2020 Port Otago Annual Report

Reflecting on the future

Welcome to Port Otago's refreshed annual report, *Reflecting on the future.*

This report tells the story of the port's place in a much bigger value chain. The significance of the port's role was brought into sharp focus during the Covid-19 pandemic, when Port Otago continued operating as an essential service provider. The team worked closely with customers, partners, suppliers and shipping lines to keep essential goods moving to where they were needed. It was a challenging time but everyone pulled together when it was needed most.

The Covid-19 lockdown prompted Port Otago to reflect on what had been working well previously – and what needed to change. It provided an opportunity to "reset" for the future. Reflecting and resetting is the focus of this report. In the wake of Covid-19, Port Otago is analysing how it creates and preserves value within its value chain, using a process called Integrated Thinking. (This is presented visually on pages 16-17.)

Integrated Reporting

This refreshed annual report is Port Otago's first move towards Integrated Reporting. Rather than drawing solely on its own views, the company asked its stakeholders what they thought should be prioritised. This is called a materiality process and involved the community and iwi, customers, partners, suppliers, the shareholder and regulators. Stakeholder feedback informed Port Otago on the most important environmental, social and economic issues stakeholders believe need to be built into the port's day-to-day Integrated Thinking. (You can read more about the materiality process and results on pages 18-21.)

In response to the materiality results, Port Otago's Board decided to adopt Integrated Reporting – both internally for board meeting papers and externally in this and future annual reports.

The International Integrated Reporting Council's (IIRC) Integrated Reporting <IR> Framework has been a valuable reference point for this report refresh.

Six capitals

The IIRC's six capitals have been adopted as a structure for the port's *Strategy for a better business* and this report. Terminology that is meaningful for the port and its stakeholders has been used to ensure longevity in this approach and measure progress year on year.

The six capitals:

1. Human Capital:
Our team

2. Social and relationship Capital:
Our wider team

3. Natural Capital:
Our harbour and beyond

4. Intellectual Capital:
Our know-how and skills

5. Manufactured Capital:
Our assets

6. Financial Capital:
Our financial value

Transparency

It is easy to report on the good things – where targets have been achieved, performance has improved and strategies are moving in the right direction. It can be a challenge, however, to share the things that haven't gone so well – challenges faced, but not yet solved.

In refreshing this report, Port Otago is tackling this head on with a balanced, open, honest and transparent report. With this credible reporting we hope to earn the trust of our stakeholders, as the port works to build stronger relationships for the future.

Feedback

Feedback on this report is welcome. Email *info@portotago.co.nz*

Integrated Reporting has been championed by the International Integrated Reporting Council (IIRC) through its <IR> Framework. This approach to reporting tells an organisation's value creation story over time. It helps readers understand how the organisation's strategy, governance, performance and prospects have led to the creation, preservation or erosion of value over the short, medium and long term. Value is measured in more than just dollars. Instead, six capitals are used to communicate resources used and value created namely human, social and relationship, natural, intellectual, manufactured and financial capital.

www.integratedreporting.org/resource/international-ir-framework/

Inside:

This report is printed on Splendorgel paper with soya-based ink. The print run is limited to 100 copies.

FSC® C015259

Our highs and lows

319
Employees

$50.5m
NPAT – up $1m on last year

1044
visual safety leadership discussions
(up 282)

88
Noise complaints
71 related to Rio ships which now have silencers installed. Down from 119 last year

Free swimming lessons & swim bags for:
400
community kids and 6 neighbouring schools

16 out of **22**
critical risk bowties audited

191,900
TEU
(down from 208,600 last year)

12 out of **20**
external stakeholders told us to prioritise our relationships

112
cruise ships
(down 3 on last year).
204,000 cruise passengers

90%
completion of warehousing LED lighting upgrade. We know this is just a small step forward, but we are moving in the right direction

11
LTIs
(down 3 on last year). But this is still too high and we are working on it

0.89 million
Logs
0.89 million JAS (down from 1.15 million last year)

Above: Kevin Winders, Chief Executive, and Paul Rea, Chairman

Full year review from the Chair and Chief Executive

Highlights and challenges

Delivering a near record NPAT of $50.5 million

Improved safety performance

Investment in Dunedin Bulk Port

Silencing the Rios

Embarking on our sustainability journey

Progressing Integrated Thinking and Reporting

Strong financial position to weather the challenges of Covid-19 and global impacts

Loss of cruise business due to Covid-19

Group financial results

The Port Otago Group achieved a tax-paid profit of $50.5 million for the year ended 30 June 2020, up 2% on last year's $49.3 million profit. Included in this year's result was a $27.9 million unrealised revaluation uplift of the investment property portfolio - reflecting significant uplift in land values in Dunedin portfolio and continued increases in Auckland and Hamilton markets. Operating earnings were impacted by lower land sales in our property business and reduced activity due to Covid-19 across all port businesses.

Capital expenditure across the port and property businesses was $39.8 million, up $18 million on the previous year with bank indebtedness increasing by $17 million to $72 million, at balance date.

Port Otago has paid $10 million in dividends to the Otago Regional Council this year, an increase of $1.5 million from last year.

Shareholder equity increased to $549 million with an equity ratio maintained at 84% at June 2020 - a strong resilient balance sheet ready to meet the challenges that lay ahead.

Overall a solid result which provides our shareholder with an average return on capital employed of 9.6% for the year.

Covid-19

As an essential service, Port Otago's cargo handling and supply chain services remained operational throughout all Covid-19 alert levels. We facilitated an uninterrupted supply of fuel, LPG and container imports and exports during all alert levels at Port Chalmers and Dunedin ports. Export logs and processed timber ceased during Alert Level 4, which impacted the full year log export volume, but in Level 3 we were able to assist our customers to resume shipments and clear space for a quick restart. The Government banned cruise ships from entering New Zealand waters from 14 March 2020 resulting in 10 cruise ship cancellations.

Covid-19 challenged our team to find new ways of working, such as breaking shifts into teams to operate as isolated bubbles, repurposing different areas into additional staff facilities, extra cleaning between shifts and enabling support staff to work from home.

This year has been a challenging time for our team, as an essential service dealing with Covid-19, working through new problems and adapting quickly to keep our team and the wider team safe. Our team responded immediately to Covid-19 challenges and supported our customers to ensure key imports and exports continued to move through the supply chain. On behalf of the Board, we thank all our people for their contribution this year.

Containers/bulk/cruise

Our port related businesses achieved revenues of $62.2 million from marine and cargo services, 9% lower than the previous year on lower container, bulk cargo and cruise vessel arrivals. Container volumes of 191,900 TEU were 8% lower, partly due to Covid-19, but mainly as a result of Maersk changing their network, reducing transship volumes through Port Chalmers. Disappointingly, in June 2020, the ANZEX container shipping service changed its network, omitting Port Chalmers and reducing the choice of shipping lines for our customers. It is pleasing to see, however, that the majority of the cargo previously shipped on the ANZEX service has moved across to the other container services calling at Port Chalmers.

Bulk cargo volumes of 1.5 million tonnes were down on the previous year's 1.8 million tonnes. Constrained by the Level 4 and Level 3 lockdowns, log export volumes were down to 0.89 million JAS from 1.15 million JAS last year, and fuel import volumes were also lower. Cruise ship visits totalled 112 for the year with 204,000 passengers visiting Dunedin, similar to last year with 115 cruise ships and 229,000 passengers. While an acceptable result, if not for Covid-19, it could have been a record cruise season.

Property

We have a mix of property developed for customers, such as warehouses, along with property less related to our core business. The property business makes a significant contribution to our long-term financial sustainability and it will remain an important part of our balanced portfolio.

Our property business orientates towards warehousing and distribution sectors. A port heritage of building warehouses for customers is our key area of expertise. This focus reduced our exposure to some of the financial impacts of Covid-19. A significant proportion of our tenants are part of the transport/ distribution/ government sectors, essential services carrying on through Covid-19 lockdown Level 4 and Level 3 to keep goods moving. Some of our tenants who were deemed non-essential were unable to access their premises. This was a shock for them and we responded quickly, working with them to offer support in the form of rent relief and deferrals in an effort to share the financial pain of Covid-19 restrictions. As a result of this support, all our tenants are still with us and our occupancy rate remains a healthy 93%.

Sales of land from the Te Rapa Gateway Industrial Park development were on target at $13.9 million this year, significantly lower than the previous year's total of $22.7 million. The drop in section sales is a result of the Te Rapa Gateway project being more than 75% complete, with the majority of land development costs incurred and sections either sold or held for future warehouse developments.

The investment property portfolio revaluation increase was $27.9 million, largely due to our Dunedin property values increasing $19.5 million, Auckland properties $5.5 million and Hamilton $2.9 million. The total property portfolio including land inventories has a carrying value of $406 million at June 2020, up from $365 million last year.

The construction of two warehouses at the Oak Industrial Park in Wiri, Auckland was the major project for the property business during the year at a cost of $20 million. The completion of the warehouses was delayed due to suspension of work on site during lockdown Level 4 but both warehouses were completed just after balance date. One warehouse is already leased long term to the Auckland City Council, with the second currently available for lease.

During the year we completed the construction of two further standalone warehouses of 1700m^2 and 1300m^2 leased to NZ Windows and New Zealand Post and six smaller office/warehouse units at the Te Rapa Gateway development. Our property business has developed four larger warehouses and a group of 12 smaller office/warehouse units at Te Rapa, held for long term rental yield. The industrial park is now approximately 75% complete and we have 11 hectares of land available for sale or for design, build, lease opportunities in the future.

The income security and significant equity contribution provided by our property portfolio allows us to continue investing in the future, whilst dealing with challenges which may come our way. It balances our portfolio, allowing the port to confront obstacles such as Covid-19 head on. While the loss of the 2020/2021 cruise season is painful for the port, we do not expect that loss to impact investment decisions or operational improvements in other parts of our business.

Dunedin Bulk Port

2020 saw strong progress in the strategic initiative to redevelop the Dunedin town wharves into a fit-for-purpose Dunedin Bulk Port and to release underutilised areas/wharves for the wider community. In December, Port Otago acquired the ENZA building for $9.9 million to provide redevelopment options for the future and invested another $1 million in hardstand and drainage to extend the Fryatt Street log yard. In conjunction with these landside investments, our dredging plant has completed a 20 month project to dredge the Upper Harbour Channel to 8.5 metres, costing approximately $2 million. The improvements in the depth and width of the channel will improve the efficiency of bulk cargos into Dunedin Bulk Port by allowing heavier ship loading and reduced restrictions on piloting. Further widening will be undertaken in the Upper Harbour Channel to improve ship ability to manoeuvre and ultimately improve safety.

Unfortunately Covid-19 timing impacted the Dunedin City Council's ability to move forward accepting the $19.9 million Provincial Growth Fund grant for the Harbourside project. We continue to work with the University of Otago on this project and remain hopeful that it can proceed when economic conditions improve. In the meantime, we have made the old Fryatt Street wharf safe for public use so the community can return to our old wharves in town to fish.

Keeping our people safe

During the year we have focused a lot of attention on leadership as a key tool to improve the safety of our workforce. The widely accepted tool of Visual Safety Leadership (VSL) conversations is now embedded in our culture with 1044 VSL conversations completed across our team this year. The Rūnanga (safety council) attended by the safety representatives, frontline leaders, the Leadership Team and Directors, continues to add real value as we get direct feedback on the difference between how work is understood to be done versus how it's actually done.

Capital investment in the management of critical risks remains a major focus for the group. Critical risks are defined as risks that have the potential to cause a fatality or a permanent disability. We have now completed one cycle of analysis (developing bowtie risk assessments) for each critical risk. Identifying and auditing the quality of controls in place has been a deep learning experience for us all. This year we have advanced to challenging our teams to improve safety controls and consider further engineering/automation solutions, so we can reduce reliance on rule-based controls wherever possible.

Investment in the TimeTarget rostering system has begun to deliver benefits, the robust rostering data providing a solid base to drive work assignment decisions. The system provides visibility of trends, highlighting patterns to ensure equitable distribution of shifts and overtime. Having this transparency is a benefit for us all - improved rostering delivers a more efficient distribution of labour, reducing peak hours for our team and the risk of fatigue. Port Otago has engaged Dr Matthew Thomas to provide expert input into improving our fatigue management system, helping with roster options and providing data analysis and insight for improvements in the future.

Our lag indicators improved slightly with a Total Recordable Injury Frequency Rate (TRIFR) of 22.7 per million hours worked, compared to 25.7 last year. The Severity Rate (days off work per LTI) was 5 days, down from 15 days the previous year. While pleased with progress, we still have plenty to work on with our team and engineering solutions as we strive to achieve Zero Harm.

Being a good neighbour

After more than 12 months of the low-frequency "rumble" emitted by the Rio class vessels calling at Port Chalmers, our work with Maersk resulted in the Rios being silenced, reducing the impact of their ships on our community. All six Rios had silencers retrofitted which has resulted in the Rios now being the quietest ships visiting the port, a great outcome. We are grateful to the community for their patience as we worked with Maersk to resolve this issue. We thank Maersk for their multi-million dollar investment as we work together to do the right thing as a good neighbour.

The completion of the new public fishing jetty at Boiler Point was a highlight for our year. The neighbourhood and wider community were quick to experience convenient fishing in deep water whilst getting an up-close experience of cruise, container and bulk ships passing just out of reach. The paved walkway enables easy access and the popularity of the jetty has created a few unintended problems, with parking and distance from public amenities causing some congestion problems. Port Otago is constructing toilets for public use and redeveloping carparking at the Boiler Point entrance to cater for the wider community. We expect to complete by Christmas.

Another successful project achieved during the year was the stabilisation of Flagstaff Hill after 20 years of problems. The four month project required the removal of just under 50,000m^3 of earth and the reinstatement of the road, footpath and fencing. Our contractor Fulton Hogan did a great job of looking after the neighbours by keeping their 3731 truck movements covered and clean, setting a high standard for future works around the neighbourhood.

Following 10 years of work with the Te Rauone Beach Coast Care Committee, the project to restore and develop Te Rauone Beach came a step closer with public notification of the resource consent. We look forward to working through the consenting process to a successful outcome and beginning the project to build three rock groynes and a new beach for the wider community.

Directors

Dave Faulkner retired as Board Chair in December 2019 after a 10 year governance contribution which saw the completion of the Next Generation infrastructure upgrade including channel deepening, warehouse expansion and acquisition of new dredging equipment. Dave also oversaw the completion of the land development at Te Rapa Gateway, Hamilton and the sale of a significant portion of the developed land. On behalf of the Board and team at Port Otago, we thank Dave for his outstanding contribution to the group.

Bob Fulton was appointed as a Director on 1 July 2020. Bob comes with extensive board, civil engineering and property experience, an ideal fit for Port Otago.

Embarking on our sustainability journey

In December 2019, our Board and Leadership Team challenged the way we were looking at our business, the lenses we looked through to make decisions and how we measure our success. Our strategic thinking revolved around balancing a range of objectives when making decisions and prioritising capital and resourcing, but we weren't convinced we had all bases covered. We engaged Jo Cain from the Materiality Counts consultancy to help us embark on *Integrated Thinking*; starting with a materiality identification process to understand what matters most to our stakeholders and the business. With these priorities in mind, we have been working on how the port creates value across non-financial as well as financial measures. Our next step is developing our goals for the future. At the heart of our strategic priorities for a better business, we look forward to sharing these with you in our next report. This is a new approach to our business. It will take time to evolve and become a cornerstone of our thinking. Like Health and Safety is now, it will become something we do every day in every aspect of our business, truly integrated.

Looking ahead

The consequences of Covid-19 are yet to be understood and we anticipate further impact to global trade, our customers' supply chains and ultimately our businesses. The Government has banned the entry of cruise ships into New Zealand waters and it is uncertain when they will be allowed to return. We continue to support the New Zealand Cruise Association to advocate on behalf of the cruise industry and to work with government agencies and cruise lines to develop safety protocols and processes to enable the safe return of cruise ships to the New Zealand coast. As a result, we anticipate no activity from the sector in the coming season, eliminating the contribution from cruise service revenues to the group.

The bulk and container businesses are expected to be impacted by slower global and domestic conditions, providing headwinds for our customers to contend with in the year ahead. The expectation of less activity for our businesses has focused our team on mitigating the likely lower revenues with a cost management programme - reducing outstanding leave, instituting a pay freeze where possible and a sinking lid approach to staffing levels - in an effort to keep our team employed. Our cost management focus signals the tightening of our belts, considered necessary to balance the needs of the shareholder and the wider stakeholders, particularly our port staff. We will continue to invest for the medium to long term in infrastructure and internal IT systems to support our customers and improve productivity. We anticipate cruise, bulk and container activity to recover in the medium to long term, so the challenge for us is to be a leaner and more efficient business, positioned to support our customers' growth.

The property business will benefit from the investment of $31 million in new warehousing in Hamilton and Auckland. Completed this year, it will deliver increased rental revenues, building our sustainable earnings for the future. We anticipate lower activity in land sales of the remaining sections at Te Rapa Gateway in Hamilton, due to the economy slowing and the relatively small amount of land inventory remaining as this development nears completion.

Reflecting on the future, we do expect slightly lower earnings from the group in the year ahead. The diversity of our four businesses, however, and the strength of our financial position provide the resilience needed to ensure Port Otago overcomes any economic downturn and continues to invest to support our customers across Otago and Southland.

Paul Rea
Chair

Kevin Winders
Chief Executive

Our value chain: The port's business model to create value

Inputs

Our team

- A team of 319 local people in the Otago region
- Trained in safety and other skills for their roles
- Undertaking safety risk assessments and inspections

Our wider team

- Customer relationships
- Partnerships with shipping lines, landside operators and suppliers
- Community and iwi engagement

Our harbour and beyond

- Use of air, land and water in all weather conditions
- Consumption of energy and other resources
- Listening to community and iwi concerns about changes to our harbour

Our know-how and skills

- Great people with experience
- New recruits with emerging skills
- Upskilling through training, including digital
- Investment in secure technology

Our assets

- Assets owned and productivity optimised
- Land owned and space utilised efficiently
- Investment in long-term infrastructure for a sustainable future

Our financial value

- Diverse and balanced portfolio to optimise returns and build resilience
- Long-term agreements with customers, partners and suppliers for a sustainable future

PORT OTAGO

93%
occupancy

191,900
TEU

112 ships
204,000
passengers

1,467,000
tonnes

Container business

- Export
- Import
- Tranship
- Depot
- Warehousing

Bulk business

- Logs
- Oil
- Fish
- Cement
- LPG
- Fertiliser

Property business

- Leasehold
- Commercial property
- Property development

Cruise business

- Port Chalmers
- Dunedin
- Fiordland

Outcomes

Our team

A safety culture where our people look out for each other in a high-risk environment so that everyone goes home safely. Employees who are proud to work for the port, some staying with us for their entire careers.

Work ons:
- Workplace culture
- Wellness strategy

Our wider team

A good neighbour to our community and iwi, respecting what is important to them for our social licence to operate. A strong central link in the value chain, connecting our customers, partners and suppliers from Otago to the world, for mutual growth.

Work on:
- Customer relationships

Our harbour and beyond

A light touch to preserve or enhance our beautiful harbour, taking care with dredging. Understanding what has changed and what we need to improve by listening to our community and iwi.

Work ons:
- Noise emissions
- Climate change targets

Our know-how and skills

A considered approach to the future, learning from the past and what others do. A talented workforce with an ability to learn and a wealth of knowledge. Improved productivity and resilience by embracing new agile and efficient ways.

Work on:
- Digitisation

Our assets

Continued investment in infrastructure to support our customers' and partners' future needs, facilitating our mutual growth to the benefit of the local, regional and national economy.

Work on:
- Efficient supply chains

Our financial value

Consistent sustainable dividends for our shareholder to support regional economic development and benefit our community. A sustainable future built on solid investment in infrastructure and long-term customer, partner and supplier relationships.

Work ons:
- Balancing our portfolio
- Efficiency

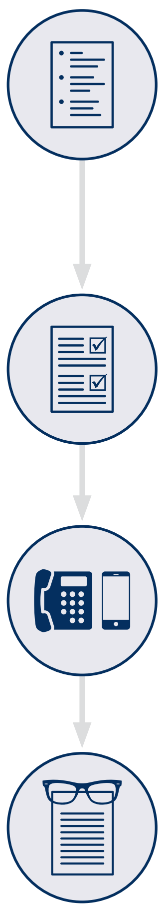
Our priorities

Port Otago embarked on our first "materiality process" this year – to better understand what is most important to our stakeholders. By engaging key stakeholders, listening to them and respecting their views, we have been able to clarify our priorities.

The materiality process looked at the environmental, social and economic issues facing Port Otago now and into the future. Stakeholders were asked to rate the importance of these issues, the port's performance in managing them, select their top three priorities and explain why. This was all against a backdrop of the port's role in the Covid-19 response and recovery. The port also rated the importance of these issues to the business. In this way, both stakeholder concern and the business impact have been taken into account.

