PORT OTAGO LIMITED

www.portotago.co.nz

Annual Report 2017

CONTENTS

OVERVIEW OF GROUP RESULTS

	2017 $million	2016 $million
Revenue	82.6	77.8
Operating profit before income tax	23.4	21.1
Profit for the year	38.7	34.1
Total assets	533.6	497.1
Shareholders’ equity	433.6	401.7
Equity ratio	81%	81%
Trade		
Container throughput (teu)	178,200	172,400
Conventional cargo volume (000’s tonnes)	1,534	1,343
Total ship calls	494	461
Cruise ship arrivals	79	70

FIVE YEAR SUMMARY

Trade and operational analysis	2017	2016	2015	2014	2013
Cargo vessel arrivals	415	391	432	423	427
Cruise vessel arrivals	79	70	76	78	84
Total ship calls	494	461	508	501	511
Container throughput (teu)	178,200	172,400	172,800	181,300	195,400
Bulk cargo tonnes (000's)	1,534	1,343	1,408	1,326	1,312
Warehousing capacity (m²)	65,800	65,800	52,500	48,500	48,500
Employee's	311	309	310	293	290

Financial comparisons	2017 $000	2016 $000	2015 $000	2014 $000	2013 $000
Revenue #	82,587	77,824	76,840	77,273	78,026
EBITDA from operations #	34,656	31,341	33,200	33,950	34,439
Surplus from operations (EBIT) #					
Port operations	12,588	10,592	12,643	14,767	15,939
Investment property	13,405	12,622	11,624	11,378	10,944
Total group EBIT #	25,993	23,214	24,267	26,145	26,883
Unrealised net change in value of investment property	19,870	19,957	10,678	14,977	23,545
Profit for the year	38,700	34,099	52,435	31,824	38,092
Dividends for financial year *	7,500	7,300	7,250	7,100	12,000
Shareholders' equity	433,552	401,706	375,199	344,838	314,309
Total assets					
Port operations	200,638	197,247	193,100	176,518	167,778
Shares in listed companies	-	-	-	50,642	45,103
Investment property	332,990	299,874	268,726	267,220	230,167
Total group	533,628	497,121	461,826	494,380	443,048
Cash flows from operating activities	21,688	18,188	28,750	20,639	21,143
Port operations capital expenditure	(11,266)	(30,653)	(6,863)	(15,719)	(13,464)
Investment property purchases and improvements	(9,642)	(8,424)	(24,165)	(31,748)	(1,347)
Shareholders' equity	81%	81%	81%	70%	71%
Return on equity **					
Before unrealised revaluations	4.6%	3.9%	12.0%	5.3%	4.8%
After unrealised revaluations	9.3%	8.8%	14.6%	9.7%	13.0%
EBIT return on assets #					
Port operations	6.3%	5.4%	6.5%	8.5%	9.7%
Investment property	4.2%	4.2%	4.3%	4.6%	5.0%
Total group	5.0%	4.7%	10.8%	5.6%	6.4%

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

CHAIRMAN AND CHIEF EXECUTIVE'S REVIEW

A $38.7 million tax-paid profit has been achieved by the Port Otago Group for 2017. This is the result of strong port operations revenue growth and sales of three hectares of land from the Te Rapa Gateway development in Hamilton. This compares to the previous year's tax-paid profit of $34.1 million, up 13%. Included within the tax-paid profit was another consistent investment property revaluation gain of $19.9 million, similar to last year's gain of $20 million. The operating profit before unrealised revaluations and tax was $23.4 million, up from $21.1 million last year.

Highlights

The highlights during the year include:

- 25 year maintenance dredging disposal resource consent obtained
- 3% increase in container volumes to 178,200 teu
- Record log volumes of 957,000 tonnes
- On track to deepen the shipping channel to Port Chalmers to 14 metres
- Contractor appointed to construct the 135 metre wharf extension at Port Chalmers
- Smooth transition to Kevin Winders as new CEO.

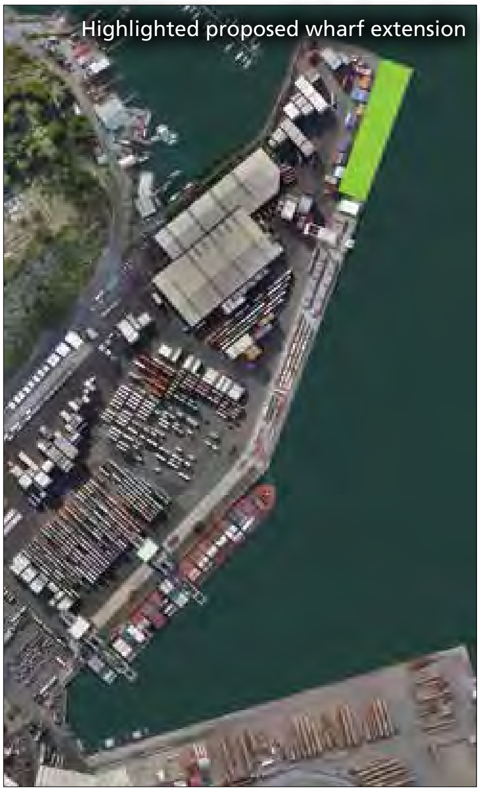
Health and Safety

The Total Recordable Injury Frequency Rate (TRIFR) increased to 15.6 per million hours worked at June 2017 compared to 12 per million hours worked last year. There were six Lost Time Injuries during the period compared to five last year. Although the average number of days off work following an injury has substantially reduced, the trend in the total number of Lost Time and Medically Treated Injuries remains a focus for the Company. Work has begun on Critical Risk Management Plans to focus on those risks that have the potential for serious harm, augmenting the existing bottom-up incident and near-miss reporting. Building a safety culture is the focus of the Board and management for the year ahead, with additional resources and focus being applied.

Next Generation Development Projects

Resource consents were obtained during the year for the disposal of maintenance dredging material for the next 25 years. The maintenance dredging consent, together with the Next Generation consent to deepen the channel to 15 metres chart datum concludes the consenting process that was started in 2009. It provides assurance that the port can continue to provide a shipping channel deep enough for larger vessels that could be expected to call in the foreseeable future.

Port Otago's dredge, the *New Era*, has continued to deepen the shipping channel to Port Chalmers to 14 metres chart datum. This work is projected to be completed by December 2017. During the year, the 24 hour per day, five days a week *New Era* dredging operation was changed to a day shift operating 13 hours per day seven days a week. This reduced the noise impact on the local community as well as improving navigational safety by not dredging at night.



HEB Construction Limited was appointed during the year as contractor to construct the 135 metre wharf extension at Port Chalmers. The physical works for this $21 million project will commence in September 2017 when the contractor establishes on site. The final design of the wharf extension requires 138 piles to be driven over the 15 month construction period. These projects and resource consents place Port Otago in a sustainable position as cargo volumes and vessel sizes increase and provide flexibility around sailing windows.

