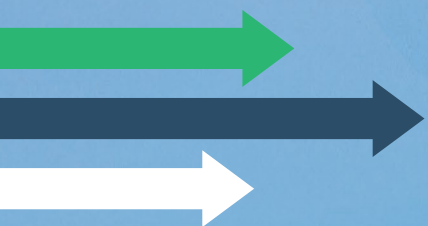


**PORT  NELSON**

# Statement Of Corporate Intent

For the period from 1 July 2018 to 30 June 2021



*The Region's Gateway to the World*

# PORT NELSON

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, care for the environment and make a contribution to the community in which we operate.





# Contents

<b>About This Report</b>	<b>4</b>
<b>Welcome</b>	<b>5</b>
<b>Performance</b>	<b>6</b>
Overview	6
Operational Outlook	8
Financial Outlook	8
Performance Targets and Other Measures	9
<b>Capital</b>	<b>10</b>
Asset Management	10
Risk Management and Recovery Planning	10
Sustainability	10
Health and Safety	11
Dividends and Distributions	11
<b>Corporate</b>	<b>12</b>
Purpose	12
Mission	12
Objectives	12
Nature and Scope of Activities	12
Governance Principles	13
<b>Stakeholders</b>	<b>14</b>
Information to be Provided to Shareholders	14
Procedure for Acquisition of Shares	15
Compensatory Activities	15
Value of Shareholder Investment	15
<b>Summary Financial Statements</b>	<b>16</b>
<b>Summary of Significant Accounting Policies</b>	<b>19</b>

# About this report

This Statement of Corporate Intent (SCI) is submitted by the Board of Directors of Port Nelson Limited in accordance with the terms under Section 9 of the Port Companies Act 1988.

It sets out the Board's overall intention and objectives for Port Nelson Limited for the year commencing 1 July 2018 and the following two financial years.

Throughout the SCI Port Nelson Limited is referred to as "PNL" or "the Company"

Port Nelson Limited 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").



# Welcome

We are pleased to present our Statement of Corporate Intent for the year commencing 1 July 2018 and the following two financial years.

Our purpose is to facilitate regional prosperity. We will achieve this by bringing together the best people, technologies and alliances to deliver innovative cargo solutions and outstanding port services to ensure our customers, our business and the Nelson / Marlborough region thrive.

Commencing in 2014, PNL made a commitment to invest in property assets and critical infrastructure for the future. This level of investment has been significant but necessary if PNL is to remain relevant and aligned to its purpose.

Whilst the company has grown over the last five years, and an increase in total revenue has followed, we are expecting returns to shareholders to remain static while we work through this period of significant capital investment.

The objective to remain relevant as a Port is a continuing theme for the period covered by this Statement of Corporate Intent.

Critical to remaining relevant as a Port will require building resilience into critical infrastructure, specifically wharves, prudently investing in new technologies for efficiencies, improving port optimisation and responding to a tight labour market.

We continue to have a major focus around Health and Safety and Employee Wellbeing. As the number of external companies working on the port continues to increase along with cargo volumes, working closely with Port Users through our regular PCBU forums is an important element of our Health and Safety strategy.

Port Nelson are proud of our involvement with the wider community and we continue to support a number of key sponsorship initiatives around the region. These have included Big Brothers Big Sisters, The Sealord Marine Rescue Centre, Light Nelson, the Port Nelson Fishermen's Association, the Air NZ wine awards, the Mission to Seafarers and Nelson Junior Cricket among others.

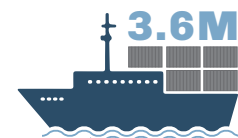
Our business and those of the region are experiencing a strong growth cycle. In a global market with its vagaries, we are fortunate that the region offers such a diverse range of commodities to satisfy demand and to secure cargo across the wharf throughout the year.

We hope you enjoy reading a snapshot of our story.

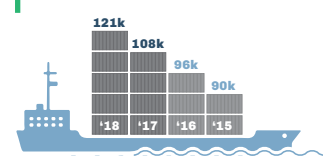
More information is available on our website, [www.portnelson.co.nz](http://www.portnelson.co.nz).



