

Investment property rental
Rental income is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

Dividend income
Dividend income is recognised when the right to receive payment is established, being the declaration date of the dividend.

Gain on sale
Gains or losses on the sale of investment property and property, plant and equipment are recognised when an unconditional contract is in place and it is probable that the Group will receive the consideration due and significant risks and rewards of ownership of assets have been transferred to the buyer.

Interest income
Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the asset to that asset's net carrying amount.

B2. Operating expenses

Expenses incurred in the financial year of $58.0 million for the Group include the following:

	2016 $000	2015 $000
Auditors' remuneration		
– Audit services – Audit New Zealand	131	120
– Audit services – PwC	-	12
Bad debts written off	-	5
Provision for doubtful debts	51	-
Directors' remuneration	301	312
Donations and community sponsorship	34	36
Loss on disposal of assets	60	-
Operating leases	859	921
Staff costs		
Wages and salaries	27,958	26,047
Kiwisaver and defined contribution plan employer contributions	1,334	1,212
Total staff costs	**29,292**	**27,259**

Salaries and other short-term employee benefits paid to key management personnel during the financial year totalled $2,394,529 (2015: $2,269,145).

	Notes	2016 $000	2015 $000
Depreciation and amortisation			
Depreciation of property, plant and equipment	C5	7,809	7,815
Amortisation of intangibles	C6	253	854
Amortised leasing costs		65	70
Total depreciation and amortisation		**8,127**	**8,739**

NOTES TO THE FINANCIAL STATEMENTS continued

B3. Financing costs

Borrowing costs directly attributable to the acquisition and/or construction of property, plant and equipment and long term investment property development projects are capitalised as part of the cost of those assets. Other borrowing costs are expensed in the period in which they are incurred.

	2016 $000	2015 $000
Interest income	332	753
Interest expense and bank facility fees	(3,377)	(5,186)
Interest capitalised	854	207
Net financing costs	**(2,191)**	**(4,226)**
Weighted average capitalisation rate on funds borrowed	5.73%	5.81%

B4. Income tax

Income tax expense

Income tax expense represents the sum of the tax currently payable and deferred tax except to the extent that it relates to items recognised directly in equity, in which case the tax expense is also recognised in equity.

The current tax payable is based on taxable profit for the period. Taxable profit differs from profit reported in the Income Statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using the tax rates that have been enacted by the balance date.

Port Otago Limited is part of a consolidated tax group including its subsidiaries, Chalmers Properties Limited, Fiordland Pilot Services Limited and South Freight Limited.

The total charge for the year can be reconciled to the accounting profit as follows:

	2016 $000	2015 $000
Profit before income tax	40,814	58,598
Imputation credits	63	1,231
	40,877	59,829
Prima facie tax expense at 28%	(11,446)	(16,752)
Non-deductible items	(599)	(821)
Non-assessable income arising from sale of available-for-sale investments	-	6,920
Other non assessable income	(44)	1,323
Unrealised change in investment property	4,756	1,647
Tax loss offset (via subvention payment)	98	95
Prior year adjustment	(19)	36
Deferred tax expense relating to the origination and reversal of temporary differences	476	158
Benefit of imputation credits	63	1,231
Income tax expense	**(6,715)**	**(6,163)**
Allocated between:		
Current tax	(5,936)	(6,452)
Prior period adjustments to current tax	98	131
Deferred tax	(877)	158
	(6,715)	**(6,163)**

Deferred tax

Deferred tax is provided in full, using the balance sheet method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss.

NOTES TO THE FINANCIAL STATEMENTS continued

B4. Income tax (continued)

Deferred tax is determined using tax rates that have been enacted or substantively enacted by the balance date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax (assets) and liabilities	Property, plant and equipment $000	Investment property $000	Financial instruments $000	Other $000	Total $000
Balance 1 July 2015	14,015	4,534	(329)	(1,605)	16,615
Charged / (credited) to hedging reserve direct to equity	-	-	(133)	-	(133)
Charged / (credited) to income statement	(491)	1,490	(34)	(88)	877
Balance at 30 June 2016	**13,524**	**6,024**	**(496)**	**(1,693)**	**17,359**
Balance 1 July 2014	14,280	4,366	(154)	(1,728)	16,764
Charged / (credited) to hedging reserve direct to equity	-	-	9	-	9
Charged / (credited) to income statement	(265)	168	(184)	123	(158)
Balance at 30 June 2015	**14,015**	**4,534**	**(329)**	**(1,605)**	**16,615**

Imputation credits	2016 $000	2015 $000
Opening balance	24,210	19,841
Tax payments	4,326	5,049
Anticipated tax payments to meet current year income tax expense	1,647	1,356
Credits attached to dividends received	63	1,231
Credits attached to dividends paid	(2,819)	(3,267)
Imputation credits available to shareholders for future use	**27,427**	**24,210**

NOTES TO THE FINANCIAL STATEMENTS continued

C. KEY ASSETS

C1. Investment property

Investment property, which is property held to earn rentals and/or capital appreciation, is stated at its fair value at the balance sheet date. On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in the Income Statement for the period in which they arise.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The fair value of investment property reflects the Directors' assessment of the highest and best use of each property and amongst other things, rental income from current leases and assumptions about rental income from future leases in light of current market conditions. The fair value also relects the cash outflows that could be expected in respect of the property.

No depreciation or amortisation is provided for on investment properties. However, for tax purposes, depreciation is claimed on building fit-out and a deferred tax liability is recognised where the building component of the registered building exceeds the tax book value of the building. The deferred tax liability is capped at the amount of depreciation that has been claimed on each building.

Gains or losses on the disposal of investment properties are recognised in the Income Statement in the period in which the risks and rewards of the investment property have been fully transferred to the purchaser.

Borrowing costs are capitalised if they are directly attributable to the acquisition or construction of a qualifying property. Capitalisation of borrowing costs will continue until the asset is substantially ready for its intended use. The rate at which borrowing costs are capitalised is determined by reference to the weighted average borrowing costs and the average level of borrowings.

	Notes	2016 $000	2015 $000
Balance at beginning of year		248,810	232,659
Transfer (to) from investment property inventories	C2	(5,406)	-
Acquisitions		6,077	9,867
Subsequent capital expenditure		2,935	5,794
Disposals		-	(8,926)
Net movement in prepaid leasing costs		182	(83)
Net movement in incentives		101	27
Interest capitalised		471	113
Net change in fair value		20,155	9,601
Transfer to property receivable		-	(242)
Balance at end of year		**273,325**	**248,810**
Comprising:			
Property portfolio cost		100,117	92,591
Revaluation		173,208	156,219
		273,325	**248,810**
Valued at 30 June balance date as determined by:			
Colliers International		90,370	80,985
CBRE Limited		182,955	167,825
		273,325	**248,810**

NOTES TO THE FINANCIAL STATEMENTS continued

C2. Investment property inventories

Transfers from investment property to investment property inventories occur when there is a change in use evidenced by the commencement of a development with a view to sale. Future development stages that have not yet commenced and are being held for capital appreciation are accounted for in investment property.

