2024 Port Otago

Annual Report

Full year review

from the Chair and Chief Executive

Highlights and challenges

Record cruise season with 118 visits

Record container volumes with 269,000 TEU handled

Consistent bulk volumes

Strategic refresh

Challenging economic conditions for construction

Our strategic direction

The Board and Leadership Team reviewed our "Build a better business" strategy to consider how we need to support our customers into the future. Our material issues engagement process provided important insight from stakeholders, which directly shaped our thinking about where we need to focus. Based on that insight and the support of our shareholder, we have developed our roadmap for the future, to be New Zealand's *always open* port.

To that end, we will leverage our existing infrastructure to be always open, underpinned by our natural harbour and our robust harbour defences and in-house dredging capabilities. We will be prepared and respond to extreme weather events, so we are first to be always open for our customers and shipping partners. At the same time, we will adapt and be always open to growth opportunities, so long as they deliver sustainable value for our customers and stakeholders. We are already investing in additional buffer capability within the supply chain, to be always open so our customers can continue operating.

We are always open to the use of new technology. We are increasingly using data to guide day-to-day decisions, as a first step towards future decision-making models. We continue to optimise our operational performance, doing so more safely, with the same resources.

Reducing our climate-related risks – both at port and across our property portfolio – is important to remove volatility and deliver reliable returns. Investment in reducing our carbon footprint needs to be balanced with the short, medium and long-term needs of the business versus the needs of our shareholder and stakeholders. Our challenge is to balance these competing needs.

The business and our leadership are in good shape to deliver this strategy over the long term. We are aligned with our shareholder's expectations, which it requires to support its long-term plan. Our Statement of Corporate Intent will see an increase in dividend and sponsorship levels for the next three years.

Group result

Underlying profit for the year of $34.4 million was up 7.5% compared to $32.0 million last year. This was due to a record container and cruise season, alongside solid contributions from Port Otago Group's other business units.

The container throughput of 268,900 TEU included 103,800 tranship TEU and was 44% higher than last year's total container throughput of 186,400 TEU (which included 29,000 tranships). There were 211 container vessel calls during the year – up from 152 last year – including the Maersk Polaris service, which delivered tranship volumes from other South Island ports.

We received 118 cruise vessels this season – 17% more than last season's 101 vessels.

Bulk cargo volumes were down marginally to 1.70 million tonnes, compared to 1.77 million tonnes last year. Log export volumes remained consistent at 1.0 million tonnes. Fertiliser volumes were down to 87,000 tonnes, compared to 138,000 tonnes last year. Overall, a solid result given global market conditions.

Headline rental income from our investment property portfolio increased

15% to $30.3 million. The 2024 result includes an unrealised investment property revaluation of $4.4 million and one-off gains of $3.6 million from the sale of properties. The positive revaluation is a function of our strategy of maintaining a diversified property portfolio spread across Auckland, Hamilton and Dunedin.

The group's total revenue of $133 million was up 20% compared to the previous year. Operating expenses were up 12%, to $87.5 million. This included staff costs associated with the new 10-hour shift model, implemented in response to increased port activity.

The reported net profit after tax of $30.4 million included a deferred tax expense of $6.3 million relating to building tax depreciation. Excluding this expense, the group profit was $36.7 million, compared to $23.3 million last year.

It is noteworthy that the group invested $47 million developing port and property assets, while maintaining total year-end borrowings at $140 million. This is consistent with the previous year-end borrowings' balance.

Pleasingly, we also increased the dividend to our shareholder by $2 million – to $16 million – in line with our Statement of Corporate Intent.

The group maintains a healthy debt to capital ratio* of 16% and the shareholder's equity ratio remains strong at 78%.

** Debt to capital ratio (debt/debt + equity) measures a company's capital structure, financial solvency and degree of leverage at a point in time. A lower ratio indicates greater flexibility in raising additional capital from debt.*

Record cruise season

Following on from last year's return of cruise post Covid, our Cruise team welcomed its first ship in early October. By season's end, we had hosted 118 cruise ships in Port Chalmers and Dunedin, as well as piloting 67 cruise vessels through Fiordland. Throughout the cruise season, 272,000 passengers and crew visited our region and we estimate the economic benefit to Dunedin City and surrounds to be in excess of $90 million.

We were delighted to partner with our cruise lines to sponsor the Port Chalmers Volunteer Fire Brigade with $100,000 towards a new first-response vehicle for our community. The brigade can now reach local residents experiencing medical events in a faster time, making a genuine difference.

Record container throughput

Following on from last season, Maersk continued to hub the Polaris service out of Port Chalmers. Combined with the other four shipping services calling Port Chalmers, our terminal handled a record 268,900 TEU. The Operations team was stretched at times, as shipping reliability on the New Zealand coast was hampered by disruptive weather events. This caused delays throughout the port network and congestion in the terminal, culminating in reduced productivity.

A commitment from Maersk underpinned our move to increase staff numbers to cater for the additional transship volumes and 16 new Cargo Handlers joined our kaimahi in the second half of the season. Thank you to our existing Operations team for stepping up to keep our region's cargo moving, while we built up the extra resourcing.

In November, we welcomed back ANL to Port Chalmers with the TRANZTAS service – an additional Trans-Tasman option and onwards connection for our region's exporters. After a short period calling Port Otago, we farewelled the ZIM service, as ZIM relocated New Zealand-based vessels elsewhere.

New Zealand continued to experience the impact of global disruption in supply chains, with Red Sea delays drawing on additional vessels to keep goods moving. We expect similar conditions for the season ahead, but are better prepared to provide a more reliable supply chain for our customers and shipping partners.

Keeping the focus on safety

We are unwavering on improving our controls for critical risk management. Risk is being eliminated by changing the way we work and providing more room for our kaimahi to "fail safely" – an approach that is underpinned by leadership and team engagement.

We completed our third independent SafePlus audit in November. This involved 40 interviews with a randomised selection of kaimahi and covered all aspects of our port safety culture. Pleasingly, engagement with our Health and Safety Representatives improved significantly, as did the rate of upskilling our leaders. Our learning management system is now well embedded as a critical tool in ensuring our kaimahi understand and have the skills to keep us all safe.

Our TRIFR rate was 13.8, up from 10.6 last year. We are still experiencing too many slips and trips resulting in Lost Time Injuries and, as a result, have invested in additional support for our wellness and injury prevention programmes to help staff prepare for work and reduce the number of avoidable injuries.

Our kaimahi

In January 2024, the Collective Employment Agreement (CEA) was decided upon with the two operational unions, Maritime Union of New Zealand (MUNZ) and Rail and Maritime Transport Union (RMTU). The agreement provides a change in shift patterns – from three eight-hour rolling shifts, to two 10-hour fixed shifts. The new roster improves work-life balance and reduces fatigue risk for our kaimahi, while increasing productivity for our shipping partners and supply chain efficiencies for regional exporters. This roster change is a significant step towards becoming a more agile and always open port.

Our People team rolled out the "Good Yarn" mental health initiative this year. It involves members of our kaimahi training to look out for signs that someone is struggling and having the confidence to ask if they are alright, and how they might help.

Our Leadership Team was bolstered by the appointment of Ollie Barton-Jones to Head of IT, where he is advancing our investment in systems and use of data.

Tom Campbell retired as a Director at the end of December, following six years' service. We acknowledge the governance skills, experience and wisdom that he brought to our Board. Nelson-based Rick Herd (ex Naylor Love Chief Executive) was subsequently appointed as a Director. Kate Faulks finished her 18-month term as a Board intern in June 2024.

We acknowledge the contribution of our Port Noise Liaison Committee Chair, David Richardson, who died suddenly in March. David brought a high level of professionalism to the role and was a strong advocate for our local community, setting the standard for the future. In June, Dr Mara Wolkenhauer was appointed as new Chair.

Construction inflation dampens demand

We completed two new builds – a third for Steel & Tube and a first for KOR Equipment – during the year. Challenging economic conditions and increasing costs of construction have slowed demand for new warehouses. We have two buildings under construction: a new build for RML Construction in Hamilton and the Whare Rūnaka for our shareholder in Dunedin.

While challenging economic conditions impacted demand for new builds, softer rental demand flowed through to current tenants and our team is helping where it can, to facilitate downsizing or subletting of warehouses. At balance date, our property portfolio was 99% tenanted and our Weighted Average Term Lease is a healthy 6.4 years.

We continue to diversify our risk by increasing our investment outside of Dunedin, into Hamilton and Auckland.

Adapting to our changing climate

The Board's Sustainability subcommittee worked closely with the Leadership Team to build a sustainability framework that we are now embedding into the business.

As part of our work plan, we have engaged with global equipment providers and visited ports in New Zealand and offshore to understand options for replacing our diesel-fuelled mobile plant and marine fleets. There are very few operational electric options available in the short term, so we will continue extending the life of our existing fleets to allow time for technology solutions to mature.