The materiality process

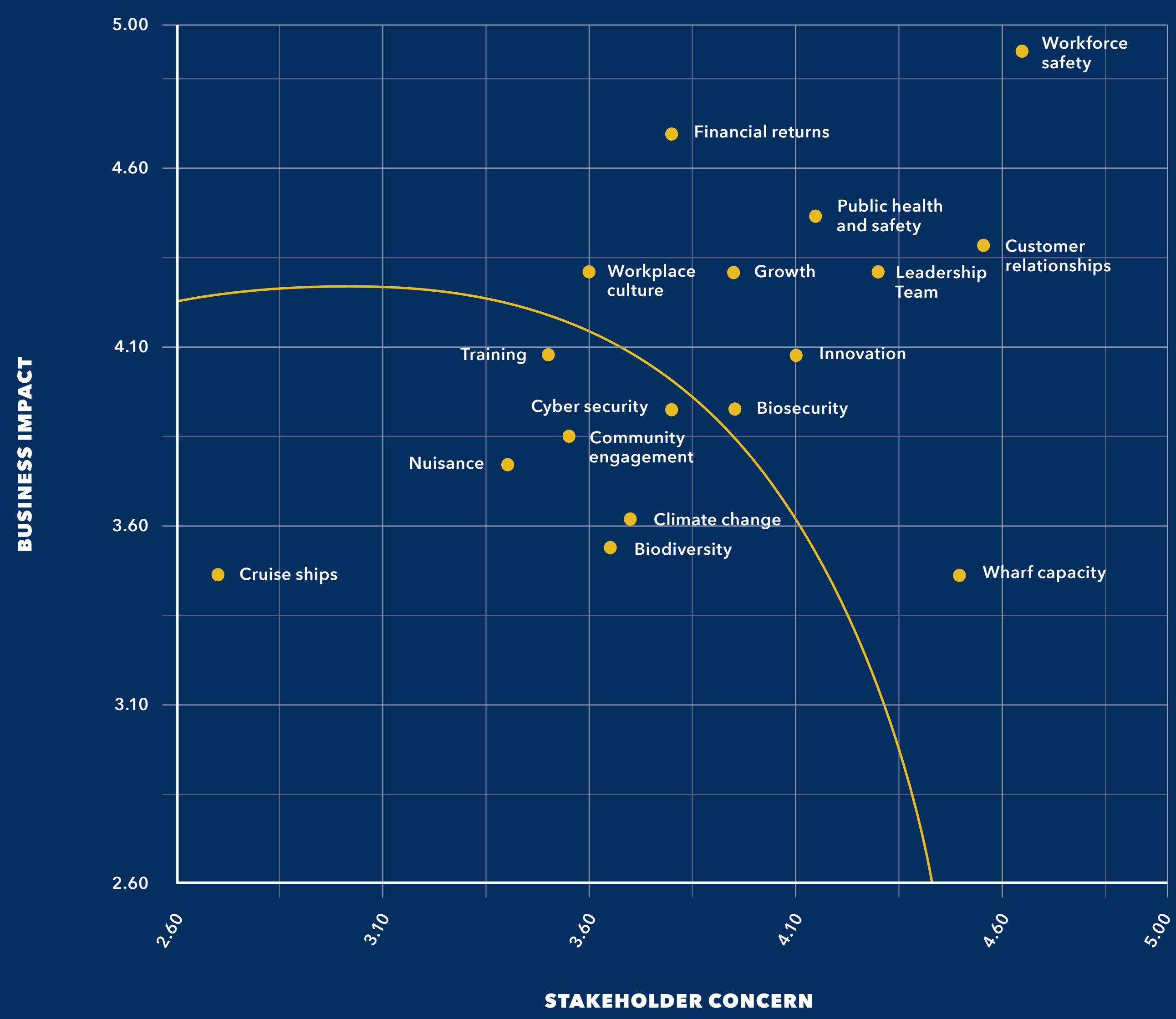
A four-step process identified the issues of most importance to the port and our key stakeholders.



1. **Issues list:** A list of 17 potential material issues and descriptions was developed through an in-depth review of information sources, including: critical risk action status report, strategy reading pack, Board Directors meeting packs, Leadership Team strategy blocks, Statement of Corporate Intent, values report, sustainability reading pack, Upper Harbour Channel presentation, port newsletters, peer reports, global megatrends and the Sustainable Development Goals.
2. **Survey:** A materiality survey was sent to a balanced and representative sample of 13 internal and 20 external stakeholders. Internal stakeholders included Board Directors, Leadership Team members and other key personnel. External stakeholders included the community and iwi, customers, partners, suppliers, the shareholder and regulators.
3. **Interviews:** One-on-one interviews were conducted via telephone with all 20 external stakeholders. We explored their most important issues and why the port should prioritise them to create value. The impact of Covid-19 was discussed and the port's role in the response and recovery effort. Risks and opportunities for the future were also considered.
4. **Results:** Both quantitative and qualitative results were analysed and interpreted. Sessions were held with the Leadership Team and the Board to explore the results. These results formed the basis of the port's work on the value chain and now inform the development of our *strategy for a better business*.

Materiality matrix

This materiality matrix shows quantitative results from the survey. The top material issues identified by stakeholders (internal and external) sit above the curve on the chart.



The material issues

Our top 10 issues are presented in order of priority below. This report and our *Strategy for a better business* focus on these "material issues". These are our priorities and you will see them highlighted at the start of each chapter of this report. While climate change doesn't appear in the top 10 overall, it featured strongly when stakeholders were asked what the port's top three priorities should be. Asking stakeholders this question provides a useful lens and a "reality check". This prioritisation does not mean that the port stops working on the other seven issues (out of the original 17). It simply allows the company to focus on what matters most.

#1

Workforce safety

A workplace culture that keeps people safe, manages fatigue and prevents incidents.

Promotion of health and mental well-being, with zero tolerance for drug and alcohol use.

#2

Customer, partner and supplier relationships

Strategic partnerships with shipping lines and landside operators.

Customer relationships to understand their businesses and move cargo in the most cost-effective way.

Resilient and sustainable supply chains that allow for growth.

#3

Public health and safety

Playing our part in the prevention and response to public health issues, such as Covid-19.

Acting quickly and communicating effectively (in partnership with others) to protect our team and the public.

Protecting our region from drug importation and terrorism activity.

#4

Effective leadership

Transparent Leadership Team and Board that: are accessible; demonstrate visible leadership; and focus on sustainability.

#5

Financial returns

Financial returns from port operations in bulk cargo, container services and cruise ships.

Long-term income from our strategic property portfolio.

Contribution to the local and regional economy.

The stakeholder interviews provided valuable context. Quotes are integrated into *Respecting our stakeholders* (pages 22-25) and throughout this report.

#6

Growth

Commercial model for growth, through investment in infrastructure throughout the supply chain.

#7

Innovation

Challenging BAU to improve processes and operational efficiency.

Using real time performance data to optimise productivity, labour planning, improving customer outcomes and ultimately reducing waste.

#8

Wharf capacity

Better planning and flexibility to manage competing demands for the use of wharves.

Investment to support growth.

#9

Workplace culture

An attractive and diverse workplace where: teamwork is a given; communication is open and honest; there is a genuine focus on the customer; everyone can make a difference; and bullying is not tolerated.

Constructive union relationships.

#10

Climate change

Understanding, measuring and reducing the operation's carbon footprint.

Moving to a lower emission fleet (straddle, side loaders and light vehicles), LED lighting and other energy efficiency measures.

Planning for increasingly common extreme weather events.

Respecting our stakeholders

Responding to Covid-19 was a team effort on a scale not experienced before. For the port, this meant working closer than ever with our wider team, in particular customers, partners and suppliers. Customers have since told the port that the increased communication – essential during the pandemic response – has improved their relationship with the port and they want it to continue. We have heard this loud and clear and that is exactly what we are working on.

At its core, the port's role is to facilitate the import and export of our customers' goods through the supply chain. But this does not happen in isolation. Alongside our own team of skilled men and women, the port relies on customers, partners and suppliers to ensure a smooth flow of goods.

Day-to-day operations at any port are complex. The business must balance different stakeholder needs, moving goods quickly and carefully, nimble enough to react calmly and effectively to imperfect circumstances, such as challenging weather or resourcing conflicts.

This year's decision, to adopt Integrated Thinking and use the <IR> Framework to guide this report, acknowledges these challenges head on. The first step in the process involved sending a survey and interviewing 20 external stakeholders, including customers, partners, suppliers, community members, iwi, our shareholder and regulators. This is a diverse stakeholder group, with different perspectives and priorities.

Responses to the survey were always going to be insightful, but the openness of those interviewed made the exercise particularly valuable. Stakeholders were happy for their comments to be shared in this report and you will see them in the stakeholder engagement table below and throughout.

Now the ball is in our court. Port Otago has heard directly from stakeholders about how we can best communicate and work with each key group – and, with that insight and direction – plan for a successful future for both the port and the region it services.

"Customer relationships have been great during the pandemic response. The port has worked more closely with us and stepped up communication. Let's continue to work this way."

Gijs Faber
GM Supply Chain Alliance Group

How we engage our stakeholders

Stakeholders	How we engage	Top 3 material issues	Stakeholder insights
Customers	• Site and in-market visits • Materiality interviews • F2F and online meetings • Covid-19 Q&A pack • PortO stakeholder newsletter	- Customer relationships - Wharf capacity - Growth	"The port needs to balance the interests of cargo suppliers, shipping lines and the community on issues such as noise and light emissions to maintain its social licence to operate." **Wenita**
Partners and Suppliers	• Site visits • Real-time trucking info • Materiality interviews • F2F and online meetings • Covid-19 Q&A pack • PortO stakeholder newsletter	- Partner and supplier relationships - Wharf and supplier capacity - Innovation	"Identify what would differentiate Port Otago from other ports and develop a strategy to achieve it." **Peter Dynes** MD, Dynes Transport
Community and Iwi	• West Harbour Community Board • Mana Whenua Group • Te Rūnanga o Ōtākou • Port Noise Liaison Committee • Port Otago Facebook page • Materiality interviews • PortO stakeholder newsletter	- Climate change - Biodiversity - Effective leadership	"Work with the Māori community to protect their land from erosion and loss as a result of shipping. Listen more closely to their concerns." **Edward Ellison** Upoko, Te Rūnanga o Ōtākou
Shareholder	• Port Otago Board • Interim and Annual Reports • Statement of Corporate Intent • Materiality interviews	- Financial returns - Growth - Workforce safety	"Growing the business is important. Investment in, and maintenance of infrastructure makes the port business more resilient." **Andrew Noone** Otago Regional Council Chair
Regulators	• Meet and provide input into policy development • Work with other ports on key issues • Engage with any investigations and audits • Materiality interviews	- Nuisance - Biodiversity - Community and iwi engagement	"The port should monitor emissions from ships to provide accurate data to local residents. But the results must be independently verified, or else the community will quite rightly have little trust in them." **Steve Walker** Dunedin City Councillor

* See pages 20-21 for descriptions of each material issue.

Stakeholder advisory panel

Port Otago wants to build more regular stakeholder engagement, consultation and feedback into our day-to-day business, extending what was achieved through the materiality process.

A stakeholder advisory panel will be established to bring together key stakeholder groups from community and iwi, customers, partners, suppliers, the shareholder and regulators. This panel will provide input on strategy, initiatives and performance.

To ensure the views of New Zealand's younger generations – the country's up-and-coming leaders – are heard, the panel will encourage intergenerational mentoring. Key stakeholder representatives will be invited to bring along an up-and-coming leader from their organisation. In this way, port leadership will be aware of the younger perspective on issues, such as climate change.

The panel's first task will be to provide input to our *Strategy for a better business*, which we are currently working on. Port Otago is excited to embrace this forward-looking fresh approach and to see where it leads.

Strategy for a better business

"This has been a pivotal year in the port's sustainability journey. We completed our first materiality process and developed our value chain thinking considerably. Now that we understand what is most important to our stakeholders and the port, alongside how we create and preserve value, we are working on our goals. These goals will make up our *Strategy for a better business*, which we look forward to sharing with you in next year's report."

Kevin Winders
Chief Executive

Stakeholder engagement

- What matters most to our stakeholders
- 20 materiality surveys completed
- 20 stakeholder interviews undertaken
- Stakeholders happy to be quoted in this report
- Stakeholder advisory panel planned for ongoing engagement

Our material issues

- What matters most to our stakeholders and the port
- Materiality survey data analysed
- Top 10 material issues identified as our priorities
- Our priorities are the basis of our strategy
- Other issues remain important

Our value creation

- How we create and preserve value
- Adopted Integrated Thinking on our value chain
- Reviewed our business model and how to enhance it
- Considered our part in what New Zealand is trying to achieve
- Looked at what our peers are doing

Our strategy for a better business

WIP

- We are developing goals for what the port wants to achieve
- These goals will address our material issues
- Looking at how we can contribute to the "bigger picture"
- Considering how we can further create or preserve value
- Striving not to erode value

Effective Leadership

Governance and leadership

The importance of effective leadership emerged as one of the port's top priorities from our materiality process this year. Stakeholders gave us a clear steer that they had noticed positive change in recent years and encouraged further focus. The connectivity between the Board, the Leadership Team and the development of our strategy, *Strategy for a better business* came through loud and clear.

Stakeholders, in particular our customers, see their future plans as core to our strategy and want to work together for mutual growth. Grant Dodson, CEO of City Forests, summed up the sentiment of many customers when he said: "It is important to build customer growth into the port's strategy. For forestry this means thinking 30+ years ahead, the growth cycle of our trees."

Our Board and Leadership Team create substantial value for the port and our stakeholders. This year, we have taken a first step in trying to share some of this value, by including interviews with Paul Rea, Chair of the Board, and Jane Taylor, one of our newer Board members.

Covid-19 in focus

Boards and leadership teams, the country and world over, have been challenged to respond to the pandemic in a way that supports the future of their organisations, their people and stakeholders. The port is no exception to this. We see it as an opportunity. Steve Walker, Dunedin City Councillor, articulated this perfectly: "It is up to the Board to create a new relevance. Resetting from the pandemic is a fantastic opportunity to do this."

"Leadership means being part of the community, not apart from it."

Francisca Griffin
West Harbour
Community Board Chair

MATERIAL ISSUE:

Effective leadership

- Transparent leadership team and board that: are accessible; demonstrate visible leadership; and focus on sustainability.

From left: Tim Gibson, Tom Campbell, Jane Taylor, Paul Rea, Pat Heslin and Bob Fulton

Our Board

Paul Rea

Chair since December 2019
Director since 2011

Paul joined Mobil Oil New Zealand Limited in Dunedin in 1976. Paul worked for Mobil in a range of New Zealand and international based roles, including time in Guam, Malaysia, Egypt, the United States and Australia until his retirement in 2011. Paul is also an independent director of New Zealand family-owned Waitomo Petroleum Limited.

Pat Heslin

Deputy Chair
Director since 2015

Pat was a partner of Deloitte for 30 years and is now an independent consultant and director based in Dunedin. He is Chair of Forsyth Barr Custodians Limited, Forsyth Barr Cash Management Nominees Limited and a past member of the New Zealand Auditing and Assurance Standards Board. Pat is also financial adviser to a number of private companies. He is a Fellow of the New Zealand Institute of Chartered Accountants.

Tim Gibson

Director since 2016

Tim has many years' experience in export industries, particularly the dairy industry. Tim has been a chief executive in government and held managing director and senior executive positions in dairy co-operatives and public companies. He is a Director of several companies including Livestock Improvement Corporation (LIC), New Zealand-based milk processing company Miraka Ltd, Skills International Limited, and Silver Fern Farms Limited.

Tom Campbell

Director since 2018

Tom had a distinguished career in New Zealand and overseas with the Rio Tinto Group of companies, including serving as Managing Director of Comalco's operations in New Zealand and in the United Kingdom, and Global Head of Research and Technology for Rio Tinto Alcan based in Canada. Tom now works as a full time independent director currently serving on the boards of Todd Corporation and PowerNet. He is also Chair of Electricity Invercargill, and Chair of Southern Generation Ltd.

Jane Taylor

Director since 2019

Jane is a Queenstown-based barrister, professional director and independent hearings commissioner, with a 35-year career in law, accountancy and finance. Jane is currently Chair of Orion New Zealand, Manaaki Whenua Landcare Research and Predator Free 2050 Limited. She is also a Director of Silver Fern Farms and OTPP New Zealand Forest Investments and Deputy Chair of the External Reporting Board (XRB).

Bob Fulton

Director since 2020

Bob has spent the majority of his 30-year engineering career with roading and infrastructure company Fulton Hogan – in both operational and executive management roles. Bob was appointed a Fulton Hogan Director in 2008 and serves on the boards of its subsidiary land development companies, which develop commercial and residential property in Christchurch and greater Auckland. He is also a Director of Dunedin's Blackhead Quarries Limited and Horokiwi Quarries Limited.

Paul Rea:
Creating value as Chair

Paul Rea has been on the Port Otago Board since 2011, but he took on the role of Chair in December 2019, just in time for everything to be turned upside down.

What value do you bring to the Board?

I hope a passion for the region and a big picture outlook. I am a Southern boy through-and-through, having graduated from Otago University, let's not talk about how long ago, and now call Arrowtown home. Between university and joining the Port Otago Board, I worked for Mobil in New Zealand and internationally in far flung places like Guam, Malaysia, Egypt, the United States and Australia. I hope this work has afforded me a global perspective. I try to create value by bringing my international perspective to Board discussions on the port's place in the value chain.

To say 2020 has been a challenging year is an understatement. What do you think lies ahead for the port?

I'm confident of a bright future for the port, not least as we get closer to our stakeholders. Teamwork has been essential during our response to the pandemic and we all pulled together, continuing our solid service to the exporters in Southland and Otago. We actually communicated with customers more than ever before. Through this direct communication, and the materiality survey we conducted for the first time this year, we are listening more carefully to our stakeholders. We are also better responding to their needs, but there's always room for improvement. The Board and Leadership Team are building a strategy to deliver on the priorities our stakeholders have identified. It will create added value for the community at a time when every business is trying hard to get back on track after a difficult lockdown period.

Does the port need to change course on any issues?

Yes, on a few. One issue where we need to pick up our game is climate change. But we need to be clever about it. Our direct greenhouse gas emissions are evident. Initiatives such as electric vehicles and hybrid straddles can help to mitigate this. However, it is our indirect carbon footprint, through the supply chain, where we can and are making a difference. Greenhouse gas emissions from trucking, shipping and other transportation, including rail, are where we should focus our energy. Our stakeholders also told us we have been unfairly allocating wharf capacity. They also said that workplace culture and our performance as a considerate neighbour are important to them. These, and other material issues, are in our sights and will be addressed as the port embarks on our sustainability journey.

Jane Taylor:
Creating value as a Board member

A fifth-generation New Zealander, Jane was brought up in the Coromandel. She "saw the light" in 2001 and moved to Queenstown. With a significant career in law, accountancy and finance behind her, it is not difficult to see what a valuable contribution Jane makes to the Port Otago Board.

What value do you bring to the Board?

I am very focused on co-creating strategy that delivers a sense of purpose and creates long-term sustainable impact. But it has to be the right fit for the organisation. My passion as a Board member is to play a part in progressing the port towards creating not just financial value, but value across all three pillars of people, planet and prosperity. With a long history of governance, finance, legal and resource management experience, I can be quite driven to achieve this goal.

What do you think lies ahead for the port?

The port is vital to the Otago economy, it is part of the lifeblood of the region, and it is an honour to serve the people of this beautiful part of the country. But what a challenging time we have faced recently. Like many industries, the Covid-19 pandemic hit the port in many ways. Its dedicated team and strong financial position really helped to hold things steady. This allowed the port to demonstrate the flexibility, innovation and agility needed to successfully navigate the immediate future as it responded to the pandemic. By focusing on our purpose, we can get right behind our people – our most important asset – and our community, as we transition out of the current recession together and recover. The port will continue to bring enormous value to the region in a multitude of ways, and the substantial dividends we return to our shareholder, Otago Regional Council, are the "icing on the cake".

Does the port need to change course on any issues?

Post Covid-19, we need to tackle the big "elephant in the room", and that's climate change. We know this brings risks as well as opportunities. The need for an effective response to increasing climate volatility is clear for all to see. This will inevitably mean a change of tack to secure our operations and to support our customers and community into the future. Investing in the transition to a low carbon economy, both at the port and across the region, will be critical. We absolutely must get behind New Zealand's national target to achieve net zero carbon by 2050 and – like everything we do in this region, being a competitive bunch – we should aim to out-perform.

Leadership Team

From left: **Kate Walton** (People & Capability Manager), **Craig Usher** (Commercial Manager), **Jodi Taylor** (Executive Assistant), **Deanna Matsopoulos** (Supply Chain Manager), **Kevin Kearney** (GM Operations), **Kevin Winders** (Chief Executive), **Gavin Schiller** (Head of Safety), **Sean Bolt** (GM Marine), **Stephen Connolly** (Chief Financial Officer) and **David Chafer** (GM Property)

Risk

Risk and opportunity directly informed the materiality process. Right at the start, when considering the issues to include in the materiality survey, the risks were the first "port of call". A description of the materiality process can be found on pages 18 to 19. This table shows the risks to the port in some detail alongside the related material issues.

Risk	Material Issues
- Loss of a major customer to a competitor or due to closure - Withdrawal of a shipping line - Covid-19 impacts are ongoing (i.e. delaying the return of cruise ships)	**Financial returns** **Growth**
- Pandemic and terrorism events affecting public safety - Drugs entering the community via our border	**Public health and safety**
- We fail to keep each other safe, due to weakness in our safety culture or lapses in our systems and processes - Natural disasters, such as earthquake and tsunami, posing a risk to the safety of our team	**Workforce safety**
- Increasing extreme weather events – such as damaging storms, higher temperatures and droughts – impacting our customers	**Climate change**
- Impact on wildlife resulting from contamination from port assets or land	**Biodiversity**
- Responding to increasing environmental standards for noise, dust and particulate emissions from ships	**Nuisance**
- Breach of biosecurity requirements impacting the harbour and our wider community	**Biosecurity**

2020 | OUR TEAM / SIX CAPITALS | PORT OTAGO

Capital #1:

Our team

Our priorities

Workforce safety

Workplace culture

Our value creation

A safety culture where our people look out for each other in a high-risk environment so that everyone goes home safely.

Employees who are proud to work for the port, some staying with us for their entire career.

Work ons: Workplace culture; Wellness strategy.

Key metrics

Wages and salaries: $34.7m - up from $34.2m in 2018/19 ✓

Average number of days lost to an LTI: 4.6 days - less than a third of 2018/19's 15.2 days ✓

Average of 30 training hours delivered to each employee ✓

Our stakeholders told us...

"Staff mental wellbeing is critical as we recover from the pandemic, so the port needs to listen to its people more than ever."

Peter Dynes MD, Dynes Transport

"Covid-19 has highlighted the importance of understanding and creating contingencies for critical roles. If a substantial number of roles, such as pilots or tugboat and crane drivers, had been marginalised by the pandemic it may have closed the port's operations."

David Ross CE, Kotahi

People are our most valued asset.

It is our team that makes the port what it is. To us, human capital is our 319 employees with their wealth of knowledge and strong connections. We ensure their health and safety through a strong focus on safety attributes at the recruitment phase, our leadership supported by risk management systems, audits and ongoing training. As Peter Dynes from Dynes Transport reminded us, "the mental wellbeing of our team members is more important than ever, as we recover from the impact of Covid-19". We provide wellbeing support, such as wellness training programmes and free flu jabs, and we listen. We acknowledge that our workforce culture could be better and we are working on improving that.