Investment property inventories are accounted for as inventory under NZ IAS 2 and initially recognised at deemed cost represented by the fair value at the time of commencement of the development. Further costs directly incurred through development activities are capitalised to the cost of the investment property inventories.

Investment property inventories are valued annually and are measured at the lower of cost and fair value. Where costs exceed the fair value of the investment property inventories the resulting impairments are included in the Income Statement in the period in which they arise.

	Notes	2016 $000	2015 $000
Balance at beginning of year		13,409	6,294
Transfer (to) from investment property	C1	5,406	-
Acquisitions		649	6,508
Subsequent capital expenditure		3,536	(470)
Disposals		(2,260)	-
Interest capitalised		76	-
Impairment and impairment reversals		(198)	1,077
Balance at end of year		**20,618**	**13,409**
Comprising:			
Property portfolio cost		21,531	13,760
Revaluation		(913)	(351)
		20,618	**13,409**
Developed land for sale		10,617	12,126
Land in development		10,001	1,283
		20,618	**13,409**

Developed land for sale

The Group previously held a 50% interest in the Hamilton Joint Venture (HJV). During the 2015 year the Group acquired the remaining 50% interest in HJV. The carrying value of the land of $4.72 million (2015: $6.70 million) reflects the cost of the remaining developed land. Colliers in their June 2016 valuation stated a net realisable value of $5.31 million (2015: $6.87 million).

The Group previously held a 33.3% interest in the Hamilton Porter JV (HPJV). During the 2015 year the Group acquired a further 33.3% interest in HPJV. The carrying value of the land at balance date of $8.61 million (Group share: $5.9 million), (2015: $8.13 million, Group share: $5.42 million) reflects the cost of the remaining developed land. Colliers in their June 2016 valuation stated a net realisable value of $9.14 million (2015: Colliers $8.36 million).

Land in development

During the year the Group commenced development of stage 2 of the industrial subdivision at Te Rapa in Hamilton. Upon completion, stage 2 will yield a further 10.5 hectares of developed land (Group share: 9.0 hectares). The carrying value of land in development at balance date of $11.94 million (Group share: $10.00 million) reflects the cost of the land in development. Colliers in their June 2016 valuation stated a net realisable value of $13.75 million (2015: Colliers $1.93 million).

NOTES TO THE FINANCIAL STATEMENTS continued

C3. Property held for sale

Property classified as held for sale is measured at:

- fair value for investment property held for sale (NZ IAS 40); and
- fair value less estimated costs of disposal, measured at the time of transfer, for items transferred from property, plant and equipment (NZ IFRS 5).

Property is classified as held for sale if the carrying amount will be recovered through a sales transaction rather than through continuing use. Property is not depreciated or amortised while it is classified as held for sale.

	2016 $000	2015 $000
Balance at beginning of year	2,046	25,541
Acquisitions	-	1,023
Subsequent capital expenditure	-	268
Disposals	-	(24,786)
Balance at end of year	**2,046**	**2,046**
Comprising:		
Property portfolio cost	1,203	1,203
Revaluation	843	843
	2,046	2,046
Current asset	2,046	2,046
Non-current asset	-	-
	2,046	2,046

Note E5 contains details of the contract terms to sell 10% of the original Newby 1 block to a related party, the former Chalmers Properties Limited Chief Executive Officer. This land is classified as property held for sale since the land is to be recovered through a sales transaction rather than through continuing use. The remaining property held for sale under the related party contract is $2.05 million (2015: $2.05 million).

C4. Fair value measurements of property portfolio assets

Critical estimates and assumptions

The valuation of investment property requires estimation and judgement. The fair value of investment properties are determined from valuations prepared by independent valuers using Level 3 valuation techniques. Level 3 valuation techniques use inputs for the asset that are not based on observable market data, that is, unobservable inputs. All investment properties were valued as at balance date by either CBRE Limited or Colliers International, who are independent valuers and members of the New Zealand Institute of Valuers.

There is a policy of rotation of independent investment property valuers. The terms of rotation for ground leases are every four years and all other investment properties, every three years.

As part of the valuation process, management verifies all major inputs to the independent valuation reports, assesses movements in individual property values and discussions with the independent valuer. The fair value was determined using Level 3 valuation techniques via a combination of the following approaches:

- Direct Capitalisation: The subject property rental is divided by a market derived capitalisation rate to assess the market value of the asset. Further adjustments are then made to the market value to reflect under or over renting, additional revenue and required capital expenditure.

NOTES TO THE FINANCIAL STATEMENTS continued

C4. Fair value measurements of property portfolio assets (continued)

Critical estimates and assumptions (continued)

– Discounted Cash Flow: Discounted cash flow projections for the subject property are based on estimates of future cash flows, supported by the terms of any existing lease and by external evidence such as market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

– Sales Comparison: The subject property is related at a rate per sqm as a means of comparing evidence. In applying this approach a number of factors are taken into account such as but not limited to, size, location, zoning, contour, access, development potential / end use, availability of services, profile and exposure, current use of surrounding properties, geotechnical and topographical constraints.

Significant inputs used together with the impact on fair value of a change in inputs:

	Range of significant unobservable inputs		Fair value measurement sensitivity to significant	
			Increase in input	Decrease in input
Market capitalisation rate (%) [1]	5.3%	8.8%	Decrease	Increase
Market rental ($ per sqm) [2]	$8	$246	Increase	Decrease
Discount rate (%) [3]	7.0%	14.0%	Decrease	Increase
Rental growth rate (%) [4]	1.0%	3.0%	Increase	Decrease
Terminal capitalisation rate (%) [5]	5.5%	8.5%	Decrease	Increase
Profit and risk rate (%) [6]	20.0%	20.0%	Decrease	Increase
Development sell down period (years) [7]	11	11	Decrease	Increase

1. The capitalisation rate applied to the market rental to assess a property's value, determined through similar transactions taking into account location, weighted average lease term, size and quality of the property.
2. The valuers assessment of the net market income which a property is expected to achieve under a new arm's length leasing transaction.
3. The rate applied to future cash flows relating transactional evidence from similar properties.
4. The rate applied to the market rental over the future cash flow projection.
5. The rate used to assess the terminal value of the property.
6. The rate provides an allowance for the risks and uncertainties associated with similar activities in conjunction with current market conditions.
7. The length of time in years anticipated to complete the sell down of developed land.

Reconciliation of level 3 fair value measurements

	2016 $000	2015 $000
Balance at beginning of year	250,856	233,682
Unrealised net change in the value of investment property	20,155	9,601
Purchases	9,766	15,475
Sales	-	(8,926)
Transfers to investment property inventories	(5,406)	-
Balance at the end of the year	**275,371**	**250,856**

NOTES TO THE FINANCIAL STATEMENTS continued

C5. Property, plant and equipment

Property, plant and equipment is stated at cost, less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. When significant, interest costs incurred during the period required to construct an item of property, plant and equipment are capitalised as part of the asset's total cost.