We engaged environmental/engineering consultants Tonkin and Taylor to lead our team in risk workshops to better understand climate risks to our infrastructure for both port and property assets. Output from the workshops is now informing our future investment plans, as we overlay adaptation and carbon reduction activity across our asset management plan.

Investing in infrastructure

The 1890s-built Port Chalmers Cross Wharf was finally replaced, completing our modern fit-for-purpose wharf infrastructure. At a cost of $8.3m, the new wharf provides a dedicated pedestrian walkway for our double-day cruise passengers and increased yard space for our straddle fleet.

We welcomed the $3.4m Te Rauone pilot boat to our marine fleet. She is already delivering both safer and lower carbon outcomes for the port.

The increased activity in our container business required additional depot space and we recently opened a new depot at Ravensbourne. The additional capacity will improve service levels for our customers and shipping partners in the years ahead.

Looking forward

Tougher economic conditions will continue to challenge our regional economy through increased input prices. We expect export volumes to reduce as some sectors continue to struggle with passing on increased costs; imports are likely to stay at low levels.

We will see a 20% reduction in the number of cruise ships calling Port Chalmers and Dunedin this season. Cruise lines are repositioning vessels to higher-yielding markets offshore, as New Zealand becomes a high-cost destination. This is disappointing for our local and regional tourism providers who have had a tough few years battling through Covid. We are engaged with cruise lines to promote the value of visiting Fiordland and Otago, with the goal of winning back business in the medium term.

The 2024/25 asset management plan will see significant levels of activity at Port Chalmers, with the replacement of our 1970s' rail pad and a cruise terminal upgrade. We are also investing in pilot accommodation in Milford and strengthening the Aramoana mole. All these activities are critical to remaining always open for business. We look forward to completing our two property developments in the year ahead and engaging with prospective tenants for new builds, when economic conditions improve.

Port Otago Group remains in a strong financial position to take advantage of the right opportunities as they arise – opportunities that will create long-term value for our shareholder.

Tim Gibson
Chair

Kevin Winders
Chief Executive

Underlying profit as financial performance measure

Port Otago understands the importance of reported profits meeting accounting standards. Because we comply with accounting standards, users of the financial statements know that comparisons between different companies can be made with confidence and that there is integrity in our reporting approach.

However, we believe an underlying profit measurement can also assist understanding business performance – particularly for an organisation such as Port Otago, where revaluation changes can distort financial results and make it difficult to compare profits between years.

For this reason, Port Otago refers to underlying profits, alongside reported results. That is, when we report the results, we exclude fair value changes of investment property adjusted for changes that relate to development projects completed during the year and one-off items such as the deferred tax impact of the legislative change to remove building tax depreciation deductions.

The table shows the reconciliation between reported profit and underlying profit for the years ended 30 June 2024 and 2023.

	2024 $000	2023 $000
Profit for the year	$30,423	$23,277
Less		
Unrealised change in the fair value of investment property	($4,391)	$458
Income tax on revaluations	$151	($2,229)
Profit for the year before revaluations	$26,183	$21,506
Plus		
Development margin on completed property projects	$2,321	$12,595
Income tax on development margin	($409)	($2,056)
Development margin net of tax	$1,912	$10,539
Deferred tax liability on buildings arising from legislative change	$6,339	-
Underlying profit	**$34,434**	**$32,045**

Notes to table

We have made the following adjustments to show underlying profit for the years ended 30 June 2024 and 2023:

1. Reversed out the impact of revaluations of investment property in 2024 and 2023. A user of the financial statements should monitor changes in investment property over time as a measure of growing value. However, a change in one particular year is too short to measure long-term performance. Changes between years can be volatile and, consequently, will impact comparisons. The revaluation is unrealised and therefore is not considered when determining dividends in accordance with the dividend policy.

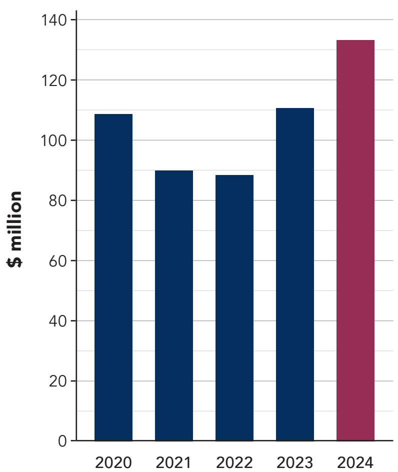
2. Added back the unrealised change in the fair value of investment property that relates to investment property development projects completed during the year. This margin is the result of commercial arrangements entered into and is largely within our control, year by year.

3. Reversed out the taxation impacts of the above movements in both the 2024 and 2023 financial years.

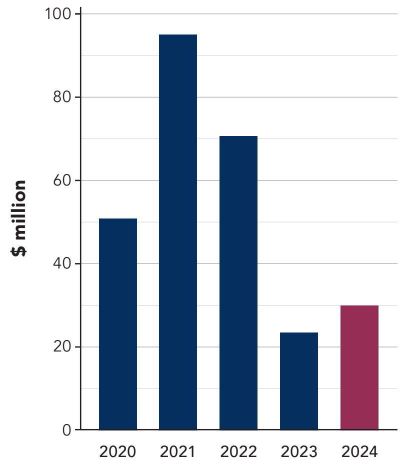
4. Reversed out the deferred tax liability on buildings arising from legislative change.

