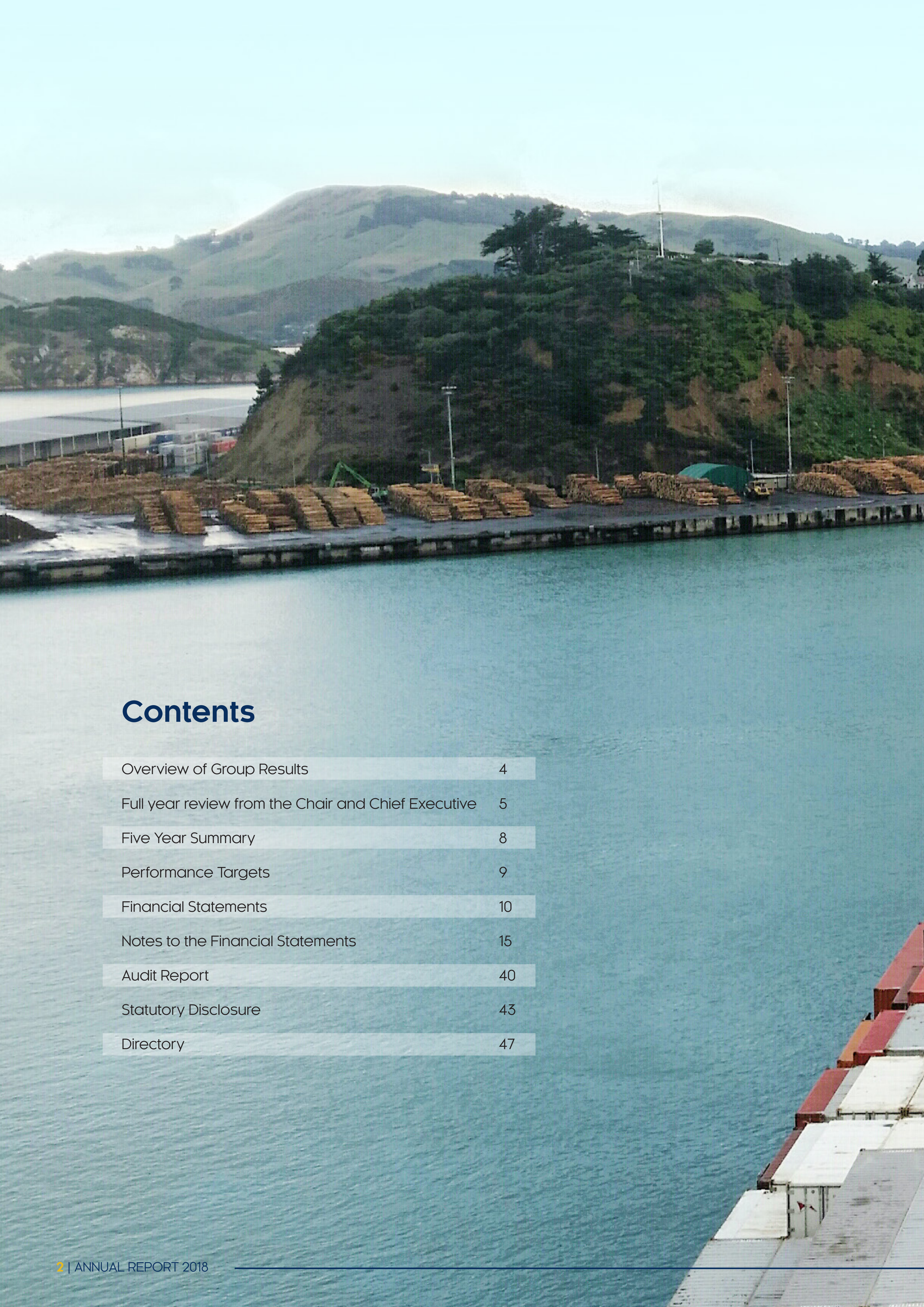
PORT OTAGO

ANNUAL REPORT 2018



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Overview of Group Results

	2018 $million	2017 $million
Revenue	109.4	89.5
Operating profit before income tax	29.9	23.4
Profit for the year	43.9	38.7
Total assets	583.2	533.6
Shareholders' equity	468.1	433.6
Equity ratio	80%	81%
Trade		
Container throughput (teu)	204,700	178,200
Bulk cargo volume (000's tonnes)	1,686	1,534
Cruise ship arrivals	87	79
Total ship calls	529	494

Full year review from the Chair and Chief Executive

Highlights

Highlights for the year include:

- Increased investment in keeping our people safe
- Tax-paid return on average equity of 9.7%
- Record log volumes of 1.06 million tonnes across the Dunedin and Port Chalmers wharves
- Container volumes increased by 15% to 204,700 teu
- Te Rapa Gateway land sales of $19 million
- Back hoe dredge Takutai purchased

Financial results

The Port Otago Group delivered a tax-paid profit of $43.9 million for the year ended June 2018 up 13% on last year's $38.0 million profit. Revenue from port operations was up 10% to $74.9 million, driven by a 15% increase in container throughput to 204,700 teu and a 10% lift in bulk cargo volumes to 1.7 million tonnes. Full container export and import volumes were up 10%, mainly due to increased activity from the dairy and sawn timber sectors. Tranship volumes increased as shipping lines focused on optimising their networks to improve efficiency, choosing to use Port Otago as a hub port linking services to international markets for our customers.

The Port Chalmers and Dunedin Bulk Port moved a record 1.06 million log tonnes, up 12% on last year. This is the first year that more than 1 million tonnes of logs have transited across Port Otago's wharves. Growth across Otago and Southland increased demand for fuel and consequently volumes were up 16% on the previous year.

Total ship calls to Port Otago increased by 7% to 529 arrivals and included 87 cruise ships. Statistics New Zealand calculations calculate a cruise ship passenger expenditure of $56 million across Otago, an increase of 40% on last year.

The EBIT from port operations was up 2% from last year to $12.8 million including a $2.9 million cost for the removal of asbestos.

Chalmers Properties Limited (CPL) EBIT contribution to Port Otago Group's performance was significant for the year at $18.4 million, with the Investment Property Division performing well with a $1.04 million increase compared to last year. The Chalmers result has been boosted by the sales of developed land of $19 million from the Te Rapa Gateway development in Hamilton. The cost of sales was $13.6 million, resulting in a net contribution before tax of $5.4 million, compared to $1.5 million last year.

The investment property portfolio also delivered a further $22.0 million unrealised revaluation gain, compared to $19.9 million last year. Although this unrealised valuation gain could be reversed following a correction to property yields, the geographical and tenant diversification, as well as the strategy of continuing to improve the quality of the property portfolio, partly protects the group from a significant write-back.

Before unrealised revaluations and tax, the group operating profit was up $6.5 million on the previous year to $29.9 million. This is a pleasing result, given the unbudgeted cost of $2.9 million to remove asbestos from the group's Fryatt Street sheds.

Keeping our people safe

Changes in the leadership team during the year included a mix of internal promotions and the injection of some external skills and perspectives. This has improved diversity of thought and gender balance across the team.

The team's focus has been to get out into the business, engaging in Visible Safety Leadership conversations and understanding the issues that our people experience on a daily basis. As a result, the leadership team now sees first-hand what drives or hinders the business in terms of safety and productivity and can formulate ideas on how to make a difference.

Health and safety Runanga

A new health and safety Runanga forum meets monthly and includes safety representatives, line management, leadership team members and directors. The Runanga focuses on driving improved safety and wellbeing across the business. Engagement in the Runanga's first year has exceeded expectations with the team quickly learning to work together on reviewing, documenting and understanding Critical Risks across the business. Critical Risks will remain a key focus for the Runanga during the next year, as the effectiveness of hard and soft controls are tested and improved.