Financial Results

Operating profit before non-operating income and expenses and income tax of $23.4 million was $2.3 million higher than last year. Revenue and other income

CHAIRMAN AND CHIEF EXECUTIVE'S REVIEW

was 11% higher at $89.6 million. This included $6.9 million from the sale of developed land from the Te Rapa Gateway development in Hamilton. Revenue from port operations was 6% higher at $67.8 million, with increased cargo volumes and vessel calls.

Total operating expenses of $63.6 million compared to $58.0 million last year. The current year operating expenses included cost of sales of $5.4 million recognised for land sales from the Te Rapa Gateway development. Other operating expenses were 5% higher following the current year's increased operating activity.

Shareholder equity was maintained at 81% at June 2017 while equity increased to $434 million from $402 million last year. Total assets of the Group of $534 million include $330 million of investment property and investment property inventories.

Port Operations

EBITDA from port operations was 16% higher at $21.2 million compared to $18.2 million last year. Container throughput of 178,200 teu (twenty foot equivalent units) was 3% higher than the previous year's volume of 172,400 teu which included a 2% increase in full import and export volumes.

Total conventional cargo volumes of 1.5 million tonnes were 14% higher than last year with a record 957,000 tonnes of log exports from Port Chalmers and Dunedin. This compared with last year's log volume of 813,000 tonnes. This increased export volume saw 57 log vessel calls compared to 48 last year. Fertiliser volumes were also strong at 135,000 tonnes. This was a 44% increase from the previous year. Other conventional cargo volumes through the port, including fuel and cement were similar to last year.

The 494 vessels that called during the year included 79 cruise vessels compared to 70 last year with 89 cruise vessels forecasted for the upcoming 2017/18 season. There were eight cruise vessel cancellations during the current year due to weather and schedule changes. The construction of the new cruise passenger facility at Port Chalmers was also completed. This facility provides a comfortable on-wharf area for passengers transiting to and from local tourist activities and it is a welcome enhancement to the cruise industry.

The number of container vessel services has remained unchanged with nine international shipping lines servicing Otago and Southland cargo owners calling at Port Chalmers on four weekly services. We have also partnered with Kiwirail to provide a daily rail service to and from Southland, in addition to the existing South Canterbury rail service, to enhance the supply chain and service offering in the lower South Island.

Port infrastructure

Port operating capital expenditure included the ordering of two new diesel/electric straddle carriers and two empty container handlers which are due to arrive shortly. These assets will replace older machines which are at end of life and maintains the operational reliability of the mobile plant fleet. Stage one of the upgrade to the electrical infrastructure in the reefer container area was completed

CHAIRMAN AND CHIEF EXECUTIVE'S REVIEW

with the upgrade to the remaining reefer area currently in progress. Port Otago has in excess of 1,850 reefer container plugs at Port Chalmers which provide electricity on-wharf to the chilled and frozen export cargo from the Otago and Southland regions.

The recently acquired 33 tonne bollard pull tug *Arihi*, was integrated into the marine fleet to assist with dredging activity but it is also available as a back-up tug to the larger *Otago* and *Taiaroa* providing reliability to our vessel towage operation.

Shortly after balance date, the 38 year old Vickers Paceco container crane at Port Chalmers was demolished. With the operational efficiencies and increased handling capability achieved by the two existing ZPMC container cranes, the use of the 1979 container crane had significantly reduced.


Steel and Tube development, Dunedin.

Chalmers Properties Limited (CPL)

The CPL property portfolio encompasses investment properties in Dunedin, Auckland and the Te Rapa Gateway development in Hamilton which in total have been valued at $330 million, an increase of $34 million from last year. This includes a valuation increase of $19.9 million plus expenditure to develop and improve the existing assets, less sales of Hamilton land. The three hectares of developed land sold from the Te Rapa Gateway development in Hamilton generated $6.9 million of sales compared to $2.9 million last year from the sale of 1.3 hectares.

During the year, a significant refurbishment of the warehouse at Rosebank Road, Auckland was undertaken. This included re-roofing the property and improving the loading docks and warehouse yard for a new tenant. Construction of the 4,700m2 Steel and Tube warehouse, office space and trade shop in Fryatt Street, Dunedin was also completed as well as significant progress on construction of a six office/warehouse unit development in the Te Rapa Gateway Development in Hamilton. The Te Rapa units are currently available for lease with several potential tenants actively considering the leasing terms. A further two 1,300m2 warehouses, with a nine-metre stud are under construction at Te Rapa. The intention is that these warehouse assets will be held as part of the long-term investment property portfolio of the Group. These developments reflect the strategy of reviewing the investment property portfolio on an on-going basis and investing in quality assets for long-term sustainable growth.

Unit build development, Te Rapa, Hamilton


Rental income from the CPL investment property portfolio was up 6% to $14.8 million compared to $14.0 million last year. The operating surplus before revaluations, fair value movements and tax was $11.5 million which is 5% higher than last year.

The carrying value of the investment properties and investment property inventories by geographical location within the CPL Group is:

	2017	**2016**	**%**
	$m	$m	Increase
Auckland	124	112	11%
Hamilton	42	36	17%
Dunedin	164	148	11%
	330	296	11%

CHAIRMAN AND CHIEF EXECUTIVE'S REVIEW

At June 2017, the weighted average lease term of the investment properties in the Group was 9.9 years. This compares to 10.6 years at the start of the year.

Dividends

Dividends of $7.5 million, up from $7.3 million last year, have been paid or declared for the year ended 30 June 2017. We have indicated to our shareholder, the Otago Regional Council that a special dividend of $1.5 million, in addition to the ordinary dividend, will be paid in the 2018 year.

Community Relations

The Port Environment Noise Liaison Committee continued to meet on a regular basis and has proved to be a useful forum for communicating issues and matters relating to port activity. The support and assistance of the community consultative groups including the Next Generation Technical Group with Dougal Rillstone as Chairman, Project Consultative Group, Dredging Working party and Manuwhenua Consultation Group is also appreciated.

Anne Robertson, Komiti Co-ordinator, Te Rūnanga o Ōtākou, presenting a photo of Miss Arihi Karetai "Aunty Alice" to Dave Faulkner, Chairman Port Otago.

Local resident submissions to the recent second generation Dunedin City Council District Plan hearings have raised concerns regarding the noise impact that the port makes on the surrounding environment. In response to these concerns, we will shortly install a further noise monitor at Careys Bay. In addition to the existing noise monitors, this new monitor will provide information regarding instantaneous noise associated with container handling and will assist in managing the impact on the local community.

Staff

On behalf of the Board we thank all the Port Otago team for the positive and responsive approach to servicing our customers and partners. The past year has seen increased throughput and activity which has consistently been delivered on. It is this ability to respond to a changing business environment that will ensure Port Otago's success into the future.

