

# PORT NELSON

*The Region's Gateway to the World*

## STATEMENT OF CORPORATE INTENT

For the period from 1 July 2015 to 30 June 2018



*Located in the Nelson-Tasman region Port Nelson is owned by the community for the purpose of facilitating regional prosperity.*

*We celebrate our strong commitment to performance that has seen our business consistently deliver value to our shareholders, employees, customers and the community in which we operate.*

*As we look towards the future we continue to focus on the core values that form the foundation of our success*

*- **accountability, safety, passion, integrity, respect, excellence***

*It is our steadfast commitment to these values that ensures we provide a satisfactory return to our shareholders; look after our employees and ensure they have a safe environment in which to work; provide excellent services to our customers; look after and care for the environment; and make a contribution to the community in which we operate.*

---

## Contents

About this report

---

Forward

Key numbers	Capital	Corporate	Stakeholders
Operational outlook	Capital management	Purpose	Information to be provided to Shareholders
Financial outlook	Dividends and distributions	Mission	Procedure for acquisition of shares
Performance targets and other measures		Objectives	Compensatory activities
		Plan	Value of shareholder investment
		Nature and scope of activities	
		Governance	

---

Summary financial statements

---

Summary of significant accounting policies

---

## About this report

---

This Statement of Corporate Intent (SCI) is for Port Nelson Limited (referred to as “PNL” or “the Company”) and is for the period 1 July 2015 to 30 June 2018.

PNL is a subsidiary of Nelson City Council (referred to as “NCC” or “the shareholder”) and Tasman District Council (referred to as “TDC” or “the shareholder”).

This SCI and has been prepared in accordance with the terms under Section 9 of the Port Companies Act 1988. The purpose of a Statement of Corporate of Intent is to:

- (a) State publicly the activities and intentions of PNL and the objectives to which those activities will contribute; and
- (b) Provide a basis for accountability of the Board of Directors of PNL to the Shareholders for the performance of the Company.

## Forward

---

In a climate of marginal increases in cargo volumes, Port Nelson Limited has demonstrated strong performances that has seen it consistently deliver value to its shareholders, employees, customers and the community in which it operates.

During the period of this SCI Port Nelson will seek to diversify financial risk by growing non-cargo related business activity while protecting and, where possible, growing profitability margins from core port operational activities.

The financial plan for the financial years ended 30 June 2016 and 30 June 2017 anticipates the implementation of the property development strategy initiatives, as signed off by the Board early 2014, as well as bringing forward the purchase of a replacement tug.

The nature of the capital investment over the next 2 financial years will see a short term decline in key financial metrics until new associated incremental revenues begin to be realised.

The planned net profit after tax of \$4.4M for the year ended 30 June 2016 includes a non-taxable provision of \$3.5M for the proposed Calwell Slipway land remediation. This amount is provisional as further investigative work is required before a decision can be made to complete the work and Port Nelson is satisfied with the cost estimate.

While challenges for our traditional port business are clear, a number of strategic opportunities are presenting themselves.

It is anticipated that the Seafood Precinct development will commence September 2015 and be completed by the end of 2016. Work on consolidating log marshalling areas has commenced which will see logs removed from the site fronting Haven Road and Low and Vickerman Streets. QuayPack continues to grow its customer base and there are a number of related property development opportunities.

The cruise vessel and oil and gas industry remain markets that we continue to focus on.

## Key numbers

---

### Operational outlook

	2015F	2016FY	2017FY	2018FY
Revenue tonnes	2.6M	2.7M	2.8M	2.8M
Containers handled (TEU)	87,742	90,517	91,102	93,129
Gross registered tonnes (GRT)	8.9M	9.4M	8.3M	8.3M
Ship visits	700	722	684	684

### Financial outlook

	2015F	2016FY	2017FY	2018FY
Revenue	41.8M	43.0M	45.5M	45.9M
Earnings before interest and taxation	11.9M	9.3M	13.6M	14.6M
Net profit after tax	7.3M	4.4M	8.0M	8.7M
Total assets	187.0M	216.3M	230.4M	219.9M
Net debt	20.7M	29.4M	37.8M	38.8M
Total equity	148.1M	147.7M	150.9M	154.6M
Net debt to equity	14%	20%	25%	25%
Return on equity	5%	3%	5%	6%
Net assets per share (\$dollars)	5.83	5.81	5.94	6.08
Earnings per share (\$dollars)	0.29	0.17	0.32	0.34