Installation of hard barriers

During the year, $2.4 million was spent upgrading the Dunedin Depot to improve safety. New hard stand and permanent barriers were installed to separate man and machine.

Defibrillators across the operation

In addition to preventative safety investments and trials, we have installed 11 defibrillators across the business including our entire floating plant fleet.

Improvements to staff rostering

To improve the visibility of shifts, changing patterns and the potential for roster-related fatigue, a rostering project team was formed to source a software solution. TimeTarget was selected as a staff app solution and should be "live" before Christmas. This rostering tool is a required building block for our future people infrastructure.

New PPE

Project Orange was formed to review PPE (Personal Protective Equipment) standards across the industry and establish the best options for our team to improve their safety. Our thanks to New Zealand's other ports, who shared their standards and knowledge freely. Consequently, a Port Otago standard was agreed and procured smoothly with new PPE being rolled out ahead of the coming export season.

Improved incident reporting

We have focused on improved incident reporting – near misses, Lost Time Injuries (LTI) and Medical Treatment Injuries (MTI). The Total Recordable Injury Frequency Rate (TRIFR) rate increased this year to 36.9, compared to 19 the previous year. While it is disappointing to see this increase, the severity of incidents decreased. Over time, the positive changes in lead indicators should improve lag results.

Smoke free

Port Otago has been working towards becoming a smoke free workplace and achieved this at the end of June 2018. We have supported our team with quit smoking coaches with the goal to improve individuals' wellness and remove the risk to others of passive smoking.

Being a good neighbour

30km/hr speed limit

From a community perspective, the year's highlight was undoubtedly our transport partners supporting the voluntary speed limit of 30km/hr through the main street of Port Chalmers. Our neighbourhood is now a safer place to live and work in, thanks to the understanding of our partners.

Noise monitoring

Port Otago upgraded its two existing noise monitors to real-time recording linked to a central database. These have been augmented with a permanent monitor in Carey's Bay and a control monitor within the container terminal. The recordings that trigger a set dBA threshold are time stamped, which allows our operational teams to listen to the noise and track down its cause. This data is able to be linked to our on-port camera system and the telemetry systems within straddles and sideloaders. This has provided valuable information to help minimise noise in our daily operations. We provide the actual data to the Port's Noise and Environment Liaison Committee and are working towards publishing a live feed to our website, so all neighbours can access the data at any time.

The Noise and Environment Committee provided valuable feedback and much-appreciated guidance during the year, including championing the painting of the flying humpback whale mural on the Cruise Terminal.

Te Rauone Beach renourishment

During the year, Port Otago engaged Beca to design a groyne structure for the renourishment of Te Rauone Beach. After liaison with the community, Port Otago partnered with the Dunedin City Council. The Council will contribute $900,000 to redeveloping the Te Rauone Beach Reserve, complimenting Port Otago's beach renourishment work. The intention is to apply for resource consent before Christmas.

Community Sponsorship

We continue to support neighbourhood groups such as the Port Chalmers Maritime Museum, Orokonui Ecosanctuary, Koputai Lodge Trust and the Port Chalmers yachting, rowing and bowling clubs. Port Otago also sponsored a safe fit-for-purpose Kubota 4wd vehicle for the Port Chalmers golf club, used by current and retired Port Otago staff for course maintenance; it keeps our people safe as they contribute to their community.

Port Otago was approached to partially underwrite employing a veterinarian, so local penguins and sea birds could be treated in Dunedin rather than in Christchurch. It was an easy decision to support the new Wildlife Hospital in Dunedin and Port Otago has signed a three-year partnership. Congratulations to the Wildlife Hospital team for a great start up.

Investing in our infrastructure

Welcome to the Takutai

The new back hoe dredge, the Takutai, made an impressive entrance into its new harbour in June. The Takutai replaces the now-retired Vulcan and will improve the port's capability to maintain and deepen the shipping channel in the upper and lower harbours. Takutai is best suited to dredge mud, rock and hard sand banks, complementing the New Era trailing suction capabilities suited for dredging sand. Takutai is fitted with telemetry software, so operators can see the sea floor while operating the dredge, thus minimising over dredging and wasted energy.

Port Chalmers wharf extension

The 135 metre wharf extension project at Port Chalmers is on track to be completed ahead of its scheduled October date, with more than half of the concrete deck pours completed by balance date. Port Otago is expecting a record 117 cruise ships during the season ahead (a 30% increase) and this multi-purpose wharf extension will provide extra flexibility to accommodate them.

Log storage streamlined

To support the strong growth of our logging customers, we moved our transport joint venture, Icon Logistics, from Fryatt Street to Parry Street. The $1.7 million capital investment frees up much needed additional space for log storage and for NFA Holding's scaling operation, which can now handle 14 trucks within the facility, reducing queuing on Fryatt Street.

Asbestos and Harbourside

During the year, a member of the public alerted us that our "super six" asbestos roofs at Fryatt Street sheds were degrading. Asbestos dust was found on a car parked in Fryatt Street and we immediately contained the site and communicated with neighbours and the wider community. We have nearly completed the process of working with our sheds' tenants to remove and decontaminate stored items. ATL Group will begin removing the asbestos roof and demolishing the sheds in late September. The work is expected to take 4-6 months to complete.

Port Otago is committed to being asbestos free by 30 June 2019 and is working through options for three affected buildings at Port Chalmers.

Harbourside development

Port Otago supports the Harbourside project and is working with other parties to establish a master plan and secure funding. Port Otago is kick starting the project by demolishing the Fryatt Street wharf sheds. The wharf will then be made safe, before being opened up as a public fishing wharf, so everyone can experience an opened-up Harbourside space

Chalmers Properties Limited

Chalmers Properties Limited (CPL) achieved an EBIT of $18.4 million, compared to $13.5 million in the previous year. Excluding land sales from the Te Rapa Gateway development the EBIT increased by 9% to $13.0 million for the year. The total value of the CPL property portfolio increased to $349 million – $168 million in Dunedin, $136 million in Auckland and $45 million in Hamilton. The Auckland portfolio increased 8% in valuation, while the Dunedin portfolio (excluding property disposals) increased 4%. The weighted average lease term at June 2018 was 9.2 years, compared to 9.8 years at June 2017.

Te Rapa Gateway development

All six office/warehouse units recently constructed in Hamilton's Te Rapa Gateway development have been leased, as well as one of two larger warehouses. The CPL Board remains confident in its strategy of further enhancing the return from the Te Rapa Gateway development by retaining a portion of the developed land and investing in 1,000-2,000m2 warehouses. These assets will be retained long term within the investment property portfolio.

Work on the third and fourth stages of the land development at Te Rapa Gateway continued during the year with sections planned to be available in mid-2019. Of this land, 9.9 hectares has been pre-sold which will settle once titles are issued. The fifth and final stage is expected to be developed in the 2020 financial year.

Dividends

Dividends of $9.0 million, including a special dividend of $1.5 million, have been paid or declared for the year ended 30 June 2018. This compares to total dividend payments of $7.5 million last year. A further special dividend of $750,000 (in addition to the ordinary dividend) has been indicated to our shareholder, the Otago Regional Council, to be paid in the 2019 year.

Staff

On behalf of the board, we thank our team, supported by our unions for contributing to a successful year. We appreciate our teams willingness to engage, contribute and adapt to new practices that are making Port Otago a safer place for us all to work.

Directors

The Board has appointed Stephanie Pettigrew to join the board as part of the new director internship programme. Stephanie is a partner with Dunedin law firm Marks and Worth. Both Stephanie and the Port team are excited to have her at the board table.

Looking ahead

Over the past year there has been significant consolidation among international shipping lines and we expect to see port networks optimised in the future. Port Otago is well positioned to remain a key deep-water port in the South Island with the balance sheet strength to invest to support growth.