Outlook

During 2017 we saw some growth in all aspects of our Port Operations with container numbers, bulk cargo and cruise ships all contributing to the increased revenue. For the year ahead we see this positive trend continuing.

The demand for developed industrial sections in Te Rapa, including the office and warehouse facilities we are constructing, indicate strong ongoing sales with the likely need for the development of further sections in 2018 to meet this demand.

For and on behalf of the Board

David Faulkner
Chairman

Kevin Winders
Chief Executive

Chief Executive Officer

Geoff Plunket retired after balance date as Chief Executive following a 29 year career with Port Otago, the last 13 years as CEO. Geoff has been pivotal in developing and then delivering the strategic vision of Port Otago. During his tenure as CEO the company has increased in size from total assets of $160 million and shareholder equity of $111 million in 2004 to $534 million in total assets and shareholder equity of $432 million upon his retirement. During this period, the company has also delivered an increasing and reliable dividend to its shareholder, the Otago Regional Council. Financial results are only one measure of success and Geoff also leaves the company in a sustainable position ready for the Next Generation of vessels and increasing cargo volumes.

On behalf of the Board, I thank Geoff for his dedication, leadership and personal commitment to all the roles he has held for Port Otago and most especially for his 13 years as CEO. We wish him all the very best for the future.

Kevin Winders, formerly Silver Fern Farms' Chief Operating Officer, was appointed and has now taken over as Port Otago's new Chief Executive. Kevin brings significant operational, financial and logistical experience to the role and is excited to lead the company through the next phase of growth in a sustainable manner.

David Faulkner
Chairman

PERFORMANCE TARGETS

Performance targets

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

	Actual	Target	Outcome
Trade			
Container throughput	178,200 teu[Ø]	174,700 teu[Ø]	Target achieved
Conventional cargo throughput	1.500 million tonnes	1.400 million tonnes	Target achieved
Number of vessel arrivals	494 vessels	496 vessels	Target not achieved
Container terminal productivity			
Gross container crane productivity	27.6 lifts per crane hour	28.6 lifts per crane hour	Target not achieved
Environmental			
Incidents leading to pollution of harbour	Nil	Nil	Target achieved
Full compliance with all resource consent conditions	Nil breaches of resource consent conditions	Nil breaches of resource consent conditions	Target achieved
Health & Safety			
Total Recordable Injury Frequency Rate (TRIFR) (frequency rate per 1 million work hours)	15.6	9	Target not achieved

Financial performance

Port Otago Group	Actual	Target	Outcome
EBIT* return on average assets	5.0%	5.6%	Target not achieved
Return on shareholders' funds	9.3%	4.5%	Target achieved
Equity ratio	81%	82%	Target not achieved
Debt servicing ratio (times)[#]	8.3	8.0	Target achieved

Port operations	Actual	Target	Outcome
EBIT* return on average assets	6.3%	7.0%	Target not achieved
Return on shareholders' funds	8.2%	8.4%	Target not achieved
Equity ratio	90%	82%	Target achieved
Debt servicing ratio (times)[#]	15.8	21.0	Target not achieved

Chalmers Properties Limited	Actual	Target	Outcome
EBIT* return on average assets	4.2%	4.8%	Target not achieved
Return on shareholders' funds	11.8%	3.5%	Target achieved
Equity ratio	76%	80%	Target not achieved
Debt servicing ratio (times)[#]	5.8	5.0	Target achieved

[Ø]teu = twenty foot equivalent units
*EBIT = Earnings before interest and taxation
[#]Debt servicing ratio = number of times interest is covered by the profit before tax, interest and unrealised fair value movements.

GROUP INCOME STATEMENT
For the year ended 30 June 2017

	Notes	2017 $000	2016 $000
Revenue	B1		
Port operations		67,826	63,851
Investment property rentals		14,761	13,973
		82,587	77,824
Other income			
Sales of investment property inventories		6,944	2,950
Gain on sale of investment property and property, plant and equipment		86	228
Total revenue and other income		**89,617**	**81,002**
Operating expenses	B2		
Staff costs		(30,685)	(29,466)
Purchased materials and services		(18,821)	(18,067)
Cost of sales of investment property inventories		(5,449)	(2,353)
Depreciation and amortisation		(8,663)	(8,127)
Total operating expenses		**(63,618)**	**(58,013)**
Operating profit before finance costs, equity accounted investments, non-operating income and expenses and income tax		**25,999**	**22,989**
Financing costs	B3	(2,674)	(2,191)
Share of profit from equity accounted investment	C7(c)	80	279
Operating profit before non-operating income and expenses and income tax		**23,405**	**21,077**
Non-operating income and expenses			
Subvention payment	E5	(101)	(98)
Unrealised net change in the value of investment property	C1,C2,C3	19,870	19,957
Unrealised net change in value of interest rate swaps		(30)	(122)
		19,739	19,737
Profit before income tax		**43,144**	**40,814**
Income tax expense	B4	(4,444)	(6,715)
Profit for the year		**38,700**	**34,099**

The accompanying notes form part of these financial statements.

GROUP STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2017

	Notes	2017 $000	2016 $000
Profit for the year		38,700	34,099
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		946	(342)
Total comprehensive income for the year		**39,646**	**33,757**

GROUP STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2017

	Notes	2017 $000	2016 $000
Equity at the beginning of the year		401,706	375,199
Total comprehensive income for the year		39,646	33,757
Distribution to owners			
Dividends paid	E4	(7,800)	(7,250)
Equity at the end of the year		**433,552**	**401,706**

The accompanying notes form part of these financial statements

GROUP BALANCE SHEET

As at 30 June 2017

	Notes	2017 $000	2016 $000
Current assets			
Cash and cash equivalents		525	1,093
Trade and other receivables	D2	13,003	12,520
Investment property inventories	C2	25,696	20,618
Property held for sale	C3	2,145	2,046
Maintenance inventories	C8	1,196	1,216
Derivative financial instruments	D1(d)	32	-
Finance leases	C9	-	155
		42,597	37,648
Non-current assets			
Investment property	C1	302,437	273,325
Property, plant and equipment	C5	181,452	179,183
Intangible assets	C6	5,429	5,438
Equity accounted investments	C7(c)	1,427	1,475
Derivative financial instruments	D1(d)	254	-
Other financial assets	D1(d)	32	52
		491,031	459,473
Total assets		**533,628**	**497,121**
Current liabilities			
Trade and other payables	D3	7,388	6,625
Employee entitlements	E1	4,896	4,273
Derivative financial instruments	D1(d)	648	623
Income tax payable		1,987	1,509
		14,919	13,030
Non-current liabilities			
Borrowings	D4	68,420	62,400
Employee entitlements	E1	932	1,419
Derivative financial instruments	D1(d)	185	1,207
Deferred tax liabilities	B4	15,620	17,359
		85,157	82,385
Total liabilities		**100,076**	**95,415**
Equity			
Share capital	E2	20,000	20,000
Reserves	E3	413,552	381,706
Total equity		433,552	401,706
Total equity and liabilities		**533,628**	**497,121**

For and on behalf of the Board of Directors

D J Faulkner
Chairman

E J Harvey
Director

The accompanying notes form part of these financial statements.