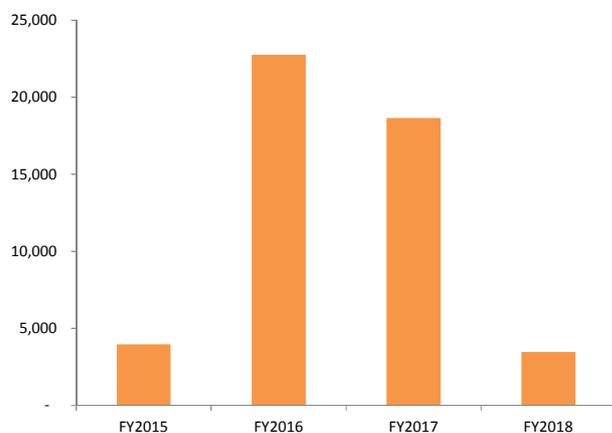
## Performance targets and other measures

PILLAR	Performance measure	2016FY	2017FY	2018FY
PEOPLE	Lost time injury (LTI) frequency rate	< 1.5	< 1.5	< 1.5
CUSTOMERS	Revenue tonnes	2.7M	2.8M	2.8M
	Ship visits	722	684	684
	Gross registered tonnes	9.4M	8.3M	8.3M
FINANCIAL RESULTS	Shareholder funds to total assets	70%	70%	70%
	Net debt to equity ratio	< 45%	< 45%	< 45%
	Dividends declared	\$4.8M	\$4.9M	\$5.0M
	Return on average shareholder funds	3%	5%	6%
	Return on funds employed	5%	7%	8%
	Revenue	\$43.0M	\$45.5M	\$45.9M
	Capital expenditure	\$22.7M	\$18.7M	\$3.5M
	ENVIRONMENT AND COMMUNITY	Incidents leading to pollution of harbour	Nil	Nil
Note: This measure relates to port operational area only (excludes port lease areas)				
Compliance with all resource consent conditions		100%	100%	100%
Compliance with NZ maritime safety standards in respect of;				
<ul style="list-style-type: none"> <li>• Dredged channels compliant with charts</li> <li>• Navigation aids</li> <li>• Pilotage</li> </ul>		100%	100%	100%
Compliance with Noise Variation		100%	100%	100%
Maintain ISO14001 certification	100%	100%	100%	

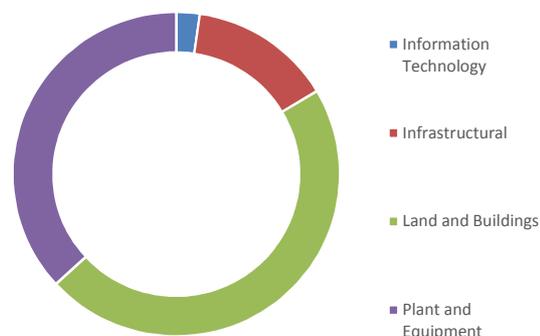
# Capital

---

## Capital management



*Annual capital expenditure profile*



*2016FY capital expenditure profile*

## Dividends and distribution

The PNL Board will use its best endeavours to accommodate the Shareholders' desire for dividend growth within the constraints imposed by the Directors' obligations to act in accordance with their statutory duties.

The Shareholder's desire to receive dividends representing not less than 50% of net profit after tax. Similarly the PNL Board expectation is that not more than 75% of net profit after tax shall be distributed to the shareholders. Special dividends are not covered by this policy.

Proposed dividend distributions are expected to be \$4.8M (June 2016) increasing to \$5.0M (June 2018)

## Corporate

---

### Our purpose

Based in the Nelson-Tasman region, as a successful business, our purpose is **to facilitate regional prosperity**.

### Our mission

To operate the Company as a successful business providing cost efficient, effective and competitive services and facilities for port users and shippers.

To provide for the present and future needs of the Company in ways that are sensitive to people, use resources wisely and are in harmony with the environment of an export port.