Our 2024 results

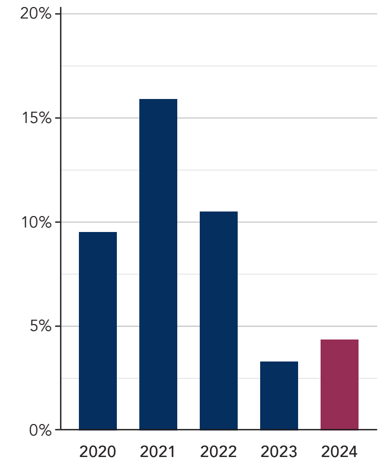
Revenue



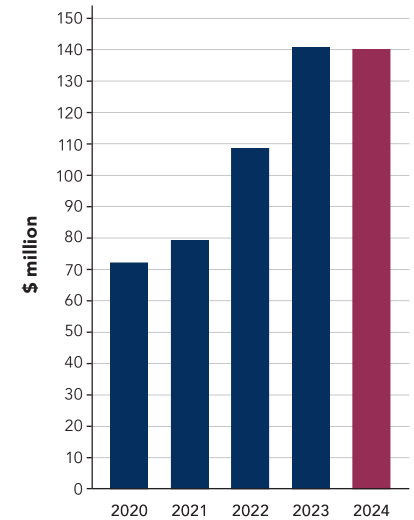
Net profit after tax



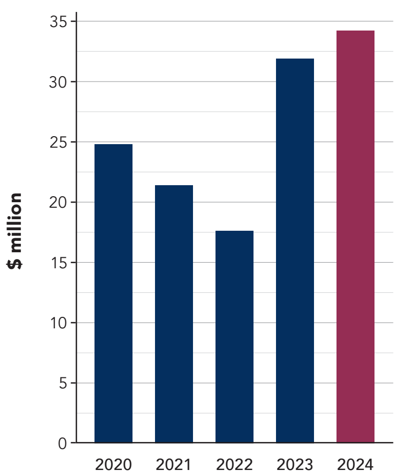
Return on equity



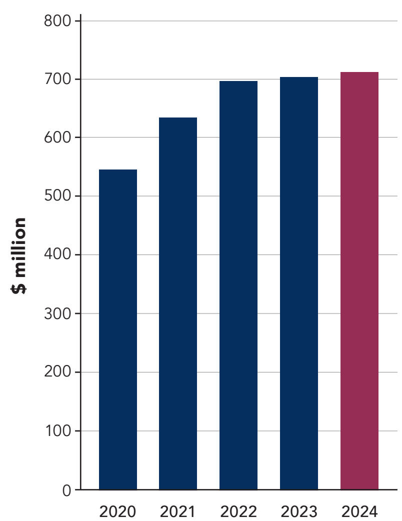
Bank debt



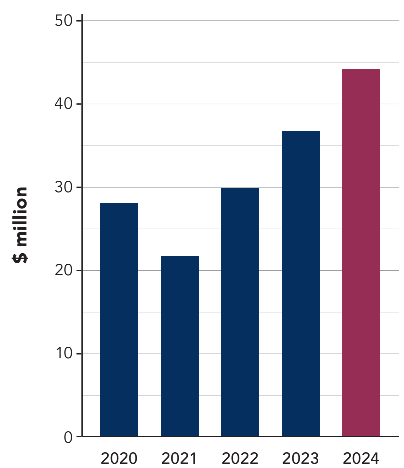
Underlying profit



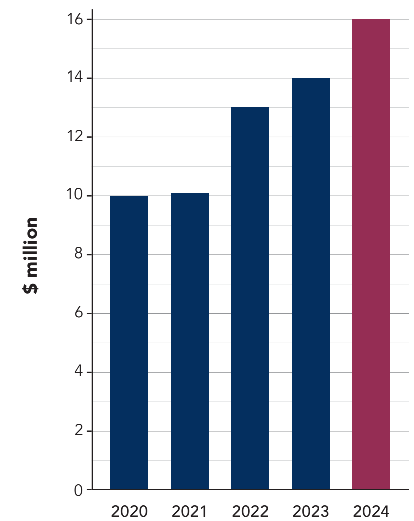
Shareholder equity



Operating cash flow



Dividends



Consolidated income statement

~ for the year ended 30 June 2024

	Notes	2024 $000	2023 $000
Revenue	A1	**133,171**	**111,272**
Operating expenses	A2		
Staff costs		(43,870)	(37,529)
Purchased materials and services		(30,131)	(28,283)
Depreciation, amortisation and impairment		(13,497)	(12,479)
Total operating expenses		**(87,498)**	**(78,291)**
Contribution from operating activities		**45,673**	**32,981**
Finance income		219	74
Finance expense		(6,069)	(3,891)
Net finance costs	A3	**(5,850)**	**(3,817)**
Gain on disposal of property		3,638	997
Subvention payment		-	(100)
Fair value change in ineffective interest rate swaps		(639)	(46)
Unrealised change in the fair value of investment property	B1	4,391	(458)
Profit before income tax		**47,213**	**29,557**
Deferred tax liability on buildings arising from legislative change		(6,339)	-
Other deferred tax		(239)	1,948
Current tax		(10,212)	(8,228)
Income tax expense	A4	**(16,790)**	**(6,280)**
Profit for the year		**30,423**	**23,277**

Consolidated statement of comprehensive income

~ for the year ended 30 June 2024

	2024 $000	2023 $000
Profit for the year	30,423	23,277
Other comprehensive income that may be reclassified to profit and loss in subsequent periods		
Cash flow hedges		
Fair value change in effective interest rate swaps (net of tax)	(1,072)	165
Total comprehensive income for the year	**29,351**	**23,442**

The accompanying notes form part of these financial statements

Consolidated statement of changes in equity

~ for the year ended 30 June 2024

	Notes	Share capital $000	Investment property revaluation reserve $000	Hedging reserve $000	Retained earnings $000	Total equity $000
Balance at 1 July 2022		**20,000**	**388,225**	**1,949**	**284,304**	**694,478**
Profit for the period		-	-	-	23,277	23,277
Transfer (from) / to		-	(458)	-	458	-
Other comprehensive income		-	-	165	-	165
Total comprehensive income		**-**	**(458)**	**165**	**23,735**	**23,442**
Transactions with owners in their capacity as owners						
Dividends paid	D2	-	-	-	(14,000)	(14,000)
Other movements						
Revaluation reserve reclassified to retained earnings on disposal of assets		-	(2,009)	-	2,009	-
Balance at 30 June 2023	D1	**20,000**	**385,758**	**2,114**	**296,048**	**703,920**
Profit for the period		-	-	-	30,423	30,423
Transfer (from) / to		-	4,391	-	(4,391)	-
Other comprehensive income		-	-	(1,072)	-	(1,072)
Total comprehensive income		**-**	**4,391**	**(1,072)**	**26,032**	**29,351**
Transactions with owners in their capacity as owners						
Dividends paid	D2	-	-	-	(16,000)	(16,000)
Other movements						
Revaluation reserve reclassified to retained earnings on disposal of assets		-	(13,216)	-	13,216	-
Balance at 30 June 2024	D1	**20,000**	**376,933**	**1,042**	**319,296**	**717,271**

The accompanying notes form part of these financial statements

Consolidated statement of financial position

~ as at 30 June 2024

	Notes	2024 $000	2023 $000
Current assets			
Cash and cash equivalents		55	55
Trade and other receivables	C1	19,046	19,576
Non-current assets held for sale	B3	15,795	-
Maintenance inventories	C3	2,047	1,571
Derivative financial instruments	F6	1,626	2,149
		38,569	23,351
Non-current assets			
Property inventories	B2	13,966	15,507
Investment property	B1	607,214	604,914
Property, plant and equipment	B5	248,404	240,832
Intangible assets	B6	4,101	4,205
Derivative financial instruments	F6	1,310	2,430
Other financial assets	D3	2,088	2,088
		877,083	869,976
Total assets		**915,652**	**893,327**

	Notes	2024 $000	2023 $000
Current liabilities			
Trade and other payables	C2	14,650	14,946
Borrowings	D3	55,080	59,500
Employee entitlements	C4	7,562	6,079
Derivative financial instruments	F6	-	23
Lease liabilities	C5	297	277
Income tax payable		6,229	4,715
		83,818	85,540
Non-current liabilities			
Borrowings	D3	85,323	81,128
Employee entitlements	C4	1,014	861
Derivative financial instruments	F6	600	115
Lease liabilities	C5	1,992	2,290
Deferred tax liabilities	A4	25,634	19,473
		114,563	103,867
Total liabilities		**198,381**	**189,407**
Equity			
Share capital		20,000	20,000
Reserves		377,975	387,872
Retained earnings		319,296	296,048
Total equity	D1	**717,271**	**703,920**
Total equity and liabilities		**915,652**	**893,327**

For and on behalf of the Board of Directors

T D Gibson Chair

P F Heslin Director

The accompanying notes form part of these financial statements

Consolidated cash flow statement

~ for the year ended 30 June 2024

	Notes	2024 $000	2023 $000
Cash flows from operating activities			
Receipts from customers		129,870	101,427
Payments to suppliers and employees		(72,912)	(54,663)
Purchase of property inventories		-	(929)
Interest paid		(5,586)	(3,612)
Subvention payments		-	(100)
Income tax payments		(8,697)	(4,361)
Net GST received (paid)		1,750	(637)
Net cash flows from operating activities	G1	**44,425**	**37,125**
Cash flows from investing activities			
Proceeds from sale of investment property		18,641	2,596
Proceeds from sale and derecognition of property, plant and equipment		11	5,713
Insurance proceeds		841	-
Purchase and development of investment property		(24,956)	(30,981)
Purchase of property, plant and equipment		(21,338)	(30,718)
Interest capitalised	A3	(1,122)	(1,041)
Net cash flows from/(to) investing activities		**(27,923)**	**(54,431)**

	Notes	2024 $000	2023 $000
Cash flows from financing activities			
Proceeds from borrowings		8,000	74,250
Repayment of borrowings		(8,225)	(42,710)
Dividends paid	D2	(16,000)	(14,000)
Repayment of lease liabilities	C5	(277)	(259)
Net cash flows from/(to) financing activities	G2	**(16,502)**	**17,281**
Increase (decrease) in cash held		**-**	**(25)**
Cash held at beginning of period		55	80
Cash held at end of period		**55**	**55**

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 integrated report.

The financial statements presented are those of Port Otago Limited and its subsidiaries ("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 2024 and were issued by the Board on 23 August 2024.

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 New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) issued and are effective as at the time of preparing these statements 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).

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. All values are rounded to the nearest thousand dollars ($'000).

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 standards, amendments and interpretations

There are no new standards or amendments to existing standards that are effective for the year ended 30 June 2024 that have a material effect on the financial statements of the Group. There were also no standards, except for NZ IFRS 18 *Presentation and Disclosure in Financial Statements* ("NZ IFRS 18"), issued but not yet effective that could have a material effect on the Group.

NZ IFRS 18 was issued in May 2024 as a replacement for NZ IAS 1 Presentation of Financial Statements ("NZ IAS 1") and applies to an annual reporting period beginning on or after 1 January 2027. Most of the presentation and disclosure requirements would largely remain unchanged together with other disclosures carried forward from NZ IAS 1. NZ IFRS 18 primarily introduces the following:

- a defined structure for the statements of changes in equity by classifying items into one of the five categories: operating, investing, financing, income taxes, and discontinued operations. Entities will also present expenses in the operating category by nature, function, or a mix of both, based on facts and circumstances, and
- disclosure of management-defined performance measures in a single note together with reconciliation requirements, and
- additional guidance on aggregation and disaggregation principles (applied to all primary financial statements and notes).

Critical estimates and assumptions

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

Further information about 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)
- Useful lives of property, plant and equipment (note B5).

Comparatives

Certain prior period assets and liabilities have been reclassified between functional categories for consistency with the current period.

Areas of restatement include:

- Consolidated statement of financial position - Related party loans of $53.9 million have been reclassified from non-current to current to align with the current period classification.
- Related party disclosures Note E3 - Amounts paid to the Otago Regional Council on related party loans were updated to include interest payments of $4.3 million and interest owing of $0.5 million.