Property is classified as property, plant and equipment rather than investment property if the property is held to meet the strategic purposes of the port, or to form part of buffer zones to port activity, or to assist the provision of port services, or to promote or encourage the import or export of goods through the port.

	Land $000	Buildings and improvements $000	Wharves and berth dredging $000	Plant, equipment and vehicles $000	Capital work in progress $000	Total $000
Cost						
Balance 1 July 2014	34,222	46,629	54,877	81,699	10,799	228,226
Additions	173	2,527	426	12,192	(8,713)	6,605
Disposals	-	-	-	(360)	-	(360)
Cost at 30 June 2015	**34,395**	**49,156**	**55,303**	**93,531**	**2,086**	**234,471**
Balance 1 July 2015	34,395	49,156	55,303	93,531	2,086	234,471
Additions	396	14,199	6,017	2,525	6,980	30,117
Disposals	(449)	(81)	-	(2,823)	-	(3,353)
Cost at 30 June 2016	**34,342**	**63,274**	**61,320**	**93,233**	**9,066**	**261,235**
Accumulated depreciation						
Balance 1 July 2014	-	12,979	14,112	41,256	-	68,347
Depreciation for period	-	1,782	1,613	4,420	-	7,815
Disposals	-	-	-	(334)	-	(334)
Accumulated depreciation at 30 June 2015	**-**	**14,761**	**15,725**	**45,342**	**-**	**75,828**
Balance 1 July 2015	-	14,761	15,725	45,342	-	75,828
Depreciation for period	-	1,995	1,642	4,172	-	7,809
Disposals	-	(24)	-	(1,561)	-	(1,585)
Accumulated depreciation at 30 June 2016	**-**	**16,732**	**17,367**	**47,953**	**-**	**82,052**
Net book value						
At 30 June 2014	34,222	33,650	40,765	40,443	10,799	159,879
At 30 June 2015	**34,395**	**34,395**	**39,578**	**48,189**	**2,086**	**158,643**
At 30 June 2015	34,395	34,395	39,578	48,189	2,086	158,643
At 30 June 2016	**34,342**	**46,542**	**43,953**	**45,280**	**9,066**	**179,183**

Critical estimates and assumptions

At each balance date, the Group reviews the useful lives and residual values of its property, plant and equipment. Assessing the appropriateness of useful lives and residual value estimates of property, plant and equipment requires the Group to consider a number of factors such as the physical condition of the asset, expected period of use of the asset by the Group, and expected disposal proceeds from the future sale of the asset.

An incorrect estimate of the useful life of residual value will impact on the depreciable amount of an asset, therefore impacting on the depreciation expense recognised in the Income Statement, and carrying amount of the asset in the Balance Sheet. The Group minimises the risk of this estimation

NOTES TO THE FINANCIAL STATEMENTS continued

C5. Property, plant and equipment (continued)

uncertainty by physical inspection of assets, asset replacement programmes and analysis of prior asset sales. The Group has not made significant changes to past assumptions concerning useful lives and residual values.

Depreciation

Property, plant and equipment are depreciated on a straight-line basis so as to allocate the costs of assets over their estimated useful lives as follows:

Land	nil
Buildings and improvements	10-50 years
Wharves and berth dredging	15-70 years
Vessels and floating plant	5-30 years
Other plant, equipment and vehicles	3-30 years

Impairment

Assets are reviewed at each balance sheet date for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If an indication of impairment exists then the asset's recoverable amount is estimated. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised whenever the carrying amount of the asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the Income Statement.

C6. Intangible assets

The cost of acquiring an intangible asset is amortised from the date the asset is ready for use on a straight-line basis over the periods of expected benefit.

	Computer software $000	Resource consents $000	Goodwill $000	Total $000
Cost				
Balance 1 July 2014	5,149	5,203	-	10,352
Additions	222	31	1,219	1,472
Disposals	-	-	-	-
Cost at 30 June 2015	**5,371**	**5,234**	**1,219**	**11,824**
Balance 1 July 2015	5,371	5,234	1,219	11,824
Additions	287	244	-	531
Transfer to investment property and investment property inventories	-	-	(1,219)	(1,219)
Disposals	(21)	-	-	(21)
Cost at 30 June 2016	**5,637**	**5,478**	**-**	**11,115**
Accumulated amortisation				
Balance 1 July 2014	4,591	-	-	4,591
Amortisation expense	255	268	331	854
Disposals	-	-	-	-
Accumulated amortisation at 30 June 2015	**4,846**	**268**	**331**	**5,445**
Balance 1 July 2015	4,846	268	331	5,445
Amortisation expense	230	354	(331)	253
Disposals	(21)	-	-	(21)
Accumulated amortisation at 30 June 2016	**5,055**	**622**	**-**	**5,677**
Net book value				
At 30 June 2014	558	5,203	-	5,761
At 30 June 2015	**525**	**4,966**	**888**	**6,379**
At 30 June 2015	525	4,966	888	6,379
At 30 June 2016	**582**	**4,856**	**-**	**5,438**

NOTES TO THE FINANCIAL STATEMENTS continued

C6. Intangible assets (continued)

Computer software

Computer software assets are stated at cost, less accumulated amortisation and impairment. The amortisation periods range from 1 to 5 years.

Resource consents

For resource consents the amortisation periods range from 3 to 25 years. Where the periods of expected benefit or recoverable values have diminished, due to technological change or market conditions, amortisation is accelerated or the carrying value is written down.

Resource consents relate to the granting of the Next Generation consents which will allow Port Otago Limited to deepen and widen the channel in Otago Harbour so larger ships will be able to call at Port Chalmers. Consents were granted in January 2013 and were activated in March 2015. Amortisation of the carrying amounts commenced on the activation of the consents and will be amortised over the life of the consents which is either 3 years or 20 years.

Goodwill

Goodwill represented the excess of the cost of acquisition over the Group's interest in the fair value of the assets of a jointly controlled entity. Goodwill was reassessed and reclassified to the cost of investment property and investment property inventories.

C7. Investment in subsidiaries, joint ventures and joint operations

The financial statements include those of Port Otago Limited (the Company) and its subsidiaries and joint operations accounted for by line aggregation of assets, liabilities, revenues, expenses and cash flows that are recognised in the financial statements. Joint operations are accounted for on a proportionate basis. Joint ventures are accounted for using the equity method. Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits and losses and movements in other comprehensive income.

Under NZ IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. A joint venture is a joint arrangement whereby the parties have rights to the net assets of the arrangement. A joint operation is a joint arrangement whereby the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement.

Business combinations are accounted for using the acquisition method as at the acquistion date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

Subsidiaries are entities that are controlled, either directly or indirectly, by the Company. The results of subsidiaries acquired or disposed of during the period are included in the Income Statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All inter-company transactions are eliminated on consolidation.