### Our objectives

PNL aims to deliver on the following objectives:

- (a) To operate as a successful business.
- (b) To be a good employer.
- (c) To work within a debt equity ratio not exceeding 45.0%.
- (d) To aim to grow the business through stimulation of throughput, added value services and related business activities, so leading to increased revenue.
- (e) To achieve a commercially acceptable rate of return on shareholders' funds in accordance with meeting the objectives herein.
- (f) To ensure that sustainable Port development takes place which meets the needs of the region.
- (g) To ensure that high environmental standards are maintained.
- (h) To strive for continuous improvement in everything that we do.

## Our plan

PNL's purpose of facilitating regional prosperity is underpinned by six pillars; people, processes, customers, financial results, community and environment.

PEOPLE	An engaged and highly capable team
PROCESSES	An efficient and consistent approach to the way we do things
CUSTOMERS	An organisation that delivers real value to our customers
FINANCIAL RESULTS	A sustainable business delivering value to our shareholders
COMMUNITY	A sense of great pride in the role we play in our community
ENVIRONMENT	A leader in sustainable environmental management in the NZ Port industry

## Nature and scope of activities

PNL provides core port services and managed property portfolio services. Specific activities include;

- (a) marine services which include pilotage and towage services and navigation aids for the arrival, berth and departure of vessels to the Port
- (b) berths to accommodate vessels at the Port
- (c) wharves, plant and other services to facilitate the discharge and loading of vessels
- (d) container terminal handling services which include receipt, delivery, transit, storage and shipment of a wide range of import and export cargos
- (e) cargo logistics including warehousing and storage of goods
- (f) vessel slipping services
- (g) the leasing of land and buildings not required for Port operating purposes
- (h) other port-related activities required to manage and operate an efficient and competitive port
- (i) the development, leasing and management of land and buildings

## Governance principles

### Corporate Code of Governance

The Board of PNL operates within an agreed Corporate Code of Governance that is reviewed annually by the Board.

**Company:** The principal objective of the Company is to operate as a successful business.

**Board:** The Board is appointed by the Shareholders. The Board is responsible for the governance, strategic direction and the monitoring of the business of the Company to achieve its objective in accordance with PNL's Corporate Code of Governance Practice.

**Board Committees:** The Board uses committees to allow areas requiring detailed consideration to be dealt with separately by Directors with specialist knowledge and experience thereby enhancing the effectiveness of the Board. The Board has constituted two standing Committees being the Finance & Risk Committee and the Remuneration and Appointments Committee and may constitute ad hoc committees to deal with a specific issues.

**Chairperson:** The Board elects a Chairperson and may elect a deputy Chairperson or alternate. The Chairperson is to be responsible for the efficient functioning of the Board.

**Chief Executive:** The Board appoints a CEO. The CEO is responsible for leading and managing the Company in accordance with the directions of the Board. The CEO may further delegate to other levels for day to day operational decisions of the Company in accordance with delegated authorities as approved by the Board.

## **Health and Safety**

Health and Safety governance is a priority for the Board. The Board will take a leading role in health and safety by reviewing and approving the safety management plan and understanding the effectiveness of the Company systems and performance. Further, the Board supports the “Good Governance Practice Guidelines for Managing Health and Safety Risks” produced by the Institute of Directors and the Ministry of Business, Innovation and Employment.

## Stakeholders

---

### Information to be provided to the Shareholder

#### Annual Statement of Corporate Intent (SCI)

The Company will not later than 1 month after the commencement of each financial year provide the Shareholders with an SCI as required by the Port Companies Act together with any other information it considers appropriate.

#### Half Yearly Report

Within 2 months after the end of the first half of each financial year the Company will deliver to the Shareholders and the Minister of Transport its Half Yearly Report prepared in accordance with the NZ IFRS and the Financial Reporting Act 1993, including the unaudited consolidated financial statements and performance commentary, together with such other information as the Board consider appropriate. The report will include:

Performance Commentary

Statement of Comprehensive Income

Balance Sheet

Statement of Cash Flows

Performance against the SCI Performance Targets and Other Measures

#### Annual Report

Within 3 months after the end of each financial year, and no less than 10 working days from the date on which the shareholders meeting is to be held, the Company will deliver to the Shareholders and the Minister of Transport its Annual Report prepared in accordance with the reporting requirements of the NZ IFRS and the Financial Reporting Act 1993 and will include the audited annual consolidated financial statements and performance commentary, together with such other information as the Board consider appropriate.