Section A Financial Performance

A1 Revenue

Marine and cargo services and warehousing and logistics services revenue

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 based on the service price specified in the relevant tariffs or specific customer contract. The contract price for the services performed reflects the value transferred to the customer and is accounted for as a single performance obligation and recognised over-time. Revenue is shown net of rebates and discounts.

Property rentals

Port property rentals are derived from leased property (see note B5) integral to the import and export of goods through the port and subject to an operating lease with a port customer. Revenue is recognised on a straight-line basis over the lease term.

Investment property rentals are 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.

Insurance proceeds

Insurance proceeds include recoveries relating to a claim for damage to a container terminal straddle and a claim for damage to a pilot vessel engine.

	2024 $000	2023 $000
Disaggregation of revenue		
Marine and cargo services	85,062	68,821
Warehousing and logistics services	8,580	8,589
Port property rentals	8,406	7,533
Investment property rentals	30,264	26,329
Insurance proceeds	859	-
Total revenue	**133,171**	**111,272**

A2 Operating expenses

Expenses incurred in the financial year of $87.5 million (2023: $78.3 million) for the Group include the following:

	2024 $000	2023 $000
Staff costs		
Wages and salaries	41,771	35,795
Employer superannuation contribution	2,099	1,734
Total staff costs	**43,870**	**37,529**

Salaries and other short and long-term employee benefits, paid or accruing to key management personnel during the financial year totalled $4,817,845 (2023: $4,220,365).

Audit services - Ernst & Young	190	184
Non audit services - Ernst & Young	14	3
Directors fees	536	490
Expense relating to short-term leases	337	366
Sponsorship and donations	451	461

Non audit services comprise fees to Ernst & Young of $11,992 for people advisory services and provision of a tax model $1,750 (2023: people advisory services $2,600).

	Notes	2024 $000	2023 $000
Depreciation, amortisation and impairment			
Depreciation of property, plant and equipment	B5	12,161	11,531
Impairment of property, plant and equipment	B5	584	-
Amortisation of intangibles	B6	511	731
Amortised leasing costs		241	217
Total depreciation, amortisation and impairment		**13,497**	**12,479**

A3 Net Financing costs

Borrowing costs directly attributable to the acquisition and/or construction of property, plant and equipment and 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.

Finance income includes interest income 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.

	2024 $000	2023 $000
Finance income	219	74
Interest expense and bank facility fees	(7,024)	(4,746)
Interest on lease liabilities	(167)	(186)
Interest capitalised	1,122	1,041
Finance expense	(6,069)	(3,891)
Net finance costs	**(5,850)**	**(3,817)**
Weighted average capitalisation rate on funds borrowed	4.7%	4.1%

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:

	2024 $000	2023 $000
Profit before income tax	47,213	29,557
Prima facie tax expense at 28%	(13,220)	(8,276)
Non deductible items	(44)	(51)
Non assessable income	1,024	210
Unrealised change in the fair value of investment property	1,078	2,233
Deferred tax liability on buildings arising from legislative change	(6,339)	-
Tax loss offset (via subvention payment)	-	100
Prior year adjustment to current tax	325	(67)
Deferred tax relating to the origination and reversal of temporary differences	386	(429)
Income tax expense	**(16,790)**	**(6,280)**
Allocated between:		
Current tax	(10,212)	(8,228)
Deferred tax liability on buildings arising from legislative change	(6,339)	-
Deferred tax	(239)	1,948
	(16,790)	**(6,280)**

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.

On 26 March 2024, the Government substantially enacted legislation which removed tax depreciation deductions for industrial and commercial buildings with original estimated useful lives of 50 years or more from the 2024-25 income tax year. As at 30 June 2024, the impact of this change decreases the tax base for these assets, giving rise to an increased temporary difference between the carrying cost and tax base and results in an increase in the deferred tax liability and increase in tax expense of $6.34 million.

Deferred tax (assets) and liabilities	Property, plant and equipment $000	Investment property $000	Property inventories $000	Financial instruments $000	Other $000	Total $000
Balance at 1 July 2022	10,249	11,627	237	1,200	(1,956)	21,357
Charged / (credited) to hedging reserve direct to equity	-	-	-	64	-	64
Charged / (credited) to income statement	(497)	(1,018)	(27)	148	(554)	(1,948)
Balance at 30 June 2023	**9,752**	**10,609**	**210**	**1,412**	**(2,510)**	**19,473**
Charged / (credited) to hedging reserve direct to equity	-	-	-	(417)	-	(417)
Charged / (credited) to income statement	5,906	1,177	(96)	(244)	(165)	6,578
Balance at 30 June 2024	**15,658**	**11,786**	**114**	**751**	**(2,675)**	**25,634**

	2024 $000	2023 $000
Imputation credits	**$000**	**$000**
Imputation credits available to shareholder for future use	62,292	55,903

Section B
Capital assets used to operate the business

B1
Investment property

Investment property, which is property held to earn rentals and/or for 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.

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.

B2
Property inventories

	Notes	2024 $000	2023 $000
Balance at beginning of year		604,914	572,185
Transfer from property inventories	B2	4,446	1,137
Transfer to non-current assets held for sale	B3	(15,795)	-
Capital expenditure and improvements		22,000	31,607
Disposals		(13,675)	-
Net movement in prepaid leasing costs and lease incentives		(189)	(130)
Interest capitalised		1,122	573
Unrealised change in the fair value of investment property		4,391	(458)
Balance at end of year		**607,214**	**604,914**
Comprising:			
Industrial		355,457	339,704
Retail		34,702	30,900
Office		3,200	3,100
Ground leases		213,855	231,210
		607,214	**604,914**
Breakdown of valuations by valuer			
Bayleys Valuations Limited		239,715	269,760
CBRE Limited (CBRE)		-	30,900
Jones Lang LaSalle Limited (JLL)		176,225	119,956
Savills (NZ) Limited		97,000	-
CVAS (NZ) Limited (Colliers)		60,000	178,000
		572,940	**598,616**
Plus investment property builds under construction and carried at cost		34,274	6,298
		607,214	**604,914**

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 sell. 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 net realisable value. Where costs exceed the fair value of the property inventories the resulting write-downs are included in the Income Statement in the period in which they arise.

Disposals are recorded in revenue as sales of property inventories with the cost of sales recorded in operating expenses as cost of sales of property inventories.

The $14.0 million carrying value at balance date reflects the cost of 6.1 hectares of developed land for sale. In their June 2024 valuation, Jones Lang LaSalle stated a net realisable value of $30.7 million for this land on hand. At June 2023, the $15.5 million carrying value of developed land reflected the cost of 6.7 hectares of developed land. Jones Lang LaSalle stated a net realised value for the developed land on hand at June 2023 of $37.1 million.

	Notes	2024 $000	2023 $000
Balance at beginning of year		15,507	16,428
Transfer to investment property	B1	(4,446)	(1,137)
Development expenditure and improvements		2,905	216
Balance at end of year		**13,966**	**15,507**
Comprising:			
Developed land for sale		13,966	15,507
		13,966	**15,507**

Inventory classified as non-current

The non-current property inventories relate to land and developments that are expected to be held for greater than 12 months.

B3 Non-current assets 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	2024 $000	2023 $000
Balance at beginning of year		-	2,060
Transfer from investment property	B1	15,795	-
Disposals		-	(2,060)
Balance at end of year		**15,795**	**-**

B4
Fair value measurements of investment property

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 Bayleys, JLL, Savills or Colliers (2023: Bayleys, CBRE, JLL or Colliers) 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.

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

	Range of significant unobservable inputs				
Inputs used to measure fair value	**2024**		**2023**		**Sensitivity**
Market capitalisation rate (%) [1]	4.5%	15.0%	4.5%	10.0%	The higher the capitalisation rates and discount rate, the lower the fair value
Discount rate (%) [2]	6.8%	12.0%	6.3%	11.0%	
Terminal capitalisation rate (%) [3]	4.8%	15.3%	4.6%	10.3%	
Market rental ($ per sqm) [4]	$13	$425	$12	$420	The higher the market rental and growth rates, the higher the fair value
Rental growth rate (%) [5]	1.5%	3.0%	2.0%	3.8%	

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 rate applied to future cash flows relating transactional evidence from similar properties.
3. The rate used to assess the terminal value of the property.
4. The valuers' assessment of the net market income which a property is expected to achieve under a new arm's length leasing transaction.
5. The rate applied to the market rental over the future cash flow projection.

Valuation sensitivity

A sensitivity analysis that shows how a change to capitalisation and discount rates affects the value of the Group's Investment Property is provided below. The metrics chosen are those single-value inputs where movements are likely to have the most significant impact on the fair value of investment properties.

The capitalisation rate relates to the direct capitalisation approach and the discount rate relates to the discounted cash flow approach. Generally, a change in the capitalisation rate is accompanied by a directionally similar change in the discount rate. The table below assesses each of these inputs in isolation and assumes all other inputs are held constant.