C7(a). Principal subsidiaries

The Group included the following subsidiaries at 30 June 2016. All subsidiaries have a 30 June balance date.

Name	% of Ownership interest	Principal activity	Principal place of business
Chalmers Properties Limited	100%	Property investment	Dunedin & Auckland
Te Rapa Gateway Limited	100%	Property investment	Hamilton
Fiordland Pilot Services Limited	100%	Shipping services	Fiordland
South Freight Limited	100%	Transport investment	Dunedin

NOTES TO THE FINANCIAL STATEMENTS continued

C7(b). Joint operation investments accounted for on a proportionate consolidation basis

Below are the joint operations of the Group as at 30 June 2016 which have been accounted for on a proportionate consolidation basis. All the joint operations have a 30 June balance date.

All the parties to the following joint arrangements have joint control, that is, decisions require the unanimous consent of all the parties sharing control. The contractual terms of the arrangements specify that all parties to the arrangements share all liabilities, obligations, costs and expenses in proportion to the parties' ownership interest.

Name	% of Ownership interest	Principal activity	Principal place of business
Harbourcold Dunedin	50%	Cold store operation	Dunedin
Hamilton Porter Joint Venture	66.7%	Property investment	Hamilton

The investment in HarbourCold Dunedin is strategic to the port operating activities. The property investments in the Hamilton Porter Joint venture provide geographical diversification of the investment property portfolio. Any capital commitments and contingent liabilities arising from the Group's interest in the joint operations are disclosed in notes A3 and A4 respectively.

The following summarised financial information reflects the amounts presented in the financial statements of the individual joint operations, and the Group's share of those amounts.

Current period to 30 June 2016

				Group's share		
	100% The Hamilton Porter Joint Venture $000	100% Harbourcold Dunedin $000	Total $000	67% The Hamilton Porter Joint Venture $000	50% Harbourcold Dunedin $000	Total $000
Cash and cash equivalents	35	200	235	23	100	123
Other current assets	13,949	170	14,119	9,346	85	9,431
Total current assets	13,984	370	14,354	9,369	185	9,554
Non-current assets	7,997	61	8,058	5,358	31	5,389
Total assets	**21,981**	**431**	**22,412**	**14,727**	**216**	**14,943**
Current debt	-	-	-	-	-	-
Other current liabilities	(4,092)	(85)	(4,177)	(2,742)	(43)	(2,785)
Non-current debt	-	-	-	-	-	-
Other non-current liabilities	-	-	-	-	-	-
Total liabilities	(4,092)	(85)	(4,177)	(2,742)	(43)	(2,785)
Net assets	**17,889**	**346**	**18,235**	**11,985**	**173**	**12,158**
Operating revenue		1,970	1,970	-	985	985
Interest revenue	-	-	-	-	-	-
Interest expense	-	-	-	-	-	-
Profit before tax	(786)	228	(558)	(524)	114	(410)
Income tax expense	-	-	-		-	-
Total comprehensive income	**(786)**	**228**	**(558)**	**(524)**	**114**	**(410)**

NOTES TO THE FINANCIAL STATEMENTS continued

C7(b). Joint operation investments accounted for on a proportionate consolidation basis (continued)

Comparative period to 30 June 2015

	100% The Hamilton Porter Joint Venture $000	100% Harbourcold Dunedin $000	Total $000	Group's share 67% The Hamilton Porter Joint Venture $000	Group's share 50% Harbourcold Dunedin $000	Total $000
Cash and cash equivalents	8	89	97	5	45	50
Other current assets	10,070	275	10,345	6,747	138	6,885
Total current assets	10,078	364	10,442	6,752	183	6,935
Non-current assets	10,505	55	10,560	7,038	28	7,066
Total assets	**20,583**	**419**	**21,002**	**13,790**	**211**	**14,001**
Current debt	-	-	-	-	-	-
Other current liabilities	(2,628)	(141)	(2,769)	(1,761)	(71)	(1,832)
Non-current debt	-	-	-	-	-	-
Other non-current liabilities	-	-	-	-	-	-
Total liabilities	(2,628)	(141)	(2,769)	(1,761)	(71)	(1,832)
Net assets	**17,955**	**278**	**18,233**	**12,029**	**140**	**12,169**
Operating revenue	-	2,423	2,423	-	1,212	1,212
Interest revenue	-	-	-	-	-	-
Interest expense	-	-	-	-	-	-
Profit before tax	879	398	1,277	595	199	794
Income tax expense	-	-	-	-	-	-
Total comprehensive income	**879**	**398**	**1,277**	**595**	**199**	**794**

C7(c). Joint venture investments accounted for using the equity method

Below is the summarised financial information for Icon Logistics Limited in which South Freight Limited has a 50% ownership interest and has been accounted for using the equity method. South Freight Limited is a wholly owned subsidiary of Port Otago Limited. Icon Logistics Limited provides container transport and warehousing services in Dunedin which are strategic to the port operating activities of Port Otago. Icon Logistics Limited has a 30 June balance date and there are no contingent liabilities relating to the Group's interest in the joint venture.

The contractual terms of the arrangement specify that all parties are only liable to the extent of their respective investment or to contribute any unpaid or additional capital to the arrangement. Unanimous consent of all the parties to the arrangement is required for all capital and material decisions to the extent its impact is in excess of $50,000. Shareholders are restricted from selling, transferring or disposing of any shares without first offering for sale to the other shareholders.

Summarised balance sheet	Icon Logistics Limited 2016 $000	Icon Logistics Limited 2015 $000
Cash and cash equivalents	1,030	703
Other current assets	1,024	1,170
Total current assets	2,054	1,873
Non-current assets	1,695	1,826
Total assets	**3,749**	**3,699**
Current liabilities	(798)	(971)
Non current liabilities	(2)	(12)
Net assets (100%)	2,949	2,716
Group's share of net assets (50%)	**1,475**	**1,358**

NOTES TO THE FINANCIAL STATEMENTS continued

C7(c). Joint venture investments accounted for using the equity method (continued)

Summarised Statement of Comprehensive Income	Icon Logistics Limited 2016 $000	Icon Logistics Limited 2015 $000
Operating revenue	7,262	7,532
Interest revenue	8	8
Interest expense	(1)	(2)
Profit before tax	719	882
Income tax expense	(161)	(234)
Total comprehensive income (100%)	558	648
Group's share of total comprehensive income (50%)	**279**	**324**

Reconciliation of the summarised financial information presented to the carrying amount of the interest in the joint venture:

	Icon Logistics Limited 2016 $000	Icon Logistics Limited 2015 $000
Opening net assets	2,716	2,318
Total comprehensive income for the period	558	648
Less shareholder distributions	(324)	(250)
Closing net assets	2,950	2,716
Interest in joint venture (50%)	**1,475**	**1,358**

C8. Inventories

Inventories are stores, materials and maintenance spares to be consumed in the rendering of services and are stated at the lower of cost and net realisable value. The cost of stores, materials and maintenance spares are determined on a weighted average basis. The carrying amounts of inventories includes appropriate allowances for obsolescence and deterioration.