The report will include:

Performance Commentary,

Statement of Comprehensive Income

Balance Sheet,

Cash Flow Statement,

Statement of Changes in Equity,

Notes to the Financial Statements,

Performance against the SCl performance targets and other measures,

Auditor's Report

### **Quarterly reporting**

Within 6 weeks after the end of the September and March quarters of each financial year, the Company will deliver to the Shareholders a quarterly report on the preceding quarter.

The Company's quarterly report to Shareholders shall include a performance commentary, together with such other information as the Board consider appropriate.

Financial results for the December and June quarters will be incorporated in the Half Year Reports and Annual Reports to be delivered to Shareholders in accordance with the timetables of those stated above.

Any reports provided to the Shareholders may be released at their discretion.

### **General Disclosure**

The Company will provide information to the Shareholders on an ongoing but confidential basis so as to ensure that the Shareholders are informed in a timely manner of significant events which relate to the Company and which may affect the Shareholders.

Any reports including the Company's Quarterly and Half Year reports provided to the Shareholders may be released to the public at their discretion.

## **Communication of Information**

The Company's primary line of communication, for all formal reports and ad hoc business matters, is direct to the Shareholders or their nominated representatives.

## **Procedure for Acquisition of Shares**

The Company's ability to subscribe for, purchase or otherwise acquire shares in any company or other organisation is governed by the provisions in the Company's Constitution and the Companies Act 1993. Any major share investment (other than operational investment) which is inconsistent with the 5 year strategic plan will be subject to Shareholder approval.

## **Compensatory Activities**

The Company will seek compensation for all non-commercial activities performed by it on behalf of local authorities.

## **Value of Shareholder's Investment**

The Directors assessment of the value of the Shareholders investment in the Company is, at minimum, \$148,618,000 being the valuation of the worth of the net tangible assets as at 31 December 2014 as shown in the unaudited Half Year accounts.

However, the market value of the Company may be materially higher. A reassessment of the value of the Shareholders investment in the Company will be undertaken as may be required from time to time by the shareholders or directors.

## Summary financial statements

<b>STATEMENT OF COMPREHENSIVE INCOME</b> <b>For the Period From 1 July 2015 to 30 June 2018</b>	<b>2016FY</b> (Thousands)	<b>2017FY</b> (Thousands)	<b>2018FY</b> (Thousands)
<b>REVENUE</b>			
Operating	37,650	39,683	39,904
Property	5,391	5,827	6,005
<b>Total Revenue</b>	<b>43,041</b>	<b>45,510</b>	<b>45,909</b>
<b>EXPENSES</b>			
Employee Wages and Related Expenses	12,630	13,093	13,334
Depreciation and Amortisation	5,519	6,191	6,198
Other Operational & Property Expenses	12,050	12,629	11,778
<b>Expenses From Operating &amp; Property Activities</b>	<b>30,199</b>	<b>31,913</b>	<b>31,310</b>
<b>Profit From Operating &amp; Property Activities</b>	<b>12,842</b>	<b>13,597</b>	<b>14,599</b>
Finance Income	10	10	10
Finance Expenses	1,764	2,347	2,441
<b>Net Financing Costs</b>	<b>1,754</b>	<b>2,337</b>	<b>2,431</b>
<b>Profit After Financing Costs</b>	<b>11,088</b>	<b>11,260</b>	<b>12,168</b>
Expenses Associated with Contingent Liabilities	3,500	0	0
<b>PROFIT BEFORE TAXATION</b>	<b>7,588</b>	<b>11,260</b>	<b>12,168</b>
Less Taxation Expense	3,197	3,213	3,467
<b>NET PROFIT (Attributable to owners)</b>	<b>4,391</b>	<b>8,047</b>	<b>8,701</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
Movement in Deferred Tax - Hedging Res	0	0	0
Movement in Hedging Reserve	0	0	0
<b>TOTAL COMPREHENSIVE INCOME (Attributable to owners)</b>	<b>4,391</b>	<b>8,047</b>	<b>8,701</b>