## CARGO THROUGHPUT TONNES



## CONTAINER THROUGHPUT TEUs



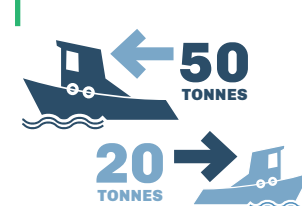
## MAXIMUM DRAFT



## BERTH POCKETS



## TWO TUGS



## FOUR WHARVES



## BOLLARD CAPACITY



# Performance

## OVERVIEW

Over the last five years we have seen total revenue increase c60% from \$40m to \$65m.

During this same period cargo volumes have increased from 2.6m tonnes to 3.6m tonnes and container throughput has increased from 89,800 TEU (twenty foot equivalent unit) to 121,500 TEU.

For consecutive years Port Nelson will report record cargo volumes and container throughput for the year ended June 2018. Our major property development programme commenced in 2014 has enabled this growth in cargo volumes and container throughput. However, with increasing cargo volumes and container throughput come other challenges.

Over the last twelve months we have seen a significant rise in log volumes, eclipsing 1m tonnes and industry projections remain positive. We are constantly monitoring log storage requirements.

As with log storage, the challenge to provide more container storage space as container throughput increases is ever present. This is important from a customer, health and safety and efficiency perspective.

The Calwell Slipway remediation project, which has spanned the last nine years, is complete and has immediately resulted in ecological and economic benefits.

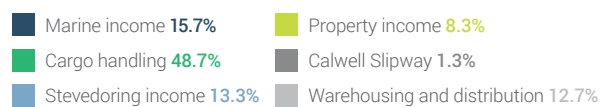
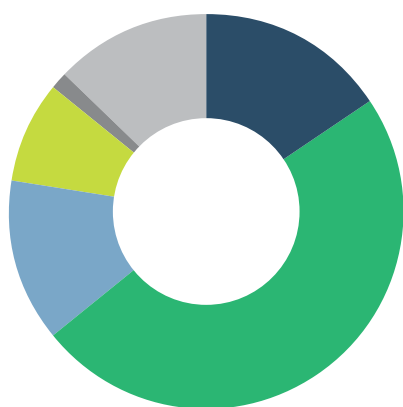
Port Nelson commenced QuayConnect in 2016. Since this time the Patterson Logistics Centre has been completed providing over 20,000 square metres of warehousing. During 2018 QuayConnect became New Zealand's only British Retail Consortium (BRC) accredited wine storage and distribution facility. Further, along with WineWorks Limited and Central Express Limited, this makes QuayConnect a part of the only "grape to ship" BRC accredited supply chain in the world.

In order to reduce cost per container and increase profitability, many international shipping companies are now using larger container ships and developing alliances amongst carriers to fill them. This has put pressure on ports worldwide to accommodate larger vessels. Port Nelson is no exception. Going forward, building resilience into critical infrastructure has a lot to do with our ability to accommodate these larger vessels.