The materiality survey identified **workforce safety** as the number one material issue facing Port Otago. The company takes workforce safety very seriously. The nature of the business means there are potential serious risks present on any given day. The port is a high-risk environment because of what we do here.

MATERIAL ISSUES:

Workforce safety

- A workplace culture that keeps people safe, manages fatigue and prevents incidents.
- Promotion of health and mental wellbeing, with zero tolerance for drug and alcohol use.

Workforce culture

- An attractive and diverse workplace, where: teamwork is a given; communication is open and honest; there is a genuine focus on the customer; everyone can make a difference; and bullying is not tolerated.
- Constructive union relationships.

"The port's people are part of our community, they are people of Otago and they must have a safe environment to work in."

Andrew Noone
Otago Regional Council Chair

Covid-19 in focus

Our team's response to Covid-19

Covid-19 saw Port Otago's business become highly focused on the essential service of container movements – importing oil, LPG and critical supplies, and exporting the country's primary produce.

The days leading up to Alert Level 4 and the weeks that followed brought out the best in our team and community. Internally, new ways of working were found – and found quickly. Different shifts were broken into independent bubbles. Each bubble came and went from different bases on site and thorough cleans were carried out between shifts. Meanwhile, the Cruise Terminal was repurposed as a massive tearoom and drying room, allowing for plenty of social distancing.

More than 70 office staff were set up with working-from-home stations and the entire workforce found itself having to use technology at short notice. (One happy consequence is that port no longer prints 3,640 payslips annually.)

During Alert Levels 2, 3 and 4, every employee and visitor to a Port Otago site had their temperature taken on arrival. The company also sourced rapid serology test kits to show whether a person has Covid-19 antibodies in their blood, indicating recent exposure to the virus. Having the tests available early April enabled our staff to quickly have a serology test and provide assurance that they did not have Covid-19. This reduced undue stress and worry for our team and their families.

Within the community, suppliers and local businesses went out of their way to help the port continue to operate smoothly.

Workforce safety

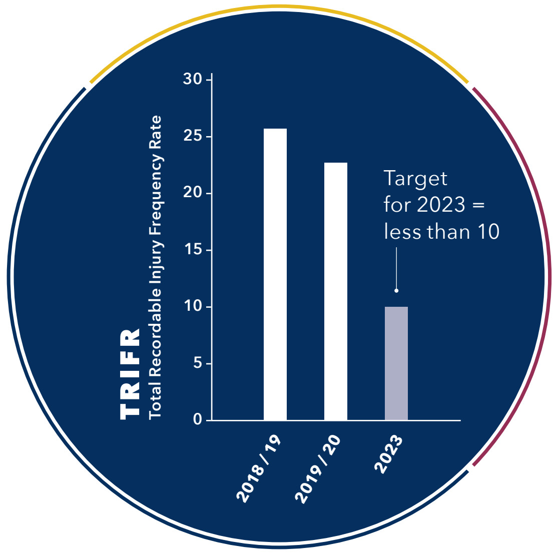
Recorded injury rates

Port Otago is actively taking steps to reduce the Total Recordable Injury Frequency Rate (TRIFR). The rate during 2019/20 was 22.7 per million hours worked compared to 25.7 the previous year. The target is a rate of less than 10 by 2023.

The TRIFR includes all lost time, medically treated and light duty injuries.

We recorded 11 Lost Time Injuries (LTI) during 2019/20, compared to 14 the previous year. (LTI is an injury where the employee is unfit to attend work to perform any duties).

There were zero maritime security non-conformances during the year, compared with two in 2018/19. The target is zero. Our security team has lifted Port Otago's standards across the board with Security Manager Trish Rigby leading the change, in both behaviour and focus for our team. (A non-conformance is a security system deficiency, measured against the Maritime Security Act during an annual audit.)



Tip alerts dramatically reducing risk

It's been two years since Port Otago installed software that records and shares information on straddle carrier tip alerts.

The potential for a 60T straddle carrier to tip over and kill or seriously injure someone is a very real risk. Previously, manufacturer sensors alerted drivers if they breached a stability threshold, based on speed, turning radius and spreader height/weight. However, the alert was only heard by drivers in the straddle cabs.

The software installed in the company's 15 straddle carriers in May 2018 automatically records and shares the tip alert data with shift supervisors. Red tip alerts – the most extreme alert level – dropped from 350 alerts per week to less than five in 2018/19. This low level of alerts has been continued into 2020.

The impact of this safety measure is so dramatic that the default metric is now the more positive "average alert-free days per month". Alert-free days did not exist two years ago. Now, the average number per month is down at 17.

Eliminating people vs machine risk

Port Otago is continuing the installation of hard barriers to eliminate people vs machine risk.

Where cones previously separated pedestrians from trucks, forklifts and light vehicles, now concrete barriers, weighing in at one tonne per metre, do the job.

The programme of work began at the company's Dunedin Depot and extended to the Port Chalmers terminal area during 2019/20. The project will have cost $960,000 by the time it is completed later this year.

Port Otago Process Improvement Leader Ben Mulvey says engineering out the risk reduces the opportunity for human error. "When people work next to moving vehicles every day, they can become normalised to the risks. The hard barriers clearly define and separate areas, allowing a clear time-separated handover between pedestrians and machines."

In addition to the hard barriers, retractable net gates provide a bold visual indicator to alert both drivers and pedestrians of the status and accessibility of specific work areas.

This pedestrian safety initiative received positive recognition when presented at the Port Otago-hosted Port Industry Association conference in August 2019 and again when it was shared with the Container Park Industry Group.

Taking steps to reduce fatigue

Closely aligned to workforce safety is reducing the risk of fatigue in our team. In the past year, significant initiatives were actioned: a new roster system was rolled out company-wide, a fatigue risk management system and working group were created, and a fatigue expert was appointed.

Dr Matthew Thomas is one of Australia's leading experts in safety management in high-risk work environments. He has worked with other maritime and airline organisations, including Ports of Auckland, South Port, the Australian Maritime Safety Authority and several Australian ports. Dr Thomas has been appointed to review the port's Fatigue Policy, rostering and training, in relation to our operation's fatigue-risk profile.

With safety its primary benefit, TimeTarget software helps Port Otago's workforce planners manage the risk of staff fatigue. Data is being analysed – with the assistance of Dr Thomas – and rules around maximum working hours and minimum shift breaks applied. TimeTarget also improves transparency around shiftwork – a feature appreciated across the team.

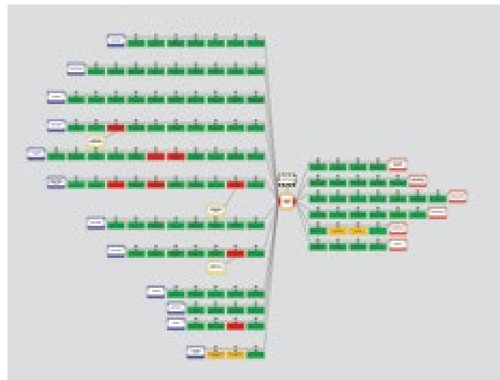
A fatigue working group was formed during the year, made up of representatives from the Maritime Union of New Zealand, the Rail and Maritime Transport Union, the port's People and Operations teams and Dr Thomas. This working group meets monthly and one of its critical tasks is designing a fatigue risk management system for Port Otago.

Bowtie risk assessment

Back in 2017, Port Otago embarked on the development of bowtie risk assessments to help the company control critical safety risks.

Bowtie risk assessments involve identifying critical hazard threats and their potential negative outcomes. Specific scenarios that could trigger that hazard are then documented and finally, preventative steps are identified and actioned. Visually, the assessment documentation looks similar to a bowtie.

Initially, 15 critical risks were identified at Port Otago and since the process began another seven have been added. At 30 June 2020, all 22 bowtie assessments were complete. Our bowtie risk assessments are reviewed monthly by our internal safety committee and they are formally audited annually by an internal safety team.



Workplace culture

Encouraging gender diversity

During the past year, Port Otago consciously altered its recruitment approach to encourage more women to apply for traditionally male-dominated roles, in particular cargo handlers and forklift operators.

Our cargo handlers predominantly drive cranes, straddles and sideloaders, but are required to undertake the physically-demanding aspect of the role, lashing bars on container vessels. This traditional prerequisite, having significant physical strength, prevented some female candidates progressing through the selection process, so in January 2020, this task was removed from the role for females.

Print and social media advertising was redesigned to catch the attention of both men and women. While Covid-19 saw recruitment suspended across the company, in the early days of the campaign, we saw a 5% increase in the number of women applying for cargo handler and forklift operator roles.

Company-wide, 35% of all new recruits during the financial year were women, compared to 30% the previous year.

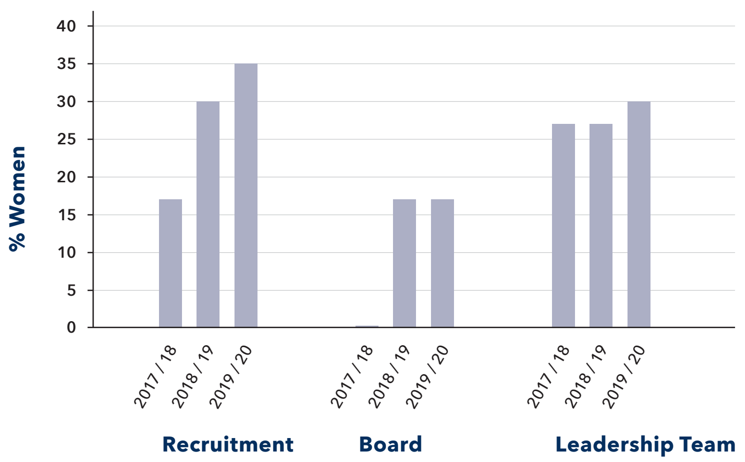
Port's wellness education programmes popular

The 2019/20 year saw Port Otago roll out three new wellness education programmes.

Drug awareness training attracted 193 employees, while 263 people attended manual handling training. Another 64 individuals took the opportunity to train in a lifesaving first aid programme.

These new training opportunities were in addition to existing programmes: Employer Assistance, Quit Smoking, free flu vaccinations and the voluntary drug and alcohol rehab programme.

With Easter falling during lockdown, the company provided a wellness package to all staff, which included a leg of lamb – a well received and timely pick-me-up for the team.



Strategy for a better business

Our part in the bigger picture

The port's value chain extends our contribution from our local community out to the world and everything in between. We want to play our part. As we develop our *Strategy for a better business*, we are trying to think "bigger picture", using the United Nations Sustainable Development Goals (SDGs)*. We will integrate the SDGs most relevant to our team into Port Otago's goals and targets:

- SDG3 Good health and wellbeing
- SDG5 Gender equality
- SDG8 Decent work and economic growth

What the future holds

By applying *Integrated Thinking*, we are setting goals and incremental targets to optimise the following value creation for *our team* in our *Strategy for a better business*:

- A safety culture where our people look out for each other in a high-risk environment, so that everyone goes home safely
- Employees who are proud to work for the port, some staying with us for their entire career
- Launching a company-wide wellness programme during 2020/21
- We will continue to work on: Workplace culture; Wellness strategy.

* More information on the SDGs can be found via this link: ***https://sdgs.un.org/goals***

Capital #2:

Our wider team

Our priorities

Customer, partner and supplier relationships

Public health and safety

Our value creation

A good neighbour to our community and iwi, respecting what is important to them for our social licence to operate.

A strong central link in the value chain, connecting our customers, partners and suppliers from Otago to the world, for mutual growth.

Work on: Customer relationships.

Key metrics

Container and bulk cargo vessel arrivals: 2020 = 476; 2019 = 458 ✓

Gross crane rate : 25.5/hour down from 26.0/hour in 2018/19 ✗

Bulk cargo volume: 1,467,000T – down from 1,764,000T in 2018/19, due mostly to the impact of Covid-19 on the log sector ✗

Our stakeholders told us...

"Our meetings with the port to share strategies allow us to identify future work opportunities as their supplier and suggest solutions."

Grant Sime
Regional Manager, Fulton Hogan

The port relies on its wider team to make things happen.

Our team works with the community, iwi, customers, partners, suppliers, shareholder and regulators to keep exports and imports flowing in a way that works for everyone, including our harbour. In our materiality process, we interviewed 20 members of our wider team and gained exceptional insights into what is working well and what we could improve.

We are developing our *Strategy for a better business* and this stakeholder feedback is central to the strategy's goals. A key observation during our pandemic response was that any positives are "gold". One such positive was how our customer relationships seemed to take a step in the right direction during that time. We stepped up our communication, pulling together to deal with Covid-19. Our customers appreciated the increased communication and want it to continue. They want a closer relationship with the port. We see this as an opportunity to make it part of our strategy.

The port also has a lot to learn from its community and iwi. We have been getting better at listening over time and appreciate their insights. The silencing of the Rio class vessels was an example of this. We heard the community's very real concerns and worked with the shipping line to solve the problem at source.

MATERIAL ISSUES:

Customer, partner and supplier relationships

- Strategic partnerships with shipping lines and landside operators.
- Customer relationships to understand their businesses and move cargo in the most cost-effective way.
- Resilient and sustainable supply chains that allow for growth.

Public health and safety

- Playing our part in the prevention and response to public health issues, such as Covid-19.
- Acting quickly and communicating effectively (in partnership with others) to protect our team and the public.
- Protecting our region from drug importation and terrorism activity.

"'Turn your head and look at the harbour' would be a powerful precursor to everything the port does."

Edward Ellison
Upoko
Te Rūnanga o Ōtākou

Covid-19 in focus

Keeping the public safe

The year 2020 shone a spotlight on public health and safety, with the challenges thrown at us by Covid-19.

While public safety has always been a priority for the port – in particular protecting our borders and the public from illegal drug importation and terrorism activity – public health became material for us all. Our materiality process gave us some confidence that we are on the right track. We will take what positives we can from the response and recovery effort and continue to place a priority on this.

"Continue to be responsive with protocols in place for the safety of staff, the community and the country."

Tony Gray
Works Manager
Ravensdown

Customer relationships

$2.9 million investment in log business

Port Otago responded to log customer requests to invest in wharf infrastructure to support their industry. Ernslaw One's Phil De La Mare would say it's long overdue.

Supply chain costs for Otago-sourced wood to move through to Dunedin and Port Chalmers was a lower cost, but capacity was constrained. In 2018, the Board approved relocating Icon Logistics from the Dunedin Bulk Port, freeing up the site for redevelopment into a 3.4 hectare purpose-built log-scaling facility. The site caters for up to 10 trucks off the road, plus additional log storage space.

The $2.9 million investment delivered immediate benefits, including removing trucks from Fryatt Street, thereby reducing congestion and improving safety for both our team and the wider community.

The resurfaced hardstand and associated improvements effectively doubled log capacity at Dunedin Bulk Port, and a second stage of the project will provide another 0.4 hectares of space by November 2020.

Volumes through the Dunedin Bulk Port were progressing strongly pre Covid-19 as customers - including Port Blakely and Ernslaw One - took advantage of the additional space.

Community and iwi engagement

Community embraces new fishing jetty

The most popular port activity during 2019/20 was the December opening of the $820,000 Boiler Point Fishing Jetty at Careys Bay.

The jetty quickly became a favourite spot for both West Harbour locals and anglers from further afield. The jetty sits alongside the Otago Harbour's deep lower channel, so fish such as blue cod and salmon are regular catches and even a 25-pound king fish was caught from the jetty.

The jetty is a handsome piece of engineering, built by Dunedin's Action Engineering and overseen by Port Otago Infrastructure Asset Engineer Jon Visser.

Port Chalmers local Warren Lewis describes the jetty as absolutely magnificent. "It would be the most utilised amenity on the whole of the Otago Harbour. It's just brilliant watching kids with their Warehouse rods fully bent, with massive smiles on their faces."

Port Otago also took the opportunity to upgrade the Boiler Point Walking Track so that people in wheelchairs can fish from the jetty. There are plans to improve the car park and construction of new public toilets is underway.

New Zealand's first wildlife ambulance

Not long before the Covid-19 lockdown, Port Otago boosted its support of the Wildlife Hospital Dunedin by supplying a new $30,000 electric Nissan e-NV 200 van to be used as a Wildlife Ambulance.

Hospital Manager Jordana Whyte says staff previously used their personal vehicles for animal transport and hospital-related activity. "Now we use the van to transport our patched-up patients back to freedom in their native habitats. On occasion we also need to treat patients out in the field, such as sea lions, and having a van is useful to haul all of the necessary field equipment."

Jordana says the vehicle being electric is brilliant. "We always keep radios off and any talking to a minimum when we're transporting animals, so it's great to have the vehicle itself quiet, too.

"Moreover, it really fits with our sustainability ethos, which is one of our core values."

Since the hospital opened more than two years ago, Port Otago has committed $15,000 annually towards underwriting a vet nurse salary. But Port Chief Executive Kevin Winders says it was clear the hospital's success meant operations were under real pressure.

"We wanted to do more – something that would substantively help the hospital and its hard-working team. As it happened, we were beginning to upgrade our fleet of light vehicles to electric and, after speaking with the hospital team, a dedicated ambulance seemed a perfect fit. From both a practical and wider environmental perspective, it's ideal that the van is electric."

Port Otago covers all of the van's associated costs, leaving hospital funding available for its core activity of treating and caring for wildlife.

Launch of port Facebook page

Port Otago launched a Facebook page in October 2019, with the primary goal of improving communications with its immediate community.

The page is well supported by locals and enjoys high levels of engagement. The average engagement rate across the 30 posts that ran between 1 April and 30 June 2020 was 17% - well above industry averages. The most popular content relates to the port's involvement with the community, so we are planning to boost that content even further.

The page has also been invaluable for communicating at short notice. For instance, alerting neighbours if a noisy vessel is due to berth and – most popular of all – the Boiler Point Fishing Jetty's opened/closed status alerts, which are required during periods of high wind.

Aware that not everyone is on Facebook, in April 2020, Port Otago also began sharing relevant news and stories via West Harbour's monthly community newsletter, the Rothesay News.

Te Rauone Beach project reaches resource consent phase

For nearly 10 years, Port Otago has been working with the Te Rauone Beach Coast Care Committee, Te Rauone Incorporation, Otago Peninsula Community Board and Te Rūnanga o Ōtākou to restore and develop Te Rauone Beach.

Reaching consenting stage in June 2020 was an important milestone for the project. Of the 365 submissions received in relation to the consent, only two opposed and there was one neutral.

In consultation with coastal engineers Beca and the community, Port Otago plans to build three rock groynes in a configuration to sustain the new amenity beach. This will ensure future generations can enjoy the beach, including viewing shipping up close from the vantage point offered by the beach.

Chief Executive Kevin Winders says the project has taken time to get right. "It's great to be getting to the start line. It is in our shared interest to preserve the long-term health of the harbour, while balancing the commercial needs of our region. This project ensures Te Rauone Beach is sustained, so our grandchildren can enjoy fish and chips on the beach with their family, just like the generations before them."

In addition to Port Otago's work, Dunedin City Council will upgrade the Te Rauone Beach Reserve.

Te Rauone Beach Coast Care Committee member Des Smith says that, while it has been a challenging long-term project, he believes the outcome will be a great amenity for the wider Dunedin community.

"Re-establishing this area as a place for people of all ages to enjoy will be a major achievement. Activities such as observing bird and wildlife, swimming, diving, kayaking, walking, picnicking and cockle gathering will appeal to a wide cross section of the community and the many visitors to the city."

Port Otago sponsorships

Port Otago sponsored 35 different groups during 2019/20. The key sponsorships were the Swim Schools at $25,000, Orokonui Ecosanctuary at $10,000, and the Wildlife Hospital Dunedin, which included $15,000 towards a vet nurse salary and full use of the wildlife electric ambulance.

In addition, six more shipping containers were distributed out into the community for uses as diverse as a bicycle repair workshop, museum restoration storage and housing the golf club's green keeping equipment. That brings the total number of containers out and about to 10.

Port Otago also supports staff embarking on fundraising activities – either within the company or in their own time. During 2019/20, staff raised $7,457 for charities including the Neonatal Trust, Movember, New Zealand Breast Cancer Foundation, Steptember and Multiple Sclerosis New Zealand. Port Otago matched these efforts, dollar for dollar.

Public health and safety

Rio class ships silenced

The Rio Class vessels calling at Port Chalmers were silenced, following completion of an "at source" solution by shipping company Maersk.

These particular vessels came into circulation in New Zealand in November 2018, but were found to have a low-frequency "rumble" emitted by the ships' generators. The noise issue was especially obvious in Port Chalmers, because it is the last New Zealand port on Maersk's Southern Star service and the vessels were fully laden with up to 1250 refrigerated containers by this point.

In the final weeks of 2019, Maersk completed its project of retro-fitting a silencer on the primary generator of each of the six ships in the service. This removed the rumble and reduced noise by more than 20 decibels – so much so, that the Rio Class vessels became one of the quietest ships visiting the New Zealand coast.

Chief Executive Kevin Winders was grateful to the local community for their patience. "It was a very real issue which disrupted the lives of many people. The community was patient and trusted that we did have a solution and allowed us the time to make it happen. The reduction in decibels was beyond our expectations and I couldn't have been happier. I had to 'not hear it' before I believed it."

Maersk Fleet Group Manager Clyde Peres said it had been a complex exercise finding the right solution, requiring both in-house expertise and external consultants. The logistics of getting the silencers transported from Europe to Singapore and the installation on board the six Rio vessels without disrupting the Southern Star service also required careful coordination by the extended Maersk team.

Port sponsors schools' swim lessons

A seed was sown last year, when Port Chalmers Primary School approached Port Otago to sponsor swimming lessons.

Port Otago took the school's great idea and boosted it to the next level by supporting not only Port Chalmers Primary, but another five West Harbour schools – Sawyers Bay, St Leonards, Rudolf Steiner, St Joseph's and Ravensbourne schools.

Executive Assistant Jodi Taylor explains: "Port Otago already sponsors a range of water sports for teens, from rowing to sailing. We live in a harbour community, surrounded by water, so it's important we encourage young children to learn how to swim."