<b>STATEMENT OF CHANGES IN EQUITY</b> <b>For the Period From 1 July 2015 to 30 June 2018</b>	<b>2016FY</b> (Thousands)	<b>2017FY</b> (Thousands)	<b>2018FY</b> (Thousands)
<b>Balance at 1 July</b>	<b>148,130</b>	<b>147,721</b>	<b>150,868</b>
Total comprehensive income for the Period	4,391	8,047	8,701
Dividends	4,800	4,900	5,000
<b>Balance at 30 June</b>	<b>147,721</b>	<b>150,868</b>	<b>154,569</b>

## Summary financial statements

<b>BALANCE SHEET</b>	<b>2016FY</b>	<b>2017FY</b>	<b>2018FY</b>
<b>As at 30 June 2016 -2018</b>	(Thousands)	(Thousands)	(Thousands)
<b>CURRENT ASSETS</b>			
Cash & Cash Equivalents	12,115	13,082	5,594
Trade & Other Receivables	4,882	5,392	5,104
Inventories	488	488	488
Prepayments & Accruals	1,216	1,216	1,216
Investment in Associate	0	0	0
<b>TOTAL CURRENT ASSETS</b>	<b>18,701</b>	<b>20,178</b>	<b>12,402</b>
<b>Less CURRENT LIABILITIES</b>			
Accounts and Other Payables	7,113	10,214	2,391
Employee Benefit Entitlements	1,274	1,291	1,307
Tax Payable	2,638	3,365	4,625
Dividends Payable	3,800	3,900	4,000
Hedging Liability - Current Portion	0	0	0
Noise Mitigation - Current Portion	3	3	3
Other Current Liabilities	3,500	1,172	0
<b>TOTAL CURRENT LIABILITIES</b>	<b>18,328</b>	<b>19,945</b>	<b>12,326</b>
<b>WORKING CAPITAL</b>	<b>373</b>	<b>233</b>	<b>76</b>
<b>NON-CURRENT ASSETS</b>			
Property, Plant & Equipment	182,492	195,050	192,285
Intangible Assets	376	464	492
Investment Properties	14,740	14,740	14,740
Hedging Asset	0	0	0
Investment in Associate	0	0	0
Other Non-Current Assets	0	0	0
<b>TOTAL NON-CURRENT ASSETS</b>	<b>197,608</b>	<b>210,254</b>	<b>207,517</b>
<b>Less NON-CURRENT LIABILITIES</b>			
Employee Entitlements	166	167	167
Deferred Tax	6,300	6,300	6,300
Term Loan	41,509	50,908	44,350
Hedging Liability - Non-Current Portion	1,800	1,800	1,800
Noise Mitigation - Non Current Portion	485	444	407
Other Non-Current Liabilities	0	0	0
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>50,260</b>	<b>59,619</b>	<b>53,024</b>
<b>NET ASSETS</b>	<b>147,721</b>	<b>150,868</b>	<b>154,569</b>
<i>Represented As:</i>			
<b>SHAREHOLDERS' FUNDS</b>			
Issued Capital	6,046	6,046	6,046
Retained Earnings	48,791	51,938	55,639
Asset Revaluation Reserve	94,180	94,180	94,180
Hedging Reserve	(1,296)	(1,296)	(1,296)
<b>TOTAL SHAREHOLDERS' FUNDS</b>	<b>147,721</b>	<b>150,868</b>	<b>154,569</b>