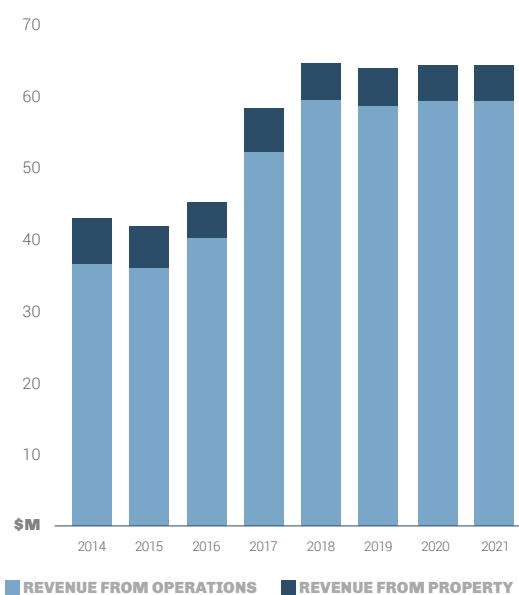


## PERFORMANCE

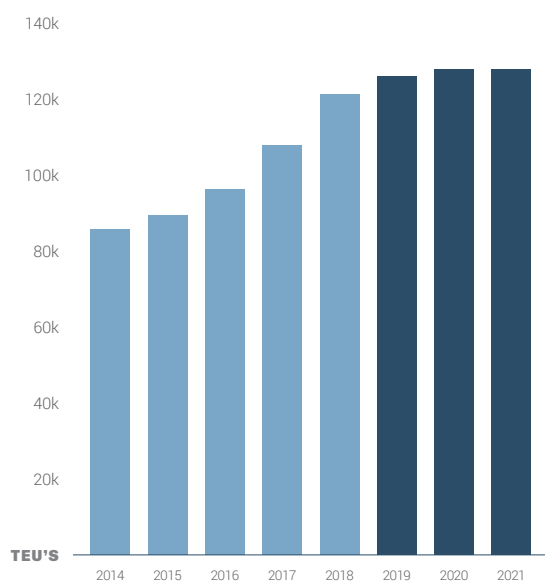
### FINANCIAL YEAR 2019 REVENUE



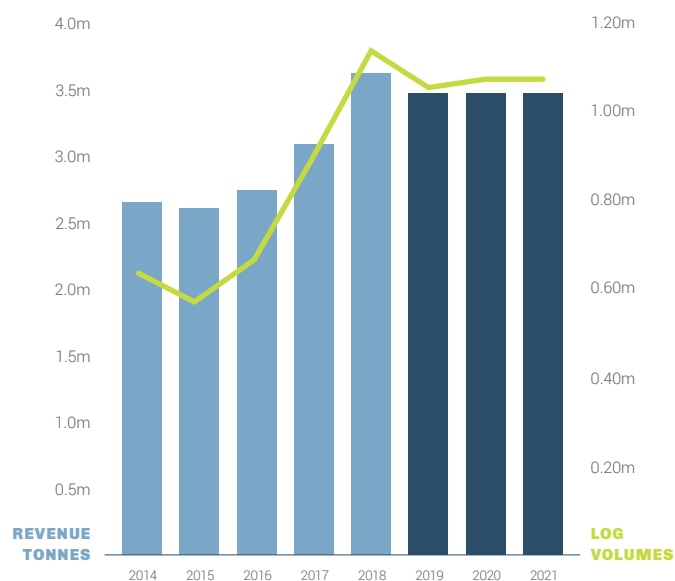
### REVENUE BREAKDOWN



### CONTAINER THROUGHPUT



### REVENUE TONNES AND LOG VOLUMES



## PERFORMANCE

## OPERATIONAL OUTLOOK

Operations	2019	2020	2021
Cargo throughput (cargo tonnes)	3.5m	3.5m	3.5m
Container throughput (TEUs – twenty-foot equivalent units)	126,216	128,123	128,141
Shipping tonnes (GRT – gross registered tonnes)	11.6	11.4	11.4
Vessel visits	834	843	843

## FINANCIAL OUTLOOK

Financial	2019	2020	2021
Revenue	\$63.7m	\$64.1m	\$64.7m
Earnings before interest and taxation	\$18.3m	\$18.5m	\$18.2m
Net profit after taxation	\$10.9m	\$10.6m	\$10.0m
Total assets	\$274.9m	\$291.4m	\$302.1m
Term debt	\$61.1m	\$71.8m	\$77.3m
Total equity	\$185.7m	\$190.7m	\$194.7m
Net debt to equity	32.9%	37.6%	39.7%
Return on equity	5.9%	5.6%	5.2%
Dividend declared	\$5.5m	\$5.5m	\$6.0m
Net assets per share	\$7.31	\$7.50	\$7.66
Earnings per share	\$0.4	\$0.4	\$0.4