We expect the positive trend in bulk cargo volumes through the Dunedin Bulk Port to continue as we work with customers and partners to improve supply chains.

With a 117 cruise ships booked for the season ahead, the focus is on delivering a safe and enjoyable experience for the estimated 250,000 visitors passing through Port Otago and contributing circa $75 million to the Dunedin economy.

Demand for new, modern industrial premises in Hamilton remains strong, driving sales of developed land, as well as design-build and lease opportunities into the year ahead.

David Faulkner
Chairman

Kevin Winders
Chief Executive

Five Year Summary

Trade and operational analysis	2018	2017	2016	2015	2014
Cargo vessel arrivals	442	415	391	432	423
Cruise vessel arrivals	87	79	70	76	78
Total ship calls	**529**	**494**	**461**	**508**	**501**
Container throughput (teu's)	204,700	178,200	172,400	172,800	181,300
Bulk cargo tonnes (000's)	1,686	1,534	1,343	1,408	1,326
Employees	329	311	309	310	293

Financial comparisons	2018 $000	2017 $000	2016 $000	2015 $000	2014 $000
Revenue #	109,389	89,531	80,774	76,840	77,273
EBITDA from operations #	40,377	34,656	31,341	33,200	33,950
Surplus from operations (EBIT) #					
Port operations	12,788	12,588	10,592	12,643	14,767
Investment property	12,952	11,910	12,025	11,624	11,378
	25,740	24,498	22,617	24,267	26,145
Plus contribution from land development sales	5,414	1,495	597	-	-
Total group EBIT #	**31,154**	**25,993**	**23,214**	**24,267**	**26,145**
Unrealised net change in value of investment property	22,049	19,870	19,957	10,678	14,977
Profit for the year	43,856	38,700	34,099	52,435	31,824
Dividends for financial year *	9,000	7,500	7,300	7,250	7,100
Shareholders' equity	468,075	433,552	401,706	375,199	344,838
Total assets					
Port operations	226,506	200,638	197,247	193,100	176,518
Shares in listed companies	-	-	-	-	50,642
Investment property	356,721	332,990	299,874	268,726	267,220
Total group	**583,227**	**533,628**	**497,121**	**461,826**	**494,380**
Cash flows					
Cash flows from operating activities	31,303	21,688	18,188	28,750	20,639
Port operations capital expenditure	(36,707)	(11,266)	(30,653)	(6,863)	(15,719)
Investment property purchases and improvements	(3,372)	(9,642)	(8,424)	(24,165)	(31,748)
Shareholders' equity	80%	81%	81%	81%	70%
Return on average equity **					
before unrealised revaluations	4.8%	4.6%	3.9%	12.0%	5.3%
after unrealised revaluations	9.7%	9.3%	8.8%	14.6%	9.7%
EBIT return on average assets #					
Port operations	5.7%	6.3%	5.4%	6.5%	8.5%
Property portfolio	5.3%	4.2%	4.2%	4.3%	4.6%
Total group	**5.6%**	**5.0%**	**4.7%**	**10.8%**	**5.6%**

* Includes the final dividend for the financial year declared after balance date, as disclosed in Note E5.
** Profit, divided by average shareholders' equity
# Excludes gain on sale of investment property and property, plant and equipment

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	204,700 teuØ	180,000 teuØ	Target achieved
Bulk cargo throughput	1.686 million tonnes	1.600 million tonnes	Target achieved
Number of vessel arrivals	529 vessels	487 vessels	Target achieved
Container terminal productivity			
Gross container crane productivity	27.6 lifts per crane hour	27.5 lifts per crane hour	Target achieved
Environmental			
Incidents leading to pollution of harbour	Nil	Nil	Target achieved
Full compliance with all resource consent conditions	Nil breaches of resource consent conditions	Nil breaches of resource consent conditions	Target achieved
Health and Safety			
Total Recordable Injury Frequency Rate (TRIFR)	37	9	Target not achieved
(frequency rate per 1 million work hours)			
Financial performance			
Port Otago Group			
EBIT* return on average assets	5.6%	5.6%	Target achieved
Return on shareholders' funds	9.7%	4.5%	Target achieved
Equity ratio	80%	80%	Target achieved
Debt servicing ratio (times) #	9.4	8	Target achieved
Port Operations			
EBIT* return on average assets	5.7%	6.5%	Target not achieved
Return on shareholders' funds	8.5%	9.2%	Target not achieved
Equity ratio	74%	78%	Target not achieved
Debt servicing ratio (times) #	13.6	12	Target achieved
Chalmers Properties Limited			
EBIT* return on average assets	5.3%	4.9%	Target achieved
Return on shareholders' funds	12.5%	3.7%	Target achieved
Equity ratio	84%	82%	Target achieved
Debt servicing ratio (times) #	7.8	6	Target achieved

teuØ = 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.

FINANCIAL STATEMENTS

Group Income Statement

For the year ended 30 June 2018

	Notes	2018 $000	2017 $000
Revenue	B1		
Port operations		74,935	67,826
Investment property rentals		15,447	14,761
Sales of investment property inventories		19,007	6,944
		109,389	**89,531**
Other income			
Gain on sale of investment property and property, plant and equipment		1,671	86
Total revenue and other income		**111,060**	**89,617**
Operating expenses	B2		
Staff costs		(32,007)	(30,685)
Purchased materials and services		(20,737)	(18,821)
Cost of sales of investment property inventories		(13,593)	(5,449)
Depreciation and amortisation		(9,223)	(8,663)
Asbestos remediation costs	E2	(2,880)	-
Total operating expenses		**(78,440)**	**(63,618)**
Operating profit before finance costs, equity accounted investments, non-operating income and expenses and income tax		**32,620**	**25,999**
Financing costs	B3	(2,926)	(2,674)
Share of profit from equity accounted investment	C7 (c)	205	80
Operating profit before non-operating income and expenses and income tax		**29,899**	**23,405**
Non-operating income and expenses			
Subvention payment	E6	(101)	(101)
Unrealised net change in the value of investment property	C1, C3	22,049	19,870
Unrealised net change in value of interest rate swaps		-	(30)
		21,948	19,739
Profit before income tax		**51,847**	**43,144**
Income tax expense	B4	(7,991)	(4,444)
Profit for the year		**43,856**	**38,700**

The accompanying notes form part of these financial statements

Group Statement of Comprehensive Income
For the year ended 30 June 2018

	Notes	2018 $000	2017 $000
Profit for the year		43,856	38,700
Other comprehensive income			
Cash flow hedges			
Unrealised movement in hedging interest rate swaps (net of tax) that will be reclassified to the income statement in subsequent periods		(333)	946
Total comprehensive income for the year		**43,523**	**39,646**

Group Statement of Changes in Equity
For the year ended 30 June 2018

	Notes	2018 $000	2017 $000
Equity at the beginning of the year		433,552	401,706
Total comprehensive income for the year		43,523	39,646
Distribution to owners			
Dividends paid	E5	(9,000)	(7,800)
Equity at the end of the year		**468,075**	**433,552**