## Summary financial statements

<b>STATEMENT OF CASH FLOWS</b>	<b>2016FY</b>	<b>2017FY</b>	<b>2018FY</b>
<b>For the Period From 1 July 2015 to 30 June 2018</b>	(Thousands)	(Thousands)	(Thousands)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Cash was provided from:</b>			
Receipts from Customers	37,642	39,240	40,154
Rent Received	5,391	5,827	6,005
Interest Received	10	10	10
	<b>43,043</b>	<b>45,077</b>	<b>46,169</b>
<b>Cash was applied to:</b>			
Payments to Suppliers and Employees	24,555	27,697	25,653
Interest Paid	1,707	2,300	2,443
Taxes Paid	3,135	3,090	2,796
Net GST Received/(Paid)	(614)	(390)	1,016
	<b>28,783</b>	<b>32,697</b>	<b>31,908</b>
<b>NET CASH INFLOWS FROM OPERATING ACTIVITIES</b>	<b>14,260</b>	<b>12,380</b>	<b>14,261</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
<b>Cash was provided from:</b>			
Sale of Property, Plant and Equipment	5	205	0
Share Repurchase	0	0	0
	<b>5</b>	<b>205</b>	<b>0</b>
<b>Cash was applied to:</b>			
Purchase of Property, Plant and Equipment	18,442	15,890	10,031
Purchase of Intangibles	312	326	260
	<b>18,754</b>	<b>16,216</b>	<b>10,291</b>
<b>NET CASH OUTFLOWS FROM INVESTING ACTIVITIES</b>	<b>18,749</b>	<b>16,011</b>	<b>10,291</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
<b>Cash was provided from:</b>			
Loans raised	22,459	14,306	9,597
	<b>22,459</b>	<b>14,306</b>	<b>9,597</b>
<b>Cash was applied to:</b>			
Loans Repaid	1,727	4,908	16,155
Dividends Paid	4,200	4,800	4,900
	<b>5,927</b>	<b>9,708</b>	<b>21,055</b>
<b>NET CASH OUTFLOWS FROM FINANCING ACTIVITIES</b>	<b>(16,532)</b>	<b>(4,598)</b>	<b>11,458</b>
<b>Net Increase/(Decrease) in Cash Held</b>	<b>12,043</b>	<b>967</b>	<b>(7,488)</b>
Opening Cash	72	12,115	13,082
<b>CLOSING CASH</b>	<b>12,115</b>	<b>13,082</b>	<b>5,594</b>
<b>Represented by:</b>			
Cash at Bank	12,115	13,082	5,594
<b>CLOSING CASH</b>	<b>12,115</b>	<b>13,082</b>	<b>5,594</b>

## Summary of significant accounting policies

---

### Reporting entity

Port Nelson Limited (Port Nelson) is registered under the Companies Act 1993 and created pursuant to the Port Companies Act 1988. Port Nelson is a reporting entity for the purposes of the Financial Reporting Act 1993 and its financial statements comply with that Act.

### Basis of preparation

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'). They comply with New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and other applicable reporting standards as appropriate for profit-orientated entities.

### Standards and interpretations issued and not yet adopted

There are no standards, interpretations and amendments that have been issued, that are not yet effective, and that are relevant to Port Nelson that Port Nelson has not yet applied except for NZ IFRS 8. NZ IFRS 8 provides guidance on the disclosure requirements in respect of the operating segments of the entity. Port Nelson is awaiting the outcome of a proposed change in the standard by the Financial Reporting Standards Board that may result in Port Nelson being outside the scope before assessing the impact.

### Measurement system

Those accounting principles considered appropriate for the measurement and reporting of results and financial position under the historical cost method, modified by the revaluation of land, buildings, wharves and investment property have been followed.

### Specific accounting policies

The accounting policies adopted in the preparation of financial statements which have a significant effect on the result and the financial position disclosed are set out below:

### (a) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to Port Nelson and that revenue can be reliably measured based on the following:

- Cargo and Marine revenue – departure of the vessel.
- Stevedoring – partial completion of the vessel at balance date.
- Property lease revenue – on an accrual basis at balance date. Rentals are payable in advance.
- Interest revenue – on a time proportion basis using the effective interest method.

### (b) Provisions

Provisions are recognised when a present obligation exists as a result of a past event, the future sacrifice of economic benefits is probable and the amount of the provision can be measured reliably. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation.