The schools continue to run their two-term swimming lessons, as usual, at the pool of their choice. But Port Otago pays the lesson fees – a total of about $25,000 for the year. About 400 children are attending the lessons, each with a flash new swim bag from Port Otago, to carry their togs and towels.

Right: *Local primary school children (from left) Daisy Olsen, Monty Olsen, Emily Mears and Eli Olsen with their new swim bags.*

Flagstaff Hill stabilised

For the first time in 20 years, vehicles, pedestrians, cyclists and trains can now all use Beach Road at the same time.

Fifty-five metre high Flagstaff Hill had a long history of slipping, so last year a series of terraces was formed on the hill's problematic east and northeast faces (which are owned by Port Otago). An incredible 47,735m3 of earth – 3731 truck and trailer units – was removed over four months. Contractors Fulton Hogan and our own infrastructure team did a great job - on time, within budget, no community complaints or safety incidents, and smoothly managed.

The $3 million project concluded in May 2020 with the planting of 1000 native bushes on the upper terraces.

Port Otago buildings now asbestos free

Port Otago has spent $3.42 million over the past two years removing asbestos from all buildings, following inspection and development of an asbestos management plan. The total investment included asbestos removal and demolition costs relating to the Fryatt Street sheds, Port Chalmers terminal site buildings and five houses on Flagstaff Hill.

Commitment to safety code

Port Otago remains committed to the Port and Harbour Safety Code (PHSC) – a voluntary national standard developed by Maritime New Zealand, regional councils and New Zealand's port companies.

The code's objective is to ensure maritime safety while ships are navigating in New Zealand ports and harbours. This includes the prevention of injury to people, loss of life and damage to the marine environment.

In addition to an annual self assessment – carried out in conjunction with the Harbour Master and signed off by the PHSC secretariat – each port is audited every four years. Port Otago passed its last audit in 2019.

Strategy for a better business

Our part in the bigger picture

As we develop our *Strategy for a better business*, we will integrate these SDGs most relevant to *our wider team* into our goals and targets:

SDG17 Partnerships

SDG11 Sustainable cities and communities

SDG3 Good health and wellbeing

SDG4 Quality education

What the future holds

Applying *Integrated Thinking*, we will set incremental targets to optimise the following value creation for *our wider team* in our *Strategy for a better business*:

- A good neighbour to our community and iwi, respecting what is important to them for our social licence to operate
- A strong central link in the value chain, connecting our customers, partners and suppliers from Otago to the world, for mutual growth
- We will continue to work on: Customer relationships.

* More information on the SDGs can be found via this link: ***https://sdgs.un.org/goals***

Capital #3:

Our harbour and beyond

Our priorities

Climate change

Our value creation

A light touch to preserve or enhance our beautiful harbour, taking care with dredging.

Understand what has changed and what we need to improve by listening to our community and iwi.

Play our part in achieving New Zealand's goal of net carbon zero by 2050.

- **Work ons: Noise emissions; Climate change targets.**

Key metrics

Impact of dredging: Seagrass continues to be in good health ✓

Noise complaints:
88* = 2019/20;
119 = 2018/19
(*Rios were only silenced halfway through financial year) ✗

Our stakeholders told us...

"Better understand the port's impact on the fragile and vulnerable ecosystem of the harbour."

Edward Ellison
Upoko, Te Rūnanga o Ōtākou

"Catch up with customers on climate change."

Craig Leishman
Head of Logistics, Danone

Creating and preserving value

> **"The port has a unique opportunity to shape a new BAU that does not overshoot the capacity of the environment."**
>
> **Francisca Griffin**
> West Harbour Community Board Chair

At Port Otago, we appreciate working in such a unique and beautiful environment. It is our responsibility to preserve and enhance it. This brings challenges and we value the insights from our community and iwi to help us understand what we need to improve. As we develop our *Strategy for a better business*, part of our work is to establish a baseline. For this, we need to build on our existing monitoring to improve the picture of how best to protect the environment.

Climate change was a recurrent theme in conversations with our stakeholders as part of the materiality process – and rightly so. Edward Ellison, Upoko, Te Rūnanga o Ōtākou told us that: "The port, in fact any company, shouldn't be able to do business without a clear strategy on how to reduce climate change impacts." Edward's message is spot on. The port needs a clear strategy based on sound data and we have engaged Toitū Envirocare to better understand our carbon footprint.

Creating and preserving value from our environment, however, is not just about climate change. Also covered in *our wider team*, the port's work on biodiversity includes the Te Rauone Beach Project and our support of New Zealand's first wildlife hospital.

Minimising nuisance, such as noise and traffic, is also important. Efforts in the past year include working with Maersk to address the Rio Class ships' noise levels, stabilising Flagstaff Hill and the roll out of our Vehicle Booking System which reduces traffic congestion.

Biosecurity is part of any port's DNA – the role of protecting our nation's borders from potential risks. But the arrival of Covid-19 has highlighted that biosecurity is not a narrow, isolated part of the business. It overarches security, the safety of our own people and community, and the importance of robust protocols. This has prompted a change in our thinking – a change we believe is for the better.

MATERIAL ISSUE:

Climate change

- Understanding, measuring and reducing the operation's carbon footprint.
- Moving to a lower emission fleet (straddle, side loaders and light vehicles), LED lighting and other energy efficiency measures.
- Planning for increasingly common extreme weather events.

2020 | OUR HARBOUR AND BEYOND / SIX CAPITALS | PORT OTAGO

Covid-19 in focus

During the response to Covid-19, things slowed down, some even stopped, as was necessary to fight the pandemic. While we were extremely busy at the port keeping goods moving, our stakeholders reminded us to take this opportunity to reflect on our approach. They encouraged us to think about how we might change our Business As Usual (BAU) to benefit the environment.

Edward Ellison, Upoko, Te Rūnanga o Ōtākou articulated what many had noticed: "Nature has shown us its resilience given the chance, with the community seeing wildlife return extremely quickly as pollution and noise reduced during lockdown."

This challenges us to think about how we can preserve some of this change for the better.

Climate change

Sustainability manager appointed

In February 2020, Carolyn Bennett was appointed to the newly created role of Sustainability Manager.

"As project lead for sustainability, I ensure community-minded practice and social responsibility across the port. The best way to do this is to get everyone thinking this way. We call this Integrated Thinking and kick-started this in a big way with our materiality process, getting into Integrated Reporting and developing our *Strategy for a better business*.

"It's a lot more than the environment. There are essentially three key aspects: people, planet and prosperity. Each requires the other, if the business is to be sustainable. Basically, the port must balance meeting the needs of the present, without compromising the ability of future generations to meet their needs."

Port embarks on carbon footprint assessment

Port Otago has engaged Toitū Envirocare to carry out a carbon footprint audit and provide ongoing advice.

Toitū Envirocare provides the tools we need to start our carbon reduction journey, including independent audit and third party certification which is key for our customers.

The carbon footprint will provide a baseline to identify the most effective initiatives and feed into our *Strategy for a better business.*

In May 2020, an external auditor reviewed Port Otago's energy usage for the 2018/19 financial year. The audit investigated all energy areas – electricity, diesel and LPG – and included marine assets.

Facing page: **Port Otago's Project Footprint team (from left):** Infrastructure Asset Manager Jon Visser, Process Improvement Manager Ben Mulvey, Sustainability Manager Carolyn Bennett, Project System Accountant Stuart Officer, Facilities Manager Kirsten Chamberlain, Environmental Manager Rebecca McGrouther and Dunedin Depot Supervisor Jamie Coppins.

Introducing Project Footprint

Port Otago formed the Project Footprint team in April 2020, with the object of leading the company's sustainability efforts.

To date, the team has concentrated on measuring and collecting data, with the goal of understanding the company's carbon footprint, energy usage, waste and recycling.

Sustainability Manager Carolyn Bennett explained: "Our area of influence is 'gate to ship' – i.e. how we can make positive changes for the environment from the time goods come through the gate, to when they are placed on the vessel, and vice versa. Once we get that on track, we can expand our horizons to consider potential ways to influence our customers, partners and suppliers."

Port Otago is in the early stages of organising its sustainability work, but once the company's *Strategy for a better business* is finalised, the Project Footprint team will lead relevant projects. Our internal and external stakeholders informed this strategy with their priorities, through our materiality process, also helping to guide our review of sustainability-related opportunities across the company. Our planned stakeholder advisory panel will provide ongoing valuable input on strategy and performance.

Project Footprint will also oversee several existing projects, including the port's plans to progressively upgrade its mobile plant fleet (straddle carriers, side loaders and forklifts) to new energy-efficient power sources. Currently, most of the mobile plant is diesel-powered, but Port Otago is monitoring lithium ion and hydrogen fuel technology for its suitability in the medium term.

Prior to Covid-19, Port Otago had begun upgrading its light vehicle fleet to electric. This fleet is used to move people, repair and maintenance items, and for security patrols. With an ageing fleet, it was timely to transition. This project is now on hold, until car import channels return to normal.

LED lighting rolled out

At 30 June 2020, $258,000 had been spent upgrading LED lighting across 90% of Port Otago's warehousing operations and 15% of the Port Chalmers floodlighting towers.

Until recently, the technology and economics of converting to LED lighting was not suitable for the port environment. However improvements in technology, combined with the ageing nature of our existing floodlighting, made conversion a smart business decision, both in financial returns and in lowering our carbon footprint. Initial focus has been on replacing warehouse lighting for the greatest gains in light quality and financial savings. Converting floodlighting towers to LED is a more complex undertaking. This is due to issues with the existing tower structures and control systems which are being worked through tower by tower.

Annual financial savings are currently estimated at $43,000, which includes reduced power usage and fewer bulb replacements. Other benefits include dramatically improved light quality, less heat emission (valuable in the cold stores), instant light (metal halide lighting required 15 minutes to warm up) and vastly reduced maintenance requirements due to the longevity of LED lights.

In addition to the installation of the lights themselves, smarter control systems are also being rolled out, such as dimmers, motion sensors and daylight switches.

Waste audits underway

Project Footprint team members began site waste audits in May 2020. By late 2020, all sites will have been audited for both volume of waste and accuracy of recycling.

Sustainability Manager Carolyn Bennett says the initial audits are as much about education, as waste management. "We're talking to people about how they can reduce their waste and identify what can be recycled. This is something that our team can get behind and see progress on, helping our Integrated Thinking with a little momemtum and tangible results."

Alongside these measures, contractor Waste Management is providing data on the weight of rubbish and recycling skips, so trends can be monitored at a company-wide level. The data will then be analysed for opportunities and challenges, before development of a Port Waste Plan.

Port Otago has also been working with Anchor to reduce milk bottle wastage, given the company consumes an average of 1000 litres of milk each month. Changes include Anchor now removing empties and recycling them into a new life as milk crates.

First vehicles join fleet

Late last year, Port Otago purchased two hybrid Rav4 vehicles to transport pilots the 810km round trip between Dunedin and Milford Sound.

In a normal season, Port Otago is responsible for piloting cruise ships in and out of Fiordland and our Port Chalmers-based pilots travel down. Given the remote location, electric vehicles were not practical, but the hybrid mix of electric and fuel was perfect.

The Milford Road is a notoriously tricky length of highway, made more so by winter conditions. The AWD vehicles proved their worth early on, when they successfully joined the advance convoy of vehicles allowed through the closed Milford Road in February 2020.

Biodiversity

Seagrass beds in good health

Since 2013, Port Otago has regularly surveyed the health of the seagrass beds.

The seagrass species zostera muelleri (subspecies novazelandica) is surveyed at two sites within the Otago Harbour – at West Harwood and North Harwood – and at a reference site in Papanui Inlet, which is on the south side of the Otago Peninsula and unaffected by dredging activity.

Seagrass beds are ecologically significant, because they provide nursery grounds for many intertidal invertebrates and fish, as well as feeding areas for birds and fish. Fine sediment that can be disturbed during the dredging process has potential to smother these grass beds and cause damage.

Each Port Otago survey site is independently monitored for changes across six metrics. These are average percentage cover of seagrass, grass blade length, shoot density, average seagrass biomass, sediment quality and substrate composition.

The surveys are undertaken by environmental consultancy Ryder Environmental and the most recent results are from November 2019. These results are in line with the previous seven years' results – that dredging has little, if any, impact on seagrass health.

As the independent survey report states, the changes are the opposite of what would be expected, if dredging was adversely affecting seagrass cover: "As with average percentage cover and average blade length, the long-term trends in average shoot density are the opposite of what we would expect if dredging was adversely affecting seagrass. The data show that seagrass shoot density has increased slightly since 2013 at both Harwood sites and remained the same or decreased very slightly at the Papanui Inlet site. These results indicate that dredging is not adversely affecting seagrass shoot density."

Nuisance

Noise complaints

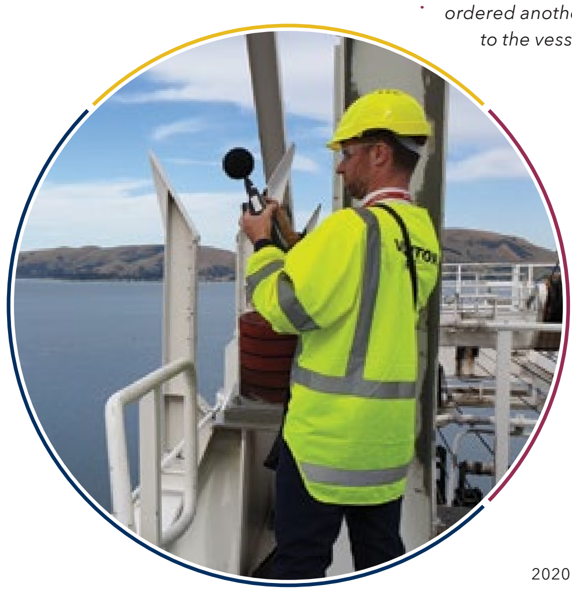
Complaint type	2019/20	2018/19
Vessel-related noise	77	105
Non-vessel noise	11	14

Port Otago spent $68,000 on noise monitoring and data collection, so we could quantify the extent of the Rio Class noise issue for our community.

That data was used to progress our ultimately successful conversations with the ships' owner, Maersk, who then invested several million dollars installing silencers in all six ships.

The table above summarises the past two financial years' noise complaints. The "Vessel-related noise" numbers – a total of 182 complaints across both years – were all in relation to the low-frequency rumble typical of the Rio Class ships. Please note the Rios were only silenced halfway during the financial year, thus the figures are still high in the 2019/20 column.

*[**Note:** This year, a new vessel to Port Chalmers – the Monte Rosa – is emitting a similar low-frequency rumble. Maersk has ordered another silencer, which will be fitted to the vessel late 2020.]*



Biosecurity

Successful "bomb threat" exercise

One quiet Wednesday afternoon in June 2020 turned into a real-life bomb threat exercise, after a suspicious package was spotted in the water close to the supporting piles of our Multipurpose Wharf.

The package was a rectangular box with protruding wires and an aerial – i.e. it was very "bomb like". The team quickly determined the package to be neither a hoax nor a drill. Security Manager Trish Rigby led the Emergency Response Plan (ERP) process, working through risk assessment and best course of action. The Container Terminal and Beach Street Wharf were cleared of personnel and the incident was escalated to the Police and Harbour Master.

It transpired that the package was a wayward NIWA weather balloon and therefore not dangerous. But the exercise provided a great live test of our ERP – and the team passed the test well.

Strategy for a better business

Our part in the bigger picture

As we develop our *Strategy for a better business*, we will integrate these SDGs most relevant to *our harbour and beyond* into our goals and targets:

- SDG14 Life below water
- SDG15 Life on land
- SDG7 Affordable and clean energy
- SDG12 Responsible consumption and production
- SDG11 Sustainable cities and communities

What the future holds

Applying *Integrated Thinking*, we will set incremental targets to optimise the following value creation for *our harbour and beyond* in our *Strategy for a better business*:

- A light touch to preserve or enhance our beautiful harbour, taking care with dredging
- Understand what has changed and what we need to improve by listening to our community and iwi
- Climate Impact Report
- We will continue to work on: Noise emissions; Climate change targets.

* More information on the SDGs can be found via this link: ***https://sdgs.un.org/goals***

Capital #4:

Our know-how and skills

Our priorities

Innovation

Our value creation

A considered approach to the future, learning from the past and what others do.

A talented workforce with an ability to learn and a wealth of knowledge.

Improved productivity and resilience by embracing new agile and efficient ways.

Work on: Digitisation.

Key metrics

TimeTarget has enabled: ✓

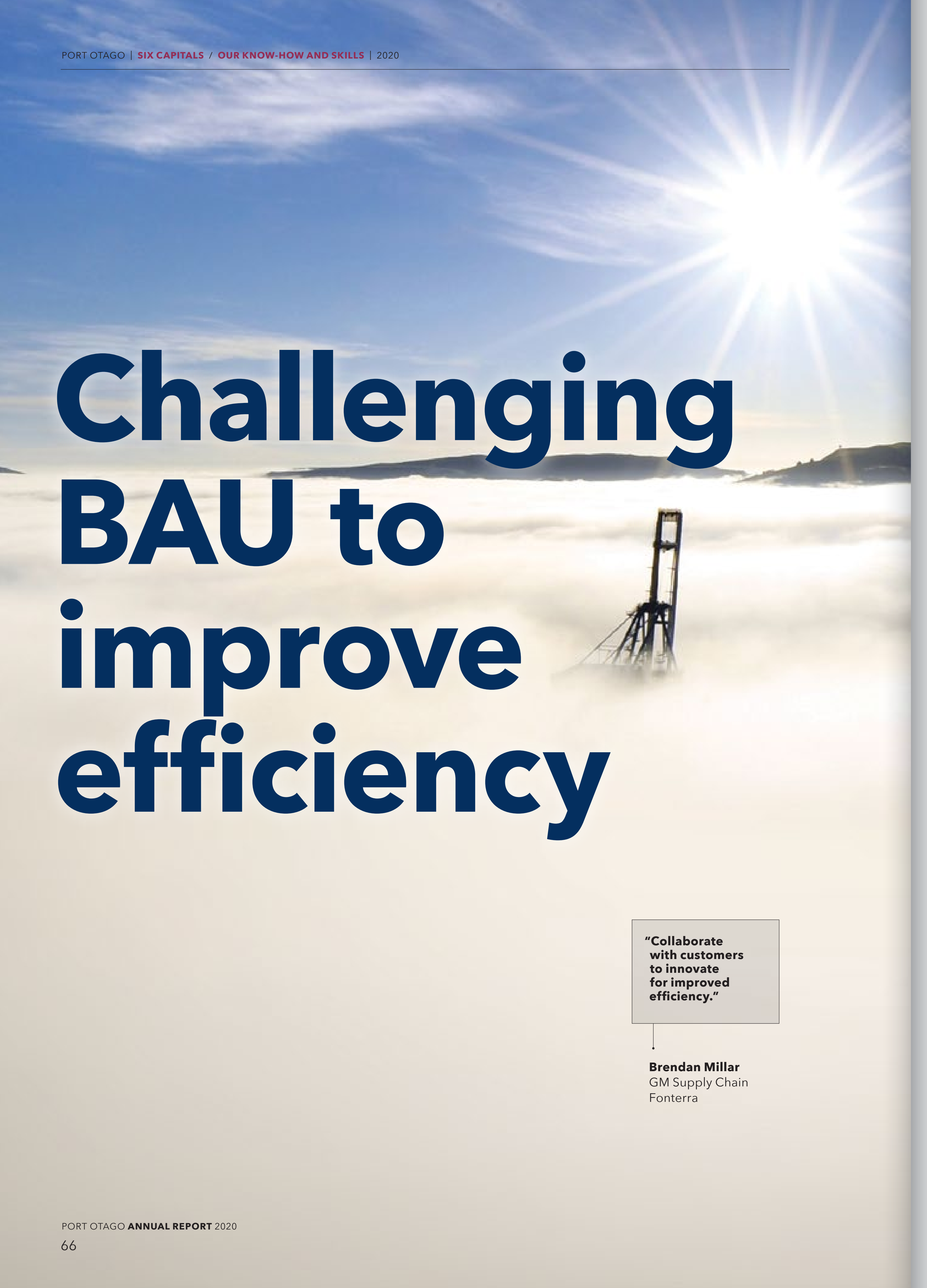
- Employee access to real-time information around leave balances
- Fatigue management data
- Real time capture of fatigue management data

Since VBS installed at Port Chalmers: truck queues managed ✓

Our stakeholders told us…

"Through the recent giant pause, society has realised that things need to change and BAU simply isn't working."

Francisca Griffin
West Harbour
Community Board Chair



Challenging BAU to improve efficiency

> **"Collaborate with customers to innovate for improved efficiency."**

Brendan Millar
GM Supply Chain
Fonterra

Optimising our resources, minimising waste and innovating for effective processes must be business as usual. The port is fortunate to have team members who have spent their entire careers with us. We strive for a considered approach to the future, by teaming up these experienced people with new recruits bringing emerging skills. We have some catching up to do on digitisation and are beginning to upskill our team with training. Silver Fern Farms told us to "digitise from customer-to-port-to-vessel to better communicate on wharf space, container release and block chain thinking". This requires new technology and we are looking at how best to invest in this space.

MATERIAL ISSUE:

Innovation

- Challenging our BAU to improve processes and operational efficiency.
- Using real time performance data to optimise productivity and labour planning, improving customer outcomes and ultimately reducing waste.

Covid-19 in focus

Learning from the pandemic

The challenge of operating a port during Covid-19 lockdown brought out the best in our team.

Our own people and the wider team of customers, partners, suppliers and community wasted no time working out how to operate efficiently and safely within the constraints of a pandemic.

According to Brendan Millar, GM Supply Chain with Fonterra, we nailed this: "The port's strong resilience and flexibility enabled Fonterra to continue exporting largely uninterrupted."

We are proud of how everyone pulled together. We are reaching the point now, where we can step back and think about innovation for the future.

Edward Ellison, Upoko, Te Rūnanga o Ōtākou, shared these wise words: "Take Covid-19 as an opportunity to reset, using the lessons learnt to develop a strategy for the future. This is a moment in space when everything has stopped, providing an opportunity to think about the best way forward."

The port is conscious how tough many of its customers, partners and suppliers have found 2020. Anything we can do to improve our processes to make us more efficient to do business with is more important than ever.