30 June 2024	Adopted value $000	Capitalisation rate -25bps	+25bps	Discount rate -25bps	+25bps
Ground leases					
Actual valuation ($000)	$229,650				
Impact of assumption change ($000)		$11,002	($10,037)	$11,310	($10,305)
Impact of assumption change (%)		4.8%	(4.4%)	4.9%	(4.5%)
Industrial, retail and office					
Actual valuation ($000)	$359,085				
Impact of assumption change ($000)		$15,595	($14,309)	$6,862	($6,508)
Impact of assumption change (%)		4.3%	(4.0%)	2.0%	(1.8%)

30 June 2023	Adopted value $000	Capitalisation rate -25bps	+25bps	Discount rate -25bps	+25bps
Ground leases					
Actual valuation ($000)	$231,210				
Impact of assumption change ($000)		$11,745	($10,651)	$11,495	($10,370)
Impact of assumption change (%)		5.1%	(4.6%)	5.0%	(4.5%)
Industrial, retail and office					
Actual valuation ($000)	$350,900				
Impact of assumption change ($000)		$16,593	($15,133)	$6,479	($6,488)
Impact of assumption change (%)		4.7%	(4.3%)	1.8%	(1.8%)

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.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Income Statement when the asset is derecognised.

The impairment relates to a damaged container terminal straddle and damage to a pilot vessel engine. The insurance proceeds relating to the impaired assets are disclosed in note A1 and recognised in the Income Statement.

	Land $000	Buildings and improvements $000	Harbour improvements $000	Plant, equipment and vehicles $000	Work in progress $000	Total $000
Cost						
Balance 1 July 2022	39,603	90,887	91,335	122,739	13,349	357,913
Additions	-	-	-	-	32,497	32,497
Transfer from work in progress	3,385	3,506	5,851	4,150	(16,892)	-
Transfer to intangible assets	-	-	-	-	(688)	(688)
Transfer to Income Statement	-	-	-	-	(1,026)	(1,026)
Disposals	-	(44)	-	(2,593)	-	(2,637)
Capital contribution	-	-	(5,713)	-	-	(5,713)
Cost at 30 June 2023	**42,988**	**94,349**	**91,473**	**124,296**	**27,240**	**380,346**
Additions	-	-	-	-	20,755	20,755
Transfer from work in progress	-	20,457	10,269	7,757	(38,483)	-
Transfer to intangible assets	-	-	-	-	(407)	(407)
Impairment	-	-	-	(1,417)	-	(1,417)
Disposals	(8)	(1,835)	-	(472)	-	(2,315)
Cost at 30 June 2024	**42,980**	**112,971**	**101,742**	**130,164**	**9,105**	**396,962**
Accumulated depreciation						
Balance 1 July 2022	780	31,502	29,013	69,287	-	130,582
Depreciation for period	313	3,218	1,836	6,164	-	11,531
Disposals	-	(11)	-	(2,588)	-	(2,599)
Accumulated depreciation at 30 June 2023	**1,093**	**34,709**	**30,849**	**72,863**	**-**	**139,514**
Depreciation for period	313	3,683	1,978	6,187	-	12,161
Impairment	-	-	-	(832)	-	(832)
Disposals	-	(1,823)	-	(462)	-	(2,285)
Accumulated depreciation at 30 June 2024	**1,406**	**36,569**	**32,827**	**77,756**	**-**	**148,558**
Net book value						
At 30 June 2023	41,895	59,640	60,624	51,433	27,240	240,832
At 30 June 2024	**41,574**	**76,402**	**68,915**	**52,408**	**9,105**	**248,404**

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	Harbour improvements $000	Total $000
Cost				
Balance 1 July 2022	9,494	40,427	-	49,921
Additions	-	1,052	5,713	6,765
Capital contributions	-	-	(5,713)	(5,713)
Cost at 30 June 2023	**9,494**	**41,479**	**-**	**50,973**
Additions	-	38	-	38
Cost at 30 June 2024	**9,494**	**41,517**	**-**	**51,011**
Accumulated depreciation				
Balance 1 July 2022	-	9,331	-	9,331
Depreciation for period	-	1,090	-	1,090
Accumulated depreciation at 30 June 2023	**-**	**10,421**	**-**	**10,421**
Depreciation for period	-	1,105	-	1,105
Accumulated depreciation at 30 June 2024	**-**	**11,526**	**-**	**11,526**
Net book value				
At 30 June 2023	9,494	31,058	-	40,552
At 30 June 2024	**9,494**	**29,991**	**-**	**39,485**

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. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset as appropriate, and depreciated on a straight-line basis over the remaining estimated useful life of the asset.

Land	nil
Buildings, improvements and building fit-out	5-50 years
Harbour improvements - Wharves - Berth and channel dredging	 10-70 years nil
Vessels and floating plant	5-30 years
Right-of-use assets	1-10 years
Other plant, equipment and vehicles	3-35 years

Impairment of property, plant and equipment

Property, plant and equipment 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 immediately 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.

	Notes	Computer software $000	Resource consents $000	Total $000
Cost				
Balance 1 July 2022		8,657	5,650	14,307
Transfer from property, plant and equipment work in progress	B5	-	688	688
Cost at 30 June 2023		**8,657**	**6,338**	**14,995**
Transfer from property, plant and equipment work in progress	B5	407	-	407
Disposals		(24)	-	(24)
Cost at 30 June 2024		**9,040**	**6,338**	**15,378**
Accumulated amortisation				
Balance 1 July 2022		7,861	2,198	10,059
Amortisation expense		391	340	731
Accumulated amortisation at 30 June 2023		**8,252**	**2,538**	**10,790**
Amortisation expense		223	288	511
Disposals		(24)	-	(24)
Accumulated amortisation at 30 June 2024		**8,451**	**2,826**	**11,277**
Net book value				
At 30 June 2023		405	3,800	4,205
At 30 June 2024		**589**	**3,512**	**4,101**

Computer software

SaaS arrangements are service contracts providing the Group with the right to access the cloud provider's application software over the contract period.

Costs incurred to configure or customise, and the ongoing fees to obtain access to the cloud provider's application software, are recognised as operating expenses.

Costs incurred for the development of software code that enhances, modifies or creates additional capability to existing on-premise systems and meets the definition of and recognition criteria for an intangible asset are recognised as intangible software assets and amortised over the useful life of the software on a straight-line basis. The amortisation periods range from 1 to 5 years. The useful lives of these assets are reviewed at least at the end of each financial year.

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. Amortisation of the carrying amounts of consents 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.

The carrying value of trade and other receivables includes an expected credit loss allowance of $5,000 in respect of trade receivable balances at 30 June 2024 (2023: $44,000). To measure the expected credit loss allowance amount, historical loss rates are adjusted to reflect forward-looking information. Trade receivables are grouped in accordance with the days past due. The Group identified business confidence and global growth to the most relevant credit risk factors.

	2024 $000	2023 $000
Trade receivables	14,555	15,958
Prepayments	1,758	1,487
Lease receivable	2,131	2,131
Insurance claim receivable	602	-
Balance at end of year	**19,046**	**19,576**

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

	2024 $000	2023 $000
Not past due	14,474	11,726
Past due 30-60 days	45	2,741
Past due 61-90 days	32	1,026
Past due more than 90 days	9	509
Gross receivable	**14,560**	**16,002**
Less allowance for expected credit losses	(5)	(44)
Balance at end of year	**14,555**	**15,958**

C2 Trade and other payables

Trade and other payables represent unsecured liabilities for goods and services provided to the Group prior to end of the financial year which are unpaid. Trade and other payables are usually paid within 30 days of recognition. The carrying amounts of trade and other payables are assumed to be the same as their fair values due to their short-term nature.

	2024 $000	2023 $000
Accounts payable	4,374	8,224
Other accrued charges	8,444	6,639
GST payable	1,832	83
Balance at end of year	**14,650**	**14,946**

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.

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 $90,751 (2023: $77,039). The Group operates a long-term incentive (LTI) scheme to incentivise management to deliver long-term shareholder value. It is likely, based on current performance of the Group, that the first incentives under the LTI will be paid in the upcoming financial year. An estimate of the amount has been accrued.

	2024 $000	2023 $000
Accrued wages, salaries and other benefits	2,401	1,532
Annual leave	5,028	4,418
Long service leave	983	824
Employee retiring allowances	30	37
Sick leave accrual	134	129
Balance at end of year	**8,576**	**6,940**
Analysed as:		
Current	7,562	6,079
Non-current	1,014	861
	8,576	**6,940**

C5 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 incidental 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. Undiscounted future minimum rentals receivable under non-cancellable commercial property leases including amounts up to the next renewal term for perpetual ground leases are:

	2024 $000	2023 $000
Rentals receivable		
Less than 1 year	34,452	32,728
1 - 2 years	33,434	30,639
2 - 3 years	27,021	29,571
3 - 4 years	24,887	23,875
4 - 5 years	20,628	21,642
Greater than 5 years	98,765	102,979
Minimum future lease receivable	**239,187**	**241,434**

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 future 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.