The accompanying notes form part of these financial statements

Group Balance Sheet

As at 30 June 2018

	Notes	2018 $000	2017 $000
Current assets			
Cash and cash equivalents		252	525
Trade and other receivables	D2	16,687	13,003
Investment property inventories	C2	31,190	25,696
Property held for sale	C3	-	2,145
Maintenance inventories	C8	1,308	1,196
Derivative financial instruments	D1(d)	-	32
		49,437	42,597
Non-current assets			
Investment property	C1	317,790	302,437
Property, plant and equipment	C5	209,205	181,452
Intangible assets	C6	5,151	5,429
Equity accounted investments	C7(c)	1,631	1,427
Derivative financial instruments	D1(d)	-	254
Other financial assets	D1(d)	13	32
		533,790	491,031
Total assets		**583,227**	**533,628**
Current liabilities			
Trade and other payables	D3	8,967	7,388
Employee entitlements	E1	4,984	4,896
Provisions	E2	2,433	-
Derivative financial instruments	D1(d)	437	648
Income tax payable		4,910	1,987
		21,731	14,919
Non-current liabilities			
Borrowings	D4	77,635	68,420
Employee entitlements	E1	910	932
Derivative financial instruments	D1(d)	571	185
Deferred tax liabilities	B4	14,305	15,620
		93,421	85,157
Total liabilities		**115,152**	**100,076**
Equity			
Share capital	E3	20,000	20,000
Reserves	E4	448,075	413,552
Total equity		**468,075**	**433,552**
Total equity and liabilities		**583,227**	**533,628**

For and on behalf of the Board of Directors

D J Faulkner
Chairman

P F Heslin
Director

The accompanying notes form part of these financial statements

Group Cash Flow Statement

For the year ended 30 June 2018

	Notes	2018 $000	2017 $000
Cash flows from operating activities			
Cash was provided from:			
Port operations revenue		72,387	66,936
Investment property rentals		14,134	14,662
Sale of investment property inventories		18,229	6,963
Interest received		11	160
Cash was applied to:			
Payments to employees and suppliers		(50,642)	(49,132)
Expenditure on investment property inventories		(12,128)	(9,686)
Net GST received/(paid)		(1,783)	409
Interest paid		(2,550)	(2,450)
Subvention payments		(101)	(101)
Income tax payments		(6,254)	(6,073)
Net cash flows from operating activities		**31,303**	**21,688**
Cash flows from investing activities			
Cash was provided from:			
Sale of property, plant and equipment		418	251
Sale of investment property		7,506	190
Repayment of lessee improvements		-	155
Advances from related parties		737	298
Cash was applied to:			
Purchase of property, plant and equipment		(36,707)	(11,266)
Purchase and improvements to investment property		(3,372)	(9,642)
Interest capitalised	B3	(373)	(462)
Net cash flows from investing activities		**(31,791)**	**(20,476)**
Cash flows from financing activities			
Cash was provided from:			
Proceeds from borrowings		20,965	20,650
Cash was applied to:			
Repayment of borrowings		(11,750)	(14,630)
Dividends paid	E5	(9,000)	(7,800)
Net cash flows from financing activities		**215**	**(1,780)**
Increase (decrease) in cash held		**(273)**	**(568)**
Cash held at beginning of period		525	1,093
Cash held at end of period		**252**	**525**

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 2018

	2018 $000	2017 $000
Profit for the Year	43,856	38,700
Plus/(less) non-cash items:		
Unrealised net change in the value of investment property	(22,049)	(19,870)
Depreciation and amortisation	9,223	8,663
Movement in the fair value of interest rate swaps and forward exchange contracts	-	30
Movement in non-current employee entitlements	(22)	(487)
Movement in deferred tax	(1,185)	(2,107)
Plus/(less) items classified as investing activities:		
Gain on sale of property, plant and equipment	(8)	(34)
Gain on sale of investment property	(1,641)	(34)
Share of surpluses retained by joint ventures	(205)	(80)
Movement in working capital items:		
Trade and other receivables	(3,280)	(837)
Trade and other payables	960	766
Current employee entitlements	88	622
Provisions	2,433	-
Income tax payable	2,922	479
Maintenance inventories	(112)	20
Investment property inventories	686	(4,218)
Movement in other working capital items classified as investing activities	(363)	75
Net cash flows from operating activities	**31,303**	**21,688**

Cash flows from financing activities

There have been no non-cash changes in the cash flow movement from financing activities, before dividends paid of $9.215 million (2017: $6.02 million).

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 2013 and the Port Companies Act 1988.

The financial statements of Port Otago Limited are for the year ended 30 June 2018 and were issued by the Board on 4 September 2018.

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 2018) 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)

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:

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 2019)

NZ IFRS 16 Leases (effective for the financial year ending 30 June 2020)

Management is currently in the process of evaluating the potential impact of the adoption of these standards but the full impact is yet to be determined.

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 2018.

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:

	2018 $000	2017 $000
Rentals receivable		
Receivable within one year	20,315	20,417
Receivable after one year but not more than five years	66,551	64,852
Receivable after more than five years	104,452	103,774
Minimum future lease receivable	**191,318**	**189,043**

A2. Operating lease commitments as lessee

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

	2018 $000	2017 $000
Payable within one year	370	437
Payable after one year but not more than five years	333	629
Payable after more than five years	434	465
Minimum future lease payable	**1,137**	**1,531**

A3. Capital expenditure commitments

At 30 June 2018 the Group had commitments/approvals for capital expenditure of $9.31 million (2017: $26.32 million) which relates to purchases and refurbishments of port assets and investment property.

A4. Contingencies

There are no contingent liabilities at 30 June 2018 (30 June 2017: nil) other than those arising in the normal course of business.

A5. Significant events after balance date

Dividends

On 4 September 2018 the Directors declared a final dividend of $0.5 million for the year ended 30 June 2018. As the final dividend was approved after balance date, the financial effect of the dividend payable of $0.5 million has not been recognised in the Balance Sheet.

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.

Sale of investment property inventories

Income from the sales of investment property inventories is recognised when an unconditional contract for the sale is in place, it is probable the consideration due will be received and the significant risks and rewards of ownership have been transferred to the purchaser.

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 $78.4 million for the Group include the following:

	2018 $000	2017 $000
Audit services	136	134
Bad debts written off	2	191
Provision for doubtful debts	-	(51)
Directors' remuneration	327	331
Donations and community sponsorship	91	63
Loss on disposal of assets	22	17
Operating leases	967	961
Staff costs		
Wages and salaries	30,525	29,276
Kiwisaver and defined contribution plan employer contributions	1,482	1,409
Total staff costs	**32,007**	**30,685**

Salaries and other short-term employee benefits including termination payments paid to key management personnel during the financial year totalled $3,125,677 (2017: $2,494,045).

	Notes	2018 $000	2017 $000
Depreciation and amortisation			
Depreciation of property, plant and equipment	C5	8,623	8,063
Amortisation of intangibles	C6	532	545
Amortised leasing costs		68	55
Total depreciation and amortisation		**9,223**	**8,663**

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.

	2018 $000	2017 $000
Interest income	11	160
Interest expense and bank facility fees	(3,310)	(3,296)
Interest capitalised	373	462
Net financing costs	**(2,926)**	**(2,674)**
Weighted average capitalisation rate on funds borrowed	4.23%	4.92%

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:

	2018 $000	2017 $000
Profit before income tax	**51,847**	**43,144**
Imputation credits	-	50
	51,847	**43,194**
Prima facie tax expense at 28%	(14,517)	(12,094)
Non-deductible items	(67)	(66)
Other non assessable income	480	11
Unrealised change in investment property	6,066	4,835
Tax loss offset (via subvention payment)	101	101
Prior year adjustment	-	285
Deferred tax expense relating to the origination and reversal of temporary differences	(54)	2,434
Benefit of imputation credits	-	50
Income tax expense	**(7,991)**	**(4,444)**
Allocated between:		
Current tax	(9,277)	(6,937)
Prior period adjustments to current tax	101	386
Deferred tax	1,185	2,107
	(7,991)	**(4,444)**

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.