Innovation

TimeTarget fully rolled out

Port Otago completed the roll-out of its new rostering software, TimeTarget, during the year.

At a total cost of $620,000, the software was adapted to work within the complexities of a port environment, ultimately improving decision-making.

With safety its primary benefit, TimeTarget helps the Workforce Planners manage the risk of staff fatigue. It plans rosters within developed rules around maximum working hours, and ensures people are allocated their minimum shift breaks.

Earlier this year – with the rostering features embedded – the front-end benefits of TimeTarget went live. Employees can now use the TimeTarget app or site kiosk to see indicative schedules and apply for leave.

The software is also ensuring scheduled training sessions are locked in for staff. Previously, training would be "pencilled in", but cancelled at short notice if a vessel's arrival or departure changed. TimeTarget prioritises the importance of training for both safety and personal development.

Vehicle Booking System fully rolled out

Port Otago's new Vehicle Booking System (VBS) is now fully rolled out and enjoying steady, positive uptake.

Previously, trucks arrived any time to drop off or pick up cargo, but the new VBS allows Port Otago to smooth out truck arrivals. With about 1000 containers passing through Port Otago facilities each week, the upsides for the company are more efficient use of machinery, better coordination of container movements and managing truck queues on public roads. For trucking companies, the system minimises time spent queuing to access a port site. The new booking system also improves community safety, by avoiding queues of trucks forming. In the past, these queues have, at times, congested Port Chalmers' George Street and main intersection.

There are three VBS kiosks at Port Chalmers and one at Dunedin Depot. The Dunedin Depot kiosk was installed six months ago and is now operating like clockwork. The peak truck turnaround time has dropped from 30 minutes to less than 10 minutes.

Jill Bennett of Brian Bennett Transport says the system was easy to sign up to and operates well. "It's very simple to use and the younger drivers, in particular, switched across to it quickly."

Power BI streamlines decision-making

During the past year, Port Otago has begun rolling out a Business Intelligence (BI) system to connect the workforce to port operational data.

The Power BI project was initiated in September 2018 and integrates data across the business's varied data systems into a suite of interactive dashboards. In this way, anyone in the company can access accurate, real-time information to make both strategic and day-to-day decisions.

The roll-out is nearing the halfway point in terms of integrating major systems with the target of connecting all major systems next year. As with all initiatives in this space, an ongoing continuous improvement and maintenance work stream will ensure the technology remains current once the project is complete.

A significant advantage of the BI platform is its "self service" nature. Instead of relying on technical staff to query information, users can track down data themselves and become familiar with common metrics used to drive port operations. Training workshops introduce users to the platform and how to use it for maximum benefit.

Introducing each data set into the platform follows the same structure. IT first works with subject matter experts to gain a common understanding of the data available, agree the expected outputs and assign data cleansing duties. The data analysis stage collates the data and establishes links between the different data sets and systems. Power BI (Microsoft's analytics software) provides an intuitive dashboard interface for quick insights, navigation and drilling down. Between these two parts sits the heart of the platform, within the Azure Data Factory – a cloud-based data integration service.

Examples of the Power BI system at work include the Container Terminal and Dunedin Depot wind monitoring system (see page 70) and the wharf availability planner (see above right).

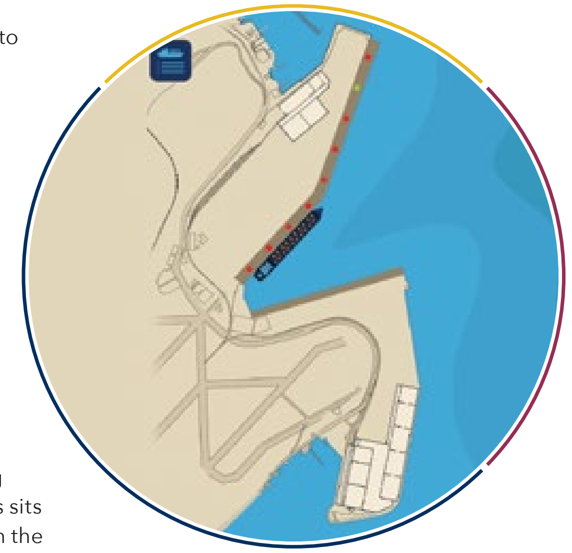


Image: *The wharf availability planner allows users to quickly see future bookings by moving a slider along a timeline: move the slider and the ships move in and out of the port, accordingly. The red and green dots represent wharf pads, with red dots indicating unavailable pads, based upon the booking schedule and ship size. This dashboard is used to inform berth management decisions and forward plan wharf availability.*

Wind speed measurements refine thresholds

Port Otago introduced new operating procedures and installed additional ultrasonic anemometers at its Port Chalmers Container Terminal and Dunedin Depot last year, to provide an accurate measure of wind speed.

Wind speed is a critical risk at these two sites because of the height at which mobile plant operates while moving containers. Previously, shift supervisors made the decision to cease work, based on information from anemometers situated at the high crane positions of 70 metres and without specified wind-speed thresholds to stop work. The two new anemometers are at 15 metres – the height of a four-high straddle carrier.

Alongside installation of this hardware, a Trigger-Action Response Plan was developed. There is now a series of wind speed cusps that trigger the cease-work thresholds for various activities. For instance, a 25-knot measurement at the 15m-high anemometer triggers a halt on working at height off ladders and operating retractable net gates. At 39 knots, side loaders and four-high straddle carriers cease work and, at the top extreme of 48 knots, ship-to-shore cranes and three-high straddle carriers shut down.

The 39-knot cusp has been exceeded 27 times at the 15m-high Port Chalmers Container Terminal site during the past 12 months.

Noise monitoring software wins Microsoft award

In October 2019, Port Otago's automated noise monitoring programme won the Azure Innovate Award at the Microsoft New Zealand Partner Awards.

Port Otago worked with Microsoft and partner Aware Group to develop an accurate automated noise monitoring and classification programme, replacing the need for the job to be carried out manually.

The automated system went live in May 2019 and categorises noise with 95% accuracy.

Training and career development

Real-time data improves drive-time efficiency

Operations and IT put their heads together and developed a real-time reporting system to help improve container terminal productivity.

The IT team tailored Microsoft Power BI software to report data from a custom-built system that relays drive-time start and finish information directly from straddle carriers and side loaders to shift supervisors.

In this way, the mobile plant can be operated with minimal downtime and maximum efficiency.

The system was phased in earlier this year and sharing the information has raised awareness of the cumulative impact of incremental waste on work completed during a shift.

Dover tool assisting in training

The Dover psychomotor assessment tool was introduced last year to support our pre-employment screening of new cargo handlers and forklift operators and has since been extended to assist with promotion selection.

Dover is a computer-based psychometric aptitude measurement tool that accurately predicts a worker's aptitude for mobile machinery operation.

To date, 84 potential recruits and existing staff have undertaken the hour-long psychomotor assessment. Not surprisingly both female and male workers sit within our highest scoring bands.

Strategy for a better business

Our part in the bigger picture

As we develop our *Strategy for a better business*, we will integrate these SDGs most relevant to *our know-how and skills* into our goals and targets:

- SDG9 Industry, innovation and infrastructure
- SDG11 Sustainable cities and communities
- SDG12 Responsible consumption and production

What the future holds

Applying *Integrated Thinking*, we will set incremental targets to optimise the following value creation for *our know-how and skills* in our *Strategy for a better business*:

- A considered approach to the future, learning from the past and what others do
- A talented workforce with an ability to learn and a wealth of knowledge
- Improved productivity and resilience by embracing new agile and efficient ways
- We will continue to work on: Digitisation.

* More information on the SDGs can be found via this link: ***https://sdgs.un.org/goals***

Capital #5:

Our assets

Our priorities

Wharf capacity

Innovation

Growth

Our value creation

Continued investment in infrastructure to support our customers' and partners' future needs, facilitating our mutual growth to the benefit of the local, regional and national economy.

Work on: Efficient supply chains.

Key metrics

Berth utilisation*:
Container ships = 26%;
Cruise and logs = 36% ✓

** Utilisation is near 100% at peak times*

Container yard capacity:
Average of 72%, with regular peaks to 100% dependent on vessel arrival/departure times ✓

Property business: ✓
- Net Lettable Area: 93% occupancy
- 33 development sites still available

Our stakeholders told us...

"Improve resilience in the network to better allow the port to scale capacity up or down quickly."

Brendan Millar
GM Supply Chain
Fonterra

Our assets are the fabric of our port.

It's not just about having the right assets. It's how we use them that matters most. Optimising productivity and utilising space efficiently are both critical to value creation from our assets. Working closely with our customers and partners allows us to invest in long-term infrastructure for mutual growth, to achieve a sustainable future together. Transport modes on land also present opportunity for innovation and efficiency, in particular rail, and we are working on that.

We have deepened our channel to become big ship capable, which influences our container ship capacity. Jeff McDonald, Regional Manager with T&G Fresh, summed up the importance of being big ship capable as follows: "The port clearly understands the need to get bigger ships in and is working on it, because size equates to efficiency." However, this comes with challenges to protect our harbour and we are listening to our community and iwi on this, making sure we do the right thing.

It has been a challenging year for cruise ships and we have seen a decline in growth in this part of our business. Cruise ship passengers contribute to our economy when they visit and we hope to see that gradually recover over time.

MATERIAL ISSUES:

Wharf capacity

- Better planning and flexibility to manage competing demands for the use of wharves.
- Investment to support growth.

Innovation

- Challenging BAU to improve processes and operational efficiency.
- Using real time performance data to optimise productivity, labour planning, improving customer outcomes and ultimately reducing waste.

Growth

- Commercial model for growth, through investment in infrastructure throughout the supply chain.

"We are aware that during peak times, the region often suffers from constrained container upgrade and storage facilities which can create challenges for customers. First rate communication is always appreciated, but it's essential during times of higher congestion."

David Ross
Chief Executive
Kotahi

Covid-19 in focus

Impact on cruise business

Cruise ships were affected more than most by the Covid-19 pandemic. The pause in cruise ship visits presents an opportunity to review and enhance our approach.

It also presents a strategic challenge for the port, as we planned for a certain level of growth in this part of our business.

The consequences of Covid-19 are yet to be understood and we anticipate further impact to global trade, our customers' supply chains and ultimately our businesses. The Government has banned the entry of cruise ships into New Zealand waters and it is uncertain when they will be allowed to return. We continue to support the New Zealand Cruise Association to advocate on behalf of the cruise industry and to work with government agencies and cruise lines to develop safety protocols and processes enabling the safe return of cruise ships to the New Zealand coast. As a result, we are anticipating no activity from the sector in the coming season, eliminating the contribution from cruise service revenues to the group.

Commercial property business shows resilience

The Covid-19 lockdown slowed the commercial property market nationwide, but Port Otago's property business showed resilience with all tenants still in business and managing rent payments, thanks in part to some rent relief and deferred rental agreements.

Chalmers Properties' General Manager David Chafer says Covid-19 stalled interest in the industrial leasing market during April and May 2020, but the move to Alert Level 1 saw leasing enquiry begin to return. "Overall, leasing activity is subdued, as companies are cautious about taking on bigger premises or making leasing decisions.

"However, the mail-order model embraced during lockdown proved popular and our standard design of 'large warehouse with minimal offices' was perfect for companies looking for extra distribution capacity."

For example, in Hamilton, New Zealand Post took a lease on a new office/warehouse in Arthur Porter Drive. "We have fielded enquiry from several other businesses in the logistics and distribution space, but – to date – most companies are not in a position to forward plan sufficiently to commit."

Wharf capacity

Improvements underway at Dunedin Bulk Port

The Upper Harbour Channel deepening and ENZA building purchase complement improvements being made at Dunedin Bulk Port.

The bulk port's footprint encompasses the T&U and X&Y Wharves, Oil Jetty and Leith Wharf, Fryatt Street log yards, LPG site, the former Mobil site and Z Energy fuel site.

As part of the improvements, Port Otago is hard standing the former Naylor Love yard to provide additional log storage for key forestry customers.

Collectively, the improvement work will give customers the option to increase their import and export capacity via Dunedin Bulk Port.

New 8.5m chart datum for Upper Harbour Channel

After 20 months' dredging in the Upper Harbour Channel – at a cost of $2.3 million – Port Otago has deepened to a chart datum of 8.5 metres.

Over the past eight years, Port Otago has focused on deepening the Lower Harbour – between Port Chalmers and Taiaroa Head – to 15.0m chart datum (the water depths displayed on a nautical chart) to accommodate bigger container ships.

A significant driver of this work was the L-Class vessels, which required a 14.5m depth if fully laden. However, in late 2018, Rio Class vessels replaced the older L-Class vessels, thus removing the need to achieve a 14.5m channel depth. Fully-laden Rios only draw 13.5m, despite being a significantly larger, more efficient vessel.

GM Marine Sean Bolt says it was a simple call to end capital dredging in the Port Chalmers Channel at the depth achieved – 14.0m chart datum.

"This is sufficiently deep to cater for all container vessels currently visiting New Zealand. If vessels change in the future and we require a deeper channel, we can resume dredging using our own plant and our improved monitoring/mapping systems to protect the harbour environment as we go."

With the focus moving from the Lower Harbour, the port's dredging plant began work on the Upper Harbour Channel. In the past 20 months, nearly 600,000 cubic metres of material has been removed and deposited offshore at the port's designated disposal site.

Mr Winders says the 8.5m chart datum allows tankers to now bring in bigger loads of oil and, conversely, log ships to take out bigger loads. "Overall, shipping efficiency improves and the carbon footprint per tonne of cargo imported or exported is reduced. The extra depth also allows a wider tidal window, reducing vessel wait times and supply chain costs."

He says the Upper Harbour shipping passage has traditionally been a 'tight' navigation, due to the channel's width and variable depth. "The deepening work improves the passage for vessels by giving them more depth under the keel, thus improving ship handling and safety."

Purchase of former ENZA building

Port Otago purchased the Fryatt Street (formerly ENZA) building from T&G Global in December. This was a strategic purchase, driven by the building's location alongside Port Otago's Dunedin Bulk Port operational area.

The 17,388m² former ENZA building is one of the largest distribution facilities in Dunedin and has direct access to the Leith Wharf, allowing vessels to move cargo from ship to warehouse. In the short term, the purchase allows Port Otago to provide customers with chilled and frozen storage options, whilst longer term, provides redevelopment options to support customer supply chain needs in the future.

T&G Global and Bidfood remain as leasees, while Port Otago is using the remaining 3000m² of frozen facilities and coldstore storage for customers.

Innovation

Ship-to-shore crane gets major upgrade

During September and October 2019, the first of the two ship-to-shore cranes at Port Chalmers Container Terminal was taken out of service for a $1.7 million upgrade.

Port Infrastructure Asset Engineer Jon Visser oversaw the work. "Port Otago's ship-to-shore cranes were manufactured about 15 years ago. Their electrical drive systems had reached the end of their functional lives and the gantry legs supporting these 1400-tonne structures were experiencing fatigue cracks. Re-use of this nature isn't just good for cost savings, it is also good for the environment, reducing resource use. Rather than purchasing two new cranes at $15 million each, it was more economical to replace the drive systems and repair the cracks. This work extends the functional life of the cranes to 2032."

Stage one of the upgrade drew on the expertise of local firm, Farra Engineering. "The Farra team removed cracks in the steel gantry legs and fitted reinforcing ribs provided by the crane's manufacturer, ZPMC."

The second stage involved international automation company Siemens fitting a new electrical drive and control system, before the crane was successfully returned to operations at the start of November.

Work was timed to coincide with the low season, and shipping companies assisted by reducing the volume of containers put through Port Chalmers. As a result, the remaining ship-to-shore crane could service each vessel within the normal timeframe.

Jon says the second crane will also receive a similar $1.7 million makeover, but the work has been delayed due to Covid-19 restricting the entry of the experts required.

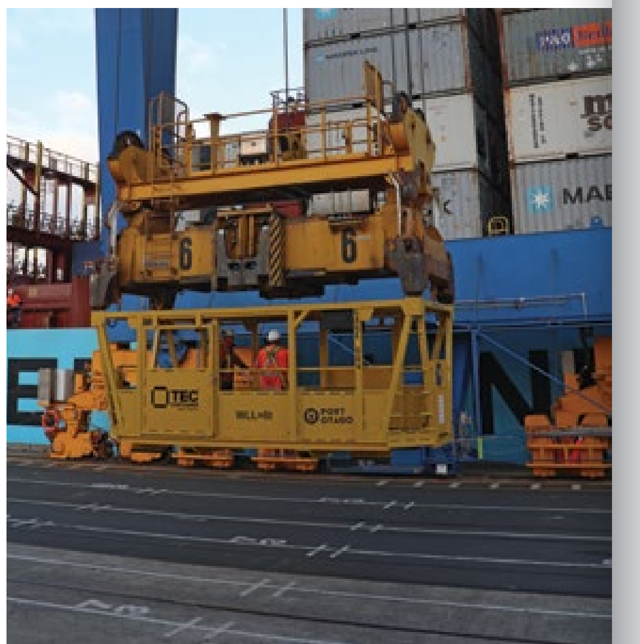
New lashing cages improve workforce safety

Two brand new 20-foot lashing cages joined the workforce at Port Otago during 2019/20.

Lashing cages safely transport Cargo Handlers performing lashing duties up to hard-to-reach areas on board ships. Once in place, the Cargo Handlers can access the twist lock pull cords, thus "unlocking" the containers from each other, ready for removal by the ship-to-shore crane.

The new kit replaces two 40-plus-year-old cages that had reached the end of their lifespans. Worth $71,000 each, the new cages were imported from Spanish company TEC Container, which specialises in ship-to-shore access equipment.

The cages are safer – meeting both New Zealand safety and crane code of conduct standards – and have additional features, including self-closing access gates and extra restraint chains and harness anchor points.



Growth

Oak Road Industrial Park

Oak Road Industrial Park's first two builds were all but complete by the end of the financial year, with one signed up 10 months in advance.

The Chalmers Properties owned industrial park is in Wiri, 23km south of Auckland's CBD and sits on Business 6 zoned land. The warehouses are state-of-the-art buildings, with post-tension floors, generous stud heights, LED lighting and robust security.

In September 2019, Auckland Council signed a lease on 21A Oak Rd – a 4000m^2 warehouse with 350m^2 office space.

Te Rapa Gateway developments

Te Rapa Gateway built three developments in the Hamilton industrial park during the 2019/20 financial year.

NZ Windows (Waikato) signed up a design/build/lease development at 25 Clem Newby Road and moved in during September 2019. This was a 1500m^2 9m stud warehouse, with 350m^2 of office space and a large yard and canopy. This NZ Windows development is the fourth in a series of six at this site.

A build-and-lease development at 600 Arthur Porter Drive is the fourth office/warehouse to be constructed in a cluster of five street-frontage sites. This 1050m^2 warehouse and 250m^2 of office space is currently leased to New Zealand Post.

At 31-41 Clem Newby Road, development of six office/warehouse units – ranging in size from 409m^2 to 684m^2 – began in June 2019 and was completed in March 2020. These units adjoin six previously constructed units at 680 Arthur Porter Drive.

Strategy for a better business

Our part in the bigger picture

As we develop our *Strategy for a better business*, we will integrate these SDGs most relevant to our assets into our goals and targets:

SDG9 Industry, innovation and infrastructure

SDG11 Sustainable cities and communities

What the future holds

Applying *Integrated Thinking*, we will set goals and incremental targets to optimise the following value creation for *our assets* in our *Strategy for a better business*:

- Continued investment in infrastructure to support our customers' and partners' future needs, facilitating our mutual growth to the benefit of the local, regional and national economy
- We will continue to work on: Efficient supply chains.

* More information on the SDGs can be found via this link: ***https://sdgs.un.org/goals***

Capital #6:

Our financial value

Our priorities

Financial returns

Growth

Our value creation

Consistent sustainable dividends for our shareholder to support regional economic development and benefit our community.

A sustainable future built on solid investment in infrastructure and long-term customer, partner and supplier relationships.

Work ons:
Balancing our portfolio;
Efficiency.

Key metrics

Profit: 2019/20 = $50.5m; 2018/19 = $49.3m ✓

Dividend to Otago Regional Council: 2019/20 = $10m; 2018/19 = $8.5m ✓

Shareholder equity: $549 m; Equity ratio = 84% ✓

Undrawn bank facilities of $38m ✓

Our stakeholders told us...

"Part of the port's success is its business diversity, which means it is not as susceptible to changes in the economy and can continue to provide the income on which ratepayers depend."

Andrew Noone
Otago Regional Council Chair

Dividends of $10m paid

> **"The port made a good decision to invest in property years ago. It is great to see them using the returns to invest in infrastructure."**

Phil De La Mare
Chief Executive
Ernslaw One

"Consider profit in different ways. Think about other capitals, such as natural capital and human capital, not just financial capital." Francisca Griffin, West Harbour Community Board Chair.

We have heard Francisca Griffin's insight loud and clear and we hope that this refreshed Annual Report demonstrates how we are broadening our view to consider our value creation across a range of areas, not just financial. That said, remaining financially sustainable for a prosperous future is critical to the port, our growth and our contribution to the economy. Despite the massive disruption to business caused by Covid-19, the Port Otago Group made a near record tax-paid profit of $50.5 million for the financial year ended 30 June 2020. Dividends of $10 million were paid to shareholder Otago Regional Council – up $1.5 million on the previous year. This increase in dividends is substantial and brings with it benefits for our community. Andrew Noone, Otago Regional Council Chair, articulated the value of this contribution to our wider team perfectly: "Otago Regional Council uses the dividend it receives from the port to reduce the rates burden on the community so everyone in Otago gets a benefit from port earnings." This tax-paid profit and dividend equates to an average return on capital employed of 9.6% for the year. Coupled with a stable equity ratio of 84%, and our strong portfolio balanced effectively by our property assets, the company is well placed to face future challenges.

MATERIAL ISSUES:

Financial returns

- Financial returns from port operations in bulk cargo, container services and cruise ships.
- Long-term income from our strategic property portfolio.
- Contribution to the local and regional economy.

Growth

- Commercial model for growth, through investment in infrastructure throughout the supply chain.