	2024 $000	2023 $000
Right-of-use assets - plant, equipment and land		
Balance at beginning of year	2,306	2,619
Depreciation	(313)	(313)
Balance at end of year	**1,993**	**2,306**
Lease liabilities		
Balance at beginning of year	2,567	2,825
Interest expense	167	186
Lease payments - cash	(445)	(444)
Balance at end of year	**2,289**	**2,567**
Lease liabilities		
Current	297	277
Non-current	1,992	2,290
	2,289	**2,567**

Section D Business funding

D1 Equity

	2024 $000	2023 $000
Share capital	20,000	20,000
Investment property revaluation reserve	376,933	385,758
Hedging reserve	1,042	2,114
Retained earnings	319,296	296,048
Total equity	**717,271**	**703,920**

Capital management strategy

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

Share capital

At 30 June 2024 Port Otago Limited has 20,000,000 ordinary shares (2023: 20,000,000 ordinary shares). All shares are fully paid ($1.00 per share) 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.

Investment property revaluation reserve

The investment property revaluation reserve relates to the revaluation of investment properties.

The unrealised change in the fair value of investment property is initially recognised in the Income Statement and then transferred to the investment property revaluation reserve within equity. Realised changes in the fair value of investment property are reclassified from the investment property revaluation reserve to retained earnings, within equity upon disposal of investment property assets.

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.

Retained earnings

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

D2 Dividends

	2024 $000	2023 $000
First interim dividend	7,500	6,500
Second interim dividend	7,500	6,500
Final dividend	-	1,000
Dividends for the financial year	**15,000**	**14,000**
Adjust for dividends declared after year end:		
2023 final dividend declared October 2023	1,000	(1,000)
2022 final dividend declared September 2022	-	1,000
Dividend distributed to owners as disclosed in the Consolidated Statement of Changes in Equity	**16,000**	**14,000**
Dividends - dollars per share	$0.80	$0.70

D3 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 4.8% (2023: 4%).

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

	2024 $000	2023 $000
Current liabilities		
Bank loans	16,725	5,540
Related party loans - Otago Regional Council	38,355	53,960
Total current liabilities	**55,080**	**59,500**
Non-current liabilities		
Bank loans	10,000	10,000
Related party loans - Otago Regional Council	75,323	71,128
Total non-current liabilities	**85,323**	**81,128**
Total borrowings	**140,403**	**140,628**

Bank loans

The Group has a $31 million (2023: $31 million) Short Term Advances Facility with ANZ Bank New Zealand Limited (ANZ) which the Group may draw from for terms ranging from call to the termination of the agreement, which is 1 July 2026. In addition, the Group has a revolving $29 million (2023: $29 million) Commercial Flexi Facility with ANZ which is subject to an annual review. The next review is due on 30 November 2024.

The financial undertakings provided to the ANZ are an adjusted equity % (shareholder investment / total tangible assets) of greater or equal to 50% and interest cover ratio (EBIT : interest costs) greater or equal to 2.50 : 1. All financial undertakings were in compliance as at 30 June 2024.

The security for advances is a cross guarantee and indemnity between Port Otago Limited, Chalmers Properties Limited and Te Rapa Gateway 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.

Related party loans

Port Otago Limited's shareholder, the Otago Regional Council (ORC), has agreed to provide unsecured loans up to a maximum of $150 million (2023: $150 million). The loan amounts, interest rates and repayment dates match loans provided by the New Zealand Local Government Funding Agency (LGFA) to the ORC. Port Otago Limited pays all reasonable costs and expenses incurred by the ORC in connection with the establishment of its LGFA facility and ongoing fees. All loans under the agreement are unsecured.

The loan renewal dates for the loans range from August 2024 to December 2030 (2023: November 2023 to April 2030). The ORC or Port Otago Limited may terminate the related party loan agreement by giving 24 months' notice to the other party. If the termination notice is provided by the ORC, any funding break costs are incurred by the ORC. At 30 June 2024, no termination notice had been received from the ORC.

When borrowing long-term from LGFA, borrower notes must be subscribed for in an amount of 2.5% of long-term borrowings. Borrower notes are used by LGFA as a source of capital to ensure there is sufficient capital to match the growth in the LGFA's balance sheet. LGFA redeems the borrower notes plus interest when the related borrowings are repaid or no longer owed to LGFA. At 30 June 2024 the Group, through the ORC, had subscribed to borrower notes totalling $2,088,204 (2023: $2,088,460).

	2024 $000	2023 $000
Other financial assets		
Borrower notes - ORC	2,088	2,088
Total other financial assets	**2,088**	**2,088**

Section E
Group structure

E1
Investment in subsidiaries

The financial statements include those of Port Otago Limited (the Company) and its subsidiaries accounted for by line aggregation of assets, liabilities, revenues, expenses and cash flows that are recognised in the financial statements.

Business combinations are accounted for using the acquisition method as at the acquisition 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 intercompany transactions are eliminated on consolidation.

E2 Principal subsidiaries

The Group included the following subsidiaries at 30 June 2024. All subsidiaries have a 30 June balance date.

Name	% of ownership interest 2024	% of ownership interest 2023	Principal activity	Principal place of business
Chalmers Properties Limited	100%	100%	Property investment	Dunedin and Auckland
Te Rapa Gateway Limited	100%	100%	Property investment	Hamilton
Fiordland Pilot Services Limited	100%	100%	Shipping services	Fiordland
Port Chalmers Container Terminal Limited	100%	100%	Port services	Port Chalmers

Port Chalmers Container Terminal Limited was incorporated in December 2022 and has no activities.

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 D3. 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 (2023: $300,000) which is included in the Group debt facility detailed in note D3. The purpose of this arrangement is to minimise any interest costs to the two entities.

E3 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 and amounts payable from related parties are set out below. Total remuneration paid to Key Management Personnel is disclosed in note A2.

Transactions with Otago Regional Council

Note D3 details the agreement entered into between the Otago Regional Council (ORC) and Port Otago Limited whereby the ORC will provide unsecured loans up to a maximum of $150 million (2023: $150 million).

The amount paid to the Otago Regional Council for rates, rentals, resource consent fees, property purchases, LGFA transactions fees and interest during 2024 was $8,804,863 (2023:$4,642,678) with $949,975 outstanding at year end (2023: $667,284). 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 (2023: $60,000) with $17,250 receivable at year end (2023: $17,250).

Directors

Mr T D Gibson is a Director of Silver Fern Farms Limited, a customer of the Group. The amount received from Silver Fern Farms Limited during 2024 for container storage was $15,745 (2023: $6,420) with $1,704 receivable at year end (2023: $443).

Mr R J Fulton is a Director of Fulton Hogan Limited, a supplier and customer of the Group. The amount paid to Fulton Hogan Limited during 2024 for the supply of goods and services was $1,550,564 (2023: $2,246,365) with $129,581 payable at year end (2023: $43,305). The amount invoiced to Fulton Hogan Limited during 2024 for property rentals and wharfage was $185,640 (2023: $96,668) with nil receivable at year end (2023: $16,342).

Mr C C Hopkins is a Director of Farra Engineering, a customer and supplier of the Group. The amount paid to Farra Engineering Limited during the year for services was $53,209 (2023: $116,819) with $1,160 payable at year end (2023: nil). The amount invoiced to Farra Engineering Limited during 2024 for property rentals was $96,260 (2023: $71,278) with $28,346 receivable at year end (2023: nil).

Ms A L McLeod is a Partner of Anderson Lloyd, a provider of legal services to the Group. The amount paid to Anderson Lloyd during the year for legal services was $335,585 (2023: $406,841) with $41,585 (2023: $32,408) payable at year end.

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 unpredictability 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, counterparty 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, derivative financial instruments and other financial assets.

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 & Poor's 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.