C9. Finance leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Amounts due from lessees under finance leases are recorded as receivables. Finance lease receivables are initially recognised at amounts equal to the present value of the minimum lease payments receivable plus the present value of any unguaranteed residual value expected to accrue at the end of the lease term. Finance lease payments are allocated between interest revenue and reduction of the lease receivable over the term of the lease in order to reflect a constant periodic rate of return on the net investment outstanding in respect of the lease.

The finance lease receivable relates to the Group funding of tenant improvements to an investment property. A lease commenced in April 2007 for an initial period of 10 years and the finance lease receivable will be recovered over this period. The pre-tax interest rate applicable to the finance lease receivable is 12.0%. Interest income is recognised on a consistent basis to produce a constant rate of return on the net investment.

NOTES TO THE FINANCIAL STATEMENTS continued

C9. Finance leases (continued)

	Minimum future lease payments		Present value of minimum future lease receivables	
	2016 $000	2015 $000	2016 $000	2015 $000
Repayments due:				
No later than 1 year	160	214	155	189
Later than 1 year and not later than 5 years	-	160	-	155
Minimum future lease payments	160	374	155	344
Gross finance lease receivables	160	374	155	344
Less unearned finance income	(5)	(30)	-	-
Present value of minimum lease payments	**155**	**344**	**155**	**344**
Included in the financial statements as:				
Current asset			155	189
Non-current asset			-	155
			155	**344**

D. FINANCIAL RISK MANAGEMENT

D1(a). Managing financial risk

The Group's activities expose it primarily to the financial risks of changes in credit risk, interest rates and foreign exchange rates. The Group uses derivative financial instruments to minimise potential adverse effects from certain risk exposures.

Borrowings at variable interest rates expose the Group to interest rate risk. The Group manages its interest rate risk by using floating-to-fixed interest rate swaps with a range of terms. These interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates.

The Group is exposed to foreign exchange risk when purchasing major items of plant and equipment with payment denominated in a foreign currency. Foreign currency forward purchase contracts are used to limit the Group's exposure to movements in exchange rates on foreign currency denominated liabilities and purchase commitments.

In the normal course of business the Group incurs credit risk from trade receivables. Reflecting the nature of the business, a concentration of credit risk occurs due to a small number of shipping line and warehousing clients comprising a majority amount of port trade receivables. Regular monitoring of trade receivables is undertaken to ensure that the credit exposure remains within the Group's normal terms of trade.

D1(b). Liquidity risk

Liquidity risk represents the Group's ability to meet its contractual obligations. The Group evaluates its liquidity requirements on an ongoing basis. In general, the Group generates sufficient cash flows from its operating activities to meet its obligations arising from its financial liabilities and has credit lines in place to cover potential shortfalls and meet capital expenditure requirements.

The Group has not renegotiated the terms of any financial assets which would result in the carrying amount no longer being past due, or to avoid a possible past due status. No trade receivables were individually impaired.

NOTES TO THE FINANCIAL STATEMENTS continued

D1(c). Financial instruments

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are remeasured at their fair value at subsequent reporting dates. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group designates hedges of highly probable forecast transactions as cash flow hedges. Changes in the fair value of derivatives qualifying as cash flow hedges are recognised in other comprehensive income and transferred to the cash flow hedge reserve in equity. The ineffective component of the fair value changes on the hedging instrument is recorded directly in the Income Statement.

When a hedging instrument expires or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the Income Statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the Income Statement. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the Income Statement.

For qualifying hedge relationships, the Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

The net differential paid or received on interest rate swaps is recognised as a component of interest expense over the period of the swap agreement.

The Group carries interest rate derivatives (derivative financial instruments) at fair value. The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the reporting date, taking into account current interest rates. These instruments are included in Level 2 of the fair value measurement hierarchy. Interest rate derivative fair values are valued and are calculated using a discounted cash flow model using FRA rates provided by ANZ Bank New Zealand Limited based on the reporting date of 30 June 2016.

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less. Bank overdrafts form an integral part of the Group's cash management and are included as a component of cash and cash equivalents for the purpose of the Cash Flow Statement.

Financial assets and financial liabilities are recognised on the Group's Balance Sheet when the Group becomes a party to the contractual provisions of the instrument.

NOTES TO THE FINANCIAL STATEMENTS continued

D1(d). Financial instrument categories

The accounting policies for financial instruments have been applied to the line items below.

As at 30 June 2016	Designated at fair value $000	Loans and receivables $000	Other amortised cost $000	Total carrying amount $000
Assets				
Cash and cash equivalents	-	1,093	-	1,093
Trade and other receivables	-	12,520	-	12,520
Derivative financial instruments	-	-	-	-
Finance leases	-	155	-	155
Total current assets	**-**	**13,768**	**-**	**13,768**
Other financial assets	-	52	-	52
Finance leases	-	-	-	-
Total non current assets	**-**	**52**	**-**	**52**
Total assets	**-**	**13,820**	**-**	**13,820**
Liabilities				
Trade and other payables	-	-	6,625	6,625
Derivative financial instruments	623	-	-	623
Total current liabilities	**623**	**-**	**6,625**	**7,248**
Borrowings	-	-	62,400	62,400
Derivative financial instruments	1,207	-	-	1,207
Total non current liabilities	**1,207**	**-**	**62,400**	**63,607**
Total liabilities	**1,830**	**-**	**69,025**	**70,855**

As at 30 June 2015	Designated at fair value $000	Loans and receivables $000	Other amortised cost $000	Total carrying amount $000
Assets				
Cash and cash equivalents	-	20,743	-	20,743
Trade and other recivables	-	8,924	-	8,924
Derivative financial instruments	7	-	-	7
Finance leases	-	189	-	189
Total current assets	**7**	**29,856**	**-**	**29,863**
Other financial assets	-	71	-	71
Finance leases	-	155	-	155
Total non current assets	**-**	**226**	**-**	**226**
Total assets	**7**	**30,082**	**-**	**30,089**
Liabilities				
Trade and other payables	-	-	7,548	7,548
Derivative financial instruments	713	-	-	713
Total current liabilities	**713**	**-**	**7,548**	**8,261**
Borrowings	-	-	54,700	54,700
Derivative financial instruments	526	-	-	526
Total non current liabilities	**526**	**-**	**54,700**	**55,226**
Total liabilities	**1,239**	**-**	**62,248**	**63,487**

NOTES TO THE FINANCIAL STATEMENTS continued

D1(e). Credit quality of financial assets

The maximum credit exposure for each class of financial asset is as follows:

	2016 $000	2015 $000
Cash and cash equivalents (Credit rating AA-)	1,093	20,743
Trade and other receivables (Non rated - nil defaults)	12,520	8,924
Derivative financial instruments (Credit rating AA-)	-	7
Finance leases (Non rated - nil defaults)	155	344
Total credit risk	**13,768**	**30,018**

Trade and other receivables mainly arise from the Group's principal activities and procedures are in place to regularly monitor trade receivables to ensure that the credit exposure remains within the Group's normal terms of trade.