### (c) Property, Plant and Equipment and Depreciation

Property, Plant and Equipment, except land, buildings, wharves and offshore capable floating plant are stated at valuation taken over from the Nelson Harbour Board on 1 October 1988 and subsequent additions at cost. Depreciation is written off depreciable assets on a straight line basis over the estimated economic lives of the assets, ranging as follows:

Asset Class	Years	Asset Class	Years
Wharves, Quays and Berths	20-72	Software	5
Vessels (inshore)	20	Buildings	2–100
Vessels (offshore capable)	20	Cranes	15-20
Forklifts	15 - 25	Tractors and Vehicles	10
Sundry Plant and Equipment	5 - 20	Navigation and Pilot Equipment	3 - 40
Office Equipment	5 - 15	Hard Standing	50
Infrastructural Assets	50 - 80	Building Fit-Out	10

Capital dredging is not amortised. The cost of maintaining the dredged depth is expensed. Land is valued at least every three years. Land is included at the valuation as at 30 June 2013. As at 30 June 2014 Port Nelson engaged TelferYoung, an independent valuer, to complete a fair value assessment. No revaluation was required. Land owned and leased to third parties is valued at the market value of the lessor's interests. Non-leased land is recorded at market value.

Additions between valuations are recorded at cost. The land valuation was completed by Ian McKeage, Registered Valuer, FNZIV, FPINZ of TelferYoung. Buildings are valued at least every five years. Buildings are stated at fair value. Fair value was determined as at 30 June 2013 using a market based approach (where evidence can be reliably analysed) or income based approach (where evidence cannot be reliably analysed), validated by a depreciated replacement cost valuation. Additions between valuations are recorded at cost.

The buildings' valuation was completed by Ian McKeage, Registered Valuer, FNZIV, FPINZ of TelferYoung. Wharves are valued at least every five years. Wharves are stated at fair value. Fair value was determined as at 30 June 2013 using an income based approach (where evidence cannot be reliably analysed). This fair value has been validated by a depreciated replacement cost approach which was prepared by Port Nelson's engineering staff and reviewed by Ian McKeage, Registered Valuer, FNZIV, FPINZ of TelferYoung. Additions between valuations are recorded at cost.

Infrastructural assets include stormwater, sewerage and water reticulation located underground. The asset classes that are subject to revaluation are assessed at each balance date to ensure that the values are not materially different from fair value. Where the carrying value is materially different from fair value a revaluation is undertaken. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses are included in the Statement of Comprehensive Income. When revalued assets are sold, the amounts included in asset revaluation reserves in respect of those assets are transferred to retained earnings. Cost incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to Port Nelson and the cost of the item can be reliably measured.

**(d) Investment Properties**

Investment Property which is property held to earn rentals and/or capital appreciation is measured at its fair value at the reporting date. Gains or losses from changes in the fair value of investment property are included in the profit or loss in the period in which they arise. Investment Properties are not depreciated.

**(e) Properties Intended for Resale**

At each reporting date Port Nelson reviews the carrying amount of any Properties Intended for Sale to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Properties Intended for Sale are not depreciated. Properties are actively marketed and there is probable sale within one year.

**(f) Cash and Cash Equivalents**

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments, net of outstanding bank overdrafts. Bank overdrafts are disclosed separately in current liabilities in the note disclosure.

**(g) Trade and Other Receivables**

Trade and Other Receivables are valued at fair value and subsequently measured at amortised cost using the effective interest method less any provision for impairment. A provision for the impairment of receivables is established when there is objective evidence that all amounts due will not be able to be collected as per the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the effective interest method.

**(h) Inventories**

Inventory is valued at the lower of cost using the weighted average method and net realizable value. Full provision has been made for obsolescence where applicable. Inventory is held for internal maintenance and construction work only.

**(i) Intangible Assets**

Intangible assets are limited to computer software. On acquisition they are capitalised at cost which equates to fair value. Computer software has a finite life. Amortisation is to be charged to the Statement of Comprehensive Income based on the finite life of the asset. Software is amortised on a straight line basis over five years. Intangible assets will be tested for impairment where an indicator of impairment exists and useful lives will be assessed on an annual basis.

**(j) Impairment of Assets**

At each reporting date Port Nelson reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the carrying amount of the asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount. For revalued assets the impairment loss is recognised against the revaluation reserve for that asset. Where that results in a debit balance in the revaluation reserve, the balance is recognised in the Statement of Comprehensive Income. For assets not carried at a revalued amount the impairment loss is recognised in the Statement of Comprehensive Income. The reversal of an impairment loss on a revalued asset is credited to the revaluation reserve. However, to the extent that an impairment loss for that class of asset was previously recognised in the Statement of Comprehensive Income, a reversal of the impairment loss is also recognised in the Statement of Comprehensive Income. For assets not carried at a revalued amount, the total impairment loss is recognised in the Statement of Comprehensive Income.