Covid-19 in focus

We are very grateful at the port to be an essential service provider, required to keep things moving to where they need to be. It has been a huge team effort, but we are pleased to have been able to increase our dividend to the Otago Regional Council this year, and therefore our contribution to the community. Many of our stakeholders have been doing it tough during the pandemic and we have done our best to offer support, not just financial. Andrew Noone, Otago Regional Council Chair, reminds us of this bigger picture: "The port has a critical role in Otago's recovery from the pandemic. Providing access to markets for local products and secure jobs is the support the community needs right now."

We still have our eye firmly on a financially sustainable future for the port, and the opportunity to grow. No one summed up what we are all thinking more eloquently than Jeff McDonald, Regional Manager with T&G Fresh: "Under present circumstances, any growth potential is gold."

Financial returns

The Port Otago Group achieved a tax-paid profit of $50.5 million for the year ended 30 June 2020, up 2% on last year's $49.3 million profit. Included in this year's result was a $27.9 million unrealised revaluation uplift of the investment property portfolio, reflecting a significant uplift in land values in the Dunedin portfolio and continued increases in Auckland and Hamilton markets. Operating earnings were impacted by lower land sales in our property business and reduced activity due to Covid-19 across all port businesses.

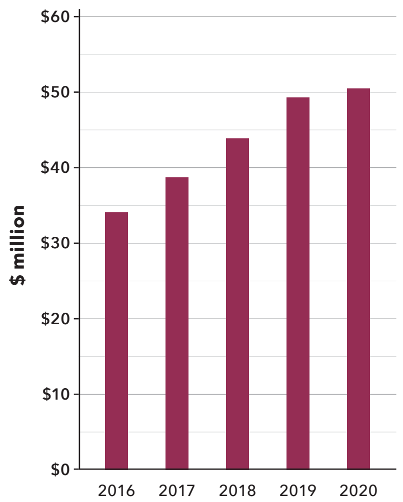
Capital expenditure across the port and property businesses was $39.8 million, up $18.0 million on the previous year with bank indebtedness increasing by $17 million, to $72 million, at balance date.

Port Otago has paid $10 million in dividends to the Otago Regional Council this year, an increase of $1.5 million from last year.

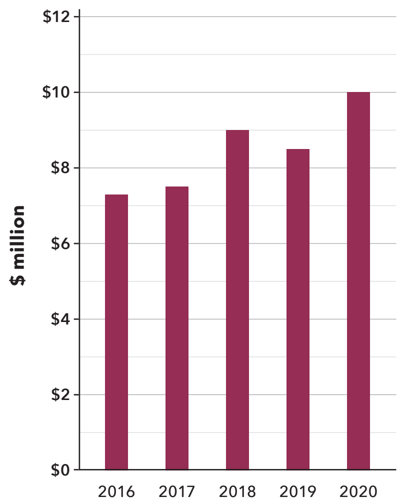
Shareholder equity increased to $549 million with an equity ratio maintained at 84% at June 2020, a strong resilient balance sheet ready to meet the challenges that lay ahead.

Overall a solid result which provides our shareholder with an average return on capital employed of 9.6% for the year.

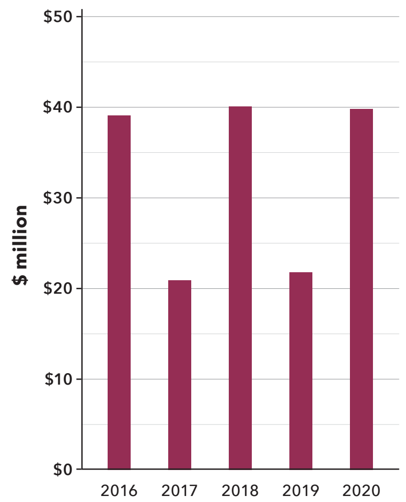
Net profit after tax



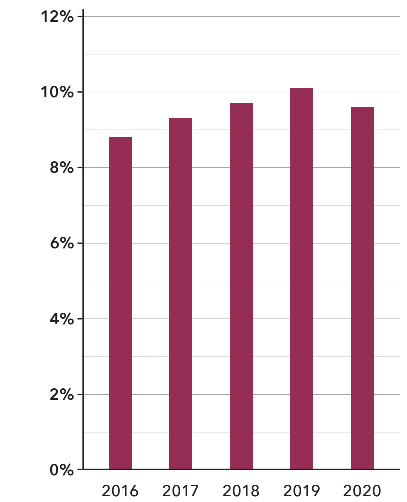
Dividends



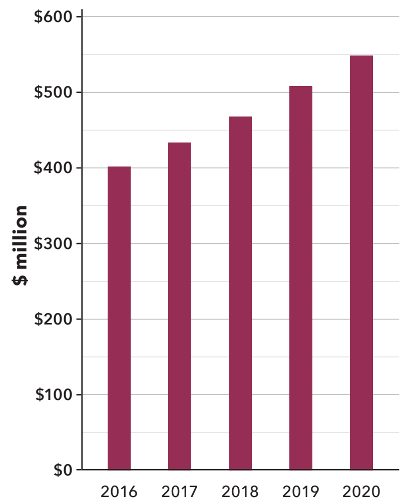
Capital expenditure



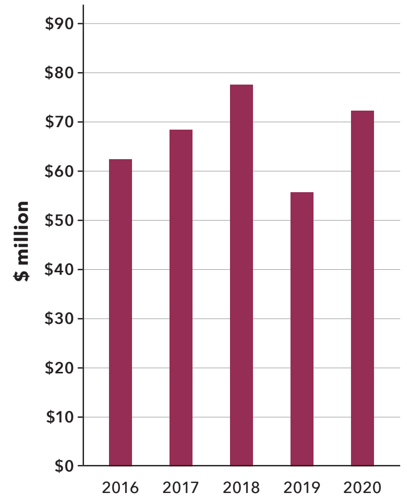
Return on equity



Shareholder equity



Bank debt



Strategy for a better business

Our part in the bigger picture

As we develop our *Strategy for a better business*, we will integrate the SDG most relevant to our financial value into our goals and targets:

SDG8 Decent work and economic growth

What the future holds

Applying *Integrated Thinking*, we will set goals and incremental targets to optimise the following value creation for *our financial value* in our *Strategy for a better business*:

- Consistent sustainable dividends for our shareholder to support regional economic development and benefit our community
- A sustainable future built on solid investment in infrastructure and long-term customer, partner and supplier relationships
- Maintaining resilience
- We will continue to work on: Balancing our portfolio; Efficiency.

* More information on the SDGs can be found via this link: ***https://sdgs.un.org/goals***

Financial statements

Overview of group results

	2020 $million	**2019** $million
Revenue	108.3	121.7
Operating profit before income tax	30.4	35.3
Profit for the year	50.5	49.3
Total assets	655.8	602.3
Shareholder's equity	548.6	508.1
Equity ratio	84%	84%

Trade:

Container throughput (TEU)	191,900	208,600
Bulk cargo volume (000's tonnes)	1,467	1,764
Container and bulk cargo vessel arrivals	476	458
Otago cruise vessel arrivals	112	115

Consolidated group financial statements

Income Statement ~ for the year ended 30 June 2020

	Notes	2020 $000	2019 $000
Revenue	A1		
Marine and cargo services		62,213	68,287
Warehousing and logistics services		8,278	7,632
Property rentals		23,859	23,124
Sales of property inventories		13,947	22,661
		108,297	121,704
Other income			
Gain on sale of investment property and property, plant and equipment		1,680	3,897
Total revenue and other income		**109,977**	**125,601**
Operating expenses	A2		
Staff costs		(34,725)	(34,202)
Purchased materials and services		(24,139)	(25,968)
Cost of sales of property inventories		(7,170)	(17,656)
Depreciation and amortisation		(11,280)	(10,039)
Total operating expenses		**(77,314)**	**(87,865)**
Operating profit before finance costs, equity accounted investments, non-operating income and expenses and income tax		**32,663**	**37,736**
Financing costs	A3	(2,440)	(2,650)
Share of profit from equity accounted investment	E4	203	165
Operating profit before non-operating income and expenses and income tax		**30,426**	**35,251**
Non-operating income and expenses			
Subvention payment	E5	(101)	(101)
Fair value change in forward start interest rate swaps		(232)	-
Unrealised net change in the value of investment property	B1	27,943	22,839
		27,610	22,738
Profit before income tax		**58,036**	**57,989**
Income tax expense	A4	(7,543)	(8,687)
Profit for the year		**50,493**	**49,302**

The accompanying notes form part of these financial statements

Statement of Comprehensive Income ~ for the year ended 30 June 2020

	Notes	2020 $000	2019 $000
Profit for the year		50,493	49,302
Other comprehensive income			
Cash flow hedges			
Unrealised movement in hedging interest rate swaps (net of tax)		(471)	(837)
Total comprehensive income for the year		**50,022**	**48,465**

Statement of Changes in Equity ~ for the year ended 30 June 2020

	Notes	2020 $000	2019 $000
Equity at the beginning of the year		508,090	468,075
Total comprehensive income for the year		50,022	48,465
Distribution to owners			
Dividends paid	D3	(9,500)	(8,450)
Equity at the end of the year		**548,612**	**508,090**

The accompanying notes form part of these financial statements

Statement of Financial Position ~ as at 30 June 2020

	Notes	2020 $000	2019 $000
Current assets			
Cash and cash equivalents		307	142
Trade and other receivables	C1	15,127	15,038
Property inventories	B2	27,554	28,829
Property held for sale	B3	-	2,105
Maintenance inventories	C3	1,441	1,381
		44,429	47,495
Non-current assets			
Investment property	B1	378,489	334,120
Property, plant and equipment	B5	227,598	212,826
Intangible assets	B6	5,262	5,895
Equity accounted investments	E4	-	2,003
		611,349	554,844
Total assets		**655,778**	**602,339**
Current liabilities			
Trade and other payables	C2	8,132	11,952
Borrowings	D4	5,140	930
Employee entitlements	C4	5,685	5,490
Provisions	C5	227	267
Derivative financial instruments	F6	1,009	636
Lease liabilities	C6	203	-
Income tax payable		685	3,150
		21,081	22,425
Non-current liabilities			
Borrowings	D4	67,150	54,750
Employee entitlements	C4	1,057	943
Derivative financial instruments	F6	2,047	1,534
Lease liabilities	C6	2,084	-
Deferred tax liabilities	A4	13,747	14,597
		86,085	71,824
Total liabilities		**107,166**	**94,249**
Equity			
Share capital	D1	20,000	20,000
Reserves	D2	528,612	488,090
Total equity		**548,612**	**508,090**
Total equity and liabilities		**655,778**	**602,339**

For and on behalf of the Board of Directors

P F Rea Chair

P F Heslin Deputy Chair

The accompanying notes form part of these financial statements

Cash flow statement ~ for the year ended 30 June 2020

	Notes	2020 $000	2019 $000
Cash flows from operating activities			
Cash was provided from:			
Port operations revenue		71,154	76,879
Property rentals		23,017	22,248
Sale of property inventories		13,837	22,769
Interest received		435	197
Cash was applied to:			
Payments to employees and suppliers		(57,936)	(60,625)
Expenditure on property inventories		(8,964)	(15,105)
Net GST (paid)/received		(254)	1,530
Interest paid		(2,347)	(2,033)
Subvention payments		(101)	(101)
Income tax payments		(10,674)	(9,830)
Net cash flows from operating activities		**28,167**	**35,929**
Cash flows from investing activities			
Cash was provided from:			
Sale of property, plant and equipment		673	235
Sale of investment property		6,907	14,836
Cash was applied to:			
Purchase of property, plant and equipment		(23,118)	(14,501)
Purchase and improvements to investment property		(16,645)	(7,294)
Advances (to)/from joint operations		(2,162)	1,951
Interest capitalised	A3	(567)	(861)
Net cash flows from investing activities		**(34,912)**	**(5,634)**
Cash flows from financing activities			
Cash was provided from:			
Proceeds from borrowings		23,210	14,600
Cash was applied to:			
Repayment of borrowings		(6,600)	(36,555)
Dividends paid	D3	(9,500)	(8,450)
Repayment of lease liabilities		(200)	-
Net cash flows from financing activities		**6,910**	**(30,405)**
Increase (decrease) in cash held		165	(110)
Cash held at beginning of period		142	252
Cash held at end of period		**307**	**142**

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 2020

	2020 $000	2019 $000
Profit for the year	50,493	49,302
Plus/(less) non-cash items:		
Unrealised net change in the value of investment property	(27,943)	(22,839)
Depreciation and amortisation	11,280	10,039
Movement in the fair value of forward start interest rate swaps	232	-
Movement in non-current employee entitlements	114	33
Movement in deferred tax	(667)	617
Plus/(less) items classified as investing activities:		
Gain on sale of property, plant and equipment	(24)	(415)
Gain on sale of investment property	(1,656)	(3,450)
Movement in joint ventures	(203)	(165)
Movement in working capital items:		
Trade and other receivables	1,778	790
Trade and other payables	(3,854)	4,033
Current employee entitlements	195	507
Provisions	(40)	(2,166)
Income tax payable	(2,464)	(1,760)
Maintenance inventories	(60)	(73)
Property inventories	(1,794)	2,551
Movement in other working capital items classified as investing activities	2,780	(1,075)
Net cash flows from operating activities	**28,167**	**35,929**

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 owner 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 section E.

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 2020 and were issued by the Board on 8 September 2020.

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 2020) 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).

New standard adopted

The following new standard has been adopted and applied by the Group for the first time for the annual period commencing 1 July 2019.

NZ IFRS 16 Leases

NZ IFRS 16 Leases replaces NZ IAS 17 Leases and removes the classification of leases as either operating leases or finance leases for the lessee, and consequently all leases (other than short term or low value leases) are recognised on the Statement of Financial Position. This has resulted in the Group recognising right-of-use assets and related lease liabilities. As a result, payments for leases previously classified as operating leases, which include leases of land, buildings and vehicles have been reclassified from operating expenses to depreciation and interest expense.

In accordance with the transition provision in NZ IFRS 16 the new rules have been adopted retrospectively with the cumulative effect of initially applying the new standard recognised on 1 July 2019. Comparative information has not been restated. On adoption of NZ IFRS 16, the Group applied the practical expedient and recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of NZ IAS 17 Leases.

These liabilities were measured at the present value of the remaining lease payments, discounted using the interest rate implicit in each lease which is immaterially different from the incremental borrowing rate. The weighted average interest rate applied to lease liabilities on 1 July 2019 was 6.89%. The right-of-use assets within Property, Plant and Equipment were measured at the amount equal to the lease liability at the transition date of $2,488,000.

The net impact on retained earnings on 1 July 2019 was nil. In applying NZ IFRS 16, the Group has continued to account for lease payments on operating leases with a term of 12 months or less in the Income Statement on a straight-line basis over the lease term.

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. Other than the Covid-19 impacts, referred to below, 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.

Further 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 B4)
- Property, plant and equipment (note B5)

Covid-19 impacts

The global Covid-19 pandemic and resulting impacts on trade, the cruise industry and property markets has increased the level of uncertainty around certain estimates in these financial statements. An assessment of the impact of Covid-19 on Port Otago's Income Statement and Statement of Financial Position is set out below, based on the information available at the time of preparing these financial statements.

Marine and cargo services revenue

The New Zealand government temporarily banned cruise ships from entering New Zealand waters from 14 March 2020 resulting in 10 cruise ship cancellations in the 2020 financial year. At this stage it is unlikely cruise ships will visit for the coming 2020/21 cruise ship season (2021 financial year).

Investment property rentals

Pursuant to contractual terms in existing commercial lease agreements certain tenants sought a fair reduction in rent where the business has suffered a loss of revenue due to Covid-19. Port Otago has made allowances to provide such tenants with rental supprt as a result of Covid-19, with a cost to the Group of $0.38 million for the year ended 30 June 2020.

Investment property

Due to the uncertainty related to the Covid-19 pandemic leading to a reduction in the number of real estate transactions and impacting the availability of market data relating to conditions as at 30 June 2020, the independent valuations of Port Otago's portfolio as at 30 June 2020 have been reported on the basis of 'material valuation uncertainty', meaning less certainty and a higher degree of caution should be applied. The opinion of value has been determined at the valuation date based on a certain set of assumptions used by the valuers, however these could change in a short period due to subsequent events.

Property, plant and equipment

Included within property, plant and equipment is the A-shed warehouse which is utilised as a passenger facility during the cruise season. With the current ban on cruise ships entering New Zealand waters the impairment of this asset has been considered. The fair value less costs of disposal are in excess of the current carrying value at 30 June 2020, therefore no impairment of this asset arises. The warehouse is currently being used as a storage facility for timber exporters.

Trade and other receivables

Port Otago has increased the expected credit loss allowance in trade and other receivables by $0.07 million following a credit risk assessment on its debtors.

Derivative financial instruments

Covid-19 has impacted the fair values of interest rate derivatives through the drop-in interest rates.

Right-of-use assets and lease liabilities

Port Otago is the lessee of land in Dunedin and has not sought any rent relief from the lessor or considered any changes to extension of leases within the lease portfolio resulting from Covid-19.

Deferred tax

The New Zealand government's response package to Covid-19 includes the reintroduction of tax depreciation on commercial and industrial buildings from the start of the 2021 financial year. As a result of this change, the deferred tax liabilities previously recognised in relation to non-depreciable buildings can now generally be reversed with a deferred tax credit of $0.919 million recognised in the Income Statement.

Comparatives

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

Section A Financial performance

A1 Revenue

Port businesses

Marine and cargo services revenue is derived from an integrated performance obligation for the provision of channel navigation, berthage, wharfage, stevedoring and empty container services. Warehousing and logistics services revenue is derived from the storage and container packing of customer cargo. Revenue is recognised over time as Port Otago performs the service and the customer simultaneously benefits from that service. Revenue is shown net of rebates and discounts.

Property rentals

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.

Sales of property inventories

Income from the sales of 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 of investment property and property, plant and equipment

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.

A2 Operating expenses

Expenses incurred in the financial year of $77.3 million for the Group include the following:

	2020 $000	2019 $000
Staff costs		
Wages and salaries	33,097	32,607
Superannuation employer contributions	1,628	1,595
Total staff costs	**34,725**	**34,202**

Salaries and other short-term employee benefits, including termination payments, paid to key management personnel during the financial year totalled $3,310,540 (2019: $3,072,146).

	Notes	2020 $000	2019 $000
Depreciation and amortisation			
Depreciation of property, plant and equipment	B5	10,375	9,357
Amortisation of intangibles	B6	820	574
Amortised leasing costs		85	108
Total depreciation and amortisation		**11,280**	**10,039**

A3 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.

	2020 $000	2019 $000
Interest income	435	197
Interest expense and bank facility fees	(3,442)	(3,708)
Interest capitalised	567	861
Net financing costs	**(2,440)**	**(2,650)**
Weighted average capitalisation rate on funds borrowed	3.74%	4.03%

A4 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, and Fiordland Pilot Services Limited. The total charge for the year can be reconciled to the accounting profit as follows:

	2020 $000	2019 $000
Profit before income tax	58,036	57,989
Prima facie tax expense at 28%	(16,250)	(16,237)
Non deductible items	(56)	(61)
Non assessable income	521	1,011
Unrealised change in investment property	6,998	5,557
Tax loss offset (via subvention payment)	(108)	101
Restatement of tax depreciation on buildings	919	-
Deferred tax expense relating to the origination and reversal of temporary differences	433	942
Income tax expense	**(7,543)**	**(8,687)**
Allocated between:		
Current tax	(8,102)	(8,171)
Prior period adjustments to current tax	(108)	101
Deferred tax	667	(617)
	(7,543)	**(8,687)**

Deferred tax

Deferred tax is provided in full, using the balance sheet method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates that have been enacted or substantively enacted by the balance date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax (assets) and liabilities	Property, plant and equipment $000	Investment property and property inventories $000	Financial instruments $000	Other $000	Total $000
Balance at 1 July 2019	12,498	4,559	(607)	(1,853)	14,597
Charged / (credited) to hedging reserve direct to equity	-	-	(183)	-	(183)
Charged / (credited) to income statement	(1,133)	551	(65)	(20)	(667)
Balance at 30 June 2020	**11,365**	**5,110**	**(855)**	**(1,873)**	**13,747**
Balance at 1 July 2018	13,129	4,017	(282)	(2,559)	14,305
Charged / (credited) to hedging reserve direct to equity	-	-	(325)	-	(325)
Charged / (credited) to income statement	(631)	542	-	706	617
Balance at 30 June 2019	**12,498**	**4,559**	**(607)**	**(1,853)**	**14,597**

Imputation credits	2020 $000	2019 $000
Imputation credits available to shareholder for future use	**45,914**	**41,530**

Section B
Capital assets used to operate the business

B1 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 is provided for on investment properties.

However, for tax purposes, depreciation is claimed on building fit-out and from 1 July 2020 on buildings, and a deferred tax liability is recognised where the building component of the revalued building exceeds the tax book value of the building. The deferred tax liability is capped at the amount of depreciation that has been claimed on each building. Gains or losses on the disposal of investment properties are recognised in the Income Statement in the period in which the risks and rewards of the investment property have been fully transferred to the purchaser. Borrowing costs are capitalised if they are directly attributable to the acquisition or construction of a qualifying property. Capitalisation of borrowing costs will continue until the asset is substantially ready for its intended use. The rate at which borrowing costs are capitalised is determined by reference to the weighted average borrowing costs and the average level of borrowings.

Due to the uncertainty related to the Covid-19 pandemic leading to a reduction in the number of real estate transactions impacting the availability of market data relating to conditions as at 30 June 2020, the independent valuations of Port Otago's portfolio as at 30 June 2020 have been reported on the basis of 'material valuation uncertainty', meaning less certainty and a higher degree of caution should be applied. The valuations have been determined at 30 June 2020 based on a certain set of assumptions used by the valuers, however these could change in a short period due to ongoing property market transactions.