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:

	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 2024						
Trade and other payables		(14,650)	(14,650)	(14,650)	-	-
Lease liabilities		(2,289)	(2,829)	(445)	(2,177)	(207)
Borrowings (secured)	6.8%	(26,725)	(28,596)	(17,303)	(11,293)	-
Related party loans (unsecured)	4.4%	(113,678)	(126,125)	(30,897)	(95,228)	-
Related party borrower notes (unsecured)	5.9%	2,088	2,650	234	2,416	-
Interest rate derivatives (net)						
Current portion		1,626	1,846	1,846	-	-
Non current portion		710	783	-	756	27
Total as at 30 June 2024		**(152,918)**	**(166,921)**	**(61,215)**	**(105,526)**	**(180)**
As at 30 June 2023						
Trade and other payables		(14,946)	(14,946)	(14,946)	-	-
Lease liabilities		(2,567)	(3,273)	(445)	(2,208)	(620)
Borrowings (secured)	6.2%	(15,540)	(17,985)	(6,117)	(11,868)	-
Related party loans (unsecured)	4.3%	(125,088)	(136,582)	(55,223)	(81,359)	-
Related party borrower notes (unsecured)	5.9%	2,088	2,495	425	2,070	-
Interest rate derivatives (net)						
Current portion		2,149	2,430	2,430	-	-
Non current portion		2,315	2,589	-	2,443	146
Total as at 30 June 2023		**(151,589)**	**(165,272)**	**(73,876)**	**(90,922)**	**(474)**

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 ongoing 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 volatility on earnings. By using floating-to-fixed interest rate swaps, the economic relationship between the hedged item and the hedging instrument is maintained as the terms of the floating-to-fixed swaps match the terms of the variable rate loan (i.e. notional amount, maturity, payment and reset dates). Hedge effectiveness is assessed on a qualitative basis using the critical terms methodology. Where the critical terms are matched it is expected there will be no ineffectiveness in the hedge relationship. Instruments approved under the treasury policy include vanilla interest rate swaps and forward start swaps.

Effects of hedge accounting on the financial position and performance

The effects of the hedge accounted interest rate swaps on the Group's financial position and financial performance are outlined in the table below. The maturity dates for the outstanding interest rate swaps range from December 2025 to December 2030 (2023: November 2023 to April 2030).

	2024 $000	2023 $000
Carrying amount - asset / (liability)	1,448	2,937
Notional amount	78,440	78,450
Hedge ratio	1:1	1:1
Change in fair value of outstanding hedging instruments recognised in the hedging reserve during the financial year	(1,489)	288
Weighted average hedged rate	3.8%	4.0%

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

The effects of the non-hedge accounted interest rate swaps on the Group's financial position and financial performance are outlined in the table below. The maturity dates for the outstanding interest rate swaps range from March 2025 to July 2034 (2023: March 2025 to June 2029).

	2024 $000	2023 $000
Carrying amount - asset / (liability)	888	1,527
Notional amount	33,000	13,000
Change in fair value of outstanding non-hedging instruments recognised in the income statement during the financial year	(639)	(46)
Weighted average non-hedged rate	3.0%	1.5%

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 D3.

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.

	-100bps		+100bps	
2024	**Profit** $000	**Other Equity** $000	**Profit** $000	**Other Equity** $000
Interest rate risk				
Hedge accounted derivatives	-	(2,226)	-	2,112
Non-hedge accounted derivatives	(1,524)	-	1,394	-
Borrowings	1,404	-	(1,404)	-
Total sensitivity to interest rate risk	**(120)**	**(2,226)**	**(10)**	**2,112**

	-100bps		+100bps	
2023	**Profit** $000	**Other Equity** $000	**Profit** $000	**Other Equity** $000
Interest rate risk				
Hedge accounted derivatives	-	(2,174)	-	2,082
Non-hedge accounted derivatives	(324)	-	312	-
Borrowings	1,406	-	(1,406)	-
Total sensitivity to interest rate risk	**1,082**	**(2,174)**	**(1,094)**	**2,082**

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 shareholders 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 equity ratio which is calculated as equity divided by total assets. The equity ratio as at 30 June 2024 is 78% (2023: 79%).

F6
Derivative financial instruments

	2024 $000	2023 $000
Current assets		
Interest rate swaps	1,626	2,149
Total current assets	**1,626**	**2,149**
Non-current assets		
Interest rate swaps	1,310	2,430
Total non-current assets	**1,310**	**2,430**
Current liabilities		
Foreign exchange contracts	-	(23)
Total current liabilities	**-**	**(23)**
Non-current liabilities		
Interest rate swaps	(600)	(115)
Total non-current liabilities	**(600)**	**(115)**

The notional principal amounts of the interest rate swap contracts are as follows:

	2024 $000	2023 $000
Less than 1 year	8,000	12,100
1 - 2 years	18,850	8,000
2 - 3 years	13,095	18,850
3 - 4 years	29,405	13,095
4 - 5 years	7,000	29,405
Greater than 5 years	35,090	10,000
Total	**111,440**	**91,450**

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 Zealand Limited based on the reporting dates of 30 June 2024 and 30 June 2023. 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 fluctuations 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 ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in cash flows of hedged items.

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 is recognised in the Income Statement within finance costs when the related interest is recognised. 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. Hedge 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 information

G1

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

~ for the year ended 30 June 2024

	2024 $000	2023 $000
Profit for the year	30,423	23,277
Plus/(less) non-cash items		
Unrealised change in the value of investment property	(4,391)	458
Depreciation and amortisation	13,497	12,479
Unrealised foreign exchange (gains) losses	(23)	23
Movement in the fair value of ineffective interest rate swaps	639	46
Movement in non-current employee entitlements	153	(42)
Movement in deferred tax	6,578	(1,948)
Plus/(less) items classified as investing activities		
Gain on disposal of property	(3,638)	(997)
Insurance proceeds	(257)	-
Movement in working capital items		
Trade and other receivables	530	(6,705)
Trade and other payables	(298)	6,206
Current employee entitlements	1,483	1,342
Income tax payable	1,514	3,867
Maintenance inventories	(475)	(166)
Property inventories	-	(929)
Movement in other working capital items classified as investing activities	(1,310)	214
Net cash flows from operating activities	**44,425**	**37,125**

G2

Reconciliation of liabilities arising from financing activities to cash flows

~ for the year ended 30 June 2024

	Notes	2024 $000	2023 $000
Interest bearing liabilities			
Opening interest bearing liabilities		141,107	109,825
Cash movements			
Repayment of borrowings		(8,225)	(42,710)
Subscribed borrower notes	D3	-	(878)
Proceeds from borrowings		8,000	75,129
Repayment of lease principal		(277)	(259)
Closing interest bearing liabilities		**140,605**	**141,107**

G3
Capital expenditure commitments

At 30 June 2024 the Group had commitments for capital expenditure of $44.0 million (2023: $14.1 million) which relates to purchases and refurbishments of port assets and investment property.

G4
Contingencies

There are no contingent liabilities at 30 June 2024 (30 June 2023: nil) other than those arising in the normal course of business.

G5
Significant events after balance date

There have been no events subsequent to balance date which would have a material effect on the Group's financial statements to 30 June 2024.

Independent Auditor's Report

To the readers of Port Otago Limited Group's financial statements for the year ended 30 June 2024

The Auditor-General is the auditor of Port Otago Limited group (the Group). The Auditor-General has appointed me, Bruce Loader, using the staff and resources of Ernst & Young, 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 8 to 41, that comprise the Consolidated statement of financial position as at 30 June 2024, the Consolidated income statement, the Consolidated statement of comprehensive income, Consolidated statement of changes in equity and Consolidated cash flow statement for the year ended on that date and the notes to the financial statements including material accounting policy information.

In our opinion, the financial statements of the Group:

- present fairly, in all material respects:
  - its financial position as at 30 June 2024; 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 (NZ IFRS) and International Financial Reporting Standards (IFRS).

Our audit was completed on 23 August 2024. This is the date at which our opinion is expressed.

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

Basis for our opinion

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

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

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

Responsibilities of the Board of Directors for the financial statements

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

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

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

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

Responsibilities of the Auditor for the audit of the financial statements

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

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

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

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

- We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude 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 in the Annual Report, but does not include the financial statements on pages 8 to 41, 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. When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Board of Directors and, if uncorrected, to take appropriate action to bring the matter to the attention of users for whom our auditor's report was prepared.

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.

In addition to the audit, we have carried out an engagement in the area of people advisory services and provision of a tax model which are compatible with those independence requirements. Other than the audit and these engagements, we have no relationship with, or interests in, the Group.

Bruce Loader
Ernst & Young
On behalf of the Auditor-General
Christchurch, New Zealand

Building a better working world

Statutory information

The following disclosures are made pursuant to the Companies Act 1993 in respect of the financial year ended 30 June 2024.