## PERFORMANCE

# PERFORMANCE TARGETS AND OTHER MEASURES

PILLAR	PERFORMANCE MEASURE	2019	2020	2021
<b>PEOPLE</b>	Lost time injury frequency rate	< 1.5	< 1.5	< 1.5
<b>CUSTOMERS</b>	Cargo throughput (cargo tonnes)	3.5m	3.5m	3.5m
	Vessel visits	834	843	843
	Shipping tonnes (gross registered tonnes)	11.6	11.4	11.4
<b>PERFORMANCE</b>	Shareholder funds to total assets	65%	60%	60%
	Net debt to equity ratio	< 45%	< 45%	< 45%
	Dividends declared	\$5.5m	\$5.5m	\$6.0m
	Return on equity	5.9%	5.6%	5.2%
	Return on funds employed	7.7%	7.3%	6.8%
	Revenue	\$63.7m	\$64.1m	\$64.7m
	Capital expenditure	\$22.1m	\$24.8m	\$20.1m
<b>ENVIRONMENT AND COMMUNITY</b>	Incidents leading to pollution of harbour by Port Nelson	Nil	Nil	Nil
	Compliance with all resource consent conditions	100%	100%	100%
	Compliance with NZ maritime safety standards in respect of;	100%	100%	100%
	<ul style="list-style-type: none"> <li>• Dredged channels compliant with charts</li> <li>• Navigation aids</li> <li>• Pilotage</li> </ul>			
	Compliance with Noise Variation	100%	100%	100%
	Maintain ISO14001 certification	100%	100%	100%



# Capital

Growth and new opportunities is necessitating the proactive investment in long-term infrastructure.

## ASSET MANAGEMENT

As cargo volumes grow, optimising the port layout becomes critical. Investigations into the most efficient operating model to handle projected container volumes and larger vessels are ongoing. We believe technology will play an increasing role in improving port optimisation and efficiencies.

For the period of this SCI PNL will integrate further land purchases into its core port operational area, rebuild Main Wharf North, bring forward the replacement of its older cranes and investigate the need for a further tug replacement.

Over the next three years seismic investigations will be completed on port land. The purpose is to collate data that will enable a better understanding of ground conditions and how the ground is likely to respond under different natural event scenarios. This will also enable informed asset resilience planning.

## RISK MANAGEMENT AND RECOVERY PLANNING

Using guidance from AS/NZS ISO 31000:2009 International Standard: *Risk management: principles and guidelines*, PNL has developed an Enterprise Risk Management Framework (ERM). This risk management framework sets out PNL's arrangements for ensuring that robust, reliable risk management occurs throughout the organisation and meets the Board's risk management governance obligations. The enterprise risk framework considers strategic, operational and continuous risks.

Risk assessments and the status of risk control and mitigating measures are reviewed periodically by the Senior Management Team. The high priority risks and measures are discussed by the Finance and Risk Committee of the Board.

PNL commenced its Resilience Improvement Project at the beginning of June 2018.

The project's overall aim is to improve PNL's capacity to keep its priority functions and services running at required levels and enable the Port to meet its obligations as a regional Lifelines Provider. The project has two main objectives; to provide a clear picture of PNL's vulnerabilities to a major natural hazard event and potential impacts on the business and to develop plans for improving the resilience of the organisation.

## HEALTH AND SAFETY

PNL's health and Safety Strategy has 5 key areas:

- Demonstrating highly visible leadership
- Focus on critical risks
- Reducing at risk behaviours
- Engagement and participation
- Port PCBU consultation, cooperation and coordination

We have implemented a fatigue management programme across the company. We have also been focussing on mental health as well and putting in systems that can offer assistance to staff if they are seeking or require it.

## CAPITAL

## SUSTAINABILITY

PNL's Environmental Policy states, *PNL will undertake present and future activities in an environmentally sustainable manner, whilst complying with applicable legislative requirements and protecting the environment. We will strive for continual improvement in our environmental performance and the prevention of pollution in all our business undertakings.*

In 2015 a new version of the international standard for environmental management systems (ISO 14001) was published. PNL is currently the only port in New Zealand to hold certification to AS/NZS ISO14001:2004. To maintain this status PNL's Environmental Management System (EMS) was redesigned and ISO14001 status under the revised international standard for environmental management systems was granted to PNL in May 2018.

The Calwell Slipway remediation project was completed June 2018 at a cost of \$7.2m. The stated project objectives were achieved; the reduction of contamination concentrations in the basin to predetermined target levels and the restoration of safe navigability to the basin.

QuayConnect, Port Nelson's warehouse and distribution model, has revolutionised freight across the top of the South. Independent certification company Enviro-Mark Solutions has validated that truck journeys between the port and major wine bottler Wineworks in Marlborough have more than halved with a corresponding reduction in fuel consumption and carbon emissions.