	Notes	2020 $000	2019 $000
Balance at beginning of year		334,120	317,790
Transfer to property inventories	B2	-	(2,438)
Transfer to investment property held for sale	B3	-	(2,105)
Transfer from property inventories	B2	3,068	3,139
Capital expenditure and improvements		16,059	6,304
Disposals		(3,145)	(11,380)
Net movement in prepaid leasing costs		107	34
Net movement in lease incentives		(57)	(125)
Interest capitalised		394	62
Net change in fair value		27,943	22,839
Balance at end of year		**378,489**	**334,120**
Comprising:			
Industrial		187,724	157,375
Retail		28,750	29,900
Office		2,820	2,730
Leasehold		159,195	144,115
		378,489	**334,120**
Valued at 30 June balance date as determined by:			
Jones Lang LaSalle		173,994	142,100
Colliers International		204,495	192,020
		378,489	**334,120**

B2 **Property inventories**

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

	Notes	2020 $000	2019 $000
Balance at beginning of year		28,829	31,190
Transfer from investment property	B1	-	2,438
Transfer to investment property	B1	(3,068)	(3,139)
Land purchases		-	2,080
Development expenditure and improvements		8,594	13,096
Disposals		(6,974)	(17,347)
Interest capitalised		173	511
Balance at end of year		**27,554**	**28,829**
Comprising:			
Property portfolio cost		27,349	28,127
Revaluation		205	702
		27,554	**28,829**
Developed land for sale		21,720	19,282
Units and warehouse builds in progress		5,834	2,821
Land in development		-	6,726
		27,554	**28,829**

Developed land for sale

The $21.7 million carrying value of developed land at balance date reflects the cost of the 11.9 hectares (Group share: 11.1 hectares) of remaining developed land. In their June 2020 valuation, Jones Lang LaSalle stated a net realisable value of $33.8 million (Group share: $31.7 million). At the previous balance date the $19.3 million carrying value of developed land reflected the cost of the 10.0 hectares (Group share: 9.2 hectares) on hand. In their June 2019 valuation, Jones Lang LaSalle stated a net realisable value of $28.1 million (Group share: $26.1 million) for the developed land on hand.

Units and warehouse builds in progress

During the year the Group completed development of a further six warehouse units as well as the development of a further warehouse, at Te Rapa, Hamilton. The warehouse which was subsequently tenanted was transferred to investment property.

Land in development

During the year the group completed the development of a further 6.3 hectares (Group share: 6.3 hectares) from within the industrial subdivision at Te Rapa in Hamilton, with the land subsequently transferred to developed land for sale. At the previous balance date, Jones Lang LaSalle stated a net realisable value of $13.8 million (Group share: $13.8 million) for the land being developed to yield a further 6.3 hectares of developed land for sale (Group share: 6.3 hectares).

B3 **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	2020 $000	2019 $000
Balance at beginning of year		2,105	-
Transfer from investment property	B1	-	2,105
Disposals		(2,105)	-
Balance at end of year		**-**	**2,105**
Comprising:			
Property portfolio cost		-	118
Revaluation		-	1,987
		-	**2,105**
Property held for sale			
Current asset		-	2,105
Non-current asset		-	-
		-	**2,105**

B4 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 is determined from valuations prepared by independent valuers using Level 3 valuation techniques. Level 3 valuation techniques use inputs for the asset that are not based on observable market data, that is, unobservable inputs. All investment properties were valued as at balance date by Colliers International or Jones Lang LaSalle, who are independent valuers and members of the New Zealand Institute of Valuers. There is a policy of rotation of independent investment property valuers. Other than in exceptional circumstances, 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 holds discussions with the independent valuer. The fair value was determined using Level 3 valuation techniques via a combination of the following approaches:

- **Direct Capitalisation:** The subject property rental is divided by a market derived capitalisation rate to assess the market value of the asset. Further adjustments are then made to the market value to reflect under or over renting, additional revenue and required capital expenditure.
- **Discounted Cash Flow:** Discounted cash flow projections for the subject property are based on estimates of future cash flows, supported by the terms of any existing lease and by external evidence such as market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.
- **Sales Comparison:** The subject property is related at a rate per sqm as a means of comparing evidence. In applying this approach a number of factors are taken into account such as but not limited to, size, location, zoning, contour, access, development potential and end use, availability of services, profile and exposure, current use of surrounding properties, geotechnical and topographical constraints.

Material valuation uncertainty

The outbreak of Covid-19 was declared by the World Health Organisation as a "Global Pandemic" on 11 March 2020. Since that time there has been increased adverse impacts on global financial markets. There have been travel restrictions implemented by most countries and economic stimulus packages announced by most governments. Market activity is being impacted in almost every sector and there is a major reduction in liquidity across all investment markets. In terms of the property markets it is difficult at the current time to determine if this is a short term liquidity issue or a longer term concern. The illiquidity in property markets means there will be a time delay in establishing transactional evidence to demonstrate actual pricing and what the adjustment from pre-pandemic values is with certainty. As at the valuation date, the valuer has considered it appropriate to attach less weight to previous market evidence for comparison purposes, to inform opinions of value. The current response to Covid-19 means that the valuer is faced with an unprecedented set of circumstances on which to base a judgement. The valuations are therefore reported on the basis of "material valuation uncertainty". Consequently, less certainty (and a higher degree of caution) should be attached to the valuations than would normally be the case. Dependent upon how the economy and subsequent property market responds, there is more potential for downside than upside.

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	Fair value measurement sensitivity to significant decrease in input
Market capitalisation rate (%) [1]	4.6%	8.0%	Decrease	Increase
Market rental ($ per sqm) [2]	$10.50	$430.00	Increase	Decrease
Discount rate (%) [3]	6.1%	9.5%	Decrease	Increase
Rental growth rate (%) [4]	0.5%	3.5%	Increase	Decrease
Terminal capitalisation rate (%) [5]	5.0%	8.3%	Decrease	Increase
Profit and risk rate (%) [6]	7.5%	7.5%	Decrease	Increase
Development sell down period (years) [7]	3 years	3 years	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	2020 $000	2019 $000
Balance at beginning of year	334,120	317,790
Unrealised net change in the value of investment property	27,943	22,839
Improvements	16,503	6,275
Disposals	(3,145)	(11,380)
Transfers from property inventories	3,068	3,139
Transfers to property inventories and property held for sale	-	(4,543)
Balance at the end of the year	**378,489**	**334,120**

B5 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 if the property is held to meet the strategic purposes of the port, or to form part of buffer zones to port activity, or to assist the provision of port services, or to promote or encourage the import or export of goods through the port. Included in harbour improvements and capital work in progress is the capitalised cost of channel dredging of $8,930,000 (2019: $8,218,000).

	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 2018	35,291	70,299	62,258	105,949	29,380	303,177
Additions	-	2,473	27,376	10,720	(27,392)	13,177
Disposals	(10)	(3)	-	(2,146)	-	(2,159)
Cost at 30 June 2019	**35,281**	**72,769**	**89,634**	**114,523**	**1,988**	**314,195**
Balance 1 July 2019	35,281	72,769	89,634	114,523	1,988	314,195
Additions	1,019	14,142	1,404	3,506	2,857	22,928
Additions - Right-of-use assets (note C6)	2,336	-	-	152	-	2,488
Disposals	-	(655)	(8)	(1,145)	-	(1,808)
Cost at 30 June 2020	**38,636**	**86,256**	**91,030**	**117,036**	**4,845**	**337,803**
Accumulated depreciation						
Balance 1 July 2018	-	21,346	20,471	52,155	-	93,972
Depreciation for period	-	2,734	1,855	4,768	-	9,357
Disposals	-	(1)	-	(1,959)	-	(1,960)
Accumulated depreciation at 30 June 2019	**-**	**24,079**	**22,326**	**54,964**	**-**	**101,369**
Balance 1 July 2019	-	24,079	22,326	54,964	-	101,369
Depreciation for period	207	2,919	2,009	5,240	-	10,375
Disposals	-	(408)	(8)	(1,123)	-	(1,539)
Accumulated depreciation at 30 June 2020	**207**	**26,590**	**24,327**	**59,081**	**-**	**110,205**
Net book value						
At 30 June 2019	35,281	48,690	67,308	59,559	1,988	212,826
At 30 June 2020	**38,429**	**59,666**	**66,703**	**57,955**	**4,845**	**227,598**

Included in property, plant and equipment are the following assets, all integral to the import or export of goods through the port and subject to an operating lease with a port customer.

Leased assets	Land $000	Buildings and improvements $000	Total $000
Cost			
Balance 1 July 2018	8,609	31,243	39,852
Additions	-	231	231
Cost at 30 June 2019	**8,609**	**31,474**	**40,083**
Balance 1 July 2019	8,609	31,474	40,083
Additions	980	8,998	9,978
Disposals		(67)	(67)
Cost at 30 June 2020	**9,589**	**40,405**	**49,994**
Accumulated depreciation			
Balance 1 July 2018	-	6,251	6,251
Depreciation for period	-	832	832
Accumulated depreciation at 30 June 2019	**-**	**7,083**	**7,083**
Balance 1 July 2019	-	7,083	7,083
Depreciation for period	-	965	965
Disposals	-	(52)	(52)
Accumulated depreciation at 30 June 2020	**-**	**7,996**	**7,996**
Net book value			
At 30 June 2019	8,609	24,391	33,000
At 30 June 2020	**9,589**	**32,409**	**41,998**

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 Statement of Financial Position. The Group minimises the risk of this estimation uncertainty by physical inspection of assets, asset replacement programmes and analysis of prior asset sales.

Depreciation

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

Land	nil
Buildings and improvements	10-50 years
Harbour improvements	
- Wharves	15-70 years
- Berth and channel dredging	nil
Vessels and floating plant	5-30 years
Right-of-use assets	1-10 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 depreciation, amortisation and impairment losses in the Income Statement.

B6 Intangible assets

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

	Computer software $000	Resource consents $000	Total $000
Cost			
Balance 1 July 2018	6,264	5,641	11,905
Additions	1,318	-	1,318
Disposals	(3)	-	(3)
Cost at 30 June 2019	**7,579**	**5,641**	**13,220**
Balance 1 July 2019	7,579	5,641	13,220
Additions	183	4	187
Disposals	(30)	-	(30)
Cost at 30 June 2020	**7,732**	**5,645**	**13,377**
Accumulated amortisation			
Balance 1 July 2018	5,580	1,174	6,754
Amortisation expense	318	256	574
Disposals	(3)	-	(3)
Accumulated amortisation at 30 June 2019	**5,895**	**1,430**	**7,325**
Balance 1 July 2019	5,895	1,430	7,325
Amortisation expense	563	257	820
Disposals	(30)	-	(30)
Accumulated amortisation at 30 June 2020	**6,428**	**1,687**	**8,115**
Net book value			
At 30 June 2019	1,684	4,211	5,895
At 30 June 2020	**1,304**	**3,958**	**5,262**

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 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.

Section C Operating assets and liabilities used to operate the business

C1 Trade and other receivables

Trade and other receivables arise in the ordinary course of business and are initially valued at fair value and subsequently measured at amortised cost using the effective interest method less any provision for impairment. Port Otago invoices for services as they are performed, generally on a monthly basis. They are non-interest bearing and have payment terms of generally the 20th of the month following the invoice.

	2020 $000	2019 $000
Trade receivables	11,679	13,702
Amounts owing by related parties - joint venture partners	2,245	81
Prepayments	1,203	1,255
Balance at end of year	**15,127**	**15,038**

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

	2020 Gross Receivable $000	2019 Gross Receivable $000
Not past due	8,690	9,543
Past due 30-60 days	2,267	3,417
Past due 61-90 days	500	584
Past due more than 90 days	333	202
Less allowance based on historic credit losses	(111)	(44)
Balance at end of year	**11,679**	**13,702**

C2 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.

	2020 $000	2019 $000
Accounts payable	3,566	3,717
Amounts owing to related parties - joint operations	-	2,128
Other accrued charges	4,033	5,211
GST payable	533	786
Property deposits received	-	110
Balance at end of year	**8,132**	**11,952**

C3 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 include appropriate allowances for obsolescence and deterioration.

C4 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 and incentive 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 $68,971 (2019: $49,816).

	2020 $000	2019 $000
Accrued wages, salaries and other benefits	1,211	1,311
Annual leave	4,365	4,074
Long service leave	1,016	888
Retiring allowances	42	55
Sick leave	108	105
Balance at end of year	**6,742**	**6,433**
Employee entitlements		
Current	5,685	5,490
Non-current	1,057	943
	6,742	**6,433**

C5 Provisions

Port Otago Limited identified buildings where asbestos was present and is working through a planned approach to remove all asbestos. The removal of soil contamination and parking reinstatement from the remaining site will be completed during the 2021 financial year.

	2020 $000	2019 $000
Asbestos remediation provision	227	267
Balance at end of year	**227**	**267**

C6 Leases

As lessor

The Group has entered into commercial property leases including perpetual ground 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 Statement of Financial Position. Future minimum rentals receivable under non-cancellable commercial property leases including amounts up to the next renewal term for perpetual ground leases are:

	2020 $000	2019 $000
Rental receivable		
Less than 1 year	22,675	21,291
1-2 years	21,688	17,417
2-3 years	20,468	15,663
3-4 years	18,846	14,993
4-5 years	17,760	14,100
Greater than 5 years	91,146	88,747
Minimum future lease receivable	**192,583**	**172,211**

As lessee

The Group leases plant, equipment and land for port operations typically for fixed periods of 1 to 10 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The Group recognises a right-of-use asset and a lease liability at the commencement date of a lease except for short-term leases, where the lease term is less than 12 months, or related to low value assets, which are expensed on a straight-line basis over the term of the lease. On initial recognition lease liabilities are recognised at the net present value of the lease payments discounted using the interest rate implicit in the lease. Lease liabilities are subsequently measured at amortised cost. Right-of-use assets are initially measured at cost, which comprises the initial amount of the lease liability. Right-of-use assets are included within property, plant and equipment in the Statement of Financial Position and are subsequently measured on the same basis.

	2020 $000
Right-of-use assets - plant, equipment and land	
Balance at beginning of year	2,488
Depreciation	(265)
Balance at end of year	**2,223**
Lease liabilities	
Balance at beginning of year	2,488
Interest expense	159
Lease payments - cash	(360)
Balance at end of year	**2,287**
Lease liabilities	
Current	203
Non-current	2,084
	2,287

Section D
Business funding

D1 Equity

At 30 June 2020 Port Otago Limited has 20,000,000 ordinary shares (2019: 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.

D2 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.

The reserves are represented by:

	2020 $000	2019 $000
Retained earnings		
Balance at beginning of year	489,655	448,803
Profit for the year	50,493	49,302
Less dividends paid	(9,500)	(8,450)
Balance at end of year	**530,648**	**489,655**
Hedging reserve		
Balance at beginning of year	(1,565)	(728)
Change in fair value of interest rate swaps	(654)	(1,162)
Deferred tax arising on fair value movement	183	325
Net change in cash flow hedges	(471)	(837)
Balance at end of year	**(2,036)**	**(1,565)**
Total Reserves	**528,612**	**488,090**

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 owner. The Group manages capital on the basis of the equity ratio with a target range of 70% to 85%.

D3 Dividends

	2020 $000	2019 $000
First interim dividend paid 22.5 cps (2019: 18 cps)	4,500	3,600
Second interim dividend paid 22.5 cps (2019: 18 cps)	4,500	3,600
Special dividends paid (2019: 3.75 cps)	-	750
Final dividend 5 cps (2019: 2.5 cps)	1,000	500
Dividends for the financial year	**10,000**	**8,450**
Adjust for dividends declared after year end:		
2020 Final dividend declared September 2020	(1,000)	-
2019 Final dividend declared September 2019	500	(500)
2018 Final dividend declared September 2018	-	500
Dividend distributed to owners as disclosed in the Statement of Changes in Equity	**9,500**	**8,450**
Dividends - cents per share (cps)	50	42.25

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 effective interest rate incorporating the effect of hedge contracts is 4.15% (2019: 4.22%).

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

Bank Borrowings	2020 $000	2019 $000
Current liability	5,140	930
Non-current liability	67,150	54,750
Total bank borrowings	**72,290**	**55,680**

Debt facility

The Group has an $81 million Short Term Advances Facility with ANZ Bank New Zealand Limited which the Group may draw from for terms ranging from call to the termination of the agreement, which is 1 July 2022. In addition the Group has a $29 million Commercial Flexi Facility with ANZ Bank New Zealand Limited which is subject to an annual review. The next review is due on 30 June 2021.

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 Port Otago Limited and Chalmers Properties Limited and registered first-ranking mortgages over land.

Section E
Group structure

E1 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.

E2 Principal subsidiaries

The Group included the following subsidiaries at 30 June 2020. All subsidiaries have a 30 June balance date.

Name	% of ownership interest	Principal activity	Principal place of business
Chalmers Properties Limited	100%	Property investment	Dunedin and Auckland
Te Rapa Gateway Limited	100%	Property investment	Hamilton
Fiordland Pilot Services Limited	100%	Shipping services	Fiordland

On 30 June 2020 South Freight Limited and Port Otago Limited were amalgamated with Port Otago Limited becoming the amalgamated company. The shares of South Freight Limited were cancelled without payment or other consideration.

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.

E3 Joint operation investments accounted for on a proportionate consolidation basis

Below are the joint operations of the Group 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
Hamilton Porter Joint Venture	66.7%	Property investment	Hamilton

The property investments in the Hamilton Porter Joint Venture provide geographical diversification of the property portfolio. Any capital commitments and contingent liabilities arising from the Group's interest in the joint operations are disclosed in notes G1 and G2 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 in the Hamilton Porter Joint Venture.

	2020		2019	
	100% $000	Group's 67% share $000	100% $000	Group's 67% share $000
Cash and cash equivalents	2	1	4	3
Other current assets	4,928	3,302	11,683	7,828
Total current assets	4,930	3,303	11,687	7,831
Non-current assets	7	5	9	6
Total assets	**4,937**	**3,308**	**11,696**	**7,837**
Current liabilities	(171)	(115)	(288)	(193)
Total liabilities	(171)	(115)	(288)	(193)
Net assets	**4,766**	**3,193**	**11,408**	**7,644**
Operating revenue	-	-	19,956	13,371
Interest revenue	-	-	20	13
Interest expense	-	-	-	-
Profit (loss) before tax	(336)	(224)	4,515	3,012
Income tax expense	-	-	-	-
Total comprehensive income (deficit)	**(336)**	**(224)**	**4,515**	**3,012**

E4 Joint venture investments accounted for using the equity method

On 30 April 2020 South Freight Limited, a subsidiary of Port Otago Limited, sold its 50% ownership interest in Icon Logistics Limited to Harbour Logistics Limited, the remaining shareholder.

Icon Logistics Limited		
Summarised statement of financial position	**2020** $000	**2019** $000
Cash and cash equivalents	-	593
Other current assets	-	1,251
Total current assets	-	1,844
Non-current assets	-	2,965
Total assets	-	**4,809**
Current liabilities	-	(804)
Non current liabilities	-	-
Net assets (100%)	-	**4,005**
Group's share of net assets (50%)	-	**2,003**

Summarised statement of comprehensive income	**2020** $000	**2019** $000
Operating revenue	7,368	8,845
Interest revenue	2	5
Interest expense	(11)	(11)
Profit before tax	424	465
Income tax expense	(121)	(135)
Total comprehensive income (100%)	303	330
Group's share of total comprehensive income (50%)	151	165
Plus gain on disposal of 50% interest	52	-
Share of profit from equity accounted investment	**203**	**165**

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 C1. Amounts payable to related parties are included in note C2.

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 2019 tax year losses to the Group. In conjunction with the tax loss transfer of $259,092 (2019 tax year: $258,592), by way of a tax loss offset, the Group made a subvention payment of $100,758 (2019 tax year: $100,564) to the ORC. The consequence of the tax loss transfer and the subvention payment was a $100,758 reduction in income tax payments in the current year (2019: $100,564). The amount paid to the Otago Regional Council for rates, rentals and resource consent fees during 2020 was $90,166 (2019: $84,870) with no balance outstanding at year end (2019: nil). The amount received from the Otago Regional Council as a contribution towards the operation of the Harbour Control Centre at Port Chalmers was $60,000 (2019: $60,000) with $17,250 receivable at year end (2019: $17,250).

Transactions with Icon Logistics Limited

Port Otago Limited had a 50% interest in Icon Logistics Limited through its wholly owned subsidiary, South Freight Limited. This interest was sold on 30 April 2020. Icon Logistics Limited is a tenant and purchaser of services from Port Otago Limited. The amount received from Icon Logistics Limited during 2020 for property rentals and sale of services was $121,732 (2019: $140,059) with $684 receivable at year end (2019: $15,609). Icon Logistics Limited also provides transport services to Port Otago Limited. The amount paid to Icon Logistics Limited during 2020 for the supply of transport services was $1,326,499 (2019: $1,507,330) with $128,749 payable at year end (2019: $112,934). South Freight Limited provided a $200,000 shareholder advance to Icon Logistics Limited during the 2019 financial year. For the period ended 30 April 2020, interest revenue of $5,340 was accrued on this advance (2019: $5,660).

Transactions with Hamilton Porter JV

Port Otago Limited has a 66.7% interest in the Hamilton Porter JV through its wholly owned subsidiary, Te Rapa Gateway Limited which has provided an advance to Hamilton Porter JV to fund its share of development and operating costs. At June 2020, the balance of the advance totals $103,000 (2019: nil). Hamilton Porter JV also has an accounts payable balance owing for recharged costs of $2,842. Chalmers Properties Limited provides accounting and administration services to Hamilton Porter JV for which $5,000 (2019: $10,000) was charged. At balance date the amount owing to Chalmers Properties Limited was nil (2019: nil). At June 2019, the Hamilton Porter JV was owed $6,382,762 from Te Rapa Gateway Limited for its share of land sales to external parties which settled just before balance date. The amount was repaid in full in September 2019 upon which capital totalling $4,203,000 was returned to Te Rapa Gateway Limited.

Directors

Mr D J Faulkner retired as Chair of Fulton Hogan Limited, a supplier to the Group on 1 January 2020. The amount paid to Fulton Hogan Limited, and its wholly owned subsidiaries during 2020 for the supply of goods and services including the project to bench Flagstaff Hill was $4,464,256 (2019: $1,777,583) with $425,830 payable at year end (2019: $521,386).

Mrs D J Taylor and Mr T D Gibson are Directors of Silver Fern Farms Limited, a customer of the Group. The amount received from Silver Fern Farms Limited during 2020 for container storage was $19,240 (2019: $640) with $563 receivable at year end (2019: nil).