Regular monitoring of other financial assets is undertaken to ensure the credit exposure is appropriate for that class of asset.

D1(f). Contractual maturity analysis of financial liabilities

The table below analyses financial liabilities into relevant maturity groupings based on the remaining period at the balance date to the contractual maturity date. Future interest payments on floating rate debt are based on the floating rate of the instrument at the balance date. The amounts disclosed are the contractual undiscounted cash flows.

	Weighted average effective interest rate	Carrying amount $000	Contractual cash flows $000	Less than 1 Year $000	2-5 years $000	Greater than 5 years $000
As at 30 June 2016						
Trade and other payables	-	(6,625)	(6,625)	(6,625)	-	-
Borrowings (secured)	5.1%	(62,400)	(71,011)	(24,207)	(29,992)	(16,812)
Derivative financial instruments	-	(1,830)	(2,068)	(784)	(1,237)	(47)
Total as at 30 June 2016		(70,855)	(79,704)	(31,616)	(31,229)	(16,859)
As at 30 June 2015						
Trade and other payables	-	(7,548)	(7,548)	(7,548)	-	-
Borrowings (secured)	5.6%	(54,700)	(60,365)	(17,154)	(38,114)	(5,097)
Derivative financial instruments	-	(1,239)	(1,388)	(838)	(550)	-
Total as at 30 June 2015		(63,487)	(69,301)	(25,540)	(38,664)	(5,097)

D1(g). Sensitivity analysis of financial instruments

The table below illustrates the potential profit and equity (excluding retained earnings) impact for reasonably possible market movements where the impact is significant.

	2016			
	-100bps		+100bps	
	Profit $000	Other equity $000	Profit $000	Other equity $000
Interest rate risk				
Financial liabilities				
Derivatives				
- hedge accounted	-	2,973	-	991
- non-hedge accounted	(198)	-	212	-
Borrowings	624	-	(624)	-
Total sensitivity to interest rate risk	**426**	**2,973**	**(412)**	**991**

NOTES TO THE FINANCIAL STATEMENTS continued

D1(g). Sensitivity analysis of financial instruments (continued)

	2015			
	-100bps		+100bps	
	Profit $000	Other equity $000	Profit $000	Other equity $000
Interest rate risk				
Financial liabilities				
Derivatives				
- hedge accounted	-	(229)	-	547
- non-hedge accounted	(155)	-	153	-
Borrowings	547	-	(547)	-
Total sensitivity to interest rate risk	**392**	**(229)**	**(394)**	**547**

D2. Trade and other receivables

Trade and other receivables, including advances, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is expensed in the Income Statement.

	2016 $000	2015 $000
Trade receivables	10,581	7,540
Amount owing by related parties	1,340	863
Prepayments	599	521
Balance at end of year	**12,520**	**8,924**

Credit risk

The Group is exposed to credit risk from the possibility of counter-parties failing to perform their obligations. Principally any risk is in respect of cash and bank balances, trade and other receivables. No collateral is held on these accounts. The major components of trade and other receivables exposure are to shipping companies and investment property tenants. The majority of trade and other receivables are major international companies with extensive histories of payment. There is no material credit risk with respect to trade and other receivables or any single debtor.

The status of trade receivables at the reporting date is as follows:

	2016 Gross receivable $000	2015 Gross receivable $000
Not past due	10,104	6,139
Past due 30-60 days	214	1,377
Past due 61-90 days	110	-
Past due more than 90 days	153	24
Total	**10,581**	**7,540**

NOTES TO THE FINANCIAL STATEMENTS continued

D3. Trade and other payables

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

	2016 $000	2015 $000
Accounts payable	5,667	6,545
Other accrued charges	742	974
Property deposits received	216	29
Balance at end of year	**6,625**	**7,548**

D4. Borrowings

Borrowings are recognised initially at fair value. Subsequent to initial recognition, borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the Income Statement over the period of the borrowings, using the effective interest method.

The carrying amount of borrowings reflects fair value as the borrowing finance rates approximate market rates.

	2016 $000	2015 $000
Bank borrowings		
Current liability	-	-
Non-current liability	62,400	54,700
Total bank borrowings	**62,400**	**54,700**

Port Otago Group facility

The Group has a $80 million (2015: $100 million) committed facility with ANZ Bank New Zealand Limited. The Group may draw funding for terms ranging from call to the termination of the agreement, which is 31 December 2018.

The security for advances is a cross guarantee between Port Otago Limited and Chalmers Properties Limited in favour of the lender, general security agreement over the assets of the Group and registered first-ranking mortgages over land.

Interest rate risk

The notional principle outstanding with regard to the interest rate swaps is:

	2016 $000	2015 $000
Maturing in less than one year	22,050	14,500
Maturing between one and five years	25,000	35,200
Maturing in more than five years	15,350	5,000
Total credit risk	**62,400**	**54,700**

NOTES TO THE FINANCIAL STATEMENTS continued

E. OTHER INFORMATION

E1. Employee entitlements

Provision is made for benefits accruing to employees in respect of salaries and wages, annual leave, sick leave, long service leave, retiring allowances, superannuation contributions, profit sharing and bonus plans when it is probable that settlement will be required.

Provisions made in respect of employee benefits expected to be settled within 12 months are measured at undiscounted amounts based on remuneration rates that the Group expects to pay.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured at the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to the reporting date. These provisions are affected by a number of estimates including projected interest rates, the expected length of service of employees and future levels of employee earnings. Long service leave accrued to key management personnel at balance date totalled $26,179.

	Notes	2016 $000	2015 $000
Accrued wages, salaries and other benefits		805	606
Annual leave		3,390	3,264
Long service leave		969	819
Retiring allowances		133	134
Sick leave		78	56
Related party incentive	E5	317	358
Balance at end of year		**5,692**	**5,237**
Analysed as:			
Current		4,273	3,926
Non-current		1,419	1,311
		5,692	**5,237**

E2. Share capital

At 30 June 2016 Port Otago Limited has 20,000,000 ordinary shares (2015: 20,000,000 ordinary shares). All shares are fully paid and have no par value. All shares carry equal voting rights and the right to share in any surplus on the winding up of the Group.

E3. Reserves

Retained earnings

The purpose of the retained earnings reserve is to hold funds for future investment or returns to the shareholder.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of the cash flow hedging instruments relating to interest payments that have not yet occurred.