Directors interests

Directors have disclosed the following general interests for the year ended 30 June 2024 in accordance with Section 140 of the Companies Act 1993:

Director	Entity	Relationship
T D Gibson	Fiscus Limited	Director
	Livestock Improvement Corporation Limited *(and its wholly owned subsidiaries)*	Director
	Omnieye Holdings Limited *(retired 13 August 2023)*	Director
	Silver Fern Farms Holdings Limited *(and its wholly owned subsidiaries)*	Director
	Silver Fern Farms Cooperative Limited	Director
	Skills Consulting Group Limited	Director
	The Equanut Company Limited	Director
	Tūhana Consulting Limited *(and its wholly owned subsidiaries)*	Director
P F Heslin	Forsyth Barr Custodians Limited	Chair
	Forsyth Barr Cash Management Nominees Limited	Chair
	BHH Investments Limited	Director
	Jedaka Limited	Director
	P Heslin Limited	Director
R J Fulton	Allied FH Limited	Chair
	WFH Properties Limited *(and its wholly owned subsidiaries)*	Chair
	Aberluer Limited	Director
	Blackhead Quarries Limited	Director
	Fulton Hogan Limited *(and its wholly owned subsidiaries)*	Director
	Garioch Limited	Director
	Helenslee Investments Limited	Director
	Horokiwi Quarries Limited	Director
	Pokeno Village Holdings Limited	Director
R C Lloyd	External Reporting Board (XRB) Sustainability Reporting Committee	Chair
	Concept Car Limited	Director
	Connexa Limited	Director
	NZ Food Waste Champions	Trustee

Director	Entity	Relationship
C C Hopkins	Dunedin International Airport Limited	Chair
	Health Central Limited	Director
	Bletsoe Securities Limited	Director
	CompanyHQ Limited *(and its wholly owned subsidiaries)*	Director
	Farra Engineering Limited	Director
	GW Batts Trustee Limited	Director
	INMR Measure Limited	Director
	Oakwood Group Limited	Director
	Our Planit Limited	Director
	Mimeo Industrial Limited	Director
	Silveracres Trust	Trustee
	Southmed Limited	Director
	Spade Work Limited	Director
	Veritide Limited	Director
A L McLeod	Anderson Lloyd Partnership	Partner and Board member
	Anderson Lloyd Shareholding Company Limited *(and its wholly owned subsidiaries)*	Director
	St Hilda's Collegiate School *(Retired November 2023)*	Trustee
R A Herd (appointed 1 January 2024)	Naylor Love People Limited *(Retired March 2024)*	Director
	Naylor Love Dunedin Limited *(Retired March 2024)*	Director
	Naylor Love Waikato / BOP Limited *(Retired March 2024)*	Director
	Naylor Love Wellington Limited *(Retired March 2024)*	Director
	Naylor Love Auckland Limited *(Retired March 2024)*	Director
	Naylor Love Canterbury Limited *(Retired March 2024)*	Director
	Naylor Love Central Otago Limited *(Retired March 2024)*	Director
	Gibbons Naylor Limited *(Retired March 2024)*	Director
	Constructive Governance Limited	Director

Employee remuneration

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

Remuneration range ($)	Number of employees 2024
840,001 – 850,000	1
530,001 – 540,000	1
380,001 – 390,000	1
370,001 – 380,000	1
340,001 – 350,000	1
280,001 – 290,000	4
270,001 – 280,000	4
250,001 – 260,000	1
240,001 – 250,000	1
230,001 – 240,000	1
220,001 – 230,000	1
200,001 – 210,000	1
190,001 – 200,000	1
180,001 – 190,000	1
170,001 – 180,000	1
160,001 – 170,000	5
150,001 – 160,000	7
140,001 – 150,000	21
130,001 – 140,000	39
120,001 – 130,000	41
110,001 – 120,000	47
100,001 – 110,000	34

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

Donations made during the year are disclosed in the financial statements.

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 or Port Chalmers Container Terminal Limited.

The following persons held office as Directors of subsidiary companies at 30 June 2024:

Company	Director
Chalmers Properties Limited	T D Gibson P F Heslin R J Fulton R C Lloyd CC Hopkins A L McLeod R A Herd
Fiordland Pilot Services Limited	T D Gibson P F Heslin R J Fulton R C Lloyd CC Hopkins A L McLeod R A Herd
Te Rapa Gateway Limited	T D Gibson P F Heslin R J Fulton R C Lloyd CC Hopkins A L McLeod R A Herd
Port Chalmers Container Terminal Limited	T D Gibson P F Heslin R J Fulton R C Lloyd CC Hopkins A L McLeod R A Herd

Directors remuneration

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

	2024 $000	2023 $000
T D Gibson (Chair)	120	92
P F Heslin	80	79
T Campbell (retired 31 December 2023)	30	63
R J Fulton	70	63
R A Herd (appointed 1 January 2024)	30	-
C C Hopkins	71	67
R C Lloyd	71	64
A L McLeod	64	-
P F Rea (retired 31 December 2022)	-	62
	536	**490**

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 Ernst & Young to undertake the audit on its behalf.

The Group audit fee for the year ended 30 June 2024 was $189,657 (2023: $183,860).

For and on behalf of the Board of Directors

T D Gibson
Chair
23 August 2024

P F Heslin
Director
23 August 2024

Performance targets

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

	Actual	Target	Outcome/comment
Health, safety and well-being			
Critical risk: Visible Leadership Conversations	792	1,000	Target not achieved ✗
Total Recordable Injury Frequency Rate (TRIFR) - per 1 million hours	13.8	<10	Target not achieved ✗
Financial			
EBIT	$46m	$42m	Target achieved ✓
Shareholder's funds (equity) or net assets	$724m*	$720m	Target achieved ✓
Return on equity	5.2%*	4.5%	Target achieved ✓
Equity ratio	78%	Between 70% - 85%	Within SCI target range of 70% to 85% ✓
Interest cover ratio	7	7	Target achieved ✓
Dividend	$16m	$16m	Target achieved ✓
Environmental			
Number of harbour spills caused by Port Otago	0	0	Target achieved ✓
Percentage of resource consent compliance monitoring events achieving full compliance	100%	100%	Target achieved ✓
Compliance with Port and Harbour Safety Code (PHSC)			
The requirements of the PHSC continue to be met	Yes	Yes	Target achieved ✓
Risk assessments of new tasks or reviews post incident completed	Yes	Yes	Target achieved ✓

** excludes one-off deferred tax liability on buildings arising from legislative change*

Financial performance measure	Definition
EBIT	Earnings before interest, taxation, realised and unrealised investment property gains
Return on equity	Profit divided by average shareholder's equity
Equity ratio	The percentage that equity represents of total assets within the target range of between 70% and 85%
Interest cover ratio	The number of times interest is covered by the profit before tax, interest and unrealised fair value movements and unrealised impairment charges.

Five year summary

Trade and operational analysis	2024	2023	2022	2021	2020
Container and bulk cargo vessel arrivals	551	485	383	403	476
Otago cruise vessel arrivals	118	101	-	-	112
Total ship calls	669	586	383	403	588
Container throughput (TEU)	268,900	186,400	166,200	174,800	191,900
Bulk cargo tonnes (000's)	1,701	1,765	1,667	1,853	1,467
Employees	330	314	290	296	319

Financial comparisons	2024 $000	2023 $000	2022 $000	2021 $000	2020 $000
Revenue #	133,171	111,272	88,061	89,998	108,297
EBITDA #	59,170	45,460	34,475	34,671	42,466
Profit for the year	30,423	23,277	70,476	94,507	50,493
Underlying profit	34,434	32,045	17,584	21,412	24,727
Dividends for financial year *	16,000	14,000	13,000	10,100	10,000
Shareholder's equity	717,271	703,920	694,478	634,617	548,612
Total assets					
Port operations	290,687	284,740	260,250	243,344	248,137
Investment property	624,965	608,587	581,850	503,225	407,641
Total group	915,652	893,327	842,100	746,569	655,778
Cash flows					
Cash flows from operating activities	44,425	37,125	29,770	21,709	28,167
Port operations capital expenditure	(21,338)	(30,718)	(15,480)	(7,592)	(23,118)
Investment property purchases and improvements	(24,956)	(30,981)	(29,447)	(10,515)	(16,645)
Shareholder's equity ratio	78%	79%	82%	85%	84%
Debt/(Debt+Equity) ratio	16%	17%	14%	11%	12%
Return on average shareholder's funds **					
before unrealised revaluations	3.8%	3.4%	1.6%	2.1%	4.3%
after unrealised revaluations	4.3%	3.3%	10.6%	16.0%	9.6%
EBIT return on average assets #					
Port operations	8.1%	5.4%	2.1%	2.0%	4.3%
Property portfolio	3.6%	3.1%	3.1%	3.6%	5.2%
Total group	5.0%	3.8%	2.8%	3.0%	4.9%

* Includes the final dividend for the 2023 financial year declared after balance date, as disclosed in Note D2

** Profit, divided by average shareholder's equity

Excludes gain on sale of investment property and property, plant and equipment and unrealised change in fair value of investment property

Directory

Directors

Tim Gibson	Chair
Pat Heslin	Deputy Chair
Tom Campbell (retired 31 December 2023)	
Bob Fulton	
Becky Lloyd	
Chris Hopkins	
Anne McLeod	
Rick Herd (appointed 1 January 2024)	

Leadership Team

Kevin Winders	Chief Executive
Stephen Connolly	Chief Financial Officer
Ollie Barton-Jones	Head of IT
Grant Bicknell	GM Marine and Infrastructure
Ross Buchan	Head of Safety
Leigh Carter	Head of People
David Chafer	GM Property
Kevin Kearney	Strategic Projects Manager
Deanna Matsopoulos	Operations Manager
Craig Usher	Commercial 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

Ernst & Young on behalf of the Auditor-General