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 and Investment Property Inventories $000	Financial instruments $000	Other $000	Total $000
Balance at 1 July 2017	13,122	4,426	(169)	(1,759)	15,620
Charged / (credited) to hedging reserve direct to equity	-	-	(130)	-	(130)
Charged / (credited) to income statement	7	(409)	17	(800)	(1,185)
Balance at 30 June 2018	**13,129**	**4,017**	**(282)**	**(2,559)**	**14,305**
Balance at 1 July 2016	13,524	6,024	(496)	(1,693)	17,359
Charged / (credited) to hedging reserve direct to equity	-	-	368	-	368
Charged / (credited) to income statement	(402)	(1,598)	(41)	(66)	(2,107)
Balance at 30 June 2017	**13,122**	**4,426**	**(169)**	**(1,759)**	**15,620**

Imputation credits	2018 $000	2017 $000
Opening balance	30,954	27,427
Tax payments	4,256	4,515
Anticipated tax payments to meet current year income tax expense	4,969	1,995
Credits attached to dividends received	-	50
Credits attached to dividends paid	(3,500)	(3,033)
Imputation credits available to shareholders for future use	**36,679**	**30,954**

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 reflects 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 revalued 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	2018 $000	2017 $000
Balance at beginning of year		302,437	273,325
Transfer to investment property inventories	C2	(11,659)	-
Transfer to investment property held for sale	C3	-	(487)
Transfer from investment property inventories	C2	7,816	-
Subsequent capital expenditure		645	9,415
Disposals		(3,710)	(155)
Net movement in prepaid leasing costs		88	(38)
Net movement in incentives		124	546
Interest capitalised		-	182
Net change in fair value		22,049	19,649
Balance at end of year		**317,790**	**302,437**
Comprising:			
Property portfolio cost		106,832	109,198
Revaluation		210,958	193,239
		317,790	**302,437**
Valued at 30 June balance date as determined by:			
Jones Lang LaSalle		85,050	74,855
Colliers International		232,740	85,117
CBRE Limited		-	142,465
		317,790	**302,437**

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	2018 $000	2017 $000
Balance at beginning of year		25,696	20,618
Transfer from investment property	C1	11,659	-
Transfer from investment property held for sale	C3	-	927
Transfer to investment property	C1	(7,816)	-
Purchases of land		2,714	
Subsequent capital expenditure		15,595	8,412
Disposals		(16,263)	(5,322)
Interest capitalised		162	167
Impairment and impairment reversals		(557)	894
Balance at end of year		**31,190**	**25,696**
Comprising:			
Property portfolio cost		31,609	24,865
Revaluation		(419)	831
		31,190	**25,696**
Developed land for sale		8,230	18,844
Units and warehouse developments in progress		2,408	6,852
Land in development		20,552	-
		31,190	**25,696**

Developed land for sale

The $8.2 million carrying value of developed land at balance date reflects the cost of the 6.8 hectares (Group share: 4.8 hectares) remaining developed land. In their June 2018 valuation, Jones Lang LaSalle stated a net realisable value of $17.0 million (Group share: $12.0 million).

At the previous balance date the $18.8 million carrying value of developed land reflected the cost of the 14.3 hectares (Group share: 11.6 hectares) on hand. In their June 2017 valuation, Colliers stated a net realisable value of $26.6 million (Group share: $21.6 million) for the remaining developed land on hand.

Units and warehouse developments in progress

During the year the Group completed the development of six units and the development of two warehouses at Te Rapa, Hamilton. With formal agreements to lease in place for the six units and one of the warehouses, these properties have been transferred to investment property. The other warehouse remains in investment property inventories pending the negotiation of an agreement to lease.

Land in development

During the year the Group commenced development of a further stage of the industrial subdivision at Te Rapa in Hamilton. Upon completion, the development activity will yield a further 16.0 hectares of developed land held for sale (Group share: 14.9 hectares). In their June 2018 valuation, Jones Lang LaSalle stated a net realisable of $24.0 million (Group share: $20.6 million) for the land in development. There was no land in development at the previous balance date.

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.

In March 2018, the settlement for the sale of a Dunedin property was completed. This property represented the property held for sale at the previous year end.

	Notes	2018 $000	2017 $000
Balance at beginning of year		2,145	2,046
Transfer from investment property	C1	-	487
Transfer to investment property inventories	C2	-	(927)
Subsequent capital expenditure		-	1,212
Disposals		(2,145)	
Unrealised change in the value of property held for sale		-	(673)
Balance at end of year		**-**	**2,145**
Comprising:			
Property portfolio cost		-	1,333
Revaluation		-	812
		-	**2,145**
Current asset		-	2,145
Non-current asset		-	-
		-	**2,145**

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 Colliers International or Jones Lang LaSalle, 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.

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 sensivity to significant	
			increase in input	decrease in input
Market capitalisation rate (%) [1]	5.0%	6.5%	Decrease	Increase
Market rental ($ per sqm) [2]	$8	$307	Increase	Decrease
Discount rate (%) [3]	7.0%	17.5%	Decrease	Increase
Rental growth rate (%) [4]	1.0%	3.5%	Increase	Decrease
Terminal capitalisation rate (%) [5]	5.0%	8.5%	Decrease	Increase
Profit and risk rate (%) [6]	17.5%	17.5%	Decrease	Increase
Development sell down period (years) [7]	5	5	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.

Investment Property - reconciliation of level 3 fair value measurements

	2018 $000	2017 $000
Balance at beginning of year	302,437	273,325
Unrealised net change in the value of investment property	22,011	19,649
Purchases	857	10,105
Sales	(3,710)	(155)
Transfer to investment property inventories and property held for sale	(3,805)	(487)
Balance at the end of the year	**317,790**	**302,437**

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.

Included in harbour improvements and capital work in progress is the capitalised cost of channel dredging of $6,997,000 (2017: $6,149,000)

	Land $000	Buildings and improvements $000	Harbour improvements $000	Plant, equipment & vehicles $000	Capital work in progress $000	Total $000
Cost						
Balance 1 July 2016	34,342	63,274	61,320	93,233	9,066	261,235
Additions	-	4,460	172	11,471	(5,381)	10,722
Disposals	-	-	-	(2,607)	-	(2,607)
Cost at 30 June 2017	**34,342**	**67,734**	**61,492**	**102,097**	**3,685**	**269,350**
Balance 1 July 2017	34,342	67,734	61,492	102,097	3,685	269,350
Additions	949	2,608	766	6,427	25,695	36,445
Disposals	-	(43)	-	(2,575)	-	(2,618)
Cost at 30 June 2018	**35,291**	**70,299**	**62,258**	**105,949**	**29,380**	**303,177**
Accumulated depreciation						
Balance 1 July 2016	-	16,732	17,367	47,953	-	82,052
Depreciation for period	-	2,109	1,549	4,405	-	8,063
Disposals	-	-		(2,217)	-	(2,217)
Accumulated depreciation at 30 June 2017	**-**	**18,841**	**18,916**	**50,141**	**-**	**87,898**
Balance 1 July 2017	-	18,841	18,916	50,141	-	87,898
Depreciation for period		2,548	1,555	4,520	-	8,623
Disposals		(43)	-	(2,506)	-	(2,549)
Accumulated depreciation at 30 June 2018	**-**	**21,346**	**20,471**	**52,155**	**-**	**93,972**
Net book value						
At 30 June 2016	34,342	46,542	43,953	45,280	9,066	179,183
At 30 June 2017	**34,342**	**48,893**	**42,576**	**51,956**	**3,685**	**181,452**
At 30 June 2017	34,342	48,893	42,576	51,956	3,685	181,452
At 30 June 2018	**35,291**	**48,953**	**41,787**	**53,794**	**29,380**	**209,205**

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 uncertainty by physical inspection of assets, asset replacement programmes and analysis of prior asset sales.