To further improve our sustainability measurement, monitoring and reporting PNL has introduced an Enterprise Carbon Accounting Software System. This technology is allowing us to gain a picture of our emissions and to make changes for improvement.

## 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 Shareholders want 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 \$5.5m for the year ended June 2019 and \$5.5m and \$6.0m for each of the following two years.

# Corporate

## PURPOSE

To facilitate regional prosperity

## STRATEGIC INTENTION

We bring together the best people, technologies and alliances to deliver innovative cargo solutions and outstanding port services to ensure our customers, our business and the Nelson / Marlborough region thrive.

## OBJECTIVES

The Company's purpose of facilitating regional prosperity is underpinned by six pillars; people, infrastructure, customers, performance, community and environment.

<b>PEOPLE</b>	To build and support high performing teams putting safety first
<b>INFRASTRUCTURE</b>	An approach to asset investment that meets the ongoing needs and growth of customers
<b>CUSTOMERS</b>	An organisation that delivers real value to our customers through partnership and innovation
<b>PERFORMANCE</b>	A sustainable business delivering increasing value to our shareholders
<b>COMMUNITY</b>	A sense of great pride in the role we play in our community
<b>ENVIRONMENT</b>	A leader in sustainable environmental management in the New Zealand Port industry

## NATURE AND SCOPE OF ACTIVITIES

Port Nelson provides core port services and managed property portfolio services including;

- (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 development, leasing and management 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

## CORPORATE

# GOVERNANCE PRINCIPLES

### Corporate Code of Governance

The Board of Port Nelson 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 and 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.

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.

Port Nelson takes an active role in the Business Leaders' Health and Safety Forum and a lead role in health and safety amongst the region's businesses.



# 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 Shareholder 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:

- (a) Performance Commentary
- (b) Statement of Comprehensive Income
- (c) Balance Sheet
- (d) Statement of Cash Flows
- (e) 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 considers appropriate.

The report will include:

- (a) Performance Commentary,
- (b) Statement of Comprehensive Income
- (c) Balance Sheet,
- (d) Cash Flow Statement,
- (e) Statement of Changes in Equity,
- (f) Notes to the Financial Statements,
- (g) Performance against the SCI performance targets and other measures,
- (h) Auditor's Report

## **STAKEHOLDERS**

### **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 \$182.2m. The value is the prospective value of Total Shareholders' Funds as at June 30, 2018.

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

## STATEMENT OF COMPREHENSIVE INCOME

For the three year period July 2018 to June 2021

	2019	2020	2021
	\$000	\$000	\$000
<b>Revenue</b>			
Port operations	58,421	58,928	59,425
Property	5,308	5,235	5,229
<b>Total revenue</b>	<b>63,729</b>	<b>64,163</b>	<b>64,654</b>
<b>Expenses</b>			
Employee benefit expenses	19,378	19,339	19,344
Other operational and property expenses	18,685	17,957	17,513
Earnings before interest, tax, depreciation and amortisation	25,666	26,867	27,797
Depreciation and amortisation	7,388	8,402	9,576
Earnings before interest and tax	18,278	18,465	18,221
Net financing costs	3,185	3,803	4,299
<b>Net profit before income tax</b>	<b>15,093</b>	<b>14,662</b>	<b>13,922</b>
Income tax	4,233	4,111	3,903
<b>Net profit after income tax</b>	<b>10,860</b>	<b>10,551</b>	<b>10,019</b>