GROUP CASH FLOW STATEMENT

For the year ended 30 June 2017

	Notes	2017 $000	2016 $000
Cash flows from operating activities			
Cash was provided from:			
Port operations revenue		66,936	61,528
Investment property rentals		14,662	13,335
Sale of investment property inventories		6,963	2,293
Interest received		160	332
Cash was applied to:			
Payments to employees and suppliers		(49,132)	(48,419)
Expenditure on investment property inventories		(9,686)	(3,589)
Net GST received/(paid)		409	34
Interest paid		(2,450)	(1,611)
Subvention payments		(101)	(98)
Income tax payments		(6,073)	(5,617)
Net cash flows from operating activities		**21,688**	**18,188**
Cash flows from investing activities			
Cash was provided from:			
Sale of property, plant and equipment		251	1,770
Sale of investment property		190	-
Repayment of lessee improvements		155	189
Cash was applied to:			
Purchase of property, plant and equipment		(11,266)	(30,653)
Purchase and improvements to investment property		(9,642)	(8,424)
Advances from (to) related parties		298	(316)
Interest capitalised	B3	(462)	(854)
Net cash flows from investing activities		**(20,476)**	**(38,288)**
Cash flows from financing activities			
Cash was provided from:			
Proceeds from borrowings		20,650	17,650
Cash was applied to:			
Repayment of borrowings		(14,630)	(9,950)
Dividends paid	E4	(7,800)	(7,250)
Net cash flows from financing activities		**(1,780)**	**450**
Increase (decrease) in cash held		(568)	(19,650)
Cash held at beginning of period		1,093	20,743
Cash held at end of period		**525**	**1,093**

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 2017

	2017 $000	2016 $000
Profit for the year	38,700	34,099
Plus/(less) non-cash items:		
Unrealised net change in the value of investment property	(19,870)	(19,957)
Depreciation and amortisation	8,663	8,127
Movement in the fair value of interest rate swaps and forward exchange contracts	30	122
Movement in non-current employee entitlements	(487)	108
Movement in deferred tax	(2,107)	877
Plus/(less) items classified as investing activities:		
Gain on sale of property, plant and equipment	(34)	(168)
Gain on sale of investment property	(34)	(597)
Share of surpluses retained by joint ventures	(80)	(279)
Movement in working capital items:		
Trade and other receivables	(837)	(3,512)
Trade and other payables	766	(924)
Current employee entitlements	622	348
Income tax payable	479	220
Maintenance inventories	20	(124)
Investment property inventories	(4,218)	(1,296)
Movement in working capital items classified as investing activities	75	1,144
Net cash flows from operating activities	**21,688**	**18,188**

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 2017 and were issued by the Board on 5 September 2017.

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 2017) as applicable to Port Otago Limited as a profit-oriented entity. In complying with NZ IFRS Port Otago Limited is simultaneously in compliance with International Financial Reporting Standards (IFRS).

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

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

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

Measurement base

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

Critical estimates and assumptions

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

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

- Fair value measurements of property portfolio assets (note C4)

- Property, plant and equipment (note C5)

NOTES TO THE FINANCIAL STATEMENTS continued

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

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

NZ IFRS 9 Financial Instruments (effective for the financial year ending 30 June 2019)

NZ IFRS 15 Revenue from contracts with customers (effective for the financial year ending 30 June 2019).

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

The Group does not intend to early adopt these standards.

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

The Group did not early adopt any new or amended standards in 2017.

NOTES TO THE FINANCIAL STATEMENTS continued

A. COMMITMENTS AND CONTINGENCIES

A1. Operating lease commitments as lessor

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

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

	2017 $000	2016 $000
Rentals receivable		
Receivable within one year	20,417	19,273
Receivable after one year but not more than five years	64,852	63,782
Receivable after more than five years	103,774	99,596
Minimum future lease receivable	**189,043**	**182,651**

A2. Operating lease commitments as lessee

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

	2017 $000	2016 $000
Payable within one year	437	450
Payable after one year but not more than five years	629	861
Payable after more than five years	465	-
Minimum future lease payable	**1,531**	**1,311**

A3. Capital expenditure commitments

At 30 June 2017 the Group had commitments/approvals for capital expenditure of $26.32 million (2016: $11.47 million) which relates to purchases and refurbishments of port assets and investment property.

A4. Contingencies

Apart from the matters noted below, there are no contingent liabilities at 30 June 2017 (30 June 2016: nil) other than those arising in the normal course of business.

Dredging and reclamation works performance security bond

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

A5. Significant events after balance date

Dividends

On 5 September 2017 the Directors declared a final dividend of $0.5 million for the year ended 30 June 2017. 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.

NOTES TO THE FINANCIAL STATEMENTS continued

B. REVENUE AND EXPENSES

B1. Revenue

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

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

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 $63.6 million for the Group include the following:

	2017 $000	2016 $000
Audit services	134	131
Bad debts written off	191	-
Provision for doubtful debts	(51)	51
Directors' remuneration	331	301
Donations and community sponsorship	63	34
Loss on disposal of assets	17	60
Operating leases	961	859
Staff costs		
Wages and salaries	29,276	28,132
Kiwisaver and defined contribution plan employer contributions	1,409	1,334
Total staff costs	**30,685**	**29,466**

Salaries and other short-term employee benefits paid to key management personnel during the financial year totalled $2,494,045 (2016: $2,394,529).

	Notes	2017 $000	2016 $000
Depreciation and amortisation			
Depreciation of property, plant and equipment	C5	8,063	7,809
Amortisation of intangibles	C6	545	253
Amortised leasing costs		55	65
Total depreciation and amortisation		**8,663**	**8,127**

NOTES TO THE FINANCIAL STATEMENTS continued

B3. Financing costs

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

	2017 $000	2016 $000
Interest income	160	332
Interest expense and bank facility fees	(3,296)	(3,377)
Interest capitalised	462	854
Net financing costs	**(2,674)**	**(2,191)**

Weighted average capitalisation rate on funds borrowed	4.92%	5.73%

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:

	2017 $000	2016 $000
Profit before income tax	43,144	40,814
Imputation credits	50	63
	43,194	40,877
Prima facie tax expense at 28%	(12,094)	(11,446)
Non-deductible items	(66)	(599)
Other non assessable income	11	(44)
Unrealised change in investment property	4,835	4,756
Tax loss offset (via subvention payment)	101	98
Prior year adjustment	285	(19)
Deferred tax expense relating to the origination and reversal of temporary differences	2,434	476
Benefit of imputation credits	50	63
Income tax expense	**(4,444)**	**(6,715)**
Allocated between:		
Current tax	(6,937)	(5,936)
Prior period adjustments to current tax	386	98
Deferred tax	2,107	(877)
	(4,444)	**(6,715)**

Deferred tax

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

NOTES TO THE FINANCIAL STATEMENTS continued

B4. Income tax (continued)

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

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

Imputation credits	2017 $000	2016 $000
Opening balance	27,427	24,210
Tax payments	4,515	4,326
Anticipated tax payments to meet current year income tax expense	1,995	1,647
Credits attached to dividends received	50	63
Credits attached to dividends paid	(3,033)	(2,819)
Imputation credits available to shareholders for future use	**30,954**	**27,427**

NOTES TO THE FINANCIAL STATEMENTS continued

C. KEY ASSETS

C1. Investment property

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

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The fair value of investment property reflects the Directors' assessment of the highest and best use of each property and amongst other things, rental income from current leases and assumptions about rental income from future leases in light of current market conditions. The fair value also 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 registered building exceeds the tax book value of the building. The deferred tax liability is capped at the amount of depreciation that has been claimed on each building.