**(k) Goods and Service Taxation**

All items in the financial statements are exclusive of goods and services tax (GST) with the exception of receivables and payables which are stated with the GST included. Where GST is not recoverable as an input tax then it is recognised as part of the related asset or expense. The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the Balance Sheet. The net GST paid to or received from the IRD, including the GST relating to investing and financing activities, is classified as an operating cash flow in the Statement of Cash Flows. Commitments and contingencies are disclosed exclusive of GST.

**(l) Income Taxation**

The income tax expense for the period is the tax payable on the current period's taxable income based on the income tax rate and adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements and for unused tax losses (if any). Deferred tax assets and liabilities are recognised for temporary differences at the rate expected to apply when the assets are recovered or liabilities are settled. The tax rate is applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax is charged or credited to the Statement of Comprehensive Income, except where it relates to items charged or credited directly to equity, in which case the tax is dealt with in other comprehensive income.

**(m) Borrowings**

Borrowings are initially recognised at their fair value. After initial recognition, all borrowings are measured at amortised cost using the effective interest method where this differs from face value.

**(n) Derivative Financial Instruments**

Port Nelson uses derivative financial instruments such as interest rate swaps to hedge against interest rate fluctuations. Port Nelson does not hold or issue derivative financial instruments for trading purposes. Such derivative financial instruments are stated at fair value. The fair value of interest rate swaps is determined by reference to market values. The effective portion of changes in the fair value of the derivative financial instruments that are designated and qualify as cash flow hedges are deferred in equity. If a hedging instrument is sold, terminated, revoked or no longer meets the criteria for hedge accounting, the cumulative gain or loss that remains recognised directly in equity from the period when the hedge was effective will be recognised in the Statement of Comprehensive Income.

**(o) Financing Costs**

Finance costs are recognised as an expense when incurred. Financing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that take a substantial period of time to get ready for their intended use, are added to the cost of those assets until such a time as the assets are substantially ready for their intended use.

**(p) Employee Entitlements**

Provision is made in respect of Port Nelson's liability for annual leave, long service leave and retirement gratuities. Annual leave and long service leave have been calculated on an actual entitlement basis at current rates of pay and retirement gratuities calculated at current rates of pay assuming the payment will be made upon retirement.

**(q) Foreign Exchange Transactions**

Transactions in foreign currencies are converted at the New Zealand rate of exchange ruling at the date of the transaction. Capital items are converted at the exchange rate ruling at balance date or the forward exchange contract rate where applicable.

**(r) Leases**

Leases of plant and equipment are classified as operating leases. Operating lease payments are charged as an expense in the period in which they are incurred, as this represents the pattern of benefits derived from the leased assets.

**(s) Dividends**

Provision is made for the amount of any dividend declared on or before the end of the financial year but not distributed at balance date.

**(t) Critical Judgments**

In preparing these financial statements Port Nelson has made 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 or future events that are expected to be reasonable under the circumstances. There are no estimates and assumptions in the view of the Directors that have a risk of causing a significant adjustment to the carrying amounts of assets and liabilities within the next financial year.

**(u) Associates**

Port Nelson's associate investment is accounted for in the financial statements using the equity method. An associate is an entity over which Port Nelson has significant influence and that is neither a subsidiary nor an interest in a joint venture. The investment in an associate is initially recognised at cost and the carrying amount in the financial statements is increased or decreased to recognise Port Nelson's share of the profit or loss of the associate after the date of acquisition. Distributions received from an associate reduce the carrying amount of the investment. If the share of losses of an associate equals or exceeds its interest in the associate, Port Nelson discontinues recognising its share of further losses. After Port Nelson's interest is reduced to zero, additional losses are provided for, and a liability is recognised, only to the extent that Port Nelson has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports profits, Port Nelson will resume recognising its share of those profits only after its share of the profits equals the share of losses not recognised. Where Port Nelson transacts with an associate, profits or losses are eliminated to the extent of Port Nelson's interest in the associate. Dilution gains or losses arising from investments in associates are recognised in the profit or loss.