## SUMMARY FINANCIAL STATEMENTS

# BALANCE SHEET

For the three year period July 2018 to June 2021

	2019	2020	2021
	\$000	\$000	\$000
<b>Current Assets</b>			
Cash and cash equivalents	7	6	6
Trade and other receivables	9,617	9,641	9,860
Inventories	465	465	465
Prepayments and accruals	270	270	270
<b>Total current assets</b>	<b>10,359</b>	<b>10,382</b>	<b>10,601</b>
<b>Less Current Liabilities</b>			
Trade and other payables	5,383	5,625	5,977
Employee benefit entitlements	2,618	3,238	3,762
Tax payable	2,755	2,660	2,544
Dividend payable	4,000	4,000	4,500
Noise mitigation	34	34	34
<b>Total current liabilities</b>	<b>14,790</b>	<b>15,557</b>	<b>16,817</b>
<b>Working capital</b>	<b>(4,431)</b>	<b>(5,175)</b>	<b>(6,216)</b>
<b>Non-Current Assets</b>			
Property, Plant and Equipment	243,690	260,207	270,869
Intangible Assets	421	387	300
Investment Properties	20,344	20,280	20,215
Derivatives	100	100	100
<b>Total Non-Current Assets</b>	<b>264,555</b>	<b>280,974</b>	<b>291,484</b>
<b>Less Non-Current Liabilities</b>			
Employee benefit entitlements	251	251	251
Deferred tax liability	10,343	10,343	10,343
Term loan	61,147	71,804	77,288
Derivatives	2,244	2,244	2,244
Noise mitigation	472	438	404
<b>Total non-current liabilities</b>	<b>74,457</b>	<b>85,080</b>	<b>90,530</b>
<b>Net assets</b>	<b>185,667</b>	<b>190,719</b>	<b>194,738</b>
<b>Shareholders' Funds</b>			
Issued capital	6,046	6,046	6,046
Retained earnings	64,955	70,007	74,026
Asset revaluation reserve	116,350	116,350	116,350
Hedging reserve	(1,684)	(1,684)	(1,684)
<b>Total shareholders' funds</b>	<b>185,667</b>	<b>190,719</b>	<b>194,738</b>

## SUMMARY FINANCIAL STATEMENTS

# STATEMENT OF CASH FLOWS

For the three year period July 2018 to June 2021	2019	2020	2021
	\$000	\$000	\$000
<b>Cash Flows From Operating Activities</b>			
Cash was provided from:			
Receipts from customers	58,418	58,907	59,234
Rent received	5,308	5,235	5,229
Interest received	10	10	10
	<b>63,736</b>	<b>64,152</b>	<b>64,473</b>
Cash was applied to:			
Payments to suppliers and employees	36,754	36,027	36,263
Interest paid	3,147	3,766	4,285
Taxes paid	3,810	4,674	4,346
Net GST paid	427	72	73
	<b>44,138</b>	<b>44,539</b>	<b>44,967</b>
<b>Net operating cash inflows</b>	<b>19,598</b>	<b>19,613</b>	<b>19,506</b>
<b>Cash Flows From Investing Activities</b>			
Cash was provided from:			
Sale of property, plant and equipment	0	500	1,000
	<b>0</b>	<b>500</b>	<b>1,000</b>
Cash was applied to:			
Purchase of property, plant and equipment	24,527	25,138	20,388
Purchase of intangibles	373	133	103
	<b>24,900</b>	<b>25,271</b>	<b>20,491</b>
<b>Net investing cash inflows/(outflows)</b>	<b>(24,900)</b>	<b>(24,771)</b>	<b>(19,491)</b>
<b>Cash Flows From Financing Activities</b>			
Cash was provided from:			
Loans borrowed	15,173	16,305	18,903
	<b>15,173</b>	<b>16,305</b>	<b>18,903</b>
Cash was applied to:			
Loans repaid	4,371	5,648	13,419
Dividend paid	5,500	5,500	5,500
	<b>9,871</b>	<b>11,148</b>	<b>18,919</b>
<b>Net investing cash inflows/(outflows)</b>	<b>5,302</b>	<b>5,157</b>	<b>(16)</b>
<b>Net increase/(decrease) in cash held</b>	<b>0</b>	<b>(1)</b>	<b>(1)</b>
Cash and cash equivalents at 1 July	7	7	7
<b>Cash at 30 June</b>	<b>7</b>	<b>6</b>	<b>6</b>



# SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## REPORTING ENTITY

Port Nelson Limited is a for-profit company incorporated under the Companies Act 1993 and created pursuant to the Port Companies Act 1988.

Port Nelson operates in one industry and one geographical segment providing and managing port facilities, marine services, cargo handling operations, warehousing and distribution as well as investment properties at the port of Nelson and within the wider Marlborough region.

## 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.

## NOTES TO THE FINANCIAL STATEMENTS

Information that is considered material and relevant to the users of the financial statements is included within the notes to the financial statements. The assessment of materiality and relevance includes qualitative as well as quantitative factors including the size and nature of the balance and if the balance is important in understanding Port Nelson's current or future performance.