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
Harbour improvements	
- Wharves	15-70 years
- berth and channel dredging	nil
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	Total $000
Cost			
Balance 1 July 2016	5,637	5,478	11,115
Additions	393	143	536
Disposals	-	-	-
Cost at 30 June 2017	**6,030**	**5,621**	**11,651**
Balance 1 July 2017	6,030	5,621	11,651
Additions	234	20	254
Disposals	-	-	-
Cost at 30 June 2018	**6,264**	**5,641**	**11,905**
Accumulated amortisation			
Balance 1 July 2016	5,055	622	5,677
Amortisation expense	253	292	545
Disposals	-	-	-
Accumulated amortisation at 30 June 2017	**5,308**	**914**	**6,222**
Balance 1 July 2017	5,308	914	6,222
Amortisation expense	272	260	532
Disposals	-	-	-
Accumulated amortisation at 30 June 2018	**5,580**	**1,174**	**6,754**
Net book value			
At 30 June 2016	582	4,856	5,438
At 30 June 2017	**722**	**4,707**	**5,429**
At 30 June 2017	722	4,707	5,429
At 30 June 2018	**684**	**4,467**	**5,151**

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 to 15 metres 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. An additional 25 year consent was granted in June 2017 to undertake maintenance dredging and disposal of dredge spoil.

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 2018. 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 and Auckland
Te Rapa Gateway Limited	100%	Property investment	Hamilton
Fiordland Pilot Services Limited	100%	Shipping services	Fiordland
South Freight Limited	100%	Transport investment	Dunedin

There are no significant restrictions to the Company settling the liabilities of the subsidiaries or the Company's access to the assets, except for the general security agreement and registered first-ranking mortgages over land as detailed in note D4. There has been no significant change in the risks associated with these interests.

Chalmers Properties Limited has provided an advance to Te Rapa Gateway Limited to fund its share of land acquisition and development expenditure. The current intention of Chalmers Properties Limited is to provide ongoing financial support to Te Rapa Gateway Limited.

Port Otago Limited and Chalmers Properties Limited have a $300,000 overdraft offset facility arrangement which is included in the Group debt facility detailed in note D4. The purpose of this arrangement is to minimise any interest costs to the two entities.

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

Below are the joint operations of the Group as at 30 June 2018 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 HarbourCold Dunedin joint venture is subject to a joint venture agreement dated 25 May 2001. The most recent term of the joint venture agreement expired on 26 March 2017. The joint venture operated beyond that time subject to agreement by the participants. The participants of HarbourCold Dunedin have now agreed to disestabilish the joint venture from 30 September 2018 when the cold storage operations will revert to Port Otago Limited with a storage agreement negotiated with Sealord Group Limited.

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 2018

				Group's share		
	100%	100%		67%	50%	
	The Hamilton Porter Joint Venture $000	Harbour Cold Dunedin $000	Total $000	The Hamilton Porter Joint Venture $000	Harbour Cold Dunedin $000	Total $000
Cash and cash equivalents	5	-	5	3	-	3
Other current assets	13,561	427	13,988	9,086	214	9,300
Total current assets	13,566	427	13,993	9,089	214	9,303
Non-current assets	12	39	51	8	20	28
Total assets	**13,578**	**466**	**14,044**	**9,097**	**234**	**9,331**
Current liabilities	(859)	(88)	(947)	(576)	(44)	(620)
Total liabilities	(859)	(88)	(947)	(576)	(44)	(620)
Net assets	**12,719**	**378**	**13,097**	**8,521**	**190**	**8,711**
Operating revenue	13,880	1,664	15,544	9,300	832	10,132
Interest revenue	2	-	2	1	-	1
Interest expense	-	-	-	-	-	-
Profit before tax	3,577	46	3,623	2,386	23	2,409
Income tax expense	-	-	0	-	-	0
Total comprehensive income	**3,577**	**46**	**3,623**	**2,386**	**23**	**2,409**

Comparative period to 30 June 2017

	100% The Hamilton Porter Joint Venture $000	100% Harbour Cold Dunedin $000	Total $000	Group's share 67% The Hamilton Porter Joint Venture $000	Group's share 50% Harbour Cold Dunedin $000	Group's share Total $000
Cash and cash equivalents	2	178	180	1	89	90
Other current assets	12,827	170	12,997	8,594	85	8,679
Total current assets	12,829	348	13,177	8,595	174	8,769
Non-current assets	8,974	55	9,029	6,013	28	6,041
Total assets	**21,803**	**403**	**22,206**	**14,608**	**202**	**14,810**
Current liabilities	(3,430)	(71)	(3,501)	(2,298)	(36)	(2,334)
Total liabilities	(3,430)	(71)	(3,501)	(2,298)	(36)	(2,334)
Net assets	**18,373**	**332**	**18,705**	**12,310**	**166**	**12,476**
Operating revenue	4,456	1,572	6,028	2,986	786	3,772
Interest revenue	-	-	-		-	-
Interest expense	(56)	-	(56)	(38)	-	(38)
Profit before tax	2,924	46	2,970	1,950	23	1,973
Income tax expense	-	-	-	-	-	-
Total comprehensive income	**2,924**	**46**	**2,970**	**1,950**	**23**	**1,973**

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

Below are 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 2018 $000	Icon Logistics Limited 2017 $000
Cash and cash equivalents	436	802
Other current assets	1,117	996
Total current assets	1,553	1,798
Non-current assets	2,483	1,691
Total assets	**4,036**	**3,489**
Current liabilities	(773)	(635)
Non current liabilities	-	-
Net assets (100%)	**3,263**	**2,854**
Group's share of net assets (50%)	**1,631**	**1,427**

Summarised Statement of Comprehensive Income

	Icon Logistics Limited	
	2018 $000	**2017 $000**
Operating revenue	7,974	6,552
Interest revenue	7	10
Interest expense	-	(1)
Profit before tax	579	238
Income tax expense	(170)	(77)
Total comprehensive income (100%)	**409**	**161**
Group's share of total comprehensive income (50%)	**205**	**80**

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

	2018 $000	**2017 $000**
Opening net assets	2,854	2,950
Total comprehensive income for the period	409	161
Less shareholder distributions	-	(257)
Closing net assets	3,263	2,854
Interest in joint venture (50%)	**1,631**	**1,427**

C8. Maintenance 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.

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.

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 2018.

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.

D1(d). Financial instrument categories

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

As at 30 June 2018

	Designated at fair value $000	Loans and receivables $000	Other amortised cost $000	Total carrying amount $000
Assets				
Cash and cash equivalents	-	252	-	252
Trade and other receivables	-	16,687	-	16,687
Total current assets	**-**	**16,939**	**-**	**16,939**
Other financial assets	-	13	-	13
Total non current assets	**-**	**13**	**-**	**13**
Total assets	**-**	**16,952**	**-**	**16,952**
Liabilities				
Trade and other payables	-	-	8,967	8,967
Derivative financial instruments	437	-	-	437
Total current liabilities	**437**	**-**	**8,967**	**9,404**
Borrowings	-	-	77,635	77,635
Derivative financial instruments	571	-	-	571
Total non current liabilities	**571**	**-**	**77,635**	**78,206**
Total liabilities	**1,008**	**-**	**86,602**	**87,610**

As at 30 June 2017

	Designated at fair value $000	Loans and receivables $000	Other amortised cost $000	Total carrying amount $000
Assets				
Cash and cash equivalents	-	525	-	525
Trade and other receivables	-	13,003	-	13,003
Derivative financial instruments	32	-	-	32
Total current assets	**32**	**13,528**	**-**	**13,560**
Other financial assets	-	32	-	32
Derivative financial instruments	254	-	-	254
Total non current assets	**254**	**32**	**-**	**286**
Total assets	**286**	**13,560**	**-**	**13,846**
Liabilities				
Trade and other payables	-	-	7,388	7,388
Derivative financial instruments	648	-	-	648
Total current liabilities	**648**	**-**	**7,388**	**8,036**
Borrowings	-	-	68,420	68,420
Derivative financial instruments	185	-	-	185
Total non current liabilities	**185**	**-**	**68,420**	**68,605**
Total liabilities	**833**	**-**	**75,808**	**76,641**