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

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

	Notes	2017 $000	2016 $000
Balance at beginning of year		273,325	248,810
Transfer (to) from investment property inventories	C2	-	(5,406)
Transfer (to) from investment property held for sale	C3	(487)	-
Acquisitions		-	6,077
Subsequent capital expenditure		9,415	2,935
Disposals		(155)	-
Net movement in prepaid leasing costs		(38)	182
Net movement in incentives		546	101
Interest capitalised		182	471
Net change in fair value		19,649	20,155
Balance at end of year		**302,437**	**273,325**
Comprising:			
Property portfolio cost		109,198	100,117
Revaluation		193,239	173,208
		302,437	**273,325**
Valued at 30 June balance date as determined by:			
Jones Lang LaSalle		74,855	-
Colliers International		85,117	90,370
CBRE Limited		142,465	182,955
		302,437	**273,325**

NOTES TO THE FINANCIAL STATEMENTS continued

C2. Investment property inventories

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

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

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

	Notes	2017 $000	2016 $000
Balance at beginning of year		20,618	13,409
Transfer (to) from investment property	C1	-	5,406
Transfer (to) from investment property held for sale	C3	927	-
Acquisitions		-	649
Subsequent capital expenditure		8,412	3,536
Disposals		(5,322)	(2,260)
Interest capitalised		167	76
Impairment and impairment reversals		894	(198)
Balance at end of year		**25,696**	**20,618**
Comprising:			
Property portfolio cost		24,865	21,531
Revaluation		831	(913)
		25,696	**20,618**
Developed land for sale		18,844	10,617
Units and warehouse developments in progress		6,852	-
Land in development		-	10,001
		25,696	**20,618**

Developed land for sale

The $18.8 million carrying value of developed land at balance date reflects the cost of the 14.3 hectares (Group share: 11.6 hectares) remaining developed land. In their June 2017 valuation, Jones Lang LaSalle stated a net realisable value of $26.6 million (Group share: $21.6 million).

At the previous balance date the $10.6 million carrying value of developed land reflected the cost of the 8.3 hectares (Group share: 6.5 hectares) on hand. In their June 2016 valuation, Colliers stated a net realisable value of $14.4 million (Group share: $11.4 million) for the remaining developed land on hand.

Land in development

During the year the Group completed stage 2 of the industrial subdivision at Te Rapa in Hamilton. Stage 2 yielded 10.5 hectares of developed land (Group share: 9.0 hectares) which upon completion was transferred to developed land for sale. The carrying value of land in development at the previous balance date of $11.94 million (Group share: $10.00 million) reflected the cost of the land in development. Colliers in their June 2016 valuation stated a net realisable value of $13.75 million (Group share: $11.7 million).

NOTES TO THE FINANCIAL STATEMENTS continued

C3. Property held for sale

Property classified as held for sale is measured at:

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

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

	Notes	2017 $000	2016 $000
Balance at beginning of year		2,046	2,046
Transfers from investment property	C1	487	-
Transfers to investment property inventories	C2	(927)	-
Subsequent capital expenditure		1,212	-
Unrealised change in the value of property held for sale		(673)	-
Balance at end of year		**2,145**	**2,046**
Comprising:			
Property portfolio cost		1,333	1,203
Revaluation		812	843
		2,145	**2,046**
Current asset		2,145	2,046
Non-current asset		-	-
		2,145	**2,046**

Property held for sale comprises:

• Sale of 130 Portsmouth Drive, Dunedin

During June 2017, Chalmers Properties Limited entered into an unconditional sales and purchase agreement for the sale of the above property. The property was valued by Jones Lang LaSalle on 30 June 2017 at a fair value of $2.20 million. The carrying value of $2.15 million is net of selling costs.

Note E5 contains details of a deed of cancellation relating to the previous contract terms to sell 10% of the original Newby 1 block to a related party, the former Chalmers Properties Limited Chief Executive Officer. This land was previously classified as property held for sale. At the previous balance date the remaining property held for sale under the related party contract was $2.05 million.

C4. Fair value measurements of property portfolio assets

Critical estimates and assumptions

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

NOTES TO THE FINANCIAL STATEMENTS continued

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

- 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 sensitivity to significant	
			Increase in input	Decrease in input
Market capitalisation rate (%) [1]	5.0%	8.6%	Decrease	Increase
Market rental ($ per sqm) [2]	$8	$266	Increase	Decrease
Discount rate (%) [3]	6.8%	14.0%	Decrease	Increase
Rental growth rate (%) [4]	0.9%	3.5%	Increase	Decrease
Terminal capitalisation rate (%) [5]	5.3%	8.5%	Decrease	Increase
Profit and risk rate (%) [6]	20.0%	20.0%	Decrease	Increase
Development sell down period (years) [7]	10	10	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

	2017 $000	2016 $000
Balance at beginning of year	273,325	248,810
Unrealised net change in the value of investment property	19,649	20,155
Purchases	10,105	9,766
Sales	(155)	-
Transfers to investment property inventories	(487)	(5,406)
Balance at the end of the year	**302,437**	**273,325**

NOTES TO THE FINANCIAL STATEMENTS continued

C5. Property, plant and equipment

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

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

	Land $000	Buildings and improvements $000	Harbour improvements $000	Plant, equipment and vehicles $000	Capital work in progress $000	Total $000
Cost						
Balance 1 July 2015	34,395	49,156	55,303	93,531	2,086	234,471
Additions	396	14,199	6,017	2,525	6,980	30,117
Disposals	(449)	(81)	-	(2,823)	-	(3,353)
Cost at 30 June 2016	**34,342**	**63,274**	**61,320**	**93,233**	**9,066**	**261,235**
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**
Accumulated depreciation						
Balance 1 July 2015	-	14,761	15,725	45,342	-	75,828
Depreciation for period	-	1,995	1,642	4,172	-	7,809
Disposals	-	(24)	-	(1,561)	-	(1,585)
Accumulated depreciation at 30 June 2016	**-**	**16,732**	**17,367**	**47,953**	**-**	**82,052**
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**
Net book value						
At 30 June 2015	34,395	34,395	39,578	48,189	2,086	158,643
At 30 June 2016	**34,342**	**46,542**	**43,953**	**45,280**	**9,066**	**179,183**
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**

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 or 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.