NOTES TO THE FINANCIAL STATEMENTS continued

E3. Reserves (continued)

The reserves are represented by:

	2016 $000	2015 $000
Retained earnings		
Balance at beginning of year	356,198	312,163
Profit for the year	34,099	52,435
Less dividends paid	(7,250)	(8,400)
Balance at end of year	**383,047**	**356,198**
Available-for-sale revaluation reserve – shares in listed companies		
Balance at beginning of year	-	13,697
Realised on sale of available-for-sale investments	-	(13,697)
Balance at end of year	**-**	**-**
Hedging reserve		
Balance at beginning of year	(999)	(1,022)
Change in fair value of interest rate swaps and forward exchange contracts	(475)	32
Deferred tax arising on fair value movement	133	(9)
Balance at end of year	**(1,341)**	**(999)**
Total reserves	**381,706**	**355,199**

Capital management strategy

The Company's capital is its equity, which comprises the reserves noted above. Equity is represented by net assets. The owners of the Group require the Board to manage its reserves, expenses, assets and liability transactions prudently. The Group's equity is therefore managed as a by-product of these prudent transactions. The objective of managing the Group's equity is to ensure that the Group effectively achieves its objectives while providing a financial return to the owners. The Group manages capital on the basis of the equity ratio with a target range of 70% to 85%.

E4. Dividends declared and proposed

	2016 $000	2015 $000
Interim dividend paid 16.25 cps (2015: 16.25 cps)	3,250	3,250
Second interim dividend paid 16.25 cps (2015: 16.25cps)	3,250	3,250
Final dividend 4 cps (2015: 3.75 cps)	800	750
Dividends for the financial year	**7,300**	**7,250**
Adjust for dividends declared after year end:		
2016 Final dividend declared September 2016	(800)	-
2015 Final dividend declared September 2015	750	(750)
2014 Final dividend declared September 2014	-	1,900
Dividend distributed to owners as disclosed in the Statement of Changes in Equity	**7,250**	**8,400**
Dividends - cents per share (cps)	36.50	36.25

NOTES TO THE FINANCIAL STATEMENTS continued

E5. Transactions with related parties

The amounts owing to/from related parties are payable in accordance with the Group's normal terms of trade. No related party debts have been written off or forgiven during the year.

Amounts receivable from related parties are included in note D2. Amounts payable to related parties are included in note D3.

Transactions with Otago Regional Council

During the year the Group and its shareholder, the Otago Regional Council ("ORC"), entered into an agreement for the ORC to transfer 2015 tax year losses to the Group. In conjunction with the tax loss transfer of $251,953 (2015 tax year: $244,023), by way of a tax loss offset, the Group made a subvention payment of $97,981 (2015 tax year: $94,898) to the ORC. The consequence of the tax loss transfer and the subvention payment was a $97,981 reduction in income tax payments in the current year (2015: $94,898).

The amount paid to the Otago Regional Council for rates and resource consent fees during 2016 was $31,577 (2015: $26,228). The amount received from the Otago Regional Council for property rentals was $7,475 (2015: $7,475) and $60,000 (2015: $92,250) as a contribution towards the operation of the Harbour Control Centre at Port Chalmers with $17,250 receivable at year end (2015: $54,337).

Transactions with Icon Logistics Limited

Port Otago Limited has a 50% interest in Icon Logistics Limited through its wholly owned subsidiary, South Freight Limited. Icon Logistics Limited is a tenant and purchaser of services from Port Otago Limited. The amount received from Icon Logistics Limited during 2016 for property rentals and sale of services was $146,893 (2015: $125,061) with $1,903 receivable at year end (2015: $1,364).

Icon Logistics Limited also provides transport services to Port Otago Limited. The amount paid to Icon Logistics Limited during 2016 for the supply of transport services was $156,363 (2015: $40,158) with $3,503 payable at year end (2015: $4,702).

Directors

Mr D J Faulkner is a Director of Gough Holdings Limited, a supplier to the Group. The amount paid to Gough Holdings Limited, and its wholly owned subsidiaries during 2016 for the supply of goods and services was $419,336 (2015: $504,982) with $46,236 payable at year end (2015: $10,652).

Mr E J Harvey is a Director of Kathmandu Holdings Limited, a tenant of the Group. The amount received from Kathmandu Holdings Limited, and its wholly owned subsidiaries during 2016 for property rentals, was $240,994 (2015: $240,447). There was no amount receivable at year end (2015: nil).

Mr D R Black was a Director of Farra Engineering Limited, a tenant and supplier to the Group. Mr Black retired as a Director of Port Otago Limited during the year. The amount received from Farra Engineering Limited during 2016 for property rentals, was $52,728 (2015: $49,767). The amount paid to Farra Engineering Limited for the supply of goods and services during 2016 was $8,881 (2015: $6,577). There was no amount receivable (2015: nil) or payable (2015: $1,440) at year end.

Financial arrangement - Te Rapa Gateway Limited

During the year ended 30 June 2008 the Hamilton Joint Venture agreed to sell 10% of a 43.7 hectare block of joint operation land to Mr Andrew Duncan. Mr Duncan ceased employment with the Group during 2012. Te Rapa Gateway Limited, a subsidiary of Chalmers Properties Limited, subseqently negotiated and settled a partition agreement in the year ended 30 June 2015 to purchase the 50% interest in the Hamilton Joint Venture industrial zoned land held by our joint venture partner.

The balance sheet provision (refer note E1) reflects the difference between the $2.84 million nominal sales proceeds and the net present value of the sales proceeds, and the earned portion of the net present value of incentives to be reimbursed by the Group. The discounted incentives are recognised as earned on a straight-line basis over the period February 2008 to July 2016.

At 30 June 2016, the remaining terms of the transaction with Mr Duncan are:

- Sale price of $2.05 million (plus GST if any) for the remaining land under this agreement. Deposits totalling $0.22 million are held in trust by the Group solicitor.

- The Group will pay land development costs up to $0.18 million plus tax, which amounts to $0.26 million after payroll taxes are added.

AUDIT REPORT

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Independent Auditor's Report

To the readers of Port Otago Limited Group's financial statements for the year ended 30 June 2016

The Auditor-General is the auditor of Port Otago Limited Group (the Group). The Auditor-General has appointed me, Andy Burns, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements of the Group consisting of Port Otago Limited and its subsidiaries and other controlled entities, on her behalf.

Opinion

We have audited the financial statements of the Group on pages 9 to 38, that comprise the balance sheet as at 30 June 2016, the income statement, statement of comprehensive income, statement of changes in equity, and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

In our opinion, the financial statements of the Group:

- present fairly, in all material respects:
  - its financial position as at 30 June 2016; 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 International Financial Reporting Standards.

Our audit was completed on 6 September 2016. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities, and explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Group's financial statements in order to design audit procedures that

AUDIT REPORT continued

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the adequacy of the disclosures in the financial statements; and
- the overall presentation of the financial statements.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements. Also, we did not evaluate the security and controls over the electronic publication of the financial statements.

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

Responsibilities of the Board of Directors

The Board of Directors is responsible for the preparation and fair presentation of financial statements for the Group that comply with generally accepted accounting practice in New Zealand.