D1(e). Credit quality of financial assets

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

	2018 $000	2017 $000
Cash and cash equivalents (Credit rating AA-)	252	525
Trade and other receivables (Non rated - nil defaults)	16,687	13,003
Derivative financial instruments (Credit rating AA-)	-	286
Total credit risk	**16,939**	**13,814**

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 2018						
Trade and other payables	-	(8,967)	(8,967)	(8,967)	-	-
Borrowings (secured)	4.0%	(77,635)	(85,225)	(31,565)	(40,846)	(12,814)
Derivative financial instruments						
- Interest rate derivatives (net)	-	(1,008)	(1,104)	(508)	(621)	25
Total as at 30 June 2018		**(87,610)**	**(95,296)**	**(41,040)**	**(41,467)**	**(12,789)**
As at 30 June 2017						
Trade and other payables	-	(7,388)	(7,388)	(7,388)	-	-
Borrowings (secured)	4.0%	(68,420)	(78,390)	(13,227)	(46,747)	(18,416)
Derivative financial instruments						
- Interest rate derivatives (net)	-	(579)	(613)	(729)	(73)	189
- Foreign currency derivatives	-	32	(2,306)	(2,306)	-	-
Total as at 30 June 2017		**(76,355)**	**(88,697)**	**(23,650)**	**(46,820)**	**(18,227)**

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.

	2018			
	-100bps		+100bps	
	Profit $000	Other Equity $000	Profit $000	Other Equity $000
Foreign Currency risk				
Financial Assets				
Derivatives				
- hedge accounted	-	-	-	-
Interest rate risk				
Financial Liabilities				
Derivatives				
- hedge accounted	-	(2,821)	-	572
- non-hedge accounted	-	-	-	-
Borrowings	776	-	(776)	-
Total sensitivity to interest rate risk	**776**	**(2,821)**	**(776)**	**572**

	2017			
	-100bps		+100bps	
	Profit $000	Other Equity $000	Profit $000	Other Equity $000
Foreign Currency risk				
Financial Assets				
Derivatives				
- hedge accounted	-	36	-	(36)
Interest rate risk				
Financial Liabilities				
Derivatives				
- hedge accounted	-	(2,927)	-	1,480
- non-hedge accounted	-	-	-	-
Borrowings	684	-	(684)	-
Total sensitivity to interest rate risk	**684**	**(2,927)**	**(684)**	**1,480**

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.

	2018 $000	2017 $000
Trade receivables	15,634	11,210
Amount owing by related parties	233	1,137
Prepayments	820	656
Balance at end of year	**16,687**	**13,003**

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 and 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:

	2018 Gross Receivable $000	2017 Gross Receivable $000
Not past due	14,748	10,561
Past due 30-60 days	643	246
Past due 61-90 days	190	329
Past due more than 90 days	53	74
Total	**15,634**	**11,210**

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.

	2018 $000	2017 $000
Accounts payable	8,293	6,427
Other accrued charges	672	561
Property deposits received	2	400
Balance at end of year	**8,967**	**7,388**

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.

	2018 $000	2017 $000
Bank borrowings		
Current liability	-	-
Non-current liability	77,635	68,420
Total bank borrowings	**77,635**	**68,420**

Port Otago Group facility

The Group has a $90 million (2017: $80 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 2020.

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:

	2018 $000	2017 $000
Maturing in less than one year	9,600	5,100
Maturing between one and five years	36,050	40,650
Maturing in more than five years	12,100	17,100
Total interest rate risk	**57,750**	**62,850**

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 $45,100 (2017: $23,429).

	2018 $000	2017 $000
Accrued wages, salaries and other benefits	1,118	1,336
Annual leave	3,752	3,456
Long service leave	837	839
Retiring allowances	73	93
Sick leave	114	104
Balance at end of year	**5,894**	**5,828**
Analysed as:		
Current	4,984	4,896
Non-current	910	932
	5,894	**5,828**

E2. Provisions

Port Otago Limited has identified buildings where asbestos is present and is working through a planned approach of relocating existing tenants and removal of all asbestos from these sites. Where it is determined to not be feasible to refurbish a structure following the removal of the asbestos, the building will be demolished. In the 2018 year, Port Otago has incurred asbestos management costs of $447,188. In addition, a provision of $2,433,055 has been recognised for potential asbestos remediation and demolition costs.

	2018 $000	2017 $000
Asbestos remediation provision	2,433	-
Balance at end of year	**2,433**	**-**

E3. Share capital

At 30 June 2018 Port Otago Limited has 20,000,000 ordinary shares (2017: 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.

E4. Reserves

Retained earning

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.

The reserves are represented by:

	2018 $000	2017 $000
Retained earnings		
Balance at beginning of year	413,947	383,047
Profit for the year	43,856	38,700
Less dividends paid	(9,000)	(7,800)
Balance at end of year	**448,803**	**413,947**
Hedging reserve		
Balance at beginning of year	(395)	(1,341)
Change in fair value of interest rate swaps and forward exchange contracts	(463)	1,314
Deferred tax arising on fair value movement	130	(368)
Balance at end of year	**(728)**	**(395)**
Total Reserves	**448,075**	**413,552**

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%.

E5. Dividends declared and proposed

	2018 $000	2017 $000
First Interim dividend paid 17.5 cps (2017: 17.5 cps)	3,500	3,500
Second interim dividend paid 17.5 cps (2017: 17.5 cps)	3,500	3,500
Special dividend paid 7.5 cps (2017: nil)	1,500	-
Final dividend 2.5 cps (2017: 2.5 cps)	500	500
Dividends for the financial year	**9,000**	**7,500**
Adjust for dividends declared after year end:		
2018 Final dividend declared September 2018	(500)	-
2017 Final dividend declared September 2017	500	(500)
2016 Final dividend declared September 2016	-	800
Dividend distributed to owners as disclosed in the Statement of Changes in Equity	**9,000**	**7,800**
Dividends - cents per share (cps)	45	37.5

E6. 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 2017 tax year losses to the Group. In conjunction with the tax loss transfer of $259,279 (2017 tax year: $260,730), by way of a tax loss offset, the Group made a subvention payment of $100,831 (2017 tax year: $101,395) to the ORC. The consequence of the tax loss transfer and the subvention payment was a $100,831 reduction in income tax payments in the current year (2017: $101,395).

The amount paid to the Otago Regional Council for rates, rentals and resource consent fees during 2018 was $86,382 (2017: $110,446) with $1,293 payable at year end (2017: $30). The amount received from the Otago Regional Council for property rentals was $4,025 (2017: $8,050), $750 (2017: nil) for log recovery services and $60,000 (2017: $60,000) as a contribution towards the operation of the Harbour Control Centre at Port Chalmers with $17,250 receivable at year end (2017: $17,250).

Transactions with Harbourcold Dunedin

Port Otago Limited has a 50% interest in Harbourcold Dunedin. Harbourcold Dunedin is a tenant and purchaser of materials and services from Port Otago Limited. The amount received from Harbourcold Dunedin during 2018 for property rentals and the purchase of materials and services was $725,746 (2017: $643,900) with $6,672 receivable at year end (2017: $4,467). No dividend was received from Harbourcold Dunedin during 2018 (2017: $30,000).

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 2018 for property rentals and sale of services was $106,209 (2017: $87,705) with $8,385 receivable at year end (2017: $1,359).

Icon Logistics Limited also provides transport services to Port Otago Limited. The amount paid to Icon Logistics Limited during 2018 for the supply of transport services was $958,964 (2017: $81,051) with $121,367 payable at year end (2017: $8,814).