NOTES TO THE FINANCIAL STATEMENTS continued

C5. Property, plant and equipment (continued)

At 1 July 2016, it was determined that capital dredging has an indefinite useful life and would not be depreciated further over the remaining previously estimated useful life (carrying value $7,184,452 (2016: $7,184,452) included in Harbour Improvements). The channel is maintained via maintenance dredging to its original depth and contours and is expensed when incurred.

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	Goodwill $000	Total $000
Cost				
Balance 1 July 2015	5,371	5,234	1,219	11,824
Additions	287	244	-	531
Transfer to investment property and investment property inventories	-	-	(1,219)	(1,219)
Disposals	(21)	-	-	(21)
Cost at 30 June 2016	**5,637**	**5,478**	**-**	**11,115**
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**
Accumulated amortisation				
Balance 1 July 2015	4,846	268	331	5,445
Amortisation expense	230	354	(331)	253
Disposals	(21)	-	-	(21)
Accumulated amortisation at 30 June 2016	**5,055**	**622**	**-**	**5,677**
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**
Net book value				
At 30 June 2015	525	4,966	888	6,379
At 30 June 2016	**582**	**4,856**	**-**	**5,438**
At 30 June 2016	582	4,856	-	5,438
At 30 June 2017	**722**	**4,707**	**-**	**5,429**

NOTES TO THE FINANCIAL STATEMENTS continued

C6. Intangible assets (continued)

Computer software

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

Resource consents

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

Resource consents relate to the granting of the Next Generation consents which will allow Port Otago Limited to deepen 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.

Goodwill

Goodwill represented the excess of the cost of acquisition over the Group's interest in the fair value of the assets of a jointly controlled entity. Goodwill was reassessed and reclassified to the cost of investment property and investment property inventories during the 2016 year.

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 2017. All subsidiaries have a 30 June balance date.

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

NOTES TO THE FINANCIAL STATEMENTS continued

C7(a). Principal subsidiaries (continued)

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 2017 which have been accounted for on a proportionate consolidation basis. All the joint operations have a 30 June balance date.

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

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

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

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

Current period to 30 June 2017

				Group's share		
	100% Hamilton Porter Joint Venture $000	100% Harbourcold Dunedin $000	Total $000	66.7% Hamilton Porter Joint Venture $000	50% Harbourcold Dunedin $000	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**
Other 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 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**

NOTES TO THE FINANCIAL STATEMENTS continued

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

Comparative period to 30 June 2016

	100% Hamilton Porter Joint Venture $000	100% Harbourcold Dunedin $000	Total $000	Group's share 66.7% Hamilton Porter Joint Venture $000	Group's share 50% Harbourcold Dunedin $000	Group's share Total $000
Cash and cash equivalents	35	200	235	23	100	123
Other current assets	13,949	170	14,119	9,346	85	9,431
Total current assets	13,984	370	14,354	9,369	185	9,554
Non-current assets	7,997	61	8,058	5,358	31	5,389
Total assets	**21,981**	**431**	**22,412**	**14,727**	**216**	**14,943**
Other current liabilities	(4,092)	(85)	(4,177)	(2,742)	(43)	(2,785)
Total liabilities	(4,092)	(85)	(4,177)	(2,742)	(43)	(2,785)
Net assets	**17,889**	**346**	**18,235**	**11,985**	**173**	**12,158**
Operating revenue	-	1,970	1,970	-	985	985
Interest expense	-	-	-	-	-	-
Profit before tax	(786)	228	(558)	(524)	114	(410)
Income tax expense	-	-	-	-	-	-
Total comprehensive income	**(786)**	**228**	**(558)**	**(524)**	**114**	**(410)**

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

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

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

Summarised balance sheet	Icon Logistics Limited 2017 $000	Icon Logistics Limited 2016 $000
Cash and cash equivalents	802	1,030
Other current assets	996	1,024
Total current assets	1,798	2,054
Non-current assets	1,691	1,695
Total assets	**3,489**	**3,749**
Current liabilities	(635)	(798)
Non current liabilities	-	(2)
Net assets (100%)	2,854	2,949
Group's share of net assets (50%)	**1,427**	**1,475**

NOTES TO THE FINANCIAL STATEMENTS continued

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

Summarised Statement of Comprehensive Income	Icon Logistics Limited 2017 $000	Icon Logistics Limited 2016 $000
Operating revenue	6,552	7,262
Interest revenue	10	8
Interest expense	(1)	(1)
Profit before tax	238	719
Income tax expense	(77)	(161)
Total comprehensive income (100%)	161	558
Group's share of total comprehensive income (50%)	**80**	**279**

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

	Icon Logistics Limited 2017 $000	Icon Logistics Limited 2016 $000
Opening net assets	2,950	2,716
Total comprehensive income for the period	161	558
Less shareholder distributions	(257)	(324)
Closing net assets	2,854	2,950
Interest in joint venture (50%)	**1,427**	**1,475**

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.

C9. Finance leases

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

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

The finance lease receivable relates to the Group funding of tenant improvements to an investment property. A lease commenced in April 2007 for an initial period of 10 years and the finance lease receivable will be recovered over this period. The pre-tax interest rate applicable to the finance lease receivable is 10.2%. Interest income is recognised on a consistent basis to produce a constant rate of return on the net investment.

NOTES TO THE FINANCIAL STATEMENTS continued

C9. Finance leases (continued)

	Minimum future lease payments		Present value of minimum future lease receivables	
	2017 $000	2016 $000	2017 $000	2016 $000
Repayments due:				
No later than 1 year	-	160	-	155
Later than 1 year and not later than 5 years	-	-	-	-
Minimum future lease payments	-	160	-	155
Gross finance lease receivables	-	160	-	155
Less unearned finance income	-	(5)	-	-
Present value of minimum lease payments	**-**	**155**	**-**	**155**
Included in the financial statements as:				
Current asset			-	155
Non-current asset			-	-
			-	**155**

D. FINANCIAL RISK MANAGEMENT

D1(a). Managing financial risk

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

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

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

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

D1(b). Liquidity risk

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

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

NOTES TO THE FINANCIAL STATEMENTS continued

D1(c). Financial instruments

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

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

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

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

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

The Group carries interest rate derivatives (derivative financial instruments) at fair value. The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the reporting date, taking into account current interest rates. These instruments are included in Level 2 of the fair value measurement hierarchy. Interest rate derivative fair values are valued and are calculated using a discounted cash flow model using FRA rates provided by ANZ Bank New Zealand Limited based on the reporting date of 30 June 2017.