## STANDARDS AND INTERPRETATIONS ISSUED AND NOT YET ADOPTED

Port Nelson has applied all new and revised accounting standards and interpretations that are effective in the year. This did not result in a material impact on the financial statements.

There are a number of other new and amended accounting standards and interpretations not yet effective that will be adopted by Port Nelson when they become mandatory. Those relevant to Port Nelson include NZ IFRS 9 Financial Instruments and NZ IFRS 15 Revenue. The financial statement impact of the adoption of these standards has not yet been analysed.

## FOREIGN CURRENCY

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 derivatives have been used to hedge the exposure.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### CRITICAL JUDGEMENTS

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.

### 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:

- (a) Cargo and Marine revenue – departure of the vessel.
- (b) Stevedoring – partial completion of the vessel at balance date.
- (c) Property lease revenue – on an accrual basis at balance date. Rentals are payable in advance.
- (d) 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.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (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 2017. As at 30 June 2018 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 2017 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 2017 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.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### **(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.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### **(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.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### **(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**

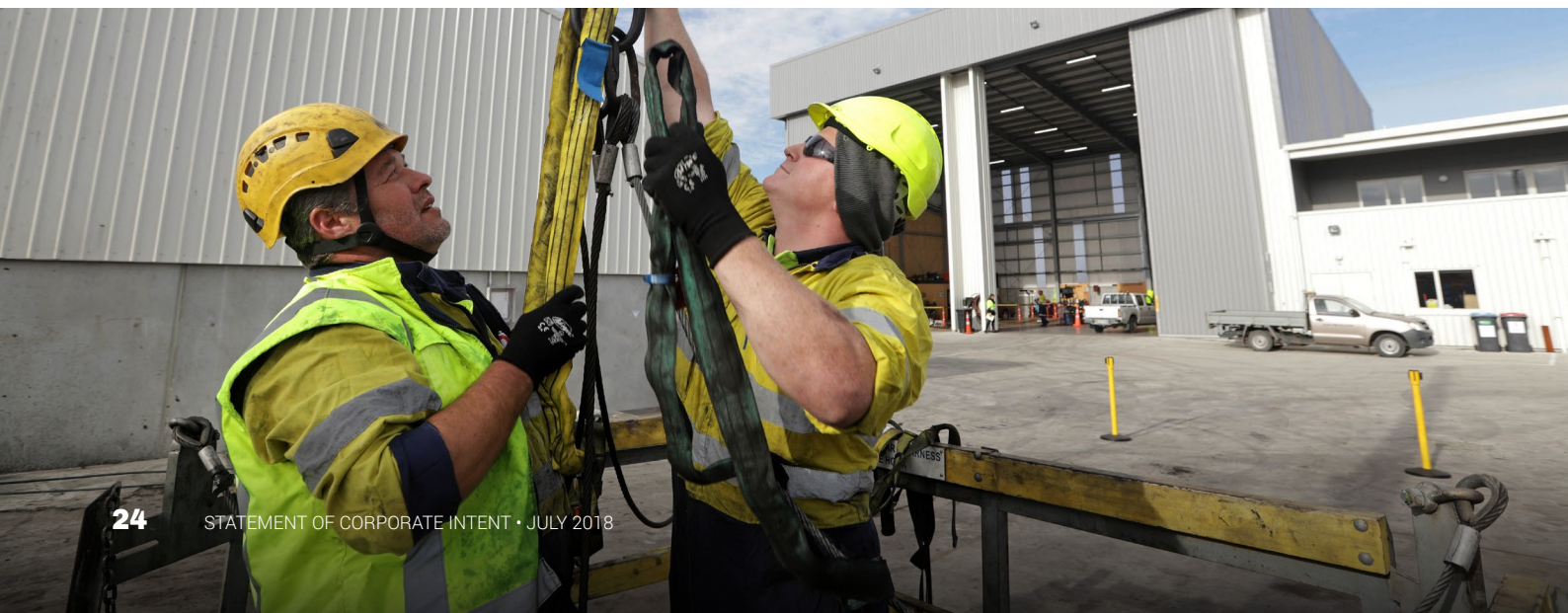
Provision is made in respect of Port Nelson's liability for annual leave, long service leave and retirement gratuities. Annual leave and long service leave have been calculated on an actual entitlement basis at current rates of pay and retirement gratuities calculated at current rates of pay assuming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