Chief Executive

Mr K Winders resigned as a Director of Dunedin Venues Management Limited, a supplier to the Group in September 2019. The amount paid to Dunedin Venues Management Limited during 2020 for the supply of goods and services was $38,879 (2019: $34,724) with a receivable due to Port Otago from Dunedin Venues Management Limited of $6,110 at year end (2019 amount payable: $3,467).

Section F
Financial risk management

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including foreign currency risk and interest rate risk). The Group's overall risk management programme focuses on the unpredicability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group has a treasury policy which limits exposure to market risk for changes in interest rates and foreign currency, counter-party credit risk and liquidity risk. The Group uses derivative financial instruments such as foreign exchange contracts and interest rate swaps to hedge certain risk exposures. The Group does not hold derivative financial instruments for speculative purposes.

F1 Credit risk

Credit risk is the potential loss from a transaction in the event of default by a counterparty on its contractual obligations. Financial instruments which potentially subject the Group to credit risk, principally consist of bank balances, trade and other receivables and derivative financial instruments.

Risk management

Credit risk is managed for cash and cash equivalents, derivative financial instruments and deposits with banks, as well as credit exposures to trade receivables transactions. Derivative counterparties and cash transactions are limited to high credit quality financial institutions who currently have a Standard & Poors long-term credit rating of AA- or better. The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk. The Group's credit risk is also attributable to trade receivables which comprise a large number of customers, spread across diverse industries. The Group only extends credit after performing a credit assessment, which may include a review of their financial strengths, previous credit history with the Group, payment habits with other suppliers and bank references.

Trade receivables

The Group has applied the NZ IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit loss, the trade receivables have been grouped in accordance with shared credit risk characteristics and the days past due. Historical loss rates are adjusted to reflect current and forward-looking information. The Group identified business confidence and global growth to be the most relevant credit risk factors.

The trade receivables loss allowance was determined as follows:

	Current $000	30 days past due $000	60 days past due $000	90 days past due $000	Total $000
As at 30 June 2020					
Expected loss rate	0.03 %	0.04 %	0.20 %	31.83 %	
Gross carrying amount	8,690	2,267	500	333	11,790
Loss allowance	3	1	1	106	111
As at 30 June 2019					
Expected loss rate	0.04%	0.03%	0.34%	18.32%	
Gross carrying amount	9,543	3,417	584	202	13,746
Loss allowance	4	1	2	37	44

F2 Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its obligations as they fall due. The Group manages the risk by targeting a minimum liquidity level by continuously forecasting cash flows and matching the maturity profiles of financial assets and liabilities. The Group's exposure to liquidity risk on undiscounted cash flows relating to non-derivative and derivative financial liabilities is shown below:

	Weighted average effective interest rate	Carrying amount $000	Contractual cash flows $000	Less than 1 year $000	1-5 years $000	Greater than 5 years $000
As at 30 June 2020						
Trade and other payables		(8,132)	(8,132)	(8,132)	-	-
Lease liabilities		(2,287)	(3,163)	(356)	(1,264)	(1,543)
Borrowings (secured)	2.9%	(72,290)	(77,148)	(34,214)	(28,402)	(14,532)
Interest rate derivatives						
Current portion		(1,009)	(1,112)	(1,112)	-	-
Non current portion		(2,047)	(2,048)	-	(1,955)	(93)
Total interest rate derivatives (net)		(3,056)	(3,160)	(1,112)	(1,955)	(93)
Total as at 30 June 2020		**(85,765)**	**(91,603)**	**(43,814)**	**(31,621)**	**(16,168)**
As at 30 June 2019						
Trade and other payables		(11,952)	(11,952)	(11,952)	-	-
Borrowings (secured)	3.7%	(55,680)	(61,203)	(16,414)	(44,789)	-
Interest rate derivatives						
Current portion		(636)	(685)	(685)	-	-
Non current portion		(1,534)	(1,819)	-	(1,582)	(237)
Total interest rate derivatives (net)		(2,170)	(2,504)	(685)	(1,582)	(237)
Total as at 30 June 2019		**(69,802)**	**(75,659)**	**(29,051)**	**(46,371)**	**(237)**

F3 Market risk

Foreign currency risk

Foreign currency risk is the risk arising from the variability of the NZD currency values of the Group's assets, liabilities and operating cash flows, caused by changes to foreign exchange rates. The Group does not have any material exposure to currency risk except for the one off purchases of assets (e.g. plant and equipment) denominated in foreign currencies. The main foreign currencies the Group transacts with are EUR, USD and AUD. The Group treasury policy requires that foreign exchange contracts must be entered into for the purchase of major items of plant and equipment and that the full amount of the purchase must be hedged. Foreign exchange instruments approved under the treasury policy are forward exchange contracts and currency options.

Interest rate risk

Interest rate risk is the risk of loss to the Group arising from adverse fluctuations in interest rates. The Group has exposure to interest rate risk as a result of long-term borrowings which are used to fund on-going activities. The Group aims to reduce uncertainty of changes in interest rates by entering into floating-to-fixed interest rate swaps to fix the effective rate of interest to minimise the impact of interest rate volitility on earnings. By using floating-to-fixed interest rate swaps, the Group agrees with other parties to exchange at specific intervals (normally quarterly), the difference between the fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amount. Instruments approved under the treasury policy include vanilla interest rate swaps including forward start swaps.

Effects of hedge accounting on the financial position and performance

Interest rate swaps

The effects of the interest rate swaps on the Group's financial position and financial performance are outlined in the table below. The maturity date for the outstanding interest rate swaps range from December 2020 to March 2027 (2019: October 2019 to March 2026).

	2020 $000	2019 $000
Carrying amount (liability)	(2,824)	(2,170)
Notional amount	50,050	48,150
Hedge ratio	1:1	1:1
Change in fair value of outstanding hedging instruments recognised in the hedging reserve during the financial year	(654)	(1,162)
Weighted average hedged rate	3.6%	3.9%

Effects of non-hedge accounting on the financial position and performance

Forward start interest rate swaps

The effects of the forward start interest rate swaps on the Group's financial position and financial performance are outlined in the table below. The maturity date for the outstanding forward start interest rate swaps range from March 2025 to June 2029 (2019: nil).

	2020 $000	2019 $000
Carrying amount (liability)	(232)	-
Notional amount	13,000	-
Change in fair value of outstanding non-hedging instruments recognised in the Income Statement during the financial year	(232)	-
Weighted average hedged rate	2.0%	-

An analysis by maturities of interest rate swaps is provided in note F6 and a summary of the terms and conditions of borrowings in note D4.

F4 Summarised sensitivity analysis

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

2020	-100bps Profit $000	-100bps Other Equity $000	+100bps Profit $000	+100bps Other Equity $000
Interest rate risk				
Financial Liabilities				
Hedge accounted derivatives	-	(4,435)	-	(1,478)
Non-hedge accounted derivatives	(895)	-	373	-
Borrowings	723	-	(723)	-
Total sensitivity to interest rate risk	**(172)**	**(4,435)**	**(350)**	**(1,478)**

2019	-100bps Profit $000	-100bps Other Equity $000	+100bps Profit $000	+100bps Other Equity $000
Interest rate risk				
Financial Liabilities				
Hedge accounted derivatives	-	(3,542)	-	(948)
Borrowings	557	-	(557)	-
Total sensitivity to interest rate risk	**557**	**(3,542)**	**(557)**	**(948)**

F5 Capital risk management

The Group's objective when managing capital is to safeguard its ability to continue as a going concern, in order to provide returns for the shareholder and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group monitors balance sheet strengths and flexibility using cash flow forecast analysis and detailed budgeting processes. In addition, the Group monitors capital on the basis of the gearing ratio which is calculated as equity divided by total assets. The gearing ratio as at 30 June 2020 is 84% (2019: 84%).

F6 Derivative financial instruments

	2020 $000	2019 $000
Current liabilities		
Interest rate swaps	1,009	636
Total current liabilities	**1,009**	**636**
Non-current liabilities		
Interest rate swaps	1,815	1,534
Forward start interest rate swaps	232	-
Total non-current liabilities	**2,047**	**1,534**

The notional principal amount of the interest rate swap contracts including forward start interest rate swap contracts are as follows:

	2020 $000	2019 $000
Less than 1 year	10,300	7,100
1 - 2 years	13,650	10,300
2 - 3 years	5,000	13,650
3 - 4 years	7,000	5,000
4 - 5 years	8,000	7,000
Greater than 5 years	19,100	5,100
Total	**63,050**	**48,150**

Derivatives

The Group uses derivative financial instruments to reduce exposure to fluctuations in interest rates and foreign currency exchange rates. The use of hedging instruments is governed by the treasury policy approved by the Board. Derivatives are initially recognised at fair value on the date the derivative contract is entered into and are subsequently remeasured to fair value at balance date with an adjustment made for credit risk in accordance with NZ IFRS 13 'Fair Value Measurement'. The Group carries interest rate derivatives 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 Zelaand Limited based on the reporting date of 30 June 2020. The fair values are estimated on the basis of the quoted market prices for similar instruments in an active market or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument. Changes in the fair value of derivatives which have been successfully designated as part of a cash flow hedge relationship are recognised in the cash flow hedge reserve, to the extent they are effective. Any accounting ineffectiveness is recognised in the Income Statement. If the derivative is not designated as a hedged instrument, the resulting gain or loss is recognised immediately in the Income Statement.

Hedge accounting

The Group manages its exposure to flucuations in interest rate and foreign currency exchange rates through the use of derivatives. At the start of a hedge relationship, the Group formally designates and documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an on-going basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items. The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge) or hedges of exposure to variability in cash flows that is attributable to a particular risk associated with an asset or liability or to highly probable forecast transactions (cash flow hedges).

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the cash flow hedge reserve, while the gain or loss relating to the ineffective portion is recognised in the Income Statement. Amounts recognised in equity are recycled in the Income Statement in the period when the hedged item will affect profit or loss (for instance when the interest payment that is hedged takes place). The gain or loss relating to the effective portion of the interest rate swaps' hedging variable rate borrowings are recognised in the Income Statement within finance costs when the related interest is recognised. When the forecast transaction that is hedged results in the recognition of an item of property, plant and equipment, the gains or losses previously deferred in equity are transferred from equity and included in the measurement of the inital cost or carrying value of the item of property, plant and equipment. The deferred amounts are ultimately recognised in the Income Statement when the item of property, plant and equipment is depreciated. If the hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any amounts previously recognised in equity at that time remain in equity until the forecast transaction occurs. When a forecast transaction is no longer expected to occur amounts previously recognised in equity are transferred to the Income Statement.

Hedge ineffectiveness

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic effectiveness assessments to ensure an economic relationship exists between the hedged item and the hedged instrument. For hedges of foreign currency purchases, the Group enters into hedge relationships where the critical terms of the hedging instrument match, and therefore it is expected that the value of the forward contracts and the value of the corresponding hedged items will systematically change in opposite direction in response to movements in the underlying exchange rate. Ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated, or if there are changes in the credit risk of the Group or the derivative counterparty. The Group enters into interest rate swaps that have similar critical terms as the hedged item, such as reference rate, reset dates, payment dates, maturities and notional amount. Hedged ineffectiveness for interest rate swaps is assessed using the same principles as for hedges of foreign currency purchases. It may occur due to differences in critical terms between the interest rate swaps and loans.

Section G
Other disclosures

G1 Capital expenditure commitments

At 30 June 2020 the Group had commitments for capital expenditure of $4.01 million (2019: $22.58 million) which relates to purchases and refurbishments of port assets and investment property.

G2 Contingencies

There are no contingent liabilities at 30 June 2020 (30 June 2019: nil) other than those arising in the normal course of business.

G3 Significant events after balance date

Dividends

On 8 September 2020 the Directors declared a final dividend of $1.0 million for the year ended 30 June 2020. As the final dividend was approved after balance date, the financial effect of the dividend payable of $1.0 million has not been recognised in the Statement of Financial Position.

Directors

Mr Bob Fulton was appointed as a Director of Port Otago Limited and subsidiary companies on 1 July 2020.

G4 Statutory disclosure

The following disclosures are made pursuant to the Companies Act 1993 in respect of the financial year ended 30 June 2020.

Directors' interests

Directors' have disclosed the following general interests for the year ended 30 June 2020 in accordance with Section 140 of the Companies Act 1993:

Director	Entity	Relationship
P F Rea	Waitomo Group Limited *(and its wholly owned subsidiaries)*	Director
	Besafe Barrier Limited	Director
P F Heslin	Forsyth Barr Custodians Limited	Chair
	Forsyth Barr Cash Management Nominees Limited	Chair
	Jedaka Limited	Director
	P Heslin Limited	Director
T D Gibson	Fiscus Limited	Director
	Gibson Walker Limited	Director
	Livestock Improvement Corporation Limited *(and its wholly owned subsidiaries)*	Director
	Miraka Limited	Director
	Silver Fern Farms Holdings Limited *(and its wholly owned subsidiaries)*	Director
	Silver Fern Farms Cooperative Limited	Director
	Skills International Limited	Director
	The Equanut Company Limited	Director
	Tūhana Consulting Limited *(and its wholly owned subsidiaries)*	Director
	Water Micro Limited	Director
T Campbell	Electricity Invercargill Limited	Chair
	Southern Generation LP	Chair
	Todd Corporation Limited	Director
	PowerNet Limited	Director
D J Taylor	Landcare Research New Zealand Limited	Chair
	Orion New Zealand Limited	Chair
	Predator Free 2050 Limited	Chair
	External Reporting Board	Deputy Chair
	OTPP New Zealand Forest Investments Limited	Director
	Silver Fern Farms Holdings Limited *(and its wholly owned subsidiaries)*	Director
	Silver Fern Farms Cooperative Limited	Director
	The Aspen Institute New Zealand Limited	Director
D J Faulkner *(Retired during the year)*	Fulton Hogan Limited *(retired 1 January 2020)*	Chair
	Cold Storage Nelson Limited	Director

Directors' remuneration

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

	Total Group $000
P F Rea (Chair)	83
P F Heslin	63
T D Gibson	54
T Campbell	52
D J Taylor	54
D J Faulkner (retired)	50
	356

Directors of subsidiary companies

Directors fees for Chalmers Properties Limited are included in the Group Directors remuneration. No directors fees were paid by Fiordland Pilot Services Limited, Te Rapa Gateway Limited and South Freight Limited.

The following persons held office as Directors of subsidiary companies at 30 June 2020 or retired during the year as indicated (R):

Company	Director
Chalmers Properties Limited	P F Rea P F Heslin T D Gibson T Campbell D J Taylor D J Faulkner (R)
Fiordland Pilot Services Limited	P F Rea P F Heslin T D Gibson T Campbell D J Taylor D J Faulkner (R)
Te Rapa Gateway Limited	P F Rea P F Heslin T D Gibson T Campbell D J Taylor D J Faulkner (R)

Employee remuneration

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

Remuneration range ($)	Number of employees
630,001 – 640,000	1
410,001 – 420,000	1
290,001 – 300,000	2
280,001 – 290,000	1
250,001 – 260,000	1
240,001 – 250,000	1
220,001 – 230,000	8
190,001 – 200,000	1
180,001 – 190,000	1
170,001 – 180,000	1
160,001 – 170,000	3
150,001 – 160,000	3
140,001 – 150,000	5
130,001 – 140,000	5
120,001 – 130,000	13
110,001 – 120,000	12
100,001 – 110,000	42

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

Donations

During the year the Group made donations of $10,560 (2019: $4,067).

Indemnities and insurance

Pursuant to section 162 of the Companies Act 1993 and the Constitution, Port Otago has entered into deeds of indemnity and insurance with the Directors of the Group to indemnify them to the maximum extent permitted by law, against all liabilities which they may incur in the performance of their duties as Directors of any company within the Group. Insurance cover extends to Directors and Officers for the expenses of defending legal proceedings and the cost of damages incurred. Specifically excluded are proven criminal liability and fines and penalties other than those pecuniary penalties which are legally insurable. In accordance with commercial practice, the insurance contract prohibits further disclosure of the terms of the policy. All Directors who voted in favour of authorising the insurance certified that in their opinion, the cost of the insurance is fair to the Company.

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 2020 was $129,000 (2019: $138,000).

For and on behalf of the Board of Directors

P F Rea
Chair
8 September 2020

P F Heslin
Deputy Chair
8 September 2020

Independent Auditor's Report

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

To the readers of Port Otago Limited Group's financial statements for the year ended 30 June 2020

The Auditor-General is the auditor of Port Otago Limited Group (the Group). The Auditor-General has appointed me, Rudie Tomlinson, 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 89 to 134, that comprise the statement of financial position as at 30 June 2020, the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement 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 2020; 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 8 September 2020. This is the date at which our opinion is expressed.

The basis for our opinion is explained below, and we draw attention to the impact of Covid-19 on the Group. 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.

Emphasis of matter – impact of Covid-19

Without modifying our opinion, we draw attention to the disclosures about the impact of Covid-19 on the Group as set out in the notes to the financial statements. We draw specific attention to the following matter due to the significant level of uncertainty caused by Covid-19:

- **Investment Property**

  Note B4 on page 106 describes the material uncertainties highlighted by the valuers, related to estimating the fair values of the Group's Investment Property assets.

Basis for our opinion

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

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

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

Responsibilities of the Board of Directors for the financial statements

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

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

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

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

Responsibilities of the Auditor for the audit of the financial statements

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

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

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

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

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

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

Our responsibilities arise from the Public Audit Act 2001.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 1 to 88, 135 to 138 and 141 to 143, 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: International 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.

Rudie Tomlinson
Audit New Zealand
On behalf of the Auditor-General
Dunedin, New Zealand

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	191,900 TEU[ø]	188,000 TEU[ø]	Target achieved
Bulk cargo throughput	1.47 million tonnes	1.70 million tonnes	Target not achieved
Number of cruise vessel arrivals	112 vessels	123 vessels	Target not achieved
Container terminal productivity			
Gross container crane productivity	25.5 lifts per crane hour	27.5 lifts per crane hour	Target not achieved
Sustainability			
Incidents leading to pollution of harbour	1 minor spill while refueling tug	Nil	Target not achieved
Full compliance with all resource consent conditions	Nil breaches of resource consent conditions	Nil breaches of resource consent conditions	Target achieved
Reduction in energy usage and adoption of new technology	Energy audit completed which identified target areas		Target partially achieved
Health and Safety			
Total Recordable Injury Frequency Rate (TRIFR) (frequency rate per 1 million work hours)	22.7	<10	Target not achieved
Leadership to undertake 40 Visual Safety Leadership Audits/Observations per month	1,044	480	Target achieved
Identification and management of critical risks	22 bowtie risk assessments completed	All	Target achieved

FINANCIAL PERFORMANCE

Port Otago Group

	ACTUAL	TARGET	OUTCOME
EBIT* return on average assets	4.9%	6.0%	Target not achieved
Return on average shareholder funds	9.6%	5.0%	Target achieved
Equity ratio	84%	82%	Target achieved
Debt servicing ratio (times) #	11.5	10.9	Target achieved

Port businesses

	ACTUAL	TARGET	OUTCOME
EBIT* return on average assets	4.3%	6.7%	Target not achieved
Return on average shareholder funds	3.9%	5.9%	Target not achieved

Property business

	ACTUAL	TARGET	OUTCOME
EBIT* return on average assets	5.2%	5.3%	Target not achieved
Return on average shareholder funds	12.5%	4.4%	Target achieved

ø TEU = twenty foot equivalent units
* EBIT = earnings before interest, taxation, realised and unrealised investment property gains
# Debt servicing ratio = number of times interest is covered by the earnings before interest, taxation, realised and unrealised investment property gains

Five year summary

Trade and operational analysis	2020	2019	2018	2017	2016
Container and bulk cargo vessel arrivals	476	458	442	415	391
Otago cruise vessel arrivals	112	115	87	79	70
Total ship calls	588	573	529	494	461
Container throughput (TEU)	191,900	208,600	204,700	178,200	172,400
Bulk cargo tonnes (000's)	1,467	1,764	1,686	1,534	1,343
Employees	319	343	329	311	309
Financial comparisons	**2020** $000	**2019** $000	**2018** $000	**2017** $000	**2016** $000
Revenue #	108,297	121,704	109,389	89,531	80,774
EBITDA #	42,466	44,043	40,377	34,656	31,341
Unrealised net change in value of investment property	27,943	22,839	22,049	19,870	19,957
Profit for the year	50,493	49,302	43,856	38,700	34,099
Dividends for financial year *	10,000	8,450	9,000	7,500	7,300
Shareholder equity	548,612	508,090	468,075	433,552	401,706
Total assets					
Port businesses	248,137	224,472	226,506	200,638	197,247
Investment property	407,641	377,867	356,721	332,990	299,874
Total group	655,778	602,339	583,227	533,628	497,121
Cash flows					
Cash flows from operating activities	28,167	35,929	31,303	21,688	18,188
Port capital expenditure	(23,118)	(14,501)	(36,707)	(11,266)	(30,653)
Investment property capital expenditure	(16,645)	(7,294)	(3,372)	(9,642)	(8,424)
Shareholder equity	84%	84%	80%	81%	81%
Return on average shareholder funds **					
Before unrealised revaluations	4.3%	5.4%	4.8%	4.6%	3.9%
After unrealised revaluations	9.6%	10.1%	9.7%	9.3%	8.8%
EBIT return on average assets #					
Port businesses	4.3%	6.5%	5.7%	6.3%	5.4%
Investment property	5.2%	5.1%	5.3%	4.2%	4.2%
Total group	4.9%	5.8%	5.6%	5.0%	4.7%

* Includes the final dividend for the financial year declared after balance date, as disclosed in Note D3
** Profit, divided by average shareholder equity
\# Excludes gain on sale of investment property and property, plant and equipment

Directory

Directors

Paul Rea	Chair
Pat Heslin	Deputy Chair
Tim Gibson	
Tom Campbell	
Jane Taylor	
Bob Fulton	(appointed 1 July 2020)
Dave Faulkner	(retired 31 December 2019)

Leadership team

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

Address

15 Beach Street
Port Chalmers 9023
New Zealand
www.portotago.co.nz

Bankers

ANZ Bank New Zealand Limited

Solicitors

Anderson Lloyd

Auditors

Audit New Zealand on behalf of the Auditor-General


MAERSK