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

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

NOTES TO THE FINANCIAL STATEMENTS continued

D1(d). Financial instrument categories

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

As at 30 June 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**

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

NOTES TO THE FINANCIAL STATEMENTS continued

D1(e). Credit quality of financial assets

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

	2017 $000	2016 $000
Cash and cash equivalents (Credit rating AA-)	525	1,093
Trade and other receivables (Non rated - nil defaults)	13,003	12,520
Derivative financial instruments (Credit rating AA-)	286	-
Finance leases (Non rated - nil defaults)	-	155
Total credit risk	**13,814**	**13,768**

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 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)
As at 30 June 2016						
Trade and other payables		(6,625)	(6,625)	(6,625)	-	-
Borrowings (secured)	5.1%	(62,400)	(71,011)	(24,207)	(29,992)	(16,812)
Derivative financial instruments						
- Interest rate derivatives (Net)		(1,830)	(2,068)	(784)	(1,237)	(47)
- Foreign currency derivatives		-	-	-	-	-
Total as at 30 June 2016		(70,855)	(79,704)	(31,616)	(31,229)	(16,859)

NOTES TO THE FINANCIAL STATEMENTS continued

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.

	2017			
	-100bps		+100bps	
	Profit $000	Other equity $000	Profit $000	Other equity $000
Foreign currency risk				
Financial liabilities				
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**

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

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.

	2017 $000	2016 $000
Trade receivables	11,210	10,581
Amount owing by related parties	1,137	1,340
Prepayments	656	599
Balance at end of year	**13,003**	**12,520**

Credit risk

The Group is exposed to credit risk from the possibility of counter-parties failing to perform their obligations. Principally any risk is in respect of cash and bank balances, trade and other receivables. No collateral is held on these accounts. The major components of trade and other receivables exposure are

NOTES TO THE FINANCIAL STATEMENTS continued

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:

	2017 Gross receivable $000	2016 Gross receivable $000
Not past due	10,561	10,104
Past due 30-60 days	246	214
Past due 61-90 days	329	110
Past due more than 90 days	74	153
Total	**11,210**	**10,581**

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.

	2017 $000	2016 $000
Accounts payable	6,427	5,667
Other accrued charges	561	742
Property deposits received	400	216
Balance at end of year	**7,388**	**6,625**

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.

	2017 $000	2016 $000
Bank borrowings		
Current liability	-	-
Non-current liability	68,420	62,400
Total bank borrowings	**68,420**	**62,400**

Port Otago Group facility

The Group has a $80 million (2016: $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.

NOTES TO THE FINANCIAL STATEMENTS continued

D4. Borrowings (continued)

Interest rate risk

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

	2017 $000	2016 $000
Maturing in less than one year	10,670	22,050
Maturing between one and five years	40,650	25,000
Maturing in more than five years	17,100	15,350
Total credit risk	**68,420**	**62,400**

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 $23,429.

	2017 $000	2016 $000
Accrued wages, salaries and other benefits	1,336	805
Annual leave	3,456	3,390
Long service leave	839	969
Retiring allowances	93	133
Sick leave	104	78
Related party incentive	-	317
Balance at end of year	**5,828**	**5,692**
Analysed as:		
Current	4,896	4,273
Non-current	932	1,419
	5,828	**5,692**

E2. Share capital

At 30 June 2017 Port Otago Limited has 20,000,000 ordinary shares (2016: 20,000,000 ordinary shares). All shares are fully paid and have no par value. All shares carry equal voting rights and the right to share in any surplus on the winding up of the Group.

E3. Reserves

Retained earnings

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

Hedging reserve

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

NOTES TO THE FINANCIAL STATEMENTS continued

E3. Reserves (continued)

The reserves are represented by:

	2017 $000	2016 $000
Retained earnings		
Balance at beginning of year	383,047	356,198
Profit for the year	38,700	34,099
Less dividends paid	(7,800)	(7,250)
Balance at end of year	**413,947**	**383,047**
Hedging reserve		
Balance at beginning of year	(1,341)	(999)
Change in fair value of interest rate swaps and forward exchange contracts	1,314	(475)
Deferred tax arising on fair value movement	(368)	133
Balance at end of year	**(395)**	**(1,341)**
Total reserves	**413,552**	**381,706**

Capital management strategy

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

E4. Dividends declared and proposed

	2017 $000	2016 $000
Interim dividend paid 17.5 cps (2016: 16.25 cps)	3,500	3,250
Second interim dividend paid 17.5 cps (2016: 16.25cps)	3,500	3,250
Final dividend 2.5 cps (2016: 4 cps)	500	800
Dividends for the financial year	**7,500**	**7,300**
Adjust for dividends declared after year end:		
2017 Final dividend declared September 2017	(500)	-
2016 Final dividend declared September 2016	800	(800)
2015 Final dividend declared September 2015	-	750
Dividend distributed to owners as disclosed in the Statement of Changes in Equity	**7,800**	**7,250**
Dividends - cents per share (cps)	37.5	36.5

E5. Transactions with related parties

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

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

Transactions with Otago Regional Council

During the year the Group and its shareholder, the Otago Regional Council ("ORC"), entered into an agreement for the ORC to transfer 2016 tax year losses to the Group. In conjunction with the tax loss transfer of $260,730 (2016 tax year: $251,953), by way of a tax loss offset, the Group made a subvention payment of $101,395 (2016 tax year: $97,981) to the ORC. The consequence of the tax loss transfer and the subvention payment was a $101,395 reduction in income tax payments in the current year (2016: $97,981)

The amount paid to the Otago Regional Council for rates, rentals and resource consent fees during 2017 was $110,446 (2016: $31,577) with $30 payable at year end (2016: nil). The amount received from the Otago Regional Council for property rentals was $8,050 (2016: $7,475) and $60,000 (2016: $60,000) as a contribution towards the operation of the Harbour Control Centre at Port Chalmers with $17,250 receivable at year end (2016: $17,250).

NOTES TO THE FINANCIAL STATEMENTS continued

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 2017 for property rentals and the purchase of materials and services was $643,900 (2016: $783,389) with $4,467 receivable at year end (2016: $10,330). Port Otago Limited received a dividend from Harbourcold Dunedin during 2017 of $30,000 (2016: $80,000).

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 2017 for property rentals and sale of services was $87,705 (2016: $146,893) with $1,359 receivable at year end (2016: $1,903).

Icon Logistics Limited also provides transport services to Port Otago Limited. The amount paid to Icon Logistics Limited during 2017 for the supply of transport services was $81,051 (2016: $156,363) with $8,814 payable at year end (2016: $3,503).