Transactions with Hamilton Porter JV

Port Otago Limited has a 66.7% interest in the Hamilton Porter JV through its wholly owned subsidiary, Te Rapa Gateway Limited which has provided an advance to Hamilton Porter JV to fund its share of development costs. At 30 June 2018 the balance of the advance was $102,000 (2017: $2,309,000). Hamilton Porter JV has also agreed to compensate Te Rapa Gateway Limited for a share of land utilised in the industrial subdivision for the subdivision's stormwater catchment management plan. At 30 June 2018 the balance to be compensated was $596,000 (2017: $1,098,000).

In the previous year Te Rapa Gateway Limited charged interest of $55,855 on a cash advance provided to Hamilton Porter JV which was repaid in that year. No interest was payable in the current year.

Hamilton Porter JV reimburses Te Rapa Gateway Limited for its share of general operating costs and development costs invoiced . At balance date the amount owing to Te Rapa Gateway Limited was $35,873 (2017: $16,103)

In May 2018 Te Rapa Gateway Limited acquired from Hamilton Porter JV, the land of the JV that was being developed within stage 3 of the industrial subdivision. Compensation of $8,140,720 for the land acquired, was based upon a negotiated price of $140m2 for the anticpated 58,148m2 of developed land for sale expected to be yielded from the JV land in the development.

Chalmers Properties Limited provides accounting and administration services to Hamilton Porter JV for which $10,000 (2017: $5,000) was charged. At balance date the amount owing to Chalmers Properties Limited was $11,500 (2017: $5,750)

Directors

Mr D J Faulkner was a Director of Gough Holdings Limited, a supplier to the Group. The amount paid to Gough Holdings Limited, and its wholly owned subsidiaries during 2018 for the supply of goods and services was $1,620,662 (2017: $295,075) with $148,588 payable at year end (2017: $15,075).

Mr D J Faulkner is Chairman of Fulton Hogan Limited, a supplier to the Group. The amount paid to Fulton Hogan Limited, and its wholly owned subsidiaries during 2018 for the supply of goods and services was $2,770,940 (2017: $1,274,846) with $600,643 payable at year end (2017: $2,182).

Mr E J Harvey, who retired as a Director of Port Otago in December 2017 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 2018 for property rentals was $232,658 (2017: $225,520). There was no amount receivable at year end (2017: nil).

Chief Executive

Mr K Winders is a Director of Dunedin Venues Management Limited, a supplier to the Group. The amount paid to Dunedin Venues Management Limited during 2018 for the supply of goods and services was $28,608 (2017: $10,161) with $1,131 payable at year end (2017: $342).

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 2018

The Auditor-General is the auditor of the 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 on his behalf.

Opinion

We have audited the financial statements of the Group on pages 10 to 39, that comprise the balance sheet as at 30 June 2018, the income statement, the statement of comprehensive income, statement of changes in equity, and the 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 2018; 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 4 September 2018. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements, we comment on other information, and we explain our independence.

Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

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

Responsibilities of the Board of Directors for the financial statements

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

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

In preparing the financial statements, the Board of Directors is responsible on behalf of the Group for assessing the company's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

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

Responsibilities of the Auditor for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these financial statements.

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

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 1 to 9 and 43 to 47, but does not include the financial statements, and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independence

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

Other than the audit, we have no relationship with, or interests in, the 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 2018.

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 $43.9 million, compared to $38.7 million last year.

Dividends

A final dividend of $0.5 million will be paid on 4 September 2018, which brings total dividends for the year to $9.0 million.

Changes in Accounting Policies

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

Directors remuneration

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

	Port Otago Limited	Chalmers Properties Limited	Total Group
D J Faulkner (Chairman)	67	21	88
P F Rea (deputy Chairman)	45	13	58
T Campbell	13	5	18
T D Gibson	32	13	45
E J Harvey (retired)	18	6	24
P F Heslin	34	13	47
E G Johnson	34	13	47
	243	**84**	**327**

Directors' interests

Directors have disclosed the following general interests for the year ended 30 June 2018 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) (resigned March 2018)	Director
	Fulton Hogan Limited	Chairman
T Campbell	Energy Efficiency and Conservation Authority	Chairman
	Todd Corporation Limited	Director
	Electricity Invercargill Limited	Chairman
	PowerNet Limited	Director
	Southern Generation LP	Chairman
	Venture Southland	Director
P F Rea	No interest register entries recorded	
T D Gibson	Affordable Skills Limited (resigned January 2018)	Director
	Affordable Water Limited (resigned January 2018)	Director
	Fiscus Limited	Director
	Gibson Walker Limited	Director
	Livestock Improvement Corporation Limited (and its wholly owned subsidiaries)	Director
	Miraka Limited	Director
	Safeguard Water Limited	Director
	Skills International Limited	Director
	The Canarium Nut Company Limited	Director
	Tūhana Consulting Limited (and its wholly owned subsidiaries)	Director
	Water Micro Limited	Director
P F Heslin	Forsyth Barr Custodians Limited	Chairman
	Forsyth Barr Cash Management Nominees Limited	Chairman
	Jedaka Limited	Director
	New Zealand Auditing and Assurance Standards Board (resigned July 2017)	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) (resigned September 2017)	Chairman
	Port Marlborough (New Zealand) Limited (and its wholly owned subsidiaries)	Chairman
	Stone Farm Holdings Limited	Director
E J Harvey (Retired during the year)		
	Ballance Agri-Nutrients Limited (resigned September 2017)	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

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
500,001 – 510,000	1
380,001 – 390,000	1
290,001 – 300,000	1
270,001 – 280,000	1*
250,001 – 260,000	1
230,001 – 240,000	3
220,001 – 230,000	2
210,001 – 220,000	5
200,001 – 210,000	1
170,001 – 180,000	1*
160,001 – 170,000	1
150,001 – 160,000	2
140,001 – 150,000	5
130,001 – 140,000	4
120,001 – 130,000	13
110,001 – 120,000	6
100,001 – 110,000	24

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.

* An employee finished working for the Group during the period and due to termination payments their normal levels of remuneration were exeeded.

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 2018 or retired during the year as indicated (R):

Company	Director
Chalmers Properties Limited	D J Faulkner, T Campbell, T D Gibson, E J Harvey (R), P F Heslin, E G Johnson, P F Rea
Fiordland Pilot Services Limited	D J Faulkner, T Campbell, T D Gibson, E J Harvey (R), P F Heslin, E G Johnson, P F Rea
Te Rapa Gateway Limited	D J Faulkner, T Campbell, T D Gibson, E J Harvey (R), P F Heslin, E G Johnson, P F Rea
South Freight Limited	D J Faulkner, T Campbell, T D Gibson, E J Harvey (R), 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 2018 was $136,000 (2017: $134,000).

For and on behalf of the Board of Directors

D J Faulkner	**P F Heslin**
Chairman	Director
4 September 2018	4 September 2018

Directory

Directors

David Faulkner	Chairman
Paul Rea	Deputy Chairman, Chairman of Health and Safety Governance Committee
Tom Campbell	
Tim Gibson	
Pat Heslin	Chairman Audit Committee
Ed Johnson	

Leadership team

Kevin Winders	Chief Executive
Stephen Connolly	Chief Financial Officer
Sean Bolt	GM Marine and Infrastructure
David Chafer	GM Property
Kevin Kearney	GM Operations
Kate Walton	People and Capability Manager
Dylan Lee	Chief Information Officer
Gavin Schiller	Head of Safety
Deanna Matsopoulos	Supply Chain Manager
Jodi Taylor	Executive Assistant

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Website	www.portotago.co.nz

Bankers

ANZ Bank New Zealand Limited

Solicitors

Anderson Lloyd

Auditors

Audit New Zealand on behalf of the Auditor-General

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