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

The Board of Directors is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is also responsible for the publication of the financial statements, whether in printed or electronic form.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you based on our audit. Our responsibility arises from the Public Audit Act 2001.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

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

Andy Burns
Audit New Zealand
On behalf of the Auditor-General
Dunedin, New Zealand

STATUTORY DISCLOSURE

The following disclosures are made pursuant to the Companies Act 1993 in respect of the financial year ended 30 June 2016.

Group activities

Port Otago Limited provides a full range of port facilities, cargo handling and warehousing services at the Port of Otago.

Chalmers Properties Limited, a wholly owned subsidiary, manages the Group's investment property portfolio.

Financial results

The Group recorded a profit for the year of $34.1 million, compared to $52.4 million last year.

Dividends

A final dividend of $0.8 million will be paid on 9 September 2016, which brings total dividends for the year to $7.3 million.

Changes in accounting policies

Accounting policies have been applied on a consistent basis with the prior year.

Directors

Mr T D Gibson and Mr P F Heslin were appointed as Directors during the year. Mr D R Black retired as a Director on 31 December 2015.

Directors' remuneration

Remuneration paid by the Port Otago Group to Directors during the year was:

	Port Otago Limited $000	Chalmers Properties Limited $000	Total Group $000
D J Faulkner (Chairman)	67	21	88
P F Rea (Deputy Chairman)	42	13	55
D R Black [R]	19	6	25
T Gibson	8	3	11
E J Harvey	35	13	48
P F Heslin	20	7	27
E G Johnson	34	13	47
	225	**76**	**301**

[R] Retired during the year

STATUTORY DISCLOSURE continued

Directors' interests

The Directors have disclosed the following general interests for the year ended 30 June 2016 in accordance with Section 140 of the Companies Act 1993:

Director	Entity	Relationship
D J Faulkner	Cold Storage Nelson Limited	Director
	Gough Holdings Limited (and its wholly owned subsidiaries)	Director
	Hawkes Bay Regional Investment Company Limited	Director
D R Black	Farra Engineering Limited	Chairman
	Forests Otago Limited	Chairman
	Otago Rescue Helicopter Trust	Chairman
P F Rea	No interest register entries recorded	
E J Harvey	Ballance Agri-Nutrients Limited	Director
	Heartland Bank Limited	Director
	Investore Property Limited	Director
	Kathmandu Holdings Limited	Director
	New Zealand Opera Limited	Chairman
	Pomare Investments Limited	Director
	Stride Property Limited (and its wholly owned subsidiaries)	Director
T D Gibson	Affordable Skills Limited	Director
	Affordable Water Limited	Director
	Fiscus Limited	Director
	Gibson Walker Limited	Director
	New Zealand Rugby League	Board member
	Miraka Limited	Director
	Skills International Limited	Director
	Tuia International Limited (and its wholly owned subsidiaries)	Director
	Water Micro Limited	Director
P F Heslin	Forsyth Barr Custodians Limited	Director
	Forsyth Barr Cash Management Nominees Limited	Director
	Jedaka Limited	Director
	New Zealand Auditing and Assurance Standards Board	Board member
	P Heslin Limited	Director
E G Johnson	ECL Group Limited (and its wholly owned subsidiaries)	Director
	Goldpine Group Limited (and its wholly owned subsidiaries)	Chairman
	Indevin Group Limited (and its wholly owned subsidiaries)	Chairman
	Port Marlborough (New Zealand) Limited (and its wholly owned subsidiaries)	Chairman
	Stone Farm Holdings Limited	Director

STATUTORY DISCLOSURE continued

Employee remuneration

During the year, the number of employees of Port Otago Limited and its subsidiaries who received total remuneration in excess of $100,000 are:

Remuneration range ($)	Number of employees
480,001 – 490,000	1
340,001 – 350,000	1
230,001 – 240,000	1
210,001 – 220,000	2
200,001 – 210,000	7
190,001 – 200,000	3
170,001 – 180,000	1
160,001 – 170,000	2
150,001 – 160,000	2
140,001 – 150,000	3
130,001 – 140,000	3
120,001 – 130,000	5
110,001 – 120,000	14
100,001 – 110,000	7

Remuneration includes salary, bonuses, motor vehicles and other sundry benefits received in the person's capacity as an employee. Bonus payments are paid in the following financial year to which they relate.

Directors of subsidiary companies

Directors' fees for Chalmers Properties Limited are shown under Directors' remuneration. No Directors' fees were paid by Fiordland Pilot Services Limited, Te Rapa Gateway Limited and South Freight Limited.

The following persons held office as Directors of subsidiary companies at 30 June 2016 or retired during the year as indicated with an (R):

Company	Director
Chalmers Properties Limited	D J Faulkner, D R Black (R), T D Gibson, E J Harvey, P F Heslin, E G Johnson, P F Rea
Fiordland Pilot Services Limited	D J Faulkner, D R Black (R), T D Gibson, E J Harvey, P F Heslin, E G Johnson, P F Rea
Te Rapa Gateway Limited	D J Faulkner, D R Black (R), T D Gibson, E J Harvey, P F Heslin, E G Johnson, P F Rea
South Freight Limited	D J Faulkner, D R Black (R), T D Gibson, E J Harvey, P F Heslin, E G Johnson, P F Rea

Directors' insurance

The Group provides insurance cover for Directors under the following policies:

(a) Directors' liability insurance which ensures that generally Directors will incur no monetary loss as a result of action undertaken by them as Directors.

(b) Personal accident insurance which covers Directors while travelling on company business.

Use of Company information

There were no notices received from Directors of the Company requesting to use Company information received in their capacity as Director, which would not otherwise have been available to them.

Auditors

The Auditor-General continues as the Company's auditor in accordance with the Port Companies Act 1988. The Auditor-General has appointed Audit New Zealand to undertake the audit on its behalf.

The Group audit fee for the year ended 30 June 2016 was $133,000 (last year: $132,000).

For and on behalf of the Board of Directors

D J Faulkner
Chairman
6 September 2016

E J Harvey
Director
6 September 2016

DIRECTORY

Directors

David Faulkner	Chairman
Paul Rea	Deputy Chairman, Chairman Health and Safety Governance Committee
John Harvey	Chairman Audit Committee
Tim Gibson	
Pat Heslin	
Ed Johnson	

Executive

Geoff Plunket	Chief Executive
Kevin Kearney	Container Terminal Manager
Peter Brown	General Manager Commercial
David Chafer	General Manager Property
Lynn Smillie	General Manager Human Resources
Stephen Connolly	Chief Financial Officer

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Bankers

ANZ Bank New Zealand Limited

Solicitors

Anderson Lloyd

Auditors

Audit New Zealand on behalf of the Auditor-General


MAERSK LINE
MAERSK
MAERSK SEALAND
HAMBURG SÜD
OOCL
CMA CGM
COSCO
Hapag-Lloyd

PORT OTAGO LIMITED

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NEXT GENERATION PORT OTAGO