Transactions with the Hamilton Porter Joint Venture
Port Otago Limited has a 66.7% interest in the Hamilton Porter Joint Venture through its wholly owned subsidiary, Te Rapa Gateway Limited. During May 2017 a cash advance previously provided by Te Rapa Gateway to the Hamilton Porter Joint Venture was repaid in full (2016: $1,385,000). Te Rapa Gateway Limited provides an advance to the Hamilton Porter Joint Venture to fund its share of development costs. At 30 June 2017 the balance of the advance was $2,309,000 (2016: $1,437,000). The Hamilton Porter Joint Venture 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 2017 the balance to be compensated was $1,098,000 (2016: $1,197,000).

Te Rapa Gateway Limited earned interest on the cash advance provided to the Hamilton Porter Joint Venture during the year of $55,855 (2016:$72,167).

The Hamilton Porter Joint Venture reimburses Te Rapa Gateway Limited for its share of general operating costs. At balance date the amount owing to Te Rapa Gateway Limited was $16,103 (2016: $32,289).

In May 2017 Te Rapa Gateway Limited acquired from the Hamilton Porter Joint Venture 4,891m2 of developed land. Compensation of $1,149,385 for the land was based upon a negotiated price of $235m2.

Chalmers Properties Limited provides accounting and administration services to the Hamilton Porter Joint Venture for which $5,000 (2016: $4,000) was charged. At balance date the amount owing to Chalmers Properties Limited was $5,000 (2016: $4,000)

Directors
Mr D J Faulkner is a Director of Gough Holdings Limited, a supplier to the Group. The amount paid to Gough Holdings Limited, and its wholly owned subsidiaries during 2017 for the supply of goods and services was $295,075 (2016: $419,336) with $15,075 payable at year end (2016: $46,236).

Mr D J Faulkner was also appointed as a Director of Fulton Hogan Limited, a supplier to the Group during the year. The amount paid to Fulton Hogan Limited, and its wholly owned subsidiaries during 2017 for the supply of goods and services was $1,274,846 with $2,182 payable at year end.

Mr E J Harvey is a Director of Kathmandu Holdings Limited, a tenant of the Group. The amount received from Kathmandu Holdings Limited, and its wholly owned subsidiaries during 2017 for property rentals, was $225,520 (2016: $240,994). There was no amount receivable at year end (2016: nil).

Financial arrangement - Te Rapa Gateway Limited
During the year a deed of cancellation was negotiated and settled with Mr Andrew Duncan, the former Chalmers Properties Limited Chief Executive Officer, to cancel a sale and purchase agreement entered into in 2008. The terms of the 2008 sale and purchase agreement required Te Rapa Gateway Limited to sell 3.5 hectares of land in Hamilton to Mr Duncan at a sales price of $81 per m2 plus a share of development costs. At 30 June 2016, 2.5 hectares remained to be settled. Under the deed of cancellation, a payment of $400,000 was agreed and paid by the Group to Mr Duncan to cancel the 2008 sale and purchase agreement. The impact of the deed of cancellation on the Group Income Statement in the current year, is an increase in profit before tax of $293,000, arising from the reversal of the Group's share of previously provided development costs in relation to the unsettled property.

AUDIT REPORT

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Independent Auditor's Report

To the readers of Port Otago Limited group's financial statements for the year ended 30 June 2017

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

Opinion

We have audited the financial statements of the Group on pages 9 to 38, that comprise the balance sheet as at 30 June 2017, the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

In our opinion, the financial statements of the Group:

- present fairly, in all material respects:
  - its financial position as at 30 June 2017; 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 5 September 2017. 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.

AUDIT REPORT continued

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 and 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

AUDIT REPORT continued

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 8 and 42 to 45, 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 2017.

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 $38.7 million, compared to $34.1 million last year.

Dividends

A final dividend of $0.5 million will be paid on 7 September 2017, which brings total dividends for the year to $7.5 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 $000	Chalmers Properties Limited $000	Total Group $000
D J Faulkner (Chairman)	67	21	88
P F Rea (deputy Chairman)	45	13	58
T D Gibson	32	13	45
E J Harvey	35	13	48
P F Heslin	33	13	46
E G Johnson	33	13	46
	245	**86**	**331**

STATUTORY DISCLOSURE continued

Directors' interests

The Directors have disclosed the following general interests for the year ended 30 June 2017 in accordance with Section 140 of the Companies Act 1993:

Director	Entity	Relationship
D J Faulkner	Cold Storage Nelson Limited	Director
	Gough Holdings Limited (and its wholly owned subsidiaries)	Director
	Fulton Hogan Limited	Chairman
P F Rea	No interest register entries recorded	
E J Harvey	Ballance Agri-Nutrients Limited	Director
	Heartland Bank Limited	Director
	Investore Property Limited	Director
	Kathmandu Holdings Limited	Director
	New Zealand Opera Limited	Chairman
	Pomare Investments Limited	Director
	Stride Property Limited (and its wholly owned subsidiaries)	Director
T D Gibson	Affordable Skills Limited	Director
	Affordable Water Limited	Director
	Fiscus Limited	Director
	Gibson Walker Limited	Director
	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	Director
	Forsyth Barr Cash Management Nominees Limited	Director
	Jedaka Limited	Director
	New Zealand Auditing and Assurance Standards Board	Board member
	P Heslin Limited	Director
E G Johnson	ECL Group Limited (and its wholly owned subsidiaries)	Director
	Goldpine Group Limited (and its wholly owned subsidiaries)	Chairman
	Indevin Group Limited (and its wholly owned subsidiaries)	Chairman
	Port Marlborough (New Zealand) Limited (and its wholly owned subsidiaries)	Chairman
	Stone Farm Holdings Limited	Director

STATUTORY DISCLOSURE continued

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

Remuneration range ($)	Number of employees
520,001 – 530,000	1
350,001 – 360,000	1
260,001 – 270,000	1
240,001 – 250,000	1
230,001 – 240,000	1
220,001 – 230,000	1
210,001 – 220,000	6
200,001 – 210,000	2
190,001 – 200,000	1
170,001 – 180,000	1
160,001 – 170,000	2
150,001 – 160,000	4
140,001 – 150,000	2
130,001 – 140,000	3
120,001 – 130,000	10
110,001 – 120,000	9
100,001 – 110,000	12

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

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

The following persons held office as Directors of subsidiary companies as at 30 June 2017.

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

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

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

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

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

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

The Group audit fee for the year ended 30 June 2017 was $134,000 (2016: $133,000).

For and on behalf of the Board of Directors

D J Faulkner
Chairman
5 September 2017

E J Harvey
Director
5 September 2017

DIRECTORY

Directors

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

Leadership team

Kevin Winders	Chief Executive
Stephen Connolly	Chief Financial Officer
Sean Bolt	GM Marine and Infrastructure
Peter Brown	GM Commercial
David Chafer	GM Property
Kevin Kearney	GM Operations
Gavin Schiller	Head of Safety
Lynn Smillie	GM People

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Bankers

ANZ Bank New Zealand Limited

Solicitors

Anderson Lloyd

Auditors

Audit New Zealand on behalf of the Auditor-General

www.portotago.co.nz