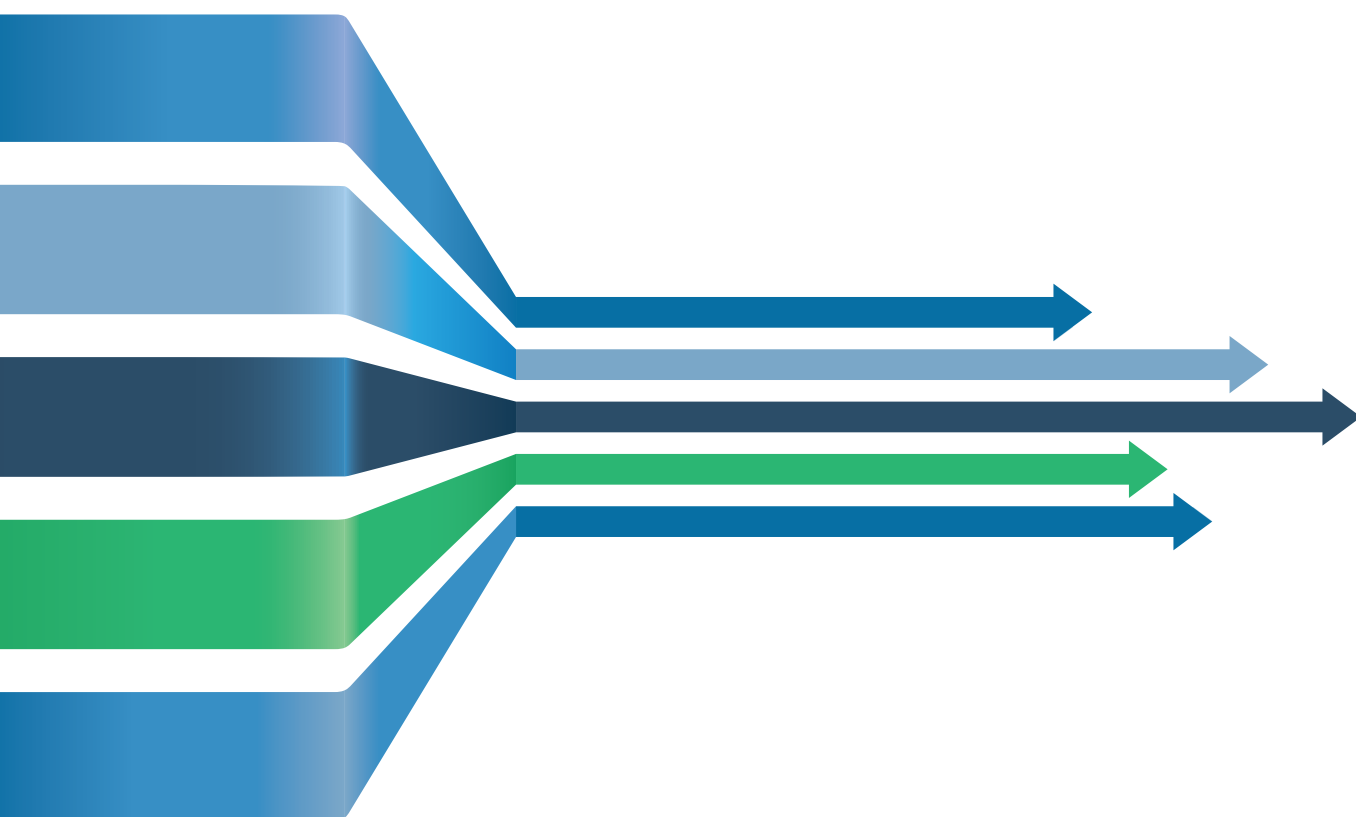
### **(q) Leases**

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.

### **(r) 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.





*The Region's Gateway to the World*

**PORT  NELSON**

[www.portnelson.co.nz](http://www.portnelson.co.nz) / [www.quayconnect.co.nz](http://www.quayconnect.co.nz)